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.

The VTB Group Management Committee and Assets and Liabilities Management Committee and VTB Bank's Treasury Department and the Market Risk Division of the Integrated Risk Management Department all play a role in the Group's liquidity risk management process.

The VTB Group Management Committee:

- determines the Group's general policy in the area of liquidity risk management;
- sets limits and triggers for VTB Group's liquidity risk appetite;
- reviews reports on the status of VTB Group's liquidity risk as part of reports on Group risks.

The Group Assets and Liabilities Management Committee:

- approves the Regulation on the Procedure for Managing Liquidity Risk in the Group;
- approves the Group's liquidity risk assessment methodology;
- monitors the Group's liquidity;
- decides on measures related to the management of the Group's assets and liabilities with the aim of ensuring the required level of liquidity and growth of the Group's assets.

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 in order to meet its obligations and comply with the requirements of the national regulator and the recommendations of VTB Bank;
- VTB Bank manages the Group's liquidity by centrally controlling and managing the key measures taken by the Group.

Methods for controlling and reducing the Group's liquidity risk 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

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

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) so that 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 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.

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 Department (since 20 November 2018, the Integrated Risk Management Department) 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 and interbank deposits.

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 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 receivables 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 intra-bank maximum permissible indicators for mandatory ratios.

Market Risk

Market risk is the risk of downward pressure on the Group's financial results or its capital base due to adverse changes in the value of the Group's assets/liabilities (claims/obligations) as a result of market conditions, i.e., risk factors.

VTB Group has a standing collective body within the Group Management Committee as part of its system for managing the Group's consolidated assets and liabilities: the VTB Group Assets and Liabilities Management Committee (ALMC). The ALMC's main objectives are:

- management of VTB Group's assets and liabilities;
- management of VTB Group's treasury risks;
- determining the principles for internal and external pricing within VTB Group;
- determining approaches to capital allocation within VTB group according to different types of risks;
- determining approaches to the redistribution of capital among VTB Group companies.

The Group's Coordination Commission on Assets and Liabilities Management and Interaction with Financial Institutions under the ALMC has been in operation since 2017. Its main objectives are:

- ensuring the effective functioning of common Group principles, procedures and limits in terms of the management of assets and liabilities;
- ensuring effective interaction within the framework of intra-group rules for conducting business with financial institutions.

The Risk Management Committee sets operational and portfolio limits for market risk and distributes the risk appetite for the trading book among VTB Group members and business lines.

The Regulation on the Procedure for Managing Market Risk in VTB Group (hereinafter, the "Regulation") establishes procedures for identifying and monitoring market risks, the structure and hierarchy of market risk limits from the level of VTB Group to the level of Group members and individual divisions, procedures for monitoring compliance with limits and restrictions and for responding in case they are exceeded, and it also specifies the procedure for preparing reports on the Group's market risk.

Market risk is assessed and managed in the context of the following types of books:

- A trading book consisting of operations carried out in order to extract profits through their revaluation or hedging of other elements of the trading book;
- A portfolio of Treasury debt securities consisting of operations conducted by the Treasury Department and revalued at fair value.

A bank book consisting of interest-sensitive instruments that are revalued at amortised cost or instruments used to hedge elements of the bank book. Loans that do not pass the SPPI test are counted in the bank book.