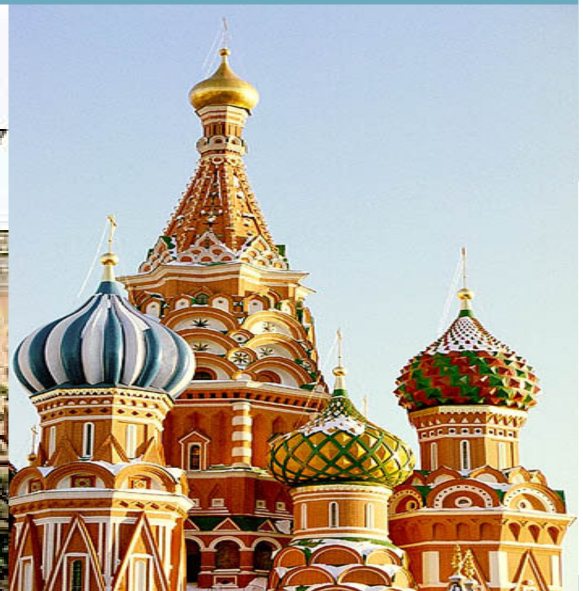




Success factors in Russian retail banking

Sergei Shibaev
Partner, Roland Berger Strategy Consultants

Prague, March 27, 2007

Roland Berger
Strategy Consultants

Roland Berger Strategy Consultants

Contents

This document was created for the exclusive use of our clients. It is not complete unless supported by the underlying detailed analyses and oral presentation. It must not be passed on to third parties except with the explicit prior consent of Roland Berger Strategy Consultants.

Contents

Roland Berger Strategy Consultants

High growth, diversification into retail and consolidation are key trends in Russia

Expected changes in the Russian banking sector

1 Market growth and size

- Bank intermediation level **measured as ratio of banking assets to GDP of Russian banking sector is** lower **compared to CEE countries, but banking assets have** grown fast **at 43% p.a. since 1999 – further growth potential remains**
- Retail banking shows advanced growth rate compared to corporate banking and higher market volume

2 Market structure

- **Consolidation** and **increasing competition** are the **key tendencies** in the banking sector
- Around **84%** of banking assets are concentrated in Moscow; still **low banking penetration** in the regions
- **Share of foreign banks**[1)] in total assets is increasing **- 21% in 2006** (was only 9% in 2005), share in total equity reached 23%. If Russia enters **WTO** (exp. in 2007) **a 50% quota** for the foreign banks in the total equity might be introduced

3 Market segments

- **Retail banking** showed impressive growth over the last four years, and still has high **growth potential**
- **Corporate banking** sector have been **growing** at a very fast pace**, fastest growing products are leasing, deposits and loans** – recent growth at 20-40% p.a. Intensifying competition in the corporate banking segment for mid-sized companies

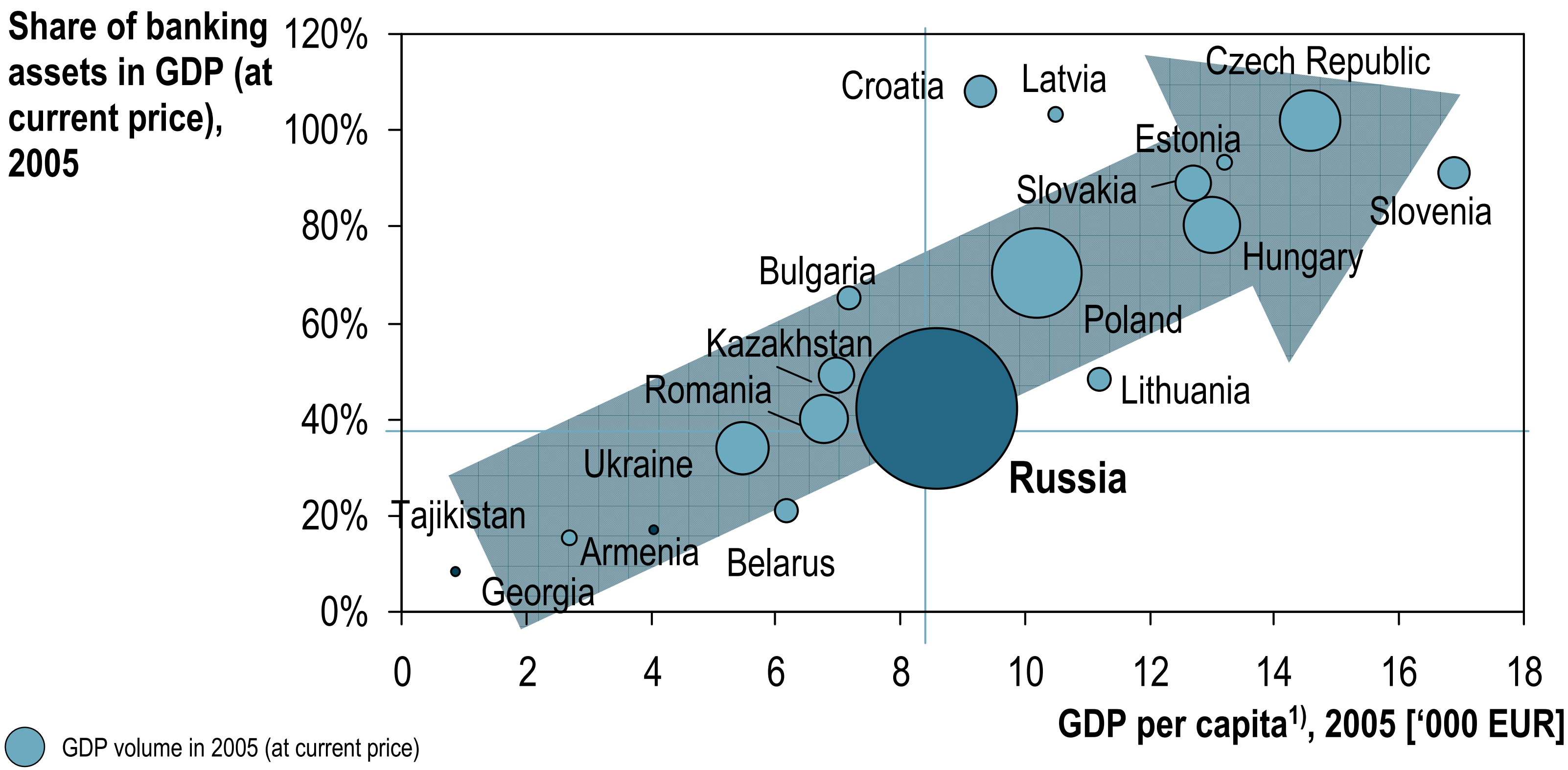
1) more than 50% foreign-owned

Source: Roland Berger

Roland Berger Strategy Consultants

Russian banking sector is growing thanks to favorable macroeconomic development

The value of banking sectors in the CIS and CEE (banking assets to GDP)



1) Adjusted at PPP (Purchasing Power Parity)

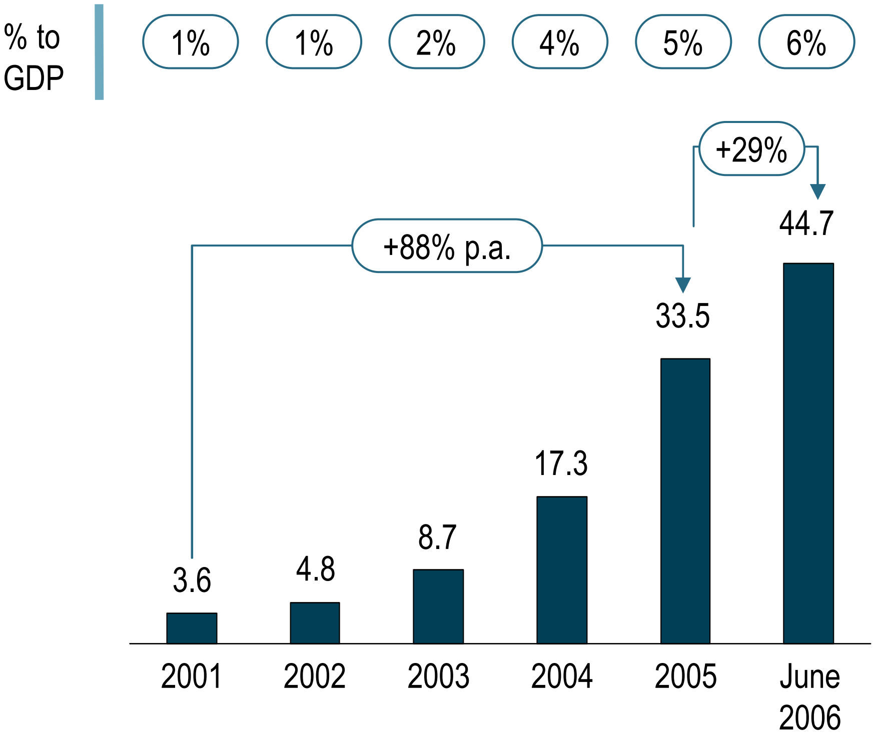
Source: Central banks of analyzed countries, CIA World Factbook, Roland Berger

Roland Berger Strategy Consultants

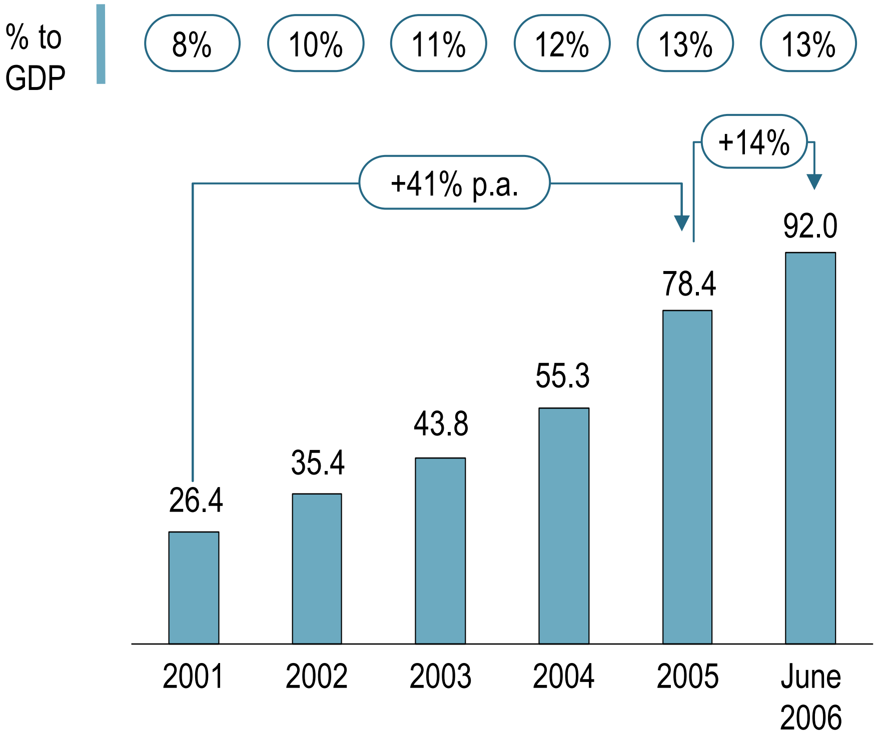
Significant growth of retail banking in recent years in Russia

Dynamics of retail banking

Dynamics of retail lending, [EUR bn]



Dynamics of retail deposits, [EUR bn]

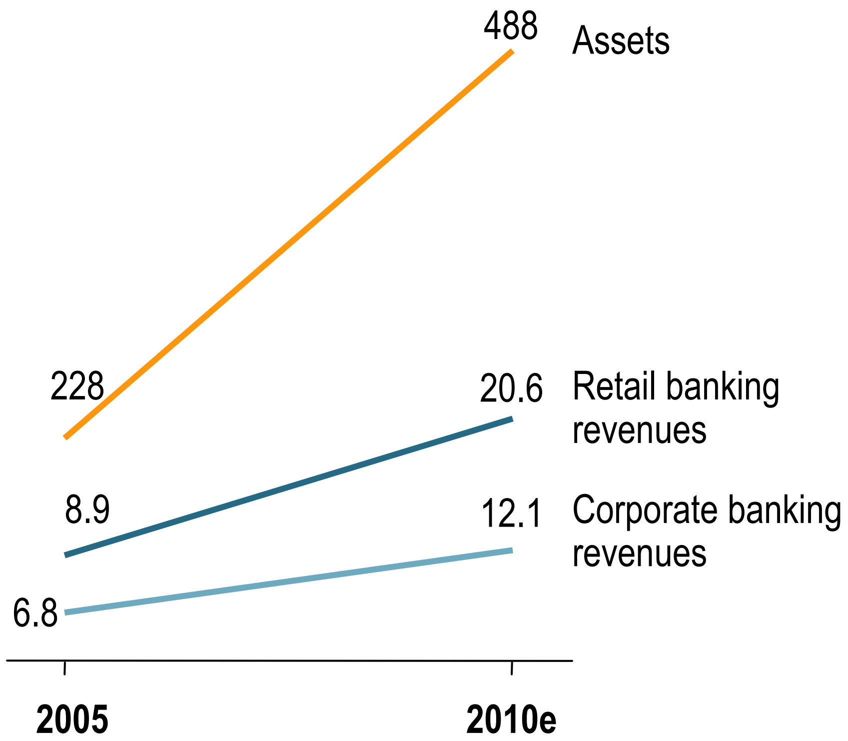


Source: The Central Bank of Russia, Roland Berger

Roland Berger Strategy Consultants

Comparison to CEE indicates high potential for future growth in Russian banking

Development of banking assets and net revenue in Russia, [EUR bn]



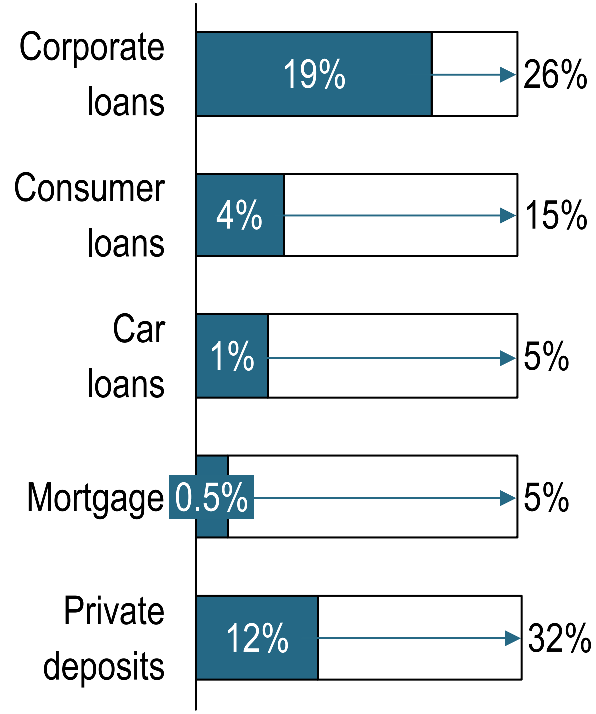
GAGR 2005-2010 [%]

19%

23%

12%

Growth potential compared to CEE average share of GDP

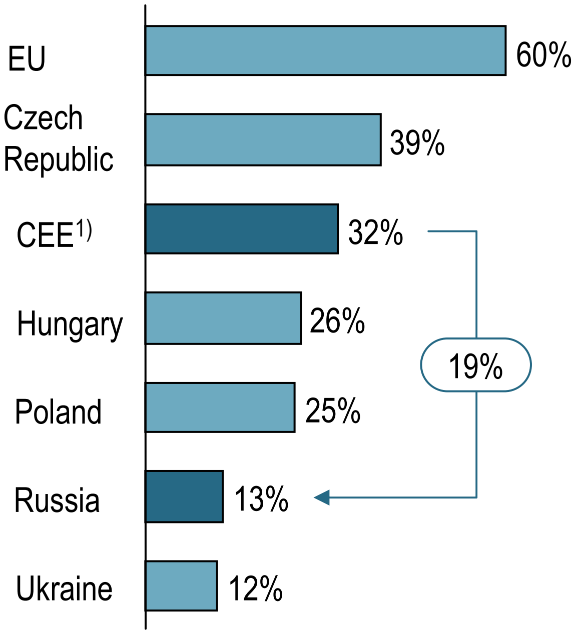


Source: The Central Bank of Russia, RBC, Roland Berger

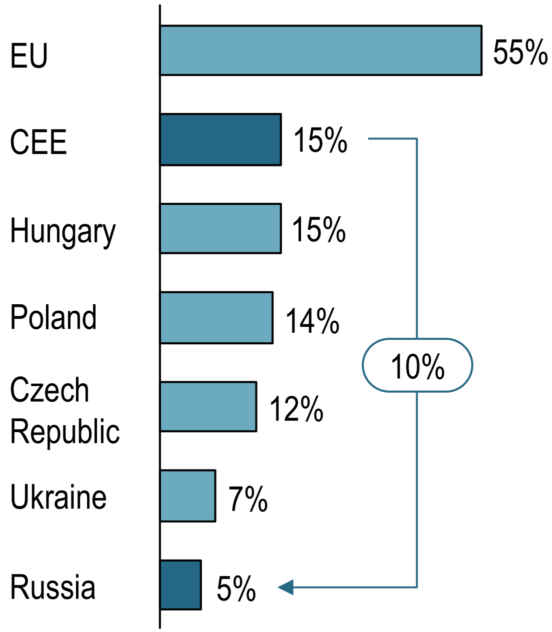
There is a potential for further growth in retail banking in the mid-term outlook

The growth potential for retail banking in Russia

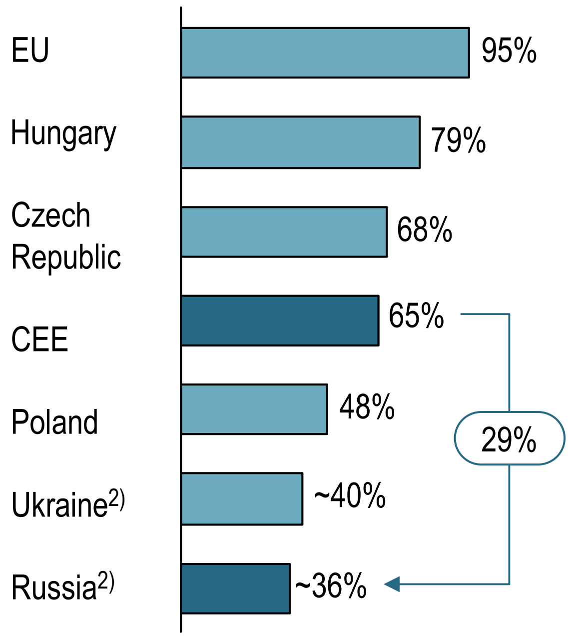
Retail banking deposits to GDP in 2005, [%]



Retail banking credits to GDP in 2005, [%]



Share of population[1] with banking accounts in 2005, [%]



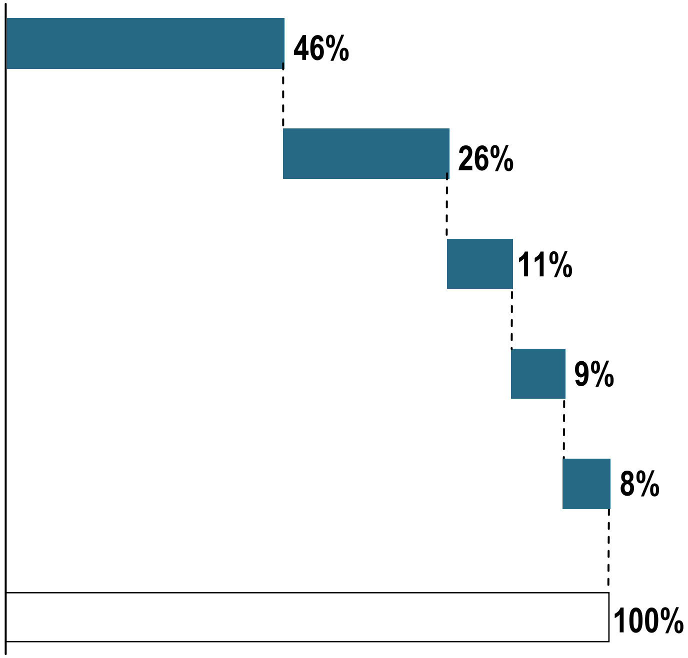
1) Population above 15 years old 2) Assessed value, based on WASA's survey on CEE population, consuming banking products and services

Source: The Central Bank of Russia, WASA, press analysis, Roland Berger

Roland Berger Strategy Consultants

Sberbank is still a dominant market player, but the share of other players is increasing

Structure of banking assets, by groups of banks, 2005, [%]



Group of banks	Share in total assets	Number of banks	Players (example)	Comments
Private banks	46%	>1,100	> Alfa Bank > MDM Bank	> Concentration around most efficient banks
Sberbank	26%	1	> Sberbank	> Will continue to dominate the market, but with a smaller market share
Captive banks	11%	~15	> Gazprombank > FCRB	> Only efficient players will stay in the market
State banks[1)]	9%	7	> VTB > VEB	> Privatization will increase efficiency
Foreign banks[2)]	8%	50	> Citibank > BSGV > IMB > Raiffeisen	> Potential to become leading players in the corporate market
Total assets	100%			

1) Only banks with more than 50% of state owned equity 2) Only banks with more than 50% of foreign equity participation

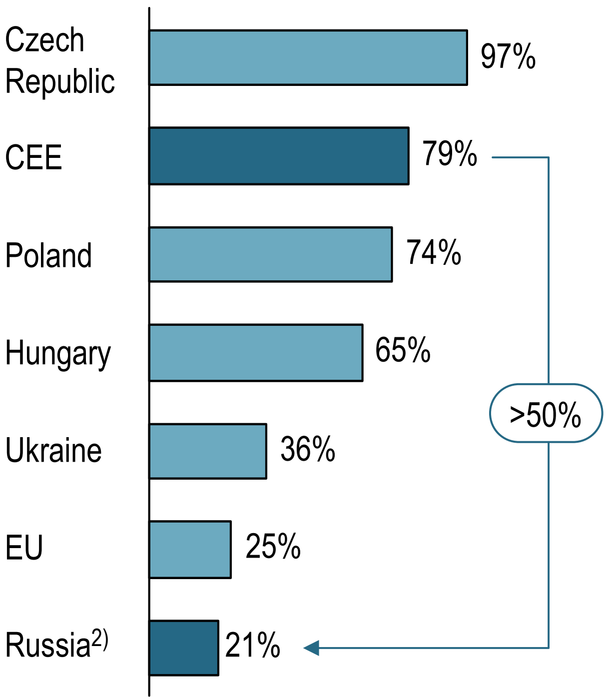
Source: The Central Bank of Russia, Roland Berger

Roland Berger Strategy Consultants

Foreign banks have started to actively penetrate the market, fueling competition

Foreign banks in the Russian banking sector

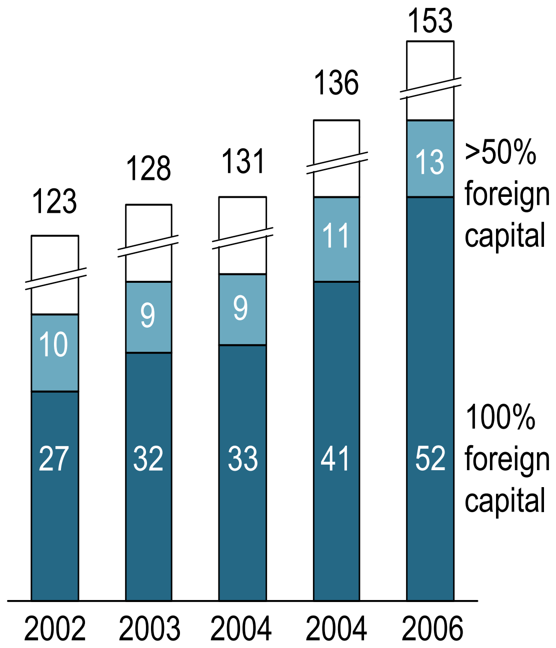
Share of foreign-owned banks in Russian banking assets[1], 2005 [%]



1) Banks with foreign capital of more than 50% 2) 2006

Source: The Central Bank of Russia, Datamonitor, Roland Berger

Number of banks with foreign capital in Russia



Comments

> Foreign banks are perceived more reliable than Russian banks – for deposits retail clients often prefer them over local banks despite lower interest rates offered in international banks

> So-called "banking crisis" in mid 2004 led to massive outflow of retail deposits from local mid-size and regional banks to international and state-owned Russian banks (e.g., Sberbank, VTB)

Roland Berger Strategy Consultants

Foreign banks combine organic growth strategy with active M&A

Recent acquisitions of Russian banks by foreign banks

Bank	Country	Target	Year	Assets [EUR m]	Deal amount	Equity [%]	Comments
Raiffeisen BANK	Austria	ImpexBank	2006	1 453	438	100	• Large distribution network in Moscow (outlets, ATMs) • Well-developed retail products
OTP BANK	Hungary	InvestsberBank	2006	687	380	96	• Developed regional network • One of the leaders in asset growth
SOCIETE GENERALE	France	RosBank	2006	5 536	478	10	• SocGen has an option to buy additional 30% by end of 2008 for 1.3 EUR bn • Developed branch network, leading position in consumer finance
Nordea	Finland	OrgresBank	2006	410	250	75	• Good distribution coverage in Moscow • ATM network coverage through partner banks
SOCIETE GENERALE	France	DeltaCredit	2005	163	85	100	• One of the leaders in mortgage finance • Large client base • Developed infrastructure and partner network

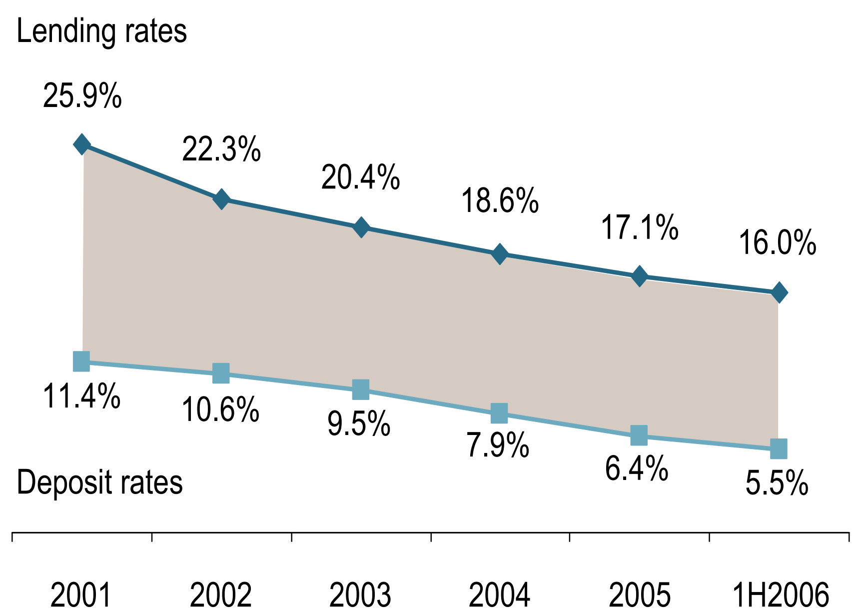
Source: Banks information, Zephyr, Press overview, Thomson Financial

Roland Berger Strategy Consultants

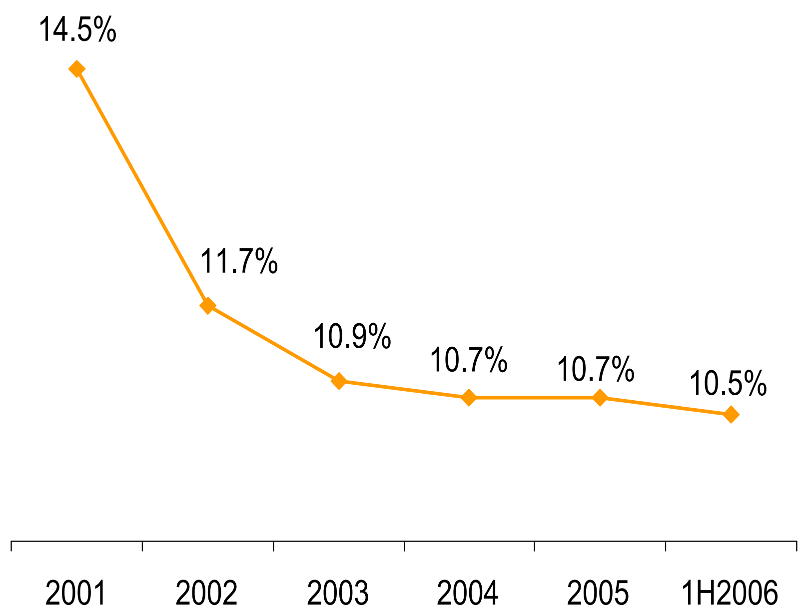
With growing competition, interest spreads are expected to decrease gradually

Dynamics of interest rates and interest spreads in the retail segment

Dynamics of interest rates on credits and deposits[1], [%]



Dynamics of interest spread, [%]



1) Interest rates on private credits and deposits of 1-3 months

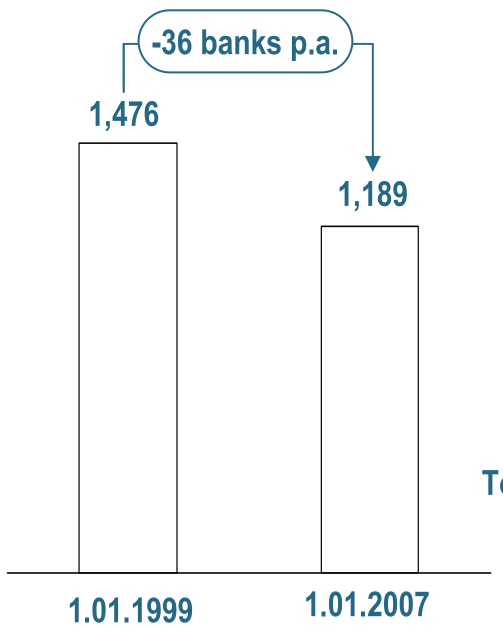
Source: The Central Bank of Russia, Roland Berger

Roland Berger Strategy Consultants

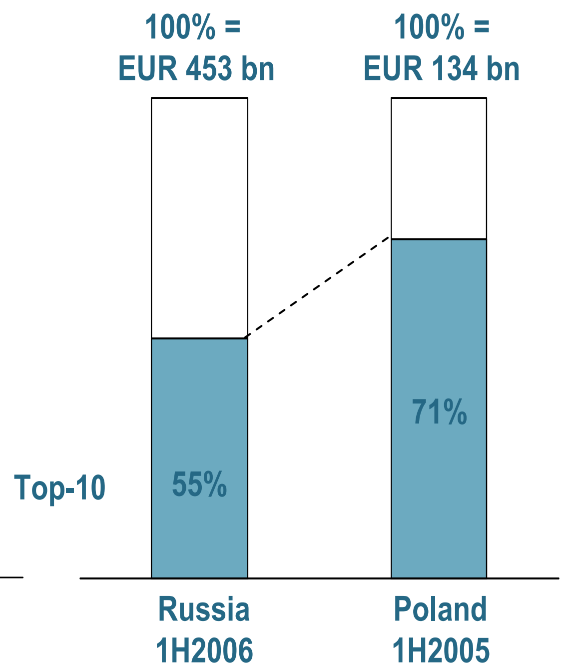
Intensifying competition and spreads speed up consolidation in the fragmented market

Total number of banks and concentration level among Russian banks

Russian banks



Market share of top-10 banks



General strategic assessment of the Russian market

> Growing competition and new capital adequacy requirements will result in **large-scale consolidation** on the market

> **New entrants,** foreign banks in particular, will **increase competition**

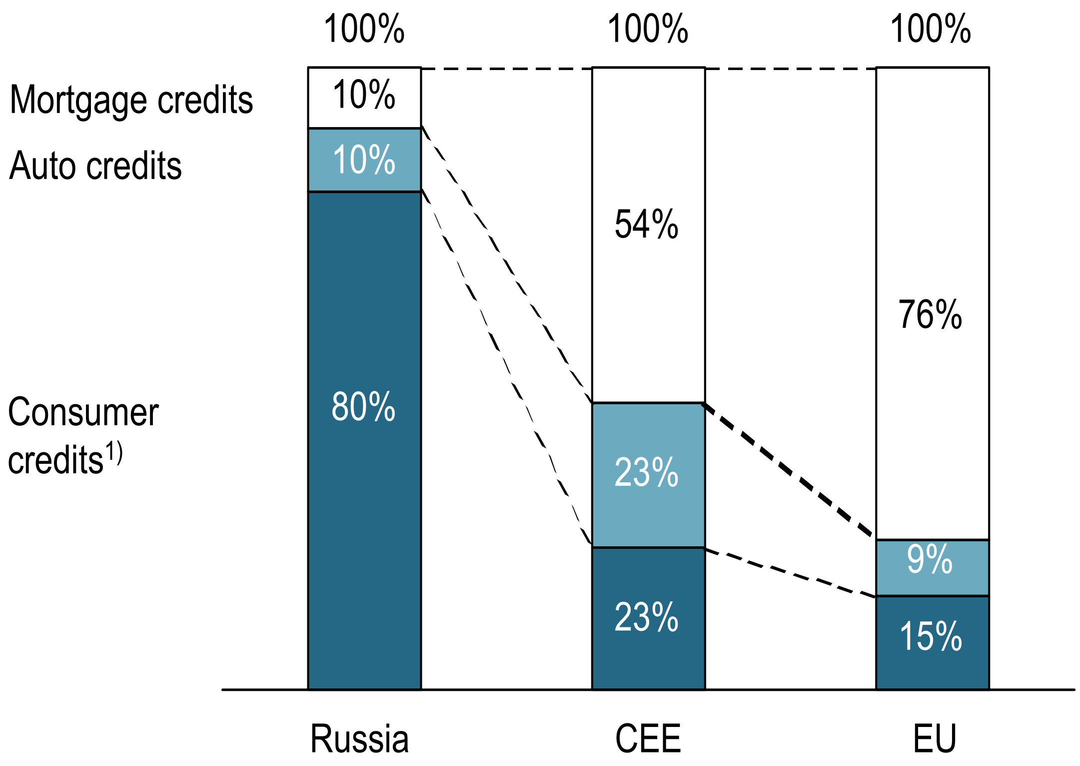
> **Actual number of banks may even be lower than official number of licensed banks** as some smaller and mid-sized players are controlled by same groups

Source: The Central Bank of Russia, National Bank of Poland, Roland Berger

Roland Berger Strategy Consultants

The share of consumer credits ~80% – change of consumer finance structure is expected

The structure of retail loans in Russia and Europe in 2005



- The significant share of **consumer** credits due to development of **retail sector** in Russia
- **Moderate mortgage** credits development in the last years caused by the lack of **legal background** in Russia
- The further **change** of retail credits **structure** is expected in Russia due to advanced development of mid- and long-term „investment“ credits

1) Incl. target credits, express-credits, arrears of credit cards

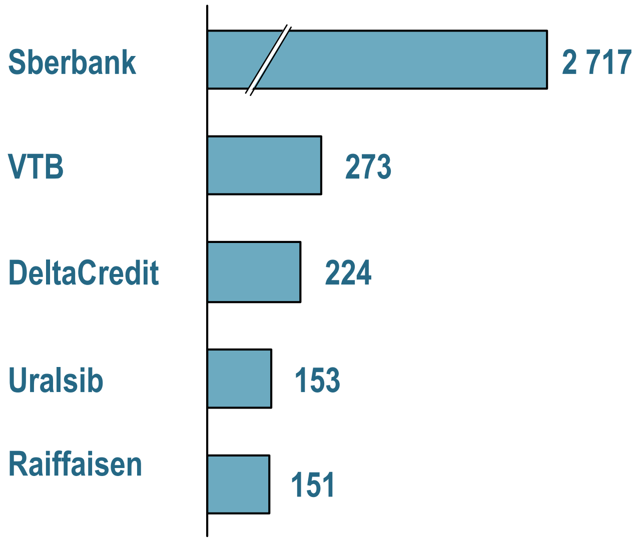
Source: The Central Bank of Russia, Sberbank, Press overview, Roland Berger

Roland Berger Strategy Consultants

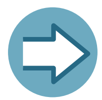
Large banks are dominating the mortgage market – broker sales are the most attractive segment

Top-5 mortgage banks and potential for mortgage sales channels

Mortgage credits portfolio of top-5 banks[1], [EUR m]



∑ = ~3.5 EUR m

Sales channels	Current situation	Channel's future importance
Bank's offices	> Large banks need no middlemen to get clients > In 5 top banks' monopoly most of transactions are being made directly	
Mortgage brokers at real estate agencies	> Large and mid-size real estate agencies act historically as brokers > Turnkey mortgage service > The overall share of such deals is still low > A large agency works with 15-30 banks	
Independent brokers	> First Independent Bureau for Mortgage Crediting (NBIK) appeared recently > Independent brokers are more favourable	
Bank's employees at agencies	> Leading market position in case of cooperation between a bank and a real estate agency	

1) As of 01.07.2006

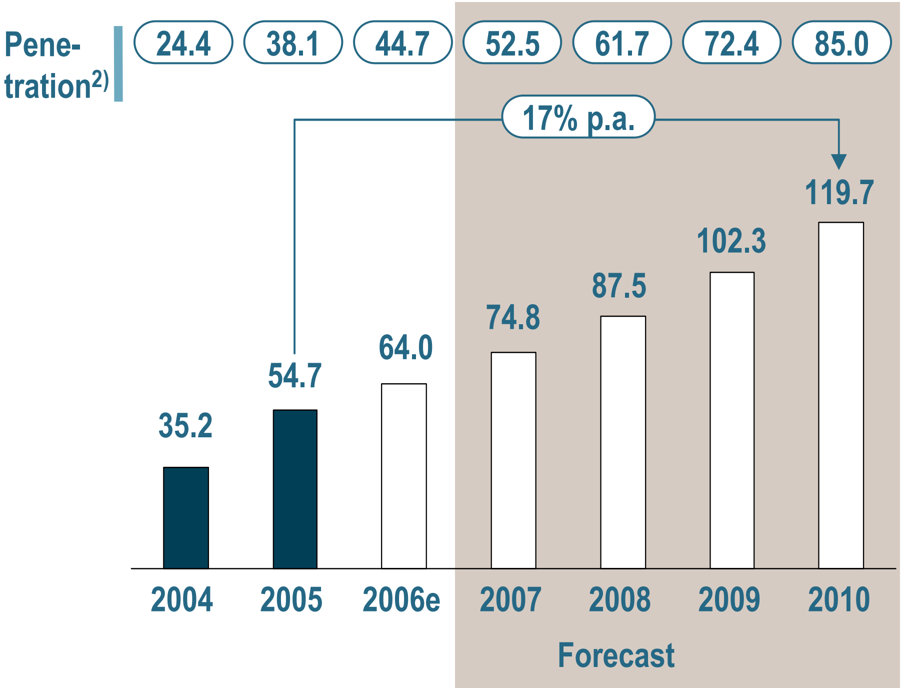
Source: Rusipoteka.ru, Roland Berger

Roland Berger Strategy Consultants

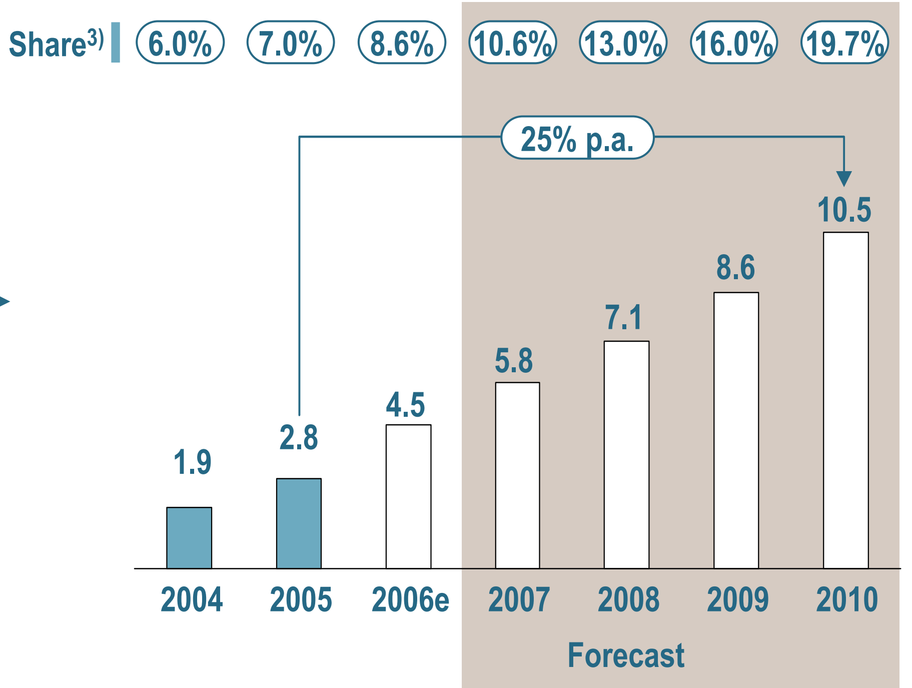
By 2010 penetration rate of bank cards will reach 85% – the volume will grow up to 300 EUR bn

Bank cards[1] development in Russia, 2004-2010

Total number of bank cards issued [m]



Total volume of card operations, [EUR bn]



1) Both debit and credit cards 2) Number of cards issued per 100 people 3) Share of card payments in total retail turnover

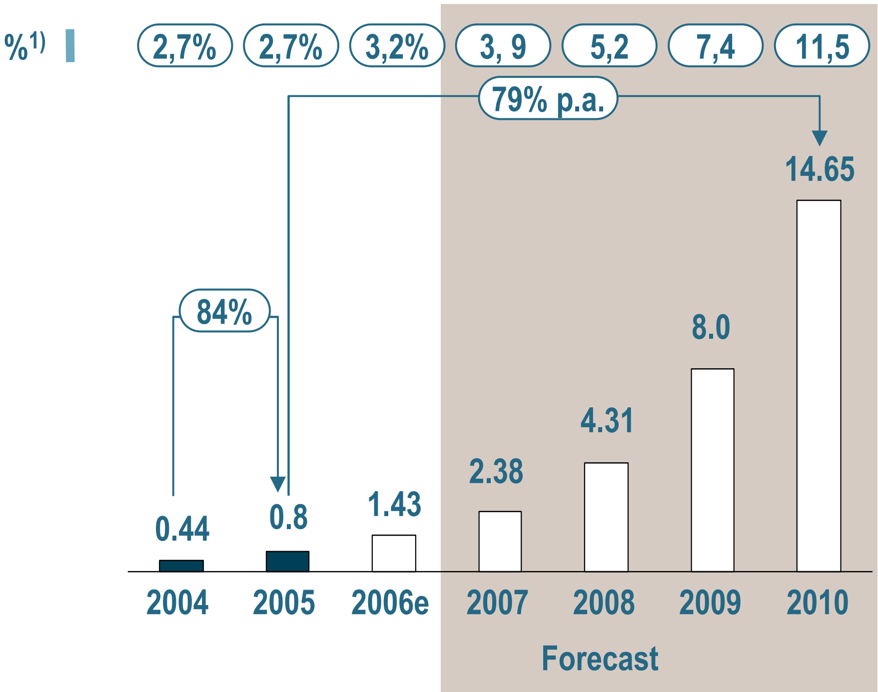
Source: RBC, press research, Roland Berger

Roland Berger Strategy Consultants

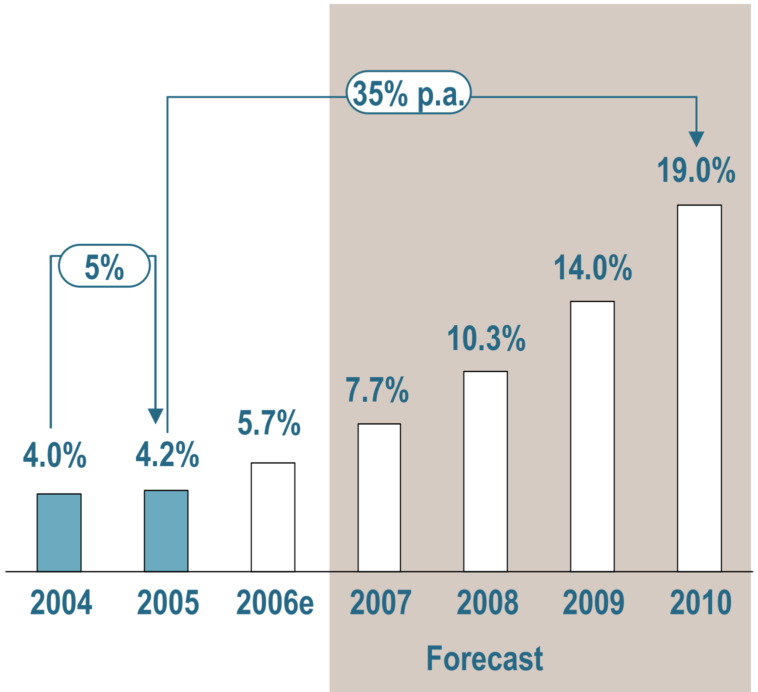
Lending volume through credit cards is estimated at 1.43 EUR bn, with 80% annual growth rate

Lending volumes through bank cards, 2004-2010

Loan volume issued through credit cards [EUR bn]



Share of credit cards in total number of bank cards



1) of total consumer finance lending volume

Source: Roland Berger

Future opportunities emerge in mortgages and credit / debit card business

Overview of competitive environment in retail banking in Russia

Segments	Level of competition	Comments
Deposits & current accounts		> Share of Sberbank: 53% (72% in 2000 and ~50% in 2010); top 30: ~77% > State insurance of deposits and reduction of average interest rates improve position of small banks > Cross selling to current account/ debit card holders increasingly important
Consumer loans		> Strengthening concentration: share of top-10 38% in 2005, 34% in 2004 > Large banks have advantages in funding and IT
Cash loans		> Share of large banks is higher than in segment of purpose loans > Expansion in region will strengthen advantages of federal banks (one network – one bank-partner)
Car loans		> Share of top-10 growing fast: ~53% in 2005, ~39% in 2004 > Strengthening of competition from foreign and captive banks > Advantages of middle banks (niches, minimum of documents) disappearing
Mortgage		> High level of concentration: Sberbank – 57%, Top 5 – 70% > Highly fragmented market segment: > 120 banks with mortgage programs > Young market, many new players can enter to the market
Credit card		> High share of top 3 (Russian Standard, Sberbank, Rosbank): ~64% > Predominantly pay-roll cards; > Cards, focused on clients group, is good opportunity for new players > Highly profitable segment, despite relatively high level of risk

– low competition – high competition

Sources: RBC, Press overview, Roland Berger

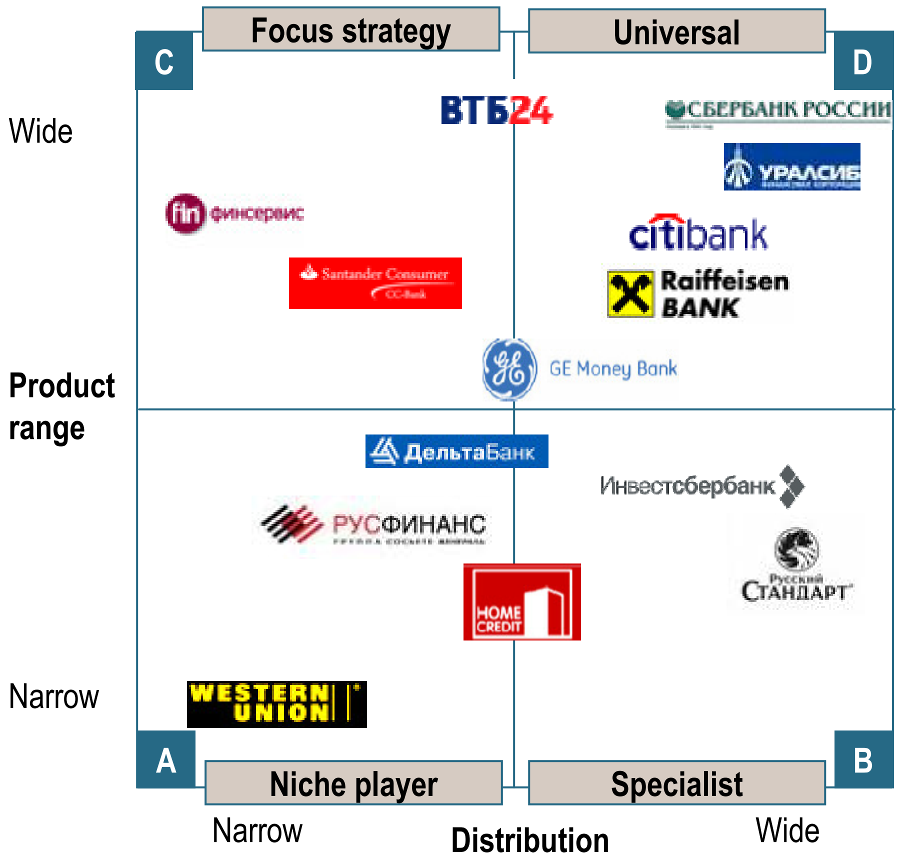
Roland Berger Strategy Consultants

Contents

Roland Berger
Strategy Consultants

To successfully compete in retail sector, Russian banks should define their asset growth strategy

Positioning of banks in Russia and basic growth strategies



Sources: Roland Berger

Basic growth strategies of banks in retail sector

1 **«Niche player»**
- > Focus on existing clients, products and sales channels
- > First of all geographical broadening of business

2 **«Specialist»**
- > Focus on existing basic products
- > First of all increase of distribution channels' number

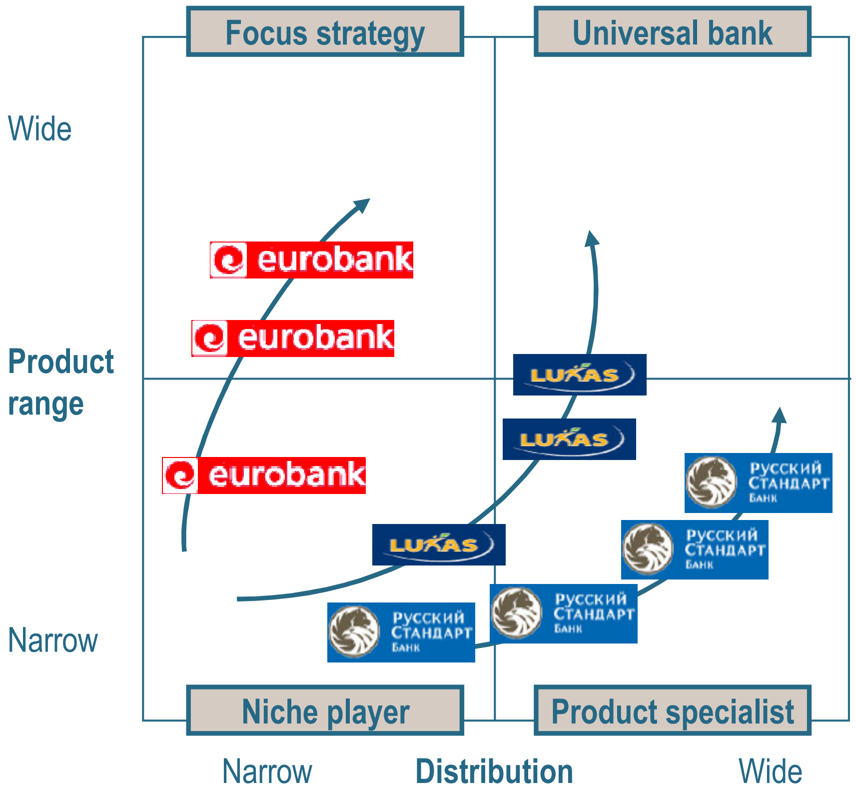
3 **«Focus strategy»**
- > Concentration on key sales channels and enlargement of banking products and services range

4 **«Universal bank»**
- > Growth in all directions – investment in the development of new products and respective sales channels

Roland Berger
Strategy Consultants

Bank's growth should be provided by development of innovative products and sales channels

Examples of successful growth strategies of retail banks in Russia and Poland



eurobank

- Phase 1 (2003): Basic banking products: account opening, loans and deposits at mini-offices
- Phase 2 (2004): Offer of mortgage loans by other banks (commission)
- Phase 3 (2005): Online banking, credit cards

LUKAS

- Phase 1: Consumer lending at POS in retail chains
- Phase 2: Development of consumer lending through middlemen
- Phase 3: Setting up own offices, development of micro-companies' lending

Русский Стандарт Банк

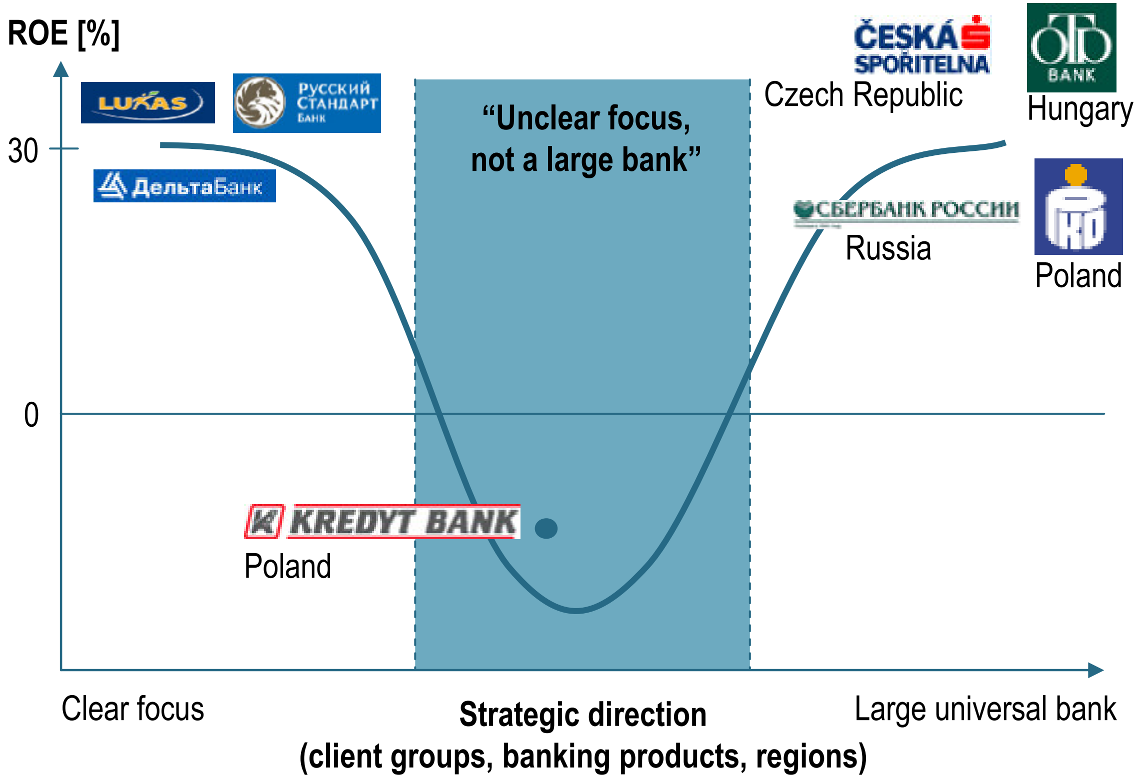
- Phase 1 (2000): Consumer lending at POS in retail chains
- Phase 2 (2001-2002): Partnership programs on credit cards
- Phase 3: Broadening of office network (2002-2003), scale regional development program (2004-2005), development of car lending
- Phase 4 (2005-2006): Active development of own ATMs service network and cash-in machines, development of co-branding programs

Sources: Roland Berger

Roland Berger Strategy Consultants

In growth markets only clearly focused banks or large banks produce strong financial results

Strategy and profitability of Eastern European banks from 2002 (schematic example)



Comments

- > Even under circumstances of **growing banking services markets in Eastern Europe** only **banks with clear strategies and cost management** were **profitable**
- > Banks with insufficient size as well as with undefined product focuses are **unprofitable**
- > **Unprofitable banks** face **restructuring, strategic re-orientation, merger with other banks or bankruptcy**

Mini-offices model – speed of lending decisions, availability, comfort

Income model

> Products:
  > **express loans** in cash
  > current accounts and wide range of deposits with fixed period
  > **banking cards**, issued for currents accounts
> Target group: clients with secondary or high education with income higher than average
> Expansion of client base by means of **high rates on deposits and current accounts**
> **High commission** on operations with current accounts and on lending

Offices' format and location

> **Mini-offices** of different formats located in the **main shopping** streets as well as in **shopping centers**
> Bank's offices are open **7 days a week** within the working time of shopping centers and supermarkets
> **Bright, eye-catching modern design** of mini-offices with big red-colored windows are very attractive for clients

Cost model

> Sufficient **marketing expenses** to provide high recognizability of new mini-office banking format at the beginning stage
> Insufficient depreciation level due to low expenses for equipment, rent, possible IT outsourcing and ATMs at mini-offices

Processes and structure

> **Simple procedures** and minimum of formality in banking products' issuance
> Developed IT system: each mini-office is connected to intranet
> Proprietary **scoring system** and **call-center**
> Confirmation of credit issuance by the head office

Source: Roland Berger

Roland Berger
Strategy Consultants

Asset size, innovations and time to market are the key success factors in mid-term outlook

Strategic meaning of key success factors for a bank

Bank‘s size by asset volume

> Stability, sizeable shareholder‘s equity – **higher international credit ratings**

> Access to the international capital markets and **cheaper financing**

> **Allocation of market risk** at a wider range of products and services

> Significant client base and **«market power»**

> Potential of **cross-selling**

Innovations

> Combination of innovative sales channels and products allows to develop **innovative business-models** – a way to increase asset size and expand the client base

> Innovative **products** as the source for
– **new** market niches development
– **cross-sales** to existing client base and **operating income** increase

> New sales channels as the means to increase the coverage of **target client segments**

Speed of market entry

> Many banking **products and services**, especially in retail, are still **new to** the Russian **market** – innovative banks are able to **capitalize on an early mover advantage**

> Quick market entrants are able to **receive early customer feedback** to offered products and **adjust their unique client proposition**

> In a dynamic and fast growing banking environment **speed of market entry** is crucial to ensure **sizable market share** and define **competitive position** for the future

Source: Roland Berger

Roland Berger Strategy Consultants

> Thank you!

| Sergei Shibaev, Partner
| Roland Berger Strategy Consultants
| 1-ya Tverskaya-Yamskaya 23 | 125047 Moscow

| sergei_shibaev@ru.rolandberger.com
| +7-495-72119-51