

Second Party Opinion

National Bank of Kuwait's Sustainable Financing Framework

Feb. 25, 2022

National Bank of Kuwait S.A.K.P. (NBK), together with its subsidiaries, provides financial and investment services and solutions to individuals, corporate customers, and institutional clients in Kuwait and internationally.

The group operates in six segments: Consumer and Private Banking, Corporate Banking, Investment Banking and Asset Management, Islamic Banking, Group Centre, and International. The bank offers loans, credit cards, deposits, foreign exchange, and other branch-related services as well as trade finance and advisory services. It has more than 140 branches in 14 countries across four continents. NBK was incorporated in 1952 and is headquartered in Kuwait City, Kuwait.

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In our view, NBK's Sustainable Financing Framework, published on Feb. 25, 2022, is aligned with:

-  Social Bond Principles, ICMA, 2021
-  Social Loan Principles, LMA/LSTA/APLMA, 2021
-  Green Bond Principles, ICMA, 2021
-  Green Loan Principles, LMA/LSTA/APLMA, 2021
-  Sustainability Bond Guidelines, ICMA, 2021

Issuer's Sustainability Objectives

NBK aims to align its business performance with having a positive sustainability impact. To achieve this, the bank has defined a sustainability strategy that focuses on: contributing to sustainable economic development; serving customers; leading in business and governance; respecting and developing people; caring for the environment; and giving back to the community. NBK tracks its progress in environmental, social, and governance (ESG) areas in its sustainability report.

NBK acknowledges the role finance can play in solving environmental and societal issues and is committed to implement sustainability in its direct operations and business lines, while aligning its governance structure with international best practices. NBK intends to continue its ESG advancement while also supporting Kuwait's sustainability vision. In this context, we consider that NBK's Sustainable Financing Framework falls within the bank's wider ESG strategy and objectives.

Second Party Opinion Summary

Use of proceeds

Alignment  NBK's Sustainable Financing Framework is aligned with this component of the applicable principles.

Score Not aligned Satisfactory **Strong** Advanced

NBK has committed to using an amount equivalent to the net proceeds from the sustainable financing instruments issued under this framework to finance or refinance projects that fit within project categories in line with the principles. Furthermore, all eligible green and social projects contribute to environmental objectives and are mapped to specific targets of the U.N.'s Sustainability Development Goals (SDG).

Process for project evaluation and selection

Alignment  NBK's Sustainable Financing Framework is aligned with this component of the applicable principles.

Score Not aligned **Aligned** Strong Advanced


NBK defines the process it follows and criteria it uses to select eligible projects. The bank's Sustainable Financing Working Group will be in charge of screening and assessing eligible projects suggested by the business teams, ensuring projects' alignment with NBK's overall sustainability strategy, removing no longer eligible assets and preparing the impact and allocation reports. In addition, the Sustainable Financing Working Group will comprise members from the bank's corporate sustainability team.

Management of proceeds

Alignment  NBK's Sustainable Financing Framework is aligned with this component of the applicable principles.

NBK's finance and treasury team will be in charge of allocating an amount equivalent to the net proceeds of instruments issued under the framework to eligible projects using a portfolio approach. In addition, the bank has committed to a level of allocation that matches or exceeds the net proceeds of the financing instruments within three years of issuance. Moreover, any pending proceeds will be held in temporary investments (e.g., cash, cash equivalents, and/or other liquid marketable investments) in line with NBK's policies.

Reporting

Alignment  NBK's Sustainable Financing Framework is aligned with this component of the applicable principles.

Score Not aligned **Aligned** Strong Advanced

NBK has committed to annually disclosing the allocation and impact reports of its sustainable financing instruments until full allocation. In addition, the bank will report on the methods, assumptions, and baselines used to determine the impact reporting. Furthermore, the allocation report will be subject to external verification.

Framework Assessment

Use of proceeds

The Principles make optional recommendations for stronger structuring practices, which inform our alignment opinion as aligned, strong, or advanced. For use of proceeds, we consider the commitments and clarity on how the proceeds are used.

 NBK's Sustainable Financing Framework is aligned with this component of the applicable principles.

Commitments score

Not aligned

Satisfactory

Strong

Advanced

We consider NBK's overall use of proceeds commitments to be strong.

NBK has committed to allocating an amount equivalent to the net proceeds of the sustainable finance instruments to finance or refinance the selected eligible projects that contribute to at least one environmental or social objective. Eligible projects also include financing to businesses when at least 90% of their revenue is derived from activities in line with the eligibility criteria.

The framework defines eligible green project categories, in line with the Green Bond Principles, which include: renewable energy; energy efficiency; clean transportation; sustainable water and wastewater management; green buildings; management of living natural resources and land use; and pollution prevention and control. We note that the pollution prevention and control category is restricted to nonhazardous waste treatment and no projects include any landfill activities.

Regarding the green buildings category, the bank has committed to using a separate method to verify the most energy efficient (top 15%) building criteria, which will also be subject to an external review. Furthermore, no financing will support nuclear or fossil fuel-related projects. In addition, NBK clearly defines the ICMA objectives under which the green projects fall: climate mitigation; climate adaptation; pollution prevention and control; and natural resource and biodiversity conservation. NBK has defined relevant and specific SDG targets for each green eligible project category, which we view as a strong practice.

The eligible social projects include categories in line with the Social Bond Principles, such as access to essential services, affordable basic infrastructure, affordable housing and employment generation, and socioeconomic advancement and empowerment. NBK also provides a good level of transparency in the projects' descriptions. We note that:

- Under the affordable housing category, the bank includes middle-income population as an eligible group for Egypt only. We believe this provides some level of benefit due to the local context of Egypt where the government has identified the need and has programs in place to foster housing access for this specific population.
- Under sustainable transportation in the affordable basic infrastructure category, the framework does not exclude transporting fossil fuel-reliant projects, although they are on the bank's exclusion list for green projects. However, NBK has committed to conduct appropriate environmental and social impact assessments when considering sustainable transportation as part of affordable basic infrastructure projects.

We view as a strong feature of the framework that NBK has linked all social projects to relevant objectives and specific SDG targets. Finally, NBK has committed to disclosing the proportion of proceeds allocated to finance or refinance projects. The framework also outlines a maximum look-back period of three years for refinancing eligible projects, which we see as contributing to the transparency of the use of proceeds practices.

Process for project evaluation and selection

The Principles make optional recommendations for stronger structuring practices, which inform our alignment opinion as aligned, strong, or advanced. For our process for project selection and evaluation, we consider the commitments and clarity on the process used to evaluate and select eligible projects to fund with the proceeds of the sustainable finance instrument.

 NBK's Sustainable Financing Framework is aligned with this component of the applicable principles.

Commitments score

Not aligned

Aligned

Strong

Advanced

We consider NBK's overall process for project selection and evaluation commitments to be aligned with the applicable principles.

The framework defines the criteria and process it will use to select eligible green and social projects and includes an exclusion list, which comprises investments in energy efficiency in carbon-intensive sectors powered or driven by fossil fuels and bioenergy projects that use feedstocks that are derived from sources of high biodiversity, deplete terrestrial carbon pools, or compete with food production. Furthermore, some projects incorporate eligibility criteria driven by market-based taxonomies or certifications (e.g., financing energy-efficient buildings that have reach at least Energy Performance Certificate A level or that have obtained at minimum a BREAAAM "Excellent," LEED "Gold," or the equivalent). However, we note this is not the case for all the eligibility categories, limiting comparability.

NBK's Sustainable Financing Working Group will oversee projects' screening and assessment, ensure projects are in line with the bank's overall strategy and policies, remove projects that no longer meet eligibility criteria, and prepare and approve the annual impact and allocation reporting. The working group will also assess the projects' environmental and social risks in accordance with NBK's methodology and risk management framework; however, no further details are given on the latter.

Management of proceeds

The Principles require disclosure of the issuer's management of proceeds from sustainable finance over the life of the funding. The alignment opinion focuses on how clear in the documentation is the issuer's commitment to ensure that the funds raised will remain dedicated to eligible sustainability projects throughout the life of the sustainable finance funding.

 NBK's Sustainable Financing Framework is aligned with this component of the applicable principles.

NBK has committed to using a portfolio approach to manage the sustainable financing instruments' proceeds. The bank clarifies that proceeds pending full allocation will be held in temporary investments (e.g., cash or cash equivalents and/or other liquid marketable investments) in accordance with the bank's policies. In addition, NBK has committed to working on achieving allocation that matches or exceeds the net proceeds of outstanding financing instruments within a period of three years, which we, however, view as longer than the market best practice of two years.

Reporting

The Principles make optional recommendations for stronger disclosure practices, which inform our disclosure opinion as aligned, strong, or advanced. We consider plans for updates on the sustainability performance of the issuer for general purpose funding, or the sustainability performance of the financed projects over the lifetime of any dedicated funding, including any commitments to post-issuance reporting.

 NBK's Sustainable Financing Framework is aligned with this component of the applicable principles.

Second Party Opinion

Disclosure score

Not aligned

Aligned

Strong

Advanced

We consider NBK's overall reporting practices to be aligned with the applicable principles.

NBK has committed to publish an annual allocation and impact report until full allocation of the net proceeds.

The allocation report is set to include the net proceeds of outstanding sustainable financing instruments, the amount of net proceeds allocated to eligible projects, a list of eligible projects financed, their description and the respective allocated amounts, the proportion of financing versus refinancing, and the remaining balance of the unallocated proceeds. NBK has also committed to report on metrics in line with the ICMA Harmonized Framework for Impact Reporting Handbook.

The methods, assumptions, and baselines will also be disclosed by NBK, as well as a distinction between where actual and estimated impact metrics are reported. Moreover, we view positively that NBK plans to have its allocation report verified by a third party. The verification report will be published annually until full allocation.

Mapping To The U.N.'s Sustainable Development Goals

The Sustainable Development Goals (SDGs), which the U.N. set up in 2015, form an agenda for achieving sustainable development by 2030.

We use the International Capital Market Association's (ICMA's) SDG mapping for this part of the report. We acknowledge that ICMA's mapping does not provide an exhaustive list of SDGs and that ICMA recommends each project category be reviewed individually to map it to the relevant SDGs.

NBK's sustainable financing framework intends to contribute to the following SDGs:

Use of proceeds

SDGs

Renewable energy



7. Affordable and clean energy*

Energy Efficiency



9. Industry, innovation and infrastructure*

Clean Transportation



11. Sustainable cities and communities*

Sustainable Water and Wastewater Management



6. Clean water and sanitation*

Green Buildings

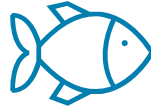


11. Sustainable cities and communities*

Environmentally Sustainable Management of Living Natural Resources and Land Use



15. Life on land*



14. Life below water*

Pollution Prevention and Control



12. Responsible consumption and production*

Access to Essential Services



3. Good health and well-being*



4. Quality education*

Affordable Basic Infrastructure



6. Clean water and sanitation*



9. Industry, innovation and infrastructure*

Affordable Housing



11. Sustainable cities and communities*

Employment Generation and Socioeconomic Advancement and Empowerment



8. Decent work and economic growth*

*The eligible project categories link to these SDGs in the ICMA mapping.

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