

Implementation Status of Sberbank Group Strategy 2014-2018

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Deputy CEO



December, 2016

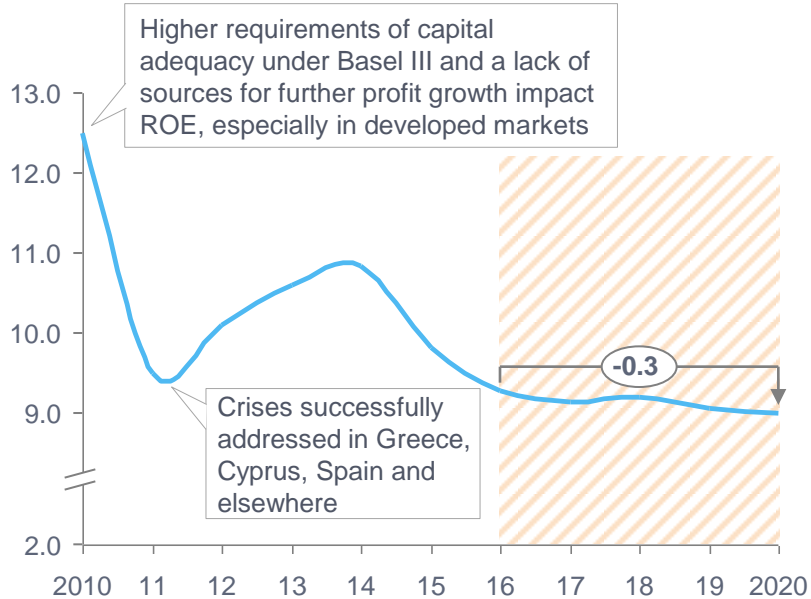
**What has changed
in the economy?
Markets and trends**

**What is our status?
Achievements and
development zones**

Global and Russian banking markets are facing reduction and further stagnation of profitability ...

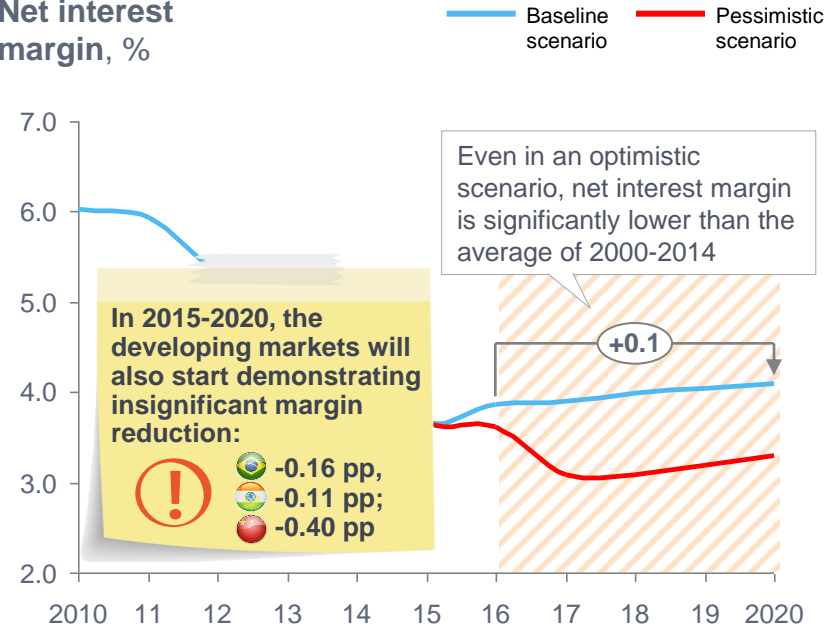
The profitability issue on the Global banking market is still high on the agenda...

ROE, %








... at the same time this trend is becoming more visible in the Russian market

Net interest margin, %



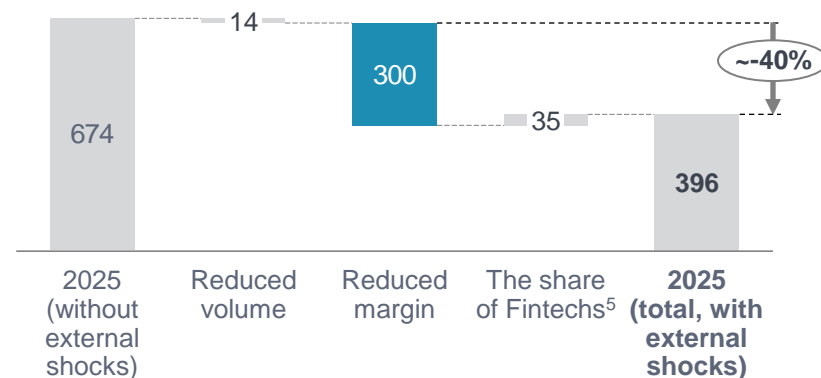
... that threatens traditional banking products

Potential change in NOI and profits of banks worldwide, 2025

Example: Retail banking products		Δ NOI ² Percent	Δ Profit ²³ Percent
	Consumer loans ¹	-40	-60
	Payments	-30	-35
	Corporate loans	-25	-35
	Wealth management ⁴	-15	-30
	Mortgage	-10	-20

Consumer loans

NOI², 2025, USD bn



Effect
on ROE:
-6 p.p.

¹ Cash loans, credit cards, POS loans

² NOI after provisioning, profit after tax

³ Including OPEX optimization

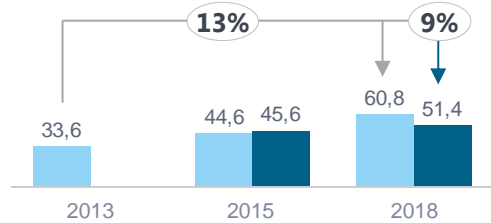
⁴ Excluding deposits

⁵ Including non-banked customer segments

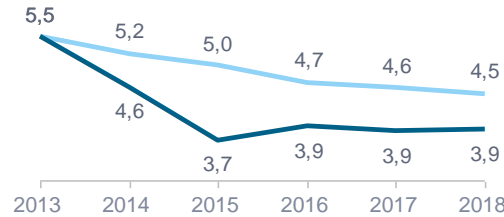
Despite the market shows some signs of recovery in 2016, it will be far from reaching the initially projected levels in 2018

■ 2014-18 Strategy ■ New Baseline Scenario 2016 — xx — CAGR

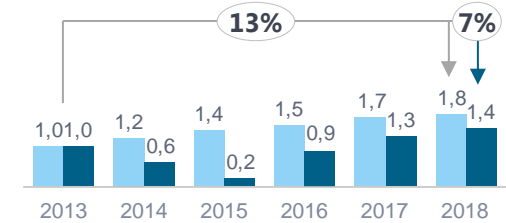
Loans, total
RUB, tn



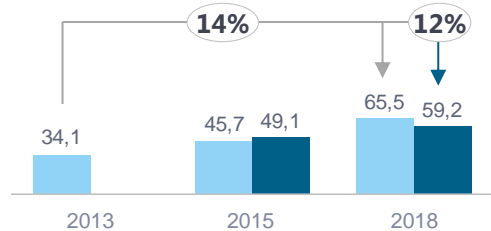
Net interest margin
Percent



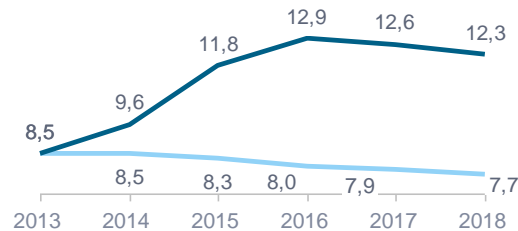
Profits of the banking system
RUB, tn



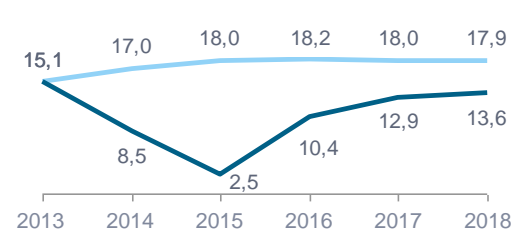
Clients' funds
RUB, tn



Provisions to loans ratio
Percent



ROE
Percent



Banks continue to face the increasing competition from non-financial organizations in terms of building long-term relations with the clients

Customers prefer to purchase digital services ...

Market

44% of the banking profits will be generated through digital channels in 2018

Customers

61% of population **use mobile banking** in developed Asian countries

Non-financial organizations



75% of customers think that Amazon **offers the best payment experience**

Financial institutions



focused on **digital banking** (Simple, Atom, Madiva Soluciones, Holvi)



Launch **financial marketplace** with open API



... and expect personalization from banks

51% want to receive **proactive recommendations** of financial products and services

30% of banks' offers **are within the scope of the needs of customers**



Tailored approach for every customer

Banks focus on **CX and personalization of digital offers**



What has changed
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What is our status?
Achievements and
development zones

On the halfway of the Strategy 2014-2018 implementation we have obvious achievements...

WITH OUR CUSTOMER FOR LIFE

- High **customer service level** (NPS, CSI, TRIM) compared to competitors, especially in the retail business (NPS - 58)
- Substantial development of **digital channels**
- **Growth in all the targeted retail segments** (retirees - 60%, payroll schemes - 50%), 55% of the mortgages market
- Creation of **product factories in wealth management**, deeper penetration of long-term insurance products, **№1 on the market of life insurance**, mandatory pension insurance, and mutual funds

MATURE ORGANIZATION

- Smart Management System (**SMS**) for branches **implemented in** retail business
- **Sbergile** implementation started (the first wave of Agile has started)
- Basic managerial analytics established
- Blocks “Technologies” and “Services” are organizationally transformed
- In territorial banks the **“Teal” branch model** (self-managed organization) is piloted



TEAM AND CULTURE

- Substantial growth of **employee engagement**
- **Turnover reduction by 1.5 times** compared to 2013
- Bank level of a corporate culture has increased
- Charitable **fund was launched**

TECHNOLOGICAL BREAKTHROUGH

- We **have** improved the **reliability and stability of our** information systems **3.5 times**
- Second phase of **IT systems' centralization** completed
- **~1,500 cyberattacks per day prevented** in 2015
- Active implementation phase of the **target technological platform** (Single Front-End System (EFS), 18+, Data Factory)

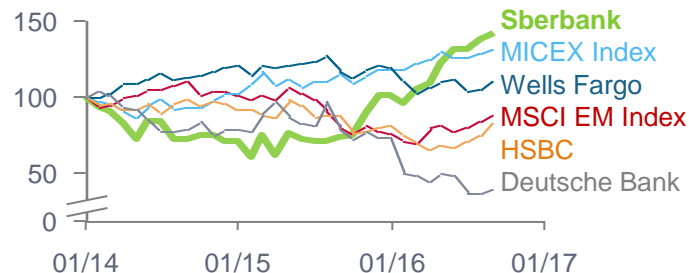
FINANCIAL PERFORMANCE

- Level of profitability (ROE) considerably exceeds the Russian competitors (~ 19% in 1q. 2016)
- Best **NPL 90+** on the market (1.4% in CIB, 6.1% in corporate business, 5.1% in retail business)
- Successful implementation of the **"Smart Expenses"** program (RUB 105 bn in savings effect)
- Bank operating expenses are growing slower compared to operating income (CAGR 2014/16 11% vs 12% respectively)

...which are visible to the market...

Positive publications...

Capitalization dynamics, %



Sberbank overtook Gazprom in market capitalization



Sberbank decreased loan rates for small businesses



Sberbank's income has exceeded forecasts



Sberbank's ordinary shares have marked a new historical height



Sberbank decreased rates for mortgages and foreign currency deposits

... and various worldwide awards



Most customer-focused bank

Best SMS-bank
Best mobile bank
Best solution for invoice payments
Best information security project



Forbes

Best Russian bank for individuals

Deloitte

Most innovative Russian bank



Grand Prix:
Bank of the Year
Sberbank Private Pension Fund – Fund of the Year
Sberbank Life Insurance - Company of the Year



Best financial institution loyalty program



Streets Project
Use of Ambient Outdoor



Distribution & Marketing
Innovation Awards
2016 - Salesforce & Change Management



CIPR Inside Awards 2016
Communication of
Sberbank Values project

... although, there is a number of important areas for development

! Key gaps with market practices

WITH OUR CUSTOMER FOR LIFE

- **Relatively low share of sales** in digital channels
- Customer service throughout the network is still **linked to the region where the account was opened** (Green Street not implemented)
- **Credit process** optimization was only just started

MATURE ORGANIZATION

! **Project management optimization** is in process

- **Innovation-launching process** is not efficient enough
- Considerable bureaucracy and **impeded decision-making**
- Managerial processes for fast integration and maximum **synergy from new acquisitions** are not created
- Improve real-time P&L, managerial, and financial information



TEAM AND CULTURE

- **HR transformation** started only in the middle of the year

TECHNOLOGICAL BREAKTHROUGH

- ! **Time-to-market** has decreased, but still behind tech competitors (24 months average)
- ! **Data and analytics (BIG DATA)** have not yet been turned into a strategic advantage in all the activities of the Bank

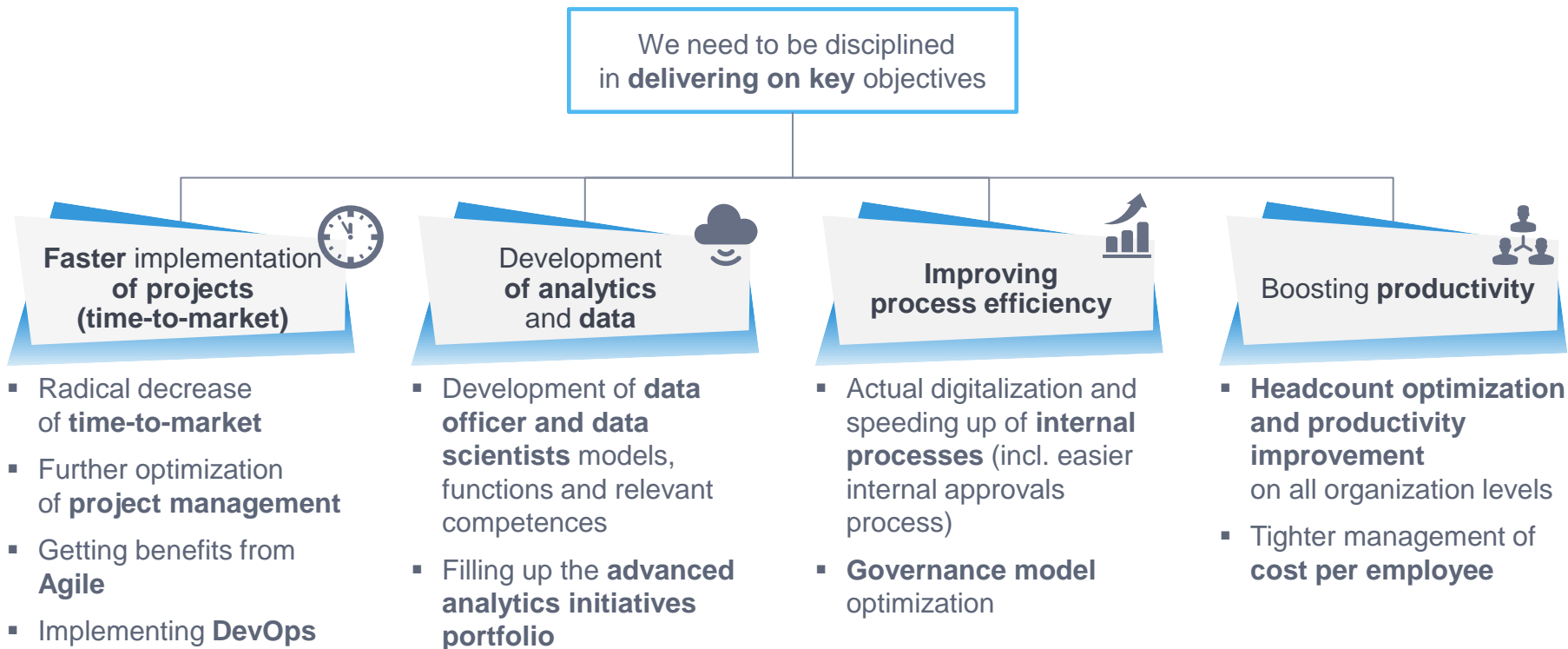
FINANCIAL PERFORMANCE

! **Performance** is improving, branch network and headcount are being optimized, but the process should go faster

! **Lower costs for supporting blocks are required**

- Large real estate portfolio, not enough competence for fast utilization of such assets
- Majority of countries of the international network and subsidiaries of the Group are not providing expected added value

Going forward there are 4 key development areas for Bank's transformation



These Four areas of Bank's internal transformation will provide the implementation of the Strategy 2018



Digital

- Migration of **all products and transactions to the digital bank** (by achieving the world's best practices - **30-35% share of sales** through digital bank in a mix of sales by 2018)
- Launch of the **credit potential** (innovative product, that in a form of a game allows to better manage one's limits) and drastic development in **personal financial management** (get an advice on how to better manage personal finance, etc.)



Mass personalization

- Customers are offered necessary **financial and non-financial products and services** where and when they need them (e.g. gift offers/ reminders, etc.) via integration with partners through an open API, offer clients products based on triggers in real time, use of Big Data on a geolocation



Customer centricity

- Retention of the **best banking experience** in Russia (NPS 65%+)
- Considerable **reduction in customer complaints**
- Most customer problems are solved **at the time of origin**
- **Identify potential customer problems** in advance and fix those problems **BEFORE** the customer has faced them



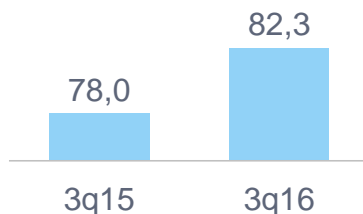
Raising financial efficiency

- Main focus on **cost optimization** (optimizing the number and size of branches, the expenditures on funding branches and ATMs, implementing a flat governance structure, getting rid of redundant layers, etc.)

Sberbank retail business growth drivers

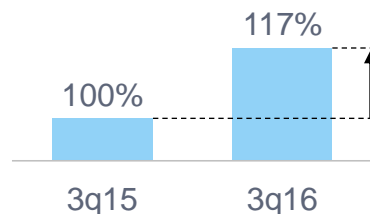
Customer base

Number of active
customers, mln



Profitability

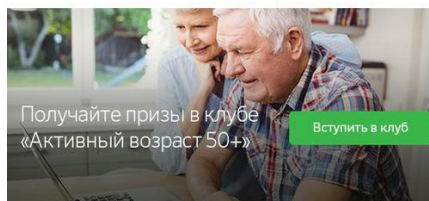
Operating Income per
customer, %



“Cashless World”

- > 87 mln. of active debit cards with turnaround ~ 8 tln. rubles
- Turnaround of the trade network has **increased** by **54.6%** over the year

Coverage of all needs for each customer segment



“Active age”
(50+)



“Youth debit card”
(18+)

NPS,
% (3q 2016)

Avg. all segments	59%
Social	61%
Youth	65%
Mass	57%

Products per client,
(3q 2016)

2,8

Customers satisfaction

Corporate Business and CIB: launching new client service models and cost optimization

CB: New business models, development of digital bank and cost-optimization

New business model

Micro/Small business

- Implementation of **differentiated service/sales models**: *Client manager* – high profitable segment, *virtual client manager* via call-center – mass customer segment
- Single customer view** (with Retail and Insurance businesses)

Large/Medium business

- Customer service in a new format – **industrial client-product teams**
- Unique product proposition** for different industries

Defense industry

- Creating a market for **complex technical modernization** of industrial companies
- The transition from holding model to **industry management model**

Regions and public sector

- Development and implementation of **complex industry solutions**
- Implementation of **packaged services** for private-public partnerships

EXECUTION
Intellectual management system

- Operational efficiency** (reducing manual labor, raising STP)
- Managing **customer lifecycle** in a smart way
- Credit constructor** will be the basis of the new credit process
- Implementing **personalized remote service**
- The launch of **Proactive credit monitoring** (“Early Warnings”)
- Implementation of **4D Client Profile**

CIB: proposed measures will allow achievement of goals under Strategy 2018

Fine-tuning the service model



- Re-segmenting CIB and CB customers
- Creation of a settlement ecosystem
- Implementing remote operational service for the customers

Implementing updated credit business model



- Implementing a new credit process
- Automating cashflow modelling
- Creation of a single data mart for all participants of the credit process

Monetizing IBGM and MB&A expertise



- A digital champion - convenient and advanced electronic platforms and automatic hedging
- Introducing a think tank for development of solutions for customers

Growth of non-credit income



- Development of the transactional platform
- Optimizing the tariff-setting model

Implementation of CIB development program

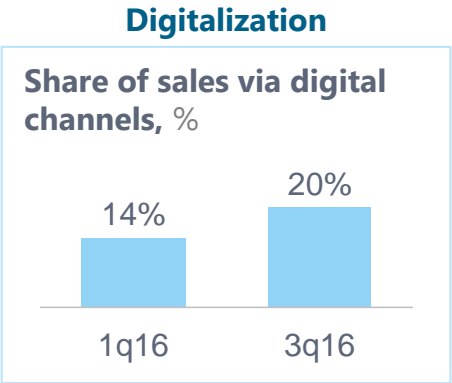
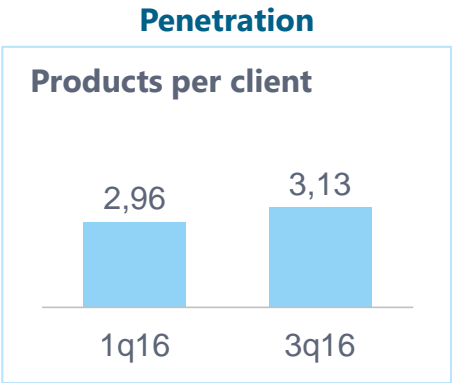
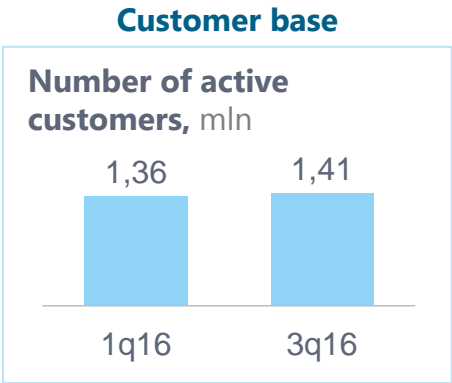


- Implementation of the cost- and resource management system
- Integration of PAO (PJSC) and ZAO (CJSC)

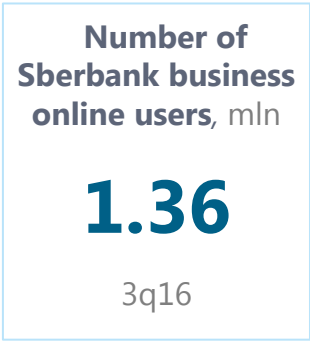
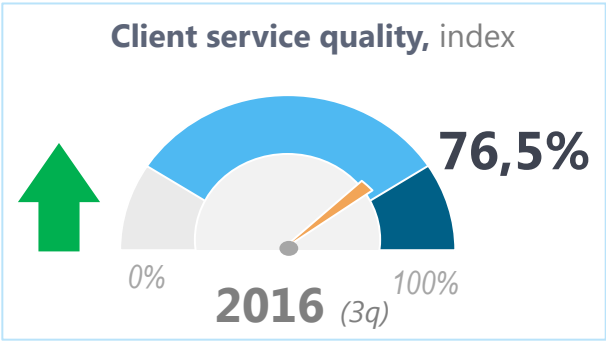
Corporate Business grows steadily and has a focus on digital channels development



Sberbank corporate business growth drivers



Customers satisfaction



Technology: building technological platform and optimization of internal processes



Technological platform

- **Technological platform:** In-memory core banking (18+), Unified Front System, Data Factory
- **Cutting the cost of operations** (switching to low-end equipment, using external clouds, raising the extent of equipment recycling, using open-source solutions, decreasing Ops headcount)
- **Shorter time-to-market** (implementation of Agile, programming is replaced by core banking settings (18+), implementation of 'fast waterfall')

Implementing according to the plan – **significant results are expected in 2017**

Information systems **were decommissioned**

680
(out of ~1 900)



Reliability

- Achieving **maximum reliability (99.99)**, providing services **24/7**

0,004% **Missed fraud to total transaction volume** across all the channels
(industry best is 0,04%-0,06%)

95% **of Fraud is now being prevented** vs. target level of 80%



Technological transformation

- **Creation of CDO** (Chief Data Officer) function for efficient data management
- **Developing internal competences** (creating a tech leader image, creating the right environment for innovations R&D, keeping and finding talents)
- **Transformation of process management logic** (drastic cutting of processes, processes configured based on business processes, Big Data used in each process, processes are transformed to achieve customer centricism)

Technology: developing and piloting the latest technological trends



Despite external and internal restrictions Sberbank will achieve the goals of Group Strategy 2014-2018



✓ On track for the strategy objectives

Net profit of Sberbank Group, 2018

2013 ↑ x1,8+



Return on Equity (ROE), 2018

~18%



Cost to Income (CIR), 2018

<40%



Cost of risk (COR), 2018

~1,9%



Assets, 2018

2013 ↑ x1,8



Net interest margin, 2018

>5,0%



Loans to deposits (LDR), 2018

~100%



Net commission income to net operating income, 2018

~26%





Q&A

We have reached significant market shares in 2015-2016 and expecting a slight growth till 2018

Corporates loans, %

32,2%

2015A

31,2%

2016E



2018F

Retail loans, % (incl. CETELEM)

39,6%

2015A

40,9%

2016E



2018F

Corporates deposits, %

25,0%

2015A

19,7%

2016E



2018F

Retail deposits, %

46,0%

2015A

46,5%

2016E

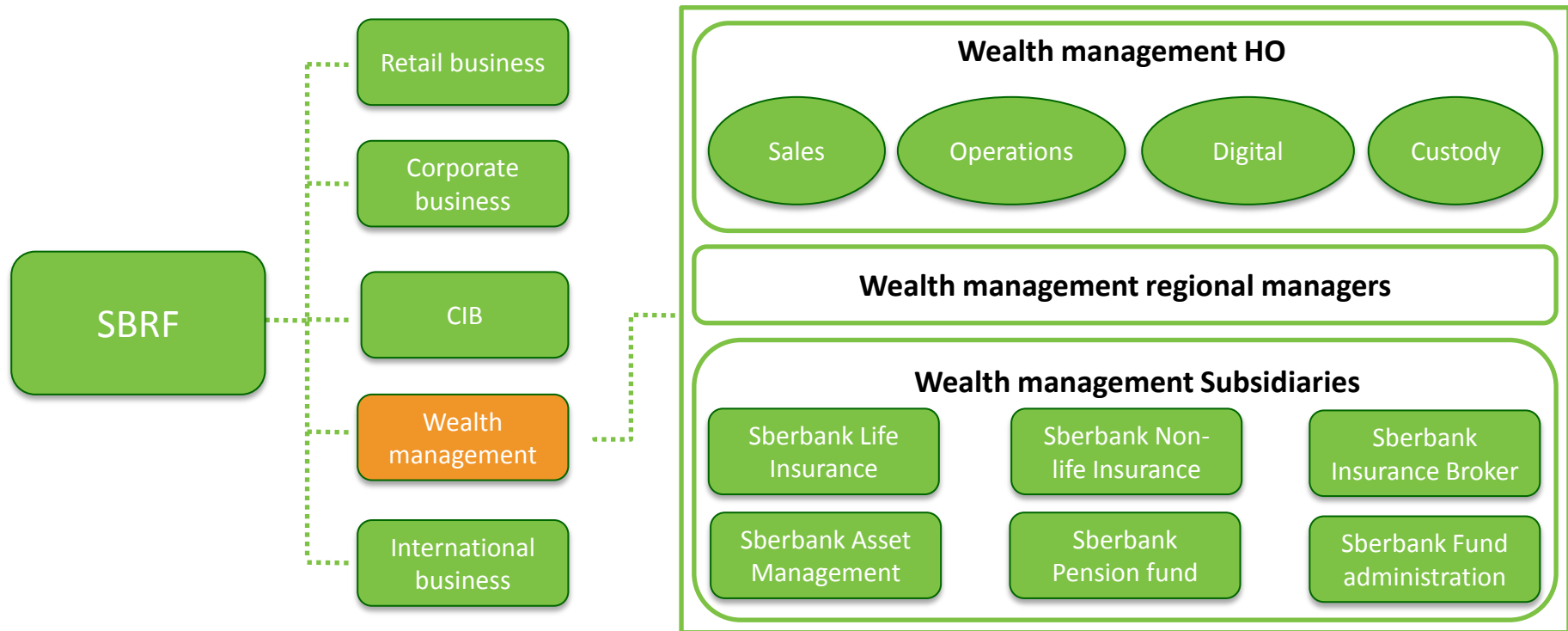


2018F



Sberbank Wealth Management

Wealth management in Sberbank



Sberbank Wealth Management in figures

Market position (share, %)	2012	2013	2014	2015	2016
Life insurance	11 (1%)	3 (11%)	1 (34%)	1 (34%)	1 (29%)
Non-life insurance	n/a	n/a	119 (0%)	34 (0,4%)	21 (0,8%)
Insurance broker	n/a	n/a	n/a	6 (5%)	3 (9%)
State pension insurance	6 (6%)	3 (7%)	3 (7%)	1 (14%)	1 (17%)
Retail MIF	1 (19%)	1 (23%)	1 (24%)	1 (25%)	1 (24%)
Custody services	2 (7%)	1 (9%)	1 (8%)	1 (9%)	1 (12%)

What we offer

Protection

- Health protection
- House protection
- Financial means protection
- Business protection

Provision

- Universal life assurance
- Pension provision

Performance

- Investment life insurance
- Asset management

We move from product selling

To satisfying the client needs

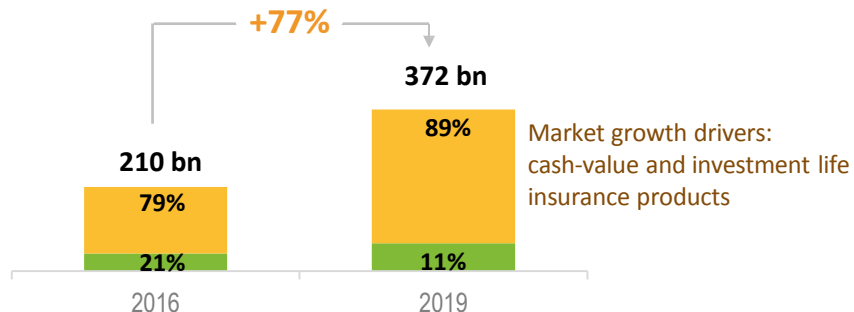
Sberbank Life insurance

SECTOR

Russian Life insurance market development

Gross premiums written:

■ Credit Life Insurance ■ Non-Credit Life Insurance



Market opportunities:

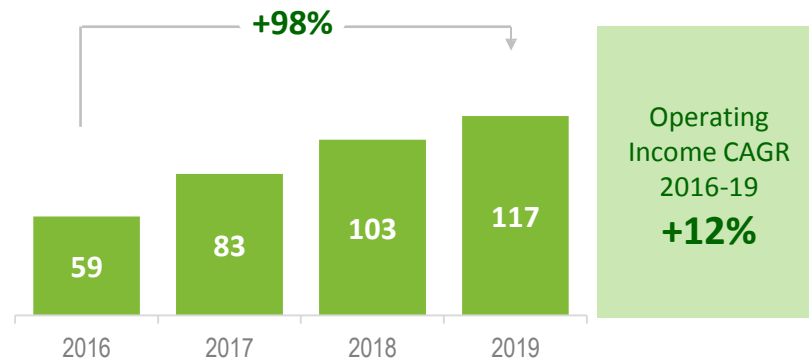
- Annuity products and critical disease insurance may become a new growth driver
- Regulation of unit-linked insurance pending; online insurance is expected to grow

Despite high growth ratios in 2012–2016 (average growth rate from 2012 to 2016 is 40%), Russia still has a strong market growth potential.

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Sberbank Life insurance development

■ Gross premiums written, RUB bn

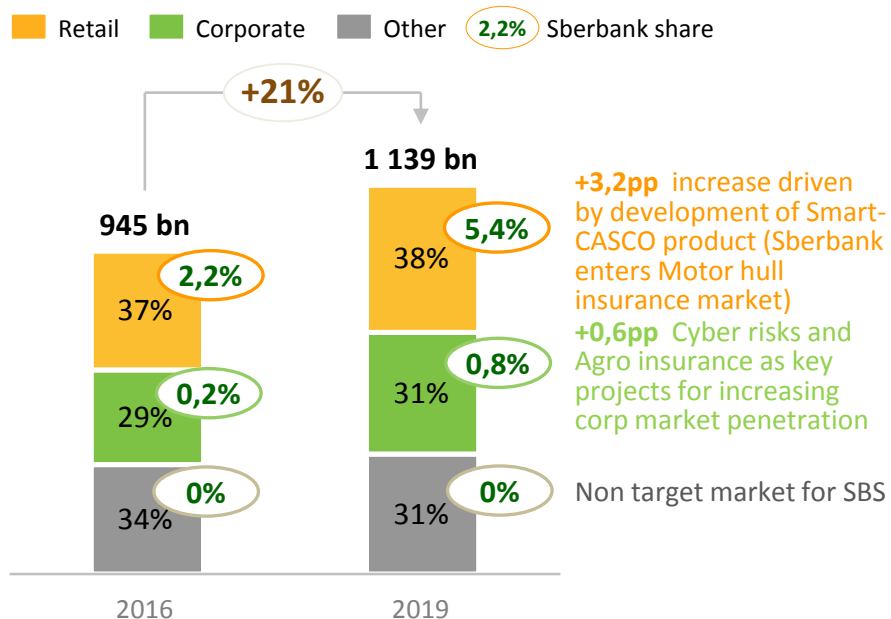


- ✓ 1-st place on the life insurance market since 2014 (over 29% share of the market)
- ✓ 7,8 million customers
- ✓ Over RUB 120 bn assets under management
- ✓ Over RUB 59 bn insurance premium in 2016
- ✓ Best and innovative products: credit LI, term-LI, saving insurance, investment LI, pension LI

Sberbank Non-life insurance

SECTOR

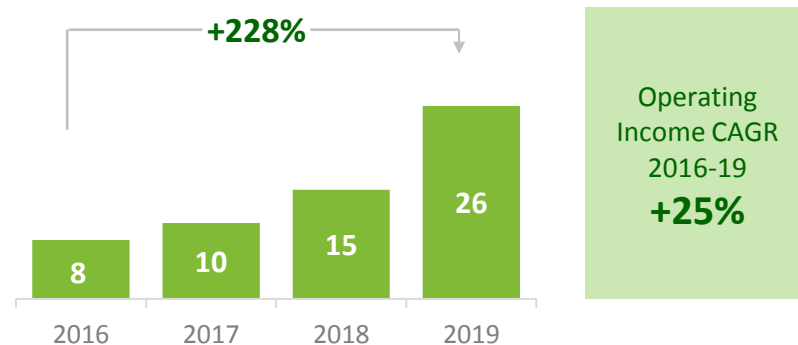
Russian Non-Life insurance market development



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Sberbank Non-Life insurance development

Gross premiums written

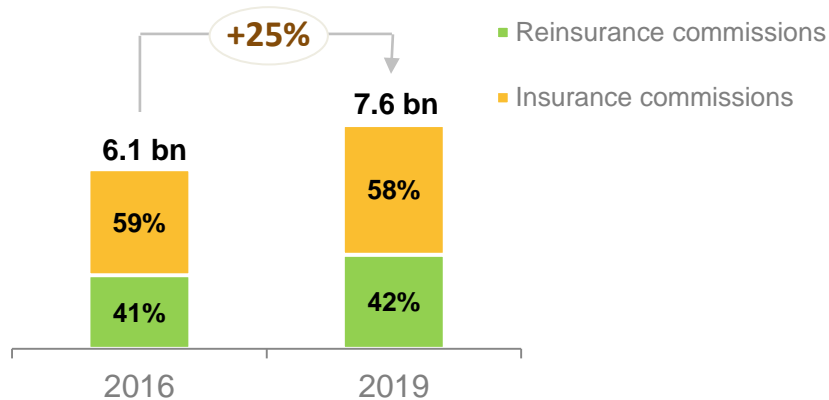


- ✓ Recognizable and strong brand
- ✓ Data driven organization
- ✓ Country wide sales, 8 000 sales points (partners network)
- ✓ The fastest growing Insurance Company in the Russian market - #119 in Y2014, #21 in Y2016

Sberbank Insurance Broker

SECTOR

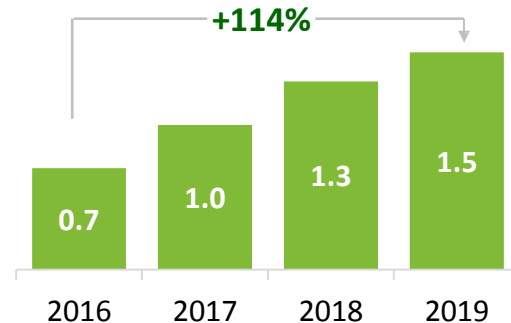
Russian Insurance broker market development



- The market is highly concentrated.
- As of the end of 2015 the market share of TOP-5 companies amounted to 61% of commissions from reinsurance and 71% of commissions from direct insurance.

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Sberbank Insurance broker development



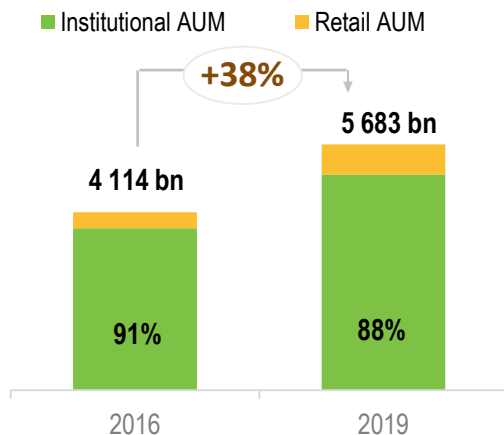
Operating
Income CAGR
2016-19
+50%

- ✓ The company holds the 1st place among companies with 100% Russian capital
- ✓ In 2016 the company acquires 9% of the market and take 3rd place in the volume of collected premiums and commissions
- ✓ In 2016 the company started international expansion. It registered a subsidiary in Kazakhstan

Sberbank Asset Management

SECTOR

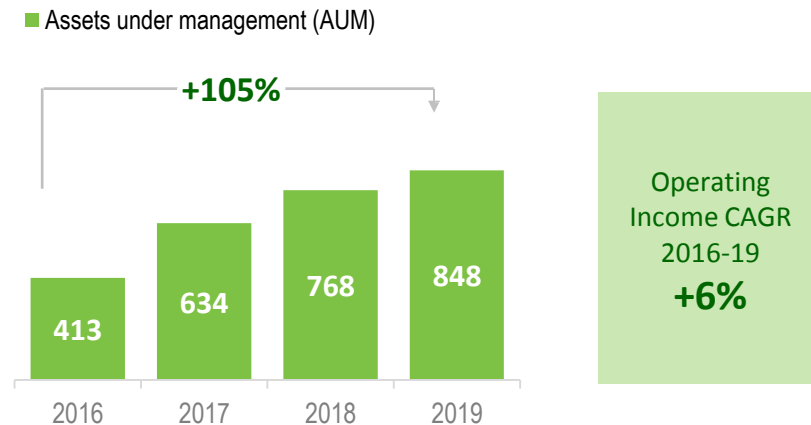
Russian Asset Management market development



- Strong development in Retail Market share due to:
 - Penetration rate growth inside Sberbank due to declining RUB rates
 - Development of digital sales
 - Launch of local ETF Platform

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Sberbank Asset Management development



- ✓ The institutional market demonstrates moderate growth
- ✓ The institutional market remains mostly captive, and Sberbank AM share grows due to individuals moving their pension accounts into reliable banks
- ✓ AUM of institutional market may be volatile due to the uncertain perspective of the pension reform

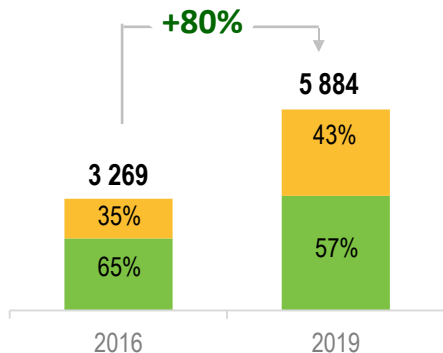
Sberbank Pension Fund (NPF Sberbank)

SECTOR

Russian Pension Fund market development

Assets under management:

■ Statutory pension ■ Non-statutory pension



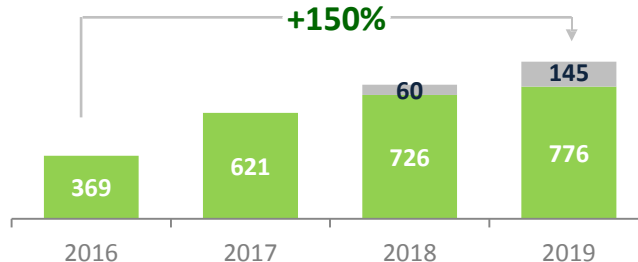
By 2018-2019 Statutory Pension Insurance (SPI) system could be transformed into the system of Individual Pension Capital (IPC) based more on voluntary personal savings. Market potential more than 1 trillion RUB per year, NPF SB potential ≈30%

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Sberbank Pension Fund development

Assets under management:

■ Pension assets ■ Individual Pension Capital



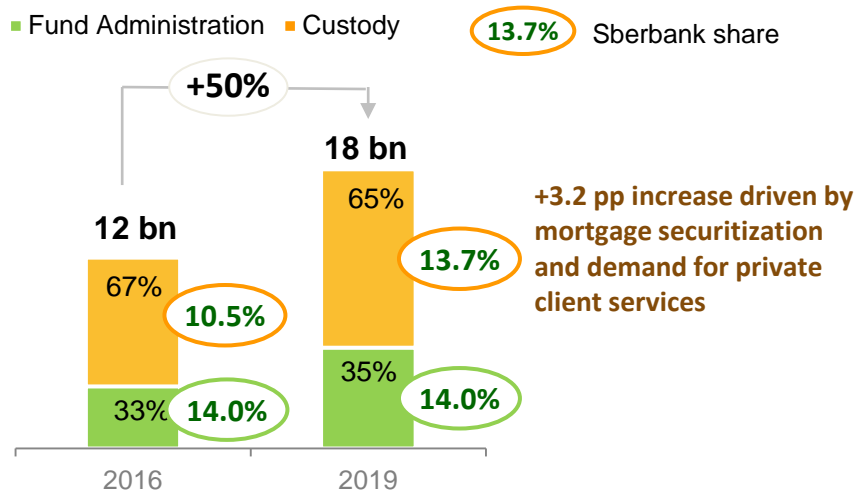
Operating
Income CAGR
2016-19
+16%

- ✓ Leader of State pension insurance (SPI) market (MS-16,7%)
- ✓ 2016: 4,6 mln Clients / 369 bn RUB of AUM
- ✓ High yield against peers (NPF SB -11,76%, Average peers-10,6%)
- ✓ High client loyalty level: NPS 2016 – 59%, CSI- 9,3
- ✓ High level sales technologies: paperless technology, NSPI Online sales, Telemarketing

Sberbank Custody Services

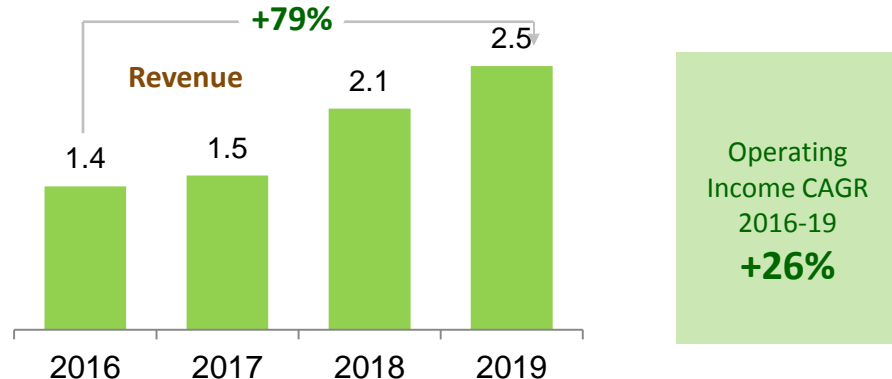
SECTOR

Russian Custody Services market development



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Sberbank Custody Services development



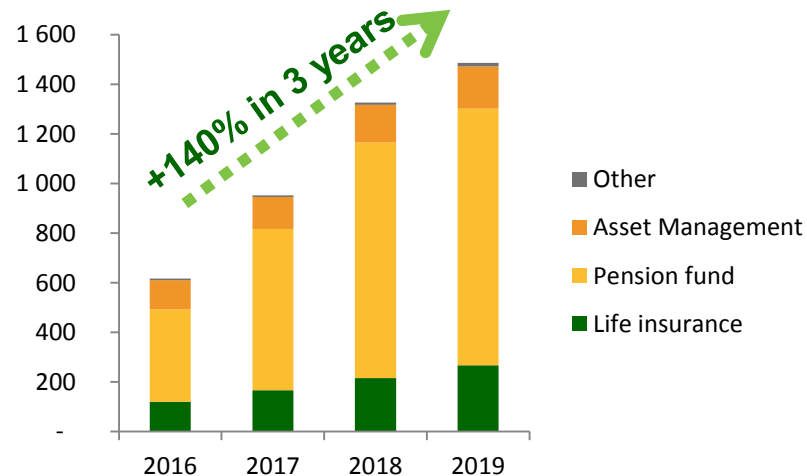
- ✓ Largest local custodian in terms of Assets Under Custody
- ✓ Largest local custodian in terms of DR programs served (over 60% market share)
- ✓ Largest custodian in terms of retail investors served (approx. 30% market share)
- ✓ Leading positions in terms of servicing insurance companies and mortgage securitization
- ✓ Market intelligence: oldest established player (20 years in the market), strong & experienced team
- ✓ Intra-group synergy: long-term client relationships, emphasis on technology & innovation

Sberbank Wealth Management Summary

Operating Income (Bn RuR)



Assets under Management (Bn RuR)



- ✓ 2016 : <4% of the Group Operating income
- ✓ +20% Operating Income from Wealth Management CAGR 2016-2019 is expected
- ✓ Entry into new markets (corporate insurance, motor insurance, health market place), strengthening position on pension and AM markets in addition to growth of life market will provide significant increase of operating income and volume of assets under management.



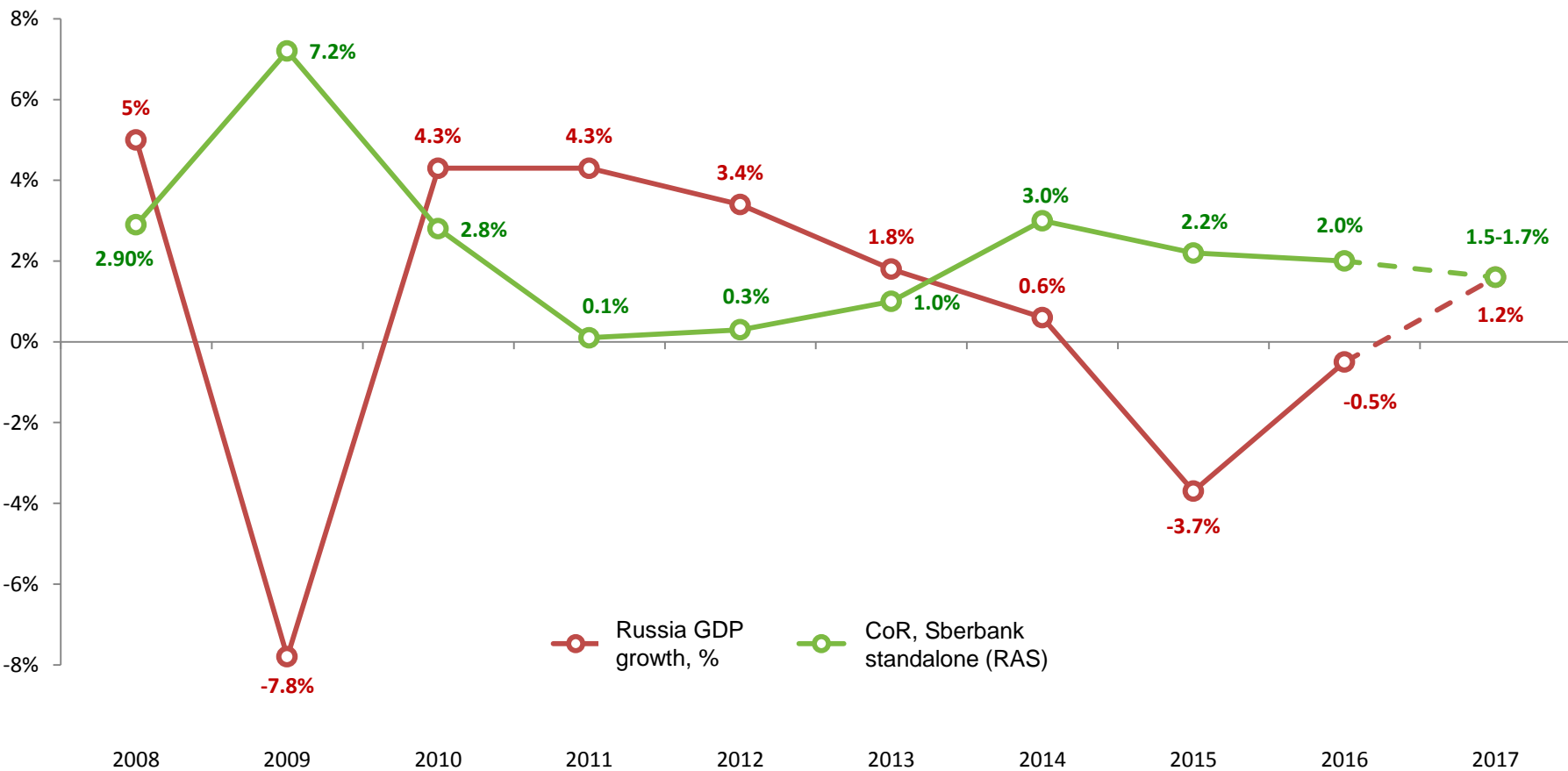
ASSET QUALITY DISCUSSION



Russia GDP Growth vs. RAS Cost of Risk Dynamics



Macroeconomic swings influence formation of loan loss reserves

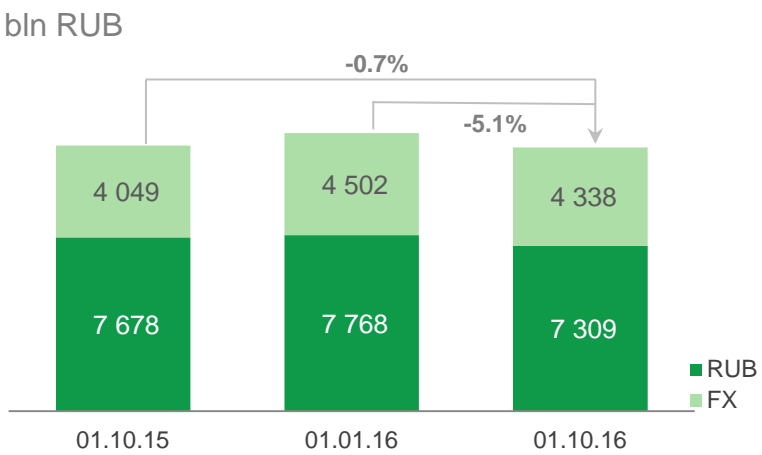


*Under management accounts

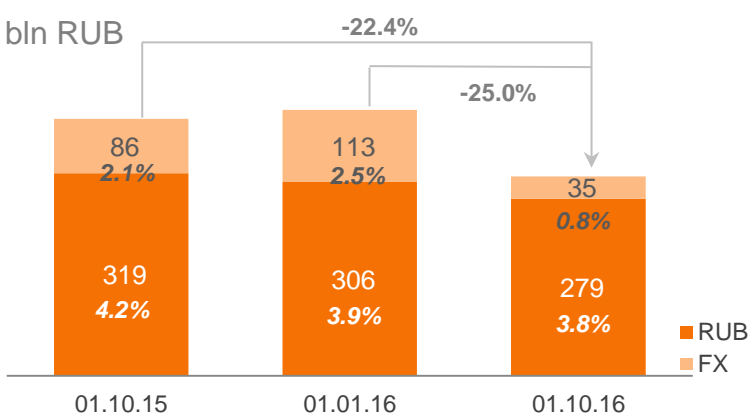


Corporate Loan Portfolio Quality: Sberbank Standalone, RAS

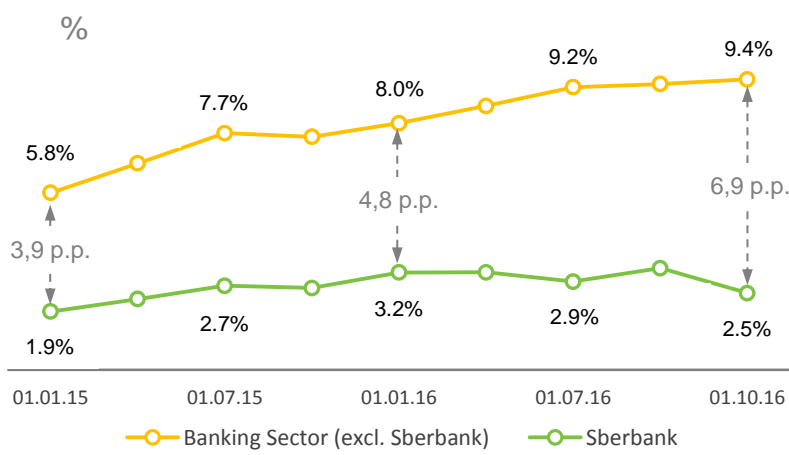
Corporate Portfolio Dynamics (RAS)



Non-performing Loans* in Corporate Loan Portfolio



Corporate Overdue** Loans vs. the Sector



- NPL level in domestic corporate portfolio of Sberbank decreases
- Concentration FX problem assets decreases. Share of FX non-performing loans in total non-performing loans decreases (-15,7 p.p.)
- Sberbank steadily surpasses the sector on asset quality: the gap between Sberbank corporate overdue level and the sector exceeds 3.5X

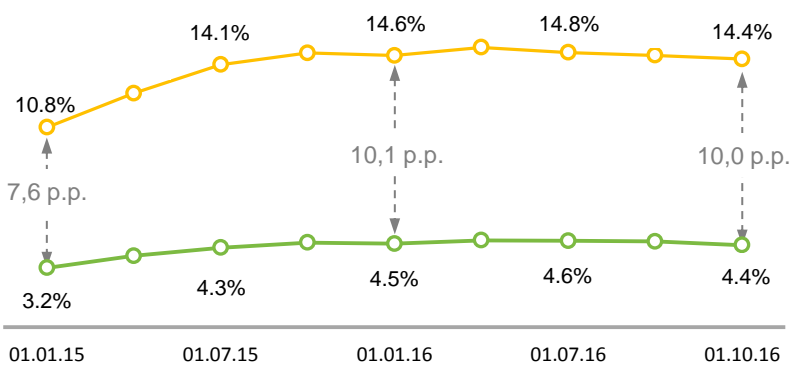
* Non-performing loans 90days+
** Overdue 1day+





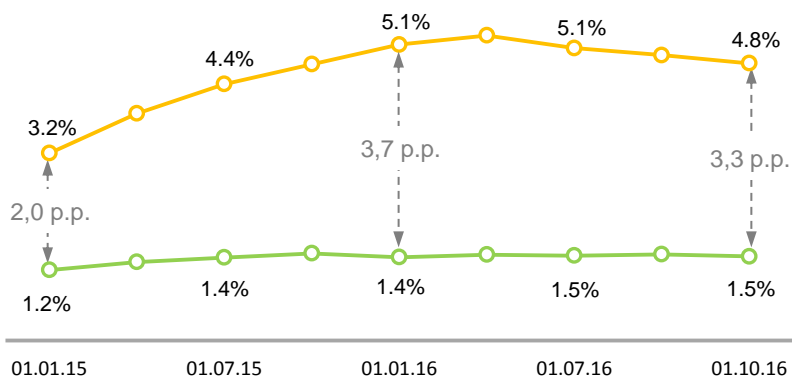
Retail Loan Portfolio Quality: Sberbank Standalone, RAS

Non-performing Loans* in Retail Loan Portfolio vs. the Sector

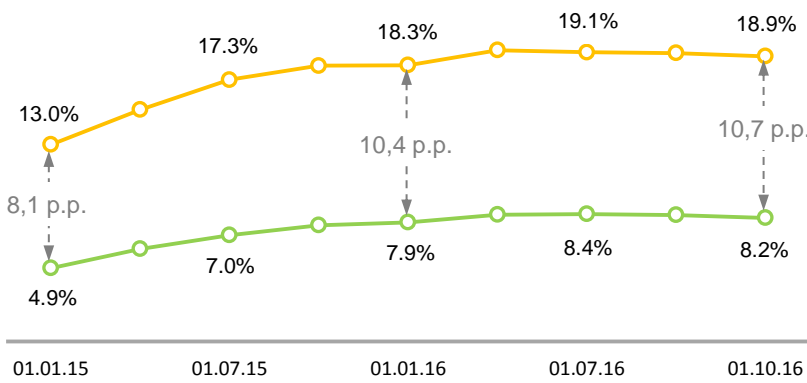


- Sberbank loan quality is significantly better than the sector average
- Mortgage portfolio quality has been stable through the cycle

Non-performing Loans* in Mortgage Loan Portfolio vs. the Sector



Non-performing Loans* in Retail Loan Portfolio (excl. mortgages) vs. the Sector



* Non-performing loans 90days+

—○— Banking Sector (excl. Sberbank) —○— Sberbank standalone (RAS)



APPENDIX

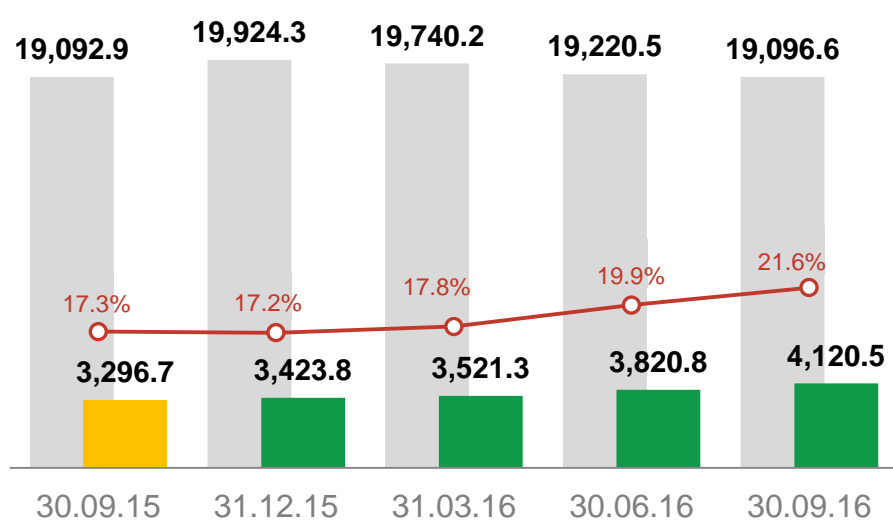




Loan Portfolio Quality, Sberbank Group, IFRS

Renegotiated loans & their share in total loans

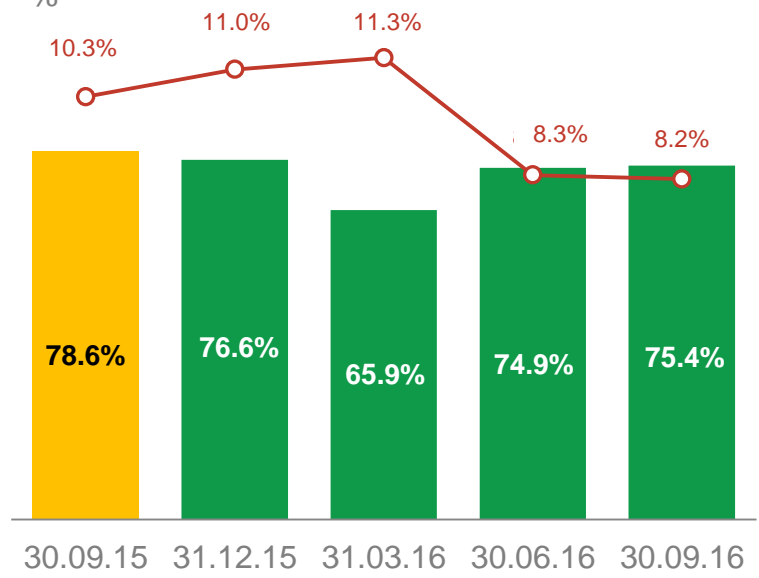
bln RUB



- Total gross loans
- Total gross renegotiated loans
- Renegotiated loans to total loans (gross)

NPLs share in renegotiated loans & provision coverage of NPLs

%



- Provision coverage of NPLs within total gross renegotiated loans
- NPLs in total gross renegotiated loans

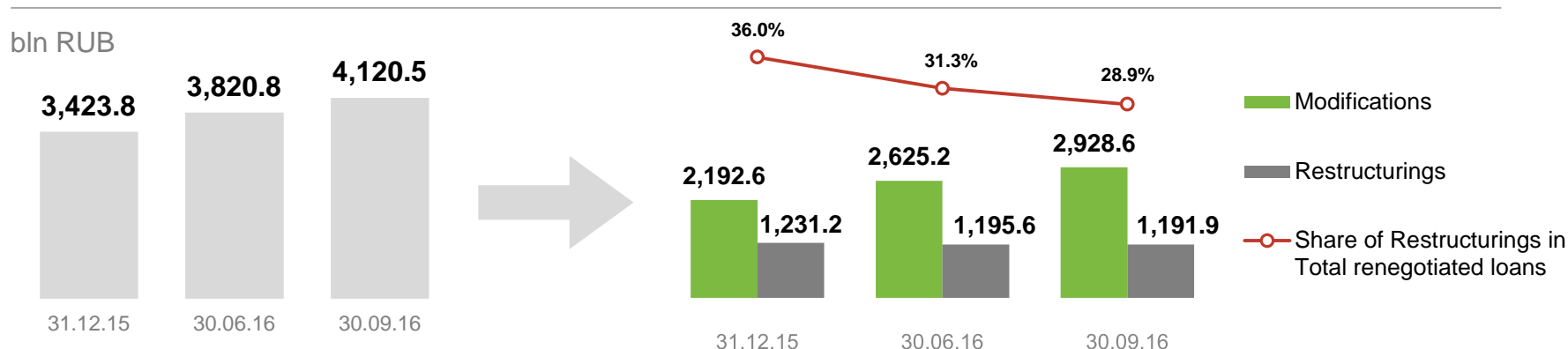




Renegotiated loan portfolio:

Restructurings VS. Modifications (*new definitions*)

Total renegotiated loans



Criteria for categorization

(from IFRS financial report):

The Group has refined the presentation of renegotiated loans disclosure. For the purpose of these financial statements a loan is considered renegotiated if terms of the original loan contract have been changed. Renegotiated loan portfolio consists of “modified” and “restructured” loans.

Modified loans represent loans with changes to the initial loan terms caused by changes in market conditions, changes in a product, client requests or reclassified out of the restructured loan portfolio provided reclassifications terms are met, i.e. where loan renegotiation is not considered as distressed.

Restructured loans represent loans which were distressed at the moment of the renegotiation. A loan is initially classified as a restructured loan if:

- The renegotiation is in favor of a borrower due to its inability to fulfill obligations and the borrower is assigned high / medium credit risk. Renegotiation is considered to be in favor of the borrower if, for example, frequency of loan repayments is reduced, interest rate is reduced, loan tenor or limit are extended, amount of total loan payments is reduced, loan payments are rescheduled for later dates, etc., or
- Refinancing of a loan is due to inability of the borrower to fulfill its obligations and the borrower is assigned high / medium credit risk.

Features of a high / medium credit risk borrower which are examined by the Group may include but are not limited to the following: the borrower's obligations are overdue for a period of more than 30 calendar days, noncompliance with a loan collateralization requirements by 30%, initiation of bankruptcy proceeding in respect of the borrower, change / replacement of the key management and/or owners, etc.

A loan may be reclassified out of the restructured loans category (and classified as modified) when all of the following criteria are met:

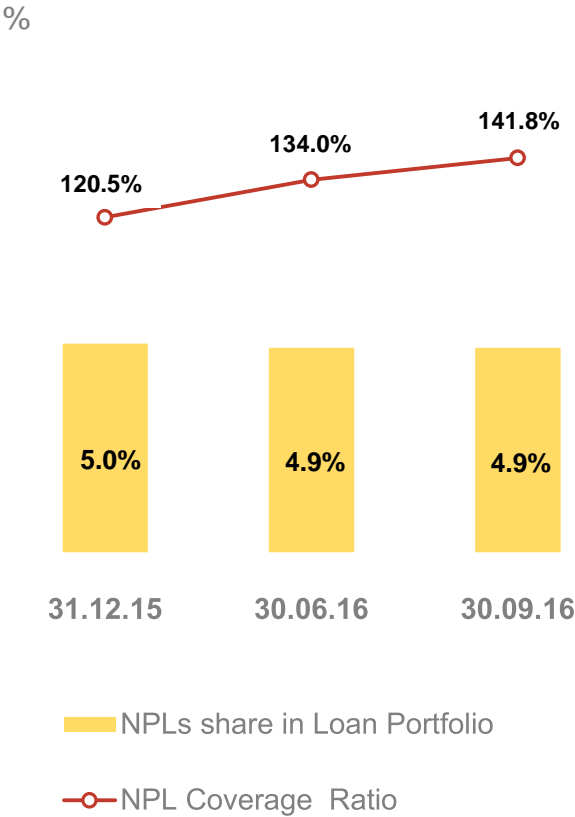
- the borrower has repaid not less than 5% of the loan principle balance (except for the borrowers in the investment stage of construction projects where execution of any six contractual payments is monitored);
- the borrower performed all of its contractual obligations for at least six months after the renegotiation; and
- no other signs of impairment are identified during the period of at least six months after there negotiation.



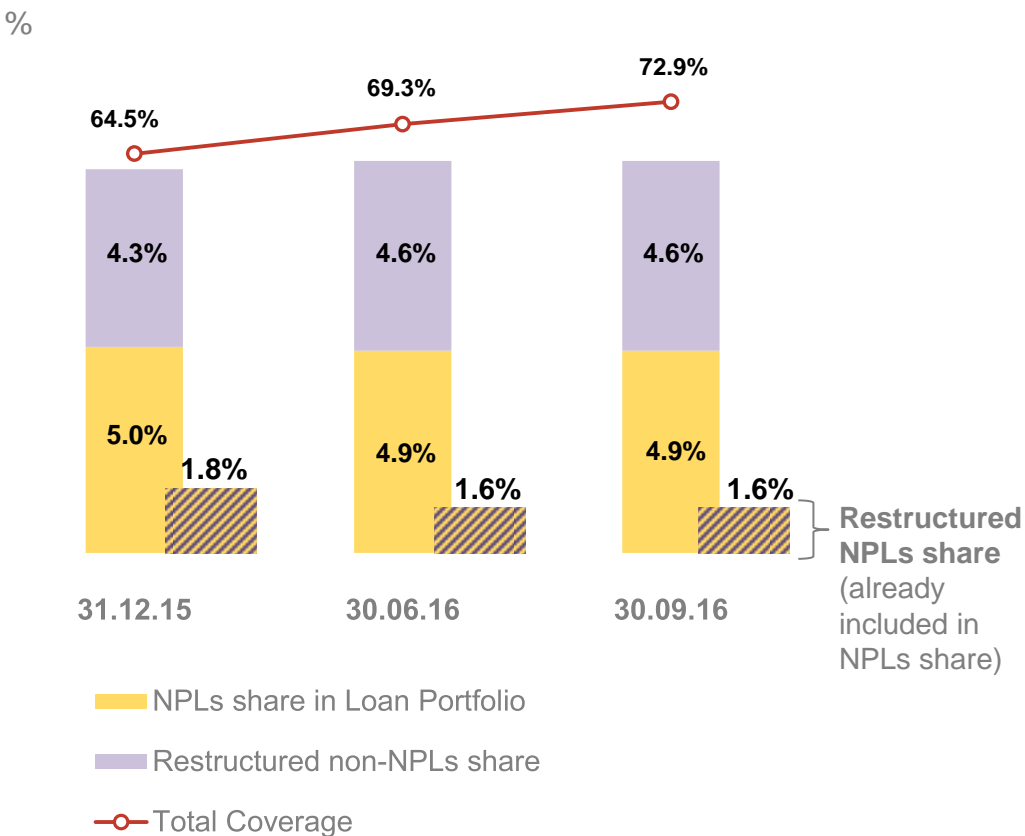


Total Provision Coverage of NPLs & restructured non-NPLs (IFRS)

NPL COVERAGE RATIO (PLI TO NON-PERFORMING LOANS)



TOTAL PROVISION COVERAGE OF NPLS & RESTRUCTURED NON-NPLS

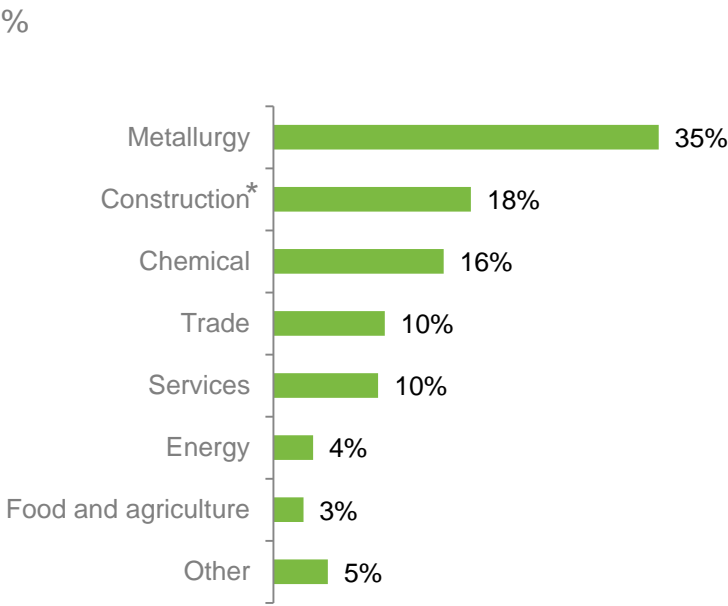


Restructured Loan Portfolio:

TOP 100 borrowers (Sberbank standalone RAS)

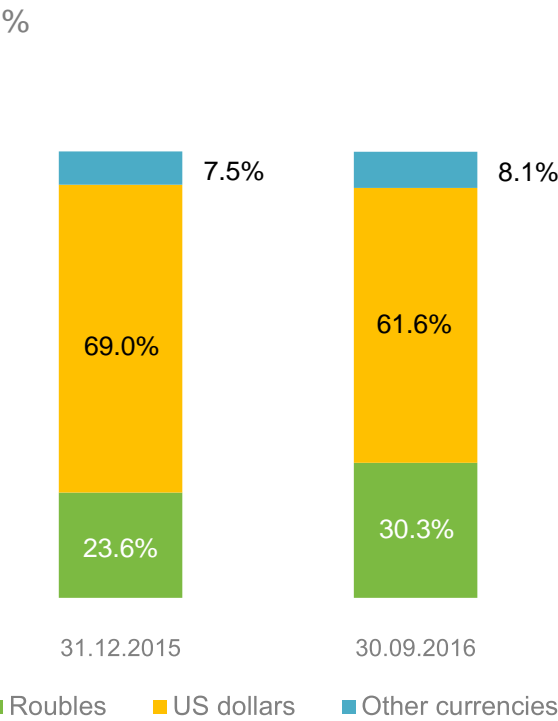


Sector breakdown



*including infrastructure, development, construction materials, real estate

Currency breakdown



Appendix. Loan Portfolio Quality:

TOP 100 borrowers in renegotiated loan portfolio (Sberbank standalone RAS)



Renegotiated loan portfolio structure

TOP 100 borrowers, %

