ESG POLICY

Contenido

1. Introduction

1.1 Our philosophy and Believe

At BONAFIDE MICROBANK responsible finance is a key element of our overall philosophy and is one of our pillars on which we base our finance approach along with a need to promote inclusive growth in Equatorial Guinea. For this reason, environmental, social and governance (ESG) considerations are included at each step of our credit risk assessment.

We believe ESG integration leads to better informed investment decisions. The analysis of ESG factors is crucial to de-risking our loan portfolio. We are convinced that the consideration of ESG factors supports sustainable value creation for our customers and society.

1.2 Our principle

We are committed to:

- Incorporate Environmental, Social and Corporate Governance (ESG) issues into credit risk assessment and decision-making.
- Be an active owner and to incorporate ESG issues into our ownership policies and practices;
- Seek appropriate disclosure on ESG issues by the entities we finance;
- Promote acceptance and implementation of the Principles within the microfinance sector;

1.3 Our commitment to impact

BONAFIDE MICROBANK main objective is to promote financial inclusion thus contributing to economic and social development through an attractive offer of financial services specially to the incipient sector of SMEs in Equatorial Guinea. Furthermore, the integration of ESG factors enhances our loan portfolio' impact.
For each of the strategies offered by BONAFIDE MICROBANK, a section will be provided highlighting the positive social and environmental impact of the strategies relative to social objectives and environmental ones, which are tied to the UN Sustainable Development Goals ('UN SDGs'). In the report, we screen the individual companies in our loan portfolio and provide tangible illustrations on the solutions they provide towards specific goals. Full details on the social and environmental impact of the strategies can be made available to potential customers and investors upon request

1.4 Our ESG framework

ESG integration is embedded across the phases of our credit risk assessment process: Define, Select and Act.

Define

At the first stage of our credit risk assessment process, we 'Define' our theme, its associated boundaries and ultimately the applications to be considered for the strategy. We set boundaries around what can and can't be considered appropriate for the strategy in question.

On ethical and environmental grounds, ESG negative screening excludes coal, tobacco and controversial weapons. At theme-specific level, we exclude some theme-related activities too. For example, branded bottled water and water rights companies, and companies in the defense industry are excluded in specific products.

Select

At the second stage of our credit risk assessment process, we 'Select' loan applications that are suitable for finance. ESG positive screening is integrated at the stage and in the constant and ongoing monitoring. Our positive-screening policy is the framework we employ to perform ESG analysis. It aims to mitigate potential ESG risks should they materialize, and to maximize the value created through the ESG focus. The policy provides guidelines to analyze and score applications regarding the negative impact of their potential ESG risks and the positive impact of their ESG commitment.

1.5 Governance and the implementation of the policy

The ESG policy is implemented before and after credit risk assessment is performed, while new applications are updated on a constant and ongoing basis.

2. Define

2.1 Exclusions

Coal

Scope: All credit risk assessment performed by Bonafide Microbank

Context

Coal is the most carbon-intensive fuel and the largest source of electricity and the second largest source of primary energy worldwide. As a result, CO_2 emitted from coal combustion is responsible for over 0.3°C of the 1°C increase in global average annual surface temperatures above pre-industrial levels. This makes coal the largest single source of global temperature increase.

Credit risk assessment principle

BONAFIDE MICROBANK will not finance companies, which derive 25% or more of its revenue from coal-fired power plants or thermal coalmines.

Tobacco

Scope: All credit risk assessment performed by Bonafide Microbank

Context

Tobacco is one of the biggest public health threats the world has ever faced. It kills up to half of its users. Tobacco kills more than 8 million people each year. More than 7 million of those deaths are the result of direct tobacco use while around 1.2 million are the result of non-smokers being exposed to second-hand smoke.

Credit risk assessment principle

BONAFIDE MICROBANK will not finance companies, which derive 25% or more of its revenue from operations in the tobacco industry.

Controversial Weapons

Scope: All credit risk assessment performed by Bonafide Microbank

Context

Although there is no universally accepted definition of controversial weapons, certain weapons cause disproportionate and indiscriminate impact on civilians during and after the conflicts. Considering international agreements and conventions, we consider as controversial weapons:

- Anti-personnel mines: The Ottawa Treaty (1997) prohibits the use, stockpiling, production and transfer of anti-personnel mines;

- Cluster weapons: The Convention on Cluster Munitions (Oslo Convention, 2008) prohibits the use, stockpiling, production and transfer of cluster munitions;

- Nuclear weapons: The Treaty on the Non-Proliferation of Nuclear Weapons (1968) aims at limiting the proliferation of nuclear weapons to the group of so-called Nuclear-Weapons States (USA, Russia, the UK, France and China);

- Biological and chemical weapons: The Chemical Weapons Convention (1997) and the Biological Weapons Convention (1975) prohibit the use, stockpiling, production and transfer of biological and chemical weapons.

- Depleted uranium weapons: Are considered as “depleted uranium weapons”, munitions and armor containing uranium depleted in the isotope 235 below that occurring in nature or any other type of industrial uranium.

Credit risk assessment principle

BONAFIDE MICROBANK will not finance companies, which operate activities related to controversial weapons: research, production, use, storage, trade.

2.2 Controversial Activities

<u>Branded, Bottled water and Water rights</u>

Scope: All credit risk assessment performed by Bonafide Microbank

Context

Whilst we acknowledge bottled water can be an efficient alternative source of water, in particular in areas where water infrastructure cannot guarantee access to safe drinking water, the long-haul transport of branded plastic bottles is a waste of natural resources and a source of pollution of the environment. As such, we prefer not to finance companies which business model is centered on global brand awareness.

Water Rights companies - “In essence a water right is a legal right: to abstract or divert and use a specified quantity of water from a natural source; to impound or store a specified quantity of water in a natural source behind a dam or other hydraulic structure; or to use water in a natural source.” (Source FAO)

‘Water Rights’ investments are comprising two distinct types of business model.

- Firstly, companies that invest directly to acquire the ‘right’ to the water in a particular location. This gives investors access to water from "clean water" sources such as lakes, groundwater sources and rivers.

- Secondly, we consider ‘Farmland investing’ to be comparable; buying or leasing farmland can be a lucrative way of investing in water. Successful farmers know that access to water is a critical component in making a profit, most particularly in areas where water shortages are becoming increasingly commonplace. By investing in farmland with ample supply, investors can benefit from robust yields of produce and foodstuffs.

The reason for the exclusion of these activities from our credit portfolio is based upon the numerous and ongoing examples of political and headline controversies surrounding these activities.

Credit risk assessment principle

BONAFIDE MICROBANK will not finance companies which derive 5% or more from activities related to branded bottled water (research, production, use, storage, trade) or trade water rights.

Weapons manufacturers

Scope: All credit risk assessment performed by Bonafide Microbank

Context

In addition to the Controversial Weapons policy, the policy provides an assessment of whether companies derive revenue from the manufacturing of weapons or weapon components or from providing tailor-made products or services to the army or the defense industry. While a country's right of self-defence is a cornerstone of international law, enshrined in the UN Charter (Article 51) and numerous Security Council Resolutions, military contracting (also referred to as the armaments or defense industry) can be considered controversial for reasons of pacifism, asymmetric defense-related purchasing power between countries, negative effects on economic growth and development particularly in post-conflict areas as a result of defense spending, potential issues around transparency and corruption, and its potential for (re-)fuelling wars and conflicts.

Since the Safety and finance strategies in companies whose activities (products and services) could be used in the context described above, we have decided to employ a specific exclusion approach where appropriate.

Credit risk assessment principle

The policy examines the percentage of revenue derived by companies that manufacture weapons or weapon components and parts or from providing tailor-made products or services to the army or the defense industry. It does not include companies that provide dual use products and services or products of strict civilian use. The policy covers three categories:

- Weapons: The company manufactures military weapon systems and/or integral, tailor-made components or these weapons

- Weapon related products and/or services: The company provides tailor-made products and/or services that support military weapons

- Non-weapon related products and/or services: The company provides non-weapons related tailor-made products and/or services to the military or defense industry.

Definitions:

- Weapons: Weapons include handguns, guns, ammunitions, missiles, military aircrafts, tanks, warships, nuclear warheads, defense components and systems, training/combat simulators, parts and components (though not raw materials).

- Tailor-made products: Tailor-made products are not always obvious to identify. Tailor-made products include, for example, special fabrics for bulletproof vests, electronic systems for military aircrafts, etc. Certain providers of services to the weapons or defense industry are also included, such as those providing services for the maintenance of military aircrafts.

BONAFIDE MICROBANK will not finance in companies which derive 5% or more of their revenues from the activities described above.

3. Select

3.1 ESG Criteria

Whilst assessing credit applications, BONAFIDE portfolio managers will review eight categories of ESG criteria to assess the ESG risk of all credit granted.

BONAFIDE MICROBANK CRITERIA

ENVIRONMENTAL	SOCIAL	GOVERNANCE
1. Climate change resiliency	1. Staff and suppliers health and safety	1. Excecutive compensation
2. Effluents and waste management	2. Labor practicies	2. Quality of the Board
3. Environmental impact of products and services	3. Society and product responsibility	3. Shareholder rights
	4. Data privacy	4. Business Ethics

Environmental Criteria

- **Climate change resiliency**
  Is the company able to mitigate climate change impacts and to adapt to climate change? Does it conceive or promote climate change solutions for mitigation or adaptation?

- **Effluents and waste management**
  Do the company's operations have a negative impact on the environment? How is it monitored and limited?

- **Environmental impact of products and services**
  Does the core of the company's business model have a negative impact on the environment? Does the company conceive or sell unsustainable products or services? Does it incorporate in its product development programs environmental impact improvement?

Social Criteria

- **Staff and supplier's health and safety**
  Does the company track / record data regarding workers' health and safety throughout the value chain? Has it been involved in a controversy on this issue?

- **Labor practices (respect of Human rights)**
  Does the company promote a policy on labor practices that includes: treating workers with respect and dignity, promotion of diversity and gender equality including the participation of women, protection of workers against harassment and health and safety risks? Are labor risks, including hazardous working conditions, health and safety incidents, lack of collective bargaining and freedom of association covered? Does the company also address social issues such as modern slavery?

- **Society and product responsibility**
  Do the company's operations have a negative impact on the society? How is it monitored and limited? Is the company involved in any controversy regarding the social impact of its products and services? Is the company engaged in a dialogue with its stakeholders (government, NGO, communities) on these issues?

- **Data privacy**
  Does the company demonstrate an understanding of cyber security as a risk across the business? How is the company positioned to manage cyber risk? Are adequate disclosures in place regarding cyber risk governance? Is it adequately governed, and not left as the remit of the IT department?

Governance criteria

- **Executive compensation**
  Does the company favor long-term incentives? How does it monitor alignment of interest with shareholders?

- **Quality of Board**
  Is the company's board sufficiently large, and does it comprise an appropriate level of independence, experience and diversity? Do board members own shares in the company, and what are their time commitments to the company?

- **Shareholder rights**
  How does the company protect minority shareholders' rights?

- **Business ethics**
  Does the company operate through a decentralized model? If so, does it have material operations in geographies where business risks could be perceived to be higher due to government or other localized challenges? How does the company monitor the bribery risk?

3.2 ESG Risk mapping

Whilst we acknowledge all ESG criteria are relevant in an ever-complicated world, we think there are specific topics and criteria, which are more materials than others depending on the business models, the geographies or the industries. As such, BONAFIDE MICROBANK selects relevant criteria for businesses. Portfolio Managers base their selection on their expertise and knowledge of sectorial business models. They consider ESG criteria that account for material environmental, social and governance issues.

These priority criteria make up the framework for ESG risk mapping.

1. **Climate change strategy:**

   We consider that the large industrial manufacturing footprints of 'Industrials' businesses (in common with 'Technologies') companies comprise a higher level of risk in the event of the introduction of a hypothetical carbon tax, or if required to relocate capacity due to climatic events such as floods or droughts. Furthermore, we believe that this is an overarching concern for 'Regulated Utilities' and 'Concessions' companies whose primary activity relates to the security of supply and delivery infrastructure of Water whatever the potential future impact of climate change.

2. **Effluents and waste management:**

   A by-product of multiple industrial processes, as employed by 'Consumer', 'Industrial' and 'Agriculture', as well as 'Technology' companies is the production of potentially harmful effluents and waste which can represent a significant environmental and financial risk in the event of contraventions of local and or federal regulations. For 'Waste Management' companies, 'Regulated Utilities' and 'Concessions' businesses, where the handling and treatment of effluents and waste of various different types, represents the potential for physical, financial and reputational risks, we view this risk as particularly acute.

3. Environmental impact of products and services:

We believe that for 'Consumer' and 'Agriculture', as well as 'Waste Management' companies, there is a risk that either defective/degrading products or large carbon footprints of delivery fleets among other concerns could represent a risk. With the daily handling of waste of water, this risk is arguably more acute for 'Waste Management' companies, 'Regulated Utilities' and 'Concessions' companies.

4. Staff and supplier's health and safety:

Businesses with large manufacturing footprints where employees are surrounded by heavy machinery, or which have large amounts of heavy vehicle movements represent a clear risk to staff at those companies – notably 'Industrials', 'Distributors', 'Waste Management', 'Regulated Utilities' and 'Concessions' companies. Furthermore, increased workplace pressure and poor workplace conditions, particularly in selected emerging economies, and notably in some consumer electronics-related businesses, lead us to be cautious on selected 'Consumer' companies.

5. Labor practices:

We see a greater potential for labor practice controversies among companies where there is a higher turnover of comparatively 'low skilled' individuals in the workforce, such as in the 'Distributors', 'Waste Management', 'Regulated Utility' and 'Concessions' segments. We view this risk as being more prevalent in the Emerging Markets.

6. Society and product responsibility:

On the 'Consumer' side, we see the potential for a material risk arising should a product be defective. This is particularly pertinent with companies in the water sector, given the need for water to be clean and safe for human consumption.

7. Data privacy:

Companies' cyber security and data management have come under increased scrutiny. While no sector or segment is immune from 'attack', we view the risk of data privacy being compromised as more pronounced among 'Distributors' and 'Monitoring' companies in the Water business, due to 1) the numerous, repeating, highly transactional nature of distribution contracts involving the transfer of financial information between parties, and 2) due to the confidential, healthcare related nature of much of the business undertaken by companies involved in the 'Monitoring' segment.

8. **Board quality:**

   we view the developed markets as largely 'heading in the right direction' in terms of race and gender diversity, size, independence and experience as it relates to Board composition and quality.

9. **Business ethics:**

   For 'Industrials', 'Agriculture', 'Waste Management' and 'Technology' companies we see the risk of compromised business ethics due to the nature of competitively tendered contracts. Bribery in particular is an area of concern where a supplier of equipment to a large project is involved in such a tender. Furthermore, we view the 'Utilities' and 'Concessions' businesses that are seeking request for proposals for technology or equipment as being in a potential position to abuse their position.

<u>Company-Specific ESG Analysis</u>

Portfolio Managers at BONAFIDE MICROBANK perform ESG desktop due diligence to identify companies' ESG risks and sustainability commitments and approaches. They screen companies with special attention to the priority criteria identified during the 'ESG Risk Mapping. They use priority criteria as a checklist to perform a global and qualitative analysis of company ESG risks.

Each company is reviewed with respect to authoritative standards on ESG, such as the UN Global Compact, the OECD Guidelines for Multinational Enterprises, the UN Guiding Principles for Business and Human Rights and the Sustainable Development Goals.

<u>Company-Specific ESG Score</u>

Relying on the 'Company-specific ESG Analysis', portfolio managers attribute a binary score on ESG to the company:

- The company is scored 1 if no ESG major risk has been identified and/or if major ESG risks are mitigated by appropriate commitments and approaches, which have already demonstrated results.

- The company is scored 0 if a major ESG risk is identified and is not covered by any appropriate commitment or approach

The company is flagged if it faces several ESG risks uncovered by any appropriate commitment or approach.

4. Act

4.1 Position Sizing

The output of the “Select” policy provides portfolio managers with scores on four criteria: ‘ESG’, ‘Quality’, ‘Financial Risk’, ‘Management’. Consistent rules for ‘Position Sizing’, portfolio managers use their qualitative and discretionary judgement to set appropriate size ranges for each position within the loan portfolio. ESG scoring is considered within the decision-making process.

4.2 Size Range

Combined with the binary scores related to the other criteria (‘Valuation’, ‘Quality’, ‘Financial Risk’, ‘Management’), the ‘Company-Specific ESG Score’ informs a size range for the application in the portfolio.

- An overall score of 4 implies a range of 2%-5%
- An overall score of 3 implies a range of 1%-4%
- An overall score of 2 implies a range of 0%-3%
- An overall score of 1 implies a range of 0%-2%
- An overall score of 0 implies a range of 0%-1%