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APPROVED

Minutes of the Board

of JSB UKRGASBANK

dd. \_\_\_\_\_\_\_\_2020 No.\_\_\_

Chairman of the Board

\_\_\_\_\_\_\_\_\_\_\_\_\_\_ A.M. Kravets

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Minutes of the Supervisory Board

of JSB UKRGASBANK

dd. \_\_\_\_\_\_\_\_2020 No.\_\_\_

Chairman of the Supervisory Board

\_\_\_\_\_\_\_\_\_\_\_\_\_\_ Sh.D. Davda

**Environmental and Social Responsibility Policy**

**of JSB UKRGASBANK**

Kyiv – 2020

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# Section 1. GENERAL PROVISIONS

* 1. This Environmental and Social Responsibility Policy of JSB UKRGASBANK (hereinafter referred to as the Policy) is designed to assess and minimize the adverse impact of JSB UKRGASBANK's activities on social harmony and to spread positive environmental and social impact.
  2. Being aware of responsibility for environmental and social consequences of its activities, JSB UKRGASBANK (hereinafter referred to as the Bank) strives for sustainable development of the society. Bank fully support United Nations sustainable development goals and strives to integrate them in daily Bank’s operational processes. The Bank implements the achievement of certain Sustainable Development Goals UN supports the Principles of Responsible Banking, which approved by the UNEP Financial Initiative.
  3. This policy and principles are binding for all structural and detached units of the Bank.
  4. The policy has been developed in accordance with the applicable laws of Ukraine and best international practice. The Policy based on the following documents:
* Law of Ukraine on “Banks and Banking”;
* Law of Ukraine on “ Ratification of the Paris agreement”;
* Provision on establishment of risk management system in a Banks of Ukraine, approved on 11.06.2018
* Risk management strategy of the Ban

1.5 The Policy is based on the IFC Performance Standards on Environmental and Social Sustainability:

Standard 1 - Assessment and Management of Environmental and Social Risks and Impacts;

Standard 2 - Labor and Working Conditions;

Standard 3 - Resource Efficiency and Pollution Prevention;

Standard 4 - Community Health, Safety, and Security;

Standard 5 - Land Acquisition and Involuntary Resettlement;

Standard 6 - Biodiversity Conservation and Sustainable Management of Living Natural Resources;

Standard 7 - Indigenous Peoples;

Standard 8 - Cultural Heritage.

1.6 The basic principles of the Bank's Policy that influence the approach of the society to sustainable development are:

* taking into account public opinion in decision-making processes;
* disseminating the idea of environmental and social responsibility of the society;
* ensuring respect for human rights, eliminating discrimination;
* promoting decent working conditions;
* promoting environmental protection and minimizing emissions, waste and wastewater;
* implementing international best practices and standards in the area of social and environmental responsibility;
* promoting the preservation of our world's rich diversity: biological, cultural, linguistic, as well as historical and natural heritage.

1.7 The Bank's Policy is based on three main areas:

* Management of environmental and social risks of projects financed by the Bank;
* “Green” financing;
* Environmental management and social responsibility of the Bank.

1.8 The Bank aware regarding the impact of climate change risks on his activities. The Bank will work to develop a risk assessment system that will assess and minimize the risks of adverse effects of climate change on the Bank's operations.

**Section 2. TERMS**

* Environmental management - is part of a management system that includes organizational structure, planning, responsibilities, methods and techniques, processes and resources for the development, implementation and analysis of Environmental Policy.
* Environmental risk - the probability of losses or loss of profit because of environmental pollution and a threats to biodiversity
* “Green Finance” - financing of projects with a positive environmental impact.
* Cultural heritage –  is the legacy of physical artifacts and intangible attributes of a group or society that is inherited from past generations.
* Resource efficiency is a growth of the economic efficiency in production, reducing risks for people and minimizing impacts on the environment.
* Social risk- the probability of losses or loss of profit because of dangers to human health and safety, negative impact on local community and archeological heritage.

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# Section 3. TASKS OF THE POLICY

The Policy introduces environmental and social standards that promote the improvement of environmental indicators, minimization of environmental impact, ensure health and safety of the society.

Tasks of the Policy:

* in **“Management of environmental and social risks of projects financed by the Bank”** is setting the basic principles for the management of environmental and social risks of projects financed by the Bank;
* in **“Green” financing”** is development of the “green” economy;
* in **“Environmental management and social responsibility of the Bank”** is introduction of environmental and social standards that will improve the environmental and social performance, minimize the Bank's environmental impact, improve the quality of working conditions and health of the Bank's employees; in general, the scope of the Policy covers the introduction of annual reporting on the Bank's environmental and social indicators.

# Section 4 ORGANISATIONAL STRUCTURE OF THE ENVIRONMEMTAL MANAGEMENT SYSTEM

4.1 The organizational structure of the Environmental Management System consists of three lines and includes the following participants:

- Supervisory Board

- Risk management committee

- Management Board

- Division of the first line

- Chief Risk Officer and Environmental and Social risk assessment division

4.2 Supervisory Board’s functions:

4.2.1 Approve of the Environmental and Social responsibility Policy;

4.2.2 Define risk appetite;

4.2.3 Control the efficiency and performance of the environmental and social risk management system;

4.3 Risk management committee’s functions

4.3.1 Oversees the process of managing environmental and social risks

4.3.2 Ensures the availability and actuality of internal regulation acts regulating the process of managing environmental and social risks

4.4 Management Board’s functions:

4.4.1 Implementation of the Environmental and Social Responsibility Management Policy, approved by the Supervisory Board, ensures the implementation of risk identification, assessment, control and monitoring procedures;

4.4.2 Approves internal documents which regulate environmental and social risk management within the mandate;

4.4.3 Reviews social and environmental risk management reports;

4.5 Functions of the Division of the first line:

4.5.1 Provides the necessary documents for assessment of environmental and social risks;

4.5.2 Ensures the completion of questionnaires on environmental and social aspects of borrowers' activities

4.5.3 Controls the fulfilment of covenants;

4.6 Functions of Chief Risk Officer and Environmental and Social risk assessment division:

4.6.1 Assessment and monitoring of environmental and social risks;

4.6.2 Provides independent and prudent opinions in the resume form;

4.6.3 Ensures internal and external reporting in the field of environmental and social risks;

4.6.4 CRO has a veto-power on decisions of Management Board in cases defined by Supervisory Board.

**Section 5. environmental and social risk management System of the Bank’s lending projects**

Management of environmental and social risks of the Bank’s lending projects is based on:

* prohibition of financing of the most harmful activities;
* implementation of the system of assessment and monitoring of environmental and social risks in the Bank's lending projects.

**Prohibition of financing of the most harmful activities**

To prevent financing of the most harmful activities, the Bank shall create a **list of exclusions to financing** (exclusion of certain sectors of the economy is also part of the Bank’s Lending Policy). The list of exclusions includes types of business activity not financed by the Bank:

* production or trade in any product or activity deemed illegal in accordance with international conventions and agreements or subject to international prohibitions1;
* production or trade in of products containing polychlorinated biphenols (PCBs)2;
* production and trade in pharmaceutical products, pesticides / herbicides and other harmful substances to be withdrawn from international circulation or subject to international prohibitions1;
* production or trade in ozone-depleting substances to be withdrawn from international circulation3;
* production or trade in radioactive materials (including storage and processing of radioactive waste)4;
* activities related to nuclear industry or nuclear materials5;
* transportation of oil and other hazardous substances in tankers that do not meet the requirements of the International Maritime Organization (IMO)6;
* production or trade in weapons (including hunting) and ammunition7;
* production or trade in alcoholic beverages (other than beer and wine)8;
* production or trade of tobacco products8;
* gambling (including online), casinos and similar activities;
* production or trade in unbound asbestos fibers9;
* drift net fishing in the marine environment using nets in excess of 2.5 km in length;
* trade in species of wild fauna and flora or products from species of wild flora and fauna regulated under CITES10;
* production or trade in timber or other forestry products, other than managed forests11;
* production, trade, storage or transportation of large volumes of hazardous chemicals or use of hazardous chemicals on a commercial scale;
* Hydropower plants with installed capacity more than 15 MWp;
* Financing of economic activities related to the coal sector, including coal mining, coal transportation, infrastructure services intended solely to support any of these activities14

In addition to the exclusions to financinglisted above, for environmental and social reasons the Bank does not finance:

* production or activities on land used to maintain means of subsistence for vulnerable groups (e.g., in heads of rivers used for fishing and / or water supply, on land for grazing, hunting, hayfields, etc.);
* production or activity that may result in forced resettlement;
* production or activity with a risk of negative impact on indigenous peoples / minorities
* production or activity related to harmful or exploitative forms of forced labor / harmful child labor12
* production or activities that may have significant insurmountable risks that cannot be avoided or mitigated or have a significant adverse impact on the environment, health and safety, biodiversity, cultural and archaeological heritage13.

The list of exclusions to financingshall be revised annually as part of updating the Lending Policy of the Bank and Environmental and Social Responsibility Policy of the Bank.

1 A list of products that are subject to phase outs or bans is available from IFC or EBRD. Reference documents include EU Regulation (EEC) No 2455/92 Concerning the Export and Import of Certain Dangerous Chemicals, as amended; UN Consolidated List of Products whose Consumption and/or Sale have been Banned, Withdrawn, Severely Restricted or not Approved by Governments; Convention on the Prior Informed Consent Procedures for Certain Hazardous Chemicals and Pesticides in International Trade (Rotterdam Convention); Stockholm Convention on Persistent Organic Pollutants; WHO Classification of Pesticides by Hazard.

2 Polychlorinated biphenyls: group of highly toxic chemicals likely to be found in oil-filled electrical transformers, capacitors and switchgear dating from 1950-1985.

3 Ozone Depleting Substances (ODSs): chemical compounds which react with and deplete stratospheric ozone, resulting in the widely publicised ‘ozone holes’. The Montreal Protocol lists ODSs and their target reduction and phase-out dates. A list of the chemical compounds regulated by the Montreal Protocol, which includes aerosols, refrigerants, foam-blowing agents, solvents, and fire-protection agents, together with details of signatory countries and phase-out target dates, is available from IFC or EBRD.

4 This does not apply to the purchase of medical equipment, quality control (measurements) equipment and any other equipment where the radioactive source is trivial and/or adequately shielded.

5. Please see footnote 4

6. This includes: tankers which do not have all required MARPOL SOLAS certificates (including, without limitation, ISM Code compliance), tankers blacklisted by the European Union or banned by the Paris Memorandum of Understanding on Port State Control (Paris MOU), and tankers due for phase-out under regulations 13G and 13H of Annex I of MARPOL. No single hull tanker over 25 years old should be used.

7 A weapon is any implement or device that can be used with intent to inflict damage or harm. Weapons are used to increase the efficacy and efficiency of activities such as hunting, crime, law enforcement, self-defense, and warfare.

Security companies which buy small arms and their munitions for own use and without the purpose of reselling them, are excluded from this provision.

Additionally this does not apply to clients/enterprises who are not substantially involved in these activities. “Not substantially involved” means that the activity concerned is ancillary to the client´s primary operations. Exemptions can be made with approval of IFC.

8 This does not apply to clients/enterprises who are not substantially involved in these activities. “Not substantially involved” means that the activity concerned is ancillary to the client´s primary operations. Exemptions can be made with approval of IFC.

9 This shall not apply to the purchase and use of bound asbestos cement sheets, where the content of asbestos is less than 20%

10 CITES: Convention on International Trade in Endangered Species of Wild Fauna and Flora. A list of CITES listed species is available from IFC or EBRD. To find out which species are on the list, visit http://www.cites.org or access the CITES species database at <http://www.cites.org/eng/resources/species.html>

11 Sustainably managed forests have to be certified (international and national certifiers) if available or should be in accordance with the bank´s policy for financing logging.

12 This includes any activity related to human trafficking. Forced labour means all work or service, not voluntarily performed, that is extracted from an individual under threat of force or penalty. Harmful child labour means the employment of children that is economically exploitative, or is likely to be hazardous to, or to interfere with, the child’s education, or to be harmful to the child’s health, or physical, mental, spiritual, moral, or social development. For further guidance refer to: IFC (see IFC/MIGA Joint Policy Statement on Forced Labour and Harmful Child Labour); the ILO Declaration on Fundamental Principles and Rights at Work, and the principles enshrined in the following conventions: ILO conventions 29 and 105 (forced and bonded labour), 87 (freedom of association), 98 (right to collective bargaining), 100 and 111 (discrimination); 138 (minimum age); 182 (worst forms of child labour);Universal Declaration of Human Rights.

13 These risks are those for which it is not possible to create an action plan to eliminate or mitigate them

14 This does not apply to clients/enterprises who are not substantially involved in these activities. “Not substantially involved” means that the activity concerned is ancillary to the client´s primary operations. Coal Related Activities Exposure" means the aggregate of all on-balance sheet assets (including equity) and off-balance sheet commitments and contingencies of the Borrower to any Person that carries on any Coal Related Activities

5.1 Implementation of the system of assessment and monitoring of environmental and social risks in projects financed by the Bank

The system of assessment and monitoring of environmental and social risks in the Bank’s projects shall be developed on the basis of international best practices and the IFC standards in the area of assessment of social and environmental performance indicators and shall be implemented as an integral part of the Bank's lending process. The system shall consist of two elements: risk assessment and risk monitoring.

5.1.1 Assessment of environmental and social risks of projects

Assessment of environmental and social risks is an integral part of the Bank’s risk management system. Based on the results of the assessment of social and environmental risks, the Bank may set a list of additional requirements to borrowers aimed at minimizing or eliminating such risks.

5.2.2. Monitoring of environmental and social risks of projects

Monitoring of environmental and social risks shall be carried out by the Bank on an annual basis by obtaining from borrowers standardized annual reports on environmental and social issues, processing information contained in such reports in order to improve the process of assessing environmental and social risks, and generating accounting to the relevant collegial body based on such reports.

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# Section 6. “green finance”

Implementation of “green” financing is based on financing of projects with positive environmental effect.

In order to implement this Policy, given the urgency of enhancing the energy efficiency of the Ukrainian economy and achieving energy independence, the Bank has identified “green” projects as a priority area for financing. Such projects should be aimed at:

* introduction of energy-efficient technologies;
* use of renewable energy sources;
* more efficient use of natural resources (resource efficiency);
* reduction of harmful emissions into the environment.

The implementation of this priority area of financing will facilitate the Bank’s development as a financial institution, increase the competitiveness of the country’s economy in general and improve the environmental situation in the country. The Bank develops a responsible attitude to environmental impact of project implementation and defines key indicators for its evaluation. When determining the values of key indicators, estimation of the reduction of carbon emissions and reduction of energy consumption for each project is carried out. Key indicators are summarized in annual reports, which are integral part of the Bank’s annual report on its environmental and social indicators.

**Section 7.** **Environmental management and social responsibility of the Bank**

Environmental management and social responsibility of the Bank provides for the introduction of a mechanism for managing and monitoring the environmental and social performance of the Bank.

This mechanism is developed on the basis of international best practices and standards in this area, regulates daily activities of all divisions of the Bank and includes the following areas:

* management and monitoring of the Bank’s social performance indicators;
* management and monitoring of the Bank's environmental performance indicators.

7.1. Management and monitoring of the Bank’s social performance indicators

Management and monitoring of the Bank’s social performance indicators is provided by:

* implementing a procedure for accounting of social indicators of the staff policy;
* implementing a procedure for regulating internal conflicts.

7.1.1. Procedure for accounting of social indicators of the Bank’s staff policy

Employees are essential to achieving the Bank's mission.

The Bank seeks to form a vibrant community of colleagues and create an inspiring, healthy and socially friendly work environment

The Bank provides a fair, transparent and professional selection and selection process, encourages feedback to improve the performance of the institution and its employees, provides training, development and growth opportunities, promotes equal opportunities and supports diversity, does not suffer any discrimination or harassment, is concerned about the health and safety of employees, supports employees' right to freedom of association, freedom of expression and the right to bargain collectively, fairly from entrepreneurs and achievements, report on results of social policy in the annual report.

The procedure for accounting of social indicators of the Bank’s staff policy is part of the staff policy that describes key social indicators and reporting on compliance with current labor laws, the Code of Corporate Governance and internal regulations on occupational safety and health of the Bank’s employees. Results of this monitoring are summarized in annual reports, which are integral part of the Bank’s annual report on its environmental and social indicators.

7.1.2 Procedure for regulating internal conflicts

The procedure for regulating internal conflicts describes the mechanism for filing, recording, monitoring, processing and responding to complaints from the Bank’s employees in order to create a sound corporate spirit.

7.1.3 Management and monitoring of the Bank’s environmental performance indicators

Management and monitoring of the Bank’s environmental performance indicators:

* Accounting for energy consumption, introduction of advanced technologies of energy consumption and lighting;
* Minimization of harmful impact on the environment that may be caused by waste arising from the Bank’s activities;
* Responsible consumption of resources, priority in the use of resources made from environmentally friendly or recycled raw materials;
* Minimization of harmful impact on the environment when using transport for operational needs, priority use of environmentally friendly (electric) transport.

7.1.4 Accounting for energy consumption, introduction of advanced technologies of energy consumption and lighting

The Bank defines as a priority the introduction of efficient energy consumption, advanced lighting technologies and reduced consumption of energy resources used for lighting, conditioning and heating of premises. The Bank shall establish annual plans for the implementation of advanced technologies for efficient energy consumption and lighting, define the responsible persons, terms of implementation and control over their implementation.

7.1.5 Minimization of harmful impact on the environment that may be caused by waste arising from the Bank’s activities

The Bank shall introduce, regularly update and improve a waste management procedure binding for all units of the Bank. The procedure shall determine the classification of waste, accounting procedure, safety measures when dealing with different categories of waste, requirements to collection, sorting and recycling for each category of waste generated by the Bank. The procedure shall also provide for the appointment of responsible persons, definition of their functions and tasks, as well as measures of compliance monitoring.

7.1.6 Responsible consumption of resources, priority in the use of resources made from environmentally friendly or recycled raw materials

The Bank defines as a priority the use of resources made from environmentally friendly or recycled raw materials. The Bank shall establish annual plans binding for all units of the Bank describing measures to minimize resource consumption and transition to consumption of resources made from environmentally friendly or recycled raw materials. The plan shall also provide for the appointment of responsible persons, definition of their functions and tasks, as well as measures of compliance monitoring.

7.1.7 Minimization of harmful impact on the environment when using transport for operational needs, priority use of environmentally friendly (electric) transport

The Bank defines as a priority the use of environmentally friendly (electric) transport. The Bank shall establish annual plans for reduction of carbon emissions when using transport for operational needs. The plan shall also provide for the appointment of responsible person, accounting and reporting procedures.

**Section 8.** **Ensuring information transparency regarding environmental and social responsibility of the Bank**

In order to ensure informational transparency regarding the environmental and social responsibility of the Bank, the Board of the Bank shall implement:

* reporting on environmental and social responsibility of the Bank.
* Stakeholder Engagement Plan for the Bank's environmental and social responsibility;
* Grievances mechanisms directly related to environmental and social risks

8.1 Stakeholder Engagement Plan for the Bank's environmental and social responsibility

Stakeholder dialogue provides an important contribution to the Bank's development and allows it to be aware of new sustainable development issues, to develop and promote sustainability criteria, to address sustainable development issues and to encourage appropriate action.

The Stakeholder Engagement Plan covers the following groups: investors, customers, contractors, public associations, individuals, and identifies mechanisms and channels of communication and feedback, responsible persons, etc.

8.2 Grievances mechanisms

The complaints mechanism as an integral part of an effective stakeholder strategy is of great importance for assessing and mitigating the environmental and social risks associated with the activities of the Bank's lending projects.

A separate communication channel, grievances@ukrgasbank.com, has been created to enable third parties to receive information on projects credited by the Bank, including the community that may be adversely affected by the project.

The Bank encourages feedback and comment from any stakeholder and ensures that potential expressions of dissatisfaction are handled fairly, consistently and promptly.

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**Section 9 Reporting system and disclosure of information regarding environmental and social risks**

The Social and Environmental Risk Management Division provides quarterly reports on social and environmental risk assessment to the Supervisory Board, the Risk Management Committee and the Management Board. Brief social and environmental risk assessment reports are provided to the members of the Supervisory Board, the Risk Management Committee and the Management Board on a monthly basis.

This reporting is comprehensive, reliable, accurate, timely and complies with applicable law and international law, recommendations and standards.

The Bank provide Sustainable development Report annually in accordance with the latest version of the Global Reporting Initiative (GRI). The Bank recognizes GRI standards, including various sectoral additions, as the most widely used framework reporting system in the world.

# Section 10. FINAL PROVISIONS

10.1. This Policy shall be approved by the Supervisory Board of the Bank.

10.2. Amendments to this Policy shall be approved by the Supervisory Board of the Bank and documented as a new document or revised version hereof. Adoption of a revised version of this Policy shall automatically invalidate its previous version.

10.3. Should any part of this Policy be inconsistent with the applicable laws of Ukraine, including regulations of the National Bank of Ukraine, in particular, due to adoption of new regulations, this Policy shall only be applicable to an extent consistent with the laws of Ukraine.

**PREPARED BY:**

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**APPROVED BY:**

Director of the Legal Department І.А. Pryshko

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