SBERBANK
OF RUSSIA

APPROVED BY
Resolution of the Supervisory Board
of Sberbank
No. 11 dated 2019/04/16

No. 3960-4

SBERBANK GROUP RISK AND CAPITAL MANAGEMENT STRATEGY

(Revision 4)

MOSCOW
2019

IRD details

IRD name	Sberbank Group Risk and Capital Management Strategy (Revision 4) No. 3960-4
Business unit responsible for IRD development	Integrated Risk Management Department

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1. General Provisions

1.1. Sberbank Group Risk and Capital Management Strategy (hereinafter the Group Strategy) specifies the core principles in accordance with which the risk and capital management system in Sberbank Group (hereinafter the Group) is being established.

1.2. The Strategy has been developed in compliance with the requirements of the Central Bank of the Russian Federation (Bank of Russia) and the regulations of the Russian Federation /1-9/, with due regard to the guidelines of the Basel Committee on Banking Supervision (hereinafter BCBS) /10-13/ and the European Union /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 the Development Strategy of Sberbank (hereinafter the Development Strategy) approved by the Supervisory Board of the Bank.

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

1.5. The Group ICAAP includes 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 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 reliability for all the stakeholders, namely, customers and creditors of the Group, its employees and regulatory bodies.

1.7. The provisions of this Strategy are the basis for the organization of work aimed to manage the risks and capital adequacy in the Group, among others, for the development of the regulatory documents of the Bank and the Group members on risk and capital management.

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

1.9. Exceptions in compliance with the Strategy requirements may be allowed for the Group members that are not residents of the Russian Federation subject to the approval of the Bank if these requirements are in conflict with local legislation in countries of the Group members operation.

1.10. The Strategy requirements are mandatory for the Bank being the parent credit institution of the banking group, and for the Group members for which material[1]/substantial risks are identified. Other Group members may also be guided by the Strategy provisions while developing their risk management systems.

[1] The term ‘material risk’ corresponds to the term ‘significant risk’ in /4/.

1.11. When developing the Strategy, the Bank is guided by the approach ensuring the going concern in the long term. The financial stability of the Group is ensured by the timely identification of potential risks arising, in particular, while revising the Development Strategy, and by the management of material/substantial 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 limitation measures;
- to ensure capital adequacy to cover material/substantial risks;
- to ensure the financial stability of the Group and minimize possible financial losses caused by risks taken by the Group within the risk appetite established 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 plan the best possible business management of the Group 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 specific members of the Group, as well as requirements of government authorities in countries of the Group members' operation.

The objectives of the risk and capital management system are:

- to identify the risk types and assess their materiality;
- to assess and forecast the level of risk;
- to set risk limits and exposure limitations;
- to monitor and control the volume of risk taken, and to implement measures aimed at mitigation of the level of the 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 AFR) for covering material/substantial risks for which the capital requirements are set, including the requirements in case of 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, the Development Strategy targets, and capital adequacy requirements of the Bank of Russia;

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

- to develop preventive and corrective actions aimed at maintenance of capital adequacy and prevention/reduction of the Group losses in case of stress conditions;
- to carry out strategic planning with due regard to the level of accepted risk;
- to keep the Supervisory Board of the Bank, the Executive Board of the Bank, collegial working bodies of the Bank and business units of the Bank performing the risk management and risk taking functions, informed about material/substantial risks and capital adequacy;
- to ensure the uniform understanding of risks on the Group level;
- to develop the risk culture and risk management competencies in the Group taking into account the global best practices.

3. Classification of Risk and Capital Management Objects

Risk is defined as the Group operations inherent probability of the occurrence of events resulting in financial losses and/or negatively affecting the Group reputation and/or liquidity position. The risk management means a complex of measures that ensure the identification, assessment, and aggregation of all material/substantial risks, monitoring, exposure limitation and control of the volume of taken risks, planning the risk level, implementation of risk mitigation measures in order to maintain the volume of taken risks within the set external and internal limits within the framework of the Development Strategy implementation.

Under ICAAP, capital is assessed as adequate, if AFR (disposable capital) exceed the overall economic capital (i.e. required capital). For every risk it is determined whether the capital for its coverage will be allocated, and for the risks, for which the requirement for capital allocation is set, it is determined whether the capital for their coverage will be allocated either on the individual or on the aggregated basis. The capital adequacy ratio is calculated as a ratio of available capital to the overall volume of accepted and potential risks.

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

For risk and capital management purposes, there are six categories of the Group members, for which the minimum ICAAP requirements vary in accordance with the principle of proportionality specified in Appendix 4. The organization framework of interaction in the Group for building the risk management system is given in Appendix 5.

4. General principles of risk and capital management

4.1. Risk awareness

Decisions to conduct any operations are 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 transactions exposed to material/substantial risks are allowed, in case internal regulations, organizational and administrative documents, or relevant resolutions of collegial bodies regulating the procedure for their performance are non-existent.

4.2. Risk-adjusted operations management

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

While making decisions on business development (elaboration of the Development Strategy), the Group relies upon the ICAAP results as a basis for the assessment of the capital amount needed to cover the accepted and potential risks.

The Group selects 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, 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 / executive and collegial bodies of the Group members approve IRDs specifying the risk management approaches, set the limits and restrictions, review the information about the level of accepted risks and capital adequacy, as well as about violations of established risk management procedures, limits and restrictions on a regular basis, and adopt other resolutions 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 are guided by the principle of proportionality, which means that the requirements to implementation of the risk and capital management system in the Group member depends on the nature and scope of its operations as well as on the level and combination of risks[3].

4.5. Risk Containment

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

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

- risk appetite;
- limits on the types of material/substantial risks for the Group;
- limits for the Bank and the Group members, structural units of the Bank and the Group members performing the functions of taking any material/substantial risks;
- limits for the volume of operations with one counterparty, group of counterparties interrelated on the basis of certain common features, for the volume of operations with financial instruments, etc.
- other risk limitation measures necessary to efficiently manage material/substantial risks.

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[3]In accordance with Appendix 4.
[4] The structure of limits/restrictions for a particular risk type shall be represented in IRDs of the Bank/ the Group member, describing the management of such risk type.

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 level limitation and control, as well as the audit of risk and capital management system, the organizational structure of the Bank and the Group members are developed with due regard to the necessity for allocation of functions and responsibility among business units of the Bank/ 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 unit, but by several business units of the Bank/ the Group member:

	1st line of defense
Goal	Risk level management within the set limitations
Functions	− Identification of risk types − Identification and primary assessment of the risks arising from performing operations and concluding transactions, including when launching new products and/or entering new markets − 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 limitations − Development and implementation of measures required to comply with the set limitations − Performing the functions related to risk taking while conducting 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 of risk (risk appetite, other limits and mandatory ratios, other restrictions) − Risk taking as a result of performing/failing to perform any functions associated with the risk types other than those related to execution of operations or conclusion of transactions, by participants of the risk and capital management system (Subclause 5.3)

	2nd line of defense
Goal	Independent risk assessment and control
Functions	− Identification and materiality assessment of risks − Provision of the expertise within own competences in the identification of risks arising when launching new products and/or entering new markets[6] − Development[7]/ negotiation of the risk management and assessment methodology and the risk assessment models

[5]For liquidity risk, interest rate risk and currency risk of the banking book.
[6] This process is under development for particular risks.
[7] If the functions of the 2nd line of defense are performed by the business unit responsible for risk.

	– Assessment of aggregated (overall) risk level – Forecasting of risk levels[8] – 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) – Assessment of risk level, control over the correspondence of actual and anticipated risk levels to the set risk limitations (development of escalation procedures and control over the implementation of measures to prevent violations), independent of the 1st line. – Control of the compliance with mandatory regulatory ratios, if applicable – Organization/implementation of stress testing procedures – Development and approval of risk level mitigation measures in case of violation of the set limitations by the 1st line of defense on the basis of actual information – Preparation of reporting on risks and presentation to the management and collegial bodies for consideartion – Testing and validation of risk assessment models (this function is performed by a business unit independent of business units that develop models and assess risks with the use of such models) – Development of risk culture

3rd line of defense	
Goals	Independent assessment of the risk and capital management system performance and its compliance with internal and external requirements
Functions	– Assessment of the efficiency of the risk and capital management system, in particular, verification of the efficiency of the risk assessment methodology and risk management procedures established by IRDs of the Bank/ the Group members, as well as whether the above mentioned documents are applied in full – Notifying the management of any deficiencies identified in the risk and capital management system – Control over prevention of any deficiencies identified in the risk and capital management system

Specification of functions performed by the 1st and 2nd lines of defense is determined in IRDs[9] on management of material/substantial risks and may deviate from the above list, if there are any specific functions for such risk.

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

[8] Except for liquidity risk, interest rate and currency risks of the banking book.
[9] For material risks, the risk management policy shall be developed on a mandatory basis.

4.7. Centralized and decentralized approaches

The Group applies the combination of centralized and decentralized approaches to risk and capital management in order to ensure the ultimate efficiency. The Bank authorized bodies manage risks and capital of the Bank and the Group as a whole, as well as set the requirements for the organization of risk and capital management system on the level of certain members of the Group (including the requirements to the structure of limits and restrictions, applied methodology and other aspects). The Group members 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 enables the prompt response to changes of risk levels within the Group members.

4.8. Information technology and data quality

Risk and capital management is based on using the advanced information technology solutions which allow enhancing the quality and prompt response in decision-making process.

In respect to credit risk for the purposes of minimizing the requirements to customers in terms of the submission of personal data for making decisions on a real-time basis and also for increasing the level of risk assessment, the Bank/ the Group members strive for the customer data automation aggregation. The Bank/ the Group members pursue the aim to automate the decision making process on routine decisions and involve the underwriter’s expert knowledge only in non-standard complex transactions. In order to make decisions on transactions the Bank/ the Group members may use artificial intelligence (including that implemented on the basis of approaches using neural networks). The Bank/ the Group members work on the automation of credit risk management processes by using the advanced technological solutions for digitalization of tools and models.

Data quality, integrity and availability are crucially important factors for ensuring the reliability and accuracy of calculation results and risk assessment.

The Group is on track to maximum automation of the processes of data collection, storage and processing.

The risk management process takes into account the risks associated with the implementation of advanced information technology solutions and caused by disruptions in the operation of automated systems and in the information protection of systems of the Bank and the Group members.

4.9. Improvement of methods

The risk and capital management methods are constantly improved: procedures, technological solutions and information systems are developed in line with the strategic goals, changes in the external and internal environment, as well as the innovations in the international practice.

4.10. Risk culture

With a view to ensure the sustainable and efficient performance of the entire risk management system the Group takes measures aimed at the development of risk culture with the following main tasks:

- acquisition of knowledge and skills by the employees of the Bank and the Group members in the field of risk management by means of continuous training;

- proper use of risk management tools by the executives and employees in their day-to-day activity;
- development of employees' skills of proper and timely using of risk management tools;
- open and active communications within the Group regarding the risk culture values and principles.

4.11. Risk-based incentive system

The Group's remuneration system is built with due regard to the nature and scope of the performed operations, operational results, level and combination of taken risks.

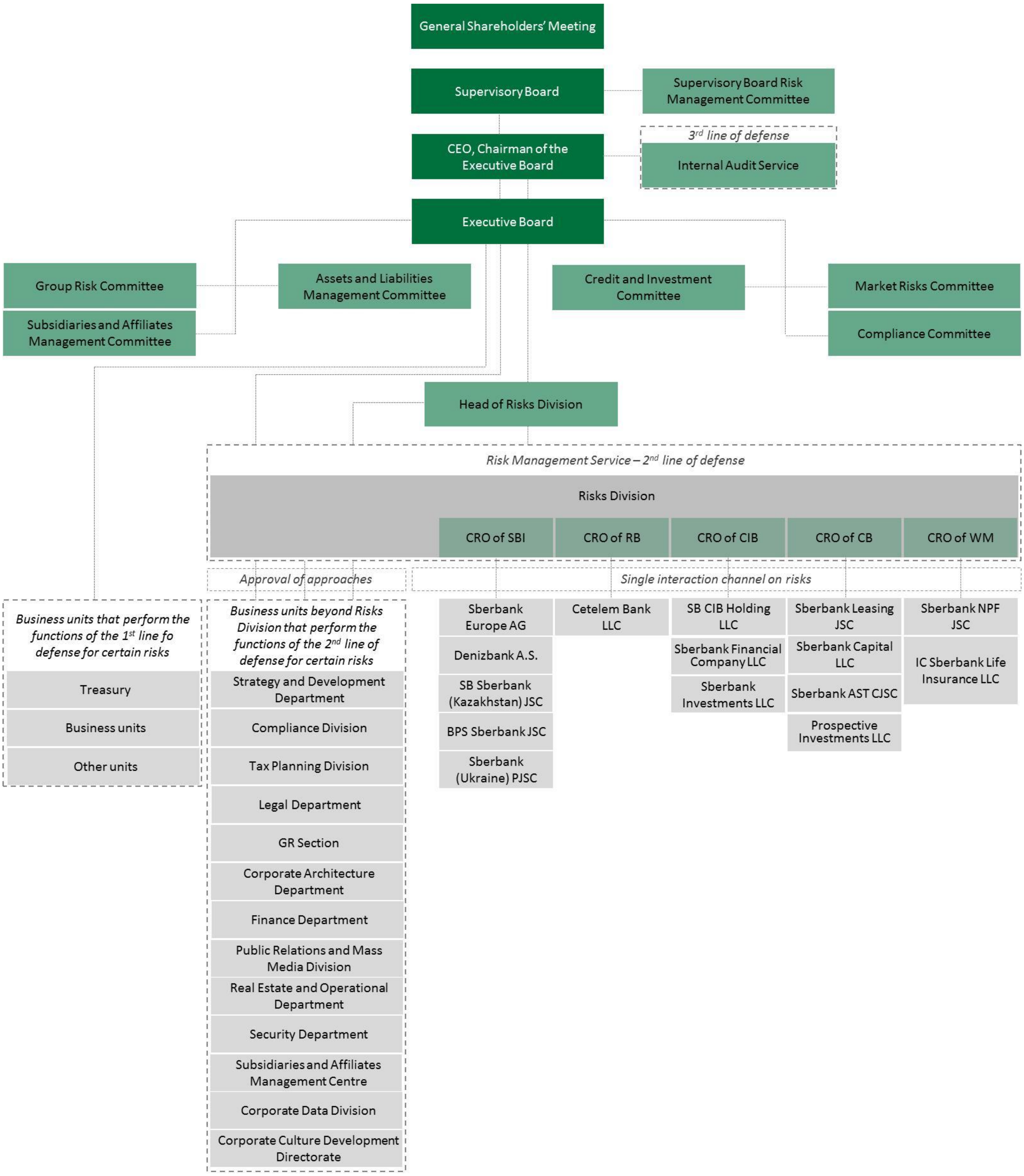
4.12. Information disclosure

All risk and capital adequacy management information according to the requirements of the regulatory authorities should be disclosed. Composition and periodicity of risk reporting fully comply with the requirements of the Bank of Russia /8/, the requirements to management reporting, and the requirements to the disclosure of information on risks for all stakeholders in accordance with the principles of transparency, integrity, etc., as per sub-clause 6.5.

5. Key participants of the risk and capital management system

5.1. Organization of Risk and Capital Management of the Group

The organization of risk and capital management of the Group is presented on the chart below[10].



[10] This chart provides an overview of the Group members to be included in the ICAAP perimeter of the Group according to sub-clause 1.3 /4/. Here are management companies of sub-holdings and controlled subsidiaries of the Bank beyond sub-holdings. The sub-holdings Sberbank Europe AG, Denizbank A.S., BPS Sberbank JSC are completely included in the ICAAP perimeter of the Group. The sub-holding SB CIB Holding LLC is partially included in the ICAAP perimeter of the Group, including Sberbank Switzerland AG, Sberbank CIB JSC, SBGB CYPRUS LIMITED, SB Finance Holding LLC. Sberbank Investments LLC, Sberbank Leasing JSC, Sberbank Capital LLC, Sberbank AST CJSC are only included in the ICAAP perimeter of the Group at the level of the sub-holding parent company.

5.2. Risk Management Service of the Bank

Risk management on the Group level is performed by the Bank Risk Management Service represented by the Risks Division of the Bank. The Risk Management Service of the Bank is functionally and administratively accountable to CEO, the Chairman of the Executive Board. The Head and the employees of the Risk Management Service of the Bank are staff members of the Bank.

In their work the employees of the Risk Management Service of the Bank are guided by the applicable legislation of the Russian Federation, regulations of the Bank of Russia, the Charter of the Bank, the present Strategy, resolutions of the Bank management bodies, and other IRDs or OADs of the Bank. In order to ensure the integrated risk management within the Group the requirements of local regulatory bodies in the countries of the Group members operation are taken into account.

The Risk Management Service of the Bank performs its functions on a continuous basis. The Risk Management Service performs the functions of the 2nd line of defense. For certain risks certain functions of the 2nd line of defense may be performed by the business units that are structurally not related to the Risks Division and possess the necessary competences and resources and are aimed at the mitigation of the level of the risk taken by the Bank for the purposes of compliance with the risk appetite limits and other limitation measures. Submission of the policies and regulations of material/substantial risks management for the review to the Risks Division is mandatory. Business units that are structurally not related to the Risks Division are not included in the Risk Management Service.

The Head of the Risk Management Service of the Bank is the Head of the Risks Division[11] accountable to CEO, the Chairman of the Executive Board of the Bank. The Head of the Risks Division controls the operation of the business units of the Risks Division and is a member of the Bank committees for management of material/substantial risks[12].

The Head of the Risk Management Department of the Bank complies with the qualification and business reputation requirements set by the legislation and regulations of the Bank of Russia[13].

The function of risk management in the Group members has been organized and operates in accordance with the requirements of local regulatory bodies and the approaches to risk management organization established in the Group, and with due regard to the organizational structure of the Group members.

[11] Or other designated person.

[12] Personal participation in the committees for management of material/substantial risks or participation of a representative of the Risk Management Service.

[13] The qualifying requirements are established by Bank of Russia Ordinance No. 4662-U dated December 25, 2017, On the Qualifying Requirements to the Heads of the Risk Management Department, the Internal Control Service, and the Internal Audit Service of Credit Institutions, Persons Responsible for Organizing the Risk Management System, Controllers of Non-Governmental Pension Funds, and Auditors of Insurance Companies, On the Procedure for Notifying the Bank of Russia of Assignment (Dismissal) of These Persons (except for Controllers of Non-Governmental Pension Funds), Special Officials Responsible for Implementing the Internal Control Rules with a view to Counteraction of Legitimization (Laundering) of the Proceeds of Crime and Financing of Terrorism from Credit Institutions, Non-Governmental Pension Funds, Insurance Companies, Management Companies of Investment Funds, Mutual Investment Funds or Non-Governmental Pension Funds, Microfinance Companies, Employees of the Internal Control Service of Management Companies of Investment Funds, Mutual Investment Funds or Non-Governmental Pension Funds, and On the Procedure for the Bank of Russia’s Assessing the Compliance of These Persons (except for Controllers of Non-Governmental Pension Funds) with the Qualifying and Business Reputation Requirements. The business reputation requirements are set by Clause 1 of Part 1 of Article 16 of the Federal Law On Banks and Banking.

5.3. Division of functions and powers

Key functions of the risk and capital management system participants are described below[14]. In addition to these functions, the Bank management bodies' functions also include the review of the reports prepared within ICAAP and described in Appendix 6, and the decision making and IRDs approval processes described in Appendix 7.

5.3.1. General Shareholders Meeting of the Bank:

- adopts resolutions on increase/decrease of the charter capital, split-up/consolidation of shares, issue/conversion of bonds or other issue-grade securities convertible into ordinary shares, in cases provided for in /16/;
- considers the issue of dividend payment (declaration) in accordance with /16/;
- approves major/interested-party transactions in cases and according to the procedure stipulated in /16/.

5.3.2. Supervisory Board of the Bank:

- approves the Risk and Capital Management Strategy of the Group, including the procedure for managing material risks of the Group[15];
- approves the risk appetite and target risk exposure of the Group;
- approves the planned capital adequacy level, planned capital level and planned capital structure of the Group;
- approves the Regulation on the Dividend Policy of the Bank;
- gives recommendations for the amount of dividends on shares and for the determination of the date on which the persons having the dividend rights are identified;
- adopts resolutions on changes in capital in accordance with the powers and authorities specified in /16/;
- approves stress testing scenarios for the Group;
- approves Recovery and Resolution Plan of the Group (hereinafter RRP);
- approves key documents for the purposes of regulatory assessment of capital adequacy in accordance with /29/;
- approves documents that specify the risk-based approaches to the remuneration system in accordance with /22/;
- monitors the implementation of the Risk and Capital Management Strategy of the Group, including the procedure for managing material risks of the Group[15];
- monitors the compliance with the risk appetite limits and other limits of the Group;

[14] The complete list of powers and authorities of the Supervisory Board, the Executive Board, and collegial working bodies of the Bank is presented in the respective Regulations.
[15] The procedure for management of material risks is described in Appendix 8. In terms of liquidity risk, the Supervisory Board shall approve the Liquidity Risk Management Policy of the Group.

- considers the relevance of making amendments to the documents developed under ICAAP within its powers and authorities at least once a year;
- monitors the efficiency of the risk and capital management system by considering inter alia the reports of the Internal Audit Service (hereinafter INAS);
- approves major/interested-party transactions in cases and according to the procedure stipulated in /16/.

5.3.3. Risk Management Committee of the Supervisory Board of the Bank:

- preliminary considers all subjects on risk and capital management of the Group within the scope of powers and authorities of the Supervisory Board, including:
  - approval of the Risk and Capital Management Strategy of the Group, including the procedure for managing material risks of the Group[15];
  - approval of the risk appetite of the Group;
  - monitoring of compliance with the risk appetite of the Group;
  - approval of the planned capital adequacy level, planned capital level and planned capital structure of the Group;
  - approval of stress testing scenarios for the Group;
  - approval of the RRP of the Group;
  - approval of key documents for the purposes of regular assessment of capital adequacy in accordance with /29/;
  - approval of documents specifying risk-based approaches to the remuneration system in accordance with /22/;
- monitors the compliance with the legislation of the Russia Federation regarding risk and capital management;
- interacts with other committees of the Supervisory Board on risk management subjects.

5.3.4. Executive Board of the Bank:

- adopts the resolutions on the establishment and termination of operations of collegial working bodies, approves the regulations on them, and stipulates their powers and authorities;
- approves the Group's business plan and monitors its implementation;
- preliminary considers and approves the Risk and Capital Management Strategy of the Group, including the procedure for managing material risks of the Group;
- preliminary considers the financial stability recovery plan of the Group;
- approves the Group IRDs regulating risk and capital management[16];

[16] As referred to in Appendix 7.

- considers the relevance of making amendments to the documents developed under ICAAP within the scope of their powers and authorities at least once a year.

5.3.5. Group Risk Committee of the Bank:

- manages the overall risk of the Group within the scope of powers, requirements and limitations approved by any resolutions of the Supervisory Board and the Executive Board of the Bank;
- approves the report on identification and materiality assessment of the Group's risks:
  - approves the list of risks considered material/substantial for the Group/ the Group members;
  - specifies collegial bodies of the Bank responsible for the management of specific risks, and business units responsible for building the system of management of specific risks on the Group's level (hereinafter the business units responsible for risks);
  - adopts any resolutions on the incorporation of the Group members into sub-holdings and specifies the management company for each sub-holding in order to organize the integrated risk management;
- preliminary reviews and approves the Risk and Capital Management Strategy of the Group, including the procedure for managing material risks of the Group;
- preliminary considers and approves the risk appetite of the Group;
- adopts resolutions on introduction of indicators to the risk appetites of the Group members and on the limits to be set;
- monitors the compliance with the risk appetite of the Group and other limits;
- monitors the compliance with the risk appetite limits and mandatory ratios by the Bank and the Group members that are subsidiary banks;
- adopts resolutions within its powers and authorities aimed at observing the established limitations and prevention of violations of the Group risk appetite limits;
- monitors the implementation of the measures to prevent the violations of the risk appetite of the Group;
- preliminary reviews and approves the RRP of the Group;
- approves the plan of the development and updating of the RRP of the Group with due regard to stress testing scenarios and its results;
- considers the relevance and initiates ad hoc update of the RRP of the Group with due regard to stress testing scenarios and its results;
- performs other functions on organizing and improving the integrated risk management system of the Group.

5.3.6. Assets and Liabilities Management Committee of the Bank:

- approves the Group standards for capital adequacy management processes and approaches, requirements to the regulatory documents of the Group members, specifying internal capital adequacy management methods and procedures;
- sets up the architecture (system) and capital adequacy limits for the Group and the Bank with due regard to risk appetite limits approved by the Supervisory Board;
- sets the capital adequacy limits for the Group members subject to further approval by collegial bodies of the Group members (except for the limits to be established by the Group Risk Committee (hereinafter GRC));
- sets the alert limits on mandatory capital adequacy ratios of the Bank and the Group according to the requirements of the Bank of Russia;
- ensures compliance with the mandatory capital adequacy ratios of the Bank and the Group according to the requirements of the Bank of Russia, and adopts resolutions on management of the mandatory capital adequacy ratios of the Group and the Bank as required by the Bank of Russia;
- adopts resolutions aimed at preventing violations of the risk appetite limits of the Group and the Bank with regard to capital adequacy;
- reviews the action plans for managing liquidity and capital adequacy of the Group in crisis conditions for further approval by the Supervisory Board (as part of RRP).

5.3.7. Bank Committee for Management of Material/Substantial Risks[17]

The Bank Committee for Management of Material/Substantial Risks adopts the complete range of resolutions necessary to comply with the requirements set by the Bank management bodies and the requirements of regulatory bodies, and performs the following functions in relation to the respective risks:

- manages the material/substantial risks of the Group within the powers and authorities, requirements and limitations approved by the Executive Board of the Bank;
- approves the architecture (system) and limits[18] within the established risk appetite of the Group as proposed by a business unit of the 2nd line of defense;
- approves other risk limitations, including those based on qualitative indicators as proposed by a business unit of the 2nd line of defense;
- monitors the compliance with limits and/or other restrictions based on qualitative indicators;
- adopts resolutions within its powers and authorities on management of particular risks, aimed at observing the set limitations, and approves the measures and corrective actions in

[17] Including the Group Risks Committee of the Bank and the Assets and Liabilities Management Committee of the Bank. The list of the Bank’s committees for management of material/substantial risks shall be approved within annual identification and materiality assessment of risks.
[18] The authorities for the approval of limits and restrictions may differ for respective risks and are specified in IRDs on those risks.

relation to the violations of the set risk appetite limits of the Group and the Bank and other limitations;

- reviews and approvse the policies for management of material/substantial[19] risks of the Group within the scope of authorities of this committee[20], for further approval by the Bank Executive Board or Supervisory Board in accordance with the requirements of regulatory bodies;
- approves other IRDs regulating the processes of management of particular risks in accordance with /17/;
- monitors the activities of the responsible committees[21].

5.3.8. Integrated Risk Management Department of the Bank:

- develops, updates and improves the Risk and Capital Management Strategy of the Group on consolidated basis, and ensures its compliance with the Development Strategy, requirements and recommendations of the Bank of Russia, the BCBS recommendations, and global best practices;
- organizes the process of risk identification and risks materiality assessment in the Group;
- organizes the process of preparation of the following reports in accordance with Appendix 6:
  - report on ICAAP implementation results;
  - report on stress testing results for the Group;
  - report on ICAAP organization in the Group and the results in the form stated by the Bank of Russia /4/;
  - aggregated reports on the level of material/substantial risks for the purposes of presentation of the information to the Supervisory Board, the Executive Board, and any collegial working bodies of the Bank, which manage the Group risks in accordance with the reference to the requirements set forth in sub-clause 6.5 of this Strategy;
- informs the Executive Board of the Bank and the Supervisory Board of the Bank about any violations of the set risk appetite and regulatory ratios by the Group/ the Group member upon identification[22];
- coordinates the process for setting and monitoring the risk appetite;
- prepares suggestions on risk appetite figures of the Group and the Bank, suggestions on inclusion of indicators into the risk appetite of the Group members, suggestions on proposed limits, and on negotiation of the capital adequacy ratios with the Treasury and business units of the 2nd line of defense;
- performs the aggregated assessment and forecasting of the aggregated level of the Group material/substantial risks, as well as monitors the aggregated level of risk taken;

[19] If any policies for management of substantial risks are developed.
[20] If provided for in the Regulation on the respective Bank Committee for Management of material/substantial risks.
[21] The term ‘responsible committees’ means the list of committees and authorities delegated to them within the system of management of material/substantial risks of the Group.
[22] The notification procedure is specified in other IRDs of the Bank.

- develops the stress testing plan for the Group;
- coordinates the interaction of business units within the process of developing the scenarios and performing stress testing of the Group under ICAAP;
- performs stress testing of material risks of the Group;
- coordinates and arranges the preparation of the RRP of the Group;
- consolidates the information about risks for the purposes of disclosure in accordance with the requirements of the Bank of Russia /28/;
- provides the methodological support on compliance of material/substantial risks management systems with the risk management requirements in the Group and with the requirements of the Bank of Russia;
- reviews the policies and regulations for management of material/substantial[17] risks;
- maintains the register of IRDs on integrated risk management and general issues of management of material/substantial risks;
- performs other functions within integrated risk management.

5.3.9. Treasury:

- provides suggestions concerning the list of indicators[23] and their thresholds with regard to capital adequacy for their inclusion in the risk appetite of the Group;
- circulates and monitors the implementation of the group standards of capital adequacy management on the level of the Group members;
- develops the capital adequacy management plan within the business planning procedure of the Group as a whole, and the capital adequacy management plan of the Group in crisis conditions;
- performs the regular forecasting of capital adequacy ratios for the Group and develops their forecasting methodologies;
- monitors the compliance with the risk appetite with regard to capital adequacy ratios and with other internal limits for actual and anticipated figures of capital adequacy ratios;
- suggests measures and develops action plans for capital adequacy management, submits them for the consideration of a responsible collegial body of the Bank, and coordinates their implementation;
- participates in stress testing of the Group within ICAAP;
- participates in the development of the RRP of the Group, within its scope of responsibilities;
- performs other functions on capital adequacy management in accordance with /24/.

[23] The term ‘indicator’ corresponds to the term ‘risk metric’.

5.3.10. Finance Department:

- defines business planning principles and develops or coordinates the development of respective methodologies/regulations;
- develops the financial structure of the Group, including the perimeter and criteria for consolidation of companies in order to prepare the business plan and the suggestions for defining business plan targets;
- prepares the consolidated business plan and the mechanism for monitoring the compliance with the indicators of the Group business plan;
- consolidates the financial statements of the Group for the purposes of management reporting.

5.3.11. Business units performing the functions of the 1st line of defense are specified in IRDs on management of material/substantial risks.

5.3.12. Business units performing the functions of the 2nd line of defense are specified in IRDs on management of material/substantial risks.

The functions performed by the 1st and 2nd lines of defense within the system of management of material/substantial risks are described in IRDs on management of the respective risks.

5.3.13. Validation Division of the Bank:[24]

- validates the risk assessment models.

5.3.14. Business unit responsible for risk

For each risk type (material/substantial risk) the Group Risks Committee of the Bank specifies in its resolution a business unit (or a responsible employee) of the Bank[25], which (or who):

- develops, updates and improves the material/substantial risk management system on the Group level with possible involvement of other business units of the Bank and/or external organizations, including:
  - IRDs that specify the methodology for management and assessment of a respective risk[26];
  - risk assessment models;
  - management processes and procedures;
  - requirements to the organizational structure;
  - requirements to allocation of authorities;

[24] The Validation Division is in the structure of the Risks Division, however, it is functionally independent of the business units that develop and use the risk assessment models.
[25] With due regard to the organizational structure of the Bank/ the Group member several business units (or employees) by business segment, line of business, etc., can be appointed responsible provided that there is a clear differentiation of the areas of responsibility within the system of management of a particular risk.
[26] Business unit responsible for risk may engage other business units of the Bank and/or external organizations for performing the above stated functions.

- develops the standards and requirements to the methodology and processes of management of the respective risk for the Bank and/or the Group members;
- organize the management of the respective risk in the Group/ the Bank;
- interact with the Risk Management Service[27] within the risk and capital management system.

Depending on the specifics of particular risks the business unit responsible for risk may be in the structure of the Risks Division if it has the required expertise and resources. Generally, the business unit responsible for risk performs the functions of the 2nd line of defense. In specific cases the business unit responsible for risk may perform the functions of the 1st line of defense. In this case, the policies and regulations for management of material/substantial risks are agreed upon with the business unit performing the functions of the 2nd line of defense.

5.3.15. Internal Audit Service of the Bank:

- performs the functions of the 3rd line of defense, namely:
  - assesses the efficiency of the risk and capital management system, in particular, verifies the efficiency of the risk assessment methodology and risk management procedures established by IRDs of the Bank and the Group members and verifies whether the above mentioned documents are applied in full;
  - informs the Supervisory Board and the executive management bodies of the Bank about any deficiencies identified in operation of the risk and capital management system, as well as about any actions taken to prevent those;
  - develops the requirements to the organization of internal audit in the Group members with regard to efficiency assessment of the risk and capital management system.

5.3.16. Group members that are management companies of sub-holdings:

- organize the risk and capital adequacy management process at the sub-holding level according to the principles specified by this Strategy, the group documents, and with due regard to the requirements of local regulatory authorities in the countries of operation of the Group members;
- provide the information required for integrated risk management and management of material/substantial risks to the Bank.

5.3.17. Group members not included into sub-holdings:

- organize the risk and capital adequacy management process on its own level according to the principles specified by this Strategy, the group documents, and with due regard to the requirements of local regulatory authorities in the countries of operation;
- provide the information required for integrated risk management and management of material/substantial risks to the Bank.

[27] For business units that are not in the structure of Risks Division.

6. Organization of the Risk and Capital Management System

The integrated risk management process includes 5 stages. The risk management system is developed for all material/substantial risks in accordance with the requirements of sub-clause 6.2. The procedure for management of material risks is described in Appendix 8.

6.1. Integrated Risk Management Process

6.1.1. Identification and Materiality Assessment of the Group Risks

The identification and materiality assessment of the Group risks include identification and materiality assessment of the risks of the Bank and the Group members. Planned identification of risks and materiality assessment thereof 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, ad hoc risk identification and materiality assessment may be performed.

The following Group members are included in the risk identification perimeter of the Group:

- the Bank;
- the Group members the risks of which are identified within ICAAP of the Group according to the requirements of /4/;
- the Group members for which the requirements of local regulatory authorities are set in terms of risk management, and the risks of which are not identified within ICAAP of the Group according to the requirements of /4/;
- other Group members who may be exposed to high risks for the Group[28].

The Bank assesses risk materiality on the level of the Bank/ the Group members and the Group as a whole. The Group members also assesses risk materiality at the local level if the local regulatory authority and/or the Bank requires that.

All potential risks of the Group are included in the long list of risks according to global best practices and the recommendations of regulatory authorities and BCBS.

The 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 are recognized by default as material for the Bank/ the Group. The risks recognized as material by default are not annually assessed regarding their materiality.

The risks which are subject to annual materiality assessment are assessed based on set quantitative criteria or expert estimates. The materiality criterion on the Group level has been set for the risks in accordance with the internal methodology.

On the Group level the risk fall into one of the three categories, namely, ‘material’, ‘substantial’, or ’non-material’. On the level of the Bank/ the Group member, the risk fall into one of the four categories, namely, ‘material’, ‘substantial’, ’non-material’, ‘non-relevant’. The risk may be recognized as material/substantial for the Group member, but non-material for the Group as a whole.

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

During materiality assessment, the Group members rely on the standards approved in the Group with due regard to the requirements of local regulatory authorities.

The list of types of the risks of the Group/ the Bank/ the Group members by materiality category is approved by the Group Risk Committee of the Bank. For every material/substantial risk the capital requirements for its coverage are set either on the individual or on the aggregated basis.

The requirements for creating the risk management system depend on the risk materiality category (please see more details in sub-clause 6.2).

6.1.2. Aggregated Assessment of Risks and Overall Capital

The methodology for aggregated risk assessment is specified for the material/substantial risks for which the capital requirements are set. In order to ensure the possibility of aggregating data for the purpose of determining the overall capital required to cover losses should the risk occurrence, the required capital calculation approaches applied by the Group members are agreed with the Bank.

Generally, for any material/substantial risks with no quantitative models for estimating the required capital, the necessary capital amount is allocated to cover these risks and it is determined by judgement in accordance with the approved internal methodology.

The required capital amount is also allocated to cover the risks arising from business development measures provided for by the Development Strategy of Sberbank or the development strategy of the Group member, as well as the risks which may not be allocated among structural units of the Bank or the Group member or such allocation is difficult.

The assessment models of the required capital (economic capital) used in ICAAP are subject to annual validation procedure.

Other risk assessment methods are used for the risks for which the capital requirements are not set (e.g. liquidity risk).

6.1.3. Setting of the Risk Appetite of the Group/ the Bank/ the Group Member

Risk appetite means the aggregate maximum risk level of the Group/ the Bank/ the Group member that the Group/ the Bank/ the Group member is ready to accept in the course of creating shareholder value and achieving the set strategic goals.

The risk appetite is set in accordance with the following principles:

- The Group provides a complete range of banking services, so the Group’s risk appetite contains limitations on all material/substantial risks inherent in banking, among others, through allocation of the required capital amount.
- The Group risk appetite excludes the targets for return or administrative and management expenses which are set under business planning. The risk appetite does not duplicate, but complements the Development Strategy and business plans through determining the maximum permissible level of risks.
- The risk appetite contains warning indicators and thresholds (limits). For each risk appetite indicator, two limits are set, namely, yellow zone limit and red zone limit of the risk appetite. The yellow zone limit is the limit the excess of which signals the need of taking/initiating management measures to prevent the violation of the red zone limit. The red zone limit of the risk appetite means the maximum limit that should not be violated.

The target risk levels mean the indicator values that do not violate the yellow zone limit of the risk appetite on the entire planning horizon.

The risk appetite is calculated in accordance with the Development Strategy and with due regard to the stress testing results.

When determining the indicators to be included in the risk appetite, the following requirements and limitations are taken into account:

- effectiveness of indicators as a risk limitation measure with regard to their historical dynamics;
- sufficiency of coverage of the Group material/substantial risks revealed in the course of risk identification and materiality assessment;
- compliance of the indicators with the existing and prospective regulatory requirements.

The Group risk appetite is set for all material/substantial risks of the Group for the strategic planning horizon. The risk appetite is approved by a specific resolution of the Supervisory Board of the Bank and is an integral part of this Strategy. The risk appetite for particular risks can be set in the form of aggregated indicators for several risks. Qualitative indicators of risk appetite are set as risk management principles and the target rating.

The Bank Supervisory Board considers the relevance of changing the Group risk appetite at least once a year. Specific values 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).

The risk appetite implies the set of indicators. The risk appetite indicators are divided into three levels as follows: Level I with key indicators meaning the ratios of capital adequacy, portfolio quality and liquidity; Level II with allocation of capital by risk types/ lines of activity/ Group members; Level III with other indicators.

As part of the risk appetite of the Group, the target risk structure is approved in order to monitor material/substantial risks which are accepted by the Bank and the Group members. The target structure of the risks for which the capital requirements are set represents the aloocation of material/substantial risks as their share in AFR.

The risk appetite of the Bank and the Group members are set in accordance with the risk appetite of the Group.

6.1.4. Risk Exposure Planning

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

In the course of planning[29] activities of the Group business units use the indicators that characterize (or recognize) the level of losses from risk realization in projected scenarios in both normal operations (business plan) and stress conditions. Compliance with the Group risk appetite is assessed in projected scenarios.

[29] As part of development of the business plan and the financial stability recovery plan.

6.1.5. Management of Overall Risk Exposure of the Group

The management of the Group overall risk exposure comprises:

- calculation of factors characterizing a consolidated level of overall risk of the Group based on assessments of material/substantial 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;
- generation of the reports according to Appendix 6;
- making decisions on setting/changing risk limits, or any other decisions aimed to minimise the risk level of the Group (including risk mitigation measures) based on the information contained in the reports prepared in accordance with Appendix 6, and monitoring over execution of such decisions;
- monitoring of the execution of risk mitigation measures in case of risk appetite limits violation.

6.2. Development and Improvement of the Risk Management System

Following the procedure of identification of the Group risks, each risk of the Group/ the Bank/ the Group member is classified in one of the categories listed in sub-clause 6.1.1.

For each risk considered as material/substantial, the Group Risks Committee assigns for the Group/ the Bank[30]:

- collegial body of the Bank to manage the risk;
- business unit responsible for risk[25], with specification of the line of defense[31].

The functions of the business unit responsible for risk are specified in 5.3.14.

The system for managing a risk recognized as material/substantial for the Group involves the Bank and all Group members, where this risk is recognized as material/substantial[32]. If any risk is recognized as material/substantial only on the Bank level, the system for managing this risk is developed on the Bank level. If any risk is recognized as material/substantial only on the Group member level, the local system for managing this risk is developed. In this case, the Group member independently determines risk management approaches, establish and control risk limits and risk targets, and monitor the efficiency of management of this risk.

For each risk classified as material/substantial, it is necessary to:

- determine the structural units performing the functions of the 1st and 2nd lines of defense;

[30] For the Group member, a collegial body for risk management or a business unit responsible for risk shall be assigned in accordance with the local procedures accepted by the Group member.
[31] If the business unit responsible for risk is from the 1st line of defense.
[32] In that case, IRD on management of a material/substantial risk shall apply to the Group as a whole, and no development of specific IRDs on the Bank's level is required.

- establish, if necessary, the accountable committees (i.e. the list of committees and functions delegated to them within the risk management system);
- develop and approve IRDs that determine the procedure[33] for operation of the risk management system.

The risk management system ensures performance of the following functions:

- risk identification;
- risk assessment with using quantitative and/or qualitative methods;
- development of risk management approaches and methods, as well as the list of risk mitigation measures (use of collateral, etc.);
- setting of limits and other limitations on risk level, as well as control values, the achievement of which signals the need to implement risk mitigation measures;
- monitoring over volumes of accepted risks, escalation of violating stated risk limits and/or limitations;
- preparation of reports on the level of accepted risk and on results of efficiency assessment of applied risk management methods.

The requirements for the development of the risk management system depend on the risk category:

- **material risks**: the risk management system complies in full with sub-clause 6.2 of this Strategy, as well as with the regulatory requirements as part of developing the risk management system, including /4, 7/;
- **substantial risks**: for these risks, only minimum obligatory requirements are determined:
  - available approach to risk assessment by a quantitative and/or qualitative (expert) method;
  - available system of limits and/or restrictions, which may be based on expert estimates;
  - taking into account these risk types in the risk appetite by providing the required capital amount to cover these risks on the aggregated basis;
  - available reporting system which allows to monitor the level of accepted risk (completeness and periodicity of management reports are determined by a business unit responsible for risks);
  - periodicity for assessment of quality and efficiency of the system for managing these risks is determined according to INAS inspection schedules;
- **non-material risks** and **risks that are non-relevant[34] to an organization**: the risk management system is not required.

[33] One document may be developed for several risk types.
[34] The non-relevant risk category is only applicable for the Bank and the Group members, but not for the Group as a whole.

In the process of the development of the approach to the risk management system, it is necessary to be commuted to the principle of proportionality regarding economic efficiency of building the risk management system in Group members where the risk is considered as material/substantial. Delegation of risk management functions from one Group member to another or the Bank is allowed, excluding the functions of the board of directors (the supervisory board)/ executive bodies/ the head of the risk management department.

6.3. Capital Adequacy Management

The process of the capital structure and adequacy management of the Group is centralized. The Bank Treasury is a business unit responsible for organization of capital adequacy management in the Group and the Bank. To implement an efficient process of capital structure and adequacy management, the Bank Treasury develops necessary procedures, regulations for cooperation between business units, methods and group standards, and also controls 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 regulators, or the requirements for risk appetite as related to capital adequacy approved by the Bank responsible collegial body, as well as in other members of the Group stipulated by a specific resolution of ALMC. The Group members organizes capital adequacy management according to principles stipulated in the Capital Adequacy Management Policy of the Group[35] /25/ and other Group standards. The following key tools are used for capital adequacy management:

- business planning and a capital adequacy management plan;
- planning of dividends and capitalization of subsidiaries;
- system of capital adequacy ratio limits;
- capital adequacy management plan in case of a crisis situation /26/.

6.4. Stress testing

The stress testing is an analytical tool for assessment of a potential impact of the preset changes of risk factors on financial standing, capital adequacy and liquidity of the Group on the basis of scenario analysis and the analysis of credit organization sensitivity to the changes of risk factors.

The stress testing covers all material/substantial risks of the Group. The combination of centralized and decentralized approaches is applied to stress testing on the Group level. In case of the decentralized approach local stress testing results received based on the overall group stress scenario are aggregated from the level of sub-holdings and the Group members beyond sub-holdings. The Bank assesses and regularly considered stress scenarios, as well as quality of used data and assumptions of stress testing.

Stress scenarios of the Group are approved by the Bank Supervisory Board and are an integral part of the Strategy. The reports on stress testing results are provided to GRC, the Executive Board and the Supervisory Board of the Bank.

[35] This Policy applies to the Group as a whole, Sberbank, and the Group members in respect of which the Group may exercise control over operating and financial activities.

Stress testing results are taken into account in the process of setting the risk appetite of the Group, developing the capital adequacy management plan (preventive measures as part of a business plan) and the RRP of the Group.

The Group members develop their own stress testing procedures which is agreed upon with the Bank.

6.5. Reporting

The Group abides 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 regulators' requirements and allowing to make management decisions.
- Understandability: The reports shall be understandable for the target audience in terms of the level of detail and scope of information contained therein.
- Transparency: The risk reports shall contain correct, comparable and accurate data.
- Comprehensiveness: The reports shall include information on all material/substantial risks, as well as information on compliance with the regulatory requirements. The reports shall contain a comparison of the accepted risks against available capital to cover accepted risks.
- Comparability and possibility of aggregation: The format of reports shall allow to aggregate information on various types of material/substantial risks and business units to ensure complete representation of the risk profile on the Group level.
- Match: The 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[36] according to accepted changes.
- Timing: The reporting system shall be organized in a way, that, in case of crisis conditions, would allow the prompt provision of data on actual and target risk level and structure in order to timely take management measures.
- Integrity: the 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.

The risk level of the Group is disclosed in accordance with Appendix 6.

6.6. Audit of the Risk and Capital Management System on the Group Level

The effectiveness of the internal risk management and capital adequacy assessment systems (hereinafter the audit of the risk and capital management system) on the level of the Bank/ the Group is audited annually in accordance with the requirements of the Bank of Russia /4/ and as per the INAS inspection plan. The risk and capital management system is audited with due regard to the principle of proportionality and limited resources.

[36] If available.

The Head of INAS of the Bank communicates the information on identified deficiencies in the risk and capital management system of the Bank/ the Group, and on actions taken to prevent them to the Supervisory Board and the Executive Board of the Bank at least once a year as part of the reports submitted by INAS to the Supervisory Board and the Executive Board.

7. Final Provisions

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

APPENDIX 1. List of Terms and Definitions

CRO of the Business Block means an employee responsible for interaction between the Risks Block and the business block within the risk management system, who serves as ‘a single access gateway’ of communications for the business block. CRO of the Business Block performs the risk management functions, including, but not limited to, responsibility for building the risk management system in the Bank and the Group members, organization of risk management within his/her area of responsibility through interaction with the Bank’s business units and the Group members, and monitoring of implementation of the risk management targets in the Group members. CRO of the Business Block is also a member of collegial bodies of the Bank/ the Group member.

Risk Appetite means the aggregate maximum risk level of the Group/ the Bank/ the Group member that the Group/ the Bank/ the Group member is ready to accept in the course of creating shareholder value and achieving established strategic goals.

Sberbank Group (Group) means the banking group defined according to /1/, where Sberbank is the parent credit institution.

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

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

Available Capital means disposable capital to cover the overall amount of accepted and potential risks, which is calculated for both regulatory and internal goals.

Available Financial Resources mean the capital at the disposal of the Group/ the Bank/ the Group member, available to cover accepted and potential risks, that is assessed under the internal models of the Group/ the Bank/ the Group Member, among others, using internal assessments of expected losses.

Risk Identification means the process of identifying and classifying the types of risks.

Collegial Working Bodies of the Bank mean collegial working bodies of the Bank, the establishment and termination of operations of which fall within the competence of the Executive Board under the Bank Charter.

Controlled Member of the Group, for the purposes of this Strategy, means the 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).

Major Group Member means the Group member whose equity (capital) calculated excluding operations (transactions) 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) financial result, excluding gains (losses) from operations (transactions) 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 (calculation is made in absolute values with ignoring a sign of the financial result of the banking group participant or the banking group as a whole), 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 corresponds to the second paragraph of Subarticle 6.7 of Bank of Russia

Ordinance No. 4482-U dated 7 August 2017 On the Forms and Procedure for Disclosure by Credit Institutions (Parent Credit Institutions of Banking Groups) of Information on Accepted Risks, Risk Assessment Procedures, Risk and Capital Management Procedures, as registered with the Ministry of Justice of the Russian Federation on 1 November 2017 under No. 48769.

Risk Limit means a preset numeric limitation of the indicator value characterizing the risk level (risk metric). The limit can be set as either an absolute value or a relative one.

Substantial Risk means a risk that is not recognized as material, in respect of which the requirements are imposed on availability of the management system according to Subclause 6.2.

Model means a quantitative method, system or approach in which statistical and mathematical theories are applied to input data to obtain quantitative estimates.

Necessary (Required) Capital means the capital value of the Group/ the Bank/ the Group member, which is necessary to cover any risks taken by the Group/ the Bank/ the Group member in its operations.

Non-Relevant Risk means a risk that does not arise at the Bank/ the Group member due to the absence of transactions exposed to such risks and of plans on such transactions within the business planning horizon.

Non-Material Risk means a risk that has not been recognized as non-relevant, material or substantial.

Business Unit Responsible for Risk means the business unit responsible for building a system to manage the risk recognized as material or substantial.

Financial Markets Transactions mean purchase or sale of currency in cash or non-cash form, marketable securities, precious metals and other commodities, placement or attraction of loans/deposits in currency or precious metals in the interbank lending market, direct or reverse repurchase transactions, and derivative transactions.

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

Risk Taking means an action (or omission) resulting in a change in the risk level of the Group. The risk taking by the Group shall take place:

1. when resolutions are adopted to enter into transactions, perform operations, sign a services agreement between the Bank or the Group Member and external/internal counterparties to the Group (for credit and market risks, as well as liquidity risk);

2. when the participants of the risk and capital management system (Subclause 5.3) perform any functions associated with the risks other than those related to adopting resolutions on performance of operations or conclusion of transactions (e.g. compliance risk).

For any 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 consolidation of the position exposed to the relevant risk type) are distinguished.

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

Regulatory Capital means the capital value of the Group/ the Bank/ the Group member, which is required to cover any risks accepted in the course of activities and the determination methodology of which is prescribed by the regulator[37].

Risk means the possibility, inherent to the Group's activities, of occurrence of an event that results in financial losses of the Group and/or negatively affects the Group's reputation and/or liquidity position.

Internal Audit Service of the Bank means a complex of the Bank's structural 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 activities in compliance with the Regulation on the Internal Audit Service of Sberbank.

Risk Management Department of the Bank means a set of the Bank's independent structural units which are part of the Risks Block of Sberbank.

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

Sub-holding means an association of the Group members that is not a legal entity, where the parent institution (hereinafter the management company of sub-holding) has an opportunity to use its powers directly or indirectly (through third parties) to influence the decisions made by executives, management and collegial bodies[38] of other sub-holding members, and also the amount of their financial result. The management company of sub-holding is a controlled subsidiary of Sberbank (in which the direct equity interest of the Bank is more than 50%). The Bank itself may be a management company of sub-holdings.

Material Risks mean risks, which, if realized, have adverse consequences that impact the consolidated financial result and/or available capital and/or liquidity of the Group/ the Bank/ the Group member, as well as reputation of the Group/ the Bank/ the Group member or the capability to comply with the requirements of the regulators in the Russian Federation and in the countries of operation of the Group members.

Risk Management means a complex of measures to identify, assess, and aggregate all material/substantial risks, monitor, constrain, and control the amount of taken risks, plan the risk level, implement the measures to mitigate the risk level in order to keep the amount of taken risks within the set external and internal containments in the course of implementation of the Development Strategy approved by the Supervisory Board of the Bank.

Group Member means a legal entity being under control or significant influence of Sberbank, which is the parent credit institution of the banking group as defined in accordance with /1/.

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

[37] On the level of the Group, the Bank, the Group members, meaning credit institutions subject to regulation of the Bank of Russia, the capital value is determined in accordance with Bank of Russia Regulation No. 646-P dated 4 July 2018 On the Methodology for Determining the Equity (Capital) of Credit Institutions (Basel III).
[38] The terms 'management body' and 'collegial working body' are defined in /16/.

APPENDIX 2. List of Abbreviations

CRO of the Group means the Head of the Risks Block of Sberbank.

RA stands for Risk Appetite.

Bank means Sberbank.

Bank of Russia means the Central Bank of the Russian Federation.

BCBS stands for Basel Committee on Banking Supervision, a committee of banking supervisors, which was established by the central bank governors of the G-10 countries in 1974.

Risks Block means the Risks Block of Sberbank.

IRD stands for Internal Regulatory Document.

ICAAP stands for Internal Capital Adequacy Assessment Process.

IRMD stands for Integrated Risk Management Department.

AFR stands for Available Financial Resources.

CB stands for Collegial Body.

KPI stand for Key Performance Indicators.

GRC stands for Group Risk Committee of Sberbank.

ALMC stands for Assets and Liabilities Management Committee of Sberbank.

CSRBB means Market Credit Spread Risk of Securities of the Banking Book.

IFRS stand for International Financial Reporting Standards.

SPB stands for Supervisory Board.

OAD stands for Organizational and Administrative Document.

INAS stands for Internal Audit Service of Sberbank.

APPENDIX 3. List of Reference Documents

1. Federal Law of the Russian Federation On Banks and Banking No. 395-1 dated 2 December 1990.
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 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 Recommendations of the Basel Committee on Banking Supervision “Principles of Risk Aggregation and Submission of Risk Reports”, the appendix 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 in Credit Institutions and Banking Groups.
7. Bank of Russia Ordinance No. 3883-U dated 7 December 2015 On the Bank of Russia’s Procedure for Quality Assessment of the Management System of Risks, Capital, and Capital Adequacy of a Credit Institution or a Banking Group.
8. Bank of Russia Ordinance No. 4482-U dated 7 August 2017 On the Forms and Procedure for Disclosure by Credit Institutions (Parent Credit Institutions of Banking Groups) of Information on Accepted Risks, Risk Assessment Procedures, Risk and Capital Management Procedures.
9. Bank of Russia Regulation No. 509-P dated 3 December 2015 On the Calculation of Equity (Capital), Mandatory Standards, and Open Foreign Exchange Position Amounts (Limits) for Banking Groups.
10. Principles for Perfecting the 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 (hard copy), ISBN 978-92-9197-126-8 (online)).
12. Principles of Risk Data Aggregation and Submission of Risk Reports, BCBS, January 2013, (ISBN 92-9197-913-9).
13. Basel II: 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 the EU Council dated 26 June 2013 on Access to the Activity of Credit Institutions and on Prudential Supervision of Credit Institutions and Investment Companies, amending Directive 2002/87/EU and repealing Directives 2006/48/EU, 2006/49/EU (CRD IV).
15. EU Regulation No. 575/2013 of the European Parliament and Council dated 26 June 2013 on Prudential Requirements to Credit Institutions and Investment Companies with amendments to EU Regulation No. 648/2012 (CRR).
16. Charter of Sberbank of Russia as amended.

17. Regulation for Development and Approval of Internal Regulatory Documents of Sberbank No. 360, as amended.
18. Corporate Governance Code of Sberbank as amended.
19. Regulation on the Internal Control System of Sberbank of Russia No. 2289, as amended.
20. Regulation on the Internal Audit Service of Sberbank No. 3502, as amended.
21. Business Planning Regulation of Sberbank Group No. 3508, as amended.
22. Instruction of the Bank of Russia No. 154-I dated 17 June 2014 On the Procedure for Assessing the Remuneration Systems of Credit Institutions and the Procedure for Submitting to Credit Institutions the Orders to Prevent Violations Identified in Remuneration Systems.
23. Bank of Russia Ordinance No. 4212-U dated 24 November 2016 On the List, Forms and Procedures for Compiling and Submitting the 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, as amended.
25. Capital Adequacy Management Policy of Sberbank Group No. 3690, as amended.
26. Capital Contingency Plan of Sberbank Group No. 4361, as amended.
27. Bank of Russia Ordinance No. 4662-U dated December 25, 2017, On the Qualifying Requirements to the Heads of the Risk Management Department, the Internal Control Service, and the Internal Audit Service of Credit Institutions, Persons Responsible for Organizing the Risk Management System, Controllers of Non-Governmental Pension Funds, and Auditors of Insurance Companies, On the Procedure for Notifying the Bank of Russia of Assignment (Dismissal) of These Persons (except for Controllers of Non-Governmental Pension Funds), Special Officials Responsible for Implementing the Internal Control Rules with a view to Counteraction of Legitimization (Laundering) of the Proceeds of Crime and Financing of Terrorism from Credit Institutions, Non-Governmental Pension Funds, Insurance Companies, Management Companies of Investment Funds, Mutual Investment Funds or Non-Governmental Pension Funds, Microfinance Companies, Employees of the Internal Control Service of Management Companies of Investment Funds, Mutual Investment Funds or Non-Governmental Pension Funds, and On the Procedure for the Bank of Russia’s Assessing the Compliance of These Persons (except for Controllers of Non-Governmental Pension Funds) with the Qualifying and Business Reputation Requirements.
28. Bank of Russia Ordinance No. 4638-U dated December 6, 2017, On the Forms, Procedure and Periods for Disclosing Information on Activities by Credit Institutions.
29. Bank of Russia Regulation No. 483-P dated August 6, 2015, On the Procedure for Credit Risk Calculation from Internal Ratings.

APPENDIX 4.

Classification of Group Members for ICAAP Purposes

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

Group Member (category)	**Requirements for Risk Management System**	**Requirements for ICAAP**
Parent credit institution of the Group	– Shall determine risk materiality at the Group level. – Shall form requirements for the material/substantial risk management system on the level of the Group and the Group members. – Shall control compliance with Group's requirements by Group members included in the risk management system perimeter. – Shall manage risks on the level of the Bank and the Group.	– Shall develop requirements for ICAAP at the Group level. – Based on the Group ICAAP, shall establish 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. – Shall develop and implement ICAAP on an individual basis.
Major Group Member whose risks are recognized within ICAAP of the Group according to the requirements of /4/	– The Group member shall build in full the risk management system on an individual basis in accordance with the Group standards, the Strategy requirements and the requirements of local regulators.	– Requirements for ICAAP shall be obligatory in full according to /4/.
Credit institutions which are the Group members (not major ones) whose risks are recognized within ICAAP of the Group according to the requirements of /4/	– The Group member shall build the risk management system on an individual basis in accordance with the requirements of the Bank.	– The Group member shall develop and comply with, on an individual basis, the requirements of local regulators for ICAAP subject to the Group requirements.
Non-credit regulated[39] Group members whose risks are recognized within ICAAP of the Group according to the requirements of /4/	– By resolution of the business unit responsible for risk	– No requirements shall be specified to the Group member; – Capital requirements shall be assessed by the Bank centrally.
The Group members whose risks are recognized within ICAAP of the Group according to the	– By resolution of the business unit responsible for risk	– No requirements shall be specified to the Group member; – Capital requirements shall be assessed by the Bank centrally.

[39] The Group members whose risk management systems shall comply with the regulators' requirements.

requirements of /4/		
The Group members whose risks are not recognized within ICAAP of the Group according to the requirements of /4/	– By resolution of the business unit responsible for risk	– Requirements are not specified.

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

APPENDIX 5.
Organization of Interaction in the Group for Building the Risk Management System

For building the risk management system, the Group introduced the term 'sub-holding'. Sub-holding means an association of the Group members that is not a legal entity, where the parent institution (hereinafter the management company of sub-holding) has an opportunity to use its powers directly or indirectly (through third parties) to influence the decisions made by executives, management and collegial bodies[40] of other sub-holding members, and also the amount of their financial result. The management company of sub-holding is a controlled subsidiary of the Bank (in which the direct equity interest of the Bank is more than 50%). The Bank itself may be a management company of sub-holdings.

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

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

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

- spreads the information about requirements for the risk management system;
- organizes the identification and assessment of the significance of risks;
- provides the consolidated information on sub-holding to assess the overall level of risks;
- takes part in planning risk exposure of the Group;
- participates in management of the Group's overall risk exposure;
- performs other functions during creation of the risk and capital management system for the Group.

The company which is not incorporated in a sub-holding but is controlled by the Bank (the direct equity interest of the Bank is more than 50%) takes part in the creation of the risk and capital management system on an individual basis.

[40] The terms 'management body' and 'collegial working body' are defined in /16/.

APPENDIX 6.

Reports Generated within the Risk and Capital Management System of the Group and the Bank, Procedure and Deadline for Submission

Report	SPB/ Risk Management Committee of SPB	Executive Board	GRC	CRO of the Bank/ the Group[41]
On ICAAP implementation results	Annually	Annually	-	-
On stress testing results	Annually	Annually	Annually	-
On material risks of the Bank and the Major Group Member	Quarterly	At least once per month	Quarterly	Risk amount taken and utilization (violation) of established limits: daily; Aggregated information: at least once per month
On compliance with mandatory ratios[42] by the Group, the Bank, and the Major Group Member	Quarterly	At least once per month	Quarterly	At least once per month
On the capital amount and the capital adequacy assessment results of the Group, the Bank, and the 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 violations 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 prevent them	Annually	Annually		

In addition to the reports mentioned above, the business unit responsible for addressing a risk may be asked by a management body, a collegial body, including committees for management of a

[41] As well as members of the Bank's committees for management of material/substantial risks, and heads of the business units responsible for risks.

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

material/substantial risk, to provide other reports concerning the risk in compliance with Internal Regulatory Documents on the management of such a risk.

APPENDIX 7.
Approval Level of IRDs Governing Risk and Capital Management[43]

Document Type	Approval Level[44]
Risk and Capital Management Strategy of the Group	The Supervisory Board of the Bank
Methodology for Assessing Group Risks	CEO, Chairman of the Executive Board of the Bank
Regulation on Integrated Risk Management of the Group	Executive Board of the Bank
Policies for Management of Material/Substantial Risks	Executive Board of the Bank [45]
Economic Capital Assessment Methodologies	CEO, Chairman of the Executive Board of the Bank
Regulation on the Organization of Stress Testing Procedures	CEO, Chairman of the Executive Board of the Bank
Stress Testing Methodologies	CEO, Chairman of the Executive Board of the Bank
Regulations for Management of Material/Substantial Risks	Risk Management Committees of the Bank
Methodologies for Management of Material/Substantial Risks	CRO/ Heads of functional divisions in CHO/CB
Process Charts for Units Interaction	CRO/ Heads of functional division in CHO/CB

[43] Subject to the requirements of the Bank of Russia /4/.
[44] The Major Group Members are advised to rely on the specified IRD approval level when approving similar documents at the local level, unless it contradicts to the established practice and the requirements of local regulators. The Major Group Members are also advised to annually advise the documents developed under ICAAP.
[45] Unless otherwise stated in IRDs of the Bank.

APPENDIX 8.

Procedure for Management of Material Risks

Identification and materiality assessment of the Group's risks are performed in accordance with the procedure specified in Subclauses 6.1.1.

Credit risk:

- default risk: in financial markets transactions, it is specified in the section Procedure for Management of Credit and Financial Market Risks; in other transactions, it is specified in the section Procedure for Management of Credit Risks;
- counterparty risk in financial markets transactions is specified in the section Procedure for Management of Credit and Financial Market Risks;
- concentration risk (in terms of credit risk): in financial markets transactions, it is specified in the section Procedure for Management of Credit and Financial Market Risks; in other transactions, it is specified in the section Procedure for Management of Credit Risks;
- country risk is specified in the section Country Risk Management Procedure.

Market risk:

- market risk in the trading book is specified in the section Procedure for Management of Credit and Financial Market Risks;
- currency risk in the banking book is specified in the section Procedure for Management of Interest Rate and Currency Risks in the Banking Book;
- interest rate risk in the banking book is specified in the section Procedure for Management of Interest Rate and Currency Risks in the Banking Book;
- market credit spread risk of securities of the banking book is specified in the section Procedure for Management of Market Credit Spread Risk of Securities of the Banking Book.

Operational risk is specified in the section Operational Risk Management Procedure.

Liquidity risk:

- physical liquidity risk is specified in the section Liquidity Risk Management Procedure;
- regulatory liquidity risk is specified in the section Liquidity Risk Management Procedure;
- structural liquidity risk (concentration risk) is specified in the section Liquidity Risk Management Procedure.

Other risks:

- model risk is specified in the section Model Risk Management Procedure.

Procedure for Management of Credit Risks

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[46].

Among transactions that could result in realization of credit risks (credit risk sources) are the following ones:

- granting of loans (including loan facilities and overdrafts);
- provision of bank guarantees/ counter-guarantees/ sureties;
- bill discounting transactions;
- operations under financing transactions against assignment of a money claim (factoring);
- purchase of debtor's obligations under the assignment of rights (claims) transactions;
- purchase of debtor's obligations under secondary mortgages;
- transactions on payment of letters of credit (in terms of unsecured export and import letters of credit);
- operations under financial lease transactions;
- obligations on which receivables arise;
- operations under loan transactions.

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

- Default risk is a risk of losses related to a full or a partial loss of value:
  - of the financial asset which is not subject to daily reevaluation in accordance with the current fair value (e.g. credit, debt securities held to maturity) due to a default or the deterioration of credit quality of counterparty/issuer (migrations);
  - of a security due to the default of an issuer[47];
- Concentration risk (in terms of credit risk) is a risk related to:
  - provision of large loans to a single borrower or a group of related borrowers,
  - provision of large loans to a person or a group of persons related to the Bank/ the Group member,
  - concentration of indebtedness in separate branches of economy, segments, portfolios, or geographical regions, etc.,
  - implementation of measures for credit risk mitigation (application of identical types of collateral or guarantees provided by a single counterparty),

[46] The approaches to management of credit risk in financial markets transactions are specified in the section Procedure for Management of Credit and Financial Market Risks.
[47] The approaches to management of default risk are specified in the section Procedure for Management of Credit and Financial Market Risks.

- a considerable amount of investments into instruments of the same kind and instruments, the value of which depends on changes in common factors;

  please see also the section Concentration Risk Management Procedure.

Division of Functions and Powers

The credit risks of the Group as a whole and of the Bank are managed by the Credit and Investment Committee (except for financial institutions), and the Market Risks Committee (for financial institutions).

Responsibility to manage the credit risk is assigned by business segment.

The business units responsible for risk are as follows:

- in terms of credit risks of customers of the CIB Block and customers of the Financial Institutions: the CIB Risks Department;
- in terms of credit risks of customers of the Corporate Business Block: the Corporate Risk Management Division;
- in terms of credit risks of customers of the SBI Block: International Business Risk Methodology Center/ International Project Center;
- in terms of credit risks of customers of the Retail Business Block: the Retail Risk Management Division.

The 1st and 2nd lines of defense in terms of credit risk management are defines as follows:

1. Performance of the functions related to risk taking by business units as those of the 1st line of defense[48]:

In the Bank:

- in terms of credit risks of customers of the Retail Business Block, the Corporate Business Block, the CIB Block, and the SBI Block: by business units of the respective block;

In the Group member:

- in terms of credit risks of customers of the Group member: by respective business units of the Group member.

2. The functions of the 2nd line of defense are performed by the business units of the Risks Block[49], which assure credit risk management in business segments of their responsibility. The functions of the 2nd line of defense in the Group members are performed by a respective business unit of the Group member, which is responsible for risk management.

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;

[48] Corresponds to the basic rule; in some cases related to the specifics of generation of management statements as stated in other OADs/IRDs of the Bank, the correlation of business units and customer categories may differ.
[49] It is defined as a result of the annual procedure aimed at identifying and assessing the materiality of risks for the Group.

- 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 Group/ the Bank/ the Group member 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 capital amount required to cover unexpected losses on a given time horizon with an established level of confidence probability, which is determined, inter alia, on the basis of target rating;
- increase of non-performing loans (NPL90+) share shows 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 the equity (capital) adequacy;
- credit risk coverage rate is residual credit loss provisions to the credit portfolio;
- cost of credit risk (CCR) means expected losses in case of realization of the credit risk and is used in credit pricing;
- as well as other metrics described in more detail in the Credit Risk Management Policy.

Risk Management Approaches

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

- risk appetite (RA);
- other limits of different levels and structure, including but not limited to:
  - limits for the Bank, other members of the Group and their structural units performing the functions related to taking credit risks based on RA set for 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 realization of credit risks.
- provisioning of credit operations;
- security for providing credit products;
- stress testing.

The organization of the credit risk management process is specified in Credit Risk Management Policy of Sberbank Group No. 1303, as amended.

Country Risk Management Procedure

Definition

Country risk means the risk of losses related to inability/unwillingness of sovereign contracting parties of a country, and inability of remaining contracting parties thereof or contracting parties on end risk operations of this country (if the country is a source for repayment of client obligations) to fulfill obligations due to the reasons which differ from standard risks (e.g. due to the country government but not due to the contracting party).

The country risk includes a transfer component related to failure of contracting parties to fulfill obligations in the currency different from the country's currency where the country risk is identified (with the exception of the Russian Federation) due to the reasons which differ from standard risks (due to the country government, but not due to the counterparty).

Division of Functions and Powers

The country risk management function is centralized on the Group's level. The country risk of the Bank and of the Group as a whole is managed by the Group Risk Committee of the Bank.

The Integrated Risk Management Department is a business unit responsible for the country risk. Responsibility to manage the country risk is assigned by business unit. The Bank's business units perform the functions of the 1st line of defense, including:

- identification and initial assessment of the country risk in a transaction (a group of identical transactions with a single counterparty or a counterparty);
- initial control of the compliance of the country risk accepted on a transaction with preset country risk limit.

The functions of the 2nd line of defense are performed by the Interregional Center for Risk Analysis and Expert Review of the Bank and by similar business units of the Group members, which verify the country risk detection in any transactions made by business units, and also by the Integrated Risk Management Department that monitors the country risk taken by the Group.

Risk Assessment

Economic capital indicator determines the Group capital value[50] needed to cover the potential losses associated with the realization of the country risk over the given time period (one year) and with established confidence level.

Risk Management Approaches

The Group's country risk is managed by the Bank. The Group members, excluding the Bank, perform the operations subject to country risk within the requirements and restrictions established by the Bank, and also the requirements of local regulators in the countries of operation of the Group members. The primary purpose of country risk management for the Group members is compliance with the requirements and restrictions imposed by the Bank.

The Group's country risk management system ensures identification of country risks for all transactions of the Bank and of the Group members influencing the Group's country risk level. The procedures for assessing the level of country risk and deciding on its admissibility by transaction

[50] For specific members of the Group, the country risk is accounted for in the assessment of economic capital for credit risk.

exposed to country risk are included in decision-making processes on whether it is possible to perform such transactions.

The key tools of country risk management of the Group are as follows: the system of country risk limits, the country risk reporting system, and the country risk monitoring system.

The organization of the country risk management process is specified in Country Risk Management Policy of Sberbank Group No. 3206, as amended.

Liquidity Risk Management Procedure

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.).
- Regulatory liquidity risk is the risk of non-compliance with the mandatory liquidity ratios of the Bank of Russia[51], 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 a significant deterioration of physical or regulatory liquidity due to an imbalance in its asset and liability structure, including a strong dependence of the Bank’s/ Group member’s liability base on one/few customer(s) or funding sources in a certain currency or with a certain maturity; please see also the section Concentration Risk Management Procedure.

Division of Functions and Powers

The Treasury is a business unit responsible for the liquidity risk. The liquidity risk of the Group as a whole is managed by the Assets and Liabilities Management Committee of the Bank. 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 for the Group as a whole and for the Bank is ensured by the Treasury, and for the Group members it is ensured by a 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/ the Group member/ the Group as a whole. For this purpose, liquidity risk for all operations of the banking book[52] is consolidated in an arbitrary unit, which is the 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.

[51] The mandatory liquidity ratios established by the Bank of Russia are the ratios N2, N3, N4, N26, N28 and other liquidity ratios, if those are included as binding upon credit institutions.
[52] For the Group members: if applicable.

For specific members of the Group (non-credit or financial institutions), the liquidity risk management function (in terms of the 1st line of defense) may be performed by the Bank's Treasury on the basis of a service level agreement concluded between the Bank and the Group member. For such organizations, the Bank's Treasury shall coordinate any actions of the Group member related to liquidity risk management (integrated members of the Group). The decision to integrate the liquidity risk management function in the context of the Group members in terms of the 1st line of defense shall be made by the Director of the Bank's Treasury. The functions of the 2nd and 3rd lines of defense as concerns the liquidity risk may be left unintegrated.

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.

Risk Management Approaches

The liquidity risk is managed in the Group through establishment of the procedures to manage this type of risk, which are applied on an ongoing basis. No capital requirements are imposed for liquidity risk.

The key tool of liquidity risk containment is the system of limits and warning indicators of liquidity risk metrics. To ensure an acceptable liquidity risk level, the Group has a limit hierarchy in place, where the observance of lower-level limits ensures the compliance with upper-level limits.

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. The 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 containments. 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 containments. Liquidity risk operational management is conducted using procedures of forecasting liquidity risk metrics.

In terms of financial markets transactions, during the liquidity risk management one shall also apply the provisions of the section Procedure for Management of Credit and Financial Market Risks, which are relevant to the market risk and consistent with this section.

To reduce the risk, measures aimed at raising liquidity may be taken, as well as measures aimed at limitation of active operations, 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 and the Group members.

The organization of the liquidity risk management process is specified in Liquidity Risk Management Policy of Sberbank Group No. 826, as amended.

Procedure for Management of Credit and Financial Market Risks

Definition

Default risk, concentration risk (in terms of credit risk): please see the section Procedure for Management of Credit Risks.

Counterparty credit risk in financial markets transactions is the risk of losses arising due to non-performance, or a delay in performance, or incomplete performance by a counterparty of financial liabilities to the Bank/ the Group member under a contract. Counterparty risk is a two-side credit risk of forward transactions with values under exposure, which may change with time as basic market factors or basic asset prices change. The counterparty risk has two components:

- Presettlement risk, which is the risk of incurring losses in connection with a possible failure of the counterparty to fulfil its contractual obligations during the period of the transaction;
- Settlement risk, which is the risk of losses due to the counterparty's default after the Group member's fulfillment of obligations under the contract or agreement (by providing cash, securities and other assets) on the date of mutual settlements.

Market risk is the risk of losses (profit reduction) or negative changes in financial indicators due to adverse changes in market factors (including interest rates and exchange rates). Market risks are divided into the risks in the trading and banking books.

Among financial markets transactions that could result in realization of credit and market risks are the following ones:

- transactions with bonds;
- transactions with shares;
- transactions with bonds held to maturity;
- derivative transactions and other financial markets transactions subject to presettlement risk;
- transactions on provision of interbank loans, trade finance, and other loan products, as well as transactions subject to settlement risk.

Division of Functions and Powers

The CIB Risks Department is a business unit responsible for the counterparty risk in financial markets transactions.

The credit and financial market risks of the Group as a whole and of the Bank are managed by the Market Risks Committee.

1. The functions of the 1st line of defense are performed:

In the Bank: by Treasury, and business units;

In the Group member: by business units of the Group members (structural unit of the Group member entitled to make decisions on performing operations/transactions with contractors/customers exposed to risks);

2. The functions of the 2nd line of defense are performed:

In the Bank: by CIB Risks Department;

In the Group member: by a respective business unit of the Group member, which is responsible for risk management.

Risk Assessment

To assess and reduce the credit and financial market risks, the Group applies the following assessment instruments (risk metrics):

1. For market risks:
   - Dedicated 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 credit risks:
   - Probability of default (PD) for a counterparty and the counterparty’s internal rating
   - Loss given default (LGD) of a counterparty
   - Exposure at default (EAD)
   - Expected losses (EL)
   - Credit Valuation Adjustment (CVA)

Risk Management Approaches

The credit and financial market risks are managed through unified basic processes for management and control of credit and market risks.

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

- risk appetite, including the distributed one (on the level of a business unit performing the financial markets transactions);
- dedicated economic capital;
- risk factors significant for a portfolio (group of portfolios) subject to limitation;
- transformation of economic capital into risk factor values;
- macroeconomic forecasts;
- previous and planned profitability indicators;
- regulators’ requirements.

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

Credit risks related to financial market transactions are managed within the credit risk limit systems that are uniform for the entire Group and include country risk limits (CRLs), single name limit (SNL), and portfolio sublimits (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 others, control of market risk limits and containments, escalation of violations of market risk limits and containments, price control at revaluation of financial instruments, control over compliance of transactions with the arm's length principle.

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

The organization of the management process of credit and financial market risks is specified in Policy for Management of Credit and Financial Market Risks of Sberbank Group No. 2625, as amended.

Procedure for Management of Interest Rate and Currency Risks in the Banking Book (hereinafter IRCRBB)

Definition

The banking book interest rate risk is the risk of losses, decrease in profit, capital or capital adequacy due to an adverse change in interest rates of financial instruments in the banking book and/or market interest rates influencing the value of the banking book financial instruments.

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

The Treasury is a business unit responsible for the interest rate and currency risks of the banking book.

IRCRBB Management Committee is the Assets and Liabilities Management Committee of the Bank. 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 Bank's Treasury is a business unit responsible for the risk on the level of the Group as a whole and of the Bank. 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 shall be assessed by calculating the values of IRCRBB metrics and economic capital with respect to IRCRBB. IRCRBB metrics shall be calculated based on accounting data and management accounts of the Bank and Group members.

Risk Management Approaches

A multi-level system of IRCRBB restrictions is used within the Group which includes risk appetite (RA) 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 the 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 (among others, 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).

In terms of financial markets transactions, during the IRCRBB management one shall also apply the provisions of the section Procedure for Management of Credit and Financial Market Risks, which are relevant to the market risk and consistent with this section.

The list of measures to reduce IRCRBB, the organization of the IRCRBB management process, the functions and powers of the process participants are described in Policy for Management of Interest Rate and Currency Risks of the Banking Book of Sberbank Group No. 2991, as amended, and in other regulatory documents of the Bank and the Group members.

Procedure for Management of Market Credit Spread Risk of Securities of the Banking Book (hereinafter CSRBB)

Definition

Market credit spread risk of securities of the banking book is a risk of losses or a decrease in capital due to a decrease in market prices for AFS portfolio securities[53] as a result of an adverse change in market credit spreads.

Division of Functions and Powers

The CIB Risks Department is a business unit responsible for the market credit spread risk of securities of the banking book.

The Bank shall ensure the division of functions related to CSRBB taking and CSRBB management. CSRBB of the Group as a whole and of the Bank is managed by ALMC.

The functions of the 1st line of defense on CSRBB identification and management within the set containments are performed:

- in the Bank: by Bank's Treasury;
- in the Group members: by a business unit of the Group member, which is responsible for management of the AFS portfolio[53];
- for the Group as a whole: there is a decentralized approach that implies the CSRBB management within the limits set at the group and local levels.

The functions of the 2nd line of defense on independent assessment and control of CSRBB are performed:

- in the Bank: by the CIB Risks Department of the Bank;
- in the Group members: by the risks unit of the Group member;
- for the Group as a whole: by the CIB Risks Department of the Bank.

Risk Assessment

To assess CSRBB of the Group, the metric Value-at-Risk (VaR)[54] is used, which is an estimate of the maximum loss in the fair value of the AFS portfolio[53] as a result of changes in market credit spreads over a given period of time with a given probability (confidence level). To assess VaR for CSRBB, the Monte Carlo method is used.

The corresponding value of VaR is used as economic capital for CSRBB.

Risk Management Approaches

The main procedures for CSRBB management are as follows:

- CSRBB identification and assessment, including assessment of economic capital required to cover CSRBB;

[53] The AFS (available for sale) portfolio means, for the purposes of this section, debt securities in the banking book, which have been acquired under the business model 'held for collecting contractual cash flows or for sale' according to IFRS 9 and recognized at fair value through other comprehensive income.
[54] For the Group members, the simplified approach may be used.

- CSRBB limitation (establishing the system of limits);
- stress testing of CSRBB;
- control of CSRBB and of compliance with the set limits;
- CSRBB management, including development and implementation of the measures required to comply with the set limits of CSRBB;
- generation of reports on CSRBB;
- validation of models used for quantitative assessment of CSRBB;
- assessment of quality and efficiency (internal audit) of the CSRBB management system.

In terms of financial markets transactions, during the CSRBB management one shall also apply the provisions of the section Procedure for Management of Credit and Financial Market Risks, which are relevant to the market risk and consistent with this section.

The organization of the CSRBB management process is specified in Policy for Management of Market Credit Spread Risk of Securities of the Banking Book of Sberbank Group No. 4752, as amended.

Operational Risk Management Procedure

Definition

Operational risk is the risk of incurring losses due to defects in internal processes, functioning of information systems, unauthorized/illegal actions or errors of employees, 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

The Integrated Risk Management Department is a business unit responsible for the operational risk.

The operational risk of the Group/ the Bank is managed by the Group Risk Committee.

1. The functions of the 1st line of defense are performed by all business units of the Bank/ the Group member, however, the operational risk is managed by them in inextricable connection with execution of their main functions.

The heads of structural 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 incident causes and circumstances, for development and implementation of the measures aimed at reducing the operational risk, for timely assignment of risk coordinators for their business units in accordance with the procedure established in the Group member, as well as for updating the lists of risk coordinators.

All the employees of the Bank/ the Group member 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.

2. The functions of the 2nd line of defense are performed by the Risks Block; they include development of the operational risk management methodology, establishment of risk containments for the 1st line of defense, assessment of operational risks independent of the 1st line, identification and materiality assessment of the operational risk types, control over compliance with the regulatory requirements for operational risk, development of risk culture, etc.

3. The functions of the 3rd line of defense are performed by the Internal Audit Division in terms of independent assessment of compliance of the risk management system with internal and external requirements.

Risk Assessment

To get an adequate assessment and forecast of operational risk levels based on the approved classification of risk events, the Bank/ the Group member creates 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.

Risk Management Approaches

To effectively manage operational risks, the Bank/ the Group member shall:

- maintain its capital adequacy at the level satisfying the regulator requirements in case of operational risk;
- resort to insurance procedures in respect to the risk of possible losses due to extraordinary operational risks which cannot be managed by the Group member 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 Group member.

The Bank/ the Group member distinguishes the following key stages of the 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/ the Group member).
- 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 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 prevention 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 resolutions of collegial bodies of the Bank/ the Group member or executives of the Bank/ the 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;
- 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.

The organization of the operational risk management process is specified in Operational Risk Management Policy of Sberbank No. 1302, as amended.

Concentration Risk Management Procedure

Definition

For the Bank and the Group members being credit institutions[55], within annual identification procedure it is recognized that, among others, the concentration risk is material, which arises in connection with the credit institution's exposure to major risks which, if realized, may result in considerable losses that might damage the credit institution's solvency and ability to carry on its business.

The concentration risk occurrence is taken into account in the Bank as part of the management procedures of other material risks, namely, in terms of credit risk and liquidity risk (structural liquidity risk). As part of other material risks (market risk, operational risk), the concentration risk is not emphasized, but it is assessed and controlled as part of these risks.

Concentration risk in terms of credit risk is a risk of losses, related to:

- provision of large loans to a single borrower or a group of related borrowers,
- provision of large loans to a person or a group of persons related to the Bank/ the Group member,
- concentration of indebtedness in separate branches of economy, segments, portfolios, or geographical regions, etc.,
- implementation of measures for credit risk mitigation (application of identical types of collateral or guarantees provided by a single counterparty),
- a considerable amount of investments into instruments of the same kind and instruments, the value of which depends on changes in common factors.

Concentration risk in terms of structural liquidity risk is the risk of significant deterioration of physical or regulatory 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/several customer(s);
- one/several funding source(s) in a certain currency or with a certain maturity;
- if necessary, other parameters (such as, economy sector, geographic area, type of instrument, etc.).

Depending on whether the concentration risk is qualified as a material one, the Group considers its occurrence, among others, at the following key levels:

- at the level of a particular counterparty (group of related counterparties);
- at the portfolio level:
    - at the level of industry concentration of business;
- at the level of the balance-sheet structure.

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[55] For the Group members that are not credit institutions, the concentration risk materiality is estimated as a result of the annual procedure aimed at identifying and assessing the materiality of risks of the Group.

Division of Functions and Powers

The division of functions and responsibilities among the Bank's business units and the Group members during the concentration risk management procedures, shall be made according to the 'three lines of defense' principle. The principle implies that the risk management functions shall be performed by three different business units which are independent from each other by organization, i.e. subordinate to different members of the Executive Board of the Bank. The assignment of responsibility for credit and liquidity risks by line of defense is specified in detail in the relevant sections of this Appendix.

The credit risks of the Group as a whole and of the Bank are managed by the Credit and Investment Committee.

The structural liquidity risk (concentration risk) being one of the types of liquidity risk of the Group as a whole is managed by the Assets and Liabilities Management Committee of the Bank.

The concentration risk management principles are described in more detail in corresponding IRDs within the procedures for managing any material risk characterized by the concentration risk.

Risk Assessment

For the purposes of identification and measurement of concentration risk, the Bank shall establish a system of indicators enabling identification of concentration risk with respect to significant risks, certain major counterparties (groups of related counterparties) and related persons, economy sectors and geographical areas.

The concentration risk in terms of credit and liquidity risks is assessed under the material risk management procedures by calculating the risk level indicators (risk metrics) established in the policies for respective risks, and also the degree of their compliance with the set limits, warning indicators, and other containments.

When assessing the concentration level for the credit risk, one shall also calculate the mandatory risk concentration ratios of the Bank and the Group (hereinafter RCRBG) (N6/PKC6.1, N7, N25, N21, N22).

Risk Management Approaches

1. In order to manage and monitor the level of concentration of the credit risk in terms of RCRBG, we have implemented the system of limits and warning indicators; in addition, we forecast and monitor the RCRBG indicators and estimate the impact of any changes in the regulatory requirements on changes in the ratios of the Bank and the Group.

2. In order to control the liquidity risk concentration, the Group has implemented the system of liquidity risk limits, which allows to ensure an acceptable liquidity risk level in the Bank and the Group consistent with the established risk appetite and other containments in order to ensure that the Bank and all Group members are able to promptly and unconditionally fulfill any obligations to their customers and counterparties and that the Bank and the Group operate on a going concern basis.

3. In order to monitor the credit risk concentration in a single economic sector, one shall provide for the risk metrics and the system of limits on them. The concentration risk limits per industry are set under the behavioral scenario of each specific industry, adjusted for the current condition of risk metrics. The established limits and their utilization are recognized in the statements to be submitted to the Bank of Russia on a quarterly basis.

The organization of the credit risk management process, including management of concentration risk as part of credit risk, is specified in Credit Risk Management Policy of Sberbank Group No. 1303, as amended. The organization of the liquidity risk management process, including management of structural liquidity risk (concentration risk), is specified in Liquidity Risk Management Policy of Sberbank Group No. 826, as amended.

The concentration risk management procedures of the Group members being credit institutions shall be determined based on the concentration risk management approaches established on the Group's level, and shall be agreed upon with the Bank.

Model Risk Management Procedure

Definition

Model risk is the risk of adverse consequences arising from inaccuracies (errors) in the operation of models and/or incorrect application of models in the processes of the Bank/ the Group member.

The main sources of model risk are errors or features of the input data used in model development and application, uncertain estimates and methodological errors in model development, and also incorrect usage of the model in the processes.

Division of Functions and Powers

The Validation Division is a business unit responsible for the model risk.

The model risk management function is centralized on the Group's level. The model risk of the Group as a whole and of the Bank is managed by the Group Risk Committee of the Bank.

Responsibility to manage the model risk is assigned by functional unit. The functions of the 1st line of defense are performed by model developers during the model development process, as well as model owners and users during model application. The functions of the 2nd line of defense are performed by the Validation Division that validates the models and assesses the model risk, but does not take part in model development.

According to the model risk management, the Validation Division shall submit the regular reports on the model risk to the GRC meeting. GRC regularly reviews and analyzes the reports and up-to-date information on the model risk as provided by the Validation Division. If necessary, GRC gives instructions regarding any appropriate measures to adjust the model risk level.

Risk Assessment

The model risk is assessed both at the level of a single model and at the level of groups of models aggregated by various criteria. The model risk is assessed under any and all models falling under Model Risk Management Policy of Sberbank Group No. 3194-2 dated 30 August 2017.

The following approaches to the model risk assessment are applied (for all models). The qualitative assessment is based on verification of the model in accordance with approved validation methodologies, the result of which is assignment of qualitative assessments for models based on the traffic light principle. The indicator of the total model risk is the proportion of red/yellow/green traffic lights in the pool of models.

At the moment, there is no separate model for determining the capital needs of the Group to cover the model risk. In the long term, the need for capital to cover the model risk will be estimated using advanced methods and the model risk will be derived from the capital for coverage of other risks.

Risk Management Approaches

The aim of managing model risk is to limit a negative impact of the model risk on the Group member's operations. In practice, this means developing and maintaining a set of measures aimed at reducing the probability of model risk and mitigating the possible consequences in the event of its realization.

Due to the fact that the model is an imperfect representation of real economic and social processes, if the management system is constructed correctly, the model risk can be reduced, but it cannot be completely prevented.

To manage the level of model risk, the following main approaches are mostly used:

- improvement of the quality and completeness of documentation for models;
- improvement of data quality, availability and completeness;
- revision of models;
- revision of processes;
- revision of IT systems.

The organization of the model risk management process is specified in Model Risk Management Policy of Sberbank Group No. 3194, as amended.