Sberbank (SBER)

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Sberbank reports 2018 Net Profit of RUB 831.7 bn under International Financial Reporting Standards (IFRS)

Moscow, February 28, 2019 - Sberbank (hereafter "the Group") has released its Annual consolidated IFRS financial statements (hereafter "the Financial Statements") as at and for the 12 months ended 31 December 2018, with audit report by AO PricewaterhouseCoopers Audit. All information is presented net of Denizbank A.S. operations, unless stated otherwise.

Herman Gref, Chairman of the Executive Board, CEO, commented:

"*2018 was an important year for Sberbank. Not only did we report a record net profit and reach a Return-on-Equity of over 23%, we also successfully completed the first year of the execution of our Strategy 2020. Furthermore, we embraced the ambitious challenge of carrying out our technological transformation. We completed the revision of all major IT initiatives, hired experienced IT experts, radically redesigned our production process, and integrated our businesses with IT in order to develop our platform.*

We learnt to implement changes faster, improve our processes and products faster, making them more convenient and time-saving for our clients. Yet we have a long way to go in perfecting client experience, introducing new services to the Sberbank platform and developing new skills among our team in order to build a data-driven company with a high level of collaboration. The achievement of our strategic goals is the key to our confidence in facing external challenges and to providing for the sustainable growth of shareholder value ."

The 2018 Financial Highlights:

- The Group **net profit**[i] reached RUB 831.7 bn, up by 11.1% compared to 2017
- The Group earnings per ordinary share (**EPS**) from continued operations came at RUB 38.13 per share, up by 15.4% compared to 2017
- The Group annualized return on equity (**ROE**)[i] reached 23.1%, while the Group annualized return on assets (**ROA**) reached 3.2%
- **Net fee and commission income** increased by 18.1% y/y to RUB 445.3 bn
- The Group **loan portfolio** (includes loans at amortized cost and at fair value) increased by 16.5% to RUB 21.1 trn. Retail loan portfolio increased by 25.0%, up to RUB 6.8 trn, while corporate retail loan portfolio expanded by 12.9%, up to RUB 14.3 trn.

The 4Q 2018 Financial Highlights:

- The Group **net profit**[i] reached RUB 176.2 bn up by 2.2% as compared to 4Q 2017, and the Group earnings per ordinary share (**EPS**)[i] came at RUB 8.4 per share,
- The quality of the Group **loan portfolio** improved: share of Stage 3 and POCI loans came at 8.1%, showing a decrease of 0.3% compared to 3Q 2018
- **Client deposits portfolio** increased by 5.1% up to RUB 20.9 trn compared to 3Q 2018 with **retail deposits** up by 7.1% and **corporate deposits** - by 1.6%.

Selected Financial Results

RUB bn, unless stated otherwise	**4 Q 2018**	**3 Q 2018**	**4 Q 2017**	***4 Q 18/ 3 Q18 %***	***4 Q 17/ 4 Q 17 %***	**12M 2018**	**12M 2017**	***12M18/ 12M17 %***
Net interest income	354.7	359.3	357.3	-1.3%	-0.7%	1 396.5	1 348.8	3.5%
Net fee and commission income	122.6	114.6	113.1	7.0%	8.4%	445.3	377.1	18.1%
Other non-interest income / (expense)[ii]	15.8	34.4	1.0	-54.1%	1 480.0%	31.6	64.4	46.7%
Operating income before provisions	**493.1**	**508.3**	**471.4**	**-3.0%**	**4.6%**	**1 936.3**	**1 790.3**	**8.2%**
Net charge related to change in asset quality:	-52.9	-78.1	-67.0	-32.3%	-21.0%	-225.3	-263.8	-14.6%
Net credit loss allowance charge for debt financial assets	*-35.9*	*-59.5*	*-67.0*	-39.7%	-46.4%	*-162.4*	*-263.8*	-38.4%
Negative revaluation of loans at fair value due to change in credit quality	*-17.0*	*-18.6*	--	-8.6%	--	*-62.9*	--	--
Staff and administrative expenses	-208.6	-156.8	-191.9	33.0%	8.7%	-664.8	-623.4	6.6%
Net profit from continuing operations	**180.7**	**217.1**	**163.3**	**-16.8%**	**10.7%**	**831.2**	**715.6**	**16.2%**
Profit from discontinued operations	-4.5	11.0	9.1	-140.9%	-149.5%	0.5	33.1	-98.5%
Net profit	**176.2**	**228.1**	**172.4**	**-22.8%**	**2.2%**	**831.7**	**748.7**	**11.1%**
Earnings per ordinary share from continuing operations, RUB	8.4	10.1	7.6	-16.8%	10.7%	38.1	33,0	15.4%
Total comprehensive income from continuing operations	179.9	191.7	-174.8	-6.2%	-202.9%	789.1	738.6	6.8%
Book value per share*, RUB	170.7	162.1	149.0	5.3%	14.5%	170.7	149.0	14.5%

Ratios based on continuing operations								
Return on equity[i]	18.8%	25.5%	20.6%	--	--	23.1%	24.2%	--
Return on assets	2.6%	3.3%	--	--	--	3.2%	2.7%	50 bp
Net interest margin	5.4%	5.8%	--	--	--	5.7%	--	--
Net interest margin***	5.6%	6.0%	--	--	--	5.9%	--	--
Cost of risk (amortized cost loans)	69 bp	123 bp	151 bp	--	--	86 bp	153 bp	--
Cost of risk (amortized cost and FV loans)	99 bp	157 bp	--	--	--	115 bp	--	--
Cost-to-income ratio**	42.5%	30.6%	40.7%	--	--	34.2%	34.7%	--

** Total equity / Total number of ordinary shares outstanding*

*** Operating income before provisions for debt financial assets , revaluation of loans at fair value due to change in credit quality and credit related commitments*

**** Net interest margin was recalculated as working assets adjusted for the amount of provisions , created under IFRS 9, against Stage 3 loans*

Selected Balance Sheet Results

RUB bn, unless stated otherwise	**31/12/18**	**30/09/18**	**01/01/18**	***31/12/18 vs. 30/09/18 %***	***31/12/18 vs. 01/01/18 %***
Gross total loans *	21 082.3	20 144.7	18 096.1	*4.7%*	*16.5%*
Corporate loans *	*14 331.1*	*13 725.0*	*12 696.5*	*4.4%*	*12.9%*
Retail loans *	*6 751.2*	*6 419.7*	*5 399.6*	*5.2%*	*25.0%*
Restructured loans	1 255.0	1 243.7	1 208.8	*0.9%*	*3.8%*
Securities portfolio	3 749.5	3 601.8	3 166.0	*4.1%*	*18.4%*
Assets [i]	31 197.5	29 247.9	27 044.5	*6.7%*	*15.4%*
Total deposits:	20 897.3	19 888.1	18 123.3	*5.1%*	*15.3%*
Retail deposits	*13 495.1*	*12 605.5*	*12 278.1*	*7.1%*	*9.9%*
Corporate deposits	*7 402.2*	*7 282.6*	*5 845.2*	*1.6%*	*26.6%*
Ratios					
Net Loans / Deposits ratio (LDR)	93.7%	93.8%	91.9%		
Stage 3 + POCI loans / total gross loans at amortized cost	8.1%	8.4%	--		
Provision coverage of Stage 3 + POCI loans	90.4%	91.6%	--		

***** *combined loans at amortized cost and at fair value*

Net interest income was RUB354.7 bn in 4Q 2018, down by 0.7% y/y on the back of outpacing growth of interest expenses.

Total interest income (RUB574.3 bn, up by 5.4% y/y) during the quarter was influenced by strong dynamics in the loan portfolio: total gross loans (at amortized cost and at fair value) were up by 4.7% to RUB21.1 trn in 4Q 2018 as compared to 3Q 2018.

- **Retail loan portfolio** was up by 5.2% as compared to 3Q 2018 to RUB6.8 trn. Strong growth dynamics was observed throughout the year both in mortgages and consumer unsecured loans that increased by 5.6% and 5.5% respectively in 4Q 2018 as compared to 3Q 2018.
- **Retail loan yields** came down to 12.5% in 4Q 2018 on the back of the gradual redemptions of older vintage loans at higher rates and growing share of mortgages in the portfolio composition.
- **Corporate loan portfolio** (at amortized cost and at fair value combined) came up by 4.4% to RUB14.3 trn, as compared to 3Q 2018.
    - Based on management accounts, Ruble loan portfolio increased by 9.5% during the quarter, while FX portfolio, net of currency revaluation, was down by 5.3%.
- **Corporate loan yields** were up by 30 basis points to 8.2% in 4Q 2018 as compared to 3Q 2018 due to rising interest rates in the economy.

Total interest expense for 4Q 2018 increased by 17.2% from 4Q 2017 to RUB219.6 bn on the back of growing cost of funding and higher deposit insurance expenses:

- Client deposits portfolio increased by 5.1% in 4Q 2018 due to traditional for the end of the year inflows of both **corporate and retail deposits**.
- Cost of **retail and corporate term deposits** increased on average by about 20 basis points in 4Q 2018 as compared to 3Q 2018 to 4.7% and 3.6% respectively.
- Deposit insurance expenses increased by the 36% y/y to RUB18.9 bn in 4Q 2018 related to change in the insurance premium rate in 2018.

Net LDR ratio for 4Q 2018 came slightly down by 10 basis points to 93.7% as compared to 3Q 2018. Net LDR in Rubles increased to 103%, while in U.S. dollars came down to 66%, which indicates that the demand for foreign currency loans among corporate clients was declining.

The Group 4Q 2018 **net fee and commission income** came at RUB122.6 bn, up by 8.4% from the year-ago period mainly from acquiring, client operations with foreign currencies and settlement operations for both retail and corporate clients. The share of net fee and commission income in total operating income increased to 24.9%. The slowdown in growth of net fee and commission income in the reporting quarter was explained by change in methodology for liabilities recognition on loyalty programs in 4Q 2017.

- The number of active retail clients in 2018 increased to 92.8 mln.

- The number of active retail digital users increased by 2.6 mln during the quarter to 65 mln, of which the number of daily users reached 19.6 mln (+35% y/y).
- Fees from acquiring, commissions of payment systems and other similar commissions, net of applicable costs, increased by 30.2% in 4Q 2018 y/y.
- The number of cities that offer transportation acquiring reached 67 by the end of the quarter.
- The net income from client operations with foreign currencies grew by 65.8% compared to 4Q 2017 due to the increase of transactions volume.
- The net income from brokerage increased by 35.7% compared to 4Q 2017 due to the increase of number of clients driven by improved functionality of Sberbank Online platform on brokerage accounts opening.

The sales volumes of life insurance for 12M 2018 increased by 80% as compared to 12M 2017. Assets under management of the Wealth Management business increased by 35% for 12M 2018 to RUB1.2 trn. Sberbank maintained its leading market shares in asset management and mandatory pension insurance businesses, while increasing its market share in life insurance to 38.4% as of December 31, 2018.

The Group operating **expenses (staff and administrative)** for 4Q 2018 came at RUB208.6 bn, up by 8.7% from the same period a year ago. The increase was mainly explained by the change in expenses capitalization principles in 3Q 2018 and revaluation of recurring expenses nominated in foreign currencies. Excluding these factors operating expenses would have increased by 5.1% as compared to 4Q 2017.

The Group headcount[i] amounted to 293.8 ths employees at the end of 2018 - down by 2.4 ths in 4Q 2018 and by 16.5 ths over the year as a result of implementation of programs focused on increasing operating efficiency.

The Group **Cost-to-Income ratio** reached 42.5% in 4Q 2018, taking into account revaluation of loans at fair value, whereas the ratio improved by 50 basis points to 34.2% over the year.

The **net provision charge for loan portfolio** totaled RUB34.2 bn for 4Q 2018, including the effect of ruble devaluation. This translated into the cost of risk (CoR) of 69 basis points for the quarter (or 86 basis points cumulative for 12M 2018) for the loan portfolio at amortized cost. The IFRS 9 standard reporting requires part of the loan portfolio to be accounted at fair value through the Profit & Loss Statement. Negative revaluation of loans at fair value due to change in credit quality in 4Q 2018 was RUB17.0 bn. Consequently, the combined CoR for loans at amortized cost and at fair value in 4Q 2018 was 99 basis points (or 115 basis points cumulative for 12M 2018).

The total **provision coverage** of Stage 3 and POCI loans remained merely unchanged in 4Q 2018 at 90.4%. The share of Stage 3 and POCI loans in total gross loans at amortized cost came down by 30 basis points to 8.1%.

Capital Adequacy[i]

Under Basel III ***RUB bn, unless stated otherwise***	**31/12/18** (standardized + IRB)	**31/12/18** (standardized)	**30/09/18** (standardized + IRB)	**30/09/18** (standardized)	**01/01/18**	***31/12/18 (std+IRB) vs. 30/09/18 (std+IRB) %***	***31/12/18 (std+IRB) vs. 01/01/18 %***
Total Tier 1 capital	3 766.5	3 766.5	3 562.0	3 562.0	3 291.1	*5.7%*	*14.4%*
Total capital	3 950.6	3 908.6	3 766.2	3 706.7	3 750.8	*4.9%*	*5.3%*
Risk-weighted assets	31 782.6	32 593.7	30 002.6	30 695.6	29 369.0	*5.9%*	*8.2%*
Credit risk	*27 454.4*	*28 265.5*	*25 953.6*	*26 646.6*	*25 195.1*	*5.8%*	*9.0%*
Operational risk	*3 339.8*	*3 339.8*	*3 092.8*	*3 092.8*	*3 092.8*	*8.0%*	*8.0%*
Market risk	*998.4*	*988.4*	*956.2*	*956.2*	*1 081.1*	*4.4%*	*(7.6%)*
Ratios							
Common equity Tier 1 capital adequacy ratio	11.9%	11.6%	11.9%	11.6%	11.2%		
Total capital adequacy ratio	12.4%	12.0%	12.6%	12.1%	12.8%		

The Group's **total capital** under Basel III reached RUB3.95 trn as of 31/12/2018, up by 4.9% as compared to 30/09/2018, mainly on the back of retained earnings.

The Group's risk-weighted assets (under Standardised and IRB approach) were up by 6.0% to RUB31.8 trn during 4Q 2018 due to increase both in credit and operational risks, by 5.9% and 8.0% respectively.

Common equity Tier 1 capital adequacy ratio remained merely unchanged and came at 11.85%, while **total capital adequacy ratio** decreased by 12 basis points to 12.43% as of 31/12/2018 driven by assets growth (caused to some extent by the ruble devaluation at the end of the reporting period) and by changes in operational risk component on the back of calculation period shift. The Group leverage ratio decreased from 11.4% to 11.3% in 4Q 2018 subject to the above mentioned factors.

[i] Including corresponding line from discontinued operations, that, effective May 2018, Denizbank is classified as

Other non-interest income / (expense) includes Net (losses) / gains from non-derivative financial instruments at fair value through profit or loss (2017: Net gains from trading securities and securities designated as at fair value through profit or loss); Net gains from financial instruments at fair value through other comprehensive income (2017: Net gains from investment securities available-for-sale); Net gains from derivatives, trading in foreign currencies, foreign exchange and precious metals accounts translation; Net (losses) / gains arising on initial recognition of financial instruments and loan modification; Impairment of non-financial assets; Net charge for other provisions; Revenue of non-core business activities; Cost of sales and other expenses of non-core business activities; Net premiums from insurance and pension fund operations; Net claims, benefits, change in contract liabilities and acquisition costs on insurance and pension fund operations; Income from operating lease of equipment; Expenses related to equipment leased out; Other net operating income contents.

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