

VTB Group 2017 – 2019 Strategy Highlights

January 26, 2017

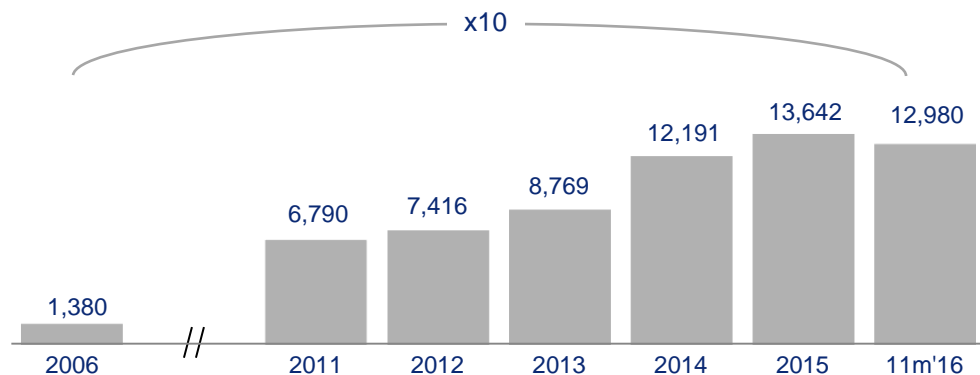


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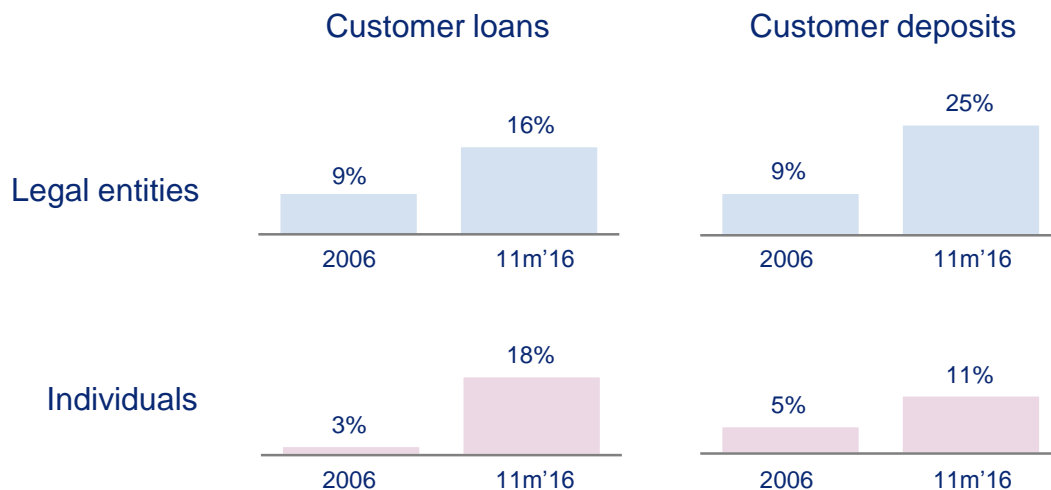
ROBUST GROWTH STORY AND STRONG COMPETITIVE POSITIONS IN ALL KEY SEGMENTS

Total assets RUB trln

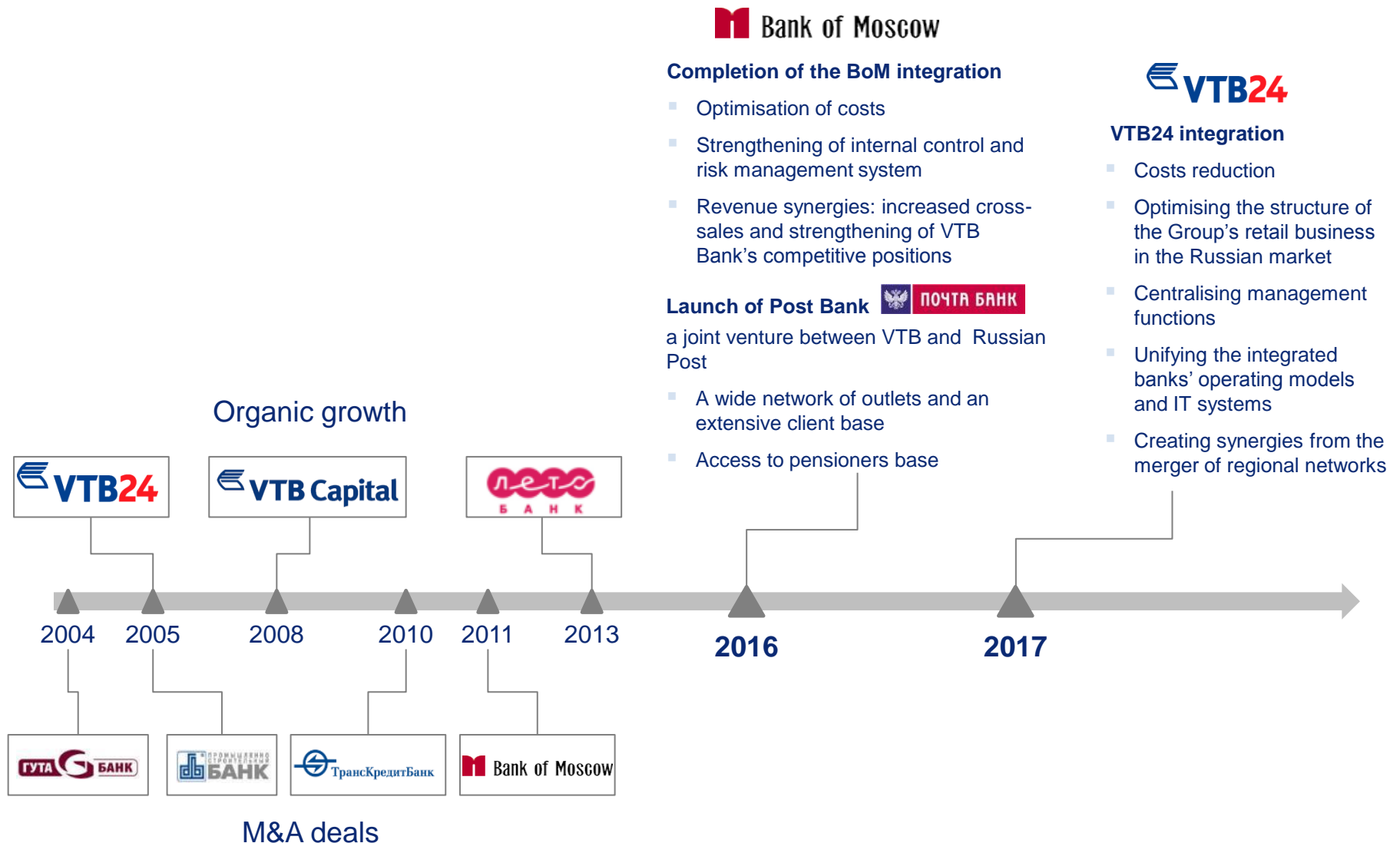


- **Leading player in Russia**
 - 2nd largest banking group in Russia
 - 18% market share in Russia (% of total assets)
- **Successful growth story**
 - almost 10-fold asset growth for the past ten years
- **Well-established universal banking model**
 - leading Russian banking group with strong positioning in all key segments: CIB, Retail banking, Insurance, Leasing, Factoring, etc.
- **Extensive branch network**
 - over 7,300 branches in Russia (incl. Post Bank)
 - presence in 22 countries
- **Solid client base**
 - 15 mln active retail and corporate banking customers

VTB market share in Russia (RAS)



VTB GROUP CORPORATE DEVELOPMENTS: MIX OF MERGERS AND ORGANIC GROWTH



VTB GROUP OPERATING MODEL IN LINE WITH BEST GLOBAL PRACTICES

Assets
11m'16



2014 – 2016 STRATEGY IMPLEMENTATION RESULTS

Summary of 2014–2016 strategy implementation results

Market positioning

- ✓ Met the targets for asset and loan portfolio growth (CAGR of 13%)
- ✓ Grew market shares in lending above targets
- ✓ Strengthened relationships with largest corporate clients, kept leading position in investment banking
- ✗ Did not meet the target for retail deposits, liabilities dominated by sources of funding that are sensitive to changes in the CBR's key rate
- ✗ Did not meet the target for the share of retail lending in the overall loan portfolio due to weak market performance

Financial targets

- ✗ Did not meet the net income and ROE targets
 - Increased cost of liabilities and lower NIM driven by the increase in the CBR key rate
 - CoR exceeded the target level during certain periods due to the economic slowdown and a number of credit risk events in subsidiaries (incl. in Ukraine)
- ✗ Did not meet the commission income target due to the overall slowdown in business activity and slower-than-anticipated growth in retail

Qualitative targets

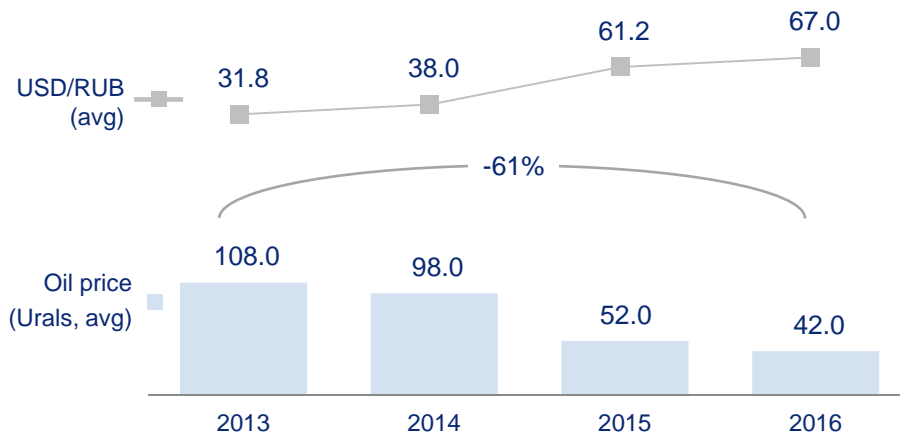
- ✓ Successfully implemented major transformation projects: launch of MCB, integration of the Bank of Moscow, launch of Post Bank, overhaul of the overseas network management system
- ✗ Technology: potential for improvement remains

Lessons learned

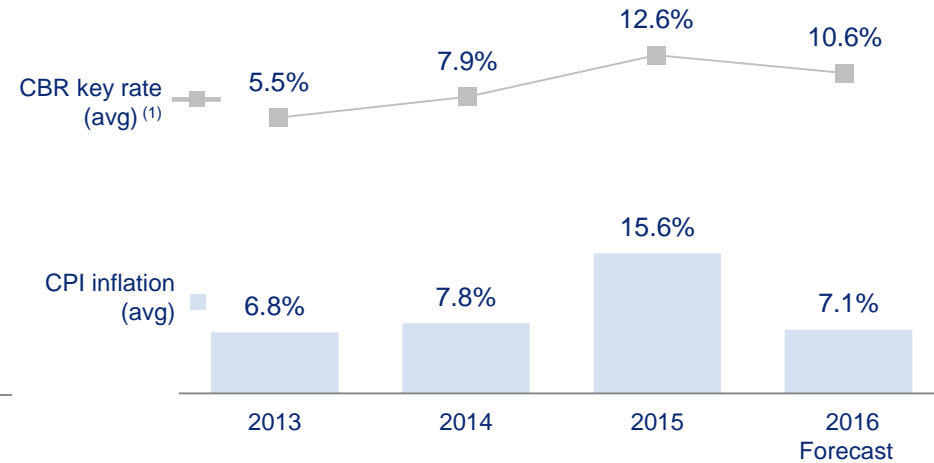
- **A business model shall be supported by an adequate share of customer funds (primarily retail)**
- **Consolidation of credit expertise and risk management improves the resilience of lending business to an economic slowdown**
- **Growth of transactional business in the lower segments drives fee income, reducing the impact of interest-rate risk on profits**
- **Transformation of technology capabilities allows to strengthen long-term customer relationships**
- **Integration of banks drives synergies between business lines and cost optimisation**
- **Lessons learned from the implementation of transformation projects should be leveraged to guide future integration initiatives**

MACRO ENVIRONMENT SIGNIFICANTLY DETERIORATED

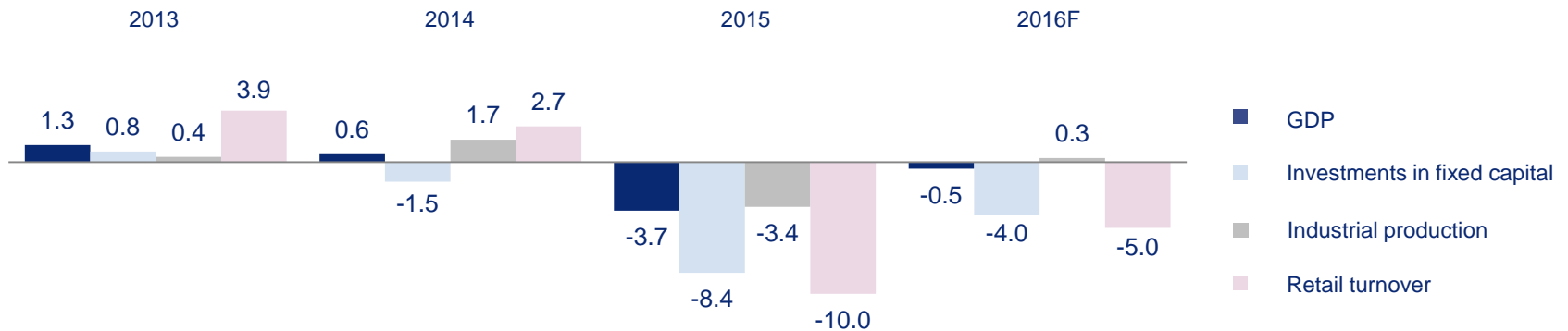
Oil price ^{USD} and exchange rate ^{RUB}



Inflation and CBR key rate



Russian macroeconomic indicators [%]

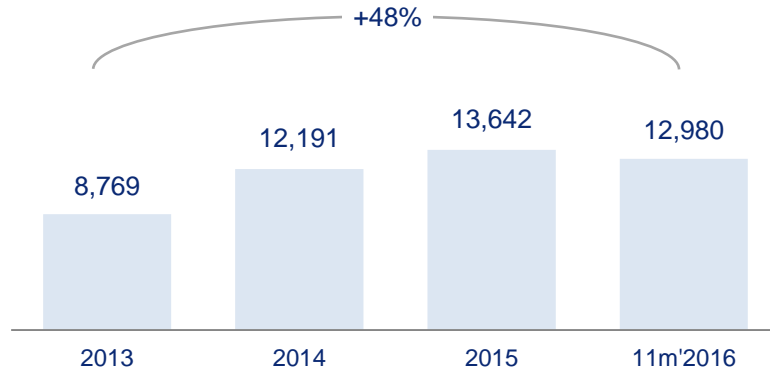


(1) In its current form key rate was introduced by the Bank of Russia in September 2013. Average figure for 2013 is calculated based on the period September 13, 2013 – December 31, 2013.

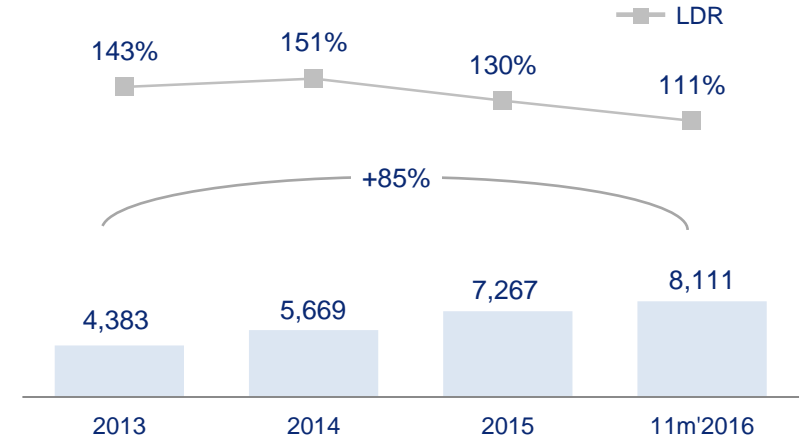
VTB IMPROVED BALANCE SHEET CAPITAL AND METRICS

ASSET QUALITY REMAINS UNDER CONTROL

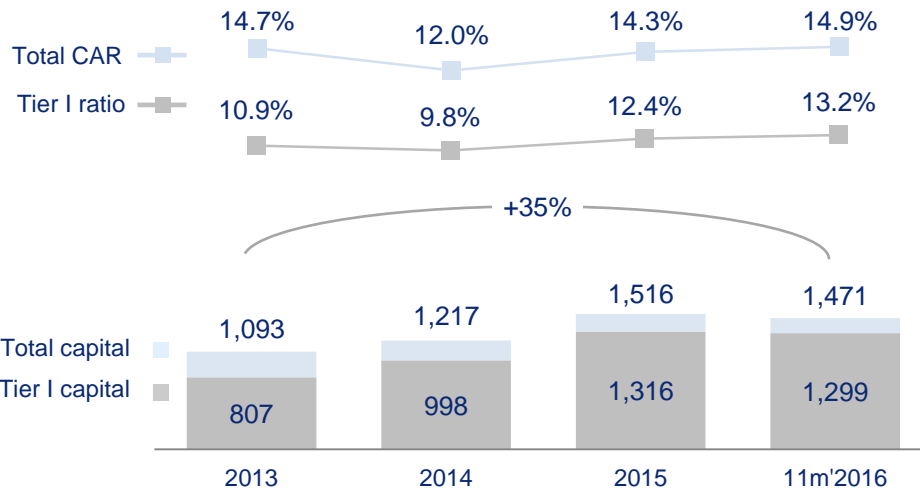
Total assets RUB bn



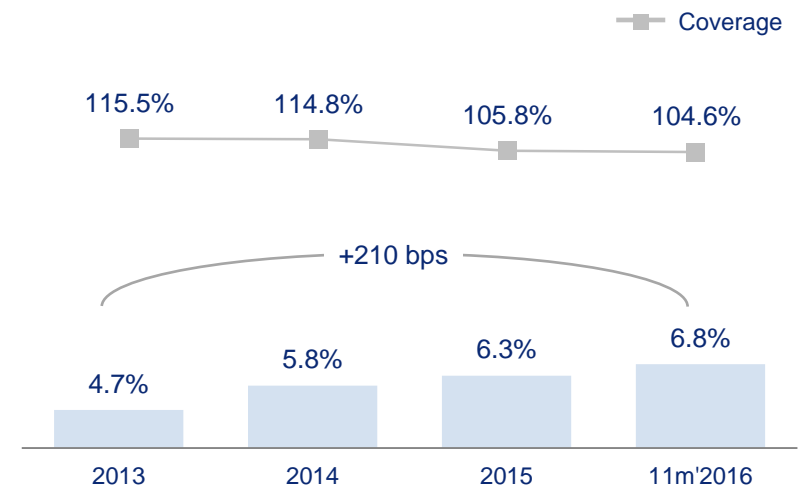
Customer funding RUB bn



BIS Group capital RUB bn

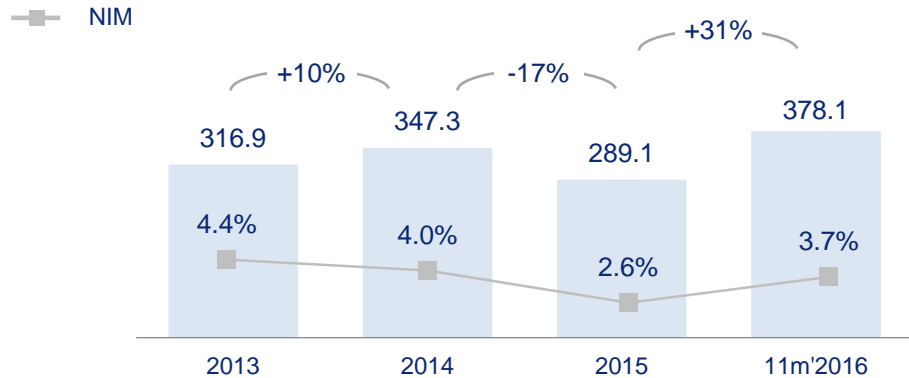


NPL ratio (90+) RUB bn

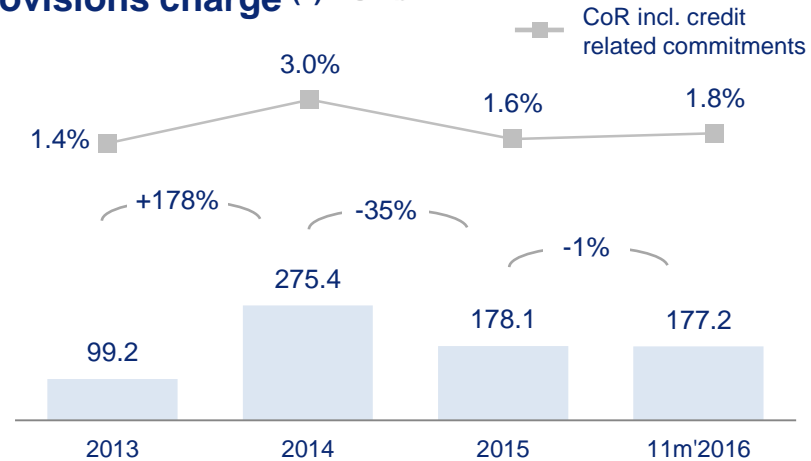


PROFITABILITY HIT BY LOWER NIM AND RISE IN CREDIT COSTS PARTLY OFFSET IN 2016

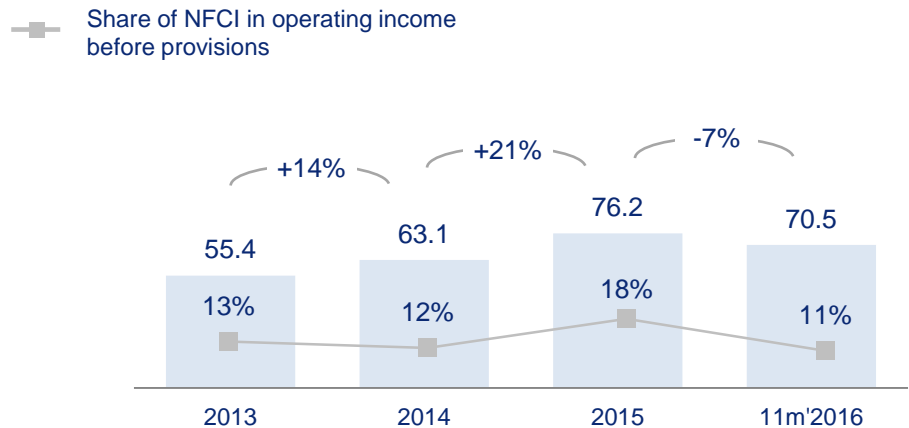
Net interest income RUB bn



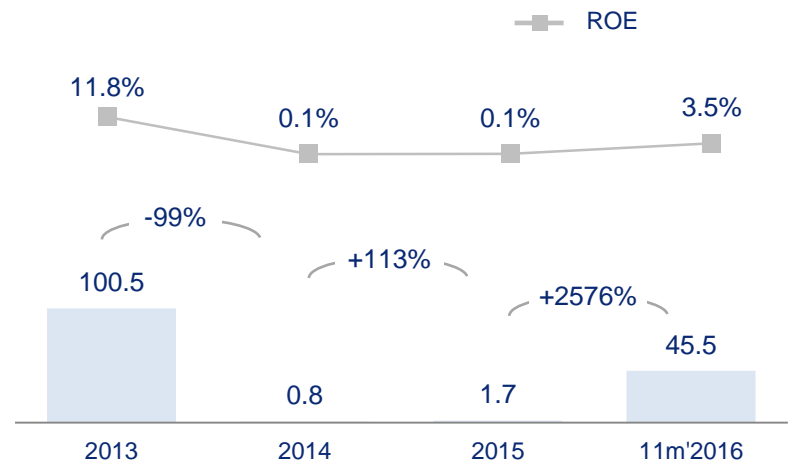
Provisions charge (1) RUB bn



Net fee and commission income (NFCI) RUB bn



Net profit RUB bn



(1) Including provision charge for impairment of debt financial assets and provision charge for impairment of other assets, credit related commitments and legal claims.

KEY MARKET TRENDS IN THE NEW STRATEGIC PERIOD

Challenges facing VTB Group

Economy & markets

- The banking sector will continue to grow under a moderately optimistic scenario of the economic recovery
- The banking market will grow at the rates below those seen during the growth period that preceded the 2014–2016 slowdown
- The CBR's key rate and the cost of related sources of funding are expected to decrease; however the reduction rates are uncertain

Competition

- Further consolidation in the banking sector with the main intrigue focused on which of the key players will use the situation to improve market share
- Growing competition among banks for best customers will put a pressure on margins
- Rapid migration to digital channels and higher customer requirements to service quality

Regulation

- Introduction of tougher regulatory requirements: higher capital adequacy ratios, changes in capital calculation methodology, liquidity requirements
- New reporting standards with implications for cost of risk and capital

Window of opportunity for market share growth

An active repartition of the retail market is ongoing: Sberbank, VTB Group and major banks are strengthening their position

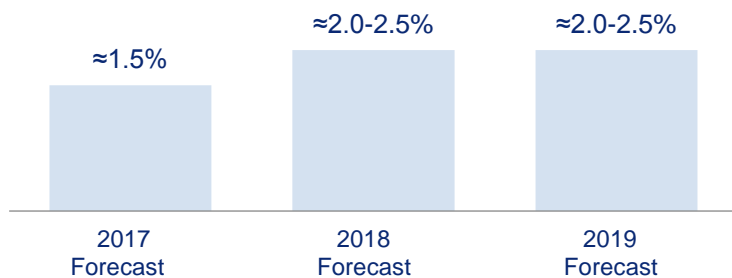
The market situation is favorable for VTB Group growth

- "Small" banks continue to lose market share: in conditions of instability and ongoing license revocations, customers will prefer large and state players
- Reduced margins will drive players with insufficient business scale out of the market

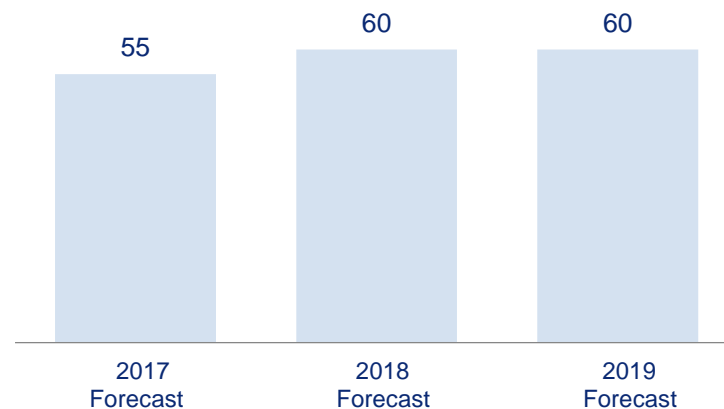
The major question is which of the big players will be able to most effectively take advantage of the situation?

VTB GROUP MACRO EXPECTATIONS UNTIL 2019

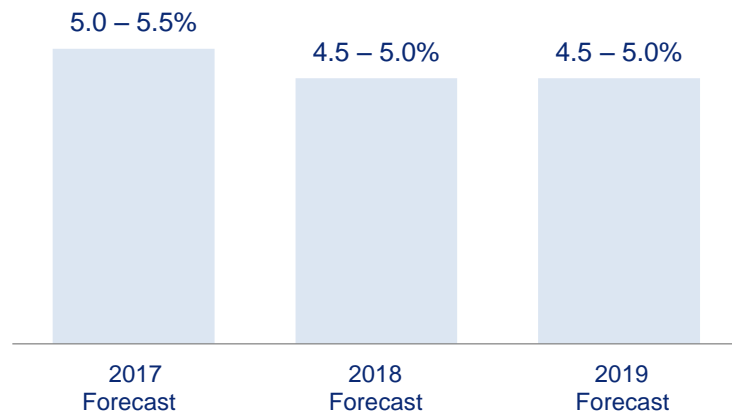
GDP growth Y-o-Y



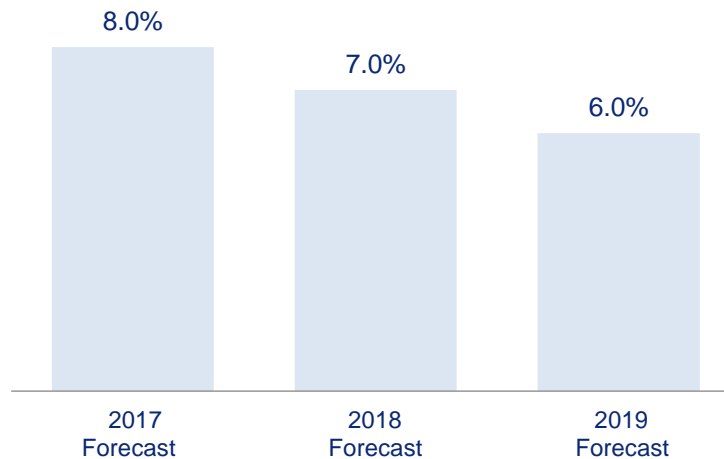
Oil price (Urals), average USD/bbl



CPI inflation Dec / Dec

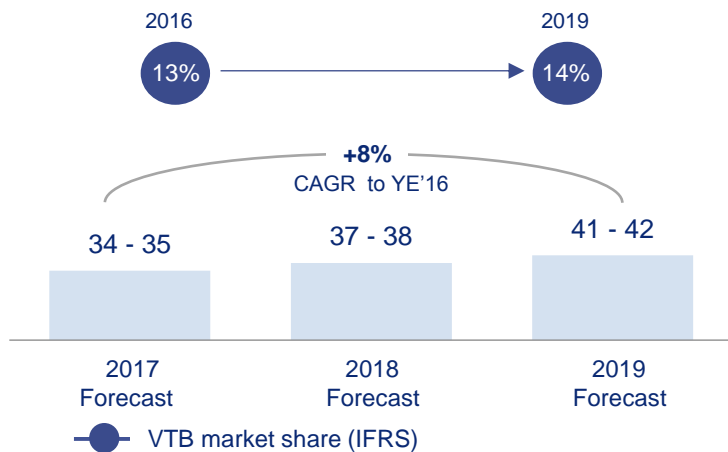


CBR key policy rate EOP

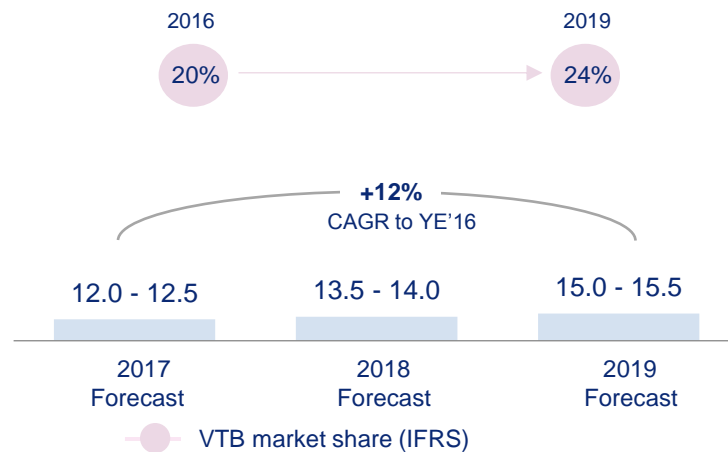


RUSSIAN BANKING SECTOR UNTIL 2019

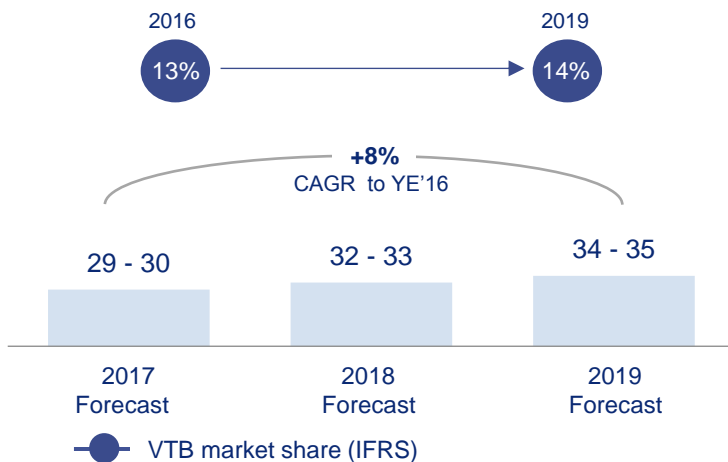
Loans to legal entities RUB trln



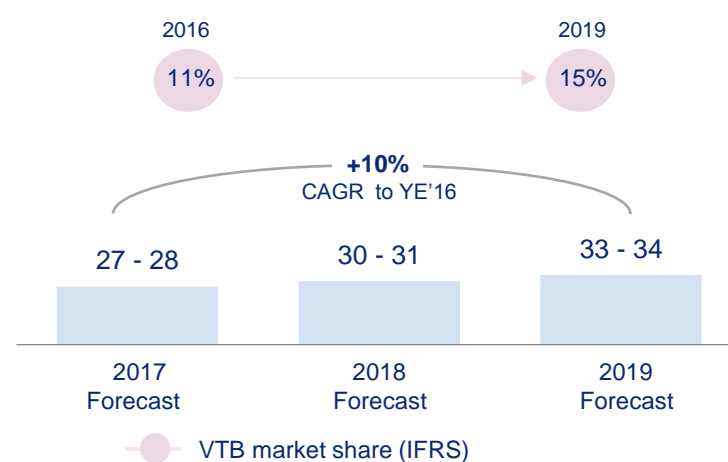
Loans to individuals RUB trln



Deposits of legal entities RUB trln



Deposits of individuals RUB trln



VTB GROUP TARGET VISION



Reliable **profitable bank** that provides stable **target level ROE**
Net income target for 2019 – over RUB 200 bn



Long-term relationships with the customer for all products in all market segments



Integrated Group with efficient **interaction between business lines**



High-tech bank – market leader in customer service and quality of internal processes



Balanced strategy of business in **foreign markets that are key** to Russia

VTB GROUP KEY INITIATIVES UNDER THE 2017–2019 STRATEGY

1 Improvement of the funding structure and reduction of funding costs



2 New scale in Retail business: increased market share and retail funding for the Group



3 Attainment of the target level of profitability in Corporate – Investment Banking while maintaining market leadership



4 Development of a new business model in Mid-Corporate Banking focused on ambitious customer base growth and diversification of revenues



5 Integration of VTB and VTB24 banks and reaching a new level of cooperation between business lines



6 Digital transformation of the Group's business and processes



IMPROVEMENT OF THE FUNDING STRUCTURE

1

Improvement of the funding structure and reduction of funding costs

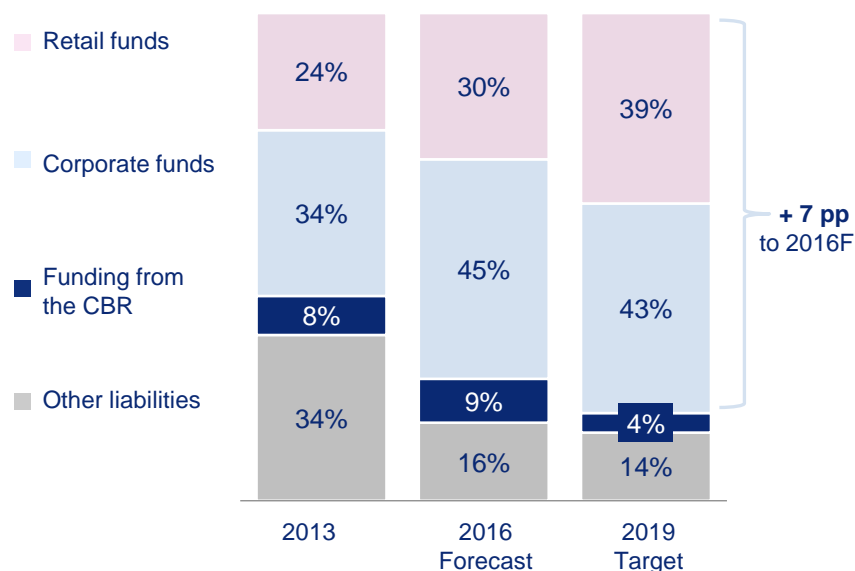
- Higher share of retail and MCB liabilities
- Lower sensitivity to changes in the CBR's key rate
- Higher share of current accounts



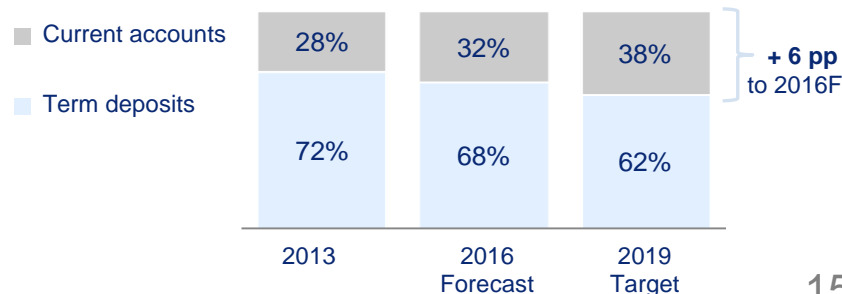
Roadmap

- **Increasing the share of customer deposits** in total liabilities from 75% to 82% and improving the Group's resistance to interest rate risk with **deposits of individuals being the key source of that growth**
- **Retail business** becoming a key source of **ruble liquidity for the Group**
- Cost of funding optimisation as a result of increasing the share of following segments in customer deposits: **mass market segment of individuals and small and medium business segments**
- **Increasing the share of current accounts** in customer deposits
- **Improvement in the currency structure** of customer deposits and elimination of the need for the currency swap
- **Reduction of funding volume from the CBR**

Structure of interest-bearing liabilities



Structure of customer funds



NEW SCALE IN RETAIL BUSINESS

2 New scale in retail business: increased market share and retail funding for the Group

- Significant customer base expansion
- Market share for payroll customers increased by 1.5 times
- Market share for lending and customer deposits increased by 4 pp
- Additional RUB 1 trln raised in funding for the Group

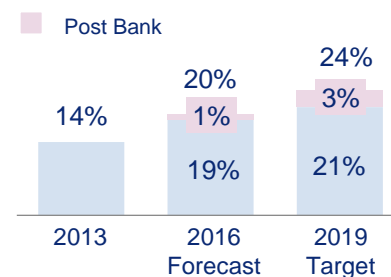


Key objectives of the Group's retail business

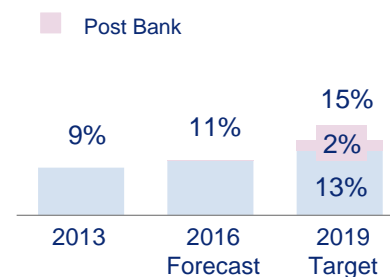
- 2-fold increase of individual customer base and market share growth:
 - Increasing the market share in **payroll customers** by **x1.5** through improved cooperation between global business lines
 - Increasing Post Bank's customer base to 14,5 mln and strengthening the Group's positions in the **mass market** and services for **pensioners** focusing on higher penetration of deposits
 - Synergy with the Group's subsidiaries in customer interaction
- VTB and Post Bank **leading the market in customer loyalty** in their relevant segments
- Growth in the number of **products per client** (by >20%)
- Become a **Top-3** player nationally by the share of active clients using **internet and mobile banks** – improved usability and functionality, expanded sales functionality and increased share of digital channels in total sales
- Accelerated development of **payment services**, incl. **P2P payments**, maximum coverage of **utilities, government bodies**, other key payment recipients across channels
- Grow CRM-based sales, incl. through the introduction of **predictive analytics** tools

Market share in individual customers (IFRS)

Loans

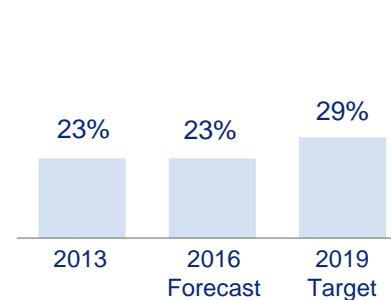


Deposits

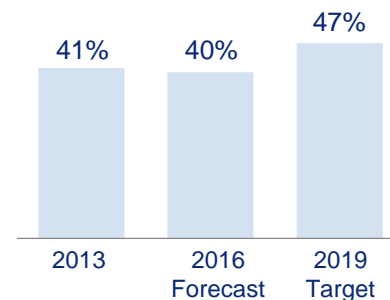


Share of individual customers in the Group's assets and liabilities

Loans



Deposits



DEVELOPMENT OF POST BANK

Development of Post Bank will enable VTB Group to address the following objectives

- Significantly improve its position in **mass segment** (historically, the Group had higher shares in the upper segments)
- Gain access to the **pensioner customer** segments (~40% of pensions are paid out via post offices)
- Build the nation's largest **largest network of light offices**; reduce the gap with Sberbank in geographical reach
- **Rapid roll-out**: over 22,000 outlets in 15,000 post offices by YE'2019
- Implement a business model focused on **raising funding**: retail funding to meet the Group's objectives ⁽¹⁾ increased by RUB 260 billion
- Achieve operational excellence in mass segment: **a light network and a digital bank**

| Key indicators   | 2016 Forecast | 2019 Target |
|--|---------------|-------------|
| Number of post offices <small>thsd offices</small> | 5.7 | 15 |
| Loans to individuals <small>RUB bn</small> | 123 | 505 |
| Individuals funding <small>RUB bn</small> | 30 | 678 |
| Funding for the Group ⁽¹⁾ <small>RUB bn</small> | -54 | 205 |
| Net income <small>RUB bn</small> | 1.1 | 11.5 |

(1) Retail funding in excess of funding requirements of active retail operations.

MARKET LEADERSHIP WITH TARGET PROFITABILITY IN CIB

3

Attainment of the target level of profitability in CIB while maintaining market leadership

- Loan growth as markets recover
- Higher profitability driven by lower cost of funding
- Diversification of the customer base



Current business model

- Leading position with large clients
- Top-200 clients provide 94% of net operating income
- Active work with all client segments by revenue (>50% of net operating income from top-200 clients – out of 100 largest companies in Russia)
- Work with clients based on individual goals and industry strategies is developing systematically.

Clients & coverage model

- Strong positions in credit market, leader by expertise in complex structured credit products
- Full range of GTB products having leading positions in some categories
- Investment banking leader in Russia, significant contribution on international markets in net operating income of IB business

Products

Target business model

- **Client base expansion** due to **competitive pricing** given
 - Improvement of **funding structure and cost of funds**, in particular by increasing ruble deposits share from retail clients
 - **Implementation of sales approach** with flexible pricing, based on profit maximisation by client (all-in-pricing) and product cross-subsidising (including products relating to different business lines)
- Improvement of **regular planning and monitoring** of targets on the level of **individual client**
- **Credit growth – in line with market growth rate, industry structure change** in accordance with stated priorities, **efficient use of international presence: syndication and credit risk hedging**, financing guaranteed by Export Credit Agencies
- **Efficient credit process** (reduction of Time-to-Money)
- Deposits growth for **loans-to-deposits ratio maintenance**
- **Current accounts market share growth** while CA volume reduction by clients and efficiency increase of clients' treasury departments
- New **direct banking service with an on-line access to all products**, reduction of Time-to-Market by product launches, high quality of technical support
- **IB**: retention of leading position in Russia and expansion of presence on international markets

DEVELOPMENT OF A NEW BUSINESS MODEL IN MID-CORPORATE BANKING (MCB)

4

Development of a new business model in MCB focused on ambitious customer base growth and diversification of revenues

- Customer growth by 1.5 times
- New sales model: customer acquisition through transaction services



Key initiatives

- Transformation of MCB business model
 - ✓ Improvement of the coverage model and cross-sales in the upper segment with introduction of detailed client-level planning
 - ✓ Development of transaction business coverage model to target the lower mass segment
- Development of competitive transaction banking products
 - ✓ Flexible rate plans, product bundling, fast-track account opening, transparent decision-making process
- Development of remote sales channels and comprehensive re-design of the remote banking channel to enable online access to all products
- Increase of credit process efficiency
- Cost control and management

Coverage model

Current model

- Focus on the upper segment – market share >15%
- Sales model focused on service of upper-end clients
- The main sales channel – direct contact with client managers

Target model

- Increasing presence in the **upper segment** (increase of **customer base by 23%**)
- **Growth of the customer base by 1.6 times in the lower mass segment**
- **2 differentiated model of coverage**
 - ✓ Upper segment: individual work with major clients
 - ✓ Bottom-end segment: mass model

Active development of **online sales channels**

INTEGRATION OF VTB AND VTB24 BANKS

5

Integration of VTB and VTB24 banks and reaching a new level of cooperation between business lines

- Integration-driven cost optimisation
- Capture of income synergies through improved cooperation between business lines (payroll projects, income per client maximised)



Integration of VTB24 within the 2017–2019 strategy

- Previous strategy cycles were focused on establishing the Group’s retail business and increasing its share on the fast-growing market – the stand-alone bank model was more successful
- At the stage of a more moderate growth the global practice upholds a higher performing integrated bank model
- There is a need for improved interaction between GBLs within the single bank, including a 1.5x increase of the market share in payroll projects, raising funds for the Group, maximising revenue from customers across all business lines
- Focus of the 2017–2019 strategy on maximising revenue, including through reduction of costs
- Release of additional capital through consolidation of mutual transactions

Integration goals

Build a highly competitive business model of the integrated bank, form a unified “super team” of key professionals

Improve manageability

Achieve synergies of corporate and retail businesses

Breakthrough in payroll projects, coordinated customer experience

Achieve cost savings and optimisation

Integration of VTB and VTB24 retail business models, centralisation of headquarters, integrating of networks, standardisation of IT landscape and operating model, optimisation of capital

DIGITAL TRANSFORMATION

6

Digital transformation of the Group's business and processes

- Development of in-demand products and reduction of time-to-market
- Growing the penetration of digital channels
- Process optimisation and automation



Key objectives

Creating in-demand digital products

Personification of products and pricing due to a deep understanding of individual customer profiles

Reducing time-to-market through introduction of the **practice involving small cross-functional design teams** based on short iterations

Increasing the share of services in digital channels and providing a unified customer experience

Enhancing functionality and increasing the usability of mobile and internet banking

Introduction of a **new remote banking system** for corporate customers with online sales capabilities

Development of tools for data analysis and sales support

Analytical tools to support sales

Predictive analytics for increasing cross-selling and preventing churn

Self-learning product models based on the experience of previous campaigns

Increasing the productivity and reducing the cost of operations

End-to-end digitalisation of processes and elimination of manual operations to provide real-time service, reduce the duration and cost of operations

Minimising / **abandoning paper documents**

Key KPIs

Time to Market



months

Major products **12+**
Priority products **3-9**



months

Greenfield digital product **3**

Share of active individual customers in internet and mobile banking

15%
customers



54%
customers



Share of online cash loans to individuals


Website **4%**
Internet bank **1%**



15%

FURTHER OPTIMISATION OF COSTS

Key objectives

- 1  Improving the efficiency of direct business expenses
 - Productivity growth of relationship managers and product specialists
 - Optimisation of the international presence

- 2  Relocation of certain functions to low cost regions

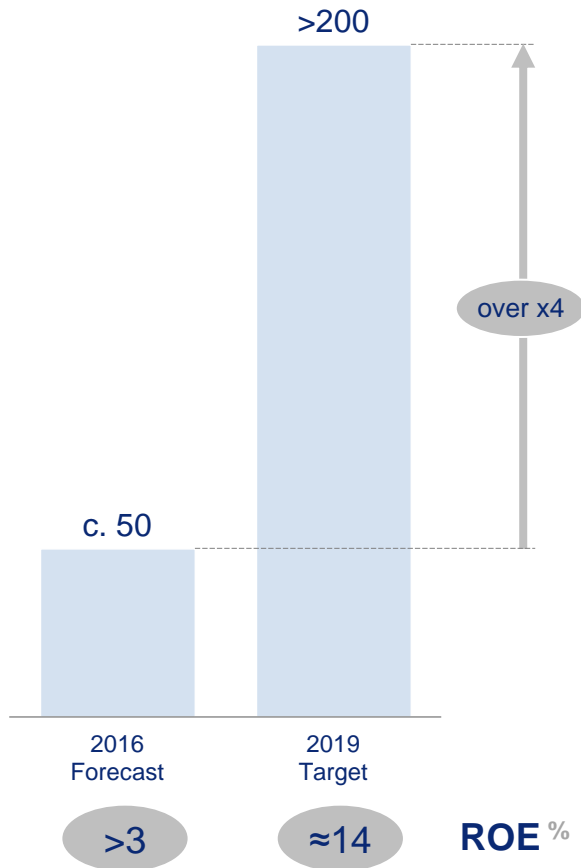
- 3  Optimisation of the number of employees and front-to-back ratio

- 4  Accelerated development of digital channels

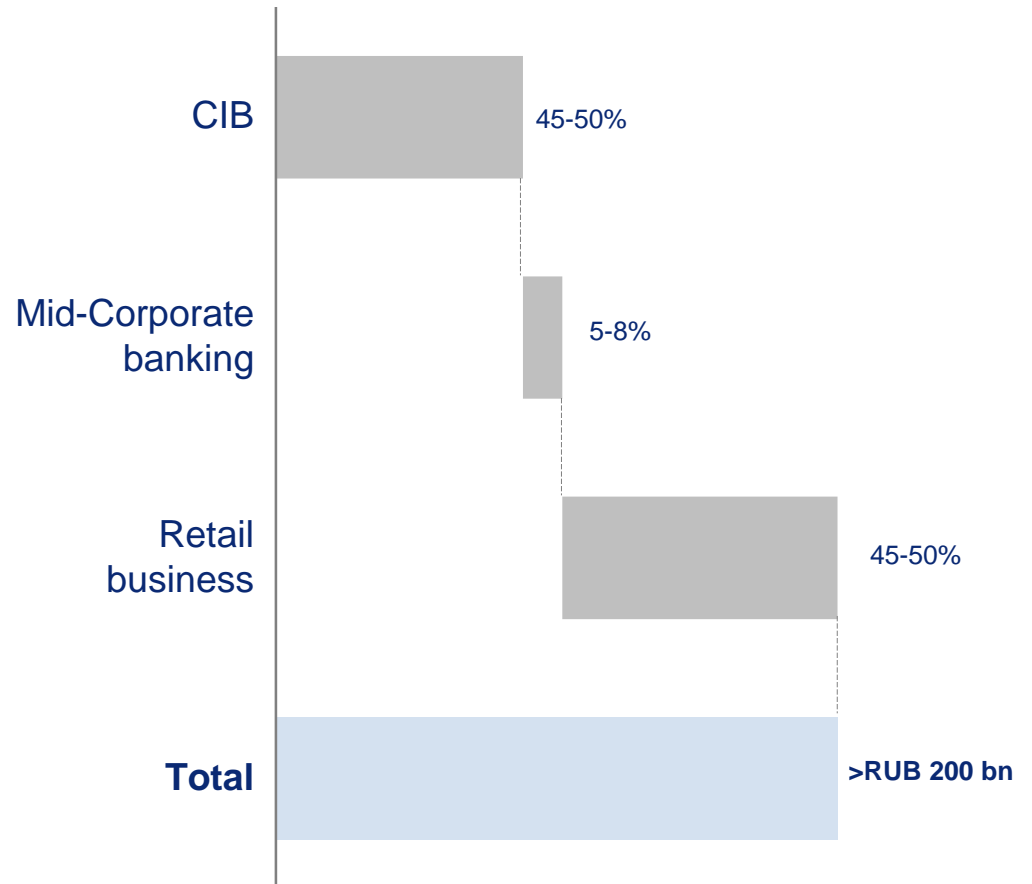
- 5  Pass-through the optimisation of administrative expenses and the introduction of process optimisation system

VTB GROUP GOAL IS TO REACH RUB 200 BN NET PROFIT TARGET BY 2019

Net profit RUB bn



2019 net profit breakdown %



MANAGEMENT EXPECTATIONS AND TARGETS UNTIL 2019

| Indicator | Measurement | RUSSIA | | |
|----------------------------|-------------|-----------|-----------|-----------|
| | | 2017 | 2018 | 2019 |
| Macro | | | | |
| GDP growth | % YoY | ≈1.5 | ≈2.0-2.5 | ≈2.0-2.5 |
| CPI inflation | % Dec/Dec | 5.0 – 5.5 | 4.5 – 5.0 | 4.5 – 5.0 |
| Oil price (Urals), average | USD/bbl | 55 | 60 | 60 |
| CBR key rate, eop | % | 8.0 | 7.0 | 6.0 |
| Banking sector | | | | |
| Loans to legal entities | % 3Y CAGR | | 8 | |
| Loans to individuals | % 3Y CAGR | | 12 | |
| Deposits of legal entities | % 3Y CAGR | | 8 | |
| Deposits of individuals | % 3Y CAGR | | 10 | |

| Indicator | Measurement | VTB | | |
|-------------------------|-------------|-------------------------|-------------------------|-------------------------|
| | | 2017 | 2018 | 2019 |
| Loans to legal entities | % YoY | in line with the market | in line with the market | in line with the market |
| Loans to individuals | % YoY | above the market | above the market | above the market |
| Net interest margin | % | flat | ≈4 | ≈4 |
| NCI growth | % 3Y CAGR | | 17 | |
| Cost of risk | % | <2.0 | <2.0 | <2.0 |
| Cost-to-income | % | mid 40's | low 40's | low 40's |
| Net profit | RUB bn | ≈100 | ≈150 | >200 |

VTB GROUP REMAINS COMMITTED TO ITS MISSION AND VALUES

MISSION

To provide world-class financial services and a better future for customers, shareholders and society

Values

Trust

- Earning our customers' trust is the most important thing we do

Reliability

- Our strength and reliability are supported by our prominent position in financial markets, our international expertise and our global reach

Transparency

- We are open and transparent, and focus on partnership and cooperation

Versatility

- We offer comprehensive and sophisticated solutions based on our expertise across the financial services industry

Our Team

- Our dedicated team of professionals harnesses the knowledge, potential, energy and creativity of each member



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