



# Sberbank Investor Day

October 22, 2015

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# Sberbank Investor Day

October 22, 2015

# CONTENT

1 | HOW THE CONDITIONS  
HAVE CHANGED

2 | HOW WE ARE CHANGING

3 | WHAT DOES IT MEAN  
FOR INVESTORS

1

HOW THE CONDITIONS  
HAVE CHANGED

## Original Forecast of 2013 vs Reality

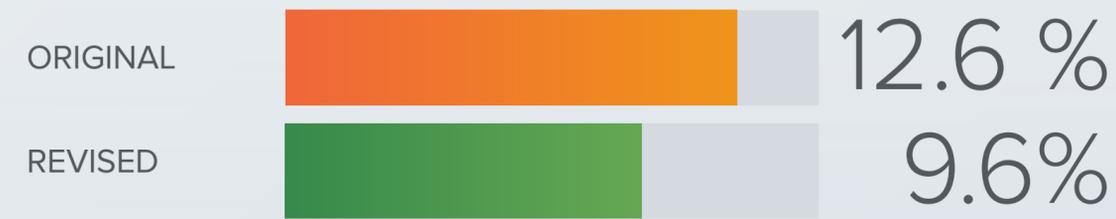
	FORECAST 2013-2015 AS OF 2013			FORECAST 2013-2015 AS OF 2013			REALITY		
	BASE CASE SCENARIO			PESSIMISTIC SCENARIO					
	2013	2014	2015	2013	2014	2015	2013	2014	2015E
URALS \$/barr., average	106	103	100	106	80	75	108	98	52
GDP GROWTH %, average	1.8	2.0	2.3	1.8	-3.5	-2.0	1.3	0.6	-3.6
USD/RUB average	31.8	33.0	34.5	31.8	38.0	42.0	31.8	38.3	60.0
INFLATION average	6.3	5.4	5.2	6.3	7.0	5.0	6.5	11.4	12.3
CAPITAL OUTFLOW \$bn, for the period	-52	-30	-20	-52	-90	-70	-63	-152	-67

## Macro Deteriorated Relative to the Original Forecast of 2013

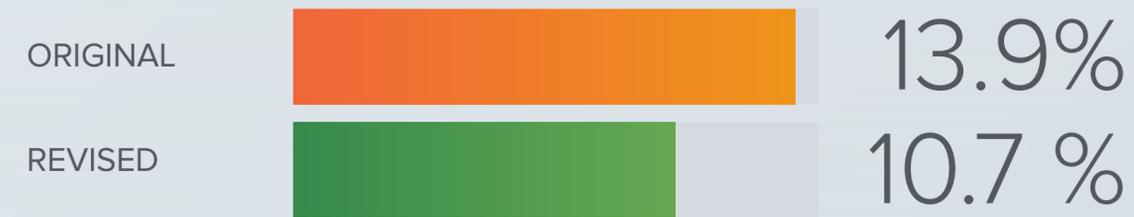
	FORECAST 2015-2018 AS OF 2013	CURRENT FORECAST 2015-2018	
	BASE CASE SCENARIO	2015	2018
URALS \$/barr., average	100	62	
GDP GROWTH %, average	2.2	-3.6	1.3
USD/RUB average	35	58	
INFLATION average	5	12.3	7.5
CAPITAL OUTFLOW \$bn, for the period	5	-155	

# Banking Sector is Slowing Down

LOAN GROWTH CAGR 2015-2018



DEPOSIT GROWTH CAGR 2015-2018

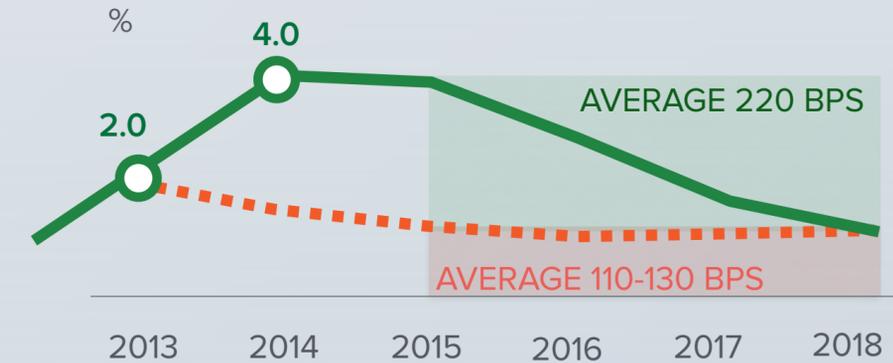


# Profitability is under Pressure

NET INTEREST MARGIN



COST OF RISK



ORIGINAL ASSUMPTIONS AS OF 2013  
REVISED ASSUMPTIONS

PRE-TAX ROE



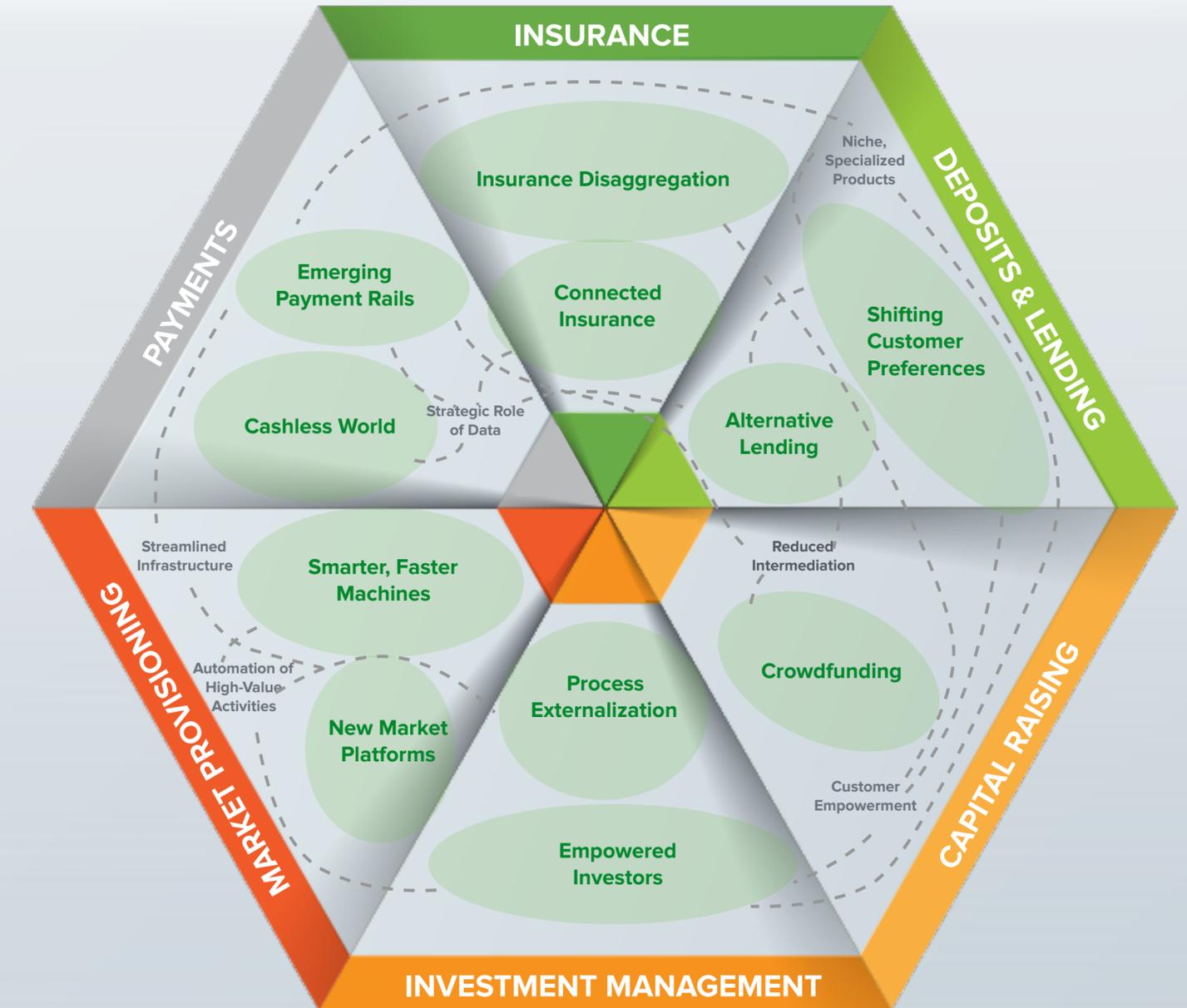
# Client Expectations have Changed

## Clients

- Personalized offers
- Speed/online
- Seamless services across all channels
- Reliability of data

## New tech trends are shaping the industry

- Data analytics
- Cybersecurity
- Easy information access
- Low infrastructure costs
- Agile
- Internet of Things



## Fintech Companies Attack Banks Profitability

New tech disruptors



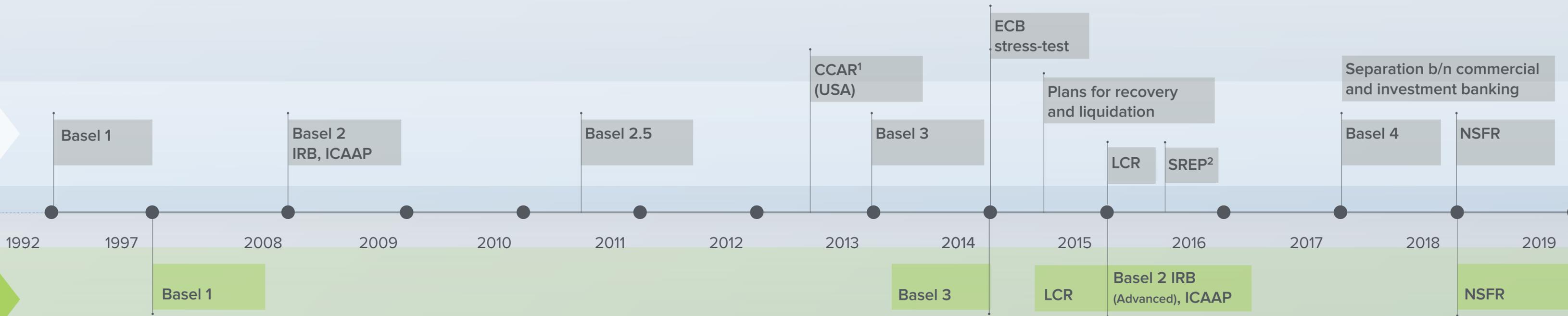
Why Fintech companies are a threat to banks?

- Flexible & fast
- Better user experience
- More cost efficient business models
- Almost free of regulatory restrictions
- Come between banks and clients, destroying the former's opportunities to cross-sell

# Regulators Become More Sophisticated

DEVELOPED COUNTRIES

RUSSIA



Strong role of regulator



Central Bank of Russia

1 CCAR - Comprehensive Capital Analysis and Review  
 2 SREP - Supervisory Review and Evaluation Process

# Sberbank Proved Resilient during “Black December’14”

## CHALLENGE

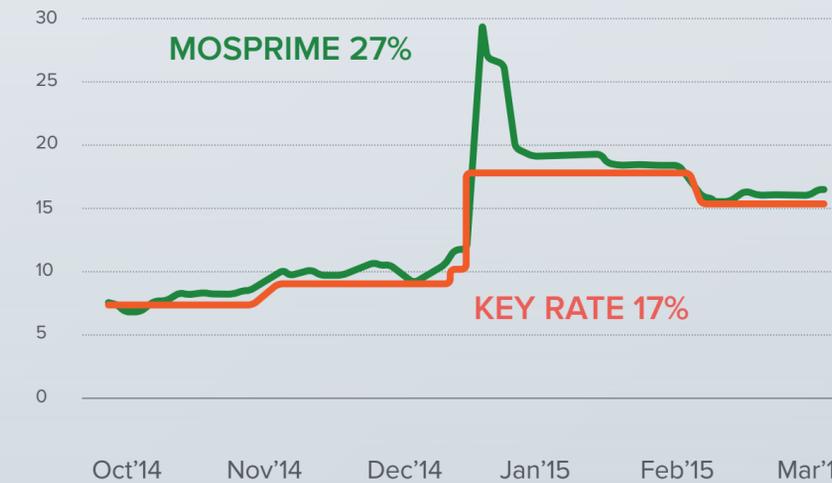
## OUR RESPONSE

X12 DDOS attacks on servers	None of IT systems failed
100-150 people-long queues at ATMs	300 tons of cash provided in one week
> 1 trln deposit outflow in one week	24.2% corporate deposits inflow in December 2.3% retail deposit inflow in December

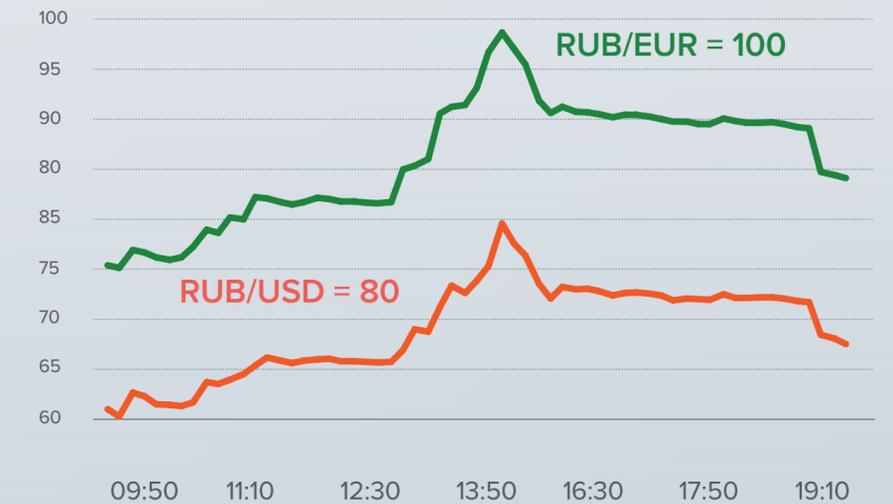


December`14 net profit RUB10.7 bn

## INTEREST RATES SHOCK



## FX SHOCK, DECEMBER 16, 2014



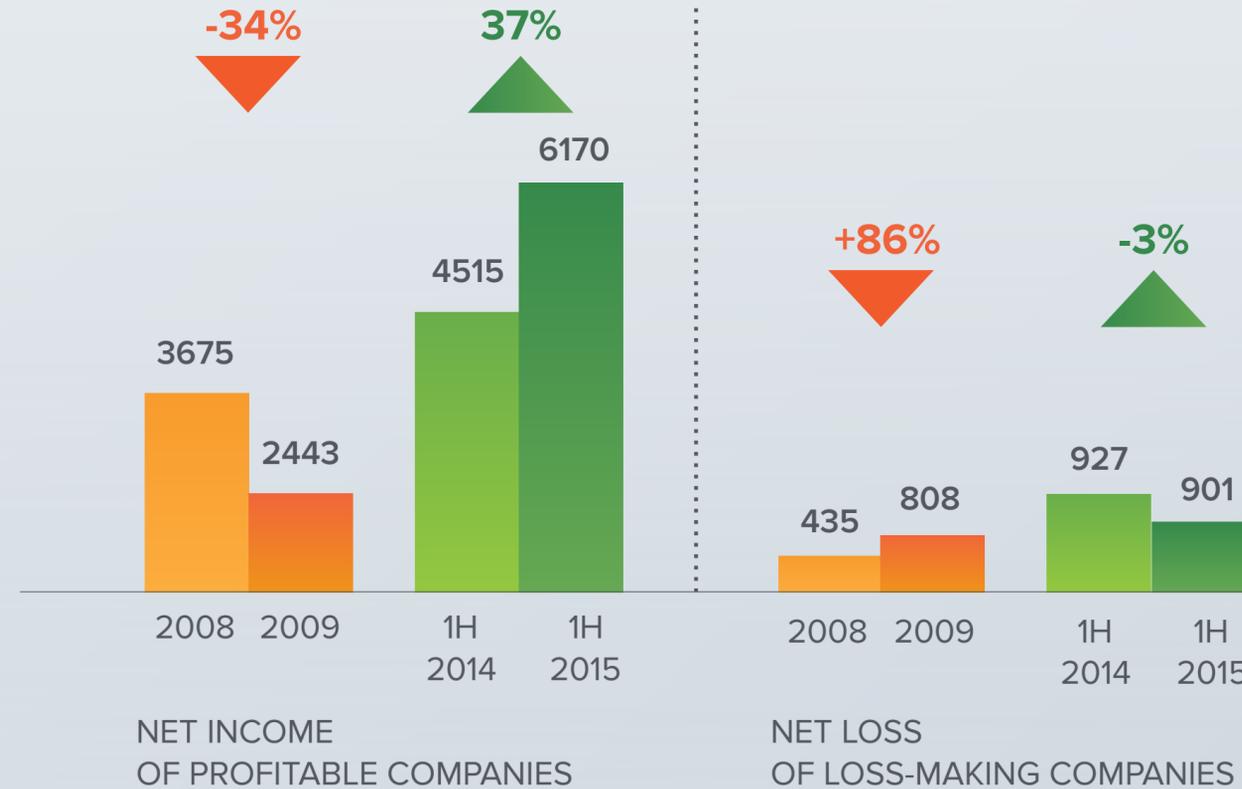
# Opportunities in the Economy

## RUSSIA HAS BECOME LOW-COST LABOR MARKET

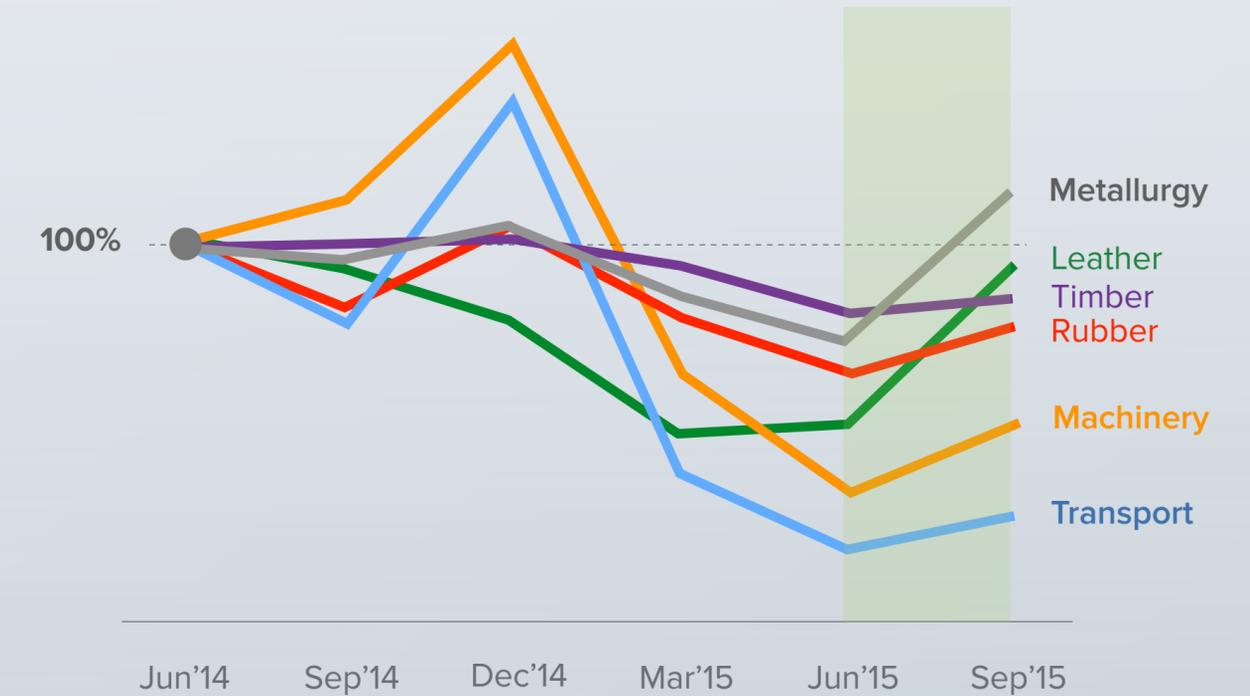


\* August 2015 data

## GROWING PROFITABILITY OF CORPORATE SECTOR



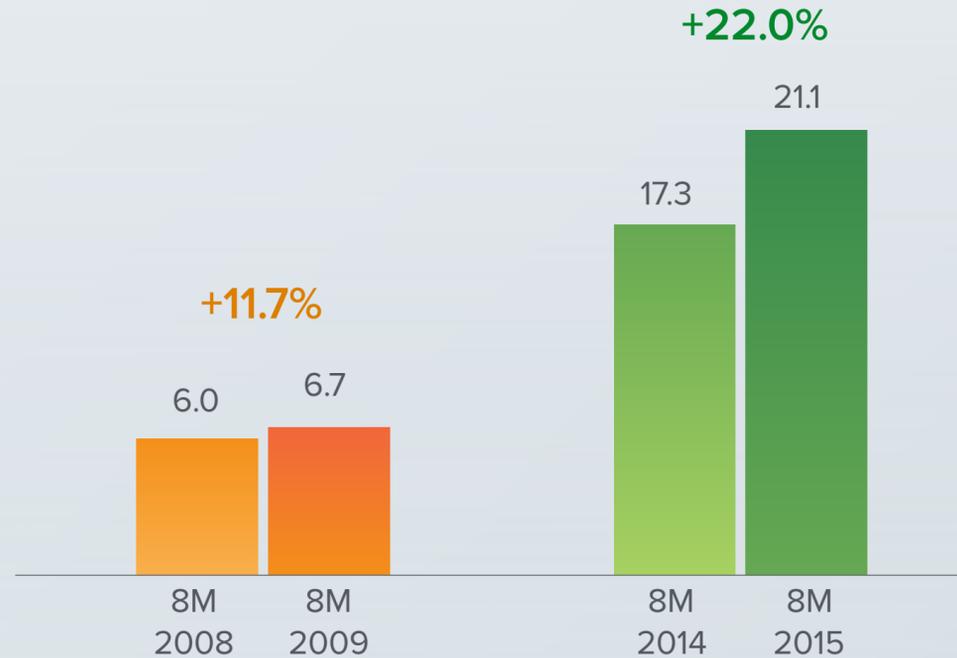
## FIRST SIGNS OF RECOVERY IN MANUFACTURING



# Opportunities in the Banking Sector

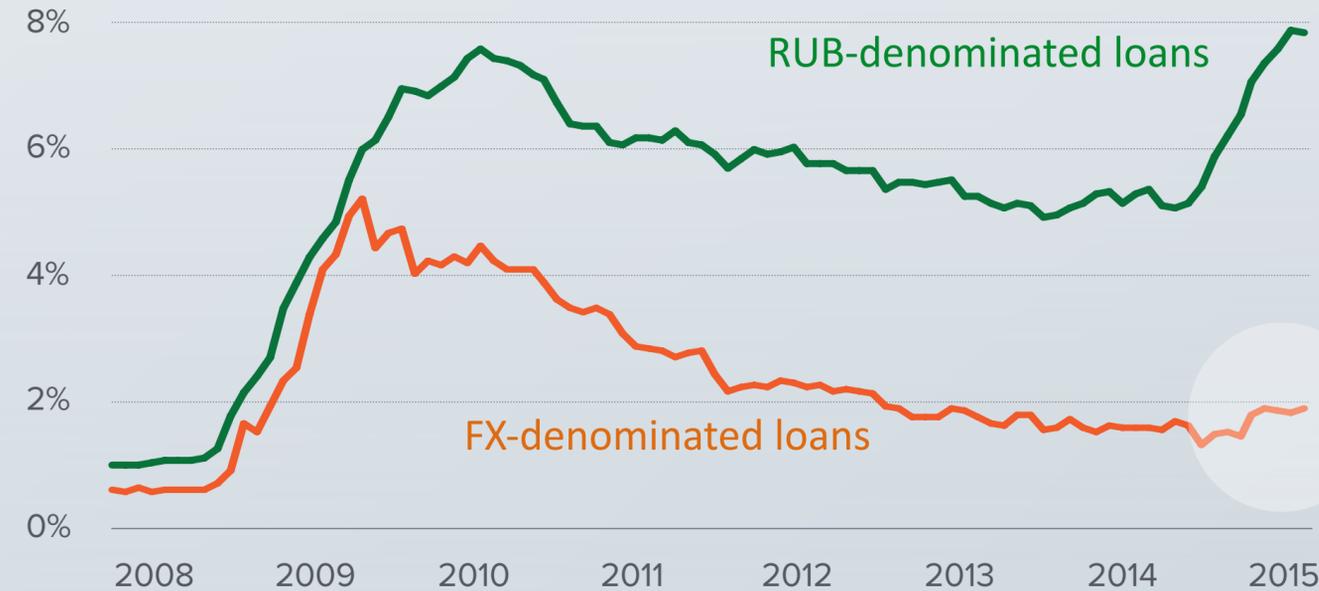
Retail deposits are recovering faster

RETAIL DEPOSITS, RUB trln



FX shock did not trigger the quality hit

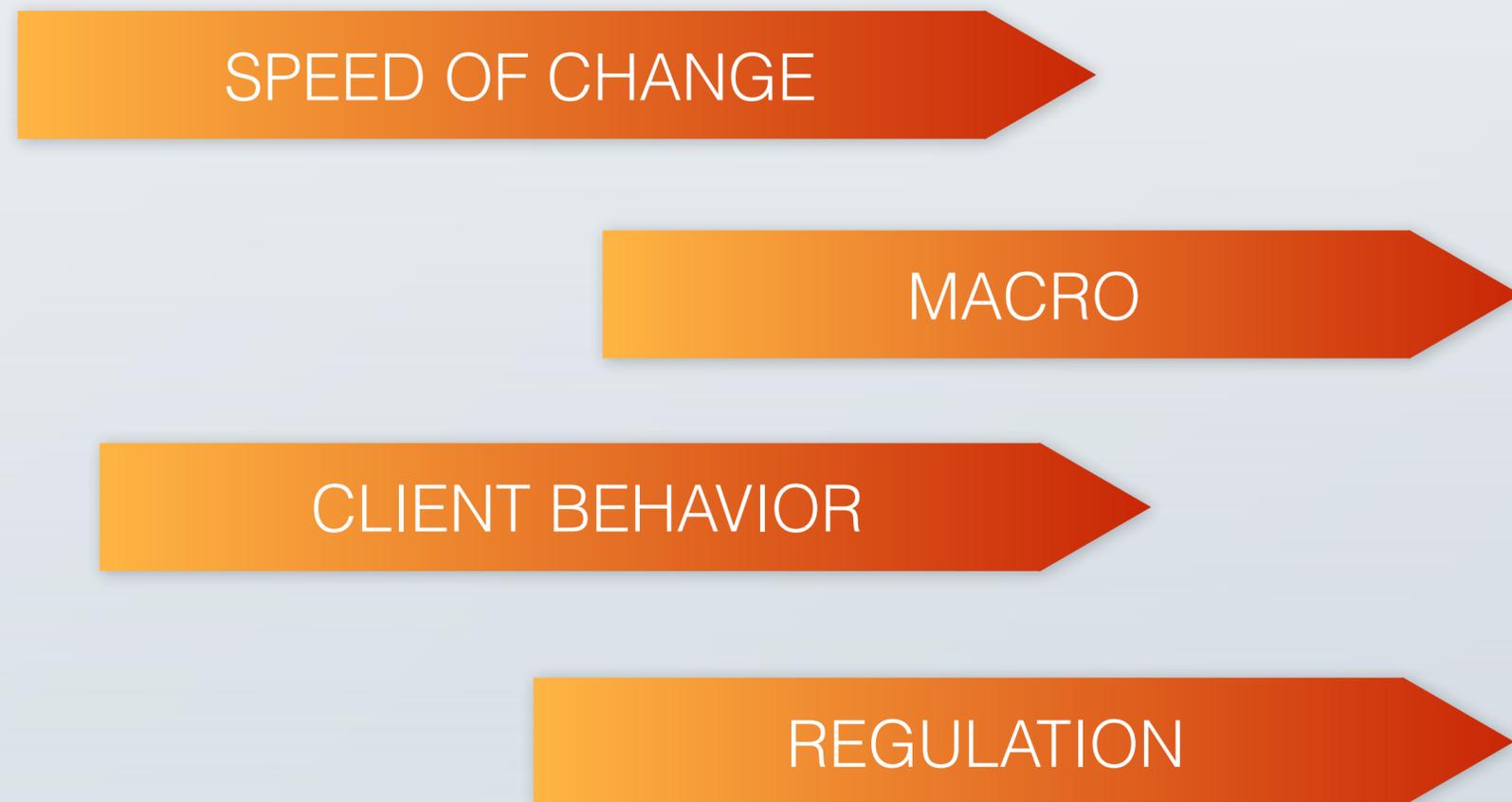
CORPORATE OVERDUE RATIO



Competitive landscape changes

- Flight to quality due to sector consolidation
- Monoliners and international retreat
- Large banks deepening relationship with exporters

## Challenges



## Where we would be in 2018 if we had not reacted...

		Original	Reality	
PROFITABILITY & CAPITAL	ROE, %	18-20	~12	▼
	CAR (TIER 1), %	> 10	~9	▼
EFFICIENCY AND RISKS	COST/INCOME RATIO, %	40-43	~48	▲
	COST OF RISK RATIO, bps	120-140	~220	▲
GROWTH	ASSETS 2018/2013	X 2	X 2	■
	NET PROFIT RUB BN	X 2	X 1	▼



*We all see that life is accelerating...*

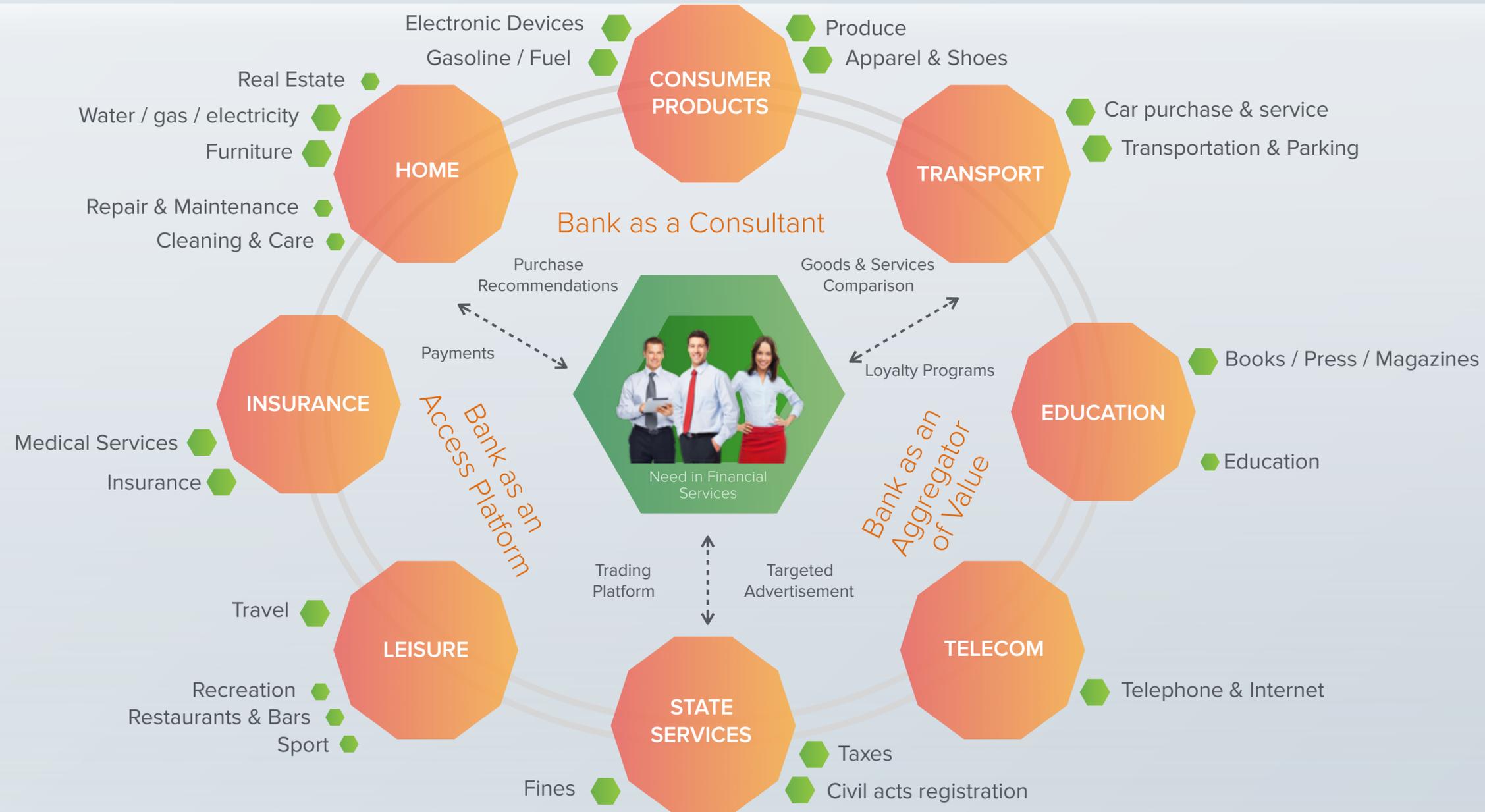
*"In the middle of difficulty lies opportunity*

*Albert Einstein*



# 2 | HOW WE ARE CHANGING

# Sberbank 2025



- Clients**
  - 24/7 access
  - Omni-channel
- Customized solutions**
  - Mapping client needs
  - Personalized geopush offers
- Predictive analytics of client needs and behavior**



**BUSINESS**

- Personalized products and pricing
- Omni-channel client experience
- Instant feedback



**RISK MANAGEMENT**

- Automated decision-making
- Predictive analytics
- Advanced identification instruments



**TECHNOLOGY**

- New technological platform
- Advanced data analytics
- Improved time-to-market



**MANAGEMENT MODEL**

- Business support matrix in HQ
- Service function reengineering
- Regional network re-design



**TEAM AND CULTURE**

- Culture ecosystem
- Soft skills development
- Advanced performance management

# RADICAL EFFICIENCY INCREASE THROUGH THE TECHNOLOGICAL AND ORGANIZATIONAL TRANSFORMATION

# Corporate Business

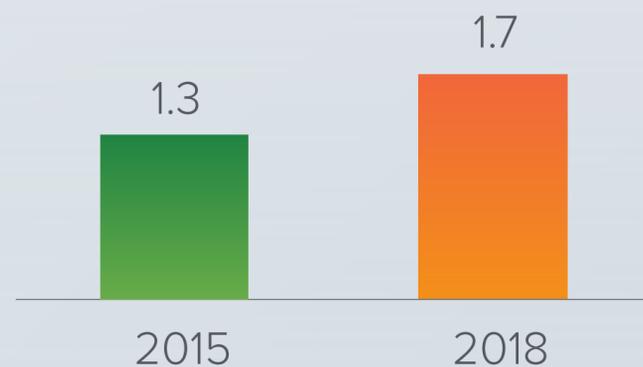


## Clients

From 25 segments to...

- personalized offering based on data analytics & RAROC-based pricing
- integrated retail-corporate view
- life-cycle relationship management
- revenue growth per client X 1.15+

NUMBER OF ACTIVE CLIENTS M.



## Products

From traditional banking product sales to...

- packaged solutions
- ecosystems (non-financial and partners' products & services)
- E- and ON-line products & services

BUSINESS-CARD



E-INVOICING



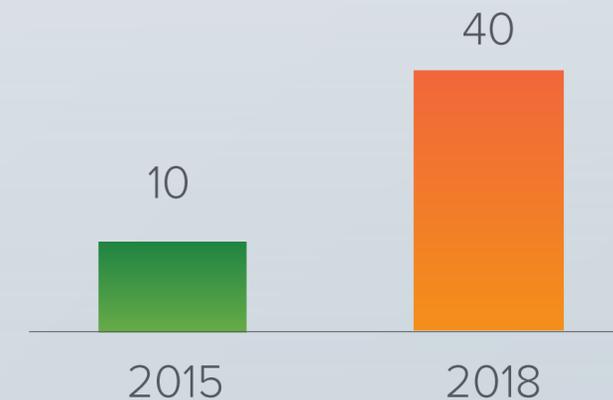
- e-loan
- e-deposit
- Account
- e-booking
- e-FX

## Channels

From 1200+ branches to...

- 600+ branches
- online and contact-center for mass segments and online support for others
- new service formats

REMOTE CHANNELS SALES, %



## Client satisfaction

From traditional compliant management to...

- solving client problems on the spot in any channel
- service culture

CLIENT SATISFACTION AND LOYALTY INDEX (SCORES)



# Multichannel Platform



## Key characteristics

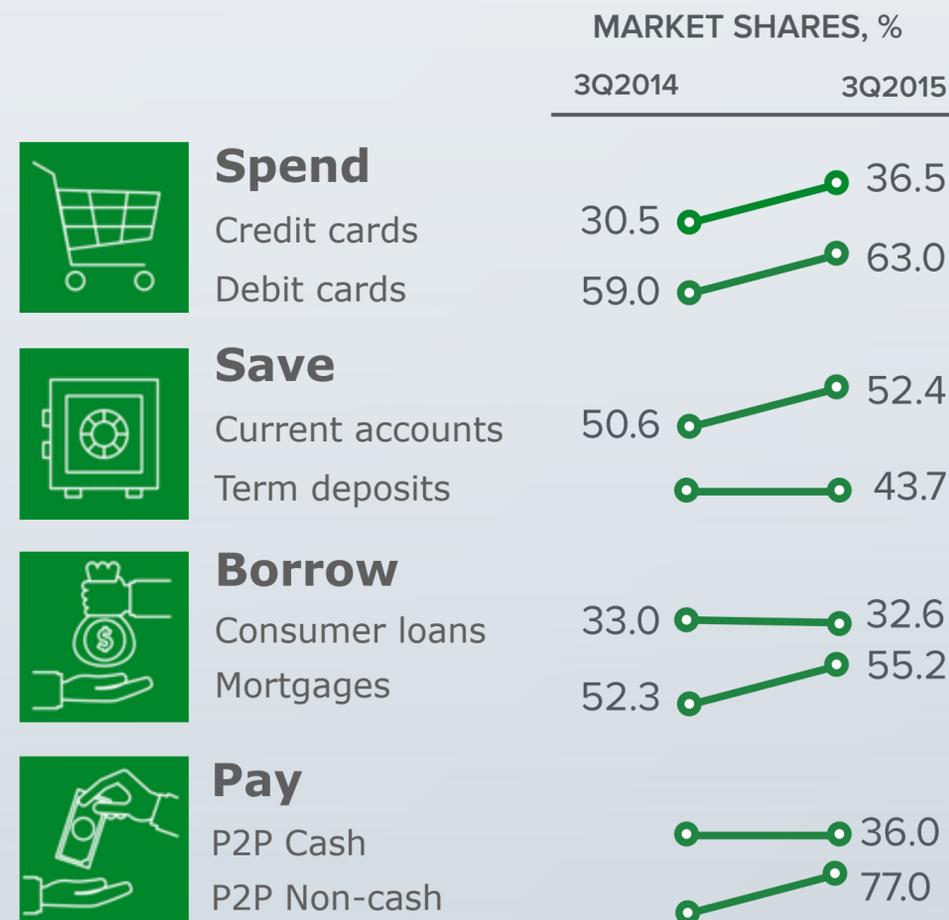
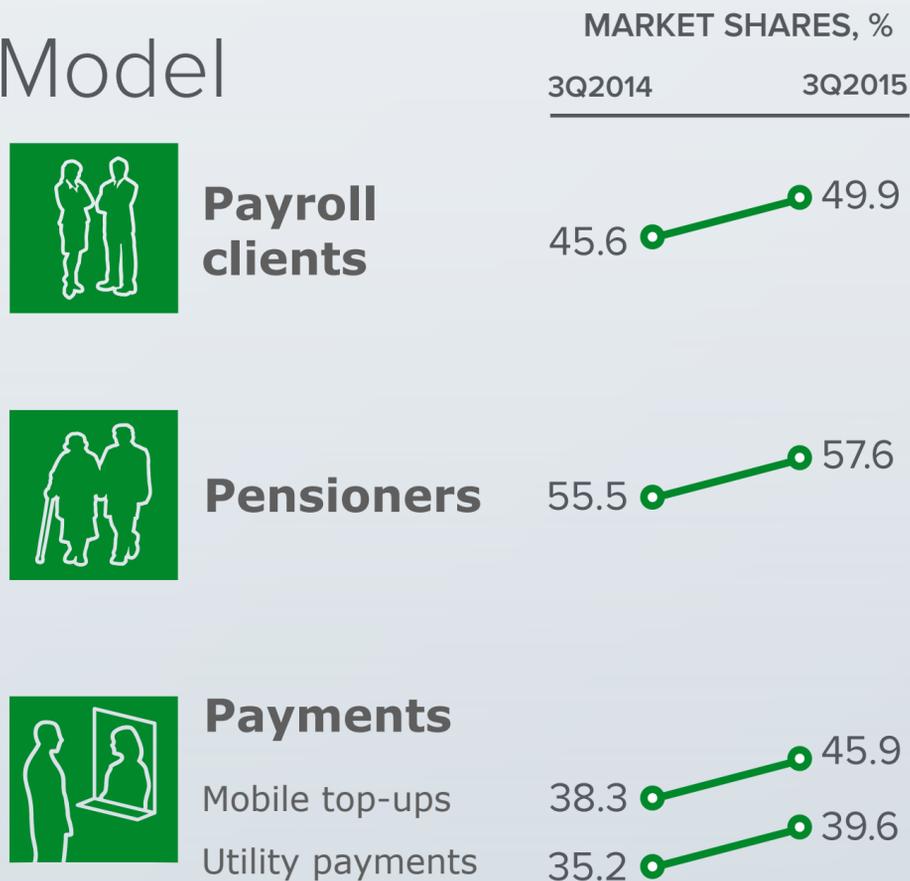


## KPIs

- Transaction time **-20%**
- Net Promoter Score (NPS) **+5pp**
- Number of errors **-15%**
- Time required for a new employee to reach target KPIs **-20%**

Effect for 2016-2018  
**> \$150 m**

# Retail Banking Business Model



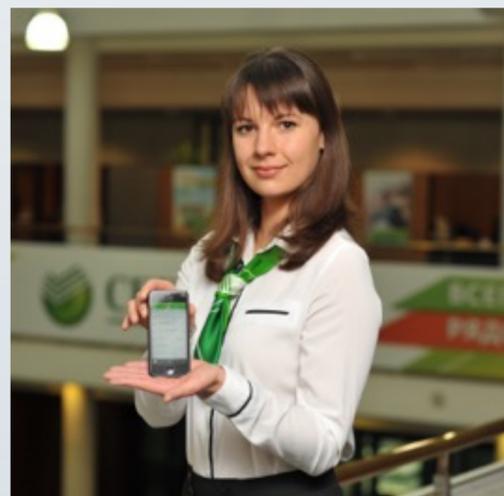
	3Q2014	3Q2015
<b>CRM</b>		
Microsegments	400	550
<b>X-Sell</b>		
Active communications, m. contacts	391	476
<b>Mass personalization</b>		
NPV, \$ m.	121	80
NPS, %		59
CSI, points		8.9



# Going Digital & Cashless World



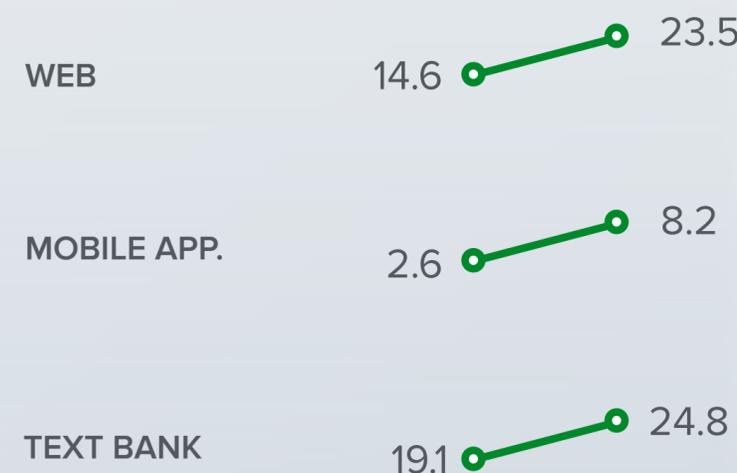
## Branches



	2015
Branches, ths	16,5
Consultants, ths	14,8

## Online

ACTIVE CLIENTS M.  
3Q2014 3Q2015

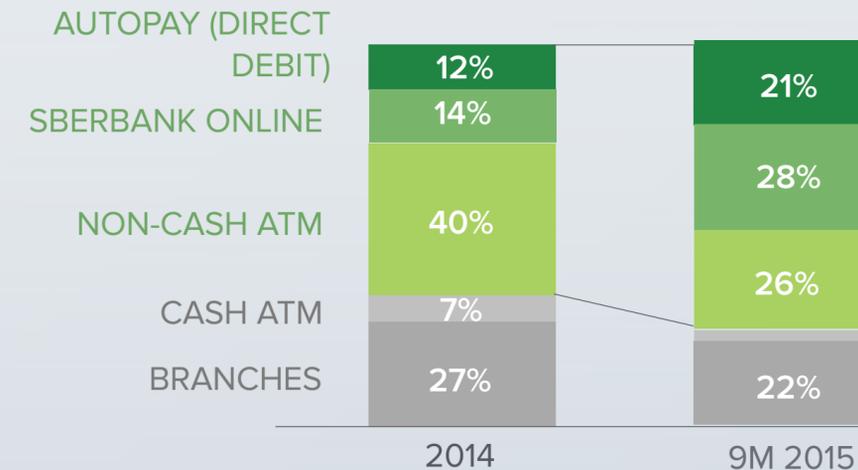


## Acquiring

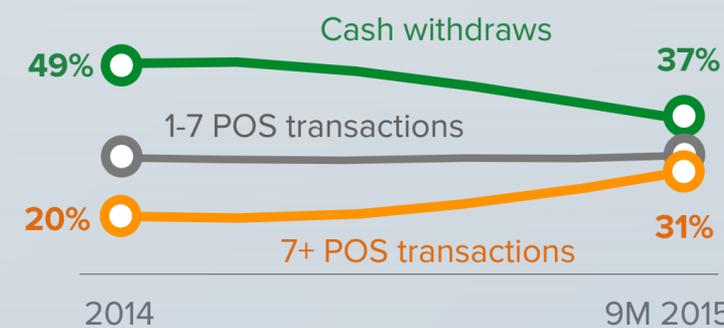


## Cashless World

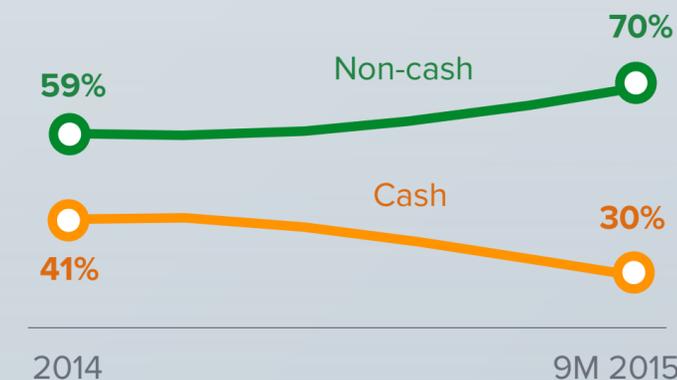
UTILITY PAYMENTS  
BY CHANNELS,  
MOSCOW, %



DEBIT CARD OPERATIONS STRUCTURE, %



ATM OPERATIONS STRUCTURE, %



# Risk Management



## 2015

Standardized Group credit process

- SME underwriting - 100% automated
- Credit Factory – 100% launched
- Group-wide credit risk automation in progress

First bank in Russia to apply for IRB

Starting Big Data based credit risk and fraud monitoring

Unified incident collection system for operational risk

2.5D client photo analysis – fraud prevention system



## 2018

Integrated intragroup credit process with automated decision-making

Predictive analytics in client behavior

«Deep Machine Learning» and voice biometric in credit process

Early warning system for operational risk incidents

Big Data in credit quality assessment and decision-making

### Time Consumption



### Accuracy of decisions



## Results

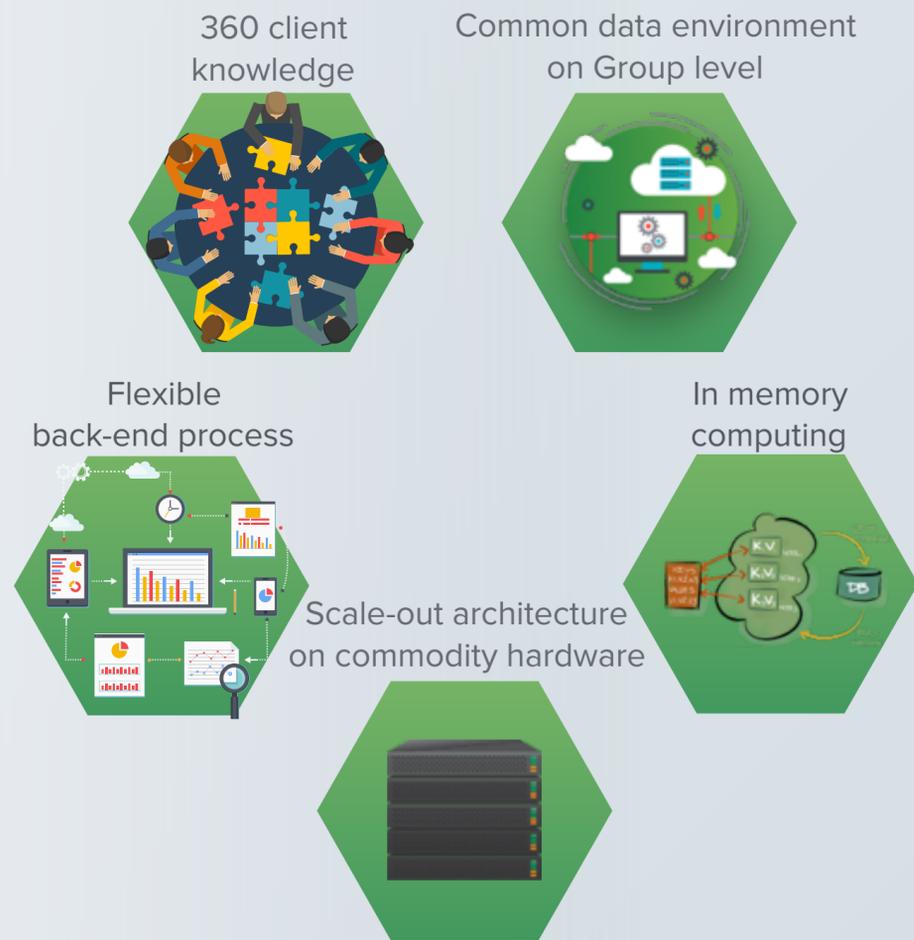
- Efficient and precise risk management
- Capital benefit as a result of IRB approach over 100 bps
- Online decision-making
- Productivity increase

Effect for 2018

> \$270 m

# New Core Banking Platform '18+

## Key characteristics



## KPIs

- New products time-to-market **x2**  
**≤6 months**
- Productivity **x2**
- Total cost of ownership **x2**

Effect for 2018  
**> \$230 m**

# Data Factory



## Key characteristics



## Benefits

- Centralized data governance
- Data quality and data availability
- New data services

Effect for 2018  
**> \$280 m**

# Technology



## Excellence in technology

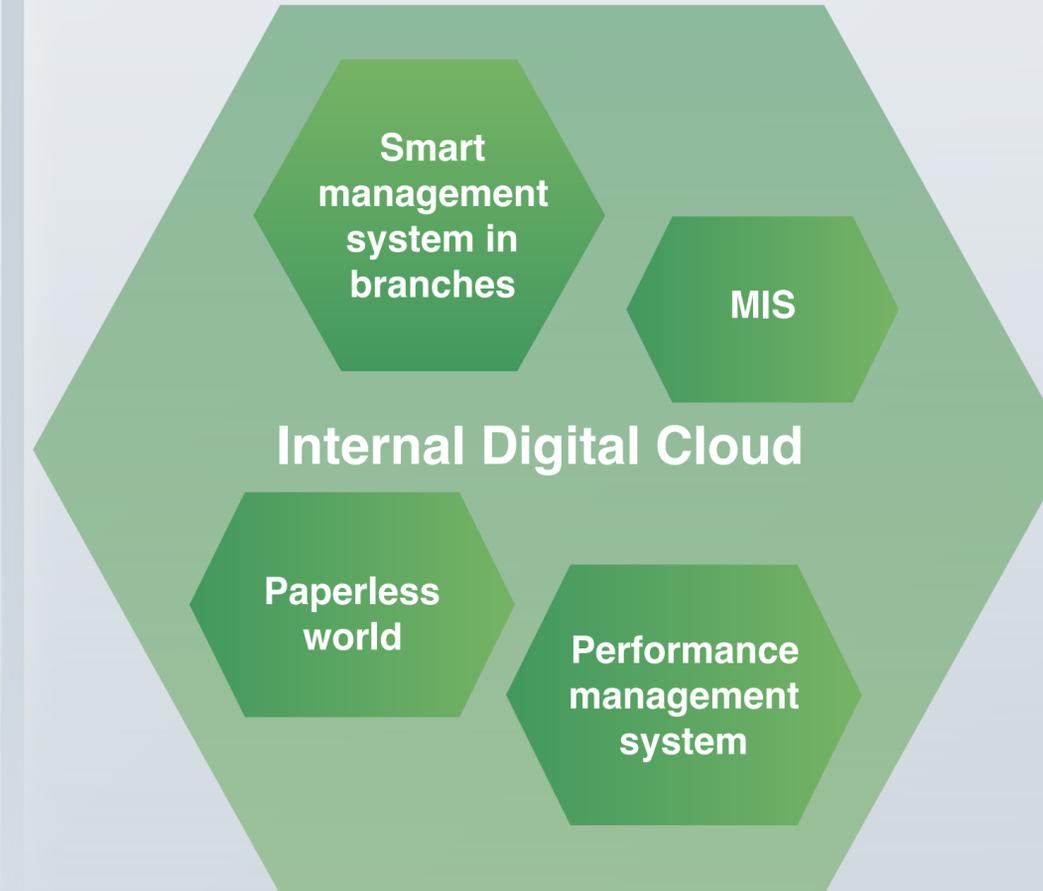
### KPI:

- Improve time-to-market

### Tools:

- Multichannel Client Experience
- Synergy of IT and Operations
- Information as an asset
- Agile product development
- Open source technologies

## Digital Inside



## Excellence in services

### KPI:

- Client satisfaction and cost efficiency

### Tools:

- Self-organizing and continuously improving service delivery
- Unified service methodology
- Centralized system of service management
- Transformation of support functions into Service organization

# Support Function Reengineering



## Service organization

- Integration of all the service units
- Single window and service level agreements
- Chief Service Officers

Service quality 

Cost per service 

## Productivity increase

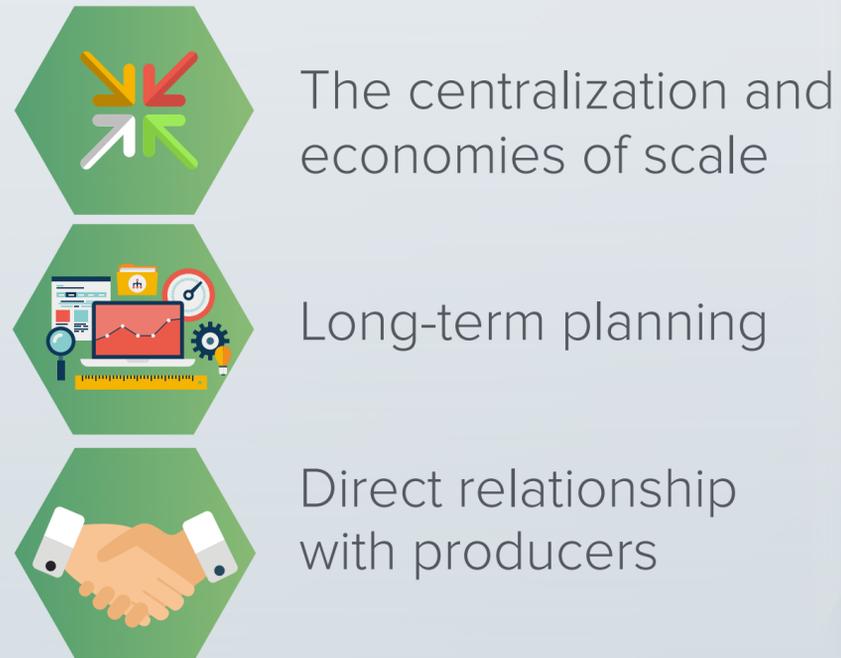
Procurement	<b>x 2.5 times</b>
Cash collection	<b>x 1.5 times</b>
Accounts and reporting	<b>x 1.4 times</b>
Cashiers	<b>x 1.4 times</b>
Record-keeping	<b>x 1.3 times</b>
HR	<b>x 1.2 times</b>

Effect for 2018  
**> \$1 bn**

# Support Function Reengineering: Major Drivers



## Efficient supply chain



Procurement centralization

>95%

Internal CSI

>85%

Effect for 2018

**\$620 m**

## Centralized property management



Sale of unused space  
**> 1.2 m sq.m.**

Effect for 2018

**\$130 m**

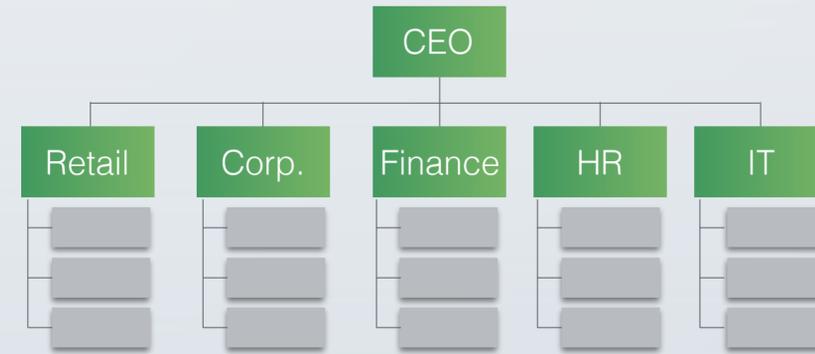
# Management Model - Head Office



We change our structure to boost effective teamwork...

**2013**

Silos



- Hierarchical rigid structure
- Vertical silos
- Difficulties in cross-functional interactions
- Low speed of reaction to change

**2015**

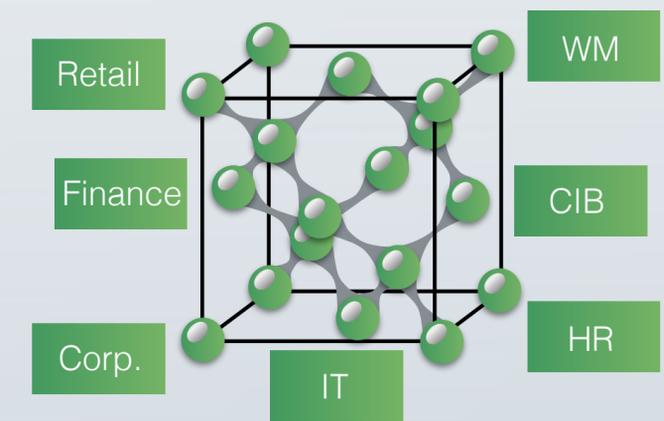
Matrix



- Support and service functions specialize team by units
- Specialized teams have direct and functional reporting lines
- Understanding of internal clients needs
- Coordination between teams

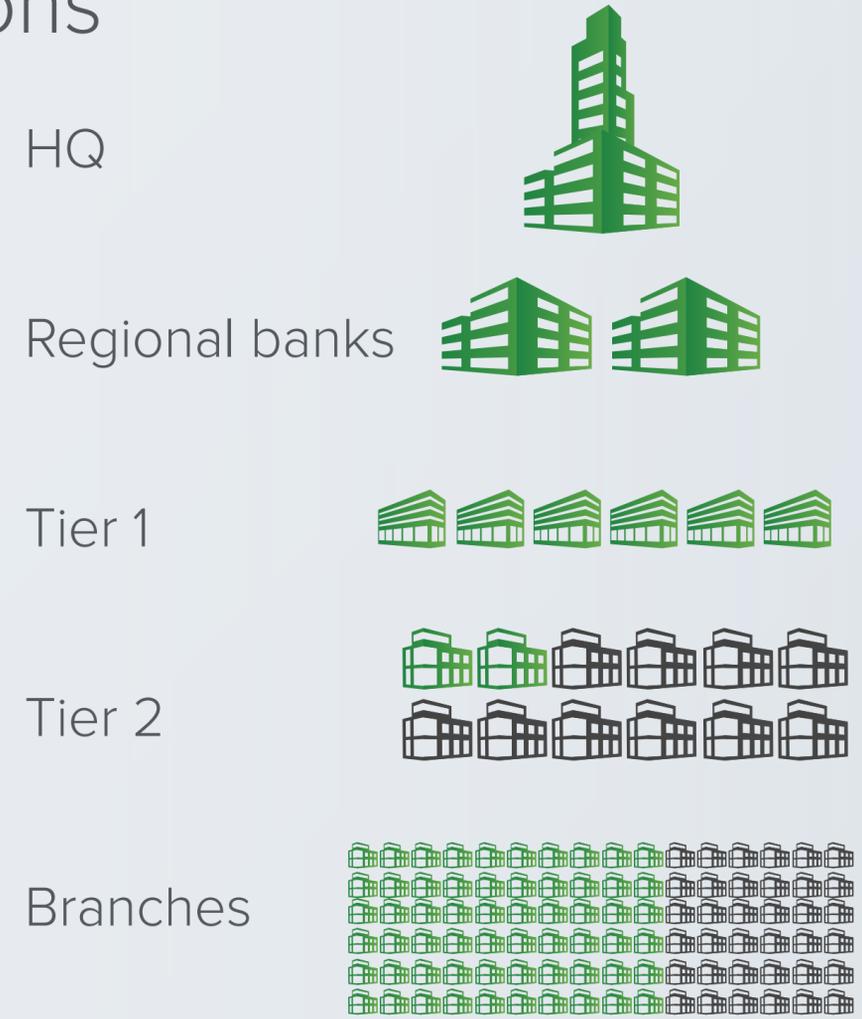
**2018**

Teaming



- Teaming across boundaries
- Flexible structure
- Innovative, self-learning organization, fast reaction to changes

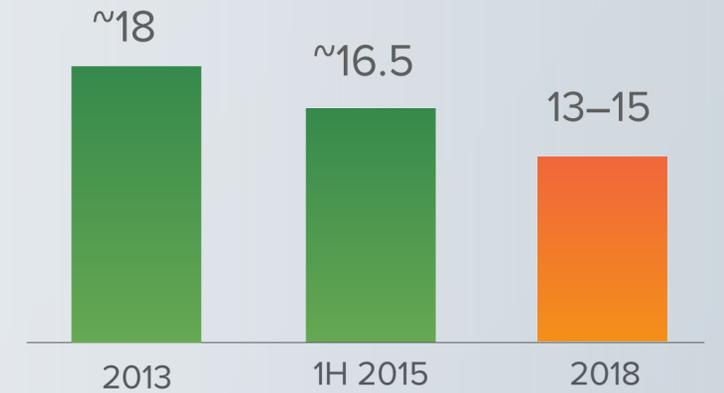
# Management Model - Regions



- Centralization of management function
- Consolidation of regional banks  
2015: from 16 to 14
- Tier 1 branch as a main business unit
- Elimination of one management layer
- Reduction of number of branches
- Specialization of universal branches

Streamlined processes  
Reduction of FTEs by 5 ths in 2015  
Lower number of managers

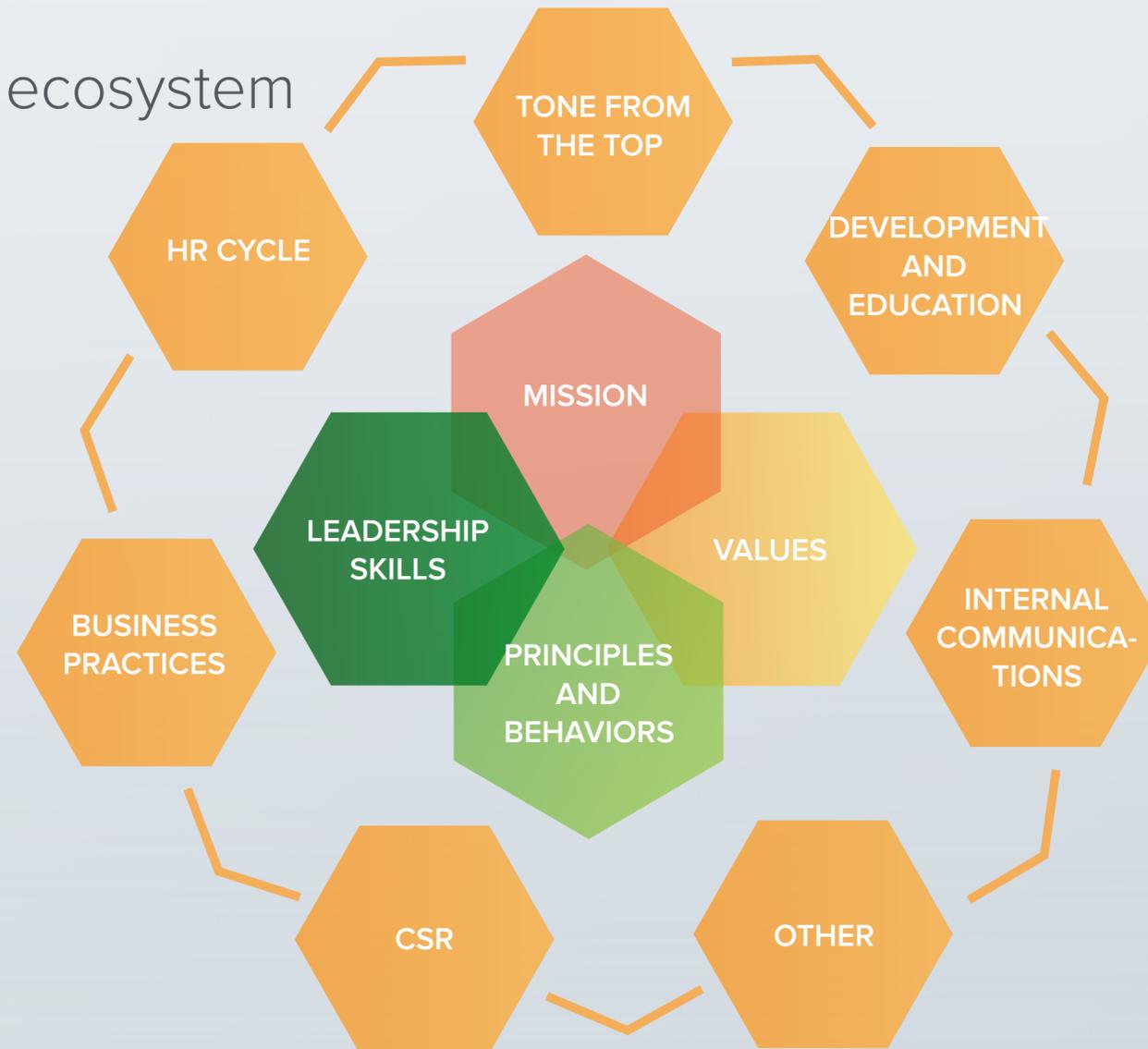
**NUMBER OF BRANCHES THS, RUSSIA**



## Team and Culture



## Cultural ecosystem



- Culture is one of the key elements of business-model
- Combination of positive and negative actions
- Development priorities
  - Responsibility and self development
  - Openness and trust
  - Cross-functional cooperation
  - Client-centricity

# Team and Culture



## Advanced Performance Management



**Final assesment:**  
 Performance C  
 Corporate culture B

## Soft skills are the key factor of sustainable development



15% of success

85% of success

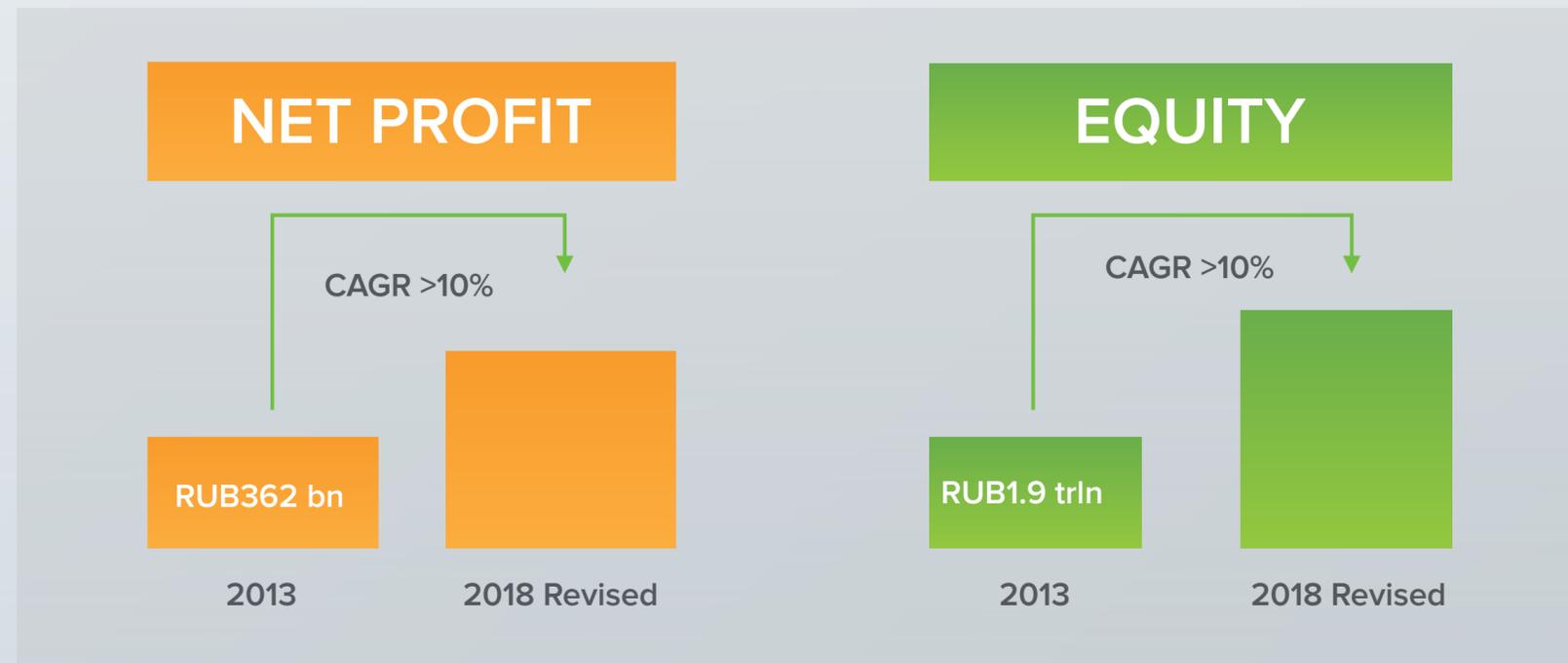
60% of top management team graduated joint programs with top universities (INSEAD, LBS, Stanford)

3

WHAT DOES IT MEAN  
FOR INVESTORS

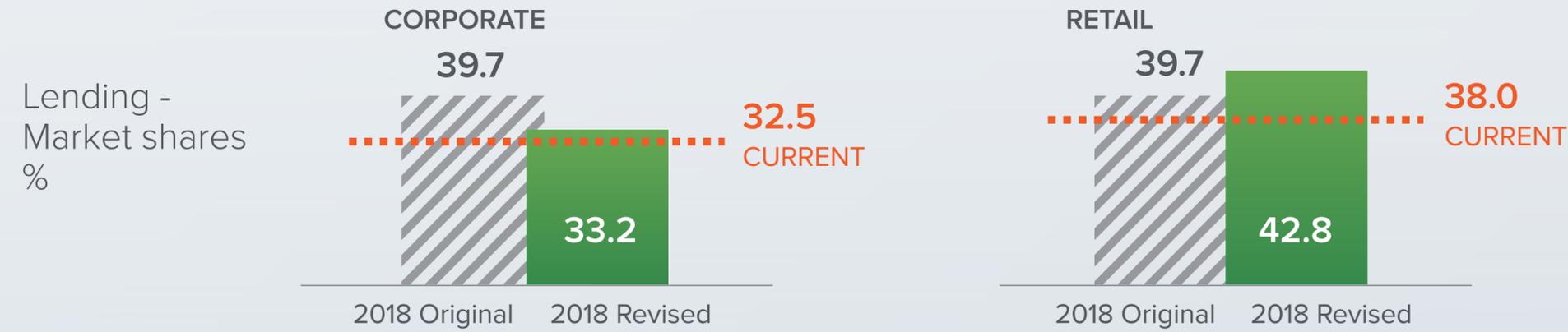
# Sberbank Group Key Financial Target Remains Intact with Some Adjustments Inside

	2018 Original	2018 Revised
Net Interest Margin	>4.5%	>5.0%
Assets 2018/2013	x 2	x 1.8
Fee & Commission 2018/2013	x 2.5	x 2.3+
Cost of Risk	120-140 bp	190 bp
Cost to Income	40 - 43%	<40%
Tier 1 CAR Basel II	>10%	>10%



**ROE ~18%**

## Focus on Retail Lending...

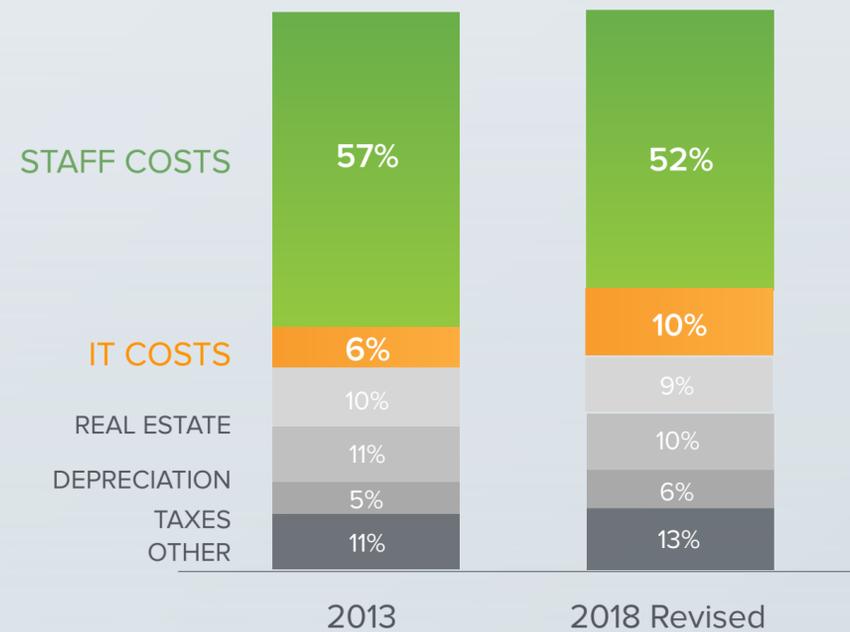


## ... and Retail Deposits



# OPEX Slowdown in Line with Inflation

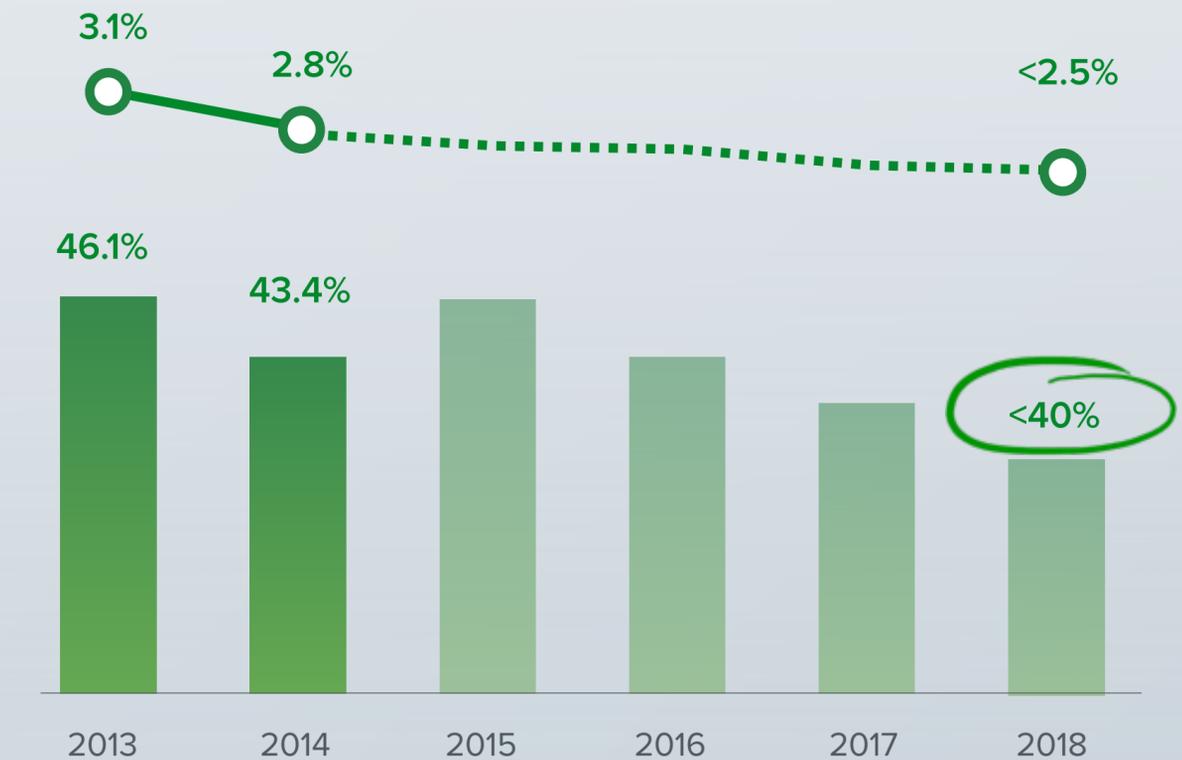
KEY DIFFERENCES IN OPEX STRUCTURE



OPEX DYNAMICS AND CPI



COST TO INCOME AND COST TO ASSETS DYNAMICS

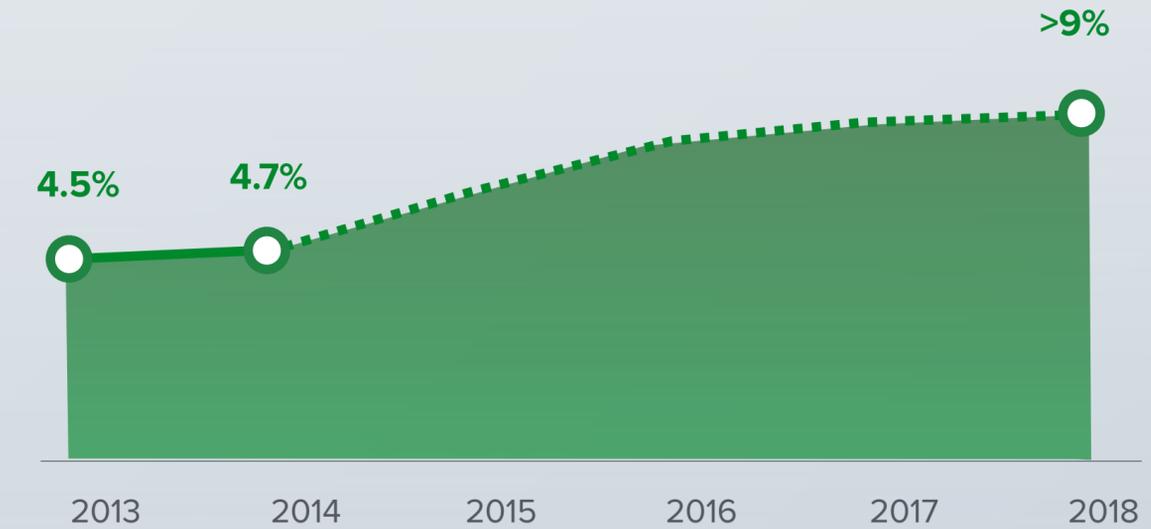


# Slowing Down Risk Costs with a Solid Buffer of Provisions

COST OF RISK



LOAN LOSS PROVISIONS / GROSS LOANS

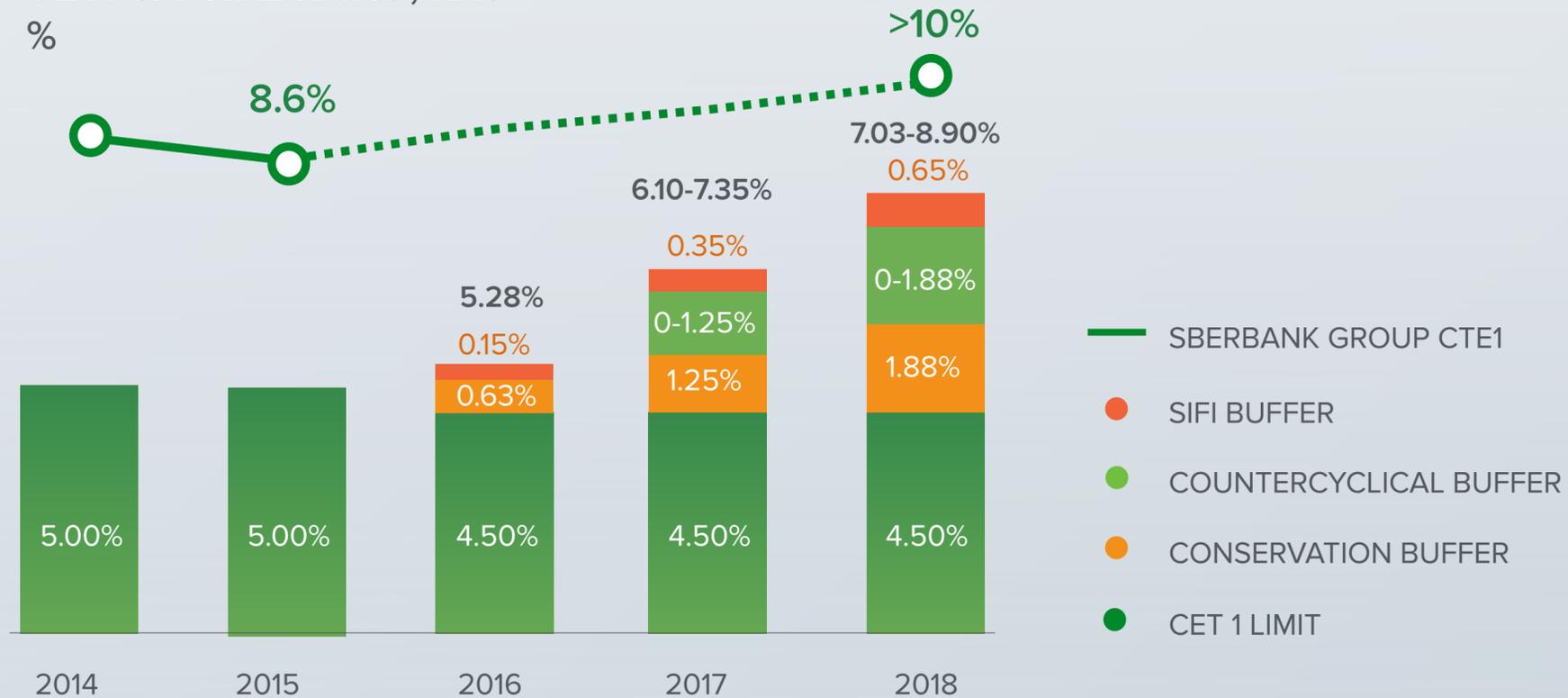


# Organic Capital Creation

CAPITAL ADEQUACY RATIOS (TIER 1 & TOTAL), SBERBANK GROUP, IFRS, BASEL II %



CET1 CAR CBR BASEL III LIMITS VS SBERBANK GROUP CET1 CAPITAL RATIO, RAS %

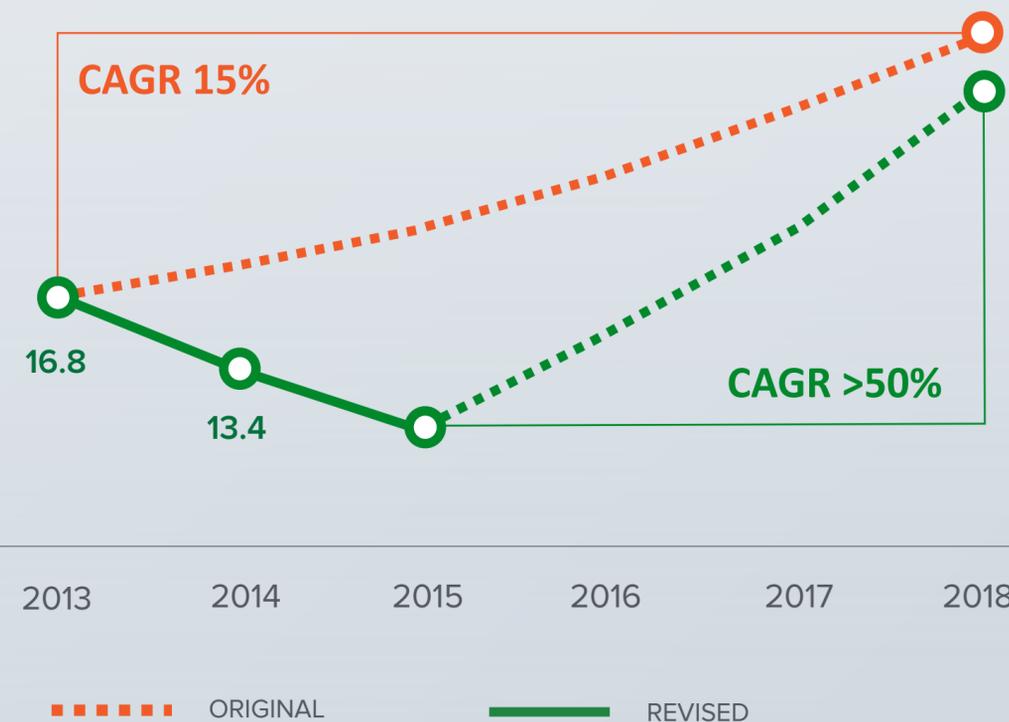


**20%**  
Dividend payout

# Revised Strategy 2018 Targets

		2018 Original	2018 Revised
PROFITABILITY & CAPITAL, %	ROE	18-20	~18
	CAR (TIER 1)	> 10	> 10
EFFICIENCY, %	COST/INCOME RATIO	40-43	< 40
	COST/ASSETS RATIO	< 2.5	< 2.5
GROWTH	ASSETS 2018/2013	X 2	X 1.8
	NET PROFIT 2018/2013	X 2	X 1.8+

EPS GROWTH FORECAST RUB





*"Every morning in Africa, an antelope wakes up, it knows it must outrun the fastest lion or it*

*Every morning in Africa, a lion wakes up. It knows it must run faster than the slowest antelope, or it will starve.*

*It doesn't matter whether you're the lion or the antelope - when the sun comes up, you'd better be running."*

*— an old African proverb*





**SBERBANK**

Q & A