

## STRATEGY

### IMPLEMENTATION OF THE STRATEGY IN 2015

In 2013, when approving the strategy for Sberbank's development until 2018, we were expecting that economic development over the next several years would be characterised by high volatility and uncertainty.

In 2014, slumping oil prices, restricted access to capital markets, growing geopolitical tension and accumulated structural disproportions plunged the Russian economy into recession, which intensified in 2015.

Macroeconomic changes were bound to affect the banking markets, which responded with acute liquidity shortages and surging interest rates and credit risks.

We proved to be better prepared for this crisis than for that of 2009. This became clear in late 2014, when all our systems and the team came under unprecedented pressure at a time of interest rate shock and liquidity crisis. We may note with satisfaction that Sberbank provided uninterrupted service for its clients, all our IT systems held up, and the bank finished the most difficult month—December 2014—with profits and an inflow of client funds.

During the entire crisis period of 2014–2015, we never approached Bank of Russia for additional capitalisation—our own resources enabled us to work effectively even under the extreme conditions of the acute crisis phase. Furthermore, during 2015, we managed to return almost 3 billion roubles of funds from Bank of Russia and the Federal Treasury, decreasing their share in the bank's liabilities from 16% to 1% and thereby practically eliminating the dependence of our financial result on the interest rate policy of Bank of Russia.

Despite the crisis Sberbank has not abandoned a single project and continues to implement all strategic initiatives necessary for ensuring its long-term activities and competitive performance.

Remote channels developed at a fast pace, and customer service quality improved, which was reflected in the NPS trend (Net Promoter Score) for retail clients and the loyalty index for corporate clients.

We continued to develop our business with a special focus on loan portfolio quality, in particular, by controlling growth rates in specific segments. Number of corporate clients increased by 245,000.

We have increased the reliability level of the bank's IT services (to 99.97%) and completed our IT centralisation programme. In 2015, we launched some new large-scale IT programmes, and we achieved positive results in the development of the risk management system and in managing operating expenses.

These achievements enabled us to obtain an adequate financial result even in a complex economic environment. In accordance with international financial reporting standards (IFRS), our net profit for 2015 was 222.9 billion roubles. While this is less

than anticipated in the strategic plan, Sberbank's profit before tax is still 150% of the total profit of the banking system. In a number of areas, we were not able to achieve the results we had planned. Among areas for further growth and development, we should emphasise insufficient quality in handling client complaints on the frontline, insufficiently active growth of sales on remote channels, a continued high level of operational risks, and a low level of performance of subsidiary banks.

Creating prerequisites for the conditions for maximally quick adjustment to constantly changing external conditions and increasing the speed of decision-making and decision-execution are of key importance to us.

## CURRENT CHALLENGES

Changes in the environment which took place in 2014–2015 could not but affect the bank's strategic development but did not result in a drastic revision of the strategic initiatives in general.

Despite the fact that the Russian banking sector as a whole is surviving the crisis quite well, and its clients still trust the banks, the new reality of the banking market—as we foresaw at the strategy development stage—is reflected in the following:

- ✓ A slowdown in the growth rate of key segments
- ✓ A higher level of credit risks
- ✓ A considerable reduction in the profitability of the banking business, including due to increased competition from non-bank players.

### Tightened regulation

In the next few years, the Russian banking system will face serious process restructuring and tightened statutory requirements, which will inevitably cause extra costs to banks.

### Changing technology and customer behaviour models and preferences.

Our analysis showed that global technology trends are accelerating and changing industry after industry. The banking sector is one of the next in line.

The challenges faced by the Group when the strategy was approved are still relevant, although some of them now have an increased sense of urgency. The growth of the Russian economy in the medium term will be slow, and volatility in the banking markets will remain accompanied by a serious reorganisation of processes and an expected tightening of legal requirements.

A key challenge facing banks will be changes in technology, behaviour models, and customer preferences. The basic needs of customers will remain the same, but new technologies will drastically change the way they are met. The acceleration of global technology trends will exert increasing pressure on the profitability of banking operations as a result of an increased degree of financial market disintermediation and the entry of new nonbanking players (fintech companies) into the market.

In this context, we view the acceleration of technology development in all our business areas as a critical driver of sustainable development and growth in the medium term. At the same time, the Group management model and corporate culture must also be adapted to the new requirements dictated by the competitive trends in the financial market.

We expect that in 2016 low global commodity prices will maintain an unfavourable external background for the Russian economy and banking system: recession, low market growth rates.

## KEY TASKS FOR 2016

For Sberbank it will be of particular importance, even in these conditions, not just to maintain the momentum and vector of its transformations but to significantly speed up changes in several key areas. Given the challenges facing the Group, we would like to highlight three key topics of focus for this year: technological development, structural transformation, and team and culture.

### Technological development

This factor will help radically improve Bank units performance by improving process productivity, reducing the time needed for the release of new products and for decision making, reducing costs, and improving the quality and reliability of Sberbank's systems.

### Structural transformation

We must transition from the existing structure, which is characterised by insufficient flexibility and speed and difficulties in cross-functional interactions, to a bimodal organisation. This means distinguishing two closely related modes of organisation, two types of activities: Run, meaning the mode of current activities, and Change, meaning a mode of constant changes, building new models, and the development of the Group.

### Team and culture

The transformation to a bimodal organisation will require, inter alia, a change in mentality, a transformation of the culture. Teamwork, the efficient use of time, and continuous self-development will become part of the DNA of the renovated Sberbank.

While carrying out the objective of the Bank's systemic transformation, special attention will be paid to keeping customers as the primary centre of focus. Each and every decision will be tested to make sure it is in line with customer interests.

Attaining objectives in key business areas will enable Sberbank to meet the Group's 2016 financial goals and generate long-term competitive advantages for the bank

allowing us to maintain leadership amid the rapid growth of new technology, in 2016 as well as in the long run.

## THE INFLUENCE OF STRATEGY ON THE BUSINESS MODEL

What does this mean for our business model? Technology seriously changes the way customers interact with the bank. In the long run, it will change the very essence of the bank as a financial institution—the bank will transform from being a financial transaction provider into a platform for interacting with the customer, where financial services will be just a small portion of the offerings.

Currently, Sberbank's business model relies on meeting the customer's main financial needs, but we will be upgrading our business model to correspond to changes in customer preferences by offering them nonfinancial services as well.

Refinements of the strategy with regard to business areas have primarily touched upon the understanding that the bank will have to secure the necessary level of customer loyalty in a highly competitive market. Empathy and design thinking should be the foundation for developing customer relations business models. Integration of new approaches to customer data processing (including Big Data) should ensure the "mass customisation" of offers to all customer categories. This involves deeper segmentation of the customer base, development of customised offers, and the ability to change the basic product parameters depending on the customer's characteristics. Meeting the objective of reaching top market positions in terms of cost efficiency will encourage us to accelerate improvement of customer transactions through remote channels and streamline the bank's branch network. At the same time, we will pursue the task of developing a multichannel platform and enabling customers to perform transactions 24/7. The performance of the sales and service system and increased customer satisfaction with bank services will be maintained through a flexible monitoring model and recording of feedback.

Important changes have been made in the plans for the development of the Group's business abroad. Given the existing geopolitical and economic conditions, we will develop our subsidiaries with a focus on return on investments, asset quality and corporate governance, development of new technology and strengthening our subsidiary teams, rather than on volume growth indicators.

In terms of managing our own processes, we will transition to new principles for the implementation of internal services based on self-management and ongoing streamlining of services. We will develop and adopt a unified service methodology and centralised service management. Digital Inside will become a separate important business area.