**SBERBANK OF RUSSIA OPEN JOINT-STOCK COMPANY**

APPROVED BY
Resolution of the Management Board
of Sberbank of Russia
Minutes No. 442 d/d February 29, 2012,
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**February 29, 2012** **No. 2430**

# POLICY
# of Integrated Risk Management
# of Sberbank of Russia OJSC

Moscow
2012

## IRD Details

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| **IRD name and number** | The Policy of Integrated Risk Management of Sberbank of Russia OJSC |
| **Unit responsible for IRD development** | The Risk Administration of the Risk Department Group |
| **IRD prepared by** | Yu.V. Groshev |
| **Business line code / process code** | |
| | X Central Head Office<br>☐ Regional Head Offices<br>☐ Bank's Branch Offices<br>☐ Internal Structural Divisions |
| **Top level IRD** | |

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| **IRD history** | |
| **Version No.** | **Order document which approves/amends IRD** |
| 1 | Resolution of the Management Board of Sberbank of Russia OJSC dated _____No.____ |
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| **IRDs invalidated with the issue of this IRD** | |
| 1. The Policy of Risk Management No. 1263-r of Sberbank of Russia dated June 28, 2004 | |
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| **IRD distribution** | |
| ☐ | Regional Head Offices |
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## Contents:

## 1. General Provisions

1.1. This Policy defines the main goals and objectives of integrated risk management in the Group of Sberbank of Russia OJSC (hereinafter the "Group") on an aggregate basis, the principles of organization and functioning, process participants and their objectives, powers and responsibility.

1.2. The Group's main tools for integrated risk management within this Policy include:

- Defining the Group's risk appetite, target (expected) structure of the Group's material risks, and target (maximum) levels for all material risks of the Group
- Managing the Group given its risk and based on distribution of economic capital
- Formalized risk indicators, their assessment and forecasting, stress testing of risks
- Proactive analysis and multi-tier reporting on emerging risks.

1.3. This document was prepared in accordance with requirements of the Bank of Russia[1], the Basel Committee on Banking Supervision[2] and banking best practices for risk management.

## 2. Goals of the Integrated Risk Management System

2.1. The Group's risk management system is based on standards and tools recommended by the Basel Committee on Banking Supervision and meets requirements of global best practices.

2.2. The integrated risk management system is organized as an integral part of the Bank's management process with the following goals in mind:

- To ensure steady development of the Bank and institutional members of the Group during implementation of the development strategy approved by the Bank's Supervisory Board
- Securing and protecting interests of shareholders, members, creditors, clients of the Group and any other entities, taking into account that these entities are interested in continued sustainable operations of the Group so that risks assumed by the Group do not threaten the existence of the Group and its members
- Strengthening the competitiveness of the Bank and the Group as a result of:
  - A common understanding of risks on the Group's level and strategic planning based on the level of the risk assumed
  - An increased effectiveness of capital management and an increased market value of the Bank, including on the Group's level
  - Sustainability maintained after expansion of the product line of institutional members of the Group (implementation of more sophisticated products) as a result of an adequate assessment and management of risks assumed
- Investors' trust growing as a result of creation of a transparent risk management system in the Group.

## 3. Principles of Organization of the Integrated Risk Management System

[1] Letter No. 96-T of the Bank of Russia dated June 29, 2011 *On Methodological Recommendations on the Organization by Lending Organizations of Internal Procedures for Capital Adequacy Assessment*

[2] «International Convergence of Capital Measurement and Capital Standards: A Revised Framework» (Basel II), Basel Committee on Banking Supervision.

The Group's integrated risk management system complies with the following basic principles:

3.1. Risk awareness.

The risk management process affects every employee of institutional members of the Group. Decisions to carry out any operation are made only after risks arising out of this operation are comprehensively analyzed on the level of institutional members of the Group. Employees of the Group's institutional members that make risk-exposed operations are aware of the risk of operations and identify, analyze and assess risks before operations are made. The Group's institutional members have regulatory documents in place regulating the procedure for performing all risk-exposed operations. No new banking operations can be performed if there are no regulatory, administrative documents or relevant resolutions of collegial bodies that regulate the procedure for carrying them out.

3.2. Division of powers.

Management structures are put in place within the Group's institutional members so that there is no conflict of interest: subdivisions and employees entrusted with performance of risk-exposed operations, their record-keeping, and risk management and control are allocated on the level of organizational structure.

3.3. Risk level control.

The Bank's management and the Bank's collegial bodies regularly receive information about the level of risks assumed by the Group and actual failures to comply with established procedures of risk management, limits and restrictions.

An internal controls system functions on the Group's level and on the level of each institutional member of the Group, allowing effective control over the functioning of the risk management system within each institutional member of the Group and the Group overall.

3.4. The need for "three lines of defense".

Collective responsibility is introduced for actions associated with assumption of risks:

- Risk assumption (1st line of defense): business units have to strive and achieve an optimal risk-to-reward ratio, follow goals established for the development and the risk-to-reward ratio, monitor decisions made to assume risk, take clients' risk profiles into account when making operations/transactions, implement and manage business processes and tools, be involved in risk identification and assessment processes, meet requirements of internal regulatory documents, including in the risk management area.

- Risk management (2nd line of defense): the Risk and Finance functions – to develop risk management standards, principles, limits and restrictions, monitor risk levels and prepare reports, check whether risk levels correspond to risk appetite, consult, model and aggregate the general risk profile.

- Audit (3rd line of defense): the internal and external audit function – to carry out independent assessment of whether risk management processes meet established standards, external assessment of decisions to assume risks.

3.5. Combination of centralized and decentralized approach to the Group's risk management.

The Group combines a centralized and decentralized approach to risk management. The Bank's collegial bodies, authorized to manage risks, define requirements, restrictions, limits, and methodology in terms of risk management for regional banks and institutional members of the

Group. Regional banks, institutional members of the Group carry out risk management within limitations and powers established for them by authorized bodies and/or officials.

3.6. Creation of high-level[1] risk committees.

- Specialized high-level committees make risk management decisions
- The system of committees is created by taking into account the structure of the Group's business model.

3.7. The need to ensure independence of the Risks function.

- Ensuring independence of core subdivisions for risk assessment and analysis from subdivisions that perform risk-exposed operations/transactions
- Including the Risks function in the decision-making process on all levels, engaging the Risks function both in the high-level process of strategic decision-making and risk management at an operating level
- Securing independence of the validation function.

3.8. Use of information technologies.

The risk management process pivots on the use of modern information technologies. The Group's institutional members apply IT systems to identify, analyze, assess, manage and control risks in a timely manner.

3.9. Continuous improvement of risk management systems.

The Group's institutional members consistently improve all risk management elements, including IT systems, procedures and methods subject to strategic objectives, changes in the external environment, and innovations in the global risk management practice.

3.10. Management of the Group's operations subject to the risk assumed.

The Group evaluates the adequacy of capital available to it, i.e. internal capital (hereinafter “IC”) for coverage of assumed and potential risks. Internal procedures of capital adequacy assessment (hereinafter “IPCAA”) also include capital planning procedures based on the Group's established development strategy, business growth targets and results of a comprehensive current assessment of said risks, stress testing of the sustainability of the Bank and the Group in respect to internal and external risk factors.

The Group analyzes risk-adjusted performance indicators of individual subdivisions and business lines to single out priority areas of development and capital distribution. The Group incorporates risk metrics in aggregate Business Plans.

3.11. Limitation of assumed risks by setting values of limits within an existing system of limits.

The Group has a system of limits and restrictions in place which secures an acceptable level of risks for the Group's aggregate positions. The Group's system of limits has a multi-tier structure:

- A general limit for the Group based on risk appetite defined in accordance with the risk management strategy
- Limits by types of the Group's material risks (for example, limits associated with credit and market risks)

[1] High-level committees are Committees accorded a wide range of powers to manage the Group's material risks.

• Limits by the Group's institutional members, structural divisions of the Group's institutional members responsible for assumption of the risks that are material for the Group

• Limits by individual borrowers (contracting parties), by instruments of the trading portfolio etc.

3.12 The methodology for risk identification and assessment and management of the Group's institutional members is based on the uniformity of methodological approaches followed within the Group.

## 4. Compliance with requirements of regulatory and oversight authorities.

4.1. The risk management system of the Group and the Bank should meet requirements of the Bank of Russia in terms of organization of the risk management system, organization of internal controls in lending organizations and banking groups[1], and the following recommendations of the Bank of Russia[2], prepared in accordance with requirements of Basel II:

4.1.1. The need for a comprehensive risk assessment

• Developing and supporting risk identification and assessment methods to identify and assess the materiality of a potentially large number of risk types, including new risks

• Organizing a management system for all risk types, including "other" types of risks in addition to basic ones (such as credit, market, operating, and liquidity risks).

4.1.2. The need for a substantiated capital assessment

• Including IPCAA in planning processes

• Documenting the procedures of planning, definition of (regulatory, internal, economic) capital needs, assessment of capital adequacy and distribution by all risk types and areas of business

• Using methods of assessment of internal need for capital based on best international practices

• Stress testing to assess materiality of risks, need for capital and results of internal models

• Assessing capital adequacy on an aggregate level by a subdivision independent from risk assessment subdivisions dealing with individual risk types.

4.1.3. Oversight from the Supervisory Board and executive bodies

• Control from the Supervisory Board and executive bodies over the Bank's capital "adequacy", efficiency of risk and capital management procedures applied by the lending organization

• Awareness of the Supervisory Board of the Group's risks, periodic hearing of reports on risks, capital adequacy, and results of stress testing

• Awareness and understanding by the Supervisory Board and other executive bodies of risks, the nature of risks, and risk management methods.

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[1] Regulation of the Bank of Russia dd. December 16, 2003 No. 242-P *On Organization of Internal Controls in Lending Organizations and Banking Groups* (as amended by Directives of the Bank of Russia No. 1521-U dd. 11/30/2004, No. 2194-U dd. 03/05/2009).

[2] Appendix to Letter No. 96-T of the Bank of Russia dated June 29, 2011 *On Methodological Recommendations on the Organization by Lending Organizations of Internal Procedures for Capital Adequacy Assessment*.

4.1.4. Preparation of reports and monitoring

- Ensuring the functioning of the monitoring and internal reporting system for material risks that enables evaluation of how changes in the nature and size of risks affect the size of capital adequacy
- Continuously monitoring the assumed volumes of individual risks and controlling the level of aggregate risk
- Preparing uniform internal reports that allow aggregating information by all risk types, submitting reports to the Bank of Russia in the required format.

4.1.5. Use of internal tools of control

- Ensuring compliance of the internal controls system with Basel II requirements and taking contemporary international approaches into account
- Ensuring independence of the internal controls office, how it evaluates IPCAA implementation, adequacy and relevance of internal policies and procedures.

## 5. Distribution of main functions and responsibilities associated with integrated risk management in the Group

5.1. To achieve its goals, the Group carries out integrated risk management on an aggregate basis, i.e. subject to the interdependence of different risk types with methodology used for risk assessment, analysis and control in different institutional members of the Group meeting general requirements established by the Bank's authorized collegial bodies.

5.2. Risk management is a three-level process

- The first level of management (carried out by the Management Board, the Committee of Sberbank of Russia OJSC for the Group's Risks) – management of the Group's aggregate risk. Among other things, this process formulates requirements to and restrictions on processes of management of identified groups of risks, processes of risk management within the Group's institutional members and definition of specific collegial bodies and structural divisions of the Group's institutional members responsible for management of identified groups of risks. At this level, the Group's policies and standards of risk management are defined and approved, policies and standards of risk management in the Group's institutional members are approved.
- The second level of management (carried out by TRC, LIC, ALMC and other collegial bodies designated by the Management Board or GRC) – management of the Group's identified groups of risks within restrictions and requirements introduced at the 1st level of management. Among other things, this process formulates requirements to and restrictions on individual transactions, operations, and positions that give rise to the corresponding risk types.
- The third level of management (carried out by collegial bodies and structural divisions of the Group's institutional members designated by the Management Board or GRC) – management of the identified groups of risks in the Group's institutional members within requirements and restrictions introduced at the 1st and 2nd levels of management.

5.3. As the Group's institutional members are separate legal entities whose operations are regulated by a variety of regulatory authorities[1], situated in different jurisdictions[2], a clear correspondence is ensured between processes of the 3rd level of management and restrictions and

[1] Including by state authorities, self-regulating organizations etc.

[2] Incorporated and existing in the territory of different countries and, as such, having to meet requirements of applicable laws.

requirements introduced on the 1st and 2nd levels of management for the risk management system to function effectively. This correlation involves creation of an effective system of corporate governance in the Group.

5.4. The basic list of the Group's risks to be assessed, managed and aggregated and their classification are defined in Appendix 4. As the Group's integrated risk management system functions, this list should be updated and adjusted for newly detected risks and for reassessed materiality of individual risks. Management policies for identified groups of material risks are based on certain documents, elaborated and approved in accordance with this document and other intra-bank regulatory documents.

5.5. The Group's operating units for risk analysis and assessment include:

• Units for analysis and assessment of the Bank's risks (the Risks Department) represented, in turn, by:

– A unit for risk analysis and assessment on a consolidated basis for the Group in general for the entirety of all risks based on information submitted by other risk analysis and assessment units of the Bank and the Group (the Group's IRM)
– Units responsible for risk analysis and assessment according to identified groups of risks for the Bank and the Group in general (the corporate credit risk of the Group, the retail credit risk of the Group, the trade market and interest rate risk of the Group, and the operating risk of the Group)
– A unit responsible for validation of risk assessment models
– A unit responsible for underwriting

• Units for analysis and assessment of risks of the Group's institutional members (except the Bank) represented by:

– A unit supporting risk analysis and assessment procedures on a consolidated basis for the Group at the level of a Group's institutional member
– Units responsible for risk analysis and assessment according to identified groups of risks for the Group's institutional member (the corporate credit risk of the Group's institutional member, the retail credit risk of the Group's institutional member, the market and interest rate risk of the Group's institutional member, and the operating risk of the Group's institutional member)
– A unit responsible for underwriting.

5.6. The main aspects of the collaboration of operating units for the Bank's risk analysis and assessment (the Group's level) and operating units for institutional members' risk analysis and assessment (other than the Bank) (the level of a Group's institutional member) involve:

• Submitting the following data from the Group's level to the level of the Group's institutional members:

– Risk management policies and standards
– Methodologies of risk analysis and assessment models, stress testing etc.
– Group-wide identified risk appetite and individual limits
– Size of economic capital of the Group's institutional members, risk types, business units
– Results of stress testing at the Group's level

• Submitting the following data from the level of the Group's institutional members to the Group's level:

– Information by portfolios required for consolidation and management of Group-wide risks

– Risk reports of the established format

– Risk materiality assessment based on the relevant methodology

– Parameters necessary for risk aggregation on the Group's level

– Scenarios and values of individual parameters for stress testing.

5.7. The hierarchy of units for integrated risk management, the line of organizational and functional subordination and individual functions of risk management units of the Group's institutional members (other than the Bank) are given in Appendix 5.

## 6. Objectives and powers of main collegial bodies and structural divisions of the Bank involved in managing the Group's risks

**6.1. Bank Supervisory Board:**

• Defines top-priority areas of the Bank’s operations

• Approves major transactions and non-arm’s-length transactions, related-party transactions in cases and in the manner required by applicable laws.

**6.2. Bank Management Board:**

• Defines the Bank's risk management policy, creates conditions for its effective implementation, organizes the risk management process in the Bank, and designates units responsible for risk management

• Forms collegial working bodies, including the Panel and committees of the Bank, approves their charters and describes their terms of reference, including as concerns approval of the Bank's internal documents to set out rules, procedures, routines for banking operations and other transactions, and collaboration between structural divisions of the Bank's Central Head Office and branches

• Approves the Bank's internal documents regulating the Bank's current operations, including those that define the risk management policy

• Determines the Bank's policy for main areas of operations of the Bank and the Group

• Approves results of monitoring of the Bank's risk exposure

• Defines ways of pursuing the Bank's priority areas of operations subject to the level and type of risks assumed by the Bank.

**6.3. The Committee of Sberbank of Russia OJSC for the Group's Risks:**

Manages the Group's aggregate risks within its powers, requirements and limitations approved by resolutions of the Bank's Management Board, by, among other things:

• Approves rules of management of the Group's risk appetite, including the list of individual metrics for risk appetite, the size of the Group's risk appetite, and defines how it, the business plan and the strategy correlate

• Allocates risk appetite according to the Group's institutional members, and approves the structure and level of the Bank's and Group's capital adequacy

- Approves and submits policies of management of identified groups of risks (on the level of the Group, or an individual institutional member of the Group) for the Management Board's approval
- Endorses and submits the Charter of Committees by risk types for the Management Board's approval[1]
- Periodically monitors and controls the Group's use of risk appetite
- Approves goals and defines approaches to handling troubled assets.

**6.4. The Assets and Liabilities Management Committee of Sberbank of Russia OJSC:**

- Manages assets and liabilities of the Bank and the Group to maximize the Group's profits subject to maintaining an optimal level of liquidity and market risks
- Carries out liquidity risk management for the Bank and the Group
- Manages risks of the bank book of the Bank and the Group, including foreign currency, interest rate and market risks (except for market risks relevant to the terms of reference of the Trading Risks Committee)
- Manages the Bank's and the Group's capital structure and adequacy within established requirements and limitations
- Monitors and controls the utilization of limits of risks of the bankbook of the Bank and the Group, including foreign currency, interest rate and market risks (except for market risks relevant to the terms of reference of the Trading Risks Committee)
- Approves internal regulatory documents associated with management of identified groups of risks, including foreign currency, interest rate and market risks (except for market risks relevant to the terms of reference of the Trading Risks Committee).

**6.5. The Committee of Sberbank of Russia OJSC for Trading Risks:**

- Carries out risk management for operations of the Bank and the Group on financial markets
- Establishes limits of the credit and market risk for trading operations of the Bank and the Group on financial markets
- Approves internal regulatory documents for risk management on financial markets based on the accepted risk appetite
- Redistributes limits (subject to powers) among operations on financial markets
- Monitors and controls the utilization of limits of the market and credit risk (that limit risks of operations on financial markets)
- Approves regulatory documents for operating risk management related to trading operations of the Bank and the Group on financial markets.

6.6. Loans and Investments Committee:

- Manages credit risks of the Bank and the Group (except for credit risks relevant to the terms of reference of the Trading Risks Committee[2])

[1] For ALMC – except powers related to pricing and approval of interest rates.

[2] Whenever an operation on financial markets is contemplated in parallel with a loan transaction, the Loans and Investments Committee of Sberbank of Russia OJSC may approve credit risk limits for the operation in question.

- Approves credit risk limits within its powers
- Approves the methodology for credit risks of the Bank and the Group in general
- Approves delegation of powers for regional banks and other committees within powers granted to GRC
- Examines and approves lending policies for the Group and the Group's institutional members for further consideration by GRC and the Management Board, approves underwriting standards and lending processes for the Bank, approves requirements to underwriting standards and lending processes for the Group's institutional members (other than the Bank)
- Makes decisions to provide the Bank's loan products to the Bank's clients, and monitors the quality of the loan portfolio of the Group and the Bank.

### 6.7. The Risks Department

RD develops, implements, supports and improves the risk management system for the Bank and the Group on a consolidated basis under the condition that it should meet requirements of the Bank's development strategy, requirements and recommendations of the Bank of Russia, recommendations of the Basel Committee on Banking Supervision (hereinafter the Basel Committee) and global best practices by:

- Forming[1] risk identification processes, indicators characterizing risk levels (hereinafter risk metrics), risk assessment models and procedures for the Bank and the Group
- Forming risk management processes and tools for the Bank and the Group (technological rules, authority distribution systems, systems of limits, hedging and insurance instruments etc)
- Formulating requirements for the Bank's IT systems (databases, data volumes, software complexes etc) necessary for RD to fulfill its objectives, participating in their implementation and testing
- Supporting the functioning of risk identification processes for the Bank and the Group, having a dominant role in the Bank's risk identification processes, providing methodological support to business units of the Group's institutional members during risk identification processes
- Assessing and analyzing risks of the Bank and the Group, preparing proposals/opinions for the Management and/or authorized employees and business units and/or collegial bodies on risk management at the Bank and the Group
- Forming a comprehensive risk reporting system and directly preparing risk reports for the Bank's Management, the Bank's management bodies and other collegial bodies responsible for risk management at the Bank to the degree necessary for decision-making
- Forming requirements for the organization of the risk management system of the Group's institutional members, including developing and actualizing the IRDs that define uniform standards and requirements for the organizational structure, distribution of powers, risk management processes and procedures, risk assessment models, reporting etc. within the Group's institutional members; these requirements are formed based on the uniform methodology of the Bank and other institutional members of the Group

[1] The "forming" of an object/process in the context hereof involves developing an IRD that defines the object/process, having the IRD approved by authorized units, submitting the IRD for approval to the authorized manager or collegial body, and further supporting, improving and actualizing same on the as-needed basis and/or changing requirements and accompanying automation, as may be necessary.

• Controlling the functioning of risk management systems at the Bank and the Group, evaluating losses as a result of risk realization, analyzing the adequacy of the applied risk management methodology and improving relevant IRDs; validating models used for risk assessment and aggregation

• Forming a policy for the creation of provisions for possible losses (including loan losses) in accordance with requirements of the Bank of Russia, international financial reporting standards (hereinafter IFRS) and other requirements established in IRDs

• Formulating requirements for procedures of formalization and methods of assessment of security for contracting parties' liabilities

• Participating in the development and implementation of procedures of collection of overdue and troubled debt; analyzing effectiveness of procedures of collection of troubled debt.

### 6.8. The Internal Control Service of the Bank

• Checks and evaluates the internal controls system at the Bank and the Group's institutional members, detects and analyzes problems associated with its functioning, evaluates efficiency of internal controls processes and procedures

• Checks whether the risk assessment methodology and risk management procedures accepted by the Bank and the Group's institutional members are fully and effectively applied

• Advises the Bank's Management of all problems, risks, violations and defects it has discovered

• Formulates requirements for the organization of the internal audit function at the Group's institutional members, among other things, by developing and actualizing IRDs that define uniform standards and requirements to the organizational structure, distribution of authority, internal audit processes and procedures

• Carries out control over:

- How requirements for organization of the internal audit function established by the Bank are met by the Group's institutional members
- Whether internal audit units of the Group's institutional members advise the Board of Directors/the Supervisory Board (the Audit Committee) of the Group's institutional member in a timely manner of material breaches of applicable laws of the Russian Federation, established rules and standards, resolutions of the Bank's management, significant failures in the internal controls system and any situations in which management bodies of a Group's institutional member assume a risk unacceptable for the Bank or if control measures taken are inadequate for the risk level.

### 6.9. Other structural divisions

• Perform certain risk management functions in accordance with requirements of this Policy and other internal regulatory documents.

## 7. Tools and Methodology of Organization of the Integrated Risk Management System

7.1. Main tools of integrated risk management at the Group include:

• Management of the Group's risk appetite

- Management of the Group's economic capital (with a Group-level calculation of risks, assessment of which is taken into account for calculation of economic capital) and its distribution among the Group's subdivisions/institutional members by risk types for use
- Creation of an effective organizational structure and system of methodological support and validation to ensure accuracy of assessment and reliability of management processes
- Formation of the Group's aggregate risk indicators and their projection based on stress testing results.

7.2. The Group's integrated risk management is carried out on an aggregate basis using a variety of risk assessment and aggregation methods:

- The most suitable approaches of quantitative assessment of economic capital based on adequacy of statistics, the level of development of the mathematical apparatus (for example, distribution of losses/cost for credit risks, scenario analysis for the interest rate risk, multipliers for the business risk, Component I models for the trading market, currency and operating risk) are chosen for each risk type
- The variation/co-variation approach is the main approach to aggregation of economic capital with assessment of correlation based on a combination of internal and external data, external benchmarking and expert opinions
- The approach to distribution of economic capital: capital is allocated among individual business units by authorized collegial bodies of the Bank subject to a marginal allocation of their contributions to economic capital
- The following approaches are followed during stress testing:
  – "Top-down" – assessment of the influence that scenarios have on the financial and economic figures of the Group's operations through the analysis of sensitivity of aggregated characteristics of assets and liabilities portfolios to changes in macro factors
  – "Bottom-up" – assessment of the influence that scenarios have on main characteristics of risk levels on a detailed level with a breakdown of identified groups of risk assessment based on the result and models of potential losses of the Group, the Group's economic capital, and stress indicators of risk.

7.3. The existing scheme of risk appetite management and economic capital cascading is given in Appendix 6.

## 8. Main Elements of the Integrated Risk Management System of the Group

8.1. To ensure that the risk management system functions effectively, the Group makes available the following principal effectively functioning/used elements of management of the Group's risks:

8.1.1. Risk appetite and measurements:

- Risk appetite represents a system of indicators characterizing the level of risk the Group can and/or wants to carry provided that it offers target returns to shareholders in accordance with strategic plans
- Risk appetite is not only a tool used to ensure compliance with the regulator's requirements - it is also being implemented in the business decision making process at different levels of the organization

• Risk appetite is made up of both quantitative and qualitative indicators where some are reported through a system of limits to subdivisions of the Group's institutional members to make sure the risk profile accurately reflects the strategy

• The Group has a clearly formulated risk appetite associated with the strategy and approved on the level of relevant collegial bodies by keeping a balance between simplicity and applicability and, as such, allowing routine business decisions to be made

• Basic categories of the Group's risk appetite are given in the table below (final categories used by the Group are defined in other IRDs prepared in accordance with requirements of this Policy):

| Risk appetite category | The category was included in the risk appetite in order to |
|---|---|
| **Solvency** (capital at risk/CaR) | Ensure adequacy of economic, regulatory capital [1] and capital required by third parties in stress conditions |
| **Income Volatility**<br>(earnings at risk / EaR) | Limit volatility of earnings and ensure stability of compliance with capital requirements (for example, dividend payment) Limit risks of concentration by contracting parties, sectors, and countries |
| **Liquidity**<br>(liquidity at risk) | Ensure adequate cash flows to achieve a certain horizon of survival in stress conditions |
| **Long-term risks** (reputation at risk) | To avoid any harm to reputation caused by fraud, legal violations etc |

8.1.2. Organization/Management (Culture).

• The Group strives to own a well-developed "culture of risks" throughout all levels as it is widely recognized that risk understanding and management is everybody's objective and commitment

• The organizational structure of the Group's institutional members is built in a manner to meet requirements for no conflict of interest and for independence of subdivisions responsible for risk analysis, assessment and control from subdivisions that carry out risk-exposed operations.

8.1.3. Risk identification and assessment.

• The Group utilizes a system of internal classification of risks based on analysis of risk types to which it is exposed

• The Group defines key indicators of risk and key reference indicators used for identification and assessment of materiality (significance) of main risks/events and decision-making on how to process them

• The Group develops its policy and procedures supporting identification, measurement and reporting for all material risks in order to meet requirements of the Basel Agreement

• The Group keeps records of risk identification results. The Bank periodically submits them to the Bank of Russia as stipulated by regulatory documents of the Bank of Russia.

8.1.4. Risk aggregation.

• The Group uses both economic capital analysis methods and scenario analysis methods and stress testing for risk aggregation purposes

• Scenario analysis results are used as input data for action plans; the Group regularly conducts analysis to identify factors causing disruptions in the functioning of business models

• The Group's members coordinate processes of stress testing both by risks and income and their results are used to determine risk limit values and capital planning parameters.

[1] Regulatory capital – the Bank's equity calculated in accordance with the procedures of the Bank of Russia

8.1.5. Correlation with planning and decision-making processes.

- Risk factor assessments are taken into account throughout strategic and business planning
- Risk level figures are among the key initial figures and limiting criteria during preparation of business plans
- Supported by the Risks block, the Finances block makes decisions regarding capital level and placement
- The Risks block is involved in evaluating potential effectiveness of new business initiatives and areas subject to risks and expected returns

8.1.6. Risk reports.

- The Group uses a risk reporting system for the management and collegial bodies involved in risk management processes
- Report preparation methods are mainly oriented towards active decision-making (i.e. prospect-oriented) rather than towards statement of facts after events that have already occurred
- Reports include data that can be compared across all business units; this allows consideration of all risk positions in aggregate throughout the financial institution in the necessary level of detail
- The risk reporting system includes, among other things, such reports as:
  - The quarterly report – an overview of assumed risks compared with the Risk Appetite and cascading limits which includes, among other things, a current risk profile, forecasts and results of stress testing, concentration risks and actual risks, action monitoring etc.
  - Other reports, including on risk identification and assessment results; on adequacy of economic capital; on adequacy of Basel II regulatory capital; on Earnings at Risk (EaR); on stress testing.

## 9. Final Provisions

This Policy is approved by the Management Board and subject to revision to the degree that requirements of regulatory state authorities are modified and new effective risk management methods and tools emerge in accordance with international banking best practices.

## Annex 1. List of Terms and Definitions

***Underwriting*** – a risk assessment process for an individual transaction/operation under a standardized risk assessment technology.

***Risk appetite*** – a system of indicators that defines the total maximum level of the Group's risk (possible losses) that the Bank is prepared to assume when creating a price, achieving its goals, including the target level of yield, implementing strategic initiatives and pursuing its main mission. The maximum level of risk is the largest value of risk levels where requirements established by internal documents are still met and there is no need to take measures to lower risk levels.

***Basel II*** is the document of the Basel Committee on Banking Supervision "International Convergence of Capital Measurement and Capital Standards: A Revised Framework. Comprehensive version, Basel Committee on Banking Supervision, June 2006)

***Bank*** means Sberbank of Russia Open Joint-Stock Company.

***Benchmarking*** means comparison of figures and characteristics of an object with similar figures and characteristics of its market counterparts.

***Business Unit*** – a structural division of the Group's institutional member entitled to make decisions on operations/transactions with risk-exposed counterparties/clients.

***Validation*** – collection of information about financial and mathematical models used by the Bank, analysis and selective verification of submitted data, assessment of adequacy of calculation algorithms and data, evaluation of the model's interface, and assessment of whether the model is complete, controlled and documented.

***Probability of Default*** – the likelihood of default of a Contracting Party during one year starting on the date its rating is assigned/adjusted.

***IPCAA*** – internal processes of capital adequacy assessment – a process of assessment by the lending organization of the capital available to it, i.e. internal capital for coverage of assumed and potential risks; it is part of its corporate culture. IPCAA also include capital planning procedures based on the lending organization's established development strategy, business growth targets and results of a comprehensive current assessment of said risks, stress testing of the sustainability of the lending organization in respect to internal and external risk factors (hereinafter stress testing). IPCAA is mainly designed to ensure IC adequacy for continuous coverage of assumed risks.

***Group*** means the Bank, its subsidiary banks and branches of lending organizations situated overseas, IC Troika Dialog CJSC (including subsidiaries), and Sberbank Leasing CJSC (including subsidiaries), other subsidiaries and affiliates defined in accordance with the Policy for management of subsidiary and affiliate organizations of Sberbank of Russia OJSC.

***Subsidiary organizations*** – institutional members of the Group.

***Risk Identification*** – the process of detecting and classifying risks.

***Collegial bodies*** – the Management Board of the Bank, the Committee of Sberbank of Russia OJSC for Group Risks, the Loans and Investments Committee of Sberbank of Russia OJSC, the Assets and Liabilities Management Committee of Sberbank of Russia OJSC, and the Trading Risks Committee of Sberbank of Russia OJSC.

***Committees by risk types*** – the Loans and Investments Committee of Sberbank of Russia OJSC, the Assets and Liabilities Management Committee of Sberbank of Russia OJSC, the Trading

Risks Committee of Sberbank of Russia OJSC, the Troubled Assets Committee of Sberbank of Russia OJSC, and the Retail Loans Committee of Sberbank of Russia OJSC.

***Credit risk*** – the risk that the Group might suffer losses as a result of failure to perform, or of undue or untimely performance by the debtor of its financial obligations to an institutional member of the Group in accordance with contractual terms.

***Limit*** – a numeric limitation on volumes established for certain transactions and/or their combination, and values of certain risk indicators. The limit can be expressed in absolute and relative terms.

***Supervisory Board*** – the Supervisory Board of the Bank.

***Operating risk*** – the risk resulting from defects in organization of the Bank's operations, technologies that it uses, the functioning of IT systems, inadequate actions or errors of staff and from external events.

***Risk assessment*** – assessment of the likelihood of the realization of risk and the size of possible losses resulting from realization of a certain risk type and/or aggregate risks assumed by the Group or institutional members of the Group.

***Risk type unit*** – structural divisions of the Bank responsible for analysis and assessment of the Group's risks by identified groups of risks.

***Management Board*** – the Management Board of the Bank.

***Interest rate risk*** – the risk of financial losses that the Group may suffer as a result of adverse changes in interest rates for assets, liabilities and off-balance-sheet instruments of institutional members of the Group.

***Core units for analysis and assessment of the Group's risks*** – structural divisions of the Group's institutional members whose main objective is to develop, implement, support and improve risk management systems at institutional members of the Group and the Group in general.

***Risk*** – the possibility (likelihood) inherent to banking activities that the Group might suffer losses and/or its liquidity might deteriorate as a result of adverse events associated with internal factors (complexity of organizational structure, staff qualifications, organizational changes, staff turnover, etc) and/or external factors (changes in economic conditions of the Group's operations, technologies used etc).

***Liquidity risk*** – the risk that the Group might suffer losses as a result of the inability of institutional members of the Group to ensure full performance of their obligations. The liquidity risk results from a lack of balance in financial assets and financial liabilities of the Group (including as a result of untimely performance of financial obligations by one or several contracting parties of the Group) and/or emergence of an unpredicted need for prompt and one-off performance by the Group of its financial obligations.

***The Risks block*** – structural divisions of institutional members of the Group and Committees of the institutional members of the Group whose main function is risk management.

***Bank Book Risks*** – risks caused by the structure of assets and liabilities of the Bank/Group, including by composition, collection/repayment periods, currencies, rates, sensitivity to changes in market factors, etc.

***Management*** means CEO, Chairman of the Management Board; Deputy Chairpersons of the Management Board, Senior Vice-Presidents, and Vice-Presidents.

***Market risk*** – the risk that the Group might suffer losses as a result of adverse changes in indicators of the financial market (including exchange rates, securities prices, interest rates and commodities prices).

***Transaction*** – a legally binding operation/a combination of operations with financial instruments and/or money, triggering certain financial and/or non-financial requirements and/or obligations for the Bank and/or any member of the Group.

***Internal Controls Service*** – the total of all structural divisions of the Bank (the Internal Controls, Auditing and Audit Administration of the Bank's Central Head Office, relevant internal controls units at the Bank's branches) that have the functions of checking and evaluating effectiveness of the internal controls system, risk management systems, information security systems, accuracy of accounting and reporting and a number of other control functions.

***Exposure at Default*** – evaluation of the Bank's requirements to its counterparty that the Bank will have when and if the counterparty defaults.

***Value at Risk*** – the largest expected loss that can be suffered by the investor with a given degree of likelihood during a given period of time. Key VaR parameters include the period of time for which the risk is calculated and the likelihood that losses will not exceed a given value. VaR is a risk measure used to compare risk by both different portfolios and individual financial instruments.

***Strategic risk*** – the risk of losses suffered by the Group as a result of errors (deficiencies) made in making decisions that define the strategy of operations and development of the Group (strategic management) and are expressed in a failure to take into account or inadequate accounting for possible dangers that may threaten operations of the Group, incorrect or inadequately justified determination of prospective areas of activities in which the Group may gain competitive advantage over its rivals, missing or insufficient resources (financial, material and technical, and human) and organizational measures (management decisions) intended to ensure achievement of strategic operating goals of the Group.

***Regional Head Office*** – a branch of the Bank.

***Loss given default*** – the ratio to debt lost as a result of default to the total amount of debt at the time of default (expressed as a share or percentage).

***Finances block, Financial block*** – structural divisions of institutional members of the Group whose main function is financial management.

***Economic Capital*** is the amount of the Bank's/Group's capital required to cover all risk types (including credit, operating, market, business risks) assumed by the Bank/Group as part of its operations.

## Annex 2. List of Abbreviations

**ALM** – Asset Liability Management

**CRO** – Chief Risk Officer

**EaR** – Earnings at risk

**EaD**– Exposure at default

**LGD** – Loss given default

**PD** – Probability of default

**VaR** – Value-at-risk

**BU** – A business unit of the Bank

**IC** – Internal capital

**SU** – Subsidiary units

**RD** – The Risk Department of the Bank

**IRM (Group's IRM)** – Structural divisions of the Bank responsible for analysis and assessment of the Group's risks on a consolidated basis subject to interdependence of different risk types.

**LIC** – The Loans and Investments Committee of Sberbank of Russia OJSC

**GRC** – The Group's Risks Committee of Sberbank of Russia OJSC

**TRC** – The Trading Risks Committee of Sberbank of Russia

**ALMC** – The Assets and Liabilities Management Committee of Sberbank of Russia OJSC

**RB** – Regional Bank

**FD** – The Finance Department of the Bank

**EC** – Economic capital

## Annex 3. List of Documents Used

1. Regulation of the Bank of Russia dd. December 16, 2003 No. 242-P *On Organization of Internal Controls in Lending Organizations and Banking Groups* (as amended by Directives of the Bank of Russia No. 1521-U dd. November 30, 2004, No. 2194-U dd. May 03, 2009).

2. Letter No. 96-T of the Bank of Russia dated June 29, 2011 *On Methodological Recommendations on the Organization by Lending Organizations of Internal Procedures for Capital Adequacy Assessmen*t.

3. Letter No. 70-T of the Bank of Russia dated June 23, 2004 *On Typical Banking Risks*.

4. *The International Convergence of Capital Parameters and Requirements*, the Basel Committee on Banking Supervision (BCBS128, June 2006).

5. Charter of Sberbank of Russia Open Joint-Stock Company.

6. *Regulation of the Management Board of Sberbank of Russia Open Joint-Stock Company* No. 1279-2-r dd. June 04, 2010.

7. *Regulation of the Loans and Investments Committee of Sberbank of Russia OJSC* No. 470-7-r dd. December 08, 2011.

8. *Regulation of the Assets and Liabilities Management Committee of Sberbank of Russia OJSC* No. 1850-2-r dd. July 25, 2011.

9. *Policy of Sberbank of Russia on Liquidity Management and Control* No. 826-r dd. October 18, 2001.

10. *Market Risk Management Policy of Sberbank of Russia* No. 1300-r dd. November 01, 2004.

11. *Operating Risk Management Policy of Sberbank of Russia OJSC* No. 1302-2-r dd. September 03, 2010.

12. *Credit Risk Management Policy of Sberbank of Russia* No. 1303-r dd. November 01, 2004.

13. *Interest Rate Policy of Joint-Stock Commercial Savings Bank of the Russian Federation (Open Joint-Stock Company)* No. 1612-r dd. October 06, 2008.

## Annex 4. Basic List of the Group's Risks

Distribution of responsibilities for the management of risk types among the committees[1]

| Risk | GRC | ALMC | LIC | TRC |
|---|---|---|---|---|
| Credit risk | X | | | |
| Risk of defaulting loans | | | X | |
| Trading Credit Risk<br>• Credit Risk of the issuer<br>• Pre-estimate Risk (credit risk of the counterparty)<br>• Estimated Risk | | | X[2] | X |
| Concentration Risk | | X | X | |
| Securitization Risk | | X | | |
| Residue Risk | | | X | |
| Transfer Risk | X | | | |
| Country risk | X | | | |
| Market risk | X | | | |
| Trading Market Risk<br>• General Market Risk<br>• Specific Market Risk | | | | X |
| Non-trading Market Risk<br>• IRRBB (Interest Rate Risk in the Banking Book)<br>• Currency Risk in the banking book | | X | | |
| Liquidity risk | | X | | |
| Operational risk | X | | | |
| Other Risks | X | | | |

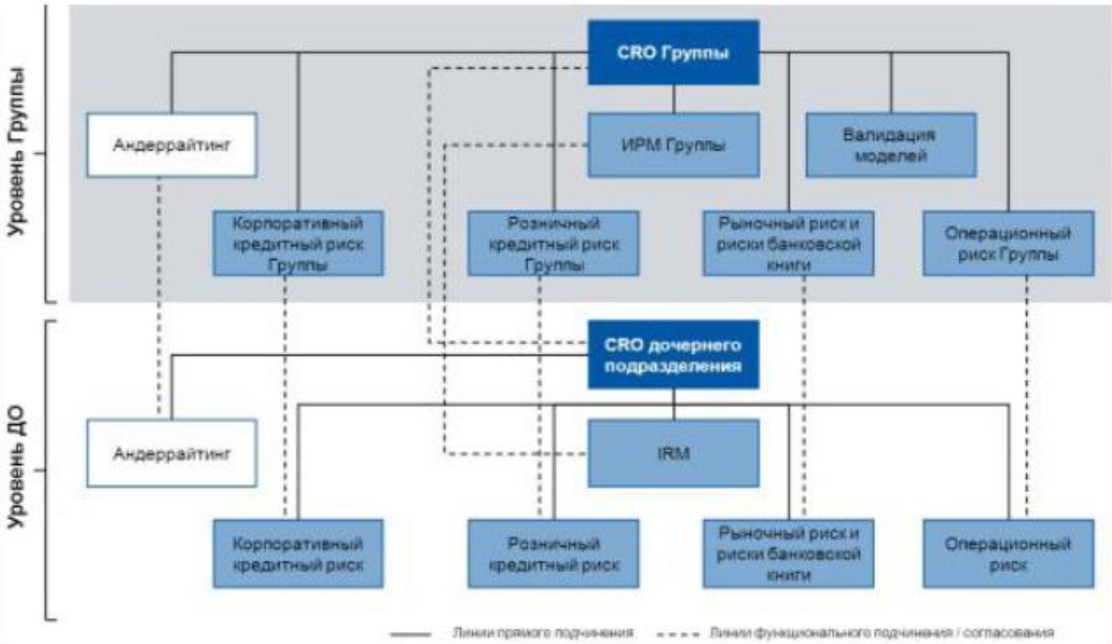
| | |
|---|---|
| (yellow) | Risk not fully covered by component 1 of Basel II |
| (blue) | Risk included in component 1 of Basel II |
| | Risk not included in component 1 of Basel II |

[1] This allocation of responsibilities is basic and subject to modification and specification by the Group's Risks Committee.

[2] In accordance with Chapter 6 of this Policy.

## Annex 5. Hierarchy of units for management of the Group's risks

### 1. Hierarchy of units for management of the Group's risks




| | |
|---|---|
| CRO Группы | Group's CRO |
| Андеррайтинг | Underwriting |
| Корпоративный кредитный риск Группы | Corporate credit risk of the Group |
| Розничный кредитный риск Группы | Retail credit risk of the Group |
| ИРМ Группы | Group's IRM |
| Валидация моделей | Model validation |
| Рыночный риск и риски банковской книги | Market risk and banking book risks |
| Операционный риск Группы | Group's operating risk |
| CRO дочернего подразделения | Subsidiary's CRO |
| IRM | IRM |
| Корпоративный кредитный риск | Corporate credit risk |
| Розничный кредитный риск | Retail credit risk |
| Операционный риск | Operating risk |
| Уровень Группы | Group level |
| Уровень ДО | Subsidiary level |
| Линии прямого подчинения | Lines of direct subordination |
| Линии функционального подчинения / соглашения | Lines of functional subordination / agreement |

### 2. Main functions of risk management units at the Group's institutional members:

**2.1. Functions of core risk management units for individual risk types on the level of a Group's institutional member (except the Bank):**

- Implementing the risk management system, including in terms of risk measurement and stress testing (local support of development of risk models – PD, scoring cards, LGD, EaD, VaR, development and implementation of risk type management methods  risk limits, and provisions policy)

- Locally managing the methodology of the (retail and corporate) lending process in accordance with the Group's standards (continuous risk management and control, limits and provisions monitoring, troubled assets management (corporate credit risk, retail credit risk), collateral management, portfolio analysis – loan quality, limit discipline, and control of how requirements are met)

- Reporting on risks and automating risk management processes (process automation, implementation of models in IT systems – business requirements and technical requirements, data management and generation of data on portfolios, operating losses, and reporting).

**2.2. Functions of the aggregate risk management unit on the level of a Group's institutional member (except the Bank):**

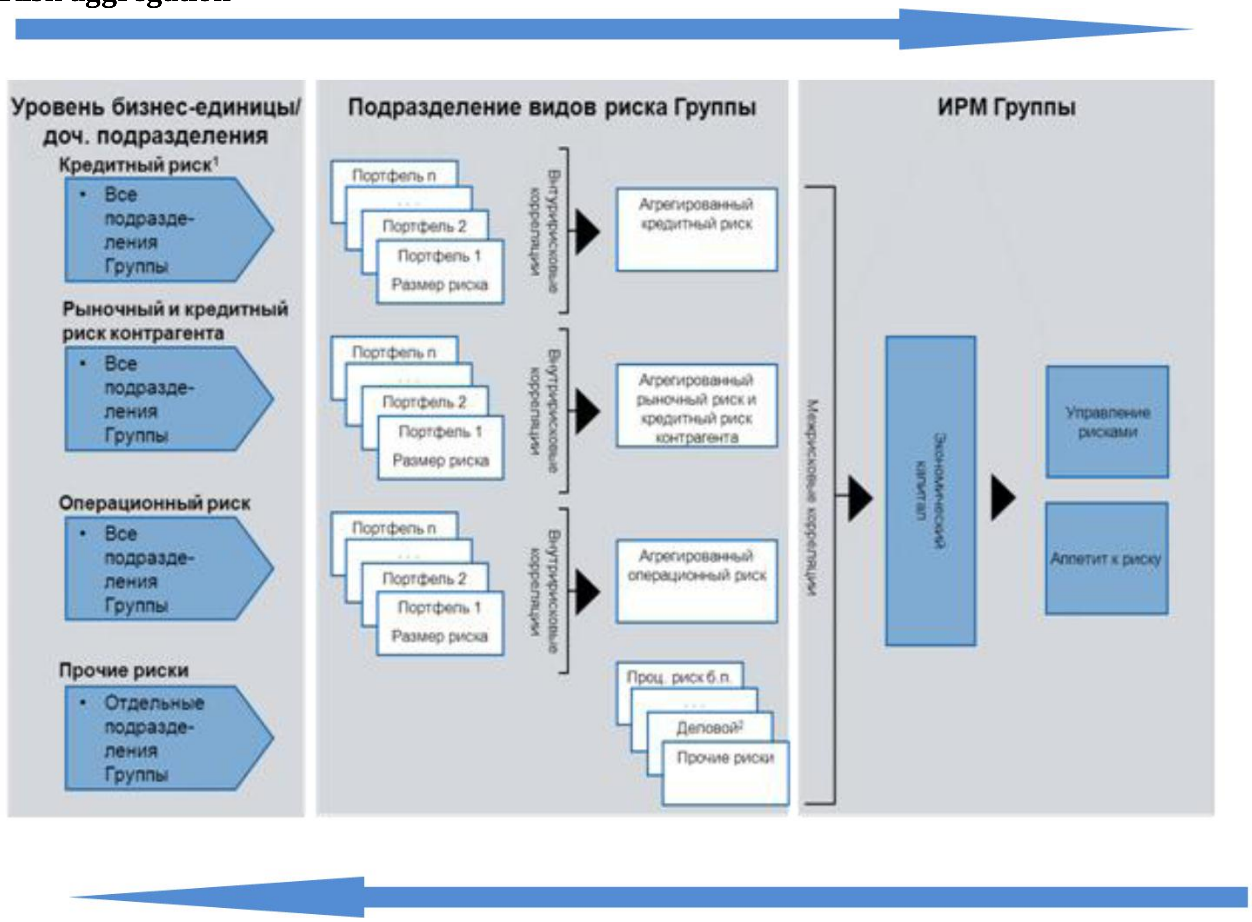
- Distributing uniform risk management principles for different risk types throughout a Group's institutional member; adapting and implementing the Group's methods and standards on the level of the Group's institutional members

- Coordinating and/or directly submitting data on portfolios, data for calculation of correlation matrices from the level of the Group's institutional members and other required information to the Group's level

- Practically applying the integrated risk management methodology within a Group's institutional member by, among other things, assessing risks on the level of a Group's institutional member, supporting and using local, top-down stress testing models (developed on the Group's level), securing a connection with processes of planning, risk-adjusted performance evaluation, preparing aggregate reports on risks, collaborating with the regulator on the level of a Group's institutional member.

## Annex 6. Scheme of Risk Appetite Management and Economic Capital Cascading

**Risk aggregation**




| | |
|---|---|
| Уровень бизнес-единицы/ доч. подразделения | Level of business unit/subsidiary |
| Кредитный риск | Credit risk |
| Все подразделения Группы | All units of the Group |
| Рыночный и кредитный риск контрагента | Market and credit risk of the counterparty |
| Операционный риск | Operating risk |
| Прочие риски | Other risks |
| Подразделение видов риска Группы | Risk types of the Group |
| Портфель 1 | Portfolio 1 |
| Размер риска | Amount of risk |
| Внутририсковые корреляции | Intra-risk correlations |
| Агрегированный кредитный риск | Aggregate credit risk |
| ИРМ Группы | Group's IRM |
| Агрегированный рыночный риск и кредитный риск контрагентов | Aggregate market risk and credit risk of the counterparties |
| Агрегированный операционный риск | Aggregate operating risk |
| Проц. риск б.п. | Interest rate risk of business unit |
| Деловой | Business risk |
| Экономический капитал | Economic capital |

| | |
|---|---|
| Управление рисками | Risk management |
| Аппетит к риску | Risk appetite |
| Межрисковые корреляции | Inter-risk correlations |

## Allocation of economic capital by risk types/units

1. Includes the estimated risk and the credit risk of the issuer and other types of credit risks.
2. Economic capital is calculated by business risk on the level of the Group's IRM