

# Strategy



1991 YEAR. FIRST YEAR OF WORK. KHRUSTAL'NY LANE

Client relationships are the cornerstone of Bank Vozrozhdenie strategy and are its most valuable asset. Like any relationship, they need continuous care and attention. We constantly analyze and seek to increase customer loyalty and satisfaction by enhancing the range and quality of our products, so that they take into account clients' needs whatever the economic environment.

We expand our business by supporting the development of our clients' businesses and increasing their wealth through offering a comprehensive range of up-to-date banking products and services. We are actively promoting cross-selling to maintain the share of non-interest income in the top line, which we intend to raise to 50% in the medium term.

Our internal priorities include protecting and increasing capital, supporting balance sheet liquidity, and enhancing business efficiency and quality of services. To deliver greater shareholder value and boost the return on investment, we are rapidly expanding both our corporate and retail business divisions. As we view clients' funds as a key source of funding for our operations, we offer a range of convenient savings products to suit customers' needs.

— In the corporate segment, Bank Vozrozhdenie main target is SMEs, as well as large corporate clients with well-established networks whose offices overlap with the Bank's branch network. Loans to SMEs, which make up a major part of our operations, are a strategic priority in the corporate segment. Alongside increasing the loan book volume the Bank refines its existing credit products and develops new ones in accordance with clients' needs. As the cost of financing is one of the most important factors for customers, the Bank works with state development bodies to make funds as accessible as possible for SMEs, while minimizing the lending risks for itself. To reduce associated risks further (while increasing the returns on lending), Bank Vozrozhdenie diversifies its SME client base by differentiating micro-businesses and increasing funding to them. Key factors in increasing the profitability of working with SMEs and microbusinesses will be encouraging clients to use more products and developing remote services.

For large corporate clients, Bank Vozrozhdenie offers an individual range of banking products, ensuring a personalized, comprehensive and high-quality approach to their needs. In doing so, we create a foundation for long-term cooperation, a key objective and one of the criteria for measuring our success. Partnerships with large companies and regional bodies help to expand our corporate funding base as well, since the Bank raises some deposits from them. In addition, we actively cross-sell retail products to their employees. Our advanced bank card infrastructure makes the Bank's payroll services extremely popular among corporate clients, so we continue working to keep it up-to-date. The main objective in this area is retaining our leading position as a provider of payroll services in Moscow Region and supporting the corporate business divisions of our regional branches.

— In the retail business, Bank Vozrozhdenie main priorities are increasing the loan portfolio and its profitability by boosting mortgages and consumer lending, raising customers' deposits to expand the funding base for the Bank's active operations, and developing bank card services and infrastructure.

Bank Vozrozhdenie shapes its retail loan portfolio seeking to balance yield and quality. Mortgages are the key product in retail lending. This segment of the loan book expands primarily from issuing loans under partnership programmes designed together with large construction firms and realtors in the regions where the Bank is present. We also continue to develop consumer lending products and actively expand our credit card business. Key target groups in this area are users of the Bank's payroll services, employees of large corporate clients and government bodies, depositors, and existing clients with solid credit histories.

Individual deposits are a key source of funding for Bank Vozrozhdenie, contributing to the stability of the resource base. Retail deposits and current accounts make up 48.7% of the balance sheet. We intend to maintain this proportion by ensuring annual deposit growth that is at least in line with the market average.

Another strategic objective in the retail business is increasing cross-selling of bank card products. The Bank plans to triple the number of such cross-sales by the end of 2014. We expect a rise in the volume of retail sales via remote channels (ATMs, internet and mobile banking) in line with the further development of the Bank's IT infrastructure. Remote channels will gradually replace traditional ways of making payments and dealing with cash.

— Regarding operations on financial markets, Bank Vozrozhdenie intends to maintain its diversified securities portfolio structure in order to ensure sufficient liquidity, reduce risks and increase asset yields. The Bank continues to enhance methodology and technical instruments of control over risks relating to operations on financial markets, including currency, interest, operating and market risks.

## **Sales network**

The Bank is expanding its sales infrastructure to support long-term balanced growth across all business segments. We take a reasonable approach to developing our sales network via offices and self-service facilities, as well as our online and mobile banking, closely monitoring the efficiency of each point of sale.

Bank Vozrozhdenie plans to enhance the quality of client service in its locations by improving zoning of its outlets, streamlining employees' functions, speeding up the work of the front office, and introducing more self-service facilities. We seek to develop each branch based on the economic potential of its surrounding area.

We adhere to a strategy of gradual regional expansion and plan to focus on regions where we already have branches. The number of sales points rises in line with the market demand in each specific region and within the framework of the existing business model. Further development of the Bank's sales infrastructure will focus mainly on Moscow Region and the neighboring areas, as well as on the Southern and North-Western areas of the country.

## **Marketing**

The Bank's marketing strategy is intertwined with its key business goals: to be one of the market leaders in terms of customer satisfaction in both the corporate and the retail segments. Its priorities include developing sales channels, launching products that respond to client demands, ensuring high standards of clients' service and developing the brand. The ultimate aim of the strategy is to strengthen the Bank's market positions and increase customer loyalty.

## **Information technology**

The Bank sees IT as a crucial factor contributing to its competitive advantages, maintaining business stability, devising an up-to-date product range, and enhancing the quality of customer service. We intend to use the advanced IT solutions to streamline the Bank's management system. We also have plans to introduce cutting-edge IT infrastructure that will enhance the efficiency of our remote service channels, front and back office systems, CRM systems, lending procedures, as well as accounting and analytical capabilities.

## **Corporate governance**

Bank Vozrozhdenie's strategy ensures ongoing corporate governance development in accordance with international best practices for the benefit of the interests of all shareholders. The Bank intends to improve the effectiveness of the Board of Directors' activity, primarily by launching self-assessment procedures and intensifying its interaction with the executive management.

We also intend to increase the role of the Board of Directors in the Bank's day-to-day functioning by refining the ways it oversees the implementation of its decisions by the Bank's executives. Another key task is to continue development of the system for preventing the illegal use of insider information, as well as to enhance information transparency by maintaining an open dialog with investors.

## **Risk management**

The risk-management strategy aims to ensure the stability of the Bank's business, protect its assets and mitigate potential threats. Thus, the Bank continues to upgrade its risk management systems to keep them adequate to the scope of business as well as to the scale of the threats involved in its daily functioning.

## **Personnel development**

The main goal of Bank Vozrozhdenie's HR policy is to develop the potential of every employee. Priorities in this area include developing employees' professional potential, motivating employees to achieve key

business goals, and strengthening the corporate culture.

## **Optimizing the business model**

To raise the competitive advantages of our products and services, we have launched a major project to optimize the Bank's operating model. It involves conducting a 360-degree analysis of all business processes, working out measures to streamline them, mitigating risks related to the Bank's day-to-day functioning, and increasing its efficiency. We plan to change the employee motivation system, which, in our view, should factor in both financial results achieved and indicators like customer satisfaction and employees' involvement in the achievement of business goals. As part of the project we will centralize our back office functions and reformat business processes in the branch network accordingly.

The project will enhance the Bank's operational efficiency and make our services more appealing to clients. In the medium term, we intend to reduce the cost-to-income ratio to 50% and raise the return on equity to 20%.