SBER

Responsible Finance Policy of Sberbank PJSC

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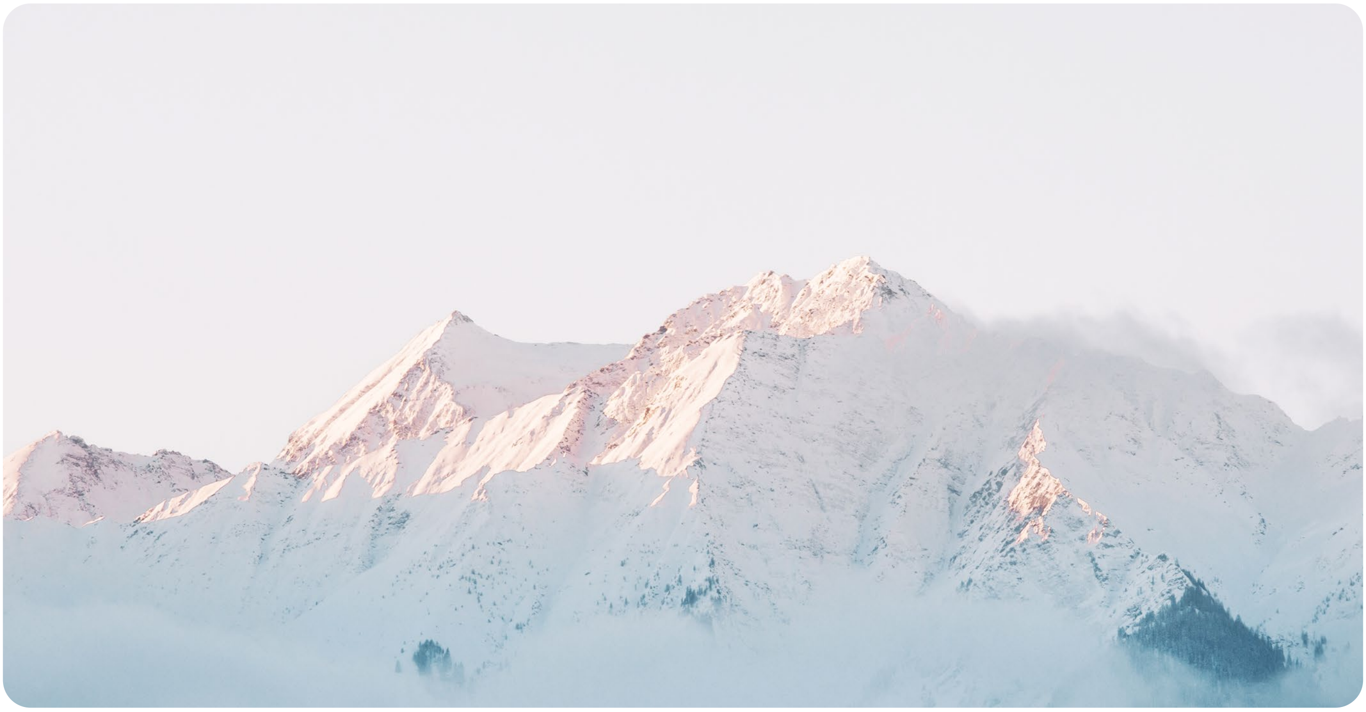

1. General provisions

1.1. Background

Sberbank PJSC (hereinafter Sberbank, the Bank) is the largest bank in Russia and a systemically important institution for the Russian economy. Sber Group (hereinafter Sber), which unites the Bank and its subsidiaries and affiliates, offers its customers a wide range of financial and non-financial products and services. Sber launched its systemic ESG transformation in 2020 and signed the Principles for Responsible Banking, a global framework of the UNEP Finance Initiative (UNEP FI).

Sberbank's systemic importance and market leadership give it a key role in the development and advancement of responsible finance practices, which are among Sber's ESG priorities, under the Environmental, Social, Governance and Sustainability Policy (hereinafter the ESG Policy)[1]. The Bank has been developing its own approaches and unique methodologies in responsible finance, while also promoting the development of standards, incentives and tools at the national and international levels. In order to facilitate the ESG transformation of its credit and investment portfolios, the Bank is building an ESG risk management system, and it already provides ESG products and services across all business segments and industries.

Sberbank discloses information on its responsible finance initiatives in its annual ESG reports, including the size of its portfolio of sustainable loan products, the types of these products it offers, and the procedures and tools it uses to assess and manage ESG risks. All required information is published on the Bank's official website, www.sberbank.ru, and in the media.

The Bank works side by side with clients, business associations, financial institutions, and public authorities, and it participates in the development of industry-specific and nationwide approaches, methodologies and strategies in responsible finance.

1.2. Objective

The Responsible Finance Policy (hereinafter the Policy) establishes approaches for providing responsible financing to corporate clients and enhances transparency on the Bank's efforts in this area.

The Bank defines responsible finance as the provision of ESG products and the consideration of environmental, social and governance factors, along with financial factors, in the process of financial decision-making.

The Responsible Finance Policy was developed in accordance with the ESG Policy, the ESG Strategy, the Lending Policy and other internal documents of Sber, as well as national and international industry standards, initiatives and recommendations, including those of the Bank of Russia regarding responsible investment and sustainable development activities, and applicable Russian law.

1.3. Scope

The Policy applies to the Bank's employees (based on their responsibilities), as well as its structural units, branches and representative offices involved in credit and investment processes.

The Policy provisions cover Sberbank's credit and investment activities with corporate clients and are applied differently across different segments[2].

The Policy may be updated and revised to account for the latest developments or amendments to strategic documents at any time, but at least once every three years.

1 The ESG Policy is available at: https://www.sberbank.com/common/img/uploaded/files/pdf/normative_docs/sber_esg_policy_eng.pdf.
2 The application of provisions in different business segments is regulated by separate internal regulatory documents.

2. Sber's responsible finance mission and principles

Sber's mission in responsible finance is to facilitate a transition to a sustainable development model and an ESG transformation in the Russian economy through ESG risk management, the provision of sustainable credit and non-banking ESG products, and working with clients, the government and other stakeholders.

In its work, Sber is guided by the following responsible finance principles.

1. **Impact principle.** Sber recognizes the significance of ESG risks and the role sustainable development plays in the long-term sustainability of the Bank, its clients, and the economy and society at large.

2. **Alignment principle.** Sber complies with national law and takes into account the applicable requirements of international agreements and global initiatives.

3. **Principle of a hierarchy of ESG risk and sustainability impact management methods.** Sber pursues a systematic approach to managing the ESG risks of its portfolio and determining the impact of its financial business on the environment, society and the economy. The Bank has procedures and tools in place to manage such risks and impacts throughout the term of financing arrangements. Sber makes financing decisions based on, among other things, the materiality of ESG risks and the maturity of the client's system for managing them. It may:
   a. restrict funding for certain types of activities and clients with unacceptable[3] ESG risks;
   b. escalate decision-making if a high level of ESG risks is identified (and the client does not mitigate these risks);
   c. more actively manage ESG risks and sustainability impacts across priority industries and areas;
   d. recommend improving ESG risk management practices and systems and work with clients undergoing an ESG transformation, providing them with ESG risk assessment and management tools;
   e. encourage clients to mitigate and manage risks by offering them special terms and conditions and providing them with sustainable credit and non-banking ESG products.

4. **Leadership principle.** Sber views best global practices as its benchmark and strives to create an environment suitable for the transformation of the Russian economy by sharing its own expertise and experience and by collaborating with partners in order to develop national and international approaches, standards and tools for responsible finance purposes.

5. **Transparency principle.** Sber adheres to a policy of transparency and publishes regular reports on the results of its responsible finance activities.

3 See the "Unacceptable ESG risk" section.

3. ESG risk management

3.1. ESG risk management approach in corporate credit and investment processes

Sber implements **a comprehensive approach** to managing its ESG risks in its corporate lending and investments.

Sber's ESG risk management system is built upon best practices and assesses the **key sustainable development** risks the Bank's corporate loan portfolio is exposed to, including environmental (ecological and climate), social and corporate governance risks.

As part of its approved risk management approach, the Bank assesses the ESG risks for corporate and project finance transactions based on **exposure and current risk management practices.**

In order to quickly identify and assess risks, the Bank has created **a set of procedures and tools** for ESG risk assessment that it applies in accordance with its internal regulatory documents.

The Bank identifies **five levels of risk:** unacceptable, very high, high, medium and low. ESG risk levels are assigned based on a client's industry, an assessment of the risk inherent in the client's current and planned operating activities, and the residual risk following the implementation of recommended risk mitigation measures.

Risk level	Unacceptable	Very high	High	Medium	Low
Management tools	Restricting funding	Escalating the decision-making or including certain conditions to mitigate the risks		Recommending certain ESG conditions	
Transformation tools		Sustainable loan products			
	Non-banking ESG products				

3.2. Unacceptable ESG risk

The Bank limits the financing of certain activities that are materially inconsistent with sustainable development principles. Such activities include:

- Pawnshops
- Microfinancial institutions
- Political activity
- Drift net fishing
- Asbestos production
- Illegal activities[4]

4 In accordance with national laws and international treaties adopted or ratified by the country where a project is being implemented. See "Appendix 1. Types of illegal activities".

3.3. Very high ESG risk

The level of ESG risks is deemed very high if at least one of the following factors is identified:

- The borrower engages in a business that causes the destruction or serious disruption of natural ecosystems without commensurate compensatory measures[5];
- The borrower carries out projects that may result in large-scale forced displacement or economic migration with an adverse effect (detrimental to economic well-being);
- Executives or ultimate beneficiaries of the borrower have been accused of (or pronounced guilty of) large-scale corruption or bribery;
- Executives or ultimate beneficiaries of the borrower have been evading taxes (and are pronounced guilty) on a large scale.

3.4. Risk level identification: high, medium, or low

Procedures and tools for ESG risk assessment and management

- **Industry maps of ESG risk exposure.** The Bank regularly assesses the levels of industry-specific ESG risks and uses the results to adjust transaction routing and determine the need for in-depth ESG expert reviews.
- **Automated model for assessing client's ESG risks based on publicly available information and data from activities of oversight and supervisory bodies.** The model is powered by artificial intelligence and predicts the probability of regulatory audits and the materialization of ESG risks.
- **An integrated ESG risk assessment tool.** This tool is used for clients that are exposed to medium or high level of ESG risk based on the analysis described above. This tool consists of the following:
  - A module of territorial ESG risk score for all regions of the Russian Federation incorporating data on the current state of the environment and social development metrics in a region.
  - Industry guidelines to assess the level of a client's ESG risks and generate a list of recommended or mandatory ESG conditions to include in a contract. In addition, Sber has identified the six industries with the highest exposure to sustainable development risks in terms of their impact on the environment, carbon intensity and working conditions. These are the metallurgy, mining, oil and gas, chemicals, energy and agriculture industries.
  - The ultimate aim of applying the industry guidelines is to determine the conditions that are required to mitigate a client's ESG risk.
  - ESG scoring, which is used to evaluate the level of development of a client's ESG practices compared to the rest of the industry on the basis of a questionnaire fulfilled by a client.
- **ESG screening.** This screening is for large and significant deals in industries with high or medium ESG risk not covered by other ESG risk assessment tools. ESG screening is based on the assessment of whether a client has adequate management practices, and whether their business is susceptible to any substantial negative ESG events.
- When the Bank provides project financing, it additionally conducts thorough **ESG due diligence** for major projects. Following an ESG expert review, the Bank creates a list of recommendations for preventing or mitigating ESG risks and impacts throughout the project life cycle.

3.5. Monitoring of ESG risks

The Bank has a system for monitoring ESG risks of portfolio clients, which consists of the following elements:

- The assessment of whether a client has fulfilled its obligations to mitigate its ESG risks and improve its sustainable development metrics (monitoring the fulfillment of ESG conditions);
- Automated news monitoring models that look out for instances of ESG risks that have materialized and, if such instances are detected, trigger emergency client monitoring and assessment.

The results of the ESG risk monitoring process described above are considered by risk managers when reviewing the results of scheduled and extraordinary monitoring. These results then help shape the funding strategy.

5 Destruction refers to the complete collapse of, or serious damage to, the integrity of ecosystems through significant and prolonged impacts, or changes in the environment that result in the ecosystem's inability to perform its functions.

4. Sustainable loan products

Sustainable loan products are loan products that promote or contribute to the ESG transformation of a client.

Loan products	Loan product types	Areas and criteria
Green loan products are products that provide financing for green projects. **Adaptation loan products** are products that provide financing for adaptation projects.	– Project finance – Investment loans – Contract loans – Refinancing of above-mentioned products that entail credit risk	The Green and Adaptation Loan Product methodology is fully consistent with Russian Government Directive No. 1912-r, "The Objectives and Main Streams of Sustainable (and Green) Development of the Russian Federation", dated 14 July, 2021, and Russian Government Resolution No. 1587, "Criteria of Sustainable (and Green) Development Projects in the Russian Federation", dated 21 September, 2021.
Social loan products are products that provide financing for social projects.	– Project finance – Investment loans – Contract loans – Refinancing of above-mentioned products that entail credit risk	The areas and criteria are established in the Bank's internal documents and include healthcare, education, affordable and comfortable housing, sports, culture, art and tourism, affordable basic infrastructure, social protection and welfare.
ESG loan products (deals with ESG conditions) are loan products containing requirements to improve (versus the current values) environmental, social and governance non-financial metrics. ESG conditions may be included in a contract as a penalty or a variable interest rate parameter. The Bank has prepared a set of standard clauses for ESG conditions for clients with different levels of ESG practices.	– Project finance – Investment loans – Contract loans – Working capital loans	**ESG condition fulfillment deliverables:** – Formalized documents – Public reports – Quantitative values confirmed by an audit report, etc. See "Appendix 2. ESG conditions".

Features of business processes associated with sustainable loan products

The Bank labels sustainable loan products in its internal accounting systems and records their status when making a decision on financing and the deal terms.

Business processes for green, adaptation, and social loan products include:

- A check for a report from an external verifier[6] determining whether the loan complies with the criteria of Russian Government Resolution No. 1587, dated 21 September, 2021.
- Verification deal compliance with green, adaptation, and social loan criteria by the Bank's experts.

For ESG loans, the Bank monitors the fulfillment of ESG conditions.

6 An external verifier is a legal entity that provides opinions on whether sustainable development financial instruments comply with the requirements of Russian Government Resolution No. 1,587, "Criteria of Sustainable (and Green) Development Projects in the Russian Federation", dated 21 September, 2021 and is included in a list of accredited verifiers available here: https://xn--90ab5f.xn--p1ai/en/sustainable-development/green-finance/national-competence-center/?tabs=verifiers_and_bond_issues.

Appendices

Appendix 1. Types of illegal activities

Under the Bank's internal methodology, illegal activities include (but are not limited to) the following:

1. Use of child labor (except for quota jobs) or forced labor
2. Transboundary movement of, or trade in, waste prohibited under the Basel Convention on the Control of Transboundary Movements of Hazardous Wastes and their Disposal
3. Trade in wildlife regulated by CITES, production of, or trade in, goods derived from wildlife
4. Production, use of, or trade in, persistent organic pollutants under the Stockholm Convention
5. Production of, or trade in, banned or severely restricted chemicals and severely hazardous pesticides or herbicides under the Rotterdam Convention
6. Production of, or trade in, ozone-depleting substances under the Montreal Protocol
7. Production of, or trade in, PCB-containing products under the Stockholm Convention
8. Production of any type of weapons banned under the international obligations assumed by the Russian Federation

Appendix 2. ESG conditions

1. Recording and verifying greenhouse gas emissions
2. Recording energy consumption and improving energy efficiency
3. Recording water consumption and improving water conservation
4. Assessing and managing climate risks
5. Ensuring regular environmental insurance
6. Constructing buildings and structures that comply with environmental standards
7. Managing waste (with formalized processes, action plans and targets)
8. Assessing environmental and social risks
9. Recording and reducing staff turnover
10. Formalizing approaches and principles related to human rights and discrimination
11. Certifying occupational health and safety management systems
12. Ensuring the independence of the board of directors
13. Promoting gender diversity in governing bodies
14. Ensuring that executives' remuneration is contingent upon the implementation of the sustainability strategy
15. Formalizing ethical and anti-corruption approaches and principles
16. Developing a sustainability management system (developing and implementing documents and reports)
17. Conducting external assessments of sustainable development activities (including with ESG ratings)
18. Integrating ESG principles across the supply chain