

7. FINANCIAL STATEMENTS

RESPONSIBILITY STATEMENT

VTB Management is responsible for preparing the Annual Report and the Group's consolidated financial statements in accordance with applicable laws and regulations.

I confirm that to the best of my knowledge:

- the consolidated financial statements of VTB Bank and its subsidiaries (together "the Group"), prepared in accordance with IFRS, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group; and

- this Annual Report includes a fair review of the development and performance of the Group's business and position, together with a description of the principal risks and uncertainties that the Group faces.

Andrey Kostin

VTB Bank President and Chairman
of the Management Board

CONSOLIDATED FINANCIAL STATEMENTS UNDER IFRS

The following table shows VTB group selected financial data for the year ended 31 December 2018. For a better understanding of the Group's financial position, its financial performance and its cash flows, these consolidated key financials should be read in conjunction with the audited consolidated financial statements of the Group.

VTB Bank consolidated financial statements and independent auditor's report for the year ended 31 December 2018 can be found on the Bank's website at: <https://www.vtb.com/akcionery-i-investory/finansovaya-informaciya/raskrytie-finansovoj-otchetnosti-po-msfo/>

Consolidated income statement for the year ended 31 december (in RUB bn)

	2018	2017	Change
Interest income calculated using the effective interest method	967.6	1,016.6	-4.8%
Other interest income	66.4	39.6	67.7%
Interest expense	(542.6)	(581.3)	-6.7%
Payments to deposit insurance system	(22.8)	(14.7)	55.1%
Net interest income	468.6	460.2	1.8%
Provision charge for credit losses on debt financial assets	(160.6)	(169.2)	-5.1%
Net interest income after provision for credit losses	308.0	291.0	5.8%
Net fee and commission income	90.0	95.3	-5.6%
Losses net of gains arising from sale and revaluation of loans at fair value through profit or loss	(2.0)	n/a	n/a
Gains net of losses arising from other financial instruments at fair value through profit or loss	21.1	12.8	64.8%
Gains net of losses arising from sale of financial assets at fair value through other comprehensive income	6.3	n/a	n/a
Gains net of losses from investment financial assets available-for-sale	n/a	13.6	n/a
Gains net of losses/(losses net of gains) arising from foreign currencies and precious metals	21.4	(12.4)	272.6%
Other gains net of losses on financial instruments at amortised cost	1.4	39.1	-96.4%
Share in profit of associates and joint ventures	8.1	1.2	575.0%
Impairment of investments in associates	(11.8)	-	n/a
Gains/(losses) from disposal of subsidiaries and associates	40.8	(0.5)	8,260.0%
Losses/gains arising from extinguishment of liabilities	(0.5)	(0.1)	400.0%
Provision charge for credit losses on credit related commitments and other financial assets	(8.3)	(3.2)	159.4%
Reversal of provision for legal claims and other commitments	1.8	0.5	260.0%
Excess of fair value of acquired net assets over cost	2.7	-	n/a
Other operating income	10.1	13.1	-22.9%
Non-interest gains	91.1	64.1	42.1%
Revenue from operating lease of equipment	26.5	22.5	17.8%
Expenses related to equipment leased out	(14.9)	(14.1)	5.7%
Revenues less expenses from operating leasing	11.6	8.4	38.1%
Net insurance premiums earned	121.8	82.6	47.5%
Net insurance claims incurred, movement in liabilities to policyholders and acquisition costs	(99.3)	(61.8)	60.7%
Revenues less expenses from insurance activity	22.5	20.8	8.2%
Revenue and other gains from other non-banking activities	71.3	61.4	16.1%
Cost of sales and other expenses from other non-banking activities	(66.3)	(61.5)	7.8%
Impairment of land, premises and intangible assets other than goodwill used in non-banking activities	(7.1)	(16.1)	-55.9%
Net loss from change in fair value of investment property recognised on revaluation or disposal	(14.4)	(23.1)	-37.7%
Gain from disposal of disposal group held for sale	-	0.8	-100.0%
Revenues less expenses from other non-banking activities	(16.5)	(38.5)	-57.1%
Impairment of land, premises and intangible assets other than goodwill	(9.4)	(3.7)	154.1%
Impairment of goodwill	(0.1)	(2.7)	-96.3%
Other operating expense	(23.0)	(14.1)	63.1%
Staff costs and administrative expenses	(259.8)	(260.9)	-0.4%
Non-interest expenses	(292.3)	(281.4)	3.9%
Profit before tax	214.4	159.7	34.3%
Income tax expense	(35.6)	(39.7)	-10.3%
Net profit after tax	178.8	120.0	49.0%
Profit after tax from subsidiaries acquired exclusively with a view to resale	-	0.1	-100.0%
Net profit	178.8	120.1	48.9%
Net profit/(loss) attributable to:			
Shareholders of the parent	179.2	120.3	49.0%
Non-controlling interests	(0.4)	(0.2)	100.0%
Basic and diluted earnings per share (expressed in Russian roubles per share)	0.01299	0.00855	51.9%
Basic and diluted earnings per share before profit after tax from subsidiaries acquired exclusively with a view to resale (expressed in Russian roubles per share)	0.01299	0.00854	52.1%

Consolidated statement of comprehensive income for the year ended 31 december (in RUB bn)

	2018	2017
Net profit	178.8	120.1
Other comprehensive income/(loss):		
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:		
Net change in fair value of debt financial assets at fair value through other comprehensive income, net of tax	(7.4)	n/a
Reclassification to income statement on sale of debt financial assets at fair value through other comprehensive income, net of tax	(5.1)	n/a
Net result on financial assets available-for-sale, net of tax	n/a	2.5
Cash flow hedges, net of tax	–	(0.1)
Share of other comprehensive income/(loss) of associates and joint ventures	3.5	(0.4)
Effect of translation, net of tax	33.8	0.3
Total other comprehensive income to be reclassified to profit or loss in subsequent periods	24.8	2.3
Other comprehensive income/(loss) not to be reclassified to profit or loss in subsequent periods:		
Actuarial (losses net of gains)/gains net of losses arising from difference between pension plan assets and obligations	(0.2)	1.1
Net result on equity instruments at fair value through other comprehensive income	(2.7)	n/a
Land and premises revaluation, net of tax	6.2	(0.1)
Total other comprehensive income not to be reclassified to profit or loss in subsequent periods	3.3	1.0
Other comprehensive income, net of tax	28.1	3.3
Total comprehensive income	206.9	123.4
Total comprehensive income/(loss) attributable to:		
Shareholders of the parent	208.1	123.6
Non-controlling interests	(1.2)	(0.2)

Consolidated statement of financial position as at 31 december (in RUB bn)

	2018	2017	Change
ASSETS			
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	298.7	277.2	7.8%
• Trading financial assets	264.6	276.9	-4.4%
• Trading financial assets, pledged under repurchase agreements	34.1	0.3	11,266.7%
Derivative financial assets	202.5	175.6	15.3%
Due from other banks	693.1	835.0	-17.0%
Loans and advances to customers	10,695.2	9,171.4	16.6%
• Loans and advances to customers	10,669.3	9,171.4	16.3%
• Loans and advances to customers, pledged under repurchase agreements	25.9	-	n/a
Investment financial assets	352.6	321.8	9.6%
• Investment financial assets	339.5	321.4	5.6%
• Investment financial assets, pledged under repurchase agreements	13.1	0.4	3,175.0%
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	98.7	21.2%
Other assets	287.3	408.4	-29.7%
Total assets	14,760.6	13,009.3	13.5%
LIABILITIES			
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	134.0	4.6%
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	-100.0%
Deferred income tax liability	12.4	30.7	-59.6%
Other liabilities	452.3	582.5	-22.4%
Total liabilities before subordinated debt	13,023.1	11,336.4	14.9%
Subordinated debt	214.5	193.2	11.0%
Total liabilities	13,237.6	11,529.6	14.8%
EQUITY			
Share capital	659.5	659.5	0.0%
Share premium	433.8	433.8	0.0%
Perpetual loan participation notes	156.3	129.6	20.6%
Treasury shares and bought back perpetual loan participation notes	(1.0)	(3.3)	-69.7%
Other reserves	82.4	46.1	78.7%
Retained earnings	197.0	200.4	-1.7%
Equity attributable to shareholders of the parent	1,528.0	1,466.1	4.2%
Non-controlling interests	(5.0)	13.6	-136.8%
Total equity	1,523.0	1,479.7	2.9%
Total liabilities and equity	14,760.6	13,009.3	13.5%

Consolidated statement of cash flows for the year ended 31 December (in RUB bn)

	2018	2017
Cash flows from / (used in) operating activities		
Interest received	1,047.9	1,068.6
Interest paid	(508.4)	(560.9)
Payments to deposit insurance system	(20.2)	(14.3)
Losses on operations with trading financial assets	(25.4)	(4.0)
Gains/ (losses) incurred on dealing in foreign currency	88.8	(27.4)
Fees and commissions received	143.0	130.1
Fees and commissions paid	(43.1)	(35.1)
Other operating income received	9.3	8.0
Other operating expenses paid	(16.8)	(17.9)
Revenue received from operating lease of equipment	26.9	20.6
Expenses paid related to equipment leased out	(4.7)	(2.4)
Net insurance premiums received	152.2	111.0
Net insurance claims paid	(30.4)	(28.4)
Revenue received from non-banking activities	32.6	36.8
Expenses paid related to non-banking activities	(36.3)	(34.5)
Staff costs, administrative expenses paid	(233.6)	(238.0)
Income tax paid	(44.6)	(52.1)
Cash flows from operating activities before changes in operating assets and liabilities	537.2	360.1
Net decrease/(increase) in operating assets		
Net increase in mandatory cash balances with central banks	(13.7)	(2.5)
Net decrease/(increase) in correspondent accounts in precious metals	29.2	(31.5)
Net increase in trading financial assets	(74.5)	(47.8)
Net decrease in due from other banks	122.5	176.6
Net increase in loans and advances to customers	(1,423.6)	(229.8)
Net (increase)/decrease in other assets	(4.7)	35.5
Net (decrease)/increase in operating liabilities		
Net increase/(decrease) in due to other banks	573.7	(473.3)
Net increase in customer deposits	718.9	1,635.5
Net increase in debt securities issued other than bonds issued	13.7	22.4
Net decrease in other liabilities	(2.8)	(12.4)
Net cash from operating activities	475.9	1,432.8
Cash flows from / (used in) investing activities		
Dividends and other distributions received	10.0	5.8
Proceeds from redemption and sales of investment financial assets	174.0	n/a
Purchase of investment financial assets	(197.9)	n/a
Proceeds from redemption and sales of investment financial assets designated as at fair value through profit or loss	n/a	0.9
Proceeds from redemption and sales of investment financial assets available-for-sale	n/a	416.8
Purchase of investment financial assets available-for-sale	n/a	(345.0)
Acquisition of subsidiaries, net of cash	6.9	0.2
Disposal of subsidiaries, net of cash	(18.9)	14.5
Purchase of share in associates and other contributions	(140.1)	-
Proceeds from sale of share in associates and other distributions	64.9	4.1
Purchase of investment financial assets held-to-maturity	n/a	(7.1)

Consolidated statement of cash flows for the year ended 31 December (in RUB bn) (continuation)

	2018	2017
Proceeds from redemption of investment financial assets held-to-maturity	n/a	9.3
Purchase of land, premises and equipment	(53.3)	(61.5)
Proceeds from sale of land, premises and equipment	4.8	6.2
Purchase or construction of investment property	(7.3)	(60.7)
Proceeds from sale of investment property	3.5	29.9
Purchase of intangible assets	(10.1)	(11.2)
Proceeds from sale of intangible assets	0.7	0.2
Net cash (used in) / from investing activities	(162.8)	2.4
Cash flows from/ (used in) financing activities		
Dividends paid	(78.2)	(44.5)
Proceeds net of repayment in short-term local bonds issued	(11.2)	25.0
Proceeds from local bonds issued	55.6	-
Repayment of local bonds	(33.6)	(6.0)
Buy-back of local bonds	(10.6)	(4.7)
Proceeds from sale of previously bought-back local bonds	3.6	7.1
Repayment of Eurobonds	(115.8)	(105.2)
Buy-back of Eurobonds	(2.5)	(11.4)
Proceeds from sale of previously bought-back Eurobonds	2.4	9.8
Repayment of syndicated loans	(1.6)	(10.0)
Proceeds from other borrowings and funds from local central banks	535.4	473.2
Repayment of other borrowings and funds from local central banks	(540.4)	(1,446.1)
Repayment of subordinated debt	-	(24.3)
Buy-back of subordinated debt	(0.7)	(0.3)
Proceeds from sale of previously bought-back subordinated debt	0.8	0.2
Cash received from sale of treasury shares	4.1	2.2
Cash paid for treasury shares	(2.4)	(2.5)
Purchase of non-controlling interest in subsidiaries	-	(1.6)
Proceeds from issue to non-controlling interest holders in subsidiaries	3.1	3.4
Buy-back of perpetual loan participation notes	(10.5)	(5.4)
Proceeds from sale of previously bought-back perpetual loan participation notes	11.1	4.9
Amounts paid on perpetual loan participation notes	(13.7)	(12.3)
Net cash used in financing activities	(205.1)	(1,148.5)
Effect of exchange rate changes on cash and cash equivalents	83.3	2.8
Effect of change in impairment loss allowance	(0.1)	n/a
Net increase in cash and cash equivalents	191.2	289.5
At the beginning of period	738.1	448.6
At the end of period	929.3	738.1

Consolidated statement of cash flows for the year ended 31 December (in RUB bn) (continuation)

	2018	2017
Non-cash changes in liabilities arising from financial activities		
Foreign currency translation		
Local bonds	–	(0.1)
Eurobonds	(15.6)	11.7
Syndicated loans	(1.4)	(3.4)
Funds from local central banks	(0.1)	(0.3)
Subordinated debt	(18.4)	5.2
Other non-cash changes		
Short-term local bonds	–	0.2
Local bonds	(1.2)	2.5
Eurobonds	1.2	1.4
Syndicated loans	(0.2)	1.0
Funds from local central banks	10.1	19.8
Subordinated debt	(2.8)	1.4

Consolidated statement of changes in shareholders' equity for the year ended 31 december (in RUB bn)

	Attributable to shareholders of the parent								Total equity
	Share capital	Share premium	Perpetual loan participation notes	Treasury shares and bought back perpetual loan participation loan notes	Other reserves	Retained earnings	Total	Non-controlling interests	
Balance at 1 January 2017	659.5	433.8	136.5	(2.5)	44.8	131.1	1,403.2	9.7	1,412.9
Net result from treasury shares transactions	–	–	–	(0.3)	–	–	(0.3)	–	(0.3)
Net result from bought back perpetual loan participation notes transactions	–	–	–	(0.5)	–	–	(0.5)	–	(0.5)
Profit/(loss) for the period	–	–	–	–	–	120.3	120.3	(0.2)	120.1
Other comprehensive income	–	–	–	–	2.2	1.1	3.3	–	3.3
Total comprehensive income/ (loss) for the period	–	–	–	–	2.2	121.4	123.6	(0.2)	123.4
Transfer of premises revaluation reserve upon disposal or depreciation	–	–	–	–	(1.6)	1.6	–	–	–
Share-based payments	–	–	–	–	–	(0.1)	(0.1)	–	(0.1)
Increase in share capital of subsidiaries	–	–	–	–	–	–	–	3.6	3.6
Disposal of subsidiaries	–	–	–	–	–	–	–	(0.8)	(0.8)
Purchase and other operations with non-controlling interests	–	–	–	–	0.7	(4.9)	(4.2)	2.2	(2.0)
Amounts paid on perpetual loan participation notes	–	–	–	–	–	(12.3)	(12.3)	–	(12.3)
Foreign exchange translation of perpetual loan participation notes	–	–	(6.9)	–	–	6.9	–	–	–
Tax effect recognised on perpetual loan participation notes	–	–	–	–	–	1.1	1.1	–	1.1
Dividends declared	–	–	–	–	–	(44.4)	(44.4)	(0.9)	(45.3)

Consolidated statement of changes in shareholders' equity for the year ended 31 december (in RUB bn) (continuation)

	Attributable to shareholders of the parent								
	Share capital	Share premium	Perpetual loan participation notes	Treasury shares and bought back perpetual loan participation loan notes	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
Balance at 31 December 2017	659.5	433.8	129.6	(3.3)	46.1	200.4	1,466.1	13.6	1,479.7
Impact of adopting IFRS 9 at 1 January 2018	-	-	-	-	8.0	(74.9)	(66.9)	(3.1)	(70.0)
Impact of adopting IFRS 15 at 1 January 2018	-	-	-	-	-	1.1	1.1	-	1.1
Balance at 1 January 2018 after adoption	659.5	433.8	129.6	(3.3)	54.1	126.6	1,400.3	10.5	1,410.8
Net result from treasury shares transactions	-	-	-	1.7	-	0.1	1.8	-	1.8
Net result from bought back perpetual loan participation notes transactions	-	-	-	0.6	-	-	0.6	-	0.6
Profit/(loss) for the period	-	-	-	-	-	179.2	179.2	(0.4)	178.8
Other comprehensive income/(loss)	-	-	-	-	29.1	(0.2)	28.9	(0.8)	28.1
Total comprehensive income/(loss) for the period	-	-	-	-	29.1	179.0	208.1	(1.2)	206.9
Transfer of premises revaluation reserve upon disposal or depreciation	-	-	-	-	(0.8)	0.8	-	-	-
Share-based payments	-	-	-	-	-	(1.1)	(1.1)	-	(1.1)
Acquisition of subsidiaries	-	-	-	-	-	-	-	2.2	2.2
Disposal of subsidiaries	-	-	-	-	-	-	-	(15.9)	(15.9)
Acquisition of non-controlling interests	-	-	-	-	-	(0.9)	(0.9)	0.6	(0.3)
Increase in share capital of subsidiaries	-	-	-	-	-	-	-	3.1	3.1
Put options over non-controlling interests	-	-	-	-	-	(1.7)	(1.7)	-	(1.7)
Amounts paid on perpetual loan participation notes	-	-	-	-	-	(13.7)	(13.7)	-	(13.7)
Foreign exchange translation of perpetual loan participation notes	-	-	26.7	-	-	(26.7)	-	-	-
Tax effect recognised on perpetual loan participation notes	-	-	-	-	-	8.1	8.1	-	8.1
Dividends declared	-	-	-	-	-	(73.5)	(73.5)	(4.3)	(77.8)
Balance at 31 December 2018	659.5	433.8	156.3	(1.0)	82.4	197.0	1,528.0	(5.0)	1,523.0