



In 2016, the capital markets grew, and revenues significantly exceeded 2015 numbers. There were a number of remarkable deals made both on the equity capital market and the debt capital market. I would note in particular the public offering of ALROSA, which is now one of the largest privatization transactions through the public market in Eastern Europe since the end of 2013 and the largest Russian public offering ever since February 2014. On the whole, today there is a clear positive trend in the capital market, which leads us to expect new outstanding deals from Russian issuers in the nearest future.

Igor Bulantsev

Senior Vice President,
Sberbank CIB Manager

Major clients (CIB)

CIB Unit

In 2016, Sberbank significantly reorganized the CIB management team, implemented the project on the centralization of Moscow Bank's CIB, approved the operational model of CIB customer servicing, and optimized the CIB legal structure. Sberbank approved client and credit strategies for purposeful work with various client segments in accordance with their priority needs. At the same time, Sberbank offered clients new technologies, including the convenient eFX and Sberbank Finline electronic platforms, which already have over 200 active users, and the Trade Funding and Document Flow system. According to the results of annual study held by TNS, the client satisfaction rate of Sberbank CIB increased for the year from 78.5 to 82 and reached the level of the world's leading investment banks. An equity warrant issue was the first pilot transaction of venture financing and was an important milestone in the operations of CIB.

Operations on Global Markets

Sberbank continued developing its operations in global markets. In particular, Sberbank successfully developed its business in the capital markets. In the equity capital market (ECM), Sberbank CIB successfully finalized the privatization of Alrosa's SPO for RUB 52 bln, which gave Sberbank CIB the third place on the Russian ECM market based on the annual results. Sberbank CIB retained its leading positions in the organization of ruble bond placements and completed a number of landmark transactions in the international DCM segment of Russian Railroads, Sovkomflot, EvroKhim, Polus, MKB, and Global Ports.

Sberbank continued operations in the foreign exchange market, which was relatively unstable in 2016. Market trends during the year changed from quarter to quarter. At the beginning of the year, the Russian foreign exchange market was influenced by extreme volatility on the commodity markets, which resulted in a decrease of client activity in the foreign exchange market by 25%–40% in various client segments. Foreign exchange derivatives are among the most affected of business areas as the hedging period of many clients shortened to historically low levels. In Q2 and Q3, the market stabilized, the exchange rate volatility of the ruble decreased from 30% to 15%, which along with turnover growth facilitated the recovery of client activity. The stabilization of oil quotes in Q4 and gradual strengthening of the ruble resulted in its further increase. The growth of client numbers on the Sberbank Markets platform and the implementation of the first trading algorithm for client flow coverage also contributed to the positive revenue dynamics.

Sberbank also developed transactions with currency and interest derivatives along with dynamic management for counterparty credit risks. In 2016, a number of major deals were concluded in this area.

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CIB clients satisfaction
rate according
to independent
study

Sberbank is the leader
on the Russian market
of REPO
financing

N°1

in brokerage service
active clients

Throughout 2016, Sberbank successfully managed to increase its volumes of short-term bank liquidity through REPO markets and interbank lending. The current volume of liquidity deposit in the market is RUB 800 bln, cumulative for all currencies. At the same time, the volume of the REPO portfolio increased to the level of RUB 730 bln, while the volume of the structural equity financing portfolio grew from USD 250 mln to USD 550 mln. These indicators made Sberbank a leader on the Russian REPO financing market in 2016.

Sberbank developed share trading and the trade of share derivatives.

Throughout 2016, there was a high degree of volatility on the stock market. The Russian stock market started with a decline, then demonstrated growth of over 50% in terms of USD. Taking this into consideration, we observed a significant increase of interest in the stock market from both Russian and foreign investors. The Alrosa privatization deal was the key to this year's success. The sale of shares on the open market organized by Sberbank CIB has, in fact, become the first major transaction after a long pause in privatization and was completed despite the sanctions. About 30% of investors who submitted applications were from Russia; about 30%, from Europe; and about 25%, from the Middle East and Asia.

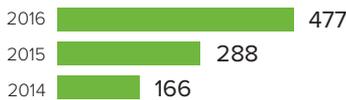
Electronic markets are another one of Sberbank's development areas. In 2016, the active promotion of structural notes for qualified retail clients ensured quadrupled growth of the portfolio to USD 284 mln. In addition, the project on the reorganization of the operational process is now complete: 2/3 of operational functions of brokerage services have been moved from regional branches to a single operational center on the basis of the Malakhit multifunctional service center (Yekaterinburg). The brokerage service in Sberbank Online was also launched, where clients can track assets in their brokerage account online.

Direct access to Sberbank
online quotes for financial
institutions and corporate
clients

The propriety electronic trade system Sberbank Markets was developed and launched taking into account the best practices on foreign exchange markets. The system provides direct access to online Sberbank quotes for financial institutions and corporate clients. Sberbank Markets aggregates the accessible liquidity of external marketplaces (Moscow Stock Exchange, various interbank platforms, and sites) and its own interbank flows. Therefore, the instant liquidity of the platform is higher than a marketplace considered separately. The key products of the foreign exchange market, such as short conversion, currency forward transactions, and swaps at any fixed value date for a period up to one year, are available for clients. The post-trade process is also implemented under the project framework, which automates transaction calculations made on client accounts to reduce the operational load of clients. The system also supports work with a group of companies and helps solve centralization challenges related to the foreign exchange transactions of the group. The system supports modern data-integration standards with external corporate systems of clients and high-security standards.

Sberbank remains the leader on the bond market with a share of 15%. Among the major achievements in trade operations on the commodity markets are the following:

Volume of transactions using domestic letters of credit, RUB bln



57%

Growth of settlements in domestic letters of credit

1.75

USD bln

Amount of financing of commodity trade based on Sberbank (Switzerland) AG

- Started supplies of spot metals to Zurich
- First deals with agriculture companies
- First prepayment deal with metals (copper)
- A number of major hedging transactions for precious metals, including Sberbank (Switzerland) AG, were made
- Sberbank (Switzerland) AG obtained the status of an international member of the Shanghai gold exchange, one of the world's centers for the physical trade of gold, silver, and other precious metals. As a result, the bank gained direct access to the rapidly growing Chinese gold market and trading floor along with growing influence on the international market.

Trade Finance

The amount of transactions settled by Sberbank in the field of trade finance and related business in 2016 increased by 10% to exceed USD 32 bln. Development of settlements in domestic letters of credit in rubles has become a genuine breakthrough—the amount of these transactions totaled RUB 447 bln and exceeded last year's value by 57%. Payments over RUB 2.5 bln were made under the product of "Domestic Uncovered Letters of Credit with Advanced Payments", with the total amount of uncovered letters of credit issued in 2016 exceeding RUB 100 bln. Despite continuing import reductions, the amount and number of letters of credit with post-import financing increased by more than 2.2 times compared to 2015. The total amount of import letters of credit with financing issued in 2016 totaled USD 344 mln.

In 2016, the volume of transactions with coverage from the Russian Agency for Export Credit and Investments Insurance, (EXIAR) grew significantly: it exceeded RUB 226 bln, while the current portfolio of projects under development exceeds RUB 450 bln. Sberbank contributed to the development of the EXIAR Program to insure loans for the establishment of export-oriented businesses, as part of which the debut transaction of the syndicated loan to Yamal SPG with EXIAR coverage was initiated. Optimization of the terms of the EXIAR program for small-scale exporter support, including the increase of insurance coverage, enabled Sberbank to actively provide financing to clients from small and medium businesses at more favorable terms. Following the results of the year, Sberbank now holds a leading position among Russian banks according to the number of financing transactions for this segment of exporters.

Sberbank confidently overtook positions on the international market of Commodity Trade Finance based on Sberbank (Switzerland) AG. The amount of the business in this segment by year-end exceeded USD 1.75 bln. The constantly expanding product offer and deep understanding of the market enabled Sberbank to compete with recognized leaders in CTF and to actively take part in the financing of commodity flows from Russia, the CIS, and Eastern Europe countries.

Sberbank continues to develop cooperation with foreign banks and Export Credit Agencies (ECA) both in Western Europe and Asia. In 2016, Sberbank and foreign banks entered into loan agreements in the Export Credit Agencies segment for the total amount of EUR 280 mln. Currently,

Best trade finance bank
in Russia
according
to Trade & Forfeiting
Review

deals on obtaining long-term financing under ECA coverage in the EU, Japan, and China for over EUR 1.5 bln are being developed.

In 2016, Sberbank was again recognized as the best trade finance bank in Russia when it won the Trade & Forfeiting Review Excellence Awards, established by the publication of the same name.

Financial institutions

In 2016, Sberbank strongly developed digital channels for client communications. Thus, a system of remote banking servicing for Sberbank called FinLine financial institutes was launched. The system operates as a single window and provides the following services: the ability to carry out basic settlements functions, receive information about cashflows in the account, current liquidity, and to receive online payment statuses. A total of 114 credit institutions are already connected to the system, and 295 accounts are serviced.

To facilitate the foreign economic operations of clients and improve the quality of international payments, Sberbank has opened 99 correspondent nostro ruble and foreign currency accounts in 56 banks worldwide as of January 1, 2017. In 2016, about 10.6 mln payments in rubles and foreign currencies were made every month through LORO correspondent accounts opened with Sberbank, which exceeds the previous year's total by 2.1 mln. The average monthly volumes of transactions exceeded the value of 2015 by RUB 3.7 trln and totaled RUB 16.7 trln.

In December 2016, Sberbank opened a correspondent account in the name of Clearstream Banking S.A., Luxembourg (Deutsche Börse Group), which was the first practical step to exercise the mandate issued to Sberbank for the rendering of clearing and custody services to provide Clearstream Banking access to the Russian market. Engaging one of the largest global settlement systems for service is an important milestone in the promotion of the Russian securities market among foreign institutional investors. At the end of 2015, Sberbank jointly with Harbina Bank established the Russian and Chinese Financial Council, which is a platform for financial and banking cooperation with China's regional banks, and in 2016 it was actively developed. Currently, 28 Russian and 29 Chinese financial institutions are members. This initiative was supported by the Russian banking regulator.