This Ordinance is based on Federal Law № 86-FZ, dated 10 July 2002, ‘On the Central Bank of the Russian Federation (Bank of Russia)’ (Collection of Legislation of the Russian Federation, 2002, № 28, art. 2790; 2003, № 2, art. 157; № 52, art. 5032; 2004, № 27, art. 2711; № 31, art. 3233; 2005, № 25, art. 2426; № 30, art. 3101; 2006, № 19, art. 2061; № 25, art. 2648; 2007, № 1, art. 9, art. 10; № 10, art. 1151; № 18, art. 2117; 2008, № 42, art. 4696, art. 4699; № 44, art. 4982; № 52, art. 6229, art. 6231; 2009, № 1, art. 25; № 29, art. 3629; № 48, art. 5731; 2010, № 45, art. 5756; 2011, № 7, art. 907; № 27, art. 3873; № 43, art. 5973; № 48, art. 6728; 2012, № 50, art. 6954; № 53, art. 7591, art. 7607; 2013, № 11, art. 1076; № 14, art. 1649; № 19, art. 2329; № 27, art. 3438, art. 3476, art. 3477; № 30, art. 4084; № 49, art. 6336; № 51, art. 6695, art. 6699; № 52, art. 6975; 2014, № 19, art. 2311, art. 2317; № 27, art. 3634; № 30, art. 4219; № 45, art. 6154; № 52, art. 7543; 2015, № 1, art. 4, art. 37) and the Federal Law ‘On Banks and Banking Activities’ (as amended by Federal Law № 17-FZ, dated 3 February 1996) (Gazette of the Congress of People’s Deputies of RSFSR and the Supreme Soviet of the RSFSR, 1990, № 27, art. 357; Collection of Legislation of the Russian Federation, 1996, № 6, art. 492; 1998, № 31, art. 3829; 1999, № 28, art. 3459, art. 3469; 2001, № 26, art. 2586; № 33, art. 3424; 2002, № 12, art. 1093; 2003, № 27, art. 2700; № 50, art. 4855; № 52, art. 5033, art. 5037; 2004, № 27, art. 2711; № 31, art. 3233; 2005, № 1, art. 18, art. 45; № 30, art. 3117; 2006, № 6,
Chapter 1. General Provisions

1.1. A credit institution (parent credit institution of the banking group) shall establish a risk and capital management system by implementing internal capital adequacy assessment processes (hereinafter – the ‘ICAAPs’); the requirements to such processes are established in chapter 2 hereof.

1.2. The risk and capital management system is aimed at:

detection, evaluation, and aggregation of the most material risks, and other types of risks which, in combination with the most material risks, may entail losses which have a major impact on the capital adequacy assessment (hereinafter – the ‘material risks’) and control of their amount (hereinafter – the ‘risk management’);

assessment of the capital adequacy of the credit institution (banking group, subsidiary credit institution) (hereinafter – the ‘capital’) to cover material risks and new types (additional volumes) of risks assumed when implementing measures
provided for by the development strategy of the credit institution (banking group, subsidiary credit institution) (hereinafter – the ‘potential risks’); capital planning based on the results of comprehensive assessment of material risks, testing the resistance of the credit institution (banking group, subsidiary credit institution) with regard to internal and external risk factors (hereinafter – the ‘stress testing’), business development benchmarks provided for by the development strategy of the credit institution, and the requirements to equity (capital) adequacy established by the Bank of Russia (hereinafter – the ‘capital management’).


1.3. A credit institution that is not the parent credit institution of the banking group shall develop and comply with ICAAPs on an individual basis.

The parent credit institution of the banking group shall develop ICAAPs at the banking group level (hereinafter – the ‘ICAAPs of the group’) and on an individual basis.

ICAAPs of the group shall cover risks of its members, whose data is included in the capital adequacy calculations on a consolidated basis in accordance with the requirements of Bank of Russia Ordinance № 3090-U, dated 25 October 2013, ‘On Calculating the Value of Capital, Required Ratios and Amounts (Limits) of the Open Foreign Currency Positions of Banking Groups’, registered with the Ministry of Justice of the Russian Federation under № 30589, dated 11 December 2013 (Bank of Russia Bulletin № 74, dated 19 December 2013) (hereinafter – the ‘Bank of Russia Ordinance № 3090-U’) (hereinafter – the ‘members of the banking group’).

1.4. The credit institution (the parent credit institution of the banking group) shall develop ICAAPs (group ICAAPs) consistent with the nature and scope of operations performed by the credit institution (banking group), and the level and combination of risks (proportionality principle). Executive bodies of the credit institution (the parent credit institution of the banking group) shall ensure the application of ICAAPs at the credit institution (the credit institution which is a subsidiary of the parent credit institution of the banking group (hereinafter – the ‘subsidiary credit institution’)).

1.5. The parent credit institution of the banking group shall:

establish the approaches to ICAAP development and implementation at subsidiary credit institutions on the basis of the group ICAAPs;
ensure ICAAP development by subsidiary credit institutions on an individual basis in accordance with the provisions of the group ICAAPs, as well as compliance with ICAAPs at the level of the banking group and at the level of subsidiary credit institutions;

establish the approaches to determining the capital requirements and managing the risks assumed by the banking group through its members which are not subsidiary credit institutions.

1.6. A credit institution included in a banking group whose parent credit institution is registered in a foreign country shall develop and comply with ICAAPs on the basis of the approaches established by the group ICAAPs in accordance with the requirements of the legislation of the Russian Federation, including this Ordinance.

Chapter 2. **ICAAP Organisation**

2.1. ICAAPs of a credit institution shall include:

methods and procedures for material risk management;

methods and procedures for capital management, including determination of the target capital level, current capital requirements, assessment of capital adequacy and allocation by types of material risks and lines of business of the credit institution;

a system of control over material risks, capital adequacy, and compliance with the risk limits;

reporting of the credit institution created within the framework of ICAAPs, the requirements to which are established in chapter 6 hereof;

a system of control over compliance with ICAAPs and their efficiency;

the documents developed by the credit institution (the parent credit institution of the banking group) in accordance with chapter 7 hereof.

2.2. ICAAPs of the group shall:

cover material risks for the banking group;
determine the target capital level and current capital requirements at the level of the banking group and across subsidiary credit institutions;
establish the methods and procedures for material risk management, assessment of capital adequacy and allocation by types of material risks at the level of the banking group and for subsidiary credit institutions;
establish a system of control over material risks, capital adequacy, and compliance with the risk limits;
establish the reporting created within the framework of ICAAPs at the level of the banking group and subsidiary credit institutions;
determine the procedures for internal control over compliance with ICAAPs at the level of the banking group and subsidiary credit institutions.

The subsidiary credit institution’s ICAAPs shall be developed based on the approaches to ICAAP development and implementation established in the group ICAAPs.

2.3. The Board of Directors (Supervisory Board) of the credit institution (the parent credit institution of the banking group, subsidiary credit institution) shall participate in the development, approval, and implementation of ICAAPs of the credit institution (ICAAPs of the group, subsidiary credit institution).

The Board of Directors (Supervisory Board) of the credit institution (the parent credit institution of the banking group, subsidiary credit institution) shall approve:

the risk and capital management strategy of the credit institution (banking group, subsidiary credit institution);
the procedure for managing the most material risks and capital of the credit institution (banking group, subsidiary credit institution) and control over its implementation.

2.4. The sole and collegial executive bodies of the credit institution (the parent credit institution of the banking group) shall approve the procedures for managing the risks and capital, and stress testing procedures based on the risk and
capital management strategy of the credit institution (banking group) approved by
the Board of Directors (Supervisory Board) of the credit institution (the parent
credit institution of the banking group), as well as ensure compliance with ICAAPs
and maintenance of the capital adequacy at the level established by the internal
documents of the credit institution (banking group).

2.5. The Board of Directors (Supervisory Board) and executive bodies of the
credit institution (the parent credit institution of the banking group) shall consider
the need to amend the documents developed within the framework of ICAAPs at
least once a year.

2.6. ICAAPs shall be integrated into the strategic planning system of the
credit institution (banking group, subsidiary credit institution), i.e., the results of
ICAAP compliance shall be used in making business development decisions
(shaping the development strategy) of the credit institution (banking group,
subsidiary credit institution), and as a basis for assessing the capital amount
required by the credit institution (banking group) for coverage of material and
potential risks.

In the course of shaping the development strategy, ICAAPs shall be assessed
for compliance with the new terms of activities of the credit institution (banking
group, subsidiary credit institution), the changing nature and scale of the
operations performed, and the level and combination of the assumed risks.

The development strategy of the banking group members is shaped with
regard to the main development areas approved at the banking group level.

2.7. The credit institution (the parent credit institution of the banking group)
shall ensure allocation of functions related to assuming and managing risks
between the credit institution (banking group, subsidiary credit institution)
divisions in a manner that prevents operations (transactions) related to risk
assumption and risk management from being functions of one division.

Chapter 3. **Organisation of the Risk Management System**
Within the Framework of ICAAPs

3.1. The risk management system within the framework of ICAAPs shall allow the credit institution (the parent credit institution of the banking group) to:

- identify the risks inherent to the activities of the credit institution (banking group, members of the banking group);
- identify potential risks to which the credit institution (banking group, members of the banking group) can be exposed;
- identify the risks material for the credit institution (banking group, members of the banking group);
- assess the risks material for the credit institution (banking group, members of the banking group);
- aggregate quantitative assessment of the risks material for the credit institution (banking group, members of the banking group) to determine the total volume of risk assumed by the credit institution (banking group);
- control the volume of risks material for the credit institution (banking group, members of the banking group);
- ensure compliance with the required ratios and the amount of open foreign exchange positions of the credit institution (banking group, subsidiary credit institution) established by the Bank of Russia, as well as centralised control over the total (aggregated) volume of risk assumed by the credit institution (banking group, members of the banking group).

3.2. The credit institution (the parent credit institution of the banking group) shall establish a methodology for determining the risks material for the credit institution (banking group, members of the banking group), which shall be based on a system of indicators characterising:

- the risk levels for operations carried out by the credit institution (members of the banking group) (for example, a high share of loans in the portfolio of the credit institution (members of the banking group) issued to borrowers with low creditworthiness and bad debt servicing may suggest a high credit risk level);
the complexity of operations (transactions) carried out by the credit institution (members of the banking group);

the volumes of operations (transactions) carried out within individual lines of business (for example, a significant amount of international operations of the credit institution (members of the banking group) may serve as a basis for recognising the country risk as material);

commencement of new types of operations (introduction of new products) (for example, commencement of securities trading operations may serve as a basis for recognising the market risk as material).

The credit institution (the parent credit institution of the banking group) shall regularly (at least once a year) assess the materiality of risks inherent to its activities (activities of the banking group).

3.3. For each material risk, the credit institution (the parent credit institution of the banking group) shall determine the methodology for assessing this type of risk and determining the capital requirements, including sources of data used for risk assessment, stress testing procedures in accordance with chapter 5 hereof (except non-bank credit institutions), and methods used by the credit institution (the parent credit institution of the banking group) to mitigate and manage risks arising due to the possibility of the credit institution’s risk mitigation methods not providing the expected results due to the materialisation of a legal risk or liquidity risk (hereinafter – the ‘residual risk’) with respect to the accepted collateral.

For non-financial risks, such as legal, regulatory, strategic and reputational risks, the credit institution (the parent institution of the banking group) shall develop a methodology ensuring their assessment using qualitative methods based on an expert assessment drawn up according to the results of analysing the risk occurrence factors.

The credit institution (the parent credit institution of the banking group) shall independently select the risk assessment methods to be used within the framework of ICAAPs. The risk assessment methods used by the subsidiary credit
institution within the framework of ICAAPs shall be agreed in writing with the parent credit institution of the banking group. The requirements to the organisation of management procedures for individual risk types are established in the Appendix to this Ordinance and shall be applied to material risks by the credit institution.

3.4. In order to control the volumes of assumed material risks, the credit institution shall determine target risk levels, the target risk structure, and the system of limits (in accordance with the requirements of clause 4.7 hereof) on the basis of the aggregate maximum risk volume that the credit institution (banking group) is ready to assume in view of the goals set in its development strategy (for example, maintaining the indicators representative of a return on capital or other financial indicators on a certain level), target indicators of business development (operations, transactions), the current and target risk structure (hereinafter – the ‘risk appetite’), as well as the procedures for control over compliance with the established limits. The risk appetite shall be determined in accordance with clause 4.1 hereof.

The parent credit institution of the banking group shall determine target risk levels and the limit system at the level of the banking group and for each subsidiary credit institution. The risks assumed by the banking group through members of the banking group that are not subsidiary credit institutions shall be covered by the target risk levels and limits established at the level of the banking group.

The credit institution (the parent credit institution of the banking group) shall control the material risks by comparing their volumes with the established limits (target risk levels).

The parent credit institution of the banking group shall ensure monthly control over the volumes of material risks of the banking group members. The
volumes of material risks at the level of the banking group shall be controlled at least once a quarter.

3.5. The credit institution (the parent credit institution of the banking group) shall at least once a year assess the conformity of the risk management procedures, including risk aggregation procedures, to the current situation at the credit institution (banking group), including with respect to coverage of all the banking group members and significant areas of activity. If necessary, the risk management procedures can be adjusted in accordance with the procedure established at the credit institution (the parent credit institution of the banking group).

The credit institution (the parent credit institution of the banking group) shall determine the tasks and powers of the divisions performing the functions associated with risk assumption by the credit institution (banking group, subsidiary credit institution) and risk management.

3.6. A risk management department shall be created at the credit institution (the parent credit institution of the banking group). The risk management department shall perform its functions at the credit institution on an ongoing basis.

The risk management department can consist of several divisions performing risk management functions. In case the functions of the risk management department are performed by several divisions of the credit institution, the duties shall be distributed between these divisions.

A head of the risk management department shall be appointed at the credit institution (the parent credit institution of the banking group) and shall be under direct control of the sole executive body of the credit institution (the parent credit institution of the banking group) or its deputy, being a member of the collegial executive body having no control over the divisions involved in carrying out operations and other transactions by the credit institution.

The risk management department of the parent credit institution of the banking group shall ensure risk management at the banking group.
A credit institution that is a member of the banking group can transfer certain risk management functions to another credit institution that is a member of the banking group, with consideration for the requirements established in paragraph 6 of subclause 7.2.1 of clause 7.2 hereof. The transfer of certain risk management functions by the credit institution to another credit institution shall not release the Board of Directors (Supervisory Board), executive bodies, and head of the risk management department of the credit institution which has transferred certain risk management functions, from performance of the functions established herein.

3.7. The head and employees of the risk management department shall be employed by the credit institution.

The head of the risk management department shall coordinate and control the work of all the divisions (employees) performing risk management functions, as well as the working bodies (committees) responsible for risk management (if any).

3.8. The head of the risk management department shall comply with the qualification requirements established by Bank of Russia Ordinance № 3223-U, dated 1 April 2014, ‘On the Requirements to Heads of the Risk Management Department, Internal Control Department and Internal Audit Department of a Credit Institution’, registered with the Ministry of Justice of the Russian Federation under № 32086, dated 23 April 2014 (Bank of Russia Bulletin № 63, dated 9 July 2014) and the reputation requirements established by clause 1, part 1, art. 16 of the Federal Law ‘On Banks and Banking Activities’.

Chapter 4. **Organisation of Capital Management Procedures**

4.1. The credit institution (the parent credit institution of the banking group) shall determine the risk appetite in order to ensure stable functioning of the credit institution (banking group) on an ongoing basis for the long-term, including in stress situations.
4.2. The risk appetite shall be determined by the risk and capital management strategy of the credit institution (the parent credit institution of the banking group) at the level of the credit institution (banking group) in the context of the credit institution’s (subsidiary credit institution’s) areas of activity.

4.3. The risk appetite shall be determined as a combination of quantitative and qualitative indicators. The credit institution (the parent credit institution of the banking group) shall independently select the risk appetite indicators.

4.4 The quantitative indicators include, without limitation, the following.

4.4.1. Capital adequacy indicators include:

the level of capital adequacy required to obtain the credit rating desired by the credit institution;

the capital adequacy level of the credit institution (banking group) determined as a percentage of the level required to cover the capital (economic capital) risks;


4.4.2. The indicators of certain types of material risks include:

for credit risk – the ratio of the required loss provisions amount to risk-weighted credit claims;
the amount of provisions for possible losses in the context of credit claim portfolios;

the probability of default and losses in relation to classes (segments) of credit claims;

for interest rate risk – sensitivity of the interest margin to market rate fluctuations, and the cost of capital to market rate fluctuations;

for market risk – the capital value required to cover losses arising due to changes in the financial instruments value;

for liquidity risk – a maximum gap between assets and liabilities with different demand and maturity terms, both up to one year and over one year, limits on the credit institution’s dependency on funds of one legal entity or individual (hereinafter – the ‘counterparty’) or on funds raising when placing one product;

for the concentration risk – the concentration risk indicator for major borrowers (the ratio of the amount of the credit institution’s requirements to major borrowers, to the overall loan portfolio, for example to five or ten major borrowers), the concentration risk indicator for borrowers by type of economic activity or for investment in securities of issuers by type of economic activity;

statistical indicators of the degree of diversification of the credit institutions’ portfolio (for example, the Herfindahl-Hirschman Index).

4.5. Qualitative indicators include, for example:

assessment of risks and compliance with the established risk appetite when making a decision regarding entry into new markets and new operations (introduction of new products);

assessment of risk and return when making management decisions.

4.6. Based on the risk appetite indicators, the credit institution (the parent credit institution of the banking group) shall determine the target capital level, target capital structure, capital sources, target level of capital adequacy, as well as
target risk levels and the target risk structure of the credit institution (banking group).

4.7. When determining the target capital level, target capital structure, and target capital adequacy level, the credit institution (the parent credit institution of the banking group) shall consider the current capital requirements to cover material risks (hereinafter – the ‘volume of the required capital’), as well as the potential need to raise additional capital and the existing sources for that to cover material risks with regard to the business development benchmarks, target risk level and target risk structure of the credit institution (subsidiary credit institution) established in the development strategy.

4.8. The total volume of required capital shall be determined by the credit institution (the parent credit institution of the banking group) based on the aggregated assessment of the capital requirements with regard to the risks material for the credit institution (banking group).

4.9. For purposes of assessing the aggregated amount of required capital, the credit institution (the parent credit institution of the banking group) shall establish the following methodologies.

4.9.1. A methodology for determining the amount of capital required to cover the requirements for each risk material for the credit institution (banking group).

For these purposes, the credit institution (the parent credit institution of the banking group) shall determine the following:

- risks for which the capital requirements will be determined by quantitative methods. The quantitative capital requirements shall be determined by the credit institution at least for credit, market, and operational risks;

- risks for which capital requirements will not be determined by quantitative methods. In this case, possible losses due to their materialisation will be covered by allocating a certain amount of capital for their coverage, and the risks will be mitigated in other ways (for example, by establishing limits).
4.9.2. The methodology of determining the total capital required by the credit institution (banking group) on the basis of the material risk assessment aggregation.

The methodology of determining the total required capital shall be determined by the credit institution at its own discretion. The parent credit institution of the banking group shall establish the methodology of determining the total required banking group capital, as well as the methodology of determining the total required capital for the subsidiary credit institution.

For these purposes, the following can be used:

- methods applied in international practice (for example, a methodology for determining the economic capital). In this case, the approaches applied by the credit institution (the parent credit institution of the banking group) shall comply with the requirements applied in international practice to the methodology for determining economic capital.

- the methodology of the Bank of Russia, established by Bank of Russia Instruction № 139-I and Bank of Russia Ordinance № 3090-U for assessing capital adequacy of the credit institution (banking group). When using the above methodology, the total capital required by the credit institution (banking group) shall be determined by multiplying the total amount of credit, market, and operational risks calculated in accordance with the above methodology, by the target capital adequacy level established in the internal documents of the credit institution (the parent credit institution of the banking group).

For purposes of accounting for other types of risks material for the credit institution (banking group) for which the Bank of Russia has not established an assessment methodology, the credit institution (the parent credit institution of the banking group) shall determine its own methodology of accounting of such risks when assessing the capital adequacy of the credit institution (banking group).

4.10. For purposes of assessing the capital adequacy, the credit institution (the parent credit institution of the banking group) shall establish procedures for
correlating the total capital required by the credit institution (banking group) and the capital available to the credit institution (banking group). The above procedures shall also allow the credit institution (the parent credit institution of the banking group) to control compliance with the required ratios.

In addition to sources included in the total capital amount established by Bank of Russia Regulation № 395-P, the sources of capital available to the credit institution (banking group) may include other sources, such as unrealised income (adjusted for unrealised losses) in terms of assets (liabilities) accounted other than at fair value, and expected income. Such sources shall be available for covering losses incurred due to risk materialisation.

4.11. For purposes of controlling the capital adequacy, the credit institution (the parent credit institution of the banking group) shall establish the procedures for capital allocation through the system of limits by area of activity (by subsidiary credit institution), type of material risks (in particular, by credit and market risks) and by the division performing the functions associated with risk assumption (the division extending loans to corporate and retail customers in terms of credit risk, treasury, and other divisions performing operations with securities, foreign currency, and derivative financial instruments in terms of market and interest rate risks).

4.12. Limits shall be established at the credit institution (subsidiary credit institution) for all the divisions performing functions associated with risk assumption.

For risks with respect to which capital requirements are determined, limits shall be based on the assessment of the capital requirements in relation to such risks.

For risks with respect to which capital requirements are not determined, structural limits or limits on the volume of operations (transactions) performed shall be established.
The system of limits shall have a multi-tier structure, including, without limitation:

- limits on the risks material for the credit institution (banking group, subsidiary of the parent credit institution of the banking group (hereinafter – the ‘subsidiary’)) (for example, limits on credit and market risks);
- limits on the divisions performing functions associated with the assumption of risks material for the credit institution (banking group, subsidiary);
- limits on the amount of operations (transactions) carried out with one counterparty (counterparties of a certain type of economic activity);
- limits on the amount of operations (transactions) carried out using the financial instruments;
- limits on the maximum level of losses by the credit institution’s divisions.

4.13. In the course of allocating capital by area of activity (by subsidiary credit institution), type of material risks, divisions of the credit institution performing functions associated with risk assumption, the credit institution (the parent credit institution of the banking group) shall ensure the availability of capital provisions for the following:

- coverage of risks not assessable through quantitative methods, as well as risks that are impossible or difficult to allocate among the credit institution divisions (for example, operational risk);
- implementation of measures for business development provided for by the development strategy of the credit institution (subsidiary credit institution).

4.14. The credit institution (the parent credit institution of the banking group) shall control compliance with the established limits by its subdivisions (subsidiaries). As part of exercising control over the established limits, the credit institution (the parent credit institution of the banking group) shall establish a system of indicators attesting to a high degree of use of limits allocated to the divisions of the credit institution (subsidiaries) (hereinafter – the ‘alert values’).
The relevant list of corrective measures shall be established for each of the alert values depending on how close the limit’s use is to the alert value, for example:

- mitigation of the assumed risk;
- reallocation of capital assigned for coverage of material risks between the divisions of the credit institution (subsidiaries);
- increase in the capital amount.

The results of limit control (reaching alert values, exceeding the limits) shall be included in the credit institution’s reporting, which shall be prepared within the framework of ICAAPs, and shall be submitted in accordance with the procedure established in clause 6.4 hereof to the Board of Directors (Supervisory Board), executive bodies of the credit institution (the parent credit institution of the banking group), and heads of the divisions of the credit institution (the parent credit institution of the banking group) performing functions associated with risk assumption and management of the assumed risks.

Chapter 5. **Organisation of Stress Testing Procedures**

5.1. A credit institution (parent credit institution of the banking group) with assets of five hundred billion (500,000,000,000) or more rubles, as well as a credit institution that uses methods different from those established by the Bank of Russia for assessing material risk(s) and overall capital requirements, shall, within the framework of ICAAPs, use a stress testing methodology based on historical and hypothetical events (scenario analysis) and analysis of the credit institution’s sensitivity to changes in risk factors.

For purposes of this Ordinance, the amount of assets is the value of ‘Assets, total’, determined in accordance with the ‘Itemised Table for Drawing up the Balance Sheet (Disclosed Statement)’ of clause 3 of the Procedure for Drawing up and Submitting Reporting Documents according to Form 0409806 ‘Balance Sheet (Disclosed Statement)’ established in appendix 1 to Bank of Russia Ordinance

5.2. A credit institution with assets of less than five hundred billion (500,000,000,000) rubles that does not use methods different from those established by Bank of Russia regulations on risk and capital adequacy assessment, reserves the right to perform only the sensitivity analysis with respect to credit, interest rate, and concentration risks when performing stress testing.

5.3. A credit institution (parent credit institution of the banking group) with assets reaching five hundred billion (500,000,000,000) rubles, upon the expiry of one year from the date of reaching the above amount of assets, shall use the stress testing methodology provided for in clause 5.1 hereof.

5.4. The credit institution (the parent credit institution of the banking group) shall develop stress testing procedures, which shall stipulate the following:

types of stress tests and the main objectives of stress testing accepted at the level of the credit institution (banking group, subsidiary credit institution);
the frequency of stress testing depending on the type and aim of the stress test (at least once a year);

a list of scenarios used and the methodology of their selection;

procedure for use of the stress testing results in risk management procedures and determination of the capital requirements, including in subsidiaries;

procedure for notifying the sole and collegial executive bodies of the credit institution (the parent credit institution of the banking group) of the stress testing results and taking measures on mitigating risk levels according to the stress testing results at the credit institution (subsidiary credit institution);

possible corrective measures in stress situations at the credit institution (banking group, subsidiary).

5.5. When selecting the stress testing scenario, the credit institution (the parent credit institution of the banking group) shall consider the following:

the stress testing shall cover all the risks and areas of activity material for the credit institution (banking group);

the stress testing scenarios shall account for events that may cause maximum damage to the credit institution (banking group, members of the banking group) or entail the loss of good will.

The credit institution (the parent credit institution of the banking group) shall regularly (at least once a year) assess the scenarios under consideration, the quality of data and assumptions used, and the compliance of the obtained stress testing results with the established goals.

5.6. The stress testing procedures shall be described in the credit institution (banking group) documents, developed within the framework of ICAAPs, and shall be reviewed depending on changes in external and internal factors of its activities, at least once a year.

The stress testing procedures used by the subsidiary credit institution shall be agreed in writing with the parent credit institution of the banking group.
Chapter 6. **Reporting of the Credit Institution Drawn up Within the Framework of ICAAPs**

6.1. The credit institution (the parent credit institution of the banking group) shall draw up reporting within the framework of ICAAPs (hereinafter – the ‘ICAAPs reporting’) of the credit institution (banking group).

6.2. ICAAPs reporting shall contain reports:

- on the results of ICAAPs compliance by the credit institution (banking group), including on compliance with the target capital level and capital adequacy, target capital structure, target risk levels, and target risk structure;
- on the stress testing results;
- on material risks;
- on the amount of capital, results of the capital adequacy assessment of the credit institution (banking group, subsidiary credit institution) and the adopted assumptions applied for purposes of capital adequacy assessment;
- on compliance with the required ratios by the credit institution (banking group, subsidiary credit institution).

Reports on material risks shall include the following information:

- on the aggregated volume of material risks assumed by the credit institution (banking group), as well as on the volume of each type of risk material for the credit institution (banking group), on changes in the volume of material risks, and on the impact of the above changes on the capital adequacy;
- on the volume of material risks assumed by the divisions of the credit institution (subsidiaries);
- on the use of the limits allocated to the divisions of the credit institution (subsidiaries);
- on any violations of the established limits by the divisions of the credit institution (subsidiaries), as well as on the measures taken to rectify the identified violations.
A credit institution that determines the credit risk volume based on internal ratings shall also include information on the main parameters and assumptions of the models used, as well as on quantitative results of the risk assessment in the reports on material risks.

6.3. The forms of reports shall be unified in a manner that allows:

consolidation of information by different types of material risks (by members of the banking group) for purposes of performing a complex analysis of the degree of risk exposure of the credit institution (banking group);

assessment of the capital adequacy at the level of the credit institution (banking group, subsidiary credit institutions) and assessment of the capital requirements in the long run;

notification of the management bodies of the credit institution (parent credit institution of the banking group, members of the banking group) and divisions performing functions associated with risk assumption and management of the results of the capital adequacy assessment by the credit institution (banking group).

6.4. The credit institution (the parent credit institution of the banking group) shall prepare ICAAPs reporting on a regular basis.

ICAAPs reporting shall be prepared by the risk management department or another division independent of the divisions performing functions associated with risk assumption (except for the internal audit service).

Reports on the results of ICAAPs compliance shall be submitted to the Board of Directors (Supervisory Board) and executive bodies of the credit institution (the parent credit institution of the banking group) on an annual basis.

Reports on stress testing results shall be submitted to the Board of Directors (Supervisory Board) and executive bodies of the credit institution (the parent credit institution of the banking group) on an annual basis.

Reports on material risks, compliance with the required ratios, the capital amount, and the results of the capital adequacy assessment of the credit institution or major member of the banking group (the term ‘major member’ shall be

the Board of Directors (Supervisory Board) of the credit institution (the parent credit institution of the banking group) – on a quarterly basis;

the executive bodies of the credit institution (the parent credit institution of the banking group) – at least once a month.

Information on reaching the established alert values and failure to comply with the established limits shall be reported to the Board of Directors (Supervisory Board) and executive bodies of the credit institution whenever such cases are revealed.

The reports shall be provided to the head of the risk management department, heads of the divisions and members of committees of the credit institution in charge of risk management in accordance with the following procedure:

Reports on material risks related to information on the volume of risks assumed by the divisions of the credit institution, use (violation) of the established limits, as well as reports on the capital amount, the results of the capital adequacy assessment, and compliance with the required ratios at the credit institution, shall be submitted on a daily basis;

Reports on material risks related to information on the aggregated amount of material risks assumed by the credit institution shall be submitted at least once a month;

Reports on material risks, on the capital amount, the results of the capital adequacy assessment, and compliance with the required ratios by the subsidiary
credit institution shall be submitted to the head of the risk management department, heads of the divisions, and members of the committees of the parent credit institution of the banking group in charge of risk management at the banking group at least once a month;

Reports on material risks, compliance with the required ratios, the capital amount, and capital adequacy of the banking group shall be submitted to the Board of Directors (Supervisory Board), executive bodies of the parent credit institution of the banking group, as well as to the head of the risk management department, heads of the divisions and members of the committees of the parent credit institution of the banking group in charge of risk management at the banking group on a quarterly basis.

Chapter 7. **Documents Developed Within the Framework of ICAAPs**

7.1. Documents developed by a credit institution (parent credit institution of a banking group) within the framework of ICAAPs shall be based on the credit institution’s (banking group’s) development strategy, determining, in particular, the areas of development of the credit institution (banking group), volume benchmarks for planned operations (transactions), target capital level and capital adequacy of the credit institution (banking group, subsidiary).

7.2. Documents developed within the framework of ICAAPs shall contain the following.

7.2.1. The risk and capital management strategy of the credit institution (banking group), establishing:

the structure of the management bodies of the credit institution (parent credit institution of the banking group) and the divisions performing functions associated with risk and capital management at the credit institution (banking group);
allocation of functions associated with risk and capital management between the Board of Directors (Supervisory Board), the sole and collegial executive bodies, divisions and employees of the credit institution (the parent credit institution of the banking group, members of the banking group);

organisation of control on behalf of the Board of Directors (Supervisory Board) and executive bodies of the credit institution (the parent credit institution of the banking group, subsidiary credit institution) over ICAAPs compliance at the credit institution (banking group, subsidiary credit institution) and their efficiency, including the frequency of control over compliance with the risk and capital management procedures;

approaches to organisation of the risk management system at the credit institution (banking group) (including a list of divisions performing risk management and assumption functions; the methods of risk assessment, limitation and mitigation; the procedure and frequency of assessing compliance of the risk and capital management procedures with the approved risk and capital management strategy of the credit institution, and the nature and scope of operations carried out by the credit institution);

a list of risk management functions transferred to another credit institution included in the banking group, and the procedure for interaction among credit institutions when carrying out the risk management procedures;

the term for planning the amount of operations (transactions) and capital at the credit institution (banking group);

the credit institution (banking group) risk appetite and areas of its allocation, including risk appetite indicators of the credit institution (banking group, subsidiary credit institution);

the target capital structure;

the target risk levels, target risk structure;

stress testing scenarios of the credit institution (banking group, subsidiary credit institution);
ICAAPs reporting of the credit institution (banking group, subsidiary credit institution), the procedure and frequency of its preparation and submission to the management bodies of the credit institution (the parent credit institution of the banking group), and consideration and use by the Board of Directors (Supervisory Board), sole and collegial executive bodies of the credit institution (the parent credit institution of the banking group), and divisions of the credit institution (the parent credit institution of the banking group, members of the banking group) when making decisions on the current activities and in the course of elaborating the development strategy;

the procedure and frequency of notifying the Board of Directors (Supervisory Board) of the credit institution (the parent credit institution of the banking group) about the faults identified in the risk assessment and management methodology, reaching the alert values, exceeding the established limits and actions taken for their rectification at the credit institution (banking group, subsidiary);

procedures for taking measures at the credit institution (banking group, subsidiary) on mitigation of risks based on information contained in ICAAPs reporting.

7.2.2. The procedures for managing certain types of risks and the capital adequacy assessment used at the credit institution (banking group, subsidiary credit institution), including the methodology of identifying the risks material for the credit institution (banking group), description of the risk management processes, methodology of risk assessment and control, methods used for risk aggregation and capital adequacy assessment, methodology of assessing the availability of additional capital sources of the credit institution (banking group, subsidiary credit institution), description of procedures for developing (creating) new products and/or entering new markets.

7.2.3. Stress testing procedures
7.3. The documents developed by the credit institution within the framework of ICAAPs shall be brought to the notice of all employees of the credit institution (the parent credit institution of the banking group) performing functions of risk assumption and management.


8.1. This Ordinance shall enter into force 10 days following its publication in the Bank of Russia Bulletin.

8.2. Credit institutions with assets of more than five hundred billion (500,000,000,000) rubles shall bring the risk and capital management procedures into compliance with the requirements of this Ordinance at the individual level by 31 December 2015, and at the level of the banking group – by 31 December 2016.

8.3 Credit institutions with assets of less than five hundred billion (500,000,000,000) rubles shall bring the risk and capital management procedures into compliance with the requirements of this Ordinance at the individual level by 31 December 2016, and at the level of the banking group – by 31 December 2017.

Governor
of the Central Bank
of the Russian Federation

E. S. Nabiullina
Requirements to the Organisation of Management Procedures for Individual Types of Risks

Chapter 1. General Requirements

1.2. With respect to each of the material risks, the credit institution (the parent credit institution of the banking group) shall establish:

- a definition of risk used at the credit institution (banking group);
- types of operations (transactions) to which this risk is inherent;
- the powers of heads of divisions of the credit institution (banking group) with respect to the operations (transactions) related to risk assumption, establishing risk limits and methods of risk mitigation;
- control procedure (including the frequency) on behalf of the Board of Directors (Supervisory Board) and executive bodies of the credit institution (the parent credit institution of the banking group) over compliance with the established procedures for risk management, the volumes of the assumed risk, and compliance with the established limits at the credit institution (banking group, subsidiary);
- methods of risk identification;
- methods of risk assessment, including determination of the capital requirement;
- methods of risk limitation (the system of limits);
methods of risk mitigation;

methods of estimating the efficiency of the risk assessment methodology, including quantitative risk assessment models and procedures used in the rating systems, as well as the values of the risk components calculated using these systems (hereinafter – the ‘validation of the quantitative risk assessment models’) for the credit institution applying such models;

the procedure and frequency (in any case, at least once a year) of assessing the efficiency of the risk assessment methods, including updates to documents establishing the risk assessment methods and validation of the quantitative risk assessment models by the internal audit service (another division of the credit institution independent of the divisions performing functions associated with risk assumption and development of risk assessment methods, including quantitative risk assessment models) or an external auditor;

the procedures and frequency of stress testing (at least once a year);

procedures for risk control;

reports on risks;

order of actions to be taken by officials when alert values are reached or the established limits are exceeded at the credit institution (at the level of the banking group, at subsidiaries);

procedure for the internal audit service of the Board of Directors (Supervision Board) and executive bodies of the credit institution (the parent credit institution of the banking group) to be notified of the faults identified in the operation of the internal risk assessment systems at the credit institution (banking group, subsidiary) and actions taken to remedy the said faults;

requirements to the automated system(s) ensuring risk management.

1.2. The requirements to the organisation of management of individual types of risks are established in Chapters 2–7 hereof.
Chapter 2. Credit Risk

2.1. Procedures for managing risk arising due to the possibility of failure to perform the contractual obligations by the borrower or counterparty to the credit institution (hereinafter – the ‘credit risk’) shall include:

the procedure for issuing loans and making decisions on their issue at the credit institution (subsidiary);

methods of determining and the procedure for establishing limits (the risk limit for one borrower (or a group of related borrowers), the risk limit by type of economic activity of borrowers, other limits) at the credit institution (banking group, subsidiary);

the methodology of risk assessment per counterparty (i. e., the counterparty’s default risk until the completion of settlements under the transaction), including the methodology of assessing the financial situation of counterparties (borrowers), loan quality, and determination of the amount of equity (capital) requirements;

the requirements of the credit institution (subsidiary) to ensuring fulfilment of obligations of counterparties (borrowers), and the methodology of assessment.

The credit risk assessment methodology shall cover all types of operations carried out by the credit institution to which credit risk is inherent, including concentration risk (the requirements to managing such risk are established in chapter 7 hereof), credit risk per counterparty, as well as residual risk entailed by instruments used by the credit institution for credit risk mitigation.

2.2. If the credit institution (the parent credit institution of the banking group, subsidiary credit institution) uses credit risk assessment methods that are different from the methods established by Bank of Russia Instruction № 139-I, including those based on the quantitative assessment models allowing to assess the solvency of the counterparties (borrowers), as well as quantitative assessment of risks assumed as a result of performing the operations (transactions) with them, the methods applied shall comply with the requirements of Bank of Russia regulations.
2.3. When applying models of credit risk quantitative assessment, the credit institution (the parent credit institution of the banking group, subsidiary credit institution) shall comply with the following requirements:

the models of credit risk quantitative assessment shall constitute an integral part of the internal risk management processes and business decision-making, including decisions on issuing loans and allocating capital to divisions of the credit institution;

internal systems for assessing the accuracy and consistency of quantitative credit risk assessment models shall be established;

the quantitative credit risk assessment models applied by the subsidiary credit institution shall be agreed in writing with the parent credit institution of the banking group.

2.4. The credit institution (the parent credit institution of the banking group, subsidiary credit institution) applying quantitative credit risk assessment models shall establish the following in the documents developed within the framework of ICAAPs:

the methodology for distributing credit requirements among the relevant portfolios, the rating criteria, the obligations of persons assigning ratings to borrowers and financial instruments, the frequency of inspections of the assigned ratings for their correctness, updating of their values, and management control over the rating process;

default and loss identification;

description of the methodology of statistical models used in the rating process;

the rating process and the structure of the internal control system;

substantiation and analytical prerequisites for selecting the rating criteria, as well as all basic changes in the rating process.

2.5. Reports on credit risk shall include the following information:
the results of assets classification by Quality Categories (standard, non-standard, doubtful, distressed, bad loans), the amount of estimated and actually existing loan loss provisions, grouped by subsidiary;

the results of the collateral value assessment;

credit risk allocation by business line, subsidiary, type of activity of the counterparty (borrower), type of counterparty (borrower) (organisation, bank, public authority, individual entrepreneur, individual), type of financial assets, as well as by major portfolios inside certain types of assets, geographical zones, and groups of countries;

the volumes and term of overdue and restructured debts with respect to subsidiaries, types of counterparties, and types of financial instruments.

2.6. In case models of quantitative credit risk assessment are applied, the credit risk reports shall additionally include the following information:

the level and profile of assumed risks by assessment categories (rating scales);

quantitative assessments of risk parameters by assessment categories (rating scales);

information on transitions of counterparties (borrowers) or financial instruments between the risk assessment categories (rating scales);

comparative data on the predicted and realised values of risk parameters;

stress testing results.

Chapter 3. **Market Risk**

3.1. The procedures for managing the risk of financial losses as a result of changes in the current (fair) value of the financial instruments, as well as foreign exchange rates and/or book prices of precious metals (hereinafter – the ‘market risk’) shall include:

determination of the trading portfolio structure;

market risk assessment methodologies and determination of capital requirements with respect to the market risk;
the methodology of determining the price of the trading portfolio instruments;

the system of limits and the procedure for establishing the limits.

The procedures for market risk management of the subsidiary shall be developed based on the procedures for market risk management at the level of the banking group and shall be agreed in writing with the parent credit institution of the banking group.

3.2. If the credit institution uses market risk assessment methods different from those established by Bank of Russia Regulation № 387-P, including those based on the quantitative assessment models developed by the credit institution on the basis of specific scenarios of risk components behaviour determined on the basis of statistical and historical data on changes in the risk factors (market rates and prices, which impact the values of trading positions of the credit institution) or forecasts of such changes using mathematical models, the methods applied shall comply with the requirements to such types of methods in international practice.

The models of quantitative market risk assessment applied by the subsidiary credit institution shall be agreed in writing with the parent credit institution of the banking group.

3.3. The credit institution (the parent credit institution of the banking group) shall determine the structure of the trading portfolio, i.e., the list of instruments constituting its trading portfolio and the policy on operations with the trading portfolio instruments determining the nature and types of operations carried out by the credit institution (banking group).

When developing the market risk management procedures, the credit institution (parent credit institution of the banking group) shall consider the structure of the trading portfolio and the nature of operations carried out by the credit institution (subsidiary).

Procedures for making decisions on commencing operations with new types of financial instruments or entering new markets shall include a preliminary analysis of whether the credit institution (subsidiary) has a methodology for
managing the market risk assumed in view of the commencement of operations with new types of operations for the credit institution (subsidiary) (launching new products), as well as employees with the required qualifications.

3.4. The methodology of determining the cost of the trading portfolio instruments, including sources of market information used for determining the cost of the trading portfolio instruments, shall be developed without involving the divisions (employees) of the credit institution (subsidiary) carrying out operations (transactions) associated with market risk assumption and assessment of the cost of the trading portfolio instruments. The credit institution shall establish the procedure and frequency of assessing the methodology of determining the cost of the trading portfolio instruments by the internal audit service (another division independent of the divisions performing functions associated with market risk assumption, development of the methodology of determining the cost of the trading portfolio instruments, as well as assessment of the cost of the trading portfolio instruments).

The methodology of assessing the cost of the trading portfolio instruments applied by the subsidiary shall be agreed in writing with the parent credit institution of the banking group and shall be reviewed from time to time to assess its adequacy.

Information on the trading portfolio instruments assessed using the quantitative assessment models shall be brought to the attention of the management bodies of the credit institution (the parent credit institution of the banking group). The credit institution (the parent credit institution of the banking group) shall develop a methodology of assessing the degree of uncertainty of the estimates obtained using such models and, if necessary, adjusting the cost of the instruments assessed using such models.

The internal audit service of the credit institution using the models of quantitative assessment of the market risk (another division independent of the divisions carrying out the operations (transactions) associated with market risk assumption and the divisions developing the models of quantitative assessment of
the market risk) shall assess, on a quarterly basis, the quality (accuracy) of such models using historical data, as well as current data in the course of the current activities.

Chapter 4. Operational Risk

4.1. The procedures for managing the risk of losses as a result of unreliability of the internal management procedures of the credit institution, negligence of employees, failure of information systems or the impact of external events on the activities of the credit institution (subsidiary) shall include methods of identifying and assessing the operational risk with respect to different areas of activity of the credit institution (subsidiaries), including methods of assessing and analysing the probability of operational risk materialisation.

The procedures for operational risk management shall stipulate:

the powers of the heads of divisions of the credit institution in the area of operational risk management and their responsibilities in identifying the operational risk inherent to the activities of such divisions;

the availability of a division (employee) at the credit institution in charge of developing operational risk management procedures, including operational risk assessment methods, preparation of reports on operational risk, as well as application of the above procedures;

control over compliance with the operational risk management procedures at the credit institution and assessment of their efficiency by the internal audit service of the credit institution (another division of the credit institution independent of the divisions carrying out operations (transactions) associated with risk assumption and development and application of the operational risk procedures).

4.2. If the credit institution uses operational risk assessment methods different from those established by Bank of Russia Regulation № 346-P, the methods applied shall comply with the requirements to such type of methods in international practice.
The operational risk management procedures at the credit institution using the quantitative risk assessment models shall include methods of identifying and assessing the risk of losses as a result of inadequacy of the models applied.

The quantitative operational risk assessment methods applied by the subsidiary credit institution shall be agreed in writing with the parent credit institution of the banking group.

4.3 The credit institution (the parent credit institution of the banking group) shall create and regularly update the analytical database on losses incurred as a result of operational risk materialisation containing information on the types of losses, their amount, the dates of their occurrence, as well as on all other events resulting in such losses, including the circumstances of their occurrence and identification. The analytical database shall be maintained for the subsidiary credit institutions, areas of activity (divisions), and types of operations (transactions).

The procedure for maintaining the database on losses incurred as a result of operational risk materialisation, including the requirements to the form and content of the information entered, and the threshold amount of losses to be entered into the database shall be established in the credit institution (banking group) documents developed within the framework of ICAAPs.

The credit institution (the parent credit institution of the banking group) shall accumulate external information on material losses incurred by credit institutions as a result of operational risk materialisation, including information on the amount of losses, the value of operations of the credit institutions in the region where the losses were incurred, and on the causes and circumstances of their occurrence.

The credit institution (the parent credit institution of the banking group) shall develop the procedure for maintaining and using the analytical database on losses incurred as a result of operational risk materialisation, as well as the procedure for external information accounting for purposes of assessing the operational risk assumed by the credit institution (subsidiary).

4.4. For purposes of control over the efficiency of operational risk management, the credit institution (the parent credit institution of the banking
group) shall establish the procedure and frequency of reviewing the cases of occurrence of losses as a result of operational risk materialisation and the reasons for their occurrence, as well as the list of measures taken to remedy the said losses.

4.5. To minimise operational risk, the credit institution (the parent credit institution of the banking group) shall develop a set of measures aimed at reducing the probability of occurrence of events or circumstances resulting in losses as a result of operational risk materialisation and/or a decrease (minimisation) of the amount of such losses. Such measures include:

- development of procedures for carrying out operations (transactions),
- procedure for delegating powers and accountability for operations (transactions) allowing to eliminate (minimise) the probability of operational risk occurrence;
- control over compliance with the established procedures;
- development of banking technology automation and information security systems;
- insurance, including:
  - property insurance (insurance of buildings and other property, including currency assets and securities, against loss, deficiency or damage, including as a result of actions of third parties and employees of the credit institution, as well as insurance of entrepreneurial risks associated with the risk of loss due to banking risk materialisation);
  - personal insurance (insurance of employees against accidents and damage to health).

The parent credit institution of the banking group shall bring the above measures to the notice of the subsidiary credit institutions.

Chapter 5. **Interest Rate Risk**

5.1. The procedures for managing the risk of deterioration of the credit institution’s financial situation due to a reduction in the capital amount, income level or assets value due to changes in interest rates on the market (hereinafter –
the ‘interest rate risk’) shall include a list of assets (liabilities) sensitive to changes in interest rates.

5.2. As a method of interest rate risk assessment, the credit institution (the parent credit institution of the banking group) shall use gap analysis with stress testing for changes in the interest rate level by 400 basic points (with one hundredth part of a per cent being a basic point) in accordance with the Procedure for Preparation and Submission of Reporting Forms 0409127 ‘Information on the Interest Rate Risk’ (hereinafter – the ‘Procedure’) provided for by Bank of Russia Ordinance № 2332-U. If the credit institution (the parent credit institution of the banking group, subsidiary) uses methods of interest rate assessment different from those established in the above Procedure, the methods applied by the credit institution shall comply with the requirements to such type of methods in international practice.

The methods of interest rate assessment used by the credit institution shall cover all material sources of interest rate inherent to the operations (transactions) carried out by the credit institution (banking group) sensitive to interest rate changes. With regard to foreign-currency-denominated open positions in financial instruments sensitive to interest rate changes whose share in a specific foreign currency amounts to five or more per cent of the total assets (liabilities) that are sensitive to interest rate changes, the interest rate risk shall be measured individually for each of these foreign currencies.

The interest rate risk assessment methodology applied by the subsidiary credit institution shall be agreed in writing with the parent credit institution of the banking group.

The assumptions (for example, those used when determining the maturity term and cost of assets or liabilities) adopted within the framework of the interest rate risk assessment methodology shall be recorded in the documents of the credit institution (the parent credit institution of the banking group) developed within the framework of ICAAPs. The assumptions applied by the subsidiary credit institution shall be based on the provisions of the documents determining such
assumptions at the banking group level. The credit institution shall analyse the sensitivity of the interest rate risk assessment results to changes in the adopted assumptions. The parent credit institution of the banking group shall analyse the sensitivity of the interest rate risk assessment results at the banking group level. The correlation between the results of the interest rate risk assessment and the adopted assumptions shall be intelligible to the heads of divisions performing functions associated with risk assumption and management, as well as to the executive bodies of the credit institution (subsidiary credit institution).

5.3. For purposes of limiting the interest rate risk, the credit institution (the parent credit institution of the banking group) shall establish:

a system of interest rate risk limits;

continuous control of compliance with the established limits at the credit institution (subsidiary credit institution);

procedures for immediate notification of the Board of Directors (Supervisory Board) and executive bodies of the credit institution (the parent credit institution of the banking group) about violations of the established limits by the credit institution (subsidiary credit institution), as well as in case the volume of the assumed interest rate risk exceeds the threshold established in the internal documents of the credit institution (banking group);

measures for reducing the interest rate risk to be taken upon reaching the threshold level established in the documents of the credit institution (banking group) developed within the framework of ICAAPs.

5.4. Reports on interest rate risk shall include the following information:

information on the current interest rates on the banking market and their changes;

information on the volume of interest rate risk for aggregate positions of the financial instruments sensitive to changes in interest rates;

information on the compliance of positions of the financial instruments sensitive to changes in interest rates with the established limits;

stress testing results;
opinions (expert assessments) of analysts on interest rate changes in the long term;

information on forecasted values of indicators for financial instruments sensitive to interest rate changes (for example, forecast of an outflow/inflow of on-demand deposits, or early/full loan repayment);

information on the results of interest rate risk measurement by the method(s) used by the credit institution (the parent credit institution of the banking group);

Chapter 6. **Liquidity Risk**

6.1. The procedures for managing the risk of the credit institution’s failure to finance its activities, i.e., to ensure the growth of assets and meet commitments as they mature without incurring losses in an amount that threatens the financial stability of the credit institution (hereinafter – the ‘liquidity risk’) shall provide for the factors of its occurrence and include:

   a description and delimitation between the divisions carrying out functions associated with assuming and managing the liquidity risk, procedures for interaction among the above divisions, and the appropriate dispute settlement procedure;

   a description of the procedures for determining the funding requirements of the credit institution (banking group), including determining the liquidity excess (shortage) and threshold values of liquidity excess (shortage) (liquidity limits);

   the procedure for analysing the state of liquidity in different time perspectives (short-term, current, and long-term liquidity);

   the procedure for establishing the liquidity limits, determining the methods of control over compliance with such limits, and notifying the management bodies in case the credit institution violates the limits, as well as the procedure for remedying the said violations;

   procedures for daily liquidity management, as well as liquidity management over longer time intervals;

   methods of analysing the asset liquidity and liabilities stability;
procedures for making decisions in the event of a ‘conflict of interests’ between the liquidity and profitability (for example, due to a low yield of liquid assets or a high cost of borrowing);

procedures for liquidity recovery, including procedures for making decisions on the mobilisation (sale) of liquid assets and other possible (and most accessible) ways of attracting additional resources in the event of liquidity shortage.

The procedures for liquidity risk management of the subsidiary credit institution shall be developed based on the approaches to liquidity risk management established at the level of the banking group and shall be agreed in writing with the parent credit institution of the banking group.

If the credit institution (subsidiary credit institution) uses elements of modelling of the state of assets and liabilities, taking into account ‘behavioural’ characteristics based on forecasts of customer behaviour, including behaviour of depositors, as well as the state of the financial market, the internal documents of the credit institution (banking group) shall contain a description of the applied methods of mathematical and statistical analysis and the underlying assumptions. The credit institution (the parent credit institution of the banking group) shall analyse the sensitivity of the applied methodology to changes in the adopted assumptions. The assumptions adopted by the subsidiary credit institution shall be agreed in writing with the parent credit institution of the banking group.

6.2. The credit institution (the parent credit institution of the banking group) shall establish the liquidity risk management procedures covering the various forms of such risk:

risk of inconsistencies between the amounts and dates of funds crediting and debiting (incoming and outgoing cash flows);

risk of unforeseen liquidity requirements, i. e., consequences of unforeseen future events which may require more resources than provided for;

market liquidity risk, i. e., the probability of loss on the sale of assets or due to the inability to close the existing positions due to inadequate market liquidity or
inadequate trading volume. The manifestation of this form of risk can be taken into account in the market risk assessment;

funding risk, i.e., the risk associated with potential changes in the cost of funding (equity and market credit spread) having an impact on the amount of the credit institution’s future proceeds.

6.3. In case of a change in the business model of the credit institution (banking group, subsidiary credit institution), market conditions, and other external or internal events, the credit institution (the parent credit institution of the banking group) shall amend the methodology of liquidity risk management.

6.4. The credit institution (the parent credit institution of the banking group) shall analyse the liquidity condition of the credit institution (banking group) in different time perspectives (short-term, current, and long-term liquidity).

The credit institution (the parent credit institution of the banking group) shall determine whether capital requirements will be determined with regard to liquidity risk (or some of its forms), or whether the credit institution will manage liquidity risk by establishing procedures for managing this risk and allocating capital to cover it.

6.5. The credit institution (the parent credit institution of the banking group) shall develop a plan for financing its activities in case of unforeseeable liquidity loss. The main targets of this plan are to preserve liquidity and determine the action plan for the credit institution (the parent credit institution), including determining the sources of liquidity replenishment. This plan shall be reviewed (updated) on a regular basis (at least once a year). The credit institution shall develop a plan for financing its activities in case of unforeseeable liquidity loss on an individual basis.

6.6. The credit institution (banking group) shall have an automated information system in place ensuring:

control over compliance with the liquidity limits established by the liquidity management strategy of the credit institution (banking group, subsidiary credit institution);
analysis of the state of liquidity, including by currencies in which assets and liabilities of the credit institution (banking group) are denominated;

preparation and submission to the management bodies and divisions of the credit institution (the parent credit institution of the banking group) of a report for analysing the current and future liquidity situation of the credit institution (subsidiary credit institution);

preparation of a report on the liquidity risk in stress situations.

Chapter 7. Concentration Risk

7.1. The procedures for managing risk arising due to the credit institution’s exposure to major risks, materialisation of which may result in significant losses which may endanger the credit institution’s solvency and ability to continue operations (hereinafter – the ‘concentration risk’) shall include:

procedures for identifying and measuring the concentration risk with respect to material risks and a methodology of stress testing the resistance of the credit institution (banking group, subsidiary credit institution) to the concentration risk;

procedures for limiting the concentration risk, procedure for establishing the concentration limits, and methods of control over compliance with these limits at the credit institution (banking group, subsidiary credit institution);

procedure for notifying the Board of Directors (Supervisory Board) and executive bodies of the credit institution (the parent credit institution of the banking group, subsidiary credit institution) of the amount of concentration risk assumed by the credit institution (banking group, subsidiary credit institution) and violations of the established concentration limits, as well as the procedure for remedying such violations.

The procedures for managing concentration risk used at the credit institution (banking group) shall comply with the credit institution’s (banking group’s) business model and the complexity of its operation, shall be reviewed in a timely manner and shall cover different forms of risk concentration, namely:

a considerable amount of investments in instruments of one type and instruments whose value depends on changes in common factors;
credit claims to counterparties in the same economic sector or geographic region, as well as credit claims denominated in the same currency;

credit claims to counterparties whose financial results depend on the same type of activity or the sale of the same goods and services;

indirect exposure to concentration risk related to activities of the credit institution (banking group) aimed at reducing credit risk (use of identical types of collaterals or guarantees provided by one counterparty);

dependence of the credit institution on certain types of income and on specific sources of liquidity.

Manifestation of concentration risk can be taken into account by the credit institution within the framework of the procedures for material risk management.

The procedures for concentration risk management of a subsidiary credit institution shall be developed based on the approaches to concentration risk management established at the level of the banking group and shall be agreed in writing with the parent credit institution of the banking group.

7.2. In order to identify and assess the concentration risk, the credit institution (the parent credit institution of the banking group) shall establish a system of indicators for identifying the concentration risk with respect to material risks, individual major counterparties (groups of related counterparties) of the credit institution and persons related to the credit institution (groups related to the credit institution), economic sectors and geographic regions.

For these purposes, the following relative indices can be used:

the ratio of the total claims of the credit institution (banking group, subsidiary credit institution) of major counterparties (groups of related counterparties) (the number of claims shall be established by the credit institution based on the degree of diversification of the credit portfolio) to the total assets and/or equity (capital) and/or net profit of the credit institution (banking group, subsidiary credit institution);

the ratio of the total major related claims (groups of related claims) of the credit institution (banking group, subsidiary credit institution) (the number of
claims shall be established by the credit institution (banking group, subsidiary credit institution) based on the degree of diversification of the credit portfolio to the total assets and/or equity (capital) and/or net profit of the credit institution (banking group, subsidiary credit institution);

the ratio of the total claims of the credit institution (banking group, subsidiary credit institution) to its counterparties in one sector of the economy (one country, geographic region) to the total amount of similar claims of the credit institution (banking group, subsidiary credit institution).

The credit institution can use loss ratios in case of default to the total amount of assets of the credit institution (banking group, subsidiary credit institution), the method of ranking claims to counterparties (groups of related counterparties) or statistical indicators characterising the degree of diversification of the credit institution (banking group, subsidiary credit institution) portfolio, for example, the Herfindahl-Hirschmann Index.

7.3. Within the framework of the procedures for limiting the concentration risk, the credit institution (the parent credit institution of the banking group) shall determine the system of limits for limiting concentration risks, both with regard to individual major counterparties (groups of related counterparties) and counterparties belonging to the same sector of the economy or the same geographic region. The parent credit institution of the banking group shall bring the system of limits to the notice of the subsidiary credit institution.

7.4. The credit institution (the parent credit institution of the banking group) shall ensure control over the concentration risk at the level of the division (employee) in charge of control over the aggregated position of the credit institution (banking group) for the assumed risks.

7.5. The credit institution (the parent credit institution) shall control compliance with the concentration limits and the instrument portfolios of the credit institution (banking group) to identify forms of concentration risks that are new to the credit institution (banking group) and are not covered by the concentration risk management procedures (the established concentration limit system).
The credit institution (the parent credit institution of the banking group) shall establish a set of measures aimed at reducing the concentration risk upon reaching the alert value of the concentration risk limit. Such measures shall include:

- a detailed analysis of the situation in the economic sectors for which the credit institution (the parent credit institution of the banking group) has identified the concentration risk;
- in-depth analysis of the creditworthiness of counterparties in relation to which operations (transactions) were found to have an increased concentration risk;
- lowering of concentration risk limits;
- use of additional security;
- carrying out of operations (transactions) aimed at transferring a part of the concentration risk to a third party (for example, securitisation operations);
- allocation of additional capital to cover the concentration risk.

The measures shall be selected based on the level of the assumed concentration risk.

For a subsidiary credit institution, the set of measures shall be developed by the said institution and agreed in writing with the parent credit institution of the banking group.