

3. STATEMENT OF THE PRESIDENT AND CHAIRMAN OF THE MANAGEMENT BOARD



Andrey Kostin
President and Chairman
of the Management Board

Dear shareholders, clients and partners,

For the second year in a row, VTB Group has outperformed the objectives set out in our current three-year strategy for 2017–2019. In 2018, net profit grew by almost 50% to RUB 179 billion, easily exceeding our target of RUB 150 billion and securing a return on equity of 12.3%. This result is based on year-on-year improvements in operating income and cost-efficiency. It also lays the groundwork for a good year in 2019, and I am confident that we will meet our profit targets this year as well. We saw significant growth in the volume of our business last year, and we increased our market shares in key segments. VTB outpaced the industry average in terms of growth in corporate and retail lending, as well as in retail deposits.

The stable macroeconomic situation in the Russian economy in 2018 provided a positive impetus for the development of the retail banking market, which enabled VTB to offer its customers better conditions for a variety of Group products and services.

Retail lending increased by 29% in 2018 to RUB 3.0 trillion. Mortgage lending was the driving force behind growth in the Group's retail loan portfolio: the Bank issued nearly 300 thousand new mortgage loans in 2018, totalling RUB 0.7 trillion, the most in VTB Group's history. VTB issued one out of every five mortgage loans in Russia; about 1.4 million families were able to purchase housing with our help. As of 31 December 2018, VTB Group's mortgage portfolio amounted to RUB 1.4 trillion.

Retail customer deposits increased by 28% to RUB 4.4 trillion as of the end of the year. VTB accounted for a third of the increase in individual deposits across the entire Russian banking sector. Moving VTB's retail business to the universal platform of the merged bank played a significant role in driving and maintaining this growth.

Our corporate business also enjoyed positive results in 2018.

VTB Group remains one of the leading lenders to the real sector of the economy. In 2018, corporate lending increased by 15%—outpacing the market average—and reached RUB 8.4 trillion. Corporate deposits and accounts also increased to RUB 6.0 trillion by the end of the year.

Throughout 2018, we continued our efforts to solidify our position in mid-corporate business. In recent years, this important area of the country's economy has remained a focus of attention on the part of the Bank's management. Taking into account market trends and customer needs, VTB Group created a single Medium and Small Banking global business line. As part of the merger with VTB24, we made large-scale changes in the process of serving small and medium-size businesses, developing remote banking channels and services that allow customers to save a great deal of time while managing their business effectively and efficiently.

VTB remains an unwavering leader in corporate-investment business. In 2018, we continued to finance regional and federal projects in the areas of social assets, road construction and railway infrastructure, as well as innovative and high-tech projects in the real sector of the Russian economy. VTB Capital remains the leading investment bank in all segments of the investment banking market in Russia.

Along with ensuring business growth, VTB Group continued its systematic work to improve operational efficiency and risk management systems.

In 2018, we managed to achieve a significant reduction in the share of non-performing loans, which decreased by 120 bp to 5.7%. The coverage ratio of non-performing loans continued to increase, amounting to 112.0% at the end of the year. Against a backdrop of accelerated growth in the Bank's loan portfolio and significant dividend payments for 2017, increased profitability helped maintain capital adequacy: as of 31 December 2018, VTB's total and Tier 1 capital adequacy ratios were 13.5% and 12.0%, respectively.

From an operational standpoint, 2018 was our first year as a unified bank following the successful merger with VTB24. The process of transforming VTB Group into a single universal bank is now complete. In 2019, we will have to definitively complete the adaptation of our internal processes for the merged banking platform.

Thanks to the transformation of our organisational structure and the simplification of the management system, VTB was able to achieve significant cost reductions, while also establishing business synergies. As a result, we have become a more efficient and competitive business that can quickly adapt to a rapidly changing external environment.

While preparations were made throughout 2018, the merger of the Bank's retail and corporate networks was successfully completed in January 2019. This was the largest merger of networks in the history of the Russian banking system. Now, VTB clients can receive a full range of services at any branch of our universal bank in every region where we operate from the Baltic Sea to Kamchatka.

In 2018, the Group continued to implement plans to solidify its presence in the most interesting regions for business development.

In October 2018, we acquired Vozrozhdenie Bank, a strong player in the retail and mid-corporate segments in the Moscow region. In January 2019, the acquisitions of Sarovbiznesbank and Zapsibkombank were completed, which will give VTB a more meaningful presence in the Nizhny Novgorod and Tyumen regions.

I am confident that the ongoing transformation of our business and our new strategic initiatives will help us achieve positive results, implement our plans and accomplish our goals in 2019.

Our priority strategic initiative for the near future remains the further technological transformation of our operations. The digital revolution that has taken place in recent years in all spheres of life continues to gain momentum, and we are responding to customer demand both in terms of the products and services offered by VTB Group and in the way they are provided. Therefore, we are continuing to introduce cutting-edge technologies that make our systems more reliable and secure, while also expanding the range of possibilities available to our customers. In addition, new data analysis technologies are helping us better understand the needs and demands of our customers, while making it possible to individualise products and services and help customers achieve their goals in the best possible way.

I would like to thank all my colleagues for their teamwork and contribution to our shared success. Together, we will continue to improve our results and build a world-class high-tech bank for the benefit of society, our customers and our shareholders.



Sincerely,
Andrey Kostin
President and Chairman
of the Management Board