Liquidity Risk Funds Transfer Pricing (LRFTP) Methodology and Application

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Revision History

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1.0	Nov-11	R Sunitsky	Initial drafting of approved Global Policy
1.1	Sep-14	A Kuzmin	Review and update

Approvals

This document requires the following approvals:

Name	Role	Date of Issue	Version Reviewed

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1. Defining Terms

BAC	Business Area Control department
IntFund	Diasoft transaction which is analogues to internal loans
LRFTP	Liquidity Risk Funds Transfer Pricing
OFp	Overnight Funding (Generic) pool
TFp	Term (Matched) Funding / pool
WACL	Weighted Average Cost of Liabilities
ZAO	CJSC VTB Capital

2. Scope

All business portfolios within CJSC VTB Capital (ZAO)

3. Purpose

This document sets out the methodology used to apply the firm's LRFTP model to achieve full reallocation of the external costs incurred through liability raising and liquidity management activities on the ZAO balance sheet to business units in compliance with the Global Liquidity Policy.

The key objectives of LRFTP are to:

- Fully capture and distribute external funding costs across all business lines and products.
- Enable management to review business / product performance on a consistent and transparent basis.
- Incentivisation of the realisation of cash deferral of losses via profit remittance.

4. LRFTP Categories

The Treasury book will be split into two funding portfolios DFp and TFp:

4.1 Overnight (Generic) Funding Pool

OFp recharge is based on the WACL calculation as defined in Section 4. OFp is used for funding:

- Short-term assets with contractual tenors of less than [90 days], and
- Liquid assets defined as those which can be liquidated externally [and / or to the Parent?] during periods of market / liquidity stress.

4.2 Term (Match-Funded) Funding Pool

Treasury, at its sole discretion, may consider the source and use of cash to be “matched”. This situation occurs when the transaction has an inherent liquidity risk hedge where liquidation of the asset generates the cash to satisfy the repayment of the liability.

Liabilities are retained in the book of the originating business (or Treasury), funding costs are transferred via internal book-to-book tickets. The funding rate for each matched transaction is equivalent to the cost of the external or Group liability rate.

The tenor of funding for each transaction for business is matched to the external funding tenor and contractual term.

Match-funding is applicable to:

- Transactions in excess of US$100m
- Repo transactions (to the extent that it does not contradict the liquidity limits and the daily positive cash balance is < RUB200m) with contractual maturity over 91 days

4.3 Delta-1 Refinancing

Assets which are refinanced:

- to maturity
- With the pre-approval of ALCO
- Where the underlying asset can be monetized at short notice (e.g. liquid bonds).

4.4 Excluded Asset Classes

There are no excluded asset classes

4.5 Liquid Asset Buffer

There is no regulatory requirement for the firm to hold a buffer against liquidity stress. The firm’s Liquidity Risk Appetite identifies the significant reliance on the Parent for funding and, at the current time, no incremental internal requirement has been adopted.

5. Weighted Average Cost of Liabilities

WACL is calculated based on all liabilities with the exception of those used for TFp funding.

5.1 Calculation frequency and methodology

By default WACL is recalculated for RUB, USD and EUR by Treasury, on a weekly basis each Friday with rates effective from the following Monday. In the case of a non-Business day the calculation or application date moves forward to the next business day as appropriate.

In volatile markets or when the Group has liquidity constraints, Treasury may, at their sole discretion, change the regularity of the WACL calculation.

Rates are distributed weekly by email.

$$\mathrm{WACL_{LCY}} = \frac{\sum_{i=1}^{N^{LCY}} \boldsymbol{\lambda}_i^{LCY} \times \boldsymbol{\mathcal{L}}_i^{LCY} - \sum_{j=i_1}^{i_K^{LCY}} \boldsymbol{\lambda}_j^{LCY} \times \boldsymbol{\mathcal{L}}_j^{LCY} + \boldsymbol{\mathcal{P}}/100 \times 365/\boldsymbol{\mathcal{D}}}{\sum_{i=1}^{N} \boldsymbol{\mathcal{L}}_i^{LCY} - \sum_{j=i_1}^{i_K} \boldsymbol{\mathcal{L}}_j^{LCY} + \boldsymbol{\mathcal{C}}}$$

$$\mathrm{WACL_{FCY}} = \frac{\sum_{n=1}^{N^{FCY}} \boldsymbol{\lambda}_n^{FCY} \times \boldsymbol{\mathcal{L}}_n^{FCY} - \sum_{m=n_1}^{n_K^{FCY}} \boldsymbol{\lambda}_m^{FCY} \times \boldsymbol{\mathcal{L}}_m^{FCY}}{\sum_{n=1}^{N^{FCY}} \boldsymbol{\mathcal{L}}_n^{FCY} - \sum_{m=n_1}^{n_K^{FCY}} \boldsymbol{\mathcal{L}}_m^{FCY}}$$

LCY Local currency Russian rouble {RUB}

FCY Any member from the major foreign currencies set {USD,EUR }

$\mathcal{D}$ Number of days since last weighted average rate calculation (7 calendar days by default).

$\mathcal{P}$ YTD profit or loss generated on RU_TSY_Pool_TRD as the result of overnight funding procedure.

$\mathcal{C}$ ZAO funding capital amount effective on the date of WAR calculation (extracted from funding report).

$\boldsymbol{\mathcal{L}}_i^{LCY}$, $\mathbf{i} \in \{\mathbf{1},..,\mathbf{N}^{LCY}\}$, $\boldsymbol{\mathcal{L}}_n^{FCY}$ $\boldsymbol{n} \in \{\mathbf{1},..,\mathbf{N}^{FCY}\}$– all external and internal ZAO Treasury loans in LCY and FCY currencies correspondingly (both matched and unmatched) effective on the date of WACL calculation, $\mathbf{N}^{LCY}$ and $\mathbf{N}^{FCY}$ – number of such loans.

$\boldsymbol{\mathcal{L}}_j^{LCY}$, $\mathbf{j} \in \{\mathbf{i}_1^{LCY}, \mathbf{i}_2^{LCY},..,\mathbf{i}_K^{LCY}\}$, $\boldsymbol{\mathcal{L}}_m^{FCY}, \boldsymbol{m} \in \{\boldsymbol{n}_1^{FCY}, \boldsymbol{n}_2^{FCY},..,\boldsymbol{n}_K^{FCY}\}$ – matched loans in LCY and FCY, index numbers $\mathbf{i}_1^{LCY}, \mathbf{i}_2^{LCY},..,\mathbf{i}_K^{LCY}$ and $\boldsymbol{n}_1^{FCY}, \boldsymbol{n}_2^{FCY},..,\boldsymbol{n}_K^{FCY}$ are subsets of all external loan numbers $\mathbf{i} \in \{\mathbf{1},..,\mathbf{N}^{LCY}\}$ and $\boldsymbol{n} \in \{\mathbf{1},..,\mathbf{N}^{FCY}\}$ correspondingly.

In case number of LCY or FCY external loans is zero, corresponding currency 3 month OAO funding rate is used.

6. Profit Remittance

Profit Remittance process is aimed at fair treatment of funding across the businesses. The process is:

- Cash based for commission-based businesses / products.
- Mark-to-market based for all other businesses / products.

6.1 Calculation Frequency and application

P&L calculations are:

- Provided monthly to Treasury by BAC before the 10th business day of the following month and booked into Calypso and Diasoft solely to calculate funding balances.