

ESRMP-V01-2023



# Environmental and Social Risk Management Policy

Risk and Compliance Management Office

October 2023

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## Acronyms and Abbreviations

BoD	Board of Directors
CEO	Chief Executive Office
CRCMO	Chief Risk and Compliance Management Officer
ESRM	Environmental and Social Risk Management
E&S	Environmental and Social
IFC	International Finance Corporation
MIS	Management Information System
S.C.	Share Company
UNEP-FI	United Nations Environment Program – Finance Initiative
UNESCO	United Nations Educational, Scientific and Cultural Organization



## 1. Introduction

Environmental and Social Risks are the potential negative impacts of events or activities on natural environment and the communities; and accordingly may need to be taken into account when making business decisions in general. The Bank developed this Environment and Social Risk Management Policy to prevent and mitigate the social and environmental risks associated with its business activities and decisions. This Policy articulates the Bank's strategic commitment towards Environmental and Social (E&S) risk management and makes it an integral part of the Enterprise Risk Management practices.

## 2. Short Title

This policy can be cited as the 'Environmental and Social Risk Management Policy of Dashen Bank Share Company '.

## 3. Purpose of the policy

The purpose of this policy document is:

- 3.1. To set strategic E&S objectives, such as offering new products that address E&S sustainability;
- 3.2. To confirm and communicate the Bank's commitment to environmental and social risk management and assist in achieving its strategic and operational goals and objectives;
- 3.3. To incorporate E&S risk considerations into all financing activities of the Bank;
- 3.4. To communicate E&S expectations to all staff, customers and other external stakeholders;
- 3.5. To ensure that E&S risks of the Bank are identified, assessed, treated and reported to the Board Risk Management Committee in a timely manner;
- 3.6. To commit for continually building the capacity of Bank's staff on E&S risk management;
- 3.7. To exclude financing customers with business activities that do not meet the Bank's principles and IFC standards;
- 3.8. To promote the safety and soundness of the Bank by minimizing potential financial, and non-financial risks arising from environmental and social risks;
- 3.9. To deliver the best outcomes for our customers by responsibly providing innovative financial services that enable growth and economic progress while meeting our



responsibilities for sustainability;

- 3.10. To reflect our dedication in financing business opportunities with positive environmental and social impacts and actively mitigating environmental and social risks associated with customer transactions;
- 3.11. To increase the overall E&S performance in the Bank's financing portfolio through enhanced risk management;
- 3.12. To comply with all applicable international standards, national laws and regulatory frameworks related to environmental and social risk management;

#### **4. Definitions of Terms**

The terms used in this policy are defined as follows:

- 4.1 Board of Directors: means Board of Directors of Dashen Bank Share Company
- 4.2 Credit Risk: refers to the current or potential risk that the Bank's borrower or counterparty will fail to meet its obligations in accordance with agreed terms.
- 4.3 Customer: refers any individual or legal person who received the service and products of Dashen Bank.
- 4.4 Environmental: aspect related to climate change, water, air, land, water contamination, biodiversity conservation and natural resource.
- 4.5 Human Rights: refers rights inherent to all human beings regardless of race, sex, nationality, ethnicity, language, religion or any other status.
- 4.6 Operational Risk: refers to the risk of loss resulting from inadequate or failed internal processes, people, and systems or from external events, including legal, strategic, IT, and reputational risks.
- 4.7 Risks: are events or conditions that may occur and whose occurrence, if it does take place, has a harmful or negative impact on the achievement of the Bank's business objectives.
- 4.8 Risk Management: is the identification, assessment, and prioritization of risks followed by coordinated and economical application of resources to minimize, monitor, and control the probability and/or impact of unfortunate events or maximize the realization of opportunities.
- 4.9 Social: aspect related to human right, labor condition, gender, health and safety, vulnerable



group, affected community and cultural heritage.

4.10 Sustainable Development: development that meets the needs of the present without compromising the ability for future generation to meet their own need.

4.11 The Bank: means Dashen Bank Share Company

4.12 The policy: shall refer to the Environmental and Social Risk Management Policy of Dashen Bank Share Company

## 5. Policy Statement

Dashen Bank is committed to:

- 5.1 Protecting the planet by aligning its operations with global climate goals.
- 5.2 Enhancing the well-being of the communities it serves in.
- 5.3 Transparency, accountability and maintaining strong governance practices that safeguard the interests of its stakeholders.
- 5.4 Being a catalyst for responsible economic growth that is sustainable and inclusive.
- 5.5 Contribute responsibly to long-term economic prosperity and value creation by acting as the strategic partner among its financing institutions/stakeholders for sustainable development.
- 5.6 Be cognizant that it is exposed to environmental and social risks both directly, through its activities and indirectly, through its stakeholders, mainly Customers, Agents and Suppliers.
- 5.7 Integrating of ESG (reputational) risks and climate change risks into its Risk Appetite.
- 5.8 Adopt and implement human resources policies and procedures appropriate to its size and workforce that set out its approach to managing workers consistent with the requirements of national law.
- 5.9 Provide workers with documented information that is clear and understandable, regarding their rights under national labor and employment law and any applicable collective agreements, including their rights related to hours of work, wages, overtime, compensation, and benefits upon beginning the working relationship and when any material changes occur.
- 5.10 Provide reasonable working conditions and terms of employment such as wages and benefits; wage deductions; hours of work; overtime arrangements and overtime



- compensation; breaks; rest days; and leave for illness, maternity, vacation or holiday consistent with National law.
- 5.11 Not restrict workers from developing alternative mechanisms to express their grievances and protect their rights regarding working conditions and terms of employment consistent with National law.
- 5.12 Not discourage workers from electing worker representatives, forming or joining workers' organizations of their choosing, or from bargaining collectively, and will not discriminate or retaliate against workers who participate, or seek to participate, in such organizations and collective bargaining consistent with National law.
- 5.13 Engage with workers' representatives and workers' organizations, and provide them with information needed for meaningful negotiation in a timely manner. Workers' organizations are expected to fairly represent the workers in the workforce consistent with National law.
- 5.14 Base the employment relationship on the principle of equal opportunity and fair treatment, and will not discriminate with respect to any aspects of the employment relationship, such as recruitment and hiring, compensation (including wages and benefits), working conditions and terms of employment, access to training, job assignment, promotion, termination of employment or retirement, and disciplinary practices.
- 5.15 Take measures to prevent and address harassment, intimidation, and/or exploitation, especially in regard to women consistent with National law.
- 5.16 Provide a grievance mechanism for workers (and their organizations, where it exists) to raise workplace concerns consistent with National law.
- 5.17 Inform the workers of the grievance mechanism at the time of recruitment and make it easily accessible to them. The mechanism should involve an appropriate level of management and address concerns promptly, using an understandable and transparent process that provides timely feedback to those concerned, without any retribution. The mechanism shall also allow for anonymous complaints to be raised and addressed. The mechanism shall not impede access to other judicial or administrative remedies that might be available under the law or through existing arbitration procedures, or substitute for grievance mechanisms provided through collective agreements.



- 5.18 Not employ children or under the age of 18 or consistent with the National law in any manner directly and indirectly that is economically exploitative, or is likely to be hazardous or to interfere with the child's education, or to be harmful to the child's health or physical, mental, spiritual, moral, or social development.
- 5.19 Not employ forced labor, which consists of any work or service not voluntarily performed that is exacted from an individual under threat of force or penalty.
- 5.20 Provide a safe and healthy work environment, taking into account inherent risks in its particular sector and specific classes of hazards in the Bank's work areas, including physical, chemical, biological, and radiological hazards, and specific threats to women.
- 5.21 Evaluate the risks and impacts to the health and safety of the affected Communities during the project life-cycle and will establish preventive and control measures consistent with good international industry practice (GIIP) such as in the World Bank Group Environmental, Health and Safety Guidelines (EHS Guidelines) or other internationally recognized sources.

## 6. Scope of the Policy

This policy is applicable to the bank and its financing activities and projects of Dashen Bank S.C across all business segments. It is applicable and should be complied by all employees involved in loan processing, financing and credit risk management.

## 7. Governing Rules

The policy shall be governed by:

- 7.1 National laws and policy of the Federal Environment Protection Authority.
- 7.2 International best standards that encourage sustainable business growth in all markets by protecting the rights and welfare of its employees, preserving natural resources through responsible procurement and consumption, and contributing to the needs of local communities.
- 7.3 The Equator Principles, the International Finance Corporation (IFC) Performance Standards, and industry-specific Labour Conditions, Human Rights, Environmental and Anti-corruption guidelines as issued by the World Bank Group and UNEP FI Principles of Responsible Banking to apply enhanced environmental and social risk management practice.



Banking to apply enhanced environmental and social risk management practice.

- 7.4 Proclamation No. 1065/2018 Forest Development, Conservation and Utilization
- 7.5 Proclamation No. 1075/2018- industrial chemical registration and administration
- 7.6 Proclamation No. 513/2007- Solid Waste Management
- 7.7 Proclamation No. 300/2002 - Environmental Pollution Control
- 7.8 Proclamation No. 299/2002 Environmental Impact Assessment
- 7.9 Proclamation No. 896/2015 Biosafety (Amendment)

## 8. Guiding Principles

The Bank:

- 8.1 Works to avoid any risk of being associated with any form of forced labor, including modern slavery and human trafficking, through its business activities.
- 8.2 Organizes and maintains a reliable MIS that can help identify, measure, manage, monitor, and report its risk profile timely.
- 8.3 Works to avoid any threat to critical habitats and biodiversity conservation which may arise from its financing.
- 8.4 Require customers to adopt mitigation measures to protect and preserve natural resources.
- 8.5 Appoints the necessary resources and expertise to ensure the implementation of E&S risk management practices.
- 8.6 Commits to provide sustainable financing products and services in addition to analysis of environmental and social risk impacts of projects.
- 8.7 Integrates environmental and social considerations into credit processing cycle, as part of decision-making procedure.
- 8.8 Develops the E&S risk assessment tools and framework to identify and minimize E&S risk impact in a proactive manner.
- 8.9 Provide support to its customers in the implementation of appropriate risk management systems to improve their environmental and social performance.

## 9. Policy Prohibitions

The Bank has developed and maintained an exclusion list based on the critical environmental and social issues and in accordance to international standards. The Bank has listed down activities/ businesses that are not permitted to be financed.

### 9.1 Production, use, distribution, business or trade involving:

#### 9.1.1 Forced labor<sup>1</sup> or child labor<sup>2</sup>

### 9.2 Activities or materials deemed illegal under host country laws or regulations or international conventions and agreements, or subject to international phase-outs or bans, such as:

#### 9.2.1 Ozone depleting substances, PCBs (polychlorinated biphenyls) and other specific, hazardous pharmaceuticals, pesticides/herbicides or chemicals;

#### 9.2.2 Wild life or products regulated under the convention on international trade in endangered species or wild fauna and flora(CITES); or

#### 9.2.3 Unsustainable fishing methods (e.g. blast fishing and drift net fishing in the marine environment using nets in excess of 2.5 km in length.

### 9.3 Cross-border trade in waste and waste products, unless compliant with Basel convention and the underlying regulations.

### 9.4 Destruction<sup>3</sup> of high conservation value areas<sup>4</sup>

### 9.5 Radioactive materials<sup>5</sup> and unbounded asbestos fibers.

### 9.6 Pornography and /or prostitution

### 9.7 Racist and /or anti-democratic media

### 9.8 In the event that any of the following products from a substantial part of a project's primary

<sup>1</sup> Forced labour means all work or service, not voluntarily performed, that is extracted from an individual under threat of force or penalty as defined by ILO conventions.

<sup>2</sup> Persons may only be employed if they are at least 14 years old, as defined in the ILO fundamental human rights conventions (minimum age conventions C138, Art. 2), unless local legislation specifies compulsory school attendance or the minimum age for working. In such cases the higher age shall apply.

<sup>3</sup> Destruction means the (1) elimination or sever diminution of the integrity of an area caused by a major, long term change in land or water use or (2) modification of a habitat in such a way that the area's ability to maintain its role is lost.

<sup>4</sup> High conservation value (HCV) areas are defined as natural habitats where these values are considered to be of outstanding significance or critical importance (see <http://www.hcvnetwork.org>).

<sup>5</sup> This does not apply to the purchase of medical equipment, quality control (measurement) equipment or any other equipment where the radioactive source is understood to be trivial and/or adequately shielded.



financed business activities<sup>6</sup>

9.8.1 Alcoholic beverages (except beer and wine);

9.8.2 Tobacco;

9.8.3 Gambling, casinos and equivalent enterprises.

9.9 Production of, or trade in, arms (i.e. weapons, munitions or nuclear products, primarily designated for military purposes);

9.10 Coal mining<sup>7</sup>.

9.11 Coal-fired power plants, including dual-power plants, connected to the grid<sup>8</sup>.

## 10. Environmental & Social Risks

E&S issues cover a broad range of notions, which may be considered and understood differently in different cultures. The following definitions may be addressed more specifically in the E&S Transversal Statements and E&S Sector Policies, when necessary.

### 10.1. Environmental Risk

Assesses the risk of a company and its suppliers / partners from climate events and its impact on the physical environment. Environmental issues may present themselves as temporary or permanent changes to the atmosphere, water, and land due to human activities, which can result in impacts that may be either reversible or irreversible. The following are the types of risks that may arise due to customer's business operation.

10.1.1 Climate change and Greenhouse emissions

10.1.2 Air pollution (Not GHGs)

10.1.3 Water use and conservation

10.1.4 Hazardous materials use

10.1.5 Wastes

10.1.6 Biodiversity and natural resources

<sup>6</sup> For companies, "substantial" means more than 10% of their consolidated balance sheets or earnings. For financial institutions and investment funds, "substantial" means more than 10% of their underlying portfolio volumes

<sup>7</sup> And <sup>8</sup>coal mines and dedicated thermal coal transport/infrastructure shall not exceed 20% of its balance sheet.

## 10.2. Social Risk

Assesses a company's relative social impact and associated risk from societal actions, including from its direct and indirect employees, customers, and the communities in which it operates.

Performance in the areas listed below can represent social risks to the customer's operation:

- 10.2.1 Labor practice
- 10.2.2 Employee investment
- 10.2.3 Product and services attributes
- 10.2.4 Occupational health and safety
- 10.2.5 Community health, safety, and security
- 10.2.6 Organizational culture, Diversity and Inclusion
- 10.2.7 Land acquisition and involuntary resettlement

## 11. Environment and Social Risk Management System

E&S risk management is integrated with the enterprise risk management process to systematically assess the environmental and social risks arising from customers and operations so as to manage its exposure before resulting adverse outcome.

The Bank integrates the assessment of E&S impacts and associated risks into its decision-making processes. To this end, a risk-based approach is implemented in the Bank's activities with the following steps.

- 11.1 **Identification:** The Bank shall develop tools and processes in addition to exclusion list to help identify the E&S risks and for categorization of identified risks.
- 11.2 **Assessment:** The Bank shall assess the environmental and social consequences of identified risks and analyses in a proper environmental impact assessment.
- 11.3 **Evaluation:** An evaluation is conducted, using the Bank's E&S General Principles, E&S Transversal Statements and E&S Sector Policies as the framework for evaluation.
- 11.4 **Action:** The evaluation may result in the need for a specific action. Depending on the E&S potential impacts and the associated E&S risks identified, various prevention or mitigation actions may be implemented, for example: in-depth monitoring of certain E&S topics, insertion of explicit E&S conditions in the Bank contractual documentation, restriction, or even exclusion, of certain Bank relationships.



## 12. Role and Responsibilities

### 12.1. The Board of Directors

The Board of Directors shall:

- 12.1.1 Approve broad business strategies and policies that govern or influence the management of environmental and social risk of the Bank;
- 12.1.2 Set tolerance levels with respect to each environmental and social risk and ensure that the Bank manages various risks at prudent levels;
- 12.1.3 Ensure that the Bank implements sound principles that facilitate the identification, measurement, monitoring, and control of environmental and social risks faced by the Bank;
- 12.1.4 Ensure that periodic reports are provided to measure environmental and social risk with risk limits;
- 12.1.5 Monitor the management of significant risks and ensure that appropriate environmental and social risk controls are in place;

### 12.2. The Chief Executive Officer

The Chief Executive Officer shall:

- 12.2.1 Execute the strategic direction set by the BoD on an ongoing basis and set clear lines of authority and responsibility for managing, monitoring, and reporting E&S risks;
- 12.2.2 Set the ground of the internal control environment by providing leadership and direction to executive management and reviewing how to manage E&S risks;
- 12.2.3 Develop lines of communication to ensure the timely dissemination of environmental and social risk management policies and other risk management information to all individuals involved in the process;
- 12.2.4 Maintain the tolerance limits of E&S risks as approved by the BoD;

### 12.3. The Chief Officers

The Chief Officers shall:

- 12.3.1 Develop measures that will facilitate the measurement, monitoring, and control of E&S risks;
- 12.3.2 Ensure that all work units are communicated the environmental and social risk

management policy;

- 12.3.3 Ensure that environmental and social risk management awareness is created among all employees of the Bank;
- 12.3.4 Establish tolerance limits of risks in its operation as per the CEO's direction, and BoD defined tolerance limits;
- 12.3.5 Make sure the risks taken by the work units are under the bank statement of appetite and tolerance limit;
- 12.3.6 Support their staff to apply risk management principles and tools for their individual engagements, duties and responsibilities;

#### **12.4. Chief Risk and Compliance Management Officer**

The Chief Risk and Compliance Management Officer shall:

- 12.4.1 Assist the Board and senior management in establishing and communicating the Bank's environmental and social risk management objectives and direction;
- 12.4.2 Facilitate enterprise-wide risk assessments, develop risk mitigation strategies where required, and monitor key risks across the Bank;
- 12.4.3 Periodically review the environmental and social risk management policy and recommend appropriate modifications or improvements to the BoD;
- 12.4.4 Assist in establishing, communicating, and facilitating the use of appropriate environmental and social risk management methodologies, tools, and techniques;
- 12.4.5 Assist in designing work processes or activities with risk implications, getting them approved, and periodically reviewing such processes' effectiveness;
- 12.4.6 Implement appropriate risk reporting to the Board and senior management;
- 12.4.7 Periodically prepare and present reports to the NBE, BOD, and Board Risk Management committee;
- 12.4.8 Monitor and control the Bank risks against the statement of appetite and tolerance limit defined by the BoD;

#### **12.5. Director, Enterprise Risk Management Department**

The Director shall:

- 12.5.1 Plan, organize, coordinate, supervise, and control enterprise risk management activities;



- 12.5.2 Determine the appropriate course of action to follow and reduce the Bank's potential exposure to E&S risk;
- 12.5.3 Facilitate enterprise-wide risk assessments, develop risk mitigation strategies where required, and monitor key risks across the Bank;
- 12.5.4 Involve in the successful implementation of this Policy and the Bank's E&S requirements and oversee deployment;
- 12.5.5 Measures the Bank's risk against the statement of appetite and tolerance limit defined by the BoD;
- 12.5.6 Assists in establishing, communicating, and facilitating the use of appropriate enterprise risk management methodologies, tools, and techniques;
- 12.5.7 Periodically prepare and present risk monitoring report;

## **12.6. Senior Manager, Credit, Liquidity and Financing Risk**

The Senior Manager shall:

- 12.6.1 Follow the bank ESRM policy and requisite standards are applied in the course of credit review and determines whether ESRM process requirements have been fulfilled;
- 12.6.2 Review alignment of the ESRM policy to the overall success and achievement of the strategic objective of the Bank;
- 12.6.3 Implement the ESRM policy, process and ensure all eligible credit and financing activities comply with the ESRM process;
- 12.6.4 Review ESRM covered transactions from a credit perspective;
- 12.6.5 Implementing of environmental and social risk review processes and procedures;
- 12.6.6 Conduct, review, and identify risks and mitigation measures, appropriate and related to transactions;

## **12.7. Department Directors, District Managers, and Branch Managers**

Department Directors, District Managers, and Branch Managers shall:

- 12.7.1 Implement the E&S management policies and procedures of the Bank in day-to-day functions;
- 12.7.2 Responsible for the collection of information and for facilitating the initial screening of relevant transactions;

- 12.7.3 Ensure that the ESRM requirements are fulfilled within the structuring of term, facility agreements, negotiations and executions;
- 12.7.4 Provide accurate information and manage the environmental and social issues associated to any credit and financing facility;
- 12.7.5 Assist in identifying and managing risks in each area of expertise as per the risk management program and policy of the Bank;
- 12.7.6 Follow other policies that contribute to managing risks, such as the operational policy, procedure, and governing rules;
- 12.7.7 Ensure the implementation of the ESRM policy, process in all eligible credit and financing activities and comply with the ESRM process;
- 12.7.8 Conduct the Environmental & Social risk due diligence;

### **13.External Communications**

The Bank shall implement and maintain a procedure for external communications that includes methods to

- 13.1 receive and register external communications from the public;
- 13.2 screen and assess the issues raised and determine how to address them;
- 13.3 provide, track, and document responses, if any; and
- 13.4 make publicly available periodic reports on environmental and social sustainability.

### **14.Grievance Mechanism for Affected Communities**

The Bank shall establish a grievance mechanism to receive and facilitate resolution of Affected Communities' concerns and grievances about the client's environmental and social performance. The grievance mechanism should be scaled to the risks and adverse impacts of the project and have Affected Communities as its primary user. It should seek to resolve concerns promptly, using an understandable and transparent consultative process that is culturally appropriate and readily accessible, and at no cost and without retribution to the party that originated the issue or concern. The mechanism should not impede access to judicial or administrative remedies. The bank will inform the Affected Communities about the mechanism in the course of the stakeholder engagement process.



## **15.Reporting**

The Bank shall report on the Environmental and Social matters on quarterly basis to the Board of Directors.

## **16.Audit**

The Environmental and Social policy shall be subjected to a review by Internal Audit in line with the annual audit work plan.

## **17.Documentation**

The Bank need to keep E&S requirements into documentation. This helps to minimize exposure to E&S risks associated with customer's operations throughout the lifetime of a transaction and gives the Bank legal recourse in case of non-compliance.

## **18.Policy Exceptions**

In case there arises any issue that is not covered by this policy, the issue shall be treated as an exception; however, any exception from this policy shall be approved by the Board of the Directors.

## **19.Revision and Amendment**

This policy is reviewed and updated every two years or short of two years when circumstances necessitate of revision ultimately approved by the Board of Directors.

## **20.Effective Date**

This Environmental and Social Risk Management Policy of Dashen Bank S.C shall come into effect on\_\_\_\_\_.