

Retail Business

The Retail Business (RB) global business line specialises in banking services for individuals and also includes a line of pension products.

Segment overview

VTB Bank client base in Russia

12.3 million

Number of retail branches of VTB Bank in Russia

1,596

Client base in Russia and abroad

15.3 million

including customers of VTB Group's banking and other non-bank financial business

Number of regions and locations where the Bank operates in Russia

77 federal subjects

and

415 population centres

Number of VTB Bank ATMs in Russia

15,529

Number of cards issued by VTB Bank

14 million

Number of payroll clients

6.5 million

Share of VTB Group total, %

Assets	22
Customer loans and advances (net)	25
Customer deposits and accounts	40
Net interest income	47
Net fee and commission income	43
Provision charge ¹	31
Net operating income	56
Staff costs and administrative expenses	48

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.

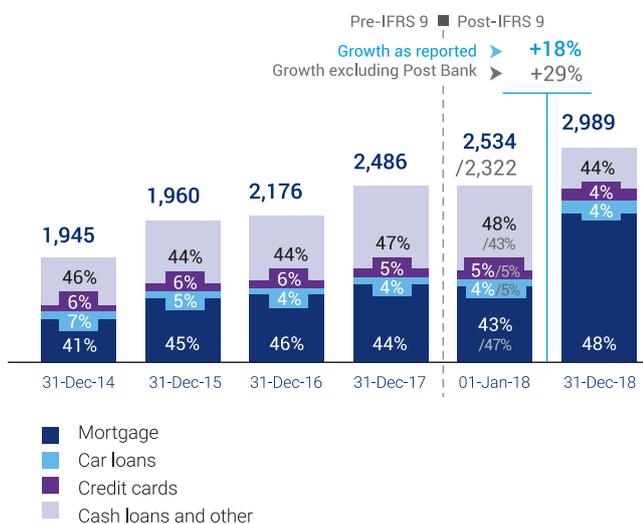
Retail lending

The growth of VTB Group's retail lending continued to accelerate during the reporting period. A favourable situation developed amid stabilisation of the macroeconomic situation in Russia's retail market. Credit rates reached a historic low in several market segments, as the public began acting on pent-up demand. In this context, VTB Group expanded its retail business throughout the entire reporting period.

The Group continued to improve the conditions for retail lending, promoted new products and took part in state-run anti-crisis programmes to support retail lending, reacting carefully to changes in conditions in the credit environment and continuing to attract a strategic segment of customers.

Loans to individuals (excluding Post Bank as of 1 January 2018 and 31 December 2018)¹ increased by 29% to RUB 3.0 trillion. The Group increased its market share by 70 bp to 17.8% (up from 17.1% as of 31 December 2017).

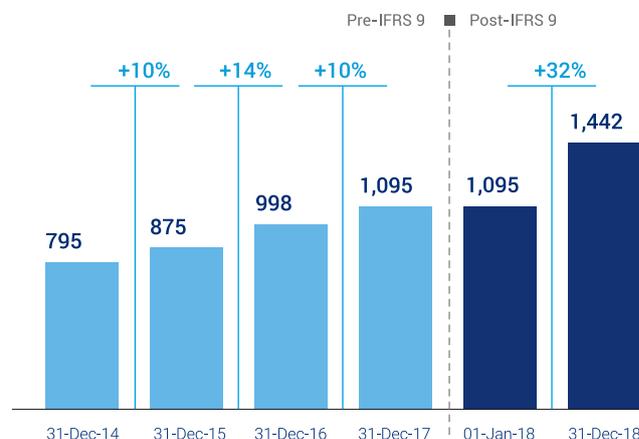
Retail loan portfolio, RUB billion



The key drivers of growth in the Group's retail loan portfolio were mortgage lending (up 32% year-on-year), consumer lending (excluding Post Bank as of 1 January 2018 and 31 December 2018: up 28% year-on-year) and car loans (up 18% year-on-year).

Mortgage lending

Mortgage loans, RUB billion



VTB is one of the leaders in Russia's mortgage market. As of 31 December 2018, VTB Group's mortgage loan portfolio amounted to RUB 1.4 trillion. During the reporting period, VTB Group's mortgage loan portfolio grew at a rate of 32%, outpacing average growth in the market. As of the end of 2018, the Group had increased its share of the mortgage market in Russia by 1.3 pp to 22.7%. In addition, VTB completed a transaction in 2018 to sell mortgage loans to DOM.RF with the subsequent issue of mortgage securities valued at RUB 150 billion. Not including this sale, the Group's mortgage portfolio would have grown by 45%.

In 2018, the Bank issued 290 thousand mortgage loans. At the end of the year, the Bank's mortgage portfolio included about 891 thousand active mortgages.

The total volume of mortgage loans issued amounted to RUB 673 billion, the highest ever in VTB Group's history. In 2018, one out of every five mortgage loans in the Russian Federation was issued by VTB; about 1.4 million families purchased housing with the help of VTB Group.

VTB's active presence in the sector of mortgage lending for housing under construction and its cooperation with the country's largest construction companies enabled customers to purchase new housing compliant with current quality requirements under the most favourable terms, including a reduced interest rate for mortgages, and the option of purchasing housing at an earlier stage of construction.

1. To calculate the change in the loan portfolio in terms of accounting for the assets of Post Bank, the single-line consolidation method is used as of 31 December 2018 (corresponding to the consolidated financial statements of the VTB Group under IFRS for the year ended 31 December 2018) and as of 1 January 2018 (management reporting data is used). For more information, see the section "VTB Group today / VTB Group in the Financial Services Market / Key Changes in the Structure of VTB Group".

VTB's stable partnerships with leaders in the secondary mortgage market enable our clients to select their desired property as conveniently and as quickly as possible, while also minimising transaction risks.

In 2018, the average mortgage issued by VTB Bank in Moscow and the Moscow region was valued at RUB 4.3 million, while it was RUB 1.9 million in other regions. Borrowers can get a mortgage through VTB with a down payment beginning at 10%, while the average down payment on mortgage loans is 30% of the cost of the housing being purchased, and the maximum loan amount is RUB 30 million.

A mortgage can be issued for a period of up to 30 years, while the average mortgage contractual term is about 17 years, and the actual period of repayment of mortgage loans is about seven years.

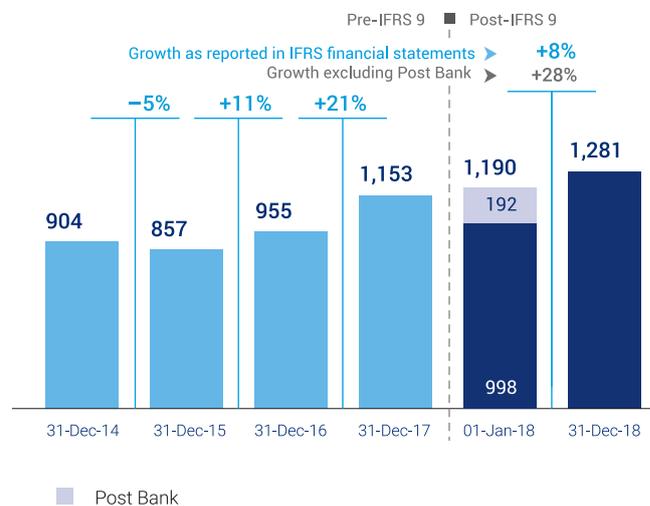
In 2018, a state support programme was launched that enables families with children to get a mortgage loan at an annual interest rate of 6%. In 2018, 985 loans worth RUB 2.5 billion were issued through the programme.

In 2018, VTB maintained its position as a market leader in lending to military personnel participating in the accumulative mortgage system, with a market share of about 20%. Mortgage loans worth around RUB 10 billion were issued through this programme.

In 2018, VTB became the absolute market leader in terms of the refinancing of mortgage loans from third-party banks. Through the programme, customers were issued more than 43 thousand loans worth RUB 83.6 billion during the reporting period. The volume of loans issued through the refinancing programme doubled compared to 2017. In December 2018 alone, this service was used by about 5.5 thousand mortgage holders, who obtained loans in excess of RUB 10 billion. For all of 2018, the refinancing of housing loans from other banks accounted for 12.4% of the total volume of VTB's mortgage sales.

Consumer loans

Consumer and other loans, RUB billion



VTB Consumer loans demonstrated strong growth during the reporting period. As of 31 December 2018, VTB Group's portfolio of consumer and other loans amounted to RUB 1.3 trillion, having increased by 28% during the reporting period (excluding Post Bank as of 1 January 2018 and 31 December 2018).

More than 500 thousand people transferred their loans to VTB as part of a programme for cash refinancing of loans from third-party banks.

VTB Group's retail business continued to improve its line of consumer credit products. The Group is continuously improving its pricing system to ensure optimal results for this business line.

During the reporting period, the Bank significantly simplified its procedures for processing consumer loans and improved their terms of service. At the beginning of 2018, a new technology for processing credit products was introduced in Bank offices: clients can apply for several products through a single loan application: cash loans and refinancing plus a credit card. All clients need to obtain an online loan solution is a passport.

VTB Bank reduced the interest rate on cash loans three times during the reporting period. As a result, the nominal rate for this product decreased by an average of 5 pp.

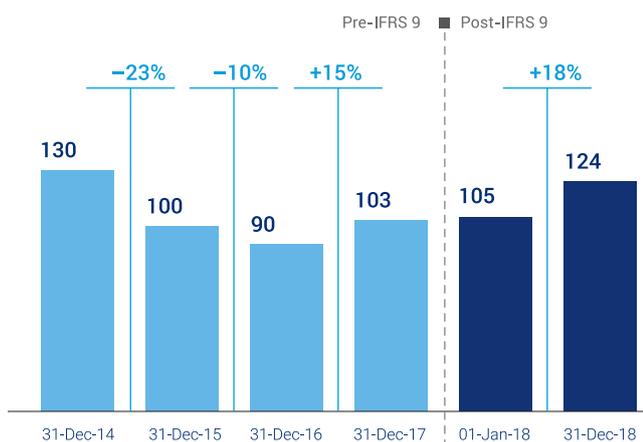
In September 2018, a new pricing concept was introduced for cash/refinancing loans, whereby the interest rate depends on whether the loan is insured—borrowers receive a discount on loans when concluding an insurance contract. As a result of the change in the pricing concept, VTB Group increased its share in the cash loan market by 90 bp during the reporting period from 17.7% at the end of 2017 to 18.6% at the end of 2018. In addition, VTB's market share in cash loan sales reached its highest level ever at 27% during the reporting period.

The Bank simplified access to loans for low-income borrowers, made it possible to apply for refinancing loans without additional references from third-party banks and increased the loan period to seven years.

Throughout 2018, remote lending to Bank customers was further developed, new programmes and products were made available for processing through VTB online that make it is possible to get a loan without visiting a Bank office (such as a cash loan or top-up—internal refinancing with the possibility of issuing additional funds).

Car loans

Car loans, RUB billion



VTB Group is a leader in the automobile loan market. VTB Group car loan portfolio reached RUB 124 billion as of 31 December 2018, an increase of 18% compared with 2017. As of the end of the year, VTB Group had a 14.6% share of the automobile loan market.

During the reporting period, the issuance of car loans increased by 18% compared with 2017 to RUB 84.5 billion. VTB was the market leader in terms of the number of car loans issued in 2018, at 123.5 thousand. Sales performance was supported by an increase in VTB Group's market share in terms of new automobile loans from 12.6% in January to 17.8% in December.

The market for new-car sales grew by 13% during the reporting period, and VTB's sales in the new-automobile segment increased by 10%. There was significant development in the area of lending for used cars. In this segment, VTB's sales increased by 70%, while the share of the used-car segment reached 19%. VTB was the market leader in the used-car loans segment, issuing 30.3 thousand loans worth RUB 16.3 billion.

There was noticeable growth in a programme that finances the purchase and sale of used cars between individuals: 4.2 times more loans were issued compared to 2017, and the share of this segment reached 1.6%. Transactions for this product are carried out in a single visit to the Bank's car loan centre. As part of the implementation of this programme in 2018, the Bank worked with a number of websites that specialise in car sales: auto.ru, avito.ru, drom.ru.

To mark its 1 millionth car loan in February 2018, VTB launched a special marketing campaign that was carried out online and also through email and text messages, and at ATMs. The millionth client was awarded a Smart car, and 20 policies of additional voluntary insurance (making it possible to set the insurance amount for the period of the insurance policy) were also given away. A special lending programme called AutoJubilee was launched for the low-risk customer segment offering a lower interest rate for the purchase of new cars: the client is offered various discounts depending on the services provided. This campaign was popular among customers throughout Russia, accounting for about 13% of sales, while the volume of automobile loans issued through the programme was RUB 8.0 billion.

In 2018, VTB successfully implemented two programmes offering government subsidies for automobile loans: the First Car and Family Car programmes, through which borrowers received a 10% discount off the car's sticker price (25% for the Far Eastern Federal District). Some 17.8 thousand loans worth about RUB 8 billion were issued through these programmes.

As of the end of the year, the share of state-supported programmes amounted to more than 14% of all VTB automobile loans (in terms of the number of loans issued).

The transformation of VTB's product line continued in order to improve the personalisation of offers for each individual client: discounts were introduced on lending rates for the purchase of insurance and services offered by VTB specifically for customers with automobile loans, and individual offers were made to customers in the premium segment, employees of the Bank's corporate clients and VTB Bank shareholders. Thus, customers were able to independently design a personal loan offer based on their personal needs.

There was another special programme that was launched in September 2018. The terms of the Super 5 programme allow borrowers to minimise their loan payments during the first six months thanks to a record low annual interest rate of 5%. The programme was in high demand among customers: the volume of loans issued amounted to RUB 1.7 billion, and the programme saw a 5% increase in sales from September to December.

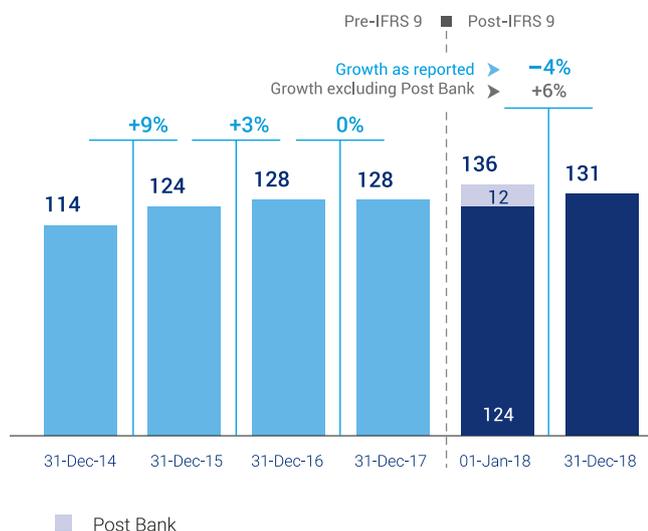
The largest number of vehicles financed by VTB in 2018 were sold in Moscow (19%), St. Petersburg (8%), Kazan (6%), Chelyabinsk (4%) and Krasnodar (4%).

In addition to developing its automobile loans programmes, VTB also expanded its network by 68 sales points during the year, bringing the total to 741. In 2018, new modules for automobile loans were launched in Salekhard and Yakutsk.

VTB also continued its transition to a new front-end solution in 2018 through which 17.2% of all auto loans were issued in the fourth quarter of the year.

Bank cards and acquiring

Bank card portfolio, RUB billion



As of 31 December 2018, VTB's bank card portfolio amounted to RUB 131 billion, having increased by 6% during the reporting period (excluding Post Bank as of 1 January 2018 and 31 December 2018).

The Bank issued 16.4 million cards in 2018. The majority of cards issued (9.0 million) were Multicards, the flagship product that VTB Bank launched in mid-2017. Multicard is a unique product in the Russian market that can handle all of a client's daily transactions: card payments, savings, payments and transfers, obtaining credit card loans – clients can apply for a credit card at the same time as they apply for a Multicard.

The Multicard has received well-deserved recognition from the professional community and Bank customers: after being named the "Best Card Product" at the end of 2017, the Multicard won the Frank RG Banking Reward Award 2018 in the "Frank RG Reward Star Top-Class Programme" in 2018.

The Bank continued to improve its product line during the reporting period: a new product called Privilege Multicard was launched for privilege customers. The new Privilege package of services includes all the benefits of the Multicard and also offers additional services for high-net-worth clients: a Priority Pass card for business lounges, international travel insurance, a concierge service and roadside assistance. Some 123.3 thousand cards with the updated package were sold in 2018.

In 2018, a number of special offers and solutions were added to the Multicard:

- Global simplification of the Multicard product through the liberalisation of the criteria for its free-of-charge offers, P2P transfers and withdrawals from ATMs of third-party banks.

- A unique Multicard offer of a Visa card with a travel option (+1% of rewards for operations carried out through the Pay service).

Through instant-issue technology, clients now have to make only one visit to a Bank branch in order to arrange a Multicard.

The Troika transport application for Multicard enables passengers to use their bank card to ride the metro or other forms of public transport.

The Campus Card enables cardholders to use their Multicard not only to pay for purchases and receive their salary but also as a key that can access various types of automated information and other university and school systems (ID card, library card, electronic academic record, etc.). As of the end of 2018, the Campus Card had been launched at nine educational institutions.

Special Multicard conditions for military pensioners were launched: a card with all its privileges is provided free of charge to individuals who present a military pensioner certificate.

A significant number of operations and services were completely transferred to digital channels: now, tracking a card's production status, changing loyalty options, connecting to the Pay service and receiving a PIN code are all possible on a smartphone through the Bank's mobile application.

In September 2018, VTB launched the new Multicard 101 credit card with new parameters:

- Increased grace period of 101 days;
- The ability to withdraw cash with no fees in the first seven days;
- A new "Borrower" bonus option that allows cardholders to reduce the interest rate by 3 pp on cash loans and by 0.6 pp on mortgages;
- Only a passport is required for processing, without proof of income.

The launch of the new Multicard 101 significantly increased sales, with 70% more cards issued compared to the same period in 2017.

There were 3.7 million valid credit cards in circulation at the end of 2018.

Mir card. In October 2018, the Bank began issuing contactless Mir cards (more than 340 thousand cards were issued in 4Q 2018). In 2018, VTB completely transferred all recipients of budget funds to the Mir card national payment system. By 1 July 2018, more than 2 million separate accounts had been opened for which Mir cards were issued or reassigned.

Payroll projects. For payroll projects since July 2018, VTB launched an updated B2B programme, simplified the criteria and offered free payroll services for the vast segment of companies (legal entities with salaries starting at RUB 10 thousand), cancelled cash withdrawal fees at all ATMs for all payroll cardholders and enabled free transfers to accounts at other banks.

The payroll card portfolio increased by 502 thousand during the reporting period to more than 6.5 million cards. More than 2.5 million payroll cards were sold.

Successful acquiring projects

For the first time anywhere in the world, card-to-card transfers were enabled and carried out using Samsung Pay's tokenisation technology. When making a money transfer using tokenisation technology, a digital identifier, i.e., a token, is used instead of the sender's bank card data. This reduces the risk that payment details will be compromised. Every token is unique because it is generated for a specific device and cannot be used separately, which makes it useless for hackers to intercept such data and thus increases the security of the payment service.

Russia's largest seller of electronics and home appliances, M.Video/Eldorado (all stores and the website), became a client of VTB's acquiring service.

The State Academic Bolshoi Theatre of Russia (ticket office and online shop) also became a client of VTB's acquiring service.

New online payment technologies through Google Pay and Samsung Pay were implemented.

In addition to the terminals at Moscow Metro cash desks and the readers in ticket printing machines, two turnstiles were introduced in each station vestibule that are equipped to enable payment for transport by bank card.

VTB's card-to-card international transfers technology (perevodworld.vtb.ru), enabling transfers to cards of foreign banks.

Changes were made to make it more convenient for tourists from South-east Asia to pay for goods and services in Russia: a network of terminals (27,000 devices) was established for payment through AliPay.

The volume of account-to-card, card-to-account and card-to-card transfers increased several-fold.

Cash2Card technology was implemented, which makes it possible to credit a card with an amount deposited in cash through an ATM or at an agent's cash desk.

VTB Bank acquiring, RUB billion



Working with bad debts

In 2018, the Bank confirmed its leading position in the market for the recovery of bad debts. According to a study conducted by PricewaterhouseCoopers at the end of 2018, the Bank's recovery process is the most cost-efficient in the market.

In 2018, the Bank was the first to begin the widespread use of notary writs, which can significantly reduce the time needed to receive implementation documents.

The collection function continues to develop from a technological point of view. In 2018, an Intelligent Robot Collector was tested to automatically call customers with overdue debts. An intelligent system capable of free speech recognition and synthesis was used to inform clients about the occurrence of overdue debts and to reach an agreement on debt repayment.

The technology makes it possible to significantly reduce (by 7 times) the Bank's expenses (as compared to the work of an operator) and to improve service quality. It was decided to replicate the technology.

Retail deposits and accounts

As part of VTB Group's development strategy 2017–2019, one of the Group's main objectives is to improve its funding structure by increasing its share of customer funding, primarily from individuals.

In 2018, the Bank introduced several promotional offers for deposits and savings accounts:

- The premium promotion in online channels from 24 January to 3 September 2018;
- "Maximal" deposit from 5 July to 3 September 2018;

- "Maximum" deposit from 3 September 2018 to 31 January 2019;
- "Loyal" deposit from 23 November to 31 January 2019;
- Savings account promotion offering a higher rate in the first month from 2 July 2018 to 31 January 2019.

The Bank won four tenders for the payout of insured deposits to customers of problem banks (with a total payout of RUB 37 billion). In addition, a pilot for escrow accounts was launched in conjunction with the CIB and MSB global business lines.

VTB Online remote banking service

In 2018, the number of active VTB Online customers increased by 56% to 6.3 million people, including an 81% increase among users who access the system through mobile devices. For the first time in the Bank's history, the share of online users exceeded 50% of the total number of active banking clients.

Throughout 2018, the Bank introduced new features and implemented new services in VTB Online, such as:

- Use of a short code to log in and confirm operations through the mobile banking system;
- Push notifications to a smartphone about card transactions and operations carried out through VTB Online;
- Tracking a card's order status and getting a pin code online;
- Transfers by phone number to another bank within the framework of Visa and MasterCard services;
- Payment of invoices by QR code;
- Ordering bank documents by email without visiting a branch office;
- Installing and changing Multicard bonus options, calculating bonus points and viewing bonus account statements;
- Connecting a card to Apple Pay in two clicks;
- Setting savings goals through mobile banking;
- Zero-visit cash loans with the ability to refinance an existing loan.

This development contributed to an increase in the average number of operations per quarter per user from 10.6 to 12.8, while the rating of the VTB Online mobile application increased from 4.0 to 4.8 in the AppStore and from 3.4 to 4.4 on Google Play.

Sales of deposits, not including VIP clients, increased by 186%, doubling the portfolio of online deposits. The share of online deposits in the total retail portfolio increased from 26% to 44%. Due to the introduction of zero-visit cash loans in 2018, total loan sales through VTB Online increased 5.5 times.

Payments and transfers

The number of payments and transfers made by VTB customers in 2018 doubled to 201 million operations. This increase was facilitated by the continued development of payment services. Throughout 2018, the Bank's remote banking channels added more than 1.6 thousand new service providers (utilities, education, telecoms, etc.). Key projects in 2018 included:

- The launch of instant transfers by phone number to another bank via the Visa Alias Directory and MasterCard Transfers Hub services;
- The Bank's participation in the development of the Bank of Russia's Fast Payment System (FPS) and taking measures to prepare for the launch of the FPS in March 2019 as part of a consortium of 12 banks.
- The introduction of payments by QR code;
- The possibility of transferring change from payments to service providers when paying in cash at an ATM.

As of the end of 2018, the fastest-growing services were: adding funds from cards of another bank (the volume of operations increased 10.9 times to RUB 85.9 billion) and intrabank transfers by phone number (increased 3.4 times to RUB 84.5 billion).

Services for high-net-worth customers

In 2018, VTB continued taking steps to attract customers to the Bank's premium service model. During the reporting period, emphasis was placed on a qualitative change in the structure of the client base.

Privilege package

As of the end of 2018, the Privilege package showed the following results:

- customer base: 478 thousand people;
- liabilities: RUB 1.3 trillion (30% of retail deposits by VTB Group customers);
- investment products: RUB 198 billion (26% from retail investment products purchased by VTB Bank customers);
- the average account balance among high-net-worth clients increased from RUB 2.6 million in 1Q 2018 to RUB 3.0 million in 4Q 2018.

Privilege holders can be served at 531 VTB offices in 203 cities, including 47 dedicated offices for high-net-worth clients.

Private Banking

VTB Private Banking continued to strengthen its leadership in the private banking market in Russia. As of the end of 2018, the VTB Private Banking network consisted of 30 offices.

In 2018, two new VIP offices were opened in Moscow: Lermontovsky and Okhotny Ryad-Prime.

During the year, VTB saw a 30% increase in Private Banking clients to more than 18 thousand customers. VTB Private Banking's assets under management grew by RUB 502 billion to RUB 1.8 trillion. The average balance per customer at the end of 2018 was RUB 100 million.

By the end of the reporting period, the Bank had observed changes in customer preferences in terms of the structure of liabilities. New funds are being directed towards increasingly popular investment products. As of the end of 2018, investment products accounted for 40% of new assets under management. Due to these and other changes, the portfolio of investment products managed by VTB Private Banking increased by 1.9 times in 2018 to RUB 437 billion. In particular, high-net-worth clients purchased VTB bonds, which are a good alternative to deposits, with higher yields. In 2018, VTB Bank issued bonds on 11 occasions, worth a total of more than RUB 35 billion. Private Banking accounted for more than 70% of the total.

During the reporting period, integration processes were successfully completed in terms of transferring VIP customer service to target systems. All customer accounts are available in the mobile application and serviced through the Bank's unified software. VTB Private Banking is in constant contact with its customers, having conducted more than 50 customer events and various forums in 2018, which made it possible to promptly respond to all customer inquiries.

Investment services for retail customers

As of the end of 2018, VTB Group had become one of the three leading market operators among investment companies and banks that provide brokerage services to private clients in terms of the number of registered customers.

2018 showed the best result in the last 10 years for VTB in terms of the increase in the number of its retail customers using brokerage services. The portfolio of registered clients increased by 46 thousand, reaching 319 thousand. Thus, inflow of new customers increased by 70% compared to the previous year. About 20% of the total number of new brokerage accounts were opened through digital channels due to the launch in October 2018 of a service that enables clients to open accounts remotely, which made the process much simpler for customers. VTB Bank became the first bank to enable clients to register and open Moscow Exchange accounts online. As a result, in December 2018, the Bank added 10.5 thousand new customers (according to the Moscow Exchange), the highest figure for any month in the past 10 years (for the sake of comparison, the Bank added 1.8 thousand new customers in January 2018). Compared to 2017, the number of new brokerage accounts offering a tax benefit (Individual Investment Accounts) increased by 130%.

The total client portfolio increased by 74% compared with 2017, reaching a record RUB 476 billion. The portfolios of the Structural Notes and Personal Broker products almost doubled in the reporting period.

In 2018, VTB Capital Investment Management enjoyed broad sales of its mutual investment funds, as a result of which mutual fund sales in the Bank's agent network increased 20 times compared to 2017, which made VTB Capital Investment Management the market leader in Russia in 2018 in terms of new investments in mutual funds. VTB Capital Investment Management's mutual fund portfolio grew by more than RUB 30 billion, accounting for 32% of the total growth in the Russian mutual fund market in 2018, having increased by eight times compared with 2017. About 90% of mutual fund sales in 2018 involved high-net-worth clients.

VTB Bank launched its VTB My Investments application in 2018. Now customers can open a brokerage account in just three minutes and start carrying out operations in the securities market. The VTB My Investments application is updated on a regular basis, and new services are added every 2-4 weeks.

VTB My Investments: 2018 results

In 2018 VTB launched a mobile app for beginning investors



Best investment app according to the Russian Association for Electronic Communications (RAEC)

- > 32 thousand customers
- > RUB 420 billion in turnover
- > 570 thousand transactions

June 2018	July 2018	September 2018	September 2018	December 2018	December 2018
Basic functionality for selling and buying securities. Investment ideas from VTB Capital	Investment profile and investment user	Over-the-counter applications and extended investor kit	Demo / Study mode	Signing of registers and assignments	Participating in initial bond placement

Special offers for VTB Bank Shareholders

In 2017, VTB Bank developed a special programme for Bank shareholders that includes a comprehensive offer of financial services on preferential terms. The go-ahead for the shareholder benefit programme was given at VTB Bank's Annual General Meeting of Shareholders on 26 April 2017. On that same day, special service conditions were made available at VTB's retail branches. The first contribution was processed on the day the launch of the programme was announced. Prior to the establishment of the merged Bank, not all shareholders could take advantage of special offers, since there were no retail offices of VTB Bank in some regions. The merger of the regional network of the two banks enabled access to the programme for shareholders living in more than 40 regions where the programme was previously unavailable.

In March 2018, VTB expanded its list of financial products and services that are subject to special conditions for Bank shareholders. An updated product line has been launched throughout VTB's retail network.

Preferential terms and conditions for VTB shareholders apply to the Multicard, Privilege and Prime service packages, custody services and insurance. Shareholders also have access to reduced rates on cash loans and when refinancing existing loans from other banks.

The possibility of accessing special conditions for certain products depends on the size of the individual shareholder's stake in VTB Bank. At the same time, shareholders are not required to provide documents confirming their ownership of shares. The shareholders' register is checked automatically as of its last closing date whenever any branch in VTB's retail network is contacted.

As of 31 January 2019

VTB Bank's portfolio of shareholder loans amounted to

RUB 11.4 billion,

having increased by

56%

over the preceding 12 months

deposits and accounts from individual VTB Bank shareholders exceeded

RUB 130 billion,

having increased by

8%

over the preceding 12 months

Branch network and ATMs

In 2018, large-scale work was carried out to build a target architecture for the regional network that would be the same in every region where the Bank operates, and VTB Bank's retail and corporate regional networks were merged on 1 January 2019.

A single business leader was assigned to each region who is responsible for the development of business in that region, thus centralising the management functions of the three business lines in the regions where the Bank operates.

Regional operational offices now report directly to the central office and have broad authority to make business decisions at the regional level. At the same time, all the network, legal, accounting and administrative support functions for the regional network were transferred to base branches, which are located in urban centres in Russian federal districts and in other major cities where the Bank operates.

Despite these large-scale changes, customer service was provided as usual.

As of the end of 2018, VTB's unified regional network comprised 1,596 sales offices in 77 regions and 414 cities in Russia.

During the year, 24 new offices were opened, and 22 projects were carried out to optimise the existing network. In the course of 2018, 29 inefficient offices were closed.

As part of the merger, work will continue on the development of the Bank's regional network, including by opening new branches, as well as reducing costs and improving the efficiency of regional divisions.

VTB's network of self-service devices increased to 15,529 units in 2018 thanks to the development of a self-service network with a recycling function. During the year, the number of self-service devices with this function increased by 52% from 1,863 to 2,837 devices installed throughout Russia (906 devices in Moscow and the Moscow region and 1,931 devices in regional branches).

Transaction turnover in VTB's network of self-service devices in 2018 increased by RUB 279 billion (up 7%) compared with 2017, while turnover in cash deposits made through the network of self-service devices increased by RUB 197 billion (up 17%).

The functional differences between the self-service devices of the former VTB24 and VTB Bank's retail business have been eliminated. The following are now available in self-service devices running special-purpose software:

- adding cash to a Troika card's electronic wallet and making a record of the transaction;
- searching for and paying traffic fines, taxes and debts owed to the Federal Bailiff Service;

- searching the Unified Information and Payment Centre for payments made for housing and utility services in Moscow for the preceding 12 months, with the possibility of manually entering the amount and the period;
- more than 7,000 payments to the Municipal Services Office of the City of Moscow;
- making cash payments, with the possibility of transferring change to one's own phone number, or making payments to an Internet provider or a charitable foundation;
- making payments using a QR code.

In addition, the interface design was updated on self-service devices equipped with touchscreens, and the colour scheme used in other remote banking channels was applied.

The number of VTB's active banking customers in Russia increased by 7% in 2018 to 12.3 million people. VTB Group had 15.3 million active retail customers, including those of banking and other non-banking financial businesses in Russia and abroad.

Other non-banking financial business

VTB's non-state pension fund

VTB's non-state pension fund (hereinafter, "the Fund"), a fast-growing non-state pension fund in Russia and one of the leading players in the Russian market, provides a full range of services for compulsory pension insurance and non-state retirement benefits, including corporate pension programmes.

The Fund is a member of the National Association of Non-state Funds (NSF) and a member of the NSF Board. The Fund played an active role in the development of the legislative framework for pension reform in Russia, and representatives of the Fund are part of the Committee for Standards on the Activities of Non-state Pension Funds under the Bank of Russia, the Working Group on Legislative Support for the Development of the Pension System and Investing in Pension Savings under the State Duma Committee on the Financial Market, and the Interdepartmental Working

Group on the Improvement of the Legislation of the Russian Federation in Regulating the Activities of Non-state Pension Funds under the Ministry of Finance of the Russian Federation.

As of the end of 2018, the Fund was managing RUB 197 billion, up 32% compared to 2017. The amount of pension savings (compulsory pension insurance) totalled RUB 193 billion (32% growth), while the amount of pension reserves under non-state coverage totalled RUB 4.3 billion (30% growth).

The Fund pursues an investment policy that combines high profitability and maximum investment security, ensuring the preservation and accrual of customer funds. In 2018, the yield on pension savings allocated to the Fund's customer accounts reached 5.38%. The yield on pension reserves as part of the programme for non-state provision of pensions amounted to:

- 5.00% through a balanced investment portfolio;
- 5.36% through a conservative investment portfolio.

As of the end of the reporting period, the Fund was serving more than 2.2 million customers. In the first nine months of 2018, the Fund was Russia's fifth-largest by pension assets under management.

In March 2018, the Expert RA ratings agency awarded the Fund a rating of ruAAA (the highest level of creditworthiness/financial reliability/financial stability). Its outlook is stable.

The Fund is working on the introduction of digital technologies. A service for concluding contracts and receiving contributions online for the provision of non-governmental pensions was developed and launched; the Personal Account service was upgraded; a service that allows non-governmental pension provision to receive bonus points as contributions through the VTB Collection programme (a format unique to Russia) went online.

Post Bank joint venture

In September 2018, VTB Group and Russian Post signed additions to the shareholder agreement regarding Post Bank, which resulted in Post Bank becoming a joint venture for the Group. VTB Group treats its investment in Post Bank as an investment in a joint venture that is accounted for using the equity method.

VTB Group maintains close cooperation with Post Bank. As a shareholder, VTB Bank will receive profit insofar as Post Bank continues its successful growth. Moreover, since, at this stage of its development, Post Bank is rapidly expanding its sales network and customer base, a change in the principle of consolidation will have a positive effect on its results and improve the operational performance of VTB Group.

As of the end of 2018, Post Bank's gross loan portfolio increased by 44% to RUB 305 billion. Post Bank's cash loan portfolio increased by 45% to RUB 254 billion, its POS loan portfolio increased by 40% to RUB 37 billion, and its credit card portfolio increased by 35% to RUB 15 billion.

Post Bank's customer deposits and accounts increased by 85% to RUB 315 billion, while its volume of term deposits increased by 71% to RUB 226 billion. Customer funds in savings and current accounts increased by 2.3 times to RUB 89 billion.

In 2018, Post Bank's client base grew to 10 million customers (an increase of 3.6 million). The number of pensioners receiving a pension through Post Bank increased at an even faster rate of 2.4 times. As of 31 December 2018, the Bank was providing pension services to a total of 869 thousand pensioners (up from 358 thousand as of the beginning of 2018).

During the reporting period, Post Bank's regional network expanded by 55% from the beginning of the year to 19 thousand points in 6,075 communities.

Its ATM network grew by 17% to 4,805 devices by 31 December 2018. As part of the development of Russian Post's acquiring project, Post Bank installed 50 thousand payment terminals at Russian Post offices that make it possible to pay for postal services, as well as withdraw and deposit funds onto Post Bank cards at post office cash counters.

Rapid growth in remote banking channels was observed during the reporting period. The number of active users of remote banking services increased by 110% to 3.8 million people.

In December 2018, Post Bank launched a pilot project for the sale of VTB Bank mortgage loans. The partnership is effective in terms of attracting customers and selling banking products.