

AB Microfinance Bank Nigeria Ltd.

Risk Management Department – Environmental and Social Management Procedure

Adapted by Risk Management Department

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Environmental and Social Management Procedure

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Table of Contents

1.0 Introduction.....4

1.1. Objectives.....4

1.2. Legal and Regulatory Frameworks.....4

2.0. Environmental Risks Management within ABN.....6

2.1. Waste Management (Biodegradable/Non-biodegradable)6

2.2. Carbon Emissions Management.....7

2.3. Water Management..... 7

2.4. Employee welfare, health and workplace safety management.....8

3.0. Social Risks Management within ABN.....10

3.1. Employee Remuneration/Discrimination.....10

3.2. Ethical Business Practices.....11

3.3. Community Developments.....11

3.4. Conflict Resolution and Grievance Mechanism.....12

3.5 Financial Inclusion.....12

3.6 Sustainable products.....12

4.0.	Environmental and Social Risks Assessments Process for credit process.....	13
4.1.	ESMS and Role of Loan Officers/Credit Group Leaders.....	14
4.2.	ESMS and Role of Risk Management Department.....	15
4.3.	ESMS and Role of Internal Audit.....	16
4.4.	ESMS and Role of External Audit.....	16
5.0.	Environmental and Social Risk Management Training.....	17
6.0.	Reporting.....	17

1.0. Introduction

AB Microfinance Bank Nigeria (ABN) is committed to environmental protection through its environmental policy by conforming to the Environmental Management System, employee training, regulatory reporting and conducting an environmental review periodically. The Risk and Internal Audit departments oversee compliance and regulatory oversight.

Environmental and Social Risk Management procedure is developed to document our responsiveness to environmental and social issues as they arise which also highlights the line of responsibilities for addressing these E&S issues.

1.1. Objectives

The procedure defines and highlights the environmental and social risks associated with ABN activities, projects, and sub-projects and how these risks are managed in line with the Nigerian Environmental and Social Laws and Regulations. Specifically, the objectives of this procedure are to:

- Identify the Environmental and Social Risks in ABN activities, projects, and sub projects.
- Define who and how identified Environmental and Social Risks in ABN activities are managed.

1.2. Legal and Regulatory Frameworks

ABN Environmental and Social Risks(E&S) Management procedure stems from ABN environmental and social risk management policy which basically defines the Exclusion List and categorisation of projects amongst other ESMS aspects, and the Nigerian Environmental and Social Laws and Regulations as defined in the Nigerian Constitution especially those that speaks to safe business practices, the environmental and social responsibilities of businesses.

The following laws and regulations are applicable to ESMS within ABN and are referenced (implicit or explicit) in this document:

- **Those pertaining to the environment:**

- ✓ The 1999 Nigerian constitution as it relates to all environmental issues.
- ✓ National Environmental Standards and Regulations Enforcement Agency (NESREA) Act, 2018 as it relates to environmental impacts of ABN activities, projects, and sub-projects.
- ✓ National Environmental (Hazardous Waste and Harmful Substances) Regulations, 2009 as it relates to impacts of ABN activities, projects, and sub-projects.
- ✓ Factories Act, 2004 as it relates to dealing with safety practices in factories.
- ✓ National Environmental protection (pollution abatement in Industries and facilities generating wastes) regulations, 1991 as it relates to impacts and management of waste and pollutions in Nigerian industries.
- ✓ National Environmental Protection (Management of solid & Hazardous wastes) as it relates to impact and control of greenhouse gases, wastes and hazardous wastes in Nigeria.

- **Those pertaining to Social aspect**

- ✓ Labor Act, 2004 as it relates to employee remuneration, employee safety, employee rights and other employee concerns.
- ✓ The Nigerian constitution pertaining to human rights and social risks management.
- ✓ Minimum Wage Act, 2019 as relates to minimum wage.

- ✓ National Gender Policy, 2006 as it relates to gender discrimination in workplaces.
- ✓ Nigerian Data Protection act 2023 as it relates to data privacy of clients

2.0. Environmental Risks Management within ABN

Environmental risks include potential or actual threats, hazards, or adverse effects that can harm or negatively impact the natural environment and ecosystems because of various human activities, natural events, or a combination of both. Environmental risks can result in damage to ecosystems, human health concerns, and economic implications.

2.1. Waste Management (Bio-Degradable/Non-biodegradable)

- AB Microfinance Bank Nigeria, head office and branches generates mainly commercial wastes majority of which are biodegradable wastes. It ranges from paper, plastic, food etc
- A cleaning company SPRING CLEAN HYGIENE CONCEPTS VENTURES LIMITED has been assigned the responsibility of ensuring general cleaning of all ABN business places and surroundings. The admin. department has been charged with the duty to inspect the discharge of their duty as contractually agreed
- Used and empty water dispenser plastics are recycled by the supplier
- The bank maintains two set of waste disposal containers in all its offices in line with Lagos state waste management regulations which stipulates one for bio-degradable wastes such as paper and the other for non-biodegradable wastes such as plastics
- ABN assigns the entire waste collection to State Waste Management Agencies in different states of operations (i.e LAWMA in Lagos state) who are charged with the responsibility of properly disposing and recycling these wastes in line with international best practices
- Each office and banking hall has its own waste basket for easy deposit of wastes and subsequent collection by the cleaning staff

- In line with Nigerian Data Protection Regulation, ABN deploys paper shredder to all its branches and head office to ensure that paper wastes containing sensitive information are shredded before being disposed-off. Papers are printed on both side, also recycled by making use of the blank opposite side to curtail waste. Paper is disposed using a vendor called IMDOCS
- Micro loan documentation is stored in the cloud
- In addition, all electronic wastes such as computer hardware are separated from general wastes and managed by Hinckley Recycling. Hard drives are usually encrypted and kept in a safe; they are formatted if given out. Old laptops are kept in the store

2.2. Carbon Emissions Management

The major source of ABN carbon emissions are the generating sets. Carbon monoxide is a colourless, and odourless gas which leads to reduction in air quality and increases health risk amongst other risk factors.

ABN addresses carbon emissions through:

- Regular servicing of generating sets across all ABN branches and head office especially after running 250 hours. There are service providers onboarded by Admin. department to carry out this function
- Scheduled hours for putting on and off generator (7:30am in the morning and 7:00pm in the evening). ABN switches to inverter and solar system after normal working hours
- Power generation mix consisting of electricity distribution from National grid (IKEDC), inverter and solar systems and generating sets. This eliminates reliance on carbon generating sets.

2.3. Water Sustainability

ABN is committed to sustainable business practices. One key aspect of sustainability is water sustainability. Ineffective water management will lead to waste, more cost as a result of quick outlet of water, more cost in fuel usage, increases in operating expenses and

ultimately reducing profit. To ensure effective management of water resources, ABN does the following:

- Leakages from broken pipes are lookout for and properly fixed once reported. The admin. department promptly contacts service provider who fixes these leakages
- Broken taps/water outlets/closets are promptly fixed once reported by service provider
- The admin department handles the pumping of water using pumping machine and properly stored in water storage tanks
- The admin. department has responsibility for regular cleaning and dis-infecting the water storage tanks through dedicated service provider
- There is adequate provision of water dispenser in head office and branches which discourages buying water in plastic bottles

2.4. Employee welfare, health and workplace safety management

ABN is committed to welfare, health and safety of its employees which ranges from safety environment, minimizing occupational hazards and protection of employees from undue risks which might affect their health.

As a control measure, ABN addresses above through:

- Enrolment of all staff on the Health Maintenance Organization (HMO). At the point of onboarding, all staffs are subscribed to comprehensive health plan under Green Bay Health Maintenance Organization.
- Group Life insurance for all employees
- Timely payment of salary and compensations including access to loan, leave allowance, salary advance etc
- First Aid Box and other health kits including blood pressure measurement kit are made available to all employees, both in head office and branches. Hand sanitizers are placed just at the entrance for hygiene purposes
- Use of remote working scheme

- ABN employees are entitled to leave, pension scheme, paternity and maternity leave, sick leave, and exam leave as enshrined in the ABN code of conduct.
- Opening and closing of work between 8am – 5pm from Monday-Friday

In case of fire incidence

- At the trigger of alarm, employees on duty are to assemble at muster point where there will be roll call
- Security and admin. officer finds out whether the alarm is false or not
- fire extinguishers are placed in strategic places within the premises
- Dedicated staffs within each department are trained on fire incidences and response system
- In line with ABN incident management and disaster recovery plans, all gadgets/tools for managing various disaster eventualities are put in place including trigger alarms, smoke detector, auto fire off fireball in data centre, CCTV cameras, sensor systems, revolving security doors, exit doors, well lightened environment, and intruder alarms to manage any insurgence.

Use of official vehicles

- All ABN vehicles must be comprehensively insured at all times, and the terms and conditions of the insurance cover must be favorable to the bank.
- Only experienced driver, ABN employees with valid driver's license and Senior Management team (Exclusively outside working hours when the assigned driver may not be available or required) with valid driver's license are eligible to operate ABN vehicles
- They must ensure full compliance to traffic rules and regulations expected from the drivers and the passengers as well; otherwise would bear the full consequence for any violation thereof
- Filling of driver's log book, vehicle movement register (at the security post) and the fuel consumption form are required

- The vehicle must not be used for commercial purposes nor any illegal purpose
- Driver must ensure that the under-listed items do not interfere with his/her ability or focus; cell phone use, laptop computer use, Global positioning systems (GPS), operation of other equipments such as camera, MP3 etc.
- Daily routine checks of engine oil level, radiator, tire inflation etc.
- Ensure that their assigned vehicle is maintained and serviced according to scheduled timelines
- All vehicles should be serviced every 4,000 KM or once in every three months whichever comes first.
- Timely renewal of all relevant vehicle documents

3.0. Social Risks Management within ABN

Social risks represent potential negative impacts that social or societal factors can have on an ABN operations, reputation, and financial performance. This risk emanates from wide range of issues related to the interaction between ABN and the communities, and stakeholders it operates within.

Employee Renumeration/Discrimination

One of the core values of ABN is non-discrimination. This value is embedded and integrated in all ABN activities and business practices.

- Employees compensation in ABN includes basic pay, bonuses, transport, housing, and utility allowance. Employees are also allowed to apply for upfront (which is 15% of gross salary), welfare payments and staff loans. ABN offers remuneration as defined in the labour act, 2004 pertaining to minimum wage.
- ABN is an equal opportunity employer and therefore does not engage in any form of discrimination, whether gender, health, status or otherwise. This is in line with ABN core value of “no discrimination”. ABN upholds the Nigerian National Gender Policy which aims to promote gender equality, eliminate discrimination, and ensure equal opportunities and rights for women and men across various sectors.

3.2. Ethical Business Practices

ABN at all times has the responsibility to ensure its activities, and projects are in line with the legal stipulations. This responsibility is enshrined in its core values and permeates every aspect of the bank. Emphatically, the core values of ABN are transparency, non-discrimination, open communication, performance orientation, social & environmental responsibility, and client protection. The bank not only seeks financial profitability but also actively works to achieve its environmental and social goals. To this end, ABN carries out ethical business practices by doing the following:

- Adheres to all extant laws and regulations as enshrined in the Nigerian constitution.
- Adheres to Central Bank of Nigeria (CBN) Microfinance regulatory and guidelines in Nigeria.
- Adhere to ABN Microfinance exclusion list
- Respect the right of customers and avail them effective medium to express their complaints and grievances.
- Respect the rights of employees and avail them effective medium to express their complaints and grievances.

3.3. Community Developments

ABN, through its Corporate Social Responsibility (CSR), contributes to the growth and development of communities which it operates.

The marketing department, overseen by Head of Marketing, comes up with projects, programmes, and interventions to assist ABN host communities on an annual basis.

The yearly budget for CSR is determined by ABN management team.

3.4. Conflict Resolution and Grievance Mechanism

Conflict resolution is a process of addressing and resolving disputes or disagreements between individuals or groups in a peaceful, constructive, and mutually satisfactory manner. Conflict resolution aims to proffer solution to conflicts that is fair and acceptable to all parties involved, with the goal of improving relationships, reducing tension, and preventing further disputes.

ABN takes strategic steps in addressing grievances and complaints [employees and customers] without any form of discrimination or alienation.

ABN creates the following channels for handling complaints/grievances:

- Complaint/suggestion box in the branches.
- Use of whistle-blowing dedicated email
- Customer care phone contacts conspicuously displayed in the branches and online platforms (website, Facebook, Twitter, Instagram and LinkedIn).

All staff are provided with bank's code of conduct which guides their attitude and behaviour while in the bank's employment.

For staff complaints and grievances, reference can be made to the Grievance Policy as it comprehensively defines how employee grievances can be lodged.

3.5. Financial Inclusion

The bank employs direct promotion strategy in reaching out to financial excluded people. Micro loan products are well packaged to disburse as low as #15,000 to unbanked customers. Financial literacy is executed by loan Officers and client advisors during their interactions with customers.

3.6. Sustainable products

The interest rate is very competitive for bank's deposit product (Saving, Current and Term deposit) and loan products (Micro loan, Housing loan and SME loan). The bank insures loan facilities given

to clients within the age bracket of 21-64 years. The bank financial stability is being ensured through timely loan disbursement and adequate loan repayment.

4. Environmental and Social Risks Assessment for Credit Process

The process for environmental and social risks assessments for ABN credit process are as follows:

- Client shows interest in credit product
- First contact between Loan Officer and Client where loan officer determines among other things if client meets the minimum eligibility criteria
- One of the eligibility criteria is to find out if the business is excluded or not from the “ABN Microfinance exclusion list” as defined in the ESMS policy.
- Loan officer locates the client’s business place for loan assessment.
- One key aspect of loan assessment is the ESMS assessment of the client.
- The loan officer assesses different aspects of the client’s business such as waste management, workplace safety, human rights as pertain to staffs, child, and force labour, and other ESMS aspects as defined in the ESMS policy.
- The loan officer checks for requisite permits, and licenses required on the minimum to carry on the business
- The loan officer classifies the business as low, medium, or high based on the ESMS assessment that was carried out in line with projects categorization as defined in the ESMS policy
- Based on the assessment, loan officer may either reject the loan application for violating ABN ESMS policy and by extension, the Nigerian Environmental and Social laws and regulations or proceed with the application if the risk is medium or with special clauses, covenants, or condition to disburse if the risk is high.
- Pre-disbursement monitoring is carried out by the group leader to check all assessments including the ESMS assessments.

- Credit Committee consisting of the chairman, the loan officer and another loan officer takes decision on whether to approve or approve subject to certain conditions/covenants (E&S corrective actions), or reject the loan application
- Loan officer follows up with post-disbursement monitoring of clients to ensure that loans are not applied to projects which contravenes the ESMS policy and other extant regulations/laws.

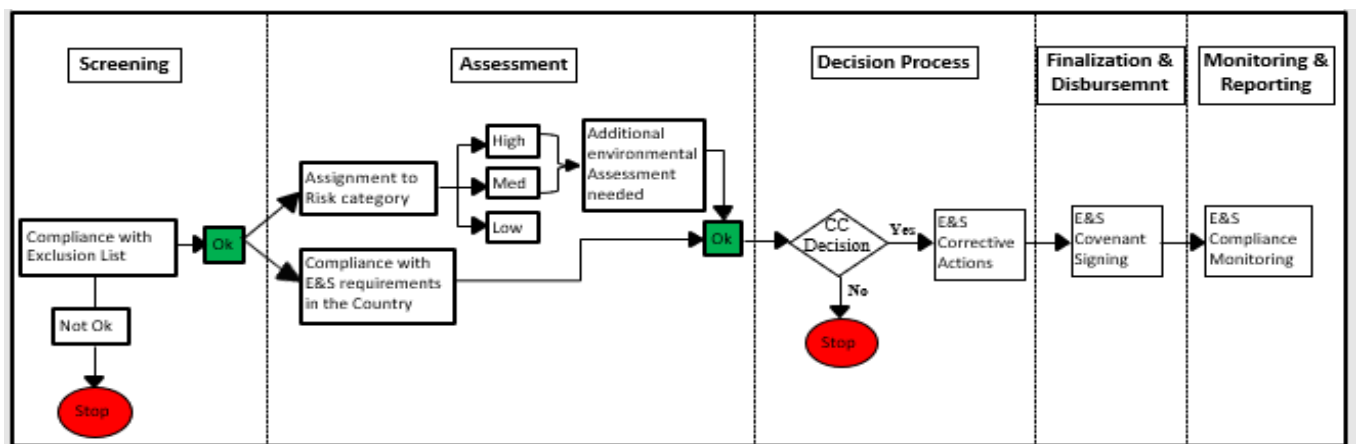
4.1. ESMS and Role of Loan Officers/Credit Group Leaders

The loan officers and group leaders represent the first line of defence in relation to environmental and social risks of ABN sub-projects.

The Loan officer as defined in the credit policy is responsible for all loans within his/her portfolio. The Loan officer is responsible for assessment of clients as stipulated in the credit policy. He has the responsibility to carry out, amongst other functions, due diligence on the environment and social risks associated with client’s businesses.

The group leader has responsibility for carrying out monitoring checks to ascertain:

- The ESMS assessment that the loan officer has done are in line with the policy
- All required permits and licenses have been obtained
- The business follows required provisions as defined in the ABN ESMS policy and extant environmental laws and regulations



ESMS Implementation in Credit Cycle

4.2. ESMS and Role of Risk Management Department

The ABN Risk Management Department is the second line of defence pertaining to environmental and social risks of ABN activities. It oversees all ABN ESMS functions.

The ESMS team consists of:

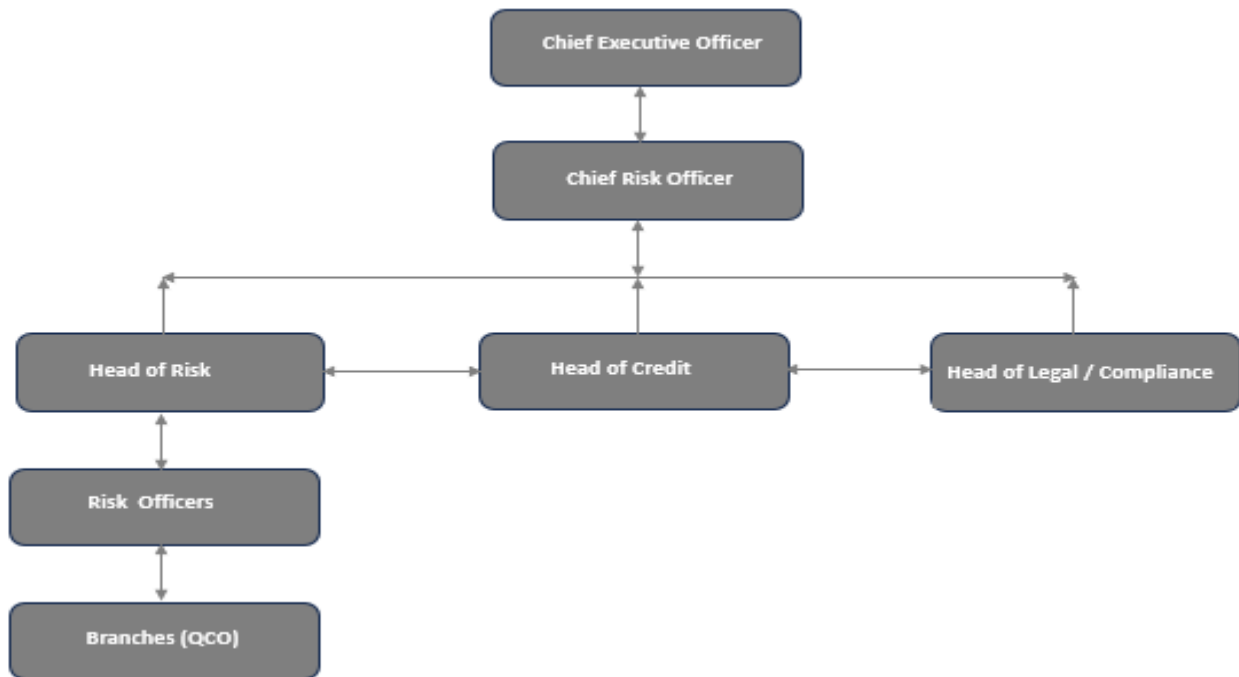
- Chief Executive Officer as Social and Environmental Officer of the bank
- Chief Risk Officer as ESMS Coordinator
- Head of Risk
- Head of Credit
- Head of Legal and Compliance
- Risk Officers.

Risk officer interfaces with the branches to collate E&S report on the loans disbursed for the month which would be made available to Chief Risk Officer/Head of Risk on request for reporting.

The Chief Risk Officer/Head of Risk supervises the ESMS external audit function and the development of ESMS term of reference for the audit exercise.

The Head of Legal/Compliance has the responsibility for the legal aspects of ESMS which includes but not limited to determining loan covenants, and clauses restricting the application of credit facility to projects that are outside the scope of environmentally and socially responsible projects as defined in the ABN ESMS policy and extant laws.

The Risk Management Team carries out compliance checks on a regular basis which covers amongst other things compliance with the Nigerian environment and social laws and policies as pertaining to its activities, projects, and sub-projects. Checks are carried out with respect to the environmental and social issues earlier discussed in this document.



4.3. ESMS and Role of Internal Audit

The internal audit function overseen by the ABN Head of Internal Audit carries out independent bank-wide checks [including compliance with ESMS policy] to ascertain the level of compliance. These checks are carried out on a quarterly, bi-annual, and annual basis.

4.4. ESMS and Role of External Audit

The external ESMS audit is carried out by an external independent audit firm which gives an audit opinion on the compliance level of ABN with extant environmental laws and regulations. This audit covers ABN activities, projects, and sub-projects.

The ESMS audit by the external audit firm is carried out annually in the first(1st) quarter of the year succeeding the financial year being audited.

The report of the audit is addressed to the Managing Director of ABN.

5. Environmental and Social Risk Management Training

ABN is committed to training of its staff annually on Environmental and Social Management.

This also include fire training and drills for employees and customers against eventualities of fire incidences.

6. Reporting

Reporting is rendered to require partners on:

- Bi-annual to African Development Bank (AFDB)
- Annually to Access Holding (AH) and Development Bank of Nigeria (DBN)
- Annually to other stake holders as need be
- Annual report from external auditor