



Association of
Institutional Investors (API)

Research report on SBERBANK OF RUSSIA

as of 09/30/2016



RESEARCH LABORATORY FOR BUSINESS COM-
MUNICATIONS, NATIONAL RESEARCH UNIVERSITY
HIGHER SCHOOL OF ECONOMICS

Brief capital structure overview

The Russian Federation owns the controlling block of shares in Sberbank Russia through the Bank of Russia (CBR), the effective voting stake (including the stakes of federal subjects and municipal entities) being 52.32%. The Bank has issued 1 billion preferred shares accounting for 4.427% of the authorized capital.

There are no major private shareholders with stakes exceeding 5% or quasi-treasury shares; most of the minority shareholders (45.6% of the authorized capital) are foreign legal entities. Shareholders accounting for 67-69.8% of the voting power, including 31-37% of the total number of minority shareholders, participated in the general shareholders meetings (GSMs) in 2015-2016.

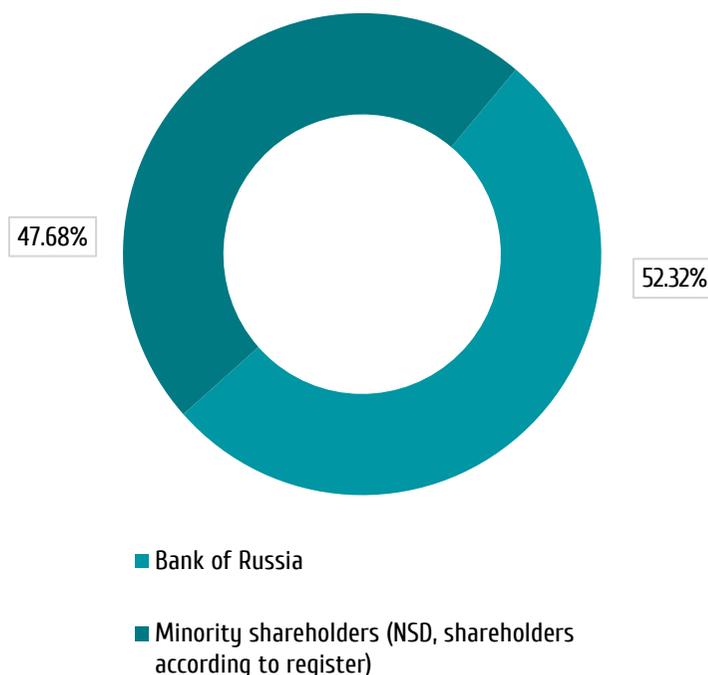
The results of voting on the election of Supervisory Board (SB) members show that the Bank's minority shareholders elect independent directors by their votes, i.e. by own resources. This opportunity arises from the position of the principal shareholder nominating a limited number of representatives to the SB and distributing its votes among 8 candidates, although, given the current quorum, it could ensure election of 10 to 11 out of 14 SB members with guaranteed certainty, assuming minority shareholders' concerted voting.

The Bank does not disclose details on the shareholders owning 2% of the voting shares in aggregate and nominating candidates to the SB (including independent directors), proposing the CEO and the current Deputy SB Chair.

Corporate governance self-assessment

According to the bank's estimates, Sberbank fully complies with 68, partially with 11 out of 79 recommendations of the 2014 CG Code, one of the best results among the reviewed PJSCs (first-second place).

Breakdown of voting shares



Summary of GC practice

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- 6 out of the 14 SB members are independent directors (INEDs), only 1 of the 6 INEDs being technically affiliated with the Government and major counterparties. In any case, the Bank has more independent directors than any other company targeted by this research;
- new versions of the Charter and by-laws (including regulations governing the management bodies' activities) incorporating the CGC recommendations were approved at the AGMs in 2015 and 2016;
- the Company has complied with the CG Code recommendations to provide for issues subject to consideration only at physical meetings and issues subject to resolution by a qualified majority or a majority vote of the elected SB members in the Charter in relation to most of such issues;
- the Bank has a multilevel risk management system;
- information on the structure and cost of services provided by the Bank's external auditor is disclosed;
- the Bank has established conditions for the development of an independent internal audit system accountable to the audit committee mostly consisting of independent directors (INEDs);
- the Bank discloses its anti-corruption policy and accepts reports on violations, conflicts of interest, etc. via the hotline on the website;
- the anti-corruption policy (dated 2014) covers, among other things, actions to be taken when a conflict of interest was detected;
- according to the annual report, the HR and Remuneration Committee actively contributes to making the list of candidates to the Supervisory Board (although the related minutes of the meetings are not disclosed).

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- no disclosure of specifics of the senior management remuneration system (proportions of the fixed and variable components, long-term and short-term incentives) and the correlation between the payments for the reporting period and the KPI achievement;
- the Supervisory Board's scope of authority does not cover the appointment and early termination of powers of the President, Chair of the Bank's Executive Board;
- (conditionally negative) the reports on resolutions taken by the SB do not disclose voting results (except for reference to unanimously passed resolutions and 4 cases of voting "abstained" at two SB meetings in September 2015) and individual voting by SB members in case of non-unanimous voting;
- the shareholders have no powers to call for an SB meeting;
- no disclosure of details on persons proposing issues to GSM agendas;
- most of the Audit Commission members are employed by the Bank, no independent experts;
- according to statements in the disclosure system, the absentee voting dates almost always coincide with the dates on which the SB Chair decides to hold such a vote (in separate cases, the voting takes place the following day), the SB meeting procedure remains undisclosed;
- the agenda of SB meetings sometimes includes the "Any Other Business" item. The non-disclosure of related details poses a risk of considering essential issues without properly notifying the SB members.



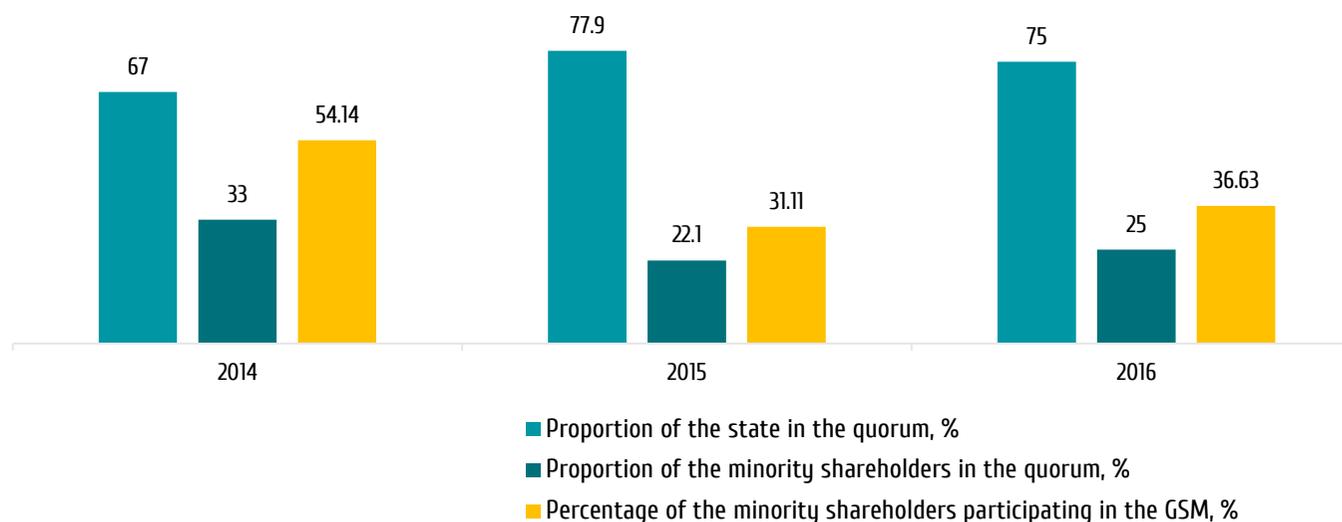
General shareholders meeting: activity of shareholders, related party transactions

According to our review of the shareholders' participation in the Bank's GSMs in the last 3 years, the activity of minority shareholders has recently been at a medium level (25% of the quorum, 37% of the total number of minority shareholders in 2016).

At the same time, minority shareholders nominate candidates to the Supervisory Board (in 2015 and 2016), most of whom are independent. The majority shareholder, judging by its voting activity (the nomination of and voting for a limited number of representatives) actually welcomes the election of independent directors. This encouraging treatment enabled minority shareholders to elect 2 independent directors to the Supervisory Board in 2015, even though their candidates were supported by a mere 0.6% of the shareholders entitled to vote.

The shareholders approved 1 related party transaction at the AGM in 2015 and one at the AGM in 2016. Both related to directors and officers liability insurance, with a total limit of RUB 37.6 and RUB 50.4 million, respectively.

The President, Chair of the Executive Board, is elected for a period of 4 years by the general shareholders meeting which can terminate the Chair's powers at any time. The current President was elected at the 2015 AGM.



Information on the shareholders of Sberbank of Russia, according to Bloomberg data and information disclosure by the shareholders

Shareholder Name	Voting stake, %	Comment on voting
CENTRAL BANK OF RF	50	Voting policy is not available (not disclosed)
VANGUARD GROUP	1.38	The shareholder discloses its voting policy at shareholder meetings, as well as the actual voting activity in the last corporate season. For the principal funds focused on investments in Russia, the shareholder disclosed non-voting at the Bank's 2016 AGM. The shareholder does not nominate candidates to Boards of Directors (BoD) / Supervisory Boards, but supports, according to the generally disclosed approaches to voting, the idea of nominating at least 20% of INEDs by a group of shareholders holding at least 3% of the company's shares in the preceding 3 years. The shareholder receives recommendations from proxy advisory firms.
LAZARD LTD	1.03	The ESG policy disclosed by the shareholder includes, without limitation, approaches to voting. The shareholder receives recommendations from proxy advisory firms. The standard approach assumes that the shareholder takes part in voting and votes for independent directors. At the 2016 GSM, the shareholder voted in the affirmative ("FOR") on all issues, including the election of the Audit Commission, and supported the independent directors: Gennady Melikyan, Alessandro Profumo, Sergei Sinelnikov-Murylev (not elected in 2016) and Nadia Wells. As a rule, the shareholder does not nominate BoD/SB candidates.
JPMORGAN CHASE & CO	0.69	While disclosure by Bloomberg covers the investment business, i.e. asset management or investment management (the funds under management), the shareholder discloses the voting policy in various regions (including Europe). The voting takes into account recommendations of regional CG Codes. The actual voting data are not disclosed in the interests of clients, but can be provided at the client's request in the following 7 years. The shareholder usually does not nominate candidates.
NORGES BANK	0.69	The shareholder voted at all AGMs in the last 3 years. In 2016, the shareholder voted in the affirmative ("FOR") on all issues with a positive recommendation from the management or the SB. In the SB election, the shareholder voted on all the elected INEDs, except for Vladimir Mau, as well as for Sergei Sinelnikov-Murylev who was not elected in 2016. The shareholder discloses its voting policy and voting results. The bank has so far not nominated BoD/SB candidates in Russia, unlike other countries. The shareholder receives recommendations from proxy advisory firms.
BLACKROCK	0.58	The shareholder discloses both global corporate governance principles and regional approaches to voting and engagement with companies. Information on voting in the last corporate season is disclosed. According to the 2016 AGM disclosure, several funds voted, while others stayed passive. Where the funds voted, the voting was in the affirmative ("FOR") on all issues with a positive recommendation from the management / SB. In the SB election, the shareholder voted on all the elected INEDs, except for Vladimir Mau, as well as for Sergei Sinelnikov-Murylev who was not elected in 2016. The shareholder does not nominate BoD/SB candidates but can support other shareholders' proposals if there is certainty about meeting shareholders' interests in the best way possible.

General shareholders meeting: disclosure of information

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- materials prepared for GSMs are disclosed in the English and Russian languages 30 days prior to a GSM, according to the standards of corporate by-laws;
- the materials include a detailed rationale for the Bank's profit distribution, including the profit earmarked for dividends in accordance with the Bank's approved dividend policy, as well as earnings retained for financing activities under the Bank's Development Strategy until 2018;
- the materials include the list of amendments, if any, proposed to the Bank's Charter, as well as a comparison table with a rationale for such amendments;
- the timeframe for proposing agenda items and candidates to the SB and the Audit Commission is increased to 75 days;
- the Bank discloses the cost of services provided by the auditor, as well as the auditor selection procedure form. The annual report discloses the structure and cost of services provided by the Bank's auditor in 2015 (RUB 613.3 million), including the cost of services not related to the audit of annual statements (RUB 367.9 million, or 60%).

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- The materials prepared for GSMs:
- (conditionally negative) do not include details on the participants in the open competitive auditor selection procedure and the terms proposed by them. The search for auditor selection-related documents on the Bank's website (www.sberbank.ru) requires much effort. In this and other similar cases, our recommendation is that the Bank should provide the exact page location (URL) when referring to the website or make the page easily available without much browsing;
 - do not disclose details on persons proposing GSM agenda items.

Comment on results of the voting activity at GSMs

Our review of the results of voting at the 2015 AGM has shown that a considerable number of votes cast on the election of SB members (2.839% of the total votes cast) were not included in the vote tally, whether being recognized as invalid or for other reasons. In 2016, the number of such votes decreased substantially to 0.172%. We believe that the errors may have been committed by the minority shareholders instructing their custodians or by the custodians converting the clients' instructions into ballots. Such cases primarily pose risks for electing independent SB members.



Supervisory Board: international and domestic practice

SB activity aspect	HSBC Holdings plc	Citigroup Inc.	Raiffeisen Bank International AG	BNP Paribas S.A.	Sberbank of Russia
INEDs/total number of SB members	18/21	14/16	16/16	7 + 2 (according to the Board of Directors' decision, employees of a controlled entity) of 14	6/14 (Vladimir Mau is recognized as an independent director by a SB resolution)
Participation in meetings of SB and committees in 2015	7 BoD meetings 7 Audit Committee (AC) meetings Attendance ratio: 100% All meetings held in the form of joint attendance	20 BoD meetings, 18 AC meetings attendance ratio >75% All meetings held in the form of joint attendance	6 SB meetings, attendance ratio >50% (general disclosure only); 2 AC meetings, attendance ratio 100% All meetings held in the form of joint attendance	11 BoD meetings: 3 members missing 1 meeting, 1 member missing 2 meetings, 1 member missing 3 meetings. 12 meetings of committees: 1 non-attendance All meetings held in the form of joint attendance	50 SB meetings in absentia, 7 physical meetings, 1 SB member missed 2 meetings (out of 5 meetings held during the member's tenure), 1 SB member missed 1 meeting, attendance ratio at all committees: 100%
Remuneration of SB members / actual payments for 2015	\$95K + \$45K to senior INED + \$50K/30K, \$40K/25K, \$25K/15K to Chair / member of BoD committee (depending on the committee). Actual: \$99K to \$524K, ca. \$200K per person on average	\$500K to BoD Chair, \$75K to BoD member, \$50K Audit Committee, \$35K other committees, \$25K for any extra committee. + \$150K in deferred stock to each BoD member, Actual: \$137-500K	€70K to SB Chair, €60K to Deputy SB Chair, €50K to SB member. Actual: €50K-70K	€21 in fixed remuneration + bonuses for meetings: €3K per BoD member per meeting, €4.4K per out-of-schedule meeting, €5.7K/2.7K to Chair/member of committee + €4.2/4K to directors outside France. Upper limit of €1.3 million for all BoD members. Actual: €43K-90K	Base remuneration (2016): RUB 5.9 million. Uplift factors: 20% for membership in a committee, 30% to Committee Chair / senior INED, 50% to SB Chair Actual: RUB 59.9 million to all SB members. Average remuneration paid to 13 SB members: RUB 4.6 million



Supervisory Board: practical activity aspects

Chairman of the Supervisory Board

Sergey Ignatiev

(non-executive director)

Advisor to the Governor of the Central Bank of Russia,
no shareholding in the Bank;

Chairman of the Audit Committee

Vladimir Mau (INED);

Rector of the Russian Presidential Academy of National Economy and
Public Administration (RANEPA), no shareholding in the Bank;

Chairman of the Risk Management Committee

Gennady Melikyan (INED)

Senior Independent Director,
equity position: 0.0001% of the Bank's ordinary shares
(worth RUB 3.1 million as of the research reporting date);

Nadia Wells (INED)

Member of the Audit Committee, independent consultant, no share-
holding in the Bank;

Alessandro Profumo (INED)

Chairman of the Board of Directors, Equita SIM Spa;
no shareholding in the Bank;

Esko Tapani Aho (INED)

Chairman of the Board of Directors, East Office of the Finnish Indus-
tries; no shareholding in the Bank;

Martin Grant Gilman (INED)

Advisor to the Rector, NRU HSE,
equity position: 0.00019% of the Bank's ordinary shares.
(worth RUB 5.96 million as of the research reporting date)

*The API was unable to agree on a meeting or a conference call with the Bank's independent directors; we therefore cannot include comments on key corporate gov-
ernance issues in this report and present a case study of the SB activity, the internal audit and internal control system, the risk management system and other
essential activity aspects as viewed by investors and independent directors.*



Supervisory Board (SB)

For the period under review (2015 and 9 months of 2016), the SB held 111 meetings (5 meetings per month on average), including 14 physical meetings. The SB considered 213 issues, more than half of them (131) concerned related party transactions for a total amount of over RUB 7.8 trillion, \$1,825 million and €486 million. Resolutions to approve related party transactions are generally accepted at meetings held in absentia.

In the period under review, the SB considered the following essential issues:

- quarterly, annual and other periodic performance reports (8 issues);
- Internal Audit Service-related matters (activity plan, results of inspections, regulation of activities, 5 issues in total);
- risk management-related issues, including the methodology, strategy and reports on compliance with risk appetite standards (5 issues);
- staff remuneration policies (3 issues);
- governance model development priorities at Sberbank (3 issues);
- current implementation progress and update of the objectives set out in the Development Strategy of Sberbank (1 issue).

The Supervisory Board regularly evaluates its activities, considers related performance results, the plan of implementing recommendations.

The lack of opportunity to meet with independent directors prevents the coverage of the following Supervisory Board activity aspects:

- SB working principles for considering related party transactions (taking into account their volume and cost);
- procedure for consideration by the SB of key performance indicators and their correlation with the remuneration paid to the Bank's senior management;

- the SB's approaches to shaping the Bank's development strategy, the use of benchmarks in planning and evaluating the management team's performance, etc.;
- voting at SB meetings (working principles in case of non-unanimous voting of SB members);
- access to information, working principles of SB committees, etc.

Audit Committee (AC)

Three of the five AC members, including the Chairman, are independent directors. The powers vested in the Committee are typical of similar bodies, as provided for by CG Code recommendations and the international practice, including control over procedures ensuring compliance with legal requirements, ethical rules, regulations and procedures of the Bank, requirements of stock exchanges and requirements for combating fraud committed by the Company's employees and third parties, ensuring the independence and impartiality of external and internal audits.

In 2015, the AC held 4 meetings, all of them in the form of joint attendance (a case of good practice), considered 11 issues.

HR and Remuneration Committee (HRRC)

Two of the three HRRC members (not including the Chairman) are independent. The Committee has the standard scope of authority meeting the international practice and the CG Code recommendations.

In 2015, the HRRC held 6 meetings, including only 1 meeting in absentia (a good practice), considered 12 issues, including the shareholders' proposals for candidates to the SB and for the sole executive body (SEB) position, drawing up of the list of candidates for the GSM, the results of self-assessment by the SB and its committees (no disclosure) and an independent evaluation of the SB performance in 2015.



Essential CG aspects

External auditor

At the 2016 AGM, the shareholders approved JSC PricewaterhouseCoopers Audit as the auditor for 2016 and Q1 2017 (the cost of services is RUB 52.5 million; the cost of non-audit services, if any, are not disclosed; in 2015, non-audit consulting services accounted for 26% of the total fee paid to the auditor, Ernst & Young LLC). The role of the AC in the auditor selection is consistent with the CG Code recommendations, the generally accepted practice and the Company's documents.

Internal audit, internal control, risk management

The Company discloses the code of corporate ethics, the internal audit regulations, the regulation on the internal control system, the risk and capital strategy, the anti-corruption policy, the conflict of interest management policy, the regulation on major transactions and related-party transactions – a progressive approach to disclosure in terms of completeness. The Company has an effective multi-level internal audit, internal control and risk management system (including compliance control), as well as a dedicated Risk Management Committee of the Supervisory Board.

The powers and accountability of the AC and the Internal Audit Service comply with the CG Code recommendations (except for the SB's power to approve the Internal Audit Service's budget).

No information is available in the Bank's reports on the consideration by the SB / AC in 2015 of the performance evaluation of the system for reporting compliance with ethical standards, infringements and illegal actions (information of anti-corruption relevance is delivered to the Bank's Compliance Department and Compliance Committee). These issues were probably covered in the general report of the Internal Audit Service and the list of risk management system development issues.

The Executive Board's Compliance Committee is authorized to take current decisions aimed at the settlement of conflicts of interest. In 2015, the Bank conducted a mass staff training on the management of conflicts of interest and anti-corruption practices. The Company's website contains the phone numbers and postal address of the Bank's internal security department for reporting corruption offences committed by employees, the use of insider information, and conflicts of interest, as well as a form for sending a message to the Compliance Department.

Dividend policy

The Bank's Regulation on Dividend Policy dated 2015 does not provide for an obligation to aim at paying a certain proportion of Sberbank Group's IFRS or RAS (Russian GAAP) profit taking into account statutory capital requirements. At the same time, the Policy directly refers to the Bank's Development Strategy until 2018, which provides for the Bank's intent to earmark 20% of the group's IFRS net profit for dividends. The Bank has also declared commitment to paying equal dividends on ordinary and preferred shares subject to a number of conditions, including the availability of net profit according to consolidated IFRS statements, the capital needs for implementing the Development Strategy, the macroeconomic environment, the balance between the Bank's interests (including its investment appeal) and the interests and rights of its shareholders, etc. The application by the SB of benchmarks for profit distribution purposes is not disclosed.

In 2016, the dividend payout ratio at the Bank was higher than at some of the peers but lower than at others (see below):



<i>HSBC Holdings plc</i>	<i>Citigroup Inc.</i>	<i>Raiffeisen Bank International AG</i>	<i>BNP Paribas S.A.</i>	<i>Sberbank of Russia (IFRS)</i>	<i>Sberbank of Russia (RAS)</i>
75.2%	7.3%	13.3%	42.9%	19.9%	20.4%

Charity and social responsibility

In 2015, the Bank's expenses for charity and sponsorship amounted to RUB 3,280 million, a 80% increase against the 2014 level). Assistance to children's institutions, sports, culture, education, veterans and physically challenged people accounted for 70% of the total expenses. The relative spending on charity and social projects versus peer banks is provided below:

<i>HSBC Holdings plc</i>	<i>Citigroup Inc.</i>	<i>Raiffeisen Bank International AG</i>	<i>BNP Paribas S.A.</i>	<i>Sberbank of Russia (IFRS)</i>	<i>Sberbank of Russia (RAS)</i>
1.36%	0.45%	0.79%	0.58%	1.47%	1.50%

Long-term management motivation

The long-term incentive program for top executives (dated 2015) meets the Bank of Russia's requirements for the remuneration payment systems at Russian credit institutions; furthermore, its parameters are close to the international practice, which is not common with the PJSCs under review:

40% of the variable annual compensation is paid in annual installments over a period of 3 years. If the Bank's posts a loss for any of the 3 years following the year of entitlement to payments, the partic-

ipant loses the right to remuneration for each such year. The participant can also be partially or completely disqualified from payments if unable to perform official duties, or dismissed for that reason, or personally making a negative contribution to the Bank's performance. In 2015, the amount of remuneration under the Program was RUB 600 million. The compensation is subject to revaluation as of each reporting date based on the average price of the Bank's ordinary shares for the preceding 6 months.

Disclosure of information on shareholdings of the Bank's Executive Board (5 largest shareholdings) as of 09/30/2016

<i>Executive Board member</i>	<i>Rounded-off value of shareholding</i>
Herman Gref	RUB 94 million
Alexander Bazarov	RUB 72 million
Alexander Morozov	RUB 45 million
Lev Khasis	RUB 41 million
Bella Zlatkis	RUB 16 million



Disclosure of the management motivation system at international peers

Approximate proportions of CEO remuneration components in 2015 (including shares)

	HSBC Holdings plc	Citigroup Inc.	Raiffeisen Bank International AG	BNP Paribas S.A.	Sberbank of Russia
Fixed remuneration (salaries)	48%	10%	75%	35%	26%
Annual bonuses (also, quarterly bonuses at Sberbank)	26%	41%	25%	55%	74%*
Long-term remuneration	26%	49%	0%	10%	n/a

In 2015, the 12 members of the Bank's Executive Board received RUB 640 million in salaries and RUB 1,850 million in annual and quarterly bonuses.

	HSBC Holdings plc	Citigroup Inc.	Raiffeisen Bank International AG	BNP Paribas S.A.	Sberbank of Russia *
Disclosure of payments	CEO/CF0/COO/CRO CEO: £1,250K in salaries; £1,700K in fixed supplement in the form of immediately distributed shares (obligation to hold shares for 5 years). £1,072K in bonuses, £1,969K in long-term remuneration in the form of shares	CEO/CF0 + 3 heads of business segments CEO: \$1,500K in salaries, \$6,000K in bonuses. Long-term remuneration: \$4,500K in deferred shares, \$4,500K in Performance Share Units	All Managing Board members CEO: €1,108K in salaries, €364K in bonuses	CEO, CFO CEO: €1,250K in salaries, €1,950K in bonuses. Long-term remuneration in the form of shares: €340K	Collective executive body in aggregate (12 members in total), including the sole executive body. Actual: RUB 643.3 million in salaries, RUB 1,675 million in annual and quarterly bonuses.
KPIs influencing the short-term (annual) variable remuneration component (incl. the fixed relative weight of the KPI, if any)	Pre-tax profit 15%, ROE 15%, marginal operating profit 15%, increase in dividend payments 15%, successful implementation of strategy 15%, meeting standards, including risk management and compliance 25%; observance of the HSBC Values policy: yes/no	Cost efficiency, net earnings attributable to shareholders, ROA, RCE, 12-month TSR, 3-year cumulative TSR vs. 8 peers + Balanced Scorecard (case for CEO): earnings from current operations, cost efficiency across the Group, RTCE (Return on Tangible Common Equity), Core Return on Assets, excess in Risk Appetite Ratio	No disclosure	Changes in EPS 37.5%, gross operating profit 37.5%, qualitative estimates 25%; decision-making; quality of governance; a case of observance of ethical and social responsibility standards; other KPIs subject to a decision by HR & Remuneration Committee.	A system of balanced KPIs: financial, non-financial, individual and collective (team-specific) KPIs, no disclosure

	<i>HSBC Holdings plc</i>	<i>Citigroup Inc.</i>	<i>Raiffeisen Bank International AG</i>	<i>BNP Paribas S.A.</i>	<i>Sberbank of Russia *</i>
KPIs influencing the long-term variable remuneration	Financial KPIs: 60% (relative TSR 33.3%, ROE 33.3%, cost efficiency 33.3%), KPIs associated with the achievement of risk and strategy implementation targets: 40%	See above + TSR-based adjustment for shares; target value is compared with median value at peers for 3 years	(Program terminated because of regulation, 60% of the shares are distributed) ROE, higher TSR compared with that of peers included in the DJ EURO STOXX Banks index over a period of 5 years	Annual stock price growth for 5 years compared with initial price, discount for stock price growth rate vs. the EURO STOXX Banks index	Positive profit earned by the Bank in each year of the Program. Payment based on stock price for the past 6 months. In addition to the KPIs mentioned in this report, the Bank applies a risk materialization accounting system. Long-term remuneration is only paid if none of the materialized risks (if any) exceeds the established materiality threshold. Long-term remuneration system principles are described in the Staffing Policy disclosed by the Bank.
Long-term bonuses	Shares: at least 50% of the total long-term remuneration Payment period: 3 years	Deferred shares (50%) + phantom shares (50%) (a total of 60% of annual bonus) + option (expired). Payment period: 4 and 3 years	Not available	Money Payment period: 5 years	Since 2015, 40% of the variable remuneration has been deferred for 3 years, paid in annual installments

* this probably includes the participation of Executive Board members in the long-term remuneration program (no disclosure in the Bank's reports)

