

## Medium and Small Business

The Medium and Small Business (MSB) global business line specialises in serving small and medium-sized corporate clients.

### Segment overview

Client base in Russia and abroad

**659.5 thousand**

acting clients in the MSB segment (not including clients of Vozrozhdenie Bank)

VTB Bank clients in Russia

**577 thousand**

acting clients in the MSB segment

MSB loan portfolio

**RUB 1.3 trillion**

(before provisions for credit losses, not including Vozrozhdenie Bank)

MSB customer deposits

**RUB 1.4 trillion**

(not including Vozrozhdenie Bank)

MSB global business line: Russia, Kazakhstan, Belarus, Armenia, Georgia, Azerbaijan

Share of VTB Group total, %	
Assets	8
Customer loans and advances (net)	11
Customer deposits and accounts	14
Net interest income	14
Net fee and commission income	30
Provision charge <sup>1</sup>	13
Net operating income	16
Staff costs and administrative expenses	12

The Medium and Small Business (MSB) segment is one of the most competitive sectors in the banking market. Most of Russia's largest banks have announced that MSB is a priority segment for development, with so-called digital banks very active in attracting customers. The small-business market is characterised by high volatility: with a relatively steady number of customers, there are new companies in the market every year, and a significant portion of customers change banks, which further intensifies competition.

Source: VTB Group's IFRS consolidated financial statements for 2018.

1. This includes expenses for provisions for credit losses on debt financial assets and for provisions for credit losses on credit obligations and other financial assets.

Very few digital banks have a foothold in the medium-sized-business segment, but there are strong local players in some regions that have an advantage due to their local presence. As a rule, medium-sized-business customers work with two or three banks, which is what determines the specifics of competition: in this segment, the quality of personal customer relations, the price-related and non-price-related transaction terms and the overall quality of service and technology are determining competitive advantages.

Taking into account market trends and customer needs, VTB Group merged its medium-sized- and small-business segments into a single Medium and Small Banking global business line in 2018. As part of this process, extensive changes to the process of servicing small-business clients were worked out and partially implemented. The Bank developed a new sales and service model that takes into account the needs of the three main subsegments in this market. In addition to changing the sales model in its regional network, the Bank began developing sales through remote channels.

In 2018, a single product factory for small and medium-sized businesses was launched that combined the dynamic development of the entire line of transactional and credit products for the SME segment.

In addition, to make the Bank a more attractive option to potential customers and to establish convenient mobile service conditions for customers, a corporate digital factory was created in the reporting period that made it possible not only to apply digital banks' successful approach to attracting customers but also to build a full-fledged digital habitat (or ecosystem) for customers: active remote banking channels and services were developed that allow customers to save a significant amount of time, while helping them manage their business effectively.

## Lending and documentary business

Lending to SME clients largely depends on general trends in the economy: in challenging economic conditions, companies reduce their borrowing, while they use credit products more actively during periods of economic growth. At the same time, VTB Bank aims to constantly improve the lending process for SME customers, which ultimately leads to a larger market volume and growth in sales of loan products.

According to the Expert RA rating agency, VTB's share of the lending market for SMEs was 21% in 2018. In addition, the Bank became one of the three market leaders in terms of loans to SMEs issued in 2018, while the Bank's lending to SMEs increased at a rate of 22.8% in 2018.

VTB offers preferential financing terms through state programmes that support business.

As of the end of 2018, VTB had 1,756 existing loan agreements for state support programmes worth a total of RUB 211 billion.

As of 1 January 2019, the largest number of loan agreements were part of the preferential programme run by the Russian Agriculture Ministry. Loans are provided to agribusiness companies at an annual rate of not more than 5%.

The second-largest number of loans were provided through programmes for concessional financing through the Russian Ministry of Economic Development (transactions through Programme 674 were concluded in 2017, while those through Programme 1706 were concluded in 2018).

In 2018, a great deal of attention continued to be paid to supporting small and medium-sized enterprises (SMEs). Cooperation with the SME Corporation continued in terms of working with existing and potential SME customers. In its work to support SME customers, VTB offers a lending programme with favourable terms against guarantees from the SME Corporation. Using the SME Corporation's tools for SMEs, it is now much easier for the real sector of the economy to access financing for business development, including regional production. Projects were financed in a wide range of industries, such as the cultivation of crops, the food industry (flour and gingerbread production), manufacturing industries (furniture, textiles, glass products), sports activities and others.

Together with the Industrial Development Fund, VTB finances projects aimed at developing new high-tech products, technical re-equipment and the creation of competitive production operations.

VTB Bank is also actively involved in a state programme approved by the Russian Government to support investment projects in Russia based on project financing and a programme run by the Russian Ministry of Industry and Trade that provides concessionary financing for the purchase of agricultural, road construction and municipal equipment (Programme 163).

In order to increase its lending volume, the Bank implemented a number of pilot projects and programmes in 2018 that enabled it to offer small-business customers loans on favourable terms, including various loyalty programmes for reliable borrowers, pre-approved loans and other targeted offers for customers that take into account the specifics of their business.

For the MSB documentary business, 2018 was marked by a number of achievements, including both the completion of specific transactions and the overall growth of the Bank's documentary portfolio, as well as the development of the product line and services for customers.

By the end of 2018, there was increased demand for documentary business products on the part of MCB clients: the portfolio of documentary transactions with such clients grew by almost 35% in 2018. In addition to the growing customer demand for bank guarantees among residents of the Russian Federation, a positive trend in the credit business was observed in 2018. The product solutions offered by the Bank for arranging client financing through the use of letters of credit led to an increase in the portfolio of letters of credit by 34%, with the number of transactions increasing by nearly 50%.

A number of projects were implemented in 2018 as part of the development of services for Bank customers. One promising area for the Bank's documentary business for MSB clients is the development of remote electronic channels for issuing bank guarantees, including in respect of small-business solutions (express guarantees).

## MSB transactional business and the development of non-banking services

As part of VTB Group's development strategy, work continued on the implementation of large-scale strategic projects involving the creation of new products and services, as well as the development of existing VTB transaction services. The key tasks involved projects to unify the processes and services provided on various technological platforms in connection with the merger of VTB Bank and VTB24.

The MSB global business line managed to achieve record results in terms of the opening of current accounts by introducing a basic line of packages throughout the network, as well as through a number of marketing campaigns aimed at attracting customers.

In addition, a number of projects were carried out in 2018 that were aimed at increasing customer loyalty and expanding the product range, in particular:

- a project to open and connect special procurement accounts to the remote banking system (according to Federal Laws #44-FZ/223-FZ);

- the working day for processing intrabank payments was increased to 23 hours;
- a universal corporate card was introduced that combines cash withdrawal and deposit options.

VTB confirmed and strengthened its position as a key financial partner of the City of Moscow with regard to the most important issues related to the capital's functioning. The Bank ensures best practices in organising the reception and routing of payments received for housing and utilities from residents of Moscow, and the list of partner companies and available services has been expanded. Interaction with government structures and agent banks involved in the project has been maintained at the same high level.

The Bank expanded its cooperation with the Capital Repair Fund of the City of Moscow in 2018 by launching a project on banking support for the settlement of contracts concluded between the Capital Repair Fund and contractors. The successful project was able to attract a significant number of new customers with a total contract volume of about RUB 15 billion.

The Bank plays an active role in the development of a system for the repair of the common property of apartment buildings, maintaining its key position in terms of servicing regional operators in its regional network.

In addition to offering MSB clients its traditional banking products and services, a number of state-of-the-art non-financial services were offered in 2018:

1. The Closer to Business portal is a free information and educational resource that publishes topical articles on business issues, provides expert advice on how to create and develop a business, and offers Bank clients an opportunity to receive training and receive a certificate. In addition, the portal now offers a free online consultation services concerning any business issue that may arise.
2. The VTB Business Connect platform, which enables access to the largest international marketplaces through a single-window system, offers a range of services from cloud accounting to legal assistance and counterparty verification.
3. Online business registration, training and discounts from VTB partners available online. A virtual branch enables customers to interact with the Bank's contact centre using chat and collaboration tools through a web interface.

## Small and medium-sized business outside the Russian Federation

Outside Russia, the Group has been working with MSB clients in the CIS and Georgia.

For several years already, VTB Kazakhstan has been taking part in the Business Road Map 2020, a programme approved by the Government of the Republic of Kazakhstan and aimed at the development of regional private entrepreneurship.

The Bank finances projects in priority sectors of the country's economy and with subsequent state subsidisation of the lending rate (in the amount from 30% to 50% of the Bank's actual loan rate).

In 2018, the Bank signed an agreement with the KazakhExport state corporation that made it possible to expand the range of financial instruments available for export-oriented Kazakh enterprises: pre-export financing and non-payment risk insurance from the importer.

In Azerbaijan, a subsidiary bank signed a memorandum of cooperation with the Azexport.az portal, which opens up new opportunities for export financing. In accordance with the memorandum, VTB Azerbaijan gained access to a database of about 1,000 exporters.

VTB Georgia maintained its reputation as an active player in the Unified Agro-project state programme to support agribusiness, as well as the Make It in Georgia and Produce It in Georgia state programmes to support local production and tourism. Through these programmes, the government subsidises the Bank's annual interest rate of up to 10% (the borrower pays the Bank no more than 3% annual interest) and provides guarantees in the amount of 50% of the loan amount.

As part of efforts to improve the quality of the Group's loan portfolio and to monitor non-core assets, subsidiary banks worked to standardise their approaches to recovering troubled debts based on best practices within the Group. In addition, unified programmes were approved for the divestment of non-core assets.