

COMMERCIAL BANK OF CEYLON PLC
GROUP SOCIAL & ENVIRONMENTAL POLICY

Version 1.2.1

June 2024

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Version	:	1.2.1
Reviewed in	:	June 2024
Approved by	:	Board of Directors of Commercial Bank of Ceylon PLC on 28.06.2024
Next Review	:	June 2025
Responsibility	:	Integrated Risk Management Department
Aligned Policies and Procedures	:	Social and Environmental Risk Management Procedure/s Credit Policy Lending Guidelines Green Financing Policy

COMMERCIAL BANK OF CEYLON PLC

ACRONYMS

BII	British International Investment
BOD	Board of Directors
CBSL	Central Bank of Sri Lanka
CITES	Convention on International Trade in Endangered species
D-SIB	Domestic Systemically Important Bank
GHG	Green House Gases
GRI	Global Reporting Initiative
IFC	International Finance Corporation
ILO	International Labour Organization
IRMD	Integrated Risk Management Department
ODS	Ozone Depleting Substances
PCM	Project Complaint Mechanism
SAARC	South Asian Association for Regional Cooperation
SEMS	Social and Environmental Management System
UNGC	United Nations Global Compact
WHO	World Health Organization

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COMMERCIAL BANK OF CEYLON PLC

1.0 INTRODUCTION

Commercial Bank of Ceylon PLC Sri Lankan Operation, Bangladesh Operation and the subsidiaries (Maldives Operation, Myanmar Operation and CBC Finance), herein referred to as the “Group” for the purpose of this policy document^a.

The Group understands that there are Social and Environmental risks^b (S&E Risks) and opportunities associated with their activities which can create impacts on economies, communities and environments in which they operate; directly or indirectly. Failure to anticipate and manage these risks and opportunities can have multiple consequences including financial, contextual and reputational to individual operations or to the entire Group.

The Social and Environmental Management System (SEMS) establishes a framework for the Group to assess and manage Social and Environmental Risks and opportunities systematically. The Social and Environmental Policy is the overarching structure of the Group’s Social and Environmental Management System.

The Bank’s individual operations/subsidiaries are responsible for establishing and maintaining tailor made procedures and tools (as relevant to the local regulations of the country of operation and the scale and type of banking / financial services provided) to assess and manage social and environmental risks and opportunities systematically at individual operation / subsidiary level.

Social and Environmental Management approach of the Group is twofold, namely “Social and Environmental Management focus on internal operations” and “Social and Environmental Risk Management in Lending”; which will ensure that,

- ✓ The Group is driving sustainable changes in its own internal operations towards minimizing or offsetting its Environmental Footprint and creating positive social value for its stakeholders.
- ✓ The Group lending/financial services support the development of environmentally sustainable, socially responsible, and economically viable projects^c.

^aCommercial Bank of Ceylon PLC and its financial subsidiaries have grown beyond the territories of Sri Lanka and provide core banking and affiliated services to several jurisdictions in the SAARC/ South East region via;

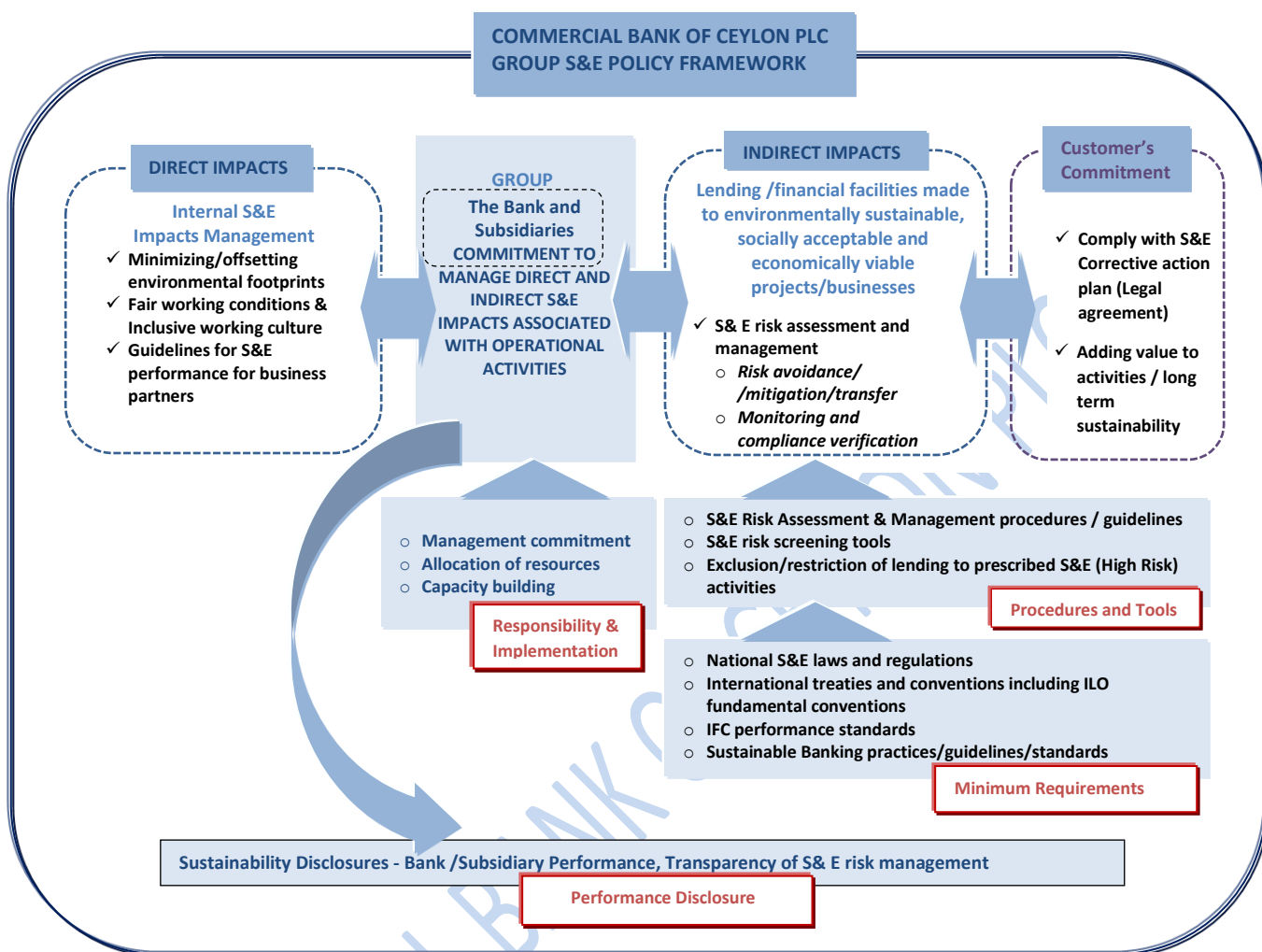
- ✓ The Bank’s Branch/unit operations in Bangladesh (herein referred as the Bank’s Bangladesh Operation)
- ✓ Commercial Bank of Maldives - Subsidiary of the Bank and joint venture with Tree Top Investment Maldives (here in referred as Maldives Operation)
- ✓ CBC Myanmar Microfinance Co. Ltd - Fully owned subsidiary of the Bank in Myanmar (here in referred as Myanmar Operation)

In addition, CBC Finance Ltd, a licensed finance company operating in Sri Lanka, is a fully owned subsidiary of the Bank. (Herein referred as CBC Finance)

All the Branches and Departments of the Bank operate within Sri Lankan territories is herein referred as Sri Lankan Operation.

^bEnvironmental and social risk is a combination of the probability of certain hazard occurrences and the severity of impacts resulting from such an occurrence.

^cIn this policy, the term “project” refers to the defined set of business activities for which the Bank/ subsidiary financing is sought by the customer or the set of business activities defined in the loan agreement where the Bank/ subsidiary financing has already been committed.



2.0 SCOPE

“Group Social and Environmental Policy” (herein referred to as the Policy) encompasses the overall business activities of the Group and shall apply to all the Branches and Departments regardless of their geographic location.

3.0 GUIDING PRINCIPLES

3.1 The Bank leverages the “Roadmap for Sustainable Finance in Sri Lanka (Central Bank of Sri Lanka, 2019)”, “Banking Act Directions No.05 of 2022 on Sustainable Finance Activities of Licensed Banks” and “Sri Lanka Green Finance Taxonomy,2022” in developing its Sustainable Banking strategies. These frameworks not only guide the Bank’s approach but also enable them to effectively manage Social, Environmental and Governance Risks associated with the project financing, ultimately enabling Bank’s as well as customer’s business operations to be greener, climate friendly and socially inclusive.

3.2 As a signatory to the “Sustainable Banking Principles of Sri Lanka”, the Bank shall work together with other local banks in promoting the adoption of the same.

3.3 The Bank’s Bangladesh Operations has adopted the “Guidelines on Environmental and Social Risk Management for Banks and Financial Institutions in Bangladesh (Bangladesh Bank, 2022)”.

4.0 SOCIAL AND ENVIRONMENTAL POLICY STATEMENT

Building on core value of sustainability, the Group shall commit to integrating social and environmental risk management into overall lending framework. The Group shall recognize that in the absence of proper screening, lending activities could indirectly contribute to negative social and environmental impacts, such as those related to environmental degradation, labor standards or climate change. Therefore, The Group shall identify, assess, and mitigate social and environmental risks associated with internal operations, lending activities and products. The Group shall also ensure all projects financed by the Group are structured to meet the requirements of this policy, aligning them with social and environmental objectives.

4.1 Managing Direct Social and Environmental Impacts from the Group's internal operations:

Environmental Impact Management:

- 4.1.1 The Group is committed to manage their direct environmental impacts^d through different activities that may include but not limited to monitoring, managing and reporting on the individual carbon footprints, resource consumptions and waste generation.
- 4.1.2 The Group shall strive to create and manage workplaces and work processes that reflect commitment towards caring for the environment and in particular promotes eco-efficiency^e.

Social Impact Management:

- 4.1.3 The Group shall guide by commitments to uphold internationally recognized standards and principles minimum of International Labour Organization (ILO) fundamental conventions^f, International Finance Corporation (IFC)^g Performance Standard 2 (Labour and Working Conditions) and United Nations Global Compact (UNGC) Principles to ensure safe and fair working conditions that promote a responsible and inclusive workplace culture.
- 4.1.4 The Group shall take the responsibility beyond its boundaries of control by setting social and environmental performance expectations on its stakeholders including suppliers and ensuring their conformity to the Group's specified standards of conduct.

4.2 Managing Social and Environmental Risks associated with lending/financial services.

- 4.2.1 The Group clearly understands that in the absence of proper screening, greater environmental and social impact could arise indirectly from their lending/financial services. Given the Group's ability to

^dEnvironmental and social impacts refer to any change, potential or actual, to (i) the physical, natural, or cultural environment, and (ii) impacts on surrounding community and workers.

^eUsing fewer resources to generate more goods/services while decreasing the levels of waste and environment pollution.

^f The ILO Declaration on Fundamental Principles and Rights at Work_

- Forced Labour Convention, 1930 (No. 29)
- Freedom of Association and Protection of the Right to Organize Convention, 1948 (No. 87)
- Right to Organize and Collective Bargaining Convention, 1949 (No. 98)
- Equal Remuneration Convention, 1951 (No. 100)
- Abolition of Forced Labour Convention, 1957 (No. 105)
- Discrimination (Employment and Occupation) Convention, 1958 (No. 111)
- Minimum Age Convention, 1973 (No. 138)
- Worst Forms of Child Labour Convention, 1999 (No. 182)

^g IFC, a member of the World Bank Group is the largest global development institute focused exclusively on private sector in developing countries and stakeholder of Commercial Bank of Ceylon PLC. IFC has established eight performance standards for customers to meet throughout the life cycle of project.

influence the society and the broad role to play, all projects financed by the Group shall be structured to meet the requirement of this policy.

- 4.2.2 The Group recognizes the international environmental and social agreements, treaties and conventions to which the countries of operation are signatory/ ratified. The Bank will not knowingly finance projects that contravene the obligations of the countries under relevant agreements/ treaties /conventions.
- 4.2.3 The Group shall ensure that the Social and Environmental performance of the projects they finance within the territory of Sri Lanka, comply with country laws and regulations.
- 4.2.4 Projects operating outside Sri Lanka financed by the Group shall comply with the regulations of the host country, in addition to falling in line with the core principals of the Social and Environmental Policy of the Group.
- 4.2.5 The Group shall strive to ensure that the projects they finance are designed, operated and maintained avoiding/controlling social and environmental impacts and adhering to the best industrial practices^h. This is done through a systematic project assessment on its Social and Environmental risks.
- 4.2.6 The Group shall ensure that projects they finance fall in line with the external standards and guidelines (benchmarks) to which the Bank/subsidiary/ies have committed, such as IFC performance standards. Key objective of these standards is to identify and apply the mitigation hierarchy to environmental and social risks and impacts of the business activity that the Bank / subsidiary/ies may be financing. The Bank shall pay specific attention to high risk financing to business activities, which may involve: **a)** involuntary resettlement, **b)** risk of adverse impacts on Indigenous People, **c)** significant risks to or impacts on the environment, community health and safety, biodiversity, cultural heritage or **d)** significant Occupational Health and Safety risks.
- 4.2.7 Any such external standards and guidelines of International Financing organizations/agencies shall incorporate into this Policy and operating procedures of the Group from time to time, depending on the Group's future engagements with such organizations.
- 4.2.8 The Group shall implement mitigation strategies for identified Social and environmental risks. The Group shall strive to revamp projects with social and environmental management gaps to meet the applicable regulatory requirements/best industry practices by the application of the mitigation hierarchyⁱ before/along with financing.
- 4.2.9 To address social and environmental risks, the Group implements a strategy to avoid financing certain activities:
- The Group strictly adheres to a pre-identified list of banned or illegal practices (Annex I: "Banned/Illegal List"). This list ensures compliance with regulations and prevents the Group from engaging in harmful activities.
 - Additionally, while certain project types or activities listed in Annex I (S&E Negative List) may be legal, they carry the potential for significant environmental harm or social conflict. Due to the Group's low risk appetite for such activities, lending to these projects is restricted whenever possible.
 - Furthermore, the Bank's operations in Bangladesh are subject to sectors and activities listed in the "Exclusion List" of the "Guidelines on Environmental and Social Risk Management (ESRM) for Banks and Financial Institutions in Bangladesh (June, 2022)." This is in addition to the restrictions outlined in Annex I of this policy.

^hA best practice is a method or technique that has consistently shown results superior to those achieved with other means, and that is used as a benchmark.

ⁱMitigation hierarchy refers to the measures taken to avoid environmental and/or social impacts from the project activities and where this is not possible, to implement additional measures that would minimize, mitigate and as the last resort offset and/or compensate any potential residual impacts.

- 4.2.10 The Group shall promote good industrial practices and resource efficiency strategies to minimize environmental impacts and the projects specifically designed to deliver significant environmental or social benefits. The Group shall seek to develop lending schemes /products that help the customers to manage their environmental impacts.
- 4.2.11 The Group shall commit to respect the labour rights guided by the eight fundamental conventions of the International Labour Organization (ILO). Accordingly, projects they finance shall be required to respect labour rights and avoid forced labour and child labour in their respective operations. The Group shall progressively strengthen the risk assessment and management tools to identify and address labour issues of projects.
- 4.2.12 The Group believes that “Gender Equality” is a fundamental aspect of a democratic society and commits to prevent “Gender discrimination”. When evaluating and monitoring projects, potential gender specific impacts shall be identified as practical as possible and shall ensure adequate preventive and corrective actions are being proposed and implemented to reduce gender-based violence, abuse and/or exploitation.
- 4.2.13 The Group promotes the protection, conservation, responsible management and sustainable use of living and nonliving natural resources^j. The Group shall make it necessary for the projects it finances to mitigate the impacts on living and nonliving natural resources (living and non-living) throughout the project’s life cycle and to contribute to maintain healthy eco systems and biodiversity, where feasible.
- 4.2.14 In order to strengthen their environmental and social sustainability, each financed project shall undergo the environmental, climate and social appraisal and monitoring. The actual scope of the appraisal and monitoring shall be proportionate to the nature and scale of the project and the anticipated significance of its impacts and risks. The customer shall be held responsible through a loan covenant for providing adequate information so that the Group shall carry out its appraisal and monitoring in accordance with this Policy.
- 4.2.15 The Group shall monitor and evaluate the performance of the projects they finance against the objectives of this policy in order to ensure that all projects financed operate in compliance with the local regulatory requirements, social and environmental laws as well as guidelines and applicable external standards on a continuous basis, during the tenure of the financing.
- 4.2.16 When financing projects, with peer banks/financial institutions/multilateral financial institutions, the Group shall cooperate with them to agree on common S&E risk assessment and management approaches. However, such approaches need to be consistent with these policy principles and shall not compromise the expected S&E performance of the Group.
- 4.2.17 To support an informed decision-making process, the outcomes of each risk-based environmental, climate and social appraisal, as well as the appropriate monitoring requirements, where applicable, shall include in the documentation that is further submitted to the respective approving authority of each entity of the Group for approval, as detailed in their respective Social and Environmental Risk Assessment and Management Procedures.
- 4.2.18 The Group environmental performance, the transparency and the management of social and environmental risk of the lending activities shall be disclosed and published in the annual reports of Group entities(where applicable in line with Global Reporting Initiative (GRI) standards).

^j Substances provided by nature

4.3 Managing Climate Risks associated with lending/financial services

- 4.3.1 The Group shall recognize the timely requirement for “Climate Financing” and is committed to finance climate change mitigation^k, adaptation^l and other environmental projects^m under its “Green financing schemesⁿ”.
- 4.3.2 The Climate Change Position adopted by the Sri Lanka Operations shall be gradually rolled over to all the subsidiaries in the Group in line with the Nationally Determined Contributors of the countries of operation.
- 4.3.3 The Group acknowledges the emerging financial risks posed by climate change and is committed to integrating climate risk assessment into its financial decision-making. Recognizing the emerging risks of climate change, the Group is actively developing a framework for climate risk assessment.
- 4.3.4 This policy articulates a key guiding principle of "Green Financing," emphasizing its commitment to exclusively supporting operations that adhere to the principle of "Do No Significant Harm (DNSH) to the environment" as stated in the Sri Lanka Green Finance Taxonomy, May 2022.

5.0 IMPLEMENTATION

- 5.1 The Group shall develop, maintain and implement Social and Environmental Risk Assessment and Management Procedures, appropriate guidance notes and tools to assist in implementation of this policy.
- 5.2 The Group shall allocate responsibilities and appropriate resources including staff resources for effective implementation of this policy and in turn to manage Social and Environmental Risk Assessment and Management process to ensure/revamp the projects they financed to be with minimal social and environmental impacts.
- 5.3 The Group shall ensure that the staff receives capacity building opportunities, awareness and appropriate training on the requirements of the S&E policy and procedures.
- 5.4 The Group shall establish and maintain a standard procedure to report accidents and incidents occurred due to unforeseen (not identified during initial screening or monitoring) events related to S&E issues of the projects financed by the Group. The Bank also maintains a web based project complaint mechanism (PCM) to receive and assess the grievances from external parties. The Corporate management is informed about such events and grievances in order to take appropriate decisions

6.0 RESPONSIBILITY FOR INTRODUCING AND AMENDING SOCIAL AND ENVIRONMENTAL POLICY

- 6.1 The responsibility for formulating, introducing, reviewing, updating and amending Social and Environmental Policy and recommending the same for approval by the Board of Directors (BOD) is vested in the respective Integrated Risk Management Departments of Group entities.
- 6.2 The Integrated Risk Management Departments of Group entities shall also assist and guide the operating staff in interpreting and clarifying the policy, as and when requested to do so. The BOD of the Bank/subsidiaries should approve all changes to the policies enumerated herein.

^k Mitigation means reduction in emissions of GHGs into atmosphere or absorption of Greenhouse Gases (GHGs) from atmosphere

^l Adaptation means reduction in the vulnerability of human or natural systems to the effects of climate change and climate variability – related risks by maintaining or increasing adaptive capacity and resilience.

^m Environmental Projects means – projects related to Resource efficiency, water and wastewater management, solid and hazardous waste management etc.

ⁿ Financing of investments that provides environmental benefits

7.0 REVIEW

- 7.1 This policy shall be reviewed and updated periodically to reflect evolving best practices and regulatory requirements.
- 7.2 The Policy shall be reviewed annually in accordance with the established practice of the Bank / subsidiaries referring to the applicable /updated local and international guidelines and standards, or at lesser frequencies as directed by the respective BODs.

References

- i. Roadmap for Sustainable Finance in Sri Lanka (April,2019), Central Bank of Sri Lanka (CBSL)
- ii. Sustainable Banking Principles, Implementation Guide, Sri Lanka Banks' Association
- iii. Guidelines on Environmental and Social Risk Management (ESRM) for Banks and Financial Institutions in Bangladesh (June, 2022), Sustainable Finance Department, Bangladesh Bank
- iv. IFC Performance Standards on Environmental and Social Sustainability (January1, 2012), International Finance Corporation, World Bank Group
- v. Sri Lanka Green Finance Taxonomy (May,2022)
- vi. Banking Act Directions No. 05 of 2022 , Central Bank of Sri Lanka
- vii. ILO Convention No. 87 on the Freedom of Association and Protection of the Right to Organize.
- viii. Convention No. 98 on the Right to Organize and Collective Bargaining.

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BANNED /ILLEGAL ACTIVITIES**The Bank shall not knowingly finance any of the following activities**

1. Production or trade in any product or activity deemed illegal under National laws or subjected to International Conventions/Treaties/ Agreements ratified by Sri Lanka or country of operation or subjected to international phase outs or bans such as
i. Production of or trade in pharmaceuticals subject to international phase-outs or bans ^a
ii. Production of or trade in hazardous chemicals including pesticides and herbicides subject to international phase-outs or bans ^b
iii. Production of or trade in ozone depleting substances subject to international phase out ^c
iv. Trans-boundary movements of hazardous waste prohibited under Basel Convention ^d
v. Trade in wildlife or production of or trade in wildlife products regulated under national law and international conventions ^e
2. Activities prohibited by National legislation or international conventions relating to the protection of the critical Cultural and Natural Heritage.
3. Production or trade in nuclear and radioactive materials (not applicable to medical, food irradiation, research and quality control (measurement) equipment ^f
4. Unsustainable fishing methods such as blast fishing, cyanide fishing, drift net fishing activities in marine environments using nets in excess of 2.5 km in length.
5. Production or activities involving forced labour ^g (work is extracted under threat of force or penalty) or harmful child labor (employment of children ^h)
6. Production or trade in any type of weapons primarily designed for military purposes and/or any Chemical, Biological, Nuclear and Radiological weapons.
7. Destruction of Critical Habitat and protected are as ⁱ covered under National laws or clearance of any forest covers for project/s under which no sustainable development and managing plan is carried out.
8. Production or trade in timber or timber products other than from sustainably managed forests.
9. Production or activities that have an impact on the lands owned or claimed under formal judgment by indigenous people ^j without their documented consent.
10. Pornography and/or Prostitution
11. Coal Related Projects ^k
12. Production or trade in un-bonded Asbestos fibers** (purchase and use of bonded asbestos cement sheets where asbestos content is less than 20% is excluded ^l)
13. Projects/activities or trading goods from geographies pre-approved by the Board of Directors with credible reports of human right abuses and limited transparency ^m

S&E NEGATIVE LIST (The Bank ensure that in all events aggregate funding to the customers engaged in the activities of this list shall not exceed a predefined threshold of the Bank's loan portfolio as approved by the Board of Directors)

1. Production, storing and selling of alcoholic beverages excluding beer & wine
2. Cultivating, processing, storing and trading of tobacco
3. Gambling, casinos, horse racing and equivalent enterprises.
4. Production, transport, storage, trade & commercial scale usage of hazardous chemicals including petrol, kerosene, and other petroleum products. (only applicable to micro and small business enterprises ⁿ)

Notes:

^a *United Nations Consolidated List of Products whose Consumption and/or Sale have been Banned, Withdrawn, and Severely Restricted or not approved by Governments.*

^b *Convention on the Prior Informed Consent (PIC) Procedures for Certain Hazardous Chemicals and Pesticides in International Trade (Rotterdam Convention); Stockholm Convention on Persistent Organic Pollutants; World Health Organization Recommended Classification of Pesticides by Hazard.*

^c *Ozone Depleting Substances (ODSs): Chemical compounds which react with and deplete stratospheric ozone, resulting in the widely publicized 'ozone holes'. The Montreal Protocol on Substances that Deplete the Ozone Layer lists ODSs and their target reduction and phase out dates. A list of the chemical compounds regulated by the Montreal Protocol, which includes aerosols, refrigerants, foam blowing agents, solvents, and fire protection agents, together with details of signatory countries and phase out target dates, is available from the United Nations Environment Programme.*

^d *Basel Convention on the Control of Trans-Boundary Movements of Hazardous Wastes and their Disposal*

^e *The Convention on International Trade in Endangered species of wild fauna and flora (CITES)*

^f *This does not apply to purchase of medical equipment, quality control (measurement) equipment or any other equipment where radioactive source which is understood to be trivial and/or adequately shielded.*

^g *Forced labour means all work or service, not voluntarily performed, that is extracted from an individual under threat or force or penalty as defined in ILO conventions*

^h *Employment may only be taken 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.*

ⁱ *Destruction means the (a) elimination or severe reduction of the integrity of an area caused by a major, long-term change in land or water use or (b) modification of a habitat in such a way that the area's ability to maintain its role is lost. Protected areas are world/National Heritage Wilderness areas/ Conservation Forests/ Forest Reserves/ Other State Forests/Strict Nature Reserves/National Parks/Nature Reserves/Jungle Corridors/Sanctuaries.*

^j *indigenous peoples are generally identified as:*

- *tribal peoples in independent countries whose social, cultural and economic conditions distinguish them from other sections of the national community, and whose status is regulated wholly or partially by their own customs or traditions or by special laws or regulations.*
- *peoples in independent countries who are regarded as indigenous on account of their descent from the populations which inhabited the country, or a geographical region to which the country belongs, at the time of conquest or colonization or the establishment of present state boundaries and who, irrespective of their legal status, retain some or all of their own social, economic, cultural and political institutions.*

Note: This definition comes from the ILO Convention 169, 'Indigenous and Tribal Peoples Convention', 1989.

^k *Coal related projects refer to long term (>36 months) project finance and/or corporate finance for the development of new coal-related projects including coal mining, coal transportation, as well as infrastructure services exclusively dedicated to support any of these activities, and coal-fired power plants. It excludes captive coal-fired power plants used for industries such as the cement and chemical industries.*

Coal related projects refer to any loan or other facility available to finance or re-finance (i) power generated from any grid connected fossil fuel power plant, the energy source of which whether in whole or part is coal (ii) coal mining

^l *Subjected to the local regulations. i.e.: Blue asbestos already banned in Sri Lanka since 1997. Chrysotile asbestos is imported to Sri Lanka mainly to manufacture roofing sheets by mixing with cement. (chrysotile asbestos is not subject to the PIC (prior informed consent) procedure of Rotterdam Convention)*

^m *The Group exercises caution when financing activities or projects in geographies outside Sri Lanka, pre-approved by the Board of Directors – Based on the credible reports, funding to sourcing of products or services from geographies involved in severe human rights abuses (mass detention, forced labor, cultural suppression), and those subject to limited independent evaluation".*

ⁿ *enterprises made-up of enterprises, which employ less than 50 workers and having annual turnover less than LKR 250Mn*

The category of micro business enterprises made-up of enterprises, which employ less than 10 workers and having annual turnover less than LKR 15 Mn.