

**PUBLIC JOINT-STOCK COMPANY  
“SBERBANK OF RUSSIA”**

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APPROVED BY  
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of Sberbank  
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**Risk and Capital Management  
STRATEGY  
of Sberbank Group  
(Version 2)**

Moscow  
2017

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## 1. General Provisions

1.1. The Risk and Capital Management Strategy of Sberbank Group (hereinafter, the “Strategy”) stipulates the basic principles according to which Sberbank and the Controlled members of the Group (hereinafter, the “Group members”) form the risk and capital adequacy management system.

1.2. This Strategy was developed in compliance with the requirements of the Bank of Russia and regulations of the Russian Federation /1 - 9/, with account of the recommendations of the Basel Committee on Banking Supervision (hereinafter, the “BCBS”) /10 - 13/ and the European Community /14, 15/.

1.3. This Strategy contains information on employed methods for risk assessment, restrictions and mitigation measures for risks taken and also describes the risk management procedures including distribution of functions on risk and capital management between Supervisory Board, Executive Board of the Bank and other departments of the Bank that perform risk taking and risk management functions.

1.4. The risk and capital adequacy management system is part of the general corporate governance system of the Group and is aimed at ensuring sustainable development of the Bank and the Group members in the course of implementation of Sberbank Development Strategy approved by the Supervisory Board of the Bank.

1.5. In the Group, “risk” is defined as the possibility (probability), inherent to the Group’s activities, of occurrence of an event that results in financial loss and/or negatively affects the Group’s reputation and/or liquidity.

1.6. This Strategy applies to the Group as a whole, the Bank, and other Group members. A deviation from the requirements set herein is allowable for the Group members outside the jurisdiction of the Russian Federation, in case of contradiction with local legislation requirements.

1.7. The Bank creates the risk and capital management system of the Group, inter alia, through the implementation of internal capital adequacy assessment procedures (hereinafter, the “ICAAP”).

1.8. The managing company of a Sub-holding shall establish the risk and capital management system within its Sub-holding. Exceptions shall be determined by a separate resolution of the GRC.

1.9. ICAAP implementation is driven by the need to:

- satisfy expectations of the shareholders interested in long-term and sustainable operation of the Group ensuring return on invested funds;
- ensure efficient operation of the risk management system enhancing sustainability for all stakeholders: customers and lenders of the Group, its employees and governing bodies;
- comply with the requirements of the Bank of Russia and the BCBS<sup>1</sup>.

Thus, all counterparties of the Group (both internal and external) are interested in ensuring that the Group would not take such risks, which, if materialized, would put at threat the Group’s existence.

1.10. When developing the Strategy, the Group is guided by the approach ensuring the continuity of operations in the long term. Financial stability of the Group is ensured by timely identification of potential risks and confirmation of materiality of risks identified earlier, as well as competent management of risks and capital to cover such risks.

1.11. In the course of ICAAP implementation, the Group follows the **principle of proportionality**, according to which the requirements to the extent of ICAAP and risk management system implementation in a Group members depend on the nature and scope of performed operations,

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<sup>1</sup> ICAAP implementation is mandatory for credit institutions.

level and combination of risks. Large Group members with a complex structure of business dealings and large volumes of transactions exposed to risks shall develop ICAAP following best international practices and with due regard to the compliance with the Group standards. Other Group members performing primarily operations with a low level of risk, may implement simplified ICAAP approaches limited to minimum requirements of the local regulator and taking into account compliance with the Group standards. In order to ensure the application of the principle of proportionality, the Bank classifies Group members from the perspective of complexity of ICAAP implementation requirements.

1.12. The provisions hereof form the basis for the arrangement of risk and capital adequacy management in the Group, a Sub-holding, the Bank, and other Group members, including for the development of other IRDs of the Bank and the Group members.

1.13. When developing the Strategy, the Group relies on the principle of economic feasibility of risk management development. Costs of risk management tools development may not exceed the benefit obtained from such tools in the form of a more accurate risk assessment and a more efficient capital utilization.

## **2. Goals and Objectives**

**The goal of risk and capital adequacy management is to:**

- ensure/maintain the acceptable risk exposure within the Risk Appetite<sup>2</sup> and/or other limits and restrictions;
- ensure capital adequacy to cover material risks<sup>3</sup>;
- ensure financial stability of the Bank and the Group, minimization of impact from potential financial losses of risks taken by the Bank and the Group in accordance with Sberbank Development Strategy;
- comply with the requirements of the state bodies of the Russian Federation regulating the activity of the Group as a whole and of individual Group members, as well as the requirements of the state bodies of the countries of Group members' operation;
- follow international standards and best international practices in the area of banking/financial activities regulation.

**The objectives of the risk and capital adequacy management system are to:**

- identify risk types and assess materiality thereof;
- assess, aggregate and forecast the level of material risks;
- set limits and restrictions on material risks;
- monitor and control the volume of risks taken, implement actions to mitigate the level of risk taken by the Group in order to keep it within the established external and internal limits;
- comply with the mandatory ratios and restrictions established by the Bank of Russia;
- ensure efficient resource allocation to optimize the risk-return ratio of the Group;
- assess the adequacy of available financial resources (hereinafter, the "AFR") to cover material risks<sup>4</sup>;

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<sup>2</sup> The term "Risk Appetite" coincides with the definition of "risk tolerance" in /4/.

<sup>3</sup> The term "material risk" coincides with the definition of "significant risk" in /4/.

- plan capital based on the results of a comprehensive assessment of material risks, tests of the Group stability against internal and external risk factors, business development strategy targets, capital adequacy requirements of the Bank of Russia;
- ensure uniform understanding of risks at the level of the Group and strategic planning with due regard to the level of accepted risk;
- keep the Supervisory Board of the Bank, the Executive Board of the Bank, other collegial bodies and business units performing functions related to risk taking and management informed about material risks and capital adequacy;
- develop the risk culture and risk management competences in the Group following best international practices.

### **3. Classification of Objects of Risk and Capital Adequacy Management**

**Risk management** is understood as a complex of measures ensuring the identification, assessment, aggregation of all material risks, the monitoring, limitation and control of volumes of risks taken, the planning of risk level, the implementation of risk mitigation actions to keep the accepted risk volumes within the established external and internal limits in the course of realization of the Sberbank Development Strategy approved by the Supervisory Board of the Bank.

The requirements for setting up the risk management system and the principles necessary for efficient risk management shall be binding on all Group members, where a risk type is recognized as material both on the Group level and on the local level. The approach to managing each material risk (centralized/decentralized) and the allocation of functions shall be determined by the Bank during the risk management system set up process.

For risk and capital management purposes, there are six categories of Group members, for which the minimum ICAAP requirements vary according to the principle of proportionality:

#### **3.1. Parent credit institution of the Group (the Bank)**

The Bank, as the parent credit institution of the Group, shall develop the ICAAP at the Group level. The ICAAP of the Group shall cover risks of such members, whose data is included into the calculation of capital adequacy ratios on a consolidated basis, in accordance with the Bank of Russia requirements set out in /9/. Based on the Group ICAAP, the Bank shall establish approaches to ICAAP development and implementation in Group members on individual basis, and ensure the development of and compliance with the Group ICAAP requirements by the Group members.

The Bank shall also develop the ICAAP on individual basis in accordance with the Bank of Russia requirements set forth in /4/. For the purpose of quantitative assessment of material risks, the Bank shall develop economic capital assessment models. The quality of the Bank's ICAAP implementation is material for the Group and influences the efficiency of the risk and capital management system of the Group in accordance with /7/.

#### **3.2. Large Group members<sup>5</sup>**

Large Group members shall develop in full the material risk management system and ICAAP on an individual basis in accordance with the Group standards, the Strategy requirements and the requirements of the local regulator.

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<sup>4</sup> Except liquidity risk.

<sup>5</sup> "Large Group members" are defined in Annex 1.

The Group requirements concerning ICAAP organization shall be binding on the Large Group members. For material risks, the ICAAP requirements shall be implemented in accordance with /4/ with due regard to the amount of assets of a Large Group member. The quality of the Large Group member's ICAAP implementation is material for the Group and influences the efficiency of the risk and capital management system of the Group in accordance with /7/.

### **3.3. Credit institutions - Group members (other than Large Group members)**

The ICAAP requirements shall be implemented by a Group member on an individual basis and may be limited to the requirements of the local regulator taking into account the compliance with the Group standards. The aggregate quality of ICAAP implementation in respect of credit institutions - Group members (other than Large Group members) has significant influence on the efficiency of the risk and capital management system of the Group.

### **3.4. Other regulated Group members<sup>6</sup>**

The ICAAP requirements for such Group members shall be implemented by the Bank on a centralized basis at the level of the Group.

### **3.5. Other Group members within the consolidation perimeter for the purposes of calculating capital adequacy ratios on a consolidated basis<sup>7</sup>**

The ICAAP requirements shall be implemented by the Bank on a centralized aggregated basis at the level of the Group.

### **3.6. Other Group members not included in the consolidation perimeter for the purposes of calculating capital adequacy ratios on a consolidated basis**

There are no requirements to the ICAAP. The assessment of risks of other non-credit organizations, whose data is not taken into account when calculating capital adequacy ratios on a consolidated basis, shall not be included in the capital adequacy assessment either.

## **4. General Principles of Risk Management and the ICAAP**

### **4.1. Risk awareness**

A decision on conducting any transaction shall be made only upon a comprehensive analysis of risks arising as a result of such transaction. All transactions shall be carried out in compliance with the internal regulations and/or organizational and administrative documents. No new transactions exposed to material risks shall be allowed, if there are no internal regulations, organizational and administrative documents, or relevant decisions of collegial bodies regulating the procedure for their performance.

### **4.2. Risk adjusted performance management**

The Group shall evaluate the adequacy of disposable (available) capital to cover accepted and potential risks by implementing the ICAAP.

When making decisions on business development (forming the development strategy), the Group shall rely on the ICAAP results as a basis for evaluation of the capital amount needed to cover material and potential risks.

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<sup>6</sup> Non-credit organizations that are nevertheless subject to regulation by the Bank of Russia (e.g. insurance companies).

<sup>7</sup> In accordance with the Bank of Russia requirements /9/.

The Group shall select top-priority areas of development and capital allocation using the analysis of risk-adjusted performance of particular units and business areas.

#### 4.3. Involvement of top management

The Supervisory Board, the CEO, the Chairman of the Executive Board, the Executive Board, and other collegial bodies of the Bank, as well as supervisory boards/boards of directors and executive bodies of the Group members shall review information about the level of risks accepted and facts of violation of the established risk management procedures, limits and restrictions on a regular basis.

#### 4.4. Risk limits

The Group shall apply the system of limits and restrictions in order to ensure the acceptable risk exposure within the limits of the established Risk Appetite of the Group and/or other restrictions for ensuring the continuity of the Group's operations.

The system of limits of the Group has a multi-level structure<sup>8</sup>:

- general limits for the Group established based on Risk Appetite defined according to this Strategy;
- limits on the types of risks material for the Group;
- limits for the Bank and the Group members, structural business units of the Bank and the Group members performing the functions associated with material risk taking;
- limits on the volume of transactions with one counterparty, group of counterparties connected by certain features, on the volume of transactions with financial instruments, etc.;
- other risk limits necessary to efficiently manage material risks.

#### 4.5. Division of functions

For the purposes of efficient risk management and taking into account the need of minimizing the conflict of interest between risk taking, risk level limitation and control, as well as the audit of risk management system, the organizational structure of the Bank and the Group members is formed with due regard to the necessity of allocating functions and responsibility among business units of the Bank and the Group members in accordance with the "3 lines of defense" principle. The functions listed for each line of defense should not necessarily be performed by one structural business unit, but may be allocated among different business units of the Bank/Group member:

1st line of defense	
<b>Goal</b>	<ul style="list-style-type: none"> <li>• To ensure the compliance with the risk limits established by the 2nd line of defense</li> </ul>
<b>Functions</b>	<ul style="list-style-type: none"> <li>• Identify risk types</li> <li>• Identify and initial assessment of risks when conducting operations and entering into transactions</li> <li>• Forecast the level of risks associated with the positions/portfolios managed on a consolidated basis, model the behavior of customers, balance sheet items, products, etc.<sup>9</sup></li> <li>• Carry out initial control of the correspondence of the risk being taken, accepted</li> </ul>

<sup>8</sup> The structure of limits/restrictions for a particular risk type within the SRG shall be reflected in the IRDs of the Bank describing the managements of such risk type.

<sup>9</sup> For liquidity risk, interest rate risk and currency risk of the banking book.

	<p>risk and anticipated risk level to the established risk restrictions</p> <ul style="list-style-type: none"> <li>• Develop and implement measures required to comply with the established restrictions</li> <li>• Risks taking in the course of making banking operations and entering into transactions (active risk taking) or by consolidating positions exposed to risk (passive risk taking resulting from the transfer of risk) within the established regulatory and internal restrictions on risk (Risk Appetite, other limits and mandatory ratios, other restrictions)</li> <li>• Risk taking as a result of the risk and capital management system participants' (section 5.2) performing/failing to perform the functions associated with risk types other than risks related to the making of operations and the entering into transactions</li> </ul>
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<b>2nd line of defense</b>	
<b>Goal</b>	<ul style="list-style-type: none"> <li>• Independent form the 1st line control of compliance with the established restrictions</li> </ul>
<b>Functions</b>	<ul style="list-style-type: none"> <li>• Set risk restrictions for the 1st line of defense</li> <li>• Identify risk types and assess materiality thereof</li> <li>• Approve risk management and assessment methodology</li> <li>• Assess level of risks independently from the 1st line</li> <li>• Assess aggregated (overall) level of risks</li> <li>• Forecast the level of risks</li> <li>• Develop a system of restrictions for the level of risks (including the development of Risk Appetite limits and/or other risk limits structure and values and/or other qualitative restrictions proposed for approval)</li> <li>• Control, independently of the 1st line, the correspondence of the actual risk level and the anticipated risk level to the established restrictions for risks (develop escalation procedures and control the implementation of measures to eliminate violations)</li> <li>• Control the compliance with mandatory regulatory ratios, if applicable to the relevant risk type</li> <li>• Organize/conduct stress testing procedures</li> <li>• Develop and approve risk level mitigation measures in case of violation by the 1st line of defense of the established limitations on actual data</li> <li>• Prepare reports on risks and communicate them to the management and the collegial bodies</li> <li>• Develop of risk culture</li> <li>• Test and validate risk assessment models (this function shall be performed by a business unit that is independent of the 1st and 2nd line of defense units developing models and assessing risks with the use of such models)</li> </ul>



<b>3d line of defense</b>	
<b>Goals</b>	<ul style="list-style-type: none"> <li>• Independent assessment of compliance of the risk management system with internal and external requirements</li> </ul>
<b>Functions</b>	<ul style="list-style-type: none"> <li>• Assess the risk management system in terms of its compliance with internal and external requirements</li> <li>• Inform the management about any identified deficiencies in the risk management system</li> <li>• Control the elimination of identified deficiencies in the risk management system</li> </ul>

The specification of functions performed by the 1st and 2nd line of defense shall be determined in the policy for managing the relevant risk type(s) and may deviate from the above list, if there are any specific functions for such risk type.

In accordance with best international practices, the 4th line of defense is represented by the Regulator, as well as external auditors, that, despite being external organizations in relation to the Bank/Group member, are nevertheless an important mechanism not only for the risk management system, but for the corporate governance of the Group as a whole as well.

#### **4.6. Centralized and decentralized approaches**

The Group applies the combination of centralized and decentralized approaches to risk and capital adequacy management in order to enhance the efficiency. The Bank's competent bodies manage risks and capital adequacy of the Bank and the Group as a whole, as well as set the requirements for the organization of the risk and capital adequacy management system at the level of a particular Group member (including pursuant to the structure of limits and restrictions, methods applied, and other aspects). The Group members shall manage risks and capital adequacy at the local level within the established limits and powers and develop IRDs in accordance with the Group standards with due regard to local specifics.

Decentralization of functions enables to promptly respond to changes in the level of particular types of risks and risk exposure in the Group members.

#### **4.7. Information technologies and data quality**

Risk and capital adequacy management is based on using advanced information technologies enabling to enhance the quality and promptness of decision-making.

Data quality (completeness, availability) are critically important factors for ensuring the reliability and accuracy of risk calculation and assessment results (such as risk volume, volume of capital to cover risk).

The Group works towards maximum automation of data collection, storage, processing and calculation processes. Risk management takes into account risks associated with the implementation of advanced information technologies, in particular the increasing probability of significant financial and non-financial losses in case of disruptions in automated systems and in the information protection of the Bank's and Group members' systems.

#### **4.8. Improvement of methods**

Risk and capital adequacy management methods continuously progress: procedures, technologies and information systems evolve taking into account strategic tasks assigned, changes in the external and internal environment, as well as innovations in the international practice.

#### **4.9. Risk culture**

To ensure the stable and efficient functioning of the entire risk management system, the Group shall take actions to develop risk culture with the following main tasks:

- acquisition of knowledge and skills by employees of the Bank and the Group members in the sphere of risk management through regular training;
- correct use of risk management tools by executives and employees in the day-to-day activity;
- development of employees' skills to correctly and timely use risk management tools;
- open and active communication within the Group regarding the risk culture values and principles.

#### **4.10. Risk-based incentive system**

The remuneration system in the Group corresponds to the nature and scope of conducted transactions, performance results, and the level and combination of accepted risks. The approaches to the incentive system applied in the Bank comply with the Bank of Russia requirements /23/.

#### **4.11. Information disclosure**

All risk and capital adequacy management information needed according to the regulators' requirements shall be disclosed. Composition and frequency of risk reporting comply with the requirements set by the Bank of Russia, the requirements for management accounts, and the requirements for disclosure on risks for any stakeholders, based on the principles of transparency, completeness, etc. according to section 6.5. of this Strategy.

### **5. Key Participants of the Risk and Capital Management System**

#### **5.1. Risk Management Service of the Bank**

The Risk Management Service of the Bank is represented by the Risks Block and performs the functions of the 2nd line of defense. For some risk types, certain functions of the 2nd line of defense may be performed by the units outside the Risks Block, which have necessary competence, resources and are interested in reducing the level of risks accepted by the Bank for the purpose of ensuring compliance with the Risk Appetite limits and other restrictions, provided that the risk management approaches must be approved by the Risks Block<sup>10</sup>. Units outside the Risks Block are not a part of the Risk Management Service. The Validation Division is a part of the Risks Block while ensuring that it is functionally independent from the business units that develop and use risk assessment models.

In its work, the Bank's Risk Management Service follows the effective legislation of the Russian Federation, regulations of the Bank of Russia, the Bank's Charter, this Strategy, resolutions of the Bank's governing bodies, and other IRDs and OADs of the Bank. In order to ensure integrated risk management within the Group, the Risk Management Service of the Bank takes into account the requirements of the local regulators in the countries of the Group members' operation.

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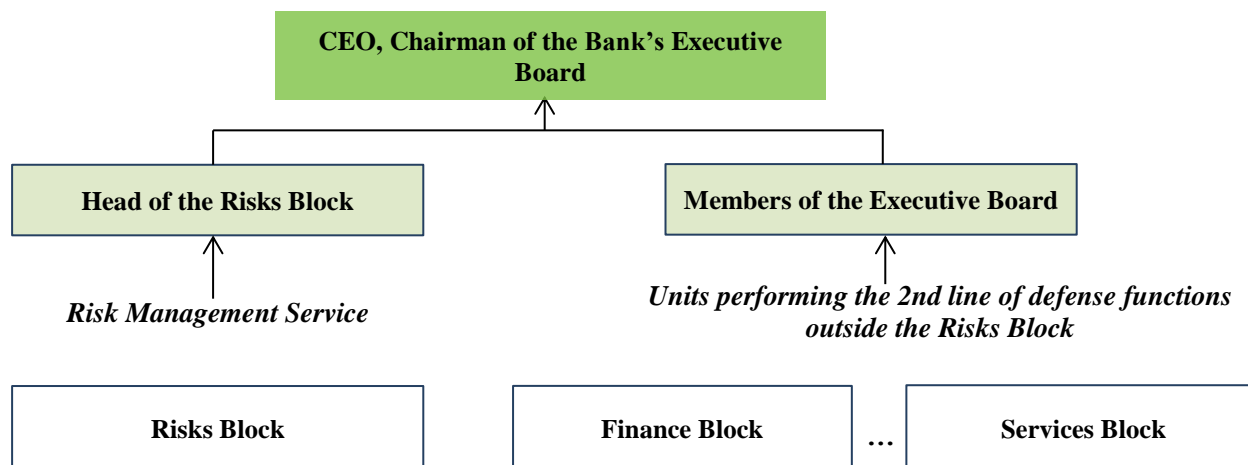
<sup>10</sup> For compliance risk, only the quantitative assessment approaches shall be subject to mandatory approval by the Risks Block.

The Bank's Risk Management Service performs its functions on a continuous basis.

The head of the Bank's Risk Management Service is the Head of the Risks Block, who reports to the CEO, Chairman of the Executive Board of the Bank. The Head of the Risks Block shall control the work of the units within the Risks Block and is a member of the Bank committees for specific risk group (SRG) management<sup>11</sup>.

The Head of the Risk Management Service meets the qualification and business reputation requirements established by the legislation and regulations of the Bank of Russia<sup>12</sup>.

Structure of risk and capital management units is presented below<sup>13</sup>:



## 5.2. Division of functions and powers

Main functions of the risk and capital management system participants are described below<sup>14</sup>. Apart from below listed functions, functions of the Bank's governing bodies shall also include the control of efficiency of the risk and capital management system of the Group through the review of reports prepared under the ICAAP in accordance with Annex 6 and the approval of IRDs in accordance with Annex 4.

### 5.2.1. General Shareholders' Meeting of the Bank

- makes decisions on increase/decrease of the share capital, splitting/consolidation of shares, issue/conversion of bonds and other issue-grade securities convertible into ordinary shares, in cases provided for by /16, 17/;
- considers items on payment (declaration) of dividends in cases provided by /16, 17/;
- approves interested-party transactions/major transactions in cases and according to the procedure stipulated in /16, 17/.

<sup>11</sup>Personal participation in the SRG Management Committees, or participation of a representative of the Risk Management Service. The approach to SRG formation is described in detail in section 6.1.

<sup>12</sup> The qualification requirements are stipulated by Bank of Russia Ordinance dated April 01, 2014 No. 3223-U "On Requirements for Heads of the Risk Management Service, Internal Control Service, Internal Audit Service of a Credit Institution". The business reputation requirements are stipulated by Clause 1 of Part 1 of Article 16 of Federal Law "On Banks and Banking Activities".

<sup>13</sup> A detailed list of business units shall be specified in the annual report on ICAAP implementation results.

<sup>14</sup> The exact list of functions of the Supervisory Board, the Executive Board, and the committees shall be governed by separate IRDs for each of the said collegial bodies (e.g., by Regulations on committees).

### **5.2.2. Supervisory Board of the Bank**

- approves the Risk and Capital Management Strategy of the Group;
- approves the target rating for the Group and the Bank;
- approves the Risk Appetite of the Group and the Bank;
- approves the target capital structure;
- approves the Regulations on Dividend Policy;
- recommends the amount of the dividends on shares and terms of setting the date, on which persons entitled to dividends are determined;
- makes decisions on changing capital within the powers established in /16, 17/;
- controls the compliance with the Risk Appetite values of the Group and the Bank;
- approves stress testing scenarios for the Group and the Bank;
- approves key documents for the purposes of the regulatory assessment of capital adequacy;
- approves interested-party transactions/ major transactions in cases and according to the procedure stipulated in /16, 17/.

### **5.2.3. Executive Board of the Bank**

- approves the Bank's organizational structure;
- approves the Group's business plan;
- approves policies for managing material risks of the Group;
- makes decisions on changing capital within the powers established in /16, 17/;
- forms collegial working bodies, including committees of the Bank, approves regulations thereon, and determines their powers.

### **5.2.4. Group Risks Committee of the Bank**

- manages the overall risk of the Group within the powers, requirements and restrictions approved by resolutions of the Bank's Executive Board;
- approves the list of risk types considered material for the Group;
- approves SRG composition, appoints SRG management committees and the unit responsible for the formation of the SRG management system (hereinafter, the "SRG units");
- preliminary reviews and approves the Risk Appetite of the Group and the Bank;
- cascades Risk Appetite of the Group by risk types and Group members;
- controls the compliance with the cascaded Risk Appetite values of the Group;
- controls the implementation of measures to eliminate Risk Appetite violations.

### **5.2.5. Assets and Liabilities Management Committee of the Bank**

- approves standards of the Group for capital adequacy management processes and approaches, requirements for the Group members' regulations describing internal capital adequacy management methods and procedures;

- sets capital requirements for the Group members;
- establishes and cascades capital adequacy limits.

#### **5.2.6. SRG Management Committees of the Bank<sup>15</sup>**

- manage risks of the Group included into the composition of SRGs, within the powers, requirements and restrictions approved by resolutions of the Bank's Executive Board;
- approve the architecture and establish the values of limits within the established Risk Appetite;
- approve other restrictions on risks based on qualitative indicators;
- control the compliance with limits and/or other restrictions based on qualitative indicators;
- oversee the activities of accountable committees<sup>16</sup>.

#### **5.2.7. IRMD**

- develops, implements, supports and improves the risk management system of the Bank and the Group on a consolidated basis, ensures its compliance with the requirements of the Bank's development strategy, requirements and recommendations of the Bank of Russia, the BCBS recommendations, and best international practices;
- organizes the process for risk identification and evaluation of materiality of risks in the Group;
- prepares the following reports according to Annex 6:
  - on ICAAP implementation results and stress testing results for the Bank and the Group;
  - aggregated reports on the level of material risks for the Bank's management, the Bank's governing bodies, and other collegial bodies responsible for management of the Bank's risks, to the extent required for decision making, including for submission to the Supervisory Board of the Bank according to the requirements of section 6.5. hereof;
  - informs the Group Risks Committee of the Bank, the Executive Board of the Bank and the Supervisory Board of the Bank about facts of violation of the established Risk Appetite and regulatory ratios by the Group/Bank/Group member upon identification of any such facts;
- prepares proposals concerning Risk Appetite values for the Group, the Bank, and the cascading thereof in consultation with the SRG units;
- assesses, aggregates, forecasts the level of material risks of the Group, and monitors and controls the level of accepted risk;
- coordinates the centralized stress testing process;
- consolidates information about risks for the purposes of disclosure in accordance with the Bank of Russia requirements stipulated in /8/.

#### **5.2.8. Validation Division**

- validates risk assessment models.

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<sup>15</sup> Including the Group Risks Committee of the Bank and the Assets and Liabilities Management Committee of the Bank.

<sup>16</sup> The term “accountable committees” shall mean the list of committees and functions delegated to them under the SRG management system

### **5.2.9. Treasury**

- develops proposals concerning the list of risk metrics and their thresholds in terms of capital adequacy for including them into the Risk Appetite of the Bank and the Group;
- circulates and controls the implementation of Group standards on capital adequacy management at the level of Group members;
- develops the capital adequacy management plan as part of the business planning process for the Group;
- provides regular forecasts of capital adequacy ratios for the Bank and the Group;
- monitors the compliance with the Risk Appetite in terms of capital adequacy ratios;
- participates in the process of centralized stress testing of the Group's capital adequacy.

### **5.2.10. Finance Department**

- determines business planning principles, develops corresponding methodologies/regulations;
- develops the financial structure of the Group (including proposals concerning the determination of business plan objectives), including the perimeter of and criteria for consolidation of companies;
- prepares the consolidated plan and the mechanism to control the performance of indicators of the Group's business plan;
- prepares reports on the value of equity (capital), compliance with the mandatory ratios, provisions for possible losses on loans, loan and similar debt of the Bank and the Group in accordance with /24/;
- consolidates financial statements of the Group for the purposes of regulatory and management accounts

**5.2.11. Units performing the functions of the 1st line of defense** shall be listed in the policy for managing risks included into SRG.

**5.2.12. Units performing the functions of the 2nd line of defense** shall be listed in the policy for managing risks included into SRG.

The specification of functions performed by the 1st and the 2nd line of defense within the SRG management system shall be provided in the policy for managing the relevant risk type.

### **5.2.13. SRG Units**

- develop<sup>17</sup>, implement, support and improve the methodology for managing and assessing risks included into SRGs, in particular organize the development and updating of the IRDs that determine risk assessment methods, processes, procedures and requirements for organizational structure, powers allocation, processes and procedures for managing risks included into SRGs at the level of the Bank and/or the Group;
- organize the implementation of the system of limitations on the level of risks included into SRGs;

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<sup>17</sup> Engagement of other Bank units and/or external organizations specialized in the development of economic and mathematical risk assessment models shall be allowed.

- generate standards and requirements for methods and processes of managing risks included into SRGs for the Bank and/or the Group members;
- organize the management of risks included into the relevant SRG in the Bank and/or in the Group as a whole;
- interact with the Risk Management Service within the risk and capital adequacy management system.

Depending on particular SRG specifics, the SRG unit may be a unit outside the Risks Block (including a unit performing the functions of the 1st line of defense) that possesses the required competences and resources. In this case, the developed risk assessment methods and models, as well as the IRDs determining the processes and procedures for managing material risks included into SRGs, must at all times be agreed with the Risks Block<sup>10</sup>.

#### **5.2.14. Center for Macroeconomic Research**

- develops and parameterizes stress testing scenarios for the Bank and the Group.

#### **5.2.15. Group members**

- organize the risk and capital adequacy management process according to the principles determined by this Strategy, the Group standards, and taking into account the requirements of the local regulators in the countries of operation;
- provide information required for integrated risk management and with a breakdown by SRGs.

### **5.3. Internal Audit Service**

- evaluates the efficiency of the risk management system, in particular verifies the efficiency of the banking risks assessment methodology and banking risks management procedures established by IRDs, as well as the whether such documents are fully applied;
- informs the Supervisory Board of the Bank and executive governing bodies of any defects detected in the operation of the risk management system<sup>18</sup>, as well as of actions taken to eliminate them;
- generates requirements to the internal audit organization in the Group members in terms of risk management system efficiency assessment.

## **6. Organization of the Risk and Capital Adequacy Management System**

### **6.1. ICAAP**

#### **6.1.1. Risk identification and materiality assessment**

Scheduled identification of risk types and materiality assessment thereof is performed once a year and completed before the start of the annual business planning cycle. In case any significant changes occur in the external environment and/or within the Group that may affect the risk structure of the Group (i.e. the allocation of risks as of a given point in time), unscheduled risk identification and materiality assessment may be carried out.

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<sup>18</sup> Including any need for amendments to the Risk and Capital Management Strategy, as well as to other IRDs developed within the risk management system.

The Bank and all Group members subject to this Strategy (section 1.6) shall take part in the process of risk identification and materiality assessment. The Bank shall assess materiality of risks at the level of the Bank and the Group as a whole, while the Group members shall assess materiality of risks at the local level. As part of the risk identification process it shall be necessary to determine at the preliminary level measurement methods, sources and availability of data required to assess the identified material risk.

Materiality assessment of identified risk types shall be carried out by Professional experts of the Bank. If a risk is recognized as material, this implies the necessity to form a system for managing this risk. Material risks shall be divided into material risks at the local level and material risks at the Group level. Risk may be recognized as material for a Group member, but immaterial for the Group as a whole. During materiality assessment, the Group members shall rely on the standards accepted in the Group with due regard to the requirements of local regulators.

For those types of risks where the Bank of Russia establishes mandatory ratios for credit institutions / banking groups and/or which are taken into account in the calculation of adequate regulatory capital of credit institutions / banking groups, are always recognized as material for the Group. Materiality of other types of risks shall be evaluated based on the comparison of unexpected risk losses with available financial resources or regulatory capital of the Group, the Bank, a Group member. Risk that cannot be evaluated by a quantitative method can be recognized as material based on experts' assessments.

#### **6.1.2. Aggregated assessment of risks and overall capital**

For material risks the methodology of aggregated assessment is determined (concerning the amount of assets under /4/ for Group members (sections 3.1., 3.2., 3.3) for the purposes of aggregated assessment of material risks it is recommended to assess required Economic capital<sup>19</sup>). In order to ensure the possibility of aggregating data for the purpose of determining the overall required Economic capital to cover losses should the risk materialize, the Economic capital calculation approaches applied by the Group members shall be agreed with the Bank.

For risks (such as credit risk, operational risk, market risk, etc.) that may be assessed by quantitative methods (historic data based modeling, variance-covariance method, Monte-Carlo method, etc.), capital demand are determined according to the developed separate models of Economic capital assessment.

For those risks where no separate Economic Capital calculation model is developed, the assessment of capital to cover losses from the realization of risks is carried out based on the historic volatility of income less expenses of the Group/Bank/Group member, cleared from the influence of the risk types that have separate Economic capital assessment models.

All quantitative risk assessment models used under the ICAAP are validated on an annual basis.

Based on the assessment of material risks, the aggregation and overall economic capital calculation shall be conducted. AFR shall be defined as internal capital available to the Group, the Bank, or a Group member for the purpose of covering losses.

Under the ICAAP, capital shall be assessed as adequate, if the AFR (i.e. the available capital) exceed the overall Economic Capital (i.e. required capital).

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<sup>19</sup> Except liquidity risk, for which economic capital is not assessed.



### **6.1.3. Risk Appetite setting and cascading**

Risk Appetite is the aggregate maximum risk level of the Group/ Bank/ Group member that the Group is ready to accept in the course of creating shareholder value and achieving established strategic goals (including target profitability ratios). Risk Appetite is established for all material risks of the Group and is approved by a separate resolution of the Supervisory Board of the Bank and *is an integral part of this Strategy*. Risk exposure of the Group shall be planned within the annual business planning process of the Group.

To plan its activity, the Group shall use risk metrics characterizing (or taking into account) the level of losses caused by risk materialization in non-stress conditions, and risk metrics characterizing (or taking into account) the level of losses caused by risk materialization in stress conditions. During business planning, the assessment of compliance with the Risk Appetite is carried out in a base-case scenario and in a stress scenario.

Indices of Risk Appetite of the Group, the Bank, and the Group members may include:

- mandatory capital adequacy ratios, liquidity ratios, and other limits established by the Bank of Russia for credit institutions and banking groups as related to risk and capital adequacy management;
- for the Group members outside the jurisdiction of the Russian Federation – mandatory capital adequacy ratios, liquidity ratios, and other limits established by local regulators for credit institutions and banking groups as related to risk and capital adequacy management;
- ratio of economic capital, i.e. capital required to cover all material types of risks, and available financial resources;
- concentration limits for material risks;
- target risk structure;
- risk levels recommended by the BCBS for credit institutions and banking groups.

When establishing Risk Appetite values, two limits shall be determined for each of the risk metrics: “yellow zone” limits and “red zone” limits of Risk Appetite. The “yellow zone” limits mean a limit, the exceeding of which shall signal the need of taking/initiating management measures to prevent the exceeding of the “red zone” limit. The “red zone” limit of the Risk Appetite means the maximum limit that may not be exceeded. Target risk levels mean the indicator values that do not violate the “yellow zone” limit of the Risk Appetite on the entire planning horizon.

Risk Appetite shall be established for the strategic planning horizon. The Supervisory Board of the Bank shall consider the issue of the necessity to change the Risk Appetite at least once a year. Particular values of the Risk Appetite may be updated during a financial year in case of changes in the economic situation and/or alteration by the Bank of Russia of the requirements for credit institutions and/or banking groups (alteration of the existing ratios and/or introduction of new ratios). The Risk Appetite values approved by the Supervisory Board of the Bank shall further be cascaded through the system of hierarchy risk limits with a breakdown by Group members, business lines, material risk types, business units and otherwise.

### **6.1.4. Monitoring and control of the aggregated level of risk**

Management of aggregate level of risks on the Group level shall comprise:

- calculation of factors characterizing a consolidated level of overall risk of the Group based on assessments of individual material risks, taking into account risk correlations;
- evaluation of deviation of risk exposure of the Group from levels established by the consolidated business plan of the Group;
- evaluation of the level of compliance of risk exposure of the Group with the approved Risk Appetite of the Group;

- forecasting factors characterizing a consolidated level of overall risk of the Group;
- preparation of periodic management accounts in accordance with Annex 6;
- making decisions on establishing/changing risk limits, or any other decisions aimed to optimize the risk level of the Group (including risk mitigation measures) based on the information contained in the reports prepared in accordance with Annex 6, and control of execution of such decisions;
- control of execution of risk mitigation measures in case of Risk Appetite limits violation.

Risk level shall be controlled by means of preparation of periodic management reporting.

## **6.2. Formation (updating) and improvement of SRG management systems**

Types of risks defined as material upon identification results (section 6.1.1.), having similar risk factors and/or similar risk management methods and/or similar subjects of risks (counterparties, customers, transactions, etc.) may be combined into specific risk groups (SRGs), for which based on the GRC resolution are defined:

- the Bank's committees for managing risks included into SRG;
- the SRG unit.

According to section 5.2.13., the SRG unit shall organize and improve material risk management approaches within its SRG. At the same time, different risk management methods may be used for several material risks included into the same SRG. The system for managing a risk recognized as material for the Group shall involve all Group members, where this risk is recognized as material. If a type of risk is recognized as material only at the level of a Group member, a local system for managing this risk shall be created. In this case, the Group member shall independently determine risk management approaches, establish and control risk limits and targets, and control the efficiency of management of this risk in accordance with section 1.11. of this Strategy. Formation of material risk management systems shall be carried out in accordance with the Bank of Russia requirements /4/, based on the BCBS recommendations /10 - 13/, as well as recommendations of the international organizations establishing business standards and rules.

The SRG management system shall ensure the performance of the following functions:

- risk identification;
- risk assessment with the use of quantitative and/or qualitative methods;
- determination of risk management approaches and methods, as well as the list of risk mitigation measures (use of collateral, etc.);
- determination of limits and other restrictions on risk level, as well as control values, the achievement of which signals the need to implement risk mitigation measures;
- participation in the development of the Strategy;
- control the values of accepted risks, escalation of violations of established risk limits;
- improvement of the risk management system in case of identification of new risk factors and reflection of such changes in the Bank's IRDs;
- preparation of reports on the level of accepted risk and on the results of efficiency assessment of applied risk management methods.

These functions shall be reflected in the description of the material risk management system of the Bank, subject to compliance with the 3d line of defense according to section 4.5.

### 6.3. Capital adequacy management

The process of capital structure and adequacy management of the Bank and the Group is centralized. Planned structure of the capital is and is approved by a separate resolution of the Supervisory Board of the Bank and is an integral part of this Strategy. The Bank's Treasury is the unit responsible for the organization of capital adequacy management in the Bank and the Group as a whole. To implement an efficient process of capital structure and adequacy management, the Bank's Treasury develops necessary procedures, regulations for cooperation between units, methods and Group standards, as well as controls the organization of the process in the Group members.

Capital adequacy management shall be implemented in each Group member subject to the mandatory capital adequacy requirements set by the regulator, or the Risk Appetite capital adequacy related requirements approved by the Bank's competent collegial body, as well as in other Group members determined by a separate decision of the Assets and Liabilities Management Committee.

The following main tools shall be used for capital adequacy management:

- business planning and capital adequacy management plan;
- planning of dividends and capitalization of subsidiaries;
- system of capital adequacy limits;
- capital adequacy management plan in case of a crisis situation.

### 6.4. Stress testing

Stress testing is an evaluation of risk factors and parameters of assets and liabilities in the conditions of hardly probable, but possible pessimistic scenarios, particularly for assessing the adequacy of available capital sources to cover potential losses and determining the amount of the liquidity buffer necessary to ensure work in case of realization of each of the scenarios: market crisis, bank run, or both at a time. Stress testing is performed both by particular risk, and in an aggregated way, and takes into account the regulator's requirements.

In terms of organization, there are two stress testing approaches:

- “top-down” is an evaluation of scenario impact on financial and economic results of the activity of the Group through the sensitivity analysis of aggregate characteristics of asset and liability portfolios to changes in macroeconomic indicators;
- “bottom-up” is an evaluation of scenario impact on basic characteristics of risk exposure at a detailed level by individual risk types, and evaluation of economic capital of the Group and stress risk indicators based on obtained results and models of potential losses of the Group.

“Top-down” stress testing scenarios for the purposes of business planning in the Group/ Bank are developed by the Center for Macroeconomic Research, approved by a separate resolution of the Supervisory Board of the Bank and form an integral part of the Strategy.

While developing stress testing scenarios the Bank adheres to the following principles:

- *likelihood*: there shall be a considerable probability of occurrence of a scenario on a time horizon of up to one year<sup>20</sup>;
- *significance*: losses caused by scenario occurrence shall be material for the Bank, a Group member, or the Group as a whole. The minimum permissible loss is 0.1% of the Bank's Tier I capital<sup>21</sup>;

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<sup>20</sup> E.g. a 1% probability of scenario occurrence means that stress scenarios of such type on average occur at least once in 100 years.

<sup>21</sup> The value from the latest available IFRS statements shall be used.

- *simplicity*<sup>22</sup>: a scenario shall consist of one easily formalized event<sup>23</sup>.

The stress testing procedures of the Group members shall be agreed upon with the Bank in writing.

## **6.5. Reporting**

While forming reporting the Group adheres to the following principles:

*Rationality*: Reports preparation shall focus on achieving maximum efficiency of the reporting system by ensuring the availability of all necessary information meeting the regulatory requirements and allowing to make management decisions.

*Understandability*: Reports shall be understandable for the target audience from the perspective of the level of detail and scope of information contained therein.

*Transparency*: Reports on risks shall contain correct, comparable and accurate data.

*Comprehensiveness*: Reports shall include information on all material risks, sources of capital to cover risks, as well as information on the compliance with the regulatory requirements. Reports shall contain a comparison of the accepted risks against available financial resources to cover accepted risks.

*Comparability and aggregability*: The format of reports shall allow to aggregate information on various types of material risks and business units to ensure the complete representation of the risk structure at the Group level.

*Time lines*: The reporting system shall be organized in a way, that, in case of crisis conditions, would allow to shift to prompt provision of data on actual and target risk level and structure in order to timely take management measures.

*Integrity*: Reports shall be prepared with an established frequency and the contents of reports shall be provided in a structured form.

The Group has in place the process of collection, verification and consolidation of data provided by the Group members in order to calculate capital value, mandatory ratios and other risk factors.

Information disclosure about risk level of the Group and the Bank shall be conducted in accordance with Annex 6.

## **6.6. Audit of the risk management system and the ICAAP at the Group level**

Audit of the risk management systems of the Group members is carried out annually in accordance with the inspections schedule of Sberbank IAS and IAS inspection schedules of the Group members (sections 3.1., 3.2., 3.3.). The result of the performed inspections are consolidated by Sberbank IAS in order to prepare a report on detected deficiencies on the operation of internal risk assessment systems in the Bank/the Group/a Group member and action taken to eliminate them. Audit shall be performed with due regard to the principle of proportionality and limited resources. The IAS shall organize annual audit process by means of decentralization of the audit functions of the Group members. Thus, annual inspections of the risk management systems of the Group members may be carried out by a local auditor for subsequent consolidation of results by the IAS at the Group level. The

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<sup>22</sup> There is an exception from this rule for scenarios proposed by the Bank's Center for Macroeconomic Research. The Center for Macroeconomic Research may propose scenarios of any complexity.

<sup>23</sup> Examples: "Hard recession, 5% GDP drop" is a simple scenario; "Stagflation coupled with capital outflow" is a complex scenario.

IAS may carry out an inspection of a Group member during on-site audit with an established frequency.

The Head of Sberbank IAS shall communicate the information on identified deficiencies in the risk management system and actions taken to eliminate them to the Supervisory Board and the Executive Board of the Bank at least once a year as part of the Sberbank IAS reports to the Supervisory Board of the Bank.

## **7. Final Provisions**

The Strategy shall be approved by the Supervisory Board of the Bank and is subject to regular revision as the amendment of regulatory requirements and revealing new efficient risk management methods and instruments following best international practices.

## List of Terms and Definitions

**Risk Appetite** means the aggregate maximum risk level of the Group/ a Group member that the Group is ready to accept in the course of creating shareholder value and achieving established strategic goals (including target profitability ratios). Risk Appetite shall be established for all material risks of the Group detected during the identification process.

**Sberbank Group (Group)** means the banking group defined in accordance with /1/, where Sberbank is the parent credit institution.

**Capital adequacy** means adequacy of disposable (available) capital to cover the overall amount of accepted and potential risks. Capital adequacy ratio shall be calculated as a ratio of disposable capital to the overall amount of accepted and potential risks.

**Available financial resources** mean capital at the disposal of the Group, the Bank, or a Group member, available to cover accepted and potential risks, that is assessed on the basis of the internal models of the Group / the Bank / the Group member, inter alia using internal assessments of expected losses.

**Risk identification** means the process of detection and classification of risk types.

**Collegial bodies of the Bank** mean collegial working bodies of the Bank, the formation of which under the Bank Charter falls within the competence of the Executive Board.

**Controlled member of the Group**, for the purposes of this Strategy, means Group members, in which the Bank is the sole participant, shareholder, incorporator (100% interest, either direct or indirect) or has a dominant participation (>50% interest, either direct or indirect)<sup>24</sup>.

**Large Group member** means a Group member with equity (capital/ net assets) in the equity of banking group (capital/ net assets) (without concerning intragroup operations between Parent credit institution of the Group and (or) group members), composes 5 or more percent of equity (capital) of the banking group and (or) a financial result, calculated with exclusion of income (expenses) from intragroup operations between Parent credit institution of the Group and (or) group members, composes 5 or more percent of the financial result of the banking group and (or) risk weighted assets, calculated with exclusion of intragroup operations between Parent credit institution of the Group and (or) group members, composes 5 or more percent of the risk weighted assets of the banking group. Definition is aligned with subsection 1.4.1 of section 1.4 of the Bank of Russia Directive No. 3876-U dated December 03, 2015 “On the Forms, Procedure and Timeframes for Parent Credit Institutions of Banking Groups to Disclose Information on Risks Assumed, Risk Assessment Procedures, and Risk and Capital Management Procedures” registered with the Ministry of Justice of the Russian Federation on December 28, 2015 under No. 40322.

**Risk limit** means a set numeric restriction of indicator values characterizing (whether individually or in the aggregate) the risk level. The limit may be either an absolute or a relative value.

**Risk assessment** means assessment of the probability of risk materialization and the amount of potential losses and/or other negative consequences in case of materialization of a particular risk type and/or overall risk accepted by the Group or by the Group members.

**SRG unit** means a unit of the Bank responsible for the formation of the SRG management system.

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<sup>24</sup> The perimeter of controlled Group members shall be updated annually and approved during the Group risk identification. The list of companies subject to the Strategy may be extended by a resolution of the GRC.

**Risk taking** means an action (or omission) resulting in a change in the level of risks of the Group. Risk taking by the Group takes place:

1. when decisions are made to enter into transactions, perform operations, sign a services agreement between the Bank or a Group member and external/internal counterparties to the Group (for credit and market risks, as well as liquidity risk);
2. when the participants of the risk and capital management system (section 5.2.) perform functions associated with risks other than those related to the decision-making on performance of operations or entry into transactions (e.g., compliance risks).

For risks managed on a consolidated basis (liquidity risk, interest rate and current risk of the banking book), active risk taking (at the time of making an operation/transaction) and passive risk taking (through the consolidation of positions exposed to the relevant risk type) are distinguished.

**Professional experts** means a list of experts from among employees of the Bank units responsible for direct SRG management, including SRG identification, assessment, management and control. The list shall be approved by a resolution of the GRC on an annual basis.

**Regulator** means a competent state body exercising the functions of regulation, control and/or supervision of the activity of credit institutions, other financial institutions and banking groups.

**Regulatory capital** means the value of capital of the Group / the Bank / a Group member required to cover risks accepted in the course of the activity that shall be evaluated according to the methodology established by the regulator.

**Risk** means the possibility (probability), inherent to the Group's activities, of occurrence of an event that results in financial loss of the Group and/or negatively affects the Group's reputation and/or liquidity.

**Internal Audit Service** of the Bank means a complex of the Bank's structural units (the Internal Audit Department of the Bank's Central Head Office and relevant units of the Internal Audit Service in the Bank branches) carrying out their activity in compliance with the Regulation on the Internal Audit Service of Sberbank.

**Risk Management Service of the Bank** means a complex of the Bank's structural units included in the Risks Block of Sberbank. The Head and employees of the Risk Management Service shall be on the staff of the Bank.

**Stress testing** means an assessment of potential impact on the financial standing of the Group / the Bank / a Group member of changes in a range of stress factors that are extraordinary, but possible events.

**Sub-holding** is an association of Group members that is not a legal entity, where the parent organization (managing company), which, either directly or indirectly (through third parties) has significant influence on decisions made by the bodies of the Sub-holding members and on the amount of their financial result, is a controlled subsidiary of the Bank. The Bank itself may be a managing company for certain Sub-holdings.

**Material risks** mean risks, which, if materialized, have adverse consequences that impact the consolidated financial result and/or disposable capital and/or reputation of the Bank / the Group / a Group member, or the capability to comply with the requirements of the regulators in the Russian Federation and in the countries of operation of the Group members.

**Risk management** means a complex of measures ensuring the identification, assessment, aggregation of all material risks, the monitoring, restriction and control of volumes of risks taken, the planning of risk level, the implementation of risk mitigation actions to keep the accepted risk volumes within the established external and internal restrictions in the course of realization of the Sberbank Development Strategy approved by the Supervisory Board of the Bank.

**Economic capital** means the amount of capital of the Group / the Bank / a Group member required to cover unexpected losses on a given time horizon with an established level of confidence probability, which is determined, among other things, on the basis of the target rating.



**List of Abbreviations**

**CRO of the Bank / Group** (Chief Risk Officer) – the head of the Risks Block of Sberbank

**Bank** – Sberbank

**Bank of Russia** – the Central Bank of the Russian Federation

**BCBS** – the Basel Committee on Banking Supervision, a committee of banking supervisory authorities established by the central bank governors of the G-10 countries in 1974.

**Risks Block** – the Risks Block of Sberbank

**SRG** – specific risk groups

**IRD** – internal regulatory document

**ICAAP** – internal capital adequacy assessment procedures

**IRMD** – Integrated Risk Management Department

**AFR** – available financial resources

**CBs** – collegial bodies

**GRC** – Group Risk Committee of Sberbank

**ALCO** – Assets and Liabilities Management Committee of Sberbank

**IFRS** – International Financial Reporting Standards

**OAD** – organizational and administrative document

**IAS** – Internal Audit Service of Sberbank

**List of Reference Documents**

1. Federal Law No. 395-1 dated December 02, 1990 “On Banks and Banking Activities”.
2. Letter of the Bank of Russia No. 06-52/2463 dated April 10, 2014 “On the Corporate Governance Code”.
3. Letter of the Bank of Russia No. 14-T dated February 06, 2012 “On the Recommendations of the Basel Committee on Banking Supervision “Principles for Enhancing Corporate Governance”.
4. Bank of Russia Ordinance No. 3624-U dated April 15, 2015 “On Requirements for the Risk and Capital Management System of a Credit Institution and a Banking Group”.
5. Letter of the Bank of Russia No. 96-T dated May 27, 2014 “On the Recommendations of the Basel Committee on Banking Supervision “Principles of Risk Aggregation and Submission of Risk Reports”, Annex “Principles of Risk Aggregation and Submission of Risk Reports”.
6. Bank of Russia Regulation No. 242-P dated December 16, 2003 "On the Organization of Internal Controls by Credit Institutions and Banking Groups”.
7. Bank of Russia Ordinance No. 3883-U dated December 7, 2015 “On the Procedure for Assessing the Quality of Risk and Capital Management Systems, and Capital Adequacy of a Credit Institution or a Banking Group by the Bank of Russia”.
8. Bank of Russia Ordinance No. 3876-U dated December 03, 2015 “On the Forms, Procedure and Timeframes for Parent Credit Institutions of Banking Groups to Disclose Information on Risks Assumed, Risk Assessment Procedures, and Risk and Capital Management Procedures”.
9. Bank of Russia Regulation No. 509-P dated December 03, 2015 "On the Calculation of Equity (Capital), Mandatory Ratios and Open Foreign Exchange Position Amounts (Limits) for Banking Groups”.
10. Principles for enhancing corporate governance, October 2010, Basel Committee on Banking Supervision, ISBN 92-9131-844-2.
11. Corporate governance principles for banks, July 2015, Basel Committee on Banking Supervision, Consultative document Guidelines, ISBN 978-92-9197-130-5 (print), ISBN 978-92-9197-126-8 (online).
12. Basel Committee on Banking Supervision, Principles for effective risk data aggregation and risk reporting, January 2013, ISBN 92-9197-913-9.
13. Basel II: International convergence of capital measurement and capital standards. A revised framework comprehensive version, June 2006, BCBS.
14. DIRECTIVE 2013/36/EU OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of June 26, 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC (CRD IV).
15. REGULATION (EU) No 575/2013 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of June 26, 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012» (CRR).
16. Charter of Sberbank of Russia dated June 3, 2015.
17. Federal Law No. 208 dated December 26, 1995 “On Joint Stock Companies”.
18. Corporate Governance Code of Sberbank dated April 20, 2015.

19. Regulation on the Internal Control System of Sberbank of Russia OJSC No. 2289 dated October 17, 2011.
20. Regulation on the Internal Audit Service of Sberbank No. 3502-2 dated June 09, 2016.
21. Regulations for Business Planning Management of Sberbank Group No. 3058-4 dated July 01, 2016.
22. Basel Committee on Banking Supervision, A Sound Capital Planning Process: Fundamental Elements, January 2014, BCBS, ISBN 92-9131-209-6 (print), ISBN 92-9197-209-6 (online)
23. Instruction of the Bank of Russia No. 154-I dated June 17, 2014 "On the Procedure for Remuneration System Assessment in the Credit Institution and the Procedure for Submission of Requirements for Remedy of the Default in the Remuneration System to the Credit Institution"
24. Bank of Russia Ordinance No. 4212-U dated November 24, 2016 "On the List, Forms and Procedures for Preparing and Submitting Reporting Forms by Credit Institutions to the Central Bank of the Russian Federation".

**ANNEX 4.****Approval Levels for IRDs Regulating Risk and Capital Management<sup>25</sup>**

<b>Document type</b>	<b>Approval level<sup>26</sup></b>
Sberbank Group Risk and Capital Management Strategy	Supervisory Board of the Bank
Sberbank Group Risk Materiality Assessment Methodology	Executive Board of the Bank
Regulations on Integrated Risk Management of Sberbank Group	Executive Board of the Bank
SRG Management Policies	Executive Board of the Bank
Economic Capital Assessment Methodologies	Executive Board of the Bank
Stress Testing Methodologies	Executive Board of the Bank
SRG Management Regulations	SRG Management Committees of the Bank
Methodologies for Managing Material Risks Included into SRGs	CRO / Heads of functional Blocks in the CHO / CBs
Process Charts for Units Interaction	CRO / Heads of functional Blocks in the CHO / CBs

<sup>25</sup> In Accordance with the Bank of Russia Requirements /4/.

<sup>26</sup> Large Group members are advised to rely on the specified IRD approval level when approving similar documents at the local level, unless it contradicts to the established practice and the requirements of the local regulator.

## **Structure of the Report on ICAAP Implementation Results of Sberbank Group**

### General provisions

- Purpose of the report
- Scope of the report of the Group
- Main conclusions/results

### Business model and strategy

- Description of the current business model and development strategy
- Proposed changes to the current business model (IT, corporate governance, etc.)
- Forecast of key financial indicators
- Description of correlation between the development strategy and the ICAAP

### Risk management system

- Description of the corporate governance system (to the extent concerning risk management)
- ICAAP organization
- Description of the integrated risk management process (list of material risks)
- Description of the risk reporting system
- Organization of the risk management system at the Group level (centralization, decentralization, cooperation with the Group members)
- Risk culture areas of development

### Risk Appetite

- Correlation of the strategy and business model with the Risk Appetite
- Functions and powers
- Description of the approach to Risk Appetite determination (selection of risk metrics, determination of limits, procedure for establishing, monitoring and reviewing the Risk Appetite)
- Description of the approach to the cascading of the Risk Appetite limits in the Bank and the Group
- Utilization of the Risk Appetite in management

### Capital management

- Description of the AFR determination methodology
- Description of key differences between AFR instruments and regulatory capital instruments
- Description of the approach to capital planning (planning horizon, instruments, etc.)
- Description of the dividend policy

### Economic capital assessment

- Description of economic capital assessment methodology and models for all material risks
- Description of data used for assessment
- Description of differences between the approaches used for ICAAP purposes and the approached used for the regulatory capital adequacy assessment
- Description of the approach to the aggregation of economic capital assessments for different types of material risks

- Validation of models used in the ICAAP (including the latest validation results)

#### Stress testing

- Description of stress testing approaches (stress test types, frequency of stress testing, methodology, assumptions, data used)
- Utilization of stress testing results in risk management

#### ICAAP implementation results

- Results of the economic capital assessment by risk types and of the aggregated assessment
- AFR and regulatory capital assessment
- Capital allocation within the Bank and by the Group members
- Information on limits utilization
- Stress testing - description of the scenarios used and the results

#### IT systems and data

- Description of the processes for collection, storage and aggregation of data on risks at various levels, including at the Group level
- Description of flows and structure of data used for the ICAAP
- Description of the applied data checks
- Description of the IT systems used for data collection, storage and aggregation

#### ICAAP self-assessment (areas for development)

- ICAAP inspections carried out (including by the Internal Audit Service)
- Main areas for development, planned actions

## ANNEX 6.

## Provision of Information about the Risk Exposure of the Group and the Bank

Report	Supervisory Board/ Risk Management Committee of the Supervisory Board	Executive Board	GRC	SRG Committee	CRO of the Bank / the Group <sup>27</sup>
On ICAAP implementation results <sup>28</sup>	Annually	Annually	-	according to the frequency reflected in the IRD on the management of such SRG	-
On stress testing results	Annually	Annually	-		-
On material risks of the Bank and a Large Group member <sup>29</sup>	Quarterly	At least once per month	Quarterly		Volume and utilization of assumed risk - on a daily basis <sup>30</sup> ; Aggregated information - at least once per month
On compliance with mandatory ratios <sup>31</sup> by the Group, the Bank and a Large Group member	Quarterly	At least once per month	Quarterly		At least once per month
On the amount of capital and the capital adequacy assessment results of the Group, the Bank, and a Large Group member	Quarterly	At least once per month	-		-
On compliance with the Risk Appetite of the Group and the Bank	Quarterly	Quarterly	Quarterly		Quarterly
On violations of the established Risk Appetite and regulatory ratios by the Group and the Bank	Upon detection	Upon detection	Upon detection		Upon detection

<sup>27</sup> As well as members of the SRG Management Committees of the Bank and heads of the units included into the Risk Management Service. Information shall be provided on that type of material risk within the SRG, which falls within the competence of the relevant committee/unit.

<sup>28</sup> Structure of the report on ICAAP implementation results is provided in Annex 5.

<sup>29</sup> In accordance with the Bank of Russia requirements to the contents of the reports on material risks (see /4/).

<sup>30</sup> In respect of information on the volume of risks taken by the business units, utilization/violation of established risk limits, as well as a report on the amount of capital, capital adequacy assessment results, compliance with mandatory ratios. Applicable to those types of risks, for which the preparation of daily reports is possible and reasonable.

<sup>31</sup> For those types of risks, in respect of which mandatory regulatory ratios are established.

Risk and Capital Management Strategy of Sberbank Group

Report of the Internal Audit Service on deficiencies in the functioning of internal risk assessment systems and actions taken to eliminate them	Annually	Annually			
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