

APPROVED  
by the Supervisory Board  
of CREDIT BANK OF MOSCOW  
Minutes No.10 dated 06.06.2016

## **REGULATION ON THE AUDIT AND RISK COMMITTEE OF THE SUPERVISORY BOARD OF CREDIT BANK OF MOSCOW**

### **1. GENERAL PROVISIONS**

- 1.1. This Regulation sets forth the status, formation and competence of, powers and responsibility of the members of, procedure for calling and holding meetings and recording recommendations of, the Audit and Risk Committee of the Supervisory Board of CREDIT BANK OF MOSCOW (the “Bank”).
- 1.2. This Regulation is made pursuant to the Bank’s Charter, Corporate Governance Code and Regulation on the Supervisory Board.
- 1.3. The Audit and Risk Committee of the Supervisory Board (the “Committee”) is formed to analyse efficiency of the Bank’s internal control and risk management procedures and advise on their improvement to the Supervisory Board when making decisions with respect thereto.
- 1.4. The Committee shall act in the interests of the Bank’s shareholders, the Bank itself and its investors, promote an efficient system of, and enable actual involvement of the Supervisory Board in, control over the Bank’s financial and business performance.
- 1.5. The Committee shall act within powers conferred to it hereunder by the Supervisory Board.
- 1.6. In its activities, the Committee shall be fully accountable to the Supervisory Board and shall be governed by Russian legislation, the Bank’s Charter, Regulation on, and resolutions of, the Supervisory Board, this Regulation and other by-laws of the Bank as approved by the General Shareholders’ Meeting and the Supervisory Board, and resolutions of the Committee.

### **2. FUNCTIONS OF THE COMMITTEE**

- 2.1. The Committee’s exclusive functions are:
  - 2.1.1. To advise the Supervisory Board on:
    - a) selection of an independent auditors firm to carry out independent external audit of the Bank’s financial (accounting) statements and issue auditor’s reports or provide other audit and non-audit services in respect of such statements of the Bank and its consolidated companies (the “Auditor”);
    - b) appraisal of the quality of services rendered by the Auditor and the Auditor’s compliance with auditor independence requirements;
    - c) priority activities of the Bank within acceptable risk level;
    - d) control over the Bank’s financial and business performance, compliance with applicable laws and regulatory requirements;

- 2.1.2. To ensure ongoing control by the Supervisory Board over the activities of the Bank's executive bodies and ensure co-operation with the Bank's management on matters within the Committee's competence;
  - 2.1.3. Supervise over reliability and efficiency of the Bank's risk management and internal control system;
  - 2.1.4. Control over measures taken to ensure the Bank's financial (accounting) statements are complete, accurate and true.
  - 2.1.5. To ensure implantation and promotion of risk management culture in the Bank;
  - 2.1.6. To ensure independency and fairness of internal and external audit functions;
  - 2.1.7. To control performance of, and measures taken by the Bank's executive management under, the system alerting of potential malfeasance by the Bank's staff (including abuse of insider or confidential information) or by third parties, and of other irregularities in its operations.
- 2.2. The Supervisory Board may resolve to request the Committee to perform any other tasks within its competence.
- 2.3. The Committee shall co-operate with any other Supervisory Board committees, the Bank's Audit Panel, Auditors, Management Board, Internal Audit Division and other management and control bodies.

### **3. COMPETENCE OF THE COMMITTEE**

- 3.1. For fair and independent information of Supervisory Board members, the Committee shall, pursuant to its functions under cl. 2 hereof, shall have the following powers in respect of the Bank's independent Auditor and financial (accounting) statements:
- 3.1.1. Advise the Supervisory Board on:
    - a) engagement and removal of the Auditor based on review of various auditors' services and terms and conditions;
    - b) draft agreements to be made with independent Auditors, in particular as regards the Auditor's fee;
    - c) audit services provided by the Auditor and whether to approve the cost and the terms and conditions of such services, including audit-related services.
  - 3.1.2. Oversee external audits and assess the quality of external audits and the Auditor's reports.
  - 3.1.3. Assess any report of the Auditor before it is presented to shareholders at a General Shareholders' Meeting.
  - 3.1.4. Monitor the scope of audit procedures and appraise the Auditor's fairness, independence and lack of conflict of interest including the evaluation of proposed Auditors, development of proposals on appointment, re-election and dismissal of the Auditors, on payment for their services and terms and conditions of their engagement; provided however that it may not restrict the freedom and independence of the Auditor's appraisal and must help make the Supervisory Board aware of a complete and fair account of any issues identified in the Bank's business.
  - 3.1.5. Ensure efficient cooperation between the internal audit subdivision and the Auditor.

- 3.1.6. Advise the Bank's management on drafting its financial (accounting) statements and approving its accounting policy under the international financial reporting standards ("IFRS");
  - 3.1.7. Review, together with the Bank's management, its annual and interim financial statements, and its Annual Reports to be submitted for approval to annual General Shareholders' Meetings.
- 3.2. At least once a year, the Committee shall:
- 3.2.1. Request the Auditor to provide a report under applicable Auditing standards and its other legal and contractual obligations describing:
    - a) internal control of the quality of the Auditor's services (quality control);
    - b) any material facts identified by quality control checks, by comparison with other independent auditors or by investigations of governmental authorities or professional communities during the last five years in respect of one or more audits made by the Auditor, and any steps taken to address such facts;
    - c) all relations between the Auditor and the Bank.
  - 3.2.2. Review the above report and the Auditor's work in each financial year, appraise its qualification, performance and independence, which includes review and appraisal of the audit engagement partner's role in the service provision process, and present to the Supervisory Board its findings and, where appropriate, its recommendations as to any extra steps to take in respect of the Auditor to satisfy the Bank's requirements as to the Auditor's qualification, performance and independence.
  - 3.2.3. Review with the Auditor any issues and difficulties occurring in the course of audit and response of the Bank's management, including any restrictions of the Auditor's activities or its access to required information, and any other material controversies between the Auditor and the Bank's management.
  - 3.2.4. Review and discuss with the Bank's management and the Auditor any material issues concerning:
    - a) accounting and audit principles and processes;
    - b) presentation of financial (accounting) statements, including material accounting policy issues and evaluation methods;
    - c) any material changes in or application of the accounting policy;
    - d) adequacy of the Bank's internal control procedures and the Auditor's actions taken upon finding any material flaws in the internal control system;
    - e) efficiency of the process intended to identify related party transactions as defined in IFRS;
    - f) programmes intended to identify and prevent fraud.
- 3.3. For fair and independent information of Supervisory Board members, the Committee shall, pursuant to its functions under cl. 2 hereof, shall have the following powers in respect of the risk management and internal control systems:
- 3.3.1. Advise on developing, improving and upgrading the systems of collection, analysis, retention, and provision to Supervisory Board members, of information about risks arising in the course of the Bank's financial and business activities.
  - 3.3.2. Advise on application of up-to-date and efficient banking risk identification, evaluation, optimisation and mitigation techniques (methods) and technologies.

- 3.3.3. Assess, review, and advise on improvement of, any guidelines, rules or procedures regulating the operation of the Bank's internal control and risk management system.
  - 3.3.4. Control implementation of any approved plans or programmes intended to improve the Bank's internal control and risk management system.
  - 3.3.5. Control and review performance of the Bank's risk management subdivisions.
  - 3.3.6. Assess the Bank's internal control system performance reports prior to their approval by the Supervisory Board.
  - 3.3.7. Review quarterly performance of the Bank's risk management subdivisions, any changes (actual or planned) to their organisational structure or internal procedures.
  - 3.3.8. Review the level of credit and market risks and its conformity with the Bank's development strategy and the general state of the financial market.
  - 3.3.9. Review the amounts of intrabank limits on loan portfolio quality indicators, securities portfolio, exposure to certain groups of persons /sectors, liquidity level and other limits within the Committee's competence.
  - 3.3.10. Control the capital structure for compliance with regulatory requirements.
  - 3.3.11. Monitor any risk factors identified by rating agencies and control observance of any recommendations given by them in order to maintain and upgrade the Bank's ratings.
  - 3.3.12. Develop performance evaluation criteria and system for the Bank's risk management subdivisions, and monitor how timely banking risks are identified and procedures required to manage them are instituted.
- 3.4. For fair and independent information of Supervisory Board members, the Committee shall, pursuant to its functions under cl. 2 hereof, shall have the following powers in respect of the internal audit system:
- 3.4.1. Advise on areas of checks made by the Bank's internal auditor, in particular as regards approval of the internal auditor's work plans and activity reports.
  - 3.4.2. Advise on performance appraisal of the Bank's internal auditor.
  - 3.4.3. Advise on approval (amendment) of the Bank's policy documents governing activities of the Bank's internal auditor and on any matters required by the internal audit subdivision's regulation to be referred to the Supervisory Board.
  - 3.4.4. Consider issues relating to the appointment (approval of the candidacy of) and removal of, and essential terms of the contract (supplementary agreements) to be made with, the Head of Internal Audit Division.
  - 3.4.5. Review existing authority or budget restrictions which can adversely affect the internal audit function.
- 3.5. For fair and independent information of Supervisory Board members, the Committee shall, pursuant to its functions under cl. 2 hereof, shall have other powers as follows:
- 3.5.1. Review written reports, memos and communications of the Bank's Audit Panel regarding any issues found during the relevant period and advise the Supervisory Board on ways to prevent any such issues in future.
  - 3.5.2. Review correspondence with regulating and governmental authorities, staff reports and publications raising material issues concerning the Bank's financial (accounting) statements and/or accounting policy.

- 3.5.3. Prepare assessment of the Auditor's report on audit of the Bank's annual financial statements under Russian accounting standard and IFRS for presentation to its shareholders at an annual General Shareholders' Meeting.
- 3.6. The Committee shall promote Supervisory Board members' actual participation in control, and their personal awareness, of the Bank's operations within the Committee's competence.
- 3.7. To ensure fulfilment of the Committee's powers, the Supervisory Board authorises it to:
  - 3.7.1. Engage in control over, and checks of, implementation of resolutions and requests of the Supervisory Board related to the Committee's competence.
  - 3.7.2. Request and obtain, in the manner established in the Bank, any information necessary for its proceedings from members of the executive bodies, the Supervisory Board, the Audit Panel and the Auditor, heads of subdivisions and other units and employees of the Bank.
  - 3.7.3. Propose to the Supervisory Board any amendments to this Regulation.
  - 3.7.4. If necessary, draft the Committee's by-laws for approval by the Supervisory Board.
  - 3.7.5. Exercise other rights as necessary to fulfil the Committee's powers.
- 3.8. Committee members must:
  - 3.8.1. Contribute to preparation and discussion of issues taken to Committee meetings.
  - 3.8.2. Participate in the Committee's decision-making by voting on items of agenda of its meetings.
  - 3.8.3. Make reasonable decisions, study all necessary information (materials) to this end and make all Committee members aware of information relevant to decisions being made;
  - 3.8.4. Notify the Committee chairman and/or the Corporate Secretary of inability to attend the next Committee meeting (absentee voting) specifying the reasons.
  - 3.8.5. Make decisions on items of the Committee's agenda acting in good faith and reasonably in the interests of the Bank's shareholders and all parties involved in line with recommendations of the Corporate Governance Code recommended by the Bank of Russia and best international practice in corporate governance.
  - 3.8.6. Fulfil requests of the Committee chairman.

#### **4. MEMBERSHIP AND ELECTION OF COMMITTEE MEMBERS**

- 4.1. The Committee shall be formed of 3 (Three) members elected out of Supervisory Board members who are not members of the Bank's executive bodies.

The Committee must be composed exclusively of independent directors, if it is impossible majority of the Committee members must be independent, and the other must be those Supervisory Board members who are not the sole executive body and (or) Management Board members.

The term "independent director", for the purposes hereof, shall have the meaning given to it in the Bank's Charter, Corporate Governance Code and Listing rules of "Stock Exchange MICEX" CJSC.

- 4.2. The Committee shall be chaired by an independent director.

- 4.3. The Committee Chairman must, within 5 (Five) business days of occurrence of any event disqualifying him as independent director under the Bank's Charter and Corporate Governance Code, give notice thereof to the Supervisory Board.
- 4.4. Committee members shall be elected at a meeting of, out of the members of, and for the term until next elections by the General Shareholders' Meeting of the Bank to, the Supervisory Board. Resolution electing Committee members shall be passed by a simple majority of votes of all Supervisory Board members.
- 4.5. The Committee chairman and members should be elected with due regard to their education, professional background, experience in the Committee's area of responsibility and special knowledge required to act as such. All Committee members must have knowledge in finance or acquire the same in a reasonable time after being appointed as such.
- 4.6. Committee members may be re-elected an unlimited number of times.
- 4.7. The Supervisory Board may remove all or any Committee members before term.
- 4.8. Any Committee member shall be discharged before term in the following cases:
  - 4.8.1. Upon resignation of such member from the Committee. Any Committee member may resign from the Committee by giving 1 (One) month written notice thereof to the Chairman of the Supervisory Board and Committee Chairman.
  - 4.8.2. Upon removal of such member by the Supervisory Board.
- 4.9. If any Committee member is discharged under cl. 4.8.1 hereof, the Supervisory Board shall, at the next meeting but no later than 1 (One) month of receipt by the Supervisory Board of the written resignation notice, elect a new member to the Committee. Until then, the resigning Committee member shall continue to perform his duties in full.
- 4.10. If any Committee member is discharged under cl. 4.8.2 hereof, the Supervisory Board shall, within 2 (Two) weeks of such discharge, elect a new Committee member.

## **5. ELECTION AND FUNCTIONS OF THE COMMITTEE CHAIRMAN**

- 5.1. The Committee Chairman shall be elected out of Committee members at a meeting of the Supervisory Board. Resolution electing the Committee Chairman shall be passed by a simple majority of votes of all Supervisory Board members. The Supervisory Board may at any time elect a new Committee Chairman by a simple majority of votes of all Supervisory Board members.
- 5.2. The Committee chairman shall be elected out of the independent directors on the Supervisory Board elected to the Committee. The Committee chairman may not be the Chairman of the Supervisory Board. The Committee chairman may not be elected to chair any other Supervisory Board committees.
- 5.3. The Committee chairman shall steer the Committee, which includes:
  - calling of, and chairing, Committee meetings;
  - approving agenda of Committee meetings upon consultation with Committee members;
  - defining the list of invitees to Committee meetings;
  - arranging discussion of matters at, and hearings of invitees to, Committee meetings;
  - maintaining ongoing communication with the Bank's executive bodies, Supervisory Board, Auditor, Audit Panel, subdivisions and employees to obtain maximally complete and true information necessary for the Committee's proceedings and to ensure efficient coordination with the Supervisory Board;

- assigning duties to Committee members and giving them requests related to in-depth study of issues, and to preparation of materials, to be considered at Committee meetings;
- reporting the Committee’s proceedings to the Supervisory Board;
- performing other functions envisaged by the effective legislation, the Bank’s Charter, this Regulation and other by-laws of the Bank within the Committee’s competence.

## **6. FUNCTIONS OF THE COMMITTEE’S SECRETARY**

- 6.1. The Bank’s Corporate Secretary shall act as the Committee’s secretary.
- 6.2. The Committee’s secretary shall ensure:
  - arrangement of Committee meetings;
  - collection and classification of materials for the meetings;
  - timely distribution of the Committee meeting notifications, agendas of the meetings and related materials to Committee members and invitees;
  - minuting of Committee meetings;
  - drafting of the Committee’s resolutions;
  - retention of Committee meetings’ materials;
  - delivery of any appropriate information to Committee members.

## **7. PROCEEDINGS OF THE COMMITTEE**

- 7.1. Any matters shall be discussed and decisions taken at Committee meetings. Any decisions of the Committee shall be recommendatory.
- 7.2. Committee meetings shall be called when necessary.
- 7.3. Committee meetings shall be held in person (by way of co-presence of Committee members at a meeting, in particular by means of a conference call or video conference call) or by absentee voting (by balloting Committee members on agenda).
- 7.4. Committee meetings may be called by the Committee chairman at his discretion, upon request of any Committee member, or any body or person entitled to request a Supervisory Board meeting to be called, or upon request of the Supervisory Board.
 

The agenda of meetings shall be set out by the Committee chairman based on the Supervisory Board’s work plan, its requests or any other requests referred to above in this clause.
- 7.5. Notice of any upcoming Committee meeting shall be given by the Committee secretary to each Committee member together with necessary materials at least 7 (Seven) calendar days before it is to be held (or, if to be held by way of absentee voting, before the last day for voting). This period may be shortened where any issues require urgent decisions, provided that none of the Committee members objects. To so object, a Committee member must notify the Committee chairman and/or secretary in writing by mail, phone, email or otherwise.
- 7.6. Where the Committee is to make any decisions at an in-person meeting, the Committee members present thereat must express their opinion on the items of its agenda by voting. Any Committee members who cannot attend an in-person meeting or who participate in a meeting held by absentee voting may express their opinion on the items of its agenda in writing.
- 7.7. If any Committee meeting is held by absentee voting, the Committee members shall be provided with its agenda, appropriate materials, the draft resolution specifying the response deadline and a voting ballot.

- 7.8. The quorum for taking any decisions by the Committee shall be constituted by at least a half of the Committee members.
- 7.9. The quorum of any in-person meeting shall be determined by count of Committee members present thereat. The quorum of any meeting held by absentee voting shall be determined by count of ballots received from the Committee members by the date specified in the notice of meeting.
- 7.10. Any decisions shall be taken by a simple majority of Committee members' votes. Any Committee member who voted against any decision taken may have his dissent entered in the minutes of the meeting.
- 7.11. The Committee may form working and/or expert groups to deal with any ongoing tasks or particularly complicated matters.

## **8. ACCOUNTABILITY OF THE COMMITTEE TO THE SUPERVISORY BOARD**

- 8.1. The Supervisory Board may at any time during a year require the Committee to report on the Committee's current activities. The deadlines for any such reporting shall be set by resolution of the Supervisory Board.
- 8.2. Copies of (extracts from) minutes of Committee meetings giving recommendations to the Supervisory Board shall be provided to its members as part of the materials for those Supervisory Board meetings whose agenda contains an item requiring such recommendation.
- 8.3. The Supervisory Board may instruct the Committee to opine on any particular matters, any such instruction to specify a reasonable deadline therefor.
- 8.4. The Committee may at its discretion submit its recommendations on any matter within its competence to, and, where required hereby, shall opine to, the Supervisory Board.

## **9. COOPERATION OF THE COMMITTEE WITH THE BANK'S MANAGEMENT BODIES AND OTHER PERSONS**

- 9.1. Whereas Committee members need access to appropriate information to work effectively, members of the executive bodies, the Supervisory Board, members of the Audit Panel, the Auditor, heads of subdivisions and employees of the Bank shall, if so requested by, and within the deadlines reasonably set by, the Committee, Committee chairman or a Committee member (upon consultation with, and with a copy to, the Committee Chairman and Committee secretary), provide complete and true information and documents relevant to the Committee's activities in a proper manner.
- 9.2. The Committee Secretary shall take care of the technical and procedural side of the Committee's interaction with Bank's bodies.

## **10. INSIDER INFORMATION**

- 10.1. Insider information is any substantial information on the Bank's business, shares, other securities and dealings therein which is not public and, if disclosed, may materially affect the market value of the Bank's shares or other securities.
- 10.2. Committee members and secretary may not make private use of, or disclose, insider or any other confidential information.

- 10.3. Any third parties to be engaged in Committee meetings shall sign an agreement on non-disclosure of insider and other confidential information.

### **11. THE COMMITTEE MEMBERS' LIABILITY**

- 11.1. Committee members shall be liable under the terms of the Federal Law "On Joint-Stock Companies" applicable to Supervisory Board members.
- 11.2. Any conflict of interest that a Committee member may have in respect of any matter under consideration must be disclosed at a Committee meeting and be made known to the Supervisory Board in accordance with the Corporate Governance Code.

### **12. APPROVAL OF AND AMENDMENTS TO THIS REGULATION**

- 12.1. This Regulation and any amendments hereto shall be approved by the Supervisory Board by a majority of votes of all Supervisory Board members.
- 12.2. Any matters related to the Committee's proceedings, unless covered by this Regulation, shall be governed by the Bank's Charter, Regulation on the Supervisory Board, other by-laws of the Bank and effective legislation of the Russian Federation.
- 12.3. If any change in laws and regulations of the Russian Federation renders any provisions hereof in conflict therewith, such provisions shall become void and Committee members shall refer to such laws and regulations until amending this Regulation.

Chairman of the Supervisory Board  
of CREDIT BANK OF MOSCOW

William Forrester Owens