

LETTER FROM THE MANAGEMENT



Fragment of the picture

*"St. Isaac's Square" 2014
Sergei Lyakhovich
Oil on canvas, 24x30*

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DEAR CUSTOMERS, INVESTORS AND PARTNERS,

Year 2018 for the Russian economy was characterized by moderate economic growth and the preservation of positive processes in the industry. During the year, the banking sector continued its growth, while maintaining stability, as evidenced by the revival of lending, especially retail.

A distinctive feature of the past year was the active implementation at the federal level of a number of projects that led or will lead in the very near future to a significant transformation of the banking industry. For the first time in many years, we feel that active and persistent actions of the regulator create opportunities for strong private banks, primarily due to the introduction of a fast payment system, remote customer identification, the Marketplace system, etc.

Our achievements

The year 2018 was very successful for us – not only have we earned a record RUB 9.0 bn in net profit, which is 21% more than in 2017, but also proved that a strong private bank can be very attractive to customers. We have significantly improved the quality of the loan portfolio, giving priority to high-quality borrowers - in 2018 we created RUB 1.9 bn less provisions than in 2017, and we significantly reduced the cost of risk. The Bank's revenue reached the highest point in history of RUB 32.8 bn.

Last year confirmed a high level of public confidence – we achieved a 21% increase in retail deposits, having outpaced the market by more than 2 times, while maintaining one of the best cost of funding in the sector.

One of the key components of success is the development of remote channels to attract and serve customers. Currently, most of the deposits can be opened via the Internet banking system - 70% of deposits in 2018 are open remotely. We are already the least branch-dependent classic bank in Russia with some of the best indicators in Russia in terms of the share of active online customers, online payments, online sales of consumer loans and deposits.

We are actively involved in all key infrastructure projects: The Bank was one of the first in Russia to open special accounts for enterprises participating in procurement in accordance with the requirements of Federal Law No. 44. In addition, in 2018, we offered companies in the construction sector a new service – banking support for the developer's current account in accordance with the requirements of Federal Law No. 214. We have become one of the three authorized banks for the issuance of the Resident ID Card - a single payment solution that includes a transport application, an electronic digital signature, and a loyalty program for citizens.

2018 strengthened our standing with mortgages: total mortgage loan portfolio increased by 11%. In 2018 we became first bank in Russia to introduce escrow accounts. Also the Bank became Best Mortgage Bank in Russia in 2018 and Best Escrow Accounts Russia by Global Banking and Finance Review. The Bank managed to become a three-time winner in Customer Confidence contest among St. Petersburg banks. Aside from that, the Bank's business in consumer lending grew by 39%, while credit card issuance doubled.



**32.8
RUB bn**
revenue
in 2018



21%
net profit growth
in 2018

Most importantly, our successes were rightfully assessed by independent Russian and international rating agencies. In 2018, all previously awarded Russian and international ratings were confirmed, and the rating agency Moody's changed the outlook from "stable" to "positive".

Capitalization growth

Increasing stock value is one of our key priorities. On October 25, 2018, the Supervisory Board approved the Capitalization Growth Action Plan, under which the Dividend Policy was adjusted, providing for a change in the base for paying dividends from RAS to IFRS. The Bank intends to send at least 20% of IFRS net profit to pay dividends, and by the end of 2018, a record RUB 1.8 bn will be allocated to pay dividends!

We plan to consider the possibility of share buybacks, depending on the price of shares and the presence of excess capital, at least twice a year. In the third quarter of 2018, the Bank bought back 2.4% of its ordinary shares, which we plan to cancel following the results of the Annual General Shareholders Meeting in 2020.

Significant changes in 2018

We have much to be proud of, we have achieved the best results in history. We have done a lot to maintain our place in the top-20 of Russia's largest banks, and to strengthen business resilience in a highly competitive environment and economic uncertainty. There also is a transformation in the corporate unit, the introduction of industry specialization, and new products and services for customers.

We have achieved a significant improvement in the quality of the loan portfolio. Now the Bank faces the task of significantly increasing its market share in our home North-West region.

The infrastructure of the banking business is actively changing. Some of the changes affect the entire system at the federal level, while others are local Petersburg stories, such as the St. Petersburg Resident ID Card, and it is important for us that we take an active part in all these transformations and projects.

Our desire to be the Bank of first choice requires constant improvement and optimization of business processes. We have to be an advanced player, and we put a lot of effort into successful development.

Impeccable reputation and customer confidence, along with our success in implementing the Digitalization Strategy, allow us to look forward to the future with confidence. We would like to express our most sincere gratitude to all customers, investors and partners for our mutually beneficial cooperation.

Elena Ivannikova

Chairperson of the
Supervisory Board



Alexander Savelyev

Chairman of the
Management Board



**1.8
RUB bn**
allocated to pay
dividends by the end
of 2018