

Annual Report 2016



World Without Barriers. VTB Group

*Achieving business effectiveness through
technology-based approaches*

Contents

Mission and values	4	5.3. General Meeting of Shareholders of VTB Bank	84
Statement of the Chairman of the Supervisory Council	6	5.4. Supervisory Council of VTB Bank	87
Statement of the President and Chairman of the Management Board	8	5.5. Management Board of VTB Bank	105
1. VTB key financial highlights	10	5.6. Remuneration of the members of the Supervisory Council and the Management Board	115
2. VTB market position	14	5.7. Statutory audit commission of VTB Bank	116
3. Russian economy and banking sector in 2016	18	5.8. Internal control and audit	118
4. Management report	24	5.9. Investor relations	122
4.1. Key events in 2016	24	5.10. Disclosure policy of VTB Bank	126
4.2. VTB Group strategy	26	6. Corporate social responsibility	130
4.3. Review of operating performance	35	6.1. Personnel	130
4.3.1. Corporate-investment banking	35	6.2. Responsible resource management	132
4.3.2. Mid-corporate banking	47	6.3. Social programmes	134
4.3.3. Retail business	52	7. Financial statements	138
4.3.4. Other non-banking financial business	62	7.1. Management responsibility statement	138
4.4. Review of financial performance	63	7.2. Consolidated financial statements	138
4.5. Risk management	68	8. Annexes	148
5. Corporate governance	80	8.1. Share capital of VTB Bank	148
5.1. Overview of the corporate governance system	80	8.2. Dividends of VTB Bank	149
5.1.1. VTB Group governance	80	8.3. Report on compliance with the principles and recommendations of the code of corporate governance	151
5.1.2. Corporate governance of VTB Bank	81	8.4. Contact information	170
5.2. Development of corporate governance in 2016	83		

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's goal is to become a premier player in all of its priority markets.

Statement of the Chairman of the Supervisory Council



Dear shareholders, clients and partners,

VTB Group significantly improved its financial performance in 2016, while continuing to implement conservative risk management policies and paying special attention to cost management. I am very confident that our 2016 results, together with strong corporate social responsibility, ensure the sustainable and balanced development of the Group over the long term.

For the full year, VTB Group earned a net profit of RUB 51.6 billion, with sustainable performance across all key indicators, improved cost efficiency, and strong capital adequacy ratios. Our retail business's growing market share, the successful

launch of Post Bank, the positive impact of the integration of the Bank of Moscow, and our leading position in the corporate investment banking business have laid a solid foundation for future growth. In 2017, the Group will continue to work on merging VTB24 with VTB Bank, which will enable us to achieve significant synergies.

Strategy

The Supervisory Board approved a new medium-term strategy was adopted at the end of the year based on the latest market developments and VTB's successful experience. The strategy for 2017–2019 is aimed at increasing profitability, integrating the Group's banking business, and achieving a major technology-based transformation. Implementation of this strategy aims to strengthen the Group's competitive advantages, while we also optimising the organisational structure and costs, which should help us achieve significant growth in profitability.

The Group plans to increase the share of the retail business in the loan portfolio and deposits, optimise the cost of liabilities, increase profitability, and rapidly develop our transaction banking business. We are confident that, together with VTB's excellent standing in the sector, this strategy will generate positive results for shareholders and clients.

Corporate governance and shareholder relations

In 2016 VTB Group completed implementation of measures that had been adopted by the Supervisory Board to incorporate the provisions of the Corporate Governance Code approved by the Bank of Russia. In accordance with this

plan, the following modifications to the Charter were adopted during 2016: criteria for dealing with issues based on the majority of all voting members of the Supervisory Board, as well as measures envisioning the mandatory posting of minutes from General Meetings of Shareholders onto the company website. The authority of the Supervisory Board was expanded to include approval of the Bank's business plan and oversight of major deals entered into by its largest subsidiaries. A list of the most important issues to be discussed at face-to-face meetings of the Supervisory Council was developed. The required changes to the Charter will be considered by the General Meeting of Shareholders. This improved system for VTB corporate governance will make it possible to precisely coordinate the activities of each line of business in all the regions where they operate, increase revenue through efficient cooperation between lines of business, share best practices, as well as optimise expenditures by expanding the use of common resources and infrastructure among the Group's companies.

The group will continue to devote increased attention to treating all shareholders equally and maintaining an active dialog with all stakeholders. Based on past practice, the representative of minority shareholders, Valery Petrov, Chairman of the Shareholders Consultative Council, was elected to the Supervisory Council. During the reporting period Igor Repin, a member of the Shareholders Consultative Council, was also elected to the Audit Commission. Accordingly, individual shareholders are represented on both the management and oversight bodies.

During the last year, VTB has been actively developing electronic methods of interacting with shareholders. Electronic voting has been

possible at all shareholder meetings since July, and the mobile app VTB Shareholder, which was launched at the end of 2015, has attracted around 5,000 users in just one year.

All of this has helped to increase our 7+ corporate governance rating to 7++ on the scale developed by the Russian Institute of Directors (RID). This corresponds to the category "Highly Developed Corporate Governance Practices." In addition, RID experts have deemed the current composition of the Bank's Shareholders Consultative Council to be balanced and representative of the interests of all investor and shareholder groups.

Outlook

The progress that was achieved in key strategic priorities during 2016 will bear fruit in the years ahead, bringing new opportunities for growth and increasing the quality and pace of VTB Group's development. Moreover, VTB, which is developing as a systemically important company and a socially responsible leader, will continue to increase shareholder value and contribute to economic development in Russia and the other countries where we operate.

*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,

2016 was a successful year for VTB Group: we significantly increased profitability, with strong core revenue performance from key business lines, and a net profit of RUB 51.6 billion.

The Group's operating profit increased by 23.8% year-on-year, supported by recovery in net interest margin to 3.7%, compared to 2.6% a year earlier, and 7.3% year-on-year growth in net fee and commission income to RUB 81.8 billion. We have also improved the balance sheet, increasing the share of customer deposits to 66% of liabilities, and maintaining strong capital adequacy ratios.

Cost optimisation was one of VTB Group's key priorities in 2016, enabling us to limit the increase in staff costs and administrative expenses to the level of inflation. Our cost-effectiveness increased in 2016, with the costs to net operating income before provisions ratio declining to 45.8%, compared to 53.8% in 2015.

VTB Group became the leader in the Russian retail banking market, with loans to individuals growing by 11% year-on-year, and our market share increasing to 19.6%. Mortgage lending remains one of our key products, with the share in the Group's portfolio of loans to individuals rising to 46%, while consumer loans also showed solid growth.

Another important milestone in the development of the Group's retail business was the launch of Post Bank in January 2016 in partnership with the Russian Post. Even the first set of results show that this has been a very successful project: Post Bank showed not only impressive growth in its network, opening more than 6,300 offices, but it also achieved sustainable profitability in its first year of operation. The bank's Development Strategy to 2023 foresees the opening of 26,000 service points for 21 million clients. This will significantly improve access to high-quality banking services in Russia and bring in a large volume of clients for the Group, helping us reach an entirely new scale of presence in Russia's retail banking market.

VTB Group remained one of the leading lenders to Russia's largest companies, as well as to small and medium-sized businesses. Corporate loan portfolio quality continued to improve, which helped us keep cost of risk below the target level set out in our strategy and better than in 2015. The Group plays a key role

in some of the largest public-private partnerships for infrastructure projects of national importance.

A number of major transaction banking projects were completed in 2016, and deposits from clients of the Corporate-Investment business increased. Trade and export financing grew, including several important export finance transactions with EXIAR, further diversification by industry, and a move towards more complex structured projects while at the same time simplifying and accelerating internal procedures.

VTB Capital, the Group's investment banking arm, remains the leader in the main segments of the Russian investment banking market – debt capital markets, equity capital markets and corporate finance. During 2016, VTB helped to raise over RUB 1.5 trillion for the Russian economy. VTB Capital was the sole organiser of Russia's sovereign Eurobond issue. Our primary focus is on raising capital using the Russian trading and settlement infrastructure.

As part of the implementation of VTB Group's Strategy for 2014–2016, the merger with the Bank of Moscow was completed in 2016. We are proud of the fact that, thanks to careful coordination and hard work by the entire VTB team, the merger was smooth and efficient for all of our clients and partners.

The Strategy for 2017–2019, approved in December 2016, focuses on increasing core banking revenue and improving cost efficiency. The merger of VTB Bank and VTB24 in order to create a single, universal customer-oriented bank that will be a technological leader in the future remains a key priority. In addition, modernisation based on the latest technologies will gradually be achieved in all the Group's assets

from 2017 onwards. Modernisation envisages development of digital products, a significant reduction in the time it takes to bring new products and services to market, the development of data analysis models and an integrated programme of process automation. Under the new strategy, we have set the goal of delivering net profit of over RUB 200 billion by 2019.

I am certain that we will strengthen and improve upon last year's results, supported by growth in the Russian economy and increased business activity. I would like to thank the VTB team for their hard and effective work. We aim to improve the world around us: to strengthen the economy, support positive changes in our communities, develop human capital, and ultimately create long-term, sustainable growth in value for our shareholders.

*President
and Chairman
of the Management Board*

Andrey Kostin

1. VTB key financial highlights

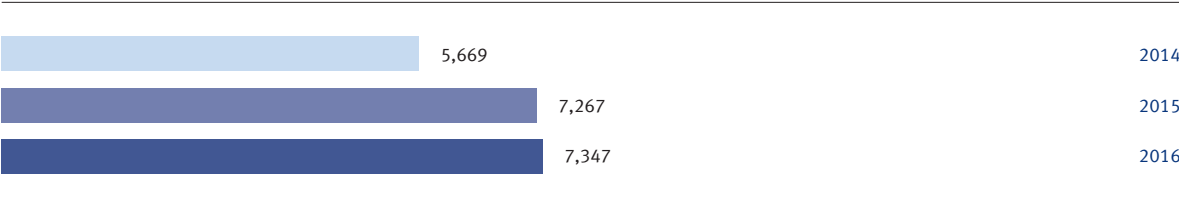
Total assets, RUB billion



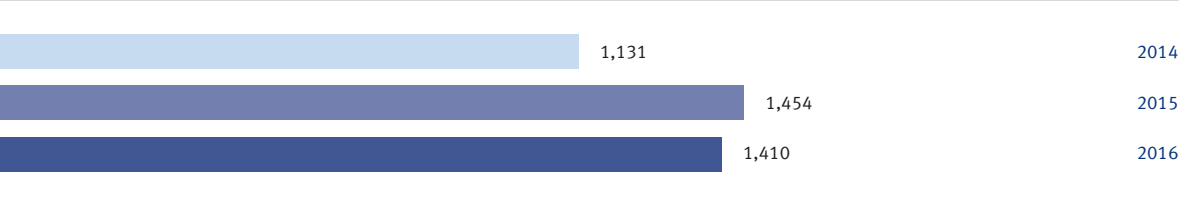
Customer loans,¹ RUB billion



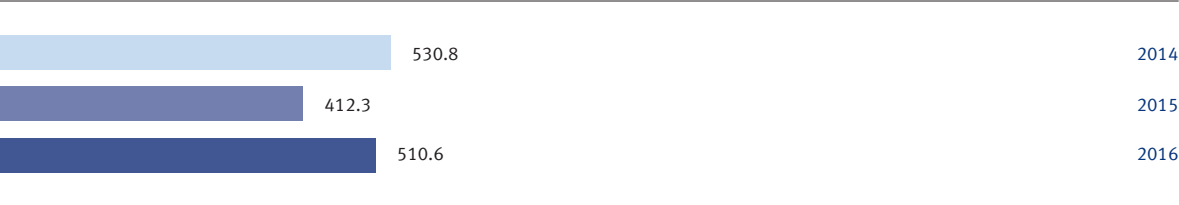
Customer deposits, RUB billion



Shareholders' equity, RUB billion



Net operating income before provisions for impairment, RUB billion



Net profit, RUB billion

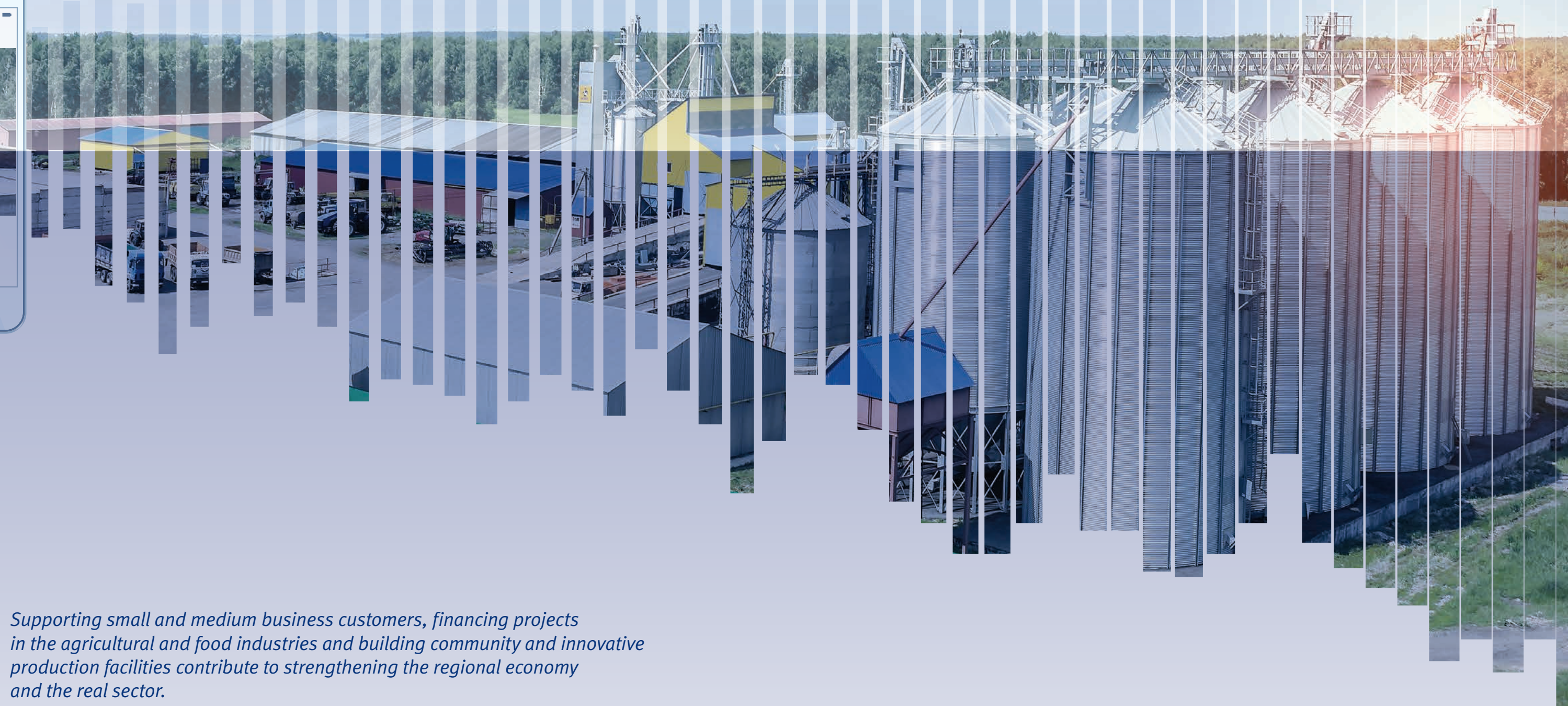


Key performance metrics, %

	2014	2015	2016
Net interest margin (NIM)	4.0	2.6	3.7
Cost to net operating income before provisions (CIR)	41.9	53.8	45.8
Return on equity (ROE)	0.1	0.1	3.6

1 Gross loans and advances to customers, including those pledged under repurchase agreements.

Providing real opportunities to small and medium business



Supporting small and medium business customers, financing projects in the agricultural and food industries and building community and innovative production facilities contribute to strengthening the regional economy and the real sector.

2. VTB market position

VTB Group is one of the leaders in Russian and international financial services markets, and is Russia's second-largest financial group.

The Group has an extensive branch network in Russia with over 7,700 offices, and is present in the world's key financial markets.

VTB Group in the Russian banking market (as of 31 December 2016)

Segment	Market share ² , %	Rank
Corporate loans	15.7	2
Corporate deposits	23.3	1
Retail loans	19.6	2
Retail deposits	11.0	2

VTB Bank (PJSC) (VTB Bank or the Bank) is the parent company of VTB Group (VTB or the Group). VTB Bank's majority shareholder is the Federal Agency for State Property Management, which owns 60.9% of the Bank's ordinary shares. The Ministry of Finance owns 100% of the Bank's type 1 preference shares, and the state corporation Deposit

Insurance Agency owns 100% of the Bank's Type 2 preference shares. The total share of the Russian Federation (in the form of the Federal Agency for State Property Management and the Ministry of Finance of the Russian Federation) and Deposit Insurance Agency in the Bank's share capital is 92.2%.

VTB Group key businesses (global business lines)

Corporate-Investment banking	Mid-Corporate banking	Retail business
Services to large corporate customers, providing a range of transactions with financial institutions	Services to mid-corporate customers, providing a full range of banking products and services	Services to individuals and small business customers and all types of insurance services
<ul style="list-style-type: none">Assets: RUB 6.8 trillionCustomer loans³: RUB 5.4 trillionCustomer deposits: RUB 3.1 trillion	<ul style="list-style-type: none">Assets: RUB 0.8 trillionCustomer loans³: RUB 0.6 trillionCustomer deposits: RUB 0.7 trillion	<ul style="list-style-type: none">Assets: RUB 4.1 trillionCustomer loans³: RUB 2.2 trillionCustomer deposits: RUB 3.5 trillion

VTB Group's global network is unique to the Russian banking industry. Group companies provide services in the CIS, Europe, Asia, North America and Africa, enabling the Group to facilitate international partnerships and promote Russian companies aiming to engage with global markets. The Group's international operations enable

diversification and increased profitability from its transactions in high-margin markets.

As of the end of 2016, the Group's banking business was active in 22 countries around the world. In the CIS countries, the Group has banks in Armenia, Ukraine, Belarus, Kazakhstan and Azerbaijan.

² Market share is calculated using VTB's methodology based on RAS data from the Bank of Russia. Market share in retail and corporate deposits do not include current accounts.
³ Loans and advances to customers (net of provisions), including amounts pledged under repurchase agreements.

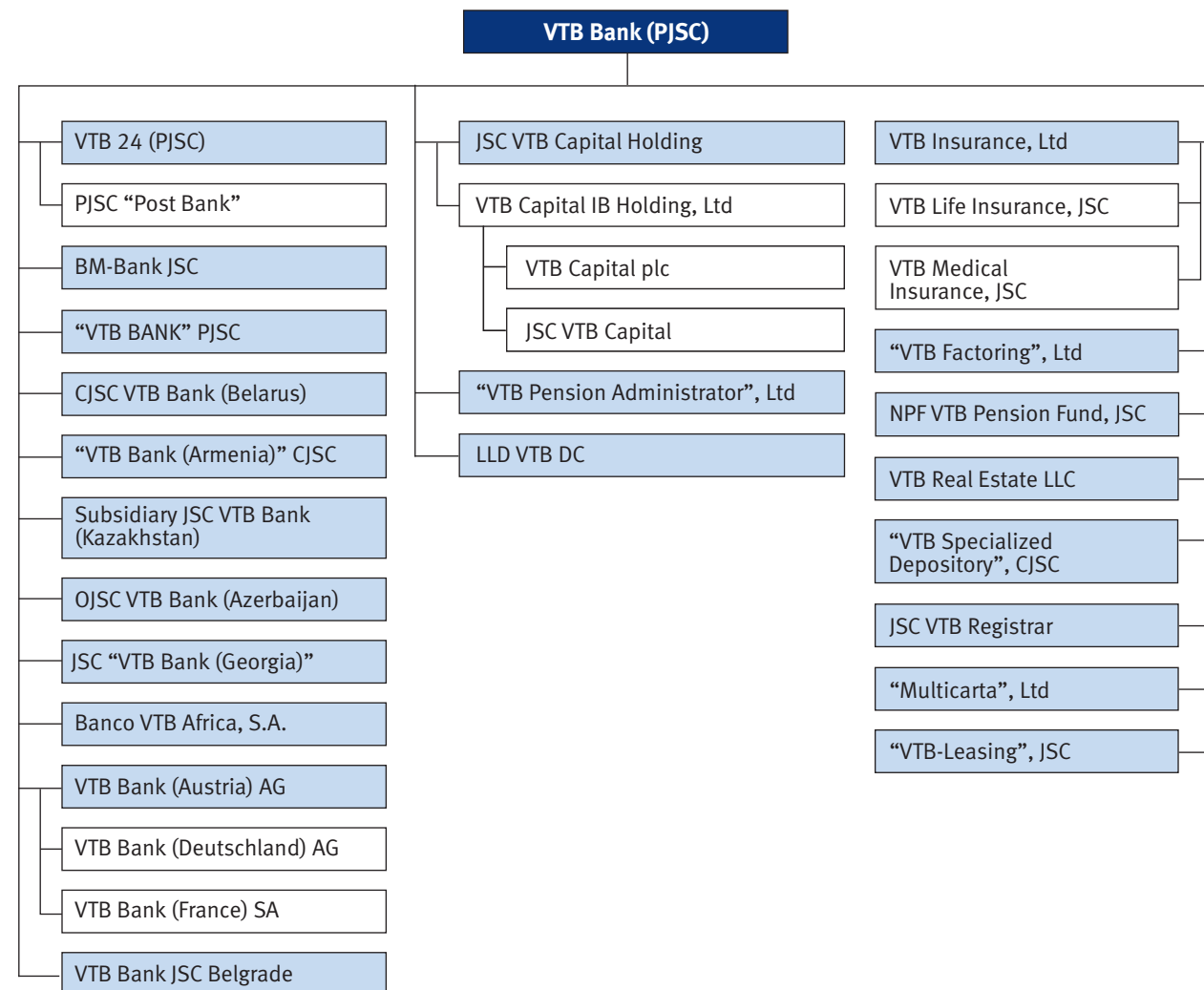
VTB Group global presence



At the end of 2016, 23.5 million individuals and companies were using VTB Group's banking and financial services in Russia and abroad (compared with 21.7 million at the end of 2015).

VTB also has banks in Austria, Germany and France, which are part of a European sub-holding with VTB Bank (Austria) acting as the parent bank. The Group also has subsidiary and affiliated banks in the United Kingdom, Cyprus, Serbia, Georgia and Angola, and branches in China and India,

and VTB Capital has branches in Singapore and Dubai. The Group's investment banking division provides broker-dealer operations in the US, conducts securities transactions and provides financial advisory services in Hong Kong, and operates investment banking services in Bulgaria. In addition, in Vietnam, VRB Bank, a joint venture between VTB and a Vietnamese loan institution, conducts banking activities.



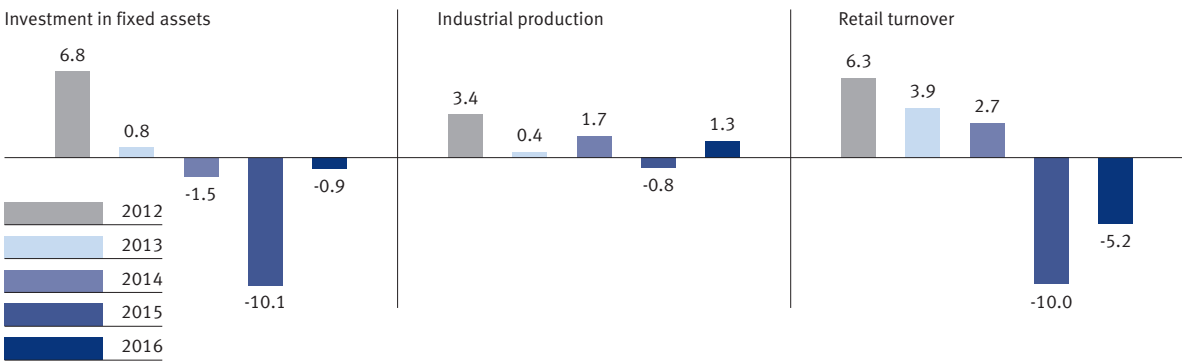
3. Russian economy and banking sector in 2016

Russian economy

In 2016, Russian household consumption and private corporate sector investment contracted, but the decline was less dramatic than in 2015. The former dropped 5.0%, from 9.8% in 2015, while the latter decreased 0.9% – compared to a 10.1% drop the previous year. This indicates that the Russian economy has completed its initial adjustment to the terms of trade shock and is set to expand in the coming quarters. Since mid-2016, signs of economic recovery have already started to emerge, including improving retail lending conditions and an expansion in mortgage lending, the bottoming-out of retail turnover and an increase in fixed asset investment. Overall, GDP contracted 0.2% in 2016 (compared to a 2.8% drop in 2015).

The macroeconomic climate was more supportive of household consumption in 2016 than in 2015.

Russian macroeconomic indicators, % change year-on-year



Source: Rosstat.

In December, unemployment decreased to 5.3%, reaching the level seen at the end of 2014. Nominal wage growth accelerated, up 7.7% in 2016 versus an increase of 5.1% in 2015. During the year, real wage growth was mostly in positive territory, while it was negative throughout 2015, with acceleration seen towards the end of the year, resulting in 0.7% growth for 2016, compared to a 9.0% decrease in 2015. As a result, the contraction in retail trade turnover improved to -5.2%, compared to -10.0% in 2015. Nevertheless, the retail sales recovery lags behind growth in real wages, which indicates that households continue to save rather than spend. Historically tight lending conditions and continuing household deleveraging are holding back any increase in consumer demand.

Investments in fixed assets continued to decline, a trend that began in 2013. Investment contracted 0.9% in 2016 against the dramatic downturn of 10.1% a year earlier. Investments were restrained by a variety of factors, including reduced access to external sources of financing and tight monetary policy. Nevertheless, investments began to recover in 2H 2016, with fixed capital investment growth of 0.5% year-on-year in 3Q 2016, the first positive quarterly change since 2Q 2014.

The Bank of Russia cut the key rate twice during 2016, from 11.0% to 10.0%. Though the disinflation trajectory is in line with the Bank of Russia's projections, and inflation expectations are gradually decreasing, the Bank of Russia's monetary policy remains conservative.

In line with the gradual downward trend witnessed since mid-2016, consumer inflation decreased from 12.9% year-on-year in December 2015 to 5.4% in December 2016. Headline inflation decreased as a result of favourable harvests, both domestically and globally, as well as a turnaround in oil prices, which supported the rouble rate against foreign currencies. Throughout the year, the rouble increased by as much as 17% against the US dollar, reaching RUB 60.7 against the dollar as of 31 December 2016.

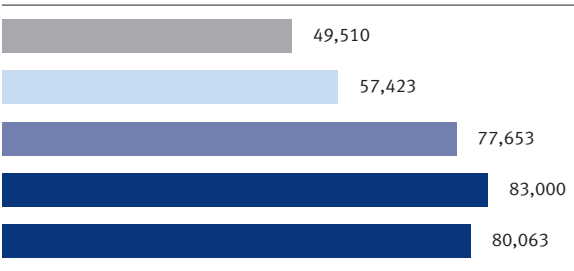
Russian banking sector

Russian banking sector assets decreased 3.5% in 2016, compared to a 6.9% increase in 2015 amid still-low demand for loans and a 17% increase in the value of the rouble versus the US dollar. The penetration of banking services, defined as a banks' total assets divided by GDP, also declined 7 percentage points year-on-year to 93%.

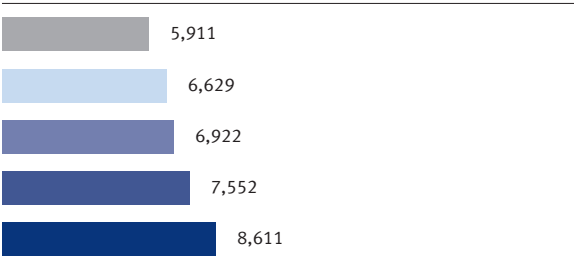
A stronger rouble, weak macroeconomic conditions and still-high interest rates had a negative impact on the volume of corporate loans for Russia, resulting in a 9.5% decrease in 2016, compared to a 12.7%

Russian banking sector, RUB billion

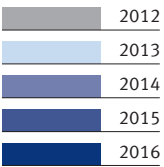
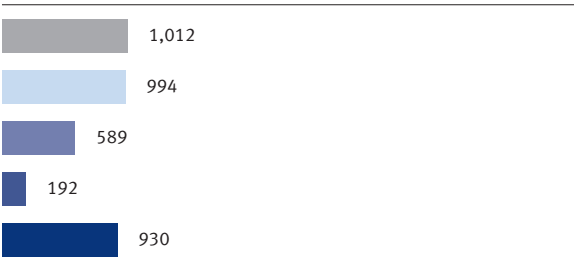
Assets



Equity



Net profit

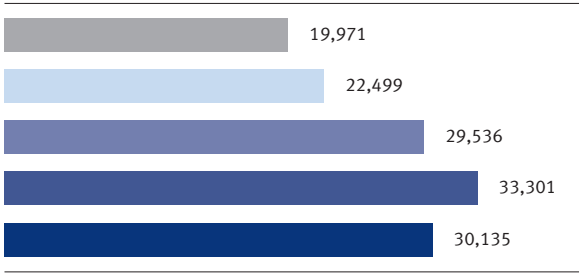


Source: Bank of Russia.

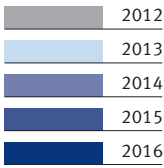
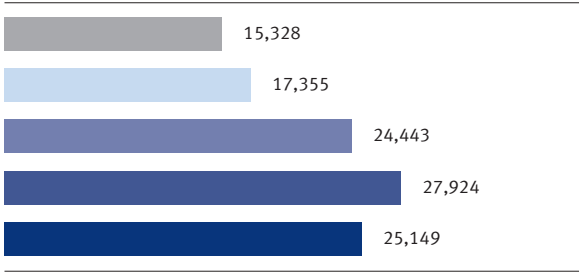
increase in 2015, when it was supported by a 23% drop in the value of the rouble. In contrast, retail lending in Russia increased 1.1% in 2016 on the back of accelerating mortgage lending growth (+12.4% versus +10.4% in 2015). This marked a turnaround from the 5.7% decline in retail lending a year earlier amid significant deleveraging. Total loans in the Russian market decreased 6.9% in 2016, after increasing 7.6% year-on-year in 2015.

Russian banking sector, RUB billion

Corporate loans

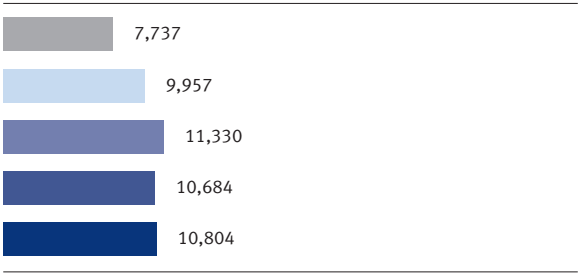


Corporate deposits

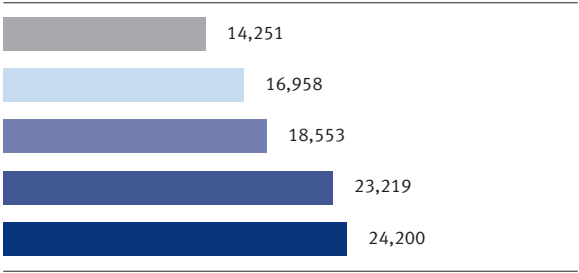


Asset quality stabilised as the share of overdue loans to total loans was flat at 6.7% in 2016. In corporate lending, the share edged up 5bp to 6.3% as of 31 December 2016, while in retail lending, it dropped 14bp to 7.9%. The share of provisions in the total loan portfolio increased 35bp to 8.2% at the end of 2016, which helped improve the coverage ratio to 158%, up from 149% at the end of 2015.

Retail loans



Retail deposits



Customer accounts decreased 3.5% in 2016, as a 4.2% growth in retail deposits was only partially offset the 9.9% drop in corporate accounts. A year earlier, customer accounts were up 18.9% in 2015, including a 25.2% expansion in retail deposits and 14.2% growth in corporate accounts. The share of customer deposits among total liabilities edged up to 69% from 68% as of the end of 2015.

Banking sector debt to the Bank of Russia decreased 49.2% year-on-year to 3.4% of total assets from 6.5% at the end of 2015, as the liquidity situation improved. The gross loan-to-deposit ratio slid 3 percentage points during 2016 to 83%.

In 2016, the lower cost of financing and lower provisioning expenses supported an increase in total profits to RUB 930 billion, up from RUB 192 billion a year before. According to the Bank of Russia, the number of unprofitable banks in the country decreased slightly to 178 from 180 in 2015.

Solid profit supported banks' capital adequacy. By year-end, the overall capital adequacy ratio (N1.0) had increased to 13.1% from 12.7% at the end of 2015.

Source: Bank of Russia.

Reasonable loans for modern housing



The Bank's participation in the government program for supporting housing loans, cooperation with major construction companies and special military lending makes modern housing more affordable for millions of Russians.

4. Management report

4.1. Key events in 2016

January

On 28 January, a signing ceremony was held to mark the creation of Post Bank to replace Leto Bank. As a result of the agreement, Russian Post acquired 50% minus one share of Leto Bank (renamed Post Bank in March 2016) through its 100% subsidiary; VTB Group retained a stake of 50% plus one share of Post Bank.

Post Bank's key goals are to provide citizens of Russia with better access to financial services, to inject spare cash reserves from individuals into the economy, and to increase competition in the financial services market.

March

On 14 March, an Extraordinary General Meeting of Shareholders was held by absentee voting. Issues related to the merger with the Bank of Moscow were discussed at the meeting. Following a vote, a resolution on the reorganisation of VTB Bank was adopted. From 14 March to 28 April 2016, those shareholders who voted against, or did not participate in voting on the reorganisation, had the right to present their shares for redemption. Shares were redeemed at a price of RUB 0.04 per ordinary registered share.

May

On 10 May, VTB Bank successfully completed its merger with the Bank of Moscow, thereby enabling the Group to ensure substantial additional cost savings and streamline the Group's business operations. As part of the merger, VTB took over the

bulk of the Bank of Moscow's business: about 70% of its assets, totalling more than RUB 900 billion according to IFRS. More than 10 million individuals and small businesses became clients of VTB Bank.

The Banker magazine awarded VTB Bank the top prize for "Deal of the Year" in the category "Best Issue of Sovereign Bonds" for the placement of federal loan bonds of the Russian Ministry of Finance that are linked to inflation. In July 2015, VTB Capital acted as the placement agent, the bookrunner and the settlement bank for the debut issue of federal loan bonds of the Russian Ministry of Finance linked to inflation in the amount of RUB 75 billion.

VTB Capital was the sole organiser of Russia's sovereign issue of Eurobonds in the amount of USD 1.75 billion.

June

The Annual General Meeting of Shareholders took place on 24 June. Around 1,140 shareholders and their representatives (including those participating in absentia) attended the meeting. The event was broadcast online on VTB Bank's website.

VTB Capital's research team took the top spot in surveys conducted by the Institutional Investor 2016 EMEA Research Team and the 2016 Extel Survey.

July

VTB Capital received a prestigious Euromoney Award for Excellence 2016 in the category "Best Investment Bank in Russia". The main criteria for evaluating the nominees were

financial indicators, the range of investment banking services and products offered and the efficient use of capital. VTB Capital has been winning the award for several years running.

According to the international magazine Trade & Forfaiting Review (TFR), VTB Bank was the winner for "Best Bank for Trade Finance in Russia and the CIS in 2016".

August

Post Bank's Supervisory Council approved its Development Strategy up to 2023. The Strategy calls for the opening of 26,000 Post Bank branches at post offices throughout the country. Post Bank is focused on multi-channel operations with individuals. The customer segments targeted by Post Bank are online shoppers, payroll customers, retirees and small and micro businesses. By 2023, the bank's client base will total 21 million people. This will be achieved by attracting both walk-in customers as well as active clients of Russian Post, which is one of the key synergies between Russian Post and VTB Group.

VTB Capital was named the Best Investment Bank in the United Kingdom in 2016 for M&A, based on analytical data from the business publication Finance Monthly and a survey of market participants.

September

VTB Capital was named Best Investment Bank in Debt Capital Markets in Russia, according to the Euromoney Real Estate Survey 2016.

October

VTB Bank was assigned the highest rating for corporate governance, 7++ (Developed Corporate Governance Practice), based on the results of annual independent monitoring carried out by the Russian Institute of Directors.

VTB Capital held the Eighth Annual RUSSIA CALLING! Investment Forum. The three-day event attracted more than 2,000 visitors, including 500 investors from 60 countries, government representatives and heads of leading global corporations. The forum featured about 1,000 business meetings for representatives of Russian companies and investors.

On 17 October, VTB Bank announced the launch of the placement of overnight bonds on the Moscow Exchange. Overnight bonds represent a unique new high-tech product on the stock market, designed for the overnight investment of unclaimed rouble balances. This tool is designed for a wide range of investors who are interested in reliable short-term financial instruments.

November

On 2 November, VTB's Supervisory Board decided to merge VTB24 Bank with VTB Bank. The integration of VTB24 will be carried out in accordance with VTB Group's strategy, which calls for the transfer of the Group's Russian banks to a single platform. The incorporation of VTB24 will optimise the structure of the Group's retail business in the Russian market, centralise management functions, unify the operating model and IT systems of the integrated banks and generate synergies from the merger of regional networks. All of this will result in a significant reduction in VTB Group's costs.

December

VTB successfully completed the construction of the Central Segment of the Western Rapid Diameter (WRD). On 2 December, Russian President Vladimir Putin attended the opening ceremony of the Central Segment of WRD. The public-private partnership project includes the construction and operation of the Central Segment of the entire length of the WRD. It is being implemented by Northern Capital Highway, a consortium formed by the leading shareholder VTB Capital.

On 8 December, an Extraordinary General Meeting of Shareholders was held in the form of absentee voting. The agenda included issues related to the approval of new versions of the Charter and the conversion of preference shares. The General Meeting of Shareholders decided to convert preference shares and Type A preference shares into new types of shares that allow for the payout of dividends not only for the year, but also for each quarter.

On 14 December, the VTB Bank Supervisory Board approved VTB Group's Development Strategy for 2017–2019. The Group's new strategy focuses on the following three priorities: 1) improving business profitability and increasing net profit to more than RUB 200 billion in 2019; 2) integrating the banking business, including the merger of VTB Bank and VTB24, and the establishment of a single universal bank; 3) and modernisation, including a breakthrough in the development of a modern customer-oriented bank through large-scale technological transformation.

On 16 December, an Extraordinary General Meeting of Shareholders was held in the form of absentee voting. The only item on the meeting's agenda related to determining the amount of dividends for Type 2 preferred registered shares of VTB Bank (PJSC), the terms and form of their payment for the first nine months of 2016, and the establishment of the date by which the persons entitled to receive dividends have been determined.

4.2. VTB Group strategy

In 2016, VTB Group completed the implementation of its Quality Growth Strategy (Development Strategy) that had been prepared for 2014–2016 and was approved by the Supervisory Council on 10 April 2014. The objectives of the Development Strategy for 2014–2016 were:

- maintaining a strong market position and improving the efficiency of its Corporate-Investment banking business;
- developing its Mid-corporate banking business as a separate profit centre and strengthening the Group's position in this market segment;
- achieving faster growth in the retail business — increasing market share as well as the share of the retail segment in the Group's business overall;
- strengthening risk management and control systems at the Group level;
- increasing operational efficiency and instituting stringent cost control; and
- implementing measures for the transition to a universal bank platform.

Despite difficult external conditions, VTB Group has managed, over the past three years, to strengthen its position in all key banking market segments and has successfully implemented major transformation projects. The Group continued to expand its retail loan portfolio in 2016, with an increase of 11%. With market growth of only 1%, VTB Group expanded its retail loan portfolio by 10 p.p., increasing its market share from 17.8% to 19.6%. The Group's market share in retail deposits and accounts grew to 11.0% in 2016. The Group expanded its relationships with corporate entities, improving its market share in corporate lending and funding to 15.7% and 20.8%⁴, respectively. In 2016, the Group retained its status as the undisputed leader in Russia for investment banking services. According to Thomson Reuters, the Group's market share in debt capital markets was 53.5%, in equity capital markets 27% and 44% for M&A. Along with its strong business growth in 2014–2016, VTB Group implemented a series of major strategic projects aimed at developing its market positions and diversifying the Group's business, as well as improving internal efficiency and governance:

- Reorganisation of the Bank of Moscow and its merger into VTB Bank (PJSC), the largest integration project

in the Russian banking market, enabled the Group to significantly reduce costs. This was achieved through the consolidation of administrative structures, the centralisation of operations with corporate clients, as well as support functions and internal controls, and the optimisation of network infrastructure and administrative costs. Already in 2016, the effect of these cost savings amounted to RUB 7.8 billion.

- Creation of Post Bank in collaboration with the Russian Post: VTB Group's access to the Russian Post's network will enable massive growth in the retail business and will significantly strengthen the Group's position in servicing the mass retail segment.
- Creation and development of the Mid-Corporate Banking global business line: by the end of 2014–2016, the Group had built an effective customer service model, significantly increased its customer base and strengthened its position in lending, deposit-taking, and transaction services in this segment.
- Reform of the international network management model: measures instituted in 2016 enabled the Group to centralise responsibility for the performance of its international banking subsidiaries, speed up management decision-making at the head office, centralise risk management and underwriting. VTB has begun the transition to a model for the balanced development of subsidiary banks relying on their own funding, their own capital-raising sources and limitations on currency and credit risks.

Despite successes in instituting qualitative transformations, a number of financial targets set out in the 2014–2016 Strategy were not met. This was due to both external and internal factors. On the one hand, the Russian economy underwent a very difficult period of slowing economic growth in the context of the drop in energy prices, the introduction of sanctions, capital flight and currency devaluation. In the banking sector, this led to a sharp revaluation in FX-borrowing obligations for corporate entities, and a substantial deterioration in credit risks. There was a decrease in lending to individuals against the backdrop of falling real incomes. The sharp rise in the Bank of Russia's key rate and of funding costs in general

led to a drop in the net interest margin and in banking sector earnings. On the other hand, VTB Group's long-standing business model turned out to be not sufficiently prepared for the economic downturn. In a situation where credit risks were materialising, the high concentration of the loan portfolio led to a significant increase in provision costs, while the lack of a diversified funding base among the Group's banks led to a rapid revaluation of a significant portion of liabilities and a rise in the Group's interest expenses.

By year-end 2016, VTB Group had yet to achieve the trajectory for net profit and return on capital approved in the Strategy, but financial results showed a significant positive trend compared to the previous year. First of all, it is important to note the recovery of the net interest margin to 3.7%, compared to 2.6% in 2015, due to lower funding costs and the growth of high-margin retail lending. A second important factor was the increase in net fee and commission income in the Group's retail and transaction banking businesses, which grew by 7.3% year-on-year in 2016 and reached a record RUB 81.8 billion. A conservative approach to credit risk management enabled the Group to keep the cost of credit risk at 2%, which is better than the strategic benchmarks, while the cost of risk excluding credit related commitments fell from 1.8% in 2015 to 1.5% in 2016. Further efforts to improve the efficiency of the Group's business helped contain growth in staff and administrative expenses to 5.4% year-on-year, which was in line with Russia's official level of price inflation in 2016. As a result, the cost-income ratio decreased from 54% in 2015 to 46% in 2016.

In 2016, the Group consistently implemented strategic initiatives corresponding to the objectives and priorities set out in the Strategy for 2014–2016.

⁴ Market share is calculated using VTB's methodology based on RAS data from the Bank of Russia. Market share in corporate funding includes term deposits and current accounts from legal entities.

Maintaining a strong market position and increasing efficiency in corporate-investment banking

In 2016, VTB Group maintained its status as a leading lender to major Russian companies and enterprises and continued to work on rebalancing its loan portfolio in favour of strategic and import-substituting industries.

In 2016, the expansion of the liquidity management product line and new options offered by the Group for the short-term placement of funds led to an increase in deposit and settlement accounts held by clients in the Corporate-Investment banking business.

In 2016, a number of landmark transaction banking projects were implemented. The Group continued upgrading its e-banking system, expanded cooperation with Russian corporations in building a centralised cash-flow management system (central treasury) and account services under state defence orders, and also integrated payments using the Mir national payment system cards into its acquiring products. To develop its documentary business, the Company increased its volume of trade and export financing, implemented several significant transactions involving export loans with the participation of EXIAR, further diversified its business servicing specific industries, and shifted the focus towards more complex guarantee products while simplifying and speeding up internal processes.

In its investment banking business, the Group strengthened its position in all key areas of activity and maintained its leadership in the market for fixed-income instruments, as well as in the debt and equity capital markets and corporate finance.

The development of a model for client coverage and the CRM system enabled the Group to fulfil the strategic objective of increasing cross-selling to the level of 4.3 products per client.

Development of the mid-corporate banking business as a separate profit centre and strengthening of the group's position in this market segment

In 2016, the Group continued developing mid-corporate lending. First, emphasis was placed on financing companies focused on import substitution, developing innovative products, and on supporting small and medium-sized enterprises, often in collaboration with state programmes. The Group implemented projects to improve the credit process, optimised operations involving collateral and expanded the powers of its subsidiaries while maintaining risk at the target level.

One of the most important results of 2016 was the completion of the integration of the Bank of Moscow, the transition to the target model for customer service and the creation of a platform for further growth in the share of the mid-corporate business market.

To streamline business operations in 2016, measures aimed at increasing the performance of client managers were implemented, the functionality of remote sales channels were expanded and the regional network, network infrastructure and real estate were optimised. This resulted in a significant increase in the Group's customer base in this segment and an increase in the operating income for each member of the client team.

Achievement of faster growth in the retail business – increase in market share, as well as the share of the retail segment in the group's business overall

In developing its retail business in 2016, the Group prioritised increasing its active customer base, while maintaining its leading position in terms of customer satisfaction, strengthening its positions in all segments of the market, as well as maintaining a high level of cost-effectiveness.

By the end of 2016, the increase in the total number of active individual clients among Group banks surpassed that of VTB's major competitors. The Group continued to work on the introduction of segment-oriented sales models. To strengthen its position in this long-standing segment of the Group's customer base, an updated privileged service model was launched, and the launch of a joint project with the Russian Post to create Post Bank marked a breakthrough in mass retail. By the end of 2016, the network of Post Bank branches had reached 5,700 sales outlets at Russian Post offices and 334 independent customer centres.

In 2016, the Group increased its loan portfolio and retail deposits, and also reached its strategic market share goals. However, the share of retail business in the Group's business structure was below the strategic benchmark as a result of lower than expected growth rates in banking markets. The Group managed to maintain positive financial results in its retail business in a market that was challenging throughout 2015, and in 2016 it moved closer to the goals set forth in the Strategy, showing a 25% return on capital.

Improving risk management and strengthening risk control systems at the group level

In 2016, the Group continued implementing projects aimed at harmonising and improving the efficiency of the risk management system. The main results of this work were:

- introduction of new methods for risk management within the Group (with more than 20 standards and codes of practice);
- introduction of risk management systems based on performance indicators that are risk-sensitive (through risk appetite);
- calculation of economic capital as one of the main instruments of the Group's capital adequacy assessment;
- designation of a dedicated division for retail credit risk management within VTB Bank in connection with the integration of the Bank of Moscow.

Increased operational efficiency and the institution of stringent cost control

In 2016, VTB Group took the following major steps to improve operational efficiency and control costs:

- a number of administrative and management costs were optimised in accordance with the approved objectives of the merger of the Bank of Moscow with VTB Bank (PJSC);
- increased centralisation of support functions and controls was carried out, including in the areas of operational support, procurement, as well as the Group's infrastructure related to the creation of a Group-wide data processing centre;
- the sales network was optimised;
- 49 projects were implemented in Corporate-Investment banking and 118 projects in Retail banking to optimise business processes.

Measures for the transition to a universal bank platform

In 2016, the integration of the Bank of Moscow with VTB Bank (PJSC) was carried out through the reorganisation of OJSC Bank of Moscow by spinning off JSC BS (Bank Spetsialny) and its regular business (corporate and investment banking, mid-corporate and retail banking) and, at the same time, merging it with VTB Bank (PJSC). Successful implementation of the project enabled:

- assurance that all systems were functioning smoothly, including those related to customer service, and the generation of reports from the merged bank;
- the implementation of the approved goals for the transition to target organisational and business models of operations with corporate clients and retail customers, the centralisation of support and control functions and the optimisation of the regional network.

On 2 November 2016, the Supervisory Council of VTB Bank set as one of its priority goals the reorganisation of VTB Bank (PJSC) through the incorporation of VTB 24 (PJSC) by no later than January 2018.

VTB Group's Development Strategy for 2017–2019

On 14 December 2016, VTB's Supervisory Council approved a new Development Strategy for VTB Group for 2017–2019. On the basis of lessons learned from the implementation of the Strategy for 2014–2016, major trends in the macroeconomic situation and Russia's banking market, VTB Group's three key development priorities in the new Strategy are as follows:

1. **Increased profitability** – exponential growth in profits to more than RUB 200 billion by year-end in 2019 and a return on equity of around 14%;
2. **Integration of the banking business** and construction of a single universal bank;
3. **Modernisation** – a breakthrough in the development of a modernised, customer-oriented bank through large-scale technological transformation.

These are the priorities that determine VTB Group's Strategic Development Programme, which foresees substantial structural improvements and changes in the Group's business model to improve the quality of customer service, strengthen market positions and significantly boost financial results. The Group's overarching strategic initiatives for the achievement of its 2017–2019 goals are:

- significant structural improvements and cost reductions in the Group's funding;
- the merging of VTB Bank and VTB24, opening up a qualitatively new level of interaction between business lines;
- the digital transformation of the Group's business and processes.

Funding

As concerns the structure of funding, the goals are the progressive growth in customer deposits,

a reduction in the Group's dependence on funds from the Bank of Russia, as well as minimisation of the share of FX funds.

By 2019, the Group should almost double the amount of deposits from individuals (RUB +2.3 trillion, a 4 percentage point increase in market share to 15%⁵) and, regarding the structure of deposits from corporate clients, see an increase in the relative share represented by small and medium-sized businesses.

Current account balances should increase at a faster rate, which will be achieved in the corporate segment through the implementation of an integrated strategy for developing the transaction business (including the introduction of new business models for small and medium-sized businesses) and the development of payment services and new savings products for consumers.

Integration of VTB Bank and VTB24

A significant contribution to improving the efficiency of VTB Group and the implementation of profit targets will be achieved through the merger of VTB Bank and VTB24. There are two main steps to the integration project:

- first phase: the legal merger of the banks, which should be completed by January 2018;
- second phase: complete operational and technological integration, which allows for full synergy.

Digital transformation

The digital transformation of the Group's business and processes represents an important response to a number of external and internal challenges. The introduction of innovative technologies is designed for a range of critical objectives, such as:

- providing additional sources of income through personalised products and increasing the granularity of pricing based on an in-depth analysis of customer data;
- upgrading the remote service system to a new qualitative level, increasing the share of active users of mobile and online banking;
- improving the Group's internal efficiency through the end-to-end automation of processes.

Development of global business lines

The main priorities of the new strategy for developing the global business lines are:

- a new scale for the Group's retail business;
- achieving the profit target in corporate-investment banking while maintaining market leadership;
- developing a new model for small and mid-corporate banking – exponential growth in terms of the number of clients and income diversification.

New scale for the Group's retail business

The new scale for the retail business suggests that by 2019, the Group should see a significant increase in its customer base and business volumes through the creation of the best retail bank in the country for the middle class (VTB Bank), and the best retail bank in the country for the mass market (Post Bank).

To achieve the established goals, the market share in payroll clients needs to increase by 1.5 times. The loan portfolio and deposits from individuals should show a growth rate that outstrips the market, thereby increasing market shares to 24% and 15%⁶, respectively.

VTB and Post Bank should become leaders in terms of customer loyalty in the target segments. The user-friendliness and functionality of digital channels should be substantially improved, while the Group's retail business should break into the

top three Russian banks in terms of the share of active clients in online and mobile banking. The development of CRM and implementation of new analytical tools should increase the number of products for customers and cross-selling with the Group's subsidiaries. The development of payment services, including P2P transfers, utility payments and new acquiring products should lead to exponential growth in fee and commission income and current account balances.

Achieving the profitability target in corporate-investment banking while maintaining market leadership

Strategic development priorities in corporate-investment banking pre-suppose maintaining a leading position in lending to large corporate clients while increasing lending competitiveness and optimising the Group's funding structure. The growth in business volumes should be accompanied by continued efforts to optimise the sectoral structure of the loan portfolio and increase the share of the priority sectors, as well as to increase the performance of cross-selling and the profitability per customer.

The Group's transaction business should grow faster than the market and faster than lending. This can be achieved by improving service quality, offering innovative new products and upgrading the existing technology platform. The priority in developing the investment business is to maintain leading positions and growth in line with the recovery in Russia's markets. The focus of the international business will be on financing the operations of the largest Russian companies and their strategic partners abroad while taking advantage of opportunities in the domestic market to expand foreign exchange transactions, as well as operations with commodities and corporate finance (M&A, DCM).

⁵ Market share is calculated using VTB's methodology based on projected IFRS data.

⁶ Market shares are calculated using VTB's methodology based on projected IFRS data.

Developing a new model for small and mid-corporate banking – exponential growth in terms of the number of clients and income diversification

The Group’s strategy for mid-corporate banking is based on building a mass model for services with a focus on transaction products and strong growth in the lower customer base, while strengthening positions and developing classic credit models in the upper market customer segment.

The mass transaction model will be based on developing remote channels and providing access to all products online, developing package offers for transaction products and increasing the use of statistical methods in planning client strategies and sales campaigns. At the same time, lending to lower-income customers will be selective, requiring a history of good relations with VTB.

The model for operations in the upper client segment will continue its emphasis on personalised customer service with the support of client-product teams, sector specialisation will be launched along with a new approach to planning customer strategies based on the client’s net worth and the Group’s share thereof.

Long-Term Development Programme

Based on the Development Strategy for 2014–2016 approved by the Supervisory Council, the Bank developed a Long-Term Development Programme for 2014–2018 (hereinafter the “Programme”).

The Programme contains a detailed list of measures to ensure that the Bank achieves the development goals specified by the Strategy (a more detailed description of the implementation of individual measures in 2016 is presented in the relevant sections of this Report).

Information on the auditor’s conclusions about the implementation of the Long-Term Development Programme

In accordance with the instructions of the Government of the Russian Federation, the Programme’s implementation is subject to an annual audit. The audit of the Programme’s implementation is governed by the Bank-approved Standards for Conducting an Audit of the Implementation of the Long-Term Development Programme, which contains information about the procedures of the planned audit, the procedures for the tender to select an auditor, conducting the audit, the time frame for completing audit-related work and on decision-making based on the results of the audit, as well as on the corresponding Terms of Reference for conducting the audit.

The audit of the implementation of the Programme for 2016 was carried out by Ernst & Young. The audit report of 16 March 2017 was prepared on the basis of the audit. On 22 March 2017, the Supervisory Council reviewed the report on the fulfilment of the Programme indicators for 2016 and the results of the audit. On the basis of these procedures, the auditor concluded that the information in the report fairly represents:

- the actual values of the Bank’s performance indicators specified by the Programme for the year ending on 31 December 2016, and the extent of the attainment of the target values;
- information about the causes for failing to implement measures included in the Programme, and deviations in the actual values of the Bank’s performance indicators against those envisaged in the Programme for the year ending on 31 December 2016.

Information about the system of key performance indicators

An important element in monitoring the attainment of the objectives of the Strategy and the

Programme is the inclusion of key performance indicators (hereinafter referred to as KPIs) in the system of incentives for responsible persons, guaranteeing employees a uniform course of action for the attainment of strategic goals.

In accordance with the approved strategic objectives, VTB Group established the following key performance indicators:

Indicator				
ROE – return on equity				
TSR – total shareholder return for a given year				
Net operating income before provisions for loan impairment				
Cost of risk – provision charge for loan impairment divided by average customer loans				
Net fee and commission income				
Cost/income ratio – staff costs and administrative expenses divided by operating income before provisions				
Tier 1 CAR – tier 1 capital adequacy ratio				

KPIs for 2015–2018

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
Cost of risk, %	2.0	2.2	1.9	1.7
Net fee and commission income, RUB billion	92	118	140	155
Cost/income ratio, %	44	42	42	42
Tier 1 CAR, %	11.0	11.3	11.4	11.5

The current version of the Regulation on KPIs also contains the following information:

- appropriate remuneration for the tasks performed, the results of activities and the level of risks taken;
- correlation between the remuneration of the Bank’s executive bodies and the achievement of the objectives and tasks specified in the Programme;
- correlation between the chief executive officer’s KPIs and the achievement of performance targets of VTB Group, calculated on the basis of the IFRS

consolidated financial statements of VTB Bank and its subsidiaries, as specified in the 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 Variable Amount of Remuneration for the Members of the Management Board of the Bank, as well as in the employment contracts of the Bank’s senior management.

Implementation of KPIs 2016

Indicator	Target	Actual*	Execution	Comments
ROE, %	14.7	3.6	25%	The main KPI deviation factors: <ul style="list-style-type: none">insufficient recovery of the Group's net interest margin in the context of maintaining a high level of interest rates on the market and a high share of interest-bearing liabilities within the Group that are more sensitive to changes in the key rate;below-target share of the retail loan portfolio in interest-bearing assets;insufficient growth of net commission income against the background of weaker-than-expected business activity of corporate clients.
TSR, %	The yield on the MICEX Financials Index for the relevant reporting period		72%	KPI execution in 2016 amounts to 72%: VTB TSR reached (-4%) versus 33% for the MICEX Financials Index. Cumulative KPI execution for 2014–2016 amounts to 93%: VTB TSR reached 59% versus 72% for the MICEX Financials Index.
Net operating income before provisions, RUB billion	743	561.5	76%	Not met for similar reasons as for ROE indicator.
Cost of risk, %	2.2	1.5	71%	Target exceeded.
Net fee and commission income, RUB billion	118	81.8	69%	Insufficient growth of net commission income against the background of weaker-than-expected business activity of corporate clients.
Cost/income ratio, %	42.0	50.7	79%	The non-fulfilment of the indicator is the result of the non-fulfilment of the goal for net operating income before provisions, while the absolute amount of staff costs and administrative expenses and the ratio of costs to average assets are above the target values.
Tier 1 CAR, %	11.3	12.9	114%	Target exceeded.

* Indicators are calculated in accordance with the methodology of the Programme

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%, jointly developed by Russia's Ministry of Economic Development and the Russian Federal Property Management Agency.

On the basis of the above-mentioned KPIs, key performance indicators are established to assess the activities of the Bank's executive bodies, taking into account the areas of activity of the 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 and their weight in accordance with the Bank's governing documents is determined for the reporting period by a decision of the Supervisory Council on an individual basis for each member of the Management Board.

In accordance with point 4.1 of the Regulation on Key Performance Indicators, the approved business plan, budget and Bank Strategy can be used in establishing the KPI targets. In accordance with

point 6.1 of the Regulation 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 Management Board member (individual targets) or for the organisation in general (Group targets).

4.3. Review of operating performance

4.3.1. Corporate-investment banking

Segment overview

Share of VTB Group total, %	
Assets	44
Customer loans and advances (net)	61
Customer deposits	42
Net interest income	25
Net fee and commission income	22
Provision charge ⁷	51
Net operating income	19
Staff costs and administrative expenses	25

Source: VTB Group IFRS consolidated financial statements for 2016.

The Corporate-Investment Banking (CIB) global business line specialises in servicing major corporate clients through the sales of lending, 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 the 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 that

are 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 product units is also designed for sector specialisation and the requirements of major corporate clients. This, in particular, allows the Group to enhance its approach to credit analysis and improve the quality of its corporate loan portfolio.

The transaction banking business comprises two main product lines: the documentary business, which includes a variety of guarantees and credits, and the line of liquidity management products, including account management products, financing products (including the accrual of interest on client account balances), as well as acquiring services, remote banking services, and settlement and cash services.

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.

In 2016, the Bank continued developing the project for the cross-selling of products from subsidiary companies to VTB Bank's corporate customers. Compared to 2015, there was an increase in the number of client managers and clients taking part in the project. Also, the cross-selling system now has a new project member, Tele2, and a new product, an operating lease.

Lending business

VTB offers a wide range of lending products and provides financing for varying time periods in all

7 Provision charges for impairment of debt financial assets, other assets, credit-related commitments and legal claims.

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.

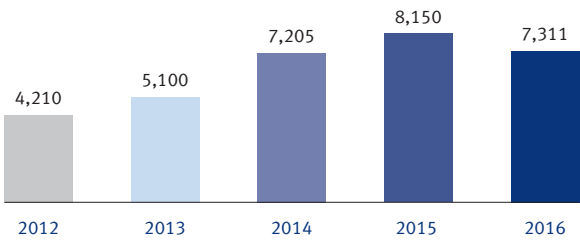
In addition to traditional financing, VTB also offers complex credit products, including structured repo, investment and project financing, debt and equity financing services, consulting services on structuring investment projects, trade finance services and direct financing from institutional investors and banks.

VTB’s clients have access to structured financing products that make it possible to significantly reduce interest rates by allowing the Bank to select the currency for repayment. Leasing and factoring products are provided to the Group’s customers through VTB Leasing and VTB Factoring.

In 2016, the corporate sector’s investment activity remained at low levels in the context of limited access to international capital markets and high funding rates. The strengthening of the rouble against foreign currencies contributed to a drop in the rouble earnings of export-oriented companies.

These factors, coupled with the high accumulated debt burden of companies in certain sectors of the economy, led to a drop in lending to corporate-sector clients. Companies preferred to direct profits to the repayment of existing debt.

VTB Group loans to legal entities⁸, RUB billion



Source: VTB Group IFRS consolidated financial statements for 2016.

At the end of 2016, the Group’s corporate credit portfolio decreased 10% to RUB 7,311 billion, which was in line with the overall situation in the market. The Group saw its market share in corporate lending increase from 14.6% to 15.7%⁹, maintaining the No 2 market position in Russia.

In 2016, VTB Group paid particular attention to operations with customers from strategic sectors of the economy, including import substitution.

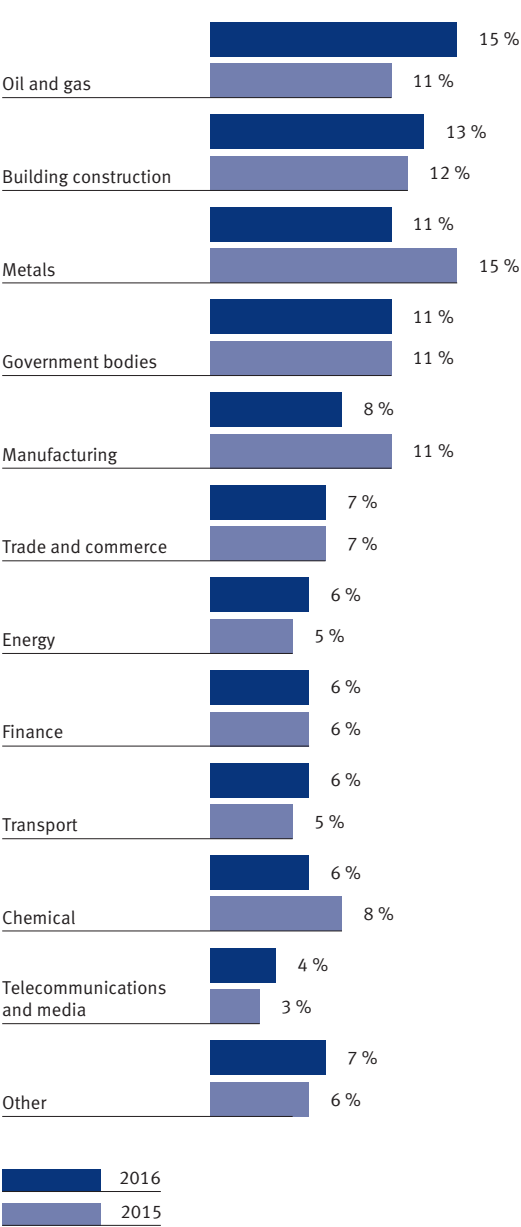
Another important direction in the Group’s business development is the crediting and financing of new infrastructure and investment projects in various sectors of the economy.

For example, VTB Bank played an active role in financing new regional projects related to social infrastructure and road construction implemented through public-private partnerships. Funding was organised for the construction of maritime transport facilities for the oil and gas sector, and in the field of airport infrastructure.

In 2016, the Group maintained a focus on developing its lending business in the international markets of Eastern Europe and Asia. The Group concluded new credit transactions in Mongolia, including under the aegis of the Export Insurance Agency of Russia (EXIAR).

The Bank has been working with the Essar group of companies since 2014. During this time, the Bank has provided financial support as part of the purchase of shares from minority shareholders and the delisting of shares of Essar Energy Limited and Essar Oil Limited on the stock exchange. Additional funding was granted in 2016, which resulted in the largest transaction by a Russian bank in India in terms of loan volume.

VTB Group loans to legal entities by economic sector, %



Source: VTB Group IFRS consolidated financial statements for 2016.

In light of negative trends in the construction and real estate sectors in 2014–2016, the Bank undertook significant efforts to optimise

the structure of its portfolio management in this sector and to improve its quality:

- a unified credit risk management centre for real estate operations was created within the Bank’s Credit Department;
- restructuring was implemented through conversion into roubles as well as mechanisms for hedging foreign currency risks;
- negotiations were carried out with borrowers to improve the underlying collateral, the repayment and maturity terms based on market realities.
- At the same time, the Bank continued to develop lending for high-quality projects in the sector:
- business with the country’s largest, most stable players in the real estate market saw further development;
- new loan products were developed, including lending for builders, lending for CEIF real estate, project financing for a diversified pool of construction projects at an early cycle, repo transactions with companies in this sector in both the domestic and the international market;
- loans secured by commercial real estate and construction projects in Central and Eastern Europe were further developed.

One of VTB’s priorities in 2016 was to develop trade and export financing in all of the regions where the Group has a presence, with a particular focus on collaboration with companies doing business with partners in the Asia-Pacific region. In particular, the volume of new agreements aimed at supporting trade turnover between Russia and China signed by VTB with Chinese banks in 2016 totalled CNY 12 billion.

The Bank continued to support its customers’ foreign trade operations all over the world: in 2016, in collaboration with more than 100 foreign financial institutions, VTB carried out more than 400 transactions with partners from 48 countries in Europe, Asia, Africa and North and South America.

In 2016, VTB concluded a number of significant export credit transactions in collaboration with EXIAR. Customers from various industries

⁸ The loan portfolio before provisions, including loans pledged under repurchase agreements.

⁹ The market share is calculated using VTB’s methodology with data from the Bank of Russia based on RAS statements.

took advantage of the Bank’s offers, including the nuclear power, oil-refining and chemical sectors. Funding covered by EXIAR was provided to support Russian exports, to Europe and the CIS, as well as to parts of Asia, including India and Mongolia. VTB customers also had access to direct loan products for long-term financing in collaboration with leading export credit agencies.

In 2016, leading international magazines Global Trade Review, Trade & Forfaiting Review and Global Finance recognised VTB as the best bank in trade financing in Russia and the CIS.

Customer deposits

VTB Group continued to focus on attracting customer deposits, keeping in line with market changes and meeting customer needs. CIB quickly ensured compliance with any legislative changes not only by informing customers, but also by proactively rolling out products and providing customers with effective mechanisms to ensure compliance with new regulatory requirements. VTB Bank’s flexible pricing policy and individual approach to customers enabled the Group to increase its volume of customer deposits.

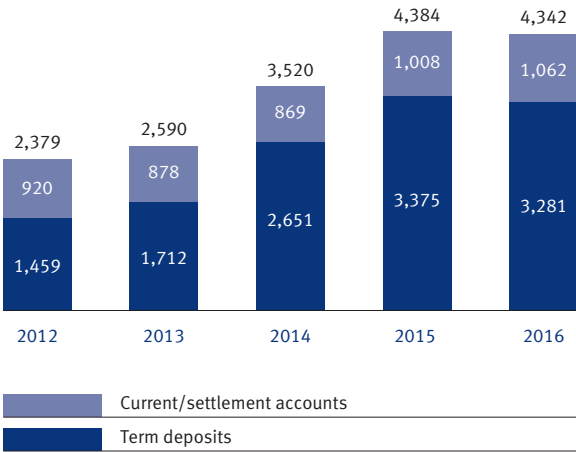
In 2016, the Bank continued to expand placement options for temporarily free cash. All of the Bank’s clients were given the option under special terms and conditions to implement the simultaneous accrual and payment of interest on their monthly average and minimum cash balances, as well as the option of accruing interest on account balances based on average monthly balances under a progressive scale of interest rates. The Bank considered individual client needs when improving the conditions for increasing minimum cash balances.

VTB is constantly taking steps to improve customer service and streamline business processes to further develop deposit products and reduce operating expenses. In 2016, VTB Bank

simplified the list of documents required by customers to deposit funds, and also improved the terms and conditions for deposits.

These steps enabled VTB Group to expand its customer base. Corporate deposits in 2016 remained flat, decreasing by just 1% to RUB 4,342 billion, and VTB Group’s market share in this sector increased from 21.3% at the end of 2015 to 23.3%¹⁰ as of 31 December 2016. The Group has the largest market share in term corporate deposits in Russia.

VTB Group deposits of legal entities, RUB billion



Source: VTB Group IFRS consolidated financial statements for 2016.

Transaction banking

In 2016, the Group improved customer service in its transaction banking business by introducing best international practices and by responding quickly to market demands. This included the development of new products, improvements of sales procedures, a special focus on developing the remote banking system (RBS) and making the Bank’s interactions with its customers more user-friendly.

In 2016, the Bank added new formalised electronic documents to the RBS to facilitate customer

transactions. To optimise the costs for processing payment documents for the Bank’s payroll clients, a new service was introduced for registering salary payments through the RBS system.

To further facilitate liquidity management for customers, the Bank broadened the functionality of its simple banking support services and implemented a variety of control options in the Customer Settlement Centre (CSC). Customer interactions were improved, such as the procedures for making payments and generating card files. The Bank simplified the contractual structure for the CSC system, and now offers it in the form of general conditions. Moreover, the process for connecting and configuring the system was improved.

The Bank participates in the national payment system, and is actively integrating it into its services. In 2016, as part of merchant acquiring, the Bank’s line of cards was extended with the introduction of the MIR card.

In accordance with Federal Law 275-FZ of 29 December 2012 on State Defence Contracts, VTB Bank is an authorised bank for the implementation of defence procurement contracts.

For customers participating in state defence contracts, the Bank has created a service for the remote provision of a separate account number on the Bank’s website and in the RBS system. To facilitate customers’ use of the RBS system, special functionalities were implemented for Bank documents for the confirmation of account transactions involving state defence contracts. To simplify contract procedures, a single comprehensive application has been developed for joining several services at the same time.

VTB has been actively involved in large-scale projects to centralise the 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.

In 2016, the Bank brought in new business by promoting the creation of its centralised treasury and other transaction business services. Currently, these services are provided to more than 120 large holdings, including more than 1,600 legal entities.

In 2016, VTB’s subsidiary banks in Belarus, Kazakhstan, Western Europe and Africa continued to expand and improve their range of transaction banking products and to actively promote their services to clients. Steps taken thus far have enabled the Bank to more than double foreign network revenues from settlement and cash services.

Every year, VTB conducts customer satisfaction surveys regarding its transaction banking services. In 2016, a similar study was conducted by PWC, an independent consulting agency. Customers’ responses are taken into account when planning the further development of the Bank’s products, helping VTB to stay on the leading edge of the banking market.

E-commerce and Internet acquiring in urban and municipal projects

As a partner of the Government of Moscow in the field of transport solutions and socially important urban projects, VTB Bank continued to develop its Entry and Nutrition programme in 2016, enabling supplements to be paid into accounts used by children for meals at school.

The Social Taxi programme, whereby transportation is provided to disabled people with limited mobility, is now in its pilot phase. The Social Assistant project is under development, in which money is credited on the social security cards of patients at in-patient facilities to pay for grocery orders.

The Bank works closely with the Moscow Department of Transport and Road Infrastructure Development, SUE Moscow Metro, SUE Mosgortrans and JSC Central PPK. In 2016, the Bank developed the My Travel Card app that allows anyone with a Russian bank card, at no extra charge, avoid queues and cashiers when buying a ticket for any form of

10 The market share is calculated using VTB’s methodology with data from the Bank of Russia based on RAS statements.

transportation, including suburban trains. This technology will improve the quality of passenger service, decrease the time spent on purchasing tickets and reduce the size of queues at peak times.

At year-end, the Bank entered into an agreement with SUE Mosgortrans on the implementation of contactless bank cards to pay for travel by passengers using land transport, as well as an agreement for non-cash ticket payments through ticket machines.

The Bank provides cash transfers to the Federal Treasury for payments using the most sought-after channel for managing parking services, the Moscow Parking mobile application. The functionality of the mobile application is regularly expanded and adapted for user convenience. The cashless payment services for the bicycle parking terminal network are fully operational.

In 2016, a service was implemented for purchasing parking tickets through a special section of the portal of the Moscow Department of Transport and Road Infrastructure Development (www.parking.mos.ru).

The Bank is a key partner of the Moscow Department of Information Technology and supports the payment service at the Moscow portal for state and municipal services.

Documentary business

In 2016, in light of the macroeconomic situation and the continuation of sanctions, the main objectives of VTB's documentary business were to:

- maintain its leading position in the Russian market;
- increase the Bank's share in the market for documentary products for high-net-worth clients;
- systematically reduce the documentary portfolio in the high-risk sectors of infrastructure construction and service companies with the aim of reducing the burden on the Bank's regulatory capital;
- adhere to guidelines on repaying economic capital allocated for documentary operations.

In 2016, VTB Group held onto its second-place position in the market for documentary operations. VTB is developing its documentary business with large corporate clients in the regions of Russia. The Group's highly skilled management teams at sales outlets made it possible to focus on quality improvements to the Bank's services for large regional and geographically diversified companies, as well as on an individualised approach to the terms and conditions for documentary transactions, factoring in the specifics of the work and servicing export, import and domestic contracts.

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. During the reporting period, transaction services through accounts with Russian sovereign bonds remained in high demand among local and foreign participants in the Russian securities market through Euroclear Bank accounts. Euroclear Bank is one of the largest international account depositories, whose agent for custody operations in Russia is VTB Custody.

The Bank's depository acts as a Russian sub-custodian for the Bank of New York Mellon and Deutsche Bank Trust Company Americas, holding the underlying assets for issuing share depository receipts for shares in a number of major Russian issuers.

Investment banking

VTB Group holds 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. Investment services are primarily sold under the VTB Capital brand. In 2016, the Group maintained its leading position in various segments of Russia's investment

banking market and gained leading positions in a number of markets in the CEE region.

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 market 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 Russia, Turkey, Eastern Europe, the Middle East and South Africa. VTB Capital is a member of the London Stock Exchange (LSE) and it also has access to a number of foreign markets through its extensive network of local brokers.

In 2016, VTB Capital strengthened its position in the Russian market and occupied a leading position by trading volume in the Moscow Exchange repo market.

VTB Capital Broker continued to develop its direct market access (DMA) service on Moscow Exchange. The Group expanded the business's customer base in 2016 and it plans to expand the geography of its financial instruments and trading platforms, in particular, by providing its clients with access to Moscow Exchange's currency section.

VTB Group maintained its position as one of the leading traders of government and corporate bonds on Moscow Exchange and in over-the-counter markets. It remains the market leader in Russia in fixed-income instruments. In 2016, the Group's share of trades in the bond market was 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 22% and 30%, respectively.

Investment banking

VTB Group offers a full range of investment banking products, including advising on M&A transactions and organising debt and equity issuance. The business is focused on serving customers in key sectors of the economy in both Russia and international markets.

Debt capital markets By year-end 2016, VTB Capital had become the clear leader in terms of the number and volume of transactions in Russia's debt capital markets, having organised 92 placements throughout the year totalling USD 22 billion, with a record 54% market share (Thomson Reuters).

In 2016, VTB Capital took part in the organisation of more than 70 issues of Eurobonds in Russia and the CIS, including the placement of Global Ports, OJSC Russian Railways and Evraz Group Eurobonds. VTB Capital served as the sole organiser of the landmark Eurobond issue by the Russian Ministry of Finance and the subsequent placement worth a total of USD 3 billion.

Maintaining its leading position in Russia, VTB Capital continued to expand its presence in international debt capital markets by participating in the organisation of six issues on the part of issuers from China. Of particular note was an issue of Eurobonds by the Republic of Cyprus's Ministry of Finance totalling EUR 1 billion.

Equity capital markets In 2016, VTB Capital successfully implemented a number of landmark transactions, including the additional placement of 10.9% of the shares in ALROSA Diamond Company on the Moscow Exchange, as well as the additional placement of Rusagro shares, one of Russia's largest agro-holdings. VTB Capital acted as the organiser of IPOs on the Moscow Exchange for the Rusneft oil company in the amount of RUB 32.4 billion and the Budushchee financial group in the amount of RUB 11.7 billion. It also organised the first ever Russian IPO in the sector of pension fund management.

According to Dealogic and Thomson Reuters, by the end of 2016, VTB Capital was the market leader in ECM in Russia and the CIS with a 27% market share, while the American magazine Global Finance recognised VTB Capital as the Best Investment Bank for equity capital in Central and Eastern Europe.

Corporate finance According to a number of information agencies, including Thomson Reuters, Bloomberg and Mergermarket, VTB Capital was the top M&A consultant in Russia and the CIS in 2016.

At the same time, VTB Group has strengthened its position in international M&A markets, providing consulting services to clients in Western Europe, China, Africa and Turkey. According to Thomson Reuters, VTB Capital was the top consultant in 2016 in terms of the number of announced M&A transactions in Central and Eastern Europe, as well as in India. VTB Group confirmed its ability to provide a comprehensive package of financial services and solutions to customers in international markets by serving as the sole advisor to India’s Essar Global Fund in the sale of Essar Oil Ltd to Rosneft and a consortium of investors led by United Capital Partners and Trafigura. VTB Capital successfully brokered the sale of a 50.8% stake in Hongri Acron, a factory asset of the Akron group of companies in China, to the Chinese diversified holding Century Sunshine Group Holdings Ltd, which also produces fertilisers.

Among its other awards, Global Finance magazine named VTB Capital the Best Investment Bank in Central and Eastern Europe for the third year in a row. In addition, the British magazine Euromoney recognised VTB Capital as the Best Investment Bank in Russia for the fourth year in a row.

Commodities markets

VTB Group offers an extensive line of financial products for commodities markets, including international and local trade in raw materials, structured financing and hedging strategies.

The Group is an active participant in the international precious metals market and a key provider of hedging solutions to Russia’s leading gold producers.

In the spring of 2016, VTB Group prepaid for deliveries of aluminium from the Kazakhstan Electrolysis Plant totalling EUR 300 million. This transaction provided the plant with immediate access to liquidity, guaranteed sales and predictable cash flow. This was VTB’s first transaction of this scale involving the prepayment of aluminium supplies in compliance with the London Metal Exchange standard. This transaction significantly strengthened the Group’s position in commodities markets, while access to the metal ensures VTB Group’s significant presence in the aluminium market.

Investment management

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

In 2016, VTB Capital IM assets under management increased by 20%, exceeding RUB 379 billion. According to this indicator, VTB Capital IM is among Russia’s three largest management groups.

VTB Capital IM is the market leader in Russia in managing pension funds, endowment funds and closed-end mutual funds. It is also one of the three largest companies in terms of the volume of insurance reserves and funds of self-regulatory organisations under management.

In 2016, VTB Capital IM conducted successful work in the segment of individual asset management for corporate clients, expanding its client portfolio with new pension funds, insurance companies, self-regulatory organisations and endowment funds.

The total increase in corporate assets in a fiduciary capacity for 2016 exceeded RUB 174 billion, an increase of 20%, or RUB 29 billion.

By maximising its sales model and its communications with agents, constantly monitoring client preferences and actively working to attract new customers, VTB Capital IM was able to increase its operations with major private capital. In 2016, the size of assets under management grew to RUB 30 billion, which is three times more than the previous year.

VTB Capital Asset Management has repeatedly been named among the top 10 firms in the retail mutual funds sector by Investfunds.ru. The company’s clients have access to 19 unique strategies for investing in the Russian economy and in foreign securities.

VTB Capital IM continued to expand its range of closed-end mutual investment funds, and these were used to implement a range of real estate and private equity projects, as well as incentive programmes for corporate management.

In 2016, the National Rating Agency and RusRating 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).






Research

VTB Capital provides research services to clients representing both economic and corporate spheres in Russia, Eastern Europe, the Middle East and North Africa. In 2016, the VTB Capital Research Department prepared recommendations on 140 Russian and international companies and produced more than 2,300 publications with reviews of companies, the macroeconomic situation and specific sectors of the Russian economy.

























Moreover, VTB Capital’s analysts regularly provide independent research on Russian markets, including reports on the fixed-income, equity and commodity markets. In terms of research, VTB Capital provides analytical support to Group companies, customers and partners, as well as government agencies.

The Institutional Investor EMEA Research Team Report 2016 ranked VTB Capital’s research team seventh in the EMEA region, which was the best result among Russian banks. VTB Capital’s researchers were ranked first among global banks by investors from Russia, Eastern and Central Europe, and sixth by investors from Western Europe. In general, VTB Capital’s EMEA team occupied eight of the leading positions in industry rankings, including first place in the transport sector.

Awards received by VTB Capital in 2016

 <p>Best Investment Bank in Russia</p> <p>2013–2016</p>	 <p>Best Investment Bank in the UK</p> <p>2015, 2016</p>	 <p>Best Investment Bank in CEE</p> <p>2013, 2015, 2016</p>	 <p>Best Investment Bank in Russia</p> <p>2010–2016</p>
 <p>#1 Best Bond Market Sales and Trading</p> <p>2009–2016</p>	 <p>Best Securitisation House in EMEA</p> <p>2009, 2010, 2013–2016</p>	 <p>#1 Equity Sales Team in Russia</p> <p>2011–2016</p>	 <p>Best Equity Bank in CEE</p> <p>2016</p>
 <p>#1 M&A Advisor in Russia, CEE and India</p> <p>2016</p>	 <p>#1 Russia and the CIS ECM Bookrunner</p> <p>2016</p>	 <p>#1 Russia and the CIS International DCM Bookrunner</p> <p>2016</p>	 <p>#1 Best Investment Bank on the Debt Capital Markets in Russia</p> <p>2016</p>
 <p>Best Road Deal in CEE: M-11 Moscow to St. Petersburg Toll Road</p> <p>2016</p>	 <p>#1 Transportation Team in Emerging EMEA</p> <p>2016</p>	 <p>Best Event Management: "RUSSIA CALLING!" Investment Forum</p> <p>2013, 2016</p>	 <p>Best Asset Manager in Russia</p> <p>2015, 2016</p>

VTB Capital's major investment transactions in 2016

 <p>Rosneft USD 10.8 billion Privatization of 19.5% stake</p> <p> Agent of the FASPM 2016</p>	 <p>Bashneft USD 5.3 billion Privatization of 50.1% stake</p> <p> Agent of the FASPM 2016</p>	 <p>Essar Oil USD 12.9 billion Sale of 98% of Essar Oil Limited to Rosneft, Trafigura and UCP</p> <p> Sole Financial Advisor 2016</p>	 <p>DP World Russia Undisclosed Proposed acquisition of a 49% stake in NUTEP</p> <p> Financial Advisor 2016</p>
 <p>Pulkovo Airport EUR 240 million Sale of 24.99% stake in Pulkovo</p> <p> Exclusive Financial Advisor 2016</p>	 <p>Private Shareholders of Vnukovo Undisclosed Vnukovo Airport Consolidation</p> <p> Exclusive Financial Advisor 2016</p>	 <p>Century Sunshine Group Undisclosed Acquisition of 50.5% stake in Hongri Acron</p> <p> Financial Advisor 2016</p>	 <p>Otkritie USD 1.45 billion Acquisition of Archangelskgeoldobycha from Lukoil</p> <p> Exclusive Financial Advisor 2016</p>
 <p>ALROSA USD 812 million Privatization Follow-on Offering</p> <p> Joint Global Coordinator and Joint Bookrunner 2016</p>	 <p>Europlan RUB 15 billion Secondary Public Offering</p> <p> Sole Global Coordinator and Joint Bookrunner 2016</p>	 <p>Rusagro USD 250 million Follow-on offering</p> <p> Joint Global Coordinator and Joint Bookrunner 2016</p>	 <p>Oil Company RussNeft RUB 32.4 billion Initial Public Offering</p> <p> Joint Global Coordinator and Joint Bookrunner 2016</p>

VTB Capital’s major investment transactions in 2016

 Russian Federation USD 3 billion Eurobond issue  Sole Lead Manager and Bookrunner 2016	 Bank Otkritie USD 400 million Eurobond issue  Joint Lead Manager and Bookrunner 2016	 Republic of Cyprus EUR 1 billion Eurobond issue  Joint Bookrunner 2016	 Global Ports Holding USD 750 million Eurobond issue  Joint Bookrunner 2016
 HNA Group USD 673 million High Yield Eurobond  Joint Bookrunner 2016	 Modern Land USD 350 million Green Eurobond issue  Joint Lead Manager and Joint Bookrunner 2016	 O1 Properties USD 350 million Eurobond issue  Sole Lead Manager and Sole Bookrunner 2016	 Polyus Gold USD 500 million Eurobond issue  Joint Lead Manager and Bookrunner 2016
 STLC USD 500 million Eurobond issue  Joint Lead Manager and Bookrunner 2016	 Metalloinvest RUB 15 billion Local bond issue  Joint Lead Manager 2016	 Russian Railways RUB 20 billion Local bond issue  Joint Lead Manager 2016	 Rostelecom RUB 15 billion Local bond issue  Joint Lead Manager 2016

Non-banking financial business

Along with providing corporate clients with banking and insurance services, VTB Group also offers clients leasing and factoring services. Synergies and cross-selling of banking and non-banking products remains one of the Group’s main development priorities.

Leasing

VTB Leasing is one of Russia’s leading leasing companies. The company has 55 offices across Russia, as well as subsidiary businesses in the CIS and Europe. VTB Leasing is one of the top three leasing companies in Russia, and one of the top 20 in Europe.

In 2016, the company’s leasing portfolio grew to RUB 380.4 billion, with the volume of new leasing contracts reaching RUB 114.7 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 rapidly expanding sectors for leasing such as automobiles, freight transport and specialised machinery continued to grow, reaching 14% of the portfolio by the end of 2016.

VTB Leasing is continuously improving its business processes and developing new programmes to secure customer loyalty. The company is a member of the preferential lease programme of the Russian Ministry of Industry and Trade, and every fifth car produced under the Industry and Trade programme was funded by VTB Leasing.

4.3.2. Mid-corporate banking

VTB Group has targeted the development of the regional economy, a sector that represents a significant portion of the company’s Mid-Corporate business.

In 2016, in line with its three-year strategy for 2014–2016, VTB Group continued to develop Mid-Corporate banking as a global business line, which enabled VTB to strengthen its position with mid-corporate clients.

Segment overview

Share of VTB Group total, %	
Assets	5
Customer loans and advances (net)	7
Customer deposits	10
Net interest income	9
Net fee and commission income	12
Provision charge ¹¹	13
Net operating income	7
Staff costs and administrative expenses	9

Source: VTB Group IFRS consolidated financial statements for 2016.

The merger of the Bank of Moscow with VTB Bank resulted in the integration of the VTB and Bank of Moscow teams, the implementation of the target model of the unified Bank’s branch network, the successful transfer to a single IT platform for lending to Mid-Corporate banking customers.

Outside Russia, the Group has been actively working with mid-corporate clients in the CIS and Georgia.

Lending business

As part of work with its mid-corporate customer base, VTB Bank successfully participated in the financing of infrastructure projects, food and agricultural production, the pharmaceutical industry and industries focused on import substitution, as well as on the development of innovative manufacturing and construction methods both throughout Russia and wherever its subsidiary banks are located in the countries of the CIS and Georgia.

11 Provision charges for impairment of debt financial assets, other assets, credit-related commitments and legal claims.

In 2016, the business was focused on supporting small and mid-sized enterprises (SMEs). Currently, cooperation has been established with the Federal Corporation for the Development of Small and Medium-sized Enterprises (the Corporation) to work out the needs of potential and existing SME clients for financial support from VTB, as well as support tools from the Corporation. In its work to support SME customers, VTB offers a lending programme with favourable terms against the guarantees of the Corporation. Using the Corporation's tools for SMEs, it is now much easier for the real sector of the economy to access financing for business development, including regional production.

In 2016, a new preferential loan programme for agricultural producers was developed and approved by a group of experts, including VTB. VTB Bank is one of the authorised banks taking part in this programme.

In 2016, under the policy of import substitution, VTB financed a range of large investment projects in the agriculture and food industry, including the modernisation of sugar factories in the Krasnodar Region, the construction of a new turkey production and processing complex in the Tyumen Region, a high-tech greenhouse complex in the Volgograd Region, a modern food enterprise for the production of buckwheat in the Altai Region and a plant for the deep processing of wheat and the production of feed additives for animals in the Tyumen Region.

As part of the import substitution policy in the agriculture and the food industry, VTB Bank financed projects such as upgrades to a poultry complex in the Leningrad Region and fish farms in the Republic of Karelia, as well as the development of dairy production in the Kirov Region.

All of the projects funded by the Bank are of great socio-economic importance to their respective regions, resulting in new jobs and the provision of high-quality local products for residents.

Financing was provided for significant projects in the health and pharmaceutical industries: the construction of the first nuclear medicine centre in the Stavropol Region in southern Russia for the provision of public services related to the diagnosis and treatment of cancer, the construction and fitting-out of a private perinatal centre in Rostov-on-Don, the reconstruction of a drug production facility in the Kemerovo Region, and the construction of a new modern facility for the pharmaceutical production of substances for injecting drugs within the pharmaceutical cluster of St. Petersburg.

In the infrastructure sector, the construction of socially significant facilities were financed, including development projects, such as Yasno.Yanino in the Leningrad Region. This project involves the construction of a modern apartment complex, three kindergartens, a school, a health centre and other infrastructure projects. Under the federal programme Contributions for the Creation of New Places in Educational Institutions in Territorial Entities of the Russian Federation, financing was provided for a portion of the construction costs of a comprehensive school in the city of Kirov.

VTB also funded important regional projects in other industries:

- construction of a plant for the production of galvanised steel in the city of Murom in the Vladimir Region, which will replace imported Chinese products and create new jobs;
- ensuring the continuity of the railway infrastructure construction process under the East Landfill strategic project in the Far Eastern Federal District;
- organisation of production for the output of a deep wood products company in the Vologda Region, which was included by the Ministry of Industry and Trade of Russia on its list of priority investment projects in forest development; the organisation of new production in forest development in the Kirov Region;
- creation of new production for the deep processing of soybean in food and feed meal, soybean oil, soy

isolate and other products in the Far East – the project provides for the processing of 240 tonnes of soybeans per year;

- construction of a pig farm and meat processing plant in the Belgorod Region;
- construction of a pig-breeding complex for 2,600 animals in the Voronezh Region;
- liquorice jelly production in Penza;
- expansion of the range of products and improvements in the efficiency of milk production in the Trans-Baikal Region;
- financing for new production of galvanised steel with polymer coating in the Vladimir Region jointly with Chinese investors.

VTB Bank is also actively involved in a state programme approved by the Russian Government to Support Investment Projects on the Territory of the Russian Federation Based on Project Financing.

In 2016, VTB Bank in collaboration with the Russian Export Centre carried out a series of marketing activities to extend financial and non-financial support to export-oriented SMEs. In the cities of Stavropol, Rostov-on-Don and Krasnodar, VTB Bank collaborated with the Russian Export Centre to conduct business seminars, which included information about the services offered by the SME Corporation.

In addition, VTB, the SME Corporation and the Russian Export Centre (REC) signed a trilateral agreement on cooperation to support export-oriented SMEs.

Following electronic auctions in 2016, VTB Bank concluded several major contracts for the provision of credit to regional and municipal executive authorities.

In 2016, VTB subsidiary banks in the CIS countries and Georgia continued to support the development of social infrastructure projects in the transport sector, the financing of food and agricultural production of strategic importance

not only for these countries, but for Russia as well, as this compensates for the withdrawal from the market of goods on the sanctions list. Financing was provided for the construction and upgrading of social services, including educational institutions, sport complex facilities, as well as the reconstruction of facilities that do not meet today's environmental requirements.

In preparation for the 28th World Winter Universiade in 2017 in Almaty, VTB Bank (Kazakhstan) financed the construction of the event's most important sports venue, the Ice Arena. The official opening of the facility was held on 19 September 2016.

VTB Kazakhstan signed agreements with various national funds for the co-financing of state programmes and subsidies aimed at promoting the regional development of private entrepreneurship and competitiveness and improving access to financial services for companies in the agricultural sector.

As part of its consumer lending, the Group continued to work on aligning processes and technologies, enabling a more adaptive, customer-oriented approach to the structuring of transactions that takes into account the specifics of each client's business.

The Group's banks aimed to bear in mind the specifics of the macroeconomic situation in the regions where operations were carried out during the year to actively restructure distressed loan portfolios, which resulted in terms that were better suited to the customer's business, while still maintaining the quality of the loan portfolio.

Documentary business

In 2016, in light of the economic downturn, VTB's documentary business focused primarily on the development and commissioning of tools and product solutions designed to meet customer

demand, including the financing of foreign trade and protection of customer interests.

In the context of easing international sanctions against Iran, VTB resumed servicing the foreign trade activities of clients with Iran.

Customer demand was steady for documentary products in the area of servicing domestic contracts. In response to new market trends and customer needs, VTB's banks quickly developed new uses for documentary products (guarantees on behalf of consortiums, guarantees for loans granted by development funds, guarantees for the housing and communal service sector, etc.).

VTB is working on establishing Russian-market operations for bank guarantees based on work under new provisions of the Civil Code that entered into force in 2015. In this vein, in October 2016, a conference entitled "Independent Assurance: International Experience and Russian Practice" was held in collaboration with the International Chamber of Commerce.

In 2016, VTB Bank improved simplified procedures for issuing bank guarantees secured in full by customer cash or promissory notes from the Bank. A number of conditions were standardised to streamline the process for documentary transactions.

Based on the Bank's performance in 2016, the trends were positive for the documentary business: the documentary portfolio of transactions with mid-corporate clients grew almost 25% in 2016. In 2016, total fee income for documentary operations with mid-corporate clients grew 26% year-on-year.

Generally, customer demand for the Group's documentary products remained steady. VTB demonstrated a flexible response to customer requests and offered interesting product solutions for services related to letters of credit.

Transaction banking

In 2016, VTB's transaction business continued to enjoy the advantages of its wide regional presence and the vast experience in working with mid-corporate clients.

One of the most important events of 2016 was the successful merger of the Bank of Moscow with VTB Bank. As the legal successor to the Bank of Moscow, VTB has carried out extensive work to migrate the Bank of Moscow's client base, and also confirmed and strengthened the position and functioning of a key financial partner, the city of Moscow. Thus, the Bank ensured best practices in organising the reception and routing of payments received for housing and utilities from the residents of Moscow, and expanded the list of available services while maintaining a high level of interaction with city structures and agent banks in monitoring the level of payment collections for utilities.

The Bank continued to participate in the development of a system for the repair of the common property of apartment buildings. In 2016, VTB Bank maintained its leading position in servicing regional operators: approximately 30% of regional operators selected VTB Bank as their main financial partner. The Bank provides services to more than 7,000 special accounts for capital repairs held by regional operators, management companies and homeowners.

In 2016, VTB Bank carried on its tradition of participating in the annual All-Russian Congress of Regional Operators on Common Property and Apartment Building Capital Repairs as the sole representative of the financial community. To improve cooperation among its members related to capital repairs, a trilateral agreement was signed in 2016 on cooperation between the Bank, the Unified Electronic Trading Platform and the Association of Regional Operators on Common Property and Apartment Building Capital Repairs.

In 2016, changes were made to the City Planning Code whereby self-regulatory organisations in the field of engineering studies, architectural design, construction, reconstruction and the capital repair of capital construction facilities had to place cash for compensation funds in special accounts in authorised credit organisations by 1 November 2016. In a short time, the necessary regulatory framework to arrange systematic work with self-regulatory organisations was developed and approved within the Bank, in close cooperation with the Ministry of Construction, Housing and Utilities of Russia, Rostekhnadzor and national associations of self-regulating organisations. As a result of these efforts, about 25% of Russian self-regulatory organisations met the deadline to open special accounts in the Bank in accordance with the legal requirements.

In connection with the adoption of Federal Law No 49-FZ of 2 March 2016 on Amendments to Certain Legislative Acts of the Russian Federation to Improve Legislation Regulating Tourist Activity, the Bank implemented a project with the Tourpomosch Association. VTB Bank is a key financial partner of the Tourpomosch Association, and it opened an account for the establishment of funds for the personal liability of tour operators.

Work continued on promoting transaction business products in regional sales outlets. Work continues on an ongoing basis to agree upon individual service solutions for clients, including decision-making at the level of individual tariffs. Global projects were developed and completed, including the Customer Settlement Centre for corporations and administrations, and long-term projects were developed regarding banking support for contracts and more.

Particular attention was paid to product development. To maximise and expand the range of services for mid-corporate clients, work was carried out to broaden relationships within VTB Group, in particular with Post Bank, and with the Unified Electronic Trading Platform. A strategy

for upgrading the Remote Banking System (RBS) was selected, and requirements for the new system were developed. In 2016, a number of RBS services were modified, and account maintenance services were offered for the placement of funds from the compensation funds of self-regulated organisations.

Optimisation of the banking network

In 2016, VTB Group continued its work aimed at optimising regional network costs and improving the efficiency of regional divisions.

Targeted actions for vacating facilities for their subsequent sale and the exit from certain rented facilities enabled the Bank to maximise the real estate fund in use and to reduce costs for its maintenance by revising lease terms.

As part of the project to merge with the Bank of Moscow and replace the Bank's target IT platform to ensure convenient conditions for the transfer of corporate clients in Moscow and the Moscow Region, 14 additional offices of VTB Bank's subsidiary in Moscow were opened.

To generate additional synergies by combining the banks of VTB Group in the cities of Moscow, Kazan, Saratov, Novokuznetsk, Krasnoyarsk and Vladivostok, the corporate and retail outlets of VTB and VTB24 were combined.

To centralise key business and administrative functions at the branch level, organisational structures at two operational offices in the cities of Lipetsk and Tambov were reorganised, with a simultaneous review of their status. This step will reduce personnel costs and improve the manageability of the regional network by consolidating decision-making centres.

Throughout the year, the effectiveness of spending related to the administration and maintenance of the regional network was monitored.

4.3.3. Retail business

Segment overview

Share of VTB Group total, %	
Assets	27
Customer loans and advances (net)	25
Customer deposits	47
Net interest income	47
Net fee and commission income	63
Provision charge ¹²	34
Net operating income	65
Staff costs and administrative expenses	54

Source: VTB Group IFRS consolidated financial statements for 2016.

VTB’s Retail Business provides banking services to individuals and small business customers (the Retail Banking product line). This sector also includes a full range of insurance products and solutions (the Insurance product line).

The core of the Group’s retail business is VTB24, the second-largest retail bank in Russia. In addition, VTB Group’s retail banking services in Russia are provided by VTB Bank, as a universal bank, while Post Bank specialises in consumer loans.

Lending business

The stabilisation of the macroeconomic situation in Russia in the second half of 2016, State anti-crisis subsidy programmes and the reduction of the key rate by the Bank of Russia enabled banks to significantly improve retail lending conditions and proceed in building credit portfolios. Despite this, the banking system continued to be influenced by the economic crisis in 2016 and was impacted by the effects of reduced household income.

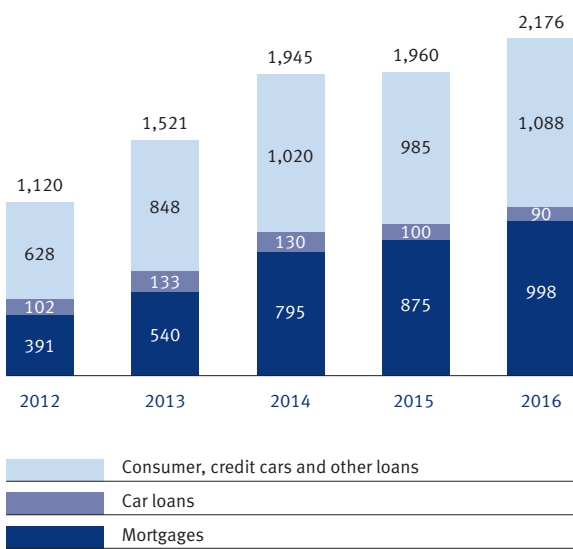
In light of this, the Group’s retail loan portfolio in 2016 increased by 11% to RUB 2,176 billion, and the Group ended the year as Russia’s

second-largest retail lender, increasing its market share 2 percentage points to 19.6%.

In 2016, mortgage loans were the main driver of growth in the retail loan portfolio, as the demand for such loans remained high in Russia, and the Group continued to prioritise relatively low-risk products while increasing assets.

Mortgage loans reached 45.9% of the Group’s gross loans to individuals as of 31 December 2016, versus 44.6% as of 31 December 2015. The shares of consumer loans and credit card loans in the portfolio were 43.8% and 5.9%, respectively, versus 43.6% and 6.3% as of 31 December 2015. The share of car loans dropped to 4.1% by 31 December 2016 compared to 5.1% a year earlier.

VTB Group loans to individuals, RUB billion



Source: VTB Group IFRS consolidated financial statements for 2016.

Consumer loans

As part of the Group’s Development Strategy, high-income customers are the priority category

for VTB24, while Post Bank focuses on serving the mid- and lower-income customer segments.

VTB24. In 2016, VTB24 continued updating and optimising its product line of lending solutions. As part of this product line, the bank consistently improved its pricing system – the pricing mechanism has repeatedly been adjusted to ensure optimum results in its operation.

The bank continued to optimise sales processes and cash loans. Throughout the retail network, the technology for the 1 Visit Application was launched, whereby in a single visit to the bank, the client can carry out the entire service cycle for a product from the application for a loan to the receipt of funds.

Post Bank. In 2016, strategic cooperation with the Federal State Unitary Enterprise Russian Post allowed Post Bank to secure the highest organic growth rate for a portfolio among Russia’s top 25 banks.

In 2016, Post Bank significantly improved its credit procedures, thereby improving the quality of loans over 2015 while maintaining its approval level. The improvement in credit procedures led to a reduction in the cost of risk compared with loans issued in 2015.

VTB Bank. In 2016, VTB Bank launched the Reduced Loan Payment programme, which involves consolidating all of the loans held by a customer at a lower interest rate, including those issued by other banks.

Under this programme, the main advantages for customers are the convenience of servicing these loans after their consolidation, the option of obtaining additional funds as well as savings from reduced monthly payments.

In 2016, VTB Bank introduced a platform for real-time interaction-based marketing. This solution provides the calculation of a targeted marketing offer that takes into account the current context and the history of customer interactions with the Bank in real time

for clients. The system also automatically selects the most suitable communication channel for sending the offer once it has been generated: via SMS, a phone call, automated banking system or other channels.

Mortgage lending

VTB24. In 2016, VTB24 issued more than 153,000 mortgage loans, with a mortgage portfolio (consisting of mortgage and housing loans) valued at around RUB 0.9 trillion, which was an annual increase of 14%. At the end of the year, the Bank’s mortgage portfolio included about 650,000 active mortgages.

In 2016, VTB24 participated in the implementation of a state programme providing support for mortgage lending to provide mortgage loans to buy housing in new buildings at a discounted rate of 11.4% per annum. In 2016, about 50% of the mortgage loans issued by VTB24 were part of this programme.

VTB24’s active presence in the sector of mortgage lending for housing under construction and its cooperation with the country’s largest construction companies enabled customers to purchase new housing compliant with current quality requirements under the most favourable terms, including a reduced interest rate for mortgages, and the option of purchasing housing at an earlier stage of construction.

In 2016, VTB24 maintained its position as a market leader in lending to military servicemen participating in the accumulative mortgage system, with a market share of about 30%. Mortgage loans worth over RUB 16 billion were issued under this programme.

In 2016, VTB24 completed a large-scale, landmark project for the mortgage market to manage the mortgage portfolio of the Agency for Housing Mortgage Lending (AHML), whereby over 230,000 mortgage loans were transferred to VTB24 for servicing.

In 2016, VTB24 continued to support borrowers facing difficult financial situations. In 2016, VTB24

12 Provision charges for impairment of debt financial assets, other assets, credit-related commitments and legal claims.

converted the foreign-currency mortgages held by about 30% of borrowers into roubles. At the same time, VTB24 was involved in efforts to help mortgage borrowers in the AHML programme. This programme benefited more than 700 mortgage borrowers.

VTB Bank. In 2016, VTB Bank’s mortgage sales reached a record volume: 1.5 times more mortgage loans were issued compared to 2015. Also in 2016, VTB Bank launched its own line of mortgage products and completely redesigned online mortgage sales by adding a Mortgages section to the Bank’s website.

Car loans

In 2016, VTB24 maintained its leading position in the market for automobile loans. Sales of new cars in 2016 fell 11%, while the number of automobile loans issued by VTB24 in this sector increased 9%. The Bank’s overall sales grew 38% in 2015, including through the development of a high-demand segment of the market, i.e. lending for used cars. The share of the used-car segment reached 10%.

In 2016, a new product was introduced for financing used cars sold between individuals. VTB24 is the market leader in this segment of the automobile loan market.

When financing a used-car purchase between individuals, the following main advantages of the product are worth noting:

- 0% down payment;
- no insurance collateral;
- the ability to check the car on the property mortgage register;
- the seller is checked for bankruptcies.

Transactions for this product are carried out in a single visit to the Bank’s car loan centre in the company of a VTB24 employee.

In 2016, VTB24 continued implementing the programme of Government Subsidies for Car Loans.

As a result, more than 75% of sales of new cars on credit involved state subsidies.

One of the most important areas of the automobile loan business is the development of joint programmes with car manufacturers. In 2016, the Bank launched a joint car loan programme with Subaru and KAMAZ.

The largest number of vehicles financed through VTB24 loans in 2016 were sold in Moscow (25%), St. Petersburg (8%), Kazan (5%), Krasnodar (5%) and Nizhny Novgorod (3%).

One of VTB24’s strategic objectives for 2017 is the development and growth of sales in the segment of used cars through the expansion of sales channels (starting with developing a channel for financing the purchase of vehicles between individuals). In particular, the Bank will focus on updating the application and approval process for car loans to make the experience even faster and more convenient.

Bank cards and acquiring

VTB24. By year-end 2016, VTB24 credit cards were recognised as the best in the market by both the Frank Research Group and Banki.ru. The VTB24 Autocard, VTB24 Experience Card, Collection and VTB24 Mir Card were recognised as the best. The Bank plans to continue issuing cards featuring loyalty programmes to customers, thereby continuing to increase business profitability due to the high degree of transaction activity on the cards.

In 2016, the sales of credit cards with a credit limit almost doubled, reaching 383,000 cards during the year. In the reporting period, the bank issued more than 750,000 debit package services, and, taking into account client desertion, the total portfolio at year-end amounted to about 730,000 packets, a five-fold increase over 2015.

In 2016, VTB24 implemented the following measures to develop the debit card offering:

- The Bank launched Apple and Samsung Pay for MasterCard and Samsung Pay for Visa. Since this service was launched, over 40,000 customers have activated it on their telephones, resulting in an accumulated turnover of more than RUB 1 billion on cards tied to Apple and Samsung Pay applications, and the implementation of more than 700,000 operations;
- The Paperless PIN was launched, whereby customers can independently generate the PIN for their card by phone;
- The Mir debit card is now available for VTB24’s customers.

In 2016, VTB24 issued about 10 million plastic and 1.9 million virtual cards, a 12% increase over the issuance of plastic cards in 2015.

In the autumn of 2016, VTB24 launched a mass issue of the Mir national card. By the end of 2016, more than 374,000 Mir cards had been issued.

As part of the process for creating the Mir national payment system, VTB24 was able to secure the use of the national card throughout the network of ATMs, active POS terminals and self-service terminals. The technological readiness for the Mir card’s online service has been confirmed, based in part on the MirAccept service, which provides additional customer authentication.

Mir cardholders can take advantage of all of the most popular features on the market at more than 11,000 ATMs, 89,000 POS terminals and about 13,000 self-service terminals.

Contactless payment using a mobile phone has been successfully implemented. In 2016, the MasterCard cards issued by VTB24 featured the latest SamsungPay and ApplePay services.

Contracts were concluded for membership in major international American Express and UnionPay International payment systems, marketing terms for cooperation were coordinated, and certification work is now under way.

In 2016, VTB Bank implemented a large-scale project to create the infrastructure for cashless payment for Moscow Metro tickets using bank cards. During the year, about 2,000 POS terminals supporting contact and contactless bank card payments were installed at 193 metro stations.

In 2016, **VTB Bank** started issuing debit and payroll cards under the MIR payment system, and accepting MIR bank cards from third-party issuers at the Bank’s ATMs. Technological readiness for the use of the cards at POS terminals has been ensured.

VTB Bank launched its new Super3 debit cards. This is a contactless bank card with the Troika transportation card application that lets users pay for travel on Moscow city transport.

The card lets users receive up to 5% cash back in the built-in Troika wallet, withdraw cash for free and carry out free transfers and payments in remote channels. Super3 allows its holders free travel on the metro and other forms of public transport in Moscow. On average, for every RUB 1,000 that is spent, the holder receives one free trip.

VTB Bank has cancelled the fee for money transfers from other Russian bank cards to VTB cards via mobile, online banking or ATMs.

In 2016, Post Bank launched a new line of credit cards. The Element 120 credit card has the longest interest-free period among the top 30 banks. In 2016, the credit card became a separate product at Post Bank.

Services for small businesses

VTB24. In 2016, VTB24 continued its growth in the small business sector (SB). The SB client base increased by 8% to 370,000 customers.

In 2016, VTB24 continued developing its transaction business model, the basic elements of which were the build-up of a liability portfolio and increase in commission income. The volume of funds

attracted to the portfolio grew 22% and amounted to about RUB 350 billion. Fee and commission income increased 17% compared to 2015.

As part of its lending programmes, VTB24 continues its cooperation with government institutions that support small businesses:

- in 2016, the volume of loans under the SME Bank programme amounted to RUB 0.5 billion;
- RUB 2.8 billion in loans was issued under a guarantee from the SME Corporation/SME Bank;
- loans totalling RUB 9.7 billion were issued in 58 regions under the State programme for the provision of loans under the guarantee of regional guaranteed funds.

In 2016, a total of RUB 13 billion in loans was issued to small business customers under programmes with these organisations.

Updates to existing products and new offers in the Group’s product line for small businesses in 2016 included:

- A new line of service packages for small businesses was launched. Packages were modified to meet the needs of existing and potential customers;
- A special package for clients under the payroll project was introduced;
- The “Preparation of Registration Documents” service was launched for individual entrepreneurs;
- The “Online Conversion” service was expanded in Business Online: the time for carrying out transactions was extended from 16:00 to 23:50 at any branch, and a conversion option for overdrafts and FX sales by non-residents was implemented;
- The “Reserve Account” service has been implemented. This service allows customers to remotely reserve an account number (and begin to provide billing information to its partners and counterparties). Subsequently, when contacting the bank, the client provides a full set of documents and is given full access to the previously reserved account;

- A commission with a progressive fee scale linked to the amount transferred has been set up to deal with transfers from individual accounts to retail accounts;
- The “Market Place store”, a non-banking service, was implemented based on the VTB24 Business Online system. This store allows clients to learn about partner services, receive a personalised offer and request a service;
- VTB24 Business Online now features electronic filing of customer applications for emergency and consulting services for FX control.

VTB Bank. In 2016, VTB Bank successfully launched a new sales and service model for small business customers with a focus on the sale of service packages for settlement and cash services.

Asset quality

At the beginning of 2016, VTB24 launched Mobile Collection, a commercial operation of high-tech solutions for organising a collector’s workplace. The system allows a collector to access all the information on a debtor and his/her loans while on the road (on their tablet, using secure communication channels and data encryption). In addition, Mobile Collection deals with logistics for the day’s routes and allows managers to monitor travels. The introduction of the VTB24 system led to increased productivity on the part of field staff, as they were freed from a number of routine operations.

In 2016, VTB24 developed and implemented a system to work with individuals facing bankruptcy, including monitoring those in bankruptcy proceedings, the application of restrictions on their accounts, a statement of the bank’s claims as a creditor and the implementation of a practice to initiate bankruptcy for individual borrowers.

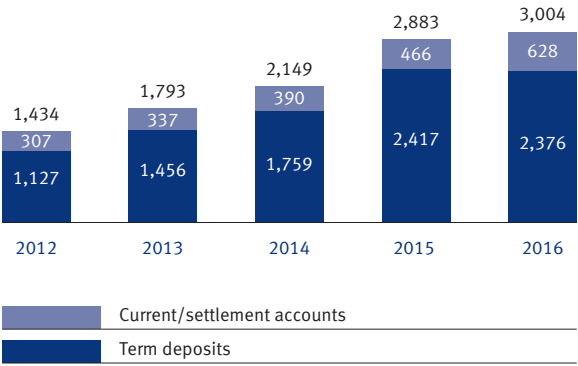
In connection with the adoption and entry into force of the Law on the Protection of Rights and Legitimate Interests of Individuals in Carrying Out Activities to Repay Overdue Debt, VTB24 conducted an inventory of its debt collection processes. VTB24 and the Bank’s counterparties acting as collection agencies are

in compliance with the requirements of the new law. All of the Bank’s partners are included in the state register of entities providing collection services.

Customer deposits

As of 31 December 2016, VTB Group’s retail deposits amounted to RUB 3,004 billion, a 4% increase from the beginning of the year due to the strong positions of the Group’s retail business and a change in the preferences of Russian depositors in favour of large systemic banks. The Group’s market share in terms of individual deposits increased for the year from 10.9% to 11.0%.

VTB Group deposits of individuals, RUB billion



Source: VTB Group IFRS consolidated financial statements for 2016.

VTB24. Deposits at VTB24 comprise the bulk of funds from the Group’s retail customers. In 2016, the Bank focused on expanding its rouble portfolio. Rates for FX deposits were significantly reduced. In November 2016, VTB24 started offering a rouble promotional deposit to customers transitioning from foreign-currency deposits; the «Profitable Privilege Promo» deposit is offered to holders of the Privilege package who convert at least 80% of their foreign-currency deposits to roubles. To attract rouble funds, at the end of the year the Bank launched the 10-20-30 campaign, focused simultaneously on attracting deposits and savings accounts, as well as increasing customers’ transaction activity.

In April 2016, the Bank changed the terms and conditions for the Savings Account product by introducing a new interest scheme whereby customer benefits increase with the length of time funds are kept in the account.

Since June 2016, customers have been able to open Savings Accounts in VTB24 Online, and since July 2016 through a mobile application as well. In 2016, the Savings Account portfolio grew to RUB 61 billion, with the total value of the portfolio at the end of 2015 totalling RUB 7 billion.

In 2016, VTB24 revised its interest rates on deposits several times, in line with market conditions. During the year, the Russian market tended towards a decrease in the profitability of deposits.

Post Bank. In 2016, Post Bank updated its line of deposits and brought a new product to market, the Savings Account. The formation of a clear and attractive line of loan products facilitated:

- more than 63,000 new deposits;
- more than 295,000 customers who hold Savings Accounts;
- more than 13,500 customers began to have their pensions deposited in their Savings Accounts.

In 2016, a platform to work with payroll clients and pensioners was created at Post Bank. In a short time, it reached the mid-market pace for the daily opening of accounts for payroll projects. All business processes have been aligned: Customers – the Bank – Partners.

Remote banking services

VTB24. In 2016, the number of active clients using VTB24 Online’s remote banking system (RBS) doubled, reaching 1.7 million, and the total number of clients of VTB24 Online grew by 3.2 million to 7.2 million.

In 2016, VTB24 modernised VTB24 Online remote channels to improve the system’s functionality and add new features.

Major upgrades to VTB24 Online channels included:

- New functionality including: remote opening of Savings Accounts; money transfers to VTB24 clients using a mobile phone number; a 50% discount when paying fines; and money transfers within VTB24 using a QR code via the iOS application.
- An expanded range of operations for customers with an integrated services contract through Master Accounts: money transfers to VTB24 clients (legal entities), repayment of loans from other banks, and card-to-card money transfers from Master Account cards.
- A number of measures to improve the stability, performance and speed of online banking.
- Clients can now access the What’s New section to see the latest updates and innovations, as well as the main features of the application.
- Infrastructure improvements were carried out to improve the stability of the PUSH code transfer service.

In 2016, VTB’s remote channels were overhauled, and a new version of the mobile app for iOS was made available to clients in November. An updated Android version was launched in early 2017, as well as an update for online banking.

To further improve the security of its remote banking channels, VTB24 implemented:

- A programme for clients to test the new Software Token app (available on Android, iOS and Windows Phone) to generate one-time codes for authenticating and verifying VTB24 Online operations.
- A programme for clients to test a fraud-prevention system giving customers the option carry out some operations without confirmation.
- A pilot programme for employees and a focus group of customers to test biometrics in the Mobile Bank (Selfie Entrance in a Mobile Application).

In 2016, the total number of SMS notification users increased by 1.5 times to 8.2 million, including 5.3 million customers using the service for free as part of payroll projects.

In April 2016, the Smart SMS mobile application was launched, allowing bank customers connected to the SMS notification service to receive visual statistics on costs, including details about the names of stores where transactions were carried out. In addition, this information can be stored and compared with data from previous periods. The app replaces standard SMS apps with extended notifications and the ability to categorise expenses. In 2016, the applications user numbers exceeded 130,000.

Post Bank. Post Bank’s development strategy calls for reducing operating costs by scaling the model of available retail services and the widespread use of remote banking channels. The Bank focuses on multi-channel work with individuals. In 2016, work was carried out to get customers to use electronic channels. Customers can now become clients of the bank without visiting a customer centre by simply registering in any remote service channel, where they will instantly get an Online Card with the attached free package of benefits for online customers. Online deposit opening also became available in remote service channels.

An additional remote channel for instant loan repayment and topping-up cards and accounts with no fee from third-party bank cards was created.

VTB Bank. VTB Bank undertook a series of measures to encourage customers to use remote banking channels as a way of reducing the operating load in the branch network.

At year-end, 23% of the Bank’s clients were active users of the online bank and the mobile application, and the share of deposit product sales through remote channels increased by 25%.

Transfers and payments

In 2016, **VTB24** continued to develop its payment and money transfer services. The number of payments made by individual customers for the services of various organisations reached 50 million, unchanged from last year.

In 2016, VTB24 implemented a convenient service enabling customers to pay for utility services in 54 major cities through remote banking channels (1,500 utility providers have already provided details).

The Autopay service allowing mobile-phone top-ups by automatic direct debit is being developed. In December 2016, this service was launched for cellular services provided by MegaFon, a major mobile phone operator. At the beginning of 2017, a similar service was introduced for Beeline and MTS.

VTB Bank offered its customers new options for using remote channels in 2016. Now, users can check their outstanding tax due directly from an ATM by searching for an Individual Taxpayer Number or a Unique Identifier of Charges (the payment number on the tax document). VTB Bank also now offers the option of paying for traffic fines or Mosenergosbyt tickets by scanning a QR code.

Services for high-net-worth customers

In 2016, VTB24 continued to be active in attracting customers to the bank’s premium service model.

VTB24. In 2016, the premium segment of the VTB24 customer base – customers registered for Privilege services – increased by 1.6 times, from 279,000 to 433,000 customers.

Credit products in the Privilege channel (client relationship managers) accounted for more than

15% of the Bank’s sales of mortgage loans and cash loans. The share of car loans reached 2%.

At the end of 2016, the Privilege package showed the following results:

- customer base: 433,000 people;
- Privilege holders accounted for 42% of the VTB24 deposit base and 74% of the Bank’s savings accounts;
- 20% of VTB24’s credit card portfolio;
- Privilege holders’ average deposit is RUB 4.7 million.

In 2016, 14 new dedicated banking offices for Privilege holders were opened, along with 17 banking offices featuring dedicated Privilege areas. Privilege holders are serviced at 585 banking offices (approximately one third of the network), including 46 dedicated offices and 539 offices with dedicated service areas for premium customers.

VTB Bank. In 2016, VTB Bank launched Altitude, a new premium package for high-net-worth clients.

To facilitate account management, clients can activate up to five status cards of their choice for personal use or for family members: MasterCard World Black Edition/Visa Signature, MasterCard World Elite/Visa featuring contactless payment technology. Cards can be opened in any combination, and can be debit or credit, basic or added-value, as well as in different currencies (RUB/USD/EUR). The cards provide the option of higher credit limits at discounted rates, including overdraft protection, and higher limits for cash withdrawals.

Private Banking

VTB24. VTB24 Private Banking is the market leader in Russia’s private banking market. Currently, VTB24 has 24 Private Banking offices.

60

In 2016, new products and services were offered to Private Banking clients. Sales were launched for Prime NEW, an updated package of services for VIP clients. New products for VIP clients include loans secured by Eurobonds, structured products provided by the brokerage service, and a new product to invest in VTB Capital’s Residential Real Estate fund.

VIP clients can now put together their own team of investment consultants. Cooperation has begun with the Bank of Singapore, enabling customers to invest in Asian stock markets.

In 2016, VTB24 saw a 24% increase in VIP clients, who now total more than 10,000 customers. VTB24 Private Banking’s assets under management grew by RUB 132 billion to RUB 864 billion.

The portfolio of investment products held by VTB24 Private Banking customers reached RUB 100 billion, more than doubling year-on-year. The average credit balance per customer at the end of 2016 was RUB 86.2 million.

VTB Bank. In 2016, VTB Bank’s Private Banking successfully implemented the following projects:

- A remote service for VIP clients and remote confirmation of transactions was launched, allowing Private Banking clients to carry out a wide range of financial transactions anywhere in the world;
- An SMS service is now available for VIP clients to receive notifications about account transactions;
- New agency products for VIP clients are now available with VTB Capital Broker and VTB Capital Asset Management International;
- Payment cards with new designs were issued in a joint project with the State Tretyakov Gallery and Visa. The new limited edition is dedicated to an exhibition marking the 200th anniversary of Ivan Aivazovsky.

61

Investment services for retail customers

VTB24 ended 2016 firmly established as one of Russia’s leading brokerage firms and banks providing brokerage services to individuals. VTB24 has the highest number of registered customers and the fourth-largest number of active clients on the Moscow Exchange. At the end of 2016, about 250,000 brokerage accounts belonging to the Bank’s customers were registered on the Moscow Exchange, including about 11,000 individual investment accounts.

VTB24’s client investment business volumes doubled in 2016 across almost all indicators.

Customer transactions on the stock and FX markets exceeded RUB 2.1 billion (twice that of 2015). VTB24 ranked sixth in Moscow Exchange’s “Leading Market Operators – Shares: T+ trading” ranking and 10th in the Exchange’s “Trading Participants by Volume of Customer Transactions” ranking for the FX market.

The average daily volume of margin lending in 2016 amounted to about RUB 11 billion (twice that of 2015).

The volume of OTC operations with foreign securities by the bank’s clients totalled USD 725 million (2.3 times greater than in 2015).

The volume of operations conducted by VTB24 customers in Moscow Exchange’s futures and options market exceeded RUB 4.3 trillion (a 15% increase over 2015).

In 2016, the amount of mutual funds raised through VTB24 agent points amounted to around RUB 1.8 billion (up 75% over 2015).

In 2016, the volume of VTB24 customer transactions on the FX market exceeded USD 153 billion, including swap operations.

In 2016, VTB24 established a subsidiary company, VTB24 Forex, which is licenced as a professional securities market participant to act as an FX

dealer. The launch of operations with individual clients on the FX market is planned for 2017.

Branch network and ATMs

As of 31 December 2016, the Group had more than 7,700 offices (operating under the VTB24, VTB Bank and Post Bank brands) in Russia, as well as more than 16,500 ATMs, more than 45% of which are multi-function self-service terminals (SSTs).

VTB24. As of the end of 2016, the VTB24 branch network consisted of 1,076 offices in 369 cities across 74 regions of Russia.

During the year, 46 new offices were opened, and 43 projects were implemented to optimise the existing network. In 2016, 16 low-performing non-format offices were closed.

More than half of the offices opened in 2016 provide service areas for high-net-worth clients. In 2016, the number of offices with dedicated areas for high-net-worth clients increased from 531 to 585, accounting for 54% of the entire network.

In 2016, VTB24’s SST network increased to 12,538 units. Over the year, VTB24 purchased 1,967 SSTs, 884 of which are universal ATMs equipped with paying-in and cash-dispensing functions, and 670 are information and payment terminals featuring the latest technology for non-cash payments.

In 2016, the number of ATMs with a cash pay-in function in VTB24’s SST network grew by 19%, and ATMs with cash recycling tripled in number. In 2016, the VTB24 self-service network had accessibility of 97%, which is 0.6% higher than in 2015.

VTB24 improved the client-friendliness of its SSTs, as well as SST functionality to replace teller transactions within the SST network:

A new script for the ATM menu using 3D effects reduces the time to execute each transaction by 30%.

ATM as a Sales Channel has been implemented throughout the SST network, allowing communications with any bank client.

A new innovation makes it possible to transfer a high proportion of transactions involving large sums from tellers to the self-service network.

An independent study by Marc Analytics ranked VTB24 in the top three among peers for customer satisfaction and loyalty across all client segments of the SST network.

Transaction turnover in the network grew by RUB 519 billion (18%) compared to 2015, including the turnover of cash deposits in the network, which increased by more than 50% compared to 2015.

Post Bank. On 6 April 2016, PJSC Leto Bank officially changed its name to PJSC Post Bank.

VTB24 retains 50% plus one share control of the capital of Post Bank, while 50% minus one share is held by Pochtovye Finansy Ltd., a wholly owned subsidiary of the Russian Post.

Leto Bank’s entire regional branch network continues to operate under the new Post Bank brand, while future development will focus on Russian Post branches. In 2016, more than 5,700 outlets for banking services were opened at post offices. By year end 2018, the bank will be represented at 18,000 Russian Post branches across the country.

The total number of active individual clients reached 3.3 million as of the end of 2016, and this is projected to increase to 21 million by 2023. One of the strategic goals is to reduce the share of cash payments in the economy. To achieve this goal, the bank plans to develop remote banking channels and to expand its ATM network (to 8,000 units) and POS terminals. By year-end, Post Bank’s network of ATMs featuring cash recycling numbered 2,000 units.

Insurance

Insurance forms part of the global retail business line and is represented by VTB Insurance, VTB Health Insurance and VTB Life Insurance.

VTB Insurance is one of the fastest-growing players in the Russian insurance market. Premium volumes have increased more than seven-fold over the past five years, making VTB Insurance one of the 10 largest insurers in Russia. Standard & Poor’s has assigned VTB Insurance a financial stability rating of BB+, the highest given to an insurance company with Russian capital. VTB Insurance was also assigned the highest reliability rating by RAEX.

At the end of 2016, VTB Insurance’s volume of business totalled RUB 63 billion, a 31% increase over 2015. At the same time, Russia’s insurance market grew by less than 15% in 2016. VTB Insurance’s market share by volume of premiums earned increased from 4.6% in 2015 to 4.9%.

In 2016, VTB Insurance’s retail business grew by a rapid 75%. Premiums in the retail business reached RUB 50 billion. Corporate insurance (excluding compulsory state personal insurance) grew by 14%, with premiums reaching RUB 13 billion. The company paid out a total of RUB 10 billion for the year.

VTB Insurance strengthened its position both in the insurance market as a whole and in individual segments. The company is the market leader for accident insurance, and among the top three for financial risk insurance and personal property insurance. VTB also ranks among Russia’s 10 largest insurers in markets such as corporate property insurance, comprehensive insurance for aircraft and watercraft, voluntary health insurance and more. It is also one of the 10 largest Russian reinsurers.

Since 2014, VTB Insurance has served as the parent company of an insurance group that includes the subsidiaries VTB Life Insurance and VTB Health Insurance. In 2016, MSK Insurance Group was incorporated into VTB Insurance,

which acquired and guaranteed the fulfilment of all obligations to MSK Insurance Group clients.

VTB Life Insurance, which launched endowment life insurance products in 2014 and investment life insurance in 2015, grew its sales to RUB 13 billion. In 2016, the Company concluded 10,000 investment life insurance contracts and 5,000 endowment insurance contracts. VTB Life Insurance is firmly established among Russia’s 10 largest life insurance companies, and continues to increase its market share, which reached 5.8% in 2016, up 0.8 percentage points over 2015.

As part of developing its compulsory health insurance business in 2016, VTB Insurance incorporated two insurers specialising in compulsory health insurance in the Lipetsk Region. VTB insurance also agreed to acquire one of Russia’s largest health insurers, ROSNO-MS. After the merger of ROSNO-MS and VTB Health Insurance, the VTB Insurance subsidiary will become Russia’s largest compulsory health insurer with 24 million customers.

4.3.4. Other non-banking financial business

VTB Pension Fund

VTB’s non-state Pension Fund is one of the fastest-growing non-state pension funds in Russia and a leading player in the Russian market, providing a full range of services for compulsory pension insurance and non-state retirement benefits, including corporate pension programmes.

In 2016, the Fund was elected to the Board of the National Association of Non-State Funds (NSF) and has been actively involved in developing the legal framework for the next stage of pension reform.

As of year-end 2016, the Fund managed RUB 130 billion, a 15% increase over the previous year. The amount of pension savings (compulsory pension insurance) totalled RUB 125 billion (15% growth), while the amount

of pension reserves under non-state coverage totalled RUB 2.2 billion (38% growth).

The Fund pursues an investment policy that combines high profitability and maximum investment security, ensuring the preservation and accrual of customer funds. In 2016, the yield on pension savings allocated to the Fund’s customer accounts reached 10.3%. The yield on pension reserves as part of the programme for non-state provision of pensions through a well-balanced portfolio amounted to 8.9%.

As of the end of 2016, the Fund served more than 1.3 million customers.

In the first nine months of 2016, the Fund was Russia’s seventh-largest by pension assets under management.

In January 2017, the RAEX ratings agency granted the Fund a rating of A++ (“exceptionally high level of reliability”), with a stable outlook.

In 2016, as part of the Non-State Pension Provision (NSPP) product, the Fund launched a unique service to conclude NSPP contracts online on the Fund’s website and allowing payment of premiums through NSPP contracts using points under VTB24’s Collection programme.

4.4. Review of financial performance

Financial highlights of 2016

- VTB Group’s net profit in 2016 was RUB 51.6 billion.
- Net interest income increased by 43.5% to RUB 415.0 billion.
- Net fee and commission income rose by 7.3% to RUB 81.8 billion.
- The total provision charge rose by 18.6% year-on-year to RUB 211.2 billion. The cost of risk, including provisions for credit related commitments, amounted to 2.0% in 2016 compared to 1.7% in 2015.
- The Group improved its cost efficiency in 2016: the ratio of costs to operating income before provisions decreased to 45.8% for 2016 versus 53.8% for 2015. In 2016, on top of ongoing cost management efforts, the Group kept its staff costs and administrative expenses in check, which grew just 5.4% year-on-year to RUB 233.9 billion (on par with price inflation).
- Capital adequacy remained strong: at the end of 2016, the Group’s Tier 1 capital adequacy ratio was 12.9%.

VTB Group key financial highlights

RUB billion	2016	2015	Change
Net interest income	415.0	289.1	43.5%
Net fee and commission income	81.8	76.2	7.3%
Provision charge for impairment ¹³	(211.2)	(178.1)	18.6%
Staff costs and administrative expenses	(233.9)	(221.9)	5.4%
Net profit	51.6	1.7	x30
Gross loans and advances to customers, including those pledged under repurchase agreements	9,487.0	10,110.0	-6.2%
Customer deposits	7,346.6	7,267.0	1.1%
Net interest margin	3.7%	2.6%	1.1 p.p.

13 Provision charges for impairment of debt financial assets, other assets, credit related commitments and legal claims.
14 Provision charge for loan impairment and provision charge for impairment of credit related commitments divided by average gross loans and advances to customers (including financial assets classified as loans and advances to customers pledged under repurchase agreements) and average credit related commitments.

RUB billion	2016	2015	Change
Costs to average assets	1.8%	1.8%	-
Cost of risk (including credit related commitments) ¹⁴	2.0%	1.7%	0.3 p.p.
Tier 1 CAR	12.9%	12.4%	0.5 p.p.
Return on equity	3.6%	0.1%	3.5 p.p.

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 one of the main sources of the Group's operating income. In 2016,

this amounted to RUB 1,107.8 billion, slightly higher compared to 2015 (+0.6% year-on-year).

Net interest income increased by 43.5% to RUB 415.0 billion on the back of the repricing of the Group's assets and liabilities, and the resumption of growth of higher-margin retail lending. As a result, net interest margin rose to 3.7% in 2016 compared to 2.6% in 2015.

Interest income

RUB billion	2016	2015	Change
Financial assets at fair value through profit or loss	19.5	21.1	-7.6%
Loans and advances to customers	1,017.8	1,011.7	0.6%
Due from other banks	48.0	51.5	-6.8%
Other financial assets, including securities	22.5	16.6	35.5%
Financial assets not at fair value through profit or loss	1,088.3	1,079.8	0.8%
Total interest income	1,107.8	1,100.9	0.6%

Source: VTB Group IFRS consolidated financial statements for 2016.

Interest expense

RUB billion	2016	2015	Change
Customer deposits	(475.0)	(441.6)	7.6%
Due to other banks and other borrowed funds	(151.9)	(287.5)	-47.2%
Debt securities issued	(32.4)	(49.9)	-35.1%
Subordinated debt	(21.5)	(24.1)	-10.8%
Total interest expense	(680.8)	(803.1)	-15.2%
Payments to deposit insurance system	(12.0)	(8.7)	37.9%
Net interest income	415.0	289.1	43.5%

Source: VTB Group IFRS consolidated financial statements for 2016.

Net fee and commission income

Growing fee and commission income remains one of the Group's priorities. The development of the

Retail business and of Transaction banking products and services helped the Group to achieve a record net fee and commission income of RUB 81.8 billion for the year, an increase of 7.3% year-on-year.

Total fee and commission income in 2016 increased by 11.3% year-on-year, amounting to RUB 109.7 billion. The bulk of fee and commission income came from settlement transactions and trade finance, accounting for 57.7% of the overall amount, up from 55.9% in 2015.

Net fee and commission income

RUB billion	2016	2015	Change
Commission on settlement transactions and trade finance	63.3	55.1	14.9%
Commission on guarantees and other credit related commitments issued	13.3	14.7	-9.5%
Commission on operations with securities and capital markets	8.6	10.2	-15.7%
Agents' fee received for insurance products distribution and other services	9.4	8.3	13.3%
Commission on cash transactions	6.2	5.2	19.2%
Other	8.9	5.1	74.5%
Total fee and commission income	109.7	98.6	11.3%
Commission on settlement transaction and trade finance	(19.7)	(14.2)	38.7%
Commission on operations with securities and capital markets	(3.5)	(2.5)	40.0%
Commission on cash transactions	(3.0)	(2.9)	3.4%
Other	(1.7)	(2.8)	-39.3%
Total fee and commission expense	(27.9)	(22.4)	24.6%
Net fee and commission income	81.8	76.2	7.3%

Source: VTB Group IFRS consolidated financial statements for 2016.

Provision charge for impairment

In 2016, the Group's provision charge for impairment of debt financial assets and other assets, credit-related commitments and legal claims amounted to RUB 211.2 billion, an increase of 18.6% year-on-year.

Cost of risk, including credit related commitments amounted to 2.0% in 2016 compared to 1.7% in 2015.

Staff costs and administrative expenses

Cost-cutting measures helped to constrain the rise in staff costs and administrative expenses to only 5.4% year-on-year (on par with price inflation in Russia), to RUB 233.9 billion, despite one-off expenses from the integration

Total fee and commission expenses increased by 24.6% in 2016, mainly due to growth in fees and commissions on settlement transactions and trade finance.

of the Bank of Moscow. The Group's ratio of costs to average assets was unchanged compared to 2015 and amounted to 1.8%.

Net profit

Net profit amounted to RUB 51.6 billion in 2016, due to a significant increase in income from core business activities, including a 43.5% year-on-year increase in net interest income, and a 7.3% increase in net fee and commission income.

Analysis of the statement of financial position

Assets

As of 31 December 2016, the Group's total assets amounted to RUB 12,585.5 billion, down 7.7% compared to 31 December 2015.

The Group's loan portfolio contracted by 6.2% to RUB 9,487.0 billion due to a decline in loans to legal entities during the first quarter of 2016. This was driven by the repayment of several large FX-denominated loans, as well as the strengthening of the Russian ruble and the corresponding revaluation of loans denominated in foreign currencies.

Assets

RUB billion	2016	2015	Change
Cash and short-term funds	452.9	570.7	-20.6%
Mandatory cash balances with central banks	95.1	70.8	34.3%
Non-derivative financial assets at fair value through profit or loss, including pledged under repurchase agreements	267.1	308.1	-13.3%
Derivative financial assets	180.5	304.8	-40.8%
Due from other banks, including pledged under repurchase agreements	1,051.2	1,358.2	-22.6%
Loans and advances to customers, including pledged under repurchase agreements	8,854.5	9,437.5	-6.2%
Investment financial assets, including pledged under repurchase agreements	340.7	353.3	-3.6%
Investments in associates and joint ventures	90.6	104.3	-13.1%
Assets of disposal groups and non-current assets held for sale	15.6	15.8	-1.3%
Land, premises and equipment	352.7	310.3	13.7%
Investment property	235.5	245.0	-3.9%
Goodwill and other intangible assets	155.1	162.0	-4.3%
Deferred income tax asset	87.8	76.6	14.6%
Other assets	406.2	324.5	25.2%
Total assets	12,585.5	13,641.9	-7.7%

Source: VTB Group IFRS consolidated financial statements for 2016.

Asset quality

As of 31 December 2016, the share of non-performing loans (NPL)¹⁵ in gross customer loans including those pledged under repurchase agreements amounted to 6.4%, up 0.1 p.p. compared to 31 December 2015.

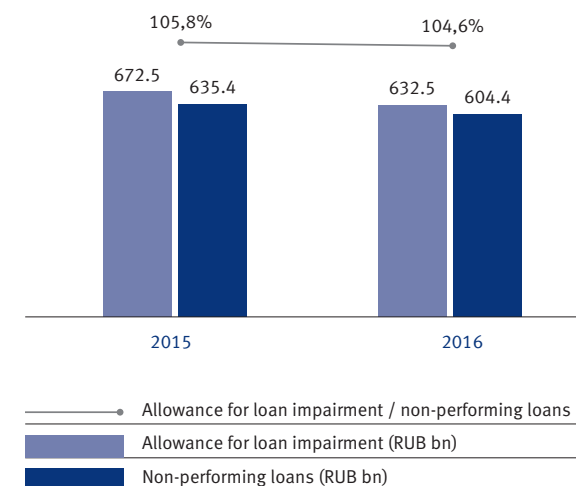
The allowance for loan impairments reached 6.7% of the total loan book, on par with the 2015 result. The NPL coverage ratio remained at a comfortable

The Group's retail loan book increased by 11.0% during 2016, significantly exceeding the growth of the Russian retail lending market, which grew only by 1.1% during the year.

level of 104.6% as of 31 December 2016, compared to 105.8% as of 31 December 2015.

As of the end of 2016, the amount of loans and advances to customers written off amounted to RUB 161.8 billion compared to RUB 159.7 billion in 2015.

Asset quality



Source: VTB Group IFRS consolidated financial statements for 2016.

Liabilities

RUB billion	2016	2015	Change
Due to other banks	1,208.9	1,224.0	-1.2%
Customer deposits	7,346.6	7,267.0	1.1%
Derivative financial liabilities	165.0	284.1	-41.9%
Other borrowed funds	1,307.2	2,121.5	-38.4%
Debt securities issued	399.6	623.5	-35.9%
Liabilities of disposal groups held for sale	2.2	13.0	-83.1%
Deferred income tax liability	35.2	30.2	16.6%
Other liabilities	486.5	361.7	34.5%
Total liabilities before subordinated debt	10,951.2	11,925.0	-8.2%
Subordinated debt	224.1	262.8	-14.7%
Total liabilities	11,175.3	12,187.8	-8.3%

Source: VTB Group IFRS consolidated financial statements for 2016.

Capital and capital adequacy

VTB Group continues to maintain strong capital adequacy levels. As of 31 December 2016, the Group's total and Tier 1 capital adequacy

Liabilities

Total liabilities decreased by 8.3% in 2016, amounting to RUB 11,175.3 billion as of 31 December 2016.

As of 31 December 2016, customer deposits amounted to RUB 7,346.6 billion, up 1.1% from the end of 2015. As of the end of 2016, customer deposits accounted for 65.7% of the Group's total liabilities versus 59.6% at the end of 2015.

ratios were 14.6% and 12.9%, respectively, versus 14.3% and 12.4% on 31 December 2015.

¹⁵ Non-performing loans are loans that are in arrears for more than 90 days. Principal and interest payments are included in the calculation of non-performing loans. The NPL ratio is calculated as the share of the total amount of loans, including financial assets classified as loans and advances to customers pledged under repurchase agreements.

Capital and capital adequacy

RUB billion	2016	2015	Change
Tier 1 capital	1,273.5	1,315.8	-3.2%
Tier 2 capital	222.4	259.3	-14.2%
Deducted: equity investments in financial institutions and subordinated debt provided	(56.9)	(59.2)	-3.9%
Total capital after deductions	1,439.0	1,515.9	-5.1%
Risk-weighted assets	9,872.7	10,630.1	-7.1%
Tier 1 capital ratio to total risk-weighted assets	12.9%	12.4%	0.5 p.p.
Total capital ratio to total risk-weighted assets	14.6%	14.3%	0.3 p.p.

Source: VTB Group IFRS consolidated financial statements for 2016.

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 identification, 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 at VTB Group is to manage the activities of the Group, considering risk appetite, which is determined in accordance with regulatory requirements and international practice. This approach involves the identification and oversight of indicators of the Group's overall risk target level and risk profile in accordance with its strategic objectives and the integration of risk appetite into business planning and risk management procedures.

As a high level overview, the Group's risk appetite includes the following key provisions:

- 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 agencies;¹⁶
- 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).

VTB Group's risk appetite is detailed through the establishment of specific quantitative and qualitative indicators, with corresponding reference values. The risk appetite includes quantitative indicators that can be allocated to VTB's business lines, VTB Group's companies and along other levels of allocation.

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

- Compliance with legal and other mandatory requirements;
- Transparency of risk-associated activities for shareholders, investors and other interested parties, taking into account their interests;
- 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;
- Providing the risk management function with sufficient resources, 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 (Group-level) and local-level risk management, with a high degree of centralisation of the Group's risk management function. The risk management system is built around the Group's global business lines (Corporate-Investment Banking, Mid-Corporate Banking, Retail Banking) and is based on the harmonisation of approaches to managing the main types of risks, including through the coordination of activities by specialised risk divisions of VTB Bank and the Group.

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 the business, as well as a senior manager responsible for comprehensive risk management.

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 report to the VTB Group Management Committee. These collective bodies include:

- 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 Retail Risk Committee;
- The Group's Finance Committee, including its subordinate Assets and Liabilities Commission.¹⁷

Control over the risk management organisation 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 councils/ boards of directors). Key internal regulations of subsidiaries related to risk management are approved by governing bodies, taking into account the contribution of the specialised risk divisions.

During the year, the Group continued implementation of the strategy for the development of VTB Group's risk management system for 2014–2016, as well work on the long-term development programme for the Bank for 2014–2018 approved by the Bank's Supervisory Board, including:

- Phased implementation of the concept for risk appetite within VTB Group;
- Improvements to the system for limiting risk, including introducing limits on the level of

16 The Basel Committee on Banking Supervision, European Central Bank and others.

17 In November 2016, a new working collegiate body was established, the Committee for the Management of Group Assets and Liabilities. Functional development and other procedures for the formation of the committee are ongoing; it is planned to include decision-making in the area of coordinating liquidity risk and market risk management for the Group in the scope of the Committee's responsibilities.

expected losses on transactions subject to credit risk, and setting limits on operations of the Treasury portfolio that are subject to market risk;

- The method for calculating the requirements for capital adequacy for significant risks based on internal models (economic capital) was refined to meet the requirements of the Bank of Russia;
- Models for credit risk assessment were fine-tuned, based on an internal rating system in accordance with the requirements of the Bank of Russia;
- Development projects for the risk management IT infrastructure and reporting tools for risk were implemented.

VTB Bank level risk management

The Bank’s main internal documents specify key principles of and approaches to the organisation and development of its risk management system, including:

- The Regulation on the VTB Bank Risk Management System, designed in line with the Procedures endorsed by the Russian Government and approved by the Supervisory Council on 16 November 2015;
- VTB Bank’s Strategy for Managing Risk and Capital, developed in accordance with the regulatory requirements of the Bank of Russia and subject to revision at least once a year to update its provisions.

In 2016, VTB Bank’s Strategy for Managing Risk and Capital was updated twice, and the new editions were approved by the Supervisory Council on 29 January and on 2 November.

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

VTB Bank’s policy aims to create an integrated risk management system that corresponds to the nature and scale of the Bank’s operations and risk profile, and that enables further development of the business.

The Bank’s risk management is developed and improved in accordance with banking best practices, regulations and recommendations of the Bank of Russia, as well as generally accepted international standards.

In terms of organisation, VTB Bank’s risk management system comprises the Supervisory Council, executive bodies, credit committees, the Assets and Liabilities Committee, the Credit Risk Management Committee and other special committees and structural units involved in risk management processes.

The division responsible for developing the risk management system and controlling the credit, market and operational risks within VTB Bank and VTB Group is the VTB Bank Risk Department. As of the end of 2016, it comprised the following units:

- Corporate Business Support Directorate;
- Industry and Public Company Analysis Service;
- Credit Risk Division;
- Operational Risk Division;
- Retail Credit Risk Division;
- Market Risk Division;
- Strategy, Methodology and Consolidated Risk Analysis Division;
- Loan Application Division.

As part of the merger of the Bank of Moscow and VTB Bank in 2016, a special unit – the Retail Credit Risk Division – was set up under the Risk Department to manage retail credit risk at the Bank. The main purpose of this structural division is to ensure the effective functioning and development of the Bank’s retail credit risk management system.

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

Credit risk at VTB Group is managed simultaneously at the local level with VTB Group companies and at the Group (consolidated) level.

Within the framework of the local credit risk management system, Group companies assume and manage credit risks independently (including insurance and hedging risks), within the scope of their authority and limits with regard to risk indicators, and in accordance with national regulations and Group standards. VTB Group’s companies are responsible for the results of their lending activities and the quality of their loan portfolios, and also 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:

- Harmonisation of credit policies (credit risk management policies) of the Group’s companies;
- Development and adoption of common standards (principles and methods) concerning credit procedures and managing credit risk to be used 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 particular attention;
- Preparing 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 determined by the Group’s coordinating bodies.

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.

In 2016, VTB Bank set up a specialised unit under the Retail Credit Risk Department—the group for risk management in subsidiary banks—with the aim of centralising retail risk management in its subsidiary banks. This unit is the competence centre responsible for the development of common approaches and procedures for retail credit risk management; the centralised, systematic evaluation of such risk; and the formation of an optimal structure for retail credit risk taken by the Group, including with regard to compliance with the Group’s risk appetite. 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.

VTB Bank level credit risk management

VTB Bank manages credit risk by:

- Restricting credit risk through the Bank’s existing system of limits, which comply with the Bank

of Russia’s mandatory regulations and other requirements. They are regularly reviewed by the VTB Risk Management Department and approved by VTB Bank’s authorised collective body;

- Accepting collateral and insurance to cover credit risks, charging adequate fees for the credit risk and establishing provisions for possible loan losses;
- 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 through monitoring.

The Bank applies the following main methods of credit risk assessment:

- Determining a customer’s level of creditworthiness by analysing financial indicators and conducting an expert assessment (in compliance with the Bank’s internal procedures for ranking); the level at which a customer (or group of related customers) is ranked is taken into account when determining the cost levels of loan transactions;
- Analysing the level of concentration of the Bank’s credit risk for individual borrowers (or group of related borrowers), the industry, country, customer segments, types of credit products;
- Estimating possible losses from credit risk in the process of calculating and creating provisions for possible losses (in compliance with the requirements of the Bank of Russia and IFRS);
- Assessing capital adequacy and the scale of credit risk when calculating the required ratios established by the Bank of Russia;
- Determining internal capital needs (economic capital calculation) for credit risk, taking into account the actual quality of the loan portfolio (as required by the Bank of Russia and under Basel II)¹⁸;
- Conducting stress testing of loan portfolio losses, taking into account different macroeconomic scenarios.

Key areas (methods) for managing credit risk at VTB Bank are determined by the credit risk management policy (credit policy). The main tool for credit risk mitigation and control over their levels is the system for establishing credit limits.

The main types of credit risk limits are:

- Limits on the aggregate level of credit risk for the loan portfolio overall and for individual segments;
- Limits restricting the level of risk for a particular customer (or group of related customers). These limits include limits for operations with a customer (group of related customers), including sub-limits for various types of operations with a credit risk/designated purpose (credit, documentary limits, limits on trading activities, limits on transactions with debt securities, etc.);
- Limits on the concentration of credit risk (by industry, country, major counterparties, credit products);
- Credit and deposit limits are established for credit organisations (including overdraft sub-limits, nostro accounts, provision of funds), limits on trading operations, limits on transactions with debt securities, and limits on contingent liabilities;
- Limits in accordance with the requirements (mandatory regulations) of the Bank of Russia.

The Bank employs software to reduce credit risk.

Liquidity risk

VTB Group level liquidity risk management

Liquidity management is applied at the Group level based on bylaws approved by the Group’s Management Committee.

Within the Group, liquidity management is based on the following principles:

- Each bank/company within the Group manages its own liquidity on a separate basis 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.

Methods for controlling and reducing liquidity risk groups include:

- monitoring compliance with the established appetite for liquidity risk;
- monitoring compliance with the regulatory limit set by the Bank of Russia for the short-term liquidity of a banking 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 objective in forecast liquidity management is to develop and implement instruments to manage assets and liabilities to support 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. The results of the analysis are presented 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 borrowings 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 is represented by customer deposits (deposits, promissory notes, current accounts of corporate and retail customers), resources from the Bank of Russia, interbank deposits and Eurobonds.

18 Approach based on internal credit ratings.

Although 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 that 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.

Methods for controlling and reducing liquidity risk include:

- Monitoring compliance with established internal limits and regulations, including appetite for liquidity risk;
- Analysing liquidity risk using a set of quantitative and qualitative indicators;
- Implementing forecasting, situational modelling and stress testing of the Bank’s liquidity;
- Monitoring calculated gaps taking into account the scenario analysis of the Bank’s liquidity for various time periods to identify disparities between receipts and payments;
- Identifying and analysing the impact of internal and external factors on the Bank’s liquidity, and the forecast for changes;
- Adopting and implementing solutions for management of assets and/or liabilities of the Bank to maintain liquidity risk at a level that complies with internal and regulatory liquidity ratios;
- Developing a detailed plan of action for mobilisation of liquid assets by the Bank in the event of insufficient liquidity;
- Ensuring compliance with the Bank of Russia’s mandatory liquidity ratios by monitoring actual and forecast values of established intra-bank maximum permissible values for mandatory ratios. The procedure for monitoring compliance with mandatory liquidity ratios is regulated by a separate regulatory act of the Bank.

Market risk

Market risk is the risk of downward pressure on the Group’s financial results or the capital base due to 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 VTB Group’s bylaws 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 interest-rate risk, 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 matches 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.

Approved stress scenarios are used to calculate the capital required to cover VTB Bank’s open currency risk structural OCP. A VaR assessment is carried out using the VaR method to monitor the established risk appetite index for structural OCP. The VaR assessment is used to estimate the largest potential negative effect (within a specified confidence interval) of changes in the value of FX 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%.

Market risk on trading operations

The Group’s securities portfolio is exposed to the risk of losses resulting from changes in the market prices of securities, commodities and stock indices.

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 allowable losses, i.e., “stop-loss”), which are then passed down by the Group’s Risk Management Committee to business lines and subsidiaries.

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

The Risk Department informs 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 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 by using 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 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.

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.

To manage operational risk, the Bank has implemented the following unified mechanisms to identify, assess and monitor the level of operational risk: a centralised process to collect information on incidents of operational risk and related operating losses; control over the level of key performance indicators related to operational risk, and procedures to minimise operational risk. This makes it possible to carry out a quantitative assessment of operational risk indicators in relation to the Bank's products and the Bank's various business activities, processes and systems, including in the context of individual risk categories, the identification of sources of risk and implementation of measures to limit risk, reflected in management reporting.

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 if 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 an integrated 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;

- A well-managed HR policy, good staff training and education;
- Prevention measures to ensure continuity of the 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 insurance programmes covering risks to the Bank's professional activity risks in 2016 were provided by insurance against crime under the Financial Institution's Blanket Bond scheme (including electronic and computer crimes), 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).

In 2016, the Bank took the following steps to develop its system for managing operational risk:

- 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;
- Unification of methodological approaches to operational risk management at the Group level, including with regard to risk management regarding fraud and IT risks;
- 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);
- Improving regular reporting on the Group's operational risks.

Operational risk did not have a significant impact on the Bank's performance in 2016.

Key priorities for 2017

VTB Group has approved a Risk Management Development Strategy for 2017–2019 to determine the key strategic directions for the further development of the Group's risk management system in the medium term. In 2017, the Group plans to further develop its risk management system (including to ensure compliance with new regulatory requirements and international standards) by implementing the following measures:

- Switching to the IFRS 9 standard, effectively monitoring the implementation of the business plan for the reserves required for possible losses (taking into account the Group's Development Strategy);
- Completing the organisational and technical centralisation of risk management functions in the merged VTB Bank (taking into account the planned incorporation of VTB24);
- Developing infrastructure for centralised decisions based on uniform assessments and risk appetite;
- Consistently improving the monitoring system using the Group's funds (capital) to cover risks through capital, with the full-scale practical implementation of internal procedures for assessing and planning capital adequacy in the Group;
- Developing the IT infrastructure and optimising the collection, processing and storage of information on the Group's risks;
- Further work on the automation of key processes and the analytical aspects of risk management, in particular the further implementation of an IT platform for calculating the value of risky assets under Basel II;
- Developing the methodology of credit risk assessment based on internal ratings;
- Researching new approaches to the management of the most significant risks (in particular credit and interest rate risk in the banking book);
- Further improving the system for planning and the continuity of operations at the level of the Bank and the Group.

Supporting infrastructure projects to invest in economic development



The Group's active role in implementing key public-private partnership projects boosts the development of national infrastructure.

5. Corporate governance

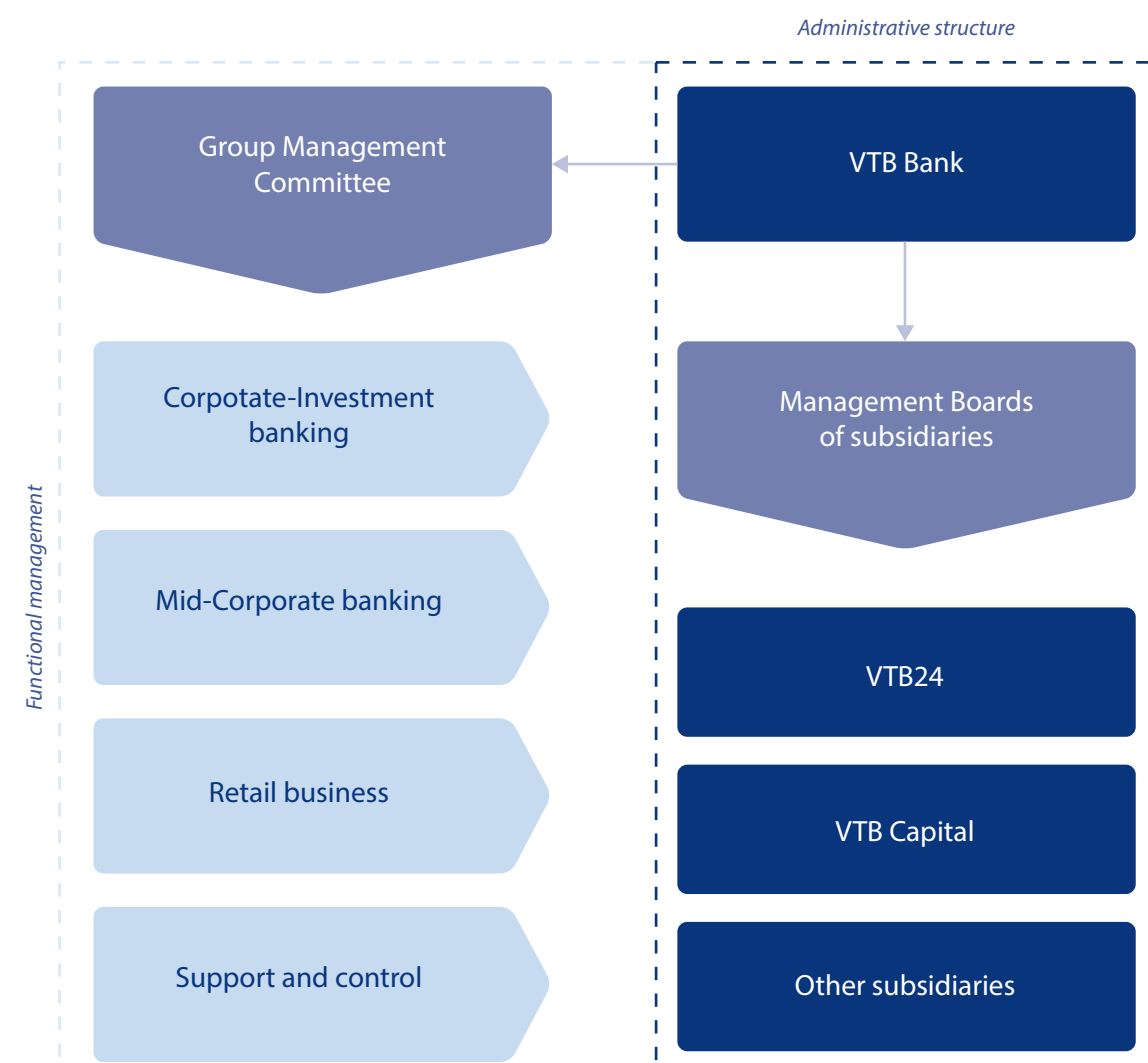
5.1. Overview of the corporate governance system

5.1.1. VTB Group governance

VTB Group is structured as a strategic holding. This model entails a common single development strategy for all Group companies, as well as a

single brand, centralised management of financial performance and risk, and unified control systems.

VTB Group management system



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.

To meet key strategic objectives, the following business lines have been established within the Group: Corporate-Investment Banking, Mid-Corporate Banking, Retail Banking (for more on the global business lines and their performance, see *Section 4.3 “Review of operating performance”*).

The Group’s Corporate Centre sets the overall strategic direction of the Group and best practices within the Group.

VTB Group Management Committee

VTB Group’s single governing body is the VTB Group Management Committee, which analyses the development strategies of individual business areas, business plans for the Group and its companies. It analyses reports analyses 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.

Coordinating commissions have been established to provide expert support to the Group Management Committee in the following lines of activity:

- Corporate-Investment Banking;
- Mid-Corporate Banking;
- Retail Business;
- Business with financial institutions;
- Corporate governance;
- Information technology;

- Internal audit;
- Compliance and internal controls aimed at countering money laundering and the financing of terrorism;
- Branding and marketing;
- Human resources;
- Security;
- Property management.

The commissions’ responsibilities include identifying best practices and developing proposals on their implementation, which are then considered by the Group Management Committee.

The management system established by the Group enables the Bank to develop a global mechanism for client service, closely coordinate the work of every business line in all the Bank’s regions of operation, increase profitability through synergies between business lines and best practices, and optimise costs by sharing infrastructure and resources more extensively among Group companies. Furthermore, this management model is a platform to effectively integrate assets acquired by VTB Group.

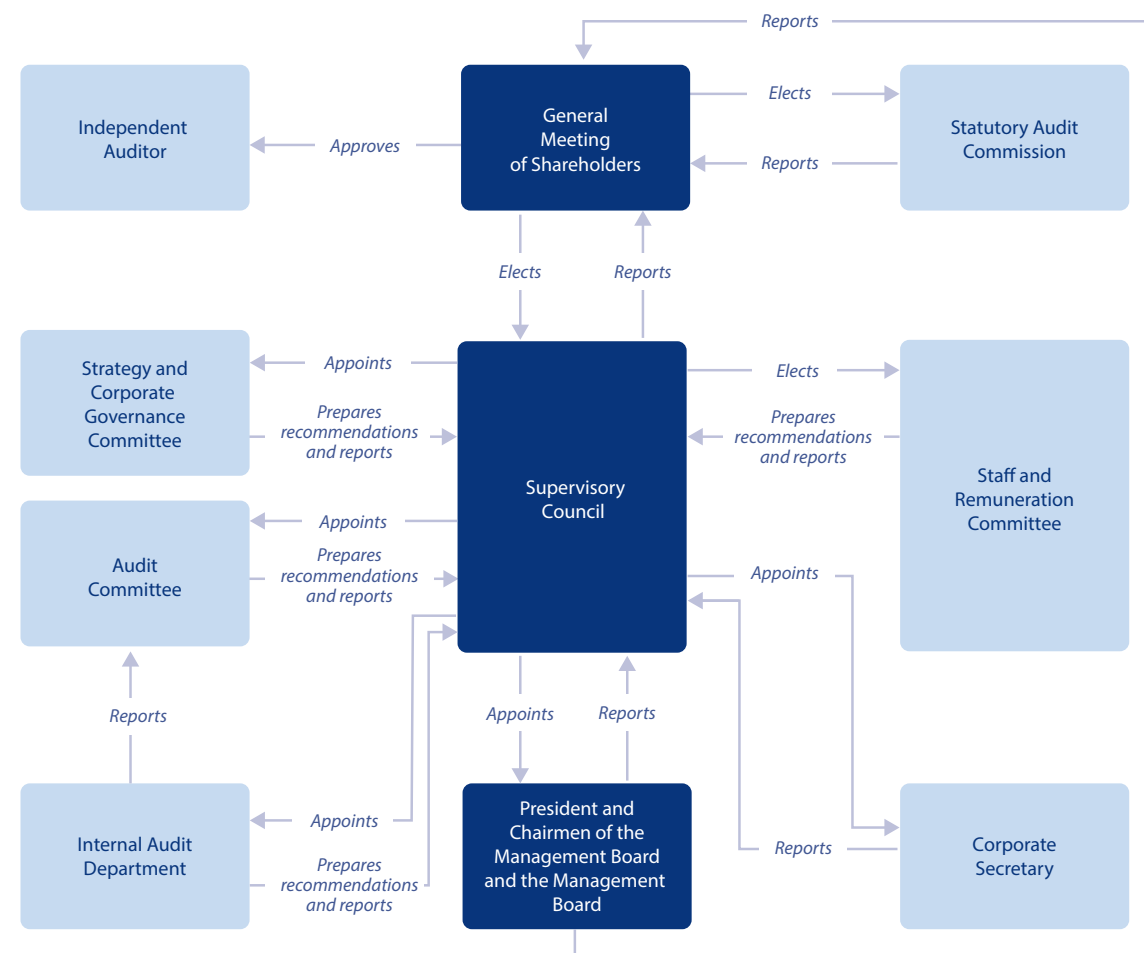
VTB Group pays significant attention to improving its governance system, which is designed to comply fully with corporate and anti-monopoly legislation in countries where the Group operates. The regulations of the Management Committee ensure that it cannot make decisions that would in any way limit competition in the Group’s markets of operation or violate legislative norms or the statutory documents of Group 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.

5.1.2. Corporate governance of VTB Bank

VTB Bank’s corporate governance system is based on unconditional compliance with the requirements of Russian legislation and the Bank of Russia, and it also draws heavily on international best practices.

VTB guarantees that all shareholders receive equal treatment.

VTB Bank's corporate governance system



The General Meeting of Shareholders is the supreme governing body of VTB Bank. 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. They carry out the tasks entrusted to them by the shareholders and the Supervisory Council.

The system of corporate governance and internal control of the Bank's financial and economic

activity is aimed primarily at safeguarding the rights and interests of the shareholders.

The Supervisory Council oversees the Audit Committee, which, in conjunction with the Internal Audit Department, supports the management bodies 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 corporate governance, as well as on streamlining the management of the Bank's own stock.

VTB adheres to 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).

5.2. Development of corporate governance in 2016

One of the main areas where VTB Bank's corporate governance system was enhanced during the reporting period was the full implementation of the Action Plan, adopted by the Supervisory Council, for the implementation of the provisions of the Corporate Governance Code (the Code), approved by the Bank of Russia in March 2014.

In accordance with the directives of the Government of the Russian Federation and instructions of the Federal Property Management Agency on the implementation of the Code in companies whose main shareholder is the state, VTB assessed its compliance with the corporate governance principles outlined in 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 (roadmap) to integrate the

Code's provisions into VTB Bank's operations. In February 2015, the roadmap was approved by VTB Bank's Supervisory Council.

During the reporting year, the Bank implemented the following measures set out in the roadmap:

- provisions were stipulated in the Bank's Charter providing for the mandatory publication on the Bank's website of the minutes of the General Meetings of Shareholders;
- the competence of the Bank's Supervisory Council was expanded regarding such important areas as the control of major transactions made by the Bank's main subsidiaries, as well as approval of the Bank's budget;
- matters requiring a resolution by a majority of all elected members of the Supervisory Council are now stipulated in the Bank's Charter. These include, in particular, matters related to determining the priority areas for the Bank's operations, the payment of dividends, approval of the Bank's dividend policy, etc.

At the Bank's next General Meeting of Shareholders, it is expected that a new edition of the Bank's Charter will be approved, which will provide a list of the most important issues that require resolutions adopted at meetings of the Supervisory Council held in person, in accordance with the Code.

The Bank's performance in the area of corporate governance enabled it to maintain a high position in the National Corporate Governance Rating, where it was accorded a score of 7++, corresponding to "well-developed corporate governance practice". The Russian Institute of Directors (RID) provides the annual rankings, which are based on an independent review. A rating of 7++ is assigned to a company that complies with the requirements of Russian legislation in the field of corporate governance, and denotes fairly low risk to shareholders of losses associated with corporate governance, according to experts.

In June 2016, the VTB Annual General Meeting of Shareholders (AGM) was held, at which the new composition of the Supervisory

Council and the Statutory Audit Commission were approved. Four independent directors became part of the Supervisory Council, including minority shareholder representatives Shahmar Movsumov and Valery Petrov.

The Statutory Audit Commission is composed of six people, none of whom is a VTB officer or employee.

The RID considers the current composition of the Bank's Supervisory Council 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 Bank. Any holder of ordinary shares may exercise the right to participate directly in the management of the Bank by voting on the agenda of the General Meeting of Shareholders. Preference shares carry voting rights only in special cases, as stipulated by law.

Shareholders may take part in a meeting of shareholders either in person (in the event that an in-person meeting is held) or through absentee voting. On 1 July 2016, legislative amendments entered into force changing the time period for nominal shareholders to provide information to the issuer on the identities of the ultimate owners of shares. For this reason, the distribution of ballots by post is restricted to those individuals whose rights to securities are recorded directly with the registrar.

Regardless of where their shareholdings are registered, all shareholders of VTB Bank have access to the electronic voting system developed by the Bank's registrar, JSC VTB Registrar. Electronic voting is possible on the site www.vtbreg.com, as well as through the VTB Shareholder application.

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. During the time frame specified by law, shareholders can review materials for the General Meeting of Shareholders on the Bank's official website or at Shareholder Liaison Centres in Moscow, St. Petersburg and Yekaterinburg.

Four General Meetings of Shareholders were convened in 2016.

Extraordinary General Meeting of Shareholders on 14 March 2016

On 14 March 2016, an Extraordinary General Meeting of Shareholders was held in the form of absentee voting. The following issues were discussed at the concerning the merger with the Bank of Moscow:

1. The reorganisation of VTB Bank (as a public joint stock company) by merging it with the joint stock company BS Bank (Bank Special).
2. Approval of the amended Charter of VTB Bank.
3. Approval of a new edition of the Regulation on the Procedure for Preparing, Convening and Holding of General Meetings of Shareholders of VTB Bank.
4. Approval of a new edition of the Regulation on VTB Bank Supervisory Council.
5. Approval of a new edition of the Regulation on VTB Bank Management Board.

Following a vote, a resolution on the reorganisation of VTB Bank was adopted. Those shareholders who voted against or did not participate in voting on the reorganisation had the right to present their shares for redemption during the period from 14 March to 28 April 2016. Shares were redeemed at a price of RUB 0.04 per ordinary registered share.

Annual General Meeting of Shareholders

The Annual General Meeting of Shareholders of PJSC VTB Bank was held on 24 June 2016 at the Oktyabrsky Grand Concert Hall in St. Petersburg. The meeting was attended by 449 shareholders and their representatives (compared to 379 in 2015). In total, 1,144 shareholders took part, including voting by proxy, which accounted for 8,861,682,681,323 votes, i.e. 68.3743% of the total votes.

Eighteen agenda items were discussed at the meeting:

1. Approval of VTB Bank Annual Report;
2. Approval of VTB Bank annual financial statements;
3. Approval of VTB Bank profit allocation for 2015;
4. Amount, terms and form of the 2015 dividend payment and a record date to determine persons entitled to receive dividends;
5. Number of VTB Bank Supervisory Council members;
6. Election of VTB Bank Supervisory Council members;
7. Number of VTB Bank Statutory Audit Commission members;
8. Election of VTB Bank Statutory Audit Commission members;
9. Approval of VTB Bank auditor;
10. Approval of a new edition of VTB Bank Charter;
11. Approval of a new edition of the Regulation on the Procedure for Preparing, Convening and Holding of General Meetings of Shareholders of VTB Bank;

12. Approval of a new edition of the Regulation on VTB Bank Supervisory Council;

13. Approval of a new edition of the Regulation on VTB Bank Management Board;

14. Approval of a new edition of the Regulation on Remuneration and Compensation Paid to Members of VTB Bank Supervisory Council;

15. Approval of the Regulation on remuneration and Compensation Paid to the Members of VTB Bank Statutory Audit Commission;

16. Remuneration of Supervisory Council members who are not state employees, in accordance with VTB Bank Charter;

17. Remuneration of Statutory Audit Commission members who are not state employees in accordance with VTB Bank Charter;

18. Approval of related-party transactions to be entered into by VTB Bank in the course of its ordinary business.

Meeting participants approved a new edition of the Bank's Charter, which includes a new method for voting at shareholder meetings. Amendments to the Charter were approved at the AGM and allowed the possibility of electronic voting at meetings by all shareholders.

At the meeting, shareholders agreed to the following distribution of the Bank's profits from 2015:

- net profit to be allocated: RUB 49,139,619,785.73;
- allocations to the Reserve Fund: RUB 2,456,980,989.29;
- dividend payment allocations on ordinary shares: RUB 15,163,833,364.69;
- dividend payment allocations on preference shares: RUB 90,276,222.00;
- dividend payment allocations on Type A preference shares: RUB 17,838,815,203.89;
- retained net profit: RUB 13,589,714,005.86.

Shareholders approved a dividend payment of RUB 0.00117 per ordinary share, the same as the previous year. Detailed information on dividend payments for 2015 is available in *Section 8.2 “Dividends of VTB Bank”*.

Other key decisions at the Annual General Meeting of Shareholders included the election of new members of the Supervisory Council and of the Statutory Audit Commission. As a result of the voting, the representation of minority shareholders in these management and oversight bodies was maintained. Shahmar Movsumov, Head of the State Oil Fund of Azerbaijan, one of the Bank’s major shareholders, and Valery Petrov, Chairman of VTB Bank Shareholder Consultative Council, were re-elected to the Supervisory Council. Igor Repin, a member of VTB Bank Shareholder Consultative Council, represented shareholder interests on the Statutory Audit Commission in 2016.

In 2016, a live webcast of the event was traditionally organised on VTB’s website and a teleconference was also held with the Yekaterinburg branch of VTB Bank (PJSC), thanks to which the shareholders in the Ural region were able to take part in the meeting. A consultation zone was organised for shareholders in the lobby of the Oktyabrsky Grand Concert Hall to review materials about the meeting and to obtain information from VTB Group experts about the products and services offered by subsidiaries. An interactive demonstration of the electronic voting system developed by JSC VTB Registrar was especially popular among meeting participants. After seeing the value and benefits offered by this new technology, shareholders had an opportunity to register and receive a login and password for remote e-voting at subsequent meetings.

The voting results and all decisions can be viewed on the Bank’s website at: <http://www.vtb.ru/ir/governance/meeting/>.

Extraordinary General Meeting of Shareholders of 8 December 2016

An Extraordinary General Meeting of Shareholders was held on 8 December 2016 in the form of absentee voting. The agenda included the following issues related to the approval of new versions of Charter and the conversion of preference shares:

1. Approval of Amendment No 1 to VTB Bank Charter;
2. Placement of Type 1 VTB Bank preference shares through the conversion of VTB Bank preference shares;
3. Placement of Type 2 VTB Bank preference shares through conversion of Type A VTB Bank preference shares;
4. Approval of Amendment No 2 to the VTB Bank Charter;
5. Approval of a new edition of the Regulation on the procedure for preparing, convening and holding General Meetings of Shareholders of VTB Bank;
6. Approval of a new edition of the Regulation on VTB Bank Supervisory Council.

Of the 86,976 shareholders entitled to participate in the meeting, 594 took part in voting. Holders of preference shares and Type A preference shares had the right to vote only on the first agenda item. During the extraordinary meeting, the new electronic voting system was used by 413 shareholders, representing 70% of all meeting participants.

The General Meeting of Shareholders decided to convert preference shares and Type A preference shares into new types of shares that allow for the payment of dividends not only for the year, but also on a quarterly basis.

Extraordinary General Meeting of Shareholders of 16 December 2016

The Extraordinary Meeting of Shareholders of 16 December 2016, in the form of absentee voting, adopted a decision on its only agenda item:

1. The amount, terms and form of dividend payment for Type 2 VTB Bank preference shares for the first nine months of 2016 and a record date to determine persons to be entitled to receive dividends.

In accordance with the decision of the General Meeting of Shareholders, dividends were accrued in the amount of RUB 0.00581369 per Type 2 preference share. Dividends paid out to shareholders amounted to RUB 17,870,730,759.45.

Of the 87,315 shareholders entitled to participate in the meeting, 591 took part in voting. The e-voting system was used by 406 shareholders.

5.4. Supervisory Council of VTB Bank

Scope of responsibilities

The Supervisory Council is one of the most important elements of VTB’s corporate governance system. The Council is guided in its activities by the interests of the Bank and its shareholders. Acting in accordance with Russian legislation, the Bank’s Charter, the Regulation on the Supervisory Council and the Code of Corporate Governance, it provides general oversight over the Bank’s operations.

The main tasks of the Supervisory Council are the elaboration and adoption of the Bank’s development strategy, as well as the formation of the Bank’s executive bodies and oversight over their activities, organising assessments of the performance of the internal control and risk management system, determining the Bank’s personnel policy, including remuneration of executive bodies and Bank management, and participation in decision-making on issues pertaining to Bank management.

The Supervisory Council determines the rules for the functioning of the Bank’s corporate governance system through the adoption of bylaws regulating the principles and procedures of its individual elements and the controls over the effectiveness of the corporate governance system as a whole.

The Supervisory Council is entrusted with the function of managing conflicts of interest between the Bank’s management bodies, shareholders and employees.

Members of the Supervisory Council are elected by the General Meeting of Shareholders for a term of one year. Shareholders holding at least 2% of the Bank’s voting shares have the right to nominate candidates to the Supervisory Council. Members of the Supervisory Council are elected by means of a cumulative ballot at the General Meeting of Shareholders.

The Supervisory Council in place at the end of 2016 was elected at the AGM on 24 June 2016. As of 31 December 2016, the Supervisory Council consisted of 11 members, 10 of whom were non-executive directors, and four were independent directors. This combination of directors is in line with international best practices and ensures that all shareholders’ interests are represented on the Supervisory Council. The composition of the Supervisory Council is reviewed annually to ensure the right level of professionalism, experience and effectiveness, and to ensure 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 and for the objectivity of the Supervisory Council’s decision-making. 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 Governance, the Supervisory Council should include at least three directors who meet the independence criteria established by the listing rules of the trade operator whose quotation list includes the Bank’s securities. 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 VTB’s strategy and ongoing activities. In determining the independence criteria for members of the Supervisory Council, VTB Bank is guided by the requirements of current legislation, the listing rules of the trade operator whose quotation list includes the Bank’s securities and the Bank’s Charter.

In order to fulfil the recommendations of the Code of Corporate Governance, the Annual General Meeting of Shareholders of 25 June 2015 approved a new edition of the Regulation on the Supervisory Council that specifies the rights and duties of the members of the Supervisory Council, as well as the option of electing a Senior Independent Director from among the members of the Supervisory Council serving as independent directors. The Senior Independent Director acts as an adviser to the Chairman of the Supervisory Council, and coordinates interactions between the independent directors, including the convening of meetings between the independent directors and the Chairman. The Senior Independent Director also interacts with the Bank’s shareholders. If a dispute arises, the Senior Independent Director should undertake resolving the dispute through cooperation with the Supervisory Council Chairman, the other members of the Supervisory Council and the Bank’s shareholders to ensure the smooth operation of the Supervisory Council.

On 24 June 2016, Sergey Galitsky was elected Senior Independent Director.

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 on the part of members of the Supervisory Council related to 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, shortfalls in financial control and risk management leading to losses, reduction in share price, asset value or damages caused to third parties.

In 2016, the Supervisory Council reviewed and approved the extension of the director’s liability insurance contract for a new term. The Procurement Commission and the Staff and Remuneration Committee approved the feasibility of extending the contract.

Remit

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

The main functions of the Supervisory Council are specified in the Charter and the Regulations on VTB Bank Supervisory Council. These documents can be viewed on the Bank’s website at: <http://www.vtb.ru/group/documents/>.

Chairman of the Supervisory Council

The Chairman of the Supervisory Council is elected by a majority vote of the members of the Supervisory Council. The Supervisory 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 not also be a member of the VTB Bank 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, ensures that minutes are kept 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.

On 6 July 2016, Alexey Ulyukayev was elected Chairman of VTB Supervisory Council; however, following his voluntary resignation, Sergey Dubinin was elected as Chairman of the VTB Supervisory Council on 14 December 2016.

Composition of the Supervisory Council

On 24 June 2016, the Annual General Meeting of Shareholders re-elected Alexey Moiseev to the Supervisory Council, while Nikolai Kropachev left the Supervisory Council. Independent directors Sergey Galitsky, Yves-Thibault de Silguy, Shahmar Movsumov and Valery Petrov remained on the Supervisory Council.

Composition of the Supervisory Council

		Education			
Members of the Supervisory Council	Member since	Finance and Risk Management			Business and Administration
			Law	Economics	
Sergey Dubinin	2011			√	
Matthias Warnig	2007	√		√	
Sergey Galitsky	2015	√			
Yves-Thibault de Silguy	2007		√		√
Andrey Kostin	2002			√	
Nikolai Kropachev	2008		√		
Shahmar Movsumov	2013	√		√	
Alexey Moiseev	2013			√	√
Valery Petrov	2015		√		
Alexey Ulyukayev	2002			√	
Vladimir Chistyukhin	2014		√		
Andrey Sharonov	2015		√		

**Sergey Dubinin**

Chairman of the Supervisory Council since 14 December 2016
Member of the Supervisory Council since 3 June 2011
Chairman of the Supervisory Council from 16 June 2011 to 25 June 2015

Since February 2014 – Head of the Finance and Credit Department at Lomonosov Moscow State University Faculty of Economics. Advisor and member of the Board of Directors of JSC VTB Capital. Member of the Board of Directors of VTB Capital IB Holding Ltd, JSC VTB Capital Holding.

Previous positions:

2005–2008 – Member of Board of Directors, Chief Financial Officer of RAO UES;
2004–2005 – Member of RAO UES Board of Directors;
2001–2004 – Deputy Chairman of RAO UES Board of Directors;
1998–2001 – Deputy Chairman of OJSC Gazprom Management Board;
1995–1998 – Chairman of the Bank of Russia;
1995– Member of OJSC Gazprom Management Board;
1994–1995 – First Deputy Chairman of the Management Board of Imperial Commercial Bank;
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 Lomonosov Moscow State University Faculty of Economics;
1977–1981 – Assistant Professor of Foreign Economies and Foreign Economic Relations at Lomonosov Moscow State University Faculty of Economics;
1976–1977 – Teaching Assistant in

Foreign Economies and Foreign Economic Relations at Lomonosov Moscow State University Faculty of Economics;
1975–1976 – Junior Research Associate at Lomonosov Moscow State University;
1974–1975 – Secretary of the Komsomol Committee at Lomonosov Moscow State University Faculty of Economics.

Awards: Medal Commemorating the 850th Anniversary of Moscow; Honorary Diploma from the Government of the Russian Federation and Honorary Badge for Achievements in the Russian Electric Power Industry; Winner of Best Financial Director and Best Independent Director of the Year, Aristos Award 2013, winner of Best Independent Director in the Financial Sector, Reputation of the Year Award 2013. In 2014, Sergey Dubinin ranked among the 25 Top Chairmen of the Board of Directors.

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

Holds shares equivalent to 0.00033% of the Bank's charter capital as of 31 December 2016.

Holds 0.00164% of ordinary shares of the Bank as of 31 December 2016.

**Matthias Warnig**

Member of the Supervisory Council since 28 June 2013
Independent member of the Supervisory Council from 4 April 2007 to 28 June 2013

Since September 2015 – Executive Director of Nord Stream 2 AG (Switzerland); since 2008 – Director Interatis AG (Switzerland). Also serves

as a member of the Board of Directors of PJSC AC Transneft, Chairman of the Board of Directors of United Company RUSAL Plc (Jersey), Deputy Chairman of the Board of Directors of PJSC NK Rosneft, Member of the Administrative Board of GAZPROM Schweiz AG (Switzerland), Chairman of the Administrative Council of Gas Project Development Central Asia AG (Switzerland), Interatis Engineering AG (Switzerland), Interatis Consulting AG (Switzerland).

Previous positions:

2006–2016 – Managing Director of Nord Stream AG (Switzerland);
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;
2001–2006 – Chief Coordinator of Dresdner Bank Group in Russia;
1999–2001 – 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, majoring in National Economics. In 1995, received additional professional training at Dresdner Bank AG, Bad Homburg (Germany) and London (United Kingdom) through the Lending and Risk Management programme.

Holds no shares of the Bank's charter capital as of 31 December 2016.

**Sergey Galitsky**

Independent Member of the Supervisory Council since 25 June 2015
Senior Independent Director since 24 June 2016

Since April 2006 – Director General of PJSC Magnit; since 2014 – President of Krasnodar Football Club. Chairman of the Board and Member of the Board of Directors of PJSC Magnit.

Previous positions:

2009–2014 – President of Krasnodar Football Club;
1996–2006 – Director General of JSC Tander.

Born in 1967. In 1992, graduated from Kuban State University with a degree in Finance and Credit.

Holds no shares of the Bank's charter capital as of 31 December 2016.

**Yves-Thibault de Silguy**

Independent member of the Supervisory Council since 28 June 2013
Independent member of the Supervisory Council from 4 April 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). Also serves as manager of YSILOP consulting 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 of Louis Vuitton Moët Hennessy SA (France).

Previous positions:

2005–2012 – Member of the Council for Foreign Affairs, French Foreign Ministry;
2004–2011 – Member of the Board of Directors of SMEG (Societe monegasque d'eau et d'electricité);
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), President of Aguas Argentinas (Argentina);
2002–2010 – Member of the Economic Council, French Defence Ministry;
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 the University of Rennes II-Upper Brittany and from the University of Paris I (Pantheon-Sorbonne) with degrees 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 2016.



Andrey Kostin
Member of the Supervisory Council since 29 November 2002

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

Chairman of the Supervisory Councils of VTB 24 (PJSC) and the Russian Gymnastics Federation. Member of the Board of Directors at Pirelli & C. S.p.A., JSC VTB Capital, JSC VTB Capital Holding, VTB Capital IB Holding Ltd, Congress Centre Konstantinovsky LLC. 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 Council, Russian Volleyball Federation, CSKA Hockey Club. Member of the Board of Trustees of the Sports Foundation Dynamo Hockey Club, the Higher School of Economics, Financial University under the Government of the Russian Federation, Lomonosov Moscow State University, St. Petersburg State University, Friends of the Russian Museum Development Fund, the Russian Orthodox Church Charitable Foundation for the Restoration of the Voskresensk Stavropegial Resurrection (New Jerusalem) Monastery, the Bolshoi Theatre, the State Academic Mariinsky Theatre, the associations I.K.O Centre, the State Primorsky Opera and Ballet Theatre, the National Coordination Centre for Developing Economic Cooperation with Countries of the Asia-Pacific Region, the Deaf-Blind

Support Fund. Member of the Supreme Council, United Russia political party. Member of the Management Board of the non-profit partnership National Council on Corporate Governance. Professor in the Department of Finance and Accounting, Director of the Graduate School of Management, St. Petersburg State University.

Previous positions:

1996–2002 – Chairman of the State Corporation Bank for Development and Foreign Economic Affairs (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 the Lomonosov Moscow State University with a PhD in Economics.

Holds shares equivalent to 0.00036% of the Bank's charter capital as of 31 December 2016.

Holds 0.00183% of ordinary shares of the Bank as of 31 December 2016.



Nikolai Kropachev
Member of the Supervisory Council from 26 June 2008 to 24 June 2016

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, Professor.

Has received multiple awards from the President of Russia, the Russian Government and the Ministry of Education and Science of Russia.

Holds no shares of the Bank's charter capital as of 31 December 2016.



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.

Awards: Taraggi Medal, Republic 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 2016.

**Alexey Moiseev**

Member of the Supervisory Council since 24 June 2016
Member of the Supervisory Council from 28 June 2013 to 25 June 2015

Since 2012 – Deputy Finance Minister of the Russian Federation. Also serves as Chairman of the Board of Directors of JSC GOZNAK, as a board member of the Deposit Insurance Agency and as a member of the Supervisory Council of JSC AHML.

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 – Category 1 Economist, Leading Economist at the Bank of Russia.

Awards: Honorary Diploma of the Government of the Russian Federation, Letter of Acknowledgement from the Chairman of the Bank of Russia, 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; in 1998, graduated from the University of Rochester (USA) with an MBA in Business Management.

Holds no shares of the Bank's charter capital as of 31 December 2016.

**Valery Petrov**

Independent Member of the Supervisory Council since 25 June 2015

Since 2013 – Chairman of the VTB Bank Shareholder Consultative Council.

Since August 2016 – Deputy General Director of the Institute of Financial Markets Development; since July 2016 – Lecturer, Department of Economics and Finance, International University in Moscow.

Previous positions:

2013–2016 – Deputy Chief Executive Officer, Arsenal Insurance Company;
2011–2016 – Deputy Chairman of the Board, Institute of Financial Markets Development;
2009–2013 – Deputy General Director, JSC RCB Group;
2007–2009 – General Director, JSC Ingosstrakh- Investments Asset Management;
2005–2007 – Chief Managing Director, Alfa Capital Asset Management;
2003–2005 – Deputy General Director, Moscow Interbank Currency Exchange;
1999–2003 – Director of the Market Analysis Department, Rosbank;
1997–1999 – General Director, Alyans Asset Management.

Awards: Recognised in Top 100 Professional General Directors of Russia (2008), Award for Personal Contribution to the Development of the Stock Market (2008), Diploma for Top 100 Professional Commercial Directors in Russia (2005), Diploma for Top 200 Professional Commercial Directors in Russia (2004), Diploma for Top 100 Professional Careers in Business and Government (2004).

Born in 1966. In 1988, graduated from the Alexander Mozhaisky Military Space Academy (previously the Alexander Mozhaisky Military Engineering Institute), majoring in Radio Engineering and Automatic Control Systems Programming. In 1999, graduated from the Chernomyrdin Moscow State Open University, majoring in Law. PhD in Economics.

Holds shares equivalent to 0.00000002% of the Bank's charter capital as of 31 December 2016.

Holds 0.00000008% of ordinary shares of the Bank as of 31 December 2016.

**Alexey Ulyukayev**

Chairman of the Supervisory Council from 25 June 2015 until 14 December 2016
Member of the Supervisory Council from 29 November 2002 until 19 June 2014, and again since 14 December 2016¹⁹

From June 2013 to November 2016 – Minister of Economic Development of the Russian Federation. Also holds the position of Chairman of the Supervisory Council of UK RDIF LLC, and is a member of the Supervisory Council of the Agency for Strategic Initiatives (ASI).

Previous positions:

2004–2013 – First Deputy Chairman of the Bank of Russia;
2000–2004 – First Deputy Minister of Finance of the Russian Federation;
1999–2000 – Deputy Director of the Institute for Economies in Transition;
1998–1999 – Deputy Director of the Institute of Economic Problems during Transition Periods;
1996–1998 – Deputy of the Moscow City Duma.

Awards: Stolypin Medal I Degree (2016), Order of Merit to the Fatherland III Degree (2015), Order for

Merit to the Fatherland IV Degree (2010), Order of Merit (2006), Gratitude of the Russian Federation (2006), Honorary Title Merited Economist of the Russian Federation (2004), Medal Commemorating the 300th anniversary of St. Petersburg (2003), Gratitude of the President of Russian Federation (2002), Jubilee Medal Commemorating 200 Years of the Russian Ministry of Finance (2002), Certificate of Merit of the Russian Federation (2001).

Born in 1956. Graduated in 1979 from the Lomonosov Moscow State University majoring in Political Economy. PhD in Economics, Professor.

Holds no shares of the Bank's charter capital as of 31 December 2016.

**Vladimir Chistyukhin**

Member of the Supervisory Council since 19 June 2014

Since February 2014 – Deputy Governor of the Bank of Russia. Member of the Board of Directors of the Bank of Russia.

Previous positions:

2013–2014 – First Deputy Head of the Financial Markets Service, Bank of Russia;
2011–2013 – Director of the Financial Stability Department, Bank of Russia;
2004–2011 – Deputy Director of the Banking Regulation and Supervision Department, Bank of Russia;
2002–2004 – Deputy Director of the Department of Foreign Exchange Regulation and Control, Bank of Russia;
2000–2002 – Deputy Director of the Department of Foreign Exchange Regulation, Bank of Russia;

¹⁹ In December 2016, VTB Bank received a statement from Alexey Ulyukayev announcing his voluntary resignation as the Chairman of VTB Bank's Supervisory Council and his departure from VTB Bank's Supervisory Council.

1999–2000 – Head of the Foreign Exchange Operations Analysis Division, Department of Foreign Exchange Regulation, Bank of Russia; 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, 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, Bank of Russia; 1995–1996 – Economist of the 2nd category, Economist of the 1st category, Lead Economist in the Foreign Exchange Regulation Division, Chief Director of Foreign Exchange Regulation and Control, Bank of Russia.

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 2016.



Andrey Sharonov
Member of the Supervisory Council since 25 June 2015

Since September 2016 – President of the Skolkovo Moscow School of Management. Member of the Board of Directors,

JSC Rosgeologiya, JSC Sovcomflot. Chairman and independent member of the Board of Directors, NefteTransService Management Company. Independent member of the Board of Directors, Novatek, Chairman of the Board of Directors, Eko-Sistema Management Company.

Previous positions:
2013–2016 – Rector of the Skolkovo Moscow School of Management;
2010–2013 – Moscow Deputy Mayor for Economic Policy;
2007–2010 – Managing Director, Troika Dialogue Investment Company.

Awards: Order of Honour (2009), Letter of Acknowledgment from the President of the Russian Federation (2008), Title of Merited Economist of the Russian Federation (2006), Letter of Acknowledgment from the President of the Russian Federation (2003).

Born in 1964. In 1986, graduated from the Ufa Aviation Institute, majoring in Aviation Engineering; in 1996, graduated from the Russian Presidential Academy of Public Administration with a degree in Law, PhD in Sociology.

Holds no shares of the Bank’s charter capital as of 31 December 2016.

In 2016, no members of the Supervisory Council purchased or sold Bank shares.

Introduction to membership on the Supervisory Council

An induction programme for first-time members of the Supervisory Council of VTB Bank was introduced in order to ensure the efficient operation of the Supervisory Council. It will also improve the Bank’s corporate governance practices in accordance with the best international corporate governance principles, including those provided by the Corporate Governance Code approved by the Board of Directors of the Bank of Russia, the Regulation on the Staff and Remuneration Committee of the Bank’s Supervisory Council and the Bank’s Code of Corporate Governance. The induction programme was created by decision of the Staff and Remuneration Committee of the Bank’s Supervisory Council on 7 October 2016.

As part of this programme, the Bank’s Corporate Secretary held meetings with the newly elected members of the Supervisory Council at which the work procedures of the Supervisory Council and other bodies of the Bank were presented. The organisational structure, Bank’s Charter, strategy, corporate governance system, risk management and internal control system and the division of responsibilities among the Bank’s executive bodies were also presented. Other information regarded as important for the proper performance of the duties of members of the Supervisory Council was also provided.

Work 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 taken 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 of the Supervisory Council are held on a scheduled basis, although if necessary, they may be held outside the schedule with absentee voting. The format of each Supervisory Council meeting is decided based on the importance of its agenda. The most significant matters are brought before in-person meetings.

At every Supervisory Council meeting, a report is provided to update members on the implementation of previously approved decisions and programmes, as well as on directives and assignments stipulated by the Russian Government, and to provide a briefing on VTB Group’s loan portfolio.

Members are able 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 through absentee voting. Any member unable to attend a meeting can still participate via video conference (including voting on the agenda items); they can also submit a written opinion on agenda items.

Depending on the results of in-person meetings or absentee ballots, minutes are drawn up reflecting the position of each member of the Supervisory Council based on his or her vote on the agenda items.

Meetings and absentee ballots are held on average six times per quarter. In 2016, the Supervisory Council held 21 meetings (28 in 2015), including eight in-person meetings and 13 through absentee voting. One off-site meeting of the Supervisory Council was held in St. Petersburg.

The Supervisory Council actively engaged with the Bank’s minority shareholders, and also considered the Report on Cooperation with the Bank’s Shareholders and a plan of action for work with the shareholders during the upcoming calendar year. Independent Member of the

Supervisory Council and Chairman of the VTB Bank Shareholder Consultative Council Valery Petrov and Senior Independent Director Sergey Galitsky took part in meetings with minority shareholders.

Features of the Supervisory Council's work as a partially state-owned company

Corporate governance in partially state-owned companies differs as a result of the special status of its major shareholder, the Russian Federation.

VTB Bank Supervisory Council includes representatives of state interests who are state

employees: Alexey Moiseev (since 24 June 2016) and Alexey Ulyukayev (until 15 November 2016); as well as representatives of the state: Sergey Dubinin, Matthias Warnig, Andrey Kostin, Nikolai Kropachev (until 24 June 2016), Vladimir Chistyukhin, Andrey Sharonov and Alexey Ulyukayev (since 15 November 2016).

In carrying out their functions on the Supervisory Council, the representatives of state interests must take into account the position of the shareholder and vote on certain issues as directed by the shareholder on the basis of the directives of the Russian Federation.

Statistics on the meetings of the Supervisory Council

Meeting format	2015	2016
Number of meetings in person	8	8
Number of meetings conducted by absentee ballots	20	13

Participation of members of the Supervisory Council in meetings/absentee voting in 2016

Members of the Supervisory Council	Number of meetings (absentee voting)	in-person meetings, personal participation	in-person meetings, written opinion	absentee ballot
Sergey Dubinin	21 of 21	7/87.50%	1/12.50%	13/100%
Matthias Warnig	19* of 21	5/62.50%	3/37.50%	11/84.62%
Sergey Galitsky	21 of 21	4/50%	4/50%	13/100%
Yves-Thibault de Silguy	19* of 21	6/75%	2/25%	11/84.62%
Shahmar Movsumov	21 of 21	4/50%	4/50%	13/100%
Alexey Moiseev (since 24 June 2016)	10 of 11	2/50%	2/50%	6/85.71%
Andrey Kostin	20** of 21	8/100%	0/0%	12/92.31%
Nikolai Kropachev (until 24 June 2016)	10 of 10	2/50%	2/50%	6/100%
Valery Petrov	21 of 21	7/87.50%	1/12.50%	13/100%
Vladimir Chistyukhin	21 of 21	5/62.50%	3/37.50%	13/100%
Andrey Sharonov	21 of 21	5/62.50%	3/37.50%	13/100%
Alexey Ulyukayev	18 of 21	6/75%	1/12.50%	11/84.62%

* Did not participate in meetings (absentee voting) whose agenda items could have involved him in a legal or business-related conflict of interest.

** Andrey Kostin did not take part in absentee voting for Supervisory Council meetings whose agenda contained only matters on the approval of transactions in the execution of which he had an interest, and thus his vote was not taken into account in the voting results in accordance with Article 83 of the Federal Law on Joint Stock Companies.

In 2016, the Supervisory Council discussed and took decisions on priority areas of the Bank's activities, including the following issues:

- approval of VTB Bank's Development Strategy for 2017–2019;
- approval of VTB Bank's business plan and financial plan for 2017;
- fulfilment of targets in the Long-Term Development Programme of VTB Bank for 2014–2018;
- acquisition and disposal of shares in the Bank's subsidiary companies;
- establishment/reorganisation of the Bank's subsidiary companies;
- procedure for identifying and selling the Bank's non-core assets;
- opening of the Bank's branches;
- operational efficiency of VTB Group companies (including the global network);
- structure and volume of VTB Bank's bad assets.

In addition, in 2016, the agenda of the Supervisory Council included such issues as:

- election of the senior independent director;
- review of the report on the results of the assessment of the corporate governance system;
- review of the reports on the activities of the Supervisory Council's committees;
- approval of a new edition of VTB Bank Human Resources Policy and Remuneration Policy, a new edition of the List of Key Performance Indicators for assessing the activities of the members of the Management Board of VTB Bank, the Regulation on the Procedure for Disclosing Information about VTB Bank Related-Party Transactions, a new edition of the Regulation on the Procurement of Goods, Works and Services by VTB Bank, amendment No 1 to the Regulation on the VTB Bank Supervisory Council Staff and Remuneration Committee;
- review of the report on the Bank's sponsorship and charitable activities for the year, as well as plans for sponsorship and the provision of charitable assistance in the upcoming calendar year;

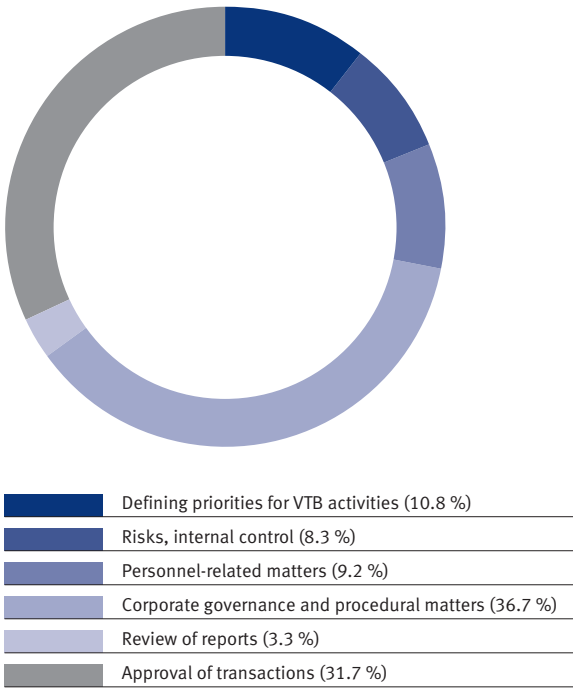
- approval of the agenda of the annual and extraordinary General Meetings of Shareholders, recommendations on the amount of dividends, the preliminary approval of the Bank's annual report, determination of the amount of remuneration for the auditor's services;
- approval of related-party transactions;
- approval of the Supervisory Council to allow the President and Chairman of the Board and members of the Management Board to hold management positions in other organisations;
- election of Vladimir Verkhovshinsky, Gennady Soldatenkov and Mikhail Zadornov as members of the Management Board of VTB Bank, as well as of Mikhail Sukhov and Olga Dergunova as Deputies to the President and Chairman of the Management Board.

As part of the organisation of an effective risk management and internal control system within the Bank's Supervisory Council in 2016:

- approval of new versions of VTB Bank Risk and Capital Management Strategy and of the Procedure for Managing the Most Significant Risks;
- review of the report on the status of risk management and an assessment of the effectiveness thereof;
- approval of the action plan for providing business continuity and/or operational recovery in case of a material deterioration in the Bank's financial standing;
- review of reports on the activities of the internal audit department and approval of its work plan;
- review of the reports issued by responsible VTB Bank 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 2015;
- review of the quarterly reports by inspectors on the Bank's professional activities in the securities market and specialised depositary, as well as on preventing abuse of insider information and market manipulation.

In total, the Supervisory Council reviewed 240 issues in 2016.

Issues considered by the Supervisory Council in 2016



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

Approval of related-party transactions

In accordance with the amendments to the Federal Law on Joint Stock Companies, which entered into force on 1 January 2017, the procedures for carrying out related-party transactions were significantly changed. In particular, in place of the procedure for approving such transactions, a new procedure was introduced whereby the members of the Supervisory Council and the members of the company’s collective executive body, as well as shareholders (if all of the members of the Supervisory Council are related parties to the transaction), are to be informed about planned transactions.

In this context, the Regulation on the Procedure for Providing Information about VTB Bank Related-Party Transactions was approved by a decision of the Supervisory Council.

Committees of the Supervisory Council

The Supervisory Council has standing committees that support the effective implementation of the Council’s managerial and supervisory functions and that provide preliminary detailed analysis and recommendations regarding the issues that the Council deems most important.

At the end of 2016, 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 general oversight over the preparation of financial reports and the functioning of the Bank’s risk management and internal control procedures, as well as the appraisal of candidates for external auditor, review of the audit report, review of the effectiveness of the internal control procedures and the drafting of proposals to improve them. The Audit Committee is headed by an independent member of the Supervisory Council. The majority of the members of the Committee are also independent directors.

As of 31 December 2016, the Audit Committee comprised the following members:

- Yves-Thibault de Silguy (Committee Chairman, independent member of the Supervisory Council);
- Matthias Warnig (member of the Supervisory Council);
- Valery Petrov (independent member of the Supervisory Council).

Statistics on meetings of the Audit Committee in 2016

Members of the Committee	Number of meetings (absentee voting)	in-person meetings, personal participation	in-person meetings, written opinion	absentee ballot
Yves-Thibault de Silguy	15 of 15	6/100%	0/0%	9/100%
Matthias Warnig	15 of 15	4/66.67%	2/33.33%	9/100%
Valery Petrov	15 of 15	6/100%	0/0%	9/100%

In 2016, a total of 15 meetings (six in-person meetings and nine with absentee voting) were held by the Audit Committee. Considerable focus was placed on analysis and improvement of internal control at the Bank and within VTB Group, including in the context of VTB’s merger with the Bank of Moscow, as well as the effectiveness of various types of risk management.

In 2016, the key areas addressed by the Audit Committee were the following:

- strategic issues related to development and risk management within the Bank and VTB Group, including changes in the quality of corporate and retail loan portfolios, results management of operational and market risk, liquidity risk at VTB Bank, taking into account the implementation of the Bank of Russia’s introduction of international approaches in this area (Basel III);
- review of the current status of and prospects for development of VTB Bank’s retail business following the merger with the Bank of Moscow;
- existing principles on reporting by sector;
- methods for maintaining the effectiveness of the internal control system in preventing money laundering and the financing of terrorism;
- oversight over the annual open tender for the external auditor, including the provision of recommendations on candidates to the Supervisory Council;
- coordinating with the external auditor, 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’s interim and annual RAS and IFRS financial statements;

- 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’s Internal Audit Department: analysis of the schedule for internal auditing, discussion of reports of the Department of Internal Audit on significant violations and shortcomings discovered at VTB Bank and its subsidiaries, recommendations by the internal audit and external supervisory bodies to further improve the procedures involved in internal and external auditing;
- review of other matters related to the Bank’s activity, in some cases based on particular assignments from 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 2016, the Staff and Remuneration Committee comprised the following members:

- Sergey Dubinin (Committee Chairman, Chairman of the Supervisory Council);
- Sergey Galitsky (independent member of the Supervisory Council, Senior Independent Director);
- Valery Petrov (independent member of the Supervisory Council).

Statistics on the meetings of the Staff and Remuneration Committee in 2016

Members of the Committee	Number of meetings (absentee voting)	in-person meetings, personal participation	in-person meetings, written opinion	absentee ballot
Nikolai Kropachev (until 24 June 2016)	8 of 8	2/100%	0/0%	6/100%
Sergey Dubinin (since 24 June 2016)	7 of 7	1/100%	0/0%	6/100%
Sergey Galitsky	15 of 15	3/100%	0/0%	12/100%
Valery Petrov	15 of 15	3/100%	0/0%	12/100%

In 2016, a total of 15 Committee meetings (three in-person meetings and 12 in the form of absentee voting) were held. The meetings considered issues such as the composition of the Supervisory Council and Statutory Audit Commission, regulatory documents describing the remuneration policy for the members of the Supervisory Council and the Statutory Audit Commission, the selection and remuneration of members of the Bank’s Management Board, approval of the introduction of a programme for first-time members elected to the Supervisory Council of VTB Bank, along with other issues 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 towards 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 2016, the Strategy and Corporate Governance Committee comprised the following members:
- Sergey Galitsky (independent member of the Supervisory Council, Senior Independent Director);
 - Andrey Kostin (member of the Supervisory Council);
 - Shahmar Movsumov (independent member of the Supervisory Council);
 - Alexey Moiseev (Committee Chairman since 24 November 2016, member of the Supervisory Council);
 - Valery Petrov (independent member of the Supervisory Council);
 - Alexey Ulyukayev (member of the Supervisory Council, Chairman of the Committee until 24 November 2016);
 - Vladimir Chistyukhin (member of the Supervisory Council);
 - Andrey Sharonov (member of the Supervisory Council).

Statistics on the meetings of the Strategy and Corporate Governance Committee in 2016

Members of the Committee	Number of meetings (absentee voting)	in-person meetings, personal participation	in-person meetings, written opinion	absentee ballot
Sergey Galitsky	14 of 14	2/40%	3/60%	9/100%
Sergey Dubinin (until 24 June 2016)	6 of 6	1/50%	1/50%	4/100%
Andrey Kostin	13 of 14	4/80%	0/0%	9/100%
Shahmar Movsumov	13 of 14	3/60%	2/40%	8/88.89%
Valery Petrov	14 of 14	4/80%	1/20%	9/100%
Alexey Ulyukayev	10 of 14	2/40%	1/20%	7/77.78%
Vladimir Chistyukhin	13 of 14	2/40%	2/40%	9/100%
Andrey Sharonov	12 of 14	3/60%	1/20%	7/77.78%
Alexey Moiseev (since 24 June 2016)	8 of 8	2/66.67%	1/33.33%	5/100%

- In 2016, the Strategy and Corporate Governance Committee held 14 meetings (five in-person meetings and nine with absentee voting). At these meetings, the following matters were considered:
- VTB Bank Development Strategy for 2017–2019;
 - VTB Bank Risk and Capital Management Strategy;
 - VTB Bank’s business plan for 2017;
 - the Bank’s plan to develop lending for small and medium-sized enterprises;
 - report on the implementation of VTB Bank Long-Term Development Programme for 2014–2018 based on the results of 2015;
 - results of the merger between the Bank of Moscow and VTB Bank;
 - distribution of profits for 2015 and determination of the amount of dividends to be paid out;
 - analysis of the influence of the payment of interim dividends on VTB Bank’s financial stability;
 - results of the assessment of the corporate governance system carried out by the Supervisory Council, and of the independent monitoring of the Bank’s corporate governance system;
 - proposals for the development of the system for working with VTB Bank minority shareholders;
 - procedures for managing VTB Bank’s most significant risks;
 - action plan for ensuring business continuity in case of a material deterioration in the Bank’s financial standing;

- Regulation on the Quality Management System for VTB Bank Products (Services);
- matters related to the Bank’s participation in subsidiary companies;
- procedural matters.

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

VTB Bank established the position of Corporate Secretary in 2011 while introducing measures to improve its corporate governance system.

The Corporate Secretary is a Bank official who oversees compliance of the Bank’s management and employees with applicable legislation, the Charter and bylaws that guarantee shareholders’ interests and ability to exercise their legal rights. The Corporate Secretary also provides a liaison between the Bank and its shareholders, promotes the development of corporate governance practices and supports the smooth operation of the Bank’s Supervisory Council. Functionally, the Corporate Secretary is elected by and reports to the Supervisory Council and, administratively, to the President and Chairman of the Bank’s Management Board. The Corporate Secretary is subordinate to the Supervisory

Council and is appointed and dismissed by decision of the Supervisory Council. The report on the work of the Corporate Secretary is reviewed and approved on an annual basis by the Bank's Supervisory Council. The report on work for 2015 was approved by the Supervisory Council on 3 March 2016.

The administration of the Supervisory Council operates under the guidance of the Corporate Secretary. The Corporate Secretary is Secretary to the Supervisory Council and also serves as Secretary for the General Meeting of Shareholders.

The Staff and Remuneration Committee reviews candidates for the position and provides recommendations to the Supervisory Council.

The Corporate Secretary acts on the basis of the Regulation on the Corporate Secretary of VTB Bank, approved by the Supervisory Council of VTB Bank (minutes No 22 of 7 September 2015), which takes into account the requirements of the Listing Rules of CJSC MICEX Stock Exchange, the recommendation of the Corporate Governance Code approved by the Board Directors of the Bank of Russia and the guidelines of the Federal Property Management Agency.

The Regulation on VTB Bank's Corporate Secretary is available on the Bank's website at: <http://www.vtb.ru/upload/iblock/b7c/polozhenie-o-korporativnom-sekretare-2015.pdf>.

The Corporate Secretary's main responsibilities include:

- participation in preparations for and the holding of General Meetings of Shareholders and compliance with the requirements of Russian legislation, the VTB Bank Charter and other Bank's bylaws;
- administration of the Supervisory Council's operations and supervision of preparations for and the holding of Council meetings;

- ensuring the disclosure of information about the Bank and archiving the Bank's corporate documents;
- coordinating and monitoring interaction between the Bank and its shareholders, helping to avoid corporate conflicts;
- participating in improving the system and functioning of the Bank's corporate governance;
- ensuring interaction with the Bank's regulatory agencies, trade operators, the registrar and the Statutory Audit Commission;
- other matters in accordance with the Regulation on the Corporate Secretary.

The Corporate Secretary keeps the Supervisory Council informed about the work of VTB Bank by providing information to the members of the Supervisory Council about:

- significant events and key personnel changes at the Bank, reviews of financial markets, the Bank's stock prices and global depository receipts, press reviews about the Bank and VTB Group, information on the work carried out with shareholders and the Bank's shareholder structure (weekly);
- the Bank's liquidity, the list of persons affiliated with the Bank (quarterly);
- the results of audits of the Bank, its subsidiaries and departments by the Bank of Russia;
- changes in Russian legislation with implications for members of the Supervisory Council.

In order to maintain the Bank's listing in accordance with the Moscow Exchange Listing Rules, the Corporate Secretary carries out the following:

- monitoring the compliance of shares with the Listing Rules, as well as the preparation and presentation to the Moscow Exchange of quarterly and periodic financial reports and Bank's documents;
- providing profiles of the independent directors;
- disclosure and reporting.



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.

Biography

Since June 2013 – Chief of Staff of VTB Bank Supervisory Council and Corporate Secretary;
2011–2013 – Corporate Secretary of VTB Bank;
2010–2011 – Director of the Shareholder Relations Service at VTB Bank;
2008–2010 – Senior Manager of the Debt Origination and Investor Relations Department at VTB Bank;
2004–2008 – Chief Consultant, Deputy Director (acting director) of the Corporate Governance Department at JSC VTB Bank North-West (former Industrial Construction Bank);
2003–2004 – Lawyer, CJSC Investtorg;
2002–2003 – Assistant Lawyer, CJSC Exchange Complex (St. Petersburg).

Born in 1981. In 1999, graduated from the St. Petersburg Social Services School, majoring in Law. 2002 – Law Degree from St. Petersburg State University of Maritime and Inland Shipping.

Holds no shares of the Bank's charter capital as of 31 December 2016.

Winner 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.

He has no family ties to other members of the governing or supervisory bodies of VTB Bank.

5.5. Management Board of VTB Bank

The Management Board is the collective executive body of VTB Bank, and together with the President and Chairman, it 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, 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. The term of an employment contract with a member of the Management Board may be no more than five years before it must be reviewed for renewal.

The Management Board is in charge of the day-to-day operations of VTB that fall within its area of expertise, and it is responsible for implementing the 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 on the Management Board, available on the Bank's website at: http://www.vtb.com/upload/iblock/bab/regulation_on_jsc_vtb_bank_management_board_2016.pdf.

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, p. [92-93](#))



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
JSC VTB Capital, JSC Holding VTB Capital, VTB
Capital IB Holding Ltd, VTB Capital Investment
Management Ltd, JSC VTB Leasing, VTB
Infrastructure Investment Ltd and T2 RTK Holding
Ltd. 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, and Insurance Company VTB Insurance, Ltd.

Previous positions:

2008–2011 – Senior Vice President of JSC
VTB Bank; President of CJSC VTB Capital;
2006–2008 – Head of Investment Banking,
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 in 1970. In 1994, graduated from Plekhanov
Russian University of Economics. In 2002, graduated
from London Business School with an MBA.

Holds shares equivalent to 0.00362% of the
Bank's charter capital as of 31 December 2016.

Holds 0.01819% of ordinary shares of
the Bank as of 31 December 2016.



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 of CJSC VTB Bank (Belarus), CJSC
Dynamo Moscow Football Club, Glavkino Ltd. Deputy
Chairman of the Supervisory Council of PJSC VTB
Bank (Ukraine). Member of the Supervisory Council
of OJSC EvroFinance Mosnarbank, VTB 24 (PJSC).
Member of the Board of Directors of OJSC ROSKINO,
NPJSC National Satellite Company, and JSC Russian
Media Group. Chairman of the Board of the Bolshoi
Theatre Foundation. Chairman of the Public Council
under the Federal Security Service of the Russian
Federation. President of the Federation of Artistic
Gymnastics of Russia. Vice President of the Federation
of International Gymnastics (FIG). Member of the Board
of Trustees of the International Student Basketball
League, the Moscow State Institute of International
Relations (University) of the Russian Ministry of Foreign
Affairs, the Russian Academy of National Economy
and Public Administration under the President of
the Russian Federation (RANEiPA) and the Moscow
State Tchaikovsky Conservatory (University). Member
of the Board of the Foundation for Restoring the
New Jerusalem Monastery of the Russian Orthodox
Church, the Development of St. Petersburg State
University endowment fund. Member of the Executive
Committee of the Board of Trustees of the Federal
State Budgetary Culture Institution, the State
Academic Bolshoi Theatre of Russia, and the Deputy
Representative of the Business Advisory Council
of the Asia-Pacific Economic Cooperation forum.

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 0.00022% of the
Bank's charter capital as of 31 December 2016.

Holds 0.00112% of ordinary shares of
the Bank as of 31 December 2016.



Olga Dergunova
Deputy President and Chairman
of the Management Board

Term of office in accordance with employment
contract: 7 July 2016 to 9 June 2017.

Joined VTB Bank in 2016, and was previously
employed at VTB Bank from 2007 to 2012. Since July
2016 – Deputy President and Chairman of the Board.
Until July 2016 – Advisor and Senior Vice President.

She is also a member of the Supervisory Board of the
Federal State Autonomous Educational Institution
of Higher Professional Education Moscow Institute
of Physics and Technology (State University) (MIPT).
Member of the Board of Trustees of the Graduate
School of Management at the Federal State Budget
Institution of Higher Professional Education
St. Petersburg State University. Member of the Board
of the non-profit foundation Forum Analytical Centre.

Previous positions:

2012–2016 – Deputy Minister of Economic
Development of the Russian Federation – Head of
the Federal Agency for State Property Management;
2007–2012 – Member of the
Management Board of VTB Bank;
1994–2007 – General Director of Microsoft Rus,
President of Microsoft Russia and CIS countries;
1992–1994 – Senior Researcher at the
limited liability partnership Mikroinform;
1990–1991 – Senior Researcher at the joint
Soviet-American enterprise Paragraph;

1987–1990 – Engineer, Software Engineer at the Voskhod Research Institute.

Born in 1965. In 1987, graduated from the Plekhanov Russian University of Economics.

Holds no shares of the Bank as of 31 December 2016.



Valery Lukyanenko
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 2016, Deputy President and Chairman of the Management Board. 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; Counsellor to the President and Chairman of the Management Board of VTB.

He is also Chairman of the Board of Directors of JSC VTB Bank (Belgrade). Member of the Supervisory Board of VTB 24 (PJSC).

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 the 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. In 1982, graduated from the Novosibirsk Agricultural Institute. PhD in Economics.

Holds shares equivalent to 0.00009% of the Bank's charter capital as of 31 December 2016.

Holds 0.00046% of ordinary shares of the Bank as of 31 December 2016.



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, JSC Holding VTB Capital, JSC VTB Capital, PJSC HALS-Development, VTB Debt Centre Ltd. Member of the Supervisory Council of VTB 24 (PJSC), PJSC Post 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 – served in Debt Management, Capital and Transaction Planning, Asset and Liability Management at Lehman Brothers, London.

Born in 1972. In 2002, graduated from London Business School with a Master's Degree in Finance.

Holds shares equivalent to 0.00207% of the Bank's charter capital as of 31 December 2016.

Holds 0.01042% of ordinary shares of the Bank as of 31 December 2016.



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. Since August 2012 – Deputy President and Chairman of the Management Board. Before August 2012 – Advisor to President and Chairman of the Management Board.

He is also a member of the Supervisory Council of VTB 24 (PJSC), JSC VTB Bank (Georgia). Member of the Board of Directors of CJSC VTB Bank (Belarus), JSC VTB Bank (Kazakhstan), JSC Unified Electronic Trading Platform. Chairman of the Board of Trustees of the St. Petersburg Local Orthodox Religious Organisation Kazan Diocese of the Russian Orthodox Church of St. Petersburg (Moscow Patriarchate).

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.

Awards: Order for Merit to the Fatherland, II Class; Order of Friendship.

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

Holds no shares of the Bank as of 31 December 2016.



Andrei 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's legal department: Deputy Head of Department, Head of Department, Vice President (Head of Department), Senior Vice President (Head of Department), Senior Vice President and member of the Management Board.

He is also Chairman of the Supervisory Council of JSC VTB Development. Member of the Supervisory Council of PJSC VTB Bank (Ukraine), VTB 24 (PJSC). Chairman of the Board of Directors of VTB Debt Centre Ltd, PJSC Hals-Development and JSC BM Bank.

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 the Lomonosov Moscow State University.

Holds shares equivalent to 0.00006% of the Bank's charter capital as of 31 December 2016.

Holds 0.00030% of ordinary shares of the Bank as of 31 December 2016.



Mikhail Sukhov
Deputy President and Chairman
of the Management Board

Term of office in accordance with employment contract: 16 November 2016 to 9 June 2017.

Joined VTB Bank in 2016. Since November 2016 – Deputy President and Chairman of the Management Board.

Previous positions:
2012–2016 – Deputy Chairman of the Bank of Russia;
2001–2012 – Director of the Bank of Russia Department for Licensing Credit Institutions and Their Financial Rehabilitation;
1998–2001 – Deputy Director of the Prudential Banking Supervision Department, Bank of Russia;
1998 – Deputy Director of Prudential Banking Supervision and Head of the Prudential Supervision Methodology Division, Bank of Russia;
1996–1997 – Director of the General Analysis Division of the Prudential Banking Supervision Department, Bank of Russia;

1994–1996 – Director of the Research and Forecasting Management Division, Moscow branch of the General Office of the Bank of Russia;
1993–1994 – Deputy Director of the Research and Forecasting Division, Director of the Department of Financial Markets and Monetary Policy, Moscow branch of the General Office of the Bank of Russia;
1993 – Director of the Department of Financial Markets and Monetary Policy, Moscow branch of the General Office of the Bank of Russia.

Born in 1968. In 1990, graduated from the Lomonosov Moscow State University. PhD in Economics.

Holds no shares of the Bank as of 31 December 2016.



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 – 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. Member of the Board of Trustees of the Federal State Budget Institution of Higher Professional Education St. Petersburg State University of Economics.

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 OJSC VTB Bank North-West;
2006–2007 – Deputy Head of OJSC 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 OJSC 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 as of 31 December 2016.



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 JSC 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 FX Transactions Division, JSCB Avtobank;
1992–1994 – FX Transactions Economist at Rosvooruzhenie.

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

Holds shares equivalent to 0.00021% of the Bank's charter capital as of 31 December 2016.

Holds 0.00103% of ordinary shares of the Bank as of 31 December 2016.



Vladimir Verkhoshinsky
Member of the
Management Board

Term of office in accordance with employment contract: 21 June 2016 to 9 June 2017.

Joined VTB Group in 2009. Since June 2016 – Member of the Management Board. Until June 2016 – Senior Vice President of VTB Bank (PJSC); Deputy President and Chairman of the Board, Member of the Board, Vice-President of OJSC Bank of Moscow; Vice President and Head of Corporate Development and Strategy of the Department of Strategy and Corporate Development, Department Head, Managing Director of JSC VTB Bank.

He is also a member of the Board of Directors of Insurance Company VTB Insurance, Ltd.

Previous positions:

2008–2009 – Financial Analyst at the representative office of the VR Capital Investment Fund (Moscow);
2003–2006 – Junior Analyst, Analyst at the representative office of the McKinsey & Company Consulting Company (Moscow);
2002–2003 – Specialist in the Internal Control Service for Operations Management for Private Clients, CJSC Citibank.

Born in 1981. In 2003, graduated from the Finance Academy under the Government of the Russian Federation. In 2008, graduated from Stanford University (USA) with an MBA.

Holds no shares of the Bank's charter capital as of 31 December 2016.



Mikhail Zadornov
Member of the
Management Board

Term of office in accordance with employment contract: 29 December 2016 to 9 June 2017.

Joined VTB Group in 2005. Since December 2016 – Member of the Management Board of VTB Bank (PJSC), in addition to other duties. Since 2005 – President and Chairman of VTB 24 (PJSC) Management Board. He is also Chairman of the Board of Directors of Insurance Company VTB Insurance, Ltd. Member of the Board of Directors of CJSC VTB Bank (Armenia). Member of the Supervisory Council of VTB

24 (PJSC), JSC VTB Bank (Georgia), PJSC Post Bank, the Federal State Autonomous Educational Institution of Higher Professional Education at the National Research University Higher School of Economics.

Previous positions:

2003–2005 – Deputy of the of the fourth convocation of the Russian State Duma;
1999–2003 – Deputy of the third convocation of the Russian State Duma;
1997–1999 – Minister of Finance of the Russian Federation;
1995–1997 – Deputy of the second convocation of the Russian State Duma;
1993–1995 – Deputy of the first convocation of the Russian State Duma;
1991–1993 – Chief Researcher, Member of the Board of the Centre for Economic and Political Research (EPIcentre);
1990–1991 – Member of the State Economic Reform Committee of the RSFSR Council of Ministers;
1989–1990 – Junior Research Assistant and Research Assistant at the Institute of the Economy, as well as an expert for the Planning and Budgetary Commission of the USSR Supreme Council and Research Assistant at the Institute of the Economy of the USSR Academy of Sciences.

Born in 1963. In 1984, graduated from the Russian University of Economics. PhD in Economics.

Holds shares equivalent to 0.00005% of the Bank's charter capital as of 31 December 2016.

Holds 0.00025% of ordinary shares of the Bank as of 31 December 2016.



Maxim Kondratenko
Member of the
Management Board

Term of office in accordance with employment contract: 27 November 2015 to 9 June 2017.

Joined VTB Bank in August 2013. Since November 2015 – Member of the Management Board.

He is also a Member of the Supervisory Council of PJSC VTB Bank (Ukraine). Member of the Board of Directors of JSC BM Bank.

Previous positions:

2013–2015 – Head of the Risk Department, Senior Vice President, JSC VTB Bank;
2012–2013 – Director of Restructuring and Bad Loan Department, CJSC UniCredit Bank;
2009–2012 – Director of the Credit Restructuring Department, CJSC UniCredit Bank;
2008–2009 – Member of the Management Board, JSC Russian Standard Bank;
2008–2008 – Deputy Director of the Retail Business Department, JSC Russian Standard Bank;
2007–2008 – Department Head, Executive Director of the Retail Sales and Private Banking Department, CJSC Mezhdunarodny Moskovsky Bank (since 26 December 2007, CJSC UniCredit Bank);
2006–2007 – General Manager, CJSC Mezhdunarodny Moskovsky Bank;
2003–2006 – Head of the Retail Sales Department, CJSC Mezhdunarodny Moskovsky Bank;

2001–2003 – Deputy Head of the Private and Corporate Services Department, CJSC Mezhdunarodny Moskovsky Bank;
1999–2001 – Head of the Corporate Services Department, Austria Creditanstalt Bank (Russia) (from 28 September 2001, CJSC Mezhdunarodny Moskovsky Bank);
1999–1999 – General Director, CitiConsult Ltd;
1997–1999 – Deputy Department Manager, RK-International Rossiysky Kredit Commercial Bank (since 13 January 1998, OJSC Rossiysky Kredit Bank);
1996–1997 – Chief Specialist for operations with non-residents and client development in the Liabilities Department, Rossiysky Kredit Commercial Bank;
1996–1996 – Deputy Head, Chief Specialist, Regional Clients Section, Regional Development and Regional Policy Department, Rossiysky Kredit Bank;
1995–1996 – Deputy Head, Chief Specialist, Information and Analysis Section, Regional Development, Analysis and Planning Department, Rossiysky Kredit Bank;
1994–1995 – Manager, Clients Sector, Passive Operations Department, Rossiysky Kredit Bank.

Born in 1973. Graduated in 1996 from Lomonosov Moscow State University with a major in Philosophy. In 1999, he graduated from the Russian Foreign Trade Academy of the Russian Trade Ministry with a specialisation in International Economics. PhD in Economics. In 2007, he graduated from London Business School with an MBA.

Holds no shares of the Bank's charter capital as of 31 December 2016.



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 since September 2009.

He is also a member of the Board of Directors of JSC BM Bank, Airport Alliance (Netherlands) B.V.

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 the Economy and Finance Department at AvtoVaz Corporation.

Born in 1954. In 1976, graduated from the 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 2016.



Gennady Soldatenkov
Member of the
Management Board

Term of office in accordance with employment contract: 29 December 2016 to 9 June 2017.

Joined VTB Group in 2001. Since December 2016 – Member of the Management Board of VTB Bank (PJSC), in addition to other duties. Since May 2016 – President and Chairman of the Management Board of JSC BM Bank. Until May 2016 – President and Chairman of the Management Board of OJSC Bank of Moscow, First Deputy President and Chairman of the Management Board of OJSC Bank of Moscow (2011–2015), Deputy President and Chairman of the Management Board of VTB Bank (2001–2011).

He is also a member of the Board of Directors of JSC BM Bank.

Previous positions:

1997–2001 – Deputy Chairman of the Management Board, Sberbank, Chairman of Moscow Regional Head Office of Sberbank;
1992–1997 – Vice President of Sberbank, Chairman of Moscow Regional Head Office of Sberbank.

Born in 1952. In 1975, he graduated from the Moscow Finance Institute. In 1989, he graduated from the Moscow Higher Party School, and in 1990 from the Higher Commerce School of the Academy of National Economy under the USSR Council of Ministers.

Holds shares equivalent to 0.00024% of the Bank's charter capital as of 31 December 2016.

Holds 0.0012% of ordinary shares of the Bank as of 31 December 2016.

President and Chairman of the Management Board

The President and Chairman of the Management Board oversees VTB's day-to-day operations, with responsibility for implementing the Group's strategy and meeting strategic targets. 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 the members of the Supervisory Council and the Management Board

In accordance with a resolution of the General Meeting of Shareholders, the members of the VTB Bank Supervisory Council may receive remuneration and compensation for expenses incurred in the course of their duties during their term in office.

In 2016, the Annual General Meeting of Shareholders of VTB Bank approved a new edition of the Regulation on Remuneration and Compensation for Expenses Incurred by Members of the Supervisory Council. According to the Regulation, the base of the remuneration is paid to a Supervisory Council member, provided that in the reporting year he or she attended in person or participated via video-conferencing in at least half of the meetings of the Council, and that he or she also participated in at least half of the absentee votes of the Supervisory Council.

The total remuneration of a Supervisory Council member is based on their participation in Council activities, as a member of the Council, as the Chairman of the Council and for their actual activities as a member and/or Chairman of a committee.

In this regard, a bonus has been established amounting to 30% on top of the base payment of a Supervisory Council member for chairmanship of the Supervisory Council, with a 20% bonus on top of the base pay for chairmanship of a Council committee and a 10% bonus on top of the base pay for membership of a Supervisory Council committee.

The bonus is paid to a Supervisory Council member or a member of a committee of the Supervisory Council provided that in the reporting year he or she attended in person or participated via video-conferencing in at least half of the meetings of the Council, and that he or she also participated in at least half of the absentee votes of the Supervisory Council.

In compliance with the Regulation on Remuneration and Compensation for Expenses Incurred by Members of the Supervisory Council of the Bank, the General Meeting of Shareholders approved the payment of expenses incurred by members of the Supervisory Council who are not state employees during the performance of their duties as members of the Supervisory Council (accommodation, meals, travel services, including VIP lounge services, and other fees and charges for various forms of transport).

In accordance with current Russian legislation, members of the Supervisory Council who are state employees do not receive any remuneration.

On 24 June 2016, VTB Bank's AGM approved the following:

a) To pay remuneration as follows to Supervisory Council members who are not state employees: for their work on 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 while carrying out their duties, namely: accommodation, travel expenses (including VIP lounge services), other duties and fees for various forms of transport.

In 2016, remuneration paid to members of the Supervisory Council who are not state employees totalled RUB 53,820 thousand (gross earnings), compared to RUB 49,680 thousand in 2015 (gross earnings). Expenses incurred in the course of their duties were also reimbursed. These expenses totalled RUB 1,525 thousand.

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 employment contracts of the Management Board members.

In 2016, members of the Management Board received remuneration (salary, bonuses) in the amount of RUB 361,805 thousand (RUB 399,031 thousand in 2015).

5.7. Statutory audit commission of VTB Bank

The Statutory Audit Commission is responsible for providing financial control over the Bank's financial and economic activities. 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 24 June 2016, shareholders elected the Statutory Audit Commission as follows:

1. Sergei Platonov – Chairman of the Statutory Audit Commission, Deputy Director of the Financial Policy Department, Ministry of Finance of the Russian Federation, member of the Statutory Audit Commission of OJSC Gazprom, member of the Statutory Audit Commission of JSC AHML;
2. Yevgeny Gontmakher – Deputy Director at the Primakov National Research Institute of World Economy and International Relations (affiliated with the Russian Academy of Sciences), Deputy Director of the Kudrin Fund of Civil Initiatives, member of the Management Board, Institute of Contemporary Development;
3. Mikhail Krasnov – Director of Vercysell SA (Switzerland), member of the Statutory Audit Commission of PJSC Rostelecom, member of the Committee for Strategic Planning of the Board of Directors at OJSC Russian Venture Company;
4. Anastasia Olshanova – Deputy Head of the Department for the Privatisation of Market Organisations at the Office of Property Relations and the Privatisation of Large Organisations of the Federal Agency for State Property Management, member of the Board of Directors of OJSC VNIPlneft, member of the Statutory Audit Commission of PJSC RNCB Bank;
5. Igor Repin – Deputy Executive Director of the Association of Professional Investors, Chairman of the Board of Directors of OJSC Vichugskaya Gorodskaya Elektroset, Chairman of the Board of Directors of OJSC Kineshemskaya GES, Chairman of the Statutory Audit Commission of PJSC RusHydro, Chairman of the Statutory Audit Commission of JSC RosGeo;

6. Zahar Sabantsev – Head of the Division for Monitoring the Finance Sector, Organisational Support and Associated Work of the Financial Policy Department of the Ministry of Finance of the Russian Federation.

On account of the election of new members of the Statutory Audit Commission by the Annual General Meeting of the Shareholders, the following members left the Statutory Audit Commission in June 2015:

- Leonid Volkov – Plenipotentiary Representative of the Chuvash Republic to the President of the Russian Federation, member of VTB Shareholders Consultative Council;
- Alexander Krivosheev – Advisor to the General Director of OJSC United Grain Company.

In 2016, the Statutory Audit Commission elected by the Annual General Meeting of Shareholders on 25 June 2015, in accordance with the Work Plan for VTB Bank Statutory Audit Commission for 2015–2016, audited VTB Bank financial and economic activities for 2015, as a result of which the Statutory Audit Commission reached the following conclusions:

- VTB Bank 2015 annual financial statements were prepared in accordance with the applicable legislation and regulations of the Russian Federation and the Bank of Russia;
- VTB Bank 2015 annual report was prepared in accordance with the applicable legislation of the Russian Federation;
- information contained in the Bank's accounting records and published financial statements for 2015 is true;
- no substantial violations of legal acts of the Russian Federation on accounting procedures or violations of legal acts of the Russian Federation in conducting financial and economic activities were found;
- no violations by the Bank of the statutory requirements set by the Bank of Russia were found;

- Bank's systems of corporate governance, risk management and internal control meet the requirements established by the laws of the Russian Federation and regulations of the Bank of Russia, and are in accordance with the nature and scale of the Bank's operations.

In 2016, VTB Bank Statutory Audit Commission held three in-person meetings and one meeting with absentee voting.

In accordance with a resolution of the General Meeting of Shareholders, the members of VTB Bank's Statutory Audit Commission may receive remuneration and compensation for expenses incurred in the course of their duties during their term in office.

Since 2016, the Regulation on Remuneration and Compensation Paid to the Members of the Statutory Audit Commission has been in force at the Bank. According to this document, the basic part of the remuneration paid to members of the Statutory Audit Commission is 20% of the average remuneration paid to a member of the Supervisory Council who is an independent director or representative of the state. The actual amount of remuneration paid to a member of the Statutory Audit Commission during the reporting period is determined based on the number of days in the corporate year during which said member of the Statutory Audit Commission carried out their duties. For chairing the Statutory Audit Commission, the Regulation on Remuneration and Compensation Paid to the Members of the Statutory Audit Commission establishes a bonus of 30% of the basic remuneration for members of the Bank's Statutory Audit Commission.

In accordance with applicable Russian legislation, members of the Statutory Audit Commission who are civil servants do not receive any remuneration.

On 24 June 2016, VTB Bank AGM approved the following:

1. Remuneration to members of the Statutory Audit Commission of VTB Bank who are not civil servants:

- for work as part of the Statutory Audit Commission of VTB Bank – RUB 920,000 each;
- for chairing the Statutory Audit Commission of VTB Bank – RUB 1,196,000.

2. Compensation to members of the Statutory Audit Commission of VTB Bank who are not civil servants, during the performance of their duties, of all expenses associated with the performance of their duties as members of the Statutory Audit Commission of VTB Bank, namely: accommodations, travel and other fees and charges for various types of transport.

In 2016, members of VTB Bank Statutory Audit Commission received remuneration in the amount of RUB 2,760 thousand.

In 2016, the Statutory Audit Commission provided information necessary to monitor the financial and economic activities of VTB Bank on a regular basis, including information concerning indicators related to financial statements prepared in accordance with RAS standards, consolidated financial statements prepared in accordance with IFRS, information on the implementation of the directives issued by the government of the Russian Federation and the programme for selling non-core assets.

More details on VTB Bank Statutory Audit Commission can be found on VTB’s website at: http://www.vtb.ru/ir/governance/control/revision_commission/.

5.8. Internal control and audit

VTB Group’s internal control and audit functions operate in compliance with international best practices 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 by its reporting structure.

VTB Group’s internal control system ensures:

- efficiency of VTB Group’s and VTB Bank’s activities;
- 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 Group and its employees in unlawful activity.

The VTB Group Management Committee established an Internal Audit Coordination Committee, as well as a Coordination committee for compliance and internal control aimed at preventing money laundering and the financing of terrorism.

The main objectives of VTB Group’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 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 activities by Group structural units and employees;
- organising efficient communications with external regulatory bodies and auditors.

VTB Bank internal control and audit

The Bank’s internal control system includes:

- governing 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 or 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

The Audit Committee operates as part of the structure of the Supervisory Council in order to facilitate the effective performance of the functions of the Supervisory Council in the area of control over the Bank’s financial and economic activities.

More detailed information on the composition and activity of the Audit Committee can be found in *Section 5.4 “Supervisory Council of VTB Bank”*.

Internal Audit Department

The Internal Audit Department provides direct support to the Bank’s governing bodies to ensure that VTB Group works effectively. The Internal Audit Department monitors internal control systems, conducts audits and provides impartial recommendations for improving banking operations and control procedures.

The Internal Audit Department is an independent structural unit of VTB Bank and operates under the direct supervision of the Supervisory Council. The Supervisory Council approves the Internal Audit Department’s work plans and monitors their implementation, reviews the Internal Audit Department’s reports on the results of audits and on monitoring of the internal control system, as well as reports on the implementation of the

Internal Audit Department’s recommendations to address previously identified issues.

The Internal Audit Department’s organisational structure comprises a number of units responsible for day-to-day monitoring, coordination of internal control systems across the Group, and auditing. To increase the effectiveness of the monitoring of the internal control system in the Bank’s regional branches, the structure of the Internal Audit Department includes dedicated internal control teams at the 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 the 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 systems of internal control for the use of automated information systems;
- establishing uniform approaches to the organisation of VTB’s internal control systems.

The Internal Audit Department liaises with the Audit Committee and independent auditors, providing information on the internal control system and reporting any shortcomings during the audit period.

In 2016, the Internal Audit Department conducted 39 audits, including 10 audits of business processes at the Bank’s parent company and 29 audits of branch activities. In addition, as part of its ongoing monitoring, Internal Audit Department staff members conducted 688 thematic audits at the branch level.

In connection with the merger with OJSC Bank of Moscow, the Bank’s retail business became a complete, wide-ranging business line offering

comprehensive customer service. In order to implement innovative approaches to its auditing and monitoring of lending operations and the service offered to retail clients, the Internal Audit Department conducted the relevant work in terms of methodology and also tested the tools that had been developed in the course of its verification activities. In addition, in accordance with best practices concerning the regional branches of the Bank's retail business, the Internal Audit Department arranged distance oversight that makes it possible not only to quickly identify violations and/or shortcomings and bottlenecks in terms of customer service, but also to take preventive measures in order to minimize the risk of fraud.

In addition to conducting audits and monitoring the Bank's internal control system, the Internal Audit Department's priority is to control the activities of subsidiaries. In 2016, the Internal Audit Department conducted 11 audits related to the activities of the Bank's subsidiaries. The Internal Audit Department also analyses, on a regular basis, reports on the work of Group companies' internal audit services. To enhance the level of professionalism and exchange experience, on-the-job training is provided for staff from the internal audit services within Group companies, including with the involvement of VTB Group functional coordinators.

Compliance control

The main objectives of VTB Group's compliance control system 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;
- preventing the involvement of VTB Group stakeholders or employees in unlawful activities

(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.

The main requirements of the internal control (compliance) system, the standards and principles of its functioning within VTB Group, the distribution of powers and areas of responsibility are set out in the Bank's Charter.

Compliance Control Office and Department of Compliance Control and Financial Monitoring

The Bank established a Compliance Control Office as part of the Department of Compliance Control and Financial Monitoring to assist the Bank's governing bodies with the effective management of regulatory (compliance) risks resulting in losses due to non-compliance with Russian legislation, the Bank's Charter, standards for self-regulatory organisations, and also as a result of the application of sanctions and/or the impact of other measures on the part of the supervisory authorities. It will also ensure a consistent approach to internal (compliance) control at the credit and non-credit financial institutions included in VTB Group.

The Compliance Control Office includes units responsible for day-to-day monitoring, coordination, management of regulatory (compliance) risks and the effective functioning of the system of internal (compliance) control in VTB Group.

The remit of the Compliance Control Office includes:

- identifying regulatory (compliance) risks, keeping records of developments related to regulatory (compliance) risks, determining the probability of their occurrence and providing quantitative assessments of the possible consequences;
- monitoring regulatory (compliance) risks, including an analysis of new banking products and services introduced by the Bank, as well as their planned

- implementation methods, in terms of regulatory (compliance) risks;
- coordination and participation in the development of comprehensive measures aimed at reducing the level of regulatory (compliance) risk within the Bank and VTB Group;
 - monitoring the effectiveness of regulatory (compliance) risk management;
 - identification of conflicts of interest in the Bank's activities and among its employees, and participation in the development of bylaws aimed at minimising such conflicts;
 - analysis of indicators related to customer complaints (requests, claims) and the Bank's compliance with customer rights;
 - analysis of the economic expediency of the Bank's conclusion of contracts with legal entities or individual entrepreneurs for the provision of services and/or the completion of outsourcing operations by the Bank;
 - participation in the development of bylaws aimed at preventing commercial bribery and corruption, and compliance with the rules on corporate conduct and professional ethics;
 - establishment of a Violations and Corrupt Practices Hotline that can report messages from the Bank's employees about existing or potential violations, and reviewing such reports;
 - functional coordination of the compliance function in the credit and non-credit financial institutions included within VTB Group, monitoring and oversight measures in terms of managing regulatory (compliance) risk within the Bank and within the credit and non-credit financial institutions included within VTB Group, complying with the requirements of the laws of the country of registration of the organisation in question within the framework of the rights granted to the Bank as a shareholder/participant;
 - coordination of the Bank's activities aimed at meeting the requirements of the US Foreign Account Tax Compliance Act (FATCA);
 - organisation of training for Bank employees on matters within the remit of the Compliance Control Office.

Prevention of money laundering and financing of terrorism

The Group's main internal control objectives in terms of preventing money laundering and financing of terrorism (AML/CFT) are:

- ensuring compliance with AML/CFT legislation;
- effective internal control for AML/CFT purposes as a means of ensuring the Bank's stability, reliability and solid reputation, as well as a way of safeguarding the interests of creditors and depositors;
- minimising the risk of customer transactions involving money laundering or terrorist financing, as well as the risk of non-compliance with international sanctions;
- avoiding involving Group employees in money laundering or terrorist financing;
- requirements to establish a system of internal control for AML/CFT purposes, the distribution of powers and areas of responsibility stipulated in the Rules on Internal Control for AML/CFT Purposes and other Group's bylaws.

Department of Compliance Control and Financial Monitoring: Monitoring Banking Operations Unit

In order to meet the above-mentioned objectives, the Bank established a Monitoring Banking Operations Unit within the Department of Compliance Control and Financial Monitoring.

The Unit's remit includes:

- ensuring that there is an efficient process in place for preparing and submitting information foreseen under legislation on AML/CFT to the authorised body;
- cooperation under the Unit's remit with state authorities of the Russian Federation, as well as Russian, foreign and international organisations and institutions (including financial institutions) on matters related to AML/CFT;
- development of an internal control system for AML/CFT and analysis of the results of the Bank's activities in the area of AML/CFT;
- development and improvement of the rules for internal control for AML/CFT purposes and

programmes for their implementation, as well as other internal regulations on issues related to the remit of the Monitoring Banking Operations Unit;

- development of guidelines, regulations and procedures for cooperation in the implementation of tasks for AML/CFT purposes;
- consulting employees on matters that arise during the implementation of internal control rules for AML/ CFT purposes, including the preparation of responses to requests concerning the methodology;
- coordination and organisation of training for Bank employees on AML/CFT matters;
- participation in the development of functional requirements for automated systems used to carry out functions related to AML/CFT;
- organisation of work for the implementation of internal controls for AML/ CFT purposes by the Bank’s structural units and the coordination of their interaction;
- implementation of ongoing monitoring of the application of rules and internal control programmes for AML/CFT purposes.

The main internal control activities for AML/ CFT purposes conducted in 2016 were aimed at harmonising the approaches, procedures and forms of the corresponding internal control processes within the Group for AML/CFT purposes.

To improve practical work in the area of internal control, the Department of Compliance Control and Financial Monitoring works with the Coordination Commission on Compliance and Internal Control for the Purpose of Preventing Money Laundering and Terrorist Financing under VTB Group’s Management Committee (the Commission).

In 2016, the Commission held two in-person meetings and three meetings with absentee voting, at which decisions aimed at ensuring compliance with the principles of the functional coordination of internal (compliance) control and internal control for AML/CFT purposes in the above-mentioned areas within VTB Group were discussed with Group companies and subsequently adopted.

In order to harmonise approaches to internal (compliance) control for AML/CFT purposes, as well as to reflect the experience of the functional coordination of VTB Group companies, the following internal documents were updated or developed in 2016:

- VTB Group Concept for the Consolidated Management of the System of Internal Control on Functional Areas of Compliance and on Preventing Money Laundering and Terrorist Financing;
- Regulation on Cooperation among VTB Group Companies in Functional Areas of Compliance and on Preventing Money Laundering and Terrorist Financing;
- Regulation on the Coordination and Monitoring of the Implementation of Budget Expenditures by the Internal Control Divisions of VTB Group Companies;
- Regulation on the Coordination Commission for Compliance and Internal Control for the Purposes of Preventing Money Laundering and Terrorist Financing under the VTB Group Management Committee;
- Regulation on Operational and Regulatory (Compliance) Risk Management within VTB Group.

In 2016, VTB Bank Management Board also drafted and approved new versions of the Regulation on the Compliance Control Department, the Regulation on VTB Bank Compliance Control Unit of the Department of Compliance Control and Financial Monitoring, and the Regulation on the Banking Operations Monitoring Unit of the Department of Compliance Control and Financial Monitoring (minutes No 84 of 4 October 2016).

5.9. Investor relations

Developing relations and maintaining a constructive dialogue with shareholders, investors and all interested parties within the investment community is 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, and

the Shareholder Relations Service is responsible for communications with individual shareholders.

In 2016, against the background of a gradual recovery in investment activity on the part of Russian investors, VTB Bank continued to implement a programme of comprehensive interaction with shareholders and representatives of the investment community, the impact of which has spread to 28 regions of the Russian Federation. The renewal and diversification of the shareholder base continued through active interaction with investors.

In 2016, the key IR events were the:

- annual General Meeting of Shareholders;
- holding of three extraordinary General Meetings of Shareholders and other corporate actions related to the merger with the Bank of Moscow and the conversion of preference shares;
- holding of VTB Investor Day in London;
- participation of shareholders in the formation of a new VTB Group development strategy for 2017–2019, including an IT strategy;
- implementation of a comprehensive programme for cooperation with shareholders in Russia;
- development of electronic communication channels and the introduction of electronic voting at General Meetings of Shareholders.

Merger with the Bank of Moscow and the conversion of preference shares

In 2016, VTB Group implemented a number of projects requiring the approval of the General Meeting of Shareholders. As a result, several extraordinary meetings were convened in addition to the Annual Meeting. At an extraordinary meeting held through absentee voting on 14 March 2016, VTB Bank shareholders approved the Bank’s merger with JSC BS Bank, which had been spun off from the Bank of Moscow. In accordance with applicable legislation, VTB Bank shareholders who voted against the merger or who did not take part in the voting had the right to redeem their shares at the price determined by VTB Bank’s Supervisory

Council on the basis of the report of an independent appraiser, i.e. RUB 0.04 per ordinary share.

In December 2016, two Extraordinary General Meetings of Shareholders were held through absentee voting. The agenda for these meetings included issues related to the conversion of previously issued preference shares and Type A preference shares into new types of shares (Type 1 and Type 2 preference shares), allowing for the payment of interim dividends after every quarter. After amending the Bank’s Charter, the General Meeting of Shareholders approved the payment of dividends for the first nine months of 2016 for Type 2 preference shares.

For more information on General Meetings of Shareholders held in 2016 and on the decisions taken, see *Section 5.3 “General Meeting of Shareholders of VTB Bank”*.

Development of electronic communication channels and introduction of an e-voting system

As part of the reform of corporate activities in the Russian market undertaken by the central depository, a gradual transition of issuers and shareholders towards electronic channels of interaction is being carried out on all issues, including the realisation of the rights of investors in the implementation of various corporate actions.

In 2016, VTB Bank worked on the development of its electronic channels of communication with shareholders. The VTB Shareholder application, launched in December 2015, was installed by more than 4.6 thousand users during the year. The application’s most popular sections are Investment Ideas and Forecasts, Quotes, News and the Shareholder Calendar. In early 2017, the application will add a Voting section to take part both in electronic voting at General Meetings of Shareholders and in other surveys and ballots.

Electronic voting at shareholder meetings has been possible since 1 July 2016. VTB Shareholders

were able to test a trial version of the system on 24 June 2016 at the Annual General Meeting of Shareholders. At Extraordinary Meetings of Shareholders held in December 2016, the electronic voting system was used by more than 70% of those who participated in the meetings. Holders of shares of VTB Bank, regardless of where their rights are registered, can make use of the electronic voting system online at www.vtbreg.com.

In 2016, a survey of shareholders was conducted as part of the development of the new structure for a unified corporate website, and usability testing was carried out on sections of the site intended for shareholders and investors. The practice of sending out regular newsletters via email to clients of the VTB24 depository and users registered on the site www.vtb.ru continued.

Facebook and Twitter remained among priority means of communication with shareholders, with engagement led through the accounts of the Shareholders Consultative Council.

Meetings with shareholders and investors

Despite the introduction of electronic technologies and services for shareholders, VTB Bank continued to hold regular meetings with shareholders and investors in Russia and abroad.

In 2016, the VTB management team, employees of the Investor Relations Department and Shareholder Relations Service actively participated in investor conferences and meetings with institutional investors and individual shareholders.

VTB held more than 250 meetings with institutional investors and analysts and took part in eight investor conferences organised by major international investment banks.

One of the most important events in the field of interaction with institutional investors during the reporting period was the holding of a VTB Group Investor Day in London, where VTB Group was represented by the

Group’s senior management: the President and Chairman of VTB Bank’s Management Board, Andrey Kostin; the head of VTB Group’s Corporate and Investment Business, First Deputy President and Chairman of VTB Bank’s Management Board, Yuri Soloviev; the Head of VTB Group’s Retail Business, the President and Chairman of the Management Board of VTB24, Mikhail Zadornov; and the CFO of VTB Group, Deputy President and Chairman of VTB Bank’s Management Board, Herbert Moos. Of great interest at the VTB Investor Day in London was the macroeconomic session involving the participation of the Deputy Minister of Finance of the Russian Federation, Alexey Moiseev; the Deputy Minister of Economic Development of the Russian Federation, Nikolai Podguzov; and the First Deputy Chairman of the Bank of Russia, Ksenia Yudaeva.

VTB Bank continues to implement a comprehensive programme for engaging with shareholders and the investment community in Russia’s regions. In 2016, 72 events were held within the framework of the programme, including investor days, seminars for shareholders, meetings with analysts and representatives of brokerage firms, workshops for students from economics faculties and broadcasts of important corporate events at Shareholders’ Centres.

In 2016, Russian Investor Days, in which not only existing shareholders but also potential investors, representatives of the media and investment companies have traditionally participated, took place in four cities: Moscow, St. Petersburg, Yekaterinburg and Krasnodar. Special seminars for private investors were held in nine other cities throughout the country. The meeting programme, which included presentations on issues ranging from the activities of VTB Group to the use of tax incentives by private investors, was highly appreciated by the participants. The events were attended by a member of the Supervisory Council, Valery Petrov; representatives of the Moscow stock exchange; and experts from relevant departments of VTB Bank and its subsidiaries.

During the year, six meetings were held in various Russian regions with portfolio managers and

investment consultants representing companies providing brokerage services to individuals. In addition, 19 open days were hosted at the Bank’s branch and operations offices. At these events, Bank representatives and members of the Shareholders Consultative Council provided individual consultations for shareholders, addressing a wide range of issues related to the ownership and disposal of Bank shares. In December, a traditional roundtable discussion was held in Yekaterinburg, during which VTB Group experts and Bank shareholders discussed the investment strategy for the coming year.

In total, 1,676 shareholders and investors participated in the regional investor days, seminars and open days in 2016.

The Bank also continued to conduct workshops on personal financial management and on working with securities for students from the country’s leading economic universities. In 2016, more than 500 students from Kaliningrad, Rostov-on-Don, Irkutsk, Nizhny Novgorod and Khabarovsk took part in training programmes.

Shareholders consultative council

In 2016, five meetings of the Shareholders Consultative Council were held. Council members took an active part in discussions on strategic issues related to VTB Group, presented their recommendations for improving products and services, crowd-sourced ideas from shareholders regarding the new strategy and took into consideration other issues affecting the interests of minority shareholders.

Among the issues discussed at Shareholders Consultative Council meetings in 2016 were the following:

- VTB Group’s development strategy for 2017–2019;
- IT solutions and plans for the technological development of VTB Group;

- Discussion of a report by the Bank of Russia on improving corporate governance in PJSCs;
- Plans for cooperation with VTB’s minority shareholders;
- VTB Group’s financial performance and dividend policy;
- Distribution of profits for 2015;
- Plans for the development of the retail business and the launch of special products for shareholders;
- The introduction of remote e-voting at shareholder meetings.

Meetings of the Shareholders Consultative Council were attended by representatives of VTB Group’s management. Members of the Shareholders Consultative Council submitted more than 120 proposals, including both those formulated by members of the Council themselves and others received through crowdsourcing from minority shareholders respecting the Group’s development strategy and its IT unit. Many of these suggestions were taken into account, and some of them, in particular on the electronic services offered by VTB24 Bank, have already been implemented.

Throughout the year, members of the Shareholders Consultative Council participated in events held by the Bank for minority shareholders in various regions of Russia. As has traditionally been the case, a detailed report on the work of the Shareholders Consultative Council was presented during the Annual General Meeting of Shareholders. In accordance with a decision of the AGM, a representative of the Shareholders Consultative Council was once again elected to the Supervisory Council. Since June 2016, the interests of minority shareholders on the Statutory Audit Commission have been represented by the Shareholders Consultative Council’s Igor Repin. This ensures representation of minority shareholders in both VTB Bank’s management bodies and oversight bodies.

When the current four-year term comes to an end in 2017, new members will be elected to the Shareholders Consultative Council. Detailed information and the regulations for electing

members of the Shareholders Consultative Council are on the site www.vtb.ru.

More detailed information about VTB Bank's engagement with the investment community can be found in the Investor Relations section on the website: www.vtb.ru.

5.10. Disclosure policy of VTB Bank

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 discloses information in accordance with the requirements of the Federal Law on the Securities Market, the Federal Law on Joint Stock Companies, Regulation No. 454-P on Disclosure of Information by Issuers of Equity Securities adopted by the Bank of Russia on 30 December 2014, as well as the requirements of the Moscow Exchange's Listing Rules and those of the London Stock Exchange, and in accordance with the recommendations of the Corporate Governance Code approved by the Board of Directors of the Bank of Russia on 21 March 2014.

The Regulation on Information Policy approved by the Bank's Supervisory Council on 15 July 2008 (minutes No 9) is applied at VTB Bank, as is the Regulation on the Procedure for Disclosure of Information in the Bank adopted by Order No 262 of the President and Chairman of VTB Bank on 11 April 2014 and the Regulation for Cooperation on Information Disclosure in the Securities Market, approved by VTB Group's Management Committee (minutes No 26 of 31 December 2014).

The main platforms for disclosure are the Interfax newswire and the Bank's own website at www.e-disclosure.ru, <http://www.e-disclosure.ru/>

portal/company.aspx?id=1210, the London Stock Exchange's website at www.londonstockexchange.com and VTB Bank's corporate website www.vtb.ru, where the most complete information about the Bank's activities is regularly updated in accordance with the requirements of legislation and the Bank's internal documents.

VTB Bank pays particular attention to ensuring that any relevant information is available simultaneously to all shareholders and analysts in accordance with the principles of openness and transparency. The Bank strives to maintain the highest level of transparency in relation to its activities and it discloses a wide range of corporate information.

The Bank discloses its information in the form of an annual report, quarterly reports, lists of affiliates, material facts and announcements on events that are required to be disclosed in securities markets in Russia and abroad, listing prospectuses, annual financial statements, and other information subject to mandatory disclosure by joint stock companies.

Information about the system and practice of corporate governance is disclosed on the Bank's corporate website. This includes detailed information about compliance with the principles and recommendations of the Corporate Governance Code approved by the Board of Directors of the Bank of Russia on 21 March 2014, along with information about the organisation and general principles of corporate governance at VTB Bank, information about members of the Supervisory Council, members of the executive bodies, the Corporate Secretary, the chief accountant and his deputies, and the managers and chief accountants of Bank branches.

At the end of each financial year, VTB Bank publishes audited consolidated financial statements in accordance with IFRS, with an audit report and interim condensed consolidated financial statements in accordance with IFRS every three, six and nine

months at: www.vtb.ru/ir/disclosure/, as well as on VTB Bank's dedicated Interfax page at www.e-disclosure.ru/portal/company.aspx?id=1210.

An electronic version of the Annual Report is uploaded onto the Bank's corporate website at www.vtb.ru/ir/disclosure/fannual/ and the Interfax page at www.e-disclosure.ru/portal/company.aspx?id=1210.

VTB Bank discloses information on a quarterly basis at www.vtb.ru/ir/disclosure/affiliated/, and a list of affiliates can be found on VTB Bank's Interfax page at www.e-disclosure.ru/portal/company.aspx?id=1210.

In addition, in accordance with para. 7 of Article 7.1 of Federal Law No. 129-FZ on State Registration of Legal Entities and Individual Entrepreneurs of 8 August 2001 and Article 7 of Federal Law No. 127-FZ on Insolvency (Bankruptcy) of 26 October 2002, VTB Bank discloses information through a specialised resource called the Unified Register of Information on Facts about Legal Entities at www.fedresurs.ru.

The provision of information and documents by VTB Bank upon the request of Bank shareholders is performed in accordance with the principle of equal and unhindered access.

To obtain access to Bank documents, a shareholder must send a request to the Bank for inspection or copies of documents in which the

shareholder is entitled to specify the manner of inspecting the documents that is convenient for him or her: directly or by requesting copies.

If the documents requested by the shareholder contain information that is a commercial secret, a receipt from the shareholder confirming that he or she has been warned of the confidentiality of the information being obtained and of the necessity of preserving it must be attached to the request.

For providing copies of documents, the Bank charges a fee not exceeding the cost of their preparation (as well as mailing costs, if the entitled person has copies of documents sent to his or her address).

Detailed procedures for obtaining access to Bank documents, as well as the procedures for assessing the cost to the Bank for making copies of documents and bank details for payment are provided on the Bank's official website: www.vtb.ru.

Shareholders have the right to access documents that are publicly disclosed by the Bank, without sending requests to the Bank, via the Bank's website (www.vtb.ru) and through VTB Bank's Interfax page at www.e-disclosure.ru/portal/company.aspx?id=1210.

*Building an efficient matrix
of corporate investment businesses
to multiply clients' wealth*



*VTB Group's single platform enables a comprehensive approach
to providing services to corporate clients and achieving great performance
thanks to a balanced line of products, services and solutions tailored
to meet our clients' needs.*

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 the Group’s strategic targets is impossible without aligning its own goals with society’s interests. Therefore, the Group maintains strong relationships with stakeholders and strives to consider their interests in all aspects of its activities, thereby ensuring the business’s sustainable development.

6.1. Personnel

In 2016, work continued on improving the efficiency of HR processes, harmonising systems and standards for work with personnel, and strengthening partnerships with businesses in the joint implementation of strategic initiatives through the efforts of the professionals working in all parts of the Group.

As of 31 December 2016, VTB Group employed 94,966 people (compared to 92,882 people as of 31 December 2015).

Appraisal

The Group uses a variety of personnel assessment tools depending on the operational task in question: personnel recruitment, contests for participation in corporate development programmes and annual performance reviews. In 2016, assessment centres were also regularly used in internal competitions to fill management positions, and also in the process of conducting personnel audits at subsidiary companies.

Personnel performance assessments that cover all employees and management are carried out annually. They are based on key performance indicators (KPIs) consistent with the Group’s strategic and operational priorities, and defined in both quantitative and qualitative terms. In turn, these performance assessments make it possible to formulate individual development plans and are an effective tool for providing feedback to employees on an annual basis.

Incentive and remuneration system

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.

Improving the incentive and remuneration system, including by adopting and following the latest practices consistent with the Group’s objectives, is one of the most important ways to increase efficiency within VTB Group. In 2016, work continued in a number of priority areas, including improving the remuneration system to reflect changes to labour 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.

A key project in terms of incentives was the harmonisation of remuneration systems during the merger between OJSC Bank of Moscow and VTB Bank (PJSC). Significant work was carried out to adapt certain elements of the incentive system for retail business units.

Training and development

The corporate training system continued to develop in 2016 in the context of strategic priorities and ongoing business objectives, with a primary focus on improving the quality and effectiveness of management and the development of a learning organisation.

Qualitative development could be seen in the past year in executive training programmes, such as New Energy for Leadership and Management Algorithms. Both programmes received high ratings from participants and became the flagship programmes for management development within VTB Group.

The line manager training programme Management Algorithms expanded significantly in 2016 in terms of both the range of participants (the programme was attended by representatives of 12 of the Group’s participating companies) and their geographic scope (employees of regional offices from St. Petersburg to Khabarovsk took part in the training modules), and a mobile application for the programme was also developed.

The middle management development programme New Energy for Leadership also became a Group-wide programme, with 70 executives from 11 Group companies taking part. The programme was fundamentally redesigned, and the format of the second cycle was innovative not only for the Bank but also for the Graduate School of Management of St. Petersburg State University, the Bank’s partner for programme implementation. The main topic of each module included examples of both Russian and international practices and approaches, and an important component of each module was the discussion of a real business case led by the Group’s top managers. Given the significant integration processes taking place within VTB Group, issues related to the development of corporate culture were particularly timely subjects of the final certification programmes.

The development of topics such as results-based management through the development of personal responsibility, situational leadership in the face of change and optimal motivation was also emphasised in 2016. At the end of the year, a new modular programme called Design Thinking was successfully launched. It was built on the principle of “designer training”: independent, one-day training sessions with clearly defined topics and a flexible schedule allow participants to choose one or more topics that are most relevant for them.

During the reporting period, 15 sessions were held at the VTB Knowledge Academy on a wide range of topics, from negotiation strategies to Agile methodologies. Interest in these training sessions is constantly growing within the Group, especially on the part of employees of regional offices and subsidiary companies who are able to take part in the programme through videoconferencing.

The programmes for the development of young professionals, VTB Junior and VTB GROWTH, also expanded, as they have proven to be effective tools for attracting, hiring and developing talented students and graduates of leading universities both in Russia and abroad. In 2016, a total of 90 people participated in these programmes, including graduates of the leading Russian universities and foreign business schools (77 from Moscow and St. Petersburg, nine from various regions of Russia, and four from the Group’s foreign offices (London, Shanghai).

Corporate culture

As part of the merger with the Bank of Moscow, more than 20 integration sessions were held in 2016, at which the employees of the merged banks were able to discuss the opportunities and challenges brought about by the merger, to agree on new “rules of the game” and to acquire skills for effective teamwork.

VTB has traditionally paid attention to sports, and in 2016 Group teams in football, volleyball,

basketball, hockey, athletics and paintball enjoyed good results, just as they traditionally do: athletes from VTB won prizes at various tournaments and competitions (in the OMHL amateur hockey league, the ROSTEC corporate games, etc.). More than 300 people took part in charitable sporting events (football, bicycle races, cross-country skiing).

The Ninth VTB Games were held in August. With more than 5,500 people taking part, the Games were truly the sporting high point of the year.

Targeted work with the younger generation has always been one of the priorities of VTB Group. A wide-ranging programme called Children 360 was implemented in 2016. The purpose of the program is to improve the quality of life of employees with children through systematic and comprehensive child care, the quality of life of employees with children, to help them be more effective at work and at home and to promote balance in their professional and personal lives. The programme reflects a modern approach to the formation of a harmonious society through improvements in financial literacy and career development, better habits in terms of physical activity and leading a healthy lifestyle, adaptation to adult life for employees' children and for children adopted from orphanages.

In 2016, the Bank held more than 30 events as part of the programme: career guidance forums and educational activities ("Bank your opportunities", "My choice", "School for young magicians", etc.), parents' clubs, excursions, game simulations and family holidays.

As part of other programmes in the areas of volunteerism and charity work, more than 20 large-scale events were held in 2016: Donor Days to raise funds to help with children's medical treatment in collaboration with the Lifeline foundation, the "Prepare a Schoolbag" event for children living in orphanages, a range of activities during Good Deeds Week, and events for those taking part in the VTB Veterans programme. A training course on charitable activities for Group employees was of particular interest.

6.2. Responsible resource management

One of VTB Group's main priorities is taking a responsible approach to the use of natural resources with emphasis on improving systems for managing the Group's own resource and power consumption.

Environmental efficiency

VTB Group's environmental efficiency is primarily related to controlling resource use and saving energy at its properties, as well as implementing uniform standards and practices alongside measures for optimising consumption levels.

Real estate

In 2016, VTB continued to optimise the properties used within the Group. These efforts were based on the moving process resulting from the merger of the Bank of Moscow units with VTB Bank, affecting both the divisions of the parent organisation, VTB Bank in Moscow, and the regional network of the former Bank of Moscow. The Bank continues to maintain its policy of renovating existing properties to improve their resource and energy efficiency, and also to introduce best practices aimed at protecting the environment and minimising any negative environmental impact. A component of the current real estate management strategy is the consolidation of VTB Group holding companies in modern administrative and business centres that are fully compliant with all ergonomic, resource- and energy-efficiency requirements.

In 2016, projects were launched to house Group companies in the Nevskaya Ratusha complex in St. Petersburg and the Group's head offices in the Eurasia Tower in Moscow.

The Bank's properties freed up from these moves are due to be sold between 2017 and 2019, thereby reducing the share of obsolete facilities in the property portfolio and significantly cutting costs.

During the reporting period, work also continued on the sale of unused properties freed up as part of the project to optimise the location of VTB Group divisions. Despite the unfavourable international economic situation, the decrease in financial and economic activity in the country and the reduction in demand in the real estate market, eight facilities were sold in 2016 with a total area of 8,000 sq. m (in 2015, the Bank was able to free up and sell nine facilities with a total area of 20,400 sq. m).

Transport

For several years, the Bank has taken steps to reduce and modernise its automobile fleet with cars that meet higher emission standards (including planned replacements) as well as the optimisation of traffic routes. As a result of these initiatives, the Bank of Moscow's fleet of vehicles was cut by about 30% in the Moscow region alone. However, the merging in 2016 of the Bank of Moscow with VTB Bank led to an increase in the number of vehicles used by VTB Bank from 189 in 2015 to 300 (a 58% increase compared with 2015).

Collection and recycling of waste

As a result of preparatory measures implemented in 2015, about 140 kg of batteries were collected in Tower West of the Federation Tower during the reporting period, and about 110 tonnes of paper was sent off to be recycled.

Resource and energy consumption

In 2016, the following activities were implemented as part of the Energy Conservation and Enhanced Efficiency Programme:

- harmonisation of the air-conditioning system (ventilation) with the heating system;
- transition to LED lighting and the installation of light sensors;
- replacement of standard plumbing fixtures with water-saving fixtures;
- installation of water metres on every floor;
- installation of control valves in heating system circuits.

All of these measures, as well as measures aimed at improving working conditions and complying with legislation on occupational health and safety, were also carried out in the new facilities of the Bank's property complex resulting from the merger with the Bank of Moscow.

The main measures taken for the modernisation of office space were as follows:

- work on the modernisation of the electric lighting system in elevator lobbies and inside inter-storey stairs from the 7th to the 32nd floors of Tower West, thereby reducing the power used by the lighting system, by replacing old equipment with an energy-efficient system, and also by redistributing the system's operations to day and night modes. Better fire safety was ensured by replacing heating elements with equipment that generates less heat;
- installation of a centralised automatic system of fan coil units in the halls of the 1st and 2nd floors in the Bank's Head Office in St. Petersburg (30 Bolshaya Morskaya St.).

Supporting environmental protection projects

In 2016, VTB Group continued to support important projects and programmes aimed at protecting and improving the environment, resolving global environmental issues, reducing pollution, improving waste management and managing natural resources in a sustainable manner. VTB Group continued its active cooperation with the Government of the Russian Federation, the Ministry of Natural Resources and Environment and other government bodies.

In 2016, the Group created VTB Ecology, a company dedicated to generating funds and implementing projects and programmes. Its main objective is to lay the groundwork for quality projects in the above areas for VTB Bank and the other financial companies of the Group, to effectively manage these projects and to develop and introduce innovative mechanisms for a "green fund" to VTB Group's operations.

Last year, VTB Bank continued cooperation with the World Wildlife Fund (WWF) to finance the “Preservation of the big cat population in the Russian regions” programme, and the Bank decided in 2015 to co-finance the project in the amount of USD 5 million over five years. The project’s main aim is to improve the environmental sustainability of the natural ecosystems in the Far East, Altai, Sayany and the North Caucasus to preserve and expand the habitat of Amur tigers, as well as Far Eastern, Persian and snow leopards.

In 2016, the Bank continued its activities as the Russian Executive Agency for the Project Support Instrument (PSI) under the Arctic Council Action Plan to Eliminate Arctic Pollution. In 2016, with VTB’s help, the reconstruction of the Valday Cluster fuel and energy complex to reduce black carbon emissions was largely completed, as was the construction of a hybrid wind-diesel power station at the Tundra agricultural production co-operative.

Funding was generated in excess of EUR 1.2 million for PSI to implement these projects, with a total project cost of over EUR 4 million.

In addition, PSI has secured about EUR 0.7 million in grants to finance the preparation of feasibility studies, as well as other preparatory activities for the financing of the following projects:

- an assessment of the impact of soot emissions on public health at the local level;
- “mapping” of the potential for replacing diesel-powered heat and power plants in the Arctic and north-western regions of the Russian Federation;
- a feasibility study for eliminating the use of diesel fuel for powering Dolgoshchelya (Mezensky District, Arkhangelsk Region);
- the collection, disposal and destruction of PCBs in the Russian Railways system;
- measures to protect two flyways of migratory birds.

In 2016, VTB Group began developing and introducing mechanisms for financing related to the implementation of a number of newly adopted

Russian legislative and regulatory acts on waste management, the introduction of the best available technologies and increasing energy efficiency.

In addition to these projects, VTB donated funds to the following organisations during the reporting period:

- the Centre for the Study and Conservation of the Amur Tiger Population, aimed at preserving the Amur tiger population and increasing its numbers;
- the Out of Time cultural-ethnographic fund to enable it to create a documentary film called “On the Trail of the Amur Tiger”;
- the Klin District Humane Society non-profit organisation to build and equip a shelter for homeless animals;
- a charitable fund for programmes run by Help for Homeless Dogs to aid in its support for animals.

6.3. Social programmes

VTB Group is a socially responsible corporation. Its activities are focused not only on delivering strong results and achieving the targets set by investors and shareholders, but also on providing ongoing, stable support in the regions where it operates, the development of civil society and strengthening the social sphere. In its activities, the Group is focused on the best global practices in the areas of social responsibility, sponsorship and patronage.

This Annual Report provides information about the main areas of VTB’s charity work and the largest projects in terms of sponsorship. More information about VTB Group’s social programmes is available in VTB Bank 2016 Social Report.

Business events

VTB participates in a number of major business forums and conferences. In 2016, these included:

- The St. Petersburg International Economic Forum 2016;
- The Eastern Economic Forum in Vladivostok;

- The First Moscow Financial Forum;
- The international economic forum for CIS member states: “25 Years Together, New Formats of Interaction”;
- The international financial and banking forum for CIS member states: “Minsk Business Meetings”;
- The Second International Military-Technical Forum “Army 2016”;
- The “Strategic Partnership 1520” conference;
- ATOMEXPO 2016;
- The Russia & CIS Trade and Export Finance Conference;
- The Congress of the Association of Russian Banks, “What should be done ... in the interests of the development of the Russian banking system and economic growth in 2016–2018?”;
- The 11th International Conference of the National Finance Association “The Russian Derivatives Market”.

Science and education

In 2016, assistance was provided to leading Russian universities and for projects in the areas of science and education, including:

- The Graduate School of Management of the St. Petersburg State University;
- The Financial University under the Government of the Russian Federation;
- Lomonosov Moscow State University Faculty of Economics;
- St. Petersburg State University of Economics;
- The Moscow Architectural Institute (State Academy);
- Far Eastern Federal University;
- Ammosov North-Eastern Federal University;
- The Talent and Success Foundation;
- The Specialised Fund for the Management of Target Capital for the Development of MGIMO.

VTB Bank established scholarships for students from the Khabarovsk State Academy of Economics and Law, Pacific National University, the Far Eastern Institute of Management (a branch of the Russian Academy of National Economy and Public Administration under the President of the Russian Federation).

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 as a sponsor of major theatres, museums and festivals.

In 2016, VTB Group continued its cooperation with the following museums:

- Russian Museum (exhibition “Leon Bakst: In Honour of the 150th Anniversary of the Artist’s Birth”);
- The State Tretyakov Gallery (anniversary exhibition “Ivan Aivazovsky: On the 200th Anniversary of His Birth”; exhibition of works by sculptor Mikhail Dronov);
- State Hermitage Museum (exhibition “From the Dinner-Service Storerooms: Decorating the Russian Imperial Table in the Eighteenth to Early Twentieth Centuries”);
- Pushkin State Museum of Fine Arts (exhibition of Northern Renaissance artists “The Cranachs: between Renaissance and Mannerism”; exhibition of works by Giovanni Battista Piranesi and Albert Marquet; exhibition “Ilya Silberstein: For the 110th anniversary of the collector’s birth”);
- hosting an exhibition called “Russian Space” to mark the birth of Yuri Gagarin;
- Koktebel Ecological, Historical and Cultural Reserve, “Cimmeria of Maksimilian Voloshin”;
- House Museum of Marina Tsvetaeva Cultural Centre;
- Friends of the State Peterhof Museum development fund;
- Kizhi State Historical-Architectural and Ethnographic Memorial Museum Reserve.

In addition, VTB Group’s partners during the reporting period included the Tchaikovsky Moscow State Conservatory (University) and the Shostakovich St. Petersburg Academic Symphony Orchestra.

Cooperation with leading theatres is growing. Support was provided to fund the Mariinsky Theatre, the Bolshoi Theatre, the Tbilisi A.S. Griboedov Russian State Drama Theatre in Georgia,

the Ilze Liepa Charitable Foundation for the Promotion of Choreography and the Visual Arts and the Courage Moscow Children’s Theatre.

VTB provided support for guest performances in Georgia and Sevastopol by the Moscow Pyotr Fomenko Workshop Theatre, and for guest performances by the Eifman Ballet in London. In cooperation with the Perm Tchaikovsky Opera and Ballet Theatre, VTB Bank sponsored the Theatre’s performances at the Golden Mask Festival in Moscow.

VTB sponsored many important cultural events during the reporting period, including:

- 38th Moscow International Film Festival;
- display of collections by Russian designers dedicated to the 20th anniversary of the Russian Silhouette Charity Foundation;
- TEFI 2016 television awards ceremony;
- Spasskaya Tower International Military Music Festival on Red Square;
- 26th Baltic House International Theatre Festival;
- 13th Baltic Seasons Arts Festival;
- 24th Window to Europe Russian Film Festival in Vyborg;
- gala concert featuring ballet stars from the Bolshoi Theatre as part of the autumn meetings of the International Monetary Fund (IMF) and the World Bank in Washington (USA).

As part of a programme for the preservation and dissemination of cultural heritage in 2016, five more books were published through a Russian State Library project called “Classics of World Literature: Word and Image”; and four volumes were published as part of a project to translate the works of Russian classics and contemporary literature into Vietnamese and the works of modern Vietnamese writers into Russian.

VTB Bank also sponsored the publication by the Young Guard publishing house of a three-volume edition called The Lives of Remarkable People, as well as a two-volume collection called Two Capitals, which includes St. Petersburg:

An Illustrated Story for Children and Moscow: An Illustrated Story for Children. The collection was published by the Aurora publishing house.

VTB also continued its long-term cooperation with the Kultura TV channel, the TV programme “What? Where? When?” and the National Satellite Company, which broadcasts under the name Tricolor TV.

In 2016, a large-scale two-year project on the part of VTB Bank to digitise the unique Photochronicles archive of Russia’s oldest news agency, ITAR-TASS, was successfully completed.

Sports

VTB Group’s key social priorities in the area of sport include supporting high-performance sport, investing in sports infrastructure facilities and promoting a healthy lifestyle. In 2016, the Group provided financial support for various Russian and international sports organisations and events, including:

- Dynamo Moscow Football Club;
- United Hockey Club Dynamo;
- Women’s Basketball Club Dynamo;
- Volleyball Federation of Russia;
- Russian Gymnastics Federation;
- Georgian National Gymnastics Federation;
- International Gymnastics Federation (FIG);
- The International Association of Athletics Federations (IAAF);
- VTB United League (basketball);
- Student Basketball Association;
- International Student Basketball League;
- KAMAZ-Master rally team;
- Kremlin Cup International Tennis Tournament;
- Hoff Open 2016 Tennis Tournament;
- National Tennis Development Centre;
- Russian Chess Federation;
- Golf Federation in the City of Moscow;
- Public bicycle hire system in Moscow.

Healthcare

VTB Bank has been implementing the corporate charity programme World Without Tears since 2003. The programme is aimed at supporting healthcare for children throughout the entire Russian Federation. The Bank has transferred significant funds for the direct purchase of medical equipment for children’s hospitals. In 2016, 20 medical institutions from various regions of Russia took part in the programme, as did four Moscow-based hospitals. The Bank spent a total of RUB 48 million in providing assistance to hospitals in 2016.

In addition to the World Without Tears programme, the Bank also provides charitable assistance to medical institutions in the Republic of Karelia in the framework of a comprehensive plan for socio-economic development in Karelia, Hospice No 1 for children with cancer and many other medical institutions.

As part of its support for children’s healthcare and assistance for orphans, VTB works with a number of foundations, including:

- Volunteers in Aid of Orphans charitable foundation;
- VIDEOPASPORT charitable foundation for facilitating the placement of children left without parental care in foster families;
- Exit charitable fund for resolving autism-related issues;
- Karelian regional branch of the Russian Children’s Fund, a national public charitable foundation;
- Pskov branch of the Russian Red Cross national public organisation.

The Bank provides financial assistance to public organisations for veterans and the disabled, as well as to religious and charitable organisations.

7. Financial statements

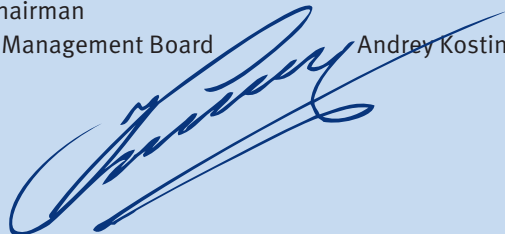
7.1. Management responsibility statement

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

7.2. Consolidated financial statements

VTB Bank summary consolidated financial statements derived from the audited consolidated financial statements and independent auditor’s report for the year ended 31 December 2016

Translation of the original Russian version.

[Report of the independent auditor on the summary consolidated financial statements](#)

To the Shareholders and Supervisory Council of VTB Bank (public joint-stock company)

The accompanying summary consolidated financial statements, which consist of the summary consolidated statement of financial position as at 31 December 2016, the summary consolidated income statement, summary consolidated statement of comprehensive income, summary consolidated statement of cash flows, and summary consolidated statement of changes in shareholders’ equity for the year then ended, are derived from the audited consolidated financial statements of VTB Bank and its subsidiaries (together, the Group) for the year ended 31 December 2016. We expressed an unmodified audit opinion on those consolidated financial statements in our auditor’s report dated 1 March 2017. Those consolidated financial statements and the summary consolidated financial statements of the Group do not reflect the effects of events that occurred subsequent to the date of our auditor’s report on those consolidated financial statements.

The summary consolidated financial statements do not contain all the disclosures required by International Financial Reporting Standards. 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 Financial Statements enacted in the Russian Federation by the Ministry of Finance of the Russian Federation in Order No 207n dated 9 November 2016.

Opinion

In our opinion, the summary consolidated financial statements derived from the audited consolidated financial statements of the Group for the year ended 31 December 2016 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.

P. P. TSEBERNYAK
Partner Ernst & Young LLC

7 March 2017

Details of the audited entity

Name: VTB Bank (Public joint-stock company)

Record made in the State Register of Legal Entities on 22 November 2002, State Registration Number 1027739609391.

Address: Russia 190000, Saint-Petersburg, Bolshaya Morskaya st., 29.

Details of the auditor

Name: Ernst & Young LLC

Record made in the State Register of Legal Entities on 5 December 2002, State Registration Number 1027739707203.

Address: Russia 115035, Moscow, Sadovnicheskaya naberezhnaya, 77, building 1.

Ernst & Young LLC is a member of Self-regulated organization of auditors «Russian Union of auditors» (Association) («SRO RUA»). Ernst & Young LLC is included in the control copy of the register of auditors and audit organizations, main registration number 11603050648.

Translation of the original Russian version

VTB Bank summary consolidated income statement for the year ended 31 December
(in billions of Russian roubles)

	2016	2015	Change
Interest income	1,107.8	1,100.9	0.6%
Interest expense	(680.8)	(803.1)	-15.2%
Payments to deposit insurance system	(12.0)	(8.7)	37.9%
Net interest income	415.0	289.1	43.5%
Provision charge for impairment of debt financial assets	(144.7)	(167.5)	-13.6%
Net interest income after provision for impairment	270.3	121.6	122.3%
Net fee and commission income	81.8	76.2	7.3%
Gains net of losses arising from financial instruments at fair value through profit or loss	8.7	34.2	-74.6%
Gains net of losses / (losses net of gains) from investment financial assets available-for-sale	9.1	(16.7)	154.5%
(Losses net of gains) / gains net of losses arising from foreign currencies and precious metals	(17.6)	32.3	-154.5%
Gains net of losses on initial recognition of financial instruments and other gains on loans and advances to customers	2.1	1.4	50.0%
Share in profit of associates and joint ventures	3.1	5.8	-46.6%
Gains from disposal of subsidiaries and associates	6.3	3.3	90.9%
Gains net of losses / (losses net of gains) arising from extinguishment of liabilities	0.3	(1.5)	120.0%
Provision charge for impairment of other assets, credit related commitments and legal claims	(66.5)	(10.6)	527.4%
Other operating income	26.6	23.2	14.7%
Non-interest (losses)/gains	(27.9)	71.4	-139.1%
Net insurance premiums earned	59.2	84.1	-29.6%
Net insurance claims incurred, movement in liabilities to policyholders and acquisition costs	(49.1)	(80.5)	-39.0%
Revenues less expenses from insurance activity	10.1	3.6	180.6%
Revenue and other gains from other non-banking activities	43.5	24.0	81.3%
Cost of sales and other expenses from other non-banking activities	(42.8)	(35.2)	21.6%
Impairment of land, premises and intangible assets other than goodwill used in non-banking activities	(3.6)	(6.2)	-41.9%
Net gain/(loss) from change in fair value of investment property recognised on revaluation	8.2	(3.1)	364.5%
Loss from disposal of disposal group held for sale	(1.3)	–	n/a
Revenues less expenses from other non-banking activities	4.0	(20.5)	119.5%
Impairment of land, premises and intangible assets other than goodwill	(0.8)	(5.3)	-84.9%
Impairment of goodwill	–	(0.3)	n/a
Other operating expense	(38.1)	(12.5)	204.8%
Staff costs and administrative expenses	(233.9)	(221.9)	5.4%
Non-interest expenses	(272.8)	(240.0)	13.7%

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 year ended 31 December 2016. 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.

Translation of the original Russian version

	2016	2015	Change
Profit before tax	65.5	12.3	432.5%
Income tax expense	(21.6)	(6.9)	213.0%
Net profit after tax	43.9	5.4	713.0%
Profit/(loss) after tax from subsidiaries acquired exclusively with a view to resale	7.7	(3.7)	308.1%
Net profit	51.6	1.7	2,935.3%
Net profit/(loss) attributable to:			
Shareholders of the parent	52.3	10.7	388.8%
Non-controlling interests	(0.7)	(9.0)	-92.2%
Basic and diluted earnings per share (expressed in Russian roubles per share)	0.00318	0.00010	3,080.0%
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)	0.00258	0.00039	561.5%

VTB Bank summary consolidated statement of comprehensive income for the year ended 31 December
(in billions of Russian roubles)

	2016	2015
Net profit	51.6	1.7
Other comprehensive income/(loss):		
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:		
Net result on financial assets available-for-sale, net of tax	9.3	13.7
Cash flow hedges, net of tax	(0.9)	(0.1)
Share of other comprehensive (loss)/income of associates and joint ventures	(3.0)	4.6
Effect of translation, net of tax	(31.5)	6.4
Total other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods	(26.1)	24.6
Other comprehensive income/(loss) not to be reclassified to profit or loss in subsequent periods:		
Actuarial (losses net of gains)/gains net of losses arising from difference between pension plan assets and obligations	(1.3)	0.3
Revaluation reserve of assets of disposal groups held for sale	(0.4)	–
Land and premises revaluation, net of tax	(0.1)	6.1
Total other comprehensive income/(loss) not to be reclassified to profit or loss in subsequent periods	(1.8)	6.4
Other comprehensive (loss)/income, net of tax	(27.9)	31.0
Total comprehensive income	23.7	32.7
Total comprehensive income/(loss) attributable to:		
Shareholders of the parent	25.0	41.5
Non-controlling interests	(1.3)	(8.8)

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 year ended 31 December 2016. 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.

Translation of the original Russian version

VTB Bank summary consolidated statement of financial position as at 31 December (in billions of Russian roubles)

	2016	2015	Change
Assets			
Cash and short-term funds	452.9	570.7	-20.6%
Mandatory cash balances with central banks	95.1	70.8	34.3%
Non-derivative financial assets at fair value through profit or loss, including pledged under repurchase agreements	267.1	308.1	-13.3%
• Non-derivative financial assets at fair value through profit or loss	240.7	237.1	1.5%
• Non-derivative financial assets at fair value through profit or loss, pledged under repurchase agreements	26.4	71.0	-62.8%
Derivative financial assets	180.5	304.8	-40.8%
Due from other banks, including pledged under repurchase agreements	1,051.2	1,358.2	-22.6%
• Due from other banks	1,037.4	1,353.2	-23.3%
• Due from other banks, pledged under repurchase agreements	13.8	5.0	176.0%
Loans and advances to customers, including pledged under repurchase agreements	8,854.5	9,437.5	-6.2%
• Loans and advances to customers	8,664.8	8,827.7	-1.8%
• Loans and advances to customers, pledged under repurchase agreements	189.7	609.8	-68.9%
Investment financial assets, including pledged under repurchase agreements	340.7	353.3	-3.6%
• Investment financial assets	324.2	259.3	25.0%
• Investment financial assets, pledged under repurchase agreements	16.5	94.0	-82.4%
Investments in associates and joint ventures	90.6	104.3	-13.1%
Assets of disposal groups and non-current assets held for sale	15.6	15.8	-1.3%
Land, premises and equipment	352.7	310.3	13.7%
Investment property	235.5	245.0	-3.9%
Goodwill and other intangible assets	155.1	162.0	-4.3%
Deferred income tax asset	87.8	76.6	14.6%
Other assets	406.2	324.5	25.2%
Total assets	12,585.5	13,641.9	-7.7%
Liabilities			
Due to other banks	1,208.9	1,224.0	-1.2%
Customer deposits	7,346.6	7,267.0	1.1%
Derivative financial liabilities	165.0	284.1	-41.9%
Other borrowed funds	1,307.2	2,121.5	-38.4%
Debt securities issued	399.6	623.5	-35.9%
Liabilities of disposal groups held for sale	2.2	13.0	-83.1%

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 year ended 31 December 2016. 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.

Translation of the original Russian version

	2016	2015	Change
Deferred income tax liability	35.2	30.2	16.6%
Other liabilities	486.5	361.7	34.5%
Total liabilities before subordinated debt	10,951.2	11,925.0	-8.2%
Subordinated debt	224.1	262.8	-14.7%
Total liabilities	11,175.3	12,187.8	-8.3%
Equity			
Share capital	659.5	659.5	0.0%
Share premium	433.8	433.8	0.0%
Perpetual loan participation notes	136.5	164.0	-16.8%
Treasury shares and bought back perpetual loan participation notes	(2.5)	(2.9)	-13.8%
Other reserves	44.8	72.2	-38.0%
Retained earnings	128.4	127.6	0.6%
Equity attributable to shareholders of the parent	1,400.5	1,454.2	-3.7%
Non-controlling interests	9.7	(0.1)	-9,800.0%
Total equity	1,410.2	1,454.1	-3.0%
Total liabilities and equity	12,585.5	13,641.9	-7.7%

Approved for issue and signed on 1 March 2017

A.L. Kostin

President – Chairman of the Management Board

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 year ended 31 December 2016. 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.

Translation of the original Russian version

VTB Bank summary consolidated statement of cash flows for the year ended 31 December
(in billions of Russian roubles)

	2016	2015
Cash flows from operating activities		
Interest received	1,090.8	1,043.7
Interest paid	(684.1)	(785.2)
Payments to deposit insurance system	(11.3)	(8.7)
Gains received on operations with financial assets at fair value through profit or loss	14.9	27.1
(Losses incurred)/gains received on dealing in foreign currency	(164.2)	18.8
Fees and commissions received	110.8	97.6
Fees and commissions paid	(28.3)	(22.7)
Other operating income received	25.9	22.9
Other operating expenses paid	(14.6)	(5.3)
Staff costs, administrative expenses paid	(209.9)	(213.5)
Income received from non-banking activities	56.6	39.4
Expenses paid in non-banking activities	(38.9)	(35.3)
Net insurance premiums received	83.8	92.1
Net insurance claims paid	(26.1)	(37.4)
Income tax paid	(31.6)	(15.1)
Cash flows from operating activities before changes in operating assets and liabilities	173.8	218.4
Net decrease/(increase) in operating assets		
Net (increase)/decrease in mandatory cash balances with central banks	(25.9)	15.2
Net decrease/(increase) in restricted cash	2.8	(0.8)
Net decrease/(increase) in correspondent accounts in precious metals	2.0	(0.9)
Net (increase)/decrease in financial assets at fair value through profit or loss	(4.1)	63.1
Net decrease/(increase) in due from other banks	142.1	(558.5)
Net increase in loans and advances to customers	(149.8)	(466.7)
Net increase in other assets	(69.5)	(37.4)
Net (decrease)/increase in operating liabilities		
Net increase in due to other banks	274.0	499.5
Net increase in customer deposits	617.8	1,368.7
Net (decrease)/increase in debt securities issued other than bonds issued	(84.2)	0.4
Net increase/(decrease) in other liabilities	72.8	(39.5)
Net cash from operating activities	951.8	1,061.5
Cash flows used in investing activities		
Dividends and other distributions received	8.8	1.0
Proceeds from sales or maturities of investment financial assets available-for-sale	272.5	225.2
Purchase of investment financial assets available-for-sale	(259.8)	(232.0)
Purchase of subsidiaries, net of cash	(12.8)	–
Disposal of subsidiaries, net of cash	3.2	2.8
Purchase of and contributions to associates	(2.3)	(0.6)
Proceeds from sale of share in associates	2.6	–

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 year ended 31 December 2016. 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.

Translation of the original Russian version

	2016	2015
Purchase of investment financial assets held-to-maturity	(41.5)	(63.9)
Proceeds from redemption of investment financial assets held-to-maturity	26.5	3.0
Purchase of land, premises and equipment	(81.7)	(51.1)
Proceeds from sale of land, premises and equipment	4.2	4.3
Purchase or construction of investment property	(14.8)	(17.3)
Proceeds from sale of investment property	6.8	4.6
Purchase of intangible assets	(5.7)	(5.8)
Proceeds from sale of intangible assets	1.2	0.6
Net cash used in investing activities	(92.8)	(129.2)
Cash flows from financing activities		
Dividends paid	(51.1)	(18.0)
Proceeds net of repayment in short-term local bonds issued	25.2	–
Repayment of local bonds	(73.8)	(76.2)
Buy-back of local bonds	(32.9)	(13.0)
Proceeds from sale of previously bought-back local bonds	51.5	24.3
Repayment of Eurobonds	(36.0)	(319.7)
Buy-back of Eurobonds	(12.3)	(40.7)
Proceeds from sale of previously bought-back Eurobonds	10.3	26.5
Proceeds from syndicated loans	0.5	15.7
Repayment of syndicated loans	(136.4)	(28.7)
Proceeds from sale of previously bought-back syndicated loans	13.7	–
Proceeds from other borrowings and funds from local central banks	2,910.2	10,731.0
Repayment of other borrowings and funds from local central banks	(3,576.5)	(11,369.2)
Repayment of subordinated debt	(6.2)	(53.9)
Buy-back of subordinated debt	(9.0)	(4.3)
Proceeds from sale of previously bought-back subordinated debt	0.6	8.5
Cash received from sale of treasury shares	17.9	13.6
Cash paid for treasury shares	(17.9)	(6.5)
Share issue to non-controlling interests	2.5	–
Proceeds from sale of non-controlling interests in subsidiaries	5.5	–
Buy-back of perpetual loan participation notes	(7.9)	(0.9)
Proceeds from sale of previously bought-back perpetual loan participation notes	8.3	0.5
Amounts paid on perpetual loan participation notes	(14.0)	(13.1)
Net cash used in financing activities	(927.8)	(1,124.1)
Effect of exchange rate changes on cash and cash equivalents	(44.2)	65.7
Net decrease in cash and cash equivalents	(113.0)	(126.1)
At the beginning of period	561.6	687.7
At the end of period	448.6	561.6

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 year ended 31 December 2016. 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.

Translation of the original Russian version

Translation of the original Russian version

VTB Bank summary consolidated statements of changes in shareholders' equity for the year ended 31 December (in billions of Russian roubles)

	Attributable to shareholders of the parent							Non-controlling interests	Total equity
	Share capital	Share premium	Perpetual loan participation notes	Treasury shares and bought back perpetual loan participation loan notes	Other reserves	Retained earnings	Total		
Balance at 1 January 2015	352.1	433.8	126.6	(6.7)	42.8	169.3	1,117.9	13.1	1,131.0
Net result from treasury shares transactions	–	–	–	4.2	–	2.3	6.5	–	6.5
Net result from bought back perpetual loan participation notes transactions	–	–	–	(0.4)	–	0.2	(0.2)	–	(0.2)
Profit/(loss) for the period	–	–	–	–	–	10.7	10.7	(9.0)	1.7
Other comprehensive income	–	–	–	–	30.5	0.3	30.8	0.2	31.0
Total comprehensive income/(loss) for the period	–	–	–	–	30.5	11.0	41.5	(8.8)	32.7
Preference share issue	307.4	–	–	–	–	–	307.4	–	307.4
Transfer of premises revaluation reserve upon disposal or depreciation	–	–	–	–	(1.2)	1.2	–	–	–
Share-based payments	–	–	–	–	–	(0.2)	(0.2)	–	(0.2)
Acquisition of subsidiaries	–	–	–	–	–	–	–	1.8	1.8
Disposal of subsidiaries	–	–	–	–	–	–	–	0.1	0.1
Acquisition of non-controlling interests	–	–	–	–	0.1	1.1	1.2	(6.3)	(5.1)
Amounts paid on perpetual loan participation notes	–	–	–	–	–	(11.7)	(11.7)	–	(11.7)
Foreign exchange translation of perpetual loan participation notes	–	–	37.4	–	–	(37.4)	–	–	–
Tax effect recognised on perpetual loan participation notes	–	–	–	–	–	9.8	9.8	–	9.8
Dividends declared	–	–	–	–	–	(18.0)	(18.0)	–	(18.0)
Balance at 31 December 2015	659.5	433.8	164.0	(2.9)	72.2	127.6	1,454.2	(0.1)	1,454.1
Net result from bought back perpetual loan participation notes transactions	–	–	–	0.4	–	–	0.4	–	0.4
Profit/(loss) for the period	–	–	–	–	–	52.3	52.3	(0.7)	51.6
Other comprehensive loss	–	–	–	–	(26.0)	(1.3)	(27.3)	(0.6)	(27.9)
Total comprehensive income/(loss) for the period	–	–	–	–	(26.0)	51.0	25.0	(1.3)	23.7
Transfer of premises revaluation reserve upon disposal or depreciation	–	–	–	–	(1.1)	1.1	–	–	–
Share-based payments	–	–	–	–	–	(0.2)	(0.2)	–	(0.2)
Increase in share capital of subsidiaries	–	–	–	–	–	0.2	0.2	2.3	2.5
Acquisition of subsidiaries	–	–	–	–	–	–	–	1.7	1.7
Disposal of subsidiaries	–	–	–	–	(0.3)	0.4	0.1	1.0	1.1
Sale and purchase of non-controlling interests	–	–	–	–	–	(0.6)	(0.6)	6.3	5.7
Amounts paid on perpetual loan participation notes	–	–	–	–	–	(14.0)	(14.0)	–	(14.0)
Foreign exchange translation of perpetual loan participation notes	–	–	(27.5)	–	–	27.5	–	–	–
Tax effect recognised on perpetual loan participation notes	–	–	–	–	–	(2.7)	(2.7)	–	(2.7)
Dividends declared	–	–	–	–	–	(50.9)	(50.9)	(0.2)	(51.1)
Other distributions	–	–	–	–	–	(11.0)	(11.0)	–	(11.0)
Balance at 31 December 2016	659.5	433.8	136.5	(2.5)	44.8	128.4	1,400.5	9.7	1,410.2

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 year ended 31 December 2016. 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.

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 year ended 31 December 2016. 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.

8. Annexes

8.1. Share capital of VTB Bank

As of 31 December 2016, VTB Bank’s charter capital amounted to RUB 651,033,883,623.38, and was divided into ordinary and preference shares:

Type of shares	Number of shares	Par value of a share
Ordinary shares	12,960,541,337,338	RUB 0.01
Type 1 preference shares	21,403,797,025,000	RUB 0.01
Type 2 preference shares	3,073,905,000,000	RUB 0.1
Total	37,438,243,362,338	

In accordance with 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. The state registration number of VTB Bank’s outstanding ordinary shares is 10401000B.

The record date for the state registration of VTB Bank’s ordinary shares issue is 29 September 2006.

As of 31 December 2016, the Bank’s largest shareholders are as follows:

Shareholder	Number of shares	% of ordinary shares	% of share capital in RUB
Ordinary shares			
The Russian Federation as represented by the Federal Agency for State Property Management	7,897,477,400,292	60.93	12.13
State Oil Fund of the Republic of Azerbaijan	381,913,414,634	2.95	0.59
Credit Suisse AG	305,231,347,002	2.36	0.47
JSC Rossiya Bank	244,176,300,000	1.88	0.37
JSC Russian Agricultural Bank	182,028,460,000	1.41	0.28
PJSC Bank Saint Petersburg	163,578,720,000	1.26	0.25
ALFA-BANK JSC	134,698,880,000	1.04	0.21
Other legal entities and individuals	3,833,465,275,410	28.16	5.60
Total ordinary shares	12,960,541,337,338	100.00	19.90
Type 1 preference shares			
The Russian Federation represented by the Ministry of Finance of the Russian Federation	21,403,797,025,000	-	32.88
Type 2 preference shares			
State Corporation Deposit Insurance Agency	3,073,905,000,000	-	47.22

The total number of shareholders of the Bank as of December 2016 was 90 thousand, including 89 thousand individuals. VTB Bank is not aware of any shareholders owning more than 1% of the Bank’s authorised share capital, except those mentioned above.

VTB Bank’s ordinary shares trade on the Moscow Exchange and on the London Stock Exchange in the form of Global Depositary Receipts (GDRs). Moscow Exchange has included VTB Bank’s shares in its top Level 1 list and in the MICEX Index, the MICEX 10 Blue Chip Index, the Broad Market Index and the MICEX Financials Index. One lot is 10,000 shares.

Each VTB GDR is the equivalent of 2,000 ordinary shares. The Bank of New York Mellon is the depositary bank for the VTB GDR Programme. On 31 December 2016, GDRs accounted for 6.1% of the Bank’s voting shares, or 1.22% of the Bank’s share capital.

At an Extraordinary General Meeting of Shareholders of VTB Bank on 8 December 2016, a decision was taken to issue Type 1 and Type 2 preference shares by converting registered preference shares and Type A preference shares issued previously. This conversion was carried out at the suggestion of the Ministry of Finance of the Russian Federation and the Deposit Insurance Agency, the holders of these shares.

The state registration number of VTB Bank Type 1 preference shares is 20301000B. The record date for the state registration of the issue is 13 December 2016. All shares of this type are placed at the disposal of the sole purchaser purchaser, the Russian Federation as represented by the Ministry of Finance of the Russian Federation.

The state registration number of VTB Bank Type 2 preference shares is 20401000B. The record date for the state registration of the issue is 13 December 2016. All shares of this type are placed at the disposal of a sole purchaser, the Deposit Insurance Agency.

VTB Bank Type 1 and Type 2 preference shares are not traded on exchanges, and do not offer a fixed

dividend for the year. The amount of the dividend is subject to approval at the Annual General Meeting of Shareholders. In addition, the Bank’s Charter provides for the possibility of paying out interim dividends to holders of Type 1 and Type 2 preference shares after for each quarter.

8.2. Dividends of VTB Bank

Dividend payments

VTB Bank’s Annual General Meeting of Shareholders on 24 June 2016 approved the payment of dividends for 2015 in the amount of:

- RUB 0.00117 per ordinary nominal share with a par value of RUB 0.01;
- RUB 0.00000421776668385314 per preference share with a par value of RUB 0.01;
- RUB 0.00580330726027317 per Type A preference share with a par value of RUB 0.1.

The total amount of dividends was RUB 33.1 billion (RUB 18.0 billion for 2014), including RUB 15.2 billion on ordinary shares, RUB 0.1 billion on preference shares and RUB 17.8 billion on Type A preference shares.

In accordance with a decision of the Annual General Meeting of Shareholders, the record date for dividends for 2015 was 4 July 2016. Dividends were paid in accordance with the timeframe set out by law.

The Extraordinary General Meeting of Shareholders of 16 December 2016 also decided to pay dividends for the first nine months of 2016 in the amount of RUB 0.00581369 per Type 2 preference share of PJSC VTB Bank with a par value of RUB 0.1. Dividends paid out to shareholders amounted to RUB 17,870,730,759.45. Interim dividends for the first nine months of 2016 on ordinary shares and Type 1 preference shares were not paid.

As of 31 December 2016, the amount paid in dividends amounted to RUB 15,161,747,767.79,

with the proportion of dividends paid out of the total declared dividends amounting to 99.986%. Dividends on all types of preference shares were paid in full.

The amount of dividends paid to major shareholders in 2016 was as follows:

- The Russian Federation, represented by the Federal Agency for State Property Management: RUB 9,240,048,588.34;
- The Russian Federation, represented by the Ministry of Finance of the Russian Federation: RUB 90,276,222.00;
- The Deposit Insurance Agency: RUB 35,709,545,963.34.

The record of VTB Bank dividend payments for the last five years

	2011	2012	2013	2014	2015
Net profit in accordance with RAS (RUB million)	24,406	18,096	34,485	19,674	49,140
Total amount of dividend payments (RUB million)	9,205	14,959	15,034	18,000	33,093
Dividend payout ratio (% of VTB Bank's net profit in accordance with RAS)	38	83	44	91	67
Dividend payout ratio (% of VTB Group's net profit in accordance with IFRS)	10	17	15	2,250	1,947
Dividend payout for ordinary shares (RUB million)	9,205	14,959	15,034	15,164	15,164
Dividend payout for Type 1 preference shares ²⁰ (RUB million)	-	-	-	2,836	90
Dividend payout for Type 2 preference shares ²¹ (RUB million)	-	-	-	-	17,839
Dividend amount per ordinary share (RUB)	0.00088	0.00143	0.00116	0.00117	0.00117
Dividend amount per Type 1 preference share (RUB)	-	-	-	≈0.000132	≈0.0000042
Dividend amount per Type 2 preference share (RUB)	-	-	-	-	≈0.0058

Dividend policy

One of the main rights of 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. In determining the recommended dividend amount, the Supervisory Council is guided by the amount of the Bank's net profit and by the Dividend Policy. The Bank's Charter also provides for the possibility of the payment of interim dividends for each quarter to holders of Type 1 and Type 2 preference shares.

On 29 January 2016, VTB Bank's Supervisory Council approved a new version of the Regulation on the Dividend Policy, in accordance with which,

the recommended amount for dividend payments shall be determined by the Bank's Supervisory Council on the basis of the Bank's consolidated financial statements in accordance with IFRS. The recommended amount of dividend payments, according to the Regulation, is not less than 25% of the Group's consolidated net profit according to IFRS. The Dividend Policy is available on the Bank's website: <http://www.vtb.ru/group/documents/#regulation>.

The amount of the dividend payment per share, as well as the period and form of payment are determined at the General Meeting of Shareholders separately for ordinary shares and for all types of preference shares. The amount of the dividend payment may not exceed the amount recommended by the Supervisory Council. The amount of accrued

dividends per share is calculated to the nearest kopeck. Rounding is performed in accordance with the rules of mathematical rounding.

The date when the list of persons entitled to a share of the Bank's net profit is compiled is determined at the General Meeting of Shareholders, but can be no earlier 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. The time period for the payment of dividends depends on the type of registered shareholder. 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 (if bank details are provided). 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.

Dividend taxation

A tax agent calculates and deducts tax from the dividend payments it makes at 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 investors 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.

Since 1 January 2015, the tax rate on dividends has changed, and for both individuals and legal entities that are residents of the Russian Federation it 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.

8.3. Report on compliance with the principles and recommendations of the code of corporate governance

The report on compliance with the principles and recommendations of the Corporate Governance Code was reviewed by the Supervisory Council of VTB Bank at the meeting on 22 March 2017. VTB Bank's Supervisory Council confirms that the data presented in this report present complete and accurate information about the Company's compliance with the principles and recommendations of the Corporate Governance Code in 2016.

²⁰ In accordance with the decision of the Extraordinary General Meeting of shareholders of VTB Bank on 8 December 2016, Type 1 and Type 2 preference shares were placed by converting preference shares and Type A registered preference shares.

²¹ In accordance with the decision of the Extraordinary General Meeting of shareholders of VTB Bank on 8 December 2016, Type 1 and Type 2 preference shares were placed by converting preference shares and Type A preference shares.

Nº	Principles of corporate governance	Criteria for assessing compliance with the relevant principle of corporate governance	Status of compliance	Comments/ explanation
1.1	The company shall ensure equal and fair treatment for all its shareholders in exercising their rights to participate in the management of the company.			
1.1.1	The company creates the best possible conditions for its shareholders to participate in the general meeting, for the development of sound positions related to agenda items at the General Meeting, for coordinating their activities, as well as an opportunity to express their views on the issues under consideration.	1. There is a publicly available internal company document, approved by the General Meeting of Shareholders, that governs the procedures for conducting General Meetings. 2. The company has established a straightforward means of communicating with the company, such as a hotline, e-mail or online forums, allowing shareholders to express their opinions and send questions regarding the agenda during preparations for the General Meeting. The company undertook such actions before every General Meeting that took place during the reporting period.	<input checked="" type="checkbox"/> Compliance <input type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliant	
1.1.2	The procedure for giving notice of the General Meeting and the provision of materials for the General Meeting gives shareholders an opportunity to properly prepare for participation in the meeting.	1. Notice of an upcoming General Meeting of Shareholders is posted (published) on the website no later than 30 days before the date of the General Meeting. 2. The notice about an upcoming meeting must indicate the place of the meeting and the documents required for admission to the premises. 3. Shareholders were provided with access to information about who proposed the agenda items and who nominated individuals to the Board of Directors and the Statutory Audit Commission.	<input checked="" type="checkbox"/> Compliance <input type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliant	
1.1.3	In the course of the preparation for and the holding of a General Meeting, shareholders had the opportunity to receive information about the meeting and materials for the meeting without hindrance and in a timely manner to put questions to the executive bodies and the members of the Board of Directors and to communicate with one another.	1. During the reporting period, shareholders had the opportunity to put questions to members of the executive bodies and the members of the Board of Directors prior to and during the Annual General Meeting. 2. The position of the Board of Directors (including dissenting opinions entered in the minutes) on each agenda item at General Meetings held during the reporting period was included in the materials for the General Meeting of Shareholders. 3. The company provided those shareholders with a right to access the list of persons entitled to participate in the General Meeting from the date of its receipt by the company in all cases regarding General Meetings held during the reporting period.	<input checked="" type="checkbox"/> Compliance <input type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliant	
1.1.4	Implementation of the shareholder right to request that a general meeting be convened, to nominate candidates to the management bodies and to make proposals for inclusion on the agenda of the general meeting did not involve needless difficulties.	1. During the reporting period, shareholders had the opportunity to submit proposals for inclusion on the agenda of the Annual General Meeting during a period of no less than 60 days after the end of the corresponding calendar year. 2. During the reporting period, the company did not refuse to accept proposals for the agenda or nominations to the company's various bodies as a result of typos or other insignificant errors in the shareholder's proposal.	<input checked="" type="checkbox"/> Compliance <input type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliant	

Nº	Principles of corporate governance	Criteria for assessing compliance with the relevant principle of corporate governance	Status of compliance	Comments/ explanation
1.1.5	Every shareholder had an opportunity to freely exercise their right to vote in the simplest and most convenient way for them.	1. One of the company's bylaws (internal policy) contains provisions pursuant to which each participant of a General Meeting may request a copy of their completed ballot certified by the counting commission prior to the completion of the meeting in question.	<input checked="" type="checkbox"/> Compliance <input type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliant	
1.1.6	The procedures established by the company for conducting General Meetings provides an equal opportunity to all individuals present at a meeting to express their opinions and ask questions.	1. When conducting General Meetings of Shareholders during the reporting period in the form of a meeting (with the joint presence of shareholders), sufficient time was provided for reports on agenda items, as well as time to discuss those items. 2. Candidates for the company's management and oversight bodies were available to answer questions from shareholders at the meeting at which their nominations were put to a vote. 3. When making decisions related to the preparation and holding of General Meetings of Shareholders, the Board of Directors considered the use of telecommunications facilities to provide remote access to shareholders to participate in General Meetings during the reporting period.	<input checked="" type="checkbox"/> Compliance <input type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliant	
1.2	Shareholders are given equal and fair opportunities to participate in the profits of the company by receiving dividends.			
1.2.1	The company has developed and implemented a transparent and clear mechanism for determining the amount and payment of dividends.	1. The company has developed an open dividend policy that has been approved by the Board of Directors and that has been disclosed. 2. If the company's Dividend Policy uses the company's reporting indicators to determine the amount of the dividend, then the relevant provisions of the Dividend Policy take into account the Group's consolidated financial statements.	<input checked="" type="checkbox"/> Compliance <input type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliant	
1.2.2	The company does not take a decision on the payment of dividends if such a decision, while not formally in violation of legal restrictions, is unjustified from an economic point of view and could lead to the formation of misconceptions about the company's activities.	The company's Dividend Policy provides clear guidance on the financial/economic circumstances under which the company should not pay dividends.	<input checked="" type="checkbox"/> Compliance <input type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliant	
1.2.3	The company does not permit any diminution of the dividend rights of existing shareholders.	During the reporting period, the company did not take any actions that led to the diminution of the dividend rights of existing shareholders.	<input checked="" type="checkbox"/> Compliance <input type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliant	

Nº	Principles of corporate governance	Criteria for assessing compliance with the relevant principle of corporate governance	Status of compliance	Comments/ explanation
1.2.4	The company is committed to preventing shareholders from using other means of earning a profit (income) at the company's expense beyond dividends and liquidation value.	In order to prevent shareholders from using other means of earning a profit (income) at the company's expense beyond dividends and liquidation value, the company's bylaws have established monitoring mechanisms that ensure the timely discovery of and a procedure for the approval of transactions with persons affiliated (associated) with major shareholders (individuals with the right to make use of the votes stemming from voting shares) in cases where the law does not formally recognise such transactions as related-party transactions.	<input checked="" type="checkbox"/> Compliance <input type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliant	
1.3	The corporate governance system and practices shall ensure equal terms and conditions for all shareholders owning shares of the same class (category), including minority and foreign shareholders, as well as their equal treatment by the company.			
1.3.1	The company has created the conditions for the fair treatment of each shareholder by the company's management and oversight bodies, including conditions ensuring the inadmissibility of abuse by major shareholders in relation to minority shareholders.	During the reporting period, the procedures for managing potential conflicts of interest involving major shareholders were effective, and conflicts between shareholders, if any, were given due attention by the Board of Directors.	<input checked="" type="checkbox"/> Compliance <input type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliant	
1.3.2	The company does not undertake actions that lead or may lead to the artificial redistribution of corporate control.	There were no quasi-treasury shares or they did not vote during the reporting period.	<input checked="" type="checkbox"/> Compliance <input type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliant	The number of Bank shares held by companies controlled by the Bank is extremely small: less than 0.001% of the total.
1.4	Shareholders must be provided with reliable and effective ways to register their rights to their shares, as well the possibility to dispose of their shares freely and easily.			
1.4	Shareholders must be provided with reliable and effective ways to register their rights to their shares, as well the possibility to dispose of their shares freely and easily.	The quality and reliability of the activities performed by the company's registrar to maintain the register of securities holders meet the needs of the company and its shareholders.	<input checked="" type="checkbox"/> Compliance <input type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliant	
2.1	The Board of Directors carries out strategic management within the company, defines the basic principles and approaches to organising a risk management and internal control system within the company, supervises the activity of executive bodies and also performs other key functions.			
2.1.1	The Board of Directors is responsible for decisions relating to the appointment and dismissal of members of executive bodies, including in connection with the improper performance of their duties. The Board of Directors also carries out oversight measures to ensure that the company's executive bodies act in accordance with the approved development strategy and the company's main areas of activity.	1. The Board of Directors has the authority, per the Charter, to appoint and dismiss members of executive bodies, as well as to determine the terms of their contracts. 2. The Board of Directors reviewed the report(s) of the sole executive body and of members of the collective executive body on the implementation of the company's strategy.	<input checked="" type="checkbox"/> Compliance <input type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliant	

Nº	Principles of corporate governance	Criteria for assessing compliance with the relevant principle of corporate governance	Status of compliance	Comments/ explanation
2.1.2	The Board of Directors establishes the basic guidelines for the company's activities in the long term, evaluates and approves the company's key performance indicators and key business goals, and evaluates and approves the strategy and business plans for the company's core activities.	During the reporting period, meetings of the Board of Directors addressed issues related to progress on implementation and updating of the company's strategy, approval of the company's financial and economic plan (budget), as well as the consideration of criteria and indicators (including interim) related to the company's strategy and business plans.	<input checked="" type="checkbox"/> Compliance <input type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliant	
2.1.3	The Board of Directors determines the principles of and approaches to organising a risk management and internal control system in the company.	1. The Board of Directors has defined the principles and approaches to organising a risk management and internal control system in the company. 2. The Board of Directors assessed the company's risk management and internal control system during the reporting period.	<input checked="" type="checkbox"/> Compliance <input type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliant	
2.1.4	The Board of Directors determines the company policy on remuneration and/or reimbursement (compensation) for expenses for members of the company's Board of Directors, executive bodies and other key executives.	1. The company has developed and implemented a policy (policies), approved by the Board of Directors, on the remuneration and reimbursement (compensation) of expenses for members of the company's Board of Directors, executive bodies and other key executives. 2. Issues related to this policy (policies) were considered during the reporting period at meetings of the Board of Directors.	<input checked="" type="checkbox"/> Compliance <input type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliant	
2.1.5	The Board of Directors plays a key role in the prevention, detection and resolution of internal conflicts between the company's executive bodies, shareholders and the employees.	1. The Board of Directors plays a key role in the prevention, detection and resolution of internal conflicts. 2. The company has established a system for identifying transactions involving a conflict of interest, and a system of measures aimed at resolving such conflicts.	<input checked="" type="checkbox"/> Compliance <input type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliant	
2.1.6	The Board of Directors plays a key role in ensuring the transparency of the company, the timeliness and completeness of the company's disclosure of information, and shareholders' unhindered access to company documents.	1. The Board of Directors approved the Regulation on Information Policy. 2. The company has appointed responsible officials for implementation of its Information Policy.	<input checked="" type="checkbox"/> Compliance <input type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliant	
2.1.7	The Board of Directors oversees the corporate governance practices within the company and plays a key role in significant corporate events.	During the reporting period, the Board of Directors considered the issue of the company's corporate governance practices.	<input checked="" type="checkbox"/> Compliance <input type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliant	
2.2	The Board of Directors is accountable to the company's shareholders.			
2.2.1	Information about the work of the Board of Directors is disclosed and presented to the shareholders.	1. The company's Annual Report for the reporting period includes information on individual directors' attendance at board and committee meetings. 2. The Annual Report contains information about the main results of the assessment of the work of the Board of Directors carried out during the reporting period.	<input checked="" type="checkbox"/> Compliance <input type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliant	

Nº	Principles of corporate governance	Criteria for assessing compliance with the relevant principle of corporate governance	Status of compliance	Comments/ explanation
2.2.2	The Chairman of the Board of Directors must be available to the company's shareholders.	The company has a transparent procedure for providing shareholders with an opportunity to direct their questions and their position on those questions to the Chairman of the Board of Directors.	<input checked="" type="checkbox"/> Compliance <input type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliant	
2.3	The Board of Directors must be an efficient and professional governing body that is capable of making objective and independent judgements and passing resolutions in the best interests of the company and its shareholders.			
2.3.1	Only individuals who have an excellent business and personal reputation, and who also have the knowledge, skills and experience required to make decisions related to the remit of the board of directors and required for the effective performance of its functions may be elected by the members of the Board of Directors.	1. The company has adopted a procedure for assessing the effectiveness of the Board of Directors that includes an assessment of the professional qualifications of the members of the Board of Directors. 2. During the reporting period, the Board of Directors (or its Nominating Committee) evaluated candidates for the Board of Directors in terms of whether they had the necessary experience, knowledge and business reputation, as well as whether or not they had any conflicts of interest.	<input checked="" type="checkbox"/> Compliance <input type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliant	
2.3.2	The members of the Board of Directors are elected through a transparent procedure that allows shareholders to receive information about the candidates that is sufficient to form a picture of their personal and professional qualities.	Whenever a General Meeting of Shareholders was held during the reporting period whose agenda included the issue of the election of the Board of Directors, the company provided the shareholders with the CVs of all candidates for members of the Board of Directors, the results of the evaluation of the candidates conducted by the Board of Directors (or the Nominating Committee). It also provided information on each candidate's compliance with the independence criteria in accordance with recommendations 102-107 of the Code, as well as the written consent of the candidates for election to the Board of Directors.	<input checked="" type="checkbox"/> Compliance <input type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliant	
2.3.3	The composition of the Board of Directors shall be balanced, including in terms of the qualifications of its members, their experience, knowledge and business qualities, and it shall enjoy the confidence of the shareholders.	As part of the procedures for assessing the work of the Board of Directors carried out during the reporting period, the Board of Directors analysed its own requirements in the area of professional qualifications, experience and business skills.	<input checked="" type="checkbox"/> Compliance <input type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliant	
2.3.4	The quantitative composition of the Board of Directors shall make it possible to organise the activities of the Board of Directors in the most efficient manner possible, including the possibility of the formation of the board committeescommittees. It shall also provide the company's significant minority shareholders with an opportunity to elect to the Board of Directors a candidate of their choice.	As part of the procedures for assessing the work of the Board of Directors carried out during the reporting period, the Board of Directors considered the issue of the compliance of the quantitative composition of the Board of Directors with the company's requirements and the interests of shareholders.	<input checked="" type="checkbox"/> Compliance <input type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliant	

Nº	Principles of corporate governance	Criteria for assessing compliance with the relevant principle of corporate governance	Status of compliance	Comments/ explanation
2.4	The Board of Directors shall include a sufficient number of independent directors.			
2.4.1	An independent director is a person who has sufficient professionalism, experience and independence to form their own positions, is able to formulate objective and honest opinions, is independent from the influence of the company's executive bodies, individual groups of shareholders and other interested parties. It should be kept in mind that, under normal conditions, a candidate (elected member of the Board of Directors) who is associated with the company, its major shareholders, a significant counterparty or competitor or the state may not be considered independent.	During the reporting period, all independent members of the Board of Directors met all the criteria for independence set out in the recommendations 102-107 of the Code or were recognised as independent by a decision of the Board of Directors.	<input checked="" type="checkbox"/> Compliance <input type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliant	
2.4.2	An assessment of the compliance of candidates for the Board of Directors with the criteria for independence shall be carried out, along with a regular review of the compliance of independent members of the Board of Directors with the independence criteria. In conducting such an assessment, content should prevail over form.	1. During the reporting period, the Board of Directors (or its Nominating Committee) formed an opinion about each candidate's independence and presented shareholders with their conclusions. 2. During the reporting period, the Board of Directors (or its Nominating Committee) reviewed, on at least one occasion, the independence of the current members of the Board of Directors who are indicated as independent directors in the company's Annual Report. 3. The company has developed procedures for determining the necessary actions a board member must take in the event that he or she ceases to be independent, including the obligation to inform the Board of Directors about this in a timely manner.	<input checked="" type="checkbox"/> Compliance <input type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliant	
2.4.3	Independent directors shall account for at least one third of all directors elected to the board.	Independent directors account for at least one third of all directors elected to the Board.	<input checked="" type="checkbox"/> Compliance <input type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliant	
2.4.4	Independent directors play a key role in the prevention of internal conflicts within the company and in the company's performance of significant corporate actions.	Independent directors (who have no conflict of interest) provide a preliminary assessment of significant corporate actions related to possible conflicts of interest, and the results of that assessment are presented to the Board.	<input checked="" type="checkbox"/> Compliance <input type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliant	
2.5	The Chairman of the Board of Directors shall facilitate the most effective performance of the functions assigned to the Board.			
2.5.1	The Chairman of the Board of Directors is an independent director, or the elected independent directors select a senior independent director who coordinates the work of the independent directors and is responsible for communication with the Chairman of the Board of Directors.	1. The Chairman of the Board of Directors is an independent director or a senior independent director is selected from among the independent directors. 2. The role, rights and responsibilities of the Chairman of the Board of Directors (and if applicable, of the senior independent director) are stipulated, as required, in the company's bylaws.	<input checked="" type="checkbox"/> Compliance <input type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliant	

Nº	Principles of corporate governance	Criteria for assessing compliance with the relevant principle of corporate governance	Status of compliance	Comments/ explanation
2.5.2	The Chairman of the Board of Directors ensures a constructive atmosphere for holding meetings, a free discussion of the issues included on the meeting agenda and oversight over the execution of decisions taken by the Board of Directors.	The effectiveness of the work of the Chairman of the Board of Directors is evaluated in the framework of the performance evaluation procedures for the Board of Directors during the reporting period.	<input checked="" type="checkbox"/> Compliance <input type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliant	
2.5.3	The Chairman of the Board of Directors shall take the necessary measures for the timely provision of information to members of the Board of Directors in order to take decisions about items on the agenda.	The duty of the Chairman of the Board of Directors to take steps to ensure the timely delivery of materials to members of the Board of Directors concerning items on the agenda of a meeting of the board is stipulated in company bylaws.	<input checked="" type="checkbox"/> Compliance <input type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliant	
2.6	Board members act in good faith and reasonably in the interests of the company and its shareholders on the basis of sufficient information, with due care and diligence.			
2.6.1	Board members take decisions based on all available information, without any conflicts of interest, taking into account the equal treatment of the company's shareholders, within the framework of normal business risk.	1. According to the company's bylaws, a member of the Board of Directors must notify the Board of Directors if he or she has a conflict of interest in respect of any item on the agenda of a meeting of the board or of a board committee prior to the discussion of the relevant agenda item. 2. The company's bylaws provide that a board member must abstain from voting on any matter in which he or she has a conflict of interest. 3. The company has established a procedure that allows the Board of Directors to receive professional advice on matters within its remit at the company's expense.	<input checked="" type="checkbox"/> Compliance <input type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliant	
2.6.2	The rights and obligations of members of the Board of Directors are clearly defined in the company's bylaws.	The company has adopted and published an internal document that clearly stipulates the rights and responsibilities of members of the Board of Directors.	<input checked="" type="checkbox"/> Compliance <input type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliant	
2.6.3	Board members have sufficient time to perform their duties.	1. Individual attendance at board and committee meetings, as well as the time devoted to preparation for participation in such meetings, was taken into account as part of the Board of Directors assessment procedures during the reporting period. 2. In accordance with the company's bylaws, members of the Board of Directors are required to notify the Board of their intention to be a part of the management bodies of other organisations (beyond those that are the company's subsidiaries or dependent organisations), as well as the fact of such appointments.	<input checked="" type="checkbox"/> Compliance <input type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliant	

Nº	Principles of corporate governance	Criteria for assessing compliance with the relevant principle of corporate governance	Status of compliance	Comments/ explanation
2.6.4	All members of the Board of Directors shall have equal access to the company's documents and information. Newly elected members of the Board of Directors shall, in the shortest possible time, be provided with sufficient information about the company and the work of the Board of Directors.	1. In accordance with the company's bylaws, the members of the Board of Directors have the right to to access documents and to make inquiries concerning the company and its subsidiary organisations, and the company's executive bodies are required to provide relevant information and documents. 2. The company has established a formalised programme of introductory events for newly elected members of the Board of Directors.	<input checked="" type="checkbox"/> Compliance <input type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliant	
2.7	Meetings of the Board of Directors, preparations for them and the participation of board members therein shall ensure that the board works in an effective manner.			
2.7.1	Meetings of the Board of Directors shall be held as necessary, taking into account the scale of operations and the tasks facing the company at a given period of time.	The Board of Directors held at least six meetings during the reporting year.	<input checked="" type="checkbox"/> Compliance <input type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliant	
2.7.2	The company's bylaws shall enshrine procedures for the preparation and holding of board meetings that allow members of the Board of Directors to prepare adequately for such meetings.	The company has approved an internal document that stipulates the procedure for the preparation and holding of board meetings, in which it is also established that notice about a meeting must be provided, as a rule, not less than five days prior to the meeting.	<input checked="" type="checkbox"/> Compliance <input type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliant	
2.7.3	The format of each meeting of the Board of Directors is determined based on the importance of the items on its agenda. The most important issues are resolved at meetings of the Board of Directors held in person.	The company's Charter or bylaws provide that the most important issues (according to the list provided in recommendation 168 of the Code) must be considered at in-person Board meetings.	<input checked="" type="checkbox"/> Compliance <input type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliant	
2.7.4	Decisions on the most important issues concerning the company's activities shall be taken at a meeting of the board of directors by a qualified majority or a majority of all the elected members of the Board of Directors.	The company's Charter provides that decisions on the most important issues outlined in recommendation 170 of the Code must be taken at a meeting of the Board of Directors by a qualified majority of not less than three fourths of the votes or by a majority of all the elected members of the Board of Directors.	<input type="checkbox"/> Compliance <input checked="" type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliant	The Bank's Charter contains provisions providing for the adoption of decisions by a majority of elected members of the Supervisory Council on all matters specified in paragraph 170 of the Code, with the exception of three. Amendments to the Charter with regard to the specified procedure for voting on other issues is planned for the AGM in 2017.

Nº	Principles of corporate governance	Criteria for assessing compliance with the relevant principle of corporate governance	Status of compliance	Comments/ explanation
2.8	The Board of Directors shall form committees for preliminary consideration of the most important issues related to the company's activities.			
2.8.1	For the preliminary consideration of issues related to the control of the company's financial and economic activities, an Audit Committee shall be established that is composed of independent directors.	1. The Board of Directors has formed an Audit Committee composed entirely of independent directors. 2. The company's bylaws stipulate the Audit Committee's tasks, including those tasks outlined in recommendation 172 of the Code. 3. At least one member of the Audit Committee, who is an independent director, has experience and expertise in the preparation, analysis, evaluation and auditing of financial statements. 4. Meetings of the Audit Committee took place at least once a quarter during the reporting period.	<input type="checkbox"/> Compliance <input checked="" type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliant	The Bank's Supervisory Council Audit Committee consists not only of independent directors, although the majority of the Committee, including the Chairman, are independent. The current members of the Committee are selected based on the individual experience and competence of each member. The Bank complies with the requirements on corporate governance of the Moscow Exchange Listing Rules, including the requirements for the composition of the Supervisory Council committees. Regarding all other requirements of the Code on this issue, the practicality is unclear, including due to the risk of not being able to fill the Committee with Supervisory Council members with the necessary competence in terms of internal audit.

Nº	Principles of corporate governance	Criteria for assessing compliance with the relevant principle of corporate governance	Status of compliance	Comments/ explanation
2.8.2	For preliminary consideration of issues related to the formation of effective and transparent remuneration practices, a Remuneration Committee was established that consists of independent directors and is chaired by an independent director who is not the Chairman of the Board of Directors.	1. The Board of Directors established a Remuneration Committee that consists solely of independent directors. 2. The Chairman of the Remuneration Committee is an independent director who is not the Chairman of the Board of Directors. 3. The company's bylaws stipulate the Remuneration Committee's tasks, including those tasks outlined in recommendations 180 of the Code.	<input type="checkbox"/> Compliance <input checked="" type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliant	The Bank's Supervisory Council Staff and Remuneration Committee consists not only of independent directors, although the majority of the Committee members are independent. The current members of the Committee are selected based on the individual experience and competence of each member. The Bank complies with the requirements on corporate governance of the Moscow Exchange Listing Rules, including the requirements for the composition of the Supervisory Council committees. Concerning the Code's additional requirements regarding the composition of the Committee, the practicality is unclear, including due to the risk of not being able to fill the Committee with Supervisory Council members with the necessary competence in this field.
2.8.3	For preliminary consideration of issues related to the implementation of staff planning (succession planning) and the professional composition and performance of the Board of Directors, a Nominating Committee (appointments, human resources) was established, most of whose members are independent directors.	1. The Board of Directors established a Nominating Committee (or the tasks thereof specified in recommendation 186 of the Code are performed by another committee) consisting mostly of independent directors. 2. The company's bylaws stipulate the tasks of the Nominating Committee (or the relevant committee with combined functions), including the tasks outlined in recommendation 186 of the Code.	<input checked="" type="checkbox"/> Compliance <input type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliant	The functions of the Nominating Committee belong to the Supervisory Council Staff and Remuneration Committee of VTB Bank (PJSC).
2.8.4	Given the scope and risk level, the Board of Directors determined that the composition of its committees fully meets the company's goals. Additional committees were either formed or are not deemed necessary (strategy committee, corporate governance committee, ethics committee, risk management committee, budget committee, committee on health, safety and the environment, etc.).	During the reporting period, the company's Board of Directors considered the composition of its committees in terms of the Board's duties and the the company's objectives. Additional committees were either formed or were deemed unnecessary.	<input checked="" type="checkbox"/> Compliance <input type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliant	

Nº	Principles of corporate governance	Criteria for assessing compliance with the relevant principle of corporate governance	Status of compliance	Comments/ explanation
2.8.5	The composition of the committees is determined in such a way that it allows for a comprehensive discussion of issues beforehand, taking into account different views.	1. Committees of the Board of Directors are chaired by independent directors. 2. The company's bylaws (policies) include provisions under which individuals who are not members of the Audit Committee, the Nominating Committee or the Remuneration Committee may attend committee meetings only at the invitation of the chairman of the relevant committee.	<input type="checkbox"/> Compliance <input checked="" type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliant	1. Compliance in relation to the Bank's Supervisory Council Audit Committee. In respect of other committees, see paras. 2.8.1 and 2.8.2 2. Not stipulated in bylaws, but is complied with in practice.
2.8.6	The committee chairmen shall regularly inform the Board of Directors and its Chairman about the work of its committees.	During the reporting period, the chairmen of the committees reported regularly to the Board of Directors on the work of the committees.	<input checked="" type="checkbox"/> Compliance <input type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliant	
2.9	The Board of Directors shall ensure that the quality of its work and that of its committees and its members is assessed.			
2.9.1	Assessment of the quality of the work of the Board of Directors is aimed at determining the degree of the effectiveness of the Board's work, its committees and Board members, the compliance of their work with the company's development needs, intensification of the work of the Board of Directors and identifying areas in which their work can be improved.	1. The self-assessment and external evaluation of the Board of Directors carried out during the reporting period included an evaluation of the work of the committees, individual Board members and the Board of Directors as a whole. 2. The results of the self-assessment or external assessment of the Board of Directors carried out during the reporting period were discussed at an in-person meeting of the Board of Directors.	<input checked="" type="checkbox"/> Compliance <input type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliant	
2.9.2	The work of the Board of Directors, its committees and Board members is assessed on a regular basis, at least once a year. To conduct an independent assessment of the quality of the Board of Directors' work, a third-party entity (consultant) is engaged at least once every three years.	To conduct an independent assessment of the quality of the Board of Directors' work during the last three reporting periods, the company engaged a third-party entity (consultant) at least once.	<input type="checkbox"/> Compliance <input checked="" type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliant	An external evaluation of the work of the Bank's Supervisory Council was not carried out in 2016. Provisions are enshrined in the Bank's bylaws that provide for such an assessment at least once every three years. There are plans to engage an independent consultant to evaluate the work of the Supervisory Council in 2017.
3.1	The company's Corporate Secretary is responsible for efficient ongoing interaction with its shareholders, coordination of the company's actions designed to protect the rights and interests of its shareholders and support for the efficient work of its Board of Directors.			
3.1.1	The Corporate Secretary has sufficient knowledge, experience and expertise for the execution of his or her duties. This official enjoys an impeccable reputation and the confidence of shareholders.	The company has adopted and disclosed an internal document called the Regulation on the Corporate Secretary. The company's website and Annual Report provide biographical information about the Corporate Secretary. The same level of detail is provided about the members of the company's Board of Directors and executive management.	<input checked="" type="checkbox"/> Compliance <input type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliant	

Nº	Principles of corporate governance	Criteria for assessing compliance with the relevant principle of corporate governance	Status of compliance	Comments/ explanation
3.1.2	The Corporate Secretary is sufficiently independent of the company's executive bodies, and has been given the necessary authority and resources to carry out its assigned tasks.	The Board of Directors approves the appointment and dismissal of the Corporate Secretary, as well as decisions to award additional remuneration to the Corporate Secretary.	<input checked="" type="checkbox"/> Compliance <input type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliant	
4.1	The level of remuneration paid by the company shall be sufficient to enable it to attract, motivate and retain employees who have the required skills and qualifications. Remuneration shall be paid to Board members, executive bodies and other key managers at the company in accordance with the remuneration policy adopted by the company.			
4.1.1	The level of remuneration provided by the company to members of the Board of Directors, executive bodies and other key executives creates sufficient motivation for them to work effectively, allowing the company to attract and retain competent and skilled professionals. This allows the company to avoid having to pay a level of remuneration that is more than necessary, and it prevents the formation of unjustifiably large gaps in the level of remuneration between these officials and company employees.	The company has adopted a bylaw or bylaws (policy/policies) regulating the remuneration for members of the Board of Directors, executive bodies and other key executives, which clearly stipulate approaches to the remuneration of these individuals.	<input checked="" type="checkbox"/> Compliance <input type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliant	
4.1.2	The company's remuneration policy is determined by the Remuneration Committee and approved by the Board of Directors. The Board of Directors, with the support of the Remuneration Committee, monitors the introduction and implementation of the company's Remuneration Policy, and if necessary it reviews and makes adjustments to it.	During the reporting period, the Remuneration Committee reviewed the Remuneration Policy (Policies) and the policy regulating its (their) implementation; if necessary, it presented appropriate recommendations to the Board of Directors.	<input checked="" type="checkbox"/> Compliance <input type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliant	
4.1.3	The company's Remuneration Policy provides transparent mechanisms for determining the amount of remuneration for members of the Board of Directors, executive bodies and other key executives at the company. It also regulates all types of payments, benefits and privileges provided to such individuals.	The company's Remuneration Policy (Policies) contains (contain) transparent mechanisms for determining the remuneration of members of the Board of Directors, executive bodies and other key executives at the company. It (they) also regulates (regulate) all kinds of payments, benefits and privileges provided to such individuals.	<input checked="" type="checkbox"/> Compliance <input type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliant	
4.1.4	The company determines a policy on the reimbursement (compensation) of expenses that enumerates a list of reimbursable expenses and the level of service that members of the Board of Directors, executive bodies and other key executives at the company may qualify for. This policy may form a part of the company's Remuneration Policy.	The policy (policies) on remuneration or the company's other bylaws establish reimbursement rules for Board members, executive bodies and other key executives at the company.	<input checked="" type="checkbox"/> Compliance <input type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliant	
4.2	The system of remuneration for members of the Board of Directors shall ensure that the financial interests of the directors are in line with the long-term financial interests of shareholders.			
4.2.1	The company pays fixed annual remuneration to the members of the Board of Directors. The company does not pay a remuneration for participation in meetings of the Board or Board committees. The company does not use short-term incentives or additional material incentives for members of the Board of Directors.	Fixed annual remuneration was the only form of monetary remuneration that Board members received for their work on the Board during the reporting period.	<input checked="" type="checkbox"/> Compliance <input type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliant	

Nº	Principles of corporate governance	Criteria for assessing compliance with the relevant principle of corporate governance	Status of compliance	Comments/ explanation
4.2.2	Long-term holding of company shares has been the most conducive to ensuring the convergence of the financial interests of the members of the Board of Directors with the long-term interests of shareholders. The company does not make the right to dispose of shares dependent on the achievement of certain performance results, and Board members do not participate in option programmes.	If the bylaw (bylaws) detailing the policy (policies) on remuneration include a provision allowing company shares to be granted to members of the Board of Directors, then clear rules regulating how Board members can hold these shares must be stipulated in a way that promotes the long-term holding of such shares.	<input type="checkbox"/> Compliance <input type="checkbox"/> Partial compliance <input checked="" type="checkbox"/> Non-compliant	The Bank does not apply other forms of remuneration for members of the Supervisory Council beyond their fixed annual remuneration, the basic amount of which is determined by the General Meeting of Shareholders. The effectiveness of long-term incentive programmes for Board members is unclear due to the limited one-year period for which they may be elected.
4.2.3	The company does not provide any additional payments or compensation in the event of the early termination of members of the Board of Directors in connection with the transfer of control over the company or other circumstances.	The company does not provide any additional payments or compensation in the event of the early termination of members of the Board of Directors in connection with the transfer of control over the company or other circumstances.	<input checked="" type="checkbox"/> Compliance <input type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliant	
4.3	The system of remuneration due to members of the executive bodies and other key company managers provides that their remuneration is dependent on the company's performance results and their personal contributions to achieving these.			
4.3.1	Remuneration for members of executive bodies and other key executives at the company shall be determined in such a way as to provide a reasonable and justified ratio between their base salary and variable remuneration depending on the company's results and the personal (individual) contribution of each employee to the final result.	1. During the reporting period, the annual performance indicators approved by the Board of Directors were used to determine the amount of variable compensation for members of executive bodies and other key executives at the company. 2. In the course of the last evaluation of the system of remuneration for members of executive bodies and other key executives at the company, the Board of Directors (the Remuneration Committee) confirmed that the Company employed an effective ratio of base salary to variable compensation. 3. The company has established a procedure that provides for the return of bonuses that were unlawfully obtained by members of the executive bodies and other key executives at the company.	<input type="checkbox"/> Compliance <input checked="" type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliant	Recommendation 3 is not being complied with. The Bank has not formalised any procedures in its internal documents for the return of bonuses. The Bank's approach in regard to incentives for members of the executive bodies and other key employees allows it to avoid the risk of improper payments. If such improper payments were to take place, the Bank would apply legally established procedures for the purposes of ensuring the return of such payments.

Nº	Principles of corporate governance	Criteria for assessing compliance with the relevant principle of corporate governance	Status of compliance	Comments/ explanation
4.3.2	The company has established a long-term incentive programme for members of the executive bodies and other key company executives using the company's shares (financial instruments based on company shares).	1. The company has established a long-term incentive programme for members of the executive bodies and other key company executives using the company's shares (financial instruments based on company shares). 2. The long-term incentive programme for members of executive bodies and other key company executives provides that the right to sell shares and other financial instruments that are granted within the programme shall not be granted less than three years from the date that such shares or instruments are awarded. The right to sell shares shall be conditional upon the company's achievement of certain performance indicators.	<input type="checkbox"/> Compliance <input type="checkbox"/> Partial compliance <input checked="" type="checkbox"/> Non-compliant	A long-term incentive programme using the Bank's shares has not been developed, as it does not seem to be the right time to do so, partly because of the restrictions imposed by civil and tax law in relation to options and other programmes using the shares, and also in relation to restrictions on the right to dispose of shares.
4.3.3	The amount of compensation (golden parachute) that is paid by the company in the event of the early termination of members of the executive bodies or key executives at the initiative of the company and in the absence of any actions taken by the employees themselves that were not in good faith shall not exceed two times the base salary that is paid as part of the annual compensation package.	The amount of compensation (golden parachute) that is paid by the company in the event of the early termination of members of the executive bodies or key executives at the initiative of the company and in the absence of any actions taken by the employees themselves that were not in good faith did not, during the reporting period, exceed two times the base salary that is paid as part of the annual compensation package.	<input checked="" type="checkbox"/> Compliance <input type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliant	
5.1	The company has established an efficient risk management and internal control system that is designed to provide reasonable assurance that the company's goals will be achieved.			
5.1.1	The Board of Directors determines the principles and approaches used to shape the company's risk management and internal control system.	The functions that the company's various control bodies and divisions play in the risk management and internal control system are clearly stipulated in the company's bylaws/ relevant policies that were approved by the Board of Directors.	<input checked="" type="checkbox"/> Compliance <input type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliant	
5.1.2	The company's executive bodies shall ensure the establishment and maintenance of an effective system of risk management and internal control at the company.	The company's executive bodies have ensured the distribution of functions and responsibilities for risk management and internal control between their subordinate unit and department heads.	<input checked="" type="checkbox"/> Compliance <input type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliant	
5.1.3	The company's risk management and internal control system provides for an objective, fair and clear picture of the company's current state and prospects, the integrity and transparency of the company's reporting, and the reasonableness and acceptability of the risks taken by the company.	1. The company has approved a policy on preventing corruption. 2. The company provides an accessible means of notifying the Board of Directors or the Board's Audit Committee about violations of the law, internal procedures and the company's code of ethics.	<input checked="" type="checkbox"/> Compliance <input type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliant	
5.1.4	The Board of Directors takes necessary measures to ensure that the company's current risk management and internal control system complies with the principles and approaches determined by the Board of Directors to ensure that such a system is organised and functions effectively.	During the reporting period, the Board of Directors or its Audit Committee evaluated the effectiveness of the company's risk management and internal control system. Information about the main findings of this evaluation are included in the company's Annual Report.	<input checked="" type="checkbox"/> Compliance <input type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliant	

Nº	Principles of corporate governance	Criteria for assessing compliance with the relevant principle of corporate governance	Status of compliance	Comments/ explanation
5.2	The company organises an internal audit to ensure the regular independent evaluation of the reliability and effectiveness of the risk management and internal control system and corporate governance practice.			
5.2.1	The company has created a separate structural unit or contracted an independent external organisation to conduct the internal audit. The functional and administrative reporting relationship of the internal audit unit has been established. Functionally, the internal audit unit is subordinate to the Board of Directors.	The company has created a separate structural unit to conduct internal audits that is functionally subordinate to the Board of Directors or the Audit Committee or it has engaged an independent external organisation with the same subordinate status to conduct internal audits.	<input checked="" type="checkbox"/> Compliance <input type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliant	
5.2.2	The internal audit unit evaluates the effectiveness of the internal control system and assesses the effectiveness of the risk management and corporate governance systems. The company employs generally accepted standards in the field of internal auditing.	1. During the reporting period, an assessment was provided of the effectiveness of the internal control and risk management system as part of the internal audit process. 2. The company uses generally accepted approaches to internal control and risk management.	<input checked="" type="checkbox"/> Compliance <input type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliant	
6.1	The company and its activities are transparent to shareholders, investors and other interested parties.			
6.1.1	The company has developed and implemented an information policy that ensures effective communication of information between the company, shareholders, investors and other interested parties.	1. The Board of Directors approved the company's Information Policy, which takes into account the recommendations of the Code. 2. The Board of Directors (or one of its committees) considered issues related to the company's compliance with its Information Policy at least once during the reporting period.	<input checked="" type="checkbox"/> Compliance <input type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliant	
6.1.2	The company discloses information on its corporate governance system and practices, including detailed information on compliance with the principles and recommendations of the Code.	1. The company discloses information on its system of corporate governance and the general principles of corporate governance that are applied in the company, including on the company's website. 2. The company discloses information on the composition of its executive bodies and its Board of Directors, the independence of Board members and their membership of Board committees (in accordance with the definitions provided in the Code). 3. In the event that a person should assume control of the company, the company publishes a memorandum by the controlling person concerning said person's plans in relation to the company's corporate governance.	<input checked="" type="checkbox"/> Compliance <input type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliant	

Nº	Principles of corporate governance	Criteria for assessing compliance with the relevant principle of corporate governance	Status of compliance	Comments/ explanation
6.2	The company discloses complete, up-to-date and reliable information about the company to allow its shareholders and investors to make informed decisions.			
6.2.1	The company discloses information in accordance with the principles of regular publication, consistency, timeliness, as well as accessibility, accuracy, completeness and comparability of the data disclosed.	1. The company's Information Policy stipulates the approaches and criteria for determining information that could materially affect the company's valuation, the value of its securities and the procedures that ensure the timely disclosure of such information. 2. If the company's securities are traded in foreign markets, then equivalent material information is disclosed in the Russian Federation and in those foreign markets at the same time during the reporting year. 3. If foreign shareholders hold a substantial number of shares in the company, then information was disclosed during the reporting year not only in Russian, but also in a commonly known foreign language.	<input checked="" type="checkbox"/> Compliance <input type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliant	
6.2.2	The company avoids taking a formal approach to the disclosure of information, and it discloses important information about its activities even when such disclosure is not required by law.	1. During the reporting period, the company disclosed its annual and semi-annual financial statements prepared in accordance with IFRS. The company's Annual Report for the reporting period included annual financial statements that were prepared in accordance with IFRS, along with the auditor's report. 2. The company discloses both in its Annual Report and on its website complete information on its capital structure in accordance with recommendation 290 of the Code.	<input checked="" type="checkbox"/> Compliance <input type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliant	
6.2.3	The Annual Report, which is one of the most important tools for sharing information with shareholders and other interested parties, contains information that makes it possible to assess the company's activities for the year.	1. The company's Annual Report provides information on the key aspects of its activities and its financial results. 2. The company's Annual Report contains information about the environmental and social aspects of the company's activities.	<input checked="" type="checkbox"/> Compliance <input type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliant	
6.3	The company provides information and documents requested by its shareholders in accordance with the principle of equal and unhindered access.			
6.3.1	The company provides information and documents requested by its shareholders in accordance with the principle of equal and unhindered access.	The company's Information Policy stipulates a non-burdensome procedure for providing shareholders with access to information, including information about the company's subsidiaries, at the request of shareholders.	<input checked="" type="checkbox"/> Compliance <input type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliant	
6.3.2	When the company provides information to shareholders, it ensures a reasonable balance between the interests of specific shareholders and the interest of the company itself in ensuring the confidentiality of important trade secrets that could have a material impact on its competitiveness.	1. During the reporting period, the company did not refuse to satisfy shareholder requests for information, or if it did deny any requests, then such refusals were justified. 2. In cases stipulated by the company's Information Policy, shareholders are warned about the confidential nature of information and take responsibility for maintaining its confidentiality.	<input checked="" type="checkbox"/> Compliance <input type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliant	

Nº	Principles of corporate governance	Criteria for assessing compliance with the relevant principle of corporate governance	Status of compliance	Comments/ explanation
7.1	Any actions that 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.			
7.1.1	Material corporate actions include the reorganisation of the company, the acquisition of 30 per cent or more of voting shares (takeover), material transactions by the company, an increase or decrease in the company's share capital, the listing and delisting of company shares, as well as other actions that could lead to a significant change in the rights of shareholders or a violation of their interests. The company's Charter includes a list of (criteria) transactions or other actions falling within the category of material corporate actions. These actions fall within the competence of the company's Board of Directors.	1. The company's Charter contains a list of transactions or other actions that constitute material corporate actions and the criteria that are used to determine such actions. Decisions regarding material corporate actions fall within the competence of the Board of Directors. In cases where the authority to take such corporate actions falls under the competence of the General Meeting of Shareholders, the Board of Directors provides shareholders with appropriate recommendations. 2. The company's Charter recognises the following, at a minimum, to be material corporate actions: the reorganisation of the company, the acquisition of 30 per cent or more of voting shares (takeover), the completion of material transactions by the company, an increase or decrease in the company's share capital and the listing and delisting of company shares.	<input type="checkbox"/> Compliance <input checked="" type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliant	The list of transactions and significant corporate actions is determined by the Bank's Charter. At the same time, the Regulation on the Audit Committee stipulates a special procedure for work on matters related to the completion of major transactions (para. 2.2.1 of the Regulation).
7.1.2	The Board of Directors plays a key role in making decisions or developing recommendations about material corporate actions. The Board of Directors relies on the position of the company's independent directors.	The company has stipulated a procedure under which the independent directors declare their positions on material corporate actions prior to their approval.	<input checked="" type="checkbox"/> Compliance <input type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliant	
7.1.3	When completing material corporate actions that affect the rights and legal interests of shareholders, equal conditions are provided for all company shareholders. If the mechanisms protecting the legal rights of shareholders are insufficient, then further measures to protect the rights and legal interests of the company's shareholders are provided. The company is governed not only by compliance with the formal requirements of the law, but also by the principles of corporate governance set out in the Code.	1. Taking into account the nature of the company's business, the company's Charter establishes less restrictive criteria than the minimum provided for under the law for classifying the company's transactions as material corporate actions. 2. During the reporting period, all material corporate actions underwent an approval process before implementation.	<input type="checkbox"/> Compliance <input checked="" type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliant	See para. 7.1 The Bank complies with para. 2
7.2	The company has established a procedure regulating material corporate actions that allows shareholders to receive timely and complete information on such actions, provides them with an opportunity to influence decision-making about such actions and ensures compliance with and an adequate level of protection of their rights in the performance of such actions.			
7.2.1	Information about material corporate actions is disclosed together with the reasons, conditions and consequences of such actions.	1. During the reporting period, the company disclosed information on its material corporate actions in a timely manner and in detail, including the reasons for and timing of such actions.	<input checked="" type="checkbox"/> Compliance <input type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliant	

Nº	Principles of corporate governance	Criteria for assessing compliance with the relevant principle of corporate governance	Status of compliance	Comments/ explanation
7.2.2	The rules and procedures governing material corporate actions taken by the company are stipulated in the company's bylaws.	1. The company's bylaws have established a procedure for retaining an independent appraiser to determine the value of property that is alienated or acquired by a significant transaction or a related-party transaction. 2. The company's bylaws have established a procedure for retaining an independent appraiser to assess the value of shares that are acquired or bought back by the company. 3. The company's bylaws have established an expanded list of grounds on which the members of the Board of Directors and other persons referred to in respective laws are deemed to have an interest in the company's transactions.	<input type="checkbox"/> Compliance <input checked="" type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliant	Non-compliance in terms of expanding the list of grounds on which members of the Supervisory Council and other persons referred to in respective laws are deemed to have an interest in the Bank's transactions. The Bank believes that the introduction of such a practice could significantly hamper the activities of the Bank and put it at a disadvantage compared to other financial market participants, including in relation to the duration of the procedure for prior approval of transactions.

8.4. Contact information

VTB Bank (PJSC)

Legal address:
29 Bolshaya Morskaya St., St. Petersburg, 190000
Postal address:
43 Vorontsovskaya St., Moscow 109147, Russia
Phone: +7 (495) 739 77 99
8 800 200 77 99
E-mail: Info@vtb.ru

Corporate Secretary

Evgeniy Ignatyev
Phone: +7 (495) 775 71 17
E-mail: Ignatyev@vtb.ru

Investor Relations Department (institutional investors and analysts)

Phone: +7 (495) 775 71 39
E-mail: InvestorRelations@vtb.ru

Shareholder Relations Service (individual shareholders)

Phone: +7 (495) 258 49 47
E-mail: Shareholders@vtb.ru

Shareholders Consultative Council

Website: www.vtb.ru/ir/sovet, www.facebook.com/ksavtb, www.twitter.com/ksavtb
Phone: +7 (985) 774 31 55
E-mail: KSA@vtb.ru

Auditor

Ernst and Young LLC
77, bldg 1, Sadovnicheskaya Emb.
Moscow 115035, Russia
Phone: +7 (495) 755 97 00

Depository Bank for the 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

JSC VTB Registrar
Legal address:
23 Pravdy St., Moscow 125040, Russia
Postal address:
P.O. Box 54, Moscow 127137, Russia
Phone: +7 (495) 787 44 83
E-mail: Info@vtbreg.ru

VTB shareholder mobile application

