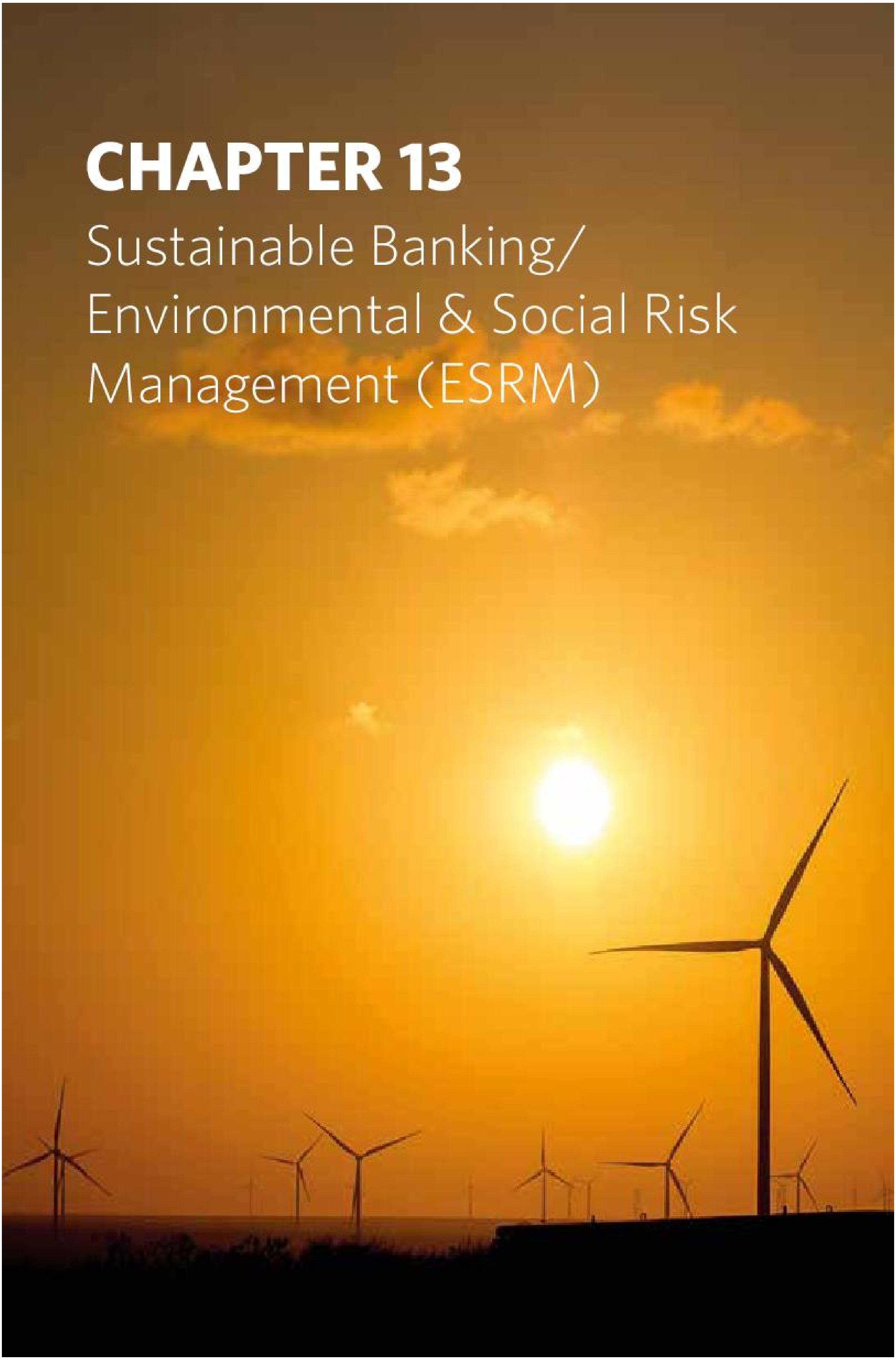
CHAPTER 13
Sustainable Banking/ Environmental & Social Risk Management (ESRM)



13.1 Introduction to Sustainable Banking:

Sustainability is increasingly being recognized as central tenant to the growth of emerging market economies. In financial institutions, risk is inherent in all business activities. At Eastern Bank Limited (EBL), managing risk comprising Environmental and Social Risk – is a key part of banks responsible and sustainable growth strategy. It contributes to the strength and sustainability of EBL for the future and supports the work we do today to serve our customers, communities, shareholders, and employees. Risk management is fundamental to EBL's culture and critical to our success. The principles of sound risk management are embodied in our values, operating principles and Code of Conduct that all employees are expected to follow.

EBL has established Green Banking/Environmental and Social Risk Management Policy in 2012 to provide additional clarity and transparency around how we approach environmental and social risks. Social risk also assessed since than which includes a number of social parameters in addition to environmental parameters for risk assessment. Overall, these are key risk types strategic, credit, market, liquidity, operational, Legal, compliance and reputational which we face as a bank. Environmental and social issues can cross many of those risk types, but most often present reputational risk.

New standards and codes of conducts being developed towards Environment and Social Risk Management within the financial sector to promote corporate accountability and transparency on the impacts of businesses on environment and society over the times. From that, the role of Environmental and Social (E&S) Risk Management is aimed at reducing the Probability of Default (PD) for banks in its credits stemmed from environmental and social risk factors as well as ingraining the sustainability in the core business model.

EBL is committed to the needs of its customers, employees, shareholders, and community. We believe that our long-term success and existence is directly linked to the health and quality of the natural environment. We endeavor to continuously improve our environmental performance, reduce greenhouse gas emissions, carbon footprint, and prevent pollution by adopting and promoting renewable resources, resource efficient products, community outreach, awareness and education.

Our Sustainable Banking/ESRM policy is to describe banks risk management approach and provides for the clear ownership and accountability for managing risk well across the bank.

13.2 An evolving risk environment:

We take a proactive approach to identifying and managing risks, including environmental and social risks. We engage internal and external stakeholders to determine which environmental and social issues pose the greatest challenges. This helped us to better understand these issues and determine which ones should be included in our ESRM Policy.

In developing this ESRM Policy, we have benchmarked all of our existing environmental and social policies and positions against industry best practices. We also have evaluated the relevance of environmental and social issues to our business activities.

The ESRM Procedure as detailed in EBL's Credit Instruction Manual, in addition to investment threshold, define applicability based upon sector specific E&S impacts and the categories are expanded to include agriculture, retail, trade, microfinance, commercial and, corporate financing and project financing.

13.3 Sustainable Banking Policy Statements:

- Eastern Bank Limited and its subsidiaries will comply with all laws and regulations related to environmental protection, sustainable/ green banking other regulatory requirements and strives to operate in accordance with international best practice.
- The bank shall consider 'Environmental and Social Risk' as a core risk for its business and shall develop effective procedures for management of environmental and social risks in its lending activities.
- The bank shall support business activities that contribute to the protection and improvement of the environment by providing specialized 'green' products-offered under comparatively more favorable terms and conditions; specifically in the area of renewable energy, energy saving, organic farming, biodiversity conservation, green chemistry, green transportation, water and waste management, environmental restoration, eco-tourism and agri-tourism.
- The bank shall support economic activities of the flood, cyclone, and drought prone areas with soft terms of business and shall create "Climate Risk Fund" to support contingencies in adverse climatic conditions.
- The bank recognize the environmental burden caused by consumption of resources and release of waste from own business activities and aim to protect the environment through resource recycling as well as efficient use of energy and resources. We are committed to continually minimizing our operational environmental impacts, by monitoring environmental performance; setting improvement targets; and by implementing and evaluating environmental management program

that save energy and water, manage waste, recycle materials, reduce business trips, and promote green procurement and providing wide range of e-banking services.

- The bank shall provide in-house environmental capacities, education and support and promote environmental protection activities of individual directors and employees both during and outside working hours.
- The bank shall inform its customers, shareholders, and the general public about the targets and the performance of its environmental actions that collectively aim at improving the quality of environment and climate.
- The bank shall support initiatives of third parties i.e. non-profit agencies, organizations or institutions that generate added value by benefiting both humans and the environment.

13.4 Environment & Social Risk Management

EBL has an important role to play while taking a credit decision whether loans being disbursed to businesses involving activities having advarse impact on environment. Moreover, EBL need to manage the credit portfolio through active consideration of environmental and social vulnerabilities. Moreover Sustainable Development Goals (SDGs) have already been fully adopted by Government of Bangladesh. As prime cornerstones of SDGs are environmental conservation and social protection, credit operations of banks must be conducted through proper addressing of environmental and social issues. 10 year Perspective Plan, National Sustainable Development Strategy and 7th Five Year Plan of Government of Bangladesh have been built upon the vision of green and sustainable economy by ensuring social stability.

13.4.1 Introduction to Environment and Social Risk Management

Environmental and Social Risk is the risk of causing pollution or destruction of the natural environment (land, water, air, natural habitats, animal and plant species) and social welbeing either through accidental or deliberate actions. Since the bank has recongnized 'Environmental and Social Risk' (E&S Risk) as a core risk of its business; policies and procedures for managemnt of such risks are needed to be established. Every business activity has some inherent potential to cause damage to people and property - environmental, health & safety, and social risks. The degree of such risks depends on industry and geographic context where business operates. If businesses don't properly manage those inherent risks, they can incur unexpected environmentally and/or socially derived financial, legal and reputational liabilities for them. For any lending transaction, the bank is exposed to some level of E&S Risk through its borrwers business operations. If left unmanaged by the bank, these risks can lead to unexpected decline in bank's reputational image, costly litigation and loss of income or capital derived from credit default risk.

13.4.2 Principles of Environment and Social Risk Management

- All business units must recognize the social concerns and impact on the natural environment caused by their customers before taking business decisions.
- Business units must minimize bank's exposure to environmental and social issues, and must establish procedures to satisfy all regulatory and internal guidelines.
- All credit proposals must include consideration of environmental and social issues where appropriate and must take into account minimum nationally acceptable environmental and social standards or relevant laws and regulations. Where applicable, bank's internal policies and procedures to be followed meticulously and in case of conflict with national regulations, the stringent one shall prevail.
- Environmental and Social Risk is part of the total risk associated with lending; it should not be seen as a stand-alone risk. It needs to be identified, mitigated where possible, and if appropriate priced for.
- All staff involved with the development, management and approval of credit facilities, product development and loan recovery must make themselves conversant with the policy and the procedures relating to Environmental and Social Risk Management.
- All staff involved with the development, management and approval of credit facilities, product development and loan recovery must make themselves conversant with the policy and the procedures relating to Environmental and Social Risk Management covering Social Protection and Gender equality.
- Detailed procedures have to be set in Credit Instruction Manual and these shall be easy, accessible, usable, and practical for its users.
- As a socially responsible bank; EBL always emphasizes practicing green banking in terms of usage of electricity, recycling and less use of papers, online bill payment, internet banking and discourages industries those are threatening our habitat when providing loans. EBL measure and disclose the impact on environment and society through its business deals in its Annual Report as part of public disclosure.
- Head of Credit Risk Management Division, if not otherwise appointed by MD & CEO or Board of Directors, shall act as 'E&S Risk Manager' and she/he shall appoint 'E&S Risk Officer'. Both of them will be responsible for implementation and administration of E&S Risk Management System in the bank.

13.5 Applicable Standards

All national regulations pertaining to E&S governance to be applicable while carrying out E&S due diligence of a particular transaction. This means all relevant E&S permits, consents, licenses, and monitoring of E&S parameters as per the national regulations are to be considered as mandatory compliance requirements for evaluation of a loan application. A list of applicable national regulations and international treaties where Bangladesh is a signatory is provided in Annex N: List of Relevant National Regulations and International Treaties of Credit Instruction Manual for reference. IFC Performance Standards reprensenting international good practice shall be considered while compliance with these is required in case of large project financing having loan tenor more than 1 year.

If borrower has management systems in place as per international frameworks such as ISO 14001 for environmental management, OHSAS 18001 for occupational health and safety, SA8000 for socially acceptable practices in the workplace then it is to be considered as good practices. IFC Performance Standards reprensenting international good practice shall be considered while compliance with these is required in case of large project financing having loan tenor more than 1 year.

13.6 Environmental and Social Risk Management Procedure of EBL

Environmental and Social Management procedure is the set of policies, procedures, tools and internal capacity used by EBL to identify, monitor and manage exposure to the E&S risks of it's clients. EBL developed a robust Environmental and Social Management Procedure in 2012 which is continiusly improved and which states EBL's commitment to E&S management, explains its procedures for identifying, assessing and managing E&S risk of financial transactions, defines the decision-making process, describes the roles, responsibilities and capacity needs of staff in doing so and states the documentation and recordkeeping requirements. It also provides guidance on how to screen transactions, categorize transactions based on their E&S risk, conduct E&S due diligence and monitor the client's E&S performance. The Environemtal and Social Risk Managment Procedure desribes roles and responsibilities of its staff in managing E&S Risk.

Objective of the Environmental and Social Management Procedure of EBL is to:

- Identify environmental and social risk associated with clients and understand the potential impact on its portfolio;
- Systematically assess and manage environmental and social risks;
- Implement the necessary steps within its risk management system including documentation and recordkeeping;
- Monitor client compliance with national environmental and social regulations and international best practices and standards;
- Require clients to implement mitigation measures for identified environmental and social risk;
- Identify social and environmental business opportunities; and
- Develop a good reputation among clients and other relevant parties in the financial market.

13.7 Implementing Environmental and Social Risk Management Procedure

Implementation of Environmental and Social Risk Management Procedure is an ongoing process. EBL introduced Environmental and Social Risk Management Procedure in 2012 and rolled out across the Bank in 2013 through the 'CHAPTER 9: ENVIRONMENTAL & SOCIAL RISK MANAGEMENT PROCEDURE' in its Credit Instruction Manual (CIM). However as part of continious improvement this procedure beign reviewed by the managemnt annuallly to keep it updated with the global best practices on E&S Risk Management. To enhanced the capability of the relevent staffs; EBL is orgaising training and capcity enahancement program in regular interval. While Head of Sustainlabe Finance Unit is responsible for the implementation of this procedure.

13.8 Due diligence, heightened risk review and the prohibited list

Standard due diligence: Standard due diligence is conducted when environmental and social risks are well understood or expected to be relatively low for the customer, business activity, industry or geography. Due diligence begins with the Relationship Manager thorugh screening of Exclusion List, and this process may include, but is not limited to, client engagement, media searches and other screening tools including use of Environmental & Social Due Dilligence (ESDD) Checklist. This standard review may result in a customer relationship or transaction being approved, conditionally approved subject to specific mitigating actions, or declined in line with the line of business approval process. If, during this due diligence, the customer, business activity, industry or geography is identified as posing heightened risk, then enhanced due diligence to be conducted.

Enhanced due diligence: A customer relationship or transaction may require enhanced due diligence related to environmental and social issues due to a policy or standard, because it is referred by a Risk Manager after standard due diligence, or if the customer, business activity, industry or geography is deemed sufficiently sensitive. In these instances, enhanced due diligence is required before the relationship or transaction can proceed toward approval. Enhanced due diligence may include engagement of external experts/consultent, use of internal resources, media searches and information sources, and client websites and disclosures. Additional review may be conducted by the Business unit and risk management for any identified issues. Enhanced due diligence related to environmental and social issues is not intended to replace or supersede enhanced due diligence required by other policies or guidance.

13.9 Employment practices:

Employees are central to everything we do. This is reflected in our values and our employment policies and programs, which are continuously improved. Examples include diversity and inclusion, equal employment opportunity, workplace health and safety and our employee networks. EBL also developed Green Office Guideline (GOG) and Code of Conduct (COC) to provide staff of EBL with the ability to embrace environmental values and address social and gender issues, leading to a more environmentally sustainable office environment. This would increase the energy efficiency of the bank; develop water conservation practice; develop sustainable procurement practices; develop waste management procedures; and develop a self-assessment monitoring and reporting guide. GOG is helping us to making a difference in our office environment. GOG is outlining WHAT YOU SHOULD KNOW about your current environmental management system, providing hints and tips for WHAT YOU AND YOUR DEPARTMENT CAN DO to increase office environmental sustainability and providing useful statistics and WHARE TO GO for further information.

13.10 Organization structure and governance:

Environmental and social risks touch almost every aspect of our business. Like all risks, environmental and social risks require coordinated governance, clearly defined roles and responsibilities, and well-developed processes to ensure risks are identified, measured, monitored and controlled appropriately and in a timely manner. The Environmental and Social Risk Managemnt Procedure is aligned to overall Risk Managemnt Framework, which outlines EBL's approach to risk management and each employee's responsibilities for managing risk. Key to managing risk well is our philosophy that all employees are accountable for identifying, escalating and debating risks facing the company.

To strengthen oversight of environmental, social and governance issues, EBL established Sustainable Finance Committee, a management-level committee comprised of senior leaders across every major line of business and support function. The Sustainable Finance Committee engages other management committees as necessary, including the Risk Management Committee (RMC) of the Board which is responsible for management oversight and approval of key risks of the Bank. The Sustainable Finance Committee also routinely reports to the RMC of the Board of Directors on environmental and social issues. Duties and Responsibilities of Sustainable Finance Committee are:

i. Formulate, review and update all policies and guidelines relating to Sustainable Finance functions.

ii. To approve, supervise, monitor and evaluate the activities of Sustainable Finance Unit

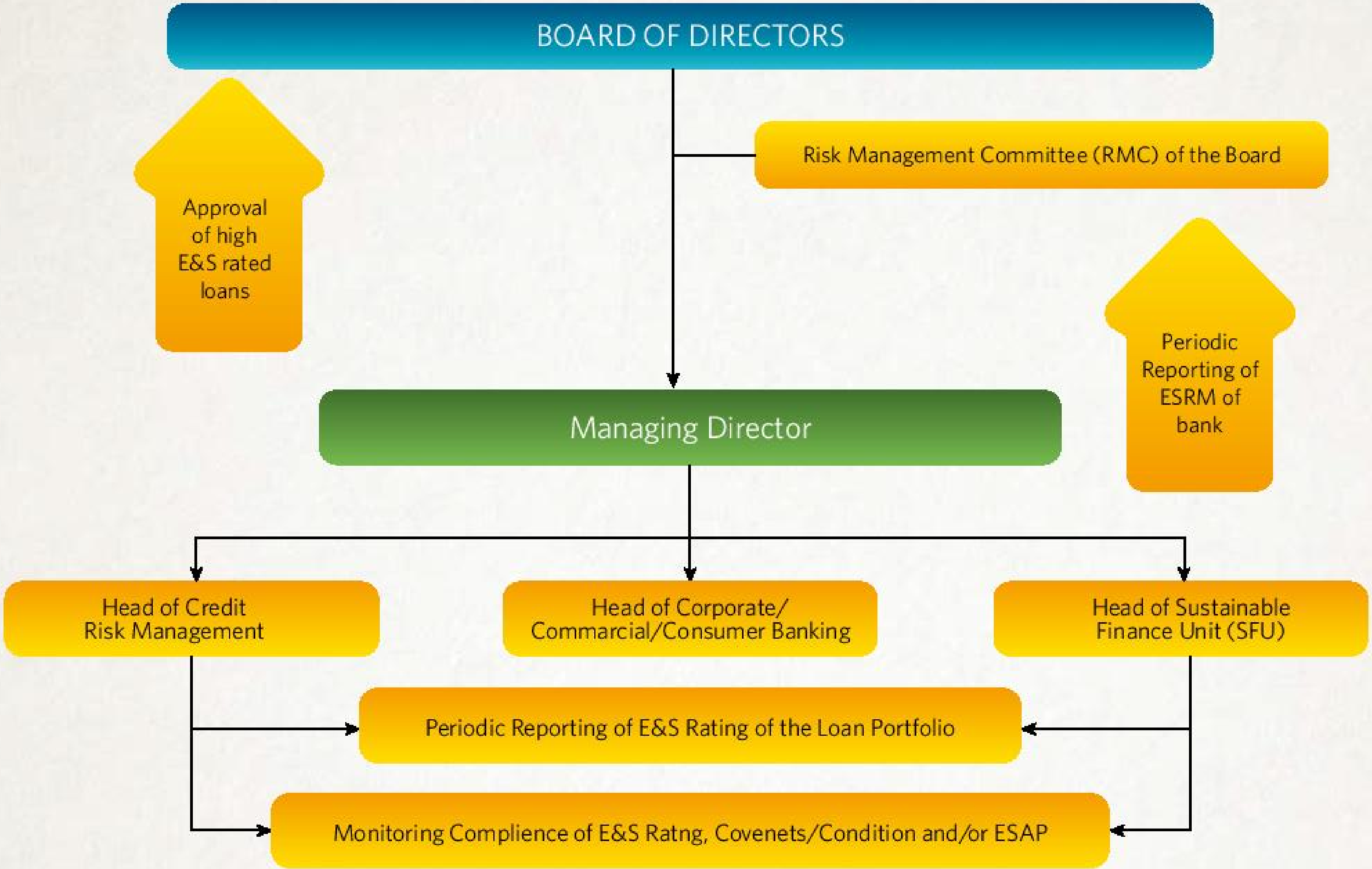
iii. To set the annual budget for Sustainable Finance Unit (Green Finance, CSR, Climate Risk Fund, Green Marketing etc.) and time to time evaluate the achievement against that budget.

iv. To obtain the approval of the budget for Sustainable Finance Unit (Green Finance, CSR, Climate risk Fund, Green Marketing etc.) from RMC of the Board.

v. Report to RMC of the board on achievement against annual budget of Sustainable Finance Unit.

vi. To coordinate with all concern departments relating to Sustainable Finance function to ensure required support from those departments in achieving the goal of Sustainable Finance Unit.

vii. Ensure regulatory and legal compliance in all aspects of Sustainable Finance;


BOARD OF DIRECTORS
Risk Management Committee (RMC) of the Board
Approval of high E&S rated loans
Periodic Reporting of ESRM of bank
Managing Director
Head of Credit Risk Management
Head of Corporate/ Commercial/Consumer Banking
Head of Sustainable Finance Unit (SFU)
Periodic Reporting of E&S Rating of the Loan Portfolio
Monitoring Complience of E&S Ratng, Covenets/Condition and/or ESAP

13.11 Incentives and Disincentives to borrower

Both incentives and disincentives allowed for projects that have high pre-disbursal ESRR. During post-disbursal monitoring of the performance of the project, if change in ESRR is observed, the following options may be considered, provided any change to the interest rate and repayment term to be incorporated as part of the loan agreement linked with changes in ESRR.

Appendix: 13-A: Options for incentives and disincentives

Sl. No	Particulars	Probable option(s)
1	Incentive(s) if change in ESRR is positive	■ Issuance of appreciation letter and upload the name of project on bank's website. ■ Reduction in interest rate. ■ Higher debt-equity ratio for those particular borrowers. ■ Flexibility in loan conditions. ■ Favorable loan to value ratio for those particular borrowers.
2	Disincentive(s) if change in ESRR is negative	■ Increase in interest rate. ■ Lower debt-equity ratio for borrowers. ■ Tougher loan covenants/conditions. ■ Tougher loan to value ratio for borrowers. ■ Exit from the relationship/Facility call back.

13.12 Internal/External Reporting

Sustainable Finance Unit (SFU) of EBL to report peridically both internally to senior management and also externally to Bangladesh Bank, DFI related with EBL and other stakeholders on it's E&S performance of transactions and measures taken to reduce overall exposure to E&S risk. SFU would compile all E&S findings from monitoring clients and aggregate findings at the portfolio level. By analysing those information, Management would have a better understanding of overall exposure to E&S risk through its portfolio.

E&S performance reports typically include information on:

- Portfolio breakdown by business line, industry sector and E&S risk category
- Overall exposure to E&S risk and performance
- High-risk transactions and E&S due diligence process prior to transaction approval
- Major E&S risks of individual transactions, including cases of non-compliance
- Significant E&S accidents or incidents related to a transaction
- Implementation and changes in the Bank's Environmental and Social Risk Management Procedure.
- The number of employees received training on Sustainable Banking and relevant issues.