

Internal Control and Risk Management Systems

The functioning of Center-invest Bank’s internal control and risk management systems is based on the “Three Lines of Defence” model:

First line of defence	Second line of defence	Third line of defence
Business units	Departments ensuring and overseeing the implementation of risk management practices, internal control, compliance with legislation and internal regulations, and also the investigation of instances of fraud	Internal audit
<ul style="list-style-type: none"> — identify and conduct first assessment of risks; — implement first control of compliance of risks with set limits; — devise and implement the necessary measures for compliance with set limits. 	<ul style="list-style-type: none"> — define a common strategy with regard to identifying, assessing and reviewing risks and devising measures to respond to risks; — name the types of risks and assess their importance; — develop a system of limits on risk levels; — assess and predict risk levels; — oversee compliance with set limits; — carry our stress tests; — report on risks; — check that internal control, risk assessment, compliance etc. are being implemented effectively; — take measures aimed at preventing fraud. 	<ul style="list-style-type: none"> — assesses effectiveness; — in accordance with international approaches, assesses all three systems: internal control, risk management, and corporate governance; — informs the Board of Directors and Executive Board of any shortcomings identified and also the measures taken to remedy them.

Internal Control

At Center-invest Bank internal control is performed by a combination of internal control bodies, acting in accordance with the remits set out in the bank's articles of association and internal regulations:

- the governing bodies of the bank:
 - Board of Directors
 - Chairman of the Executive Board (single-person executive body)
 - Executive Board (collective executive body)
- the bank's Revision Commission
- the Chief Accountant (their deputies)
- the managers (their deputies) and chief accountants of branches
- departments and staff carrying out internal control in accordance with the remits set out in internal regulations, including:
 - the Internal Audit Service
 - the Compliance Service
 - the Department for the Prevention of Money Laundering and the Financing of Terrorism (Financial Monitoring Department).

In 2018 the Internal Audit Service:

helped the Board of Directors and Executive Board ensure the sustainable and efficient operation of the business;

continually monitored staff compliance with agreed procedures, functions, remits and decisions;

was involved in updating Center-invest Bank's interdepartmental procedures and also in developing procedures to assess, manage and monitor the risks arising in banking operations;

continued to further improve the internal control system on the basis of best international practice.

Checks conducted by the Internal Audit Service	2018	2017	2016	2015
Comprehensive branch audits	25	11	34	17
Checks of cash and valuables	12	5	8	7
Investigation into customer complaints	0	0	1	0
Audits of specific aspects of the work of business units	124	88	90	86
Audits of professional activities on the securities market	4	4	4	4

In 2018 the Compliance Service:

assisted the bank's governing bodies with observance of corporate, regulatory and legal standards by being involved in developing, introducing and supporting effective management of regulatory risks;

with regard to managing compliance risks, took measures aimed at preventing compliance risks from arising, and also carried out measures to identify (capture and name) and assess any existing compliance risks, and to minimise compliance risks;

in order to minimise compliance risks, continually monitored compliance of internal processes with legislative requirements and appropriate standards of market conduct.

In 2018 the Financial Monitoring Department:

ensured continual monitoring of compliance with all requirements on the prevention of money laundering, the financing of terrorism, and the financing of proliferation of weapons of mass destruction;

developed, updated and ensured implementation of new internal regulations on the prevention of money laundering, the financing of terrorism, and the financing of proliferation of weapons of mass destruction;

ensured the coordination of the activities of business units to prevent money laundering, the financing of terrorism, and the financing of proliferation of weapons of mass destruction.

Revision Commission

The bank's Revision Commission reports to the Board of Directors on the findings of audits (checks) of financial and business activities during the year and confirms or refutes the veracity of the data contained in the bank's annual report and annual financial statements.

The bank's internal control and risk management system is appropriate for the nature and the scale of the bank's operations and the level and combination of risks assumed.

Risk Management

Risk management is an integral part of Center-invest Bank's business model. The bank's activities entail the types of risk that are typical for all credit institutions and which are inherent in banking. The main types of risk are:

- credit risk;
- liquidity risk;
- interest rate risk;
- operational risk (including legal and cyber risks);
- market risk of assets revaluation;
- concentration risks;
- regulatory risk;
- reputational risk;
- insurance risk,
- strategic risk.

The development of a bank depends on many factors; it is also to a large extent determined by the operating environment in which the bank functions.

To minimise risks and to mitigate their potential impact on operations, Center-invest Bank has established an effective and independent risk management system, which is integrated with its business processes.

The system is underpinned by best international practice and the sustainable banking business model developed by the bank over the course of many years. This business model is based on the bank's unique experience of managing regional risks, acquired during its successful work in the face of numerous Russian economic crises.

Center-invest Bank's risk management strategy involves:

- rejecting speculative transactions on the financial markets in favour of socially responsible lending to the local population and SMEs operating in the real economy in the regions where the bank operates;
- ensuring that the bank has sustainable and diversified sources of funding and a balanced approach to managing liquidity and interest rates, based on its development strategy, stress testing and an understanding of macroeconomic trends;
- managing operational risks effectively, working to prevent fraud, and ensuring information security at a time of rapid growth in the bank's customer base, intensive development of information technologies and remote banking channels, and the bank's participation in most of the pilot IT projects in the financial sector;
- covering risks with sufficient provisions and capital, in accordance with the bank's internal procedures for assessing capital adequacy with due regard for the requirements of the national regulator and the Basel Committee on Banking Supervision;
- ensuring business continuity, and effective business continuity and disaster recovery planning;
- rejecting the classical model of "selling" banking risks and using high interest rates to cover losses in favour of actively managing credit risks. This entails:
 - knowing the target market and regional risks, and using effective decision-making procedures that allow the bank to expand lending successfully without assuming excessive risks;
 - actively using modern information technologies and in-house and external services and sources of data to improve the quality and timeliness of decision-making and subsequent monitoring;
 - lending at attractive interest rates with the aim of stimulating demand for the bank's loan products, allowing the bank to select the best customers;
 - actively influencing the operating environment.

To influence the operating environment, the bank:

- builds long-term customer relationships;
- provides customers with comprehensive advice on improving business efficiency, managing business risks, and energy efficiency;
- carries out activities to improve the financial literacy of the population.

The current risk management policy was approved by the Board of Directors in November 2018 and covers the whole spectrum of risks assumed by the bank. It takes into account relevant risk and regulatory requirements, and also reflects shareholders' decisions with regard to the risk appetite and the risk management strategy, principles and approaches within the framework of the bank's business model.

As well as managing its own risks, Center-invest Bank is transforming the operating environment by forming its own ecosystem. To this end, the bank works systematically to improve financial literacy, encourages its customers' social and business activities, and advises them on managing business risks.

The bank's time-tested risk management system is continually revised to ensure that it is appropriate for new external conditions and regulatory requirements. The system ensures that the bank and its customers develop sustainably, and that the interests of its customers, investors and shareholders are reliably protected.