

MKB Strategy 2023

March 2021

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Strategy 2023



2023 Strategy pillars

Proven through-the-cycle universal banking model with full-service proposition adaptable for client needs and market trends

► FOCUS ON CUSTOMER EXPERIENCE

- Client-centric business model
- Tailored client solutions
- Offering the best of digital and physical interaction to our clients

► SOCIAL AND ENVIRONMENTAL RESPONSIBILITY

- Commitment to the community, employees and environment
- Supporting our partners and customers as they strive for sustainable development

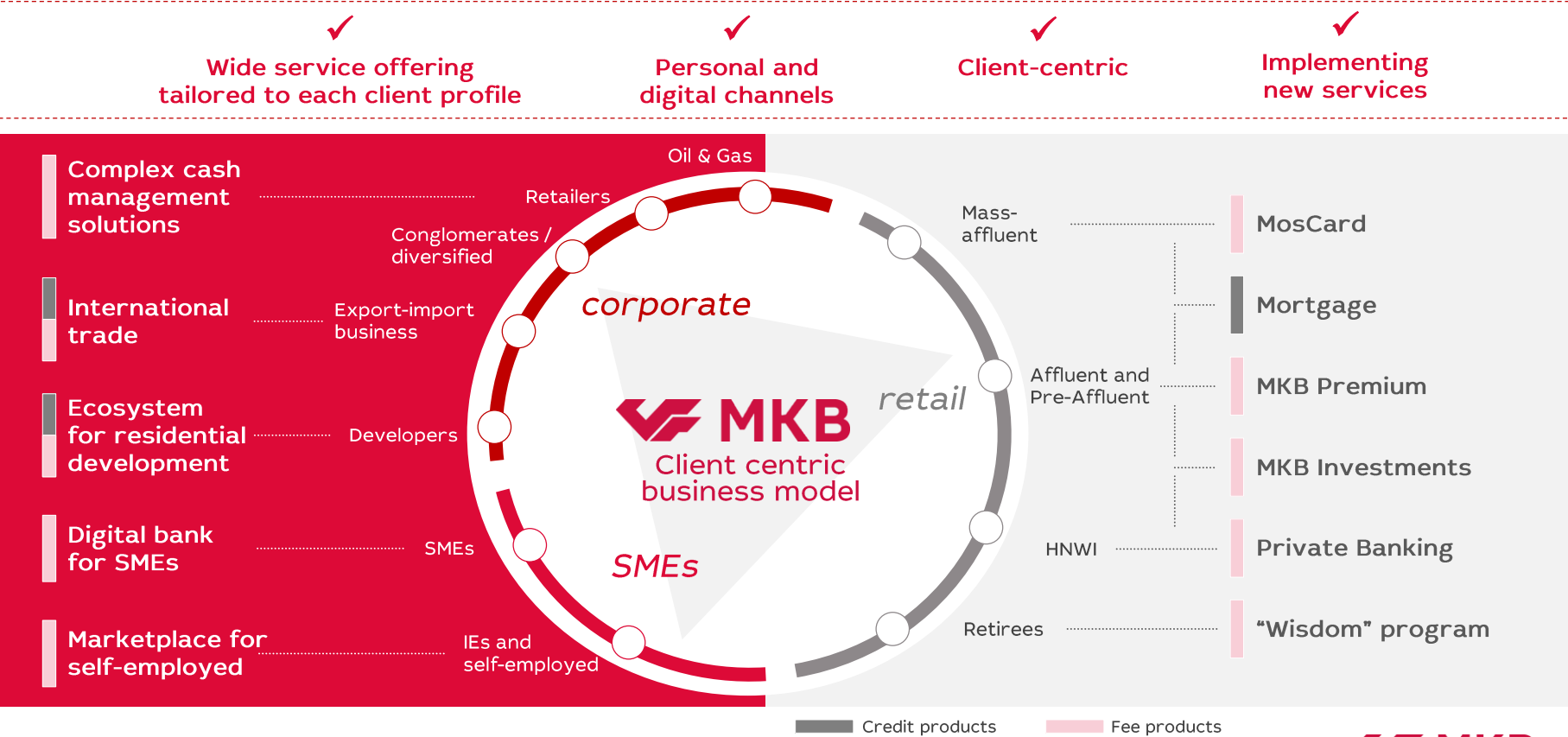
► DIGITAL TRANSFORMATION

- Fully digital client proposition
- Extracting more value thanks to data analysis and personalized offering
- Cost leadership supported by technology

► TEAM DRIVEN BY ENTREPRENEURIAL SPIRIT

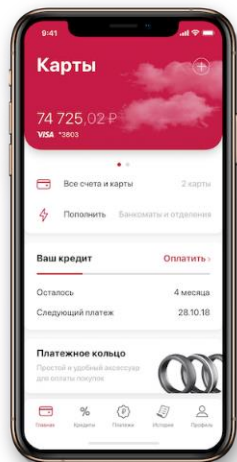
- Providing freedom for self-fulfillment and realization of team potential
- Ownership mentality and ROE-driven decision making

Focus on tailored solutions for key customer segments



Omnichannel model and focused regional expansion

Expanding digital proposition...



Top-5 Mobile banking app for retail



Mobile app for investments



100% Digital bank for SMEs



Full E-banking for corporates



Remote client identification solutions across all business lines

Share of remote banking operations, %

50%
2020



> 75%
2023

...supported by efficient regional footprint



New generation offices

of active retail customers per office, '000

7.2
2020



9.5
2023

Customer service time

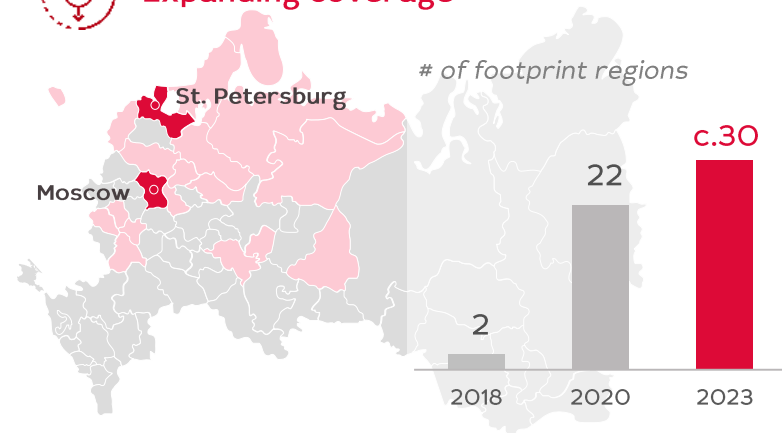
12 min
2020



9 min
2023



Expanding coverage

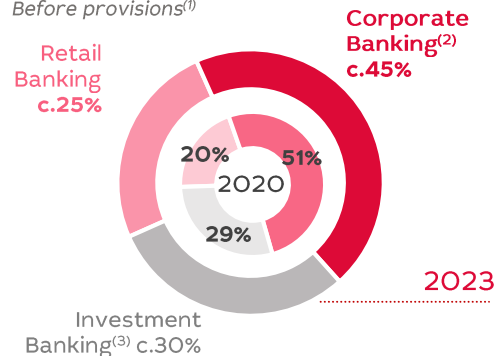


Key strategic targets 2021-2023

Growth across key business lines

- ✓ **10-12% CAGR** for corporate loan portfolio
- ✓ **20-25% CAGR** for retail loan book
- ✓ **Top-3** positions across investment banking products

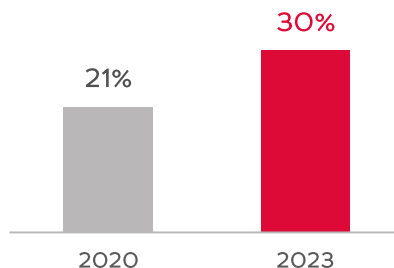
Operating income structure
Before provisions⁽¹⁾



Focus on transactional banking

- ✓ Expanding cash management and trade finance operations
- ✓ Online transactional banking for entrepreneurs and SMEs
- ✓ Daily banking and investments via MKB Mobile ecosystem

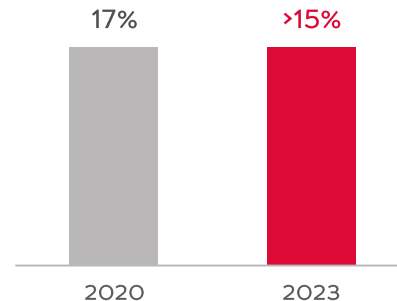
Share of F&C income⁽⁴⁾



Strong profitability

- ✓ Improving NIM to **2.7%** (NII/RWA at **4.0%**)
- ✓ Digitalization and operational improvements with CIR at **30-35%**
- ✓ Maintaining moderate risk appetite with cost of risk **c. 1%**

ROAE



Source: Company data, IFRS financial statements.

Notes: (1) Operating income (excl. Subsidiaries banks) excluding charge for credit losses on debt financial assets, net (loss) gain on loans to customers at fair value through profit or loss and impairment gain (losses) on other financial assets, credit gain (losses) on other financial assets and credit related commitments and other provisions.

Corporate Banking

Corporate Banking: Snapshot

Federal Scale

Top-5

Corporate financing⁽¹⁾

Historic focus on Large Corporates

>20k Corporate clients



Strong competences in servicing energy sector

Omnichannel coverage

64 Relationship managers with industry expertise



"Your Bank Online"
MKB Online Banking

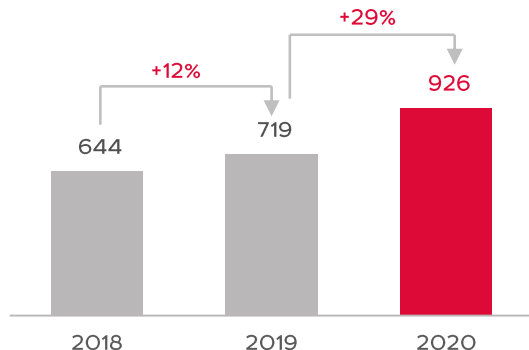
Wallet share expansion

71% Corporate clients are multiproduct relationships

1.8 Products per corporate client

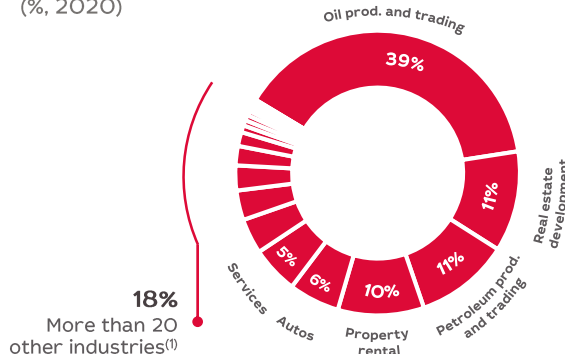
Stable lending growth

Corporate gross loans (RUB bn)



Resilient industry mix

Corporate loans breakdown by industry (% , 2020)



Strong asset quality

2020

2.6% NPL ratio

151% NPL coverage ratio

1.0% Cost of risk

Tailored corporate banking solutions supporting margins and growth

Focus on comprehensive higher margin solutions

Project finance

Broad sector expertise and diversification

International finance

Ecosystem for exporters & importers

Supply chain and trade finance

Expanding the portfolio and improve client penetration

Transaction banking

Reliable infrastructure for payments and treasury solutions



Efficient client service

Faster service

17 business days
TTM⁽¹⁾ for loans in 2023

Transparency & convenience

4,5 (out of 5)
CSI⁽²⁾ for corporate clients

Personal & digital

70% of corporate clients are active online banking users

Efficiency

30%+ reduction in credit processing costs by 2023

10-12%

Corporate loan portfolio growth
2021-2023 p.a.

2.7

Products per active client in 2023
vs 1.8 in 2020

Prioritizing Transactional Revenue Stream

Leadership

Customer proposition

Innovative technologies

International

2023 goals

Cash management

Best Service in Russia
Euromoney Cash Management Survey

Multi-account TMS platform
Virtual treasury
QR- payments infrastructure

Advanced notional pooling
International blockchain platform

SWIFT GPI cross-border payments

x3 Payment volumes

Trade finance

Best Service in Russia
Euromoney Trade Finance Survey

LCs and guarantees
International factoring
High-tech FX-module

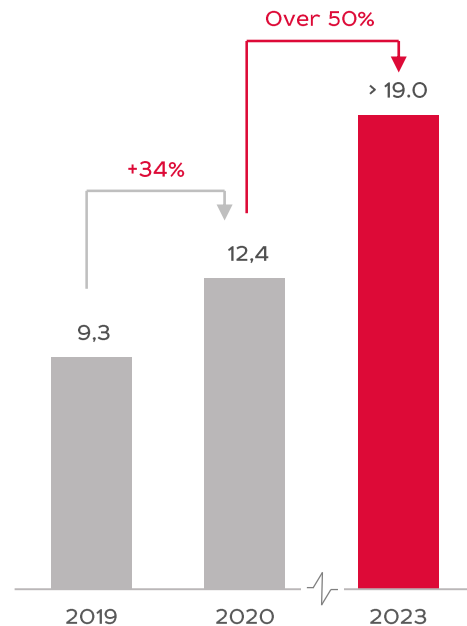
Electronic document flow
Automated bank guarantee issuance

Accredited by the
largest export credit agencies

x2 Trade finance volumes

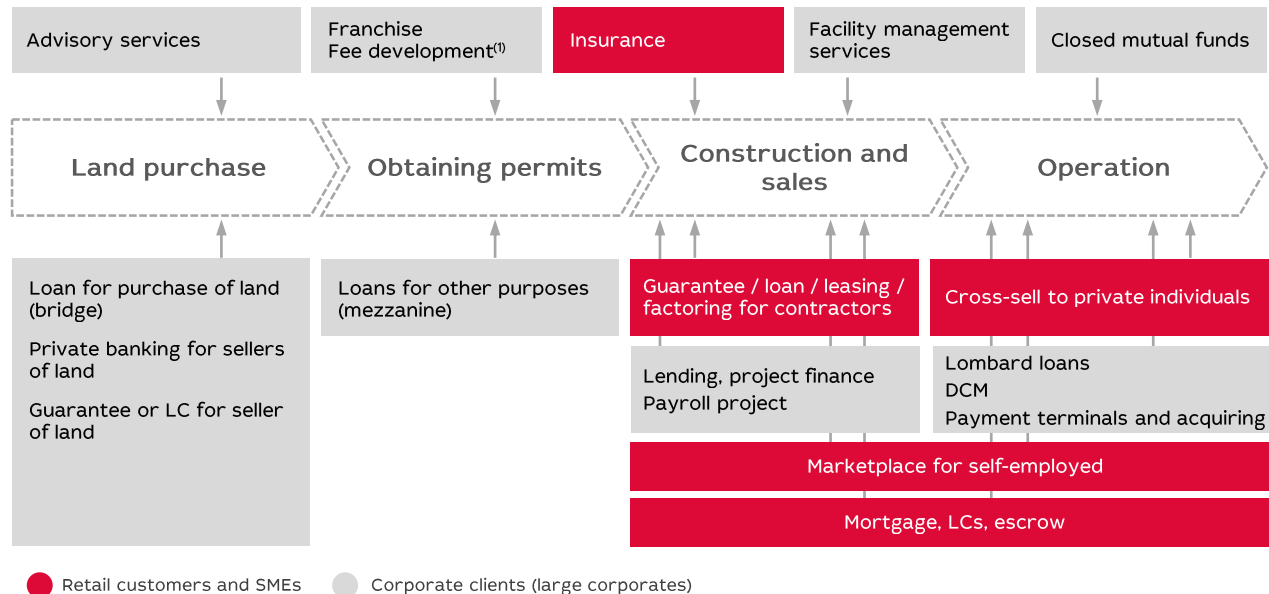
Driving F&C income

Net fee and commission income in corporate segment (RUB bn)¹



Ecosystem for residential construction industry

Partner products



2020 achievements

19 Real estate developers in MKB's ecosystem

+20% Mortgage sales in development ecosystem

2023 targets

x2 Growth in number of RE developers in MKB's ecosystem by 2023 vs 2020

x3 Mortgage sales in development ecosystem in 2023 vs. 2020

✓ Access to the customers **one step ahead** of competitors

✓ Expanding **wallet share** in services provided to the developers

✓ Minimising **risk** via control over value chain

Building SME franchise

Digital bank for micro and small businesses

MKB. Business – online SME bank



Strategic acquisition of online SME platform
(Vesta Bank)...

#1

Bank by quality of
service for IE¹

Top-3

Best Internet Bank
(by SME Banking Club)

...Supported by professional team

Selected hiring from leading SME neobanks

Digital onboarding

- Online accounts opening in 15min

Daily banking services

- Cash and account management
- Payments
- Integration with accounting / tax
- Income / spending analysis

Cash management

- Multibank account connectivity
- E-cashier & cash handling
- FX conversion and control
- Internet, mobile / QR, acquiring
- Corporate cards / payroll

Smart AML System

Key 2023 targets

c. 110k SME Clients

100% NPS by 70%
customers

Top 5 Bank by number
of SME clients

Retail Banking

Retail Banking: Snapshot



> 900 000

Active retail clients, as of 2020

70%

Loyal repeat and payroll customers⁽¹⁾

60% Depositors

40% Credit & transactional clients



Deposits

502
RUB bn

Retail deposits, as of 2020

20%

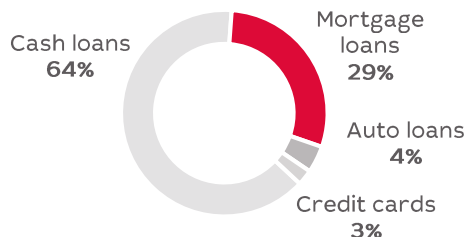
Share of current accounts

Loan portfolio

133
RUB bn

Retail gross loan book, as of 2020

Gross loan portfolio structure, 2020



Omni-channel cost-efficient model

Full scope of services provided online..



- Client onboarding
- Digital-first card issuance
- Loan underwriting & deposit opening
- Payments and transfers

...and supported by lean offline infrastructure



132
Branches



Partnerships
(retailers, developers)



6.8k+
Proprietary and
4.2k
Partner Terminals



1.1k+
Proprietary and
5.5k
Partner ATMs

Client-centric service model



Daily banking

- Remote debit card issuance
- Virtual payment card
- Multicurrency support
- QR and bar code payments
- Auto-payments & Bills payments
- Cross-border P2P transfers



Life-style

- MKB.Travel – integration with One2Trip & Booking
- Car repair booking / Trade-in
- Insurance
- MKB Bonus



Finance

- Online loan application and issuance
- Virtual credit cards
- General loans online issuance



Savings

- Online opening of current accounts, deposits
- Accounts management



Investment

- MKB Investments – digital investment platform

Key 2023 goals



#1 app usability

> 75% Mobile app penetration vs 50% in 2020

1.7m MAU vs 400k in 2020

35% DAU / MAU vs 23% in 2020

Mass-affluent



MosCard

Retirees



"Wisdom" program

Affluent and Pre-Affluent

MKB.Premium

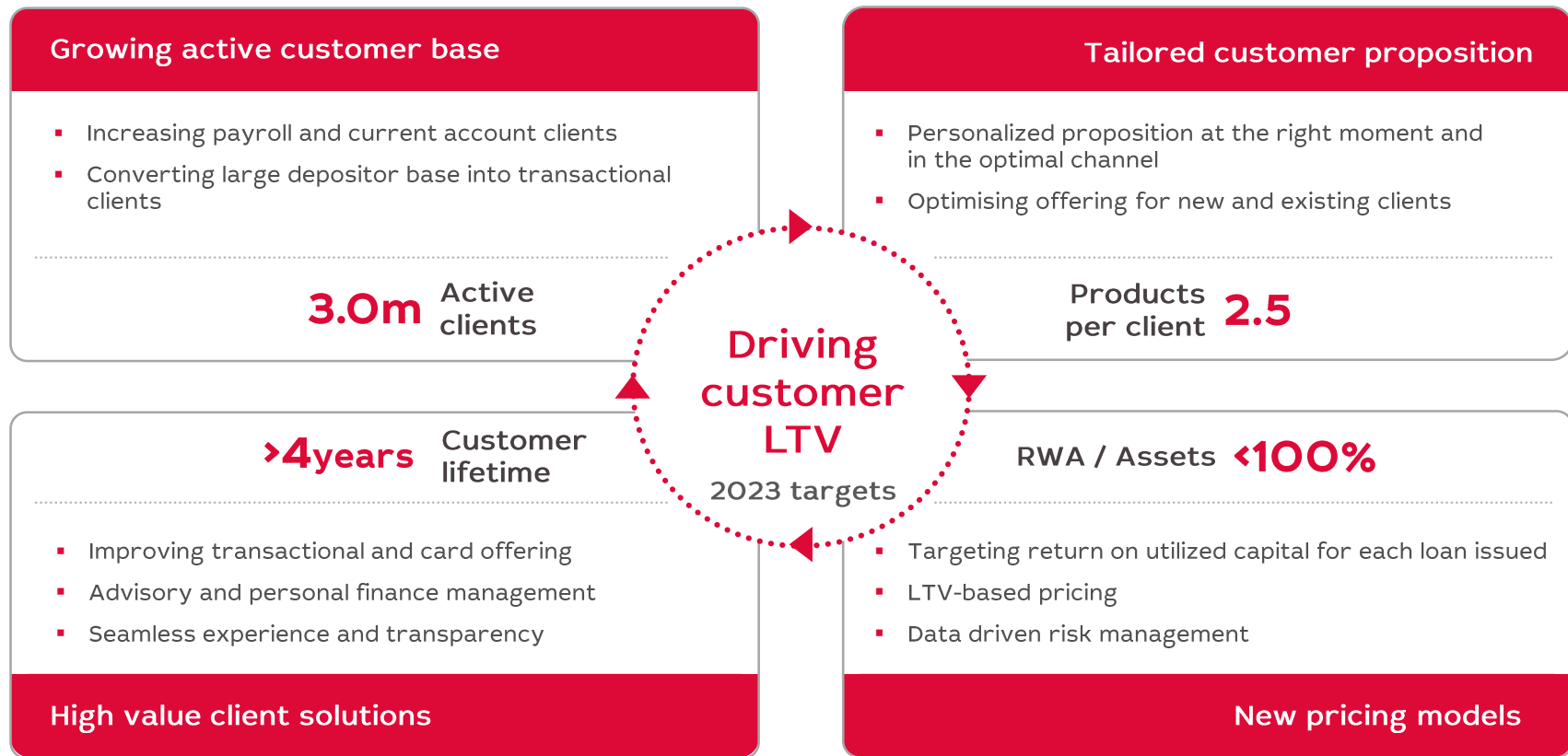
HNWI



mkb private bank

Private bank

Growth via higher customer engagement



Capturing opportunity in the mortgage market

Established mortgage platform

Competitive product



Special partner offers

Mortgage refinancing

State-backed mortgage programs

Trade-in options

Fully digital model



Online underwriting and enhanced scoring models

Digital transaction execution and registration

Integration with partner systems

Same day loan issuance



1 minute Time-to-Yes

7 hours underwriting with established partners

Benefiting from large developers

30-40% MKB share in mortgages within financed projects



Project and customer data enhancing risk management



Full underwriting process integration

Partnership with leading developers



Etalon Group

САМОЛЕТ

Key mid-term targets

MKB outlook for 2023E

c.90
RUB bn

Mortgage portfolio

40%

Mortgage portfolio CAGR 2020-23

c.45%

Share of mortgage in retail loan portfolio

<100%

RWA

Attractive market opportunity

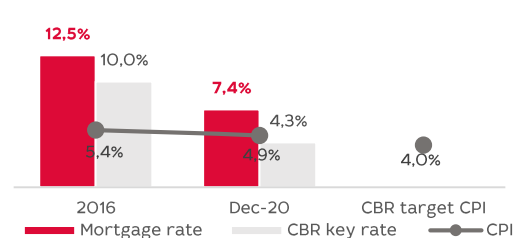
Strong mortgage growth in Russia...

New mortgage origination⁽¹⁾, RUB trn



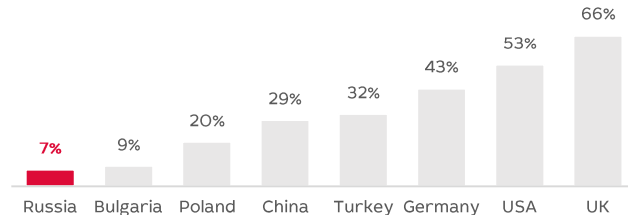
...supported by low interest rates...

Weighted average interest rates, %



...and still low penetration across EM and globally

Mortgage portfolio / GDP, 2019



Source: Company data, Central Bank of Russia, National Central Banks

Notes: (1) According to the report published by Association of Banks of Russia:

https://asros.ru/upload/iblock/461/Finansirovanie_zhilishchnogo_stroitelstva_na_sayt_.pdf. 2020 according to DOM.RF, accounting for Top-20 mortgage banks only.

Investment Banking

Financial markets proposition

2020 Year Achievements

DCM

> 1.1 tn
market bond placements⁽¹⁾

ESG

RUB 125 bn
“green finance” organized

FX Online

x2.5
increase in conversion
transactions volume

REPO

Top-5
Local REPO market
operator⁽²⁾

ECM

RUB 29.5 bn
organized 25% Detsky Mir
acquisition

MKB Investments

5th
Among MOEX Top Market
Participants⁽³⁾

Key approach

Tailored customer
solutions

Diligent risk-management

Fast decision-making
process

Technology offerings (MKB
exchange)

Growth of client base
across all products

IB product matrix



DCM



M&A
ECM



Fixed Income
Derivatives



REPO
Structured
financing



Depository
services



Structured
products



Brokerage
services



Asset
management

Stable income

79

RUB bn

Revenue⁽⁴⁾

22

RUB bn

Operating
income⁽⁵⁾

Low risk

73%

Securities with
BBB- rating
and above

96%

Bonds with BBB-
rating and above
in reverse REPO
book

Low capital utilization

18%

RWA / Assets ratio

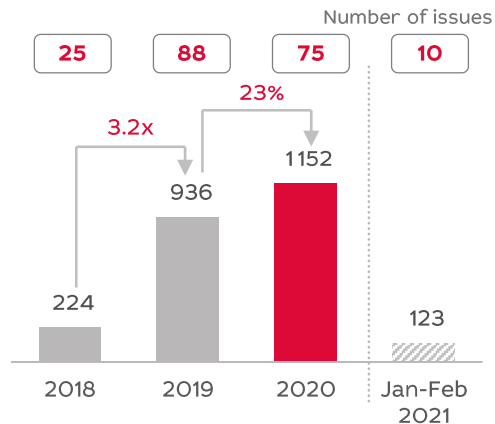
as of 2020FY

Source: Company data, public information.

Notes: (1) As of 12m2020 according to cbonds.ru. (2) According to MOEX Repo Market Operators ranking as of February 2021. (3) According to MOEX rating of Top Market Participants by monthly trading volume of equities and funds, as of February 2021. (4) Interest income for Investment segment, according to segment analysis in Note 29 of IFRS financial statements. (5) Operating income for investment segment excluding charge for credit losses on debt financial assets, according to segment analysis in Note 29 of IFRS financial statements

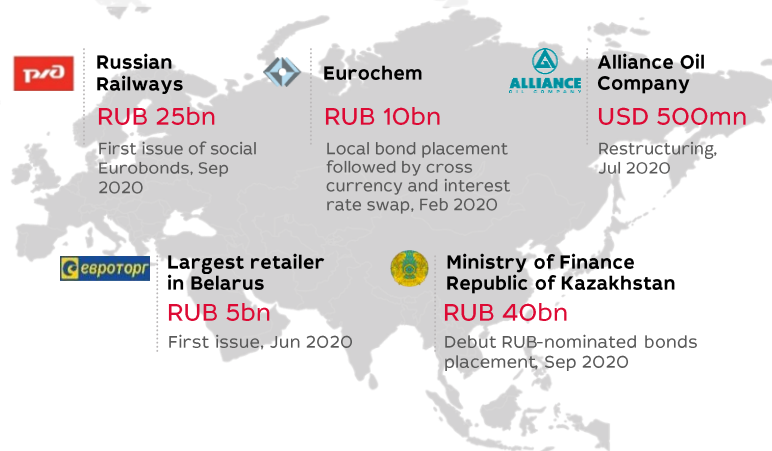
Leading DCM positions

Solid Track Record in DCM, RUB⁽¹⁾

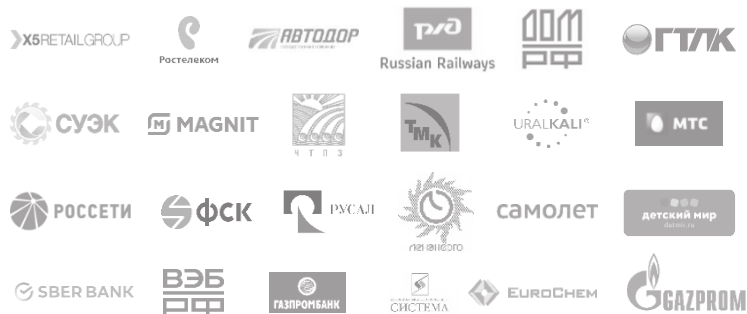


- TOP-5** DCM arrangers (Bloomberg ranking)
- > 10%** MKB's market share (excluding own issues placements)
 - 65%** YoY growth in fee and commission income
 - 2 issues** Arranger of ESG ("social" & "green") bond placements

Landmark transactions in Russia and CIS



Serving blue-chip issuers



Market recognition & awards



Investment banking strategy

Long-term strategic vision:

Development of client's business via trusted partnership and excellence in providing investment banking services

Strategic initiatives



Increasing share of client business in operating income



Active development of **commission products**
(FX, DCM, ECM, M&A, precious metals, derivatives)



Higher diversification of investment business
(by products, clients and geography)



Synergy between corporate and investment banking



One-stop shop approach

Key 2023 targets



DCM

New DCM debut issues
Enter CIS markets

Top-2 "Green" bonds market
(Russia & CIS)

Top-3 in DCM market



PESS (private equity & special situations)

Develop up to the level of leading Russian and foreign banks

>20% Project IRR

25+ RUB bn Total portfolio



ECM, M&A

Diverse industries
Privatization programs

3-5 Deals per year



Derivatives & FX

Develop product line
(commodities, new OTC)
FX online

15% F&C income CAGR
on FX deals

30% F&C income CAGR
on derivatives



MKB Investments

Expand IB product line
Launch of upgraded platform

>300k Client accounts

30+ RUB bn Total AUM in 2023



mkb private bank

New concept: relationship manager, product line, flexible processes

100+ RUB bn Total AUM in 2023

40% Total AUM CAGR

Technological platform

Information Technology: Snapshot

- Flexible matrix structure for IT-business interaction
- Efficient use of IT resources, geo-distributed teams

- IT as a Business partner function
- Focus on building business value

2020 Results



Dedicated cross-functional value-oriented teams, **shared KPI** with business



New banking technologies: speech analytics, omni-channel communication platform, data quality governance, RPA



Over 30% reduction in use of paper
3% of back-office operations staff replaced with **robots**
30% reduction in call-center operational costs



Lean technologies:
60% of legacy core banking system replaced

2021 Priorities

- ✓ **Digitalization of customer experience:** UI/CX, CJM, chat bots, biometrics and electronic queues
- ✓ **ML and Behavioral Analytics** to improve customer experience and grow LTV
- ✓ Further **automation** of business processes, **AI⁽¹⁾ Engineering**

Digital initiatives 2020-2023

Focus on Digitalization and improving of customer service

Introduction of digital bank for micro and small businesses

Penetration into customer base, %



Further development of MKB Mobile for retail clients

Penetration into customer base, %



Branch transformation and improvement efficiency through digitalization of operational tasks

Customer service time



Digitalization of MKB's internal processes

Reduction of support costs and increasing IT investment

Share of IT employees in front-end development, %



Digitalization of MKB's end-to-end processes

Share of digitalized end-to-end processes, %



Robotization of back-office processes (RPA)

Share of RPA in back office, %



Remote work opportunities and digital workplaces

Share of IT employees working remotely, %



Pragmatic approach to digital investments

- "Business first" – focus on solving real business problems
- Bet on proven technology – fast and cost-effective deployment of proven solutions
- Space for piloting of innovative solutions

Manage IT Finance Gartner Score⁽²⁾, 2020



Industry average



Combining strengths of technological bank and fintech

Goals by 2023:

Data analysis and flexible integration with partners for the best customer experience

Leadership in cost efficiency enabled by technology

Effective and dynamic IT organization enabling clear focus on priorities

✓ **Advanced customer analytics** for improvement of MKB's product offerings

✓ **100%** transition from legacy to modern core banking systems

✓ **Cross-functional teams** of data scientists, data engineers and line-of-business product owners

✓ **Unified banking platform** for data storage, models development and implementation

✓ **Digitalization** of customer service and MKB's internal processes

✓ **20% increase** of IT solutions development speed

✓ **2-3 weeks** the average time of partner integration (vs. 2-3 months in 2020)

✓ **High standards** of IT investment management

✓ **No substantial** losses from cyber attacks

ESG

Focus on Environmental and Social matters

Top-5 Russian bank in implementing sustainable development principles⁽¹⁾

BBB[esg] Highest ESG rating among Russian banks⁽²⁾

 Sustainability Reports based on GRI standards published since 2018

Corporate

Refining internal processes to support development of ESG⁽³⁾ banking



Implementing internal **green taxonomy** and projects verification process



Adapting infrastructure to expand **green financing**, incl. dedicated **corporate sustainability** and **green sales teams**



Creating internal **sustainability-focused mindset** via trainings



EBRD- and IFC-compliant practices of corporate governance, green criteria on loan portfolio, social and environmental management policy



Digital transformation



Implementation of **green office** concept

Clients

Supporting our clients to ensure balanced and sustainable development



Green finance products



Digitalization of services



Tailored retail products to support elderly people and young families



Educational programs on financial literacy



Restructuring programs for Covid-19 affected clients

99%

of Covid-related retail restructurings are covered by MKB's own support program⁽⁴⁾

77%

approval rate⁽⁵⁾

Community

Partnerships with ESG projects led by external parties



Arithmetika Dobra
Supporting orphans and foster families



WWF
Environmental, biodiversity and educational projects



Green movement
Paper use neutrality via forest planting

Green banking leader in Russia
RAEX-Europe's ESG ranking 2021



Source: Company data, Sustainability report for 2019

Notes: (1) WWF Review of Sustainable Finance in the Russian Banking Sector, Feb 2020 https://wwf.ru/upload/iblock/b36/Green_finance.pdf (2) Rating assigned by Rating-Agentur Expert RA GmbH to MKB on 25 Oct 2019. (3) Environmental, Social, Governance. (4) 1% is covered by 106-FZ Government program. (5) Calculated as a number of approved restructurings divided by a number of received requests for restructurings.

Commitment to the community and environment

We take responsibility for our impact on the environment, take care of our employees and the community we work in

We support our partners and customers in their strive for transformation to ensure sustainable development

Goals by 2023:

A[esg] A-rating band (RAEX Europe) and broader coverage by international ESG rating agencies

Community and environment



Introduced the concept of responsible product offering in all business units



Regular carbon footprint assessment, targets set to minimize the footprint

Clients

100
RUB bn

Sustainable⁽¹⁾ projects and investments facilitated by MKB by 2023



Implementation of sustainability principles in the supply chain

Employees

85% Employee engagement level⁽²⁾

Top 10 Employer among Russian banks⁽³⁾

Source: Company data

Notes: (1) Sustainable projects and investments include various types of sustainable instruments (green, social, transition, sustainability-linked, etc.) facilitated via taking direct credit exposure and origination business. (2) According to Happy job survey; (3) According to hh.ru employers ranking.

Financial targets

Strategic and financial outlook

		2018 - 2020	2021 - 2023
Growth	Corporate loans (p.a.)	8.2%	10-12%
	Retail loans (p.a.)	15.0%	20-25%
Profitability	NII / RWA	4.0%	c.4.0%
	NIM	2.4%	c.2.7%
	Share of F&C income ⁽¹⁾	20.4%	30%
	Cost / Income	36.1%	30-35%
	ROAE	14.9%	> 15%
Asset Quality	Cost of risk	1.3%	c. 1%
Capital	N1.1 ratio	8.5%	> 9%

Source: Company data.

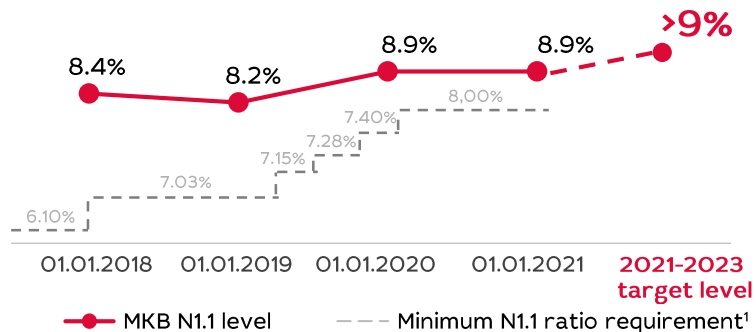
31 Notes: (1) Net commission income / (net commission income + net interest income)

Sustainable dividend policy

Capital management

Sufficient MKB capitalization ensuring **comfortable compliance with regulatory ratios**

N1.1 RAS capital adequacy ratio



Dividend policy

Key goal of MKB's long term dividend policy — **to achieve stable dividend payment level by 2022**



2022

Dividend distribution in the amount of **min 25% of net profit** of the previous year, according to IFRS