

Address of the CEO and Chairman of the Executive Board



Dear shareholders, clients, and partners!

In the life of Sberbank, 2017 was an important milestone. We summed up interim results of the transformation we have been pursuing the past 10 years and approved our new strategic priorities.

External environment was controversial last year, however, in general, it was consistent with our expectations: Russian economy moved out of the recession, having demonstrated moderate growth of 1.5% against the backdrop of recovery in domestic demand. However, increasing consumer expenses were not recompensed by growth in revenues. The hard-line monetary policy and strengthening of the rouble in the beginning of the year resulted in record slowdown in inflation to a low of 2.5%. As a consequence, the Bank of Russia reduced its key interest rate to less than 10%, which promoted the demand for loans. Last year, we evidenced continued recovery of banking system: The Bank of Russia recapitalized three private banks, whose losses impaired the profitability index of the banking sector at large. However, profitable banks made record profits for 2017.

The IFRS net profit of Sberbank Group for 2017 amounted to RUB 748.7 billion, its profit per ordinary share having grown by 38%. Its return on capital, which crept up to a five-year high last year, having exceeded 24%, made Sberbank the first among the world's 30 largest banks.

It was the improvement of customer experience, development of new technological solutions, and enhancement of business effectiveness, which enabled the Bank to achieve such results.

Against the backdrop of monetary policy loosening, Sberbank reduced rates for its key products, which had a positive impact on the Group's credit portfolio which increased by 6.6%.

Retail loans showed stable growth of 13.6% where mortgage took the lead: the mortgage portfolio increased by 16%. Among other things, the on-line service "DomClick", where our clients may conveniently perform real estate transactions, including on-line registration of proprietary rights, was very beneficial for this growth. Currently, this resource is visited by more than four million clients per month, and the amount of residential loans issued via "DomClick" has grown by 51%.

Last year, we succeeded in substantially simplifying lending processes for clients from large and medium businesses. Now, standard transactions of more than half the clients from this segment are approved less than within five days. In the segment of small and micro businesses, pre-approved SMART loans, which may be taken out within a day, have become available for more than 50% of all clients. Thanks to the initiatives launched and the reduced overall level of rates, Sberbank issued a record amount of loans to corporate clients in 2017 - more than RUB 11.4 trillion.

In 2017, Sberbank kept developing its set of features and enhancing convenience of service channels for its clients. Therefore, the number of active users of remote service channels increased reaching 56.8 million people. The growth was ensured by the mobile application users. Now 14.6 million people, or over 30% of all clients who perform at least one transaction a month, use digital channels on a daily basis (DAU/MAU).

By the year-end, more than 157 service points began operating in a newly refined format; in several regions, a pilot cash-out project was launched (which enables cash withdrawals at checkout desks in retail and service outlets), which is expected to significantly simplify access to cash funds in rural areas.

To increase its cashless business, Sberbank continues rapid development of its payment infrastructure and digital services, and in 2017, the share of non-cash retail transactions reached 60%. More than 35 million Sberbank cards are supplied with contactless “tap-to-pay” technology. Furthermore, Sberbank has arranged for cashless card payment of travel by public transport in 30 cities in Russia.

For corporate clients, Sberbank improved the set of features in its digital platform Sberbank Business Online. By the end of 2017, 78% of its clients switched to this platform. Alongside traditional bank services, more than 30 versatile non-bank services are now available on this platform. Over half a million small and micro businesses took the advantage of these services. To support business activity, Sberbank launched a free-of-charge Easy Start banking package. Thanks to this product, each fifth of the newly formed companies opened its corporate account in Sberbank in 2017.

In an effort to expand the range of accessible digital client services and save our clients’ time, we permanently improve our processes that ensure security and reliability of our systems. By the end of 2017, the Information Security Management System in Sberbank was subjected to international certification and certified to ISO/IEC 27001:2013, its critical automated systems’ reliability level in 24/7 mode having reached 99.99%.

The technological transformation, we are carrying out, contributes to the speed of developing and implementing innovative changes. In combination

with automation of processes, this enables us to reduce the cost of basic transactions for business. In 2017, we continued implementing the programme of efficiency and reducing operational expenses. We succeeded in reducing the cost-to-income ratio to 35.2% and reducing the absolute amount of operating expenses by 0.7%.

Back in the beginning of the last year, we decided to start developing the 2020 Strategy earlier, as most of the previous strategic goals have already been achieved, and global challenges of the banking system urge Sberbank to go ahead still faster, improving client experience, expediting development and introduction of new technologies, and going beyond the traditional banking services.

There will no doubt be challenges and unpredictability on the road ahead. In addition, competition from the non-banking sector is growing, and our clients’ attitudes and needs are changing.

However, we have always found an appropriate response. Over the past 10 years we have cultivated flexibility, the ability to adapt, and rejected fear of change at all levels. We are ready to be change leaders.

I am grateful to all those who have believed in our success and have labored to achieve it. Trust on the part of investors and shareholders is an important driver of successful attainment of the goals we set. I appreciate our committed, diligent team, which has proven its efficiency. We are happy to become the best version of ourselves for our clients.

**On behalf of the Executive Board,
Herman Gref**

President, Chairman of the Executive Board