



Sberbank: 2009-2014 strategy highlights



Analyst/investor presentation
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Sberbank's mid-term equity story: a unique position in one of the most attractive high-growth markets in the world

Growth and size

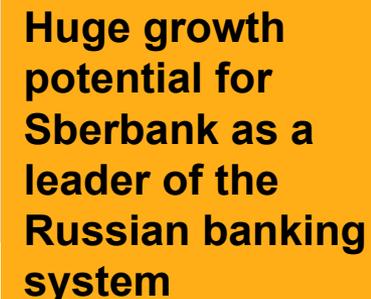
- Banking revenue annual growth rates until 2014 are forecasted to be 15%-25%
- By 2014 volume of banking assets will reach 70-80% of GDP; even at this level it is still lower than many benchmarks (evidence of further growth potential)
- By 2014, Russian market will be comparable to the total EE market in terms of net revenues, more or less equal to the Indian market, will be several times bigger than other large fast growing markets (e.g., Turkey) and will be about one third of the Chinese market

High profitability

- In terms of historical RoE-CoE ratio Russian market is comparable to the most attractive developed markets and surpasses almost all large fast growing markets

Favourable industry structure

- Low asset concentration – 5 largest banks account for a little more than 40% of assets (versus 60% and more in most countries),
- A large number of medium size and small players together control between 30% to 40% of many banking products
- Inevitable process of consolidation will sharply accelerate as a result of the current financial crisis

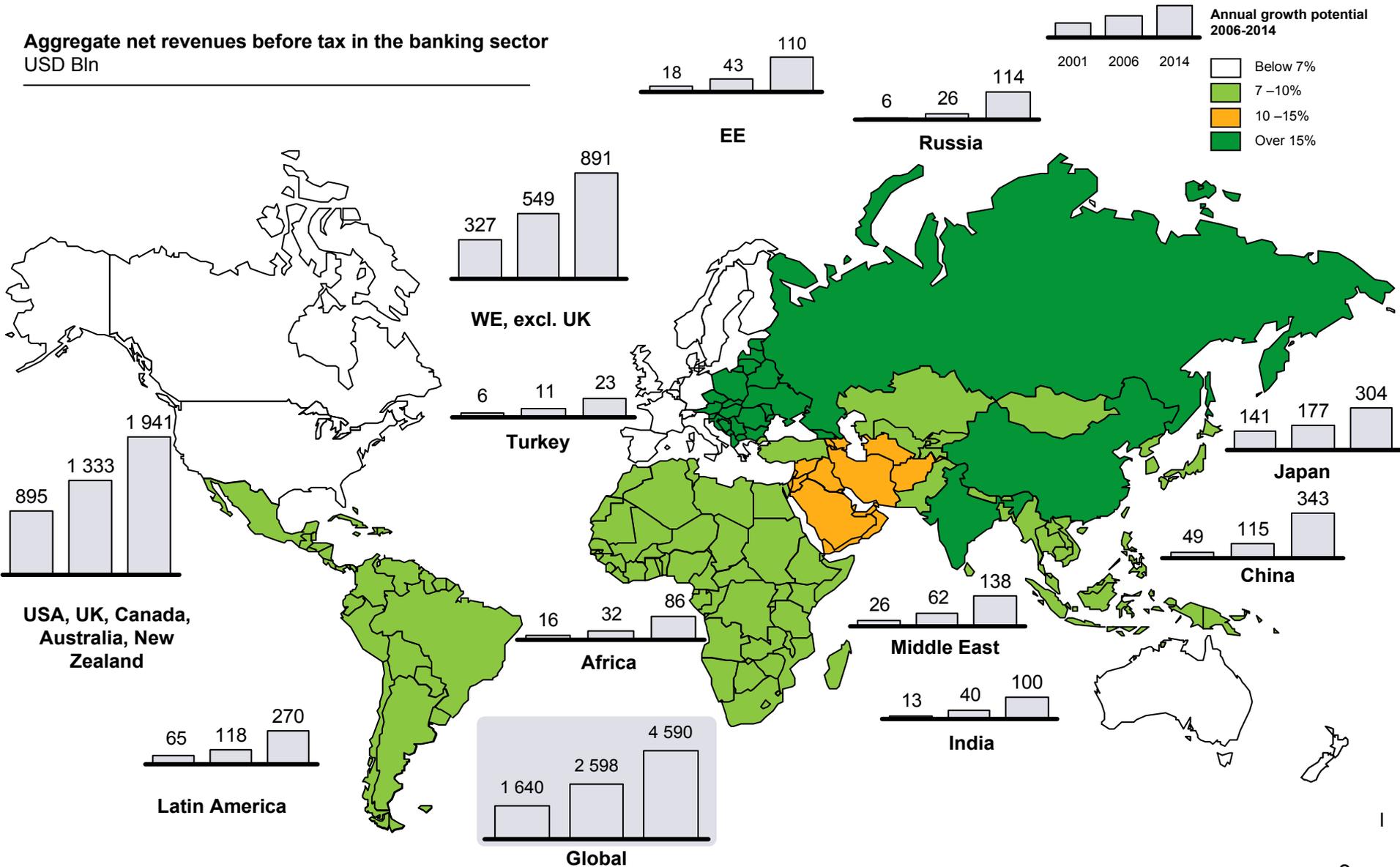


Huge growth potential for Sberbank as a leader of the Russian banking system

Russian banking market has been and still is one of the fastest growing markets on the globe

ESTIMATE

Aggregate net revenues before tax in the banking sector
USD Bln



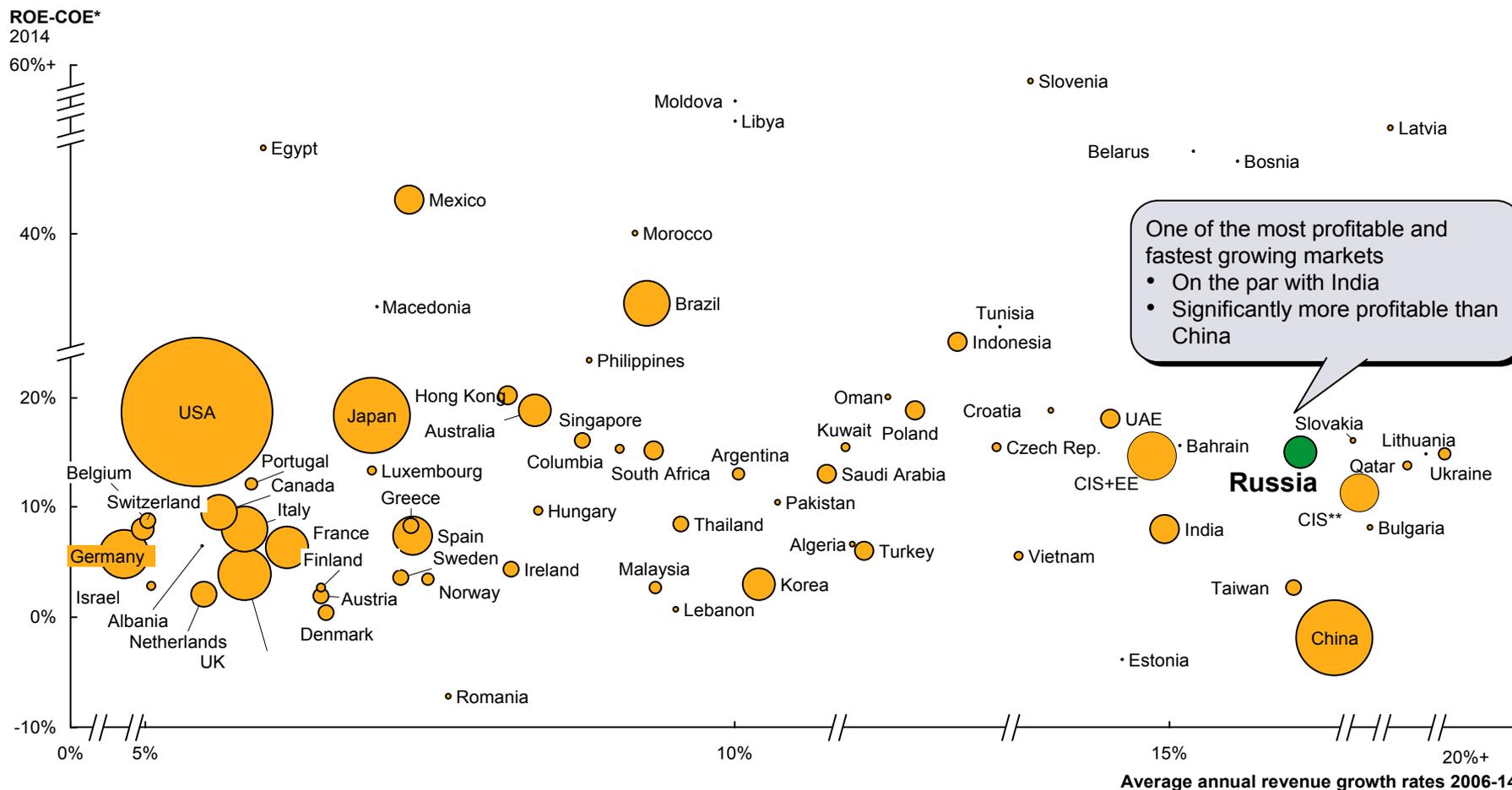
The Russian market is one of the most attractive among high growth markets in terms of revenues and profitability

ESTIMATE

 Banking sector's net revenues before 2014

Market attractiveness matrix, 2006–2012

Percent



* Equity and subordinated debt, only absorbed capital considered

** Russia, Ukraine, and Belarus only

Impact of the current crisis on the Russian banking system

Negative trends in the macroeconomic environment:

- Weak commodities
- Lower GDP growth in 2009-2010
- Higher inflation burden
- Balance of payments difficulties
- Capital outflow / lack of refinancing opportunities
- Weakening of ruble
- Lack of purchasing power

Implications for the banking system:

- Slower banking assets growth
- Liquidity squeeze, eroding confidence in the interbank market
- Higher level of NPL's
- Tightening lending terms
- Acceleration of consolidation in the banking sector
- Reduced market valuations
- Limited access to international funding

The bank has undertaken a set of prudent crisis-related measures

“Back to basics” on underwriting

- More conservative approach to evaluating client creditworthiness and debt capacity both in retail and corporate
- Tighter requirements vis-a-vis quality and liquidity of the collateral
- Focus on priority areas when developing lending operations

Extra attention to monitoring workout and collection

- Increase in the level and quality of control over responsible behavior of lenders (owners and managers)
- Ongoing monitoring of exposures for early identification of potential repayment problems of borrowers
- More intense and systematic workout

Proactive collaboration with the Government

- Sberbank has been proactively cooperating with the Russian authorities on measures to improve situation in the domestic financial market
- Many economy stabilization mechanisms and measures applied by the government were elaborated with direct involvement of bank’s experts
- Active ongoing consultations with relevant authorities

Aggressive efficiency drive

- Aggressive cost optimization program in place for 2009

As many times before crisis = “danger” + “opportunity”

DANGER



- Stress test to all systems (especially risk management)
- Will force rapid consolidation of the banking sector and intensify competition after 2011
- Will hurt financial performance in next 1-2 years

OPPORTUNITY



- Provides more competitive breathing room for Sberbank's transformation
- Creates a "burning platform" for internal communications and change management
- Will naturally boost Sberbank's market share near term

- Sberbank's strategy is fundamentally about a sweeping modernization of the bank
- It's main theses are very robust vis-a-vis the crisis and pertinent for the bank today

Our goals and aspirations by the year 2014

Market position

- Substantial strengthening of the bank's competitive position in majority of products
- Maintain position in the retail deposits market
- Target share of banking system assets is 25%-30%

Financial results

- After tax profits increased 2,5-3 fold vs. 2007
- Cost-income ratio decreased from 46% to 40% (Russian Accounting Standards)
- ROE >20%
- Headcount of 200-220 thousand employees

Sberbank in 2014 is a solid foundation of the Russian banking system, one of leading global financial institutions

Qualitative indicators

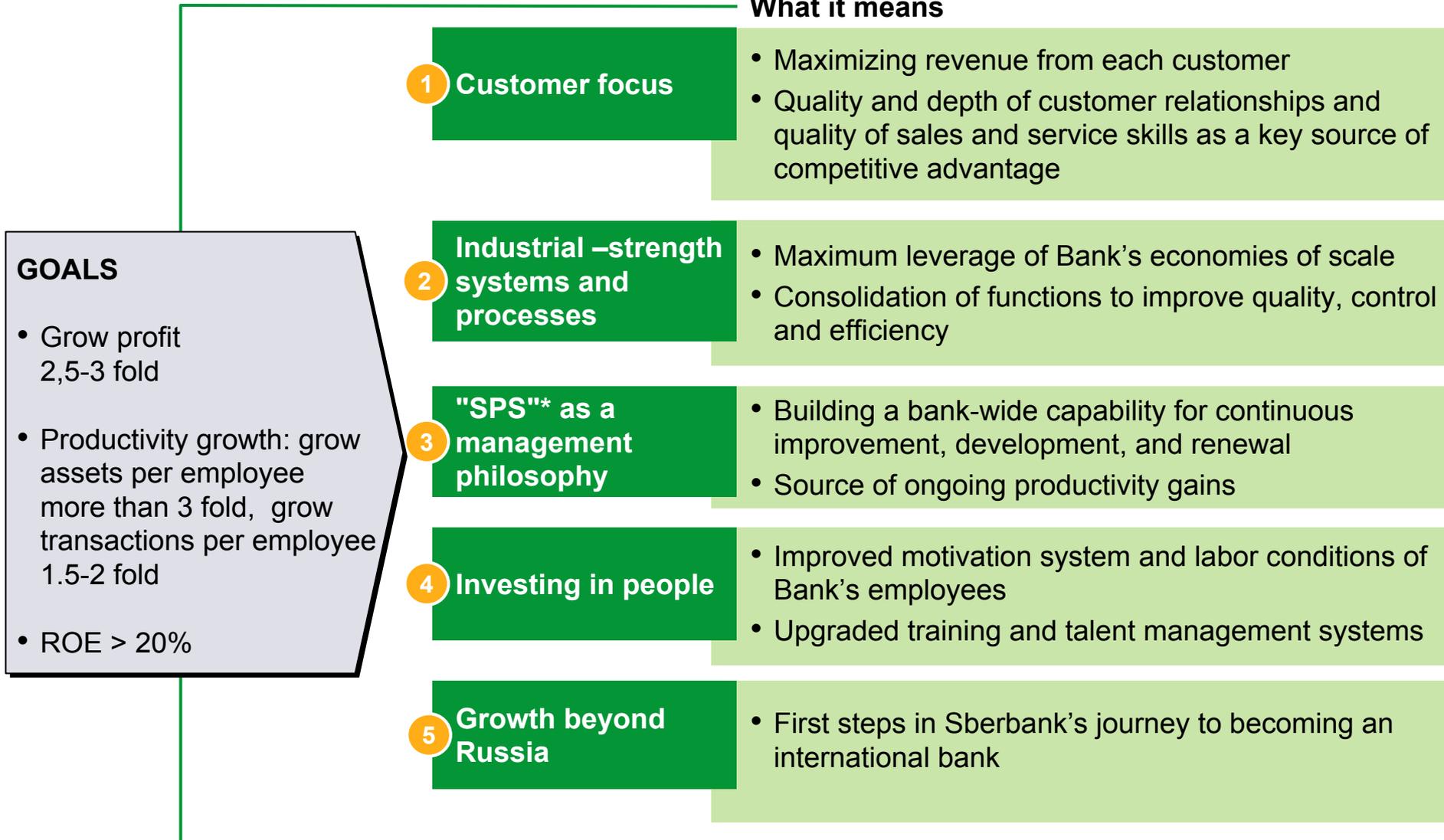
- Leading skills and capabilities in the market (account management, risks, SPS*, performance)
- Strong corporate culture
- Highly qualified employees
- Effective and reliable systems and processes
- Strong brand and loyal customers

International markets

- ~ 5% of net income to come from international operations
- Build foothold in Chinese and Indian markets
- Target market share of 5% or more in Ukraine, Kazakhstan and Belarus

* SPS – Sberbank's Production System

Key strategy themes for Sberbank



* SPS = Sberbank Production System, a service sector adaptation of the principles of Toyota’s TPS based of Lean/Six sigma

Sberbank's Development Strategy up to 2014 is of multidimensional character

		Examples
1 Customer focus	<i>Retail</i>	<ul style="list-style-type: none"> Redesigned product proposition Develop remote sales channels Reformat the sub-branch network
	<i>Corporate business</i>	<ul style="list-style-type: none"> Proactive approach to customer relations / account management Formalize client relationship planning systems
	<i>Organization</i>	<ul style="list-style-type: none"> Move to an organizational model focused on bank's business lines and customer segments
2 Industrial – strength systems and processes	<i>Operations, IT, Risks</i>	<ul style="list-style-type: none"> Consolidate client transaction support services (back and middle office) Consolidate IT infrastructure Develop risk management systems Build customer relationship management (CRM) systems
3 "SPS" as a management philosophy	<i>All functions</i>	<ul style="list-style-type: none"> Continuous improvement as a key feature of "the Sberbank way" Broad employee engagement in change process
4 Investing in people	<i>All functions</i>	<ul style="list-style-type: none"> Significant upgrades to the Bank's career planning, rotation and talent management systems Appropriate remuneration of employees Step change in training / development
5 Growth beyond Russia	<i>International operations</i>	<ul style="list-style-type: none"> Capture opportunities of business development in CIS countries Search for efficient growth opportunities in China, India, and other developing economies

Retail - become Russia's "friendly neighborhood bank"

Key strategy elements:

- 1 Integrated product offering
- 2 Branch network reformatting and development of state-of-the-art remote channels
- 3 SPS – based new branch operating model
- 4 Dramatic improvement in service quality
- 5 Building systematic sales skills
- 6 Brand development and reinforcement

Aspirations/objectives (by 2014):

- **At least 60 million active customers**
- **Larger share in customers' wallets** (at least 3 products per 1 customer)
- **Transactions transferred to remote channels** (at least 75% in remote channels)
- **Productivity growth in branches by 50%**
- **Dramatic improvement in quality of customer service** (customer service culture, convenience, reducing wait time in lines)
- **Increased availability of services** (new branches, 60 + thousand self-serve devices)
- **State-of-the-art banking products that make life easier for the average Russian** (social card, utility payments, mobile banking services)

Corporate – build the best relationship management capability and value proposition in the market

Key strategy elements:

- 1 Segmented value proposition and coverage model: large, midcorp and small**
- 2 Best-in-class relationship management:** dedicated relationship managers, account management/ planning system
- 3 Product line development:** payments and settlements, working capital, investment banking services
- 4 Optimization of internal technologies and processes to reduce cost and improve delivery**

Aspirations/objectives (by 2014):

- **Significant increase in customer coverage** (up to the level of over 65%)
- **Increased revenues per customer**
- **Substantial improvement in service quality** (e.g., reduce time to money for loan applications by 1.5 – 3 times depending on the segment)
- **Increased availability of banking services, in particular for small business** (simplified loan procedures, electronic document processing, new specialized product offers – commercial real estate mortgages, commercial auto loans, etc.)

International – organic growth and monitoring of opportunities

Key strategy elements:

- 1 Organic growth in priority CIS markets, evaluate M&A options**
- 2 Create "bridgeheads" in China and India, look for acquisition/partnership opportunities in the mid-term**
- 3 Monitoring of acquisition opportunities in developed and other developing markets (including in Eastern Europe)**

Aspirations/objectives (by 2014):

- First steps in Sberbank's journey to becoming not only a leading Russian bank but also an important participant in the international financial system
 - Obtaining a significant market share in CIS countries (5% and more)
 - Opening of representative/local branches in China and India
 - International operations to contribute at least 5% of net income

Risk Management – build state of the art systems to manage portfolio quality and support commercial push

Key strategy elements:

- 1 Formalized credit risk analysis, risk-based pricing
- 2 Stronger role of risk management in the lending process
- 3 Optimization of procedures and introduction of electronic document processing
- 4 Further development of portfolio quality monitoring and credit workout unit
- 5 Inventory of operational risks, closing the gaps and eliminating redundant control mechanisms
- 6 Updated systems of control over market risks, building a consolidated ALM system

Aspirations/objectives (by 2014):

- Modern technologies/tools for credit operations, including set up of a consolidated retail underwriting platform
- Better portfolio quality and better control/transparency
- Ability to de-average pricing
- More competitive credit products (speed, adaptability, convenience, accessibility)
- Appropriate risk controls for aggressive commercial push

Operations – the industrial revolution is here

Key strategy elements:

- 1 Consolidation of operations within Customer Transactions Support Centers** (e.g., in Moscow: from 13 OSBs/branches to 1 CTSC)
- 2 Significant optimization and modernization of all back and middle office processes**
- 3 Separation of operational function into an organizational vertical, setting up professional communities**
- 4 Transition to a completely different level of automation**

Aspirations/objectives (by 2014):

- **Improved quality** (number of errors, customer satisfaction level)
- **Twofold increase in employee productivity**, that will enable to absorb larger volumes with less labor

IT – the industrial revolution, part 2

Key strategy elements:

- 1 **Unification of software and data storage systems**
- 2 **Consolidation of reporting and CRM systems**
- 3 **Consolidation of existing Data Processing Centers organized on a territorial principle**
- 4 **Formation of new organizational structure for IT units**

Aspirations/objectives (by 2014):

- Ability to "see" the client and actively manage customer relationships in all Bank's systems
- Optimization of running costs and hardware/software CAPEX
- Preparation for a transition to a unified core banking system (post 2013)
- Consolidation of IT infrastructure in one main and one back-up data center
- Increased ability to control daily operations manageability and improved quality of reporting
- Clear linkage between IT projects' priorities and business needs

Our people – building a great team

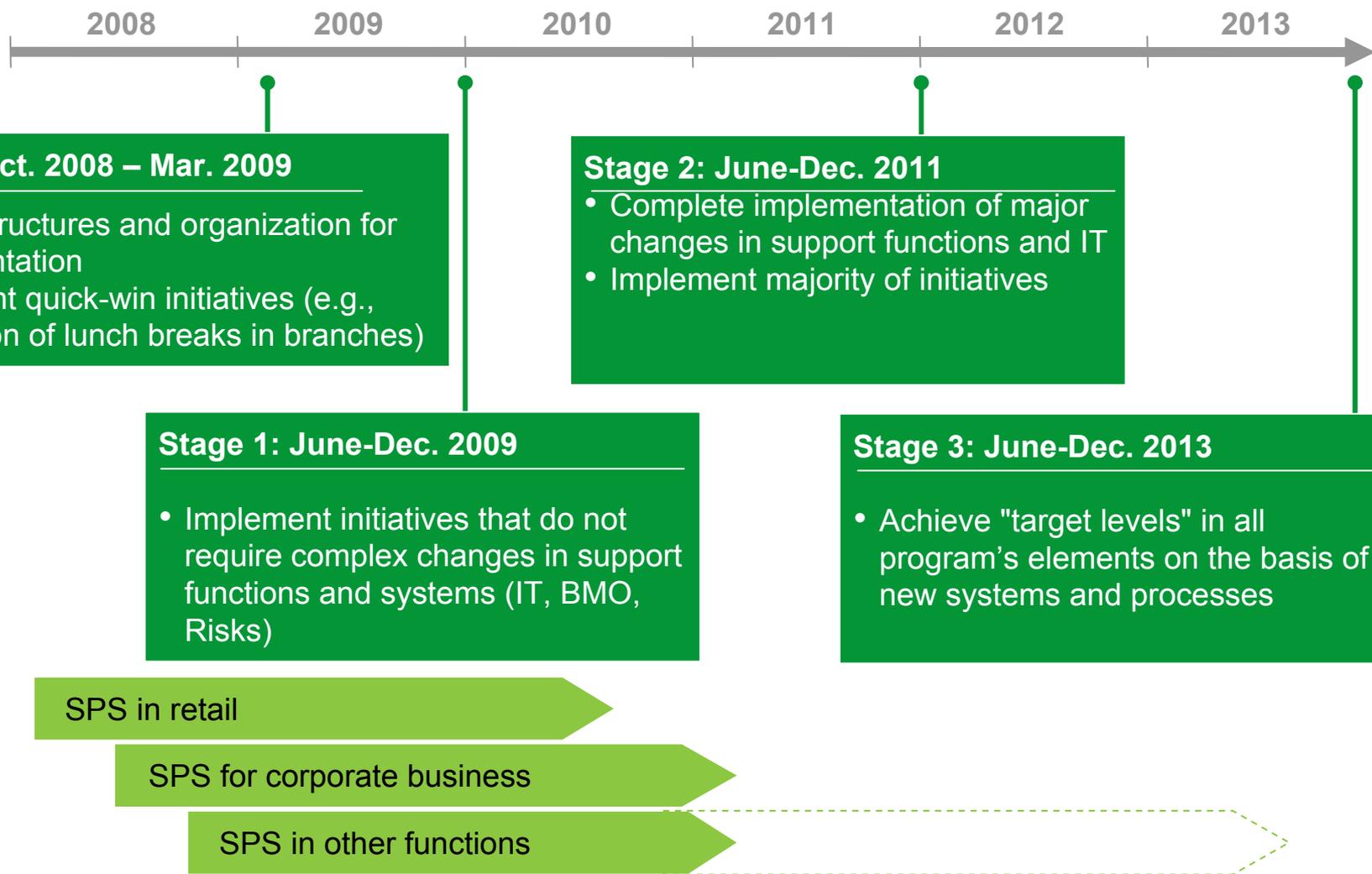
Key strategy elements:

- 1 Major upgrade to staff training and development systems**
- 2 Development of career planning and talent management systems**
- 3 Expanded and improved system of monetary and non-monetary incentives**
- 4 Optimized headcount through increased productivity**
- 5 New organizational structure**

Aspirations/objectives (by 2014):

- Best-in-class customer service culture and sales skills
- Explicit linkages between pay/incentives and performance (including top management)
- Increased productivity and competitive compensation
- Head count reduction to 210-220 thousand employees by 2014

Overall Logic of Implementation Stages



Will be Implemented Already in 2009

SELECTED EXAMPLES

Retail Business

- Core product (expanded functionality current account) introduced in Moscow and St. Petersburg
- "Credit factory" implemented in Moscow and St. Petersburg, shortened time to money down to <2 days in 80% of the cases, improved lending products
- Credit insurance product introduced
- Start of implementation of new branch format and overhaul of the brand
- Full functionality of **Mobile** and **Internet** bank implemented in Moscow, preferential pricing implemented for remote channel services
- First stage of the country-wide contact-center launched

Corporate Business

- New account management model launched for the three customer segments
- Account manager system launched
- Process of planning and monitoring customer relationships launched in the CRM system

Other Work Streams

- New organizational structure introduced, IT and operational function consolidated
- DWH and MIS data warehouse set up in Moscow
- Upgraded credit monitoring and work out functions
- SPS implemented in 4-5 thousand branches
- First wave of headcount optimization

Selected operational targets and performance metrics

	Indicator	Reference target (by 2014)
1 General indicators	<ul style="list-style-type: none"> ① Profits ② Return on equity ③ Share in total banking assets ④ Cost/Income under the Russian Accounting Standards ⑤ Headcount 	<ul style="list-style-type: none"> • Growth 2-3 times • At least 20% per annum • 25-30% • Maximum 40% • Reduce to 220 ths FTE's or by 3-5% per annum
2 Retail business	<ul style="list-style-type: none"> ① Products per client (depth of client relations) ② Share of remote channels in the structure of transactions ③ Labor productivity level ④ Reduced time for decision making/disbursement of funds to individuals after their loan applications (time to cash) ⑤ Qualitative indicators of the client perception of the bank 	<ul style="list-style-type: none"> • Not less than 3 • 75% for transactions • 50% improvement • 1-3 days depending on the product (80% of applications) • 65-70% of clients are "satisfied, loyal, ready to recommend to friends"
3 Corporate business	<ul style="list-style-type: none"> ① Client coverage ② Time to review loan application 	<ul style="list-style-type: none"> • At least 65% for large and medium businesses • Reduced 1.5 – 3 times, depending on the segment
4 Other areas	<ul style="list-style-type: none"> ① Consolidation of transaction processing offices (back and middle office) ② Consolidation of IT infrastructure ③ Operations labor productivity (transactions/employee) 	<ul style="list-style-type: none"> • Consolidation to max 18 support/shared services centers • In one principal and one backup data centers • 100% improvement