



NATIONAL BANK OF MALAWI

**ENVIRONMENTAL & SOCIAL
RISK MANAGEMENT POLICY**

March 2021

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Environmental & Social Risk Management Policy

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1. Definitions

The Bank

The Bank shall mean National Bank of Malawi Limited and its subsidiary companies.

Board

The National Bank of Malawi Board of Directors.

CSR

CSR shall mean corporate social responsibility.

Client

Any person who has an account with the Bank or interacts with the Bank.

E&S

E&S shall mean environmental and social.

Enterprise Risk Committee (ERCO)

A Senior Management Committee reporting to the Board responsible for overall risk management

Environmental and Social Risk Management Framework (ESRMF)

The ESRMF is a document which contains a description of the activities and processes that have to be followed to implement the Environmental and Social Risk Management Policy. It includes procedures and tools used in the management of Environmental & Social risks.

ESRMS

ESRMS shall mean an Environmental and Social Risk Management System.

ESRA

ESRA shall mean Environmental and Social Risk Assessment

Exclusion List

Exclusion List shall mean the list that has been shown as an attachment Annex 1 to this policy.

External Impact

The environmental and/or social results, either positive or negative, of the activities of a Bank's customer that can be attributed (in part) to the Bank's pro-active engagement with that customer.

ICAM

Institute of Chartered Accountants in Malawi

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Internal Impact

The environmental and/or social results, either adverse or beneficial, resulting from the activities and operations of the Bank.

Officer

Includes Employees of National Bank and its Subsidiaries,

Senior Management

Senior Management shall refer to the members of the Management Committee in the Bank.

2. Introduction

The Environment and Social Risk Management policy (ESRMP) outlines the guiding principles on effective social and environmental risk management practices in all of the Bank's activities, products and services.

The ESRMP is an integral part of the Bank's Environmental and Social Risk Management System (ESRMS) as 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 ESRMS, which ensures compliance with applicable environmental and social legislations.

3. Objectives

The main objectives of the policy are as follows:-

- i.** To integrate environmental and social risk management considerations into the Bank's processes.
- ii.** To set out requirements for environmental and social risk screening associated with lending.
- iii.** To promote transparency and accountability on E&S issues internally and externally through disclosure and reporting.
- iv.** To implement and comply with national requirements for E&S risk management.

4. Scope

This policy applies to the Bank and its subsidiaries only. This policy shall be read together with the Environmental and Social Risk Management Framework (ESRMF)

5. Roles and Responsibilities

5.1. The Board and Senior Management

The Board and Senior Management shall have the overall oversight of the ESRMP. Their responsibilities shall include the following:-

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- i. Reviewing and signing off the ESRMP to ensure that it is integrated in the Bank's standard operating procedures; and
- ii. Submitting to external stakeholders annual reports on the social and environmental performance of the Bank's portfolio and internal triple bottom line footprint.

5.2. Risk Division (RD)

RD shall act as the central ESRMS coordinator, and has the following responsibilities:-

- i. Facilitating the overall implementation of the ESRMP
- ii. Keeping the ESRMP up-to-date
- iii. Implementation of the E&S risk management procedure
- iv. Serving as a focal point for information on social and environmental best practices relevant to the Bank's investment activities; and
- v. Reporting of maintenance and monitoring results to the Enterprise Risk
- vi. Coordinating training and awareness on ESRMS.

5.3. Legal Department

Legal Department shall have the following responsibilities:-

- i. Ensuring that legal agreements contain appropriate conditions to comply with the Bank's policy and applicable environmental and social legislation
- ii. Tracking changes in the Malawian regulatory framework on social (labour, health and safety, etc.) and/or environmental legislation (including the land use).

5.4. Internal Audit Division

Internal Audit shall be responsible for the independent review of the E&S risk management process.

5.5. All the Bank Officers

All Bank officers have the responsibility to understand and comply with the Bank's ESRMP which includes but is not limited to the following:-

- i. Raising Customer awareness on E&S issues
- ii. E&S risk assessment and classification
- iii. Monitoring of projects that are being implemented

6. Policy Outline

6.1. Exclusion List and Positive Impact

6.1.1. Exclusion List

The Bank shall not invest in, lend to, or engage in activities that are detrimental to the environment, harmful, or dangerous to people or communities. A specific number of activities are provided in an Exclusion List (see Annex 1). This List includes activities involving child labour, illegal trade, weapons, hazardous materials, degradation of habitat, racist or anti-democratic media,

The List is adapted to the specific Malawian circumstances, and derived from and in line with an international Exclusion List, used by other financial institutions globally.

6.1.2. Positive Impact

The Bank shall support clients/businesses that choose to develop or invest in solutions and activities that have a positive impact on the environment and/or positive implications on social performance. Such activities may include the development of cleaner production, more efficient use of energy and water, employment creation, etc. In looking for business opportunities, the Bank will also keep these opportunities on its radar screen.

6.1.3. Internal Impact

As a significant employer, using paper, fuel, electricity and water, the Bank itself has a moderate environment and social impact. Through awareness raising and promoting efficient use of resources, the Bank shall reduce its environmental impact. The Bank shall also keep a strong focus on its workforce, by providing a safe and fair working environment, and promote the development of skills and competencies of its Officers. In addition, the Bank shall maintain its CSR, by sponsorship of education and healthcare facilities, and by active community engagement and development projects.

6.2. The Environmental and Social Risk Management Process

6.2.1. The Environmental and Social Risk Management Framework (ESRMF)

As part of the implementation of this policy, the Bank put in place an ESRMF, with the purpose of proactively identifying and evaluating the social and environmental risks of projects before a decision is made to finance them, and monitor ongoing social and environmental performance after contracting.

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The ESRMF is fully integrated in the existing the Bank's credit, investment and risk management systems.

6.2.2. Environmental and Social Risk Assessment (ESRA)

New and existing business activities shall be assessed and evaluated on their (potential) environmental and/or social risks. This approach shall be integrated in the existing credit and risk management procedures.

The elements of the E&S risk assessment include:

- i. Assessing the activity based on the Bank's Exclusion List.
- ii. Risk identification: recognizing and understanding, per sector and activity, the potential E&S risks.
- iii. Risk measurement: assessing the actual E&S risks in a given situation.
- iv. Risk control: establishing the risk mitigation measures, and defining responsibilities and authority, to control exposure to E&S risks.
- v. Risk monitoring: monitoring and reviewing E&S risks, and ensuring action when needed.

6.2.3. E&S Risk Classifications

An activity or client to be financed can be graded High Risk, Medium Risk or Low Risk, depending on the sector and the activities at hand. E&S Risk Classification is based on the probability of negative impacts occurring as a consequence of a business or activity.

- i. **Low Risk:** Projects are likely to have minimal or no adverse environmental and/or social impact. These projects require no further social or environmental assessment action, however additional due diligence may be required on a case by case basis.
- ii. **Medium Risk:** Projects with potential limited adverse environmental and/or social impact that are few in number, generally site specific, largely reversible and readily addressed through mitigation measures. Projects can be improved by the application of mitigation measures or the incorporation of internationally recognized design criteria and standards. In a number of cases, an Environmental Impact Assessment might be required.
- iii. **High Risk:** Projects with potential significant adverse environmental and/or social impacts that are diverse, irreversible or unprecedented. Impact includes, among others, direct pollutant discharges in the natural environment, large-scale

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physical disturbance of the project site and its surroundings, significant migration or displacement of affected populations, significant changes in socio-cultural patterns, adverse effects on vulnerable groups or degradation of substantial biological resources, significant increase in health and safety risks, or major changes in the hydrology or water quality. In most cases an ESRA should be carried out, and operating without formal legal approval is a direct liability risk.

6.3. Compliance with social and environmental management practices

The Bank is committed to ensure that all its activities, both internal and external, comply with national legislation and with sound international social and environmental management practices.

In following guidelines and instructions in its ESRMP, the Bank shall:

- i. Carry out its finance activities with appropriate consideration for environmental, social, health, safety and labor aspects;
- ii. Raise awareness of existing and new clients on environmental and social best practices, by advising clients on alternative methods and techniques that are socially sound and environmentally friendly;
- iii. Comply with the requirements of national regulatory bodies and international financial institutions to protect the environment and people;
- iv. Determine and mitigate risks in all its activities where relevant (including lending operations to individuals, SMEs, corporations, equity investments, and leasing).

Measures which the Bank shall use to check compliance with ESRMS

- i. **Regulatory instruments:** Adherence to minimum levels of protection as established by the law, international agreements and standards.
- ii. **Financial instruments:** incentives for customers to protect the environment and use natural resources in a responsible manner (economic, fiscal and civil responsibility measures) and favourable pricing to ensure that products and services which respect the environment are not penalized in terms of cost.
- iii. **Corporate & social responsibility programmes:** The Bank shall take deliberate action to fund and support actions that will;
 - a. Improve the environment and integrate environmental concerns
 - b. Help improve existing legislation;
 - c. Empower people as private citizens and helping them to change behaviour; taking account of the environment in land-use planning and management decisions.
 - d. Help management of natural resources and waste. Specific efforts will be towards recycling and reduction of waste production.

6.4. Integration in existing operating procedures

The ESRMP and the procedures of the ESRMF shall integrate or interact with the Bank's existing operating procedures, and specifically with the Enterprise Risk and Credit Management Policies and Guidelines.

6.5. ESRMS Training and Awareness

- i. To ensure effective implementation of the ESRMS, all Officers and Board members shall be properly informed and instructed about their tasks and responsibilities under this ESRMF.
- ii. An introduction on the ESRM Policy and Framework shall be part of the general induction training of every new Officer.
- iii. A dedicated training package and schedule on the relevant elements of the ESRMP shall be produced on an annual basis for each function.
- iv. The ESRMS coordinator is responsible for the E&S Training and Awareness Program; he or she may also perform as trainer, or delegate tasks to Heads of Units or external trainers.

ESRMS Training may include:

- i. ESRMS Roll Out training, to inform and familiarize all concerned Officers on the Bank's policy and procedures to manage environmental and social issues.
- ii. A brief version of the ESRMS Roll Out training to be inserted in the induction training package for new Officers.
- iii. ESRMP Implementation: Appraisal and Monitoring, to train designated staff on their specific duties and responsibilities in the ESRMF, in particular on the Exclusion List, assessing E&S Risks, using E&S Risk Evaluation Forms, E&S Monitoring of customers
- iv. Further ESRMS (internal or external) training shall be based on actual needs.

The annual training package and schedule shall be part of the overall training program of the Bank, and shall be produced in direct collaboration with the Human Capital Department, responsible for training and knowledge management.

6.6. ESRMS Monitoring

- i. Monitoring of the ESRMS functionality and operations is the baseline for assessing compliance and for reporting progress towards the E&S policy goals.
- ii. Assigned by ERCO the Head of Risk, in close collaboration with Internal Audit shall carry out or commission an annual review of the ESRMS, or as issues arise that require immediate revision of the ESRMS or its procedures. This includes

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- changes in the regulatory framework, changes in international best practices, and financial activities in new industry sectors for the Bank.
- iii. The ESRMS shall be scheduled for review as part of the procedures of the Bank's Internal Audits.
 - iv. The ERCO keeps Senior Management informed on challenges, successes and other important issues associated with ESRMS implementation.
 - v. Based on input received from Monitoring, Internal Audits, Legal Unit, Risk, and Review results, the Head of Risk makes the necessary revisions to the ESRMS to improve the operational aspects of the ESRMS implementation and to reflect changes in applicable national laws on environment, labour, employment, and other applicable regulations.
 - vi. Senior Management reviews the changes and approves the revised ESRMS, before informing all staff about changes in the ESRMS procedures.
 - vii. Monitoring and record keeping of monitoring results shall be carried out by or on behalf of the ESRMS coordinator, using the Monitoring Form 'B' (Annex 7, in the ESRMF).
 - viii. In preparation of the ESRMS monitoring the ESRMS coordinator shall have available an overview of the outcomes of all E&S risk monitoring Forms 'A' (Annex 6, in the ESRMF) and any additional monitoring, information gathering and measurement of E&S impact, both negative and positive, external and internal.
 - ix. The ESRMS Coordinator is responsible for implementing this instruction.

6.7. ESRMS Reporting

Internally, the Head of Risk shall provide quarterly reports (or on a more frequent basis as needed) to ERCO and the Board, indicating:-

- i. Accidents and incidents related to the Environmental and Social management System
- ii. High Risk projects
- iii. E&S Performance

Externally, a sustainability report shall be part of the regular Annual Report, providing an overview on the environmental and social performance of the Bank. Annex 8 can be used as reference and guidance to the content of the Annual Report.

In broad terms, and gradually over the coming years, the content of that report shall follow the guidelines on sustainability reporting as provided by ICAM (2011).

7. Review of Policy

The ESRMP and ESRMF shall be reviewed every three years or when significant changes have taken place that impacts the assumptions in it.

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ANNEX 1: EXCLUSION LIST

The Bank shall not invest in, lend to, or engage in activities that are detrimental to the environment, harmful, or dangerous to people or communities. In particular the Bank will not support:

1. Production or activities involving forced labour¹ or child labour²
2. Production or trade in any product or activity deemed illegal under host country laws or regulations or international conventions and agreements.
3. Production or trade in³
 - a. weapons and ammunitions
4. Lending to gambling, casinos and equivalent enterprises⁴
5. Any business relating to pornography or prostitution.
6. Trade in wildlife or wildlife products regulated under CITES⁵
7. Production or use of or trade in hazardous materials such as radioactive materials⁶, unbounded asbestos fibres and products containing PCBs⁷.
8. Cross-border trade in waste and waste products unless compliant to the Basel Convention and the underlying regulations.
9. Drift net fishing in the marine environment using nets in excess of 2.5 km in length
10. Production, use of ozone depleting substances⁸ and other hazardous substances subject to international phase-outs or bans.
11. Significant⁹ conversion or degradation of Critical Habitat¹⁰

Foot note

¹Forced 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.

²Employees may only be taken if they are at least 14 years old, as defined in the ILO Fundamental Human Rights Conventions (Minimum Age Convention C138, Art. 2), unless local legislation specifies compulsory school attendance or the minimum age for working. In such cases the higher age shall apply.

³This applies when these activities are a substantial part of a project sponsor's primary operations. Hard liquor

⁴This applies when these activities are a substantial part of a project sponsor's primary operations.

⁵CITES: Convention on International Trade in Endangered Species or Wild Fauna and Flora.

⁶This does not apply to the purchase of medical equipment, quality control (measurement) equipment and any other equipment where EFP considers the radioactive source to be trivial and/or adequately shielded.

Additionally, FMO will finance the mining and enrichment of uranium ores for nuclear energy and other non-military use, but will not finance the production of high enrichment (weapons grade) uranium in countries that have signed and ratified and are honouring the Treaty on the Non-Proliferation of Nuclear Weapons.

⁷PCBs: Polychlorinated biphenyls, a group of highly toxic chemicals. PCBs are likely to be found in oil-filled electrical transformers, capacitors and switchgear dating from 1950-1985.

⁸Ozone Depleting Substances: Chemical compounds, which react with and delete stratospheric ozone, resulting in "holes in the ozone layer". The Montreal Protocol lists ODS and their target reduction and phase out dates.

⁹Significant conversion or degradation means the (1) elimination or severe diminution of the integrity of a habitat caused by a major, long-term change in land or water use; or (2) modification of a habitat that substantially reduces the habitat's ability to maintain viable population of its native species.

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12. Production and distribution of racist and anti-democratic media.
 13. Significant alteration, damage, or removal of any critical cultural heritage¹¹.
 14. Relocation of Indigenous Peoples¹² from traditional or customary lands.
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¹⁰Critical habitat is a subset of both natural and modified habitat that deserves particular attention. Critical habitat includes areas with high biodiversity value that meet the criteria of the World Conservation Union (IUCN) classification, including habitat required for the survival of critically endangered or endangered species as defined by the IUCN Red List of Threatened Species or as defined in any national legislation;

areas having special significance for endemic or restricted-range species; sites that are critical for the survival of migratory species; areas supporting globally significant concentrations or numbers of individuals of congregatory species; areas with unique assemblages of species or which are associated with key evolutionary processes or provide key ecosystem services; and areas having biodiversity of significant social, economic or cultural importance to local communities. Primary Forest or forests of High Conservation Value shall be considered Critical Habitats.

¹¹Critical cultural heritage consists of (i) the internationally recognized heritage of communities who use, or have used within living memory the cultural heritage for long-standing cultural purposes; and (ii) legally protected cultural heritage areas, including those proposed by host governments for such designation.

¹²the term “Indigenous Peoples” is used in a generic sense to refer to a distinct social and cultural group possessing the following characteristics in varying degrees:

- ~ Self-identification as members of a distinct indigenous cultural group and recognition of this identity by others
- ~ Collective attachment to geographically distinct habitats or ancestral territories in the project area and to the natural resources in these habitats and territories
- ~ Customary cultural, economic, social, or political institutions that are separate from those of the dominant society or culture
- ~ An indigenous language, often different from the official language of the country or region

Note:

There is an adaptation made to this international Exclusion List: the Bank removed „production or trade in tobacco“. In Malawi, the production and trade of tobacco is a key economic activity. Many Malawian companies and families rely on tobacco production“ tobacco is the main export crop accounting for over 70% of total export earnings. 11% of the Bank’s loan portfolio involves the agricultural sector, and within that sector, tobacco is a major activity of the Bank customers. The Bank is aware of the constraints and dilemmas related to tobacco production (e.g. health and safety of consumers, environmental impact, pesticides use, land use, deforestation, child labour, green supply chains, etc.), and we support such initiatives as the WHO Framework Convention of Tobacco Control (FCTC) and the Government of Malawi plans to develop alternatives for tobacco production. The Bank’s involvement in the tobacco industry will be characterized by a pro-sustainability approach: we will actively promote clean, fair and sustainable tobacco production developments. By default, our clients in the tobacco sector will be rated as „High E&S Risk“. Where possible, the Bank will support and promote alternatives for tobacco production.