Cogebanque Plc

ENVIRONMENTAL AND SOCIAL POLICY

Confidential

Approvals

S/N	AUTHORIZING OFFICER	DESIGNATION	SIGNATURE	DATE
1	Guillaume HABARUGIRA	Chief Executive Officer		31st Dec. 2022

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LIST OF ABBREVIATIONS

AfDB:	African Development Bank
DFI:	Development Finance Institution
E&S:	Environmental and Social
EBRD:	European Bank for Reconstruction and Development
EIA:	Environmental Impact Assessment
EIB:	European Investment Bank
EMP:	Environmental Management Plan
ESA:	Environmental and Social Assessments
ESIA:	Environment and Social impact Assessment
ESMP:	Environmental and Social Management Plan
ESMS:	Environmental and Social Management System
ESRP	Environmental and Social Review Procedure
FIs:	Financial Institutions
CEA:	Cumulative Effect Assessment
FONERWA:	Fonds National de l'Environnement au Rwanda
GHG:	Green House Gases
IFC:	International Financial Corporation
IFIs:	Intermediate Financial Institutions
MDB :	Multilateral Development Bank
OHS:	Operational Health and Safety
RAP:	Resettlement Action Plan
RDB:	Rwanda Development Board
REMA:	Rwanda Environmental Management Authority
SMEs:	Small and Medium Enterprises

1 Environmental and Social policy of Cogebanque Plc

The Bank strives to ensure that all activities and projects will be in compliance with the environmental and social standards stated in the applicable local and international laws on environment, health, safety and social issues.

The Bank's commitment to its goal and efforts to manage environmental and social risk across its operations is demonstrated in the Environmental and Social (E&S) Strategies adopted by the Bank. After approval by the Board this statement will be communicated to all employees and customers of the Bank.

Key Points in the Environmental and Social Strategies of the Bank:

- All activities undertaken by the Bank are consistent with its environmental and social standards and the requirements applicable in Rwanda.
- All projects for which lending is considered are reviewed against the applicable requirements and projects are financed only when they are expected to be designed, built, operated and maintained in a manner consistent with the applicable requirements.
- Efforts are made to ensure that all projects financed by the Bank are operated in compliance with the applicable requirements on an ongoing basis.
- Customers of the Bank understand strategies made by the Bank in this area.

1.1 Policy Objectives

In line with Rwandan national environmental objectives and international standards, the main objective of the social and environment policy is to ensure that the Bank finances projects with minimal adverse impacts on the environment while ensuring that those having potentially major adverse Environmental and Social impacts are accompanied by adequate mitigation measures.

Pursuant to the general objective, the bank specifically endeavors to:

- Ensuring that there are guidelines and procedures in place to assess the Environmental and Social impacts of all projects before financing commitment;
- Ensuring that the procedures and guidelines are adhered to; and
- To continuously improve the Environmental and Social Management System (ESMS) and ensure that its functional and capable of coping with the trends of Environmental and Social challenges including managing community grievances, collaborating with relevant stakeholders in addressing complex projects, resettlement and compensation issues and cumulative project impacts.

1.2 E&S Risks arising from lending operations

E&S Risk assessment is not entirely a new approach for the Bank. Therefore, ESMS can be considered as an existing system with added explanation and commitment by way of improving E&S policy and relevancy procedures. If left unmanaged, these environmental and social risks through our customers/investees can lead to a decline in the Bank's reputational image, costly litigation, or loss of revenue.

It appears from the above that a financial institution's environmental and social risks are those of their customers/investees and are inherent in the nature of a customer's/investee's operations. Some potential environmental and social risks may not seem significant or relevant at the time of approval of a financial transaction, but may become so during execution as for instance as a result of higher regulatory standards and increased levels of enforcement. In other cases, environmental and social risks, such as spills or explosions, may seem unlikely to occur, but when they do, the environmental and social impact is potentially extremely high.

1.2.1 Types of E&S Risks in a bank:

Liability Risk: By virtue of taking possession of collateral assets, a financial institution is exposed to liability risk stemming from a client's/investee's legal obligations. This includes fines, penalties and costs for addressing third-party claims for damages due to negligence in managing environmental and social risks in a customer's operations and clean-up of contamination. If the financial institution is a principal shareholder of a customer's/investee's operations, it may also be directly liable for all environmental and social risks associated with a customer's/investee's operations.

Financial Risk: A financial institution is exposed to financial risk stemming from potential disruption of client's/investee's operations as a result of environmental and social problems. If not managed properly, these problems can affect a client's/investee's ability to meet its financial obligations to the financial institution and/or can drive down the value of a client's/investee's collateral in the context of a transaction. A customer's/investee's failure to effectively address environmental and social considerations can jeopardize its business operations as well as the financial institution that is supporting the transaction. The financial institution will also face liquidity risks from environmental and social problems associated with collateral. For example, the financial institution sometimes requires to incur additional costs to undertake cleaning if customer's activities have led to pollute the environment of any particular land or similar assets which the bank has obtained as collateral to a loan before such an asset is required to be liquidated.

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

Credit Risk: A financial institution is exposed to credit risk when a client/investee is unwilling and/or unable to fulfill the contractual obligations associated with a transaction as a result of environmental and social issues. For example, if a client/investee faces increased capital or operating costs of complying with environmental and social 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/investee cannot meet its financial obligations to the financial institution.

Market Risk: A financial institution is exposed to market risk stemming from a reduction in the value of collateral associated with a transaction due to environmental and social problems. For example, if a production site becomes contaminated, the market value of the underlying collateral will fall.

Environmental and social risks can be mitigated through compliance with environmental regulations and social safeguard policies/standards and by adhering to international environmental and social standards. A financial institution can best achieve this by developing and implementing an environmental and social management system, to systematically assess the environmental and social risks and opportunities arising from their customer'/investees' operations and manage its exposure to risk.

The Bank needs to have a clear understanding of the potential environmental and/or social risks and implications for a client's/investee's operations prior to being linked to the client/investee in the context of a transaction.

This requires a system for proactive identification, assessment and management of environmental and social risks before they become significant or result in an adverse outcome on the client/investee.

1.3 Risk Assessment Procedure

E&S risk assessment procedure requires to be understood parallel to Cogebanque's existing credit risk management procedure. Risk appraisal is fundamental to the Credit Risk Management Process of the Bank.

Credit Risk Management Process of Cogebanque Plc

Loan Origination & Risk Appraisal	**Credit Approval**	**Credit Administration & Disbursement**	**Credit Measurement & Monitoring**	**Recoveries**

The ESMS enables the Bank to integrate E&S risks assessment too into the existing credit risk management procedure. In this regard several revisions/ amendments have been introduced into the Bank's lending procedure. The process flow chart of the lending procedure of the Bank has been revised considering various E&S risk management elements of a credit facility. The corresponding sections of the Bank's Credit Manual which describes the lending procedure have been revised.

The following sections received careful attention when introducing revisions:

- Credit Policy
- Duties and Responsibilities of Credit Staff
- Principles of Good Lending
- Guidelines for Lending
- Post Credit Risks
- Internal Risk Rating Systems

1.3.1 Revisions introduced for Risk Adequate Credit Appraisal Procedure

Following are the major highlights in the revised credit appraisal procedure:

<u>Introduction of Exclusion List</u>: Bank's "Exclusion List" defines the types of activities the bank will not finance. It will be referred to by the Bank Relationship Managers/Officers or Branch manager at the initial stage of loan application by the customer. It is expected that the Relationship Managers/Officers or Branch Manager can refer to the Exclusion List and inform the loan applicant whether the intended loan falls within the purview of the Bank's E&S Policy, as well as within the Exclusion List. This can be done at the early stage of lending when the bank establishes initial contacts with a loan applicant.

Introducing the process of Risk Categorization: Under the new procedure Relationship Managers/Officers, Branch manager or Credit Managers/Officers will categorize the projects for which loans are requested according to potential Environmental & Social risks (A=high risks, B=medium risks, C=low risks). The credit manual has been revised in order to accommodate this requirement. Hereafter the E&S risk categorization is an important part of the loan appraisal process.

Introducing a more structured E&S Due Diligence Process: Steps have been introduced for the Credit Manager/Officer to undertake Environmental & Social Due Diligence (ESDD) as part of the loan appraisal. Accordingly, a project in terms of risks can be categorized into low, medium and high risks.

The Credit Manager/Officer will have to carry out due diligence using a more stringent procedure in respect of high risk projects. For Category of projects falling within high risks, the Bank can delegate due diligence to a team of experts.

On completion of the due diligence process a report has to be produced based on the observations. The credit officer is expected to assess whether the loan applicant needs to fulfill the E&S risk mitigation compliances depending on the risk category of the respective project/activity. Credit Officer may use a checklist for this purpose.

The Credit Appraisal Procedure was also revised to accommodate incorporation of necessary covenants relevant to the compliance of E&S risk mitigation actions to loan documentation (agreement). The covenants compel the loan applicant to comply with the recommended action prior to approval of the loan.

Compliance with E&S Risk Mitigation action will be in accordance with either the country's environmental and social safe guard policies/regulations. This has been addressed in the credit manual as well as in existing lending procedures.

The process that involves post disbursement of loans were also considered for integration of E&S consideration. Revisions were incorporated to mandate regular monitoring of the ESAP and reporting on same the portfolio details of high risk projects.