

STRATEGY

CONTEXT FOR THE DEVELOPMENT OF A NEW STRATEGY

VTB Group broadly met the key targets outlined in its Development Strategy for 2017–2019 ahead of schedule. The Group exceeded its targets in terms

of return on equity, growth rates of its loan portfolio and customer funding. VTB Bank's merger with VTB24 to create a single bank was the biggest integration project to take place in the Russian market in 2018; ambitious work is under way aimed at the digital transformation of the Group's business and processes.



EXCEEDED TARGETS
for net profit and ROE

3.5x

Net profit growth (2016–2018)

Net profit, RUB billion



Return on equity (ROE)



Loan portfolio enjoyed higher-than-expected growth



Exceeded target for attracting customer deposits and increased market share



VTB Bank and VTB24 integration completed

KEY STRATEGIC PRIORITIES FOR VTB GROUP'S DEVELOPMENT IN 2019–2022

The changing landscape poses new challenges for VTB Group. Competition for customers is heating up, while barriers to their movement between banks are breaking down, and competition from non-financial players is increasing. The model for the consumption of financial services is being transformed with a trend towards greater digitalisation of products and services. Pressure on margins in traditional banking and stagnation in the banking sector continue.

While VTB is focused on long-term and sustainable development, it has to adapt in response to new challenges, which means the evolution of the Bank's business model, an increased focus on customers and their needs, acceleration of internal processes and optimisation of the Bank's operating model.

In response to the new situation at the end of April 2019, VTB Bank's Supervisory Council adopted a new VTB Bank's Development Strategy for 2019–2022¹, which includes an updated mission, along with a renewed vision and values.

VTB's new mission: We help people to make their plans a reality by creating the best financial solutions. We are a team of professionals, working for the benefit of our customers and the country as a whole.

VTB's strategic vision: A universal financial group that is developing both dynamically and sustainably, one that is focused on being the first-choice financial partner for its customers, and which provides the most convenient and cutting edge solutions to their needs.

In accordance with its mission, values and strategic vision, VTB identifies three key development priorities for 2019–2022:



The interests of our clients and the quality of our service are the focus, which means providing the best offer for our clients and ensuring the highest level of customer satisfaction in the market. The key factors are: strengthening our business model in terms of focusing the Group's efforts on customer satisfaction, moving to personalised communications based on advanced data analytics and data modelling tools available to customers through the channels that are most convenient for them.



Intensive growth of the banking business, complemented by digital economy initiatives: increasing the number of retail customers by 50 %, doubling the number of *Medium and Small Business* customers and expanding customer coverage in the *Corporate-Investment Business* to more than 85 % of the market.



New dynamics of changes: digitalisation, advanced technologies, increased efficiency.



As of the end of 2019, VTB was on the Development Strategy course to achieve these goals and had met its main targets and achieved its objectives for the year.

1. Customers' usage of digital channels to conduct banking is expected to increase significantly: more than 50 % of sales will be completely digital and 100 % of products will be available to customers through electronic channels by the end of 2022; more than 80 % of service operations will move to remote channels. While remaining a universal bank, VTB will take its branch network and other traditional channels to a new technological level by creating a full-fledged multichannel interface for client interaction. An important priority is the digitalisation of internal processes, which will involve, in particular, the transition to a completely paperless internal workflow while maximising the electronic workflow in relations with external counterparties;
2. The Bank plans to build an advanced operational and processing platform based on a next-generation microservice IT architecture that will create competitive advantages for the Group in terms of the speed at which technological solutions are introduced and new services are brought to market. A single operations centre will be created to provide a high degree of reliability, scalability and efficiency in terms of operational processes. Investments in technological solutions will be aimed at creating leading solutions in such areas as the use of biometric identification platforms, robotics and advanced analytics; the virtualisation of processes based on artificial intelligence technology; the creation of a system of open interfaces for prompt integration with partners; and automation of the cloud infrastructure for the acceleration and scaling of capacities;
3. Key factors will be accelerating the Bank's response to market changes and customer demand and promoting values within the corporate culture such as innovation, engagement, a commitment to results and teamwork. This new approach will be facilitated by initiatives to develop human capital: the creation of a pleasant working environment and attractive conditions for the top talent in the market, the systematic development of tomorrow's leaders, ensuring productivity growth and competitive motivation, and a balance of team and individual success. The introduction and scaling of a new model of cross-functional teams will be an important driver for speeding up these processes.

MAIN DEVELOPMENT TRENDS IN RETAIL BUSINESS GLOBAL BUSINESS LINE



The *Retail Business* strategy envisages an increase in the client base by 50 % to 18 million customers along with an increase in market share in retail lending to 22 % and, accordingly, an increase to 35 % in terms of the share of loans to individuals in the Group's loan portfolio. Concerning retail customer accounts and deposits, the Bank plans to increase its market share to 20 % on the back of faster growth in balances of current and savings accounts, their share in the structure of deposits from individuals will be greatly increased. Optimisation of the cost of funding, an increase in the share of customers carrying out transactions and customers with multiple products will ensure income diversification and above-market growth in terms of average income per customer.

As of the end of 2019, VTB had seen a record increase in terms of its active clients – more than 1 million people – which was achieved by, among other things, working with the existing customer base in order to reduce the loss of clients, and also by developing digital services and introducing new digital products to market.

In 2019, VTB enabled customers to receive cash loans through a mobile application, introduced a digital debit card and expanded the possibilities for money transfers and payments. VTB added an option to its website that enables customer to get a mortgage approval in 30 seconds without visiting the Bank's branch. The Bank updated its loyalty programme and added more than 10 thousand partners to the *Multibonus* programme. The Bank launched a new *Savings Jar* product, which helps increase the share of savings accounts in the portfolio of customer accounts.

MAIN DEVELOPMENT TRENDS IN THE *MEDIUM AND SMALL BUSINESS* GLOBAL BUSINESS LINE

MEDIUM AND SMALL BUSINESS 2022



2x

**Doubled
client base**



**Increase in average revenue of
15–35 %
depending on the subsegments**



**35 %
Share of fees and commissions
in net operating income**

Goals of the *Medium and Small Business* global business line: doubling the client base among small and medium-sized enterprises with an increase in average revenue of 15 %–35 % depending on the subsegment. This will be made possible first of all by increasing the transactional revenue of the business – the share of current account balances among customer accounts in the segment will exceed 40 %, and the share of fees and commissions in net operating income will exceed 35 %. Remote and partner channels will play a significant role in increasing the client base; the share of sales through digital channels will exceed 50 %.

In 2019, the Bank launched a new universal line of settlement and cash services packages for small and medium-sized enterprises that offer a full range of the banking services to meet customers' needs. Since its launch, more than 20 % of VTB's client base has taken advantage of this new financial product. The most popular package among VTB Bank's new clients is the *For Starters* service package, which was developed to support small and medium-sized enterprises.

The Bank made it possible to open a current account without visiting a Bank office by using a service of mobile specialists; a service was launched to enable the online registration of limited-liability companies and sole proprietorships using an electronic signature through a mobile phone.

As part of the Bank's expansion into non-financial services, a joint offer was developed by VTB and *First-OFD* (fiscal data operator) for the sale of online cash registers and OFD products to VTB customers at a discount; a *Digital Accounting* service and *VTB Business QR*¹ were piloted for small enterprises. VTB launched a platform for non-banking services that allows both VTB Bank clients and users, who are not VTB clients, to access state-of-the-art tools for automating business processes and improving their efficiency.

Thanks to a new sales and service model introduced at the beginning of the year, three times more settlement accounts were opened through remote channels compared to 2018. As a result, conversions nearly doubled, and the Bank showed a fourfold improvement in its response time.

¹ *VTB Business QR is a mobile application that enables entrepreneurs to accept cashless payments through the Faster Payments System.*

MAIN DEVELOPMENT TRENDS IN THE CORPORATE-INVESTMENT BUSINESS GLOBAL BUSINESS LINE

CORPORATE- INVESTMENT BUSINESS 2022



Maintaining
leadership positions
in investment banking services for corporate
and institutional clients



Ensuring
better-than-market growth
in current account balances and fees and commissions
for transaction products



25 %
market share of investment products
for individuals

VTB's strategic vision for its *Corporate-Investment Business* implies the development of its existing business model with a special focus on an individualised client approach based on industry specifics and an understanding of client needs, expertise and partnerships to resolve financing challenges of any size, as well as unchallenged leadership in the investment business.

The goals for the development of the *Corporate-Investment Business* global business line are to maintain leadership positions in investment banking services for corporate and institutional clients, to ensure better-than-market growth in current account balances and fees and commissions

for transaction products, and to create, together with the *Retail Business*, conditions for a breakthrough in the investment products market for individuals and, by the end of 2022, to have secured at least 25 % of this market.

In 2019, the *Corporate-Investment Business* global business line launched a new functionality that uses biometric data to authenticate clients through remote banking service channels; the questionnaire was shortened, and the process of requesting documents from clients was streamlined. Among the new tools introduced, a new model for financing housing construction was launched using escrow accounts, and pilot projects were launched with key developers.

SYNERGIES AMONG GLOBAL BUSINESS LINES

One of the key areas for the Bank in terms of the Development Strategy implementation is the development of synergies among its global business lines.

Based on 2019 results, initiatives were developed to reinforce the synergies between the corporate and retail businesses. In particular, a number of initiatives were carried out regarding salary clients and cross-promotion of products to clients of the Retail and Corporate Businesses.

Retail customers were connected to the *Faster Payments System (FPS)* to enable them to transfer funds to individuals by telephone number. *VTB Business QR* was launched, making it the first solution in the market enabling customers to receive C2B payments using a QR code through the *Faster Payments System*.

In order to reinforce the development of investment products, VTB enabled to open brokerage and individual investment accounts through *VTB Online*, two partners were connected using the *Open API (Application Programming Interface)* technology, and a pilot roboadvisory project was launched. VTB entered the top three in terms of opening new accounts on the *Moscow Exchange*.

A strategy for financing housing construction was approved that involves a transition to the use of escrow accounts in working with developers.

Transport solutions for Moscow and St. Petersburg were introduced; the process of transitioning cardholders from their *Muscovite* social cards to Moscow resident cards got under way; *My Smart City* application and a *Russian Railways* card project were launched. Transport processing using an integrated payment aggregation mechanism was introduced in the *Moscow Metro* and for above-ground transport.

DEVELOPMENT OF OPERATIONAL AND TECHNOLOGICAL PLATFORM

A key condition for the successful implementation of the strategies of the Bank's global business lines and for development in the digital economy is the creation of an advanced operational and processing platform that involves efficient processes for operational support, business support and information systems that ensure a high level of automation and stability.

In 2019, VTB developed its *Retail Business* IT systems; the number of changes made to the IT systems increased by 30 % compared with 2018. In terms of IT solutions for the corporate business, VTB continued developing its remote banking channels.

The Bank also began operating cross-functional teams made up of staff from different Bank departments (business divisions, IT, and other organisational units), which individually or in cooperation with other teams work on the delivery of final products to the market. This format has been most common in the development of the *Retail Business and Medium and Small Business*. Since the end of 2019, the Bank has been changing over to a new production process; nine key Strategic programmes were initiated and launched already by the end of 2019 that will be the main drivers of the Bank's development in 2020–2022. As of the end of the year, the Bank had launched and was operating more than 270 such teams.

DATA MANAGEMENT AND INFORMATION SECURITY STRATEGY

In accordance with VTB's data management and information security strategy, 2019 saw the creation of a data lab team, the launch of a big data centre and the establishment of an information security monitoring centre.

The Bank's information security complies with the recommendations of the *Bank of Russia*. The Bank did not suffer any downtime of critical information systems or losses as a result of cyberattacks.

HUMAN RESOURCES, CORPORATE CULTURE AND HUMAN CAPITAL DEVELOPMENT STRATEGY

Based on 2019 results, the Bank became one of the top three employers in the banking industry and one of the top two employers for IT professionals and students.

As part of the Bank's work with young specialists in 2019, the *Junior* programme was extended to the regional network, and a separate specialisation was added, *IT Junior*, which added more than 70 technical specialists to the Bank's team.

A pilot project enabling some employees to work remotely was also successfully conducted in 2019, which helped prepare the Bank's infrastructure and evaluate all the necessary technologies in case of an emergency situation.

An initiative to reduce paper workflow was carried out, which enabled the Bank to reduce the volume of paper printed per employee by 10 % and the volume of paper workflow involving government documents by 50 % compared with 2018.

To realise the innovative potential of staff, an *Innovation Centre* was created, which establishes a unified cultural, resource- and infrastructure-related milieu for the creation, adoption, introduction and adaptation of innovative ideas, practices and processes.

CLIENT-CENTRICITY AND QUALITY

As part of the implementation of the *Client-Centricity and Quality* strategic initiative, a *Quality Centre* was created, which began conducting regular research on the quality of the customer experience on the part of retail customers, and a regular employee survey was introduced to evaluate internal services.

In addition, a strategy for managing the quality of the customer experience in the *Retail Business* was also developed in 2019. According to the 2019 survey, the loyalty index increased by 2 p.p. compared with 2018.

In 2019, work got under way on the development of a data management centre to provide customers with personalised offers through digital channels. Piloting and an assessment of customer satisfaction on the part of corporate clients in the *Medium and Small Business* segment got under way.

COST EFFICIENCY AND OPTIMISATION

The main areas of cost optimisation and improving the Bank's efficiency are simplifying processes related to standard operations, automating and roboticising routine functions and processes, increasing transparency and reducing costs, managing non-core assets, reformatting the network, centralising and regionalising homogeneous functions, and integrating banks.