

STRATEGY

VTB Group operates in accordance with its Development Strategy for 2017–2019.

The Strategy based on three key priorities:

- **Increased profitability** – exponential growth in net profit to more than RUB 200 billion by 2019 and a return on equity of around 14%;
- **Integration of the banking business** – the creation of a single universal bank;
- **Modernisation** – a breakthrough in the development of a modernised, customer-oriented bank through large-scale technological transformation.

The Development Strategy envisages significant structural changes in the Group's business model with the aim of improving the quality of customer service, strengthening market positions and significantly improving financial results. To achieve these goals, six strategic initiatives were developed and are being implemented:

1. improvement of the funding structure and reduction of the funding costs;
2. integration of VTB and VTB24 banks and reaching a new level of cooperation between business lines;
3. digital transformation of the Group's business and processes;
4. attainment of the target level of profitability in Corporate-Investment Banking while maintaining market leadership;
5. development of a new model for Medium and Small Banking focused on exponential growth in terms of the number of clients and income diversification;
6. new scale in Retail business.

2018 results of VTB Group's Development Strategy for 2017–2019

In 2018, VTB Group fulfilled its strategic goals in terms of net profit and return on equity. Net income reached a record high of RUB 178.8 billion, exceeding the target by 19%. At the same time, return on equity reached 12.3%, outstripping the target of 10%. Strong positions in the markets for corporate and individual clients' lending, significant growth in retail deposits and the replacement of more expensive sources of funding as well as effective cost management had a positive impact on the Bank's ability to fulfil these goals.

Improvement of the funding structure and reduction of funding costs

Fulfilling this goal by 2019 assumes an increase in the share of customer deposits among the Group's total borrowings to 81%. Retail deposits and accounts should be the key source of this growth. Their share of the Group's interest-bearing liabilities should increase to 36% by 2019.

By the end of 2018, VTB Group had fulfilled its established goals for attracting customer deposits, which accounted for 82% of interest-bearing liabilities as of the end of the year.

The most important factor behind this growth was more than 28% increase in individual account balances. As a result, the share of retail deposits and accounts among the Group's interest-bearing liabilities increased to 36%.

At the same time, the average cost of VTB's interest-bearing liabilities in 2018 decreased from 5.7% to 4.9%.

Integration of VTB and VTB24 banks and reaching a new level of cooperation between business lines

As a result of the merger of VTB and VTB24, the Group must switch to the model of a single universal bank in Russia and take the interaction of its global business lines to a fundamentally different level.

The merger of VTB Bank and VTB24 took place on 1 January 2018. All divisions of the parent organisation, as well as branches and subsidiaries that previously operated as part of VTB24 successfully began operating as part of the merged bank. All of the Bank's customers now have access to a unified product line, as well as all of the Bank's systems and processes, including remote banking for corporate customers, online and mobile banking for retail customers, processing, self-service devices and brokerage services, which are fully functioning without crashes.

In 2018, the Bank reached its first targets from the implementation of synergies within the merged bank: savings on operating expenses amounted to RUB 8.3 billion, growth in retail brokerage investments nearly doubled, and there was further growth in payroll projects. As part of the integration, measures for rebranding all points of sale and ATMs were successfully carried out; unified end-to-end work models were built within the merged bank, including support and control areas; key decisions were made on the transition to a unified branch network model.

Digital transformation of the Group's business and processes

The implementation of a large-scale digital transformation programme includes improving the quality and effectiveness of the implementation of strategic initiatives undertaken in global business lines and functional units, ensuring the reliability and adaptability of the IT platform, as well as creating competitive advantages through the introduction of innovative technologies.

To ensure large-scale transformations, all IT processes were reviewed in 2018, the quality of IT change management and the IT project portfolio were improved, and agile development methods were introduced to reduce products' time to market.

Thanks to the introduction of advanced management approaches in accordance with plans, key digital transformation projects are being implemented, the IT landscape is being harmonised, IT systems are becoming more reliable, and new digital services are being introduced for retail and corporate customers using agile development techniques.

To ensure a high degree of information security, measures were taken to create a closed perimeter around critical banking systems, to introduce a system that protects against phishing emails, to create a project support service and to integrate information protection tools at the product design stage. As a result, the Group reached the maximum level of compliance with information security standards and was able to ensure zero downtime for critical systems as a result of cyberattacks and zero losses for the Bank because of cyberattacks.

Attainment of the target level of profitability in Corporate-Investment Banking while maintaining market leadership

The implementation of the Group's Development Strategy in Corporate-Investment Banking involves addressing the following challenges simultaneously: profit growth, maintaining leading positions in the corporate lending market, developing innovative products and upgrading the technology platform in the transaction business, improving the efficiency of cross-selling and profitability per client.

In 2018, the Group's Corporate-Investment Banking business increased its net profit by 34% to RUB 102.3 billion. At the same time, its loan portfolio increased 17%, which was significantly higher than the growth rate in Russia's corporate lending market.

VTB Group strengthened its position as a leading expert in the trade finance market and was recognised as the best trade finance bank in Eastern Europe (*Global Trade Review*) and the best trade finance bank in Russia (*Global Finance*).

In the investment business, leading positions were maintained in advising on M&A transactions and in arranging placements in public debt and equity markets. *Global Finance* named VTB Group the best investment bank in emerging markets, while *Finance Monthly* named it the best consultant among investment banks in Russia in 2018.

In 2018, VTB Group continued to develop customised and innovative client solutions. As a result, projects were implemented to enable payments and to accept contactless cards in the Moscow Metro and on Mosgortrans routes; support was provided for Moscow Parking digital services and for the Moscow Metro and Mosgortrans applications; the first release of the My Smart City application for residents of Moscow was developed.

Created in 2018, the VTB My Investments mobile application was recognised as the best in the market according to the Russian Association of Electronic Communications (RAEC).

Development of a new model for Medium and Small Banking focused on exponential growth in terms of the number of clients and income diversification

VTB Group's current development priority in Medium and Small Banking is the creation of a unique value proposition and the necessary business infrastructure to ensure exponential growth in terms of the number of clients and diversification of the Group's revenues.

As of the end of 2018, the volume of the Medium and Small Banking global business line loan portfolio had increased to RUB 1.1 trillion, while customer funding grew to RUB 1.4 trillion.

In 2018, VTB Group introduced a new model for segmentation and customer service. To increase the number of customers, a system of remote sales channels was launched, including a partner channel, online marketing and a call centre. To develop the value proposition, work continued on the implementation of projects to improve transactional products, introduce package offers, develop a remote banking system and optimise the processes of opening and maintaining accounts, including reserving accounts online. The Group also achieved significant results in automating the credit process for SME clients.

New scale in Retail business

The main objectives of VTB Group's Retail Business strategy are to increase the number of active customers, increase market share in lending and deposits, provide financing for the Group's goals and develop state-of-the-art technological solutions for customers.

As of the end of 2018, the total number of active customers in the Retail Business in Russia had increased to 12.3 million, including 6.5 million payroll customers. The Retail loan portfolio amounted to RUB 3.0 trillion as of the end of the year, which enabled VTB Group to achieve a 17.8% market share in retail lending. VTB's share of the market in retail customer funding increased to 14%, while its volume of retail customer funding surpassed RUB 4.4 trillion.

In 2018, VTB Group developed a new process for managing the life cycle of its payroll clients, improved the effectiveness of regional client teams in attracting such clients and significantly improved individual payroll offers for Bank clients. To increase balances in the accounts of retail customers, a new model for online sales of liability products was introduced, special incentive programmes were launched, loyalty programmes were developed, and steps were taken to increase customers' transactional activity. By restarting the Privilege operating model, the quality of service for premium customers was significantly improved.

Long-Term Development Programme

Based on the Development Strategy for 2014–2016, the Development Strategy for 2017–2019 and in accordance with the requirements for companies outlined in the special list published by the Government of the Russian Federation (Decree No. 91-r of 23 January 2003), the Bank developed and approved an updated Long-Term Development Programme for 2014–2019 (Minutes No. 4 of the Supervisory Council of 9 April 2018; hereinafter the "Programme").

The Programme contains a detailed list of measures to ensure that the Bank achieves the development goals specified by the Strategy (a more detailed description of the implementation of individual measures in 2018 is presented in the relevant sections of this Report).

The need to update the Programme in 2018 was due to:

- changes in the macroeconomic conditions related to the forecast used for development of the Programme;
- approval of the Bank's Development Strategy for 2017–2019 and, as a result, the need to reflect in the Programme VTB's current strategic initiatives and plans for their implementation for 2017–2019, as well as the need to synchronise the timing of the Programme with VTB Group's strategic cycle;
- the requirements of the directives of the Government of the Russian Federation regarding changes to the Programme (in terms of increasing labour productivity; the need for human resources, including in engineering and technical specialisations; replacing foreign-made products with products of Russian origin; reducing operating expenses (costs); improving corporate governance; the inclusion of a key performance indicator based on dynamics in SME lending).