

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, liquidity risk and operational risks.

Information about the structure of all significant risks inherent in the Group's activities is disclosed on a regular basis in accordance with the requirements of the Bank of Russia on the official website of the Bank at: <https://www.vtb.ru/akcionery-i-investory/raskrytie-informacii/raskrytie-informacii-dlya-regulyativnyh-celej/> (available in Russian language only).

VTB Group's risk map showing risk appetite indicators



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

One of VTB Group's key principles of risk management is to take the Group's risk appetite into account when managing its activities. Risk appetite is determined in accordance with regulatory requirements and international practice. This approach involves the identification and oversight of the Group's overall target risk level and risk profile in accordance with its strategic objectives and the integration of risk appetite into business planning and risk management procedures.

A high-level risk appetite for the Group 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;
- Group companies 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;
- The level of risk involved in the decision-making process must be assessed and monitored on an ongoing basis, and the impact of activities must also be assessed on an ongoing basis while taking risks into account;
- 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 regulatory requirements of the Bank of Russia, the recommendations of international bodies, as well as the requirements of local (foreign subsidiaries) or industry regulators;

- 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).

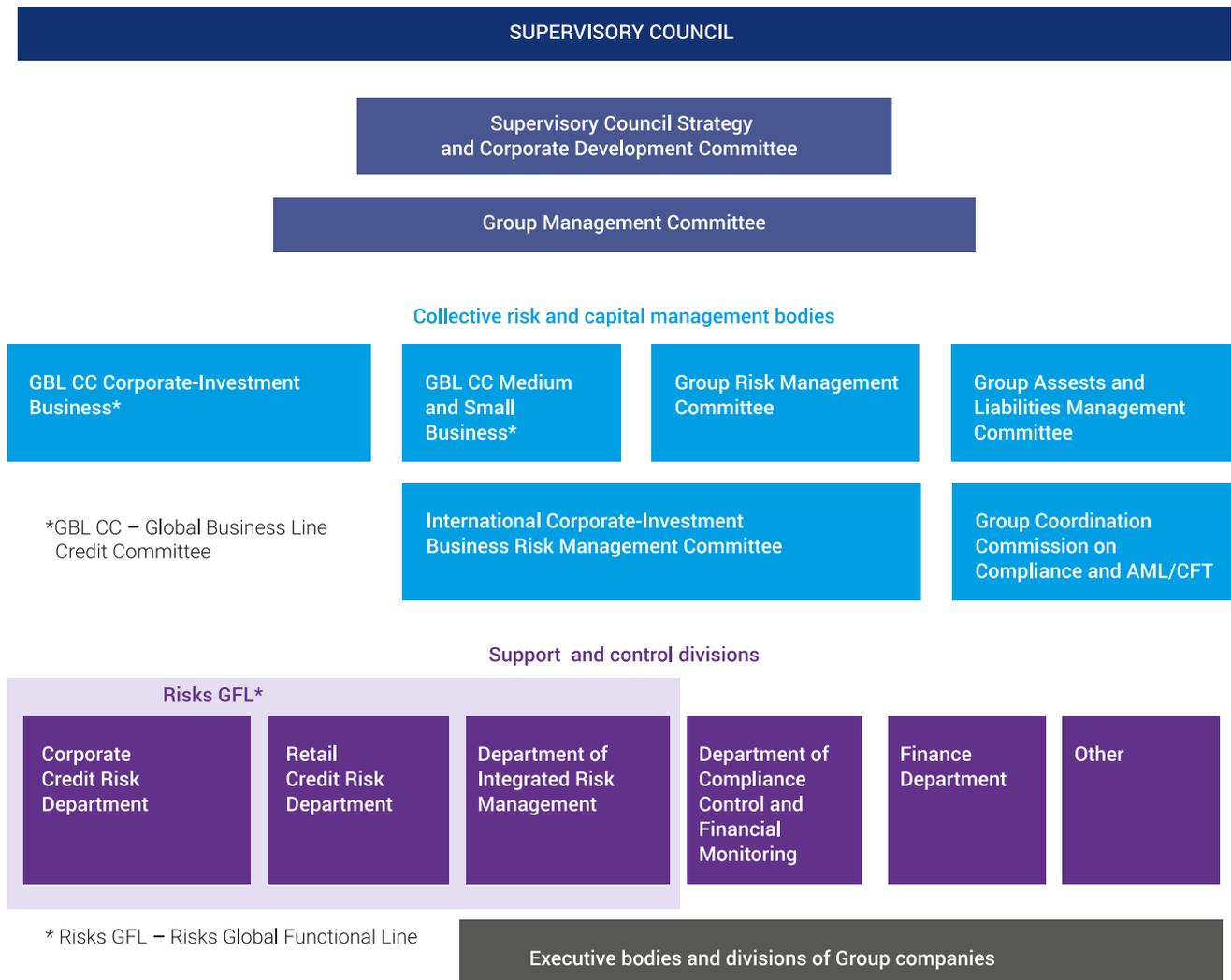
VTB Group's high-level risk appetite is detailed through the establishment of specific quantitative and qualitative indicators, with corresponding reference values.

Quantitative indicators of risk appetite are divided into operational indicators (they may be passed down to the system of limits established for business lines, VTB Group companies and other allocation levels) and structural indicators (centrally managed at the Group level). Risk appetite indicators limit all significant risks inherent to VTB Group's operations.

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 (primarily by disclosing the relevant information as required), 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 markets where the Group operates;
- 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 and automated risk management systems based on industry best practices.

Structure of Group divisions and collective bodies involved in risk and capital management



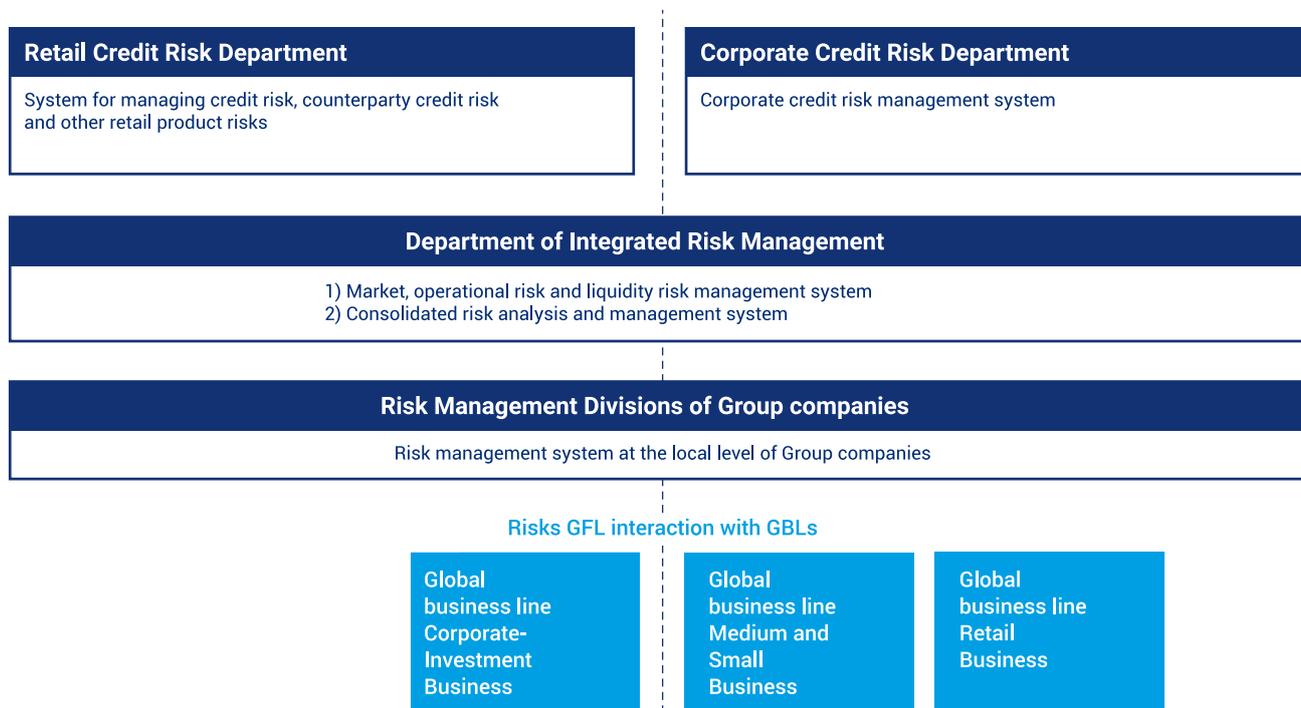
The Group's risk management system has a multi-layered structure, which includes consolidated (Group-level) and local-level risk management, with a high degree of centralisation of the Group's risk management function. The risk management system is built around the Group's global business lines (Corporate-Investment Business, Medium and Small Banking, Retail Business) and is based on the harmonisation of approaches to managing risk, including through the coordination of competencies exercised by the Group's specialised risk divisions.

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, specific features 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 Methodologies and on Business Continuity Management within VTB Group;
- The Group's Corporate-Investment Business and Medium and Small Business Credit Committees;
- The Group's Assets and Liabilities Management Committee, as well as its subordinate commissions;
- The Group's International Corporate-Investment Business Risk Management Committee.

Organisational and functional structure of the Risks Global functional line (GFL Risks)



Control over the organisation of risk management and the risk management policy within the Group’s companies is carried out on a systematic basis, primarily through corporate governance (including through the representation of VTB Bank on subsidiaries’ supervisory councils/boards of directors), as well as through the Group’s specialised risk divisions. 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 its strategy for the development of its risk management system for 2017–2019, as well work on the long-term development programme for the Bank for 2014–2019, which was approved by the Bank’s Supervisory Council, including:

- the implementation of measures to ensure the transition to a methodology for assessing credit risk and the level of provisions in accordance with IFRS 9;
- improvement of a system of indicators and of procedures for preparing, approving and passing down the Group’s risk appetite;
- implementation of internal procedures for assessing capital adequacy (ICAAP) at the Group level in accordance with the regulatory requirements of the Bank of Russia;

- ongoing work on the development of a methodology and procedures for managing certain types of risks (including interest-rate risk);
- implementation of projects to develop the IT infrastructure for risk management and to prepare risk reports, including taking into account the requirements of the Bank of Russia.

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 subsidiaries included in the Group’s consolidated risk management), 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 and the Procedure for Managing VTB Bank’s Most Significant Risks, 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.

An updated edition of VTB Bank's Strategy for Managing Risk and Capital was approved by a decision of the Bank's Supervisory Council on 25 December 2018; a new edition of the Procedure for Managing VTB Bank's Most Significant Risks was approved by a decision of the Supervisory Council on 23 July 2018.

The main strategic objective in risk management is to minimise potential financial losses (loss of revenue) from exposure to the risks faced by the Bank's operations, ensuring financial strength and long-term sustainable growth for the Bank in accordance with the strategic objectives specified by the Supervisory Council.

VTB Bank's strategy 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 business development in line with economic conditions and the Bank's needs.

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

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

The main divisions responsible for developing the risk management system and controlling significant risks assumed by VTB Bank and VTB Group used to be the VTB Bank Risk Department and Retail Credit Risk Department. Since 20 November 2018, this function has been performed by VTB Bank's Integrated Risk Management Department and the Retail Credit Risk Department.

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-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 through insurance and hedging of risks), within the scope of their authority and limits with regard to risk indicators, and in accordance with national regulations. 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 concerning credit procedures, decision-making processes, models and methods for managing credit risk to be used throughout the entire Group (including the methodology for assessing counterparties, pricing credit operations, collateral, 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.