

The 2014 Report on Implementation of JSC VTB Bank Development Program for the Years 2014-2018 and Achievement of the Key Performance Indicators Approved

JSC VTB Bank Long-Term Development Program for the Years 2014-2018 (the "Program") is based on JSC VTB Bank Development Strategy for the Years 2014-2016 (the "Strategy") approved by the Bank's Supervisory Council on 10.04.2014 (Minutes No.6) with due account of the Recommendations of the Russian Ministry of Economic Development as to preparation of long-term development programs of strategic open joint-stock companies and Federal state unitary enterprises, as well as open joint-stock companies with the interest of the Russian Federation in the charter capital exceeding fifty percent (prepared by the Russian Ministry of Economic Development and the Rosimushchestvo while implementing the List of Tasks set by the Russian President (No.Pr-3086 dated 27.12.2013)).

The Program was approved by the Strategy and Corporate Governance Committee of JSC VTB Bank Supervisory Council (Minutes No.33 dated 27.10.2014), considered on a meeting devoted to JSC VTB Bank Long-Term Development Program for the Years 2014-2018 at the Russian Government on 20.11.2014 and approved by the Bank's Supervisory Council (Minutes No.25 dated 18.12.2014).

When preparing the Program, the Bank considered and reviewed its current positions, as well as development prospects of the banking industry both in Russia, and on global markets with due account of forecast (expected) changes, key risks and opportunities, and comparison with its banking peers. The document sets out a target model of the Bank's development, priority lines of its development and strategic initiatives. The Program also specifies mechanisms and measures aimed at achieving the development targets of the Bank set out in the Strategy and carries indicators for the current and expected performance of the Bank, its subsidiaries and affiliates for a five-year period.

Under the Strategy and Program, major strategic goals of VTB Group development are as follows: quality growth implying maintenance of market leadership; fulfillment of key drivers' potential to reach the target profitability and to develop efficient risk management. All priorities specified in the Program are underpinned by the relative measures aimed at implementing the targets set, with a deadline scheduled for their implementation being the year 2018.

The year 2014, in terms of the Program implementation, resulted in the following achievements of the Bank along key priorities:

- 1) Maintaining market position of Corporate and Investment Business while further improving its efficiency

Amid the challenging economic environment, decreased consumer demand and the US and EU sectoral sanctions, VTB Group continued to enhance its corporate lending at higher than the average market rates. At the 2014 year-end, the Group's corporate loan portfolio increased 41.3% to RUB 7,205.3 bln. As a result, VTB Group share in the corporate lending market grew from 15.5% to 16.5%, thus retaining its second position in the market.

- 2) Outperforming market growth in Retail Business, and further increasing its market share and share in the Group's business mix

In 2014, retail business of the Group continued its dynamic growth both in the Russian Federation, and abroad. Downturn in economy and falling household incomes, as well as significant exchange rate fluctuations during 2014 made people less inclined to consume thus reducing their demand for consumer and auto loans. Soaring interest rates in the second half of the year and toughened bank requirements to borrowers also constrained growth in lending.

The year 2014 resulted in a 27.9% increase in the Group's retail loan portfolio to RUB 1,945.1 bln (primarily, due to secured loans), and the Group retained its second place on the Russian retail lending market, enhancing the market share by 1.6% to 14.9%.

3) Prioritizing Mid Corporate Business as a separate profit center, and enhancing the Group's positions in the segment

In 2014, VTB Group prioritized mid corporate business as a separate global business line and a profit center, setting a task to increase the volume of this business, its market share and returns. Beyond the Russian Federation, the Group actively work with mid business customers on the markets of CIS. The Group succeeded in increasing its mid business loan portfolio to RUB 1,047.8 bln at the year-end (before provisions).

4) Further enhancing the Group risk management and controls

In 2014, JSC VTB Bank approved fundamental documents in risk management, mainly: JSC VTB Bank Risk and Equity Management Strategy, and Procedure for Management of JSC VTB Bank Most Significant Risks (Minutes No.25 dated 18.12.2014).

Having approved and then implementing the Strategy for developing VTB Group risk management system for the years 2014-2016, the Group actively developed its procedures and methods for consolidated/ integrated risk management, in particular:

- VTB Group Risk Appetite Concept was developed and is currently being implemented;
- The Group further developed the RAROC (risk-adjusted return on capital) practice while integrating the ECap, Capital-at-Risk model into its system of finance planning and forecasting;
- The Group continued its efforts to implement Basel II in the relative Group members (in particular, to study credit risk assessment models and risk reporting preparation, etc.).

5) Focusing on operating efficiency and stringent cost control

The Group posted a significantly better cost to income ratio amounting to 43.7% in 2014 against 49.1% in 2013.

Despite a turbulent operating and geopolitical environment, the Group demonstrated a high level of operating income before provisions for 2014 amounting to RUB 548 bln, driven, in particular, by sustained growth in net interest income to RUB 354.3 bln (a 9.7% increase against the previous year) and net fee and commission income to RUB 63.1 bln (a 13.9% increase against the previous year).

Worsened economic situation in Russia and the Ukrainian crisis caused an increase in the Group's value at risk to 3.4% in 2014 against 1.6% for 2013. Total cost of impairment provisions in 2014 grew to RUB 275.4 bln as compared to RUB 99.2 bln in 2013.

In line with the Russian Government Directive approved by First Deputy Chairman of the Russian Government, Igor Shuvalov (No.4955-P13 dated 17.07.2014), the Bank is to perform an annual audit of the Program (the "Audit") regulated by a Standard for performing an audit of JSC VTB Bank long-term development program approved at the Bank and setting out a procedure for an audit planning, a tender mechanism for selecting an auditor, deadlines for the audit performance and a follow-up decision-making. At present, measures are being taken at the Bank to prepare and perform such an Audit of the Program implementation in 2014.

The key drivers in implementing the Strategy and Program are targeting the Key Performance Indicators (the KPI) and control over their achievement. The Program includes a list of KPI developed on the basis of the Recommendations for the use of key performance indicators by state corporations, state companies, state unitary enterprises and entities with the interest of the Russian Federation or a Russian Federation constituency in its charter capital exceeding 50% (prepared by the Russian Economic Ministry and the Rosimuchshestvo upon assignment of the Russian Government No.ISH-P13-2043 dated 27.03.2014).

The table below shows information on the KPI approved in the Program for 2014 and achievement thereof in the reporting period.

#	Key Performance Indicator	2014 (planned)	2014 (actual)	KPI Performance	Notes
1	ROE (Return on equity)	11%	0.1%	0.9%	Reduced net income of the Group was mainly a result of the need to create provisions due to the relative geopolitical and macroeconomic factors, growth in the value of assets and liabilities caused by increased key interest rate of the Bank of Russia
2	TSR (Total shareholders return) 1	-19.7%	24.8%	155.4%	Actually performed KPI exceeds the planned one
3	Net operating income before provisions, RUB bln	510	548	107.4%	Actually performed KPI exceeds the planned one
4	Value at risk	1.9%	3.4%	24.7%	Created provisions exceeded the plan, and net income of the Group reduced due to the relative geopolitical and macroeconomic factors
5	Net Fee and Commission Income, RUB bln	70	63.1	90.1%	Growth posted in 2014 was 14% against 2013, exceeding the growth rate of fee and commission income. A 10% deviation from the plan was caused by the impact of the worsened economic situation on customers' activity
6	CIR (Cost-Income ratio)	46%	44%	105.0%	Actually performed KPI exceeds the planned one
7	Tier 1 Adequacy	10.8%	9.8%	90.8%	Created provisions exceeded the plan due to the above geopolitical and macroeconomic factors. Growth in the liabilities value was caused by increased key interest rate of the Bank of Russia

¹ Return of the MICEX Index "Finances" for the reporting period calculated under the Method for calculation of KPI "Return on Investment" and assessment of its implementation