



# СБЕРБАНК

*Всегда рядом*

## Establishment of the Joint Russian POS Finance Bank between Sberbank of Russia and Cetelem

September 2012

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# Agenda

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Rationale for the Partnership

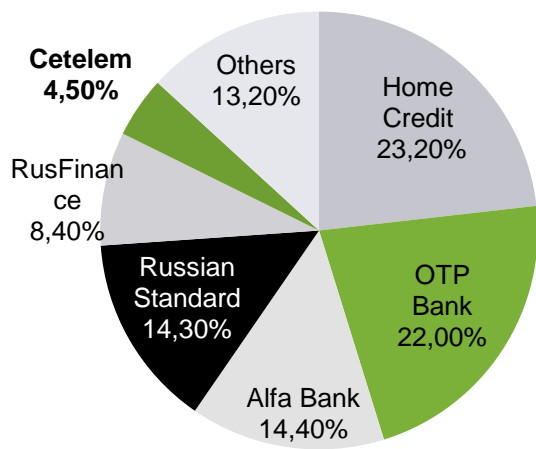
Internal Financial Targets and Next Steps for the Partnership

Business Model

Structure of the Partnership and Valuation

# POS-Market Snapshot

## Russian POS-Market Breakdown\*



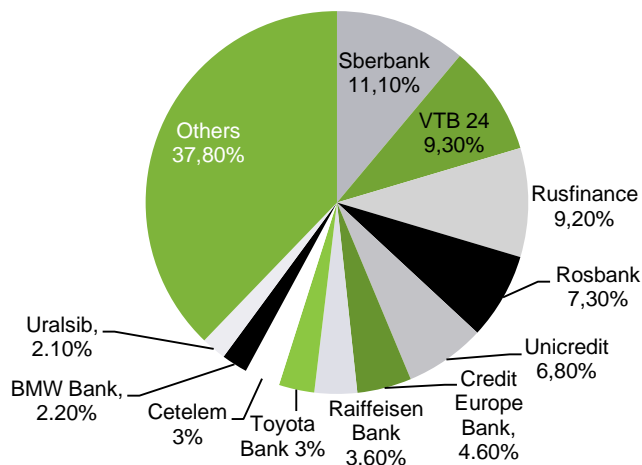
- ✓ POS-finance market recovered from the crisis and expanded to RUB189 bn in 2011 vs. RUB132 bn in 2008, RUB108 bn in 2009 and RUB158 bn in 2010.
- ✓ The market is expected to grow at least 15-20% per annum over the next five years.
- ✓ Cetelem's loan portfolio grew 23.8% January-July 2012, shifting from the eighth to sixth position on the market, ahead of Renaissance Credit and Credit Europe Bank, to 4.5% share.

## Market Highlights

- ✓ POS-lending is mostly exposed to mass segment with more than **35 million people** (or about 18% of target audience) having a POS-experience.
- ✓ About **6.1 million people** are active POS-borrowers.
- ✓ POS finance market is highly concentrated: four largest participants account for 74% market share
- ✓ POS-lending is one of the main tools for acquisition of new clients and consequent cross-sales of more sophisticated bank products to generate higher returns and diminish risk.

# Car-Loan Market Snapshot

## Russian car-loan market breakdown\*



- ✓ Russian car-loan market restored from the crisis and reached RUB531 bn in 2011, up from RUB500 bn in 2008, RUB150 bn in 2009 and RUB308 bn in 2010).
- ✓ Car-loan market is highly competitive with rapidly-growing captive banks, Sberbank and Group BSGV, VTB 24, Unicredit, Raiffeisen Bank and a large number of active medium and small players.
- ✓ Cetelem achieved a 3%-market share in less than three years and issued RUB15 bn car loans in 2011. In January-July 2012, Cetelem's car-loan portfolio expanded by RUB2,85 bn.

## Market Highlights

- ✓ Main products:
  - ✓ - Express car-loans
  - ✓ - POS in car-sale centers
- ✓ Loan approval decision time – from 30 minutes
- ✓ Two documents required
- ✓ Market growth drivers: 1) car sales growth, 2) car purchases on credit
- ✓ Captive banks are expected to increase market share

# Background

Sberbank has been considering various options when entering the POS finance market since 2010:

## Option 1. Acquisition of an existing market participant (Home Credit)

Negotiations ceased in December 2010 as the parties failed to agree on price, structure and business model.

## Option 2. «From Scratch»

Organic development was not justified given the lack of technical ability for a rapid launch and a few aggressive market players.

## Option 3. Partnership with Cetelem

- ✓ Cetelem: number one in consumer lending in Europe.
- ✓ Entered the Russian market in August 2007.
- ✓ Preliminary negotiations kicked off in spring 2010. Follow-up discussion was suspended due to Cetelem's insignificant presence in Russia and insistence on a 50/50 JV structure.
- ✓ Cetelem was active in developing its POS-finance business in Russia, reaching a 4,5% market share in 1H2012\*. In addition, Cetelem also focused on lending to car-dealers with a number of loans issued in this segment increasing from 717 to 10,602 in a single year; in 2011 Cetelem issued more than 38,000 car loans.
- ✓ Sberbank resumed negotiations regarding POS-bank partnership back into 2011 as changes in BNP Paribas' strategic goals made it possible to discuss a more favorable structure of the partnership.
- ✓ Partnership with Cetelem is an optimal way for Sberbank to gain presence in the POS finance market.
- ✓ BNP Paribas' sound reputation is an additional benefit in the partnership for Sberbank.

# Cetelem Snapshot

## **Cetelem (BNP Paribas Personal Finance) ranks number one in consumer lending in Europe**

- ✓ Presence in more than 30 countries, 4 continents; 20 mn clients
- ✓ EUR115 bn loan portfolio
- ✓ 12.5% of net interest income of the Group comes from Personal Finance Business

## **Cetelem holds a good position in the POS-finance in Russia with a rapidly growing market share:**

- ✓ Cetelem entered the Russian market shortly before the crisis (August 2007), while the rapid business development began in 2010
- ✓ 4.5% market share in POS-lending \*
- ✓ 67 regions of presence (vs. 5 regions in 2007)
- ✓ 7,000 POS-lending outlets
- ✓ Over 1.5 million POS-loans issued so far
- ✓ > 1,000 car-dealers
- ✓ 3% market share in car-lending
- ✓ Solid relationship with an international car-producers
- ✓ Quality of loan portfolio conforms to Sberbank's strict risk-management discipline

## **Solid Business Platform**

- ✓ Regional network
- ✓ Management team
- ✓ Unique POS-brand
- ✓ IT-systems and risk management
- ✓ Back-office
- ✓ Good position in the POS finance market with a rapidly developing business
- ✓ Sound reputation of BNP Paribas
- ✓ International expertise
- ✓ Track record of successful partnerships with European banks

## **Partnership with Cetelem is beneficial for Sberbank for financial and non-financial reasons:**

- Access to international expertise, namely, fast-growing POS-finance market
- Sound reputation and internationally acknowledged POS-brand



# Rationale for the Partnership

## Forming a complete line of banking products to existing and new retail clients

- ✓ Optimal way to enter fast-growing POS-finance market to strengthen Sberbank's competitive position
- ✓ POS-lending as a primary step in banking experience for individuals and thus a good channel for acquisition of new clients
- ✓ Customer loyalty and satisfaction through POS-loans at reasonable interest rates

## Cross-sell opportunities

- ✓ Complete line of retail loan products to existing clients
- ✓ Promotion of new clients to prime segments
- ✓ Credit card offerings to POS-clients (as a next step in evolution of banking services)

## New market expertise

- ✓ Access to a running business of express car-loans
- ✓ POS-finance underwriting model proven successful internationally
- ✓ Inheritance of existing contracts and long-lasting relationships with retailers and dealers

## Financial benefits

- ✓ High-margin products as an additional source of interest income and support to higher NIM in the future
- ✓ Sberbank's cutting-edge risk management to ensure better quality of loan portfolio at reasonable interest rates
- ✓ Minimization of operating risks in POS-finance segment

Partnership's targets are in line with Sberbank's core Strategy:

**Target market share in POS-finance - 25% within 3-4 years**

Target portfolio would be comprised of two main products – POS-loans and car loans



## Internal Financial Targets and Next Steps

### Internal Financial Targets

Loan portfolio growth	Aggressive growth to achieve the target market share
ROE	> 20% within 3-4 years
Cost/Income	Efficiency adjustment in line with the core Group's target

### Orderly expansion of all business expected including:

- ✓ Increased sales for Cetelem's existing network;
- ✓ Expansion via other retailers' networks (both federal and regional);
- ✓ Increased market footprint of Cetelem across Russia;
- ✓ Creation of simple and transparent client products. Loans will be issued for purchases of a wide range of products including household appliances, furniture and cell phones.

# Business Model

## Key products:

- ✓ POS loans. Loan payments - via Sberbank channels (charges are allocated either onto clients or Cetelem);
- ✓ Credit cards. Partnership makes cross-sales only among its clients;
- ✓ Cash credit. Cross-sales only among the Partnership's clients;
- ✓ Insurance services, related to products of the Partnership;
- ✓ Express car loans at car dealers offices;
- ✓ Express car loans as part of the cooperation agreement between Cetelem and a prominent international car-producer

## Risk management:

Cetelem risk-management system overall is sufficient for POS lending but would require a number of optimizations. Sberbank will bring in its retail lending expertise including sophisticated risk-management technologies.

## IT-systems:

IT architecture of Cetelem fits well into the POS lending framework, and may be rolled out as per the Partnership's business plan.

**Partnership will bring new standards to the POS-finance market through a responsible lending approach:**

- Transparency
- Reasonable interest rates
- Formation of a complete line of retail loan products in POS finance market

**Partnership will operate under Cetelem brand:**

**ООО «Сетелем Банк»**

# Structure of the Partnership and Valuation

- ✓ Allocation of shares in BNP Paribas Vostok: Sberbank - 70%, BNP Paribas Personal Finance - 30%.
- ✓ Mitigation of the Partnership-related risks through deadlock resolution technics.
- ✓ Board of Directors of Vostok: Representatives: 5 from Sberbank, 2 from BNP Paribas.
- ✓ Platform for partnership: business of Cetelem in Russia was transferred onto OOO “BNP Paribas Vostok”, (contracts with retailers, dealers, rep-offices, sales force, staff, IT-systems, etc.)
- ✓ Funding. Sberbank would provide funding to the Partnership in accordance with its development plan.
- ✓ Financing of shareholder capital through recapitalization of net income and/or proportional to the Partnership’s stakes.
- ✓ Acquisition price of RUB5.1 bn, – which implies that cash investment from the parties is in line with allocation of their shares.
- ✓ The capital of BNP Paribas Vostok amounted to RUB6.4 bn on the date of the Closing (was increased by BNP Paribas Group prior to the Closing)

