

# NBK Sustainable Financing Framework

March 2022

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# 1. Introduction

## 1.1 Overview

Founded in Kuwait City in 1952, the National Bank of Kuwait S.A.K.P. ('NBK' or the 'Bank') is the country's longest-serving local bank – and the first shareholding company in Kuwait and the Gulf Cooperation Council ('GCC'). Over the years, NBK has established itself as Kuwait's leading financial institution, extending its franchise across the Middle East and beyond, to global markets. Today, NBK has more than 140 branches in 14 countries, across 4 continents.

Established by a group of leading Kuwaiti merchants, NBK has retained its core shareholder base since inception. Its shares have been listed on the Kuwait Stock Exchange since 1984, with a single shareholder (the Public Institution for Social Security) owning more than 5% of the share capital (5.60% as at 31 December 2021). NBK's market capitalisation as at 31 December 2021 was USD 23.7 billion.

The Bank has a reputation for experienced and stable management, with a clear strategy for strengthening its core business and expanding into new segments and markets. It has consistently achieved a highly competitive level of profitability, leading to robust shareholder returns, supported by high quality assets and a strong level of capitalisation. NBK offers customers a comprehensive range of financial products and investment services, with solutions for individuals, corporates and financial institutions. NBK is Kuwait's leading banking group in terms of assets, customer deposits, and customer loans and advances

NBK's strategy revolves around three main cornerstones:

1. **Defend Leadership at the Core:** Our core business of retail and wholesale banking in Kuwait makes up about two thirds of the Group's bottom line. As the market leader in retail and wholesale banking business in Kuwait, NBK pursues a defensive strategy across various business lines, while ensuring effective implementation of our digital transformation agenda to deliver the best experience to customers.
2. **Grow Outside the Core:** We pursue diversification beyond the core, through growth in Islamic banking within and outside of Kuwait, through our subsidiary Boubyan Bank; continuous expansion of our presence and customer base in MENA; and building a global network facilitating our customers' trade, investment and wider banking needs.

Our Business Diversification Program leverages digital disruption outside the core by: Scaling up our Islamic franchise with a digital-enabled approach; Building a disruptive digital proposition in regional markets; Transforming our retail franchise in Egypt with enhanced digital capabilities; and Building a regional powerhouse for wealth management.

3. **Improve Profitability:** We seek to improve profitability by balancing our focus between delivering against absolute targets and maintaining key ratios. Our investments in the Digital Transformation of the existing business also aim to achieve sustainable improvement in our cost structure in the long term through automation of services as well as internal processes. Meanwhile, our Business Diversification Programme prioritises capital-light businesses in order to enhance the Group's return on capital gradually

While these cornerstones continued to be unchanged, we remained agile in adapting to the changing marketplace and needs of our customers, particularly as the demand for sustainable and seamless digital financial offerings has been accelerating

## ***1.2 NBK's Sustainability Strategy and Policies***

The leadership group at NBK is deeply committed to our sustainability journey. We view our efforts at improving our sustainability as integral to improving our business performance and enhancing our positive impact in the world. NBK maintained its course of being committed to sustainability reporting as a core element of its overall sustainability directions.

We will continue to integrate critical ESG issues into our business, culture and operations, creating meaningful change, and driving continuous improvement to our ESG policies and disclosure to ensure an ever-more sustainable future.

Based on regular engagement with our various stakeholders and the annual materiality assessment we undertake, we continued to focus on six key pillars that shape our sustainability strategy. These key pillars are; Contributing to Sustainable Economic Development, Serving Customers, Leading in Business and Governance, Respecting and Developing People, Caring for Our Environment, and Giving Back to The Community



### **Our Commitment to ESG Performance and Progress**

As part of our long-standing commitment to effective and transparent environmental, social, and governance (ESG) implementation and reporting, NBK develops and publishes an annual Sustainability

Report each year, in accordance with Global Reporting Initiative (GRI)<sup>1</sup> standards. Throughout the report, we measure, collect, analyse, and report on a range of sustainability and ESG matters, including workplace, marketplace, environment, and community aspects. Besides GRI, our reporting aligns with the UN Sustainable Development Goals (SDGs) and Bursa Kuwait's voluntary sustainability disclosures.

NBK appreciates the role of finance in solving environmental challenges and advancing societal transition to a more sustainable and low carbon economy. Building on our long history of Corporate Social Responsibility (CSR) in giving back to the community along with our recent progress on an expanded set of ESG/Sustainability elements, NBK intends to continue our ESG advancement, our support in achieving Kuwait's sustainability vision, and our leadership in the region.

We will continue to prioritise corporate sustainability, applying minimum ESG metrics as a benchmark for our business performance and impacts, as well as integrating ESG aspects throughout business functions.

NBK aims to strengthen our engagement with the community through a wide range of initiatives, continue enhancing its technologies and digitisation in both internal operations and customer-related products, and continue to report and assess environmental aspects of our performance.

## Environment

NBK seeks to minimize the impact of our operations on the environment, though, as a service-oriented firm in the finance industry, we have less severe impact in terms of direct effects of our operations on the environment compared to other industries.

Nevertheless, every year, NBK measures, assesses, and reports on our environmental performance and impacts via our Sustainability Report, which cover critical topics including greenhouse gas (GHG) emissions, electricity and water consumption as well as waste management and recycling. We have developed internal targets to reduce our gross operational emissions by 25% by the year 2025. And we are considering various technologies and R&D opportunities to expand our dependencies on renewable energy beyond 2025 with an aspiration to become net zero operationally by 2035.

Furthermore, our headquarters building has been designed and equipped with several environmentally-responsible aspects, being a certified LEED gold<sup>2</sup> building, including light-emitting diode (LED) lighting, grey water management, efficiencies in heating, ventilation, and air conditioning (HVAC) systems, among others.

Across NBK's services and operations, there are considerations of digital services and solutions channels, technologies, and automation, which are key elements in influencing the environment positively through multiple attributes and savings.

As a leading regional financial institution, we are actively considering various ways to assess our risks to climate change as well as manage our impact on the environment operationally and through engaging with our customers. Another area of focus for NBK is to become more active in providing sustainable finance and engage more regularly with our clients to drive change and assist them to transition to a more low-carbon and sustainable business model, to collectively have a positive environmental and societal impact on the economy.

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<sup>1</sup> <https://www.globalreporting.org/>

<sup>2</sup> <https://www.usgbc.org/leed>

## Social

As a proud corporate citizen and employer, NBK has long been active with our community and in supporting our valued employees. NBK is fully committed to advancing social sustainability and social-justice related programs and is aligned with Kuwait's 2035 Vision and National development plan.

Our long-standing commitment has been increasing over the years, especially by giving back through contributions, awareness raising, and community engagements

### *An Engaged and Productive Workforce*

A key sustainability dimension that we report on each year is the workplace, where we exhibit sustainable management of and engagement with our people.

NBK is widely recognised for its strong workplace culture and support for its employees and customers, as well as for providing exceptional continuing professional development opportunities for its people. This includes our training and work experience schemes aimed at assisting fresh graduates entering the workforce, helping them to develop the skills and experience to lead the development of the sector in the future.

NBK is an equal opportunity employer that places significant emphasis on diversity with a focus on women representation in the workforce and local recruitment of young Kuwaitis. Currently, more than 45% of our work force are women demonstrating a comprehensive advocacy to diversity.

NBK continues to support Women's Empowerment Principles (WEP)<sup>3</sup> as a signatory and sponsor. NBK joined the WEP in 2017 during an event at the Chamber of Commerce, where NBK officially signed the CEO Statement of Support to the WEPs

Health and Safety is at the core of our operation where NBK has been actively introducing a wide range of health and safety initiatives, aligned with all government regulations and guidelines, in order to maximise safety in the workplace for our employees, partners and customers.

### *Empowering Community Services*

Supporting our communities was always featured in our social commitment. NBK is becoming more focused on growing that role through more emphasis on financing activities that support underserved sectors in our communities. Our aim is to generate economic development, while creating employment opportunities and achieving measurable social outcomes.

Our employees and financial professionals actively work to better our local communities through volunteering and financial support. Contributing to the health, well-being and prosperity of our community has always been a significant priority for NBK, in many ways our "reason for being". "Giving back to the community" is also one of our six pillars of sustainability. Over the years, in an effort to optimize our positive impact, NBK has come to focus our community investment in a number of arenas: healthcare, education and youth, social contribution, environment, and sports and culture.

## Governance

NBK strengthened its commitment to the highest standards of governance and has fully aligned with international best practices and standards for our sector, as well as the unique needs and context of our market and organisation.

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<sup>3</sup> <https://www.weps.org/>

We recently added two independent Board Members to our board of directors who bring outstanding academic and professional expertise based on years of experience in leading regional and international financial institutions. Furthermore, one of our newly appointed independent directors has extensive exposure and credentials with regards to ESG, and will assist in further developing ESG and sustainable practices at NBK with more engagement and oversight by the board.

Additionally, the role of the Risk and Compliance Committee in surfacing and managing a wide range of risks was further solidified, while NBK also emphasised its long-standing commitment to human rights by creating and approving a new Human Rights policy.

NBK further aims to continue to exhibit the utmost ethical business and governance practices, assess its performance against ESG standards on a continuous basis, and transparently communicate to stakeholders, including through our annual Sustainability Report. In this way, we ensure accountability, continuous improvement and transparent reporting to all our stakeholders on the Bank's performance and progress with respect to ESG and sustainability.

## 2. Sustainable Financing Framework

The objective of setting up this Sustainable Financing Framework ("Framework") is to support and further NBK's ambition to integrate critical ESG issues into the business, culture and operations thereby advancing the transition to a sustainable and low carbon economy and contributing to achieve Kuwait's sustainability vision.

The Framework is aligned with the Green Bond Principles<sup>4</sup> (GBP), Social Bond Principles<sup>5</sup> (SBP) published and Sustainability Bond Guidelines<sup>6</sup> (SBG) published in June 2021 by the International Capital Market Association (ICMA).

In the case of Green loans, NBK will ensure alignment with the recommendations of the Green Loan Principles<sup>7</sup> (GLP) published in February 2021 by the Loan Market Association (LMA). In the case of Social loans, NBK will ensure alignment with the recommendations of the Social Loan Principles<sup>8</sup> (SLP) published in April 2021 by the LMA. In this regard, the framework details the four core components of the ICMA and LMA principles, which are as follows:

1. Use of Proceeds
2. Process for Project Evaluation and Selection
3. Management of Proceeds
4. Reporting

The framework also covers External Review.

This framework applies to financing instruments issued by NBK and / or its subsidiaries in the form of senior unsecured bonds, subordinated bonds, private placements, loans, deposits, commercial paper and

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<sup>4</sup> ICMA Green Bond Principles 2021 - <https://www.icmagroup.org/assets/documents/Sustainable-finance/2021-updates/Green-Bond-Principles-June-2021-140621.pdf>

<sup>5</sup> ICMA Social Bond Principles 2021 - <https://www.icmagroup.org/assets/documents/Sustainable-finance/2021-updates/Social-Bond-Principles-June-2021-140621.pdf>

<sup>6</sup> ICMA Sustainability Bond Guidelines 2021 - <https://www.icmagroup.org/assets/documents/Sustainable-finance/2021-updates/Sustainability-Bond-Guidelines-June-2021-140621.pdf>

<sup>7</sup> LMA, APLMA, and LSTA Green Loan Principles 2021 - <https://www.lsta.org/content/green-loan-principles/>

<sup>8</sup> LMA, APLMA, and LSTA Social Loan Principles 2021 - [https://www.lma.eu.com/application/files/1816/1829/9975/Social\\_Loan\\_Principles.pdf](https://www.lma.eu.com/application/files/1816/1829/9975/Social_Loan_Principles.pdf)

any other financial instrument where the proceeds can be exclusively allocated as per the Use of Proceeds (2.1) section of this framework.

This Framework may be updated from time to time to ensure continued alignment with voluntary market practices, emerging standards and classification systems. Any updated version of this Framework will either maintain or improve the current levels of transparency and reporting disclosures, including the corresponding External Review.

## 2.1 Use of Proceeds

Under this Sustainable Financing Framework, NBK can issue three types of instruments:

1. Green Financing Instruments – the proceeds of which are exclusively allocated to Green Asset Categories as described in the use of proceeds section
2. Social Financing Instruments – the proceeds of which are exclusively allocated to Social Asset Categories as described in the use of proceeds section
3. Sustainability Financing Instruments – the proceeds of which are allocated to both Green or Social Asset Categories, as described in the use of proceeds section

For the sake of ease, Green, Social and Sustainability Financing Instruments will be referred to collectively as “Sustainable Financing Instruments” in the rest of this document.


An amount equivalent to the net proceeds from NBK’s sustainable financing instruments will be used to finance or re-finance, in part or in full, Eligible Assets (as defined below) providing distinct environmental and/or social benefits. The Eligible Assets may be funded directly by NBK or through one or more of its subsidiaries. NBK will follow the process described in the Framework along with its professional judgement, discretion and sustainability expertise when identifying the Eligible Assets.

NBK intends to allocate an amount equal to the net proceeds raised by the issuance to the Eligible Green and Social Assets where financing has taken place within a 3-year period preceding the year of the issuance.



Where a business derives 90% or more of its revenues from activities that meet the eligible criteria below, it will be considered as eligible for financing from a NBK Sustainable Financing Instrument. In these instances, the Use of Proceeds can be used by the business for general purposes, so long as this financing does not fund expansion into activities falling outside the eligible asset categories.

### a) Eligible Green Assets




Green Eligible Assets relevant for use under the Framework include:

| Asset Category   | Eligibility Criteria  | Alignment with UN SDGs   |
|--|---|--|
| <b>Renewable Energy</b><br><br><b>Environmental Objective: Climate Change Mitigation</b> | Financing related to the acquisition, conception, construction, development, installation and operations of infrastructures in renewable energy production units, as well as the transmission of electricity from renewable sources including: <ul style="list-style-type: none"> <li>▪ Onshore and offshore wind energy</li> <li>▪ Geothermal energy with direct emissions of less than 100g CO2e/kWh</li> </ul> |  7.2 By 2030, increase substantially the share of renewable energy in the global energy mix |





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|   | <ul style="list-style-type: none"> <li>▪ Solar energy - photovoltaic solar power, concentrated solar power (CSP) and solar thermal</li> <li>▪ Bioenergy – facilities that use biomass or biofuel from sustainable sources<sup>9</sup> with emissions intensity of less than 100g CO<sub>2</sub>e/kWh</li> <li>▪ Other low-carbon energy sources with lifecycle emissions lower than 100gCO<sub>2</sub>e/kWh, including small-scale hydropower projects (&lt;25MW)</li> <li>▪ Infrastructure to support renewable energy – transmission of renewable electricity from its production site to the electricity grid including increasing grid capacity and connections</li> </ul>  |   |
| <p><b>Energy Efficiency</b></p> <p><b>Environmental Objective: Climate Change Mitigation</b></p>    | <p>Financing related to investments in energy and resource efficiency, including:</p> <ul style="list-style-type: none"> <li>▪ Improvement of energy efficiency in various sectors, such as refurbishments of buildings to include energy-saving equipment, retrofit of heating systems, refrigeration systems, lighting equipment etc.</li> </ul>  |  <p><b>9.4</b> By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities</p> |
| <p><b>Clean Transportation</b></p> <p><b>Environmental Objective: Climate Change Mitigation</b></p> | <p>Financing related to corporate lending towards the development, construction, acquisition, operation, maintenance and upgrades of zero-carbon and low-carbon transport assets:</p> <ul style="list-style-type: none"> <li>▪ Zero-carbon transport: investments in passenger and freight vehicles with zero tailpipe emissions, such as electric cars, hydrogen cars, trains etc.</li> <li>▪ Low-carbon transport <ul style="list-style-type: none"> <li>- Investments in low-carbon passenger vehicles with tailpipe emissions intensity of max. 50g CO<sub>2</sub>/km until 2025 (from 2026 onwards, only vehicles with emission intensity of 0g CO<sub>2</sub>/km are eligible)</li> <li>- Investments in transportation infrastructure for mass transportation (expansion of train/metro</li> </ul> </li> </ul> |  <p><b>11.2</b> By 2030, provide access to safe, affordable, accessible and sustainable transport systems for all, improving road safety, notably by expanding public transport, with special attention to the needs of those in vulnerable situations, women, children, persons with disabilities and older persons</p>   |

<sup>9</sup> Feedstocks include forest (certified to Forestry Stewardship Council (FSC), Programme for the Endorsement of Forest Certified (PEFC), Sustainable Biomass Partnership, or Roundtable on Sustainable Biomass), agricultural waste, food waste and marine (e.g. algae). Feedstocks that are derived from sources of high-biodiversity, deplete terrestrial carbon pools or compete with food production are excluded.



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|  | <p>networks, projects in relation to capacity improvement, station upgrades)</p> <ul style="list-style-type: none"> <li>- Investments in infrastructure to support the use of zero-carbon and low-carbon vehicles, including charging stations for electric vehicles</li> </ul>   |   |
| <p><b>Sustainable Water and Wastewater Management</b></p> <p><b>Environmental Objective: Climate Change Adaptation, Sustainable use and protection of water and marine resources</b></p>       | <p>Financing related to the development, construction, acquisition, installation, operation and upgrades of sustainable water management projects, including:</p> <ul style="list-style-type: none"> <li>▪ Investments in technologies to reduce overall water demand in stressed areas (e.g. investments that increase water-use efficiency, water recycling and reuse, water saving systems and water metering)</li> <li>▪ Sustainable infrastructure for clean water; wastewater treatment</li> <li>▪ Flood prevention, flood defence or stormwater management</li> <li>▪ Other water related projects (e.g. freshwater infrastructure, wastewater infrastructure)</li> </ul>    |  <p>By 2030, substantially increase water-use efficiency across all sectors and ensure sustainable withdrawals and supply of freshwater to address water scarcity and substantially reduce the number of people suffering from water scarcity</p>            |
| <p><b>Green Buildings</b></p> <p><b>Environmental Objective: Climate Change Mitigation</b></p>   | <p>Financing related to the construction, development, acquisition and refurbishment of energy-efficient buildings which either:</p> <ul style="list-style-type: none"> <li>▪ Have reached at least EPC A level or are within the top 15% of most energy efficient buildings of the national or regional building stock, as determined by NBK through a specialist methodology<sup>10</sup></li> <li>▪ Obtained a minimum external green building certification for e.g. “BREEAM Excellent” or “LEED Gold” or equivalent</li> </ul> <p>Financing dedicated to the refurbishment and renovation of buildings reaching at least 30% improvement in energy use or carbon emissions</p> |  <p>11.c - Support least developed countries, including through financial and technical assistance, in building sustainable and resilient buildings utilizing local materials</p>   |
| <p><b>Environmentally Sustainable Management of Living Natural Resources and Land Use</b></p> <p><b>Environmental Objective: Climate Change Mitigation, Natural Resource Conservation,</b></p> | <p>Financing related to corporate lending targeted towards sustainable forestry, agriculture, fisheries and aquaculture practices that are certified to an independent standard:</p> <ul style="list-style-type: none"> <li>▪ Certified forests (FSC, PEFC or equivalent)</li> <li>▪ Sustainable agriculture practices and climate smart farming</li> </ul>   |  <p>15.1 Ensure the conservation, restoration and sustainable use of terrestrial and inland freshwater ecosystems and their services, in particular forests, wetlands, mountains and drylands, in line with obligations under international agreements</p> |

<sup>10</sup> For any Loans that are marked under this criterion, NBK commits to referencing a separate methodology to verify the top 15 % eligibility and to acquire a second opinion on the validity of this methodology. The top 15 % methodology could be based on, for instance, building year, building code or building energy labels




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| <b>Biodiversity Conservation</b>  | <ul style="list-style-type: none"> <li>Environmentally sustainable fishery and aquaculture certified by a reputable third-party organisation (e.g. MSC, BAP (at least 2 star), ASC)</li> </ul>   |  <p>14.2 Sustainably manage and protect marine and coastal ecosystems to avoid significant adverse impacts</p> |
| <b>Pollution Prevention and Control</b><br><br><b>Environmental Objective: Pollution prevention and control</b> | <p>Financing related to investments in technology and related services to create sustainable environment through reduction of environmental pollution, including:</p> <ul style="list-style-type: none"> <li>Eliminating or significantly mitigating environmental pollutants in water, air, and soil using biological, physical and chemical methods</li> <li>Waste management projects<sup>11</sup> including; waste prevention, waste reduction, waste recycling and energy/ emission-efficient waste to energy.</li> </ul> |  <p>12.5 By 2030, substantially reduce waste generation through prevention, reduction, recycling and reuse</p> |

## b) Eligible Social Assets

Social Eligible Assets relevant for use under the Framework include:

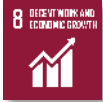
| Asset Category   | Eligibility Criteria  | Target Population  | Alignment with UN SDGs   |
|--|---|--|--|
| <b>Access to Essential Services: Health Care &amp; Education</b><br><br><b>Social Objective: Affordable and equitable access for all to healthcare and education</b> | <p>Financing related to projects, facilities and equipment that enhance access to public, not-for-profit, free or subsidized essential services including healthcare and education:</p> <ul style="list-style-type: none"> <li>Activities involving the development, expansion or acquisition of buildings, facilities, or equipment relating to: <ul style="list-style-type: none"> <li>Infrastructure for hospitals, laboratories, clinics, healthcare, childcare and elder care centers</li> <li>Infrastructure for the provision of child, youth or adult education and vocational training services</li> </ul> </li> </ul> | <p>General population or targeted towards low income individuals and households as determined by local regulation in the country where the project resides</p> |  <p>3.8 Achieve universal health coverage, including financial risk protection, access to quality essential health-care services and access to safe, effective, quality and affordable essential medicines and vaccines for all.</p>  <p>4.1 By 2030, ensure that all girls and boys complete free, equitable and quality primary and secondary education leading to relevant and Goal-4 effective learning outcomes</p> |

<sup>11</sup> Waste management projects will exclude projects related to hazardous waste and waste to landfill.

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| <p><b>Affordable Basic Infrastructure</b></p> <p><b>Social Objective:</b><br/>Access for all to safe drinking water and sanitation, Improving connectivity for underserved communities</p> | <p>Financing related to the development, construction, operation of affordable basic infrastructure that provides / expands access to rural and urban needs for</p> <ul style="list-style-type: none"> <li>▪ Clean drinking water</li> <li>▪ Sanitation including infrastructure related to sewerage systems</li> <li>▪ Sustainable transportation <sup>12</sup> including expanding ports, rail and road infrastructure to enable transport for public use and goods</li> </ul> | <p>General population or targeted towards underserved communities (e.g. rural areas)</p>  | <div style="display: flex; align-items: flex-start;"> <div style="margin-right: 10px;">  </div> <div> <p>6.1 By 2030, achieve universal and equitable access to safe and affordable drinking water for all.</p> <p>6.2 By 2030, achieve access to adequate and equitable sanitation and hygiene for all and end open defecation, paying special attention to the needs of women and girls and those in vulnerable situations</p> </div> </div><br><br><div style="display: flex; align-items: flex-start;"> <div style="margin-right: 10px;">  </div> <div> <p>9.1 Develop quality, reliable, sustainable and resilient infrastructure, including regional and transborder infrastructure, to support economic development and human well-being, with a focus on affordable and equitable access for all</p> </div> </div> |
| <p><b>Affordable Housing</b></p> <p><b>Social Objective:</b><br/>Access to adequate, safe and affordable housing for vulnerable populations</p>  | <p>Financing related to the construction, development, refurbishment, and/or the preservation of</p> <ul style="list-style-type: none"> <li>▪ Quality affordable housing<sup>13</sup> and subsidized financing for residential mortgages for low and middle income populations in Egypt</li> <li>▪ Quality affordable housing and subsidized financing for residential mortgages aimed at</li> </ul>   | <p>Low and middle income individuals and households in Egypt</p> <p>Low income individuals and/or households as determined by local regulations or standards in the country where the project resides</p> | <div style="display: flex; align-items: flex-start;"> <div style="margin-right: 10px;">  </div> <div> <p>11.1 By 2030, ensure access for all to adequate, safe and affordable housing and basic services and upgrade slums</p> </div> </div>  |

<sup>12</sup> NBK will conduct appropriate assessments to identify the tradeoffs between environmental and social impact when considering sustainable transportation. Where possible only clean transportation projects will be included. If fossil fuel reliant projects are included NBK will make clear their trade off assessment in the annual impact report.

<sup>13</sup> The definition of affordable housing is determined by each country in line with local standards. For example for lending to Affordable Housing in Egypt the Central Bank (CBE) has set the criteria for low and mid income groups who can benefit from the affordable housing initiative.

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|   | low income populations in other countries <sup>14</sup>  |  |  |
| <b>Employment Generation and Socioeconomic Advancement and Empowerment</b>  | Financing related to programs designed to promote employment creation and prevent and/or alleviate unemployment stemming from socioeconomic crises including;  | Underserved populations such as economically underperforming regions, sectors, women or small holder farmers |  <p>8.3 Promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage the formalization and growth of micro-, small- and medium-sized enterprises, including through access to financial services</p> |
| <b>Social Objective: Equitable employment opportunities for all, Access to affordable and responsible finance products and services to vulnerable populations</b> | <ul style="list-style-type: none"> <li>▪ SMEs and micro SMEs financing<sup>15</sup> in specific economically underperforming regions<sup>16</sup> or</li> <li>▪ Subsidized lending to specific economically underperforming sectors as determined by local regulations or standards set for example by central banks<sup>17</sup>.</li> <li>▪ Lending to women led<sup>18</sup> SMEs and micro SMEs</li> <li>▪ Lending to small holder farmers as determined by local regulations</li> </ul> |  |  |

### c) Exclusions

For the avoidance of doubt, financing related to the following activities are excluded from the financing by NBK's Sustainability Financing Instruments:

- Fossil fuel energy
- Nuclear energy
- Defense
- Energy efficiency investments in high carbon intensive sectors primarily driven or powered by fossil fuels

### 2.2 Process for Evaluation and Selection

NBK has established a Sustainable Financing Working Group with responsibility for governing selection and monitoring of the Eligible Assets.

<sup>14</sup> The definition of low income populations is determined by each country in line with government definitions or adopting criteria to identify low income populations based on verified economic data and local standards of living. NBK will make the criteria used to identify these populations available in the allocation report

<sup>15</sup> SMEs and Micro SMEs as defined by the International Finance Corporation (IFC) - MSME: (i) an enterprise is defined as Micro if it has less fewer than 10 employees, or if total assets or annual sales are less than USD 100,000, (ii) an enterprise is defined as Small if it has between 10 and 49 employees, or if total assets or annual sales are between USD 100,000 and less than USD 3 million link

<sup>16</sup> Underperforming regions are defined using the United Nations Conference on Trade and Development (UNCTAD) list of developing countries, including Egypt, Indonesia, Qatar, Tunisia and Turkey, as per the development status categorization <https://unctadstat.unctad.org/EN/Classifications.html>

<sup>17</sup> For example in Egypt subsidized lending to SMEs in underperforming economies is defined by local law

<sup>18</sup> Women led is defined as having at least 51% ownership by women

The Sustainable Financing Working Group will be chaired by a member of senior management and consists of senior members of the following teams: Finance/ Treasury, Corporate Sustainability, Risk Management, Investor Relations.

The Sustainable Financing Working Group will be responsible for:

- Annually screening and assessing Eligible Assets put forward by business teams against the eligibility and exclusion criteria laid out in section 2.1 of this Sustainable Financing Framework
- Ensuring Eligible Assets are also aligned with NBK's Sustainability Policies and Procedures
- Removing Eligible Assets that have matured or no longer meet the eligibility criteria, and if allocated to any Sustainable Finance Instrument replacing them with new Eligible Assets as soon as possible
- Preparing and approving allocation and impact reports

As part of its review of Eligible Assets, the Sustainable Finance Working Group will evaluate the environmental and social risks associated with Eligible Assets and consider how they can be mitigated. The Sustainable Finance Working Group's analysis of risks and mitigants will leverage NBK's methodology for the management of environmental risks in financing is in accordance to with bank's current risk management framework.

Once screened the Sustainable Finance Working Group will follow up with respective departments to track actual spend on the Eligible Assets using internal systems.

### ***2.3 Management of Proceeds***

NBK's Finance and treasury team will manage the allocation of an amount equivalent to the net proceeds of its Sustainable Financing Instruments to Eligible Assets using a portfolio approach. NBK intends to achieve a level of allocation to the Eligible Asset portfolio that matches or exceeds the balance of net proceeds of its outstanding Sustainable Financing Instruments within 3 years of issuance of each Sustainable Financing Instrument.

Pending full allocation of an amount equal to the net proceeds of outstanding Sustainable Financing Instruments, the unutilized proceeds will be held in temporary investments such as cash, cash equivalents and/or other liquid marketable investments (preferably sustainable bonds issued by other issuers) in line with NBK's policies.

### ***2.4 Reporting***

For each Sustainable Financing Instrument, NBK commits to publish an allocation and impact report annually, and until full allocation of the proceeds, and in the event of any material changes until the relevant maturity date:

#### **Allocation Reporting**

NBK will provide information on the allocation of the net proceeds of its Sustainable Financing Instruments on its website. The information will contain at least the following details:

- a) Net proceeds of outstanding Sustainable Financing Instruments
- b) Amount of net proceeds allocated to Eligible Asset Categories as defined in the Use of Proceeds section of this Framework
- c) Subject to confidentiality considerations a list of the Eligible Assets financed through NBK's Sustainability Financing Instruments, including a description of the projects, allocated amounts

- d) The proportional allocation of proceeds between existing assets (refinancing) and new assets
- e) The remaining balance of unallocated proceeds, if any

## Impact Reporting

NBK will provide impact reporting at the level of each Eligible Asset Category and which may include the Impact Reporting Metrics described below. Where feasible, NBK will align the reporting with the portfolio approach described in “ICMA Harmonised Framework for Impact Reporting Handbook as of June 2021<sup>19</sup>. The methodologies as well the assumptions and baselines used to determine the impact reporting indicators will be provided as well as a distinction between where actual and estimated impact metrics are reported.

### Example green impact reporting metrics

| Asset Category                                     | Impact Reporting Metrics  |
|--|---|
| <b>Renewable Energy</b>                            | <ul style="list-style-type: none"> <li>▪ Annual GHG emissions reduced/avoided in tonnes of CO<sub>2</sub>e (equivalent)</li> <li>▪ Annual renewable energy generation in MWh/GWh (electricity) and GJ/TJ (other energy)</li> <li>▪ Capacity of renewable energy plant(s) constructed or rehabilitated in MW</li> </ul>  |
| <b>Energy Efficiency</b>                           | <ul style="list-style-type: none"> <li>▪ Annual energy savings in MWh/GWh (electricity) and GJ/TJ (other energy savings)</li> <li>▪ Annual GHG emissions reduced/avoided in tonnes of CO<sub>2</sub>e</li> </ul>  |
| <b>Clean Transportation</b>                        | <ul style="list-style-type: none"> <li>▪ Passenger-kilometres (i.e. the transport of one passenger over one kilometre) and/or passengers; or tonnekilometres (i.e. the transport of one tonne over one kilometre) and/or tonnes</li> <li>▪ Annual GHG emissions reduced/avoided in tCO<sub>2</sub>-e p.a.</li> <li>▪ Reduction of air pollutants: particulate matter (PM), sulphur oxides (SO<sub>x</sub>), nitrogen oxides (NO<sub>x</sub>), carbon monoxide (CO), and non-methane volatile organic compounds (NMVOCs)</li> </ul>  |
| <b>Sustainable Water and Wastewater Management</b> | <ul style="list-style-type: none"> <li>▪ Annual water savings (m<sup>3</sup>/a, reduction in water use in %)</li> <li>▪ Annual volume of wastewater treated, reused or avoided (m<sup>3</sup>/a and p.e./a and as %)</li> <li>▪ Annual absolute (gross) amount of raw/untreated sewage sludge that is treated and disposed of (in tonnes of dry solids p.a. and in %)</li> <li>▪ Annual absolute (gross) amount of sludge that is reused (in tonnes of dry solids p.a. and in %)</li> <li>▪ Area covered by sustainable land and water resources management practices (hectares)</li> </ul> |
| <b>Green Buildings</b>                             | <ul style="list-style-type: none"> <li>▪ Certification Standards</li> <li>▪ Type of scheme, certification level</li> <li>▪ Annual GHG emissions reduced/avoided in tonnes of CO<sub>2</sub> equiv/a</li> <li>▪ Final and/or Primary Energy Use (kWh/m<sup>2</sup>)</li> <li>▪ Annual energy use reduced/avoided (kWh/a)</li> </ul>  |
| <b>Environmentally Sustainable</b>                 | <ul style="list-style-type: none"> <li>▪ Area covered by sustainable land and water resources management practices</li> </ul>   |

<sup>19</sup> <https://www.icmagroup.org/assets/documents/Sustainable-finance/2021-updates/Handbook-Harmonised-Framework-for-Impact-Reporting-June-2021-100621.pdf>

|  |  |
|--|--|
| <b>Management of Living Natural Resources and Land Use</b> | <ul style="list-style-type: none"> <li>▪ Maintenance/safeguarding/increase of protected area/OECM/habitat in km<sup>2</sup> and in % for increase</li> <li>▪ Maintenance/safeguarding/increase of natural landscape area (including forest) in km<sup>2</sup> and in % for increase</li> <li>▪ Certification Standards</li> <li>▪ Type of scheme, certification level</li> <li>▪ Area of land/activity covered</li> <li>▪ GHG emissions removed/reduced/avoided CO2 equiv/a</li> </ul>   |
| <b>Pollution Prevention and Control</b>                    | <ul style="list-style-type: none"> <li>▪ Amount of waste that is prevented, minimised, reused or recycled before and after the project in % of total waste and/ or in absolute amount in tonnes p.a.</li> <li>▪ Annual energy generation from non-recyclable waste in energy/emission-efficient waste to energy facilities in MWh/GWh (electricity) and GJ/TJ (other energy)</li> <li>▪ GHG emissions avoided from waste management activities(tCO<sub>2</sub>-e p.a)</li> <li>▪ Reduction of air pollutants: particulate matter (PM), sulphur oxides (SO<sub>x</sub>), nitrogen oxides (NO<sub>x</sub>), carbon monoxide (CO), and non-methane volatile organic compounds (NMVOCs)</li> <li>▪ Absolute or % reduction in local pollutants to air, land and water</li> </ul> |



## Example social impact reporting metrics

| Asset Category   | Impact reporting metrics   |
|--|--|
| <b>Access to Essential Services</b>  | <ul style="list-style-type: none"> <li>▪ Number of people benefitting from access to healthcare</li> <li>▪ Number of hospitals and other healthcare facilities built/upgraded</li> <li>▪ Number of education facilities and/or initiatives</li> <li>▪ Number of people with access to education</li> </ul>   |
| <b>Affordable Basic Infrastructure</b>                                     | <ul style="list-style-type: none"> <li>▪ Number of water infrastructure projects built/upgraded</li> <li>▪ Number of new household water connections</li> <li>▪ Number of people with access to clean drinking water (or annual volume of clean drinking water in m<sup>3</sup>/a supplied for human consumption) through infrastructure supporting sustainable and efficient water use (where average consumption per person is consistent with internationally recognised standards for sustainable water use)</li> <li>▪ Number of people with access to improved sanitation facilities under the project</li> <li>▪ Number of people and/or enterprises (e.g. companies or farms) benefitting from measures to mitigate the consequences of floods and droughts</li> <li>▪ Number of residents benefitting from basic transport infrastructure new/upgraded which is otherwise not accessible</li> </ul> |
| <b>Affordable Housing</b>  | <ul style="list-style-type: none"> <li>▪ Number of low income individuals and households benefitting from subsidized housing</li> <li>▪ Number of low and middle income individuals and households benefitting from subsidized housing in Egypt</li> <li>▪ Number of loans granted to low-income households for installations of sustainability improvement technologies</li> </ul>  |
| <b>Employment Generation and Socioeconomic Advancement and Empowerment</b> | <ul style="list-style-type: none"> <li>▪ Number of jobs supported/created/retained</li> <li>▪ Number/value of businesses benefitting from subsidized loans</li> <li>▪ Number/value of loans to SMEs and/or microenterprises</li> <li>▪ Number of smallholder farmers reached</li> <li>▪ Number/value of loans serving to underserved populations including women</li> <li>▪ Number of people benefitting from agricultural projects and using improved farming technology</li> </ul>   |

## 2.5 External Reviews

NBK's Sustainable Financing Framework is supported by the following external reviews:

### a) Second Party Opinion ("SPO")

NBK has retained S&P Global Ratings to provide a Second Party Opinion on the Sustainability Financing Framework, to confirm alignment with the ICMA 2021 Green Bond Principles, ICMA 2021 Social Bond Principles, ICMA 2021 Sustainability Bond Guidelines, LMA 2021 Green Loan Principles and LMA 2021 Social Loan Principles. The Second Party Opinion is available on NBK's Website.

## **b) Post Issuance external verification on reporting**

NBK will request on an annual basis, starting one year after issuance and until full allocation, an assurance report on the allocation of the Sustainable Financing Instrument proceeds to eligible assets, provided by its external auditor. The assurance will be available on NBK's website.

## **Disclaimer**

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