SBERBANK OF RUSSIA

APPROVED BY
Resolution of the Supervisory Board
of Sberbank
No. 10 dated 17.04.2018

«17» April 2018 **No. 3960-3**

Sberbank Group
Risk and Capital Management
STRATEGY
(Version 3)

Moscow
2018

Table of Contents

1. General provisions

1.1. The Sberbank Group Risk and Capital Management Strategy (hereinafter referred to as the Strategy) specifies the basic principles used to form the risk and capital management system in Sberbank Group (hereinafter referred to as the Group).

1.2. The Strategy was developed in compliance with requirements of the Bank of Russia and regulations of the Russian Federation /1 - 9/, with due regard to guidelines of the Basel Committee on Banking Supervision (hereinafter referred to as the BCBS) /10 - 13/ and the European Community /14, 15/.

1.3. The risk and capital management system is a 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's Development Strategy approved by the Bank's Supervisory Board (hereinafter referred to as the Development Strategy).

1.4. The Bank shall create the risk and capital management system of the Group, in particular, through the implementation of internal capital adequacy assessment procedures (hereinafter referred to as the ICAAP).

1.5. The Group's ICAAP shall include risks of the Bank and the Group members, information on which is included in the calculation of capital adequacy ratios on a consolidated basis according to the requirements of /9/.

1.6. ICAAP implementation is driven by the need to:

- comply with the requirements of the Bank of Russia;
- satisfy the expectations of shareholders interested in the long-term development of the Group with a view to ensure the returns on investments;
- ensure the efficient operation of the risk and capital management system enhancing the Group's reliability for all the stakeholders: customers and creditors of the Group, its employees and regulatory bodies.

1.7. The provisions hereof serve as the basis for organization of work aimed to manage risks and capital adequacy in the Group, including development of internal documents for risk and capital management of the Bank and the Group members.

1.8. The Strategy also describes the risk management procedure, in particular, the allocation of risk and capital management functions among the Supervisory Board, the Executive Board, collegial bodies and business units of the Bank performing risk management and risk taking functions, as well as methods used for risk assessment, limitation and mitigation.

1.9. Deviations from the Strategy requirements is possible for the Group members being out of the jurisdiction of the Russian Federation as agreed upon with the Bank only if these requirements are in conflict with local laws in countries of the Group members' operation.

1.10. The Strategy requirements are mandatory for the Group members for whom significant[1] / material risks are identified. Other Group members may also be guided by the Strategy provisions while developing their risk management systems.

1.11. When developing the Strategy, the Bank is guided by the approach ensuring the going concern in the long run. The financial stability of the Group is ensured by timely identification of

[1] The term "significant risk" corresponds to the definition of "significant risk" in /4/.

potential risks occurring, in particular, while revising the Development Strategy and by management of significant / material risks.

2. Goals and objectives

The goals of risk and capital management are:

- to ensure/maintain the acceptable risk level within the risk appetite[2] and/or other limits and restrictions;
- to ensure the capital adequacy to cover significant / material risks;
- to ensure the financial stability of the Bank and the Group, to minimize possible financial losses caused by risks accepted by the Bank and the Group within the risk appetite specified in accordance with the Development Strategy;
- to ensure the efficient resource allocation for optimization of the risk-return ratio of the Group;
- to ensure the going concern and planning of the optimal management of the Bank and the Group business with due regard to possible stress conditions;
- to comply with requirements of government authorities of the Russian Federation regulating the activities of the Group as a whole and of individual Group members, as well as requirements of government authorities in countries of the Group members’ operation.

The objectives of risk and capital management system are:

- to identify risk types and assess their materiality;
- to assess, aggregate and forecast the level of risks;
- to set limits and restrictions;
- to monitor and control the volume of risks taken, to implement measures aimed at mitigation of the level of risk taken by the Group with a view to keep it within the set external and internal limits;
- to comply with the mandatory ratios and restrictions established by the Bank of Russia;
- to assess the adequacy of available financial resources (hereinafter referred to as AFR) for covering significant / material risks, for which the capital requirements are determined, including those for stress conditions;
- to plan the capital based on the results of the comprehensive risk assessment, testing of the Group stability against internal and external risk factors, Development Strategy targets, capital adequacy requirements of the Bank of Russia;
- to develop preventive and remedial actions aimed at the maintenance of capital adequacy and prevention / reduction of the Bank’s and the Group’s losses in case of stress conditions;
- to carry out strategic planning with due regard to the level of accepted risk;
- to inform the Supervisory Board of the Bank, the Executive Board of the Bank, other collegial bodies and business units performing risk management and risk taking functions about significant / material and about the capital adequacy;
- to ensure the uniform understanding of risks at the Group level;

[2]The term “risk appetite” corresponds to the term “risk tolerance” in /4/.

- to develop the risk culture and risk management competencies in the Group with due regard to the best international practices.

3. Classification of risk and capital management objects

Risk is defined as the Group's inherent possibility of events resulting in financial loss and/or negatively affecting the Group's reputation and/or liquidity position. Risk management means a set of measures ensuring the identification, assessment, aggregation of all the significant / material risks, monitoring, limitation and control of volumes of risks taken, planning of risk level, implementation of risk mitigation measures to keep the accepted risk volumes within the set external and internal limits in the course of implementation of the Development Strategy approved by the Bank's Supervisory Board.

Capital adequacy means the adequacy of disposable (available) capital to cover the accepted and potential risks. For each risk, it is specified whether it is necessary to allocate the capital to cover it. Capital adequacy ratio is calculated as a ratio of available capital to the overall amount of accepted and potential risks.

With a view to control the capital adequacy (equity / available financial resources), the Bank / the Group member shall establish the capital allocation procedures through a system of limits / restrictions for types of significant / material risks and for business areas / business units performing risk taking functions, if applicable.

For risk and capital management purposes, there are six categories of the Group members, for whom the minimum ICAAP requirements vary in accordance with the principle of proportionality specified in Annex 4.

With a view to form the risk and capital management system at the Group level, the Bank has developed a procedure for interaction between the Group members while implementing approaches to risk and capital management described in Annex 5.

4. General principles of risk and capital management

4.1. Risk awareness

Decisions to conduct any operations should be made only after the analysis of risks arising as a result of such an operation. All operations are conducted in compliance with the internal regulatory and/or organizational-administrative documents. No new types of operations exposed to significant / material risks are allowed, if there are no internal regulatory, organizational-administrative documents or relevant resolutions of collegial bodies regulating the procedure for their performance.

4.2. Risk-adjusted operations management

The Group shall assess the adequacy of disposable (available) capital by implementation of ICAAP.

While 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 the accepted and potential risks.

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

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 and collegial bodies of the Group members shall approve IRDs specifying the risk management approaches, set the limits and restrictions, review the information about the level of accepted risks and violations of established risk management procedures, limits and restrictions on a regular basis and make other decisions with regard to risk and capital management.

4.4. Principle of proportionality

While building the risk and capital management system, the Bank and the Group members should be guided by the principle of proportionality, which means that the requirements to implementation of the risk and capital management system in the Group member shall depend on the nature and scope of its operations as well as on the level and combination of risks.[3]

4.5. Risk limitation

The Group applies a system of limits and restrictions allowing to ensure the acceptable risk level.

The Group's system of limits has a multi-level structure[4]:

- risk appetite and other upper-level limits;
- limits for the Group's significant / material risks;
- limits for the Bank and the Group members, structural business units of the Bank and the Group members performing functions related to taking of significant / material risks;
- limits for the volume of operations with one counterparty, group of counterparties connected by certain features, for the volume of operations with financial instruments, etc.;
- other risk limitations needed for efficient management of significant / material risks.

4.6. Division of functions

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

	1st line of defense
Goal	**Risk level management within set limits**
Functions	− Identification of risk types − Identification and initial assessment of risks while conducting operations and entering into transactions

[3] In accordance with Annex 4.

[4] The structure of limits/restrictions for a particular risk type shall be reflected in the Bank's IRDs describing the management of such risk type.

	− Forecasting of the level of risks associated with positions/portfolios managed on a consolidated basis, modeling of the behavior of customers, balance sheet items, products, etc.[5] − Initial control of the compliance of accepted risk, risk taken and anticipated risk level with the set risk limits − Development and implementation of measures required to comply with the set limits − Risk taking while conducting banking operations and entering into transactions (active risk taking) or through consolidation of positions exposed to risk (passive risk taking as a result of risk transfer) within the set regulatory and internal limitations on risk (risk appetite, other limits and mandatory ratios, other restrictions) − Risk taking as a result of performing/failing to perform by participants of the risk and capital management system (Clause 5.2) the functions associated with risk types other than risks related to carrying out of operations and entering into transactions

2nd line of defense	
Goal	Independent risk assessment and control
Functions	− Identification of risks and assessment of their materiality − Approval of risk management and assessment methodology − Assessment of aggregated (overall) risk level − Forecasting of risk levels − Development of a system for limitation of risk levels (including development of risk appetite limits and/or other risk limits structure and values and/or other qualitative restrictions proposed for approval) − Independent from the 1st line assessment of risk level, control over the correspondence of actual and anticipated risk levels to the set risk limits (development of escalation procedures and control over implementation of measures to eliminate violations) − Control of the compliance with mandatory regulatory ratios, if applicable − Organization / implementation of stress testing procedures − Development and alignment of risk level mitigation measures in case of violation of the set limits by the 1st line of defense − Preparation of risk reports and their communication to the management and collegial bodies − Testing and validation of risk assessment models (this function is performed by a unit independent of business units developing models and assessing risks with the use of such models) − Development of risk culture

[5]For liquidity risk, interest rate risk and currency risk of the banking book.

	3d line of defense
Goals	Independent performance assessment of the risk and capital management system and its compliance with internal and external requirements
Functions	− Performance assessment of the risk and capital management system, including checking the efficiency of the methodology used for assessment of banking risks and procedures for banking risk management specified in the Bank’s IRDs, as well as whether the above mentioned documents are applied in full − Informing the management about deficiencies identified in the risk and capital management system − Control over elimination of deficiencies identified in the risk and capital management system

Specification of functions performed by the 1st and 2nd lines of defense is determined in the policy for management of individual risk type(s) and may deviate from the above list, if there are any specific functions for such risk type.

The 4th line of defense is represented by the Regulator, as well as external auditors who, despite being external organizations in relation to the Bank / the Group member, nevertheless constitute an important mechanism not only for the risk and capital management system, but for the corporate governance of the Group as a whole.

4.7. Centralized and decentralized approaches

The Group shall apply the combination of centralized and decentralized approaches to risk and capital management in order to ensure the best practice efficiency. The Bank's authorized bodies shall manage risks and capital of the Bank and the Group as a whole, as well as set the requirements for organization of the risk and capital management system at the level of particular Group members (including in relation to the structure of limits and restrictions, applied methodology and other aspects). The Group members shall manage risks and capital at the local level within the set limits and authorities and develop IRDs in accordance with the Group standards with due regard to local specifics.

Decentralization of functions shall enable the prompt response to changes of risk levels in the Group members.

4.8. Information technologies and data quality

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

As for credit risks, with a view to minimize the requirements to customers with regard to provision of personal data in order to make decisions in real time, the Bank / the Group member shall work towards increasing the level of risk expertise using automated aggregation of customer data.

The Goal of the Bank / the Group members is to automate making of standard decisions and involvement of underwriter’s expert knowledge only in non-standard complex transactions. In order to make decisions on transactions, the Bank / the Group members may use the artificial intelligence (including that implemented with the use of approaches based on neural networks). The Bank / the

Group members shall work towards automation of credit risk management processes by using the advanced technologies to digitalize the tools and models.

Data quality (completeness and availability) is critically important factors for ensuring the reliability and accuracy of risk calculation and assessment.

The Group shall work towards the maximum automation of data collection, storage and processing.

Risk management takes into account risks associated with the implementation of advanced information technologies and caused by disruptions in the work of automated systems and in the information protection of the Bank's and the Group members' systems.

4.9. Improvement of methods

Risk and capital management methods are continuously updated: procedures, technologies and information systems should be improved with due regard to strategic tasks, changes in the external and internal environment, as well as innovations in the international practice.

4.10. Risk culture

With a view to ensure the stable and efficient functioning of the entire risk management system, the Group shall take actions aimed at the development of risk culture with the following main tasks:

- acquisition of knowledge and skills by employees of the Bank and the Group members in the field of risk management through regular training;
- correct use of risk management tools by executives and employees in their day-to-day activity;
- development of employees' skills of correct and timely using of risk management tools;
- open and active communications within the Group regarding the risk culture values and principles;
- sharing of information on violations by employees through the communication channels available in the Bank;
- disclosure by the Bank of information on violation in public reports and by request of authorized bodies.

4.11. Risk-based incentive system

The Group's remuneration system shall be built with due regard to the nature and scope of operations conducted, operating results, level and combination of accepted risks. The approaches to the incentive system applied in the Bank shall comply with the Bank of Russia requirements /22/.

4.12. Information disclosure

All risk and capital adequacy management information needed according to the regulators' requirements is disclosed. Composition and periodicity of risk reporting shall comply with the requirements of the Bank of Russia, the requirements to management reporting, and the requirements to disclosure of information on risks for any stakeholders in accordance with the principles of transparency, completeness, etc. as per Clause 6.5.

5. Key participants of the risk and capital management system

5.1. Risk Management Service of the Bank

The Bank's Risk Management Service is represented by the Risks Block. Units outside the Risks Block shall not be a part of the Risk Management Service. The Validation Unit is a part of the Risks Block functionally independent of units developing and using risk assessment models.

In its work, the Bank's Risk Management Service is guided by the applicable laws of the Russian Federation, regulations of the Bank of Russia, the Bank's Charter, this Strategy, resolutions of the Bank's management bodies, and other IRDs and OADs of the Bank. In order to ensure the integrated risk management within the Group, the Risk Management Service shall take into account the requirements of local regulators in countries of the Group members' operation.

The Bank's Risk Management Service shall perform its functions on a continuous basis. The Risk Management Service shall perform the functions of the 2nd line of defense. For some risk types, certain functions of the 2nd line of defense may be performed by units outside the Risks Block having necessary competence, resources and interested in mitigation of the level of risks taken by the Bank with a view to ensure the compliance with risk appetite limits and other restrictions, provided that the risk management approaches are subject to approval by the Risks Block[6].

The head of the Bank's Risk Management Service is the Head of the Risks Block[7] accountable to the CEO, the Chairman of the Executive Board of the Bank. The Head of the Risks Block shall control the work of the business units within the Risks Block and shall be a member of the Bank's committees for management of significant / material risks[8].

The Head of the Bank's Risk Management Service shall comply with the qualification and business reputation requirements set by the legislation and regulations of the Bank of Russia.[9].

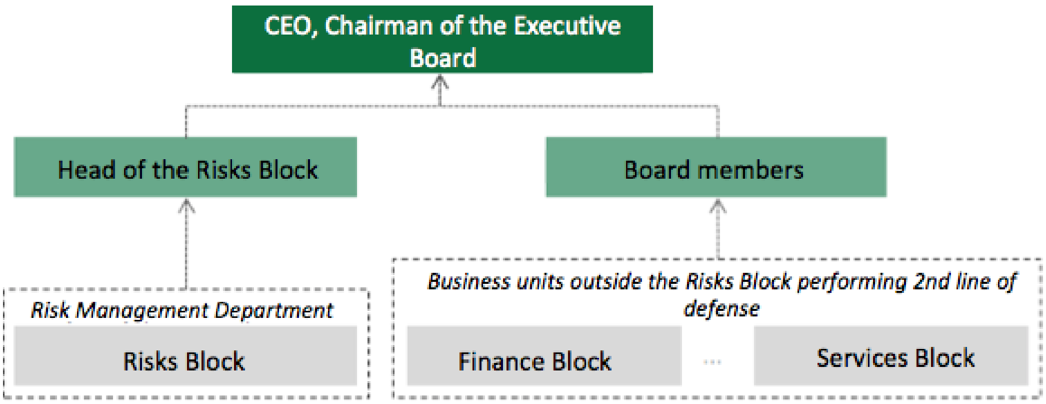

Figure 1. Structure of risk and capital management units[10]

[6]For compliance risk, only the quantitative assessment approaches shall be subject to mandatory approval by the Risks Block.
[7] Or any designated substitute
[8] Personal participation in the committees for management of significant / material risks, or participation of a representative of the Risk Management Service.
[9] The qualification requirements are set by Bank of Russia Ordinance dated 01 April 2014 No. 3223-U "On Requirements to Heads of the Risk Management Department, Internal Control Service, Internal Audit Service of Credit Institutions". The business reputation requirements are set by Clause 1 of Part 1 of Article 16 of the Federal Law "On Banks and Banking".

5.2. Division of functions and powers

Main functions of the risk and capital management system participants are described below[11]. In addition to these functions, the Bank's management bodies shall review the reports generated within ICAAP in accordance with Annex 6, making of necessary decisions and approval of IRDs in accordance with Annex 7.

5.2.1. The General Meeting of the Bank's Shareholders shall

- make decisions on increase / decrease of the charter capital, split-up / consolidation of shares, issue / conversion of bonds and other issue securities convertible into ordinary shares, in cases provided for in /16, 17/;
- consider the issues of dividend payment (declaration) in accordance with /16, 17/;
- approve major / interested-party transactions in cases and according to the procedure stipulated in /16, 17/.

5.2.2. The Supervisory Board of the Bank shall

- approve the Group Risk and Capital Management Strategy, including the procedure for management of the Group's significant risks[12];
- approve the risk appetite of the Group and the Bank;
- approve the planned capital adequacy level, planned capital level and planned capital structure of the Group and the Bank;
- approve the Regulation on Dividend Policy;
- give recommendations for an amount of dividends on shares and for determination of a record date;
- make decisions on changes in capital in accordance with the powers specified in /16, 17/;
- approve stress testing scenarios for the Group and the Bank;
- approve the recovery and resolution plan of the Bank and the Group;
- approve key documents for the purposes of regulatory assessment of capital adequacy;
- approve documents specifying approaches to accounting of risks in the remuneration system;
- control the implementation of the Group Risk and Capital Management Strategy, including the procedure for management of material risks of the Group[12];
- control the compliance with the risk appetite of the Group and the Bank;
- at least once a year consider the need for to make amendments in documents developed within the ICAAP[13], within its competence;

---

[10] A detailed list of units shall be given in the annual report on ICAAP implementation results.

[11] The exact list of functions of the Supervisory Board, the Executive Board, and the Bank's committees shall be governed by separate IRDs for each of the above mentioned collegial bodies (e.g. by regulations on committees).

[12] Procedures for management of credit risks, credit and financial market risks of the trading book, operational risks, interest rate and currency risks of the banking book, liquidity risk are described in Annex 8.

[13] The requirement of annual revision of documents developed within the ICAAP is recommended for large members of the Group.

- approve major / interested-party transactions in cases and according to the procedure stipulated in /16, 17/.

5.2.3. The Risk Management Committee of the Supervisory Board shall

- preliminarily consider the issues of the Group risk and capital management, including:
    - approve the Group Risk and Capital Management Strategy, including the procedure for management of the Group's significant risks[12];
    - control the compliance with the risk appetite of the Group and the Bank;
    - approve the planned capital adequacy level, planned capital level and planned capital structure;
    - approve stress testing scenarios for the Group and the Bank;
    - approve the recovery and resolution plan of the Bank and the Group on the basis of stress testing scenarios and results;
    - approve key documents for the purposes of regular assessment of capital adequacy;
    - approve documents specifying approaches to accounting of risks in the remuneration system;
- review the reports, including within the internal capital adequacy assessment procedures;
- control the compliance with laws of the Russian Federation in the field of risk management;
- interact with other committees of the Supervisory Board on issues of risk management.

5.2.4. The Executive Board of the Bank shall

- approve the Bank's organizational structure;
- approve the Group's business plan and monitor its implementation;
- approve the Group's IRDs regulating risk and capital management[14];
- at least once a year consider the need for making amendments in documents developed within the ICAAP, within its competence;
- preliminarily review the recovery and resolution plan of the Bank and the Group on the basis of stress testing scenarios and results;
- make decisions on changes in capital in accordance with the powers specified in /16, 17/;
- form collegial working bodies, approve the respective regulations and set their competencies.

5.2.5. The Group Risks Committee of the Bank shall

- manage the overall risk of the Group within the powers, requirements and restrictions approved by resolutions of the Bank's Supervisory Board and Executive Board;
- approve a list of risks considered as significant / material risks with regard to the Group / the Bank / the Group members;
- specify the committees for management of significant / material risks and units responsible for development of the management system of these types of risks at the Bank / the Group level (hereinafter referred to as the Units responsible for risks);

[14] In accordance with Annex 7.

- preliminary consider and approve the risk appetite of the Group and the Bank;
- specify the requirements to risk appetite of the Group members;
- control the compliance with cascaded risk appetite values of the Group;
- preliminarily review the recovery and resolution plan of the Bank and the Group;
- control the implementation of measures to eliminate breaches of risk appetite.

5.2.6. The Assets and Liabilities Management Committee of the Bank shall

- approve the Group standards for capital adequacy management processes and approaches, requirements to the Group members' regulations describing internal capital adequacy management methods and procedures;
- specify the capital requirements for the Group members;
- set and cascade the capital adequacy limits.

5.2.7. The Bank's committees for management of significant / material risks[15] shall

- manage the Group's significant / material risks within the powers, requirements and restrictions approved by resolutions of the Bank's Executive Board;
- approve the architecture and values of limits[16] within the established risk appetite;
- approve other restrictions on risks based on qualitative indicators[17];
- control the compliance with limits and/or other restrictions[17] based on qualitative indicators;
- review the policies for management of significant / material risks for subsequent approval by the Bank's Executive Board[17];
- control the activities of accountable committees[18].

5.2.8. The Integrated Risk Management Department shall

- develop, implement, support and improve the Bank and the Group risk management system on a consolidated basis, ensure its compliance with the requirements of the Group's Development Strategy, requirements and recommendations of the Bank of Russia, the BCBS recommendations, and best world practices;
- organize the process for risk identification and their materiality assessment in the Group;
- generate the following reports in accordance with Annex 6:
  - ICAAP and stress testing results for the Bank and the Group;
  - aggregated reports on the level of significant / material risks for the Supervisory Board, the Executive Board and collegial bodies of the Bank managing the Group risks, in accordance with the requirements set forth in Clause 6.5 of this Strategy;
  - inform the Group Risks Committee of the Bank, the Executive Board of the Bank and the Supervisory Board of the Bank about breaches of the established risk appetite and

[15] Including the Group Risks Committee of the Bank and the Assets and Liabilities Management Committee of the Bank. The list of committees shall be approved within the annual risk identification and materiality assessment procedure.
[16] Approval levels of limits and restrictions may differ and be specified in policies for particular risk types.
[17] If it is provided for in the regulation on the committee
[18] The term "accountable committees" shall mean a list of committees and functions within the system for management of the Group's significant / material risks.

regulatory ratios by the Group/Bank/Group member upon identification of any such breach[19];

- form the proposals for risk appetite limits of the Group, the Bank and their cascading as approved by the units responsible for risks, including determination of the capital buffer for covering of material risks;
- carry out the aggregated assessment and forecasting of the aggregate level of the Group's significant / material risks as well as monitor and control the aggregate level of accepted risk;
- coordinate the interaction of units during preparation of scenarios and stress testing of the Bank and the Group within the ICAAP;
- consolidate the information about risks for the purposes of disclosure in accordance with the Bank of Russia requirements indicated in /8/;
- ensure the methodological support of the units responsible for risk on risk management system development for particular risk types.

5.2.9. The Validation Unit shall

- perform validation of risk assessment models.

5.2.10. The Treasury shall

- develop proposals concerning a list of risk metrics and their thresholds with regard to capital adequacy for their inclusion in the risk appetite of the Bank and the Group;
- distribute and control the implementation of Group standards of capital adequacy management at the level of the Group members;
- develop a capital adequacy management plan within the business planning process in the Group as a whole and a plan for capital adequacy management in crisis situations;
- carry out regular forecasting of capital adequacy ratios for the Bank and the Group and develop methods for their forecasting;
- monitor the compliance with risk appetite with regard to capital adequacy ratios and other internal limits for actual and forecasted values of capital adequacy ratios;
- develop the proposals and measures for capital adequacy management, submit to an authorized collegial body and coordinate their implementation;
- take part in stress testing of the Bank and the Group within the ICAAP;
- perform other capital adequacy management functions in accordance with /24/

5.2.11. The Finance Department shall

- determine business planning principles, develop respective methodologies/regulations;
- develop the financial structure of the Group (including proposals for formulation of business plan objectives), including the perimeter of and criteria for consolidation of companies;
- prepare a consolidated plan and a mechanism to control the compliance with indicators of the Group's business plan;

[19] The respective procedure shall be specified in other IRDs of the Bank

- consolidate financial statements of the Group for the purposes of management reporting.

5.2.12. The Accounting and Reporting Department shall

- prepare reports on the value of equity (capital), compliance with the mandatory ratios, provisions for possible losses from loans, loan and similar debts of the Bank and the Group in accordance with /23/;
- prepare the Group's IFRS consolidated financial statements.

5.2.13. Units performing functions of the 1st line of defense are specified in policies for management of significant / material risks.

5.2.14. Units performing functions of the 2nd line of defense are specified in policies for management of significant / material risks.

The functions performed by the 1st and the 2nd lines of defense within the system for management of significant / material risks are described in policies for management of the respective risk types.

5.2.15. Unit responsible for risk

For each risk type (significant / material risk), the Group Risks Committee of the Bank shall specify one unit of the Bank[20], which shall:

- develop, implement, support and improve the methodology for risk management and assessment[21], in particular organize the development and updating of IRDs specifying risk assessment methods, processes, procedures and requirements to organizational structure, distribution of powers, processes and procedures for risk management at the level of the Bank and/or the Group;
- develop standards and requirements to methods and processes of risk management for the Bank and/or the Group members;
- organize the risk management in the Bank and/or the Group as a whole;
- interact with the Risk Management Service[22] within the risk and capital management system.

Depending on specifics of particular risk types, a unit responsible for risk may be outside the Risks Block (including units performing the functions of the 1st line of defense) if it has the required competencies and resources. In this case, the developed risk assessment methods and models, as well as IRDs specifying the processes and procedures for management of significant / material risks must be approved by the Risks Block[23].

[20] With due regard to the organizational structure of the Bank, the Business Units Responsible for Risk may be specified with a breakdown by business segments, lines of business, etc. As for credit risks, a separate business unit responsible for group methodology, including writing of the policy, as well as Business Units Responsible for Risk with a breakdown by business segments shall be appointed.

[21] Units responsible for risk may engage other units of the Bank and/or external organizations for performing of the above mentioned functions.

[22] For units outside the Risk Management Service.

[23] For compliance risk, only the quantitative assessment approaches shall be subject to the mandatory approval by the Risks Block.

5.2.16. The Macroeconomic Research Center shall

- formalize the macroeconomic stress scenarios (determine numerical values, dynamics of macroeconomic parameters) for all the countries of the Group members' operation within the ICAAP perimeter.

5.2.17. The Group members – Management companies of subholdings shall

- organize the risk and capital adequacy management process at the subholding level according to the principles determined by this Strategy, the Group standards, and with due regard to the requirements of local regulators in the countries of operation;
- provide to the Bank information required for integrated risk management and significant / material risks management.

5.2.18. The Group members not part of any subholdings shall

- organize the risk and capital adequacy management process at the level of a Group member according to the principles determined by this Strategy, the Group standards, and with due regard to the requirements of local regulators in the countries of operation;
- provide to the Bank information required for integrated risk management and significant / material risks management.

5.3. The Internal Audit Service shall

- perform the functions of the 3rd line of defense:
  - assess the efficiency of the risk and capital management system, in particular check the efficiency of the banking risks assessment methodology and banking risks management procedures established by the Bank's IRDs, as well as whether the above mentioned documents are applied in full;
  - inform the Supervisory Board and executive bodies of the Bank about deficiencies identified in operation of the risk and capital management system[24], as well as about actions taken to eliminate them;
  - develope the requirements to organization of internal audit in the Group members with regard to efficiency assessment of the risk and capital management system.

6. Organization of the risk and capital management system

The integrated risk management process includes 5 stages. The risk and capital management system of the Group is built, inter alia, through the implementation of internal capital adequacy assessment procedures (hereinafter, the "ICAAP"). The risk management system is developed for all significant / material risks according to requirements of section 6.2. Procedures for managing credit risks, credit and financial market risks of the trading book, operational risks, liquidity risk, interest rate risk and currency risk of the banking book are specified in Annex 8.

[24] Including any need to make amendments in the Risk and Capital Management Strategy, as well as other IRDs developed within the risk and capital management system.

6.1. Integrated Risk Management Process

6.1.1. Identification of the Group Risks and Assessment of Their Materiality

Scheduled identification of risk types and their materiality assessment is performed once a year and completed before the start of the annual business planning cycle. In case of any significant changes in the external environment and/or within the Group that may affect the risk level of the Group, unscheduled risk identification and materiality assessment may be performed.

In order to identify risk types in the Group the following Group members (hereinafter, "Identification Perimeter") are considered:

- the Bank;
- Group members whose risks are recognized in the Group ICAAP according to requirements /4/;
- Group members which are subject to risk management requirements of the local regulator, and whose risks are not recognized in the Group ICAAP according to requirements /4/;
- other Group members who may bear high risks for the Group[25].

The Bank shall assess risk materiality at the level of the Bank / Group members and the Group. Group members also shall assess risk materiality at the local level if the local regulator or the Bank requires it.

Risks recognized as significant by default shall not be annually assessed regarding materiality.

The types of risks, in respect of which 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, shall always be recognized as significant for the Group.

Risks which are subject to annual materiality assessment are assessed based on established quantitative criteria or expert estimates.

All potential Group risks, including industry-specific risks, are included in the long list of risks according to the world practice and recommendations of regulators and BCBS.

Requirements for creating the risk management system shall depend on the category of the risk (more information in section 6.2).

At the Group level the risk may be classified as "significant", "material" or "non-significant". The list of risk types of the Group / the Bank / Group members by materiality categories are approved by the Groups Risk Committee of the Bank. For every significant / material risk the decision is made on whether requirements for capital to cover it will be determined.

A risk may be recognized as significant / material for a Group member, but non-significant / non-material for the Group. For materiality assessment, the Group members shall rely on the standards accepted in the Group with due regard to the requirements of local regulators.

6.1.2. Aggregated Assessment of Risks and Overall Capital

The methodology for aggregated risk assessment is determined for significant / material risks, which capital requirements are specified for. In order to ensure the possibility of aggregating data for

[25] Taking into account captive organizations determined according to the Executive Board Regulation "On the Model for Management of Subsidiaries of Sberbank (Excluding International Banks)" No. 609 §1 dated 14 August 2017.

the purpose of determining the overall capital required to cover losses should the risk materialize, the required capital calculation approaches applied by the Group members should be agreed with the Bank.

Significant / material risks are assessed and aggregated using internal models for assessment of required capital. Both qualitative and quantitative models are applied to assess required capital in the Bank. Required capital amount is determined for risk types that quantitative models may not be built for.

The required capital amount also may be reserved for risks of business development plans specified by the Development Strategy of the Bank or a Group member, as well as for risks which may not be allocated between units of the Bank or a Group member, or such allocation is difficult.

Economic capital models used under the ICAAP is subject to the annual validation procedure.

Other risk assessment methods are determined for risk types (e.g. liquidity risk) that requirements for capital are not defined for.

6.1.3. Group Risk Appetite Setting and Cascading

Risk appetite means the aggregate maximum risk level of the Group / the Bank / a Group member that the Group / the Bank / a Group member 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 Group significant / material risks for the strategic planning horizon. Risk appetite is approved by a separate resolution of the Supervisory Board of the Bank and is an integral part of this Strategy. Qualitative indicators of risk appetite are defined as risk management principles and the target rating.

The Bank's Supervisory Board shall consider if update of the risk appetite is required at least once a year. Particular limits of the risk appetite may be updated during a financial year in case of changes in the economic situation and/or alteration of the requirements for credit institutions and/or banking groups (alteration of the existing ratios and/or introduction of new ratios).

When establishing risk appetite, two limits are determined for each risk metric: yellow area limits and red area limits of the risk appetite. The yellow area limit assumes a limit, the excess of which shall signal the need of taking/initiating management measures to prevent the breach of the red area limit. The red area limit means the maximum limit that may not be breached. Target risk levels mean the indicator values that do not breach the yellow area limit of the risk appetite on the entire planning horizon.

As part of the risk appetite of the Group and the Bank, the target risk structure is approved in order to control significant / material risks, which are accepted by the Bank or Group members. The target risk structure for risks, which capital requirements are specified for, shall mean share of significant / material risks in AFR.

Risk appetite values approved by the Bank’s Supervisory Board are cascaded by the decision of the Group Risks Committee for Group members.

6.1.4. Risk Exposure Planning

Group risk exposure is planned as part of annual business planning in the Group according to top-down principle: firstly, high level target indicators are determined for the Group, then they are specified for individual business lines, Group members, structural business units of the Group, etc.

While planning [26] activities of the Bank and the Group, risk metrics values, which characterize (or recognize) the level of losses from risk materialization both in projected scenarios of normal operations (business plan) and in stress conditions, is used. Also compliance with the risk appetite of the Bank or the Group is assessed in forecasted scenarios.

6.1.5. Management of Overall Risk Exposure of the Group

Management of the Group overall risk exposure includes:

- calculation of factors characterizing a consolidated level of overall risk of the Group based on assessments of significant / material risks, taking into account risk correlations;
- assessment of deviation of the Group risk exposure from the levels set by the consolidated business plan of the Group;
- assessment of the 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;
- preparing reports according to 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 over execution of such decisions;
- control over execution of risk mitigation measures in case of risk appetite limits violation.

The risk level is controlled by of periodic management reports.

6.2. Development of Risk Management Systems

As a result of identification of Group's risks each risk type of the Group / the Bank / a Group member is classified into one of the categories presented in section 6.1.1.

For each risk considered as significant / material the Group Risks Committee shall assign:

- the Bank's risk management committee
- the unit responsible for the risk[27].

Functions of the unit responsible for the risk are specified in section 5.2.15.

The management system for a risk recognized as significant / material for the Group should cover all Group members, where this risk is recognized as significant / material. If a type of risk is recognized as significant / material only at the level of the Bank, a system for managing this risk should be created at the level of the Bank. If a type of risk is recognized as significant / material only at the level of a Group member, a local system for managing this risk should be created. In this case, a

[26] As part of development of a business plan and a recovery and resolution plan.
[27] Units responsible for the risk by business segments, lines of business, etc. may be determined taking into account the Bank's organizational structure.

Group member shall independently determine risk management approaches, establish and control risk limits and risk targets, and control the efficiency of management of this risk.

Requirements for development of a risk management system depend on the category of risk types:

- **Significant risks:** the risk management system shall comply in full with section 6.2 of this Strategy, as well as with Regulator's requirements as part of building the risk management system, including /4, 7/.
- **Material risks:** for these risks only obligatory minimal requirements are determined:
    - existence of an approach to assess risk by a quantitative or qualitative method (expert estimates are allowed);
    - existence of a limit / restriction system which may be based on expert estimates;
    - taking into account these risk types in the risk appetite by providing capital to cover these risks on an aggregate basis as a buffer;
    - existence of a reporting system which allows to control the level of accepted risk (completeness and periodicity of management reports are determined by a unit responsible for risks);
    - periodicity for assessment of quality and efficiency of the system for managing these risk types is determined according to IAS inspection schedules.
- **Non-significant risks and risks that are not typical for the organization:** the risk management system is not required.

For each risk from categories "significant" / "material" it is necessary to:

- determine units performing functions of the 1st and the 2nd lines of defense;
- determine risk management committees, as well as systems of accountable committees (i.e. list of committees and functions delegated to them within the risk management system);
- develop and approve risk management policies[28] and other IRDs which determine procedures of the risk management system.

The risk management system shall ensure 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;
- control of amounts of accepted risks, escalation of breaches of set the risk limits and/or restrictions
- preparation of reports on the level of accepted risk and on results of efficiency assessment of applied risk management methods.

[28] One policy may be developed for several risk types.

While determining an approach to develop the risk management system, it is necessary to apply the principle of proportionality regarding economic efficiency of building the risk management system in Group members where the risk is considered as significant / material. Delegation of risk management functions between Group members is allowed, excluding functions of the Board of Directors (the Supervisory Board) / executive bodies / the head of the Risk Management Service.

6.3. Capital Adequacy Management

The process of capital structure and adequacy management of the Bank and the Group is centralized. 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 business units, methods and group standards, as well as control the organization of the process in the Group members.

Capital adequacy management is in place in each member of the Group subject to the mandatory capital adequacy requirements set by the regulator, or the requirements for risk appetite as related to capital adequacy approved by the Bank's competent collegial body, as well as in other members of the Group stipulated by a separate decision of the Asset and Liability Committee. Group members shall organize capital adequacy management according to principles stipulated in the Capital Adequacy Management Policy of the Group /25/ and other Group standards. The following main tools are 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 /26/.

6.4. Stress testing

Stress testing is an analytical tool for assessment of potential impact of set risk factor changes on financial condition, capital adequacy and liquidity of the Group and the Bank in improbable, but possible stress scenarios, using approaches based on scenario analysis and sensitivity analysis.

Stress testing covers all significant / material risks of the Bank and the Group, and combination of centralized and decentralized approaches are applied at the Group level. In case of the decentralized approach local stress testing results received based on the overall Group stress scenario and approaches are aggregated from the level of subholdings and Group members beyond subholdings. The Bank performs regular assessment of the considered stress scenarios, as well as quality of used data and assumptions of stress testing.

Stress scenarios of the Bank and the Group are approved by the Bank’s Supervisory Board and are an integral part of the Strategy. Reports on stress testing results are provided to the Executive Board and the Supervisory Board of the Bank.

Stress testing results are taken into account while establishing risk appetite of the Bank and the Group, developing a capital management plan (preventive measures as part of a business plan) and a recovery and resolution plan.

Subholdings and Group members not part of any subholdings develop their own stress testing procedures which should be agreed with the Bank officially (in written form).

6.5. Reporting

The Group shall abide by the following main principles in reports preparation:

- *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 significant / 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 capital to cover accepted risks.
- *Comparability and aggregability:* The format of reports shall allow to aggregate information on various types of significant / material risks and business units to ensure the complete representation of the risk structure at the Group level.
- *Match:* Risk reports shall be comparable with previous periods. All decisions on changes in reports shall be disclosed, and data for past comparable periods shall be calculated[29] according to accepted changes.
- *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 is conducted in accordance with Annex 6.

6.6. Audit of the Risk Management System and ICAAP at the Group Level

Audit of the risk and capital management systems of the Group / the Bank / Group members is carried out annually in accordance with the audit schedule of Bank IAS and audit schedules of Group members IAS (sections 3.1, 3.2, 3.3). The result of performed audit are consolidated by the Bank IAS in order to prepare a report on detected deficiencies on the operation of internal risk assessment systems in the Group / the Bank / Group members and actions taken to eliminate them. Audit should be performed with due regard to the principle of proportionality and limited resources. The IAS organizes annual audit process by means of decentralization of the audit functions. Annual audit 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 IAS may carry out an audit of a Group member during on-site audit with an established frequency.

The Head of IAS of the Bank shall communicate the information on identified deficiencies in the risk and capital management system and actions taken to eliminate them to the Supervisory Board and

[29] If available

the Executive Board of the Bank at least once a year as part of the reports submitted by the IAS to the Supervisory Board and the Executive Board.

7. Final Provisions

This Strategy is approved by the Bank's Executive Board and be revised as the requirements of state regulatory authorities change and new effective risk management methods and tools emerge in accordance with the best international banking practice, but at least once a year.

ANNEX 1. Terms and definitions

Available financial resources – capital at the disposal of the Group / the Bank / 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.

Capital adequacy – adequacy of disposable (available) capital to cover the overall amount of accepted and potential risks. Capital adequacy ratio is calculated as a ratio of disposable capital to the overall amount of accepted and potential risks.

Collegial bodies of the Bank – 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, a Group member, 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).

Digitalization – activities on process optimization, which implicate obligatory use of technological components providing a client with the necessary service level.

Disposable capital – disposable (available) capital to cover the overall amount of accepted and potential risks.

Economic capital – 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.

Internal Audit Service of the Bank – a complex of the Bank's structural business units (the Internal Audit Division of the Bank's Central Head Office and relevant business 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.

Major Group member – a Group member whose equity (capital / net assets) share in the equity (capital / net assets) of the banking group (excluding operations between the parent credit institution of the banking group and (or) banking group participants) is equal to 5 and more percent of the equity (capital) of the banking group, and (or) the financial result, excluding gains (losses) from operations between the parent credit institution of the banking group and (or) banking group participants, is equal to 5 and more percent of the financial result of the banking group, and (or) assets which are weighed taking into account the risk and calculated excluding operations (transactions) between the parent credit institution of the banking group and (or) banking group participants are equal to 5 and more percent of banking group assets weighed taking into account the risk. The definition conforms to Subarticle 1.4.1 of Article 1.4 of the Bank of Russia Ordinance No. 3876-U dated 3 December 2015 “On Forms, Procedures and Timeframes for Parent Credit Institutions of Banking Groups to Disclose Accepted Risks, Risk Assessment Procedures, Risk and Capital Management Procedures”, as registered with the Ministry of Justice of the Russian Federation on 28 December 2015 under No. 40322.

Material risk – the risk which management system shall meet requirements according to section 6.2 of this Strategy.

Necessary (required) capital – the value of the capital of the Group / the Bank / a Group member which is necessary to cover risks accepted by the Group / the Bank / a Group member in their operations.

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

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

Risk – 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 position.

Risk appetite – the aggregate maximum risk level of the Group / the Bank/ a Group member that the Group / the Bank / a Group member 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 significant / material risks by the Bank / a Group member / the Group and are detected during the identification process.

Risk assessment – 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 risks accepted by the Group / the Bank / Group members.

Risk identification – the process of identifying and classifying types of risks.

Risk limit – a set numeric limit 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 management – a complex of measures ensuring the identification, assessment, aggregation of all significant / 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 Development Strategy approved by the Supervisory Board of the Bank.

Risk Management Service of the Bank – a set of the Bank's independent structural business units which are part of the Risks Block of Sberbank. The head and employees of the Risk Management Service should be on the staff of the Bank.

Risk taking – an action (or omission) resulting in a change in the risk exposure of the Group. Risk taking by the Group shall take 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 key 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 currency risks 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.

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

Significant risks – risks, which, if materialized, have adverse consequences that impact the consolidated financial result and / or available capital and / or liquidity of the Group / the Bank / a Group member, as well as reputation of the Group / the Bank / 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.

Stress testing – an analytical tool for assessment of potential impact of set risk factor changes on financial condition, capital adequacy and liquidity of the Group / the Bank / a Group member in improbable, but possible stress scenarios, using approaches based on scenario analysis and sensitivity analysis.

Subholding – an association of Group members that is not a legal entity, where the parent institution (hereinafter referred to as the managing subholding company) has an opportunity to use its powers either directly or indirectly (through third parties) to influence the decisions made by executives, management bodies and collegial bodies [30]of other subholding members and on the amount of their financial result. Managing subholding company is the controlled subsidiary of Sberbank (in which the Bank's direct participation share is over 50%). The Bank itself may be a managing company for subholdings.

Unit responsible for risk – a business unit which is responsible for creating a system to manage risks which are considered as significant / material.

[30] The terms "management body" and "collegial executive body" are defined in /16/.

ANNEX 2. List of Abbreviations

AFR – available financial resources

ALCO – the Assets and Liabilities Management Committee of Sberbank

Bank – Sberbank

Bank of Russia – the Central Bank of the Russian Federation

BCBS – the Basel Committee on Banking Supervision

CBs – collegial bodies

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

GRC – the Group Risk Committee of Sberbank

IAS – the Internal Audit Service of Sberbank

ICAAP – internal capital adequacy assessment procedures

IFRS – International Financial Reporting Standards

IRD – an internal regulatory document

IRMD – the Integrated Risk Management Department

KPI – key performance indicators

OAD – an organizational and administrative document

RA – risk appetite

Risks Block – the Risks Block of Sberbank

SB – the Supervisory Board

ANNEX 3. List of Reference Documents

1. Federal Law No. 395-1 dated 2 December 1990 “On Banks and Banking Activities”.
2. Letter of the Bank of Russia No. 06-52/2463 dated 10 April 2014 “On the Corporate Governance Code”.
3. Letter of the Bank of Russia No. 14-T dated 6 February 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 15 April 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 27 May 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 16 December 2003 "On the Organization of Internal Controls by Credit Institutions and Banking Groups”.
7. Bank of Russia Ordinance No. 3883-U dated 7 December 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. 4482-U dated 7 August 2017 “On the Forms and the Procedure for Disclosure (by Parent Credit Institutions of Banking Groups) of Information on Risks Accepted, Risk Assessment Procedures, and Risk and Capital Management Procedures”.
9. Bank of Russia Regulation No. 509-P dated 3 December 2015 "On the Calculation of Equity (Capital), Mandatory Ratios and Open Foreign Exchange Position Amounts (Limits) for Banking Groups".
10. Principles for Perfecting Corporate Governance, October 2010, BCBS (ISBN 92-9131-844-2).
11. Corporate Governance Principles for Banks, July 2015, BCBS, Consultation document — recommendations (ISBN 978-92-9197-130-5 (hardcopy), ISBN 978-92-9197-126-8 (online)).
12. Principles of Aggregating Risk Data and Providing risk Reporting, BCBS January 2013, (ISBN 92-9197-913-9).
13. Basel II: The International Convergence of Capital Measurement and Capital Standards. Version with specified framework approaches, June 2006, BCBS.
14. Directive 2013/36/EU of the European Parliament and of the European Council of 26 June 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. EU Regulation No. 575/2013 of the European Parliament and of the European Council of 26 June 2013 on prudential requirements to credit institutions and investment firms with amendments to EU Regulation No. 648/2012 (CRR).
16. Charter of Sberbank of Russia dated 3 June 2015.
17. Federal Law No. 208-FZ “On Joint-Stock Companies” dated 26 December 1995.
18. Corporate Governance Code of Sberbank of Russia dated 20 April 2015.
19. Regulation on the Internal Control System of Sberbank of Russia No. 2289 dated 17 October 2011.
20. Regulation on the Internal Audit Service of Sberbank No. 3502-2 dated 9 June 2016.

21. Regulation on the Organization of Business Planning in Sberbank Group No. 3058-5 dated 5 July 2017.
22. Instruction of the Bank of Russia No. 154-I dated 17 June 2014 "On the Procedure for Assessing Remuneration Systems of Credit Institutions and the Procedure for Submitting to Credit Instructions Orders to Eliminate Violations Identified in Their Remuneration Systems".
23. The Bank of Russia Ordinance No. 4212-U dated 24 November 2016 “On the List, Forms and Procedures for Compiling and Submitting Credit Institutions’ Reporting Forms to the Central Bank of the Russian Federation”.
24. Regulation on the Assets and Liabilities Management Committee of Sberbank No. 1850-5 dated 19 December 2017.
25. Sberbank Group Capital Adequacy Management Policy No. 3690, valid version.
26. Sberbank Group Capital Adequacy Management Plan No. 4361, valid version.

ANNEX 4. Classification of Group Members for ICAAP Purposes

In order to comply with the principle of proportionality, different requirements regarding creating the risk management system and ICAAP are specified to Group members in which significant / material risks are identified according to results of the Group's risk identification (section 6.1.1). Six member classes are distinguished in the Group:

Group member (class)	Requirements for risk management system	Requirements for ICAAP
Parent credit institution of the Group	– Determines risk materiality at the Group level. – Sets requirements for the system to manage significant / material risk at the Group level and Group member level. – Controls compliance with Group's requirements by Group members included in the risk management system perimeter. – Manages risks at the Group's and Bank's level.	– Develops requirements for ICAAP at the Group level. – Based on the Group ICAAP, establishes approaches to ICAAP organization in Group members on an individual basis and ensure the development of and compliance with the Group ICAAP requirements by the Group members. – Develops and implements ICAAP on an individual basis.
Major Group member whose risks are recognized in the Group ICAAP according to requirements /4/	– The Group member develops in the risk management system on an individual basis fully compliant with the Group standards, the Strategy requirements and the requirements of the local regulator.	– Requirements for ICAAP are obligatory in full according to /4/.
Credit institutions which are Group members (not major members) whose risks are recognized in the Group ICAAP according to requirements /4/	– The Group member develops the risk management system on an individual basis according to Bank's requirements.	– The Group member develops requirements of the local regulator for ICAAP subject to Group requirements and complies with them on an individual basis.
Non-credit regulated[31] Group member whose risks are recognized in the Group ICAAP according to requirements /4/	– By decision of the unit responsible for risks	– No requirements are specified to the Group member. – Capital requirements are assessed by the Bank centrally.
Group members whose risks are recognized in the Group ICAAP according to requirements /4/	– By decision of the unit responsible for risks	– No requirements are specified to the Group member. – Capital requirements are assessed by the Bank centrally.
Group members whose	– By decision of the unit	– Requirements are not specified.

[31] Group members whose risk management systems shall comply with regulator's requirements

risks are not recognized in the Group ICAAP according to requirements /4/	responsible for risks.	

According to assess criteria of the Bank of Russia /7/, quality of ICAAP implementation in Group members included in the risk management system perimeter impacts significantly on efficiency of the Group's risk and capital management system.

ANNEX 5. The organization of interaction in Sberbank Group within the risk management system framework

For development of the risk management system, the Group introduced the term “sub-holding”. Sub-holding in Sberbank Group means an association of Group members that is not a legal entity, where the parent organization (hereinafter referred to as the managing company) has an opportunity to use its powers either directly or indirectly (through third parties) to influence the decisions made by executives, management bodies and collegiate executive bodies[32] of the sub-holding members and on the amount of their financial result. The management company of a sub-holding is a controlled subsidiary of Sberbank in which the direct equity interest of the Bank is more than 50 per cent. The Bank itself may be a management company for certain sub-holdings.

Sub-holdings include only those companies in which both the direct and indirect equity interests of the management company of the sub-holding in the charter capital is more than 50 per cent.

The companies included in a sub-holding and which are not a management company of a sub-holding refer to as common members of sub-holding. The requirements for the risk management system at a sub-holding level shall apply to all the members of the sub-holding.

The management company of a sub-holding performs the following functions within its sub-holding in Sberbank Group:

- distributes the requirements for the risk management system
- organizes the identification and assessment of the materiality of risks
- provides the consolidated information on sub-holding to assess the overall level of risks
- takes part in the Group planning process
- participates in management of the overall level of the Group risks
- performs other functions during development of risk and capital management system for the Group.

The company which is a part of a sub-holding but is controlled by the Bank (the direct equity interest of the latter in the company being more than 50 per cent) takes part in the creation of the risk and capital management system individually and is referred to as a member of Sberbank Group not part of any sub-holding.

[32]The terms “management body” and “collegiate executive body” are defined in /16/.

ANNEX 6. Risk reporting of the Group and the Bank

Report	Supervisory Board / Risk Management Committee of the Supervisory Board	Executive Board	GRC	CRO of the Bank / the Group[33]
On ICAAP implementation results	Annually	Annually	-	-
On stress testing results	Annually	Annually	Annually	-
On material risks of the Bank and a Major Group member	Quarterly	At least once per month	Quarterly	Risk amount and breach of established limits – daily Aggregated information – at least once per month
On compliance with statutory ratios[34] by the Group, the Bank and a Major 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 Major Group member	Quarterly	At least once per month	Quarterly	-
On compliance with the Risk Appetite of the Group and the Bank	Quarterly	Quarterly	Quarterly	Quarterly
On breaches of the established Risk Appetite and regulatory ratios by the Group and the Bank	Upon detection	Upon detection	Upon detection	Upon detection
Report of the Internal Audit Service on deficiencies in the operation of internal risk management systems and actions taken to eliminate them	Annually	Annually		

In addition to the reports mentioned above, the unit responsible for risk may be requested by a management body, a collegial body, including committees dealing with a material risk / risk requiring

As well as members of the Bank's Committees dealing with a material risk / risk requiring management, and heads of the Divisions responsible for addressing a risk.

[34] For those types of risks, in respect of which mandatory regulatory ratios are established.

management, to provide other reports concerning the risk in compliance with Internal Regulatory Documents.

ANNEX 7. Levels of approving INDs governing risk and capital management[35]

Document type	Approval level[36]
Group Risk and Capital Management Strategy	Supervisory Board of the Bank
Methodology for Assessing Group Risks	Executive Board of the Bank
Regulation on Integrated Risk Management of the Group	Executive Board of the Bank
Policies regarding Management of Material Risks / Risks Requiring Management	Executive Board of the Bank
Economic Capital Assessment Methodologies	CEO, Chairman of the Executive Board of the Bank
Regulation on the Organization of Stress Testing Procedures	Executive Board of the Bank
Stress Testing Methodologies	CEO, Chairman of the Executive Board of the Bank
Regulations on Management of Significant / Material Risks	Risk Management Committees of the Bank
Methodologies on Management of Significant / Material Risks	CRO / Heads of functional blocks of the Bank in CHO / KO
Process Charts for Units Interaction	CRO / Heads of functional blocks of the Bank in CHO / KO

[35]Subject to the requirements of the Bank of Russia /4/.
[36] Major Group members are advised to rely on the specified IND approval level when approving similar documents at the local level, unless it contradicts to the established practice and the requirements of the local regulator.

ANNEX 8. Procedures for managing credit risks, credit and financial market risks of the trading book, operational risks, interest rate and currency risks of the banking book, liquidity risk

Regulation on credit risk management

Definition

Credit risk means the risk of losses occurring due to the failure to perform, delay in performance, or incomplete performance by a debtor of financial liabilities under the contract.

The above financial liabilities may include a debtor's liabilities for: obtained loans, including interbank loans, bonds, other placed assets, including a request for obtaining (returning) debt securities, shares and bills granted under a loan agreement; discounted bills, bank guarantees, when the funds paid by an entity were not compensated by the principal; transactions in financing against money claim cession (factoring); rights (demands) obtained under a transaction (claim cession); instruments of pledge acquired on the secondary market; transactions of sale (purchase) of financial assets with deferred payment (supply of financial assets); paid letters of credit (including uncovered letters of credit); return of money (assets) under a transaction for the purchase of financial assets with the obligation of their inverse condemnation; claims of the credit institution (lessor) under transactions of financial lease (leasing).

For the purpose of credit risk management, the following credit risks are highlighted:

- Default risk
- Concentration risk (with regard to credit risk)
- Residual risk
- Risk of counterparty in financial markets transactions[37].

Division of functions and powers, 3 lines of defense

Credit risks of the Bank and the Group as a whole are managed by the Loans and Investments Committee.

Responsibility to manage a credit risk is assigned by business segment. The concept of "3 lines of defense" aimed at managing a credit risk (except for the risk of counterparty in financial markets transactions) is realized as follows:

1. Credit risks are taken by business divisions as divisions of the 1st line of defense:

- credit risks of retail borrowers are taken by business divisions of the Retail Business Block;
- credit risks of other borrowers are taken by business divisions of the CIB Business Block, the Corporate Business Block, the Sberbank International Business Block.

2. Credit risks are managed by the divisions of the Risks Business Block which assure management of a "credit risk"[38] in business segments of their responsibility.

3. The functions of the 3d line of defense are performed by the Internal Audit Service.

[37] Approaches to the risk of counterparty in financial markets transactions are described in section "Management of Credit Risks and Financial Market Risks of the Trading Book".
[38] It is defined as a result of the annual procedure aimed at identifying and assessing the materiality of risks for the Group.

Risk Assessment

To assess credit risks, the Group uses the following assessment instruments (risk metrics):

- risk segment is an element of classification of credit claims by the degree of uniformity for the purpose of credit risk components assessment;
- probability of default (PD) is the value of probability of default of a borrower / credit claim over the horizon of 1 year after the assessment (expressed as a percentage);
- exposure at default (EAD) is the amount of credit claims provided by the Bank to a borrower and outstanding as of the time of the borrower's default, commission fees and interest accrued but not received as of the time of the borrower's default, as well as contractual fines and penalties accrued but not received as of the time of the borrower's default; i.e. the amount that the Bank is exposed to as of the time of the borrower's default, if the borrower goes into default within 1 year after the assessment;
- loss given default (LGD) is the level of loss under a credit claim of a borrower in case the borrower goes into default within 1 year after the assessment (expressed as a percentage);
- expected loss (EL) is the indicator of expected loss within 1 year after the assessment;
- economic capital (ECap) is the amount of the Bank's capital required to cover unexpected losses within a given time horizon with an established level of confidence probability, which is determined, among others, on the basis of the target rating.
- increase in non-performing loans (NPL90+) share reflects the ratio of loan liabilities that moved to category NPL90+ within 1 year to the average portfolio volume for a year;
- risk weighted assets (RWA) are used to calculate total capital adequacy-ratio;
- credit risk coverage rate is residual credit loss provisions to the credit portfolio;
- cost of credit risk (CCR) is used in credit pricing;
- as well as other metrics described in more detail in the Credit Risk Management Policy.

In November 2017, the Bank was authorized to implement the approach based on the internal ratings in compliance with Bank of Russia Regulation No. 483-P for assessing capital adequacy.

Approaches to Risk Management

To manage credit risks, the Group uses the following instruments:

- risk appetite;
- other limits of different levels and structure, including but not limited to:
  - limits for the Bank, other members of the Group and their structural business units performing functions related to taking credit risks based on the risk appetite of the Group;
  - limits on the volume of transactions with one counterparty, group of counterparties connected by certain features, on ownership ratio and on the volume of transactions able to produce the materialization of credit risks.
- Loan loss provisioning;
- Collateral to credit transactions;
- Stress testing.

Regulation on Liquidity Risk Management

Definition

Liquidity risk is a risk reflecting the organizations' inability to finance its activities, i.e. to ensure the growth of its assets and/or perform its obligations as they become due, or the violation of regulators' requirements relating to liquidity risk.

The following types of liquidity risk are highlighted:

- Physical liquidity risk is the risk of default by the Bank/Group member on its liabilities to customers or counterparties in any currency or precious metal because of a shortage of cash or noncash funds (inability to make a payment, disburse a loan, etc.).
- Statutory liquidity risk is the risk of non-compliance with the mandatory liquidity ratios of the Bank of Russia (N2, N3, N4, N26, etc.[39]), as well as mandatory liquidity ratios established by local regulators in the countries of the Group members' operation.
- Structural liquidity risk (concentration risk) is the risk of significant deterioration of physical or normative liquidity due to an imbalance in the asset and liability structure, including a strong dependence of the Bank's/Group member's liability base on one or more customers or funding sources in a certain currency or with a certain maturity.

Division of functions and powers, 3 lines of defense

Liquidity risk within the Bank and the Group as a whole is managed by the Assets and Liabilities Management Committee of Sberbank. The functions of the 1st line of defense are performed by the Treasury, those of the 2nd line are performed by the CIB Risks Department. Liquidity risk management within the Bank or the Group as a whole is ensured by the Treasury, and within Group members it is ensured by relevant business unit of each Group member that performs the functions of the 1st line of defense.

Risk Assessment

The liquidity risk is assessed on an aggregated basis for all operations of the Bank / Group member / Group as a whole. For this purpose, liquidity risk for all operations of the Banking Book is consolidated in an arbitrary unit, which is a Domestic bank in the framework of the system of internal fund transfer pricing. Business units shall be isolated from liquidity risk exposure, and the cost of liquidity risk management is incorporated into the funding cost.

Liquidity risk is evaluated by calculating values of liquidity risk metrics and the degree of their correspondence to the established limits, warning indicators and other restrictions.

Approaches to Risk Management

Liquidity risk management is conducted through the establishment of procedures to manage this type of risk which are applied on an ongoing basis. Capital requirements for liquidity risk are not set.

The main instrument of liquidity risk containment is a system of limits and warning values of liquidity risk metrics. To ensure an acceptable liquidity risk level in the Bank / Group, the limit hierarchy has been introduced, where the observance of lower-level limits ensures the compliance with upper-level limits.

---

[39] If other liquidity ratios are included into mandatory ratios for credit institutions.

The liquidity risk management system provides for various management tools depending on business environment: those available in a business-as-usual mode and those available in stress conditions. Liquidity management strategy shall be based both on management of assets (accumulation of liquid assets) and management of liabilities (attraction of funds in the amount sufficient to cover the expected demand for liquidity) with due regard to all established liquidity risk limits and restrictions. The planning of the balance sheet structure shall be carried out so as to ensure the compliance with regulatory requirements in terms of liquidity risk and established liquidity risk limits and restrictions. Liquidity risk operational management is conducted using procedures of forecasting liquidity risk metrics.

To reduce the risk, measures aimed at raising liquidity may be taken, as well as measures aimed at limiting the use of liquidity sources, including price and non-price measures (administrative sanctions). The list of measures to reduce liquidity risk, the organization of liquidity risk management process, the functions and powers of the process participants are described in specific regulatory documents of the Bank.

Regulation on management of credit and financial market risks of the trading book

Definition

Market risk is the risk of losses of the Group occurred due to adverse change in the financial market indicators (including foreign exchange rates, securities quotations, interest rates, as well as prices in the product markets).

The following types of market risk are defined

- Currency risk
- Interest rate risk
- Stock market risk
- Commodity risk
- Volatility risk
- Liquidity risk

Credit risk means the risk of losses of the Group that are incurred due to non-performance, or a delay in performance, or incomplete performance by a counterparty/issuer of financial liabilities to the Bank and/or Group member under a contract.

Division of functions and powers, 3 lines of defense

Management of credit and financial market risks of the Bank and the Group as a whole is ensured by the Market Risks Committee and the Loans and Investments Committee.

1. The functions of the 1st line of defense are performed by a business unit of the Group which is the structural subdivision of the Group member entitled to take decisions on concluding deals with contractors/customers exposed to risks).
2. The functions of the 2nd line of defense are performed by the CIB Risks Department.
3. The functions of the 3d line of defense are performed by the Internal Audit Service.

Risk Assessment

For the purpose of assessing credit and financial market risks, the Group uses the following assessment instruments (risk metrics):

1. For market risks
   - Allocated economic capital

- Value-at-risk (VaR)
- Losses due to a sharp negative change of market factors (stress test)
- Restrictions on the deterioration of the financial result (stop-loss)

2. For risk assessment:
   - Probability of default (PD) for a counterparty and the counterparty's internal rating
   - The loss given default (LGD) of counterparty
   - Exposure at Default (EAD)
   - Expected losses (EL)
   - Credit Valuation Adjustment (CVA)

Approaches to Risk Management

Management of credit and financial risks of the trading book is ensured through unified common procedures of market and credit risks management and control.

When establishing and reviewing market risk limit of the Group the following indicators are taken into consideration:

- risk appetite, including the "cascaded" one (at the level of a subdivision which conduct financial market transactions);
- allocated economic capital;
- risk factors significant for a portfolio (group of portfolios) subject to limitation;
- transformation of economic capital into risk factor values;
- macro forecasts;
- previous and planned profitability indicators;
- regulatory requirements.

When market risk limits are established, sub-limits for portfolios of financial market transactions may be set which are linked to a specific member of the Group. The measure is connected to increased control of market risk limits and restrictions at the integration of market risk management systems implemented by the Group members.

Credit risks related to financial market transactions are managed within a single system of credit risk limits which is used by the entire Group and includes both upper-level limits (country risk limit and single name limit) and portfolio sub-limits (portfolios are defined depending on the total of transactions).

The system of credit and financial market risk limits has a hierarchical structure where the hierarchy level of a specific limit defines authorized individuals whose responsibility is to adopt the limit values and who are notified in accordance with formalized escalation procedures provided for the violation of the limit.

All the members of the Group implemented the basic process of controlling credit and financial market risks depending on the hierarchy level of transaction portfolios.

The process of market risk control includes, among other things, control of market risk limits and restrictions, escalation of violations of market risk limits and restrictions, control of pricing at the revaluation of financial instruments, control of the compliance of transactions with arm's length principles.

The process of credit risk control includes the processes of preliminary, current and subsequent control of credit risk limits, timely notification and escalation of violations of credit risk limits and restrictions, assignment, monitoring and regular reconsideration of internal credit rating, as well as the process of collateral management.

Regulation on management of interest rate and currency risks of the banking book (hereinafter – IRCRBB)

Definition

Interest rate risk of the banking book is the risk of financial losses (decrease in NII and/or fair value of financial instruments), decrease in the value of capital or capital adequacy as a result of adverse changes in interest rates on assets and liabilities of the banking book and/or market interest rates used to determine fair value of financial instruments in the banking book.

Currency risk of the banking book is the risk of financial losses, decrease in the value of capital or capital adequacy as a result of changes in foreign exchange rates and precious metal prices in the banking book positions.

Division of functions and powers, 3 lines of defense

IRCRBB Management Committee is the Assets and Liabilities Management Committee of Sberbank. The functions of the 1st line of defense are performed by the Treasury, those of the 2nd line are performed by the CIB Risks Department. The business unit which is responsible for a risk at the level of the Bank or Group is the Treasury. The Group members develop the IRCRBB system individually in compliance with the principles, requirements, approaches and standards defined by the Bank for Group members and the Group as a whole.

Risk Assessment

IRCRBB is assessed by calculating the values of IRCRBB metrics and economic capital with respect to IRCRBB. IRCRBB metrics is calculated based on accounting data and management accounts of the Bank and Group members.

Approaches to Risk Management

A multi-level system of IRCRBB restrictions is used within the Group which includes risk appetite limits in respect to IRCRBB, limits on IRCRBB aggregated risk metrics not included in the risk appetite and IRCRBB position limits.

Management of IRCRBB level is ensured through management of interest rate and foreign exchange positions of the banking book as part of management of assets and liabilities of the Bank and the Group members.

Positions of the banking book exposed to IRCRBB shall be consolidated in an arbitrary unit which is a Domestic bank in the framework of the system of internal fund transfer pricing (FTP systems). Business units that conduct banking operations and conclude deals shall be isolated from IRCRBB exposure by means of paid redistribution of resources, and the cost of IRCRBB management is taken into account in the approaches to defining transfer incomes/expenses of business units.

Management of consolidated interest rate and foreign exchange positions includes: defining target positions, planning of assets and liabilities structure to reach target positions (e.g. as part of business planning), regular calculation, monitoring and forecast of IRCRBB metrics values, assessing deviation of actual and forecasted values of IRCRBB metrics from their target values, as well as their compliance with the established limits, development and implementation of corrective measures to reduce IRCRBB and to reach target position values, conducting operations of position adjustment to provide observance of the established limits.

To reduce the level of IRCRBB, both financial markets transactions may be used (e.g. derivative transactions) and balance sheet management measures (e.g. modifying banking product details or using instruments of internal fund transfer pricing system). The list of measures to reduce IRCRBB, the organization of IRCRBB management process, the functions and powers of the process participants are described in Interest Rate and Currency Risk of the Banking Book Management Policy of the Sberbank Group No. 2991-2 dated September 20, 2017 and in other specific regulatory documents of the Bank and the Group members.

Regulation on operational risk management

Definition

Operational risk is a risk of losses occurred as a result of defects or errors in internal processes, actions of employees or third parties, or in operation of information systems, or due to external events. In accordance with Basel II, it includes the following categories of events:

- External fraud;
- Internal fraud;
- Employment policy and workplace safety;
- Clients, products, and business practice;
- Damage to physical assets;
- Business interruptions and system failures;
- Execution, delivery, and process management.

Division of functions and powers

Since any business area may be subject to operational risk, the system of operational risk management involves all the structural business units and employees of the Group; at the same time, operational risk is managed by them in inextricable connection with execution of their main functions. The heads of structural business units are responsible for operational risk management within their business units based on supervision of the activities of employees, for the organization of investigation of operational risk incidents causes and circumstances within the framework of their business unit activities, for timely assignment of risk coordinators for their business units in accordance with the procedure established in the Group, as well as for updating the lists of risk coordinators.

All the employees of the Bank / Group Members are responsible for timely informing about operational risk incidents, as well as for assistance to the investigation of causes and circumstances of operational risk incidents.

Risk Assessment

To get an adequate assessment and forecast of operational risk levels based on the approved classification of risk events the Bank / Group Members create a database of realized operational risks including the detailed information about the date of a risk event realization, its type, sources, causes, the duration of risk factors impact, the amount of direct and/or indirect losses, frequency of repetitions of a specific risk event, etc.

Approaches to Risk Management

To effectively manage operational risks, the Bank / Group Members:

- maintain its capital adequacy at the level satisfying the regulator requirements in case of an operational risk;
- resorts to insurance procedures in respect to the risk of possible losses due to extraordinary operational risks which cannot be managed by the Bank and are out of its immediate control, or due to operational risks able to lead to the amount of losses which would be disastrous or critical for the Bank.

The Bank / Group members distinguish the following key stages of operational risk management process:

- Identification (determination of causes and preconditions as a result of which damage has been caused or may be caused to the Bank / Group members).
- Operational risk assessment (determining the probability of operational risk event that may lead to losses, as well as the amount of incurred or potential damage).
- Analysis of problem zones of processes, development and making of a decision on optimizing / changing the processes in order to reduce the level of operational risk.
- Monitoring of operational risk (tracking the dynamics of indicators of operational risk level in order to discover deviations and to determine trends in changes of the level of operational risk).
- Control and/or reduction of operational risk (making a management decision with respect to the identified operational risk, and control over performance of the approved measures for operational risk mitigation and elimination of problem zones in processes).

Key methods of operational risk management:

- Division of powers and subordination hierarchy system;
- Identification, determining the level of materiality of potential operational risks proper to each business process as a whole and to its specific stages (operations), development of additional control measures and procedures aimed at preventing (minimizing) identified risks at the stage of development and approval of internal regulatory documents;
- Collegiality of decision making concerning operations exposed to risk. All the operations (transactions) exposed to risk are based on the decisions of collegial bodies of the Bank / Group member or the Executives of the Bank / Group member within the established authority, in compliance with the internal regulatory documents regulating such transactions;
- System of limits and restrictions;
- Procedure of development, agreement, legal expert review and approval of internal regulatory documents;
- System of authorizing operations, of previous, current and follow-up control;
- Management of IT services based on applying methodology of IT service management (ITSM);
- Realization of the double control principle in the course of transactions, their recognition in accounting records, data input to accounting and operating systems;
- Availability of an effective system of internal control, etc.