



## **VTB Annual Report 2014**

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## Mission and Values

### Our Mission

To provide world-class financial products and services that help to create a prosperous and sustainable future for our customers, stakeholders and society.

### Our Values

*Trust.* Gaining and retaining the trust of our customers is VTB Group's most important value.

*Reliability.* VTB Group's long-term strength is reinforced by leading positions in the financial markets where we operate and our ability to provide local expertise on a global scale.

*Transparency.* Our business is open and transparent, and all of our key stakeholders cooperate closely in order to deliver maximum value and visibility.

*Versatility.* Our wealth of expertise across a broad range of financial products and services ensures that we offer all of our customers the most comprehensive, flexible and sophisticated solutions that suit their individual needs.

*Team.* Our dedicated team of professionals benefits from the synergy of knowledge afforded by our diverse line of businesses, and our Group's spirit is enhanced by the energy, creative insight and potential of each member of our team.

### Our Identity

VTB Group is the leading Russian financial institution with a strong presence in key international markets.

### Our Vision

VTB Group aims to become a premier player in all of our priority markets.

## Statement of the Chairman of the Supervisory Council

Dear shareholders, clients, and partners,

2014 saw significant challenges for the Russian economy, the banking sector, and for VTB Group. The operating environment for banks deteriorated in a number of areas throughout the year. Rising geopolitical tensions and the introduction of economic sanctions on Russia limited major credit organisations' ability to attract finance, while falling oil prices and the rouble's depreciation negatively impacted borrowers, leading to a contraction in lending and a significant increase in provision charges. Russian financial institutions also incurred sizeable losses in the Ukraine market.

I would note that the Russian Government and the Bank of Russia were very effective in their response to these developments, providing timely support to systemically important banks. VTB's management close cooperation with the Bank's majority shareholder enabled the Group to continue financing the real sector of the economy, while actively growing its client base, and at the same time increasing its focus on asset quality and risk. As a result, the Group delivered strong operating results and solid growth of its core income lines. However, the Group's financial results were down significantly, due to a sharp increase in provision charges for loan impairment.

### *VTB Group Strategy*

These latest economic developments reconfirmed the validity of the Group's new strategy for 2014-2016 ("Quality Growth Strategy"), which was approved by VTB's Supervisory Council in April 2014. On the basis of this strategy, the VTB also prepared a Long-term Development Programme for 2014-2018, which was approved by the Supervisory Council in December 2014.

The programme is focused particularly on efficiency, decreasing costs and strengthening the Group's risk-management systems. These priorities, as well as the more specific business development initiatives set out in the programme, are particularly important in the current market environment. While developing this programme, VTB's Supervisory Council and management team carried out a comprehensive and timely analysis of various economic development scenarios and potential risks, while also setting out a number of concrete measures aimed at increasing efficiency and reducing costs. VTB was able to start implementing these measures, which included optimising staffing levels, in the first half of 2014.

### *Corporate governance and shareholder relations*

In the current environment, corporate governance and transparency took on particular importance for the Group. In 2014, the Russian regulator approved a new Corporate Governance Code, which was prepared in line with best international practice. In accordance with a Russian Government directive, VTB developed a 'road map' to implement the new Corporate Governance Code, with a view to carrying out most initiatives of the road map in the first half of 2015.

VTB is working to ensure that its operations are in line with best international practice in corporate governance and with the principles set out in the new code. Further information on the Group's corporate governance can be found in the relevant parts of the Annual Report.

Despite the fact that the introduction of sectoral sanctions by the United States and European Union against Russian banks complicated the Group's interaction with its international partners, VTB continued to work actively with all investors and partners, including international institutional

investors. The Group's key anchor investors held their positions in VTB throughout the year, demonstrating the investment community's continued trust and confidence in the Group.

Effective interaction with minority shareholders and the Shareholders Consultative Council ("SCC") was another key focus area for VTB. In 2014, SCC member Elena Popova was re-elected to the Supervisory Council. SCC member Leonid Volkov was elected to the Statutory Audit Commission, which ensured a level of representation for minority shareholders in the Bank's governance structures that is unprecedented for large Russian state companies.

#### *Strengthening capital and further development*

Maintaining sufficient capital is a fundamental requirement for any bank, especially in volatile times. In September 2014, the Group sold 214 billion roubles worth of new preferred shares, converting subordinated loans received in 2008 as part of a series of Russian Government measures to support the banking sector. As a result, VTB increased its core Tier 1 capital. In December 2014, the Russian Government placed a 100 billion rouble subordinated deposit in VTB Bank from the Russian National Wealth Fund, thus increasing VTB's and the Group's Tier 2 capital.

These deals significantly enhanced the Group's prospects for further business development. The economic environment in Russia will continue to be challenging in 2015. However, I am confident that the quality of management systems in place at VTB, combined with the Group's conservative approach to risk assessment, and its core strategic priorities tailored to current market conditions, will allow VTB to maintain sustainable growth and to further strengthen its position in the market – benefitting clients, shareholders and the economy as a whole.

*Chairman of the Supervisory Council of VTB Bank*

*Sergey Dubinin*

## Statement of the President and Chairman of the Management Board

Dear Shareholders, Clients and Partners,

Today the Russian economy and financial sector are once again undergoing a serious stress test. This is why, in presenting this year's Annual Report of VTB Group, I would particularly note that over the past year the Group demonstrated the resilience of its business model to the impact of negative economic and geopolitical factors.

Despite the challenging economic environment and the introduction of measures that effectively closed off external sources of funding for Russian banks, VTB remained one of the most active lenders on the Russian market. The Group's assets in 2014 grew 39% to 12.2 trillion roubles, and its loan book by 38% to 9.2 trillion roubles. We were able to significantly strengthen our market positions in key business areas – the Group's market share in corporate lending increased from 15.5% to 16.5%, and in retail lending from 13.3% to 14.9%.

In addition to balance sheet growth, the Group saw a solid performance in its core income lines in corporate-investment banking, mid-corporate banking and the retail business. The Group's net interest income in 2014 increased 10% compared to 2013, and net commission income grew 14%. Unfortunately, the economic slowdown in Russia, the negative geopolitical situation, weakening rouble and a hike in interest rates at the end of the year had an adverse effect on our clients' solvency. We faced a significant increase in provisions for loan impairment, which led to a reduction in the Group's net profit despite the strong operating results.

In this environment, we paid particular attention to monitoring risks and managing the quality of our assets. All the Group's banks were able to adjust their lending policy in a timely way, raising financial requirements to lenders and collateral, and also limiting the issuance of foreign-currency denominated loans. The share of non-performing loans in the Group's loan portfolio at the end of 2014 was at a manageable 5.8%, an increase from 4.7% at the start of the year.

In order to minimise the negative impact of the economic downturn, the Bank put considerable effort into strengthening its capital via the issuance of preference shares and the conversion of subordinated debt in late 2014. Timely and appropriate state support for systemically important banks remains key to ensuring the ongoing stability of the banking sector as a whole, and it has enabled VTB Group to focus on providing funding to key sectors of the economy, as well as to supporting strategically important projects.

2014 was the first year in the implementation of a new VTB development strategy for 2014-2016. This strategy is focused on boosting efficiency and optimising costs. Today, this process of resource and cost optimisation extends throughout the Group as a whole, including management systems, VTB's regional networks and subsidiary banks, document processing and IT infrastructure. In 2014, the Group successfully implemented a headcount optimisation programme in its corporate centre and in the corporate-investment banking business both in Russia and abroad. All these initiatives had a positive impact on our financial results. Despite the significant growth of our business, the Group's staff costs and administrative expenses in 2014 grew more slowly than in the previous year.

Separating out of the Group's mid-corporate banking business as a global business line in its own right was a key development in 2014. This business has significant long-term development potential and is already making an important positive contribution to VTB's assets and revenue base. In 2014, the mid-corporate banking loan book exceeded 1 trillion roubles, 11.5% of the Group's total customer loans. Russian regions form a significant part of the client base in this segment.

2015 promises to be a challenging year for the economy, and the development of the banking system will be influenced by the situation in the capital and commodities markets, as well as by the Central Bank's monetary policy. At the same time, VTB's strategic priorities remain unchanged: pursue conservative growth in key business segments while continually improving efficiency and keeping tight controls on spending.

From that perspective, it will be particularly important to continue to implement structural transformation across the Group in Russia. Our first major step in creating a single universal bank platform will be a merger of Bank of Moscow into VTB Bank. A single platform will enhance the integration between the Group's structures and business lines, and will allow us to deploy our capital and other resources in the most efficient way possible. I am confident that VTB will continue to demonstrate a positive trend in both the qualitative and quantitative indicators of its activity as the Russian economy recovers.

In conclusion, let me thank all our clients, investors, and partners, and also the VTB Group team as a whole for their trust, support and professionalism throughout 2014. I am confident that, despite whatever difficulties we may face, our ongoing collaboration will create a solid basis for the continued development of the economy and for Russia to grow and flourish.

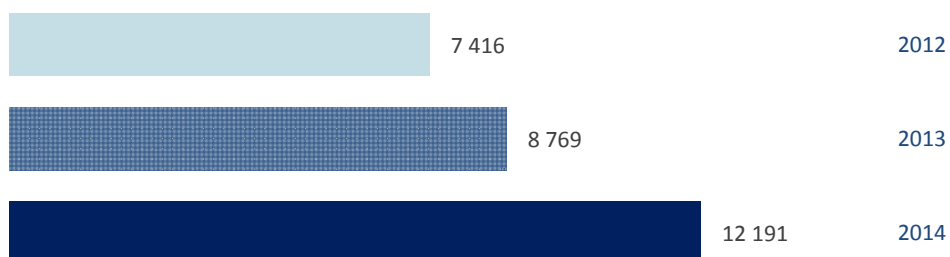
*VTB Bank President and Chairman of the Management Board*

*Andrey Kostin*

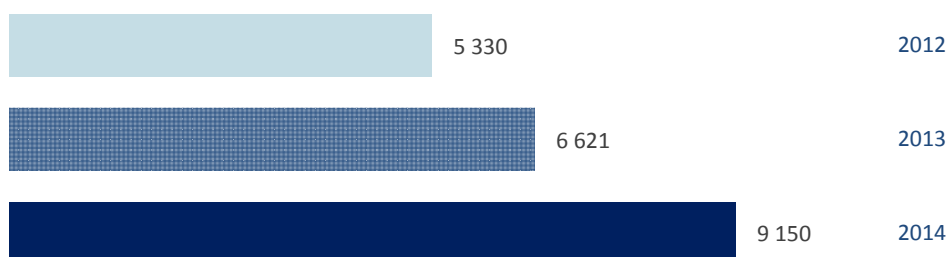


## 1. FINANCIAL HIGHLIGHTS

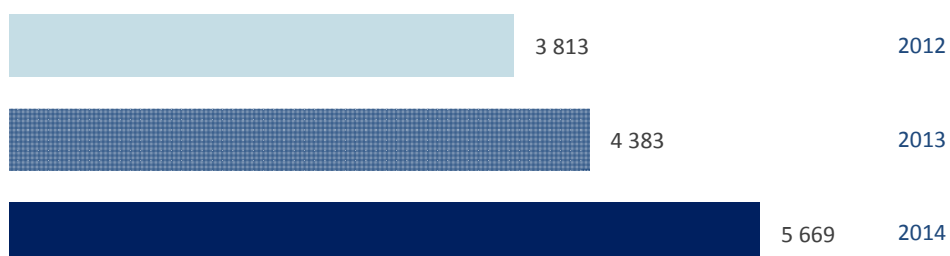
### Total assets, RUB billion



### Customer loans<sup>1</sup>, RUB billion



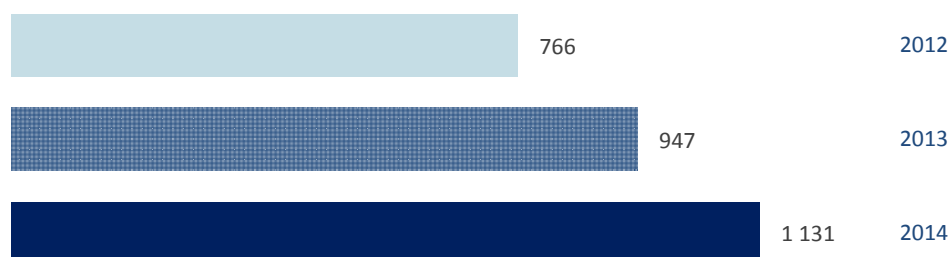
### Customer deposits<sup>2</sup>, RUB billion



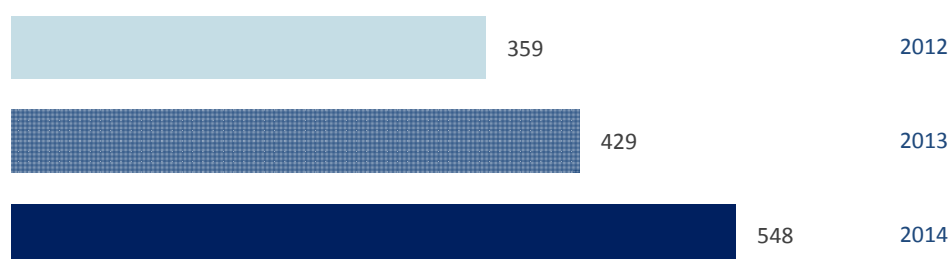
<sup>1</sup> Gross loans and advances to customers, including pledged under repurchase agreements.

<sup>2</sup> The information for 2013 is presented after reclassification described in details in the VTB Group's IFRS consolidated financial statements for 2014.

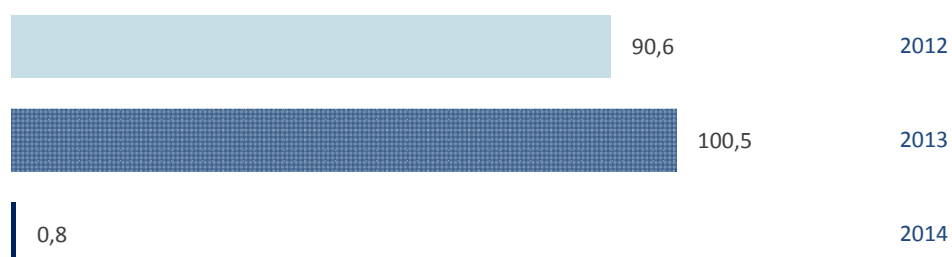
### Shareholders' equity, RUB billion



### Operating income before provisions for impairment, RUB billion



### Net profit, RUB billion



### Key performance metrics, %

	2012	2013	2014
Net interest margin (NIM)	4.2	4.5	4.1
Cost to operating income before provisions (CIR)	50.5	49.1	43.7
Cost of risk (CoR) <sup>3</sup>	1.2	1.6	3.4
Return on equity (ROE)	13.7	11.8	0.1

<sup>3</sup> Provision charge for loan impairment divided by average gross loans and advances to customers.

## 2. VTB'S MARKET POSITION

VTB Group is one of the leaders in the Russian and international financial services market, and is Russia's second largest financial group. The Group has an extensive branch network in Russia with over 1,800 offices, and is present in the world's key financial markets. VTB's majority shareholder is the Russian Federation. As of 31 December 2014, the Federal Agency for State Property Management owned 60.93% of VTB Bank's ordinary shares and the Ministry of Finance owned 100% of the Bank's preference shares. The Russian Federation's total share in the Bank's share capital is 85.27%. VTB Group employs more than 100,000 people.

### VTB Group key businesses

Corporate-Investment banking	Mid-Corporate banking	Retail business
<i>Services to large corporate customers</i>	<i>Services to mid-corporate customers</i>	<i>Services to individuals and small business customers</i>
Assets: RUB 6.7 trillion Customer loans <sup>4</sup> : RUB 5.2 trillion Customer deposits: RUB 2.2 trillion	Assets: 1.1 trillion Customer loans <sup>3</sup> : 0.9 trillion Customer deposits: RUB 0.6 trillion	Assets: RUB 3.3 trillion Customer loans <sup>3</sup> : RUB 2.0 trillion Customer deposits: RUB 2.6 trillion

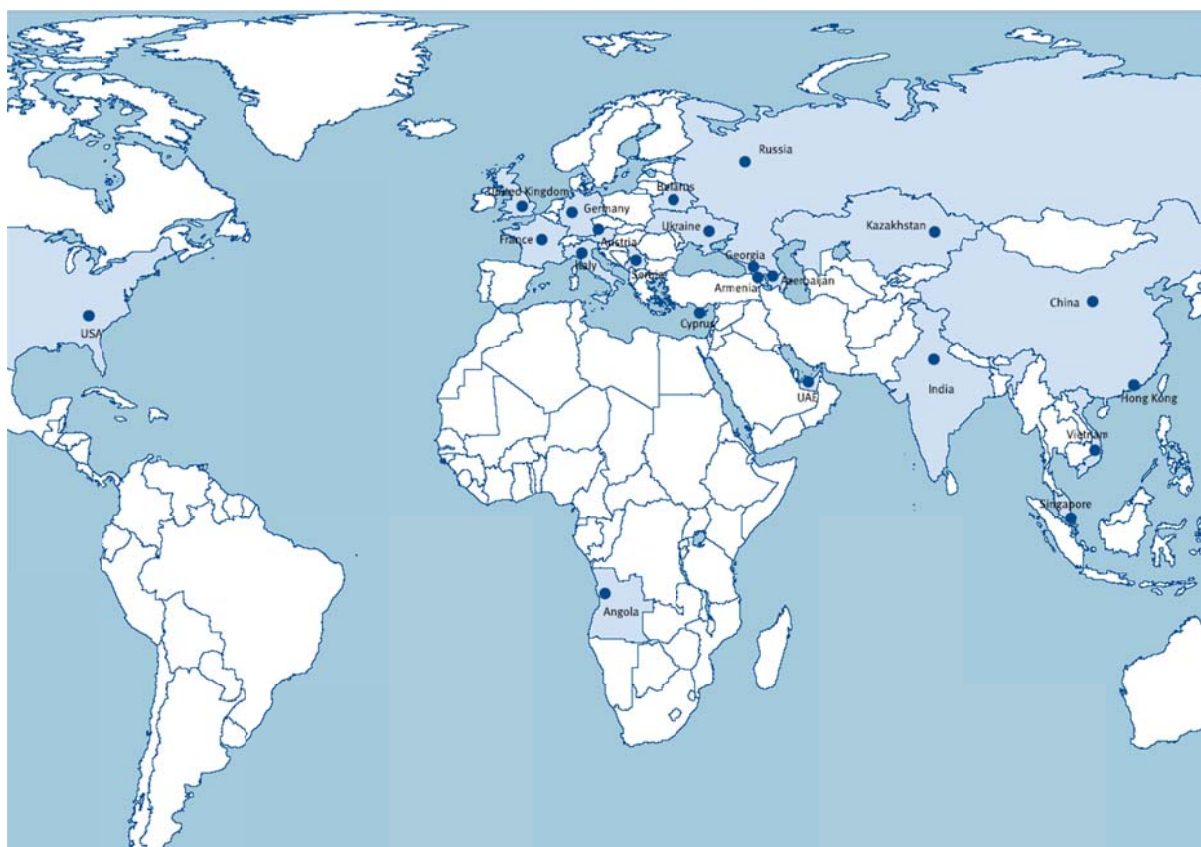
### VTB Group in the Russian banking market

Segment	Market share	Rank
Corporate loans	16.5%	2
Corporate accounts and deposits	18.8%	2
Retail loans	14.9%	2
Retail accounts and deposits	9.8%	2

VTB Group has an international network that is unique among Russian banks. The Group provides services in the CIS, Europe, Asia, North America and Africa, furthering international cooperation and promoting Russian businesses around the world. The Group's international operations help to diversify the business and increase profitability by targeting higher-margin markets.

<sup>4</sup> Net loans and advances to customers, including pledged under repurchase agreements.

### *VTB Group global presence*



As of 31 December 2014, VTB Group banks operated in 23 countries worldwide. In the CIS, the Group has a presence in Armenia, Ukraine, Belarus, Kazakhstan and Azerbaijan. VTB banks in Austria, Germany and France operate as part of VTB European Subholding with VTB Bank (Austria) as a parent company. The Group has subsidiary and associate banks in Great Britain, Cyprus, Serbia, Georgia and Angola; two VTB branches in China and India and two branches of VTB Capital, Plc in Singapore and Dubai. The Group investment banking division also performs broker/dealer operations in the United States of America, securities dealing and financial advisory in Hong Kong and investment banking operations in Bulgaria. In Vietnam, the Group has established VTB Vietnam-Russia Joint Venture Bank, a joint venture with the Bank for Investment and Development of Vietnam.

## VTB Group organisational structure



### 3. THE ECONOMY AND BANKING SECTOR

#### 3.1. THE RUSSIAN ECONOMY IN 2014

In 2014, the drop in the price of oil, intense foreign-policy environment and international sanctions levied against a number of Russian companies and individuals had a negative impact on the state of the Russian economy. The heightened uncertainty and the worsening of trade conditions exerted pressure on the level of business activity. Growth in household consumption slowed to 1.5% (compared to 5.0% a year earlier), and the growth in government spending dropped to 0.5% (compared to 1.1% a year earlier). Real GDP growth was 0.6%, compared to 1.3% in 2013.

The pace of investment in fixed assets continued to decline as a result of Russian companies' reduced access to external sources of capital and the significant increase in the cost of borrowing in the domestic market. For the year 2014, investments in fixed assets decreased 2.0%, compared to an increase of 0.9% a year earlier.

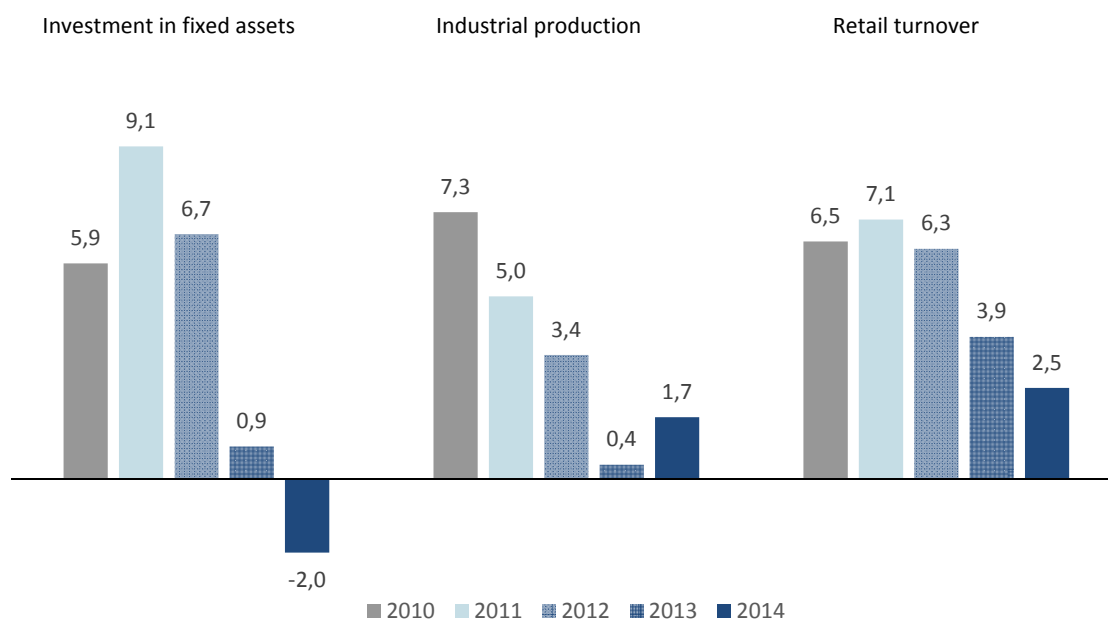
Shocks in international commodities markets, international sanctions on certain sectors of the economy and a number of other factors contributed to increased volatility in currency markets and to the depreciation of the value of the rouble against the US dollar by 72% for the year, reaching 56.3 roubles to the dollar. In the second half of 2014, the Central Bank of Russia ("CBR" or "Bank of Russia") adopted a floating exchange rate regime while maintaining the right to intervene in cases where the destabilisation of currency markets could threaten the country's financial stability. In addition, against a background of significant fluctuations in the rouble exchange rate against major world currencies, the CBR increased the key rate considerably and introduced a number of instruments to allow banks to refinance in foreign currencies.

Depreciation of the rouble, restrictions on foreign trade and the growth of regulated tariffs created conditions for accelerated inflation. By the end of 2014, the consumer price index had risen 11.4%, which was considerably higher than the upper limit of the target range set by the Bank of Russia. This trend was seen in every component of the index. Foodstuffs increased by 15.4%, non-food items by 8.1% and services by 10.5%. The increase in the price of non-food items was the result of the impact of the exchange rate on prices and the speculative demand for durable goods in the last months of the year.

With the aim of stabilising the rouble exchange rate and curbing inflation expectations, which grew considerably against the background of a weakening national currency, the Bank of Russia maintained a tight monetary policy. The CBR took several decisions to raise its key interest rate to 17.0%, compared to 5.5% at the beginning of 2014, which also led to an increase in interest rates on bank loans and a slowdown in lending by Russian banks (taking into account the currency revaluation).

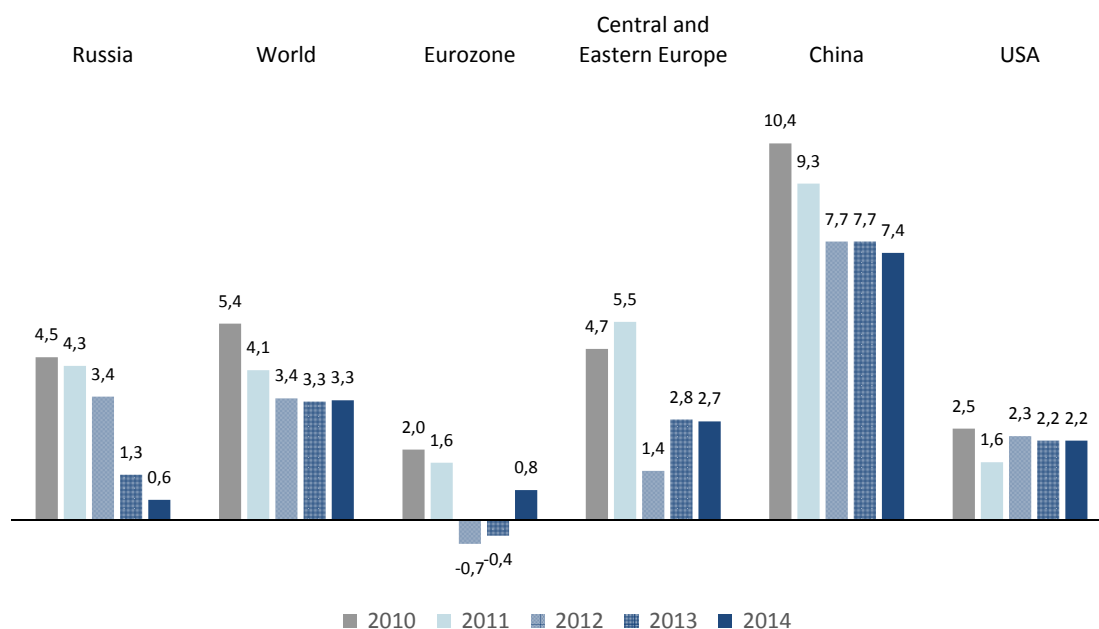
Russia's external debt situation remained stable. According to Bank of Russia estimates, the country's external debt decreased by USD 129.4 billion to USD 599.5 billion. Moreover, external liabilities in the banking sector decreased by USD 43.3 billion to USD 171.1 billion as of the beginning of January 2015, while the external debt of corporate borrowers decreased by USD 60.3 billion to USD 376.5 billion.

### Russian macroeconomic indicators, % change year-on-year



Source: Rosstat.

### Russian GDP growth compared to other regions, % change year-on-year



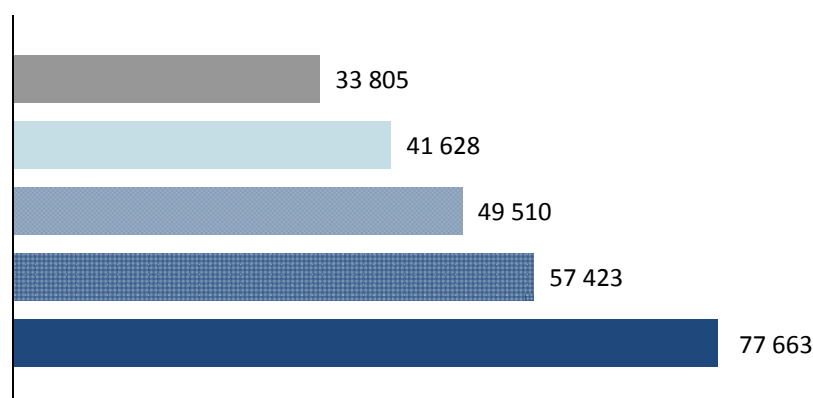
Source: IMF World Economic Outlook Database and Rosstat (for Russia's GDP).

### 3.2. THE RUSSIAN BANKING SECTOR IN 2014

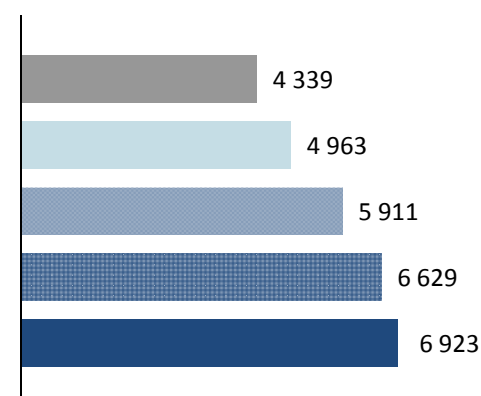
The main factors driving growth in Russian banks' assets and liabilities during the year were the currency revaluation and the increase in demand for loans from corporate clients with limited access to international debt markets. Banking sector assets grew by 35.2% in 2014, compared to 16.0% growth a year earlier. The rate of penetration of banking services, defined as banks' total assets divided by GDP, reached 109% at the end of 2014, increasing from 87% at the end of 2013.

The decrease in economic growth exerted pressure on both the level and the quality of demand for credit. Banks' lending was also constrained by the tighter requirements placed on borrowers in order to maintain asset quality. Total loans to corporate and retail borrowers in 2014 increased by 25.9% (compared to growth of 17.1% in 2013), with the increase in growth primarily attributable to corporate lending.

*Assets, RUB billion*

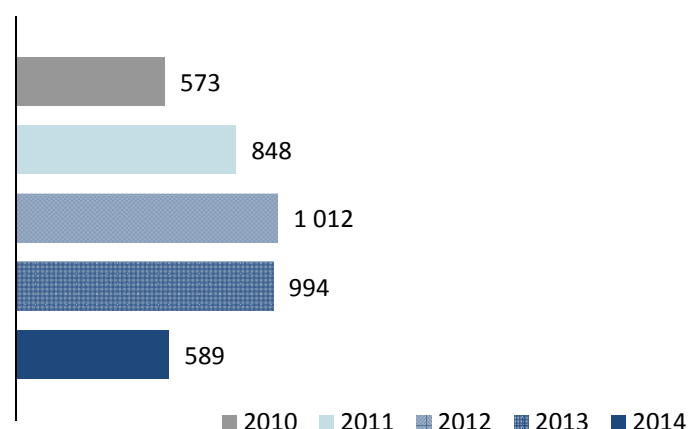


*Equity, RUB billion*





Net profit, RUB billion



Source: Bank of Russia.

Growth in the corporate and retail segments of the market was mixed. The currency revaluation and closure of foreign markets to Russian borrowers helped accelerate growth in corporate lending to 31.3% in 2014, compared to 12.7% growth a year earlier. Retail loans increased by just 13.8% last year, compared to 28.7% in 2013, primarily due to measures taken by the CBR aimed at curbing growth in consumer lending in Russia and the insignificant share of foreign currency loans in retail lending.

Asset quality in the banking sector decreased amid slowing economic growth. The share of overdue loans increased to 4.7% at the end of 2014, compared to 4.2% at the end of 2013, largely due to deterioration in the quality of the retail loan portfolio, where the share of overdue loans reached 5.9%, compared to 4.4% at the end of 2013. There was a minor increase in the share of overdue loans in the corporate loan portfolio, reaching 4.2% as of 31 December 2014, compared to 4.1% at the end of the preceding year.

The growth in overdue loans led to an increase in loan loss provisions. The ratio of provisions to gross loans increased to 8.5% as of 31 December 2014, compared to 7.4% as of the end of 2013. In absolute terms, provisions increased by 43%. The loan loss coverage ratio reached 180%, compared to 176% at the end of 2013.

The increase in provision charges for loan impairment resulted in a considerable decrease in profitability in the banking sector, with the total profit in the sector in 2014 decreasing by 40.7% year-on-year, reaching RUB 589 billion. In addition to the creation of provisions, this was attributable to the contraction of net interest margin amid the sharp increase in funding costs and the inability to completely pass these costs on to customers. According to the CBR, the number of unprofitable banks in Russia grew from 88 in 2013 to 126 in 2014.

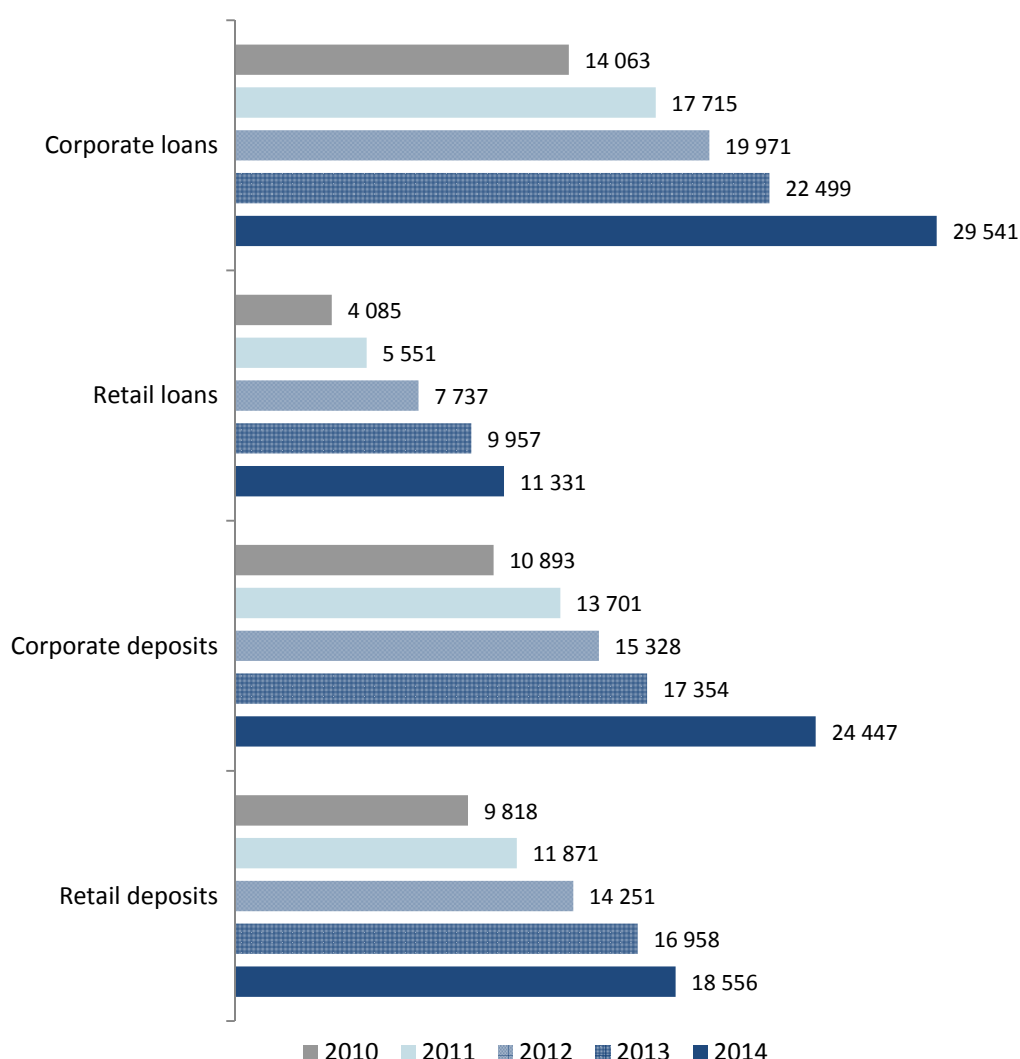
Deposits from individuals increased by 9.4% in 2014, compared to growth of 19.0% a year. This slowdown was a result of significant fluctuations in the rouble exchange rate and a decrease in real income. At the same time, the depreciation of the national currency and a decrease in corporate capital expenditure led to a sharp increase in corporate deposits, which grew by 40.9% from the beginning of the year (13.2% in 2013). The share of customer deposits in total liabilities decreased to

61% as of 31 December 2014, from 68% at the beginning of the year, due to an increase in banking sector debt to the CBR. The net loan-to-deposit ratio for the year decreased from 88% to 87%.

Banks' capital adequacy ratio dropped to 12.5% at the end of 2014, down from 13.5% at the end of 2013, due to a considerable increase in assets and a decrease in profitability.

Throughout the year, the Russian government and the Central Bank provided sufficient support to the banking sector in order to minimise the impact of negative external factors on banks and their customers. In accordance with amendments to Russian legislation adopted at the end of 2014, the government created additional mechanisms to improve the capitalisation of credit institutions. In addition, the Bank of Russia announced at the end of the year the introduction of a temporary moratorium on recognition of negative revaluations of financial institutions' securities portfolios, and offered banks a temporary right to calculate the prudential requirements for foreign-currency transactions using the exchange rate for the previous quarter, and also improved its mechanisms for refinancing banks in foreign currencies.

*Loan portfolio and customer deposits, RUB billion*



Source: Bank of Russia.

## 4. MANAGEMENT REPORT

### 4.1. KEY EVENTS IN 2014

#### January – March

- VTB Group established Mid-Corporate banking as a separate operating segment and profit centre with the aim of increasing market share across all key product lines. The segment has been making a significant contribution to the Group's balance sheet and revenues.

#### April

- VTB Group announced its new strategy 2014-2016 titled “Quality Growth”. Among the main objectives outlined in the Strategy are optimisation of costs and stringent cost control across all business lines.

#### June

- The Annual General Meeting of shareholders took place on 19 June. More than 350 shareholders and their representatives took part in the meeting, which was broadcast online via VTB Bank's website.

#### July

- VTB Bank and Bank of Moscow were added to the list of companies subject to US sanctions, and the VTB Group (VTB Bank and its subsidiary banks outside the European Union) were added to the list of companies subject to EU sanctions. While the imposition of sanctions made it more difficult for the Group's companies to work with foreign partners and contractors, the measures undertaken by the Group's management minimised the negative impact of the sanctions.

#### September

- Following a decision of VTB's Extraordinary General Meeting of shareholders, the Bank issued preference shares worth approximately RUB 214 billion, having converted subordinated loans received by the Group's banks in 2008 (as part of the Russian Government's support package) into these shares. The preference shares have Common Equity Tier 1 treatment under Basel III and CBR regulations.

#### December

- The Russian government placed a RUB 100 billion subordinated deposit in VTB Bank from the Russian National Wealth Fund. The deposit was recognised by the Central Bank of Russia as Tier 2 capital.

## 4.2. VTB GROUP STRATEGY

VTB Group has begun implementing its new strategy for 2014-2016 (the Quality Growth Strategy), which was approved by the Bank's Supervisory Council on 10 April 2014.

According to the strategy, the main objectives for VTB Group's development for 2014-2016 are achieving quality growth, maintaining the Group's leading market positions, realising the potential of key growth areas by achieving profitability targets and developing effective risk management systems. The path to achieving these goals involves the following main priorities:

- maintain a strong market position and improve the efficiency of the corporate investment banking business;
- achieve faster growth in the retail business – increase market share as well as the share of the retail segment in the Group's business overall;
- establish the mid-corporate banking business as a separate profit centre and strengthen the Group's position in this market segment;
- increase operational efficiency and institute stringent cost control;
- strengthen risk management and control systems at the Group level.

A number of external factors had an impact on the results of the first year of implementation of the strategy, including the worsening geopolitical situation, a decline in growth in the Russian economy, the economic crisis in Ukraine, the devaluation of the rouble and the significant increase in interest rates. All of these factors required the Group to carry out a thorough risk assessment, to introduce changes to credit procedures and adjustments to medium-term development plans in various areas.

Despite the difficult economic situation, VTB Group delivered strong operating results, expanded its customer base and increased its market share in priority business segments, having established the necessary conditions for long-term sustainable development in line with its strategic priorities.

In 2014, the Group successfully completed the following structural changes to support the implementation of its new strategy:

- establishing mid-corporate banking business as a separate operating segment and creating a structure to manage this business;
- strengthening the role of the corporate centre (the Group's management centre) by concentrating key competencies in various divisions of VTB Bank and strengthening coordination of global business lines and the activities of subsidiary companies in all areas of support and oversight;
- further improvement of the Group's regional presence, completion of a number of initiatives to improve productivity and to free up capacity in the existing network, and the centralisation of procurement activities;
- centralisation of risk management within the Group, with the establishment of core units to manage credit risks related to global business areas, the introduction of a system to measure and determine the Group's risk appetite, and setting limits and target values for risk appetite.

### *Overview of VTB Bank's long-term development programme*

On the basis of VTB Bank's Supervisory Council-approved strategy for 2014-2016, and in accordance with the requirements for companies included in a special Russian government list (Decree No 91-r of the Government of the Russian Federation of 23 January 2003), the Bank developed a long-term development programme for 2014-2018, which was approved by the Supervisory Council on 18 December 2014.

The programme contains detailed lists of initiatives to ensure that the Bank achieves its development goals (a more detailed description of these initiatives for 2014 can be found in the corresponding sections of this Annual Report).

Key activities and initiatives across the Group's core business lines.

#### Corporate-Investment banking:

- maintain a strong market position in corporate lending and investment banking;
- strengthen market position in the corporate deposits segment and increase the share of current accounts in the deposit base;
- further develop transaction banking through cross-selling and expanding the product offering, increase commission income;
- attract new clients beyond the top 100 clients;
- increase cost efficiency.

#### Mid-Corporate banking:

- increase market share across all product lines;
- maintain an acceptable risk profile during a period of significant growth;
- establish Mid-Corporate banking as a separate operating segment;
- achieve considerable cost reductions in the network and head office associated with servicing the mid-corporate business;
- ensure the segment's significant contribution to the Group's financial results.

#### Retail business:

- maintain fast-pace growth;
- expand considerably the office network (to 2,600 offices) and the ATM network (to 16,000 machines);
- develop remote services, and increase the share of operations carried out remotely;
- complete the transition to a segment-oriented model of working with customers;
- further develop the federal model of working with small businesses;
- invest in upgrading the IT platform and improve infrastructure.

One of the Group's key strategic priorities for 2014-2018 is cost optimisation. This entails:

- optimisation of staff costs;

- improving the productivity of business divisions, as well as support and oversight units;
- optimisation of VTB Group's branch network;
- centralising support and oversight, improving the efficiency of the Group's procurement procedures.

Key risk management priorities include:

- harmonisation of the Group's approach to risk management and centralisation of risk management within the Group through the development of detailed Group standards;
- establishment of a centralised function for rating clients and for validation models at the Group level;
- introducing management practices based on risk-sensitive performance indicators, by determining the Group's risk appetite and ensuring risk levels are adhered to at subordinate divisions, and also by monitoring target indicators;
- introducing modern approaches to portfolio analysis and stress testing.

These priority activities should be carried out by 2018.

#### *Information about the auditor's conclusions regarding the long-term development programme*

In accordance with Directive of the Government of the Russian Federation No 4955p-P13 of 17 July 2014, the Bank is subject to an annual audit in respect of the implementation of its development programme (hereinafter referred to as the "Audit"). The Audit is governed by the Bank-approved Standards for Conducting an Audit of the Implementation of JSC VTB Bank's Long-Term Development Programme, a document that contains information about the procedures of the planned audit, the procedures for the competition to select an auditor, the conduct of the audit, the time frame for completing audit-related work and on decision taking based on the results of the audit.

At the time of publishing this Annual Report, the Bank is conducting an Audit of the implementation of the programme. This is being done in accordance with the instructions of the Russian Government and with the Bank-approved Standards for Conducting an Audit of the Implementation of JSC VTB Bank's Long-Term Development Programme.

Based on the results of the Audit, the results of the audit and the auditor's response, in accordance with the standard audit procedure for the implementation of long-term development programmes at JSC VTB Bank, will be presented to the Strategy and Corporate Governance Committee, and the Supervisory Council for review.

#### *Information about the system of key performance indicators*

An important way of measuring the successful implementation of the strategy and development programme is through a system of key performance indicators (KPIs). These KPIs are set out in the strategy and development programme documents, and are designed to motivate relevant employees to work towards implementing the Group's strategic objectives. In 2014, the following documents were approved, providing the basis for further development of KPIs:

- The Regulation on the Remuneration of JSC VTB Bank's Executive Bodies and on Key Performance Indicators (Minutes No 5 of the Bank's Supervisory Council of 5 March 2015);

- A list of key performance indicators to measure the performance of members of VTB Bank's Management Board (Minutes No 26 of the Bank's Supervisory Council of 30 December 2014);
- The Method for Calculating and Evaluating the KPI "Return on Shareholder Investment" (TSR) (Minutes No 26 of the Bank's Supervisory Council of 30 December 2014);
- The Procedure for Determining the Expected Amount of Remuneration for the Members of the Management Board of JSC VTB Bank, Depending on the Degree of Fulfilment of the KPIs (Minutes No 26 of the Bank's Supervisory Council of 30 December 2014).

The above-mentioned documents were prepared in accordance with the Guidelines for the Use of Key Performance Indicators by State Corporations, State-Owned Companies, State Unitary Enterprises and Commercial Enterprises in Whose Charter Capital the Russian Federation or a Subject of the Russian Federation Has a Share of More than 50% (hereinafter "the Guidelines"), jointly developed by Russia's Ministry of Economic Development and the Russian Federal Property Management Agency.

As part of implementing the instructions of the Russian Government, the current version of the Regulation on the Remuneration of JSC VTB Bank's Executive Bodies and on Key Performance Indicators includes information regarding:

- appropriate remuneration for the nature and scope of the tasks performed, the results of their activities, and the level and combination of risks taken;
- how remuneration for the Bank's executive bodies depends on the achievement of the objectives and tasks determined in the long-term programme for the Bank's development;
- how the chief executive officer's KPIs depend on the achievement of the performance targets of VTB Group, calculated on the basis of the IFRS consolidated financial statements of VTB Bank and its subsidiaries, as determined in the long-term development programme.

The link between the expected amount of the variable part of remuneration for VTB Bank's Management Board and the execution of the established KPIs is set in the approved Procedure for Determining the Expected Amount of Remuneration for the Members of the Management Board of JSC VTB Bank, as well as in the employment contracts of the Bank's senior management.

*In accordance with the approved strategic objectives, the following key performance indicators for VTB Group's operations have been established:*

Indicator
ROE (Return on equity)
TSR (Total shareholder return for a given year)
Net operating income before provisions
CoR (Cost of risk) – Provision charge for loan impairment divided by the average customer loans)
Net fee and commission income
CIR (Cost-income ratio) – Staff costs and administrative expenses divided by operating income before provisions)
Tier 1 CAR (Tier 1 capital adequacy ratio)

*KPIs approved by the Supervisory Council in 2014 and the degree to which they have been achieved*

Key performance indicator	2014 (target)	2014 (actual)	Comments
ROE	11.0%	0.1%	The decrease in the Group's net profit mainly due to the growth in provision charges driven by geopolitical and macroeconomic factors.
TSR	-19.7% <sup>5</sup>	24.8%	The actual implementation of the KPI exceeded the plan.
Net operating income before provisions, RUB billion	510.0	547.5	The actual implementation of the KPI exceeded the plan.
CoR, %	1.9%	3.4%	Provision charges exceeding the plan and reduced net profit as a result of geopolitical and macroeconomic factors.
Net fee and commission income, RUB billion	69.9	63.1	14% year-on-year growth in 2014, exceeding the growth rate of net interest income. The 10% deviation from the plan was due to the impact of the deteriorating economic situation on clients' business activities.
CIR	46.3%	43.7%	The actual implementation of the KPI exceeded the plan.
Tier 1 CAR	10.8%	9.8%	Increase in provision charges due to geopolitical and macroeconomic factors, as indicated above.

*KPIs approved by the Supervisory Council for 2015-2018*

Key performance indicator	2015	2016	2017	2018
ROE	14%	15%	15%	15%
TSR	The yield on the MICEX Financials Index for the relevant reporting period, adjusted for dividends paid out during the period on shares included in the Index.			
Net operating income before provisions, RUB billion	623	743	810	875
CoR, b.p.	199	216	190	174
Net fee and commission income, RUB billion	92	118	140	155
CIR	44%	42%	42%	42%
Tier 1 CAR	11.0%	11.3%	11.4%	11.5%

<sup>5</sup> The yield on the MICEX Financials Index for the period, calculated in accordance with the adopted Method for Calculating and Evaluating the KPI "Return on Shareholder Investment" (TSR), was negative.



Key performance indicators to assess the performance of VTB Bank's executive bodies are formed on the basis of the above-mentioned KPIs, taking into account the responsibilities of VTB Bank's respective managers. It is also possible to use individual indicators for each respective manager to determine how successfully various projects / tasks / programmes have been implemented.

The list of KPIs, their weight in accordance with the Bank's documents is determined for the reporting period by decision of the Supervisory Council individually for each member of the Board.

In accordance with point 4.1. of the Regulation on the Remuneration of JSC VTB Bank's Executive Bodies and on Key Performance Indicators, the approved business plan, budget, and Bank strategy can be used in setting the KPI targets.

In accordance with point 6.1 of the Regulation on the Remuneration of JSC VTB Bank's Executive Bodies and on Key Performance Indicators, the variable part of the remuneration of the executive bodies can be determined by taking into account performance indicators that measure specific areas of responsibility for any one Board member (individual targets) or those of the organisation as a whole (Group targets).

#### *VTB Bank's programme for disposal of non-core assets*

Management of non-core assets is an important way to improve the efficiency of the Group's business. VTB Bank has a programme for disposal of non-core assets. The programme was developed in accordance with Presidential Decree No 596 of 7 May 2012 on Long-Term National Economic Policy and as part of the Group's development strategy. The programme was reviewed and approved by the Supervisory Council in November 2012 (as set out in the Minutes No 21 of the Supervisory Council meeting of 26 November 2012).

Based on a detailed analysis, the Bank identified a number of non-core assets that became part of the programme, including shares of companies in which VTB holds a minority stake. The most effective means of divestment of non-core assets is to sell the business or a stake in it in order to recover the investments made through loans or direct equity investments. The time frame for disposal of non-core assets depends on market conditions and availability of buyers and provided that the Group finds such transactions financially attractive.

In 2014, the Bank did not carry out any transactions to dispose of non-core assets.

## 4.3. REVIEW OF OPERATING PERFORMANCE

### 4.3.1. Corporate-Investment banking

#### Segment overview

Share of VTB Group total, %	
Assets	42.4%
Customer loans (net)	60.8%
Revenues from external customers	38.2%
Net interest income	30.7%
Net fee and commission income	20.8%
Provision charge <sup>6</sup>	43.5%
Net operating income	10.5%
Staff costs and administrative expenses	21.7%

The Corporate-Investment banking (CIB) global business line specialises in servicing major corporate clients through lending, selling transaction and investment products, as well as leasing and factoring services across all regions where VTB Group is present, including Russia, the CIS, Europe, Asia, the USA, the Middle East and Africa.

In order to maximise the effectiveness of its customer service, VTB has created a dedicated client coverage unit and a separate credit unit that is responsible for maintenance and development of a modern line of lending products.

The client coverage unit's service model is centred around sector coverage, with dedicated teams being responsible for doing business with clients from the respective sectors of the economy, including companies in the public and defence sectors. This approach enables the Group to improve the quality of its sector expertise and build products and solutions tailored to the needs of specific clients.

The structure of the credit unit is also designed to tailor customer service to the needs of clients operating across various industries and business segments. This allows the Group to improve its credit analysis and the quality of its corporate loan portfolio.

Alongside credit services, two important strategic areas for CIB are transaction banking and investment banking.

The transaction banking product line includes settlement and cash services, control of foreign exchange transactions, acquiring services, encashment, remote services, financing products, centralised settlements and liquidity management, as well as documentary business products.

The Group's investment banking business offers a full range of investment banking products, including trading operations, organising debt and equity issuance, M&A transactions and consulting services, private equity, asset management, FX and interest rate products and hedging strategies.

<sup>6</sup> Including provision charge for impairment of debt financial assets and provision charge for impairment of other assets, credit related commitments and legal claims.

The main CIB objectives in respect of the VTB Group's strategy are maintaining its strong market positions, improving efficiency and stringent cost control.

### **Lending business**

The Russian corporate lending market saw increased demand for credit from large, high-quality borrowers as international debt capital markets generally remained closed to issuers from Russia.

At the same time, in the second half of the year, the increase in the level of uncertainty in the economy, significant fluctuations in the exchange rate and banks' interest rate hikes in response to the increase in the CBR's key rate had a restraining effect on investments by large customers and their demand for credit.

Despite challenging economic conditions, the decline in consumer demand and the imposition of sanctions by the USA and the EU, VTB Group's corporate lending outgrew the market. During 2014, the Group's gross corporate loans grew by 41.3% to RUB 7,205.3 billion, and its market share in corporate lending increased from 15.5% to 16.5%, the second largest among Russian banks.

The worsening economic situation in Russia, exchange rate volatility and the crisis in Ukraine had a considerable negative impact on the Group's clients and led to an increase in provision charges for loan impairment. In response to adverse macroeconomic conditions, the Group adjusted its corporate lending policies to limit new issuance of FX-denominated credit by tightening collateral requirements and overall origination policies

VTB offers a wide range of lending products, providing financing for varying time periods and in all the world's major currencies. The Bank also offers various types of credit lines — with drawdown limits, credit limits or with a combination of these limits.

Besides traditional financing, VTB also offers complex credit products, including structured repo, investment and project financing, debt and equity financing services, advisory services on structuring investment projects, trade finance services and direct financing from institutional investors and commercial banks. VTB's clients have access to structured financing products that make it possible to significantly reduce interest rates by granting the Bank the choice of the currency for repayment. Leasing and factoring products are offered through the Group's subsidiaries, VTB Leasing and VTB Factoring.

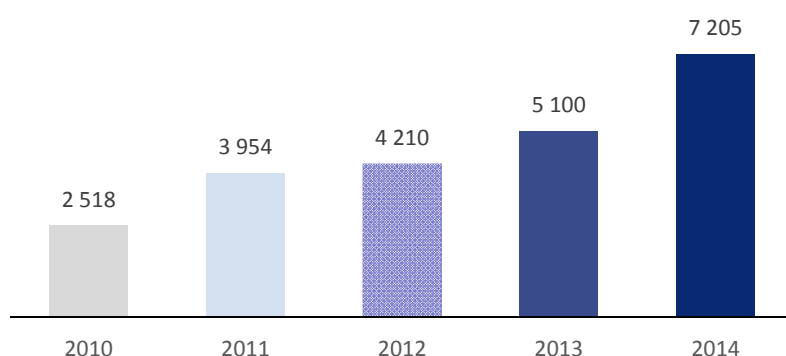
In 2014, credit facilities provided by the Group were extensively used in infrastructure projects, including the construction of the Moscow-St Petersburg M-11 motorway. The Group also continued to provide financing for the construction of a toll bridge over the Kama River as part of a public-private partnership (PPP) with the government of the Republic of Udmurtia. VTB is the main lender on the construction of the Western High-Speed Diameter project in St Petersburg, one of the world's largest PPP toll motorway projects. The project has been nominated on numerous occasions as the best project for infrastructure financing in Europe.

In 2014, the Bank provided financing to Russian regions and municipalities, while also participating in the government programmes aimed to make credit available to the real economy. As of 31 December 2014, the Bank's loan portfolio in these segments exceeded RUB 600 billion.

One of CIB's priorities is to develop its trade and export finance business. In 2015, VTB plans to expand trade and export finance into every region where it operates, with a particular focus on financing foreign trade between Russia and China in cooperation with Chinese banks.

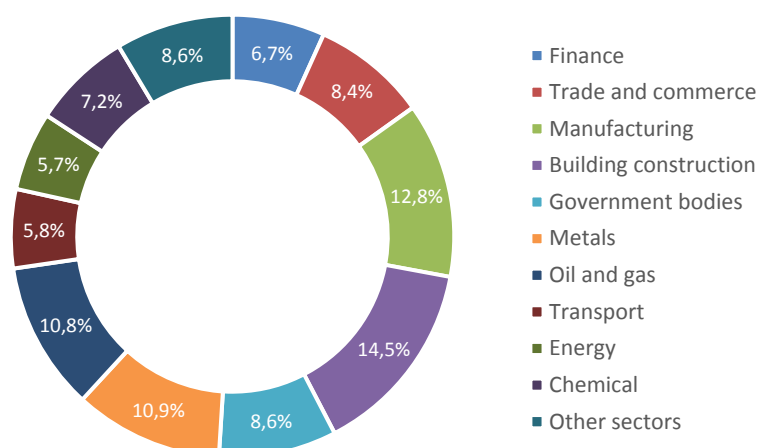
VTB Group has continued the successful roll-out of its growth strategy in international debt markets. In 2014, the Group provided sovereign loans to the Republic of Angola, as well as lines of credit for the Indian industrial conglomerate Essar.

*VTB Group corporate loan portfolio<sup>7</sup>, RUB billion*



Source: VTB Group IFRS consolidated financial statements.

*Corporate loan portfolio by economic sector*



Source: VTB Group IFRS consolidated financial statements.

## Customer deposits

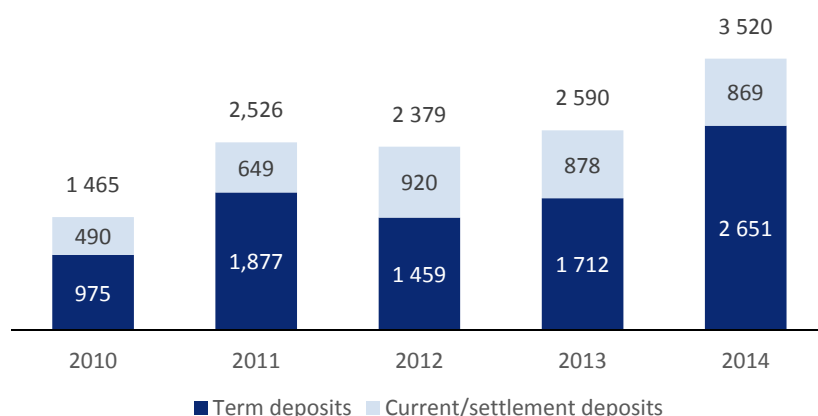
VTB's flexible interest rate policy and the Group's tailored approach to its clients meant it was able to react quickly to changing market conditions, regulatory decisions and demand from Russian companies. Throughout 2014, VTB took a number of steps to increase the appeal of its deposit products, including by extending the time for clients to place "overnight" deposits.

<sup>7</sup> Gross loans and advances to customers, including pledged under repurchase agreements.

The Bank expanded its product line to include long-term deposits with the option of early termination. The Bank also started offering the clients the option of accruing interest on special bank accounts and trust management accounts, as well as the ability to transfer interest payments to another client account at VTB or another bank.

These steps helped the Group attract new clients. Corporate deposits increased by 35.9% in 2014, to RUB 3,520.3 billion (in part due to the revaluation of funds denominated in foreign currencies). VTB Group's market share in this sector grew from 17.8% at the end of 2013 to 18.8% as of 31 December 2014. The Group has the second-largest market share for corporate deposits in Russia.

#### *VTB Group corporate deposits<sup>8</sup>, RUB billion*



Source: VTB Group IFRS consolidated financial statements.

### **Transaction banking**

In 2014, the Group continued to improve customer service in its transaction banking business by introducing best international practices and by responding quickly to demand. This included development of new products, improvements to sales procedures, and a particular focus on cross-selling.

VTB continued to improve the functionality of its remote banking system, giving clients the ability to create and accept documents through the Mobile Client service. In addition, the option of deferred payments was introduced, as was a simplified procedure for clients to register for the remote banking system.

The Group continued to develop its settlement and cash management services, offering new types of bank accounts as well as the ability to open several accounts of the same type under a single bank account agreement. A new service introduced as part of the Customer Settlement Centre system allows the controlling entity in a group of companies to manage the balance and movement of funds in the accounts of its affiliate companies at other banks.

<sup>8</sup> The information for 2013 is presented after reclassification described in details in the VTB Group's IFRS consolidated financial statements for 2014. Due to rounding, numbers presented may not add up precisely to the totals.

VTB has been actively involved in large-scale projects to centralise management of cash flows, liquidity and financial risks at leading Russian corporations. This has enabled the Bank to increase its market share among Russia's largest companies.

During 2014, VTB established a centralised treasury and introduced other transaction banking products for more than 130 major holding companies involving more than 1,250 legal entities.

In 2014, VTB's subsidiary banks in Ukraine, Belarus, Kazakhstan and Western Europe successfully expanded and improved their transaction banking products, and also carried out extensive work on developing remote banking and increasing sales efforts.

Every year, VTB conducts customer satisfaction surveys regarding its transaction banking services. Customers' responses are taken into account when planning the further development of the Bank's products, helping VTB to stay at the leading edge in the banking market.

### **Documentary business**

Amid the economic slowdown, VTB's documentary business focused on maintaining its leading position in the Russian market, expanding its documentary portfolio and improving the quality of customer service, as well as optimising use of the Bank's regulatory and economic capital. In 2014, VTB considerably strengthened its position in the segment of risk-free export letters of credit, with operations volumes increasing to approximately RUB 700 billion.

Despite lower levels of foreign trade activity by Russian clients throughout the year, VTB was able to maintain a stable level of income from its documentary business.

In response to growing interest from exporters for payments in alternate currencies, including Russian roubles, VTB helped some of Russia's largest suppliers to the Asia-Pacific Region and the EU to convert accounts for export contracts into a variety of currencies. For example, in partnership with a leading supplier of mineral resources, VTB launched a pilot project for payment in roubles under export contracts with EU customers.

### **Investment banking**

VTB Group has Russia's leading investment banking franchise and continues to be one of the key advisors for Russian corporate clients looking to access global capital markets. VTB Capital is the Group's investment banking brand. Throughout 2014, the Group maintained its leading position in various segments of the investment banking market.

#### *Trading services in global markets*

VTB Group offers a full range of services for fixed income, equity, and FX trading, as well as interest rate and global commodities markets operations. The Group also provides currency and interest rate risk management services, including hedging solutions, as well as structured finance, structured deposits and notes, structured credit and hybrid products.

VTB Group clients are able to access equity capital markets in South Africa, Turkey, Poland, the Czech Republic, Hungary, Israel and several other countries in the Middle East. VTB Capital is a member of the London Stock Exchange (LSE) and the Warsaw Stock Exchange, and also has access to a number of other foreign markets through its extensive network of local brokers.

In 2014, VTB Capital strengthened its position in Russian equities trading and also was the leading bank by trading volume in the Moscow Exchange repo market.

VTB Capital Broker continued to develop its direct market access (DMA) service on the Moscow Exchange. The Group expanded the business's customer base in 2014 and plans to expand the geography of its DMA services throughout 2015.

VTB Group maintained its position as one of the leading traders of government and corporate bonds on the Moscow Exchange and in over-the-counter markets. In 2014, VTB Group's share of trades in the bond market exceeded 15% for both rouble-denominated bonds and Eurobonds.

The Group remains one of the leading players in the foreign exchange and derivatives markets, with market shares of 16% and 22%, respectively.

In 2014, VTB Capital was named Best Foreign Exchange Provider in Russia for the fourth consecutive year by *Global Finance* magazine.

#### *Investment banking*

VTB Group offers a full range of investment banking products. VTB Capital advises on and executes M&A, equity capital markets (ECM) and debt capital markets (DCM) transactions for clients in Russia and the international markets.

#### *Debt capital markets*

VTB Capital took top spot in Dealogic's Russia and CIS DCM bookrunner ranking, arranging 120 transactions. For the sixth consecutive year Cbonds rated VTB Capital "Best Investment Bank: Arranger for First Tier Issuers".

In maintaining its leading position in Russia, the Group expanded its presence in international debt markets by organising placements for issuers from France, Cyprus, Italy, Slovakia, the US and China. VTB Capital acted as lead manager on the Republic of Cyprus's first Eurobond issue of in four years, a deal worth EUR 750 million. Among VTB Capital's other notable transactions were two placements of high-yield bonds for China's Logan Property (worth USD 300 million) and for Beijing Capital (RMB 1 billion).

#### *Equity capital markets*

Despite adverse market conditions, VTB Capital strengthened its leading position in ECM in Russia and the CIS countries by participating in a number of important transactions, including in the USD 1 billion IPO of retailer Lenta. VTB Capital also strengthened its position in international ECM by acting as co-lead placing agent in a EUR 1 billion capital increase by Bank of Cyprus and as co-bookrunner in a EUR 1.5 billion rights issue by Banco Popolare.

According to Dealogic, VTB Capital also ranked #1 in ECM in Russia and CIS with the market share of 17.2%. VTB Capital remains the leading advisor on privatisation deals in the Russian market, and successfully executed a range of such transactions, including a secondary placement of shares of Moscow Exchange to raise USD 469 million in 2014.

### *Corporate finance*

In 2014, VTB Group strengthened its leading position in M&A in CIS and internationally. During the year, VTB Capital took part in major transactions including the sale of Auto.ru to Yandex for USD 175 million and the creation of a joint venture between Rostelecom and Tele2 Russia. VTB Capital also acted as financial advisor to Essar Group, one of India's largest industrial groups, in taking private its key assets, that had been listed on the London Stock Exchange.

As of the year end, VTB Capital was one of the leaders in rankings by Dealogic and Thomson Reuters of M&A consultants in Russia and the CIS.

### *Commodities markets*

VTB Group offers a wide range of risk management solutions in commodities markets, including hedging strategies, commodity price linked financing, deposits, bonds and other structured investment products.

The Group is an active participant in international precious metals market and a key provider of hedging solutions to Russia's leading gold producers. In 2014, VTB worked on a number of major risk management projects for some of the largest consumers and producers of raw materials. The Group structured a long-term hedging strategy for Russia's largest gold producer, Polyus Gold, through a series of barrier options on gold with a total volume of more than 1 million ounces.

### *Investment management*

The Group offers sophisticated asset management solutions in the Russian and international markets. These services are offered by subsidiaries of VTB Capital Investment Management ("VTB Capital IM"), one of VTB Capital's key divisions.

In 2014, VTB Capital IM successfully grew its business with retail and institutional clients, as well as wealth management and management of closed-end mutual funds. Assets under management increased by 25% to more than RUB 261 billion, making VTB Capital IM the second-largest asset management group in Russia.

VTB Capital IM significantly increased its client base and assets under management for high-net-worth individuals. Qualified investors were offered a wide range of strategies and a large selection of products for trust management.

VTB Capital Asset Management has repeatedly been named among the top 10 firms in the retail mutual fund sector by Investfunds.ru. In 2014, VTB Capital Asset Management further developed its line of retail mutual funds by merging funds with similar strategies and reducing operating costs, while still offering a diversified range of products. The company's clients have access to 19 unique strategies for investing in the Russian economy and in foreign securities.

VTB Capital IM expanded its range of closed-end mutual investment funds, which it used to implement a range of real estate and private equity projects, as well as incentive programmes for corporate management. By the end of 2014, the number of closed-end mutual investment funds managed by VTB Capital IM in its portfolio investment business had increased to 15, with total assets under management increasing by 50% to RUB 128 billion.



VTB Capital Asset Management, together with ROSNANO, Kazyna Capital Management and I2BF Innovations Partners, continues to finance hi-tech projects through two new international venture capital funds, which by the end of 2014 had provided financing for six projects.

In 2014, the National Rating Agency assigned the subsidiaries of VTB Capital IM a reliability rating of AAA (maximum reliability), while Expert RA assigned an A++ rating (extremely high/highest level of reliability and quality of service).

#### *Custody services*

VTB Group Custody is one of the largest custodians in Russia and provides a full range of custody services for all types of securities issued by Russian and foreign issuers. The majority of companies operating in the Russian market hold depository accounts with the Bank.

In 2014, transaction services through accounts with Russian sovereign bonds were in high demand among local and foreign participants in the Russian securities market. These services were jointly developed with Euroclear Bank, one of the largest international account depositories, whose agent for custody operations in Russia is VTB Custody. This service was improved in 2014, and Russian securities were added to list of those that could be covered by this service.

The Bank's depository acts as the Russian sub-custodian for the Bank of New York Mellon, holding the underlying assets for issuing share depository receipts for 26 Russian issuers. The depository also acts on behalf of Deutsche Bank Trust Company Americas.

#### *Research*





















VTB Capital's analysts provide independent research on more than 180 Russian and international companies; fixed income, equity and commodities markets; as well as macroeconomic analysis. As part of their work, analysts provide high-quality analytical support to Group companies. In 2014, the Research Department optimised its coverage in response to market conditions, customer demands and the Group's needs.

VTB Capital's research team reclaimed top spot in the Institutional Investor 2014 All-Russia investor survey, and was also highly ranked in the Thomson Reuters Extel Survey.

## VTB Capital notable transactions in 2014

 <b>Essar Global Fund Ltd.</b> <b>US\$1.37 billion</b> Take private of Essar Energy Plc  Sole Financial Adviser 2014	 <b>LENTA</b> <b>USD 974 million</b> Initial Public Offering  Joint Global Coordinator and Joint Bookrunner 2014	 <b>Tele2 Russia</b> <b>USD multi billion</b> Merger with mobile assets of Rostelecom  Sole Financial Adviser 2014	 <b>Bank of Cyprus</b> <b>EUR 1 billion</b> Capital Increase (Private Placement)  Co-Lead Placing Agent 2014
<b>Independent Oil Company</b> Not disclosed Merger of Alliance Oil and Independent Oil Company  Exclusive Financial Adviser 2014	 <b>Beijing Capital (Hong Kong) Limited</b> <b>CNH 1,000 mln</b> Eurobond issue  Joint Bookrunner and Joint Lead Manager 2014	 <b>Logan Property Holdings Company Limited</b> <b>USD 250 million</b> Eurobond issue  Joint Bookrunner and Joint Lead Manager 2014	 <b>SPP-Distribucia</b> <b>EUR 500 mln</b> Eurobond issue  Joint Bookrunner 2014
 <b>BancoPopolare</b> <b>EUR 1.5 billion</b> Rights Issue  Co-bookrunner 2014	 <b>Auto.ru</b> <b>USD 175 million</b> Sale to Yandex  Exclusive Financial Adviser 2014	 <b>Moscow Exchange</b> <b>USD 470 million</b> Follow-on offering  Joint Global Coordinator and Joint Bookrunner 2014	 <b>SocieteGenerale</b> <b>USD 1 billion</b> Tier 2 Subordinated Bond Issue  Joint Lead Manager 2014
 <b>Barclays</b> <b>EUR 1.25 billion</b> Eurobond issue  Co-Manager 2014	 <b>UBS</b> <b>EUR 2 billion</b> Tier 2 Subordinated Bond issue  Joint Bookrunner 2014	 <b>Eurobank</b> <b>EUR 2.86 billion</b> Follow-on offering  Co-Lead Manager 2014	 <b>Polyus Gold International</b> Listing of shares on Moscow Exchange  Adviser 2014
 <b>QIWI</b> <b>USD 367 million</b> SPO  Joint Bookrunner 2014	 <b>nostrum</b> Oil & Gas Premium Listing on the London Stock Exchange  Financial Adviser 2014	 <b>Bank of America</b> <b>USD 1.25 billion</b> Eurobond Tap  Co-Manager 2014	 <b>Republic of Cyprus</b> <b>EUR 750 mln</b> Eurobond issue  Joint Bookrunner 2014
 <b>Eurasian Development Bank</b> <b>RUB 5 billion</b> Local Bond Issue  Joint Lead Manager 2014	 <b>Russian Agricultural Bank</b> <b>USD 500 million</b> Eurobond issue  Joint Lead Manager 2014	 <b>AHML</b> Agency For Housing Mortgage Lending <b>RUB 5 billion</b> Local Bond Issue  Joint Lead Manager 2014	 <b>VTB</b> <b>OJSC VTB Leasing</b> Not disclosed Sale of Orenburg Drilling Company to Rosneft  Exclusive Financial Adviser 2014
 <b>Russian Railways</b> <b>EUR 500 million</b> Eurobond issue  Joint Bookrunner 2014	 <b>VTB</b> <b>USD 291 million</b> Liability Management  Joint Dealer Manager 2014	 <b>Krasnoyarsk Region</b> <b>RUB 10 billion</b> Local bond issue  Joint Lead Manager 2014	 <b>Lipetsk region</b> <b>RUB 5 billion</b> Local Bond Issue  Joint Lead Manager 2014

## VTB Capital awards in 2014

 <b>Best Investment Bank in Russia</b> 2013, 2014	 World's Best Investment Banks <b>Best Investment Bank in Russia</b> 2010 - 2014	 Europe Banking Awards 2013 <b>Best Investment Bank in Russia</b> 2010 - 2014	 World's Best FX Providers <b>Best FX Provider in Russia</b> 2011 - 2014
 <b>#1 Best Bond Futures Team</b> 2009 - 2014	 <b>Best Securitisation House</b> 2009, 2010, 2014	 All-Russia Investor Survey <b>#1 All-Russia Sales and Trading Teams</b> 2012, 2014	 Extel Survey <b>#1 Equity Sales Team in Russia</b> 2012 - 2014
 <b>#1 Domestic DCM Bookrunner in Russia</b> 2009 - 2014	 <b>#1 Domestic Bond Bookrunner in Russia</b> 2009 - 2014	 <b>#1 Domestic Bond Bookrunner in Russia</b> 2009 - 2014	 <b>#1 ECM Bookrunner in Russia and CIS</b> 2010 - 2014
 <b>Best Equity Bank in Russia</b> 2014	 Russia M&A Awards <b>#1 Best Russian M&amp;A advisor</b> 2014	 World's Best Investment Banks <b>Best M&amp;A Bank in CEE</b> 2014	 <b>Best investment company in the road sector</b> 2014
 Private Equity Awards <b>#1 Private Equity Firm in Russia</b> 2011 - 2014	 All-Russia Investor Survey <b>#1 All-Russia Research Team</b> 2011, 2012, 2014	 <b>Best in-house corporate and financial comms team</b> 2014	 <b>Most Innovative Program for Graduates &amp; Young Professionals in Russia</b> 2014

## **Non-banking financial business**

In addition to offering its retail and corporate clients banking and insurance services, VTB Group also offers leasing and factoring services. Synergies and cross-selling of banking and non-banking products remains one of the Group's main priorities.

### **Leasing**

VTB Leasing is one of Russia's leading leasing companies, offering its clients world-class services. The company has 61 offices across Russia, as well as subsidiary businesses in the CIS and Europe. VTB Leasing is one of the top three leasing companies in the Russian market and one of the top 50 in Europe.

The company had a successful year in 2014 in all areas of its leasing business. As of the end of the year, the leasing portfolio of VTB Group companies totalled RUB 419.5 billion, with the volume of new leasing agreements coming to RUB 149.0 billion. The main sectors of the leasing portfolio remain rail transport, aviation equipment and equipment for oil production and refining.

The share of transactions in relatively new but rapidly expanding sectors for leasing such as automobiles, freight transport and specialised machinery continued to grow, reaching 12% of the portfolio by the end of 2014.

In 2015, the Group will continue to develop its leasing business with a focus on strong growth in the automobile, freight transport and specialised machinery sectors. In VTB Leasing's core sectors, such as the transport industry and equipment for the oil and gas industry, the Group is targetting conservative, risk-balanced growth.

### **Factoring**

VTB Factoring is the undisputed leader in the Russian factoring market. The company operates across Russia through its network of affiliates located in 17 of the country's largest cities, and also through branches of VTB Bank. VTB Factoring offers a full range of financial services for working with receivables and payables.

VTB Factoring's main targets are Russia's largest companies in the markets for goods and services.

The turnover in assigned receivables for 2014 amounted to RUB 436.3 billion, while the factoring portfolio totalled RUB 88.1 billion. VTB Factoring's revenue increased by 20% compared with 2013, reaching RUB 7.7 billion.

The company ranks first among Russian factoring companies by portfolio size (with a market share of 28%), turnover of assigned receivables (22% market share) and revenue.

### 4.3.2. Mid-Corporate banking

#### Segment overview

Share of VTB Group total, %	
Assets	7.0%
Customer loans (net)	11.0%
Revenues from external customers	9.3%
Net interest income	34.2%
Net fee and commission income	19.2%
Provision charge <sup>9</sup>	23.1%
Net operating income	25.3%
Staff costs and administrative expenses	11.7%

Mid-corporate business is one of the most dynamic sectors of the real economy and the banking market. In line with its new three-year strategy, in 2014 VTB Group established Mid-Corporate banking as a global business line and profit centre, with the aim of increasing business volumes, market share and profitability in the segment. Outside Russia, the Group has been working with mid-corporate clients in CIS countries.

#### Lending business

The Group successfully grew its gross loans to medium-sized business clients to RUB 1,047.8 billion by the end of 2014.

During the year, VTB took part in financing of infrastructure projects, food and agricultural production, construction and projects to upgrade social services in Russia's regions. The most notable infrastructure projects include:

- construction and development of a state-of-the-art, hi-tech steel mill in Chelyabinsk as part of a long-term import substitution plan;
- construction of a new oil port in Taman;
- commissioning of a section of road to bypass the city of Dmitrov in the Moscow Oblast;
- upgrading and reconstruction of Khrabrovo airport in Kaliningrad;
- an innovative project by OJSC Narzan to bottle mineral water using natural aeration (without the artificial addition of carbon dioxide) in Stavropol Krai;
- construction of a facility in Nizhny Novgorod Oblast to produce heat and electricity, and also to convert associated flue gases produced into carbon dioxide.

<sup>9</sup> Including provision charge for impairment of debt financial assets and provision charge for impairment of other assets, credit related commitments and legal claims.

The Bank financed a number of investment projects in agriculture, such as the construction of a large dairy farm in Bryansk Oblast, a project to upgrade and re-equip a turkey production enterprise in Omsk Oblast and the upgrading of dairies in Khabarovsk Krai.

In the health and medical sector, VTB provided loans for the construction and development of the first medical clinic centre in Kovrov. In addition, the Bank provided financing to a company producing drugs to combat tuberculosis and treat HIV-infected patients.

In of housing and communal services, the Bank financed the reconstruction of water supply and sewerage networks in Irkutsk. The project has an extraordinary role to play in ensuring that the city can provide certain vital services.

In housing, VTB financed projects to build engineering and communications facilities for a new residential complex in Novgorod Oblast, and also to upgrade water supply systems in Kirov Oblast (under the federal housing programme).

In the second half of 2014, the business and investment activities of clients in the mid-corporate business sector decreased significantly due to the depreciation of the rouble and the considerable increase in interest rates. Owners of private companies became even more conservative in terms of assessing investment projects, for example, reviewing profitability forecasts and estimates for projects related to the purchase of imported equipment.

Given the unfavourable market conditions, the mid-corporate business team adjusted its lending procedures and focused on maintaining the quality of the loan portfolio, e.g. by increasing demands regarding borrowers' financial position and raising collateral requirements for loans. VTB directed customers with revenue streams in roubles to take out loans denominated in roubles. The share of foreign currency loans in the mid-corporate business portfolio remains low.

### **Transaction banking**

Transaction banking remains strategically important to the growth of the Group's mid-corporate business.

In 2014, the Group's mid-corporate customers showed increased demand for the Mobile Client service, an application that allows managers, CFOs and treasurers to monitor their company accounts online and to view detailed information about the movement of funds using their mobile phones, smartphones or tablets. In addition, another product gaining popularity in the mid-corporate business sector is the Customer Settlement Centre, which allows a parent company to receive account information from various divisions and also manage the accounts of affiliate companies electronically.

The Group has been working with some success on a project aimed at bringing to VTB special accounts of regional operators that collect funds for major renovations of apartment buildings.

### **Documentary business**

In 2014, customer demand for documentary business products continued to grow. VTB worked throughout the year on the further development of services and business processes in this sector. In response to the entry into force of the Federal Law on the Contract System in the Procurement of Goods, Works and Services for State and Municipal Needs, the Bank was one of the first to join the

registry of bank guarantees issued under government contracts, and it also adapted its agreements and bank guarantees to meet the new legal requirements.

In addition, the Bank modified its standard terms for bank guarantees and letters of credit, updated its simplified procedures for issuing bank guarantees secured in full by cash or a promissory note from the Bank and established a more flexible approach to pricing conditions.

During the year, VTB offered its customers individual payment schemes through letters of credit. The Bank resumed working with letters of credit in yuan from Chinese counterparts. Offering products such as current accounts and documentary operations in yuan, as well as direct rouble-yuan conversions, helped the Bank to strengthen its leading position in servicing foreign trade activities.

In 2015, VTB intends to strengthen the main areas of its documentary business, both through the development of targeted programmes for clients and through marketing campaigns.

### **Optimisation of the banking network**

In accordance with the Group's new strategy, its mid-corporate business continued optimising administrative expenses and improving the efficiency of the Group's regional offices. Following an analysis of the efficiency of VTB Bank's regional network and the optimisation thereof, the Bank reduced the number of offices in the network by 18%. In addition, several offices were transformed into another format in order to reduce maintenance costs. These measures, combined with stringent cost control, resulted in a significant cost reduction and improved the manageability of the regional network.

In 2014, Bank of Moscow exited 14 regions and converted its closed sales outlets into other bank departments and offices or transferred them to other banks within VTB Group.

Optimisation of the Group's network was based on a number of key principles, including the best interests of the Group's clients and maintaining the Group's regional presence. As a result, improvements to network efficiency were accompanied by growth in the Group's regional business and an increase in the number of clients.

### **Areas for further development**

In 2015, the mid-corporate business team will continue to develop its product offering and improve the quality of its customer service. Simplified decision-making procedures for documentary operations are expected, as are improvements in the functionality of the remote banking system.

The mid-corporate business line is planning to maintain a conservative approach to expanding its loan portfolio and focus on maintaining asset quality, and to make further improvements to operating costs and business processes.



### 4.3.3. Retail business

#### Sector overview

Share of VTB Group total, %	
Assets	21.0%
Loan portfolio after provisions	23.8%
Income from external customers	35.5%
Net interest income	54.8%
Net commission income	56.4%
Provision charge <sup>10</sup>	33.4%
Net operating income	59.3%
Staff costs and administrative expenses	48.1%

In 2014, VTB Group continued to grow its retail banking business both in Russia and abroad. As the second-largest retail bank in Russia, VTB24 continues to form a core part of the Group's retail business. The Group also provides retail banking services in Russia through Bank of Moscow (as a universal bank) and Leto Bank, which specialises in consumer lending.

In total, VTB Group's active retail customer base by end of 2014 was approximately 15 million.

#### Lending business

In 2014, the economic slowdown and slower wage growth, as well as significant currency fluctuations, led to a reduction in consumption and weakening of demand for consumer products and car loans. The sharp rise in interest rates in the second half of the year and banks' tougher stance on borrowers also led to a slowdown in lending growth.

Under these conditions, the Group's retail loan portfolio grew by 27.9% to RUB 1,945.1 billion in 2014 (mainly driven by secured lending). VTB Group thus remained in second place in the Russian market for retail lending, increasing its market share by 1.6 percentage points to 14.9% as of 31 December 2014.

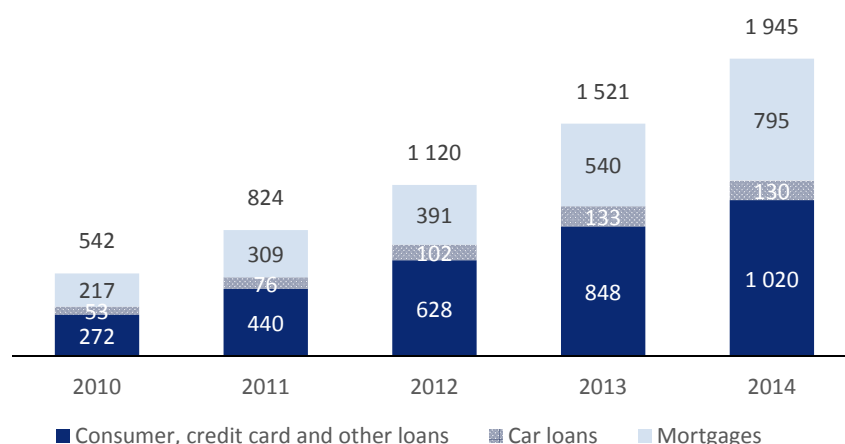
Mortgage loans were the main driver of growth in the Group's retail loan portfolio in 2014, as the demand for such loans in Russia remained at a high level. The Group continued to give priority to products with a relatively low risk while increasing assets.

Mortgages reached 40.9% of the Group's gross loans to individuals as of 31 December 2014, versus 35.5% a year earlier. Consumer loans and credit card loans amounted to 46.3% and 5.9% of the portfolio, respectively, compared to 48.8% and 5.7% at the beginning of the year. Car loans decreased to 6.7%, down from 8.8% at the beginning of the year.

<sup>10</sup> Including provision charge for impairment of debt financial assets and provision charge for impairment of other assets, credit related commitments and legal claims.



*VTB Group retail loan portfolio<sup>11</sup>, RUB billion*



### *Consumer loans*

As part of the Group's development strategy, high-income customers are the priority category for VTB24, while Leto Bank focuses on serving the mid- and lower-income customer segments. In this respect, VTB24 increased its minimum amount of consumer credit in 2014 from RUB 50,000 to 100,000 and also raised its income requirements for borrowers. In addition, the bank changed its pricing system for loans, moving to a system whereby the interest rate is determined based on the amount of the loan and the customer's income segment.

To improve its offering of credit products, VTB24 upgraded its Refinancing product and launched a programme for cash loans issued by TransCreditBank (which merged with VTB24 in 2013).

### *Mortgage lending*

In 2014, VTB24 issued more than 177,000 mortgage loans worth a total of RUB 353 billion. At the end of the year, the bank's loan portfolio included more than 493,000 mortgages. In 2014, one out of every five families purchasing property with the help of a mortgage did so with a loan from VTB24.

During the year, VTB24 reviewed and made considerable improvements to the conditions for a variety of its mortgage programmes. In particular, the bank introduced a system – the only one of its kind in the Russian market – of mortgage interest rates with conditions that are transparent and easy for clients to understand (with the rate depending on the amount of the loan).

In 2014, nearly every second mortgage loan issued by VTB24 was for the acquisition of new-build property. To improve its customer service in this sector, the bank launched a project called Mobile Mortgage Front, with VTB employees stationed at building sites to make purchasing property with a mortgage as convenient as possible.

To simplify the mortgage application process, VTB24 made it possible to submit an application and receive a decision online through the Bank's website without having to visit a branch.

<sup>11</sup> Due to rounding, numbers presented may not add up precisely to the totals.

Bank of Moscow also continued to develop its mortgage products by introducing a range of new services. In December 2014, the Bank established a uniform interest rate for all of its mortgage programmes.

#### *Car loans*

In 2014, the Group maintained its leading position in the Russian car loan market by portfolio volume. VTB24 launched a new programme for motorcycle purchases, as well as new roadside-assistance products. Since August 2014, VTB24 has been offering car loans only in Russian roubles.

#### *Bank cards*

In 2014, VTB24 issued 3.8 million bank cards, with a total of 13.5 million active cards now in circulation.

Payroll cards were the largest contributor to this growth. In 2014, VTB24 attracted more than 6,000 new payroll projects. By the end of the year, 32,600 companies (with a total of more than 3.6 million staff members) were paying their employees' wages through VTB cards.

In 2015, VTB24 will continue to develop its card products, and a new line of credit cards will hit the market. The first card in this new series, World Maps (a credit card that makes it possible to accumulate bonus miles and exchange them for tickets with any airline), was launched at the end of 2014.

#### *Services for small businesses*

In 2014, the Group maintained its position as a leading lender to small businesses, ranking second by loan portfolio volume. At the same time, because of changes in the macroeconomic situation during the year, the Group tightened its requirements for small-business borrowers, thus reducing the percentage of approved loan applications in this sector.

The total volume of loans provided by VTB24 to small businesses in 2014 increased by 14.4% to RUB 185.2 billion.

VTB segments small-business clients based on standardised procedures:

- small business customers with an annual revenue of up to RUB 20 million are offered standard types of credit products and packaged cash and settlement service products;
- priority small-business customers are presented with an individual offer of banking products and the services of a personal manager.

The Group's product line for small businesses is one of the most extensive in the market.

To expand its financing for small businesses and minimise the risks, VTB24 works with the Agency for Loan Guarantees (the bank provides loans guaranteed by the Agency), regional guarantee funds, as well as SME Bank, which runs a state programme providing financial support to SMEs. In 2014, in cooperation with these organisations, VTB24 provided loans to clients from more than 60 regions of Russia, with a total value of more than RUB 26 billion.

#### **Asset quality and bad debt**

Amid a slowdown in the Russian economy and increasing credit risk, Russian banks began facing an increase in overdue loans in 2013. Throughout 2014, the decline in consumption and real disposable

income continued to exert strong pressure on the cost of risk and the quality of retail loans. Under such conditions, the Group's retail banks reduced approval rates for the riskiest customer segments and further strengthened their debt collection function.

In 2014, the Group completed the introduction in its banks in the CIS and Georgia of VTB24 Collection, a unified system to automate debt collection based on Oracle Siebel. As a result, six subsidiary banks (in Belarus, Ukraine, Georgia, Azerbaijan, Kazakhstan and Armenia) introduced the Group's best debt-collection practices, which considerably improved the effectiveness of this function.

In 2014, the Group began preparations for a project called Mobile Collection, which aims to further improve business processes related to debt collection from both corporate and individual clients, as well as improvements in the organisational structure of collection divisions.

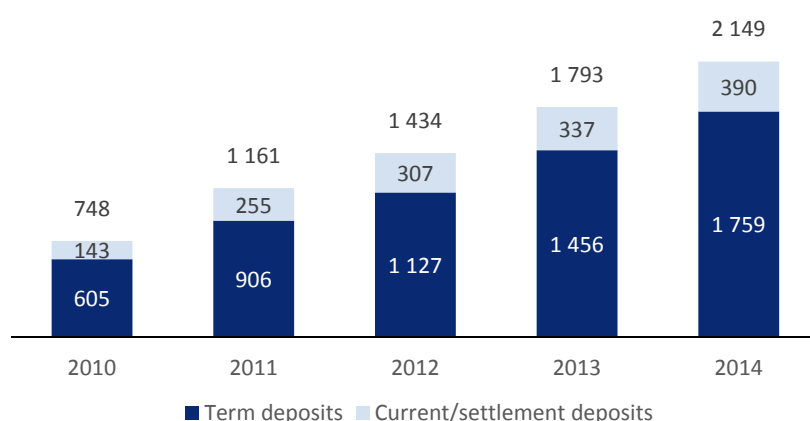
In December 2014, VTB24 opened a third remote collection call centre in the city of Cheboksary. In 2015, the Group plans to move a considerable number of staff members from the call centre in Moscow to the new centre. In addition, VTB24 successfully introduced an automated strategy for the later stages of debt collection in 2014, resulting in a 5-7% increase in productivity.

By reconfiguring its lending practices and improving how it handles overdue loans, the Group showed a decline in the cost of risk for individual borrowers from 5.5% in the first quarter to 2.7% in the fourth quarter of 2014.

## Customer deposits

As of 31 December 2014, VTB Group's retail customer deposits amounted to RUB 2,149.1 billion, an increase of 19.8% from the beginning of the year. This is due to the Group's strong position in the retail market, changing customer preferences in favour of large, systemically important banks, as well as the revaluation of client balances denominated in foreign currencies. The Group's market share in terms of individual deposits increased for the year from 9.3% to 9.8%.

*VTB Group retail customer deposits, RUB billion*



*Source: VTB Group IFRS consolidated financial statements.*

Deposits at VTB24 account for the bulk of funds from the Group's retail customers. In 2014, the bank upgraded its offering of deposits, which currently focuses on three products offering customers a wide range of options. The rates on new deposits depend on the method used for the deposit and

on the service package selected by the client. For payroll clients, the bank introduced a type of deposit called VTB24-Your Bonus, which has a higher interest rate.

In 2014, VTB24 and Bank of Moscow revised their interest rates on deposits several times in accordance with market conditions. During the year, the Russian market generally saw a trend towards increases in the yield on deposits.

During 2014, VTB24 acted as an agent for the Deposit Insurance Agency, distributing insured retail deposits to clients of several banks whose licenses had been revoked during the year (including My Bank, Intrastbank, Stroycredit and others). A substantial portion of these funds have remained in VTB24 deposits.

VTB24 allows clients to open anonymous metals accounts in four different types of metals: gold, silver, platinum and palladium. As of the end of 2014, there were more than 18,000 active metals accounts at the bank.

### **Remote banking services**

In 2013, the number of active clients using VTB24's remote banking service, Telebank, increased by 33.3% to 379,000 users, while the total number of Telebank customers reached 2.1 million.

In 2014, VTB24 worked hard to expand the functions available to users of its Internet and mobile banking systems. In particular, the following services were introduced:

- making direct payments from a bank card;
- submitting online applications for cash loans;
- adding Live Chat and Request Callback functions, making it possible to contact the remote banking system's customer service centre free of charge from anywhere in the world;
- making it possible to download bank statements in convenient CSV and XML formats;
- introducing a completely new version of the remote banking service that makes the homepage fully customizable to meet each customer's needs.

To further improve security, VTB24 introduced new measures to ensure secure access to Telebank (SMS codes and a password generator), launched a service that makes it possible to block cards instantly and took steps to ensure better protection of confidential information.

In 2014, the total number of customers using SMS notifications increased by 91.8% to 2.8 million (including 1.5 million customers using the service free of charge as part of payroll services). The number of customers using SMS notifications for a fee increased by 26% to 1.3 million, which led to an increase in commission income from this service.

VTB24 also updated the technology for its mobile banking platform, its iPhone app and the PDA version of its Internet banking system. In addition, an iPad app was introduced.

### **Transfers and payments**

VTB24 continues to develop its payment and money transfer services. Transactions carried out by individuals to pay for the services of various organisations increased in 2014 by 29.0% year-on-year, reaching RUB 178 billion. The average payment amount increased by 22%. In September, VTB24

launched an innovative service for transfers between cards from any Russian banks using the bank's ATMs.

### **Services for high-net-worth customers**

In 2014, VTB24 continued to be active in attracting privileged and high-net-worth customers to use the bank's services over the long term. The bank launched a single Privilege package, which includes a status MasterCard Black Edition/Visa Signature debit card with an increased limit for operations and cash withdrawals, special conditions for deposits and a number of banking services, free insurance for travelling abroad, as well as special rules for service. At the end of 2014, VTB24 had more than 170,000 privileged and high-net-worth clients.

### **Private banking**

VTB Group provides private banking services in Russia through VTB24 and Bank of Moscow. VTB24 Private Banking is the leader in Russia's private banking market. In 2014, the bank expanded its network by opening 11 new premium offices, bringing the total Private Banking network to 22 offices in 20 Russian cities.

In 2014, the Group offered its VTB24 Private Banking customers new services and options, including the ability to remotely open accounts and to get banking services from the Group's European sub-holding in Austria and France.

In the third quarter of 2014, VTB24's Private Banking was expanded with another operation, the Family Office, which provides comprehensive assistance and support for clients in the following areas:

- Tax support
- Legal support
- International business and asset management
- Lifestyle management

VTB24's number of VIP clients increased by more than one-third in 2014, exceeding 5,000. Over the year, the volume of deposits in this customer category increased by 30.2% to RUB 401.5 billion, which was approximately 19% of the Group's total individual deposits as of 31 December 2014.

### **Investment services for retail customers**

VTB24 has a firm hold on its position as one of the leading brokerage services in the market. The bank has the highest number of registered customers and the fourth-largest number of active clients on the Moscow Exchange.

The volume of operations conducted by VTB24 customers in the stock market exceeded RUB 916 billion, RUB 2.9 trillion in the Moscow Exchange's futures and options market, and USD 360 million in the over-the-counter market for foreign securities. As of the end of 2014, VTB24 clients had registered 213,367 brokerage accounts on the MICEX Exchange.

## **Branch network and ATMs**

By the end of 2014, VTB Group had more than 1,700 retail offices in Russia (operating under the VTB24, Bank of Moscow and Leto Bank brands). The VTB24 network consists of 1,066 offices in 354 cities and 72 regions of Russia. During the year, the bank opened 71 sales offices and closed 39 inefficient offices.

VTB24 successfully completed the transformation of the regional network of TransCreditBank, which merged with VTB in 2013, thereby considerably increasing the volume of business per branch.

According to independent research companies TNS, Marc Analytics and EPSI Rating, in 2014, VTB24 ranked among the leaders in terms of customer satisfaction and customer loyalty in all customer segments. According to research conducted by Finalta, there is a shorter average waiting time at VTB24 (5 minutes) than on average overall (6.5 minutes).

As of the end of 2014, the ATM network belonging to the Group's Russian banks included more than 12,200 units, 10,130 of which were part of VTB24's network. During the year, the bank purchased 1,680 ATMs, 802 of which are able to accept cash. Overall, about 30% of VTB24's ATMs have such a cash pay-in function.

VTB 24 is constantly improving its network of self-service devices. In 2014, the number of transactions in the network increased by almost one-third compared to 2013. In 2015, there is a plan to put new modern devices into operation, particularly information and payment terminals for non-cash payments.

## **Insurance**

The insurance business is part of the global retail business line and is represented by VTB Insurance, VTB Health Insurance, VTB Life Insurance and the MSK Insurance Group.

Based on results from 2007 through 2014, VTB Insurance has been one of the most dynamic players in the Russian insurance market. The volume of insurance premiums paid to the company over this period increased more than 31 times, making VTB Insurance one of the 10 largest insurers in Russia.

VTB Insurance has been successfully developing all of its key business lines, taking advantage of synergies with other businesses in VTB Group. In 2014, the company's growth outpaced the market average. While average growth in the Russian insurance market was 13% for the year, the company's total premiums increased by 18% to RUB 37.5 billion. VTB Insurance's market share by volume of premiums earned increased to 3.6% in 2014 compared to 3.4% a year earlier.

VTB Insurance performed well in terms of premiums earned (up 29%) in the retail sales segment of the market, with total sales reaching RUB 21.5 billion, exceeding corporate insurance, which brought in RUB 16.0 billion. By the end of 2014, the company's number of retail customers had increased by 86%, while the number of corporate clients had grown by 39%. In total, more than 1.5 million people and more than 15,000 companies and organisations used VTB insurance's services in 2014.

The company paid out a total of RUB 15.2 billion for the year.

VTB Insurance continued to partner with the Ministry of Internal Affairs for the mandatory personal life and health insurance programme for military personnel with the Ministry's armed forces, for citizens called up for military training in the armed forces, as well as for Ministry employees.

In 2014, VTB Insurance continued to develop a product called Manage Your Health!, a voluntary type of personal insurance that guarantees financial support in the event of a diagnosis of cancer or another life-threatening illness. This product is the only one of its kind in the Russian insurance market. Manage Your Health! is important in the fight against cancer and has received high praise and support from the oncology community, from both doctors and patient organisations.

VTB Insurance strengthened its position considerably in several segments of the insurance market. The company is the market leader in accident insurance, is among the top three market players in financial risk insurance and in the top five in the market for personal property insurance and comprehensive insurance for aircraft.

In 2014, VTB completed the rebranding of the previously acquired companies MSK-Life (renamed VTB Life Insurance) and Solidarity for Life (renamed VTB Health Insurance). In September 2014, VTB Life Insurance began selling cumulative life insurance products. The company has plans to develop a programme for investment life insurance in the near future. VTB Health Insurance is among the top 10 market players in terms of mandatory health insurance.

VTB Insurance continued to develop its regional network in 2014. The company opened a branch office in Arkhangelsk, as well as three offices together with VTB24. Overall, the company opened 67 sales points, nine regional sales offices and 21 direct sales offices in 2014.

MSK Insurance Group's business development in 2014 focused on achieving operational efficiency. The company's main objective was restructuring in every area of its operations in order to improve financial results. During the year, the company made structural and technological changes that were unprecedented for the insurance market. These changes resulted in a significant reduction in operating costs and improved the efficiency of business processes. In particular, as the result of a study of the company's branch network, it was decided to stop sales at two-thirds of the company's branch offices. The full impact of efforts to optimise the company's branch network is expected to be felt in 2015.

In 2014, MSK Insurance Group began cooperating with VTB Insurance, which allowed both companies to expand the range of products offered to their customers. In particular, MSK Insurance Group can now offer Manage Your Health! through its network of agents.

#### **4.3.4. Other non-banking financial business**

##### **VTB Pension Fund**

VTB's non-state Pension Fund is one of the most fastest-growing non-state pension funds in Russia, providing a full range of services for mandatory pension insurance and non-state retirement benefits, including developing and offering corporate pension programmes.

Due to changes in the Russian legislation and the regulations of the pension funds industry in Russia, the Fund's growth rate slowed in 2014: for the year, the Fund's assets increased by 4.5% to RUB 69.2 billion. As of the end of the reporting period, the Fund had more than 1.1 million clients.

In 2014, the VTB Pension Fund was in seventh place in terms of the number of clients for compulsory pension insurance. In addition, the Fund was in sixth place in terms of the amount of pension savings being managed.<sup>12</sup> The rating agency RAEX granted the Fund a rating of A++ ("exceptionally high level of reliability"), with a "stable" outlook.

The Fund is pursuing a balanced investment policy, offering low levels of risk and balanced growth. Despite difficult market conditions, the Fund yielded 5.6% growth in 2014.

In September 2014, the Fund completed the process of conversion from a non-profit organization into a joint-stock company. At the end of the year, the Bank of Russia completed its audit of the Fund for compliance with the requirements of participation in rights assurance system of insured persons and, in February 2015, the Fund was included in the CBR's registry of members of the system that guarantees insured persons' rights, which will allow the Group to continue to develop its compulsory pension insurance business.

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<sup>12</sup> According to the Bank of Russia for 2014.



## 4.4. REVIEW OF FINANCIAL PERFORMANCE

### Financial Highlights of 2014

- Despite challenging operating and geopolitical environment, VTB Group posted solid growth of pre-provision operating income of 27.5% year-on-year;
- Core income lines – net interest income and net fee and commission income – were up 9.7% and 13.9% year-on-year, respectively;
- The challenging economic environment in Russia and the crisis in Ukraine contributed to an increase in the Group's cost of risk to 3.4% of average gross loans and advances to customers in 2014 from 1.6% in 2013;
- Staff costs and administrative expenses were up 13.5% year-on-year in 2014, which is less than the 16.4% year-on-year growth posted in 2013. At the same time, the Group delivered a considerable year-on-year improvement on its cost-to-income ratio, which stood at 43.7% in 2014, versus 49.1% in 2013;
- VTB Group net profit for 2014 was to RUB 0.8 billion, corresponding to return on equity of 0.1%;
- During 2014, the Group converted subordinated loans received by its banks in 2008 (as part of the Russian Government's support package) into new preference shares. Following this transaction, the Group's Tier 1 capital adequacy ratio reached 9.8%.

#### *VTB Group key financial highlights*

RUB billion	2014	2013	Change
Net interest income	354.3	323.0	9.7%
Net fee and commission income	63.1	55.4	13.9%
Operating income before provisions <sup>13</sup>	547.5	429.3	27.5%
Provision charge for impairment <sup>14</sup>	(275.4)	(99.2)	177.6%
Staff costs and administrative expenses	(239.3)	(210.9)	13.5%
Net profit	0.8	100.5	(99.2%)
Gross loans and advances to customers, including pledged under repurchase agreements	9,150.4	6,620.7	38.2%
Customer deposits	5,669.4	4,383.4	29.3%
Net interest margin	4.1%	4.5%	(40 b.p.)
Cost of risk <sup>15</sup>	3.4%	1.6%	1.8 p.p.
Cost-to-income ratio	43.7%	49.1%	(5.4 p.p.)
Tier 1 CAR	9.8%	10.9%	1.1 p.p.
Return on equity	0.1%	11.8%	(11.7 p.p.)

<sup>13</sup> Hereinafter operating income before provisions is presented before provision charge for impairment of debt financial assets and provision charge for impairment of other assets, credit related commitments and legal claims.

<sup>14</sup> Provision charges for impairment of debt financial assets, other assets, credit related commitments and legal claims.

<sup>15</sup> Provision charge for loan impairment divided by the average gross loans and advances to customers

## Income statement analysis

### *Net interest income and net interest margin*

Interest income on loans and advances to customers, debt securities and amounts due from other banks represent the main source of the Group's operating income. In 2014, the Group's interest income reached RUB 844.1 billion, up 23.0% year-on-year mainly due to expansion of the Group's corporate and retail loan book.

### *Interest income*

RUB billion	2014	2013 (restated)	Change
<b>Financial assets at fair value through profit or loss</b>	<b>31.1</b>	<b>36.4</b>	<b>(14.6%)</b>
Loans and advances to customers	792.8	637.7	24.3%
Due from other banks	12.5	6.9	81.2%
Other financial assets, including securities	7.7	5.3	45.3%
<b>Financial assets not at fair value through profit or loss</b>	<b>813.0</b>	<b>649.9</b>	<b>25.1%</b>
<b>Total interest income</b>	<b>844.1</b>	<b>686.3</b>	<b>23.0%</b>

Source: VTB Group consolidated financial statements for the years ended 31 December 2014 and 2013

Interest income from corporate loans grew faster than from retail loans, mainly due to more rapid expansion of the Group's corporate loan book (in particular driven by revaluation of FX-denominated loans during the year), as well as an increase in the share of less-risky products in the Group's retail loan book.

A rise in geopolitical tensions, capital markets volatility and increases in the Bank of Russia's key interest rate during 2014 resulted in an increase in the Group's funding costs and interest expense, which reached RUB 489.8 billion, up 34.8% year-on-year.

### *Interest expense*

RUB billion	2014	2013 (restated)	Change
Customer deposits	(263.1)	(215.1)	22.3%
Due to other banks and other borrowed funds	(156.5)	(76.4)	104.8%
Debt securities issued	(50.9)	(49.7)	2.4%
Subordinated debt	(19.3)	(22.1)	(12.7%)
<b>Total interest expense</b>	<b>(489.8)</b>	<b>(363.3)</b>	<b>34.8%</b>
<b>Net interest income</b>	<b>354.3</b>	<b>323.0</b>	<b>9.7%</b>

Source: VTB Group consolidated financial statements for the years ended 31 December 2014 and 2013

The increase in the Group's interest expense was mainly driven by higher cost of funds due to other banks and other borrowed funds, including CBR funding.

VTB Group's total cost of funds grew to 5.7% in 2014, versus 5.2% in 2013.

The Group's net interest margin ("NIM") contracted to 4.1% in 2014 from 4.5% in 2013, mainly due to the increase in the Group's interest expense.

#### *Net fee and commission income*

Further development of its fee-generating products offering remained one of the Group's priorities in 2014. Retail business and Transaction banking (as part of Corporate-Investment banking and Mid-Corporate banking) were the key drivers of the Group's fee and commission income growth in 2014, contributing 56.4% and 32.8%, respectively, to the Group's total net fee and commission income<sup>16</sup> during the year.

Total fee and commission income increased by 15.9% year-on-year in 2014 to RUB 81.5 billion. Commissions on settlement transactions remain the key source of this income, and account for 61.2% of the Group's total fee and commission income. Commissions on operations with securities and capital markets were down year-on-year on the backdrop of challenging market conditions.

The Group's fee and commission expense grew 23.5% to RUB 18.4 billion in 2014, mainly driven by the increase in commissions on settlement transactions.

#### *Net fee and commission income*

RUB billion	2014	2013	Change
Commission on settlement transactions	49.9	42.7	16.9%
Commission on guarantees issued and trade finance	12.8	10.2	25.5%
Commission on operations with securities and capital markets	5.5	8.4	(34.5%)
Commission on cash transactions	5.4	4.8	12.5%
Other	7.9	4.2	88.1%
<b>Total fee and commission income</b>	<b>81.5</b>	<b>70.3</b>	<b>15.9%</b>
Commission on settlement transactions	(11.7)	(10.0)	17.0%
Commission on cash transactions	(2.8)	(2.2)	27.3%
Other	(3.9)	(2.7)	44.4%
<b>Total fee and commission expense</b>	<b>(18.4)</b>	<b>(14.9)</b>	<b>23.5%</b>
<b>Net fee and commission income</b>	<b>63.1</b>	<b>55.4</b>	<b>13.9%</b>

Source: VTB Group consolidated financial statements for the years ended 31 December 2014 and 2013

#### *Provision charge for impairment*

The challenging economic environment in Russia and the crisis in Ukraine had a significant impact on the Group's clients and contributed to an increase in provision charges for impairment. The total provision charge for impairment of debt financial assets and provision charge for impairment of other assets, credit related commitments and legal claims increased 2.8 times to RUB 275.4 billion for 2014, versus RUB 99.2 billion in 2013.

<sup>16</sup> Before intersegment eliminations.

Over 70% of the provision charge for impairment of loans and advances to customers in 2014 was booked as provisions for impairment of corporate loans. The Group's cost of risk ("CoR") in corporate lending reached 3.1% of average gross loans and advances to customers for 2014, versus 1.2% for 2013. The CoR in retail lending was 4.3% for 2014, versus 3.1% for 2013.

#### *Government grant from DIA*

In the fourth quarter of 2014, the State Corporation Deposit Insurance Agency ("DIA") extended the deposit that it had placed with Bank of Moscow in 2011 under a plan to support the bank approved by the DIA and the CBR (the "Plan"). The decision to extend the deposit was made due to the adverse effects of the current political and macro-economic environment on Bank of Moscow and its clients, which in turn influenced the execution of the Plan. As the deposit was extended until September 2026 at an interest rate of 0.51% per annum, the Group recognised a RUB 99.2 billion gain in its consolidated income statement in accordance with the government grant accounting rules.

#### *Staff costs and administrative expenses*

Staff costs and administrative expenses amounted to RUB 239.3 billion in 2014, up 13.5% year-on-year, compared to 16.4% year-on-year growth in 2013. The Group posted a considerable year-on-year improvement in its cost-to-income ratio, which stood at 43.7% in 2014, versus 49.1% in 2013.

#### *Net income*

VTB Group net profit in 2014 was RUB 0.8 billion versus RUB 100.5 billion in 2013.

### **Analysis of statement of financial position**

#### *Assets*

Asset growth during 2014 was driven by both organic expansion of the Group's business as well as by revaluation of assets denominated in foreign currencies. As of 31 December 2014, the Group's total assets amounted to RUB 12,190.8 billion, up 39.0% from RUB 8,768.5 billion at the start of the year.

VTB Group gross loans and advances to customers, including those pledged under repurchase agreements increased 38.2% during 2014, reaching RUB 9,150.4 billion. Corporate loans grew by 41.3% to RUB 7,205.3 billion, retail loans were up by 27.9% to RUB 1,945.1 billion.

## Assets

RUB billion	2014	2013 (restated)	Change
Cash and short-term funds	695.2	354.3	96.2%
Mandatory cash balances with central banks	85.5	58.7	45.7%
Financial assets at fair value through profit or loss	681.7	406.4	67.7%
Financial assets, other than loans and advances to customers and due from other banks, pledged under repurchase agreements	184.0	173.2	6.2%
Due from other banks, including pledged under repurchase agreements	814.5	446.2	82.5%
Loans and advances to customers, including pledged under repurchase agreements, net	8,537.3	6,259.6	36.4%
Investment financial assets	132.2	140.8	(6.1%)
Investments in associates and joint ventures	96.3	87.6	9.9%
Assets of disposal groups held for sale	11.1	36.7	(69.8%)
Land, premises and equipment	246.9	170.3	45.0%
Investment property	192.3	160.7	19.7%
Goodwill and other intangible assets	161.8	162.5	(0.4%)
Deferred income tax asset	66.9	45.5	47.0%
Other assets	285.1	266.0	7.2%
<b>Total assets</b>	<b>12,190.8</b>	<b>8,768.5</b>	<b>39.0%</b>

Source: VTB Group consolidated financial statements for the years ended 31 December 2014 and 2013

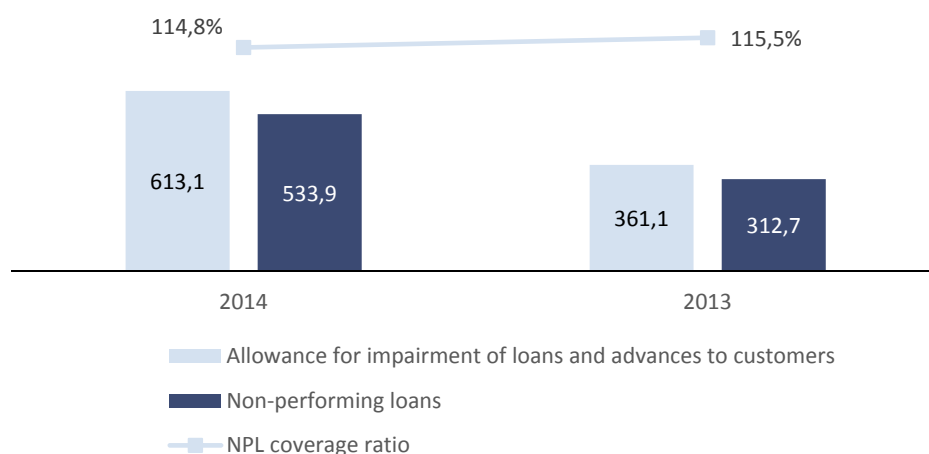
### Asset quality

Asset quality metrics developed in line with macroeconomic and banking sector trends in 2014. The NPL<sup>17</sup> ratio was 5.8% of gross customer loans, including those pledged under repurchase agreements as of 31 December 2014, versus 4.7% as of 31 December 2013. The Group continued to adhere to conservative provisioning policies, driving the allowance for loan impairments to 6.7% of the total loan book as of 31 December 2014, compared to 5.5% at the start of the year. The NPL coverage ratio remained at a conservative level of 114.8% as of 31 December 2014, versus 115.5% as of 31 December 2013.

In 2014, the amount of loans and advances to customers written off was RUB 73.1 billion, versus RUB 66.3 billion in 2013.

<sup>17</sup> Defined as impaired loans with repayments overdue by over 90 days.

*Non-performing loans and allowance for impairment of customer loans,  
RUB billion*



Source: VTB Group consolidated financial statements under IFRS

### Liabilities

The Group's total liabilities increased by 41.4% in 2014 to RUB 11,059.8 billion, mainly due to higher inflows of customer deposits and CBR funding, as well as revaluation of FX-denominated liabilities.

As of 31 December 2014, customer deposits amounted to RUB 5,669.4 billion, up 29.3% since the start of the year, mainly driven by growth in corporate deposits growth by 35.9%. Retail deposits posted an increase of 19.8% during the same period. Customer deposits remain a key source of VTB Group funding and contributed 51% of the Group's total liabilities at the end of 2014.

During 2014, the Group considerably increased funding from the CBR through repo facilities and pledged deposits. At the end of the year, CBR funds represented 17% of the Group's liabilities, as compared to 12% at the end of 2013. VTB Group views CBR funds as a reliable source of funding and rouble liquidity.

### Liabilities

RUB billion	2014	2013 (restated)	Change
Due to other banks	733.2	624.6	17.4%
Customer deposits	5,669.4	4,383.4	29.3%
Other borrowed funds	2,729.2	1,485.9	83.7%
Debt securities issued	921.4	738.2	24.8%
Liabilities of disposal groups held for sale	4.7	20.7	(77.3%)
Deferred income tax liability	26.6	15.0	77.3%
Other liabilities	710.1	262.6	170.4%
<b>Total liabilities before subordinated debt</b>	<b>10,794.6</b>	<b>7,530.4</b>	<b>43.3%</b>
<b>Subordinated debt</b>	<b>265.2</b>	<b>291.0</b>	<b>(8.9%)</b>
<b>Total liabilities</b>	<b>11,059.8</b>	<b>7,821.4</b>	<b>41.4%</b>

Source: VTB Group consolidated financial statements for the years ended 31 December 2014 and 2013

### *Capital and capital adequacy*

Given the riskier operating environment and revaluation of FX-denominated assets in 2014, VTB Group's top priority continued to be strengthening its capital base and capital adequacy ratios.

In September 2014, following a decision of VTB's Extraordinary General Meeting of shareholders, the Group converted subordinated loans received by its banks in 2008 (as part of the Russian Government's support package) into new preference shares that have Common Equity Tier 1 treatment under Basel III and CBR regulations.

In December 2014, the Russian Government placed a RUB 100 billion subordinated deposit in VTB Bank from the Russian National Wealth Fund. The deposit has been recognised by the Central Bank of Russia as Tier 2 capital.

As of 31 December 2014, the Group's total and Tier 1 capital adequacy ratios were 12.0% and 9.8%, respectively, versus 14.7% and 10.9% as of 31 December 2013.

### *Capital and capital adequacy*

RUB billion	2014	2013	Change
Tier 1 capital	997.5	806.6	23.7%
Tier 2 capital	240.3	292.0	(17.7%)
Deducted: Investments in the capital of other banks and financial institutions	(21.2)	(5.8)	265.5%
<b>Total capital after deductions</b>	<b>1,216.6</b>	<b>1,092.8</b>	<b>11.3%</b>
Risk-weighted assets	10,176.2	7,430.8	36.9%
Tier 1 capital ratio to total risk-weighted assets	9.8%	10.9%	(1.1 p.p.)
Total capital ratio to total risk-weighted assets	12.0%	14.7%	(2.7 p.p.)

Source: VTB Group consolidated financial statements for the years ended 31 December 2014 and 2013

## 4.5. RISK MANAGEMENT

### Policy, organisation and structure of risk management

#### *VTB Group-level risk management*

The main risks that VTB Group is exposed to are credit risk, market risks (including risks associated with changes in the market prices of financial instruments, interest rates and foreign exchange rates), liquidity risk and operational risks.

Risk management at the Group level includes risk evaluation and monitoring; control over the size, structure and distribution of risks; identification of effective measures to optimise and minimise risks; and compiling regular risk reports.

One of the key principles of risk management for VTB Group is to take risk appetite into account while managing the Group's operations. This approach involves the identification and oversight of the Group's risk target level and risk profile in accordance with its strategic objectives and in the context of their integration into risk management procedures.

According to VTB Group's Risk Appetite Concept developed in 2014, the level of risk that is acceptable to shareholders is defined as a high-risk appetite, which includes the following basic provisions (guidelines):

- the size of potential losses on risks accepted by the Group should not reach such a level that would lead to the cessation of the Group's operations, including under stress conditions;
- the Group must have enough capital to secure the interests of creditors in the hypothetical (extremely unlikely) event of unexpected losses as a result of risks taken;
- the structure of the Group's operational cash flow and liquidity buffers should ensure the timely fulfilment of obligations to clients in the short and long term;
- the structure of assets and liabilities must ensure the efficient use of resources and comply with the Group's business model;
- as part of its operations, the Group must try to avoid a high degree of concentration of credit risk in counterparties, industries and countries/regions with a high level of risk;
- sustainable development and economic efficiency in the long term;
- compliance with the national regulators in countries where the Group operates, as well as with the standards and recommendations of international bodies;<sup>18</sup>
- maintaining an impeccable reputation, avoiding actions that could result in harm to the Group's reputation;
- maintaining and improving credit ratings granted by international rating agencies (without state support).

The key principles of the Group's risk management system also include the following:

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<sup>18</sup> The Basel Committee on Banking Supervision, the European Central Bank etc.



- transparency of risk-associated activities for shareholders, investors and other interested parties;
- analysing and managing risks on a consolidated basis, covering all of the Group's Russian and foreign banks, as well as its key financial companies;
- optimal distribution of risks within the Group; minimising exposure and potential losses from risks in national and international markets;
- developing a risk management culture within the Group's companies, including improving employees' skills in terms of identifying and preventing possible risks and losses in their areas of responsibility;
- introducing modern methods for assessing and monitoring risks based on industry best practices.

The Group's risk management system has a multi-layered structure, which includes consolidated level (Group-level) and local-level risk management, with a high degree of centralisation of the Group risk management function. The risk management system is built around the Group's global business lines and is based on the harmonisation of approaches to managing the main types of risks, including through specialised risk divisions. For example, in respect of the Group's retail business line, VTB24 would be the specialised risk division.

The standard organisational structure of the Group's banks and financial companies includes an independent risk assessment and control division that corresponds to the appropriate risk profile and scale of business, as well as a high-ranking manager responsible for comprehensive risk management.

In order to coordinate risk management policies and practices across the Group, and to implement and improve the analysis of consolidated risk management procedures, a number of collective bodies function under the VTB Group Management Committee, in particular:

- The Group's Risk Management Committee, including its Commission on the Introduction of Risk Management within VTB Group;
- The Group's Credit Committee;
- The Group's Finance Committee, including its subordinate Assets and Liabilities Commission.

In 2014, risk control work, including issues of capital adequacy, took into account possible stress scenarios and the implications of exposure to risk factors in the macroeconomic and monetary spheres.

Control over the organisation and the risk management policy within the Group's companies is carried out, on a systematic basis, primarily through corporate governance (including through the representation of VTB Bank on subsidiaries' supervisory boards / boards of directors).

In 2014, an organisational and functional risk management structure was formalised and aligned with relative competencies according to business sectors. As a result of the adoption and planned implementation of a strategy for the development of VTB Group's system of risk management for 2014-2016, procedures and methods for consolidated/integrated risk management were further developed, including:

- a concept for risk appetite within VTB Group was developed and is being introduced;
- The Group further developed the practice of using Risk-Adjusted Return on Capital (RAROC) simulations as part of its integration of the “economic capital” model (ECap and Capital-at-Risk) into its financial planning and forecasting;
- the Group continued activities (in particular, refinement of models for assessing credit risk and the system for risk reporting) as part of its plans for the introduction of Basel II in relevant Group companies;
- Group standards and local regulations and guidelines in the field of risk management were systematised; issues related to the Group's methodology and procedures for risk management are being worked out;
- the structure and process for preparing consolidated financial risk reports for VTB Group were improved;
- the Group approved limits for market risks (Stress, VaR, Stop-Loss).

#### *VTB Bank-level risk management*

In 2014, the Supervisory Council approved the following fundamental documents in the area of risk management:

- A risk and capital management strategy for VTB Bank;
- Procedures for managing VTB Bank's most significant risks.

The main objective in terms of risk management is to minimise potential financial losses from exposure to the risks faced by the Bank's operations, ensuring financial stability and sustainable growth for the Bank in accordance with the strategic objectives defined by the Supervisory Council.

VTB Bank's aim is the formation of an integrated risk management system which corresponds to the nature and scale of the Bank's operations, risk profile, and enables further development of the business.

Developing and improving the Bank's risk management is done in accordance with banking best practices, regulations and recommendations of the Bank of Russia, generally accepted international standards and the provisions of the Basel Committee on Banking Supervision.

In terms of organisation, VTB Bank's risk management system comprises various collective bodies (the Supervisory Council, management, the Assets and Liabilities Committee, the Credit Committee, the Small Credit Committee, the Moscow Branch Credit Committee, the Credit and Small Credit Committees of the Northwest Regional Centre, and the branches' Credit Committees) and the Bank's structural units.

The division responsible for developing the risk management system and controlling the credit, market and operational risks within VTB Group and VTB Bank is the VTB Bank Risk Department. As of the end of 2014, it comprised the following structural units:

- the Credit Risk Division;
- the Market Risk Division;
- the Operational Risk Division;

- the Credit Applications Examining Service;
- the Strategy, Methodology and Consolidated Risk Analysis Division, which is responsible for consolidated risk management at the Group level and implementation of Basel II standards.

### **Credit risk**

Credit risk is the risk of financial loss (loss of revenue or additional expenses) should a borrower/counterparty/issuer fail to meet its contractual obligations.

VTB Group is exposed to credit risk through its loan portfolios, securities portfolios, guarantees, letters of credit, derivatives portfolios and other credit-related contractual commitments.

#### *VTB Group-level credit risk management*

The key approaches and procedures in operations with corporate and financial institutions that are exposed to credit risks are defined by the Basic Principles and Provisions of VTB Group Credit Policy for 2013–2014, which has been approved by the Group's Management Committee.

The management of credit risk within VTB Group is carried out simultaneously at the local level with the companies of VTB Group and at the Group (consolidated) level.

Within the framework of the local credit risk management system, the Group companies assume and manage credit risks independently (including insurance and hedging risks), within the scope of their authority and limits with regards to risk indicators, and in accordance with national regulations and the Group standards. The Group's companies are responsible for the results of their lending activity, for the quality of their loan portfolios, and for monitoring and controlling the credit risks associated with their portfolios.

The key elements of the Group's consolidated credit risk management are as follows:

- determining the Group's unified credit policy and reviewing it on a regular basis, harmonising the credit policies (credit risk management policies) of the Group's companies;
- the development and adoption of common standards (principles and methods) concerning credit procedures and managing credit risk and are intended for use throughout the entire Group (including the methodology for assessing counterparties, pricing credit operations, security, monitoring, backup, stress testing);
- Establishing consolidated limits and other restrictions within the Group (including limits on counterparties/groups of related counterparties, large transactions, countries, industry sectors);
- assessing the capital necessary to cover the Group's credit risks;
- maintaining a centralised database of Group borrowers, including those requiring more attention;
- preparation of regular consolidated financial statements regarding the Group's credit risk and submitting them to the Group's governing bodies for review.

Consolidated risk management covers the most essential assets and off-balance-sheet operations of the Group's companies that bear credit risk and that require control over their concentration within the Group as a whole. Within the context of consolidated control and reporting, the scope and range of such operations is defined by the Group's coordinating bodies.

VTB Group has a separate policy for regulating the Group's credit risk management relating to lending operations with individual borrowers and small-business clients. VTB's subsidiary banks that perform the above-mentioned operations are guided by a set of documents approved by the Group's Management Committee that establish standards and approaches for managing retail lending risks at the level of each subsidiary bank and at the Group level.

Various specialised units within VTB Bank that are not part of the Risk Department (including the Corporate Business Support Directorate and the Non-Core Bad Assets Department) work to identify, monitor and resolve potential problems and bad debt at the Group level.

#### *VTB Bank-level credit risk management*

VTB Bank manages credit risk by:

- restricting credit risk through the Bank's existing system of limits with regard to decisions on the concentration of credit risk (by country, industry, transaction type etc) for individual borrowers/groups of borrowers. These limits are reviewed on a regular basis by the VTB Risk Management Department, approved by the Credit Committee and comply with the Bank of Russia's regulations;
- covering credit risk by taking collateral and insurance, charging adequate fees for the risk and establishing loan loss provisions;
- assessing the level of credit risk assumed by the Bank for each counterparty, as well as regularly monitoring the credit portfolio, individual customers, transactions and collateral (including by ranking borrowers);
- preventing credit risk at the loan application review stage, and taking prompt measures as soon as credit risk factors have been identified during the course of monitoring.

The Group continued to undertake measures to improve its credit risk management system in 2014:

- in terms of the pricing of transactions, a new scale for basic premiums for credit risk was introduced that takes into account the impact of the size of the client's business on the probability of default; the methodology for calculating other aspects of lending rates that reflect credit risk was refined;
- in terms of ranking corporate clients, the Group updated its methodology for calculating the individual coefficients of a client's financial status, taking into account the profile of the client's business, payment schemes and other factors;
- the methodology for ranking subjects of the Russian Federation and municipalities based on factors that have an impact on a customer's credit rating was improved;
- the procedure for limiting risks involving operations with corporate clients, as well as with banks and non-bank credit organisations, was refined;
- the methodology for limiting credit risk in transactions with clients from the construction industry on the basis of expected losses was refined;
- a new procedure was prepared for conducting and monitoring operations carried out beyond the established limit;

- control over credit risk factors in credit transactions was improved.

## **Liquidity risk**

### *VTB Group-level liquidity risk management*

Liquidity management is applied at the Group level on the basis of the internal regulations approved by the Group's Management Committee.

Within the Group, liquidity management is carried out on the basis of the following principles:

- Each bank/company within the Group manages its own liquidity on a separate basis in order to meet its obligations and to comply with the requirements of the national regulator and the recommendations of VTB Bank;
- VTB manages the Group's liquidity by centrally controlling and managing the key measures taken by the Group.

### *VTB Bank-level liquidity risk management*

The Bank has current and forecast liquidity risk management in place.

Managing current liquidity entails short-term forecasting and management of cash flows in respect of currencies and terms (time frames). In this way, the Bank can ensure that it will meet its obligations, complete settlements on behalf of its customers and fund ongoing operations.

Current liquidity management is carried out by the Treasury Finance Department based on a real-time (intraday) determination of the Bank's current payment position and forecast future payment position, taking into account the payments schedule and other scenarios.

The task in forecast liquidity management is to develop and implement a number of instruments for managing assets and liabilities that are aimed at supporting the Bank's instant funding capability, and to plan increases in its asset portfolio by optimising the ratio of liquid assets and profitability.

The Bank achieves this by making long-term liquidity forecasts and by adhering to internal liquidity standards (standards for liquid and highly liquid assets and the liquidity standard for the Treasury securities portfolio), as formulated by the Assets and Liabilities Management Committee. The liquidity accounting standards of the Bank of Russia are also applied when carrying out forecast liquidity management.

Long-term liquidity forecasts and risk analysis across VTB Group and within VTB Bank are carried out by the Market Risk Division, which presents the results in a consolidated report to the Bank's Assets and Liabilities Committee, the Group's Management Committee and the Assets and Liabilities Commission operating under the Group's Finance Committee.

Each forecast includes receivables and payments according to the contractual terms for operations, while also taking into account the following:

- planned transactions;
- possible extension of clients funds (deposits and promissory notes);
- possible outflows of unstable "on-demand" capital (clients' settlement and current accounts, as well as Loro accounts).

In addition, the Risk Division conducts stress testing to assess risk factors that can have an impact on the Bank's liquidity forecast.

Liquidity gaps are closed through new borrowing and the renewal of existing deposits. The Group's medium-term liquidity is managed by attracting interbank loans and customer deposits, repo transactions, and secured loans from the Bank of Russia.

The currency structure of liquidity is managed by conducting "conversion swap" transactions.

A significant proportion of VTB Group's liabilities are represented by customer deposits, promissory notes, bonds, the current accounts of corporate and retail customers, Federal Treasury deposits, Eurobonds and syndicated loans.

Despite the fact that a considerable portion of customer liabilities are short-term deposits and "on-demand" accounts, the diversification of these liabilities and VTB's past experience indicate that these liabilities are consistently refinanced by customers, and they are, for the most part, a stable source of funding. The stable element of short-term customer liabilities is determined for various currencies using a statistical trend analysis of the cumulative balances of these accounts over time.

Money market instruments (interbank loans and deposits, repurchase agreements) are used to control short-term liquidity, and are not considered as a source of funding for long-term assets.

### **Market risk**

Market risk is the risk of downward pressure on the Group's financial results or the capital base as a result of adverse changes in the value of the Group's assets/liabilities (claims/liabilities) as a result of market conditions, i.e., risk factors (such as exchange rates, interest rates, the yield on debt securities and credit spreads, stock quotes and stock market indices, commodity prices, etc.), as well as due to changes in the volatility of these indicators and correlations between them.

### *Interest rate risk*

Interest rate risk management is based on internal regulations adopted by the Group's Management Committee and includes:

- Setting standard interest rates for deposits and internal rates for funding, taking into account current market conditions;
- Calculating interest rate risk (ECap etc);
- Setting capital limits for covering the interest rate risk for the Group and individual banks.

The basic parameters used to assess interest rate risk are:

- The sensitivity of the Group's interest position to a change in interest rates, measured in terms of (1) the size of the reduction in the net present value of the interest position and (2) the net interest income under an unfavourable parallel movement of the yield curves by 100 basis points;
- The capital for covering the interest rate risk, which is measured by assessing reductions in the current value of the Bank's interest rate position in the event of potentially unfavourable interest rate movements.

### *Currency risk*

The Group uses internal regulations adopted by the Group's Management Committee to manage its currency risk. It also ensures that the currency of its assets match that of its liabilities and maintains an open currency position (OCP) in each of the Group's banks within established limits, including internal OCP and VaR (Value-at-Risk) limits and regulatory OCP limits.

A VaR risk assessment is carried out in order to estimate the largest potential negative effect (within a specified confidence interval) of changes in the value of foreign exchange positions on the Group's financial performance. The VaR assessment is conducted via historical modelling over a period of two years with a one-trading-day time horizon and a confidence interval of 95%.

#### *Currency risk and VaR analysis for VTB Group, RUB billion*

	31 December 2014	31 December 2013
Open currency position	125.6	136.6
VaR <sup>19</sup>	1.21	1.14

Source: VTB Group IFRS consolidated financial statements.

### *Price risk*

The Group's securities portfolio is exposed to price risk, i.e., the risk of losses resulting from changes in the market price of securities, commodities and stock indices.

In order to limit price risk, the Group's Management Committee sets/revises, on an annual basis, the Group's appetite for market risk (including stress-test limits, VaR limits and limits on the maximum allowable losses, i.e., "stop-loss"), which are then passed down by the Group's Risk Management Committee to the various business lines and subsidiary banks.

The Risk Department monitors compliance with the Group's market risk limits on a weekly basis. Local market risk limits are monitored by subsidiary banks' risk divisions on a daily basis.

The Risk Department informs the business divisions about compliance with the Group's limits on a weekly basis and submits a report to the Assets and Liabilities Management Committee on a monthly basis regarding compliance with limits, recommendations for the modification thereof, and proposals to reduce/hedge market risk.

VTB uses VaR to evaluate risks in its securities portfolio. The key assumptions listed above that are used in calculating VaR for currency risk are also applicable for the calculation of VaR for market risk associated with the Group's securities portfolio.

VaR is calculated by using historical modelling over a period of two years with a one-trading-day time horizon and a confidence interval of 95%.

Due to the limited liquidity in the Russian market for corporate fixed-income instruments (typical for emerging markets), the selection of historical data concerning quotes was based on the following approach. Historical data was used for instruments with a quote history of at least 200 trading days

<sup>19</sup> VaR is calculated by taking into account all currencies with exposure over RUB 100 million.

in the previous year, no more than 10 successive trading days without quotes, and an issue date no later than the beginning of the reporting year.

VaR is assessed for less liquid securities that do not meet the above requirements on the basis of historical data on comparable (proxy) instruments that meet the following criteria:

- the proxy instrument should be the same type of financial instrument as the original instrument;
- the issuer of the proxy instrument should be from the same sector and country as the original instrument, and the issuers should have comparable credit ratings;
- the proxy instrument and the original instrument should be denominated in the same currency;
- the proxy instrument and the original instrument should have comparable durations.

Proxy instruments were used for the VaR calculation for approximately one-quarter of the securities in the Group's portfolio.

In 2014, the Bank improved its risk assessment software system with the introduction of Kamakura Risk Manager, and moved to a one-day indicator for the volatility of financial results/capital with a confidence interval of 95% (a 10-day time horizon with a confidence interval of 99% had previously been used).

### **Operational risk**

Operational risk is the risk of loss resulting from flaws in the type and scale of the Group's operations or inconsistency between internal processes and legislative requirements for banking operations, their violation by VTB staff or other individuals (due to unintentional or intentional acts or omissions), lack of functionality of IT and other systems or the breakdown thereof, as well as damaging external events.

VTB Bank's operational risk management system is designed to prevent potential losses and to reduce the possibility of business process failures and the inability to provide high-quality services to the Bank's clients caused by staff errors, system breakdowns, internal or external fraud or violations of the law.

In managing operational risk, the Bank adheres to the Bank of Russia's regulations, as well as the recommendations of the Basel Committee on Banking Supervision. To implement its operational risk strategy, VTB carries out regular procedures to identify, assess, control and limit operational risk. All significant deficiencies from a risk perspective that are identified within the internal control system are subjected to rigorous analysis. Based on the analysis, measures are developed and implemented to eliminate the causes and sources of the risk.

In order to identify and monitor operational risk, the Bank has implemented unified mechanisms to collect information on incidents of operational risk and on operating losses, as well as key risk and control indicators. This makes it possible to carry out a quantitative assessment of operational risk, which includes identification of sources of risk, implementation of risk prevention measures and reflecting these in management reporting in the context of individual risk categories and the Bank's activities.



The Bank uses the following methods to respond to operational risks:

- minimising risk: developing and implementing the necessary corrective measures to reduce identified risks;
- taking risk: questions related to whether or not to take a certain risk are subject to approval by the authorised bodies/individuals within the bank in the event that measures aimed at minimising the risk are not economically feasible;
- avoiding risk: refusal to carry out a business operation subject to an identified risk in the event that the potential losses as a result of the risk would be critical for the Bank and/or if carrying out the operation in question could jeopardise the Bank's solvency, and if measures aimed at minimising the risk are not economically feasible;
- transferring risk (risk insurance): risk insurance involves those operational risks that the bank is unable to manage and that exceed the Bank's direct control (including the risk of the loss of collateral pledged to the Bank to secure credit, the risks associated with the transportation and storage of valuables and cash, property risks, etc.).

The Bank uses the following key methods to reduce and limit its operational risk:

- maintaining a complex system of current and backup internal controls that is common to all business units and operations throughout the Bank;
- regulating all key operations using internal standards and codes of practice;
- registering and documenting banking operations and transactions and maintaining consistent control over primary documents and operating accounts;
- applying the principles of dividing and limiting employees' functions, authority and responsibilities; implementing dual controls; collective decision-making; setting limits on the terms and scale of operations;
- automating banking operations using high-performance IT systems that are constantly monitored and repaired promptly in case of breakdown;
- good systems of physical and information security and control over access to the Bank's facilities and its IT resources;
- a well-managed HR policy, good staff training and education;
- prevention measures to ensure continuity of financial and economic activities related to the Group's banking operations and transactions by setting up alternative communications channels, geographically distributed server rooms, independent sources of power, heat and water supply, and by taking fire protection measures.

The above risk minimisation strategies are supported by insurance programmes diversified by the type and scope of operations. The total amount of insurance protection against risks to the Bank's professional activities in 2014 amounted to USD 430.9 million, which included insurance for crimes under the Financial Institution Blanket Bond scheme (including electronic and computer crime), liability insurance for directors and officials of the Group's companies, insurance for funds and valuables while in storage and during transit, ATM insurance etc. VTB Bank also insures against risks related to business activities (including buildings, equipment and vehicles), as well as risks of loss of property received as collateral for credit transactions.

In 2014, the Bank took the following steps to develop its system for managing operational risk:

- development of a comprehensive system for managing the continuity of operations, including the development and approval by the Supervisory Council of an Action Plan to Ensure the Continuity of Operations and/or Renew the Operations of JSC VTB Bank in the Event of an Extraordinary or Emergency Situation;
- development of mechanisms to monitor the level of operational risk at the level of the Bank and the Group's companies as part of the concept of managing risk appetite;
- automation of key processes and analytical tasks related to risk management, in particular the development of specialised software for managing operational risk;
- development of the methodology for a unified system of tools to be used for operational risk management (self-assessment, key risk indicators, corrective action plans to reduce risks and the consequences thereof, scenario analysis);
- ensuring a common approach to risk insurance for professional activities at the Group level;
- improving regular reporting on the Group's operational risks.

Operational risk did not have a significant impact on the Bank's performance in 2014.

#### **Activities and plans for implementing Basel II standards**

VTB Bank and VTB Group have been working systematically to incorporate Basel II practices. This takes into account the relevant recommendations and requirements of the Bank of Russia, as well as the degree to which the Basel standards have been integrated into Russian banking legislation.

The Group has been designing and developing methods provided for by Basel II standards in accordance with a comprehensive programme of gradual preparation for the transition of the Group's Russian banks to the internal ratings based (IRB) approach for credit risk assessment. In 2014, the efforts focused mainly on the following areas:

- improvement of the ratings models/systems for all key sectors (including corporate clients, financial institutions, sovereign counterparties, as well as special financing) that meet the requirements of Basel II's Component 1 and that correspond to the Bank of Russia's current and future requirements and recommendations;
- full-scale development of a system for calculating risky assets in accordance with Basel II (including the Group's internal methodology, organisational aspects, technology and IT systems);
- the study of issues related to preparing for the future submission of an application to the Bank of Russia for the use of IRB approach (including issues related to ensuring that the necessary documents exist and are complete).

This work is being carried out with the assistance of external consulting firms that have experience with, and knowledge of, best practices in the implementation of these tasks.

## Key priorities for 2015

In 2015, the Group plans to develop further its risk management system, including compliance with new regulatory requirements and international standards, by implementing the following measures:

- consistent implementation and development of the key elements of the target risk management model (in accordance with VTB's risk management development strategy for 2014-2016), including with regard to:
  - increased demands on the quality and effectiveness of risk management in the face of adverse trends in the Russian economy and the banking sector;
  - the integration of risk management systems at VTB Bank and the Bank of Moscow;
- completion of the phased implementation of a comprehensive system of indicators of risk appetite corresponding to best practices, ensuring that said indicators are monitored in terms of operational limits, and also their complete incorporation into the business-planning system and processes;
- improving the methodology for calculating and further expanding the scope of application of the economic capital model in accordance with best practices;
- the introduction, refinement and widespread use of modern methods of quantitative risk assessment, and systematising approaches to the construction and validation of the models and methods being used, including the rating of borrowers and determining the likelihood of default;
- further work on automating the key processes and analytical tasks related to risk management, particularly the formation of an effective information technology platform for calculating the value of risky assets under Basel II;
- improving the system for planning and the continuity of operations at the level of the Bank and the Group;
- further improvement and automation of the Bank/Group's tools for operational risk management on the basis of a centralised software package;
- unification of methodological approaches in terms of operational risk management at the Group level, including with regards to the management of fraud and IT risks;
- assessing the economic feasibility of an advanced approach to the calculation of capital related to operational risks;
- unification of the market risk limits on trading and treasury operations.

## 5. CORPORATE GOVERNANCE

### 5.1. OVERVIEW OF THE CORPORATE GOVERNANCE SYSTEM

#### *VTB's corporate governance*

VTB's corporate governance system is based on unconditional compliance with the requirements of Russian legislation and the Central Bank, and also draws on international best practice, including the globally recognised principles developed by the OECD. All shareholders are treated equally and have the opportunity to participate in the management of the Bank through the General Shareholders' Meeting, and to exercise their right to receive dividends and information about VTB's operations.

The General Shareholders' Meeting is the supreme governing body of VTB. The Supervisory Council, elected by the shareholders and accountable to them, provides strategic management and oversight of the Bank's executive bodies, namely the President and Chairman of the Management Board and the Management Board itself. The executive bodies are responsible for the day-to-day management of the Bank and carry out the tasks entrusted to them by the shareholders and the Supervisory Council.

VTB has built an effective system of corporate governance and internal control of its financial and economic affairs as a means of safeguarding the rights and interests of its shareholders. The Supervisory Council oversees the Audit Committee, which in conjunction with the Internal Audit Department supports the management function in ensuring the smooth running of the Bank's operations. VTB contracts an external auditor, who has no connection to the Bank or the interests of its shareholders, to inspect and verify the Bank's financial reports. The Statutory Audit Commission monitors the Bank's financial and economic affairs.

The Staff and Remuneration Committee reports to the Supervisory Council and drafts recommendations on key appointments and incentives for members of the Supervisory Council and the Bank's executive and control bodies.

The Strategy and Corporate Governance Committee, which reports to the Supervisory Council, considers and makes recommendations on strategic development issues and on improving VTB's corporate governance, as well as on streamlining the management of the Bank's own stock. In April 2014, the Strategy and Corporate Governance Committee considered the results of an assessment of VTB's corporate governance carried out by the Supervisory Council following a recommendation from the Central Bank. The Committee also reported on the results of the action plan to develop VTB's corporate governance system for 2013-2014.

VTB operates a policy of full and timely disclosure of reliable information, giving shareholders, investors and counterparties the opportunity to make properly informed decisions. Information is disclosed in compliance with Russian legislation and the requirements of the UK financial regulator, the Financial Conduct Authority (FCA). VTB also has its own Regulation on Information Policy, which establishes rules for the protection of confidential and insider information.

## 5.2. DEVELOPMENT OF CORPORATE GOVERNANCE IN 2014

VTB Bank and the Group as a whole are continuing to develop corporate governance. Major initiatives in this area in 2014 included:

- Approval of the Development Strategy for 2014-2016, including the corporate governance development strategy;
- Approval of the new edition of the Charter, which extends the remit of the Supervisory Council to matters including:
  - approval of the risk- and capital-management strategy ;
  - approval of the procedure for preventing conflicts of interests;
  - approval of the Bank's remuneration policy and control over its implementation;
  - approval of the Bank's Regulation on Procurement of Goods, Works and Services.
- Approval by the Supervisory Council of the results of an assessment of the Bank's corporate governance conducted using methodology recommended by the Central Bank;
- Introduction of the position of Corporate Secretary at Group companies.

VTB has consistently scored highly on the National Corporate Governance Rating, based on an annual independent review by the Russian Institute of Directors.

VTB's National Corporate Governance Score of "7+" corresponds to "Developed Corporate Governance Practice" and denotes low risks of shareholders incurring losses due to corporate governance quality. VTB is currently the only Russian bank assigned a National Corporate Governance Rating.

In 2014, the Bank's information disclosure system was recognised for the second time as "Best Website for Corporate Information Disclosure" among public companies in the competition organised every two years by the National Association of Corporate Secretaries and the magazine "Joint-Stock Company: Corporate Governance Issues".

In March 2014, the Central Bank of Russia approved the new Corporate Governance Code, based on best international practice in this area. The Central Bank recommends that all joint-stock companies with listed securities apply the Code.

In line with an Order from the Russian Government, VTB assessed its compliance with the Code by comparing the Code's provisions with its own corporate governance standards.

As a result of this analysis, VTB developed an Action Plan ("road map") to integrate the Code's provisions into VTB's activity. The Comparative Analysis and "road map" were approved by the Supervisory Council's Strategy and Corporate Governance Committee and sent for sign-off to the Federal Agency for State Property Management and Finance Ministry.

In February 2015, the Supervisory Council approved the "road map". Most activities in the "road map" are planned for implementation in the first half of 2015.

The Annual General Meeting of Shareholders (AGM) to review the 2013 results was held in June 2014. The AGM approved the new composition of the Supervisory Council and the Statutory Audit

Commission. The shareholders voted to re-elect Elena Popova as the representative of the Shareholder Consultative Council (SCC), and Shahmar Movsumov as minority shareholder representative. For the first time, Leonid Volkov, a minority shareholder representative and member of the SCC, became a member of the Bank's Statutory Audit Commission.

The Russian Institute of Directors considers the current composition of the Supervisory Council of the Bank to be balanced and sensitive to the interests of all investors and shareholders.

### 5.3. GENERAL MEETING OF SHAREHOLDERS OF VTB BANK

The General Meeting of Shareholders is the supreme governing body of VTB. Any shareholder may exercise their right to directly participate in the management of the Bank by voting on the agenda of the General Meeting of Shareholders. The decision to convene a General Meeting of Shareholders is taken by the Supervisory Council.

In accordance with the applicable Russian law and the Bank's Charter, information about the date and venue of the General Meeting of Shareholders, as well as the publication date of the list of shareholders eligible to participate, is published on VTB's website. For the timeframe specified by law, shareholders can review materials for the General Meeting of Shareholders on the Bank's official web site or in Shareholder Liaison Centres in Moscow, St Petersburg and Ekaterinburg.

#### *The AGM*

In 2014, the AGM was held on 19 June at the Oktyabrsky Grand Concert Hall in St Petersburg and was led by Sergey Dubinin, Chairman of the Supervisory Council. More than 350 shareholders and their representatives attended. As has become tradition, a consultation zone was organised for shareholders to obtain information from VTB Group experts. The event was webcast live on VTB's website, with more than 3,000 internet users taking part.

Shareholders discussed and voted on 16 agenda items:

- Approval of the Annual Report;
- Approval of the annual financial statements, including the profit and loss statement;
- Approval of profit allocation for 2013;
- Amount, terms and form of the 2013 dividend payment and a record date to determine persons to be entitled to receive the dividend;
- Remuneration of Supervisory Council members who are not state employees, in accordance with JSC VTB bylaws;
- Number of Supervisory Council members;
- Election of Supervisory Council members;
- Number of Statutory Audit Commission members;
- Election of Statutory Audit Commission members;
- Approval of the Bank's auditor;
- Approval of the new version of the Bank's Charter;
- Approval of the new version of the Regulation on the Procedure for Preparing, Convening and Holding of General Meetings of Shareholders;
- Approval of the new version of the Regulation on the Supervisory Council;
- Approval of the new version of the Regulation on the Management Board;

- Termination of VTB's membership in the Association of Bill Market Participants (ABMP);
- Approval of interested party transactions to be entered into by JSC VTB Bank in the course of its ordinary business.

Shareholders set the dividend for 2013 at 15% of VTB Group's IFRS consolidated net profit, or 44% of VTB Group's net profit to RAS, and agreed to distribute profit as follows:

- Net profit to be allocated<sup>20</sup> - RUB 34, 485, 131, 826.18;
- Dividend payment allocations - RUB 15, 034, 227, 951.31;
- Retained net profit - RUB 18, 200, 903, 874.87;
- Allocated to Reserve Fund - RUB 1, 250, 000, 000.00.

The shareholders approved a dividend payment for 2013 of RUB 0.00116 per ordinary share.

The AGM made a series of decisions to increase the representation of minority shareholders in bodies that control and manage the Bank. Elena Popova, minority shareholder and SCC member, and Shahmar Movsumov, Head of the State Oil Fund of Azerbaijan, one of the Bank's major shareholders, were re-elected to the Supervisory Council. SCC member Leonid Volkov became the first minority shareholder to be elected to the Statutory Audit Commission.

The voting results and all decisions can be viewed on the Bank's website at:

<http://www.vtb.ru/ir/governance/meeting/2014/>

#### *Extraordinary General Meeting of Shareholders*

On 29 August 2014, an Extraordinary General Meeting of VTB Shareholders was held in absentia. The agenda included points related to the increase of the Bank's share capital:

- Approval of an amended version of the Bank's Charter;
- Approval of an amended version of the Regulation on Preparing, Convening and Holding Annual General Meetings of Shareholders;
- Increase of JSC VTB Bank's share capital through placement of JSC VTB Bank registered preference shares.

706 shareholders and their representatives attended, accounting for 65.43% of the voting shares of the Bank. 99.98% of attendees voted to increase the Bank's share capital.

The increase in capital was implemented by converting subordinate loans received by the Group in line with Federal Law No. 173-FZ "On additional measures to support the financial system of the Russian Federation" into preference shares. The Russian Federation, represented by the Ministry of Finance, was the sole purchaser of the preference shares. As a result, the state's total share of the Bank's share capital increased to 85.27%.

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<sup>20</sup> The dividends for 2013 were paid out of the net profit of JSC VTB Bank according to RAS.



## 5.4. THE SUPERVISORY COUNCIL OF VTB BANK

### *Scope of responsibilities*

The Supervisory Council is one of the most important elements of VTB's corporate governance system. Acting in accordance with Russian legislation, the Bank's Charter and the Regulation on the Supervisory Council, it provides general oversight of the Bank's operations and formulates long-term strategy.

Members are elected for a term of one year at the General Meeting of Shareholders by means of a cumulative ballot. Shareholders holding at least two percent of the Bank's voting shares have the right to nominate candidates to the Supervisory Council.

The Supervisory Council in place at the end of 2014 was elected at the AGM on 19 June 2014. As of 31 December 2014, the Supervisory Council consisted of 11 members, ten of whom were Non-executive Directors and four Independent Directors. This combination of directors is in line with international best practice and ensures that all shareholders' interests are represented at the Supervisory Council. The composition of the Supervisory Council is reviewed annually to ensure the right level of professionalism, experience and effectiveness, and that it is in line with VTB's strategic objectives.

VTB places great importance on the appointment of Independent Directors. These directors' effective work on the Supervisory Council strengthens shareholders' and investors' trust in the Bank and ensures a high level of transparency for its governance system. The Independent Directors actively participate in Supervisory Council discussions and the decision-making process. Together they monitor the Bank's performance and its competitive position, analyse the effectiveness of the management team, assess mechanisms and systems of internal control and risk management, and settle corporate conflicts.

According to the Bank's Code of Corporate Conduct, the Supervisory Council should include at least two Independent Directors who have expertise in the financial sector. The independent members of the Supervisory Council must not have any relationship with the Bank that would prevent them from fairly and impartially making decisions with regard to the strategy and current activity of VTB. The Group observes the requirements of the Moscow Stock Exchange as well as recommendations of the Corporate Governance Code approved by the Central Bank in March 2014.

### *Liability insurance for Supervisory Council members*

Supervisory Council members are insured under the director's liability insurance programme (Director's and Officer's Liability, D&O). In accordance with the D&O, compensable losses (including legal expenses) incurred due to unintentional wrongful acts, negligence or omission of members of the Supervisory Council during the Bank's financial operations are reimbursed in relation to the claims filed during the insurance period by investors, shareholders or government bodies. The grounds for a claim may be the personal responsibility of members of the Supervisory Council for mistakes made during the decision-making process, for a shortfall of financial control and risk management leading to losses, reduction in share price, asset value, or damages caused to third parties.

In 2014, the Supervisory Council reviewed and approved the extension of the director's liability insurance contract for the new term. The Procurement Commission and the Staff and Remuneration Committee approved the feasibility of the extension of this contract.

#### *Remit*

The Supervisory Council provides strategic direction, determines VTB's long-term priorities, approves its development strategy, defines the key principles and overall approach to risk management and internal control, remuneration policy and compensation paid to members of the Supervisory Council, executive bodies and other key executives, and exercises oversight of the activity of executive bodies and corporate governance. The Supervisory Council plays a key role in the Bank's key corporate activities.

In 2014, the AGM approved new editions of the Charter and the Regulation on the Supervisory Council, which extended the Council's remit to include:

- Approval of the Bank's risk and capital management strategy, including maintenance of capital adequacy and liquidity for covering risks for the whole Bank and separate business lines, as well as approving the material risk management procedure and monitoring of its implementation;
- Approval of rules for applying the Bank's risk-management methodology and risk-scoring model (to the extent provided by the Federal Law on the Central Bank of the Russian Federation (Bank of Russia)), including assessment of assets and liabilities, off-balance-sheet claims and liabilities, as well as stress-testing scenarios and the results thereof;
- Approval of the procedure for preventing conflicts of interest, the financial capability recovery plan in the event of a material deterioration in the Bank's financial standing, and the action plan for providing business continuity and/or operational recovery in case of emergency;
- Assessment of compliance by the Bank's sole and collective executive bodies with the policies and procedures approved by the Supervisory Council;
- Decision-making regarding the duties of Supervisory Council members, performance assessment and submission of the results to the General Meeting of Shareholders;
- Approval of HR policy;
- Approval of remuneration policy and monitoring of its implementation;
- Approval of the Regulation on procurement of goods, works and services;
- Appointing and removing the Specialised Depository Controller;
- Approval of the rules for organising and exercising internal control over the Specialised Depository Controller.

The main functions of the Supervisory Council are defined in the Charter and the Regulation on the Supervisory Council, which can be viewed on the Bank's website at:

<http://www.vtb.ru/group/documents/>.

### *Chairman of the Supervisory Council*

The Chairman is elected by majority vote of the members of the Supervisory Council. The Council has the right to re-elect its Chairman at any time by majority vote.

The Chairman is not permitted to combine this role with the position of President and Chairman of the Management Board. The Chairman of the Supervisory Council may also not be a member of the VTB Management Board, nor may he or she have any type of employment relationship with the Bank.

The Chairman organises the work of the Council, convenes and chairs its meetings, and presides over General Meetings of Shareholders. In the absence of the Chairman, his or her duties are assumed by a Supervisory Council member as decided by the Supervisory Council.

Sergey Dubinin has been Chairman of VTB Supervisory Council since June 2011.

### *Composition of the Supervisory Council*

On 19 June 2014, the AGM elected three new members to the Supervisory Council: Simeon Djankov (independent member), Mikhail Kopeikin and Vladimir Chistyukhin. As part of their induction, the new members attended briefings about VTB Bank and VTB Group and received other information and documents necessary for their work on the Supervisory Council.

David Bonderman, Gennadiy Melikyan and Alexey Ulyukaev left the Supervisory Council in June 2014, after the new Supervisory Council was elected by the AGM.

### **Sergey Dubinin**

#### *Chairman of the Supervisory Council since 16 June 2011*

Member of the Supervisory Board of JSC ALROSA. Head of the Finance and Credit Department at the Faculty of Economics, Lomonosov Moscow State University. Advisor and Member of the Board of Directors of CJSC VTB Capital. Member of the Board of Directors of JSC VTB Capital IB Holding Ltd., CJSC VTB Capital Holding.

Previous positions:

2005-2008 – Member of the Board of Directors, Chief Financial Officer of RAO UES;

2004-2005 – Member of the RAO UES Board of Directors;

2001-2004 – Deputy Chairman of the RAO UES Board of Directors;

1998-2001 – Deputy Chairman of the OJSC Gazprom Management Board;

1995-1998 – Chairman of the Central Bank;

1995-1995 – Member of the OJSC Gazprom Management Board;

1994-1995 – First Deputy Chairman of the Management Board of Imperial Commercial Bank;

1994-1994 – Acting Minister of Finance of the Russian Federation;

1993-1994 – First Deputy Minister of Finance of the Russian Federation;

1992-1993 – Deputy Chairman of the Russian State Committee for Economic Cooperation with CIS countries;

1991-1992 – Economics Expert in the Executive Office of the USSR President;

1981-1991 – Associate Professor of Foreign Economies and Foreign Economic Relations at the Faculty of Economics, Lomonosov Moscow State University;

1977-1981 – Assistant Professor of Foreign Economies and Foreign Economic Relations at the Faculty of Economics, Lomonosov Moscow State University;

1976-1977 – Teaching Assistant of Foreign Economies and Foreign Economic Relations at the Faculty of Economics, Lomonosov Moscow State University;

1975-1976 – Junior Research Associate at Lomonosov Moscow State University;

1974-1975 – Secretary of the Komsomol Committee at the Faculty of Economics, Lomonosov Moscow State University.

Awards:

- Medal Commemorating the 850th Anniversary of Moscow;
- Honorary Diploma of the Government of the Russian Federation and Honorary Badge for Achievements in the Russian Electric Power Industry;
- Winner of Best Independent Director of the Year, Aristos Award 2013.

In 2014, Mr. Dubinin ranked in the 25 Top Chairmen of the Board of Directors.

Born in 1950. In 1973, graduated from Lomonosov Moscow State University with major in Political Economy, and in 1976 as an extramural postgraduate of Moscow State University. Higher Doctorate in Economics.

Holds shares equivalent to 0.00062% of the Bank's charter capital as of 31 December 2014.

Holds 0.00164% of ordinary shares of the Bank as of 31 December 2014.

### **David Bonderman**

*Independent member of the Supervisory Council from 8 June 2012 to 19 June 2014*

Founding Partner and President of Texas Pacific Group Investment Fund (TPG). Member of the Board of Directors, CoStar Group Inc. and General Motors Company. Member of the Board of Directors of the Wilderness Society, Grand Canyon Trust and American Himalayan Foundation non-profits.

Chairman of the Board of Directors of Ryanair Holdings plc.

Previous positions:

Since 1992 – Founder of Texas Pacific Group Investment Fund;

1983-1992 – Chief Operating Officer of Robert M. Bass Group Inc. (now Keystone Inc.)

Prior to 1983 – Partner in the law firm Arnold & Porter, Washington, D.C., where he specialised in corporate, securities, bankruptcy and antitrust litigation;

1969-1970 – Fellow in Foreign and Comparative Law, studied Islamic Law at the American University in Cairo in conjunction with Harvard University;

1968-1969 – Special Assistant to the U.S. Attorney General in the Civil Rights Division;

1967-1968 – Assistant Professor at Tulane University School of Law in New Orleans;

Born in 1942. In 1963, graduated from the University of Washington and from Harvard Law School in 1966.

Holds no shares of the Bank's charter capital as of 31 December 2014.

### **Matthias Warnig**

*Member of the Supervisory Council since 20 June 2007*

Since 2006 – Managing Director of Nord-Stream AG (Switzerland). Chairman of the Board of Directors of Transneft and United Company RUSAL. Board member of Bank Rossiya and Rosneft. President of the Board of GAZPROM Schweiz AG and Gas Project Development Central Asia AG. Member of the Supervisory Board of Verbundnetz Gas AG.

Previous positions:

2005-2006 – Chairman of the Board of Directors of CJSC Dresdner Bank;

2004-2005 – Chairman of the Management Committee of Dresdner Kleinwort for Russia and the CIS;

2002-2005 – President of CJSC Dresdner Bank;

2000-2002 – Chief Coordinator of Dresdner Bank Group in Russia;

1999-2000 – Managing Director of the BNP-Dresdner Bank branch in St Petersburg;

1997-1999 – Deputy Manager of the Moscow branch of BNP-Dresdner Bank;

1990-1997 – Management Board Advisor of Dresdner Bank AG;

1981-1990 – Officer at the Ministry of Foreign Trade, then at the Council of Ministers of the German Democratic Republic.

Born in 1955. In 1981, graduated from the Bruno Leuschner Higher School of Economics in Berlin and Karlshorst, major in National Economics.

Holds no shares of the Bank's charter capital as of 31 December 2014.

### **Yves-Thibault de Silguy**

*Independent member of the Supervisory Council since 28 June 2013*

*Member of the Supervisory Council from 20 June 2007 to 26 June 2008*

Since May 2010 - Vice-President of the Board of VINCI SA (France), Senior Director of the Board of Directors VINCI Group (France). President of YTSeuropaconsultants SARL (France). Chairman of the Supervisory Council of Sofisport SA (France). Member of the Supervisory Council of VTB (France). Member of the Board of Directors of SOLVAY SA (Belgium) and Louis Vuitton Moët Hennessy SA (France).

Previous positions:

2005-2012 – Member of the Council for Foreign Affairs, French Foreign Ministry;

2008-2011 – Member of the Board of Directors of SMEG (Société monegasque d'eau et d'électricité);

2002-2010 – Member of the Economic Council, French Defence Ministry;

2007-2008 – Member of the Supervisory Council of JSC VTB Bank;

2004-2006 – Vice President of Suez Environnement (Belgium);

2003-2006 – Acting General Director, member of the Executive Committee of Suez (Belgium);

2003-2006 – President of Aguas Argentinas (Argentina);

2001-2002 – General Director, Suez (Belgium);

2000-2006 – President, Sino-French Holdings (Hong Kong);

1995-1999 – Member of the European Commission, responsible for economic, monetary and financial affairs;

1993-1995 – Secretary-General of the Interdepartmental Committee for Questions of Economic Cooperation in Europe. Advisor for European affairs responsible for the preparation of summits of industrialised nations in the Cabinet of French Prime Minister, Edouard Balladur;

1988-1993 – Director of International Affairs of Usinor Sacilor Group;

1986-1988 – Advisor for International Economic Affairs in the Cabinet of French Prime Minister, Jacques Chirac;

1985-1986 – Counsellor for Economic Affairs, French Embassy in Washington;

1981-1984 – Advisor, then Deputy Head of the Cabinet, then Vice President of Economic and Monetary Affairs for the Commission of European Communities;

1976-1981 – Authorised representative of the Department for Economic Cooperation at the Ministry of Foreign Affairs, France.

**Awards:**

- Knight of the Légion d'Honneur;
- French National Order of Merit "For services to the Fatherland";
- French National Order of Merit "For services to Development of Agriculture";
- French National Order of Merit "For services to Art and Literature";
- Bronze Medal of the French Republic for voluntary military service.

Born in 1948. In 1971, graduated from University of Rennes II Upper Brittany from University of Paris I (Pantheon-Sorbonne) with a degree in Law, from the Paris Institute of Political Studies (Sciences Po) in 1972 and from the École Nationale d'Administration (ENA) in 1976, Guernica class.

Holds no shares of the Bank's charter capital as of 31 December 2014.

**Simeon Djankov**

*Independent member of the Supervisory Council since 19 June 2014*

Since 2013 – Rector and Chairman of the Board of Directors of the New Economic School.

**Previous positions:**

2013-2014 – Professor at the John F. Kennedy School of Government, Harvard University;

2009-2013 – Deputy Prime Minister and Minister of Finance of Bulgaria;  
2008-2009 – Chief Economist, Finance and Private Sector Development Department, World Bank;  
2002-2008 – Doing Business Project Manager, International Finance Corporation;  
2001-2002 – Principal author of the World Development Report 2002, World Bank;  
1999-2001 – Senior Financial Economist, Europe and Central Asia, World Bank;  
1998-1999 – Economist for East Asia, World Bank;  
1997-1998 – Associate, International Finance Corporation;  
1995-1997 – Advisor on Europe and Central Asia, World Bank.

Born in 1970. In 1993, graduated from the Geneva College, Pennsylvania, USA, majoring in Economics. In 1995, graduated from the University of Michigan, USA, majoring in Economics. In 1997, received a PhD in Economics.

Holds no shares of the Bank's charter capital as of 31 December 2014.

### **Mikhail Kopeikin**

*Member of the Supervisory Council since 19 June 2014*

Since April 2014 – First Deputy Chief of Staff of the State Duma, Federal Assembly of the Russian Federation.

Supervisory Board Member, Foundation for the Promotion of Small Research and Technology Enterprises. Supervisory Board Member, Foundation for Infrastructure and Education Programs. Chairman of the Board, Bureau of Economic Analysis. Member of the Board of Directors of the Montreal Group international association of development banks. Chairman of the Board of Directors, International Fund to Support Russian Entrepreneurship.

Previous positions:

2008-2014 – Board Member and Deputy Chairman, state corporation Bank for Development and Foreign Economic Affairs (Vnesheconombank);

1996-2008 – Department Head, Deputy Chief of Staff of the Russian Government - Head of the Economic and Property Management Department. Deputy Chief of Staff of the Russian Government;

1992-1996 – Deputy Department Head – Subdivision Head, Department Head, Supervisor of Economic Reform Package Implementation, Head of the Department of Economic Reform, Board Member at the Ministry of Economics of the Russian Federation;

1991-1992 – Subdivision Head, Department for Market Relations and Economic Legislation at the Ministry of Economics of the USSR;

1989-1991 – Subdivision Deputy Head, Department for Streamlining Planning Mechanisms and State Plan Implementation, State Planning Committee of the USSR;

1976-1989 – Engineer, Senior Engineer, Group Head, Deputy Head of the Technical and Economic Department at the Institute for the Design of Heavy Chemical Plants.

Awards:

- Honorary title Merited Economist of the Russian Federation (2000);
- Honorary Diploma of the Government of the Russian Federation (2002);
- Letter of Acknowledgement from the Government of the Russian Federation (2003);
- Honorary Diploma of the Russian Government's Executive Office (2004);
- Order of Merit (2004);
- Order of Merit to the Fatherland IV Class (2008).

Born in 1954. In 1976, graduated from the Ordzhonikidze Moscow Institute of Management, majoring in Economics and Administration in the Chemical Industry. Doctor of Economics, Professor. Class 1 Acting State Advisor of the Russian Federation.

Holds no shares of the Bank's charter capital as of 31 December 2014.

### **Andrey Kostin**

*Member of the Supervisory Council since 2002.*

Since 2002 - President and Chairman of the VTB Bank Management Board.

Chairman of the Supervisory Councils of PJSC Bank VTB 24 and PJSC VTB Bank (Ukraine). Chairman of the Board, OJSC Bank of Moscow. Member of the Board of Directors at Pirelli & C.S.p.A., CJSC VTB Capital, CJSC VTB Capital Holding, VTB Capital IB Holding Ltd., CJSC Congress Centre Konstantinovskiy. Member of the Council of the Association of Russian Banks. President of the non-commercial Partnership Financial and Banking Council of the CIS. Member of the Bureau of the Board, Russian Union of Industrialists and Entrepreneurs. Member of the Supervisory Board, Russian Volleyball Federation. Member of the Board of Trustees: Fund for the Support and Development of Physical Culture and Sports of the Russian Federation, Dynamo Hockey Club, Higher School of Economics, Lomonosov Moscow State University, Moscow State Institute of International Relations, St Petersburg State University, Friends of the Russian Museum Development Fund, Russian Orthodox Church Charitable Foundation for the Restoration of the Voskresensk Stavropegial Resurrection (New Jerusalem) Monastery, Bolshoi Theatre, State Academic Mariinsky Theatre, non-commercial organization Governance and Problem Analysis Centre, State Primorsky Opera and Ballet Theatre, National Coordination Centre for Developing Economic Cooperation with Countries of the Asia-Pacific Region. Member of the Supreme Council, United Russia political party. Member of the Management Board, non-profit partnership National Council on Corporate Governance. Chairman of the Supervisory Board, Russian Gymnastics Federation.

Previous positions:

1996-2002 - Chairman of Vnesheconombank;

1995-1996 - First Deputy Chairman of the Management Board of the National Reserve Bank;

1993-1995 - Deputy Head of the Foreign Investment Department at Imperial Bank;

1979-1992 - Diplomatic service at the USSR Consulate General in Australia (1979-1982) and Embassy to the UK (1985-1990);

Born in 1956. In 1979, graduated with Honours from the Economics Department of Lomonosov Moscow State University. PhD in Economics;



Holds shares equivalent to 0.00069% of the Bank's charter capital as of 31 December 2014.

Holds 0.00183% of the ordinary shares of the Bank as of 31 December 2014.

**Nikolay Kropachev**

*Independent member of the Supervisory Council since 26 June 2008*

Since 2008 – Rector of St Petersburg State University.

Previous positions:

2006-2008 – Senior Vice Rector of St Petersburg State University;

2000-2005 – President of the Statutory Court of St Petersburg;

Class 1 Acting State Advisor of St Petersburg.

Born in 1959. In 1981, graduated from the Legal Department of Leningrad State University (now St Petersburg State University). PhD in Law and Professor.

Received multiple awards from the President of Russia, the Russian Government and the Russian Ministry of Education.

Holds no shares of the Bank's charter capital as of 31 December 2014.

**Gennadiy Melikyan**

*Member of the Supervisory Council from 8 June 2012 to 16 June 2014*

Since 2012 – Member of the Advisory Council under the Chairman of the Central Bank.

Previous positions:

2003-2011 – Deputy Chairman of the Central Bank, since 2007 – First Deputy Chairman of the Central Bank;

1997-2003 – Deputy Chairman of the Management Board of OJSC Sberbank of Russia;

1992-1997 – Minister of Labour of the Russian Federation, since 1996 – Minister of Labour and Social Development of the Russian Federation; simultaneously between 1993-1995 – member of the State Duma of the Federal Assembly of the Russian Federation;

1991-1992 – Vice President, member of the Management Board of the International Fund of Economic and Social Reforms;

1991 – Deputy Chairman of the State Council for Economic Reform under the Cabinet of Ministers of the USSR;

1989-1991 – Deputy Head, Head of the Consolidated Economic Reform Division of the USSR Council of Ministers' State Economic Reform Commission;

1986-1989 – Assistant to Deputy Chairman of the USSR Council of Ministers;

1977–1986 – Leading Economist, Head of Labour, Salary and Living Standards Department under the State Committee for Labour and Social Matters of the USSR Council of Ministers; Assistant to Committee Chairman, Deputy Head of Labour Organisation, Standardising and Efficiency Unit under the State Committee for Labour and Social Matters of the USSR Council of Minister;

1974-1977 – Postgraduate of the Political Economy Department, Lomonosov Moscow State University.

Awards:

- Order for Merit to the Fatherland IV Class;
- Letter of Acknowledgement from the President of the Russian Federation;
- Diploma of the Government of the Russian Federation;
- Honoured Economist of the Russian Federation.

Born in 1947. In 1974, graduated from Lomonosov Moscow State University, and in 1977 as a postgraduate of Faculty of Economics at Lomonosov Moscow State University. PhD in Economics.

Holds no shares of the Bank's charter capital as of 31 December 2014.

### **Shahmar Movsumov**

*Independent member of the Supervisory Council since 28 June 2013*

Since 2006 – Executive Director of the State Oil Fund of Azerbaijan and Chairman of the National Committee on the Extractive Industries Transparency Initiative.

Previous positions:

2005-2006 – General Director of the National Bank of Azerbaijan;

1995-2005 – Chief FX Markets Economist, Head of Group, Head of Section, Deputy Head of Department, Head of Department, Chief Advisor to CEO – all at the Central Bank of Azerbaijan.

Born in 1972. In 1995, graduated from the Moscow State Institute of International Relations with a degree in International Economics, and in 2004 from the John F. Kennedy School of Government at Harvard University with an MBA in Public Finance.

Holds no shares of the Bank's charter capital as of 31 December 2014.

### **Alexey Moiseev**

*Member of the Supervisory Council since 28 June 2013*

Since 2012 – Deputy Finance Minister of the Russian Federation.

Previous positions:

2010-2012 – Deputy Head of the Analytics Department, Head of Macroeconomic Analysis Division at CJSC VTB Capital;

2001-2010 – Senior Economist, Deputy Head of Analytics Department at Renaissance Capital – Financial Adviser LLC;

1998-2001 – Economist and Senior Analyst in Sovereign Instruments Market, Fixed Income Instruments Market Department at BNP Paribas, London, UK;

1995-1996 – Leading Economist at the Central Bank.

Awards:

- Honorary Diploma of the Government of the Russian Federation;
- Letter of Acknowledgement from the Chairman of the Central Bank;
- Letter of Acknowledgement from Igor Shuvalov, First Deputy Prime Minister of the Russian Federation.

Born in 1973. In 1995, graduated from Ordzhonikidze State University of Management with a degree in International Economics and in 1998 from the University of Rochester with an MBA in Business Management.

Holds no shares of the Bank's charter capital as of 31 December 2014.

### **Elena Popova**

*Member of the Supervisory Council since 28 June 2013*

*Independent member of the Supervisory Council since 19 June 2014*

Member of the VTB Shareholder Consultative Council since 2009.

Since 2012 – Deputy Chair of the Dissertation Board, Academic Secretary of the Russian Academy of Sciences' Council for the Study of Manufacturing Resources; since 1986 – Professor of Management Theory and Business Technology, Plekhanov Russian University of Economics;

Previous positions:

2002-2012 – Deputy Director of the Institute of State Regulation of the Economy, Head of General Theoretical and Language Training, Professor of Innovation Management and Investment Business in Regional Economics, Member of the Board of Trustees at the State Academy of Professional Development and Training for Senior Management and Investment Specialists;

2003 - 2009 – Professor of the Department of Economic Theory at the Institute of Economics of the Russian Academy of Sciences.

Awards:

- Award of the Russian Government in the field of science and technology;
- Honoured Worker of Higher Education of the Russian Federation;
- Honoured Worker of Science and Technology of the Russian Federation.

Born in 1958. In 1981, graduated from State University of Management (Ordzhonikidze Moscow State University of Management), majoring in Municipal Management. In 1999, graduated from the Law Academy of the Russian Interior Ministry with a degree in Law. In 2003, received PhD in Economics and in 2004 became Professor. In 2007, graduated from the Russian Institute of Professional Accountants and Auditors.

Holds shares equivalent to 0.000018% of the Bank's charter capital as of 31 December 2014.

Holds 0.000048% of ordinary shares of the Bank as of 31 December 2014.

### **Alexey Ulyukaev**

*Member of the Supervisory Council from 30 June 2004 to 19 June 2014*

Since 2013 - Minister of Economic Development of the Russian Federation.

Previous positions:

2004-2013 - First Deputy Chairman of the Central Bank;

2000-2004 - First Deputy Minister of Finance of the Russian Federation;

1999-2000 - Deputy Director of the Institute for the Economy in Transition Foundation;

1998-1999 - Deputy Director of the Institute for Problems of the Economy in Transition;

1996-1998 - Member of the Moscow City Duma;

Class 1 Acting State Advisor of the Russian Federation.

Born 1956. In 1979, graduated from the Faculty of Economics of Lomonosov Moscow State University. PhD in Economics, Professor.

Holds no shares of the Bank's charter capital as of 31 December 2014.

### **Vladimir Chistyukhin**

*Member of the Supervisory Council since 19 June 2014*

Since February 2014 – Deputy Governor of the Central Bank. Since October 2013 – member of the Board of Directors of the Central Bank.

Previous positions:

2013-2014 – First Deputy Head of the Financial Markets Service, Central Bank;

2011-2013 – Director of the Financial Stability Department, Central Bank;

2004-2011 – Deputy Director of the Banking Regulation and Supervision Department, Central Bank;

2002-2004 – Deputy Director of the Department of Foreign Exchange Regulation and Control, Central Bank;

2000-2002 – Deputy Director of the Department of Foreign Exchange Regulation, Central Bank;

1999-2000 – Head of the Foreign Exchange Operations Analysis Division, Department of Foreign Exchange Regulation, Central Bank;

1997-1999 – Deputy Head of the Division of Foreign Exchange Control of Capital Operations, Division Head of the Department of Foreign Exchange Regulation and Control, the Central Bank of Russia;

1996-1997 – Lead Economist of the Foreign Exchange Regulation Division, Chief Economist of the Division of Foreign Exchange Control of Capital Operations, Department of Foreign Exchange Regulation and Control, Central Bank;

1995-1996 – Economist of the 2nd category, Economist of the 1st category, Lead Economist of the Foreign Exchange Regulation Division, Chief Directorate of Foreign Exchange Regulation and Control, Central Bank.

Born in 1973. In 1995, graduated from the Lomonosov Moscow State University with a degree in Law.

Holds no shares of the Bank's charter capital as of 31 December 2014.

### *Meetings of the Supervisory Council*

Meetings of the Supervisory Council are convened at the initiative of its Chairman, or at the request of a Council member, the Statutory Audit Commission, the Auditor, the Management Board, or the President and Chairman of the Management Board. A quorum is formed by the attendance of half of the elected members. Decisions are made by a majority vote of participating members, unless otherwise provided in the Charter and the Regulation on the Supervisory Council. For decision-making purposes, each member of the Council has one vote at meetings.

Meetings are held on a scheduled basis, although if necessary they may be held outside the schedule with absentee voting, which occurs on average six times each quarter. The format of each meeting is decided based on the importance of its agenda. The most significant matters are brought to in-person meetings.

At every Supervisory Council meeting a report is provided to update on the implementation of previously approved decisions and programmes, as well as directives and assignments stipulated by the Russian Government.

Members have the opportunity to review materials for meetings in advance, as well as recommendations and conclusions of the Council's Committees on each agenda point. The schedule for the Council is compiled for the period between AGMs and is approved by the Supervisory Council. Meetings are scheduled in advance based on the business cycle of the Bank and may be held in person or with absentee voting. Any member unable to attend a meeting can still participate via videoconference (including voting on the agenda topics); they can also submit a written opinion.

Meetings and absentee ballots are held on average six times a quarter. In 2014, the Supervisory Council held 26 meetings (19 in 2013), including eight meetings in person and 18 with absentee voting. Two off-site meetings took place in St Petersburg and in Baku.

	2013	2014
Number of meetings in person	9	8
Number of meetings conducted by absentee ballots	10	18
Members of the Supervisory Council	Number of meetings/ absentee ballots attended in 2014	
Sergey Dubinin	26 out of 26	
David Bonderman (left office on 19 June 2014)	7 out of 9	
Matthias Warnig	25 out of 26	
Yves-Thibault de Silguy	25 out of 26	
Gennadiy Melikyan (left office on 19 June 2014)	9 out of 9	
Simeon Djankov (elected on 19 June 2014)	16 out of 17	
Shahmar Movsumov	26 out of 26	
Alexey Moiseev	26 out of 26	
Andrey Kostin	25 out of 26	
Mikhail Kopeikin (elected on 19 June 2014)	16 out of 17	
Nikolay Kropachev	26 out of 26	

Elena Popova	26 out of 26
Vladimir Chistyukhin (elected on 19 June 2014)	17 out of 17
Alexey Ulyukaev (left office on 19 June 2014)	0 out of 9

*Reference numbers and dates of Minutes of the Supervisory Council meetings*

<b>Format of meeting</b>	<b>Minutes</b>
Meeting in person	Minutes No. 1, 17.01.2014
Absentee ballot	Minutes No. 2, 05.02.2014
Absentee ballot	Minutes No. 3, 19.02.2014
Meeting in person	Minutes No. 4, 04.03.2014
Absentee ballot	Minutes No. 5, 06.03.2014
Meeting in person	Minutes No. 6, 10.04.2014
Absentee ballot	Minutes No. 7, 22.04.2014
Meeting in person	Minutes No. 8, 14.05.2014
Absentee ballot	Minutes No. 9, 16.06.2014
Meeting in person	Minutes No. 10, 19.06.2014
Absentee ballot	Minutes No. 11, 02.07.2014
Meeting in person	Minutes No. 12, 15.07.2014
Absentee ballot	Minutes No. 13, 23.07.2014
Absentee ballot	Minutes No. 14, 14.08.2014
Absentee ballot	Minutes No. 15, 22.08.2014
Absentee ballot	Minutes No. 16, 01.09.2014
Absentee ballot	Minutes No. 17, 16.09.2014
Absentee ballot	Minutes No. 18, 24.09.2014
Absentee ballot	Minutes No. 19, 30.09.2014
Absentee ballot	Minutes No. 20, 14.10.2014
Meeting in person	Minutes No. 21, 22.10.2014
Absentee ballot	Minutes No. 22, 28.10.2014
Absentee ballot	Minutes No. 23, 17.11.2014
Absentee ballot	Minutes No. 24, 27.11.2014
Meeting in person	Minutes No. 25, 18.12.2014
Absentee ballot	Minutes No. 26, 30.12.2014

In 2014, the Supervisory Council discussed and took decisions on priority areas of the Bank's activities, including the Development Strategy for 2014-2016, the development and approval of the Bank's long-term development program of for 2014-2018, acquisition and disposal of shares in subsidiaries, increasing the Bank's charter capital and reorganisation of subsidiaries.

In addition, the Supervisory Council considered the following matters in 2014:

- review of the report on interaction with shareholders and plans for shareholder engagement over the next calendar year;
- approval of HR policy, Regulation on the Supervisory Council Staff and Remuneration Committee, Regulation on Remuneration of Executive Bodies of the Bank and Their KPIs and the Regulation of Procurement of Goods, Works and Services;
- review of the report on the Bank's sponsorship and charity activities as well as plans for sponsorship and charity activities in the next calendar year;

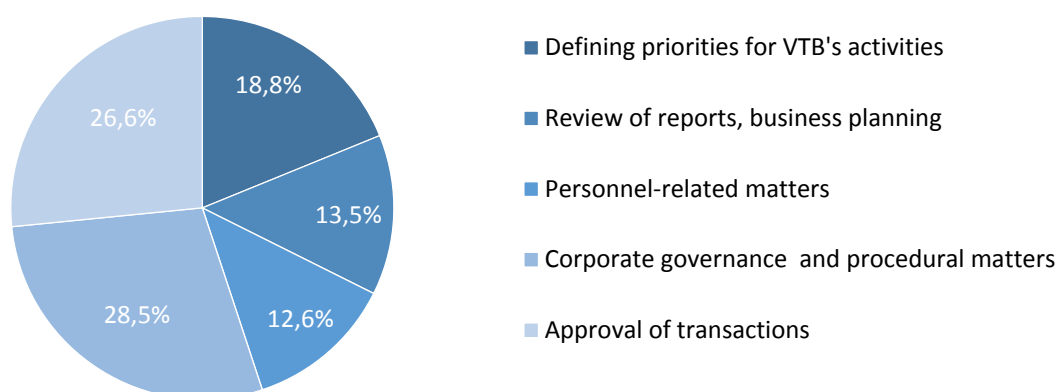
- review of the reports on the activities of the Supervisory Council Committee;
- review of the assessment of VTB's corporate governance;
- approval of the agenda for the AGM, recommended dividend, preliminary approval of the Annual Report and auditor fees;
- approval of related-party transactions;
- approval of directorship positions for the President and Chairman of the Management Board and members of the Management Board of VTB within other organisations.

As part of its work on providing effective risk management and internal control, the Supervisory Council undertook the following measures:

- approval of the risk and capital management strategy as well as the Regulation on Management of Significant Risks;
- review of the report on the state and assessment of efficiency of risk management;
- approval of the action plan for providing business continuity and/or operational recovery in case of emergencies and of the financial capability recovery plan in case of a material deterioration in the Bank's financial standing;
- approval of the Regulation on Internal Control and the Regulation on the Internal Audit Department; review of activity reports and approval of the plans of the Internal Audit Department;
- review of the reports issued by responsible managers on the results of implementation of the Consolidated Policy on the Prevention of Money Laundering and Terrorist Financing (AML/CTF); review of the recommended measures for improving AML/CTF for 2013;
- review of the quarterly reports by inspectors on the Bank's professional activity in the securities market and specialised depository, as well as on preventing abuse of insider information and market manipulation.

In total, the Supervisory Council reviewed 207 issues in 2014.

#### *Issues considered by the Supervisory Council in 2014*



### *Assessment of the corporate governance system (including assessment of Supervisory Council activity)*

In 2014, the Supervisory Council carried out an assessment of the Bank's corporate governance system. The methodology was based on the provisions of Russian legislation on joint-stock companies, the Central Bank's recommendations and on the Corporate Code of Conduct recommended by the Federal Commission on the Securities Market from 4 April 2002. During this process, the Bank Supervisory Council members completed a survey as part of the Council's self-assessment of its work.

According to the methodology approved by the Strategy and Corporate Governance Committee of the Supervisory Council, the corporate governance system was assessed on nine factors:

- distribution of powers among managing bodies;
- organisation of Supervisory Council activity;
- approval of the Bank's Development Strategy and control over its implementation;
- coordination of risk management;
- prevention of conflicts of interest between shareholders, members of the Supervisory Council, the executive bodies of the Bank and its employees;
- cooperation with affiliates;
- establishment of rules and procedures to ensure compliance with the principles of professional ethics;
- coordination of the Bank's disclosure;
- monitoring of the internal control system.

The overall score for the corporate governance system assessment increased from 3.7 to 3.8, with increased scores for the majority of individual corporate governance factors.

The Supervisory Council played a bigger role in decision-making relating to strategic governance and control (strategy, risks, participation in subsidiaries).

The action plan for the development of the Bank corporate system was almost fully implemented.

Following the assessment, the Strategy and Corporate Governance Committee of the Supervisory Council and the Supervisory Council reviewed a detailed report on the assessment of VTB's corporate governance in accordance with the recommendations of the Central Bank and the results of the implementation of the action plan to develop the corporate governance system.

Details of the Supervisory Council's work can be viewed on the Bank's website at:  
<http://www.vtb.ru/ir/governance/council/activity/>.

### *Committees of the Supervisory Council*

The Supervisory Council has standing committees, which support the effective implementation of the Council's managerial and supervisory functions and provide preliminary detailed analysis and recommendations regarding the issues that the Council deems most important. At the end of 2014, the Supervisory Council had the following committees:



- Audit Committee;
- Staff and Remuneration Committee;
- Strategy and Corporate Governance Committee.

The Supervisory Council committees are not governing bodies of the Bank, and cannot act in the name of the Supervisory Council.

#### *Audit Committee*

The Audit Committee performs an analytical and support function to ensure that internal control systems work effectively. The Committee's remit includes the appraisal of candidates for external auditor, review of the audit report, assessment of the effectiveness of internal control procedures and drafting of proposals for their improvement. The Audit Committee is headed by an independent member of the Supervisory Council.

As of 31 December 2014, the Audit Committee comprised of the following members:

- Yves-Thibault de Silguy, Committee Chairman, independent member of the Supervisory Council;
- Matthias Warnig, member of the Supervisory Council;
- Nikolay Kropachev, member of the Supervisory Council.

Members of the Audit Committee	Number of meetings/ absentee ballots attended in 2014
Yves-Thibault de Silguy	17 out of 17
Matthias Warnig	17 out of 17
Gennadiy Melikyan (left office on 19 June 2014)	7 out of 7
Nikolay Kropachev (elected on 19 June 2014)	10 out of 10

#### *Reference numbers and dates of Minutes of the Audit Committee meetings*

Format of meeting	Minutes
Absentee ballot	Minutes No. 68, 17.01.2014
Absentee ballot	Minutes No. 69, 07.02.2014
Absentee ballot	Minutes No. 70, 25.02.2014
Meeting in person	Minutes No. 71, 04.03.2014
Absentee ballot	Minutes No. 72, 02.04.2014
Absentee ballot	Minutes No. 73, 10.04.2014
Absentee ballot	Minutes No. 74, 29.05.2014
Meeting in person	Minutes No. 75, 19.06.2014
Absentee ballot	Minutes No. 76, 04.08.2014
Absentee ballot	Minutes No. 77, 28.08.2014
Absentee ballot	Minutes No. 78, 05.09.2014
Meeting in person	Minutes No. 79, 06.10.2014
Absentee ballot	Minutes No. 80, 15.10.2014

Absentee ballot	Minutes No. 81, 27.10.2014
Absentee ballot	Minutes No. 82, 19.11.2014
Absentee ballot	Minutes No. 83, 05.12.2014
Absentee ballot	Minutes No. 84, 30.12.2014

In 2014, a total of 17 meetings (three meetings in person and 14 with absentee voting) were held by the Audit Committee. Considerable focus was placed on analysis and improvement of internal control within the Bank and the Group, on control of financial and operational activities and on consolidated risk management. The work of the Committee was based on the action plan approved for its established roles, as well as global best practice.

In 2014, the key areas worked on by the Audit Committee were the following:

- control of the annual open tender for the external auditor: from reviewing the tender documents to approval of the tender results and providing recommendations on the candidates to the Supervisory Council;
- review of the external auditor's work, assessment of the external auditor's report and recommendations provided as part of the audit process and of the review of the Bank and Group interim and annual financial statements (according to RAS and IFRS);
- assessment of the strategic demands for Bank and Group development and risk management in the changeable economic environment;
- review of the results of measures undertaken by VTB to ensure the effectiveness of internal controls for preventing money laundering and terrorist financing;
- regular review of the consolidated financial statements of VTB Bank in compliance with IFRS and quarterly monitoring of the financial results of VTB Group;
- preliminary review of matters related to the Bank Internal Audit Department (analysis of the plan for internal audit activity, appointment of the Head of the Department, approval of regulations on the Department) and organisation of the internal control system, update of the Regulation on the organisation of internal control;
- discussion of the Department of Internal Audit reports on significant violations and shortcomings detected at VTB Bank and its subsidiaries, recommendations by the internal audit and external supervisory bodies to further improve the procedures of the internal and external audit;
- review of other matters related to the Bank activity, in some cases based on particular assignments of the Supervisory Council.

#### *Staff and Remuneration Committee*

The Staff and Remuneration Committee's role is to assist the Supervisory Council in appointing and remunerating members of the Bank's governing bodies and the Statutory Audit Commission.

The Committee comprises members of the Supervisory Council who have relevant expertise and experience in this area.

As of 31 December 2014, the Staff and Remuneration Committee comprised of the following members:

- Mikhail Kopeikin, Committee Chairman, member of the Supervisory Council;
- Simeon Djankov, independent member of the Supervisory Council;
- Nikolay Kropachev, member of the Supervisory Council;
- Elena Popova, independent member of the Supervisory Council.

Members of the Staff and Remuneration Committee	Number of meetings/ absentee ballots attended in 2014
Mikhail Kopeikin (elected on 19 June 2014)	7 out of 7
Nikolay Kropachev	9 out of 9
Elena Popova	9 out of 9
Simeon Djankov (elected on 19 June 2014)	7 out of 7
Gennadiy Melikyan (left office on 19 June 2014)	2 out of 2

*Reference numbers and dates of Minutes of the Staff and Remuneration Committee meetings*

Format of meeting	Minutes
Absentee ballot	Minutes No. 19, 12.02.2014
Absentee ballot	Minutes No. 20, 08.04.2014
Meeting in person	Minutes No. 21, 19.06.2014
Absentee ballot	Minutes No. 22, 17.07.2014
Absentee ballot	Minutes No. 23, 18.07.2014
Meeting in person	Minutes No. 24, 24.09.2014
Absentee ballot	Minutes No. 25, 03.10.2014
Absentee ballot	Minutes No. 26, 09.10.2014
Absentee ballot	Minutes No. 27, 10.11.2014

In 2014, a total of nine meetings (two meetings in person and seven with absentee voting) were held to consider matters concerning the composition of the Supervisory Council and Statutory Audit Commission and remuneration of the members of the Management Board, along with other issues. The Committee's activities were based on its approved work plan in accordance with its main functions.

*Strategy and Corporate Governance Committee*

The Strategy and Corporate Governance Committee assists the Supervisory Council on matters of strategy and corporate governance. The Committee's main tasks are to set the Bank's short-, medium- and long-term strategic objectives and priorities and to monitor progress on achieving them; to support and improve corporate governance; and to assist in the effective strategic management of the Bank's capital.

As of 31 December 2014, the Strategy and Corporate Governance Committee comprised of the following members:

- Sergey Dubinin, Committee Chairman, Chairman of the Supervisory Council;
- Mikhail Kopeikin, member of the Supervisory Council;
- Andrey Kostin, President and Chairman of the Management Board, member of the Supervisory Council;
- Shahmar Movsumov, independent member of the Supervisory Council;
- Alexey Moiseev, member of the Supervisory Council;
- Elena Popova, independent member of the Supervisory Council;
- Vladimir Chistyukhin, member of the Supervisory Council.

Member of the Strategy and Corporate Governance Committee	Number of meetings/ absentee ballots attended in 2014
Sergey Dubinin	14 out of 14
David Bonderman (left office on 19 June 2014)	5 out of 6
Mikhail Kopeikin (elected on 19 June 2014)	8 out of 8
Andrey Kostin	14 out of 14
Shahmar Movsumov	11 out of 14
Alexey Moiseev	13 out of 14
Elena Popova	14 out of 14
Vladimir Chistyukhin (elected on 19 June 2014)	8 out of 8

*Reference numbers and dates of Minutes of the Strategy and Corporate Governance Committee meetings*

Format	Minutes
Absentee ballot	Minutes No. 22, 18.02.2014
Absentee ballot	Minutes No. 23, 28.02.2014
Meeting in person	Minutes No. 24, 28.03.2014
Absentee ballot	Minutes No. 25, 18.04.2014
Absentee ballot	Minutes No. 26, 26.05.2014
Absentee ballot	Minutes No. 27, 17.06.2014
Meeting in person	Minutes No. 28, 19.06.2014
Absentee ballot	Minutes No. 29, 03.07.2014
Absentee ballot	Minutes No. 30, 30.07.2014
Absentee ballot	Minutes No. 31, 19.09.2014
Absentee ballot	Minutes No. 32, 09.10.2014
Absentee ballot	Minutes No. 33, 27.10.2014
Absentee ballot	Minutes No. 34, 10.11.2014

In 2014, the Committee held a total of 14 meetings (three in person and 11 with absentee voting) to consider matters including:

- VTB Group Development Strategy for 2014-2016 and Long-Term Development Programme for 2014-2018;
- results of the corporate governance assessment conducted by Supervisory Council members and the results of independent monitoring of the Bank's corporate governance;
- profit allocation for 2013;
- Standards for the audit of the implementation of the Bank's Long-Term Development Programme for 2014-2018;
- Financial capability recovery plan in the event of a material deterioration in the Bank's financial standing;
- Action plan for providing business continuity and/or operational recovery in case of emergency;
- Bank's risk- and capital management strategy, including maintenance of capital adequacy and liquidity for covering risks with respect to the whole Bank and individual business lines;
- Procedure for management of significant risks;
- Action Plan ("road map") to integrate provisions of the Corporate Governance Code into the activity of VTB Bank;
- matters related to Bank's participation in subsidiary companies and procedural topics.

More information about the Supervisory Council and its committees can be found on the Bank's website at: <http://www.vtb.ru/ir/governance/council/>.

### **Corporate Secretary**

In 2011, VTB introduced the role of Corporate Secretary as part of efforts to improve corporate governance.

The Corporate Secretary oversees compliance of the Bank's management and employees with corporate governance rules and procedures that guarantee shareholders' interests and ability to exercise their legal rights. The Corporate Secretary also provides a liaison between the Bank and its shareholders.

Functionally, the Corporate Secretary is elected by and reports to the Supervisory Council, while administratively the position is subordinate to President and Chairman of the VTB Bank Management Board.

The Strategy and Corporate Governance Committee and Staff and Remuneration Committee review candidates for the position and provide recommendations to the Supervisory Council.

The Corporate Secretary's main responsibilities include:

- supervision of preparations for and holding of General Meetings of Shareholders and compliance with the requirements of Russian legislation, the VTB Charter and other internal regulations;
- administration of the Supervisory Council's operations and supervision of preparations for and holding of Council meetings;
- streamlining interaction between the Supervisory Council and the Bank's executive bodies on corporate governance and administrative issues;
- archiving documents that shareholders are entitled to obtain in accordance with Russian legislation; provision of these documents and disclosure of information to shareholders in accordance with Russian legislation and VTB's Charter;
- control over disclosure and provision of information on the Bank in accordance with Russian securities legislation and VTB's by-laws;
- ensuring timely consideration of letters, demands and other inquiries from shareholders;
- providing advice to shareholders on issues related to their rights;
- timely identification of imminent corporate conflicts, notifying relevant bodies of such conflicts and involvement in resolving them as necessary;
- overseeing accurate and timely payment of dividends to shareholders;
- other matters in accordance with the Regulation on the Corporate Secretary.

The Corporate Secretary keeps the Supervisory Council informed on the work of VTB Bank and provides the Supervisory Council with:

- reviews of financial markets, stock quotes and the Bank's GDR price, and press coverage concerning VTB Bank and Group (weekly);
- information on the Bank's liquidity (quarterly);
- information on the results of Central Bank audits of the Bank, its affiliates and structural units; as well as information on changes in Russian legislation with implications for the Supervisory Council.

To maintain VTB Bank's listing in accordance with the Listing Rules of the Moscow Exchange, the Corporate Secretary:

- monitors the shares' compliance with the Listing Rules and prepares and provides Moscow Exchange with quarterly and periodic statements and documents;
- provides questionnaires to be completed by Independent Directors;
- discloses information and financial statements.

On 28 September 2011, the Supervisory Council elected Evgeniy Ignatyev as Corporate Secretary following recommendations from the Strategy and Corporate Governance Committee and the Staff and Remuneration Committee.

### **Evgeniy Ignatyev**

#### *Biography*

Since 2013	Chief of Staff of JSC VTB Bank Supervisory Council and Corporate Secretary.
September 2011 - May 2013	Corporate Secretary of JSC VTB Bank.
August 2010 - September 2011	Head of the Shareholder Liaison Service, JSC VTB Bank.
February 2008 - August 2010	Senior Manager of the Borrowing and Investor Relations Department, JSC VTB Bank.
May 2004 - February 2008	Chief Consultant, Deputy Director (acting director) of the Corporate Governance Department at JSC VTB Bank North-West (former Industrial Construction Bank).
December 2003 - May 2004	Lawyer, CJSC Investtorg.
October 2002 - November 2003	Assistant Lawyer, CJSC Exchange Complex (St. Petersburg).
2002	Law Degree from St Petersburg State University of Maritime and Inland Shipping, with qualification as a lawyer.
1999	St Petersburg Social Services School (major in Law, with qualification to practice as a lawyer).
1981	Born in Pitkyaranta, Republic of Karelia.

Mr. Ignatyev holds no shares of the JSC VTB Bank's charter capital as of 31 December 2014.

Family ties to other members of governing or supervisory bodies of JSC VTB Bank – none.

Evgeny Ignatyev is one of the founders and since July 2013 a member of the Council of the National Association of Corporate Secretaries.

The Corporate Secretary represents the Bank's interests on the Issuers Committee and working groups of the Moscow Exchange. In 2014, Mr. Ignatyev was one of the winners of the Corporate Governance Director – Corporate Secretary category at the Director of the Year awards held by the Independent Directors Association and the Russian Union of Industrialists and Entrepreneurs.

## 5.5. THE MANAGEMENT BOARD OF VTB BANK

The Management Board is the collective executive body of VTB Bank, and together with the President and Chairman oversees the Bank's day-to-day operations. The Management Board reports to the General Meeting of Shareholders and the Supervisory Council.

The Management Board acts in accordance with Russian legislation, the Bank's Charter and the Regulation of the Management Board as approved by the General Meeting of Shareholders.

The Supervisory Council is responsible for determining the size and composition of the Management Board and for electing its members, and for pre-term termination of their powers if necessary. Members of the Management Board are appointed by the Supervisory Council on the recommendation of the President and Chairman, and may not serve longer than five years.

The Management Board is in charge of the day-to-day operations of VTB that fall within its area of expertise, and is responsible for implementing decisions of the General Meeting of Shareholders and the Supervisory Council. More detailed information on the powers of the Management Board is provided in the Regulation of the Management Board, available on the Bank's website.

### Composition of the Management Board

#### **Andrey Kostin**

*President and Chairman of the Management Board, Member of the Supervisory Council*

Term of office in accordance with employment contract: 10 June 2012 to 9 June 2017.

For a detailed biography, see the Supervisory Council section.

#### **Yuri Soloviev**

*First Deputy President and Chairman of the Management Board*

Term of office in accordance with employment contract: 10 June 2012 to 9 June 2017.

Joined VTB Bank in April 2008. Since May 2011 – First Deputy President and Chairman of the Management Board.

He is also Chairman of the Board of Directors of CJSC VTB Capital, CJSC Holding VTB Capital, VTB Capital IB Holding Ltd., VTB Capital Investment Management Ltd., JSC VTB Leasing and JSC VTB Infrastructure Investment. Member of the Supervisory Council of PJSC VTB Bank (Ukraine). Member of the Board of Directors of VTB Capital Investment Management Holding AG, VTB Capital Private Equity Holding AG, OJSC Bank of Moscow and CJSC VTB Investment.

Previous positions:

2008-2011 – Senior Vice President of CJSC VTB Bank; President of CJSC VTB Capital;

2006-2008 – Head of Investment, First Deputy Chairman of the Management Board, Deutsche Bank Russia;

2002-2006 – Director, Head of Eastern European Operations at Deutsche Bank AG, London;

1996-2002 – Analyst, Executive Director of Emerging Markets Department, Lehman Brothers Bank, London;



1994-1996 – Dealer, Senior Dealer at the Currency trading Department, JSC INCOMBANK.

Born 1970. In 1994, graduated from Plekhanov Russian Academy of Economics. In 2002, graduated from London Business School with an MBA.

Holds shares equivalent to 0.00420% of the Bank's charter capital as of 31 December 2014.

Holds 0.01113% of ordinary shares of the Bank as of 31 December 2014.

*Information regarding changes in holdings of ordinary shares of the Bank during the reporting period*

Stake of ordinary shares of the Bank owned prior to change: 0.00341%

Stake of ordinary shares of the Bank owned after change: 0.01113%

Date of change in the stake of ordinary shares of the Bank: 22 May 2014.

### ***Vasily Titov***

*First Deputy President and Chairman of the Management Board*

Term of office in accordance with employment contract: 10 June 2012 to 9 June 2017.

Joined VTB Bank in 2002. Since August 2009 – First Deputy President and Chairman of the Management Board. Before August 2009 – Deputy President and Chairman of the Management Board, member of the Management Board, Senior Vice President and Vice President.

He is also Chairman of the Supervisory Council of VTB Bank (Austria) AG, JSC VTB Bank (Georgia) and OJSC VTB Bank (Azerbaijan). Chairman of the Board of Directors CJSC VTB Bank (Belarus), CJSC Dynamo Moscow Football Club, JSC VTB Bank Belgrade. Deputy Chairman of the Supervisory Council of PJSC VTB Bank (Ukraine). Member of the Supervisory Council of OJSC EvroFinance Mosnarbank, VTB24 (CJSC). Member of the Board of Directors OJSC Bank of Moscow, OJSC ROSKINO, CJSC National Satellite Company and LLC Liga TV.

Previous positions:

1998-2002 – Deputy Head of the Administrative Department, External and Public Relations Director, Head of Information and External Relations at Vnesheconombank of the USSR. Member of the Board of Directors at Vnesheconombank;

1996-1998 – Deputy Managing Director of the All-Russian Automobile Alliance;

1996 – Assistant to the First Deputy Chairman of the Government of the Russian Federation.

Born in 1960. In 1983, graduated from A.A. Zhdanov Leningrad State University, and in 2002 from the Financial Academy under the Government of the Russian Federation.

Holds shares equivalent to 0.00042% of the Bank's charter capital as of 31 December 2014.

Holds 0.00112% of ordinary shares of the Bank as of 31 December 2014.

### ***Herbert Moos***

*Deputy President and Chairman of the Management Board*

Term of office in accordance with employment contract: 10 June 2012 to 9 June 2017.

Joined VTB Bank in 2009. Since November 2009 – Deputy President and Chairman of the Management Board. Before November 2009 – Senior Vice President.

He is also Chairman of the Board of Directors of VTB Capital Plc. Member of the Board of Directors of JSC VTB Leasing, VTB Factoring Ltd., VTB Capital IB Holding Ltd., CJSC Holding VTB Capital, CJSC VTB Capital, OJSC Hals-Development, OJSC Bank of Moscow and VTB Debt Centre Ltd. Member of the Supervisory Council of VTB24 (CJSC), PJSC Leto Bank and PJSC VTB Bank (Ukraine).

Previous positions:

2008-2009 – CEO VTB Capital, Plc, London;

2007-2008 – CFO Lehman Brothers Asia-Pacific, Hong Kong;

2002-2007 – Head of Asset and Liability Management, Treasurer, Lehman Brothers Asia-Pacific, Tokyo;

1995-2002 – Debt Management, Capital and Transaction Planning, Asset and Liability Management, Lehman Brothers, London.

Born 1972. In 2002, graduated from London Business School with a Masters in Finance.

Holds shares equivalent to 0.00274% of the Bank's charter capital as of 31 December 2014.

Holds 0.00727% of ordinary shares of the Bank as of 31 December 2014.

*Information regarding changes in holdings of ordinary shares of the Bank during the reporting period*

Stake of ordinary shares of the Bank owned prior to change: 0.00341%

Stake of ordinary shares of the Bank owned after change: 0.00727%

Date of change in the stake of ordinary shares of the Bank: 22 May 2014.

### ***Mikhail Oseevskiy***

*Deputy President and Chairman of the Management Board*

Term of office in accordance with employment contract: 16 August 2012 to 9 June 2017.

Joined VTB Bank in 2012. Before August 2012 – Advisor to President and Chairman of the Management Board.

He is also a member of the VTB24 (CJSC) Supervisory Council.

Previous positions:

2011-2012 – Deputy Minister of Economic Development and Trade of the Russian Federation;

2010-2012 – Vice Governor of St Petersburg and Head of the St Petersburg City Administration;

2006-2010 – Vice Governor of St Petersburg;

2001-2003 – First Deputy Chairman of the Management Board of JSC Industrial and Construction Bank;

1999-2001 – Deputy Chairman of the Management Board of JSC Industrial and Construction Bank;

1993-1999 – Deputy Managing Director, and later Managing Director, of the St Petersburg Currency Exchange (SPCEX)

Awards: Order “For Merit to the Fatherland”, II Class; Order of Friendship.

Born 1960. In 1983, graduated from the M.I. Kalinin Polytechnic Institute, Leningrad. PhD in Economics.

Holds no shares of the Bank’s charter capital as of 31 December 2014.

### **Andrey Puchkov**

#### *Deputy President and Chairman of the Management Board*

Term of office in accordance with employment contract: 10 June 2012 to 9 June 2017.

Joined VTB Bank in 2002. Since December 2008 – Deputy President and Chairman of the Management Board. Before December 2008, held the following positions in the Bank legal department: Deputy Head of Department, Head of Department, Vice President, Senior Vice President (Head of Department), Senior Vice President (Head of Department) and member of the Management Board.

He is also a member of the Supervisory Council of PJSC VTB Bank (Ukraine), VTB24 (CJSC). Chairman of the Supervisory Council CJSC VTB-Development. Member of Board of Directors of OJSC Bank of Moscow. Chairman of the Board of Directors of VTB Debt Centre Ltd. and OJSC Hals-Development.

Previous positions:

1999-2002 – Member of the Moscow city bar association;

1996-1997 – Legal consultant in the Central Economic Department of the Bank of Russia.

Born in 1977. In 1998, graduated from the Law Department of Lomonosov Moscow State University.

Holds shares equivalent to 0.00011% of the Bank’s charter capital as of 31 December 2014.

Holds 0.0003% of ordinary shares of the Bank as of 31 December 2014.

### **Denis Bortnikov**

#### *Member of the Management Board*

Term of office in accordance with employment contract: 10 June 2012 to 9 June 2017.

Joined VTB Bank in January 2006. Since November 2011 – Member of the Management Board. Before November 2011, held the following positions: Head of North-Western Regional Centre, Senior Vice President.

He is also a member of the board of the Leningrad Regional Chamber of Commerce and Industry.

Previous positions:

2007-2011 – Deputy Chairman of the Management Board, Head of Department, First Deputy Chairman of the Management Board, Chairman of the Management Board of JSC VTB Bank North-West.

2006-2007 – Deputy Head of JSC Vneshtorgbank Branch, St Petersburg.

2004-2006 – Advisor to the General Manager and Deputy General Manager of GUTA-BANK, North-West Branch.

1996-2004 – Consultant with the Liquidity Management Department, Consultant with the Transfer Operations Department, Consultant with the Department of Financial Instruments, Senior Consultant with the Brokerage Department, Chief Acquiring and Authorisation expert, Head of the Acquiring and Authorisation Department at JSC Industry and Construction Bank.

Born in 1974. In 1996, graduated from St Petersburg State University of Economics and Finance, majoring in National Economy.

Holds no shares of the Bank's charter capital as of 31 December 2014.

### **Victoria Vanurina**

#### *Member of the Management Board*

Term of office in accordance with employment contract: 10 June 2012 to 9 June 2017.

Joined VTB Bank in October 2009. Since August 2011 – Member of the Management Board.

She is also a member of the Board of Directors of CJSC Holding VTB Capital, CJSC VTB Specialised Depository.

Previous positions:

2009-2011 – Senior Vice President of JSC VTB Bank, Chief Operating Officer, member of the Management Board, CJSC VTB Capital;

2008-2009 – Managing Director, Head of Business Support Division, CJSC VTB Capital;

1998-2008 – Head of the Fixed Income Securities Transactions Unit, Head of the Forex Transactions and Fixed Income Transactions Unit, Head of the Operational Division at Deutsche Bank Ltd.;

1994-1998 – Economist, Head of Back Office, Head of Interbank Transactions Unit of Forex Transactions Division, JSCB Avtobank;

1992-1994 – ForEx Transactions Economist at Rosvooruzhenie.

Born 1972. In 1995, graduated from Moscow State Institute of International Relations.

Holds shares equivalent to 0.00039% of the Bank's charter capital as of 31 December 2014.

Holds 0.00103% of ordinary shares of the Bank as of 31 December 2014.

*Information regarding changes in holdings of ordinary shares of the Bank during the reporting period*

Stake of ordinary shares of the Bank owned prior to change: 0.00050%

Stake of ordinary shares of the Bank owned after change: 0.00103%

Date of change in the stake of ordinary shares of the Bank: 13 March 2014.

### **Chaba Zentai**

#### *Member of the Management Board*

Term of office in accordance with employment contract: 24 October 2012 to 9 June 2017.

Joined VTB Bank in 2011. Since October 2012 – member of the Management Board.

Previous positions:

2011-2012 – Head of the Regional Network Department, Senior Vice President of JSC VTB Bank;  
2010-2011 – Head of the medium-sized and regional corporate business segment, OJSC Alfa Bank;  
2008-2010 – Head of the small and medium-sized business segment, OJSC Alfa Bank;  
2007-2008 – Director of the small and medium-sized corporate business division of “Corporate Bank”, the small and medium-sized business development segment, OJSC Alfa Bank;  
2000-2007 – Director, then member of the Management Committee of the Corporate Bank, Head of Commercial Banking and a top manager of Citibank, Hungary;  
1998-2000 – Chairman of the Board of ABN AMRO Equipment Leasing and member of the Board of Directors of ABN AMRO Pension Fund, Hungary;  
1995-1998 – Client manager at GE Capital, Hungary, Deputy Chairman of the Hungarian Leasing Association.

Born in 1970. In 1997, graduated from GE Capital University (USA). In 2000, graduated from Buckinghamshire Chilterns University College (Great Britain) with a degree in Research Management, and in 2005 with an MBA degree.

Holds no shares of the Bank’s charter capital as of 31 December 2014.

### **Valery Lukyanenko**

#### *Member of the Management Board*

Term of office in accordance with employment contract: 10 June 2012 to 9 June 2017.

Joined VTB Bank in 2002. Since December 2008 – Member of the Management Board. Before 2008 – Head of the First Corporate Business Division and Senior Vice President; Senior Vice President and Head of Mid-Size Business in the First Corporate Business Division; Senior Vice President of the First Corporate Business Division; Vice President and Head of Large Corporate Business in the Fourth Corporate Business Division; Vice President; Counselor to President and Chairman of the Management Board of VTB.

Previous positions:

2001-2002 – Chairman of the Council of Experts in Project Financing and Forecasting at JSCB Lanta-Bank;

1994-2002 – Deputy Head of the State Programmes Division, Head of Foreign Economic Relations Division at the Office of the President of the Russian Federation;

1993-1994 – Director, Chairman of GagarinStroi Industrial and Investment Centre.

Born in 1955. Graduated from Novosibirsk Agricultural Institute. PhD in Economics, Professor of Economics and Finance Department of the Russian Presidential Academy of National Economy and Public Administration, Member of the PhD Council.

Holds shares equivalent to 0.00018% of the Bank’s charter capital as of 31 December 2014.

Holds 0.00046% of ordinary shares of the Bank as of 31 December 2014.

## **Erkin Norov**

### *Member of the Management Board*

Term of office in accordance with employment contract: 10 June 2012 to 9 June 2017.

Joined VTB Bank in 2002. Member of Management Board from 2002 to 2007 and from September 2009 to date. He is also a member of the Board of Directors of OJSC Bank of Moscow.

Previous positions:

2007-2009 – Senior Vice President, Management Board member of JSC NOMOS-BANK;

2002-2007 – Vice President, Senior Vice President, member of Management Board of the Bank for Foreign Trade of the Russian Federation (JSC Vneshtorgbank);

1999-2002 – Development Director, Development and Strategic Planning Director, USSR Bank for Foreign Economic Activities;

1999 – Department Head, Calculation of Taxable Base and Tax Revenue Planning Department, Russian Ministry of Taxes and Duties;

1992-1999 – Deputy Chairman of the Management Board for Development of JSC AvtoVAZ servicing – Lada Service; Marketing and Trade Director, General Director of Economy and Finance Department at AvtoVaz Corporation.

Born in 1954. In 1976, graduated from Lomonosov Moscow State University and in 2001 from the Academy of National Economy under the Government of the Russian Federation. PhD in Economics.

Holds no shares of the Bank's charter capital as of 31 December 2014.

### **President and Chairman of the Management Board**

The President and Chairman of the Management Board oversees VTB's day-to-day operations and ensures that its targets are met and its strategy is put into effect. The President and Chairman reports to the General Meeting of Shareholders and the Supervisory Council. Andrey Kostin has been President and Chairman of the Management Board of VTB Bank since June 2002.

## 5.6. REMUNERATION OF SUPERVISORY COUNCIL AND MANAGEMENT BOARD MEMBERS

In accordance with a resolution of the General Meeting of Shareholders, the members of the VTB Bank Supervisory Council may, during their term in office, receive remuneration and compensation for expenses incurred in the course of their duties.

The Regulation on Remuneration and Compensation for Expenses Incurred by Members of the Supervisory Council has been in force since 2010. According to the Regulation, the total remuneration of a Supervisory Council member in any given reporting period is based on their participation in Council activities, both as a member of the Council and as a member and/or Chairman of a committee.

Remuneration consists of two parts: a base salary for performing the duties of a Council member and a bonus for performing additional duties. The premium for chairmanship of the Council can be up to 30% of the base, up to 20% of the base for chairmanship of a committee, and up to 10% of the base for membership of a Supervisory Council committee.

In accordance with current Russian legislation, members of the Supervisory Council who are civil servants do not receive any remuneration.

On 19 June 2014, the Annual General Meeting of Shareholders approved the following:

a) To pay remuneration as follows to the Supervisory Council members who are not state employees:

- for their work in the Supervisory Council – RUB 4,600,000 each;
- for chairmanship of the Supervisory Council – RUB 1,380,000;
- for chairmanship of a Supervisory Council committee – RUB 920,000 each;
- for membership of a Supervisory Council committee – RUB 460,000 each.

b) To provide compensation to Supervisory Council members who are not state employees for expenses they incur whilst carrying out their duties, namely: accommodation, travel expenses (including VIP lounge services), other duties and fees for travelling via air and/or rail.

In 2014, remuneration paid to members of the Supervisory Council who are not state employees totaled RUB 45,540 thousand (RUB 51,060 thousand in 2013). Members of the Supervisory Council who are not state employees were also reimbursed for expenses incurred in the course of their duties. These expenses totaled RUB 1,490 thousand. Other members of the Supervisory Council did not receive any remuneration in 2014.

The Supervisory Council is responsible for determining the amount of the remuneration and compensation paid to members of the Management Board. Salaries, including compensation and incentive payments, are fixed in the contracts of employment.

In 2014, members of the Management Board received remuneration (salaries and bonus) of RUB 1,597,668 thousand (RUB 1,325,135 thousand in 2013).

## 5.7. INTERNAL CONTROL AND AUDIT

VTB's internal control and audit functions operate in compliance with international best practice, Russian legislation and applicable legislation in the countries where the Group operates. The system is guaranteed the necessary independence by the way its parts function together and its reporting structure, which enables the entire system to function effectively.

VTB's internal control system ensures:

- efficient delivery of results by VTB Bank and Group;
- effective management of assets and liabilities (including asset integrity) and risks;
- reliable, complete and timely financial and management information and reporting;
- security of information;
- compliance with legislation, regulating acts, rules and standards;
- non-involvement of the Bank and its employees in unlawful activity.

The Coordination Commission for Internal Control and Audit was established by the Management Committee to provide an effective internal control and audit function and to facilitate practical interaction between relevant experts.

The main objectives of VTB's internal control and audit functions include:

- independently assessing the effectiveness of the internal control and risk-management systems, accounting reports, business processes and the activities of departments and individual employees, as well as assessing the economic expediency and effectiveness of operations and transactions;
- verifying the reliability of internal control over automated information systems as well as verifying methods used to secure property;
- monitoring of key risk areas and risk-control mechanisms, with a view to identifying shortcomings in the internal control system and emerging risks, and to create mechanisms to prevent these risks;
- developing recommendations to improve the efficiency of systems, processes, procedures, transactions and departmental and employee activities;
- organising efficient communications with external regulatory bodies and auditors.

### *Internal control and audit*

In accordance with VTB Group's Charter, the internal control system comprises:

- governance bodies (General Meeting of Shareholders, Supervisory Council, Management Board, and the President and Chairman of the Management Board as the sole executive body);
- Statutory Audit Commission;
- Chief accountant (and his/her deputies);
- branch managers (and their deputies) and Branch Chief Accountants (and their deputies);
- structural units (responsible managers) in charge of internal control.



### *Audit Committee*

Responsibility for the smooth running of the internal control system lies with the Supervisory Council. The Audit Committee, which sits within the Supervisory Council structure, ensures full analysis and maintenance of an effective internal control system.

More detailed information on the composition and activity of the Audit Committee can be found in the Supervisory Council section.

### *Statutory Audit Commission*

The main objective of the Statutory Audit Commission is to ensure that the Bank is compliant with applicable legislation and other statutory instruments, that its internal controls function properly, and that the transactions it carries out are legal. The Statutory Audit Commission is elected at the AGM, which determines its size and composition for the period until the next AGM.

At the AGM on 19 June 2014, a minority shareholder representative was elected to the Statutory Audit Commission for the first time. Shareholders elected the Statutory Audit Commission as follows:

Sergei Platonov (Chairman) – Deputy Director of the Financial Policy Department, Ministry of Finance of the Russian Federation;

Leonid Volkov – Plenipotentiary Representative of the Chuvash Republic to the President of the Russian Federation, member of VTB Shareholders Consultative Council (minority shareholder representative);

Yevgeny Gontmakher – Deputy Director at the Institute of World Economics and International Relations (affiliated to the Russian Academy of Sciences), Deputy Director of the Kudrin Fund of Civil Initiatives, member of the Management Board, Institute of Contemporary Development;

Denis Kant Mandal – Head of the Department for Privatisation of Enterprises in Regulated Industries and Major Companies, Federal Agency for State Property Management;

Mikhail Krasnov – Director, Vercell SA (Switzerland), member of the Board of Directors, PJSC Russian Aircraft Corporation MiG;

Zakhar Sabantsev – Head of the Banking Sector Monitoring, Consolidation and Analytics Unit of the Financial Policy Department of the Ministry of Finance of the Russian Federation;

The following members left the Commission when the new composition was elected in June 2014:

Marina Kostina – Deputy Head of the Trade Organisations Unit and of Foreign Property of the Federal Agency for State Property Management;

Aleksey Mironov – Member of the Board of Directors of OJSC Roskhimzashchita Corporation, General Director of “БЛБ” Ltd.;

Nikita Tihonov – Head of Division of the Financial Policy Department of the Ministry of Finance of the Russian Federation;

Maria Turuhina – Head of Financial and Credit Institutions, Oil, Gas, Fuel and Energy, Coal Industry and Natural Resources of the Department for Industry Organisations and Foreign Property of the Federal Agency for State Property Management;

Olga Filippova – Member of the Statutory Audit Commission.

In 2014, the Bank did not remunerate members of the Statutory Audit Committee.

More details on the Bank Statutory Audit Commission can be found on the Bank's website:  
[http://www.vtb.ru/ir/governance/control/revisson\\_commition/](http://www.vtb.ru/ir/governance/control/revisson_commition/).

#### *Internal Audit Department*

The Internal Audit Department (IAD) provides direct support to the Bank's governing bodies to ensure VTB Group works effectively. The IAD monitors internal control systems, conducts audits and provides impartial recommendations for improving banking operations and control procedures.

The IAD is an independent structural department of VTB Bank and operates under the direct supervision of the Supervisory Council. The Supervisory Council approves the IAD's plans and monitors their implementation, reviews reports on the results of IAD audits and the IAD's monitoring of the internal control system, as well as on the implementation of the IAD's recommendations to address previously identified issues.

The Department's organisational structure comprises a number of units responsible for day-to-day monitoring, coordination of internal control systems across VTB Group, and auditing. To increase the effectiveness of monitoring of internal control systems at regional branches, the IAD structure includes dedicated internal control teams at branch level.

The Internal Audit Department is responsible for:

- verifying and assessing the effectiveness of the internal control system;
- verifying the effectiveness of the Bank's risk-management system;
- verifying the reliability, completeness, objectivity and timeliness of preparation of accounting and management reports;
- verifying compliance with Russian legislation and the requirements of regulatory and supervisory authorities;
- verifying the adequacy and reliability of internal control over the use of automated information systems;
- establishing uniform approaches to the organization of VTB's internal control systems.

The IAD liaises with the Audit Committee and independent auditors, providing information on the internal control system and reporting any shortcomings during the audit period.

#### *Compliance control*

The main objectives of the compliance control function are:

- compliance of VTB Group companies with the legislation of the country of registration, internal regulations, standards of self-regulatory organisations and common business practice;
- effective management of regulatory (compliance) risks;
- creation and maintenance of an effective system of governance information and reporting;

- ensuring that VTB Group and its employees are not involved in unlawful activity, including corruption, improper use of insider information and market manipulation;
- maintenance of VTB Group's strong reputation and raising its investment appeal on the financial market.

VTB Bank Compliance Control Department coordinates compliance across the companies of VTB Group.

The Coordination Commission for Compliance and Internal Control was created by and operates under the Management Committee to combat money laundering and terrorist financing, and considers issues falling within the remit of the Group's compliance.

In 2014, the Coordination Commission held two meetings in-person and five with absentee voting on compliance and internal control to combat money laundering and terrorist financing, as well as two secondments and three round-table meetings involving representatives of Group companies.

The main requirements of the compliance system and its standards and principles of operation, as well as its distribution of powers and areas of responsibilities, are set out in the Group's internal documents. In 2014, the following compliance documents were updated across the Group to reflect new Central Bank requirements for internal (compliance) control:

- The concept of a consolidated compliance management function;
- Policy on liaising with Group companies on compliance matters;

#### *Independent Auditor*

VTB appoints a professional auditing firm – an independent auditor – to carry out an audit and confirm the accuracy of the Bank's annual financial statements.

In accordance with applicable legislation, the auditor is chosen by an open tender. The tender procedure is subject to Federal Law No. 44-FZ dated 05.04.2013.

Tender documents are prepared as part of tender process. The Supervisory Council's Audit Committee considers the tender documents and the initial price of an audit service contract. The Tender Committee carries out an open tender process to select an auditor.

During the course of the tender process, members of the committee review proposals received. The applications are then assessed based on the criteria set out in the tender documentation, and the committee selects the supplier with the best financial and technical terms. The auditing firm selected through the tender process is recommended to Supervisory Committee and is presented to the AGM for approval.

Based on its inspection of VTB's financial and commercial operations, the independent auditor prepares a report, which is submitted to the Audit Committee for preliminary review. The final audit report is submitted to the Supervisory Council and is also presented at the AGM.

In 2014, CJSC Ernst & Young Vneshaudit, a Russian subsidiary of one of the world's leading auditing firms, EY, was appointed external auditor.

CJSC Ernst & Young Vneshaudit has been the independent auditor of VTB Bank since 2003. Besides the payment it receives for auditing services, the company has no other proprietary interests in VTB

Bank, and has no relationship of affiliation with the Bank, or with members of its governing bodies or subsidiaries.

#### *Prevention of money laundering*

VTB Group attaches great importance to implementing measures aimed at combatting money laundering and terrorist financing.

VTB Bank has developed Group-wide standards of financial monitoring and ensures compliance by subsidiaries. Ongoing communication and information exchange between specialist divisions of Group companies means money-laundering and terrorist-financing risks can be managed on a systematic basis.

As part of its efforts to maintain a high-quality client base, VTB Bank and its subsidiaries carry out all necessary client identification and investigation procedures, and also work systematically with correspondent banks.

Drafts of internal regulatory documents setting out procedures for providing banking products and services are submitted for obligatory assessment to identify any possible abuse for money laundering purposes. If necessary, measures to minimise those potential risks are taken.

In 2014, VTB Group efficiently managed risks of involvement in money laundering and terrorist financing.

## 5.8. INVESTOR RELATIONS

Maintaining relationships with shareholders, investors and all interested parties within the investment community remains one of VTB Group's key priorities.

VTB senior management and authorised units engage with investors on an ongoing basis. The Investor Relations Department is responsible for communications with institutional investors, while the Shareholder Relations Service, responsible for communications with individual shareholders.

In 2014, investor interest in the Russian stock market was significantly influenced by external factors – the economic slowdown and expectations for a Russian economic downturn, the challenging geopolitical environment, and also the introduction of EU and US sectoral sanctions against Russian banks.

In this environment, VTB's main focus was to provide the maximum amount of information to shareholders and investors regarding the Group's performance, as well as about factors impacting the Group's business. One of the priorities of the Group was to further diversify its shareholder base and increase communication with Asian and Russian investors.

The Group also stepped up its communication with debt investors and analysts, who accounted for a greater share of meetings in overall engagement with investors.

In 2014, communication with shareholders and investors focused on the following key areas:

- VTB Group strategy for 2014-2016;
- The AGM and the Extraordinary General Meeting of Shareholders;
- Placement of preference shares of VTB Bank;
- VTB Group management meetings with leading investment funds as part of VTB Capital's Russia Calling! investment forum;
- Continuation of the active work of the newly composed Shareholders Consultative Council.

### *Placement of VTB Bank preference shares*

A stable capital base and strong capital adequacy indicators are important conditions for VTB to continue growing strongly and further expand its financing of the Russian economy. In this regard, the agenda of the Extraordinary General Meeting of Shareholders held on 29 August 2014 included a proposed increase of the Bank's share capital through an issuance of preference shares in favour of the Russian Federation.

99.98% of all shareholders who attended the meeting voted to increase the Bank's share capital. As a result, on 29 September 2014, 21,403,797,025,000 registered preference non-convertible shares of the Bank were placed at the price of RUB 0.01 per share, for a total of RUB 214 bn. The shares were placed by closed subscription and were not placed among shareholders of the Bank. The Russian Federation, represented by the Ministry of Finance, was the sole purchaser of the Bank's preference shares.

The preference shares were issued in accordance with Federal Law No. 275-FZ, which allows for subordinated loans received by banks as part of measures to support Russia's financial system in

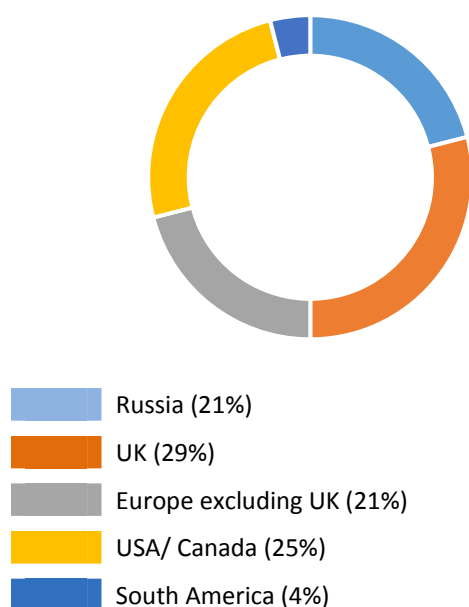
2008 to be converted into Tier I capital. All issued shares were included in VTB Bank's Common Equity Tier 1 capital, calculated in accordance with Basel III standards.

#### *Meetings with shareholders and investors*

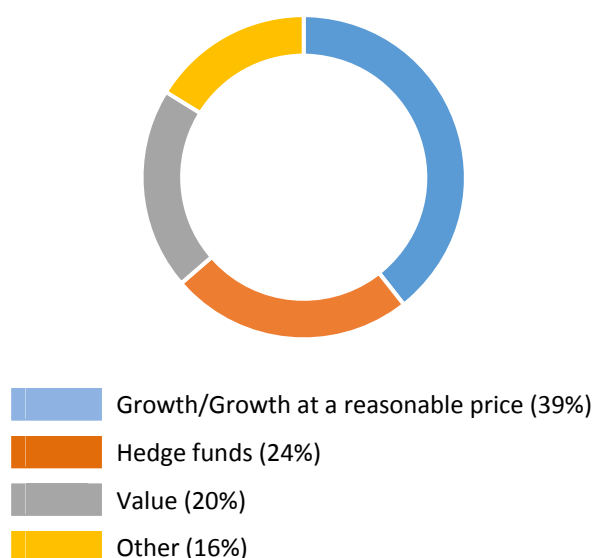
VTB continues to hold regular meetings with investors and shareholders in Russia and abroad. In 2014, the VTB management team, Investor Relations Department and Shareholder Relations Service actively participated in investor conferences, roadshows and meetings with minority shareholders in Moscow and across Russia. In the current challenging environment, active communication from the Bank's management has not reduced, but on the contrary has increased.

In 2014, VTB held 316 meetings with investment funds, including five roadshows in Europe, the US and Asia, and participated in 13 conferences with international and Russian investors. Given subdued levels of interest in the Russian stock market from a number of foreign investors, VTB Bank has started to pay increased attention to communication with current and potential Russian investors. At the end of the year, meetings with Russian investors accounted for 21% of all meetings, compared to 14% in 2013. Meetings with European investors accounted for 50% of all meetings, compared to 54% in 2013.

*Geographical breakdown of investors who participated in meetings in 2014*



*Investor meetings in 2014 by type of funds*



VTB continues to engage actively with individual shareholders and potential investors. As part of the comprehensive programme for engagement with shareholders and the investment community approved in 2014, VTB Bank has started to hold meetings with shareholders in new formats, such as Investor Days, where shareholders have the opportunity to discuss the Group's results and take part in practical workshops on investing.

In 2014, VTB Bank held nine Investor Days and 12 meetings across Russia with analysts, portfolio managers and investment consultants (representatives of companies providing brokerage services to individuals).

Another new format for engaging with individual shareholders is meetings with major shareholders in the regions of Russia. At these meetings, senior experts and branch heads from the Bank brief shareholders on the Group's activity, and representatives of VTB24 discuss the latest approaches to investment portfolio management.

At the Bank's branches and operational offices, VTB Bank regularly hosts individual consultations for shareholders known as Open Days. In 2014, 26 Open Day events were held, with more than 500 minority shareholders from eight regions taking part.

VTB continues its activities to improve the financial knowledge of individual shareholders and potential investors. VTB supports an educational programme run by Russia's leading financial and economic universities that encompasses a two-year cycle of workshops aimed at improving financial knowledge and developing personal finance management skills. In 2014, more than 600 undergraduate, postgraduate and MBA students attended the workshops.

### *Russia Calling!*

In October 2014, VTB Capital's sixth annual Russia Calling! investment forum took place in Moscow. Over 2,000 guests attended, including more than 400 international and Russian investors, as well as representatives from government, key regional authorities and heads of major Russian companies. President Vladimir Putin delivered the keynote speech at a plenary session titled "Russia's Development Agenda – Exploring New Opportunities".

At the Forum, VTB's management team held a number of meetings with leading foreign and Russian investment funds. This open dialogue confirmed a high level of interest among investors in the Russian economy and in VTB Group.

### *Impact of US and EU sanctions*

In July 2014, VTB Bank and OJSC Bank of Moscow were included in the list of sectoral sanctions by the US, and VTB Group (VTB Bank and its subsidiaries outside the European Union) in the list of sectoral sanctions applied by the EU.

Under the sanctions, US and EU nationals and companies may no longer provide access to debt or equity capital with a maturity exceeding 30 days, or carry out transactions with VTB equity and bonds issued after 1 August 2014.

In 2014, VTB Bank's engagement with the investment community and counterparties in international capital markets focused on minimising the negative impact of the sanctions on VTB's shareholder structure and the Group's relationship with investors.

### *Shareholders Consultative Council*

The Shareholders Consultative Council (SCC), an independent advisory body representing the interests of VTB's minority shareholders and relaying their views to the top management, continued its active work in 2014 in accordance with its approved Action Plan. The SCC held four meetings to discuss, among other issues:

- VTB Group's strategy for 2014-2016;
- JSC VTB Bank preference shares issuance;

- Retail business of VTB Group and VTB24;
- brokerage and depositary services at VTB24;
- development and implementation of the Corporate Governance Code;
- financial results of VTB Group;
- audit of VTB Group's presence online.

Throughout the year, SCC members participated in 18 events held by the Bank for minority shareholders in various regions of Russia.

On 19 June 2014, the majority of SCC members took part in the AGM to report on the results of their work and answer questions from shareholders. SCC Chairman Valery Petrov presented a full report on the Council's activity and expressed gratitude to VTB for its openness and readiness to discuss any questions concerning shareholders' interests.

Following a decision of the AGM, representatives of the SCC became members of the Supervisory Council and the Statutory Audit Commission. This established an unprecedented level of minority shareholder participation in governance among listed Russian state-controlled companies.

#### *Printed publications for individual shareholders*

VTB Bank publishes a quarterly newspaper for shareholders called "Controlling Interest". The newspaper is distributed to shareholders at General Meetings of Shareholders, meetings with shareholders, at VTB branches and VTB24 offices. The newspaper's circulation is 17,000 copies. In 2014, an interactive online version of the newspaper was introduced, and can be viewed on the VTB Bank's website.

#### *Electronic channels of communication with shareholders and investors*

VTB Bank continues to develop electronic channels of communication with shareholders and investors, and attaches great importance to the further development of the Group's online resources, increasing the Group's presence in social networks and handling requests received via email and call centres.

In 2014, based on specialist research and consultation with shareholders, VTB Bank improved the structure and content of the Investor Relations page of its website, which was visited by some 82,800 users in 2014.

VTB issued ten electronic newsletters for shareholders during the year. The number of subscribers in 2014 grew by more than a third, reaching more than 40,000. Active use of Facebook and Twitter became a priority means of communication with shareholders, with engagement led through the Shareholders Consultative Council accounts.

VTB shareholders are using electronic channels of communication more frequently for information requests and feedback. On average, VTB Bank receives approximately 900 requests from shareholders and investors per month through various means of communication.

More information about VTB's engagement with the investment community can be found in the Investor Relations section on the website: [www.vtb.ru](http://www.vtb.ru).



## 5.9. VTB GROUP GOVERNANCE

VTB Group is structured as a strategic holding. This model entails a common single development strategy for all companies within the Group, a single brand, centralised management of financial performance and risk and unified control systems.

Under its current management model, the Group is governed along two key lines:

- Administrative management – realising the rights of the parent bank as the main shareholder by allowing its representatives to participate in the management bodies of subsidiary companies.
- Functional management – managing the Group's business, support and control lines within VTB Group as a whole. Functional coordination is a supplementary governance mechanism that provides early-stage expert review of management decisions.

VTB places great importance on continually improving the Group governance system. The Corporate Centre sets the overall strategic direction for the Group and circulates best practices within the Group.

To meet key strategic objectives, the following business lines were formed in the Group:

- Corporate-Investment Banking is responsible for business development and working with major corporate clients in all countries where VTB Group is present;
- Mid-Corporate Business is responsible for working with medium-size businesses in all countries where VTB Group is present;
- Retail Business is responsible for business development and working with individuals and SMEs in all countries where VTB Group is present.

The main goals and objectives of the business lines are set out in the VTB Group Development Strategy for 2014-2016 approved by the Supervisory Council in April 2014.

At the Group level, the VTB Group Management Committee (GMC) analyses the development strategies of individual business areas, business plans for the Group and its companies, examines reports on their implementation, assesses liquidity and risks, oversees the implementation of priority projects, and approves standards, approaches and principles for the Group's operations.

As of 31 December 2014, the Group Management Committee consisted of the following members:

- Andrey Kostin – Chairman of the GMC, President and Chairman of the JSC VTB Bank Management Board, member of the JSC VTB Bank Supervisory Council;
- Yuri Soloviev – First Deputy Chairman of the JSC VTB Bank Management Board;
- Vasily Titov – First Deputy Chairman of the JSC VTB Bank Management Board;
- Herbert Moos – Deputy President and Chairman of the JSC VTB Bank Management Board;
- Mikhail Oseevskiy – Deputy President and Chairman of the JSC VTB Bank Management Board;
- Andrei Puchkov – Deputy President and Chairman of the JSC VTB Bank Management Board;
- Denis Bortnikov – Member of the JSC VTB Bank Management Board;
- Victoria Vanurina – Member of the JSC VTB Bank Management Board;

- Valery Lukyanenko – Member of the JSC VTB Bank Management Board;
- Chaba Zentai – Member of the JSC VTB Bank Management Board;
- Erkin Norov – Member of the JSC VTB Bank Management Board;
- Maksim Kondratenko – Head of the Risk Department, Senior Vice President of JSC VTB Bank;
- Riccardo Orcel – Head of the Client Coverage Department, Senior Vice President of JSC VTB Bank;
- Mikhail Zadornov – President and Chairman of the PJSC VTB24 Management Board;
- Mikhail Kuzovlev – President and Chairman of the OJSC Bank of Moscow Management Board;
- Alexei Krokhin – President and Chairman of the Management Board of VTB Bank (Austria) AG;
- Ekaterina Petelina – Deputy President and Chairman of the PJSC VTB24 Management Board;
- Alexander Yastrib – First Deputy President and Chairman of the OJSC Bank of Moscow Management Board;
- Konstantin Vaisman – Chairman of the Management Board of PJSC VTB Bank (Ukraine);
- Dmitry Rudenko – President and Chairman of the PJSC Leto Bank Management Board;
- Alexei Yakovitskiy – CEO of CJSC Holding VTB Capital.

To discuss VTB Group's performance at an expert level, the Management Committee set up Coordination Commissions along the Bank's main business lines: corporate-investment banking business, medium-size business (Commission created in 2014), retail business, business with financial institutions, internal control and audit, compliance and internal control for the prevention of money laundering and terrorist financing, branding and marketing communications, personnel management, property management, IT, security and corporate governance. The Commissions' responsibilities include identifying best practices and developing proposals on their implementation, which are then considered by the GMC.

The management system established by the Group enables the Bank to develop a major global mechanism for corporate banking, closely coordinate the work of every business line in all the Bank's regions of operation, to increase profitability through synergies between business lines and best practices, and optimise costs by sharing infrastructure and resources more extensively among Group companies. Furthermore, the new system is a platform to effectively integrate assets acquired by VTB Group.

The VTB Group governance system is designed and improved to comply fully with corporate and antimonopoly legislation in countries where the Group operates. The regulations of the Management Committee ensure that it cannot make decisions that would in any way limit competition in the Group's markets of operation or violate legislative norms or the statutory documents of those companies. In accordance with civil law, VTB Group's governance system is based on the principle of protecting the independence of all legal entities within the Group.

## 6. CORPORATE SOCIAL RESPONSIBILITY

Due to the scale of its operations, the Group has a significant economic and social impact on the regions where it operates. VTB fully recognises that achieving high operating and financial results and fulfilling its strategic targets is impossible without ensuring the Bank's objectives are aligned with society's interests. Therefore the Group maintains strong relationships with stakeholders and strives to consider their interests in all aspects of the Bank's operations, ensuring the business' sustainable development.

### 6.1. PERSONNEL

In 2014, the Group started to implement a new three-year strategy for 2014-2016, which includes a human resource management strategy. The Group launched a project to transform its HR function and to centralise a number of business processes within HR management. Implementing this project will significantly increase HR process effectiveness, promote the harmonisation of systems and standards of working with personnel, strengthen partnership with business and encourage significant synergy in the joint implementation of new strategic initiatives by professionals from all Group companies.

The human resource management initiatives implemented and launched in 2014 are designed to achieve the Group goals as set out in the Group Strategy, with the objective being to ensure rising quality and greater business effectiveness.

As of 31 December 2014, VTB Group employed 101,072 people, compared to 103,808 people as of 31 December 2013.

#### *Appraisal*

In 2014, personnel assessment tools were used in all HR projects and operational tasks: personnel recruitment, contests for participation in corporate development programmes, annual performance reviews, providing feedback and in the implementation of personal development plans.

Taking into account its current priorities, the Group focused on developing particular assessment tools. In the Group's retail business, tools used in assessments when hiring for general positions have been updated – hiring profiles were refreshed and a new front line assessment centre was developed and launched.

VTB Group carries out personnel performance assessments regularly. The assessment covers all employees and management and is based on key performance indicators (KPIs) consistent with the Group's strategic and operational priorities, and defined in both quantitative and qualitative terms.

KPIs are applied to all divisions, starting with the KPIs set for Group management, and impact the approach taken in determining the variable part of salaries within a quarterly and/or yearly assessment cycle, depending on specific aspects of Group company and their divisions' activity.

#### *Incentive and remuneration system*

Improving the remuneration system, including through adopting and following the latest practices, consistent with the Group's objectives, is one of the most important ways to increase VTB Group's

effectiveness. In 2014, one of the key priorities in this area was modifying the remuneration system to reflect changes to the Russian legislation and in accordance with the new requirements to ensure that remuneration systems in place at credit institutions correspond to the type and scale of their operations, performance results, level and combination of assumed risks.

In 2014, a Regulation on the JSC VTB Bank executive bodies' remuneration and their KPIs was approved, regulating the correlation between the level of remuneration of Group executives and the achievement of KPIs on those objectives set out in the Group's strategy and long-term development programme.

VTB's incentive system is designed to motivate employees to be effective and results-oriented. Incentives provided within the system reflect the results of Group companies' performance and the personal effectiveness of employees. For executives, they reflect the performance of each business line and that of the Group as a whole.

### *Training and development*

Professionalism, a results-oriented mindset and effective teamwork are key elements in achieving the goals set by the Group, which is why all VTB Group companies lead systemic work in staff training and development.

The presence of functional trainers has been developing and growing within VTB Group companies. Special attention is also paid to the development of company management. In partnership with the Graduate School of Management at St Petersburg University, VTB Bank provides a "New Energy of Leadership" programme for talented managers and successfully launched a new management programme, "Leadership in a changing and unstable environment" in the corporate-investment banking business.

Specialists within Group companies' training and development departments actively implement new approaches to employee training and development, including: webinars, master classes and strategic workshops; development models are integrated into operational meetings and working sessions, and training is increasingly carried out via a combination of distance and in person learning.

### *Corporate culture*

In 2014, VTB continued to develop initiatives to improve its corporate culture and internal communications. In particular, staff meetings were held with VTB top managers, a number of topical conferences and summits were held; the "Team Energy" corporate newspaper, which covers the most significant internal Group events and communicates VTB's key strategic priorities, was modernised and is now published as a quarterly magazine; internal communication channels, such as Group intranet, information digests, emails and POS tools, were also further developed.

In order to continue to develop its corporate traditions that support Group employees' shared values, in 2014 all Group companies held volunteering campaigns to support the most vulnerable groups of society, providing charity and volunteer help for orphanages, retirement homes, and veterans of the Great Patriotic War (Second World War). Many Group companies held donor days, while Group employees organised charity auctions and provided financial aid to medical institutions for children.

## 6.2. RESPONSIBLE RESOURCE MANAGEMENT

One of VTB Group's main priorities is taking a responsible approach to the use of natural resources. VTB Group is not only improving its resource and energy consumption management system, but also provides financial support to projects promoting environmental protection.

### *Environmental efficiency*

VTB Group's environmental efficiency is primarily related to controlling resource use and saving energy in those properties in which it is based. In 2014, VTB continued to consolidate the Group's divisions at large facilities boasting impressive technical and economic performance indicators, paying great attention to compact placement of personnel. In particular, a number of Moscow divisions of VTB Bank moved from technologically outdated buildings to two large business centres, fully compliant with current ergonomic, resource and energy efficiency requirements.

Group companies also implement measures to reduce their consumption of fuel, paper, water, electricity and heating. In 2014, VTB Bank continued to modernise its vehicle fleet, replace printing equipment and install water-filtering equipment.

Despite significant growth of the business of the Group, energy consumption figures in 2014 remained flat compared to the previous year.

Type of resource	2013	2014
Heating, Gcal	146,102	172,349
Electricity, thsd kWh	206,299	213,371
Paper, t	4,541	4,727
Fuel consumption, thsd L	9,378	7,324

In 2014, VTB Bank launched a large-scale project to optimise administrative and maintenance expenses within the Group's biggest companies. The implementation of this project is scheduled for completion in 2015-2016.

### *Financing of resource and energy efficiency projects*

VTB Group has consistently funded projects to modernise housing and communal amenities, helping to improve resource and energy efficiency. In 2014, VTB Group provided a credit line for the modernisation and reconstruction of utilities infrastructure (electricity and heating, street lighting, water supply, etc.) in Vladimir, Irkutsk, Kazan, Moscow, Perm, Petrozavodsk, St Petersburg, Tula, Ufa and cities in the Republic of Sakha (Yakutia). The Group's investment arm, VTB Capital, joined a project to build a solid waste recycling plant in St Petersburg. Furthermore, VTB Bank (Georgia) launched a new programme for corporate borrowers, Energocredit, designed to finance energy efficient and renewable energy projects.

### *Supporting ecological projects*

In 2014, VTB Group supported several important environmental protection projects. VTB Bank continued to participate in financing the "Preservation of the big cat population in the Russian regions" programme, implemented by the World Wildlife Fund (WWF). The project's main aim is to improve the environmental sustainability of the natural ecosystems in the Far East, Altai, Sayani and

the North Caucasus to preserve and expand the habitat of Amur tigers, as well as Far Eastern, Persian and snow leopards.

In 2014, agreements and other documents were signed establishing VTB as the Russian Executive Agency for the Project Support Instrument (PSI) under the Arctic Council Action Plan to eliminate Arctic pollution. Over the course of 2014, VTB actively participated in preparing and approving the following projects for PSI co-financing:

- Reconstruction of the Valday Cluster fuel and energy complex to reduce black carbon emissions;
- Construction of a hybrid wind-diesel power station at the agricultural production co-operative Tundra.

VTB Group offers its retail clients the opportunity to get involved in the protection and preservation of the environment. Clients can fund the planting of trees across Russian national parks at Leto Bank ATM machines.

Within the framework of its charity programme, VTB Bank provided support to the autonomous non-profit organisation Amur Tiger Centre to implement a programme aimed at preserving the Amur tiger population. VTB also provided support to the Regional Animal Protection Organization Zoozov Elita to implement a charity programme for animal sterilisation and to equip the shelter.

### 6.3. SOCIAL PROGRAMMES

VTB Group carries out significant work within corporate social responsibility programmes, including charity and sponsorship programmes supporting healthcare, sports, education, science, culture and art initiatives, in addition to providing aid to vulnerable groups within society.

#### *Sports*

VTB Group's key social activity priorities include supporting high-performance sport, investing in sports infrastructure facilities and promoting a healthy lifestyle. In 2014, the Group gave financial support to various Russian and international sports organisations, including:

- Dynamo Moscow Football Club;
- United Hockey Club Dynamo;
- Volleyball Federation of Russia;
- Russian Gymnastics Federation;
- International Gymnastics Federation (FIG);
- International Association of Athletics Federations (IAAF);
- VTB United League (basketball);
- KAMAZ-Master rally team;
- National Equestrian Federation of Georgia;
- Georgian Rugby Union and Georgian National Rugby Team;
- Russian Mountain Ski and Snowboarding Federation;
- Russian Canoe Federation;
- Russian Automobile Federation (preparation for the Formula One World Championship Grand Prix at Sochi);
- Kremlin Cup International Tennis Tournament;
- Boxing Federation of Republic of Sakha (Yakutia);
- Chess Federation of Pskov region.

In Moscow, VTB Group is financing the "VTB Arena Park" project - for the comprehensive redevelopment of the Dynamo stadium and surrounding area. Under the project, there are plans to expand stadium capacity to 26,319 seats, create green spaces and build residential complexes. The project aims to create a new approach to sports infrastructure, which will blend into the urban environment and be convenient for local residents.

#### *Arts and culture*

Supporting arts and culture is a key part of the Bank's social policy and VTB Group provides significant financial support in this area. In recent years, VTB has supported a number of national events, sponsoring major theatres, museums and festivals.

VTB Group continued its cooperation with Russia's leading museums. In particular, in 2014 the Group supported a number of culturally significant exhibitions at the State Tretyakov Gallery, the State Russian Museum, State Hermitage Museum, The Pushkin State Museum of Fine Arts and other museums. VTB also provided funding to a number of museums to support young artists and help finance the reconstruction, renovation and development of museum collections. In 2014, VTB Bank also made donations to the State Russian Museum's Development Fund, the private cultural organisation Jewish Museum and Tolerance Centre and the State Hermitage Museum's endowment fund.

VTB has a tradition of supporting theatres. The Bank is a longstanding partner of the Bolshoi Theatre, the Mariinsky Theatre and the Pyotr Fomenko Workshop Theatre. In the reporting period, VTB Bank sponsored new shows at the Bolshoi Theatre, the Mariinsky Theatre and the Tbilisi A. Griboedov Russian State Drama Theatre.

VTB also provided charitable support to the Bolshoi Theatre, the Mariinsky Theatre, the Charitable Foundation of Valery Gergiev, the Pyotr Fomenko Workshop Theatre, the Tbilisi A. Griboedov Russian State Drama Theatre in addition to other theatres and funds.

In the reporting period, the Group provided financial support for a number of cultural events. In particular, VTB Bank sponsored events promoting the development of the Russian film and TV industry, including Moscow International Film Festival, the prestigious national Golden Eagle Award, the television industry award TEFI-2014 and others. VTB also sponsored Nikita Mikhalkov's film "Sunstroke" and Kultura TV channel.

In literature, VTB Bank, working in conjunction with Rossotrudnichestvo, sponsored a three-volume edition of books and the translation and publishing of Russian classic and modern literature into Vietnamese, and of Vietnamese classic and modern literature into Russian.

#### *Science and education*

In 2014, VTB Group continued to provide support in the form of sponsorship for science and education projects. Throughout the year, VTB sponsored the following events:

- Management of the Future '14 conference at the Graduate School of Management of St Petersburg University;
- Winter and summer youth rallies of JSC NPO Saturn;
- Educational resource Distance Learning System of Education of the CIS Financial and Banking Council.

VTB Bank also provided financial support to the Graduate School of Management of St Petersburg University in order to attract the best teachers, create grants and scholarships for students, fund scientific research and develop innovative educational programmes and educational materials.

#### *Social investment*

VTB Group offers consistent, targeted support to organisations that implement social and humanitarian projects. Since 2003, the Bank has been developing the charitable programme "World Without Tears" to support children's healthcare institutions. With VTB's help, children's healthcare institutions are able to purchase medical equipment and medicines needed. The programme is



unique as it makes it possible medical institutions to purchase whatever they need directly from suppliers, without intermediaries. In 2014, the programme was active in 20 Russian regions, and had an annual budget of RUB 42 million.

Over the past few years, VTB Bank has been providing charitable support to the First Hospice for Children with Cancer. Hospice workers ensure children with cancer have the support they and their families need to care for them in a home environment.

In 2014, VTB provided financial support of RUB 30 million to medical institutions in the Republic of Karelia, thus marking the 100th anniversary of the Republic of Karelia's founding.

In 2014, VTB Bank also provided charity support to the Marksovsky Rehabilitation Centre for Children and Young People with Disabilities (Saratov region), the Deaf-Blind Support Fund among others.

## 7. MANAGEMENT RESPONSIBILITY STATEMENT

VTB Management is responsible for preparing the Annual Report and the Group's consolidated financial statements in accordance with applicable laws and regulations.

I confirm that to the best of my knowledge:

- the consolidated financial statements of VTB Bank and its subsidiaries (together "the Group"), prepared in accordance with IFRS, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group; and
- this Annual Report includes a fair review of the development and performance of the Group's business and position, together with a description of the principal risks and uncertainties that the Group faces.

VTB Bank President and Chairman of the Management Board

Andrey Kostin

## **8. SUMMARY CONSOLIDATED FINANCIAL STATEMENTS**

### **VTB BANK**

Summary Consolidated Financial Statements  
Derived from the Audited Consolidated Financial  
Statements and Independent Auditors' Report

*For the years ended 31 December 2014 and 2013*

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## **INDEPENDENT AUDITORS' REPORT ON THE SUMMARY CONSOLIDATED FINANCIAL STATEMENTS**

To the Supervisory Council and Shareholders of VTB Bank:

The accompanying summary consolidated financial statements, which comprise the summary consolidated statements of financial position as at 31 December 2014 and 2013, the summary consolidated income statements, summary consolidated statements of comprehensive income, summary consolidated statements of cash flows, and summary consolidated statements of changes in shareholders' equity for the years then ended, are derived from the audited consolidated financial statements of VTB Bank and its subsidiaries (together "the Group") for the years ended 31 December 2014 and 2013. We expressed an unmodified audit opinion on those consolidated financial statements in our auditors' report dated 12 March 2015.

The summary consolidated financial statements do not contain all the disclosures required by International Financial Reporting Standards applied in the preparation of the audited consolidated financial statements of Group. Reading the summary consolidated financial statements, therefore, is not a substitute for reading the audited consolidated financial statements of the Group.

### *Management's responsibility for the summary consolidated financial statements*

Management is responsible for the preparation of a summary of the audited consolidated financial statements on the basis described in the footnote to the summary consolidated financial statements.

### *Auditors' responsibility*

Our responsibility is to express an opinion on the summary consolidated financial statements based on our procedures, which were conducted in accordance with International Standard on Auditing (ISA) 810 *Engagements to Report on Summary Consolidated Financial Statements*.

### *Opinion*

In our opinion, the summary consolidated financial statements derived from the audited consolidated financial statements of the Group for the years ended 31 December 2014 and 2013 are consistent, in all material respects, with those audited consolidated financial statements, on the basis described in the footnote to the summary consolidated financial statements.

12 March 2015

**VTB Bank****Summary Consolidated Statements of Financial Position as at 31 December***(in billions of Russian Roubles)*

	2014	2013 (restated)
<b>Assets</b>		
Cash and short-term funds	695.2	354.3
Mandatory cash balances with central banks	85.5	58.7
Financial assets at fair value through profit or loss	681.7	406.4
Financial assets, other than loans and advances to customers and due from other banks, pledged under repurchase agreements	184.0	173.2
Due from other banks, including pledged under repurchase agreements	814.5	446.2
- Due from other banks	740.3	443.4
- Due from other banks, pledged under repurchase agreements	74.2	2.8
Loans and advances to customers, including pledged under repurchase agreements	8,537.3	6,259.6
- Loans and advances to customers	8,074.7	5,969.0
- Loans and advances to customers, pledged under repurchase agreements	462.6	290.6
Investment financial assets	132.2	140.8
Investments in associates and joint ventures	96.3	87.6
Assets of disposal groups held for sale	11.1	36.7
Land, premises and equipment	246.9	170.3
Investment property	192.3	160.7
Goodwill and other intangible assets	161.8	162.5
Deferred income tax asset	66.9	45.5
Other assets	285.1	266.0
<b>Total assets</b>	<b>12,190.8</b>	<b>8,768.5</b>
<b>Liabilities</b>		
Due to other banks	733.2	624.6
Customer deposits	5,669.4	4,383.4
Other borrowed funds	2,729.2	1,485.9
Debt securities issued	921.4	738.2
Liabilities of disposal groups held for sale	4.7	20.7
Deferred income tax liability	26.6	15.0
Other liabilities	710.1	262.6
<b>Total liabilities before subordinated debt</b>	<b>10,794.6</b>	<b>7,530.4</b>
Subordinated debt	265.2	291.0
<b>Total liabilities</b>	<b>11,059.8</b>	<b>7,821.4</b>
<b>Equity</b>		
Share capital	352.1	138.1
Share premium	433.8	433.8
Perpetual loan participation notes	126.6	73.6
Treasury shares and bought back perpetual loan participation notes	(6.7)	(3.6)
Other reserves	42.8	35.6
Retained earnings	169.3	262.0
<b>Equity attributable to shareholders of the parent</b>	<b>1,117.9</b>	<b>939.5</b>
<b>Non-controlling interests</b>	<b>13.1</b>	<b>7.6</b>
<b>Total equity</b>	<b>1,131.0</b>	<b>947.1</b>
<b>Total liabilities and equity</b>	<b>12,190.8</b>	<b>8,768.5</b>

Approved for issue and signed on 12 March 2015.

\_\_\_\_\_  
A.L. Kostin  
President – Chairman of the Management Board

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Herbert Moos  
Chief Financial Officer – Deputy Chairman of the Management Board

These summary consolidated financial statements do not contain all the disclosures required by International Financial Reporting Standards (IFRS), namely summary of principal accounting policies and other explanatory information as presented in the audited consolidated financial statements of VTB Bank and its subsidiaries (together "the Group") prepared in accordance with IFRS for the years ended 31 December 2014 and 2013. For a better understanding of the Group's financial position, its financial performance and its cash flows, these summary consolidated financial statements should be read in conjunction with the audited consolidated financial statements of the Group from which these summary consolidated financial statements were derived. Copies of audited consolidated financial statements can be obtained from VTB Bank.

**VTB Bank****Summary Consolidated Income Statements for the Years Ended 31 December***(in billions of Russian Roubles)*

	2014	2013
Interest income	844.1	686.3
Interest expense	(489.8)	(363.3)
<b>Net interest income</b>	<b>354.3</b>	<b>323.0</b>
Provision charge for impairment of debt financial assets	(255.4)	(96.9)
<b>Net interest income after provision for impairment</b>	<b>98.9</b>	<b>226.1</b>
<b>Net fee and commission income</b>	<b>63.1</b>	<b>55.4</b>
(Losses net of gains) / gains less losses arising from financial instruments at fair value through profit or loss	(3.0)	13.2
Gains less losses from investment financial assets available-for-sale	—	7.3
Losses net of gains arising from foreign currencies	(3.2)	(8.7)
Government grant from Deposit Insurance Agency	99.2	—
Gains on initial recognition of financial instruments, restructuring and other gains on loans and advances to customers	3.5	9.1
Share in profit of associates and joint ventures	0.3	2.2
Gain from disposal of subsidiaries and associates	15.1	2.8
Gains net of losses / (losses net of gains) arising from extinguishment of liabilities	0.8	(3.7)
Provision charge for impairment of other assets, credit related commitments and legal claims	(20.0)	(2.3)
Excess of fair value of acquired net asset over cost	0.3	8.0
Other operating income	18.5	9.6
<b>Non-interest gains</b>	<b>111.5</b>	<b>37.5</b>
Net insurance premiums earned	43.9	29.4
Net insurance claims incurred, movement in liabilities to policyholders and acquisition costs	(31.8)	(16.4)
Revenue from other non-banking activities	38.1	34.2
Cost of sales and other expenses from other non-banking activities	(45.9)	(36.1)
<b>Revenues less expenses from non-banking operations</b>	<b>4.3</b>	<b>11.1</b>
Impairment of goodwill	(5.7)	—
Staff costs and administrative expenses	(239.3)	(210.9)
<b>Non-interest expenses</b>	<b>(245.0)</b>	<b>(210.9)</b>
<b>Profit before tax</b>	<b>32.8</b>	<b>119.2</b>
Income tax expense	(31.5)	(24.1)
<b>Net profit after tax</b>	<b>1.3</b>	<b>95.1</b>
(Loss)/profit after tax from subsidiaries acquired exclusively with a view to resale	(0.5)	5.4
<b>Net profit</b>	<b>0.8</b>	<b>100.5</b>
<b>Net profit attributable to:</b>		
Shareholders of the parent	4.1	101.5
Non-controlling interests	(3.3)	(1.0)
<b>Basic and diluted earnings per share (expressed in Russian roubles per share)</b>	<b>(0.00023)</b>	<b>0.00805</b>
<b>Basic and diluted earnings per share before profit after tax from subsidiaries acquired exclusively with a view to resale (expressed in Russian roubles per share)</b>	<b>(0.00019)</b>	<b>0.00760</b>

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**VTB Bank****Summary Consolidated Statements of Comprehensive Income for the Years Ended 31 December***(in billions of Russian Roubles)*

	2014	2013
<b>Net profit</b>	<b>0.8</b>	<b>100.5</b>
<b>Other comprehensive income:</b>		
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods:</i>		
Net result on financial assets available-for-sale, net of tax	(20.7)	(1.8)
Cash flow hedges, net of tax	(0.4)	0.8
Share of other comprehensive income of associates and joint ventures	2.0	–
Effect of translation, net of tax	37.2	3.9
<i>Total other comprehensive income to be reclassified to profit or loss in subsequent periods</i>	<i>18.1</i>	<i>2.9</i>
<i>Other comprehensive income not to be reclassified to profit or loss in subsequent periods:</i>		
Actuarial losses net of gains arising from difference between pension plan assets and obligations	(1.2)	(0.2)
Land and premises revaluation, net of tax	(0.4)	–
<i>Total other comprehensive income not to be reclassified to profit or loss in subsequent periods</i>	<i>(1.6)</i>	<i>(0.2)</i>
<b>Other comprehensive income, net of tax</b>	<b>16.5</b>	<b>2.7</b>
<b>Total comprehensive income</b>	<b>17.3</b>	<b>103.2</b>
<b>Total comprehensive income attributable to:</b>		
Shareholders of the parent	17.6	103.7
Non-controlling interests	(0.3)	(0.5)

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**Summary Consolidated Statements of Cash Flows for the Years Ended 31 December***(in billions of Russian Roubles)*

	2014	2013 (restated)
<b>Cash flows from operating activities</b>		
Interest received	813.7	678.0
Interest paid	(442.4)	(329.3)
Gains received on operations with financial assets at fair value through profit or loss	68.3	14.0
Gains received from extinguishment of liability	1.0	–
Gains received on dealing in foreign currency	80.7	3.7
Fees and commissions received	83.4	71.5
Fees and commissions paid	(18.6)	(15.0)
Other operating income received	12.3	6.8
Staff costs, administrative expenses paid	(195.7)	(184.2)
Income received from non-banking activities	50.7	37.9
Expenses paid in non-banking activities	(38.7)	(41.7)
Net insurance premiums received	43.9	32.0
Net insurance claims paid	(35.1)	(16.4)
Income tax paid	(20.6)	(18.1)
<b>Cash flows from operating activities before changes in operating assets and liabilities</b>	<b>402.9</b>	<b>239.2</b>
<b>Net decrease/(increase) in operating assets</b>		
Net (increase)/decrease in mandatory cash balances with central banks	(27.0)	5.1
Net increase in restricted cash	(0.3)	(0.1)
Net (increase)/decrease in correspondent accounts in precious metals	(1.6)	2.5
Net (increase)/decrease in financial assets at fair value through profit or loss	(40.0)	23.5
Net increase in due from other banks	(239.2)	(31.8)
Net increase in loans and advances to customers	(2,159.5)	(1,321.5)
Net increase in other assets	(25.0)	(16.8)
<b>Net (decrease)/increase in operating liabilities</b>		
Net increase/(decrease) in due to other banks	116.0	(88.5)
Net increase in customer deposits	1,120.0	434.7
Net decrease in debt securities issued other than bonds issued	(3.5)	(19.4)
Net increase/(decrease) in other liabilities	19.6	(5.9)
<b>Net cash used in operating activities</b>	<b>(837.6)</b>	<b>(779.0)</b>
<b>Cash flows used in investing activities</b>		
Dividends and other distributions received	1.8	1.3
Proceeds from sales or maturities of investment financial assets available-for-sale	190.7	131.2
Purchase of investment financial assets available-for-sale	(324.9)	(196.9)
Purchase of subsidiaries, net of cash	2.5	(80.6)
Disposal of subsidiaries, net of cash	17.2	41.5
Purchase of and contributions to associates and joint ventures	(0.7)	(1.8)
Proceeds from sale of share in associates	4.0	2.8
Proceeds from distribution to shareholders of associates	1.6	–
Purchase of investment financial assets held-to-maturity	(1.6)	–
Proceeds from redemption of investment financial assets held-to-maturity	1.9	0.3
Purchase of land, premises and equipment	(49.6)	(31.7)
Proceeds from sale of land, premises and equipment	6.4	4.6
Purchase or construction of investment property	(20.8)	(14.6)
Proceeds from sale of investment property	3.5	7.5
Purchase of intangible assets	(6.1)	(5.1)
Proceeds from sale of intangible assets	0.4	0.1
<b>Net cash used in investing activities</b>	<b>(173.7)</b>	<b>(141.4)</b>

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**VTB Bank****Summary Consolidated Statements of Cash Flows for the Years Ended 31 December***(in billions of Russian Roubles)*

	2014	2013 (restated)
<b>Cash flows from financing activities</b>		
Dividends paid	(16.3)	(16.8)
Proceeds from issuance of local bonds	101.5	96.3
Repayment of local bonds	(48.0)	(76.6)
Buy-back of local bonds	(84.3)	(54.6)
Proceeds from sale of previously bought-back local bonds	15.3	28.4
Proceeds from issuance of Eurobonds	7.5	48.2
Repayment of Eurobonds	(41.2)	(71.8)
Buy-back of Eurobonds	(30.6)	(8.3)
Proceeds from sale of previously bought-back Eurobonds	17.3	17.0
Proceeds from syndicated loans	2.5	66.9
Repayment of syndicated loans	(108.0)	(0.1)
Proceeds from other borrowings and funds from local central banks	9,353.7	3,361.5
Repayment of other borrowings and funds from local central banks	(8,045.5)	(2,798.3)
Proceeds from subordinated debt	113.5	4.1
Repayment of subordinated debt	(218.8)	(7.2)
Buy-back of subordinated debt	(2.0)	(0.8)
Proceeds from sale of previously bought-back subordinated debt	1.2	0.8
Proceeds from share issue, less transaction costs	214.0	100.3
Cash received from sale of treasury shares	15.1	36.8
Cash paid for treasury shares	(18.1)	(34.4)
Share issue to non-controlling interests	–	0.5
Cash paid for purchase of non-controlling interests in subsidiaries and non-parent interests in consolidated funds	(21.6)	(1.3)
Buy-back of perpetual loan participation notes	(2.5)	(5.1)
Proceeds from sale of previously bought-back perpetual loan participation notes	2.4	5.0
Amounts paid on perpetual loan participation notes	(9.4)	(7.0)
<b>Net cash from financing activities</b>	<b>1,197.7</b>	<b>683.5</b>
Effect of exchange rate changes on cash and cash equivalents	153.2	25.5
Effect of hyperinflation	(0.5)	(0.9)
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>339.1</b>	<b>(212.3)</b>
<b>At the beginning of period</b>	<b>348.6</b>	<b>560.9</b>
<b>At the end of period</b>	<b>687.7</b>	<b>348.6</b>

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**VTB Bank**  
**Summary Consolidated Statements of Changes in Shareholders' Equity for the Years Ended**  
**31 December**  
*(in billions of Russian Roubles)*

	Attributable to shareholders of the parent						Total	Non-controlling interests	Total equity
	Share capital	Share premium	Perpetual loan participation notes	Treasury shares and bought back perpetual loan participation notes	Other reserves	Retained earnings			
<b>Balance at 1 January 2013</b>	<b>113.1</b>	<b>358.5</b>	<b>68.3</b>	<b>(13.7)</b>	<b>33.9</b>	<b>193.7</b>	<b>753.8</b>	<b>12.3</b>	<b>766.1</b>
Ordinary share issue	25.0	75.3	—	—	—	—	100.3	—	100.3
Net result from treasury shares transactions	—	—	—	10.2	—	(7.5)	2.7	—	2.7
Net result from bought back perpetual loan participation notes transactions	—	—	—	(0.1)	—	—	(0.1)	—	(0.1)
Profit for the period	—	—	—	—	—	101.5	101.5	(1.0)	100.5
Other comprehensive income	—	—	—	—	2.3	(0.1)	2.2	0.5	2.7
<b>Total comprehensive income for the period</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>2.3</b>	<b>101.4</b>	<b>103.7</b>	<b>(0.5)</b>	<b>103.2</b>
Share-based payments	—	—	—	—	—	0.8	0.8	—	0.8
Transfer of premises revaluation reserve upon disposal or depreciation	—	—	—	—	(0.7)	0.7	—	—	—
Increase in share capital of subsidiaries	—	—	—	—	—	—	—	0.4	0.4
Acquisition of subsidiaries	—	—	—	—	—	—	—	(1.2)	(1.2)
Disposal of subsidiaries	—	—	—	—	—	0.5	0.5	(1.6)	(1.1)
Acquisition of non-controlling interests	—	—	—	—	0.1	(2.9)	(2.8)	0.1	(2.7)
Amounts due on perpetual loan participation notes	—	—	—	—	—	(7.0)	(7.0)	—	(7.0)
Foreign exchange translation of perpetual loan participation notes	—	—	5.3	—	—	(5.3)	—	—	—
Tax effect recognised on perpetual loan participation notes	—	—	—	—	—	2.5	2.5	—	2.5
Dividends declared	—	—	—	—	—	(14.9)	(14.9)	(1.9)	(16.8)
<b>Balance at 31 December 2013</b>	<b>138.1</b>	<b>433.8</b>	<b>73.6</b>	<b>(3.6)</b>	<b>35.6</b>	<b>262.0</b>	<b>939.5</b>	<b>7.6</b>	<b>947.1</b>
Preference share issue	214.0	—	—	—	—	(12.3)	201.7	—	201.7
Net result from treasury shares transactions	—	—	—	(3.1)	—	(0.1)	(3.2)	—	(3.2)
Profit for the period	—	—	—	—	—	4.1	4.1	(3.3)	0.8
Other comprehensive income	—	—	—	—	14.2	(0.7)	13.5	3.0	16.5
<b>Total comprehensive income for the period</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>14.2</b>	<b>3.4</b>	<b>17.6</b>	<b>(0.3)</b>	<b>17.3</b>
Share-based payments	—	—	—	—	—	0.4	0.4	—	0.4
Transfer of premises revaluation reserve upon disposal or depreciation	—	—	—	—	(2.3)	2.3	—	—	—
Increase in share capital of subsidiaries	—	—	—	—	—	—	—	0.1	0.1
Acquisition of subsidiaries	—	—	—	—	—	—	—	0.5	0.5
Disposal of subsidiaries	—	—	—	—	(4.9)	0.9	(4.0)	(7.2)	(11.2)
Acquisition of non-controlling interests	—	—	—	—	0.2	(23.4)	(23.2)	13.7	(9.5)
Amounts due on perpetual loan participation notes	—	—	—	—	—	(7.5)	(7.5)	—	(7.5)
Foreign exchange translation of perpetual loan participation notes	—	—	53.0	—	—	(53.0)	—	—	—
Tax effect recognized on perpetual loan participation notes	—	—	—	—	—	11.6	11.6	—	11.6
Dividends declared	—	—	—	—	—	(15.0)	(15.0)	(1.3)	(16.3)
<b>Balance at 31 December 2014</b>	<b>352.1</b>	<b>433.8</b>	<b>126.6</b>	<b>(6.7)</b>	<b>42.8</b>	<b>169.3</b>	<b>1,117.9</b>	<b>13.1</b>	<b>1,131.0</b>

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## 9. THE REPORT ON THE COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE IN 2014

The report on compliance with the principles and recommendations of the Corporate Governance Code has been prepared in accordance with the Information Letter from the Bank of Russia of 30.03.2015 No. 06-52/2825 “On disclosure in the annual report of a joint stock company for 2014 of information on compliance with the Corporate Governance Code provisions”, as well as the Information Letter from CJSC MICEX Stock Exchange of 13.03.2015 No. 31-14/236 “On disclosure in an annual report of a joint stock company of information on compliance with the recommendations of the Corporate Governance Code<sup>21</sup>”.

Principle (principles) of corporate governance or key criterion (recommendation)	Brief description of where principle or key criterion is not complied with	Explanation of main reasons, factors and circumstances, which did not allow for compliance or led to partial compliance with the principle or key criterion; description of alternative mechanisms and instruments of corporate governance that are being used
<p><b>The company shall ensure equal and fair treatment for all its shareholders in the exercise by them of their rights to participate in the management of the company. The system and practices of corporate governance shall ensure equal terms and conditions for all shareholders owning shares of the same class (category) in a company, including minority and foreign shareholders, as well as their equal treatment by the company.</b></p>		
<p>An internal document is approved in the company which sets the main procedures for preparing, convening and conducting the general meeting of shareholders in line with the recommendations of the Corporate Governance Code, including the following responsibilities of the company:</p> <ul style="list-style-type: none"> <li>to give notice to shareholders on convening the general meeting of shareholders and to provide information, including publishing the notice and materials on the company's website not later than 30 days before the appointed date (unless a longer period is required by the</li> </ul>	<ol style="list-style-type: none"> <li>Non-compliance in terms of specifying in internal documents information on the compilation date of a list of persons eligible to attend the general meeting of shareholders not later than 7 days before such date</li> <li>Non-compliance in terms of providing shareholders with all additional materials and</li> </ol>	<ol style="list-style-type: none"> <li>In accordance with clause 13.6 of the Bank's Charter and clause 5.1 of the Regulation on Preparing, Convening and Holding JSC VTB Bank General Meetings of Shareholders, information on the date of compilation a list of persons eligible to attend the General Meeting of Shareholders is disclosed by the Bank not later than 5 days before such date. At the same time, in accordance with the Bank's current practice, the information on the compilation date of a list of persons eligible to attend the General Meeting of Shareholders is disclosed by the Bank earlier.</li> </ol>

<sup>21</sup> Additional information concerning the methodology used to determine compliance with principles outlined in the Corporate Governance Code, as well as a statement from the Supervisory Council regarding compliance with the principles, can be found in the Corporate Governance section and in the Statement of the Chairman of the Supervisory Council in this Annual Report.

<p>Russian legislation);</p> <ul style="list-style-type: none"> <li>• to disclose the information on the compilation date of a list of persons eligible to attend the general meeting of shareholders not later than 7 days before such date;</li> <li>• to provide additional information and materials on agenda items for the general meeting of shareholders in accordance with the recommendations of the Corporate Governance Code.</li> </ul>	<p>information for the General Meeting of Shareholders recommended by the Code.</p>	<p>In 2015, the Bank plans to integrate the recommendation on disclosure of the information on the compilation date of a list of persons eligible to attend the General Meeting of Shareholders not later than 7 days before such date into the Bank's Charter and the Regulation on Preparing, Convening and Holding JSC VTB Bank General Meetings of Shareholders.</p> <p>Also, in accordance with the <b>Action Plan ("road map") to integrate the provisions of the Corporate Governance Code, approved by the Board of Directors of the Bank of Russia on 21.03.2014 (Code), into the activity of JSC VTB Bank</b>, approved by the Supervisory Council on 27.02.2015, VTB Bank plans to include in the Bank's Corporate Governance Code a provision on the Bank's intention to follow this recommendation of the Code if practically possible.</p> <p>2. In accordance with the "road map", VTB Bank plans to develop a new edition of the Bank's Corporate Governance Code by the end of 2015 and to include in it a provision on the Bank's intention to follow the recommendation of the Code on providing materials for the General Meeting of Shareholders if practically possible.</p>
<p>The company takes responsibility to provide the shareholders with an opportunity to put questions regarding company activity to members of the company's governance and control bodies, members of the audit committee, and candidates for the governance and control bodies during the preparation for and conduct of the general meeting of shareholders. These responsibilities are formalised in the charter or internal documents of the company.</p>	<p>Compliance</p>	

The company takes responsibility to follow the principle of not allowing for artificial reallocation of corporate control (for example, voting with quasi-treasury stock, taking the decision to pay dividends on preference shares, when the company's financial means are limited, taking the decision not to pay dividends on preference shares defined in the charter, when there is enough resource to pay it). These responsibilities are formalised in the charter or internal documents of the company.	Internal documents do not formally forbid voting with quasi-treasury stock.	This is not in line with the current legislation.  Companies under the Bank's control that are current shareholders of the Bank may receive recommendations not to take part in the vote. At the same time, according to current legislation, the Bank cannot forbid shareholders to vote, including shareholders that are companies under the Bank's control.
Other key criteria (recommendations) of the Corporate Governance Code related to this principle (principles) of corporate governance that the company considers important		
<b>Shareholders shall be given equal and fair opportunities to participate in the profits of the company by receiving dividends.</b>		
<p>The company approved an internal document defining dividend policy consistent with the recommendations of the Corporate Governance Code which specifies:</p> <ul style="list-style-type: none"> <li>the distribution of net profit (for companies that make up consolidated financial statements – a minimum share of consolidated net income) for the payment of dividends, the conditions under which the dividends are declared;</li> <li>the minimum amount of dividends on company shares of different categories (types);</li> <li>the obligation to disclose the document defining the company dividend policy on the company's website.</li> </ul>	These recommendations are not fully reflected in the Regulation on Dividend Policy of the Bank.	<p>Regulation on Dividend Policy of JSC Bank VTB was approved by the Supervisory Council of the Bank in 2008 (Minutes No. 9 as of 15.07.2008) and published on the Bank's website.</p> <p>In accordance with the "road map", in 2015 a new edition of the Regulation on Dividend Policy will be developed and approved, taking into account the recommendations of the Code.</p>
Other key criteria (recommendations) of the Corporate Governance Code related to this principle (principles) of corporate governance that the company considers important		
<b>The board of directors determines the major long-term strategic targets of the company and the company's key performance indicators, provides strategic management of the company, defines the principles of and approaches to organising a risk management and internal control system in the company, supervises the activities of the executive bodies, defines company policy on remuneration of directors and executive bodies and performs other key functions.</b>		

<p>The company has formed a board of directors that:</p> <ul style="list-style-type: none"> <li>• defines the major long-term strategic targets of the company and its key performance indicators;</li> <li>• supervises the activities of the executive bodies;</li> <li>• defines the principles of and approaches to organising a risk management and internal control system in the company;</li> <li>• defines company policy on remuneration of directors, executive bodies and other key managers of the company.</li> </ul>	Compliance	
Other key criteria (recommendations) of the Corporate Governance Code related to this principle (principles) of corporate governance that the company considers important		
<p><b>The board of directors shall be an efficient and professional governing body of the company, capable of making objective and independent judgements and pass resolutions in the best interests of the company and its shareholders. The chairman of the board of directors shall help it perform the functions assigned to it in the most efficient way. Meetings of the board of directors, preparation for them, and participation of board members therein shall ensure efficient work by the board.</b></p>		
Chairman of the board of directors is an independent director, or the elected independent directors determined the senior independent director that coordinates the work of the independent directors and is responsible for communication with the chairman of the board of directors.	Non-compliance	In accordance with the “road map” and in regard to determining the senior independent director, by the end of second quarter of 2015 it is planned to adopt a Regulation on the Supervisory Council which will include election of the senior independent director from the independent members of the Supervisory Council.
<p>Internal documents outlining the procedure for preparation and holding of meetings of the board of directors, which allow members of the board the opportunity for proper preparation for participation and provide for the following:</p> <ul style="list-style-type: none"> <li>• a defined period of notice for board members on upcoming meetings;</li> <li>• deadlines for sending voting forms (paper) and receiving completed forms (paper) for meetings held in absentia;</li> </ul>	Non-compliance in terms of formalising in internal documents of the Bank the opportunity to discuss and vote remotely, via conference and video conference links.	Recommendations for members of the Bank Supervisory Council absent from meetings to have the opportunity to join by conference or video conference links are planned for introduction to the Regulation on the Bank Supervisory Council.

<ul style="list-style-type: none"> <li>the opportunity for board members to send, and have taken into account, written opinion on the agenda items of meetings of the board of directors which they are unable to attend;</li> <li>the opportunity to discuss and vote remotely, via conference and video conference links.</li> </ul>		
The most important issues are resolved at meetings of the board of directors held in person. The list of such issues follows the recommendations of the Corporate Governance Code <sup>22</sup> .	Non-compliance in terms of review of the essential aspects of activities of companies under the Bank's control	In accordance with the "road map", by the end of 2015 the Bank plans to consider the expediency of including in the Supervisory Council's remit control over material transactions of the companies under the Bank's control, which are of material importance to the Bank.
Other key criteria (recommendations) of the Corporate Governance Code related to this principle (principles) of corporate governance that the company considers important		
<b>The board of directors shall include a sufficient number of independent directors.</b>		
Independent directors shall account for at least one third of all directors elected to the board.	Compliance	
Independent directors must fully meet the independence criteria recommended by the Corporate Governance Code.	Compliance	
The board of directors (nominating (appointments and human resources) committee) carries out an assessment as to whether candidates for the board of directors meet independence criteria.	Compliance	<p>Functions of the Supervisory Council Staff and Remuneration Committee (SRC) in assessing the independence of members of the Supervisory Council as well as candidates for the Supervisory Council are included in the Regulation on SRC (clauses 2.2.3, 3.3.1 Regulation on SRC).</p> <p>In accordance with the "road map", by the end of 2015 the Bank also plans to develop a procedure for preparing a list of</p>

<sup>22</sup> Specified in clause 168 of part B of the Corporate Governance Code



		candidates for the Supervisory Council, so that the Supervisory Council Staff and Remuneration Committee may assess their independence.
Other key criteria (recommendations) of the Corporate Governance Code related to this principle (principles) of corporate governance that the company considers important		
<b>The board of directors shall form committees for preliminary consideration of the most important issues in the company's business.</b>		
An audit committee consisting of independent directors was formed by the board of directors; its functions are formalised in internal documents and are consistent with the recommendations of the Corporate Governance Code <sup>23</sup> .	Not all functions of the Supervisory Council Audit Committee recommended by the Code are formalised in the Regulation on the Committee.	<p>The Supervisory Council Audit Committee has been formed in the Bank, the Regulation on the Supervisory Council Audit Committee has been approved by the Supervisory Council and published on the Bank's website.</p> <p>Implementation of most of the functions specified in the Corporate Governance Code is formalised in the Regulation on the Supervisory Council Audit Committee.</p> <p>In accordance with the "road map", in 2015 a new edition of the Regulation on the Supervisory Council Audit Committee consistent with the recommendations of the Code is planned to be approved.</p>
A remuneration committee (may be combined with nominating (appointments and human resources) committee) consisting of independent directors was formed by the board of directors; its functions are consistent with the recommendations of the Corporate Governance Code <sup>24</sup> .	The functions of the Supervisory Council Staff and Remuneration Committee do not fully comply with the Code recommendations.	<p>The Supervisory Council Staff and Remuneration Committee (SRC) has been formed in the Bank, the Regulation on the SRC has been approved by the Supervisory Council and published on the Bank's website.</p> <p>The SRC complies with most of the functions specified in the Corporate Governance Code, those functions are formalised in the Regulation on the Supervisory Council Staff and Remuneration Committee.</p> <p>In accordance with the "road map", the Bank plans to approve a</p>

<sup>23</sup> Specified in clause 172 of part B of the Corporate Governance Code

<sup>24</sup> Specified in clause 180 of part B of the Corporate Governance Code

		new edition of the Regulation on the Supervisory Council Staff and Remuneration Committee consistent with the recommendations of the Code.
A nominating (appointments and human resources) committee (may be combined with remunerations committee) consisting mostly of independent directors was formed by the board of directors; its functions are consistent with the recommendations of the Corporate Governance Code <sup>25</sup> .	Compliance	Functions of the nominating committee belong to the Supervisory Council Staff and Remuneration Committee of JSC VTB Bank.
Other key criteria (recommendations) of the Corporate Governance Code related to this principle (principles) of corporate governance that the company considers important		
<b>The board of directors shall ensure that the quality of its work and that of its committees and its members is assessed.</b>		
Quality of work of the board of directors, its committees and board members is assessed on a regular basis, at least once a year. At least once every three years, the quality of the board of directors' work is assessed by a third party entity (consultant).	Non-compliance with regards to third-party assessment of the Supervisory Council members.	Assessment of the work of the Bank's Supervisory Council and its committees is carried out on an annual basis as part of the self-assessment of the corporate governance system by the members of the Supervisory Council, which is based on the formalised assessment methodology approved by the Supervisory Council.  In accordance with the "road map", by the end of 2015 the Bank plans to consider the expediency of the third-party assessment of the Supervisory Council work.
Other key criteria (recommendations) of the Corporate Governance Code related to this principle (principles) of corporate governance that the company considers important		
<b>The company's corporate secretary (special structural unit headed by the corporate secretary) shall be responsible for efficient interaction with its shareholders, coordination of the company's actions designed to protect the rights and interests of its shareholders and support of efficient work of its board of directors.</b>		

<sup>25</sup> Specified in clause 186 of part B of the Corporate Governance Code

The company's corporate secretary reports directly to the board of directors, the board of directors makes or approves decisions to appoint and dismiss the corporate secretary.	Compliance	
The company approved an internal document which defines the rights and obligations of the corporate secretary (the Regulation on the Corporate Secretary) and its content is consistent with the recommendations of the Corporate Governance Code <sup>26</sup> .	Non-compliance in terms of inclusion of the information on terms and procedure for corporate secretary remuneration (article 5, clause 217 of the Code)	In accordance with the "road map", the Bank plans to introduce changes to the Regulation on the Corporate Secretary to make it consistent with the recommendations of the Code.
<p>The corporate secretary does not carry out his/her work concurrently with performing any other functions in the company.</p> <p>The corporate secretary is assigned functions consistent with the recommendations of the Corporate Governance Code.<sup>27</sup></p> <p>The corporate secretary is given enough resources to perform his/her functions.</p>	Compliance	
Other key criteria (recommendations) of the Corporate Governance Code related to this principle (principles) of corporate governance that the company considers important		
<b>The level of remuneration paid by the company shall be sufficient to enable it to attract, motivate and retain persons having the required skills and qualifications. Remuneration due to board members, the executive bodies, and other key managers of the company shall be paid in accordance with a remuneration policy adopted by the company.</b>		
All types of payments, benefits and privileges provided to the board members, the executive bodies and other key managers of the company are formalised by the company.	Compliance	
Other key criteria (recommendations) of the Corporate Governance Code related to this principle (principles) of		

<sup>26</sup> Specified in clause 217 of part B of the Corporate Governance Code

<sup>27</sup> Specified in clause 218 of part B of the Corporate Governance Code

corporate governance that the company considers important.		
<b>The system of remuneration of board members shall ensure that the financial interests of the directors are in line with the long-term financial interests of the shareholders.</b>		
A fixed annual fee is the only monetary remuneration of the board members.	Compliance	
Board members are not allowed to take part in the company's option plans and their right to dispose of shares is not dependent on the achievement by the company of certain performance results.	Compliance	
Other key criteria (recommendations) of the Corporate Governance Code related to this principle (principles) of corporate governance that the company considers important		
<b>The system of remuneration due to members of the executive bodies and other key managers of the company should provide that their remuneration is dependent on the company's performance results and their personal contributions to achieving these.</b>		
The company set up a system of long-term incentives for members of the company's executive bodies and other key managers.	Non-compliance in terms of key managers	In accordance with the "road map", by the end of 2015 the Bank plans to develop internal documents defining a system of short-term and long-term incentives also applicable for key managers.
Other key criteria (recommendations) of the Corporate Governance Code related to this principle (principles) of corporate governance that the company considers important		
<b>The company should have in place an efficient risk management and internal control system designed to provide reasonable confidence that the company's goals will be achieved.</b>		
The board of directors determined the principles of and approaches to creation of the risk management and internal control system in the company.	Compliance	
The company formed a separate structural unit in charge of risk	Compliance	

management and internal control.		
The company developed and implemented an anti-corruption policy defining measures aimed at developing elements of corporate culture, organisational structure, rules and procedures to ensure the prevention of corruption.	Compliance	
Other key criteria (recommendations) of the Corporate Governance Code related to this principle (principles) of corporate governance that the company considers important		
<b>The company shall organise an internal audit for regular independent evaluation of the reliability and effectiveness of the risk management and internal control system and corporate governance practice.</b>		
<p>The company formed a separate structural unit, performing the function of internal audit and functionally reporting to the board of directors. The functions of the unit comply with the recommendations of the Corporate Governance Code, in particular:</p> <ul style="list-style-type: none"> <li>• assessment of the effectiveness of the internal control system;</li> <li>• assessment of the effectiveness of the risk management system;</li> <li>• assessment of corporate governance (in the absence of the corporate governance committee).</li> </ul>	Compliance	
Head of internal audit commission reports to, and is appointed and removed from office by, the board of directors.	Compliance	
The company approved the policy on internal audit (Regulation on internal audit), which defines the goal, tasks and functions of internal audit.	Compliance	
Other key criteria (recommendations) of the Corporate Governance Code related to this principle (principles) of		

corporate governance that the company considers important		
<b>The company and its activities shall be transparent to its shareholders, investors and other interested parties.</b>		
<p>The company approved internal documents defining the company's information policy consistent with the relevant recommendations of the Corporate Governance Code. The company's information policy includes the following methods of interaction with investors and other interested parties:</p> <ul style="list-style-type: none"> <li>• setting up a special page on the company's website where it posts answers to frequently asked questions from shareholders and investors, a regularly updated calendar of corporate events and other information useful to shareholders and investors;</li> <li>• holding regular meetings of members of the executive bodies and other key managers of the company with analysts;</li> <li>• organising regular presentations (including in the form of teleconferences and webcasts) and meetings with members of executive bodies and other key managers of the company, in particular to accompany inter alia disclosure of company accounting (financial) statements or in relation to major investment projects and plans for strategic development of the company.</li> </ul>	Compliance	
Implementation of an information policy is carried out by the executive bodies of the company. Control over appropriate disclosure and compliance with the information policy is ensured by the board of directors.	Compliance	
In the company, procedures are set up to ensure the coordination of all company's services and structural units related to the disclosure of information or whose activity may lead to the need for disclosure of information.	Compliance	

Other key criteria (recommendations) of the Corporate Governance Code related to this principle (principles) of corporate governance that the company considers important		
<b>The company shall disclose on a timely basis full, updated and reliable information about itself so as to enable its shareholders and investors to make informed decisions.</b>		
If foreign investors hold a substantial share in the company's capital, the company should, along with disclosure of information in Russian, disclose most important information about itself (including an announcement of a general meeting to be held, its annual report and accounting (financial) statements) in a foreign language that is commonly used on the financial market, and provide free access to it.	Compliance	
The company discloses information not only about itself but also about any legal entities which are controlled by and are material to the company.	Compliance	
The company discloses annual and interim financial statements (consolidated or standalone) for a reporting period of six months, prepared in accordance with the International Financial Reporting Standards (IFRS). Annual consolidated or standalone financial statements are disclosed together with an auditor's report thereon, while its interim consolidated or individual financial statements are disclosed together with a report on the results of an auditor's review or an auditor's report.	Compliance	
The company discloses a special memorandum that explains the plans for the company set by the person controlling the company. The memorandum is prepared in accordance with the recommendations of the Corporate Governance Code <sup>28</sup> .		

<sup>28</sup> Specified in clause 279 of part B of the Corporate Governance Code

The company discloses information on the biographical details of each board member (including information on whether they are an independent director) as well as information on the loss by a board member of his/her status of an independent director.	Compliance	
The company discloses information on its capital structure in accordance with the recommendations of the Corporate Governance Code.	Compliance	
<p>The company's annual report contains additional information recommended by the Corporate Governance Code:</p> <ul style="list-style-type: none"> <li>• a summary of the most significant transactions (including related transactions) entered into by the company and legal entities controlled thereby during the past year;</li> <li>• a report of the board of directors (including reports by its committees) for the year; in particular, such a report should include information about the number of board meetings held in person/in absentia and about participation of each member of the board of directors in its meetings, a description of the most important and complex issues which were discussed at the meetings of the board of directors and its committees, and the main recommendations made by the committees to the board of directors;</li> <li>• information about any shares in the company which are owned, directly or indirectly, by members of the board of directors and/or executive bodies of the company;</li> <li>• information on whether any members of the board of directors and the executive bodies have conflicts of interest (including those associated with their participation in the governance bodies of any competitors of the company);</li> <li>• a description of the system of remuneration of board members, including the amount of individual remuneration payable upon the results of the year to each board member</li> </ul>	<p>Non-compliance in terms of:</p> <ul style="list-style-type: none"> <li>• information on most significant transactions;</li> <li>• information on most important and complex issues which were discussed at the meetings of the Supervisory Council and its committees;</li> <li>• information on the amount of individual remuneration of the Supervisory Council members with a breakdown between their basic fee and additional remuneration and costs incurred by the company in connection with liability insurance for the members of the Supervisory Council in the capacity of governance bodies;</li> <li>• information on the amount of remuneration of a group of at least five members of the executive bodies and other key managers of the company who receive the largest amounts of</li> </ul>	<p>In accordance with the "road map", the following actions are planned:</p> <ul style="list-style-type: none"> <li>• to disclose information on the most significant transactions in the next annual reports of the Bank;</li> <li>• by the end of 2015, to consider the expediency of disclosing in the annual report of the Bank the report on the Supervisory Council work in accordance with the recommendations of the Code;</li> <li>• by the end of 2015, to consider the expediency of disclosing in the annual report of the Bank information on the remuneration of the Supervisory Council members, executive bodies and key managers in accordance with the recommendations of the Code.</li> </ul>



<p>(with a breakdown between their basic fee, additional remuneration for the chairmanship in the board of directors and for the chairmanship/membership in committees of the board of directors, the amount of participation in the long-term incentive programme, the amount of participation of each board member in an option plan, if any), reimbursement of expenses associated with their participation in the board of directors, and costs incurred by the company in connection with liability insurance for its directors in their capacities of members of the governance bodies;</p> <ul style="list-style-type: none"> <li>information on the total remuneration for the year: <ul style="list-style-type: none"> <li>a) in respect of a group of at least five members of the executive bodies and other key managers of the company who receive the largest amounts of remuneration, broken down by type of remuneration;</li> <li>b) in respect of all members of the executive bodies and other key managers of the company who are subject to the company's remuneration policy, broken down by type of remuneration;</li> </ul> </li> <li>information on the remuneration of the one-person executive body for the year, which he/she has received or is to receive from the company (or a legal entity forming part of a group of entities which includes the company) with a breakdown by type of remuneration, both for carrying out his/her duties of the one-person executive body and otherwise.</li> </ul>	<p>remuneration as well as information on the remuneration amount of the chief executive officer for the year, which he/she has received or is to receive from the company.</p>	
<p>Other key criteria (recommendations) of the Corporate Governance Code related to this principle (principles) of corporate governance that the company considers important</p>		
<p><b>The company shall provide information and documents requested by its shareholders in accordance with the principle of equal and unhindered accessibility.</b></p>		
<p>In accordance with the information policy of the company,</p>	<p>Compliance</p>	

shareholders owning equal number of voting shares in the company should be provided with equal opportunities to access the company's documents and information.		
Other key criteria (recommendations) of the Corporate Governance Code related to this principle (principles) of corporate governance that the company considers important		
<b>Any actions which will or may materially affect the company's share capital structure and its financial position and, accordingly, the position of its shareholders ("material corporate actions") shall be taken on fair terms and conditions ensuring that the rights and interests of the shareholders as well as other interested parties are observed.</b>		
<p>The company's charter includes a list of (criteria for identifying) transactions or other actions falling within the category of material corporate actions and provide therein that decisions on any such actions shall fall within the jurisdiction of the company's board of directors, including:</p> <ul style="list-style-type: none"> <li>• reorganisation of the company, acquisition of 30 or more percent of its voting shares (takeover), increasing or decreasing its charter capital, listing and delisting of its shares;</li> <li>• any sale of shares (interests) in any legal entity controlled by the company which is material to the latter, where, as a result of such transaction, the company would lose control over such legal entity;</li> <li>• any transaction with property of the company or any legal entity controlled thereby (including related transactions) whose value exceeds a threshold amount specified in the company's charter or which is material to the company's business operations;</li> <li>• establishment of a legal entity controlled by the company and having material significance for its business;</li> <li>• disposal of treasury or quasi-treasury shares by the</li> </ul>	<p>The Bank's Charter does not include the list of (criteria for identifying) transactions or other actions falling within the category of material corporate actions.</p>	<p>The "road map" suggests to consider by the end of 2015 the expediency of inclusion into internal Bank documents mechanisms to extend the Supervisory Council's remit so that it could review the material transactions in accordance with the suggested criteria as well as the matters of disposal of the Bank's treasury and quasi-treasury shares.</p>

company.		
Other key criteria (recommendations) of the Corporate Governance Code related to this principle (principles) of corporate governance that the company considers important		
<b>The company should have in place a procedure for taking any material corporate actions that would enable its shareholders to receive full information about such actions in due time and influence them, and that would also guarantee that the shareholder rights are observed and duly protected in the course of taking such actions.</b>		
<p>In the internal documents of the company, the principle of equal terms and conditions is ensured for all of the shareholders in case of any material corporate actions which would have impact on the rights or legitimate interests of the company's shareholders. Also, in line with the Corporate Governance Code, other additional measures are formalised to protect the rights and legitimate interests of the company's shareholders, including the following:</p> <ul style="list-style-type: none"> <li>• retaining an independent appraiser with an established impeccable reputation in the market and appraisal experience in the respective area or providing a reason for not retaining an independent appraiser when determining the value of property to be acquired or disposed within a major transaction or an interested party transaction;</li> <li>• the price of shares to be repurchased or redeemed by the company is determined by an independent appraiser with an established impeccable reputation in the market and appraisal experience in the respective area with the account of the weighted average price of the shares over a reasonable period of time, without accounting for the effect of a respective transaction to be entered into by the company (including without accounting for any change in the price of the shares in connection with circulation of information on the company's entering into the transaction), and without accounting for a discount for selling shares as</li> </ul>	<p>Non-compliance in terms of specifying in internal documents the requirement to retain an independent appraiser to determine the value of major transactions and interested party transactions</p> <p>Non-compliance in terms of expanding the list of grounds on which persons referred to in respective laws are deemed to have interest in transactions of the company</p>	<p>In practice, the Bank retains an independent appraiser in such cases. In accordance with the "road map", it is planned to formalise these recommendations in the Bank's Corporate Governance Code (by the fourth quarter of 2015).</p> <p>Expanding the list of grounds, on which members of the Supervisory Council, and other persons referred to in respective laws, are deemed to have interest in transactions of the company, is not expedient for the Bank, as it can significantly complicate the activity of JSC VTB Bank and make it less competitive compared to other financial market players by prolonging the process of preliminary approval of transactions.</p>

part of a non-controlling block of shares; <ul style="list-style-type: none"> <li>expanding the list of grounds on which members of the company's board of directors as well as other persons referred to in respective laws are deemed to be interested in transactions of the company.</li> </ul>		
Other key criteria (recommendations) of the Corporate Governance Code related to this principle (principles) of corporate governance that the company considers important		

## 10. OTHER GROUP INFORMATION

### 10.1. DETAILS OF VTB BANK

General information	
Full name	VTB Bank (joint stock company)
General Banking Licence	№ 1000
Legal address	29, Bolshaya Morskaya St., St. Petersburg 190000
Postal address	
for Russian mail	37, Plyushchikha St., Moscow 119121
for international mail	43, Vorontsovskaya St., Moscow 109044
Call centre	8 800 200 77 99 (Russian toll-free) +7 495 739 77 99
Fax	+7 495 258 4781
Email address	info@vtb.ru (for queries and proposals) compliance@msk.vtb.ru (for insiders)
Website	<a href="http://www.vtb.ru/">http://www.vtb.ru/</a> , <a href="http://www.vtb.com/">http://www.vtb.com/</a>
Details	
OKPO code	00032520
TIN	7702070139
Correspondent account with Operations Department of the Central Bank of the Russian Federation, Main Branch for the Central Federal District, Moscow	30101810700000000187
Russian BIC	044525187
All-Russian Classifier of Administrative Division	40262563000
Taxpayer Record Validity Code	997950001
TELEX	412362 BFTR RU
SPRINTMAIL	PROTOCOL/MOSVTB0/CEA
SWIFT	VTBRRUMM VTBRRUMM SEC VTBRRUMM CSD (depository)

## 10.2. CONTACT INFORMATION

### VTB Bank regional branch network

#### Branch of JSC VTB Bank in Voronezh

Address: 58, Revolyutsii Avenue, Voronezh 394006  
Phone: +7 4732 53 1926

#### Branch of JSC VTB Bank in Arkhangelsk

Address: 2/68, Pomorskaya St., Arkhangelsk 163000  
Phone: +7 8182 20 0888

#### Branch of JSC VTB Bank in Veliky Novgorod

Address: 24/1, Mira St., Veliky Novgorod 173025  
Phone: +7 8162 65 0206

#### Branch of JSC VTB Bank in Vologda

Address: 39, Pobedy Avenue, Vologda 160001  
Phone: +7 8172 72 8118, + 7 8202 53 4001

#### Branch of JSC VTB Bank in Kaliningrad

Address: 5, Bol'nichnaya St., Kaliningrad 236006  
Phone: +7 4012 46 4671

#### Branch of JSC VTB Bank in Murmansk

Address: 5/23, Vorovskogo St., Murmansk 183038  
Phone: +7 8152 45 2437

#### Branch of JSC VTB Bank in St. Petersburg, Krasnogvardeysky District

Address: 53, Lit. A, Malookhtinskiy Avenue, Krasnogvardeysky District, St Petersburg 195112  
Phone: + 7 812 320 0760

#### Branch of JSC VTB Bank in St. Petersburg, Kirovsky District

Address: Office 3N, 47, Lit. A, Stachek Avenue, Kirovsky District, St Petersburg 198097  
Phone: +7 812 324 2026

#### Branch of JSC VTB Bank in St. Petersburg, Meridian

Address: 212, Moskovsky Avenue, St Petersburg 196066  
Phone: +7 812 327 2702

#### Branch of JSC VTB Bank in St. Petersburg, Clearing House 4

Address: 7, Lit. A, Dumskaya St., St. Petersburg 191011  
Phone: +7 812 710 4901

#### Branch of JSC VTB Bank in St. Petersburg, Clearing House 5

Address: 30, Lit. A, Bolshaya Morskaya St., St. Petersburg 190000  
Phone: +7 812 494 9454

#### Branch of JSC VTB Bank in St. Petersburg, Udelny

Address: 11, Lit. A, Svetlanovsky Avenue, St. Petersburg 194223  
Phone: +7 812 552 9474

#### Branch of JSC VTB Bank in St. Petersburg, Clearing House

Address: 78/12, Lit. A, Maliy Avenue, Vasilyevsky Island, St. Petersburg, 199406  
Phone: +7 812 718 5837

#### Leningrad region Branch of JSC VTB Bank

Address: 38, 25<sup>th</sup> October Avenue, Gatchina, Leningrad region, 188300  
Phone: +7 813 719 0832

#### Branch of JSC VTB Bank in Petrozavodsk

Address: 4, Kyibysheva St., Petrozavodsk, Republic of Karelia, 185035  
Phone: +7 8142 76 2044

#### Branch of JSC VTB Bank in Pskov

Address: 1A, Internatsionalnii Lane, Pskov 180007  
Phone: + 7 8112 72 2576

#### Branch of JSC VTB Bank in Rostov-on-Don

Address: 62 bldg 284, Voroshilovsky Avenue, Rostov-on-Don 344010  
Phone: +7 8632 97 2728, +7 8632 97 2729

#### Branch of JSC VTB Bank in Stavropol

Address: 7, Marshala Zhukova St., Stavropol 355000  
Phone: +7 8652 26 1754

#### Branch of JSC VTB Bank in Nizhny Novgorod

Address: 4, Reshetnikovskaya St., GSP 78, Nizhny Novgorod 603950  
Phone: +7 831 428 0434, +7 831 428 1801

#### Branch of JSC VTB Bank in Ekaterinburg

Address: 5, Marshala Zhukova St., Ekaterinburg 620014

#### Branch of JSC VTB Bank in Krasnoyarsk

Address: 3B, Krasnaya Sq., Krasnoyarsk 660021  
Phone: +7 3912 56 0802

#### Branch of JSC VTB Bank in Khabarovsk

Address: 7, Moskovskaya St., Khabarovsk 680000  
Phone: +7 4212 41 3601

## Banks and financial companies of VTB Group in Russia

### JSC VTB Bank

Address: 29, Bolshaya Morskaya St.,  
St. Petersburg 190000  
Phone: 8 800 200 7799 (toll-free in Russia); +7 495 739 7799  
Fax: +7 495 258 4781  
Website: [www.vtb.ru](http://www.vtb.ru)  
Email: [info@vtb.ru](mailto:info@vtb.ru)

### PJSC Bank VTB24

Address: 35, Myasnitskaya St., Moscow 101000  
Phone: 8 800 100 2424; +7 495 777 2424  
Fax: +7 495 980 4666  
Website: [www.vtb24.ru](http://www.vtb24.ru)  
Email: [info@vtb24.ru](mailto:info@vtb24.ru)

### OJSC Bank of Moscow

Address: 8/15 bldg 3, Rozhdestvenka St., Moscow 107996  
Phone: +7 495 925 8000  
Fax: +7 495 795 2600  
Website: [www.bm.ru](http://www.bm.ru)  
Email: [info@mmbank.ru](mailto:info@mmbank.ru)

### PJSC Leto Bank

Address: 8, Preobrazhenskaya Sq., Moscow 107061  
Phone: 8 800 510 9510  
Fax: +7 495 646 5814  
Website: [www.letobank.ru](http://www.letobank.ru)  
Email: [welcome@letobank.ru](mailto:welcome@letobank.ru)

### CJSC Holding VTB Capital

Address: Federation Tower West, 12, Presnenskaya Emb., Moscow 123100  
Phone: +7 495 960 9999  
Fax: +7 495 664 4700  
Website: [www.vtbcapital.com](http://www.vtbcapital.com)  
Email: [info@vtbcapital.com](mailto:info@vtbcapital.com)

### Insurance Company VTB Insurance Ltd.

Address: 2/4 bldg 1, Turgenevskaya Sq., Moscow 101000  
Phone: +7 495 580 7333; +7 495 644 4440; 8 800 100 4440 (toll free in Russia)  
Fax: +7 495 589 2408  
Website: [www.vtbins.ru](http://www.vtbins.ru)  
Email: [info@vtbins.ru](mailto:info@vtbins.ru)

### OJSC VTB Leasing

Address: 10, 2<sup>nd</sup> Volkonskiy Per., Moscow 127473  
Phone: +7 495 514 1651  
Fax: +7 495 514 1650  
Website: [www.vtb-leasing.com](http://www.vtb-leasing.com)  
Email: [info@vtb-leasing.com](mailto:info@vtb-leasing.com)

### VTB Factoring Ltd.

Address: 52 bldg 1, Kosmodamianskaya Emb., Moscow 115054  
Phone: +7 495 783 3534  
Fax: +7 495 783 3534  
Website: [www.vtbf.ru](http://www.vtbf.ru)  
Email: [factoring@vtbf.ru](mailto:factoring@vtbf.ru)

### CJSC VTB Registrar

Address: 23, Pravdy St., Moscow 125040  
Phone: +7 495 787 44 83  
Fax: +7 499 257 1700  
Website: [www.vtbreg.ru](http://www.vtbreg.ru)  
Email: [info@vtbreg.ru](mailto:info@vtbreg.ru)

### CJSC VTB Specialized Depository

Address: 35, Myasnitskaya St., Moscow 101000  
Phone: +7 495 956 3070  
Fax: +7 495 956 3071  
Website: [www.odk.ru](http://www.odk.ru)  
Email: [odk@odk.ru](mailto:odk@odk.ru)

### NPF VTB Pension Fund

Address: 52 bldg 5, Kosmodamianskaya Emb., Moscow 115054  
Phone: +7 495 228 0989  
Fax: +7 495 228 0989  
Website: [www.vtbnpf.ru](http://www.vtbnpf.ru)  
Email: [info@vtbnpf.ru](mailto:info@vtbnpf.ru)

### VTB Real Estate Ltd.

Address: 70, Mosfilmovskaya St., Moscow 119590  
Phone: +7 495 925 4570  
Fax: +7 495 925 4570  
Website: [www.vtbr.ru](http://www.vtbr.ru)  
Email: [info@vtbr.ru](mailto:info@vtbr.ru)

### MultiCarta Ltd.

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Phone: +7 495 784 6055; +7 495 785 1515  
Fax: +7 495 785 1224  
Website: [www.multicarta.ru](http://www.multicarta.ru)  
Email: [info@multicarta.vtb.ru](mailto:info@multicarta.vtb.ru)

### OJSC VTB DC

Address: room 47, office XIV, 8, Brestskaya St., Moscow 125047  
Phone: +7 495 795 0042  
Fax: +7 495 795 0044

## VTB Group banks and financial companies outside of Russia

### Banks and financial companies in Europe

#### VTB Capital Plc

Address: 14, Cornhill, London EC3V 3ND, United Kingdom

Phone: + 44 20 3334 8000

Fax: +44 20 3345 8900

Website: [www.vtbcapital.com](http://www.vtbcapital.com)

#### VTB Bank (Austria) AG

Address: Postfach 560, Parkring 6, Wien A-1010, Austria

Phone: + 43 15 153 50

Fax: + 43 15 153 5316

Website: [www.vtb-bank.at](http://www.vtb-bank.at)

Email: [general@vtb-bank.at](mailto:general@vtb-bank.at)

#### VTB Bank (France) SA

Address: 79/81, Boulevard Haussmann 75382, Paris Cedex 08, France

Phone: +33 14 006 4321

Fax: +33 14 006 4848

Website: <http://france.vtb.com>

#### VTB Bank (Deutschland) AG

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Phone: +49 69 216 80

Fax: + 49 69 216 86319

Website: [www.vtb.de](http://www.vtb.de)

Email: [service@vtb.de](mailto:service@vtb.de)

#### RCB Bank Ltd.

Address: 2, Amathuntos St., P.C.3105, Limassol, Cyprus

Phone: + 357 2583 7300

Fax: +357 2534 2192

Website: [www.rcbcy.com](http://www.rcbcy.com)

Email: [rcb@rcbcy.com](mailto:rcb@rcbcy.com)

#### VTB Bank J.S.C. Belgrade

Address: 2 Balkanska St., Belgrade 11000, Serbia

Phone: +381 11 395 2200

Fax: +381 11 395 2240

Website: [www.vtbbanka.rs](http://www.vtbbanka.rs)

E-mail: [info@vtbbanka.rs](mailto:info@vtbbanka.rs)

### Banks in the CIS and Georgia

#### PJSC VTB Bank (Ukraine)

Address: 8/26, Taras Shevchenko Blv./ Pushkinskaya St., Kiev 01004, Ukraine

Phone: +380 44 391 5409, +380 44 593 6952

Fax: +380 44 391 5409

Website: [www.vtb.com.ua](http://www.vtb.com.ua)

Email: [info@vtb.com.ua](mailto:info@vtb.com.ua)

#### CJSC VTB Bank (Belarus)

Address: 14, Moskovskaya St., Minsk 220007, Belarus

Phone: +375 17 309 1515

Fax: +375 17 309 1530

Website: [www.vtb-bank.by](http://www.vtb-bank.by)

Email: [info@vtb-bank.by](mailto:info@vtb-bank.by)

#### CJSC VTB Bank (Armenia)

Address: 46, Nalbandyana St., Yerevan 0010, Armenia

Phone: +374 1056 5860

Fax: +374 1056 5578

Website: [www.vtb.am](http://www.vtb.am)

Email: [headoffice@vtb.am](mailto:headoffice@vtb.am)

#### OJSC VTB Bank (Azerbaijan)

Address: 38, Khatai Avenue, Baku AZ1008, Azerbaijan

Phone: +99 412 492 0080; +99 412 437 7120

Fax: +99 412 437 7121

Website: [www.vtb.az](http://www.vtb.az)

Email: [info@vtb.az](mailto:info@vtb.az)

#### JSC VTB Bank (Kazakhstan)

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Phone: +7727 330 5050

Fax: +7727 330 4050

Website: [www.vtb-bank.kz](http://www.vtb-bank.kz)

Email: [info@vtb-bank.kz](mailto:info@vtb-bank.kz)

#### JSC VTB Bank (Georgia)

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Address: 14, Chanturia St., Tbilisi 0108, Georgia

Phone: +99 532 50 5505

Fax: +99 532 99 9139; +99 532 95 6085

Website: [www.vtb.com.ge](http://www.vtb.com.ge)

Email: [admin@vtb.com.ge](mailto:admin@vtb.com.ge)

### Banks and financial companies in Asia and Africa

#### Banco VTB Africa S.A.

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Phone: +244 222 39 0307, +244 222 39 2227

Fax: +244 222 39 5889

Email: [info@vtb.ao](mailto:info@vtb.ao)

#### Vietnam-Russia Joint Venture Bank

Address: 1st & 2nd Floor, Yet Kieu Str., Hoan Kiem Dist., Hanoi, Vietnam

Phone: + 844 3942 6668

Fax: +844 3942 6669

Website: [www.vrbank.com.vn](http://www.vrbank.com.vn)

Email: [vrbank@vrbank.com.vn](mailto:vrbank@vrbank.com.vn)



#### Branches and representative offices abroad

##### JSC VTB Bank Branch in Shanghai (China)

Address: offices 1101A -1103, Plaza 66, 1266, Nanjing Xilu, Shanghai municipality 200040, the People's Republic of China

Phone: + 8621 6136 6236, +8621 6136 6263

Fax: + 8621 6136 6265

Email: [shanghaibranch@vtb.com](mailto:shanghaibranch@vtb.com)

##### JSC VTB Bank Branch in New Delhi (India)

Address: Taj Mahal Hotel, 1 Mansingh Road, New Delhi 110011, India

Phone: +9111 6622 1000 Fax: +9111 6622 1024

Website: [www.vtbindia.cin](http://www.vtbindia.cin)

Email: [indiabbranch@vtb.com](mailto:indiabbranch@vtb.com)

##### Representative office of JSC VTB Bank in China

Address: 18BC, CITIC bldg, 19, Jianguomenwai dajie, Beijing 100004, China

Phone: +86 10 8526 2800

Fax: +86 10 8526 2810

Email: [chinavtb@public3.bta.net.cn](mailto:chinavtb@public3.bta.net.cn)

##### Representative office of JSC VTB Bank in Italy

Address: 8, Piazzale Principessa Clotilde, Milan 20121, Italy

## 11. INFORMATION FOR SHAREHOLDERS

### *Share capital*

As of 31 December 2014, VTB Bank's charter capital amounted to RUB 343,643,383,623.38 and was divided into 34,364,338,362,338 shares. The total number of outstanding ordinary shares is 12,960,541,337,338, and the total number of outstanding preference shares is 21,403,797,025,000. In accordance with the its Charter, the Bank has the right to issue a maximum number of 14,000,000,000,000 ordinary shares with a par value of RUB 0.01 each, in addition to the shares already placed.

The state registration number of VTB Bank's outstanding ordinary shares is 10401000B. The record date for the state registration of the additional issue of VTB Bank's ordinary shares is 29 September 2006.

VTB Bank's shares trade on the Moscow Exchange and on the London Stock Exchange (LSE) in the form of Global Depositary Receipts (GDRs). Moscow Exchange has included VTB Bank's shares in its top Level 1 list and into the MICEX Index, MICEX 10 Blue Chip Index, Broad Market Index and MICEX Financials Index.

Each VTB GDR is equivalent to 2,000 ordinary shares. The Bank of New York Mellon is the depositary bank for the VTB GDR Programme. On 31 December 2014, GDRs accounted for 10.42% of the Bank's voting shares or 3.93% of the Bank's share capital.

### *Shareholder structure*

The Bank's majority shareholder is the Russian Federation, represented by the Federal Agency for State Property Management and the Ministry of Finance. As of 31 December 2014, the Federal Agency for State Property Management owned 60.93% of VTB Bank's ordinary shares and the Ministry of Finance owned 100% of the Bank's preference shares. The Russian Federation's total share in the Bank's share capital is 85.27%.

Shareholder	Number of shares	% of voting shares	% of share capital
Russian Federation, represented by the Federal Agency for State Property Management	7,897,477,400,292	60.93	22.98
Sberbank of Russia	574,552,904,476	4.43	1.67
Norges Bank	455,965,152,748	3.52	1.33
State Oil Fund of the Republic of Azerbaijan	381,913,414,634	2.95	1.11
Credit Suisse AG	382,012,791,748	2.95	1.11
Ministry of Finance of the Russian Federation	21,403,797,025,000 (preference shares)	-	62.28
Other legal entities and individuals	3,268,619,673,440	25.22	9.52

As of 26 July 2014, VTB shares were owned by 96,253 shareholders, including 94,987 individuals.

VTB Bank is not aware of any shareholders owning more than 1% of the Bank's authorised share capital, except those mentioned above. Information on the participation of members of the Supervisory Council and the Management Board in VTB's share capital is available in the Corporate Governance section of this report.

### *The General Meeting of Shareholders*

The General Meeting of Shareholders is the supreme governing body of VTB. The Annual General Meeting of Shareholders (AGM) is held every year. The Supervisory Council may also decide to convene an Extraordinary Meeting of Shareholders (EGM). The date of the General Meeting of Shareholders is set by the Supervisory Council.

The Bank notifies its shareholders about the General Meeting of Shareholders by a notice published on the official website of the Bank no later than 30 days prior to the Meeting. Decisions taken at the General Meeting of Shareholders and the results of voting are communicated to shareholders in the same manner. Ballot papers are sent to shareholders by post no later than 20 days prior to the Meeting.

Materials related to the General Meeting of Shareholders are available to shareholders at Shareholder Support Centres or on the official corporate website [www.vtb.ru](http://www.vtb.ru). VTB Bank's GDR holders, wishing to participate in voting on the agenda of the General Meeting of Shareholders, should contact the depositary bank for the GDR programme (The Bank of New York Mellon). The depositary bank's contact details can be found below.

Information about the 2014 AGM can be found in the Corporate Governance section of this report.

### *Dividend policy*

One of the main rights of VTB shareholders is the right to receive a share of the Bank's net profit in the form of dividend payments. Dividend payments are approved by the AGM, following recommendations made by the Supervisory Council. The Supervisory Council bases its recommendations as to the size of the dividend payment on the Bank's net profit.

Dividends for the years 2010-2013 were between 10% and 20% of the full year net profit under IFRS. In 2015, the Bank plans to adopt a new dividend policy.

The size of the dividend payment per share, as well as the period and form of payment are determined at the General Meeting of Shareholders. The size of the dividend payment cannot exceed the amount recommended by the Supervisory Council. The amount of accrued dividends per VTB share is calculated to the nearest kopeck. The rounding of figures is based on mathematical rounding rules.

In accordance with the Federal Law "On Joint Stock Companies" the date when the list of persons entitled to a share of the bank's net profit is compiled should be determined at the General Meeting of Shareholders, but can be no sooner than 10 days before the date when the decision to pay dividends is due to be made, and no later than 20 days following such a decision. Dividend payments to nominal shareholders and trustees listed on the shareholder register must be made within 10

working days, while dividend payments to other registered shareholders must be made within 25 working days of the date when the list of persons entitled to dividends is compiled.

Shareholders appearing on the register receive dividends by postal order or bank transfer to the shareholders' accounts at their request (an appropriate application form is required for this). Shareholders whose rights are registered via nominal shareholders receive dividends in monetary form in accordance with the procedure stipulated in Russian laws on securities. The current legislation, which was amended on 1 January 2014, does not provide for cash dividend payments.

Any dividends accrued, but unclaimed by shareholders within a period of three calendar years, are subject to allocation back to the profit of the Bank. Therefore, if a shareholder does not claim his or her accrued dividends within three years, he or she loses the right to receive them. This rule does not apply to shareholders who receive their dividends by bank transfer, as the transfer of funds to a shareholder's account is considered sufficient evidence of a dividend payment.

### *Dividend payments*

VTB's AGM on 19 June 2014 approved the decision to pay dividends for 2013 in the amount of RUB 0.00116 per ordinary share with a par value of RUB 0.01. The total amount of dividends reached RUB 15,034 billion (RUB 14,959 billion for 2012). The dividend per share fell 18.5% due to the increase in the number of ordinary shares outstanding as a result of the additional share issue in 2013.

In accordance with a decision passed by the AGM, the list of persons that have the right to receive dividends for 2013 was compiled as of 1 July 2014. Dividends were paid in the time set out by law. As of 31 December 2014, the amount paid in dividends amounted to RUB 15,031,905,198.69, with the proportion of dividends paid out of the total declared dividends amounted to 99.986%. The dividend payments to the majority shareholder, the Federal Agency for State Property Management amounted to RUB 11,293,392,682.42. There were no outstanding dividends payable to the Federal budget.

Since 2014, dividends have been paid using the 'cascade' payment mechanism. The mechanism provides that issuers transfer the total amount of dividend to the first level of nominal holders appearing on the register, which in turn distribute it among beneficial owners, or other custodians and depository banks, who in turn are obliged to further transfer dividends to ultimate shareholders. Ultimate shareholders appearing on the list of owners receive dividends directly from the issuer.

The record of dividend payments for the years 2009-2013 is set out in the table below.

	2009	2010	2011	2012	2013
Net profit in accordance with RAS (in RUB million)	23,752	43,343	24,406	18,096	34,485
Dividend amount per ordinary share (RUB)	0.00058	0.00058	0.00088	0.00143	0.00116
Total amount of dividend payments (in RUB million)	6,067	6,067	9,205	14,959	15,034
Dividend payout ratio (% of net profit in accordance with RAS)	25.54	14	37.72	82.66	43.6

## *Dividend taxation*

A tax agent calculates and deducts tax from the dividend payments it makes at the year-end. Since 1 January 2014, when income is distributed in the form of dividends on shares issued by a Russian organisation, a tax agent can be considered not only an issuer of these shares, but also, in cases stipulated by law, a trustee, a depository and so on.

Given the above, and taking into account that the income tax is calculated and withheld by a tax agent, mutual funds, foreign institutional and individual investors can apply for a tax exemption or a reduced tax rate on dividends received by submitting documents that demonstrate that they have the right to preferential tax treatment to the Bank's registrar, CJSC VTB Registrar, or to the depository, where his or her shares are registered. In the case of share transfer to beneficial ownership, documents should be submitted to a trust manager. A complete list of the required documents can be found in the Investor Relations section of [www.vtb.ru](http://www.vtb.ru).

Since 1 January 2015, the tax rate on dividends has changed, and for both physical and legal entities that are residents of the Russian Federation now amounts to 13% (previously it was 9%), and 15% for non-residents. This rate applies to the total dividend sum, which can be less than the total volume of payments based on the income received by VTB Bank as dividends from participating in other companies, as tax has already been paid on these amounts.

If a double taxation agreement applies, tax payments are made in accordance with the rate specified in the agreement, taking into account Russian legislation.

## *Disclosure*

VTB Bank adheres to the principle of providing shareholders, potential investors and professional market participants with reliable information about the Bank's operations, that may be useful for making investment and management decisions.

VTB Bank discloses its information in the form of annual report, quarterly reports, lists of affiliates, material facts and announcements on events, that are required to be disclosed in Russia and abroad, listing prospectuses, annual financial statements and other information, subject to mandatory disclosure by joint stock companies.

VTB pays particular attention to ensuring that any relevant information is available simultaneously to all shareholders and analysts in accordance with principles of openness and transparency. The Bank strives to maintain the highest level of transparency in relation to its activities, and discloses a wide range of information. The publication of information that has to be disclosed in accordance with the requirements of the Central Bank, and in accordance with the Federal Law on the Securities Market and the Bank's Charter, is conducted through authorised news agencies, Interfax disclosure portal [www.e-disclosure.ru/portal/company.aspx?id=1210](http://www.e-disclosure.ru/portal/company.aspx?id=1210), and the Bank's corporate website at [www.vtb.ru/ir/disclosure/](http://www.vtb.ru/ir/disclosure/). VTB Bank has the Regulation on Information Policy in place to ensure transparency, and this is available on VTB's website at: [www.vtb.ru/group/documents/](http://www.vtb.ru/group/documents/).

VTB publishes its audited consolidated financial statements under IFRS together with the auditor's report at the end of the fiscal year on [www.vtb.ru/ir/disclosure/fannual/](http://www.vtb.ru/ir/disclosure/fannual/), and via the Interfax disclosure portal, [www.e-disclosure.ru/portal/company.aspx?id=1210](http://www.e-disclosure.ru/portal/company.aspx?id=1210). In addition, the Bank

discloses its condensed, unaudited consolidated financial statements at the end of the first, second and third quarters. VTB places announcements of its financial results on the London Stock Exchange's website via the RNS information distribution system, followed by the publication of press releases on the corporate website and dissemination to media. The Bank's quarterly financial results are also posted on the Moscow Exchange website.

An electronic version of the Annual Report is uploaded onto the Bank's corporate website, [www.vtb.ru/ir/disclosure/fannual/](http://www.vtb.ru/ir/disclosure/fannual/), and the Interfax disclosure portal at [www.e-disclosure.ru/portal/company.aspx?id=1210](http://www.e-disclosure.ru/portal/company.aspx?id=1210). Hard copies of the Annual Report are available at Shareholders' Support Centres, or can be requested by sending an email to [InvestorRelations@vtb.ru](mailto:InvestorRelations@vtb.ru).

In 2014, the Bank, for the second time in a row, won the competition for Best Disclosure of Corporate Information on an Internet Website in the category Public Company. In 2014, VTB Bank won the XVII Annual Report Competition, held by the Moscow Exchange in conjunction with media group RtsB, in the category Best Annual Report in the Financial Sector.

## *Contact information*

### **JSC VTB Bank**

#### *Legal address*

29, Bolshaya Morskaya St., St. Petersburg 190000, Russia

#### *Postal address*

37, Plyushchikha St., Moscow 119121, Russia

#### *General Enquiries of VTB Bank*

Phone: +7 495 739 7799, 8 800 200 7799

E-mail: [info@vtb.ru](mailto:info@vtb.ru)

### **Auditor**

CJSC Ernst & Young Vneshaudit  
77, bldg 1, Sadovnicheskaya Emb., Moscow 115035, Russia

Phone: +7 495 755 9700

### **Depository Bank for VTB GDR Programme**

The Bank of New York Mellon

#### *Legal address:*

One Wall Street, New York, NY 10286, USA

#### *Postal address:*

BNY Mellon, Depository Receipts Division  
101 Barclay Street – 22nd Floor  
New York, NY 10286, USA

### **Registrar**

CJSC VTB Registrar

#### *Legal address:*

23, Pravdy St., Moscow 125040, Russia

#### *Postal address:*

P.O. Box 54, Moscow 127137, Russia  
Phone/Fax: +7 495 787 4483  
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### **Chief of Staff of the Supervisory Council - Corporate Secretary**

Evgeniy Ignatiev

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### **Investor Relations Department (institutional investors and analysts)**

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### **Shareholder Relations Department (individual shareholders)**

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### **Shareholders' Consultative Council**

Website: [www.vtb.ru/ir/sovet](http://www.vtb.ru/ir/sovet);

[www.facebook.com/ksavtb](https://www.facebook.com/ksavtb);

[www.twitter.com/ksavtb](https://www.twitter.com/ksavtb)

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### **VTB Bank Shareholders' Center in Moscow**

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