

2.6 Strategy

Over the past several years, the main strategic goal of MKB has been to exceed average market growth rates while sustaining sufficient profitability levels, mainly by serving first-class, low-risk, large corporate clients, as well as maintaining a high share of liquidity on the balance sheet.

MKB's key strategic objective to 2023 is to strengthen further its leading positions in the Russian banking sector by pursuing expansion at above-market growth rates, leveraging the key strength of MKB's universal banking model and exhibiting a particular focus on unique customer experience by offering a differentiated value proposition for each client segment. MKB strives to become a responsible partner, helping its clients fulfil their full potential.

The MKB's strategic focus is to become a responsible partner, helping the clients realise their potential, focus on business expansion in key market segments and improving operating efficiency.

MKB 2023 IS A RESPONSIBLE PARTNER HELPING OUR CLIENTS FULFIL THEIR POTENTIAL

Key priorities for MKB 2023

01 Unique customer experience based on better understanding of customer needs

- We strive to be the best in understanding needs of our clients to offer them tailored and comprehensive solutions
- We are continuously improving our service and product offering with focus on non-interest income
- We combine the best of digital and physical interaction with our clients

02 Combining strengths of technological bank and fintech

- Data analysis and flexible integration with partners for the best customer experience
- Leading in cost efficiency enabled by technology
- Effective and dynamic IT organization enabling a clear focus on priorities

03 Team driven by entrepreneurial spirit

- Providing freedom for self-fulfillment and realization of team potential
- Team ready for challenges of the future

04 Social and environmental responsibility

- 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 as they strive for sustainable development

Key goals of MKB's development in 2021–2023:



Unique customer experience based on better understanding of customer needs

- **4.5 (out of 5)** CSI for corporate clients
- **Top-5** in selected IB products
- **10%** market share in digital banking for entrepreneurs
- **45%** share of the mortgage portfolio in the total retail loan portfolio
- **30%** share of F&C income
- **3 mln** active retail clients
- **75%** of retail customers will be using remote channels



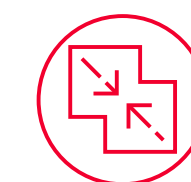
Social and environmental responsibility

- **A-rating band (RAEX Europe)** and broader coverage by international ESG rating agencies
- Introduction of **the concept of responsible product offering** in all business units
- Regular **carbon footprint assessment** with targets set to minimise the footprint
- **RUB 100 bln sustainable projects** and investments
- Implementation of **climate risks impact analysis** on MKB's activities
- Implementation of **sustainability principles** in the supply chain



Team driven by entrepreneurial spirit

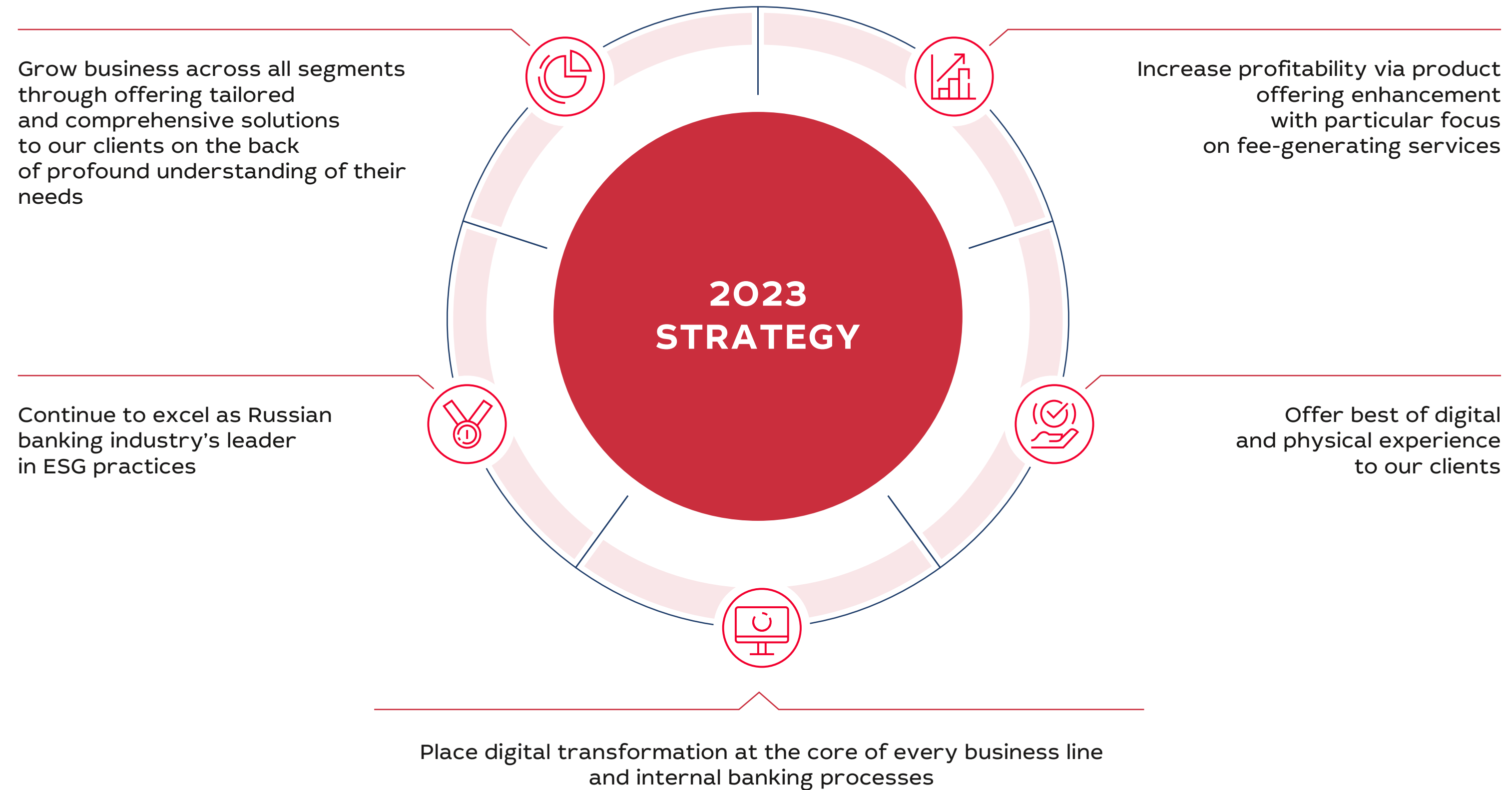
- **85%** employee engagement level
- **Top-10** employer among Russian banks
- **15%** share of IT employees
- **70%** share of IT employees working remotely
- **40%** share of **cross-functional teams** (of data scientists, data engineers and line-of-business product owners)



Combining strengths of technological bank and fintech

- **100%** transition from legacy to modern core banking systems
- **2–3 weeks** average time of frame for partner integration
- **20%** increase in development speed of IT solutions
- **3% share** of data analysts of total IT staff of MKB

A matrix consisting of five key elements of strategy implementation has been prepared to achieve the set objectives:





Grow the business across all segments by offering tailored and comprehensive solutions to our clients based on a profound understanding of their needs

MKB will reach its strategic targets through a stronger focus on customer experience, a client-centric approach and a better understanding of customer needs. We believe that unlike large state-owned banks, MKB has the ability to provide its corporate customers with tailor-made products and customised solutions, thus gradually becoming a one-stop financial institution for a number of clients and enhancing margins in corporate lending.

MKB targets large corporates from various sectors where MKB's deep understanding of client needs and flexibility in provision of comprehensive tailored solutions creates unique customer experience which is a winning approach in developing the business in the long term. Historically having strong competencies in servicing the energy sector, MKB has accumulated valuable experience which it can scale across to other sectors and products. In particular, MKB is strongly positioned and aims to develop further its business with companies from the construction industry, continue to strengthen project finance and increase its market share in SMEs.

A successful example of a comprehensive integrated corporate banking solution is the ecosystem MKB builds for the residential construction sector. Throughout the entire process from buying a land plot, obtaining the necessary permits, construction, to the sale of property and its operation and maintenance, MKB is able to provide profitable solutions to developers, contractors, buyers and any other participants in this market. MKB enters into project financing at the very initial stage – acquisition of a land plot – hence, at each subsequent stage it has a competitive advantage, including our pre-emptive right to participate in the financing of the next stage, arising from the loan agreement. We also obtain a deeper knowledge of a project than any other bank. As part of this initiative, MKB plans to develop retail digital platform in cooperation with leading Russian developers and increase significantly its mortgage loan portfolio, with its share expanding to circa 45% of its total retail loan portfolio by 2023.

In order to service various needs of SME customers including the maintenance of their business operations, MKB is developing a comprehensive digital solution on the basis of Vesta Bank's online platform. Using the mobile app, the client gains access to a variety of digital solutions, including the ability to open a current account at MKB within 15 minutes, make payments and transfers, connect accounts in other banks, receive income/spending analysis and benefit from integration with own tax and accounting procedures.

In its retail business, MKB focuses on the transformation of the customer journey across all products and strives to take an active advisory role in daily banking activities and personal finance management. Leveraging on advanced customer analytics, MKB aims to provide its customers with personalised proposition at the right moment and in the best channel, as well as optimize the price offering for both new and existing clients. MKB plans to continue expanding its product offering by complementing traditional banking services with a broad array of life-style services (i.e. travel and booking services, car purchase and maintenance, insurance, bonus programs, etc.) as well as evolving the capabilities of MKB Investments, its new digital investment platform.



Increase profitability via product offering enhancement with particular focus on fee-generating services

MKB places the focus on transactional banking and high added-value solutions at the forefront of its strategic initiatives to 2023. These should allow a material increase in the share of net fee and commission income to 30% of overall net fee and commission and net interest income, and maintain a NII/RWA ratio at a level of approximately 4% to increase the overall profitability of MKB's operations.

Corporate banking is a main source for the targeted increase of profitability. Main growth drivers include the development of the project finance business through broader sector expertise, and expansion of the range of solutions for export & import finance and business with international borrowers (China, SEA, CIS, Africa, Middle East, Turkey). MKB plans to maximise the potential effect from synergies between the bank's corporate and investment divisions by offering a broad range of commission-based products (such as DCM, ECM, M&A advisory, FX and derivatives) to its core clients. Another initiative in this area involves developing the Private Equity Special Situations business up to the level of leading Russian and foreign banks, using MKB's IB brand and expertise of a new team.

In the retail segment, MKB prioritises converting its large depositor base into transactional daily banking customers with special focus on LTV⁴ metrics. Key initiatives in this area include developing a product catalogue with high client value, improving card and transactional solutions, implementing customised solutions for underserved customer segments (e.g., young, affluent, pre-affluent, self-employed) and effective integration with partner channels for attracting customers with the highest potential. By 2023, MKB plans to expand its active retail base to 3 million customers, with expected average customer lifetime exceeding 4 years and the average number of products per customer growing to at least 2.5.

Note: ⁴ Customer Lifetime Value.



Offer the best digital and physical experience to our clients

MKB closely monitors major trends in digitisation of products, services and interaction channels across all banking segments. To keep up with the rapidly evolving digital landscape of the banking industry, the bank will continue digitising its products and services, and we expect that by 2023, 75% our clients will be using remote channels. Our efforts are aimed at reaching 100% mobile banking penetration for SMEs, 75% penetration for retail clients and we expect 68% of our corporate clients to become active online banking users.

By 2023, MKB aims to onboard c.110,000 SME and 40,000 self-employed clients, which should secure a Top-5 ranking among Russian banks by number of SME clients.

MKB will develop a new-generation branch network with a focus on client communication and discussing their needs, while all manual processes will be automated, materially improving operational efficiency and enhancing customer experience.

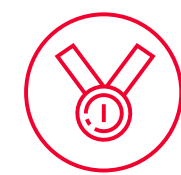


Place digital transformation at the core of every business line and internal banking process

Aiming to combine the strength of a technology-focused bank and the flexibility of an innovative fintech service provider, MKB will prioritise the following development streams: data analysis and flexible integration with partners for the best customer experience, leadership in cost efficiency enabled by technology and building an effective and dynamic IT organisation.

MKB aims to employ advanced customer analytics across all business processes and product development for better customer understanding and mass personalisation. This involves collecting customer events data from internal and external sources, hypotheses generation and testing on collected customer data, development of models for a better understanding of customer needs, optimisation of business processes and fast and efficient decision making. Advanced data-based analysis of customer needs will enable effective identification of priority areas to improve customer experience and improve MKB's product offering, and will be applied to customer monitoring, risk assessment and decision-making.

The main focus is further digitisation of internal processes with greater robotisation of back-office operations, digitisation of end-to-end processes, developing efficient remote work opportunities and digital workplaces. Digitisation of operational processes will reduce operational costs by 25%. Technological development targets to 2023 include 100% transition from legacy to modern core banking systems, a 20% increase in the development speed of IT solution, an increase in the share of front-end developers to 65%, a data analysts' share of 3% of total IT staff, and a reduction in the average partner integration time frame to 2–3 weeks.



Continue to excel as the Russian banking industry's leader in ESG practices

MKB is recognised as the Russian banking sector leader in commitment to ESG principles and integration thereof into the bank's business model (as per RAEX Europe ESG ranking, February 2021) for compliance with best international ESG standards (EBRD and IFC), availability of Environmental and Social Risk

Management Policy, its focus on developing sustainable client projects and minimising its own negative footprint, and the furthering of its own ESG strategy. MKB sees its mission in exemplifying sustainable development for its customers and partners, guided by social and environmental responsibility principles, and based on best national and international corporate governance practices. MKB further aims to apply best international practices in its operations and retain leading positions in the Russian banking sector.

MKB takes responsibility for its impact on the community and the environment. In managing impact on the society and the environment, MKB supports all 17 Sustainable Development Goals (SDGs) included in the UN global strategic program, while focusing on 6 of them: good health and well-being, quality education, decent work and economic growth, industry, innovation and infrastructure, responsible consumption and production and partnerships for sustainable development goals

Taking care of employees is among the priorities of MKB's HR strategy, as the employees are without doubt MKB's most valuable asset. MKB targets excellent working conditions for the employees with the opportunity for further job education and skills development, taking solid measures to ensure employees health and well-being and building an internal culture with a focus on diversity.

In order to make ESG efforts transparent, the bank has highlighted the following key goals to be achieved by 2023:

Commitment to the community and environment

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

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

Goals by 2023:

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 mln

Sustainable⁽⁵⁾ projects and investments facilitated by MKB by 2023



Implementation of sustainability principles in the supply chain

Employees

85%

Employee engagement level⁽⁶⁾

Top-10

Employer among Russian banks⁽⁷⁾

Source: Company data, Notes: ⁵ 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. ⁶ According to Happy job survey; ⁷ According to hh.ru employers ranking.

Strategy 2023 assumes the following key financial and business guidelines:

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 ⁽⁸⁾	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, Notes: ⁸ Net commission income / (net commission income + net interest income).