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## Strong capital and stable funding balance the expected deterioration of the loan portfolio

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- **The scale of Sberbank's operations combined with effective corporate management and conservative risk procedures determine its high profitability of operations.** Sberbank demonstrates positive financial results, including during periods of economic shock, while high business diversification and interest margins ensure sustainable and organic capital growth.
- **In 2020, Sberbank's profit will decrease due to the worsening economic situation.** The main prerequisites will be the crisis associated with the spread of the coronavirus and the fall in oil prices, which will result in decreased economic activity, demand for loans, and borrower creditworthiness.
- **High capitalization and profitability of operations should mitigate the impact of the expected decline in asset quality and increase in the cost of risk.** The increased resilience to credit losses in past years (capital adequacy calculated according to Basel III standards was 13.4% at the end of 2019) and the higher quality of corporate and retail portfolios relative to the average level in the Russian banking system will ensure that Sberbank is better adapted to negative changes in the economy.
- **A balanced and stable funding profile and a significant liquidity cushion support Sberbank's sustainable development.** Reduced dependence on market funding leads to low refinancing risks. Sberbank's client funds, a key source of liabilities, are well diversified by structure and maturity. Liquid assets account for 25% of total assets.
- **Critical systemic importance for Russia's financial system.** Sberbank accounts for 23% of all funds held by Russian corporate clients and its share in the retail deposit market was 44% at the end of 2019. Sberbank's active customer base in Russia exceeds 95 million individuals and 2.5 million corporate clients.

## Sberbank Group

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[Sberbank](#) (hereinafter, Sberbank or the Bank) is the largest bank in the Russian Federation, the CIS countries, and Central and Eastern Europe. The Bank operates mainly in Russia, which accounted for the majority of its operations and about 97% of net operating income in 2019. The Bank has a 30% share in the assets of the Russian banking system and it also accounts for about 35% of all loans issued in the country. The Bank is represented by 11 regional banks that combine 77 branches and more than 14,000 offices in 83 regions of Russia. The Bank's active customer base in Russia exceeds 95 million individuals and 2.5 million corporate clients.

The Bank's foreign network includes subsidiaries, representative offices, and branches in the CIS countries, Central and Eastern Europe, as well as in Switzerland, India, China, Germany, and other countries. In July 2019, Sberbank closed the sale of the Turkish bank DenizBank A. S.

Sberbank's companies include those in insurance, leasing, brokerage, dealing, microfinance, investment activities, as well as a private pension fund, a number of IT companies and companies in other industries.

The Bank has a full-service franchise, providing all types of banking services to a wide range of retail and corporate clients.

Until April 2020, the Bank's main shareholder was the Bank of Russia, which owned 50% of the authorized capital plus one voting share. This stake was transferred to the Russian Government in April 2020 as part of a deal to acquire it using funds from the National Wealth Fund. According to the Bank's assessment, this change should not have a significant impact on the Group's core business or strategic prerequisites for further development.

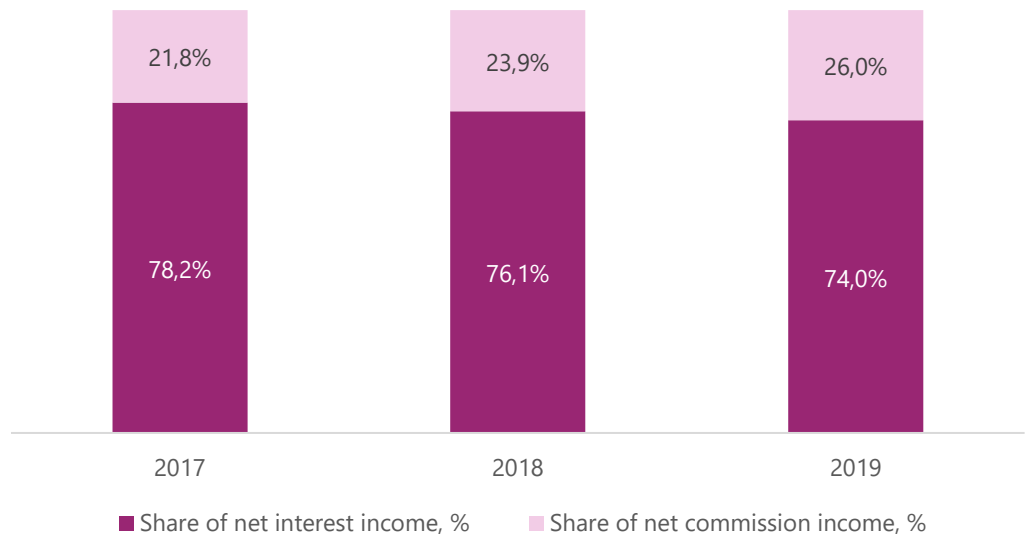
The current strategy through 2020 assumes an increase in business volumes, growth in profits and operational efficiency, and improved customer service quality for all segments, largely due to the development of IT systems and the integration of the Bank's main products into them. The strategy's main financial targets include the growth of profitability and capital adequacy, an increase in commission income, a reduction in operating expenses and the cost of risk, and a number of other goals. The Bank is implementing the strategy ahead of schedule, but the current economic situation is likely to make it difficult to achieve certain indicators by the end of 2020, in particular the target levels of profit and cost of risk.

## Sberbank's dominant position in the Russian banking sector contributes to the sustainability of its operations

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The significant diversification of the Bank's business, as well as its presence in almost all regions of the Russian Federation and in the international market, ensure the stability of the Group's operating income. The increase in income from bank card operations and cash and settlement services, as well as from non-banking and digital businesses, reduces concentration on interest income via increased commission income and increases the Bank's resistance to fluctuations associated with the recession.

Figure 1. Growth in the share of non-interest income in the structure of operating income before reserves

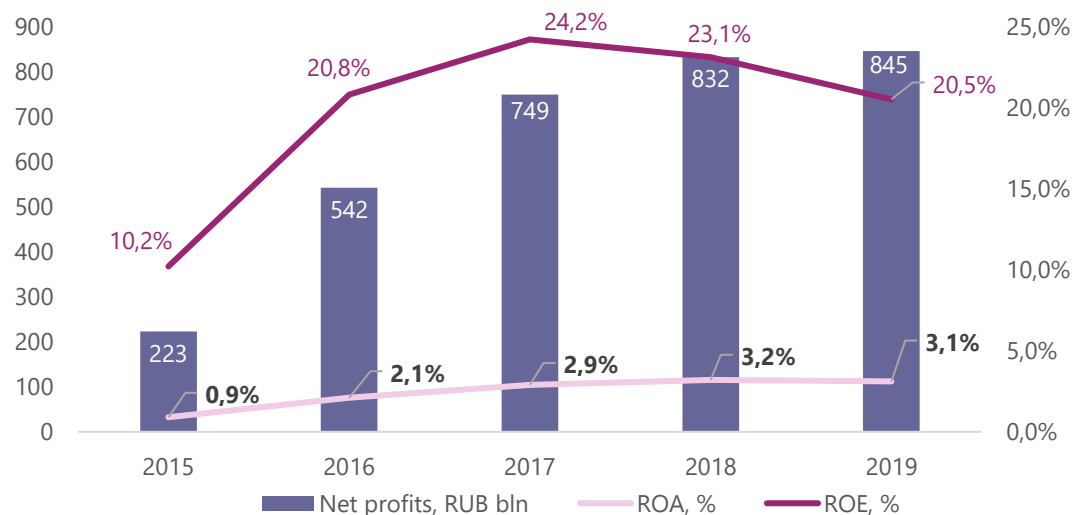


Sources: Sberbank’s IFRS reporting, ACRA

Its dominant position in the Russian banking market allows Sberbank to set more favorable price targets for its main active and passive operations. In 2019, Sberbank’s share in the Russian banking sector’s total profit decreased to about 40% compared to the previous year, but ACRA expects this indicator to grow in 2020 amid the projected overall decline in banking profit. Sberbank’s high operational efficiency results in a stable return on assets and equity, which exceed the average values for the Russian banking sector.

Sberbank’s net profit from operating activities has grown over the past five years. However, in 2019, it was affected after the Group recorded a loss of RUB 69.8 bln from the sale of DenizBank A. S., which was mainly due to the reclassification of the currency translation difference.

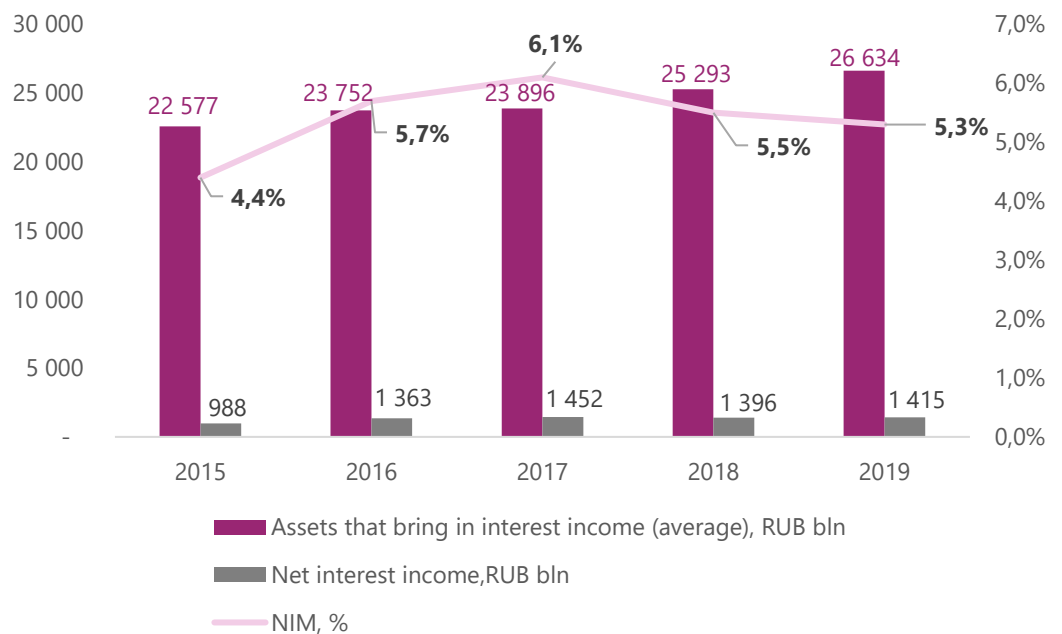
Figure 2. Sberbank’s net profit and profitability



Source: Sberbank

The strength of its brand and reputation as one of the most reliable financial institutions in Russia enable the Bank to raise consumer funds on more favorable terms compared to other participants in the banking market. These funds, representing the largest share in the Bank's liabilities at about 56%, help maintain a consistently high net interest margin (NIM). According to ACRA, NIM was 5.3% for 2019, with the market average at about 4% for the same period. However, high competition among banks for borrowers, combined with a reduction in the Bank of Russia's key rate, put pressure on Sberbank's NIM in 2018 and 2019. According to ACRA, the Bank's NIM will continue to decline in 2020 given the above factors and the impact of the economic crisis on interest income.

**Figure 3. Sberbank's operating margin is decreasing**



Sources: Sberbank's IFRS reporting, ACRA

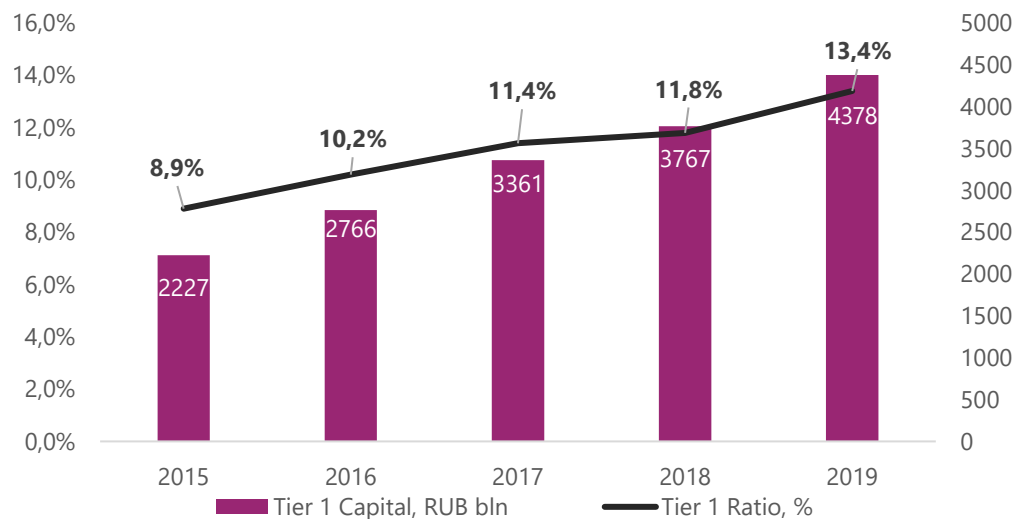
Increased productivity and improved business processes, combined with a significant increase in the share of customers served digitally, affords the Bank high operational efficiency despite the increase in operating expenses, which are largely associated with the cost of developing the IT platform. The ratio of operating expenses to operating income (CIR) was about 36% for 2019, similar to 2018. This value is still higher than the 30% set in the strategy, and ACRA does not expect it to improve by the end of 2020.

### Increased risks will put moderate pressure on the peak capital adequacy ratio reached by Sberbank

According to ACRA, the current negative trends in the economy will put some pressure on Sberbank's capital through a reduction in the credit quality of the loan portfolio. However, the Bank's capital adequacy will be higher for 2020 than it was for 2019. The base case scenario, which takes into account stress testing, assumes that projected profits within the 12-month horizon are sufficient to cover losses on impaired assets. This is supported by the high profitability of the Bank's operations.

The Bank's high operational and financial performance, combined with a balanced capital management policy and risk appetite, have led to stable capital generation in past years. The growth of the Tier 1 capital adequacy ratio to 13.4% in 2019, calculated according to Basel III standards, was also influenced by the sale of DenizBank A. S. by Sberbank Group. This event resulted in a reduction in the volume of risk-weighted assets and slowed the dynamics of their growth in 2019 due to the Bank's organic development and changes in approaches to calculating capital adequacy in terms of increasing the risk weights for individual assets. Sberbank's financial leverage also showed a positive trend and amounted to 13.7% as of January 1, 2020.

**Figure 4. Stable growth in capital and capital adequacy**



Sources: Sberbank's IFRS reporting

Sberbank's policy assumes an increase in the amount of dividend payments to 50% of the Group's net profit in accordance with IFRS if by 2020 the core capital adequacy level is reached and maintained at least 12.5%. The Supervisory Board of the Bank has recommended that 50% of the net profit be allocated for the payment of dividends for 2019.

### Significant growth in problem loans, especially in the consumer lending segment

The worsening of the economic situation due to the spread of the coronavirus and the fall in the price of oil will have a negative impact on the ability of many Russian bank borrowers to service their loans. ACRA anticipates considerable growth of problem debt in the consumer and SME lending segments in particular. Our expectations are based on potential significant growth of unemployment, a fall in the income of the population and small businesses, and also the increased debt load of these groups of borrowers over the past few years.

Sberbank Group's assets amounted to RUB 29.96 tln in 2019, having decreased by 4% compared to the end of 2018 due to the strengthening of the ruble and the retirement of assets in connection with the sale of DenizBank A.S. The loan portfolio (net of provisions) accounted for 68% of assets, having grown by 4% in 2019. The size of the consumer loan portfolio grew by almost 17% over the year, while the

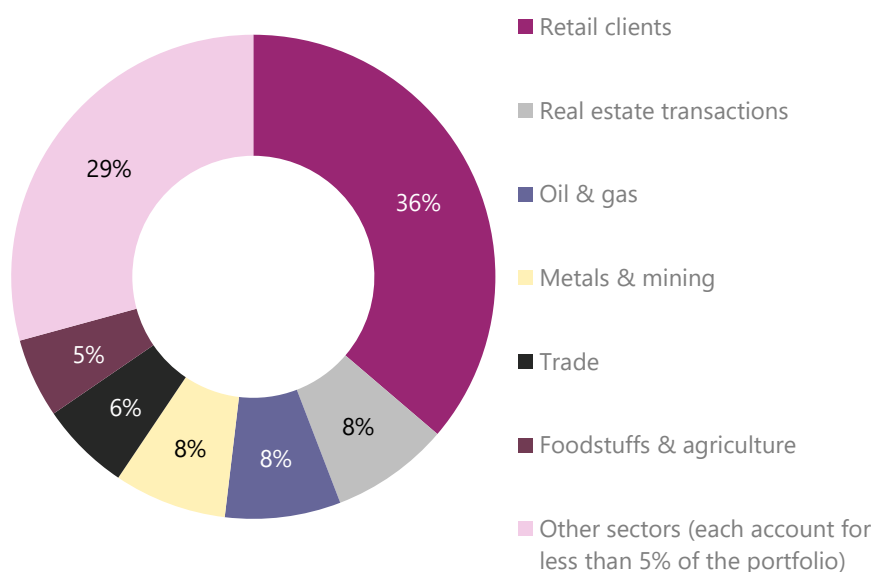
corporate loan portfolio fell by 3.2%. In 2019, the Bank increased the share of retail loans in its portfolio from 32% to 36%.

Consumer loans and credit cards demonstrated higher-than-anticipated growth (around 25% for the year) in the retail lending portfolio due to lower interest rates on loans and the population compensating for declining real incomes. Given the enhanced risks and toughening of regulations, ACRA expects the Bank to significantly cut lending rates in this segment in 2020. As of the end of 2019, consumer loans and credit cards made up 16% of Sberbank's loan portfolio.

Sberbank's mortgage portfolio increased by 11% in 2019. It is noteworthy that Sberbank leads the Russian banking market in this area, having issued more than 50% of loans by total volume. The volume of mortgage loans provided by Sberbank will continue to grow in 2020, albeit to a lesser extent than in 2019.

The structure of the Bank's corporate lending portfolio is well diversified by sectors, with the largest accounting for less than 8% of the entire portfolio.

**Figure 5. Structure of Sberbank's loan portfolio by sectors**



Source: Sberbank's IFRS reporting

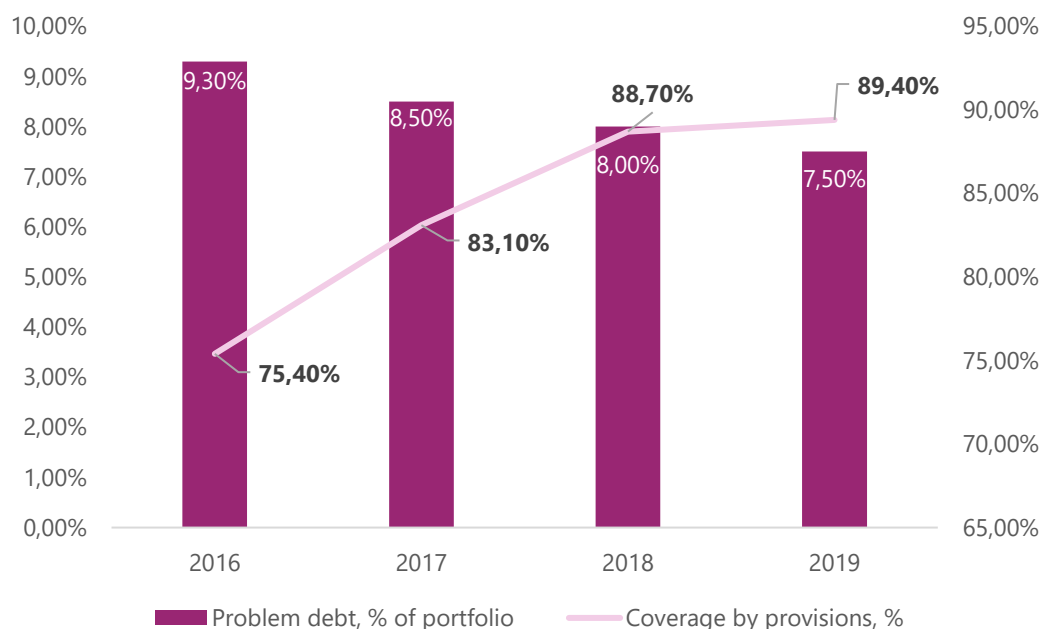
The level of granularity of Sberbank's loan portfolio is sufficiently high in the context of the Russian banking system: as of December 31, 2019, the share of the 20 largest groups of related borrowers amounted to 24.2% of the loan portfolio. In addition, Sberbank is the leader in the SME lending segment, having a share of around 35% of the total volume of loans provided by Russian banks.

In ACRA's opinion, the most likely scenario amid an expected decline in demand for credit resources in 2020 will be a lack of growth in the Bank's corporate lending portfolio.

ACRA notes that over the past four years, there has been a trend toward improvement in the quality of Sberbank's loan portfolio. Currently, it is characterized by an acceptable level of problem debt, with loans classified as impaired in

accordance with IFRS amounting to 7.5% of the total loan portfolio in 2019. Coverage of impaired loans by total provisions is very high, and exceeded 89% as of the end of 2019. This indicator has recorded a slight increase over the past year.

**Figure 6. Gradual decline in the share of problem<sup>1</sup> debt, and sufficient coverage by provisions**



Sources: Sberbank's IFRS reporting, ACRA

The cost of risk for the Bank's loan portfolio (including revaluation of loans accounted on the balance sheet at fair value through profit or loss) for 2019 was below the level planned by the Bank and amounted to about 70 bps, which is largely related to the restoration of provisions for the restructured debt of one non-resident company. In 2020, according to ACRA, the increase in the cost of risk is likely to reach values in the range of 200–250 bps.

The securities portfolio accounts for 14.6% of the Bank's assets. It is almost entirely made up of debt securities and is used primarily to manage liquidity. About 12% of the portfolio is accounted for at fair value through profit or loss. The majority of other securities are categorized as having either low or minimal credit risk. OFZs occupied a 44% share of the portfolio as of the end of 2019.

ACRA positively assesses the Bank's risk management system and conservative approach to determining risk appetite, which allow it to successfully pass through negative phases of the economic cycle.

### Balanced funding profile and sufficient coverage of potential outflows of liquid assets

The Group's liabilities are characterized as being highly stable and consist primarily of funds of individuals (56% of liabilities) and corporate clients (29% of liabilities), of which 70% are held in time deposits. ACRA assesses the diversification of the structure of funding by clients as good: as of the end of December 2019, the 20

<sup>1</sup> According to ACRA's calculations.

largest groups of creditors accounted for 14.9% of the Bank's total liabilities. Around 3% of liabilities are funds raised by issuing debt securities, the majority of which are domestic market bonds. ACRA does not expect any material changes to the structure of the Bank's funding sources within the 12 to 18-month horizon.

Sberbank's assets and liabilities are well balanced in terms of maturity. In addition, around a quarter of the assets on the Bank's balance sheet are the most liquid, which allows for sufficient coverage of liabilities on all time horizons. Sberbank adheres to regulatory liquidity ratios by a substantial margin. In particular, as of the end of 2019, the short-term liquidity ratio amounted to 133%, while the structural liquidity ratio stood at 123%. Sberbank can access a considerable amount of state and market refinancing if necessary.

### **The Bank's systemically important role determines the high likelihood of state support**

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Sberbank's high degree of importance for the stability of the Russian economy is based on its dominant position in all key segments of the financial market. Sberbank is the largest creditor to economic entities and holds the largest share of funds placed by private clients and corporate clients among all Russian banks.

The theoretical default of the Bank could lead to crisis phenomena occurring in the Russian economy related to the necessity to compensate client funds, including the funds of state-owned companies and budgets, the violation of transaction chains (around 30% of the non-cash payments of Russian corporate clients are carried out via Sberbank), and other reasons.

In accordance with the methodology of the Central Bank of the Russian Federation, Sberbank is a systemically important credit organization, and its payment system is of national and social importance. Taking the aforementioned into account, and also the likelihood of the Russian Government maintaining shareholder control over the bank in the long term, ACRA assesses the possibility of the state providing support to Sberbank (if necessary) as very high.



## Appendix

Table 1. Balance sheet data, RUB bln

	2015	2016	2017	2018	2019
<b>Assets</b>	<b>27,335</b>	<b>25,369</b>	<b>27,112</b>	<b>31,198</b>	<b>29,959</b>
Cash and equivalents	2,334	2,561	2,329	2,099	2,083
Mandatory provisions with central banks	388	402	427	222	236
Tradable securities	–	–	–	–	–
Financial assets reassessed at fair value	867	606	654	–	–
Securities	–	–	–	3,443	4,182
Receivables from banks	751	965	1,318	1,421	1,083
Loans and advances to clients	18,728	17,361	18,488	19,585	20,364
Securities pledged under repo agreements	222	114	259	307	187
Investment grade securities available for sale	1,874	1,659	1,744	–	–
Investment grade securities held till maturity	478	546	774	–	–
Claims on financial derivatives	–	–	–	178	194
Deferred tax asset	17	14	16	15	15
Fixed assets	499	483	516	594	695
Assets of disposal groups and non-current assets held for sale	213	6	11	2 570	11
Other financial assets	965	653	577	765	909
<b>Liabilities</b>	<b>24,960</b>	<b>22,547</b>	<b>23,676</b>	<b>27,342</b>	<b>25,472</b>
Deposits by banks	1,046	562	693	1,097	770
Deposits by individuals	12,044	12,450	13,420	13,495	14,210
Deposits by legal entities	7,755	6,235	6,394	7,402	7,365
Debt securities issued	1,379	1,161	935	844	730
Other borrowings	398	261	247	57	25
Financial liabilities reassessed at fair value through profit or loss, except debt securities issued	427	213	164	182	176
Deferred tax liability	132	55	28	33	30
Liabilities of disposal groups	186	1	–	2,235	–
Provisions for insurance and pension fund activities	–	479	688	–	–
Other financial liabilities	788	390	390	1,290	1,547
Subordinated loans	807	740	716	707	620
<b>Internal funds (capital)</b>	<b>2,375</b>	<b>2,822</b>	<b>3,436</b>	<b>3,856</b>	<b>4,487</b>
Charter capital and paid-in capital	320	320	320	320	320
Own shares bought from shareholders	(7)	(8)	(15)	(18)	(22)
Office space revaluation fund	69	67	61	–	–
Revaluation fund for investment grade securities available for sale	(46)	24	35	–	–
Currency exchange difference	101	(20)	(26)	–	–
Changes in accounting for liabilities on pension plans with fixed payments	(1)	(1)	(1)	–	–
Other provisions	–	–	–	130	(11)
Retained earnings	1 935	2 436	3 059	4 049	3 561
Non-controlling interest	2	4	4	4	8

Source: Sberbank's IFRS reporting

Table 2. Consolidated profit and loss statement, RUB bln

	2015	2016	2017	2018	2019
Interest income	2,280	2,399	2,131	2,188	2,396
Interest expenses	(1,292)	(1,036)	(728)	(718)	(895)
<b>Net interest income</b>	<b>988</b>	<b>1,363</b>	<b>1,349</b>	<b>1,397</b>	<b>1,416</b>
Impairment provision change	(475)	(342)	(264)	(97)	(93)
<b>Net interest income after impairment provision</b>	<b>513</b>	<b>1,020</b>	<b>1,085</b>	<b>1,300</b>	<b>1,323</b>
Fee and commission income	383	436	479	599	689
Fee and commission expenses	(65)	(87)	(102)	(160)	(191)
<b>Net operating income</b>	<b>831</b>	<b>1,370</b>	<b>1,459</b>	<b>1,379</b>	<b>1,821</b>
Other income net of expenses	122	(14)	64	(34)	43
<b>Net income (expenses)</b>	<b>955</b>	<b>1,355</b>	<b>1,523</b>	<b>1,345</b>	<b>1,864</b>
Administrative and other operating expenses	(623)	(678)	(623)	(658)	(725)
<b>Income (loss) before taxes</b>	<b>331</b>	<b>678</b>	<b>903</b>	<b>1,046</b>	<b>1,139</b>
Income tax expenses	(108)	(136)	(188)	(215)	(224)
<b>Income (loss) after taxes</b>	<b>223</b>	<b>542</b>	<b>749</b>	<b>831</b>	<b>845<sup>2</sup></b>
Other comprehensive income	143	(50)	2	(69)	148
<b>Comprehensive income for the period</b>	<b>366</b>	<b>492</b>	<b>751</b>	<b>762</b>	<b>993</b>

Source: Sberbank's IFRS reporting

Table 3. Key financial ratios

	2017	2018	2019
<b>Capital adequacy</b>			
Tier-1 CAR	11.4%	11.8%	13.4%
Capital generation, bps	208	177	170
Leverage ratio under Basel III	11.5%	11.3%	13.7%
NIM	6.1%	5.5%	5.3%
CIR	34.7%	35.2%	35.8%
ROA	2.9%	3.2%	3.1%
ROE	24.2%	23.1%	20.5%
Ratio of problem to total loans	8.5%	8.0%	7.5%
Coverage of problem loans by provisions <sup>3</sup>	83.1%	88.7%	89.4%
Ratio of 20 largest groups of related borrowers to loan portfolio	23.4%	26.5%	24.2%
Loan portfolio dynamics (before provisions)	6.6%	6.0%	3.2%
Ratio of market risk to Tier-1 capital	34.5%	25.9%	24.8%
Share of clients' funds in total liabilities, %	83.7%	76.5%	84.7%
Funds of 20 largest groups of creditors in the Bank's total liabilities	11.9%	15.8%	14.9%
Short-term liquidity indicator	131%	134.9%	133.7%

Sources: Sberbank's IFRS reporting, ACRA

<sup>2</sup> Including losses from discontinued operations in the amount of RUB 69.8 bln.<sup>3</sup> According to ACRA's calculations.

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