

## SECOND PARTY OPINION (SPO)

### EXTERNAL REVIEW

Sustainability Quality of the Issuer and Sustainable Finance Framework

Bank ABC  
03 October 2024

#### VERIFICATION PARAMETERS

<b>PRE- ISSUANCE VERIFICATION</b>	<b>Type(s) of instruments contemplated</b>	<ul style="list-style-type: none"><li>Sustainable Finance Instruments – Green, Social, Sustainable Bond/Loan/Sukuku</li></ul>
	<b>Relevant standards</b>	<ul style="list-style-type: none"><li>Green Bond and Social Bond Principles (GBP and SBP), updated in June 2021, Sustainability Bond Guidelines (SBG), updated in June 2021, as administered by the International Capital Market Association (ICMA), Green and Social Loan Principles (GLP and SLP), as administered by the Loan Market Association (LMA)</li></ul>
	<b>Scope of verification</b>	<ul style="list-style-type: none"><li>Bank ABC's Sustainable Finance Framework (as of Sep. 23, 2024)</li><li>Bank ABC's Eligibility Criteria (as of Sep. 23, 2024)</li></ul>
<b>EXTERNAL REVIEW</b>	<b>Scope of Verification</b>	<ul style="list-style-type: none"><li>Bank ABC's Sustainable Finance Framework (as of Sep. 23, 2024)</li><li>Bank ABC's sustainable finance classification system (as of Sep. 23, 2024)</li></ul>
<b>Validity</b>		Valid as long as the Framework remains unchanged

## CONTENTS

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SCOPE OF WORK.....	3
BANK ABC BUSINESS OVERVIEW.....	4
ASSESSMENT SUMMARY.....	5
SECTION 1 PRE-ISSUANCE VERIFICATION.....	10
ALIGNMENT WITH ICMA’S GREEN, SOCIAL BONDS PRINCIPLES AND SUSTAINABILITY BOND GUIDELINES AND LMA’S GREEN AND SOCIAL LOAN PRINCIPLES.....	10
SECTION 2 EXTERNAL REVIEW ASSESSMENT.....	13
PART I: REVIEW OF BANK ABC’S SUSTAINABLE FINANCE FRAMEWORK.....	13
PART II: ASSESSMENT OF BANK ABC’S SUSTAINABLE FINANCE CLASSIFICATION SYSTEM.....	24
ASSESSMENT OF THE CRITERIA OUTLINED IN BANK ABC’ ELIGIBILITY SUSTAINABLE FINANCE CLASSIFICATION SYSTEM.....	24
SECTION 3 SUSTAINABILITY QUALITY OF THE ELIGIBLE CATEGORIES.....	32
CONTRIBUTION OF THE ELIGIBLE CATEGORIES TO THE UN SDGs.....	32
SECTION 4 ASSESSMENT OF BANK ABC’S ESG RISK MANAGEMENT PROCEDURES.....	48
ESG RISK MANAGEMENT.....	48
SECTION 5 THE SUSTAINABLE FINANCE FRAMEWORK’S LINK TO BANK ABC’S OVERALL ESG PROFILE.....	54
A. CONSISTENCY OF SUSTAINABLE FINANCE FRAMEWORK WITH BANK ABC’ SUSTAINABILITY STRATEGY.....	54
B. BANK ABC’S BUSINESS EXPOSURE TO ESG RISKS.....	57
ANNEX 1: Methodology.....	62
ANNEX 2: Methodology External Review.....	62
ANNEX 3: ISS ESG Corporate Rating Methodology.....	65
ANNEX 4: Quality Management Processes.....	66
About this External Review.....	68

## SCOPE OF WORK

Bank ABC ('Bank ABC' or 'the Financial Institution' or 'the Bank') commissioned ISS-Corporate to assist with its Green, Social, and Sustainability Bonds and Green and Social Loans issuances by assessing core elements to determine the sustainability quality of the instruments and to assist with its Sustainable Finance Framework ('SFF' or 'the Framework') to determine the quality of its sustainable financing classification system for sustainable financing activities<sup>1</sup>:

- Bank ABC's Sustainable Finance Framework (as of Sep. 23, 2024) – benchmarked against the International Capital Market Association's (ICMA) GBP, SBP, SBG, GLP and SLP.
- Sustainable Finance Framework - benchmarked against market practices and guidelines<sup>2</sup> that enables capital and loan markets to contribute to environmental and social sustainability (see Annex 1)
- Bank ABC's sustainable financing classification system - the soundness of the eligibility parameters to identify eligible sustainable financing activities (see Annex 1) and whether the eligible project categories contribute positively to the UN SDGs (see Annex 2).
- The Eligibility Criteria – whether the project categories contribute positively to the United Nations Sustainable Development Goals (UN SDGs) (See Annex 1).
- ESG Risk Management – assessment of Bank ABC's overarching risk management procedures considered relevant in the context of the Bank's sustainable financing activities (see Annex 1)
- The Sustainable Financing Framework's link to Bank ABC's overall ESG profile - drawing on the Bank's overall ESG profile, financing activities integrating ESG considerations and issuance-specific Use of Proceeds categories (see Annex 3)

<sup>1</sup> The methodology of external reviews provided for sustainable financing, lending, and investment strategies has been developed based on our expertise in assessing a range of sustainable finance-related instruments and frameworks. In general, these types of external reviews are not to be treated as a "pass or fail" assessment of the sustainability quality of sustainable financing, lending, or investment strategies but rather as an overall assessment. Thus, obtaining an external review of an overarching financing framework does not imply a detailed assessment of the sustainability quality of each underlying transaction. A qualitative assessment of sampled eligible ESG products is not in scope of the verification procedures.

<sup>2</sup> The assessment is based on current market practices for sustainable capital and loan markets referring to different market standards and voluntary guidelines including but not limited to the International Capital Market Association's (ICMA) [Green, Social Bond Principles](#), and [Sustainability Bond Guidelines](#), [Sustainability-Linked Bond Principles](#), the Loan Market Association's (LMA) [Green Loan Principles](#), [Social Loan Principles](#), [Sustainability-Linked Loan Principles](#).

## **BANK ABC BUSINESS OVERVIEW**

Bank ABC is engaged in the provision of banking services and is classified in the Commercial Banks & Capital Markets industry, as per ISS ESG sector classification.

It operates through the following segments: Middle East and North Africa (MENA) subsidiaries, International Wholesale Banking, Group Treasury, Brazilian subsidiary, and Other. The MENA subsidiaries segment includes retail, corporate and treasury activities in GCC, North Africa and Levant. The International Wholesale Banking segment involves transaction banking (trade finance, cash management and supply chain finance), project and structured finance, Real estate finance, Financial Markets and Capital Market products including Syndications and Debt Capital Markets.

The Group Treasury segment handles treasury activities in Bahrain, New York, and London. The Group's Brazil subsidiary, Banco ABC Brasil, provides commercial banking services. The Other segment pertains to the operation of Arab Financial Services BSC and ila Bank. Licensed by the Central Bank of Bahrain and listed on the Bahrain Bourse, the company was founded on 1980, and is headquartered in Manama, Bahrain.

## ASSESSMENT SUMMARY

SPO PRE-ISSUANCE VERIFICATION		
SECTION 1	SUMMARY	EVALUATION
<p><b>Alignment with ICMA GBP, SBP, SBG and LMA GLP and SLP</b></p>	<p>The Issuer has defined a formal concept for its Sustainable Finance regarding use of proceeds, processes for project evaluation and selection, management of proceeds and reporting. This concept is with the International Capital Market Association's (ICMA) Green Bond Principles (GBP), Social Bond Principles (SBP), and Sustainability Bond Guidelines (SBG) and the Loan Market Association (LMA) Green Loan Principles (GLP) and Social Loan Principles (SLP).</p> <p><i>* Certain criteria of Renewable Energy – Biofuels<sup>3</sup> and Environmentally Sustainable Management of Living Natural Resources and Land Use – Sustainable food and agriculture<sup>4</sup> are assessed as providing no clear environmental and/or social benefits according to our methodology (cf. part II of this report). However, as there are currently several national and international initiatives and that the definition of green and/or social might vary depending on sector and geography, it is recognized that those categories might be considered as eligible green or social categories by investors.</i></p>	<p><b>Aligned with exceptions*</b></p>
EVALUATION OF BANK ABC’S APPROACH TO SUSTAINABLE FINANCE		
SECTION 2	SUMMARY	
<p><b>Part I:</b></p> <p><b>Review of Bank ABC’s Sustainable Finance and Product Framework</b></p>	<p><b>The Sustainable Finance Framework partially reflects market practices. Where feasible, (i) disclosing an estimated share of each instrument mentioned in its Framework, (ii) setting quantified sustainable finance targets in value, percentage, and timeframe in the Framework and (iii) disclosing the expected and actual impact on environmental and social objectives of the Bank’s eligible transactions, as data availability improves are encouraged.</b></p> <ol style="list-style-type: none"> <li>Objectives, Targets &amp; Progress: Once adopting the Framework into their business and risk strategy, Bank ABC will begin the process of setting quantified sustainable finance targets in value, percentage, and timeframe.</li> <li>Definition of sustainable financing activities: Bank ABC has set forth a formal concept and proposes clear parameters for</li> </ol>	

<sup>3</sup> Production of Sustainable Aviation Fuels

<sup>4</sup> Production of organic food and non-food product certified by credible 3rd party certifications (US Soy Sustainability Assurance Protocol for agriculture purposes)

	<p>sustainable financing under its Framework. Eligible types of financing include dedicated purpose, general purpose, and sustainability-linked financing.</p> <ol style="list-style-type: none"> <li>3. Evaluation and Selection Process: Internal procedures defined for selection and evaluation are considered appropriately documented and transparent. Responsibilities and accountabilities are defined, and duties are segregated. Besides, Bank ABC is in the process of formalizing a process to identify and mitigate risks of negative environmental, and social governance impacts, which will be established by 2024. Bank ABC has exclusion criteria under the Framework and explicitly excludes controversial sectors and activities from financing.</li> <li>4. Governance and Monitoring: The Bank tracks sustainable financing transactions in an appropriate way on an annual basis. Additionally, The Bank has a clearly defined declassification process to monitor if a financial transaction remains eligible on a systematic and biannual basis.</li> <li>5. Reporting: Relevant reporting is conducted frequently and made publicly available to communicate the allocation of sustainable financing transactions, as well as the impact. As data availability in terms of impact reporting improves, the Framework may be further improved by tracking the expected impact of Banks' sustainable financing activities on environmental and social objectives.</li> </ol>
<p><b>Part II:</b></p> <p><b>Assessment of Bank ABC's sustainable finance classification system</b></p>	<p><b>The Bank's sustainable finance classification system reflects market practice.</b></p> <p>Bank ABC has put forth multiple sets of eligibility parameters for its financing activities to be classified as sustainable:</p> <ol style="list-style-type: none"> <li>1. <b>Parameter 1 (Dedicated Purpose Financing – standard approach):</b> 96% of the selected eligibility criteria (counted as number project categories) have a contribution to the Sustainable Development Goals.</li> <li>2. <b>Parameter 2 (Dedicated Purpose Financing – pro-rata approach):</b> The criteria set is in line with market practices of classifying sustainable businesses. Some of the Use of Proceeds categories have set criteria aligned with market standards such as Climate Bond Initiative (CBI) and EU Taxonomy. Eligible categories are complemented by an overarching exclusion policy from the bank.</li> <li>3. <b>Parameter 3 (General Purpose Financing – standard approach):</b> The 90% threshold proposed is considered to be appropriate and in line with market practices of classifying</li> </ol>

	<p>sustainable businesses. We also note the inclusion of a safeguard with respect to the remaining 10% to exclude potential financing towards harmful activities as listed in Section 4 of the SFF.</p> <p>4. <b>Parameter 4 (General Purpose Financing – pro-rata approach):</b> The inclusion of a minimum threshold of 50%, in order to prevent financing of a company that only marginally contributes to sustainability objectives is positively noted. Similarly, the thresholds are complemented by an overarching exclusion policy from the Bank as outlined in Section 4 of the SFF. As mentioned above, we note that the financing of a company with proportions between 50% to 90%, even when counted on a pro-rata basis, may indirectly enable the growth of those ineligible activities that comprise the other proportion in such companies, since the company is able to access the overall financing.</p> <p>5. <b>Parameter 5 (Sustainability-Linked Financing):</b> Despite it not being exhaustive, Bank ABC has sets forth a sample list of KPIs, that may be used in the structuring of a Sustainability-Linked Bonds. With regard to Sustainability-Linked transactions where Bank ABC is the lender, the Group Sustainability Strategy has set out action plans to ensure the material environmental impacts of projects are evaluated at origination which entails an industry risk rating, ESG questionnaire, ESG risk template to be completed that captures and summarizes the material ESG qualitative and quantitative data and assessment.</p>
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**ASSESSMENT OF THE ELIGIBLE CATEGORIES’ CONTRIBUTION TO THE UN SDG’S**

SECTION 3	SUMMARY	EVALUATION
<b>Sustainability quality of the eligible categories</b>	<p>The Sustainable Finance will (re)finance eligible asset categories which include:</p> <p>Green categories: Renewable Energy, Green Buildings, Energy Efficiency, Environmentally Sustainable Management of Living Natural Resources and Land Use, Clean Transportation, Sustainable Water and Wastewater Management, Pollution Prevention and Control, Terrestrial and Aquatic Biodiversity Conservation, and Circular Economy.</p> <p>Social categories: Employment Generation and Programs, Access to Essential Health and Education Services, Affordable Housing, Affordable Basic Infrastructure, Food Security and Sustainable Food Systems, and</p>	<b>Positive</b>

	<p>Development Banks, Intergovernmental and Supranational Organizations.</p> <p>Product and/or service-related use of proceeds categories<sup>5</sup> individually contribute to one or more of the following SDGs:</p>  <p>For Renewable Energy – Biomass Power Plant, Energy Efficiency – Buildings and other Infrastructure, Environmentally Sustainable Management of Living Natural Resources and Land Use – Sustainable Food and Agriculture and Sustainable Practices in Livestock, there is no clear environmental and/or social benefits.</p>	
<b>ASSESSMENT OF BANK ABC'S ESG RISK MANAGEMENT PROCEDURES</b>		
<b>SECTION 4</b>	<b>SUMMARY</b>	<b>EVALUATION</b>
<p><b>ESG Risk Management</b></p>	<p>Based on an assessment of risk management practices for financial institutions, the environmental and social risks associated with the Use of Proceeds categories and the Bank's sustainable financing activities are managed. Bank ABC calculates its Scope 3 GHG emissions of its financing activities in line with PCAF. Its calculation, limited to corporate lending and sovereign, excluding financial institutions, was carried out in the first quarter of 2024.</p>	<p><b>Managed</b></p>
<b>CONSISTENCY WITH THE BANK'S SUSTAINABILITY STRATEGY</b>		
<b>SECTION 5</b>	<b>SUMMARY</b>	<b>EVALUATION</b>
<p><b>The Sustainable Finance and Products Framework'</b></p>	<p>The Sustainable Finance Framework is considered consistent with the Bank's Sustainability strategy. The key sustainability objectives and the rationale for the Framework are clearly described by the Bank. At the date</p>	<p><b>Consistent with the Bank's</b></p>

<sup>5</sup> Renewable Energy, Green Buildings, Energy Efficiency, Environmentally Sustainable Management of Living Natural Resources and Land Use, Clean Transportation, Sustainable Water and Wastewater Management, Pollution Prevention and Control, Terrestrial and Aquatic Biodiversity Conservation, and Circular Economy, Social Housing, Employment Generation and Programs, Access to Essential Health and Education Services, Affordable Housing, Affordable Basic Infrastructure, Food Security and Sustainable Food Systems, and Development Banks, Intergovernmental and Supranational Organizations



**SECOND PARTY OPINION**

Sustainability Quality of Bank ABC  
and Sustainable Finance Framework

**link to Bank ANC's  
overall ESG profile**

of publication of the report, the Bank is not exposed to  
any severe controversies.

**Sustainability  
Strategy**

## SECTION 1 PRE-ISSUANCE VERIFICATION

### ALIGNMENT WITH ICMA’S GREEN, SOCIAL BONDS PRINCIPLES AND SUSTAINABILITY BOND GUIDELINES AND LMA’S GREEN AND SOCIAL LOAN PRINCIPLES

This section evaluates the alignment of the Bank ABC’s Sustainable Finance Framework (as of Sep. 23, 2024) with the ICMA GBP, SBP, and SBG and the LMA GLP and SLP.

ICMA GBP, SBP, AND SBG, LMA GLP AND SLP	ALIGNMENT	OPINION
<p><b>Use of Proceeds</b></p>	<p style="text-align: center;">✓</p>	<p>The Use of Proceeds description provided by Bank ABC’s Sustainable Finance Framework is <b>aligned with exceptions*</b> with the ICMA GBP, SBP and SBG and the LMA GLP and SLP.</p> <p>The Issuer’s green and social categories align with the project categories as proposed by the ICMA GBP, SBP, and SBG and the LMA GLP and SLP. Criteria are defined in a clear and transparent manner. Disclosure of distribution of proceeds by project category is provided and environmental and social benefits are described.</p> <p>The Issuer defines a look-back period of 3 years and exclusion criteria for harmful project categories, in line with best market practice.</p> <p><i>* Certain criteria of Renewable Energy – Biofuels<sup>6</sup> and Environmentally Sustainable Management of Living Natural Resources and Land Use – Sustainable food and agriculture<sup>7</sup> are assessed as providing no clear environmental and/or social benefits according to our methodology (cf. part II of this report). However, as there are currently several national and international initiatives and that the definition of green and/or social might vary depending on sector and geography, it is recognized that those categories might be considered as eligible green or social categories by investors.</i></p>

<sup>6</sup> Production of Sustainable Aviation Fuels

<sup>7</sup> Production of organic food and non-food product certified by credible 3rd party certifications (US Soy Sustainability Assurance Protocol for agriculture purposes)

<p><b>Process for Project Evaluation and Selection</b></p>	<p>✓</p>	<p>The Process for Project Evaluation and Selection description provided by Bank ABC’s Sustainable Finance Framework is <b>aligned</b> with the ICMA GBP, SBP and SBG and the LMA GLP and SLP.</p> <p>The project selection process is defined and structured in a congruous manner. ESG risks associated with the project categories are identified and managed through an appropriate process. Moreover, the projects selected show alignment with the sustainability strategy of the Issuer.</p> <p>The Issuer involves various stakeholders in this process and identifies alignment of their Sustainable Finance framework and their green and social projects with market-wide taxonomies and references any green standards and certifications used, in line with best market practice. Additionally, the Issuer clearly shows the intended benefit to the relevant population, in line with best market practice.</p>
<p><b>Management of Proceeds</b></p>	<p>✓</p>	<p>The Management of Proceeds provided by Bank ABC’s Sustainable Finance Framework is <b>aligned</b> with the ICMA GBP, SBP and SBG and the LMA GLP and SLP.</p> <p>The net proceeds collected will be equal to the amount allocated to eligible projects, with no exceptions. The net proceeds are tracked in an appropriate manner. The net proceeds are managed on an aggregated basis for multiple Green Bonds (portfolio approach). Moreover, the Issuer discloses the temporary investment instruments for unallocated proceeds.</p>
<p><b>Reporting</b></p>	<p>✓</p>	<p>The allocation and impact reporting provided by Bank ABC’s Sustainable Finance Framework is <b>aligned</b> with the ICMA GBP, SBP and SBG and the LMA GLP and SLP.</p> <p>The Issuer commits to disclose the allocation of proceeds transparently and to report in an appropriate frequency. The reporting will be publicly available on the Issuer’s website. Bank ABC explains that the level of expected reporting will be at the portfolio level and the type of information that will be reported. Moreover, the</p>

**SECOND PARTY OPINION**

Sustainability Quality of Bank ABC  
and Sustainable Finance Framework

		<p>Issuer commits to report annually, until the bond matures.</p> <p>The Issuer is transparent on the level of impact reporting and further defines the frequency and scope of the impact reporting, in line with best market practice. Moreover, the Issuer commits to get the allocation report audited by an external party, in line with best market practice.</p>
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## SECTION 2 EXTERNAL REVIEW ASSESSMENT

### PART I: REVIEW OF BANK ABC'S SUSTAINABLE FINANCE FRAMEWORK

In its Sustainable Finance Framework, Bank ABC defines its methodology for classifying eligible financing transactions as sustainable.

These processes are reviewed against current market practices for sustainable capital and loan markets derived from market standards and voluntary guidelines. The assessment is based on derived key principles for transparency, disclosure and non-contamination of sustainable labelled-products, such as proposed by the ICMA Green and Social Bond Principles (GBP and SBP), Sustainability Bond Guidelines (SBG), Sustainability-Linked Bond Principles (SLBP) and best market practices from other market standards for Sustainable Finance, such as the Loan Market Association Green and Social Loan Principles (GLP and SLP) and Sustainability-Linked Loans Principles (SLLP).

CRITERIA	SUMMARY AND OPINION
<p><b>1. Objectives, Targets, &amp; Progress</b></p>	<p>Bank ABC defined a Sustainable Finance Framework to outline the methodology and enable the classification and tracking of its eligible sustainable finance transaction performance against its existing sustainable finance commitments.</p> <p>Bank ABC's sustainability strategy focuses on the transition to an inclusive and sustainable low-carbon economy. Under the Group Sustainability Strategy, the Bank has set internal sustainable finance action plans with a timeline covering establishing greenhouse gas (GHG) emission reduction plan, energy, water, and waste reduction plans, GHG emission reduction plan for suppliers regularly reviewing climate stress test and scenario analysis and reporting in compliance with Task Force on Climate-Related Financial Disclosures (TCFD) reporting. Furthermore, the Bank established a decarbonization roadmap covering its operations and financing activities. Quantified targets such as GHG emission reduction and their associated timelines will be set in 2025. The Group Sustainability Strategy integrates sustainability across the following 5 strategic pillars: (i) Governance, (ii) Operations, (iii) Risk Management, (iv) Wholesale and GTFM, and Retail, (iv) Our People &amp; Communities. Additionally, the Bank is a member of the Sustainability Accounting Board (SASB) and the Partnership for Carbon Accounting Financials (PCAF).</p>

	<p>The scope of the Framework includes all Bank ABC business units and Geographies excluding Brazil<sup>8</sup>, and it covers all financing of the following financial products, investments, and services offered by Bank ABC: Lending (i.e., corporate loans, project finance and consumer credit), Transaction Banking (i.e., export finance and supply chain finance), Capital Markets, Islamic Finance, and Liability and Treasury Products.</p> <p><b>Opinion:</b> <i>The Financial Institution has clearly disclosed the purpose of the Sustainable Finance Framework. In its Sustainable Finance Framework, Bank ABC puts forth a clear definition of the sustainability objectives for its entire financing activities in line with the wider company strategy (as outlined in Part IV.B of this report). Where feasible, the Framework may be further improved by setting quantified sustainable finance targets in value, percentage, with an associated timeframe and action plan. In that regard, Bank ABC confirms that quantified sustainable finance targets in value, percentage with an associated timeframe will be defined in 2025.</i></p>
<p><b>2. Definition of sustainable financing activities</b></p>	<p>Under Bank ABC' Sustainable Finance Framework, 'sustainable finance' includes both sustainable finance asset and liability pools, and refers to green, social, sustainability and sustainability-linked finance. Transition Financing is excluded from the scope of the Sustainable Finance Framework due to the inability to comply with the criteria set in the Framework for green, social, sustainable or sustainability-linked finance as the businesses that Bank ABC finances under transition finance are businesses operating within hard-to-abate industries.<sup>9</sup></p> <p>Bank ABC bases its definition of sustainable financing on established national and international standards, frameworks, and principles. These include, in particular, Green Loan Principles, Social Loan Principles and the Sustainability-Linked Loan Principles of the Loan Market Association (LMA), the Green Bond Principles, the Social Bond Principles and the Sustainability-Linked Bond Principles of the International Capital Market Association (ICMA). The process of assessment on alignment with the defined standards under the Framework is carried out by the Group Sustainability Department, in conjunction with the Wholesale, Islamic Finance and Treasury departments. Additionally, the Bank is in the process of forming a sustainable finance team, that has sustainable finance deal structuring capability, within the Wholesale, Islamic Finance and Treasury departments. This will be in place by 2024.</p>

<sup>8</sup> Banco ABC Brasil is excluded since that subsidiary has its own country-specific Sustainable Finance Framework. Banco ABC Brasil represents 32% of the Bank's revenue.

<sup>9</sup> More information regarding the definition, criteria, and the exclusion of Transition Finance is provided by Bank ABC in Appendix 4 of the Framework.

**Eligible type of financing**

Bank ABC’s Sustainable Finance Framework sets out types of financing that the Bank sets as eligible as sustainable financing for tracking and disclosing its performance transparently, which include:

- **Dedicated purpose** financing where the use of proceeds satisfies either the green or social eligibility criteria set out in Section 3 of the Framework or a combination of green and social criteria in the case of sustainability financing.
- **General purpose** where the business mix of the entity satisfies either the green or social eligibility criteria based on the thresholds set out in section 2.2 of the Framework.
- **Sustainability-linked financing** which meets the eligibility criteria set out in section 2.3 of the Framework. Note that sustainability-linked financing is not required to satisfy either the green or social eligibility criteria set out in section 3 of the Framework.

In addition to the above requirements, financing will not be eligible as sustainable financing if the business and activities are involved in the excluded activities outlined in section 4 of the Framework:

- Activities that are inconsistent with addressing the challenges of climate change and promote environmental and social sustainability.
- Coal mining or coal-fired power generation and associated facilities,
- Tar sand extraction, fracking & Arctic oil& gas exploration,
- Waste incineration without energy capture,
- Landfill without gas capture.
- Any activity that, although consistent with a country’s legal and/or regulatory framework, may generate particularly significant adverse impacts on people and/or the environment, such as activities that involve:
  - Weapons, ammunitions and other military goods/technology,
  - Tobacco, alcohol and gambling,
  - Unbonded asbestos fibres or asbestos-containing products,
  - Drift net fishing in the marine environment using nets in excess of 2.5 km. in length,
  - Animal mistreatment,
  - Pornography and/or prostitution,
  - Production or commercialization of wood or other forest products that are not produced from sustainable forest management,

	<ul style="list-style-type: none"><li>▪ Palm oil, soy and timber that are not certified as sustainable as per the eligible certifications listed in Appendix 1,</li><li>▪ Companies found or suspected to have been involved or are involved in corruption, gross violations of fundamental ethical norms or other ethical business principles,</li><li>▪ Deforestation operations for commercial purposes for use in primary tropical rainforest.</li><li>▪ Activities that are illegal under host country laws, regulations or ratified international conventions and agreements, or subject to international phase out or bans, such as:<ul style="list-style-type: none"><li>▪ Production or activities involving harmful or exploitative forms of modern slavery, child labour or forced labour,</li><li>▪ Wildlife or wildlife products regulated under Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES),</li><li>▪ Activities that involve sexual exploitation,</li><li>▪ Polychlorinated biphenyl compounds (PCBs),</li><li>▪ Production or activities involving pharmaceuticals, pesticides/herbicides and other hazardous substances subject to international phase-outs or bans,</li><li>▪ Production or activities involving persistent Organic Pollutants (POPs),</li><li>▪ Production or activities involving ozone depleting substances subject to international phase out,</li><li>▪ Any activity, production, use, distribution, business or trade involving destruction of conservation areas,</li></ul></li></ul> <p>Any other illegal activities under host country laws regulations or ratified international conventions and agreements.</p> <p><b>Classification of sustainable financing</b></p>
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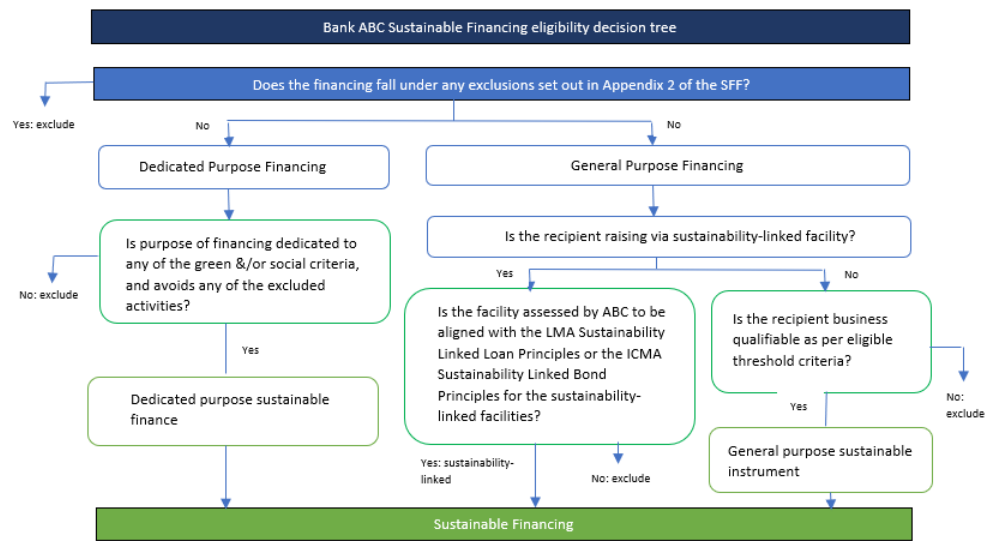


Figure 1 Bank ABC's sustainable financing decision tree

**Instrument Scope**

The Framework applies to all business units and geographies at the Group level excluding ABC Brazil which has its own country specific framework<sup>10</sup>. For its social, green, sustainability and sustainability-linked financing, the Bank provides a list of financial products, investments and services originated and managed in the following Business Units<sup>11</sup>: Lending, Transaction Banking, Capital Markets, Deposits, Islamic Finance, and Liability and Treasury Products. The product offering includes both on and off-balance sheet instruments:

PRODUCT	DESCRIPTION	CRITERIA
<b>Green, Social, and Sustainability Bonds/Sukuks/Deposits</b>	Sustainable financing instruments with a dedicated purpose that falls within the green and social eligibility criteria as described in Section 3 of the Framework.	<ul style="list-style-type: none"> <li>ICMA Green, Social and Sustainability Bond Principles</li> </ul>
<b>Green, Social, and Sustainability Loans</b>	Sustainable financing instruments with a dedicated purpose that falls within the green and social eligibility criteria as described in Section 3 of the Framework.	<ul style="list-style-type: none"> <li>LMA Green Loan Principles</li> <li>LMA Social Loan Principles</li> </ul>
<b>Sustainability -Linked Loans (SLLs)</b>	Sustainability-linked financing instruments as described in Section 2.3 of the Framework.	<ul style="list-style-type: none"> <li>LMA Sustainability-Linked Loan Principles</li> </ul>

	<table border="1" data-bbox="411 257 1364 452"> <tr> <td data-bbox="411 257 673 452"> <p><b>Sustainability-Linked bonds (SLBs)</b></p> </td> <td data-bbox="673 257 1364 452"> <ul style="list-style-type: none"> <li>▪ ICMA Sustainability-Linked Bond Principles</li> </ul> </td> </tr> </table> <p><i>Table 1. Bank ABC's products scope</i></p> <p><b>Opinion:</b> <i>The Sustainable Financing Framework presents a clear definition of the Bank ABC's classification system with clear and transparent criteria for each financing approach and refers to relevant market principles. The Bank explicitly excludes certain activities and sectors with high ESG risks under the Framework<sup>12</sup>. Where feasible, the Framework may be further improved by disclosing an estimated share of each instrument mentioned in its Framework.</i></p>	<p><b>Sustainability-Linked bonds (SLBs)</b></p>	<ul style="list-style-type: none"> <li>▪ ICMA Sustainability-Linked Bond Principles</li> </ul>
<p><b>Sustainability-Linked bonds (SLBs)</b></p>	<ul style="list-style-type: none"> <li>▪ ICMA Sustainability-Linked Bond Principles</li> </ul>		
<p><b>3. Evaluation &amp; Selection Process</b></p>	<p>At a first stage, eligibility and exclusion criteria, which are defined in Section 3 of the Framework, are implemented during the application process, through the segregation of duties and a governance mechanism to ensure that the products and financing assessed and deemed sustainable meet the defined eligibility criteria.</p> <p>The Framework is embedded into the credit origination process with the Relationship Managers (RMs) evaluating the financing against environmental and social criteria. This evaluation is captured within the business origination process by the RMs and documented in the Credit Application Form (CAF). The classification is then verified and approved by Group Sustainability Team. This ensures the classification process consists of both the first and second lines of defense. The transaction is classified by the RMs as 'green', 'social', 'sustainable', 'sustainability-linked', or 'not under scope' before it is submitted to Group Sustainability Team for verification and approval against the relevant LMA or ICMA Principles. Once approved by Group Sustainability Team, the RM will submit the completed CAF to the Credit team for approval. The Credit Team will not (re)assess the ESG/Sustainability, however, they ensure that the ESG/Sustainability evaluation and assessment were independently assessed and verified by the Group Sustainability Team and are included in the Credit Application Form (CAF) submissions. It is then presented to the Head Office Credit Committee (HOCC) or Group Credit Committee (GCC) for final approval.</p> <p>Bank ABC has established an ESG risk due diligence process in order to identify and manage the risks related to eligible transactions, which will be</p>		

<sup>10</sup> Sustainable Finance Framework ABC Brazil classifies Green, Social, and Sustainable Bonds and Loans, and excludes Sustainability-Linked Loans and Bonds from its scope. For more information, see Sustainable Finance Framework ABC Brazil, 2023, Available at: [https://ri.abcbrasil.com.br/wp-content/uploads/sites/70/2023/08/SFF\\_ABC\\_SPO\\_papelitimbrado.pdf](https://ri.abcbrasil.com.br/wp-content/uploads/sites/70/2023/08/SFF_ABC_SPO_papelitimbrado.pdf)

<sup>11</sup> Please refer to an extraction of the list of products included in Table 1. Bank ABC's product scope below.

<sup>12</sup> Please refer to Part III of the External Review for the detailed list of excluded activities.

	<p>initiated by 2024<sup>13</sup>, as part of the Group Sustainability Strategy<sup>14</sup>. The approach to embed environmental, social, and governance risk into the credit application and approval process involves a questionnaire to be undertaken by the RMs together with an ESG corporate assessment page and Industry Risk Rating in order to capture the qualitative and quantitative ESG data. This is reviewed and assessed by BAC and the Credit Team. The ESG Risk assessments are carried out for each project/activity at the origination stage and during its annual assessment. When an environmental and social risk is considered material, the Bank require borrowers to have a mitigation plan to mitigate the risks and to report these Key Performance Indicators (KPIs) annually. For any risks identified as either high or medium risk during the assessments, Bank ABC does not classify the transaction as eligible.</p> <p>For financing under the Framework, Bank ABC explicitly exclude activities described in the above section detailed under the categories of (i) activities that are inconsistent with addressing the challenges of climate change and promoting environmental and social sustainability, (ii) activities that, although consistent with a country’s legal and/or regulatory framework, may generate particularly significant adverse impacts on people and/or the environment, and (iii) activities that are illegal under host country laws, regulations or ratified international conventions and agreements, or subject to international phase out or bans.<sup>15</sup></p> <p><b>Opinion:</b> <i>The evaluation and selection process for sustainable finance transactions is defined based on the eligibility criteria and structured in a congruous manner. Responsibilities across different departments are described in the Framework, as well as in the Bank ABC’s Group Sustainability Strategy document. Bank ABC used both its eligibility criteria outlined in this Framework to consider which products are eligible and an enhanced ESG due diligence process. ESG risks associated with sustainable activities to be financed are identified and managed through an appropriate process. Bank ABC defines exclusion criteria for controversial sectors.</i></p>
<p><b>4. Governance &amp; Monitoring</b></p>	<p>The governance and monitoring of the bonds, loans, sukuks and deposits are executed through the Sustainable Finance Forum (SF Forum). SF Forum is composed of various executive members who are key stakeholders of the Framework and process, such as Heads of Risk, Treasury, Wholesale, Islamic Finance, Retail, and Sustainability, and provides oversight of the Framework, the sustainable finance products, how assets and liabilities are managed</p>

<sup>13</sup> The Bank confirms that it has not classified any transactions under this Framework before the relevant ESG risk due diligence process was in place.

<sup>14</sup> The Sustainability Strategy will be documented in Bank ABC’s 2023 Sustainability Report to be published in the first half of 2024.

<sup>15</sup> Please refer to Part III of the External Review for the detailed list of excluded activities.

	<p>and verified, and the review of the Annual Sustainable Finance Report. The Forum meets once a quarter.</p> <p>The Group Sustainability Team maintains the Sustainable Finance Register (SFR) covering the sustainable assets and liabilities that are managed on a portfolio basis and share a copy of this SFR with the other stakeholders, including the Risk Team for monitoring purposes and feedback. The Group Sustainability Team also shares a copy of the eligible assets with the Risk Team on a biannual basis, for the Risk Team’s monitoring purposes and feedback. The portfolio of eligible assets is internally reviewed on a biannual basis, internally audited on an annual basis and annually reviewed by an independent third party. The Bank further has a declassification mechanism as part of the review, where a project is no longer compliant the transaction falls out of scope. The declassification assessments are conducted by the RMs and the reviewed/validated by the Group Sustainability Team.</p> <p>Each transaction is approved on a deal-by-deal basis. According to Bank ABC’s governance and monitoring process, each transaction’s eligibility is verified and approved in line with the above-described evaluation process. Bank ABC collects the data on transactions and reporting requirements by using a combination of data coming from beneficiary companies and other external sources including S&amp;P. The reported data under this Framework is subject to a review provided by an external independent auditor on an annual basis.</p> <p>Opinion: All eligible financial instruments are subject to the Bank’s overarching eligibility criteria and are reviewed on an annual basis. A designated committee for each business unit has been put in place to be responsible for periodic review of the eligible transaction, monitoring processes, and escalation if needed Bank ABC clearly describes how the board and dedicated committees provide oversight of ESG-related issues, and specifically the sustainable finance classification system. The Bank clearly describes the process to biannually monitor if a financial transaction remains eligible, as well as the data collection, tracking, and reporting mechanisms of the sustainable finance instrument transaction.</p>
<p><b>5. Reporting</b></p>	<p>Bank ABC will report on the use of sustainable finance proceeds per notional amount in the Annual Report which will be publicly available on its website on an annual basis. The Bank commits to reporting until all the financed products have been repaid/issued and the report will cover all sustainable finance transactions within the scope of the SFF. The Bank breaks down the reporting by the number of clients, geographical region, eligible sustainable</p>

	<p>finance activities, Sustainability Development Goals (SDGs), and includes the measured quantum impacts of the sustainable financing in the report.</p> <p>Bank ABC collects the data for transactions on the preparation of the reporting requirements from a combination of beneficiary companies and other external sources including S&amp;P. The reported data under this Framework is subject to a limited assurance engagement provided by an external independent auditor.</p> <p>The Bank discloses its data in accordance with International Financial Reporting Standards (IFRS)<sup>16</sup>. However, it is noted that Bank ABC commits to aligning with the requirements of the Task Force on Climate-related Financial Disclosures (TCFS) for monitoring and reporting, by the fourth quarter of 2023<sup>17</sup>.</p> <p><b>Opinion:</b> <i>Bank ABC commits to report publicly and on an annual basis its sustainable financing. Where feasible, the Framework may be further improved by disclosing the impact of activities using the Principles for Responsible Banking (PRB) guidelines and by outlining the process to monitor and disclose the expected and actual impact on environmental and social objectives of the Bank’s eligible transactions, as data availability improves.</i></p>
<p><b>6. External Review</b></p>	<p>Bank ABC worked with a third-party consultant in the development of this Framework, including the eligibility criteria to ensure continuing development and refinement of the eligibility criteria with emergent practices and identifying themes of focus. The Framework will be updated in the future in light of new market practices.</p> <p>Bank ABC has appointed ICS to provide an External Review of the Sustainable Finance Framework and its alignment with the Bank’s overall strategy. Besides, the financing volume metrics reported as per the Sustainable Finance Framework are subject to limited assurance provided by an external independent auditor, as part of the Annual Report.</p> <p>Bank ABC’s Sustainable Finance Framework is reviewed from time to time, at Bank ABC’s discretion, including aligning it with evolving market practices and guidelines<sup>18</sup>. Updates (e.g., to eligibility criteria, product scope and accounting basis, etc.) are effective from publication, unless otherwise specified, and are not applied retrospectively to prior years’ sustainable finance performance against its Targets.</p>

<sup>16</sup> Annual Report 2022, Bank ABC, [https://www.bank-abc.com/En/AboutABC/Investment/Annual%20Reports/Annual\\_Report\\_2022\\_Updated.pdf](https://www.bank-abc.com/En/AboutABC/Investment/Annual%20Reports/Annual_Report_2022_Updated.pdf)

<sup>17</sup> Ibid.

<sup>18</sup> ICS External Review is only valid as long as the Framework remains unchanged.

**Opinion:** Bank ABC has sought an external review of the Sustainable Finance Framework at its launch, in line with best market practices. The SFF will be publicly available online at the Bank’s website<sup>19</sup>. The Bank conducts regular reviews on the Sustainable Finance Framework and provides updates based on market best practices. Furthermore, Bank ABC commits to getting the SFF externally reviewed when a material update occurs in line with best market practices. In the absence of any updates, the SFF will be externally reviewed in every two years.

<b><u>Sustainable Finance Forum</u></b>		<b>External Audit</b>
<b>1<sup>st</sup> LOD</b>	<b>2<sup>nd</sup> LOD</b>	
<ul style="list-style-type: none"> <li>Provide oversight of the Sustainable Finance Framework, the sustainable finance products, how sustainable assets and liabilities are managed and verified, and the review of the Annual Sustainable Finance Report. The Forum will meet on a quarterly basis.</li> <li>The Forum will consist of the Executive members, namely Heads of Group Risk, Treasury, Wholesale, Islamic Finance, Retail and Sustainability.</li> </ul>		<b>External Audit</b> Annual external audit of the portfolio of eligible assets.
<p><b><u>Relationship Managers within Business Units (Wholesale Banking, Islamic Banking, GT&amp;FM)</u></b></p> <ul style="list-style-type: none"> <li>RM to define the sustainable finance classification of all financing within the Credit Application Form (CAF).</li> <li>Include the ESG/Sustainability evaluation and assessment as part of CAF submission to Credit.</li> </ul>	<p><b><u>Sustainability</u></b></p> <ul style="list-style-type: none"> <li>Review and verify the sustainable finance classification outlined in the CAF.</li> <li>Review the declassification of any eligible asset that is no longer compliant and falls out of scope. Share a copy with the Risk Team for feedback, if any.</li> <li>Capture all sustainable assets and liabilities within the ESG database.</li> <li>Maintain the Sustainable Finance Register of sustainable assets and liabilities within the ESG database, updated on a monthly basis and share it with other stakeholders incl.                             <ul style="list-style-type: none"> <li>SF Forum</li> <li>Risk Team</li> </ul> </li> <li>Publish the Annual Sustainable Finance Report.</li> </ul>	
	<p><b><u>Credit</u></b></p> <ul style="list-style-type: none"> <li>Not to (re)assess ESG/Sustainability/sustainable finance classification, yet;</li> <li>Ensure ESG/Sustainability/sustainable finance classification evaluation and assessment were completed and independently assessed/verified by the Group Sustainability Team and are included in the CAF submission.</li> </ul>	
	<p><b><u>Risk</u></b></p>	

<sup>19</sup> Bank ABC’s website, <https://www.bank-abc.com/en>

	<ul style="list-style-type: none"><li>• Receive copy of the Sustainable Finance Register (“SFR”) from the Group Sustainability Team, for monitoring purposes on a monthly basis and feedback, if any.</li><li>• Receive a copy of the portfolio of eligible assets done by the Group Sustainability Team on a biannual basis for Risk Team’s monitoring purposes and feedback, if any.</li></ul>	
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*Table 2 - Bank ABC's overview of responsibilities*

## PART II: ASSESSMENT OF BANK ABC'S SUSTAINABLE FINANCE CLASSIFICATION SYSTEM

### ASSESSMENT OF THE CRITERIA OUTLINED IN BANK ABC' ELIGIBILITY SUSTAINABLE FINANCE CLASSIFICATION SYSTEM

To provide an opinion on the sustainability credibility of each of the key sets of criteria defined by Bank ABC, we evaluate the prevalence and robustness of the selection parameters, taking into account market practices across different sustainable finance asset classes.

Bank ABC has set forth the following sets of eligibility criteria for its financing activities to be classified as sustainable:

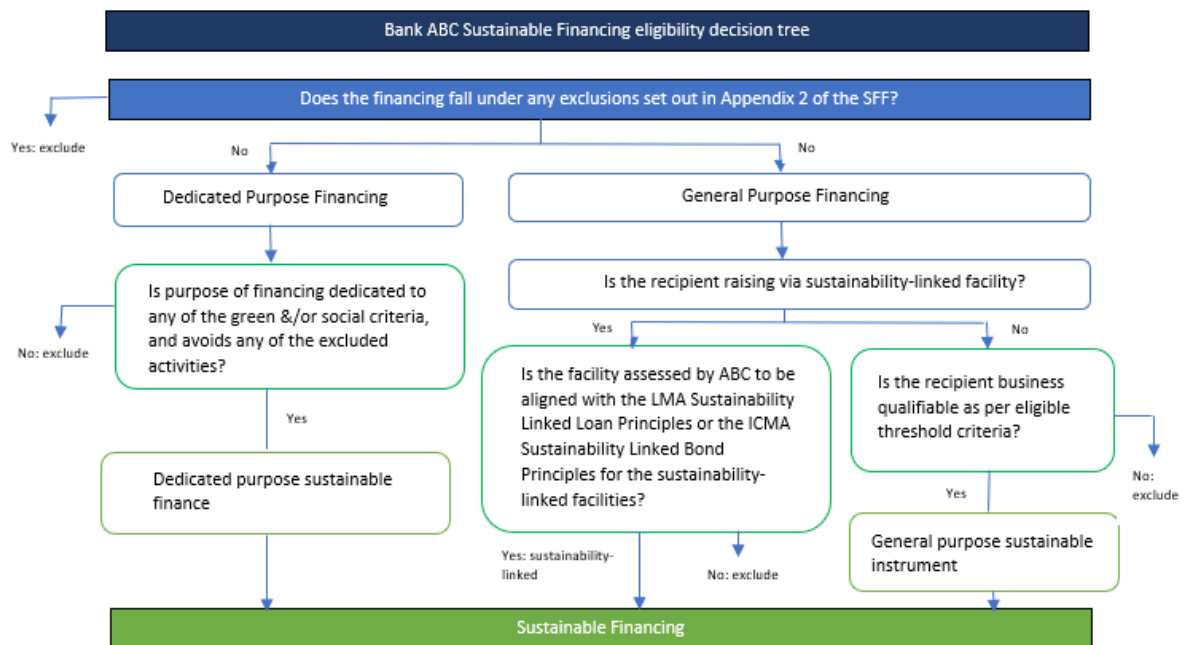


Figure 1. Bank ABCs' sustainable financing decision tree

In the below table, each parameter outlined in Bank ABC' Sustainable Finance Framework split into different financing approaches is assessed. The evaluation is based on criteria derived from market practices<sup>20</sup>.

PARAMETER	CRITERIA	ASSESSMENT OF BANK ABC'S SUSTAINABLE FINANCE CLASSIFICATION SYSTEM
<b>Dedicated Purpose</b>	Dedicated Purpose	According to Bank ABC's Framework, 100% of the proceeds are intended for activities and projects that meet the green &/or social

<sup>20</sup> These include, but are not limited to the ICMA GBP, SBP and SBG, the SLBP and the Climate Transition Handbook; the GLP and SLP; the SLBP and SLLP, as administered by the LMA; the UNEP FI PRB and the EBA LOaM guidelines for environmentally sustainable lending.



<p><b>Financing (standard approach)</b></p>	<p>Financing contributes to sustainability objectives if proceeds are exclusively allocated to activities that are subject to specific and credible ESG-related eligibility criteria.</p>	<p>eligibility criteria of the SFF. A detailed assessment of the impact of the eligible categories outlined in the SFF can be found in Section 3. The Use of Proceeds categories have set criteria derived from market standards such as ICMA’s GBP, SBP and SBG, LMA’s GLP and SLP, Climate Bond Initiative (CBI) and EU Taxonomy Based on its proprietary SDG Solutions Assessment (SDGA) methodology assessment, 96% (above 90%<sup>21</sup>) of the eligibility categories have a contribution to the Sustainable Development Goals. It is positively noted that a comprehensive internal verification will be systematically acquired at origination by an in-house specialist team.</p> <p><b>Opinion:</b> <i>4% of the categories are considered to have ‘No Net Impact’, limiting the contribution to sustainability objectives for these particular categories. At the Framework level, no information is available on the future share of sustainable financing transactions to the eligible categories assessed by ISS ESG SDGA proprietary methodology as having ‘No Net impact’. It is noted that Bank ABC sets criteria according to market standards and has in place in-house specialists to verify whether the transaction is in line with market principles.</i></p>
<p><b>Dedicated Purpose Financing (pro-rata approach)</b></p>	<p>Dedicated Purpose Financing contributes to sustainability objectives if a pro-rated share of the fund’s proceeds is allocated to activities that are subject to specific and credible ESG-</p>	<p>According to Bank ABC’s SFF, if less than 100% but more than 50% of the funds are directed towards eligible activities, then a pro-rated amount is allocated as green, social or sustainable financing in proportion to the percentage of the funds that are directed towards eligible activities. A detailed assessment of the impact of the eligibility criteria can be found in Section 3.</p> <p>Bank ABC tracks if borrowers and/or issuers are transparent on which component of the project each disbursement relates to at the initial disbursement stage and in the course of periodic monitoring which will be carried out at</p>

<sup>21</sup> It is noted that at least 90% of the eligible categories considered under the underlying framework (i.e., 100% that are classified as sustainable) should contribute positively to the SDGs, in conformity with the ISS ESG SDGA methodology.

	<p>related eligibility criteria.</p>	<p>least annually, if not on a quarterly or biannual basis.</p> <p><b>Opinion:</b> <i>Whilst the pro-rata approach generally makes sense for the purpose of accounting for volumes of eligible financing, due to the general fungible nature of financing flows, for companies that are involved in a range of activities, even the dedicated financing may indirectly benefit activities that are not eligible.</i></p> <p><i>It is noted that Bank ABC sets criteria according to market standards. There are currently no measures in place ensuring that the transactions from borrowers/issuers are in line with the core market principles. However, Bank ABC would have in-house specialists to verify whether the transaction is in line with market principles place by Q3 2024. Eligible categories are complemented by an overarching exclusion policy from the Bank as listed in Section 4 of the SFF.</i></p> <p><i>Additionally, there is a process in place to track if borrowers and/or issuers are transparent on every disbursement of the component of the project financed.</i></p>
<p><b>General Purpose Financing (pure player approach)</b></p>	<p>General-purpose financing contributes to sustainable objectives if the funds are allocated to companies for whom a majority of their revenue/CAPEX R&amp;D or OPEX derive from designated eligibility criteria. Generally accepted thresholds in the</p>	<p>According to Bank ABC’s Framework, to be classified as sustainable, the core business of the recipient should fall under the eligible green and social criteria and the recipient needs to derive from its core business at least 90% of its revenues, from eligible categories listed in the SFF. Similarly, the threshold also applies to energy generation mix (for power generators), and CAPEX/R&amp;D (for pre-revenue entities) or registrations (for non-profit healthcare providers and public education systems) based on national legislation. A detailed assessment of the impact of the eligibility criteria can be found in Section 3. We note the inclusion of a safeguard with respect to the remaining 10% to exclude potential financing towards harmful activities as listed in Section 4 of the SFF.</p>

	<p>market are <math>\geq</math> 90%<sup>22</sup> to designate green or social 'Pure Players' with a defined exclusion list for the remaining share.</p>	<p>Bank ABC confirms that as a part of their Group Sustainability Strategy, there will be specialists within the Wholesale, Islamic Finance and Treasury departments that will ensure that transactions are in line with the core principles of ICMA/LMA which will be in place by Q3 2024. As a result of which, senior bankers within wholesale and treasury teams are being trained and taking IFC/ICMA green finance courses in October 2023.<sup>23</sup></p> <p><b>Opinion:</b> <i>The 90% threshold proposed is considered to be appropriate and in line with market practices of classifying sustainable businesses. We also note the inclusion of a safeguard with respect to the remaining 10% to exclude potential financing towards harmful activities as listed in Section 4 of the SFF. There are currently no measures in place ensuring that the transactions from borrower/issuer are in line with the core market principles. However, Bank ABC would have measures in place by Q3 2024 to verify whether the transaction is in line with market principles. It is noted, however, that 4% of the listed eligibility categories are considered to have a no net impact on environmental or social factors. This may result in the classification of financing as sustainable while the underlying business is not positively contributing to environmental and social objectives.</i></p>
<p><b>General Purpose Financing (majority player approach)</b></p>	<p>General-purpose financing contributes to sustainable objectives if the funds are allocated to companies for whom a majority</p>	<p>According to the Bank ABC SFF, a pro-rata approach will be applied to companies with diverse activities, where the activities that can proportionally be classified as sustainable in case the recipient derives between 50% and 90% of its revenues, energy generation mix (for power generators), and CAPEX/R&amp;D (for pre-revenue entities) or registrations (for non-profit healthcare providers and public education</p>

<sup>22</sup> [Green Bond Principles, Appendix I \(June 2022\), Note I](#), and [Climate Bonds Initiative Standard Version 3.0 \(December, 2019\), Green Bond Database Methodology, July 2022](#)

<sup>23</sup> For transactions taking place before 2024, the Bank confirms that it will review and finance only transactions that all requirements as mentioned in the SFF.

	<p>of their revenue/CAPEX and R&amp;D from designated eligibility criteria. Generally accepted thresholds in the market are between 50 – 90% to refer to ‘Majority Players’<sup>24</sup> with a defined exclusion list on the remaining share.</p>	<p>systems) from eligible activities listed under green or social criteria. An exclusion list is applicable to the remaining 10% of the activities as outlined in Section 4 of the SFF.</p> <p>Bank ABC tracks if borrowers and/or issuers are transparent on which component of the project each disbursement relates to at the initial disbursement stage and in the course of periodic monitoring which will be carried out at least annually, if not on a quarterly or biannual basis.</p> <p>Bank ABC confirms that as a part of their Group Sustainability Strategy, there will be specialists within the Wholesale, Islamic Finance and Treasury departments that will ensure that transactions are in line with the core principles of ICMA/LMA which will be in place by Q3 2024. As a result of which, senior bankers within wholesale and treasury teams are being trained up and taking IFC/ICMA green finance courses in October this year.</p> <p><b>Opinion:</b> <i>The inclusion of a minimum threshold of 50%, in order to prevent financing of a company that only marginally contributes to sustainability objectives is positively noted. Similarly, the thresholds are complemented by an overarching exclusion policy from the Bank. At the same time, it is noted that best market practices of considering a company as sustainable is linked to the 90% threshold, included in the discussion of the previous parameter. As mentioned above, we note that the financing of a company with proportions between 50% to 90%, even when counted on a pro-rata basis, may indirectly enable the growth of those ineligible activities that comprise the other proportion in such companies, since the company is able to access the overall financing. There are currently no measures in place ensuring that the transactions from borrower/issuer are in line with the core market</i></p>
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<sup>24</sup> [LSEG, 2019](#)

		<p><i>principles. However, Bank ABC would have measures in place by Q3 2024 to verify alignment for each transaction with relevant standards.</i></p> <p><i>It is noted, however, that not all 4% of the listed eligibility categories are considered to have a net impact on environmental or social factors. This may result in the classification of financing as sustainable while the underlying business is not positively contributing to environmental and social objectives.</i></p>
<p><b>General Purpose Financing (Sustainability-Linked Financing)</b></p>	<p>Sustainability-linked Financing contributes to sustainable objectives if the associated KPIs<sup>25</sup> are material, core and relevant to the borrower’s business model and the associated targets are ambitious. Further, it is considered as best market practice that transactions are subject to an external review, providing verification of the alignment against ICMA/LMA core principles, the aforementioned dimensions, and,</p>	<p>According to the Bank ABC’s SFF, products need to align with the LMA Sustainability-Linked Loan Principles or ICMA Sustainability-Linked Bond Principles. The activity being financed cannot be eligible under green, social, or sustainable finance, must have a material impact on reducing the environmental and social risk of the core business and value chain and should not hamper or crowd out the development of low-carbon alternatives<sup>27</sup>. The Bank confirms that the material impacts are evaluated at deal origination stage and entails an industry risk rating, ESG questionnaire, ESG risk template to be completed, that captures and summarises the material ESG qualitative and quantitative data and assessment. Any disclosures are further required to be validated by an external third party. The development of low-carbon alternatives is assessed by the relationship manager at the origination stage and validated by the Group Sustainability Team.</p> <p>The Bank provides a list of example KPIs, relevant to the current and future business, and a sample of quantitative performance indicators. It should be noted that the KPI list is not exhaustive. The</p>

<sup>25</sup> Key Performance Indicators, which can be external or internal and fit into the sustainability strategy of the borrower should be relevant, measurable, externally verifiable and able to be benchmarked.

<sup>27</sup> Materiality is defined with reference to Bank ABC proper industry risk rating that outlines the material environmental and social risks of each industry, including As one of the reference points SASB industry standards and its materiality map.

	<p>in particular, the ambition of the selected SPTs<sup>26</sup>.</p>	<p>SPTs can relate to pre-determined sustainability indicators and/or the ESG ratings.</p> <p>As per Bank ABC's definition and methodology, if based on pre-determined sustainability key performance indicators, the KPIs are required to be measurable, relevant, core and material to the customer's overall business and the sector's sustainability challenges while the SPTs should be ambitious (taking into account past performance, pre-define targets, industry peers and industry best practice), and consistent with the customer's overall sustainability strategy. Core, relevant, measurable and material aspect will be assessed through an external verification pre issuance.<sup>28</sup> Similarly, when based on ESG ratings, the rating needs to be provided by a recognized and reputable ESG rating agency and SPT rating level should be ambitious (taking into account past performance, pre-define targets, industry peers and industry best practice) with respect to the baseline rating. The Bank requires an external verification of their KPIs and SPTs to be produced at pre-issuance.</p> <p>Bank ABC confirms that as a part of their Group Sustainability Strategy, there will be specialists within the wholesale department that will ensure that transactions are in line with the core principles of ICMA/LMA which will be in place by Q3 2024. As a result of which, senior bankers within wholesale and treasury teams are being trained up and taking IFC/ICMA green finance courses in October this year.</p> <p><b>Opinion:</b> <i>Despite it not being exhaustive, Bank ABC has sets forth a sample list of KPIs, that may be used in the structuring of a Sustainability-Linked Bonds. With regard to Sustainability-</i></p>
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<sup>26</sup> Sustainability Performance Targets, which should be ambitious, represent a material improvement in the respective KPIs, where possible be compared to a benchmark, be consistent with the borrowers' overall ESG strategy and be determined on a predefined timeline.

<sup>28</sup> Each SPO provider has their own proprietary methodology which are not always publicly disclosed to assess the materiality of the KPIs and ambitions of SPT in line with ICMA/LMA principles.

		<p><i>Linked transactions where Bank ABC is the lender/borrower, the Group Sustainability Strategy has set out action plans to ensure the material environmental impacts of projects are evaluated at origination.<sup>29</sup> However, the Bank does not currently define any thresholds to measure the material environmental or social impacts. The Bank also has measures in place to assess and validate that the activities financed do not hamper or crowd the development of low-carbon alternatives.</i></p> <p><i>We are not able to comprehensively assess the materiality of the KPIs and the ambition level of the associated SPTs, neither how including this form of financing contributes to ESG-related goals since there is no exhaustive list of KPIs and their associated SPTs at the moment of this report. Since the assessment is provided at a Framework level and not at the transaction level, the evaluation of the KPIs and SPTs is not within the scope of this report. However, it is also noted that Bank ABC requires clients to have pre-issuance SPOs/external verifications. In the absence of comprehensive external reviews that assess the ambition of targets, general-purpose financing may be granted to entities that have not set adequate sustainability goals and/or credible action plan to reach sustainability goals. Finally, due to the general fungible nature of financing flows, the general-purpose financing may indirectly benefit financing that are not defined as sustainable. There are currently no internal measures within Bank ABC in place ensuring that the transactions from borrower/issuer are in line with the core market principles. However, Bank ABC would have measures in place by Q3 2024 and will be training its employees as a part of the action plans to strengthen its capabilities.</i></p>
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<sup>29</sup> The material impacts are evaluated with external 3rd parties required to validate any disclosures by borrowers.

## SECTION 3 SUSTAINABILITY QUALITY OF THE ELIGIBLE CATEGORIES

### CONTRIBUTION OF THE ELIGIBLE CATEGORIES TO THE UN SDGs

Financial Institutions can contribute to the achievement of the SDGs by financing eligible services/products addressing global sustainability challenges, and by being responsible actors, contributing to minimize negative externalities in their financing along the entire value chain. The aim of this section is to assess the SDG impact of the eligible categories selected by the Bank in two different ways, depending on whether the proceeds are used to (re)finance:

- products/services,
- improvements of operational performance.

#### 1. Products and services


The assessment of UoP categories for investing in products and services is based on a variety of internal and external sources, such as the ISS ESG SDG Solutions Assessment (SDGA), a proprietary methodology designed to assess the impact of an Issuer's products or services on the UN SDGs, as well as other ESG benchmarks (the EU Taxonomy Climate Delegated Acts, the ICMA Green and/or Social Bond Principles and other regional taxonomies, standards and sustainability criteria).

The assessment of UoP categories for investing in specific products and services is displayed on a 3-point scale (see Annex 1 for methodology):



Each of the Sustainable Finance's Use of Proceeds categories has been assessed for its contribution to, or obstruction of, the SDGs:

#### Green Categories

USE OF PROCEEDS (PRODUCTS/SERVICES)	CONTRIBUTION OR OBSTRUCTION	SUSTAINABLE DEVELOPMENT GOALS
<p><b>Renewable Energy<sup>30</sup> – Solar energy generation (including plant retrofitting)</b></p> <ul style="list-style-type: none"> <li>▪ Solar photovoltaic systems (including floating).</li> </ul>	<p><b>Contribution</b></p>	

<sup>30</sup> For all Renewable Energy projects, retrofit of the plant has the same contribution as the plant itself.



- Concentrated solar heat and power generation, where large majority of electricity (more than 85%) generated from the facility is derived from solar energy sources.

**Renewable Energy – Wind energy (including plant retrofitting)**

Construction, development, operation and maintenance of offshore and onshore wind power plants.

**Renewable Energy – Hydropower plants (including plant retrofitting)**

Construction, development, operation and maintenance of small run-of-river hydropower facilities with up to 10MW of installed capacity, including small hydroelectric plants.

**Renewable Energy – Biomass power plants (including plant retrofitting)**

Feedstocks require to be fully certified from sustainable sources or sustainable crops and require to be 2<sup>nd</sup> generation.

Includes agriculture residues, sugarcane bagasse, cogeneration from sugarcane bagasse, and agriculture waste.

**Renewable Energy – Biomass power plants (including plant retrofitting)**

Feedstocks require to be fully certified from sustainable sources or sustainable crops and require to be 2<sup>nd</sup> generation.

Includes biogas from industrial waste and cattle raising waste and projects which don't reduce the carbon stock soil, i.e. not the use of timber from deforestation of native forest.

**Contribution**



**Contribution**



**Contribution**



**Contribution**



**Renewable Energy – Biomass power plants (including plant retrofitting)**

Waste to energy from Municipal Solid Waste (MSW) where majority of recyclables are segregated before incineration.

Waste incineration projects are excluded

**Renewable Energy – Biofuels**

- Production of biofuels from waste sources (2nd generation forestry and agriculture residues, palm kernels shells only where these are RSPO certified) that do not compete with the production of food and doesn't drain carbon reserves from the soil.
- Production of biofuels from non-waste sources provided the biofuel production 1. Achieves substantial life-cycle emissions reduction of at least 65% lower than fossil-fuel and 2. Feedstock are certified sustainable by a credible 3rd party and are 2<sup>nd</sup> generation.

**Renewable Energy – Biofuels**

Production of Sustainable Aviation Fuels

**Renewable Energy – Green hydrogen projects**

Production of electrolysis powered by 100% renewable energy where renewable energy is defined by this Framework.

**Renewable Energy – Transmission**

Activities that improve efficiency in transmission and distribution of renewable energy which meet the following criteria:

**Contribution**

**Contribution**

**No Net Impact**

**Contribution**

**Contribution**



- If the system carries more than 90% electricity from renewable sources, the full financing or project is considered eligible.
- If the system carries less than 90% renewables, but the percentage of renewables is expected to increase, a pro-rate approach will be adopted for allocation.

**Renewable Energy – Manufacture of components for renewable energy technology**

Development and/or manufacture of renewable energy technologies, including equipment for renewable energy generation and storage. Examples could include wind turbines, solar panels, battery storage connected to renewables, wind turbine installation vessels.

**Contribution**



**Renewable Energy – Energy storage**

Energy storage systems that increase renewable energy storage capacity, including batteries, capacitors, compressed air storage, flywheels and water pumping systems.

**Contribution**



**Green Buildings – Commercial, public and residential buildings (existing and new construction)**

Construction or retrofit of residential, industrial and commercial buildings certified to an acceptable level under an internationally recognized green building certificate scheme. See appendix 1 for list.

Sustainable retrofits should result in a reduction in primary energy demand (PED), carbon or energy savings of at least 20% post upgrades.

**Contribution**



**Energy Efficiency - Buildings and other infrastructure (excl. transmission and distribution)**

- Development, manufacture and installation of energy-efficient lighting (LED lighting can provide 30-90% energy savings) or equipment to increase operational energy efficiency by a minimum of 20% of utilities and/or other public services (excluding improvement in buildings)<sup>31</sup>.
- Improvement by a minimum of 20% in the heat efficiency of non-fossil-fuel powered utilities, power plants and other public services which align with the Renewable Energy criteria above. Example projects could include rehabilitation of electric-powered district heating systems, electric-powered district cooling systems, heat-loss reduction and/or increased recovery of wasted heat.

Contribution



**Energy Efficiency – Industrial processes and supply chain**

Upgrades, improvements and installation of technologies and equipment to industrial and manufacturing processes to increase energy efficiency.

Contribution



**Energy Efficiency – Other energy efficiency measures**

Projects that save at least 20% of energy consumption, in comparison with the project’s baseline. Examples include installation of smart elevators, which use less energy and can return energy to the building.

Contribution



<sup>31</sup> According to information shared by the Bank, ABC will only finance projects with a 20% energy efficiency improvement. This improvement should be supported by publicly available data and verified by external 3rd party.

**Energy Efficiency – Energy distribution**

- Retrofit of distribution systems, transmission lines or substations to reduce energy use and/or technical losses. Electrical grid maintenance projects will be those systems dedicated to connecting renewables to the power grid or supporting at least 90% renewable electricity.
- Transmission lines where more than 90% of energy transmitted through the cables is renewable.

**Contribution**



**Energy Efficiency – Energy distribution**

Distribution networks for district heating/cooling where these are primarily (>50%) powered by renewables, waste heat or both.

**Contribution**



**Environmentally Sustainable Management of Living Natural Resources and Land Use – Sustainable food and agriculture**

- Wildlife habitat management (including planting and expanding hedgerows), or rehabilitation of degraded lands (including soil health improvements)<sup>32</sup>.
- Products certified as sustainable agriculture.

**Contribution**



**Environmentally Sustainable Management of Living Natural Resources and Land Use – Sustainable food and agriculture**

Collection and use of agricultural waste

**Contribution**





**Environmentally Sustainable Management of Living Natural Resources and Land Use – Sustainable food and agriculture**

**Contribution**



<sup>32</sup> Bank ABC confirmed that the beneficiaries must not have previously depleted/degraded the lands.

<p><b>Resources and Land Use – Sustainable food and agriculture</b></p> <p>Production of organic food and non-food product certified by credible 3rd party certifications (Round Table for Responsible Soy, Bonsucro, Global GAP).</p>		
<p><b>Environmentally Sustainable Management of Living Natural Resources and Land Use – Sustainable food and agriculture</b></p> <p>Production of organic food and non-food product certified by credible 3rd party certifications (US Soy Sustainability Assurance Protocol for agriculture purposes)</p>	<p><b>No Net Impact</b></p>	
<p><b>Environmentally Sustainable Management of Living Natural Resources and Land Use – Sustainable practices in livestock</b></p> <p>Projects that fall under any of the following cases:</p> <ul style="list-style-type: none"> <li>Investment in projects of animal waste treatment projects, including biodigestion and composting of animal waste with energy generation.</li> </ul>	<p><b>Contribution</b></p>	
<p><b>Environmentally Sustainable Management of Living Natural Resources and Land Use – Forestry and restoration</b></p> <p>Sustainable forestry and forest management projects that increase carbon stock in soil or reduce the surrounding negative impact of forestry activities, including:</p> <ul style="list-style-type: none"> <li>Forestry in non-deforested areas.</li> <li>Reforestation in areas previously deforested.</li> <li>Forest conservation.</li> </ul>	<p><b>Contribution</b></p>	

- Preservation, conservation or recovery of flora on the surroundings of the project.
- Forestry projects with certifications.
- Soil recovery and restoration of degraded areas.

**Clean Transportation – Sustainable infrastructure and transportation**

Investments and expenditure in low energy consuming or low emission transportation, including public transportation (under 50gCO2/p-km up to 2025, and zero tailpipe emissions thereafter).

**Clean Transportation – Sustainable infrastructure and transportation**

- Investments and expenditure in low energy consuming or low emission transportation, including Passenger cars (under 50gCO2/km up to 2025, and zero tailpipe emissions thereafter)
- Development and operation of low-carbon mass transportation systems for land and sea. Bus would need zero tailpipe emissions e.g., electric buses. Low-carbon ships defined as fully-electric, biofuel or hydrogen-powered.
- Investments and expenditure into development and production of electric vehicles (EVs), including construction of new dedicated manufacturing of facilities and upgrading and retrofitting of existing facilities for purpose of expanding production, as well as manufacture of specialized parts, such as EV batteries.

Contribution



Contribution



**Sustainable Water and Wastewater Management**

Activities that improve water quality:

- Water treatment facilities.
- Upgrades to wastewater treatment plants to remove nutrients.
- Wastewater discharge infrastructure.
- Desalination plants powered by electricity with an average carbon intensity at or below 100gCO<sub>2</sub>/kWh or primarily powered by renewable energy.

Activities that increase water-use efficiency:

- Water recycling and reuse.
- Water saving systems, technologies and water metering.

**Pollution prevention and control**

Investments in the following infrastructure facilities and activities that contribute to the objectives outlined above:

- Development of waste collection facilities and the provision of waste collection services which supports source segregation of waste
- Development of recycling facilities that process (i) recyclable waste into secondary, (ii) mixed residual waste to produce feedstock for waste to energy plants, (iii) food, green, garden, yard waste to produce compost.

**Contribution**



**Contribution**





**Pollution prevention and control<sup>33</sup>**

Investments in the following infrastructure facilities and activities that contribute to the objectives outlined above and reduce GHG emissions by a minimum of 20%:

- Developing processes/systems to reduce GHG emissions in a company’s product supply chain. Examples include reducing air emissions through process upgrades, installation of sensors to monitor or test emission control and compliance including investment with third party to find ways to reduce emissions.
- Installation of smokestack scrubbers, or process upgrades, sensors to monitor/test emission control or compliance.
- Installation of pollutant emission control systems and installation of filters.

Contribution



**Terrestrial and aquatic biodiversity conservation**

Investments that protect the diversity of organisms across coastal, marine and other aquatic ecosystems which do not involve any fishing related activities and are supported by external 3rd party guidance on conservation best practice. For example, mangrove swamps conservation projects would require the professional guidance of either Mangrove Action Project (MAP) or Center for International Forestry Research (CIFOR). The project won’t be instigated by

Contribution



<sup>33</sup> This will exclude the following activities:

- (i) Projects that facilitate the reduction of GHG emissions in fossil fuel product and/or distribution.
- (ii) Production processes in heavy industries, such as steel, cement and aluminum.
- (iii) Projects that apply GHG emissions capture in active landfills.
- (iv) Carbon Capture Utilisation (CCU) where captured carbon is intended for enhanced oil recovery.

stakeholders that have previously degraded the environment.

**Eco-efficient and/or Circular economy**

Research and development of products designed for circularity and/or adaptive re-use. Eligible products need to demonstrate significant waste diversion and/or use of waste products. If plastic-related, then production must include at least 100% recycled plastics and at least 100% no intended for single use consumer products and all products must be recyclable

**Contribution**



**Eco-efficient and/or Circular economy**

Procurement and sale of 100% recycled waste or waste materials as an input.

**Contribution**



**Eco-efficient and/or Circular economy**

Production of low-carbon products that are RSB-certified category I (bio-based) & II (produced with recycled content) products that are 100% residues/waste biomass.

**Contribution**



**Social Categories**

**USE OF PROCEEDS (PRODUCTS/SERVICES)**

**CONTRIBUTION OR OBSTRUCTION**

**SUSTAINABLE DEVELOPMENT GOALS**


**SME Financing**

Loans to a small-medium sized enterprise (SME).<sup>34</sup> The end-client should meet two of three criteria:  
 (i) Number of employees < 300.  
 (ii) Annual turnover between US\$100K to \$15m.  
 (iii) Total assets between US\$100K to US\$15m.

**Contribution**



<sup>34</sup> as defined by the International Finance Corporation (IFC)

<p><b>SME Financing</b></p> <p><i>Same as above</i></p> <p><u>Target population:</u> women</p>	<p><b>Contribution</b></p>	
<p><b>Microfinance</b></p> <p>Projects are classified as microfinance and are therefore eligible if End-clients meet two of the following criteria:</p> <ul style="list-style-type: none"> <li>(i) Number of employees &lt;10,</li> <li>(ii) Annual turnover &lt;US\$100K,</li> <li>(iii) Total assets &lt;S\$110K.</li> </ul> <p><u>Target populations:</u> (i) rural populations, (ii) economically excluded individuals, (iii) Populations with least, lower and low-middle income in countries in which Bank ABC operates.</p>		<p><b>Contribution</b></p>
<p><b>Microfinance</b></p> <p><i>Same as above</i></p> <p><u>Target population:</u> women</p>	<p><b>Contribution</b></p>	
<p><b>Healthcare infrastructure</b></p> <p>Financing to equip, operate: Hospitals, clinics and healthcare centres for the provision of public/free/subsidized healthcare services.</p>		<p><b>Contribution</b></p>
<p><b>Healthcare infrastructure</b></p> <p>Financing to construct: Hospitals, clinics and healthcare centres for the provision of public/free/subsidized healthcare services</p>	<p><b>Contribution</b></p>	
<p><b>Provision of health-care related products and services</b></p> <p>Financing to construct, equip, operate R&amp;D<sup>35</sup> and manufacture of:</p>		<p><b>Contribution</b></p>

<sup>35</sup> Bank ABC confirmed that R&D will be only for advanced stages and close to market medicines.

- basic generic type pharmaceutical products and preparations (including vaccines),
- Medical equipment and other supplies including: radiation, electromedical and electrotherapeutic equipment, medical and dental instruments.

**Primary, secondary, adult and vocational education**

Construction of public/free/subsidised schools and campuses for public schools & universities.

**Contribution**



**Primary, secondary, adult and vocational education**

Construction of student housing for public universities provided the rent is capped below local/regional average to ensure affordability<sup>36</sup>

**Contribution**



**Primary, secondary, adult and vocational education**

Affordable schools and education providers in least developed, low income and lower-middle income OECD countries<sup>37</sup>

**Contribution**



**Affordable/Social housing**

Access to adequate, safe and affordable housing for low-income or marginalized communities.<sup>38</sup>

**Contribution**



**Affordable basic infrastructure**

Companies operating bus transport services in least developed, low income

**Contribution**








<sup>36</sup> Considered affordable when at least 90% of the population are able to afford the fees charged

<sup>37</sup> Ibid

<sup>38</sup> This is considered a social activity if the loan the bank provides finances disaster relief projects and has preferential financial or payment terms so the housing will remain affordable over time.

The target population would be:

- People without adequate housing, including the homeless and people in slums and informal settlements.
- Income is less than 80% of the average income for the area, region or country, or income below the national median.
- Population adversely affected by the disaster.

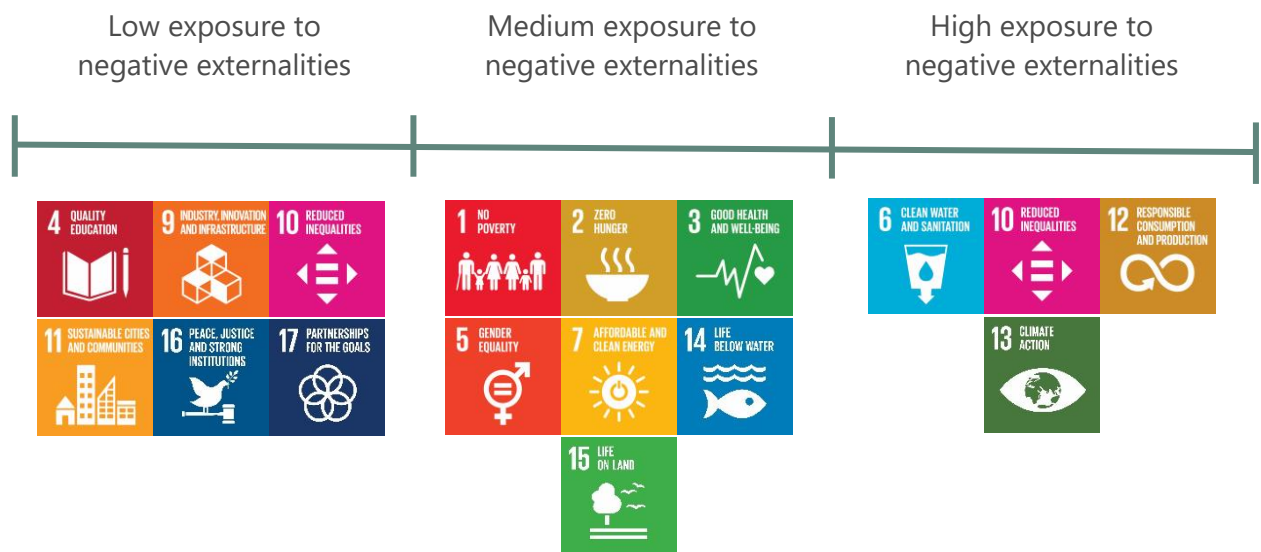
<p>and lower middle income OECD countries with substantial lack of access to public transportation</p> <p><b>Affordable basic infrastructure</b></p> <p>Telecom/internet connectivity in least developed, low income and lower middle income OECD countries that currently lack access to such infrastructure or is inadequate.<sup>39</sup></p>	<p><b>Contribution</b></p>		
<p><b>Affordable basic infrastructure</b></p> <p>Activities that expand public access to safe and affordable drinking water</p>		<p><b>Contribution</b></p>	 
<p><b>Affordable basic infrastructure</b></p> <p>Activities that expand public access to adequate sanitation facilities.</p>		<p><b>Contribution</b></p>	
<p><b>Food security and sustainable food systems</b></p> <p>Food products that are Fairtrade certified</p>		<p><b>Contribution</b></p>	

<sup>39</sup> The enhancement of access is evaluated at origination with the baseline evaluated pre financing and targets set.

**2. Improvements of operational performance (processes)**

The below assessment aims at qualifying the direction of change (or “operational impact improvement”) resulting from the operational performance projects (re)financed by the UoP categories, as well as related UN SDGs impacted. The assessment displays how the UoP categories are mitigating the exposure to the negative externalities relevant to the business model and the sector of the Issuer’s clients.

According to ISS ESG SDG Impact Rating methodology, potential impacts on the SDGs related to negative operational externalities<sup>40</sup> in the Food Products industry (to which Bank ABC’s client belongs) are the following:



The table below aims at displaying the direction of change resulting from the operational performance improvement projects. The outcome displayed does not correspond to an absolute or net assessment of the operational performance.

USE OF PROCEEDS (PROCESSES)	OPERATIONAL IMPACT IMPROVEMENT <sup>41</sup>	SUSTAINABLE DEVELOPMENT GOALS
<p><b>Environmentally Sustainable Management of Living Natural Resources and Land Use – Sustainable food and agriculture</b></p> <p><i>Investment in low-carbon agricultural technologies and projects that improve</i></p>	<p>✓</p>	

<sup>40</sup> Please, note that the impact of the Issuer’s products and services resulting from operations and processes is displayed in section 3 of the SPO.

<sup>41</sup> Limited information is available on the scale of the improvement as no threshold is provided. Only the direction of change is displayed.

*productivity and efficiency while lowering impact, e.g. crop sensors and vertical farming. They need to deliver at least 20% reduction in GHG emissions and/or water use. Examples would be:*

- *No-till farming.*
- *Biological nitrogen fixation.*
- *Integrated systems using sustainable forest management.*
- *Drip irrigation and other precision agriculture methods.*
- *Crop sensors.*

## SECTION 4 ASSESSMENT OF BANK ABC'S ESG RISK MANAGEMENT PROCEDURES

### ESG RISK MANAGEMENT

The table below evaluates Bank ABC's ESG-specific risk management measures and policies that are considered relevant at group level and that are considered relevant in the context of its sustainable financing activities. The KPIs emphasize sustainability-related risks considered relevant to the banks' operations. The KPIs are derived leveraging the [ISS ESG Corporate Rating](#) to identify the relevant topics based on its industry; these KPIs are then further integrated with additional elements derived from market principles such as the task force on Climate-Related Financial Disclosure<sup>42</sup>. The minimum requirements for a positive assessment are based on the number of sub-indicators (specific to each KPI) that are satisfied as part of any KPI.

The Framework covers all Bank ABC business units and geographies excluding Brazil<sup>43</sup>, and it covers all financing of the following financial products, investments, and services offered by Bank ABC: Lending (i.e., corporate loans, project finance and consumer credit), Transaction Banking (i.e., export finance and supply chain finance), Capital Markets, Islamic Finance, and Liability and Treasury Products.

#### ASSESSMENT AGAINST KPIs

##### ESG guidelines into financing/lending process

As of today, the Bank takes into consideration environmental and climate risks at industry level using third party data and a borrower questionnaire. In 2024, the Bank will introduce a new approach to identify ESG risks during the loan origination and approval process. The introduction of this new approach will be on a rolling basis starting with corporate borrowers – with the exclusion of financial institutions. This will consist of the development of a proprietary environmental risk rating at industry level to replace third party data, the development of a proprietary ESG rating based on questionnaires administered to the borrowers by the Relationship Managers, the completion of a “corporate ESG template” by the Relationship Managers to document ESG qualitative and quantitative information and summarize the ESG rating. This information will be then reviewed by the Business Acceptance Committee (BAC). Only after the BAC approval, the loan will undergo evaluation by the Credit Team. During the approval processes, specific concerns can be brought to the Group Sustainability Team for an independent screen. The Bank might decide to withdraw from projects based on ESG considerations such as allegations of human or labor rights violations, environmental and social controversies (over the previous 5 year), exposure to excluded activities, or lack of a credible transition strategy. The stakeholders involved in the

<sup>42</sup> Task force on Climate-related Financial Disclosures, 2022 Status report, <https://assets.bbhub.io/company/sites/60/2022/10/2022-TCFD-Status-Report.pdf>

<sup>43</sup> Banco ABC Brasil is excluded since that branch has its own country-specific Sustainable Finance Framework.



declassification process are the Sustainability, Wholesale, Treasury, Islamic Finance and Credit teams

**ESG Guidelines into financing process for most sensitive sectors<sup>44</sup> financed under the Framework**

**ESG Guidelines into financing process for Forestry**

As part of the ESG questionnaire that the Bank will start implementing for all projects in 2024, there will be a check on relevant topics for Forestry such as: the need of an environmental operating license, certifications, programs to mitigate nature/biodiversity loss, application of agriculture techniques that address soil nutrient loss. The Bank will finance projects certified to Forest Stewardship Council (FSC), Program for the Endorsement of Forest Certification (PEFC), Sustainable Forestry Initiative (SFI), Rainforest Alliance, International Sustainability and Carbon Certification. For all projects, the Bank will request an external environmental impact assessment.

**Labour rights, Health and Safety**



In 2024, the Bank will start implementing a mandatory ESG questionnaire at loan origination. This questionnaire will cover the existence of a health & safety policy, the monitoring of incidents, injuries and deaths, and the presence of a management system certification (such as ISO45001) and/or adherence to relevant industry standards. It will also cover employees' rights as per the ILO core conventions, and employees' rights and human rights abuses, contravene national labour laws and the presence of commitment to pay a "living wage" (defined as one enabling workers and their families to meet their basic needs, varying based on the country). A low score or negative assessment in the health & safety and labour rights sections will trigger further evaluation of the company to obtain a deeper understanding of the risk. This will include engagement with the company and/or a request for corrective actions. Any corrective action is likely to be a pre-condition for the loan or loan extension. The correct action will be monitored for adherence. Projects with low or negative assessment will be excluded from being an eligible activity. The evaluation of this topic is also carried out during the periodic, usually annual, review of the loans.

**Biodiversity**



In 2024, the Bank will start implementing a mandatory ESG questionnaire at loan origination. This questionnaire will cover the need of an environmental operating license, the existence of relevant certifications (depending on the relevant project, industry, and country) and programs to mitigate nature/biodiversity loss. For all

<sup>44</sup> The categorization of a sector as 'most sensitive' follows an evaluation of the number of controversies prevalent in the context of the financing operations of a financial institution.

projects, the Bank will request an external environmental assessment. Additionally, the Bank will conduct an internal ESG assessment to understand whether environmental, social and governance risks have been evaluated, measured and managed in line with best practices, including IFC Performance Standards. The Bank states that an environmental impact assessment is integral to the ESG questionnaire. The assessment is due for revision at least annually. Risks or red flags identified during the assessment process will result in client engagement. If necessary, the client will be requested to address/mitigate those risks. If the engagement is not followed by concrete actions, the activity is excluded from eligible categories.

### Community dialogue



In 2024, the Bank will start implementing a mandatory ESG questionnaire at loan origination. This questionnaire will cover the existence of negative impacts on local communities and, if so, mitigation plans, and the presence of allegations on social-related issues. During the ESG assessment of the projects, their impacts on communities are evaluated and whether they have a grievance mechanism in place. In addition, it will also be considered whether environmental, social and governance risks have been evaluated, measured, and managed in line with best practices, including IFC Performance Standards. The assessment is due for revision at least annually. For bigger infrastructure projects, the Bank will request an external social assessment.

### Inclusion



The Bank will conduct due diligence to ensure projects adhere to relevant local legislations regulating the access to projects financed both to the general population and to vulnerable and disadvantaged populations. Projects not ensuring access will be excluded. The assessment is done at the origination of the loan and during the periodical review.



The Bank's revised Code of Conduct presents a section on Treating Customers Fairly. This section states that Bank ABC treats customers fairly and ethically, with no discrimination based on gender, nationality, origin, language, faith, religion, disability, or social standing, and ensures that customers get fair treatment and outcomes. The Bank also states that loans/mortgages are awarded purely based on pre-set financial criteria with no discrimination on religious, gender, ethnicity, or sexual grounds.

### Data protection and information security



The Bank has an IT Security Management System in place. Additionally, the Bank conducts due diligence on all vendors with respect to data security provisions. As part of the due diligence for third parties, compliance with ISO 27001, National

Institution of Standards and Technology standards, and Cloud Security Alliance is reviewed.

### **Responsible treatment of customers with debt repayment problems**



Bank ABC treats customers with debt repayment problems responsibly. The Bank has a loan rescheduling policy that outlines how a loan is rescheduled for a customer that can't repay due to loss of job etc. The rescheduling process will involve a debt counselling process with the customer to discuss their circumstances and propose the debt rescheduling and revised repayment terms. The Bank has a comprehensive infrastructure tool in place that processes debt collection. It segments overdue payments into separate buckets by payments overdue more than 30, 60 days and 90 days. It then engages with the client to discuss repayment. If that recovery process fails, then it is passed over to the legal department. If that fails, then it is passed over to debt collectors. In addition, the Issuer has measures in place to prevent client debt repayment problems by using loan to value ratio and setting debt burden limits and maximal individual exposure. Foreclosure only takes place as a last resort after all other amicable solutions have been explored.

### **Sales practices**



Bank ABC includes certain ethical considerations in the sales personnel reward system by bonus payments deliberately being paid in instalments. The bonus payments comprise of a qualitative and quantitative element. The qualitative element is approximately 40% and considers customer satisfaction, service, feedback, client quality and client retention. All existing sales staff have quarterly training sessions that are focused on their approach to soliciting clients, how they assess customer risk profile, understanding the risk profile of products, transparency of products and their costs, correct matching of products with client risk profile/requirements, sales manner/approach, and overall responsible sales practices. All new sales staff have a 3-day training program outlining products, pricing, risk profile, client suitability, sales process and sales approach/manner. Furthermore, Bank ABC monitors the sales practices by having daily sales briefings between every salesperson and team leader regarding customer service, satisfaction feedback and sales approach as well as regularly conducting 'mystery shoppers'.

### **Responsible marketing**



The Bank adopts a policy towards its marketing documents, product risk profile and related costs. This policy is integrated into both the marketing and sales documentation. All costs are set out in the marketing material and there are no hidden costs. The reasons behind any rejection of loans/mortgages is documented and disclosed to the applicant.

## Exclusion criteria

The Bank sets a list of exclusion criteria for the purpose of its Sustainable Finance Framework:

- Activities that are inconsistent with addressing the challenges of climate change and promote environmental and social sustainability:
- Coal mining or coal-fired power generation and associated facilities,
- Tar sand extraction, fracking & Arctic oil& gas exploration,
- Waste incineration without energy capture,
- Landfill without gas capture.
  
- Any activity that, although consistent with a country's legal and/or regulatory framework, may generate particularly significant adverse impacts on people and/or the environment, such as activities that involve:
  - Weapons, ammunitions, and other military goods/technology,
  - Tobacco, alcohol, and gambling,
  - Unbonded asbestos fibers or asbestos-containing products,
  - Drift net fishing in the marine environment using nets in excess of 2.5 km. in length,
  - Animal mistreatment,
  - Pornography and/or prostitution,
  - Production or commercialization of wood or other forest products that are not produced from sustainable forest management,
  - Palm oil, soy and timber that are not certified as sustainable as per the eligible certifications listed in Appendix 1,
  - Companies found or suspected to have been involved or are involved in corruption, gross violations of fundamental ethical norms or other ethical business principles,
  - Deforestation operations for commercial purposes for use in primary tropical rainforest.
- Activities that are illegal under host country laws, regulations or ratified international conventions and agreements, or subject to international phase out or bans, such as the below. These activities are also excluded for the Bank's general operations:
  - Production or activities involving harmful or exploitative forms of modern slavery, child labor or forced labor,
  - Wildlife or wildlife products regulated under Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES),
  - Activities that involve sexual exploitation,
  - Polychlorinated biphenyl compounds (PCBs),
  - Production or activities involving pharmaceuticals, pesticides/herbicides, and other hazardous substances subject to international phase-outs or bans,
  - Production or activities involving persistent Organic Pollutants (POPs),
  - Production or activities involving ozone depleting substances subject to international phase out,

- Any activity, production, use, distribution, business, or trade involving destruction of conservation areas,
- Any other illegal activities under host country laws regulations or ratified international conventions and agreements.

### **Carbon-related financing**



The Bank does not currently disclose the amount of carbon-related financing. Its calculation, limited to corporate lending with the exclusions of financial institutions, will be carried out in the first quarter of 2024. Once the calculation is completed, the Bank will look to develop a GHG emissions reduction strategy in 2025 covering its Scope 3 financed emissions. The strategy will also include limits and phasing out of controversial sectors such as coal.

### **Financed emissions measurement**



The Bank has calculated their scope three emissions in the first quarter of 2024. The financed emissions cover corporate lending excluding financial and sovereign data and were calculated in accordance with Partnership for Carbon Accounting Financials (PCAF). The data was further externally verified by a third party.

## SECTION 5 THE SUSTAINABLE FINANCE FRAMEWORK'S LINK TO BANK ABC'S OVERALL ESG PROFILE

### A. CONSISTENCY OF SUSTAINABLE FINANCE FRAMEWORK WITH BANK ABC' SUSTAINABILITY STRATEGY

#### *Key sustainability objectives and priorities defined by the Bank*

In June 2023, Bank ABC has defined the Group Sustainability Strategy<sup>45</sup>, which aims to drive the transition to an “inclusive and sustainable low carbon economy”. The Bank ABC has established a 3 year action plan (IMPACT26) to integrate sustainability throughout the bank's value chain. IMPACT26 has defined the sustainability action plans in Year 1 that will be implemented through to the first quarter of 2024 with budgeted costs of \$350K. The ESG-related KPIs for each action plan and division have been defined so that progress on implementation can be monitored. The Year 1 action plans will allow the Bank to measure its baseline across a more comprehensive set of environmental and social metrics such as its scope 3 finance emissions, gender pay gap and sustainable financing. The Bank already measures its scope 1, 2 and 3 travel/vendor-related GHG emissions, energy, water and waste usage. Once the ESG KPIs for 2023 have been fully captured, Bank ABC will set targets that will define the Bank's ambition and commitment. This includes measuring its Scope 3 financed emissions as a first step towards developing an emissions reduction strategy.

The program focuses on 5 strategic pillars:

- **Governance** - Enhance Board oversight of sustainability, develop ESG KPI/targets and meet its ESG-related regulatory/disclosure requirements.
- **Operations** – Develop a GHG emissions reduction strategy for its Scope 1, 2 & 3 travel/vendor-related emission, improve efficiency and resilience.
- **Risk Management** – Develop a GHG emissions reduction strategy for Scope 3 finance emissions and a robust approach to embedding environmental risk into its risk management system.
- **Wholesale, Treasury & Retail** - Capture the sustainable finance growth opportunities and diversify funding sources.
- **Our People and Communities** - Strengthen the Bank's approach to D, E&I, career development and training. Active support of our communities.

Bank ABC Jordan and Bank ABC Egypt will issue sustainability reports in 2023 that follow the Taskforce for Climate-Related Financial Disclosures (TCFD) recommendations and the Global Reporting Initiative (GRI) guidelines. No other Bank ABC geographical units will publish their

<sup>45</sup> Bank ABC Group, Annual Report, 2022, [https://www.bank-abc.com/En/AboutABC/Investment/Annual%20Reports/Annual\\_Report\\_2022\\_Updated.pdf](https://www.bank-abc.com/En/AboutABC/Investment/Annual%20Reports/Annual_Report_2022_Updated.pdf)

own sustainability report for 2023. ABC Jordan represents 6% and ABC Egypt 14% of revenue. The Bank is a signatory of the Sustainability Accounting Standards Board (SASB) and the Partnership for Carbon Accounting Financials (PCAF). It intends to build more partnership and agreements to support its sustainability initiatives (e.g., PCAF) in the next 12 months.

Bank ABC's action plans in Year 1 include strengthening its approach to Diversity (on gender, age, disability and ethnicity), Equity & Inclusion, career development, training and wellbeing. As noted above, the Bank already measures the environmental footprint of its operations and supply chain, including its Scope 1, 2 & 3 travel/vendor-related GHG emissions. There are no quantified targets associated with water, waste and energy use Bank's initiatives. Various initiatives have been launched during 2023 to reduce its environmental impact. Sensors have been introduced in buildings to reduce energy. A 'Bin the bin' program was rolled out across all units in 3Q23 to reduce waste and increase the amount that is recycled. A Critical Infrastructure Review (CIR) of Bank ABC's global operations will be conducted by external consultants in 2024. This review of energy and water use will form the basis of initiatives to reduce the group's environmental impact from 2024 onwards. The bank will look to set targets in 2025 covering its GHG emissions, energy use, water and waste usage once the CIR is complete and the action plans have been defined.

A focus of IMPACT26 is to strengthen the Bank's approach to measuring and managing the environmental and social risk cross its financing. There are four specific Year 1 initiatives intended to enhance Bank ABC's ability to measure and manage the ESG risk of its financing, and support its clients in successfully delivering on their own transition strategy:

- Measure Scope 3 financed emissions as a first step to a credible GHG emissions reduction strategy.
- Embed ESG risk into its obligor assessment and credit approval process through the application of an ESG obligor questionnaire and proprietary industry risk rating.
- Measure its sustainable financing through the application of its Sustainable Finance Framework.
- Ongoing sustainability training program to strengthen the capability and skill set within the bank.

To ensure the Bank has oversight of its Sustainability Strategy, Bank ABC will set up a Sustainability Steering Committee in 2024. The Sustainability Steering Committee will report into the Group Risk Committee. The material ESG KPIs, for each action plan and division, have been defined to allow the Sustainability Steering Committee to measure progress.

### *Rationale for issuance*

In 2022, Banco ABC Brasil provided US\$600 million in green and sustainability-linked finance across its network. The financing was focusing on green real estate projects.

This Sustainable Finance Framework forms the basis for Green and Social Bonds issues of Bank ABC and contributes to climate change mitigation.

The purpose of the Sustainable Finance Framework is to facilitate the tracking and disclosing of Bank ABC sustainable finance under green and social criteria.

**Opinion:** *The Sustainable Finance Framework is consistent with the Bank's sustainability strategy. The key sustainability objectives and the rationale for issuing Green Bonds and for establishing a Sustainable Lending Framework are clearly described by the Bank. The project categories financed, and the classification system criteria for sustainable financial products and services are in line with the sustainability objectives of Bank ABC.*



## B. BANK ABC’S BUSINESS EXPOSURE TO ESG RISKS

This section aims to provide an overall level of information on the ESG risks to which the issuer is exposed through its business activities, providing additional context to the issuance assessed in the present report.

### *ESG risks associated with the Issuer’s industry*

Key challenges faced by companies in terms of sustainability management in this industry are displayed in the table below. Please note, that this is not a company specific assessment but areas that are of particular relevance for companies within that industry. The issuer is classified under Commercial Banks and Capital Markets industry, as per ISS ESG’s sector classification.

ESG KEY ISSUES IN THE INDUSTRY
Business Ethics
Customer and Product Responsibility
Labour Standards and Working Conditions
Sustainable Impacts of lending and other financial services/ products
Sustainable investment criteria

### *ESG strengths and points of attention related to the issuer’s disclosures*

Leveraging ISS ESG’s Research, ISS ESG identified the following strengths and points of attention<sup>46</sup>:

STRENGTHS	POINTS OF ATTENTION
The company has implemented elements of a health and safety management system such as health and safety policy, targets and objectives, training of employees, and emergency response plans.	<p>The company conducts workshops on mental health and stress management to prevent mental health problems among its employees. However, no details are available on other measures covering psychological support and adjustment of workload. Further, the company provides parental leave options to their employees. However, details on dependent care and childcare facilities are missing.</p> <p>Additionally, the details on workplace flexibility and working time reduction</p>

<sup>46</sup> Please note that Arab Banking Corp. BSC is not part of the ISS ESG Corporate Rating Universe. Thus, the information is based on a disclosure review conducted by the analyst in charge of the Commercial Banks and Capital Markets industry. No direct communication between the Issuer and the analyst has taken place during the process. The below is not based on an ISS ESG Corporate Rating but considers ISS ESG Research’s methodology.

	<p>options, the company’s commitment to non-regular employment, and types of employment covering directly and indirectly employed workforce are missing.</p>
<p>The company has implemented elements of an information security management system such as risk assessments, structure and responsibilities, training and awareness raising, and information security incident management.</p> <p>Additionally, the company has implemented several procedures to ensure information security in outsourced data processing such as third-party due diligence, contract requirements, monitoring, and review of third-party data processors.</p>	<p>The company has implemented a single measure to monitor responsible sales practices that include monitoring of client complaints. However, no information is disclosed on further aspects i.e., setting sales targets, staff training. Further, the company’s commitment to responsible marketing and procedures to ensure responsible treatment of clients with debt repayment problems is missing.</p> <p>Additionally, the company has not disclosed details on offshore banking, tax compliance, and the provision of equal access to financial services.</p>
<p>The company has a code of conduct that covers issues such as corruption, insider dealings, gifts and entertainment, conflicts of interest, and money laundering. Additionally, the company has compliance procedures in place that include compliance training, risk assessment, and audits, facilitation of non-compliance reporting, and whistleblower protection.</p>	<p>The company has disclosed limited information on environmental and social guidelines for lending and/ or investment banking. Further, environmental and social guidelines covering specific requirements for various industries such as forestry, pulp and paper, agriculture, oil, gas, and related infrastructure are missing.</p> <p>The company publicly discloses information on client-specific details and sector-wise information on projects and loan-approved. However, no further details are available on application procedures of environmental and social guidelines covering action plans, approval processes and responsibilities, and grievance and accountability mechanisms.</p>
<p>The company provides social financial services such as lending for social infrastructure (e.g. financing for the purchase of clinics).</p>	<p>The company has not disclosed information on environmental and social guidelines for mainstream asset management services, structured investment, and/or brokerage services. Further, details on socially responsible investment products covering positive and negative screening criteria i.e., environmental protection, climate change, and business ethics are missing. Additionally,</p>

	the company’s engagement and shareholder advocacy activities such as engagement tools and reporting on engagement outcomes are not available.
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Please note that the consistency between the issuance subject to this report and the issuer’s sustainability strategy is further detailed in Part III.B of the report.

*Sustainability impact of products and services portfolio*

Leveraging ISS ESG’s Sustainability Solutions Assessment methodology, ISS ESG assessed the contribution of the issuer’s current products and services portfolio to the Sustainable Development Goals defined by the United Nations (UN SDGs). This analysis is limited to the evaluation of final product characteristics and does not include practices along the issuer’s production process.

*Social impact of the product portfolio:*

Arab Banking Corp. B.S.C. offers a wide range of products and services that include international wholesale banking services such as Corporate Banking and Financial institutions, Syndications, Trade Financial services, Project and Structured Finance, Retail Banking, and Islamic Banking. Additionally, the company also provides SME financing in low- and medium-income countries, thereby positively contributing to the Social Sustainable Development Goal of alleviating poverty.

Further, the company is also involved in financing of healthcare facilities, thereby positively contributing to the Social Sustainable Development Goal of ensuring health. However, there is limited information available to estimate the size of each product portfolio that contributes to different social SDGs. Thus, the impact of the product portfolio on Social Sustainable Development Goals is considered neutral.

*Environmental impact of the product portfolio:*

Arab Banking Corp. B.S.C. offers a wide range of products and services that include international wholesale banking services such as Corporate Banking and Financial institutions, Syndications, Trade Financial services, Project and Structured Finance, Retail Banking, and Islamic Banking. Additionally, the company also provides financing for renewable energy, thereby positively contributing to the environmental Sustainable Development Goal of affordable and clean energy and climate action.

Further, the company also provides financing to the oil industry, thereby obstructing the Environmental Sustainable Development Goal of affordable and clean energy and climate action. However, there is limited information available to estimate the size of each product portfolio that contributes to different environmental SDGs. Thus, the impact of the product portfolio on the Environmental Sustainable Development Goals is considered neutral.

*Breaches of international norms and ESG controversies*

*At Bank ABC level*

At the date of publication and leveraging ISS ESG Research, no severe controversy in which the Bank would be involved has been identified.

*At industry level*

Based on a review of controversies over a 2-year period, the top three issues that have been reported against companies within the Commercial Banks & Capital Markets industry are as follows: financial market irregularities, failure to mitigate climate change impacts, and failure to prevent money laundering.

Please note, that this is not a company specific assessment but areas that can be of particular relevance for companies within that industry.

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## ANNEX 1: Methodology

### SECTION 3: ASSESSMENT OF THE CONTRIBUTION TO THE SDGs AND SECTION 4: ESG RISK MANAGEMENT KPIS

The ISS-Corporate SPO provides an assessment of labelled transactions against international standards using ISS-Corporate proprietary methodology. For more information, please visit: <https://www.iss-corporate.com/file/publications/methodology/iss-corporate-green-social-and-sustainability-bond-loan-spo-methodology-summary.pdf>

## ANNEX 2: Methodology External Review

### SECTION 2: REVIEW OF THE SUSTAINABLE FINANCE AND PRODUCT FRAMEWORK

We consider relevant market guidelines in the assessment of sustainable finance strategies including but not limited to fixed-income transactions. The analysis considers criteria from a set of different market standards, voluntary guidelines and best practices e.g. the International Capital Market Association’s Green, Social Bond Principles, and Sustainability Bond Guidelines, Sustainability-Linked Bond Principles, the Loan Market Association’s Green Loan Principles, Social Loan Principles, Sustainability Linked Loan Principles, the UNEP-FI PRB, and the Climate Bonds Initiative (CBI) – Climate Bonds Standard V3.0, Guidelines proposed by the European Banking Authority with respect to environmentally-sustainable lending. The application of the ICMA and LMA principles, comprising voluntary guidelines is limited to the assessment of the characteristics of a specific transaction or issuance.

SECTION	ASSESSMENT CRITERIA
<p><b>1. Objectives, Targets &amp; Progress</b></p>	<p>For a financing strategy to be classified as sustainable, Banks should embed these within the context of their overarching sustainability objectives. The institutions should further include relevant qualitative and, where feasible, quantitative targets to measure the progress on its commitments. Banks provide transparency on how to increase positive impacts, reduce negative impacts, and mitigate ESG risks.</p> <p>The sustainability strategy is expressed by referring to alliances such as the UN Sustainable Development Goals, the Paris Climate Agreement, or national or regional frameworks.</p>
<p><b>2. Definition of Sustainable Financing Activities</b></p>	<p>The sustainable financing strategy should define clearly and comprehensively what financing products are deemed as sustainable based on precise parameters. Ideally, the Bank should provide an exhaustive list of eligible sustainable activities. Those criteria should ensure a positive contribution to relevant sustainability objectives and be sufficiently precise to ensure a minimum level of contribution to those objectives (e.g., clear definition, quantified threshold, or impact indicators) while ensuring that other objectives are not harmed.</p>

<p><b>3. Evaluation &amp; Selection Process</b></p>	<p>Banks should have a comprehensive and documented process in place to ensure that the funded projects align with the eligibility criteria for sustainable financing instruments. Moreover, where applicable, information about climate and sustainability-related business objectives of the borrowers and/or investors should be collected. The borrower of a green/social loan should clearly communicate the environmental/social objective(s) of the projects, the process by which the borrower determines how the project(s) to be funded fits within the eligible projects categories; and complementary information on the processes by which the borrower identifies and manages perceived, actual or potential environmental and social risks associated with the relevant project(s).</p>
<p><b>4. Governance &amp; Monitoring</b></p>	<p>Clear governance mechanisms should be in place to ensure that the products classified as sustainable remain in line with the criteria for sustainable investment, lending, or financing instruments throughout their lifecycle. This should include a process to deal with products that cease to meet the eligibility criteria. Effective governance procedures pertaining to sustainability, assigning clear roles and responsibilities, and segregating duties are in place to promote sustainable business practices. With respect to borrowers and dedicated financing transactions, Banks should ensure that they diligently monitor the allocation of proceeds toward sustainable projects and activities.</p>
<p><b>5. Reporting</b></p>	<p>Relevant reporting should be conducted frequently and, where feasible, made publicly available to communicate on the allocation of proceeds, as well as the impact and progress of the sustainable financing strategy. Elements to be reported on should be communicated clearly at the inception of the strategy and capture the most significant areas of impact on environmental and social topics. Issuers of Green, Social or Sustainability Bonds should make, and keep, readily available up-to-date information on the use of proceeds to be renewed annually until full allocation, and on a timely basis in case of material developments. The annual report should include a list of the projects to which Bond proceeds have been allocated, as well as a brief description of the projects, the amounts allocated, and their expected impact. Until the loan is fully drawn or until the loan maturity in the case of a revolving credit facility, the bank ensures, that its borrowers make and keep readily available up-to-date information on the use of proceeds and a brief description of the projects, and their expected impact using qualitative performance indicators and, where feasible, quantitative performance measures. Information needs only be provided to those institutions participating in the loan.</p>

**6. Verification**

It is recommended that the sustainable financing strategy for specific issuances should be reviewed by an external independent third party. The external reviews should be made available to the respective stakeholders involved.

**ASSESSMENT OF BANK ABC'S SUSTAINABLE CLASSIFICATION SYSTEM**

This section examines the sustainability quality of each of the parameters included in Bank ABC's sustainable finance classification system and discusses the sustainability quality of the products complying with those. To corroborate this assessment and using a proprietary methodology, we identify the extent to which Bank ABC's eligibility criteria contribute to the UN SDGs.

**SECTION 5 SUSTAINABLE FINANCE FRAMEWORK'S LINK TO BANK ABC'S SUSTAINABILITY STRATEGY**

This section provides an assessment of the sustainability quality of the Group and how the underlying Sustainable Finance Framework contributes to its sustainability strategy. Drawing on the ISS ESG Corporate Rating, a focus is put on the Group's overarching sustainability policies as well as the management of related ESG risks.



## ANNEX 3: ISS ESG Corporate Rating Methodology

ISS ESG Corporate Rating provides relevant and forward-looking environmental, social, and governance (ESG) data and performance assessments.

For more information, please visit:

<https://www.issgovernance.com/file/publications/methodology/Corporate-Rating-Methodology.pdf>

## ANNEX 4: Quality Management Processes

### SCOPE

Bank ABC commissioned ISS Corporate Solutions to compile a Sustainable Finance Framework External Review. The External Review process includes verifying whether the Sustainable Finance Framework aligns with market practices for sustainable finance and assessing its sustainability credentials, as well as the credibility of the Bank's sustainable financing classification system

### CRITERIA

Relevant Standards for this External Review stem from key principles for transparency and non-contamination of sustainable labelled products, including:

- International Capital Market Association's (ICMA) Green, Social Bond Principles, and Sustainability Bond Guidelines, Sustainability-Linked Bond Principles,
- Loan Market Association's (LMA) Green Loan Principles, Social Loan Principles, Sustainability Linked Loan Principles
- UNEP-FI PRB
- Climate Bonds Initiative (CBI) – Climate Bonds Standard V4.0
- Guidelines proposed by the European Banking authority (EBA) with respect to environmentally sustainable lending

### CLIENT'S RESPONSIBILITY

Bank ABC's responsibility was to provide information and documentation on:

- Sustainable Finance Framework
- ESG Impact and Risk Management
- Governance procedures

### ISS-Corporate's VERIFICATION PROCESS

ISS ESG is one of the world's leading independent environmental, social and governance (ESG) research, analysis and rating houses. The company has been actively involved in sustainable capital markets for over 25 years. Since 2014, ISS ESG has built up a reputation as a highly reputed thought leader in the green and social bond market and has become one of the first CBI-approved verifiers.

ISS ESG has conducted this independent External Review of the Sustainable Finance Framework by Bank ABC based on a proprietary methodology and in line with market practices and relevant market standards for sustainable finance.

The engagement with Bank ABC took place from July 2023 to July 2024.

### ISS-Corporate's BUSINESS PRACTICES

ISS-Corporate has conducted this verification in strict compliance with the ISS Code of Ethics, which lays out detailed requirements in integrity, transparency, professional competence and

## SECOND PARTY OPINION

Sustainability Quality of Bank ABC  
and Sustainable Finance Framework

ISS-CORPORATE 

due care, professional behaviour and objectivity for the ISS business and team members. It is designed to ensure that the verification is conducted independently and without any conflicts of interest with other parts of the ISS Group.

## About this External Review

Companies turn to ISS Corporate Solutions (ISS-Corporate) for expertise in designing and managing governance, compensation, sustainability and cyber risk programs that align with company goals, reduce risk, and manage the needs of a diverse shareholder base by delivering best-in-class data, tools, and advisory services.

We assess alignment with external principles (e.g. the ICMA Green / Social Bond Principles), analyse the sustainability quality of the assets and review the sustainability performance of the Issuer themselves. Following these three steps, we draw up an independent SPO so that investors are as well informed as possible about the quality of the bond / loan from a sustainability perspective.

Learn more: <https://www.iss-corporate.com/solutions/sustainable-finance/bond-issuers/>

For more information on SPO services, please contact: [SPOsales@iss-corporate.com](mailto:SPOsales@iss-corporate.com)

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