

# **VTB Group 2014 – 2016 Quality Growth Strategy Highlights**

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Some of the information in this presentation may contain projections or other forward-looking statements regarding future events or the future financial performance of JSC VTB Bank ("VTB") and its subsidiaries (together with VTB, the "Group").

Such forward-looking statements are based on numerous assumptions regarding the Group's present and future business strategies and the environment in which the Group will operate in the future.

We caution you that these statements are not guarantees of future performance and involve risks, uncertainties and other important factors that we cannot predict with certainty. Accordingly, our actual outcomes and results may differ materially from what we have expressed or forecasted in the forward-looking statements.

These forward-looking statements speak only as at the date of this presentation and are subject to change without notice. We do not intend to update these statements to make them conform with actual results.

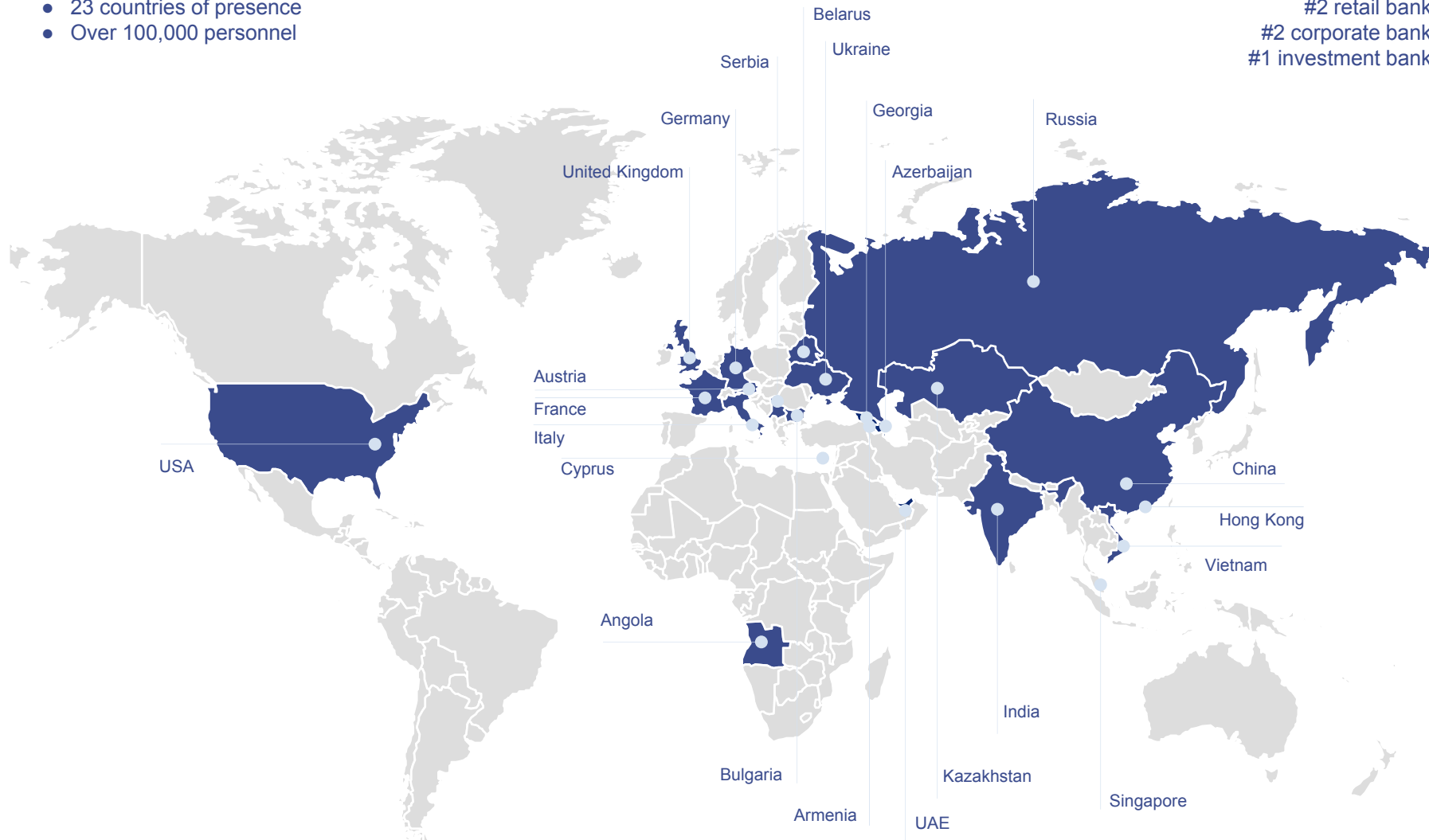
# VTB Market Position (1)

## World

- 14 mln retail & over 243,000 corporate customers
- 23 countries of presence
- Over 100,000 personnel

## Russia

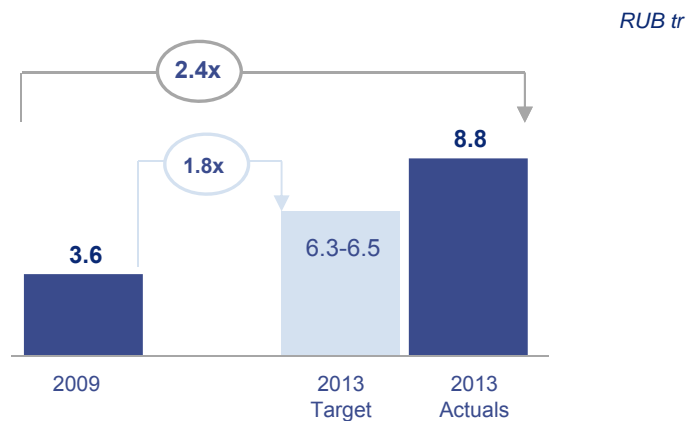
- Over 1,600 offices
- #2 retail bank
- #2 corporate bank
- #1 investment bank



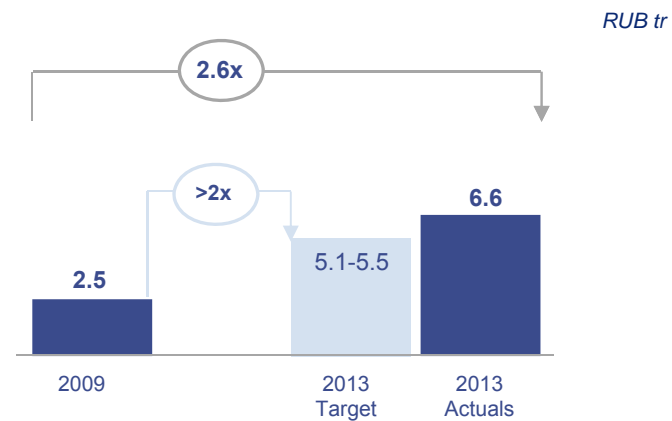
(1) Market position in corporate and retail segments represents VTB Group's rank in Russia in lending to corporate and individual clients, based on CBR data (RAS financial results of VTB Bank, VTB24, Bank of Moscow and Leto Bank). Source for market position in investment banking: Dealogic.

# 2010-2013 Strategy Implementation Results: Key Balance Sheet Metrics

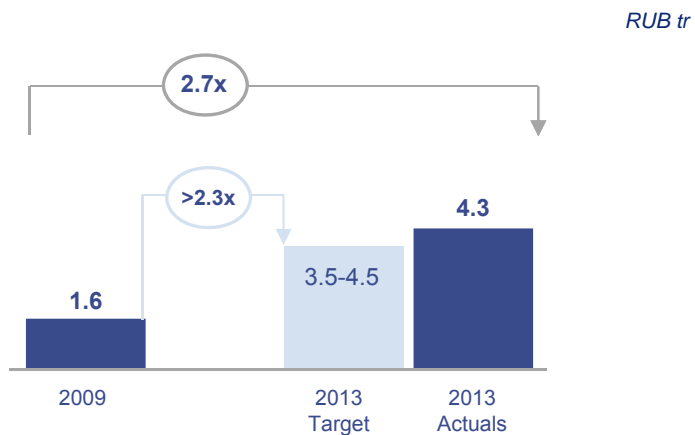
## Total assets



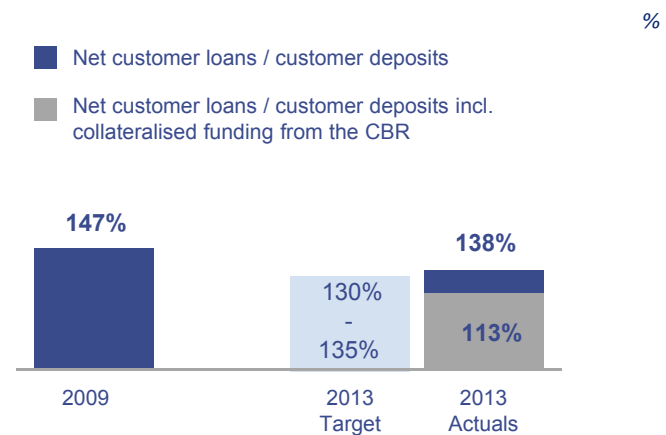
## Customer loans (1)



## Customer deposits



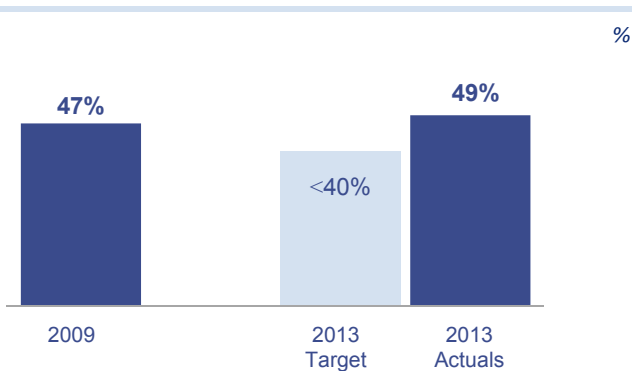
## LDR



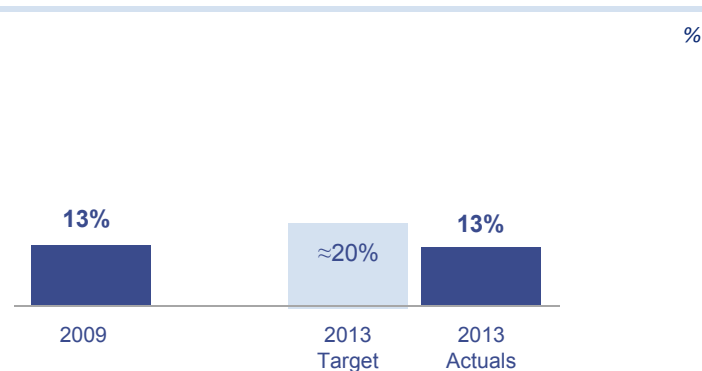
(1) Calculated including financial assets classified as loans and advances to customers pledged under repurchase agreements.

# 2010-2013 Strategy Implementation Results: Key P&L and Efficiency Metrics

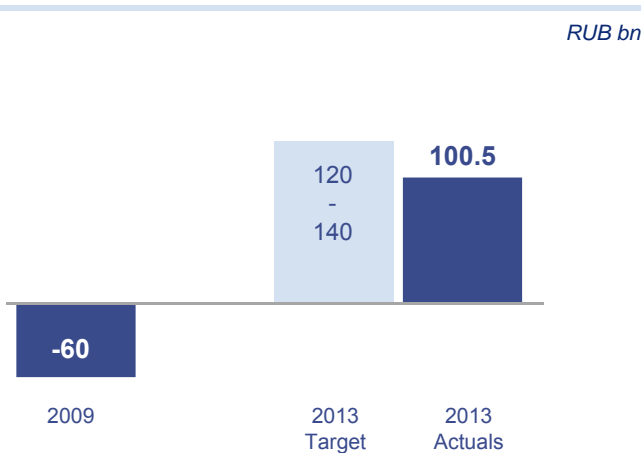
## CIR



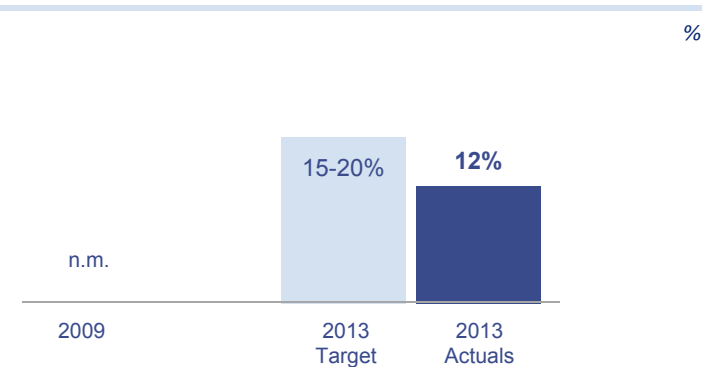
## Net F&C income as % of operating income before provisions



## Net profit



## ROE



## 2010-2013 Strategy Implementation Results: Key Underlying Drivers



- The Group strengthened its market position as a leading player in the corporate and investment business in Russia in all key products.
- VTB Capital is the leader in the Russian investment banking market.
- VTB24 is the second largest retail bank in Russia, delivering excellent performance.
- Leto Bank is a new brand that gives the Group access to the mass-market retail segment.
- Fast client acquisition: over 500,000 clients, 272 service centres, and more than 21,000 retail distribution partners in 2013.



- TCB added 900 corporate and over 2 mln retail clients to the Group's client base, and contributed more than RUB 300 bn and in excess of RUB 125 bn to the Group's corporate and retail loan books respectively. Final integration of TCB's branch network into VTB24 is to be completed this year.
- Universal bank, and integral part of the Group.
- Material contribution to the Group's profit.
- BoM franchise enhanced the Group's business with the City of Moscow and other large municipalities and regional administrations.



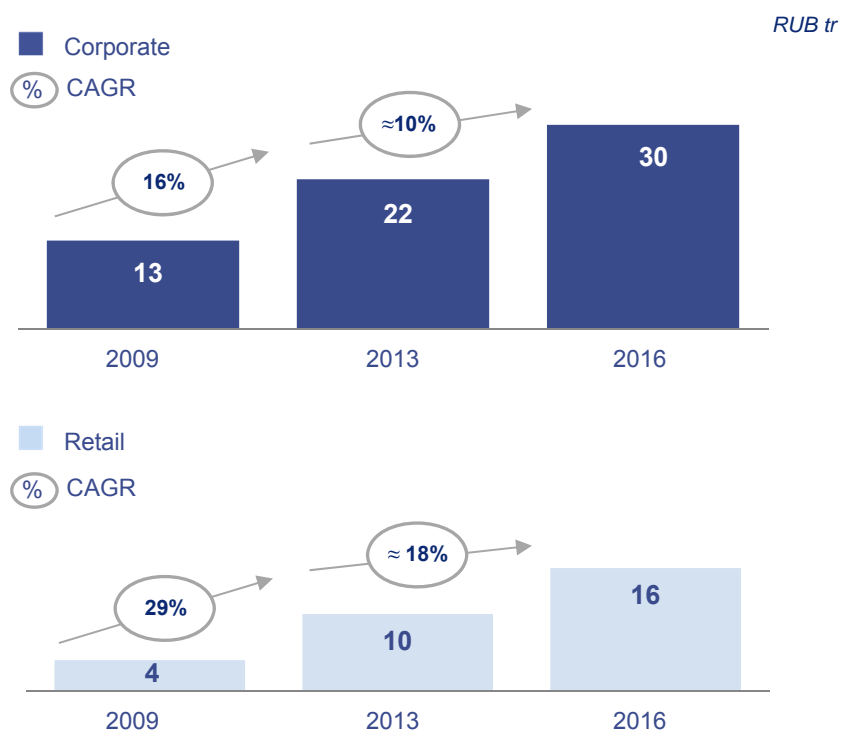
- Became one of the top 10 insurance businesses in Russia, outperforming internal targets for size of the insurance business by two fold.
- One of the top-3 leasing businesses in Russia.
- The largest factoring business in Russia, 1.5x bigger than its closest competitor

# 2014-2016 Macro and Russian Banking Sector Outlook

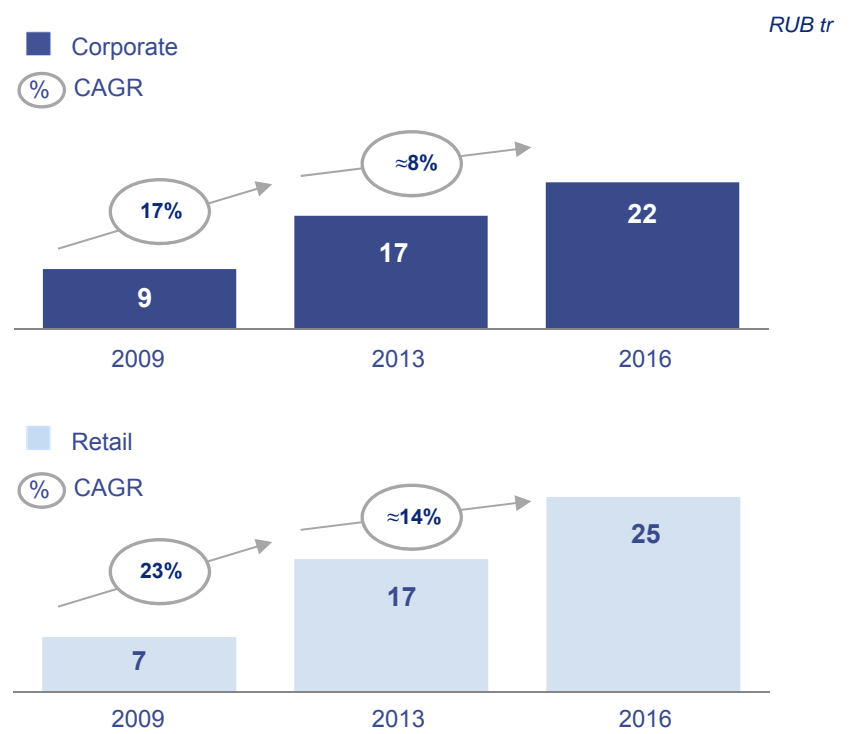
## Base macroeconomic scenario for 2014-2016

average GDP growth ≈2% p.a.	average oil price 100-105 USD per barrel	inflation 4.0-4.5% p.a.
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### Customer loans



### Customer deposits



## 2014-2016: Strategy of Quality Growth





# 2014-2016 Strategy: Corporate and Investment Business Targets for 2016 in Russia

## Large corporate business market in Russia <sup>(1)</sup>

- Over 1,700 companies.
- 47% of corporate banking revenues after cost of risk.
- 72% of corporate business client funds.
- Essential revenue source for investment banking business.

### Market shares by product

	2013	2016
Customer loans	20%	20%
Term deposits	12%	16%
Current accounts	10%	13-15%

### Financial efficiency

	2013	2016
Operating income <sup>(2)</sup>	RUB 162 bn	≈ RUB 200 bn
NIM	2.2%	stable
CoR	1.2%	marginal deterioration
CIR	31%	moderate improvement
ROE	12%	stable

(1) Source: VTB Analytical Centre estimates, YE2013.  
 (2) Calculated before provision charge for impairment.

# Strategic Initiatives in Corporate and Investment Business

1

## Revenue diversification

Extend customer relationship with top 300-500 clients the level of top 100

2

## Developing transaction business

Emphasise cross-selling to corporate borrowers; introduce wider product range; streamline procedures to shorten decision time for risk-based products

3

## Lowering cost of funds

Growing proportion of current accounts in total customer funding

4

## Structural reorganisation

- Establish medium-sized corporate sector as a separate organisational segment
- Reallocate support functions between CIB and Corporate Centre

5

## Adjustment of CIB incentive system:

Focus on non-lending revenues; lowering client concentration; KPIs for client managers to include number of active clients; product penetration per client; and RORAC for each client / transaction

6

## International business development

Leveraging existing international network with focus on the most attractive emerging markets where VTB has distinct competitive advantages to diversify risks and contribute to the Group's profit;

# 2014-2016 Strategy: Medium-sized Corporate Business Targets for 2016 in Russia

## Mid corporate business market in Russia

- Over 46,000 companies.
- 1/3 of corporate loans and 15% of customer deposits.
- 1/2 of corporate fees and commissions revenue.

### Market shares by product

	2013	2016
Customer loans	7.5%	10%
Term deposits	19%	22%
Current accounts	13%	17%

### Financial efficiency

	2016
Operating income <sup>(1)</sup>	≈ RUB 60 bn
NIM	3.5-4.0%
CoR	<2%
CIR	<35%
ROE	≈ 20%

(1) Calculated before provision charge for impairment.

# Strategic Initiatives in Mid Corporate Business

1

## Improving client servicing and cross-sales

Adapt incentive models focusing on risk adjusted return per client; further develop CRM system; develop business with municipalities in target regions

2

## Organisational changes

- Transform the existing branch network of VTB Bank and Bank of Moscow
- Utilise intra-group knowledge and experience, sharing between existing teams, focus on customer managers' professional training

3

## Credit and risks

Unify risk metrics and procedures in VTB Bank and Bank of Moscow; further improve credit procedures by introducing simplified credit processing for lower client segments, as well as automated monitoring of key quantitative credit metrics

4

## Improving client servicing and cross-sales

Improve speed of credit decisions and enhance product offering to include investment and transaction banking products

# 2014-2016 Strategy: Retail Business Targets for 2016 in Russia

## Retail business market in Russia

- Over 80 mln individual banking clients.
- Over 7 mln small business clients, including IPE and SST. <sup>(1)</sup>

### Market shares by product

	2013	2016
<b>Loans to individuals</b>	14.3%	18.5%
<b>Loans to small business</b>	6.8%	10.0%
<b>Individual client funds</b>	9.3%	12.0%
<b>Small business client funds</b>	11.8%	12.8%

### Financial efficiency

	2013	2016
Operating income <sup>(2)</sup>	RUB 177 bn	≈ RUB 390 bn
NIM	8%	stable
CoR	3.1%	<3.5%
CIR	45%	moderate improvement
ROE	23%	≈25%

(1) IPE – individual private entrepreneurs, SST – companies with simplified system of taxation.  
 (2) Calculated before provision charge for impairment.

# Strategic Initiatives in Retail Business

1

## Aggressive growth of customer base and share of wallet

Increase customer penetration to 40-45% in affluent segment (VTB24), and to 20% in mass segment (Leto Bank); improve client conversion and retention, and proportion of active clients.

2

## Building a multi-channel banking platform

Introduce optimal functionality in each service channel; significantly increase the penetration of internet-banking; enhance call center service quality and sales; grow the sales network to 2,600 branches and 16,000 ATMs.

3

## Finalise transition to segment-focused sales models

Aggressively grow client base and customer deposits in Private Banking; launch premium servicing for mass-affluent clients; grow share of alternative channels and lower servicing costs for mass segment.

4

## Develop advanced nationwide model of small business banking

Broaden the product range; standardise credit procedures and lending cycle; improve sales infrastructure and servicing through alternative channels.

5

## Accomplish Leto Bank and Bank of Moscow development plans

Launch 1,000 branches of Leto Bank, and attract 7 million customers using POS and cash loans as main client acquisition tool. Grow market share of BoM 1.8x, including cash loans, mortgages, and retail deposits.

6

## Enhance the support infrastructure

Complete the upgrade of credit product factory; boost bad loan collection; finalise the full replacement of the IT platform; become the preferred employer in the retail financial services industry

# 2014-2016 Strategy: Key Objectives for Support and Control Functions

1

## Finance management

- Implement economic capital and RORAC per client / product into the MIS.
- Improve cost allocation approach in the Group and optimise purchasing processes.
- Shorten closing time for annual and quarterly reporting (T+60 / T+45 correspondingly).

2

## Risk management

- Finalise centralisation of risk management governance structure, implement risk adjusted performance measures on Group level.
- Refine economic capital calculation and allocation methodology for significant risks and develop business continuity plans in all Group companies

3

## Human resource management

- Continue improving HR brand.
- Implement best practices in personnel development and talent retention.
- Align motivation systems and KPIs with Group Strategy.

4

## IT strategy

- Design Group standards for hardware and software to reduce cost of procurement.
- IT-infrastructure consolidation for Russian entities of the Group, including Group-wide data centre construction, virtualisation of server infrastructure and consolidation of network elements and providers.

5

## Operations

- Extract synergies from organisation of the Group's operational support: unified payment space, a single settlement platform and payment infrastructure, evaluation of options to move towards single operational platform.
- Improve quality of support functions and decrease time spent to launch new operational services. Set up support for new products and services.

# Cost Optimisation – Strategic Priority for VTB Group in 2014-2016

## Corporate and Investment Business

1

- Total compensation decrease by 15% in 2014-2015 (VTB Bank and VTB Capital).
- Efficiency increase of front and middle offices.

## Mid Corporate Business

2

- VTB Bank and Bank of Moscow branch network optimisation.

## Retail Business

3

- Improving operational efficiency: growing client conversion ratio by 10-15%; achieving higher share of wallet and reduction of client outflow by 1/3.
- Increasing the share of alternative channels in client transactions to over 70%.
- Back office costs optimisation.

## Corporate centre

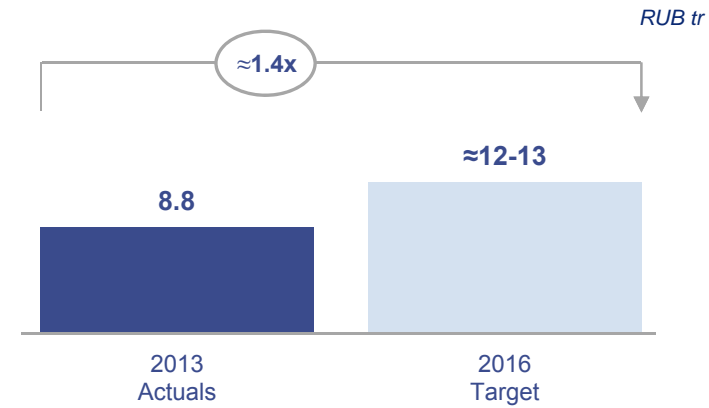
4

- Minimising non-operational costs.
- Headcount optimisation by centralising support and control functions.

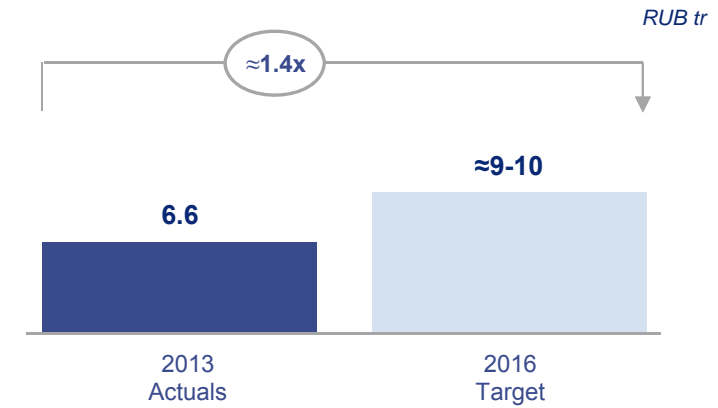


# VTB Group Key Financial Targets for YE2016

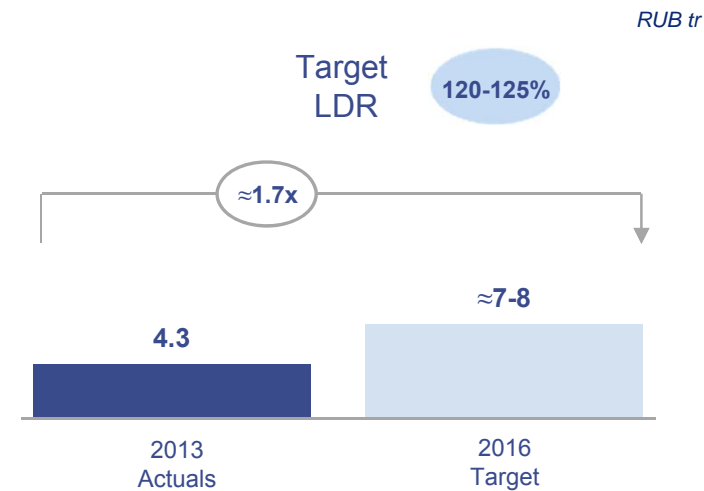
## Total assets



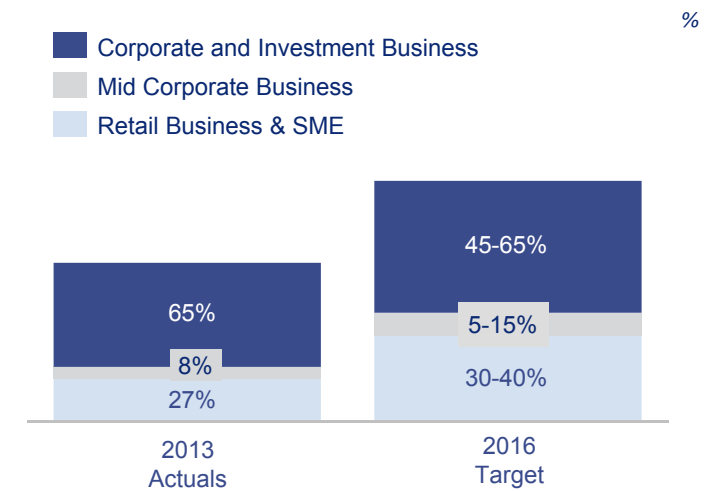
## Customer loans



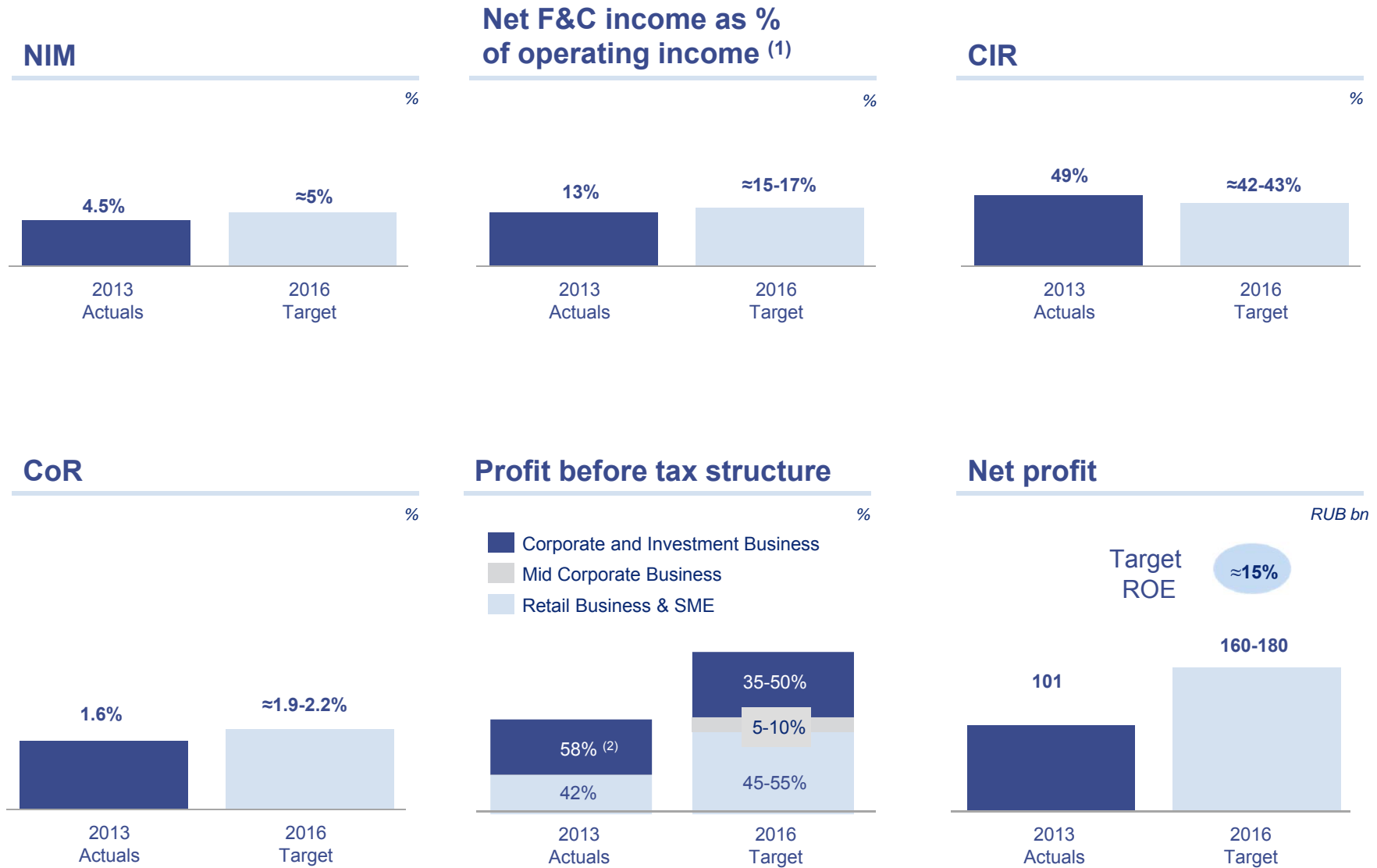
## Customer deposits



## Customer loans structure



# VTB Group Key Financial Targets for YE2016



(1) Operating income is calculated before provision charge for impairment of debt financial assets and provision charge for impairment of other assets, credit related commitments and legal claims.

(2) Including Mid Corporate Business



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