



CAO Compliance Appraisal of Complaint Regarding IFC Projects with Habib Bank Ltd, Pakistan

IFC Project: **HBL Loan #34365**

June 13, 2023

About CAO

The Office of the Compliance Advisor Ombudsman (CAO) is the independent accountability mechanism of the International Finance Corporation (IFC) and Multilateral Investment Guarantee Agency (MIGA), members of the World Bank Group. We work to facilitate the resolution of complaints from people affected by IFC and MIGA projects in a fair, objective, and constructive manner, enhance environmental and social project outcomes, and foster public accountability and learning at IFC and MIGA.

CAO is an independent office that reports directly to the IFC and MIGA Boards of Executive Directors. For more information, see www.cao-ombudsman.org.

About the CAO Compliance Function

CAO's compliance function reviews IFC and MIGA compliance with environmental and social policies, assesses related harm, and recommends remedial actions where appropriate.

CAO's compliance function follows a three-step approach:

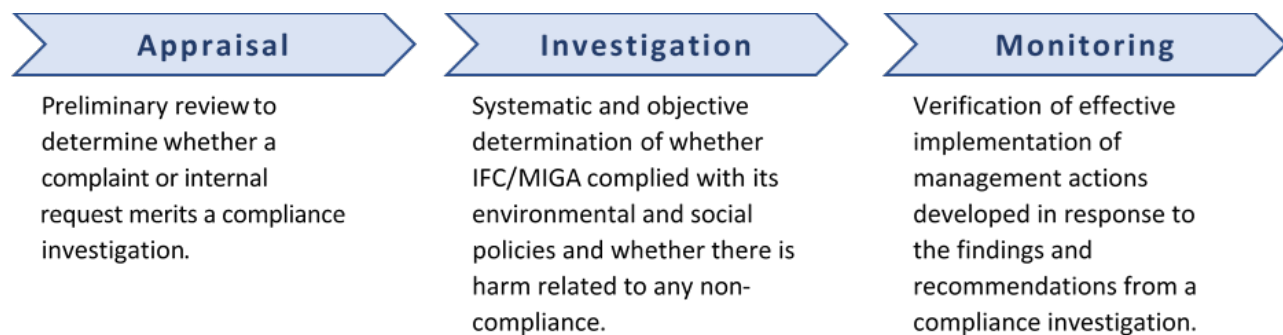


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Acronyms

Acronym	Definition
AEPR	Annual Environmental Performance Report
AS	Advisory Services (IFC)
ASPI	Summary of Advisory Services Project Information
CAO	Office of the Compliance Advisor Ombudsman (IFC and MIGA)
E&S	Environmental and Social
ESDD	Environmental and Social Due Diligence
ESMS	Environmental and Social Management System
ESRM	Environmental and Social Risk Management
ESRR	Environmental and Social Risk Rating
ESRP	Environmental and Social Review Procedures
FI	Financial Intermediary
GBG	Green Banking Guidelines (State Bank of Pakistan)
IFC	International Finance Corporation
MIGA	Multilateral Investment Guarantee Agency
PS	Performance Standards (IFC)
SBP	State Bank of Pakistan
SII	Summary of Investment Information
SME	Small and Medium Enterprises

Executive Summary

This report documents CAO's preliminary compliance review of a 2022 complaint submitted by a former employee of Habib Bank Limited (HBL), an IFC financial intermediary (FI) client based in Pakistan. The complaint raises concerns about HBL's compliance with national and international environmental and social (E&S) standards and the complainant's dismissal from the bank for raising these concerns with internal and external stakeholders. In relation to the complainant's dismissal, CAO's appraisal found no preliminary indications of potential IFC noncompliance in relation to Performance Standard 2 (labor) requirements. In addition, while the complaint raises serious concerns about HBL's E&S governance, systems, and procedures, it makes no specific allegations linking potential IFC noncompliance with adverse E&S impacts from HBL-financed projects. Since the compliance appraisal criteria under the CAO Policy are not met, CAO will close the case.

Context and Relevant IFC Projects

HBL is one of the largest private sector banks in Pakistan, with over 1,600 branches and 2,100 automatic teller machines globally and a presence in over a dozen countries.

In 2006, IFC committed to a subordinated loan investment in HBL. As part of this investment, HBL was required to implement an Environmental and Social Management System (ESMS) to ensure the businesses it financed were in compliance with applicable E&S national laws. IFC's supervision of this investment indicated that HBL was not adequately implementing the ESMS throughout the life of IFC's investment. In 2013, IFC agreed on an action plan with HBL to improve implementation of its E&S requirements. As part of this action plan, HBL agreed to apply the IFC Performance Standards to its subprojects. By the time HBL repaid its subordinated loan to IFC in December 2014, IFC's supervision had not demonstrated that HBL was adequately implementing IFC's E&S requirements. In April 2015, IFC made equity and general-purpose loan investments in HBL. The objectives of these investments were to support the Government of Pakistan's divestment from HBL and support HBL's domestic and international growth, including in rural and agriculture finance, women owned and operated small and medium enterprises (SMEs), and sustainable energy finance. IFC categorized the E&S risk as FI-1, as IFC identified that HBL had substantial exposure to business activities with potential significant adverse E&S risks or impacts that are diverse, irreversible, or unprecedented, including production and transmission of energy and power, oil and gas, and construction. In order to manage this risk, IFC required HBL to implement an ESMS to require higher risk business activities HBL financed to apply the IFC's Performance Standards. In 2020, IFC downgraded its view of HBL's E&S performance from 'satisfactory' to 'partially unsatisfactory'. The following year, IFC and HBL agreed on an advisory services engagement to support HBL to improve its E&S performance and risk management.

The Complaint

In March 2022, CAO received a complaint from the former Deputy General Manager and Head of Planning and Implementation for HBL's unit responsible for managing its ESMS. The complainant alleges that HBL was failing to comply with national and international E&S standards, including the IFC Performance Standards, detailing gaps in E&S governance, systems, and procedures. In

addition, the complaint alleges that banking department leadership sought to intimidate the complainant and his manager, the ESMS unit head, into approving documentation and tasks that did not meet relevant E&S requirements.

Separately, the complaint alleges that the complainant was dismissed after 14 years at HBL because he and the ESMS unit head raised E&S management concerns with the bank's senior management and Board of Directors as well as the national banking regulator. In this context, the complainant also alleges that HBL mismanaged its employee whistleblower mechanism.

At the complainant's request and in accordance with para. 39 of the CAO Policy, the complaint was referred to IFC to make good faith efforts to address these concerns with its client. In August 2022, the complainant asked CAO to reengage in the case and the case was transferred to compliance for appraisal in January 2023.

IFC Management Response and Client Statement

IFC's response to CAO states that during the referral period it attempted to facilitate an agreed solution to the complainant's concerns with a focus on options to strengthen his employability in the local labor market. In addition, IFC asserts that it reviewed the allegations in the complaint and concluded that none could be substantiated. In IFC's view, HBL's revised ESMS and capacity building efforts under the advisory services project will address any E&S performance gaps.

The client provided a statement disputing all the complainant's allegations and emphasizing ongoing contact with and support from IFC. HBL also stated that it has multiple grievance channels that follow international best practices.

CAO Analysis

According to the CAO Policy, the purpose of the CAO compliance appraisal process is to determine whether a complaint merits an investigation. Based on an initial review of available information, CAO's appraisal concludes that the complaint does not meet all the criteria for a compliance investigation.

a) Preliminary indications of Harm:

- The complainant raises serious concerns about HBL's compliance with national and international E&S standards, including IFC Performance Standard 1. However, he does not allege specific adverse E&S effects on people or the environment resulting from an HBL-financed project. Consequently, CAO considers that there are no preliminary indications of Harm and therefore this criterion is not met.
- In regard to the complainant's allegations of Harm relating to his dismissal from HBL, CAO considers that the associated adverse financial effects do constitute preliminary indications of harm.

b) Preliminary indications of potential IFC noncompliance with its E&S policies:

- Concerning the allegation of HBL noncompliance with E&S standards, CAO concludes that the criterion for potential IFC noncompliance is met. HBL has been an IFC client for 17 years. At the time HBL repaid its loan from IFC's 2006 investment in December

2014, IFC concluded that HBL was not meeting IFC E&S requirements. IFC's supervision of HBL in the context of its 2015 equity and loan investments has also shown that HBL is not meeting IFC E&S requirements. IFC has taken a number of actions to improve HBL's performance, including an advisory services engagement with an E&S implementation roadmap as well as a supplementary ESAP, and has repeatedly considered that HBL is committed to meeting the IFC PS. Nevertheless, IFC on an ongoing basis has concluded that HBL is not complying with PS1, specifically that it is not maintaining an effective ESMS consistent with the PS requirements. Consequently, there are indications that IFC may not be aligned with the Sustainability Policy requirement that IFC only finance investment activities that are expected to meet the PS requirements over a reasonable period of time (IFC Sustainability Policy, para. 22) or exercising remedies, as appropriate, if the client fails to reestablish compliance (IFC Sustainability Policy, para. 24).

- Concerning the allegations relating to the complainant's dismissal, CAO concludes that the criterion is not met. Based on available documentation and information related to IFC's review and supervision of HBL's implementation of Performance Standard 2 – Labor and Working Conditions, there are no preliminary indications of potential noncompliance. IFC had no reason to conclude there were systemic PS2 issues at HBL or that the grievance mechanism was not functioning. Once the complaint was received, IFC worked with its client to assure PS2 compliance in accordance with the IFC Sustainability Policy.

c) Plausible link between alleged Harm and potential IFC noncompliance: It is CAO's view that the demonstrable allegations of Harm in this case consist of the economic impacts to the complainant resulting from his dismissal. However, there are no indications of potential IFC noncompliance in relation to PS2 and the criterion of a plausible link is not met. While there is potential IFC noncompliance in relation to HBL's application of PS1, specifically in relation to its ESMS, the complainant does not raise concrete allegations of Harm generated by HBL-financed projects. Consequently, a plausible link between alleged Harm and potential IFC noncompliance cannot be established at this time.

Decision and Next Steps

As the compliance appraisal criteria are not met, CAO has decided not to initiate a compliance investigation and the case is closed. This appraisal report is published on the CAO website and shared with the Board, IFC Management, the client, and the complainant.

1. Introduction

This section provides an overview of IFC projects with Habib Bank Limited (HBL) and relevant aspects of the CAO complaint process.

a) IFC Investment Context

IFC is a key investor in Pakistan's banking sector. In 2018, IFC announced an advisory agreement with the State Bank of Pakistan (SBP) to improve environmental risk management and ethical lending practices at SBP and in the wider Pakistan banking sector.¹ This project, Enabling Sustainable Banking in Pakistan, followed SBP's issuance of Green Banking Guidelines (GBG) in October 2017.² These guidelines aim to safeguard against environmental risks emerging from the operations of banks and development finance institutions.³ Pakistan is also a member of the Sustainable Banking Finance Network (SBFN), a voluntary community of emerging market financial sector regulatory agencies and banking associations,⁴ for which IFC serves as secretariat.⁵ Other SBP and IFC joint initiatives include launching an Environmental and Social Risk Management (ESRM) Implementation Manual in November 2022.⁶

HBL is one of the largest private sector banks in Pakistan with a market share of around 15 percent.⁷ Established in 1947, HBL today has over 1,600 branches and 2,100 automatic teller machines globally, and a presence in over a dozen countries. HBL's key areas of operation include corporate and investment banking, small and medium enterprises (SMEs) and rural banking, and global trade services. The government of Pakistan privatized HBL in 2004, and the Aga Khan Fund for Economic Development (AKFED) acquired 51% of its shareholding and management control. In 2015, the government of Pakistan divested the remaining 41.5% shareholding which was acquired by individuals, local and foreign institutions, and funds including CDC Group Plc (4.99%) and IFC (0.87%).⁸

In 2006, IFC committed to a subordinated loan investment in HBL.⁹ As part of this investment, HBL was required to implement an E&S Management System (ESMS) to ensure the businesses

¹ Enabling Sustainable Banking in Pakistan (#603761), Summary of Advisory Services Project Information (ASPI) - <https://bit.ly/3BXNppr>. According to IFC, this project, which was approved in July 2020 and disclosed in June 2021, aims to increase the share and volume of bank loans screened against improved GBG; improve banks' awareness and understanding of environmental and social risk management (ESRM); and increase the number of intermediaries to provide environmental, social, and governance (ESG) training to banks after IFC exit. Per the IFC project disclosure, the project's expected development impact is alignment of GBG with global best practice and effective implementation by financial institutions, increased capacity of local intermediaries to deliver ESG trainings to banks, and improved market capacity on green banking and ESRM of local banks and stakeholders.

² SBFN Pakistan Country Progress Report, April 2022 - <https://bit.ly/3OHpodL>.

³ SBP, October 9, 2017 - <https://www.sbp.org.pk/smefd/circulars/2017/C8.htm>.

⁴ See, for example - <https://bit.ly/3OHpodL>.

⁵ SBFN - <https://www.sbfnetwork.org/>.

⁶ SBP, November 9, 2022 - <https://www.sbp.org.pk/press/2022/Pr-09-Nov-2022.pdf>.

⁷ HBL Loan (#34365), Summary of Investment Information (SII) - <https://disclosures.ifc.org/project-detail/SII/34365/hbl-loan>.

⁸ HBL - <https://www.hbl.com/about-us>.

⁹ Habib Bank Ltd (#24135), SII - <https://disclosures.ifc.org/project-detail/SII/24135/habib-bank-ltd>.

it financed were in compliance with applicable E&S national laws.¹⁰ IFC's supervision of this investment indicated HBL was not adequately implementing the ESMS throughout the life of IFC's investment. In 2013, IFC agreed an action plan with HBL to improve implementation of its E&S requirements. As part of this action plan, HBL agreed to apply the IFC Performance Standards. By the time HBL repaid its subordinated loan to IFC in December 2014, IFC's supervision had documented limited progress in meeting the agreed actions under the action plan, and IFC's view of HBL's performance was determined as being 'partially unsatisfactory'.

In 2013 and 2014, IFC initiated advisory services projects with HBL to support its proposition for women markets and agricultural SMEs in Pakistan.¹¹

In 2015, IFC made equity and loan investments in HBL.¹² The objectives of these investments were to support the Government of Pakistan's divestment from HBL and support HBL's domestic and international growth, including in rural and agriculture finance, women owned and operated small and medium enterprises (SMEs), and sustainable energy finance. As IFC's loan was not ringfenced to the intended stated purposes, but rather was structured as a general-purpose loan, IFC has an E&S risk exposure to the entire portfolio of HBL.

IFC assigned an E&S category of FI-1 to the investment, which indicated that HBL's existing or proposed portfolio included, or was expected to include, substantial financial exposure to business activities with potential significant adverse environmental or social risks or impacts that are diverse, irreversible, or unprecedented. This E&S categorization was based on HBL having significant exposure both to project finance and long-term corporate loans and to business sector activities with potential significant adverse E&S risks, including energy and power, oil and gas, and construction. The client was required to implement an ESMS to screen loans against the IFC Exclusion List, host country E&S laws and regulations, and IFC Performance Standards. According to IFC's pre-investment review, the loan's main E&S risk related to HBL's capacity to manage E&S risks associated with its loan portfolio in line with applicable IFC requirements. The IFC loan disclosure also indicated that HBL's human resource practices conformed with IFC Performance Standard 2 – Labor and Working Conditions.¹³

Following ongoing concerns over E&S risks, IFC downgraded its view of HBL's E&S performance from 'satisfactory' to 'partially unsatisfactory' in September 2020. In this context, IFC signed an Advisory Engagement Letter and an Amendatory Letter, in May and November 2021 respectively, to help HBL implement an E&S performance improvement roadmap over 14 months (CAO

¹⁰ The SII for the 2006 HBL loan project provides: "IFC will assist the Bank to develop an environmental management system to evaluate that investments under relevant operations meet host country environmental, health and safety requirements." The 2015 HBL Equity and Loan Summaries of Investment Information (SII) state: "The main E&S risk of this investment relates to HBL's capacity to manage environmental and social risks associated with its loan portfolio in line with the applicable requirements." The Summary of Advisory Services Project Information (ASPI) for the 2021 Enabling Sustainable Banking in Pakistan project, which includes an engagement with HBL, highlights PS1 in the E&S Risks section.

¹¹ IFC Advisory Service Project #599748 and #600325, available at <https://bit.ly/3OPnyHM> and <https://bit.ly/43leXB2>.

¹² HBL Equity (#36620), SII - <https://bit.ly/3OlaLB>. HBL Loan (#34365), SII - <https://bit.ly/3OGCIPy>.

¹³ HBL Loan (#34365), SII - <https://bit.ly/3OGCIPy>. According to the SII, the investment comprised a loan of up to \$86 million for IFC's own account, and (2) a loan of up to \$64 million mobilized from the Managed Co-Lending Portfolio Program.

understands this timeframe was subsequently extended).¹⁴ Areas addressed in this Enabling Sustainable Banking in Pakistan advisory services project¹⁵ include HBL's organizational capacity and training, project ESDD and monitoring, and ESMS policy.¹⁶

IFC divested from its equity position in HBL in December 2022.

b) Compliance Appraisal Scope and Methodology

The scope of this compliance appraisal¹⁷ is limited to issues raised in the complaint (attached to this report as Appendix 1) and CAO's Assessment Report in relation to the complaint.

CAO made the appraisal decision based on the appraisal criteria and other relevant considerations in accordance with the CAO Policy. The appraisal involved a preliminary review of the following information:

- The complaint
- Relevant documentation including CAO's Assessment Report, IFC's Management Response, and HBL's statement
- IFC and client documentation
- Relevant publicly available documentation.

CAO also considered information gathered through communications with the complainant and IFC project team.

CAO extends its appreciation to all parties mentioned in this Compliance Appraisal Report who have shared their perspective, knowledge, and time with the CAO compliance team.

2. The Complaint

Complaint Management

In early March 2022, CAO received a complaint from a former employee of HBL. On April 22, 2022, CAO found the complaint eligible for assessment. At the complainant's request, the complaint was then referred to IFC to make good faith efforts, along with its client, to address the

¹⁴ CAO understands that a new timeframe was subsequently introduced, and that the engagement is scheduled to end in June 2023. Also, at the time the Amendatory Letter was signed, the complainant's tenure with HBL had already ended.

¹⁵ Enabling Sustainable Banking in Pakistan (#603761), ASPI - <https://disclosures.ifc.org/project-detail/AS/603761/enabling-sustainable-banking-in-pakistan>. According to IFC, the Enabling Sustainable Banking in Pakistan Advisory Services (AS) project, approved in July 2020 and disclosed in June 2021, is aimed at increasing the share and volume of bank loans screened against improved GBG; improving banks' awareness and understanding of environmental and social risk management (ESRM); and increasing the number of intermediaries to provide environmental, social, and governance (ESG) training to banks after IFC exit. Per the IFC project disclosure, the project's expected development impact is alignment of GBG with global best practice and effective implementation by financial institutions, increased capacity of local intermediaries to deliver ESG trainings to banks, and improved market capacity on green banking and ESRM of local banks and stakeholders.

¹⁶ 2021 HBL Impact & Sustainability Report, p. 38 - https://www.hbl.com/assets/documents/HBL_Impact_Report_23-4-22_-_Final_PDF.pdf

¹⁷ CAO Policy, para. 88.

issues raised before initiating a CAO assessment.¹⁸ On August 17, 2022, the complainant asked for the complaint to be referred back to CAO for assessment, stating that some company actions during the IFC referral process led to him to distrust the process. He added that the issues raised in the complaint had not been addressed to his satisfaction. CAO's assessment began on September 7, 2022; the complainant and HBL did not reach agreement on engaging in a CAO-led dispute resolution process. As a result, CAO published an [Assessment Report](#) and transferred the case to compliance for appraisal in January 2023.

Complainant's Concerns

The complainant raises two main areas of concern. First, he alleges that HBL, although purporting to do so, was not complying with national and international E&S standards, including the IFC Performance Standards (PS). He refers to this as 'greenwashing'. Second, he alleges that HBL dismissed him unfairly because he and his manager, the head of the ESMS unit, raised concerns about the bank's E&S governance, systems, and procedures with its senior management and Board and with SBP, the national regulator. In this context, he also alleges mismanagement of HBL's whistleblower mechanism.

The complaint provides a narrative of the complainant's 14 years of professional experience with HBL. In June 2021, the complainant moved from serving in the International Banking and International Compliance departments to the ESMS unit. In September 2021, the complainant was dismissed from the role of Deputy General Manager (DGM) and Head of Planning and Implementation at HBL's ESMS unit. His position of DGM was a new post created after IFC downgraded its view of HBL's E&S performance from 'satisfactory' to 'partially unsatisfactory' in September 2020.

The ESMS unit was headed by an individual appointed in 2015 as part of HBL's requirements under the terms of IFC's 2015 loan. According to the complainant, the bank's 2020 revision of its ESMS policy provided that the ESMS unit reported to HBL's Corporate, Commercial and Investment Banking Group (CCIBG). The complainant alleges that this meant that E&S issues could be subsumed by the bank's business interests and pressures.

The complaint states that, under the direction of the unit's head, the complainant initiated a work program that included:

- Engaging with the human resources department to ensure proper segregation of duties and with a proposal to institutionalize HBL's ESMS
- Engaging with the State Bank of Pakistan (SBP) to clarify ESMS organizational and other requirements as stipulated in the Green Banking Guidelines (GBG)
- Engaging with internal stakeholders and processes to operationalize the ESMS, review the Environmental and Social Due Diligence (ESDD) process, and initiate drafting of an enhanced ESMS policy and procedures document.

According to the complainant, he and his manager sought clarification on ESMS-related organizational matters as well as the roles and responsibilities of the ESMS unit from HBL senior

¹⁸ The referral to IFC was carried out in accordance with para. 39 of the CAO Policy.

management, the HBL Board, and the SBP. They did so, he claimed because they felt intimidated by CCIBG leadership to sign off on regulatory documents and information that were contrary to relevant E&S requirements and/or in violation of HBL's contractual obligations. The complainant specifically alleges that HBL disregarded its obligations in relation to the IFC Performance Standards (PS).

The complainant alleges that in September 2021, the pressure and hostility exerted by CCIBG leadership escalated. As a result, the complainant and the ESMS unit head sent departmental memorandums to HBL's President and CEO in late September 2021, documenting the actions that, in their view, HBL needed to take to achieve E&S compliance. On September 29, 2021 the complainant met with members of CCIBG leadership and human resources personnel and was informed that his services were no longer required. According to the complainant, no specific reason was given for his dismissal but his reluctance to sign off on tasks was mentioned. In total, the complainant worked for the ESMS unit for a little under four months.

Subsequent to his termination, the complainant and head of the ESMS unit raised concerns about how the dismissal had been handled and reiterated their organizational concerns. They engaged with HBL's President and CEO, HBL's internal audit department, HBL's management whistleblower team, HBL's Board whistleblower team, other HBL Directors, and the ultimate beneficiary owner (Aga Khan Development Network). According to the complaint, the head of the ESMS unit was also dismissed from his role on October 29, 2021.

After failing to receive a satisfactory outcome from his efforts to engage HBL senior management, Board, and other stakeholders, the complainant filed complaints with CAO and certain HBL shareholders. In addition, CAO understands that the complainant has initiated legal proceedings against HBL for financial and reputational damages as a result of his dismissal. Those proceedings were ongoing at publication of this Compliance Appraisal Report.

3. IFC Management Response

IFC engaged directly with the complainant and HBL from April to August 2022. According to the IFC Management Response, attached to this report as Appendix 2, IFC sought during that time to better understand the concerns raised and conducted an independent review of the complaint issues. These efforts included calls with the complainant and HBL and a client supervision visit in June 2022. The complainant and IFC client did not engage in direct conversations.

The Management Response emphasizes that IFC's key priority during the referral period was to facilitate a mutually agreeable solution, with a focus on options to strengthen the complainant's employability in the local labor market. IFC asserts that it reviewed the complaint allegations about the legality of his dismissal, the effectiveness of the whistleblower mechanism, and HBL 'greenwashing', and concluded that none of these claims could be substantiated. IFC added that it believes the bank's revised E&S Management System and capacity building efforts through the Advisory Services project will address any ongoing HBL E&S performance gaps.

In response to the specific issues raised in the complaint, IFC asserts the following:

Alleged unauthorized dismissal

After receiving the complaint, IFC conducted a review of:

- An HBL internal audit triggered following the complainant's dismissal, which did not find violations of HBL's policies in relation to the dismissal
- An assessment of HBL's labor policies and procedures against PS2 requirements
- A legal opinion on HBL's human resource policies and procedures as applied to the complainant's dismissal
- HBL's 2021 employee engagement survey.

Based on this review, IFC concluded there was no indication that the individual case of termination of employment did not align with PS2 and national law requirements or that it raised systemic employee-related issues at the bank. In its Management Response, IFC emphasizes that it takes seriously the complainant's allegation that the termination of his contract caused him harm.

Alleged mismanagement of whistleblowing mechanism

IFC found that HBL's actions in this case aligned with its whistleblowing mechanism policies. Based on a review of the mechanism's accessibility and structure and a sample of responses provided through the mechanism over the past year, IFC did not find systemic concerns.

Alleged noncompliance with national and international E&S standards

According to the Management Response, IFC considered:

- The HBL internal audit which reportedly looked into the complainant's claims of unfair dismissal and 'greenwashing'
- HBL's portfolio, to determine whether the bank was intentionally downgrading higher E&S risk transactions to extend loans
- The absence of named transactions by the complainant demonstrating potential noncompliance and/or harm.

Based on this information, IFC determined that it could not substantiate the complainant's claims of "greenwashing" and any related potential harm.

IFC does not believe that the CAO compliance appraisal criteria relating to preliminary indications of potential IFC noncompliance, or plausible link between harm allegations and potential noncompliance are met in this case. IFC asserts that it regularly engages with HBL as part of its supervision commitments under the Sustainability Policy and has provided timely support through investments and advisory services.

IFC has provided CAO with documentation and information to support assertions in the Management Response. CAO has not received details of whether and how IFC followed up with HBL regarding the E&S performance allegations made by the complainant.

4. Client Statement

IFC's client provided a statement regarding the complaint (attached to this report as Appendix 3). HBL's statement ties the complaint to the complainant's termination, which HBL claims occurred

as a result of his conduct in his role with HBL's ESMS unit. The client cites the complainant's "behavior and attitude"—which it states resulted in written complaints from colleagues—and lack of professionalism as the reasons for his dismissal. According to the bank, the complainant declined the option to resign and so was terminated in accordance with his employment contract and internal policies. In addition, the client confirmed that the complainant challenged his termination in court, with the case pending adjudication, and stated that he must repay outstanding loans and return company equipment.

Regarding the complainant's allegations of noncompliance with E&S standards, HBL states that these are unfounded and incorrect. The client states that it is in regular contact with the IFC project team, which supports HBL's E&S compliance work. In addition, the bank claims that its ESMS policy meets IFC Performance Standards and was reviewed and revised by IFC before finalization. According to the statement, IFC has acknowledged that HBL is on track to comply with IFC Performance Standards.

Regarding the whistleblowing mechanism, HBL describes the complainant's allegations that it does not function as baseless and incorrect, asserting that the complainant received a same-day response from the mechanism indicating that he could appeal for review of his termination. HBL's statement describes multiple reporting channels for employees to highlight wrongdoing and grievances, and to raise concerns.

5. CAO Analysis

This section summarizes CAO's analysis of the complaint against HBL based on research, document review, and engagement with IFC and the complainant. It presents analyses of the three appraisal criteria required to determine whether to initiate a compliance investigation. These criteria are: whether there are preliminary indications of harm or potential harm; whether there are preliminary indications that IFC/MIGA may not have complied with its E&S policies; and whether the alleged harm is plausibly linked to the potential IFC noncompliance.

a) Preliminary Analysis of Harm

A CAO compliance appraisal is required to consider whether a complaint raises "preliminary indications of Harm or potential Harm."¹⁹ Concerning the allegation of HBL noncompliance with E&S standards, in particular the implementation of an effective ESMS in accordance with IFC Performance Standard 1, CAO concludes that the Harm criterion is not met. Concerning the allegation of mismanagement of employment-related matters, CAO concludes that the Harm criterion is met.

HBL E&S noncompliance

The complainant has raised serious concerns about HBL's compliance with national and international E&S standards, including the IFC PS. He asserts that HBL's senior management and Board are not committed to efforts to achieve these standards.

¹⁹ CAO Policy, para. 91.

The CAO Policy defines Harm as any material adverse E&S effect on people or the environment resulting from a project or subproject.²⁰ A financial intermediary's (FI) ESMS is central to its ability to manage E&S risks through effective E&S due diligence (ESDD) and monitoring of the projects it finances. Therefore, a key issue for CAO in this case is how the actual or potential adverse E&S effects of a nonperforming ESMS play out at the FI subproject level. According to recent IFC supervision reports, HBL currently has 68 projects designated as 'category A' meaning they have been assessed as having potential significant adverse E&S risks and/or impacts. However, the complaint raised allegations not about subprojects but at the level of HBL's company-wide E&S governance, systems, and procedures. According to the complainant, he focused primarily on procedural and governance gaps in the ESMS for the complaint because the ESMS unit was excluded from E&S decision-making, and not given visibility on specific project E&S considerations.

CAO acknowledges that the complainant raised serious allegations about HBL's E&S governance, systems, and procedures. That said, such allegations cannot not give rise to a determination by CAO of 'preliminary indications of harm' per the CAO Policy at this time, as there have been no allegations of adverse E&S effects resulting from any HBL-financed project.

Unauthorized dismissal

The complainant alleges economic losses as a result of his dismissal from HBL. He states that, after working for HBL for 14 years, he gave up a promotion to transfer to the ESMS unit and four months later was dismissed with just one month's salary as severance. According to the complaint, he and his family are now living off their savings. CAO concludes there are preliminary indications of Harm in relation to the dismissal given the complainant's articulation of the stated impact on his economic situation.

b) Relevant IFC Sustainability Policy and Procedural Requirements

The 2012 IFC Sustainability Policy states that "efforts to carry out investment and advisory activities with the intent to 'do no harm' to people and the environment" are "central to IFC's development mission."²¹ To meet this mandate, IFC seeks to ensure that the projects it finances are "implemented in accordance with the requirements of the Performance Standards."²²

The Sustainability Policy requires IFC to conduct pre-investment ESDD of all its investment activities. For FI investments, this due diligence must include a review of the client's existing portfolio and prospective business activities in order to identify potential FI and IFC risk exposure and define requirements for managing such risks. In addition, IFC should review a prospective FI client's implementation capacity and ESMS, as required by PS1.²³

Under the Sustainability Policy, IFC should only finance investment activities that are expected to meet PS requirements within a reasonable period of time.²⁴ After a project has been approved by

²⁰ CAO Policy, Glossary.

²¹ IFC Sustainability Policy, para. 9.

²² IFC Sustainability Policy, para. 7.

²³ IFC Sustainability Policy, para. 34.

²⁴ IFC Sustainability Policy, para. 22.

the IFC Board of Directors, committed, and disbursed, IFC is expected to monitor the FI's performance. In cases where the client fails to comply with its E&S commitments as expressed in legal agreements and associated documents, IFC must "work with the client to bring it back into compliance, and if the client fails to reestablish compliance...exercise its rights and remedies, as appropriate."²⁵

Under PS1, an IFC FI client is required to develop and operate an ESMS commensurate with the level of environmental and social risks presented by its portfolio and prospective business activities. In addition, the client must apply the IFC Exclusion List, follow respective national law, and require higher risk business activities it supports to apply relevant PS requirements.²⁶ The ESMS is expected to incorporate the following elements: policy; identification of risks and impacts; management programs; organizational capacity and competency; emergency preparedness and response; stakeholder engagement; and monitoring and review.²⁷

In addition, IFC must supervise FI investments in accordance with the requirements of IFC's Environmental and Social Review Procedures (ESRP) and should periodically review the FI's E&S due diligence of its own investments. As needed, IFC should work with FI clients to help them address any shortcomings in their ESMS.²⁸

Under the ESRP, effective supervision of FI investments entails periodic reviews of the client's E&S performance, including through the following: assessing the client's level of compliance with the E&S requirements including all conditions of disbursement, Environmental and Social Action Plan (ESAP) items, and other E&S covenants included in the legal agreement; review of E&S due diligence (ESDD) for subprojects provided by the client; reviewing the Annual Environmental Performance Reports (AEPRs); and undertaking Supervision Site Visits (SSVs) including sub-project site visits and ESDD reviews. The lead E&S specialist should document and clearly communicate the risks and areas of noncompliance with the E&S requirements to the Portfolio Officer, and follow up with the client as required to remedy and manage these risks.²⁹

IFC's Interpretation Note on Financial Intermediaries (2012; last updated in 2018) also provides guidance on FI ESMS requirements. This includes tailoring the ESMS to the client's needs and integrating the ESMS into the FI's existing risk management systems for credit, operational risk, finance, legal, compliance, and any other relevant system which may already consider E&S risk. Where FI clients already have an ESMS, its elements should meet, or be modified to meet, the requirements of IFC's Sustainability Framework.³⁰

In addition, the Interpretation Note states that while day-to-day operation of the ESMS can be delegated, the FI's senior management is ultimately responsible for E&S risk management and

²⁵ IFC Sustainability Policy, para. 24.

²⁶ IFC Sustainability Policy, para. 35.

²⁷ IFC PS1, para. 5.

²⁸ IFC Sustainability Policy, para. 45.

²⁹ IFC Environmental and Social Review Procedures (ESRP) Manual (2013), Section 9 - Financial Intermediary Investments: Supervision, June 3, 2014, para. 9.2.1.

³⁰ Interpretation Note, para. IN22.

ESMS implementation. The client's Board, where it exists, is expected to play an oversight role in monitoring ESMS implementation, including reporting on E&S risk management.³¹

FI clients are also required to apply relevant aspects of PS2 to their workers.³² The Interpretation Note clarifies that for the financial sector this typically relates to employment practices and working conditions.³³ PS2 requires that human resource policies and procedures are appropriate to the FI's size and workforce, provide reasonable working conditions and terms of employment, and meet the requirements of IFC PS and national law.^{34 35}

IFC's Guidance Note on PS2 states that clients should provide all workers with a contract that describes the employment relationship and explains the policies and procedures related to labor and working conditions, including grievance and termination procedures.³⁶ Information provided to individual workers should include the length of notice the worker can expect to receive on termination of employment; the disciplinary procedures applicable to the worker, including details of representation available to the worker and any appeals mechanism; and details of grievance procedures, including the person to whom grievances should be addressed.

IFC clients are also required to provide an accessible grievance mechanism for workers.³⁷ This process should enable timely resolution of complaints, include a meeting to discuss the grievance should the worker wish to attend³⁸, and guarantee non-retribution and a right of appeal.

Below are the results of CAO's preliminary analysis of IFC's compliance with these relevant requirements and procedures in this case.

c) Preliminary Analysis of IFC Policy Compliance

A CAO compliance appraisal must also consider whether there are "preliminary indications that IFC/MIGA may not have complied with its E&S Policies."³⁹ In this case, concerning the allegation that IFC may not have adequately ensured HBL's compliance with IFC's E&S standards, CAO concludes that the criterion is met. Concerning the allegation that IFC may not have adequately ensured HBL's management of employment related matters, CAO concludes that the criterion is not met.

IFC oversight of HBL's implementation of Performance Standard 1

The complaint raises questions about IFC's compliance with its supervision requirements relating to HBL's E&S Management System for its global operations. HBL has been an IFC client for 17 years. In 2006, IFC required HBL to establish an ESMS to ensure the businesses it financed were in compliance with applicable E&S national laws. IFC's supervision of this 2006 investment indicated HBL was not adequately implementing the ESMS, and in 2013, IFC agreed an action

³¹ Interpretation Note, para. IN30.

³² IFC Sustainability Policy, para. 35.

³³ Interpretation Note, para. IN13.

³⁴ IFC PS2, para. 8.

³⁵ IFC PS2, para. 10.

³⁶ IFC Guidance Note 2, para. GN14.

³⁷ IFC PS2, para. 20.

³⁸ IFC Guidance Note 2, para. GN59.

³⁹ CAO Policy, para. 91.

plan with HBL to improve implementation. As part of this action plan, HBL agreed to improve its ESMS implementation and apply the IFC Performance Standards to its investments. However, by the time HBL repaid its subordinated loan to IFC in December 2014, IFC's supervision documented limited progress in meeting the agreed actions under the action plan and IFC's view of HBL's performance was indicated as 'partially unsatisfactory'.

At the time of IFC's 2015 pre-investment review for its equity and loan investments, IFC concluded that HBL had an ESMS that was aligned to PS1. In keeping with the requirements of the 2012 Sustainability Policy, under the terms of the loan agreement IFC required HBL to implement an ESMS to apply the IFC Performance Standards to its investments. HBL provided IFC with an implementation report 60 days post IFC legal commitment.

In March 2020, IFC conducted reviews of HBL's Annual Environmental Performance Reports (AEPRs) for 2017 and 2018⁴⁰ that pointed to gaps in the bank's ESMS and raised concerns about the quality of HBL's ESDD and monitoring. According to IFC, HBL did not address those concerns and as a result, IFC downgraded HBL's E&S risk rating (ESRR) score from 'satisfactory' to 'partially unsatisfactory' in the context of its 2019 AEPR review (conducted in September 2020). Subsequent AEPR reviews in 2020 and 2021 document ongoing IFC concerns about HBL's ESDD and monitoring, organizational matters, and other gaps in HBL's ESMS policy, which was revised in 2020. However, each of IFC's AEPR reviews (2017-2022) state that HBL management's commitment to achieving IFC Performance Standards compliance was sufficient.

IFC entered into an Advisory Services (AS) engagement with HBL in May 2021 (amended in November 2021). This included an "E&S performance improvement roadmap" that consisted of a gap analysis of the 2020 ESMS policy, capacity building activities, and recommendations for improvement of HBL's approach to conducting ESDD and monitoring of its projects. In June 2022, IFC required HBL to agree a supplementary E&S action plan (ESAP) which included requirements to update the bank's ESMS procedures, for training, and to address institutional arrangements including in relation to E&S decision-making (such as E&S reporting lines and escalation matrix).

In its November 2022 supervision report, IFC stated that HBL would issue a revised ESMS policy in early 2023 and IFC subsequently expected to receive eight ESDD reports of adequate quality from HBL for review. In the context of this compliance appraisal, IFC informed CAO that HBL's Board approved the new ESMS policy in February 2023 and that HBL has submitted the eight ESDD reports for IFC's review. However, according to IFC, these ESDD reports were not conducted under the new ESMS policy and therefore are not aligned with IFC requirements. IFC will review additional HBL ESDD reports prepared in 2023 once available.

IFC's supervision reports for the period 2017-2022 indicate that IFC has made significant efforts to strengthen the E&S capacity of its client, including those aimed at strengthening the client's ESMS. However, according to the same supervision reports, HBL continues to conduct ESDD in a manner that is not aligned with the IFC PS, and to finance category A projects without adequate assurance of due application of the IFC PS. This suggests that IFC's observations in its AEPR reviews and supervision reports that HBL management has been committed to achieving

⁴⁰ Documentation indicates that IFC completed the AEPR reviews for HBL for 2017 and 2018 together in March 2020. CAO does not have information about why IFC was not conducting annual AEPR reviews at this time.

compliance with the IFC PS, which formed the basis for its approach to addressing HBL E&S performance gaps, may not have been justified. Based on the above information, CAO concludes that there are preliminary indications of potential IFC noncompliance with the requirements described in the Sustainability Policy (paras. 22 and 24). The information reviewed indicates that while IFC did document deficiencies in HBL's E&S performance and then took action in the form of the AS engagement and supplemental ESAP, the prolonged period of engagement with HBL without achieving IFC PS compliance should also have raised questions for IFC about the client's commitment to achieve compliance "within a reasonable period of time"⁴¹ and whether IFC should have considered other actions specified in the Sustainability Policy when a client fails to reestablish compliance, to "exercise its rights and remedies, as appropriate"⁴².

IFC oversight of HBL's implementation of Performance Standard 2

The complainant's dismissal raises questions about IFC's review and supervision of HBL's implementation of PS2. This is in relation to allegations that the complainant was retaliated against for raising concerns about HBL's E&S performance as well as ineffective handling of the complainant's grievance following his dismissal.

CAO reviewed the complainant's appointment letter, letter of termination, HBL Staff Service Rules, HBL whistleblowing policy, HBL staff grievance procedures, and other information that may relate to the complainant's dismissal provided by the complainant and IFC.

Based on a review of relevant documentation and information, CAO notes the following:

- IFC's pre-investment review noted that all HBL employees had written contracts and there were clear policies and procedures guiding compensation, benefits, and harassment. Further, IFC noted that all staff received the client's code of ethics and business conduct booklet and there was a workers grievance mechanism. Accordingly, IFC concluded that HBL was in compliance with PS2 during pre-investment review in 2015.⁴³
- No information about any PS2 matters is recorded in client AEPRs or IFC AEPR reviews from 2016-2020. The 2021 AEPR review raises PS2 matters, which IFC conducted after the complaint was received by CAO and referred to IFC. Subsequent IFC supervision reports (2022 AEPR review, June 2022 Site Supervision Visit (SSV) report, and November 2022 SSV report) also mention PS2 issues and indicate that IFC would follow up with the client.
- Following receipt of the complaint, IFC undertook a review of HBL's actions as well as PS2-related policies and procedures, including the whistleblowing mechanism, and did not find that the individual case failed to meet PS2 and national law requirements or highlighted systemic issues at the bank. IFC confirmed that the complainant's dismissal was governed by the terms and conditions of his appointment letter and HBL Staff Service Rules. IFC provided documentation to CAO showing that it directed HBL to IFC reprisal risk guidance notes for clients, and reviewed and offered guidance on HBL's

⁴¹ IFC Sustainability Policy, para. 22.

⁴² IFC Sustainability Policy, para. 24.

⁴³ HBL Equity (#36620), SII - <https://disclosures.ifc.org/project-detail/SII/36620/hbl-equity> and HBL Loan (#34365), SII - <https://disclosures.ifc.org/project-detail/SII/34365/hbl-loan>.

employee/internal grievance system. IFC also reviewed HBL's staff engagement survey for 2021 for any indications of systemic PS2 issues.

CAO concludes that there is no information or documentation suggesting that any PS2-related shortcomings at HBL give rise to systemic concerns and notes that IFC worked with the client to assure PS2 compliance following the complaint in line with Sustainability Policy requirements.

CAO does not generally expect IFC to supervise an individual's concerns related to working conditions and terms of employment as these issues are not systemic in nature and do not require an IFC supervisory response. Consequently, CAO determines that there are no preliminary indications of IFC noncompliance relating to PS2 in this case.

d) Analysis of Plausible Link between Harm Allegations and Potential IFC Noncompliance

Lastly, a CAO compliance appraisal must consider whether "the alleged Harm is plausibly linked to the potential noncompliance."⁴⁴

As set out above, it is CAO's view that the only demonstrable harm in this case is the economic losses suffered by the complainant. Since there are no preliminary indications of potential IFC noncompliance in relation to PS2, the question of plausible link between allegations of harm and potential noncompliance is moot.

In addition, allegations of economic harm to the complainant are not plausibly linked to potential IFC noncompliance relating to its Sustainability Policy requirements and PS1. The complainant raises important concerns in relation to HBL's E&S performance, and CAO has concluded that there are preliminary indications of potential IFC noncompliance in relation to its review and supervision of HBL's application of PS1. However, the absence of any allegations of harm to the complainant as a result of HBL-financed projects means there is no plausible link with this potential noncompliance.

e) Additional Appraisal Considerations

As set out in the CAO Policy, the compliance appraisal must take into account a number of additional considerations. CAO must consider, among others:

- Whether Management has clearly demonstrated that it dealt appropriately with the issues raised by the Complainant or in the internal request and followed E&S Policies or whether Management acknowledged that it did not comply with relevant E&S Policies
- Whether Management has provided a statement of specific remedial actions, and whether, in CAO's judgment after considering the Complainant's views, these proposed remedial actions substantively address the matters raised by the Complainant
- The relevance of any concluded, pending, or ongoing judicial or non-judicial proceeding

⁴⁴ CAO Policy, para. 91.

regarding the subject matter of the complaint.⁴⁵

In this case, CAO:

- Acknowledges that IFC has provided assurance that HBL is expected to meet IFC requirements in relation to effective ESDD and project monitoring once the new ESMS policy has been fully operationalized. That said, CAO notes that HBL is not yet maintaining a PS1-compliant ESMS, despite 17 years of investments from IFC.
- Notes that, following receipt of the complaint, IFC reviewed HBL PS2 compliance in respect to the complainant's allegations of unauthorized dismissal, as well as internal grievance mechanisms. IFC also began reporting on PS2 considerations in reviews of client AEPRs and supervision reports.

CAO also understands that the complainant has initiated legal proceedings in Pakistan against HBL in relation to financial and reputational damages suffered as a result of his dismissal. These proceedings are not relevant to CAO's determination of whether the appraisal criteria are met since they are unlikely to resolve the issues pertaining to HBL's conformity with labor laws and standards that are relevant for analysis relating to PS2.

As described in Annex 4, no other considerations set out in the CAO Policy are relevant in this case.

6. CAO Decision and Next Steps

CAO determines that the complaint relating to HBL does not merit a compliance investigation.

The complaint raises important considerations about IFC's supervision in relation to HBL's E&S governance, systems, and procedures. However, CAO has not received any allegations of specific adverse E&S effects in the context of HBL-financed projects that can be plausibly linked to any potential IFC noncompliance. In addition, there are no preliminary indications of potential IFC noncompliance in relation to PS2. Consequently, the appraisal criteria are not met, and CAO will close the case.

This Compliance Appraisal Report is shared with the Board, the World Bank Group President, IFC Management, the client, and the complainant. CAO publishes this report as well as IFC's Management Response and client statement on its website.⁴⁶

⁴⁵ CAO Policy, para. 92.

⁴⁶ CAO Policy, para. 106.

Appendix 1: Complaint

Incident of Greenwashing and Failure of Internal Grievance / Independent Redress Mechanism of Habib Bank Limited (HBL)

Date March 4, 2022

Attention:

1. **International Finance Corporation (IFC)**
2. **CDC Group UK**
3. **State Bank of Pakistan (SBP)**
4. **Securities and Exchange Commission of Pakistan (SECP)**

Preamble

Directly or indirectly, Habib Bank Limited (HBL) is legally obligated in light of its collaborations / partnerships etc. like *investment of British International Investment, (formerly CDC Group plc, Commonwealth Development Corporation, and Colonial Development Corporation)*, UK Government's Development Finance Institution¹ as well as *commitments made by Aga Khan Development Network (AKDN – 100% ownership of AKFED) and Aga Khan Fund for Economic Development (AKFED – 51% ownership of HBL), to all its Sovereign and Multilateral Donors/Partners/Investors etc.*, requiring compliance with Sustainability / ESG / ESMS etc. standards, adopted by the Group/entity through resolutions of its respective Governing Boards, articulated in respective Group/entity level Policies; refer link to view list of AKDN Donors/Partners². Accordingly, HBL is also legally obligated to comply with a Loan Agreement (hereafter referred as agreement) it has signed with International Finance Corporation (IFC), dated April 09, 2015 – refer IFC investment number 34365.

Therefore to comply with various relevant Environment and Social (E&S) as well as Governance (Compliance) clauses specified in the said agreement, HBL Pakistan hired ██████████ ██████████ to formulate a Policy as well as to setup a Social and Environmental Management Systems Department (SEMS), to cross-cut and embed respective E&S requirements (to hereafter be read in conjunction with universal Sustainability/ESG obligations) in HBLs Policies, procedures, products and processes, applicable bank/entity-wide. On paper, SEMS is custodian of (i) Social and Environmental Policies of HBL (ii) internal owner to ensure Bank's Compliance with State Bank of Pakistan Green Banking Guidelines (iii) IFC Performance Standards (part of IFC investment executed on April 9, 2015) etc., (iv) CDC's Code of Responsible Investing based on Shareholding agreement with HBL etc.

In the year 2017, Country Regulator i.e. State Bank of Pakistan (SBP) issued the Green Banking Guidelines (GBG), which were expected to be implemented within one year of its issuance i.e. year 2018⁴ - this is confirmed through SBP⁵ (dated February 15, 2018).

██████████ who drafted the first ever SEMS policy for HBL in the history of Pakistan Banking Industry, was a key member of the Pakistan Bankers Association (PBA) and SBPs consultative committee, which subsequently led to the formulation of the SBP GBG. Therefore, upon issuance of the SBP GBG in 2017, an internal review of HBL SEMS Policy indicated Compliance with SBP GBG, given the existing connectivity of the two documents in certain key aspects i.e. HBL SEMS Policy 2016 and SBP GBG 2017; remaining SBP GBG provisos were adopted on "as is basis" alongside the existing 2016 SEMS Policy.

- [Wikipedia & CDC Group website](#)¹
- <https://www.akdn.org/about-us/our-partners>²
- [E&S Specialist however a Non-Banker](#)³
- As per SBP GBG⁴ – click links [Green Banking Guidelines \(ifc.org\)](#) and [State Bank of Pakistan \(sbp.org.pk\)](#)
- Refer⁵ Appendix-1

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In year 2020, HBL SEMS Policy underwent a major revision to include the actual text of all provisos of the SBP GBG as well as to update it against any possible revision in the Standards and Principles adopted by HBL (HBL became a member of GIP in year 2019). However, a clause contravening the spirit of the (i) 2016 SEMS Policy⁶ (ii) SBP GBG⁷ (iii) IFC and other adopted Standards and Principles, was included by the Management in the reporting process, whereby Head SEMS⁸ was made to report to Group Head Corporate, Commercial and Investment Banking Group (hereafter referred as Head CCIBG).

Meanwhile, as per IFCs feedback loop per the agreement, every year HBL was required to submit an annual E&S Performance report, in form and substance, satisfactory to IFC and substantially in the form of Schedule 9, evaluating the environmental and social performance, describing in reasonable detail (i) implementation and operation of the E&S Management System and (ii) the environmental and social performance of the client⁹.

In Q3, 2020, HBL was informed by IFC that based on its year 2019 E&S Performance Report i.e. Annual Environmental Performance Report (AEPR), IFC had assigned HBL, a negative assessment with respect to high E&S risk apparently due to (i) poor E&S Compliance (ii) high portfolio risk. However, this communication was done verbally at the highest level and officers of HBL SEMS neither received any request for information from IFC regarding this assessment (performance gaps) nor are they aware of the basis of this adverse IFC E&S rating¹⁰.

To address HBLs high E&S risk rating issue by IFC¹¹, a Technical Assistance on Environmental and Social Risk Performance Improvement Advisory Engagement (hereafter referred as engagement) dated May 7, 2021 was signed between HBL and IFC¹².

Creation of a New Post of Deputy General Manager as well as Head Planning and Implementation SEMS

To ensure practical implementation of the SEMS Agenda, Head HBL SEMS, [REDACTED] post agreement of HBL President & CEO, [REDACTED] as well as other relevant personnel including Human Resources (HR) created a position as (i) Head Planning and Implementation (ii) back-up official to Chief Green Banking Manager (CGBM) and (iii) successor to Head/GM SEMS. For the same, he selected a senior Deputy General Manager, [REDACTED] to join HBL SEMS dept. in that capacity¹³.

- Refer Appendix 1 i.e. compliance comments on 2016 SEMS Policy post-facto sign-off sheet⁶
- Refer mandate of Green Banking Office (GBO), as per SBP GBG⁷
- Chief Green Banking Manager(CGBM)⁸
- Extract of pages 4&5 of agreement⁹
- Comment does not necessarily suggest disagreement with the IFC assessment of HBLs E&S obligations¹⁰
- Based on verbal communication as clarified above¹¹
- Refer IFC Project No. 603761. [REDACTED] (IFC Manager Asia and Pacific, ESG Sustainability Advice & Solutions Department) signed on behalf of IFC whereas [REDACTED] who is Head Investment Banking department, signed for HBL (pertinent to note that [REDACTED] to date had not been issued with a Power of Attorney to sign on behalf of HBL, even for his own jurisdiction i.e. SEMS dept.¹²

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Mr. [REDACTED] had over 14 years of association with HBL, out of which, almost 5 years with HBL International Banking and 7 years with HBL International Compliance. Prior to his internal movement in June 2021 to SEMS dept., [REDACTED] was reporting to the Head of HBL International Compliance, [REDACTED] who has also been a long serving, and still is, Banking Chair at International Chamber of Commerce - Pakistan chapter (hereafter referred as ICC).

Whilst SEMS dept. since year 2016, had initiated categorization and classification of Corporate and subsequently Commercial Banking lending relationships, hardly any other aspect of SEMS Policy was implemented. Moreover, SEMS department was also unable to extend the approach of the SEMS Policy on HBLs other business units i.e. Investment, Consumer, Retail, Islamic etc.

Due to lack of resources and other imposing factors¹⁴, SEMS dept. was also unable to implement any “cause and affect” mechanism, particularly for Category A borrowers, to determine and identify those borrowers who may be in breach of their Environmental and Social Management Plans (hereafter referred as ESMP), thereby unable to ultimately ascertain borrowers’ commitment to applicable E&S laws as well as working of borrowers’ redress mechanisms, amongst others. [REDACTED] upon joining was advised by [REDACTED] his line authority i.e. Head SEMS¹⁵ – to review and propose draft points for HBL’s enhanced SEMS Policy¹⁶.

Accordingly, [REDACTED] undertook a comprehensive review and assessment of the SEMS department in light of SEMS Policy obligations and objectives, IFC/CDC requirements, SBP GBG stipulations – key findings are noted as under;

1. HBL-IFC agreement was only made available to the SEMS dept. during year 2020; prior to which SEMS was unable to determine the E&S obligations of HBL under the same
2. To date SEMS did not have in its record, HBL agreement with CDC Group UK
3. Bank’s Senior management was neglecting implementation of the ESMS Group/entity-wide¹⁷ – BD Policy
4. SEMS was unable to meaningfully work with any category of borrowers to develop their internal ESMS and or assess their quality of ESMS implementation
5. SEMS was unable to capacitize staff to develop Group/entity-wise operational procedures and processes
6. There were no documented or approved artifacts on record viz. the top down (i) Organization chart of SEMS dept. (ii) its line reporting structure; and (iii) Authority etc.¹⁸ – there were no separate budgets or headcount allocated to SEMS
7. Decision to grant credit was being taken Risk, prior to any assessment of the proposed lending by SEMS dept. or without taking into account their SEDD or E&S Category etc.
8. Absolute influence of Business to grant SEMS approval without undertaking proper SEDD; key documents like respective Provincial Environmental Protection Agencies (EPAs) No Objection Certificates (NOC) were not being shared with the SEMS dept., impacting borrower/portfolio classification
9. Business was not sharing Client ESAPs/ESMPs for tracking by SEMS; to pin-point borrowers breaching applicable E&S laws and / or applicable IFC PS¹⁹ - even in 2021 business continued to use 2016 SEDD template instead of 2020 policy SEDD template
10. SEMS were unable to assess if borrowers redress mechanisms were in place or effective, if any,
11. SEMS was not made part of the legal review (if any) of borrower loan documents
12. SEMS was not made part of the selection process (if any) for appointing external E&S consultant

Incident of Greenwashing and Failure of Internal Grievance / Independent Redress Mechanism of Habib Bank Limited (HBL)

Date March 4, 2022

13. There was no process or information on record if IFC was being informed²⁰ while onboarding Category A clients – Section 5.01 i.e. affirmative covenants, sub-point (p) while onboarding Cat A client (other than info. being shared through AEPR)
14. SEMS Policy had not been implemented at International Branches or local / international subsidiaries²¹, even in locations where Country Regulators had issued guidelines - UK email/Saif emails
15. There was no formal approval/acknowledgement of SEMS plan by Senior management
16. A high degree of (i) coercive (ii) collusive (iii) obstructive practices were experienced, impacting the objectives of SEMS operations and constantly creating conflict of interest issues
17. HBL had been unable to launch its in-house (i) sustainable energy finance product or (ii) undertake any other Climate-Related Financing activity, either in Pakistan or in any of its international branches or subsidiary etc. - no clear domestic / international business strategy on targeted sectors
18. Despite a high carbon intensive portfolio, %age of transactions rejected since signing of the agreement, were negligible
19. Lack of mechanism to obtain non-financial reporting from borrowers or to ascertain if any complaint or litigation had been filed by any affected individual/party against any of HBLs borrowers
20. There was no formal mechanism for periodic reporting of E&S issues to the Management / Board or its Committees – accountability for E&S issues was so far, not included in any Board Committee’s Terms of Reference (ToRs)
21. No periodic or annual E&S/sustainability reports were being prepared for any internal or external stakeholder
22. HBLs compliance with SBP GBG was weak and ad-hoc

Therefore, since creation of SEMS Policy and dept. since year 2016, ██████████ had continuously been trying to convince the senior management and Board members on the need to enhance compliance with the objective of SEMS Policy objectives, however it was only due to IFCs action of Q3, 2020 which compelled management to allow ██████████ to bring in a senior banking resource to practically develop SEMS operating procedure to implementation SEMS processes across the 3LoD model.

Hence, to measurement and monitoring the anticipated Impact (consistent with IFCs AIMM), ██████████, consistent with his job description (JD) and Key Performance Indicators (KPI) as well as due knowledge and approval of ██████████ undertook necessary steps, some of which asunder;

1. To ensure proper segregation of duties etc., HR was asked to (i) provide additional headcount (ii) clarify confusion in top-down organization chart and authority²²
2. SBP was requested to clarify SEMS organizational and other requirements²³ as stipulated in GBG
3. Engagement with internal stakeholders was initiated to further operationalize SEMS role²⁴
4. Drafting of enhanced SEMS Policy and procedures document was initiated²⁵
5. Revamping of SEDD review mechanism was initiated²⁶
6. HBL SEMS future forward pathways (actionable objectives) were included in HBLs Risk Appetite Statement (RAS) and had it approved by the Board²⁷
7. A sustainability plan was presented to the President & CEO for submission at Group/entity level, showcasing HBLs transition proposal²⁸
8. Proposal to address deadlock regarding how to achieve the objectives of IFC Technical Assistance was submitted for President & CEO approval²⁹

- Refer²⁵ artifact of Citation 16

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9. Proposal to address deadlock regarding how to achieve compliance with SBPs Risk Control Self-Assessment (RCSA) guidelines exercise related to SEMS, was submitted for President & CEO approval³⁰
10. Proposal to institutionalize SEMS function at Group/entity level was submitted to Chief Human Resource Officer (CHRO), for necessary approval³¹

Evaluation Assessment

In light of the on-ground experience, backed by documented artifacts, following is the expert assessment of the now defunct, DGM SEMS and Head Planning and Implementation, [REDACTED]

1. SEMS department was being coerced to exercise “Greenwashing”
2. Complete failure of HBLs internal grievance/redress mechanism
3. Bad conduct and governance on part of personnel who are custodians of HBL whistle blow policy
4. Absolute disregard towards compliance of (i) SBP GBG and other Guidelines (ii) IFC Performance Standards and other Policy etc. obligations, by Board, President and Key Management team members
5. Coercive, collusive and obstructive actions exercised by President and Key Management team members
6. SEMS departments was being intimidated to commit Regulatory breaches and violate contractual obligations
7. Illegal meddling to undermine SEMS departmental authority to impose on SEMS objectivity
8. Willful negligence of applicable SBP and Securities and Exchange Commission of Pakistan (SECP) guidelines on Good Governance and Business Conduct

Statement on Incident of Grievance

Up until the illegal, unauthorized, wrongful and constructive termination/discharge (**Since [REDACTED] did not voluntarily resign, he is terminated**) [REDACTED] total length of service with Habib Bank Limited (HBL) stood at over 14 years (Joining date 08/01/2008). His cadre with Bank was Deputy General Manager (DGM). On June 07, 2021, after completion of due internal processes, took charge as DGM/Head Planning and Implementation (P&I), Social and Environmental Management Systems (SEMS) at HBL Social and Environmental Policy Department, reporting to its General Manager/Departmental Head (GM/DH), [REDACTED]

In compliance of State Bank of Pakistan (SBP), Green Banking Guidelines (GBG) and Bank’s SEMS Policy requirements, this office is also designated as HBL’s “Green Banking Office” (GBO) where the GM/DH is concurrently working as HBL’s “Chief Green Banking Manager” (CGBM). The office GM/DH SEMS and CGBM is a control position under necessary stipulations, and due intimations/confirmations have to be provided to SBP and Multilateral Shareholders i.e. (i) CDC Group Plc (entirely owned by the UK Government) (ii) International Finance Corporation (IFC), World Bank Group (WBG), about the structure and working progress of SEMS/GBO. As per internal Succession Plan, Assad was back-up official to GM/DH SEMS and CGBM.

Position of DGM SEMS/Head P&I, necessitated by applicable compulsions, was duly created by GM/DH SEMS, after discussions and concurrence of Management member, [REDACTED] Head Corporate Commercial and Investment Banking (CCIBG), as well as HBL President & CEO, [REDACTED] Amongst other requirements, key reason of [REDACTED] appointment in this role was to develop SEMS Policy and Procedures, to conform with provisos of SEMS Policy, SBP GBG and Multilateral Shareholder agreements; and implement the same cross-functionally, including HBL’s overseas branches and domestic/ international subsidiaries. Job description of [REDACTED], duly approved by his Supervisor/line authority (authorized person). This internal transfer was a courageous step for [REDACTED] as he was due for his usual promotion (based on 3year policy), at year end 2021 appraisal cycle, which his supervisor/line authority i.e. Head International Compliance (IC) assured would

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happen, in case [REDACTED] decided not to move. However, given that [REDACTED] was already meeting the usual yearly criteria of promotion, as his appraisals of past 2 year appraisals (2019+2020), including his to date 2021 performance, were all top notch, he would attain the due promotion, naturally.

Subsequent to joining of [REDACTED] as back-up/successor, GM/DH/CGBM (amongst other competing tasks) instructed him to complete the following assignments, on priority (in addition or repetition of those stated above);

- **Task 1:** Complete Management sign-offs and obtain Board approval on the Green Banking Policy of HBL Bangladesh operations (Regulatory local requirement), which had been pending for over year due to undue interference of Head Investment Banking (IB), [REDACTED]
- **Task 2:** Obtain post-facto SBP approval on advisory contract signed between Head IB and IFC, without following of due internal and SBP processes; and upon initiation of advisory, assist with the engagement based on SEMs mandate, as per agreed timeline
- **Task 3:** Review and address SEMs observations, to complete the Risk Control Self-Assessment (RCSA) exercise, in compliance of requirements with SBP Compliance Risk Management Guidelines (CRMG)
- **Task 4:** strengthening of HBL SEMs Departmental Structure, separate Budget, revision of Policy and development of procedures etc., to comply, in letter and spirit, based on gapping with applicable requirements
- **Task 5:** SBP clarification advice on the status of independence of SEMs function, in light of GBG (connected to Task 4)

Thereafter, despite dearth of resources (financial/staff etc.), [REDACTED] dived into formulating plans to complete the above priority tasks, amongst others. Whilst [REDACTED] after a lot of effort, was able to complete Task 1 completely and Task 2 partially; in case of Task 2, SBP, while issuing approval, also warned HBL to ensure avoidance of such oversight by Management.

During all this time, GM/DH SEMs and [REDACTED] constantly discussed a crucial issue being faced by them both i.e. undue influence, intimidation, coercion, interference of Head CCIBG and Head IB, directly and through their Managers, impairing the affairs of SEMs Departmental matters, including rowdy attitude towards GM/DH SEMs and [REDACTED] matter was duly discussed by GM/DH SEMs with Head CCIBG, but to no avail; in fact GM/DH SEMs was being advised that, contrary to the stated requirements, he should consider Head IB as his supervisory/line authority, instead of Head CCIBG. However, in the interest of taking the agenda forward, and commitment towards HBL/Group objectives, it was decided not to formally report this to Human Resources, as required under HBL Policies including Policy on Code of Ethics and Business Conduct, to avoid compounding unnecessary complications that were already being faced by SEMs Department; however, in light of the following adverse, wrongful, willfully ignorant and unauthorized action experienced by GM/DH SEMs and [REDACTED] it proved a naïve conclusion.

In case of the remaining activities of Task 2 and finalization of Task 3, Head IB and CCIBG started pressurizing GM/DH SEMs and DGM/Head P&I SEMs to sign-off on documents which were in violation of IFC agreement and SBP CRMG; same is true for Task 4 where SEMs recommendations for formal institutionalization (creation of a separate function) was not being agreed. Numerous meeting, discussion, calls etc. were held to convey SEMs point of view however in vain; instead SEMs Department was being constantly

influenced and its work being impaired as it was not agreeing to the illegal recommendations of Head IB and CCIBG; physical documentation of these activities was also being constantly discouraged. During September 2021, pressure and hostility on part of Head IB and CCIBG increased tenfold, GM/DH SEMs accordingly formulated Departmental memorandums, for HBL President and CEO, documenting the necessary actions, to be taken to comply with requirements under Tasks 2/3/4.

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Concurrently during early September 2021, both GM/DH SEMS and DGM/Head P&I SEMS started experiencing Covid symptoms. Based on laboratory results of September 08, 2021, ██████ tested positive for Covid-19. Whilst ██████ was kind and despite experiencing moderately severe symptoms, ██████ was able to quarantine at home and ride out the infection; however, all this time, due to undue work pressure, ██████ was effectively able to manage work from home. It was during this time when ██████ as advised by his supervisor/line authority i.e. GM/DH SEMS, drafted the said SEMS memorandums, which were signed and sent by GM/DH SEMS to President & CEO HBL.

Upon completion of the mandatory quarantine period and result of retest dated September 27, 2021, ██████ resumed office on Tuesday September 28, 2021. On Wednesday September 29, 2021, ██████ received an email meeting invite from staff of Head IB captioned *Meeting with ██████ - Important Matter*. Unusual to norms and procedures, it was not copied to GM/DH SEMS. ██████ duly forwarded to him the message, whereupon query was raised with Head IB on what the matter was about and why it was not copied to Head SEMS. Instead of responding to queries, Head IB kept insisting that ██████ attend the meeting and presence of GM/DH SEMS (supervisory/line authority) is not required. Despite non-receipt of any meeting agenda, ██████ accompanied by supervisory/line authority, physically went to attend the meeting.

In the meeting of Wednesday September 29, 2021, apart from ██████ his supervisory/line authority and Head IB, Head Talent and Human Resource Relationship Management WS and Support (HRRM), ██████ was also present. Prior to this time, ██████ or his supervisory/line authority were not made aware that HR would be present at the meeting; nor was HR copied on the email meeting invite sent to ██████ After seating, Head IB, ██████ informed ██████ that the "Management" had decided they no longer require his services. When ██████ asked for a reason, none was provided however Head IB, stated that as Task 2/3/4 were not being signed-off, as being guided by Head IB and CCIBG and that was causing difficulty. Head IB also showed his dismay over SEMS Department getting in touch with SBP and ordered both GM/DH SEMS and ██████ not to do so in future. To this ██████ and his supervisory/line authority responded that, as part of their mandate, they had every right to officially contact relevant Departments of SBP, for any necessary guidance and advice; ██████ also stated that memorandums containing necessary actions, required to complete these tasks, had already been shared with Head CCIBG and President & CEO, for perusal. ██████ further added that if Management wished to sign-off on these tasks, without taking SEMS recommendations into account, it has authority to do so however ██████ could not be pressurized/coerced/intimidated to sign-off anything which violates rules, procedures or legal and regulatory stipulations; his supervisory/line authority echoed the same stance. ██████ supervisor/line authority also protested to both Head IB & Head HRRM on what was going on, without any rationale or justification. At this point Head HRRM, ██████ advised ██████ that given his stance, the only choice left for him is to sign a resignation letter, there and then, that was already drafted by HR and kept on the table, in front of everyone, and if ██████ does not resign voluntarily, he will be terminated from the services of HBL; she also advised ██████ that if he signs voluntary resignation, he would be paid salary and benefits for a period of 3 months, instead of only one month. In between this comment, she received a call from Head HR operations on her cellphone, ██████ to his query (unheard by any of us), she responded that discussion with ██████ was ongoing and she will advise him if there is a need to issue a termination letter for ██████ Based on this response, it is logically inferred that query of Head HR operations, in all probability, was if they should issue ██████ termination letter; for the ██████ this was an act of grave intimidation, due to which, he was completely flustered.

██████ felt completely humiliated & insulted, with the way Head IB, ██████ and Head HRRM, ██████ tried to intimidate and threaten his employment, giving him instant notice to either resign or get terminated; by overriding the authority of his GM/DH. They did not provide ██████ with any answers, except a remark that "its Management Decision". ██████ implored with ██████ to be true as a human, as this was absolutely wrong at all levels wherein she, being HR, was supposed to be there in a neutral capacity to protect the right of employee, but based on her actions, ██████ understanding proved otherwise. ██████ supervisor also pleaded

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with both Head IB and HRRM not to execute this illegal and unauthorized action, as he was not party to it and he had not requested for it. ██████ was equally amazed at how, instead of his own supervisory/line authority, who was kept oblivious of the whole situation, Head IB and HRRM were giving him ultimatums. Both ██████ and his supervisory/line authority tried to reason with them, advising them that this action is against Bank's Policy & procedures and commitments, including HR Policy etc. and even if there was an issue, due process has not been followed; on strong intervention by ██████ supervisor/line authority, he was also intimidated by Head HRRM with the comment that his turn would also come (as he had also already been called by Chief Human Resource Officer, CHRO, for a meeting the next day at his office at 12:00pm). In the end, ██████ and his supervisory/line authority, asked both Head IB and HR, to do as deemed appropriate by them. Thereafter Head HRRM advised ██████ that his termination letter is being issued and his email ID will be blocked and suspended within an hour, he should consider that day as his last working day, he should clear out his desk, there and then and leave the premises of HBL, never to return. Meeting completed, ██████ supervisory/line authority met Head IB & HRRM and reiterated to them to follow any due processes and that he would procedurally approach this absolutely uncalled for action based. ██████ left thinking how such people in Leadership & Grooming roles, blatantly ignore the system or behave in ways, ultra-virus to institutional stature.

In an hour ██████ email was blocked and suspended. When outside the meeting room, GM/DH SEMS assured DGM/Head P&I SEMS, that he will leave no stone unturned to resist this illegitimate action. He also reiterated that this illegal and unauthorized action was due to the memorandums which had submitted to the President and CEO, against the directions of Head CCIBG.

Given the emotional and psychological distress due to this instance (██████ was already barely recovering from Covid-19 infection) and being left without a choice to work due to blocking of his email ID, ██████ under advice of GM/DH SEMS, did not attend office for the remaining week. On Saturday October 02, 2021, Letter of Termination Simplificator (LTS), was delivered at ██████ home address. Careful review of the LTS will clearly highlight, that it does not include ██████ designation as "DGM SEMS/Head Planning & Implementation" nor it notes his function as "SEMS" RATHER it only notes his organizational cadre & indicates his function as "Investment Banking", which is not the case as SEMS Department, as per rules and procedures, is independent of any function, where ██████ was posted; this is deliberate masking of required HR information. On the same day ██████ as per available procedures, wrote to the President and CEO, narrating the detail of this unjust and unfair instance. ██████ also offered to the President and CEO, his 14 years work record with HBL, for any special internal or external investigation/audit, as necessary to assess the circumstances, that have led to this. Subsequently, a reminder message was sent to the President and CEO on October 02, 2021 however no response was received. Thereafter on October 22, 2021, ██████ sent a message to the management whistle blow team to look into the matter. Whilst the whistle blow team did respond, on same day, however their advice was misguiding, as ██████ case was of a different category, as opposed to the direction of the management whistle blow team. ██████ also immediately wrote back on same day, reiterating his case however there was no further response to his email. Accordingly, ██████ on October 27, 2021, after having waited for almost a month and without any recourse, wrote to the Board whistle blow team. ██████ also wrote to other relevant HBL Directors as well as to the Ultimate Beneficiary Owner (UBO) i.e. AKDN.

Violations Assad was being pressurized to make by signing-off Task 2/3/4

- Breaching specific provisos of HBL and IFC loan agreement, dated April 09, 2015
- Breaching specific provisos of Technical Advisory agreement signed by Head IB with IFC, dated May 07, 2021
- Breaching specific provisos of SBP Green Banking Guidelines
- Breaching specific provisos of SBP Compliance Risk Management Guidelines
- Breaching specific provisos of SBP corporate governance
- Breaching specific provisos of SECP corporate governance

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Violations by Bank officials highlighting wrongful/illegal/unauthorized actions

- Breaching specific requirements of CDC Group Plc UK (Shareholder)
- Breaching specific provisos of SBP corporate governance
- Breaching specific provisos of HBL Social and Environmental Policy (IFC PS 1&2)
- Breaching specific provisos of HBL Human Resources Policy and Manual (Termination)
- Breaching specific provisos of HBL Staff Service Rules
- Breaching specific provisos of HBL Policy on Ethics and Business Conduct
- Breaching specific provisos of HBL Whistle Blow Policy
- Breaching specific provisos of HBL Grievance procedures / processes
- Breaching specific provisos of Industrial Relations Ordinance
- Breaching specific provisos of Industrial and Commercial Employment Ordinance

Note:

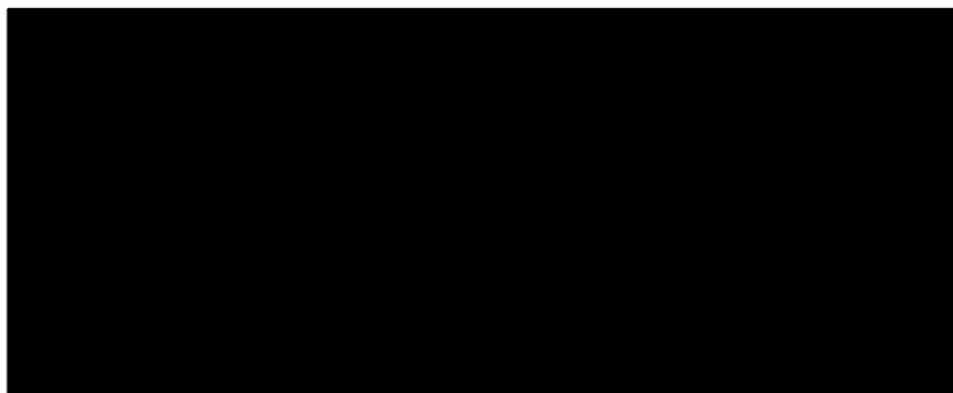
Additional written record may be called upon as deemed necessary.

Inactions of HBL Board, President and Senior Management Failure of HBL Redress Mechanism

There was NIL positive attempt or recourse on part of any relevant individual in HBL Board and Management, to try to understand the situation and resolve it meaningfully, in fact, as stated in the above Statement, on October 29, 2021 Head/GM SEMS was also terminated (Simplicitor) and escorted out of HBL Head Office Premises by Guards (later he described it as nothing less than human degradation and intimidation) – refer communication at all levels by;

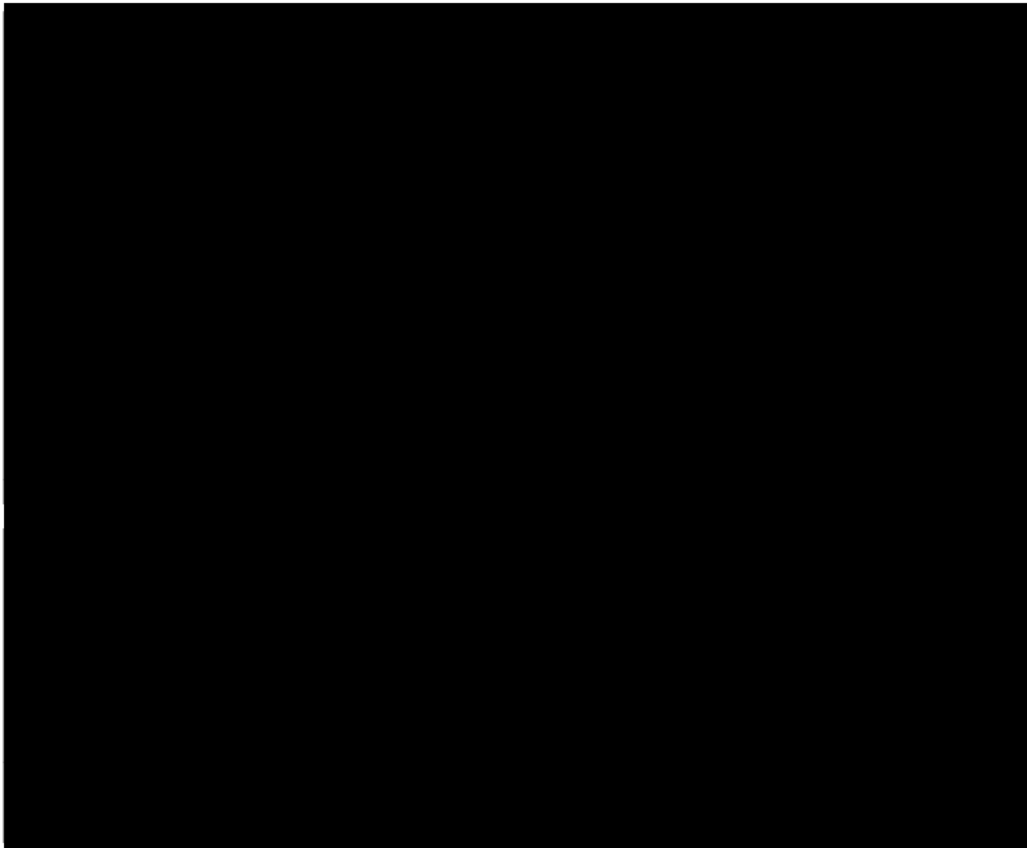
1. Endeavors of Line Authority - [REDACTED] – Head/GM – Social and Environmental Management Systems (SEMS)

Correspondence Trail 1 – as per HBL Whistle Blow Policy



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**Matter Requires Immediate Attention (MRIA) through Independent Investigation and Evaluation by
IFC / CDC Group UK / SBP / SECP**

Based on the detailed information and documentation made available with this letter as well as with respect to Principles on Ethical and Responsible Investing etc., HBL Shareholders are being made aware of the matter with the intention that unless the matter is redressed Impartially, it has the potential to lead to the following, amongst others;

1. Make current IFC investments in Pakistan, susceptible to E&S issues creating Financial, Reputational, Credit and Liability risks, that may give rise to unwanted Civil Rights litigations
2. Breach IFCs Operating Principles for Impact Measurement and Performance Standards, hurting the image of IFCs MCPP program and its investors
3. Render IFC's "stamp of approval" and environmental and social leadership being issued to borrowers, as Greenwashing
4. Indirectly affect IFCs future forward MCPP One Planet objectives

Making frameworks is not enough; measuring its progressive delivery is even more crucial to achieve results and for success. Don't just show the concern, demonstrate it; is this the "walk the talk" message HBL or its Shareholders wish to convey? I believe that actions speak louder than words; I follow this mantra; fathers gift!

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Previous Supervisors at HBL

Direct Line (HBL HR records may be referred for assessing agreed self-appraisal with supervisors)

1. ██████████ – GM/Head International Banking HBL & Banking Chair ICC Pakistan
2. ██████████ – Chief Compliance Officer Askari Commercial Bank Limited – Ex-Head/GM Business and International Compliance HBL
3. ██████████ – Independent Director – Ministry of Finance (MoF) – Ex-Head/ GM Network Management International Banking
4. ██████████ – Ex-GM/ Head – Service Quality and Network Planning & Services

Dotted Line – Direct interaction with each individual (HBL HR records may be referred for assessing appraisal agreed between supervisors and group head)

1. ██████████ – Ex-Chief Compliance Officer HBL
2. ██████████ – Chief Compliance Officer National Bank of Pakistan (NBP) and Ex-Chief Compliance Officer HBL
3. ██████████ – Ex-Chief Compliance Officer and Chief Internal Auditor (CIA) HBL
4. ██████████ – Ex-Chief Compliance Officer, Ex-Director ECO Bank and Ex-Chief Operations Officer and nominee Director ABN AMRO Bank, Pakistan Country Operations
5. ██████████ – National Transmission and Dispatch Company Limited, Ex-President & CEO HBL
6. ██████████ – Ex-President Askari Commercial Bank Limited and Ex-Group Head Retail/Ex-Group Head Operations HBL

While at HBL, ██████████ also had direct interactions with;

1. ██████████ – Ex Governor SBP and Ex-Regional General Manager HBL
2. ██████████ – Deputy Governor SBP, Ex-President United Bank Limited (UBL), Ex-Head Retail and Corporate Commercial and investment banking Head HBL
3. ██████████ – HBL Nominee Director HBL at First Women Bank Pakistan, Senior Credit Officer (SCO)/GM Risk HBL
4. ██████████ – Company Secy. ICI Pakistan and Ex-Company Secy./Head Legal HBL
5. ██████████ – Chief Compliance Officer and Ex-Chief Internal Auditor HBL
6. ██████████ – CDC (UK) Country Director, Ex-Regional General Manager Bangladesh and Afghanistan HBL
7. ██████████ – HBL UK (Zurich Branch)
8. ██████████ – Compliance Head HBL UK (London)

Post Script Emotions

I feel insulted, humiliated, de-humanized as HBL's Board Chairman, other Directors, President & CEO or other senior management members showed no empathy and adopted an almost master-slave treatment (contrary to anti-slavery act). I was doing extremely well prior to moving to HBL SEMS, in fact, my promotion to Deputy General Manager – II was due as per regular appraisal cycle 2021. My colleagues were unable to understand why I was making this career changing decision however I knew and bravely decided to become the Custodian and Guardian of IFC PS / GBG / CDC PRI / GoP MLAs etc. Standards and obligation HBL decided to adhere to; I guess it was my way of wanting to give back (apart from Thought Leadership and Future forward career move).

Due to vested interests, in an instant I was deprived of my primary and only (i) source of income (ii) source of wealth (iii) insurance cover for self and family, leaving me and family vulnerable in such trying times, such as

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Corona Virus Global pandemic – we have been surviving on savings which we put away (so far) as our Children's higher/college education fund.

Regulators and Shareholders and all other concerned are thereby asked whether;

1. This acceptable behavior and not Sanctioned Practices along with Greenwashing?
2. Such actions are considered humane and rationale?
3. These are consistent with their Principles and Standard?
4. This systematic abuse is liable to be termed as consistent with clauses of anti-slavery?
5. This is not absolute discrimination and grave injustice?

I rest my case for any Independent evaluation of circumstances by those genuinely considered as responsible.

[Redacted]

[Redacted]

S/O Air Vice Marshal (Retd.) [Redacted] PAF
Citizen of Pakistan

Appendix 2: IFC Management Response

INTERNATIONAL FINANCE CORPORATION

**MANAGEMENT RESPONSE
TO THE CAO COMPLAINT**

ON

**HABIB BANK LTD, PAKISTAN
(PROJECTS #34365 and #603761)**

February 13, 2023

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ABBREVIATIONS AND ACRONYMS

CAO	Office of the Compliance Advisor Ombudsman
E&S	Environmental and Social
ESAP	Environmental and Social Action Plan
ESDD	Environmental and Social Due Diligence
ESG	Environmental, Social and Governance
ESRM	Environmental and Social Risk Management
ESMS	Environmental and Social Management System
HBL	Habib Bank Limited
IFC	International Finance Corporation
LTS	Letter of Termination Simpliciter
PSs	IFC's Performance Standards
SEMS	Social and Environmental Management Systems

EXECUTIVE SUMMARY

- i. **Background.** On March 3, 2022, the Office of the Compliance Advisor Ombudsman (CAO) received a complaint (the “Complaint”) from a former employee (the “Complainant”) of Habib Bank Limited (HBL), a Client of the International Finance Corporation (IFC), located in Pakistan. CAO determined the Complaint eligible on April 22, 2022, and upon the request of the Complainant, it was referred to IFC. Between April and August of 2022, IFC directly engaged with the Complainant and HBL, facilitating discussions to amicably resolve the Complaint.
- ii. At the same time, IFC conducted its own review of the concerns raised, covering claims related to the Complainant’s dismissal and HBL’s whistleblowing processes, as well as the allegations of “greenwashing” (as described by the Complainant). IFC also requested the opinion of external legal counsel for consistency with local law on terminations.
- iii. At the Complainant’s request, the Complaint was referred back to CAO for assessment. CAO submitted its Assessment Report in January 2023. Since there was no agreement on a CAO-facilitated dispute resolution process, the Complaint was transferred to CAO’s compliance appraisal function.
- iv. **IFC investment.** HBL has been an IFC Client since 2006. The Complaint relates to two projects: (1) a senior loan with a tenor of up to US\$150 million, comprising an A loan of US\$86 million for IFC’s account and a loan of up to US\$64 million mobilized from the Managed Co-Lending Portfolio Program (#34365), and (2) a related advisory services project (#603761), which includes assisting HBL in strengthening environmental and social (E&S) risk management.
- v. **Complaint.** The Complainant made the following allegations, as described in the CAO Assessment Report:

(1) Alleged “unauthorized dismissal”: The Complainant claimed that in the course of his work as part of the Social and Environmental Management Systems (SEMS) team, he experienced undue intimidation and threats from other HBL units. He argued that the purpose of these actions was to impede him from correctly implementing HBL’s SEMS unit’s agenda, including HBL’s commitments to IFC. He further stated that the situation escalated and alleged that he was unfairly dismissed from his position as Deputy General Manager and Head of Planning and Implementation of HBL’s SEMS unit. According to the Complainant, HBL gave no formal explanation of his termination, although he claimed his reluctance to sign off on E&S documentation and tasks were mentioned as factors. He was offered the opportunity to resign, which he refused. The Complainant then received a Letter of Termination *Simpliciter* (LTS) from HBL, which did not state a reason for his dismissal. The Complainant stated that he was unable to secure employment as a result of the LTS. The Complainant also filed a judicial claim before the Pakistani court against HBL for breach of contract and damages. The judicial claim is ongoing.

(2) HBL’s alleged mismanagement of its whistleblowing mechanism: Upon receiving the LTS, the Complainant stated that he sought an internal audit from HBL’s President and Chief Executive Officer and approached HBL’s Whistle Blow Unit but received no response. He indicated that he further wrote to the HBL’s Board of Directors but stated that it did not respond to his complaint.

(3) Alleged non-compliance with national and international E&S standards: The Complainant alleged non-compliance with E&S standards and a practice by HBL’s asset managers of misrepresenting their own sustainability-related practices or features of their investment products, as well as environmental, social and governance (ESG)-related misconduct, which he referred to

as “greenwashing.” The Complainant also alleged intimidation and threats from HBL units to sign off on E&S documentation not in accordance with IFC’s Performance Standards (PSs). The Complainant further claimed that HBL management did not make good faith efforts in implementing the SEMS unit recommendations, including in relation to SEMS unit budget, staff, and institutionalization.¹

- vi. **Management Response.** IFC responds to each of the Complaint allegations below:
- vii. Regarding claim (1), “**unauthorized dismissal,**” upon receipt of the Complaint, IFC’s E&S team supervising implementation of HBL’s Environmental and Social Management System (ESMS), an IFC PS2 Specialist, and an IFC local PS2 consultant who was familiar with Pakistan-specific labor laws and context conducted their own review of the Complainant’s case. An HBL internal audit undertaken to assess the validity of the Complainant’s claims and reviewed by IFC did not find violations of HBL’s policies regarding the dismissal. IFC also reviewed HBL’s labor policies and procedures against PS2 requirements. IFC also requested an independent local legal counsel to review and opine on HBL’s human resource policies and procedures as applied to the Complainant’s termination, taking into consideration national laws and market practices. In order to assess whether this incident reflected a pattern of similar incidents in relation to human resources, IFC also reviewed the results of HBL’s employee engagement survey from 2021. Based on this review, IFC did not find any indication that the individual case of termination of employment was not aligned with PS2 and national law requirements or raised issues that were systemic in nature.
- viii. IFC takes seriously any credible allegations of reprisals. As described in the CAO Assessment Report, IFC engaged with both the Complainant and HBL during the referral period to understand the justification and process for the Complainant’s termination of employment and to find an amicable solution. IFC has verified that although HBL has filed a claim regarding repossession of its dues and property (including an HBL laptop and a loan that the Complainant had borrowed as part of *Staff Auto Finance* and which he was requested to repay after the termination), it does not appear to have engaged in retaliatory action against the Complainant.
- ix. With regard to claim (2), **HBL’s alleged mismanagement of its whistleblowing mechanism,** IFC reviewed HBL’s whistleblowing mechanism. The review included (a) an assessment of the whistleblowing mechanism’s accessibility, including staff awareness of the mechanism, (b) a determination of the adequacy of the whistleblowing mechanism, including record keeping of complaints, description of the investigation process, committees in place to facilitate decision making, and (c) a review of a sample of responses provided by HBL to complaints received through the whistleblowing mechanism, over the past year. IFC notes that the Complainant was aware of the existence of the Whistle Blow Unit, which he approached directly. In this case, IFC understands HBL’s Whistle Blow Unit acknowledged receipt of the Complaint and advised the Complainant of his right to appeal the LTS, which he did not pursue. HBL’s internal audit assessed the validity of the Complainant’s claims but did not provide further feedback to the Complainant on the matter. HBL stated this was because it had received legal advice to not engage in written communication with complainants when there were ongoing legal processes, which was the case here.
- x. Based on its review of the Complaint, IFC found that HBL’s actions were aligned with their policies regarding its whistleblowing mechanism. While IFC’s review did not find systemic concerns with regard to HBL’s whistleblowing mechanism, it did identify opportunities to strengthen its accessibility and responsiveness and is supporting HBL in this regard – in particular, improvement

¹ See *CAO Assessment Report*, pp. 3-4.

in HBL’s internal communication about its whistleblowing mechanism and responses to complainants in cases that are pending in court, along with a need to enhance timely responses.

- xi. IFC also notes that, in line with IFC requirements, the whistleblowing mechanism did not impede access to other judicial or administrative remedies that might be available under the law given that, as mentioned above, the Complainant effectively exercised his right to file a claim for breach of contract against HBL, which is pending before the Pakistani court.
- xii. In response to claim (3), ***alleged non-compliance with national and international E&S standards***, IFC reviewed the report of the Client’s Audit team, as it covered both the Complainant’s termination of employment and allegations of “greenwashing,” as described by the Complainant. HBL’s audit report did not find evidence of greenwashing or intimidation regarding approval of E&S documentation. IFC further conducted its own review of HBL’s portfolio to determine whether HBL was intentionally downgrading higher E&S risk transactions to extend loans. IFC also asked the Complainant to indicate transactions where such alleged behavior could have led to potential non-compliance and/or harm but the Complainant did not provide any specific claims. Based on this review, IFC could not substantiate the Complainant’s claims regarding “greenwashing.”
- xiii. Prior to the Complaint and the specific actions taken in its response, IFC had already been supporting HBL in strengthening the implementation of its ESMS, including in relation to capacity constraints, as required by the IFC Sustainability Policy.² In particular, IFC provided E&S training for HBL and, through investment and advisory services, supported HBL’s ESMS implementation. Going forward, IFC expects HBL to further strengthen its E&S practices.
- xiv. To conclude, IFC Management’s review of the allegations regarding the Complainant’s termination of employment and HBL’s operation of its whistleblowing mechanism does not indicate issues that are systemic in nature. Regarding CAO’s compliance appraisal criterion (a) as to “preliminary indications of harm or potential harm,” IFC takes seriously the Complainant’s allegation that the termination of his contract caused him harm. Regarding compliance appraisal criterion (b), IFC did not find any preliminary indications that IFC may not have complied with its E&S Policies. IFC regularly engages with HBL, as part of its supervision commitments, as required by the IFC’s Sustainability Policy, and has provided timely support both through investment and advisory services. Regarding compliance appraisal criterion (c) whether the alleged harm is plausibly linked to potential non-compliance with IFC’s E&S policies, IFC has reviewed the Complainant’s termination of employment and did not find evidence to substantiate the alleged practices he describes as “greenwashing” that could have resulted in harm or potential harm to the Complainant.

² Through its engagement with FIs, IFC supports the capacity development of the banking and financial sector to manage environmental and social risks. This is achieved in part through the development and implementation of an ESMS, and by enhancing FIs’ in-house capacity for the day-to-day management of portfolio risks, including environmental and social risk, *IFC Sustainability Policy, paragraph 33*.

I. INTRODUCTION

1. On March 3, 2022, the Office of the Compliance Advisor Ombudsman (CAO) received a complaint (the “Complaint”) from a former employee (the “Complainant”) of Habib Bank Limited (HBL, or the “Client”), which included claims regarding: (a) the Complainant’s alleged “unauthorized dismissal”¹ as Deputy General Manager and Head of Planning and Implementation of HBL’s Social and Environmental Management Systems (SEMS) unit; (b) HBL’s alleged mismanagement of its whistleblowing mechanism; and (c) HBL’s alleged non-compliance with national and international environmental and social (E&S) standards, including the Performance Standards (PSs) of the International Finance Corporation (IFC).²

2. On April 22, 2022, CAO determined the Complaint eligible and upon the request of the Complainant referred it to the IFC, as per paragraph 39 of the CAO Policy.³ Between April and August of 2022, IFC directly engaged with the Complainant and HBL with the aim of facilitating discussions to amicably resolve the Complaint. At the Complainant’s request, the CAO process was resumed. CAO submitted its Assessment Report in January 2023. Since there was no agreement on a CAO-facilitated dispute resolution process, the Complaint has been transferred to CAO’s compliance appraisal function.

PROJECT BACKGROUND

A. IFC Investments with HBL

3. HBL is a long-term IFC Client in Pakistan; engagement began in 2006 with a US\$50 million subordinated debt (fully repaid). This was followed by adding HBL as a partner under the Global Trade Finance Program in 2007, where HBL’s current facility limit stands at US\$100 million. In 2014, IFC supported the Government of Pakistan in divesting some of its residual shareholding of 41.5 percent in HBL, by mobilizing other international investors and supporting the privatization process with a direct equity investment of US\$75 million, for a 3.08 percent equity stake in HBL. In 2015, IFC also provided a US\$150 million senior loan to HBL (#34365)⁴ to support HBL’s domestic and international growth in various sectors (e.g., rural finance, women-owned businesses, and sustainable energy finance). IFC has also provided advisory services to HBL, including for: (a) a SME banking framework (2011); (b) a rural banking advisory project (2013); and (c) a “Banking on Women” advisory project (2014) to help HBL position itself as a champion of greater gender inclusion in the Pakistani marketplace. In May 2021, IFC commenced a comprehensive advisory project (#603761) to assist HBL in enhancing its existing E&S risk management for high-risk or Category A transactions. IFC began partially exiting its equity position from HBL in 2020, concluding its exit process by end December 2022. The E&S-related advisory services and investment support are still ongoing. All E&S-related requirements of HBL remain applicable under the terms of the IFC loan agreement until its maturity in December 2024.

II. CAO COMPLAINT

4. The Complainant is a former HBL employee who worked there from 2008 to 2021 in various positions, until he was selected as Deputy General Manager and Head of Planning and Implementation of

¹ See Overview section of *CAO Assessment Report regarding IFC’s investment in Habib Bank Limited, in Pakistan* (IFC#34365 and #603761), January 2023.

² See *CAO Assessment Report*, pp.1-2.

³ <https://www.ifc.org/wps/wcm/connect/d3e7f1c4-fd6b-40fd-ae76-fb028916611d/IFC-MIGA-Independent-Accountability-Mechanism-CAO-Policy.pdf?MOD=AJPERES&CVID=nFDGwP2>

⁴ Includes a US\$64 million mobilization from the “Managed Co-Lending Portfolio Program.” The IFC loan agreement with HBL was signed on April 9, 2015.

HBL's SEMS unit in June 2021. After four months in this function, his employment was terminated in September 2021. The Complainant made the following allegations:

- *Alleged “unauthorized dismissal.”*⁵ The Complainant claimed that in the course of his work as part of the SEMS team, he experienced undue intimidation and threats from other HBL units. He argued that the purpose of these actions was to impede him from correctly implementing HBL's SEMS unit's agenda, including HBL's commitments to IFC. He further stated that the situation escalated and alleged that he was unfairly dismissed by HBL. According to the Complainant, HBL gave no formal explanation of his termination, although he claimed his reluctance to sign off on E&S documentation and other behavior were mentioned as factors. He was offered the opportunity to resign, which he refused. The Complainant then received a Letter of Termination Simpliciter (LTS) from HBL, which did not state a reason for his dismissal. The Complainant stated that he was unable to secure employment as he was terminated through an LTS. The Complainant also filed a judicial claim before the Pakistani court against HBL for breach of contract and damages. The judicial claim is ongoing.
- *HBL's alleged mismanagement of its whistleblowing mechanism.* Upon receiving the LTS terminating his employment, the Complainant stated that he sought an internal audit from HBL's President and Chief Executive Officer, and that he approached HBL's Whistle Blow Unit, but received no formal response. He indicated that he also wrote to HBL's Board of Directors and to the Aga Khan Development Network but stated that neither responded to his complaint.
- *Alleged non-compliance with national and international E&S standards.* The Complainant alleged non-compliance with E&S standards and alleged a practice by HBL's asset managers of misrepresenting their own sustainability-related practices or the features of their investment products, as well as environmental, social and governance (ESG)-related misconduct, which he referred to as “greenwashing.” The Complainant also alleged intimidation and threats from other HBL units to sign off on E&S documentation that was in his opinion not in accordance with IFC's PSs. The Complainant further claimed that HBL management did not make good faith efforts in implementing the SEMS unit recommendations, including in relation to SEMS unit budget, staff, and institutionalization.⁶

5. CAO finalized its Assessment Report in January 2023. Since there was no agreement for a CAO-facilitated dispute resolution process between HBL and the Complainant (neither wanted to pursue dispute resolution), the Complaint was transferred to CAO's compliance appraisal function to determine whether it merits a compliance investigation.⁷

III. IFC ACTIONS DURING THE REFERRAL

6. As soon as CAO notified IFC that the Complaint was being referred to IFC (per paragraph 39 of the CAO Policy), IFC engaged with the Complainant and the Client, from April to August 2022.

7. As a first step, after initiating contact with the Complainant through an acknowledgment of the Complaint in April 2022, IFC coordinated a video call with the Complainant, which was held in May 2022, in order to better understand the Complainant's concerns, and confirm with the Complainant whether the information shared with IFC was confidential or could be shared with the Client. IFC then arranged another

⁵ See Overview section of *CAO Assessment Report regarding IFC's investment in Habib Bank Limited, in Pakistan* (IFC#34365 and #603761), December 2022.

⁶ See *CAO Assessment Report*, pp. 3-4.

⁷ See *CAO Assessment Report*, p.5.

video call to understand the Client's perspective regarding the Complainant's allegations and request related documentation from the Client.

8. IFC then conducted its own review of the concerns, covering the allegations related to the Complainant's dismissal and HBL's whistleblowing processes as well as in relation to allegations of "greenwashing," as described by the Complainant. IFC reviewed relevant Client documentation, to assess claims related to the Complainant's termination and HBL's internal whistleblowing mechanism as well as any evidence of retaliatory practices. IFC also requested the opinion of an external local legal counsel before concluding its own assessment. In addition, IFC also sought to understand whether any instance of "greenwashing" could be identified through a review of HBL's existing portfolio and through its ongoing supervision of the implementation of HBL's Environmental and Social Management System (ESMS).

9. Throughout, IFC tried to facilitate a mutually agreeable solution. IFC's involvement focused on engaging separately with the Complainant and the Client. Specifically, aside from an introductory video call in May, IFC also held two additional video calls with the Complainant in June and July, to understand the Complainant's expectations and whether an agreement could be reached with the Client. IFC focused in particular on trying to alleviate the Complainant's situation resulting from the lack of employment due to the LTS, by considering options to strengthen his employability in the local labor market.

10. IFC also maintained engagement with the Client throughout this period, in particular as part of the preparation for and follow-up of its previously planned June 2022 supervision visit. Engagement with the Client involved reviewing compliance with IFC E&S requirements and offering ongoing support where needed; verifying progress in HBL's ESMS implementation; and evaluating outcomes of the advisory work. IFC also engaged with the Client on whether the latter was able to offer options that could ameliorate the Complainant's situation and employability as well as the repayment of the Complainant's outstanding loans (*Staff Auto Finance*) with HBL, which he had obtained during his employment and was requested to repay after the termination.

11. After extensive engagement with IFC, two options that the Client was ready to propose were communicated to the Complainant: (a) offering the client a second opportunity to resign (after this option was offered by the Client and declined by the Complainant at the time of the termination) by offering the possibility to change the LTS into a resignation; and (b) allowing for additional time to repay outstanding liabilities (*Staff Auto Finance*) to alleviate the Complainant's financial distress due to unemployment.

12. On August 17, 2022, the Complainant expressed his desire for the Complaint to be referred back to CAO for assessment. Furthermore, given that both parties expressed their preference for CAO's compliance appraisal, instead of a CAO-facilitated dispute resolution process, the case moved to compliance appraisal.

IV. MANAGEMENT RESPONSE

13. This Management Response provides a detailed response to the Complaint, specifically the three distinct allegations raised by the Complainant: (a) alleged "*unauthorized termination*," (b) HBL's alleged mismanagement of its whistleblowing mechanism; and (c) alleged non-compliance with national and international E&S standards.

14. ***Alleged "unauthorized dismissal:"*** IFC's Sustainability Policy requires financial institution (FI) clients such as HBL to apply all relevant aspects of PS2 on Labor and Working Conditions, as well as

to follow national law.⁸ IFC notes that as described in the CAO's Assessment Report, HBL terminated the Complainant's employment through an LTS, which is equivalent to terminating someone without cause. However, HBL also explained that terminating the Complainant's employment with cause would have been possible for the following reasons: (a) the Complainant's behavior and attitude towards colleagues, which resulted in two written complaints received by HBL against the Complainant; (b) the Complainant's refusal to share information requested by other HBL units, HBL's Board of Directors and the State Bank of Pakistan; and (c) the Complainant's reluctance to complete critical tasks and relevant training. As such, HBL rejected the Complainant's claim that he was forced to sign off on E&S documentation and that his reluctance to do so would have been a factor for his termination.⁹

15. In terms of the Complainant's difficulty in obtaining new employment after being terminated via an LTS, HBL also sought to help the Complainant by offering the option to resign, rather than be terminated, but the Complainant declined. HBL also informed the Complainant of his right to appeal the LTS, but he declined to exercise this option.

16. IFC notes that HBL's Internal Audit Team, which reports directly to the HBL Board,¹⁰ conducted an audit in order to review the Complainant's claims regarding his dismissal, after the Complainant reached out to the Whistle Blow Unit. The audit did not find violations of HBL's policies regarding the dismissal or claims of "greenwashing," as alleged by the Complainant.

17. Upon receipt of the Complaint, IFC's E&S team supervising ESMS implementation at HBL, an IFC PS2 Specialist, and an IFC local PS2 consultant who was familiar with Pakistan-specific labor laws and context conducted their own review of the Complainant's case. The team reviewed the Client's audit and undertook further specific steps to review HBL's labor policies and procedures against PS2 requirements. Finally, an opinion was sought from an independent local legal counsel to review and opine on HBL's human resource policies and procedures as applied to the Complainant's termination, taking into consideration national laws and market practices. In order to assess whether this incident reflected a pattern of similar incidents in relation to human resources, IFC also reviewed the results of HBL's employee engagement survey from 2021.

18. Based on the local counsel's review, the use of the LTS by HBL was consistent with Pakistani labor law and practice, as termination without cause is permissible when included in an employment contract, as was the case in the Complainant's contract. Furthermore, the local counsel stated that the payment of one month's salary as a severance payment was also in accordance with Pakistani labor law. Based on this review, IFC did not find any indication that the individual case of termination of employment was not aligned with PS2 and national law requirements or raised issues that were systemic in nature. As mentioned above, the Complainant filed a judicial claim before the Pakistani court against HBL for breach of contract and damages. While that the judicial claim is ongoing, IFC continues to monitor the situation.

19. IFC takes seriously any credible allegations of reprisals. As described in the CAO Assessment Report, IFC engaged with both the Complainant and HBL during the referral period to understand the justification and process for the Complainant's termination of employment and to find an amicable solution. Although HBL has filed a claim regarding repossession of its property and dues (HBL laptop and loan under *Staff Auto Finance*), it does not appear to have engaged in retaliatory action against the Complainant.

⁸ See *IFC Sustainability Policy (2012)*, paragraph 35.

https://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/sustainability-at-ifc/policies-standards/sustainability+framework

⁹ See *CAO Assessment Report*, p.5.

¹⁰ HBL's audit team, which is an independent unit reporting directly to the HBL Board, undertook a review of the Complainant's dismissal and intimidation claims, as well as the "greenwashing" allegation.

HBL explained to IFC that requesting staff to return HBL's property and to repay outstanding loans to HBL is a standard procedure for any termination or resignation.

20. IFC discussed its position on retaliation with HBL, and provided HBL with relevant resources, including the Tip Sheet for IFC clients on addressing increased reprisal risk,¹¹ which includes IFC's *Position Statement on Retaliation Against Civil Society and Project Stakeholders* (2018),¹² as well as the *Good Practice Note for the Private Sector: Addressing the Risks of Retaliation Against Project Stakeholders* (IFC-IDB-Invest, 2021).¹³ HBL communicated to IFC that it was committed to preventing and avoiding retaliation, in line with its own values and consistent with PS2, and confirmed it did not intend to take any retaliatory actions against the Complainant.

21. ***HBL's alleged mismanagement of its whistleblowing mechanism:*** According to PS2, the client must provide a grievance mechanism for workers to raise workplace concerns. The client is required to inform employees of the grievance mechanism at the time of recruitment and make it easily accessible to them. The mechanism should involve an appropriate level of management and address concerns promptly, using an understandable and transparent process that provides timely feedback to those concerned, without any retribution.¹⁴

22. IFC's review included (a) an assessment of the whistleblowing mechanism's accessibility, including staff awareness of the mechanism; (b) a determination of the adequacy of the whistleblowing mechanism, including record keeping of complaints, description of the investigation process, and committees in place to facilitate decision making; and (c) a review of a sample of responses provided by HBL to complaints received through the whistleblowing mechanism, over the past year.

23. IFC notes that the Complainant was aware of the existence of the Whistle Blow Unit at HBL, which he approached directly. IFC understands HBL's Whistle Blow Unit acknowledged receipt of the complaint and advised the Complainant of his right to appeal the LTS, which he did not pursue. HBL's internal audit assessed the validity of the Complainant's claims but did not provide further feedback to the Complainant on the matter. HBL stated this was because it had received legal advice to not engage in written communication with complainants when there were ongoing legal processes, which was the case here.

24. Based on its review of the Complaint, IFC found that HBL's actions were aligned with their policies concerning its whistleblowing mechanism. While IFC's review did not find systemic concerns regarding HBL's whistleblowing mechanism, it did identify opportunities to strengthen its accessibility and responsiveness and is supporting HBL in this regard – in particular, improvement in HBL's internal communication about the whistleblowing mechanism and responses to complainants in cases that are pending in court, along with a need to enhance timely responses.

25. As per PS2 on Labor and Working Conditions, a client's grievance mechanism should not impede access to other judicial or administrative remedies that might be available under the law or through existing arbitration procedures.¹⁵ In this case, as mentioned above, the Complainant effectively exercised his right to file a claim for breach of contract against HBL, which is pending before the Pakistani court.

¹¹ https://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/sustainability-at-ifc/publications/publications_tipsheet_covid-19_reprisals

¹² https://www.ifc.org/wps/wcm/connect/ade6a8c3-12a7-43c7-b34e-f73e5ad6a5c8/EN_IFC_Reprisals_Statement_201810.pdf?MOD=AJPERES

¹³ https://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/sustainability-at-ifc/publications/publications_gpn_reprisalrisks

¹⁴ *Performance Standard 2*, paragraph 20.

¹⁵ *Performance Standard 2*, paragraph 20.

26. ***Alleged non-compliance with national & international E&S standards:*** IFC’s Sustainability Policy requires FI clients to “develop and operate an ESMS that is commensurate with the level of environmental and social risks in its portfolio, and prospective business activities.”¹⁶ Additionally, FIs with portfolio and/or prospective business activities that present moderate to high environmental or social risks will require higher risk business activities they support to apply relevant requirements of the PSs.¹⁷ All transactions will need to follow respective national law requirements.¹⁸

27. Prior to the Complaint and the specific actions taken in its response, IFC had already been supporting HBL in strengthening the implementation of its ESMS, including addressing capacity constraints, as required by the IFC Sustainability Policy.¹⁹ In September 2020, IFC found that while HBL had an ESMS in place, its internal capacity to assess and manage higher E&S risk transactions was insufficient. Consequently, and despite travel constraints stemming from the Covid-19 pandemic, the IFC team continued providing support to HBL, through training for HBL Relationship Managers and Credit Officers, in addition to the internal training HBL was conducting itself for its employees.

28. IFC signed an advisory services agreement with HBL (project #603761) in May 2021, which was extended via an amendment letter signed in November 2021. IFC’s ongoing advisory support is specifically aimed at assisting HBL in the implementation of its ESMS, in particular improving the due diligence of higher E&S risk transactions. Between March and May 2022, IFC’s advisory team, with support from the E&S and investment teams, conducted a gap analysis of HBL’s ESMS against the Environmental and Social Risk Management Implementation Manual of the State Bank of Pakistan (ESRM Implementation Manual),²⁰ as well as against IFC requirements. The outcome of the gap analysis indicated that the Environmental and Social Due Diligence (ESDD) checklists needed improvement and supervision checklists needed to be included as well. In addition, IFC discussed the preparation of an updated ESMS with HBL in detail during the June and November 2022 supervision visits. The updates have been finalized and were approved by HBL Senior Management in January 2023.

29. Due to Covid-19 travel restrictions, IFC’s team was unable to visit HBL until June 2022, when it reviewed the scope of the advisory services project and overall improvements required for ESMS implementation. During this visit, IFC also discussed the concerns raised in the Complaint with HBL’s Senior Management, the SEMS team and HBL’s Human Resource department.

30. With regard to the allegations of “greenwashing,” as described by the Complainant, and alleged intimidation to sign off on E&S documentation, IFC reviewed the report of the Client’s Audit team, which did not find evidence of “greenwashing” or intimidation in the approval process of E&S documentation. IFC further conducted a review of HBL’s portfolio to determine whether HBL was intentionally downgrading higher E&S risk transactions to extend loans. IFC also asked the Complainant to indicate transactions where such alleged behavior could have led to potential non-compliance and/or harm or potential harm, but the Complainant did not specify his claims. Based on its review, IFC did not find any evidence to substantiate the Complainant’s claims regarding “greenwashing.”

¹⁶ *IFC Sustainability Policy*, paragraph 35.

¹⁷ *IFC Sustainability Policy*, paragraph 35.

¹⁸ *IFC Sustainability Policy*, paragraph 35.

¹⁹ Through its engagement with FIs, IFC supports the capacity development of the banking and financial sector to manage E&S risks. This is achieved in part through the development and implementation of an ESMS, and by enhancing FIs’ in-house capacity for the day-to-day management of portfolio risks, including E&S risk, *IFC Sustainability Policy*, paragraph 33.

²⁰ As part of IFC advisory services project (#603761), IFC and the State Bank of Pakistan (central bank) jointly launched the ESRM Implementation Manual in Pakistan in November 2022. [See https://www.sbp.org.pk/smfcd/circulars/2022/CL12.htm](https://www.sbp.org.pk/smfcd/circulars/2022/CL12.htm)

31. In addition, as part of its ongoing Client supervision, IFC concluded in June 2022 that although all Environmental and Social Action Plan (ESAP) items (identified at appraisal) had been completed a supplementary ESAP was required to strengthen implementation of E&S policy and procedures through E&S tools and checklists and improvements in the escalation and approval system for transactions. Furthermore, there was a need to clarify the roles and responsibilities of the SEMS team, including its reporting line. More specifically, IFC discussed the issue of the SEMS team reporting to the Credit Department, instead of the Head of Corporate Business. IFC also shared specific job descriptions for the SEMS team with HBL to close the related gaps.

32. During the November 2022 supervision visit, IFC reviewed and assessed HBL's implementation of the supplementary ESAP and found that it had achieved key milestones and was on track to complete all actions. For example, HBL proposed updates to its ESMS such as revising reporting lines, and ESDD tools and checklists, which IFC reviewed and cleared. As per IFC's recommendation and after a training delivered to HBL by IFC in November 2022, HBL also streamlined a training schedule related to ESMS implementation for 2023, which includes online training for all recent hires, procedure-based training for Relationship Managers and Credit Officers and advanced training for project finance teams. Furthermore, HBL introduced mandatory oversight of the SEMS team for ESDD of eligible transactions in its internal loan processing system, which will help in improving the quality of the ESDD reports. These efforts by HBL are being complemented by IFC's advisory services project, which is focused on improving the quality of ESDD reports for HBL's higher E&S risk transactions through building HBL in-house capacity. This advisory services project is to continue through June 2023.

33. HBL's commitment to E&S risk management is also reflected in (a) HBL's hiring of additional staff for the SEMS team (four new hires within the past six months, making the SEMS Unit a seven-member team); (b) enhancement of its Information Technology (IT) system to include E&S data in the credit approval process; and (c) engagement of external third-party consultants to assist in undertaking and preparing ESDD reports for higher E&S-risk transactions.

34. IFC's review of the implementation of HBL's ESMS did not identify systemic issues of alleged "greenwashing" that may have resulted in harm or potential harm to the Complainant.

35. ***Steps going forward.*** HBL has committed to complete all supplementary ESAP actions by June 2023. The following activities were specifically included, and their implementation status is noted below:

- HBL updated its ESMS, aligning with IFC and State Bank of Pakistan requirements. This was approved by the President and CEO of HBL on January 31, 2023, and implementation started on February 1, 2023, following approval.
- HBL developed a schedule of relevant staff training on the ESMS. IFC conducted the first round of training in November 2022, and further trainings will be conducted by HBL on an ongoing basis.
- HBL fine-tuned institutional arrangements so that higher E&S risk transactions are approved by the Credit Department, not Commercial Business. An escalation matrix to this effect has been included in the updated ESMS and new layers of mandatory oversight of the SEMS team have been introduced to improve ESDD quality. This was completed in January 2023.
- Enhancement of HBL's IT system/Management Information System to record E&S data. This is expected to be completed by June 2023.

36. For its part, IFC will review ESDDs, including by assessing their quality and determining whether HBL has adequate capacity (both internally and through external consultants) for conducting ESDDs for higher E&S risk transactions.

V. CONCLUSION

37. The CAO Policy provides for specific appraisal criteria when determining whether a compliance investigation is necessary, including: (a) whether there are preliminary indications of harm or potential harm; (b) whether there are preliminary indications that IFC may not have complied with its E&S Policies; and (c) whether the alleged harm is plausibly linked to the potential non-compliance.²¹ With respect to IFC, the CAO Policy defines “E&S Policies” as including: (i) IFC’s Policy on Environmental and Social Sustainability (the Sustainability Policy); (ii) the project-specific provisions of IFC’s Access to Information Policy of IFC; and (iii) any other Board-approved E&S commitments for projects.²² IFC Management has reviewed the allegations set forth in the Complaint and is of the view that criterion (b), “whether there are preliminary indications that IFC may not have complied with its E&S Policies” and criterion (c), “whether the alleged harm is plausibly linked to the potential non-compliance,” have not been met.

38. Regarding CAO’s compliance appraisal criterion (a) as to “preliminary indications of harm or potential harm,” IFC takes seriously the Complainant’s allegation that the termination of his contract caused him harm. During the referral process, IFC worked with HBL and the Complainant to find an amicable solution to mitigate harm resulting from the form of termination of employment.

39. Regarding compliance appraisal criterion (b), IFC did not find any preliminary indications that IFC may not have complied with its E&S Policies. IFC conducted an extensive review of all the Complainant’s concerns. With regard to the termination of the Complainant’s employment, IFC did not find any systemic issues in HBL’s policies and procedures related to labor and working conditions, including the whistleblowing mechanism.

40. IFC regularly engages with HBL, as part of its supervision commitments, as required by IFC’s Sustainability Policy,²³ and has provided timely support both through investment and advisory services. IFC works with its FI clients as needed to help them address any shortcomings in their ESMS,²⁴ which is the case with HBL. Support has been dedicated to strengthening the implementation of HBL’s ESMS and E&S capacity. Going forward, IFC expects HBL to further strengthen its E&S practices and resource capacity, through implementation of its updated ESMS and working with IFC through the advisory services project.

41. Regarding compliance appraisal criterion (c) whether the alleged harm is plausibly linked to potential non-compliance with IFC’s E&S policies, IFC has reviewed the Complainant’s termination of employment and did not find evidence to substantiate the alleged practices he describes as ‘greenwashing’ that could have resulted in harm or potential harm to the Complainant.

²¹ *CAO Policy*, paragraph 91. See also <https://www.cao-ombudsman.org/how-we-work/intake-assessment>.

²² *CAO Policy*, paragraph iii.

²³ *IFC Sustainability Policy*, paragraph 33

²⁴ *IFC Sustainability Policy*, paragraph 33 and 45

Disclaimer

This IFC Management Response is provided in response to the Assessment Report of the Office of the Compliance Advisor Ombudsman (CAO) finding a complaint on a project supported by IFC finance or investment eligible for compliance appraisal.

Nothing in this IFC Management Response or in the process provided for in the CAO Policy (“CAO Process”) (1) creates any legal duty, (2) asserts or waives any legal position, (3) determines any legal responsibility, liability, or wrongdoing, (4) constitutes an acknowledgment or acceptance of any factual circumstance or evidence of any mistake or wrongdoing, or (5) constitutes any waiver of any of IFC’s rights, privileges, or immunities under its Articles of Agreement, international conventions, or any other applicable law. IFC expressly reserves all rights, privileges, and immunities. IFC does not create, accept, or assume any legal obligation or duty, or identify or accept any allegation of breach of any legal obligation or duty by virtue of this IFC Management Response.

While reasonable efforts have been made to determine that the information contained in this IFC Management Response is accurate, no representation or warranty is given as to the accuracy or completeness of such information. CAO is not a judicial or legal enforcement mechanism. Its analyses, conclusions, and reports are not intended to be used in judicial or regulatory proceedings nor to attribute legal fault or liability and it does not engage in factfinding nor determine the weight that should be afforded to any evidence or information. No part of this IFC Management Response or the CAO Process may be used or referred to in any judicial, arbitral, regulatory, or other process without IFC’s express written consent.

Appendix 3: Client Statement

HBL'S CONCISE STATEMENT RE: ██████████ COMPLAINT

The International Finance Corporation (“IFC”) informed Habib Bank Limited (“HBL”) that an ex-employee of HBL Mr. ██████████ (“Mr. ██████████”) has submitted a complaint to IFC primarily alleging that his dismissal from service of HBL was unfair and also levelled some baseless allegations regarding non-compliance with national and international environmental and social performance standards etc. (“**Complaint**”). HBL believes in the conduct of its affairs in a fair and transparent manner and welcomes inputs from stakeholders raising concerns.

HBL has already shared its detailed response to IFC and clearly stated that according to HBL's analysis, all the allegations and claims mentioned in the Complaint are unfounded and incorrect, as the whole cause of the Complaint purely relates to Mr. ██████████ termination. Having worked in other parts of the Bank, Mr. ██████████ had been transferred to the SEMS unit and had been in this unit for only four months at the time his employment was terminated. The reason for Mr. ██████████ termination of employment includes his behavior and attitude toward his colleagues, which resulted in written complaints, and more importantly his unprofessional behaviour towards work as he was continuously refusing to share information requested by other HBL units, the Board of Directors of HBL, and even with the Central Bank for regulatory reporting. He was also reluctant to undertake critical tasks and requisite trainings of SEMS/ESG.

Despite his objectionable behavior as stated above, Mr. ██████████ was given the option to resign but he declined the option to resign so he was terminated in line with the terms of his employment contract and internal policies. Even after the termination, Mr. ██████████ was offered to convert his termination into a resignation, which was rejected by him. Mr. ██████████ has challenged his termination before the High Court of Sindh at Karachi and the same is pending adjudication.

All the allegations levelled by Mr. ██████████ in his Complaint regarding non-compliance with E&S standards are unfounded and incorrect. The SEMS policy of HBL is in accordance with the IFC Performance Standards and was reviewed/revised by IFC before being put in place. Mr. ██████████ used the term “greenwashing” however, failed to provide any evidence to that effect. HBL is in regular contact with the IFC project team, which supports them on issues related to their E&S compliance work, and IFC acknowledged that HBL was well on track to comply with IFC E&S Performance Standards. HBL has also been working with BII (formerly CDC UK) since 2015 for developing and strengthening its ESG related policies and procedures to bring them in line with UK regulations. Furthermore, MOODY's has given neutral to low-risk rating to HBL on ESG. It is pertinent to mention here that Mr. ██████████ ex line manager, who was Head of SEMS, has acknowledged in an internal document that the development of a full evolutionary cycle of ESG environmental due diligence and financial integration practices, including the review processes has been completed and acknowledged that it became possible due to the support of support of senior management. The Head of SEMS also mentioned that HBL SEMS Policy – 2020 was revised to align it with Green Banking Guidelines of the Central Bank.

Mr. ██████████ also questioned HBL's whistleblowing mechanism, which is baseless and incorrect as Mr. ██████████ got a response on the same day when he submitted his message, and he was informed that he could appeal for review of his termination. HBL has multiple reporting channels for highlighting wrongdoing, grievances and to raise concerns etc. These channels which are in line with international best practices, include and are not limited to, its whistleblowing mechanism and HR helpline. Mr. ██████████ termination was also independently verified and considered to be in line with the policies and processes.

It is pertinent to mention here that Mr. ██████████ has failed to repay his outstanding auto loans and after waiting for months and several follow ups, HBL has filed a case for recovery of loan in the court of law.

Furthermore, Mr. [REDACTED] is also yet to return the company laptop computer containing HBL's propriety and confidential information and the bank reserves it's right to initiate legal action in this regard as well.

Appendix 4: Additional Appraisal Considerations

The CAO Policy⁴⁷ provides for the compliance appraisal to take into account additional considerations, as outlined in the table below.

CAO Policy provision	Analysis for this case
For any project or sub-project where an IFC/MIGA exit has occurred at the time CAO completes its compliance appraisal, whether an investigation would provide particular value in terms of accountability, learning, or remedial action despite an IFC/MIGA exit (para. 92a).	Not applicable.
The relevance of any concluded, pending or ongoing judicial or non-judicial proceeding regarding the subject matter of the complaint (para. 92b).	CAO is not of the view that the Complainant's legal proceedings against HBL in relation to financial and reputational damages have any bearing on the analysis of the appraisal criteria.
Whether Management has clearly demonstrated that it dealt appropriately with the issues raised by the Complainant or in the internal request and followed E&S Policies or whether Management acknowledged that it did not comply with relevant E&S Policies (para. 92c).	CAO notes that, in some respects, IFC dealt appropriately with issues raised by the Complainant. IFC has not acknowledged any noncompliance.
Whether Management has provided a statement of specific remedial actions, and whether, in CAO's judgment after considering the Complainant's views, these proposed remedial actions substantively address the matters raised by the Complainant (para. 92d).	Not applicable.
In relation to a project or sub-project that has already been the subject of a compliance investigation, CAO may: (a) close the complaint; (b) merge the complaint with the earlier compliance process, if still open, and the complaint is substantially related to the same issues as the earlier compliance process; or (c) initiate a new compliance investigation only where the complaint raises new issues or new evidence is available (para. 93).	Not applicable.

⁴⁷ CAO Policy, para. 92.