



Environmental & Social Risk Policy

Version 3.0

2019

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Terms & Abbreviations

Term or Abbreviation	Definition or Explanation
Business Activities	Provision of financial products and services including, but not limited to: corporate finance, investment banking (corporate advisory, structured lending, capital, trading), equity investments, project finance, project finance advisory, structured commodity finance, small and medium enterprise lending, retail banking, trade and leasing, and other forms of direct lending.
BAC	Board Audit Committee
BOD	Board of Directors
CBN	Central Bank of Nigeria
CRO	Chief Risk Officer
CCO	Chief Credit Officer
E&S	Environmental & Social
E&S impact	Any change, potential or actual, to (a) the physical, natural, or cultural environment, and (b) impacts on workers and surrounding community, resulting from a business or business activity. E&S impacts may be temporary or permanent, involving reversible or irreversible changes on the environment or society. Environmental impact can include changes to the atmosphere, water, and land due to human activities (e.g. greenhouse gases, pollution, changes to ecosystems etc.). Social impacts can include impacts to a client's workforce as well as to the surrounding community (e.g. occupational health & safety, human rights & labour standards, land disputes, physical or economic resettlement, corruption etc).
E&S risk	The potential for E&S impacts associated with one of the Bank's existing or proposed clients or engagements that need to be taken into account when making business and risk management decisions
EP	Equator Principles
ESMS	Environmental & Social Management System
FRN	Federal Republic of Nigeria
ILO	International Labour Organisation
Non-consumer client	Any client of Corporate Banking or Commercial Banking
NSBP	Nigerian Sustainable Banking Principles
UBN or 'the bank'	Union Bank of Nigeria Plc
UNGC	United Nations Global Compact
UNEPFI	UN Environment Program Finance Initiative
UNESCO	United Nations Educational, Scientific, and Cultural Organisation

1 Policy Ownership, Approval and Version Control

1.1 Ownership of the Policy

The Chief Risk Officer is the owner of this E&S Risk Policy and is responsible for developing policies and procedures for the ESMS, appointing Union Bank's E&S Officer, and implementation across Union Bank of Nigeria Plc.

1.2 Approval of the Policy

The E&S Risk Policy has been approved by the Board of Union Bank of Nigeria Plc.

Table 1: Policy Approval

Name	Role	Signature	Date of Approval

1.3 Version Control

The E&S Risk Policy has the following history of revisions:

Version No.	Author	Date	Revision Carried Out Section Nos.
3.0	Chief Credit Officer	08/11/2019	Appendix 1

Version No.	Author	Date	Revision Carried Out Section Nos.
2.0	Chief Credit Officer	22/08/2016	1.1,1.2,1.3,2.3,2.5,2.7,2.8,3.2,3.3,4.1,4.2,5.7,6.1,8.1,8.2

Table 2: Version Control

The E&S Risk Policy has been reviewed by:

Table 3: Review Log

Reviewer	Date	Review Comments

2 Policy – Objectives, Scope, Coverage and Review

2.1 Objectives

The objective of this Environmental & Social Risk Management Policy is to incorporate E&S risk into the credit procedures and decision-making of Union Bank.

The Bank recognises that the context in which its business decisions are made is characterised by complex and growing challenges related to population growth, urban migration, poverty, destruction of biodiversity and ecosystems, pressure on food resources and security, lack of energy and infrastructure, and the implications of a changing climate. The business activities of the non-consumer clients that the Bank funds can have potentially negative impacts on the environment or local communities where these clients operate. These negative impacts include air or water pollution, harm or destruction of biodiversity, threats to human health and safety, violations of labour rights, or displacement of livelihoods.

Union Bank does not want to be involved in enabling negative impacts on the environment or local communities and wishes to ensure that its business activities reflect the complex and growing challenges in this area. The purpose of the policy is therefore to:

- Provide the principles which Union Bank adopts in delivering banking services that take account of E&S issues;
- Ensure that Union Bank does not knowingly enable clients to impose negative E&S impacts and the external costs associated with them and which in turn hinder the overall growth prospects of the economy and society;
- Create a systematic framework for engaging with clients on their E&S impacts, to understand what they experience, how they are responding, and to act where possible as a trusted advisor assisting clients to manage their E&S impacts and improve their performance;
- Manage the Bank's exposure to credit risk, reputational risk, and legal risk that may arise from negative E&S impacts and external costs;
- Define an approach that is predictable, transparent and accountable, supports consistent decision-making on E&S risks, and enables the Bank to capture information and progressively learn from its experiences in this area.

This policy complements Union Bank's goal of providing appropriate financing to its clients and to maximising its shareholders' value by reducing exposure to:

- Reputation risks through association with harmful activities of clients
- Credit risks through reduced repayment capacity in the event of disruption to activities, fines and penalties, legal enforcement or closure

- Market risks through the reduced value of security and collateral
- Direct risks through the liability for E&S harm caused by clients

2.2 Scope

This E&S Policy applies to:

- All of the Bank's wholly-owned or majority-owned banking companies, where the Bank has management control;
- All Corporate Banking and Commercial Banking clients of Union Bank. It seeks to enable Union Bank to manage the E&S risk exposure and management approach of its non-consumer clients and the business that the bank does with them;
- All new financial services provided by Union Bank to its non-consumer clients. This includes acceptance of deposits, provision of loans and the delivery of other financial products and services. Accepting retail deposits and providing retail loans and mortgages is not covered by this policy.

Within this scope all previously approved and current business, in addition to all new business, will comply with the Exclusion List.

The rest of this policy does not normally apply to business entered into before this policy comes into force and it is not the intention to reopen existing files (other than for the purposes of the Exclusion List). It may however be used to guide the review of any material legacy issues identified, or changes in circumstances, when a particular engagement comes up for periodic review or renewal.

2.3 Coverage

The Policy frames the overarching guidelines which governs the day to day management of E&S risks in the business development and risk management of Corporate Banking and Commercial Banking, and the evolution of E&S risks within the Banking book of Union Bank of Nigeria Plc. To this end, this policy will cover the following:

- E&S risk management framework
- Roles and Responsibilities of the Board of Directors (BOD), the Chief Risk Officer, and the Chief Credit Officer
- Discussion on approaches to be used in monitoring the performance of the E&S risk management framework and reporting

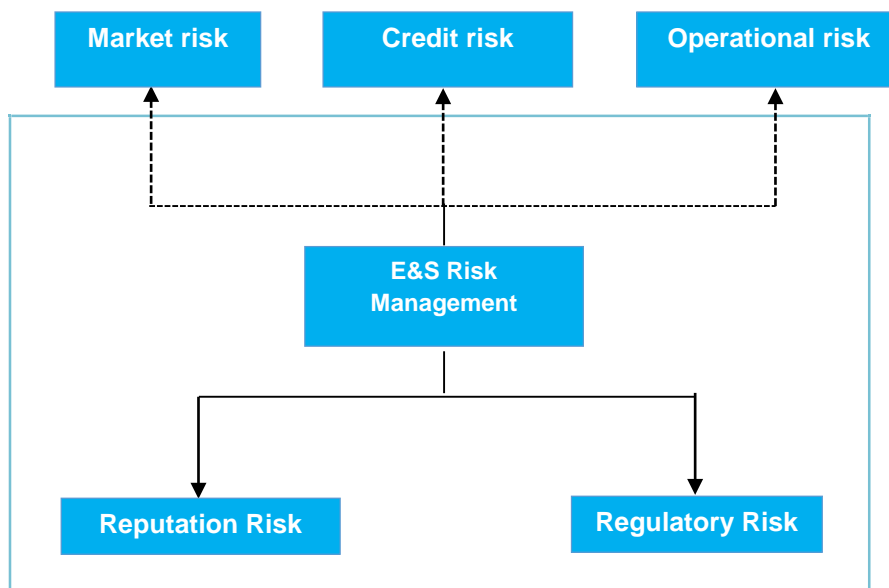
- Discussion on approaches to measuring the development of E&S risk with the loan portfolio

2.4 Fit with other Policies

This policy complements Union Bank's other risks policies as follows:

- Credit risk and Investment risk identified alongside E&S risk in the positions in the Banking book of Union Bank of Nigeria Plc. (UBN) shall also be addressed as required by the credit risk policy
- Market risk identified alongside E&S risk in the positions in the Banking book of Union Bank of Nigeria Plc. (UBN) shall also be addressed as required by market risk management policy
- Operational risk identified alongside E&S risk shall also be addressed as required by the operational risk management policy

Figure 1: Scope and out of scope



Risks shaded in blue are explicitly part of the E&S Risk Policy, while the risks shaded in grey are also addressed in the scope of other policies.

2.5 Review of E&S Risk Policy

The Chief Credit Officer (CCO) shall formally review the policy for its completeness, adequacy, and alignment to business imperatives (current and future) at least once every 3 years. All amendments, additions or deletions of policies shall be properly documented and authorized/approved by the Board prior to implementation.

2.6 Revision Procedures

Upon updating the policy, the following activities and revisions should take place:

- The date should be updated with month and year on the cover page, version control page and header of the document
- The version number should be updated on the cover page, version control page and the header of the document. The version number increases by one with every update
- The revision details are highlighted in the version control table found in section 1.3 of the document
- The file name shall be updated in accordance to the latest date and version number
- The non-editable soft copy of the policy is maintained for internal distribution. The custody of the signed hardcopy document shall be held by Chief Risk Officer's (CRO's) office

2.7 Audit

The Chief Credit Officer (CCO) shall review the policy implementation on an annual basis and the Bank's internal audit function shall review compliance of the policy. In the event where non-compliance is identified, the Internal Auditor shall review the reasons for such non-compliance and report them to the Board Audit Committee (BAC).

2.8 Policy of Non-Compliance

It is the responsibility of the Internal Audit department to report an incident of non-compliance with respect to this policy document. Incidents of non-compliance can alternatively be reported by any other department/ unit personnel who become aware of the non-compliance.

Such non-compliance shall be reported to the concerned employee's immediate supervisor who in turn may report the matter to The Chief Credit Officer. In addition, Operational Risk Management shall be informed to assess the risk arising out of such non-compliance.

Bank employees who fail to comply with this policy shall be subjected to disciplinary action in line with the staff's code of conduct. The precise action to be taken may however depend upon the gravity of the non-compliance and could range from issuance of warning letters to recommendation for termination based on the Bank's approved code of conduct.

2.9 Regulatory Compliance

The policy is prepared taking into consideration regulations set in the Federal Republic of Nigeria (FRN), including Central Bank of Nigeria (CBN) instructions. Compliance with CBN and other local regulatory requirements, in both letter and spirit, is mandatory.

The Bank shall undertake necessary initiatives to ensure compliance with CBN instructions pertaining to risk management, such as Basel II implementation, and adherence to set timelines. This includes implementation of the Nigerian Sustainable Banking Principles and relevant guidelines and circulars issued by CBN.

The policy recognises international best practice in managing E&S risks. It also establishes an intention to apply international standards, including the International Finance Corporation's Performance Standards.

In the event that a conflict exists between this manual and regulatory pronouncements, the latter, should take precedence. Necessary amendments shall be incorporated to ensure compliance.

3 Guiding Principles

3.1 Introduction to E&S Risk Management

E&S Risk Management can be defined as a mechanism to address the risk exposure faced by a Bank arising from mismatches between the E&S impacts confronted by the Bank's clients in the course of their business activities, and the ability of these same clients to avoid, minimise or otherwise manage these impacts.

3.2 E&S Risk Management Organization

This E&S Risk Policy is approved by the BOD.

The Chief Risk Officer will be the designated "E&S Risk Manager" (as required by shareholders) and the senior officer with managerial responsibility for:

- (i) development, implementation, operation and maintenance of the ESMS;
- (ii) oversight of the implementation and operation of ESMS
- (iii) maintenance and amendments
- (iv) reporting to BOD on the performance of the ESMS
- (v) reporting to CBN and shareholders on ESMS indicators developing the E&S Risk Policy, and the procedures, guidelines, and tools that support its implementation;

The Chief Credit Officer (CCO) will be responsible for:

Implementation of E&S Risk Policy:

- (i) Ensure Risk Appetite/E&S Risk Policy in line with bank activities
- (ii) Establish risk guidelines for specific sectors
- (iii) Ensure compliance with CBN requirements
- (iv) Manage data generation for reporting to CBN/shareholders

E&S Risk Analytics:

- (i) Establish industry best practices and checklists to support identification and management of E&S risks
- (ii) Establish methods and processes for capturing data on E&S risk exposure and measuring outcomes

The Bank will provide resources to support the implementation of the E&S Risk Policy on a "day-to-day" basis, including supporting business and risk processes. This role

will fulfil the requirements of the “E&S Co-ordinator” (as required by shareholders) with the responsibility of:

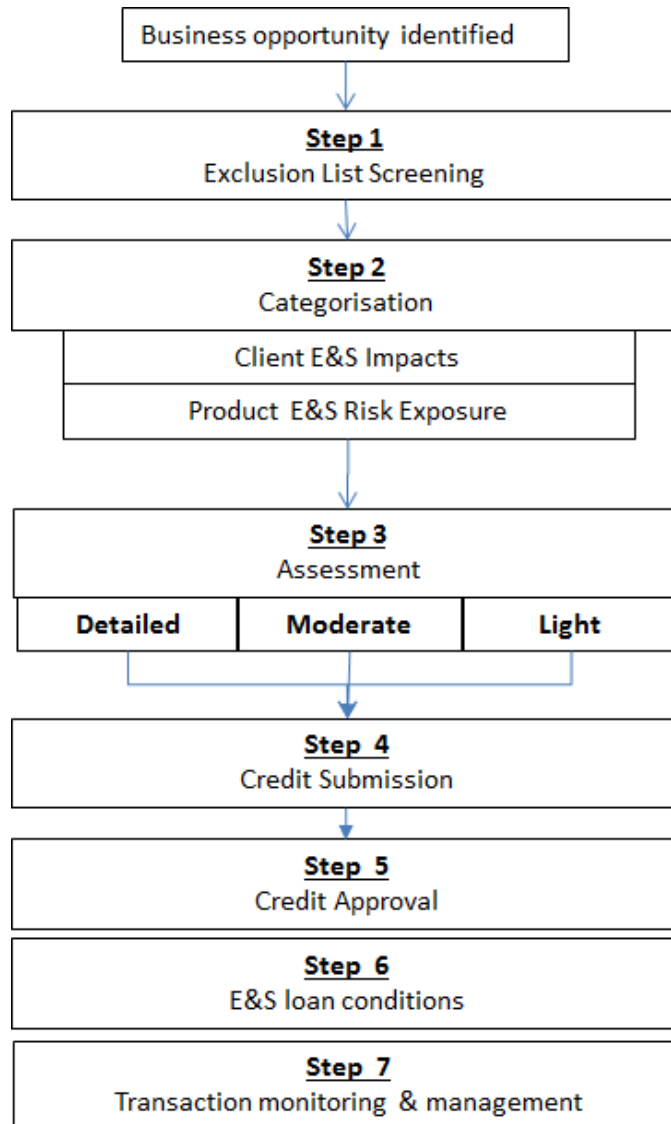
Acting as E&S Subject Matter Expert:

- (i) Ensure E&S factors are incorporated into all aspects of client and transaction development
- (ii) Assist assessment of higher risk clients and transactions
- (iii) Provide advice to approval authorities on higher risk clients
- (iv) Support the Bank’s commercial teams in engagement on E&S issues with individual clients
- (v) Support industry wide initiatives relevant to UBN’s business, clients or prospective clients
- (vi) Generate reports for shareholders and financing partners.

3.3 E&S Risk Management Process / ESMS

The E&S Risk Process (also known as ESMS) involves seven steps.

Figure 2: E&S Risk Process



The risk process is the same in essence for both Corporate Banking, Commercial Banking and SME activities, although categorisation and assessment may be supported by different tools.

3.4 Risk Philosophy

The main guiding principles for setting up the Credit Risk Policy in the Bank are the Basel II and CBN issued guidelines.

- BCBS: International Convergence of Capital Measurement and Capital Standards
- CBN: Prudential Guidelines for Deposit Money Banks in Nigeria
- CBN: New Regulatory Framework for Prudential Supervision of Nigerian Banking System

The importance of the credit risk management policy has been highlighted in the draft guidelines issued by the CBN in Nov 2012¹ as “*Banks would establish formal risk management policies, periodically reviewing such policies in order to ensure their continuing effectiveness and monitoring of the actual operation of risk management and control processes*”.

3.5 E&S Risk Management Philosophy

The E&S Risk Management philosophy shall set out the broad goals and objectives of the Bank’s approach. The E&S Risk Management philosophy shall always address the following principles:

“Do no harm”: E&S impacts refer to any change, potential or actual, resulting from business activities to (i) the physical, natural, or cultural environment; and (ii) workers and surrounding communities. Central to Union Bank’s E&S approach is the intent to “do no harm” to people and the environment, and where possible to contribute to enhancing the sustainability of clients and their activities. In pursuit of this goal, the Bank aims to avoid knowingly contributing to adverse E&S impacts through the activities of its clients.

Complying with laws and regulations: These include Nigerian E&S laws and regulations, industry standards, international treaties, and internationally-accepted standards and agreements relevant to the company’s activities.

Respecting human rights: The Bank recognises the responsibility to respect human rights independently of the state’s duties to respect, protect, and fulfil human rights and to avoid complicity in the abuse or violation of internationally-proclaimed human rights standards: This includes recognizing the responsibility of clients to respect human rights, to act with due diligence, to avoid infringing these rights and to address adverse impacts to the extent to which they bear responsibility for them.

Standards and Guidelines: The Bank’s E&S risk policy is guided by Nigerian environmental and social law. This includes the Constitution of The Federal Republic of Nigeria (1999) which recognizes the importance of improving and protecting the environment, and makes it an objective of the Nigerian State to improve and protect the air, land, water, forest and wildlife of Nigeria. It also establishes implicitly that international treaties (including environmental treaties) ratified by the National Assembly should be implemented as law in Nigeria.

It also includes guidance from the Ministry of Environment under the National Environment Standards and Regulation Enforcement Agency (NESREA) Act of 2007 which is the embodiment of laws and regulations focused on the

¹ New Regulatory Framework for Prudential Supervision of Nigerian Banking System, Title I, Part 4

protection and sustainable development of the environment and its natural resources.

This Policy is also guided by Nigeria's commitments to international agreements and treaties relating to E&S impacts.

Application of the policy will be further guided by good international industry practice. This is a judgement defined as the exercise of professional skill, diligence, prudence, and foresight that would reasonably be expected from skilled and experienced professionals engaged in the same type of undertaking under the same or similar circumstances globally or regionally. International frameworks relevant to sustainable finance include UN Global Compact ("UNGC"), UN Environment Program Finance Initiative ("UNEPFI"), Equator Principles ("EP") and the IFC Performance Standards.

Responsibility: While managing E&S impacts in a manner consistent with Nigerian law and international standards is ultimately the responsibility of the client, Union Bank seeks to ensure that the business activities that it finances are implemented in accordance with these standards. As a result, the outcomes of Union Bank's E&S assessment are an important factor in its approval process and will determine the scope of any E&S conditions of Union Bank's financing.

Understanding the scale of E&S impacts and level of E&S risk exposure: For clients of Union Bank, E&S impacts are a combination of the probability of certain hazard occurrences and the severity of impacts resulting from the occurrence. The key considerations in the Bank's E&S risk exposure arise from it providing loans, products and services to its clients and comprise:

- the type of transaction
- the activities of the client
- the location of the client's activities with respect to pristine environments, protected areas and international borders
- the client's ability/commitment to manage its E&S impacts and risks

Commensurate approach: The Bank's E&S risk management approach will be commensurate with the nature and scale of the client's activities, and the nature of the client's E&S impacts. With respect to any particular activity, the level of Union Bank's engagement will be determined by the nature and scope of the proposed product or service, and the specific circumstances of the collaboration and relationship with the client. Different procedures will be developed to reflect the different levels of E&S risks - in essence, the higher the level of E&S risk, the greater the level of attention and management required from the bank.

Responses expected of clients: This policy allows for a range of responses by clients to managing their E&S impacts. These stated in order of preference are:

- *Avoidance of impact:* In the first instance, the bank will seek to understand how the client has avoided the E&S impacts. The Bank will look more favourably on clients that manage their activities in ways that seek to avoid E&S impacts.
- *Minimisation of impacts:* If E&S impacts cannot be avoided, the bank will seek to understand how clients have acted to minimize them. This is carried out as part of the E&S assessment aimed at identifying the individual E&S impacts and determining the extent to which these are minimized and appropriately managed by the client.
- *Compensating for impacts:* If E&S risks are avoided and minimized, and residual impacts still exist then the bank will allow clients to offset these through purchase of assets, tradable permits or philanthropic activities. Any such offsetting will be accompanied by a clear demonstration that the value of the offset is equivalent or better than the scale of the specific E&S impact or risk, and that (as far as possible) the beneficiaries of the offset are the same as those affected by the particular E&S impact or risk.

The client's management of E&S impacts as a condition for extending products & services: The Bank will only provide products & services to activities that meet the required standards, or which are expected to meet the requirements within a reasonable period of time. Persistent delays by the client in meeting these requirements will lead to the withdrawal of financial support and access to the products & services of Union Bank. Similarly, if the client fails to comply with E&S commitments as expressed in the legal agreements and associated documents, Union Bank will work with the client to bring it back into compliance. If the client fails to re-establish compliance, the Bank will exercise its rights and remedies as appropriate.

Systematic and consistent decision-making: The Bank will incorporate E&S risks in its decision-making in ways that are systematic, predictable, informed, and equitable. It is important to the bank that E&S risks are addressed in a rational and consistent way, informed by the specific issues in each case and guided by any relevant prior experience of the bank. The bank recognises that it has a duty to its clients to apply standards and make decisions on a consistent basis.

Ongoing implementation: Evolution of E&S impacts continues beyond the initial engagement and approval of a transaction and the bank will monitor the development of E&S risks through its client relationships, credit approval procedures, transaction monitoring, and the issuing of financing agreements.

Management of client relationships: Under this policy E&S risk management is seen as a part of the on-going relationship between the bank and its client. Union Bank wishes to collaborate with clients who identify and manage E&S impacts and who pursue sustainability related opportunities and outcomes in their business activities. In cases where material E&S risks are identified Union Bank will, to the best of its ability, assist clients in identifying measures to avoid, minimize or mitigate these specific impacts and in improving their overall ability to manage their E&S issues. During the life of a client relationship, and as a minimum, the Bank will need to be informed of material changes in the business of any client or when they enter into a new business area that is materially different to that last represented to Union Bank for approval. In such circumstances, Union Bank will assess the E&S risks of the new business area and may require the client to adjust its E&S management in a manner consistent with this policy.

3.6 E&S Risk Management Strategy

Policy constraints on the nature and scale of E&S risk have to be established so as to minimise risk exposure and maximise the potential for growth with client with manageable E&S risk. This is informed by the following:

Strategy 1: Exclusion List The bank has established an exclusion list that provides guidance on client characteristics, behaviours and activities that it would prefer not to be associated with. Union Bank will take due care inform itself on whether any client is excluded under the terms of this list, and the bank will not knowingly provide financial services to projects and activities that are featured on the exclusion list.

Strategy 2: Avoiding unnecessary E&S risks In situations where the client has high or medium levels of E&S impacts and (i) is unable to demonstrate its capability to manage these risks; or (ii) is unable to show sufficient commitment to clear and time-bound actions, the Bank shall not proceed with this transaction.

Strategy 3: Conditional approval of clients with potential to demonstrate their ability to manage their E&S impacts In situations where the client is not currently able to demonstrate it can manage its E&S impacts, but is able to meet undertake clear and time-bound actions that would enable it to do so, the bank may agree an E&S Action Plan (ESAP) which will be a condition of lending. In this case, one solution is to agree an Environmental & Social Action Plan (ESAP) with the client, which represents a set of actions aimed at closing the gap within a fixed and reasonable length of time.

Strategy 4: Growing with clients who are able to manage their E&S impacts. The bank will favour clients who are able to demonstrate the capability and commitment to manage their own E&S impacts. Demonstrating the ability to manage E&S impacts involves:

- The client being able to identify its own E&S impacts;
- The client having set up appropriate procedures and management systems to manage its E&S impacts;
- The client being able to show that it has the organisational capacity and competency to implement its procedures and management systems.

Table 4: E&S Risk Management Strategies

Alternative E&S Risk Management Strategies	
Strategy 1	Avoid clients/transactions on the E&S Exclusion List
Strategy 2	Avoid clients/transactions where client is unable to demonstrate capability to manage its E&S impacts, or commitment to time bound action plan aimed at so doing
Strategy 3	Agree action plans with clients unable to demonstrate capability to manage its E&S impacts but is able to commit to a time bound action plan aimed at so doing
Strategy 4	Favour approval of transactions and business development with clients who are able to demonstrate their ability to manage their E&S impacts

3.7 CBN Guidelines on E&S Risk Management

Nigerian Sustainable Banking (NSBP) Principle 1 commits banks to “integrate environmental and social considerations into decision-making processes relating to Business Activities to avoid, minimise or offset negative impacts.” CBN’s circular on the NSBP contains the following guidelines on implementation:

- **Development of appropriate E&S policies:** This should include specific E&S policy application to different financial products and services. If a Bank provides finance to sectors and geographies that are deemed more sensitive, additional sector or location specific E&S policies may need to be developed. Policy approaches should be appropriate for financial products & services the Bank provides and give attention to its priority sectors. At a minimum, Banks’ E&S policies must commit to strictly review and potentially decline clients or engagements that do not comply with local E&S laws and regulations.
- **Development of appropriate E&S procedures:** A Bank should develop appropriate E&S management procedures as a formal part of its client engagement and approval process to implement its E&S policies.

- **Screening for potential E&S risks:** This should include identification of potential E&S risks which require further due diligence or risk management or exclusion of activities that the Bank will not finance.
- **Categorisation of potential E&S risks:** A Bank should have in place a system to consistently categorise the potential E&S risks associated with its engagements and clients.
- **Articulation of E&S governance/approval authority measures:** Effective implementation of a Bank's E&S policies and procedures requires a defined governance structure with clearly articulated roles and responsibilities, structure and staff to implement E&S policy commitments.
- **Monitoring E&S risks and reviewing E&S conditions:** It is important to monitor the client's on-going E&S performance to ensure that its E&S risks are being properly managed over time. Where conditions are not met, the issue should be escalated to the appropriate authority for consideration.
- **Provision of client engagement guidance on E&S issues:** Training should be provided to the Bank's client relationship managers and risk staff on how to engage clients on E&S issues.
- **E&S reporting criteria:** A Bank will need to report on its E&S risk assessment processes including but not limited to: total number of clients and engagements assessed for E&S risks, by risk category, sector and financial product type.
- **Support for investment in sustainable, innovative business opportunities:** In addition to E&S risk management, Banks should develop processes to identify and invest in business opportunities, clients or sectors that promote the use of advanced E&S risk management practices, new technologies, low carbon activities, entrepreneurial SMEs, in line with extant banking laws and which aim to achieve a positive impact.

4 Governance Structure – Roles and Responsibilities

4.1 E&S Risk Structure (*Figure 3*)

Role	Comment
(i) Chief Risk Officer	<p>Objective: Senior officer having managerial responsibilities (among other things) for ensuring proper development, implementation, operation and maintenance of the ESMS</p>
	<p>Roles:</p> <ul style="list-style-type: none"> (i) Designated “E&S Manager” as required by shareholders (ii) Oversight of the implementation and operation ESMS (iii) Responsible for maintenance and amendments (iv) Reporting to CBN and shareholders on ESMS indicators
(ii) The Chief Credit Officer	<p>Objective: To support development and maintenance of E&S policy, to provide support as a subject matter expert for the Bank, and to develop E&S analytics</p>
	<p>Roles:</p> <p>(i) E&S Policy:</p> <ul style="list-style-type: none"> • Ensure Risk Appetite/ E&S Policy in line with bank activities • Establish risk guidelines for specific sectors • Ensure compliance with CBN requirements • Manage data generation for reporting to CBN/shareholders <p>(ii) E&S Subject Matter Expert:</p> <ul style="list-style-type: none"> • Ensure E&S factors are incorporated into all aspects of client and transaction development • Assist assessment of higher risk clients and transactions • Provide advice to approval authorities on higher risk clients • Support the Bank’s commercial teams in engagement on E&S issues with individual clients • Support industry wide initiatives relevant to UBN’s business, clients or prospective clients <p>(iii) E&S Analytics</p> <ul style="list-style-type: none"> • Establish industry best practices and checklists to support identification and management of E&S risks • Establish methods and processes for capturing data on E&S risk exposure and measuring outcomes
(iii) Business Teams (Corporate/Commercial)	<p>Objective: To implement the ESMS alongside business activities and undertake any necessary engagement with clients, possibly involving champions in each team</p>
	<p>Roles:</p> <ul style="list-style-type: none"> (i) Responsible for day-to-day implementation of the ESMS (ii) Engagement with clients on ESMS issues (iii) First line identification of E&S risks in clients & transactions (iv) Categorisation of E&S risks, undertaking necessary risk assessments, and developing E&S action plans (as needed) (v) Internal reporting and escalation of material E&S risks
(iv) Credit Analysis Unit	<p>Objective: To appraise the E&S risk aspects of clients and transactions alongside other risk factors and undertake any necessary engagement with business teams</p>
	<p>Roles:</p> <ul style="list-style-type: none"> (i) Undertake E&S risk appraisal (ii) Review E&S assessment processes and findings (iii) Provide advice on scale of E&S risks and extent of mitigation (vi) Monitoring of E&S aspects of approved credits
(v) Approval Authorities	<p>Objective: Decision-making on E&S impacts and risks in credits submitted for approval</p>
	<p>Roles:</p> <ul style="list-style-type: none"> (i) Consider E&S impacts and risks alongside other risk factors (ii) Provide formal approval of E&S risks, mitigation and action plans

4.2 Roles and Responsibilities

This section of the framework summarises roles and responsibilities of the BOD and participants in the ESMS.

(i) Policy Functions

■ The Board of Directors (BOD)

The Board shall perform the following roles with respect to E&S Risk:

- ▶ Approve and periodically review the risk management framework for E&S Risk Management;

■ Chief Risk Officer (CRO)

The Chief Risk Officer performs the following roles in E&S Risk:

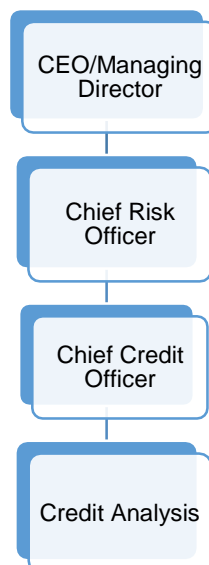
- ▶ Oversight of the implementation and operation of the ESMS;
- ▶ Reporting to BOD, CBN and shareholders on ESMS indicators.

■ Chief Credit Officer (CCO)

The Chief Credit Officer (CCO) will be responsible for:

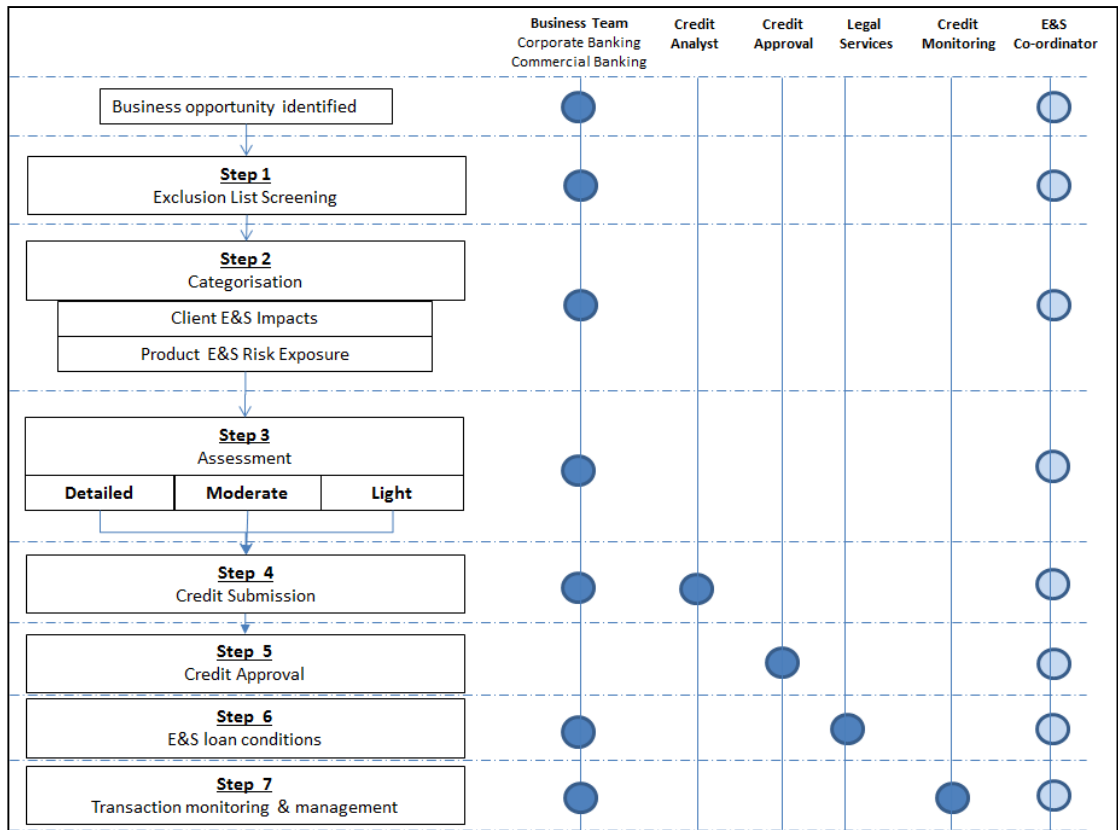
- ▶ Implementing the E&S Risk Policy;
- ▶ Monitoring and controlling the Bank's exposure to E&S risk.

Figure 4: E&S Risk Hierarchy



(ii) Implementation Functions

Figure 5: Roles in Implementing E&S Risk Management



■ **Business Units**

- ▶ Carrying out of initial screening on the clients
- ▶ Categorising clients and transactions
- ▶ Undertaking E&S assessment
- ▶ Alerting, reporting and escalating any material E&S risks as they occur

■ **Credit Analysts**

- ▶ Provides day-to-day operational support on E&S matters to business teams and risk management
- ▶
- ▶ E&S appraisal in the course of credit appraisal of clients and transactions

- ▶ Recommending on E&S risks, client assessments and E&S action plans

■ **Credit Approval Authorities**

- ▶ Consideration of E&S characteristics in the course of approving clients and transactions
- ▶ Recommending on E&S risks, client assessments and ESAPs

■ **Monitoring**

- ▶ Undertaking regular review of clients & transactions
- ▶ Reviewing changes in E&S categorisation,
- ▶ Checking for compliance with E&S covenants

4.3 E&S Risk Strategy and Capital Planning

■ **Tools & Support**

In the first year after the launch of the ESMS, strategy will focus on developing the procedures, tools and training support to enable business teams and risk management to implement the system.

■ **Automation**

Automation in E&S risk management process will help with managing documents and the information to establish an overview of E&S risk exposure and test strategies

■ **Risk Analytics**

Risk analytic solutions in E&S risk will provide the Bank with an understanding of how E&S categorisation affects other risk measures and performance, as well on overall E&S risk exposure.

5 E&S Risk Policy

Union Bank of Nigeria Plc. shall adopt an effective E&S Risk Management Framework that complements the Bank's goals of maximising its shareholders' value and providing appropriate financing to its clients by reducing its exposure to the E&S impacts of its clients.

6 E&S Risk Process Flow

6.1 Risk Identification

This E&S Policy is implemented by way of an Environmental & Social Management System (ESMS) that is integrated into the business development and risk management & control procedures of the Bank. Within this system, Union Bank recognises that its clients operate under significantly different conditions. It will be reasonable and pragmatic in applying standards, giving due consideration to each client's specific circumstances and the market in which it operates.

Union Bank has established an ESMS which is implemented for all new client and transaction approvals consisting of:

1. Exclusion List Screening

Union Bank has established tools to enable the business team or individual responsible for the client relationship and/or product development to screen the client against the Union Bank Exclusion List. Where clients or transactions are identified as being on the Exclusion List the default position will be that further consideration of financing/investment in the project will be terminated in line with this E&S Policy.

2. Categorisation

Union Bank has established a process of categorisation which addressed the identification of the E&S risk exposure of the Bank as follows.

(a) Client Related Risks: The process comprises a series of questions that establish the level of E&S risk associated with each client or transaction:

- High E&S Impact: The guiding principle for High E&S impact is:
“the presence of a E&S impacts or risks that extend beyond the boundaries of the sites where the activities are taking place, with the potential for irreversible harmful consequences, or of an unprecedented nature or scale”.
- Medium E&S Impact: The guiding principle for Medium E&S impact is:
“the presence of potentially adverse E&S impacts and/or risks that are few in number, generally contained within the boundaries of the sites where the activities are taking place, and can be readily addressed through avoidance, minimisation or mitigation measures”.
- Low E&S Impact: The guiding principle for Low E&S impact is:
“absence, or minimal impact, of adverse E&S risks”.

(b) Product Related Risks: The process comprises establishing the level of E&S risk associated with the product or service offered by the Bank:

The categorisation stage also requires a determination of the E&S risk exposure of the transaction as follows:

- High to Medium E&S Risk Exposure
“Long-term corporate lending, project finance and advisory, investment banking (corporate advisory, structured lending, and capital, other debt and equity investments), structured commodity or trade finance with an ownership stake, private equity with majority ownership”
- Medium to Low E&S Risk Exposure
“Short term corporate lending, other forms of short term lending, private equity with a minority ownership”
- Low E&S Risk Exposure
“Short term financing, trade finance, leasing, research and advisory, retail banking”

3. E&S Assessment

The overall purpose of E&S assessment is to establish the scale and nature of E&S impacts and the reliance that Union Bank can place on its client to manage these impacts. The type, scale and location of the project are all factors in guiding the scope and level of effort devoted to the identification of the client’s E&S impacts.

3a. Determining the level of E&S assessment

Determining the level of E&S assessment is a function of:

- (a) The client’s E&S impacts;
- (b) The Bank’s E&S risk exposure of Union Bank related to the products & services offered.

This is addressed through the calculation of the E&S Risk Rating, This measures helps in determining the level of E&S assessment and is also used for monitoring and measurement purposes.

Table 5: E & S Risk Rating Matrix

The following table outlines the framework for determining the E&S Risk Rating:

E&S Risk Rating	High E&S Impact	Medium E&S Impact	Low E&S Impact
----------------------------	----------------------------	------------------------------	---------------------------

High E&S Exposure	9	6	3
Medium E&S Exposure	8	5	2
Low E&S Exposure	7	4	1



E&S Risk Rating	Level of Assessment
9	Detailed
8	Detailed
7	Moderate
6	Moderate
5	Moderate
4	Light
3	Light
2	Light
1	Light

Detailed E&S Assessment comprises:

- (i) Activity/Transaction Assessment: comprising the E&S impacts associated with a client's activities, and the specific actions being taken by the client to mitigate or improve its ability to manage these E&S impacts.
- (ii) Client Assessment: The client's track record of managing E&S impacts, and its commitment and capacity managing such E&S impacts in the future.

These clients require more detailed E&S assessment across a broader range of factors, and addressing the most acute factors, and may need external consultant support and more detailed actions.

Moderate E&S Assessment comprises:

- (i) Activity/Transaction Assessment: Comprising the E&S impacts associated with a client's activities, and the specific actions being taken by the client to mitigate or improve its ability to manage these E&S impacts.
- (ii) Client Assessment: The client's track record of managing E&S impacts, and its commitment and capacity managing such E&S impacts in the future.

These clients and transactions generally require E&S assessment based on one or two aspects of their E&S risk exposure, external consultant support is unlikely and E&S action plans are less detailed or extensive.

Light E&S Assessment comprises

- (i) a check on the ability of the client to manage general E&S risks.

3b. Identifying E&S Impacts

The process of identifying E&S risks impacts will consider all relevant E&S impacts of the client or the specific transaction or project. This may be based on an Environmental Impact Assessment, a focused Environmental & Social Assessment, or application of environmental siting, pollution standards, design criteria, construction standards or applicable E&S laws and regulations. It should also take into account the findings and conclusions of related and applicable plans, studies or assessments prepared by relevant government authorities or other parties that are directly related to the client or project and its area of influence.

E&S impact identification also includes determining the individuals and groups that may be directly and differentially or disproportionately affected by the client or the project because of their disadvantaged or vulnerable status. This may stem from an individual's or group's race, colour, sex, language, religion, political or other opinion, national or social origin, property, birth or other status.

Where the proposal is to provide lending to a company, the process of identifying E&S impacts will take into account the activities of the client, facilities owned or operated or managed by the client, the location of facilities and the areas affected by the clients operations and transportation of inputs and goods, and impacts from unplanned but predictable developments.

Where the proposal is to finance a specific project with identified physical elements, aspects and facilities that are likely to generate E&S impacts and risks these will be identified in the context of

- (i) the project's area of influence (comprising facilities owned or operated or managed as a component of the project, predictable developments, and indirect impacts on ecosystems and affected communities);
- (ii) third party actions where these are central to the completion of the project, commensurate with the client's control and influence over these third parties and with due regard to conflict of interest;
- (iii) primary supply chains, where the client can reasonably exercise control.

3c. Determining when E&S Impacts are adequately managed

The bank will favour clients who are able to demonstrate the capability and commitment to manage their own E&S risks. Demonstrating the ability to manage E&S impacts involves:

- The client being able to identify its own E&S impacts;
- The client having set up appropriate procedures and management systems to manage its E&S impacts;
- The client being able to show that it has the organisational capacity and competency to implement its procedures and management systems.

The preferred option is for clients to anticipate and avoid E&S impacts.

Where avoidance is not possible, the second best option is for clients to minimise E&S impacts through:

- Abatement: where action is taken to terminate, suppress or reduce the E&S impact;
- Rectifying: where action is taken to correct the E&S impact as it occurs;
- Repairing: where action is taken to reverse specific E&S impacts once they have occurred;
- Restoring: where action is taken to replace or reconstruct the environmental or social asset that has been affected by the E&S impact

Where minimising is not possible (for instance, where residual impacts remain), the last and third best option is to compensate for impacts to workers, affected communities and stakeholders in environmental assets.

3d. Sector Guidelines

Client activities in certain sectors result in higher E&S impacts, for instance because of the physical scale of the activity, the potential for impacting local communities, destruction of areas of high conservation value, or because a combination or accumulation of factors increases the overall E&S impact. Such sectors include oil & gas, mining, infrastructure, power, agriculture, and forestry. The Bank's business activities may be supported by the development of specific sector guidelines to assist in identifying E&S impacts and assessing the extent to which the client is able to manage them.

Under the Nigerian Sustainable Banking Principles, the Bank is required by CBN to develop sector specific E&S approaches for relevant business units consistent with the sector guidelines which form a part of the Nigerian Sustainable Banking Principles. These relate to the following sectors:

- Oil & Gas
- Power
- Agriculture

Where relevant, these and any other sector-specific E&S approaches that are developed will be used as an additional guide in conducting the E&S assessment.

3e. E&S Action Plans to address a shortfall in the client's E&S risk management

There is potential E&S risk exposure for Union Bank in any transaction where the client is not able to manage the underlying E&S impacts in their business. In situations where the client is not currently able to demonstrate it can manage its E&S impacts,

but is able to meet undertake clear and time-bound actions that would enable it to do so, the bank will agree an E&S Action Plan (ESAP) which will be a condition of lending. In this case, one solution is to agree an Environmental & Social Action Plan (ESAP) with the client, which represents a set of actions aimed at closing the gap within a fixed and reasonable length of time.

3f. Approach to third party management of E&S risks

At times, the client's ability to achieve E&S outcomes consistent with the principles and standards of this Policy will be dependent on third party actions. Such third parties may be a government agency in a regular capacity or acting as a contract party, a contractor, or a primary supplier with whom the client has a substantial involvement, or an operator of an associated facility. Union Bank will, as part of its assessment, determine the extent to which third party E&S impacts have been identified by the client, whether and under what conditions such risks are manageable. These may be the subject of an ESAP. Certain risks may require Union Bank to refrain from supporting the proposed client or business activity.

4. Credit Submission

Discussion of the E&S risks to the Bank will be included in the credit submission process and subject to review and comment by the relevant Credit Analyst. Credit submissions will include the overall categorisation of the client's E&S impacts and the bank's risk exposure through the products and services offered.

Credit appraisal will take the form of:

- (i) overview of the E&S categorisation;
- (ii) overview of the E&S risk exposure arising from the products & services offered;
- (iii) the extent to which the E&S assessment is consistent with client and product E&S risk;
- (iv) the outcomes of the E&S assessment;
- (v) any actions to be agreed with the client.

5. Credit Approval

The level at which approval are made on the basis of E&S risks is determined by the categorisation of the client's E&S impacts as follows:

- **High E&S Impacts:** The additional advice of the Credit Analyst should be obtained before the credit is submitted for approval. High E&S Impact clients/transactions will be approved by the Management Credit Committee being the highest level of approval within the credit approval chain.
- **Medium E&S Impacts:** The additional advice of the Credit Analyst is recommended before the credit is submitted for approval. Medium E&S Risk

clients/transactions will be approved at the level defined for the transaction in the Delegated Lending Authority. In the event disagreement between the E&S Officer, business team and/or credit analyst the approval will be escalated one level above that required by the Delegated Lending Authority.

- **Low E&S Impacts:** Approval is at the level as defined for the transaction in the Delegated Lending Authority.

The nature of the approval and the need for conditions is informed by the E&S assessment and the extent to which it can be demonstrated that the client is able to manage its E&S impacts.

The following framework provides guidance on decision-making.

Figure 6: E&S Decision Matrix

Client E&S Impacts Outcome of Assessment	High E&S Impacts	Medium E&S Impacts	Low E&S Impacts
Above Average Management of E&S Impacts	Approve Conditional on... Positive external opinion Covenants	Approve	Approve
Adequate Management of E&S Impacts	Approve Conditional on... Positive external opinion Covenants	Approve	Approve
Insufficient Management of E&S Impacts	Probable Decline unless... Positive external opinion Strong ESAP Strong Covenants	Approve Conditional on... Strong ESAP Strong Covenants	Approve Subject to... Compliance checks
Poor or Absent Management of E&S Impacts	Almost Certain Decline unless... Positive external E&S opinion Very Strong ESAP Very Strong Covenants	Probable Decline Very Strong ESAP Very Strong Covenants	Approve Subject to... Compliance checks

6. Loan Agreements and Covenants

All investment/borrowing agreements will contain appropriate E&S representations, warranties, and covenants requiring that projects are in compliance in all material respects with host country environmental, health, safety and social requirements embodied by state general laws and implementing agencies and conducted in accordance with any Applicable Requirements.

As determined by categorisation and E&S assessment, investment/borrowing agreements will contain representations, warranties and covenants that address the level of E&S risks, the commitment and capacity of the client to manage the E&S risk, and any required ESAP.

7. Transaction Monitoring & Management

Union Bank recognises that the nature of E&S risks can change during the life cycle of a transaction or a client relationship. In the period after approval, Union Bank undertakes the following activities:

- (a) **Approved transactions:** During project life-cycle, the Monitoring Unit will:
 - (i) Review the Categorisation of the transaction for material changes;
 - (ii) Review client's management of E&S risks as per the loan conditions;
 - (iii) Review compliance and performance against specific indicators;
 - (iv) Agree with the borrower and communicate, through feedback the key deficiencies identified and request for corrective action in specified time limits.

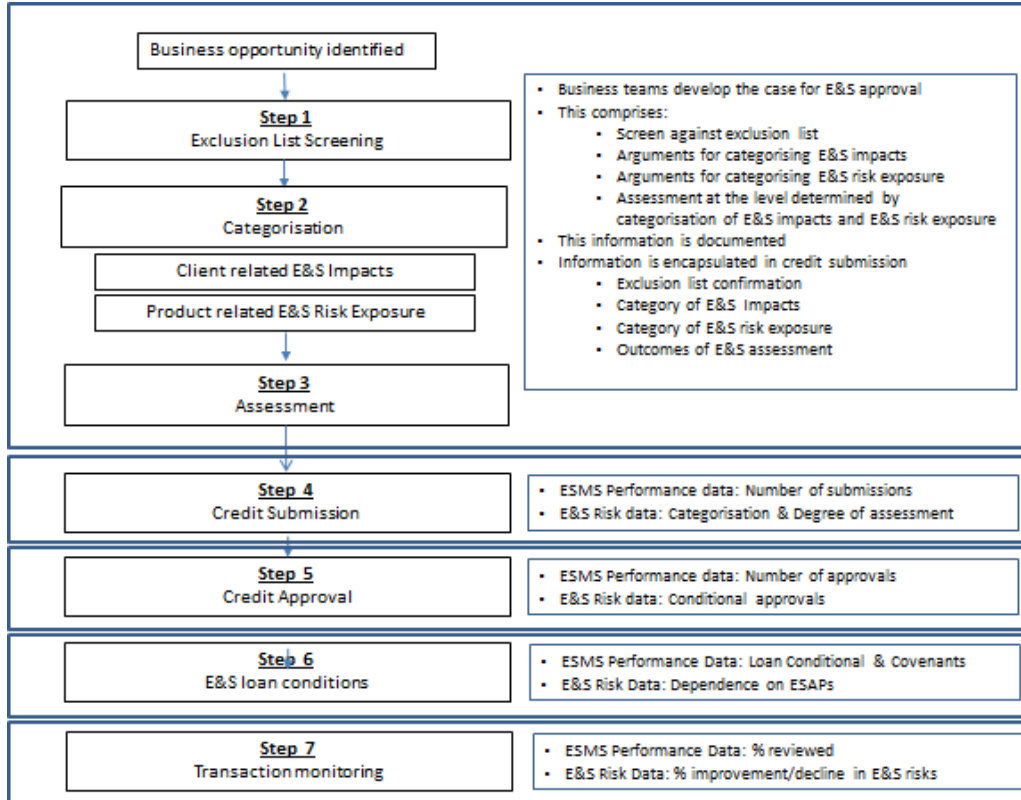
- (b) **Completed transactions:** At the end of the loan, and during the writing of a project completion report that consolidates among others lessons learned, provision should be made for reporting on the environmental and social issues that may have emerged and lessons learned for enhancing future appraisals.

- (c) **Legacy transactions:** The E&S Risk Policy is not intended to be implemented retroactively, and does not apply to legacy issues in continuing engagements to which the Bank has committed prior to the entry into force of the Policy. Nevertheless, where monitoring identifies the emergence of High E&S impacts Union Bank will seek to address these issues to the best of its ability.

6.2 E&S Risk Management Process flow

The general information flow in the ESMS can be diagrammed as follows:

Figure 7: E&S Risk Management Process Flow



6.3 Risk Measurement

Within the ESMS, risk measurement involves:

(i) Rating of E&S impact of individual clients

The E&S Risk Rating provides information on the scale of E&S impact associated with the client/transaction.

Using this data, risk measurement can be undertaken at the level of individual client, sector, and loan portfolio.

(ii) Rating of E&S risk exposure of individual transactions

The categorisation outcomes provide information on the scale of E&S risk exposure to the bank arising from its products & services.

(iii) Number and nature of assessments

The assessment process provides information on the number of individual transactions subject to detailed, moderate or light assessment which can be aggregated to portfolio level.

(iv) Number and extent of E&S Action Plans

The assessment process provides information on the number of individual clients which rely for approval of an E&S Action Plan.

6.4 Risk Monitoring

Risk Monitoring is aimed at evaluating adherence to the Bank's risk strategies, policies and procedures in achieving the overall goals of management of E&S risk.

Aspects of E&S policy brought under monitoring are as follows:

- Categorization of exposures into Banking book
- Risk identification process
- Risk Measurement
 - ▶ Client E&S impact
 - ▶ Product related E&S exposure
- Limits
 - ▶ Client E&S Impact Limits
 - ▶ Risk Exposure Limits

7 E&S Risk Information Systems

7.1 Introduction

The E&S Risk Process is required to generate two types of report:

- (i) Performance reporting for internal MIS, and for declaration to shareholders, CBN, and to inform any other external communications on the ESMS;
- (ii) Risk Trends information for monitoring and control of E&S risk exposure.

7.2 Data Requirements

(a) Performance Measures will include:

- number of transactions entering the ESMS
- the status of each transaction
- the outcomes of submissions and approval discussions

(b) Risk Trends Information will include:

- categorisation of E&S client impacts
- categorisation of E&S risk exposure from products & services
- number of detailed, moderate and light assessments
- number of E&S action plans submitted and approved

8 Risk Reporting

Risk reporting is essential to facilitate internal oversight of the implementation of the ESMS, to communicate information on the risk trends within the Bank, and to support reporting requirements to CBN, shareholders and its lending and supporting partners.

8.1 Structure of Risk Reports

Risk reports relating to E&S Risk Management will comprise:

■ E&S Risk Dashboard

The E&S Risk Dashboard will cover all proposals in the ESMS and will include:

- Total no. & value of transactions
- Total no. & value of transactions submitted for approval
- % of no. transactions submitted
- % of value transactions submitted

- No & value of Detailed Assessments
- No & value of Moderate Assessments
- No & value of Light Assessments
- No. approvals by risk rating
- No. conditional approvals by risk rating
- No. declined by risk rating

■ **E&S Risk Overview**

In addition to the information on the Dashboard, the E&S Risk Overview will include:

- No & value of submissions in Corporate Banking
- No. & value of submissions in Commercial Banking
- No. & value of submissions in Commercial Banking (by branch)
- Risk categorisation by financial product type
- Risk categorisation by industry sector
- Risk categorisation by branch location

■ **Shareholders & Development Finance Institutions E&S Risk Report**

■ **Annual Report**

■ **Total Assets, Net Income, Employees, Branches**

■ **Involvement with Development Financial Institutions on a financial basis**

■ **E&S Risk Management Systems:**

- ▶ Confirm E&S Risk Policy is complete
- ▶ E&S Manager: Name & Function
- ▶ E&S Co-Ordinator: Name & Function
- ▶ Number staff trained on E&S management in reporting period
- ▶ Number of staff trained on E&S management (cumulative)
- ▶ Changes in E&S management in reporting period

■ **E&S Risk Implementation**

- ▶ Any loans on the portfolio that are on the Exclusion List
- ▶ Number of clients rated category A (E&S Risk Rating 7-9)
- ▶ Number of clients rated category A (E&S Risk Rating 4-6)
- ▶ Number of clients rated category A (E&S Risk Rating 1-3)

- ▶ Projects & clients experiencing environmental and/or social issues and/or incidents; measures taken to manage issues and/or incidents

- **Portfolio information**

- ▶ Breakdown of portfolio by industry sector
- ▶ Loan assets longer than 12 months tenor OR larger than USD 1mln outstanding exposure
- ▶ Number of clients rated category A (E&S Risk Rating 7-9)
- ▶ Number of clients rated category A (E&S Risk Rating 4-6)
- ▶ Number of clients rated category A (E&S Risk Rating 1-3)

8.2 Coverage of Risk Reporting

Risk Reporting shall cover the tasks / functions performed in the following segments of E&S Risk Policy:

- Categorization of exposures into Banking book
- Risk Identification process
- Risk Measurement
- Validation Methods
- Exposure and Risk Limits
- Risk Monitoring and Control

Appendix 1: Union Bank's E&S Exclusion List

Union Bank will not finance any activity, production, use, distribution, business or trade involving:

1. Forced Labour: meaning all work or service, not voluntarily performed, that is extracted from an individual under threat of force or penalty as defined by ILO conventions.
2. Child Labour: where persons may only be employed if they are at least 14 years old, as defined in the ILO Fundamental Human Rights Conventions (Minimum Age Convention C138, Art. 2), unless local legislation specifies compulsory school attendance or the minimum age for working. In such cases the higher age shall apply.
3. Any product or activity deemed illegal under host country laws or regulations or international conventions and agreements, or subject to international phase-outs or bans, such as:
 - Ozone depleting substances, PCB's (Polychlorinated Biphenyls) and other specific, hazardous pharmaceuticals, pesticides/herbicides or chemicals;
 - Wildlife or products regulated under the Convention on International Trade in Endangered Species or Wild Fauna and Flora (CITES); or
 - Unsustainable fishing methods (e.g., blast fishing and drift net fishing in the marine environment using nets in excess of 2.5 km in length).
4. Cross-border trade in waste and waste products, unless compliant with the Basel Convention and the underlying regulations.
5. Destruction of High Conservation Value areas: Where destruction means the (1) elimination or severe diminution of the integrity of an area caused by a major, long-term change in land or water use or (2) modification of a habitat in such a way that the area's ability to maintain its role is lost.
6. Radioactive materials: This does not apply to the purchase of medical equipment, quality control (measurement) equipment or any other equipment where the radioactive source is understood to be trivial and/or adequately shielded
7. Unbonded asbestos fibres
8. Pornography or prostitution
9. Racist and anti-democratic media
10. In the event that any of the following products form a part of a company's primary operations:
 - Alcoholic beverages (except beer and wine);
 - Tobacco;

-
- Weapons and munitions;
 - Gambling, casinos and equivalent enterprises.