

# Strategy and Structure

Effective risk management is extremely important for Bank Vozrozhdenie.

The Bank's risk management strategy focuses on achieving an optimum balance between profitability and assumed risks. It has been developed taking into account recommendations of the Bank of Russia and the Basel Committee for Banking Supervision.

The Bank's risk management system considers risks at the decision-making stage and in the course of banking activity. The system provides for timely identification of risks, analysis, detection and assessment of risk positions. The procedures of risk assessment and management processes are integrated into everyday operations.

## Capital adequacy



The Bank uses the following key indicators to evaluate risks:

- Capital at risk — the maximum possible losses associated with the main types of risk;
- Economic capital — the capital necessary to cover general risk, including potential and materialized.

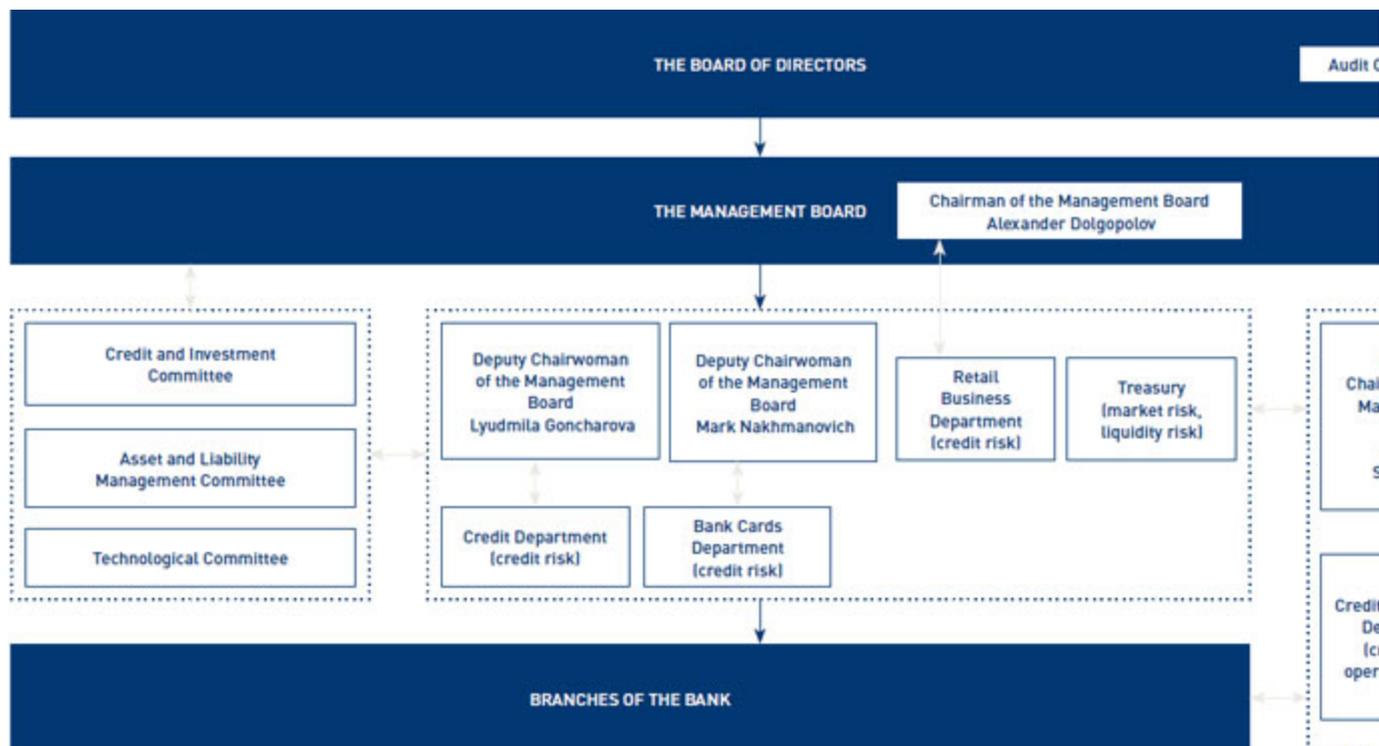
In 2012, the risk management system evolved in the following key areas:

- Maintaining the targeted level of risk across portfolios in line with the development strategy and the resources available to cover risks;
- Developing measures to reduce the number of unpredictable events / losses;
- Evaluating the efficiency of business divisions given the risks assumed;

— Meeting regulatory requirements with regard to minimizing credit risk.

In 2012, due to the high level of uncertainty regarding the Russian economy, the Bank adhered to a conservative approach to evaluating the economic situation and managing risk. While the situation in some sectors stabilized, there was instability on the financial markets, which substantially hampered efforts to identify trends and make long-term forecasts.

## Risk management structure



In 2012 the Board of Directors approved a new edition of the Regulation on Stress Testing. It introduced changes in determining the average rate of losses in the event of default, the values of which have been established on the basis of recommendations of the Basel Committee for Banking Supervision (Basel II). The Bank performs stress testing on three crisis scenarios: mild, base and worst-case. If necessary, changes are made to reduce banking risks according to the stress-testing results. These changes include additional charges to provisions, revising the structure of assets and liabilities and changing business processes to reduce risks.

To develop the risk management system in 2012, the Bank worked on the calculation of the probability of default, which included the following steps:

- Structuring a system of internal credit ratings of corporates;
- Compiling an analytical database of historical information to calculate capital at risk;
- Developing a methodological basis for the calculation of capital at risk;
- Updating the methods of calculating the risk ratios on the loan portfolio of businesses and individuals.

The Bank identifies the most important types of risk — credit, market, liquidity and operating risk — based on the level of possible losses.