Risk management is an important part of business activity of "Unibank". Necessity of this position is conditioned with characteristic of the field, prudential norms of Central Bank of AR, recommendations of international financial institutions and Basel Committee on Banking Supervision, as well as with Bank's strategy.

The main objective of the Bank in managing risks is to provide protection for maintaining maximum level of Bank's actives and capital on the basis of minimizing of the risks that arise during the process of banking activity. A centralized system has been set up to implement a single approach to the assessment and management of the following banking risks:

- Credit risk;
- Liquidity risk;
- Operational risk;
- Legal risk;
- Market risk;
- Strategy risk;
- Reputational risk;
- Others.

Credit risk:

This risk arises as a result of the timeliness or incompleteness of the debtor's commitment to the bank. Delay of payments, default of borrower and restructation of payments of borrowers are included here. The following measures are taken by the Bank's risk management divisions:

- ➢ Organizing regular monitoring of credit risks, as well as analyzing possible risks;
- ➢ Before launching new credit products, financial analyzing is carried out and possible impacts on portfolio quality are calculated;
- ➢ Statistical models (scoring, internal rating system) are used in underwriting process of customers, these models are constantly upgraded and improved;
- ➢ An overdue loan portfolio is analyzed and mitigated.

The analyzing of Bank's loan portfolio is done by using following **tools**:

- ✓ Vintage analysis;
- ✓ Migration matrices;
- ✓ FPD, SPD indicators;
- ✓ Stress-testing models;
- ✓ Expected credit loss (ECL) and its components: Probability of Default, Loss Given Default, and Exposure at Default.

Specific reserves are created for possible losses on actives in accordance with Central Bank and IFRS requirements.

Liquidity risk:

This risk arises as a result of incompleteness of planned and expected obligations in time and effectively.

- ➢ Advanced models and methods are applied on liquidity risk;

- Operations that may affect liquidity position of bank are monitored;
- Liquidity condition is watched by giving stress-tests and shock scenarios;
- Quick liquidity ratio, Liquidity Coverage ratio are calculated and checked in accordance with normative;
- Payment period distribution and liquidity gap analyses are done;
- Analyzing payments and liquidity by eachcurrency.

Operational risks:

This risk arise as a result of errors and mistakes by bank employees, problems and insufficiency in information system and technologies, as well as events occur outside the bank.

- Models and methods of operational risks are chosen and applied;
- Optimal level of operational risks is found out, measured and determined;
- Identification of possible risky sections;
- Recommendations and propositions on contracts of bank's products;
- Monitoring of implementations of interbank rules and procedures in bank's activity;
- Gathering data about human mistakes and technologic problems during operations;
- Determinations of outside factors that may be risk for bank;
- Preparations of reports of currency trading and payments;
- Analysis of Fraud management.

Market risk:

This risk arise as a result of changes in interest rates, currency, value of securities and commodities. It has following subcategories:

- Interest rate risk- risk arises from unfavorable changes in interest rates;
- Currency risk- risk of disadvantageous changes of foreign currencies;
- Capital risk- risk arises from inconvenient changes in value of securities bank bought.

Advanced models and methods are used in calculating the effects of market risk;

- The trends in the country and the world economy are monitored, the risks that may arise in the future are identified and possible impacts on bank are calculated;
- Maximum loss from volatility of foreign currency is calculated by using VaR (Value-at-Risk) approach;
- The effects of differences on interest rates and exchange rates on the bank's assets and capital are stress-tested;
- Giving recommendations and monitoring bank's investment decisions;
- Supervising of hedging operations with financial derivatives and transferring bank's risks to third parties.

Strategic risk:

These risks are risk factors that can affect profitability and capital as a result of improper selection of strategic goals.