Strategic Report

To be among the leaders in online sales and operations, while remaining the most efficient digital classic Russian bank.

LETTER FROM THE MANAGEMENT

DEAR CUSTOMERS, INVESTORS AND PARTNERS,

Year 2020 became a dividing line for the world "before" and the world "after". Global coronavirus pandemic affected more or less any state, company or person, changing the lifestyle we're used to. Our main focus became the safety of our customers and employees. A series of measures aimed at both safety and uninterrupted operations was implemented.

Customer support was also a big priority for us. Imposed limitations in order to mitigate coronavirus infection spread led to decrease of revenues in SME business, as well as their employees' income. Drop in raw materials prices and in economic activity resulted in large corporates revenues decrease. In these difficult times we've successfully relied upon our measured approach, which, coupled with vast management experience, allowed us to provide much-needed support to our customers and minimize negative influence triggered by the pandemic. The Bank posted RUB 10.8 bn of net income for the last year – an outstanding result.

Last year's robust financials allowed us to fully keep our promises given to the Bank's shareholders. In November 2020 the Bank's shareholders took a decision to pay out 2019 dividends in full.

In the end of 2020 we've summed the results of three-year Strategy 2018-2020. All the initial volumes growth goals were exceeded. On the strategic horizon we were able to outperform the market, or at least be on par with it, on all key business directions. The loan portfolio grew by 28% over 2018-2020, customer accounts by 33%. It indicates that over the last three years we've remained a competitive and reliable partner for our customers

Last three years have also confirmed high levels of customer confidence – we've achieved 34% retail customer accounts growth significantly ahead of the market, with our funding costs remaining among the lowest on the market. Thus, we were able to maintain cheap funding source, remaining independent of the capital markets borrowing.

99% of corporate customers and around 60% of retail customers already are active digital platforms users. The share of digital sales amounted to 64% of total mass sales, while customer operations online share amounted to 82% of total operations volume.

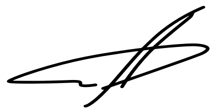
Be the time the limitations were implemented, the Bank was quite well-prepared for what was to come and achieved advanced level of digitalization. Within the shortest terms we've made the most of services and products available online, eliminating the need for the branch visit, thereby establishing ourselves as a contemporary digital bank.

The Bank is also making strides in regional development – we've put on our maps two new representative offices in Krasnodar and Rostov-on-Don.

We are actively involved in our city's activities. In 2020 we've reached an agreement with the Administration of Saint Petersburg, implying taking part in social projects and helping towards dissemination of the cutting-edge banking technologies, as well as active development of local SME business.

The Bank is constantly developing and improving. We are grateful to our customers, partners and investors for our mutually beneficial cooperation in the last year and are hopeful for the same in the next year as well!

Elena Ivannikova
Chairperson of the Supervisory Board



Alexander Savelyev
Chairman of the Management Board

30 YEARS PROUDLY WITH THE CITY

Bank Saint Petersburg is one of the largest banks in the Northwestern Federal District of Russia. Its history spans over 30+ years and stems from a system of specialized government banks. Based on "Zhilsozbank" of that system, on October 3, 1990 "Lenbank" JSC emerged, which was renamed to Bank Saint Petersburg a year later.

Since the first days of operation the Bank set its course towards intensive development, then-new directions emerged on the market: e.g. forex operations, securities operations, cash collections. Dealing operations on international currency and financial markets became by far the most successful direction. Correspondence net expanded up to 130 banks, including foreign ones.

In the mid-1990s the Bank launched banking card emission. The Bank's own processing center was developed, operating on combined chip and magnet technologies. Thanks to the rapid introduction of new services Bank Saint Petersburg became one of the leaders in the forming local market.

During the economic crises of 1996–1998, the Bank did not back down from its positions, uninterruptedly providing quality financial services to its customers. The Bank provided support to significant industries of the city, particularly, long-term lending programs. For this purpose, a new credit risk management system was developed and implemented in collaboration with Allied Irish Banks in 1997.

At that time the Bank acquired the status of Principal Member in Visa International, which allowed the Bank to launch the first large payroll projects.

In the June of 1998 Bank Saint Petersburg became the first city bank to be allowed by the Central Bank to cash out card accounts. The Bank expanded lending through settlement and forex importers' accounts, plastic card lending as well as other lending products.

Retail business development was commenced in the Bank's business strategy. By the beginning of 2000, the Bank provided over 600 types of services, successfully implementing the individual approach in customer service as well as flexible tariff policy.

The Bank is founding its operations on the basis of openness and transparency principles even still to this day, which is regularly confirmed by financial results. The active business position of the Bank allows it to develop collaborations with international financial institutions and opens up new prospects for interbank operations development, trade finance, and lending. In 2007, the Bank hit a new developmental milestone by a successful IPO, raising USD 274 mln. The book was oversubscribed seven times, which became a record for a Russia-based company IPO.

The best European market practice was a benchmark to a new cutting-edge business strategy of the Bank. Customer policy was oriented towards building long-term positive relations with the customer. At its base were the Bank's reliability, individual approach to the customer, service mobility, and ad-hoc reaction to the customer's needs. Active customer base growth of the Bank was coupled with a "middle" segment share increase.

1990 On October 3, 1990, "Lenbank" was registered under No. 436 — the first JSC bank in the country.

1991 The shareholders took a decision to change the name to Bank Saint Petersburg.

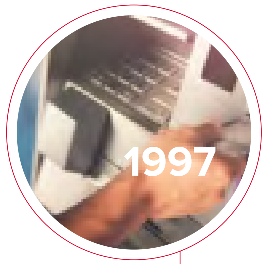
1992 The Bank became one of the founders of Saint-Petersburg Exchange.

1993 We have not yet come up with a motto "High Culture Banking", but have already launched a program "Classics and the Future" to support classical music art and musically gifted children.

1994 The Bank issued its first plastic cards.

1995 The Bank commenced collaboration with the Allied Irish Banks. We actively developed projects on credit risk management. The Bank's reports were made in accordance with IFRS.

1996 The Bank reached an agreement with the Ministry of Finance of the Russian Federation in order to actively finance construction projects and production.



1997 Doubly significant year: we opened a department for mortgage lending; the Bank's ATMs are operating 24/7.

1998 The year was economically harsh for many, but the Bank managed to fulfill its obligations to the depositors and entered top-50 banks, oriented towards the settlement and budget accounts.

1999 The "Payroll Project" was launched.

2000 We offered the first car loan and issued the first credit card.

2001 After the analysis of the high-tempo growth of bank cards, we created a department for plastic card management. Bank cards will become the driver for the Bank's growth over the next years.

2002 We launched children's cards — cards for parents' allowance for children.

2003 We were the first in the city to issue chip cards — the safest and the most reliable.

2004 The Bank was one of the first members of a deposit insurance program — since 2004 retail deposits are protected by the government.

Retail position strengthening was in focus: the Bank targeted developing Internet banking, increasing physical presence, improving plastic cards service, acquiring, and expanding a lending product line, particularly in mortgage lending.

Celebrating our 30th anniversary, we are rightfully proud of our market share, long-term customer relations, a strong team of professionals, our impeccable reputation and goodwill earned over the years passed.

At this time Bank Saint Petersburg plays a significant and constructive role in the national banking system development, with which it shares its history since its establishment. In the environment of both global and local challenges, dealing with new arising issues, the Bank should strive to remain a stability stronghold: uninterrupted operations maintenance and customer service are still our priorities.

In the current circumstances we strive not only to provide customer support but also to offer development and take a step forward with us and our new efficient solutions, cutting-edge innovative technologies and as always a quality service. We optimistically look towards the future and set out our plans accordingly, and are secure in their successful fulfillment. We are being entrusted by over 2 mln retail customers and 50 000 companies. We are grateful to our customers for sticking with us throughout the years, and we are always ready to suit their financial requests.

2005 We were one of the first banks to provide for communal services and mobile communication payments through ATMs and the Internet Bank.

2006 Our first Eurobonds issue.

2007 The key year for the Bank - the first privately-owned bank to perform a successful IPO

2008 Two significant projects were finished: mobile bank launch for retail customers and Internet Bank revamp for corporates.

2009 The Bank became a partner for three federal programs: SME support, maternity capital, and pensions payment.

2010 The number of retail customers exceeded 1 mln.

2011 Two significant events of the year: we moved to a new HQ in Malaya Okhta and became the first in the city to issue a card allowing for in-transport payment.

2012 Over just six months the new Internet Bank for retail customers was developed and launched — a record term in Russia for a project of such magnitude.

2013 The Bank entered top-10 mortgage banks in Russia.

2014 We launched the Internet Bank i2B for corporates, whereas retail customers enjoyed the launch of our new YARKO loyalty program.

2015 We modernized St. Petersburg Metro turnstiles with the possibility for NFC payments and purchased the best bank of Kaliningrad, making it into our Evropeisky Branch.

2016 We were one of the first banks to offer card payment via mobile: Android Pay, Samsung Pay and Apple Pay.

2017 We were one of the first banks to introduce a loan refinancing program.

2018 We launched a perfect tool for purchase of the real estate — escrow accounts.

2019 The Bank reached an agreement with the city and launched Resident ID cards.

2020 The Bank opened representative offices in Rostov-on-Don and Krasnodar.

MACROECONOMIC ENVIRONMENT

GLOBAL AND RUSSIAN ECONOMY IN 2020

Russian economy saw a positive beginning of the year, ruble exchange rate remaining stable, with high oil prices and demand for risky assets supporting the Russian market. Internal demand in the economy increased on the back of positive real salaries dynamics and active budgetary spending. However, COVID-19 spread and first countermeasures enacted starting with China, followed by the European zone, bolstered global economic slowdown sentiment — the external demand began dwindling, particularly in terms of energy carriers after a partial, and soon after complete shutdown of the air traffic in the number of countries. Moreover, the OPEC+ deal deterioration in March and increased production plans aggravated the oil market position. On that backdrop Brent oil price plummeted to USD 22.7/bbl, local sorts lost even more, Russian brand Urals repriced to USD 15.1/bbl.

Introduction of non-working days in Russia in March to slow down the virus spread had no material impact on the 1Q results. However, the prolongation of limiting countermeasures until mid-May dramatically influenced the economic growth and production activity and largely hit the services sector. The industrial production index in January–November shrank by 3% compared with the last year, after a 2.9% growth in 1Q. In the pre-pandemic environment among the developing industries were oil refining, chemical, and food industries. During the pandemic, the process manufacturing sector received a major hit under the influence of diminishing demand, while oil production was impacted by the following OPEC deal.

In the second half of the year production slowly recovered, the 4Q industrial production index was down by 2.5% y-o-y after a decrease of 6.7% in 2Q; the annual decrease in FY 2020 amounted to 2.9%. With that said, the process manufacturing sector retained moderate growth, with the chemical complex (+8.8% y-o-y) and the food industry (+3.1% y-o-y) being among the leaders in terms of growth. GDP as a whole reduced by 3.5%. With that, retail trade turnover shrank by 4.5% y-o-y, with the consumer demand recovery being held back by weak disposable income dynamics: -4.3% during 9M 2020.

Inflation in Russia continued its downward trend at the beginning of the year, reaching its local minimum of 2.3% y-o-y in February. However, rising uncertainty, weakening ruble, and growing demand for the essentials and export prices growth for certain products led to the price growth acceleration. Inflationary flashes in April and November hiked the y-o-y inflation up to 4.9%. The Central Bank of Russia (CBR) in 2020 pressed on with its monetary easing policy cycle, bringing the key rate down to 4.25%. One of the main drivers for easing is the prevalence of disinflationary pressure due to the drop in demand. Among other factors are other Central Banks' actions: e.g. the Federal Reserve System (FRS) plummeted its key rate from 1.5–1.75% to 0–0.25% in March and employed a new quantitative easing policy, and the European Central Bank (ECB) expanded its asset purchase program. The largest regulatory bodies' actions supported the financial markets throughout the year, whilst most of the Central Banks lowered their key rates. However, after the drop to 4.25% in July the CBR put everything on hold, basing off of growing uncertainty and volatility of the external markets, coupled with ruble depreciation.

Inflation continued its acceleration and short-term inflationary risks grew their influence with long-term disinflationary ones remaining intact.

Financial markets remained under pressure throughout most of the year of the corona-related news background and growing risks for the global economy. With that said, the Russian market remained relatively stable until the oil prices collapse in March. Ruble has naturally reacted with steep weakening, with the RUB/USD exchange rate reaching 80.9 in March; in June it partially restored to RUB 69. 3Q saw a moderately negative sentiment, so did the beginning of 4Q. Firstly, investors exercised caution due to uncertainty related to the outcome and aftermath of the US elections. Moreover, the sickness rate increase in the US/EU and limiting countermeasures followed strengthened negative attitude towards the long-awaited recovery of the global economy, with the USA budgetary stimulus package hitting one slump after the other. However, in the end, Joseph Biden's victory was taken positively by the markets, and epidemiological data influence was partially canceled out by the notifications about impending mass vaccination. So by the end of the year, the markets reached quite a positive outlook. On that backdrop and rising interest to the risky assets the Russian ruble recovered after its utmost weak point of RUB/USD 80.5 among other emerging markets currencies to the RUB/USD 74.4 level at the end of the year.

The Central Bank already commenced preemptive foreign currency sales in March following the budgetary rule (formally, they should have proceeded with it only in April); after Urals dropping to USD 25/bbl the CBR increased the volume of the operation with the funds received from the Ministry of Finance of the Russian Federation from Sberbank acquisition. The operations of the CBR and the Ministry of Finance helped to stabilize forex market position and continue supporting ruble exchange rate, until oil prices growth compensates for dropping federal budget Oil&Gas gains, with the budgetary rule having been corrected for not only oil prices drop compensation but also a drop in production volumes due to the OPEC deal. In 4Q 2020, the CBR completed its own forex operations, since 2021 forex sales will be only performed in accordance with the budgetary rule benefitting the Ministry of Finance. With that said, the CBR's own operation on forex sales led to a decrease in ruble liquidity in the banking system, which resulted as one of the causes of structural liquidity surplus. Liquidity was also significantly affected by increased money demand. Some time prior to the additional non-working days in March, some individuals and legal entities showed high money demand. This trend held true throughout the whole year. The third ruble liquidity-affecting factor became the operations of the Ministry of Finance on federal bonds placement ahead of budgetary spending. As a result, the structural liquidity surplus of RUB 2.6 tn turned into RUB 0.19 tn deficit by the end of the year.

MOEX index after the March drop and weak 3Q bounced back in November–December and refreshed January maximum by the end of the month, by the year-end growing by 8%. The bond market followed the key rate, however dwindling non-residential demand by the end of the monetary easing cycle in Russia held back the prices in the end of the year. Nevertheless, federal bonds yields dropped by 30–90 bp y-o-y depending on the maturity.

4.9%
inflation growth

113
RUB TN
banking sector assets

BANKING SECTOR IN 2020

Banking system assets grew by RUB 15.9 tn (+16.5% YTD) up to RUB 112.5 tn (3.7 tn due to forex revaluation). Ruble assets increased by RUB 11.3 tn (+14.5% YTD), a net increase in forex assets amounted to 4.6%. Gross loan portfolio as at January 1, 2021 amounted to RUB 77.7 tn (+14% YTD).

At the end of 1Q, the lending growth driver was a hike in demand from non-financial organizations when companies had to compensate the lack of income. This trend held up until the middle of 2Q. On the other hand, retail lending fell behind at the beginning of 2Q due to lower demand from the populace and stricter requirements set by the banks.

After that retail demand was restored on the back of lower rates, including those on mortgages, and of the federal mortgage subsidy program initiation. The stabilization of 3Q lowered the legal entities' demand for funds, corporate lending slowed down a bit. With that, the subsidy program was firstly expanded to RUB 900 bn, and to RUB 1 850 bn after that, coupled with lower first payment threshold fueled the demand for these loans, with retail lending growing on the back of unsecured lending recovery. Nevertheless, mortgages remained the main growth driver. By the end of the year lending mostly grew due to large corporate lending from the various sectors, one of which being construction projects financing — also connected with the subsidy program and lowered rates.

ECONOMY OF ST. PETERSBURG

In 2020, the St. Petersburg economy was no exception to the pressure from the lower demand and limiting measures due to the coronavirus pandemic. The industrial production index went down by 1.8%, with the construction volumes decreasing by 9.3%. With that, the process manufacturing sector (taking up 84.6% of the city's production), lost only 0.8%, supported by the chemical sector (+18% y-o-y), food (+4.6%), and paper production (8.7%).

Fossil fuels extraction lost 15.5% by the end of the year. The most affected industry in St. Petersburg (as well in other regions) became the food service industry (30.5% y-o-y turnover drop), with the retail sector contracting by 2% to 1.5. Inflation came in slightly lower than the state average at 4.7%.

1.5
RUB TN
retail sector turnover

OUR STRATEGY

At the beginning of 2018, the Bank published its Strategy for 2018–2020, followed by 2019 amendments extending the planning horizon up until 2022 and outlining new strategic priorities. However, the original strategy's period of action drew to a close, prompting the Bank to look quite ahead once again in 2020.

On December 24, 2020 the Supervisory Board of Bank Saint Petersburg approved the Bank's Strategy for 2021–2023.

The Bank has decided to adopt a new concise form for its new Strategy, namely, a one-page strategy. It allows for capturing a better focus on the essence of optimal long-term development. The Strategy 2021–2023 is available at the Bank's website.

The new Strategy provides for five key strategic priorities, outlining the rationale of their adoption as well as formulating key appropriate metrics:

- market leadership in EXIM operations;
- significant growth in SME business;
- large corporate business position strengthening;
- growth of high income-generating customer base;
- remote model of customer acquisition and service.

KEY STRATEGIC PRIORITIES

MARKET LEADERSHIP IN EXIM OPERATIONS

This priority was initially set in 2019 when the Bank stated EXIM as a strategic direction of development. The Bank boasts advanced EXIM operations infrastructure with limited impact from geopolitics on its operations due to the status of a privately-owned bank. Coupled with existing vast expertise in EXIM, as well as a significant customer base amassed in the regions of operation, the Bank sets out goals to increase the active customer base by 25%, with the volume of transactions growing by 20%. The Bank targets doubling EXIM operations revenues in three years by actively utilizing its customer base and offering the best products and services. Having said that, the quality of services provided and customer satisfaction importance is also recognized, with the fourth metric having to do with maintaining the already high level of Net Promoter Score (NPS) among EXIM customers.

SIGNIFICANT GROWTH IN SME BUSINESS

Focus on SME business is a reflection of the goals to expand in Moscow and to increase the volumes of transaction business. One of the pillars for this priority is still a "blue ocean" of the Moscow market, where taking even a percent of the market would translate into significant transaction revenues growth for the Bank as a whole. Also, the Bank has already been operating on the Moscow market for several years, and has garnered a strong reputation, building a solid name for itself. So one of the metrics used here is active SME customers fivefold growth in Moscow, driving the growth of a total SME customer base by 85% over three years.

Tripling the revenues in SME business in the Moscow segment will drive a 25% increase in total SME segment revenues. The Bank also sets a 5% annual ARPU (Average Revenue Per User) increase target.

LARGE CORPORATE BUSINESS POSITION STRENGTHENING

Large corporate business is a key BS & PL growth driver for the Bank, therefore its expansion is essential for the overall development of the Bank. During the last few years, we managed to find a golden mean between growth, moderate risk appetite, and profitability in this segment. The Bank is benefiting from strong brand recognition and a successful story of relations with large business — coupled with great Moscow market potential it allows for ambitious growth targets in Moscow. We are looking to realize Moscow potential by increasing its loan portfolio by 45%, resulting in an overall increase of 30% across the Bank, in addition to which the Bank also targets doubling its customer base in Moscow, with a 30% overall increase in the large corporates.

GROWTH OF HIGH INCOME-GENERATING CUSTOMER BASE

The Bank realizes that nowadays acquisition costs of new customers grow ever higher. Customer retention and efficient cross-sales are a much cheaper option. In these terms, the Bank has been developing AI & ML-based big data analytics systems, allowing for better churn rate management and individual offering. Lending is still the main driver for ARPU growth, while loan products' penetration potential in the existing base remains high. The Bank has adopted the following metrics: ARPU growth by 15% and increasing payroll customers loan penetration from the current 22% to 35%.

REMOTE MODEL OF CUSTOMER ACQUISITION AND SERVICE

This priority is based on the Bank's desire to create a possibility of mass customer acquisition and service exclusively in remote channels. The current combined offline-online model is effective in the regions of presence but limits the expansion. And physical expansion seems to be expensive and out-of-date. Since this approach is new and challenging for us, in 2021 we are going to define the methodology for accurate measurements of success. However, we aim to guarantee the availability of all mass services completely in online format, which will facilitate new customers' acquisition through remote channels enabling digital revenues growth.

KEY STRATEGIC ISSUES

GEOGRAPHY

We remain a bank of two capitals, while creating the basis for the use of remote channels to unlock the new regions.

OUR TARGET CUSTOMERS

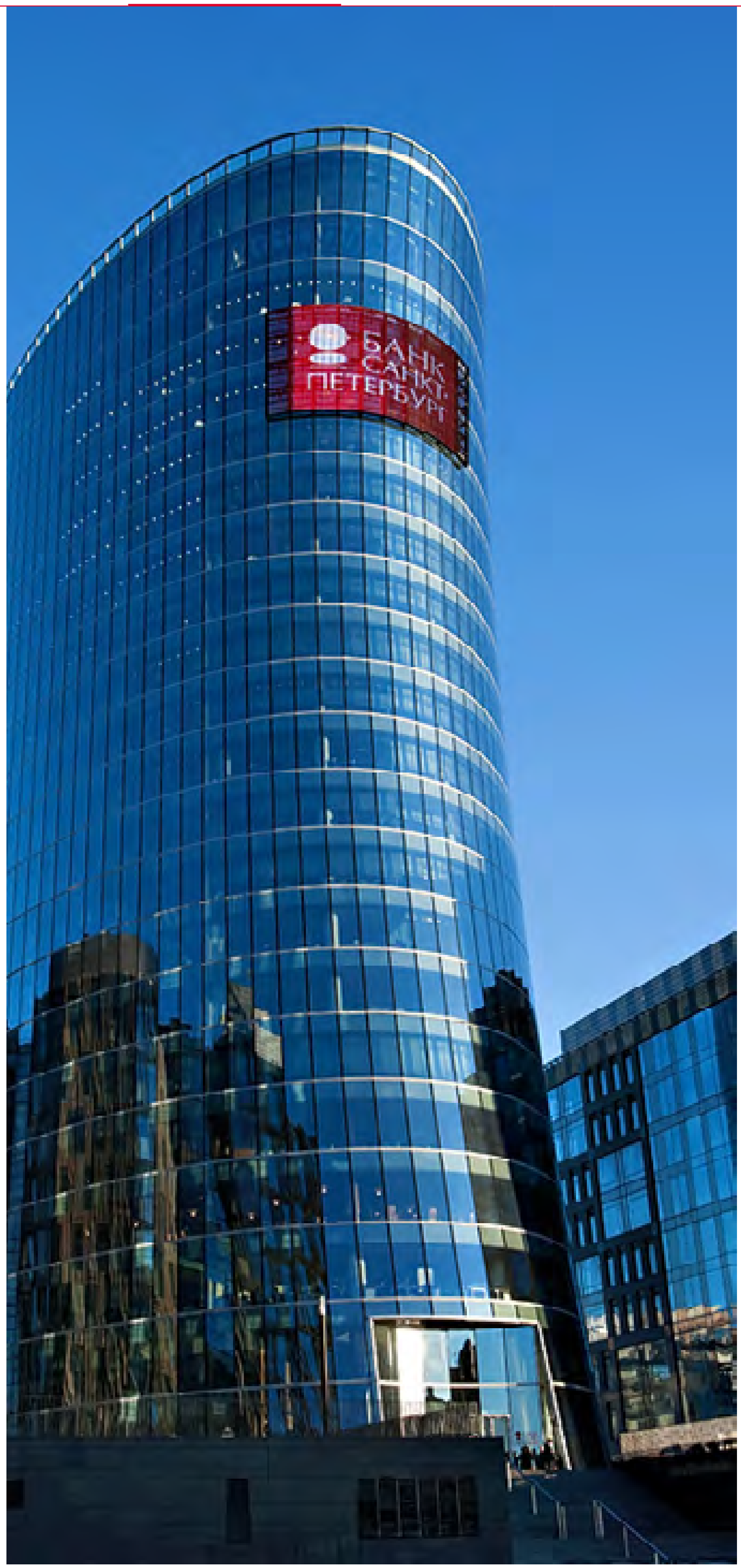
Talking about mass corporates, we aim to attract all segments of SME business, supporting our transactional model. Lending will be used as leverage for the growth of this model and is not a focus in and of itself. Payroll account customers also remain a focus for our acquisition. On the retail side, we aim for product-based acquisition primarily of middle-aged and older individuals with some substantial income. We also aim to expand our business partner collaborations (construction companies, insurance agencies, car dealerships), which would allow us another channel for new customer acquisition.

DATA-DRIVEN ORGANIZATION

Continuing from the results of digital transformation and going one step deeper, we, feeling comfortable in a transformed digital environment, have formulated our new strategic direction for digital development as a “data-driven organization”. Having acquired experience in big data analytics, we are expanding our use of machine learning and artificial intelligence-based macro and risk modeling, also allowing for customer base management, as well as smart pricing and offering, making the tailored individual offers available even to mass customers.

CREATIVE AND OPEN-MINDED TEAM

We also recognize that all of the above is not possible without having highly qualified and motivated employees engaged in collaboration on every level and efficient cross-functional teams.



KEY STRATEGIC TARGETS

1. ROE — 15%. The Bank has been gradually increasing its ROE in recent years, with a 15% level still remaining our target.

2. TSR — ABOVE THE MARKET. The Bank is striving to bring value to our shareholders. We aim to increase shareholders’ return both in share price growth and dividend payout. The benchmark is TSR (Total Shareholder Return) of MOEX index.