ENVIRONMENTAL & SOCIAL RISK MANAGEMENT POLICY OF DHAKA BANK LIMITED

(SEPTEMBER, 2018)

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Forewords

Sustainability has been increasingly being recognized as central tenant to the growth of emerging market economies including Bangladesh. New standards and codes of conduct have been developed towards Environment and Social Risk Management (ESRM) within the financial sector to promote corporate accountability and transparency on the impacts of businesses on environment and society.

In order to incorporate environmental risk in overall credit/investment management and to fortify the risk management process and structure of banks and financial Institutions (FIs), Bangladesh Bank (BB) issued ‘Guidelines on Environmental Risk Management (ERM) for Banks and Financial Institutions in Bangladesh’ vide BRPD Circular No. 01/2011. Subsequently Bangladesh Bank issued “Guidelines on Environmental & Social Risk Management (ESRM) for Banks and Financial Institutions in Bangladesh” vide SFD Circular-2 dated February 08, 2017.

The Guidelines of Bangladesh Bank exemplifies the sources of both environmental risks and social risks for banks and FIs and highlights the benefits of having an Environmental & Social Management System (ESMS). Moreover, exhaustive approach has been introduced in this version to make the assessment of risks more objective which replaced the previously issued “Guidelines on Environmental Risk Management (ERM) in 2011”.

The Environmental & Social Risk Management Policy of the bank has been prepared and placed before Board of Directors of the Bank with a view to incorporate environmental & social risk in overall credit/investment management of the bank and to comply with Bangladesh Bank Guidelines.
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1. Introduction:

This policy is an integral part of the Bank's Environmental & Social Management System (ESMS). It underscores the Bank's commitment to sustainable banking and sustainable finance in its business relationships and as a good corporate citizen. The Policy sets the pace for suitable procedures and workflows within the framework of the ESMS, which will ensure Bank's compliance with applicable environmental and social legislations.

This Environmental & Social Risk Management Policy of Dhaka Bank Limited stipulates guiding principles on effective Environmental & Social Management Practices in all activities, products and services. The policy seeks to introduce a systematic approach to the management of relevant social and environmental issues, and the risks inherent therein, into the Bank business processes and operations.

The Bank's Environmental & Social Risk Management (ESRM) Policy applies to all Business and Support Units of the Bank. The Policy will be under the administration of Management through the Risk & Compliance Management Function.

2. Policy Approach:

a. Through this Policy, Dhaka Bank Ltd. puts in practice its commitment to integrate environmental and social considerations into decision-making processes relating to its lending activities to avoid, minimize or reduce, or compensate for/offset risks and negative impacts.

b. DBL believes that an important component of achieving positive development outcomes is the environmental and social sustainability of the lending activities, which DBL expects to achieve through the application of this Policy.

c. DBL imagines long-term business success while contributing towards economic and social development, a healthy environment and a stable society.

d. DBL will systematically assess the environmental, social, labor, occupational health and safety risks associated with its clients.

e. DBL will endeavor to assist its clients to maintain the relevant environmental and social standards.

f. DBL will not finance projects mentioned on its exclusion list.

g. The bank will seek to ensure the efficient implementation of its environmental and social policy through an environmental and social management system. This management system includes sound objectives, well defined procedures and responsibilities that will help its efforts in ensuring that all projects are operated in compliance with the applicable requirements on an ongoing basis.

h. DBL will ensure transparency in its activities, ensure that the above mentioned commitments are visibly placed on its website and reflected in its annual reports.

3. Policy Review:

Policy guidelines are not static; they are reshaped with the changes of the economic, social, environmental and business environment. As such This Environmental & Social Risk Management Policy of the bank shall be reviewed periodically by the management, with due approval of the Board of Directors.

4. DBL's Commitment toward Environmental & Social Risks Management

[a] Setting strategic E&S objectives: Dhaka Bank Limited will offer products to its clients that address E&S sustainability. Research & Development Unit, Corporate Division, MSME Division, Retail Business Division and other
respective Divisions & Units will work to develop new products and modify existing products (if necessary) to achieve the objective.

[b] Excluding financing clients: Dhaka Bank Limited will not finance the clients whose business activities do not meet the Bank’s principles as per “ESRM policy of Dhaka Bank Limited” and “Guidelines on Environmental & Social Risk Management (ESRM) for Banks and Financial Institutions in Bangladesh.” issued from Sustainable Finance Division of Bangladesh Bank on February, 2017. Exclusion list is as follows:

Table#1

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<tr>
<th>SI</th>
<th>Sector Activities</th>
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| I  | Production or trade in any product or activity deemed illegal under host country laws or regulations or international conventions and agreements, or subject to international bans, such as pharmaceuticals, pesticides/herbicides, ozone depleting substances, PCB’s, wildlife or products regulated under the Convention on International Trade in Endangered Species (CITES).  
| II | Ship breaking/ trading activities which include:  
1. Ships with prevalent asbestos use (for e.g. passenger cruise);  
2. Ships listed on the Greenpeace blacklist*;  
3. Ships not certified "gas free" for hot work |
| III | Drift net fishing, deep sea bottom trawling, or fishing with the use of explosives or cyanide |
| IV | Operations impacting UNESCO World Heritage Site and/or Ramsar site |
| V  | Illegal logging, and logging operations or conversion of land for plantation use in primary tropical moist forests |
| VI | Production or activities involving forced labour/ child |
| VII | Labour Production or trade in:  
1. Weapons and munitions  
2. Tobacco  
3. Gambling, casinos  
4. Pornography (goods/stores/web-based) |
| VIII | Production or activities that impinge on the lands owned, or claimed under adjudication, by Indigenous Peoples, without full documented consent of such peoples |

* http://www.greenpeace.org/international/en/campaigns/oceans/pirate-fishing/Blacklist1/

[c] Establishing E&S requirements: DBL will establish set of Environmental & Social Requirements for the clients such as complying with national E&S regulations and international standards.
[d] Communicating E&S expectations: Environmental & Social Expectation of DBL will be communicated to all respective staff through policy, circulars, training, workshop; to the clients through letters, sanction advice and other means; to other external stakeholders through different publications, annual report etc.

[e] Enhanced risk management: DBL is committed to improving the overall E&S performance of its portfolio through enhanced risk management.

[f] Improving E&S Performance: DBL is committed to continually building capacity of its staff including E&S credit officers/analysts to identify E&S risks and their mitigations.

5. Environmental & Social Risks for the Bank:

Potential E&S risks may not seem significant or relevant at the time of approval of a financial transaction, but may become so during execution, for instance as a result of higher regulatory standards and increased levels of enforcement. In other cases, E&S risks, such as spills or explosions, may seem unlikely to occur, but when they do, the E&S impact is potentially extremely high.

To reduce exposure to risk arising from the E&S risks of DBL’s clients, it will ensure that its clients’ financial and operational sustainability is not undermined by adverse impacts on the environment and surrounding communities. DBL officials will have to have a clear understanding of potential E&S risks and implications for a client's operations prior to being linked to the client in the context of a transaction.

6. Risk Associated with E&S Risk in Credit Management

Bank is exposed to some level of E&S risk through its clients. If left unmanaged, these risks can lead to a decline in the Bank’s reputational image, costly litigation, or loss of revenue. The type, quantity and severity of E&S issues that present a risk to the Bank for any given transaction depend on a variety of factors, including geographic context, industry sector, and the type of transaction: corporate, real estate, leasing, microfinance, project finance, retail, short-term finance, micro, small and medium enterprise and trade. The different types of risks are as follows:

Credit risk: Bank is exposed to credit risk when a client is unwilling and/or unable to fulfill the contractual obligations associated with a transaction as a result of E&S issues. For example, if a client faces increased capital or operating costs of complying with E&S standards or if operating and emission/discharge permits are absent or expired resulting in regulatory fines or penalties, there is a risk that the client cannot meet its financial obligations to the Bank. Again, Bank is exposed to credit risk stemming from a reduction in the value of collateral associated with a transaction due to E&S problems. For example, if a production site becomes contaminated, the market value of the underlying collateral will fall.

Legal risk: By virtue of taking possession of collateral assets, Bank is exposed to liability risk stemming from a client’s legal obligations. This includes fines, penalties, and costs for addressing third-party claims for damages due to negligence in managing E&S risks in a client’s operations and clean-up of contamination. If the Bank is a principal shareholder of a client’s operations, it may also be directly liable for all E&S risks associated with a client’s operations.

Operational risk: Bank is exposed to financial risk stemming from potential disruption of client’s operations as a result of E&S problems. If not managed properly, these problems can affect a client’s stability to meet its financial obligations to the Bank and/or can drive down the value of a client’s collateral in the context of a transaction. A client’s failure to effectively address E&S considerations can jeopardize its business operations as well as the Bank that is supporting the transaction.
Liquidity risk: The Bank will also face liquidity risks from E&$ problems associated with collateral. For example, the Bank will have to use up internal resources to meet government clean-up requirements or to clean the site up before it can be sold if collateral is contaminated.

Reputational risk: Bank is exposed to reputational risk due to potentially negative publicity associated with a client's poor E&$ practices. This harms the Bank's brand value and image in the media, with the public, with the business and financial community, and even with its own staff. For example, if a client faces strong public opposition against its operations, the Bank's reputation may be tarnished through its association with this particular client.

7. Applicability of ESRM Policy

The Loan categories for which the ESRM Policy of Dhaka Bank Ltd. is applicable are agriculture, retail, trade, microfinance, SME, corporate finance, and project finance. All loan proposals (New/Renewal/Rescheduling/Restructuring) for the above applicable sectors will have to be first screened against the exclusion list mentioned in table #1.

Agriculture: In the agriculture sector, if a loan application (New/Renewal/Rescheduling/Restructuring) involves farming/crop production activities, poultry and dairy then in addition to exclusion list, it is to be checked using the generic ESDD checklist (Annex-1); if there is any environmentally or socially adverse agricultural practices involved such as use of pesticides, agro-chemistry leading to top soil depletion, ground water contamination; use of nitrogenous fertilizers instead of organic fertilizers leading to nitrous oxide emissions etc. Agribusiness involving sorting, packaging, distribution and sales will not require completing ESDD checklist.

SME: In the small enterprise category sector, if the following activities are involved, then a loan application (New/Renewal/Rescheduling/Restructuring) worth above BDT 1.00 million (BDT 10.00 Lakh) will be subject to due diligence using generic ESDD checklist (Annex-1), in addition to exclusion list, even if the loan amount is less:

(a) Washing, dyeing and finishing units of RMG sector (water, chemical pollution)
(b) Small steel re-rolling mills (operational health and safety, thermal, air pollution)
(c) Brick kilns (air pollution, child labour, burning of fossil fuel)
(d) Units for tanning, dressing and dyeing of leather and fur (water, chemical, air pollution)
(e) Pesticides, agrochemical and nitrogen manufacturing units (land contamination, water, air pollution)
(f) Chemicals and chemical products manufacturing units (safety, pollution)
(g) Rubber and plastic products manufacturing units (pollution)
(h) Batteries and accumulators manufacturing units (chemical pollution)

All loan applications (New/Renewal/Rescheduling/Restructuring) in the medium enterprise sector will have to undergo E&$ due diligence as per the generic or sector specific ESDD checklist as provided by Bangladesh Bank.

Corporate Finance: All loan applications (New/Renewal/Rescheduling/Restructuring) for corporate finance will have to undergo E&$ due diligence process using the generic ESDD checklist and where applicable, the sector-specific ESDD checklist as provided by Bangladesh Bank.

Trade, Retail and Microfinance: For all trade, retail and microfinance only the exclusion list will have to be consulted. Any transaction in the Exclusion List will have to be terminated.
**Project Finance:** For all Project Finance transactions, apart from Exclusion List and Generic or sector specific checklist a third party Environmental and Social Impact Assessment (ESIA) will have to be conducted. ESIA will generally be arranged by the client at his/her/its own cost and to be submitted along with loan application. Bank will ensure that the third party will be qualified by the criteria set by Bangladesh Bank in this purpose.

<table>
<thead>
<tr>
<th>SL No.</th>
<th>Transaction Type</th>
<th>Exclusion List</th>
<th>ESDD checklist</th>
<th>Third Party ESIA</th>
</tr>
</thead>
<tbody>
<tr>
<td>01</td>
<td>Agriculture activities involving farming, crop production</td>
<td>✓</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>02</td>
<td>Other agricultural activities</td>
<td></td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>03</td>
<td>Retail, Trade, Microfinance</td>
<td></td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>04</td>
<td>Small sector falling in one of the categories listed above from (a) to (h)</td>
<td>✓</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>05</td>
<td>Small sector NOT falling in one of the categories listed above from (a) to (h)</td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td>06</td>
<td>Medium Sector</td>
<td>✓</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>07</td>
<td>Corporate Finance</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>08</td>
<td>Project Finance</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
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</table>

**8. Environmental and Social Management System (ESMS)**

An E&S Management System is a set of policies, procedures, tools and internal capacity to identify, monitor and manage the Bank’s exposure to the E&S risks of its clients. An E&S Management System states the DBL’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 ESMS includes the ESRM Policy of the bank and designated roles and responsibilities of its staff. It is implemented through a set of procedures for:

[a] Screening transactions,

[b] Conducting environmental and social due diligence,

[c] Categorizing transactions based on their environmental and social risk, Decision-making process,

[d] Monitoring the client’s/investee’s environmental and social performance, and

[e] Managing a client’s/investee’s non-compliance with the environmental and social standards of bank.

The procedures outlined in the ESMS will be applied to each transaction as part of overall risk management framework of the Bank. For each transaction, Bank will formally document its environmental and social review as part of its record-keeping process, consider environmental and social findings during the decision-making process, and incorporate environmental and social requirements such as a corrective action plan as clauses in legal agreements with clients/investee.
To ensure the effective implementation of the ESMS across operations, Dhaka Bank Ltd. will allocate the necessary resources for internal communication and training. As part of its commitment to good corporate practices, bank will periodically report on the environmental and social performance of transactions and measures taken to reduce overall exposure to environmental and social risk.

Key components of an ESMS are described below:

**A. E&S Policy**: Dhaka Bank Ltd. formulates the Environment & Social Risk Management (ESRM) Policy with a view to its commitment as mentioned under section-4.

**B. Organization structure**: For an ESMS to function properly, it is essential that roles and responsibilities for carrying out the necessary procedures and making decisions are clearly defined. The following staff of the Bank will be involved with implementing different aspects of the ESMS:

**Relationship Officials (Officials in Corporate Banking Division/Retail Business Division/MSME, Agriculture & Emerging Business Division/Syndication Unit and Branches)**: Relationship Officials are responsible for identifying E&S risks in a client’s operation by talking to the client/ relevant officials, site visits, collecting documents, permits relevant for the proposed transaction. ROs are responsible for filling out the ESDD checklist in consultation with the client at approval stage, collect additional information and respond to credit queries if necessary also follow up with client if there are any pre disbursement actions to be completed. ROs also negotiate with the client in finalising action plans and timelines where necessary.

**Officials in CRM Division/RGM Division/SME Unit**: Officials in Credit Risk Management (CRM) Division/RGM Division/SME Units in Head Office is the first point of contact for any transaction once the ESDD has been conducted by the ROs. Based upon the risk rating the official escalates the transaction to Head of CRM Division/Head of RGM Division/Head of SME Unit. There must be a separate unit within CRM Division/RGM Division/SME Unit for ESRM with at least 01 (one) dedicated official.

**Head of CRM Division/RGM Division/SME Unit**: Head of CRM Division/RGM Division/SME Unit is responsible for ensuring that in each transaction no critical E&S issues were overlooked, there is adequate documentary evidence to support client’s E&S performance and to ensure enough measures have been taken to manage identified risk.

**Senior Management/Board of Directors**: The Senior Management should be responsible for the Bank’s overall commitment to E&S objectives. Managing Director & CEO and the Board of Directors represent the senior management. Senior Management establishes the Bank’s E&S requirements and conditions for clients. In cases of unresolved E&S issues or non-compliance associated with a transaction that cannot be resolved by the Head of CRM Division/RGM Division/SME Unit, Senior Management determines the appropriate course of action to follow to reduce the Bank’s potential exposure to E&S risk, which may include taking legal action against the client. Board of Directors/Executive Committee (EC) is responsible for deciding if E&S risks in high risk projects are acceptable to the Bank’s overall exposure to risk before proceeding with a transaction. The Board in certain cases may decide to terminate a transaction based upon the level of risk of the project. Risk Management Committee (RMC) of Board will review, monitor and supervise the overall ESRM activities of bank.

**Legal Affairs Division**: The Legal Affairs Division ensures that the Bank’s E&S requirements are incorporated in legal agreements for each transaction. The Legal Affairs Division may advise if a client’s non-compliance with E&S clauses constitutes a breach of contract and is considered an Event of Default under the terms of the legal agreement that requires follow up by Senior Management.

**Sustainable Finance Unit (SFU)**: SFU of the Bank is responsible for coordination with different divisions, units,
branches of the Bank for ensuring the compliance of ESRM and proper implementation of ESMS. This unit is responsible for updating the Board/RMC through Sustainable Finance Committee on the current status of the Bank portfolio regarding ESRM, facilitating the Board/RMC’s decision making process where there are unresolved E&S issues or non-compliance. The unit is also responsible for periodic reporting to Bangladesh Bank and as/when required. Head of the SFU may be called upon by the Board to opine on critical E&S issues of a particular transaction. The SFU is also responsible for tracking latest E&S issues in the media and support transaction teams in identifying and managing E&S risks in lending.

### C. Screening Transaction

At the initial stage of evaluating a potential financial transaction, RO should screen the activities of the potential client to determine if it is an excluded activity. If the activity falls on the Bank’s list of excluded activities, the financial transaction should not be considered. During the initial screening the RO should consider the Department of Environment (DoE) categorization as it gives a sense whether the transaction is in a high risk sector. DoE categorization is important to understand sectoral risk, but Bank will complete the ESDD to identify transaction specific risks.

### D. Categorizing Transaction

To determine the extent of E&S due diligence which will be required for a particular transaction, an E&S risk category should be assigned to each transaction. The level of E&S risk will vary greatly for different types of financial transactions and by industry sectors. To help to determine the extent of E&S due diligence that will be required for a particular transaction, respective official should assign an E&S risk category to each transaction. This provides an initial assessment of the E&S risk associated with the transaction. Together with the findings of the E&S due diligence, this E&S risk category can be incorporated into the overall risk assessment of a transaction and factored into the decision-making process. This initial categorisation can be done by considering DoE categories of Green, Orange A, Orange B and Red. A list of business categories is available in the Environment Conservation Rules (ECR), 1997. Bank can also assign financial intermediary as a risk category to those transactions involving clients such as banks, microfinance institutions, private equity funds, and leasing and insurance companies, which act as financial
intermediaries in making financing available to other clients. By assigning the financial intermediary category, the environmental and social risks related to these types of transactions can be managed accordingly.

An environmental and social risk categorization system enables the Bank to monitor and evaluate its exposure to environmental and social risk aggregated at the portfolio level. DBL can set internal threshold levels for its overall exposure as a function of environmental and social risk category or by exposure to industry sector or transaction type as a function of environmental and social risk category. This allows the bank to better manage and track changes in the overall risk profile of its portfolio and the associated environmental and social impacts of its clients/investees. This information can also be used by the Bank to report internally to Senior Management and externally to stakeholders on overall environmental and social performance.

E. Conducting ESDD

Conducting ESDD on transactions is a critical component of the Bank’s ESM and its outcome should be factored in to the decision-making process for proceeding with a transaction. The purpose of the E&S due diligence is to review any potential E&S risks associated with the business activities of a potential client ensure that the transaction does not carry E&S risks, which could present a potential liability/risk to the Bank. The purpose of the E&S appraisal is to:

(i) Identify and assess potential E&S impacts and issues, both adverse and beneficial, associated with a proposed investment project;

(ii) Conduct a gap analysis to define areas of project noncompliance with the requirements of the national laws;

(iii) Assess the commitment and capacity of the client to manage identified impacts and define remedial measures as needed;

(iv) Assess the quality and adequacy of the client’s E&S management systems and practices to avoid, minimize, or mitigate adverse impacts, and define remedial measures as needed;

(v) Identify measures to avoid, minimize, mitigate, or offset/compensate for adverse impacts on workers, affected communities, and the environment;

(vi) Design an Environmental and Social Action Plan (ESAP or Action Plan) addressing all deficiencies and non-compliances discerned during the appraisal containing specific tasks designed to close all significant gaps;

(vii) Ensure that the investment contracts (e.g., loan documentation) include appropriate definitions, covenants, clauses and associated elements to obligate the client to comply with all E&S laws and regulations, the ESAP, and applicable sections of general and sector-specific checklists; and stipulate progress and performance reporting obligations;

(viii) Identify opportunities (e.g., clean production and energy efficiency) to improve E&S performance and

(ix) Conceptualize specific reporting needs for the supervision phase to ensure Bank’s clear understanding of client performance, behaviour, and achievement of sustainability in operations.

E&S due diligence involves the systematic identification, quantification and assessment/evaluation of E&S risks associated with a proposed transaction. This process also helps identify the mitigation measures that are necessary to reduce any E&S risks that are identified. The extent of the E&S due diligence and level of detail is based on the transaction’s E&S risk category and will vary by transaction type.

Respective officials will use generic ESDD checklist [as provided from Bangladesh Bank] for sectors where a sector specific ESDD checklist is not available. For sectors where a sector specific ESDD checklist is available, the respective
sector ESDD checklist [to be provided by Bangladesh Bank] will be used for carrying out the ESDD. The ESDD checklists (both generic and sector specific) will auto generate the E&S risk ratings – high, medium and low based on the responses provided to the questions in the checklist.

The process of E&S due diligence, filling in the ESDD checklists can involve a simple desktop review or may require a site visit with the use of technical experts, if necessary, to understand potential E&S risks associated with business activities and review a client’s compliance with the Bank’s E&S requirements. Relevant documents will have to be collected to support E&S findings. The ESDD checklist has relevant guidance for bankers to assist in collecting proof points. Below are typical steps for conducting ESDD.

**Step1: Exclusion List:** Screening of the project against a list of excluded activities adopted by the Bank;

**Step 2: DoE Categorization:** Review of industry sector and environmental and social issues that are typically associated with this type of operation;

**Step 3: ESDD:**
- Review the project’s compliance with applicable national environmental and social regulations;
- Review the project sponsors’ track record on environmental and social issues, in terms of potential non-compliance with national regulations or negative publicity;
- Review the project’s compliance against international standards or industry best practice regarding environmental and social issues; and
- Documenting all required information. Every loan file should have a fully completed E&S checklist, copies of all permits, clearances (DoE clearance certificate, fire license, buyer’s audit report), ESAP, E&S Covenants in loan agreement and after disbursement subsequent supervision reports.

**Step 4: Generate Risk Rating:** Upon completion of the relevant checklist a risk rating (High, Medium, or Low) will be generated automatically.

**Step 5: ESAP:** For High and Medium Risk transaction, a time bound action plan and relevant covenants will have to be included in the loan documentation.

**Step 6: Escalation:** Depending upon the risk rating, the transaction will have to be escalated to the relevant authority. Please refer to the escalation matrix (Annex-2) for the process to be followed.

**Step 7: Monitoring:** Review of the proposed actions (if any) to mitigate potential environmental and social issues associated with the project throughout all phases of the project life cycle.

**Step 8: Reporting:** The Bank will have to report both internally to senior management and also externally to Bangladesh Bank, shareholders on its sustainability performance.

The Bank should document all findings from the due diligence, which will be considered during the decision-making process before proceeding with a transaction. For transactions that have been categorized as high risk project finance, the financial institution may require the services of an external expert/consultant to conduct the environmental and social due diligence. To do so effectively, it is critical that the Bank communicates to the external expert/consultant the environmental and social requirements that clients/investees are required to comply with. The Bank also needs to ensure that the findings are reviewed and factored in to the decision-making process. The following flow chart summarizes the steps to be followed while conducting ESDD.
F. Decision making process

Once the ESDD is completed the checklist will auto generate a risk rating: High, Medium or Low.

**High Risk:** Transactions typically involve clients with business activities with significant adverse E&S impacts that are sensitive, diverse, or unprecedented. A potential impact is considered sensitive if it may be irreversible (such as loss of a major natural habitat), affect vulnerable groups or ethnic minorities, involve involuntary displacement and resettlement, or affect significant cultural heritage sites.

**Medium Risk:** Transactions typically involve clients with business activities with specific E&S impacts that are few in number, generally site-specific, largely reversible and readily addressed through mitigation measures and international best practice. Potential adverse environmental impacts on human populations or environmentally important areas are less adverse than those of High Risk transactions.

**Low Risk:** Transactions typically involve clients with business activities with minimal or no adverse E&S impacts.

All the low risk transactions can be approved by Credit Officer. All the medium risk transaction will be escalated to the Head of CRM Division/RMG Division/SME Unit for approval. All the high risk transactions will be escalated to the Board, after review by the MD & CEO, for approval. In absence of the Board, the high risk transactions can be approved by the Executive Committee.
G. Corrective Action Plan and Covenants:

For Medium and High Risk projects there will be identified risks which will have to be mitigated. A corrective action plan can be developed identifying the risk, mitigation measure, timeline for implementation and who should be responsible for implementation. Transaction specific corrective action plan and covenants can be part of the legal loan documents.

H. Monitoring:

The purpose of monitoring a client's E&S performance is to assess existing and emerging E&S risks associated with a client's operations during the transaction. Once a transaction has been approved, the Bank needs to monitor the client's ongoing compliance with the E&S clauses stipulated in the legal agreement. E&S risks or compliance status may change from the time of transaction approval.

From the time of transaction approval, E&S regulations may become more stringent, the client may modify its operations or production processes in a way that exacerbates previously identified risks or present new E&S risks. Managing emerging E&S risks at the transaction level ensures effective E&S risk management at the portfolio level.

Bank will explain the process for systematic monitoring on a periodic basis, such as by implementing procedures for verifying compliance with E&S requirements including implementation of any corrective action plans to resolve non-compliances. The frequency and extent of monitoring will depend on the complexity of E&S issues associated with a client's operations.

The monitoring process generally involves a review of periodic E&S performance reports submitted by the client and regular site visits of the client's operations. Special attention should be paid to:

- Assessing implementation of any mitigation measures specified in the corrective action plan
- Monitoring for valid E&S permits or licenses
- Any fines and penalties for non-compliance with E&S regulations
- Recent reports from the relevant regulator or inspection authority confirming compliance with specified laws, including any emissions measurements proving that emissions are below the permitted limits
- E&S occurrences including major accidents or incidents associated with a client's operations such as worker injuries and spills
- Media attention to E&S issues related to the client
- Any complaints submitted by stakeholders about a client

If DBL staff identifies E&S issues, such as a client's non-compliance with the E&S clauses stipulated in the legal agreement, they should follow up with the client to resolve these in a reasonable timeframe. Depending upon the complexity of the E&S issues associated with a client's operations, Bank staff should require a new corrective action plan and/or periodic reports on E&S performance throughout the duration of the transaction. The reporting frequency should be tailored to each individual transaction and should be based on self-monitoring by the client or monitoring by independent third parties and/or regulatory authorities.

I. Managing Eventualities in Investment Projects:

Non-routine events do occur in conjunction with business development, with consideration of new clients and investments, during appraisal, and in the post-commitment supervision cycle. Some common eventualities may include:
- Direct complaints made to the bank for investing in environmentally or socially harmful projects.
- Negative media report/Non-Governmental Organization (NGO) campaign about a particular transaction which the Bank has financed
- Serious accidents, incidents including fatalities
- Worker unrest, riots, demonstration on the roads

As soon as the RO knows about any such occurrence, the RO will immediately inform Head of Corporate/SME/Retail, collect factual information about the event, conduct a site visit and develop an action plan to mitigate the occurrence of such event in the future and communicate to the client what implication there might be due to the event. There might also be requirement of revisiting the risk rating in light of the recent event.

3. Internal/External Communication:
Bank’s ESMS includes periodic reporting on the E&S performance of transactions and measures taken to reduce its overall exposure to E&S risk.

Bank staff should compile all E&S findings from monitoring clients and aggregate findings at the portfolio level. By analysing this information, the Bank can have a better understanding of its 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 ESMS

Bank may have internal and external reporting requirements regarding the E&S risks and impacts associated with its portfolio.

9. Implementing ESMS
To implement the ESMS, the Bank will develop an implementation plan, including an ESMS testing phase, with a time schedule for completing each task and the designated staff responsible for doing so. Tasks should include a review of the E&S regulations of the country in which the Bank operates, testing phase, communications and training plan for staff, assigning responsibilities to applicable staff, review of international best practice that apply to clients and review of the ESMS on a periodic basis for continuous improvement.

When properly designed and implemented, the additional workload for staff and transaction costs associated with the ESMS are limited, especially when E&S risk management procedures are fully integrated into the Bank’s existing risk management framework.

Senior Management should be kept informed of challenges, successes and other important issues associated with the implementation of the Bank’s E&S Management System. The SFU of the bank in consultation with relevant business teams and credit related departments can take a lead on implementation. Bangladesh Bank also monitors sustainability related progress of each bank. Thus Bank will implement required changes for a robust ESMS and report on progress every quarter to Bangladesh Bank.
10. Provision of Incentives and Disincentives

On the basis of the performance of the borrower(s) with transactions with high ESRR, incentives and disincentives will be considered for the following.

High ESRR at transaction/application/proposal level

The Board of Directors of the Bank will consider the provision of incentives and disincentives 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 has to be incorporated as part of the loan agreement linked with changes in ESRR.

Table 3: Options for incentives and disincentives

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Probable option(s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Incentive(s) if change in ESRR is positive</td>
<td>(a) Issuance of appreciation letter and upload the name of project on bank's website</td>
</tr>
<tr>
<td></td>
<td>(b) Reduction of interest rate</td>
</tr>
<tr>
<td></td>
<td>(c) Higher debt-equity ratio for borrowers</td>
</tr>
<tr>
<td></td>
<td>(d) Flexibility in loan conditions</td>
</tr>
<tr>
<td></td>
<td>(e) Favourable loan to value ratio for borrowers</td>
</tr>
<tr>
<td>Disincentive(s) if change in ESRR is negative</td>
<td>(a) Increase in interest rate</td>
</tr>
<tr>
<td></td>
<td>(b) Lower debt-equity ratio for borrowers</td>
</tr>
<tr>
<td></td>
<td>(c) Tougher loan covenants/conditions</td>
</tr>
<tr>
<td></td>
<td>(d) Tougher loan to value ratio for borrowers</td>
</tr>
</tbody>
</table>
# Annexure:

**Annexure-1: ESDD Checklist**

**Environmental and Social Risk Assessment - Generic Checklist**

<table>
<thead>
<tr>
<th>Basic Information</th>
</tr>
</thead>
<tbody>
<tr>
<td>Date</td>
</tr>
<tr>
<td>Name of Client/Account</td>
</tr>
<tr>
<td>Transaction ID</td>
</tr>
<tr>
<td>Location</td>
</tr>
<tr>
<td>Industry / Sector</td>
</tr>
<tr>
<td>Product Manufactured / Traded</td>
</tr>
<tr>
<td>Core Market</td>
</tr>
<tr>
<td>Name of Relationship Official</td>
</tr>
<tr>
<td>Business line (Sub-sector)</td>
</tr>
<tr>
<td>'DOE Categorisation (Red, Orange A, Orange B, Green)</td>
</tr>
<tr>
<td>Transaction Type as Table 1 of Guidelines</td>
</tr>
</tbody>
</table>

Please ensure that there is a record of relevant documents and references in order to support all responses. In the absence of documentary evidence, the RM needs to obtain verbal confirmation from the customer and insert information to the best of his knowledge.

<table>
<thead>
<tr>
<th>SI</th>
<th>Question</th>
<th>Answer</th>
<th>Comment</th>
</tr>
</thead>
</table>
| 1.1| Are there any legal issues associated with the client's E&S performance? | a) Client has all valid permits AND has not faced any legal claims or any serious environmental/social incident in last three years  

b) Client does not have all valid permits but has taken definite steps to acquire them in next six months AND/OR client has faced legal claims but has addressed or has definite plan to address all of them  

c) Client does not have all valid permits and has not taken any definite step to acquire them AND/OR client has faced legal claims and has no definite plan to address them  

d) Not applicable       | Option (b)                                                               |                                                 |---------|

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| 1.2 | Have operations ever been affected by local stakeholder grievances, media or non-governmental organization (NGO) campaigns over E&S issues? | a) There is no evidence of stakeholder grievances, negative media or NGO protest  
b) There is evidence of stakeholder grievances, negative media or NGO protest for a particular operation AND client has taken adequate steps to address the issue  
c) There is evidence of stakeholder grievances, negative media or NGO protest but client has not taken any step to address the issue  
d) Not applicable | Option (a) |
| 1.3 | Is project site and/or its routing likely to have impacts on ecological sensitivity present on project site and/or within an area of 5 km radius surrounding project site? | a) No eco-sensitive areas observed  
b) There are a few eco-sensitive areas AND the client has taken adequate measures to mitigate the impact of their operation on the eco-sensitive areas as per regulations  
c) There are eco-sensitive areas observed and mitigation measures are not adequate as per regulations and the client may face legal challenge in future  
d) Not applicable | Option (a) |
| 1.4 | Is there any evidence of land pollution and lack of waste handling mechanism in the project operation? | a) There is no evidence of land contamination OR all mitigation measures and monitoring systems are in place  
b) There is evidence of land contamination AND partial mitigation measure, monitoring system is in place AND client is addressing or has a definite plan to address the remaining issues  
c) There is evidence of land contamination AND there is no mitigation measure/monitoring system in place AND client has no definite plan to address the issues  
d) Not applicable | Option (c) |

**Environmental Health and Safety Risks**

| 2.1 | Is there any evidence of air and noise pollution due to client’s operation? | a) There is no evidence of air/noise pollution and/or all mitigation measures and monitoring systems are in place  
b) There is evidence of air/ noise emission AND partial mitigation measure, monitoring system is in place AND client is addressing or has a definite plan to address the remaining issues  
c) There is evidence of air emission/noise AND there is no mitigation measure/monitoring system in place AND client has no definite plan to address the issues  
d) Not applicable | Option (a) |
### 2.2 Is there any evidence of water pollution due to client’s operation?

| a) There is no evidence of water pollution and/or all mitigation measures and monitoring systems are in place. |
| b) There is evidence of water pollution AND partial mitigation measure, monitoring system is in place AND client is addressing or has a definite plan to address the remaining issues. |
| c) There is evidence of water pollution AND there is no mitigation measure/monitoring system in place AND client has no definite plan to address the issues. |
| d) Not applicable. |

### 2.3 Is there any evidence of land pollution and lack of waste handling mechanism in the project operation?

| a) There is no evidence of land contamination OR all mitigation measures and monitoring systems are in place. |
| b) There is evidence of land contamination AND partial mitigation measure, monitoring system is in place AND client is addressing or has a definite plan to address the remaining issues. |
| c) There is evidence of land contamination AND there is no mitigation measure/monitoring system in place AND client has no definite plan to address the issues. |
| d) Not applicable. |

### 2.4 Are there any Climate Change related risks (flood, drought, cyclone etc.) and opportunities (GHG emission reduction) associated with the client’s operation?

| a) Client has a robust disaster management plan to combat climatic risks AND client has procedures in place to measure, disclose, set targets and mitigate its GHG emissions. |
| b) Client has a disaster management plan but it is not robust AND there is evidence that client has intention to measure, disclose, set targets and mitigate its GHG emissions in near future. |
| c) No disaster management plan AND no definite plan to measure, disclose, set targets and mitigate its GHG emissions in future. |
| d) Not applicable. |

### Social Risks

### 3.1 Is there any evidence of occupational health & safety (OHS) risk?

| a) The client does not have any OHS concern or have mitigated them adequately. |
| b) The client has some OHS concern but has taken definite steps to correct them. |
| c) The client has OHS concern in its operation and have no plans of correcting them. |
| d) Not Applicable. |
3.2 Are the labor and working conditions poor and breaching local regulations/standards?

<table>
<thead>
<tr>
<th>Option (a)</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) There is proper working condition and labor practice AND there is no evidence of poor working condition or labor practice for which client may face legal challenge or labor unrest or negative media coverage or protest from activist.</td>
</tr>
<tr>
<td>b) There are a few evidences of poor working conditions BUT no significantly poor labor practice such as child/forced labor is present AND the client has a definite plan to improve the working condition to ensure there is no legal challenge or labor unrest or negative media coverage or protest from activist in future</td>
</tr>
<tr>
<td>c) Working condition is very poor AND/OR there is presence of significantly poor labor practice such as child labor/forced labor AND client is not addressing/has no definite plan to address the issues</td>
</tr>
<tr>
<td>d) Not applicable</td>
</tr>
</tbody>
</table>

3.3 Does the project pose a threat to Community Health, Safety and Security?

<table>
<thead>
<tr>
<th>Option (b)</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) There is evidence that the client consults/engages with the stakeholders including local community, indigenous people on all relevant issues (such as rehabilitation, compensation, their expectations as the case may be)</td>
</tr>
<tr>
<td>b) There is limited/inadequate consultations with the stakeholders</td>
</tr>
<tr>
<td>c) No consultations with the stakeholders</td>
</tr>
<tr>
<td>d) Not applicable</td>
</tr>
</tbody>
</table>

| Risk Rating of the Project | High Risk |

---

3.4 Is there any evidence of community consultation with key stakeholders including indigenous people?

<table>
<thead>
<tr>
<th>Option (d)</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) There is evidence that the client consults/engages with the stakeholders including local community, indigenous people on all relevant issues (such as rehabilitation, compensation, their expectations as the case may be)</td>
</tr>
<tr>
<td>b) There is limited/inadequate consultations with the stakeholders</td>
</tr>
<tr>
<td>c) No consultations with the stakeholders</td>
</tr>
<tr>
<td>d) Not applicable</td>
</tr>
</tbody>
</table>
## Annexure-2: Escalation Matrix

<table>
<thead>
<tr>
<th>Risk Rating</th>
<th>Proposing Stage</th>
<th>Approval Stage</th>
<th>Disbursement Stage</th>
</tr>
</thead>
</table>
| Low        | - ESDD Checklist is to be completed by RO, approved by official(s) of CRM Division/RMG Division/SME Unit of Head Office and processed as per normal credit process for both existing and new client. | Escalation process if CRM official feels the transaction needs to be escalated:  
1. CRM Official will be the 1st point of review  
2. If identified risk(s) is unresolved, proceed for review by Sustainable Finance Unit and approval by Head of CRM Division/RMG Division/SME Unit.  
3. Credit approval can only be granted subsequent to resolution via above steps  
4. Time-bound action plan to mitigate risks may form part of approval conditions. | If there are any conditions to be fulfilled as part of approval, Credit Risk Management Committee (CRMC) will check for the same before disbursing. |
| Medium     | RO & ESRM Unit Head of to sign off jointly for new or existing clients with proposal to:  
- Proceed with ESDD submission but proper justification is to be provided | Escalation Process:  
1. CRM Official will be the 1st point of review  
2. If unidentified risk(s) is unresolved, proceed for review by Head of Credit and Head of Sustainable Finance Department.  
3. All high risk projects are to be escalated to Board/EC with recommendation from Head of Credit.  
4. Credit Approval can only be granted subsequent to resolution via above steps  
5. Time-bound action plan to mitigate risks may form part of approval conditions. | If there are any conditions to be fulfilled as part of approval, CRMC will check for the same before disbursing. |
| High       | RO & ESRM Unit Head to sign off jointly for new or existing clients with proposal to:  
- REJECT (with reasons documented for record); or  
- PROCEED with ESDD submission but proper justification is to be provided | Escalation Process:  
1. CRM Official will be the 1st point of review  
2. If unidentified risk(s) is unresolved, proceed for review by Head of Credit and Head of Sustainable Finance Department.  
3. All high risk projects are to be escalated to Board/EC with recommendation from Head of Credit.  
4. Credit Approval can only be granted subsequent to resolution via above steps  
5. Time-bound action plan to mitigate risks may form part of approval conditions. | If there are any conditions to be fulfilled as part of approval, CRMC will check for the same before disbursing. |
### Annexure-3: Corrective Action Plan template with example

<table>
<thead>
<tr>
<th>Area of E&amp;S concern as identified through ESDD</th>
<th>Corrective Action required</th>
<th>Time frame</th>
<th>Action completion indicator</th>
<th>Responsibility (Client staff, management or board)</th>
<th>Cost involved</th>
</tr>
</thead>
</table>
| Evidence of land pollution due to discharge of untreated effluent | Action plan may include:  
- Removal and treatment of contaminated ground soil  
- Construction of sewage system for industrial wastepaper  
- Construction of wastewater treatment facility and discharge system for treated water | 6 months | - Installation of Effluent Treatment Plan (ETP). The ETP should be operational and the qualitative parameters of treated effluent should be within limits  
- The discharge of treated effluent should be through the constructed discharge system and no other modes of discharge and leakages  
- Qualitative parameters of treated contaminated ground soil should be within limits | Board | |
| Absence of grievance redressal mechanism | Establish a grievance redressal mechanism | 3 months | Well established grievance redressal mechanism which is appropriately communicated to the external stakeholders | Board | |
| Displacement of community structure | Restoration of community structure for common benefits | 3 months | - | Management | |
| Loss of trees, crops, perennials | Compensation for standing crops and trees | 1 year | Plantation of trees | Management | |