

# Integrated Annual Report

**Sovcombank PJSC**

2021

# About the Annual Report

GRI 102-1, 102-46, 102-50, 102-51

## SCOPE OF DISCLOSURE

This Sovcombank PJSC Integrated Annual Report 2021 (the "Annual Report") discloses information on the performance of Sovcombank PJSC and its subsidiaries (collectively, "Sovcombank", the "Bank", the "Group" or "Sovcombank Group") for the reporting period from January 1 to December 31, 2021.

In terms of strategy, corporate governance, operational and financial performance, this Annual Report is the successor to the Annual Report 2020, and in terms of sustainability reporting — to the Sustainability Report 2020.

Any minor deviations in the estimations disclosed in any texts, graphs and tables in this Annual Report are due to rounding.

## APPLICABLE STANDARDS

GRI 102-54

This Annual Report is prepared in accordance with the following regulatory documents:

- Federal Law No. 208-FZ dated December 26, 1995 On Joint Stock Companies,
- Federal Law No. 39-FZ dated April 22, 1996 On the Securities Market (as amended and supplemented with effect from December 1, 2021),
- The Code of Corporate Governance as recommended by the Central Bank of the Russian Federation (the "Bank of Russia") in its Letter dated April 10, 2014,
- Bank of Russia Regulation No. 714-P dated March 27, 2020 On Disclosure of Information by Issuers of Equity Securities,
- Guidelines for Public Joint Stock Companies on Disclosure of Non-Financial Information Related to Activities of Such Companies (Annex to Bank of Russia Letter No. IN-06-28/49 dated July 12, 2021),

- Guidelines for Public Joint Stock Companies on how to Disclose in Annual Reports Information on Remunerations Paid to Members of the Board of Directors (Supervisory Board), Members of Executive Bodies, and Other Key Executives of Public Joint Stock Companies (Bank of Russia Letter No. IN-06-28/57 dated December 11, 2017),
- Recommendations of the Moscow Exchange Annual Report Contest,
- Standards of the Global Reporting Initiative (GRI-2016, Core option),
- Recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD) of the Financial Stability Board.

## MATERIAL TOPICS

GRI 102-47

The following topics were identified as material for the purposes of this Annual Report:

- Ensuring carbon neutrality,
- Financial inclusion,
- Financial literacy,
- Sustainable customer experience,
- Sustainable lending and finance,
- Financial support to small and medium-sized enterprises (SMEs),
- Cybersecurity and business resilience,
- Protection of personal data,
- Legal compliance,
- Human resource management,
- Diversity, equality and inclusion,
- Business ethics and integrity.

For further details, see the Sustainability section →

## DISCLAIMER

This Annual Report was prepared by Sovcombank PJSC.

Some of the information in this Annual Report was obtained from third-party sources that were believed to be reliable. Although Sovcombank has taken all reasonable care to ensure that the information herein is accurate and correct, the Bank makes no representation or warranty, express or implied, as to the accuracy, correctness, or completeness of such information.

Furthermore, Sovcombank makes no representation or warranty, express or implied, that its future operational, financial, or other performance will be consistent with the performance implied, directly or indirectly, by such information or with the Bank's past operating, financial, or other performance.

Any information herein is as of the date of this Annual Report. Sovcombank assumes no obligation to update the information in this Annual Report.

Some figures in this Annual Report may be based on unaudited financial statements. Sovcombank makes no representation, express or implied, that these figures are correct, and you should not rely on these figures as being audited or otherwise independently verified.

This Annual Report also contains forward-looking statements that relate to, among other things, other matters, Sovcombank's plans, objectives, targets, strategies, future activities, and performance. Such forward-looking statements may be characterized by words such as "expects", "estimates", "anticipates", "forecasts", "believes", "intends", "plans", "may", "will", "should", and similar expressions, but these are not the exclusive means of identifying such statements. Such forward-looking statements involve known and unknown risks, uncertainties, and other material factors, which may cause Sovcombank's actual operating, financial, and other results to be materially different from those expressed or implied by such forward-looking statements. Although Sovcombank believes

the basis for such forward-looking statements to be fair and reasonable, Sovcombank makes no representation or warranty, express or implied, as to the fairness or reasonableness of such forward-looking statements. Furthermore, Sovcombank makes no representation or warranty, express or implied, that the operating, financial, or other results anticipated by such forward-looking statements will be achieved. Such forward-looking statements represent, in each case, only one of many possible scenarios and should not be viewed as the most likely or standard scenario.

## APPROVAL OF THE ANNUAL REPORT

This Annual Report was provisionally approved by the resolution of the Supervisory of Sovcombank PJSC on May 30, 2022 (Minutes No. 8 dated May 30, 2022).

Approved by the resolution of the Annual General Meeting of Shareholders of Sovcombank PJSC on June 30, 2022 (Minutes No. 2 dated July 1, 2022).

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# About the Bank

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01

# Bank at a glance GRI 102-2, 102-5, 102-6, 102-7

Sovcombank is a nationwide systemically important bank. The Group is the 9th largest bank in Russia by total assets and the third largest privately owned Russian bank<sup>1</sup>.

**#9**

by total assets in Russia

**#3**

by total assets among privately owned banks

As of December 31, 2021, Sovcombank was rated by 3 Russian credit rating agencies (Expert RA, ACRA and NCR) and 3 international credit rating agencies (S&P, Moody's and Fitch).



Sovcombank's strategy is based on a combination of organic and inorganic growth and building a strong presence in high-margin niches with low competition.

This strategy enables the Group to increase its profits and ensure capital growth throughout economic cycles, and take advantage of market opportunities.

One of Sovcombank's strongest competitive advantages is its vast experience in M&A deals amid banking sector consolidation. The Group was able to develop into a major player largely due to a careful choice of assets for M&A deals and a successful integration of acquired businesses. This approach allowed the Bank to diversify its product line, increase its customer base, and ensure steady growth and long-term development.

## Key figures

as of December 31, 2021

**1,031**

municipalities

**79**

constituent federal entities

**10.8M**

clients  
(incl. 200,000 corporate clients)

**10.6M**

retail clients  
(incl. 10 million borrowers, 600,000 depositors)

**2.6k**

offices

**23k**

employees

<sup>1</sup> According to Interfax-100 ranking based on RAS.

## SOVCOMBANK GROUP

### BANKING BUSINESS

 SOVCOMBANK



RETAIL BANKING



CORPORATE BUSINESS



TREASURY

Sovcombank's business model rests on three key pillars: retail banking, corporate banking, and treasury segments supplemented by a wide range of non-banking financial services.

### NON-BANKING BUSINESS



INSURANCE

Life insurance, comprehensive and collision car insurance, mandatory third-party liability car insurance, etc.



FACTORING



PROCUREMENT PLATFORM

Online platform for public and private procurement



GUARANTEES

Online bank guarantees for participation in procurement



IT & FINTECH

- IT services for companies of the Group
- Software development, implementation of business solutions
- Online payment processing platform



INVESTMENTS

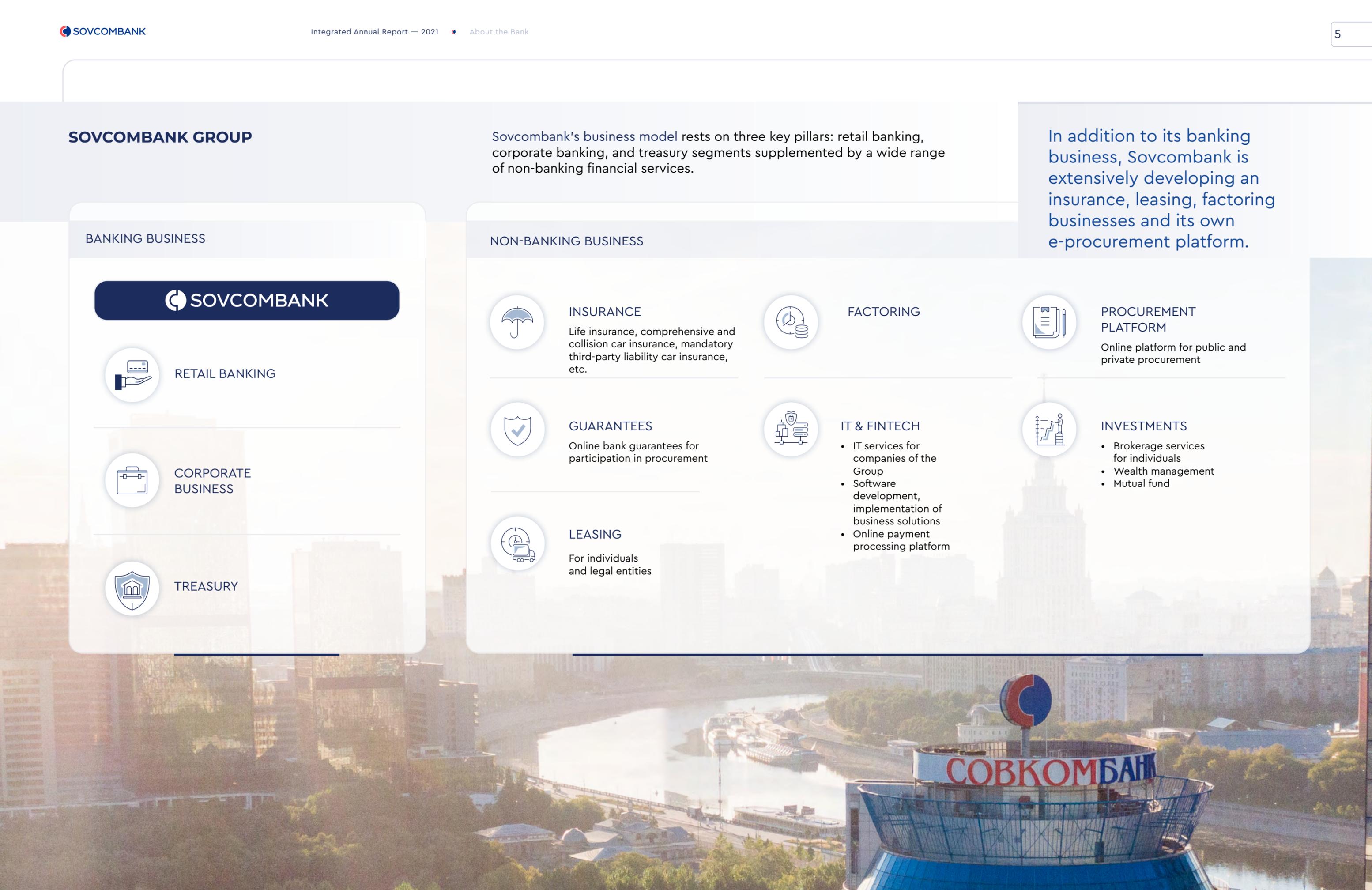
- Brokerage services for individuals
- Wealth management
- Mutual fund



LEASING

For individuals and legal entities

In addition to its banking business, Sovcombank is extensively developing an insurance, leasing, factoring businesses and its own e-procurement platform.



# Geographical footprint

GRI 102-4, 102-6

**2.6k** offices  
79 out of 85 constituent federal entities

The Bank's office network grows both organically and with each M&A deal.

By expanding its geographical footprint, the Bank promotes financial inclusion and creates jobs. In 2021, Sovcombank opened 281 new offices, adding three new regions and 43 new cities in the Far East and Siberia (Republic of Tyva, Republic of Sakha (Yakutia), Altai Territory, Amur Region, Trans-Baikal Territory), Moscow Region, and Leningrad Region to its network. The network expanded mainly due to the purchase of Vostochny Bank and the National Factoring Company.



**+43**

new municipalities in 2021

**+281**

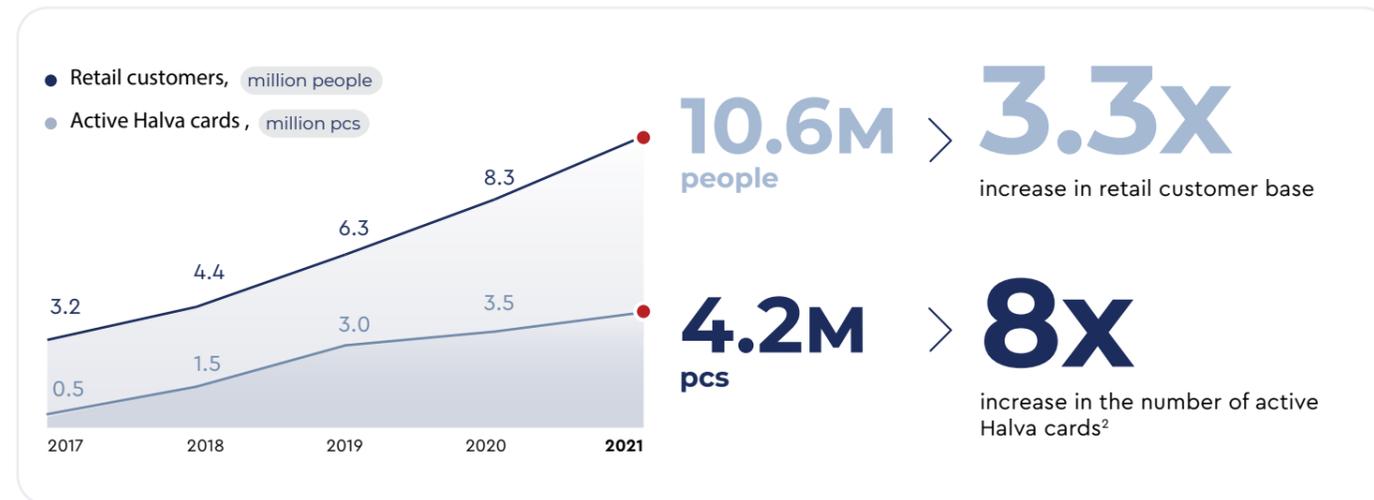
new offices in 2021

# Development history GRI 102-7

Over the past ten years, the Group achieved significant growth rates. From a regional bank, Sovcombank became the third largest privately owned Russian bank and one of the ten largest banks in Russia.

Due to unique product offerings and a combination of organic growth with targeted M&As, the Bank secured a strong position in the market, diversified its business portfolio, and expanded its geographical footprint to cover almost the whole of Russia.

## Sovcombank's customer base



## Through organic and inorganic growth over the past ten years, the Group was able to:

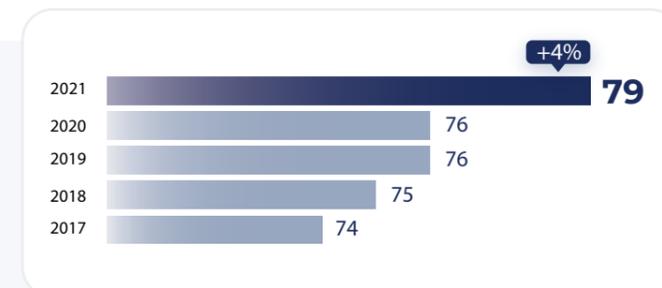
- diversify its retail business portfolio with secured lending products: car loans, car equity loans, mortgage loans, and home equity loans,
- launch the Halva national installment platform. As of December 31, 2021, the Halva project had 4.2 million active card holders and its partner network included 221,000 stores,
- expand lending to and financing from major corporations, the public sector, and small and medium-sized enterprises (SMEs),
- become one the leading bond underwriters in Russia,
- become the owner of one of the largest online platforms for private and public procurement, with a market share of 28%<sup>1</sup>,
- develop its non-banking businesses: insurance, leasing, factoring.

## The Bank's office network



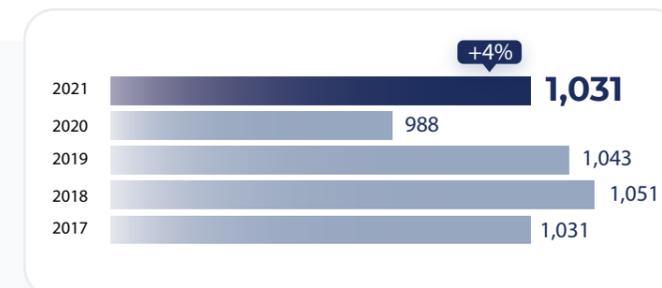
Source: Bank data

## Constituent federal entities



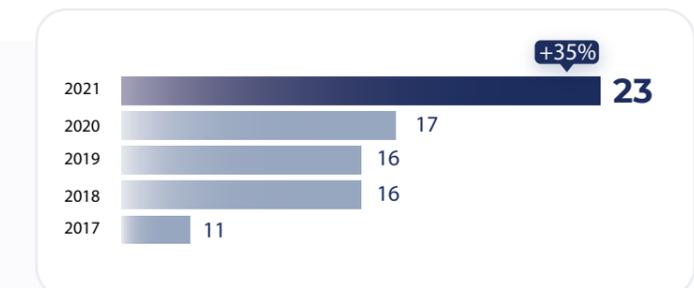
Source: Bank data

## Municipalities



Source: Bank data

## The Bank's headcount, thousand employees



Source: Bank data

<sup>1</sup> According to the Group's own estimates based on public data available on zakupki.gov.ru.  
<sup>2</sup> Since the launch in 2017.

# Business model

GRI 102-2, 102-6



## RETAIL banking

### Key products:

- Halva installment card,
- Secured lending (car loans, mortgage loans, car and home equity loans),
- Operating current accounts and term deposits for retail customers,
- Bancassurance (selling insurance products, e.g., financial protection insurance, etc., for a certain fee from the insurance company),
- Insurance (life, car, pension, etc.).

Halva installment card is the core of the Group's retail banking business. Since its launch in March 2017, the

Bank issued 8.2 million cards and 20% of all Russian retailers joined the partner network.

Low-risk secured lending is one of Sovcombank's competitive advantages over other banks that focus on higher-yield, but riskier unsecured lending (issuing credit cards and unsecured consumer loans).

The operating model of the Group's retail banking is based on:

- diversified product line,
- low average check,
- effective risk management,
- omnichannel approach,
- retail deposits as a stable source of funding.

Halva installment card is the core of the Group's retail banking business. Since its launch in March 2017, the Bank issued 8.2 million cards and 20% of all Russian retailers joined the partner network.



## CORPORATE banking

### Key products:

- lending and funding and management services for major Russian corporations and local governments,
- bank services for SMEs (loans, current accounts, transactional banking),
- debt capital market services,
- e-platform for public and private procurement (28% share of the public procurement market),
- leasing and factoring services,
- trade finance (letters of credit, bank guarantees),
- precious metals transactions.

Sovcombank's customer base include high-quality borrowers: major Russian corporations, state-owned companies, regional and municipal governments, and SMEs. The Bank's corporate loan portfolio is highly diversified by industry. The quality of the loan portfolio remains high due to the Group's balanced approach to risk.

By organizing bond issuances, the Group maintains close working ties with top level corporate and government customers.

Procurement platform gives access to a large number of SME customers. It also helps the Group to grow its bank guarantees business.

**16**   
awards won at Cbonds Awards in 2021

**#3**   
in the category Best Sales Team in the Bond Market

The Bank's corporate business and its treasury work in close cooperation: a highly qualified team of the corporate investment unit helps the treasury to properly manage the securities portfolio, skillfully balancing risk and margins.



## TREASURY and capital management

### Key operations:

- managing the securities portfolio (mainly consisting of public and corporate bonds),
- managing the Group capital,
- attracting wholesale funding (Bank of Russia funds, interbank loans, own bond issuances, REPO transactions),
- redistributing internal funding,
- managing liquidity and risks,
- completing M&A transactions.

The securities portfolio serves as a stable source of interest income and liquidity.



## NON-BANKING business

Sovcombank successfully combines its non-banking business with banking products, creates numerous synergies within the Group, opens opportunities for cross-selling and offers clients an opportunity to take advantage of comprehensive financial services. Thus, retail customers of Sovcombank are able to purchase life, health, property, car and other insurance policies. Leasing customers have access to complementary insurance products, such as comprehensive and collision car insurance, mandatory third-party liability car insurance, car loans and floorplan loans. SMEs to which Sovcombank offers transactional services or partnership under the Halva project have access to factoring services and to public and private procurement on the Bank's e-procurement platform.

# ESG mission and values

GRI 102-16

Sovcombank is at the forefront of the ESG agenda in Russia, incorporating global ESG initiatives and ambitious ESG targets into its strategy.

The Bank aims to achieve net-zero greenhouse gas emissions and to contribute massively to its clients' efforts in transitioning to a low-carbon economy. Sovcombank constantly expands its range of sustainable finance products, supporting the global commitment to achieving the climate goals of the Paris Agreement and the UN Sustainable Development Goals.

In its approach, Sovcombank seeks to strike the right balance between maintaining stable shareholder returns and making a difference for the wider society.

**The Bank adheres to the following principles:**



**Transparent corporate governance**

It is based on high reporting standards and a transparent corporate governance system.



**Corporate social responsibility**

We build honest, professional, and trusting relationships with all stakeholders and take a responsible approach to information disclosure, including advertising.



**Sustainable finance**

The Bank promotes the transition to a low-carbon economy and finances green and adaptation projects of its corporate clients.

**Support for SMEs**

We provide clients from this segment with popular products: loans, including preferential loans, bank guarantees, procurement on our platforms.



**Financial inclusion**

Our largest office network among private banks helps us to provide wide access to financial services and develop communities.



**Financial literacy**

Sovcombank provides access to financial learning resources and organizes financial training programs for clients.



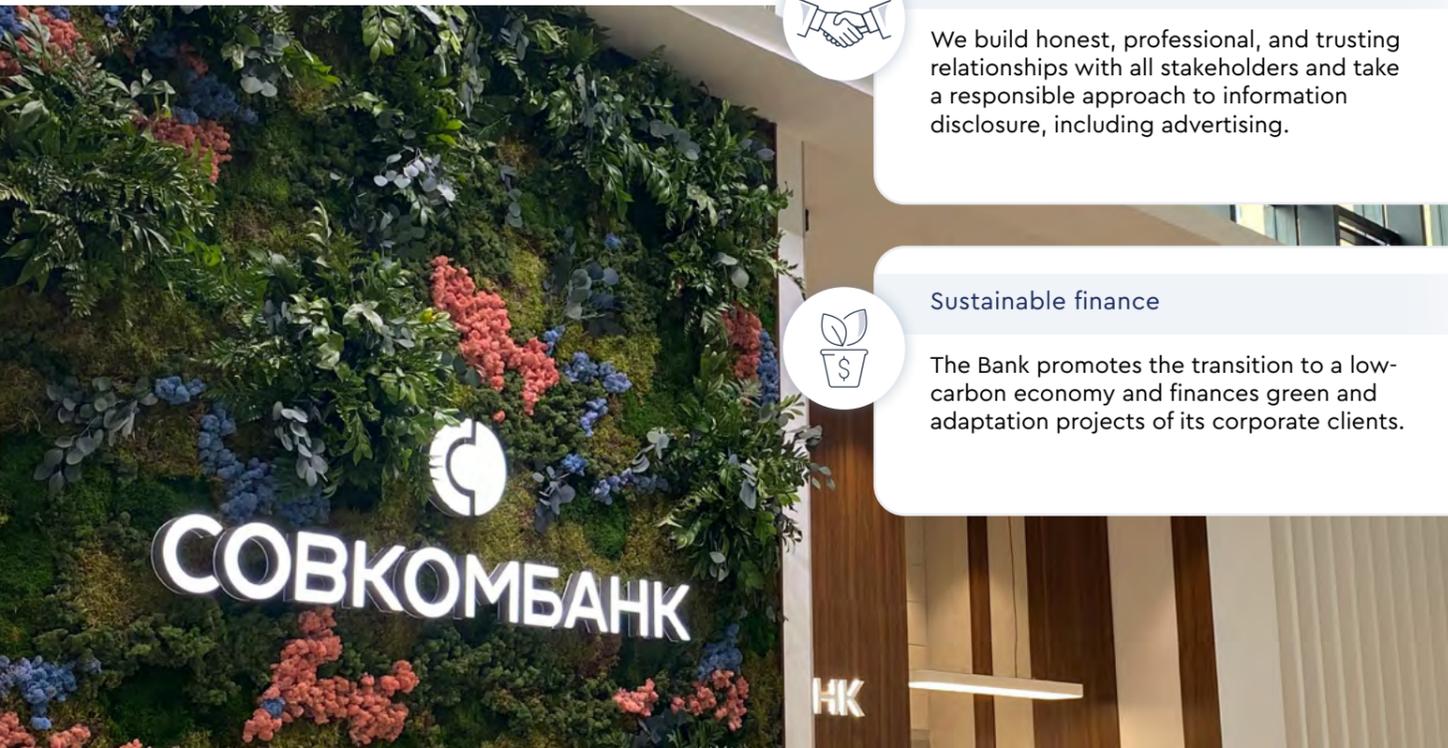
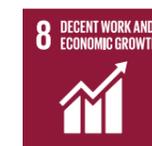
**Care for employees**

We carefully select employees, develop talents and support career advancement. We take into account their personal characteristics, paying great attention to diversity, equality, and inclusion.



## UN Sustainable Development Goals

By implementing its business model and integrating ESG initiatives into it, Sovcombank contributes to the achievement of the UN SDGs.



## Contribution to global initiatives

Sovcombank follows the global ESG best practices and shares its experience with other companies and banks.



United Nations Environment Program Finance Initiative (UNEP FI)



UN Global Compact



Global Reporting Initiative (GRI)



Task Force on Climate-Related Financial Disclosures (TCFD) of the Financial Stability Board



UN Climate Neutral Now Initiative

[Read more about the Bank's contribution to global initiatives](#) →

## Sustainable banking

The Bank integrated global ESG initiatives into its strategy and actively develops sustainable financing and investment tools to help clients with their ESG transformation.

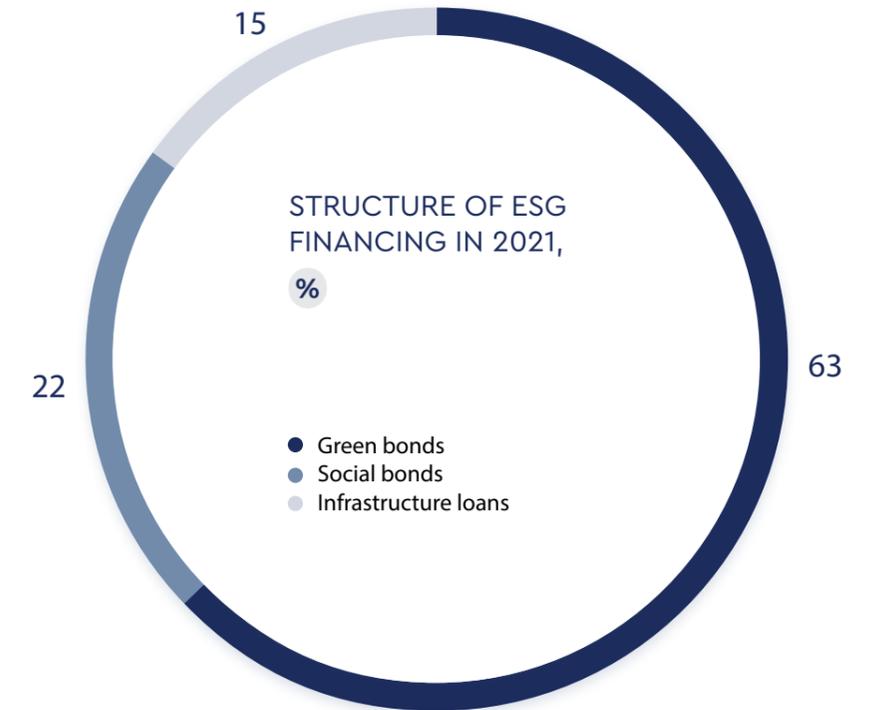
As one of Russia's pioneers in ESG banking, Sovcombank arranged the first Russian placements of green and social bonds for its clients in 2020 and began issuing ESG-linked loans.

In 2021, the Bank issued the first social bonds in the CIS for

**\$300M**



In 2021, Sovcombank became the first Russian bank to offer ESG deposits to its clients. Under the terms of the product, the funds raised will be used to finance projects related to the UN Sustainable Development Goals, as well as transformational, green and social projects.



Source: Bank data

### Sovcombank's ESG portfolio structure

- ESG-linked loans
- Social and green bonds, the issuance of which is organized by the Bank
- ESG deposits

# 2021 Results

The Sovcombank team made every effort to take advantage of the opportunities that opened up after the first year of the pandemic. Sovcombank, which is traditionally able to maintain its profits during crises, earned a record net profit in 2021. A strong business model based on asset diversification and impactful M&A deals became the key to the Bank's profitability and asset growth.

## Sustainability KPIs

In 2021, Sovcombank approved its strategic ESG goals and disclosed them in the 2020 Sustainability Report.

The adoption of the climate strategy in 2021 and the publication of the TCFD report are important steps towards achieving the ESG targets.

For further details, see the Sustainability section →

In 2021, Sovcombank became the first Russian bank to support TCFD recommendations for climate-related financial disclosures.

After reviewing its loan portfolio in terms of climate-related risks and taking a closer look at carbon-intensive sectors, Sovcombank identified climate-related opportunities for itself and disclosed them in its first TCFD report.

For further details on the TCFD Report, see the Sustainability section →

Since the Bank offices mainly lease their premises, we do not consider the climate-related risks for the Bank's facilities to be significant. However, our loan portfolio includes corporate borrowers from carbon-intensive industries. We believe that they are exposed to transitional risks, as they will be affected by the global energy transition to carbon neutrality. Sovcombank is developing an approach that will enable it to offer different terms, products, and services to clients exposed to various ESG risks, including climate-related ones.

In 2021, the Bank issued its own social bonds (to raise funds to finance the loan portfolio related to the Halva interest-free installment cards) and participated in organizing the issuance of green and social bonds for major Russian companies.

The Bank also offers ESG linked loans. Such a product enables the Bank to offer special loan terms and encourage clients to focus more on environmental and social issues.

In 2021, Sovcombank attracted its first ESG deposit and organized five ESG bond issues. Funds raised from the placement of green bonds will be used to finance the construction of renewable energy facilities and purchase of environmentally friendly vehicles.

The Moscow Exchange has a Sustainability Sector for financing environmental and social sustainability projects. As of the date of this Annual Report (there being no changes since the end of 2021), 22 bond issues meeting the ICMA/CBI/SBP criteria were traded on the Moscow Exchange<sup>1</sup>,

# 80%

of which were placed with the participation of Sovcombank.

Sovcombank integrates ESG targets into its standard loan agreements. In 2021, the Bank issued ESG-linked loans on the following terms:

- a lower interest rate is used if the borrower meets a certain number of environmental commitments in nuclear power plant construction,
- a lower interest rate is linked to switching to using environmentally friendly electric drones for mineral exploration and geological mapping,
- the interest rate on the revolving credit line is linked to the ESG rating assigned by a competent international agency.

Sovcombank seeks to expand its cooperation with small and medium-sized businesses. Promoting employment by supporting SMEs through various lending and digital instruments is one of Sovcombank's strategic ESG goals.

Promoting employment by supporting SMEs through various lending and digital instruments is one of Sovcombank's strategic ESG goals.

Achieving and maintaining gender equality is one of Sovcombank's priority goals and an important part of its ESG strategy. The Bank's management team keeps a firm eye on the issue in its ongoing commitment and efforts to advance gender equality. We promote equal pay and representation at all levels and seek to increase the share of women in top management.

In 2021, Sovcombank, ahead of schedule, achieved one of its strategic ESG targets: 40% women in top management by 2025. This share already reached 43% by the end of 2021, partially thanks to M&A deals when the employees of Vostochny Bank and the National Factoring Company joined the Sovcombank team.

In 2021, Sovcombank, ahead of schedule, achieved one of its strategic ESG targets: 40% women in top management by 2025.

Share of female employees at the Bank, %



Share of women in top management positions, %



For further details, see the Sustainability section →

<sup>1</sup> International green and social bond principles.

## Highlights of 2021

In 2021, Sovcombank completed nine M&As, expanded its product range, diversified funding sources, and arranged a number of major debt capital market transactions for its clients.



### M&A DEALS

**April: Acquisition of Vostochny Express Bank**

Sovcombank closed a deal to buy out a majority stake in Vostochny Express Bank. Vostochny Bank was merged with Sovcombank on February 14, 2022.

**May: Acquisition of the National Factoring Company**

Sovcombank acquired the National Factoring Company (NFC). NFC was merged with Sovcombank on February 14, 2022.

For further details, see the Mergers and Acquisitions section →



### PUBLIC BORROWING

**July: Sovcombank increased earlier attracted syndicated loan**

The Bank signed an amendment to the loan agreement struck at the end of 2020 to increase the amount of the second tranche from \$180 million to \$450 million. As a result, total amount credit increased from \$350 million to \$620 million with the same interest rate and maturity date. The proceeds will be used to finance international trade operations and general needs of the Group, and to also fund the growth of the Halva installment card portfolio.

**November: Sovcombank places \$300 million in perpetual Eurobonds**

On November 12, Sovcombank issued \$300 million worth of perpetual subordinated Eurobonds with a coupon yield of 7.6% per annum, which was lower than the initial benchmark yield on these securities of 7.75% to 8% per annum. The demand for the Bank's securities from Russian and foreign investors exceeded the supply by the factor of three. The proceeds will be used to optimize the Group's capital structure for its further business growth.

**\$ 300M**

perpetual Eurobonds issue



### ESG FINANCING

**January: First social Eurobonds**

On January 27, the Bank placed its first issue of 4-year social Eurobonds of \$300 million with a yield of 3.4% per annum on the Irish Euronext Dublin exchange. This was the first issue of ICMA SBP securities by a Russian issuer in the CIS. The proceeds were used to finance the Halva interest-free installment card portfolio.

**May: Sovcombank issued an ESG-linked loan to Russia's largest air carrier**

The interest rate on the revolving loan facility was linked to the ESG rating assigned to the air carrier.

**June: Sovcombank co-arranged a bond issue for a large state-owned company in the nuclear energy sector**

The proceeds will be used to finance the company's sustainability (green) programs and projects, including those in the wind energy sector. The maximum nominal value of all bond issues under the program is €10 billion.

**₹ 10BN**

maximum nominal value of all bond issues under the program



### CHANGES WITHIN THE GROUP

**September: The Group's holding structure was re-domiciled to Russia**

Sovcombank's holding structure was re-domiciled from Luxembourg to Russia, to the special economic zone in the Kaliningrad Region. In 2021, the company changed the jurisdiction of incorporation from the Netherlands to Luxembourg. The Bank has been a tax resident of Russia since January 1, 2016.

# High ratings



Sovcombank's ratings change over three years

Credit ratings as of December 31, 2021

Agency	Rating	Outlook	Date	
International	 <b>BB+</b>	Stable →	Sept. 1, 2021	In September 2021, Fitch Ratings affirmed the Bank's long-term issuer default ratings (IDRs) at "BB+", with a "Stable" outlook.
International	 <b>BB/B</b>	Positive ↗	Oct. 13, 2021	In January 2021, S&P Global Ratings revised the outlook on the Bank's rating to "Positive" from "Stable" and affirmed its long- and short-term credit ratings at "BB/B".
International	 <b>Ba1</b>	Stable →	Nov. 10, 2020	In November 2020, Moody's rating agency upgraded the long-term ratings of the Bank's deposits in national and foreign currency to "Ba1" with a "Stable" outlook.
National	 <b>AA-</b>	Stable →	Apr. 19, 2021	In April 2021, the Analytical Credit Rating Agency (ACRA) upgraded the Bank's credit rating to "AA-(RU)", while revising the outlook to "Stable".
National	 <b>ruAA</b>	Stable →	Feb. 11, 2021	In February 2021, Expert RA upgraded Sovcombank's credit rating to "ruAA", with a "Stable" outlook.
National	 <b>AA-</b>	Positive ↗	Dec. 28, 2021	In December 2021, National Credit Ratings (NCR) affirmed the Bank's credit rating at "AA-", while revising the outlook to "Positive".

# Rankings, awards



## Rankings

In 2021, Sovcombank ranked among the top 10 Russian banks in terms of key performance indicators and received a number of major awards.

BY TOTAL ASSETS AND CAPITAL UNDER RAS

**9th**

largest bank in Russia

**3th**

largest privately-owned Russian bank<sup>1</sup>

IN TERMS OF THE VOLUME OF INDIVIDUALS' FUNDS UNDER RAS

**#10**

IN THE RANKING of the largest banks

BANKI.RU PORTAL

**#1**

People's Rating, based on reviews of service level and customer experience<sup>3</sup>

**#5**

Employer Rating<sup>4</sup>

IN TERMS OF NET PROFIT UNDER RAS IN 2021

**#8**

among the largest banks

**#3**

AMONG PRIVATE banks

IN TERMS OF LOAN PORTFOLIOS

**TOP 20**

among the largest banks

**#3**

in the retail segment among private banks<sup>2</sup>



<sup>1</sup> Assets, capital, net profit, individuals' funds and ranks are according to Interfax-100 data for 2021 (RAS). Rankings Interfax-100 — Finmarket (finmarket.ru).

<sup>2</sup> Lending portfolios and ranks are according to Expert RA as of January 1, 2022 (RAS). Monthly bank rankings as of January 1, 2022 (raexpert.ru).

<sup>3</sup> <https://www.banki.ru/services/responses/championship/>.

<sup>4</sup> Banki.ru Employer Rating.



## Awards and recognitions



In 2021, Sovcombank received the following awards and recognitions<sup>1</sup>:

- Award for Best Customer Experience in B2C at the 2021 CX World Awards,
- Award for Best Customer Experience of Online Engagement and Community Building at the CX World Awards,
- #2 bank in 2021 Marksw Webb Mobile Banking Rank (Ecosystem Core),
- Award for Best Feedback Practices at the 2021 CX World Awards,
- #2 bank in Best Solutions for Business Processes or Customer Service at the 2021 FINAWARD for the project Integration of Sovest Installment Cards into the Halva System,
- Editor's Choice Award for the contribution to the development of innovative technologies and the implementation of the financial business transformation project at the 2021 FINAWARD,
- Award for Best Russian Bank in the CIS Syndication Market at the Loans Cbonds Awards,
- Award for Best ESG Transparency Practices from Expert RA,
- Award for Best Innovative Bank from SME Banking Club,
- Award for Best IT Project to Support Treasury and Stock Market Operations at the Banking Tech Awards,
- Award for Best Commercial in the category Powers of Customer Experience. Fairness at the Ipsos Bank Ad Awards,
- Award for Best Banking Digital Transformation on Digital Q. FinancialMarkets at the 2021 IDC Real Results Award 2021.

<sup>1</sup> <https://sovcombank.ru/about/info/awards>.

<sup>2</sup> <https://www.marksw Webb.ru/report/mobile-banking-rank-2021/>.

Furthermore, the Bank received 16 awards at the annual Cbonds Awards:

### Cbonds

- Best Bond Market Sales,
- Best Primary Subfederal/Municipal Bond Deal,
- Best Primary Placement for Eurobonds,
- Best Primary Deal in Banking Sector,
- Innovations of The Year,
- Best Primary Deal in the "Transport" Segment,
- Best Primary Deal in Mechanical Engineering,
- Best Primary Deal of a Retailer,
- Best Primary Deal for a Leasing Company,
- Best Primary Deal in The Non-Financial Sector,
- Best Primary Deal of a Federal Developer,
- Best Primary Deal of a Regional Developer,
- Best Primary High-yield Deal – Financial Sector,
- Debut of the Year,
- Best Securitization Bond Deal,
- Green Bonds of the Year.

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# Strategic report

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02

# Message from the Management Board



Dear Clients, Colleagues,  
and Partners,

In 2021, Sovcombank showed strong financial results and earned a record net profit. Despite 2021 being a challenging year, we were able to reach the strategic goals thanks to the strong performance of our team and our quick response to a rapidly changing environment.

The Bank offers a solid outlook to 23,000 employees at 2,600 offices in a thousand cities in Russia, and serves millions of clients across the country.

Sovcombank was able to successfully survive four major crises, accumulating the expertise to maintain the sustainability and stability of its business in any conditions.

At the beginning of 2022, we had to face new challenges and we are fully prepared not only to overcome them, but also to seize the opportunities that opened up in the market.

Our commitment to sustainability remains strong. By implementing the UN Sustainable Development Goals (SDGs), the United Nations Environment Program Finance Initiative's (UNEP FI) Principles for Responsible Banking and the UN Global Compact principles, we promote the ESG agenda in our business. Last year, the Bank increased its portfolio of green projects and issued the first social bonds in the CIS.

We will continue to help clients with their ESG transformations by providing sustainable finance products and services while taking into account national priorities.



# The Bank's position in the industry

## Macroeconomic situation in Russia

In 2021, Russia's GDP grew by 4.6% (to ₺131 trillion), offsetting the 2.7% decline in 2020 and exceeding the pre-pandemic 2019 growth (2.2%). Industrial production increased by 5.3%, with growth observed in both minerals extraction and manufacturing industries as well. Among the major sectors of the economy, only agriculture showed a decline (-0.9%).

In 2021, amid gradual lifting of the pandemic-related restrictions and due to a stable deferred demand, the turnover of retail trade grew by 7.3% in terms of goods and by 17.6% in

terms of services, and the turnover of cafes and restaurants grew by 23.5%. Real wages for the 11 months of 2021 grew by 2.8% year-on-year and 5% vs January–November 2019. Real disposable personal income grew by 3.1%, and unemployment reached a historic low, falling to 4.8%.

Rising oil prices also supported the Russian economy in 2021. The average price of Urals crude oil was \$69 per barrel vs \$41.4 in 2020 and \$63.9 in pre-pandemic 2019. At the same time, the ruble real effective exchange rate against

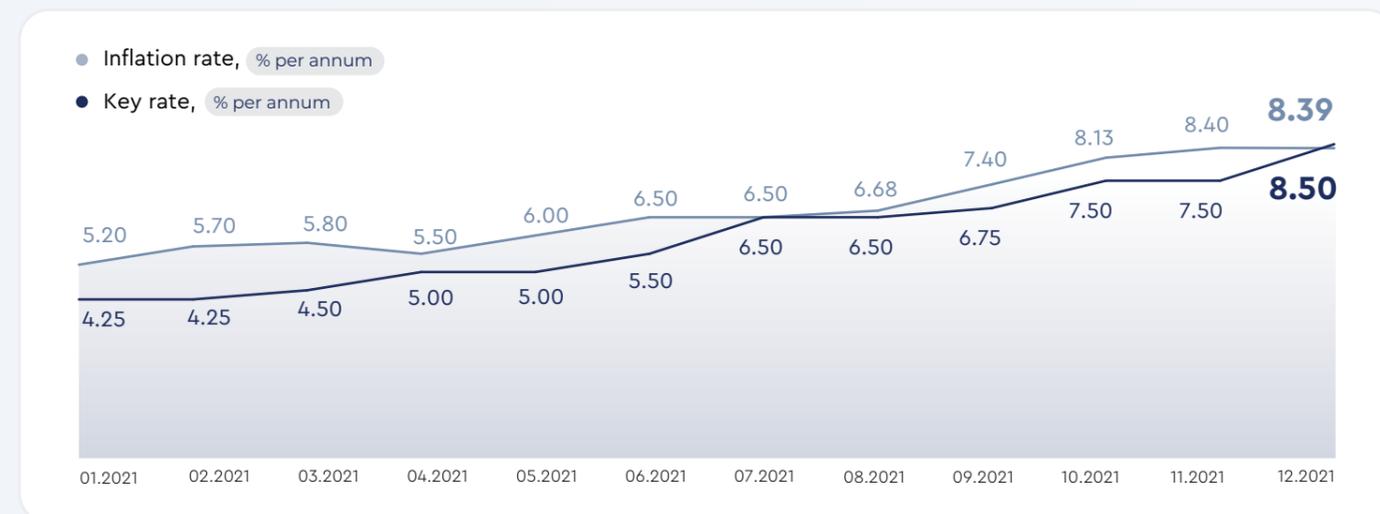
In 2021, the COVID-19 pandemic continued to affect supplies, working conditions, employment, tourism, entertainment, public catering, etc. Nevertheless, the Russian economy has entered a recovery phase after the 2020 recession.

foreign currencies weakened by 1.4% in 2021 (7.5% in 2020), while its nominal exchange rate slid 2% against the USD and 6% against the EUR.

The growing imbalance between supply and demand, caused, among other things, by supply chain disruptions due to the pandemic-related restrictions, pushed consumer prices higher in the first quarter of 2021. By mid-March, inflation was 5.8% in annual terms, significantly exceeding the Bank of Russia's forecast of around 4%.

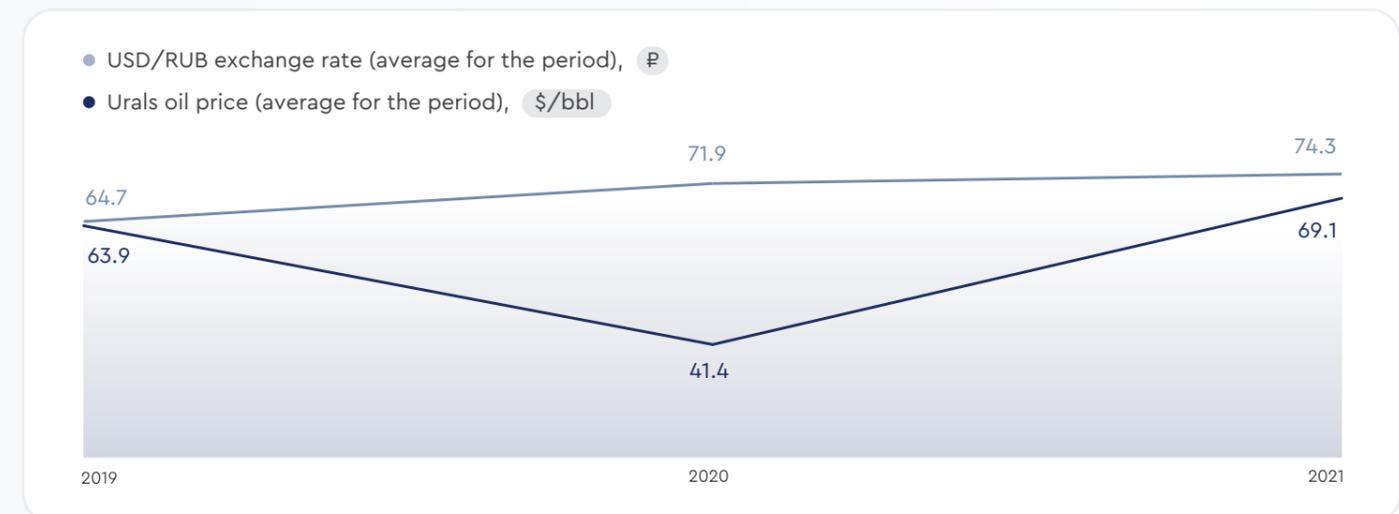
In view of this, in March 2021, the Board of Directors of the Bank of Russia, for the first time since 2018, resorted to raising the key rate and, by the end of the year, raised it by 425 basis points to 8.5% per annum. On February 28, amid the drastic changes in the economic environment, the Bank of Russia raised the key rate to 20% per annum, and the Russian Government obliged Russian exporters to sell 80% of their foreign exchange earnings and approved a package of measures, including credit holidays, to help businesses and individuals.

Inflation rate and the key rate of the Bank of Russia



Source: Bank of Russia

USD/RUB exchange rate and the average oil price



Source: Ministry of Economic Development of Russia

# Banking sector

The banking sector showed strong growth in 2021 amid economic recovery. Companies sought to borrow before interest rates would raise. Deferred demand was catching up in the retail segment amid rising consumption. The credit quality of borrowers and loan portfolios improved. The growth in the debt burden of individuals and the rapid acceleration of consumer lending resulted in tightening the capital requirements for the banks by the national macroprudential authorities twice in 2021, effective from July 1 and October 1, respectively.

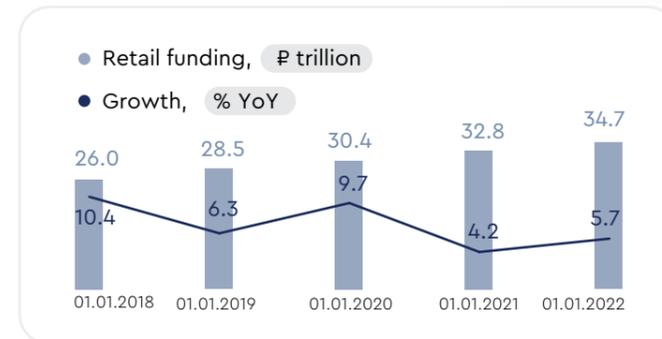
As of January 01, 2022, there were 370 credit institutions operating in Russia, of which 335 had a banking license. Thirteen (13) banks were recognized by the Bank of Russia as systemically important. In 2021, the total number of banks decreased by 31, and the total number of market participants decreased by 36.

In 2021, the Russian banks' total assets net of provisions grew by 15.9% to ₹121 trillion (with the share of systemically important banks, including their subsidiaries, exceeding 75%), up from the 12.5% increase in 2020.

The total capital of the Russian credit institutions at the end of 2021 amounted to ₹12 trillion, showing an increase of 12% over the year (11% due to the capitalization support of some major banks and the positive revaluation of securities amid rising bond prices). A year earlier, the capital growth was 11%.

The corporate loan portfolio increased by 11.7%<sup>1</sup> over the year, to ₹53 trillion vs 9.9% in 2020. The share of overdue debt in the portfolio decreased by the end of the year to 5.6% from 6.7%.

## Retail funding



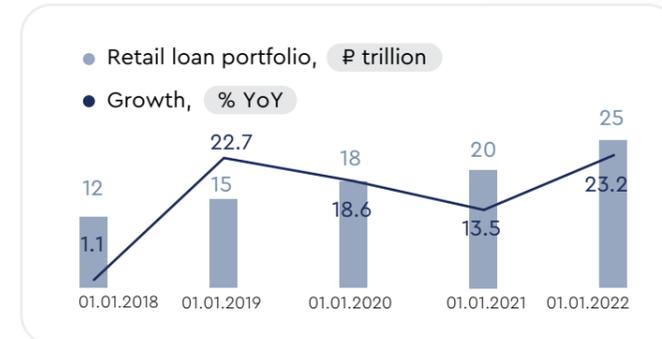
Source: Bank of Russia, adjusted for the effects of currency revaluations and banks with revoked licenses

## Corporate funding



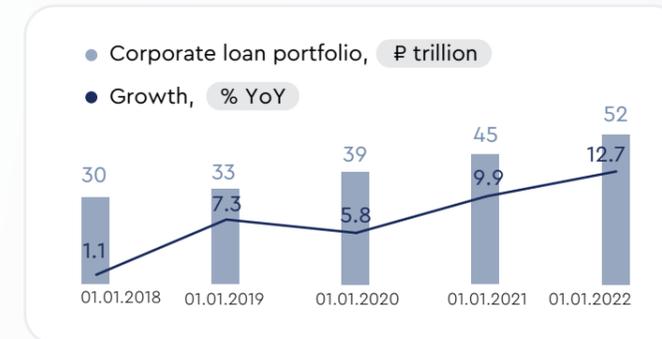
Source: Bank of Russia, adjusted for the effects of currency revaluations and banks with revoked licenses

## Retail loans



Source: Bank of Russia

## Corporate loans



Source: Bank of Russia, adjusted for the effects of currency revaluations and banks with revoked licenses

## Net profit and return on equity (ROE)



Source: Bank of Russia

## Interest rates on ruble loans and deposits, % per annum



Source: Ministry of Economic Development of Russia

In 2021, the retail loan portfolio increased by 23.2% (against 13.5% in 2020) to ₹25 trillion, while its quality also improved: the share of overdue debt decreased to 4% from 4.7%. Mortgage lending, supported by government programs, was the key driver of retail lending growth: it grew by ₹2.5 trillion (26.4%) to reach ₹12 trillion. Consumer loans increased by ₹2 trillion (20.1%), to ₹12 trillion, car loans added ₹0.2 trillion (22.1%) to ₹1.3 trillion. A year earlier, only mortgage loans showed comparable growth (21%), while consumer loans and car loans grew much slower (8.8% and 7.9%, respectively).

The inflow of funds from businesses increased due to inflated prices for exported commodities and high foreign exchange earnings, and the inflow of funds from individuals swelled due to rising interest rates on retail deposits. In 2021, corporate current accounts and term deposits increased by 18% to ₹38 trillion, beating the 2020 year increase of 15.8%; and retail current accounts and term deposits grew by 5.7% to ₹35 trillion vs 4.2% a year earlier.

In 2021, the net profit of Russian credit institutions increased 50% (to ₹2.4 trillion) vs 2020, when it decreased 6%. Amid the profit growth, the return on equity (ROE) increased to 21.1% against 16% in the previous year.

<sup>1</sup> Hereinafter, the growth of the key indicators according to the Bank of Russia is shown net of the effects of currency revaluations and banks with revoked licenses.

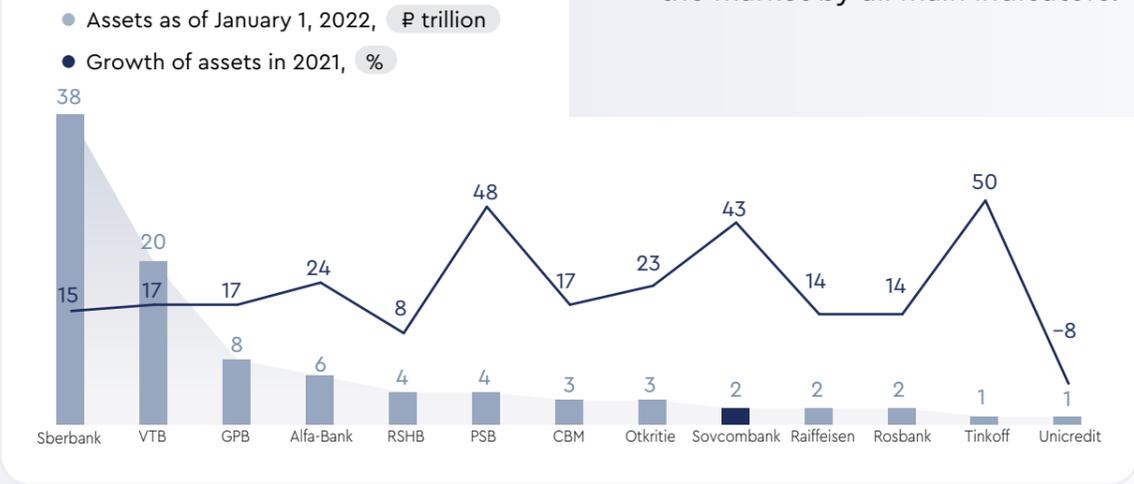
# Market position

In 2021, due to the extensive development of the key business lines, Sovcombank ranked among the top 10 Russian banks by most main performance indicators, and among the top three private banks in terms of assets and retail loan portfolio.

## Growth rate

Sovcombank's position among systemically important banks, by assets under RAS<sup>1</sup>

In 2021, the Bank outperformed the market by all main indicators.



Source: Expert RA rankings as of January 1, 2022 (RAS)

Market share<sup>2</sup>, RAS

**1.7%**  
Assets

**1.7%**  
Equity

**2.3%**  
Retail loans

**1.0%**  
Corporate loans

## Omnichannel network GRI 102-3, 102-4

One of Sovcombank's competitive advantages is its omnichannel approach: a combination of the Bank's nationwide office network, digital channels, and a partner network in the automobile and real estate segments.

As of December 31, 2021, the Bank's partner network of car dealerships, real estate agents and developers included more than 5,000 locations.

The bulk of the service functions has been redirected to digital channels, call centers, and ATMs. Online channels perform a support function by processing chat messages and calls received through the call center. Clients can use online and mobile banking to receive banking services without visiting the office. These channels account for 20% of all loans issued in 2021.

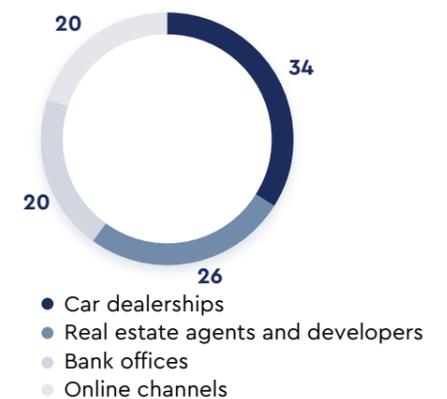
A survey conducted by the Group showed that 83% of clients would still rather visit the Bank's office for service. Thus, 20% of all loans issued in 2021 were issued at the Bank's offices. The Group's management team believes that Sovcombank's vast geographical footprint contributes to the customer inflow, since Sovcombank is often the only supplier of banking services in remote areas.

According to the Group's estimates, 100 million economically active people live within an hour's drive of a Sovcombank office.

As of December 31, 2021, Sovcombank's network included 2,615 offices located in 1,031 municipalities in 79 constituent federal entities of the Russian Federation (compared to 2,334 offices in 988 municipalities in 76 constituent federal entities of the Russian Federation as of December 30, 2020). The office network grew due to the operational integration of Vostochny Bank into the Sovcombank Group in the reporting year.

A survey conducted by the Group showed that 83% of clients would still rather visit the Bank's office for service.

Loans issued in 2021, by channel, %



PER MONTH

**500k**  
chats

**500k**  
calls

**500k**  
office visits

<sup>1</sup> Including subsidiary banks.

<sup>2</sup> According to Expert RA rankings under RAS.

Sovcombank's office network is the largest among private banks and the third largest in Russia, mainly due to the implementation of the mini-office concept.

Sovcombank has developed an efficient and cost-effective network of mini-offices, which can be easily expanded or shrunk depending on the economic cycle. The mini-office concept also opens up opportunities for cross-selling. Mini-offices are opened in traffic-intensive locations: at shopping malls, railway stations, etc. If necessary, such offices can be quickly shut down and just as quickly re-opened without any significant costs.

The network is constantly upgraded to increase traffic and maintain profitability.

Our goal is to transform our offices into multi-purpose centers where clients can receive banking services, get financial training, and pick up their online orders. By implementing this approach, we will gain an additional competitive advantage over banks with conventional offices.

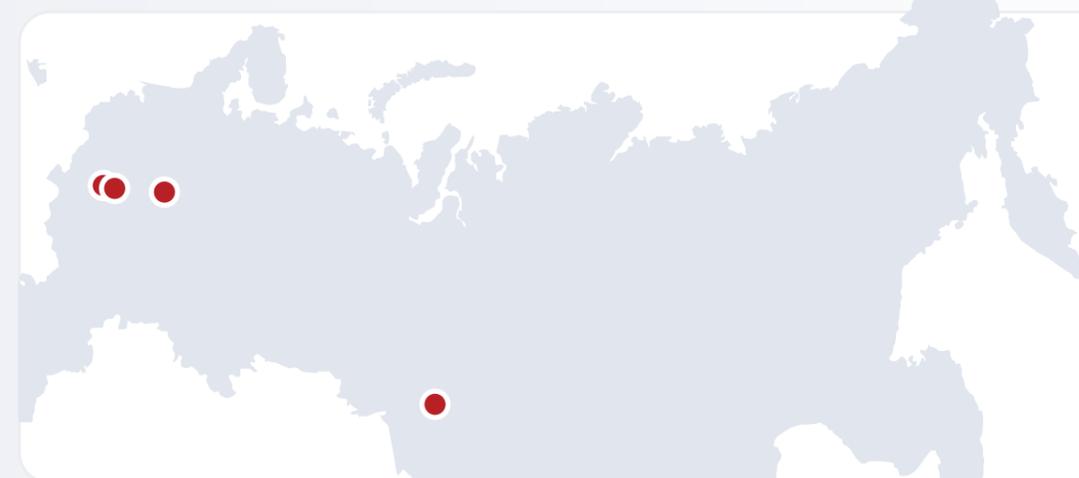
**77%** mini-offices' share in the network

**40 m<sup>2</sup>** mini-office floor area

**2 employees**

**₽ 2M** opening costs

**₽ 100k** monthly operating expenses



The Bank's network includes:

- Head office, address: 46 Tekstilshchikov Prospekt, Kostroma, Kostroma Region, 156000
- Moscow office, address: 14/1 Krasnopresnenskaya Embankment, Moscow, 123100
- Corporate office, address: 24 Vavilova Street, Moscow, 119991
- Central office, address: 11 Popova Street, Berdsk, Novosibirsk Region, 633011

**4.6k** ATMs and cash-in terminals are located at Sovcombank offices

As of December 31, 2021, 4,586 ATMs and cash-in terminals were available for cash transactions (4,363 as of December 31, 2020). The number of ATMS increased due to the integration of Vostochny Bank's ATMs into the Sovcombank network. ATMs can be used to pay a wide range of bills, including telecommunication bills, utility bills, etc., while cash-in terminals are used for banking operations: opening deposits, making loan repayments, etc. All ATMs and terminals are located inside the Bank's offices to promote cross-sales and reduce the cost of cash insurance for freestanding ATMs and terminals.

# Digital channels



## INNOVATIVE DIGITAL PLATFORM

Sovcombank's digital platform is an integral part of its omnichannel retail business model.

It includes:

- automated banking system,
- online banking,
- mobile banking,
- five call centers.

The digital platform performs service functions and makes it possible to effectively expand the product range and integrate the portfolios of acquired banks and companies.

It enables the Group to introduce dozens of new products and services every year, achieve significant IT efficiency and effectiveness, and increase employee engagement.

For the last five years, Sovcombank has been introducing artificial intelligence, big data, and machine learning solutions into its systems to automate some of the repetitive routine processes: calls processing, sales, client onboarding, etc.



**98%**

of all chat communications and



**15%**

of all calls

are handled by the AI assistant

**46%**

of all chat inquiries are resolved by the AI assistant

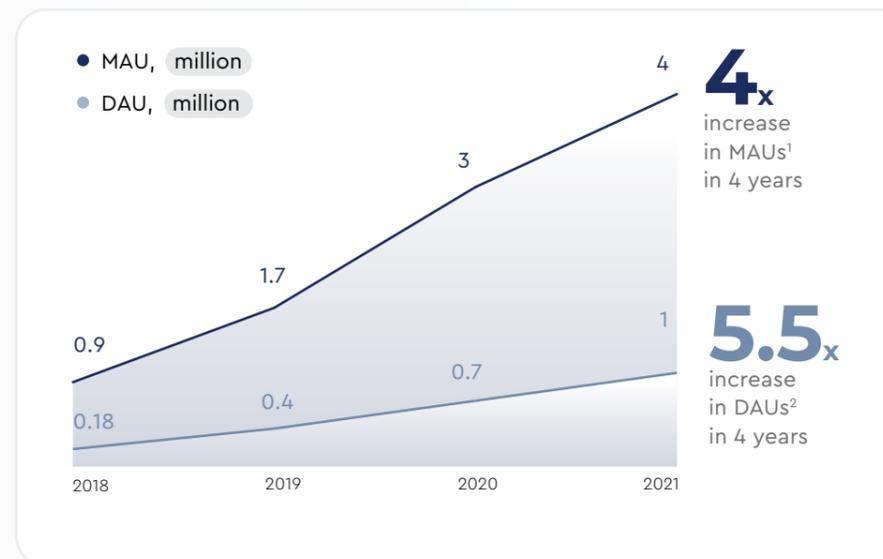
In 2021, Sovcombank's mobile app ranked second (third in 2020) in mobile banking ranking according to Markswebb Mobile Banking Rank<sup>4</sup>.

For further details, see the Customer experience section →



1	Тинькофф Банк	86,3
2	Совкомбанк	82,2
3	МТС Банк	53,8
4	Банк Хоум Кредит	52,9
5	Росбанк	50,3
6	Почта Банк	50
7	СберБанк	44,9
9	Абсолют Банк	44,6
8	Банк Открытие	44,6
10	Альфа-Банк	44,1
11	Банк Ренессанс Кредит	42,2
12	МКБ	40,9
13	Банк Левобережный	39,1
14	Газпромбанк	36,3

### Halva-Sovcombank mobile app usage growth



Source: Bank data.

<sup>1</sup> Monthly Active Users.  
<sup>2</sup> Daily Active Users.  
<sup>3</sup> Source: Bank data.  
<sup>4</sup> <https://www.markswebb.ru/report/mobile-banking-rank-2021>.

Thanks to the Bank's digital solutions, including AI assistants and chatbots, many customer tasks can be solved through the Halva-Sovcombank mobile app and online banking without any offline interaction.

As of December 31, 2021, the Sovcombank mobile app had a total of 10.3 million users. The Halva-Sovcombank mobile app has 18,000 downloads daily, with 809,000 DAUs and 3.5 million MAUs<sup>3</sup>.

As of December 31, 2021, 40% of all loan applications were processed online. The AI assistant processed 98% of all chat communications with users, successfully handling 65% of all inquiries without any human involvement.

As of December 31, 2021, online and mobile banking solutions (Halva-Sovcombank) were available for both iOS and Android operating systems. The number of active users and operations they perform with the mobile app grows every year along with the increase in the number of Halva card holders and the customer base expansion through M&A deals.

# Mergers & Acquisitions

## The Bank's approach to M&A

**The Group's M&A strategy** is based on selecting assets that best complement its business.

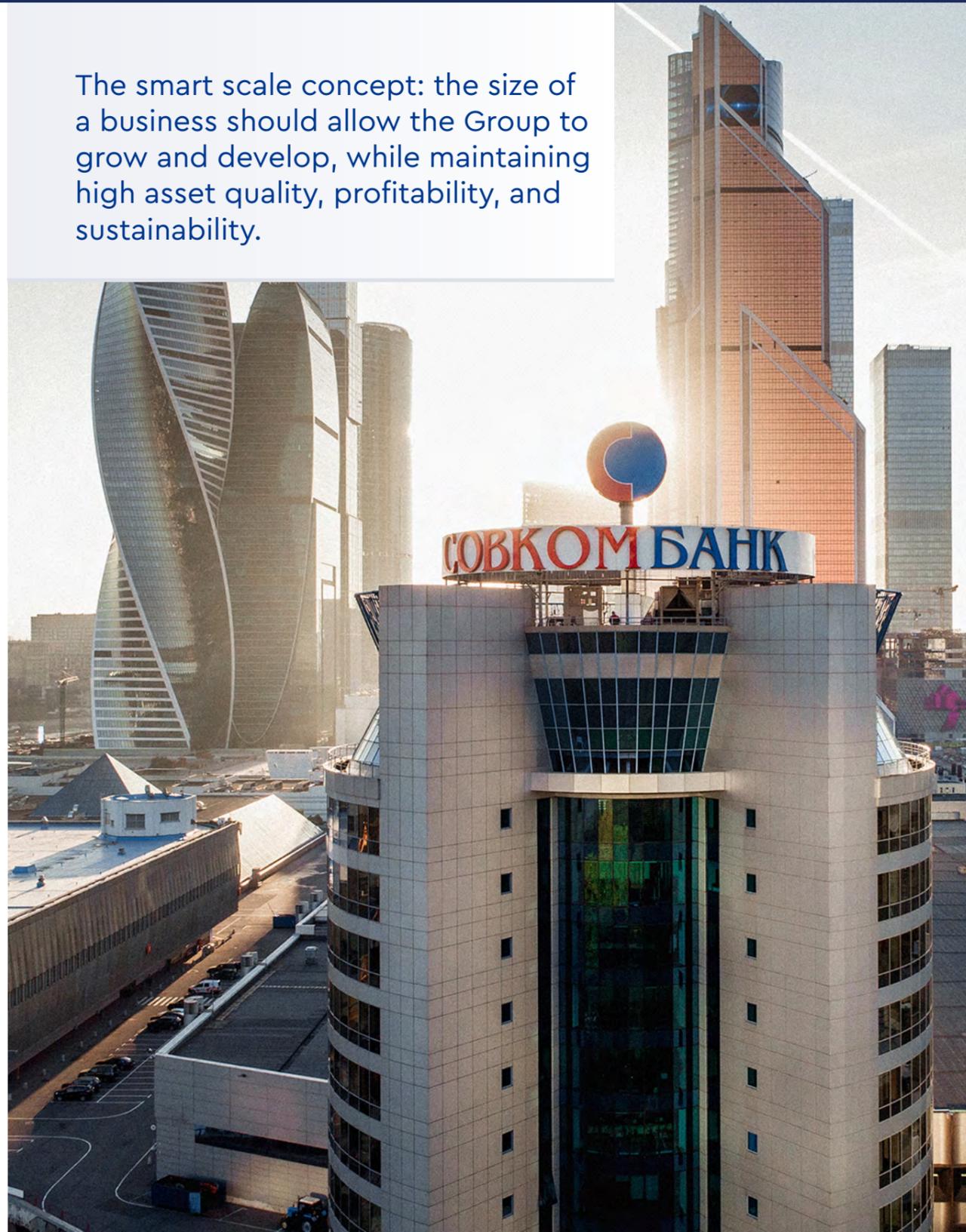
Newly acquired assets should strengthen the Group's competitive advantages, i.e., its large scale and the high quality of its business. Therefore, we never acquire businesses outside of the financial sector and never invest in high-risk projects. We acquire financial and fintech companies to further expand the range of products and services that we offer to Sovcombank's clients or to strengthen our competencies.

The purpose of M&A deals is to increase:

- customer base,
- interest margin,
- non-interest income.

We have built a team of professionals to manage our projects and implement technology integrations. The Bank's historically successful approach to acquisitions is based on due diligence and setting strict financial targets for its M&A projects. Lucrative market opportunities tend to come and go quickly just as quickly, so we make sure that we always have sufficient capital reserves and liquidity to promptly close a deal.

The smart scale concept: the size of a business should allow the Group to grow and develop, while maintaining high asset quality, profitability, and sustainability.



## History of M&A

In 2002, when Sovcombank (Buoykombank at the time) was acquired by its managers, it had one office, 17 employees and ₺2 million equity.

In 2012, Sovcombank was mastering a low-competition niche of lending to retired people, which at that time was outside the primary focus of most banks. In addition, the Bank increased the operational efficiency of its retail network by introducing mini offices.

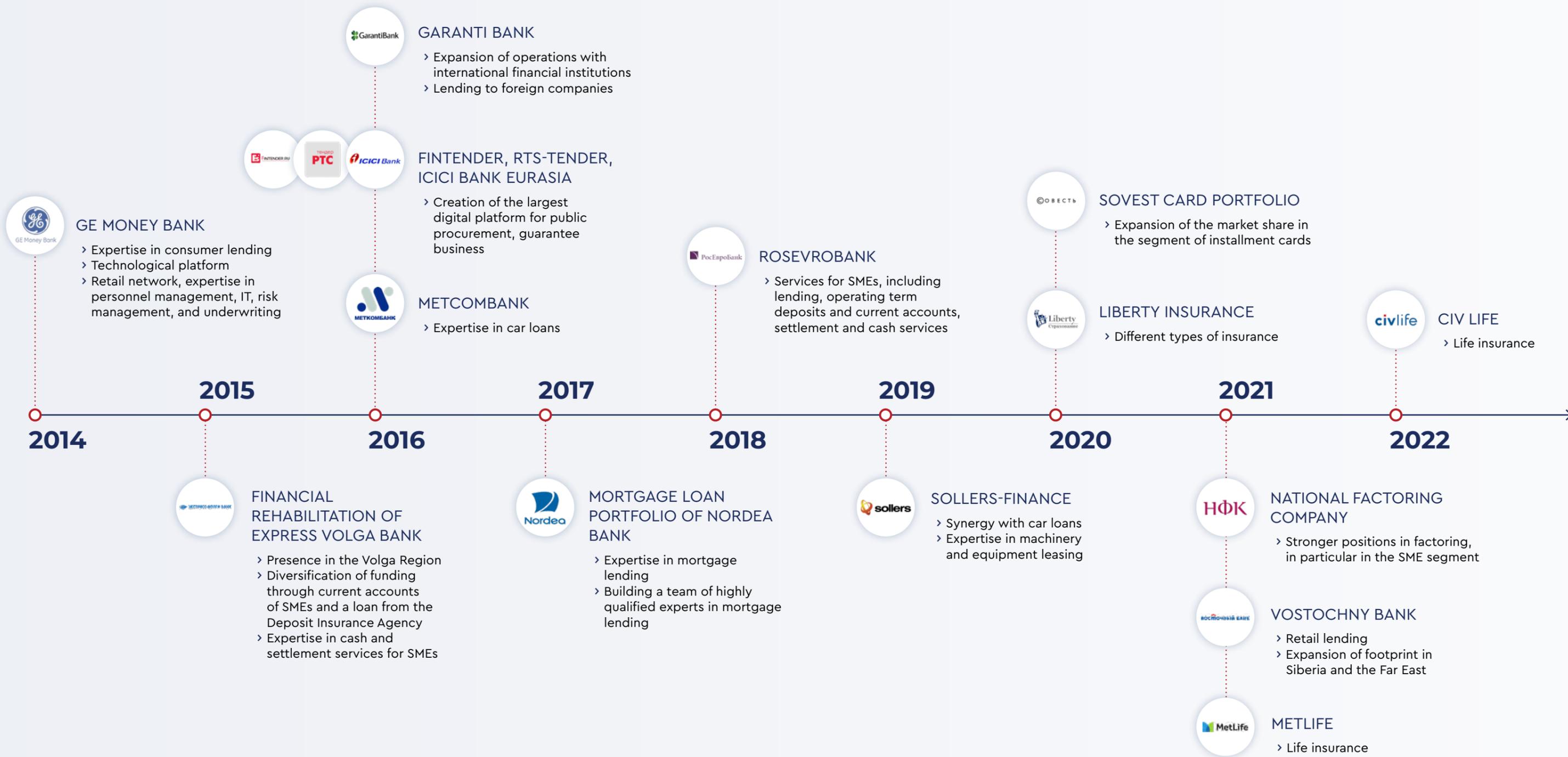
In 2014, the bank started a series of major M&A deals, the Bank acquired GE Money Bank, which specialized in unsecured consumer lending.

This transaction gave Sovcombank access to an advanced technological platform, first-class expertise in risk management and underwriting procedures, human resources and IT, and enabled it to build the largest network among Russian privately owned banks.

The Bank's retail business evolved over time: in 2016, the Group acquired Metcombank, which specialized in car lending, in 2017, the Group acquired Nordea Bank's Russian mortgage portfolio, which consisted mainly of high-quality loans.

The Group took advantage of the market opportunities that opened up in Russia during the 2014–2015 financial crisis. The Bank acquired a portfolio of Russian corporate and public bonds at lower prices and began to develop its corporate banking services. After the acquisition of Rosevrobank in 2018, the scale of the corporate segment expanded significantly: the transaction brought about around 23,000 medium-sized businesses as clients, helped retain qualified personnel and ensured revenue diversification.

## MAJOR ACQUISITIONS in 10 years



# M&As in 2021

GRI 102-10



## RETAIL BANKING: VOSTOCHNY BANK

In April, the Group closed a deal to acquire a 88.1% stake in **Vostochny Express Bank** from its key shareholders.  
 In August 2021, an 11.7% stake was purchased from non-controlling shareholders.  
 In October 2021, the remaining 0.2% stake was purchased, and Sovcombank's ownership reached 100%.

- › The Bank increased its retail lending business and converted Vostochny cards to Halva cards
- › Expanding footprint in the Russian Far East
- › Strengthening positions in the guarantee business
- › The Bank's customer base expanded by 3 million customers



## FACTORING: NATIONAL FACTORING COMPANY

In July, the Group closed a deal to acquire a 100% stake in the **National Factoring Company** from NIKoil Financial Corporation (LLC). The acquired assets included NFC Bank and NFC-Premium, a factoring company. The company's customer base included ~1,000 sellers and 3,900 debtors.  
 NFC Bank was merged into Sovcombank.  
 NFC-Premium was merged into Sovcom Factoring.

- › The Bank became one of the top 5 largest factoring companies in Russia
- › Securing synergy with Sovcom Factoring and the Bank's corporate business
- › The customer base in the SME segment was expanded



## ASSET SALES

In May, Sovcombank signed a deal to sell a 100% stake in **Oney Bank LLC** to Ozon. The deal was closed after receiving an approval from the Bank of Russia.

In 2021, Sovcombank closed a number of transactions, strengthening its positions in retail lending, factoring, insurance, fintech and expanding its competencies in asset management.



## LIFE INSURANCE: METLIFE, CIV LIFE

In January, the Group closed a deal to acquire a 100% stake in **MetLife Insurance Company JSC**, a Russian subsidiary of MetLife, Inc. (one of the world's leading insurance companies).  
 The company was renamed Sovcombank Life.

- › Securing synergy with Sovcombank Insurance and the Bank's retail business
- › Expanding expertise in life insurance (borrower life insurance, endowment life insurance, voluntary health insurance)

In December, Sovcombank signed a deal to purchase **CiV Life** from Talanx AG, a German insurance group.  
 The deal was closed in the first quarter of 2022 upon approval from the Bank of Russia and the Federal Antimonopoly Service (FAS).

- › Securing synergy with Sovcombank Life and Sovcombank retail business
- › Strengthening expertise in insurance-related IT solutions



## IT AND FINTECH: FINEX LONDON LIMITED, SEPTEM CAPITAL, VOSTOCHNY CAPITAL

In May, the Group increased its stake in **Septem Capital LLC** (part of the Sovcombank Group) to 100% (a 50.1% stake in the company was acquired in 2019 and then 24.89% in 2020).

- › Gaining competencies in brokerage services for retail clients

In September, the Group closed a deal to acquire a 90.1% stake in **FinEx London Limited** from FINEX HOLDING BVI L.P. Sovcombank's shareholding increased to 100%.

- › Expanding the range of wealth management services

The company was renamed Sovcom London Limited.  
 In addition to FinEx London Limited, the Group acquired control over Sovcom USD High Yield Fund (a mutual investment fund registered in Ireland and regulated by the Central Bank of Ireland). The Fund was also consolidated into the Group.

In May, the Group closed a deal to acquire a 100% stake in **Vostochny Capital Management Company LLC** from Modulbank CB JSC.  
 The company was renamed Sovcombank Asset Management LLC.

- › Sovcombank will use the company as a base for the development of its asset management services

# Development strategy

In 2021, we met all main KPI targets, ensured the above-market growth rate of the Group's loan portfolio without loss of quality, successfully integrated large assets such as Vostochny Bank and MetLife insurance business.

**The Group's strategy** is to find and penetrate market niches with limited competition.

#### Focus areas:

- Omnichannel business model to provide customer service through all available channels: offline (the Bank's own conventional full-scale offices and mini-offices, a partner network of car dealerships, real estate agents and developers) and online (call centers, the mobile app and online banking),
- Halva installment card as a cornerstone of retail business,
- Maintaining a focus on secured lending (mortgage loans, car loans and loans secured by cars or real estate),
- Promoting corporate and investment banking,
- Promoting digital lending services for SMEs,
- Expanding the Group through M&A,
- Implementing ESG principles in all areas of the Group's operations.

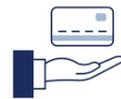
In 2021, we met all main KPI targets, ensured the above-market growth rate of the Group's loan portfolio without loss of quality, successfully integrated large assets such as Vostochny Bank and MetLife insurance business.

We also worked to promote the Halva card project: we successfully rebranded the card, increased the number of loyal customers to 1 million people, the frequency (an increase in MAUs by 40%, to 3.3 million per month) and the regularity of the mobile app use (more than 500,000 customers use the app every month to pay for services).

We will stick to these focal areas, remaining a universal private Bank offering a variety of comprehensive financial services through its omnichannel network and focusing on business profitability.

## Retail business

We intend to increase our market share in retail lending.



### HALVA INSTALLMENT CARD

The Halva installment card will become the cornerstone of the Bank's long-term strategy and will be marketed as the best card for shopping and electronic payments.



### OMNICHANNEL

The omnichannel network will continue to expand. Although the main growth is achieved elsewhere, we will keep the Bank's offices across the country to promote the Bank and will transform them into multi-purpose centers.

Our offices will offer the following services:

- banking operations,
- online order pickup and try-before-you-buy services,
- financial training of clients.



### CAR LOANS

Our strategic goal is to become the #1 partner for car owners and car dealerships

In order to do this, we have a full range of services: car loans, comprehensive and collision car insurance, mandatory third-party liability car insurance for retail clients, and banking, lending and factoring services for car dealerships. We also develop our leasing offer for both groups of clients.



### MORTGAGE LOANS

In terms of mortgage lending, we plan to introduce and continuously apply securitization practices with regard to loans issued under the DOM.RF standards.

## Corporate and investment business

We will continue lending to large businesses. Financing of large clients through bond purchases will continue. We view it as a convenient tool to maintain and effectively manage our liquidity and capital buffers.

We will further improve our bond offering services, which is the key product of our CIB division. At the same time, we create a single-window system for our major clients to further improve our customer service.

## Intangible assets

GRI 102-16

We plan to turn the values that we systematically nurtured and financed into tools to achieve our strategic goals.



### CULTURE

Internal culture of KPI achievement and rapid innovation



### REPUTATION

Reputation is built on responsible and honest communication with the public



### BRAND

The Sovcombank brand as a symbol of smart shopping. We focus on wider communities, not just single groups



### ESG VALUES

ESG values: climate-related risk management, client support through sustainable finance, gender balance in top management positions

## Possible obstacles to strategy implementation

We believe that the possible obstacles to the implementation of the chosen strategy include both general banking risks (credit risk and liquidity risk, foreign exchange risk and market risk, etc., see the Risk management and internal control section) and specific risks. Specific risks include:

- IT risk: we understand that our competitors can come up with a technological breakthrough, so we hire the best experts and implement the most efficient IT innovations.

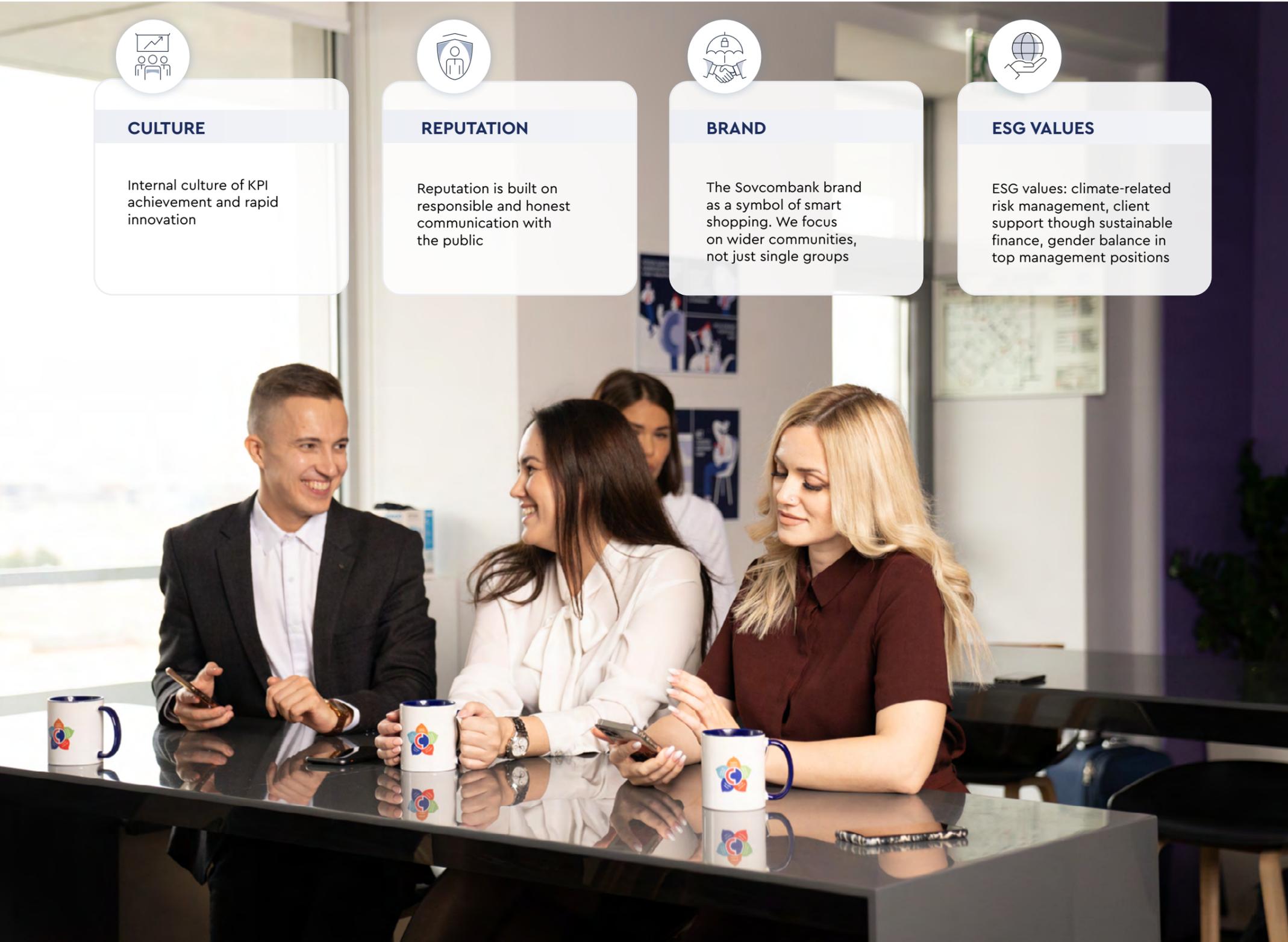
For further details, see the Digital transformation section →

- M&A risks: we are aware that a poor acquisition may have a negative impact on the Group. Our substantial experience, supported by the expertise of the best consultants and lawyers on the market, allows us to successfully manage M&A risks.
- Management turnover: we recognize that key managers may leave the Group, so we develop and apply succession plans to retain and transfer competencies and expertise.

For further details, see the Sustainability section →

- Sustainability risks: the financial situation of borrowers from carbon-intensive industries may deteriorate, which will affect the quality of our loan portfolio. We integrate ESG factors into our risk management strategy and finance our clients' transformational, green and social projects, increasing the share of ESG-linked loans.

For further details, see the Sustainability section →



# Digital transformation

In 2021, Sovcombank continued the digital transformation of its business processes.

## B2C digital products

### DIGITAL CHANNELS for retail clients

The main channels include:

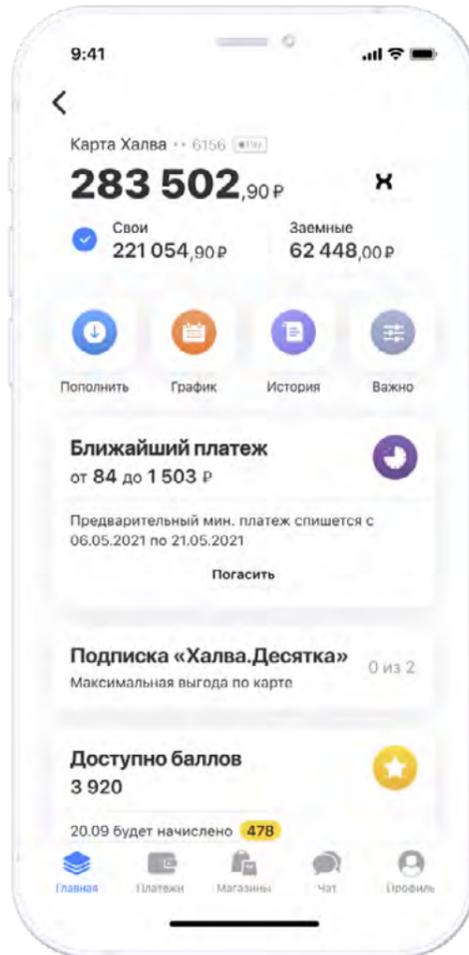
- Halva remote banking system for individuals, consisting of a mobile app (available for both iOS and Android users) and an online portal. The system allows clients to manage their finances remotely and take full advantage of the Halva card ecosystem,
- Sovcombank Investment is a brokerage app (available for both iOS and Android users) for individual investors. The system provides clients access to securities trading on the Moscow and St. Petersburg stock exchanges.

#### Use of Sovcombank's digital channels,

million people

	2020	2021
DAUs	0.7	1.0
MAUs	3.0	4.0

### HALVA MOBILE APP



The Bank persistently implements measures to attract and retain clients. The Bank's task is to enable the client to make bargain purchases with the app in the most convenient way. The unique competitive advantage of the Halva app is the network of over 200,000 partners. Unlike our competitors that aim to cover all areas of life, our offering is quite narrow and covers only one area: shopping and paying for services. Marksw Webb analysts praised the Bank for 'the widest coverage of product categories', 'simple and convenient navigation through the offers', and user engagement 'with a cumulative benefit system and a subscription option'.

One of the main advantages of Sovcombank's online and mobile banking app vs its peers is that it effectively solves the user tasks throughout the entire customer journey without missing a step:

- ecosystem reach: as a rule, every country has only one nationwide installment platform, since users tend to choose a card with the largest number of partners. In turn, partners are primarily interested in working with a platform that gives access to the largest number of clients. At the same time, clients receive bonuses for almost every transaction as an incentive from the store,
- ecosystem showcase: in 2021, Sovcombank introduced its own Halva Market marketplace where users can use the app to shop and pay,

# 35k

### Halva cards

issued monthly through the mobile app

- bonus accrual: Sovcombank provides clear information on how bonuses are awarded with a quick and easy link to the purchase. Bonus awareness is a powerful motivator for further purchases. Sovcombank's clients can view their bonus accruals in the history of operations. This is how we show our clients the measurable benefits of the ecosystem, encourage them to shop more, and help them monitor their bonus accruals,
- subscription option and cumulative benefit system: subscription options offer clients more benefits when sharing the ecosystem services. For banks, this is a way to boost transaction activities, increase customer loyalty, and reduce customer churn,
- customer training and onboarding: Sovcombank provides an onboarding experience to get users familiar with the app interface, e.g., where to find and how to use the "stores display". This is the only mobile banking app that offers a dedicated onboarding experience for those clients who want to learn more about our partners,
- client communications: Halva mobile app has a feedback section where all client inquiries, statements, and complaints are stored. Here users can get detailed information on their complaints and track their progress. Each complaint has a reference number that a client can use to continue communicating with the bank via any channel.

### SCORING and lending

The Bank's automated loan processing system is built on the basis of several systems. The central link is the loan "orchestration" platform. The processes also involve scoring and decision-making systems. A workplace app (available for both iOS and Android users) was developed to facilitate the loan issuance process for the Bank employees. With this mobile workplace app, employees can sell loan products at any location, whether it is the Bank's office, or a store, or a client's enterprise.

### SERVICES for entrepreneurs

Individual entrepreneurs and self-employed people use Sovcombank Business remote banking system, which includes a mobile app (available for both iOS and Android users) and an online portal. The system allows clients to use settlement and cash services, and the Bank's other products for SMEs.

### INVESTMENT services

Sovcombank Investment is a brokerage app (available for both iOS and Android users) for individual investors. The system allows retail customers to trade securities and other instruments on the Moscow and St. Petersburg stock exchanges, and to open individual investment accounts.

## B2B digital products

E-document flow solutions are available for Sovcombank's corporate clients.

Corporate clients, individual entrepreneurs and self-employed people have access to:



**Sovcombank Business remote banking system** consisting of a mobile app (available for both iOS and Android users) and an online portal

The system allows clients to use transactional banking and the Bank's other products for corporate clients and SMEs.



**Fintender platform**

The system allows corporate clients to make use of the Bank's loan and guarantee products. An application for a bank guarantee may be reviewed and approved within an hour, all types of bank guarantees and financing are available, a client is required to provide a minimum package of documents. It is the most popular digital product with SMEs.

## Service improvement

Sovcombank redesigned its systems to optimize user experience and user interface<sup>1</sup> (UX/UI), integrated new partners and services into its systems, added new features and made its products more customer friendly.

To achieve the strategic goal of becoming the preferred banking platform for SMEs, the Bank implemented the following measures in 2021:

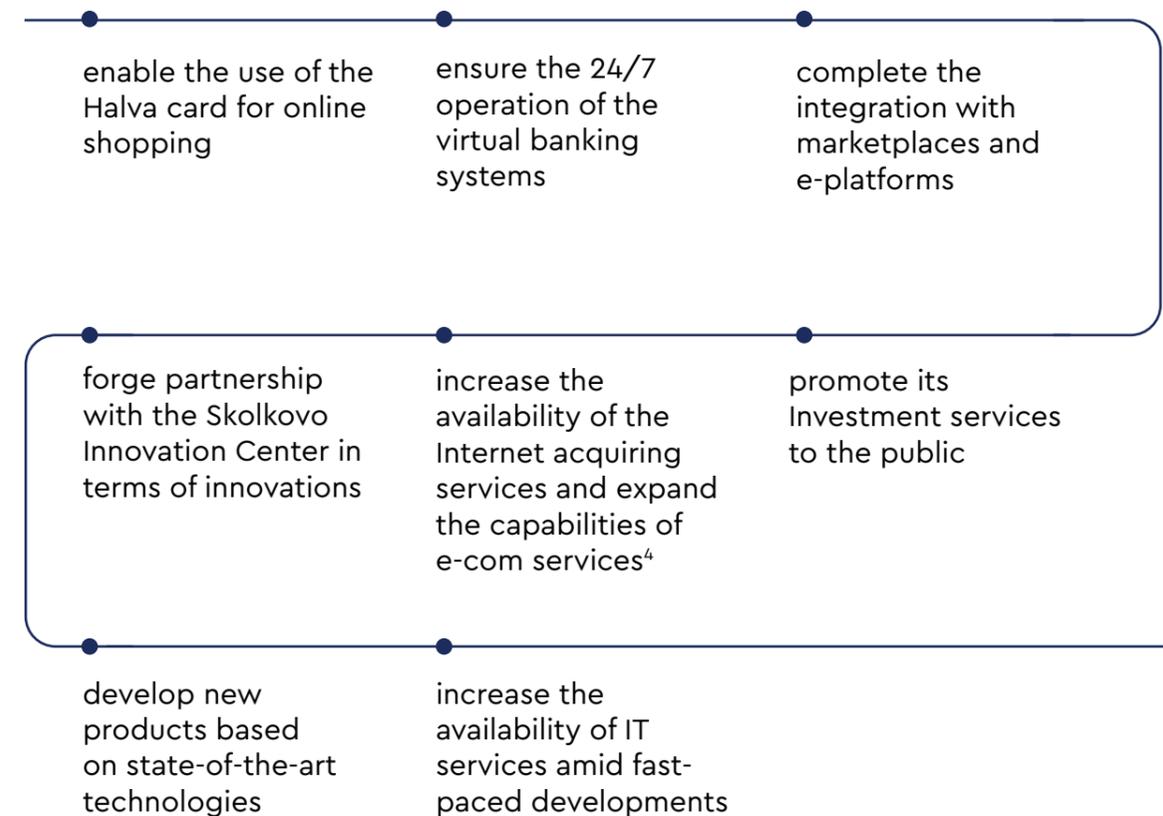
- increased the headcount of the IT development team,
- launched new proprietary IT systems to address business tasks. The Bank abandoned vendor systems,
- achieved the integrity of the IT architecture at the time of large-scale acquisitions,
- completed the transition to a modern web development stack<sup>2</sup> and the introduction of the latest technologies.

Measures were taken to further improve:

- Mobile applications and remote channels,
- Management and analytical reporting, big data,
- Systems for front office operation,
- Client communication channels, create chat platforms, chatbots,
- RPA<sup>3</sup>,
- Cloud technologies.

### DEVELOPMENT OF SERVICES IN 2022

In 2022, the Bank plans to continue the processes launched in 2021 and:



<sup>1</sup> User Experience / User Interface (UX/UI).

<sup>2</sup> A set of technologies used to build a web or mobile application.

<sup>3</sup> Robotic process automation (RPA) means automation of business processes using bots or artificial intelligence.

<sup>4</sup> E-commerce.

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# Sustainability

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# Sustainability management

GRI 102-15

**Sovcombank** shapes its internal ESG framework relying on the best global practices. By contributing to the UNEP FI global initiatives for responsible banking and supporting the TCFD recommendations for climate-related financial disclosure, we have been able to gain considerable ESG expertise. We intend to share our knowledge to develop and implement national sustainability standards and procedures.

## Strategic ESG targets

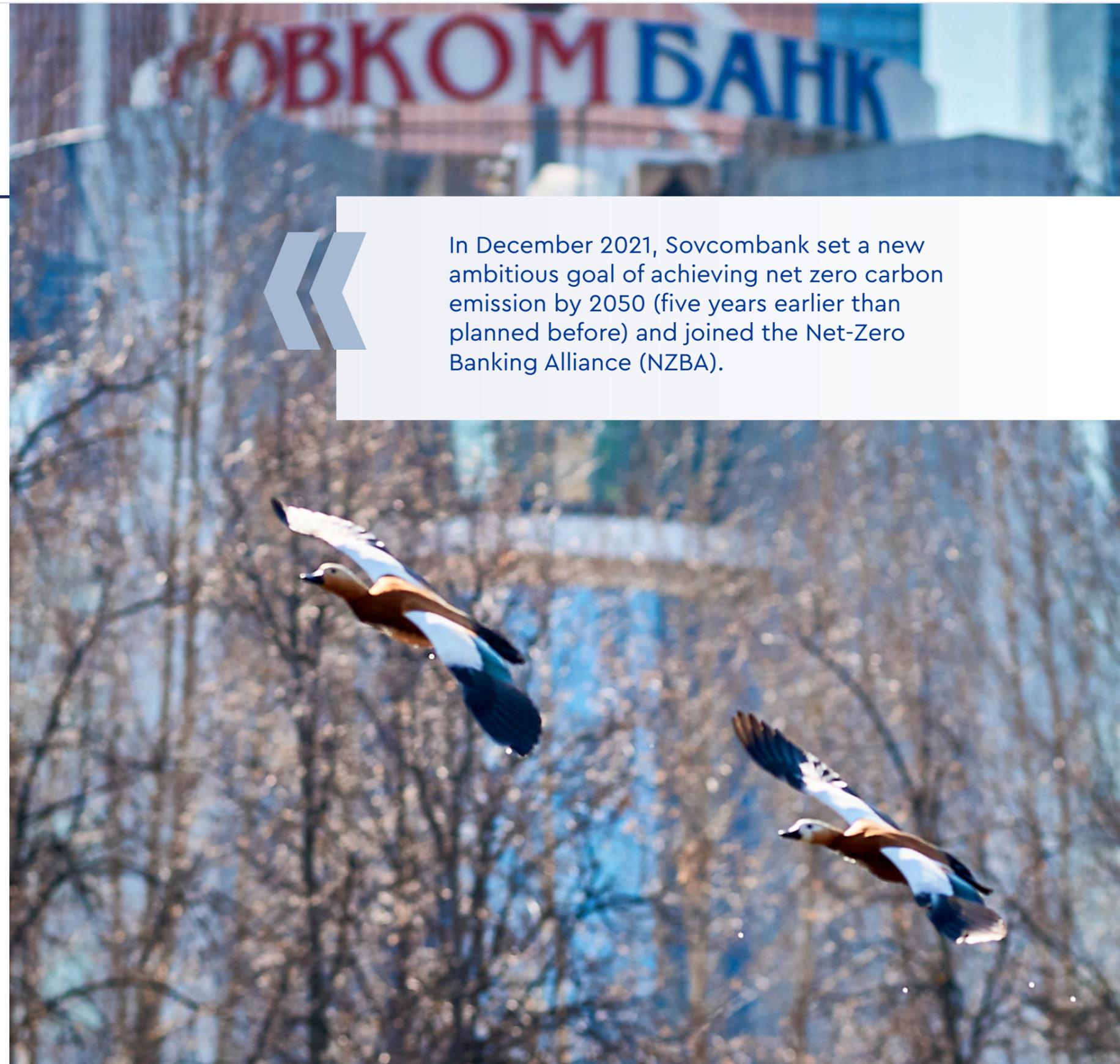
We seek to strike the right balance between securing stable returns for shareholders, providing decent living standards for our employees, delivering high quality services to our clients and making a difference for the wider society.

Our ESG strategy is built on our mission and core values. We have developed an ESG framework addressing all three dimensions (environmental, social and governance), with a focus on key areas and SDGs that are most important for our wide range of stakeholders.

We have issued in-house documents to set out our basic principles and specific 2030 targets. Approved by the Bank's Supervisory Board in 2020, these targets have been incorporated into Sovcombank's strategy.

In December 2021, Sovcombank set a new ambitious goal of achieving net zero carbon emission by 2050 (five years earlier than planned before) and joined the Net-Zero Banking Alliance (NZBA).

Members of this UN-convened alliance, representing about 40% of global banking assets, are committed to aligning their lending and investment portfolios with net-zero emissions by 2050. The Alliance is also recognized by the Race to Zero, a global campaign rallying non-state entities and institutions to take rigorous and immediate action to reduce global emissions in line with the Paris Agreement.



In December 2021, Sovcombank set a new ambitious goal of achieving net zero carbon emission by 2050 (five years earlier than planned before) and joined the Net-Zero Banking Alliance (NZBA).

Sovcombank implements the UN SDGs, the UNEP FI Principles for Responsible Banking, the UN Global Compact, and the NZBA targets.

	Goal set by the bank		Goal description		Progress
→	<b>Leader</b> among Russian banks in terms of GHG emission reduction (Scope 1 and 2)	We aim to gradually reduce emissions in all the defined scopes. Scope 1 — direct greenhouse gas (GHG) emissions from the in-house generation of electricity and heat by diesel generators and gas boilers, from the use of refrigerants in cooling equipment, as well as emissions from the in-house vehicle fleet.	The Bank has just begun the journey to meet its objectives. It will report on its progress later		
→	<b>Net-zero</b> GHG emissions (Scopes 1 and 2) by 2030	Scope 2 — indirect GHG emissions associated with the purchase of electricity and heat.			
→	<b>Net-zero</b> GHG emissions (including Scope 3) by 2050	Scope 3 — embedded GHG emissions from the Group's vehicle fleet, household and electrical appliances, security and offices improvement services (not including emissions from the Bank's loan portfolio)			
→	<b>Green office</b> by 2023	The Bank is considering the implementation of the green office concept focusing on resource efficiency (energy efficient lighting, automatic thermal management systems, sensor faucets, etc.) in its Wealth Management front offices. Sovcombank also plans to scale up specific waste collection practices to all the offices of its management companies	In 2021, we continued to upgrade our offices, making them more environment-friendly		
→	<b>30%</b> of the Bank's loan portfolio is linked to ESG factors (ESG-linked loans) by 2025	ESG-linked loans are issued for specific projects involving ESG transformation. A system of ESG-linked incentives addressing all three criteria will be gradually introduced across all business lines	Sovcombank was one of the first Russian banks to issue an ESG-linked loan (in December 2020, to finance the construction of a nuclear power plant)		
→	<b>50%</b> of the Bank's loan portfolio is linked to ESG factors (ESG-linked loans) by 2030				

In terms of social responsibility, we are committed to promoting the financial inclusion of SMEs, improving the financial literacy of our clients, and ensuring the well-being of our employees.



**Goal set by the bank**



**Goal description**



**Progress**

→ **Support** for SMEs by providing lending instruments, RTS-tender online trading platform and Halva installment card

Sovcombank is extensively providing loans, including those at preferential rates, to small and medium-sized businesses. We are developing our own online trading platforms to enable SMEs to participate in trading activities and expand their sales. We help retailers — partners of the Halva network — to increase their sales, customer base, and the average check

The Bank participates in the government-funded programs for preferential financing of SMEs. In 2021, Sovcombank acquired an e-procurement platform, enabling SMEs to participate in tenders (both public and private). A total of 712,000 SMEs took part in tenders in 2021 (up 16% year-on-year). In 2021, SMEs accounted for almost 70% of the Halva partner network. A total amount of transactions with our cards stood at ₺363 billion

→ **Keeping** eNPS at 70 or higher

We value and seek to retain our employees by offering fair and equal growth and career advancement opportunities, and encouraging them to take initiative and improve their performance. We respect human rights and create an inclusive environment

In 2021, employees rated their job satisfaction very high, resulting in eNPS of 72

→ **Facilitating** customer awareness of financial products in terms of global standards

The Bank provides financial literacy webinars and advice on financial instruments and services. The Bank runs its own Sovcombanklog on its website, offering easy-to-understand content on a variety of economic and financial topics for readers with all levels of financial literacy. We share our expertise and experience, helping develop curricula for specialized universities and taking part in seminars for students. We encourage Halva cardholders to take our financial literacy tests to earn reward points. We are constantly improving our customer service and the availability of our services both through digital channels and by issuing Halva cards

In 2021, the Market Power comic book went digital and joined social media platforms. In December 2021, the Bank joined the UN initiative to improve customer service for individuals. Within 18 months of joining, Sovcombank and other major foreign banks participating in the UNEP FI initiative will set the targets related to non-solicitation of financial products and to transparent product description

We strive to create an effective corporate governance framework and achieve gender balance in top management positions.

→ **Risk management** strategy involving ESG factors by 2023

We believe ESG factors should be taken into account when managing risks, as they can have an increasingly strong impact on the sustainability, efficiency and profitability of lending institutions

In 2021, Sovcombank prepared its first climate-related financial disclosures in accordance with the TCFD recommendations. Having reviewed our loan portfolio, we identified our focus areas: corporate loans to energy-intensive industries and mortgage loans that are subject to physical risks from climate change

→ **40%** women in top management positions by 2025

The main goal of Sovcombank, in terms of inclusiveness and equality, is to maintain gender balance in top management

In 2021, women filled 43% of all top-management positions at Sovcombank, including new positions added after the purchase of Vostochny Bank and the National Factoring Company. The Bank implements its Diversity, Equality and Inclusion strategy adopted in 2020

## ESG GOVERNANCE

GRI 102-16, 102-18, 102-19, 102-20, 102-29, 102-32, 102-52

Sovcombank's main principles and approaches to ESG governance are formalized in its Sustainability Policy, which is reviewed on an annual basis. The principles and standards set out in the Sustainability Policy should form the basis of similar policies for all companies affiliated with the Group.

Sustainable development management is part of the Bank's overall management system.

The Bank's Supervisory Board determines its ESG strategy and key ESG objectives.

The Chairman of the Management Board makes decisions and oversees the general management of the Bank's ESG activities, as well as the implementation of the Policy.

Departments plan and perform activities related to the Policy implementation.

The ESG Committee supervises the implementation of the Policy and ensures compliance with the ESG commitments and standards. The Supervisory Board, in turn, approves the Bank's ESG policies and codes.

Since 2019, the Bank has been publishing annual Sustainability Reports compiled in accordance with the principles set out in the GRI Standards, continuously improving the processes of collecting, analyzing, and disclosing non-financial information.

In 2021, Sovcombank was ranked among the leaders in Expert RA's ESG-transparency rating of Russian companies and banks, and received the Best ESG Transparency Practices award<sup>1</sup>.

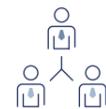
### ESG governance structure

GRI 102-18, 102-19



#### SUPERVISORY BOARD

- Defines the ESG strategy and key ESG objectives
- Approves policies and codes



#### MANAGEMENT BOARD

- Implements the Sustainability Policy
- Makes decisions
- Manages the Bank's sustainable development activities



#### ESG COMMITTEE

- Supervises the implementation of the Policy and compliance with the ESG commitments and standards
- Develops ESG-related recommendations

The Bank's in-house regulations incorporate global standards and recommendations, as provided for by the initiatives the Bank has joined. The latter include the Social Responsibility Guidance Standard ISO 26000, the UN Sustainable Development Goals, and the UNEP FI Principles for Responsible Banking. In 2021, the Bank's Supervisory Board approved a list of new fundamental ESG-related in-house policies and updated some of the existing ones:

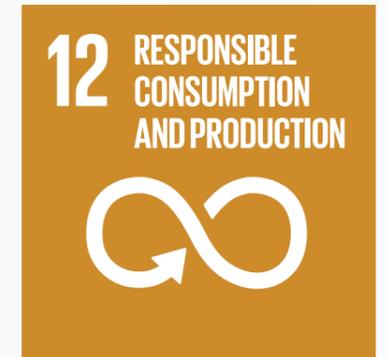
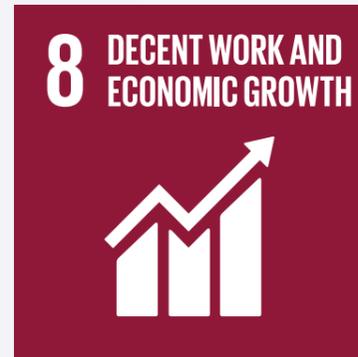


<sup>1</sup> Sovcombank joined the ESG Transparency Conference held by the Association of Banks of Russia (arb.ru).

# Contribution to the UN sustainable development goals

We are transforming our business, integrating new principles into it, expanding product lines to meet the global commitment to sustainability. We aim to take into account the needs of all stakeholders.

## GLOBAL GOALS



## SOVCOMBANK'S CONTRIBUTION

### End poverty in all its forms everywhere

We focus on promoting the Halva interest-free installment card, which increases financial inclusion and gives more opportunities to people, including those in vulnerable situations

### Ensure availability and sustainable management of water and sanitation for all

Responsible water consumption at the Bank's offices is the key approach to water use and an integral part of the Bank's policy

### Ensure access to affordable, reliable, sustainable and modern energy for all

By financing green projects, we support the transition to a low-carbon economy, contribute to the enhancement of energy efficiency technologies, increase access to clean energy technologies

### Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent jobs for all

SMEs play a major role in driving economic growth, creating jobs and promoting a healthy competitive and innovative environment. The Bank provides SMEs with access to financial services and creates products in response to SME-specific needs, e.g., lending tools and a digital public procurement platform for SMEs

### Sustainable industry

By providing green financing to businesses, the Bank contributes to industrial modernization, which, in turn, improves resource efficiency of industrial processes. The Bank also promotes financial inclusion of small industrial enterprises and factories

### Build resilient infrastructure, promote inclusive and sustainable industry and foster innovation

We foster regional socio-economic projects, support universities and charity projects, provide access to information resources. We help people to buy housing by providing access to preferential mortgage programs, including Family Mortgage Program, Rural Mortgage Program, and Far Eastern Mortgage Program

### Ensure sustainable consumption and production patterns

We are working on the concept of a green office which will contribute to the sustainable use of natural resources. Within the first stage, the Bank will introduce sorting practices to separate recyclables and non-recyclables and identify types of waste that can be upcycled

# Respect for human rights

Sovcombank adopted the Human Rights Policy, which all Group companies must follow. We have zero tolerance for any forms of discrimination against our employees, clients, suppliers on the basis of their gender identity, religion, belief, ethnic or national origin, physical capabilities, etc. The Bank shall not accept any form of violence, including psychological abuse.

The Bank fully complies with the labor laws and regulations of the Russian Federation, international standards and principles and encourages its clients, business partners, employees, and other stakeholders to take the same approach. All the bank's team, including the members of the Supervisory Board, should observe human rights. The Bank's Management Board is responsible for implementing the Policy under the supervision of the ESG Committee.

We pay special attention to people with disabilities (for further details, see the Diversity, equality and inclusion), low-income families, families with children and single-parent families, migrants and the elderly (for further details, see Financial inclusion section).

The Bank restricts the financing of clients engaged in socially dangerous activities.

The Bank provides several communication channels to report possible human right violations: a Feedback Form on the Bank's website, e-mail addresses of Compliance Department and Corporate Values Department and telephone numbers of the heads of Compliance Department and Corporate Values Departments. The Bank carefully considers all incoming complaints for any cases of violations.

[See the Human Rights Policy on the Bank's website](#) →

# Stakeholder engagement

GRI 102-21, 102-40, 102-42, 102-43, 102-44

**We are committed** to ensuring that our business is transparent and that all our stakeholders have equal access to information about our Group. We have identified five key stakeholder groups: clients, employees, investors, society, and regulators.



- **Clients** primarily require 24/7 online and offline support on the Bank's products, internet banking and mobile banking. We provide advice through social media, hotline, call centers, and online chats. We receive feedback and analyze customer experience by handling complaints, running focus groups, conducting surveys and regularly assessing customer loyalty.



- **Investors** expect the Bank to provide reliable and complete disclosures, including non-financial disclosures, as well as to comply with the principles of sustainable development. We provide investors with information about our performance and activities at annual general meetings, as well as through publications and disclosures on our website and in press releases. We answer investors' questions during conferences and investor calls following the publication of reports, as well as during roadshows. In addition, any investor can ask questions by sending an e-mail to the Investor Relations Department.



- **Regulators** expect Sovcombank to provide timely financial statements and comply with the principles of sustainable development, especially in terms of transparent corporate governance. We regularly share our views, cooperate with regulator representatives and participate in ESG-focused events and working groups. This is how we receive feedback that helps us stay at the forefront of the banking market and choose the appropriate development trajectory.



- **Employees** are interested in professional development opportunities and proper workplace safety and health practices. We arrange employee training at our Corporate University, encourage involvement in corporate events, and promote employee engagement through our corporate media and in-house online portal; we hold meetings, events, lectures and seminars to foster our corporate culture and values, including respect for human rights, among our employees. We have zero tolerance for any forms of discrimination and encourage our employees to report their concerns via our whistleblowing hotline. The Bank conducts annual surveys to assess employee loyalty. Our goal is to maintain the eNPS index at 70 and above.



- **The Society** needs equal access to banking products for all, the implementation of community initiatives on our part, as well as sponsorship, direct and sector-specific partnerships. We respond to these needs by providing clients with interest-free installments for the purchase of goods and services. By doing so, we help them improve their quality of life without overpaying interest. We provide small and medium-sized businesses with access to procurement tenders (both public and private) and issue bank guarantees, helping them increase their turnover and keep jobs. We publish non-financial reports that disclose the full range of our sustainability efforts and ESG performance. Sovcombank also promotes financial literacy among the population through a variety of channels — lectures, seminars, training courses, a financial blog and a YouTube channel about investments, as well as by developing training courses for universities specializing in related areas.

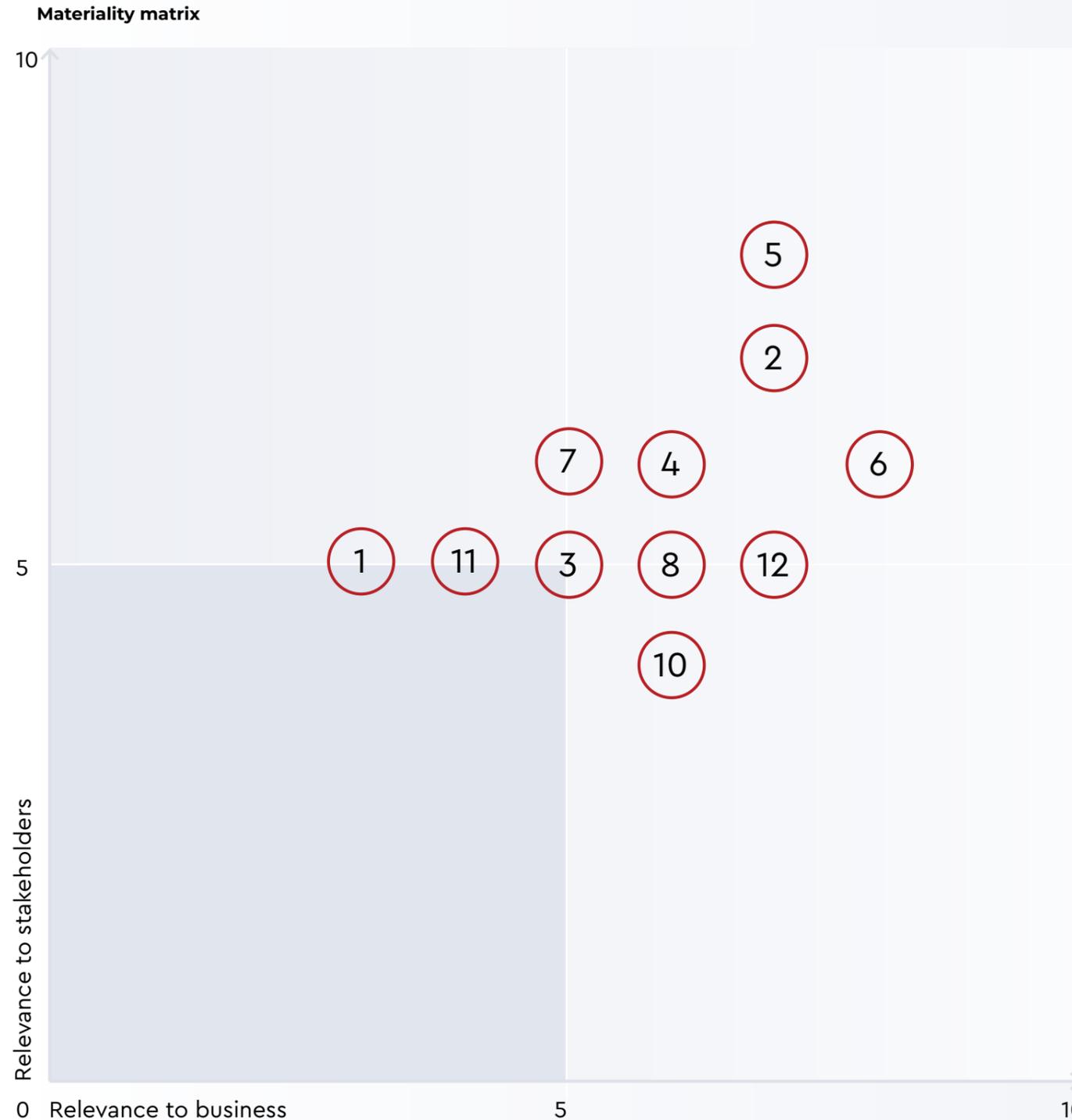
We have selected the most convenient and comprehensive forms and channels of communication for each group.



# Materiality analysis

GRI 102-31, 102-47

We conducted a materiality analysis to identify the areas that are most important to our stakeholders and to the business itself. Our process of identifying material topics is based on the qualitative approach and benchmarking our performance against that of referent banks with similar product portfolios and operational models. Each topic was assigned a certain weight to reflect the degree of its importance to the Bank (horizontal axis) and stakeholders (vertical axis). That is how we developed the materiality matrix shown below. The weights assigned to topics were verified by our key stakeholders — top managers and shareholders.



### Environmental impact

- 1. Ensuring carbon neutrality



### Contribution to the community

- 2. Equal financial opportunity
- 3. Financial literacy
- 4. Sustainable customer experience



### Sustainable financial performance

- 5. Sustainable lending and investing
- 6. Financial support for small and medium-sized businesses
- 7. Cybersecurity and resilience of business systems
- 8. Protection of customers' personal data



### Governance and Compliance

- 9. Legal compliance
- 10. Human resource management
- 11. Diversity, equality and inclusion
- 12. Business ethics and integrity

# Climate

As one of the largest financial market participants, Sovcombank plays an important role in the country's transition to a low-carbon economy. In 2021, in line with the ESG best practices, we conducted our first portfolio climate risk assessment and published our first climate-related financial disclosures in accordance with the TCFD recommendations.

Having joined the UN-convened NZBA, Sovcombank committed to achieving carbon neutrality by 2050. We encourage clients to reduce their carbon footprint and finance their climate change mitigation projects.

## The Bank's strategic climate targets and approach

We consider it important to regularly assess the negative impact that we may have on the environment and climate, in accordance with the best international practices and initiatives that we follow. There are two forms of this impact: direct negative effect of our operations (e.g., offices, electrical appliances, vehicle fleet) and indirect negative effect caused by lending to energy- and carbon-intensive industries.

In 2021, we integrated environmental factors into the overall Risk and Capital Management Strategy (the "Strategy"), as approved by the Supervisory Board. Our ambitious strategic targets are net-zero GHG emissions by 2030 (Scopes 1 and 2) and net-zero GHG emissions by 2050 (including Scope 3). Previously, we expected to achieve carbon neutrality only by 2055, but in 2021 we joined the Net-Zero Banking Alliance, an international initiative, whose members are committed to aligning their lending and investment portfolios to net-zero by 2050 or sooner. The Alliance participates in the UN-backed Race to Zero campaign to reduce global emissions in line with the Paris Agreement.

In February 2022, Sovcombank joined the UN's Climate Neutral Now initiative, which aims to increase the transparency of climate-related non-financial disclosures of its participants. By signing the Climate Neutral Now Pledge, the Bank committed to measure and reduce GHG emissions and report on its actions and achievements annually.

In 2021, we conducted our first assessment of climate-related risks and opportunities for the Bank's loan portfolio. Since we mainly lease our offices, we do not consider the climate-related risks for the Bank's facilities to be significant. We have a comprehensive business continuity plan in place to quickly recover operations in case of any major disasters.

At the same time, our borrowers include companies from industries that are carbon-intensive or vulnerable to climate change (e.g., real estate, which may be affected by physical risks, including floods, forest fires, storm winds, etc.; see Findings of climate-related risk assessment). Therefore, we focus on assessing the climate-related risks for corporate and mortgage loans.

In 2021, we conducted our first assessment of climate-related risks and opportunities for the Bank's loan portfolio.



Sovcombank's strategic climate targets:

**0** by 2030 (Scopes 1 and 2)

**0** by 2050 (Scopes 1, 2 and 3)

## Climate-related risk assessment

In assessing climate-related risks, the Bank adheres to the TCFD recommendations and takes into account both direct (energy use and GHG emissions) and indirect impact (sustainable financing), as well as various time horizons.

Depending on the maturity of issued loans, we distinguish short- and medium-term (less than five years) and long-term (over five years) horizons. The latter covers 22% of the entire loan portfolio and consists of corporate and mortgage loans.

The Bank's corporate loans are mostly short- and medium-term ones, long-term loans making up only 11% of its net corporate portfolio.

The mortgage portfolio is mainly long-term: 68% of loans mature in more than five years.

The Bank considers transitional and physical climate-related risks as part of its strategic risks, as they can directly affect the financial position of borrowers and the quality of the portfolio. Risk assessment allows us to make informed strategic decisions.

# Findings of climate-related risk assessment

Portfolio review confirmed that the current level of climate-related risks for our borrowers is acceptable.

In our opinion, the primary risks for corporate borrowers in the short and medium term are transitional: the global economy's turn to low-carbon products and technologies, rising costs of raw materials, CO<sub>2</sub> duties and emission quotas, as well as decreased competitive strength due to the lack of a climate strategy or visible steps towards decarbonization.

Physical risks (abnormal air temperatures, rising sea levels, natural disasters, etc.) can affect the financial position of individuals and entities, as well as their operations, energy costs, asset values, etc., but only in the long term.

For further details, see the Impact of climate-related risks on the loan portfolio table in Appendices

Portfolio review confirmed that the current level of climate-related risks for our borrowers is acceptable. 15% of the corporate portfolio is exposed to high transitional risk. These are mainly energy companies, as well as clients from the metallurgical, mining, and chemical industries. These industries involve a high level of GHG emissions and a strong

energy dependence, so they may face increased costs due to the introduction of a carbon tax.

17% of the portfolio is exposed to high physical risk. These are loans to companies producing durable goods (falling under the Discretionary Goods category), as well as the real estate sector.

The rest of the corporate loans are exposed to medium and low climate-related risks.

We will continue to promote the transition to a low-carbon economy through sustainable financing.

Physical risks include natural disasters and extreme weather conditions that can directly affect the condition of physical assets, i.e., real estate. According to our heat map, the largest part of the mortgage loan portfolio (70%) is exposed to low and medium levels of physical risks. High risk is typical for 30% of the loan portfolio, mainly for real estate in Siberia and the Far East.

For further details, see the Heat map of physical risks in the real estate sector table

# Managing climate-related risks

The Bank drives ESG transformation by funding green projects and encouraging improved sustainability performance.

## GRI 102-11

Sovcombank's approach to combating climate change involves, among other things, helping borrowers to switch to low-carbon development. The Bank drives ESG transformation by funding green projects and encouraging improved sustainability performance.

In 2019, Sovcombank set a target to become one of the country's leaders in green financing. In 2020, we set up a dedicated team to issue green bonds for our clients, including blue-chip companies.

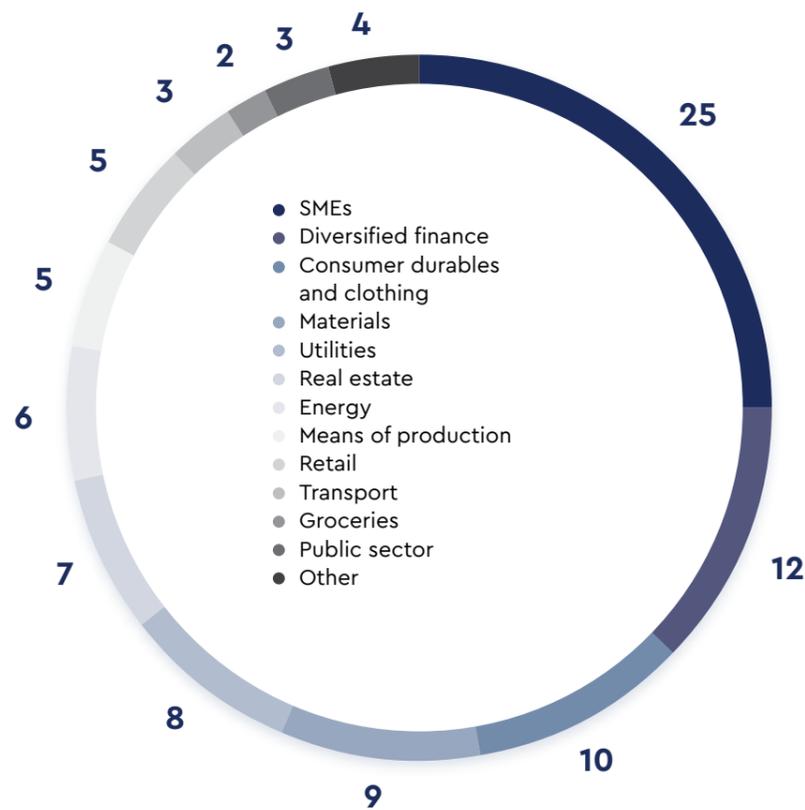
The green projects that we finance mostly involve construction of low-carbon or renewable generation (nuclear power plants, solar and wind generation facilities, etc.). In 2021, clients were actively raising financing

for the modernization of vehicle fleets, switching to environmentally friendly vehicles (electric buses, electric trains, drones for mineral exploration and geological mapping, etc.).

In 2021, we began to develop an ESG assessment methodology for corporate clients, as well as ESG incentives, which we will include in loan agreements. In addition, we plan to provide large corporate clients with ESG consulting services, including services for managing climate-related risks.

For further details, see the Sustainable finance section

Corporate portfolio by industry as of December 31, 2021, %



For further details, see the Corporate portfolio heat map table

# Environmental impact

GRI 304-3

Taking into account the commitments to gradually achieving carbon neutrality by 2030 and 2050, Sovcombank strives to minimize its environmental impact. We take measures to optimize how we consume natural resources (water, electricity, and heat), to reduce energy losses and make our offices more energy-efficient. We also do our best to provide the most comfortable working environment for all our employees, at the same time educating and encouraging them to use natural resources in a sustainable way.

We are committed to reducing GHG emissions, resource consumption, and waste, while aiming to further develop and implement our green office concept and closely monitoring our performance in this area, as well as looking for areas for growth.

We also encourage our clients to contribute to nature conservation projects and efforts to solve environmental problems.

We are committed to reducing GHG emissions, resource consumption, and waste, while aiming to further develop and implement our green office concept and closely monitoring our performance in this area, as well as looking for areas for growth.

## GROW A FOREST CAMPAIGN

In line with our mission to combat climate change, we have offered our clients the opportunity to work together to contribute to the achievement of global goals. In 2021, a nature conservation campaign for Halva cardholders was launched, aimed at combating the rapid pace of deforestation and GHG emissions. As part of the campaign, 1% of funds spent by participating clients was donated to the restoration of the forest-steppe areas in the Alekseevsky District in the Volgograd Region. In 2010, the forest was damaged by a fire, so it was decided to plant fire-resistant Robinia pseudoacacia to resist the spread of fire in future.

As a result of the campaign, 20,000 seedlings were planted in the Volgograd Region in November 2021. According to preliminary estimations, they will absorb up to 300 tonnes of CO<sub>2</sub> by 2030<sup>1</sup>.

Participating clients were granted preferential terms on their Halva cards and received e-certificates including the coordinates of the planted trees. The local forestry will take care of the trees for five years after planting.

**20k** trees

were planted as part of the campaign, which will absorb 300 tonnes of CO<sub>2</sub> by 2030

**1k** tonnes of oxygen

will be produced

**3k** trees

were planted by clients from Moscow and the Moscow Region

**1.5k** trees

were planted by clients from the Krasnodar Region

**1.0k** trees

were planted by clients from the Kemerovo Region



## GHG EMISSION MANAGEMENT

In 2020, we estimated the Group's carbon footprint for the first time ever, having analyzed both direct and indirect GHG emissions (Scopes 1, 2 and 3). In line with our commitments, we conduct such assessments annually<sup>2</sup>.

Scope 1 — direct GHG emissions from the in-house generation of electricity and heat by diesel generators and gas boilers, from the use of refrigerants in cooling equipment, and from the in-house vehicle fleet.

Scope 2 — indirect GHG emissions associated with the purchase of electricity and (mainly) heat.

Scope 3 — embedded GHG emissions from all of the Bank's activities other than lending.

### GHG emissions intensity,

tonnes CO<sub>2</sub>-eq / FTE (per employee)

GRI 305-4

GHG emissions intensity	2019	2020	2021
Scope 1 + Scope 2 + Scope 3	6.2	4.6	3.7
Scope 1 + Scope 2	1.1	0.9	1.1

<sup>1</sup> Reforestation: Alekseevsky Forestry, Russia, ID 4011 (treeography.com). The estimations are based on the following:

- GHG Protocol Corporate Accounting and Reporting Standard,
- Scope 2 Guidance,
- Corporate Value Chain (Scope 3) Accounting and Reporting Standard,
- Technical Guidance for Calculating Scope 3 Emissions (Version 1.0).

<sup>2</sup> The estimations are based on the following:

- GHG Protocol Corporate Accounting and Reporting Standard,
- Scope 2 Guidance,
- Corporate Value Chain (Scope 3) Accounting and Reporting Standard,
- Technical Guidance for Calculating Scope 3 Emissions (Version 1.0).

## WATER CONSUMPTION

In 2021, the majority of Sovcombank employees who switched to remote work due to the COVID-19 pandemic returned to the office. At the same time, the Group's total headcount also increased due to the purchase of Vostochny Bank and the National Factoring Company. As a result of these developments, the Group's total water consumption increased in 2021. However, we managed to maintain the water consumption per employee at the same level.

### Water consumption

GRI 302-5

Indicator	2019	2020	2021
Total water consumption, thousand m <sup>3</sup>	46	53	70
Water consumption per employee, m <sup>3</sup> /FTE	3	3	3

## WASTE MANAGEMENT GRI 306-4

We take measures to reduce the waste generated by the Bank's operations.

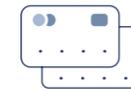
### ECOHALVA CAMPAIGN TO COLLECT AND RECYCLE UNWANTED PLASTIC CARDS

In 2021, Sovcombank launched a pilot project for recycling unwanted plastic cards in Kostroma and the Kostroma Region. Considering the environmental damage that plastic causes when it decomposes naturally or when burned, we encouraged clients to bring us unwanted cards for recycling in an environmentally friendly way. Expired bank cards, as well as discount, membership, insurance, fuel, gift, loyalty and other cards were accepted at all of the Bank offices. Participating clients received additional privileges and bonuses from the Bank, including reward points on their Halva cards.

As a result of the pilot, the project was scaled up to the Bank's entire Directorate for Central Russia.

In the future, we plan to scale up the EcoHalva project to the entire Bank network and also consider purchasing cards made of recycled plastic, including plastic made from corn or from recycled waste found in the ocean, to offer sustainable options to our clients.

As a result of the pilot, the project was scaled up to the Bank's entire Directorate for Central Russia.



**12k**

plastic cards were recycled



**1.7k**

clients participated

## ENERGY USE and energy efficiency

GRI 302-4

We monitor the dynamics of energy consumption, use modern metering systems, and introduce new energy-saving technologies. The estimations below include consumption of electricity, heating and fuel by the Group's vehicle fleet.

### Energy consumption

GRI 207-1, 302-3

Indicator	2019	2020	2021
Total energy consumption, GWh	58.0	54.0	81.0
Energy consumption per employee, MWh / FTE	3.7	3.1	3.5

### Energy consumption by type,

GWh

Type of energy	2019	2020	2021
Electricity purchased for consumption	28	21	19
Heat purchased for consumption	22	21	46
Energy used by cars and standby generators	8	12	16

# Contribution to the community

The management of Sovcombank, an institution that grew out of a small Kostroma bank, is aware how important it is to contribute to local communities. We promote financial inclusion of individuals and support SMEs. The Bank extensively cooperates with local communities and supports initiatives aimed at developing the regions where the Bank operates.

## Financial inclusion

The Halva installment card is a socially beneficial product of Sovcombank for low- and moderate-income clients (earning up to ₺50,000 per month). The card provides affordable interest-free installment loans to purchase goods and services from the Group's 221,000 partner retailers (representing 20% of all retail and online trade in Russia as of December 31, 2021) for a period of 2 to 12 months (in special cases, loans can be extended for up to 36 months).

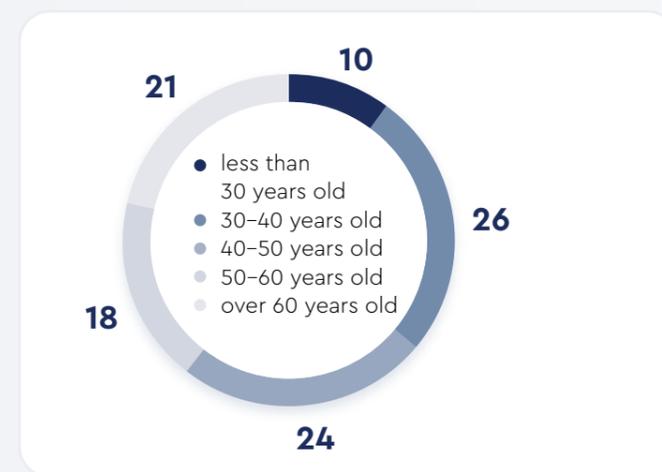
As of December 31, 2021, Sovcombank issued a total of 8.2 million Halva cards. 21% of all cardholders are people of retirement age (60 years of age or older), and their share has increased from 19% recorded in 2020. In 2021, spending on essential items accounted for 72% of the total Halva card spending, and the share of clients with an income of less than ₺50,000 per month increased from 79% to 82%.

In 2021, spending on essential items accounted for 72% of the total Halva card spending, and the share of clients with an income of less than ₺50,000 per month increased from 79% to 82%.

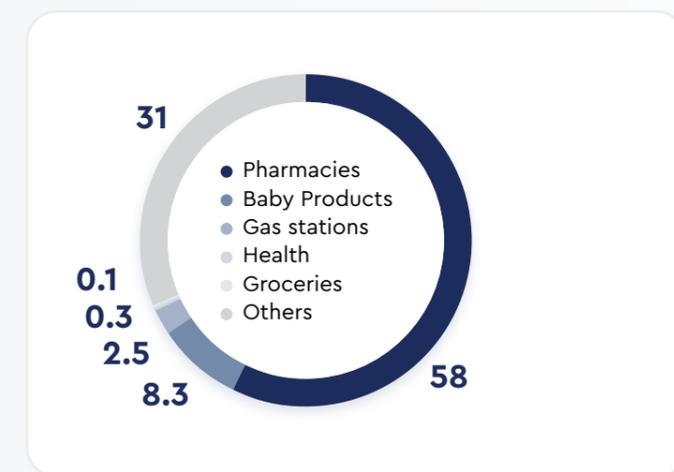
Total spending on Halva cards, ₺ billion



Halva cardholders by age as of December 31, 2021, %



Purchases with Halva card by type, %



Source: Bank data

Spending on essential items accounted for **72%** of the total Halva card spending

**₺27k**  
average Halva card balance in 2021

## Promoting financial inclusion

# 100M

economically active people live within an hour's drive of a Sovcombank office.

With 2,600 offices in 79 constituent federal entities of the Russian Federation, we have the largest office network among Russian private banks. According to the Group's estimates, 100 million economically active people live within an hour's drive of a Sovcombank office.

Our services and products are available at the Banks' offices and also through our partner network which includes car dealers, real estate agents and developers (more than 5,000 offices). People can also obtain Halva cards in any of the 10,500 (as of December 31, 2021) partner stores.

The Bank also delivers Halva cards to any address free of charge. Clients can apply for a Halva card through a call center, or online at the Sovcombank website or in the mobile app. The Bank issues both physical and virtual cards, allowing clients to use their Halva cards right after the application has been approved.

In 2021, Sovcombank offered its clients mortgage loans on preferential terms under government-supported programs. A total of five preferential mortgage programs were available to clients: Preferential Mortgage, Family Mortgage, Rural Mortgage, Military Mortgage and Far Eastern Mortgage. In 2021, the Bank issued a total of 3,200 preferential mortgage loans, of which 70% under the 6.5% Preferential Mortgage program, 27% — under the Family Mortgage program, and the remaining 3% — under the Far Eastern Mortgage program.

## Supporting businesses

We are constantly expanding the Halva card partnership network. As of December 31, 2021, the network included retailers and service providers covering all types of essential goods and services: groceries, cafés and restaurants, online shopping platforms, tech stores, automotive, etc.

Retailers pay the Bank a fee on all purchases made with Halva cards at their stores. By participating in our partnership network, retailers increase their turnover, client base, and the average check.

With the Halva card, we support local businesses and communities and foster job creation.

We support local entrepreneurs in other ways as well. In particular, we provide them access to the RTS-Tender online platform for public and private procurement procedures. In 2021, 1.3 million contracts were concluded via Sovcombank's platform for a total of ₹6.2 trillion and involved 712,000 SMEs.

In 2021, as per the previous year, Sovcombank provided significant support to Russian businesses, including SMEs, through standard lending and government-supported anti-crisis programs.

The Bank participated in two government support programs for SMEs in 2020; in 2021, the list expanded to seven programs that were not limited to SMEs. The Bank joined the Payroll 3.0 program aimed at helping businesses restore their operations, and ranked in the top five among participating banks in terms of lending volumes. The Bank also joined programs to support agricultural producers, to promote digital transformation, and to facilitate early completion of government contracts. The programs are supervised by the Ministry of Agriculture of the Russian Federation, the Ministry of Digital Development, Communications and Mass Media of the Russian Federation, and the Ministry of Construction, Housing and Utilities of the Russian Federation. The Bank issued 2,600 preferential loans.

In 2021, 1.3 million contracts were concluded via Sovcombank's platform for a total of ₹6.2 trillion and involved 712,000 SMEs.

The Bank issued

**2.6k**

preferential loans

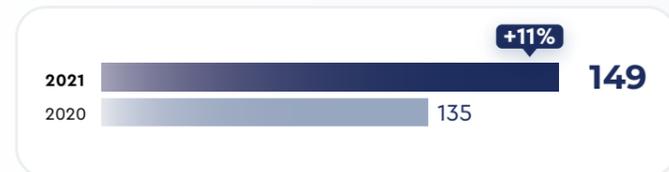
With the Halva card, we support local businesses and communities and foster job creation.

### Halva card and support for SMEs

	2020	2021
Partner stores, thousand	199	221
Share of SMEs, %	68	68

### SME partners,

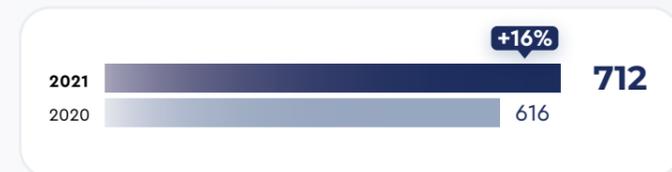
thousand



Source: Bank data

### SMEs participating in procurement on Sovcombank's electronic platform,

thousand



Source: Bank data



## Promoting financial literacy

**Strengthening client awareness** of financial products matching global standards is one of our strategic goals. We extensively collaborate with communities and choose the appropriate forms and channels of communication for different target audiences: social media, the Bank's website, seminars, round tables, and conferences.

### PARTNERSHIP WITH UNIVERSITIES

We are also involved in professional training of university students.

In 2021, Sovcombank analysts delivered an in-depth applied course in investment analysis at several universities, including the New Economic School and MGIMO University. The course included lectures, seminars, and homework assignments

and was aimed at making students skilled in practical applications of their knowledge of economics and finance for the purposes of investment analysis. Upon completion of the course, several students were invited to join the Financial Markets Analysis Department at Sovcombank.

Sovcombank employees also delivered lectures on corporate finance and business communications in English at local universities: Kazan (Volga Region) Federal University, Voronezh State University, and Saratov State University.



SOVCOMBLOG: A FINANCE BLOG FOR A WIDER AUDIENCE

In August 2021, as part of our efforts to improve financial literacy of the general public, we launched Sovcomblog.

It is our own finance blog to post easy-to-understand educational content intended for a wider audience. The publications in the blog cover a variety of financial topics: taxation, macroeconomics, financial threats, banking products, wealth preservation and creation. Over the six months of the blog's existence, around 500 posts have been published, attracting 1 million readers.

Website visitors are mostly interested in learning about installments, preferential car loans, apartment purchases and aspects of taxation.

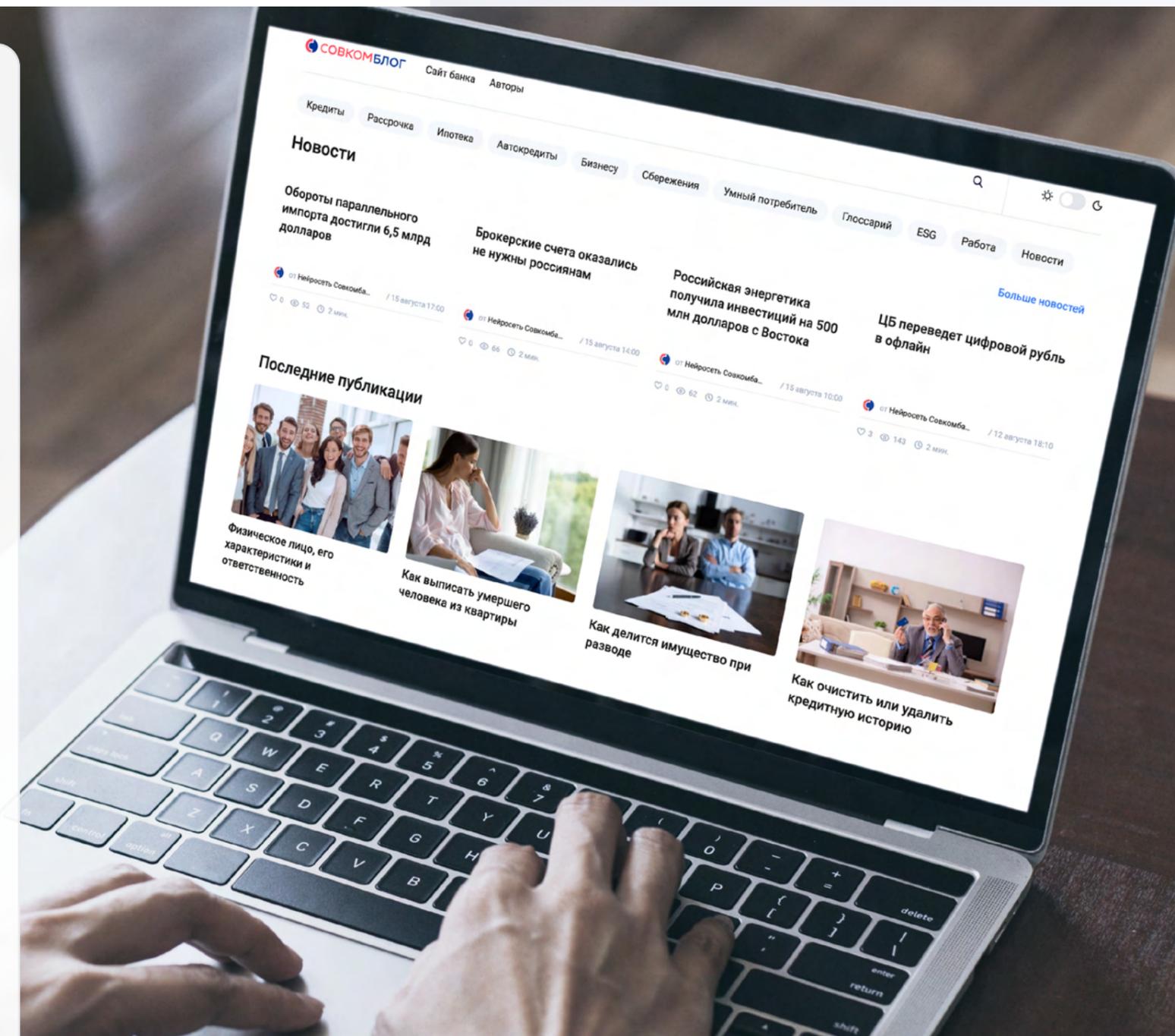
A separate section of the blog is dedicated to ESG.

Top 5 most read posts in the section:

- What is ESG?
- What is a green economy?
- What is green mortgage and energy efficiency?
- How do I live a more environmentally friendly lifestyle?
- Sharing: how it helps your family budget and the environment.

We plan to add new post formats in Sovcomblog in 2022 to increase the coverage and to further promote financial literacy.

[Read Sovcomblog on the website](#) →



**1M**  
readers

**500**  
posts  
on financial topics

MARKET POWER COMIC BOOK

Sovcombank publishes the Market Power comic magazine that provides easy-to-understand insight into companies listed on different stock exchanges in the world.

THE PROJECT TEAM

**31** analysts

**100** companies analyzed in 2021

**10k** subscribers on social media

The content is prepared by a dedicated team of the Bank's highly qualified analysts. They investigate industry specifics, analyze financial statements, assess possible risks and, based on their findings, prepare a detailed overview of each company. This high-quality analytics attracts a wide range of readers, including private and professional investors.

The idea of creating a magazine that would report stock market news and provide expert advice in an unusual format was first discussed at the end of 2020. The author wanted to answer the question: How would you explain to a ten-year-old whether he/she needs to buy stocks?

In 2021, Market Power began to increase its social media presence, and a YouTube channel of the same name was launched in November 2021. By the end of the year, Market Power had a presence on the most popular social media platforms, including Telegram, VKontakte, Yandex.Zen and Rutube.

In 2022, we plan to increase the number of partner sites, launch new formats, and begin monetizing the project on marketplaces.

Watch Market Power on YouTube →



# Local communities

GRI 413-1

In 2021, the Bank held a total of 178 conferences, festivals, and events for local communities, mainly in Eastern Siberia.

We build open and strong relations with communities in the regions where we operate.

We employ local residents, create decent working conditions for them and give them the opportunity to improve their quality of life.

The Bank supports and contributes to local economic conferences, forums, and round tables aimed at developing local economies. In particular, Sovcombank

became the general partner of the 7th Kostroma Economic Forum held to honor the Russian entrepreneurship week and with the purpose to support young businessmen.

Throughout the year, we hold Halva Day festivities for our clients in different cities, with invited artists, contests, and gifts, and participate in arranging competitions and master classes.

Sovcombank also supports employees and their immediate families in various life situations, both directly and through the We Are Sovcombank charity fund. In 2021, the Bank allocated ₴45.3 million to charity (for further details, see the Charity and Social Support section).

We build open and strong relations with communities in the regions where we operate. We employ local residents, create decent working conditions for them and give them the opportunity to improve their quality of life.

# Sustainable finance

Sovcombank was the first Russian bank to sign UNEP FI Principles for Responsible Banking in 2019. In line with our commitments, we contribute to the transition to a low-carbon economy and help clients revise their business processes accordingly. ESG consulting has been implemented throughout the entire product line.

## Sovcombank approach to sustainable finance

### 2019

The Bank joined the Principles for Responsible Banking UNEP FI, UN Global Compact, UN GRI

The Bank implemented a policy on sustainable development and responsible financing

The Bank launched ESG-linked loans for corporate clients

### 2020

The Bank arranged the first Russian issue of perpetual green bonds with a floating coupon

The Bank established an ESG committee headed by an independent director under the Supervisory Board

The Bank organized the first issue of social bonds in Russia

The Bank organized the first market issue of green bonds in Russia

### 2021

The Bank was the first Russian credit institution to place its own social Eurobonds

The Bank set long-term ambitious sustainability goals

The first Russian bank to support TCFD's recommendations on financial disclosure related to climate change

The Bank launched ESG-deposit for corporate clients

The Bank became the first Russian member of the Net-Zero Banking Alliance (NZBA), UN-convened alliance of banks worldwide

The Bank joined the UNEP FI initiative to improve the quality of customer service for individuals



# Principles of sustainable finance

To effectively provide ESG banking services, Sovcombank adopted its Responsible Finance Policy. The Bank's Management Board is responsible for the implementation of the Policy under the supervision of the Supervisory Board represented by the ESG Committee. Sovcombank regularly publishes reports on ESG issues.

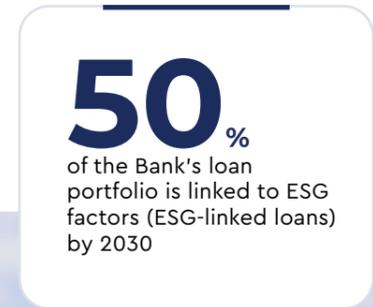
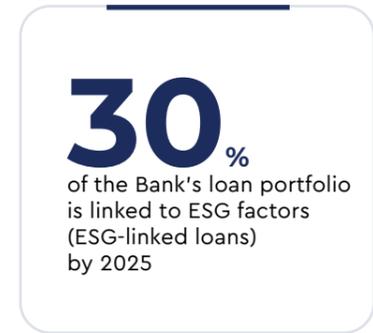
The key principle of the Policy is to increase the positive impact and, at the same time, reduce the negative impact on society and the environment. For this reason, the Bank prioritizes projects that are designed to improve living standards and create jobs.

Sovcombank organizes the issuance of green and social bonds and supports renewable energy projects.

In the area of sustainable lending, our efforts are aimed at promoting financial inclusion of low-income clients, improving financial literacy of people and preventing over-indebtedness, as well as supporting small and medium-sized businesses.

Responsible Finance Policy →

Sovcombank organizes the issuance of green and social bonds and supports renewable energy projects.



# ESG banking in 2021

**Sovcombank drives** ESG transformation by financing projects that contribute to the transition to a low-carbon economy, as well as by advising clients on sustainable initiatives and encouraging them to implement these ideas.

To comply with today's sustainability agenda and reduce financial and reputational risks, companies with high GHG emissions need changes. We support them in implementing projects related to the Sustainable Development Goals, transformation and adaptation. The Bank organizes the issuance of green and social bonds, provides infrastructure loans and ESG-linked loans.

In 2021, green bonds comprised 63% of ESG banking products, social bonds – for 22% and infrastructure loans – for 15% of the Bank's ESG financing products.

In 2021, green bonds comprised 63% of ESG banking products, social bonds – for 22%, and infrastructure loans – for 15% of the Bank's ESG financing products.

## ESG-LINKED LOANS

ESG-linked loans can be issued to finance a specific project or an ESG transformation of the client's business; they can also be tied to the compliance with the established ESG criteria.



In 2021, the Bank issued ESG-linked loans on the following terms:

- a lower interest rate is used if the borrower meets a certain number of environmental commitments in nuclear power plant construction,
- a lower interest rate is linked to switching to using environmentally friendly electric drones for mineral exploration and geological mapping,
- the interest rate on the revolving credit line is linked to the ESG rating assigned by a competent international agency.



## GREEN AND SOCIAL bonds

Sovcombank is one of the leaders in organizing the issuance of green and social bonds for Russian clients. This activity of the Bank is governed by the Bank's Green Bond Policy. Not only do we organize the issuance and placement of bonds, but we also assist clients with bond verification<sup>1</sup>. During two years of our intensive efforts in this area, we contributed to the issuance and placement of 80% of all ESG bond issues on the Moscow Exchange.

In 2021, we organized four green ESG bond issues for our clients.

In 2021, Sovcombank's clients placed ESG bonds mainly to finance the production or purchase of environmentally friendly electric vehicles.

The government of one Russian region raised green financing to replace the bus fleet with electric buses and to build new metro lines. Two major transportation engineering companies raised funds to finance the production of new-generation electric buses, electric locomotives, and electric trains.

A nuclear industry giant raised funds to refinance the costs incurred during the construction of wind farms.

### FIRST ISSUE OF SOCIAL EUROBONDS

In January 2021, Sovcombank issued the first social Eurobonds in the CIS for \$300 million<sup>2</sup>. The funds were raised to finance interest-free lending to citizens with low and moderate incomes. The issue was verified by one of the world's largest international ESG rating agencies and complied with the ICMA Social Bond Principles (SBP). The bonds also received high credit ratings from international and Russian agencies.

Demand for bonds peaked at \$900 million, with 73% of all applications coming from foreign institutional investors. Due to the high demand, the coupon rate was set very low – 3.4% per annum.

In January 2021, Sovcombank issued the first social Eurobonds in the CIS for \$300 million<sup>2</sup>.

#### Ratings

FitchRatings **BB+**

MOODY'S **Ba1**

AKPA **A+**

<sup>1</sup> An independent third party certification that the bonds meet the "green" criteria.

<sup>2</sup> ₪22.3 billion at the exchange rate as of December 31, 2021.

## ESG DEPOSITS

In 2021 Sovcombank became the first Russian bank to offer ESG deposits to its corporate clients. ESG deposit are regulated by Sovcombank's ESG Deposit Regulations.

The deposited funds are allocated to finance or refinance, in whole or in part, projects that meet the ESG criteria. For green and adaptation projects, we use the criteria developed by VEB.RF and approved by the Government of the Russian Federation; and for social projects — the criteria developed by the International Capital Market Association (ICMA).

First of all, these are projects related to waste recycling, reducing GHG emissions, improving energy efficiency and resource saving, building and updating key infrastructure and renewable energy facilities.

To ensure compliance with the product terms, the Bank will maintain a register of ESG assets, and the relevant committees will ensure that the deposited funds are used for the purposes intended.

For green and adaptation projects, we use the criteria developed by VEB.RF and approved by the Government of the Russian Federation; and for social projects — the criteria developed by the International Capital Market Association (ICMA).



# Customer experience

**Sovcombank** provides high quality customer service. We take everyone's needs into account and strive to deliver great customer service. Our clients benefit from a full range of banking services accessible 24/7.

## Client relations

GRI 417-1

### KEY PRINCIPLES

In building the relationships with our clients, we follow all of the Bank's key policies, including the Human Rights Policy, Sustainability Policy, Responsible Finance Policy, Data Protection Policy and Cybersecurity Policy.

In December, Sovcombank joined the UNEP FI initiative to improve customer service for individuals. Within 18 months of joining, Sovcombank will set specific targets related to transparent product description and to non-solicitation of financial products.

We are committed to the principles of sustainable finance, we protect clients from over-indebtedness and ensure the confidentiality and security of their personal data. Sovcombank employees are committed to respecting human rights.

The Bank's communication services, i.e., the call center and online chat in the mobile app, are available 24/7. We promptly inform our clients about all important developments through channels that are most convenient for them: on the website, by notifications in the mobile app, through Telegram and by e-mail. We employ artificial intelligence (AI) to ensure that our clients are served quickly and appropriately.

We monitor social media for reviews about the Bank and consider the available feedback when we develop new services. Regular surveys and quality control help us measure customer satisfaction.

We provide our clients with a service that is based on the expert knowledge of our employees and state-of-the-art technologies. Our managers are attentive and empathic and consistently uphold service standards.

We monitor social media for reviews about the Bank and consider the available feedback when we develop new services. Regular surveys and quality control help us measure customer satisfaction.

IN 2021, AI HELPED:

process 98% of complaints submitted through chat rooms

resolve 65% of questions in chats

process 20% of calls in call centers

### HALVA LIFE

In the context of the rapid development of ecosystems and services, we chose to make the Halva Life program our competitive advantage.

Our strategy focuses on the following:



- Investing in customer loyalty: providing the Bank's products below cost to loyal and financially disciplined ambassador clients (up to 10% of clients),



- Wow-service: we are committed to solving client problems in the most efficient and prompt way. Our goal is to receive positive feedback from each client at least once a year,

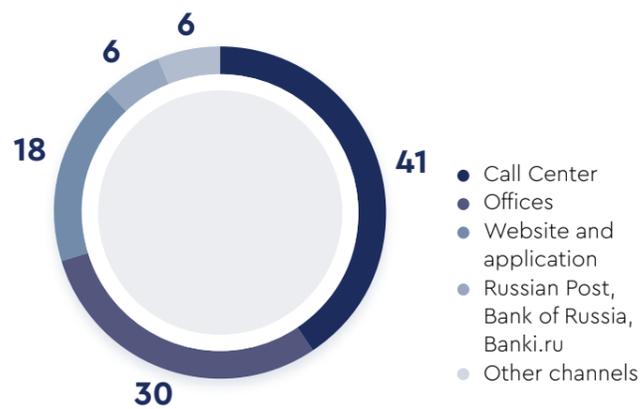


- Easy shopping in the mobile bank: introducing the latest financial services, providing a high quality chat service, and creating the most comprehensive ecosystem and bonus program for shopping via the Bank's app.

Top 5 complaint categories, thousand



Customer complaints by communication channel, %



Source: Bank data

## COMPLAINT MANAGEMENT

The Bank has adopted the Customer Complaints Management Policy to properly handle complaints from individual clients. The regulation sets out the general procedure and methodology for dealing with customer complaints. Following the communication with the client, the Bank employees analyze the causes of, and any available information on the situation, develop the solution and implement it.

In 2021, Sovcombank clients submitted around 128,000 complaints (15% less than in the year 2020). The bank upheld 47% of all complaints, and paid compensation in response to 15% of all complaints.

We resolve 60,000 complaints online through the First Aid project designed to provide expert advice to employees in dealing with extraordinary customer problems.

Complaints related to cards (correct cashback accrual, commission charges, etc.) decreased significantly in 2021 (see the diagram below). In 2021, the Bank's call center, offices, and digital channels (website and mobile app) remained the most popular channels for submitting customer complaints.

Sovcombank takes a responsible approach to debt collecting. Only the phone numbers indicated in the questionnaires may be used for collection calls.

## DEVELOPMENTS IN 2021

**We have updated** the user interface and the functionality of our mobile services to make them even more convenient for our clients.

We expanded the scope of services provided by the call center operators: now they do not only answer client calls, but also sell the Bank's products: issue loans, cards, etc. (for further details, see Training and competence development).

The virtual assistant in the Halva-Sovcombank mobile app can now answer questions about car insurance.

In 2021, we began to upgrade some offices to better serve customers with disabilities. We will continue our efforts in this area in 2022.

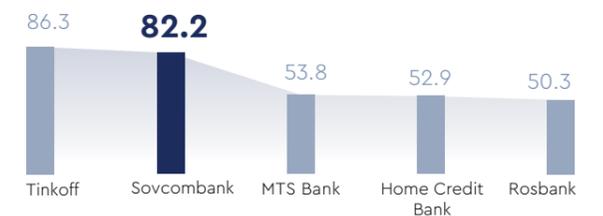
## HALVA-SOVCOMBANK IS ONE OF THE TOP MOBILE APPS ACCORDING TO MARKSWEBB

In 2021, Sovcombank's mobile app was ranked second (only 4.1 points behind the leader) in mobile banking ranking according to Markswebb Mobile Banking Rank. The analysts noted that Sovcombank's app had the widest coverage of product categories and engaged users with a cumulative benefit system and a subscription option. The simple and convenient navigation through the offers display was an advantage.

The Halva-Sovcombank mobile app also improved its position in other Markswebb ratings, becoming the fifth among the best mobile banks for daily tasks, with the iOS app moving up 10 positions and the Android app moving up 11 positions compared to 2020. The higher ranks were achieved due to the introduction of new features important for clients, including the addition of the QR code payment method and displaying information on the applicable fees, charges and transaction limits. Also, the total balance for all accounts and automatic savings tools were introduced.

In 2021, Sovcombank's mobile app was ranked second (only 4.1 points behind the leader) in mobile banking ranking according to Markswebb Mobile Banking Rank.

Top 5 in 2021 Markswebb Mobile Banking Rank (Android)<sup>1</sup>, points



<sup>1</sup> Markswebb Mobile Banking Rank 2021, a research on and ranking of mobile banks for individuals in Russia (markswebb.ru).

**18k**  
downloads daily

**500k**  
clients use the app every month to pay for services

**#2**  
bank in 2021 Markswebb Mobile Banking Rank (Ecosystem Core)

**#5**  
bank in 2021 Markswebb Mobile Banking Rank (Daily Banking)

**in Top 10**  
digital offices in 2021 Markswebb Mobile Banking Rank

## Service quality

Every year we measure our customers' satisfaction with the Bank. In 2021, thanks to our efforts to improve customer service, we reached the NPS<sup>1</sup> of 82 and the CSI<sup>2</sup> of 4.7 out of 5.

NPS: **82**

---

CSI: **4.7**

### In 2021, Sovcombank led the People's Rating on the portal Banki.ru for the third year in a row.

In 2021, Sovcombank led the People's Rating on the portal Banki.ru for the third year in a row. During the year, clients published over 9,000 reviews about the Bank on that portal (up 18% year-on-year). The Bank carefully examines all client reviews to identify how it can improve its services, and consistently works in that direction. This approach has a positive effect on client relations: the majority of reviews (60%) were left to acknowledge the high level of service and personalized experience.

**#1**

in Banki.ru People's Rating three years in a row

over **9k**

reviews about the Bank

**60%**

positive reviews

### THE SOVCOMIDEA PORTAL

The SovcomIdea online portal, where clients can post their reviews, communicate with the Bank managers, share experience with other users and share their ideas, is one of the communication tools that we use to receive feedback and proposals on how to improve our services. We consider these proposals and try to implement them if possible. Proposals should address specific problems, benefit clients and the Bank and improve performance indicators. The Bank implements the best ideas and rewards their authors with valuable prizes. In 2021, our clients submitted more than 1,000 proposals through the SovcomIdea portal (12% of all proposals received). Eighty-five (85) most active users of the portal are opinion leaders.

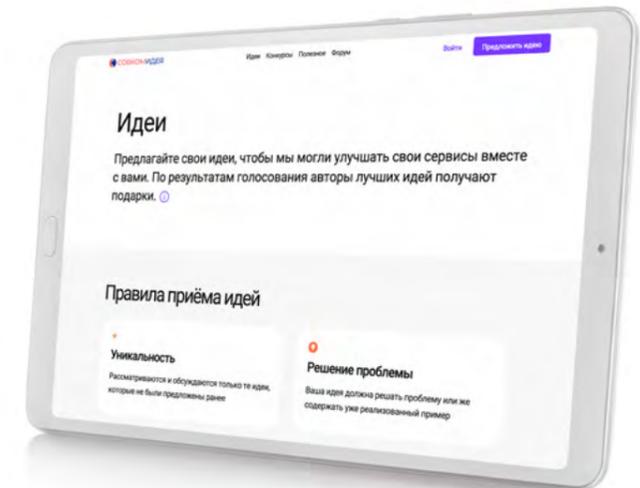
[Visit the SovcomIdea portal](#) →

**8.5k**

registered users

**#1**

in Best Customer Experience of Online Engagement and Community Building nomination at the CX World Awards



In 2021, Sovcombank won the Best Customer Experience of Online Engagement and Community Building award at the CX World Awards 2021/2022.

<sup>1</sup> Net Promoter Score— loyalty index. As measured by a third-party agency.

<sup>2</sup> Customer Satisfaction Index.

## Working in the COVID-19 environment

OVER THE ENTIRE PERIOD OF THE PANDEMIC:

In 2021, Sovcombank continued to watch the health of its employees closely and counter the spread of the coronavirus infection. In line with the government policy, 30% of employees worked remotely throughout the year, and at the peak of the outbreak, 70% of the staff were switched to remote work.

In total, we purchased over 8 million disposable face masks and 252,000 reusable cloth masks, 195,000 respirators and 159,000 sanitizers. Over the entire period of the pandemic (excluding 2022), the Bank purchased €1.3 billion worth of PPE items.

**1.3M**

COVID-19 tests (of which 87% were PCR tests) were administered

**264**

workplace health screenings took place



## Security of client funds and data

**25%** of client losses from social engineering scams reduced

GRI 418-1

We are aware of the increasing threat of cyber attacks on banks, so we pay great attention to cybersecurity issues. We comply with all applicable Russian laws and regulations and the PCI SSC<sup>1</sup> recommendations.

The Bank has adopted the Cybersecurity Policy, implemented by its Information Security Department. All Bank employees are required to take a specialized training course every year. The Supervisory Board supervises the implementation of the Policy.

We have implemented several network protection systems and regularly conduct internal and external security audits, both in-house and with third party contractors. To protect personal data and client funds, all possible channels of data leakage in the Bank are closely monitored.

Cybersecurity Policy →

The Bank's data processing activities are governed by the Personal Data Protection Policy. In line with the Policy and legal requirements, we collect and process only the data necessary for providing banking services to clients. Personal data is retained for a limited period, after which it is deleted. A client's consent to processing of his or her personal data is required for data processing and can be withdrawn at any time. Also, a client may request the Bank to provide information on how such client's data is used or stored.

Personal Data Processing Policy →

In 2021, our cybercrime protection efforts reduced client losses from social engineering scams by 25%.

We also identified and successfully handled 59 threats of information leakage and cyberattacks on the Bank's infrastructure. None of them resulted in financial losses for the clients or the Bank.

In 2021, the Bank received seven requests from clients and one from regulatory authorities. Having processed that one request from a regulator, we set up additional automated control and rules in the Bank's information systems and the fraud monitoring system.

In the reporting year, we once again verified that our infrastructure complied with the PCI SCC recommendations and conducted all necessary external audits, which did not reveal any increase in risks.

<sup>1</sup> Payment Card Industry Security Standards Council.

# Employee development

We value our employees' contribution to the achievement of the Bank's strategic targets. We strongly encourage employee development through our Learning Center and Corporate University. We also encourage our employees to come up with their own initiatives and we implement their best ideas, providing every opportunity for talent development.

## Recruitment and human resource management

Providing equal opportunities regardless of nationality, gender, age and other protected characteristics of employees is the key priority of our staff policy.



We build long-term relationships with employees. Sovcombank complies with all labor and employment laws and regulations of the Russian Federation. The Bank's main approaches to human resources management are set out in its Code of Corporate Ethics, Diversity & Inclusion Policy and Sustainability Policy.

Providing equal opportunities regardless of nationality, gender, age and other protected characteristics of employees is the key priority of our staff policy. We are committed to this principle at all stages of our relationships with our employees, starting from the recruitment process.

### EMPLOYEE REFERRAL PROGRAM

As part of our Bring a Friend program, when a current employee recommends a friend for any position at the Bank, a referral bonus of ₱10,000 or more, depending on the position of the new employee, is paid to the referring employee, provided that such friend successfully passes the trial period and joins the team.

# Personnel structure

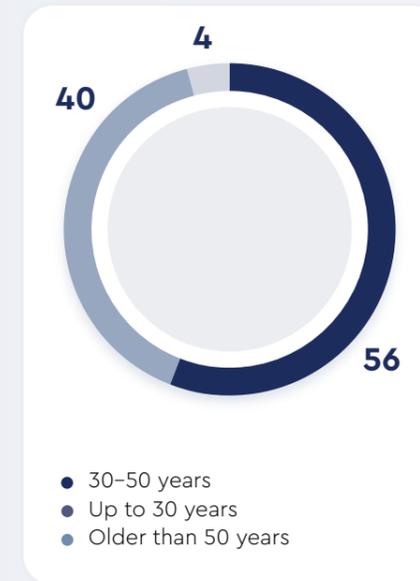
GRI 102-8

As of December 31, 2021, Sovcombank Group employed 23,000 people. For all employees, the Bank was the main place of occupation. As of the reporting date, the majority of the Bank employees (56%) were 30 to 50 years old.

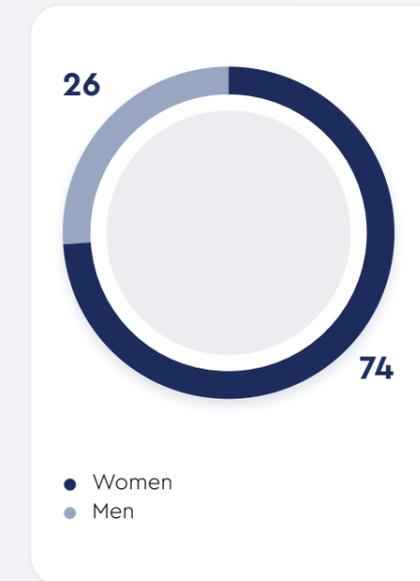
Almost half of all employees (49% as of December 31, 2021) worked in four regions of Russia: Moscow Region, Novosibirsk Region, Saratov Region, and the Republic of Tatarstan.

In most regions (49 out of 79), the total headcount did not exceed 100 employees.

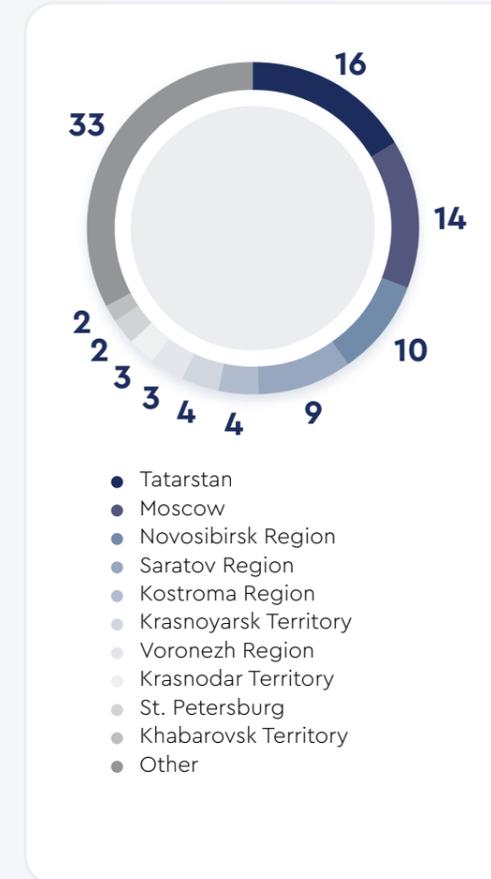
Employees by age as of December 31, 2021, %



Employees by gender as of December 31, 2021, %



Employees by region as of December 31, 2021 (top 10 regions) %



A total of **23k** employees as of December 31, 2021

# Employee turnover

GRI 401-1, 405-1

We track two employee turnover rates — overall<sup>1</sup> and average<sup>2</sup>. In 2021, these rates were 49.9% and 4.2%, respectively. Both rates are within the normal range for similar financial sector enterprises. The overall employee turnover rate at Sovcombank exceeded last year's figure due to the M&A activities that were completed during the year.

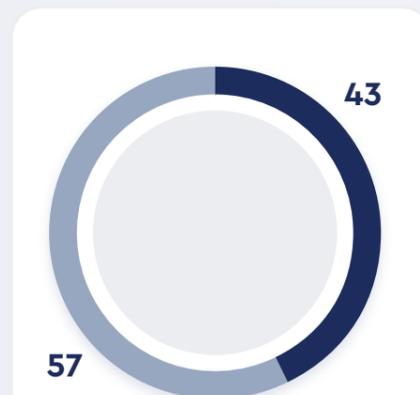
According to the Bank's statistics, employees under 30 change jobs most frequently. The employee turnover rate in this age group was 5.6% among women and 6.8% among men.

Employees aged 50 and above are least likely to change jobs. The employee turnover rate in this age group was 2.6% among women and 3.6% among men.



Women make up 74% of the total headcount and 43% of top management positions (including department heads and deputy heads).

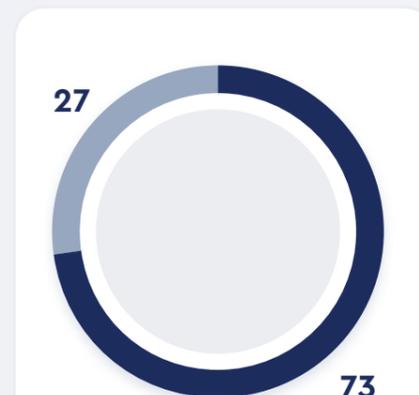
Sovcombank's top management by gender as of December 31, 2021, %



- Women
- Men

Women prevailed among new hires (73%).

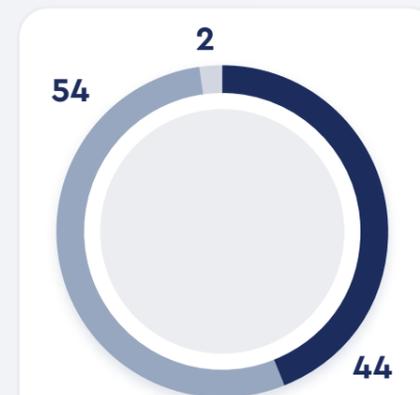
New hiring in 2021 by gender, %



- Women
- Men

The majority of employees hired in 2021 (54%) were 30 or younger.

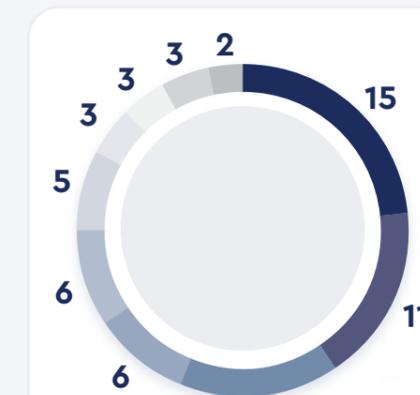
New hiring in 2021 by age, %



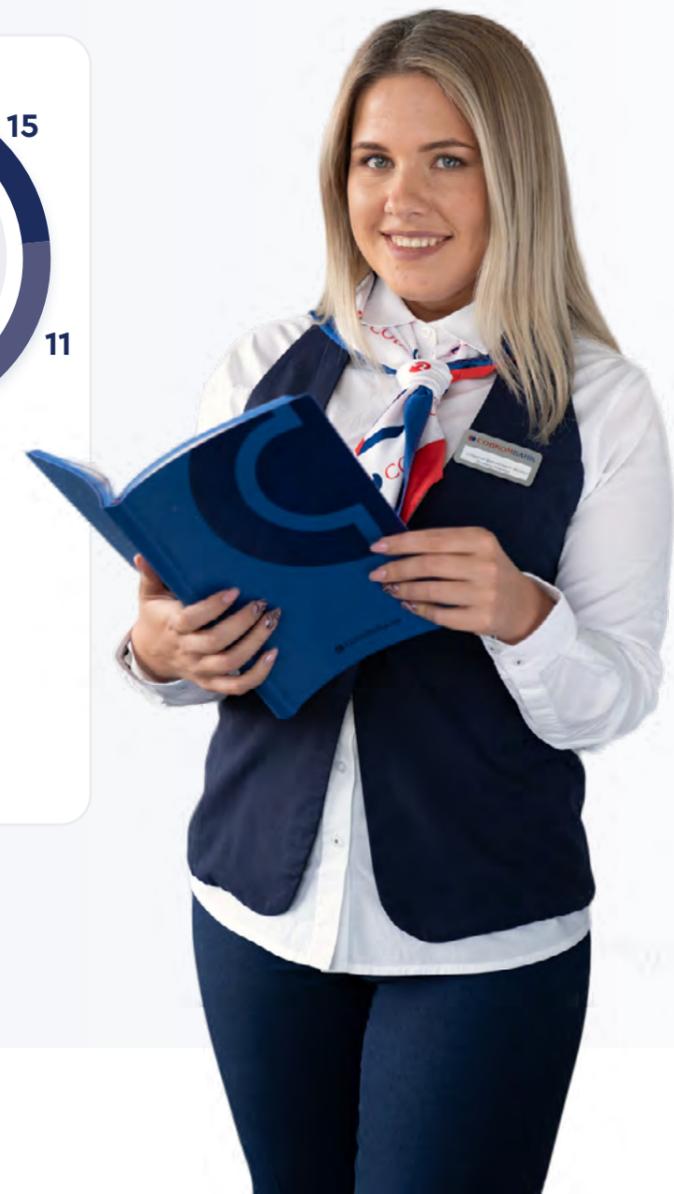
- 30-50 years
- Up to 30 years
- Older than 50 years

Most new hires (65%) were employed in the regions where Sovcombank's presence is strongest (Tatarstan, Saratov Region, Moscow and Novosibirsk Region).

New hiring in 2021 by region (top 10 regions), %



- Tatarstan
- Saratov Region
- Moscow
- Novosibirsk Region
- Krasnoyarsk Territory
- Voronezh Region
- St. Petersburg
- Krasnodar Territory
- Khabarovsk Territory
- Irkutsk Region



<sup>1</sup> The overall employee turnover rate is the ratio of the total number of dismissed employees to the average number of employees.  
<sup>2</sup> The average employee turnover rate is the ratio of the total number of dismissed employees to the total number of employees.  
<sup>3</sup> Top management includes heads and deputy heads of departments, as well as members of the Management Board.

# Diversity, equality and inclusion

GRI 405-1

We believe that diverse teams, in which employees receive equal pay for equivalent work, regardless of their nationality, gender, age and other factors, is the key to our success.

Our approach to creating a comfortable working environment, as well as all the key tools, are set out in our Diversity & Inclusion Policy, as approved by the Supervisory Board. We are committed to the principles of diversity and inclusion at all levels, including top management, and expect the same from all our partners.

To bring our diverse team together, we hold team building events: competitions, family days, training seminars, etc. We implement mentoring programs to develop talents and support career advancement. We offer our employees opportunities to complete specialized training programs (provided by third parties) and to learn foreign languages.

We welcome any initiatives of our employees that help develop our business (for further details, see the Achievement League section). We consider it important to invest in employee training (for further details, see the Training and competence development section) and promote a healthy work-life balance.

We aim to balance the gender structure of the Bank's top management. A diverse, inclusive environment helps employees excel at work and fosters a culture where every employee has equal career opportunities.

In 2021, the share of women at IT positions at Sovcombank doubled and reached

**25%**

We are committed to the principles of diversity and inclusion at all levels, including top management, and expect the same from all our partners.

Our diversity and equality strategy involves efforts to retain the best talents, reduce employee turnover, regularly measure employee satisfaction and loyalty. In the next three years, we will continue to promote balance at all levels (especially at top management and regional levels) through mentoring and training programs, motivating employees to stay with us and share our success.

We support all employees by providing them a whole range of opportunities for professional development:

- for the most promising leaders — coaching with outsourced experts,
- for senior managers — mentoring programs within the Bank,
- for middle and entry-level managers — training programs at the Corporate University,
- for all employees — access to online communities and special events with contributions by outsourced experts.

We encourage our employees to maintain a healthy work-life balance and offer them flexible work schedules. Back office employees have the opportunity (regardless of the epidemiological situation) to work remotely by approval of their line manager. Parents of first graders can take advantage of a paid leave on September 1 to see their children off to school.

Diversity & Inclusion Policy →



The first live stream on women's leadership took place on the Corporate Portal and focused on common gender stereotypes which are barriers for women in their career advancement. Two hosts — an independent director and chairman of the ESG Committee at Sovcombank, and a deputy chairman of the Board of Directors at one of the major Russian investment companies — shared their experience and suggested ways to deal with typical challenges. In particular, women should show more persistence in achieving career heights, simplify household chores, be ready for challenges and proactively seek self-development. Bank employees could leave their comments online or join the live stream by phone.



## WOMAN HALVA CLUB ONLINE COMMUNITY

Woman-halva.club is an educational and entertainment online platform for girls and women, providing content on such topics as finance, beauty, career, style, shopping and a healthy lifestyle, as well as live streams and master classes delivered by female leaders.

The community was launched in October 2020 on a social media platform, where it gained an audience of 100,000 people in a year. Club members receive bonuses and privileges on their Halva cards and can seek fashion advice from the Club's full-time professional stylists.

The club's audience exceeds **105k+** members

**91** opinion leaders with 5 million subscribers

**135** live streams

**12** marathons

## INTERNAL COMMUNICATION channels

Sovcombank has a variety of internal communication channels.



The Corporate Portal, where we publish news, is used by 100% of the employees. It holds contests, operates an internal social network and has a chatroom with the managing director. It also provides a platform for online employee training and testing.

**43.2M** views in 2021

**3.7k** messages in the managing director chatroom



Skladovka Telegram channel publishes the main corporate news from the Corporate Portal.

**75%** of employees are subscribed to the Skladovka Telegram channel



The Corporate Newspaper is distributed in hard copy to all offices of the Bank, and its electronic version is published on the Corporate Portal.

**52k** copies annually

**12k** views on the Corporate Portal

# Financial and non-financial incentives

We constantly seek to improve employee motivation. The most ambitious employees participate in the Employee Development Map program.



## EMPLOYEE DEVELOPMENT MAP

Employees can participate in the program twice a year. Each stage (nomination) lasts six months. Upon successful completion of the program, a participating employee can expect a promotion and a pay raise. Since the beginning of the program, 11 nominations have been held, involving 1,200 employees.

**38%**

of retail business employees are promoted every 6 months

In addition, we offer our employees a wide range of benefits, including preferential loans, healthcare and educational opportunities (for further details, see the Employee assistance programs section).

We also publicly celebrate the outstanding achievements of our employees (Achievement League, Person of the Year) and reward them with corporate bonuses that can be used to purchase goods at the Bank's online store.

We also support our employees in difficult circumstances by providing financial assistance directly from the Bank's own funds or through our We Are Sovcombank fund.

In 2021, a total of 972 employees, including 14 male employees, took parental leave. A total of 419 employees, including 15 male employees, returned to work from parental leave that year.

## EMPLOYEE BENEFIT programs

GRI 401-2

Sovcombank offers a wide range of employee benefit programs. The size of discounts, benefits and reimbursements (other than financial assistance from the Bank) is determined based on the employee's time with Sovcombank: the longer the service — the better the terms.

### Employee benefits in 2021

Program	Description
Free basic voluntary health insurance	Outpatient care, inpatient care, telemedicine, emergency medical care, planned surgeries, mental health consultations
Extended voluntary health insurance	Outpatient care, home care, dental care
Voluntary health insurance for employees' children	Outpatient care, inpatient care, home care, dental care, telemedicine
Fitness	Reimbursement of fitness club/swimming pool membership, participation in sports competitions, etc.
Third party training	Full reimbursement of the cost of any external training program initiated by the Bank. Partial reimbursement of the cost of any external training program initiated by the employee
English courses	Reimbursement of any English language course
Summer camp reimbursement (for employees' children)	Partial reimbursement of summer camp expenses in Russia
Financial assistance in various circumstances and the Employee Assistance Fund	Financial assistance, either directly from the Bank's own funds or through the Employee Assistance Fund, is provided on a case-by-case basis
Consumer loans, car loans, mortgage loans, refinancing, insurance, car leasing	Group products on preferential terms

In 2021, a total of 490 employees took advantage of Sovcombank's employee mortgage loan program.

## CHARITY and social support

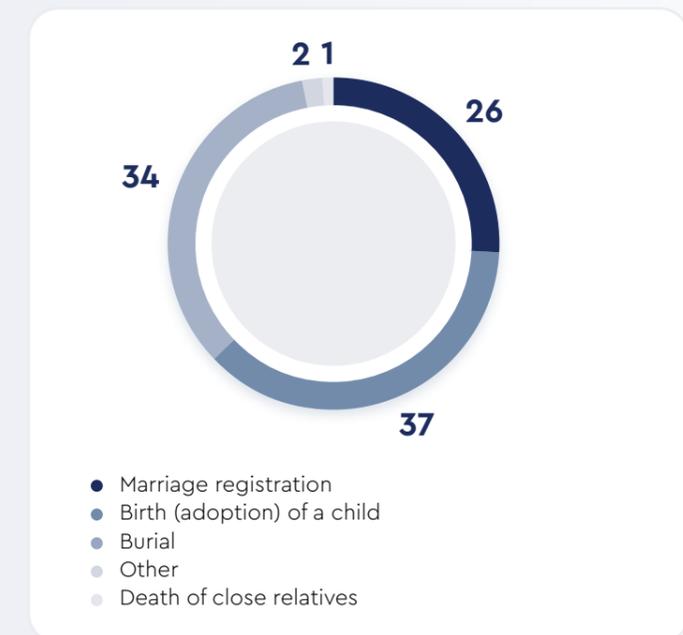
The Bank provides financial assistance to its employees in various life situations. Such financial assistance can be provided either directly from the Bank's own funds (to any employee) or through the Employee Assistance Fund (to those employees who are actively involved in charitable activities and make donations on a regular basis).

Most often, financial assistance is required due to cancer, to recover from a fire or a car accident, to recover from a stroke or a severe case of COVID-19.

In 2021, the Fund disbursed over ₹12 million to over 140 employees to help cover medical expenses related to treatment and recovery of these employees and their immediate family members.

Sovcombank directly allocated ₹45.3 million to provide social support to employees.

### Financial assistance provided to employees in 2021, %



# Training and competency development

GRI 404-1, 404-2

**Believing** that staff development is a foundation of a competent and well-balanced team, we contribute financially to the efforts of our employees in this area. We improve our educational programs every year.

In 2021, we delivered over 27,000 hours of employee training in the form of webinars, face-to-face trainings and seminars, product trainings, online quests, and remote courses with quizzes on the Corporate Portal. In just one year, we trained and assessed over 98% of the Group's employees.

Sovcombank Training Center provides training in the following key areas:

- Training for specific lines of business,
- Product training,
- Management training for managers and back office employees,
- Personal development training for back office employees,
- New Hire Orientation.

In 2022, we will focus on speech analytics to improve the quality of processing phone calls. We will also introduce mandatory educational courses for employees on such topics as sustainable development, compliance, labor safety, etc.

In addition, we plan to develop specific training courses on topics requested by back office managers and employees.

Over **27k**

hours of training were delivered to our employees in 2021

**98**

% of the Group's employees participated in trainings

**250**

managers enrolled in the Corporate University in 2021

The Bank invites well-known Russian business coaches and top managers of the Bank as speakers to share their knowledge and experience with the students.

## CORPORATE University

The Corporate University opened in 2020 as an educational facility for managers. The Bank invites well-known Russian business coaches and top managers of the Bank as speakers to share their knowledge and experience with the students. Training at the Corporate University is designed to ensure that managers have detailed understanding of business processes.

Training at the Corporate University is aimed at:

- building expertise in specialized areas,
- improving professional and management skills,
- gaining knowledge in related areas,
- expanding the external focus.

Having attended the lectures and completed homework assignments, students receive personal certificates of completion at the end of the course.



## Employee assessment

We use a wide range of assessment tools to measure the competence and performance of our employees. Following performance assessments, management may grant an employee a bonus, offer a promotion or propose an upgrade of the Employee Development Map.

We monitor the key performance indicators and conduct a 360-degree assessment, which is based on a comparison of how the employee assesses himself or herself and how other people, e.g., coworkers, managers and subordinates, see him or her. A total of 357 heads of departments were assessed in such a way in 2021

**90** % of the Bank's executives went through a 360-degree assessment in 2021

## Employee attitude towards the Bank

We regularly measure employee satisfaction and loyalty. Our goal is to maintain an eNPS index of 70 and above. In 2021, the eNPS index was 72 (76 in 2020).

We also conducted an internal survey to measure employee engagement. The survey covered 11,100 employees.

According to the survey, employees clearly understand what the employer expects from them (average score of 4.58 for the front office and 4.45 for the back office) and have a positive attitude towards the employer (4.54 for the front office and 4.45 for the back office). They also value their work at Sovcombank (4.50 for the front office and 4.34 for the back office). The overall employee engagement index was 4.1 in 2021.

We are committed to building a strong corporate culture.

Team building events, competitions and celebrations are held for employees and their families on a regular basis. For instance, the corporate investment unit held a corporate forum in Bukhara, Uzbekistan, in April. The team discussed business issues and jointly completed a difficult quest, thus celebrating its fifth anniversary.



**#7**

on HeadHunter's Best Employers List

**Top 3**

on Habr Career Best IT Employers List

**A.hr**

employer attractiveness rating according to BusinessDrom

**#5**

in Banki.ru Service Ranking

**72**

eNPS in 2021

**4.1**

Employee Engagement Index

# Achievement League



**We encourage** our employees to take initiative and have a proactive approach. Achievement League has been an annual event since 2011. This is a major year-long employee engagement project that gives employees the opportunity to implement their business ideas as they work together in teams.

Stages of the project:

- proposals are collected and assessed by experts in order to evaluate whether they align with the current business objectives,
- qualified teams are formed through an online registration process,
- teams present their projects at local sessions held in different Russian cities,
- the best projects are selected,
- the final contest takes place.

In 2021, a total of 4,000 employees making up almost 300 teams from all regions where the Bank operates competed in the Achievement League. As part of the Achievement League, employees submit proposals in such areas as environmental protection, conservation of natural resources, digital transformation, etc. In particular, the EcoHalva project was originally proposed by one of the teams that reached the 2021 finals (for further details, see Waste management). IT projects in the Achievement League included proposals such as the implementation of a CRM system for effective sales, and creation of an IT equipment accounting system for the efficient use of equipment within the organization.

In 2021, 39 teams (19 from the front office and 20 from the back office) reached the finals held in Turkey. Ten teams received cups for winning in specific nominations, and two teams won the Grand Prix and the main cash prize — certificates for ₺2 million. Due to the large number of participants, the 2021 prize fund was significantly increased.

In 2021, a total of 4,000 employees making up almost 300 teams from all regions where the Bank operates competed in the Achievement League.



## WINNERS OF THE 2021 ACHIEVEMENT LEAGUE GRAND PRIX

Digital MPTC is a telegram bot for agents that sell Halva installment cards in partner stores. The bot sends information about the card and its benefits, client eligibility criteria, and the agent's personal statistics.

Call center upgrade involving the expansion of operators' scope of services. In addition to customer support, they began to sell the Bank's products.

**300**  
teams

**39**  
teams in the finals

over  
**4k**  
employees



## PERSON OF THE YEAR AWARD

Every year, Sovcombank gives its Person of the Year award to employees who contributed the most to the Bank's performance.

This is the most prestigious award in the Bank. In 2021, the winner selection process changed drastically, becoming more transparent and democratic. Now the winners are determined not only by the expert jury, but also by the employees voting on the Bank's Corporate Portal. Any employee who, either independently or as part of a team, achieved impressive results on the whole Bank scale can be nominated. The prize is a trip for two anywhere in the world. 2021 was the first year when as many as 10 employees received the award. Among them were the heads of departments responsible for the following achievements:

- a twofold increase in mortgage lending volumes,
- 90% growth of the corporate portfolio,
- integration of assets of acquired companies, banks, etc.,
- improvement of the compliance control system and its high assessment by the Bank of Russia,
- Sovcombank's breakthrough in the volume of precious metals transactions (#1 operator in the Russian precious metals market, with a share of more than 30% of all precious metals production in Russia).



Every year, Sovcombank gives its Person of the Year award to employees who contributed the most to the Bank's performance.



The prize is a trip for two anywhere in the world. 2021 was the first year when as many as 10 employees received the award.



# Occupational health and safety

GRI 403-1, 403-5, 403-6, 403-9, 403-10

We care a lot about the safety of our employees and regularly measure occupational health and safety performance, and train employees on safe working practices and safety standards.

A total of ₹9.8 million was spent in 2021 to promote occupational health and safety at Sovcombank.

Workplace condition assessment covered 4,800 workplaces in all of the Bank divisions. Health checks for drivers were performed on a regular basis. Members of the OHS commission underwent specialized training at the Center for Labor Protection and Working Conditions in Kostroma.

We also reimbursed our employees for the cost of health resort treatment.

Amid the ongoing pandemic, we purchased masks, gloves and COVID-19 tests, as well as conducted weekly PCR testing of employees and arranged vaccination for our employees (for further details, see Working in the COVID-19 environment).

For all categories of employees exposed to an increased risk of occupational injuries (drivers, cash collectors, etc.), we procure personal accident insurance.

In 2021, LTIFR was 0.5 (compared to 0.3 in 2020). A total of 8 employees had occupational injuries (compared to 5 employees in 2020), including two deaths in a car accident. We investigated all injuries and prepared submissions for the labor inspectorate and the prosecutor's office.

We implement and update fire safety systems.

To ensure the well-being of our employees, we encourage them to adopt a healthy lifestyle.



Acknowledging that the global uncertainty may undermine the quality of life and work performance, we provide our employees with free mental health counseling.

As part of our employee assistance programs, we offer our employees partial reimbursement of their healthy lifestyle expenses, e.g., cost of a gym membership or a voluntary health insurance program (for further details,

see Employee assistance programs). In 2022, we launched another program for partial reimbursement for vacations at the seaside or in the mountains.

Sports events:

- Planbeg (550 employees participate in the race every year),
- football and volleyball championships,
- chess tournament.



## SOVCOMBANK CHESS TEAM RANKED AMONG THE TOP THREE RUSSIAN TEAMS

In 2021, our employees took part in the first FIDE World Corporate Chess Championship. Sovcombank team ranked among the top three Russian teams. A total of 288 teams representing the largest companies from around the world, including 28 teams from Russia, participated in the championship.



## SOVCOMBANK WELLNESS

In 2021, we launched the Sovcombank Wellness program. As part of the program, experts in mental health, healthy diet, and sports do weekly live streams for our employees. Participants of live streams are given homework assignments and are encouraged to use their new knowledge in their lives.

<sup>1</sup> LTIFR is calculated using the following formula: Lost Time Injury Frequency Rate = Number of lost time injuries in the reporting period / Average number of employees in the reporting period × 1,000.

# Supply chain sustainability

GRI 102-9

We prefer partners who share our sustainability agenda.

Over **10k**  
suppliers cooperate with Sovcombank

Our supplier selection principles are set out in the Code of Responsible Supplier, as approved by the Supervisory Board. All Group companies and suppliers are expected to comply with these principles and prepare sustainability disclosures.

The Group cooperates with more than 10,000 suppliers. We expect our suppliers to share Sovcombank's values: respect human rights, including labor rights of their employees, have zero tolerance for discrimination and violence, create a safe and comfortable working environment, and provide equal opportunities and equal pay for equivalent work.

We also expect responsible suppliers to conserve natural resources and comply with all applicable environmental laws, rules, and regulations. We would like them to use natural resources rationally, recycle waste, treat wastewater, and monitor GHG emissions.

Such practices as giving or accepting bribes, concealing or failing to disclose a conflict of interest will not be tolerated. If you have any questions regarding supply chain sustainability, please contact us by e-mail.



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# Corporate governance

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# Corporate governance: principles and practices

**Good corporate governance** in line with the best Russian practices is one of the pillars that ensure the development of the bank and the increase of its investment attractiveness.

As the Russian and international corporate governance practices evolve, the Bank continuously improves its corporate governance processes, balancing the interests of all stakeholders.



**In exercising corporate governance, the Bank relies on:**

 Federal Law On Banks and Banking Activities

 Federal Law On Joint Stock Companies

 Recommendations for financial institutions, issued by the Basel Committee on Banking Supervision and the Financial Stability Board

 Code of Corporate Governance recommended by the Bank of Russia, as well as other requirements and recommendations of the Bank of Russia

 Moscow Exchange Listing Rules

 Sovcombank Code of Corporate Governance

## Corporate governance improvement in 2021

In 2021, the Bank made a number of changes to its corporate governance system by updating or re-approving several its fundamental documents.

### APPROVAL of the Regulations on the Corporate Secretary

Pursuant to a resolution of the Supervisory Board, the Regulations on the Corporate Secretary were approved, a Corporate Secretary was appointed, and a new structural subdivision, Office of the Corporate Secretary, was created.

Before such appointment, a Corporate Secretary's duty of ensuring the Bank's compliance with the corporate governance rules and procedures was tasked to the Secretary of the Supervisory Board, who also acted as the Secretary of the General Meeting of Shareholders.

### MEASURES TAKEN to prevent unfair business practices

In 2021, in line with the Bank of Russia's recommendations, the Supervisory Board introduced a new practice of reviewing quarterly reports on measures taken to prevent unfair practices in marketing financial products. Such reports are prepared jointly by the Internal Control Service and the Professional Securities Market Participant Monitoring Service.

### UPDATED Information Policy

In May 2021, the Supervisory Board approved a new version of the Bank's Information Policy. The document was preliminary reviewed and recommended for approval by the Audit Committee under the Supervisory Board.

The Policy was updated due to the changes in the regulatory requirements, including the Bank of Russia Regulation No. 714-P dated March 27, 2020, On Disclosure of Information by Issuers of Equity Securities, as well as due to the increased number of channels that the Bank uses to communicate with its stakeholders (social media accounts, blogs). The updated Information Policy defines the principles of such communication.

The Audit Committee introduced a new practice of reviewing annual reports on the implementation of the Bank's Information Policy on the committee's in-person meetings in order to identify areas for improvement.

### UPDATED Code of Corporate Governance

On November 1, 2021, the Supervisory Board approved a new version of the Bank's Code of Corporate Governance.

Since the first adoption of the Code of Corporate Governance, there were numerous changes in the Russian and international corporate governance practices, regulatory requirements and recommendations of the Bank of Russia. Sovcombank also significantly improved its own corporate governance practices. All that explained the need to update Sovcombank's Code of Corporate Governance. Given the Bank's increasing commitment to sustainable development and the ESG agenda, the global ESG standards, including those on corporate governance, were integrated into the Bank's Code of Corporate Governance. An important feature of the Code is that it provides a detailed description of the corporate governance principles that the Bank pledges to abide by.



## CORPORATE GOVERNANCE assessment

GRI 103-3

Sovcombank believes that corporate governance assessment provides the most reliable understanding of the Bank's condition and its compliance with best practices. The results of the assessment help identify areas for improvement. Assessment is carried out in accordance with the Bank of Russia's recommendations and Sovcombank's Procedure for Corporate Governance Self-Assessment, as approved by the Audit Committee under the Supervisory Board. The Audit Committee assesses the state and the effectiveness of the Bank's corporate governance system annually. Based on the assessment results, the Audit Committee prepares recommendations for improving corporate governance processes and practices.

### The self-assessment covers the following areas:

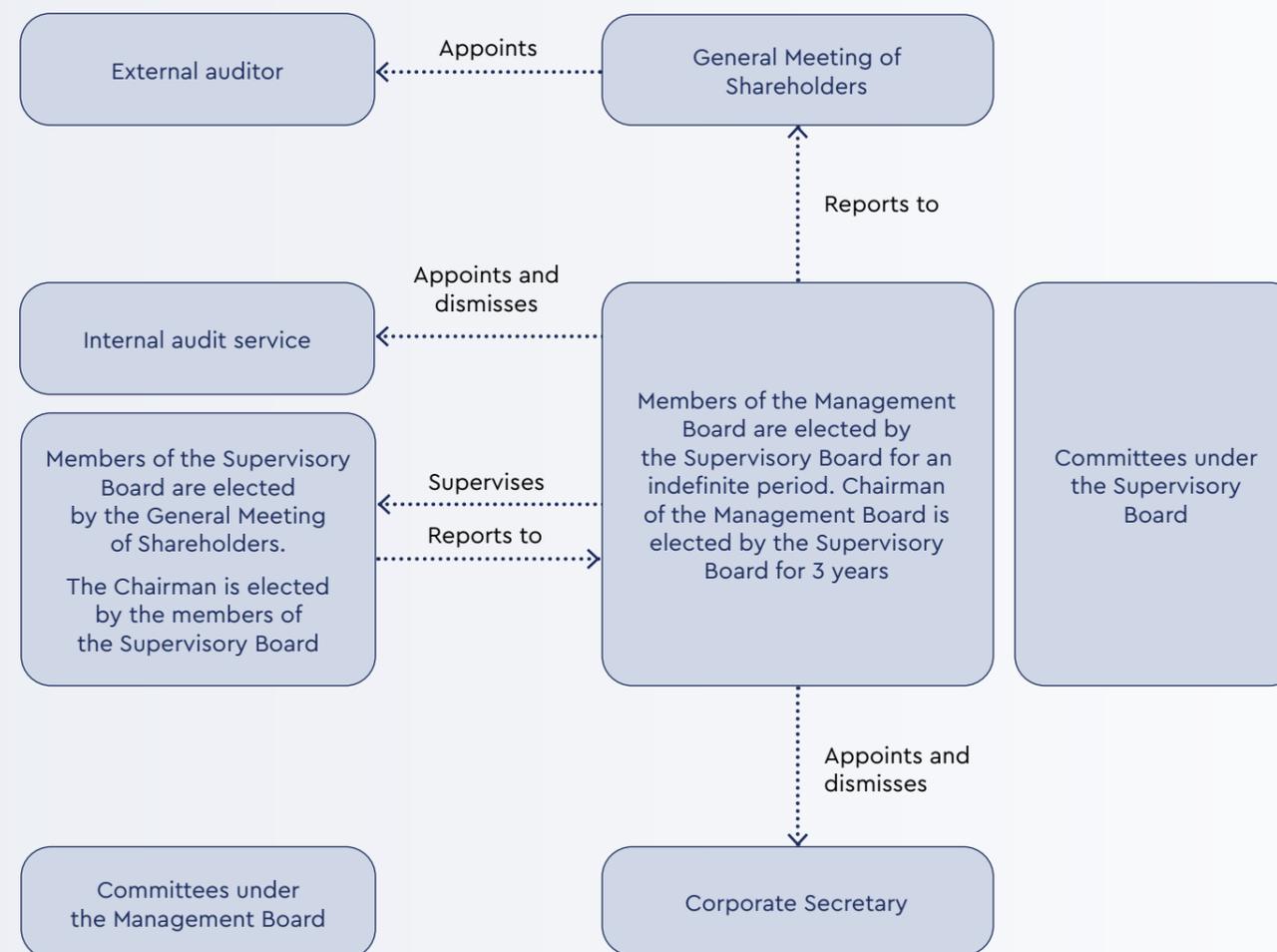
- distribution of powers among governing bodies,
- organization of the activities of the Supervisory Board, including interaction with executive bodies,
- approval of the Bank's development strategy and control over its implementation,
- coordination of the bank's risk management,
- prevention of conflicts of interest between shareholders, members of the Supervisory Board and executive bodies of the lending institution, its employees, creditors, depositors and other customers,
- relationships with affiliates,
- definition of rules and procedures to ensure compliance with the principles of professional ethics,
- coordination of disclosure of information about the Bank,
- monitoring the internal control system.

The self-assessment results are reviewed at an in-person meeting of the Audit Committee and then submitted to the Supervisory Board for approval.

According to the 2021 corporate governance self-assessment results, the Banks' corporate governance in 2021 complied with the regulatory requirements and met the criteria set out in the Bank of Russia Letter No. 11-T dated February 7, 2007, On the List of Questions for Credit Institutions to Assess the State of Corporate Governance.

## CORPORATE GOVERNANCE structure

Sovcombank is committed to maintaining a transparent and efficient corporate governance system.



GRI 102-18, 102-19

## SUPERVISORY BOARD'S statement on compliance with the Code

In its activities, the Supervisory Board of Sovcombank PJSC relies on the Bank of Russia's corporate governance recommendations and ensures that the persons in charge follow such recommendations in developing and updating the Bank's in-house regulations in this field. Sovcombank PJSC is constantly working to improve its corporate governance.

In the future, we will continue to monitor and respond quickly to any changes in the corporate governance practices in order to maintain the Bank's performance and sustainability and to honor the interests of all stakeholders.

## REORGANIZATION OF THE BANK in 2021

In 2021, the General Meeting of Shareholders adopted resolutions to reorganize the Bank on two occasions:

- pursuant to the resolution adopted at the Extraordinary General Meeting of Shareholders held on April 29, 2021 (Minutes No. 2 dated April 29, 2021), the Bank was reorganized through a merger of Eurasian Bank JSC into the Bank,
- pursuant to the resolution adopted at the Extraordinary General Meeting of Shareholders held on October 21, 2021 (Minutes No. 4 dated October 22, 2021), the Bank was reorganized through a merger of Vostochny Bank, NFC Bank, and NFC Group into the Bank.

# Communication with shareholders and investors

GRI 102-21

## Share capital structure



GRI 102-5

### SHARE CAPITAL

The Bank's share capital is divided into 19,694,045,875 ordinary registered shares with a nominal value of ₱0.1 per share. The Bank's minority shareholders are Russian and international institutional investors.

## Dividend

### DIVIDEND POLICY

The Banks' Dividend Policy was developed in accordance with the applicable laws and regulations of the Russian Federation, the Bank's Articles of Association, and the Code of Corporate Governance recommended by the Bank of Russia. Dividends are paid to shareholders in cash.

The dividend payment may not exceed the amount recommended by the Supervisory Board. The Supervisory Board recommends distributing 25% to 50% of net profit according to the Bank's consolidated financial statements prepared under IFRS for the relevant period, provided that such distribution would not lower the Bank's actual H1.0 ratio below 12% or violate any applicable Russian laws and regulations and/or the requirements of the Bank of Russia. When advising the General Meeting of Shareholders on the dividend amount, the Supervisory Board takes into account the following:

- the availability and amount of net profit based on the Bank's consolidated financial statements prepared in accordance with RAS for the relevant period,
- the availability of retained earnings from prior years,
- the Bank's requirement of capital for business development, taking into account the dividend distributions to comply with both current and expected future requirements of the Russian laws and the Bank of Russia,
- the amount of net profit under RAS after taxes,
- any financial and business plans for the next reporting period,
- the working capital structure at the end of the reporting period,
- the debt burden at the end of the reporting period,

- any significant macroeconomic developments in the market, other internal and external developments that have or may have a significant impact on the Bank's operations,
- balancing the interests of the Bank and its shareholders, taking into account the need to improve the Bank's investment appeal and to honor the rights of shareholders.

### DIVIDEND HISTORY

In 2021, the General Meeting of Shareholders decided to pay dividends on two occasions:

- pursuant to the resolution adopted at the Extraordinary General Meeting of Shareholders held on February 4, 2021 (Minutes No. 1 dated February 4, 2021), a portion of retained earnings, amounting to ₱5,500,000,000, was distributed by paying dividends on ordinary shares (₱0.2792722244534733 per ordinary share) in cash,
- pursuant to the resolution adopted at the Extraordinary General Meeting of Shareholders held on July 1, 2021 (Minutes No. 3 dated July 1, 2021), a portion of retained earnings, amounting to ₱1,300,000,000.00, was distributed by paying dividends on ordinary shares (₱0.0660097985071846 per ordinary share) in cash. The rest of the net profit for 2020, amounting to ₱14,542,174,624.86, was recognized as retained earnings.

Both times, the dividend amount matched the recommendations of the Supervisory Board.

The Bank has a strong stakeholder communication strategy to ensure timely, reliable, and complete information disclosure and feedback.

A portion of retained earnings was distributed by paying dividends on ordinary shares amounting to

**₱ 5.5BN**

Minutes No. 1 dated February 4, 2021

**₱ 1.3BN**

Minutes No. 3 dated July 1, 2021



## Communication principles

The Bank communicates with its shareholders and investors according to the requirements set out in the applicable laws and regulations, the recommendations of the Bank of Russia, and its Code of Corporate Governance.

The Bank also takes into account the specifics of its share capital structure, with one major shareholder and minority shareholders (funds) that nominate directors to the Supervisory Board.



### The main principles of the Bank's communication with its shareholders are as follows:



equal and fair treatment of all shareholders when they exercise their right to participate in the management of the Bank



equal and fair opportunity for shareholders to participate in the Bank's profits by receiving dividends



equal conditions for all shareholders (owners of shares of the same class/type), including minority and foreign shareholders, and equal treatment of them by the Bank



providing shareholders with reliable and effective methods of recording their rights for shares, as well as the possibility of free and easy disposal of their shares

When requesting and providing information to and from shareholders, the Bank relies on the applicable laws and regulations, requirements of the Bank of Russia and the Code of Corporate Governance recommended by the Bank of Russia. The Bank provides an easy procedure for shareholders to access the Bank's information and documents based on a balanced consideration of the interests of the Bank and specific shareholders. In 2021, the Bank did not dismiss any information requests from its shareholders.



Shareholders may contact the Bank's management, ask questions on the agenda of the General Meeting of Shareholders, or send their opinion to [shareholders@sovcombank.ru](mailto:shareholders@sovcombank.ru).

In 2022, the Bank of Russia restricted Russian banks from disclosing the identity of their top managers and shareholders, as well as their statements. Thus, we are developing a new approach to information disclosure.

The purpose of the new approach is to ensure that stakeholders are duly informed, while the interests of the Bank, depositors and partners are protected from any possible sanctions that may be imposed by foreign states.

# Bank disclosures

## DISCLOSURE PRINCIPLES

The Bank's Information Policy, the current version of which was approved by the Supervisory Board on May 28, 2021, defines the main principles for and approaches to disclosing information about the Bank and its activities.

The Bank discloses information according to the following principles: regularity, consistency, promptness, accessibility, accuracy, completeness, comparability, balance and objectivity of disclosed data, security of information resources.



### The principles of regularity, consistency and promptness imply that the Bank must:

- ensure the continuity of the information disclosure process,
- comply with the requirements of regulators by timely disclosing information about the Bank and its securities,
- provide shareholders, investors, and other stakeholders with the information on the activities of the Bank as soon as possible, and promptly inform them on the position of the Bank regarding any rumors or untrue information that may impact the valuation of the Bank itself and/or the value of its securities.



### The principles of accuracy, completeness, and comparability of disclosed data imply that:

- the information provided by the Bank is objective,
- the Bank makes sure that the information on its activities is as complete as possible,
- the information disclosed by the Bank is clear and consistent while the data is comparable,
- for financial information disclosure, the Bank ensures that such information is neutral, in other words, the Bank makes sure that the interests of any stakeholders or their groups do not influence the way such information is presented.



**The principle of accessibility** of disclosed information implies that the Bank leverages diverse information disclosure channels and methods, primarily electronic ones and those that are available to the majority of the stakeholders.



**The principle of balance** implies that the Bank pursues a reasonable balance of openness and transparency on the one hand, and confidentiality on the other. The Bank does not shy away from disclosing negative information about itself if such information is material for its shareholders and investors.



**The principle of objectivity** means that the Bank discloses information without granting advantages to certain groups of recipients of information over others (selective disclosures). The Bank ensures that all stakeholders have equal rights and options to access information about the Bank and its activities.



**The principle of security** implies that the Bank protects any privileged banking information, sensitive information, and trade secrets, using methods and means of information protection permitted by the applicable laws and regulations of the Russian Federation.

## MAIN CHANNELS for information disclosure

### The Bank discloses information through:



publications on the Bank's website



publications in the Interfax news feed

- publications in mass media,
- publications on the Bank's Corporate Portal,
- publications in other web resources: shared disks intended for sharing information on the Bank's main activities,
- by request of government authorities, customers, contractors, and other stakeholders in accordance with the applicable laws and regulations of the Russian Federation,
- meetings and information seminars with investors and counterparties of the Bank, as well as representatives of mass media,
- public speeches on behalf of the Bank at conferences, meetings, seminars, etc.; press conferences, briefings, interviews, comments for Russian and foreign mass media, financial and investment companies,
- press releases, brochures, booklets,
- all other channels as may be provided for by the applicable laws and regulations of the Russian Federations, the Bank's Articles of Association and in-house regulations.

# Governing bodies

GRI 102-18, 102-19

The Bank's key governing bodies are the General Meeting of Shareholders, the Supervisory Board with its committees, the Chairman of the Management Board and the Management Board reporting to the Supervisory Board.

## General Meeting of Shareholders

The General Meeting of Shareholders is the Bank's supreme governing body that makes key decisions on the Bank's activities, as set out in the Federal Law On Joint Stock Companies, the Bank's Articles of Association, and the Regulations on the General Meeting of Shareholders.

### ROLE AND POWERS of the General Meeting of Shareholders

The General Meeting of Shareholders makes key decisions on the Bank's activities and has the power to:

- amend or restate the Bank's Articles of Association and approve in-house regulations governing the activities of the Bank's governing bodies,
- reorganize, liquidate the Bank,
- elect and remove members of the Supervisory Board,
- increase the Bank's share capital by increasing the nominal value of shares, by issuing new shares either through private placement or, if the total number of such new shares is more than 25% of the existing shares, through public offering, and reduce the Bank's share capital,
- pay (declare) dividends based on the results of the first three, six, nine months of the reporting year, distribute the Bank's profits and losses based on the results of the reporting year,
- approve or ratify related party transactions in cases set out in the Federal Law On Joint Stock Companies,
- approve or ratify major transactions in cases set out in the Federal Law On Joint Stock Companies,
- make other decisions as may be provided for by the applicable laws and regulations and the Bank's Articles of Association.

### GENERAL MEETINGS of Shareholders held in 2021

**4** General Meetings of Shareholders

were held in 2021

Due to the difficult COVID-19 situation in Russia and the world, and in line with the regulatory requirements, General Meetings of Shareholders in 2021 were held in absentia.

Meeting type	Meeting date, minutes number and date	Agenda	Resolutions adopted
Extraordinary	03.02.2021, Minutes No. 1 dd. 04.02.2021	<ul style="list-style-type: none"> <li>&gt; Approve the new version of the Regulations on Remuneration and Compensation Payable to Members of the Supervisory Board</li> <li>&gt; Distribute retained earnings of previous years and adopt a resolution to pay (declare) dividends</li> </ul>	The resolutions adopted by the General Meeting of Shareholders can be found at 
Extraordinary	29.04.2021, Minutes No. 2 dd. 29.04.2021	Reorganize the Bank through a merger, approve the merger agreement, approve amendments to the Bank's Articles of Association, approve the Bank's Business Plan	The resolutions adopted by the General Meeting of Shareholders can be found at 
Annual	30.06.2021, Minutes No. 3 dd. 01.07.2021	<ul style="list-style-type: none"> <li>&gt; Approve the Annual Report for 2020</li> <li>&gt; Approve the annual financial statements, including the profit and loss statement for 2020</li> <li>&gt; Distribute profits based on the results of 2020</li> <li>&gt; Determine the number of members on the Supervisory Board</li> <li>&gt; Elect members of the Supervisory Board</li> <li>&gt; Approve the Bank's auditor for 2021</li> <li>&gt; Approve the new version of the Bank's Articles of Association</li> <li>&gt; Elect the Bank's Internal Audit Commission</li> <li>&gt; Approve the new version of the Regulations on the General Meeting of Shareholders</li> <li>&gt; Approve the new version of the Regulations on the Management Board and the Chairman of the Management Board</li> </ul>	The issuer chose not to disclose such information pursuant to Decree No. 400 of the Government of the Russian Federation dd. April 4, 2019, and Decree No. 351 of the Government of the Russian Federation dd. March 12, 2022
Extraordinary	21.10.2021, Minutes No. 4 dd. October 22.10.2021	Reorganize the Bank through a merger, approve the merger agreement, approve the new version of the Bank's Articles of Association, approve the Bank's Business Plan	The resolutions adopted by the General Meeting of Shareholders can be found at 

# Supervisory Board

GRI 102-20

## FUNCTIONS of the Supervisory Board

GRI 102-26

The Supervisory Board exercises the general management of the Bank's activities in accordance with the Federal Law On Joint Stock Companies, the Bank's Articles of Association, and the Regulations on the Supervisory Board, and is accountable to the General Meeting of Shareholders.

The Supervisory Board should be an effective and professional governing body of the Bank, capable of making objective independent judgments and decisions that meet the interests of the Bank and its shareholders. The Supervisory Board annually approves the work plan, which includes a list of issues to be considered at the meetings of the Supervisory Board. In-person meetings of the Supervisory Board are held in accordance with the approved plan, but not less frequent than once a quarter. If necessary, extraordinary in-person meetings, as well as absentee meetings of the Supervisory Board, can be held. Considering that the in-person form of holding meetings of the Supervisory Board makes it possible to discuss issues on the agenda more substantially and fully, the most important issues are resolved at meetings held in person.

## The role of the Supervisory Board is to exercise the general management of the Bank's activities.

The Supervisory Board determines the Bank's development strategy, basic principles of and approaches to organizing a system for risk management and internal control in the Bank, monitors the activities of the Bank's executive bodies, and performs other key functions. The Supervisory Board is the main body overseeing the corporate governance practices in the Bank.

## ELECTION of the Supervisory Board

GRI 102-24

### The approaches to the election of the Supervisory Board are determined in accordance with the best practices of corporate governance, the results of self-assessment of the Supervisory Board's performance and the principles of sustainable development.

According to Sovcombank's Code of Corporate Governance, shareholders should nominate candidates to the Supervisory Board who meet the requirements for directors according to the laws of the Russian Federation currently in force, the Regulations on the Supervisory Board, and in view of the need to elect the required number of independent directors.

The Remuneration Committee of the Supervisory Board evaluates the candidates nominated by shareholders to the Supervisory Board and submits its recommendations to the Supervisory Board to be included in the materials for the General Meeting of Shareholders. When preparing recommendations, the Remuneration Committee considers the qualifications, experience, business reputation and personal qualities of each candidate and takes into account the need to comply with the principle of gender symmetry, the need to form and maintain a professional and effective line-up of the Supervisory Board and ensure the continuity of its activities.

When preparing for the General Meeting of Shareholders, the Bank sends shareholders information that allows them to form an idea of the personal and professional qualities of candidates and make an informed decision.

The members of the Supervisory Board are elected by the General Meeting of Shareholders in accordance with the procedure set out in the Federal Law On Joint Stock Companies and in the Bank's Articles of Association, for a period until the next Annual General Meeting of Shareholders. The members of the Supervisory Board are elected by cumulative voting. In cumulative voting, each shareholder can vote the number of votes such shareholder holds multiplied by the number of seats that are up for election. This voting system allows shareholders to cast all of their votes to a single candidate or split the votes up between different candidates.

The candidates receiving the largest number of votes are deemed elected to the Supervisory Board.

The Chairman of the Supervisory Board and the Corporate Secretary provide newly elected members with all the information they may need to perform their duties, including information on the Bank's main activities, the corporate governance structure of the Bank and the Banking Group, strategies, the regulatory framework, etc. Meetings with top managers and key employees are also held.



## CHAIRMAN of the Supervisory Board

GRI 102-23

The work of the Supervisory Board is directed by the Chairman of the Supervisory Board, who is elected at the first meeting of the newly elected members of the Supervisory Board. The Chairman of the Supervisory Board is elected by a majority vote of the members of the Supervisory Board.

The Chairman of the Supervisory Board organizes the work of the Supervisory Board, convenes and presides over meetings of the Supervisory Board, determines the form of meetings, approves the agenda and date of the meeting of the Supervisory Board, organizes the keeping of minutes, signs minutes of meetings of the Supervisory Board and other documents on behalf of the Supervisory Board. The Chairman of the Supervisory Board also presides over the General Meeting of Shareholders.

The Chairman of the Supervisory Board contributes to the most efficient implementation of the functions entrusted to the Supervisory Board, ensures a constructive atmosphere for meetings, free discussion of issues on the agenda of the meeting, controls the implementation of decisions made by the Supervisory Board, and also takes the necessary measures to provide the members of the Supervisory Board with the information necessary for making decisions on the agenda items in a timely manner.

The Chairman of the Supervisory Board maintains constant contact with other governing bodies and officials of the Bank.



## INDEPENDENT directors

### Independent directors bring objectivity and independence to the decision-making process of the Supervisory Board.

When evaluating a candidate's independence, the Bank relies on the independence criteria described in the Moscow Exchange Listing Rules and in the Code of Corporate Governance recommended by the Bank of Russia. The independent directors that sat on the Supervisory Board in 2021 fully met such criteria. As of December 31, 2021, their share was 27% (3 of the 11 directors were independent).

## ROLE IN DEFINING the strategy

GRI 102-16, 102-26

Since the Supervisory Board carries out the strategic management of the Bank, it plays a major role in determining the mission, values, and strategy of the Bank. The Supervisory Board is responsible for determining the Bank's priority areas of activity. It approves and updates the Risk and Capital Management Strategy, the Development Strategy, and the Investment Policy of the Bank and the Banking Group.

The Supervisory Board pays increasing attention to sustainable development and the ESG agenda. The Supervisory Board embraces ESG integration and promotion as one of the Bank's core missions and values, and it approved a number of ESG policies and codes in November 2021<sup>1</sup>. The documents were reviewed and recommended for approval by the Bank's ESG Committee.

## ROLE IN ASSESSING the Bank's performance

GRI 102-26

One of the ways for the Supervisory Board to assess the Bank's performance is to review the Management Board's quarterly reports. Such reports show the progress in the implementation of the development strategy of the Bank and the Banking Group, information on the financial result of the entire Bank and each business line.

Furthermore, the responsible divisions of the Bank report to the Supervisory Board on an ongoing basis. Thus, in 2021, the Supervisory Board reviewed the Report of the Controller for Professional Securities Market Participant, Report on internal capital adequacy assessment process (ICAAP) Implementation Results, reports on the results of stress testing, material risks, compliance with mandatory ratios, the capital amount, the results of capital adequacy assessment, etc.

<sup>1</sup> For further details, please visit <https://sovcombank.ru/about/sustainability> and see Sustainability.

<sup>2</sup> Bank of Russia information letter No. IN-06-28/41 dated April 26, 2019, On the Recommendations on the Organization and Conduct of Self-Assessment of Performance of the Board of Directors (Supervisory Board) in Public Joint Stock Companies.

## PERFORMANCE SELF-ASSESSMENT in 2021

GRI 102-27, 102-28

The performance of the Supervisory Board and its committees is evaluated annually through self-assessment. In 2021, the self-assessment was conducted on the basis of a questionnaire. The questionnaire included questions recommended by the Bank of Russia<sup>2</sup>. The self-assessment results were presented at the in-person meeting of the Supervisory Board and are used to improve the Supervisory Board's performance.

In 2021, based on the results of the self-assessment, the following strengths of the Supervisory Board were identified: strategic management, interaction with the management, organization of activities and information disclosure, activities of the Audit Committee.

Taking into account the results of the self-assessment and the identified areas for improvement, the following activities were implemented in 2021:

- third-party speakers were invited quarterly,
- compliance training was conducted for members of the Supervisory Board and the Management Board to get acquainted with new developments in the legal framework and with the best practices in combating corruption and insider trading,
- a practice was introduced for the committee chairpersons to prepare quarterly reports on the performance of their respective committees and to present such reports at the Supervisory Board's in-person meetings,
- reports on risks, audit, and internal control were preliminarily discussed at committee meetings, and the committee chairmen informed other members of the Supervisory Board about key events,
- reports on corporate culture and corporate governance were presented at the in-person meetings of the designated committees.

## MEETINGS of the Supervisory Board in 2021

Attendance of the Supervisory Board's meetings in 2021

No.	Attendance
1	14/15
2	15/15
3	15/15
4	15/15
5	15/15
6	15/15
7	15/15
8	15/15
9	15/15
10	15/15
11	15/15

**15** meetings

were held during the reporting period: 4 in-person and 11 in absentia.

**93** issues

were considered at the meetings

A total of 93 issues were considered at the meetings. The most important of them are:

- approval of the funding strategy of the Bank and the Banking Group,
- approval of the Code of Corporate Governance,
- approval of the Sustainability Policy,
- approval of the Financial Stability Recovery Plan, the Risk and Capital Management Strategy of the Bank and the Banking Group,
- amendments to the Incentive Program for the Key Management of the Bank.

Most important issues considered by the Supervisory Board in 2021 by topic, %



## CORPORATE Secretary

A Corporate Secretary is a designated officer that ensures:

- the Bank's compliance with the internal rules and procedures of corporate governance in accordance with the applicable rules and regulations of the Russian Federation, the Bank's Articles of Association and in-house regulations aimed at protecting the rights and interests of its shareholders,
- proper communication between the Bank and its shareholders,
- effective work of the Supervisory Board.

The Corporate Secretary is administratively subordinate to the Chairman of the Management Board, is accountable and reports to the Chairman of the Supervisory Board. The Corporate Secretary has knowledge, experience and qualifications sufficient for the performance of his/her duties, as well as an impeccable reputation and trust of the shareholders. The Corporate Secretary meets the requirements set out in the Bank's Regulations on the Corporate Secretary.

## LIABILITY INSURANCE of members of the Supervisory Board

Sovcombank is aware of the governing bodies' liability towards the Bank's stakeholders.

Therefore, in line with the best practices, D&O insurance policies were procured and maintained in 2021 for all members of the Supervisory Board.

# Management Board

GRI 102-20

## ELECTION of the Management Board

The executive bodies of the Bank are the Chairman of the Management Board (sole executive body) and the Management Board (collegial executive body).

The executive bodies handle all issues related to the Bank's current operations (other than issues reserved for the General Meeting of Shareholders and the Supervisory Board), ensure the implementation of resolutions adopted by the General Meeting of Shareholders and the Supervisory Board, and report to the General Meeting of Shareholders and the Supervisory Board.

The activities of the Management Board are regulated by the Bank's Articles of Association and the Regulations on the Chairman of the Management Board and the Management Board, as approved by the General Meeting of Shareholders, that establish the timing requirements and the procedures for convening and holding the meetings of the Management Board and describe the decision-making process.

The Supervisory Board elects the Management Board for an indefinite period and has the power to decide on the total number of members to sit on the Management Board, appoint such members and terminate their appointment at any time. The Chairman of the Management Board is elected for a period of three years and can be re-elected without limitation.

The number of members of the Management Board is determined by the Supervisory Board and shall be at least three members.

The Chairman and members of the Management Board must meet the qualification and business reputation criteria as set out in the Federal Law On Banks and Banking Activities, other federal laws, and regulations of the Bank of Russia.

## The Management Board is charged with the following important functions:

- decide on the Bank's acquisition and disposal of stakes in other companies,
- consider issues related to the management of the Bank's assets and liabilities, the coordination of settlements, deposits, lending, and other banking operations and transactions,
- provide information to the audit firm,
- exercise internal control,
- approve risk and capital management procedures and stress testing procedures, ensure that the Bank's capital adequacy ratio is maintained within the range set in the Bank's in-house regulations,
- decide on the issuance of the Bank's non-issue securities and on the placement of the Bank's non-convertible bonds.

## POWERS of the Chairman of the Management Board

The Chairman of the Management Board has the power to decide on all issues related to the operational management of the Bank, other than issues reserved for the General Meeting of Shareholders, the Supervisory Board, and the Management Board.

The Chairman of the Management Board is charged with the following key functions:

- manage the work of the Management Board, conduct meetings of the Management Board, sign minutes of meetings of the Management Board, distribute duties and responsibilities among the members of the Management Board,
- approve the Bank's staffing table and HR documents,
- issue orders and instructions, binding on all employees, to regulate the Bank's in-house processes and activities,
- approve risk and capital management procedures and stress testing procedures and ensure that the internal capital adequacy assessment process (ICAAP) and an internal liquidity adequacy assessment process (ILAAP) are duly implemented as per the Bank's in-house regulations,
- approve the Bank's Accounting and Tax Policy, set up a proper accounting and record keeping system in the Bank, ensure that the Bank's accounting (financial), statistical, and other statements and reports are duly prepared and submitted, and be responsible for the accuracy of such statements and reports.

## MEMBERS of the Management Board

GRI 405-1

The Management Board has six members. Members of the Management Board are carefully selected to ensure a well-balanced combination of different skills, qualifications, experience, knowledge, and business qualities. Women account for 17% of all members of the Management Board.

**6** members  
in Management Board

**17%**  
of Management Board members are women

In 2022, in order to support the Bank's administrative and corporate governance functions, the Office of the Corporate Secretary and the Office of the Chairman of the Management Board were created. Both offices are headed by women.

Members of the Management Board do not hold the Bank's shares.



## COMMITTEES under the Management Board

A number of committees were set up under the Management Board to improve the Bank's performance and promote business growth. Their main tasks are to resolve issues and to implement a unified coordinated approach in various areas of the Bank's operations.

The procedures for holding committee meetings are set out in the regulations on such committees, as approved by the Management Board.

### The following committees met in 2021:

Investment Committee	Corporate Business Committee
Retail Business Committee	Liquidity Management Committee
Risk Committee	Technology Committee
Retail Lending Portfolio Transactions Committee	Lending Portfolio Quality Committee

### Credit Committees:

- Joint Large Credit Committee,
- Small Credit Committee of the Moscow Branch,
- Limit Credit Committee,
- Small and Large Credit Committees of the SME Lending Department.

# Remuneration for governing bodies

GRI 102-35, 102-36, 102-37

## REMUNERATION OF MEMBERS of the Supervisory Board

The remuneration of the members of the Supervisory Board is based on Sovcombank's Regulations on Remuneration and Compensation Payable to Members of the Supervisory Board, as published on the Bank's website.

 Sovcombank's Regulations on Remuneration and Compensation Payable to Members of the Supervisory Board →

The Regulations are approved by the General Meeting of Shareholders. The remuneration of directors consists of basic remuneration and additional remuneration. The amount of additional remuneration is determined by the General Meeting of Shareholders and reflects the director's responsibilities and the degree of participation in the activities of the Supervisory Board.

The size and method of payment of remuneration to a director is determined in accordance with the employment contract made with such director and, where applicable, resolutions of the Management Board. Sovcombank's Remuneration Policy is approved by the Supervisory Board and sets out the terms and procedure for payment of remuneration and financial incentives to employees.

The Policy serves the following objectives:

- ensure the long-term financial stability of the Bank,
- ensure that the Bank's employee remuneration system is compatible with the nature and scale of the Bank's operations, its performance, and the level and combination of the risks assumed by the Bank,
- establish uniform rules for the remuneration of employees,
- ensure that the size of remuneration is tied to the performance of a specific employee, division, and the Bank,
- improve employee engagement and motivation to achieve the Bank's long-term performance targets (implementing a continuous innovation process and successful promotion of products in target market segments).

## REMUNERATION SYSTEM

The remuneration system is monitored on a regular basis.

Employee remuneration consists of:

- fixed remuneration (not related to performance):
  - base salary,
  - compensation payments: overtime pay, bonus pay for qualification, bonus pay for maintaining the statutory ratios, regional and personal allowances, etc.,
  - social benefits,
- non-fixed remuneration:
  - various bonus payments (regular and one-time bonuses as set out in the Bank's Regulations on Employee Remuneration),
  - incentive payments.

The base salary for each position is set on the basis of:

- the scope and the nature of job duties,
- the Bank's payroll capacity,
- the state of the labor market in general and the regional labor market in particular,
- other reasonable circumstances.

The bonus pay system aims to:

- financially motivate employees to improve their performance,
- increase employees' responsibility for the timely and proper performance of their job duties,
- link an employee's performance to the results of the structural division or the Bank.

Bonus pay is not a mandatory part of employee remuneration. Bonus pay is determined based on the quantitative and qualitative indicators that allow factoring in all material risks of the Bank, as well as for the profitability of the Bank's activities (the Bank's divisions).

## Remuneration system in the Group



Employees of internal audit and assurance functions

The remuneration system is exclusively within the competence of the Supervisory Board.

When setting the remuneration targets, at least 40% of the total remuneration is attributable to the non-fixed remuneration to be determined depending on the position held and the level of responsibility.

A delay and adjustment for at least 40% of the non-fixed remuneration, based on the timing of obtaining financial results, is possible.

The non-fixed remuneration may be reduced or cancelled in case of a negative financial result of the Bank in whole or of the line of business concerned.



Employees of internal control and risk management functions

In terms of compliance with the principle of non-correlation between the amount of remuneration and the performance of subordinate functions, the remuneration system is within the competence of the Supervisory Board.

The fixed remuneration is at least 50%.



First-line employees and risk owners

The remuneration system is within the competence of the Chairman of the Management Board, and the incentive system is defined in the Bank's Regulations on Employee Remuneration.

The non-fixed remuneration is determined based on:

- quantitative indicators characterizing the risks accepted by the Bank within the activities of such functions and the planned profitability of such operations (transactions),
- the amount of own funds necessary to cover the accepted risks,
- the amount and cost of borrowed and other attracted funds necessary to cover the unforeseen liquidity deficit.



Other personnel

The remuneration system is within the competence of the Chairman of the Management Board.

# Internal control and audit

## Principles of control and audit

### The main purpose of the internal control system in Sovcombank is to ensure<sup>1</sup>:

- that the Bank's banking and other activities are performed in the most efficient and effective way, that the Bank's assets and liabilities, banking risks are properly managed, and that the Bank's long-term profitability goals and objectives are duly achieved,
- that the Bank's financial and management reporting is reliable,
- that all the applicable laws and regulations, in-house policies, regulations, and procedures are complied with, that the risks of extraordinary (unexpected) losses or reputational damage to the Bank are properly mitigated,
- that the Bank is not involved in any illegal activities and that the Bank timely fulfills its reporting obligations to government authorities and the Bank of Russia.

### The Bank's internal control system is based on the following key principles:

- simplicity and adaptability: an efficient internal control system should consist of simple procedures that can be carried out by all responsible employees, and easily adapt to frequent changes in technologies, processes, market conditions, etc.,
- adequacy and proportionality: controls should be designed to reflect the Bank's structure, diversity, scale and nature of operations, but not be redundant. As a rule, the cost of these measures should not exceed the benefits from their implementation,
- promptness: the ability of the control system to respond to changes, process information, and promptly escalate the information received. The higher the level of uncertainty and instability, the greater the need for regular information provision and frequent measurements.

### The main in-house regulations governing the Bank's control and audit system are:

- Articles of Association
- Regulations on the Internal Control Service
- Regulations on the Organization and Development of the Internal Control System
- Regulations on the Internal Audit Service

The Bank has created and successfully implemented an internal control system based on the Three Lines of Defense model.

## Implementation of internal control and audit

The main goal of internal control is to protect the legitimate interests of the Bank, its investors, creditors, and customers with regard to issues directly related to banking activities, by ensuring an appropriate level of reliability that is compatible with the nature and scale of the Bank's operations and by ensuring that the Bank complies with the applicable laws and regulations of the Russian Federation.

### In accordance with the Bank's Articles of Association, the system of internal control bodies includes:

- the General Meeting of Shareholders,
- the Supervisory Board,
- the Management Board and the Chairman of the Management Board,
- the Chief Accountant and its deputies, heads and chief accountants of the branches of the Bank and their deputies,
- the Internal Audit Service,
- the Internal Control Service,
- the AML/CFT/CFP Responsible Office (Structural Division) (the "Financial Monitoring Service" or "FMS"),
- the Controller (Structural Division) for Professional Securities Market Participant (the "Professional Securities Market Participant Monitoring Service").



<sup>1</sup> Regulations on the Organization and Development of the Internal Control System of Sovcombank PJSC, as approved by the Supervisory Board (Minutes No. 8 dated June 5, 2018).



## General Meeting of Shareholders

The General Meeting of Shareholders approves in-house regulations affecting the activities of the Bank's governing bodies charged with the implementation of internal control, including the Regulations on the Supervisory Board, the Regulations on the Chairman of the Management Board

and the Management Board, elects and dismisses members of the Supervisory Board, approves the audit firm, approves the Annual Report and annual accounting (financial) statements.



## Supervisory Board

The Supervisory Board is responsible for the creation and operation of an effective internal control system.

**To accomplish this objective, the Supervisory Board is vested with the power to:**

- regularly review the effectiveness of internal control and hold discussions with the Bank's executive bodies on issues of internal control and measures to improve its effectiveness,
- consider and approve documents on the arrangement of the internal control system as may be prepared by the executive bodies of the Bank, the Internal Audit Service, other structural divisions of the Bank, and the audit firm conducting an audit of the Bank,
- take measures to ensure prompt implementation by the executive bodies of the Bank of recommendations and comments that may be provided by the Internal Audit Service, the audit firm conducting the audit, or regulators,
- timely verify that the Bank's internal control system is compatible with the nature and scale of operations carried out by the Bank, the level and combination of risks assumed,
- supervise the activities of executive bodies within the framework of the Bank's internal control system,
- organize and assess the Bank's corporate governance system, pass resolutions to improve the Bank's corporate governance system,
- create (designate) a structural subdivision (officer) charged with monitoring compliance with the Federal Law On Preventing Illegal Use of Insider Information and Market Manipulation, and Amending Certain Regulations of the Russian Federation and its implementing regulations, and hear the reports prepared by such structural subdivision (officer),
- approve in-house regulations governing the issues related to preventing illegal use of insider information and market manipulation, approve the procedure for accessing insider information, rules for protecting its confidentiality and monitoring compliance with the Federal Law On Preventing Illegal Use of Insider Information and Market Manipulation, and Amending Certain Regulations of the Russian Federation and implementing its regulations,
- approve reports of the Internal Audit Service, appoint the Head of the Internal Audit Service, approve the Regulations on the Internal Audit Service, the work plan of the Internal Audit Service.



## Management Board

**The Management Board is vested with the power to:**

- verify whether the Bank's activities comply with in-house regulations on internal control, assess the compatibility of such regulations with the nature of the operations performed and the level and combination of risks assumed,
- review materials and findings of periodic assessments of the effectiveness of internal control in the Bank,
- create effective systems for information sharing, ensure the delivery of necessary information to the users interested therein, including all documents that set out the operational policy and procedures governing the Bank's activities,
- create a system of control over the elimination of identified violations and shortcomings of internal control, and over the implementation of measures taken to eliminate them.

**In the context of the internal control system, the Chairman of the Management Board has the power to:**

- establish responsibility for the implementation of resolutions of the General Meeting of Shareholders, the Supervisory Board, for the implementation of the Bank's strategy and policy in relation to the organization and implementation of internal control,
- delegate powers to the heads of relevant structural divisions to develop internal control rules and procedures, and to supervise the implementation of such rules and procedures,
- distribute powers and responsibilities among divisions, officers, and employees with regard to specific areas and procedures of internal control,
- appoint and dismiss the Head of the Internal Control Service.



## Chief Accountant

**In the context of the internal control system, the Chief Accountant (and his/her deputies) of the Bank / Chief Accountant of a branch has the power to:**

- carry out activities in accordance with the applicable laws and regulations of the Russian Federation and the Bank's in-house regulations in the areas of responsibility of the Chief Accountant (and his/her deputies),
- supervise the development of the Bank's Accounting Policy, keep accounts, timely prepare and submit complete, reliable and objective financial, accounting, statistical and other statements (for external and internal users),
- monitor the Bank's business operations in terms of compliance with the applicable laws and regulations of the Russian Federation and the Bank's in-house regulations,
- monitor the movement of property and the fulfilment of obligations,
- monitor the measures to prevent negative financial performance and identify intracompany reserves to ensure the financial stability of the Bank.



## Internal Control Service

The Internal Control Service was established to manage the Bank's regulatory risk, organize the internal control system and ensure its effective functioning.

The Head of the Internal Control Service is appointed and dismissed by the Chairman of the Management Board and is subordinate and accountable to the Chairman of the Management Board or the Deputy Chairman of the Management Board, who is a member of the Management Board and does not participate in making decisions related to the Bank's banking operations and other transactions.

**The main functions of the Internal Control Service are:**

- identify regulatory risk, keep a record of events related to regulatory risk, analyze new banking products and services in terms of the presence of regulatory risk, monitor the effectiveness of regulatory risk management,
- identify conflicts of interest in the activities of the Bank and its employees,
- analyze the customer complaint/request/application dynamics and analyze how the Bank respects customer rights,
- analyze the economic feasibility of outsourcing works and services necessary for the Bank's banking operations.



## Internal Audit Service

The Internal Audit Service is established by a resolution of the Supervisory Board and operates on a permanent basis. The Internal Audit Service operates on the basis of the Bank's Articles of Association, the Regulations on the Organization and Development of the Internal Control System, and the Regulations on the Internal Audit Service, as approved by the Supervisory Board.

The Internal Audit Service is independent and operates under the direct supervision of the Supervisory Board.

The procedure for approving audit plans, conducting audits and preparing audit reports, submitting and reviewing audit findings and reports, as well as the rights and obligations of the Internal Audit Service are set out in the Regulations on the Internal Audit Service and in the internal methodological documents adopted by the Internal Audit Service.

The Head of the Internal Audit Service is appointed and dismissed by the Supervisory Board and is responsible for the direct management of the Internal Audit Service.

The employees of the Internal Audit Service are appointed and dismissed by the Chairman of the Management Board as advised by the Head of the Internal Audit Service.

The Internal Audit Service is independent of the Bank's day-to-day operations and has access to all types of operations carried out by the Bank, including its branches and subsidiaries.

**Functions of the Internal Audit Service:**

- to carry out independent assessment of the corporate governance, risk management and internal control processes related to audited business processes or divisions,
- to verify that the existing methodology and procedures for managing material banking risks are effective and fully complied with,
- to verify the reliability of internal controls over the use of the automated information system,
- to verify and test the reliability, completeness, and timeliness of accounts and reports, etc.





## Financial Monitoring Service

An employee responsible for combating money laundering and the financing of terrorism (the "Responsible Officer") heads the FMS and is appointed and dismissed by the Chairman of the Management Board, who approves the structure and staffing of the FMS.

The Responsible Officer and the FMS act in accordance with the laws of the Russian Federation, the regulations of the Central Bank of the Russian Federation, and on the basis of Sovcombank's Articles of Association and the Internal Control Rules on combating money laundering, the financing of terrorism and the financing of the proliferation of weapons of mass destruction (hereinafter "AML/CFT/CFP ICR").

The Responsible Officer shall be independent in his/her activities from other structural divisions of the Bank and shall be functionally subordinate to the Chairman of the Management Board.

### The Responsible Officer has the power to:

- coordinate the development, updating and submission of the AML/CFT/CFP ICR and internal control programs to the Chairman of the Management Board for approval, as well as develop other in-house regulations on AML/CFT/CFP,
- make decisions in the implementation of internal control procedures related to AML/CFT/CFP,
- organize monitoring of the Bank's implementation of the ICR and applicable laws and regulations on AML/CFT/CFP;
- organize and manage the activities of the FMS,
- organize and supervise the submission of information to the competent government authority,
- prepare written reports on the implementation of the ICRs and internal control programs and submit such reports to the Chairman of the Management Board for approval at least once a year (by February 01, for the year preceding the current one),
- prepare written reports on the implementation of the ICRs and on the recommended measures to improve the AML/CFT/CFP system, and submit such

reports and recommendations to the Supervisory Board at least once a year (by March 25, for the year preceding the current one),

- submit to the Chairman of the Management Board, at least once every six months, as part of current reporting, information on the effects of the measures taken to monitor, analyze and control the risk of using the Bank's services for the purpose of money laundering and financing of terrorism (within 10 business days after the end of each reporting period),
- submit to the Chairman of the Management Board, within 10 business days after the end of each quarter, a written report on the implementation of the AML/CFT/CFP related internal control measures taken by the Bank as a professional securities market participant, for the past quarter, according to the procedure set out in the ICRs.

### The FMS is charged with the following functions:

- organize the development of the ICR and submit such ICR to the Chairman of the Management Board for approval,
- organize the Bank's implementation of the ICR and related programs,
- ensure that employees are acquainted with the existing ICR,
- monitor the Bank's compliance with the ICR,
- organize the timely identification and recording of information on controlled operations and transactions, within the framework of compliance with the applicable laws, regulations of the Bank of Russia, the ICRs,
- organize the monitoring of the regulatory framework of the Russian Federation on AML/CFT/CFP and updating the ICR,
- inform the Bank's employees (if necessary) about the enactment of new laws and regulations on AML/CFT in Russia,
- provide assistance on AML/CFT/CFP issues to authorized representatives of the Bank of Russia during their audit of the Bank,
- approve drafts of in-house regulatory, administrative, controlling and methodological documents submitted by other structural divisions of the Bank, to the extent that such documents contain any provisions on AML/CFT,
- organize AML/CFT/CFP training for the Bank's employees,
- communicate with the Bank of Russia, its territorial branches, federal authorities of the Russian Federation, other government authorities, organizations carrying out operations with cash or other property, and other persons, as well as Russian, foreign and international organizations and institutions on AML/CFT/CFP issues.

The Responsible Officer and FMS officers are not involved in carrying out any banking or other transactions



## Professional Securities Market Participant Monitoring Service

### In the context of the internal control system, the Professional Securities Market Participant Monitoring Service has the power to:

- monitor the Bank's compliance with the laws and regulations of the Russian Federation on the securities market, including regulations issued by the federal executive body in charge of the securities market, laws and regulations of the Russian Federation on the protection of the rights and legitimate interests of investors in the securities market, laws and regulations of the Russian Federation on advertising and the in-house regulations of the Bank and the professional market participant,
- review inquiries, applications and complaints received by the Bank in relation to the Bank's professional activities in the securities market,
- monitor the Bank's compliance with the Federal Law No. 224-FZ dated July 27, 2010 On Preventing Illegal Use of Insider Information and Market Manipulation, and Amending Certain Regulations of the Russian Federation.

The Professional Securities Market Participant Monitoring Service is subordinate and accountable to the Chairman of the Management Board. The Controller for Professional Securities Market Participant heads and manages the activities of the Professional Securities Market Participant Monitoring Service.

In 2021, the Professional Securities Market Participant Monitoring Service contributed to the development of in-house regulations and procedures for the launch of the Sovcombank Investment mobile app, as well as the launch of testing of customers who are not qualified investors.

# External Auditor



## IFRS AUDITOR

Full company name	Ernst & Young Limited Liability Company
Abbreviated company name	Ernst & Young LLC
Taxpayer Identification Number (INN)	7709383532
Primary State Registration Number (OGRN)	1027739707203
Registered office	77/1 Sadovnicheskaya Embankment, Moscow, 115035, Russia

### Auditor selection process

#### Bidding procedure and terms

To verify the reliability of financial and economic activities and the information disclosed in the consolidated financial statements of Sovcombank, the Bank annually engages an independent audit firm that has no property or financial interest in the Bank, its shareholders, and affiliates. Under the terms of the bidding procedure, the contract is awarded to the lowest bidder, subject to meeting the audit deadlines and maintaining the high quality of the audit services.

#### The procedure for nominating an auditor for approval by the General Meeting of Shareholders, and the governing body that nominates an auditor

Every year, the Audit Committee submits to the Supervisory Board recommendations on the approval of the Bank auditor at an Annual General Meeting of Shareholders. The Supervisory Board considers such recommendations of the Audit Committee and adds the issue of approval of the auditor to the agenda of the Annual General Meeting of Shareholders. The auditor must be approved by the Annual General Meeting of Shareholders.

Within the 12 months of 2021, the following auditing and other audit-related services were provided to the Bank:

- due diligence consulting,
- methodological assistance in assessing the market value of assets and liabilities of companies acquired/considered for acquisition,
- methodological assistance in identifying and evaluating intangible assets of companies acquired/considered for acquisition,
- advisory services related to the development of a methodology for assessing IFRS 9 impairment;
- advisory support related to the application of portfolio hedge accounting,
- advisory support related to the development of detailed recommendations for probability of default models and in-house regulations for the segments of large corporations and SMEs,
- audit of the card portfolio acquired under the assignment agreement,
- advisory services related to the issue of bonds,
- advisory services related to trainings,
- services related to assessing the market value of shares in companies acquired/considered for acquisition.

In 2021, the Bank paid to the auditor ₴67.288 million, incl.:

- ₴53.04 million for audit services;
- ₴14.248 million for audit-related services and other services linked to audit activities.

## RAS AUDITOR



Full company name	A2-Audit Limited Liability Company
Abbreviated company name	A2-Audit LLC
Taxpayer Identification Number (INN)	7736226779
Primary State Registration Number (OGRN)	1027736007254
Registered office	4, Zolotorozhsky Proezd, floor 1, office 32, Moscow, 111033, Russia

### Auditor selection process

#### Bidding procedure and terms

To verify the reliability of its annual financial statements, the Bank annually engages a professional audit firm that has no financial interest in the Bank or any of its shareholders (external audit).

#### This auditor was chosen without a bidding procedure.

#### The procedure for nominating an auditor for approval by the General Meeting of Shareholders, and the governing body that nominates an auditor

Every year, the Audit Committee submits to the Supervisory Board recommendations on the approval of the Bank auditor at an Annual General Meeting of Shareholders. In preparing for the Annual General Meeting of Shareholders, the Supervisory Board considers such recommendations of the Audit Committee and adds the issue of approval of the auditor to the agenda of the Annual General Meeting of Shareholders. The auditor must be approved by the Annual General Meeting of Shareholders.

List of services provided by the auditor:

- audit of interim accounting (financial) statements for six months of 2021,
- special audit assignment for a random test of interim financial statements.

The auditor's remuneration amounted to ₴3 million in 2021. The company did not provide any non-audit services to the Bank in the reporting period.



# Risk and capital management

GRI 102-11

The Bank has built an efficient and comprehensive risk management system, which is integrated in the annual internal capital adequacy assessment process (ICAAP) and ensures the inclusion of risk management mechanisms into all business processes of the Bank.

## Approaches to risk management

The Bank's risk and capital management procedures are set out in Sovcombank's Risk and Capital Management Strategy (the "Strategy") as approved by the Supervisory Board and are based on the Bank's Development Strategy.

### The main objectives of the risk and capital management system are to:

- identify, assess and aggregate material and other types of risks, which, in combination with material risks, may lead to losses that may materially affect the Bank's ability to maintain capital adequacy ratios,
- assess the adequacy of available financial resources to cover the risks accepted due to the implementation of the Bank's Development Strategy,
- plan capital allocation based on the results of a comprehensive assessment of material risks, tests of the Bank stability against internal and external risk factors, business development strategy targets, capital adequacy requirements of the Bank of Russia and the phase of the business cycle,
- increase the sustainability of the Bank's development and ensure the normal functioning of the Bank in crisis situations,
- comply with the requirements of the Russian bank regulators.



### The main principles of the Bank's risk and capital management system are the following:

- **continuity and cyclicity:** the risk and capital management process is a constantly recurring structured cycle of its basic components,
- **independence of the risk management function:** in order to avoid any conflict of interest, the Bank adheres to the principle of the independence of any risk-taking decision from risk assessment and risk control,
- **risk adjusted performance management:** the Bank evaluates the adequacy of disposable (available) capital to cover accepted and potential risks by implementing the ICAAP. When making decisions on business development (forming the development strategy), the Bank relies on the ICAAP results as a basis for the evaluation of the capital amount needed to cover accepted and potential risks,
- **risk awareness:** a decision on conducting any transaction shall be made only upon a comprehensive analysis of risks arising as a result of such transaction. No new transactions exposed to material risks shall be allowed, if there are no in-house regulations, organizational and administrative documents, or relevant resolutions of collegial bodies regulating the procedure for their performance,
- **involvement of top management:** the Supervisory Board, the Management Board and their Chairmen, the Bank's Risk Committee under the Management Board, and other executive bodies of the Bank are involved in risk management,
- **risk limits:** the Bank applies a system of limits and restrictions in order to ensure an acceptable risk exposure within the limits of the established risk appetite. The system of limits has several levels. The limits are set based on Risk Appetite defined according to the Strategy,
- **three lines of defense:** risk management involves all of the Bank's divisions in the evaluation, taking, and control of risks:
  - risk-taking (1st line of defense): the Bank's divisions directly preparing and conducting transactions are involved in the identification, assessment, and monitoring of risks, comply with in-house regulations on risk management, and give due consideration to the risk level in the preparation of transactions,
  - risk management (2nd line of defense): responsible divisions develop risk management tools and methodology, assess and monitor the risk level, prepare reports on risks, carry out risk aggregation, and calculate the amount of total capital required,
  - internal and external audit (3rd line of defense): internal and external auditors carry out independent quality evaluation of the existing risk management processes, identify violations and make proposals for the improvement of the risk and capital management system.
- **organizational structure:** the organizational structure is shaped in such a way as to eliminate any conflict of interest and ensure the separation of functions and powers of collegial bodies, divisions and responsible employees in the acceptance and management of risks,
- **economic feasibility:** the cost of risk control measures should be comparable to the possible losses that the Bank may incur due to such risks,
- **improvement of the risk management system:** the Bank's risk management system is consistent with the development of the Bank's operations and external conditions and innovations in global risk management practices.

## Risk management system

In accordance with the Bank of Russia Ordinance No. 3624-U dated April 15, 2015 On Requirements for the Risk and Capital Management System of a Credit Institution and a Banking Group, the Bank implements a year-long ICAAP cycle. The Bank develops the ICAAP independently based on the requirements of the Bank of Russia, with due regard to the principle of proportionality. The complexity of the ICAAP should be compatible with the nature and scale of the Bank's operations, as well as with the level and combination of risks.

The risk identification and risk mapping processes are regulated by the Methodology for Identification of Material Risks in the Bank and the Sovcombank Group.

### The process consists of the following main steps:

- identification of risks and identification of material risks,
- assessment of material risks,
- aggregation of accepted risks and assessment of the adequacy of available financial resources under normal as well as stress conditions using current and planned values,
- determination of risk appetite and planning the key business indicators, taking into account the established risk appetite, capital consumption, and available resources over a one-year horizon,
- reporting and control of indicators of risk appetite, as well as limits on certain types of risks, redistribution of economic resources among business areas if necessary,
- ICAAP effectiveness assessment,
- preparation of the final report on the ICAAP.

## Risk monitoring

GRI 102-33

To ensure long-term sustainable and ongoing operation of the Bank, especially in stressful situations, the Bank determines its risk appetite.

Risk appetite is the amount of different risks that the Bank is willing to accept to achieve its objectives. Determination of risk appetite is one of the main tasks in capital planning and in development of the Strategy based on the current and future risk profile of the Bank.

To monitor capital adequacy and compliance with the established risk appetite values, the Bank distributes capital through a system of limits by types of material risks.

### The Risk Management Service (RMS) monitors the observation of:

- material risk limits,
- signal values of limits,
- capital amount and adequacy levels,
- mandatory ratios.

Whenever the signal values of the material risk limits are reached or the established limits are not met, the RMS notifies the Risk Committee. If necessary, an extraordinary meeting of the Risk Committee is convened, with subsequent notification of the Management Board and the Supervisory Board.

Monthly reports on material risks, compliance with mandatory ratios, available financial resources, and results of capital adequacy assessment are considered at meetings of the designated committees of the Bank and approved by the Management Board.

## Stress testing of material risks

The RMS carries out stress testing of material risks and assesses the impact of the stress test results on the capital adequacy ratio (N1.0) in the context of historical and hypothetical stress scenarios.

The Bank's approach to stress testing is set out in the Stress Test Procedures adopted in Sovcombank and the Sovcombank Group, and by specific regulations adopted for each type of risk.

### Stress testing scenarios must take into account:

- liquidity stress test within the framework of the Bank's liquidity management system,
- capital stress test as one of the main elements of the Bank's capital adequacy assessment.

Based on the stress test results, the capital buffer necessary to cover possible stresses is determined, and a list of early warning indicators is compiled to allow timely notification of the Bank's governing bodies about any significant deterioration in a particular line of business.

Based on the stress test results, the RMS prepares an annual report on stress test results. Based on the data obtained, the Bank has a sufficient capital buffer to continue operations even if the stress test scenarios materialize.

## Product launch risk assessment

The assessment of inherent and potential risks when launching new products or entering new markets is regulated by Sovcombank's Regulations on Document Management.

Whenever proposals to introduce or modify products or services are considered, the RMS always conducts a comprehensive risk analysis and issues a report on the risks identified.



# The Bank's risk management structure

The Bank's risk management organizational structure complies with the requirements set out in the Bank of Russia Ordinance No. 3624-U.

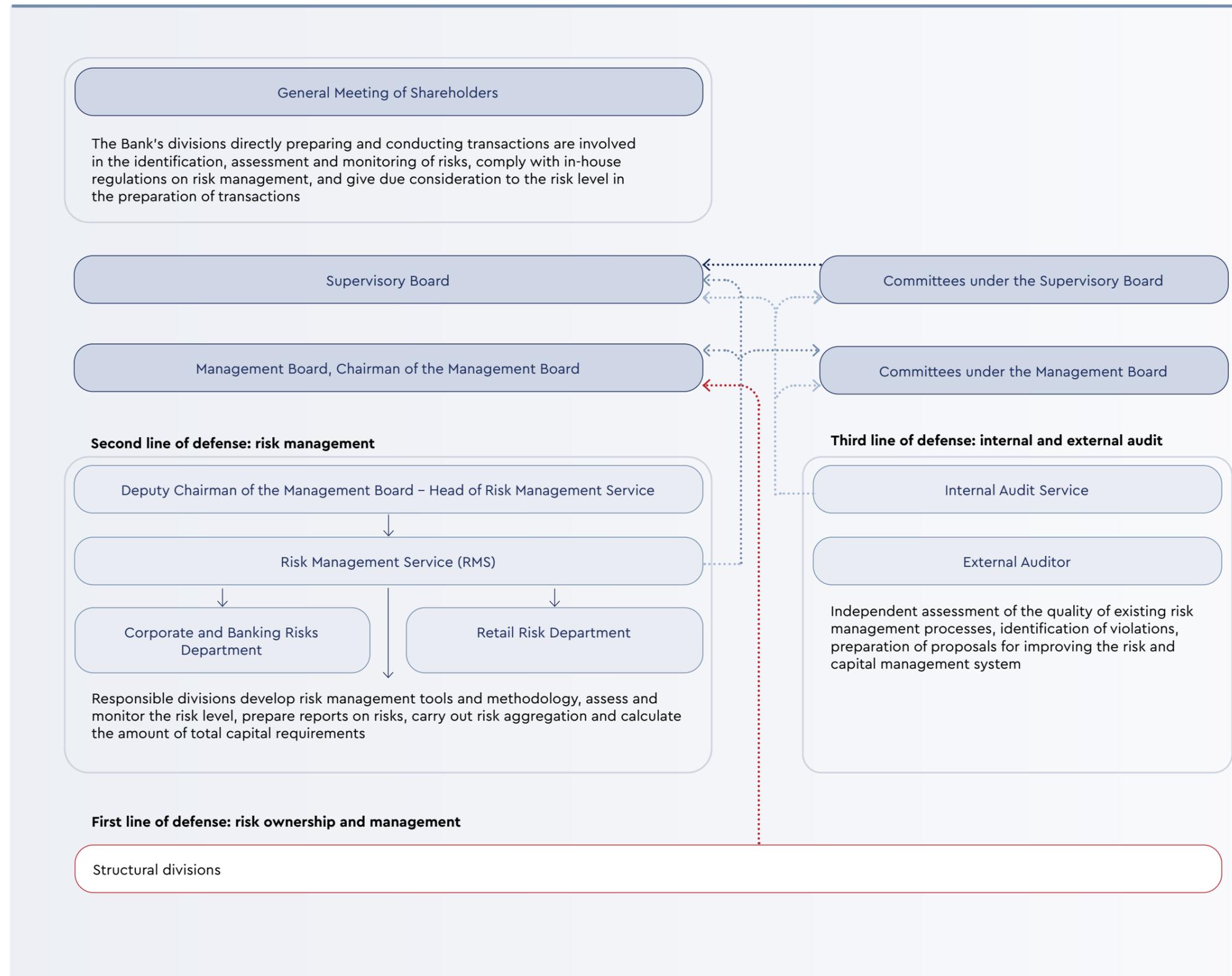
The Bank distributes the risk acceptance and management functions among its structural divisions in such a way so as to eliminate the possibility that one division is charged with both types of functions.

The risk management divisions at Sovcombank are the Corporate and Banking Risks Department and the Retail Risk Department, which form the Risk Management Service (RMS).

The Deputy Chairman of the Management Board was appointed as the Head of the RMS. The Head of the RMS meets the qualifying criteria set out in the Bank of Russia Ordinance No. 4662-U dated December 25, 2017 On Qualifying Requirements for the Head of Risk Management Service.

Based on the risks identified during the risk identification procedure, the RMS assesses the materiality of such risks, based on the Methodology for Identifying Material Risks. The resulting list of material risks was reviewed by the Risk Committee, the Management Board, the Risk Management Committee under the Supervisory Board and by the Supervisory Board at the stage of preparation for 2021 business planning process and formed the basis of the Strategy.

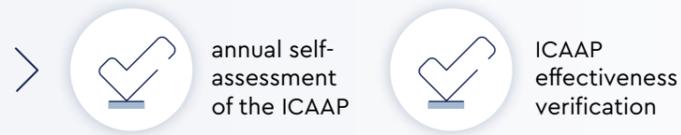
The results of the risk identification and risk mapping procedure in 2021 were reported in the 2021 risk identification report, which was reviewed at a meeting of the Risk Committee. The final risk map was approved by the Supervisory Board as part of the Strategy.



## Assessment of the risk management system

GRI 102-30

The reliability of the risk management system is determined through the ICAAP effectiveness assessment, which includes:



### ICAAP self-assessment

The ICAAP self-assessment procedure involves verifying that the risk and capital management methods and procedures comply with the principles and regulations set out in the Strategy, as well as with the requirements of the Bank of Russia and the best international practices.

The self-assessment covers the following areas:

- organization of the Banks' ICAAP,
- organization of the Bank's risk management system,
- organization of the Bank's capital management procedures,
- results of the Bank's implementation of the ICAAP.

The RMS is responsible for the annual self-assessment of the Bank's ICAAP.

The self-assessment report is part of the ICAAP implementation report submitted to the Supervisory Board on an annual basis.

### ICAAP effectiveness verification

The Internal Audit Service (IAS) verifies the effectiveness of the established approaches, identifies shortcomings in the functioning and implementation of the ICAAP at least once a year. IAS's effectiveness verification includes the following steps:

- verifying that the risk assessment methods are effective and that the documents setting out such methods are updated regularly,
- assessing the effectiveness of the scoring models validation,
- verifying that the risk management procedures set out in the Bank's in-house regulations are effective and properly applied,
- verifying that the risk and capital management methods and procedures comply with the Strategy and the regulatory requirements of the Bank of Russia.

The results of such verifications are submitted, as part of the ISA Head's reports, to the Risk Committee and the Audit Committee at least once a year. The Audit Committee submits its findings to the Supervisory Board.

According to the Internal Audit Service's audit of the risk management system in 2021, the ICAAP procedures and subsystems were recognized as effective.

## Improvement of the risk management system

The Bank continuously improves its risk management system by implementing the following measures.

- Operational forecasting of the values of mandatory ratios
  - The RMS forecasts the values of the N26 (short-term liquidity ratio) and N28 (the maximum risk ratio for a group of persons associated with the Bank) ratios on a daily basis. Based on the forecast, the Bank, if necessary, adjusts its plan of operations for the current day for the inflow/outflow of funds, performs additional operations to raise/place funds.
  - Twice a month, the RMS prepares a forecast of the Bank's capital and mandatory ratios. Such forecasts are sent to the Deputy Chairman of the Management Board who is in charge of risks, to decide on liquidity management and financial indicators.
- Daily monitoring of compliance with mandatory ratios, established limit and signal values and prompt informing of governing bodies (for further details, see Risk monitoring).
- The Bank regularly conducts stress testing of all material risks and activities. (For further details, see Stress testing).
- Development of a plan to prevent the deterioration of the financial situation and financial stability of the Bank (the "Recovery Plan")<sup>1</sup>:
  - The Recovery Plan provides a clear mechanism for escalating any identified indicators of deterioration and indicators of the need for recovery. The Recovery Plan also serves as a guideline for the rapid adoption of pre-designed measures to prevent the deterioration of the financial condition and restore financial stability in a specific crisis situation.
  - The Recovery Plan includes both soft measures, such as risk mitigation, changing the risk profile, and capital maintenance, and hard measures, such as selling portfolios, lines of business and restructuring liabilities.
- Implementation of new practices in accordance with the Bank of Russia Regulation No. 716-P dated. April 8, 2020, On Requirements for the Operational Risk Management System in Credit Institutions and Banking Groups (the "Bank of Russia Regulation No. 716-P")<sup>1</sup>.
  - The Bank's operational risk management system (ORMS) is built in accordance with the Bank of Russia Regulation No. 716-P.
- The following operational risks have been identified:
  - cybersecurity risk,
  - IT risk,
  - legal risk,
  - risk of errors in project management,
  - risk of errors in management processes,
  - risk of errors in internal control,
  - model risk,
  - risk of loss of funds of customers, counterparties, employees and third parties (not compensated by the Bank),
  - risk of errors in the HR process,
  - payment system risk.

<sup>1</sup> The Bank develops its Recovery Plan in accordance with the Bank of Russia Regulation No. 653-P dated October 4, 2018, On the Content of, Procedure and Deadlines for Submission of Financial Stability Recovery Plans, Amendments to Such Recovery Plans by Credit Institutions to the Bank of Russia and on the Procedure for the Bank of Russia's Assessment of Such Recovery Plans, on the Procedure for Informing the Bank of Russia by Credit Institutions about the Occurrence of Events Envisaged by the Recovery Plan and about the Adoption of a Resolution to Start the Implementation of Such Recovery Plan.

- The main elements of the ORMS include:
  - a unified classifier of operational risk events,
  - a database of operational risk events,
  - designated divisions,
  - centers of excellence,
  - operational risk benchmarks.
- The in-house regulations on operational risk management were either developed or brought into line with the Bank of Russia Regulation No. 716-P and set out, among other things:
  - powers of the heads of the Bank's structural divisions in terms of operation risk management and their responsibility for identifying and assessing the operational risk inherent in the activities of their divisions (including cybersecurity and IT risks),
  - presence of a designated employee that develops operational risk management procedures, including assessment methods, prepares reports, and implements such procedures,
  - maintaining the database of operational risk events in accordance with the unified classifier of operational risk events and appointing persons responsible for such maintenance, monitoring the completeness of information recorded in the database, providing reliable information to be recorded in such database, calculating losses from the realization of such events,
  - model risk management requirements,
  - procedures for qualitative/quantitative assessment and choice of response measures (aggregated operational risk assessment, assessment of the capital necessary to cover it (taking into account the types of risk), estimation of expected losses, qualitative assessment, scenario analysis, matrix for choosing a response measure).
- The requirements for the operational risk management information system were defined to ensure automation of the risk management processes and operational risk events database maintenance.
- The requirements for ensuring that the Bank implements measures to improve its risk management system and reduce the negative impact of operational risk events were described, including:
  - measures to prevent the occurrence (reduce the likelihood) of operational risk events,
  - measures to limit the losses that may be caused by operational risk events, including measures to manage cybersecurity and IT risks.
- The Bank plans to further improve its ORMS and considers a possible switching to improved approaches to the calculation of capital reserves required to cover its operational risks.

- The internal ratings-based approach to credit risk (IRB-approach):
  - in the context of the fast-rising competition in the banking sector and due to the tightening regulations for banks, a bank's ability to objectively assess the amount of accepted credit risk for the purposes of determining the capital adequacy ratio becomes increasingly important. Currently, the Bank implements the internal ratings-based approach to credit risk (IRB-approach) in order to apply its own models for quantifying the main parameters of credit risk based on the analysis of borrower default statistics.

This will allow the Bank to get a more accurate estimation of the capital required to cover its credit risk in order to calculate its capital adequacy ratios, and will also bring the Bank's risk management system to a whole new level.

- In order to effectively implement the ICAAP, the Bank works on a comprehensive assessment of the materiality of the model risk, using an expanded list of factors that allow taking into account all the features of the risk, carrying out effective management and a detailed quantitative and qualitative assessment of such risk and planning capital adequacy to cover it.

## Changes in the assessment of individual risks in 2021

In the reporting year, the following changes took place in the Bank's risk assessment system.

- Given the Bank's intense activities in the M&A market (for further details, see Mergers & Acquisitions), the Bank's strategic risk was recognized (as a result of the identification process) as significant in 2021. The Bank has developed procedures to manage this risk.
- As per the Bank of Russia Information Letter No. IN-03-23/95 dated December 15, 2021, and the Methodological recommendations of the Basel Committee on Banking Supervision (BCBS), the Bank developed the procedure for identifying and managing the risk of need for government support (as defined by the Bank of Russia). The risk of need for government support may materialize whenever the Bank needs funding that cannot be raised from external sources.

The Bank identifies such a risk every year. The first step of the process is to identify all the entities (both existing and projected) that should be assessed for the potential risk of interference, taking into account their relationship with the Bank. After that, the Bank determines the amount of capital required within the ICAAP cycle.

- The global trend towards decarbonization, the development of sustainable manufacturing standards, and increasing corporate social responsibility brings about the understanding that those participants who fail to take these factors into account will create increased risks for the financial sector. The Bank makes its strongest impact on society and the most visible contribution to the sustainable development agenda with the provision of financial services and financial products.

In 2021, the Bank systematized its approaches to ESG activities: defined the targets, approaches to and main areas for integrating the ESG principles into its activities<sup>1</sup>.

### INFORMATION on risks that materialized in 2021

No risks critical for the Bank materialized in 2021.

<sup>1</sup> For further details, see the Sustainability section

# Key risks for the Bank

**For the year 2021, the following risks were recognized as material:**

- credit risk,
- market risk,
- interest rate risk in the banking book,
- liquidity risk,
- operational risk,
- strategic risk.

The Bank does not view concentration risk as a separate type of risk and considers it a part of its material risks.

For each of the material risks, the Bank has defined the methodology for assessing such a risk and for determining the capital required. For each material risk, procedures for managing such risk were developed and approved at the meetings of the Management Board.



## LIST OF THE GROUP'S RISKS

Risk type and structure	Operations exposed to risk	Risk management procedures
<b>MATERIAL RISKS</b>		
<p><b>Credit risk:</b> the risk of the Bank's losses due to non-performance, untimely performance, or incomplete performance by the borrower of its financial obligations to the Bank in accordance with the terms and conditions of the contract. Credit risk includes:</p> <ul style="list-style-type: none"> <li>› borrower risk: the risk of a decrease in the borrower's creditworthiness, leading to losses in the form of impairment of the respective financial obligations,</li> <li>› collateral risk: the risk of loss of or damage to the collateral or of the impossibility of selling it (in case of collateral enforcement) at a price that would be enough to repay the debt,</li> <li>› residual risk: the risk that the Bank's risk mitigation methods may not give the expected effect due to the materialization of legal risk or liquidity risk in relation to the accepted collateral.</li> </ul>	<p>The following operations are exposed to credit risk:</p> <ul style="list-style-type: none"> <li>› corporate lending,</li> <li>› retail lending,</li> <li>› lending to SMEs,</li> <li>› lending to federal and municipal governments,</li> <li>› investments of treasury subdivisions in securities, bills of exchange, interbank loans, and other financial instruments,</li> <li>› counterparty credit risk.</li> </ul>	<p>The procedures for managing credit risk, including concentration risk, include:</p> <ul style="list-style-type: none"> <li>› transaction evaluation and approval process for the granting of loans,</li> <li>› credit limit determination methods and credit limit setting procedure for operations exposed to credit risk,</li> <li>› methods for measuring counterparty (borrower) risk, including methods for measuring the financial position of the counterparty (borrower) financial position, the quality of loans, and determining the amount of capital requirements for the Bank,</li> <li>› requirements for the collateral (pledge) to secure the obligations of counterparties (borrowers), and methods for collateral assessment.</li> </ul>
<p><b>Market risk:</b> the risk of the Bank's losses due to changes in the fair value of financial instruments and goods, changes in foreign exchange rates and/or benchmark prices of precious metals. Market risk includes:</p> <ul style="list-style-type: none"> <li>› foreign exchange risk: the risk of an adverse change in an open position denominated in either a currency other than Russian rubles or in gold, including positions in derivative financial instruments, the underlying asset of which is either currency or gold, due to changes in foreign exchange rates and/or benchmark prices of gold,</li> <li>› interest rate risk in the trading book: the risk of changes in the market value of securities and derivative financial instruments that are sensitive to changes in interest rates,</li> <li>› equity risk: the risk of changes in the value of securities and derivative financial instruments that are sensitive to changes in prices of equity securities,</li> <li>› commodity risk: the risk of changes in the value of commodities, including precious metals (other than gold), and derivative financial instruments that are sensitive to changes in commodity prices.</li> </ul>	<p>The following operations are exposed to market risk:</p> <ul style="list-style-type: none"> <li>› purchase and sale of securities of the trading portfolio,</li> <li>› transactions and operations that create an open foreign exchange position,</li> <li>› purchase and sale of derivative financial instruments.</li> </ul>	<p>The procedures for managing market risk, including concentration risk, include:</p> <ul style="list-style-type: none"> <li>› determining the structure of the trading portfolio,</li> <li>› methods for measuring market risk and determining capital requirements for market risk,</li> <li>› methods for determining the value of trading portfolio instruments,</li> <li>› procedures for making decisions on starting operations with new types of financial instruments or entering new markets,</li> <li>› system of limits and procedure for setting such limits.</li> </ul> <p>To factor for concentration risk, the following concentration elements are taken into account in measuring and forecasting market risk (as part of the sensitivity analysis for additional scenarios):</p> <ul style="list-style-type: none"> <li>› share of financial instruments of the same credit quality in the trading portfolio,</li> <li>› share of instruments of one issuer/counterparty in the trading portfolio.</li> </ul>

Risk type and structure	Operations exposed to risk	Risk management procedures
<p><b>Interest rate risk in the banking book:</b> the risk of deterioration of the financial position of the Bank due to a decrease in the size of capital, income level, asset value as a result of changes in interest rates in the market.</p>	<p>All assets and liabilities of the Bank that are sensitive to changes in interest rates are exposed to interest rate risk in the banking book.</p>	<p>Procedures for managing interest rate risk in the banking book include:</p> <ul style="list-style-type: none"> <li>› making a list of assets and liabilities that are sensitive to changes in the interest rate,</li> <li>› methods for measuring interest rate risk in the banking book,</li> <li>› ICAAP,</li> <li>› methods for analyzing sensitivity to such a risk,</li> <li>› system of limits and procedure for setting such limits.</li> </ul> <p>To factor for concentration risk, the following concentration elements are taken into account in measuring and forecasting interest rate risk in the banking book:</p> <ul style="list-style-type: none"> <li>› share of instruments of the same type in the Bank's interest-sensitive assets/liabilities,</li> <li>› share of financial instruments with embedded options (if any),</li> <li>› concentration of financial instruments with the same maturit.</li> </ul>
<p><b>Liquidity risk:</b> the risk of losses due to the inability of a credit institution to finance its activities, that is, to ensure the growth of assets and to fulfill its obligations as they fall due, without incurring losses in an amount that threatens the financial stability of the Bank.</p> <p>The Bank determines the following target structure of liquidity risk (sources of liquidity risk):</p> <ul style="list-style-type: none"> <li>› cash flow risk: risk of discrepancy between the amounts and dates of receipts and write-offs of funds (incoming and outgoing cash flows),</li> <li>› risk of unforeseen liquidity requirements: the consequences that unforeseen events in the future may require more resources than planned,</li> <li>› market liquidity risk: the risk of losses in the sale of assets or due to the inability to close an existing position due to insufficient market liquidity or insufficient trading volumes,</li> <li>› funding risk: the risk associated with potential changes in the cost of funding that affect the Bank's future income.</li> </ul>	<p>All active and passive operations of the Bank, implying the repayment of funds within the contractual terms agreed by the parties, are subject to liquidity risk.</p>	<p>Liquidity risk is managed by establishing procedures for managing this type of risk and allocating capital to cover it.</p> <p>Procedures for managing liquidity risk include:</p> <ul style="list-style-type: none"> <li>› determining liquidity risk factors,</li> <li>› describing the functions related to the acceptance and management of liquidity risk and distributing such functions among structural subdivisions,</li> <li>› describing the procedures for determining the need for funding,</li> <li>› comprehensive projection of cash flows arising from assets, liabilities and off-balance sheet items over an appropriate set of time horizons (short-term, current, long-term liquidity), including analysis of excess/deficit liquidity at the relevant time horizons, while taking into account the characteristics that are based on the forecasts of customer behavior, financial markets in normal conditions and periods of instability, and taking into account the Bank's Development Strategy,</li> <li>› establishing the procedure for setting liquidity limits and determining the methods for monitoring observance of such limits,</li> <li>› procedures for daily liquidity management, as well as for liquidity management in longer time intervals,</li> <li>› methods for analyzing the liquidity of assets and the stability of liabilities,</li> <li>› decision-making procedures in the event of a conflict of interest between liquidity and profitability,</li> <li>› procedures for restoring liquidity in the event of a liquidity shortage.</li> </ul> <p>To factor for concentration risk, the following concentration elements are taken into account in measuring and forecasting liquidity risk:</p> <ul style="list-style-type: none"> <li>› withdrawal of large sources of funding (in the context of certain types of funding) in the absence of information on prolongation,</li> <li>› in analyzing the stability of liabilities, large sources of funding with increased volatility are excluded from the statistical sample for analysis and are considered individually,</li> <li>› when analyzing early withdrawals of retail deposits, the amount of the deposit that is not covered by any of the deposit guarantee schemes is taken into account.</li> </ul>

Risk type and structure	Operations exposed to risk	Risk management procedures
<p><b>Operational risk:</b> the risk of direct and indirect losses due to the Bank's flawed or failed internal processes, actions of personnel and other persons, failures and shortcomings of information, technological and other systems, as well as due to external events.</p>		<p>The following measures are applied to reduce the risk:</p> <ul style="list-style-type: none"> <li>› regulating procedures and processes,</li> <li>› separating and limiting the powers and responsibilities of employees; using double control mechanisms,</li> <li>› internal control over the activities of divisions,</li> <li>› automation of banking operations,</li> <li>› ensuring control over the execution of operations and transactions,</li> <li>› setting thresholds for decision-making powers and establishing operational risk limits,</li> <li>› ensuring information security,</li> <li>› ensuring the physical security of premises and valuables,</li> <li>› ensuring the continuity of the Bank's financial and economic activities,</li> <li>› other measures in accordance with the applicable in-house regulations on operational risk management.</li> </ul> <p>The Bank continuously updates its database of risk events that describes the causes and circumstances of events, and the losses and compensations resulting from such events.</p> <p>The Bank uses the following tools to identify and assess risks:</p> <ul style="list-style-type: none"> <li>› collecting and analyzing information on realized operational risk events,</li> <li>› carrying out self-assessment of operational risk and control (including identification of potential risks),</li> <li>› monitoring of key risk indicators: analysis of indicators that are designed to measure and control operational risk at a certain point in time,</li> <li>› analyzing products/processes, including in-house regulations, to identify operational risk,</li> <li>› stress testing of operational risk to assess the Bank's stability vis-à-vis internal and external risk factors,</li> <li>› analyzing scenarios to estimate losses upon realization of extreme operational risk events.</li> </ul>
<p><b>Strategic risk:</b> the risk of adverse changes in the Bank's performance due to poor decision-making in the management process (e.g., in the development, approval and implementation of the Bank's development strategy), due to improper implementation of the decisions made, or due to the inability of the Bank's management bodies to take into account changes in external factors.</p>		<p>Procedures for managing strategic risk include:</p> <ul style="list-style-type: none"> <li>› identifying strategic risk;</li> <li>› assessing and forecasting strategic risk. Risk assessment is carried out using both qualitative (SWOT-analysis, assessment under the Bank of Russia Ordinance No. 4336-U dated April 3, 2017 On Assessing the Economic Position of Bank, strategic risk assessment in M&amp;A) and quantitative (regular monitoring of observance of the business plan targets) methods;</li> <li>› limiting strategic risk;</li> <li>› determining the capital requirement to cover financial losses upon materialization of strategic risk;</li> <li>› monitoring and optimizing strategic risk;</li> <li>› quality control and evaluation of the effectiveness of the strategic risk management system.</li> </ul>

Risk type and structure	Operations exposed to risk	Risk management procedures
RISKS THAT WERE NOT RECOGNIZED AS MATERIAL		
<p><b>Social and environmental risks</b></p>		<p>To minimize social and environmental risks arising from the financing of corporate customers' projects, the Bank conducts a mandatory assessment of the social and environmental impact of such projects against the criteria developed by the Bank. Based on the assessment results, the Bank decides whether to finance the project or not. Furthermore, the Bank does not provide financing to customers engaged in socially dangerous activities.</p> <p>The procedure for such assessment is set out in Sovcombank's Responsible Finance Policy.</p> <p>For further details, see the Responsible Finance Policy on the Bank's website →</p> <p>For further details, see the Sustainability section →</p>
<p><b>Cybersecurity risk:</b> an operational risk associated with the potential exploitation of vulnerabilities of an asset or group of assets by a specific threat to cause damage to the Bank.</p>		<p>Measures taken to manage the risk:</p> <ul style="list-style-type: none"> <li>› the Bank has an information security system that:                             <ul style="list-style-type: none"> <li>– ensures data security and access management (limiting access rights of various groups of users, implementing a two-factor authentication, conducting regular recertification of access rights, etc.),</li> <li>– ensures the protection of computer networks (limiting the network interaction of the Bank's network segments, restricting access to/from the Internet, restricting the WiFi use),</li> <li>– monitors the integrity and security of the information infrastructure (analysis of the security of the Bank's infrastructure facilities, information systems, servers, workstations, etc.),</li> <li>– protects against malicious code (use of anti-virus software at the Bank's information infrastructure facilities),</li> <li>– prevents information leaks (use of technical means that monitor information transmissions via the Internet, printing of documents and organizational measures),</li> <li>– manages cybersecurity incidents (incident identification, response, registration and post-investigation corrective measures),</li> <li>– protects the virtualization environment,</li> <li>– protects information during the implementation of remote logical access,</li> </ul> </li> <li>› ensuring compliance with the requirements of regulators (the Bank of Russia, the Federal Service for Technical and Export Control, the Federal Security Service) and conducting regular information security audits,</li> <li>› promptly notifying the Bank of Russia (Financial Sector Computer Emergency Response Team (FinCERT)) and the Computer Security Incident Response Team (CSIRT) about incidents, communicating with the Federal Security Service, the Federal Service for Technical and Export Control, FinCERT in response to information security incidents, including those related to the transfer of funds.</li> </ul>

## Risk assessment

The Bank independently identifies and analyzes the risks inherent in its activities.



On the first day of the risk identification process, the RMS sends questionnaires to the members of the expert group. The probability of occurrence, the materiality of the impact, and the complexity of transactions are measured by experts on a scale of one to four, in accordance with the following criteria:

- the likelihood of risk materialization,
- the materiality of the risk impact on the Bank,
- the complexity of the operations (transactions) carried out by the Bank.

Based on the completed questionnaires, the Corporate and Banking Risks Department develops the risk map for the entire Bank. The risk map, materiality criteria, and reasoned judgments are used to compile a list of material risks at the preparatory stage.

After drawing up a business plan for the next year, taking into account the Development Strategy, material risks are identified at the final stage.

The worst-case assessment of a risk at the preparatory and final stages is taken into account to compile the final list of material risks.

# Combating corruption

GRI 103-2

The Bank identifies combating corruption as one of its top priorities in its commitment to conduct business in accordance with the principles of transparency and integrity.

## The Bank's Anticorruption Policy

The Bank's Anticorruption Policy (the "Policy") was developed in accordance with Federal Law No. 273-FZ dated December 25, 2008, On Counteracting Corruption. The Policy defines the basic principles of anticorruption enforcement in the Bank and in relations between the Bank and third parties, including state and municipal organizations, and establishes anticorruption standards.

The main objectives of the Anticorruption Policy are:

- establish the obligation for the Bank's employees to comply with the Policy and related anticorruption procedures; minimize the risk of the Bank or Bank's employees being involved at any level in any corrupt activities,
- develop a clear understanding among the Bank's employees, investors, shareholders, contractors and other persons that the Bank conducts its business honestly and openly, and does not accept corruption in any of its forms and manifestations,
- establish personal responsibility for compliance with the principles and requirements set out in the Policy.

To prevent and combat corrupt practices and to ensure the integrity of the Bank's operations, the following in-house regulations were developed and approved:

- Anticorruption Policy,
- Code of Corporate Ethics,
- Procedure for Receiving and Giving Gifts and Donating Funds,
- Cybersecurity Policy,
- Code of Responsible Supplier,
- Regulations on Disciplinary Sanctions.

## Anticorruption management system

The anticorruption management system consists of the following main departments:



Supervisory Board



Compliance Department



Executive bodies



Internal Control Service

The Bank's governing bodies make up an ethical standard of irreconcilable attitude towards any forms and manifestations of corruption at all levels, and set an example for the Bank's employees. The standard is included into the general corporate system of ethical standards and regulatory compliance.

The Supervisory Board approves the Policy and executes general control over anticorruption enforcement in the Bank.

In the context of combating corruption, the Bank's executive bodies:

- determine the main areas of anticorruption activities and approve in-house regulations,
- establish the powers of the heads of the Bank's divisions;
- continuously monitor the employees' activities in terms of anticorruption compliance,
- resolve issues related to the implementation of procedures and measures designed to ensure anticorruption compliance.

The Compliance Department is tasked with:

- drafting in-house anticorruption regulations and regular monitoring of the implementation of the relevant measures,

- identifying conflicts of interest and indications of anticorruption violations, investigating alleged conflicts of interest and/or cases of corruption,
- initiating communication with law enforcement and other government authorities in the course of inspections, investigations and compliance monitoring activities,
- informing, advising and training employees on the relevant issues,
- regular monitoring of the implementation of anticorruption measures in the Bank, preparing reports and proposals for management.

The Internal Control Service verifies the Bank's compliance with the anticorruption laws of the Russian Federation, in particular, through internal control procedures and regular analysis of the implementation of such procedures.

# Assessment of corruption risks in 2021

In the reporting period, corruption risk assessment was carried out in the following divisions of the Bank:

- Retail Operations Center,
- Finance Department,
- Halva Installment Department,
- Bad Debt Collection Department,
- Retail Risk Department,
- Marketing Communications Department,
- Security Department,
- Corporate Values Department,
- Department of Partner Auto Programs,
- Mortgage Lending Department,
- Administrative Department,
- Treasury Department,
- Corporate and Financial Sector Department,
- Structured Finance and Financial Solutions Department,
- Customer Service Department,
- Department of Lending to Large Businesses, Strategic Enterprises and Project Financing,
- Corporate Lending Department,
- Department of Private Investments and Premium Services.

As part of the anti-money laundering procedures, all customer transactions, including the Bank's own transactions, are assessed for corruption risks. Such transactions account for 70% of the Bank's total transactions.

As a result of the risk assessment, the following material risks associated with corruption were identified:

- bribing of decision-makers (with regard to procurement deals, loans, transactions),
- using the Bank's financial resources for personal gain.

No confirmed cases of corruption were identified in 2021.



# Anticorruption training of employees

GRI 205-2

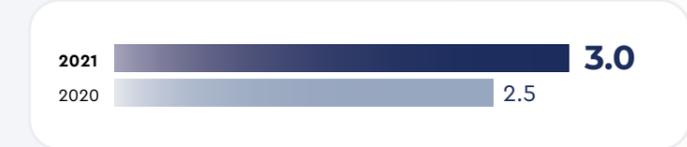
The Bank conducts mandatory training for the Bank's employees on anti-corruption and anti-bribery issues on a regular basis (at least once a year).

At the end of each training, employees take a quiz to test their knowledge and understanding of the main topics. Anticorruption training is mandatory for any new hire. Also Speak Up newsletters are sent to all employees and published in the newsfeed at least once a month to remind employees about their anticorruption commitments. To facilitate the anticorruption enforcement, the Bank's in-house regulations are published on the Bank's website so that anyone can read them.

Employees trained



Training hours per employee <sup>1</sup>



Employees trained, %



<sup>1</sup> Hours spent to train one employee.

<sup>2</sup> Including administrative bodies, heads of directorates and departments of the Bank.

## Anticorruption Policy and the Bank's business partners

GRI 102-9

To prevent corrupt business practices in dealings with counterparties, the Bank includes an anticorruption clause in its contracts with business partners.

Around 90% of all business partners were informed about the Bank's Anticorruption Policy and anticorruption procedures in 2021.

## Corruption reporting

GRI 102-17, 205-3

In the event of any violation (including potential violation) of any applicable regulations or the Policy by the Bank employees, third or other parties, a Bank employee must (and a third party may) report the same via the compliance hotline through one of the communication channels:

- by email: [anticorruption@sovcombank.ru](mailto:anticorruption@sovcombank.ru),
- by filling out the feedback form on the Bank's official website in the Compliance section.



These communication channels are designed to inform the Bank and/or competent authorities about any corrupt activities or intentions against the Bank, its employees, customers, counterparties. Reports are accepted 24/7, confidentially and, if necessary, anonymously.

In 2021, a total of two instances of alleged corrupt activities were reported on the Bank's hotlines. The internal investigations conducted did not confirm the allegations.

## Conflict of interest management

GRI 102-25

Conflict of interest management is one of the most important tasks of corporate governance which prevents any unfair practices on the part of the Bank's decision makers.

## Conflict of Interest Management Policy

The Bank has adopted and implements the Conflict of Interest Management Policy<sup>1</sup>.

The purpose of the Policy is to ensure that all employees and members of the governing bodies of the Bank prioritize the Bank's interest over their personal interests, and to minimize any possible negative consequences from the occurrence of such conflicts of interest.

### The main objectives of the Policy are to:

- prevent any actions and circumstances that may give rise to a conflict of interest; establish requirements and procedures for identifying any real or potential conflicts of interest,
- ensure compliance with international standards and practices in terms of managing conflicts of interest; improve the Bank's business reputation,
- explain the applicable laws and regulations of the Russian Federation to the Bank's employees, members of its governing bodies, and third parties,
- foster and improve confidence in the Bank on the part of its employees, members of its governing bodies, shareholders, counterparties, and other persons; provide customer service based on the principles of openness and transparency.

**In order to resolve possible conflicts of interest, the Bank and its employees must stick to the following principles in their activities:**

- any real or potential conflict of interest must be reported;
- the process of reporting and resolving a conflict of interest must be confidential,
- any conflict of interest must be resolved in such a way as to balance the interests of the Bank and the employee,
- a properly and timely reported and resolved (prevented) conflict of interest should not be prosecuted.

<sup>1</sup> Resolution of the Supervisory Board, Minutes No. 184 dated December 11, 2020.

## Conflict of interest management in the Bank

The Supervisory Board approves the Conflict of Interest Management Policy and exercises general supervision in this area.

### Executive bodies:

- bear responsibility for the Bank's regulatory compliance,
- continuously monitor the employees' activities in terms of conflict of interest management,
- resolve issues related to the implementation of the adopted procedures and measures.

### Internal Control Service and Compliance Department:

- receive reports of any violations (including potential ones) of the Policy and applicable regulations, through the designated communication channels,
- contribute to the development and examination of in-house regulations related to conflict of interest management.

### Compliance Department:

- conducts appropriate training for the Bank's employees;
- ensures that the conflict of interest disclosure procedure is conducted on a regular basis to prevent any conflict of interest,
- prepares an activity report for the Bank's Audit Committee and other governing bodies and submits such report to the Internal Control Service.

If an employee becomes aware of any operation/transaction that is not formally recognized as a related-party transaction but meets, directly or indirectly, any related-party criteria, such employee must report such operation/transaction through the compliance hotline.

The Heads of the Security Department, Legal Department, Compliance Department and Internal Control Service, or persons replacing them, verify such a report in order to assess the materiality of the arising risks for the Bank and choose the most appropriate way to resolve such a conflict of interest,

If a conflict of interest is confirmed, it can be resolved by:

- restricting the employee's access to specific information that may concern the employee's personal interests,

- the employee's (voluntary) withdrawal, either permanent or temporary, from participation in the discussion and decision-making on any issues that are or may be affected by such conflict of interest,
- changing the employee's job duties or transferring the employee to another position,
- creating a trust over the employee's assets that give rise to such conflict of interest,
- terminating the employee's employment with the Bank, either by the Bank or by the employee himself/herself.

As part of the hiring process, each candidate for a vacant position must fill in a questionnaire for the Bank to run a preliminary background check to identify any potential conflict of interest.

## Conflict of interest management process

In order to timely identify, prevent or resolve any potential or real conflict of interest and to minimize possible negative consequences, each shareholder, governing body or employee of the Bank must disclose and report:

- any current or planned operations (transactions), that they are aware of, in respect of which they can be recognized as interested persons,
- any circumstances that gave rise or reasonably may give rise to a conflict of interest.

Upon becoming aware of any potential/real conflict of interest, the relevant employee must report the same by:

- filling out the relevant notification form and sending it to the Security Department, Internal Control Service, Legal Department, Compliance Department through the internal electronic document management system,
- contacting the compliance hotline by e-mail or phone,
- filling out the feedback form on the Bank's official website.

Reports are accepted 24/7, confidentially and, if necessary, anonymously.

## Managing conflicts of interest of top managers

Whenever an interested person is a member of a collegial body that decides on any transaction that gives rise to a conflict of interest, such person must inform the chairman of such a body about such a conflict of interest. In that case, it should be stipulated in writing, e.g., in the minutes

of a meeting, that such a person will not participate in the decision-making process with regard to such a transaction.

## Monitoring conflicts of interest in 2021

In 2021, the Internal Control Service considered eight reports of a potential conflict of interest. In the course of the analysis, a possible conflict of interest was identified in four instances related to the hiring of new employees. To resolve such conflicts of interest, the decisions to hire the candidates were coordinated with the line manager. All further personnel decisions (promotion, transfer, base salary, disciplinary sanctions, etc.) will also be made in consultation with the line manager.

In 2021, the Internal Control Service developed a training course and a quiz on conflict of interest.

The course and the quiz are posted on the Bank's portal for all employees to read and are also included in the new hire training process.

# Anti-money laundering

The Bank strictly complies with the regulatory requirements, adheres to the best practices and regularly updates its dedicated training programs in regulatory compliance and AML/CFT.

## The Bank's AML/CFT Policy

Sovcombank has developed an AML and Compliance Policy to prevent involvement of the Banking Group, its managers and employees in any activities related to money laundering, the financing of terrorism and the financing of the proliferation of weapons of mass destruction (hereinafter, "AML/CFT/CFP"). The Bank's main in-house regulation in this area is the Internal Control Rules (hereinafter, the "ICR").

### By implementing the Policy, the Bank ensures:

- the functioning of the internal control systems in the Banking Group in accordance with the applicable laws and regulations,
- compliance with international requirements and agreements on foreign economic policy,
- effective process of interaction with government agencies, national, foreign and international organizations and institutions on AML/CFT/CFP issues.

## Responsible divisions

The Bank's division responsible for AML/CFT/CFP compliance is the Financial Monitoring Service (FMS), a structural division of the Compliance Department.

### In particular, the FMS is tasked with:

- organizing the development and implementation of internal control rules,
- organizing measures for the timely identification and recording of information on controlled operations and transactions, and promptly submitting such information to the competent government authorities,
- organizing AML/CFT/CFP training for the Bank's employees.

## Violations

In 2021, the audit of the implementation of the AMLCFT/CFP and Compliance Policy did not reveal any violations.

## AML trainings for employees

AML/CFT trainings	2020	2021
Employees trained	13,516	16,700
Hours trained	16.5	17.0
Governing bodies, %	1	1
Experts, %	2	2
Hours spent to train one employee	97	97

# Taxation

Sovcombank complies with all tax requirements and, understanding the role of innovations in this area, joined the tax monitoring project in 2021.

GRI 207-1

## Taxation and accounting policy of the Bank

Sovcombank PJSC maintains tax records in accordance with the Tax Code of the Russian Federation.

The basic rules for calculating and paying taxes are set out in the Bank's Tax Accounting Policy (hereinafter, the "Tax Policy"). The Tax Policy establishes the methodological framework for organizing and maintaining tax records for the purposes of calculating income tax, determines the principles for calculating certain types of taxes, as well as the principles for compiling the Bank's tax returns.

The main principles of the Tax Policy are:



## Tax monitoring

From January 1, 2021, the Bank switched to tax monitoring of tax statements, registers and other information used for taxation purposes.

In the tax monitoring process, communication with the tax authority is carried out through a data mart. The Bank provides the tax authority with access to the data mart to promptly access documents (information) for the calculation and payment of taxes and insurance premiums. The main benefit of a data mart is the ability to upload and publish data from external sources in an easy-to-review format.

The structure of income tax disclosure has three levels:

- I corporate income tax return
- II a consolidated tax register containing information on the Bank's proceeds and expenses, which are taken into account in determining taxable income
- III analytical tax registers, which are formed by types of income and expenses for the tax period, including statements on accounting items, with figures reported in accordance with the tax accounting principles

The third (lower) level of disclosure that allows the viewing of scanned images of primary accounting documents is currently not implemented, and such documents are provided to tax authorities upon request.

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# Appendices

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05

# GRI Content Index

## GRI 102-55

GRI Standards	Section	UN GC Principles	
<b>GRI 100: GENERAL STANDARDS</b>			
102-1	Name of the organization	About the Annual Report	
102-2	Activities, brands, products, and services	About the Bank Business model	
102-3	Location of headquarters	Omnichannel network	
102-4	Location of operations	Omnichannel network Geographical footprint	
102-5	Ownership and legal form	About the Bank Share capital structure	
102-6	Markets served	About the Bank Business model Development strategy	
102-7	Scale of the organization	About the Bank Development history	
102-8	Information on employees and other workers	Development history Personnel structure	
102-9	Supply chain	Supply chain sustainability Anticorruption Policy and the Bank's business partners	Principle 2
102-10	Significant changes to the organization and its supply chain	M&As in 2021	
102-11	Precautionary principle or approach	Risk and capital management Managing climate-related risks	Principle 7
102-12	External initiatives	Contribution to global initiatives	
102-13	Membership of associations	Membership in Russian associations (Appendix)	

GRI Standards	Section	UN GC Principles	
102-15	Key impacts, risks, and opportunities	Sustainability management Key risks for the Bank	
102-16	Values, principles, standards, and norms of behavior	ESG mission and values Respect for human rights Intangible assets Supervisory Board / Role in defining the strategy	Principle 1
102-17	Mechanisms for advice and concerns about ethics	Corruption reporting Respect for human rights	Principle 1
102-18	Governance structure	Sustainability management ESG governance structure Corporate governance structure Governing bodies	
102-19	Delegating authority	Sustainability management ESG governance structure Corporate governance structure Governing bodies	
102-20	Executive-level responsibility for economic, environmental, and social topics	Sustainability management Supervisory Board, Management Board	
102-21	Consulting stakeholders on economic, environmental, and social topics	Stakeholder engagement Communication with shareholders and investors	
102-23	Chair of the highest governance body	Chairman of the Supervisory Board	
102-24	Nominating and selecting the highest governance body	Election of the Supervisory Board	
102-25	Conflicts of interest	Conflict of interest management	

GRI Standards	Section	UN GC Principles
102-26	Role of the highest governance body	Functions of the Supervisory Board Role in defining the strategy Role in assessing the Bank's performance
102-27	Collective knowledge of the highest governance body	Performance self-assessment in 2021
102-28	Evaluating the highest governance body's performance	Performance self-assessment in 2021
102-29	Identifying and managing economic, environmental, and social impacts	Sustainability management
102-30	Effectiveness of risk management processes	Risk management system assessment
102-31	Review of economic, environmental, and social topics	Materiality analysis
102-32	Highest governance body's role in sustainability reporting	Sustainability management
102-33	Communicating critical concerns	Risk monitoring
102-35	Remuneration policies	Remuneration for governing bodies
102-36	Process for determining remuneration	Remuneration for governing bodies
102-37	Stakeholders' involvement in remuneration	Remuneration for governing bodies
102-40	List of stakeholder groups	Stakeholder engagement
102-41	Collective bargaining agreements	Principle 3
102-42	Identifying and selecting stakeholders	Stakeholder engagement
102-43	Approach to stakeholder engagement	Stakeholder engagement Communication with shareholders and investors
102-44	Key topics and concerns raised	Stakeholder engagement Materiality analysis
102-45	Entities included in the consolidated financial statements	Appendices / List of subsidiaries
102-46	Defining report content and topic boundaries	About the Annual Report
102-47	List of material topics	About the Annual Report, Materiality analysis

GRI Standards	Section	UN GC Principles	
102-48	Restatement of information	Not applicable	
102-49	Changes in reporting	Disclosures 102-22 Composition of the highest governance body and its committees, 201-1 Direct economic value generated and distributed, 207-4 Country-by-country reporting are excluded from the disclosure for 2021 due to confidentiality restrictions associated with a significant change in the macroeconomic environment and regulations on information disclosures in the Russian Federation.	
102-50	Reporting period	About the Annual Report	
102-51	Date of most recent report	About the Annual Report	
102-52	Reporting cycle	About the Annual Report Sustainability management	
102-53	Contact point for questions regarding the report	Contact information	
102-54	Claims of reporting in accordance with the GRI Standards	Applicable standards	
102-55	GRI content index	Appendices / GRI Content Index	
102-56	External assurance	None	
103-1	Explanation of the material topic and its Boundary	Materiality analysis	
103-2	The management approach and its components	Climate Financial inclusion Promoting financial literacy Customer experience Sustainable finance Supporting businesses Security of client funds and data Corporate governance: principles and practices Corporate governance assessment Risk management system Improvement of the risk management system Bank's Anticorruption Policy Anti-money laundering Taxation Security of client funds and data Recruitment and human resource management Employee development Diversity, equality and inclusion Corruption countering Recruitment and human resource management	Principle 4 Principle 5 Principle 6
103-3	Evaluation of the management approach	Corporate governance assessment	

GRI Standards	Section	UN GC Principles
<b>GRI 200: ECONOMIC STANDARDS</b>		
201-4	Financial assistance received from government	No financial assistance was received from government
203-1	Infrastructure investments and services supported	ESG banking in 2021 Principle 7 Principle 8 Principle 9
203-2	Significant indirect economic impacts	Contribution to the community Principle 2 Principle 6 Principle 8
205-1	Operations assessed for risks related to corruption	Assessment of corruption risks in 2021 Principle 10
205-2	Communication and training on anti-corruption policies and procedures	Anti-corruption training of employees Principle 10
205-3	Confirmed incidents of corruption and actions taken	Corruption reporting
206-1	Legal actions for anti-competitive behavior, anti-trust, and monopoly practices	None
207-1	Approach to taxation	Taxation
<b>GRI 300: ENVIRONMENTAL STANDARDS</b>		
302-1	Energy consumption within the organization	Energy use and energy efficiency Principle 7 Principle 8
302-3	Energy intensity	Energy use and energy efficiency Principle 7 Principle 8
302-4	Reduction of energy consumption	Not applicable Principle 7 Principle 8
303-5	Reductions in energy requirements of products and services	Water consumption Principle 6 Principle 8
305-1	Direct (Scope 1) GHG emissions	Excerpt from the GHG Audit Report (Appendix) Principle 7 Principle 8
305-2	Energy indirect (Scope 2) GHG emissions	Excerpt from the GHG Audit Report (Appendix) Principle 7 Principle 8
305-3	Other indirect (Scope 3) GHG emissions	Excerpt from the GHG Audit Report (Appendix) Principle 7 Principle 8
305-4	GHG emissions intensity	GHG emission management Excerpt from the GHG Audit Report (Appendix) Principle 7 Principle 8
306-4	Waste diverted from disposal	Waste management Principle 8

GRI Standards	Section	UN GC Principles
<b>GRI 400: SOCIAL STANDARDS</b>		
401-1	New employee hires and employee turnover	Employee turnover
401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	Employee benefit programs Principle 6
401-3	Parental leave	Employees that took parental leave in 2021, by gender Principle 6
403-1	Occupational health and safety management system	Occupational health and safety
403-5	Worker training on occupational health and safety	Occupational health and safety
403-6	Promotion of worker health	Occupational health and safety
403-9	Work-related injuries	Occupational health and safety
403-10	Work-related ill health	Occupational health and safety
404-1	Average hours of training per year per employee	Training and gaining competences Principle 6
404-2	Programs for upgrading employee skills and transition assistance programs	Training and gaining competences Principle 6
405-1	Diversity of governance bodies and employees	Employee turnover Diversity, equality and inclusion Members of the Management Board Principle 6
405-2	Ratio of basic salary and remuneration of women to men	Gender pay gap (Appendix) Principle 6
413-1	Operations with local community engagement, impact assessments, and development programs	Local communities
417-1	Requirements for product and service information and labeling	Customer relations
418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data	Security of client funds and data

# To the Sustainability / Climate sections

## Impact of climate-related risks on the lending portfolio

Risk factors	Potential impact	Time horizon	
<b>TRANSITION RISKS</b>			
Introduction of the Carbon Border Adjustment Mechanism (CBAM ) in the EU	Additional tax burden on exporters of certain materials (cement, electricity, fertilizers, iron, steel, aluminum)		Medium term
Introduction of a CO <sub>2</sub> regulation mechanism and enhanced GHG disclosure requirements	Increased costs associated with carbon-intensive processes, as well as mandatory annual quantification and verification of GHG emissions	Short term	Medium term
Displacement of existing products and services by low-carbon alternatives (e.g., aluminum, steel, construction materials, etc. produced with low CO <sub>2</sub> emissions)	Low-carbon products create a loss of profit risk for producers of conventional products with high life-cycle GHG emissions. This trend may reduce the demand for conventional products		Medium term
Misplaced investments in new technologies	Failure to meet profit targets due to inefficient implementation of technologies to reduce CO <sub>2</sub> emissions		Medium term
Emergence of low-carbon emitting technologies	Additional capital costs due to the introduction of technologies aimed at further improving energy efficiency, reducing energy consumption, developing the production and consumption of energy from renewable energy sources, and technologies for capturing carbon dioxide	Short term	
Reduced competitiveness of products and services due to changes in consumer behavior	Reduced profitability and competitiveness of products and services due to the company's underdeveloped climate strategy		Medium term
Increased raw material costs	Additional costs for the purchase of raw materials		Medium term
Stigmatization of the sector: perception of the sector as "brown"	Loss of investment and profits due to the perception of the industry as environmentally dirty (e.g., coal mining and coal production)	Short term	
Negative perception of the company by investors and independent shareholders	Loss of capital investment due to underdeveloped corporate climate strategy (low CDP score, lack of climate policy, etc.)	Short term	Medium term
<b>PHYSICAL RISKS</b>			
<ul style="list-style-type: none"> <li>&gt; Abnormal heat or abnormal cold</li> <li>&gt; Windstorms</li> <li>&gt; Abnormal rainfalls and floods</li> <li>&gt; Wildfires</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Disruptions in company operations and supply chains</li> <li>&gt; Reduced employee productivity, additional energy costs</li> <li>&gt; Reduction in the value of real estate</li> <li>&gt; Reduced liquidity of households and enterprises</li> </ul>		Long term
<ul style="list-style-type: none"> <li>&gt; Change in annual average precipitation</li> <li>&gt; Sea level rise</li> <li>&gt; Permafrost thaw</li> </ul>			Long term



# To the Sustainability / Environmental impact sections

## Excerpt from the GHG Audit Report

### GHG emissions, thousand t CO<sub>2</sub>-eq

GRI 305-1, 305-2, 305-3

GHG emissions	2019	2020	GHG emissions intensity per employee, t CO <sub>2</sub> -eq / FTE (per employee <sup>1</sup> ) in 2020	2021	GHG emissions intensity per employee, t CO <sub>2</sub> -eq / FTE (per employee <sup>2</sup> ) in 2021
Scope 1 + Scope 2 + Scope 3	97.00	77.00	4.60	86.50	3.70
Scope 1 + Scope 2	17.00	16.00	0.90	26.40	1.10
Scope 1	2.00	3.00	0.15	3.50	0.15
Scope 2	15.00	13.00	0.78	22.90	0.98
Scope 3	80.00	61.00	3.60	60.10	2.60

### GHG emissions intensity

GRI 305-4

GHG emissions intensity	Units of measurement	2019	2020	2021
Scope 1 + Scope 2 + Scope 3 per total assets	t CO <sub>2</sub> -eq. / ₺1 million of total assets	1.00	0.60	0.04
Scope 1 + Scope 2 per total assets	t CO <sub>2</sub> -eq. / ₺1 million of total assets	0.02	0.01	0.01

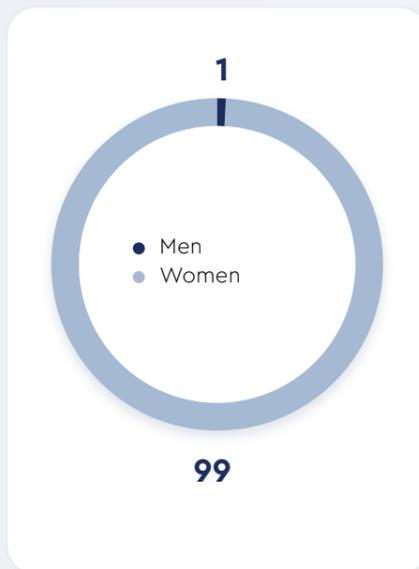
<sup>1</sup> As at 31 Decemver 2020, the Group had 16,905 employees.

<sup>2</sup> As at 31 December 2021, the Group had 23,453 employees.

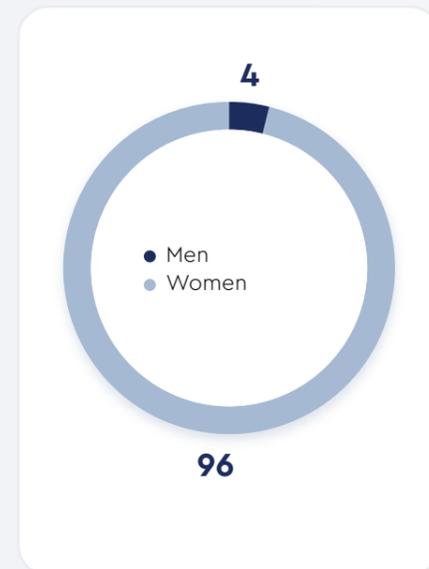
# To the Sustainability / Employee development sections

## Employees that took parental leave in 2021, by gender

GRI 401-3



## Employees that returned to work from parental leave in 2021, by gender



## Gender pay gap, P thousand

GRI 405-2



# Licenses held by the Bank

## INFORMATION ABOUT THE LICENSES OF SOVCOMBANK PJSC

- General license No. 963 of the Bank of Russia on banking operations dated December 5, 2014 (perpetual),
- License No. 963 of the Bank of Russia on banking operations with the right to attract deposits and placement of precious metals dated December 5, 2014 (perpetual),
- License of professional participant of the securities market for depository services No. 144-11962-000100 dated January 27, 2009 (perpetual),
- License of professional participant of the securities market for dealing No. 144-11957-010000 dated January 27, 2009 (perpetual),
- License of professional participant of the securities market for brokerage No. 144-11954-100000 dated January 27, 2009 (perpetual),
- License No. 0008112 for the development, production, distribution of encryption (cryptographic) facilities, information and telecommunication systems, which are protected with encryption (cryptographic) facilities, for works and services in the field of data encryption, technical support services of encryption (cryptographic) facilities, information and telecommunication systems, which are protected with encryption (cryptographic) facilities (except where technical support services of encryption (cryptographic) facilities, information and telecommunication systems, which are protected with encryption (cryptographic) facilities, are performed for the own needs of the legal entity or individual entrepreneur) dated September 9, 2015 (perpetual).

# Glossary

**AI:** Artificial Intelligence

**BCBS:** The Basel Committee on Banking Supervision

**CAGR:** compound annual growth rate

**Cash-in:** a function that allows customers to deposit cash at an ATM.

**CBAM:** Carbon Border Adjustment Mechanism, an import charge to be levied on imported goods on the basis of direct GHG emissions from the production of such goods (Scope 1). It was proposed by the European Commission as part of the Fit for 55 climate package on July 14, 2021. For further details, see EU Carbon Border Adjustment Mechanism: Key Issues and Impact on Russia (skolkovo.ru)

**CBI:** Climate Bonds Initiative

**Climate Neutral Now: UN's Climate Neutral Now Initiative**

**CSI:** Customer Satisfaction Index

**D&O:** Directors and Officers Liability

**Daily active users: number of unique users per day**

**E-com:** Electronic commerce

**eNPS:** Employee Net Promoter Score

**Floor-plan:** financing of wholesale purchasing of cars for subsequent retail sale by car dealerships

**GRI:** Global Reporting Initiative

**ICMA:** International Capital Market Association

**LTIFR:** Lost Time Injury Frequency Rate LTIFR is calculated using the following formula: Lost Time Injury Frequency Rate = Number of lost time injuries in the reporting period / Average number of employees in the reporting period \*1,000

**M&A:** mergers and acquisitions

**Monthly active users:** number of unique users per month

**NPS:** Net Promoter Score

**NZBA:** Net-Zero Banking Alliance

**PCI SSC:** Payment Card Industry Security Standards Council

**ROE:** Return on equity

**RPA:** robotic process automation, i.e., automation of business processes using bots or artificial intelligence

**SBP:** Social Bond Principles

**TCFD:** TaskForce on Climate-related Financial Disclosures

**UNEP FI:** United Nations Environment Programme Finance Initiative

**UX/UI:** User Experience/User Interface

**Wealth Management:** wealth management services for wealthy clients

**RES:** renewable energy sources

**ICAAP:** internal capital adequacy assessment process

**IIS:** individual investment account

**CSL:** loan secured by cars

**RESL:** loan secured by real estate

**SME:** small and medium-sized enterprises

**CSIRT:** Computer Security Incident Response Team

**Overall employee turnover rate:** the ratio of the total number of dismissed employees to the average number of employees

**OFEP:** open foreign exchange position

**Omnichannel approach:** a combination of the Bank's nationwide office network, digital channels, and a partner network in the automobile and real estate segments

**Onboarding:** a process of adapting customers to a new digital service

**Orchestration:** combination of digital service interactions

**360 survey:** a system for assessing an employee through a survey of the business environment of such employee

**ICR:** Internal Control Rules

**IRB-approach:** internal ratings-based approach to credit risk

**Recovery plan:** a plan to prevent the deterioration of the financial situation and financial stability of the Bank

**AML/CFT/CFP:** combating money laundering, the financing of terrorism and the financing of the proliferation of weapons of mass destruction

**REPO:** repurchase agreement

**SCS:** settlement and cash services

**Securitization:** attraction of asset financing by issuing securities

**Scoring:** assessment of creditworthiness of a potential borrower

**Mean employee turnover rate:** the ratio of the total number of dismissed employees to the total number of employees

**FVPL:** financial assets measured at fair value through profit or loss, excl. derivatives and shares

**FVOCI:** financial assets measured at fair value through other comprehensive income

**Stack:** a set of technologies used to build a web or mobile application

**ORMS:** operational risk management system

**RMS:** risk management system

**FMS:** Financial Monitoring Service

**FinCERT:** Financial Sector Computer Emergency Response Team, a designated structural division of the Bank of Russia

**Fraud monitoring:** a system for assessing events in terms of the threat of fraud

**FSTEC:** Federal Service for Technical and Export Control

**UN SDGs:** UN Sustainable Development Goals

# Membership in Russian associations

GRI 102-13

As of December 31, 2021, Sovcombank is a member of the following associations:



The Association of Banks of Russia



The National Financial Market Board non-profit organization



SRO National Association of Stock Market Traders



The Association for the Development of Financial Technologies



The Association of Financial Market Participants Non-profit Partnership for the Development of the RTS Financial Market



The Russian National Swift Association



SRO National Financial Association

# Contact information

GRI 102-53



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