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# FAST and flawless

Annual report 2019

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# **Company OVERVIEW**

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# Company IN BRIEF

## Our vision

**T**he combined effect of the tightening of financial regulations and the growing technology-driven complexity has forced a growing number of people into a sector of the society where it is very hard to access financial services, the "No service zone." "Unbanked" or "Unbankable" individuals are neglected by the mainstream banking system and have no access to any financial service or support.

We look at this sector of society as an opportunity to make a transparent, solid, healthy and profitable business by creating conditions for these people to improve their status and progressively mingle with the world of financial services.

## Our mission

**We are focused on developing our business which generates solutions to problems and issues around Unbankable individuals. We provide access to financial services and an online, electronic and internet-based world ("Online") to those who are not eligible for the mainstream financial services.**

## Our guiding principles

- Any and all services we provide, now and in the future, are conceived with the highest standards of transparency, efficiency and compliance, with utmost respect for our customers;
- Any and all clients, now and in the future, are supported and helped to improve their financial status and to access the online world;
- Our employees are the most valuable resource and we focus on creating a comfortable working environment;
- A solid, transparent and profitable business is the result and consequence of full and complete implementation of the above.

## Company in brief

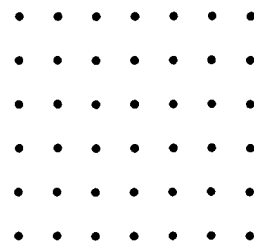
**Zaim Credit Systems Plc (ZCS) is the UK holding company of Zaim Express LLC ("Zaim"), a Russian-based fintech company providing small short-term loans to customers.**

**Z**aim has been operating in the microcredit market Russia since 2011. Today, Zaim occupies one of the leading positions in the Russian microcredit market and is one of the largest companies in terms of the number of offices in Moscow and the Moscow region.

Zaim currently provides loans with an average size of 8,000 Russian rubles("RUB") (about £88) with a maximum amount of RUB30,000 (£325) for an average duration of less than one month.

# Zaim-Express today:

**Since establishment Zaim has developed a bespoke fully integrated business platform and operating tools to drive efficiency in its system driven driven by automation and a constantly improving credit scoring system.**



As of December 31, 2019, Zaim directly operated 92 stores. These stores are generally near to densely populated residential communities in urban areas, as well as locations near to the transport infrastructure of Moscow and the Moscow Region and other cities of Western Russia (Saint Petersburg, Volgograd, Samara, etc.)

Since establishment Zaim has developed a bespoke fully integrated business platform and operating tools to drive efficiency in its system driven by automation and a constantly improving credit scoring system. Internal teams, with a limited recourse to specific external skills, are constantly monitoring and improving the systems. Zaim's platform allows for the remote transfer of money to the client's own card (can be newly issued by Zaim) or other receiving facilities (be it bank accounts or any other system allowed in the Market by Russian Authorities) within minutes of the online application.

Among other products, Zaim has created a pre-paid Master Card product branded with the Zaim's logo, to which Zaim can credit loan amounts directly to customers who can then spend them online or via POS terminals. It is also possible for customers to withdraw funds at ATMs. This card was conceived and implemented to be the most convenient and cheapest device on the market and it is aimed to remove the entrance barrier to the online world.

Zaim card users can apply to any and all services available in the Mastercard worldwide network.

Total loans to customers amounted to £32.1 million as at December 31, 2019<sup>1</sup> though the loan book had a carrying value of £786k as a result of historic impairments.

As of December 31, 2019 the total number of employees of the Company was 317.

<sup>1</sup> Loans to customers before ECL allowance

## Zaim History

Zaim was established on March 14, 2011, as a limited liability company under the laws of the Russian Federation.

On August 29, 2011, Zaim was authorised to conduct microfinance activities in the Russian Federation and added in the State Registry of Microfinance Organisations (the "Registry") maintained initially by the Russian Ministry of Finance and later by the Central Bank of Russia ("CBR").

In 2016, Zaim obtained its current status as a micro-credit company ("MCC") which allows it to engage in *microfinance activity in the territory of the Russian Federation*.

On February 20, 2017 Zaim's shareholders approved the change of the Company's name from LLC MO Zaim-Express to LLC Zaim-Express.

On November 04, 2019, ZCS, Zaim's holding company made successful initial public offering (IPO) of its ordinary shares on the standard segment of the London Stock Exchange raising gross cash proceeds of £2.6m.

# Chairman's STATEMENT

Dear Stakeholders,

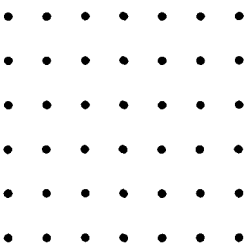
**Our life is becoming increasingly digital with more and more activities performed via the internet and without physical presence. This trend of the recent years or even decades became uncontested with the COVID-19 pandemic due to the quarantine measures taken by the governments of most of the world's countries. Being locked in our houses, we work, learn, create, communicate and now entertain ourselves and even travel online without leaving our homes.**

**A**t the same time, a significant part of the population with low or unstable income, which is going to become even larger because of the pandemic and its socio-economic impact, has no access to traditional financial services. As a result of this, banks are reluctant to approve credit to a large percentage of Russian borrowers with poor or no credit history and from less well-off sections of society.

In the current environment, it means a large portion of the population has no access to vital services that are linked to bankcards, including access to the internet, phones, online purchases of goods and services, learning, working, communicating, entertaining and using other digital platforms. These things are becoming increasingly vital in the era of isolation and are expected to have knock-on effects even when the effects of the COVID-19 pandemic recede.

Since its inception, Zaim has had an ambition to help people break this digital divide and provide financial and life inclusion to the people with low and unstable income. We saw it as a business opportunity to build an efficient, transparent, inclusive and profitable business model.

With our motto "fast and flawless", we are helping people efficiently resolve their temporary financial difficulties without collateral or guarantors with funds delivered usually within a few minutes. In order to provide our customers with quick and easy ways to borrow money on transparent conditions, we set high standards in customer service and conduct trainings for our employees. We are striving to provide financial support to a whole sector of the Russian population, population ignored by banks due to the high risks and low profitability of small loans.



## In our work, we are guided by certain principles:

- To help our customers fix their credit history, Zaim provides the opportunity to correct bad credit history, but also to create it from scratch. The latter is especially important as it's difficult or impossible to get a loan from a bank without a credit history. Thanks to our company, a borrower with a clean credit history can get and return several small loans and acquire a positive credit history. This will help to arrange a future bank loan on more favorable terms.
- We also provide an opportunity to quickly receive the required amount before the salary payment. Our clients are able to get quick cash or funds added to a card for any purpose in a short period of time, and accordingly our borrowers do not need to constantly borrow money from friends or relatives.
- We make borrowing money available to customers. Our client can get a loan with only one document and most importantly without guarantors and collateral. It can be done not only in our office, but from anywhere. Funds may be added to our corporate card through just one phone call or via the internet. A client simply needs to submit an application remotely, fill out a questionnaire, choose a method of receipt, confirm the conditions with a code from an SMS and we will send the money instantly to the client in the chosen way. Everything is fast and straightforward, from application to receipt of funds.
- We treat our customers as loyally as possible. Loyalty in relation to borrowers, approval of applicants with delinquency, high debt load, lack of official or permanent work and other circumstances are what sets our company apart from the competition. We understand that due to certain life situations, our clients may have had issues with repaying their debts to banks or other financial institutions. This is not usually a problem for us, as we believe that everyone deserves access to financial services regardless of their circumstances.
- We give our customers the opportunity to choose the loan amount and term themselves. All our clients can receive any amount up to RUB30,000 for up to 30 days and can also prolong the contract thereby increasing the repayment term for the loan if necessary.
- Zaim issue loans for a minimum set of documents and with minimum customer requirements: the age of 18 years and the citizenship of the Russian Federation, a passport and a mobile phone.
- The goal is to increase the financial and technical literacy of the population by actively transferring clients to remote methods of communication with the company and remote systems in order to receive money without leaving home. Our clients have the opportunity not only to arrange loans remotely, but also to receive the necessary information on the loan and pay the loan simply and from anywhere in the world. We do everything to make our services comfortable, easy and fast to use.

With the ongoing COVID-19 pandemic and its social and economic consequences, we expect increasing demand for microloans, as with the increase in the number of people receiving irregular salary payments and potentially decreasing levels of income, banks will be tightening their lending policy creating less alternatives available to people with short-term financial requirements.

Last year, we achieved an important milestone in the Company's development being successful IPO of ZCS on the London Stock Exchange on November 04, 2019, raising £2.6 million. I would like to thank directors, management and all the employees of the company for making it happen.

The ongoing COVID-19 pandemic represents an unprecedented challenge for humanity, the global economy and brings significant change to everyone's life. We are confident that the company is strong enough to weather the measures that have been put in place in Russia to protect the citizens and maintain social distancing and in doing so we will keep delivering our mission of helping people to solve their life challenges by providing them fast and flawless financial services.

DocuSigned by:

*Malcolm Groat*  
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Malcolm Groat  
Chairman  
June 16, 2020

# Chief executive's REVIEW

Dear Stakeholders,

I am delighted to write to you in what is the first Annual report of ZCS as a publicly listed company on the London Stock Exchange. I will use this section to give you an overview of our business model, which we believe would work to our advantage even in the current challenging times.

## Market Environment

The Russian microfinance market was one of the fastest growing sectors of the economy, with an average Annual growth rate of approximately 25%. The online segment is growing much faster, doubling in monetary volumes each year. As of the end of 2019, according to the Central Bank of Russia (CBR) statistics<sup>3</sup>, the microloans portfolio was 212 billion Russian rubles (approximately £2.61 billion<sup>4</sup>). According to Expert RA, the amount of loans issued to the customers in 2019 was 412 billion Russian rubles (approximately £5 billion<sup>5</sup>).

At the same time, the market remains underdeveloped and very well positioned for further growth. According to the CBR<sup>6</sup>, in 2018, only 34.6% of the Russian adult working population had any kind of bank deposit. Only 15% of Russian adults have credit cards and those are primarily used for cash withdrawal. This is significantly below the level of the developed and many developing countries and means that a relatively high portion of the population is presently underserved by the traditional

banking system and may require microfinance services. Less than 2% of the Russian adult population use such services, while in some other markets, this percentage ranges between 5% and 10%. Russian households' debt in 2019 was also very low at 17% of the GDP compared to 87% in the UK and 76% in the US<sup>7</sup>.

After the 2015 crisis, the CBR has overtaken the regulation and oversight of the entire Financial Industry in the Russian Federation. Within a few months of this, the CBR announced the Microfinance Sector Reforms plan and started its implementation. As a result of this strong, steady and consistent action, which lasted almost 4 years, the sector has been provided with a modern, transparent, professional and high-end Regulatory Framework. The last step of the implementation was announced in 2018 and finalized in 2 steps on February 01, 2019, and July 01, 2019, when the yearly rate cap, interest accrual cap and other parameters were set at the announced target levels.

<sup>3</sup> The Central Bank of Russia: Trends of microfinance market in 2019, p. 5

<sup>4</sup> At the rate on December 31, 2019

<sup>5</sup> At the weighted average exchange rate for 2019

<sup>6</sup> The Central Bank of Russia: Survey on the status of financial inclusion in the Russian Federation in 2018, p. 31.

Implementation of the reforms resulted in a significant increase in transparency and professionalism and those that are non-compliant or not performing to the required standards have been obliged to shut down. This has resulted in the overall number of licenses reducing by more than a half over the past 5 years. According to the CBR statistics, the number of microcredit organisations decreased from 4,200 as of December 31, 2014, to 1,774 as of December 31, 2019 representing a reduction of 57.8%.

We are proud to say that Zaim has internally processed all these evolutions and immediately implemented and

tested them within the integrated system that has grown in parallel with the regulations.

In several recent articles and statements, the CBR officers have declared that the Microfinance Reform Plan has been implemented and the current framework has to be considered the final framework in which to operate. This is a very positive sentiment for Zaim as a stable regulatory environment is key to maximizing efficiency and improving the quality of services we can provide our customers.

We believe that Zaim is uniquely positioned in a fast growing market where tight regulation and strong oversight are operating a natural selection of competitors.

## Zaim Business Model

Since obtaining its official status in 2011, Zaim has developed a bespoke IT system, created a distribution network and raised capital to fund its loan book. Since that time, Zaim has developed its retail distribution outlets and, as of December 31, 2019<sup>8</sup>, operated 92 sites located predominantly in Moscow and Moscow Region<sup>7</sup> and Western Russia regional centers. Zaim established branches in close proximity to densely populated residential communities in urban areas, as well as locations near to the transport infrastructure of Moscow.

Zaim has also developed a pre-paid product with MasterCard, "Zaim Express" card. The Company can transfer money online, directly to Zaim Express cards, or to the customers' own banking cards or facilities. Zaim's strategy is to further diversify its offering taking advantage of the increasing availability of POS devices and online purchases that facilitate card payments and the proliferation of mobile devices and improved access to the internet, which improve the retail customers' ability to organise their finances online. All these trends have been further amplified by the "stay at home" approach taken by the authorities to contain the spread of COVID-19 pandemic, driving demand for food and goods delivery, educational, informational and recreational services.

Given the dramatic evolution of the regulatory framework which occurred in 2015-2017, Zaim undertook a significant restructuring of its financial and corporate structure. This process has been implemented in parallel with a business model evolution over 2017 and 2018. This restructuring was conceived with the aim to get the existing liabilities arising

from the EER Master Debenture Agreement compliant with the required Capital Adequacy ratios imposed by the CBR. This restructuring was finalised at the end of December 2018 with the contribution to equity of the liabilities which was the preliminary step to the long path to IPO which started in late November 2018 and was originally planned to be finalized in July 2019. Zaim entered 2019 with a solid financial structure and with the plan to raise funds to increase its loan book through IPO. Due to the difficult environment of 2019 (Brexit, China/US sanctions, and other disturbing events, 2019 has been the record low year for IPOs on the London Stock Exchange Standard Market and Zaim was the sole IPO successfully finalized after April 2019) the IPO was successfully completed in November 2019. This delay caused a lack of funds to support the growing demand of the business and a consequent reduction of the business volumes during 2019. Loans issued are lower than expected because of lack of funds, revenues are lower than expected because of reduction of Loans funded and reduction of rates. Despite the lower than anticipated levels of lending, careful and accurate management action has resulted in several good achievements for the year:

- The default rate continuously reduced from 22% as of December 2018 to less than 5% in September 2019. This decrease is a direct consequence of continual improvements of the IT platform and scoring system. It is important to know that the default rate increased slightly in the last quarter 2019 to 8.1% as a consequence of the decision to accept new clients and accelerate growth. The default rate is strictly and constantly monitored by Zaim management

<sup>7</sup> According to The Bank for International Settlements

<sup>8</sup> As of December 31, 2019

- The operating cost structure has been carefully reorganised and prepared for the expected growth of business subsequent to the IPO whilst maintaining the same cost base.

The Company's loans to customers before ECL allowance as of December 31, 2019, was £32.1 million, growing by 10% compared to £29.2 million in 2018. It is now one of the largest microfinance companies in the Moscow region of Russia calculated by the Annual value of loans made. During our 8-year history, Zaim has provided its clients with over 1 million loans.

After the successful IPO, Zaim received £2.1 million (after costs of £500k) and is well positioned to increase lending volumes and scale up its business. As sufficient investment has already been made in Zaim's IT systems, the Company is able to cope with a much larger volume of loans with only a small increase in operational expenditure and benefit from the use of low-cost digital marketing. We believe that the Company should generate a stable return on capital with an increasing loan book year-on-year with Zaim's increased capital base going forward.

## Recent Developments and Outlook

In the near term, the Group plans to expand its online offering whilst maintaining its existing levels of funding via the existing stores within Moscow and the surrounding regions. The recent changes in regulation enable Zaim to remotely identify new customers online. We believe that this development has created an opportunity for the Group to rapidly access a much larger target customer base.

The COVID-19 outbreak which started to affect Russia along with most of the western economies in the first quarter of 2020 has become the key challenge for us and the main source of uncertainty for Russia and global economies. We have promptly changed the Company plans in order to properly face the new reality. Well-being of our customers and colleagues is a top priority for us and I have been very pleased by promptness and effective actions of the team in adapting our business practices to ensure that we continue to safely support our customers.

The long-term impact of COVID-19 on the Russian economy remains largely uncertain. While we have solid experience in running our business during crisis periods, we feel the current "lockdown" period is new to us, and so we have decided to reduce the loan amounts issued in order to keep business at a financial and economic break-even level on the cashflow basis for the period of "lockdown", i.e., no net funds are going to be introduced

and existing loans will fund new loans to be made. We believe this is manageable given our reduced default levels and should protect the Company from potential unexpected cash outflows.

In addition, Zaim has enacted a series of measures to reduce the cost base of operating its physical stores. This has been achieved by way of negotiating rent reductions with landlords as well as salary reductions for staff. Together, these measures are expected to enable Zaim to navigate the current uncertainty and be well positioned to capitalize on the expected rebound in business opportunities once restrictions start to be eased.

Our strong capital and liquidity positions make us confident in the sustainability of the Company's operations and it is our intention to re-start our growth plans as soon as we have a clearer view of the situation. We believe that we will continue growing our business due to the crucial nature of our services for the less well-off part of the society".

DocuSigned by:  
*Siro Donato Cicconi*  
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Siro Donato Cicconi  
CEO  
June 16, 2020

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# Market OVERVIEW

## The Market for Microfinance in Russia

**M**icrofinance involves providing individuals who do not have access to the banking system with small credits, or loans to help them to cover their expenses. Microfinance activities in Russia started in the 1990s in the post-Soviet era. Until 2010, the provision of consumer loans was largely an unregulated market segment.

Microfinance Business Law was released in 2010 and created the microcredit companies ("MCCs" or "MCOs"), a new special category of financial organisations. Microcredit Companies were permitted to provide loans on a regular basis subject to strict regulations. Although some banks structured their consumer lending branches as MFCs, due in part to the financial crisis in Russia in 2014 and 2015, the **banking sector largely neglected small businesses and the less well-off section of society.**

Following the introduction of the Microfinance Law and the disengagement of the core banking sector from the microfinance sector, the microfinance market grew rapidly from 21 million Russian rubles (approximately £250,000) of loans made during 2012 to 412 billion Russian rubles (approximately £5 billion<sup>9</sup>) of loans made during 2019<sup>10</sup>.

Rapid market growth is clear evidence of a strong need in of financial services among the less well-off segments of population combined with the technological capability to provide the said services in a simple way and at convenient conditions.

<sup>9</sup> At the average exchange rate for 2019

<sup>10</sup> Expert RA: Results of 2019 and forecast for 2020 for the MFO market: transformation period

## Tightening Microfinance Market Regulation Reducing Competition

Since 2014, the CBR has been implementing reforms in the microfinance sector to ensure consumer protection, increase levels of transparency and quality of services in the sector. This has led to introduction of KYC procedures, AML and other compliances in line with the best world practices, minimum capital requirements,

economic ratios for microfinance institutions, requirements in relation to accounting and risk management procedures, maximum interest rates and charges, limitation on the total amount of liability in consumer loan products, etc. As a result of this, smaller and inadequate players withdrew from the market.

According to the CBR statistics, the number of MCOs decreased from 4,200 as of December 31, 2014, to 1,774 as of December 31, 2019, representing a reduction of approximately 57.8%. Additional restrictions on consumer loans came into effect on July 01, 2019, reducing the daily interest rate by 1% and a maximum recovery amount representing a sum of interest, penalties and other charges and commissions being limited to 200% of the principal amount of the loan ("Maximum Recovery Rate"). The Maximum Recovery Rate was further reduced to 150% of the principal amount of the loan from January 01, 2020, resulting in a further reduction in the number of MCCs and MFCs operating in the sector.

## Reduced Offer of financial services from Banking Sector

As of January 01, 2020, there were 402 banks operating in Russia, whereas on January 01, 2013, Russia had a total of 956 banks in operation. Over the past 7 years, the Central Bank of Russia has revoked over 550 banking licenses.

**A**s of 2018, the government's stake in the Russian banking sector had increased by two thirds as a result of the country's largest banks undergoing financial rehabilitation. Reduction of bank licenses and desks have widened the unbanked segment of the population. Many low-income households therefore do not have access to credit from traditional commercial credit institutions, since they do not have enough collateral.

This, combined with the low social security protections in Russia hastened by the onset of the financial crisis and the growth of the Russian free-market economy, has driven those on low or unstable incomes to seek alternative sources of finance. This trend is expected to be further amplified by the economic turmoil caused by the coronavirus pandemics.

## **Russian Microfinance Market Potential**

**As a result of the above mentioned factors Russia has far lower financial services penetration, especially online, than virtually all other European countries and many developed countries.**

**These factors show that the Russian microfinance market is still at its initial stage and is expected to grow, potentially to multiples of its current size.**

**At the same time, we see a significant reduction of the competition in the microfinance market.**

The CBR actions on the microfinance market have caused a dramatic increase in the complexity which caused the reduction of number of players. Given the specific conditions of the industry (small transaction size and very short terms which cause the need to process thousands of micro transactions every day), all players have faced the increase of operational costs and/or IT system evolution CAPEX which have "eaten up" profitability of small and inadequately organised players.

## Future Trends in Microfinance in Russia

According to the Russian statistical agency Rosstat, in 2019, 12.3% of the Russian population lived below the poverty line. This has created a significant segment of the Russian population with such income levels that could potentially benefit from micro lending services. The current source of finance for Russians on low incomes is often informal, very often illegal and expensive. Microfinance represents a transparent, compliant, reliable, cheaper and safer option. There is a particular need in the Russian regions further from Moscow and in rural areas where the poorest are concentrated and where bank coverage is at its thinnest. Therefore, there is potential for the Microfinance market to grow at least by 20% per year<sup>11</sup>.

The demand for microfinance services is particularly prevalent online. Estimates from early 2019 place internet penetration at approximately 76% and the number of Russians having access to the internet being over 100 million. In 2018, 31% of micro loans were applied for online, amounting to RUB41 billion of loans; this is almost 70% more than in 2017. In terms of loans made by Zaim to individuals, the online segment of the portfolio grew by 18% in 2017 and by 34% in 2018, with some analysts predicting that it will grow by 70% by 2022. Currently, only 35% of MFCs already provide micro loans on the internet; by 2020, this share is expected to reach 50%. This means that more loans will be issued by remote means and to electronic payment wallets.

11 Expert RA: Results of 2019 and forecast for 2020 for the MFO market: transformation period

# Operational OVERVIEW

## Zaim's Business

Zaim's core product is providing microloans to Russian consumers. Zaim provides its loans in cash and to its Zaim Express branded bank cards. Loans offered are RUB30,000 or less, with a maximum duration of 30 days. The standard interest rates on these loans was 547.5% as of February 01, 2019, but as of July 01, 2019, the maximum interest rate was capped at 365% p.a with a Maximum Recovery Rate of 200%.

## SIMPLE BUSINESS MODEL

### 1 SINGLE PRODUCT

<sup>12</sup> Interest accrual is capped at 150% of the loan principal

The Zaim Express Card functions in much the same way as a debit card issued by a traditional bank, except that the consumer is limited to using the funds loaded to the bank card and Zaim does not provide overdraft facilities. Zaim's loans have historically been distributed by the Group's existing outlets which predominantly target a relatively small, densely populated residential communities, as well as being within walking distance of transport infrastructure and being approximately 10 to 30 sq. m in size.

The clients of these outlets typically live very locally to a Zaim outlet. Zaim's customers take out loans on average two to three times per calendar year and approximately 95% of Zaim's customers in 2019 were repeat custom-

ers. Although this provides a stable base, the growth of the outlets is limited by their geographical reach which is typically less than two miles from the consumer's residence.

As a direct result of the continued strategy of optimization of the business model and ensuring maximum returns for shareholders, the number of stores have been reduced from 113 as of December 31, 2018, to 92 stores as of December 31, 2019, and further reduced to 76 stores as of April 27, 2020. The stores that were closed were the weakest performing and indications were that, given the slow recovery in the amounts funded post-IPO and the anticipated reduction in demand due to COVID-19, these should be closed.

## Geographic Footprint

## Company infrastructure

A key component of the Zaim's business offering is its bespoke IT platform that manages and executes client acquisition, scoring assessment and financing authorization in less than 5 minutes. All back-office functions are fully automated and managed by the integrated IT system, which includes:

- automatically generating important customer communications, including notifying customers of the key repayment date;
- call centre personnel will be provided with instructions to contact customers regarding overdue payments on a pre-assigned date to assist with debt collection; some phone calls are automated; and
- in the event that loans are not repaid and are considered bad debts or where a consumer is otherwise declared bankrupt, such claims will be submitted to the relevant Court or state agency (as applicable) for adjudication.

Current level of automation allows Zaim to efficiently process large volumes of micro size transactions. The Group's IT system is set up to receive data from the Group's preferred credit bureaux and independent referencing agencies (including Equifax). These data sources, when combined with the Zaim's own scoring algorithm, assess the credit worthiness of borrowers.

Zaim's scoring algorithm is a mathematical multi-parameter regression model that forecasts the likelihood of default of the client on the basis of the information about the client in the moment of approval of the loan application: application data, our database information, the Bureau of credit history and other third-party sources. Zaim undertakes a regular review of the model's parameters to determine whether any fine tuning is required.

This system has been successful in reducing the number of non-performing loans and the weighted average default rate from 22% in February 2017 to 5.6% by August 2019. Subsequently, this number increased to 11% in December 2019 due to the more aggressive marketing and higher proportion of loans made to new customers that usually carry higher risk of default than repeated customers do. Zaim customers may repay loans in-store, via call centres, through the website and internet banking. The Company has developed a number of convenient alternative methods of repayment.

Zaim's customers may also repay their outstanding loans by a QIWI e-wallet, which is one of the most popular e-wallets in Russia. Customers may load cash to their QIWI wallets using various methods, including at POS terminals, ATMs and at dedicated QIWI kiosks. Consumers may use QIWI's dedicated kiosks to repay their loan with Zaim and to undertake a wide variety of transactions, including repayment of bills to utility

companies, mobile phone providers and to complete other online purchases. QIWI operates approximately 170,000 kiosks throughout Russia and has a customer base of 65 million customers, who pay more than 39 billion Russian rubles each month. Zaim is also able to use the QIWI "Contact" Payment System which enables Zaim to provide an online application to obtain a cash loan in any region of Russia.

## Zaim Master Card

**I**n 2015, Zaim entered into an agreement with MasterCard Circuit to have its own branded and operated MasterCard.

After a long and intensive negotiation with MasterCard and related Due Diligence, in 2017, Zaim finally got its own card "made to measure" to microfinance clients' needs. This card has specific and highly customised operational tools which have been determined by the Zaim management in order to have an operational tool coherent with the microfinance market and clients: simple, friendly and with no hidden costs or fees on transactions.

These card can be used by the low-income segment of the population to access various digital and online services, becoming the key tool of the inclusivity. From the possibility to rent a movie on stream to buying food online, non-availability of a card will severely impact the lifestyle of people and their participation in the society.

The card is a "vector" for Zaim services, but in the future, it could become a vector for any third-party services, too. Zaim management is working on getting majority of its clients to get their own card. Since its launch, Zaim has released over 56,000 branded MasterCards.

## Zaim's business model

**Z**aim has worked on developing its own unique business model based on its bespoke IT system and a network of directly managed stores. Since 2014, Zaim has raised significant capital from a group of private investors in the form of the EER Loan Facility Agreements (approximately €35m or an equivalent of approximately £314m) and the EER Master Debenture Agreements, which has enabled it to experience growth and led to Zaim becoming a significant business in the microfinance market in Moscow, Moscow Region and Western Russia.

The decision to concentrate its efforts in a specific region of Russia has led to optimization of a number of business factors, including staff and cash availability in stores, creating strong brand awareness. Zaim's bespoke IT and operational platforms have been purpose-built to support its lending activities, enabling consistent operational performance and speed to market, as well as high level of customer service. Its success in customer service is illustrated by its high repeat customer rate.

Zaim's 8-year presence in the microfinance loan market has enabled it to develop highly effective credit scorecards. Zaim is able to use the data in its scorecards, loan performance analysis and underwriting decisions, giving it a significant competitive differentiator and particular

advantages against new entrants to the market. As a result, the Group is well positioned to participate substantively in the further growth potential in the non-standard lending market. This is because sufficient investment has already been made in Zaim's systems so that they are able to cope with a much larger volume of loans with only a small increase in operational expenditures and at the same time the Board is planning to grow the Zaim's customer base using low-cost digital marketing without significantly increasing store numbers and the fixed cost base.

Compliance is important to the Group's business and culture and is implemented through its customer service processes and its underwriting and collection procedures. The Group seeks to treat all of its customers fairly and offers customers in financial difficulty a number of payment options tailored to their individual circumstances. For example, Zaim's policies include never undertaking collection activities or selling unrecovered debts to third parties who might seek to enforce and collect defaulted loans. Zaim reviews all of its customer-facing employees at least weekly and operates an ongoing refresher training to ensure that ethical behaviour and the principles of treating customers fairly are embedded in its culture.

# Financial OVERVIEW

|                                                     | 2019, £     | 2018, £     |
|-----------------------------------------------------|-------------|-------------|
| Loans to customers                                  | 32,078,150  | 29,187,093  |
| Total loans to customers measured at amortized cost | 786,346     | 640,371     |
| Total assets                                        | 5,152,414   | 1,337,605   |
| Net assets (Total equity)                           | 1,189,258   | (576,859)   |
| Cash and cash equivalents                           | 1,582,751   | 454,549     |
| Interest income                                     | 3,940,747   | 10,226,071  |
| Staff costs                                         | (2,006,265) | (2,339,965) |
| Operating expenses                                  | (2,523,112) | (2,762,326) |
| Operating expenses related to IPO                   | (369,146)   | -           |
| Operating margin <sup>13</sup>                      | 41.2%       | 46.5%       |
| Net loss                                            | (891,589)   | (1,545,631) |

2019 represented a year of considerable changes within the business with the recapitalisation of the group into an equity-funded Group, the successful IPO, as well as the improvements in the credit scoring system. Generally, trading in 2019 was hampered by the lack of available liquidity due to the restructuring of the historic bonds and IPO in London taking place later in the year than expected (November 04, 2019).

Despite the lack of liquidity and a relatively small value of the loan book (£786k as of December 31, 2019) the business performed well and in line with management and the market expectations. The default rates have seen a steady improvement since the beginning of 2019 as a result of continual technical improvements being implemented to the credit scoring system.

Loans to customers increased by 10% to £32.1 million compared to £29.2 million as of December 31, 2019. This is a reflection of the Zaim's strategy to gradually grow its loan book after receiving IPO funds on November 04, 2019, without compromising its customers' quality.

Total loans to customers measured at amortized cost had increased by 23% from £640k to £786k reflecting increased amount funded through offline and online channels.

Total assets had increased to £5.2 million compared to £1.3 million as of December 31, 2018, due to the proceeds received from the IPO. The substantial growth of assets is mainly explained by two factors: a substantial increase in cash balance by £1.1 million and recognition of an asset in the form of Right-of-use assets under lease agreements of £2.55 million due to the leasing brought onto the balance sheet for the first time in 2019 as a result of amendments to IFRS 16, including requirements. The Group recognized assets in the amount of £ 2.55 million and liabilities of £2.56 million.

Cash and cash equivalents increased from £455k as of December 31, 2018, to £1.6 million as of the end of 2019. A substantial increase in cash balance by £1.13 million was a result of the IPO in 2019.

Interest income had decreased by 61% from £10.2 million to £3.9 million due to the business restructuring and optimization. Zaim had scaled down the business in 2018 and the first half of 2019 due to the lack of financing available and resumed the growth path following use of the proceeds of the IPO to build its loan book.

Staff costs decreased by 14% from £2.3 million to £2.0 million due to the overall business optimization and reduction of the headcount of Zaim by 16% from 378 as of December 31, 2018, to 317 as of December 31, 2019.

Operating expenses increased by 5% from £2.8 million to £2.9 million due to the one-off costs of the IPO amounting to £369k. Excluding these costs, there was a 9% decrease in operating expenses, driven largely by a reduction of rental expenses, as well as communication, security costs, bank and postal services.

Operating margin increased from 46.5% in 2018 to 41.2% as a result of the restrictions on consumer loans that came into effect on July 01, 2019, reducing the daily interest rate to 1%.

The net loss generated by the Company decreased from £1.5 million to £892k reflecting an improvement in the flexibility of the business model and growing cost efficiency. Excluding one-off IPO costs in an amount of £519k and the non-cash share-based payment charge of £167k, the net loss of the Company was £206k.

In 2018, the Group eliminated a substantial amount of its historic debt thereby significantly reducing associated interest payments and, as of the end of 2019, remains predominantly equity-funded.

With available equity financing and necessary investments already made into the online platform, Zaim is now well positioned to grow its business and capture the demand of its target customer base. However, in 2020, due to the uncertainty caused by the COVID-19 pandemic, Zaim further decreased the cost base and decided to reduce the loan amounts issued in order to keep business at a financial and economic break-even level on the cash basis for the period of "lockdown". This has served to protect the Company from potential unexpected cash outflows and provides financial and operating stability during the turbulent times.

<sup>13</sup> Operating margin is calculated as the net operating cash flow (net cash received for the period (including collecting claims) less loans provided, including insurances) divided by the total loans provided, including insurances

# Strategy and development PLANS

**The Group's strategy includes the maintenance of its core stores to enable lending to higher quality customers (with comparably low historic defaults), including a number of repeat customers at a similar level along with the development of the Group's online platform.**

**T**he physical and online business model should allow for growth in the lending book and the number of loans made without the capital and operational expenditures of a purely store-based model. In addition, the Group continues to refine its lending and credit ratings' criteria based on experience to reduce default rates and thereby improve operating margins. The Directors believe that these factors will enable the Group to grow revenue and operating margins.

Furthermore, Directors believe that there is a potential to increase revenue by increasing store utilization (by servicing more customers and issuing more loans in one store). This can be achieved by adjusting the scoring system to increase loan provision.

The Group's main strategy is therefore to develop and improve its online offering and to increase the number of customers obtaining loans online through Zaim's online presence. As no significant capital has yet been deployed to promote the "Zaim" brand online, it does not currently have a strong online presence, but demand is already proving strong for this online product.

A significant portion of future funds available are expected to be used to grow the online loan book using targeted online lead generation and search engine optimisation. It is also the group's strategy to develop the Group's online presence to enhance its attractiveness and differentiate it from the competition. The Board will aim over the next 12-18 months to continuously grow the online loan book, which can be achieved with minimal further capital expenditures as a result of the historic investments made by Zaim in its IT platform. The Board believes there is a significant opportunity to gain market share compounded by the number of competitors being reduced due to increased regulation.

In 2019, Zaim as an MCC gained access to the Russian Unified Identification and Authentication System (USIA) for the purpose of undertaking client identification checks in respect of loans not exceeding 15,000 rubles. The USIA is a state-controlled system commonly used by Russian citizens to access various state services, such as online payment of state duties and fines, various remote registrations and applications. An individual may use the USIA for the purpose of confirming their identity and Zaim can therefore rely upon verification provided by the USIA in respect of a consumer loan not exceeding 15,000 rubles.

As of December 05, 2018, over half of the Russian population, approximately 84 million Russian citizens, had registered with the USIA system. In addition, since October 01, 2019, Zaim as an MCC has been able to connect to the State database in order to make a request to the State database for cross verification of the data provided by the customer and for verifying the mobile phone number of the customer through an acknowledged secret text. This change also enables Zaim to carry out these cross checks through banks or other credit organisations. Access to these cross checks is particularly important as they enable Zaim to take on clients without necessitating a face to face meeting. Bypass of the requirement for 'face to face' meetings and the acceptance by the Company of self-certified ID documents enable the Group to provide an online offering to customers in other parts of Russia in a manner which is reliable and less susceptible to fraud.

Going online will enable Zaim to access areas outside of the urban areas where it has a physical footprint, with minimal additional capital or operating cost. Zaim also intends to use the proceeds of the IPO to increase distribution of the Zaim's Express Card within targeted locations based upon consumer data and to its increasing online customer base.

# Risk MANAGEMENT

## **Zaim manages its risk exposures in respect of financial risks (credit, market, currency, liquidity and interest rate), operational and legal risks.**

The primary objectives of the financial risk management function are to establish risk limits and then ensure that exposure to risks stays within these limits. The assessment of exposure to risks also serves as a basis for optimal distribution of the risk-adjusted, transaction pricing and business performance assessment. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures to minimise operational and legal risks.

### **Credit risk**

**T**he Company is exposed to the credit risk of its customers, as the Company makes unsecured personal loans to a segment of the population that have difficulty obtaining credit from mainstream financial institutions. The Group uses internally developed models for assessing credit risk and credit worthiness.

Credit risk is the risk of financial loss to Zaim if a counterparty to a financial instrument fails to meet its contractual obligations within the specified period. Zaim has policies and procedures for the management of credit exposures (both for recognised financial assets and unrecognised contractual commitments), including requirements for establishment and monitoring of loan portfolio concentration limits.

The credit policy establishes:

- procedures for review and approval of loan applications,
- methodology for assessment of a borrower's solvency,
- credit documentation requirements,
- procedures for the ongoing monitoring of loans and other credit exposures.

Zaim continuously monitors the performance of individual loans and regularly reassesses the creditworthiness of its customers. The review is based on the most recent delinquency statistics. Zaim applies the expected credit loss model for the purpose of provisioning for financial debt instruments, the key principle of which is timely reflection of deterioration or improvement in the credit quality of debt financial instruments based on the current and forward-looking information.

The amount of expected credit losses recognised as a credit loss allowance depends on the extent of credit quality deterioration since initial recognition of a debt financial instrument.

### **Credit risk classification system**

Each level of credit risk is assigned a certain degree of solvency using a single scoring system:

- minimum credit risk – high credit quality with low expected credit risk, debt is not past due;
- low credit risk – sufficient credit quality with average credit risk, debt is prolonged and not past due;
- moderate credit risk – average credit quality with satisfactory credit risk, the debt is from 1 to 30 days past due;
- high credit risk – low credit quality with unsatisfactory credit risk, high probability of default, the debt is from 31 to 60 days past due;
- default – assets that meet the definition of default, the debt is more than 60 days past due. Expected credit losses on financial assets that are not impaired are usually measured on the basis of default risk over one or two different time periods, depending on whether there has been a significant increase in the borrower's credit risk since initial recognition.

Zaim-Express performs collective assessment of loans to individuals. This approach provides for aggregation of the portfolio into homogeneous segments based on specific information about borrowers, such as delinquent loans, historic data on prior period losses and forward-looking macroeconomic information.

Collective assessment principles: for assessing risk stages and estimating ECL on a collective basis, Zaim-Express combines its loans into segments based on shared credit risk characteristics, so that exposure within a grouping has a homogeneous pattern.

Zaim carries out an affordability assessment of the borrower before a loan can be paid out. As a separate exercise using the knowledge and data from its 8-year presence in the loan market, each potential loan undergoes a creditworthiness assessment based on the applicant's credit history. No formal collateral or guarantees are held against the borrower.

Zaim manages credit risk by actively managing the blend of risk in its portfolio to achieve the desired impairment rates in the long term. Zaim aims to achieve the desired risk in the portfolio by managing its scorecards and the maximum amount borrowers are able to borrow depending on their circumstance and credit history. The factors Zaim considers in monitoring the overall impairment rates include the total value of the loan, the home owner status of the guarantor, whether loans are new or repeat loans and whether these are pilot loans. Using the data and expected loss curves for the different scorecards, the business can vary its origination levels to target an expected loss rate, impairment level and manage the balance sheet risk.

In assessing the level of impairment, the business makes provision for a percentage of loans that are currently up to date. As part of its procedures, the Directors expect that at any time, there will be an element of loans that are currently up-to-date, but where the customer may have an unreported difficulty in repaying the loan and therefore Zaim's practice is to make provision for the estimated effect. In addition, should a customer enter into a repayment plan, Zaim does not reschedule the terms for its internal reporting. Instead, the business calculates the arrears level with reference to the original terms.

## Market risk

**M**arket risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises currency risk, interest rate risk and other price risks. Market risk arises from open positions in interest rate, currency and equity financial instruments, which are exposed to general and specific market movements and changes in the level of volatility of market prices. The Group's exposure is primarily to the risk of changes in interest rates.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

## Currency risk

**C**urrency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign currency exchange rates. Zaim accepts the risk of effect of foreign currency exchange rate fluctuations on its financial position and cash flows. Currency risk arises when the existing or prospective assets in foreign currencies are greater or lower than the existing or prospective liabilities in the same currencies.

The main operating subsidiary of the Group, Zaim Express LLC, operates in Russian rubles, with the majority of transactions with customers and suppliers occurring domestically within the Russian Federation. The Group has its parent company and head office activities operating in the United Kingdom and raises finance from shareholders in Pounds Sterling. The Group is therefore exposed to foreign exchange risks relating to both £ and RUB.

Exchange rate exposures are managed within approved policy parameters. Zaim-Express's management controls the exposure to currency risk on a regular basis.

Please see Note 20 to Financial Statements for further information on the currency risk.

## Interest rate risk

**T**he Company historically relied on debt finance to fund its loan book. Such indebtedness may expose the Company to the risks associated with movements in prevailing interest rates. However, after its IPO, Zaim relies on equity financing to fund its loan book; that keeps the interest rate risk at minimum.

Changes in the level of interest rates can affect, among other things:

- the cost and availability of debt financing and hence the Company's ability to achieve attractive rates of return on its assets;
- the debt financing capability of the Zaim business;

This exposure may be reduced by introducing a combination of fixed and floating interest rates or through the use of hedging transactions (such as derivative transactions, including swaps or caps). Interest rate hedging transactions will only be undertaken for the purpose of efficient portfolio management and will not be carried out for speculative purposes.

Please see Note 20 to Financial Statements for further information on the interest rate risk.

## Liquidity risk

**L**iquidity risk arises when the maturity of assets and liabilities does not match. Zaim does not accumulate cash resources to meet calls on all the liabilities above, as based on the existing practice it is possible to forecast with a sufficient degree of certainty the required level of cash funds necessary to meet the above obligations.

The directors have the responsibility of liquidity risk management. The directors monitor rolling forecasts of the Company's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its banking facilities at all times.

To manage its liquidity, Zaim is required to analyze the level of liquid assets needed to settle the liabilities on their maturity, provide access to various sources of financing, draw up plans to solve the problems with financing and exercise control over compliance of the liquidity ratios with the statutory laws and regulations.

Liquidity risk is managed by the Group's central finance department through daily monitoring of expected cash flows, ensuring sufficient funds are drawn against the Group's finance facilities to meet obligations as they fall due. The Group's forecasts and projections, which cover a period of more than 12 months, take into account expected originations, collections, and payments and allow the Group to plan for future liquidity needs.

The CBR sets and monitors liquidity requirements for microfinance institutions. The Company calculates its liquidity ratio in accordance with CBR instruction No. 4384-U dated 24 May 2017 "On establishing economic norms for a microcredit company that attracts funds from individuals, including individual entrepreneurs who are founders (participants, shareholders) and/or legal entities in the form of loans". As of December 31, 2019, and December 31, 2018, the minimum liquidity ratio was 70%. The Company provides the territorial division of the Central Bank of Russia supervising its activities with information on the mandatory liquidity ratio in accordance with the established format on a quarterly basis as of the first day of each month.

If the liquidity ratio values approach the limit set by the CBR, this information is communicated to a company's member. The Company complies with the liquidity adequacy ratio as of December 31, 2019 (unaudited), and December 31, 2018.

Please see Note 20 to Financial Statements for further information on the liquidity risk.

## Operational risk

**T**he Group is exposed to operational risk which is the risk of losses resulting from inadequate management and control procedures, fraud, poor business decisions, system errors relating to employee mistakes and abuse by employees of their positions, technical failures, settlement errors, natural disasters and misuse of the Group's property.

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

## Legal risk

**Z**aim operates in a highly regulated financial services industry and existing laws and regulations could be amended, the manner in which laws and regulations are enforced or interpreted could change and new laws or regulations could be adopted. Any breach of applicable regulations could expose the Group to potential liability and other sanctions, including the exclusion of Zaim from the Registry and revocation of its MCC status, thus depriving it of the opportunity to carry on its business. Further, any changes in regulation and laws could reduce the potential returns the Group earns from its lending operations.

Zaim was included into the registry of microfinance institutions when its status of an MCC was obtained; this inclusion means that the Group is subject to ongoing monitoring and compliance reporting requirements. If Zaim's MCC status is withdrawn or suspended, this is likely to have a materially adverse effect on the Group's business, financial condition, results of operations and/or prospects.

The Group mitigates legal risk by constantly monitoring the applicable legislation and ensuring that all legal requirements are met.

## Force Majeure and epidemic risk

**I**n 2020, a new coronavirus infection (COVID-19) outbreak emerged in China and then spread across all other countries. Governments across the world are taking various measures to contain the spread of infection.

The Russian authorities are taking steps aimed at containing the spread of COVID-19, including international travel restrictions, social distancing initiatives and announcing holidays in Russia from 30 March to 11 May, that could be extended further based on the epidemiological situation. The Russian authorities have also enacted the closure of non-essential businesses in Moscow and the Moscow Region, where a part of Zaim's main operations is focused and announced a set of economic measures and subsidies aimed to help affected businesses and the population. Zaim-Express offices were allowed to continue operating during the holidays.

Zaim team is well prepared to continue their work while at the same time ensuring the safety of our employees and clients as a top priority. Zaim had proactively implemented strict health and safety policies specifically tailored to COVID-19, including working from home for our entire head office staff, taking all necessary disinfection measures in the stores, such as using hand sanitizers, medical masks and more frequent cleaning of the customer zone. The clients can enter the shop in compliance with the social distancing prescriptions or one at a time. Zaim is following all the recommendations of local health authorities and the World Health Organisation to the best of its ability.

As part of its recent strategy, Zaim has developed a convenient online platform, allowing customers to receive and repay loans via the internet or by phone in less than 10 minutes without leaving their homes, which is an important option in the era of social distancing that is critical for containing the pandemic. We can also deliver our Zaim MasterCard debit cards to our clients and provide loans to these cards.

It is difficult to foresee how long the current Government measures in response to COVID-19 will be in place or how customers will behave once the restrictions are lifted. Zaim

has decided not to grow its loan book beyond its current level until the demand resumes and the ability of the Company to accurately forecast future cashflows reliably returns. This should protect the Company from potential unexpected cash outflow and deterioration in liquidity due to delays or defaults in collection.

In addition, Zaim has enacted a series of measures to reduce the cost base of operating its physical stores; this has been achieved by way of negotiating rent reductions with landlords as well as salary reductions for staff.

Together, these measures are expected to enable Zaim to navigate the current uncertainty and be well positioned to capitalize on the expected rebound in business opportunities once restrictions start to be eased. Our strong capital and liquidity positions make us confident in the sustainability of the Company's operations and it is the intention to re-start our growth plans as soon as we have a clearer view of the situation.

# SUSTAINABILITY

The Russian economy, like many other economies in the world, is rapidly moving towards "dematerialization" and digitalization. Nowadays, societies are based on the average level of services which go beyond the basic necessities and include the consumption of online services and products. Increasing complexity and standards requirements are creating an increasingly larger segment of population who cannot attain the "minimum lifestyle level" to get these services. The key to enter this online world is the availability of credit card or electronic reconnaissance tools (which are anyway linked to payment systems and cards).

The ongoing COVID-19 pandemic and "stay at home" policies of many countries make this inequality even more obvious. Locked home, people work, communicate, study, and entertain themselves online and via remote / e-commerce platforms. Significant segments of population lost access to the basic services.

A combination of financial burdens with technology has become the real "Digital Divide".

Non-availability of bankcards is the main barrier for lower-income segments of the population the global world and participate in its coming evolution. This could become the new segregation wall.

From the possibility to rent a movie on stream to buying food online, non-availability of a card will severely impact the lifestyle of people and their participation in the society.

Zaim platform is conceived to ease the access and resolve the divide. This makes the Zaim Express MasterCard a key tool of inclusivity. The card was conceived in coherence with the microfinance clients' needs: simple, transparent, no hidden costs or fees on transactions. The card is a "vector" for Zaim services, but in the future, it could become a vector for any third-party services, too. Zaim management is working on getting the majority of its clients to get their own cards.

Lending to heavily neglected people gives them awareness that "they can have a further chance".

Providing people with bankcards and easy access to financing allows them to use the services that were normally impossible or extremely complicated to get, which dramatically improves their lifestyle, especially in the current "stay at home" environment.

This Strategic Report statement was approved by the Board of Directors June 16, 2020, and was signed on their behalf by:

DocuSigned by:  
Simon Retter  
4E528763FECE431...

Simon Retter  
Finance Director & Company Secretary  
June 16, 2020

# Corporate GOVERNANCE

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# Board of DIRECTORS

**The Board of Directors of Zaim Credit Systems Plc consists of five members, including two independent directors. The Directors are responsible for carrying out the Company's objectives, implementing its business strategy and conducting its overall supervision.**

**T**he Board provides leadership within a framework of prudent and effective controls. The Board establishes the corporate governance values of the Company and will have overall responsibility for setting the Company's strategic aims, defining the business plan and strategy and managing the financial and operational resources of the Company.

## **Malcolm Groat – Non-Executive Chairman**

**M**Mr. Groat is a Chartered Accountant and MBA graduate. Following an early career with PwC in London, he held CFO, COO and CEO roles in international businesses, including with the construction engineering firm that is now Arcadis. Since 2005, Mr Groat has held non-executive board positions, mainly with growth ventures listed on the AIM and the main market, but also with larger bodies, such as the UK's former Milk marketing Board, Corps Security, and Baronsmead Second Venture Trust PLC. Mr Groat chaired a Singapore-based consulting firm (2010-2012) and a UK-based technology group (2013-2015) that enables secure and fast IT connectivity for financial institutions and military applications around the world.

## **Paul James Auger – Non-Executive Director**

With a career of over 30 years in finance and lending, Mr Auger has been a director of an Essex-based and FCA-regulated microlender TFS Loans Limited ("TFS") for over 10 years. Established by Paul in 2009, TFS is focused on the guarantor loans market and currently offers guaranteed loans under £15,000 to retail consumers. Established in 2009, TFS was initially authorised by the Office of Fair Trading until responsibility was transferred to the FCA in April 2014 when it was given interim authorisation until full authorisation was granted by the FCA at the end of 2016.

**Vladimir Golovko –  
Chief Operating Officer**

Vladimir was previously the COO of Zaim Express LLC from inception in 2011 prior to becoming CEO of this company. Prior to joining Zaim, he was General Manager of the Pyaterochka retail chain (a franchisee network) (2004 – 2011) and had previously been Communication Director (1999-2011). Vladimir also previously worked for Uniland (the largest wholesale company in Russia at the time) as Sales & Marketing Manager; Uniland now operates as a supermarket chain, DIXY. Vladimir graduated from the Volgograd branch of the Moscow State University of Commerce in 1997 with a degree in management.

**Siro Donato Cicconi –  
Chief Executive Officer**

Siro is an experienced Italian executive director that has worked for and advised numerous businesses in Italy, many of which were in turnaround or distressed situations. In late 1990s, Siro advised on fundraisings for strategic R&D projects of many organisations (including Alfa Gomma Group and Benelli Motors SpA), which involved managing relations with European, Italian and local financial administrations. He also assisted several other industrial groups to raise finance for their acquisition plans.

From 2005 until 2010, he provided corporate finance advice to several businesses. Between 2011 and 2013, he was appointed Managing Director of IMT SpA, a large Italian manufacturer of drilling equipment, to turnaround that business. After finishing this role, he became managing director of EER to fund Zaim and managed the rationalisation of Zaim's operations and returned it to profitability.

**Simon James Retter–  
Finance Director**

Simon started his career at Deloitte & Touche LLP (now known as Deloitte LLP), where he qualified as a Chartered Accountant specialising in corporate finance transactions. He has been instrumental in setting up several private and listed companies. Simon has undertaken numerous IPOs and Reverse Takeovers and has a wealth of public market experience. He currently holds the position of Finance Director of SulNOx Group plc, which has developed an innovative fuel conditioner to reduce harmful emissions from diesel and HFO combustion engines, as well as various other board positions of listed companies across a broad range of industries.

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**The Company Secretary**

Simon James Retter is the Company Secretary of the Company.

# Key MANAGEMENT

## **Vladimir Golovko – Chief Operating Officer**

Vladimir was previously the COO of Zaim from inception in 2011 prior to becoming CEO. Prior to joining Zaim, he was General Manager of the Pyaterochka retail chain (a franchisee network) (2004 – 2011) and had previously been Communication Director (1999–2011). Vladimir also previously worked for Uniland (the largest wholesale company in Russia at the time) as Sales & Marketing Manager; Uniland now operates as a supermarket chain, DIXY. Vladimir graduated from the Volgograd branch of the Moscow State University of Commerce in 1997 with a degree in management.

## **Andrey Katyshkov – Chief Financial Officer**

Mr Katyshkov joined Zaim at the beginning of 2018 as CFO and had previously worked for Basic Element – one of the biggest investment funds in Russia working in corporate finance. Mr Katyshkov worked with GIP Group in 2011–2012, acting as an investment specialist within its investment department. Prior to this, Mr. Katyshkov worked as an investment analyst with investment fund, Ost West Group, from 2002 until 2006. Mr Katyshkov graduated from the Moscow State University of Economics, Statistics and Information Systems in 2003 with a degree in Finance, followed by postgraduate studies at the Moscow Financial Industrial Academy which he completed in 2006.

## **Alexander Akhmetov – Head of Legal Department**

Mr. Akhmetov joined Zaim Express LLC in 2011 first as legal counsel and starting from 2014 as Head of Legal Department. Prior to joining Zaim Express LLC, Mr Akhmetov worked for a law firm called Yurconri before practising at the Arbitration Court for the Moscow Region. He then joined Zaim in 2011. Mr. Akhmetov graduated from the Moscow Engineering Physics Institute in 2007 with a degree in Accounting and subsequently graduated from the Moscow State Law Academy in 2011 with a degree in Law.

## **Vildan Vegerio – Head of Network Management**

Prior to his appointment as Head of Network Management of Zaim Express LLC in 2016, Mr Vegerio worked with the company as a senior customer relationship specialist from 2011. Mr Vegerio graduated from the International Slavic Institute with a degree in Economics in 2011.

# Directors' REPORT

**The Directors present their Annual Report on the affairs of Zaim Credit Systems Plc together with the audited Financial Statements for the year ended December 31, 2019**

## Principal activities

The principal activity of the Group and Company is providing customers in Russia with small short-term loans.

## Financial review

Financial review of the Group is presented in the "Financial Overview" section of the current Annual Report.

## Going Concern

The Directors have prepared cash flow forecasts for the 12 months from the date of signing of these Financial Statements. The uncertainty as to the future impact of the COVID-19 pandemic has been considered as part of the Group's adoption of the going concern basis. The Board considers the pandemic has not materially adversely affected the prospects of the business as of the date of this report, although any future impact should further waves of the pandemic occur and further measures be implemented remains hard to quantify. The Directors have formed a judgement at the time of approving the Financial Statements that there is a reasonable expectation that the Company and Group have adequate resources to continue operations for the foreseeable future. For this reason, the Directors continue to adopt the going concern basis in preparing the Financial Statements. Further details of the Directors' conclusions regarding going concern are detailed in note 3 to the Financial Statements.

## Dividends

The Directors do not recommend payment of dividends (2018: £Nil).

The Directors recognise the importance of dividends to Investors and as soon as the Zaim's business is at a mature state of development, the Directors will review the desirability of paying dividends. Income generated by the Company in the near term is likely to be re-invested

by the Company to implement its strategy. As a holding company, the Company will be dependent upon dividends being declared and paid by its subsidiary. The Board does not anticipate declaring dividends in the short term, but it may recommend dividends at some future date, depending upon inter alia the Zaim Business demonstrating sustainable profits and the financial position of the Company. The Board can give no assurances that it will pay dividends in the future, nor, if dividends are paid, what the amount of such dividends will be.

## Health and safety

Health and safety of our employees are of the paramount importance for our Company. During the COVID-19 outbreak, Zaim has been proactively implementing strict health and safety policies specifically tailored to COVID-19, including working from home for the entire head office staff, taking all necessary disinfection measures in our stores, such as using hand sanitizers, medical masks and more frequent cleaning of the customer zone. The clients can enter the shop in compliance with the social distancing instructions or one at a time. We continue following all the recommendations of local health authorities and the World Health Organisation.

## Social, Community and Human Right Issues and Policies

The Company does not have formal social, community and human rights policies.

## Environmental matters

The Company's activities do not have a negative impact on the environment, as it is a financial services company and it does not own or operate heavy machinery or air or water polluting equipment. The Company does not have formal policies on this matter.

## Employees

As of December 31, 2019 the Group had 317 employees. Our employees are the most valuable resource and we focus on creating a comfortable working environment. Zaim sets high standards for customer service and conducts trainings for the employees. We see innovation as a tool to ensure customer loyalty and increase the motivation of our employees. We invest in human capital through continuous staff training, development of a personnel reserve system and career growth of our employees. Responsibility, honesty and openness are core values of our company.

The Company has the following internal policies:

- On recruitment, evaluation and management of employees
- On hiring and collocation of employees
- On education, adaptation and evaluation of employees
- On motivation and remuneration of employees

## Gender diversity

Although the Board and top management consists only of male members, the company supports diversity in the Boardroom and the Financial Reporting Council aims to encourage such diversity.

The following table sets out a breakdown by gender as of December 31, 2019:

|                   | Male | Female |
|-------------------|------|--------|
| Directors         | 5    | 0      |
| Senior Management | 4    | 0      |
| Other employees   | 81   | 232    |

## Directors and their interests

The names of the Directors of the Company at the date of this report are shown in the "Board of Directors" section of this report.

| Director            | Date of appointment | 2019        |            | 2018        |         |
|---------------------|---------------------|-------------|------------|-------------|---------|
|                     |                     | Shares      | Options    | Shares      | Options |
| Malcolm Groat       | 4.11.2019           | 0           | 2,150,000  | 0           | 0       |
| Paul James Auger    | 4.11.2019           | 0           | 0          | 0           | 0       |
| Siro Donato Cicconi | 22.07.2019          | 320,000,000 | 10,750,000 | 320,000,000 | 0       |
| Simon James Retter  | 15.06.2018          | 3,600,000   | 6,450,000  | 2,000,000   | 0       |
| Vladimir Golovko    | 25.10.2019          | 0           | 8,600,000  | 0           | 0       |

Nicholas Nelson was appointed Director on June 15, 2018, resigned on July 30, 2019.

None of the Directors exercised any share options during the year.

There was no change in the interests set out above between December 31, 2019, and June 16, 2020.

## Substantial shareholdings

The Directors are aware of the following substantial interests or holdings in 3% or more of the Company's ordinary called-up share capital as of June 16, 2020.

| Shareholder                           | Number of shares | Percentage |
|---------------------------------------|------------------|------------|
| Zaim SA <sup>14</sup>                 | 320,000,000      | 73.23%     |
| MPM & Partners (Monaco) <sup>15</sup> | 20,000,000       | 4.58%      |

There was no change in the interests set out above between December 31, 2019, and June 16, 2020.

## Share capital

Changes in the share capital of the Company, including the disclosure of earnings per share, are set out in note 11 to the Financial Statements.

## Voting rights

All the shares issued have equal voting rights.

<sup>14</sup> Siro Cicconi's interest in shares is through Zaim SA, which he wholly owns through his life interest in Excelsior Foundation which wholly owns Zaim SA.

<sup>15</sup> MPM & Partners (Monaco) holds its shares on behalf of a number of EEA-based clients none of whom hold more than 3% of the issued share capital.

## Restrictions on the transfer of securities

Pursuant to a lock-in deed entered into between the Directors, Optiva Securities Limited, Beaumont Cornish Limited and the Company have agreed to the following lock-up arrangements:

**(a)** for a 12 month lock-up period from the date of the Placing Agreement, the Directors have agreed that, subject to certain customary exceptions, they will not directly or indirectly transfer the legal and/or beneficial ownership (or any interest therein or in respect thereof) of any Ordinary Shares held by it immediately after Admission (or any Ordinary Shares which may accrue to it as a result of such holding) or enter into any transaction with the same economic effect as any of the foregoing;

**(b)** for a further 12 months after the initial lock-up period ends, the Directors have undertaken that, subject to certain customary exceptions, they will not directly or indirectly transfer the legal and/or beneficial ownership (or any interest therein or in respect thereof) of any Ordinary Shares held by them immediately after Admission (or any Ordinary Shares which may accrue to it as a result of such holding) or enter into any transaction with the same economic effect as any of the foregoing otherwise than through Optiva (subject to certain customary exceptions); and

**(c)** Siro Cicconi has provided an undertaking that subject to certain customary exceptions he will not directly or indirectly transfer his legal or beneficial interest in the share capital of Zaim SA for a period of twelve months from Admission.

## Relationship Agreement

The Board confirms that on October 29, 2019, Siro Cicconi, Zaim SA and the Company entered into a relationship agreement to ensure that the Company is able to carry on its business independently of Siro Cicconi and Zaim SA and that all transactions and relationships with Siro Cicconi and Zaim SA shall be on an arms' length and normal commercial basis. Where either of the Founder Shareholder Parties holds or in aggregate hold 20% or more of the total voting rights in the Company, Zaim SA has the right to appoint a representative director. In addition, where either of the Founder Shareholder Parties holds or in aggregate hold 15% or more of the total voting rights in the Company, they have the right to appoint a board observer.

The Company complied with the Relationship Agreement during the period under review. So far as the Company is aware, the agreement was complied with during the period under review by the controlling shareholder or any of its associates; and the procurement obligation was complied with during the period under review by the controlling shareholder.

## Directors' statement as to the disclosure of information to auditor

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are individually aware, there is no relevant audit information of which the Company's auditor is unaware and the Directors have taken all the steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditor is aware of the information.

The business review and review of KPIs are included in the "Operational Overview" section of the Strategic Report.

## Events after the reporting date

The events after the reporting date are set out in note 26 to the Financial Statements.

## Future developments

In 2020, the Group will be working towards further implementation of its growth strategy; with the available equity financing following the IPO and necessary investments already made into the online platform, Zaim is now well positioned to grow its business and capture the demand from a less well-off part of the Russian population. However, in 2020, due to the uncertainty caused by the COVID-19 pandemic, Zaim has further decreased the cost base and decided to reduce the loan amounts issued in order to keep business at a financial and economic break-even level on the cash basis for the period of "lockdown". This will protect the Company from potential unexpected cash outflow and provide financial and operating stability during the turbulent times.

## Information on exposure to risks

Principal risks and uncertainties are discussed in the Risk Management section of this report as well as in Note 20 to the Financial Statements.

## Financial instruments

The financial risk management policies and objectives are set out in detail in Note 20 to the Financial Statements.

## Greenhouse gas emissions

The Group has as yet minimal greenhouse gas emissions to report from the operations of the Group and does not have responsibility for any other emission-producing sources under the Companies Act 2006 (Strategic Report and Directors report) Regulations 2014.

## Corporate Governance

Please refer to the Corporate Governance Report section of this document.

## Amendment of the Company's Articles of Association

The Directors do not have any specific procedures in place regarding any potential changes to the company's Articles of Association, but should this need arise, this would be presented to shareholders at a general meeting in line with the company law.

## Appointment and Replacement of Directors

Subject to the Articles of Association and the Companies Act, the Company may by ordinary resolution appoint a person who is willing to act as a Director and the Board shall have power at any time to appoint any person who is willing to act as a Director, in both cases either to fill a vacancy or as an addition to the existing Board.

At the first Annual general meeting, all Directors shall retire from office and may offer themselves for re-appointment by the Shareholders by ordinary resolution.

At every subsequent Annual general meeting, any director who:

i. has been appointed by the Directors since the last Annual general meeting; or

ii. was not appointed or re-appointed at one of the preceding two Annual general meetings;

must retire from office and may offer themselves for re-appointment by the Shareholders by ordinary resolution.

## Powers of the Company's Directors

The Directors do not have any specific procedures in place regarding any potential changes to the availability for the Company to buy back its own shares, but should this need arise, this would be presented to the shareholders at a general meeting in line with the company law.

## Directors and Officers Insurance

The Group has not provided Directors and Officers insurance for both the current and prior periods.

## Annual General Meeting

The Notice of the Annual General Meeting of the Company will be distributed to shareholders together with the Annual Report. Full details of the business to be considered at that meeting can be found in the Notice.

Due to the COVID-19 outbreak in the UK and globally, Stay at Home Measures were passed into law in England and Wales on March 26, 2020, prohibiting public gatherings of more than two people who do not live in the same household unless essential for work purposes.

In the light of this and following published legal guidance, we are not permitting shareholders to attend the AGM this year. We therefore request that shareholders vote by proxy to ensure that votes are cast.

## Independent auditor

The auditor, Shipley's LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

Shipley's LLP has signified its willingness to continue in office as auditor.

DocuSigned by:

Simon Retter

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By Order of the Board  
Simon Retter  
Company Secretary  
June 16, 2020

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**The Board of Directors of Zaim Credit Systems Plc formed the Remuneration Committee that was constituted at a full meeting of the Board held on 29.10.2019 in accordance with the Articles of Association of the Company.**

The Committee determines and, together with the Board, approves the framework or broad policy for the remuneration of the Company's chairperson and the executive directors, including pension rights and compensation payments. The remuneration of non-executive directors shall be a matter for the board or the shareholders (within the limits set in the Articles of Association). No director or senior manager shall be involved in any decisions as to their own remuneration. The Committee recommends and monitors the level and structure of remuneration for senior management.

The Group's policy is to maintain levels of remuneration so as to attract, motivate, and retain Directors and Senior Managers of the highest calibre who can contribute their experience to deliver industry-leading performance with the Group's operations.

Below are the summary service contracts and appointment letters of the Directors:

### **Non-Executive Chairman – Malcolm Groat**

Malcolm Groat is paid an Annual salary of £25,000 which shall escalate to £35,000 if Zaim reaches EBITDA of £200,000 per calendar month.

### **Chief Executive Officer – Siro Cicconi**

Siro Cicconi is paid an Annual salary of £100,000 which shall escalate to £200,000 per annum if Zaim reaches EBITDA of £200,000 per calendar month and shall further escalate to £350,000 per annum if Zaim reaches EBITDA of £350,000 per calendar month.

### **Chief Operating Officer – Vladimir Golovko**

Vladimir Golovko is paid an Annual salary of £10,000 by the Company. Under the terms of an agreement dated December 21, 2017, Vladimir Golovko is also employed by Zaim for a monthly salary of 700,000 Russian rubles (approximately £8,500) and a yearly bonus determined by the shareholders with reference to key performance indicators.

A discretionary quarterly bonus is typically paid in the amount of one monthly salary (depending on the performance).

### **Finance Director – Simon Retter**

Simon Retter is paid an Annual salary of £60,000 which shall escalate to £120,000 per annum if Zaim reaches EBITDA of £200,000 per calendar month and shall further escalate to £150,000 per annum if Zaim reaches EBITDA of £350,000 per calendar month.

### **Non-executive Director – Paul Auger**

Paul Auger is paid an Annual salary of £20,000 which shall escalate to £27,000 per annum if Zaim reaches EBITDA of £200,000 per calendar month.

**Below is the summary of remuneration for each Director for 2019:**

|                     | Salary         | Other Fees    | Benefits | Pension Contributions | Share-based payment charge | Total          |
|---------------------|----------------|---------------|----------|-----------------------|----------------------------|----------------|
|                     | £              | £             | £        | £                     | £                          | £              |
| Malcolm Groat       | 4,167          | -             | -        | -                     | 1,018                      | 5,185          |
| Siro Donato Cicconi | 16,667         | -             | -        | -                     | 61,093                     | 77,760         |
| Vladimir Golovko    | 149,423        | -             | -        | -                     | 3,007                      | 152,430        |
| Simon James Retter* | 10,000         | 40,000        | -        | -                     | 36,656                     | 86,656         |
| Paul James Auger    | 3,333          | -             | -        | -                     | -                          | 3,333          |
| <b>Total</b>        | <b>183,590</b> | <b>40,000</b> | <b>-</b> | <b>-</b>              | <b>101,774</b>             | <b>325,364</b> |

\* Includes £40,000 fees charged to Zaim and the share-based payment charge of £36,656 in respect of the services provided by a company controlled by Simon Retter before the acquisition of Zaim by ZCS

**Below is the summary of remuneration for each Director for 2018, which is for Zaim only, as it is from before ZCS acquired Zaim. There was no director remuneration prior to the acquisition of Zaim by ZCS:**

|                     | Salary         | Other Fees | Benefits | Pension Contributions | Share-based payment charge | Total          |
|---------------------|----------------|------------|----------|-----------------------|----------------------------|----------------|
|                     | £              | £          | £        | £                     | £                          | £              |
| Malcolm Groat       | -              | -          | -        | -                     | -                          | -              |
| Siro Donato Cicconi | -              | -          | -        | -                     | -                          | -              |
| Vladimir Golovko    | 130,879        | -          | -        | -                     | -                          | 130,879        |
| Simon James Retter  | -              | -          | -        | -                     | -                          | -              |
| Paul James Auger    | -              | -          | -        | -                     | -                          | -              |
| <b>Total</b>        | <b>130,879</b> | <b>-</b>   | <b>-</b> | <b>-</b>              | <b>-</b>                   | <b>130,879</b> |

**Shares and options held by the Directors are as follows:**

|                     | Shares held | Share options | Shares held | Share options |
|---------------------|-------------|---------------|-------------|---------------|
|                     | 2019        | 2019          | 2018        | 2018          |
| Malcolm Groat       | -           | 2,150,000     | -           | -             |
| Siro Donato Cicconi | 320,000,000 | 10,750,000    | -           | -             |
| Vladimir Golovko    | -           | 8,600,000     | -           | -             |
| Simon James Retter  | 3,600,000   | 6,450,000     | 1,000,000   | -             |
| Paul James Auger    | -           | -             | -           | -             |

There was no discretionary pay for any of the directors, all terms of the director's remunerations are fixed as per the contracts set out in the prospectus and are directly linked to the EBIT generated by Zaim on a monthly basis. As of the end of 2019, neither of these milestones had been reached.

There is no LTIP in place and none of the directors received any benefits in kind or pension contributions.

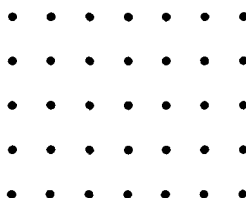
The company issued certain directors with options exercisable at the issue price of 2.5p at the date of the IPO. The share-based payment charge was calculated using the Black Scholes method and included in the tables above.

DocuSigned by:



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Approved on behalf of the Board  
Malcolm Groat  
Non-Executive Chairman  
June 16, 2020



# Corporate governance REPORT

## Corporate governance practices

The Board recognises the importance of sound corporate governance commensurate with the size of the Company and the interests of Shareholders. As the Company is listed in the Standard segment of the Official List of the LSE, it is not required to comply with the UK Corporate Governance Code, which is applicable to all companies whose securities are admitted to trading to the premium segment of the Official list. The UK Corporate Governance Code can be found at <https://www.frc.org.uk/directors/corporate-governance-and-stewardship>. Nevertheless, the Directors are committed to maintaining high standards of corporate governance and propose, so far as is practicable given the Company's size and nature, to voluntarily adopt and comply with the QCA Code. However, at present, due to the size of the Company, the Directors acknowledge that adherence to certain provisions of the QCA Code may be delayed until such time as the Directors are able to fully adopt them.

## The role of the Board

The Company holds timely board meetings as issues arise which require the attention of the Board. The Board is responsible for the management of the business of the Company, setting the strategic direction of the Company and establishing the policies of the Company. It is the Directors' responsibility to oversee the financial position of the Company and monitor the business and affairs of the Company on behalf of the Shareholders, to whom they are accountable. The primary duty of the Directors is to act in the best interests of the Company at all times. The Board also addresses issues relating to internal control and the Company's approach to risk management.

The Directors have established an audit and remuneration committee. The Board does not consider it appropriate to establish a nomination committee at this stage of the Company's development, and the decisions usually undertaken by those committees will be taken by the Board as a whole.

## Audit committee

The Audit Committee assists the Board in discharging its responsibilities with regard to financial reporting, external and internal controls, including reviewing and monitoring the integrity of the Group's Annual and interim financial statements, reviewing and monitoring the extent of the non-audit work undertaken by the Group's external auditors, advising on the appointment of such external auditors, overseeing the Group's relationship with its external auditors, reviewing the effectiveness of the external audit process, and reviewing the effectiveness of the Group's internal control and review function. The ultimate responsibility for reviewing and approving the Annual report and accounts and the half-yearly reports remains with the Board. The audit committee will meet not less than twice a year. The Audit Committee is chaired by Malcolm Groat, and its other member is Paul Auger. The Directors consider that Simon Retter has recent and relevant financial experience.

## Remuneration committee

The Group has established a Remuneration Committee, which will comprise Malcolm Groat as Chairman and Paul Auger, to review the performance of the Executive Directors and set the scale and structure of their remuneration and the basis of their service agreements with due regard to the interests of Shareholders. In determining the remuneration of Executive Directors, the Remuneration Committee will seek to enable the Group to attract and retain executives of the highest calibre. The Remuneration Committee also makes recommendations to the Board concerning the allocation of any share awards. No Director is permitted to participate in discussions or decisions concerning their own remuneration.

## Market Abuse Regulation

The Board has adopted a share dealing code that complies with the requirements of the Market Abuse Regulation. The Board is responsible for taking all proper and reasonable steps to ensure compliance with the MAR by the Directors and persons discharging managerial responsibilities. The FCA is the competent authority for MAR and has powers to intervene as competent authority and will be responsible for the investigation and enforcement of breaches of MAR.

## Board Meetings

The core activities of the Board are carried out in scheduled meetings of the Board. These meetings are timed to link to the key events in the Group's corporate calendar and regular reviews of the business are conducted.

Additional meetings and conference calls are arranged to consider matters which require decisions outside the scheduled meetings.

Zaim Credit Systems Plc completed its IPO on November 04, 2019, so it only existed for two months as a public company in 2019. Independent non-executive directors Malcolm Groat and Paul James Augier were only elected after the Admission.

The Board met on two occasions: one meeting before the IPO on October 29, 2019, and another after the IPO on November 13, 2019.

### Attendance at meetings:

| Member                     |                         | October 29, 2019 | November 13, 2019 |
|----------------------------|-------------------------|------------------|-------------------|
| <b>Malcolm Groat</b>       | Non-Executive Chairman  | No               | Yes               |
| <b>Siro Donato Cicconi</b> | Director and CEO        | Yes              | Yes               |
| <b>Paul James Augier</b>   | Non-Executive Director  | No               | Yes               |
| <b>Simon James Retter</b>  | Finance Director        | Yes              | Yes               |
| <b>Vladimir Golovko</b>    | Chief Operating Officer | Yes              | Yes               |

Outside the scheduled meetings of the Board, the Directors maintain frequent contact with each other to discuss any issues of concern they may have relating to the Group or their areas of responsibility and to keep them fully briefed on the Company's operations.

The Directors are of the view that the Board and its committees consist of Directors with an appropriate balance of skills, experience, independence and diverse backgrounds to enable them to discharge their duties and responsibilities effectively.

## Matters reserved specifically for Board

The Board has a formal schedule of matters reserved that can only be decided by the Board. The key matters reserved are the consideration and approval of:

- The Group's overall strategy;
- Financial Statements and dividend policy;
- Management structure including succession planning, appointments and remuneration; material acquisitions and disposal, material contracts, major capital expenditure projects and budgets;
- Capital structure, debt and equity financing and other matters;
- Risk management and internal controls;
- The Group's corporate governance and compliance arrangements;
- Corporate policies.

## Effectiveness

For the period under review, the Board comprised the Chief Executive Officer, a non-executive Chairman and three other Director, including one independent non-executive Director. See the biographical details in the "Board of Directors" section of the "Corporate Governance" section of this report.

## Independence

The Board considers each of the non-executive Directors to be independent in character and judgement.

## Appointments

The Board is responsible for reviewing the structure, size and composition of the Board and making recommendations to the Board with regards to any required changes.

## Commitments

All Directors have disclosed their significant commitments to the Board and confirmed that they have sufficient time to discharge their duties.

## Induction

All new Directors received an induction as soon as practical on joining the Board.

Conflicts of interest

A Director has a duty to avoid a situation in which he or she has, or can have, a direct or indirect interest that conflicts, or possibly may conflict with the interests of the Group and Company. The Board has satisfied itself that there is no compromise to the independence of those Directors who have appointments on the Boards of, or relationships with, the companies outside the Company. The Board requires Directors to declare all appointments and other situations which could result in a possible conflict of interest.

Board performance and evaluation

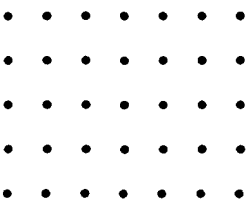
The Company has a policy of appraising Board performance Annually. Having reviewed various approaches to Board appraisal, the Company has concluded that for a Company of its current scale, an internal process of regular face to face meetings is most appropriate, in which all Board members discuss any issues as and when they arise in relation to the Board or any individual member's performance.

Remuneration policy

In determining the remuneration policy, the Committee takes into account all the factors which it deems necessary, including relevant legal and regulatory requirements and the provisions and recommendations of relevant guidance. The objective of such policy shall be to attract, retain and motivate the executive management of the company without paying more than necessary. The remuneration policy bears in mind the Company's appetite for risk and is aligned with the Company's long-term strategic goals. A significant proportion of remuneration is structured so as to link rewards to corporate and individual performance and is designed to promote the long-term success of the Company.

When setting the remuneration policy for directors of the Company, the Committee reviews and has regard to the pay and employment conditions across the company or group, especially when determining salary increases.

All Remuneration Committee members demonstrate independent judgement and discretion when determining and approving remuneration outcomes.



Investing in the Company's workforce

Remuneration system of the Company includes:

1. Guaranteed salary, which is the fixed monetary remuneration of an employee

This amount does not depend on the financial situation of the organisation, personal characteristics of the employee and/or other factors. It includes:

- basic salary for the time actually worked
- compensations for overnight and overtime work
- allowances

2. Variable part of the salary linked to professional achievements of an employee

- bonus for overachievement of the plan;
- payment for the participation in the training of young professionals

Diversity

Although the Board consists only of male Directors, the Board supports diversity in the Boardroom and the Financial Reporting Council aims to encourage such diversity.

Accountability

The Board is committed to providing shareholders with a clear assessment of the Group's position and prospects. This is achieved through this report and, as required, other periodic financial and trading statements.

External Audit

No significant issues were identified during the external audit process undertaken by the external auditors. The Audit Committee reviews the audit process each year and, in addition, analyzes the performance and feedback from the external auditors as part of the reporting process. The audit committee assesses the external auditor's independence, length of service and provision of non-audit services as part of the review of the suitability of the external auditors to continue to hold office for the following year and therefore seek reappointment at the next AGM. A tender was not undertaken for reappointment of the audit this year, as the current external auditors had only held office for less than the statutory number of years prior to a retender process.

External auditors of the Group are independent and objective as they do not provide non-audit services.

## Internal controls

The Board of Directors reviews the effectiveness of the Group's and Company's system of internal controls in line with the requirement of the Code. The internal control system is designed to manage the risk of failure to achieve its business objectives. This covers internal financial and operational controls, compliance and risk management. The Company had necessary procedures in place for the year under review and up to the date of approval of the Annual Report and Financial Statements. The Directors acknowledge their responsibility for the Group's and Company's system of internal controls and for reviewing its effectiveness. The Board confirms the need for an ongoing process for identification, evaluation and management of significant risks faced by the Group. The Directors carry out a risk assessment before signing up to any commitments.

The Audit Committee regularly reviews and reports to the Board on the effectiveness of the system of internal control. Given the size of the Group and Company and the relative simplicity of the systems, the Board considers that there is no current requirement for an internal audit function. The procedures that have been established to provide internal financial control are considered appropriate for a Group and Company of its size and include controls over expenditures, regular reconciliations and management accounts.

The Directors are responsible for taking such steps as are reasonably available to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

## Nomination

Currently, due to the size of the Group, there is no Nomination Committee.

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## Shareholder relations

Open and transparent communication with shareholders is given high priority and there is regular dialogue with institutional investors, as well as general presentations made at the time of the release of the Annual and interim results. All Directors are kept aware of changes in major shareholders in the Company and are available to meet with shareholders who have specific interests or concerns. The Group issues its results promptly to individual shareholders and also publishes them on the Company's website: [www.zaimcreditsystemsplc.com](http://www.zaimcreditsystemsplc.com). Regular updates to record news in relation to the Group are included on the Company's website.

The Directors are available to meet with institutional shareholders to discuss any issues and gain an understanding of the Company's business, its strategies and governance. Meetings are also held with the corporate governance representatives of institutional investors when requested.

Our AGMs give the Board the opportunity to engage with investors on the running of their company, and to receive feedback. ZCS plans to conduct its first AGM following the publication of this Annual report, but due to the exceptional circumstances surrounding COVID-19 and the Stay at Home measures in force in the United Kingdom, shareholders will not be permitted to attend.

The Board also considers the views and interests of other key stakeholders, including clients, employees, regulators and the society as a whole in its discussions.

## Annual General Meeting

At every Annual general meeting, individual shareholders are given the opportunity to put questions to the Chairman and to other members of the Board that may be present. Notice of the Annual general meeting is sent to shareholders at least 21 clear days before the Annual general meeting. Details of proxy votes for and against each resolution together with the votes withheld are announced by way of regulatory information service and are published on the Company's website as soon as practical after the Annual general meeting.

DocuSigned by:

Malcolm Groat

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Approved on behalf of the Board  
Malcolm Groat  
Non-Executive Chairman  
June 16, 2020

# Directors' responsibilities STATEMENT

For the year ended December 31, 2019

**The directors are responsible for preparing the strategic report, Annual report and the financial statements in accordance with the applicable law and regulations.**

The Company law requires the directors to prepare financial statements for each financial year. Under that law, the directors have elected to prepare the Group's and Company's financial statements in accordance with the International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under the company law, the directors must not approve the financial statements unless satisfied that the statements give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group and Company for that period. The directors are also required to prepare financial statements in accordance with the rules of the London Stock Exchange.

In preparing these financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgments and accounting estimates that are reasonable and prudent;

## Directors' Responsibility statement

We confirm that to the best of our knowledge:

- The financial statements prepared in accordance with the relevant financial reporting framework give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole;
- The Strategic Report includes a fair review of the development and performance of the business and the position of the company and the undertakings included in the consolidation taken as a whole together with a description of the principal risks and uncertainties that they face; and

- State whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

- The Annual Report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the company's position and performance, business model and strategy.

This responsibility statement was approved by the Board of Directors on June 16, 2020 and was signed on its behalf by:

DocuSigned by:

Simon Retter

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Simon Retter  
Company Secretary

June 16, 2020

# 4

# Financial STATEMENTS



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# Independent Auditor's Report to the shareholders of Zaim Credit Systems plc

## Opinion

We have audited the financial statements of Zaim Credit Systems plc (the 'parent company') and its subsidiaries (the 'Group') for the year ended December 31, 2019, which comprise the Consolidated Statement of Profit or Loss and Other Comprehensive Income, Consolidated and Company Statement of Financial Position, Consolidated and Company Statement of Changes in Equity, Consolidated and Company Statement of Cash Flows and notes to the financial statements, including significant accounting policies. The financial reporting framework that has been applied in the preparation of the group financial statements is the applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is the applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at December 31, 2019 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006; and, as regards the group financial statements, Article 4 of the IAS Regulation.

## Basis for opinion

We conducted our audit in accordance with the International Standards on Auditing (UK) (ISAs (UK)) and the applicable law. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of

the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide the basis for our opinion.

## Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors' assessment of the entity's ability to continue to adopt the going concern basis of accounting included carrying out a risk assessment which covered the nature of the group, its business model and related risks including where relevant the impact of Coronavirus, the requirements of the applicable financial reporting framework and the system of internal control. We evaluated the directors' assessment of the group's ability to continue as a going concern, including challenging the underlying data and key assumptions used to make the assessment,

and evaluated the directors' plans for future actions in relation to their going concern assessment.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's or group's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue. Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

## Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance for our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those, which had the greatest effect on: the

overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

| Risk                                                                                                                                                       | Our response to the risk                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | Our response and observation                                                                                                                                                                          |
|------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Impact of COVID-19</b><br><br>There is a risk that the Group may not be considered a going concern as a result of the impact of COVID-19 (Coronavirus). | We read the Directors' assessment of the risks and impacts of COVID-19 on the business. We compared this assessment to our own understanding of the risks, and the nature of the Group's operations, products and customer base. We then conducted a review of going concern in respect of COVID-19, which included reviewing forecasts and current trading performance, and carrying out stress testing. The work undertaken considered a period of at least twelve months from the date of approving these financial statements. | The disclosures in the financial statements adequately reflect the Directors' conclusions around the uncertainties and impact of COVID-19 and, that the going concern assumption remains appropriate. |

|                                                                                                                                                                                                                                                                                                                                                                                             |                                                                                                                                                                                                                                                                                                                                                                                                  |                                                                                                                                                                                            |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Recoverability of loans to customers</b><br><p>Given the extended credit terms that were provided to customers, judgement is required to establish how much of the loan receivables balance is recoverable. There is a risk that management's judgements and estimates over recoverability are inappropriate, when considering the specific balances and the requirements of IFRS 9.</p> | <p>We understood the Group's process for estimating the expected credit loss provision under IFRS 9. Loans to customers were tested on a sample basis, which included considering the recoverability of the balances post year end. Overdue balances were discussed with the management and we assessed whether the accounting provision appropriately reflects the facts and circumstances.</p> | <p>We did not identify any evidence of material misstatement related to carrying value of receivables. The management continue to apply an appropriate expected credit loss provision.</p> |
| <b>Risk that acquisitions have been incorrectly accounted for</b><br><p>The Company acquired Zaim Express LLC during the year by way of a reverse acquisition. There is a risk that the transaction was not correctly accounted for in line with IFRS.</p>                                                                                                                                  | <p>We conducted a detailed review of the journals posted with regards to the reverse acquisition and the mechanism for preparing the consolidated financial statements. Work was also undertaken to determine if the transaction met the requirements to be considered a reverse acquisition.</p>                                                                                                | <p>The acquisition of Zaim Express LLC was correctly accounted for in accordance with IFRS.</p>                                                                                            |
| <b>Risk of fraud in revenue recognition</b><br><p>There is a risk that revenue is materially understated due to fraud.</p>                                                                                                                                                                                                                                                                  | <p>We reviewed the Group's revenue recognition policies and how they are applied. Revenue was then tested on a sample basis to confirm that transactions have been appropriately recorded in line with IFRS 15.</p>                                                                                                                                                                              | <p>Revenue was recognised in accordance with the Group's accounting policy and we concluded that no evidence of fraud or other understatement was identified.</p>                          |
| <b>Risk that management is able to override controls</b><br><p>Journals can be posted that significantly alter the financial statements.</p>                                                                                                                                                                                                                                                | <p>We examined journals posted around the year end, specifically focusing on areas, which are more easily manipulated.</p>                                                                                                                                                                                                                                                                       | <p>We identified no evidence of management override in respect of inappropriate manual journals recorded in any section of the financial statements.</p>                                   |

## Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be charged or influenced. We use materiality both in planning and in the scope of our audit work and in evaluating the results of our work.

We determine materiality for the Group to be £155,180 and this financial benchmark, which has been used throughout the audit, was determined by way of a standard formula being applied to key financial results and balances presented in the financial statements. Where considered relevant the materiality is adjusted to suit the specific risk profile of the Group.

Performance materiality is the application of materiality at the individual account or balance level set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality. Performance materiality was set at 75% of the above materiality levels. We agreed with the audit committee that we would report to the committee all individual audit differences identified during the course of our audit in excess of £7,759. We also agreed to report differences below these thresholds that, in our view, warranted reporting on qualitative grounds.

## An overview of the scope of our audit

Our group audit was scoped by obtaining an understanding of the group and its environment, including the group's system of internal control, and assessing the risks of material misstatement in the financial statements at the group level.

Whilst Zaim Credit Systems plc is a company registered in England & Wales and its head office is located in the UK, the group's principal operations are located in Russia. In approaching the audit, we considered how the group is organised and managed. We assessed the activities of the group as being the issuance of microfinance loans to Russian individuals.

Our group audit scope focused on the group's principal operating subsidiary, being Zaim Express LLC, which was subject to a full scope audit together with the parent company. Shipleys LLP performed the audit of the parent company and BDO Unicon JSC performed the audit of the Russian component.

The group audit team was actively involved in the direction of the audit and specific audit procedures performed by the component auditor along with the consideration of findings and determination of conclusions drawn. As part of our audit strategy, we issued group audit engagement instructions and discussed the instructions with the component auditor. A senior member of the group audit team met with the component auditor and local management, performed a review of the component audit files and we discussed the audit findings with the component auditor.

## Other Information

The other information comprises the information included in the Annual report other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the Annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that:

- **Fair, balanced and understandable** – the statement given by the directors that they consider the Annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the groups' position and performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit committee reporting** – the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee; or

We have nothing to report in respect of these matters.

## Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements

## Matters on which we are required to report by exception

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters, in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or

- the parent company financial statements and the part of the directors' remuneration report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

## Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 40, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

## Auditor's Responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are

considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

## Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and determined the most significant are those that relate to the reporting framework (IFRS, the Companies Act 2006) and the relevant tax compliance regulations in the jurisdictions in which the Group operates.
- We understood how Zaim Credit Systems plc is complying with those frameworks by making enquiries on the management, the Company Secretary, and those responsible for legal and compliance procedures. We corroborated our enquiries through our review of board minutes, papers provided to the Audit Committee, discussion with the Audit Committee and any correspondence received from regulatory bodies.
- We assessed the susceptibility of the Group's financial statements to material misstatement, including how fraud might occur by enquiring with management and the Audit Committee during the planning and execution phase of our audit. We considered the programs and controls that the Group has established to address risks identified, or that otherwise prevent, deter and detect fraud and how senior management monitors those programs and controls. Where the risk was considered to be higher, we

performed audit procedures to address each identified fraud risk including revenue recognition as discussed above. These procedures included testing manual journals and were designed to provide reasonable assurance that the financial statements were free from fraud or error.

- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved journal entry testing, with a focus on manual consolidation journals and journals indicating large or unusual transactions based on our understanding of the business; enquiries of the Company Secretary and management; and focused testing, as referred to in the key audit matters section above.

Other matters, which we are required to address

We were appointed by the board on February 21, 2020 to audit the financial statements for the period ending December 31, 2019. Our total uninterrupted period of engagement is 2 years, covering the periods ending December 31, 2018 to December 31, 2019.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the parent company and we remain independent of the group and the parent company in conducting our audit.

Our audit opinion is consistent with the additional report to the audit committee.

## Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

*Benjamin Bidnell*

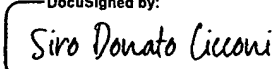
Benjamin Bidnell  
For and on behalf of SHIPLEYS LLP,  
Chartered Accountants and Statutory Auditor  
10 Orange Street, Haymarket, London, WC2H 7DQ  
June 16, 2020

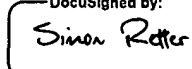
# Consolidated Financial Statements for the Year Ended December 31, 2019

## Zaim Credit Systems Group

### Consolidated Statement of Financial Position as at 31 December 2019 (in British pounds sterling)

| Company Registered number 11418575          | Note  | 2019             | 2018             |
|---------------------------------------------|-------|------------------|------------------|
| <b>Assets</b>                               |       |                  |                  |
| Cash and cash equivalents                   | 5     | 1,582,751        | 454,549          |
| Loans to customers                          | 6     | 786,346          | 640,371          |
| Property and equipment                      |       | 11,967           | 13,559           |
| Right-of- use assets under lease agreements | 7     | 2,549,233        | -                |
| Other assets                                | 8     | 222,117          | 229,126          |
| <b>Total assets</b>                         |       | <b>5,152,414</b> | <b>1,337,605</b> |
| <b>Liabilities</b>                          |       |                  |                  |
| Loans received                              | 9     | 742,603          | 908,293          |
| Lease liabilities                           | 7     | 2,555,648        | -                |
| Other liabilities                           | 10    | 664,905          | 1,006,171        |
| <b>Total liabilities</b>                    |       | <b>3,963,156</b> | <b>1,914,464</b> |
| <b>Equity</b>                               |       |                  |                  |
| Charter capital                             | 11    | 4,369,750        | 2,492,363        |
| Additional capital                          | 11,25 | 6,078,128        | 29,122,880       |
| Foreign currency translation reserve        | 11    | 4,457,788        | 4,497,731        |
| Merger reserve                              | 11,26 | 23,764,800       | -                |
| Accumulated deficit                         | 11    | (37,481,208)     | (36,689,833)     |
| <b>Total equity</b>                         |       | <b>1,189,258</b> | <b>(576,859)</b> |
| <b>Total liabilities and equity</b>         |       | <b>5,152,414</b> | <b>1,337,605</b> |

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 Siro Donato Cicconi,  
 Chief Executive Officer

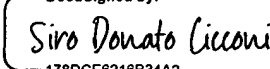
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 4F528763EECE431...  
 Simon James Rafter,  
 Finance Director  
 June 16, 2020

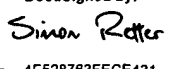
**Zaim Credit Systems plc****Company Statement of Financial Position as at 31 December 2019 (in British pounds sterling)**

| <b>Company Registered number 11418575</b> | <b>Note</b> | <b>2019</b>       | <b>2018</b>    |
|-------------------------------------------|-------------|-------------------|----------------|
| <b>Assets</b>                             |             |                   |                |
| Cash and cash equivalents                 | 5           | 1,310,655         | -              |
| Other assets                              | 8           | 68,122            | 60,000         |
| Investment in Subsidiary                  | 1           | 8,705,663         | -              |
| <b>Total assets</b>                       |             | <b>10,084,440</b> | <b>60,600</b>  |
| <b>Liabilities</b>                        |             |                   |                |
| Other liabilities                         | 10          | 162,666           | 66,670         |
| <b>Total liabilities</b>                  |             | <b>162,666</b>    | <b>66,670</b>  |
| <b>Equity</b>                             |             |                   |                |
| Charter capital                           | 11          | 4,369,750         | 60,000         |
| Additional capital                        | 11          | 6,078,128         | -              |
| Accumulated deficit                       |             | (526,104)         | (66,670)       |
| <b>Total equity</b>                       |             | <b>9,921,774</b>  | <b>(6,670)</b> |
| <b>Total liabilities and equity</b>       |             | <b>10,084,440</b> | <b>60,000</b>  |

The above Company Statement of Financial Position should be read in conjunction with the accompanying notes, loss for the period was £ 626,317 (2018: £ 66,670). As permitted by section 408 of the Companies Act 2006, the statement of comprehensive income of the Parent Company is not presented as part of these Financial Statements.

The Financial Statements were authorised for issue by the Board of Directors on June 16, 2020 and were signed on its behalf.

DocuSigned by:  
  
 Siro Donato Cicconi,  
 Chief Executive Officer

DocuSigned by:  
  
 Simon James Retter,  
 Finance Director  
 June 16, 2020

**Zaim Credit Systems Group****Consolidated Statement of Profit or Loss and Other Comprehensive Income for the Year Ended December 31, 2019 (in British pounds sterling)**

|                                                                                     | <b>Note</b> | <b>2019</b>      | <b>2018</b>        |
|-------------------------------------------------------------------------------------|-------------|------------------|--------------------|
| Interest income                                                                     | 13          | 3,940,747        | 10,226,071         |
| Interest expenses                                                                   |             | (28,018)         | (2,460,874)        |
| Interest expense – lease liabilities                                                | 13          | (243,281)        | -                  |
| <b>Net interest income</b>                                                          |             | <b>3,669,448</b> | <b>7,765,197</b>   |
| Allowance for ECL/impairment of loans to customers                                  | 6,8,15      | (231,681)        | (4,213,239)        |
| <b>Net interest income after allowance for ECL/impairment of loans to customers</b> |             | <b>3,437,767</b> | <b>3,551,958</b>   |
| Gains less losses from dealing in foreign currency                                  | 14          | 95,497           | (822,620)          |
| Other operating income                                                              | 16          | 790,554          | 827,322            |
| <b>Operating income</b>                                                             |             | <b>4,323,818</b> | <b>3,556,660</b>   |
| Staff costs                                                                         | 17          | (2,006,265)      | (2,339,965)        |
| Charge for share based options                                                      | 12          | (166,883)        | -                  |
| Operating expenses                                                                  | 18          | (2,523,112)      | (2,762,326)        |
| Costs of IPO                                                                        | 18          | (369,146)        | -                  |
| Deemed cost of listing                                                              | 26          | (150,000)        | -                  |
| <b>Loss before income tax</b>                                                       |             | <b>(891,589)</b> | <b>(1,545,631)</b> |
| Income tax expense                                                                  | 19          | -                | -                  |
| <b>Net loss</b>                                                                     |             | <b>(891,589)</b> | <b>(1,545,631)</b> |
| <b>Net other comprehensive income that may be reclassified to profit or loss</b>    |             |                  |                    |
| Foreign exchange differences arising on translation into presentation currency      |             | (39,942)         | 3,820,203          |
| <b>Total comprehensive expense</b>                                                  |             | <b>(931,531)</b> | <b>2,274,572</b>   |

**Zaim Credit Systems Group****Consolidated Statement of Changes in Equity for the Year Ended December 31, 2019 (in British pounds sterling)**

|                                                                      | Charter capital  | Additional capital | Foreign currency translation reserve (FCTR) | Merger reserve    | Accumulated deficit | Total equity        |
|----------------------------------------------------------------------|------------------|--------------------|---------------------------------------------|-------------------|---------------------|---------------------|
| <b>Balance at December 31, 2017</b>                                  | <b>2,492,363</b> | <b>-</b>           | <b>677,528</b>                              | <b>-</b>          | <b>(35,050,047)</b> | <b>(31,880,156)</b> |
| Impact of IFRS 9 adoption                                            | -                | -                  | -                                           | -                 | (94,155)            | (94,155)            |
| <b>Balance at January 1, 2018 restated in accordance with IFRS 9</b> | <b>2,492,363</b> | <b>-</b>           | <b>677,528</b>                              | <b>-</b>          | <b>(35,144,202)</b> | <b>(31,974,311)</b> |
| Financial assistance from the participant (Note 11, 25)              | -                | 29,122,880         | -                                           | -                 | -                   | 29,122,880          |
| Comprehensive loss for 2018                                          | -                | -                  | 3,820,203                                   | -                 | (1,545,631)         | 2,274,572           |
| <b>Balance at December 31, 2018</b>                                  | <b>2,492,363</b> | <b>29,122,880</b>  | <b>4,497,731</b>                            | <b>-</b>          | <b>(36,689,833)</b> | <b>(576,859)</b>    |
| Reverse acquisition in 2019                                          | 1,877,387        | (23,044,752)       | -                                           | 23,764,800        | (66,670)            | 2,530,765           |
| Comprehensive loss for 2019                                          | -                | -                  | (39,942)                                    | -                 | (891,589)           | (931,531)           |
| Share-based payments                                                 | -                | -                  | -                                           | -                 | 166,883             | 166,883             |
| <b>Balance at December 31, 2019</b>                                  | <b>4,369,750</b> | <b>6,078,128</b>   | <b>4,457,788</b>                            | <b>23,764,800</b> | <b>(37,481,208)</b> | <b>1,189,258</b>    |

**Zaim Credit Systems plc****Company Statement of Changes in Equity for the Year Ended December 31, 2019 (in British pounds sterling)**

|                                     | Charter capital  | Additional capital | Accumulated deficit | Total equity     |
|-------------------------------------|------------------|--------------------|---------------------|------------------|
| <b>Balance at December 31, 2017</b> | <b>-</b>         | <b>-</b>           | <b>-</b>            | <b>-</b>         |
| Company incorporation               | 60,000           | -                  | -                   | 60,000           |
| Comprehensive loss for 2018         | -                | -                  | (66,670)            | 66,670           |
| <b>Balance at December 31, 2018</b> | <b>60,000</b>    | <b>-</b>           | <b>(66,670)</b>     | <b>(6,670)</b>   |
| Issue during the year               | 4,309,750        | 6,406,699          | -                   | 10,716,449       |
| Expenses on issue of shares         | -                | (328,570)          | -                   | (328,570)        |
| Comprehensive loss for 2019         | -                | -                  | (626,317)           | (626,317)        |
| Share-based payments                | -                | -                  | 166,883             | 166,883          |
| <b>Balance at December 31, 2019</b> | <b>4,369,750</b> | <b>6,078,128</b>   | <b>(526,104)</b>    | <b>9,921,774</b> |

**Zaim Credit Systems Group****Consolidated Statement of Cash Flows for the year ended December 31, 2019 (in British pounds sterling)**

|                                                                                                          | 2019               | 2018             |
|----------------------------------------------------------------------------------------------------------|--------------------|------------------|
| Cash flows from operating activities                                                                     |                    |                  |
| Interest received                                                                                        | 2,332,339          | 8,172,050        |
| Interest paid                                                                                            | (400,142)          | (2,174,103)      |
| Gains less losses from dealing in foreign currency                                                       | (9,448)            | 3,314            |
| Other operating income                                                                                   | 198,600            | 12,109           |
| Staff costs                                                                                              | (2,005,236)        | (2,402,998)      |
| Operating expenses                                                                                       | (1,440,487)        | (2,650,846)      |
| <b>Cash flows from/(used in) operating activities before changes in operating assets and liabilities</b> | <b>(1,324,373)</b> | <b>959,526</b>   |
| Net (increase)/decrease in operating assets                                                              |                    |                  |
| Loans to customers                                                                                       | 1,259,013          | (1,833,502)      |
| Other assets                                                                                             | 4,126              | 23,930           |
| Net decrease in operating liabilities                                                                    |                    |                  |
| Other liabilities                                                                                        | 162,957            | (9,906)          |
| <b>Net cash flows from operating activities</b>                                                          | <b>101,723</b>     | <b>(859,952)</b> |
| Cash flows from investing activities                                                                     |                    |                  |
| Proceeds from placements under fiduciary management agreement                                            | -                  | 5,193            |
| Purchases of property and equipment                                                                      | (2,130)            | (3,733)          |
| <b>Net cash flows from investing activities</b>                                                          | <b>(2,130)</b>     | <b>1,460</b>     |
| Cash flows from financing activities                                                                     |                    |                  |
| Repayment of lease liabilities                                                                           | (1,389,284)        | -                |
| Loans received                                                                                           | 653,530            | 944,725          |
| Repayment of loans received                                                                              | (653,530)          | -                |
| Issue of ordinary shares (including share premium)                                                       | 2,716,449          | -                |
| Share issue costs                                                                                        | (328,570)          | -                |
| <b>Net cash flows from financing activities</b>                                                          | <b>998,594</b>     | <b>944,725</b>   |
| Effect of exchange rate changes on cash and cash equivalents                                             | 30,015             | (89,264)         |
| Net change in cash and cash equivalents                                                                  | 1,128,202          | (3,031)          |
| Cash and cash equivalents at the beginning of the year                                                   | 454,549            | 457,580          |
| <b>Cash and cash equivalents at the end of the year (Note 5)</b>                                         | <b>1,582,751</b>   | <b>454,549</b>   |

**Zaim Credit Systems plc****Company Statement of Cash Flows for the year ended December 31, 2019 (in British pounds sterling)**

|                                                                                                   | 2019             | 2018            |
|---------------------------------------------------------------------------------------------------|------------------|-----------------|
| Cash flows from operating activities                                                              |                  |                 |
| Loss for the period                                                                               | (626,317)        | (66,670)        |
| Correction for non-cash transaction (charge for share options granted)                            | 166,883          | -               |
| Cash flows from/(used in) operating activities before changes in operating assets and liabilities | (459,433)        | (66,670)        |
| Adjustments for                                                                                   |                  |                 |
| Increase in trade and other receivables, VAT                                                      | (8,122)          | (60,000)        |
| Increase in trade and other payables                                                              | 95,995           | 66,670          |
| Cash generated from operations                                                                    | (371,560)        | (60,000)        |
| <b>Net cash flows used in operating activities</b>                                                | <b>(371,560)</b> | <b>(60,000)</b> |
| Cash flows from investing activities                                                              |                  |                 |
| Investment in Subsidiary                                                                          | (705,663)        | -               |
| <b>Net cash flows from investing activities</b>                                                   | <b>(705,663)</b> | <b>-</b>        |
| Cash flows from financing activities                                                              |                  |                 |
| Issue of ordinary shares (including share premium)                                                | 2,716,449        | 60,000          |
| Share issue costs                                                                                 | (328,570)        | -               |
| <b>Net cash flows from financing activities</b>                                                   | <b>2,387,878</b> | <b>60,000</b>   |
| Net change in cash and cash equivalents                                                           | 1,310,655        | -               |
| Cash and cash equivalents at the beginning of the year                                            | -                | -               |
| <b>Cash and cash equivalents at the end of the year (Note 5)</b>                                  | <b>1,310,655</b> | <b>-</b>        |

# Notes to the Consolidated Financial Statements

## 1. Principal Activities of the Group

The principal activity of Zaim Credit Systems plc ("the Company") and its subsidiary Zaim-Express, LLC (together "the Group") is issuance of microloans to individuals (retail customers). The Company was incorporated as Agana Holdings Plc and registered in England and Wales on June 15, 2018 as a public limited company with company registration number 11418575 and LEI, 213800Z4M19KSA2VW72 and on July 22, 2019 the Company changed its name to Zaim Credit Systems Plc.

On September 18, 2019 the Company acquired the entire issued share capital of Zaim-Express LLC. The Company is now the holding company of a Russian-based financial services company Zaim-Express LLC (Subsidiary), so the main function of the Company is to provide holding company services and undertake the management management of the listed activities on the stock exchange. These business combination in 2019 was stated in consolidated financial statements as reverse acquisitions under IFRS 3 and the prior year comparative figures presented are those of the legal acquiree Zaim Express LLC.

### The organizational structure of Group:

| The share votes of the Company |                         |            |            |
|--------------------------------|-------------------------|------------|------------|
| The name of Subsidiary         | Country of registration | 31.12.2019 | 31.12.2018 |
| Zaim-Express LLC               | Russia                  | 100%       | -          |

The Subsidiary's principle activity is issuance of microloans through the network of it's branches in Russian cities (including Moscow and the Moscow region, St. Petersburg, Volgograd, Samara, Orel, Tula). The Subsidiary was entered in the state register of microfinance organisations on August 29, 2011, registration number 2110177000440. The Subsidiary's assets and liabilities are located in the Russian Federation. The average number of Subsidiary's employees is as follows:

| The average number of Subsidiary's employees, by groups | 2019 | 2018 |
|---------------------------------------------------------|------|------|
| Central office                                          | 42   | 50   |
| Call center                                             | 23   | 35   |
| Other specialists                                       | 208  | 268  |
| Total average number of employees                       | 273  | 353  |

The average number of parent Company's employees (directors) is as follows:

| The average number of parent Company's employees | 2019 | 2018 |
|--------------------------------------------------|------|------|
| Directors                                        | 3    | 2    |

As at 31 December 2019, the main participant of the Company is Zaim Holdings SA (with a 73.23% equity holding). The ultimate controlling party of the Group is an individual - Mr. Siro Donato Cicconi.

## 2. Operating Environment of the Group

### General

The economy of the Russian Federation continues to display certain characteristics of an emerging market. These characteristics include, in particular, the inconvertibility of the national currency in most countries outside Russia and relatively high inflation rates. The current Russian tax, currency and customs legislation is subject to varying interpretations and frequent changes. The country's economy depends on the fluctuations of oil and gas prices.

As at December 31, 2019, the CBR's key rate was 6.25% (December 31, 2018: 7.75%).

The future economic development of the Russian Federation is largely dependent upon the effectiveness of economic measures, financial mechanisms and monetary policies adopted by the Government, together with tax, regulatory, and political developments.

### Inflation

The Russian economy experiences relatively high levels of inflation. The inflation indices for the last five years are given in the table below:

| The year ended    | Inflation for the period |
|-------------------|--------------------------|
| December 31, 2018 | 3.0%                     |
| December 31, 2018 | 4.3%                     |
| December 31, 2018 | 2.1%                     |
| December 31, 2018 | 5.4%                     |
| December 31, 2018 | 12.9%                    |

### Foreign exchange transactions

Foreign currencies, especially the US Dollar and Euro, play a significant role in determining the economic parameters of many economic transactions carried out in Russia. The table below shows the CBR exchange rates of RUB relative to USD and EUR:

| Date              | USD     | EUR     | GBP      |
|-------------------|---------|---------|----------|
| December 31, 2018 | 61.9057 | 69.3406 | 81.1460  |
| December 31, 2018 | 69.4706 | 79.4605 | 88.2832  |
| December 31, 2018 | 57.6002 | 68.8668 | 77.6739  |
| December 31, 2018 | 60.6569 | 63.8111 | 74.5595  |
| December 31, 2018 | 72.8827 | 79.6927 | 107.9830 |

The management takes all the necessary measures to ensure the sustainability of the Bank's operations. However, the future impact of the current economic situation is difficult to predict and the management's current expectations and estimates may differ from actual results.

### Functional and presentation currency

The functional currency is the currency that mainly influences sales prices for goods and services (this will often be the currency in which sales prices for goods and services are denominated and settled) and which mainly influences labour, material and other costs of providing goods or services (this will often be the currency in which such costs are denominated and settled). The Group's functional currency is the Russian rouble.

The presentation currency is the currency in which financial statements are presented.

The consolidated financial statements are presented in British pounds sterling. The reasons why the functional currency differs

### 3. Basis of Presentation

#### General principles

These consolidated financial statements of the Group are prepared in accordance with International Financial Reporting Standards (IFRSs). The Group maintains its records in compliance with the applicable legislation of the United Kingdom. These financial statements have been prepared on the basis of those accounting records and adjusted as necessary in order to comply, in all material respects, with IFRSs.

#### Going concern

These consolidated financial statements reflect the Group management's current assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future economic direction of the Russian Federation is largely dependent upon the effectiveness of measures undertaken by the RF Government and other factors, including regulatory and political developments, which are beyond the Group's control. The Group's management cannot predict what impact these factors can have on the Group's financial position in future. Adjustments related to this risk have not been included in the accompanying financial statements

As at December 31, 2019, the Group has an accumulated deficit of GBP 37,481,208 (2018: GBP 36,689,833), and incurred a net loss of GBP 891,589 during the year ended December 31, 2019 (2018: GBP 1,545,631).

The Group's business activities together with the factors likely to affect its future development, performance and position are set out in the Chairman's Statement on pages [10] and Chief Executive Review on page [12]; in addition note 3 to the Financial Statements includes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and its exposure to credit and liquidity risk.

The Financial Statements have been prepared on a going concern basis. The Directors consider that the Group has sufficient funds to undertake its operating activities for a period of at least the next 12 months including any additional expenditure required in relation to any adverse impacts from the COVID-19 Pandemic. The Group has cash reserves, which are considered sufficient by the Directors to fund the Group's desired strategy of increasing the loan book both online and in the store.

The uncertainty as to the future impact of the COVID-19 pandemic has been considered as part of the Group's adoption of the going concern basis. In response to government instructions the Group's offices in London and Moscow have been closed with staff working from home, international travel has stopped and health and safety initiatives have been implemented throughout the physical store network, which has remained open for business during this pandemic as a result of financial services being classified as being critical services for the population.

Whilst the board considers that the Group's financial results for 2019 are unaffected by COVID-19, since the year end the amount of funds advanced has been significantly lower than expected due to a reduction in demand, coupled with prudent measures adopted by the Directors to limit any cash advanced to the receipts generated in any given month. The operations have therefore been run on a break-even basis to protect the business against any unforeseen credit losses due to the deteriorating economic environment in Russia. The Board considers the pandemic has not materially adversely affected

from the presentation currency are the consolidation of Subsidiary's financial statements with the parent Company accounts, which have been presented in GBP and investors interests. Comparatives for 2018 of Subsidiary have also been restated to GBP.

the prospects of the business as of the date of this report, although any future impact, should further waves of the pandemic occur and further measures implemented, remains hard to quantify.

As a result of considerations noted above, the Directors have a reasonable expectation that the Group and the Company have adequate resources to continue in operational existence for the foreseeable future. Thus, they continue to adopt the going concern basis of accounting in preparing these Financial Statements.

The CBR sets the minimum mandatory liquidity ratio at over 70% for Russian Federation. The Subsidiary meets the mandatory economic liquidity ratio: as at December 31, 2019 - 132.89% and as at December 31, 2018 - 114.26%.

#### Basis of consolidation and business acquisitions

On September 18, 2019 the Company acquired the entire issued share capital of Zaim-Express (LLC) by way of a share for share exchange. The transaction was treated as a reverse acquisition and was accounted for using the merger accounting method as the entities were under common control before and after the acquisition.

Subsidiary is entity controlled by the Group. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

The Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee.
- Rights arising from other contractual arrangements.
- The Group's voting rights and potential voting rights.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Other than for the acquisition of Subsidiary as noted above, the Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Acquisition-related costs are expensed as incurred unless they result from the issuance of shares, in which case they are offset against the premium on those shares within equity.

If an acquisition is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or a liability is recognised in accordance with IFRS9 either in profit or loss or as a change in other comprehensive income. The unwinding of the discount on contingent consideration liabilities is recognised as a finance charge within profit or loss. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred and the acquisition date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in profit or loss.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with policies adopted by the Group.

#### **Investments in subsidiaries are accounted for at cost less impairment**

Subsidiaries and Acquisitions. The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to December 31 each year. Control is recognised where an investor is expected, or has rights, to variable returns from its investment with the investee, and has the ability to affect these returns through its power over the investee. Based on the circumstances of the acquisition an assessment will be made as to whether the acquisition represents an acquisition of an asset or the acquisition of business. In the event of a business acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair value at the date of acquisition. Any excess of the cost of the acquisition over the fair values of the identifiable net assets acquired is recognised as a "fair value" adjustment.

If the cost of the acquisition is less than the fair value of net assets of the subsidiary acquired, the difference is recognised directly in profit or loss. In the event of an asset acquisition assets and liabilities are assigned a carrying amount based on relative fair value.

The results of subsidiaries acquired or disposed of during the year are included in the statement of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies into line with those used by the Group.

Contingent consideration as a result of business acquisitions is included in cost at its acquisition date assessed value and, in the case of contingent consideration classified as a financial liability, remeasured subsequently through the profit and loss

#### **Critical Accounting Estimates and Judgments in Applying Accounting Policies**

The Group makes estimates and assumptions that affect the amounts recognised in the financial statements, and the carrying amounts of assets and liabilities within the next financial year. Judgments that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

**Fair value of financial instruments.** Information on fair value of financial instruments measured on the basis of assumptions that use observable market prices is disclosed in Note 23.

**ECL measurement.** Calculation and measurement of ECLs is an area of significant judgement, and implies

methodology, models and data inputs. The methodology used by the Group for assessment of expected credit losses is disclosed in Note 6. The following components of ECL calculation have the major impact on allowance for ECLs: default definition, significant increase in credit risk (SICR), probability of default (PD), exposure at default (EAD), loss given default (LGD), macromodels and scenario analysis for impaired loans. The Group regularly reviews and validates models and inputs to the models to reduce any differences between expected credit loss estimates and actual credit loss experience.

**Significant increase in credit risk (SICR).** In order to determine whether there has been a significant increase in credit risk, the Group compares the risk of a default occurring over the expected life of a financial instrument at the reporting date with the risk of default at the date of initial recognition. IFRS 9 requires an assessment of *relative increases in credit risk rather than the identification of a specific level of credit risk at the reporting date*. In this assessment, the Group considers a range of indicators, including behavioural indicators based on historical information as well as reasonable and supportable forward-looking information available without undue cost and effort. The most significant judgments include identifying behavioural indicators of increases in credit risk prior to default and incorporating appropriate forward-looking information into the assessment, either at an individual instrument, or on a portfolio level.

**Determining business model and applying SPPI test.** In determining the appropriate measurement category for debt financial instruments, the Group applies two approaches: business model assessment for managing the assets and the SPPI test based on contractual cash flows characteristics on initial recognition to determine whether they are solely payments of principal and interest. The business model assessment is performed at a certain level of aggregation, and the Group will need to apply judgement to determine the level at which the business model condition is applied.

The assessment of the SPPI criterion performed on initial recognition of financial assets involves the use of significant estimates in quantitative testing and requires considerable judgement in determining whether quantitative testing is required, what scenarios are reasonably possible and should be considered and in interpreting the outcomes of quantitative testing (i.e. determining what represents a significant difference in cash flows).

**Substantial modification of financial assets.** When the contractual terms of financial assets are modified (e.g. renegotiated), the Group assesses whether the modification is substantial and should result in derecognition of the original asset and recognition of a new asset at fair value. This assessment is based primarily on qualitative factors described in the relevant accounting policy and requires significant judgment.

**Recognition of a deferred tax asset.** The recognised deferred tax asset represents the amount of income tax that can be offset against future income taxes and is recognised in the statement of financial position. A deferred tax asset is recognized only to the extent that realisation of the related tax benefit is probable. The future taxable profits and the amount of tax benefits that are probable in the future are based on medium-term forecasts prepared by management.

#### **Changes in accounting policies**

IFRS 16 Leases (issued on January 13, 2016 and effective for Annual periods beginning on or after 1 January 2019).

IFRS 16 Leases supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC 15 Operating Leases-Incentives and SIC 27 Evaluating the Substance of Transactions **Involving the Legal Form of a Lease**. The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right

to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing.

The Group applied IFRS 16 using a modified retrospective approach. Right-of-use assets were recorded in an amount equal to the lease liabilities adjusted for the amount of prepaid or accrued operating lease payments under these lease agreements recorded in the prior periods. Lease liabilities were measured at the present value of the remaining lease payments discounted at the incremental borrowing rates (IBR) as January 1, 2019. The date of initial application is January 1, 2019. The Group applied a modified retrospective approach without restatement of the comparative information.

In applying IFRS 16 for the first time, the Group has used the following practical expedients:

- A single discount rate was applied to a portfolio of leases with reasonably similar characteristics;
- Leases ending within 12 months from the date of initial application of the standard were reflected as short-term, even if an initial lease term was more than 12 months;
- Initial direct costs were excluded from measurement of the right-of-use asset at the date of first application.

**Reconciliation of lease liabilities as at January 1, 2019 and operating lease liabilities as at December 31, 2018 is as follows:**

| <b>Group</b>                                                          |           |
|-----------------------------------------------------------------------|-----------|
| Contractual obligations under operating lease as at December 31, 2018 | 3,806,790 |
| Discount rate as at January 1, 2019                                   | 7.95%     |
| <hr/>                                                                 |           |
| Discounted operating lease liabilities as at January 1, 2019          |           |
| Effect of discounting                                                 | (481,164) |
| Lease liabilities recognised as at January 1, 2019                    | 3,325,625 |
| <hr/>                                                                 |           |
| Previously paid advances and non-returnable security deposits         | 81,880    |
| <hr/>                                                                 |           |
| Right-of-use assets recognised as at January 1, 2019                  | 3,407,065 |

- Below are revised standards that became mandatory for the Group since January 1, 2019, but had no material impact on the Group:
- IFRIC 23 Uncertainty over Income Tax Treatments (issued on June 7, 2017 and effective for Annual periods beginning on or after January 1, 2019).
- Prepayment Features with Negative Compensation - Amendments to IFRS 9 (issued on October 12, 2017 and effective for Annual periods beginning on or after January 1, 2019).
- Long-term Interests in Associates and Joint Ventures - Amendments to IAS 28 (issued on October 12, 2017 and effective for Annual periods beginning on or after January 1, 2019).
- Annual Improvements to IFRSs 2015-2017 cycle - Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 (issued on December 12, 2017 and effective for Annual periods beginning on or after January 1, 2019).
- Amendments to IAS 19 Plan Amendment, Curtailment or Settlement (issued on February 7, 2018 and effective for Annual periods beginning on or after January 1, 2019).

Certain new standards and interpretations have been published, which are mandatory for the Group's Annual periods beginning on or after January 1, 2020 and which the Group has not early adopted.

The Revised Conceptual Framework for Financial Reporting (issued on March 29, 2018 and effective for Annual periods beginning on or after January 1, 2020).

Definition of a business - Amendments to IFRS 3 (issued on October 22, 2018 and effective for acquisitions from the beginning of Annual reporting period beginning on or after January 1, 2020).

Definition of material - Amendments to IAS 1 and IAS 8 (issued on October 21, 2018 and effective for Annual periods beginning on or after January 1, 2020).

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

## 4. Summary of Significant Accounting Policies

### Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price) regardless of whether that price is directly observable or estimated using another valuation technique.

All assets and liabilities for which fair value is recognised or disclosed are categorised within the fair value hierarchy, described as below, based on the lowest level input that is significant to the fair value measurement as a whole:

**Level 1** – quoted market prices in an active market (that are unadjusted) for identical assets or liabilities;

**Level 2** – valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;

**Level 3** – valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are remeasured in the financial statements at fair value on a recurring basis, the Group determines whether transfers have occurred between the Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained below (Note 23).

### Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, current accounts and deposits with banks with original maturity of three months or less. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

## Financial instruments

### Key measurement terms

**Depending on their classification, financial instruments are carried at fair value or amortised cost.**

#### Loans to customers

Based on cash flow characteristics, the Group classifies loans and advances to customers into the measurement category:

1. at amortised cost: loans held to collect contractual cash flows, if these cash flows are SPPI and are not classified as at fair value through profit or loss, are measured at amortised cost;

Loans to customers are recorded when cash is advanced to borrowers. Impairment of loans at amortised cost or at FVOCI is assessed using a forward-looking ECL model. The Group does not acquire loans from third parties.

### Impairment of financial assets: ECL allowance

The Group assesses, on a forward-looking basis, the ECL for debt instruments measured at amortised cost and FVOCI and for the exposures arising from credit related commitments and financial guarantee contracts. The Group measures ECL and recognises credit loss allowance at each reporting date. The measurement of ECL reflects:

1. an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes,
2. time value of money, and
3. all reasonable and supportable information that is available without undue cost and effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Debt instruments measured at amortised cost are presented in the statement of financial position net of the ECL allowance.

The Group applies a three-stage model for impairment, based on changes in credit quality since initial recognition, in accordance with IFRS 9.

1. A financial instrument that is not credit-impaired on initial recognition is classified into Stage 1. Financial assets in Stage 1 have their ECL measured at an amount equal to the portion of lifetime ECL that results from default events possible within the next 12 months (12m ECL).
2. If the Group identifies a significant increase in credit risk (SICR) since initial recognition, the asset is transferred to Stage 2 and its ECL is measured based on ECL on a lifetime basis (lifetime ECL). Refer to Note 3 for a description of how the Group determines when a SICR has occurred.
3. If the Group determines that a financial asset is credit-impaired, the asset is transferred to Stage 3 and its ECL is measured as a lifetime ECL. Assets that are more than 60 days past due are considered to be defaulted.

For financial assets that are purchased or originated credit-impaired (POCI assets), the ECL is always measured as a lifetime ECL.

Note 6 provides information about inputs, assumptions and estimation techniques used in measuring ECL, including an explanation of how the Group incorporates forward-looking information in the ECL models.

## Loans received

Loans received include loans received from the participant and are carried at amortised cost.

## Property and equipment

Property and equipment are stated at cost, less accumulated depreciation and impairment allowance.

At the end of the reporting period the Group assesses whether there is any indication of impairment of property and equipment. If such indication exists, the Group estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell or its value in use. Where the carrying amount of property and equipment is greater than their estimated recoverable amount, it is written down to their recoverable amount and the difference is charged as impairment loss to the statement of profit or loss and other comprehensive income.

Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and recorded as operating expenses in the statement of profit or loss and other comprehensive income.

Repairs and maintenance are charged to the statement of profit or loss and other comprehensive income when the expense is incurred.

## Depreciation

Depreciation of an asset begins when it is available for use. Depreciation is charged on a straight-line basis over the following useful lives of the assets:

- Equipment – 2- 7 years.

## Operating lease – the Group as lessee

Leases of property under which the risks and rewards of ownership are effectively retained with the lessor are classified as operating leases. Lease payments under operating lease are recognised as expenses on a straight-line basis over the lease term and included into operating expenses in the statement of profit or loss and other comprehensive income.

## Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying future economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

## Taxation

The income tax charge/recovery comprises current tax and deferred tax and is recorded in the statement of profit or loss and other comprehensive income. Income tax expense is recorded in the financial statements in accordance with the applicable legislation of the Russian Federation. Current tax is calculated on the basis of the estimated taxable profit for the year, using the tax rates enacted during the reporting period.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current or prior periods. Tax amounts are based on estimates if financial statements are authorised prior to filing relevant tax returns.

Deferred income tax is provided using the balance sheet liability method for tax loss carryforwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial statement purposes.

### Income and expense recognition

Interest income and expense are recorded in the statement of profit or loss and other comprehensive income for all debt instruments on an accrual basis using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument, but does not consider future credit losses. The calculation includes all commissions and fees paid or received by the parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

When loans become doubtful of collection, they are written down to their recoverable amounts and interest income is thereafter recognised based on the rate of interest that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

### Employee benefits and social insurance contributions

The Group pays social insurance contributions predominantly on the territory of the Russian Federation. Social insurance contributions are recorded on an accrual basis and comprise contributions to the Russian Federation state pension, social insurance, and obligatory medical insurance funds in respect of the Group's employees. The Group does not have pension arrangements separate from the state pension system of the Russian Federation. Wages, salaries, contributions to the Russian Federation state pension and social insurance funds, paid Annual leaves and paid sick leaves, bonuses and non-monetary benefits are accrued as the Group's employees render the related service.

## Foreign currency

### (a) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where such items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Gains and losses on purchase and sale of foreign currency are determined as a difference between the selling price and the carrying amount at the date of the transaction.

### (b) Group companies

The results and financial position of all the Group's entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

1. assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
2. each component of profit or loss is translated at average exchange rates during the accounting period (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
3. all resulting exchange differences are recognised in other comprehensive income

## 5. Cash and Cash Equivalents

| Group                                  | 2019             | 2018           |
|----------------------------------------|------------------|----------------|
| Cash on hand                           | 84,098           | 61,971         |
| Accounts with other banks              | 1,498,653        | 392,578        |
| <b>Total cash and cash equivalents</b> | <b>1,582,751</b> | <b>454,549</b> |
| <b>Company</b>                         |                  |                |
| Cash on hand                           | -                | -              |
| Accounts with other banks              | 1,310,655        | -              |
| <b>Total cash and cash equivalents</b> | <b>1,310,655</b> | <b>-</b>       |

As at December 31, 2019, the Group has 2 counterparties (2018: 3 counterparties) with balances exceeding 10% of total cash and cash equivalents in the amount of GBP 1,310,655 (2018: GBP 380,039).

The table below presents the credit quality analysis of cash and cash equivalents based on credit risk levels as at December 31, 2019.

| Group                                                     | Accounts with other banks | Total            |
|-----------------------------------------------------------|---------------------------|------------------|
| Minimum credit risk                                       | 1,498,653                 | 1,498,653        |
| <b>Total cash and cash equivalents, less cash on hand</b> | <b>1,498,653</b>          | <b>1,498,653</b> |
| <b>Company</b>                                            |                           |                  |
| Minimum credit risk                                       | 1,310,655                 | 1,310,655        |
| <b>Total cash and cash equivalents, less cash on hand</b> | <b>1,310,655</b>          | <b>1,310,655</b> |

The table below presents the credit quality analysis of cash and cash equivalents based on credit risk levels as at December 31, 2018.

| Group                                                     | Accounts with other RF banks | Total    |
|-----------------------------------------------------------|------------------------------|----------|
| Minimum credit risk                                       | 392,578                      | 392,578  |
| Total cash and cash equivalents, less cash on hand        | 392,578                      | 392,578  |
| <b>Company</b>                                            |                              |          |
| Minimum credit risk                                       | -                            | -        |
| <b>Total cash and cash equivalents, less cash on hand</b> | <b>-</b>                     | <b>-</b> |

For the purpose of assessing expected credit losses, cash and cash equivalent balances are included in Stage 1. The expected credit losses on these balances represent insignificant amounts, therefore, the Group does not create an ECL allowance for cash and cash equivalents.

Below is the credit quality analysis of cash and cash equivalents as at December 31, 2019 in accordance with ratings of international agencies:

| Group                     | Fitch A+       | Fitch BB       | S&P from BB- to BB+ | No rating assigned | Total            |
|---------------------------|----------------|----------------|---------------------|--------------------|------------------|
| Accounts with other banks | 528,551        | 782,104        | 93,047              | 94,951             | 1,498,653        |
| <b>Total</b>              | <b>528,551</b> | <b>782,104</b> | <b>93,047</b>       | <b>94,951</b>      | <b>1,498,653</b> |
| <b>Company</b>            |                |                |                     |                    |                  |
| Accounts with other banks | 528,551        | 782,104        | -                   | -                  | 1,310,655        |
| <b>Total</b>              | <b>528,551</b> | <b>782,104</b> | <b>-</b>            | <b>-</b>           | <b>1,310,655</b> |

## 6. Loans to Customers

| Group                                             | 2019           | 2018           |
|---------------------------------------------------|----------------|----------------|
| Loans to customers                                | 32,078,150     | 29,187,093     |
| Less: ECL allowance                               | (31,291,804)   | (28,546,722)   |
| <b>Total loans to customers at amortised cost</b> | <b>786,346</b> | <b>640,371</b> |
| <b>Company</b>                                    |                |                |
| Loans to customers                                | -              | -              |
| Less: ECL allowance                               | -              | -              |
| <b>Total loans to customers at amortised cost</b> | <b>-</b>       | <b>-</b>       |

Below is analysis of movements in the ECL allowance during 2019 (by type of loans specified in the first table of the Note):

| Group                                       | Stage 1   | Stage 2   | Stage 3    | Total       |
|---------------------------------------------|-----------|-----------|------------|-------------|
| ECL allowance as at January 1, 2019         | 139,800   | 424,712   | 27,982,210 | 28,546,722  |
| Assets recognised for the period            | 687,271   | -         | -          | 687,271     |
| Assets derecognised or collected            | (95,125)  | (102,217) | (842,085)  | (1,039,427) |
| Transfers to Stage 2                        | (206,503) | 206,503   | -          | -           |
| Transfers to Stage 3                        | (409,279) | (326,329) | 735,608    | -           |
| Net loss on ECL allowance charge/(reversal) | -         | 52,065    | 530,141    | 582,206     |
| Effect of exchange rate differences         | 11,864    | 34,252    | 2,468,916  | 2,515,032   |
| ECL allowance as at December 31, 2019       | 128,028   | 288,985   | 30,874,790 | 31,291,804  |

Analysis of movements in the ECL allowance during 2018 is as follows:

| Group                                       | Stage 1     | Stage 2   | Stage 3     | Total       |
|---------------------------------------------|-------------|-----------|-------------|-------------|
| ECL allowance as January 1, 2018            | 176,018     | 869,353   | 26,864,738  | 27,910,109  |
| Assets recognised for the period            | 3,394,615   | -         | -           | 3,394,615   |
| Assets derecognised or collected            | (13,066)    | (30,451)  | (126,006)   | (169,523)   |
| Transfers to Stage 2                        | (443,898)   | 443,898   | -           | -           |
| Transfers to Stage 3                        | (2,953,565) | (775,143) | 3,728,708   | -           |
| Net loss on ECL allowance charge/(reversal) | -           | 2,369     | 987,992     | 990,361     |
| Effect of exchange rate differences         | (20,304)    | (85,312)  | (3,473,222) | (3,578,840) |
| ECL allowance as December 31, 2018          | 139,800     | 424,712   | 27,982,210  | 28,546,722  |

The ECL allowance for loans and advances to customers recognised during the period is impacted by various factors. The table below describes the main changes:

- transfers between Stages 1 and 2 and Stage 3 due to significant increase (or decrease) in credit exposure or impairment during the period and subsequent increase (or decrease) in the estimated ECL level: for 12 months or over the entire period;
- accrual of additional allowances for new financial instruments recognised during the period, as well as reduction in allowance as a result of derecognition of financial instruments during the period;

- impact on ECL estimation due to changes in model assumptions, including changes in probability of default, EAD and LGD during the period resulting from regular updating of the model inputs.

Following is the credit quality analysis of loans to customers as at December 31, 2019:

| Group                                               | Stage 1        | Stage 2        | Stage 3           | Total             |
|-----------------------------------------------------|----------------|----------------|-------------------|-------------------|
| Loans to customers                                  |                |                |                   |                   |
| Minimum credit risk                                 | 568,567        |                | -                 | 568,567           |
| Low credit risk                                     | -              | 374,288        | -                 | 374,288           |
| Moderate credit risk                                | -              | 164,962        | -                 | 164,962           |
| High credit risk                                    | -              | 95,507         | -                 | 95,507            |
| Defaulted assets                                    | -              |                | 30,874,826        | 30,874,826        |
| <b>Total loans to customers before allowance</b>    | <b>568,567</b> | <b>634,757</b> | <b>30,874,826</b> | <b>32,078,150</b> |
| ECL allowance                                       | (128,028)      | (288,986)      | (30,874,790)      | (31,291,804)      |
| <b>Total loans to customers after ECL allowance</b> | <b>440,539</b> | <b>345,771</b> | <b>36</b>         | <b>786,346</b>    |

Following is the credit quality analysis of loans to customers as at December 31, 2018:

| Group                                               | Stage 1        | Stage 2        | Stage 3           | Total             |
|-----------------------------------------------------|----------------|----------------|-------------------|-------------------|
| Loans to customers                                  |                |                |                   |                   |
| Minimum credit risk                                 | 516,270        | -              | -                 | 516,270           |
| Low credit risk                                     | -              | 218,898        | -                 | 218,898           |
| Moderate credit risk                                | -              | 250,138        | -                 | 250,138           |
| High credit risk                                    | -              | 219,577        | -                 | 219,577           |
| Defaulted assets                                    | -              | -              | 27,982,210        | 27,982,210        |
| <b>Total loans to customers before allowance</b>    | <b>516,270</b> | <b>688,613</b> | <b>27,982,210</b> | <b>29,187,093</b> |
| ECL allowance                                       | (139,800)      | (424,712)      | (27,982,210)      | (28,546,722)      |
| <b>Total loans to customers after ECL allowance</b> | <b>376,470</b> | <b>263,901</b> | <b>-</b>          | <b>640,371</b>    |

The ECL allowance for loans to customers recognized during the period is impacted by different factors. Information on the assessment of expected credit losses is disclosed in Note 3.

The Group uses the following approach to measurement of expected credit losses:

- portfolio-based measurement: internal ratings are assigned individually, but the same credit risk parameters (e.g. PD, LGD) are applied to similar credit risk ratings and homogeneous credit portfolio segments in the process of ELC estimation.

This approach provides for aggregation of the portfolio into homogeneous segments on the basis of specific information on borrowers, such as delinquent loans, historic data on prior period losses and forward-looking macroeconomic information.

The amounts of loans recognised as "past due" represent the entire balance of such loans rather than the overdue amounts of individual payments.

## 7. Lease

The Group has agreements for lease of premises, land, office space and computer equipment. Prior to application of IFRS 16, the Group (as a lessee) classified each lease as an operating lease at the inception of the lease term. The Group had no finance lease agreements. Leased assets under operating leases have not been capitalised and payments under operating leases were recognised as an expense in the statement of profit or loss and other comprehensive income on a straight-line basis over the lease term. Lease prepayments and accrued lease payments were recognised as prepayments and accounts payable, respectively. Following the adoption of IFRS 16, the Group applied a single approach to recognising and measuring all leases except for short-term leases and leases where the underlying asset is of low value. The standard contains transitional requirements and provides for practical expedients that have been used by the Group.

The carrying amount of right-of-use assets and its movements during the period are presented below:

|               |         |
|---------------|---------|
| Discount rate | 7.95%   |
| Lease term    | 3 years |

| Group                                                                    | Real Estate | Total     |
|--------------------------------------------------------------------------|-------------|-----------|
| Minimum operating lease contractual obligations at January 1, 2019       | 738,538     | 738,538   |
| short-term leases not recognised under IFRS 16                           | (151,047)   | (151,047) |
| effect of renewal options that are reasonably certain to be exercised    | 3,219,299   | 3,219,299 |
| Undiscounted lease payments                                              | 3,806,790   | 3,806,790 |
| effect of discounting at the IBR rate at the date of initial application | (481,165)   | (481,165) |
| Lease liabilities at January 1, 2019                                     | 3,325,625   | 3,325,625 |

The carrying amount of right-of-use assets and its movements during the period are presented below:

| Group                                            | Real Estate | Total       |
|--------------------------------------------------|-------------|-------------|
| As at January 1, 2019                            | 3,407,065   | 3,407,065   |
| Additions                                        | 112,021     | 112,021     |
| Depreciation charge                              | (1,248,758) | (1,248,758) |
| Effect of translation into presentation currency | 278,905     | 278,905     |
| As at December 31, 2019                          | 2,549,233   | 2,549,233   |

The carrying amounts of lease liabilities and their movements during the period are set out below:

| Group                                            | Real Estate | Total       |
|--------------------------------------------------|-------------|-------------|
| Lease liabilities                                |             |             |
| As at January 1, 2019                            | 3,325,625   | 3,325,625   |
| Additions                                        | 108,875     | 108,875     |
| Interest expense on lease liabilities            | 243,281     | 243,281     |
| Lease payments                                   | (1,395,580) | (1,395,580) |
| Effect of translation into presentation currency | 273,447     | 273,447     |
| As at December 31, 2019                          | 2,555,648   | 2,555,648   |

## 8. Other Assets

| Group                                            | 2019           | 2018           |
|--------------------------------------------------|----------------|----------------|
| Other financial assets                           |                |                |
| Receivables under fiduciary management agreement | -              | 510            |
| <b>Total other financial assets</b>              | <b>-</b>       | <b>510</b>     |
| Other non-financial assets                       |                |                |
| Lease prepayments                                | 16,603         | 145,124        |
| Settlements with suppliers                       | 29,440         | 21,873         |
| Taxes other income tax                           | 139,069        | 36,881         |
| Other                                            | 52,937         | 37,856         |
| Less: impairment allowance                       | (15,932)       | (13,117)       |
| <b>Total other non-financial assets</b>          | <b>222,117</b> | <b>228,617</b> |
| <b>Total other assets</b>                        | <b>222,117</b> | <b>229,126</b> |

| Company                                 | 2019          | 2018          |
|-----------------------------------------|---------------|---------------|
| Other financial assets                  | -             | -             |
| <b>Total other financial assets</b>     | <b>-</b>      | <b>-</b>      |
| Other non-financial assets              |               |               |
| Settlements with suppliers              | -             | -             |
| Taxes other income tax                  | 68,122        | -             |
| Other                                   | -             | 60,000        |
| Less: impairment allowance              | -             | -             |
| <b>Total other non-financial assets</b> | <b>68,122</b> | <b>60,000</b> |
| <b>Total other assets</b>               | <b>68,122</b> | <b>60,000</b> |

Analysis of movements in the impairment allowance for non-financial assets during 2019 is presented below:

| Group                                                         | Non-financial assets | Total  |
|---------------------------------------------------------------|----------------------|--------|
| Impairment allowance for other assets as at January 1, 2019   | 13,117               | 13,117 |
| Impairment allowance charge during 2019                       | 1,631                | 1,631  |
| Effect of translation into presentation currency              | 1,184                | 1,184  |
| Impairment allowance for other assets as at December 31, 2019 | 15,932               | 15,932 |

Analysis of movements in the impairment allowance for non-financial assets during 2018 is presented below:

| Group                                                         | Non-financial assets | Total   |
|---------------------------------------------------------------|----------------------|---------|
| Impairment allowance for other assets as at January 1, 2018   | 17,290               | 17,290  |
| Reversal of impairment allowance during 2019                  | (2,214)              | (2,214) |
| Effect of translation into presentation currency              | (1,959)              | (1,959) |
| Impairment allowance for other assets as at December 31, 2018 | 13,117               | 13,117  |

## 9. Loans Received

| Group                       | 2019           | 2018           |
|-----------------------------|----------------|----------------|
| Loan from related party     | 742,603        | 908,293        |
| <b>Total loans received</b> | <b>742,603</b> | <b>908,293</b> |

| Company                     | 2019     | 2018     |
|-----------------------------|----------|----------|
| Loan from related party     | -        | -        |
| <b>Total loans received</b> | <b>-</b> | <b>-</b> |

As at December 31, 2019 and December 31, 2018, loans received represent outstanding interest on 1 loan at 8.7% per annum forgiven by the ex-Subsidiary participant.

## 10. Other Liabilities

| Group                                           | 2019           | 2018             |
|-------------------------------------------------|----------------|------------------|
| Other financial liabilities                     |                |                  |
| Payables                                        | 200,618        | 62,515           |
| Settlements with customers on penalties         | 97,322         | 90,040           |
| Other                                           | 16,732         | 17,523           |
| Other non-financial liabilities                 |                |                  |
| Taxes other than income tax                     | 16,982         | 562,814          |
| Provision for unused vacations                  | 144,024        | 165,104          |
| Payables to employees and payroll related taxes | 189,227        | 108,175          |
| <b>Total other liabilities</b>                  | <b>664,905</b> | <b>1,006,171</b> |

| Company                                         | 2019           | 2018          |
|-------------------------------------------------|----------------|---------------|
| Other financial liabilities                     |                |               |
| Payables                                        | 126,057        | 66,670        |
| Other                                           | 27             | -             |
| Other non-financial liabilities                 |                |               |
| Payables to employees and payroll related taxes | 36,582         | -             |
| <b>Total other liabilities</b>                  | <b>162,666</b> | <b>66,670</b> |

## 11. Charter and Additional Capital, Other reserves. Earnings per share

As at December 31, 2018 the Charter capital states the amount of Share capital of Subsidiary - the authorized capital represents the contribution made by the sole participant of Subsidiary.

During 2019 the reverse acquisition was stated in consolidated financial statements, as a result, the Charter capital as at December 31, 2019 states the Share capital of legal parent Company, in amount of 4,369,750 British pounds sterling. All the shares issued have equal voting rights.

**Below there is reconciliation of movement in legal parent Company Share capital during 2019:**

31 Dec., 2018

| Group and Company             | Number    | Amount, £ |
|-------------------------------|-----------|-----------|
| Issued and fully paid         | 6,000,000 | 60,000    |
| Ordinary shares of £0,01 each | 6,000,000 | 60,000    |

**For the year 2019 (Ordinary shares issue of £0,01 each):**

31 Dec., 2019

| Group and Company                                | Number             | Amount, £        |
|--------------------------------------------------|--------------------|------------------|
| Consideration shares (acquisition of Subsidiary) | 320,000,000        | 3,200,000        |
| IPO                                              | 104,000,000        | 1,040,000        |
| Fee shares                                       | 6,975,000          | 69,750           |
|                                                  | <b>430,975,000</b> | <b>4,309,750</b> |

**Group and Company Issued and fully paid**

|                               |                    |                  |
|-------------------------------|--------------------|------------------|
| Ordinary shares of £0,01 each | 436,975,000        | 4,369,750        |
|                               | <b>436,975,000</b> | <b>4,369,750</b> |

As at December 31, 2018 the Additional capital states the amount of the agreement on in-kind contribution (debt on the loan) from the balance of Subsidiary - 29,122,880 British pounds sterling

Amounts of Additional capital as at December 31, 2018 were restated as at the date of the agreement on in-kind contribution (debt on the loan).

| Group                                                          |               |               |                   |
|----------------------------------------------------------------|---------------|---------------|-------------------|
| Date of exchange rate for translation to presentation currency | Amount in RUB | Exchange rate | Amount in GBP     |
| 29.12.2018                                                     | 2,561,820,344 | 87.9659       | 29,122,880        |
| <b>Total additional capital at December 31, 2018</b>           |               |               | <b>29,122,880</b> |

As a result of reverse acquisition, which was stated in consolidated financial statements in 2019, the Additional capital as at December 31, 2019 states the share premium from the participant of legal parent Company, in amount of 6,078,128 British pounds sterling.

**Below there is reconciliation of movement in Additional capital (share premium) of the legal parent Company during 2019:**

**For the year 2019:**

| Group and Company                           | Amount, £ |
|---------------------------------------------|-----------|
| As at January 1, 2019                       | -         |
| Premium arising on issue of ordinary shares | 6,406,699 |
| Issue costs                                 | (328,570) |
| As at December 31, 2019                     | 6,078,128 |

**Other reserves**

| Group                   | Merger reserve | Translation reserve |
|-------------------------|----------------|---------------------|
| At 1 January, 2018      | -              | 677,528             |
| Merger reserve          | -              | -                   |
| Translation differences | -              | 3,820,203           |
| At December 31, 2018    | -              | 4,497,731           |
| Merger reserve          | 23,764,800     | -                   |
| Translation differences | -              | (39,942)            |
| At December 31, 2019    | 23,764,800     | 4,457,788           |

The merger and foreign currency translation reserve as at December 31, 2019 arose on consolidation as a result of merger accounting for the acquisition of the entire issued share capital of Subsidiary during 2019 and represents the difference between the value of the share capital issued for the acquisition of Subsidiary and investments made in Subsidiary and that of the acquired share capital of Subsidiary.

Currency translation differences relate to the translation of Subsidiary that have a functional currency different from the presentation currency (refer note 2). Movements in the translation reserve are linked to the changes in the value of the Russian Ruble against the Pound Sterling: the business of the Group are located in the Russian Federation, and the Subsidiary functional currency is the Russian Ruble, which has certain volatility against Sterling during the year.

**Accumulated deficit** represents retained earnings.

**Earnings per share.** The **basic loss per share** of 0.77p (2018 loss per share: 1.11p) is calculated by dividing the loss attributable to owners of the parent by the weighted average number of ordinary shares in issue during the year.

| Group                                               | 2019        | 2018      |
|-----------------------------------------------------|-------------|-----------|
| Loss attributable to owners of the parent           | (891,589)   | (66,670)  |
| Weighted average number of ordinary shares in issue | 115,689,178 | 6,000,000 |

The **diluted loss per share** of 0.73p (2018 loss per share: 1.11p) is calculated by dividing the loss attributable to owners of the parent by the weighted average number of ordinary shares in issue during the year outstanding for the effects of all dilutive potential ordinary shares. For the year 2018 there is no difference between the basic and diluted earnings per share, as the parent Company has no potential ordinary shares.

| Group                                                                                                                     | 2019        | 2018      |
|---------------------------------------------------------------------------------------------------------------------------|-------------|-----------|
| Loss attributable to owners of the parent                                                                                 | (891,589)   | (66,670)  |
| Weighted average number of ordinary shares in issue outstanding for the effects of all dilutive potential ordinary shares | 122,148,630 | 6,000,000 |

## 12. Share-based payment

In October 2019 and related to the IPO of the Company, a total of 32,250,000 options were issued to certain directors, senior management and other advisers in recognition of the work undertaken for Zaim prior to the IPO. In addition, the Company issued a total of 13,600,000 warrants to advisers in relation to the funds raised at the time of the IPO. All of the options were issued with an exercise price of 2.5 pence per share and expire after 5 years from the date of issue. 17,200,000 of the options vest immediately and have no employment related conditions; the remaining 15,050,000 vest over 1-2 years from the date of issue and should the individual cease employment the options either expire immediately or are valid for a further 6 months (depending on the circumstances of the departure of the individual). All of the warrants have a contractual term of 3 years from the date of issue and have no performance related terms attached and a strike price of 2.5 pence per share.

In addition to the options noted above as set out in the prospectus at the time of the IPO the Directors have the discretion to issue a further 10,750,000 options to key employees and consultants to the Group as a tool to incentives and retain key individuals. As at the date of this report these have not been issued and have therefore not been included in the calculations. Neither the Company nor the Group has any legal or constructive obligation to settle or repurchase the options in cash.

**Movements on number of share options and their related exercise price are as follows:**

| 0,9                               | Number of options & warrants 2019 | Weighted exercise price 2019, £ |
|-----------------------------------|-----------------------------------|---------------------------------|
| Outstanding at January 1          | -                                 | -                               |
| Granted                           | 40,650,000                        | 2,50                            |
| Forfeited                         | -                                 | -                               |
| Outstanding at December 31        | 40,650,000                        | 2,50                            |
| <b>Exercisable at December 31</b> | <b>25,600,000</b>                 | <b>2,50</b>                     |

The options & warrants outstanding at December 31, 2019 had a weighted average remaining contractual life of 4,6 years.

The fair value of the share options and warrants was determined using the Black-Scholes valuation model.

**The parameters used are detailed below.**

| Group and Company                                   | 2019 options  |
|-----------------------------------------------------|---------------|
| Date of Grant                                       | Oct. 29, 2019 |
| Weighted average share price                        | 2.50 pence    |
| Weighted average exercise price                     | 2.50 pence    |
| Weighted average fair value at the measurement date | 0.57 pence    |
| Expiry date                                         | 29 Oct., 2024 |
| Options granted                                     | 40,650,000    |
| Volatility                                          | 20%           |
| Dividend yield                                      | Nil           |
| Option life                                         | 5 year        |
| Annual risk free interest rate                      | 2.83%         |

## 13. Interest Income and Expense

| Group                         | 2019             | 2018               |
|-------------------------------|------------------|--------------------|
| Interest income               |                  |                    |
| Loans to customers            | 3,940,747        | 10,226,071         |
| <b>Total interest income</b>  | <b>3,940,747</b> | <b>10,226,071</b>  |
| Interest expense              |                  |                    |
| Loans received                | (28,018)         | (2,460,874)        |
| Lease liabilities             | (243,281)        | -                  |
| <b>Total interest expense</b> | <b>(271,299)</b> | <b>(2,460,874)</b> |
| <b>Net interest income</b>    | <b>3,669,448</b> | <b>7,765,197</b>   |

## 14. Gains less Losses from Dealing in Foreign Currency

| Group                                                           | 2019          | 2018             |
|-----------------------------------------------------------------|---------------|------------------|
| Gain/loss on revaluation of financial assets and liabilities    | 102,327       | (825,934)        |
| Realised gain/ (loss) from foreign exchange transactions        | (6,830)       | 3,314            |
| <b>Total gains less losses from dealing in foreign currency</b> | <b>95,497</b> | <b>(822,620)</b> |

## 15. Allowance for Expected Credit Losses / Impairment of Other Assets

| Group                                                                          | Note | 2019           | 2018             |
|--------------------------------------------------------------------------------|------|----------------|------------------|
| Loans to customers                                                             | 6    | 230,050        | 4,215,453        |
| Other assets                                                                   | 8    | 1,631          | (2,214)          |
| <b>Total allowance for expected credit losses / impairment of other assets</b> |      | <b>231,681</b> | <b>4,213,239</b> |

## 16. Other Operating Income

| Group                                | 2019           | 2018           |
|--------------------------------------|----------------|----------------|
| Taxes other than income tax          | 591,965        | 815,201        |
| Agent's fee                          | 150,036        | -              |
| Fines received under loan agreements | 34,846         | -              |
| Other income                         | 13,707         | 12,121         |
| <b>Total other operating income</b>  | <b>790,554</b> | <b>827,322</b> |

## 17. Staff Costs

| Group                    | 2019             | 2018             |
|--------------------------|------------------|------------------|
| Salary                   | 1,722,792        | 2,096,784        |
| Payroll related taxes    | 283,473          | 243,181          |
| <b>Total staff costs</b> | <b>2,006,265</b> | <b>2,339,965</b> |

## 18. Operating Expenses

| Group                               | 2019             | 2018             |
|-------------------------------------|------------------|------------------|
| Depreciation of right-of-use assets | 1,248,759        | -                |
| Consulting services                 | 851,223          | 115,165          |
| Rental expenses                     | 257,639          | 2,019,680        |
| Communication                       | 87,830           | 113,251          |
| Representative and travel expenses  | 81,250           | 1,212            |
| Banking services                    | 43,246           | 60,915           |
| Security                            | 42,594           | 57,816           |
| Postal services                     | 38,491           | 48,567           |
| Advertising and marketing           | 25,736           | 13,090           |
| State duty                          | 23,036           | 26,084           |
| Office equipment                    | 17,274           | 21,705           |
| Material expenses                   | 3,412            | 2,537            |
| Repairs                             | 2,038            | 1,855            |
| Management expenses                 | -                | 144              |
| Other expenses                      | 169,730          | 280,304          |
| <b>Total operating expenses</b>     | <b>2,892,258</b> | <b>2,762,325</b> |

## 19. Income Tax

As at December 31, 2019 and December 31, 2018, the Group has no current income tax expense. The current income tax rate applicable to the majority of the Group's profit is 20% (2018: 20%).

Reconciliation between the theoretical and the actual taxation charge is provided below.

| Group                                                   | 2019      | 2018        |
|---------------------------------------------------------|-----------|-------------|
| IFRS loss before taxation                               | (891,589) | (1,545,631) |
| Theoretical tax charge at the applicable statutory rate | 178,318   | 309,121     |
| Non-deductible expenses and other differences           | (19,132)  | (280,081)   |
| Unrecognised deferred tax asset                         | (159,186) | (29,040)    |
| <b>Income tax expense for the year</b>                  | <b>-</b>  | <b>-</b>    |

The Company has a potential deferred tax asset of £56,987 as a result of trade losses to be offset against future profits, should they arise.

Differences between IFRS and statutory taxation regulations of the Russian Federation give rise to certain temporary differences between the carrying amount of certain assets and liabilities for financial statement purposes and for the Group's income tax purposes.

| Group                                          | 2018             | Change recognised in profit and loss | Effect of exchange rate differences | 2019             |
|------------------------------------------------|------------------|--------------------------------------|-------------------------------------|------------------|
| Tax effect of deductible temporary differences |                  |                                      |                                     |                  |
| Loans to customers                             | 97,301           | (13,827)                             | 8,305                               | 91,779           |
| Other assets                                   | 42,397           | (20,854)                             | 3,348                               | 24,891           |
| Lease liabilities                              | -                | 501,961                              | 9,169                               | 511,130          |
| Other liabilities                              | 54,654           | (48,853)                             | 3,915                               | 9,716            |
| Tax loss carryforwards                         | 3,342,776        | 241,480                              | 298,425                             | 3,882,681        |
| <b>Net deferred tax assets</b>                 | <b>3,537,128</b> | <b>659,907</b>                       | <b>323,162</b>                      | <b>4,520,197</b> |
| Tax effect of taxable temporary differences    |                  |                                      |                                     |                  |
| Property and equipment                         | (1,688)          | (20)                                 | (149)                               | (1,857)          |
| Right-of-use assets under lease agreements     | -                | (500,701)                            | (9,145)                             | (509,846)        |
| <b>Gross deferred tax liabilities</b>          | <b>(1,688)</b>   | <b>(500,721)</b>                     | <b>(9,294)</b>                      | <b>(511,703)</b> |
| <b>Total net deferred tax asset</b>            | <b>3,535,440</b> | <b>159,186</b>                       | <b>313,868</b>                      | <b>4,008,494</b> |
| Unrecognised tax assets                        | (3,535,440)      | (159,186)                            | (313,868)                           | (4,008,494)      |
| Recognised tax liabilities                     | -                | -                                    | -                                   | -                |

| Group                                          | 2017             | Impact of IFRS 9 | Change recognised in profit and loss | Effect of exchange rate differences | 2018             |
|------------------------------------------------|------------------|------------------|--------------------------------------|-------------------------------------|------------------|
| Tax effect of deductible temporary differences |                  |                  |                                      |                                     |                  |
| Loans to customers                             | 49,785           | 41,970           | 39,007                               | (33,461)                            | 97,301           |
| Other assets                                   | 47,957           |                  | 215                                  | (5,775)                             | 42,397           |
| Loans received                                 | 606,626          |                  | (563,789)                            | (42,837)                            | -                |
| Other liabilities                              | 73,306           |                  | (10,398)                             | (8,255)                             | 54,654           |
| Tax loss carryforwards                         | 3,191,870        |                  | 564,591                              | (413,684)                           | 3,342,776        |
| <b>Net deferred tax assets</b>                 | <b>3,969,544</b> | <b>41,970</b>    | <b>29,626</b>                        | <b>(504,012)</b>                    | <b>3,537,128</b> |
| Tax effect of taxable temporary differences    |                  |                  |                                      |                                     |                  |
| Property and equipment                         | (1,287)          | -                | (586)                                | 186                                 | (1,688)          |
| <b>Gross deferred tax liabilities</b>          | <b>(1,287)</b>   | <b>-</b>         | <b>(586)</b>                         | <b>186</b>                          | <b>(1,688)</b>   |
| <b>Total net deferred tax asset</b>            | <b>3,968,257</b> | <b>41,970</b>    | <b>29,040</b>                        | <b>(503,826)</b>                    | <b>3,535,440</b> |
| Unrecognised tax assets                        | (3,968,257)      | (41,970)         | (29,040)                             | 503,826                             | (3,535,440)      |
| Recognised tax liabilities                     | -                | -                | -                                    | -                                   | -                |

## 20. Risk Management

The risk management function within the Group is carried out in respect of financial risks (credit, market, currency, liquidity and interest rate), operational and legal risks. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The assessment of exposure to risks also serves as a basis for optimal

distribution of risk-adjusted capital, transaction pricing and business performance assessment. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures to minimise operational and legal risks.

### Credit risk

The Group assumes a credit risk, namely the risk that a counterparty will fail to meet its debt obligations within the specified period. The Group has developed policies and procedures for the management of credit exposures (both for recognised financial assets and unrecognised contractual commitments), including requirements for establishment and monitoring of the loan portfolio concentration limits.

The credit policy establishes:

- procedures for review and approval of loan applications,
- methodology for assessment of the borrowers' solvency,
- credit documentation requirements,
- procedures for the ongoing monitoring of loans and other credit exposures.

The Group continuously monitors the status of individual loans and regularly re-assesses the creditworthiness of its customers. The review is based on the most recent loan delinquency statistics.

The Group applies the expected credit loss, i.e. the timely reflection of deterioration or improvement in the credit quality of debt financial instruments based on current and forward-looking information.

The amount of ECL recognised as a credit loss allowance depends on the extent of credit quality deterioration since initial recognition of a debt financial instrument.

Credit risk classification system. Each level of credit risk is assigned a certain degree of solvency, using a single scoring system:

- minimum credit risk – high credit quality with low expected credit risk, debt is not past due;
- low credit risk – sufficient credit quality with average credit risk, debt is prolonged and not past due;
- moderate credit risk – average credit quality with satisfactory credit risk, the debt is from 1 to 30 days past due;
- high credit risk – low credit quality with unsatisfactory credit risk, high probability of default, the debt is from 31 to 60 days past due;
- default – assets that meet the definition of default, the debt is more than 60 days past due.

Expected credit losses on financial assets that are not impaired are usually measured on the basis of default risk over one or two different time periods, depending on whether there has been a significant increase in the borrower's credit risk since initial recognition.

The Group performs collective assessment of loans to individuals. This approach provides for aggregation of the portfolio into homogeneous segments based on specific information about borrowers, such as delinquent loans, historic data on prior period losses and forward-looking macroeconomic information.

Collective assessment principles: for assessing risk stages and estimating ECL on a collective basis, the Group combines its loans into segments based on shared credit risk characteristics, so that exposure within a grouping had a homogeneous pattern.

## Market risk

The Group assumes a market risk. Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises currency risk, interest rate risk and other price risks. Market risk arises from open positions in interest rates, currency and equity financial instruments, which are exposed to general and specific market

movements and changes in the volatility levels of market prices.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

## Currency risk

Currency risk is the risk that the fair value or the future cash flows of a financial instrument will fluctuate because of changes in foreign currency exchange rates.

The Group accepts the risk of effect of foreign currency exchange rate fluctuations on its financial position and cash flows. Currency risk arises when the existing or prospective assets in foreign currencies are greater or lower than the existing or prospective liabilities in the same currencies. The Group's management controls the exposure to currency risk on a regular basis.

The table below provides the analysis of the Group's currency risk as at December 31, 2019.

| Group                                      | RUB              | USD        | GBP              | EUR              | Total            |
|--------------------------------------------|------------------|------------|------------------|------------------|------------------|
| <b>Assets</b>                              |                  |            |                  |                  |                  |
| Cash and cash equivalents                  | 271,229          | 867        | 1,310,393        | 263              | 1,582,751        |
| Loans to customers                         | 786,346          | -          | -                | -                | 786,346          |
| Property and equipment                     | 11,967           | -          | -                | -                | 11,967           |
| Right-of-use assets under lease agreements | 2,549,233        | -          | -                | -                | 2,549,233        |
| Other assets                               | 150,525          | -          | 68,122           | 3,470            | 222,117          |
| <b>Total assets</b>                        | <b>3,769,300</b> | <b>867</b> | <b>1,378,514</b> | <b>3,733</b>     | <b>5,152,414</b> |
| <b>Liabilities</b>                         |                  |            |                  |                  |                  |
| Loans received                             | -                | -          | -                | 742,603          | 742,603          |
| Lease liabilities                          | 2,555,648        | -          | -                | -                | 2,555,648        |
| Other liabilities                          | 499,077          | -          | 162,666          | 3,162            | 664,905          |
| <b>Total liabilities</b>                   | <b>3,054,725</b> | <b>-</b>   | <b>162,666</b>   | <b>745,765</b>   | <b>3,963,156</b> |
| <b>Net balance sheet position</b>          | <b>714,575</b>   | <b>867</b> | <b>1,215,849</b> | <b>(742,032)</b> | <b>1,189,258</b> |

The table below provides the analysis of the Group's currency risk as at December 31, 2019.

| Group                             | RUB              | USD        | EUR              | Total            |
|-----------------------------------|------------------|------------|------------------|------------------|
| <b>Assets</b>                     |                  |            |                  |                  |
| Cash and cash equivalents         | 453,144          | 884        | 521              | 454,549          |
| Loans to customers                | 640,371          | -          | -                | 640,371          |
| Property and equipment            | 13,559           | -          | -                | 13,559           |
| Other assets                      | 229,126          | -          | -                | 229,126          |
| <b>Total assets</b>               | <b>1,336,200</b> | <b>884</b> | <b>521</b>       | <b>1,337,605</b> |
| <b>Liabilities</b>                |                  |            |                  |                  |
| Loans received                    | -                | -          | 908,293          | 908,293          |
| Other liabilities                 | 1,006,171        | -          | -                | 1,006,171        |
| <b>Total liabilities</b>          | <b>1,006,171</b> | <b>-</b>   | <b>908,293</b>   | <b>1,914,464</b> |
| <b>Net balance sheet position</b> | <b>330,029</b>   | <b>884</b> | <b>(907,772)</b> | <b>(576,859)</b> |

The table below presents a change in the financial result and equity due to possible fluctuations of exchange rates used at the end of the reporting period, if all other conditions remain unchanged. Reasonably expected exchange rate changes for each currency were projected on the basis of historical information on maximum daily exchange rate fluctuations in December 2019.

| Group                   | December 31, 2019                        |                  |
|-------------------------|------------------------------------------|------------------|
|                         | Effect on profit or loss before taxation | Effect on equity |
| EUR appreciation by 10% | (74,229)                                 | (59,383)         |
| EUR depreciation by 10% | 74,229                                   | 59,383           |

The table below presents a change in the financial result and equity due to possible fluctuations of exchange rates used at the end of the reporting period, if all other conditions remain unchanged. Reasonably expected exchange rate changes for each currency were projected on the basis of historical information on maximum daily exchange rate fluctuations in December 2018.

| December 31, 2018      |                                          |                  |
|------------------------|------------------------------------------|------------------|
| Group                  | Effect on profit or loss before taxation | Effect on equity |
| EUR appreciation by 6% | (54,466)                                 | (43,573)         |
| EUR depreciation by 6% | 54,466                                   | 43,573           |

The risk was calculated only for cash balances in major currencies other than the Group's functional currency.

The impact of movements in other currencies on the Group's profit and equity is not significant.

## Liquidity risk

Liquidity risk is defined as the risk when the maturity of assets and liabilities does not match. The Group does not accumulate cash resources to meet calls on all liabilities mentioned above, as based on the existing practice it is possible to forecast with a sufficient degree of certainty the required level of cash funds necessary to meet the above obligations.

To manage its liquidity, the Group is required to analyse the level of liquid assets needed to settle the liabilities on their maturity, provide access to various sources of financing, draw up plans to solve the problems with financing and exercise control over compliance of the liquidity ratios with the statutory laws and regulations.

The CBR sets and monitors liquidity requirements for microfinance organisations. The Group calculates the liquidity ratio in accordance with Instruction No. 4384-U of the Central Bank of the Russian Federation "On establishment of economic standards for a microloan company attracting loan funds from individuals, including individual entrepreneurs who are founders (participants, shareholders), and (or) legal entities" dated May 24, 2017. As at December 31, 2019 and December 31, 2018, the minimum liquidity ratio was 70%. The Group provides the territorial CBR division that supervises its activities with information on mandatory liquidity ratio in accordance with the set format on a quarterly basis as at the first day of each month. Also, if the liquidity ratio values approach the limit set by the CBR, this information is communicated to the Group's management. The Group complies with the liquidity ratio as at December 31, 2019 (unaudited) and as at December 31, 2019.

The table below shows the maturity profile of financial liabilities as at December 31, 2019:

| Group                                                              | On demand and less than 1 month | 1 to 3 months  | From 3 months to 6 months | From 6 months to 12 years | From 1 to 3 years | Total            |
|--------------------------------------------------------------------|---------------------------------|----------------|---------------------------|---------------------------|-------------------|------------------|
| Liabilities                                                        |                                 |                |                           |                           |                   |                  |
| Loans received                                                     | 742,603                         | -              | -                         | -                         | -                 | 742,603          |
| Lease liabilities                                                  | -                               | 396,064        | 396,064                   | 787,925                   | 3,069,025         | 4,649,078        |
| Other liabilities                                                  | 351,253                         | -              | -                         | -                         | -                 | 351,253          |
| <b>Total potential future payments under financial liabilities</b> | <b>1,093,856</b>                | <b>396,064</b> | <b>396,064</b>            | <b>787,925</b>            | <b>3,069,025</b>  | <b>5,742,934</b> |

The table below shows the maturity profile of financial liabilities as at December 31, 2018:

| Group                                                              | On demand and less than 1 month | 1 to 3 months | From 3 months to 6 months | From 6 months to 12 years | Total            |
|--------------------------------------------------------------------|---------------------------------|---------------|---------------------------|---------------------------|------------------|
| Liabilities                                                        |                                 |               |                           |                           |                  |
| Loans received                                                     | 908,293                         |               |                           |                           | 908,293          |
| Other liabilities                                                  | 129,187                         | 8,813         | 29,813                    | 2,265                     | 170,078          |
| <b>Total potential future payments under financial liabilities</b> | <b>1,037,479</b>                | <b>8,813</b>  | <b>29,813</b>             | <b>2,265</b>              | <b>1,078,371</b> |

The Group does not use the above undiscounted amounts in the maturity analysis to monitor the liquidity profile. Instead, the Group monitors the expected maturity limits that are shown in the table below as at December 31, 2019:

| Group                                            | On demand and less than 1 month | From 1 to 3 months | From 3 to 6 months | From 6 to 12 months | More than 1 year | Overdue       | No stated maturity | Total            |
|--------------------------------------------------|---------------------------------|--------------------|--------------------|---------------------|------------------|---------------|--------------------|------------------|
| <b>Assets</b>                                    |                                 |                    |                    |                     |                  |               |                    |                  |
| Cash and cash equivalents                        | 1,582,751                       | -                  | -                  | -                   | -                | -             | -                  | 1,582,751        |
| Loans to customers                               | 786,346                         | -                  | -                  | -                   | -                | -             | -                  | 786,346          |
| Property and equipment                           | -                               | -                  | -                  | -                   | -                | -             | 11,967             | 11,967           |
| Right-of-use assets under lease agreements       | -                               | -                  | -                  | -                   | -                | -             | 2,549,233          | 2,549,233        |
| Other assets                                     | 131,938                         | -                  | -                  | 2,218               | -                | 12,649        | 75,312             | 222,117          |
| <b>Total assets</b>                              | <b>2,501,035</b>                | <b>-</b>           | <b>-</b>           | <b>2,218</b>        | <b>-</b>         | <b>12,649</b> | <b>2,636,512</b>   | <b>5,152,414</b> |
| <b>Liabilities</b>                               |                                 |                    |                    |                     |                  |               |                    |                  |
| Loans received                                   | 742,603                         | -                  | -                  | -                   | -                | -             | -                  | 742,603          |
| Lease liabilities                                | -                               | 227,558            | 352,680            | 725,218             | 1,250,193        | -             | -                  | 2,555,648        |
| Other liabilities                                | 520,880                         | -                  | -                  | -                   | -                | -             | 144,025            | 664,905          |
| <b>Total liabilities</b>                         | <b>1,263,483</b>                | <b>227,558</b>     | <b>352,680</b>     | <b>725,218</b>      | <b>1,250,193</b> | <b>-</b>      | <b>144,025</b>     | <b>3,963,157</b> |
| Net liquidity gap as at December 31, 2019        | 1,237,552                       | (227,557)          | (352,680)          | (723,000)           | (1,250,193)      | 12,649        | 2,492,487          | 1,189,257        |
| Cumulative liquidity gap as at December 31, 2019 | 1,237,552                       | 1,009,995          | 657,315            | (65,685)            | (1,315,878)      | (1,303,229)   | 1,189,257          |                  |

The table below presents the maturity profile of assets and liabilities as at December 31, 2018:

| Group                                            | On demand and less than 1 month | From 1 to 3 months | From 3 to 6 months | From 6 to 12 months | More than 1 year | Overdue        | No stated maturity | Total            |
|--------------------------------------------------|---------------------------------|--------------------|--------------------|---------------------|------------------|----------------|--------------------|------------------|
| <b>Assets</b>                                    |                                 |                    |                    |                     |                  |                |                    |                  |
| Cash and cash equivalents                        | 454,549                         | -                  | -                  | -                   | -                | -              | -                  | 454,549          |
| Loans to customers                               | 537,917                         | -                  | -                  | -                   | -                | 102,454        | -                  | 640,371          |
| Property and equipment                           | -                               | -                  | -                  | -                   | -                | -              | 13,559             | 13,559           |
| Other assets                                     | 183,546                         | 11,780             | 0                  | 3,149               | 30,651           | 0              | 0                  | 229,126          |
| <b>Total assets</b>                              | <b>1,176,012</b>                | <b>11,780</b>      | <b>0</b>           | <b>3,149</b>        | <b>30,651</b>    | <b>102,454</b> | <b>13,559</b>      | <b>1,337,605</b> |
| <b>Liabilities</b>                               |                                 |                    |                    |                     |                  |                |                    |                  |
| Loans received                                   | 908,293                         | -                  | -                  | -                   | -                | -              | -                  | 908,293          |
| Other liabilities                                | 237,361                         | 8,813              | 194,918            | 2,265               | -                | -              | 562,814            | 1,006,171        |
| <b>Total liabilities</b>                         | <b>1,145,654</b>                | <b>8,813</b>       | <b>194,918</b>     | <b>2,265</b>        | <b>-</b>         | <b>-</b>       | <b>562,814</b>     | <b>1,914,464</b> |
| Net liquidity gap as at December 31, 2018        | 30,358                          | 2,967              | (194,918)          | 884                 | 30,651           | 102,454        | (549,255)          | (576,859)        |
| Cumulative liquidity gap as at December 31, 2018 | 30,358                          | 33,325             | (161,593)          | (160,709)           | (130,058)        | (27,604)       | (576,859)          |                  |

## Interest rate risk

The Group assumes the risk associated with the effects of fluctuations in market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes, but may also reduce or create losses in the event of unexpected movements in interest rates.

The Group is exposed to interest rate risk primarily as a result of its lending activities at fixed interest rates, in amounts and for periods which differ from those of fixed interest rate borrowings (Loans to customers as at 31 December 2019: 786,346 and as at December 31,

2018: 640,371 British pounds sterling). In practice, interest rates are usually set for short periods. In addition, interest rates recorded in both asset and liability contracts are often revised by mutual agreement in accordance with current market conditions.

Also, in 2019 the maximum daily interest rate was limited to 1.5% per day in the first half of the year and 1% per day since the second half of 2019.

Other assets and liabilities are not exposed to interest rate risk.

## 21. Capital management

The Group's objectives when managing capital are to comply with the capital requirements set by the Central Bank of Russia, as the main place for business of Group is the Russian Federation, and to ensure the Group's ability to continue as a going concern and maintain a capital base at the level necessary to achieve the capital adequacy ratio of 5% in accordance with the CBR requirements.

The Group provides the territorial division of the CBR supervising its operations with information on the mandatory capital adequacy ratio in accordance with the established format quarterly as at the first day of each month.

The Group is in compliance with the CBR's charter capital ratio as at December 31, 2019 (unaudited) and December 31, 2018 (unaudited).

## 22. Contingencies

**Litigations.** In the ordinary course of business, the Group is subject to legal actions and complaints. The management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the Group's financial condition or the results of its future operations.

**Tax legislation** As the main business of Group is in Russia, Russian tax legislation is subject to varying interpretations, and changes, which can occur frequently. The management's interpretation of such legislation as applied to the transactions and activity of the Group's companies may be challenged by the relevant regional or federal authorities. Current trends in the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation of the legislation and assessments. As a result, tax authorities may challenge transactions and accounting methods, which they have not previously challenged. As a result, significant additional taxes, penalties and fines may be assessed.

As at December 31, 2019, management believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency and customs positions will be sustained by the regulatory authorities. Management believes that the Group has accrued all relevant taxes.

**Operating lease commitments.** In the course of its business, the Group enters into a number of lease agreements. These agreements are not irrevocable. The minimum future lease payments under operating leases where the Group is the lessee are presented below:

| Group                                    | 2018           |
|------------------------------------------|----------------|
| Less than 1 year                         | 738,538        |
| <b>Total operating lease commitments</b> | <b>738,538</b> |

## 23. Fair Value of Financial Instruments

A quoted market price in an active market is the best evidence of fair value. As no readily available market exists for the major part of the Group's financial instruments, their fair value is based on current economic conditions and the specific risks attributable to the instrument. The estimates presented below are not necessarily indicative of the amounts the Group could realise in a market exchange from the sale of its full holdings of a particular instrument.

Below is the estimated fair value of the Group's financial instruments as at December 31, 2019 and December 31, 2018:

| Group                 | 2019           |            | 2018           |            |
|-----------------------|----------------|------------|----------------|------------|
|                       | Carrying value | Fair value | Carrying value | Fair value |
| Financial assets      |                |            |                |            |
| Cash                  | 1,582,751      | 1,582,751  | 454,549        | 454,549    |
| Loans to customers    | 786,346        | 786,346    | 640,371        | 640,371    |
| Financial liabilities |                |            |                |            |
| Loans received        | 742,603        | 742,603    | 908,293        | 908,293    |
| Other liabilities     | 351,253        | 351,253    | 170,078        | 170,078    |

**The Group uses the following methods and assumptions to estimate the fair value of these financial instruments:**

**Cash and cash equivalents.** The estimated fair value of cash and cash equivalents does not differ from their carrying amounts due to the nature of these financial instruments.

**Loans to customers.** Loans to customers are reported net of impairment allowance. The estimated fair value of loans to customers represents the discounted amount of estimated future cash flows expected to be received. To determine fair value, expected cash flows are discounted at current market rates.

**Loans received.** The fair value of other fixed interest-bearing borrowed funds is based on discounted cash flows using interest rates for debt instruments with similar maturity. The estimated fair value of the Group's other borrowed funds approximates their carrying value as these instruments do not have market quotations and are attracted on special terms.

To present information on the fair value hierarchy of financial instruments as required by IFRS 13 **Fair Value Measurement**, the management of the Group assigns the above financial assets and liabilities as at December 31, 2019 and December 31, 2018, excluding cash and cash equivalents (Level 1 = GBP 1,582,751 at December 31, 2019 and GBP 454,549 at December 31, 2018 to Level 3 of the fair value hierarchy.

## 24. Reconciliation of Classes of Financial Instruments with Measurement Categories

In accordance with IFRS 9 Financial Instruments, the Group classifies/alloys its financial assets into the following categories: (a) financial assets at fair value through profit or loss; (b) financial assets at fair value through other comprehensive income; and (c) financial assets at amortised cost.

At the same time, in accordance with the requirements of IFRS 7 Financial Instruments: Disclosures, the Group discloses various classes of financial instruments.

As at December 31, 2019 and December 31, 2018, all financial assets of the Group are classified as financial assets measured at amortised cost.

## 25. Related Party Transactions

For the purposes of these consolidated financial statements, parties are considered to be related if one party has the ability to control or exercise significant influence over the other party in making financial or operational decisions as defined by IAS 24 Related Party Disclosures. In considering each possible related party relationship, attention is directed to the economic substance of the relationship, not merely the legal form.

In the normal course of business the Group enters into transactions with its sole participant and directors. These transactions include settlements, payment of remuneration to employees and loan draw downs. According to the Group's policy, the terms of related party transactions are equivalent to those prevailing in arm's length transactions.

Until September 18, 2019 and as at December 31, 2018, the sole participant of the Subsidiary, owning the 100% interest, was Eastern Europe Resources S. A., which, at December 31, 2019, remained a related party to the Group (the party under common control). The ultimate beneficiary is Mr. Siro Donato Cicconi.

**The outstanding balances at the year end and liability transactions with related parties for 2019 are as follows:**

| Transactions with party under common ultimate control        | 2019        | 2018        |
|--------------------------------------------------------------|-------------|-------------|
| Loans received (balance)                                     | 742,603     | 908,293     |
| <b>Transactions with party under common ultimate control</b> | <b>2019</b> | <b>2018</b> |
| Interest expense                                             | -           | 2,460,874   |

No interest was accrued in 2019, in 2018 the interest rate on the loan in Euros converted into additional capital is 8.6% per annum.

As at December 31, 2019, the balance on loans received represents the obligation to pay interest on the loan, which was forgiven. In 2018 the Group received a non-repayable contribution from the related party in the form of the loan forgiveness in the amount of GBP 29,018,205, which was stated as additional capital in Subsidiary balance as at 31 December 2018.

| Transactions with ultimate beneficiary | 2019    | 2018   |
|----------------------------------------|---------|--------|
| Services rendered                      | 206,718 | 42,214 |

For the year ended December 31, 2019, the total remuneration of key management personnel of Subsidiary was GBP 267,128, including social insurance contributions of GBP 39,765 (2018: GBP 223,977, including social insurance contributions of GBP 33,597). The Group does not provide key management personnel with post-employment and employment termination benefits. The remuneration of the Board of Directors of the Group for the year 2019 was 36,582 GBP, including social insurance contributions of GBP 2,415.

**Below is the summary of remuneration for each Director for 2019:**

|                     | Salary, £, for the year 2019 | Shares held | Stock options |
|---------------------|------------------------------|-------------|---------------|
| Malcolm Groat       | 4,167                        | 0           | 2,150,000     |
| Siro Donato Cicconi | 16,667                       | 320,000,000 | 10,750,000    |
| Vladimir Golovko    | 149,423                      | 0           | 8,600,000     |
| Simon James Retter  | 10,000                       | 3,600,000   | 6,450,000     |
| Paul James Auger    | 3,333                        | 0           | 0             |

Out of pocket expenses totaling £78,055 (2018: £nil) were incurred by Siro Donato Cicconi and remained payable as at December 31, 2019.

## 26. Business combination

On September 19, 2019 Zaim Credit Systems plc (Parent Company) became the legal parent of Zaim Express LLC (Subsidiary) by way of reverse acquisition. The cost of the acquisition is deemed to have been incurred by Zaim Express LLC, the legal subsidiary in the form of equity instruments issued to the owners of the legal parent. This acquisition has been accounted for as a reverse acquisition as described in Note 3, Basis of Preparation.

The fair value of the shares in Zaim Express LLC has been determined from the admission price of the Zaim Credit Systems plc shares on re-admission to trading on the LSE for 2.5 pence per share. The value of the consideration shares was £8,000,000. The fair value of the notional number of equity instruments that the legal subsidiary would have had to have issued to the legal parent to give the owners of the legal parent the same percentage ownership in the combined entity is 1.84 per cent of the market value of the shares after issues, being £150,000. The difference between the notional consideration paid by Zaim Credit Systems plc for Zaim Express LLC and the Zaim Credit Systems plc net assets acquired of £nil has been charged to the Consolidated Statement of Comprehensive Income as a deemed cost of listing amounting to £150,000 with a corresponding entry to the reverse acquisition reserve.

**Details of net assets acquired and the deemed cost of listing are as follows:**

|                                    |          |
|------------------------------------|----------|
| Consideration effectively received | £        |
| Consideration effectively received | 150,000  |
| Less net asset required:           |          |
| Cash and cash equivalents          | 11,982   |
| Current liabilities                | (64,037) |
| <b>Total net asset required:</b>   | -        |
| Deemed cost of listing             | 150,000  |

Under the terms of the share purchase agreement between the Company and Zaim Express LLC there are certain circumstances under which deferred contingent consideration might become payable. Should the Company record a monthly EBITDA figure in accordance with IFRS of £200k per month for a continuous period of four months and there be no reasonable expectation that this should fall below this level for a further period of six months then a further 16,000,000 new ordinary shares in the Company shall become payable. Additional consideration of 16,000,000 over and above that already mentioned shall become payable should the Company record a monthly EBITDA figure of £350k per calendar month with the same continuous period clause as noted above. At the IPO price per share these deferred contingent considerations would have a value of £400k each for a combined £800k in value. It has been considered by the Directors at this time that, in light of the COVID-19 pandemic it remains difficult to predict if and when this might occur. This combined with the current low probability of these milestones being met in the current environment, means that no fair value has been calculated for such deferred considerations.

## 27. Events after the Reporting Period

The Russian authorities are taking steps aimed at containing the spread of COVID-19, including an international travel ban, social distancing initiatives and a days off in Russia from March 30 to May 11. Various quarantine measures in Moscow were extended to June 14, 2020. The authorities have also enacted the closure of non-essential businesses in Moscow and the Moscow Region, where Zaim's main operations are focused and announced a set of economic measures and subsidies aimed to help affected business and the population.

In line with the current official guidance and the rest of the micro-finance sector in Russia, Zaim continues operating via its physical stores during the days off, as it provides a critical service supporting the primary needs of the Russian population as well as through its online presence.

Prior to Government regulations in respect of COVID-19, Zaim had proactively implemented strict health and safety policies specifically tailored to COVID-19, including working from home for the entire head office staff, taking all necessary disinfection measures in our stores, such as using hand sanitizers, medical masks and more frequent cleaning of the customer zone. The clients can enter the shop in compliance with the social distancing prescriptions or one at a time. We continue following all the recommendations of local health authorities and the World Health Organisation.

In April and May 2020 Zaim saw a significant decrease in demand, leading to a significant decrease in the amount funded in April and May 2020 compared to March 2020. This is a direct result of the reduction in footfall throughout Moscow resulting from the measures enacted regarding COVID-19.

It is difficult to foresee how long the current Government measures in response to COVID-19 will be in place for or how customers will behave once the restrictions are lifted. As such Zaim is taking a prudent course of action by not seeking to grow the loan book, in line with its previous strategy, beyond its current level until the demand resumes and the ability of the Company to accurately forecast future cashflows reliably returns. As such it is the current strategy of Zaim to run its loan book on a breakeven cash flow basis, that is to only lend out the funds that are received from loans until more certainty of the wider economic impact has been established. This has the aim of protecting the Company from potential unexpected losses and deterioration in liquidity due to delays or defaults in collection.

In addition to restricting any new loans granted to the cash inflows from existing customers, Zaim has enacted a series of measures to reduce the cost base of operating its physical stores, this has been achieved by way of negotiating rent reductions with landlords as well as salary reductions for staff.

Together these measures are expected to enable Zaim to navigate the current uncertainty and be well positioned to capitalize on the expected rebound in business opportunities once restrictions start to be eased.

Our strong capital and liquidity positions makes us confident in the sustainability of the Company's operations and it is the intention to re-start our growth plans as soon as we will have clearer view of the situation.

# **Corporate INFORMATION**

# **5**

# **& glossary**



# Corporate INFORMATION

**ISIN** GB00BK5T9G03

**SEDOL** BK5T9G0

**TIDM** ZAIM

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**Company's Auditors:**

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**Registrar:**

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# GLOSSARY

|                                             |                                                                                                                                                                                                                                                                                                                                                                                                                             |
|---------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>ATM</b>                                  | an automated teller machine is an electronic telecommunications device that enables customers of financial institutions to perform financial transactions, such as cash withdrawals, deposits, funds transfers, or account information inquiries, at any time and without the need for direct interaction with bank staff.                                                                                                  |
| <b>CBR</b>                                  | Central Bank of The Russian Federation                                                                                                                                                                                                                                                                                                                                                                                      |
| <b>"Default"</b>                            | means within the guidelines of the Company any loan with no payments to cover either principal or interest amount for over 120 days after the maturity date. "Default Rate" means the share of loans with no payments for over 120 days after the maturity day in the amount funded for the same period. "Delinquencies" means within the guidelines of the Company any borrower who is late in the repayment of their loan |
| <b>ECL</b>                                  | expected credit loss                                                                                                                                                                                                                                                                                                                                                                                                        |
| <b>"EER Loan Facility Agreement"</b>        | means the facility agreement dated February 14, 2014, pursuant to which EER granted Zaim an unsecured credit facility of up to 10 million Euro which on September 23, 2015 was increased up to 50 million Euros                                                                                                                                                                                                             |
| <b>"EER Master Debenture Agreement"</b>     | means the master debenture agreement dated February 1, 2016                                                                                                                                                                                                                                                                                                                                                                 |
|                                             | (as amended) between Zaim and Zaim SA of up to fifty million Euro                                                                                                                                                                                                                                                                                                                                                           |
| <b>IFRS</b>                                 | International Financial Reporting Standards as adopted by the European Union                                                                                                                                                                                                                                                                                                                                                |
| <b>"Independent Non-Executive Director"</b> | means the non-executive directors of the Board from time to time considered by the Board to be independent for the purposes of the UK Corporate Governance Code                                                                                                                                                                                                                                                             |
| <b>MAR</b>                                  | the Market Abuse Regulation (EU) No. 596 (2014) of the European Parliament and of the Council;                                                                                                                                                                                                                                                                                                                              |
| <b>MCC</b>                                  | microcredit company                                                                                                                                                                                                                                                                                                                                                                                                         |
| <b>MCO</b>                                  | microcredit organization                                                                                                                                                                                                                                                                                                                                                                                                    |
| <b>"Microfinance Law"</b>                   | Federal Law No. 151-FZ of July 2, 2010 on Microfinance Activity and Microfinance Organizations, effective January 2011;                                                                                                                                                                                                                                                                                                     |
| <b>MFC</b>                                  | microfinance company                                                                                                                                                                                                                                                                                                                                                                                                        |
| <b>MFI</b>                                  | a microfinance institution                                                                                                                                                                                                                                                                                                                                                                                                  |
| <b>"NA Loan"</b>                            | means the loan agreement dated May 17, 2019 between Zaim and LLC NOAH ARK 500 pursuant to which a short term loan of 30,000,000.00 Russian rubles was advanced to Zaim                                                                                                                                                                                                                                                      |
| <b>POS Terminal</b>                         | a point of sale terminal (POS terminal) is an electronic device used to process card payments at retail locations                                                                                                                                                                                                                                                                                                           |
| <b>QIWI</b>                                 | QIWI plc including its banking subsidiary, Qiwi Bank JSC                                                                                                                                                                                                                                                                                                                                                                    |
| <b>UIAS</b>                                 | the Russian Unified Identification and Authentication System                                                                                                                                                                                                                                                                                                                                                                |





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