Financial Review

Results in brief

2018

PROFITABILITY FURTHER ENHANCED EXCEEDING STRATEGIC TARGETS	Net profit **178.8 RUB bn** (+49% YoY) ROE **12.3%** (+4.0 ppt YoY)
ROBUST BUSINESS EXPANSION SUPPORTED MARKET SHARE GROWTH IN KEY SEGMENTS Excluding Post Bank as of 01.01.2018 and 31.12.2018	Corporate loans **8,439 RUB bn** (+15.5% YoY) Retail loans **2,989 RUB bn** (+28.7% YoY) Corporate deposits **5,996 RUB bn** (+8.6% YoY) Retail deposits **4,408 RUB bn** (+27.7% YoY)
NIM RESILIENT DESPITE MARKET HEADWINDS	NIM **3.9%** (-20 bp YoY)
COMBINATION OF COST CONTROL AND REALISED SYNERGIES IMPROVED EFFICIENCY METRICS	Cost / Income ratio **40.5%** (-3.5 ppt YoY) Costs growth (-0.4% YoY)
STRONG BALANCE SHEET BUILDING THE FOUNDATION TO NEW GROWTH OPPORTUNITIES	NPL coverage ratio **112%** (+2.7 ppt YoY) LDR **103%** (+3.3 ppt YoY) Tier I CAR **12.0%** (- 50 bp YoY) Total CAR **13.5%** (-80 bp YoY)

Analysis of VTB Group's profit and loss statement in accordance with IFRS

Key profit and loss indicators

RUB billion	2018	2017	Change, %
Net interest income	468.6	460.2	1.8
Net fee and commission income	90.0	95.3	(5.6)
Net other income	82.7	37.1	123.5
Operating income before provisions	**641.3**	**592.6**	**8.2**
Provision charge	(167.1)	(171.9)	(2.8)
Staff costs and administrative expenses	(259.8)	(260.9)	(0.4%)
Profit before tax	**214.4**	**159.8**	**34.3**
Income tax expense	(35.6)	(39.7)	(10.3)
Net profit	**178.8**	**120.1**	**48.9**

Net interest income and net interest margin

Interest income on loans and advances to customers, amounts due from other banks and financial assets represent one of the main sources of the Group's operating income. In 2018, gross interest income amounted to RUB 1,034.0 billion, a decrease of 2.1% from 2017.

Interest expense (including payments to the deposit insurance system) decreased by 5.1% to RUB 565.4 billion. The average return on interest-bearing assets decreased by 80 bp to 8.6% as of the end of the year. The average cost of interest-bearing liabilities also decreased by 80 bp to 4.9%. Since cost of interest-bearing liabilities decreased at the same rate with the yield on interest-bearing assets, there was little change in net interest income.

Net interest income in 2018 increased by 1.8% year-on-year to RUB 468.6 billion due to an outstripping reduction in interest expenses.

The net interest margin for the year decreased by 20 bp to 3.9%. The Group recorded a decrease in net interest margin starting from Q3 2018 that accelerated in Q4 2018. The decrease in the net interest margin in 4Q 2018 was the result of a change (from line to line consolidation to the single-line consolidation principle) in how VTB Group consolidates Post Bank, whose business model implies a high level of risk and high margins. In addition, the decrease in the net interest margin in 2H 2018 was the result of changes in market rates, as well as the the different speed between the revaluation of assets and liabilities cost, and the borrowing of a significant amount of more expensive funds from the Bank of Russia in 3Q 2018 (3% of the Group's cumulative liabilities as of 30 September 2018). These funds were replaced by customer deposits in 4Q 2018, after which the volume of borrowings from the Bank of Russia returned to normal, amounting to 0.4% of the Group's total liabilities as of the end of the reporting period.

Interest income

RUB billion	2018	2017	Change, %
Interest income calculated using the effective interest rate method			
Financial assets measured at amortised cost			
Loans and advances to customers	902.7	949.4	-4.9
Due from other banks	38.3	45.8	-16.4
Investment financial assets	1.9	-	-
Other financial assets, including securities	-	21.4	-
Debt financial assets at fair value through other comprehensive income	24.7	-	-
Total interest income calculated using the effective interest rate method	**967.6**	**1,016.6**	**-4.8**
Other interest income			
Financial assets at fair value through profit or loss	42.1	15.6	169.9
Net investment in finance lease	24.3	24.0	1.3
Total other interest income	**66.4**	**39.6**	**67.7**
Total interest income	**1,034.0**	**1,056.2**	**-2.1**

Interest expense

RUB billion	2018	2017	Change, %
Customer deposits	(424.2)	(433.9)	-2.2
Due to other banks and other borrowed funds	(87.0)	(107.5)	-19.1
Debt securities issued	(17.6)	(24.9)	-29.3
Subordinated debt	(11.9)	(15.0)	-20.7
Total interest expense calculated using the effective interest rate method	**(540.7)**	**(581.3)**	**-7.0**
Advances received under construction contracts	(1.9)	-	-
Total interest expense	**(542.6)**	**(581.3)**	**-6.7**
Payments to the deposit insurance system	(22.8)	(14.7)	55.1
Net interest income	**468.6**	**460.2**	**1.8%**

Net fee and commission income

Total fee and commission income in 2018 increased by 2.9%, amounting to RUB 133.4 billion. The bulk of fee and commission income came from settlement transactions and trade finance, accounting for 55.9% of the total, down from 58.4% in 2017. Total fee and commission expense increased by 26.5% in 2018, mainly due to an increase in fees and commissions on settlement transactions and trade finance.

Net fee and commission income for 2018 decreased by 5.6% year-on-year to RUB 90.0 billion.

The decrease in net fee and commission income was due to the high base effect (net fee and commission income increased by 17% in 2017). Additionaly, the net fee and commission income was negatively impacted by change of accounting of the customer loyalty programmes expenses, which were deducted from the gross fee and commission income. The transfer of the portion of expenses from customer loyalty programmes (RUB 9.3 billion) incurred during the reporting period was reflected in the Group's consolidated financial statements as of 31 December 2018. Prior to the change in accounting policy, all expenses related to loyalty programmes were considered part of other operating expenses. Taking into account the adjustment in the method of accounting for expenses related to the loyalty programmes, the increase in net fee and commission income amounted to 4.2% for 2018.

Net fee and commission income

RUB billion	2018	2017	Change, %
Commission on settlement transactions and trade finance	74.6	75.7	-1.5
Fee received for insurance products distribution and agents' services	20.9	18.2	14.8
Commission on guarantees and other credit-related commitments issued	11.7	13.2	-11.4
Commission on cash transactions	10.8	6.7	61.2
Commission on operations with securities and capital markets	9.3	10.7	-13.1
Other	6.1	5.1	19.6
Total fee and commission income	**133.4**	**129.6**	**2.9**
Commission on settlement transactions and trade finance	(34.6)	(25.5)	35.7
Commission on cash transactions	(2.7)	(2.7)	0.0
Commission on operations with securities and capital markets	(1.6)	(2.8)	-42.9
Commission on guarantees and other credit related facilities received	(1.3)	(0.5)	1.6
Other	(3.2)	(2.8)	14.3
Total fee and commission expense	**(43.4)**	**(34.3)**	**26.5**
Net fee and commission income	**90.0**	**95.3**	**-5.6**

Net other operating income

Net other income increased by 123.5% and amounted to RUB 82.7 billion. The key drivers behind this increase in other income were an increase in income from the disposal of subsidiaries and associated companies and joint ventures, an increase in income from operations involving foreign currency and precious metals, an increase in income from operations with other financial instruments revalued at fair value through profit or loss, as well as a reduction in expenses from other non-banking activities.

The total financial result from the disposal of VTB Insurance, which is reflected in net other income, amounted to RUB 54 billion. In addition, net other income was negatively impacted during the reporting period by irregular expenses from the revaluation of investment property and fixed assets (RUB 26 billion) and the deconsolidation of VTB Ukraine (RUB 17 billion), as well as the impairment of investments in the associated company Moscow Metrostroy in the amount of RUB 12 billion.

Provision charge

In 2018, the Group's provision charge for credit losses on debt financial assets, credit related commitments and other financial assets, legal claims and other commitments amounted to RUB 167.1 billion, a decrease of 2.8% compared to 2017.

The cost of risk of the loan book amounted to 1.6% in 2018, unchanged from 2017.

Staff costs and administrative expenses

Despite the increase in inflation during the reporting period, staff costs and administrative expenses decreased by 0.4% compared to 2017, amounting to RUB 259.8 billion. VTB Group continued to adhere to a policy of strict cost control, which, combined with synergy effects, improved cost-effectiveness. Changes in the method of consolidation applied to Post Bank and the sale of the insurance business also had a positive effect on cost-effectiveness. The ratio of costs to operating income before provisions decreased to 40.5% from 44.0% in 2017. The ratio of costs to average assets improved from 2.1% in 2017 to 1.9% in 2018.

Improving operational efficiency through synergy effects

VTB24

2018 realisation effect

RUB 8 bn

VTB24

2019 expected effect

RUB 15 bn

VTB Europe

2018 realisation effect

EUR 40 mln

Bank of Moscow

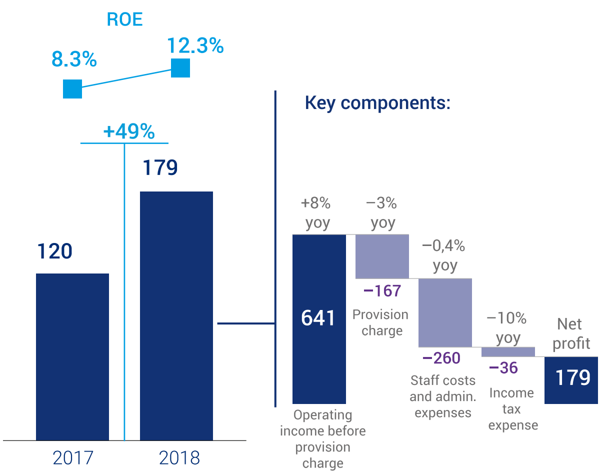
2018 realisation effect

RUB 10 bn

Net profit

Net profit for 2018 increased by 48.9% compared to 2017, amounting to RUB 178.8 billion, due to faster growth of income from core activities (compared to the increase of costs) and increased cost-effectiveness. In 2017, the difference between the increase in income and costs was 4 pp, increasing to 8.4 pp in 2018.

Net profit, RUB billion

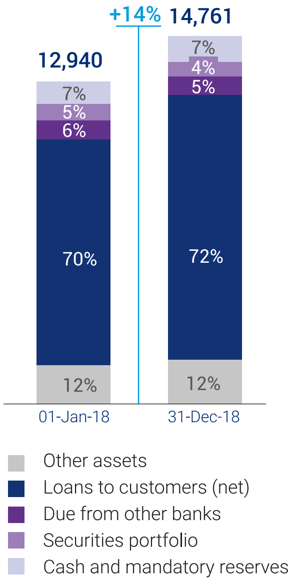


Analysis of the statement of financial position according to IFRS

Assets

As of 31 December 2018, the Group's total assets amounted to RUB 14,760.6 billion, up 14.1% compared to 1 January 2018. Asset growth was balanced, and the share of the loan portfolio in the asset structure rose to 72% from 70% in 2017.

Assets structure, RUB billion



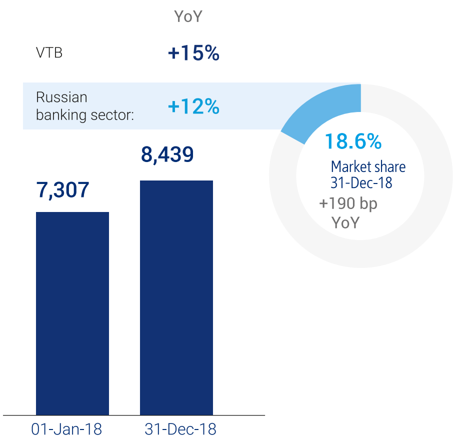
In 2018, the Group's gross loan portfolio (excluding Post Bank as of 1 January 2018 and 31 December 2018),[1] increased by 18.7% (to RUB 11,427 billion) amid growth in the volume of retail loans and lending to legal entities by 28.7% and 15.5%, respectively.

Growth in VTB Group's retail lending continued to accelerate in the reporting period compared to 2017, with the retail loan book increasing by 28.7% (excluding Post Bank as of 1 January 2018 and 31 December 2018) in 2018 (compared to 14.3% in 2017). The Group saw growth in volumes of mortgages, automobile loans and consumer loans of 31.7%, 17.7% and 28.4% respectively (excluding Post Bank as of 1 January 2018 and 31 December 2018) in 2018. The share of retail loans in the portfolio structure increased to 26.2% compared to 25.4% in 2017.

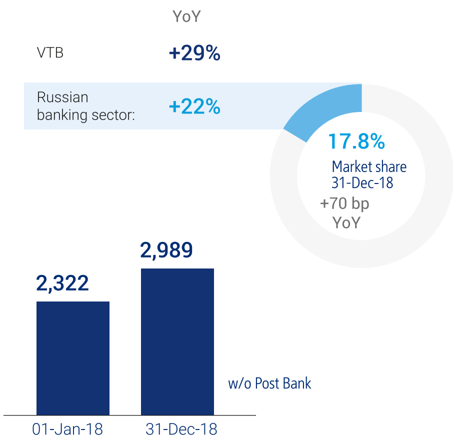
VTB Group's corporate loan portfolio also grew at a faster pace than 2017 (15.5% in 2018 compared to a decrease of 0.3% in 2017). Accelerated growth of loans to legal entities in the reporting period allowed the Group to compensate for the fact that it lagged behind the overall corporate lending market in 2017 (the Russian banking sector grew by 12.0% in 2018 compared to 2.2% in 2017).

1. Hereinafter: to calculate the change in the loan portfolio, the line-by-line consolidation method is used on 31 December 2018 and 1 January 2018.

Loans to legal entities, RUB billion



Loans to induviduals, RUB billion



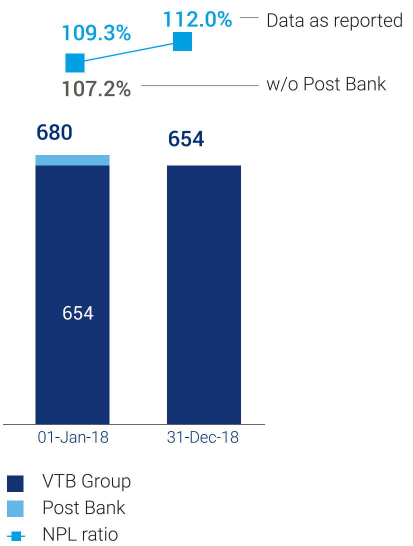
Assets

RUB billion	31-Dec-18	01-Jan-18	Change, %
Cash and short-term funds	935.8	773.8	20.9
Mandatory cash balances with central banks	111.1	97.1	14.4
Trading financial assets, including pledged under repurchase agreements	298.7	237.3	25.9
Derivative financial assets	202.5	169.0	19.8
Due from other banks	693.1	821.7	-15.7
Loans and advances to customers, including pledged under repurchase agreements	**10,695.2**	**9,098.1**	**17.6**
Investment financial assets, including pledged under repurchase agreements	352.6	373.1	-5.5
Investments in associates and joint ventures	283.2	117.1	141.8
Assets of disposal groups and non-current assets held for sale	22.0	17.2	27.9
Land, premises and equipment	402.3	348.2	15.5
Investment property	197.2	210.4	-6.3
Goodwill and other intangible assets	160.0	157.4	1.7
Deferred income tax asset	119.6	112.4	6.4
Other assets	287.3	407.2	-29.4
Total assets	**14,760.6**	**12,940.0**	**14.1**

Asset quality

As of 31 December 2018, the total amount of non-performing loans[1] was RUB 654 billion, or 5.7% of gross customer loans before provisions (compared to RUB 680 billion, or 6.9%, as of 1 January 2018).

Non-performing loans, RUB billion



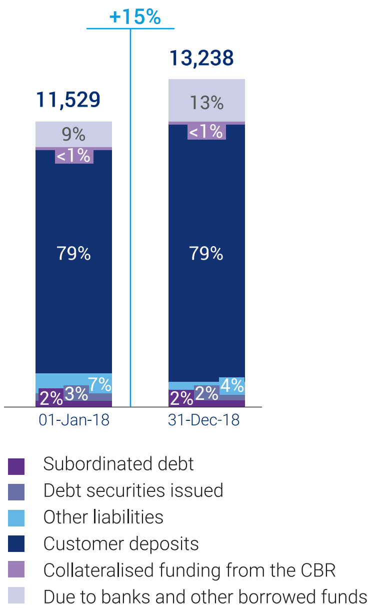
The Group continued its policy of clearing its loan portfolio by writing off bad assets through the corresponding impairment allowance after all necessary procedures to recover the asset have been carried out. The volume of non-performing loans written off in 2018 amounted to RUB 157 billion (compared to RUB 182 billion in 2017).

As a result of the write-off of non-performing loans, the impairment allowance represented 6.4% of the total loan book as of 31 December 2018, compared to 7.5% as of 1 January 2018. At the same time, the non-performing loans coverage ratio increased to 112.0% as of 31 December 2018, compared to 109.3% as of 1 January 2018.

Liabilities

The Group's total liabilities amounted to RUB 13,237.6 billion as of 31 December 2018, an increase of 14.8% compared to 1 January 2018.

Liabilities structure, RUB billion



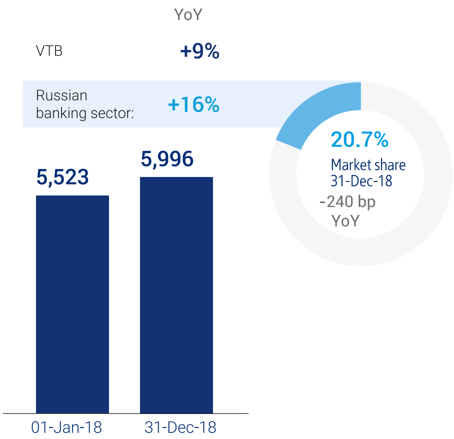
As of 31 December 2018, customer deposits amounted to RUB 10,403.7 billion, an increase of 15.9% over the year (excluding Post Bank as of 1 January 2018 and 31 December 2018). As a result, customer deposits accounted for 78.6% of the Group's total liabilities as of 31 December 2018, while the ratio of loans to deposits was 102.8% at the end of 2018, compared to 99.5% as of 1 January 2018.

By the end of the reporting period, deposits from legal entities had increased by 8.6%, while customer deposits were up 27.7% (excluding Post Bank as of 1 January 2018 and 31 December 2018).

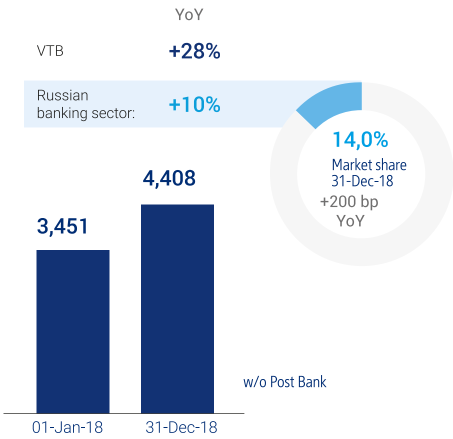
The Group's dependence on funding from debt capital markets remains low. The share of funds raised through issues of debt securities in total liabilities decreased to 2.0% as of 31 December 2018, compared to 2.8% a year earlier.

1. The Group identifies non-performing loans as credit-impaired loans, expected credit losses for these loans are assessed for the entire term, with overdue principal and/or interest payments for more than 90 days, as well as acquired or impaired loans with overdue principal and/or interest payments for a period of more than 90 days from the date of initial recognition.

Deposits and accounts of legal entities, RUB billion



Deposits and accounts of individuals, RUB billion

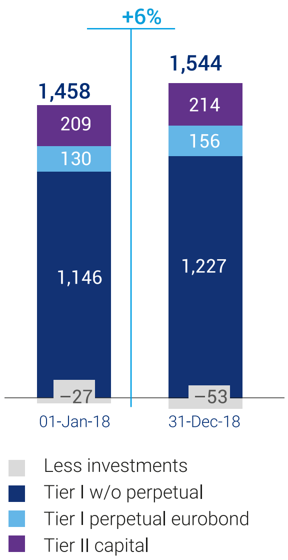


Liabilities

RUB billion	31-Dec-18	01-Jan-18	Change, %
Due to other banks	1,425.7	810.3	75.9
Customer deposits	10,403.7	9,144.7	13.8
Derivative financial liabilities	140.2	134.2	4.5
Other borrowed funds	329.7	304.5	8.3
Debt securities issued	259.1	322.7	-19.7
Liabilities of disposal groups held for sale	-	7.0	-
Deferred income tax liability	12.4	26.7	-53.6
Other liabilities	452.3	585.9	-22.8
Total liabilities before subordinated debt	**13,023.1**	**11,336.0**	**14.9**
Subordinated debt	214.5	193.2	11.0
Total liabilities	**13,237.6**	**11,529.2**	**14.8**

Capital and capital adequacy

Capital structure according to Basel standards, RUB billion



The Group's capital management policy is to maintain a sustainable capital base so as to retain the confidence of investors, creditors and market participants, as well as to ensure the future development of its operations.

High profitability supported the level of capital adequacy against a background of accelerated growth in lending and significant dividend payments: as of 31 December 2018, the Group's capital adequacy and Tier 1 capital adequacy ratios were 13.5% and 12.0%, respectively, compared to 14.3% and 12.5% as of 1 January 2018.

Capital and capital adequacy according to Basel standards

RUB billion	31-Dec-18	01-Jan-18	Change, %
Tier 1 capital	1,382.8	1,275.9	8.4
Tier 2 capital	214.4	208.9	2.6
Deducted: equity investments in financial institutions and subordinated debt provided	(53.3)	(26.7)	99.6
Total capital after deductions	**1,543.9**	**1,458.1**	**5.9**
Risk-weighted assets	11,476.0	10,184.0	12.7
Tier 1 capital ratio to total risk-weighted assets, %	**12.0**	**12.5**	**-0.5 pp**
Total capital ratio to total risk-weighted assets, %	**13.5**	**14.3**	**-0.8 pp**

According to the requirements of the Bank of Russia, Russian banks must comply with the minimum requirements for capital adequacy ratios, defined as a percentage of risk-weighted assets, calculated in accordance with the requirements of the Bank of Russia: common equity adequacy ratio (N 1.1), core capital adequacy ratio (N 1.2) and total capital adequacy ratio (N 1.0). As of 31 December 2018, the minimum levels were as follows: 4.5% for N 1.1, 6.0% for N 1.2 and 8.0% for N 1.0, compared to 4.5%, 6.0% and 8.0%, respectively, at the end of 2017.

In 2017 and 2018, the Bank's capital adequacy ratios calculated in accordance with the requirements of the Bank of Russia exceeded the minimum.

VTB Bank's capital and capital adequacy (RAS, Bank of Russia statutory ratios for banks)

RUB billion	2018	2017	Change, %
Total equity	1,587.0	1,069.4	48.4
Risk-weighted assets	14,002.3	9,443.1	48.3
Common equity adequacy ratio (N 1.1), %	9.0	10.1	-1.1 pp
Core capital adequacy ratio (N 1.2), %	10.1	10.3	-0.2 pp
Total capital adequacy ratio (N 1.0), %	11.3	11.3	0 bp

In other countries, the Group's banks comply with the requirements for the level of capital adequacy established by national central banks or other oversight bodies.

Measures to improve IFRS reporting in 2018

During the reporting period, VTB Group applied the new standards that entered into force on 1 January 2018:

- IFRS 9 Financial Instruments;
- IFRS 15 Revenue from Contracts with Customers.

With the introduction of IFRS 9, the Group revised the classification of a number of financial instruments in accordance with specific business models and also reassesed provisions for expected credit losses for all types of financial assets and off-balance-sheet liabilities exposed to credit risk.

With the introduction of IFRS 15, the Group revised its assessment of requirements and obligations to comply with the basic principle of the new standard, which is to recognise revenue in an amount that reflects the transaction price at the time of the transfer of goods or the provision of services to a client.

In addition, VTB Group changed its presentation of certain items in its statement of financial position and its profit and loss statement in order to increase the usefulness of the information and its accessibility for users to understand its financial statements:

- before applying IFRS 9, the Group decided to present on a separate line its consolidated statement of the financial position of its trading financial assets and to reclassify financial assets classified as fair value through profit or loss into investment financial assets;
- Since first applying IFRS 9, the Group has adjusted the comparative information provided in its consolidated profit and loss statement and in respect of interest income and provisions for impairment and for expected credit losses.

In 2018, VTB Group launched a project to implement IFRS 16, which entered into force on 1 January 2019. The project focuses on accounting models, principles of classification and evaluation, as well as processes that need to be developed. Work is under way to verify, test and validate the assumptions used and the results at the Group level.