

## Major Innovations in Risk Management in 2019

The bank has established a mature risk management system which matches the scope of its activities and profile and ensures achievement of the goals envisaged by the bank's Development Strategy. The risk management system is sufficiently flexible to ensure a prompt reaction to changes in the bank's operating environment. The current risk management system has been shaped through achievement of goals and consistent implementation of action plans in previous years.

- A set of measures was implemented to improve the retail risk assessment process, including updates of scoring models and the system of regular monitoring of risk indicators.
- Some internal processes and functions were improved, as retail applications underwriting methodology was transferred from Retail to the Risk Management Directorate.
- External validation of corporate rating models for the assessment of default probability was performed by an independent consultant; the model was approved for use in IFRS and ICAAP calculations.
- In line with amendments to the Bank of Russia's Regulation No.590-P, a methodology for evaluation of creditworthiness of special-purpose lending category "residential construction with the use of escrow accounts opened with the bank" was developed for the purposes of prudential RAS provision calculations allowing for the use of some models for residential property project financing using escrow accounts. The corporate customer monitoring system was further developed (reduction of the "actual to alarm" time lapse), covering the Next Best Action (NBA)/ stress parameter analysis process and current monitoring arrangements, including the use of informal sources of information.
- The system of portfolio risk metrics for standardised SME lending products was improved.

## Risk Criticality Assessment

Ongoing development of the risk management system is crucial for timely identification and assessment of risks, and for efficient operation of the instruments developed to manage them. The bank annually identifies and assesses risks inherent in its activities.

Criticality tests result in the bank's risk map, serving as the basis for qualifying particular types of risk as critical to the bank. The risk map grades the bank's risks. The aggregated value of any risks is calculated as the sum of points given by an expert.

Classification of identified risks by their criticality is based on a two-factor assessment:

- potential damage;
- probability (forecasted frequency of risk events).

Each factor is scored 1 to 3 points by surveying experts from subdivisions responsible for taking and managing the bank's risks. Critical risks are those scoring 4 or higher on the two criticality factors taken together.