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## Summary

**Use of proceeds:** We confirm that the planned eligible projects for the use of funds derived from this bond issuance are well aligned with the Green Bond Principles 2018 (GBP 2018). The categories of eligible projects are: (1) renewable energy, (2) energy efficiency and (3) clean transportation, which are in line with the GBP 2018 and have a positive environmental impact.

**Project evaluation/ selection:** In our view, the process of project evaluation and selection followed by the Bank in its Green Bond Framework (GBF), which is applicable for this bond issuance, is in line with what is stated in the GBP 2018 and fully complies with what is expected from the market.

**Management of proceeds:** We confirm that the management of proceeds expected from this bond issuance is in line with the GBP 2018 taking into account current state of green finance practices in Russia. The management of proceeds is characterized by handling the funds through a separate account and a green bond register, which is already planned to be created, revised on a quarterly basis and published by the Bank.

**Reporting:** The green bond register (which will include all information necessary for identification of all eligible projects) will be used as a basis for reporting within the green bonds issuance. The Bank confirmed, that the information on the projects, financed by the green bonds proceeds will be included in the Annual environmental report of the Bank as a separate annex. The Bank has a track record of environmental reports publication since 2008. These reports are based on the international practices of the banking environmental reporting and can be verified or audited by external parties in the future. Therefore, we consider that the described procedure of reporting for this bond issuance is in line with the GBP 2018.

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**Table 1. Green bonds issuer**

Name of the issuer	Center-invest Bank
Industry of the issuer	Banking
Country of the issuer	Russian Federation
Credit rating (issuer) (national scale)	A(RU)* (ACRA, Moscow)
Credit rating (issuer) (international scale)	Ba3** (Moody's Investors Service)
ESG Rating	No
ESG Ranking	17th*** (Vigeo Eiris)

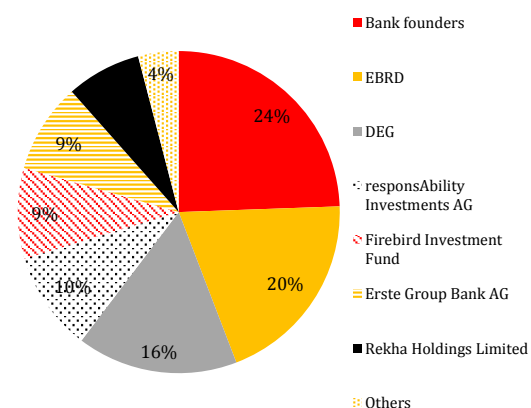
Source: RAEX-Europe based on data from the Bank and open sources  
 \* National scale of the Russian Federation  
 \*\* Long-term local and foreign currency deposit rating  
 \*\*\* Out of 76 European banks that are applying environmental, social and governance models

**Table 2. Green bonds issue**

Registration number	4B020602225B001P
Registration date	30.10.2019
Registration authority	Central Bank of Russia (CBR)
Issuance date (planned)	20.11.2019
Country of the issuance	Russian Federation
Bond type (according to bond prospectus)	Documentary interest non-convertible bearer bonds, placed by public subscription
Bond type (according to green bond principles*)	Standard Green Use of Proceeds Bond*
Nominal value	RUB 250 m
Maturity	1 year
Coupon (planned range)	7,75-8,25%
Stock exchange	Moscow Exchange (MOEX)
Green section of Stock exchange	Yes (Sustainability Sector)
Underwriter	No
Green bonds underwriter's experience	No
Presence of Green Bonds Framework	Yes <sup>1</sup>

Source: RAEX-Europe based on data from the Bank and open sources  
 \* Second part's estimate

**Graph 1: Shareholders structure as of 1 July 2019, %**



Source: RAEX-Europe based on information, provided by the Bank

## 1 Introduction

Center-invest Bank is a commercial bank in Russia, occupying the 53<sup>rd</sup> position by assets and 68<sup>th</sup> by capital in the Russian banking system as of 1 September 2019<sup>2</sup>. The Bank was established in 1992 in Rostov-on-Don city (Russia). The predominant activity of the Bank is lending operations to local small- and medium-sized enterprises and consumer lending in the key operating area of the Bank – the Southern Federal District of the Russian Federation. The Bank also specializes in issuing guarantees, as well as providing leasing services via its wholly owned subsidiary LLC Center-leasing. The largest shareholders of the Bank include European Bank for Reconstruction and Development (19,7%), German investment corporation DEG (16,1%), as well as the founders of the Bank - Dr. Vasily Vysokov and Mrs. Tatiana Vysokova (24,4%) (see Graph 1). According to the credit risk assessment<sup>3</sup>, the Bank is characterized by strong capital adequacy metrics, resilient profitability and stable funding base. At the same time, the key risks for the Bank's creditworthiness arise from relatively high level of problem loans and somewhat volatile liquidity position. Center-invest Bank has implemented a Green Bonds Framework (GBF) (officially named as "Order and principles of placement of funds, raised through the issuance of "green bonds") aimed at providing green bond issuance guidance for the Bank's green bond issuing activity. Specifically, the Bank stated that based on this GBF, it can issue exchange-traded bonds for financing and refinancing loans for projects aimed to increase energy efficiency, projects in the renewable energy sector and clean transportation sector. In particular, the Bank is planning to issue documentary interest non-convertible bearer bonds with mandatory centralized storage, placed by public subscription. The Bank is planning to include this issue into the Sustainability Sector of the Moscow Exchange by the end of 2019; therefore, the compliance with the Green Bond Principles 2018 (GBP 2018) by International Capital Market Association (ICMA) is obligatory for this particular issue due to the MOEX listing rules acting from August 2019. Green financing from the Bank according to its GBF includes bonds, aimed at financing and refinancing of loans to finance the environmental projects in the following spheres:

1. Renewable energy;
2. Energy efficiency;
3. Clean transportation.

<sup>1</sup> Green bonds Framework of the Bank: [https://www.centrinvest.ru/files/about/pdf/Green\\_Bond\\_Framework.pdf](https://www.centrinvest.ru/files/about/pdf/Green_Bond_Framework.pdf)

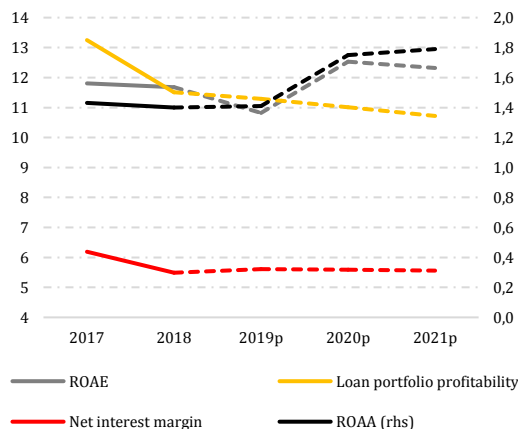
<sup>2</sup> According to "Expert RA" Rating Agency: <https://www.raexpert.ru/rankings/>

<sup>3</sup> [https://www.moody.com/research/Moodys-affirms-Center-Invest-Banks-deposit-ratings-outlook-stable--PR\\_411458](https://www.moody.com/research/Moodys-affirms-Center-Invest-Banks-deposit-ratings-outlook-stable--PR_411458)

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**Graph 2:** Key financial indicators of the Bank for 2017-2021, %



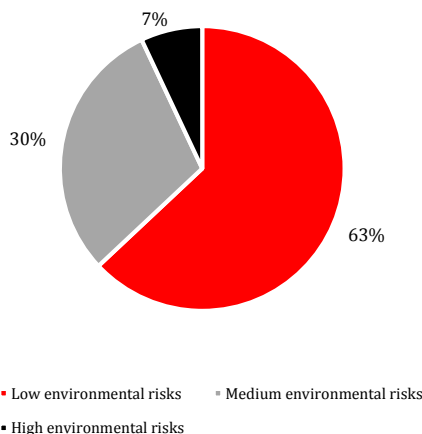
Source: RAEX-Europe based on the Bank's Strategy for 2019-2021

**Table 3:** Use of proceeds categories and criteria

Use of proceeds category	Selection criteria
Renewable energy	<ul style="list-style-type: none"> <li>Increasing renewable energy production or</li> <li>Reduction of the consumption of primary energy or</li> <li>Reduction of the consumption of renewable sources or</li> <li>Reduction of other types of energy, which may ultimately be related with the use of a renewable source of energy</li> </ul>
Energy efficiency	<ul style="list-style-type: none"> <li>Reduction of the consumption of primary energy or</li> <li>Reduction of the consumption of electric power or fossil fuel or</li> <li>Reduction of other types of energy, which may ultimately be related with the use of a renewable source of energy and</li> <li>Reduction of energy consumption (physical energy savings per unit of output) by at least 20% compared to the baseline level (before the project implementation)</li> </ul>
Clean transportation	<ul style="list-style-type: none"> <li>Reduction of the consumption of electric power or fossil fuel or</li> <li>Reduction of other types of energy, which may ultimately be related with the use of a renewable source of energy and</li> <li>Reduction of energy consumption (physical energy savings per unit of output) by at least 20% compared to the baseline level (before the project implementation)</li> </ul>

Source: RAEX-Europe based on data provided in the Bank's GBF

**Graph 3:** Bank's credit portfolio classification\* by environmental risk degree as of end 2018, %



Source: RAEX-Europe based on the Bank's annual environmental Report 2018  
\*Bank's own classification

## 2 Alignment with the green bond principles

In this section, we assess the alignment of the GBF provided by the Bank and the corresponding bond issue with the GBP 2018. At the same time, we assess the framework's credibility, as well as the correspondent bond issue, in respect to the Bank's description of every section of this report.

According to our bond issuance assessment, the eligible projects for the **use of funds** are well aligned with the GBP 2018. The *categories* are (1) renewable energy, (2) energy efficiency and (3) clean transportation, which comply with GBP 2018 and have a positive environmental impact. The Bank has also confirmed that with the funds from this specific bond issuance, it is planning to finance (refinance) the projects that can help to mitigate environmental risks, which are critical for the main territory of the Bank's core operations (South of the European part of Russia), namely: climate change related processes, desertification, biodiversity decline, etc.

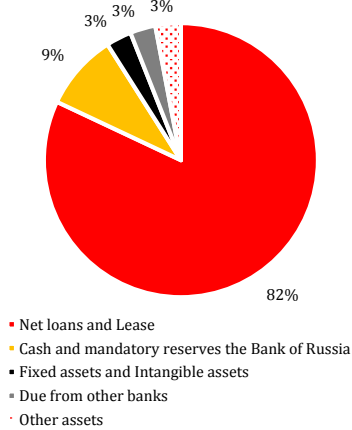
**The process for evaluation and selection of projects** is also in line with the GBP 2018 guidelines. In the current version of the Bank's GBF, each *category* of the eligible projects contains specific selection *criteria* relative to the category: qualitative *targets* for "Renewable energy" category, and the mixture of qualitative and quantitative *targets* for the "Energy efficiency" and "Clean transportation" category (see Table 3). In addition, the Bank's GBF contains brief description of the preliminary projects that can be financed (refinanced) through the green bonds issuance.

The Bank clearly defines the process through which the loans (projects) are selected. The initial ("zero") stage of the project selection where loans will be allocated is based on the Bank's "Environmental and Social Policy of OJSC CB "Center-invest" (ESP), which was introduced by the Bank in 2010. According to this policy, all projects funded by the Bank are subject to a preliminary environmental and social assessment to assist in the decision-making process on expediency of financing of a particular activity and, in case of a positive decision, the preliminary assessment also aids in the determination of the approach to solve a specific environmental and/or social problem. In addition, all projects to be financed by the Bank, shall be classified into one of the three groups of environmental risks on the application stage. The risk levels are: low, medium or high risks (see Graph 3 as an example). Taking into account the fact, that this procedure has been in place for almost 10 years and has been obligatory for all projects, financed by the Bank, in our view, this creates a solid technical and governance background for further evaluation and selection of eligible projects within the GBF. Moreover, within the ESP the Bank has approved an "Environmental and social

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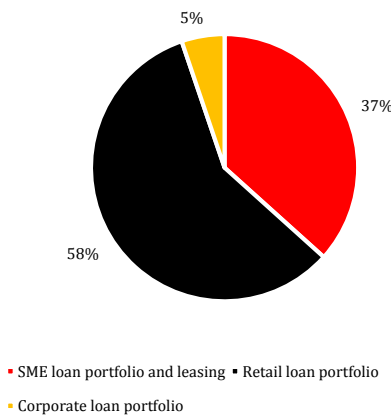
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**Graph 4:** Assets structure as of 1 July 2019, %



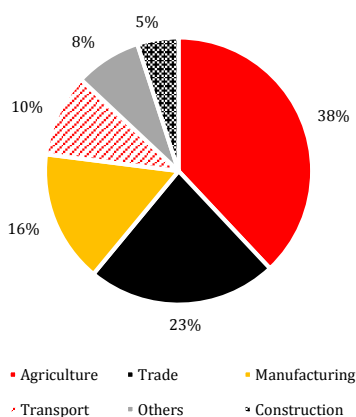
Source: RAEX-Europe based on data provided by the Bank

**Graph 5:** Loan portfolio structure as of 1 July 2019, %



Source: RAEX-Europe based on data provided by the Bank

**Graph 6:** Loan portfolio structure by industries as of 1 July 2019, %



Source: RAEX-Europe based on data provided by the Bank

*exclusion list*”, which describes a series of controversial projects and industries, which the Bank is prohibited to finance directly or indirectly. This creates, in our view, an additional “firewall” for the eligible projects evaluation and selection.

The process for evaluation and selection of eligible projects within the determined categories (see Table 3) is the following:

- Zero stage. For the projects, related to the *energy efficiency Bank lending program*, the Bank’s employee (first line) sends a special questionnaire to the borrower in order to obtain the information about the customer’s energy and consumption of resources (recorded and planned). The filled-in questionnaire shall then be submitted to the Bank together with the technical documentation in regard to the equipment and shall be verified by the employee. The employee of the Bank who is responsible for this verification must go through an internal training program and be thoroughly aware of all the Bank’s environment related policies;
- First stage. The responsible credit officer of the Bank, having the required experience in lending to energy-efficient projects and having a relevant international certification (including IFC and EBRD certification), performs the preliminary evaluation of the borrower and the project for compliance with the Bank’s GBF selection criteria;
- Second stage. The ecological secretary of the Bank performs a check of the assessment and makes a draft decision on the project;
- Third stage. The final decision on the loan approval is done by the Bank’s collegial body – credit committee.

In our view, the process followed by the Bank complies with market expectations and local best practices. However, the described procedure of eligible projects evaluation and selection has some room for improvement, namely separation of the responsible credit officer and environmental secretary duties, as well the implementation of an independent internal environmental auditor within the structure of the Bank’s credit committee, who will be independent from the Bank’s Executive Board.

**The management of proceeds** is characterized by handling the funds through a *separate account* and a *green bond register*, which is already planned to be created, revised on a quarterly basis and published by the Bank. The Bank has fully described in its GBF the procedure of how it will maintain the green bond register.

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The Bank has also clearly disclosed that the unallocated funds will be temporarily managed in accordance with the generally accepted liquidity management policy of the Bank. An additional control under the management of proceeds will be supported by the issuer's internal policies, including the GBF, as well as current listing rules of MOEX (including rules for the "Sustainability section"), as well as general rules and procedures of investors' protection in the Russian Federation.

The Bank confirmed that it plans to maintain the total value of the projects financed by the "green" bonds proceeds, not less than the total nominal value of the Bank's "green" bonds issued. During the quarter following the repayment of the loan issued to finance the eligible project, the Bank is obliged to remove this project from the *green bond register* and make efforts to replace this project with another one complying with the criteria set in the GBF, so that the total value of the projects financed remains equal to the net proceeds from green bonds issued. Moreover, the Bank confirmed that it will monitor the financed projects throughout the entire period the green bonds are maintained on the Bank's balance sheet. If the projects financed through the green bonds proceeds cease to meet the GBF criteria before the redemption of the green bonds, the Bank commits to exclude this loan (and the corresponding project) from the *green bond register* and replace it with another loan (and corresponding project) that meets the GBF criteria.

We consider that the management of proceeds is in line with GBP 2018 taking into account the current status of green finance practices in Russia. The *green bond register* (which will include all information necessary for identification of all eligible projects) will be used as a basis for **reporting** within the green bonds issuance. The Bank confirmed, that the information on the projects, financed by the green bonds proceeds will be included in the *Annual environmental report* of the Bank as a separate annex, and will contain the following data:

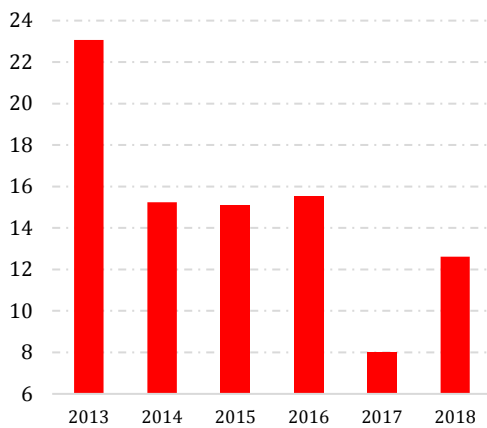
- total value of the financed project;
- industry of the financed project;
- total reduction of the specific energy consumption;
- total reduction of CO<sub>2</sub> emission.

The Bank has a track record of environmental reports publication since 2008. These reports are based on the international practices of the banking environmental reporting and can be verified or audited by external parties in the future. Therefore, we consider that the described procedure of reporting is in line with the GBP 2018.

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**Graph 7:** Reduction of the CO<sub>2</sub> emission due to the Bank's lending activity\*, th tons per year



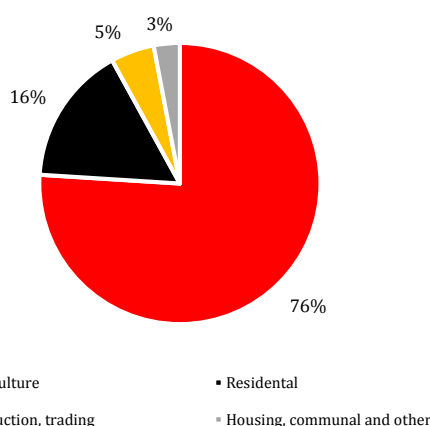
Source: RAEX-Europe based on the Bank's Environmental Reports  
\* All energy efficiency projects (except Residential loans portfolio)

**Table 4:** Bank's social and environmental targets (extracts)

Indicator	2019p	2020p	2021p
<b>Human capital</b>			
Nurturing staff			
Gender equality and non-discrimination personnel policy			
<b>Social capital</b>			
Customers and local communities			
Promotion of digitalization of ESG principles			
Social and educational projects			
<b>Natural resources</b>			
Eco-reporting innovative development of ecosystem			

Source: RAEX-Europe calculations based on the Bank's Strategy for 2019-2021

**Graph 8:** Energy efficiency projects by industries as of end 2018, %



Source: RAEX-Europe based on data provided by the Bank

### 3 Environmental performance and governance

In our view, Center-invest Bank can be considered as one of the leading Russian banks and the leading private bank in terms of sustainable lending practices, environmental and sustainable governance and reporting, which is confirmed by the Bank's track record of reporting, as well as various external awards and rankings such as, Vigeo Eiris ESG rating agency ranking.

The Bank underlines its mission as the "Sustainable Bank for southern Russia"<sup>4</sup>, which is in line with the Bank's current position on the market and the stance of the Bank's **corporate governance practices**, which were developed together with the Bank's shareholders – EBRD and DEG. The current strategy of the Bank includes a clear environmental target: reduction of CO<sub>2</sub> emissions (tons for each year), together with the financial and social targets (see Table 4). Apart from the Strategy and the aforementioned ESP, the Bank developed several policies together with the IFC and EBRD, ensuring efficient corporate governance procedures (including governance of environmental risks): corporate governance code (2004), code of ethics (2004), information policy (2007), among others.

The Bank has a long track record of **environmental reporting**, including the calculation of CO<sub>2</sub> emissions reduction (see Graph 7) and energy saving effects from its lending operations. These calculations are performed by the Bank's employees based on international standards and manuals prepared by IFC and EBRD and later adopted by the Bank. These environmental reports (including the mentioned indicators) have been published by the Bank since 2008, and contain data on the environmental risks loan portfolio classification (according to the Bank's own methodology) and description (see Graph 3 and 8); environmental procedures, included in the operational approval process; information on the Bank's own energy consumption (see Table 5) and other environmental related information. Apart from these reports, the Bank publishes the "ESG Report" as a part of its Integrated Annual Report prepared in compliance with GRI Principles, where CO<sub>2</sub> cumulative reduction effects are included<sup>5</sup>.

The Bank's commitment to the responsible and environmentally friendly banking, was confirmed by several **awards and rankings**. In particular, in 2013 the Bank was awarded as "Sustainable bank of the year" (Special Commendation for Leadership in Eastern Europe) by Financial Times and IFC. In 2018, the Vigeo Eiris ESG rating agency ranked the Bank 17<sup>th</sup> out of 76 European banks who apply environmental, social and governance

<sup>4</sup> Bank's strategy for 2019-2021: [https://www.centrinvest.ru/files/about/reports/13.02.Strategy%202019-2021\\_English.pdf](https://www.centrinvest.ru/files/about/reports/13.02.Strategy%202019-2021_English.pdf)

<sup>5</sup> <https://www.centrinvest.ru/en/about/auditors/annual-rep>

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**Table 5:** Resources consumption in the Bank's operating activity

	2018	2017
Gasoline (tons)	146 (4 682 804 MJ)	168 (5 388 432 MJ)
Gas (cubic metres)	321 (10 915 177 MJ)	284 (9 653 132 MJ)
Electricity (kilowatt hours)	4 439 442 (15 981 991 MJ)	4 868 818 (17 527 744 MJ)

Source: RAEX-Europe calculations based on data provided by the Bank

models. The rating from Vigeo Eiris assesses the Bank's social orientation, the extent to which it meets its obligations to society, and the quality and effectiveness of its corporate strategy with regard to social responsibility, responsible business and environmental safety. In 2018, Center-invest Bank also received an award for successfully initiating the green loan market in Russia and making a substantial contribution to its subsequent development. The award was presented by the National Association of Concessionaires and long-term infrastructure investors National Association (CoLTI)<sup>6</sup>, which can be considered as the most reputable association in Russia in the sphere of sustainable finance and local long-term investments support. Center-invest Bank is the only Russian bank who is a member of the Global Alliance for Banking on Values (GABV) network of more than 60 companies from around the world, whose aim is to use finance to deliver sustainable economic, social and environmental development.

From November 2019 the Bank has become a signatory of the UN PRI.

The Bank has the following environmental and sustainable development target for the implementation of the projects linked to the proceeds of this specific bond issuance: **Affordable and clean energy**.

The full alignment with the Sustainable Development Goals (SDG) of the issuer is described in the Section 6 (see below).

#### 4 Risk exposure and mitigation

In our view, lending operations of the Bank exposed to different environmental, social and governance risks (ESG) which could have negative material effect on the company, environment and society, as well as the eligible projects<sup>7</sup>:

**Table 6. ESG risks exposure and mitigation**

Type of risks	Risk mitigation actions and policies
<b>Environmental risks<sup>8</sup>:</b>	
Air pollution	<ul style="list-style-type: none"> <li>The Bank has issued a formalized commitment to environmental protection, included to its <b>"Environmental and Social Policy" (ESP)</b> and Environment related targets, listed in the <b>Bank's Strategy for 2019-2021</b>.</li> </ul>
Water pollution	<ul style="list-style-type: none"> <li><b>"Environmental and Social Policy"</b> addresses the majority of the Bank's responsibilities in terms of environmental protection, such as: <ul style="list-style-type: none"> <li><i>measuring and monitoring direct environmental impacts, introducing environmental factors in the credit risk assessment;</i></li> <li><i>incorporation of the ESG considerations in its Strategy;</i></li> <li><i>reduction of indirect impact to climate change through lending activity (the number of loans issued to support the energy transition continuously increased between 2005 and 2019).</i></li> </ul> </li> </ul>
Deforestation and desertification	
Soil pollution	
Biodiversity decline	
CO <sub>2</sub> emission	<ul style="list-style-type: none"> <li>The Bank's commitment to integrate environmental issues in its lending and investment activity supported by the senior management of the Bank. The CEO of the Bank is in charge of coordination of the processes used for the adoption of the environmental procedures. In addition, a designated employee supervises overall projects included in the "energy efficiency" (EE) loan portfolio in order to secure compliance with the environmental, social and other criteria for the project.</li> <li>The Bank has policies in place to strengthen the employees' environmental engagement: employees are trained on environmental issues as part of their day-to-day activities, which include conducting the assessment of social and environmental risks linked to loans provided by the Bank.</li> </ul>

<sup>6</sup> <https://investinfra.ru/nacionalnaya-assotsiatsiya-koncessionerov-i-dolgosrochnyh-investorov-v-infrastrukturu/>

<sup>7</sup> This assessment is based on the general risks related to the banking lending, risks specific for the Russian banking system and **does not include financial risks**.

<sup>8</sup> Environmental risks, related to the Bank's lending activity.

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	<ul style="list-style-type: none"> <li>The Bank identifies, assesses and classifies the environmental risks of the clients and projects. The Bank also monitors customers' compliance with environmental criteria and an exclusionary list has been defined to prevent financing activities with high GHG emissions intensity. Some measures are in place to address environmental impacts from transportation and energy efficiency measures are implemented internally to reduce the Bank's own energy consumption.</li> <li>The Bank calculates and reports on the reduction of CO2 emissions linked to EE projects' financing on a yearly basis.</li> </ul>
<b>Social risks:</b>	
	<p><b>Mitigation of the external risks:</b></p> <ul style="list-style-type: none"> <li>The Bank displays a formalized commitment to the respect of <b>human rights in society, which is supported by dedicated training and exclusion of business relations with the clients violating human rights.</b></li> </ul> <p><b>Mitigation of the internal risks:</b></p>
Labor practices	<ul style="list-style-type: none"> <li>The Bank's <b>Personnel Policy</b> extends a commitment towards the promotion of labor relations, safe conditions at the workplace and providing training for employees. Employees are provided with different sources of training and annual appraisals. Moreover, the number of training hours per employee considerably increased over the last years, according to the Bank's internal calculation.</li> <li>The Bank's <b>Code of Conduct</b> addresses non-discrimination and comprehensive implemented measures (reporting mechanisms, monitoring, flextime as well as paternity and maternity pay). In addition, the share of women in management positions has been increased.</li> <li>Bank also commits to minimizing the number of lay-offs and redundancies, takes measures to mitigate the negative effects of retrenchment, in line with labor laws in Russia.</li> <li>Bank has allocated the following means to address health and safety issues, including: <ul style="list-style-type: none"> <li><i>Training/awareness raising programs: Center-invest Bank reports that all employees receive health and safety training on an annual basis in the event of a change to their working conditions.</i></li> <li><i>Risk assessments: the Bank conducts employee satisfaction surveys that include health and safety at the workplace.</i></li> <li><i>The health programs are mainly concerned with the treatment, rehabilitation and recovery process of individuals.</i></li> <li><i>Training on stress for employees: as part of training regarding customer service, employees are trained on stress management.</i></li> <li><i>Employee participation tools (opinion surveys, dedicated teams, workshops): Bank conducts surveys to monitor employees' satisfaction with sanitary and hygienic working conditions, workplace equipment, schedule, holidays, wages, bonuses, and psychological climate in their teams.</i></li> </ul> </li> </ul>
Occupational health & safety (OHS)	
Overdue debt collection social risks	<ul style="list-style-type: none"> <li>The Bank has issued a formalized commitment to <b>responsible customer relations</b> in its "<b>Code of Conduct</b>" an "<b>Information Policy</b>". Apart from this, the Bank does not use an external service from collection agencies, that can be harmful or offensive for its clients. All debt collection procedures of the Bank are performed in accordance with the regulation of the Central Bank of Russia and other legal acts, protecting banks' customers. The cases of the offensive or aggressive overdue debt collections were not publically identified. Bank has a call center for clients to receive complaints as well as using social media platforms.</li> </ul>
<b>Governance risks:</b>	
Risks of insufficient or unscrupulous implementation of the Bank's environmental policies and procedures by the Bank's employees, that can lead to "greenwashing"	<ul style="list-style-type: none"> <li>The Bank has been engaged in the energy efficiency projects since 2005. During this time, partners in the implementation of these projects were such organizations as IFC, EBRD, KfW, EDB, OeEB, and IIB. The Bank has built a system of management of such projects and control over the funding targets. The Bank has a position of <b>Environmental Secretary</b>, who is directly responsible for the implementation of the program of financing energy efficiency projects. The experience of Center-invest Bank is positively mentioned by different financial institutions, such as IFC<sup>9</sup>.</li> <li>The adopted <b>Environmental and social policy</b>, as well as the system of employee training in the Bank, minimize these risks. The obligation to clearly follow all regulatory documents is reflected in the <b>Labor contracts of the Bank's employees</b>.</li> <li>Due to the fact that annual financing of the energy efficiency projects several times exceeds the volumes of the "green bonds issue", and there is a transparent system of reporting and informing all stakeholders about the implementation of such projects, the <b>Bank believes that the risks of greenwashing of the current green issue are minimized</b>.</li> </ul>
<b>Operational risks, including</b>	
External fraud by the bank's customers	<ul style="list-style-type: none"> <li>The Bank has issued a formalized commitment to <b>responsible customer relations</b> in its "<b>Code of Conduct</b>" an "<b>Information Policy</b>". Bank commits to most of its responsibilities, including preventing unfair contract terms, enhancing customer satisfaction, listening to customers' complaints, cooperating with consumer associations to improve banking services, protecting clients' information assets.</li> </ul>
External corruption risks	
Money-laundering risks	<ul style="list-style-type: none"> <li>Bank has a <b>call center for clients to receive complaints</b> as well as using social media platforms.</li> </ul>
Internal fraud by the bank's employees	<ul style="list-style-type: none"> <li>Bank has set up the following measures for <b>protecting customer's data</b>: <ul style="list-style-type: none"> <li>✓ There is a dedicated position to cyber security that sets the security strategy and initiatives and directly reports to the CEO: the Head of Monitoring and Risk.</li> <li>✓ Control Department.</li> <li>✓ An <b>incident management plan</b> (including <b>disaster recovery and business continuity</b>) is established: several policies are in place in this regard, including topics such as malware, password protection, risks of information security, security system of emails and internet access.</li> </ul> </li> <li><b>Risk Management Policy (which includes management of operational risks)</b> approved by the Board of Directors.</li> </ul>
Internal corruption risks	<ul style="list-style-type: none"> <li>Bank's commitments on <b>business ethics and anti-money laundering addresses the following responsibilities</b>: giving / receiving bribes, fraud, conflict of interest, illegal financing of political parties, money laundering, funds derived from suspicious activities.</li> <li>Board of Directors, Executive Board, Financial Monitoring Division, Internal Audit Service and Compliance Service are <b>in charge of the Anti-Money Laundering System</b>. This includes a dedicated person responsible for this topic, the financial monitoring department and heads of separate divisions in each branch.</li> <li>Bank has set up internal controls to <b>prevent business ethics risks</b> that include: <ul style="list-style-type: none"> <li>✓ Internal audits (internal verification of compliance with the Bank's Code of conduct etc.): the Ethics Committee of the Board of Directors periodically reviews and monitors compliance with ethical principles, and formulates proposals for approval by the Board of directors.</li> </ul> </li> </ul>

<sup>9</sup> See example: [https://www.ifc.org/wps/wcm/connect/e8022e9b-9f68-4d50-bbaf-6c93e25e3e9e/FINAL\\_IFC\\_BankingOnSustainability\\_web.pdf?MOD=AJPERES&CACHEID=ROOTWORKSPACE-e8022e9b-9f68-4d50-bbaf-6c93e25e3e9e-ijqel26X](https://www.ifc.org/wps/wcm/connect/e8022e9b-9f68-4d50-bbaf-6c93e25e3e9e/FINAL_IFC_BankingOnSustainability_web.pdf?MOD=AJPERES&CACHEID=ROOTWORKSPACE-e8022e9b-9f68-4d50-bbaf-6c93e25e3e9e-ijqel26X)

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	<ul style="list-style-type: none"> <li>✓ The possibility to contact internal audit, legal or compliance departments directly &amp; confidentially: employees are encouraged to contact the ethics department on matters related to the Code of Conduct. These consultations can be made confidentially.</li> <li>✓ A dedicated confidential hotline or email address: an ethics-related email address is available for employees to report violations of the Code of Conduct.</li> <li>✓ Risk assessment of company vulnerability: the Company reports that it continually monitors compliance of internal processes with legislative requirements and standards of market conduct. In addition, risk assessment and mitigation measures are reportedly in place.</li> <li>✓ Due diligence in evaluating contracts/suppliers: Bank's internal documents regulating activities linked to the prevention of money laundering and the financing of terrorism are based on the principle "Know Your Customer".</li> <li>• Bank has set up permanent measures to <b>prevent money laundering</b>, that include: <ul style="list-style-type: none"> <li>✓ Measures to establish the identity of its clients and identify the customers whose circumstances warrant additional diligence (e.g. PEPs identification): a customer identification program is in place, in which the Bank defines the viable information collection process and the technical procedures to prove their identity.</li> <li>✓ Development of risk assessment policies (e.g. on company structures, the customer's reputation, source of wealth/funds, involvement in public contracts, expected account activity). Internal control procedures of the Bank include a program to assess and identify customers, beneficiaries and determine the degree of risk of legalization by the customer of criminal incomes and financing terrorism. Customers are classified into risk criteria and guidelines for each case are in place.</li> <li>✓ Updating of customers database on a regular basis to ensure consistency and completeness and appropriate record-keeping: internal bank regulations establish that customers' profiles must be continuously updated through the use of updates provided by the customer or other sources (including mass media).</li> <li>✓ Procedures for identification of and follow up on unusual or suspicious activities: the Company's internal documents regulating activities linked to the prevention of money laundering and the financing of terrorism are based on the principle "Know Your Customer".</li> <li>✓ A dedicated confidential hotline or e-mail address: employees can confidentially contact the Responsible Employee of money laundering to report on potential cases.</li> <li>✓ Involvement of relevant senior managers in decisions on entering or maintaining high-risk business relationships: the Chairman of the Management of the Bank is consulted to take decisions on suspension of operations of clients considered to be conducting high-risk business activities.</li> </ul> </li> </ul>
<b>Corporate structure risks<sup>10</sup></b>	<ul style="list-style-type: none"> <li>• All of the Bank's policies and programs are fully applicable and obligatory for all Bank's branches. Head of each Bank's branch is fully responsible for the implementation of these procedures. Head of the branch network in the Head office of the Bank supervises the effectiveness of the implementation and compliance with them in the Bank's branches.</li> </ul>
<b>Legal risks</b>	<ul style="list-style-type: none"> <li>• Legal risks of the Bank are covered by its operational risk policy of the Bank (see above).</li> </ul>
<b>Reputational risks</b>	<ul style="list-style-type: none"> <li>• The reputational risks of the Bank are partly covered by the incident management plans (including disaster recovery and business continuity). The PR department of the Bank monitors all key media resources on a permanent basis and identifies the information, that might be harmful for the Bank's reputation, and after that can perform all necessary actions, including press-releases and public disclosures.</li> </ul>

## 5 Impact of proceeds from the Green Bond issuance

The proceeds from the bonds issued within the approved Bank's GBF will be allocated to the loans (projects), that must comply with one of the use of proceeds category, and have to meet with at least one of the following criteria (see Table 3):

- Increase of renewable energy production; or
  - Reduction of the consumption of primary energy; or
  - Reduction of the consumption of renewable sources; or
  - Reduction of the consumption of electric power or fossil fuel; or
  - Reduction of other types of energy, which may ultimately be related with the use of a renewable source of energy; or
  - Reduction of other types of energy, which may ultimately be related with the use of a renewable source of energy
- and
- Reduction of energy consumption (physical energy savings per unit of output) **by at least 20% compared to the baseline level** (before the project implementation).

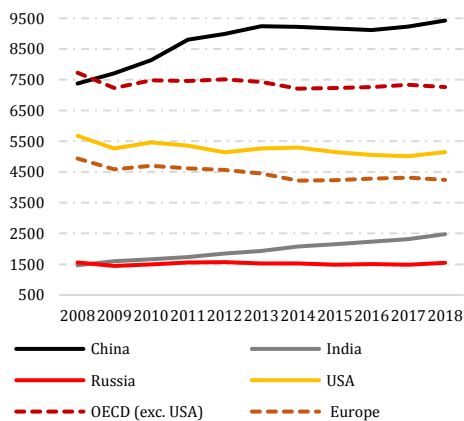
The total anthropogenic greenhouse gas emissions in Russia, excluding land use and forestry, in 2017 (the most recent data) amounted to 2,2 bn tons of CO<sub>2</sub>-eq., which corresponds to 67,6% of the total emissions of 1990

<sup>10</sup> In this case, corporate structure risks related to the risks of activities of the Bank's branches.

### Disclaimer

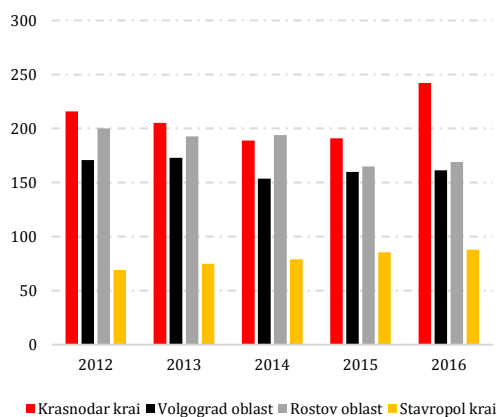
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**Graph 9:** Carbon dioxide emissions per countries and macro-regions, m tons CO<sub>2</sub>



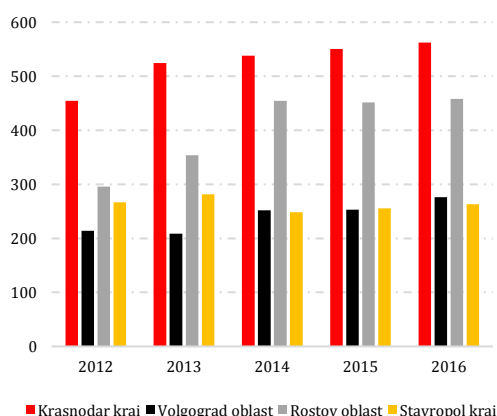
Source: RAEX-Europe based on data from BP Statistical Review of World Energy 2019

**Graph 10:** Air pollution from “stationary objects” in the Bank’s core regions, th tons



Source: RAEX-Europe based on data from Rosstat

**Graph 11:** Air pollution from road transport in the Bank’s core regions, th tons



Source: RAEX-Europe based on data from Rosstat

year, which is the base year of the Paris Agreement (see Graph 9)<sup>11</sup>. This decrease was mostly achieved due to the recession in the Russian economy in the 1990s, while over the last 10 years the level of greenhouse gas emissions remains almost unchanged.

The anthropogenic greenhouse gas emissions are not correctly calculated for all Russian regions. However, the overall air pollution from the “stationary objects” and road transport can be used as a proxy, for the CO<sub>2</sub> emission assessment on the regional level. The key regions of the Bank’s core operations – Rostov oblast, Krasnodar krai, Volgograd oblast and Stavropol krai – accumulate around 3,5% of overall air pollution from “stationary objects” in Russia and 10% of overall air pollution from road transport for 2012-2016 period (see Graphs 10-11).

The Bank has approved a methodology for each project evaluation in terms of specific energy saving and carbon footprint reduction (reduction of CO<sub>2</sub> emission) per project. This methodology is based on the IFC and EBRD manuals and templates, as well as the Bank’s ESP. Each filled evaluation form contains metrics of specific energy saving and carbon footprint reduction (reduction of CO<sub>2</sub> emission) per project.

The Bank expects, that the planned issuance of green bonds with a nominal value of RUB 250 m will lead to the reduction of CO<sub>2</sub> emissions at least by 4 000 tons. This calculation is based on the track record of CO<sub>2</sub> emission decline calculations performed by the Bank employees for the period from 2005 to 2019: overall CO<sub>2</sub> emission decline due to implemented energy efficient technologies and equipment was 1,7 tons per RUB 100 th loan financing. **Therefore, proceeds from the green bond issuance will have a positive environmental effect on the regional “status-quo” due to CO<sub>2</sub> emission decline.**

We consider the applied model and performed estimations as adequate, since the Bank based its model on EBRD and IFC best practices and submitted all environmental reports to these organizations before. However, we consider that external independent ecological audit of the applied model and per projects estimation as a room for improvement.

## 6 Alignment of the eligible projects with the Sustainable Development Goals (SDG)

According to our opinion, the eligible projects categories are aligned with the following Sustainable Development Goals (SDG) (see Table 7):

<sup>11</sup> See Report from the Analytical Center for the Government of the Russian Federation: Ecology and economy: dynamics of the country's air pollution ahead of ratification of the Paris Agreement from August 2019: <http://ac.gov.ru/files/publication/a/23713.pdf>

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**Table 7. Alignment of the eligible projects with the Sustainable Development Goals (SDG)**

SDG Goal	SDG Target	Eligible projects category	Examples of potential eligible projects
Affordable and clean energy	7.1 By 2030, ensure universal access to affordable, reliable and modern energy services	Renewable energy	<p><b>Examples of eligible sub-projects include, but are not limited to:</b></p> <ul style="list-style-type: none"> <li>• Replacement or modernisation of energy-intensive process equipment (furnaces, ovens, dryers, heat treatment equipment, presses, etc.)</li> <li>• On site co-generation of heat and electricity</li> <li>• On site tri-generation of heat, electricity and cooling</li> <li>• Replacement or rehabilitation of boilers (including enhanced controls, economisers, improved insulation, regenerative burners, automatic blow-down, etc.)</li> <li>• Switch from electricity heating to fuel based direct heating</li> <li>• Process improvements including enhanced controls</li> <li>• Rehabilitation of steam distribution systems: installation of steam traps, increased condensate recovery, etc.</li> <li>• Installation of heat recovery from processes (e.g., installation of economisers for pre-heating purposes, heat recovery for space heating, heat recovery for drying, etc.)</li> <li>• Installation of absorption chillers</li> <li>• Installation of Variable Speed Drives on selected electric motors</li> <li>• Replacement or rehabilitation of compressed air systems (e.g. decentralisation or resizing of air compressors, replacing old air compressors with more efficient new ones)</li> <li>• Rehabilitation of power distribution systems (e.g., replacement of old or oversized transformers, installation of capacitors to reduce reactive power consumption, etc.)</li> <li>• Utilisation of renewable energy sources (wind, solar, biomass, etc.), if technically feasible and economically viable</li> <li>• Purchase of energy (fuel) efficient commercial means of transport</li> <li>• Other eligible Sub-projects</li> </ul> <p><b>Indicative list of eligible Sub-projects in the specific commercial buildings sector. Eligible Sub-projects may include, but are not limited to:</b></p> <ul style="list-style-type: none"> <li>• Replacement of old and low efficient boilers by new efficient ones with or without fuel switching</li> <li>• Implementation of on-site micro-cogeneration/tri-generation</li> <li>• Rehabilitation of heat substations and implementation of heat meters</li> <li>• Balancing of heating systems, implementation of individual heat control devices</li> <li>• Implementation of Energy Management Systems or Building Management Systems</li> <li>• Replacement of existing windows with new, double-glazed windows, low-emission glazing</li> <li>• Thermal insulation of the building envelope (external walls, roofs, basements);</li> <li>• Replacement of existing heating system with a new one (thermal insulation of pipes, tanks and machinery equipment);</li> <li>• Installation of heat recovery from air ventilation system and/or processes (e.g., installation of economizers for pre-heating purposes);</li> <li>• Replacement of existing low efficient energy using processes (e.g. cooking, washing, drying) with new, high efficient ones;</li> <li>• Replacement of existing lighting with higher efficiency equipment, dimming, daylight sensors, presence sensors, algorithmic lighting, grouping of luminaries ;</li> <li>• Free cooling;</li> <li>• Compressor replacement/rehabilitation;</li> <li>• Additional shading (jalousies, structural elements, etc.);</li> <li>• Frequency modulation of pumps, fans, drives and motors;</li> <li>• Variable air-volume air-conditioning systems;</li> <li>• Installation of rolling doors;</li> <li>• Implementation of renewable energy systems in buildings (e.g. solar thermal collectors, biomass boilers, geothermal energy utilisation for heating and/or cooling with or without heat pump, surface water energy utilisation for heating and/or cooling with heat pump, solar heating and/or cooling).</li> <li>• Other eligible Sub-projects</li> </ul>
	7.2 By 2030, increase substantially the share of renewable energy in the global energy mix	Energy efficiency	
	7.3 By 2030, double the global rate of improvement in energy efficiency	Clean transportation	

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**Additional information:**

This Second Opinion was based on the analysis of the information provided by the bond issuer. The following information was used: Bank's annual reports; Bank's environmental reports; Bank's presentations for investors; Bank's financial statements according to RAS and IFRS; Questionnaire provided by the Bank; Bank corporate governance and risk management documents (including ESP); Green Bonds Framework (GBF) of the Bank (officially named as "Order and principles of placement of funds, raised through the issuance of "green bonds"); Bank's Strategy for 2019-2020; Credit rating reports from Moody's Investors Service and ACRA Rating Agency (Russia); Expert RA Rating Agency (Russia) rankings; draft documents, describing the bonds issuance; additional materials provided by the Bank.

The analysis was performed by the employees of the Rating-Agentur Expert RA GmbH (Frankfurt am Main, Germany):

- Hector Alvarez, Associate Director;
- Vladimir Gorchakov, Associate Director.

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