

ENVIRONMENTAL & SOCIAL RISK MANAGEMENT

Overview

This section outlines the Bank's responsibility for Environmental & Social ("E&S") Risk. It outlines the elements and approach to key issues outlined in the International Finance Corporation ("IFC") performance standards on Environmental and Social sustainability such as but not limited to human rights, climate change, forests, and biodiversity.

Understanding clients E&S performance is an important element of how we assess and manage risk. The consequences of failing to appropriately manage E&S issues can directly impact the Bank's reputation, our client's activities, communities, individuals and the environment, as well as long term economic viability.

The Bank seeks to incorporate environmental and social risk considerations into its financial activities and help staff to continually identify and communicate these risks.

Clarien Investments Limited ("CIL") and its subsidiaries, the asset management division of the Bank, acknowledge the importance of environmental and social aspects. In order to fulfill its independent fiduciary obligations, CIL and its subsidiaries follow the investment objectives, policies, or clients investment guidelines and any constraints thereof in relation to environmental and social matters.

The Bank is committed to compliance with the Bank's environmental and social exclusion list contained within the Clarien Environmental & Social Risk procedures.

The Bank acknowledges Bermuda's developed, small geographic, long standing, openly available rules and regulations including but not limited to: planning, zoning, property rights, environment, employment, protection of children, minorities and immigration.

Roles & Responsibilities

BOD of the Bank is ultimately responsible for the Bank's overall commitment to environmental and social objectives. The RiskCo as a subcommittee of the BOD establishes the Bank's environmental and social requirements and conditions for clients. In cases of unresolved environmental and social issues or non-compliance associated with a transaction that cannot be resolved by Lenders/Relationship Managers, Risk Management and Executive Committee ("ExCO") determines the appropriate course of action to follow to reduce the Bank's potential exposure to environmental and social risk, which may include taking legal action against the client. The RiskCo is made aware of E&S risks and the system of internal control by quarterly risk reporting of any E&S risks or controls issues by the CRM function.

Lenders/Relationship Managers are responsible for following the E&S procedures developed at the transaction level. They may discuss and negotiate possible environmental and social mitigation measures with the client. They are the first line of assessment and reporting.

CRM function is responsible for evaluating the E&S risks at the transaction level and make a recommendation to the Credit Committee, RiskCo and the BOD on whether to proceed with a transaction.

The Credit Committee is responsible for escalating if E&S risks that warrant consideration to the RiskCo before proceeding with a transaction.

Chief Risk Officer (“CRO”) is the responsible E&S officer for leading the Bank’s effort to develop an environmental social management system as well as for communicating with the ExCo on environmental and social issues and concerns. The CRO may delegate this responsibility to an appropriate member of the wider risk and compliance team.

Legal Department ensures the Bank’s environmental and social requirements are incorporated in legal agreements for each transaction. The Legal Department may advise if a client’s non-compliance with environmental and social clauses constitutes a breach of contract and is considered a failure under the terms of the legal agreement that requires follow up with the RiskCo.

Exceptions

The Bank will not directly or sustainably finance any activity, production, use, distribution, business or trade with the Bank’s exclusion list, or deemed illegal under Bermudian or host laws or regulations or international conventions and agreements. The exclusion list is contained in the Clarien Environmental & Social Risk procedures maintained by CRM team.

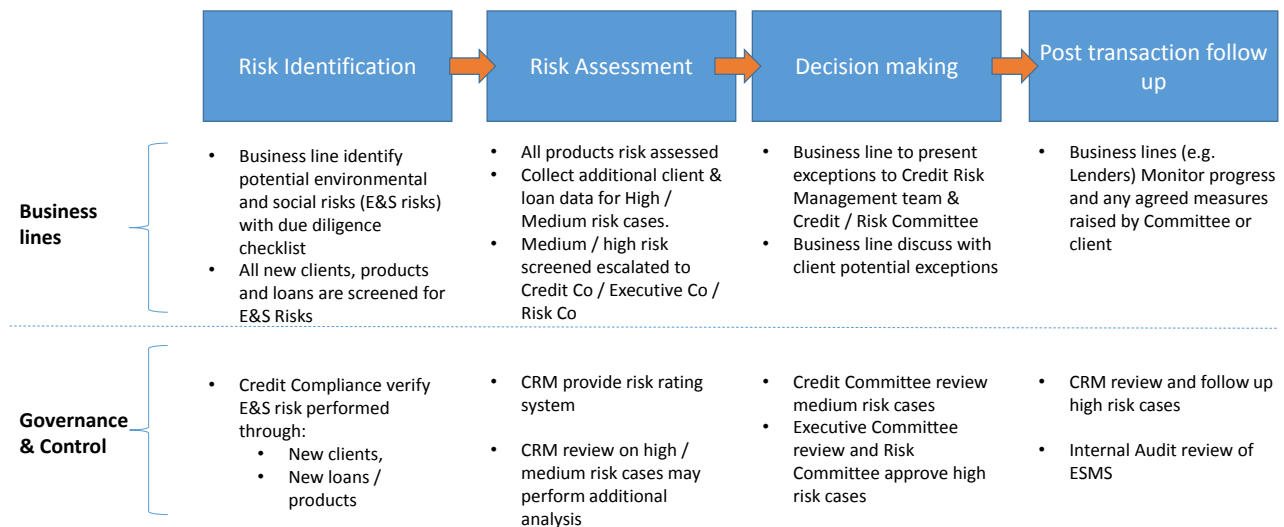
The Bank general terms and conditions provide details of the banks requirements and must be adhered.

Guidance

The Bank Environment & Social Management System (“ESMS”) comprises of three components, i) the E&S Risk policy which sets the scope and requirements, ii) the E&S Process outlined below and iii) E&S procedures (Due diligence checklist, exclusion list, and transactional activities).

E&S Process flow

The following diagram describes the Bank lending transactional E&S risk process.



E&S Risk Classification

The Bank has developed E&S Risk procedures to identify transactions that may have an environmental and social impact. The procedures contain three potential E&S risk categories representing three different risk levels:

- **High Risk:** Transactions typically involve clients with business activities with significant adverse environmental and social 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. All High risk cases or trading activities that could be construed as those activities in the bank's exclusion list are escalated to Credit Committee.
- **Medium Risk:** Transactions typically involve clients with business activities with specific environmental and social 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. All Medium risk cases or trading activities that could be construed as those activities in the bank's exclusion list are reviewed by Credit Committee, additional questions and mitigating actions are contained in E&S Action Plan these are posed to clients for mitigation and are monitored by the risk management team.
- **No / Low Risk:** Transactions typically involve clients with business activities with minimal or no adverse environmental and social impacts. Transactions which abide by the high standards of Bermudian laws, zonal / planning laws are considered low risk. A Bermudian residential mortgage is considered low risk.

All high risk transactions are raised to RiskCo for review. If the project, loan, commercial activity is assessed by the RiskCo as high risk and risk mitigant(s) available, the RiskCo may seek clarification from prior to making a decision.

Monitoring

All business lines are requested to review and monitor that they are adhering to the eight IFC performance standards on Environmental and Social Sustainability. Lending will achieve this on a credit transactional basis with the due diligence which is then reviewed by CRM. If cases are rated higher than low risk rating there is follow up by CRM.

Internal Audit to perform review of E&S Management System and internal controls as part of their audit program.

Training

The CRM function will provide regular training for the Bank's employees in order to identify, assess, monitor and manage E & S risks. Additional specific training may be required for lenders / relationship managers and CRM team (on how to perform / review the E & S due diligence).