

**Environmental and Social Risk Management System
Including Environmental & Social Review Procedures**

LIBERTY

This Environmental and Social Risk Management System and Procedures will enable Liberty Bank to implement its environmental and social management policy and to adopt necessary procedures to meet the international requirements

Table of Contents

1. Environmental & Social (E&S) Policy of Liberty Bank.....	3
2. Addressing E&S Risks Arising from Liberty Bank’s Lending Operations.....	5
3. Risk Assessment Procedure by the Liberty Bank.....	9
3.1 Credit Risk Management Process of Liberty Bank.....	9
3.2 Risk Adequate Credit Appraisal Procedure	9
3.3 Management Capacity & Training Needs	16
4. Environmental & Social Review Procedure (ESRP)	17
4.1 initial screening of loan applications.....	18
5. E&S Risk Categorization	20
5.1 Dealing with Loans under Different Risk Categories.....	20
6. Environmental and Social Due Diligence (ESDD)	22
6.1 Carrying out the Social & Environmental Due Diligence (SEDD)	22
6.2 Environmental and Social Review Summary Report	23
6.3 Environmental & Social Risk Mitigation	24
7. Brief Introduction to IFC PS and Process Involved in Compliance.....	28
8. Credit Approval & Legal Documentation.....	31
9. Environmental & Social Monitoring Report	32
Annex 1 Bank’s exclusion list.....	37
Annex 2 Project’s Environmental and Social Impact Initial Screening Form.....	39
Annex 3 Environmental and Social Review Check List	42
Annex 4 Environmental and Social Due Diligence Report for Bank.....	46
Annex 5 Example of a Typical ESDD Summary Report	49
Annex 6. Examples of Prescribed Projects by Environmental Risk Category.....	53

1. Environmental & Social (E&S) Policy of Liberty Bank

Liberty Bank (“Bank”) believes that a successful future for the bank’s business depends on sustainability of the environments, communities and economies in which we operate. The bank recognizes that its operation have direct and indirect impacts on the environment. Therefore, the company seeks to manage its environmental impacts, risks and opportunities in order to reduce the cost of doing business, to enhance shareholder returns, and to ensure that the environment and social issues are safeguarded for the future generation

Purpose

The environmental and social policy (“The policy”) is intended to set out the approach to be taken by the bank in minimize the environmental and social impact of its operations and supporting sustainable development.

Scope

This policy applies to all employees and clients. This policy covers bank’s operations in jurisdictions where the bank operates.

Policy statement

The bank is committed to safeguard the environment and contributing positively to the communities in which it operates by acting with integrity at all times in compliance with the regulatory framework and by good corporate governance.

To demonstrate this commitment the Bank will:

Environmental and social compliance

- Comply with all relevant environmental and social rules and standards which is mentioned in this document.

Investment

- Integrate environmental dimension into investment decisions processes.

Resource & waste management

- Actively manage the use of energy and utilities (e.g. gas, electricity, water) in order to achieve a reduced level of user demand and more efficient usage of available resources.

- Reduce waste by avoidance, recycling, reduction and re-use or efficiently using finite resources.
- Prevent pollution related to our activities and products, impacting the environment.

Environmental procurement

- Support the products and services which are friendly to environment.

Communication and awareness

- Communicate internally and externally our environmental policy and performance on a regular basis.
- Increase awareness of environmental responsibility amongst employee.
- Developing the internal and external grievance mechanism.

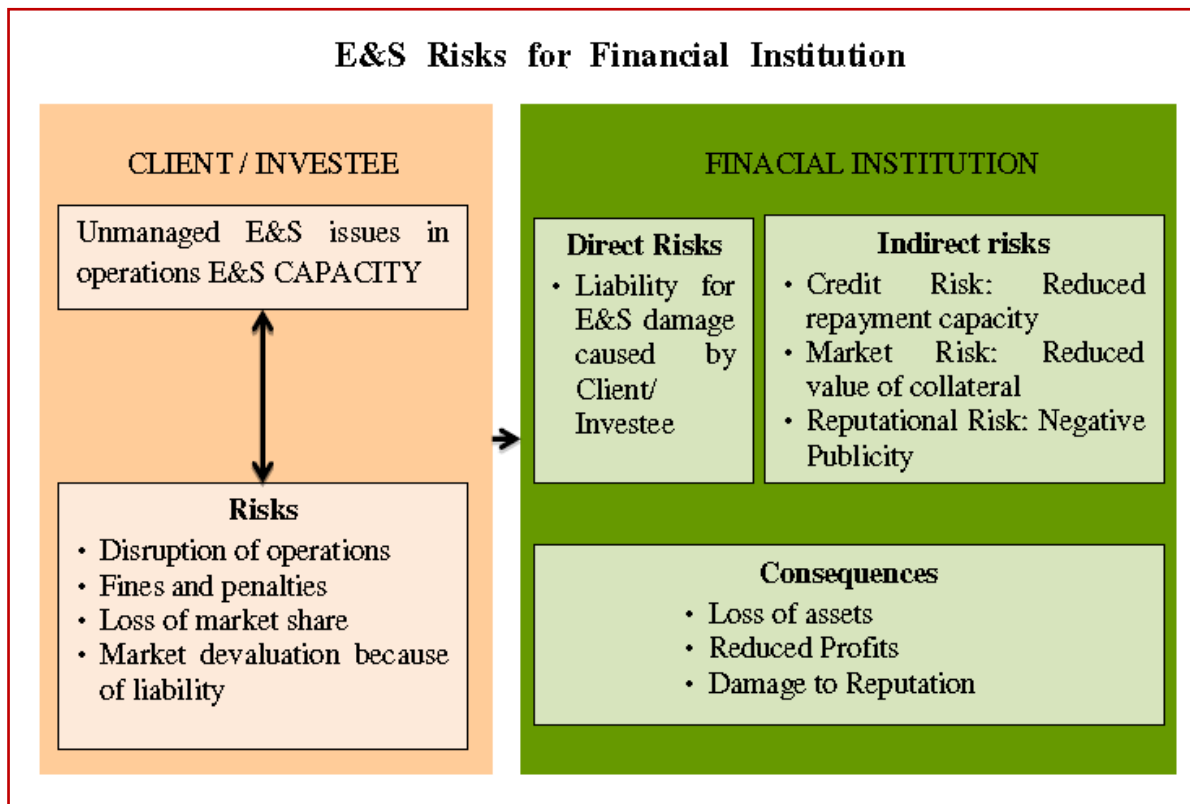
This policy became effective on 27th of October 2022.

Sign _____

2. Addressing E&S Risks Arising from Liberty Bank’s Lending Operations

E&S Risk Assessment is entirely a new approach for Liberty Bank. E&S risks and their consequences to the FIs have been articulated in the Table №1 below. According to the IFC Guidelines, all financial institutions are exposed to some level of environmental and social risks through their clients. If left unmanaged, these risks can lead to a decline in the financial institution’s reputation image, costly litigation, or loss of revenue.

Table №1. E&S Risk for Financial Institutions



It appears from the above that a financial institution’s environmental and social risks are those of their clients/investees and are inherent in the nature of a client’s/investee’s operations. Some potential environmental and social risks may not seem significant or relevant at the time of approval of financial transaction, but may become so during execution, as, for instance, as a result of higher regulatory standards are increased level of enforcement. In other cases, environmental and social risks, such as spills or explosions, may seem unlikely to occur, but when they do, the environmental and social impact is potentially extremely high.

Types of E&S Risks in a Liberty Bank:

- Liability Risk;
- Financial Risk;
- Reputational Risk;
- Credit Risk;
- Market Risk.

Liability Risk: By virtue of taking possession of collateral assets, a financial institution is exposed to liability risk stemming from a client's legal obligation. This includes fines, penalties and costs for addressing third-party claims for damages due to negligence in managing environmental and social risks in a client's operations and clean-up of contamination. If the financial institution is principal shareholder of a client's operations, it may also be directly liable for all environmental and social risks associated with a client's operations.

Financial Risk: A financial institution is exposed to financial risk stemming from potential disruption of client's operations as a result of environmental and social problems. If not managed properly, these problems can affect a client's ability to meet its financial obligations to the financial institution and/or can drive down the value of client's collateral in the context of transaction. A client's failure to effectively address environmental and social considerations can jeopardize its business operations as well as our bank's which is supporting the transaction.

Reputational Risk: Liberty Bank is exposed to reputational risk due to potentially negative publicity associated with a client's poor environmental and social practices. This harms a financial institution's brand value and image in the media, with the public, the business and the financial community, and even with its own staff.

Credit Risk: A financial institution is exposed to credit risk when a client is unwilling and/or unable to fulfill the contractual obligations associated with a transaction as a result of environmental and social issues. For example, if a client faces increased capital or operations costs of complying with environmental and social standards or if operating and emission/discharge permits are absent or expired resulting in regulatory fines or penalties, there is a risk that the client cannot meet its financial obligations to the financial institution.

Market Risk: A financial institution is exposed to market risk stemming from a reduction in the value of collateral associated with a transaction due to environmental and social problems.

For example, if a product site becomes contaminated, the market value of the underlying collateral will fall.

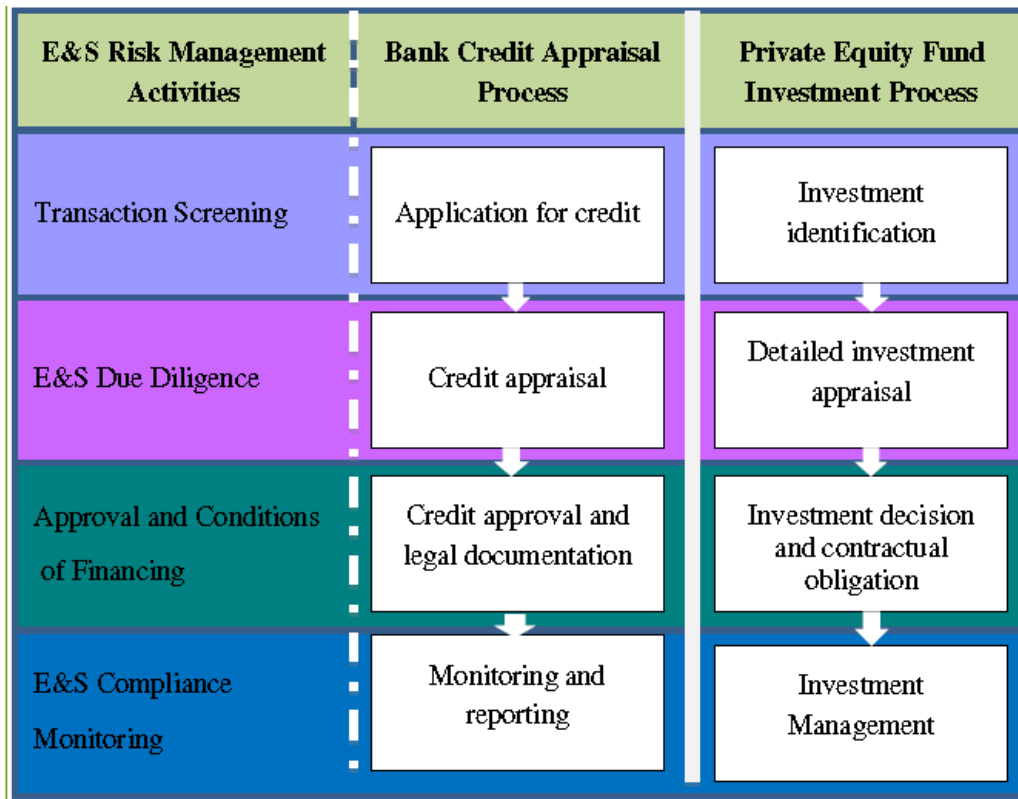
Environmental and social risks can be mitigated through compliance with environmental regulations and social safeguard policies/standards and by adhering to international environmental and social standards. A financial institution can best achieve this by developing and implementing an environmental and social management system, to systematically assess the environmental and social risks and opportunities arising from their clients operations and manage its exposure to risk.

The bank needs to have a clear understanding of the potential environmental and/or social risks and implications for a client's operations prior to being linked to the client in the context of a transaction.

This requires a system for proactive identification, assessment and management of environmental and social risks before they become significant or result in an adverse outcome on the client. IFC guidelines devotes prominence to E&S risk assessment procedures and expects the ESMS to underline the need for E&S risk categorization of the intended activities for which borrowers seek loan facilities from the bank before the loans are approved and loan agreements are entered into with prospective borrowers.

IFC's approach for integrating risk assessment into the credit appraisal process is given in the table №2 below:

Table №2. IFC's approach for integrating risk assessment into the credit appraisal process



The above table showing the E&S Risk Management Procedure clarifies the manner in which environmental and social risks can be integrated into the Bank's credit appraisal process in stages. It shows that various risk management activities can also be undertaken concurrently during various loan processing stages. A similar system of E&S risk assessment has been proposed for the Liberty Bank which is explained in the section below.

3. Risk Assessment Procedure by the Liberty Bank

E&S risk assessment procedure requires to be understood parallel to Liberty Bank’s existing credit risk management procedure. Risk appraisal is fundamental to the credit risk management process of Liberty Bank according to the table №3.

3.1 Credit Risk Management Process of Liberty Bank

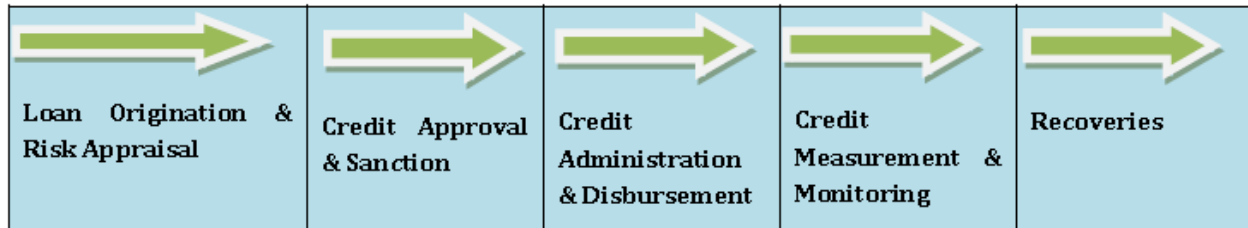


Table №3. Credit Risk Management Process of Liberty Bank

The ESMS¹ enables the Bank to integrate E&S risks assessment too into the existing credit risk management procedure. The process flow chart of the lending procedure of the bank has been revised considering various E&S risk management elements of a credit facility. The corresponding sections of the Bank’s credit manual which describes the lending procedure have been revised.

3.2 Risk Adequate Credit Appraisal Procedure

Following are the major highlights in the credit appraisal procedure:

Introduction of Exclusion List – Bank’s Exclusion List defines the types of activities the bank will not finance². It will be referred by the Bank Credit Officer at the initial stage of loan application by the client. It is expected that the Credit Officer/Branch Manager can refer to the Exclusion List and inform the loan applicant whether the intended loan falls within the purview of the Bank’s E&S Policy, as well as within the Exclusion List. This can be done at the early stage of lending.

Introduction the process of Risk Categorization – Under the new procedure credit managers will categorize the projects for which loans are requested (loans in excess of GEL 500 000)

¹ Environmental and Social Management System

² In exceptional cases, the credit committee has the right to finance several activities listed in the Exclusion List with value no more than 10% of the bank’s total portfolio.

according to potential Environmental & Social risks (A=high risks, B=medium risks, C=low risks). The credit manual has been revised in order to accommodate this requirement. Hereafter the E&S risks categorization is an important part of the loan appraisal process. The procedure to be entailed is given in section 5 of this document.

Introducing a more structured E&S Due Diligence Process – steps have been introduced for the Credit Manager to undertake Environmental & Social Due Diligence (ESDD) as a part of the loan appraisal. The process of loan categorization and E&S Due Diligence is explained in chapter 5 & Chapter 6 respectively. Section 5.1 of chapter 5 explains how a project could be categorized for its E&S risks. Accordingly a project in terms of risks can be categorized into low, medium and high risks.

ESG Risk Manager will have to carry out due diligence using a more stringent procedure in respect of high risk projects. Referee to chapter 6 which explains the process. For category of projects falling within high risks, the Bank will delegate due diligence to a specific Environmental and Social Expert/ESG Risk Manager. On completion of the due diligence process a report has to be produced based on the observations.

The credit officer is expected to assess whether the loan applicant needs to fulfill the E&S risks mitigations compliance form (annex 2) depending on the risk category of the respective project/activity. Credit officer may use an annex 2 for this purpose.

The credit appraisal procedure was also revised to accommodate incorporation of necessary covenants relevant to the compliance of E&S risk mitigation actions to loan documentation (agreement) the covenants compels the loan applicant to comply with the recommended action prior to approval of the loan.

Compliance with E&S risk mitigation action can be in accordance with either the country's environmental and social legislation and/or IFC Performance Standards (as the case may be). This has been addresses both in the credit manual as well as in existing lending procedures.

The process that involves post disbursement of loans were also considered for integrations of E&S consideration. Revisions were incorporated to mandate regular monitoring of the ESAP³.

³ Environmental and Social Action Plan

Table №4. Liberty Bank Lending Procedure Incorporated with ESMS – Summary

Key steps	Description
<i>Initial Contact with Client</i>	<p>Client contacts the manager of the respective branch of the bank and requests for a loan.</p> <p>Manager interviews the client and assesses whether the credit request falls within the purview of the Bank’s Exclusion List⁴.</p> <p>If the answer is “No”, the branch manager introduces the client to the credit officer for follow up.</p> <p>If the answer is “Yes”, the manager declines to accept credit request.</p> <p>Manager also briefs the client as regard the Bank’s new E&S policies.</p>
<i>Client’s Loan application</i>	<p>The credit officer hand over relevant set of forms/documents including a loan application form to the client.</p> <p>The client fill the documents required by the Bank and submits the application to the branch manager or to the credit officer requesting for a credit facility.</p>
<i>E&S Risk Categorization</i>	<p>Categorization of project for risk levels “A”, “B”, “C”, credit officer will use the lists which guides identification of projects for risk levels.</p> <p>If the project is categorized as “B”, the CO can recommend that E&S risks are potential but the loan request can be approved subject to the loan applicant complying with E&S risk mitigation actions as per the existing environmental and social policies, procedures, laws and regulations of the country (annex 2 will be required).</p>

⁴ In exceptional cases, the credit committee has the right to finance several activities listed in the Exclusion List with value no more than 10% of the bank’s total portfolio.

E&S Due Diligence & Data Input

If the project is categorized as “A”/high risk project, the ESG Manager (by site-visiting) will have to identify key E&S risk and compliance requirements based on country’s laws and regulations as well as the IFC performance standards and EHS guidelines, etc., and recommend that the loan will be approved subject to the client’s willingness to comply with the same.

Site visits will be required as part of E&S Due Diligence. In addition to Site visits by the Bank Officials, in the case of high risk projects the Bank’s E&S consultant/ESG Risk Manager will undertake the E&S due diligence. They too need to undertake site inspections.

The recommendations can be made in the form of a Environmental and Social Due Diligence (ESDD) Summary Report/ Environmental and Social Action Plan (SEAP).

Loan Processing

Credit Officer during credit appraisal will assess the viability of granting the loan; forward the credit application with his recommendation to the Branch Manager together with the Environmental and Social Due Diligence (ESDD) Summary Report/SEAP along with his recommendations.

*Approval/
Recommendation*

The Branch Manager reviews the application. The Branch Manager approves the facility provided the proposal is financially viable (credit worthy) and the facility is within his approval limits. If the facility is not financially viable the Branch Manager rejects the application. If the facility requested is beyond his approval limits, then he forwards the application to the regional office with his recommendations.

Offer letter

The Regional Manager approves the facility if it is within his limits.

If the approval exceeds his authority the proposal is forwarded to the head office with the Regional Manager's recommendations.

Regional Manager may reject the proposal if he is of the view that the project is not viable.

At the head office the proposal is forwarded to the respective authorities which holds the proper approval limits.

Client Meets the Conditions

The Bank issues an offer letter informing the client that the facility is approved and giving the terms and conditions under which the facility/loan is approved, and details of any documents required to comply with E&S Risk Mitigation Action. Loan covenants will take into consideration the compliance requirements.

Client meets required conditions and submits any additional document and information requested by the Bank.

Loan Documentation

Once the loan is approved, the Branch Manager prepares the loan documentation.

The branch will then execute the documents and grant the facility to the client.

The legal department will assist the branch in preparing the legal documentation.

Incorporate ESDD recommendation into loan covenants.

Regular Monitoring

Annual Monitoring of Environmental and Social Action Plan (ESAP).

The client (loan applicant) will implement the relevant ESMS and regular reports are submitted to the Bank.

Bank's ESG Manager visits the site for further due diligence surveillance and submits reports to the Bank on the level of compliance by the borrower.

Specific Roles & Responsibilities

The “Responsibility Matrix” contains comprehensive and current information about the roles, responsibilities and authorities assigned to various staff members of Liberty Bank for environmental and social risk management issues.

Table №5. Responsibility Matrix

<i>Name of the staff member/position</i>	<i>Responsibility</i>
<i>Board of Directors</i>	<ul style="list-style-type: none"> • Commitment to E&S Policy. In addition, the following roles are also envisaged: • Senior management establishes the financial institution’s environmental and social requirements and conditions for clients. • In case of unresolved environmental and social issues or non-compliance associated with a transaction that cannot be resolved by the loan officers/relationship managers, senior management determines the appropriate course of action to be followed to reduce the financial institution’s potential exposure to environmental and social risk, which may include taking legal against the client
<i>ESG Manager</i>	<ul style="list-style-type: none"> • Ensure full implementation of ESMS • Be in overall charge of S&E Due Diligence • Maintenance of the Register of Legal and other requirements • Control of documents, forms and records required by the ESMS

	<ul style="list-style-type: none"> • Collect and study other relevant documents (audit reports, EIA document etc.) • Internet research on potential risks/potential NGO interest • Visiting the site • Prepare an action plan if the IFC standards are not yet being met • Prepare an E&S review summary report (typically 2-4 pages) • Represent at the credit committee on E&S risks of a “A” category project before approval • Assist in conducting environmental trainings • Keeping necessary documentation on clients having “A” (if necessary “B”) category project(s) before approval • Assist in reporting
<i>Credit Officers</i>	<ul style="list-style-type: none"> • Screening of the proposals/loan applications against excluded activity list and Bank’s lending policies • Call for additional information from the client/loan applicant pertaining to E&S risk evaluation • Filling the internal checklist for category “B” projects • Inform the Clients/Loan applicants of the decisions based on the initial screening and initial risk categorization
<i>Credit Committee/Legal Department</i>	<ul style="list-style-type: none"> • Decides the adequacy of E&S risk mitigation actions before the approval of the loans • Incorporate loan covenants into loan agreement

3.3 Management Capacity & Training Needs

The implementation of the environmental & Social (Risk) Management System involves policy and procedural interventions backed by extensive human resources development and continuous institutional capacity improvements of its (organizational) structure.

Major elements of the E&S risk review procedures are the E&S risk categorization, procedure involved in due diligence and E&S compliance monitoring which also require regular reporting functions. E&S risk categorization will be particularly important, as the ESMS requires the Bank Officers to categorize the loans based on risk levels. The credit officers need to have a better exposure to the terminology.

Bank Officers who are involved in credit administration should have a better understanding of the country's environmental compliance requirements (and international standards) which define specific requirements such as Environmental Impact Assessments and Environmental Protection Licenses. Other aspects are the IFC Performance Standards and EHS guidelines.

Once the project/activities are categorized (under C, B or A) the credit officers need to have better understanding of the procedures to be followed thereafter.

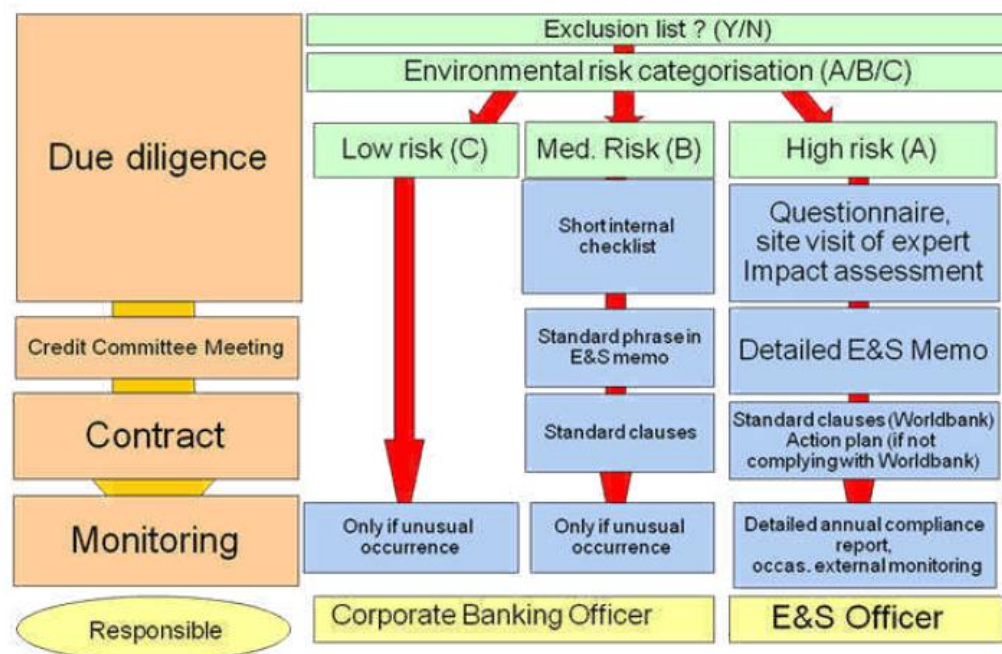
4. Environmental & Social Review Procedure (ESRP)

In this section, explanation is provided as to how the environmental and social review procedure can be undertaken. The importance of this section is that guidance is provided as to use different types of formats at different stages of E&S review of the respective loan applications. The procedure to be adopted by a Finance Institutions which implements ESMS is provided by the IFC in its guidelines. The procedure will entail:

- Initial screening of loan applications;
- Carry out due diligence;
- Consultations and negotiations & loan approval;
- Monitoring and evaluation.

In this regard it's important to identify and use the relevant formats in order to follow the required procedures at the relevant stage of risk management activity. Procedures to be followed are explained in the following sections:

Table N°6. Summary of E&S Review Procedures



4.1 initial screening of loan applications

Loan origination and risk appraisal stage: As per the revised credit appraisal procedure, the Bank compares the details of the intended loan against the Bank's Exclusion list (annex 1)⁵ upon receipt of a loan application/proposal from a customer, or even before the submission of the loan application by the applicant (This applies only if the requested loan amount exceeds GEL 500 000).

Credit officer or the Bank Branch Manager or the relevant ESG Risk Manager uses a format similar to what is provided in Annex 2 and obtains information from the loan applicant enabling the Credit Officer to undertake this initial screening of the proposed project for E&S risks.

The information so required will be among others:

- Nature and type of proposed activity;
- Geographic location;
- Scale of the project/activity;
- Any environmental issues arising from the proposed activity;
- Any social issues arising from the proposed activity.

If the activity is within the Bank's Exclusion List Credit Officer or the Bank Manager will reject the loan request⁶. The Credit Officer can review any bank policies and precedents with regard to dealing with such loan applications and sometimes the Credit Officer will indicate the Applicable Requirements for the loan.

Once the loan is accepted in principle to be processed, the second stage of E&S Risk assessment begins. At this stage the loan application should be categorized into relevant environmental and social risk category. The list of prescribed projects can be used to understand whether the particular activity/project for which the loan will be utilized fall into high, medium or low risk categories. The lists are provided in annex 6.

⁵ In exceptional cases, the credit committee has the right to finance several activities listed in the Exclusion List with value no more than 10% of the bank's total portfolio.

⁶ In exceptional cases, the credit committee has the right to finance several activities listed in the Exclusion List with value no more than 10% of the bank's total portfolio.

Once the E&S risk category is identified and the Credit officer or the ESMS Coordinator is satisfied with the risk category of the relevant project/activity, the prospective loan applicant/client will be informed of the E&S review process in detail.

At the initial stage of loan appraisal, environmental and social risk review can be undertaken either through a desk review study, or through literature survey. Depending on the complexity of the project, (especially category “A” projects) a more vigorous environmental and social due diligence process can be undertaken.

5. E&S Risk Categorization

Risk categorization is an important part of ESMS. Loans requested by all new and existing clients are subject to a process of Risk Categorization of their (potential) Environmental and Social impacts. A Risk Categorization Tool is provided below. There are three risk categories:

- High Risk (Category “A”): Projects with potential significant adverse social or environmental impacts those are diverse, irreversible and/or unprecedented. There may be highly significant, negative and/or long term environmental and social impacts, the magnitude of which is difficult to determine at the application stage;
- Medium risk (Category “B”): projects with potential limited adverse social or environmental impacts that are few in number, site-specific, largely reversible environmental and social impacts which can be readily identified and standard preventative and/or remedial measures can be prescribed and readily addressed through mitigation measures.
- Low risk (Category “C”): projects with minimal or no adverse social or environmental impacts. Environmental and social impacts are expected to be negligible.

Taking into account the nature, location, sensitivity and scale of the project and the nature and magnitude of its possible environmental and social impacts and issues, the Credit Officers can determine the nature and level of environmental and social assessments required, the level of information received by the Credit Officer can be used for this purpose.

Categorization can also be done using the prescribed list of projects that fall into high, medium and low risk categories, issued by central environmental authority.

5.1 Dealing with Loans under Different Risk Categories

For category “A” projects, the procedure requires review and assessment of environmental and social risks and impacts through a detailed S&E due diligence process. The procedures require that the ESG Manager collects relevant E&S due diligence process. The procedures require that the ESG Manager collect relevant E&S information.

If the project is high-risk (Category “A”) the Bank will inform same to the loan applicant/client prior to make a loan decision. Liberty Bank examines the project’s potential positive and negative impacts, compares them with feasible alternatives, and recommends any measures

needed to prevent, minimize, mitigate or compensate for adverse impacts and to improve performance. This will require E&S Due Diligence (ESDD), the procedure of which is explained under the chapter below.

For category “A” project, the loan applicant/client is responsible for preparing a full E&S compliance report, taking in to consideration the requirements stipulated in the IFC Performance Standards, the EHS guidelines and the Environmental & Social Impact Assessment (ESIA) report.

Category “B” or the activities classified as Medium Risk are those for which the environmental and social impacts can be readily predicted, prevented and/or mitigated given appropriate levels of a borrower’s financial and technical/ managerial capabilities. The procedures require that the Credit Officer collects relevant E&S information using a short — internal checklist which is described in annex 2. The main idea is to ensure that the client is fully complying with country’s E&S regulation. ESMS Manager or Coordinator should ensure that the applicant implement an action plan for E&S compliance in keeping with the country environmental and social legislation could be formulated.

Category “C” - low risk projects with minimal or no adverse social or environmental impacts. A proposed project is classified as Category “C” if it is likely to have minimal or no adverse environmental impacts. Beyond screening, no further action is required for a Category “C” project.

6. Environmental and Social Due Diligence (ESDD)

A SEDD is the record of the Bank's E&S review of projects at the time of appraisal. This ensures that the project is meeting and is expected to continue to meet the Applicable Performance Standards in order to minimize adverse environmental and social impacts arising of the project. Due diligence is the specific procedures adopted for loan appraisal and supervision. The due diligence process includes the gathering, analysis and interpretation of relevant information which leads to bank's decisions. It determines whether E&S risks have been identified and whether measures have been instituted to manage the risks.

6.1 Carrying out the Social & Environmental Due Diligence (SEDD)

In the case of a Category "A" project, the due diligence is a full-scale review of the social and environmental risks preferably based on IFC Performance Standards and EHS guidelines.

Therefore such a review will be conducted by ESG Manager of Liberty Bank.

In summary a SEDD is based on all or some of the following:

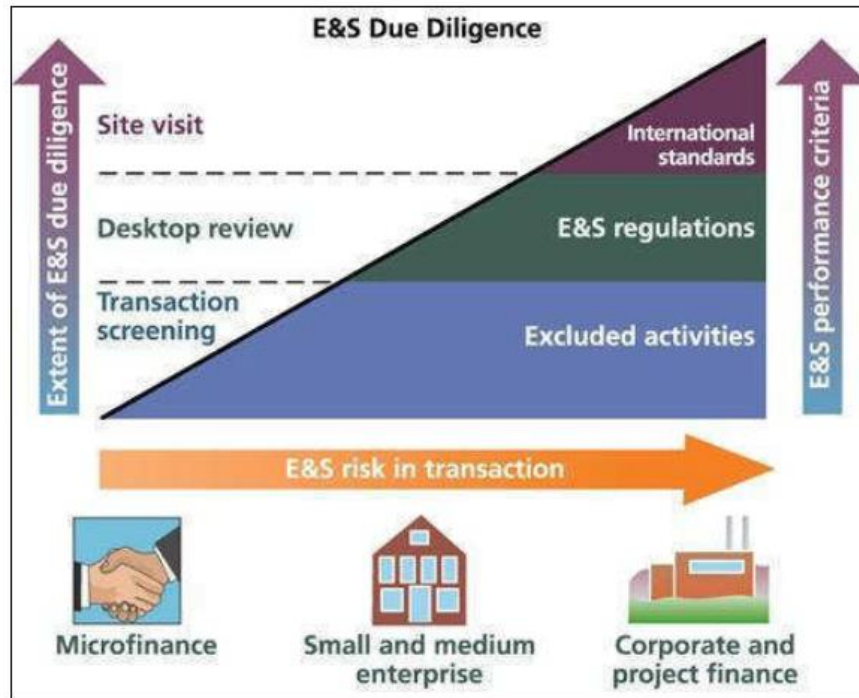
- Review of information in the public domain to check for any social and/or environmental controversies/news related to the project;
- Review of project and social and environmental documents of the project;
- Discussions with the Project Officials;
- Site visit and discussions;

The most important element of the ESDD in respect of category "A" projects is to find out the gaps between the current E&S performance and the benchmark performance (IFC performance standards). The gap analysis with regard to the IFC performance standards is considered crucial to ensure that the client is managing E&S risks in accordance with internationally recognized E&S risks management standards.

The Environmental and Social Due Diligence for category "A" projects therefore has to involve the following steps:

- Collect and study original EIA documents or other relevant documents (audit reports, etc.);
- Carrying out an internet research on potential risks/potential NGO interests;
- Visiting the site;

- Prepare an action plan if the IFC standards and EHS guidelines are not yet being met (based on the gap analysis).
- Asking client to fill E&S —questionnaire for category "A" projects;
- Hand over to the client the relevant, sector specific IFC guidelines and EHS guidance notes.



The ESMS Coordinator or other designated officer will undertake an Environmental and Social Due Diligence exercise. A checklist of information that should be looked at during ESDD is given in Annex 3.

For category "C" and "B" projects the ESDD can be a desk review, or a simple review by the ESG Risk Manager based on a site visit. Any environmental and social impacts of such projects can be addressed through the country environmental and social legislation.

6.2 Environmental and Social Review Summary Report

Based on the ESDD, the ESMS Coordinator has to prepare an - Environmental and Social Review Summary report in a pre-described format. The ESMS Manager has to add this summary report (see Annex 5) to the credit proposal before the same is submitted to the Credit Committee.

This report primarily informs the decision makers about the client's compliance with the local standards, the gap analysis to IFC standards, the associated risks and the company's management capabilities to cope with the risks. Ideally, the report shall also give an indication on the possible mitigation measures. The Client/Loan Applicant must be able to demonstrate compliance to the applicable requirements. Demonstration of compliance must be to the satisfaction of the Environmental Coordinator (or other designated officer), although the opinion of third parties such as regulatory agencies or the IFC can be sought. Where compliance cannot be demonstrated, a Corrective Action Plan must be agreed to for the investment to proceed. The plan must specify all of the necessary actions to be taken to bring a project within the ambit of compliance. A target completion date for each specified action must also be agreed.

Prospective clients must provide all requested information and the Environmental Coordinator (or other designated officer) must be of conclusive opinion that the Project is expected to meet the applicable requirements (with Corrective Action if required) prior to the Company's decision to make an investment.

For Category "C" (low risk) projects no ESDD is necessary.

6.3 Environmental & Social Risk Mitigation

For Category "B" (medium risk) projects, E&S Risk mitigation will be effected by way of clients agreement to comply with country specific standards, regulations and procedures which very often surface as a result of the following:

- Environmental Impact Assessments/Environmental audits.
- Environmental and Social Action Plans (encompassing any further observation made during the due diligence).

Environmental Impacts Assessments/Initial Environmental Examination Reports For the projects which cause adverse environmental and social consequences, such impacts be appraised through proper environmental impact assessments prior to loan approval. This applies only to - Prescribed Projects which have been specified by the Minister/Ministry in Charge of Environment and is implemented through designated Project Approving Agencies

(PAAs) as prescribed by the Minister. Depending on the significance of the anticipated impacts, there are two types of reports i.e. the Initial Environmental Examination (IEE) and the Environmental Impact Assessment (EIA).

The Initial Environmental Examination (IEE) is a report which is comparatively less descriptive. IEE is written in the form of a statement as against key probing questions which are given in the Terms of Reference for such a study by the Central Environmental authority or any other PAA. The Environmental Impact Assessment (EIA) Report is a more comprehensive document. The EIA or IEE (country environmental compliance requirements) will be applicable to category "B" projects and category "A" projects.

For category "A" projects Environmental and Social Risk Mitigation Action should comply with more stringent standards or guidelines above country environmental standards or social safeguard policies. The clients who request for loans to implement such projects should follow the requirements as stipulated in IFC Performance Standards together with World Bank Environmental, Health and Safety (EHS) Guidelines.

Mitigation actions should be compared with the standards between country's regulations and the IFC performance standards after a detailed analysis of the gaps between them and whatever the stringent standard should be adhered to. This is done at the time of due diligence by an environmental and social expert and the ESDD summary report shall be prepared. The SEDD will address the social, environmental, occupational health and safety aspects related to the proposed activity. The site visit is meant to verify and check if all aspects of the ESMP are covered and thereby seek confirmation that the approach followed and the process meets the obligations of the IFC performance standards. A detailed checklist for ESDD for the Category "A" project is given in Annex 4 & 5.

The review shall encompass among others:

1. The gaps between the country regulations and the obligations in terms of the IFC performance standards including EHS guidelines to be analyzed by the E&S expert(s) dealing with due diligence. For example the country specific standards and regulations pertaining to air, water and noise pollution should be compared with that of the standards provided in the IFC fact sheets and all gaps should be identified for compliance.
2. Careful review of the EIA/IEE to assess whether it has taken note of:
 - Adequate quantification of waste quantities, handling and disposal and description of existing waste at dump site.

- Assessment of subsurface/surface water contamination from premises/existing dump site.
 - Assessment of types and quantities, disposal methods of hazardous waste present at the site and determine required mitigation/management measures.
 - IFC EHS Guidelines for Waste Management Facilities, Noise Standards, Effluent Emissions to water bodies and to the Atmosphere, etc. For example, define the standards for air and water emission standards as per IFC EHS Guidelines (if these details are not adequately found in the EIA).
3. Careful review of the EIA (in the light of PS 2 & 5) to assess whether it has taken note of:
- Social aspects and community sensitivities considering community health and safety risks and land alienation, involuntary resettlements and compensation (livelihood restoration, etc.).

By means of this process, recommended E&S risk mitigation actions are conveyed to the loan applicants. The conditions are eventually incorporated into the loan agreement enabling the Bank to ensure that the project applicant (borrower) will comply with same.

Very often, the mitigation actions recommended in the EIA reports are not sufficient in case of Category "A" Projects. The Bank can request the loan applicant to prepare a separate environmental and social management action plan in keeping with the IFC relevant PS and EHS guidelines in such cases.

The important aspects that are to be noted in the SEAP are:

- Whether the project has a properly defined Environmental and Social (Risk Management) Plan – ESMP;
- Whether a proper organizational structure is facilitated within the project to implement same with adequate professional staff;
- Whether adequate resources are made available by the loan applicant/borrower in respect of implementing the mitigation actions;
- Public disclosure is accepted in principle by the project proponent;
- Environmental pollution risks can be mitigated by complying with EHS guidelines or the country specific guidelines;
- Whether there is an employment policy to ensure nondiscrimination, safety of the workers and public safety;

- Whether the labor policies comply with country, as well as international, standards such as non-engagement of forced labor or child labor;
- Whether involuntary resettlement will be required and, if so, whether those who will be economically and physically displaced will be compensated as per the country laws (or IFC relevant performance standards);
- Whether there will be biodiversity loss and if so how such impacts can be mitigated;
- Whether the project will impact on the cultural heritage and the indigenous people's interests, etc.

The section below (Brief Introduction to IFC PS) as well as the sections describing the IFC Performance Standards.

7. Brief Introduction to IFC PS and Process Involved in Compliance

All borrowers whose projects are categorized as high risk or Category "A" projects/activities have to comply with IFC Performance Standards 1-8. Such standards are considered prerequisites and will ensure compliance for the loan agreement. The basis is that environmental and social issues of the proposed development activity need to be properly represented in the commitments made by the loan applicant (developer) prior to concluding the loan agreement. Therefore, the Bank, as the Financial Institution which authorizes the loan, should assess whether the intended loan is to undertake a High Risk project and take due cognizance and action if compliance with Country Environmental and Social Safeguard Policies, Standards and Regulation is not sufficient. If so, the loan covenants should incorporate the necessity to comply with the IFC Performance Standards (depending on the nature of the project) based on a suitable due diligence carried out by Bank's environmental consultant(s). Due Diligence will result in preparing an Environmental and Social Action Plan. It outlines early Environmental and Social Safeguard Compliance Requirements for the loan approval. In order to reach Credit Approval stage, it is necessary for the Client or the Loan Applicant to agree to an Environmental and Social Action Plan (ESAP).

IFC Performance Standards (PS 1-8)

- PS 1: Assessment and Management of Environmental and Social Risks and Impacts⁷
- PS 2: Labor and Working Conditions⁸
- PS 3: Resource Efficiency and Pollution Prevention⁹
- PS 4: Community Health, Safety and Security¹⁰
- PS 5: Land Acquisition and Involuntary Resettlement¹¹
- PS 6: Biodiversity Conservation and Sustainable Management of Living Natural Resources¹²
- PS 7: Indigenous Peoples¹³

⁷ https://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/sustainability-at-ifc/policies-standards/performance-standards/ps1

⁸ https://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/sustainability-at-ifc/policies-standards/performance-standards/ps2

⁹ https://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/sustainability-at-ifc/policies-standards/performance-standards/ps3

¹⁰ https://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/sustainability-at-ifc/policies-standards/performance-standards/ps4

¹¹ https://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/sustainability-at-ifc/policies-standards/performance-standards/ps5

¹² https://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/sustainability-at-ifc/policies-standards/performance-standards/ps6

¹³ https://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/sustainability-at-ifc/policies-standards/performance-standards/ps7

(Example PS 1.) This underscores the importance of managing environmental and social performance throughout the life of a project. One of the key outcomes of this process is that, the loan applicant (developer) will have to prepare a separate Environmental and Social Management System (ESMS) for the respective activity or the project, the implementation of which, is to be monitored by the bank during the post disbursement stage of the loan.

In this respect the loan applicant will have to conduct a review of the Environmental and Social Impact Assessment as against the IFC Relevant Performance Standards (if the ESIA has not sufficiently captured the environmental and social issues). The Client will establish and maintain an ESMS appropriate to the nature and scale of the project and commensurate with the level of its environmental and social risks and impacts. The ESMS will incorporate the following elements:

- i. E&S policy;
- ii. Identification of risks and impacts;
- iii. Management programs;
- iv. Organizational capacity and competency;
- v. Stakeholder engagement;
- vi. Compliance Monitoring and periodical review.

The following steps should be adhered to:

- The Bank should review the entire available E&S Risk appraisal document such as EIA/IEE, other documents; Site visits are to be carried out by the staff;
- The Bank should engage suitable experts to undertake Environmental & Social Due Diligence. (In case of High Risk Projects);
- Review the ESIA against IFC Performance Standards and EHS Guidelines and prepare a full scale E&S Due Diligence Summery Report;
- Bank will incorporate necessary loan agreements which require client to furnish additional compliances based on the ESDD Summery Report;
- The Client needs to prepare a draft ESMS (Environmental & Social Management Plan) based on the EIA/IEE and relevant IFC standards;

¹⁴ https://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/sustainability-at-ifc/policies-standards/performance-standards/ps8

- Allocate necessary resources to implement the mitigation actions as stipulated in the ESMP.

8. Credit Approval & Legal Documentation

In order to ensure that from the beginning, the clients are aware of the environmental and social risk management requirements of high risk projects (Category “A”), the following standard clause have to be added to the loan agreement:

“The client has to comply with the relevant IFC Performance Standards”

Category “B” and “C” projects do not require a particularly stringent clause in the loan agreement except the standard clause indicating the expected environmental risks:

“The project has the Environmental and Social category “B”/”C”. Related risks are considered to be moderate/low”

For Category “A” projects the CO and ESMS Manager have to suggest relevant contract clauses based on a series of pre-formulated building block clauses.

In the summary the suggested process steps (in table №7) and necessary draft clauses to be incorporated into the loan agreement are provided. The following standard clauses need to be incorporated into the loan agreement.

- In respect of Category “B” projects/activities, a loan covenant should explain that the borrower should comply with country’s environmental and social standards, regulations as stipulated in the laws pertaining to environment, labor and safety, resettlement, etc.;
- In respect of Category “A” projects/activities, a loan covenant should explain that the borrower should comply with IFC performance standards and describe the steps outlined in this document. The clauses should also explain the need for preparation of an annual monitoring report in a pre-described format, and any other clauses if deemed necessary to remedy the noncompliance;
- For category “C” projects, a loan covenant should explain that the borrower should comply with country’s environmental and social standards, regulations as stipulated in the laws pertaining to environment, labor and safety, resettlement, etc.;

9. Environmental & Social Monitoring Report

The Bank is to submit an annual Environmental and Social monitoring report (to board of directors) explaining the Borrower's compliance with the Environmental and Social requirements whose loans have been used for projects under Category "A".

Accordingly, Environmental and Social Performance will be evaluated on an annual basis, including status of implementation of the Corrective Action. The Benchmark for Performance will be the on-going compliance against the Applicable Requirements.

E&S Coordinator/ESG Risk Manager has to monitor the Environmental and Social Performance of Category "A" projects annually and visits the site occasionally, if necessary. The results of this monitoring should be fed back to the overall reporting system.

Table №8. Suggested procedure steps

Phase	Process step	Purpose	Action	Responsibility	Tools	Timing
Loan appraisal (initial screening of loan applications)	Exclusion list	Avoiding disallowed projects	Crosschecking with loan applicant to see whether the purpose of the loan/project is on exclusion list	Credit officer/bank manager	Bank exclusion list	At first contact with client
	Categorization of the loan/project based on the risk level	Determining whether the project is in category “A”, “B” or “C”	Getting necessary initial data and screen them through the list of prescribed project	Credit officer	List of categorization	After first contact with client
	Preparing a memo	Informing clients about E&S requirements	For category “A” projects: adding a standard phrase (e.g. “client has to comply with IFC standards in a given time frame”)	ESG Risk Manager	Standard phase if category “A” project, summary description of IFC PS	
Due diligence	Category C	Not applicable				
	Category B	Identifying potential E&S risks – based on Country Environmental and social standards	Filling short internal checklist thereby identifying potential risks	CO, assistance of ESMS Manager necessary	Internal checklist, Site visits if needed, EIA/IEE reports	Before credit committee meeting

	Category A	Identifying potential E&S risks based on the Gaps identified between the country E&S standards and IFC /EHS standards	Prepare an Environmental and Social Management action plan for E&S risk mitigation	CO, assisted by ESMS Coordinator	Internet research on potential risks/ Visiting the site	Allowing enough time prior to credit committee meeting
Credit Approval Process	Category C	Short info to committee	Standard phrase to be included in the credit proposal project has low E&S risks	Credit Committee/ESMS Coordinator	Memo	CRECO meeting
	Category B	Short info to committee	Standard phrase to be included in the credit proposal project has medium E&S risks	Credit Committee/ESMS Coordinator	Memo	CRECO meeting
	Category A	Presenting E&S risks to committee	Short E&S review summary (between 6-10 lines only) based on E&S report) to be included in	ESMS Coordinator	Memo	CRECO meeting

			the credit proposal, full report to be attached as annex			
Covenants to loan agreement	Category A projects		Risk specific E&S clauses to be formulated and included in contract based on standard blocks (“compliance with local law AND IFC PS” + annual reporting + other issues if deemed necessary)	CO assisted by ESMS manager and legal officer	Standard building block system	During contract formulation
	Category B&C projects		Standard E&S clauses to be included in contract (“compliance with local legislation”)	CO, assisted by Legal Officer	Standard phrases	During contract formulation
Monitoring & Evaluation	Category A projects	Fulfil M&E reporting requirement as per Borrowers commitment	Submission of regular reports	ESO;	Monitoring report format for clients, Internal monitoring	Annually, by standard reporting format

CO – Credit Officer

CRECO – Credit committee

DD – Due Diligence

ESMS Manager – Environmental and Social Management System Manager

E&S Coordinator - Environmental & Social Management System Coordinator

PS – Performance Standards of the IFC (International Finance Corporation)

Annex 1 Bank's exclusion list¹⁵

The Liberty Bank's Exclusion List defines the types of projects that our bank does not finance. Liberty Bank does not finance the following projects¹⁵:

- Production or trade in any product or activity deemed illegal under country laws or regulations or international conventions and agreements, or subject to international bans, such as pharmaceuticals, pesticides/herbicides, ozone depleting substances, PCB, wildlife.
- Production or trade in weapons and munitions.
- Production or trade in alcoholic beverages other than wine and beer,¹⁶;
- Production or trade in tobacco¹⁷;
- Gambling, casinos and equivalent,¹⁸;
- Production or trade in radioactive materials. This does not apply to the purchase of medical equipment, quality control (measurement) equipment and any equipment where IFC considers the radioactive source to be trivial and/or adequately shielded.
- Production or trade in un-bonded asbestos fibers. This does not apply to purchase and use of bonded asbestos cement sheeting where the asbestos content is less than 20%.
- Drift net fishing in the marine environment using nets in excess of 2.5 km. in length.
- Production or activities involving harmful or exploitative forms of forced labor¹⁹/harmful²⁰ child labor.
- Commercial logging operations for use in primary tropical moist forest.
- Production or trade in wood or other forestry products other than from sustainably managed forests.

¹⁵ In exceptional cases, the credit committee has the right to finance specific activities listed in the Exclusion List as per below mentioned exceptions with an aggregate value of no more than 10% of the bank's total portfolio.

¹⁶ Exceptions allowed including companies involved in wine and/or beer wishing to expand its products to complementary alcoholic beverages ..

¹⁷ Exceptions allowed

¹⁸ Exceptions allowed , Including gambling facilities associated with hospitality premises .

¹⁹ Forced labor means all work or service, not voluntarily performed, that is extracted from an individual under threat of force or penalty.

²⁰ Harmful child labor means the employment of children that is economically exploitive, or is likely to be hazardous to, or to interfere with, the child's education, or to be harmful to the child's health, or physical, mental, spiritual, moral, or social well-being.

- Production, trade, storage, or transport of significant volumes of hazardous chemicals, or commercial scale usage of hazardous chemicals. Hazardous chemicals include gasoline, kerosene and other petroleum products²¹.
- Production or activities that impinge on the lands owned, or claimed under adjudication, by Indigenous People, without full documented consent of such peoples.
- Any business relating to pornography or prostitution.
- Production or use of or trade in hazardous materials such as radioactive materials, unbounded asbestos fibers and products containing PCBs.
- Cross-border trade in waste and waste products.
- Production, use of or trade in pharmaceuticals, pesticides/herbicides, chemicals, ozone depleting substances and other hazardous substances subject to international phase-outs or bans.
- Production and distribution of racist, anti-democratic media.

²¹ Exceptions allowed

Annex 2 Project's Environmental and Social Impact Initial Screening Form

(To be used by the ESG Risk Manager in case of Category "B" Projects, to be filled by a client)

Background Information	
№	General Information
Name and address of the applicant (company)	
Name and Contact Information of Contact Person (in relation to environmental issues if available)	
Type of industry/Products	
Name of Project (Capacity of project if applicable)	
Date	
Signature	
1. project description	
<i>Please provide brief information on the type and scale of project, project area, buildings construction work areas, access roads, kind of water resources, etc.</i>	
Environmental Screening	
2. GMO	
Would the project involve research and testing on GMO?	
Yes _____	No _____
<i>Give a brief description if YES</i>	
3. Pesticides	
Would the project activity involve the use of chemical pesticides?	
Yes _____	No _____
<i>Give a brief description if YES</i>	
4. Fertilizers	
Would the project activity involve the use of fertilizers?	
Yes _____	No _____
<i>Give a brief description if YES</i>	
5. Asbestos	

Would the project activity involve the use of asbestos materials?	
Yes _____	No _____
<i>Give a brief description if YES</i>	
6. PCB	
Would the project activity involve the use of PCB contaminated materials?	
Yes _____	No _____
<i>Give a brief description if YES</i>	
7. The Natural Environment	
Do project activity have potential to negatively impact level of biodiversity?	
Yes _____	No _____
<i>Give a brief description if YES</i>	
8. Water Quality	
Is there a possibility that water quality and/or quantity will be adversely affected?	
Yes _____	No _____
<i>Give a brief description if YES</i>	
9. Geology and Soils	
Based upon visual inspection and/or available literature, are there areas of possible geologic or soil instability?	
Yes _____	No _____
<i>Give a brief description if YES</i>	
10. Solid or Liquid Wastes	
Will the project generate solid or liquid wastes?	
Yes _____	No _____
If "Yes", does the project include a waste management plan for adequate collection and disposal?	
Yes _____	No _____
11. Trees	
Would the project activity involve the tree cut works?	
Yes _____	No _____
If "Yes", would the project get the approval from the Forestry Agency and/or specific institution?	
Yes _____	No _____
12. EIA Package	
Does the project need the EIA Document?	
Yes _____	No _____
If "Yes", Did the project get the approval from the Ministry of Environmental Protection and Agriculture of Georgia?	
Yes _____	No _____
13. Discharged water issue	
Does the project has a discharged water point(s)?	
Yes _____	No _____

Does the project has an approved document of discharged water norms?	
Yes _____	No _____
14. Air pollution	
Does the project has an approved air pollution norms document?	
Yes _____	No _____
Social Screening	
15. Noise Screening	
Will be operating noise level exceed the allowable decibel level for that zone?	
Yes _____	No _____
16. Restricted access to resources	
Will the project activities restrict people's access to natural resources?	
Yes _____	No _____
17. Cultural and/or spiritual sites	
Will the project alter any cultural/spiritual sites in the vicinity?	
Yes _____	No _____
18. Loss in Livelihoods	
Will the project cause any losses in livelihood opportunities?	
Yes _____	No _____
19. Resettlement	
Will the project require any resettlement or compensation of residents?	
Yes _____	No _____
To be filled by the Liberty Bank's ESG Manager	
_____	_____
Name and signature of ESG Manager	Date

Annex 3 Environmental and Social Review Check List

(To be used by the ESG Risk Manager in case of Category “A”)

Social and Environmental Aspects Screening Checklist	
Project name: (Purpose of the Loan)	Location:
Lending amount (\$m) and financial purpose:	
Sector:	Type of Activity
Brief project description:	
Site visit date:	Additional technical review required: <input type="checkbox"/> Yes <input type="checkbox"/> No
Reviewed by:	
Compliance with applicable requirements—check all that apply:	
<input type="checkbox"/> Exclusion list <input type="checkbox"/> National regulatory requirements <input type="checkbox"/> Environmental, health and safety permits granted <input type="checkbox"/> Injuries and fatalities have occurred (how and when: _____) <input type="checkbox"/> Labor-related fines (when and why: _____) <input type="checkbox"/> Environmental incidents and fines (when and why: _____)	
Management systems—check all that apply:	
<input type="checkbox"/> Availability of written environmental and social policy <input type="checkbox"/> Availability of written human resources policy (e.g., employee rights/non-discrimination) <input type="checkbox"/> Availability of written fire/safety plan or emergency prevention/preparedness/response plan <input type="checkbox"/> Availability of environmental, health and safety training for employees <input type="checkbox"/> Availability of procedures for managing environmental and social risks <input type="checkbox"/> Availability of designated person in charge of environmental and social issues	

<input type="checkbox"/> Availability of internal process for sharing information	
Project site—check all that apply:	
<input type="checkbox"/> Urban/developed land <input type="checkbox"/> Far from or not within site river/stream/pond/lake/sea <input type="checkbox"/> Far from not within site a protected area (e.g., forest/endangered species)/ecologically sensitive area (e.g., wetland/breeding grounds) <input type="checkbox"/> Not a culturally sensitive/indigenous area	
Environmental issues—check all that apply:	
<i>Air emissions</i> <input type="checkbox"/> Boilers <input type="checkbox"/> Generators <input type="checkbox"/> Vehicles and equipment <input type="checkbox"/> Furnaces and incinerators <input type="checkbox"/> Welding and soldering <input type="checkbox"/> On-site burning <input type="checkbox"/> Use of solvents <input type="checkbox"/> Use of fumigation <input type="checkbox"/> Evaporation of chemicals <input type="checkbox"/> Refrigeration plant <input type="checkbox"/> Use of exhaust ventilation	<i>Waste water</i> <input type="checkbox"/> Waste water discharged to _____ <input type="checkbox"/> Drains and grates <input type="checkbox"/> Oil separators <input type="checkbox"/> Separation tanks or filters <input type="checkbox"/> Reed beds <input type="checkbox"/> Cut-off valves <input type="checkbox"/> Foul sewers and septic tanks <input type="checkbox"/> Water treatment units <input type="checkbox"/> Cleaning operations <input type="checkbox"/> Spraying operations <input type="checkbox"/> De-watering/water pump out
<i>Solid and hazardous wastes</i> <input type="checkbox"/> Waste generated <input type="checkbox"/> Types of waste: _____ _____ _____ <input type="checkbox"/> Hazardous waste (e.g., waste oils, pesticide washings, solvents, clinical waste, asbestos) <input type="checkbox"/> Waste disposed to	<i>Hazardous chemicals, fuels, and pesticides</i> <input type="checkbox"/> On-site chemicals or fuels storage <input type="checkbox"/> Protective measures against leaks/spills <input type="checkbox"/> Signs of leaks/spills <input type="checkbox"/> On-site spill clean up equipment <input type="checkbox"/> Protective measures against rain <input type="checkbox"/> Signs of corrosion on tanks/containers <input type="checkbox"/> Secured storage areas against theft <input type="checkbox"/> Training on proper handling of chemicals

_____	and fuels <input type="checkbox"/> Pesticide use and management
<i>Resource consumption</i> <input type="checkbox"/> Materials used: _____ _____ <input type="checkbox"/> Use of renewable natural resources <input type="checkbox"/> Use of tools and equipment <input type="checkbox"/> Water source: _____ <input type="checkbox"/> Energy source: _____	<i>Nuisance</i> <input type="checkbox"/> Dust <input type="checkbox"/> Noise <input type="checkbox"/> Odors <input type="checkbox"/> Fumes <input type="checkbox"/> Vibrations <input type="checkbox"/> Traffic congestion and obstructions
Community interactions—check all that apply:	
<input type="checkbox"/> Designated person in charge of responding to questions from the community is available <input type="checkbox"/> Procedures for managing community complaints are in place <input type="checkbox"/> Security personnel are in place	
Social issues—check all that apply:	
<input type="checkbox"/> Land acquisition required <input type="checkbox"/> Displacement/resettlement of local settlements <input type="checkbox"/> Impact on local settlements/livelihood <input type="checkbox"/> Impact on indigenous peoples <input type="checkbox"/> Complaints from neighbors/communities <input type="checkbox"/> On or adjacent to site of cultural/archaeological importance	
Labor issues—check all that apply:	
<input type="checkbox"/> No Personal Protective Equipment provided (e.g., safety goggles/hard hat/protective glove) <input type="checkbox"/> Inadequate employee health and safety measures (e.g., fall prevention/ventilation) <input type="checkbox"/> Inadequate working conditions (e.g., air quality/lighting/confined spaces/on-site hygiene) <input type="checkbox"/> Inadequate terms of employment (e.g., working hours/rest breaks/time off/overtime pay) <input type="checkbox"/> Unequal employment opportunities (e.g., discrimination against gender/ethnic	

group/age)

- Payment below minimum wage
- Employees below minimum age
- Child or forced labor
- No process for employees to voice complaints
- No recognition of employee organizations/labor unions

Additional comments

Annex 4 Environmental and Social Due Diligence Report for Bank

(To be used by the ESG Risk Manager in case of category “A” projects)

Transaction Title:

1. Nature of the Transaction and the Borrower’s Business:
 - Type of transaction, amount and term.
 - Borrower and its business operations: [name, location, and nature of business, size (production capacity, number of staff)].
 - Purpose of loan.
2. Environmental and Social Information Reviewed and Issues Identified:
 - Information reviewed, e.g., representations from the borrower, copies of permits/licenses, copies of policies/procedures, environmental impact assessment report, site visit, inspection reports.
 - Main environmental and social impacts of company operations (e.g., air emissions, wastewater, hazardous waste generated, land acquisition, occupational health and safety, public safety, labor standards, impacts on cultural heritage).
 - Key environmental and social concerns identified (e.g., high charges for emissions, known areas of current or future non-compliance with regulations, high worker accident rate, significant major accident risk, community grievances/protest, frequent strikes, bad worker/management relations).
3. Environmental Regulatory Compliance and Liability
 - Does the Borrower comply with environmental regulations and standards?
 - Has the Borrower obtained the necessary permits and approvals for construction/operation?
 - Finance of new developments/major expansion projects: Has the Borrower carried out an EIA in accordance with regulatory requirements? Has the EIA been disclosed to the local public that may be affected by the project? What public comments were received?
 - Has the Borrower paid excess charges or fines/penalties for non-compliance with environmental regulations and standards in the last two years? If yes, specify magnitude.
 - What are the main findings of the latest environmental inspection reports for the Borrower’s business?
 - Is the Borrower subject to ongoing or pending administrative or court action because of environmental offences?

- Is the Borrower exposed to potentially significant environmental liabilities, such as those arising from known or suspected land/groundwater contamination, related to the Company's past or ongoing operations? If yes, specify magnitude.
4. Social standards compliance:
- Does the borrower comply with national labor and employee protection regulations, in particular those related to occupational health and safety (OHS), employment of minors, the prohibition of forced labor, the non-discriminatory treatment of employees at the workplace, the freedom of association and the right to bargain collectively?
 - Has the Borrower paid excess charges or fines/penalties for non-compliance with OHS, labor and public safety/sanitary regulations and standards in the last two years? If yes, specify magnitude.
 - What are the main findings of the latest OHS/labor inspection reports for the Borrower's business?
 - Is the Borrower subject to ongoing or pending administrative or court action because of OHS, labor or sanitary offences?
 - Does the project to be financed have any adverse effects on indigenous people, cultural or archaeological heritage? If yes, how are these impacts being mitigated?
 - Financing of new developments/major expansion projects. Does the project involve the acquisition of land, or expansion of the company's Sanitary Zone? If so, do any people have to be resettled? If yes, detailed information on applicable laws/regulations (if any) and proposed resettlement and compensation of affected people must be attached to the ESDD Report.
5. Has the Borrower had any significant accidents or incidents in the last two years (e.g., oil spills, fires) involving deaths or serious injuries and/or significant environmental damage? If yes, please provide details.
- If land is taken as collateral, is there any indication of material contamination?
 - If yes, are there any liabilities of the Bank as a pledge holder to clean-up the land and what is their approximate magnitude?
 - Risk mitigation and monitoring
 - State further actions required/planned by the Borrower, in particular actions to address any environmental and social non-compliance problems and liabilities.

-State any risk mitigation measures to be taken by the Bank, such as environmental and social conditions, loan covenants or monitoring requirements (e.g. regular reporting from Borrower).

6. Environmental and Social Opportunities:

-State any measures taken/planned by the Borrower, in particular any financed through the loan, to further improve the environmental or social performance of the enterprise, e.g., energy efficiency, cleaner technology, waste reduction, occupational health and safety management, community relations.

ESG Risk Manager	Name	Signature	Date
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Annex 5 Example of a Typical ESDD Summary Report

Transaction Title: *Loan to Batumi Palace Co.*

1. Nature of the transaction and the borrower's business:

1.1. Type of transaction, amount and term: *1 year (medium term) loan for Gel 600,000*

1.2. Borrower/investment and its business operations: *Hotel Industry*

1.3. Purpose of transaction: *Construction of a hotel with 35 Rooms.*

2. Environmental and Social Information Reviewed and issues identified

[**Information reviewed**, e.g., representations from the borrower, copies of permits/licenses, copies of policies/procedures, environmental impact assessment report, site visit, inspection reports].

Site walks round, inspection.

Discussions with management.

Hotel operating permit dated

Permit for discharge of waste water to the sewerage system dated.

Water extraction permit dated

Approval for Building Plan by Local Authority.

EIA / IEE Statement

Any Other documents (Safety Plan / Solid Waste Management Plan/Land Acquisition Plan/ Soil Protection Plan)

1) Main environmental and social impacts of company operations (e.g., waste water, and solid waste generated, land acquisition, occupational health and safety, public safety, labor standards, impacts on cultural heritage).

Wastewater from process and washing operations (this is treated both on and offsite).

2) Key environmental and social concerns identified (e.g., high charges for emissions, known areas of current or future non-compliance with regulations, high worker accident rate, significant major accident risk, community grievances/protest, frequent strikes, bad worker/management relations).

3) Environmental regulatory compliance and liability

a) Does the Borrower/investor comply with national environmental regulations and standards?

Management reported full compliance with environmental regulations.

b) Has the Borrower/investor obtained the necessary permits and approvals?

Permits inspected include:

Hotel operating permit dated

EIA /IEE

Permit for discharge to water: valid – expires

Contract with LA to dispose solid waste water from the hotel

Wastewater quality test results:

a) *Permit for extraction of water from well/River;*

b) *As far as we are aware no other permits are required for legal operation.*

c) Has the Borrower been penalized for non-compliance with environmental regulations and standards in the last two years?

Since 2018 testing in the company has been paying water charges of about \$1600 per year on account of slightly exceeding permitted levels as mentioned above.

d) What are the main findings of the environmental inspection reports for the Borrower's business?

1. Is the Borrower/investment subject to ongoing or pending administrative or court action because of environmental offences?

No.

2. Is the Borrower/investment exposed to potentially significant environmental liabilities, such as those arising from known or suspected land/groundwater contamination, related to the Company's past or ongoing operations? If yes, specify magnitude.

No.

3. Social standards compliance:

3.1. Does the borrower comply with national labor and employee protection regulations, in particular those related to occupational health and safety (OHS), employment of minors, the prohibition of forced labor, the non-discriminatory treatment of employees at the workplace, the freedom of association, and the right to bargain collectively?

3.2. What are the main findings of the latest OHS/labor/sanitary inspection reports for the Borrower's business?

3.3. Is the Borrower subject to ongoing or pending administrative or court action because of OHS, labor or sanitary offences?

3.4. Does the project to be financed have any adverse effects on indigenous people, cultural or archaeological heritage? If yes, how are these impacts being mitigated?

3.5. Financing of new developments/major expansion projects. Does the project involve the acquisition of land, or expansion of the company's own area? If so, do any people have to be

resettled? If yes, detailed information on applicable laws/regulations (if any) and proposed resettlement and compensation of affected people must be attached to the ESDD Report.

4. Accidents

Has the Borrower/investor had any significant accidents or incidents in the last two years (e.g. oil spills, fires) involving deaths or serious injuries and/or significant environmental damage?

5. Collateral

If land is taken as collateral, is there any indication of material contamination? If yes, are there any liabilities of the company or financial institution to clean-up the land and what is their approximate magnitude?

6. Risk mitigation and monitoring:

State further actions required/planned by the Borrower/Investor, with regard to particular actions to address any environmental and social non-compliance problems and liabilities:

- *Expired construction permit must be renewed.*
- *Have requested to check on wastewater quality to check compliance.*
- *Talk to worker representatives to confirm that overtime payment issue has been resolved.*
- *Proof requested that 16–18 year olds are employed in accordance with national labor regulations.*
- *Request copies of future labor inspection reports as part of annual reports on environmental and social performance.*

State any risk mitigation measures to be taken by the Bank/investor, such as environmental and social conditions, loan covenants or monitoring requirements (e.g., regular reporting from Borrower).

7. Requirements placed on company as conditions of loan:

- *Renew expired construction permit; ensure all permits remain valid.*
- *Provide satisfactory evidence that 16–18 year olds are employed in accordance with national labor regulations.*
- *Inform the Bank if any material breach of regulation or product quality requirements takes place.*
- *Not to sell or acquire land or make any significant change to the nature of the business without approval from the Bank.*

8. Environmental and Social Opportunities:

State any measures taken/planned by the Borrower/Investor, in particular any financed through the loan, to further improve the environmental or social performance of the enterprise,

e.g., energy efficiency, cleaner technology, waste reduction, occupational health and safety management, community relations, etc.

Annex 6. Examples of Prescribed Projects by Environmental Risk Category

Credit Officers can use the list below for categorizing projects for risk levels (High, Medium and Low).

High Risk - A

²²1:

- 1.1 Refining of crude oil (except for lubricants);
- 1.2 Liquefaction/gasification of 500 tons or more of coal or bituminous shale per day;
2. Construction and operation of thermal power stations and other combustion installations with a heat output of 2.10 megawatts or more;
3. Allocation of nuclear power stations or other nuclear reactors, including the dismantling or decommissioning of such power stations or reactors, except for research installations for the production and conversion of fissionable and fertile materials, whose maximum power does not exceed 1 kilowatt of continuous thermal load;
4. Installations designed for the following activities:
 - 4.1. The production and/or enrichment of nuclear fuel;
 - 4.2. The processing of irradiated nuclear fuel or high-level radioactive waste;
 - 4.3. The final disposal of irradiated nuclear fuel;
 - 4.4. The storage of irradiated nuclear fuel or radioactive waste outside the production site if it is planned to store them for more than 3 years;
 - 4.5. The final disposal of radioactive waste;
5. Production of cast iron, steel and/or ferroalloy, including primary and/or secondary smelting;
6. Production of non-ferrous crude metals from ore, concentrates or secondary raw materials by metallurgical, chemical or electrochemical processes, except for jewelry;
7. Extraction of asbestos, processing and/or transformation of asbestos or products containing asbestos: an annual production of more than 20 000 tons of asbestos- cement products; an

²² National Law "Environmental Assessment Code" of Georgia

annual production of more than 50 tons of friction materials; for other uses of asbestos, utilization of more than 200 tons of asbestos per year;

8. Chemical industry:

8.1. Production of basic organic compounds;

8.2. Production of basic inorganic compounds;

8.3. Production of phosphorous-, nitrogen- and/or potassium-based fertilizers (simple or compound fertilizers);

8.4. Production of plant health products and/or biocides;

8.5. Production of pharmaceutical products using a chemical and/or biological process;

8.6. Production of explosives;

9. Construction and operation of main-line over ground and/or underground railway;

10. Construction and operation of airports with a basic runway length 1600 m or more;

11. Construction of motor roads of international or intrastate significance;

12. Reconstruction and/or modernization of motor roads the entire section of which is 5 km or more in length;

13. Construction of tunnels and/or bridges located on the motor roads of international or intrastate significance;

14. Construction of inland waterways or ports which permit the passage of vessels with load capacity of more than 1350 tons;

15. Construction and operation of sea ports and loading and unloading piers connected to land and other ports (except for ferry piers) which can take vessels of over 1350 tons;

16. Disposal, incineration and/or chemical treatment of hazardous waste;

17. Disposal, incineration and/or chemical treatment of more than 100 tons of non-hazardous waste per day;

18. Carrying out of works related to groundwater abstraction or artificial groundwater recharge where the annual volume of water to be abstracted or recharged is 10 million cubic meters or more;
19. Transfer of water resources between river basins (except for the transfer of drinking water through pipelines):
 - 19.1. Where the transfer of water resources aims at preventing shortages of water and where the amount of water transferred exceeds 20 million cubic meters per year;
 - 19.2. In all the other cases, where the multi-annual average flow from the basin of abstraction exceeds 2 000 million cubic meters per year and where the amount of water transferred exceeds 5% of that flow;
20. Construction of urban waste-water treatment plants for the population of 50 000 people or more, with a respective capacity;
21. Construction and operation of dams and/or other structures designed for the holding back or permanent storage of water and where the amount of water held back or stored exceeds 50 000 cubic meters;
22. Construction and/or operation of hydroelectric stations with a capacity of 5 megawatts or more;
23. Construction and operation of pipelines with a diameter of 800 mm or more and a length of more than 40 km for the transport of oil, gas or chemical compounds, as well as for the transport of carbon dioxide (CO₂) for the purposes of geological storage;
24. Poultry farms (with more than 85 000 places for broilers and/or more than 60 000 places for hens) and/or pig farms (with more than 10 000 places for piglets (under 30 kg) and/or more than 6000 places for pigs (over 30 kg));
25. Production of pulp from timber or similar fibrous materials and the production of over 200 tons of paper and/or cardboard per day;
26. Quarries and open-cast mining where the surface of the mining site exceeds 25 hectares;
27. Peat extraction where the surface of the site exceeds 150 hectares;

28. Construction of overhead and/or underground electrical power lines with a voltage of 220 kV or more and a length of more than 15 km;
29. Construction and operation of installations for the storage of fossil fuel and/or chemical products with a capacity of 1 000 cubic meters or more;
30. Geological storage of carbon dioxide (CO₂);
31. Capture of 1.5 megatons or more of carbon dioxide (CO₂) per year;

Medium Risk - B

1. Agriculture, silviculture and aquaculture:

- 1.1. Use of 10 hectares or more of agricultural land for non-agricultural purposes;
- 1.2. Use of 10 hectares or more of uncultivated land for agricultural purposes;
- 1.3. Construction and operation of melioration systems;
- 1.4. Afforestation in an area of 500 hectares or more and/or deforestation in an area of 50 hectares or more of forest for the purposes of conversion to another category of land and for the purposes of use;
- 1.5. Construction of stalls for 500 and more heads of livestock;
- 1.6. Arrangement of fish farms with a capacity of more than 40 tons per year;
- 1.7. Reclamation of land from the sea (creation of artificial islands, peninsulas, etc.).

2. Extractive industry and drilling works:

- 2.1. Quarries, open-cast mining and peat extraction (except for sand-gravel) where the surface of the site is more than 10 hectares;
- 2.2. Underground mining of minerals (including the extraction of underground fresh water for entrepreneurial purposes) where the amount of resources mined/extracted exceeds 100 000

cubic meters (except for the extraction of oil and natural gas or for the personal use of underground water) per year;

2.3. Extraction of minerals from the sea;

2.4. Drilling for the extraction of thermal waters;

2.5. Drilling for the storage of radioactive waste;

2.6. Drilling for the extraction of coal, ore or bituminous shale using surface industrial installations.

3. Energy industry:

3.1. Combustion installations for the production of electricity with a capacity of 2 megawatts or more;

3.2. Industrial installations for the production of steam and hot water (except for the steam and hot water installations related to oil and gas operations) where the area of development exceeds 0.5 hectares and their production capacity exceeds 50 megawatts;

3.3. Laying of pipelines with a length of 5 km or more for carrying gas, steam and hot water;

3.4. Construction of overhead and/or underground electrical power lines with a voltage of 35 kV or more, and construction of electrical substations with a voltage of 110 kV or more;

3.5. Construction and operation of installations for the surface and/or underground storage of fossil fuel, liquid and/or natural gas with a capacity of 100 cubic meters or more;

3.6. Briquetting of coal and/or lignite;

3.7. Processing and/or storage of radioactive waste;

3.8. Construction and/or operation of hydroelectric stations with a capacity from 2 to 5 megawatts;

3.9. Installations for energy production using the power of wind and/or sea waves.

4. Production and processing of metals:

- 4.1. Fusion of pig iron or steel for manufacturing products;
- 4.2. Processing of ferrous metals: hot-rolling, smithereens with hammers, application of protective metal coats, with a capacity of 50 tons or more per year;
- 4.3. Smelting of non-ferrous metals (except for precious metal), with a capacity of 20 tons or more per year;
- 4.4. Surface treatment of metals and/or plastic materials, using an electrolytic or chemical process, in a tank with a capacity of 10 cubic meters or more;
- 4.5. Motor vehicle industry (assembly of motorized vehicles) and manufacture of motor-vehicle engines;
- 4.6. Shipbuilding;
- 4.7. Aircraft construction;
- 4.8. Swaging by explosives;
- 4.9. Roasting and sintering of metallic ores.

5. Processing of mineral raw materials:

- 5.1. Processing of minerals;
- 5.2. Coking of coal;
- 5.3. Production of asphalt;
- 5.4. Manufacture of cement, lime, plaster and/or gypsum;
- 5.5. Production of asbestos and/or asbestos products;
- 5.6. Manufacture of glass and/or glass products (including glass fibre);
- 5.7. Manufacture of ceramic clay (except for traditional household production), manufacture of ceramic products (in particular roofing tiles, bricks, refractory bricks, tiles or porcelain).

6. Chemical industry:

- 6.1. Productions of chemicals by chemical treatment of intermediate products;
- 6.2. Production of pharmaceutical products, paint, varnishes, peroxides, elastomers and/or plastic materials;
- 6.3. Construction and operation of storage facilities for oil and oil products, petrochemical and/or chemical products.

7. Food industry:

- 7.1. Manufacture of 25 000 tons or more of vegetable and/or animal oils and fats per year;
- 7.2. Canning of animal and/or vegetable products aiming at producing 25 000 tons or more of products per year;
- 7.3. Production of more than 20 tons of dairy products per day;
- 7.4. Production of more than 100 tons of beer and malt per day;
- 7.5. Production of more than 3 tons of confectionery per day;
- 7.6. Construction and operation of installations for the slaughter of animals where 30 or more animals are slaughtered per day;
- 7.7. Industrial production of 5 000 tons or more of starch per year;
- 7.8. Processing of more than 5 000 tons of fish per year;
- 7.9. Production of 25 tons or more of sugar per day.

8. Textile, leather and paper industries:

- 8.1. Production of 10 tons or more of paper and/or cardboard per day;
- 8.2. Pre-treatment (washing, bleaching, mercerization) and/or dyeing of more than 1 ton of textile and/or textile fibre per day;
- 8.3. Tanning/processing of leather;
- 8.4. Processing of cellulose.

9. Infrastructure projects:

- 9.1. Development of industrial estates in an area of more than 10 hectares;
- 9.2. Urban development projects with a development area of more than 10 hectares (including the construction of shopping centers and car parks for 1 000 cars);
- 9.3. Construction and operation of intermodal terminals and railways connected to them;
- 9.4. Construction of airfields;
- 9.5. Construction of sea harbors and related buildings whose development area based on the project is more than 1 hectare;
- 9.6. Construction of sewerage systems with a length of 2 km or more, and the construction of sewerage systems with a development area of 5 hectares or more;
- 9.7. Construction of inland waterways;
- 9.8. Flood-relief works;
- 9.9. Construction of dams and/or other structures/installations designed to hold water or store it on a long-term basis where the amount of water held or stored is more than 10 000 cubic meters;
- 9.10. Construction of tramways and/or ropeways use for transporting passengers;
- 9.11. Laying of pipelines with a length of more than 5 km for transporting oil, gas or carbon dioxide (CO₂);
- 9.12. Construction of aqueducts with a length of 5 km or more on the area of 1 hectare or more;
- 9.13. Works to protect coasts, to combat erosion of coastlines and to restore coastlines, as well as maritime works capable of altering the coast through construction (in particular, the construction of dykes, moles, jetties and other sea defense works, except for the reconstruction of such works).

10. Other projects:

- 10.1. Construction of permanent racing and test tracks for vehicles in the territory with an area of 15 hectares or more;
- 10.2. Disposal of waste;
- 10.3. Recovery of waste, except for the pre-treatment of non-hazardous waste;
- 10.4. Pre-treatment of hazardous waste;
- 10.5. Construction of temporary storage facilities for 10 tons or more of hazardous waste;
- 10.6. Construction and operation of waste-water treatment plants;
- 10.7. Arrangement and operation of sludge-deposition sites;
- 10.8. Recovery or destruction of explosive substances.

11. Tourism and leisure:

- 11.1. Arrangement of mountain ski runs and/or ropeways in the area of 5 hectares or more;
- 11.2. Construction of holiday villages (including hotels and associated developments) in the area of more than 10 hectares outside urban areas;
- 11.3. Construction of permanent campsites and/or caravan sites in the area of 5 hectares or more;
- 11.4. Development of amusement parks (including theme parks) in the area of 10 hectares and more.

Low Risk - C

Those activities that are not represented in the lists above