

Environmental and Social Management System (ESMS)

Tirana Bank's ESMS Policy shows the bank's dedication to considering environmental, social, and governance (ESG) factors in all its financial and operational activities. It provides a formal framework to systematically identify, evaluate, manage, and monitor ESG risks related to loans, investments, and corporate operations. This system is integrated into the bank's broader risk management approach and aligns with credit, operational, market, and other risk processes.

The bank defines its tolerance for environmental and social risks to ensure decisions comply with laws, international standards, and the sustainability goals. It applies to all banking services applying a gradual implementation approach, with an initial focus on transactions backed by International Financial Institutions (IFIs). The ESMS guides the bank in screening transactions, performing risk-based due diligence, assessing and mitigating risks, ensuring compliance with laws and international standards, monitoring ESG performance, and continuously improving internal processes and staff skills.

Through this policy, Tirana Bank confirms its commitment to responsible banking and sustainable development, meeting international standards, and providing confidence to clients, regulators, investors, and communities that ESG risks are effectively managed throughout its operations.

- Scope and Applicability

The ESMS applies to Tirana Bank's lending and investment activities, as well as its own operations, with a focus on identifying and managing environmental, social, and governance (ESG) risks. It uses a risk-based approach, applying stricter requirements for higher-risk transactions.

Key points include:

- **Transactions covered:** Initial scope - All activities financed directly or indirectly with resources from International Financial Institutions (IFIs) undergo due diligence processes as foreseen in internal procedures and gradual scaling to other financing transactions as capacity is built and mature. Exclusion lists apply to all financing transactions.
- **Full ESMS process:** Includes screening, risk categorization, due diligence, risk assessment and mitigation, monitoring, reporting, and incident management.
- **Governance and responsibilities:** Establish clear roles, structures, and resources to ensure ESG risks are effectively managed.
- **Standards and compliance:** Align with national laws/regulations and international best practices, and seeks to apply these standards across the Bank's wider portfolio when possible.
- **Review and improvement:** The Policy is reviewed whenever regulations or ESG standards are updated and whenever improvements are identified internally, to ensure ongoing alignment and continuous improvement.

- Our Commitment

Tirana Bank is committed to responsible and sustainable financing, recognizing that effective ESG risk management strengthens financial performance, client resilience, and societal outcomes.

Key commitments include:

- **Compliance:** All financed activities comply with national laws, international conventions ratified by Albania, and international standards such as EBRD ESP, IFC Performance Standards, World Bank EHS Guidelines, and ILO Core Conventions.
- **Exclusion:** The Bank does not finance activities posing unacceptable environmental, social, or reputational risks (e.g., coal, production of tobacco, asbestos, controversial weapons, forced or child labor, unsustainable logging). Exceptions require Board approval.
- **Risk-based approach:** ESG due diligence is proportionate to transaction risk, with higher-risk projects receiving enhanced scrutiny.
- **Client support:** Clients are guided through Environmental & Social Action Plans (ESAPs) and technical advice to improve ESG performance.
- **Transparency and stakeholder engagement:** ESG policies, performance, and grievance mechanisms are disclosed to stakeholders to ensure accountability and trust.
- **Integration into operations:** ESG considerations are embedded in the Bank's overall risk framework, with governance, training, and monitoring to support continuous improvement and sustainable growth.

Through these actions, Tirana Bank ensures ESG principles are translated into concrete practices, fostering responsible, resilient, and sustainable banking.

- Governance and Responsibilities

The oversight of the Environmental and Social Management System (ESMS) is the responsibility of the Bank's senior management and governing bodies, ensuring that environmental, social, and governance (ESG) considerations are integrated into strategic decision-making and risk management. The Board of Directors provides guidance, approves key policies, and monitors performance to ensure that the ESMS operates effectively and aligns with the Bank's overall objectives.

The day-to-day implementation and management of the ESMS are coordinated by the Bank's dedicated ESG function. This function works closely with the credit, risk, and business teams to identify, assess, and manage environmental and social risks associated with lending and investment activities. Where specialized expertise is required, the Bank may engage independent external experts to conduct environmental and social assessments, audits, or provide advisory support, ensuring that decisions are informed by the latest technical knowledge and best practices.

- Stakeholder Engagement and Grievances

Tirana Bank is committed to fostering open, transparent, and constructive communication with all stakeholders, including clients, employees, local communities, regulators, and civil society organizations. The Bank expects its clients to maintain effective grievance mechanisms to address concerns raised by employees, communities, or other parties affected by financed activities. These mechanisms should allow for timely identification, reporting, and resolution of grievances, helping to minimize adverse impacts and maintain trust with stakeholders. The Bank may provide guidance to clients on best practices for grievance management to ensure that issues are handled responsibly and transparently.

- Continuous Improvement

The ESMS is subject to regular review and enhancement to remain effective, responsive, and aligned with evolving regulatory requirements, market practices, and the Bank's own risk profile. This process includes monitoring performance metrics, assessing feedback from internal and external stakeholders, and integrating lessons learned from previous experiences. By continuously improving the ESMS, Tirana Bank ensures that its policies and practices reflect responsible banking principles, maintain high standards of environmental and social performance, and strengthen the Bank's capacity to manage emerging risks and opportunities.