

EXIM BANCA ROMANEASCA

**POLICY FOR SUSTAINABLE
DEVELOPMENT**

**IN THE NAME AND ACCOUNT OF THE
STATE**

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I. Introduction

The Exim Banca Romaneasca Policy for Sustainable Development (hereinafter the Policy) is based on the following programmatic documents: *United Nations Agenda 2030 for Sustainable Development*¹, *Paris Agreement for Climate Change* ratified by Romanian state through Law 57/2017, the *European Green Deal*², *European Union Taxonomy*³, *Fit for 55*⁴, *European Union Action Plan: Financing the Sustainable Development*⁵.

The European Green Deal, part of the European response to the climate and environmental challenges aims at transforming the European Union in a modern, efficient in terms of resources usage and competitive economy with zero greenhouse emissions by 2050 (net zero by 2050) with a growing trend disconnected from resources utilization.

An important role is designed for the financial system which by directing the public and private resources to support green, sustainable projects will be able to contribute to mitigate the risks derived from climate change and at the same time to support the sustainable economic growth and creation of new jobs. Thus, progress evaluation related to sustainable financing is connected to the European Union economic model of sustainable development centered on circular, innovative economy, with low carbon emissions, that uses resources efficiently and protects the environment.

The *European Union Action Plan: Financing the Sustainable Development* recommends to the financial institutions to start using the ESG (environment, social and governance) factors in the financing decision making process:

- **Environment factors** – related to climate change mitigation and adaptation, and to environment to a larger extent and associated risks (e.g. natural disasters).
- **Social factors** - may relate to lack of equality, inclusions, work relations, human capital and communities investments.

Environmental and social factors are often connected, considering that climate change may aggravate the existing lack of equal chances.

- **Governance** of public and private institutions plays a fundamental role in insuring that environmental and social factors are taken into consideration in the decision-making process.

In order to offer a direction for stakeholders and financing entities in terms of the key areas for sustainable development, the European Commission has adopted 6 targets that will contribute to reducing carbon emissions:

1. Climate change attenuation.
2. Climate change adaptation.
3. Sustainable usage and water and marine resources protection.
4. Transition to a circular economy.
5. Pollution prevention and control.

¹ [United Nations Sustainable Development – 17 Goals to Transform Our World](#)

² Comunicarea Comisiei către Parlamentul European, Consiliul European, Consiliu, Comitetul Economic și Social European și Comitetul Regiunilor privind Pactul ecologic european, COM (2019) 640

³ Regulamentul (UE) 2020/852 al Parlamentului European și al Consiliului din 18 iunie 2020 privind instituirea unui cadru care să faciliteze investițiile durabile și de modificare a Regulamentului (UE) 2019/2088 (Taxonomia UE).

⁴ Comunicarea Comisiei către Parlamentul European, Consiliu și Comitetul Economic și Social European și Comitetul Regiunilor - 'Pregătiți pentru 55': îndeplinirea obiectivului climatic al UE pentru 2030 pe calea spre atingerea obiectivului de neutralitate climatică COM (2021) 550

⁵ Comunicarea Comisiei către Parlamentul European, Consiliul European, Consiliu, Banca Centrală Europeană, Comitetul Economic și Social European și Comitetul Regiunilor COM(2018) 97

6. Biodiversity and eco-systems protection and restauration.

The European Union Taxonomy Regulation states a classification system used by European Union for sustainable activities. In consideration of the process complexity the systems has been developed only for environmental activities so far, contributing to reaching the first two targets – the **attenuation** and **adaptation** to climate change. An economic activity is considered **sustainable** if it contributes to one of the two targets (*attenuation* or *adaptation*) and does not significantly harm the others (the *DNSH* – „Do No Significantly Harm” principle).

In this dynamic European context, profoundly transforming, that implements financial policies changes in order to facilitate the sustainable investments, the present Policy includes the sustainable development as an integral part of all Exim Banca Romaneasca activities executed under the Romania state mandate.

As the sustainability aspects may affect the companies' financial ratings and implicitly may cause substantial loss to the financial institutions due to the decrease of the returns for the companies that are most exposed to climate change or the ones heavily dependent on natural resources that become scarce, Exim Banca Romaneasca will need access to as much information as possible regarding the sustainability of companies accessing the financing, guarantees and insurance products, including the sustainability factors as part of the governance systems of the respective companies so that Exim Banca Romaneasca may direct the funds made available to it based on the Law 96/2000 regarding the organization and functioning of the Romanian Bank for Export – Import – Exim Banca Romaneasca SA, republished and with further amendments and its specific instruments for supporting the international transactions by prioritizing sustainable economic activities and investments.

Thus, Exim Banca Romaneasca may contribute to the development of sustainable business models for Romanian companies and their clients, maximizing the opportunities with positive impact on long term.

The present Policy extends the general financial risk evaluation framework by adding the sustainability related risks in the current activity of granting financing, guarantees and insurance products in the name and on the account of the state by taking into consideration both at individual and portfolio levels the impact that the sustainability associated risks have on the environment, people and societies when evaluating the activities for which there is a request for official support through the Exim Banca Romaneasca instruments offered in its mandate activity.

By following the international standards and best practices in this field, Exim Banca Romaneasca will intensify its efforts to continuously improve the methods and instruments for managing the financial risks deriving from climate change, resource exhaustion, environmental degradation and social aspects as well as to ensure the compliance and effective application of European regulations and relevant policies in light of the *European Green Deal*.

II. Definitions

According to the terms of the *Paris Agreement for Climate Change* and the *EU Taxonomy*, we hereby define the following:

- a) **Economic activity that contributes to climate change attenuation** – represents the activity that should significantly contribute to greenhouse emissions stabilization by avoiding or reducing them or through greenhouse emissions absorption. The respective activity should be in line with the long-term objective related to temperature as per the *Paris Agreement for Climate Change*;
- b) **Economic activity that contributes to climate change adaptation**– represents the activity that should significantly contribute to reducing or preventing the negative effects of the current climate or foreseen one or the risks associated to the respective negative effects on the activity itself, the people, nature or goods;
- c) **Sustainable activities** – activities considered to be contributing to climate change attenuation and adaptation, according to the *EU Taxonomy*;
- d) **Adaptation to climate change** – the process of adjusting to the real and forecasted climate change as well as to their effects;
- e) **Attenuation of climate change** – the process of maintaining the increase of global average temperature much lower than 2 °C and continuing the efforts to limit the global warming to 1,5 °C over the pre-industrial levels;
- f) **Sustainable development or sustainability**– represents the development that answers to present needs without compromising the future generations capacity to satisfy their needs;
- g) **Circular economy** – represents a pattern of productions and consumption that involves sharing, re-use, mending, renovation and recycling materials and existing goods as much as possible. Thus, the products life cycle is extended;
- h) **Greenhouse gas emissions (GHG)** – represent the emissions of water vapors, carbon dioxide, methane gas, nitrogen protoxide, ozone, chlorofluorocarbons (freon) and hydrofluorocarbons in the earth atmosphere;
- i) **Sustainability factors ESG („Environmental, Social and Governance”)** – key factors to measure the sustainability and the ethical and social of the activities;
- j) **Sustainable financing**– represents the correlation of the financing, guarantee, insurance instruments with the specific needs of the Romanian, European and global economy for the benefit of the planet and society;
- k) **„Net Zero” Target** – represents the European Union objective to reach the climatic neutrality by 2050, an economy with “net-zero” emissions (climate balance) of greenhouse gas into the atmosphere;
- l) **DNSH Principle- („Do No Significantly Harm”)** – the principle by which the economic activities that contribute to the two major targets (attenuation and adaptation to climate change) of the EU Taxonomy must be assessed in order to ensure that they would not significantly affect the other targets in the Taxonomy;
- m) **Sustainability risk** – event or environment, social or governance related situation that, in case of its occurrence could cause a significant negative effect in fact or potential on the investment value;
- n) **Climate change** – refers to the weather patterns on long term (temperature, sea levels, rainfalls) caused by global warming;
- o) **EU Taxonomy**- classification system that establishes a list of the sustainable economic activities in ecologic terms. The EU Taxonomy offers adequate definitions for those economic activities that may be considered as sustainable in terms of ecology.

III. Policy’s progressive trend. Specific actions and measures

Due to the fact that the Sustainable Development Policy is live document that will be adjusted both as form and content in line with the calendar of various environment and climate targets adopted

by Romania at international level as well as to the potential changes that may appear in the future, Exim Banca Romaneasca intends to follow the general objectives that cover the need of fulfilling these objectives in a reasonable amount of time.

Exim Banca Romaneasca encourages the companies that apply for financing, guarantees and insurance products to include sustainability in their business strategies, to integrate the sustainability associated risks, to consider the negative effects on sustainability and sustainable investment projects or on promoting the social and environmental features to be considered in the decision-making process.

Exim Banca Romaneasca encourages the companies to respect the good governance practices and to guarantee the caution principle (*Do No Significantly Harm*) so that the environmental or social objectives should not be significantly damaged.

Based on this Policy, the sustainability objectives are included in the entire Exim Banca Romaneasca activity under the Romanian state mandate, on the following coordinates:

A. Priority funds allocation for sustainable projects

- Developing green financing, guarantees, insurance products (*Green Loans, Green Guarantees* and *Green Export Insurance*) to prepare the SMEs for adopting EU Taxonomy and for implementing sustainable and environment friendly business practices by supporting first the projects that ensure the conservation of biodiversity, the regenerable energy, energy efficiency, efficient use of the resources and waste, pollution and environment degradation prevention;
- Developing support programs for SMEs for financing and guaranteeing energy efficiency and carbon emissions reduction by supporting mainly low carbon dioxide emissions projects (CO₂) or aiming at reducing carbon emissions, or low impact or zero greenhouse gas emissions;
- Developing products for financing/guaranteeing projects related to circular economy.

B. Managing financial risks derived from the climate change, resources exhaustion, environment degradation and social aspects

- Developing a management system for factors and risks associated with sustainability for the mandate activity;
- Developing the internal regulation framework by including ESG factors in the internal underwriting procedures, internal rating system and the decision-making process.

C. Promoting transparency and long-term vision

- Drafting a mechanism for managing complaints for the stakeholders.;
- Periodical training for the Exim Banca Romaneasca employees working under Romanian state mandate regarding sustainable development, ESIA and assessing the impact of climate change.

IV. Sustainability risks

In the process of establishing the risks associated to sustainability Exim Banca Romaneasca acting in the name and on the account of the state considers the following associated risks:

- risks deriving from the physical effects of climate change;
- risks associated to the responsibility for contributing to climate change or transitional risks (risks associated to the applicant deriving from transitioning toward a low carbon dioxide emissions and resistant to climate change);
- environmental risks (exhaustible resources, biodiversity, water reserves, pollution, other);

- market alterations and consumers preferences;
- legal and regulating risks regarding environment protection;
- technology risks related to climate change that may lead to eliminating some activities or restructuring others;
- social risks (communities in project area may be affected, child labor, labor accidents, working hours, number of incidents and accidents, working conditions (day/night shifts) etc.

Screening

Screening involves collecting information based on the *Application for financing/guarantees/insurance* filled in by the applicant/financing bank aiming at identifying those activities that will be subject to classification and sustainability evaluation.

The parties involved in the project must offer all the necessary information for Exim Banca Romaneasca can assess it in a correct manner.

Activities classification

Financing is supporting the economy through offering funds for economic activities thus contributing to creating new jobs and supporting economic growth. Thus, Exim Banca Romaneasca in the name and on the account of the state will include the respective activities of the applicant companies for its financing, guarantees and insurance products in the following categories:

Low risk activities

- 1. small value projects (less than RON 10 Million), regardless of the activity:**
- 2. activities that contribute to mitigation of climate change:**
 - a. renewable sources energy generation, transportation, storage according to EU Directive (UE) 2018/2001, including innovative technologies potentially generating significant future savings or necessary grid extensions and consolidations;
 - b. improving energy efficiency, except for energy generation activities;
 - c. increase clean or neutral mobility in terms of climate;
 - d. shift towards using renewable materials obtained through sustainable methods;
 - e. increase technology usage for capture and utilization of carbon dioxide (CUC) and capture and storage of carbon dioxide (CSC) in a safe environmental manner ensuring the net reduction of greenhouse gas emissions;
 - f. building the necessary energy infrastructure for facilitating the decarbonation of energy systems;
 - g. producing non-polluting efficient fuels from renewable or neutral sources in terms of carbon dioxide emissions;
 - h. facilitating any of the activities mentioned at points (a)-(g).
- 3. activities that contribute significantly to adapting to climate change:**
 - a. activities that include adaptive solutions that either reduce the negative effect risk of the current and forecasted climate on the respective economic activity or reduce significantly the respective negative effect on persons, nature or assets; or
 - b. activities that offer adaptive solutions contributing significantly to risk prevention or reduction associated with the negative effect of present and future forecasted climate on

persons, nature or assets without increasing the risk of a negative effect on other persons, nature or assets.

Medium high risk

These are the activities that have a limited impact on societies and environment. Targeted industrial sectors vary and the assessment is individual, project-based.

High risk activities

These are usually the activities from industries that have a high impact on societies and environment. For instance, this is the category for financing the industrial domains that pollute the environment, only under the condition of applying control measures and tools to reduce the impact on population and environment: e.g. coal thermal energy, building sites in ecological sensitive areas or protected areas.

ASSESSMENT

The assessment of the climate impact is part of the underwriting process of the financing/guarantees/insurance applications when assessing all the risks associated to the respective operation, with the aim of substantiating the approval of granting support for the transaction.

Establishing assessment limits

The present Policy establishes the following limits for assessing individual projects:

- **up to RON 10 Million** - small value projects considered to have a low sustainability risk, no additional underwriting;
- **RON 10 Million up to RON 25 Million** - medium value projects that will be assessed on a simplified process based on the *Sustainability Questionnaire* (form F118/x-ORG-CS), filled in by the applicant;
- **More than RON 25 Million** – projects with high values, will be extensively assessed (in-depth evaluation) based on the *Sustainability Questionnaire* (form F118/x-ORG-CS), filled in by the applicant and the notices/approvals issued by the respective authorities in terms of environmental protection according to the regulations in place or, when the case, for insurance of export credits, the Environmental and Social Impact Assessment.

Sustainability assessment matrix

Considering the previous granted exposures by Exim Banca Romaneasca in the name and on the account of the state, the following domains (not an exhaustive list) and the projects values constitute the guide for a decision making in terms of simplified, in-depth evaluation or no evaluation at all in terms of sustainability:

Classification	Industry	Due Diligence
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Low risk	Renewable sources energy, Transportation (electric), Advanced waste processing	N/A
Medium high risk	Construction industry (buildings, bridges, roads), Furniture industry, Agriculture, IT, Food industry, Hotels and restaurants, Trade	Simplified assessment
High risk	Extraction industry, Oil and gas, Coal and fuel oil (HFO) energy production, Heavy industry (steel, cast iron, cement plants etc.), Livestock breeding (beef and pigs breeding), Transportation (diesel or gas)	In-depth assessment

The assessment matrix considers the industry type and the exposure value/ project value (according to the benchmarks for evaluation).

Assessment results

Based on the assessment results, Exim Banca Romaneasca may establish additional ex ante/ ex post terms related to sustainability (attenuation/reduction measures, additional monitoring requests etc.), as following:

- The project may continue in its initial form;
- The project may continue under certain conditions (to be specified);
- The project is not sustainable and its support is not recommended.

Exclusions based on sustainability risks

Exim Banca Romaneasca is actively contributing to identifying the necessary factors for reducing the sustainability risks and acts on highest diligent standards for the following activities:

- Activities that damage the environment and may have a negative climate effect;
- Activities suspected to use forced labor, child labor or project suspected of discrimination on any grounds.

In the situation when the respective activities are not coupled with measures for reducing the impact, they will not meet the criteria for benefiting of financing/guarantees/insurance granted by Exim Banca Romaneasca in the name and on the account of the state.

V. Sustainability factors

Environmental factors

Standards applied by Exim Banca Romaneasca in the name and on the account of state in assessing the environmental impact:

- OECD Recommendation of the Council on “Common Approaches for Officially Supported Export Credits and Environmental and Social Due Diligence”
- International Finance Corporation (IFC) Performance Standards
- Social and environmental standards in the export target country
- Paris Agreement, Equator” principles, up to the possible extent in the support export credits activity.

Environmental impact assessment

The evaluation of projects based on the environmental aspects, considering that the activities that harm the environment may trigger a negative effect are the following:

1. Activities that generate greenhouse gas, including CO₂, NO_x, SO_x, that do not follow the legal provisions in terms of emissions and have been not duly authorized.
2. Fuel consumption and efficiency that do not follow the regulations in place regarding fuel consumption and efficiency and/or do not have the necessary authorizations.
3. Wastewater usage: they do not comply with the regulations in place regarding wastewater and do not have the necessary authorizations.

In case of export credits on medium and long term that benefit from the official support of Exim Banca Romaneasca in the name and on the account of the state, the classification of projects and the assessment of the environmental impact follow the provisions of the *Environmental and social impact policy for officially supported export credits (Annex 1)* and the general procedure *Assessment of the environmental and social impact of officially supported credits projects of Exim Banca Romaneasca in the name and on the account of the state*.

Climate change impact assessment

Exim Banca Romaneasca assesses the climate impact of all projects considering the adaptation to climate change and mitigation of the climate change impact according to the provisions of the Regulation (UE) 2020/852 of European Parliament and Council:

- a) **Adaptation** to climate change is assessed by applying the principles of Paris Agreement, as well as other international institutions recognized in the environment protection (e.g. European Environment Agency);
- b) **Mitigation** of climate change is assessed by applying the principle *DNSH* (“Do Not Significantly Harm”) and the technical criteria for establishing the conditions under which an activity significantly contributes to mitigation of climate change and to determine whether that economic activity does not cause any significant harm to other environmental targets.

Social factors

Social impact assessment

Exim Banca Romaneasca assesses the current and potential social impact:

Current social impact – includes the effects on local communities directly impacted by the on-going activities or implementation of a project in terms of respecting the human rights; social risk represents the probability that these effects might occur and the consequences of these effects.

Potential social impact - includes, without limiting at, the working, health, security and safety conditions of the community, land acquisition, involuntary resettlement, native populations, cultural heritage as well as the project impact on human rights, including forced labor, child labor, health damaging activities and work safety.

In case of export credits on medium and long term that benefit from the official support of Exim Banca Romaneasca in the name and on the account of the state, the classification of projects and the assessment of the social impact follow the provisions of the *Environmental and social impact policy for officially supported export credits (Annex 1)* and the general procedure *Assessment of the environmental and social impact of officially supported credits projects of Exim Banca Romaneasca in the name and on the account of the state*.

Governance factors

Exim Banca Romaneasca assesses the governance system at company levels in terms of commitments for ensuring the sustainability of the respective activity and case by case observation of international regulations such as:

- UN Global Compact
- UN Guiding Principles on Business and Human Rights
- OECD Guidelines for Multinational Enterprises
- ILO Declaration on Fundamental Principles of Right at Work.

VI. Grievance mechanism

The complaint may be filed by any client, group, community, entity or any other stakeholder interested or impacted or potentially impacted by one or many Exim Banca Romaneasca actions. These entities might direct their query in writing at: dezvoltaredurabila@Exim Banca Romaneasca.ro.

VII. Transparency and reporting

Transparency demands

Exim Banca Romaneasca offers in a clear, balanced, exact and timely manner, to all interested parties (including shareholders, employees, clients and general public) key information necessary for allowing them to assess the application of sustainability principles in the bank's activity under the Romanian state mandate.

Transparency is ensured nu publishing the relevant data in the annual report and on the bank's website www.Exim Banca Romaneasca.ro.

Reporting

At least annually, Exim Banca Romaneasca submits to the supervisory and control authorities, European Commission, OCDE relevant information regarding sustainability principles implementation for the bank's activity under the Romanian state mandate.

The organizational chart of Exim Banca Romaneasca ensures a vertical information flow – both ways – and horizontal that allow:

- a) Reporting and informing the management body regarding the risks related to sustainability risks associated with the activity in the name and on the account of the state;
- b) Informing and communicating on behalf of the management body regarding the set values and sustainability objectives, as well as on strategies, policies and approved regulating documents related to ensuring the sustainability;
- c) Spreading information and communication through the internal structures of the bank for which the respective data and information are relevant.

Internal structures of Exim Banca Romaneasca are organized as to ensure a quality informational flow that include ESG factors in the decision-making process.

In order to implement the principles stated in the current Policy, Exim Banca Romaneasca in the name and on the account of the state cooperates with other entities of the state involved in this process in order to align to a common approach regarding the actions and measures that contribute to the sustainable financing of the economy and ensuring the competitive level of Romanian economy on long term.

Starting with the entry into force of the present Policy the respective principles will be observed for any new application for financing/ guarantees/ insurance as well as for increasing the existing exposures. The principles of the current policy do not apply to decreasing or extending the maturity of existing exposures.

ANNEXES:

Annex 1 Environmental And Social Policy For Officially Supported Export Credits

<u>Annex 1.1</u>	Sample List of category A and B projects
<u>Annex 1.2</u>	IFC International standards
<u>Annex 1.3</u>	Environmental and Social Impact Assessment (ESIA)

CLIENT FORMS:

F118/x-ORG-CS Sustainability Questionnaire