

## **Bank Saint Petersburg**

### **Investor Day 2019**

Moscow, April 5, 2019

KONSTANTIN NOSKOV, VICE PRESIDENT, HEAD OF STRATEGY:

— Good afternoon, dear colleagues! We are glad to welcome you at Bank Saint Petersburg's Investor Day. I would like to introduce my colleagues who will speak here for the first time: Elena Ivannikova, Chairperson of the Supervisory Board and Vyacheslav Ermolin, Head of Corporate Business, VP, as well as the persons whom you already know well from previous events — Konstantin Balandin, CFO, Deputy Chairman of the Management Board, Kristina Mironova, CRO, Deputy Chairperson of the Management Board and Oksana Sivokobil'ska, Head of Retail / Digital, Deputy Chairperson of the Management Board.

Now I'm giving the floor to Elena Ivannikova, Chairperson of the Supervisory Board.

ELENA IVANNIKOVA, CHAIR PERSON OF THE SUPERVISORY BOARD:

— Good afternoon, dear guests. I would like to talk a little about the principles of corporate governance we are guided by and the system that we build within the Bank.

The first slide presents the system of corporate governance. Members of the Supervisory Board are elected at the general meeting. Today's Supervisory Board is comprised of nine members. It oversees activities of the Internal Audit Service and the Office of the Corporate Secretary. The general meeting is staffed by external auditors and revision committee.

We have four committees in the Supervisory Board: the Risk Management Committee, the Appointments and Remuneration Committee, an Audit Committee and a Strategy Committee.

Since 2016, the Bank's shares have been listed as Level A on the Moscow Exchange. We pay special attention to compliance with the corporate governance principles. Four of nine members of the Supervisory Board are independent.

Now, regarding the Supervisory Board's meetings. Meetings of the Supervisory Board are held almost every month. Of these, eight in-person meetings, four meetings in absentia and 43 committee meetings were held in 2018. We work hard and consider issues related to various areas. In addition, two years ago, together with the Supervisory Board's members at a business meeting we decided that they should provide mentoring support. To date, this practice has proven itself.

Internationally recognised professionals, such as Susan Gail Buyske, who is also the Chairperson of the Risk Management Committee, are involved in the work of the Supervisory Board. External consultant Indrek Neivelt also participates in operation of the Supervisory Board. Mr. Neivelt held the position of the Chairman of the Bank's Supervisory Board from 2005 to 2014. Today, he is in our team and takes active part in the work of the Strategy Committee.

Susan Gail Buyske is a dependent member in accordance with the corporate governance principles. But in fact, we consider her as independent. She has a vast experience of over 35 years in dealing with financial risks. With this taken into account and her professional attitude towards risks — she is the Chairperson of the Risk Management Committee — Mrs. Buyske always defends her point of view. She is a principle person when it comes to compliance with banking risks.

Four committees have been established in the Supervisory Board. The Strategy Committee is headed by Independent Director Andrey Zvezdochkin, CEO of Aton. The HR and Remuneration Committee is headed by Vladislav Guz. The committee also includes two independent directors: Andrey Bychkov and Pavel Kiryukhantsev. It is the first year of Pavel Kiryukhantsev in the Bank's Supervisory Board. Mr. Kiryukhantsev is a professional expert in management and HR.

The Audit Committee is headed by Andrey Bychkov and consists of independent directors only. Susan Gail Buyske heads the Risk Management Committee.

Capital management principles. On 25 October 2018, the Supervisory Board approved an action plan aimed at increasing the value of shares in accordance with the following capital management principles. We do not intend to retain excess capital. We will distribute it if the capital adequacy ratio exceeds 9.75% and consider the possibility of buyback which depends on the stock price and the availability of the excess capital at least twice a year. The next consideration is scheduled for 29 May. Also we confirm our intention to cancel the purchased shares. As for today, the Bank bought back 2.4% of ordinary shares in Q3 2018.

The Bank's dividend payout ratio for the last 5 years was 20% of net income as per the Russian Accounting Standards. On 29 November 2018, the Supervisory Board resolved to approve the shift from the Russian Accounting Standards to the International Financial Reporting Standards. Now, we are going to pay at least 20% of net income as per IFRS. The dividend yield in 2019 is expected to be around 7%.

The Annual Shareholders Meeting will be held on 29 May 2019 and on 4 May 2019 we will close the register. The shareholders will consider the issue of dividend payments in the amount of 20% of net income as per IFRS, which is RUB 3.71 per ordinary share. This amount is 2.3 times higher than that paid in 2018. We pay 11 kopecks per preferred share. The total amount of dividends for 2018 will be RUB 1.8 billion. The register will be closed on 10 June 2019.

KONSTANTIN NOSKOV:

— The next presentation is about the 2018 results by Konstantin Balandin.

KONSTANTIN BALANDIN, CFO, DEPUTY CHAIRMAN OF THE MANAGEMENT BOARD:

— Good afternoon, dear colleagues. Last year we posted a record profit. Our financial performance improved by 21% to reach RUB 9 billion of net income. A key factor in this achievement was reduction in the cost of risk. We have exceeded expectations and showed the lowest cost of risk for 5 years. The cost of risk fell below 2%, to 1.9%. In addition, we have increased key indicators for core business and net interest income, while our net fee and commission income has increased in double digits. Thanks to these, our performance was quite good.

Once again, we earned 21.9 billion of net interest income in the year. It was about 2 billion more than in 2017, 5.9 billion of net F&C income and slightly less than 4 billion of trading income. All in all, our revenue amounted to RUB 32.8 billion. The growth was approximately 2.5% compared to 2017. Again, it should be highlighted that due to a reduction in provision charge and a decreased cost of risk we have managed to significantly improve our financial performance. And this is the best result in our history. We showed a good return on equity of 12.3%.

What is also important, we have a stable cost income and a very stable margin in several years. Despite the current situation on the market, we manage both the expenses and the Bank's balance structure quite steadily.

The net interest margin of the core business has been stable for three years. In general, it amounted to 5.7% for the year. The dynamics of rates in the Bank's assets/liabilities as a whole corresponds to what happened on the market. That being, a decrease during the year. The balance sheet shows that the market rates continued to decrease, despite the turnaround observed in Q3 and Q4, as new assets and liabilities entering the balance sheet were still cheaper than those attracted at higher rates.

The main trend is the improvement of the quality of assets. Non-performing loans as a share of the loan portfolio decreased by 3.5 p.p., from 14 points to 10.8. The cost of risk has been declining for the second year in a row at a very decent pace. In 2016, it amounted to 2.4%, which was almost twice as high.

I conclude with brief overview of the Balance Structure and the capital adequacy indicators. In terms of liquidity, we are comfortable as usual. The loans to deposits ratio was 82% and Tier I capital adequacy under the Russian reporting as of January 1 was 9.2%. But after the inclusion of last year's profit, we expect about 100 basis points more from April 1.

2018 was the record year for us, still I know we will beat it not once or twice. And given the expectations that we are broadcasting to the market, I think that a new record is not far off. We will set many records

for sure, but 2018 will be remembered as it split our life into "before" and "after". There was life before the year 98 and after it, as there was life before and after 2008... 2018 is one of those years for us. It is not so much about the figures that you will see in the reporting, and there are many reasons for that. I would like to highlight some of the trends. They are about the relationship, positioning, and the opportunities that we have. Although some of these opportunities are already embodied in figures and show very interesting results.

I want to start with the slide I ended my presentation with a year ago. Why did we make this slide, why did we show it? Here is the information you will not find analyzing some quarterly and annual financial reports. Here is the information you will not find analyzing the strategy of any company. It's more of a genetic code. We made a slide to make you feel it. It's the genetic code that determines our behavior in the long term. And we really wanted you and investors to appreciate it. It differentiates us from most of our colleagues, differentiates us from banks. Remember, a year ago, when many of our colleagues their blood still ran warm in their veins, we met you in these circumstances. So it was important for us to tell you how different we are.

Everything that is written here is fully relevant, continues to work, continues to provide impact on our results. And a lot of what I'm going to say today, what my colleagues are going to say, is based on this genetic code, you are not going to read anywhere else.

If we return to the main trends of 2018, for which it will be remembered, we would like to mark the following stories. First, 2018 had a swath of projects aimed at transforming the banking infrastructure. Some of this you read in the newspapers, some things, that are written here, you do not know, because these are local St. Petersburg stories, such as an Integrated Resident Card.

If earlier the Bank was about attracting deposits and issuing loans, now it is more about how to keep up with the transformations that are taking place in the market. And now there are plenty of such transformations. These transformations are generated by the state, the regulator, market players, or sometimes even by ourselves. What is important is that the speed of this transformation accelerates significantly. What is important for us is that we take a very active part in all these transformations and in all these projects. It's a very fast moving train, either you take this train to the future, or you stay on the station forever, for life.

We are involved in all projects. We are even trying to initiate some of them ourselves, trying to integrate ourselves into the infrastructure of everyday behavior of customers, everyday life, so that we as a Bank are convenient, accessible and represent an obvious choice to interact with us.

There are two very important specific features that I would also like to highlight. First of all, it's probably the first year when these infrastructure undertakings, offered by our government and the regulator, that

do not mean “listen, banks, give us some new form of reporting” or “control someone”, but create opportunities for us in business. Figuratively speaking, regulators said that now we have to open and maintain such special accounts — this is an opportunity for us to increase the balances. That is, these projects create opportunities for banks now. And it is important to use them.

Secondly, most importantly, many of these projects demonopolize the industry. I think you all know very well how our biggest bank is struggling with a fast payment system or a remote identification system. But regulators are very active, very persistently promoting these projects. Something tells me they will succeed. And for the first time in many years, we feel that the actions of regulators create opportunities for demonopolization of the industry, create opportunities for players of our size. All of this together is a very big, strong wave that significantly transforms what we are doing now.

The second important trend is probably a very long-term one. You can see that here we show figures regarding how the number of banks decreased in the last five years — it has decreased twice since 2013. This is a very long-term trend, but this is the trend that reached a critical mass last year, i.e. a switch from quantity to quality.

Once again, I will return to the fact that in 2017 the market lost a number of very large private players. And in this system we suddenly found ourselves in a situation when our role of a large private bank is suddenly in a high demand in the market. Because there are less competitors, I mean private banks, around us. The customers' need for a private bank has not disappeared, but even increased due to a number of factors.

It is no secret that a thing delicately called here as “geopolitics”, creates opportunities. It was difficult for state banks last year to tell the customers how they would behave in cases of realization of geopolitical risks. We saw plenty of customers coming to us, transferring their business to us and for this reason, since the amount of private banks, competitors became smaller, but customers still wanted to work with private banks, they understood that the risks of dealing with Bank Saint Petersburg were lower regarding certain operations.

Therefore, last year the market began to provide much more opportunities to strong individual players. And if you have a look at the rating of the largest Russian banks, we are probably in top 3 among privately-owned Russian banks. That is why we really see many opportunities in this area.

It is closely connected to the trends associated with the turnaround of interest rates. One year ago, when we discussed reduction of interest rates at this event, we were careful and did not expect too much because there was a lot of aggressive competition on the market. Some banks used to grant loans to corporate customers at the interest rate of 7% attracting retail deposits at 8%. So, the competition on the market was aggressive.

We did not want to participate in this competition, because it made no sense for us to grant long-term loans to corporate customers at 7% or mortgages at 9%. That is why our expectations were very moderate. This is partly reflected in our loan portfolio.

But, the so-called "reasonable conservatism" presented on the beautiful slide about the genetic code, finally led us to an interesting position which turned out to be real for the first time. Our deposit interest rates were equal to Sberbank rates. It may be a short-term phenomenon, we will see whether it will last long, but still it has happened for the first time. And we are in a very interesting position because our loan interest rates are among the best ones on the market. They have never been so competitive.

It does not mean that we will immediately increase our loan portfolio by 20%. Our reasonable conservatism has not vanished and we won't be in euphoria. But we have more and more opportunities emerging here. And it is possible that if we manage to turn it into a long-term trend, we will be able to reduce the advantage of state banks in terms of rates. Not all the state banks have this advantage over us, but still.

And the last, very important story I would like to draw your attention to is a significant improvement in the quality of the Bank's assets. You have seen the dynamics of our cost of risk. A year ago, we showed you our analytical risk model for the first time. Today we will continue to discuss it. The results of 2018 confirm the validity of all the things we told you a year ago, confirm all the trends that we promised you. We see a significant improvement in asset quality.

We see that the cost of risk is approaching the benchmarks, which are embedded in our strategy, 170 basic points. Of course, the main factor is that loans granted before implementing regular advanced approaches in risk management before 2013 are eliminated. These loans are either repaid or cancelled, and make less and less influence on our financial performance. And everything we have done after 2013 looks much more stable and better.

Our expectations for 2019. We expect our loan portfolio to grow by approximately 5% to a stable net interest margin. We do not give any aggressive guidelines here, despite the potential to improve the margin, which I mentioned before. We do not want to focus too much on that and are careful about these guidelines. We expect further reduction in the cost of risk closer to the strategic range, closer to the figure in the strategic model, to 170 basic points. We are expecting or going to stay conservative about expenses, their stable growth rates and stable cost/income, and we expect that ROAE will improve.

And I want to finish my presentation showing you a traditional "pancake" which many of you know quite well. I would like to draw attention to the fact that many of these segments start looking much more interesting taking into account what we experienced last year. First, we resist external shocks. After all that we have experienced over the past 5–7 years, I want you to really appreciate how Bank Saint Petersburg is

able to cope with the most complex challenges posed by the market, by the Russian economy, by regulators. In my opinion, we proved that we can manage all of it.

Today we will talk a lot about digitalization, and I will touch the topic of the banking business infrastructure, which is changing actively. Naturally, all of it takes place in digital platforms, we have to be an advanced player in this regard, and we make many efforts to be successful in this area. And today we believe that we have one of the most advanced digital solutions available on the market, both the solutions for our customers and solutions on which our intra-bank processes are based.

The most important fact proving it is that today in Russia our classic Bank depends on the offices least of all. Talking about business model of Bank Saint Petersburg, our ability to develop, strategically sell our products and serve our customers, we suppose that we are not on the front line, we stay in the golden mean winning even some digital players (banks) in a way.

And the most important point for us is that our shares maintain a very large potential for quotation growth. If we take the consensus forecast of the people making the analytical reports who are in this room now, we will have a figure of about 80% of the potential for the growth of securities value.

Once again, welcome to our Investor Day, please meet our team. I hope that you will take active part in our further discussion and ask your questions. Now I am giving the floor to Kristina Mironova, and she will tell you about risk management in our Bank.

**KRISTINA MIRONOVA, CRO, DEPUTY CHAIRPERSON OF THE MANAGEMENT BOARD:**

— I would like to remind you how the risk management system works in the Bank. It complies with all the best world practices, so there is nothing here to attract your attention. Nothing has changed significantly over the past year. For many years here, in the Supervisory Board we have had an excellent coach, a representative of the EBRD— Gail Buyske. As Saint Petersburg is considered a "Window to Europe", Gail Buyske is our window to the international banking community. During our face-to-face meetings, almost every month I have an opportunity to discover the things of concern to the risk managers all over the world, in Europe, in the USA and answers to such important questions as: What should I pay attention to? Why has the emphasis been shifting from the credit risk to operational risk, to IT risk for some time? How do foreign banks protect themselves from the cyber risk? How do they establish an appetite and limit to the risk? What difference is there between the risk maps of foreign and Russian banks, and is there any? In this field, as it should be, we keep up with the international community and are always changing and improving our approaches to the analysis of all processes and products developed by the Bank.

I would like to draw your attention to the fact that this year my presentation will differ from the last year one as it will not consider risk management as a whole and all risk management processes of the Bank. And

since our main speakers will be representatives of the corporate and retail segment, I wanted to focus on these two areas regarding risk management, as well.

Last year, in corporate lending and corporate risk management we introduced a concept of making credit decisions under the dual signature which is a very common trend in the West. Andrey Mazurin, an employee invited to the Bank and responsible for the credit risk management, became the driver to this concept. He has more than 20 years of work experience in foreign banks. For the last 10 years he worked for at the Royal Bank of Scotland, headed a representative office in Moscow, worked in Amsterdam. Owing to his work experience in these banks, we managed to implement this system in the Russian banking environment, in Bank Saint Petersburg in particular.

Accordingly, now in the corporate segment loans are actually accepted (up to a certain amount) according to the standard criteria — either with or without the participation of an underwriter, that is automatically. Moreover, regarding loans above a certain amount, the decision is made by two people — a representative of the business segment and a representative of the risk segment. Virtually, we now have only two authorized bodies which are great in numbers, that is the large Credit Committee and the Bank's Management Board having very large risk limits. At the same time, all other decisions are made in compliance with the restrictions provided by those two authorized bodies.

Firstly, this allowed us to accelerate the decision-making process. Secondly, we have systemized all our loans. Thirdly, the risk management now controls and monitors the decision-making process at all levels of the Bank and at all loan amounts, as was encouraged by our shareholders and the Supervisory Board. This is why we can also say with certainty that we understand and manage the quality of the new loan portfolio we are currently establishing.

Without considering credit risks from the provision formation perspective, continuing Konstantin Balandin's idea, who has suggested that the cost of risk decreases, I would say the following: it has been decreasing both in basis points and in RUB billion over the last three years. On the other hand, this is certainly the evidence of the fact that we charged provisions for loans issued before 2013, which we no longer need. The second evidence of the fact that the total figure is decreasing, is that the newly issued loan portfolio does not require such provisions neither under IFRS nor under Russian standards.

We will now consider lending in the retail segment. Mortgages account for the majority of the whole amount in RUB billion, while consumer and car loans account for the minority of the cash amount. However, the greatest number of loans falls at consumer loans, including credit cards. For the purpose of this presentation, they were combined. Both the cost of risk and the past due rate are quite standard here. These indicators are less comprehensible when it comes to the car loans plots. However, there are objective and subjective reasons for this. Our loan issue volumes fell sharply in 2015–2016. The program

standards have also changed significantly over this period, shifting from strict to more tolerant attitude and vice versa. In relation to this, the standard dynamics of the past due rate and the cost of risk are less expressed for car loans.

However, in all areas of retail lending we can say that we understand who our customer is, and our customer is now not only a payroll client, but also a person who does not receive a salary to his/her account in Bank Saint Petersburg, who is either a depositor or has his/her own current account in the Bank. We have learned and implemented additional services in order to correctly predict both the probability of default and default losses for such non-payroll customers. This is why we now have larger appetite for lending volumes in the retail sector, as we understand where we can find this market.

Now let me speak about digitalization, robotization and the decision-making process. On this slide I wanted to show you how risk management has implemented and uses those IT technologies, IT solutions, provided in the modern environment, on a daily basis. As a matter of fact, 80–85% of decisions regarding consumer loans and car loans are made automatically. As for mortgages, where considerable amounts are involved, we count less on the automated decision-making process opting for the underwriter's assessment. Nevertheless, 67% is a very good indicator.

Naturally, we strive for the best benchmarking, so that the loan decision is made for the customer applying to the Bank in real time. This means that the customer receives the decision within one minute after submitting his/her loan case and knows whether his/her loan case was approved or rejected. I am sure that this will improve in the near future, taking into account our current abilities to use conventional internal or external data as well. Naturally, a large amount of information we collect from the case, but prior to this we analyze the customer's own transactions within the Bank, and this is an additional part of behavioral scoring. We use outsourced data to acquire information on the customer's income received from governmental bodies. We ask for the customer's consent (95% of our customers) to see their credit record in various credit reference agencies.

And for the latest news. A year and a half ago, we introduced big data analysis elements, and over the past year it was all commissioned into commercial operation and proved to be effective. We actively use information on the customer's activity on the Internet, and this is also a part of transactional scoring, which allowed us to improve the predictiveness of our models greatly. We also use mobile geolocation and understand the person's activity level regarding his/her movements and purchases. The principal point here is, of course, the almost 100% probability to detect a fraud, i.e. a sleeper customer trying to submit loan cases to all banks.

Thanks to all these sources, we can say with certainty that the predictions and smartness of our scoring models improved in quality and in a sufficient way.

As for the dynamics of cost of risk. Konstantin had a similar slide. I wanted to draw your attention to the fact that on the upper slide our volume in RUB billion has been decreasing. The volume of the old loan portfolio issued before 2013, is now in fact small in size and amounts to around RUB 20 billion. We are actively accumulating a new loan portfolio. As for the old loan portfolio — here is the cost of risk, which influenced us and led to forming reserves in 2015–2016. At the same time, we drastically changed once again our risk appetite for new loan cases.

Initially, in 2009, I created and headed a division dealing with problem loans in the Bank and have actually worked in this field for five years. I can say for sure that experience is based on serious mistakes, and when making credit decisions upon new cases, this experience of working with problem loans does not interfere in any way. In fact, it only helps, as it allows using the genetic memory and keeping in mind in which ways customers deceived the Bank and provided for unintended or intended defaults on loans. This helps to implement new preventive tools into the new credit decisions and transactions which will not allow the customer acting the same way in the future.

This is why the whole range of IT solutions and formal approaches from the perspective of risk management and experience gained by the current representatives of the risk segment and members of the Credit Committee, contribute to the loan portfolio quality we have been developing over the past years.

Last year we presented you this table containing the cost of risk by loan vintages for the first time. At the moment, the cost of risk for 2017 generation which was not specified last year, as it has not been available yet, amounts to 1.7%. In other words, it is completely in the trend we have been shaping over the recent years. We also provided two columns to compare the figures we showed you last year regarding the cost of risk, and the figures for the same generations, but acquired a year later.

I would like to confirm our expectations regarding the cost of risk of our loan portfolio once again. We aim for the range of 170–190 basis points and we have certainty and understanding, as well as all prerequisites to remain in this range in the future.

**PARTICIPANT 1:**

— I'm a first-time visitor and only have a cursory knowledge of the Bank. I would like to clarify some of the questions in detail. Do I understand correctly that your target geography is Saint Petersburg and the neighboring region?

**KONSTANTIN BALANDIN:**

— Our headquarters are located in Saint Petersburg. Saint Petersburg accounts for two million customers and 80% of all operations. In addition to that, we are present in Moscow which accounts for 15–20% of our balance. Moreover, several percent of our balance are contributed by Kaliningrad, where in 2014 we bought one of the best local banks that was then present in the region. We managed to integrate it successfully, and in Kaliningrad it accounts for 5% to 10% of the market share depending on the direction, and, respectively, for about 3% of our assets. We also have a representative office in Novosibirsk which is a way for us to serve corporate customers in any region beyond the Urals.

PARTICIPANT 1:

— Thank you. Next question. If you study the business dynamics over the past five years or so, in what way did your business share in Saint Petersburg change? Who do you see as your main competitors in Saint Petersburg?

KONSTANTIN BALANDIN:

— In general, our structure has been working steadily and no material shifts to other regions or otherwise are expected for the next 5 years. Our main competitors are, as always, Sberbank and VTB.

PARTICIPANT 1:

— What is your current share on the banking market of Saint Petersburg?

KONSTANTIN BALANDIN:

— Around 10%, depending on the products in question. Mortgages may amount to 15%, individual deposits amount to around 10%, and corporate lending is a bit less than that.

PARTICIPANT 1:

— You have just mentioned that you now have new opportunities and brought forward arguments. On the other hand, Sberbank has obviously cheaper funding and, probably, stronger administrative resources compared to your Bank. And sanctions will be imposed on Sberbank. What can you put up against Sberbank? They have an ecosystem, after all, 10 thousand programmers, Agile software methods.

KONSTANTIN BALANDIN:

— Many markets have their market leaders. First time I answered this question was in 2004, when we first communicated with our investors, and we have been answering it for the last 15 years. One way or

another, both individuals and corporate customers strongly need an alternative. Not everyone wants to use Sberbank's services. It is important to convince that you are able to provide better products, better service and a good attitude to customers. This is a classical success model for a regional bank all over the world.

PARTICIPANT 1:

— I have not found it on the slides, but could you name the share of legal entities and individuals in you loan portfolio?

KONSTANTIN BALANDIN:

— 75% to 25%.

PARTICIPANT 1:

— And in terms of shares of mortgages, consumer loans?

KONSTANTIN BALANDIN:

— Mortgages are about 70%, consumer loans are about 25% and car lendings are about 5%.

PARTICIPANT 2:

— I would like to clarify on dividends. Slide 6 shows the capital management principle and the new Dividend Policy. Do I understand correctly that the capital adequacy H1.2 of 9.75 is a restriction for payment of 20% dividends as well?

KONSTANTIN BALANDIN:

— I would say that, first of all, these restrictions are rather a guideline to make decisions on buybacks.

PARTICIPANT 2:

— And in terms of dividends?

KONSTANTIN BALANDIN:

— In terms of dividends we have adopted the Dividend Policy and we are committed to observing it. Indeed, there may be more challenging times when the Bank will have less capital adequacy. The Supervisory Board will make decisions taking into account the capital adequacy, but, I think, in the first

place, 9.75 has been set as a reference for the market to understand the conditions, under which we are open to a buy-back. The Dividend Policy has a more sacred meaning for us.

KONSTANTIN NOSKOV:

— We rather wanted to say that we are not greedy, we do not spare to distribute the capital among shareholders. Therefore, firstly, yes, we will pay the dividends target of 20%. However, if we have more, we possess tools to distribute them. These are dividends, buybacks, etc. Do not take this figure too strict, it's just a reference point.

PARTICIPANT 2:

— Could you please tell if there is any reference point for paying 50% of the profit under IFRS? We want more. We are greedy.

KONSTANTIN NOSKOV:

— This is a high return on equity and, probably, a lack of opportunity to grow rapidly and profitably. If we generate income, we will surely exceed the level of 9.75 and then, probably, we could reach 50%.

PARTICIPANT 3:

— Continuing on the topic of capital distribution, is H1.2 of 9.75 your indicator under RAS or IFRS?

KONSTANTIN NOSKOV:

— RAS.

PARTICIPANT 3:

— Next question then. At the end of 2018 it was 9.1, but this does not include retained earnings. You estimate the additional effect of including distributed profits and 35 basis points of planned dividend payout. Does it mean that by the time of considering a buyback, the Bank's capital adequacy will be above the second level?

KONSTANTIN BALANDIN:

— Thank you for that question. To be honest, given the dividends, we really expect a capital adequacy just below 10%, so we won't have much space for buy-backs, or at least not in the same structure as we did last year under article 72 of the Law on Joint-Stock Companies. We are now trying to analyze alternative

structures that other companies use when they don't make offers but announce an amount of money they want to spend on shares, and slowly enter the market, buying shares and receipts of subsidiaries. We are trying to figure out to what extent this applies to the Bank. Such alternatives are slightly less costly in terms of capital. However, we will make the decision at the end of May. Either we find a solution with an alternative structure, or we go make even more profit to exceed the capital adequacy cut-off for the next buy-back. And for that, there are tools allowing not to wait for the next year. There is a range of intermediate audits, which make it possible to incorporate the current profit to the first tier capital and also to find the sources for it. So, if we fail to make a decision on 29 May, it doesn't mean that we won't make it by the end of the year.

PARTICIPANT 4:

— I would like to clarify some more things regarding the buy-backs. Last year, RUB 660 million were spent on buy-backs. Are there any benchmarks for May 29, what amount are you planning to spend on buy-backs? And a second question on the redemption of shares. Is there a time period when you are planning to repay them after the redemption?

KONSTANTIN BALANDIN:

— No, there is no benchmark yet. I think it is necessary to be patient. There is not much time to wait until we make the decision. We intend to repay the shares. Our lawyers believe that we have to repay them not at this Shareholders Meeting but at the next one. So, as long as they will remain treasury shares, they won't receive any dividends, they won't vote and it all will be as usual.

KONSTANTIN NOSKOV:

— Dear colleagues, we are continuing our meeting. Vyacheslav Ermolin, Head of the Corporate Business.

VYACHESLAV ERMOLIN, HEAD OF CORPORATE BUSINESS, VP:

— Good afternoon! I'm glad to see you all here!

First of all, I would like to tell you what our bank's corporate segment is currently like presenting its share and figures.

The loan portfolio represents RUB 286 billion, i.e. 76% of the total loan portfolio. Current accounts represent 48%. Term liabilities represent 36%. Non-interest income represents 68%, i.e. almost RUB 5 billion. Revenue represents about 42%, i.e. RUB 12.6 billion.

Our key financial highlights for 2018:

- +8% growth of current accounts, which is higher than the market rate (about 7%);
- +15% growth of net fee and commission income;
- reduction of the cost of risk (we have already talked about it a lot today) by 71 basis points.

I would like to dwell a bit on the strategic priorities of corporate banking.

First of all, the industry expertise in large and medium-sized businesses. Last year, as a bank, we decided to divide the work with corporate customers into two categories: small and microbusinesses, and large and medium-sized businesses.

In large and medium-sized businesses, we created six sectoral departments and, last year, we systematically worked together with the risk division, staff who work with customers and creditors in order to achieve industry expertise.

We invited industry experts to get a collective understanding of what is happening in the industry and launched industry training. Moreover, our colleagues took part in industry exhibitions, which allowed them to improve their expertise. We also invited people from these industries to work in the bank in order to strengthen our team as well. That's one point.

As for the second point, we agreed that we would differentiate our customer base depending on the industry, so that our department would work only with the customers of their competence.

In small and microbusinesses, we have identified a separate subdivision which is responsible for that segment. Accordingly, we established labor standards, and introduced regular management tools. This greatly influenced the growth of both account balances and non-credit income in this segment. I'll tell you about it a bit later.

Moderate appetite to increasing the volumes of the loan portfolio while improving its quality. We have already addressed quality several times today, and you can see that we're moving forward in this direction. Actually, Kristina talked about it, but I would add that last year the bank didn't make any decision in the corporate banking without risk management. What does that mean? It means that either we accept products in the form of standard decisions, where the model conforms with the risk management and is regularly monitored, or the decision is made on a dual signature basis in different segments, i.e. risk management and customer work.

Moreover, thanks to our increasing expertise we improved our understanding of the industries much further, which allowed us to create a quality portfolio.

Increased share of risk-free transaction revenues. We have observed this trend for a long time. Last year as well as this one we have set very ambitious goals to increase transaction revenues. This year the growth should amount to RUB 1 billion more year on year. In fact, this indicator is expected to reach an amount of over RUB 6 billion.

Increased scale and efficiency of operation with small businesses. We established standards, created separated subdivisions and distributed the roles: staff who attract small business companies and are responsible for supporting and processing the incoming stream. That led us to address this segment exclusively as a specialized one. We used to work on the incoming flux, which, of course, gave the opportunity to increase the influx of cross-sales into the existing customer base. Therefore, although the growth is insignificant so far, this year we have serious ambitions to develop the customer base.

Corporate lending. Regarding corporate lending, we broke the trend. Although our portfolio has decreased for the last three years, this year it increased. It didn't increase much, but it increased nonetheless. The main point is that we broke the trend and started to grow. The cost of risk is decreasing. We are glad with both these trends, because we are growing and, subsequently, our losses are decreasing. In the future, we expect to grow quite conservatively and be very careful as far as risk is concerned.

As we already said today, drastic changes are taking place in the industry. We aspire to sectoral expertise, and one of the concerned sectors is construction. We have been in this field for a long time, we have a quite large portfolio and good expertise. The changes that took place last year gave us an additional impetus to develop this segment. Authorized banks were identified, and capital and ratings cut-offs were then made. We are now on the list of those banks. We, as industry experts, took the most active part in the creation of the legislation itself, and we participated in working groups with the Central Bank and the Ministry of Construction. Due to our work, a great lot of the proposals that we promoted in the working groups were accepted, which allowed to avoid issues that could have affected the industry when the law was initially accepted. So basically, nobody understood how this all would work.

As for our expertise, since 2010 we have implemented almost 60 projects with a total of 1.3 million square meters and a budget of over RUB 100 billion. That shows that we do have good expertise in this field, and the cost of risk is very low in this branch. If we compare it to the global industry indicator, it is almost 2.5 times lower.

At the moment, we have 33 escrow accounts open at three facilities. We created 418 special accounts for developers, 3,400 letters of credit amounting to almost RUB 10 billion and we have a mortgage portfolio of RUB 52 billion.

For us, construction is not just a sector in which we finance developer customers. For us, it is a whole environment where, together with the retail sector, we comprehensively serve our customers. It is also financing construction, letters of credit for customers (i.e. individuals) to acquire those constructions, and financing developers under those letters of credit. It is working with all developers in Saint-Petersburg and some others in Moscow on the accreditation of these facilities, so that customers receive quality services.

At the moment, considering the changes taking place in the legislation, we are fully prepared in terms of products, and all the products necessary to finance construction are currently at our disposal. As I said, we created a quality subdivision of construction expertise. It has worked for a long time and our employees working on the projects we have been already implementing go to the facilities and check if they're ready. On top of that, the payments from accounts are controlled. As this situation is not new for us, we have already worked it through. Thanks to the changes going on in the industry, I think we will see new opportunities.

We have also been already working on 8 projects with escrow accounts amounting to almost RUB 22 billion. Decisions have already been made on two projects, which are now in the stage of registration and credit funds selection.

Another point, regarding the changes in our landscape, concerns the expertise in EXIM. Last year, significant geopolitical changes took place. We, as one of the few private banks with quite good expertise in EXIM, felt that it is an important source of growth for us.

Customer base-wise, we are currently in the top 10 banks by number and in the top 30 by volume of payments. Accordingly, we have more than 7,000 customers in the EXIM sector and our main objective at the moment is to develop our current customer base and business volume, as well as attract new customers. It is a great source of growth for us, since our business volume (foreign currency payments and non-interest income), as you can see, is growing quite well. We have very ambitious goals for 2019 and 2020.

In order to achieve them, last year we created the subdivision for the EXIM in the bank, which included all subdivisions providing services related to EXIM to our customers. Now the services to our customers are provided on a single-window basis. This means that now the customers don't have to address one, two, three subdivisions and quote separately the costs, for instance, of the foreign exchange control or FX operations. All of this is done on a single-window basis, i.e. on a single-budget basis for the customer. And thus we are more flexible, we understand the business of the customer better, and we can provide comprehensive services to them.

Small business and risk-free transaction revenues. A very important segment for us. Last year we purposely identified it as a separate industry, and in this regard there are very ambitious tasks that we perform thanks to the digitalization of the sales system infrastructure. I'll tell you about that later.

The loan portfolio in small business amounts to RUB 5 billion (i.e. only 2%). The sight deposits amount to RUB 34 billion (44%). The risk-free fee and commission income amounts to RUB 2.1 billion (66%). The income from the EXIM amounts to RUB 0.5 billion (57%).

Key factors for increasing efficiency in small business:

- Infrastructure;
- digitalization;
- sales system.

With regard to the sales system, we completed this task and implemented it last year. When we first started dealing with this issue, we had three products per customer, by the end of the year we had five and the goal is seven products per customer. We introduced a system of regular management, which allows to assign online sales plans rapidly to specific managers, as well as understand what is going on and deal with deviations.

To deal with deviations, we created a small subdivision of managing directors who work together with a branch network and figure out deviations. It is either a lack of skills, a lack of knowledge or basis. They figure out the causal link, the issue, and solve it locally, increasing productivity.

Infrastructure development for business. As Konstantin has already said, the market changed dramatically last year, and new opportunities opened up. We were accredited as a bank under Federal Laws 44 and 214. Since September, we have opened more than 2,000 accounts and generated about RUB 5 billion on free liability accounts. This year we see that this market will develop; balances are increasing, and there is quite a good potential.

As a bank, we take part in all state programmes, which allows us as part of the Programme 6.5 to fix our lending rate at the level of public banks, providing us with one more competitiveness opportunity. And we also receive a guarantee fund, so that if the customers don't have enough provisions, the risks for the banks are covered.

Plus, the EXIAR support programme. We have concluded good deals with our exporters, and our good relationship with this subdivision helps us to promote our EXIM products as well.

Online bank guarantees. Last year, we launched a product that was innovative for us. Thanks to that product we cover the entire territory of our country without the massive infrastructure of a physical network. Last year, we issued almost RUB 3 billion (having started in March) and almost 2,700 guarantees. In this business we issue at very attractive diversification rates, i.e. 3–3.5%. The cost of risk resulting from one year of work, which means almost a full turnover since the guarantees are short, is close to 0.3%. It's a very good result. Considering this bond yield, the profitability is very high. This year, we expect to possibly double this indicator.

Centers of state and municipal services (MFC) for business. This is quite an interesting thing. That is what we did ourselves. Last year we organized an MFC for businesses within the bank. Now, customers, be it legal entities or individuals wanting to register their business, can come to the bank to register their business, open a settlement account and, since we have a marketplace, receive services from our partners

at the dashboard. It can be legal support or accounting support. In other words, anything that a new small entrepreneur would need in order to organize their business properly.

For our customers, this is a very good infrastructure, which allows them not to go to state bodies but come to the bank by appointment instead and receive up to 80 public services. It is very convenient, and customers request it a lot. In St. Petersburg we have four of those centers. There is another one at Sberbank. Other banks don't have that. We believe that it is our competitive advantage, which offers quality service as well as may attract new customers to our bank.

Last year, we started developing an environment for small businesses, the so-called #BetterHere project. This project aims to arrange informal meetings of entrepreneurs, issue discussions, inviting experts and helping solve problems that they might not know how to solve, or they might know how to do it but not where to go.

Last week we had yet another session. We invited the head of the Center for Entrepreneurship Development of St. Petersburg. It was a very lively discussion. Numerous entrepreneurs learned how to receive subsidies, how to receive grants, what to do for that and where to go.

That is why, in my opinion, it is a very interesting project. As far as monetization is concerned, it might not be clear yet, but at the moment it's hard to monetize the influx of customers and the environment that we are developing. However, we are convinced that it will be a new driver of growth for our bank with regard to small and medium-sized businesses.

Digitalization. There is a lot of talking about digitalization and today we have talked about it a lot. Our bank's corporate segment was not an exception. You can't do without it nowadays. Here are our results: 99% of our customers are online. It is almost 1.3 million log-ins and 41 thousand users per month. Regarding products, online payments represent almost 99%, foreign exchange control 99% and deposits 94%. We also have potential to open settlement accounts, corporate credit cards and acquiring online. We are working on that, and of course I think the indicators will double year after year.

What else did we do last year in terms of digitalization and simplification of the services for our customers? We launched an account pre-booking service, it can now be done in 5 minutes. Last year, we were working on the Prometheus project. Now it is in its final stage, which will allow to not only pre-book but also open a settlement account in one visit. Once you have sent electronically all documents, you come to the bank simply to sign the agreement, so you can be identified. It will be possible soon.

Another convenient service is the annual identification and data update. Pursuant to our legislation, customers must come to the bank once a year and either provide a document attesting that nothing has changed in their founding documents or inform the bank about any changes. This is a requirement of the regulator.

We thought about the amount of documents our customers have to bring, the workload for our employees and how inconvenient that is for our customers, and we have decided to automate this process. Now we ask for open-source information about our customers and check them against the accounts of our databases. If there are no discrepancies, we automatically fill the form and send it electronically to our customers through communication channels. The customer checks the form, authorizes it by electronic signature and the annual identification is done.

Up to 80% of our customers use this service. That allowed us to:

- 1) not waste our customers' time by making them come to the bank;
- 2) save quite some of our employees' efforts, so that they don't engage in activities outside their specialization but spend time serving our customers instead.

I would like to conclude with a slide indicating that Bank Saint Petersburg is a modern bank with an impeccable reputation and a profound expertise.

Thank you!

KONSTANTIN NOSKOV:

— We are ready to answer your questions.

PARTICIPANT 5:

— Good afternoon! I have a question. Businesses are often classified as small and medium, while large one is in its own category. But you do that a little different. What criteria do you follow when you assign borrowers to a particular segment, and what do you mean by medium-sized business?

VYACHESLAV ERMOLIN:

— We have some limitations regarding classification. A small business is one that earns up to RUB 500 million in terms of annual revenue, medium — from RUB 0.5 to 2.5 billion; every business that earns more than RUB 2.5 billion is considered large.

We differentiate them by type. After all, small business and microbusiness with revenue of up to RUB 500 million are very similar. They have standard products and decision-making. That's why we made this decision.

PARTICIPANT 5:

— And a medium-sized business is a real business or rather subsidiaries of large state corporations?

VYACHESLAV ERMOLIN:

— This is a real business. We have both large and a big group of medium-sized customers, including companies from St. Petersburg who work in the Kaliningrad Region. In Moscow we are focused on working with large customers for now.

PARTICIPANT 5:

— You have also mentioned that in 2019 you are laying ground for expanding the small business customer base. Through which channels are you going to attract new customers? Also small business still remains at one of the highest levels of risks with high level of default. How are you going to eliminate the risks or, on the contrary, mitigate your granting approach?

VYACHESLAV ERMOLIN:

— Allow me to repeat myself. First of all, we have a loan portfolio in small business of RUB 5 billion, which accounts for only 2% of our entire portfolio. In terms of risks, we do not plan to significantly increase our loan portfolio. Our task is to standardize, and we are finishing these procedures. We have them right now, we simply refine the models of decision-making and reduce the terms of consideration, with no increase in default.

The main drivers of growth, as we have already said, are sales channels primarily due to the environment that we create — MFC, a real influx of customers who come just to register their business. These customers are engaged in foreign economic activities. As you may notice almost half of our revenues comes from small businesses and microbusinesses. These are the areas that will allow us to increase our customer base.

PARTICIPANT 5:

— One more question. What are your average loan rates for these customers now? How, in your opinion, state support operation in this segment and how much demand is there?

VYACHESLAV ERMOLIN:

— State support works. Rates in state programmes fluctuate, the range for small businesses can be 9–10%. If we are speaking about standard interest rates, small business now has the rate of somewhat 11–12%, for large customers rates are lower. As we have said today, we are more competitive than ever.

PARTICIPANT 5:

— What percentage of your portfolio is included in the state programme?

VYACHESLAV ERMOLIN:

— For us now (and under Federal Law 209, in our qualification, medium business falls there), our portfolio is about RUB 2 billion. The share is small, but nevertheless in terms of the number of customers, since the checks are not large, it is quite significant.

PARTICIPANT 5:

— Thank you!

PARTICIPANT 6:

— Hello! I have a question on the new workplace policies of construction with escrow accounts. As I see from your presentation, the bank is ready for new changes and customer service. How well, based on your assessment, are developers prepared for these changes and how will it affect their activities?

VYACHESLAV ERMOLIN:

— It is a good question. Last year, in anticipation of how these changes were introduced, all developers made a decision that before July 1 2018 it was necessary to do everything in order to stock up with building permits for many years ahead. If, for example, you look at St. Petersburg, the approximate commissioning rate of housing units per year was 3—3.5 million square meters. So, until July 1 2018, permits for more than 20 million square meters were received, that is a reserve for 5–6 years. And it was not only in St. Petersburg, but also in all other regions.

The legislator saw that, realized that the developers wanted to protect themselves, and at the end of the last year, in December, a decision was made to introduce additional criteria for building permits issued before July 1 2018. Namely, the construction readiness shall be up to 30%, and sales volume up to 10%. These are the criteria identified by the Central Bank and the Ministry of Construction, which have not been legally approved yet, but they promised to have them approved before April 15.

Of course, the developers have prepared themselves now, and today the majority of developers target to ensure the construction readiness of 30% and the sales volume of 10% for the projects permits for which were obtained before July 1 2018. According to our estimates, for 2–3 years there will be enough permits to work according to the old scheme on those projects which have already been launched. And of course taking into account the available stock, the developers have already started running the schemes of dealing with escrow accounts as part of the project financing plan. We actively communicate with them, and as I said we already have 8 projects in process and two decisions made. So it's all right.

PARTICIPANT 6:

— Also continuing on the topic about developers. Developers account for one thirds of your corporate portfolio (almost RUB 100 billion). Could you please tell how many customers they have, the size of these developers, and are they regional or Russian? Since the escrow will certainly clean the construction market, this is why it was created.

VYACHESLAV ERMOLIN:

— Thank you for your question. I would like to get into some specifics. We have a portfolio of about RUB 100 billion indeed, but this does not include all developers. This is fifty-fifty. 50% are developers, 50% is development – commercial real estate objects with current cash flow from tenants.

From the construction point of view, as I said, it makes about RUB 50 billion, from the customer point of view, these are the largest developers in St. Petersburg, but also in Russia. We approach these customers very selectively. We don't have, let's say, small ones. These are large construction companies that occupy serious positions both in St. Petersburg and in our country.

There are risks. At many meetings with the Central Bank, which I personally attended, the construction industry was considered to be of a high risk. Cost of risk according to different estimates is 2.5%, or even 3.5%. As I said, we have this indicator much lower, taking into account our expertise. We will be very selective in the choice of customers, and here is a very important point that you should understand — that now, taking into account our limitations, we do not want to grow beyond RUB 100 billion portfolio of developers. The volume will somehow increase, because if earlier we financed the project as follows — we gave money, and the customer chose from 10 to 20%, emerged from zero, then sales to equity holders began, and financing was at their expense. Now, taking into account the escrow accounts, the bank will fully finance the project from scratch, and the volume of debt will increase. With this in mind, we will have certain limitations. We will choose only the most high-quality and cost-effective customers for us.

PARTICIPANT 6:

— And is an increase in the developers portfolio to RUB 100 billion on the horizon?

VYACHESLAV ERMOLIN:

— No. We now have a limit of RUB 100 billion. We do not want to exceed this limit, taking into account current development.

PARTICIPANT 6:

— Thank you!

PARTICIPANT 7:

— Can we clarify the escrow accounts? Did you estimate how much it would reduce the cost of your liabilities?

VYACHESLAV ERMOLIN:

— This will not reduce the cost of our liabilities, because, answering your question, escrow accounts will be used to finance the same developers. The scheme will work as follows. Sales begin. Customers (individuals) deposit money to escrow accounts, and the same money will be used to finance developers. Accordingly, special and base rates will apply. Special rates are financing for the balance on escrow accounts. And all banks now declare figures from some 5 to 7% of financing. The rates are roughly set as follows. This is cost of risk (about 2.5%), the cost of the bank (it varies depending on the bank from 1.5 to 2.5%), also DIA and mandatory reserve fund. The rate is fixed at this level. Moreover, the interests are now paid at the end of the period. Developers will be funded at this rate at the expense of escrow accounts.

If there is not enough money on escrow accounts, for example, there is the capital of the project for 100 units. 50 units are formed on escrow accounts. The customer needs money. It builds faster than sells, it needs 60 units. 50 will go at a special rate, and additional 10 at market rates.

PARTICIPANT 7:

— The question about the bond yield of the share capital in the Corporate Banking. Question: do you consider ROE separately for this segment? If so, are you ready to share the current dynamics and some strategic expectations? Thank you.

KONSTANTIN BALANDIN:

— To be honest, this is a very difficult question. Because if you answer this question, it is necessary to leave out special aspects of internal transfer pricing. These are two identical parts of the same coin. In the Retail Banking the bank has RUB 200 billion of liabilities and RUB 80 billion of loans, in Corporate Banking the ratio will be the opposite — liabilities are far less, and loans are way more. Accordingly, one business should sell resources to another. I can tell you all the math, but you'll never understand how I got the numbers. So, of course, we analyze, we have these models, and models are different. To be honest, we prefer product models rather than segment models. Because these distortions create a lot of difficulties.

And it is more correct to assess the profitability not of a segment. Figuratively speaking, if you look at small business, there are RUB 2 billion of loan portfolio, but how many billions of liabilities are there? There is no capital, so everything you earn is return on equity. Return on equity is 10,000%. I'll give you this number, but it won't tell you anything.

So I prefer, and invite you, to operate on the profitability of credit products. In this sense, the retail banking also has different products. There are very highly profitable, high-margin consumer loans, there is much less profitable, but probably more stable mortgage. There are different products in the Corporate Banking. In general, perhaps, if we look at the profitability of corporate lending, we would like to get more, given the cost of risk that we bear (mainly, though, according to old stories) from those projects, which we funded before 2013. But the trend is clearly positive. There is a dynamics of cost of risk, which we have showed you in this slide, and I expect the overall profitability of corporate lending to be good provided that we keep this trend in line with the strategy.

But one more time, please, listen: bank profitability and return on equity are not equal to profitability of lending. Which means, the bank earns a lot of money on attraction of liabilities, on non-interest income and so on. That is, even if I give you some number, most likely, it will misguide you in a certain way. Because it cannot be compared with the return on equity of the bank as a whole.

PARTICIPANT 7:

— Thank you!

KONSTANTIN NOSKOV:

— Oksana Sivokobilska, Head of Retail / Digital.

OKSANA SIVOKOBILSKA, HEAD OF RETAIL / DIGITAL, DEPUTY CHAIRPERSON OF THE MANAGEMENT BOARD:

— Good afternoon! Not the last but final presentation, comprised of two parts: retail banking and digitalization of the bank as a whole.

About the retail banking. 5 years ago we identified a strategic direction for development of retail banking, because the bank has historically been more corporate oriented. Now we can share that at the moment the loan portfolio accounts for 24% of the bank's portfolio, demand funds — for 52%, deposits — for 60%.

Such a high share in the raised funds is the intended strategy of the bank as the funds of individuals are the cheapest and the most sustainable source of funding. And if we focus on the mass customer to attract liabilities, then this strategy justifies itself, and you will see later the figures at the rates mentioned by Konstantin as well.

Non-interest income accounts for 43% of all non-interest income of the bank, and in total represents 29% of the total revenue of the bank.

On the dynamics. Although we can say that we have been building retail for a long time, maintaining high growth rates is still a big challenge and the main task for us.

A growth of deposits by 21%. This is twice as high as the pace of the market in 2018. At the same time, growth of demand funds is the most delicious piece, the most valuable funds in funding as they are almost free — and here we have an even higher growth rate, +25%. A growth of lending to individuals by 19%. A growth in net fee and commission income by 8%.

Fee and commission income of individuals is an item that is closely associated with interest income on balances. Therefore, it is about finding a kind of balance: where do you want more — either fee and commission income or customer account balances? As you can see, the customer account balances have grown by 25%.

Let us have a more detailed look at the lending. In all three directions we have shown good growth dynamics. Especially our focus was on high-margin — these are consumer loans, which showed +39%, and car loans +68%.

Mortgage +11%, our main portfolio. At the same time, in the mortgage market of St. Petersburg we see, feel ourselves and are evaluated as leaders. Why leaders? Because we are the Bank of the first choice among developers. Our quality of service, our product, our service in terms of mortgage — this is what Vyacheslav has talked about — allow us providing an integrated service to our partner developers, and satisfying the high requirements set by individuals. At the same time, we are highly estimated by them as consumers. For three years in a row we have been awarded the nomination “Consumer Confidence”. This is the opinion of secret customers, who evaluate the quality of the process in mortgage lending at all banks. And for the third year in a row we won this nomination.

At the same time, we have implemented such qualitative things in mortgage as securitization in the amount of RUB 7.5 billion. We are especially proud of the AAA rating assigned to us by ACRA as this is another proof of the quality of our portfolio.

Consumer loans, growth rates. As you have seen in Kristina's presentation, at the same time it's a steady price of risk. At the growth rate of +39% year-on-year we have managed the risk profile of customers and the product, and are very satisfied that the experiments made in previous years allowed us defining the settings for scoring models and automatic decision-making process to a large extent. This way we are able to maintain growth rates, with absolutely no risk for the profile of the loan portfolio.

At the same time, non-collateral lending has an even higher margin product — credit cards. Marginality of this product exceeds 35%, with practically no paybacks. Therefore, for us the focus is still in unsecured lending, at these rates of growth, it is credit cards themselves. And there we have doubled our portfolio.

Car loans. We have a car lending model — it is partner sales. We work through dealer centers. This is the most cost-effective model. We have a minimum number of employees working in this area. At the same time, of course, our volumes are determined by the range of partners, the volume of our partner base of car dealers, which we also doubled in a year.

Respectively, in lending we have those practices which give us already good growth rates, with a good profile of risk representing a very good background for future years with the same level of the growth rate.

The dynamics of deposits is twice as fast as the market. We have a unique position, our prices this season became similar to those of Sberbank. This is, of course, the result of customer base loyalty. We are perceived by customers as a stable alternative to state-owned banks, which is almost equal by the risk level. Customers want to distribute their finances not in one single basket, especially their accumulated funds, and we really represent such alternative. They give us money to feel safe and to get the bond yield with which they accept, let me say, with the bond yield at the level of the state bank. This has definitely improved our position in terms of funding costs, and we will try to monetize them as much as possible and maintain them in the long term.

My focus today to a significant extent is on the second part of the presentation, namely on digitalization. There was an era when we discussed digitalization in the terms of laboratories, separately allocated licenses and banks next to the Bank. Banks have tried very different models to transfer their large base business into a new era.

We have also passed different stages. And now any promising bank — this is how we call banks that have future — shall target transformation of all its business, and not laboratories or separate pieces of its business in the format of an additional license and a small scale, even if this correlates with the ideal profile of the digital bank. It is only an experimental format, not a transformation of the entire bank.

We are talking today about the fact that the goal of the entire industry is to transform its entire classic Bank into a digital one, into business economy 4.0. Here I will specify how we see these trends. Automation, robotization. And, probably, this is the main focus of all routine operations. It is not about any experiments or breakthroughs, it is already a must-have ambition to look at any routine operation in the classic banking industry only through a lens of its digital implementation. And wherever a person is involved, it is some kind of atavism. And I think this degree of zero tolerance describes the state of the entire financial industry. We can no longer afford to look at digitalization as an experiment. This is a mandatory and total digitalization of all classical banking.

To be honest, we want to shift all our costs to the self-service by the customer. We want there to be no cashiers, we want there to be no back office, we want the front office to advise only on special complicated issues, and the rest of the customer would do himself/herself through the most intuitive simple frontal systems. The same robot will explain everything to the customer, but (s)he has to do everything himself/herself. This means that we have shifted the entire cost of service to the customer side, and at the same time it happens as quickly as possible for the customer, (s)he is satisfied and does not perceive it as a load, but as (s)he is his/her own Master. A win-win situation.

At the same time, a fairly fresh thing is the total use of algorithms. Kristina has demonstrated the numbers and the data we use in scoring, including geolocation, which confirms the employer to us in scoring. We're not interested in just where this customer was, and we indirectly understand if (s)he indicated the right employer or it is fake and probably a fraud. We no longer need to call or look for this employer, as in the old methods, but by geolocation, frequency of stay at a particular point, address, and correlation with the addresses of employers in real time.

Therefore, algorithms start to control the decision-making process. On the one hand, these are the algorithms that simulate behavior of customers in order to eliminate risks, fraud, financial monitoring, and credit scoring. On the other hand, in a large scope of application algorithms serve as a demand forecast and supply customization.

In fact, the times when there were VIP and non-VIP customers passed long ago. VIP customers were always described as the ones, about whom everybody knew and understood everything, and they were offered customized solutions. Today, any mass customer can receive such customized solution. Because the algorithm can estimate their needs, the time to address them with this need, and the way to customize the standard product according to their terms, namely urgency, rate and amount. Banks still have to customize the purpose of why the customer raises a loan. They will guess immediately your motivation to raise a loan. And all this happens here and now. In our case, I will share the numbers later, but to get ahead of myself — 40% of our offers today are already made to customers based on such estimations. This, of course, dramatically increases the response. Any proactive response from the Bank is from 5 to 20%, there are no 50–60% responses. But that means that you turn a 5% response into 10%, and a 10% response into 20%. This is a huge step in efficiency.

And we want to finish this transformation by going digital. It is as much of a challenge as to understand that classic digital banking is now a standard and there is no other banking any more. That means that all the progressive banks, including us, should offer to the customer a rather complicated high-tech product which is easy and intuitive to use. You feel how to apply for a service not in your brain but in your fingers. This is how intuitive interfaces work. You feel how to make payment and fill out a loan case not in your mind but

in your body. That's why all the operations are shifted not just from online (once they were in offline and online), they are shifted from online to real-time.

I'll give you an example. If a decision on a retail loan took 10 minutes a few years ago, everyone was satisfied and said, "That's great. He logged in the back office while he was being served there, he was not far from there. And he got all the scorings, safety was checked and the sums were calculated within 10 minutes." This is what happened some four years ago.

The next stage is when all transactions are arranged within 1–2 minutes. That was about a year or two ago. Now tell me how long do you stay on any web page until you go to another page? It's not a minute, it's not even 30 seconds, it's a few seconds — 2 or 3 seconds. It's a session. Therefore, financial product should be presented to a customer within one session. Because you pressed "I want a loan" and you are not going to sit and wait. Everything longer than a few seconds means sitting and waiting for a man of today.

Therefore, when we talk about digital banking, in my opinion, we have reached the plateau in Russia now — these are digital online frontline systems, as they are convenient for the customer. They're on a very good level. Even if we consider the issue worldwide, the Russian standards of digital online platforms are very high now. Any additional possibilities for promotion are already limited. The fight will begin "under the hood". Time reduction from 10 minutes to 1 minute is the first complexity level and the next level is to reduce the time from 1 minute to a few seconds. And that means that you refer to your IT architecture and revise the processes. You do not improve the process, the process should be completely new, based on a different principle of work with data and sources.

Therefore, when we talk about today's digital banking, first of all, there is no such word as 'already'. No one asks whether the customer is ready. In the Russian Federation there are 75% of active Internet users and, what is particularly important, we have entered the mobile first era being the mobile Bank. How many times have you logged in to your mobile Bank and its desktop version in the last month? People seem to forget their desktop passwords because they rarely use it, because they use mobile version several times a day. That's why mobile first is the thing everyone is to be ready for.

At the same time 45% of the population, that is half of the population, is already using all the digital banking actively. Talking about limit values – there cannot be 100%, the figure will be about 70%, if we look at the Nordic countries. 70% is the limit, 30% of the population is still outside of the digital world at the moment. The generation will change, the figure will grow, so this is about generation limits.

Now about us. When we talk about digitalization, it was also our strategy. There are a lot of interpretations of what it is. We suggest to consider this issue very pragmatically. Let's name the figures to measure it. And we see that there are three areas to measure the digitalization issue.

From political and ideological points of view, we put 90% to online business share (later I will explain why we value these 10%, because they still exist as multichannel services). This online business is divided into three parts.

Customers' incidents. Any organization is in regular contact with many customers incurring huge costs. Contact centers and branches have always spent only up to 20% of their time on sales. The remaining 80% of their time was not associated with sales. This time was spent on dealing with customer's requests, on services. That's why it is already the case that 95% of our customers communicate online with us.

Customers' transactions — payments, product processing — 81%. And the main challenge for the whole industry (I think that the first two figures in leading banks are pretty much the same) and the main competition are naturally online sales to customers. Our level is 36% and we are planning to achieve 90% in two years. By the end of 2019 we are going to achieve 50% because now we are still developing our skills.

This is because banking is changing with regards to the required skills of employees. Digital marketing requires completely different people compared to non-digital marketing. These people read and understand Google Analytics, they understand completely different metrics. These are not the people who were in marketing five years ago. And the situation is the same in every area.

Legal solutions are associated with product structure, how to implement a product to our mobile Bank, to our phone screen. You know how many consents you sometimes need to give to use a product. The lawyer should consider the issue in a completely different way, how to structure his legal requirements to the product, so that it can fit the screen of a mobile phone.

The second part is connected with robotization of the decision-making process. Again, there are two issues. The first issue is making decisions on loan cases and here we are in a safe comfort zone. On average, 82% of decisions for all standard loans are already robotized. That means that a bank employee did not use his/her own knowledge when making a decision for a particular loan case.

Again, the challenge and the growth point are algorithms for proactive sales. To whom, when, where and what to offer, and on what terms.

And the third area is an infrastructural and ideological component of digitalization. Platforms should be user-friendly and IT-architecture. On the whole, we are well aware of that. If you look at cost/Income of any bank and its expenses, IT-expenses will be the next item after payroll. Therefore, the architecture should be microservice-oriented. Let's focus a little more on this aspect.

This is the reason why we need a multichannel strategy. You see offices of contact centers where the customer flow is maintained, and this is the first year when the customer flow even decreased in some offices. At the same time, in two years the demand from customers for contact with the Bank through

digital channels has doubled. The more digital the Bank becomes, the higher its contact level with customers is.

Basically, the Bank becomes a business that starts working with traffic. When we talk about Yandex, other platform businesses, their main know-how is traffic monetization. For banks the same era has come. You have a contact with a customer, you sold him/her something at that moment, you made an up-sell, you improved, monetized that contact. And we see how the base for monetization is growing. Each contact has a sales potential.

Let's return to particular figures: Half of the Customer base is represented by active heavy users of digital platforms. Payments can be considered as a solved problem in our area. This situation is not unique. Almost all payments are made online, while offline payments are related to some particular services and large amounts.

Furthermore, over a third of sales and full cycle consumer loans are online. A customer neither called us, nor came to our branch, but took a consumer loan and we earned money.

And deposits. I always mention deposits. We understand that it is believed to be a conservative part of our Customer base, and this part is in digital channels.

And, probably, this icing on the cake will help us to clarify some details. What is a digital bank in Russia? In my opinion, there is one very transparent metric. You have a customer base and you serve it. And serving it, you have offline and online components. With regards to offline we usually count branches. There is a following metric: we count the number of offices for each 100,000 active retail customers in each of these banks.

We have managed to build a business model of customer service when a customer spends the least time at the office compared to all classic banks.

But then it's even more interesting. Now we have a Bank which is considered not to be classical. When we say "offline", what is of key importance: a square meter of an office? Or is it rather a human factor in the service process? And here is the same metric, but expressed in employees. These are the employees of the so-called 'front office'. This is a call-center (in Tinkoff there are couriers, in our bank there are financial experts), and this is online efficiency compared to our standard or, I would say, typical benchmark.

It is biometrics that will allow us revising and realizing once again how we can decrease offline presence in our business models. But what I want to share with you today is that we are the leader in terms of customer service efficiency in the digital service model.

Now there is the stage of industry digitalization when competition is neither in front systems nor in their appearance as they are all quite good. Top 10 banks have front systems which are very similar to each other and are very good in accordance with world standards.

Now the question is what is there "under the hood?" There are technological solutions. Thanks to these solutions on the digital platforms customers are offered desirable products on time. And creating this feeling is a complicated and expensive process which requires completely new skills. Data scientists are the people we need in our business processes, the people we have already been using to monetize this smart offering, every contact which is doubled every two years, and our traffic more efficiently.

The IT- architecture is also "under the hood". I will mention it because, on the one hand, it's a technical issue, but at the same time it is important to know whether you are still competitive the other day.

Why is the Russian Federation better in digitalization and digital solutions than at least Southern Europe and Central Europe (probably, excluding the Nordic countries)? The reason is that their IT architecture still includes solutions which were implemented in the 70s and 80s. These are the solutions integrated one after the other. And Russian banks don't have such a long-term heritage. Therefore, now all the banks which develop microservice architecture understand that they need to re-write the whole IT-code to create a brand new microservice logic. It means small pieces that are easier to rearrange if you want to add or remove something.

It's a huge task, it's a big cost. If you don't do this, you lose your competitiveness for five years or more.

And development processes. After all, any financial product is now an IT product. Therefore, creating a financial product and its processing is actually an IT job, broadly speaking. A financier, who knew nothing about microservice architecture and IT architecture in general yesterday, cannot but become an expert in IT matters as well.

The change in competences is the most important thing "under the hood". The share of people in the banking industry, in any bank, with different levels of IT knowledge, is the main revolution. This share will shift and at a certain moment — depending on the bank size, I think it will be more than 50% of employees who are good at IT. It is a prospect for all the banks who want to survive. The majority of employees have to become IT experts within three years at most. The level of skills and specialization is another question, but I mean that we have two separate worlds which we cannot afford anymore. This is the unified world, we should realize that. The main question to every banker today is whether I have a job in five years.

Another pleasure we have is the opportunity to work with ITMO University. We have been working together for more than a year under the four-year project "Big Data in FinTech".

KONSTANTIN BALANDIN:

— Colleagues, for those who are not aware, ITMO University is the leading university in Russia, which develops information technologies. It is located in St. Petersburg. I think the university is in top 3 among Russian universities which train IT specialists.

OKSANA SIVOKOBILSKA:

— And there is one more criterion which is like a benchmark that proves its status — ITMO students have always won the world IT Olympiads since the beginning. This is their KPI.

I've tried to recruit one of the data scientists from ITMO. "We are scientists." And I realized that this is the first time in my life, I am embarrassed that I am from banking, and I offer a job. Scientists are not the ones who want to work in the banking industry, they are even cooler. And now we, the bankers, actually rely on science, modeling, mathematics to satisfy our daily needs.

What are these needs? Which branch should be opened and which branch should be closed? Scientists can monitor geolocation, frequency of use of services and purchases in different districts of the city and predict whether customers are satisfied. They can give us a rating of offices which can be closed with the minimum impact provided on the customer loyalty. Such an abstraction is pure mathematics. This model is being developed.

They can give us lists of customers which are not shown as wealthy in our data. But as you understand, we leave digital footprints, and various mathematical correlations give an answer: "Look at this person. He is very wealthy. You are just not aware yet."

We always feel excited and surprised when we come closer to this area. Because we are amazed by the things we continue to apply every day and will do it even more often. All of it is now a part of the financial industry. Probably, this is the reason why the digitalization issue in banking is that interesting.

And pragmatically — why do we do all this? Although it is very exciting, very interesting and gambling, as a result, we want to reduce our expenses and increase revenues.

Thank you very much! I am ready to answer any questions about the modern universal digital Bank.

PARTICIPANT 7:

— Good afternoon, colleagues! Thank you very much for your interesting presentation. I just have a question for the last slide, about digitalization. It was mentioned that the goal of all this is to increase ROE. On previous slides there is information that Bank Saint Petersburg is more advanced than other banks in terms of digitalization, that is, fewer branches per 100,000 customers, fewer employees, and you are also more effective by other parameters. But we see that, for some reason, it was not reflected in higher ROE values over the past few years. Why? How can we see this digitalization and the money?

OKSANA SIVOKOBILSKA:

— Konstantin will help me to answer this question. The specifics of the banking business is that our main business is the ability to buy risk. In general, this is our main specialization. Therefore, as Konstantin has shown you today, it is a very significant component of this issue when we talk about our final financial performance. That's why, probably, I cannot name some particular reasons now.

I can give you an example. We have now considered how to bonus for online sales. And I was surprised when I saw the amount which we saved only on bonusing of financial experts in the branch network. If I look at the alternative prime cost, I will see that if a person made this sale, I would have to pay him for that. Now this sale is online. And I need to bonus 20 people online instead of 350 people working in the branch network. Even this small example shows that bonus fund for online implies about 1 to 5 savings.

KONSTANTIN BALANDIN:

— When they come to me as a financial director and say, “Please, give us money for digitalization,” I ask the same question. But that is not the heart of the matter, because digitalization itself is not associated with ROE. It's a tool. It's a platform. ROE depends on your strategy and business model. In a manner of speaking, if we have a look at Tinkoff's ROE, the bank earns it not because of being digital. The bank earns it because it sells proper products with proper bond yield and proper profile risk.

And we have a different strategy. And in this sense, we work with different customers, in other business segments, with other products. And, most likely, in the long period of time, with another volatility of financial performance. Digitalization is definitely additional cartridge in our gun, which allows us improving our competitiveness in the long term and improving our ROE, because we need to survive, now it is really a must have, it is a tool. But this does not mean that it changes our strategy, or our business model, or we suddenly start earning 80% in corporate lending. There is no such thing and there will never be. If someone tells you that it will, don't believe it.

That's why I think it over, calm myself and give Oksana money for digitalization.

PARTICIPANT 7:

— Just to make it clear — is it a necessity to meet the demands of today? Or is it the same thing everyone else has and it is a must-have infrastructure that all banks should have? When looking at these websites I thought that Bank Saint Petersburg was still more advanced and more connected with savings in terms of a number of employees, bonuses, more products per customer. Thus, we can conclude that it still should be reflected in ROE. Or, based on what you say, is it just a standard infrastructure, which is at the level of other banks, and which everyone simply has to have to survive? Or is it something more than that?

OKSANA SIVOKOBILSKA:

— This growth rate with the same expenses is another answer to your question. Because you can provide this growth rate without extra expenses just because you are turning them more and more online.

KONSTANTIN BALANDIN:

— And there is another strategy. You can invest nothing into digitalisation and make maximum profit from the existing physical infrastructure, and earn more money for a certain period of time. And burn the Bank in two or three years. And in three years, you are out of the market.

That's why there is only one way. One of the reasons why the number of banks in Russia is decreasing at such pace is that they rejected this way. Not everyone survives in this race. And those who survive end up claiming a bigger piece of pie.

PARTICIPANT 7:

— Thank you very much!

PARTICIPANT 8:

— Good afternoon! Thank you very much for your interesting presentation. I wanted to clarify which retail product you consider to be the most promising?

OKSANA SIVOKOBILSKA:

— Credit cards. First of all, coverage, the number of people using credit cards provides very good prospects for growth not in percentage points, but in several folds. Having learned to manage the risk profile in the mass segment of such a mass product, we have shown that in the recent years we have been stable in our risk price and in the mass products for individuals. This is a very attractive product in terms of its upscaling. And in terms of the number of people using credit cards, there is a big potential.

Credit cards. We double our profits in the matter and should double it, I would say, every six months.

PARTICIPANT 9:

— Good afternoon! If we continue talking about credit cards, I would like to ask you, what customer profile do you have? How do the customers behave? How do they pay off outstanding credit card balance? Do they abuse grace periods? Do they use credit cards more as a credit product indeed or do they live in the grace period and make transactions?

OKSANA SIVOKOBILSKA:

— In one word, here is the ratio. You will always see, this is general market data. This information is available. If you take any significant loan portfolio of cards, 50% of them are always active. Between 50% and 54%. Not 70% to 80%. From those who were once out of the grace period you need some maturation, it depends on the customers, but in general in one year you reach a point where the customer is suddenly out of the grace period. After that, 80% of them don't return to grace.

So, in principle, if we take the example of Alpha products, the willingness to extend the grace period does not reduce the bond yield significantly. Because basically you're betting on... It's a very long-term product. Therefore, you're always ready to provide a one-year extension to customers, so that afterwards they will stay out of the grace period almost forever and under good conditions, and any card generates commission and interest income (about 50/50). Unlike consumer loans, where the interest constitutes the main income, credit cards generate juicy fee and commission income, invisible to the customers, but very important for the Bank. As for cash withdrawal, there is a very complex fee structure.

For banks in general, products with complex fee structures have always generated a good bond yield. As soon as a product enters a simple tariff scheme, it sparks a price war between banks, and the industry smothers the bond yield.

PARTICIPANT 9:

— Thank you. A clarifying question. What is your average credit card interest rate?

OKSANA SIVOKOBILSKA:

— It is a medium rate. Because we have two major segments. We are a specific Bank in terms of structure of our customer base, too. We have the highest share of payroll customers in Russia. Here is our business model. It is important that the customers receive their salary with us, so we can understand their risk profile better and then lend them at lower rates. That makes us more competitive without venturing price risk. And this sequence works very well. For payroll customers it will be in around 17% and for non-payroll customers — about 22%.

PARTICIPANT 9:

— Thank you! Thank you very much for your presentation in part of your IT dimension, it was really interesting. One more question. How many IT employees do you have now? Isn't it hard for you to compete with banks that have stronger brands, such as Sberbank or Tinkoff, since the elite technical and IT graduates probably head there first? Or Yandex.ru, Mail.ru and so on?

OKSANA SIVOKOBILSKA:

— Thank you! It is a very interesting question. What is this IT all about? Today, as I said, I am also supposed to be IT. We estimate that we have more or less 500 people in this category. You know SberTech, right? Therefore, we also need to be unique in this regard. We have defined a certain strategy in this respect: we don't chase innovations, we chase the best adaptation of the most successful innovation. Because some players with huge resources throw a lot down the drain.

In turn, we always manage to be at the forefront of the offer, because any modern technology can be introduced in six months (up to nine months). In turn, it is a step to make the market, our customer base react to this offer. That is why we can offer optimal production cost and be among the most competent regarding advanced technology solutions. We are very stingy.

But it's a strategy, and it works. It attracts another type of IT employees. And since we are talking about how to be competitively attractive, you know, for our part, we also have a specific way of positioning those employees. As we are not such a big machine, almost every single one of those 500 contributes very tangibly to the final result. And especially, people are eager to contribute and like to understand "what depends on me, what I can do in the end and add to my CV, what contribution I made. I took part in the working group that created a mobile Bank for legal entities from A to Z." Because 15 people will work with us on that, not more. And they will make it. And they will be able to say genuinely and honestly: "I made it." In a big company, probably nobody would know who has created a mobile Bank.

Overall, there is a shortage of those skills on the market. It is actually the scarcest profile, an IT specialist with a certain understanding of the industry specifics. We follow an HR-based approach, we provide them with adequate conditions. It's a different environment, they don't want to be asked to come at nine a.m. if they get inspired after six p.m.

KONSTANTIN BALANDIN:

— It is probably easier to find 200, 300, or 500 people, than 5,000 or 10,000 anyway.

PARTICIPANT 9:

— Thank you!

PARTICIPANT 1:

— I have a few specific and, maybe, longer questions. Do you plan to introduce a part of the ruble bonds into the public debt markets this year?

KONSTANTIN BALANDIN:

— The only tool we can discuss is securitized mortgages. I don't see any other.

PARTICIPANT 1:

— Thank you! In the first half of the event there has been a presentation saying that the reserves amounted to RUB 7.7 billion in 2018. What are the plans for 2019 regarding the reserves?

KONSTANTIN BALANDIN:

— We plan to reduce the cost of risk. Probably in the range of RUB 6–7 billion.

PARTICIPANT 1:

— I got it. One more question. There has been a number of M&A deals in the banking sector. Did any big player express its interest in you, be it a bank or financial-industrial groups? Is there any probability of a transaction with you?

OKSANA SIVOKOBILSKA:

— Regarding any interest in us, I don't know. We didn't hear about any such thing. These last years, we were the one expressing our interest. We keep an eye on banks that might be interesting for a merger and acquisition deal. Actually, we had a few banks in our sight.

At present, we don't see any really interesting asset. Because the level of "bad" assets goes through the roof. So, if all of a sudden something interesting appears on the market, like Bank Evropeisky in Kaliningrad, with which we concluded such a deal at the time, we are always open and ready to discuss.

PARTICIPANT 1:

— Are you looking for banks in your geographical area or are you considering some new regions?

OKSANA SIVOKOBILSKA:

— No, it doesn't have to be in our local area. If it is a truly interesting asset, especially an asset with interesting products for us. For example, the interesting product at Bank Evropeisky consisted in foreign economic activities, which they widened to Bank Saint Petersburg.

KONSTANTIN BALANDIN:

— The process that we introduced there, we were more active two or three years ago, caused great disappointment, and more than anything we learnt from reviewing those banks how not to behave. That is why we are now even less active, than we were two or three years ago.

PARTICIPANT 1:

— What do you think are the biggest risks for your Bank and more generally for the banking sector this year?

KONSTANTIN BALANDIN:

— Geopolitics.

OKSANA SIVOKOBILSKAYA:

— Yes, of course. Above all.

KONSTANTIN BALANDIN:

— I think the biggest risks stem from the fact that they can come to us. Furthermore, I would say that they fall into two points, both external. Firstly, the potential sanctions that can have unpredictable repercussions on the Russian economy, on the whole banking system, as well as on different players. And secondly, sooner or later the United States will go into a recession, and I doubt that any of us here will go through it comfortably. It is also probable that some shocks will follow. For the rest, I think the system is quite stable.

PARTICIPANT 1:

— Does the tightening of the regulation by the Central Bank induce additional risks?

KONSTANTIN BALANDIN:

— Is there anything to tighten there, or what?

PARTICIPANT 1:

— I don't know. So it's all there?

KONSTANTIN BALANDIN:

— We're not waiting for anything more, so no.

KONSTANTIN NOSKOV:

— Colleagues, it's not a farewell. If you still have any questions for us, please feel free to ask them. We will highly appreciate your feedback. Thank you!