

# Statement of the President and Chairman of the Management Board



**Andrey Kostin**

President and Chairman of  
the Management Board

## Dear shareholders, clients, and partners,

The year 2019 marked an important stage in VTB Group's development: net profit amounted to RUB 201 billion, equivalent to a 13 % return on equity; we attracted more than 1 million new customers, bringing our total number to 13.9 million. Our shareholder base continued to grow: increasing by 31 % in 2019 to 160 thousand. Last year, we also adopted and began the successful implementation of a new Development Strategy for the period up to 2022, which calls for a profound transformation of the business and a radical improvement in customer experience in a rapidly changing market reality.

Net profit amounted to RUB 201 billion, an increase of 13 % year-on-year. This increase was driven by organic business growth and improving balance sheet structure thanks to better asset quality.

In 2019, the Group's net profit amounted to RUB 201.2 billion, which was 12.9 % higher year-on-year and in line with our target. Profit growth was the result of higher fee and commission income and improved asset quality. Another factor behind the improvement in our operating metrics was lower provision thanks to higher asset quality. On the back of increased net profit, return on equity increased to 12.8 %.

VTB Group's retail loan portfolio demonstrated excellent growth during the reporting period, increasing by 13 % to RUB 3.4 trillion. VTB was one of the few banks to increase mortgage volumes in 2019. As of the end of the year, our housing loan portfolio amounted to RUB 1.6 trillion, while the total volume of mortgage loans amounted to RUB 712 billion – an all-time record for VTB Group. In 2019, VTB issued one out of every four mortgage loans in Russia; around 1.4 million families were able to purchase housing with our help.

Our corporate loan portfolio decreased by 4 % in 2019, mainly as a result of a series of large repayments. At the same time, our loan portfolio in the *Medium and Small Business* segment grew by 10 % over the year. VTB Group offers affordable financing, high-quality service and advanced digital solutions for SME throughout Russia. Last year, we continued to develop remote banking channels and services that allow entrepreneurs to save significant time and manage their business effectively.

The Group continued to increase the share of *Retail Business* in its liabilities. In 2019, retail deposits grew by 14 % to RUB 5.0 trillion, increasing at a rate twice as fast as the Russian banking sector overall. Corporate deposits remained virtually unchanged over the year, amounting to RUB 5.9 trillion as of 31 December 2019. Our faster-than-market

The total volume  
of mortgage loans  
amounted

to **712**  
RUB billion,  
an all-time record  
for VTB Group.

growth in client funding enabled us to improve the stability of our balance sheet structure: our loans-to-deposits ratio decreased to 98.2 % over the year.

In 2019, our main banking revenues increased by 5 %. At the same time, despite a lower net interest margin, which began to recover only in the second half of the year, we were able – through the continued optimisation of our balance sheet structure – to maintain net interest income at 2018 levels. In addition, excellent growth in cross-sales enabled us to achieve a considerable increase of 29.2 % in net fee and commission income.

In 2019, we were able to improve the quality of our assets: the share of non-performing loans in our total loan portfolio decreased by 100 b.p. year-on-year to 4.7 %. We also saw declines in the cost of risk and provision charge, which amounted to RUB 92.2 billion, down 38 % year-on-year. The NPL coverage ratio increased to 128.7 % at the end of 2019, compared with 112.0 % a year earlier.

Last year, staff costs and administrative expenses increased by 12.6 % year-on-year, while the cost to income ratio was 41.6 %, which indicates a high degree of operational efficiency. The substantial investments in infrastructure and competencies that we made in 2019 will serve as a good basis for further growth in productivity.

**In 2019, we greatly improved our positions in retail and in servicing small and medium-sized businesses; we saw significant development in retail investment products, and we also maintained a leading position in the corporate-investment business.**

VTB Group's share in the retail funding market in Russia increased to 15.1 %. The Group's market share in terms of retail lending in Russia was 17.4 %.

In 2019, VTB consolidated its leadership in the corporate-investment business: VTB Capital was named the best investment bank in emerging markets for the third year in a row and was also recognised as the leading bookrunner in Russia, the CIS and Eastern Europe. We continued to arrange financing for regional and federal projects in the areas of social infrastructure, road construction and railway infrastructure, as well as innovative and high-tech projects in the real sector of the Russian economy.

We also continued to provide investment services for individuals. VTB Capital Investments, a retail broker, became a recognised leader in the Russian market, having made a qualitative breakthrough in attracting new customers to the stock market, with its client base growing by 150 % in 2019 to more than 700 thousand. The number of active clients using the *VTB My Investments* mobile platform increased sixfold to more than 170 thousand; the total volume of transactions exceeded RUB 2 trillion. The quality and appeal of VTB mutual funds followed suit: last year, investors placed RUB 49.5 billion with VTB Capital Management's mutual funds. This was about half of the funds raised by all market players in Russia.

**Our 2019–2022 Development Strategy is based on VTB Group's vision as a dynamically and steadily growing universal financial company that is designed to be the first-choice financial partner for its customers, meeting their needs in the most convenient manner possible and using the most advanced tools available.**

Last year marked an important stage in the development of VTB Group: we successfully completed implementation of our 2017–2019 Development Strategy, and we embarked on a path towards increasing return on equity; we met all of our priority targets in terms of business volumes and market positions. The integration of the Group's main subsidiaries was our top priority in the previous strategic cycle. The banking market has shifted to a new development paradigm: the market

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is increasingly turning towards digitalisation, and all processes can be carried out much more quickly, while competition for customers is increasing and the traditional banking business is becoming less profitable. This demands a different business model; adaptation to ongoing tasks and challenges, customer-centricity and a detailed understanding of the client's needs, as well as timely responses to changes are critical aspects of interaction and a real competitive advantage. All these aspects form new growth points for us.

Under these conditions, we adopted a new Development Strategy, including an updated mission, vision and values, in accordance with which VTB Group identified three key development priorities to 2022. The first priority is an increased focus on clients' transactional operations, support for daily operations, payments and transfers. Another key strategic focus is the optimisation of funding costs. With the goal of maintaining our leadership in the corporate segment, we plan to continue to increase our retail customer base to 18 million and to double our customer base of the *Medium and Small Business*.

In 2019, the Group dramatically reorganised and restructured its IT function. In a short time frame, we conducted a detailed audit of our entire IT landscape, infrastructure, production process and project management and switched to a new format for change management, i.e., through programmes. We focused on improving the stability and reliability of our IT systems and our entire IT infrastructure, upgrading origination conveyors to accelerate bringing in new customers and to improve the quality of our loan portfolio and the speed of decision-making by using advanced technologies for data analysis and modelling. In addition, recognising the importance of working with data, we began building an updated data platform and creating an advanced analytics laboratory to fully utilise the competitive advantages of our existing customer base and to attract new customers.

Programmes were launched for the purpose of digitalising banking support processes and increasing the speed of decision-making, as well as introducing an approach to assessing credit risk based on internal ratings.

I would also highlight our work on building an omnichannel platform, which should become the flagship of our digitalisation process and should also create additional competitive advantages through, first of all, a new customer experience – convenient, high-quality, reliable and secure service for our customers – and through the quick rollout of new client services and products, integration with partners, a state-of-the-art IT landscape and the application of advanced technologies. All this will be created in accordance with a new IT process involving cross-functional teams – close interaction between IT and business and functional customers.

**Our responsibility to the public drives all our actions and strategic priorities. With the adoption of VTB Group's new Development Strategy to 2022, we began the comprehensive implementation of sustainable development principles in our activities. The Group's updated strategy, mission and values are aligned with the *UN Sustainable Development Goals* and are contributing to the implementation of all 17 goals that all *UN* member states agreed to achieve by 2030.**

In 2019, we identified eight priority goals that VTB will contribute to through its core business, including by supporting and participating in various projects and initiatives aimed at improving the quality of life in the regions where we operate and making advancements in healthcare, science and education, culture and environmental protection.

Climate change is one of our era's key issues, looming large at both the international and national levels. VTB Group is systematising and taking to new heights work on green financing, involving

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customers in the environmental agenda and promoting environmental values in the country. We also continue to improve our own energy efficiency and reduce our environmental impact. Our sponsorship and charity efforts are increasingly focused on supporting special-purpose funds and environmental programmes. All this will enable us to bring our ESG management system to a level consistent with best practices and standards.

We provide a more detailed discussion of our ESG results and projects in our Sustainability Report.

**In 2020, the entire world came face to face with fundamentally new and global challenges. In a matter of days and weeks, we had to reorganise our processes in order to minimise risks to the life and health of our customers and employees, on the one hand, and to ensure full-scale operations during the period of self-isolation – on the other hand. We can now say with confidence that we – the entire VTB team – fared well in facing up to these challenges.**

Among the results of the ongoing transformational processes are a high degree of operational flexibility and the ability to quickly restructure our operations in light of the spread of COVID-19. We were able to create the necessary conditions, in a short time, to enable some 25 thousand employees and contractors to work remotely. We expanded communication channels, provided necessary access, purchased and configured equipment. We ensured that our projects were carried out, and we continued to introduce new services and solutions. In a short amount of time, we were able to quickly and reliably alter our IT systems and processes – at times the first in the market to do so – to implement government initiatives and solutions to support the economy.

VTB's coordinated, results-driven and critical work in the context of the pandemic underlined our role as a leading Russian financial institution and a top player in the development of information technologies.

Our achievements in the past year established a solid foundation for responding to the serious challenges that 2020 has brought. Thanks to our considerable safety buffer, VTB Group continues to expand its business and increase the speed of internal transformations, and we are ready to use the opportunities that are arising to further strengthen our market position. I would like to thank the entire VTB team – a large but tight-knit group – for their hard work, their readiness for change and their desire for continuous improvement, as well as our shareholders, customers and partners for their trust in us. Our goal is to live up to that trust. Together, we will continue to work for the good of society, while playing a role in the successful development of our country.

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Sincerely,  
**Andrey Kostin**