

# System for Managing Risks to the Current Strategy

The principles and approaches employed by the Group in installing and operating the risk management system (RMS) have been based on the best international practices implemented in compliance with the national and international risk and capital management standards.

Thus, the Group holds an annual audit of its compliance with the CPMI-IOSCO Principles for Financial Market Infrastructures, the COSO's Enterprise Risk Management Framework, the guidelines of the Basel Committee on Banking Supervision on procedures to be employed by credit institutions in the sphere of risk and capital management. In November 2016 the NCC Clearing Bank, the principal risk taker of the Group, was awarded with the DNV Business Assurance Management System Certificate ISO 9001:201508, an international standard that has summarised the best world expertise in the field of business and quality management. The Bank was audited by DNV GL, an international certification company. The DNV-GL's standards differ from others in that they establish clear requirements to the management system of the business processes designed to serve as the basis for predictable and stable level of quality of products and services.

The integration of the risk management functionality in the business processes enables to timely identify risks, assess their materiality and ensure an efficient response by mitigating their adverse effect and/or by reducing the probability of their realisation. Among mitigating tools are insurance, hedging, limit requirements and transaction collateral requirements.

The Group's RMS operates on the following principles:

**Principle of Comprehensive Coverage** is premised on the identification of risk factors and risk objects, determination of risk appetite on the basis of a comprehensive analysis of the existing and proposed business processes (products), implementation of universal RMS working procedures and elements, consistent application of methodological approaches in resolving similar risk assessment and risk management tasks, assessment and management of key operational risks in close connection with the non-key operational RMS.

**Continuity Principle** is premised on regular, coherent, target-driven procedures, such as assessment of existing risks, including monitoring risk parameters, review of the RMS key parameters, and the manner of their determination, including limits and other restrictions in respect of clearing members' transactions, analysing RMS technologies and operational rules, holding stress tests and preparation of reports for the management.

**Transparency Principle** is manifested by the Group's providing clearing members / counterparties with the relevant information describing RMS. Clearing members, including potential members, have access to methodological documents describing RMS, including methodological approaches to risk assessment, as well as to key aspects of the procedures employed in monitoring financial stability of clearing members / counterparties. At the same time, the assessment results of a specific clearing member and counterparty represented in the form of internal ratings, or limits, and other restrictions established in respect of treasury or administration operations are never made public and are never subject to disclosure.

**Principle of Independent Assessment** means that the comprehensive assessment and review of the risk is undertaken by separate divisions/employees who are independent from the divisions responsible for taking risks or counterparties. The above-mentioned divisions/employees cannot be charged with any responsibilities that may give rise to a conflict of interest.

**Paper Trail Principle** means that any RMS guidelines, procedures, and rules should be developed, negotiated with the divisions participating in the risk assessment and management procedures, and approved by the relevant governing bodies.

**Principle of Prudence** suggests that in choosing methods of risk assessment and management, and in determining the acceptable level of risk (risk appetite), the Group proceeds from the principle of prudent combination of RMS reliability and profitability.

**Materiality Principle** means that in implementing various RMS elements in its operations, the Group is guided by correlation between the costs that the implementation of mechanisms of risk analysis, control, and management will require, and potential outcome of such implementation, as well as the costs of the development and implementation of products, services or tools carrying the relevant exposure.

As part of the risk management strategy, and with the view to achieving strategic objectives, credit entities of the Group have established and annually review their risk appetite that defines the risk limit assumed by them by reference to strategic objectives they are set to achieve.

The current version of the Group's strategy includes five priority areas:

1. *Diversification*. Strategic objective: to substantially increase the proceeds from classic infrastructure services, and to create new trading markets.
2. *Optimisation*. Strategic objective: to improve operational efficiency and streamline Group's business processes.
3. *Market deepening* (growth as a result of further development of the Russian financial markets). Strategic objective: to develop the local investor base, and to facilitate greater liquidity of the Russian financial markets.
4. *Integration of risk management products and collateral*. Strategic objective: to develop an advanced comprehensive system managing risks, collateral pool, and settlements, and extending to all Group markets.
5. *Standardisation of Russian infrastructure*. Strategic objective: to complete the upgrade of the key infrastructure elements of the Russian financial market in accordance with evolving international standards.

The identified priority areas have served as the basis for calculation of threshold values of specific target indicators. Their observance is regularly reviewed and communicated to the Supervisory Board.