

Corporate Governance

OVERVIEW OF THE CORPORATE GOVERNANCE SYSTEM

VTB GROUP CORPORATE GOVERNANCE

VTB Group is structured as a strategic holding. This model entails a common single growth strategy for all Group companies, as well as a single brand, centralised management of financial performance and risk, and unified control systems.

Under its current management model, the Group is governed along two key lines:

- **Administrative management** – executing the rights of the parent bank as the main shareholder by allowing its representatives to participate in the management bodies of subsidiary companies;
- **Functional management** – managing the Group's business, support and control lines within VTB Group as a whole. Functional coordination is a supplementary governance mechanism that provides early-stage expert review of management decisions.

To achieve key strategic objectives, the following business lines have been established within the Group: *Corporate-Investment Business, Medium and Small Business, Retail Business* (for more information on the global business lines and their performance, see Results overview).

The Group's Corporate Centre sets the Group's overall strategic direction and promotes best practices within the Group.

The management system established by the Group enables the Bank to develop a global mechanism for client service, to closely coordinate the work of every business line in all of the Bank's regions of operation, to increase profitability through synergies between business lines and best practices, and to reduce costs by sharing infrastructure and resources more extensively among the Group companies. Furthermore, this management model

is a platform for the effective integration of assets acquired by VTB Group.

VTB Group pays a great deal of attention to improving its governance system, which is designed to comply fully with corporate and antimonopoly legislation in countries where the Group operates.

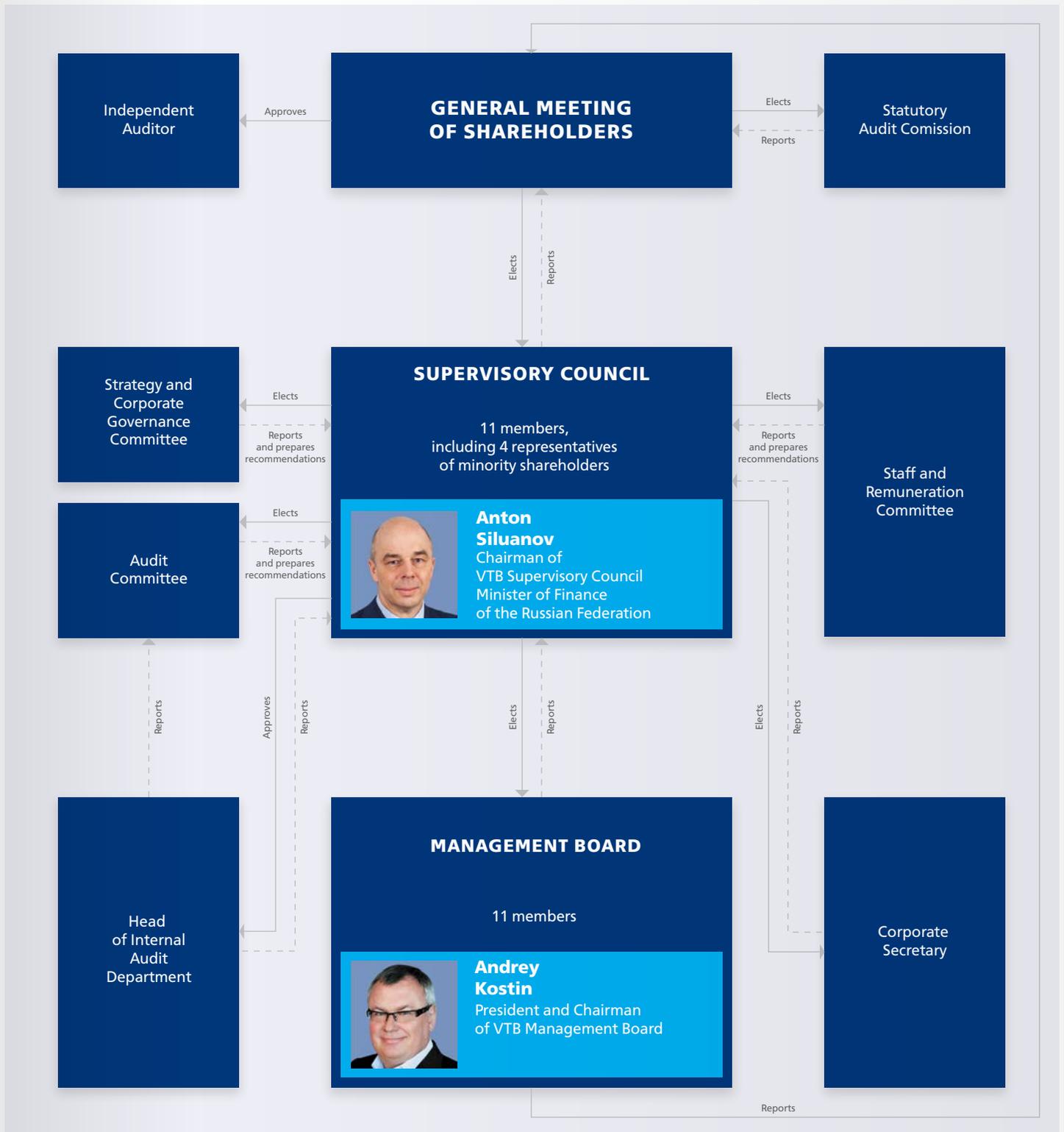
VTB BANK'S CORPORATE GOVERNANCE SYSTEM

Corporate governance at VTB Bank is a system of interactions between executive bodies, the Supervisory Council, shareholders and other stakeholders aimed at protecting the rights of shareholders and investors, improving the Bank's investment attractiveness and the transparency of its operations, creating effective risk assessment mechanisms that can have an influence on the Bank's value, and ensuring the effective use of funds provided by shareholders (investors).

The Bank's corporate governance system is based on the principle of unconditional compliance with legislative requirements and the requirements of stock exchange operators in Russia and abroad. It is also focused on the recommendations of the Corporate Governance Code (*the Code*) approved by the *Bank of Russia's Board of Directors on the 21th of March 2014*, the recommendations of the *Basel Committee on Banking Supervision and of the Financial Stability Board* that are applicable to financial institutions, as well as international best practices and standards of corporate governance.

The principles and procedures of the Bank's corporate governance are enshrined in bylaws, the most important of which is the Bank's Corporate Governance Code (approved by the Bank's Supervisory Council in 2015, minutes No. 27 of 11 December 2015).

VTB BANK'S CORPORATE GOVERNANCE STRUCTURE AS OF 29 FEBRUARY 2020



The Bank's corporate governance system is based on the following principles:

- Equal and fair treatment of all shareholders, providing shareholders with opportunities to exercise their rights and protect their legitimate interests;
- Professionalism and accountability of the Supervisory Council, active participation on the part of independent directors as well as members of the Supervisory Council nominated by the Bank's minority shareholders in the management of the Bank;
- Implementation of strategic management of the Bank by the Supervisory Council and its effective oversight of the activities of executive bodies and of the functioning of the risk management system and internal control;
- Reasonable, conscientious and effective management of the Bank's ongoing operations by executive bodies and key executives;
- Compliance with the laws of the Russian Federation and the national laws of the countries where the Group's companies are located;
- Corporate social responsibility;
- A highly ethical approach to business and zero tolerance for corruption;
- Complete, transparent, reliable and timely disclosure of information by the Bank;
- An effective system of internal control as well as internal and external audit;
- Active cooperation with investors, creditors and other stakeholders in an effort to support the Bank's assets and capitalisation;
- Continuous improvement of corporate governance practices.

The General Meeting of Shareholders is the supreme governing body of VTB Bank. Any holder of ordinary shares may exercise the right to participate directly in the management of the Bank by voting on the agenda of the General Meeting of Shareholders.

The Supervisory Council, elected by the shareholders and accountable to them, provides strategic management and oversight of the Bank's executive bodies, namely the President and Chairman of the Management Board and the Management Board itself. The Supervisory Council approves the Bank's strategy and long-term development programme and its Regulation on Remuneration and Compensation

for expenses of executive bodies and other key executives of the Bank, plays a key role in the Bank's material corporate events, and determines the key principles and overall approach to risk management and the internal control system.

The executive bodies are responsible for day-to-day management and carry out the tasks entrusted to them by the shareholders and the Supervisory Council.

The following committees function under the Supervisory Council:

- **The Staff and Remuneration Committee**, which drafts recommendations on key appointments and incentives for members of the Supervisory Council and the Bank's executive and control bodies;
- **The Audit Committee**, whose main activity is to analyse and support an effective and adequate system of internal control;
- **The Strategy and Corporate Governance Committee**, which considers, and makes recommendations on, strategic development issues and on improving corporate governance, as well as on refining management of the Bank's capital.

The Bank has established a special structural unit, the Supervisory Council Administration, headed by the Corporate Secretary, who is approved by the Bank's Supervisory Council.

The Bank's financial and economic affairs are monitored by the Statutory Audit Commission and also by the Internal Audit Department, an independent structural unit that operates under the direct supervision of the Supervisory Council. It verifies and assesses the effectiveness of the Bank's internal control and risk management systems; verifies the reliability, completeness, objectivity and timeliness of accounting and management reports; establishes uniform approaches to the organisation of internal control systems in companies controlled by the Bank; gathers information about their status; and develops recommendations for improvement. The Supervisory Council approves the Internal Audit Department's work plans and monitors their implementation.

In order to reduce management risks, liability insurance is purchased for the Bank, as well as for members of the Bank's Supervisory Council and executive bodies (Director's and Officer's Liability Insurance, D&O).

The Bank and its minority shareholders created a Shareholders Consultative Council, an independent expert consultative and advisory body consisting of minority shareholders whose meetings are also attended by members of the Bank's Supervisory Council and executive bodies. Members of the Shareholders Consultative Council play an active part in VTB Bank's activities, discussing with the Group's top management the most pressing issues concerning the interests of shareholders, including issues related to strategy development and implementation, as well as improving corporate governance practices.

VTB adheres to a policy of full and timely disclosure of reliable information, giving shareholders, investors and counterparties the opportunity to make properly informed decisions. Information is disclosed in compliance with Russian legislation and the requirements of the UK financial regulator, the *Financial Conduct Authority*. The Bank's Supervisory Council has approved the VTB Bank Regulation on Information Policy (Minutes No 18 as of 1 December 2017), which is posted on the Bank's website and specifies the ways in which information may be disclosed, as well as the time frame for such disclosure and the forms such disclosure may take; it provides a list of information that the Bank has taken on a duty to disclose, as well as measures to ensure compliance with the Bank's Information Policy.

The Bank regularly publishes its financial results in accordance with both Russian and international standards. In order for all stakeholders to obtain the most up-to-date information on VTB Group's activities as quickly as possible, the Bank publishes information from its IFRS management reporting on a monthly basis in addition to quarterly and annual reports.

DEVELOPMENT OF CORPORATE GOVERNANCE IN 2019

The Bank views improving its corporate governance system as an integral part of its work to improve the efficiency and the results of its activities; the corporate governance system is also subject to constant monitoring by the Bank's Supervisory Council and executive bodies.

VTB Bank closely monitors the development of corporate legislation and practices and carries out consistent work to improve the corporate governance system within the Bank and the Group companies by applying international standards and the best Russian and international practices.

At the Annual General Meeting of Shareholders on 5 June 2019, a new Supervisory Council was elected, composed of eleven members, including four representatives of minority shareholders and institutional investors, which maximises the Supervisory Council's independence and also enables it to represent the interests of a wide range of shareholders.

Shareholders also elected a new Statutory Audit Commission, which retained a place for a representative of minority shareholders.

In 2019, the Bank continued to implement the Action on the Implementation of Provisions of the Corporate Governance Code (approved by VTB Bank Supervisory Council, Minutes No 4 as of 27 May 2015), which is the main source of guidance for improving the Bank's corporate governance system.

During the reporting year, in accordance with a decision (recommendation) of the Bank's Supervisory Council Staff and Remuneration Committee (approved by VTB Bank Supervisory Council Committee, Minutes No 79 as of 30 September 2015), an external assessment of the work of the Supervisory Council was conducted for the first time. The assessment also evaluated the work of the Supervisory Council committees, the Chairman of the Supervisory Council and the Bank's Corporate Secretary. The *Russian Institute of Directors (RID)* was hired to conduct the assessment. The *RID* is recognised for its expertise in the field of corporate governance and for its assessments of the performance of boards of directors in Russian companies.

During the assessment, the members of the Supervisory Council were interviewed and completed questionnaires. The assessment also involved an analysis of the Bank's bylaws, which enabled the *RID* to maximise the objectivity of its assessment of every essential aspect of the activities of the Supervisory Council in such key areas as strategy development and monitoring strategy implementation, performance in relation to internal control and risk management systems, oversight of the activities of executive bodies and the establishment of an effective incentive system.

According to the assessment, the work of the Supervisory Council was praised by both the members of the Supervisory Council themselves and by *RID* experts. The assessment concluded that the Supervisory Council was highly engaged in decision-making on key issues concerning

the Bank's operations while maintaining its focus on strategic management. In addition, the Bank's use of advanced tools for organising the work of the Supervisory Council, the high-profile role of the Chairman of the Supervisory Council in improving the Council's performance, and the high level of information and organisational support for the activities of the Supervisory Council provided by the Bank's Corporate Secretary noted as strengths.

At the same time, the assessment highlighted areas in which the activities of the Supervisory Council and its committees can be improved. These include issues related to updating the current inducement system of the Council's members, expanding the Supervisory Council to include candidates with competencies in the areas of digitalisation and information technology, issues related to the establishment of programmes and the organisation of training for members of the Supervisory Council, and increasing the number of in-person meetings of the Staff and Remuneration Committee and of the Strategy and Corporate Governance Committee. The report on the assessment of VTB Supervisory Council will be reviewed by VTB Supervisory Council at the in-person meeting in the third quarter of 2020.

During the reporting year, the Bank also conducted benchmarking (comparative analysis) of corporate governance practices in order to establish an objective understanding of the Bank's current level of corporate governance in comparison with Russian companies that are recognised as leaders in this area. The results of this comparative analysis made it possible to identify the strengths and weaknesses of the Bank's corporate governance system and to identify areas for further improvement.

As part of the work that the Bank carried out to improve the corporate governance system in its subsidiary companies during the reporting year, corporate governance was assessed in its major subsidiaries, including those outside the Russian Federation. The assessments were carried out through questionnaires developed in accordance with the Group-wide corporate governance standards, the *Bank of Russia Code of Corporate Governance* (approved by the Bank of Russia's Board of Directors on the 21th of March 2014), and the *OECD Principles of Corporate Governance*.

The assessments found that the corporate governance system in Group companies as a whole complies with generally recognised best practices of corporate governance, while the most important areas of activity, such as the internal control system, the risk management system and information disclosure, are regulated in accordance with the Group standards. At the same time, areas were identified for improving corporate governance practices both in individual companies and those requiring improvements at the level of the Group standards. Based on the assessments, a list of recommendations was compiled, and road maps were drawn up for improving corporate governance in the respective subsidiaries.

The Bank's performance in the area of corporate governance enabled it to maintain a high position in the *National Corporate Governance Rating*, where it was accorded a score of 7++, corresponding to "well-developed corporate governance practice". The *RID* provides the annual rankings, which are based on an independent review. A rating of 7++ is assigned to companies that comply with the requirements of Russian legislation in the field of corporate governance, and it denotes fairly low risk to shareholders of losses associated with corporate governance.