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.

Consolidated risk management covers all 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.

In 2018, specialised units within VTB Bank, including the Non-Core and Bad Assets Department and the Retail Debt Collection Department, dealt with identifying, monitoring and resolving issues of bad debt at the Group level.

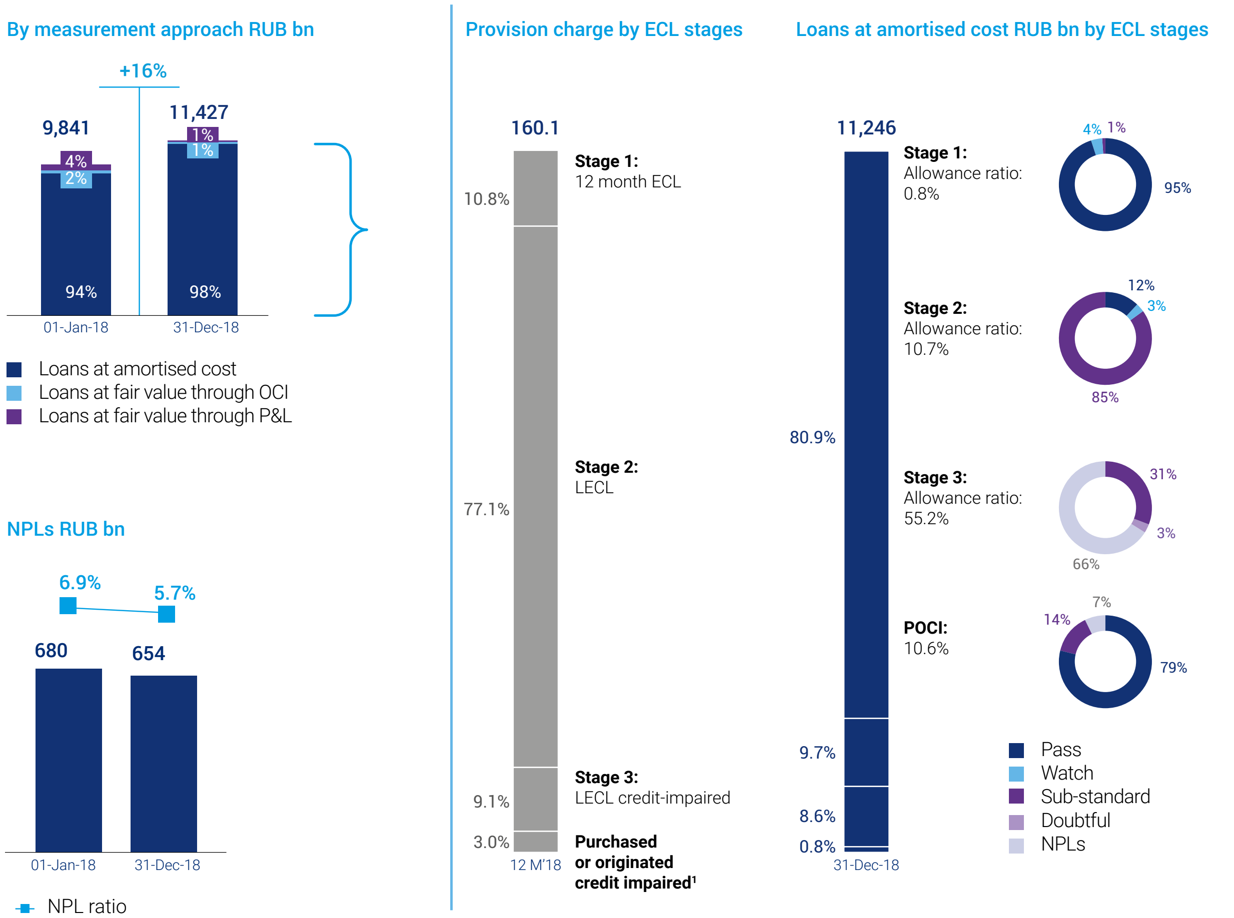
The corporate credit risks of subsidiary banks were managed by the Risk Department in 2018 (the Corporate Credit Risk Department (CCRD) from 20 November 2018). As the Group's specialised risk division for corporate credit risks, the CCRD is responsible for developing common approaches and methods for managing corporate credit risks, for evaluating them on a centralised and systematic basis and for developing the optimal structure of corporate credit risk accepted by the Group, including its compliance with the Group's risk appetite.

The centralised management of retail risks at VTB Bank's subsidiary banks was carried out by the Retail Credit Risk Department (RCRD) in 2018. As the Group's specialised risk division dealing with credit risks, the RCRD is responsible for developing common approaches and methods for managing retail risks, for evaluating them on a centralised and systematic basis and for developing the optimal structure of retail risk accepted by the Group, including its compliance with the Group's risk appetite.

VTB's subsidiary banks that perform the above-mentioned operations are guided by the Main Retail Credit Risk Management Guidelines, approved by the VTB Group Risk Management Committee, as well as other Group documents that establish standards and approaches for managing retail credit risks at the level of each subsidiary bank and at the Group level.

As part of the transition to IFRS 9 at VTB Bank, an intra-bank provisions methodology was developed in accordance with IFRS 9 in 2018, as well as general Group approaches to the establishment of provisions. Since 2018, provisions have been calculated in accordance with IFRS 9 for VTB Group's financial statements.

Gross loan portfolio breakdown under IFRS 9



** Purchased or originated credit impaired (POCI) financial assets – financial assets that are credit-impaired upon initial recognition.*

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 reviewed regularly by the VTB Risk Department (since 20 November 2018, by VTB Bank's Corporate Credit Risk Department and the Integrated Risk Management Department) and approved by VTB Bank's authorised collective body;
- Accepting collateral and insurance to cover credit risks, charging adequate fees for 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 loan 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 a 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 a group of related borrowers), industries, countries, 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 (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)[1];
- Conducting stress testing of loan portfolio losses, taking into account different macroeconomic scenarios.

The key methods for managing credit risk at VTB Bank are determined by the policy on managing credit risk (credit policy). The main tool for credit risk monitoring and mitigation is the system of established credit limits. In terms of managing retail credit risk, the Bank applies a Credit Risk Management Policy (Credit Policy) in Retail business.

The main types of credit risk limits are:

- Limits on the aggregate level of credit risk for the loan portfolio as a whole and for individual segments;
- Limits restricting the level of risk for a particular customer (or a group of related customers). These limits include limits for operations with a customer (or a group of related customers), including sub-limits for various types of operations with a credit risk/designated purpose (credit limits, documentary limits, limits on trading activities, limits on transactions with debt securities, etc.);
- Limits on the concentration of credit risk (by industry, country, 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 collateral to reduce credit risk.

Liquidity Risk

Liquidity risk means the risk that the Group or a member of the Group will be unable to finance its activities, i.e., to ensure asset growth and settle liabilities as they become due without incurring losses in an amount that would threaten the financial stability of the Group and/or a member of the Group.

VTB Group-level liquidity risk management

Liquidity risk management involves a set of measures used to manage the Group's assets and liabilities with the aim of maintaining the Group's ability to meet its obligations while ensuring an optimal balance between the level of liquidity risk and the profitability of the Group's operations.