

## MEDIUM AND SMALL BUSINESS

The *Medium and Small Business (MSB)* global business line specialises in serving legal entities and individual entrepreneurs with annual revenues of up to RUB 10 billion per group of companies.

Moreover, the following client sub-segments can be distinguished based on client needs for banking products and service models: upper, standard and mass. The main (but not the only) criterion for this segmentation is the volume of annual revenue: the upper segment includes clients with revenue from RUB 1 billion to RUB 10 billion; the standard segment is for clients with revenue from RUB 120 million to RUB 1 billion; the mass segment is for clients with annual revenue of less than RUB 120 million.

### SHARE OF VTB GROUP TOTAL, %

Assets	9
Customer loans and advances (net)	12
Customer deposits and accounts	15
Net interest income	15
Net fee and commission income	26
Provision charge <sup>1</sup>	16
Net operating income (before provisions)	16
Staff costs and administrative expenses	15

Source: VTB Group's IFRS consolidated financial statements for 2019.

Small and medium-sized enterprises are playing an increasingly important role in the economy of the Russian Federation; therefore, work with clients in the *MSB* segment is an important strategic direction for VTB Group.

## 2019 SEGMENT OVERVIEW

Client base in Russia:

**513**  
thousand clients

MSB gross loan portfolio:

**1.5**  
RUB trillion

Customer deposits:

**1.6**  
RUB trillion

The *SME* segment is one of the most competitive sectors in the banking market, while 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 among banks.

Despite the high degree of regional competition in upper and standard segments of *MSB* banking, VTB Bank enjoys the following competitive advantages: the quality of its customer service, its offer of comprehensive pricing conditions with a selection of the best products for each client, and the speed at which VTB is able to make decisions and provide services.

<sup>1</sup> Provision charge for credit losses on debt financial assets, credit related commitments and other debt financial assets and (provision charge) / reversal of provision for legal claims and other commitments.

## MSB LENDING AND DOCUMENTARY BUSINESS

The main trend in 2019 in terms of lending remained the provision of concessional loans through state programmes, as well as digitalisation of the process of providing products with credit risk.

These trends were the main drivers behind the development of the Bank's product line in 2019. The Bank began work on an integrated digital platform (environment) for communicating with counterparties concerning credit and documentary operations conducted in electronic form. The platform will help reduce costs and the time needed to process client applications, increase customer satisfaction, and develop the market for state and commercial contracts in the Russian Federation.

### State-run business support programmes

VTB actively participates in all state support programmes for business, offering preferential financing terms under these programmes.

As of the end of 2019, VTB had 3,897 existing loan agreements for state support programmes worth a total of RUB 364 billion. As a result, the Bank's loan portfolio for preferential programmes amounted to more than RUB 222 billion as of 1 January 2020.

As of 1 January 2020, the largest volume of loan agreements were part of the preferential programme run by the *Russian Agriculture Ministry*, whereby loans are provided to agricultural producers and agribusiness companies at an annual rate of not more than 5 %.

The second-largest volume of loans were provided through programmes for concessional financing through the *Russian Ministry of Economic Development* (transactions through *Programme 674* were concluded in 2017, transactions through *Programme 1706* were concluded in 2018, and transactions through *Programme 1764* were concluded either in 2019 or will be concluded in 2020).

In 2019, a great deal of attention was paid to supporting small and medium-sized enterprises<sup>2</sup> (SME). Close cooperation with the *SME Corporation* continued in terms of working with existing and potential SME customers.

In an effort to expand SMEs' access to credit financing, VTB uses a three-level system of guarantee organisations – the *National Guarantee System* – which provides meaningful and effective support for SMEs through guarantees and sureties. As part of its work with the *National Guarantee System*, VTB supports SMEs by providing financing for business development against guarantees provided by the *SME Corporation* and *SME Bank*, as well as guarantees from regional guarantors.

In 2019, the Bank became one of the first to begin using escrow accounts to finance developers pursuant to new legislation; this enabled the Bank to take a leading position in the housing construction market.

In addition, work continues on the implementation of projects aimed at raising the level of digitalisation of the loan process:

- Meticulous preparations were made in order to transfer all departments lending to *MSB* clients to a single automated banking system that maximises functionality in terms of automating processes (with the possibility of developing them further);
- A pilot project was launched to automate analytics (accounting) for small-business clients that apply for loans in order to establish lending limits.

### Documentary business

In 2019, the main trends in the development of the *MSB* documentary portfolio were driven by work aimed at converting documentary products to a digital format. For example, the range of remote channels for providing guarantees was expanded to include an express model for credit analysis, and technologies for issuing electronic guarantees for customs authorities were further developed. A project was launched to introduce a digital guarantee conveyor, which enables clients to use paperless technology to complete every stage on the path to becoming a client, from filing an application to receiving a guarantee.

Thanks to the introduction of new technologies, as well as penetration into regional markets, the documentary portfolio of *MSB* clients amounted to more than RUB 300 billion as of the end of 2019, an increase of 21 % from the beginning of the year.



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<sup>2</sup> *Small and medium-sized enterprises – economic entities (legal entities and individual entrepreneurs) attributed, in accordance with conditions set by Federal law No. 209 as of 24 July 2007, to small enterprises, including microenterprises and medium enterprises, information about which is included in the unified register of small and medium-sized enterprises.*

The Bank continued to develop product offerings in segments that enjoyed constant high demand. Letters of credit in Russian roubles with an option of early payment were made available to *MSB* clients. The availability of guarantee products for all customer segments was expanded, including through simplified and rapid decision-making procedures.

### **MSB TRANSACTION BUSINESS**

In 2019, the *MSB* global business line more than doubled its number of new customers for settlement and cash services.

In August 2019, VTB Bank launched a new unified line of packages for *MSB* customers for settlement and cash services. As of 31 December 2019, there were more than 100 thousand clients using these new financial products; in total, the Bank is serving more than 240 thousand clients with its packages for settlement and cash services.

The new VTB line includes four packages of settlement and cash services – *For Starters*, *Most Important of All*, *All-Inclusive* and *High Turnover* – which enable entrepreneurs to choose the best option depending on the size and objectives of their business. The financial products contain a complete list of necessary banking services for clients. In addition, the *All-Inclusive* and *High Turnover* service packages can be expanded with additional options – *Payments Plus*, *Personal Transfers*, *Cash Withdrawals*, *Cashier Plus* and *Foreign Economic Activities* – that can be combined to suit the client's needs.

The *For Starters* package is most popular among the Bank's new clients, having been used by more than 65 thousand customers already. VTB developed its *For Starters* package in order to support small and medium-sized business. The package enables clients to open and maintain a current account in roubles for up to 12 months free of charge, and it also provides remote banking services, an unlimited number of intrabank transfers and up to five external payments.

Not only have VTB's clients shown appreciation for the benefits offered by the Bank's new line of packages, but so have independent experts. According to research conducted by *MarksWebb* in the third and the fourth quarters of 2019, VTB is the leader in terms of service advantages for micro and small enterprises in the retail and service industries.

VTB Bank regularly offers preferential terms of service to businesses. In 2019, more than 83 thousand clients took part in the *Let's start with the best!* campaign, whereby companies and individual entrepreneurs who opened their first settlement account with the Bank were able to do so free of charge, and they also received three months of commission-free services as part of the *Most Important of All* and the *All-Inclusive* packages.

The Bank actively continues to improve its services and processes for opening accounts in order to meet clients' needs and expectations as much as possible. The Bank conducted large-scale studies to identify shortcomings in its procedures for opening accounts: in doing so, the Bank studied the best practices of competing banks as well as best foreign practices, while also analysing internal processes.

To optimise its processes, the following measures were implemented in 2019:

- A completely new personal account was developed for clients that allows them to reserve accounts;
- To simplify and speed up the process of opening an account, the functionalities for opening the first and subsequent accounts, updating information and other internal Bank processes were automated and centralised.

In 2019, a great deal of work was done to standardise the line and improve the functionality of the Bank's corporate cards:

- The Bank began issuing registered and instant (unnamed) cards that use the *VISA* payment system;
- Personalised, contactless corporate cards were issued;
- Technology was implemented that enables clients to make card payments via mobile devices (*ApplePay*, *AndroidPay*, *GooglePay*, *SamsungPay*).

In 2019, VTB Bank completed its acquisition of the fiscal data operator *First-OFD*. This acquisition is a strategic investment aimed at expanding the Group's customer services and bolstering its data monetisation models. Based on the data received from *OFD*, VTB will be able to quickly monitor the financial position of its corporate clients, improve its scoring models and increase the conversion of targeted offers.

The Bank expanded its cooperation with the *Capital Repair Fund of the City of Moscow* in 2019 by launching a project on banking support for the settlement of contracts concluded between the *Capital Repair Fund* and contractors. The successful project managed to attract a significant number of new clients.

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

- A process was coordinated with the Deposit Insurance Agency for payments to small businesses that were clients of *Zhilkredit Bank*;
- The Bank began accepting electronic charter documents for legal entities and individual entrepreneurs using an enhanced qualified electronic signature from the *Federal Tax Service of Russia*;
- The standardisation of typical client forms for contracts and conditions for transactional products was carried out;
- A joint offer from VTB and *First-OFD* was launched to provide customers with settlement and cash services and online cash registers at a discount.

## BUILDING A DIGITAL BUSINESS

One of the key areas of the Bank's development is the creation of a state-of-the-art digital ecosystem for clients: digital products and quality service across all channels, and the development of a leading digital business for *MSB* clients in Russia. In 2019, over 45 thousand settlement accounts were opened through remote channels, which was three times the number opened in 2018. This is more than a quarter of all accounts opened during the year, whereas, two years ago, only 5 % of accounts were opened through remote channels.

In 2019, the Bank made a great effort to find new *MSB* clients through its partners. In fact, the number of clients the Bank was able to attract through its partners increased tenfold, and more than 2.5 thousand agreements with partners were concluded. A project on cooperation between the Bank and the multifunctional *My Documents* centres was launched and is being further developed.

The agency channel made a significant contribution to the implementation of the Bank's business plan for 2019 in terms of the sale of settlement accounts: the share of accounts opened through the channel accounted for 15 % of the total volume.

In 2019, the Bank made it possible for legal entities, entrepreneurs and individuals engaged in private practice to open a settlement account without visiting a Bank branch.

This service of mobile specialists enables the Bank to:

- Attract new customers – legal entities or individual entrepreneurs – for cash and settlement services outside Bank branches;
- Increase the number of current accounts by reducing the time it takes to open an account;
- Make banking services for customers affordable and convenient;
- Increase the Bank's competitiveness through mobile customer service.

The service of mobile specialists is currently provided in 15 cities, including Moscow and St. Petersburg.

In 2019, the *Medium and Small Business* section on the Bank's website was updated with the introduction of a sales-oriented design, simple navigation and a clear section structure, as well as a convenient application form for opening a current account. In addition, the following steps were taken:

- A new digital communication channel (online chat) was added to the *Medium and Small Business* section on the Bank's website;
- An interactive service for clients was added that enables them to select service packages;
- A series of tests were conducted to assess the convenience and effectiveness of the interface; the data from the tests will provide the basis for an updated user interface.

## Non-banking services ecosystem

Launched in 2019, the platform for non-banking and business services allows small and medium-sized enterprises (both VTB Bank customers and non-customers) to access state-of-the-art tools for automating business processes and increasing their efficiency. The platform offers cloud solutions and services from leading Russian companies for accounting, tax reporting to the *Federal Tax Service of Russia* and funds, business security and settlements with counterparties, moving a business online and much more.

In 2019, pilots of two popular services for small entrepreneurs were also launched: *Digital Accounting* and *VTB Business QR*.



***Digital Accounting*** is a mobile application that covers the tax accounting and tax payment needs of entrepreneurs who are used to working in a digital environment. In addition to direct tax accounting services, the application enables users to submit reports to the *Federal Tax Service of Russia* and funds, download bank statements, and get advice on doing business. During the pilot, the application was installed more than

**1,300** times.

***VTB Business QR*** is a mobile application that enables entrepreneurs to accept cashless payments through the *Faster Payments System*. Using the application, the seller enters the amount and purpose of the payment, after which a QR code is generated for the buyer. Individual clients of any bank connected to the *Faster Payments System* can use the application to pay for purchases. The app is especially convenient for individual entrepreneurs, since the revenue from sales is automatically declared to the *Federal Tax Service of Russia*, and a receipt is generated for the buyer.

These non-financial services help small entrepreneurs operate within the law, quickly launch a new business and start accepting payments, which makes them more mobile in addressing urgent problems related to developing their business.

In 2019, the *VTB Business Connect* B2B platform was further developed. *VTB Business Connect* is an online business platform with a built-in modular e-commerce tool that enables clients to automate their sales, as well as their export- and sales-related services. The platform currently has more than 20 thousand users and over 1 million products. In 2019, the range of services available through *VTB Business Connect* was expanded: document management was made available with support for cloud-based qualified electronic signatures, an online export accelerator was launched based on the methodology of the *Russian Export Center*, a secure payment service (micro-credit in digital form) was added, a pilot analysis of government tenders was conducted on the basis of neural networks in an effort to search for new customers for users of the service, and a small-scale procurement project was scaled up within VTB Bank.

#### *Internet banking and mobile banking for business*

Based on the results of market research on mobile applications for business in 2019, VTB developed a new design for its single mobile bank for *MSB* clients. The updated version of the application takes into account the latest design trends, ensures excellent ease of use and resolves usability issues. The new application will be piloted starting in 2020.

A new design of the web version of the *VTB Business Online* remote banking service was also developed. The newly designed Internet bank will be available to clients in 2020. Based on the results of an audit and tests to assess the convenience and effectiveness of the interface, conducted by *MarksWebb* in 2019, VTB Bank received high marks for the design concept and functionality in terms of UX/UI design.

In 2019, the system enabled the widespread use of simple electronic signatures (signing documents using an SMS code) in remote banking systems for legal entities and individual entrepreneurs. In addition, the limit for the use of a simple electronic signature was also increased (up to RUB 3 million). The use of simple electronic signatures with the increased limit will be made available in the new design of the *VTB Business Online* banking system.





VTB became the first Russian bank to launch a new way for legal entities to confirm and sign documents. Now, users of **VTB Business Online Lite** internet banking can use cloud-based qualified electronic signatures. This solution was implemented on the basis of the first certified *myDSS* mobile application in Russia. This new option enables users to significantly increase the limits of operations through this online channel thanks to increased reliability and security compared to standard SMS confirmation. Unlike a conventional electronic signature, a cloud-based signature does not require the installation of special software on the client's computer. Another important advantage offered by the service is that it allows users to sign documents even when they are offline.

Internet banking has become even more convenient: by transferring remote banking systems for legal entities in the *MSB* segment to an improved, special-purpose anti-fraud system, the number of payments requiring customer confirmation has been reduced by 30 %.

#### **MEDIUM AND SMALL BUSINESS OUTSIDE THE RUSSIAN FEDERATION**

The strategy for working with *MSB* clients through subsidiary banks in the CIS and Georgia focuses on creating a digital environment for clients and state-of-the-art remote service channels. These banks continue to move in the direction of cross-selling and offering comprehensive solutions, especially in terms of servicing the foreign economic activities of the Group's clients.

**In Azerbaijan**, VTB's subsidiary began cooperation with the *Russian Export Center* to finance the costs that Azerbaijani importers have to pay for deliveries under trade contracts. New projects were launched for the development of digital sales channels, including a digital bank (chatbot) based on *Facebook* messenger and the modernisation of the existing system for remote banking services for corporate clients.

Having paid a great deal of attention to improving the quality of its loan portfolio, **VTB Bank (Armenia)** expanded its specialised service areas for corporate clients and individual entrepreneurs in its branch network in 2019. Cooperation projects were implemented with specialised organisations in Armenia (*Accountants Association, SME Investment Support Centre*).

**In Belarus**, VTB's subsidiary bank became the first Belarusian bank to enter into an agreement with the *Belarusian Financial Support Fund for Entrepreneurs*, which will enable clients to receive loans secured by the fund (up to 60 % of the principal), and it launched an online service called *Start Your Business Now*, which is used to prepare documents for business registration.

In 2019, **VTB Bank (Georgia)** introduced a procedure for internal factoring operations, which doubled the bank's factoring portfolio and expanded the list of non-banking services provided at points of sale (registration of legal entities and individual entrepreneurs). The bank regularly takes part in state programmes for financing the development of production, agribusiness and tourism.

**VTB Bank (Kazakhstan)** continues to cooperate with state funds to support the development of small and medium-sized businesses. In 2019, an agreement was signed with *KazakhExport* (*Baiterek* export insurance company) on pre-export financing, which made it possible to expand the range of financial instruments offered to Kazakh exporters. The *Agrarian Credit Corporation (KazAgro)* became a new strategic partner of the bank, having provided the Bank with funds for targeted financing of projects in the agribusiness sector.