

Sustainable Procurement Strategy Framework

June 2024

1 Sustainable Procurement Strategic Role

The amalgamation of Environmental, Social, and Governance (ESG) principles elevates the procurement function from an executor of operational processes to a strategic value partner for the National Bank of Kuwait's ('NBK', or 'NBK Group') ESG agenda by enhancing and accelerating ESG integration into its procurement practices and supply chain. The stakeholders, both internal and external, involved in the procurement value chain have a decisive role to play in shaping NBK's ESG footprint, both directly through purchase decisions and indirectly by influencing product or service design.

2 NBK's Commitment to Responsible Procurement

NBK Group is strongly committed to achieving higher levels of ESG integration by focusing on multiple strategic avenues to optimize the outcome of all procurement activities across the different functions and scopes at NBK, in line with the Group's ESG Strategy, its relevant targets, and ambitions.

By adopting the ESG Product Category Management (ESG-CM) and ESG Total Cost of Ownership (ESG-TCO) approaches – among others, the value creation and savings become realized, sustainability-driven, and complementary to achieving the expected quality and service level desired by NBK.

NBK's ESG strategic transformation and commitment to embed ESG across its supply chain shall equally improve procurement integration with other business groups and stakeholders. NBK aims to empower cross-functional teams to constructively be engaged and well informed, at all stages of their activities, of the impact of its procurement decisions on its ESG long-term commitments.

Embedding ESG in the procurement of digital assets and investing in data management systems shall support NBK's ability to perform targeted and detailed analytics of bank-wide spend patterns and ensure that effective data is driving NBK sourcing strategies and supplier negotiations. NBK aims to deliver measurable savings traceable through the bottom line and advance its procurement role as a value-adding partner to relevant business groups.

3 Preamble

Sustainable procurement emphasizes NBK's commitment to establishing responsible business conduct and sustainable and balanced relationships with its suppliers, while delivering on its ESG needs in a timely, cost-efficient, and resource-efficient manner that optimizes quality.

4 Drivers

Aligned to NBK's ESG Strategy and its strategic pillar 'Responsible Banking', NBK strives to embed ESG across its supply chain. The ultimate achievement of ESG integration across the Bank's supply chain is enabled by the adoption of the following principles, wherever possible:

- To adhere to the highest levels of ethical and responsible procurement.
- To adopt ESG-related criteria in procurement decisions and vendor sourcing.
- To adopt a systemic risk management approach by identifying, assessing, and managing ESG-related risks across NBK's value chain.
- To advance value creation by supporting local businesses and small and medium-sized enterprises (SMEs), and women-led businesses.

Hence, by integrating ESG principles, NBK's functions and groups involved in procurement and / or vendor management are able to extend their roles from executors of operational processes to strategic value partners to NBK's ESG journey.

5 NBK's Sustainable Procurement Vision

To support NBK's leadership position and commitment to sustainability:

- To enhance NBK's leadership position in sustainability and achieve higher levels of ESG integration in all facets of its operations.
- To demonstrate Duty of Care through commitment of responsible vendor management.
- To establish unique coalitions with stakeholders across NBK's supply chain, which accelerates the achievement of NBK's ESG commitments while maximizing value creation in the procurement ecosystem.
- To build supply chain resilience.

6 NBK's Sustainable Procurement Mission

The Sustainable Procurement Strategy Framework considers, supports, and optimizes the environmental, social, and economic impacts over the life cycle of the procured products or services. It is governed by leading global practices to support the implementation and advancement of ESG objectives of NBK Group across its operations.

7 Scope

This is an overarching strategy framework which contains the Group's general ESG principles and commitments to sustainable procurement, and not a complete set of detailed rules that cover all situations for implementation. The more detailed rules are, or will be as deemed necessary, described in topic-specific policies, operating procedures, and guidelines to support effective implementation across the Group. This strategy framework should be supported by and read in conjunction with other specific and applicable documents and / or articles as set in NBK policies and / or SOPs relevant to its procurement and vendor management functions, each as per its own scope of responsibilities and activities.

8 Document Governance

This document is owned by each of NBK Group's procurement functions, as applicable to each function or location's scope, policies and / or SOPs. The content of this document is confidential and is intended for internal use of the Group only. This strategic framework shall be reviewed and amended as per the changes in the national and global development agenda applicable to the jurisdictions NBK operates within and where it aligns with NBK's ESG strategic objectives and activities. All proposed changes to this document are subject to the review and approval of the Responsible Operations and Corporate Culture Committee.

9 Applicability and Adherence

It is the responsibility of the management of each country across NBK Group's international network to ensure that this strategic framework is implemented and complied with, where relevant, to their respective areas of responsibility, based on applicable national laws and regulations.

The monitoring and annual reporting of the Key Performance Indicators (KPIs) defined in this document shall be prioritized in collaboration with Group Sustainability, wherever possible. This document contains some aspects that may be prescriptive and may prove not to be pragmatic (applicable) in their timely execution due to the needed system enhancement and / or qualifying hiring required. In such cases, adherence to this document shall be effective once such enhancement and / or hiring are in place. It is the responsibility of each relevant stakeholder group to identify and provide the required input and maintain the accuracy and relevance of its respective parts of this document.

10 Communication

Communication of this document shall be made through Group Heads in relevant functions and business groups and made accessible as per the classification once it has been approved by the Responsible Operations and Corporate Culture Committee.

11 Guiding Principles to Value Creation

NBK's practices progressively evolved from the historical conventional notion that procurement is an operational function to an enabler of value creation as a strategic function to the business.

The Sustainable Procurement Strategy Framework aims to guide NBK's various procurement functions for managing the procurement and vendor management practices across NBK Group in an efficient and responsible manner. NBK aims to achieve ESG value creation in its operations by addressing the four key pillars of sustainable procurement:

Framework Pillars	Value Creation	Approach
Economic	<ol style="list-style-type: none"> Increase cost saving and free-up funds for investment. Secure a robust supply chain, while supporting local businesses. Enhance competitiveness among suppliers. 	<ul style="list-style-type: none"> Adopting ESG Total Cost of Ownership (TCO) and whole life costing methods for sourcing goods and services. Reducing internal cost and boosting cost-synergies.
Environmental	<ol style="list-style-type: none"> Support NBK's efforts in reducing its environmental impact and carbon footprint. Contribute to national climate plans through efficient environmental resource management. 	<ul style="list-style-type: none"> Sourcing sustainable products and services. Efficiently conducting operations. Adopting circular economy principles.
Social	<ol style="list-style-type: none"> Ethically conduct business which ensures fair pay and labor practices in line with labor laws and industry standards. Support vendors in adhering to global practices of business conduct. Enhance community engagement. 	<ul style="list-style-type: none"> Creating shared value for both the business (owner) and suppliers through sustainable practices and fair vendors management. Adopting sustainable procurement policies that drive social improvements e.g., working conditions, child labor, forced labor, etc.
Governance	<ol style="list-style-type: none"> Ensure business resilience. Demonstrate ESG leadership. Improve the ethical behavior of suppliers (socially and environmentally) through robust governance measures. 	<ul style="list-style-type: none"> Streamlining procurement processes to build more resilient operations that can withstand ESG disruption, address associated emerging risks, and protect brand reputation. Adopting high standards of vendor management and due diligence to ensure fairness, transparency, and accountability in suppliers' practices.

12 Implementation

To ensure systematic progress and proper monitoring and reporting of Sustainable Procurement Strategic Objectives, the following are a number of KPIs which aim to support NBK with measuring, monitoring, and communicating the impact achieved from implementing sustainable procurement practices:

Economic, Environmental, Social, Governance	KPI
Social, Governance	1. Total number and percentage of local vendors vs. total vendors.
Economic, Social, Governance	2. Number and value (\$) of vendors that are SMEs and women-owned businesses vs. total vendor's portfolio.
Governance	3. Percentage of vendors that have undergone ESG assessment upon registration.
Environmental, Social, Governance	4. Percentage of vendors undergone ESG assessment found with social and / or environmental negative impacts.
Environmental, Social	5. Proportion of calls for tender in high ESG risk purchasing categories.
Environmental	6. Proportion of calls for tender of environmental-related products /services.
Governance	7. Average weighting (%) of ESG criteria in purchasing assessment / tender process.
Economic, Environmental	8. Total and percentage of expenditure directed to green structuring (CAPEX).
Economic, Environmental	9. Total and percentage of expenditure directed to green products and services (OPEX).
Social, Governance	10. Average invoice payment time.
Economic, Governance	11. Describe how the procurement of goods or services is evaluated on the basis of whole-life asset management.
Economic, Governance	12. Describe NBK's management approach to cost reduction while mitigating any negative impact on service levels.
Environmental, Social, Governance	13. Describe NBK's identification and management approach to address the environmental and social strengths and weaknesses associated with the main modes of corporate or freight transportation.
Governance	14. Describe Vendors Grievance Mechanism.
Governance	15. Vendors Satisfaction Rate (%) (i.e., surveys outcome).
Social, Governance	16. Total training hours and number of vendors provided with ESG capacity building.
Social, Governance	17. Total training hours and number of supply chain employees provided with ESG capacity building.
Environmental	18. Total reduction in volume of transport fuel as a result of regulated practices of management and / or transition of corporate transport to electric vehicles.
Economic, Environmental	19. Number of electric vehicles owned and / or leased.
Economic, Environmental	20. Total reduction in volume and value (\$) of purchased and consumed paper as a result of digitalization, usage reduction, or recycling practices.
Economic, Environmental	21. Total reduction in volume and value (\$) of energy consumption as result of procuring / adopting energy-efficient electronics and technologies.
Economic, Environmental	22. Total reduction in volume and value (\$) of water bills as a result of procuring water efficient solutions.

This is not an exhaustive list of KPIs and aims to only provide guidance to NBK’s support functions and business groups to steer procurement-related decision making in line with NBK’s sustainability objectives, wherever possible. The measurement and monitoring of those KPI’s and related ones require the establishment of necessary systems and / or processes to facilitate data collection, monitoring, and reporting. Hence, stakeholders of relevant support functions and business groups are encouraged to follow the process defined in Section 13 of this document for identifying the enablers necessary for implementation.

Benefit Realization Review:

As applicable for each function, annual review of the execution against ESG Strategic objectives and priorities must be conducted and the results presented to management demonstrating the progress of ongoing projects, programs, or contracts and the corresponding ESG benefits realized.

13 Enablers

Enablers are the internal elements that support NBK’s procurement functions to set and achieve its ESG-related objectives.

The enablers can be categorized as follows:

- A) Related to internal systems and resources (department-level maturity assessment).
- B) Related to vendors performance evaluation and vendors management.
- C) Related to project, program, or request origination.

A) Related to Internal Systems and Resources (Department-level Maturity Assessment)

Sustainable procurement starts with understanding the starting point and as-is state, and then addressing selected value-creation themes accordingly.

NBK’s functions involved in procurement and / or vendor management are encouraged to conduct a maturity assessment to identify the gaps and needs for carrying out its procurement activities with regards to the following scopes:

- Strategic Framework and KPIs
- Roles and Skills
- Procedures
- Planning Tools and Digital Platforms

The maturity assessment is considered an enabling process to ensure adequate and efficient implementation of NBK’s sustainable procurement strategic objectives. The maturity assessment can be conducted as frequently as needed when it is foreseen by each procurement function to be required and necessary. The assessment may include one or more of the scopes. Details of each scope as described in the following table are subject to change according to emerging needs and the Bank’s internal capabilities.

Scope	Description
Strategic Framework and KPIs	<ul style="list-style-type: none"> • Understand NBK’s overall business sustainability context, strategy, and objectives. • Perform benchmark assessment on NBK’s sustainable procurement performance vs. peers and industry standards. • Develop performance metrics and key performance indicators (KPIs) to track and measure the success of NBK’s sustainable procurement efforts.

	<ul style="list-style-type: none"> • Monitor and report on economic, environmental, and social KPIs relevant to sustainable procurement such as those described in Section 12 of this document.
Roles and Skills	<ul style="list-style-type: none"> • Assess required induction needed for employees in procurement functions on the updates to relevant Policy / SOPs and the concepts of sustainable procurement adopted by NBK. • Assess current roles against NBK's evolved procurement practices and assign new roles to personnel to undertake ESG-related procurement processes e.g., Vendor ESG Due Diligence, ESG Product Category Management. • Assess investment required in new technical skills for employees in procurement functions, who can then engage with suppliers to increase awareness and address capability gaps.
Procedures	<ul style="list-style-type: none"> • Update policies and procedures to meet applicable regulatory guidelines as well as supplier and public demands. • Update procedures to reflect changes made to relevant policies, i.e., define steps for undertaking Vendor ESG Due Diligence, ESG Risk Assessment, ESG Product Categories Management, etc. • Implement principles and initiatives for conscious consumption across product categories management. • Eliminate paper-intensive and manual processes wherever possible and replace with digital tools to increase process efficiency and achieve positive environmental impact.
Planning Tools and Digital Platforms	<ul style="list-style-type: none"> • Where paper is eliminated, use digital tools to undertake processes (existing or new). • Benchmark current digital tools with the NBK's Procurement Policy to identify necessary system enhancements for undertaking sustainable procurement processes such as Enhanced Supplier Onboarding, Vendor ESG Due Diligence, Products ESG Category Management, etc. • Assess investment required in new tools and data sources to facilitate the identification of suppliers with favorable ESG footprints or technologies that could help NBK achieve its sustainability goals.

B) Related to Vendors Performance Evaluation and Vendors Management

Performance Evaluation:

NBK aims to ultimately integrate ESG considerations into the vendor selection processes including performance evaluation, which can be conducted in two phases:

- Phase 1: initiated at the vendor registration and onboarding process. For existing or registered vendors, the ESG performance evaluation is conducted retro-actively, irrelevant of the vendors' involvement in an ongoing specific Request for Proposal (RfP). All vendors shall sign the Supplier Code of Conduct Declaration, followed by a Vendor ESG Due Diligence assessment of the practices claimed by the vendor.
- Phase 2: initiated at the phase of projects' tenders or bids, assessed against a pre-defined ESG criteria tailored to the scope of the requested project.

Vendor Management:

To manage its supplier relationships, NBK shall manage its relationships with suppliers' by considering the following,

wherever possible and applicable:

- Conducting Vendor ESG Due Diligence (DD) to identify potential ESG risks and ensure vendors' adherence to NBK's sustainability goals and values.
- Committing to conduct and manage its vendors' relations with fairness, transparency, and collaboration.
- Segmenting NBK's supplier portfolio to derive differentiated supplier relationships based on key factors such as: critical purchases, sustainable products, etc. in line with the ESG Product Category Management.
- Monitoring vendors' ESG performance regularly.
- Developing unique collaborations to support vendors with improving their ESG performance and capabilities, in line with NBK's sustainable procurement objectives.
- Adjusting or terminating business relationships with vendors that may cause or expose NBK to negative economic, environmental and / or social impact(s).

C) Related to Project, Program, or Request Origination

ESG shall be considered in project, program, or request origination, wherever applicable, in line with NBK's ESG strategic objectives. Business units (or owner) must develop a high-level justification of the ESG-related project or program requested based on business and / or ESG requirements that includes:

- Project business and / or ESG objective.
- Project business and / or ESG scope.
- Benefits that will be realized from the project (financial, non-financial, and ESG).

14 Appendix A: Definitions

14.1 Acronyms List

Acronym	Expanded Term
CAPEX	Capital Expenditure
DD	Due Diligence
ESG	Environmental, Social, and Governance
ESG-CM	ESG Product Category Management
ESG-TCO	ESG Total Cost of Ownership
KPI	Key Performance Indicator
NBK	National Bank of Kuwait
OPEX	Operating Expenses
RfP	Request for Proposal
SME	Small and Medium-sized Enterprises
SOP	Standard Operating Procedure

14.2 Definitions

Nouns	Definition
ESG Product Category Management (ESG-CM)	<p>Category Management is a strategic approach to procurement whereby organizations segment their spending into areas which contain similar or related products. It allows for more focus on categories that have opportunities for consolidation, efficiencies, better pricing, and negotiation approaches, as well as managing any ongoing supply risk for the same segments of products/services.</p> <p>In the case of ESG, products and services can be segmented using sustainable procurement / products approach.</p>
ESG Total Cost of Ownership (ESG-TCO)	<p>TCO is the cost of the item (+) the cost to operate it over its useful life.</p> <p>ESG-TCO is the cost of the item plus (+) the cost to operate it over its useful life (-) cost savings and/or avoidance of harm.</p>
Sustainable Procurement	<p>Sustainable Procurement is the process of integrating environmental, social, and governance goals into procurement practices and supply chain. It considers the environmental, social, and economic consequences of design; non-renewable material use; production methods; logistics; service delivery; use; operation; maintenance; reuse; recycling options; disposal; and suppliers' capabilities to address these consequences. It upholds the principles of transparency, fairness (to both the supplier and society), as well as long term economic value and accountability (from the purchaser and supplier).</p>
Vendor ESG Due Diligence (DD)	<p>Vendor ESG Due Diligence is the process of identifying and mitigating risks related to environmental, social, and governance (ESG) factors in the Bank's corporate transactions, investments, or suppliers.</p>