Central Africa Building Society (CABS)

ENVIRONMENTAL SOCIAL AND GOVERNANCE (ESG) Policy

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1. INTRODUCTION, OBJECTIVES AND SCOPE

1.1. CABS is committed to maintaining a banking approach that incorporates considerations of environmental, social and sustainability as well as corporate governance risks and opportunities. This Policy defines CABS' approach to Environmental, Social and Governance risks and how such risks feature in the lending, outsourcing and contracting decisions made by CABS.

1.2. It is not enough for CABS to observe these tenets internally. As a diligent corporate citizen, it must seek to advance these ideals in the greater community through incorporating them in its dealings with other entities, and not doing business with entities that do not respect and practice these tenets which are representative of the CABS Values. It is for this reason that this Environmental, Social and Governance (ESG) Policy has been drafted to direct staff members on how to meet the obligations of the organisation in this regard.

1.3. The objective of the ESG Policy is to ensure:

1.3.1. Material environmental, public health and safety, social and sustainability, and corporate governance issues associated with potential and existing customers, clients, suppliers, vendors, agents and third-party service providers (hereinafter collectively referred to as "Partners") are identified and considered when evaluating whether or not to on-board or continue a relationship with a Partner;

1.3.2. Human rights of those impacted by CABS' banking activities are respected and minimum standards around child/forced labour, and environmental protection policies are followed by the Partners CABS does business with;

1.3.3. Clarity on responsibilities for compliance with the ESG Policy and the monitoring thereof;

1.3.4. Timely communication to CABS' stakeholders (as defined in the CABS Conduct Risk Policy) on the matters covered by the ESG Policy is provided.

1.4. This policy applies to all lending, customer and supplier on-boarding, agent and third-party service provider on-boarding and periodic review as considered by the various management and board forums tasked with decision-making in this regard.

2. WHY ENVIRONMENTAL, SOCIAL AND GOVERNANCE COMPLIANCE MATTERS

2.1. CABS seeks to safeguard the interests of its stakeholders and reduce or eliminate any negative impacts on society and the environment from its Partners. To do this, there is need for a defined approach on how CABS treats ESG issues and what kinds of activities CABS will not be associated with due to the ESG damage or risk associated with those activities when carried out by actual or potential Partners.

2.2. CABS is committed to considering material ESG issues in the course of due diligence activities and improve ESG performance of Partners throughout the tenure of their relationship with CABS.

2.3. CABS is also committed to continual improvement of its approach to integrating ESG into its processes. The current approach reflected in this policy will likely evolve over time to reflect changes in the legal and regulatory as well as operational landscape.

2.4. In implementing this ESG Policy, CABS is guided by the following principles:

i. Incorporation of ESG issues into our investment analysis and decision making processes;

ii. Active ownership of ESG issues and adoption of ESG considerations into the normal course of business;

iii. Obtaining appropriate disclosures on ESG issues from Partners CABS does business with;

iv. Promotion of the acceptance and implementation of ESG practices within the industry;

v. Collaboration to enhance efficiency in implementation of the ESG Policy;

vi. Regular reporting on adherence to the Policy and impact thereof to the CABS stakeholders.

3. ROLES, RESPONSIBILITIES AND MONITORING

3.1. The responsibility of ensuring considerations of ESG issues is integrated into the way CABS does business rests with CABS Management, and particularly the account executives for the relationships that CABS has with its Partners who are expected to meet the requirements of the CABS ESG Policy. The CABS Deputy Managing Director shall be responsible for first line oversight of fulfilment of the obligations set out in this Policy.

3.2. The CABS Board of Directors bears overall accountability for the adherence of CABS to the requirements of the ESG Policy, and for the maintenance of the highest standards of practice with regards to ESG issues. The CABS Board is committed to ensuring that CABS recognises and prioritises ESG considerations in the conducting of business.

3.3. The relationship owners shall be responsible in the first instance for ensuring that ESG matters are considered and recorded as part of the relevant business process being undertaken e.g. provision of credit, customer on-boarding for entity customers, on-boarding of vendors, agents and third party service providers, and at periodic review of such relationships.

3.4. The CABS Executive Committee shall serve as the Sustainability Steering Committee to provide management oversight on implementation of the ESG Policy and programme by the various areas of business.

3.4.1. The Sustainability Steering Committee shall be guided by the Board Approved Terms of Reference.

3.4.2. The Terms of Reference shall set out the roles, responsibilities, and the authority of the Sustainability Steering Committee as delegated by the Board of Directors, and the rules of procedure that will guide the Steering Committee in the performance of its functions.

3.5. The adoption of this Policy shall inevitably have impact on other policies covering business activities which are required to embrace and practice ESG principles and practices, and it is the responsibility of each policy owner to evaluate and amend as necessary their policy to consider ESG requirements.

3.6. The Compliance function shall be responsible for providing second line oversight over CABS' adherence to the letter and spirit of the ESG Policy, as well as for periodic reporting on ESG matters to Management, the Board of Directors and to external parties as required. The Compliance function shall also be responsible for providing periodic role-based training on ESG matters.

3.7. CABS shall include disclosure on ESG matters as part of its annual report.

4. PROCESS FOR ESG INTEGRATION

4.1. On-boarding

4.1.1. Before entering a relationship with an entity customer, engaging a third-party service provider, vendor, supplier or agent, an assessment of the ESG risks and value creation opportunities of the potential relationship will be considered by the relationship owner. ESG due diligence will focus on identifying and assessing potential ESG-related issues in accordance with this policy.

4.1.2. An assessment can either be high level, where the ESG Assessment Scorecard is completed, or a detailed ESG Due Diligence Report with analysis of the factors influencing the scores awarded on the scorecard.

4.1.3. A detailed ESG Due Diligence Report is mandatory for on-boarding of all third-party service providers, suppliers and vendors, businesses and persons involved in activities classified under mandatory high-risk relationships, and before extending credit to entity customers.

4.1.4. If deemed necessary by the relationship owner or relationship approver where applicable, the relationship owner shall consult CABS Compliance for additional advice on the compilation of an ESG Due Diligence Report to provide more information for the purpose of deciding as to whether to enter into the relationship or not.

4.1.5. Depending on the Partner and the nature of the relationship to be established, potential focus areas may include an assessment of the level of compliance by the Partner with laws, regulations and standards on:

i. child and forced labour;
ii. human rights violations;
iii. occupational health and safety;
iv. sustainable operating practices, particularly in the agricultural and mining sectors;
v. safe environmental practices around the use of water, energy, waste management, pollution;
vi. wildlife conservation;
vii. corporate governance;
viii. community investment.

4.1.6. Due diligence efforts, whether high level assessment or full ESG reports, should aim to quantify the current standing of the potential Partner in each of the ESG key areas (Environment & Sustainability, Social and Corporate Governance), as well as assign an overall ESG score for the Partner based on the review of the provided documentation and policies, interviews with management and staff, site visits etc.

4.1.7. The results of the CABS ESG evaluation are a material factor in the Society's on-boarding decision. Specifically, CABS will only do business with Partners with business models and within sectors which have acceptable ESG standards at the time of on-boarding or where CABS has conviction that the ESG practices of the Partner can be improved to an acceptable standard within a 6 – 12 month period. In this last instance, the assessment should include measures to be taken to achieve an acceptable standard and timelines for implementation.

4.1.8. All vendors, suppliers, agents, third party service providers, businesses and individuals engaged in activities classified as mandatory high-risk relationships, and entities being extended credit must be informed of CABS' Environmental, Social and Governance Policy and the expectations applicable to them in terms of that Policy. All appropriate documentation must refer to the obligations of these counterparties arising out of the ESG Policy, and how failure to meet the CABS benchmark for acceptable ESG rating is grounds for termination of the relationship.

4.2. Periodic Review

4.2.1. Relationship owners shall periodically assess (at least annually) their Partners' ESG compliance standing to ensure that it meets the threshold for continuing to do business with them.

4.2.2. On a quarterly basis, relationship owners shall update Management on key ESG issues within their portfolios. The same update shall be shared with the Compliance function, which shall report on a half yearly basis to the Board Risk and Compliance Committee on the Society's ESG risks and emerging issues in that space.

4.2.3. The Compliance function shall provide oversight to the business on ESG matters and assess levels of compliance with ESG requirements.

4.2.4. Relationship owners shall take special note of adverse media concerning Partners within their portfolios on ESG issues. Adverse media is an immediate trigger for a full ESG Due Diligence report.

4.2.5. Any adverse media identified should be escalated to the Compliance function as soon as possible (with a maximum of 2 days from identification to Compliance communication).

4.2.6. The ESG assessment conducted as a result of the adverse media shall be concluded within 7 days of identification of the adverse media, and shared with Compliance.

4.2.7. Where a Partner is subject to annual review for other purposes, the periodic ESG assessment shall be conducted as part of that other review.

4.2.8. Where a Partner is found to have fallen outside of the CABS appetite from an ESG perspective upon the conducting of a review that relationship should be exited, unless the relationship manager can demonstrate that the Partner's ESG practices can be improved to an acceptable level within a 6 – 12-month period. The manner and timeframe of the exit is to be determined by the Sustainability Steering Committee, given the complexity of unwinding some of the relationships that have already been established prior to the coming into force of the ESG Policy.

4.3. ESG Assessment Scorecard

4.3.1. For the purposes of conducting an ESG assessment the scorecard is to be utilised.

4.3.2. Where a high-level assessment is being conducted only the scorecard need be completed with supporting documentary evidence attached.

4.3.3. Where a full ESG due diligence report is required there must be analysis of the scores awarded and how they were arrived at in addition to completion of the scorecard and attachment of documentary evidence.

4.4. Prohibited Relationships

4.4.1. Notwithstanding the fact that the overall score of a Partner may be within the acceptable threshold, CABS will not do business with any Partner that is involved in the following activities either in its own capacity or through its supply chain:

i. Child labour (utilisation of persons under the age of 16 as part of organisation's work force, particularly where such employment is mentally, physically, socially or morally dangerous and harmful to children, or interferes with their schooling, or deprives them of the opportunity to attend school, or obliges them to leave school permanently, or requires them to attempt to combine school attendance with excessively long and heavy work, or child prostitution and use of children in drug trafficking);

ii. Forced labour (situations in which people are made to work against their will through the use of violence or intimidation, or by more subtle means such as accumulated debt, retention of identity papers, or threats of being reported to immigration authorities);

iii. Human trafficking (recruitment, harbouring or transporting people into a situation of exploitation through the use of violence, deception or coercion and forced to work against their will);

iv. Environmental degradation (illegal logging/deforestation, illegal sand harvesting, water pollution etc.);

v. Dumping of industrial waste (direct dumping into water bodies, introduction of waste material into sewer systems without proper treatment/decontamination, dumping of materials in open spaces etc.);

vi. Unsafe workplace practices (lack of personal protective equipment in instances where it ought to be provided, absence of occupational health and safety safeguards, denial of employee rights such as mandatory breaks, the right to raise grievances and the right to unionise, lack of training on how to work safely and identifying and reporting unsafe workplace practices, widespread bullying and intimidation);

vii. No corporate governance structures or financial crime controls;

viii. Unsafe mining practices (no land reclamation and filling of holes once deposits have been deposited, introduction of chemicals into waterways and water sources, mining activities in areas not designated for mining, blasting without conducting checks and ensuring safety etc., unsecured and improperly secured mining shafts).

4.5. Mandatory High Risk Relationships

4.5.1. The following activities shall be classified as high risk for the purposes of this Policy and every Partner involved therein must demonstrate the actions they are taking to ensure that their activities are minimising harm to the environment or society in which they operate or provide goods and services, as well as sound governance practices:

i. Tobacco farming;
ii. Mining & Quarrying;
iii. Hunting & Fishing activities;
iv. Brick manufacturing and Sand harvesting/sale;
v. Cement production;
vi. Fertilizer production;
vii. Logging and tree cutting activities;
viii. Furniture manufacturing.

5. Policy Governance

5.1. This policy shall be subject to annual review by Exco and the Board Risk and Compliance Committee.

5.2. Any queries in relation to the Policy shall be raised with the Compliance function, and any requests for exemptions or deviations from the provisions of the Policy shall be raised with the Head of Compliance in the first instance.

Annexure 1: Environmental Social & Governance Compliance Definitions

The three main areas of focus for responsible investment relate to the environmental and social impact of any business's activity, and the manner in which a business is managed. Together, these factors are known as Environmental & Sustainability, Social and Corporate Governance ('ESG'). ESG processes and procedures focus on non-financial performance indicators that address a company's approach towards responsible investment, sustainability, its impact on society and the environment, as well as other ethical and corporate governance considerations.

1. **Environmental & Sustainability**
   The depletion of natural resources and the threat of climate change have raised concerns about the environment and the potential financial impact on businesses. Sustainable options are increasingly being considered as part of investment choices. The issues are diverse but the main areas are:
   — Factors contributing to climate change
   — Efficient energy consumption
   — Responsible disposal of hazardous waste
   — Sustainable utilisation of natural resources & long term planning in business operations
   — The impact of climate change on businesses

2. **Social**
   Inclusion, diversity and equality are becoming more important considerations in relation to the way in which businesses operate and can generate competitive advantage; with these areas attracting increasing scrutiny from a range of stakeholders. In particular, there are increasing commercial benefits for businesses which have inclusive and diverse work ethics and practices; and we look at the impact a company has on its employees, local communities and society. The main areas of consideration are:
   — Preservation of human rights, and avoidance of any complicity in human rights abuses
   — Equality and diversity amongst employees
   — Non-discriminatory employment practices
   — Ensuring there is no exploitation of child labour or indentured servitude
   — Health and safety
   — Animal welfare
   — Corporate donations

3. **Corporate Governance**
   Corporate governance covers the rights and responsibilities of the management of a company – its structures, corporate values and accountability processes. This relates to the following areas:
   — Management structure
   Power balance between the CEO and Board, separation of Chairman from CEO, appropriate checks and balances for members of the management team
   — Employee relations and workplace grievances
   — Financial crime controls
   — Corporate Codes of Conduct