# Address of the CEO, Chairman of the Executive Board

Dear shareholders, clients, and partners:

We began the previous year in an unstable situation with rather conservative forecasts; however, stabilization of oil prices and the RUB/USD exchange rate helped the Russian economy find its way back to growth again in the fourth quarter of 2016 after two difficult years. As such, the policy of Bank of Russia remained rather rigid, which did not allow for lowering interest rates in the economy to the level sufficient to stimulate the growth of demand for credits. In contrast with above, Sberbank assets in 2016 declined, whereas due to systematic lowering of the funding cost throughout the whole year we improved the forecast several times, and as of the year-end we earned a record level profit for the whole history of Sberbank.

As of the year end of 2016, net profit of Sberbank Group under the IFRS reached RUB 541.9 bln, earnings per share increased by 2.4, return on equity equaled 20.8%, double increase compared with the result of 2015. By its return on equity ratio, Sberbank ranked first among the largest European banks and fifth among the world's 100 largest banks.

Such a result would be impossible to achieve without radical transformations in the Bank's business processes and considerable growth of efficiency. Sberbank continues its large-scale business transformation with the ultimate goal of turning into a high-tech digital company able to create the best innovative products for its clients in the ever-changing and more and more sophisticated environment.

In 2016, we made a number of considerable steps toward this goal in all areas of our activity.

**Herman Gref**

CEO, Chairman of the Executive Board

In the realm of noncash services, we continued the accelerated transition of sales to digital channels. The number of active users of Internet banking and text-service is close to 50 mln. The volume of cash transactions is declining steadily. The share of noncash circulation on retail transactions exceeded 50%. Over 100 mln transactions a day are made online. We are constantly developing new mobile solutions, anticipating our clients' expectations and reducing the time to market. It is evident that active growth in this area will continue in the future.

Apart from the whole number of innovative services and projects, in 2016 we launched the first ecosystem in the real estate market, and—despite the sharp increase of competition in the market of mortgage loans—we retained our market share at the level of 55%.

For several years already, we continue to track the level of NPS, an index that shows the client's willingness to recommend Sberbank services to their friends and acquaintances, considering it one of the key indicators of our team's efficiency. In 2016, the level of NPS of retail clients increased by 3 p.p. and reached 58%.

In 2016, we also did a great job of transferring our corporate clients to digital channels as well. Sberbank Business Online remote service system is used by 1.4 mln clients, over 99% of payments is made through this system.

Transfer of services to digital channels has a positive influence not only on the growth of our business volumes and improvement of client experience but also on raising our own efficiency. In 2016, due to increased use of remote channels, we could absolutely seamlessly reduce the number of Sberbank offices serving legal entities in the country by more than one thousand. We are also working on optimization of the retail customer service network, taking into account, however, the necessity of maintaining a high level of customer service and ensuring its continuity.

We continued the program of efficiency and lowering operating costs in 2016. Despite the conducted salary indexing, we were able to improve the operating expenses to earnings ratio to 39.7%.

Our internal processes and systems are undergoing a total transformation as well. In 2016, we completed development of the core of the base platform, implemented the principal business hubs, and launched the first product factories. Implementation of this project laid the foundation for the appearance of brand new technological solutions for maintaining competitiveness in the future. We also started implementation of the Sbergile business process, which enables flexible development of new solutions and the optimal speed of their introduction.

With regard to the area of risk management, in 2016, we continued to improve our systems, having introduced principally new transaction models of small entrepreneurial subjects assessment and an optimized approach to collecting problem debts from physical persons. We continue to introduce new instruments specializing in big data processing. The use of modern, innovative risk management technologies allows us to maintain portfolio quality significantly higher than the market.

“In 2016, we achieved the leading position in terms of cybersecurity in Russia and plan to proactively develop this area to better protect clients, Bank assets, and shareholders. This year, the security subdivisions of the Bank have prevented over a million suspicious transactions totaling approximately RUB 17 bln.”

Thanks to the implementation of the program Reliability 99.99 ahead of plan, the idle time of systems caused by incidents was reduced twofold.

Being a systemically significant bank in Russia, we see it as one of our most important tasks to raise the accessibility and convenience of bank services and finally increase the quality of life of societyas a whole. In 2016, we launched the project “A Bank with a Difference” aimed at making the bank services optimally comfortable for disabled clients.

Last year, we celebrated the 175th anniversary of Sberbank. By this date, we launched a project “The Art of Preserving,” which enabled the Russian people to visit free of charge the largest national and regional museums in 28 museums of 27 cities of the country, and as a result many museums boasted a record attendance rate. Also, very successful was the first exhibition in Russia of tactile paintings for the blind and visually challenged organized together with the Pushkin State Museum of Fine Arts.

Several years ago, we embarked on the path of great changes, without which it is impossible to retain leadership positions in today’s world. The culture of change has already become a part of everyday life for the Sberbank team of many thousands of employees, we learned to not be afraid of new things and to look openly to the future, creating it now with our own hands. I am very pleased to see a friendly team of ardent professionals aimed at self-improvement and achievement of the highest results, this is the best return on investments into our employees and corporate culture.

In conclusion, I would like to thank our shareholders for their trust in our team. Thanks to your trust and support, Sberbank capitalization in 2016 grew by 71%, strengthening the Bank's leading positions on this indicator among the European and world banks. We shall put all our efforts into meeting your expectations by continuing the development and creation of additional value for the business in the future.

On behalf of the Executive Board

**Herman Gref**

CEO, Chairman of the Executive Board