

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).

In accordance with the instructions of the Government of the Russian Federation (Directive No. 4955p-P13 of 17 July 2014), the Programme's implementation is subject to an annual audit.

The audit of the Programme's implementation is governed by the Bank-approved Standards for Conducting an Audit of the Implementation of the Long-Term Development Programme, which contains information about the procedures of the planned audit, the procedures for the tender to select an auditor, conducting the audit, the time frame for completing audit-related work and on decision-making based on the results of the audit, as well as on the corresponding Terms of Reference for conducting the audit.

The audit of the implementation of the Programme for 2018 was carried out by Ernst & Young LLC, and an audit report was prepared based on the audit results. The Supervisory Council reviewed the report on the fulfilment of the Programme for 2018 and the results of the audit. On the basis of these procedures, the auditor concluded that the information in the report fairly represents:

- the actual values of the Bank's performance indicators specified by the Programme for the year ending on 31 December 2018, and the extent of the attainment of the target values;
- information about the reasons for failing to implement measures included in the Programme, and deviations in the actual values of the Bank's performance indicators against those envisaged in the Programme for the year ending on 31 December 2018.

Key Performance Indicators (KPIs)

An important element in monitoring the attainment of the objectives of the Strategy and the Programme is the inclusion of key performance indicators (KPIs) in the system of incentives for responsible persons, guaranteeing employees a uniform course of action for the attainment of strategic goals.

In order to provide the basis for further development of the KPI system, the following documents were approved by the Bank:

- A list of key performance indicators to measure the performance of members of VTB Bank's Management Board (Minutes No. 18 of the Bank's Supervisory Council of 1 December 2017);

- The Method for Calculating and Evaluating the KPI "Return on Shareholder Investment" (Minutes No. 26 of the Bank's Supervisory Council of 30 December 2014);
- The Procedure for Determining the Expected Amount of Remuneration for the Members of the Bank's Management Board Depending on the Degree of Fulfilment of the KPIs (Minutes No. 26 of the Bank's Supervisory Council of 30 December 2014);
- Regulation on Remuneration of the Bank's Executive Bodies and the Key Performance Indicators for Their Activities (Minutes No. 2 of the Bank's Supervisory Council of 26 February 2018).

The current version of the Regulation on KPIs also contains the following information:

- appropriate remuneration for the tasks performed, the results of activities and the level of risks taken;
- correlation between the remuneration of the Bank's executive bodies and the achievement of the objectives and tasks specified in the Programme;
- correlation between the chief executive officer's KPIs and the achievement of performance targets of VTB Group, calculated on the basis of the IFRS consolidated financial statements of VTB Bank and its subsidiaries, as determined in the Programme.

Information on the link between the expected amount of the variable part of remuneration for VTB Bank's Management Board and the execution of the established KPIs can be found in the Procedure for Determining the Variable Amount of Remuneration for the Members of the Management Board of the Bank, as well as in the employment contracts of the Bank's senior management.

The key performance indicators are developed to assess the activities of the Bank's executive bodies, taking into account the areas of activity of the Bank's respective managers. It is also possible to use individual indicators for each respective manager to determine how successfully various projects/tasks/programmes have been implemented.

The list of KPIs and their weight in accordance with the Bank's governing documents are determined for the reporting period by a decision of the Supervisory Council on an individual basis for each member of the Management Board.