



SUCCESS BEYOND NUMBERS

Environmental and Social Risk Policy

Date: October 2021

1	SUMMARY	Elaborates the criteria under which the financing activities of MCB is subject to Environmental and Social Risk Management Process			
2	OWNER	Risk SBU			
3	ALTERNATE OWNER	Marketing and Communication SBU			
4	AVAILABLE ON	iZone	✓	Website	✓
5	DISSEMINATED TO	All business lines and publicly available on MCB Ltd website			
6	DATE OF VALIDATION	26 th October 2021			
7	REVIEWED BY	Chief Risk Officer			
8	VALIDATED BY	Corporate Sustainability Committee			
9	DATE OF NEXT FORMAL REVIEW	December 2022			

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Definitions

The terms used in this policy are defined as follows:

Acquisition Finance	Provision of financing used for acquiring a Project or a Project company which exclusively owns, or has a majority shareholding in a Project, and over which the client has Effective Operational Control
Bridge Loan	Short-term loan provided to a business until the longer term stage of financing can be secured
Credit Cycle	Process within which MCB takes on and manages credit risk in its business to facilitate the identification of material policy issues within the context of the life cycle of a credit facility
Designated Countries	Those countries deemed to have robust environmental and social governance, legislation systems and institutional capacity designed to protect their people and the natural environment. The Equator Principles Association makes no independent assessment of each country's performance in these areas. As a proxy for such an assessment, the Equator Principles Association requires that a country must be both a member of the OECD and appear on the World Bank High Income Country list to qualify as a Designated Country. These data sets are reviewed quarterly by the Equator Principles Secretariat to ensure that any change in status is reflected in the Designated Countries list. The list of Designated Countries can be found on the Equator Principles Association website.
Environmental	Aspects related to Climate Change, Water, Air, Land and Water Contamination, Biodiversity Conservation and Natural Resources
Environmental and Social Impact Areas	Areas likely to impact environmental and social aspects
Equator Principles (EP)	A risk management framework, adopted by Financial Institutions, to perform due diligence on environmental and social risks in financing
Credit Committee (CC)	MCB Ltd's Credit Committee with principal responsibility for the management of credit risk portfolios and to sanction/decline credit applications
IFC Performance Standards (IFC PS)	Set of Environmental and Social standards, developed by International Finance Corporation (IFC), to manage Environmental and Social risks
Non-designated countries	Those countries not found on the list of Designated Countries on the Equator Principles Association website

**Portfolio Review
Committee (PRC)**

MCB platform for proactive exchanges, sharing and discussion on Bank's portfolio with regards to profitability, business strategy, risk appetite, operational issues and risk metrics/profile

Project Finance

Financing of economically viable capital investments on a non-recourse or limited recourse structure where the debt and equity providers are paid back from the cash flows generated by the project (i.e. financed on its own merits)

**Project-related
Corporate Loan**

Corporate loans, made to business entities related to a Project, either a new development or expansion, where the Known Use of Proceeds is related to a Project in one of the following ways:

- The lender looks primarily to the revenues generated by the Project as the source of repayment (as in Project Finance) and where security exists in the form of a corporate or parent company guarantee
- Documentation for the loan indicates that the majority of the proceeds of the total loan are directed to the Project

**RAMSAR
Convention**

An international treaty for the conservation and sustainable use of wetlands

Refinancing

Process of revising and replacing the terms of an existing facility agreement

Social

Aspects related to Human Rights, Labour Conditions, Gender, Health and Safety, Vulnerable Groups, Affected Communities and Cultural Heritage

**Sustainable
Development**

Development that meets the needs of the present without compromising the ability for future generations to meet their own needs

**Sustainable
Development
Goals**

Universal goals set by the United Nations to end poverty, protect the planet, promote peace and prosperity by 2030

**United Nations
Environmental
Programme FI
Principles of
Responsible
Banking**

Framework which allows banks to align their strategy and adopt business practices which aligns with the Sustainable Development Goals and the Paris Climate Agreement

1. Introduction

In November 2018, The Mauritius Commercial Bank ('MCB Ltd' or the 'Bank') Limited has launched its [Success Beyond Numbers](#) vision to bring value to the country, to its inhabitants, to rethink the notion of success beyond a quantified assessment, and to be a legacy to future generations.

The **Vision** is extended across 3 pillars:

1. A Vibrant and Sustainable Local Economy
2. Preservation of Cultural and Environmental Heritage
3. Individual & Collective Well-Being

MCB Ltd's credit portfolio is indirectly exposed to Environmental and Social risks through its financing activities in various host countries. Through adequate risk management framework, the Bank acknowledges its ability to contribute to the sustainable development of these countries by allocating capital to more sustainable sectors and adopting business practices, which will be in the clients' interest and that of broader societal goals.

In 2012, MCB Ltd became a voluntary **signatory of the Equator Principles** to manage and continuously monitor the Environmental and Social (E&S) Risks associated with its financing.

In September 2019, MCB Ltd became a **founding signatory of the UNEP FI Principles of Responsible Banking** to align its banking activities with the Sustainable Development Goals and Paris Agreement on Climate Change.

2. Policy Statement

As the leading bank in Mauritius, MCB Ltd recognizes its potential to set the best environmental and social standards and bring a positive impact on the sustainable development of Mauritius.

MCB Ltd is committed to contribute responsibly to long-term economic prosperity and value creation by acting as the strategic partner for sustainable financing (among its financing institutions/stakeholders).

MCB Ltd acknowledges that it is exposed to environmental and social risks both directly, through its activities and indirectly, through those of its stakeholders, mainly clients. MCB Ltd engages to implement the appropriate risk management system for environmental and social considerations in its banking activities.

3. Scope of Application

The Mauritius Commercial Bank Ltd undertakes that it will neither finance, nor arrange financing, for the activities set out in the ‘Exclusion List’, (see Annex 1).

This policy statement is applicable to all financing activities and projects of The Mauritius Commercial Bank Ltd with a financial threshold as described in Table 1, across all business lines of the Bank.

Financing types	Financial threshold
Project Finance	Minimum total project capital costs: USD 5 million or more
EP Project-Related Corporate Loans (Including EP Bridge loans)	Minimum total aggregate loan amount: USD 10 million Majority of the loan is related to a Project where the Client has effective operational control
EP Bridge Loans (including Letters of credit and bank guarantees)	Minimum total project capital costs for project finance: USD 10 million Total loan amount for project-related corporate loans: USD 10 million
Project-related Refinancing and Acquisition Finance	Minimum total project capital costs: USD 10 million
Corporate Loans and Government Loans	Minimum total capital costs: USD 10 million

Table 1: Financial threshold for financing activities and projects

The minimum tenor for all the financing types is 2 years (24 months). Any Working Capital financing and Trade financing is excluded from the scope of this policy.

Any financing activity less than USD 5 million will follow a simplified ESRM methodology, which will consist of a Environmental and Social due diligence checklist to identify specific risks and develop the monitoring plan for Environmental and Social Performance of the activity.

The Bank reserves the right to apply the ESRM process for any project or undertaking deemed eligible to undergo an environmental and social risk assessment. The project will undergo the established ESRM procedures prior to the Bank’s approval of the banking facility.

This policy is applicable and should be complied with by all personnel involved in the initiation, assessment, sanction, control and monitoring of any credit risk.

Mandated Lead Arranger

In the event of MCB participation in a syndicated loan, the mandated EPFI will take the lead for the Environmental and Social Risk Management Process on behalf of the syndicate and the steps outlined in the Equator Principles shall apply.

4. Objectives

a. Compliance with Environmental and Social laws

The Bank will comply with all applicable Environmental, Labour, Health and Safety and relevant laws and regulatory frameworks of the Republic of Mauritius and its country of operations.

In addition, the Bank will comply to all requirements of the General Data Protection Regulations (GDPR) and Data Protection Act (DPA) in the application of the Environmental and Social Policy.

b. Governing Principles

- The Bank commits to implement the best standards to encourage sustainable business growth in all markets by protecting the rights and welfare of its employees, preserving natural resources through responsible procurement and consumption and contributing to the needs of local communities.
- The Bank will apply the best international environmental and social risk management practices developed by the Equator Principles, the International Finance Corporation (IFC), including IFC Performance Standards, and industry-specific Labour Conditions, Human Rights, Environmental and Anti-corruption guidelines as issued by the World Bank Group and UNEP FI Principles of Responsible Banking.
- For any divergence among the standards and practices, the requirements under Equator Principles will take precedence.
- The Bank will avoid any risk of being associated with any form of forced labour, including modern slavery and human trafficking, through its business activities. Through its risk management framework, the Bank will identify and adopt preventive measures for any practices associated with forced labour, human trafficking, illegal recruitment fees, unfair or delayed/withheld wages, forced or excessive overtime and retention of identity documents.
- The Bank will avoid any threat to critical habitats and biodiversity conservation which may arise from its financing. The Bank's Environmental and Social Risk Management process will require its clients to adopt mitigation measures to protect and preserve natural resources.
- The Bank will appoint the necessary resources and expertise to ensure the implementation of the management practices.
- The Bank commits to provide sustainable financing products and solutions in addition to its Environmental and Social Analysis of project risks and impacts, as far as reasonably practicable.
- The Bank will integrate environmental and social considerations into its established credit cycle, as part of a decision-making process.
- The Bank will develop and enhance its E&S risk assessment tools and framework to identify and minimize business impact in a proactive manner.
- The Bank will provide support to its clients in the implementation of appropriate management systems to improve their environmental and social performance.

- The Bank will develop and maintain an Exclusion List (Refer to Annex 1) based on the critical environmental and social issues and in accordance to international standards as detailed in the Equator Principles.
- The Bank will conduct the necessary capacity-building training and resources, on an annual basis, to gain their perspective and involvement into achieving the culture change and mitigating reputational risks.

c. Environmental and Social Risk Management

MCB Ltd has developed an Environmental and Social Risk Management (ESRM) methodology to systematically identify, assess and manage the environmental and social risks to which it is exposed through its lending activities. **Annex 2** illustrates how the ESRM process is integrated into the Bank Credit Risk Cycle.

ESRM objectives

The ESRM process will comply with the requirements of the engagements taken by the Bank, notably Equator Principles, UNEP FI Principles of Responsible Banking, IFC Performance Standards and World Bank's Environmental, Health and Safety Guidelines.

Risk Identification

Risk identification is an integral part of the ESRM process and will be conducted at the initial assessment stage of a credit cycle, by applying the criteria defined by International Finance Corporation and the Equator Principles to categorise the projects as per the magnitude of their potential impacts. These categories are described as follows:

- **Category A** – Projects with potential significant adverse environmental and social risks and/or impacts that are diverse, irreversible or unprecedented
- **Category B** - Projects with potential limited adverse environmental and social risks and/or impacts that are few in number, generally site-specific, largely reversible and readily addressed through mitigation measures
- **Category C** - Projects with minimal or no adverse environmental and social risks and/or impact

For projects located in designated countries, the projects' environmental and social compliance will be evaluated based on the relevant host country laws, regulations and permits.

For projects located in non-designated countries, the projects' environmental and social compliance will be evaluated based on applicable IFC performance standards and the sector-specific Environmental, Health and Safety Guidelines (EHS Guidelines). These Performance Standards cover:

- PS1 – Assessment and Management of Environmental and Social Risks and Impacts
- PS2 – Labour and Working Conditions
- PS3 – Resource Efficiency and Pollution Prevention
- PS4 – Community Health, Safety and Security
- PS5 – Land Acquisition and Involuntary Resettlement
- PS6 – Biodiversity Conservation and Sustainable Management of Living Natural Resources
- PS7 – Indigenous Peoples
- PS8 – Cultural Heritage

Independent Review

All Category A project finance and project-related corporate transactions will be subject to an independent review of the project's environmental and social impact assessment. The review will be carried out by an independent Environmental and Social consultant with the relevant expertise, appointed by the Bank in consultation with the Client.

High-risk category B project finance and project-related corporate transactions will be subject to an evaluation, recommendations and approval process by the Risk and Sustainability teams to decide on the necessity for an independent review.

The independent Environmental and Social consultant will be selected from an approved list of consultants based on expertise, sector-related experience and reliable credentials. The list will be approved by a panel consisting of members from the Business, Risk and Sustainability teams.

The Bank’s ESRM process fully incorporates the requirements of Equator Principles as shown in below table.

Key Steps	Objectives
Categorisation	Projects will be categorised A, B or C through a preliminary environmental and social screening carried out by the Bank.
Environmental and Social Assessment	<p>Projects categorised A or B will undergo a formalised environmental and social impact assessment process. Should a project A or B be financed by the Bank, the assessment process should address the way in which environmental and social risks are considered in the planning, implementing and operating phases of the project.</p> <p>MCB Ltd’s environmental and social assessment process should address compliance with:</p> <ul style="list-style-type: none"> • All applicable environmental and social laws and regulatory framework • All necessary permits related to the project’s proposal for financing • Requirements under the Equator Principles, including UNGP Human Rights and Climate Risk Assessment as per Task-Force for Climate-related Financial Disclosures (TCFD) • Applicable IFC Performance Standards • Industry-specific Human Rights, Environment and Health and Safety Guidelines <p>When a project involves existing facilities or business activities, and/or associated facilities, the assessment will consider the environmental and social risks and impacts associated with such facilities and activities.</p>
Environmental and Social Management System and Equator Principles Action Plan	Based on the assessment, the Bank will develop an Environmental and Social Action Plan (ESAP) specifying timeline and deliverables in order to bring the Project to be compliant to the Bank’s requirements within a specified timeframe.
Covenants	<p>The Bank will include the Environmental and Social Action Plan (ESAP) as part of a binding covenant, and compliance to the covenant will be monitored both by the Bank and the client’s designated team member during the construction and operation phase.</p> <p>Appointment of an independent E&S expert may also be considered by the Bank as part of the covenant monitoring process.</p> <p>The Client will covenant to periodic reporting requirements, as established by the Bank, to monitor E&S performance indicators of the Project based on their environmental and social risk areas.</p>
Monitoring	The Environmental and Social Action Plan will be monitored as part of the Bank’s Facility Monitoring process.

5. Governance

The established governance for decisions related to the Bank’s exposure to Environmental and Social risks is shown below:



6. Responsibilities

- The **Remuneration, Corporate Governance, Ethics and Sustainability (RCGES) Committee** has inter alia responsibilities to monitor the Group Corporate Sustainability Programme and assist in the implementation of the ‘Success Beyond Numbers’ philosophy and related policies across MCB Group Ltd.
- The **Chief Executive Officer (CEO)** is responsible for the Bank’s Sustainability agenda. The CEO ensures that the Sustainability strategic objectives are successfully cascaded down across the Bank and **is ultimately responsible to ensure compliance of the E&S Risk policy across the Bank.**
- The **Chief Risk Officer** is responsible to approve the overall risk appetite, which includes consideration for environmental and social risks and associated financial and reputational risks.
- The **Sustainability Manager** is responsible to ensure alignment of the ESRM policy to the overall Success Beyond Numbers strategy of the Bank.
- The **Sustainability Banking Analyst** is responsible to implement the ESRM policy, process and ensure all eligible financing activities comply with the ESRM process and Environmental and Social requirements of Financial Institutions and Development Financial Institutions at all times.
- The **Head of Credit Analysis and Structuring** is responsible to ensure that the ESRM requirements are fulfilled within the structuring of term sheet, facility agreement and drafting negotiations and executions.

- g. The **Sustainability Banking Analyst** is responsible to coordinate with Human Resources SBU and conduct relevant training on this policy within the different business lines on an annual basis.
- h. The **Coverage team** leads and maintains the relationship with Clients and is responsible to comply to the requirements of the ESRM process for transactions falling under the scope of this Policy:
 - i. Setting conditions in the term sheet/memo
 - ii. Liaising with the Structuring and Sustainability team for analysis and relevant documentation
- i. The **Compliance team** is responsible to ensure that this policy abides to the criteria set out by the MCB Ltd Policy for the Formulation and Management of Policies.
- j. Through this policy, MCB Ltd requires that its **clients** abide to the ESRM Process, provide accurate information and manage the environmental and social issues associated to their projects. The Clients are required to meet the undertakings pertaining to E&S aspects stated in the loan documentation throughout the loan tenor.

7. Review

This Policy shall be reviewed and updated on an annual basis, or earlier if required, by the Chief Risk Officer, and appropriate stakeholders to ensure that it remains appropriate in light of relevant regulatory developments and changes in organisational policies. All policies and any amendments thereto will be subject to approval of the Risk Monitoring Committee and the Remuneration, Corporate Governance, Ethics and Sustainability Committee.

8. Cross-referencing

SN	Committee	Mandate and responsibilities	Reference documents
1	Remuneration, Corporate Governance, Ethics and Sustainability (RCGES) Committee	Assist the Board of MCB Group in the discharge of its duties relating to all remuneration aspects, to corporate governance matters and nomination of directors and senior executives of the MCBG. Review the Code of Ethics of MCB Group and its subsidiaries and monitor the Corporate Sustainability Programme across the Group.	Charter for RCGES Committee
2	Executive Credit Committee	Principal responsibility for the management of credit risk portfolios within MCB	MCB Credit Risk Policy
3	Risk Monitoring Committee	Assist the Board in setting up risk mitigation strategies and to assess and monitor the risk management process of the MCB Group Limited and all its subsidiaries (collectively the “Group”)	MCB Credit Risk Policy Charter for Risk Monitoring Committee

9. Revision History

Date	Version	Action	Amendments	Reviewed by	Approved by	Approved Date
July 2012	1.0	New policy	N/A	A. LeClezio		
October 2021	2.0	Updated Policy	N/A	Z. Khodabocus	Corporate Sustainability Committee	26 th October 2021

Annex 1 - Exclusion List

MCB Ltd undertakes to not finance the following projects:

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. Any business relating to pornography or prostitution
4. Trade in wildlife or wildlife products regulated under CITES³ and protected by the Mauritius Wildlife Foundation
5. Production or use of or trade in hazardous materials such as radioactive materials, unbounded asbestos fibres and products containing PCBs⁴
6. Cross-border trade in waste and waste products unless compliant to the Basel Convention and the underlying regulations
7. Drift net fishing in the marine environment using nets in excess of 2.5 km in length
8. Production, use of or trade in pharmaceuticals, pesticides/herbicides, chemicals, ozone depleting substances⁵ and other hazardous substances subject to international phase-out or bans
9. Destruction of Critical Habitat⁶
10. Production and distribution of racist, anti-democratic and/or neo-Nazi media
11. Production or trade in⁷:
 - a. Tobacco
 - b. Weapons
 - c. Hard liquor for human consumption
12. In line with MCB Klima engagements, activities involving the destruction of mangroves or marine algae
13. Infrastructure and trade in coal (thermal and metallurgical) and any new coal-fueled power plant

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

² Persons may only be employed 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.

³ CITES: Convention on International Trade in Endangered Species of Wild Fauna and Flora. (Washington, 1993).

⁴ PCBs: 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.

⁵ Ozone Depleting Substances (ODSs): Chemical compounds which react with and deplete stratospheric ozone, resulting in the widely publicized 'ozone holes'. The Montreal Protocol lists ODSs and their target reduction and phase out dates.

⁶ Critical 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.

⁷ Activities excluded when representing more than 10% of the balance sheet or the financed volume and for Financial Institutions (including the Borrower) more than 10% of the portfolio volume financing

14. Restrictions and prohibitions listed in the Bank's Customer Acceptance Policy

The financing of the following environmentally and socially sensitive business activities will be subject to MCB screening:

- a. Any development found around wetlands protected or regulated under RAMSAR convention
- b. Any development in environmentally-sensitive areas as declared by the Government of Mauritius

Annex 2 - ESRM Process Integration into the Credit Risk Cycle

Credit Cycle Stage	Client Action	MCB Related Actions
INITIATION STAGE	<ul style="list-style-type: none"> Client presents to the bank its request for financing and provides an initial overview of the deal 	<ul style="list-style-type: none"> Coverage team prepares 'early-bird' memo for PRC approval to seek or confirm risk appetite for the client's proposal
↓		
CREDIT SANCTIONING STAGE	<ul style="list-style-type: none"> Client to submit all required information to enable bank to conduct its due diligence – this includes any documentation pertaining to Environmental and Social aspects Discussion with MCB on proposed financing structure and ESRM requirements for approval by the bank's credit sanctioning committees 	<ul style="list-style-type: none"> Following PRC approval, Coverage team engages with CAS and Sustainability team for project analysis, structuring and project screening for potential E&S risks Project category assigned based on Equator Principles and E&S Risk Policy Memo discussed and assessed by Risk SBU and presented to ECC for approval
↓		
DOCUMENTATION, EXECUTION TO DRAWDOWN STAGE	<ul style="list-style-type: none"> Client provides detailed documentation – Environmental and Social Impact Assessment, Environmental and Social Management Plan, Action Plan, etc Client reviews and agrees with the proposed Environmental and Social Action Plan (ESAP) 	<ul style="list-style-type: none"> For Project Category A and high-risk Category B, MCB will appoint an independent consultant to review the project's compliance status with legal requirements, Equator Principles, IFC Performance Standards and sector-specific standards Sustainability team and/or Independent Consultant review documentation For any gap identified or any non-compliance, Sustainability team/Independent Consultant will prepare and E&S Action Plan with recommendations on how to mitigate or manage potential risks Compliance with ESAP and related monitoring and reporting requirements included as covenants in the facility documents
↓		
POST DRAWDOWN STAGE	<ul style="list-style-type: none"> As per agreed ESAP, Client submits progress with evidence in bringing the project to compliance with legal requirements, EP and IFC PS 	<ul style="list-style-type: none"> Conducts site visits, if necessary to check compliance level Monitoring team receives and reviews updates on E&S reports from Client and/or Independent consultant Coverage and Sustainability team collaborates with the client to identify non-compliance and propose remedial measures For critical non-compliances, senior management is notified and action plan is devised to bring project to compliance level