



***“ARMSWISSBANK” CJSC
INTERNAL LEGAL ACT***

Title of the Act: ***Nº 143, SOCIAL AND ENVIRONMENTAL RISK
MANAGEMENT GUIDE***

The receiving body; ***The Directorate***

Date and basis of Decision; ***20.11.2019 Decision No. 85-L***

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Performing Division (s); ***Lending Department***

Division(s) responsible for reviewing; ***Lending Department***

Circularity; ***Circular*** ***Limited*** ***Confidential***

1. GENERAL PROVISIONS

1.1. This Act establishes the procedure for environmental and social risk assessment of all commercial loan projects financed by ARMSWISSBANK CJSC (hereinafter "Bank"), as well as environmental and social expertise, taking into account the specific field, time and financial limitations related to the funded project, as well defines the Bank's commitments, roles and approaches to environmental and social sustainability.

1.2. This Act shall be applied by Bank employees involved in and assisting the Customer Lending Process.

1.3. The purpose of this Act is to guide the Bank's relevant employees and clients in identifying the relevant risks and their consequences, as well as providing guidance for managing and controlling those risks.

2. GENERAL DESCRIPTION

2.1 To reduce the risks of analysing the environmental and social issues, environmental, social and, as a consequence, financial risks, arisen during the crediting and investment activity conducted by the bank, the Bank shall make reasonable efforts to review the observance of the requirements of the environmental and social legislation by the Borrowers (in particular the RA Law on Environmental Impact Assessment and Expertise, hereinafter referred to as the Law, as well as other laws and sublegislative acts regulating the given sphere) (hereinafter referred to as "Environmental and social expertise").

2.2 "Social Issues" refer to the social protection risks associated with the potential impact of forced resettlement and potential impact of the loans programs, social developments (such as gender issues), as well as the Bank's and Borrowers' compliance with the internationally recognized key business standards.

2.3 The level of project environment and social risks shall be determined on basis of the following factors:

- the sphere and nature of the borrower's activities;
- the size of the loan;
- purpose of the loan;
- loan term;
- nature of the loan security
- Borrower's Management Standards

2.4 The factor that has the greatest impact on the level of environmental and social risks is the borrower's business, but in assessing the project risk, it is necessary to take into account the

impact of all the factors set out in Clause 2.3 by setting the appropriate (low, medium or high) risk level for them.

2.5 In assessing the environmental and social impacts of credit projects, particular attention is paid to the 8 principles set out by the International Finance Corporation (IFC):

- Principle 1 - Environmental and Social Risk and Impact Assessment and Management,
- Principle 2 - labor force and working conditions
- Principle 3 - Resource Efficiency and Dust Prevention
- Principle 4 - Community Health and Safety
- Principle 5 - Land acquisition and forced resettlement
- Principle 6 - Biodiversity conservation and sustainable management of animal and natural resources
- Principle 7 - Indigenous Peoples' Rights
- Principle 8 - Historical and Cultural Values

The above 8 principles formulate the standards that stakeholders should follow within the lending program.

2.6 The environment and social expertise under Chapter 4 of this Act shall be carried out for the credit projects, the activity of which is not included on the list of environmental exceptions. Financing of the projects included on the list of environmental and social exceptions shall be prohibited.

3. PROJECT CLASSIFICATION FROM THE POINT OF VIEW OF ENVIRONMENTAL AND SOCIAL RISKS

3.1 Depending on the scope and nature of the borrower's economic activity and the extent to which environmental and social issues arise during the course of the business, the loan projects are classified as follows:

- **Low-risk projects (Category C or other activity not requiring expertise under the law)**. They are associated with non-significant environmental and social problems or low environmental risks;
- **Medium Risk Projects (Category B)**. They are the projects of the areas where as a result of expertise the impact of the environmental and social risks can be easily identified and standard measures for their elimination can be offered;
- **High-risk projects (Category A)**. They relate to significant environmental and social issues that require more in-depth expertise.

The list of types of activities included in the abovementioned risk groups is set out in the RA Law "On Environmental Impact Assessment and Expertise" and the list of environmental and

social exceptions (the financing of which is prohibited) is set out in Appendix N. 1. Where the project is financed under international credit projects, the risk classification and the list of exceptions are checked also by the relevant lists, policies and/or other documents published by the financial institution concerned.

4. PROCEDURE FOR CONDUCTING ENVIRONMENTAL AND SOCIAL EXPERTISE

4.1 The procedure of conducting environment and social expertise shall cover the following stages:

4.1.1. Stage One. Assessment and in-depth project not requiring environmental and social expertise in terms of project risk.

- An employee evaluates a project by disclosing its affiliation to low, medium or high risk groups defined by law or the list published by the International Financial Organization. Project class and compliance with the Exception List must be documented. Detailed environmental and social expertise for projects shall be carried out in accordance with Clause 4.1.2.

- Further detailed environmental and social expertise is not required:

a) if the total cost of the project does not exceed 100 million AMD or the loan term does not exceed 12 months and it is classified as a low and medium risk project;

(b) in all cases of trade finance, including import and export financing, letters of credit, guarantees, factoring, etc.

- In the above cases, the results of the project evaluation are immediately summarized in the "Environmental and Social Risk Classification and Compliance Form" (Appendix 4). Projects that do not require detailed Environmental and Social Expertise, their compliance with the requirements of the RA legislation on environmental and social issues can be verified verbally without submitting substantiating documents.

4.1.2 Stage Two: Detailed environmental and social expertise

- Detailed environmental and social expertise is carried out for medium-risk projects (when the loan amount exceeds 100 million AMD or the loan term is over 12 months) and the following measures are taken for high-risk projects:

- Visit to customer's place of business,

- Inspection of compliance with the legislation and normative requirements;

- Safety assessment in terms of environment (in case of physical collateral)¹,

- Supplement to the Environmental and Social Risk Assessment Questionnaire (Appendix 2).

¹ In the event that a loan security is a real estate, then the specialist should determine whether 200 or more persons have rights (live, use or occupy) to the property. If 200 or more persons are subject to displacement as a result of the lending program, then such property cannot be accepted as collateral for the projects financed by International Projects.

- When carrying out an expert evaluation, the employee shall personally visit the borrower's place of business, as well as request documents that substantiate compliance with environmental and occupational health and safety requirements, as well as labour conditions and rights.
- Issues arising from inspections of medium and high risk projects are discussed with the customer's management, where appropriate, with the bodies regulating the environmental and social issues. The employee conducting an expert examination shall make sure that the customer's management understands the importance of environmental and social issues for their operations and understands what steps should be taken to control these issues. In the event that questions arise that require clarification that the customer or the Bank cannot answer, an environmental and/or social expert shall be involved.
- A detailed Environmental and Social Risk Assessment Questionnaire (Appendix 2) is used for in-depth expertise, which includes an environmental and social questionnaire to verify compliance with the RA legislation. The Environmental and Social Risk Assessment Questionnaire is attached to the loan application and is maintained in the customer's credit case.

4.1.3 Stage Three: Summarizing the results of environmental and social expertise to make a decision on lending.

- The results of the environmental and social expertise are summarized by the Bank employee in the Environmental and Social Risk Assessment Questionnaire (Appendix 2) and/or by an independent expert. The final assessment on the project risk is given conclusion of the questionnaire (according to Chapter 3), which is one of the factors influencing the loan decision.
- Financing of high or medium risk projects may be rejected or risk mitigation measures may be taken.
- After preliminary agreeing with the borrower the proposals for taking measures for restraining the Environmental and social risks, the employee shall provide the credit committee through the “Environmental and Social Risk Management Program” (Annex 3) (if necessary).
- Numerous measures may be taken by the employee directed at control over the risks identified, including inclusion of the terms of the environmental protection in the loan agreement.
- The acceptability of risks depends on the peculiarities of the specific activity. The degree of risk is considered acceptable if the environmental and social risks do not pose a significant threat to the viability of the organization, repayment of the loan or the value of the collateral, from the point of view of environmental and social risks they do not have a "high" risk class and as well as the direct liabilities and reputation of the Bank.

- The Credit Committee shall review the results of the expert examination of the project and, where available, the Environmental and Social Risk Management Programs (Appendix 3), on the basis of which the decision to grant a loan is adopted.
- The Credit Committee's decision can be:
 - Inclusion of the environmental, health, labour and environmental safety conditions in the loan agreement;
 - Modification of loan agreement terms (size, term, interest rate)
 - Refusal of loan application due to unacceptable level of environmental and social risks;
 - Due to the customer's disagreement with the environmental and social risk management program.

5. ENVIRONMENTAL AND SOCIAL CONTROL AND MONITORING

5.1 During the loan operation, the Bank shall regularly monitor the identified environmental and social risks. Monitoring is carried out both in accordance with the pre-approved "Environmental and Social Risk Management Program" and during the ongoing monitoring.

5.2. The Bank shall address the environmental and social risks in an emergency if:

- a special or emergency situation has arisen that threatens the environment or health and safety;
- there are reports by the state or local government bodies, as well as citizens or legal entities about the situation that threatens the environment or health and safety if this situation may affect the proper performance of the Borrowers' obligations to the Bank;
- there has been a change in the field or type of the customer's activity,
- there has been environmental changes and changes in the employee's health and safety legislation,
- expiration of the license for the implementation of the funded project has been identified;
- penalties have been charged from the customer by the body responsible for monitoring environmental and social issues, there has been prosecution, search in case of acquisition of information regarding any environmental and social accidents and other conditions affecting other environmental and social risks.

5.3 The Loan Agreement text shall contain the terms stipulating the Borrowers' obligation to notify the Bank of significant adverse environmental events which cause damage to the environment.

5.4 Monitoring shall be conducted through collecting the necessary supporting documents from the employee or, if necessary, visiting the borrower's place of business. The Bank may cooperate

with the competent state or local self-governing authorities, if comprehensive review of fulfilment of the environmental and social requirements by the borrowers is required.

5.5 During the Loan Operation, the Employee shall check the following information about the customer:

- permits (including expiration of activity licenses),
- conclusions of state bodies,
- insurance company reports,
- independent expert reports,
- publicly available information.

5.6 Adjustments are made based on the data found. If necessary, the employee shall develop an adjustment action plan to obtain appropriate customer's information and modifications to the Environmental and Social Risk Management Program. The employee may also take measures to raise the borrower's awareness.

5.7 During environmental monitoring, the following issues should be addressed:

- compliance with customer-approved financial and economic rules (fees, penalties, debts),
- Customer's compliance with the legal acts on environmental protection;
- Customer's compliance with the environmental protection as stipulated by the loan agreement;
- the tendencies for a normative basic change, which may result in the creation of claims that would make it impossible for the customer to comply with the terms of the contract, new risks for both parties shall be created;
- The impact of changing the processes used in the customer's activities on environmental requirements.

5.8. During social monitoring, the following issues should be addressed:

- change and/or reduction of staff structure;
- violation of occupational and public health and safety requirements,
- forced labour,
- availability of work for minors;
- involvement of migrant workforce under unfavourable working conditions;
- the existence of discrimination against employees;
- availability of trade unions and measures for protection of labour interests;
- availability of working standards, assessment and policy documents in the borrower's organization.

5.9 Based on the changes found in environmental and social monitoring, additional terms of the credit agreement may be incorporated through signing additional agreements.

6. OTHER PROVISIONS

6.1 The Bank Risk Management Unit shall be responsible for the implementation of the provisions of this Act, reporting on violations and issues arising, reviewing this Act, as well as reporting to management and / or International Funding Organizations.

6.2 The Bank's lending unit shall be responsible for identifying, classifying, conducting in-depth expertise of the environmental and social risks, drafting and overseeing the environmental and social risk management program in accordance with the provisions of this Act.

6.3. The Bank's Customer Service Unit shall be responsible for registration of projects per the risk level class in accordance with the provisions of this Act.

6.4. The subdivision responsible for the legal functions of the Bank shall be responsible for presentation, interpretation, regulation of legal issues, in particular, legal acts, arising when fulfilling the functions of the Bank's units, interaction with the state authorized bodies in accordance with the provisions stipulated by this Act.

APPENDIX TO SOCIAL AND ENVIRONMENT RISK MANAGEMENT GUIDE

1. List of environmental exceptions

The Bank shall not lend to borrowers engaged in the following activities:

- Production or activity that involves the child's forced² or dangerous labour³, is harmful or exploitative;
- Manufacture or trade of any product or activity that is considered illegal by the laws of the given country or international conventions and treaties;
- Manufacture or trade of weapons and ammunition,
- Manufacture or trade of cigarettes,
- Gambling, casinos and similar enterprises,
- Trade in wild animals and products made from them which is regulated by the provisions of the CITES Convention⁴;
- Manufacture or trade of radioactive materials⁵,
- Manufacture, use or trade of unbound asbestos fibers and asbestos-containing materials⁶
- Manufacture or trade of wood or other forest products of unregulated forest,
- Manufacture or trade of electrical equipment and devices containing polychlorinated biphenyls⁷,
- Manufacture, trade, storage or transportation of large quantities of hazardous chemicals or their extensive use for commercial purposes⁸;
- Manufacture or trade of internationally banned pharmaceuticals,

² Forced labor means any work or service performed on an involuntary basis, which is carried out by coercion or threat of punishment;

³ Hazardous work means the use of a child labor force that is economically exploitative, or likely to be hazardous, impedes a child's education, is harmful to the health of the child, or to physical, psychological, spiritual, moral or social development;

⁴ Convention on International Trade in the areas endangering Flora and Fauna

⁵ This does not apply to the acquisition of medical, quality control and other equipment that, according to IFC, have little and/or comparatively protected radioactivity;

⁶ This does not apply to the purchase and use of associated asbestos cement coatings with an asbestos content of less than 20%

⁷ Polychlorinated biphenyls are a group of highly toxic chemicals that have been most commonly found in petroleum electrical transformers, capacitors (condensers) and switchgear since 1950-1985.

⁸ Dangerous chemicals include gasoline, kerosene and other petroleum products.

- Manufacture or trade of items containing internationally banned pesticides and herbicides,
- Manufacture or trade of internationally banned ozone depleting substances⁹,
- Installation of nets for fishing and fishing with nets exceeding 2.5 km in length in the marine environment,
- A production or activity that displaces the natives from the lands they own or their ownership by judicial decision without their consent;
- Production or activity that causes “significant” forced displacement¹⁰.
- Manufacture, use or trade of chlorinated hydrocarbons, gallons and other materials regulated by the Montreal Protocol;
- International (cross-border) trade in waste or their materials,
- Sewage treatment plants, waste dumps,
- Tanks unloading oil without real certificates of International Maritime Organization,
- Production and sale of nuclear resources and their spare parts,
- Hazardous waste storage, recycling or disposal,
- Release of genetically modified organisms into the natural environment and trade in those organisms;
- Construction or significant expansion of large dams and reservoirs, canals and water stations;
- Cyanide processing of rock and debris for the extraction of precious metals;
- commercial timber harvesting (logging) mostly in tropical wet forests,
- Extraction and processing of coal, oil and natural gas,
- Creation and dissemination of anti-democratic and/or Nazi media;
- Activities that can cause damage to cultural and historical-cultural objects.

⁹ Ozone Depleting Substances (ODS) are chemicals that react with and deactivate stratospheric ozone causing ozone layer holes; The Montreal Protocol lists ODSs and the days of their targeted reductions and gradual redemptions; A list of chemical compounds controlled by the Montreal Protocol, including aerosols, refrigerants, foam blowing agents, solvents and fire protection tools, as well as details on the contract signatory countries and the target days of gradual redemption are available in the Environment and Social Development section;

¹⁰ The impact of a production or activity is considered to be “significant” if 200 or more persons are subject to physical displacement or lose more than 10 percent of their productive assets.

Environmental and Social Risk Assessment Questionnaire

(to be filled out when conducting an in-depth Environmental and Social Expertise)

| | |
|---|---|
| Name of organization | |
| Customer's activity type (For example, trade, manufacture, services etc) | (brief description on process of manufacture and/or activity) |
| Loan details (loan amount, repayment terms, currency) | |

| | Yes | No |
|---|-----|----|
| Visit (If made, specify date) | | |
| Checked by Exceptions List | | |
| Complies With The RA Legislation On Environmental and Social Issues | | |

| Questions for Environmental and Social Impact Assessment | Yes | No | Notes |
|--|-----|----|-------|
| A. Purpose of Funding | | | |
| ▪ Assisting in the development of existing business | | | |
| ▪ Investing new resources in business areas | | | |
| ▪ Upgrading or replenishing existing funds | | | |
| ▪ Acquisition of new space needed for business activities | | | |
| B. Location of the Project | | | |
| ▪ located in a sensitive area in terms of environmental protection or in the vicinity of the area | | | |
| ▪ may damage historical / cultural monuments and other sites | | | |
| ▪ may invade sensitive ecosystems (e.g., protected areas or terrestrial living habitats) | | | |
| ▪ Has the effect of soil degradation | | | |
| C. Potential impact of the project in terms of environmental and social risks | | | |
| ▪ Does the borrow follow the interests of the workers, especially those relating to national minorities, the prohibition of forced labor, and the practice of non-discrimination in the workplace? | | | |
| ▪ Does the borrower abide by the requirements prescribed by the Labor Relations Legislation? | | | |
| ▪ Does the organization limit the rights of employees to file complaints and protect working conditions in | | | |

| | | | |
|---|--|--|--|
| accordance with Legislation? | | | |
| <ul style="list-style-type: none"> ▪ Is there a work-related complaint or ongoing work-related lawsuit” | | | |
| <ul style="list-style-type: none"> ▪ The organization follows the requirements of the RA Labour Relations Legislation | | | |
| <ul style="list-style-type: none"> ▪ Are adequate conditions for the protection of health of employees ensured? | | | |
| <ul style="list-style-type: none"> ▪ Are safety standards maintained? | | | |
| <ul style="list-style-type: none"> ▪ Are fire safety rules maintained? | | | |
| <ul style="list-style-type: none"> ▪ Are all means provided to comply with hygiene rules and are they maintained by the borrower? | | | |
| <ul style="list-style-type: none"> ▪ Causes aesthetic degradation and impairment of ownership as a result of introduction of equipment | | | |
| <ul style="list-style-type: none"> ▪ Causes a change in the land use system or land use conflicts | | | |
| <ul style="list-style-type: none"> ▪ Is it possible to carry out resettlement or forced displacement as a result of the project? | | | |
| <ul style="list-style-type: none"> ▪ Contains short-term construction effects (noise and dust, erosion, sediment outflow) | | | |
| <ul style="list-style-type: none"> ▪ Causes flying dust during storage of raw materials intended for transportation, unloading, fuel and/or treatment and contaminated outflows a result of storage of fuel and/or materials | | | |
| <ul style="list-style-type: none"> ▪ causes air pollution as a result of emissions during the production process | | | |
| <ul style="list-style-type: none"> ▪ creates disturbing noise during operation due to proximity to settlements and receivers | | | |
| <ul style="list-style-type: none"> ▪ causes soil and water pollution from the production process, activities of utility establishments, sanitation sewerage, dirt and various emissions | | | |
| <ul style="list-style-type: none"> ▪ leads to generation of toxic, solid and harmful waste | | | |
| <ul style="list-style-type: none"> ▪ The production process poses a risk to public health and safety (due to garbage / sewage emissions, poor air quality, noise, etc.). | | | |
| <ul style="list-style-type: none"> ▪ Generates significant (100,000 tons or more) annual carbon dioxide emissions | | | |
| <ul style="list-style-type: none"> ▪ Has expressive gender discrimination | | | |
| <ul style="list-style-type: none"> ▪ Causes health risks and leads to work and lifestyle changes. In particular, it promotes the spread of HIV / AIDS | | | |
| D. Potential benefits of the Environment | | | |
| <ul style="list-style-type: none"> ▪ the program will contribute to a cleaner production process as a result of the use of new technologies or equipment | | | |
| <ul style="list-style-type: none"> ▪ During the production process, the project will | | | |

| | | | |
|--|--|--|--|
| improve water and energy efficiency | | | |
| E. Does the Borrower have health and occupational safety measures and regulations that are relevant to workplace activities and surrounding communities? | | | (if yes, please describe details) |
| F. Are there Environmental permits for such activities such as permits for wastewater discharge, chemical storage, water extraction, air discharge, etc.? | | | (if yes, describe and assure compliance) |

Conclusion (Environmental and Social Impact Assessment is justified)

| | |
|---|--|
| <p>Overall Environmental and Social Impact Assessment for the business</p> <p><input type="checkbox"/> high risk</p> <p><input type="checkbox"/> Average risk</p> <p><input type="checkbox"/> Low risk</p> <p>Is there a need to develop an environmental and social risk management plan?</p> <p><input type="checkbox"/> Yes</p> <p><input type="checkbox"/> No</p> | <p><i>Credit analyst</i></p> <p>Full name and signature _____</p> <p>_____</p> <p>Environmental and Social Risk Management Officer</p> <p>Full name and signature _____</p> <p>_____</p> <p>Date ____/____/____</p> |
|---|--|

ENVIRONMENTAL AND SOCIAL RISK MANAGEMENT PLAN

Name of organization _____

Loan amount _____ Period _____ Purpose _____

• Risk reduction plan

| Project design stage | | | | | |
|----------------------|---------------------------------------|-------------------------------|------------------------------------|--|-----------------------|
| Activity type | Required permissions (licenses, etc.) | Possible environmental impact | Proposed impact mitigation measure | Responsibility for the implementation of the impact mitigation measure | Implementation period |
| 1. | | | | | |
| 2. | | | | | |
| | | | | | |
| Implementation stage | | | | | |
| 1. | | | | | |
| 2. | | | | | |
| | | | | | |

• Monitoring plan

| Criterion to be monitored | Monitoring procedure (what should be assessed and how) | Monitoring deadlines (period and frequency) | A person in charge of monitoring |
|---------------------------|--|---|----------------------------------|
| 1. | | | |
| 2. | | | |
| | | | |

I, _____, being _____, _____, emphasizing the social responsibility of our organization in reducing environmental and social risks, commit myself on behalf of the organization to unconditionally monitor and apply the best possible efforts to implement measures stipulated by the stated environmental and social risk management plan, and, as far as possible, assisting the Bank's competent employees to monitor the process of fulfillment of relevant obligations of the above program. I understand and am aware that unreasonable refusal, improper performance,

increased environmental and social risks during the activity, and other such issues may be grounds for claiming a full early repayment of the loan(s) granted by the Bank.

Borrower

Full name and signature _____

Bank employee

Full name and signature _____

Position _____

Date _____

ENVIRONMENTAL AND SOCIAL RISK CLASSIFICATION AND CONFORMITY FORM

| | |
|--|--|
| Name of organization | |
| Customer's scope of activity (production, trade, service, etc.) | |
| Loan details (loan amount, currency, term, purpose) | |

| | |
|---|--|
| Visit (If made, state the date) | |
| Checked by Exceptions List | Yes <input type="checkbox"/> No <input type="checkbox"/> |
| Project impact on the environmental and social risks | Low <input type="checkbox"/> Average <input type="checkbox"/> High <input type="checkbox"/> |
| In conformity with the RA legislation on environmental and social issues | Fully conforms <input type="checkbox"/> Mainly conforms <input type="checkbox"/> Partially conforms <input type="checkbox"/> Does not conform at all <input type="checkbox"/> |
| Is there a need for a detailed environmental and social expertise, if so, has a detailed environmental and social expertise been carried out? | Yes <input type="checkbox"/> No <input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> |
| Has an environmental and social risk management program been developed? | Yes <input type="checkbox"/> No <input type="checkbox"/> |

Conclusion (Justification of Environmental and Social Impact Assessment)

The lending program provided in terms of environmental and social risks for the bank

ACCEPTED

NOT ACCEPTED

Credit analyst/manager

Person in charge of environmental and social risks _____

Date _____