



IIB's effort in the risk management area within the context of COVID-19 pandemic.

March 16, 2021

"I will prepare myself, and my time must come." Abraham Lincoln.

During the course of 2020, Risk Department of International Investment Bank put an extraordinary effort into ensuring that IIB could confidently navigate uncertainty emerging from the pandemic. In response to the arising situation, RM implemented a proactive and multilayer system of response measures, which enabled the bank to preserve the robust level of financial stability and stay within the pre-approved risk appetite while improving the quality of some of the critical parameters.

In summary, IIB's main risk indicators as of YE 2020 proved:

- Healthy capital adequacy (33,7%)
- Strengthened liquidity profile (LCR 843,7%, NSFR 112,2%)
- High loan portfolio quality (NPL ratio 2,37%)
- Significantly better loan portfolio composition (EU countries share up to 63,7%, FI down to 23,1%, BB+ and better by 18 pp up to 45%)

The implementation of its effective risk management strategy was based on the core principle of minimizing risks to the bank while still providing support to clients in line with its mission.

NPLs were successfully kept at a minimum thanks to preventive measures, which involved

- Enhanced monitoring and identification of clients mostly affected by the pandemic
- Analysis of early warning signals of deterioration in economic activity
- High-quality communication with other departments, especially with the business and financial units
- Support to borrowers who needed additional liquidity and postponement of payments, also taking into account the latest public moratoriums.
- Accelerated shift to higher quality deals
- Increased exposure towards Europe with a proportional reduction to riskier non-EU countries.

On top of this, Risk department played a crucial role in maintaining best-in-class compliance with the latest regulatory guidance defined by policymakers, central banks, auditors, and peer financial institutions in the COVID-19 pandemic context.

Internal risk methodologies were fine-tuned to ensure that IIB was among the first adopters of the most up-to-date IFRS 9 regulatory guidance on COVID, encompassing loan under public moratorium and special situation restructuring.

Accuracy in measuring risks was further improved through:

- The development and update of new models to better capture weaknesses inherent to the current macroeconomic cycle and more precisely define the bank's provisions.
- Execution of stress tests on credit quality, liquidity and market risk under different scenarios.
- Adaptation of the trigger levels in the Market contingency Early Warning System (daily monitoring of 63 market indicators)

An exceptional focus was given to the management of liquidity to ensure stress-resilience through the development of a granular cash-inflow-outflow model providing visibility over the next 12 months. The bank's two main liquidity buffers were mainly composed of cash or cash equivalent instruments to retain a comfortable cushion in case of headwinds. Short-term borrowing also represented a limited portion of the total funding structure of the bank.

These efforts, which saw their continuation in the year 2021, were one of the main drivers for the rating upgrade to A- from BBB+ by Fitch Ratings in September 2020.

Future initiatives will build upon the success achieved so far and will include:

- Development of a modelling tool to identify an optimal portfolio composition on risk-adjusted basis.
- Improvement of the rating models through the implementation of external rating solutions from rating agencies.
- Yearly calibration of the macroeconomic model to adequately capture risks of 2021's cycle and appropriately reflect such impact on provisions.
- Implementation of an IRRBB management system to better manage current and future volatility in capital and earnings, arising from adverse movements of the interest rates that affect the banking book positions.
- Development and testing of the Economic Capital (ECAP) 1st prototype in line with the Basel Framework aimed at assessing the bank's capital absorption potential through the application of correlation models for different types of risks.

IIB's Risk department takes pride in doing the very difficult job of not simply reducing risks - typical of a commercial bank - but reducing risks while extending further support to its clients and member states even during difficult times in line with its development mission.

The words from the frontline:

"In our day-to-day work we continue to **follow conservative risk management approach and promote sound risk - based culture. Our focus is on the integration of risk management controls at all levels** of internal governance and in all processes, development of best-practice collateral management policies/procedures and enhancement of decision making, especially regarding credit risk."

Rumyana Kyuchukova, Deputy Chairperson of the IIB Management Board

"The continuous **evolution** of the risk-management ecosystem in all its elements (systems, tools, processes) together with **new perspectives** and **deeply rooted abilities** constitute **the team's DNA code.**"

Milan Valasek, Risk Director

Risk Department of International Investment Bank