centercredit

JSC Bank CenterCredit Responsible Financing Policy

Authorized by

the Minutes of the Management Board

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Approved by

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JSC Bank CenterCredit Responsible Financing Policy

Chapter 1. General

1. This JSC Bank CenterCredit Responsible Financing Policy (the Policy) is an internal regulatory document of JSC Bank CenterCredit (the Bank), which describes the Bank's responsible financing goals, principles, objectives and approaches.
2. The Policy has been developed in accordance with the regulatory and legal acts of the Republic of Kazakhstan, including:

   - Concept for Development of the Financial Sector of the Republic of Kazakhstan until 2030 as approved by the Decree of the President of the Republic of Kazakhstan No. 1021 dated 26 September 2022;
   - Environmental Code of the Republic of Kazakhstan No.400-VI LRK dated 2 January 2021;
   - Classification (Taxonomy) of Green Projects to Be Financed Through Green Bonds and Green Loans as approved by the Decree of the Government of the Republic of Kazakhstan No. 996 dated 31 December 2021;
   - Strategy for Achieving Carbon Neutrality of the Republic of Kazakhstan until 2060 as approved by the Decree of the President of the Republic of Kazakhstan No. 121 dated 2 February 2023;
   - Roadmap for Implemetation of ESG Principles in regulation of the financial market of Kazakhstan as approved by the Order of the Chairman of the Agency of the Republic of Kazakhstan for Regulation and Development of Financial Market No.187 dated 16 March 2023, and takes into account a number of international sustainable development principles and documents, including but not limited to:
   - Sustainable Development Goals developed by the UN General Assembly;
   - Principles for Responsible Banking developed under the UNEP FI;
   - EU Taxonomy for Sustainable Activities;
   - International Capital Market Association (ICMA) Taxonomy for Green Projects.

3. The Policy shall apply to the Bank employees (in accordance with their functions), its structural subdivision and branches involved in the process of financing the Bank's corporate customers.
4. The Policy is a public document available on the Bank's information resources.

Chapter 2. Key Responsible Financing Goals and Objectives

5. The Bank, as one of the largest banks in the Republic of Kazakhstan, shall strive to act in the best long-term interests of society and the state and to make a positive contribution to improving the quality of life of citizens, socio-economic development and environmental sustainability of the state. The Bank has identified for itself key focus areas in the field of responsible financing:

   - ensuring comprehensive assessment of climate risks, and minimising their impact on the loan portfolio;
   - provision of finance to activities and projects that have a positive impact on achievement of sustainable development goals;
   - gradual reduction of financing for activities and projects contradicting to achievement of sustainable development goals.

6. The Bank shall be guided by the following six responsible financing principles in its activities:

   1) incorporate ESG issues into investment analysis and decision-making processes;
   2) incorporate ESG issues into the strategy and practice;
   3) demand adequate disclosure of environmental, social and governance issues from investment recipients;

4) promote the adoption and implementation of responsible financing principles within the investment sector;
5) improve the efficiency of implementation of responsible financing principles;
6) report on activities and progress made in implementing the responsible financing principles.

7. The Bank shall employ a comprehensive approach to achieve its responsible financing goals by phased implementation of the following tasks and initiatives:

1) identification of ineligible activities, project types and business practices;
2) identification of key industries and projects for the Bank in terms of green economy;
3) launching and/or development of sustainable banking products;
4) building internal green lending processes based on the requirements of the national and international taxonomy;
5) introduction of the borrower and project ESG assessment tools into the lending process;
6) definition of responsible financing goals (including: formation of green loan portfolio);
7) expansion of the Bank's participation in state support programmes aimed at supporting green lending.

Chapter 3. Responsible Financing Management System

8. The Responsible Financing Management System provides for assessment of corporate borrowers' and projects' compliance with the responsible financing principles (hereinafter referred to as the ESG principles). The Bank defines five levels of non-compliance with ESG principles: low, reduced, medium, high, critical.
9. The Bank shall assess the corporate borrowers' and projects' compliance with ESG principles taking into account the borrower's belonging to a business segment and materiality threshold for the amount of its liabilities owed to the Bank. Materiality thresholds shall be set by the Sustainable Development Committee.

3.1. Tools and Procedures for Assessing Compliance with ESG Principles

10. As key assessment tools, the Bank shall define:

1) **Exclusion List** – verification of the borrower for compliance of its activities and practices with the list of ineligible activities according to Annex No. 1 hereto, with refusal to finance such activities. All corporate borrowers shall be subject to verification.
2) **Self-declaration** - completion by a borrower of the questionnaire depending on the type of its activity, under which, based on the selected answers, the borrower's exposure to climate risks, as well as the significance of environmental, social and corporate governance factors in the borrower's activity are determined. Corporate borrowers shall be screened based on the materiality thresholds.
3) **ESG scoring** - a differentiated assessment of the borrower's exposure to climate risks and the relevance of sustainability factors in its operations, such as environmental impact, social responsibility and corporate governance, subject to its minimization measures and adaptation initiatives and based on verifiable data and information. Corporate borrowers shall be screened based on the materiality thresholds.
4) **Project Assessment Tool** - assessment of project implementation risks, including assessment of management practices and general information, and positive project effects in accordance with the green and social taxonomy criteria. Corporate borrowers shall be screened based on the materiality thresholds.
5) **Taxonomy Compliance Assessment Tool** - small, medium and large loans are screened against the green or social taxonomy criteria. Corporate borrowers shall be screened based on the materiality thresholds.

11. The assessment result shall be assignment to the borrower and/or project of a level of non-compliance with ESG-principles correlated with one of the following categories: low, reduced, medium, high, critical.
12. The Bank shall provide finances to borrowers and/or projects with low and reduced levels of ESG non-compliance in accordance with the standard internal procedure and JSC Bank CenterCredit Lending and Credit Risk Management Policy. The level of non-compliance with ESG principles shall be reassessed at least once a year.
13. Borrowers and/or projects with medium, high and critical levels of non-compliance with ESG principles shall be financed subject to detailed analyses (beyond standard internal procedures) that includes:

   - identification of additional covenants;
   - development of a roadmap for implementing adaptation initiatives;
   - implementation of measures to minimize climate risk exposure.

14. The level of non-compliance with ESG principles shall be reassessed for borrowers and/or projects with medium and high level - once every 6 months, with critical level - once every 3 months.

3.2. Organizational Structure for Responsible Financing Management

15. The Bank has a multi-level responsible financing management structure, which distributes lending-related powers between collegial bodies and structural subdivisions:

   1) the Bank's Board of Directors;
   2) Committees of the Board of Directors: Sustainable Development Committee, Credit Committee of the Board of Directors;
   3) the Bank's Management Board;
   4) Committees of the Management Board: Risk Management Committee, Main Credit Committee, Small Credit Committee, authorised teams;
   5) an automated decision-making system;
   6) the Bank subdivisions responsible for organization and coordination of activities aimed at the Bank's compliance with the sustainable development principles: Risk Management Center, Sustainable Development Directorate (ESG);
   7) the Bank subdivisions involved in responsible financing processes: Corporate Business Block, Small Business Block, Credit Risk Assessment Center.

16. Within the limits of authority granted by the Board of Directors, the Credit Committees and the automated decision-making system shall make funding decisions subject to results of the borrower's assessment for compliance with ESG principles, in accordance with the materiality thresholds.
17. Depending on the borrower's level of non-compliance with ESG principles, the Bank shall apply the following approaches when making credit decisions:

   - refuse to finance ineligible activities;
   - increase the decision-making level in cases of identified high or critical ESG non-compliance level, without any corresponding customer obligations to minimize;
   - incentify the customer's mitigation and adoption of sustainable development practices through special terms and conditions and by providing sustainable loan and non-bank ESG products.

Chapter 4. Sustainable Loan Products

18. The Bank's activities provide for the gradual introduction and development of sustainable loan products. This category of products includes the following loan products:

   1) Green Loan Product- a targeted loan product designed to finance projects aimed at improving the efficiency of using the existing natural resources, reducing the negative impact on the environment, improving energy efficiency, energy saving, climate change mitigation or adaptation to climate

change. These projects meet the national taxonomy for green projects (Decree of the Government of the Republic of Kazakhstan No. 996 dated 31 December 2021 «On Approval of the Classification (Taxonomy) for Green Projects to be Financed through Green Bonds and Green Loans»). The upper tier categories of these projects are reflected in subparagraphs 1-7, paragraph 19 of the Policy.

2) Transitional Loan Product - a targeted loan product that provides financing for projects aimed at improving the efficiency of using the existing natural resources, reducing the negative impact on the environment, improving energy efficiency, energy saving, climate change mitigation or adaptation to climate change. These projects do not meet the national taxonomy for green projects, but contribute to achieving positive effects in the efficiency of using the existing natural resources, reduction of negative environmental impacts, improvement of energy efficiency, energy saving, climate change mitigation or climate change adaptation. The upper tier categories of projects are described in paragraph 19 of the Policy.

3) Social Loan Product - financing of projects related to development of healthcare, education, sports, culture and art facilities/systems, provision of affordable and comfortable housing and other areas. These projects meet the national taxonomy for social projects after approval of the national taxonomy for social projects, before approval of the national taxonomy for social projects - criteria for the use of funds specified in the ICMA Social Bond Principles;

4) Green Economy Financing Facility (GEFF) - financing provided under the lending programme of the European Bank for Reconstruction and Development – "GEFF - Green Technology Financing";

5) Sustainability-Linked Loan Product – a non-targeted loan product that requires the borrower to achieve sustainability indicators set out in the Loan Agreement terms.

19. The List of Green and/or Transition Projects shall contain the following list of upper-tier project categories:

1) renewable energy (financing for the acquisition of: hydrogen production units using renewable energy; equipment for production of wind energy, solar energy, geothermal energy, hydroenergy and bioenergy; installation and acquisition of other launching works/services);

2) energy efficiency (provision of loan proceeds for projects aimed at improving energy efficiency of existing and under-construction industrial facilities, improving energy efficiency in the budget and utility sector, energy efficient buildings, structures and facilities);

3) green buildings (financing for construction of green buildings, related systems and construction materials, green infrastructure);

4) pollution prevention and control (financing for projects aimed at improving air quality, soil quality);

5) sustainable use of water and wastes (provision of loan proceeds for sustainable use of water and water saving, waste and wastewater, resource conservation and recovery);

6) sustainable agriculture, land use, forestry, biodiversity conservation and eco-tourism;

7) green transport (financing for the acquisition of green transport, low-carbon vehicles, green transport information and communication technologies);

8) climate change mitigation (financing for projects aimed at reducing the greenhouse gas emissions or removing these gases from the atmosphere);

9) climate change adaptation (financing for projects aimed at reducing vulnerability to real or expected climate change, while not having any negative environmental and/or social effects);

10) 1transition to circular economy (financing for projects that provide for a circular waste management system and production from recycled materials).

20. The corporate borrower financing conditions under the standard loan products may be supplemented with requirements to improve (relative to current values) environmental, social and/or governance non-financial parameters, targeted financing requirements or requirements to achieve sustainability indicators. These conditions shall be included in the Financing Agreement in the form of a penalty or variable interest rate parameter.

Chapter 5. Management Reporting on Responsible Financing

21. In order to assess the Bank's activities and progress achieved in implementing the responsible financing principles, the Bank shall control and monitor its loan portfolio and prepare management reports to ensure that information on quantitative indicators used to assess the impact of (transient and physical) climate change risks on the Bank's lending activities in the short, medium and long term is provided to the Bank's Board of Directors on a regular basis.
22. The list of indicators included in the management reporting on responsible financing shall provide for disclosure of information in accordance with the Agency's requirements set out in the Environmental, Social and Governance (ESG) Disclosure Guidelines for Banks and Other Financial Institutions, and subject to the international standards for non-financial disclosure (GRI) as approved by the Order of the Agency Chairman No. 291 dated 28.04.2023.
23. The Sustainable Development Committee shall determine:

    - the list of indicators included in the management reporting on responsible financing, the format and frequency of their submission to the Board of Directors, subject to the responsible financing practice implementation stage in the Bank;
    - the Bank subdivisions responsible for provision of information to prepare the management reporting.

24. The ESG Sustainability Directorate shall be responsible for summarizing the indicators of management reporting on responsible financing and submitting it to the Sustainable Development Committee and the Board of Directors.
25. The Board of Directors and the Sustainable Development Committee shall review the management reporting on responsible financing and, based on the review results, may take decisions related to ensuring improved efficiency of implementation of the responsible financing principles.

Chapter 6. Final Provisions

26. The Bank employees shall be liable for breaching the provisions of this Policy in accordance with the laws of the Republic of Kazakhstan and internal regulatory documents of the Bank.
27. The provisions of this Policy may be detailed in the Bank's internal regulatory documents, subject to the scope of activities and responsibilities of the subdivisions.
28. The Bank shall improve this Policy subject to changes in legislation and emergence of new sustainability standards in international and domestic practice, and subject to development of the Bank's sustainable development practices.
29. The Policy shall be approved by the Bank's Board of Directors.
30. The Policy shall be revised at least once in three years. The Sustainable Development Directorate (ESG) shall be responsible for revision and updating the Policy.

Annex 1. List of Ineligible Activities, Types of Projects and Business Practices

(Exclusion List)

The Bank shall restrict financing for industries and certain activities that may have significant adverse environmental and/or social impacts on the society:

1. Activities ineligible for financing:

1) production or trade in any products or activities considered illegal under RoK laws and regulations, international conventions and treaties;

2) production or trade in weapons and military equipment (including: nuclear, biological, chemical weapons, anti-personnel landmines and cluster bombs);

3) placement of weapons in outer space, use of force or threat of force against space objects;

4) disposal of submarine dismantlement remnants (e.g., nuclear reactors);

5) human cloning for reproductive purposes;

6) maritime piracy;

7) pornography/prostitution.

2. Activities for which the following business practices have been identified shall be ineligible for financing:

1) Failure to meet the minimum employment age or child labour;

2) Forced labour and slavery;

3) Employment of women in underground work in mines of any kind;

4) Contradictions in human rights, employment relations, environment or governance;

5) Destruction of high conservation value areas.

3. Projects that disturb biodiversity, historic or important residential areas or natural/cultural heritage shall be ineligible for financing under international laws.

Upon development of sustainable practices, the Bank will gradually expand the list of ineligible activities.

Annex 2. Definitions and Abbreviations

Agency means Agency of the Republic of Kazakhstan for Regulation and Development of Financial Market

Green Infrastructure means a strategically planned network of natural sites integrated into urban and rural areas, one of the key objectives of which is the conservation of biodiversity and environment.

Green buildings mean buildings constructed or reconstructed to reduce resource consumption and minimize environmental impact both during construction and operation.

Green loans mean targeted loans aimed at financing the implementation of green projects.

Green projects mean projects defined on the basis of an approved classification (taxonomy), aimed at improving the efficiency of using the existing natural resources, reducing the negative environmental impact, increasing energy efficiency, energy saving, climate change mitigation and climate change adaptation.

Green finance means investments aimed at implementation of green projects and raised through such instruments as green bonds, green loans and other financial instruments determined by the authorized body for regulation, control and supervision of the financial market and financial organizations.

Climate risks mean potential risks that may arise due to climate change (physical risks) or measures to mitigate its effects (transition risks).

UN means the United Nations; an international organizations whose stated purposes are to maintain and strengthen international peace and security, promote cooperation between States.

Responsible financing means taking into account in the Bank's lending activities of environmental and social risks associated with the financed projects and customers and creating adequate systems to manage these risks, as well as financing of socially and environmentally significant projects.

RoK means the Republic of Kazakhstan.

Transition risks mean risks associated with the transition to a low-carbon economy.

Carbon footprint means the amount of greenhouse gas emissions generated by a particular activity of a person or organization.

Sustainable loan products mean loan products that incentify customers to reduce their impact and adopt sustainability practices.

Physical risks mean risks associated with natural phenomena arising from climate change.

Sustainable Development Goals mean globally accepted goals aimed at ending poverty, combating inequality and injustice, protecting the planet and ensuring peace and prosperity for all people.

ESG (Environmental, Social, Governance) means the Bank's approaches in financing, investing and other activities, involving assessment of the following factors in decision-making:

- environmental and climate factors that determine the Bank's role in protecting the environment and in the global and national climate agenda;

- social factors that determine approaches to relations with employees, suppliers, customers and society;

- corporate governance factors reflecting approaches to governance in terms of the Bank's management, executive remuneration, audit, internal control and shareholder rights.

GRI means Sustainability Reporting Guidelines of the Global Reporting Initiative.