

# Sberbank's 2014-2018 strategy highlights

Sberbank Strategy Day, London, 14<sup>th</sup> November 2013



# Agenda



Herman O. Gref  
President, Chairman of  
the Executive Board

1

Sberbank: robust growth aspirations against a backdrop of solid delivery of results



Denis A. Bugrov  
Senior VP, member of  
the Executive Board

2

Clear plan in place to address market and strategic challenges

3

Five core strategy themes to support growth and profitability agenda



Maxim V. Poletaev  
First Deputy Chairman of  
the Executive Board

4

Growth, profitability and innovation in all key business lines



Lev A. Khasis  
First Deputy Chairman of  
the Executive Board

5

Excellence in technology, support and operations



Alexander V. Morozov  
CFO, Deputy Chairman  
of the Executive Board

6

Ambitious financial targets for 2018



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1

A proven track  
record of delivery

- ✓ Net profit x2.5-3.0 times from 2007
- ✓ ROE above 20%
- ✓ Russian market share at 25-30%
- ✗ Cost-in
- ✓ Strengthened position in major products
- ✓ 5-7% of net income from international operations
- ✓ Strong corporate culture
- ✗ Headcount down to 200 000 - 220 000 employees
- ✓ Strong brand and loyal customers
- ~ Effective and reliable systems and processes



1

Sberbank  
- our mission

*We instil confidence  
and reliability*

*We make people's lives better  
by helping them to fulfil their  
aspirations and dreams*



1

Sberbank  
- our values

I am a leader

We are a team

All for the client



# 1

## Sberbank – building a great organization

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*Truly great organizations systematically produce four key results:*

- A stable, ongoing achievement of the highest level of productivity. These organizations flourish financially in the short term, as well as in the long term.*
- They have earned the loyalty of their customers—and not only their satisfaction, but also passionate devotion and love.*
- Their employees are completely loyal to the company, and put their heart and soul into their work. People who work in truly great organizations are not merely satisfied with their work for them, it serves as a source of inspiration, and they commit all their passion and energy to their task.*
- Truly great organizations do not simply “do business” as we commonly understand the term, rather they fulfill a unique mission, which clearly distinguishes them from the common mass.*



1

Ambitious  
financial  
targets

## Group Financial Targets

Profitability & Capital, %		Efficiency, %		Growth	
ROE 2018	CAR (Tier 1) 2018	Cost / Income ratio 2018	Cost / Assets ratio 2018	Assets 2018 / 2013	Net profit 2018 / 2013
18-20	> 10	40-43	< 2.5	X 2	X 2





# 1

## Sberbank 2018 Challenges



# 1

## 5 main strategy themes



**With the customer for life:** We will build enduring relationships of trust with our clients and will become a useful, sometimes invisible, but integral part of their lives. We strive to go beyond expectations of our clients



**Team and Culture:** We strive to make our people and corporate culture one of our key competitive advantages



**Technological Breakthrough:** We will complete technical modernization of the Bank and will integrate cutting-edge technology and innovation into our business



**Financial Excellence:** We will improve our financial performance by effective management of costs and risk/return ratio



**Mature Organization:** We will build organizational and management skills and establish processes matching the international scale of Sberbank Group and our new ambitions



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# 2

## Macro outlook

GDP growth forecast 2014-2018, CAGR

World

Moderate growth  
~ 3.5%

Russia

Slow growth  
~2.2-2.4%

Turkey

Moderate growth  
~ 4.3%

CEE

Austria  
Slovakia  
Czech  
Republic  
Croatia  
Bosnia  
Serbia  
Slovenia  
Hungary

Moderate growth  
~ 4.1%

CIS

Kazakhstan  
Belorussia  
Ukraine

Moderate growth  
~ 5.9%  
~ 3.0%  
~ 1.5%



# 2

## Banking market indicators for the countries of our presence: historical data and forecast<sup>1</sup>

### Key market growth projections

	Russia		CIS <sup>2</sup>		Turkey		CEE <sup>3</sup>	
	2008-2013	2014-2018	2008-2013	2014-2018	2008-2013	2014-2018	2008-2013	2014-2018
End of period assets USD bln	1 800	2 350	230	350	510	1 100	760	950
Banking Assets CAGR, %	Rubles		US dollars		US dollars		US dollars	
	15%	12%	1%	8%	13%	16%	-2%	5%
Interest margin (end of period, market average), %	5.5%	4.5%	5.1%	4.4%	4.0%	2.7%	3.5%	2.4%

<sup>1</sup> Base-case scenario

<sup>2</sup> Ukraine, Belarus, Kazakhstan.

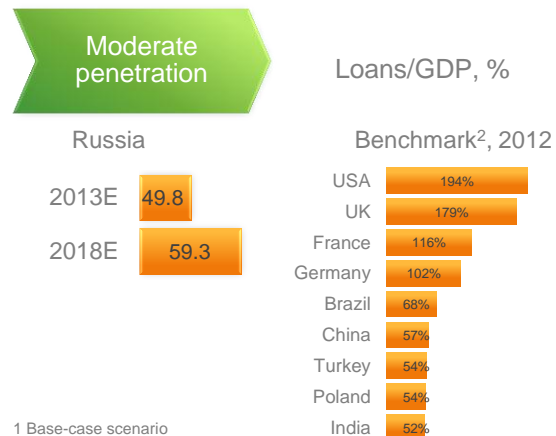
<sup>3</sup> Austria, the Czech Republic, Slovakia, Hungary, Serbia, Croatia, Slovenia, Bosnia



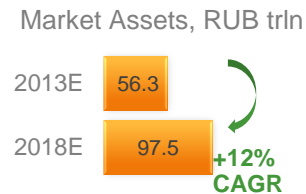
2

## Zoom in on the Russian market

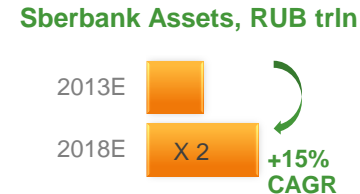
### Key factors supporting market growth in Russia<sup>1</sup>



<sup>1</sup> Base-case scenario  
<sup>2</sup> Source: World Bank



- Russian banking system to outpace the GDP growth
- Deposit taking and lending would be more balanced resulting in stability of the system



Sberbank to gain market share in all markets by increasing

- cross-sell
- client penetration
- development of new products



# 2

## Margin evolution

Margin pressure to be offset by positive mix effect

### Margin pressure driven by...

- Lower inflation and interest rates
- Lower demand for credit
- Increased competition
- Greater capital market access
- Disintermediation

### Margins and profitability sustained by...

- Shift towards retail lending: to reach 34% of total loans by 2018 vs. current 27%
- Retail business: faster growth in credit cards and high-margin products; mortgages keep strong margin
- Corporate business: faster growth in SME vs. lending to large companies
- Positive mix in funding structure: targeting faster growth in current accounts vs. term
- Non-interest income growth (25-27% of operating income before provisions in 2018)



# 2

## Key changes in technology and client behavior

Global trends significantly influence clients .... →

### "Always online"

- Continuous innovation in hardware
- Personal devices give 24/7 online access with tons of available information

### Social networks

- Growth of connectivity between people
- Integration of geolocation services

### Demographic changes

- Generations Y and Z will soon determine social preferences and behavior

... making them change behavior and preferences

### *Retail and small corporate clients' by 2018 will:*

- Expect **real time, immediate service 24/7**
- Require **personalized** services and relationships
- **Make decisions irrationally** due to information overload
- **Trust opinions** of their peers
- Like **gamification** of services

### *Corporate clients by 2018 will:*

- Expect **integration of basic products into automatic processes** and providing a full range of services in the **online mode**
- Become more professional however challenged by information overload therefore **expect strategic partner/advisor** instead of supplier
- Require **direct access to capital markets**
- Through presence and partnerships, require **corporate banking to be more global**





# 2

## Sources of banking industry disruptions

### Next generations payments



- Simpler, more convenient and cheaper new interfaces
- Large companies from adjacent businesses (i.e. telcos) and disruptive startups (i.e. PayPal) compete with banks providing services directly to customers



### Banking information aggregation



- Aggregating all banking information and making it instantly accessible by the client
- Comparative analytics on products in the market and best offers from other banks



### New service model



- Fully digital service model via direct banks
  - independent banks working only through remote channels
- Online "shell banks", which use the products of traditional banks as whitelabel



### Risk disintermediation



- Unleash the power of social media to rethink business
- P2P and crowd funding communities revolutionizing the risk intermediation



# 2

## Addressing key strategic challenges in technology and customer behavior

### Embracing the digital world

- Already a clear market leader in on-line (8 mln), mobile (13 mln), and social (close to 2 mln strong)
- Significant investment planned into cutting edge customer facing and back-end capability
- Branchless banking as a key target by 2018

### Investing into customer data and analytics

- Unrivalled access to customer information
  - 110+ mln total / 65+ mln active clients
  - Leading market share in both lending and transactions
  - 20 mln payroll and 22 mln pension/social clients
- 15 petabytes of data growing rapidly

### Developing an innovation hub for the Group

- Dedicated innovation and R&D units
- Set to create “fully-digital” standalone subsidiaries in CEE and Russia
- Focused drive to embed Sberbank into key digital ecosystems

### Focusing on deep customer relationships

- Workflow and “lifeflow” integration
- Holistic view of customer needs
- Target 100% share of mind/wallet
- Focus on intuitive ease and rich functionality of the user experience



# 2

## Addressing core strategic challenges – regulation and capital pressure

### Capital pressure driven by...

- Global uncertainty over capital adequacy buffers and on timing of their introduction
- Local Regulator (CBR) – no clarity on Basel 2 advanced approach introduction
- CBR – no clarity on capital adequacy buffers and timing
- CBR – capital adequacy requirements usually more stringent than Basel requirements

### Sberbank capital strengths

- Sberbank is already compliant with the local capital adequacy requirements (introduced from 2014)
- Expect strong profitability resulting in organic capital generation
- Likely to benefit from Basel II AIRB implementation
- Credit policy to support favorable RWA composition
- Opportunities to support capital structure by subordinated debt instruments



# 2

## Cost optimization agenda

Cost categories

2018 cost savings aspiration (RUB bn)

Headcount

~65

Procurement

~23

IT categories optimization

~10

Branch reformatting

~6

Total 2018 OPEX reduction

> 100



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# 3

Core strategy  
themes  
– with the  
customer for life



Surpassing  
expectations

Digital and  
multichannel

Segments and  
tailored offers

Products and  
bundles

360 cross-selling

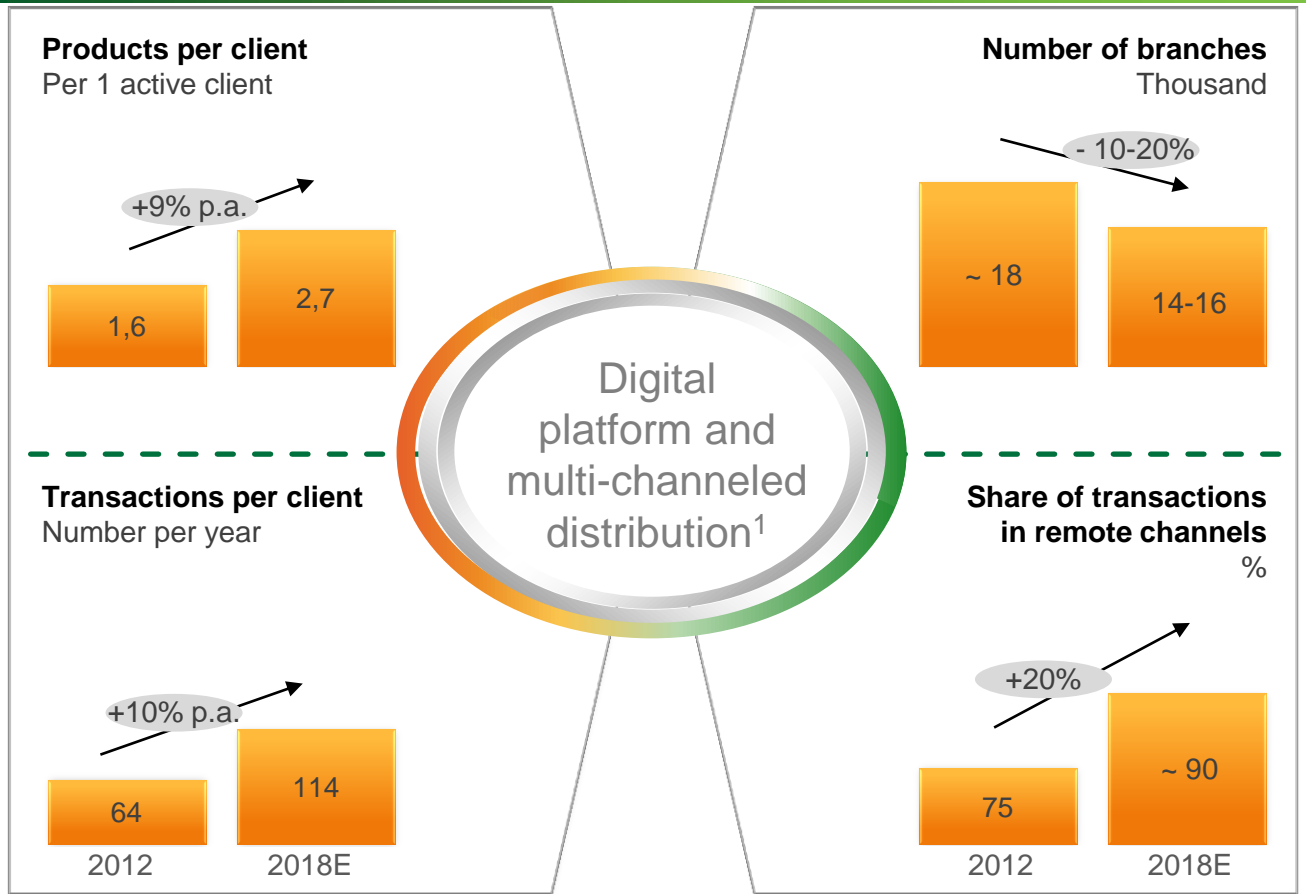
Data and Analytics

Digital ecosystems



3

With the customer for life - embracing the digital world



Base-case scenario



# 3

## Core strategy themes – team and culture

Enhancing the culture

Growing customer service capabilities

Redefining the standard for management

Next-generation HR processes

A Sberbank for different generations and lifestyles

Becoming an international organization





# 3

## Core strategy themes – technology breakthrough



Centralized and modular application architecture

Modern and reliable infrastructure

Superior technology operating model

Technology-enabled innovation

Cybersecurity

Big data and analytics



# 3

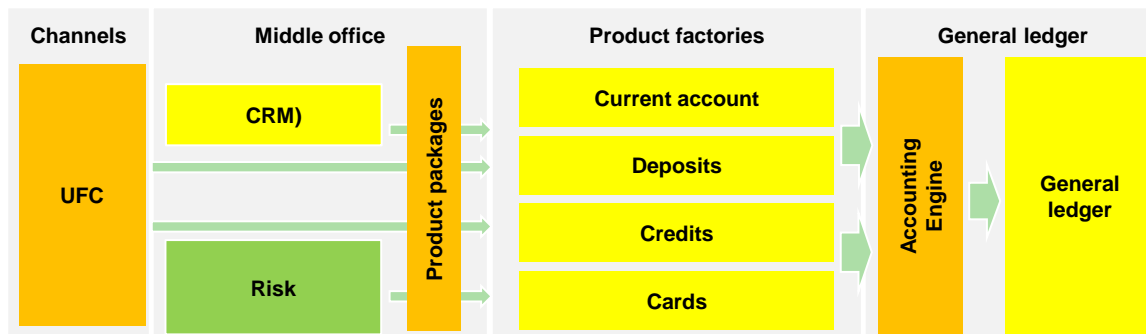
## Technology transformation – target core banking architecture



### As is

Channels	Middle-Office	Product factories	General ledger
Retail		Retail	
	Risk	Retail credits	
Corporate		Corporate	
CRM		Corporate credits	

### To be



System to be developed
  System in process to be implemented
  System implemented



# 3

## Financial Excellence



**Granular financial  
performance measurement  
and accountability**

**Superior cost management  
system and spend  
optimization across all  
categories**

**RAROC-based risk/return  
optimization as a basis for  
decisions and capital  
allocation**

**Will evaluate outsourcing  
of non-core functions**



# 3

## Mature organization



MIS and data architecture

Organization and governance

Sberbank Production System

Project management

Synergies across the group

End to end process management

Partnerships and JVs

Corporate Governance

CSR



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# 4

## Retail banking highlights

### Growth

#### Major levers

##### Market Growth

- Russian loan and deposit markets to slow down but growth is set to remain strongly double digit

##### Competitive position

- Leader in key mass client acquisition channels: payroll and social payments
- Lending market share to be boosted by credit cards overdrafts, debt consolidation and home equity
- Deposit share: focus on regular/recurring savings products
- Holistic relationship focus and cross-selling: products per customer to increase substantially
- Renewed focus on high-potential segments (e.g., affluent, youth)

##### Non-interest income

- Focus on cashless transactions: direct debit and digital payment solutions
- Acquiring infrastructure boost
- Massive push for insurance, investments, and pensions (x4-5 increase vs. 2013)

#### Targets for 2018

- Operating income before provisions will grow x1.7-2.0
- Products per customer will increase by 70%
- CAGR in Russian loans portfolio 18%
- 30% of clients to switch to “everyday banking bundle”

Base-case scenario



# 4

## Retail banking highlights (continued)

### Major levers

### Targets for 2018

#### Profitability

- Margins preserved through strong mix effects in both lending and deposits
- Cost of risk will remain below market average through effective fraud prevention, underwriting, and recoveries
- Costs reduction through network optimization and ongoing productivity improvement

- **Operating income before provisions per employee will increase x2**
- **Net F&C income to grow x2+**
- **C/I to decrease by more than 10%**

#### Innovation

- Big data and analytics to drive predictive behavior models, cross-sell and retention
- Beyond banking – shaping ecosystems around customer needs in the new digital economy

- **Digital/mobile/social ~90% of transactions and 30% of sales to happen without branch contact**

Base-case scenario



# 4

## Wealth management highlights

	Major levers			Targets for 2018
	Life Insurance	Investments	Pensions	
Growth	<ul style="list-style-type: none"> <li>Underdeveloped and underpenetrated markets.</li> <li>Well-positioned to shape the market to our advantage</li> <li>Strong track record of successful execution and business building</li> </ul>			<ul style="list-style-type: none"> <li>Market shares</li> <li>40-50% - life insurance</li> <li>up to 10% - retail P&amp;C</li> <li>25% - retail mutual funds</li> </ul>
Profitability	<ul style="list-style-type: none"> <li>Rich margins &amp; very competitive prices</li> <li>Full transparency for fair selling practices and client protection</li> <li>Will manufacture only profitable products (e.g. no motor insurance for now)</li> <li>Full product set will be offered through agent model</li> </ul>			<ul style="list-style-type: none"> <li>Over RUB100 bn P&amp;L contribution*</li> </ul>
Innovation	<ul style="list-style-type: none"> <li>Digital/mobile/social platforms both on an integrated basis with the bank and stand-alone</li> <li>First to create an integrated financial services offering</li> <li>Product leadership in insurance and investments</li> </ul>			<ul style="list-style-type: none"> <li>Sberbank as catalyst for market growth</li> </ul>

\*annual by 2018; Base-case scenario





# 4

## Corporate banking highlights

### Growth

#### Major levers

##### Market Growth

- Overall market growth to continue in the low teens

##### Competitive position

- Holistic client view, focus on maximizing the potential of each client and profitable cross-selling
- **CIB:** to increase wallet share, cross-sell, focus on non-credit products
- **Mid corporate:** Significant opportunity to increase market share in lending and fee-based products
- **SME:** to increase number of clients/coverage (less than 30% of companies with turnover <USD 2 mn are Sberbank clients)
- Further cross-sell synergies between corporate and retail businesses

##### Non-interest income

- Additional revenue streams through IBGM, insurance products and trade finance
- Significant opportunity to grow CIB business in Turkey and CEE

### Profitability

- Control over risk costs through superior underwriting and workout
- Plans to reduce the corporate network

#### Targets for 2018

- **SME: product per client to grow x1.4-1.5**
- **Share of wallet growth:**
- **SME: +10-12%**
- **Large: +10-12%**
- **CIB: +3-5%**
- **Operating income before provisions:**
- **SME: to grow x2.0-2.5**
- **Large: to grow x2.0-2.5**
- **CIB: to grow x1.6-1.8**

- **Net commission income: x2**
- **Number of dedicated corporate branches reduction by 25%**

Base-case scenario



# 4

## Corporate banking highlights (continued)

### Major levers

### Targets for 2018

#### Profitability

- Margin-supportive asset mix
- Ongoing productivity improvement

- **Operating income before provisions:**
  - **SME: to grow x2-2.5**
  - **Large: to grow x2-2.5**
  - **CIB: x1.6-1.8**
- **Productivity growth at least 10%pa**

#### Innovation

- Market leading client coverage capabilities and product expertise
- Will further build out credit and risk management capabilities and develop industry-specific products
- Leading digital platform, completely revamped payments infrastructure
- Integrated personal/business view for small business clients
- Suite of dedicated small business/start-up products
- “Business environment” – a small business social network set up and managed by Sberbank
- Client education and capability building as part of the Sberbank value proposition

- **For SME digital/mobile/social**
  - **90% of transactions**
  - **40% of sales**

Base-case scenario



# 4

## International business highlights

### Business highlights

### Target 2018

#### Turkey



- Development of retail, SME and agricultural business
- Opportunities for CIB business
- In line with the market until 2015, possible faster growth after

- ROE 13-15%
- Growth to 5%
- Large size of CIB market

#### CEE



- Corporate model focusing on cross-border business
- Retail model focusing on Digital Banking platform
- Priority countries – Czech Republic and Slovakia

- ROE 15-17%
- Double growth to 3.6%
- Growth in the Czech Republic and Slovakia

#### CIS



- Organic growth in the countries of operation
- Payment of dividends in Belarus and Kazakhstan
- No entry in other markets of the CIS

- ROE 15-20%
- Organic growth of share in Ukraine and Kazakhstan, consolidation of business in Belarus

Base-case scenario



# 4

## International business highlights (continued)

Profitability, %		Efficiency, %		Growth	
ROE 2018		Cost / Income ratio 2018	Cost / Assets ratio 2018	Assets 2018 / 2013	Net profit 2018 / 2013
14-16%		45-48%	< 2.5	X 2.5	X 2.5-3.0



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5

Operational  
Excellence

## Operations

Number of Employees in working in FTE:



*FTE – full time equivalent*



# 5

## Redefining procurement



### Renewed cost-management approach: IT example

1. Develop state-of-the-art procurement governance infrastructure & IT procurement process
2. Reduce number of vendors from 260 (currently) to 70 (target)
3. Reduce cost by 20-30% conducting direct contracts with the vendors
4. Establish strategic partnership platform with Top-20 vendors:
  - Customized solutions
  - Efficiency gain by up to 25-30%
  - Synergy across the Sberbank Group
  - Increase go-to-market speed
  - Joint go-to-market solutions
5. Strategic sourcing (make/buy solutions)
6. Look at architect and procurement solutions as one



# 5

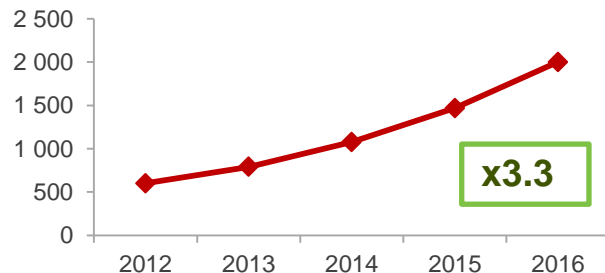
## Technology transformation

### IT Transformation Framework:

- Effectiveness
- Discipline
- Simplicity
- People
- Focus

- Program example – “99.99 reliability of automated systems”

**Processing: increase in number of transactions per second**



### Main areas of IT Transformation:

- ABS centralization
- Reliability of systems
- Applications and IT architecture
- Target IT process model
- Innovations: digital/mobile/social

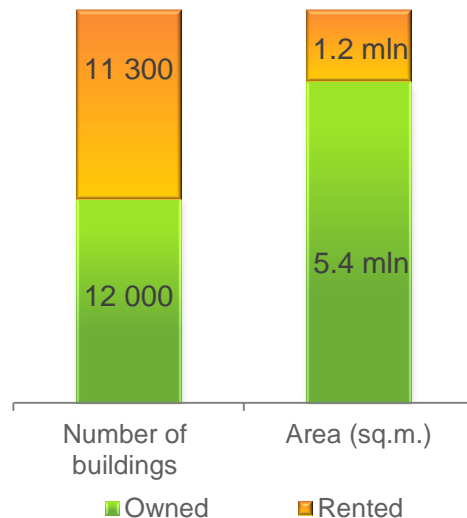




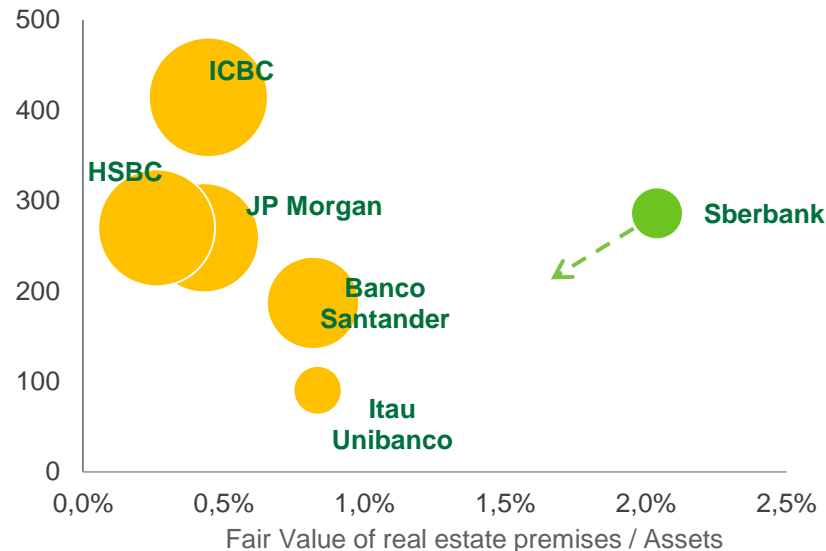
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## Optimizing real estate

### Sberbank Real Estate



### Number of Employees (ths) vs. Fair Value of Real Estate Premises / Assets (%)



**RE portfolio decrease by 1 mln sq.m. over next 3 years**



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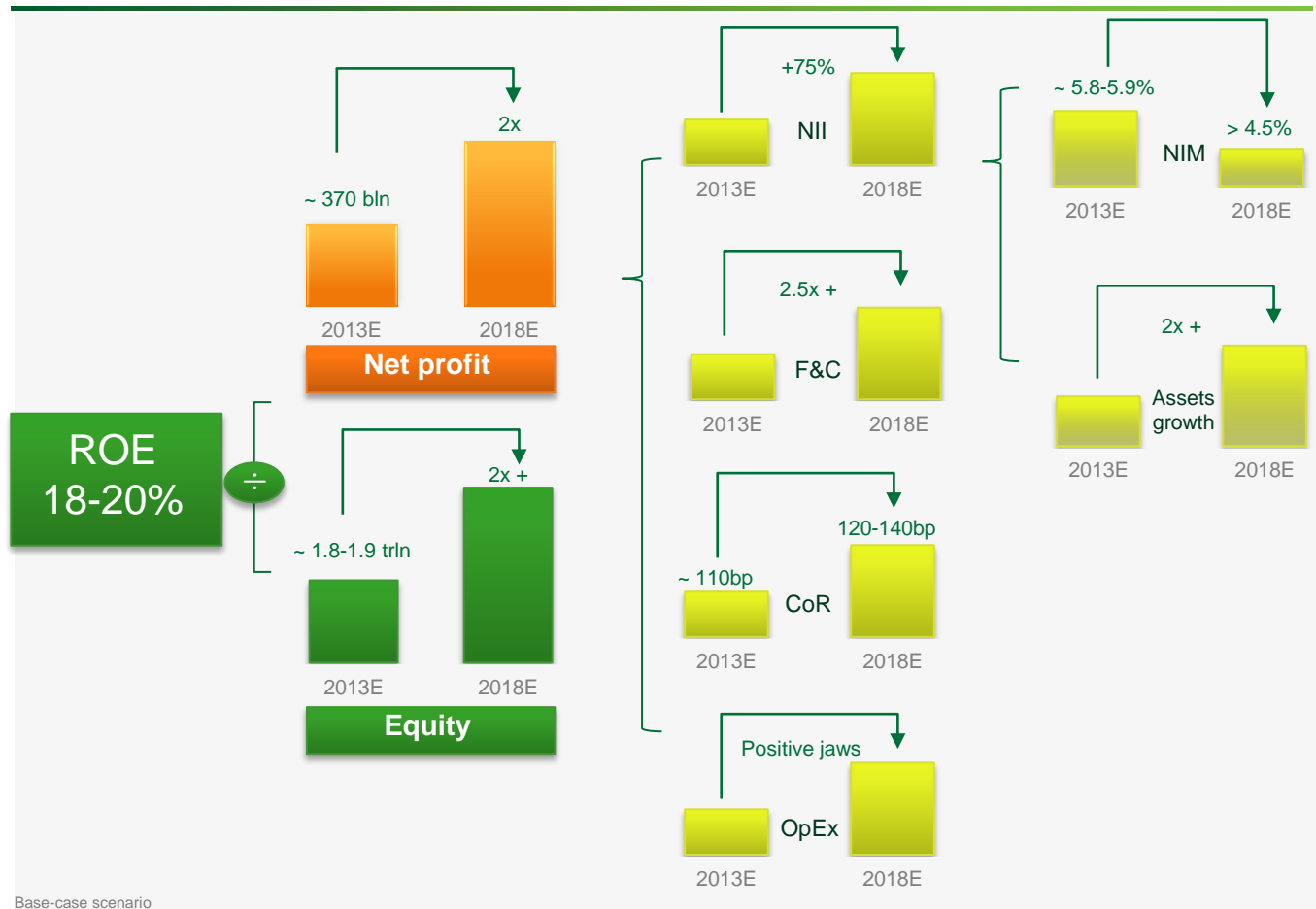
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Ambitious financial targets for 2018



6

## Financial Highlights



Base-case scenario

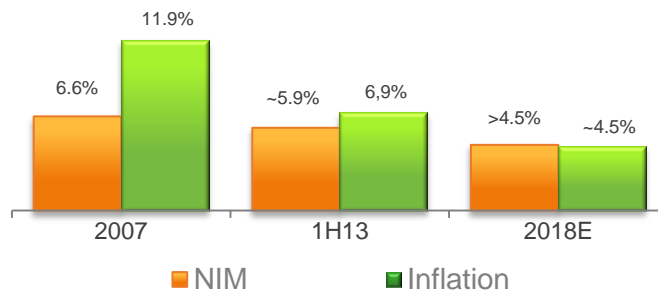


# 6

## Financial Highlights

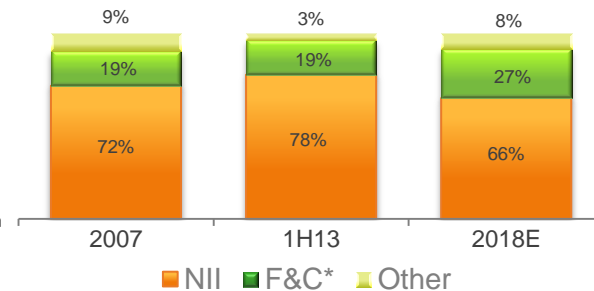
### Margin

#### NIM and Inflation in Russia



2013 and 2018 are Best case scenario estimates

#### Revenue breakdown



\* F&C income includes results from insurance and WM businesses

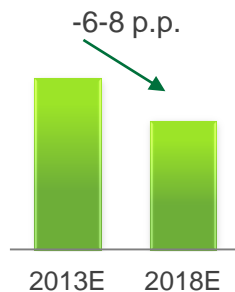
- Despite inflation contraction, Sberbank was able to sustain loan yields and preserve margin
- Growing share of F&C income to compensate for compressing margins
- Asset mix will be shifting towards retail lending and higher marginal corporate lending
- Our conservative estimate of margin decline over the next 5 years is 100 to 130 bps



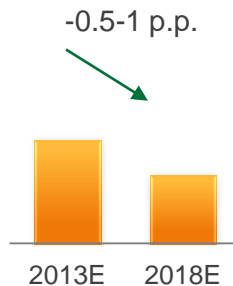
## Financial Highlights

### Costs

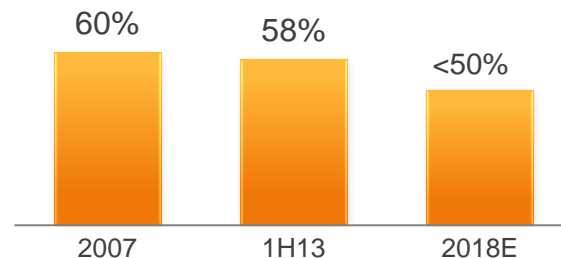
Cost to Income



Cost to assets



Share of staff cost in OPEX



- Cost to Income<sub>2018</sub> 40-43%
- Cost to Assets<sub>2018</sub> <2.5%

- More than double growth of net profit per employee
- OPEX growth not to exceed 13-16% p.a. in 2014-2018

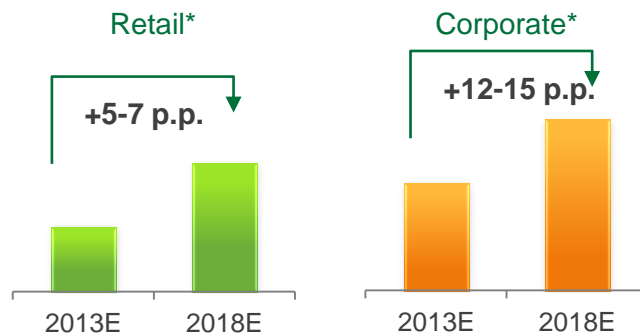


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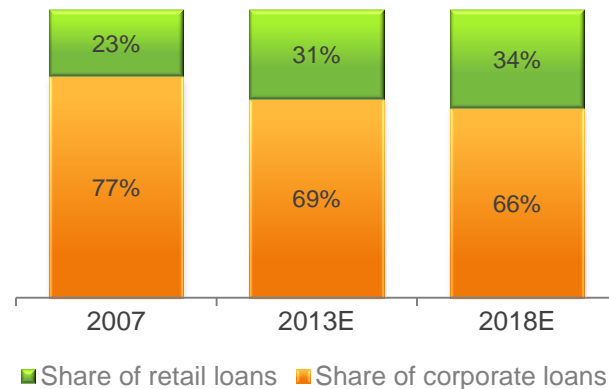
## Financial Highlights

## Assets & Liabilities

### Share of current accounts in total client funds



### Loan portfolio



Targeted asset mix & funding structure to protect our margin



# 6

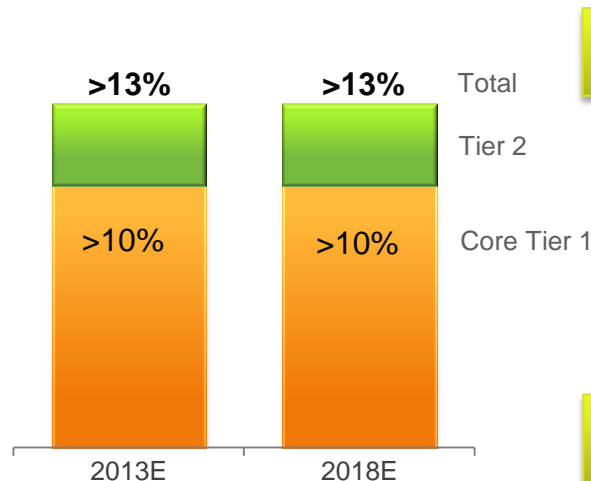
## Financial Targets

## Capital

### The Group capital structure

Basel I IFRS

Basel II IFRS, AIRB



2013E

2018E

— Basel II standardized approach implementation with Basic Indicator approach for operational risk

Negative

— Credit Risk Mitigation approach implementation

Positive

— Standardized Approach for operational risk implementation

Positive

— Advanced IRB for credit risk implementation

Positive

— Internal models approach for market risk implementation

Positive

— Advanced Measurement Approaches for operational risk implementation

Positive

Base-case scenario



We sincerely believe in Sberbank's mission and are inspired by it

Our next 5 years will be challenging but also will be exciting and very rewarding

We invite you to join us for the journey





Thank You

Q&A

