

FRAMEWORK EXTERNAL REVIEW

SUSTAINABLE FINANCE FRAMEWORK

National Bank of Bahrain BSC
23 December 2024

VERIFICATION PARAMETERS

Covered Instruments	<ul style="list-style-type: none">▪ Sustainable financing instruments
Type of Framework	<ul style="list-style-type: none">▪ Sustainable Finance Framework
Scope of verification	<ul style="list-style-type: none">▪ National Bank of Bahrain’s Sustainable Finance Framework (as of Dec. 22, 2024)▪ National Bank of Bahrain’s sustainable finance classification system (as of Dec. 22, 2024)
Validity	<ul style="list-style-type: none">▪ Valid as long as the Framework remains unchanged

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SCOPE OF WORK

National Bank of Bahrain BSC (“NBB,” “the Financial Institution” or “the Bank”) commissioned ISS-Corporate to assist with its Sustainable Finance Framework (“SFF” or “the Framework”) by assessing four core elements to determine the quality of its classification system¹ for identifying sustainable financing activities and the sustainability quality of the eligibility criteria:

1. Sustainable Finance Framework, benchmarked against market practices and guidelines² for capital and loan market approaches to environmental and social sustainability (see Annex 1).
2. NBB’s sustainable finance classification system — the soundness of the eligibility parameters in identifying eligible sustainable financing activities (see Annex 1) and whether the eligible project categories contribute positively to the U.N. SDGs.
3. ESG risk management — an assessment of NBB’s overarching risk management procedures considered relevant in the context of the Bank’s sustainable finance activities and the underlying Framework (see Annex 1).
4. Consistency of the Sustainable Finance Framework with NBB’s sustainability strategy, drawing on the key sustainability objectives and priorities defined by the Bank.

¹ 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 the scope of the verification procedures.

² 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 Bond Principles](#), [Social Bond Principles](#), [Sustainability Bond Guidelines](#) and [Sustainability-Linked Bond Principles](#); the Loan Market Association’s (LMA) [Green Loan Principles](#), [Social Loan Principles](#) and [Sustainability-Linked Loan Principles](#); the [UNEP-FI PRB](#); the [Climate Bonds Standard V4.0](#) (April 2023 version); and [guidelines](#) proposed by the European Banking Authority (EBA) with respect to environmentally sustainable lending.

NBB OVERVIEW

National Bank of Bahrain is engaged in retail and commercial banking services. It operates through the following segments: retail, corporate, commercial, business banking, overseas branches, and market and client solutions management. The retail, commercial and business banking segments cater to individuals and commercial enterprises. The corporate segment covers governments, corporates and financial institutions. The overseas branches segment offers various banking products and services to the group's customers outside Bahrain. The market and client solutions management segment manages the group's liquidity, interest rate, foreign exchange, market risk and investments.

The company was founded in January 1957 and is headquartered in Manama, Bahrain.

ESG risks associated with NBB's industry

NBB is classified in the commercial banks and capital markets industry, as per ISS ESG's sector classification. Key sustainability issues faced by companies³ in this industry are sustainability impacts of lending and other financial services/products, customer and product responsibility, sustainable investment criteria, labor standards and working conditions, and business ethics.

This report focuses on the sustainability credentials of the classification system. Part IV of this report assesses the consistency between the Framework and the Bank's overall sustainability strategy.

³ Please note that this is not a company-specific assessment but rather areas that are of particular relevance for companies within that industry.

ASSESSMENT SUMMARY

SECTION	SUMMARY	EVALUATION ⁴
<p>Part I:</p> <p>Review of NBB’s Sustainable Finance Framework</p>	<p>The Sustainable Finance Framework reflects market practices.⁵</p> <ol style="list-style-type: none"> Objectives, targets and progress: NBB has developed a Sustainable Finance Framework to classify its sustainable finance revenues, liabilities and assets and support sustainability target-setting. While the Framework in its current form does not define any targets, NBB commits to publicly disclose sustainable finance targets within 12 months of publishing the Sustainable Finance Framework. The targets will be based on a review of its current portfolio, asset eligibility assessments and executive discussions, ensuring alignment with market needs and sustainability goals. As a signatory of the United Nations Global Compact and other international initiatives, NBB is committed to global sustainability standards. Definition of sustainable financing activities: NBB’s Sustainable Finance Framework applies to its operations in Bahrain, other Gulf Cooperation Council Countries, Egypt and Turkey, and for business units such as retail, corporate, commercial, business banking, overseas branches, and market and client solutions management. NBB defines sustainable finance as a combination of use of proceeds, sustainability-linked finance, sustainable liabilities products and ESG advisory services. It adheres to international standards including those from the Loan Market Association (LMA) and International Capital Market Association (ICMA). Eligible financing includes green and social projects, sustainability-linked financing and ESG advisory. NBB also applies an exclusion list for prohibited activities. Though the Bank does not currently have sustainable liabilities products, it may introduce them in the future.⁶ The Framework can be improved by disclosing the estimated share of each financial instrument. 	

⁴ The evaluation is based on NBB’s Sustainable Finance Framework (Dec. 22, 2024, version).

⁵ As the Sustainable Finance Framework assessed is the first such framework of NBB, NBB has made several commitments for aspects that are not yet in place. In this context, this evaluation is contingent on the commitments set by NBB in its Sustainable Finance Framework.

⁶ ISS-Corporate delivered an SPO on the quality of NBB’s use of proceeds liability instruments.

SECTION	SUMMARY	EVALUATION ⁴
	<p>3. Evaluation and selection process: NBB’s Sustainable Finance Working Group (SFWG), composed of the Sustainability Working Group, is responsible for assessing and classifying transactions as sustainable, following the guidelines of its Sustainable Finance Framework. Transactions are evaluated against green and social criteria in line with LMA or ICMA principles. Responsibilities across different departments are described in NBB’s Sustainable Finance Framework. NBB will implement a process to classify and verify sustainable finance transactions, involving periodic reviews, reporting dashboards and maker/checker mechanisms to ensure compliance with eligibility criteria and prevent misclassification. NBB has integrated an ESG risk chapter into its credit policy and developed an ESG due diligence toolkit to assess the ESG performance and risks of financing activities. When ESG risks are identified, NBB engages and supports the client to mitigate these risks. Exposures that affect the credit profile of a borrower due to elevated ESG risks will not be approved.</p> <p>4. Governance and monitoring: NBB ensures ongoing alignment of transactions with its Sustainable Finance Framework by reviewing all transactions at least annually. The Sustainability Management Committee, comprised of members from various departments, oversees NBB’s sustainability strategy and decision-making on labeling assets as sustainable. The members of the SFWG manage all sustainable finance transactions, while the Framework will be signed off for approval by the chairman of the Sustainability Management Committee and reported to the Nomination, Remuneration, Governance and Sustainability (NRGS) Committee. Regular reporting of sustainable finance transactions to the NRGS Committee is also in place. Individual transactions in scope of the Sustainable Finance Framework are regularly monitored by the Sustainable Finance Working Group, with support of the credit administration team.</p> <p>5. Reporting: NBB commits to public annual reporting on its sustainable finance activities, as well as the environmental and social impacts of project finance when available. Reporting will continue until full allocation of sustainable financing proceeds or until the sustainable finance instrument is no longer</p>	

SECTION	SUMMARY	EVALUATION ⁴
	<p>outstanding. For lending products offered by NBB, the credit administration team will support the reporting process, facilitating reporting from borrowers. NBB also commits to publishing its Sustainable Finance Framework on its website. Improvements could include disclosing the impact of its banking activities.</p>	
<p>Part II:</p> <p>Assessment of NBB’s sustainable finance classification system</p>	<p>The Bank’s sustainable finance classification system reflects market practice.⁷</p> <p>NBB has put forth multiple sets of eligibility parameters for its financing activities to be classified as sustainable: dedicated purpose financing, general purpose financing and sustainability-linked financing.</p> <p>A comprehensive assessment of the sustainability quality of the eligible categories defined under the Framework comprising an impact assessment against the SDGs can be found in Annex 2.</p>	
<p>Part III:</p> <p>Assessment of NBB’s ESG risk management</p>	<p>ESG risks relevant in the context of the Bank’s sustainable financing activities are considered to be managed.</p> <p>NBB’s credit policy includes an ESG risk chapter that defines risk processes. During the credit process, NBB uses a toolkit to assess a client’s risk profile and mitigation measures. For project financing, NBB follows the Equator Principles and IFC Performance Standards. All corporate or project financing goes through an ESG risk eligibility assessment, with a toolkit scoring risks from 0 to 100. Projects are classified into three categories (A, B or C) based on the significance and reversibility of adverse impacts. Regular monitoring ensures the application of mitigation strategies, with reviews by the relevant credit delegation of authority up to the board level for final approval.</p>	
<p>Part IV:</p> <p>Consistency of the Sustainable Finance Framework with NBB’s</p>	<p>The Sustainable Finance Framework is consistent with the Group’s sustainability strategy.</p> <p>The key sustainability objectives and rationale establishing the Sustainable Finance Framework are clearly described by the Bank. The</p>	

⁷ As the Sustainable Finance Framework assessed is the first such framework of NBB, NBB has made several commitments for aspects that are not yet in place. In this context, this evaluation is contingent on the commitments set by NBB in its Sustainable Finance Framework.

SECTION	SUMMARY	EVALUATION ⁴
sustainability strategy	majority of the project categories considered are in line with the Bank's sustainability objectives. At the date of publication of the report and leveraging ISS ESG research, no severe controversies have been identified.	

FRAMEWORK EXTERNAL REVIEW ASSESSMENT

PART I: REVIEW OF NBB'S SUSTAINABLE FINANCE FRAMEWORK

In its Sustainable Finance Framework, NBB defines its methodology for the classification of eligible financing transactions as sustainable for the purpose of tracking and disclosing the performance against its sustainable finance targets.

This External Review assesses the Framework against current market practices for sustainable capital and loan markets derived from market standards and established guidelines. The assessment focuses on key principles for transparency, public disclosure and non-contamination of sustainable-labeled products, set out in, among other guidelines, ICMA's Green Bond Principles, Social Bond Principles, Sustainability Bond Guidelines and Sustainability-Linked Bond Principles, and best market practices from other market standards for sustainable finance such as the LMA's Green Loan Principles, Social Loan Principles and Sustainability-Linked Loan Principles.

CRITERIA	SUMMARY AND OPINION
<p>1. Objectives, targets and progress</p>	<p>NBB has developed a Sustainable Finance Framework to use as a point of reference for the Bank's classification of its sustainable finance revenues, liabilities and asset base. NBB will also use this Framework to guide action plans and target-setting discussions with the Sustainability Management Committee. Within 12 months of publishing the Framework, the Bank will establish and publicly disclose sustainable finance targets, demonstrating its strategic commitment to sustainability across its business units and target markets.</p> <p>The following process will be applied to set the sustainable finance targets: the current Sustainable Finance Framework will be applied on the existing portfolio to understand NBB's current position and serve as the baseline for the desired sustainable finance targets to be set. Next, the Bank requests the completion of an asset discovery list to classify and assess the eligibility of assets and liabilities. The SFWG reviews and approves these recommendations and reports the current sustainable finance volume to the Sustainability Working Group, led by the head of strategy and sustainability. The strategy team then discusses sustainable finance asset and liability volumes with executive management to establish ambitious targets that align with the Bank's market needs and broader sustainability agendas. These draft targets are approved by the Bank's governing body, which will subsequently determine whether to publicly disclose the finalized sustainable finance targets.</p>

CRITERIA	SUMMARY AND OPINION
	<p>NBB is a signatory to the United Nations Global Compact and reports under several international initiatives (i.e., the Equator Principles, the European Bank for Reconstruction and Development).</p> <p>Opinion: <i>NBB has clearly disclosed the purpose of its Sustainable Finance Framework. In addition, NBB commits to set a sustainable financing target in value and publicly disclose a clear definition of the sustainability objectives for its entire financing activities and a quantified target in line with the wider company strategy. NBB commits to publicly disclose its sustainable finance targets within 12 months of publishing the Framework and has shared the internal process that it will follow to set such targets. NBB will also establish an action plan to reach its targets. NBB is a signatory of the United Nations Global Compact.</i></p>
<p>2. Definition of sustainable financing activities</p>	<p>Under NBB’s Sustainable Finance Framework, “sustainable finance” refers to use of proceeds, sustainability-linked and liabilities products,⁸ and the provision of ESG advisory services.⁹ NBB bases its definition of sustainable financing on established national and international standards, frameworks and principles. These include the LMA’s Green Loan Principles, Social Loan Principles and Sustainability-Linked Loan Principles and ICMA’s Green Bond Principles, Social Bond Principles and Sustainability-Linked Bond Principles. Compliance with these is verified by NBB’s Sustainable Finance Working Group.</p> <p>The classification system applies to business units of NBB including retail, corporate, commercial, business banking, overseas branches, and market and client solutions management. NBB operations in Bahrain, other Gulf Cooperation Council Countries, Egypt and Turkey are in the scope of the Sustainable Finance Framework.</p> <p>Eligible types of financing</p> <p>NBB’s Sustainable Finance Framework sets out types of financing that the Bank sets as eligible as sustainable financing, which include:</p> <ul style="list-style-type: none"> ▪ Dedicated purpose financing where the use of proceeds satisfies either the green or social eligibility criteria.

⁸ NBB does not currently have sustainable liabilities products. However, this may be a product offering introduced in the near future and therefore has been included for reference in this Framework.

⁹ ISS-Corporate does not consider ESG advisory services in the scope of work of this External Review. This is an ESG service and does not include any associated financial instruments. Therefore, ESG advisory services are beyond the scope of assessment of this External Review.

CRITERIA	SUMMARY AND OPINION
	<ul style="list-style-type: none"> ▪ General purpose financing where the business mix of the entity satisfies either the green or social eligibility criteria based on the thresholds set out in Section 2 of the Framework. ▪ Sustainability-linked financing, which meets the internal proprietary screening criteria outlined in the Sustainable Finance Framework. Note that sustainability-linked financing is not required to satisfy either the green or social eligibility criteria. ▪ Sustainable liabilities products, which will be referenced against NBB’s sustainable finance asset base. ▪ ESG advisory services, which includes the following activities where NBB partners and supports clients to:¹⁰ <ul style="list-style-type: none"> (i) Develop ESG strategies (ii) Develop ESG-related disclosures and reporting (iii) Structure sustainability-labeled financing (i.e., where NBB acts as sustainability coordinator/structuring agent) <p>In addition to the above requirements, the Bank applies an exclusionary strategy that includes a list with all prohibited activities for which it will not grant credit.¹¹</p> <h3>Classification of sustainable financing</h3> <p>Proposed Financing of Asset / Project / Entity</p> <p>If applicable, has the Project / Asset / Entity under consideration been assessed to confirm adherence to NBB's relevant screening standards, e.g., Environmental & Social Requirements?</p> <p>YES → Proceed to label as Sustainable Finance Revenues and / or Assets, with reference to the Classification detailed in Section 1.2. of the Framework.</p> <p>NO → Do not use a Sustainable Label.</p> <p>Is the proposed financing for a 'Pureplay' Client (i.e., at least 90% of the client's revenues are derived from the Eligible Green and / or Social Projects and Activities detailed in the Framework)?</p> <p>YES → Proceed to label as Sustainable Finance Revenues and / or Assets, with reference to the Classification detailed in Section 1.2. of the Framework.</p> <p>NO → Is the proposed financing in a Sustainability-Linked format or an ESG Advisory Service, as per Section 1.2. of the Framework?</p> <p>YES → Proceed to label as Sustainable Finance Revenues and / or Assets, with reference to the Classification detailed in Section 1.2. of the Framework.</p> <p>NO → Has the Project / Asset / Entity been approved by individuals with the relevant delegated authority or, if applicable, the Sustainable Finance Working Group as aligned to the Framework and eligible?</p> <p>YES → Proceed to label as Sustainable Finance Revenues and / or Assets, with reference to the Classification detailed in Section 1.2. of the Framework.</p> <p>NO → Is the proposed financing linked to a Framework which has a corresponding positive Second Party Opinion or does the proposed financing have a positive pre-transaction Second Party Opinion?</p> <p>YES → Proceed to label as Sustainable Finance Revenues and / or Assets, with reference to the Classification detailed in Section 1.2. of the Framework.</p> <p>NO → Is the proposed financing under a Use of Proceeds Structure (i.e., Green, Social, or Sustainability)?</p> <p>YES → Proceed to label as Sustainable Finance Revenues and / or Assets, with reference to the Classification detailed in Section 1.2. of the Framework.</p> <p>NO → Does the proposed financing (i.e., use of proceeds) align with the Eligible Green and / or Social Projects and Activities detailed in the Framework?</p> <p>YES → Proceed to label as Sustainable Finance Revenues and / or Assets, with reference to the Classification detailed in Section 1.2. of the Framework.</p> <p>NO → Do not use a Sustainable Label.</p>

Figure 1: NBB's sustainable finance classification system

¹⁰ Ibid.

¹¹ The following activities will be excluded: coal- or gas-fired power generation and distribution assets, coal mining and transportation, fossil fuel related exploration and distribution, conflict materials, extractive industries and mining, military contracting and weapons, nuclear power generation and distribution assets, activities involving modern slavery, forced labor payday loans, gambling, adult entertainment, alcohol, and tobacco.

CRITERIA	SUMMARY AND OPINION										
	<p>Instrument Scope</p> <p>The Sustainable Finance Framework covers NBB’s sustainable finance revenue and sustainable finance assets (lending and debt capital markets) and liabilities. Sustainable finance assets are strictly use of proceeds financings, while the revenue base is wider and will include sustainability-linked instruments as well as revenue from ESG advisory services.</p> <p>The product offering includes:</p> <table border="1" data-bbox="411 696 1372 2074"> <thead> <tr> <th data-bbox="416 703 715 741">PRODUCT</th> <th data-bbox="719 703 1110 741">DESCRIPTION</th> <th data-bbox="1115 703 1367 741">CRITERIA</th> </tr> </thead> <tbody> <tr> <td data-bbox="416 748 715 1406">Use of proceeds</td> <td data-bbox="719 748 1110 1406">Financing is restricted to proceeds that adhere to the defined eligible projects and activities. It includes green, social and sustainability bonds issued by corporates and loans with a dedicated purpose that fall within the green eligibility criteria. Off-balance sheet assets, which include non-funded products (i.e., letters of credit or letters of guarantees) will also be included and separately outlined.</td> <td data-bbox="1115 748 1367 1406"> <ul style="list-style-type: none"> ▪ ICMA’s Green Bond Principles, Social Bond Principles and Sustainability Bond Guidelines ▪ The LMA’s Green Loan Principles </td> </tr> <tr> <td data-bbox="416 1413 715 2067">Sustainability-linked facilities</td> <td data-bbox="719 1413 1110 2067">These are products which incentivize NBB’s clients’ achievement of predetermined sustainable performance objectives. The key performance indicators (KPIs) must be relevant, core and material to the client’s sustainability strategy, as well as measurable or quantifiable on a consistent methodological basis. NBB requires third-party verified reporting on performance against the sustainability</td> <td data-bbox="1115 1413 1367 2067"> <ul style="list-style-type: none"> ▪ The LMA’s Sustainability-Linked Loan Principles ▪ ICMA’s Sustainability-Linked Bond Principles </td> </tr> </tbody> </table>		PRODUCT	DESCRIPTION	CRITERIA	Use of proceeds	Financing is restricted to proceeds that adhere to the defined eligible projects and activities. It includes green, social and sustainability bonds issued by corporates and loans with a dedicated purpose that fall within the green eligibility criteria. Off-balance sheet assets, which include non-funded products (i.e., letters of credit or letters of guarantees) will also be included and separately outlined.	<ul style="list-style-type: none"> ▪ ICMA’s Green Bond Principles, Social Bond Principles and Sustainability Bond Guidelines ▪ The LMA’s Green Loan Principles 	Sustainability-linked facilities	These are products which incentivize NBB’s clients’ achievement of predetermined sustainable performance objectives. The key performance indicators (KPIs) must be relevant, core and material to the client’s sustainability strategy, as well as measurable or quantifiable on a consistent methodological basis. NBB requires third-party verified reporting on performance against the sustainability	<ul style="list-style-type: none"> ▪ The LMA’s Sustainability-Linked Loan Principles ▪ ICMA’s Sustainability-Linked Bond Principles
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CRITERIA	SUMMARY AND OPINION		
		<p>performance targets (SPTs) annually.</p>	
	<p>Sustainable finance liabilities products¹²</p>	<p>Sustainable liabilities will be referenced against NBB's sustainable finance asset base.</p> <p>Total sustainable finance liabilities will be monitored against the total sustainable finance assets. Reporting on sustainable finance activities will be separated between sustainable assets, sustainable liabilities and sustainable revenues.</p> <p>NBB does not currently have sustainable finance liabilities products. However, this may be a product offering introduced in the near future.</p>	
	<p>ESG advisory services¹³</p>	<p>ESG advisory services includes the following activities where NBB partners and supports clients to:</p> <ul style="list-style-type: none"> (i) Develop ESG strategies (ii) Develop ESG-related disclosures and reporting (iii) Structure sustainability-labeled financing (i.e., where NBB acts as sustainability 	

¹² NBB does not currently have sustainable liabilities products. However, this may be a product offering introduced in the near future and therefore has been included for reference in this Framework.

¹³ ISS-Corporate does not consider ESG advisory services in the scope of work of this External Review.

CRITERIA	SUMMARY AND OPINION
	<div data-bbox="730 315 1109 443" style="border: 1px solid black; padding: 5px; margin-bottom: 10px;"> coordinator/structuring agent) </div> <div data-bbox="762 481 1034 510" style="text-align: center; margin-bottom: 10px;"> <i>Table 1. NBB's product scope</i> </div> <p>The Bank is not willing to commit at this stage to disclose an estimated share of each financial instruments as this may be subject to change and NBB has not yet started to apply the classification and identify sustainable financing.</p> <p>Opinion: <i>The Sustainable Finance Framework presents a definition of NBB's classification system with clear and transparent criteria for each financing approach and refers to relevant market principles. NBB is currently implementing processes to verify the alignment of the instruments financed under the Framework with relevant market principles (i.e., ICMA, LMA). The sustainability quality of the eligibility parameters to identify eligible sustainable financing activities is further analyzed in Part IIA of this report. The Sustainable Finance Framework defines exclusion criteria and a specific set of exclusion criteria per eligible activities. Where feasible, the Framework may be further improved with regards to disclosing an estimated share of each instrument mentioned in its Framework.</i></p>
<p>3. Evaluation and selection process</p>	<p>NBB's SFWG is composed of two members of the Sustainability Working Group and three members from the risk, corporate finance and transaction banking departments. The SFWG will be chaired by the head of corporate finance or as appointed by the Sustainability Management Committee and is responsible for assessing and classifying transactions as sustainable in alignment with the requirements of this Framework. All transactions in the scope of its Sustainable Finance Framework require an eligibility confirmation by the SFWG.</p> <p>NBB commits to create a process that allows for classifying the Bank's activities as sustainable. Core components of the process are described in the Sustainable Finance Framework. For loans extended by NBB, it will include a marker/checker mechanism, differentiating between dedicated purpose and sustainability-linked instruments and documenting the rationale of the proposed classification. The classification will be verified by designated member(s) of the SFWG only after endorsement by the SFWG, then the instrument is tagged in the internal system, which is linked to the dashboard that supports the monitoring and reporting of the sustainable finance instruments.</p>

CRITERIA	SUMMARY AND OPINION
	<p>The process will include periodic reviews of sustainable finance classifications until transactions are no longer active. The SFWG will meet at least biannually to monitor and report transactions labeled as sustainable finance or sustainability-linked. A quarterly dashboard will be presented to the Sustainability Management Committee, while a biannual report will go to the NRGs Committee. In case of declassification of any transaction, the SFWG will inform the Sustainability Working Group and include updates in the quarterly dashboard presented to the Sustainability Management Committee.</p> <p>NBB has implemented an ESG risk chapter in its credit policy and developed an ESG due diligence toolkit to evaluate the ESG performance and risks of its financing and investing activities. During the credit process, the Bank uses the ESG due diligence toolkit to assess the client’s risk profile against several environmental and social criteria. The toolkit provides a quantitative score from 0 to 100, 0 being very low, in cases where ESG risk measures are not in place. When ESG risks are identified, NBB engages and supports the client to mitigate these risks. Exposures that affect the credit profile of a borrower due to elevated ESG risks will not be approved.</p> <p>Opinion: <i>The process for sustainable finance transaction evaluation and selection is defined based on the eligibility criteria and structured in a congruous manner. Responsibilities across different departments are described in NBB’s Sustainable Finance Framework. NBB will implement a process to classify and verify sustainable finance transactions, involving periodic reviews, reporting dashboards and a maker/checker mechanism to ensure compliance with eligibility criteria and prevent misclassification. Risks associated with sustainable activities to be financed are identified and managed appropriately. NBB defines exclusion criteria for controversial sectors and a list of excluded activities.</i></p>
<p>4. Governance and monitoring</p>	<p>NBB will follow clear mechanisms in monitoring transactions to ensure that they continue to be aligned with the relevant principles. NBB will undertake, at least annually, a review of the transaction to confirm that only transactions that continue to be aligned with this Framework are incorporated as part of any sustainable finance-related transaction monitoring and reporting.</p> <p>NBB has a Sustainability Management Committee and a Sustainability Working Group in place, which are responsible for shaping NBB’s sustainability roadmap and strategy. The committee and the working group are comprised of members from various departments across the Bank. The SFWG will be involved in the decision-making process to determine whether</p>

CRITERIA	SUMMARY AND OPINION
	<p>a transaction can be labeled as sustainable (particularly on the sign-off approval). NBB’s SFWG is responsible for overseeing all sustainable finance transactions. Finally, the Framework will be signed off for approval by the chairman of the Sustainability Management Committee and reported to the NRGs Committee. Hence, the establishment of the Framework and decision-making process will have senior oversight and approval.</p> <p>Sustainable finance and sustainability-linked transactions will be tracked using a dashboard, maintained quarterly by the SFWG. The dashboard will also be regularly reported to the Sustainability Management Committee and the NRGs Committee. NBB also defined a delisting mechanism. Transactions that are no longer outstanding, which no longer comply with the eligibility criteria of the Sustainable Finance Framework or are for other reasons deemed no longer compatible by the SFWG will be excluded from the dashboard and hence removed from further monitoring and reporting under the Sustainable Finance Framework. Instances of declassification are immediately reported to the Sustainability Working Group and quarterly to the Sustainability Management Committee.</p> <p>Opinion: <i>NBB describes how dedicated committees provide oversight of ESG-related issues, and specifically the sustainable finance classification system. NBB describes the process to monitor if a financial transaction remains eligible during all its life cycle on a regular/annual basis and describes the data collection, tracking and reporting mechanisms of the current/past sustainable finance instrument transactions.</i></p>
<p>5. Reporting</p>	<p>NBB commits to annually report its sustainable finance activities, covering sustainable finance assets, liabilities and revenues, as well as the expected environmental and/or social impacts, when available. The Bank will continue the reporting process until full allocation of sustainable financing proceeds or until the sustainable finance instrument is no longer outstanding.</p> <p>For assets labeled as sustainable, the credit administration team will support the SFWG with the information needed to fulfill the reporting requirements.</p> <p>NBB commits to publish the Sustainable Finance Framework on its website.</p> <p>Opinion: <i>NBB commits to publicly report on its sustainable finance activities annually. NBB also commits to publicly disclose its Sustainable Finance Framework on its website.</i></p> <p><i>Where feasible, the Framework may be further improved by:</i></p>

CRITERIA	SUMMARY AND OPINION
	<ul style="list-style-type: none"> ▪ <i>Disclosing the amount of sustainable finance transactions allocated by instrument</i> ▪ <i>Disclosing the impact of its banking activities using the following guidelines: 1) core banking activities; 2) scale of the bank's activities (industry, technology and geographic specific); 3) scale and intensity/salience of the social, economic and environmental impacts; 4) relevant challenges and priorities related to sustainable development</i>
<p>6. External Review</p>	<p>To provide transparency on the assets, liabilities and revenues to be classified as sustainable in line with this Framework, NBB has appointed ISS-Corporate to provide an External Review on the Sustainable Finance Framework and its alignment with the Bank’s overall strategy. The External Review will be updated in case of substantial changes to the Framework.</p> <p>NBB’s Sustainable Finance Framework is reviewed annually. Updates (e.g., to eligibility criteria, product scope and accounting basis) are effective from publication unless otherwise specified and are not applied retroactively to prior years’ sustainable finance performance against NBB’s targets.</p> <p>Opinion: <i>NBB 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 on NBB’s website. A new External Review will be sought upon any subsequent update.</i></p>

PART II: ASSESSMENT OF NBB'S SUSTAINABLE FINANCE CLASSIFICATION SYSTEM

A. ASSESSMENT OF THE CRITERIA OUTLINED IN NBB'S ELIGIBILITY SUSTAINABLE FINANCE CLASSIFICATION SYSTEM

To provide an opinion on the sustainability credibility of each of the key sets of criteria defined by NBB, this review evaluates the prevalence and robustness of the selection parameters, considering market practices across different sustainable finance asset classes.

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

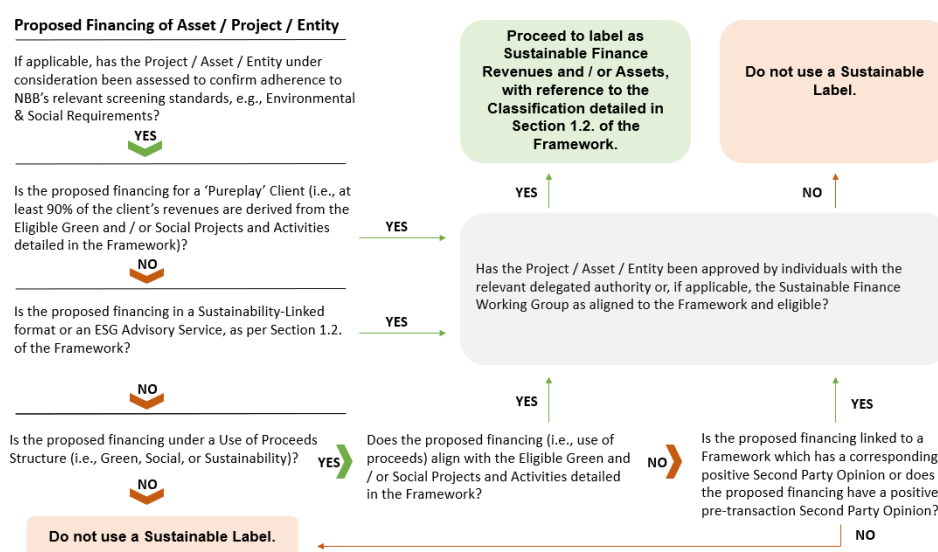


Figure 1. NBB's sustainable financing classification system

The assessment process and criteria implemented under NBB's Sustainable Finance Framework are outlined below. It applies to NBB's operations in Bahrain, other Gulf Cooperation Council Countries, Egypt and Turkey, and for business units such as retail, corporate, commercial, business banking, overseas branches, and market and client solutions management. The evaluation is based on criteria derived from market practices.¹⁴

PARAMETER	CRITERIA	ASSESSMENT OF NBB'S SUSTAINABLE FINANCE CLASSIFICATION SYSTEM
Dedicated purpose financing (standard approach)	Dedicated purpose financing contributes to sustainability objectives if	The Bank has developed a list of green and social activities that are eligible for sustainable financing (please refer to Annex 2). The green and social use of proceeds categories and criteria have been set according to ICMA and LMA standards. Alignment

¹⁴ These include but are not limited to ICMA's GBP, SBP, SBG and SLBP; the Climate Transition Handbook; the LMA's GLP, SLP and SLLP; the UNEP-FI PRB; and the EBA LOaM guidelines for environmentally sustainable lending.

¹⁵ ISS-Corporate does not consider ESG advisory services in the scope of work of this External Review.

PARAMETER	CRITERIA	ASSESSMENT OF NBB'S SUSTAINABLE FINANCE CLASSIFICATION SYSTEM
	<p>proceeds are exclusively allocated to activities that are subject to specific and credible ESG-related eligibility criteria.</p>	<p>with the principles will be verified either through the availability of an external SPO verification or, where not available, through an internal assessment by the SFWG. A detailed SDG assessment of the impact of the eligibility criteria presented in the SFF can be found at Part IIB. Based on ISS ESG's proprietary SDG Solutions Assessment methodology, 88% of the eligibility category have a contribution to the Sustainable Development Goals.</p> <p>Where use of proceeds products sit as assets (i.e., loans) and are aligned with the eligible activities detailed in Annex 2, these assets are included in NBB's sustainable finance asset base. Off-balance sheet assets, which include non-funded products (i.e., letters of credit or letters of guarantees) will also be included and separately outlined.</p> <p>The NBB's Sustainable Finance Working Group will then undertake at least annual monitoring of the asset pool to ensure the eligibility of sustainable projects with the criteria set out in Part IIB.</p> <p>Finally, the Bank applies exclusionary criteria and list of all prohibited activities for which it will not grant credit (please refer to Part 1.2).</p> <p>Opinion: <i>NBB refers to relevant market standards to define its eligibility criteria. Twelve percent of the categories are considered to have no net impact, limiting the contribution to sustainability objectives for these 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's SDG Solutions Assessment as having no net impact.</i></p> <p><i>Where feasible, the selection process may be further improved by:</i></p>

PARAMETER	CRITERIA	ASSESSMENT OF NBB'S SUSTAINABLE FINANCE CLASSIFICATION SYSTEM
		<ul style="list-style-type: none"> Setting measures to ensure that borrowers and/or issuers have appropriate processes in place to identify and mitigate ESG risks Setting measures to ensure that borrowers and/or issuers regularly report on the allocation of the proceeds
<p>General purpose financing (standard approach)</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 &D/OpEx derive from designated eligibility criteria. Generally accepted thresholds in the market are $\geq 90\%$¹⁶ to designate green or social "pure players" with a defined exclusion list for the remaining share.</p>	<p>According to NBB's Framework, to be classified as sustainable, the recipient needs to derive from its core business at least 90% of its revenues from eligible categories listed in the SFF. NBB's exclusion criteria are checked for all of the financing.</p> <p>NBB is establishing an internal system to check the alignment with market principles such as the Green/Social Bond Principles and Green/Social Loan Principles.</p> <p>Opinion: <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 toward harmful activities. However, not all listed eligibility categories are considered to have a net positive 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><i>Where feasible, the selection process may be further improved by:</i></p> <ul style="list-style-type: none"> Setting measures to ensure that borrowers and/or issuers have appropriate processes in place to identify and mitigate ESG risks

¹⁶ As outlined in Appendix I, Note I of the [Green Bond Principles](#), the [Climate Bonds Standard V3.0](#) and the CBI's [Green Bond Dataset Methodology](#).

PARAMETER	CRITERIA	ASSESSMENT OF NBB'S SUSTAINABLE FINANCE CLASSIFICATION SYSTEM
		<ul style="list-style-type: none"> Setting measures to ensure that borrowers and/or issuers regularly report on the allocation of the proceeds
<p>General purpose financing (sustainability-linked financing)</p>	<p>Sustainability-linked financing contributes to sustainable objectives if the associated KPIs¹⁷ are material, core and relevant to the borrower's business model and the associated targets are ambitious. Furthermore, 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, in particular, the ambition of the selected SPTs.¹⁸</p>	<p>According to NBB's SFF, products must align with the Sustainability-Linked Loan Principles or Sustainability-Linked Bond Principles.</p> <p>The KPIs must be relevant, core and material to the client's sustainability strategy, as well as measurable or quantifiable on a consistent methodological basis. NBB requests third-party verified reporting on performance against the SPTs annually. NBB's selection process includes an external SPO verification to assess the alignment with applicable market guidelines. However, when not feasible, the SFWG will conduct an internal assessment to ensure that the transaction is aligned with the relevant principles.</p> <p>Opinion: <i>ISS-Corporate is not able to comprehensively assess the materiality of the KPIs and the ambition level of the associated SPTs, nor how including this form of financing contributes to ESG-related goals because there is no predefined list of KPIs or SPTs at the moment of this report. In addition, due to the general fungible nature of financing flows, the general-purpose financing may indirectly benefit financing that is not defined as sustainable. Nonetheless, we favorably note the reference to the relevant market standards for sustainability-linked financing. Moreover, NBB requires external reviews on the materiality of the KPIs and the ambition of the targets embedded in these financings annually, limiting the risk that general purpose financing may be granted to</i></p>

¹⁷ 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.

¹⁸ Sustainability performance targets should be ambitious, represent a material improvement in the respective KPIs, be compared to a benchmark where possible, be consistent with the borrower's overall ESG strategy and be determined on a predefined timeline.

PARAMETER	CRITERIA	ASSESSMENT OF NBB'S SUSTAINABLE FINANCE CLASSIFICATION SYSTEM
		<p><i>entities that have not set adequate SPTs with respect to past performance, peers or international targets.</i></p> <p><i>Where feasible, the selection process may be further improved by setting a list of KPIs and/or SPTs.</i></p>


B. CONTRIBUTION OF THE ELIGIBLE CATEGORIES TO THE U.N. SDGS

Financial institutions can contribute to the achievement of the SDGs by financing eligible services/products that help address global sustainability challenges, and by being responsible actors, working to minimize negative externalities in their financing along the entire value chain. This section assesses the SDG impact of the eligible categories by the Bank in two different ways, depending on whether the proceeds are used to (re)finance:


- Specific products/services
- Improvements of operational performance

Below is a summary table of the U.N. SDG assessment. The complete SDG assessment can be found in Annex 2 of this External Review.

Products and services

USE OF PROCEEDS	CONTRIBUTION OR OBSTRUCTION	SUSTAINABLE DEVELOPMENT GOALS
Renewable Energy, Energy Efficiency, Pollution Prevention and Control, Environmentally Sustainable Management of Living Natural Resources and Land Use, Clean Transportation, Sustainable Water and Wastewater Management, and Green Buildings.	Contribution	
Clean Transportation	No Net Impact	

Improvements of operational performance (processes)

USE OF PROCEEDS	CONTRIBUTION OR OBSTRUCTION	SUSTAINABLE DEVELOPMENT GOALS
Energy Efficiency, Environmentally Sustainable Management of Living Natural Resources and Land Use, Sustainable Water and Wastewater Management, and Green Buildings.	✓	
Energy Efficiency, Environmentally Sustainable Management of Living Natural Resources and Land Use	-	

PART III: ASSESSMENT OF NBB’S ESG RISK MANAGEMENT

The table below evaluates NBB’s ESG-specific risk management measures and policies that are considered relevant for NBB and that are considered relevant in the context of its sustainable financing activities. The KPIs emphasize sustainability-related risks considered relevant to the Bank’s operations and 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 Disclosures](#). 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 NBB’s operations. NBB’s target market is Bahrain, the United Arab Emirates, the Kingdom of Saudi Arabia, Oman, Kuwait, Egypt and Turkey.

ASSESSMENT AGAINST KPIs

ESG investment guidelines for financial institutions

Within its credit policy, NBB has a risk chapter that defines its risk processes. During the credit process, the Bank uses a toolkit that assesses the clients’ risk profile and the respective mitigation measures. NBB defined due diligence processes with regard to project financing and to borrowers. The due diligence process for project financing is aligned with the Equator Principles and applies the assessment against the IFC Performance Standards. Any corporate/project financing taking place will first go through an ESG risk eligibility assessment to determine whether NBB applies the ESG risk assessment toolkit or not. If yes, then the borrower/project will get assessed against several environmental/social criteria to determine the level of risk involved. The toolkit provides a quantitative score from 0 to 100, 0 being very low or ESG risk measures are not in place.

Each financing goes through the business units that add the relevant information to the toolkit on each transaction, while the credit review management department is responsible for reviewing the answers entered by the business units. The projects will be classified according to the risk. The classification is demonstrated in a risk categorization matrix that identifies two levers: i) significance of adverse impact, and ii) reversibility of adverse impact. Significance of impact is rated low, medium or high and reflects the scale and severity of an impact in case it materializes, while reversibility of adverse impact refers to the ability to reverse the negative impact if occurred. The classification would then be classified into three categories:

- Category A: Projects with significant potential adverse impact and scale and limited to no reversibility.
- Category B: Projects with potential adverse impact of single sight scale, with low to medium reversibility.
- Category C: Projects with mild potential adverse impact, and high potential for reversibility.

Depending on the environmental and social impact assessment and environmental and social management plan, the Bank will check the IFC Performance Standards. With the goal of ensuring the continuation of proper application of mitigation strategies for each standard, NBB monitors the project regularly. The mitigation strategies are implemented by the technical and ESG experts. Finally, the ESG risk score of the project alongside a summary sheet is accompanied with the credit proposal, which is sent to the Bank's Management Credit Committee for its review and approval.

ESG guidelines into financing process for most sensitive sectors¹⁹ financed under the Framework

The ESG risk assessment for most sensitive sectors undergoes the same processes as all other sectors. NBB does not have specific processes related to sensitive sectors.

Labor, health and safety



NBB provides internal policies to ensure that high labor, health and safety standards for its financing is established. For the due diligence of the projects the Bank relies on a toolkit that assesses whether each project is in line with the Equator Principles and whether the IFC Performance Standards, the Global Reporting Initiative and the Sustainability Accounting Standards Board (SASB) Standards are met.

Biodiversity and community dialogue



NBB provides internal policies to ensure that all financing under this Framework adheres to the IFC Performance Standards. For the due diligence of the projects, the Bank relies on a toolkit that assesses whether each project is in line with the Equator Principles and whether the IFC Performance Standards, the Global Reporting Initiative and the SASB Standards are met.

Inclusion



The Bank ensures that universal access to projects financed under access to essential/basic services is provided. NBB will only finance public services that are supported through state financing. NBB will become aware of any restrictions during its due diligence process.

Through its Code of Conduct, NBB ensures that borrowers are not discriminated based on gender, age, ethnicity, disability, nationality or language in the access to credit. The Bank has guidelines that define different requirements between Bahrainis and non-Bahrainis in access to credit.

¹⁹ 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.

Data protection and information security



NBB systematically confirms that the data collection processes meet minimum and legal requirements for data and information security. NBB's information security management system is ISO/IEC 27001 certified and adheres to the Payment Card Industry Data Security Standard (PCI-DSS). For outsourced data, NBB ensures that the services are certified and conducts a due diligence process and periodic reviews.

Responsible treatment of customers with debt repayment problems



NBB confirms that foreclosure is undertaken only as a last resort after all alternative options are examined. The Bank offers debt counseling for customers with debt repayment problems. Furthermore, NBB confirms to ensure restructuring of loans under non-detrimental conditions. For retail, types of restructuring offered are 1) reduction of installment in case of drop in income, 2) temporary reduction of instalment in case of short-term financial issues, 3) restructuring by partial write-off or interest waivers, and 4) restructuring by consolidation of debts. For corporate customers, NBB restructures by giving concessions to address the client's distressed situations. These concessions are usually in the form of reduced interest costs, longer tenors or reduced installments matching their revised cashflows.

Sales practices



NBB confirms that all its client-facing employees follow the [Financial Advice Programme](#) offered by the Bahrain Institute of Banking and Finance (BIBF). The program curriculum covers, among other topics, regulations in Bahrain regarding investment advice and ethics for financial advisors. BIBF confirms that the training covers transparency about product features, information on product costs and risks, and product matching the risk appetite and situation of the customer.

NBB monitors sales practices through regular monitoring of grievances and through mystery shopping. Additionally, NBB confirms that ethical business conduct constitutes part of the sales metrics that determine the employees' performance.

Marketing



NBB has a basic commitment in place on responsible marketing and commits to clear and correct pricing. Additionally, retail financing products are criteria driven and any rejection in case of not meeting the criteria is being immediately communicated to clients.

Carbon-related financing

- The Bank does not publicly disclose the amount of carbon-related financing throughout all business units and subsidiaries that are within the scope of the Framework, nor does it calculate carbon related financing. NBB plans to introduce this in its 2024-2026 sustainability strategy.

- NBB has not set targets for reducing its financed emissions mainly due to two factors. First, NBB currently lacks information on its financed emissions levels. This requires the accounting work to take place. Second, the economy in which NBB operates is dependent on hydrocarbons, though it has begun moving toward renewable energy. NBB's role as the national bank of the country is to enable the transition to take place. Divestment and exiting relationships in a market where other banks are not moving at the same pace on is not a viable sustainable method of operation and would stand in the way of the Bank's responsibilities to its shareholders.

Financed emissions

- The Bank does not measure its financed emissions. However, NBB plans to calculate this in the future in line with the Partnership for Carbon Accounting Financials.

Exclusion policy

The Bank's Global Credit Policy sets the boundaries for the exclusion criteria. NBB excludes coal-fired power generation and distribution assets, coal mining and transportation, conflict minerals, extractive industries and mining, military contracting and weapons, nuclear power generation and distribution assets, activities involving modern slavery, forced labor payday loans, gambling, adult entertainment, alcohol, and tobacco.

PART IV: CONSISTENCY OF THE SUSTAINABLE FINANCE FRAMEWORK WITH NBB’S SUSTAINABILITY STRATEGY

Key sustainability objectives and priorities defined by the Bank

TOPIC	NBB APPROACH
<p>Strategic ESG topics</p>	<p>In 2020, NBB developed a three-year sustainability roadmap (2021-2023), reflecting its commitment to integrate environmental and social as well as economic considerations into its operational and business models and to contribute to the Kingdom’s Economic Vision 2030 and a net-zero economy by 2060. Building on the progress achieved, in 2024, NBB developed a new sustainability strategy for 2024-2026. The latter outlines the following six strategic objectives:²⁰</p> <ul style="list-style-type: none"> ▪ Alignment Across NBB's Group. ▪ Business integration, including the development and implementation of a dynamic sustainable finance business model. ▪ Risk management integration, which involves further strengthening the integration of ESG considerations and climate-related financial risk factors into the Group's risk management framework. ▪ People, culture and community, which includes ongoing employee development and well-being, ensuring equitable and inclusive opportunities, and supporting societal prosperity through community investment. ▪ Climate commitment, which foresees the reduction of greenhouse gas emissions across all three scopes, aligning with Bahrain's 2035 emissions target and 2060 net-zero commitment. ▪ Exemplary recognition, which aims to maintain a leadership position in national sustainable actions, becoming a regional benchmark.

²⁰ As outlined in NBB’s [Annual Financial and Sustainability Report 2023](#).

TOPIC	NBB APPROACH
<p>ESG goals/targets</p>	<p>By 2022, NBB reported to have already achieved its targets set for its three-year sustainability roadmap, having embedded sustainability in its governance structure, integrated ESG considerations across departments and expanded its ESG-related products and services.</p> <p>NBB has set targets related to its own operations for energy consumption, water consumption, waste-recycling ratio and for Scope 1 and 2 emissions as per the requirements of its ISO 14001 environmental management system certification. Targets for energy, water consumption and for Scope 1 and 2 emissions reduction are set yearly, compared to the level of the previous year. Additionally, the Bank has a target for waste recycling of 25%. NBB reports its progress in the Annual Financial and Sustainability Report.</p> <p>In line with the reporting requirements set by the Central Bank of Bahrain, NBB is expected to start reporting on its financed emissions starting with the reporting due for the 2024 financial year. As of the date of this SPO, NBB is in the process of appointing an external service provider for the development of the methodology to calculate financed emission and provision of training to NBB staff.</p>
<p>Action plan</p>	<p>NBB has designed a three-year roadmap with defined intermediary milestones, that will guide NBB toward the achievement of its strategic goals.</p>
<p>Climate transition strategy</p>	<p>As per its 2022 Annual Financial and Sustainability Report, climate change was added to the list of material topics for the institution in the respective year. The Bank identified that climate risks it is exposed to are mostly of transitional nature due to policy changes and uncertainties generated by the shift to a low-carbon economy.</p> <p>Climate change as a topic is integrated in the Bank’s overall sustainability governance structure.</p> <p>In 2022, NBB prepared its first report in line with the recommendations of the Task Force on Climate-Related</p>

TOPIC	NBB APPROACH
	<p>Financial Disclosures (TCFD), which provides details on how climate change is integrated into its governance, strategy and risk management, as well as the performance of climate-related metrics compared to set targets. The Bank continued to report in line with TCFD recommendations in 2023.</p> <p>Scope 3 emission currently does not cover financed and/or facilitated emissions. NBB intends to integrate financed emissions in its Scope 3 emissions calculation during 2024 to comply with national disclosure requirements.</p>
<p>Top three areas of breaches of international norms and ESG controversies in the industry²¹</p>	<p>Financial market irregularities, failure to mitigate climate change impacts and failure to prevent money laundering.</p>
<p>Breaches of international norms and ESG controversies by the Bank</p>	<p>At the date of publication and leveraging ISS ESG research, no controversy in which the Bank would be involved has been identified.</p>
<p>Sustainability reporting</p>	<p>The Bank reports on its ESG performance and initiatives annually. The report is prepared following several standards and frameworks:</p> <ul style="list-style-type: none"> ▪ The International Integrated Reporting Framework ▪ The Global Reporting Initiative ▪ The industry standards issued by the Sustainability Accounting Standards Board ▪ Task Force on Climate-Related Financial Disclosures ▪ The ESG Reporting Guide of the Bahrain Bourse and its 32 ESG metrics ▪ The Sustainable Development Goals ▪ Bahrain Economic Vision 2030 ▪ IFRS S1 and S2²²

²¹ Based on a review of controversies identified by ISS ESG over a two-year period, the top three issues that have been reported against companies within the commercial banks and capital markets industry are displayed above. Please note that this is not a company-specific assessment but rather areas that can be of particular relevance for companies within that industry.

²² According to NBB’s Annual Financial and Sustainability Report 2023, alignment with S2 is limited to the environmental section (Natural Capital).

TOPIC	NBB APPROACH
Industry associations, collective commitments	NBB joined the United Nations Global Compact in 2022.
Previous sustainable/sustainability-linked issuances or transactions and publication of sustainable financing framework	-

Rationale for establishing the Sustainable Finance Framework

NBB recognizes the important role that financial institutions play in the transition to a low-carbon economy and wants to contribute to Bahrain’s 2060 net-zero target. Against this background, NBB has integrated sustainability into its business and funding strategy by developing the Sustainable Finance Framework.

The Sustainable Finance Framework is applicable for financing and ESG advisory offered by NBB as well and for the issuance of green, social or sustainability bonds, sukuk (in several formats including senior unsecured or subordinated issuances), loans and other debt instruments. Through its first Sustainable Finance Framework, NBB seeks to enhance its ability to:

- Increase the financing of green and social projects, thereby promoting sustainable practices with positive environmental/social impacts.
- Establish NBB as the partner of choice for various stakeholders within the sustainability space, through providing financing both to pure play companies operating in Bahrain, but also other companies, in their pursuit to becoming more sustainable.
- Gain economic benefits from attracting a wider customer and investor base.

This Sustainable Finance Framework aims to contribute to the sustainable transition toward a low-carbon economy in the Kingdom of Bahrain.

Opinion: *The key sustainability objectives and the rationale for establishing the Sustainable Finance Framework are clearly described by the Bank. The majority of the project categories financed are in line with the Bank’s sustainability objectives.*

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ANNEX 1: Methodology

PART I: REVIEW OF THE SUSTAINABLE FINANCE FRAMEWORK

ISS-Corporate considers 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., ICMA’s Green Bond Principles, Social Bond Principles, Sustainability Bond Guidelines and Sustainability-Linked Bond Principles; the Loan Market Association’s Green Loan Principles, Social Loan Principles and Sustainability-Linked Loan Principles; the UNEP-FI PRB; the Climate Bonds Standard; and 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>1. Objectives, targets and progress</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. The sustainability strategy is expressed by referring to alliances such as the U.N. Sustainable Development Goals, the Paris Agreement or national or regional frameworks.</p>
<p>2. Definition of sustainable financing activities</p>	<p>The sustainable financing strategy should clearly and comprehensively define what transactions are deemed 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 thresholds or impact indicators) while ensuring that other objectives are not harmed.</p>
<p>3. Evaluation and selection process</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</p>

SECTION	ASSESSMENT CRITERIA
	perceived, actual or potential environmental and social risks associated with the relevant project(s).
4. Governance and monitoring	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.
5. Reporting	Relevant reporting should be conducted frequently and, where feasible, made publicly available to communicate classified sustainable transactions, 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.
6. Verification	It is recommended that in connection with the establishment of a sustainable financing framework, banks obtain external reviews. External reviews should be made publicly available.

PART II: ASSESSMENT OF NBB'S SUSTAINABLE FINANCE CLASSIFICATION SYSTEM

This section examines the sustainability quality of each of the parameters included in NBB's sustainable finance classification system and discusses the sustainability quality of the compliant products. To corroborate this assessment and using proprietary methodology, ISS-Corporate identifies the extent to which NBB's eligibility criteria contribute to the U.N. SDGs.

Assessment of the contribution and association to the SDG

The 17 Sustainable Development Goals (SDGs) were endorsed in September 2015 by the United Nations and provide a benchmark for key opportunities and challenges toward a more sustainable future. Using proprietary methodology, the extent to which the Bank's eligible categories contribute to related SDGs has been identified.

PART III: ASSESSMENT OF NBB'S ESG RISK MANAGEMENT

ESG risk management KPIs

The risk management KPIs serve as a structure for evaluating the sustainability quality (i.e., the social and environmental added value) of the proposed selection criteria as well as the Bank's overall financing operations.

It comprises firstly the definition of the selection criteria offering added social and/or environmental value, and secondly the specific sustainability criteria by means of which this added value, and therefore the sustainability performance, can be clearly identified and described.

If a majority of the criteria fulfill the requirement of an indicator, this indicator is then assessed positively. Indicators may be tailor-made to capture the context-specific environmental and social risks. In addition, the KPIs assess sustainability-related risks considered relevant to the Bank's financing operations. The evaluation was carried out based on information and documents provided confidentially by the Bank (e.g., due diligence procedures).

PART IV: SUSTAINABLE FINANCE FRAMEWORK'S LINK TO NBB'S SUSTAINABILITY STRATEGY

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

ANNEX 2: Assessment of the contribution to the SDGs²³

Financial Institutions can contribute to the achievement of the SDGs by financing eligible services/products that help address global sustainability challenges, and by being responsible actors, working to minimize negative externalities in their operations along the entire value chain. This section assesses the SDG impact of the use of proceeds (UoP) categories financed by the Bank in two different ways, depending on whether the proceeds are used to (re)finance:

- Specific products/services
- Improvements of operational performance

1. Products and services


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

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





Each of the sustainable financing instruments’ 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>Renewable Energy</p> <p><i>The generation of electricity from the following renewable sources:</i></p> <ul style="list-style-type: none"> ▪ <i>Solar photovoltaic systems (including floating)</i> ▪ <i>Wind (onshore and offshore)</i> 	<p>Contribution</p>	

²³ The impact of the UoP categories on U.N. SDGs is assessed with proprietary methodology and may therefore differ from the Bank’s description in the Framework.

USE OF PROCEEDS (PRODUCTS/SERVICES)	CONTRIBUTION OR OBSTRUCTION	SUSTAINABLE DEVELOPMENT GOALS
<ul style="list-style-type: none"> Green hydrogen (from electrolysis powered by 100% renewable energy, including wind and solar, or under a GHG emissions threshold of 3 tCO₂e/tH₂)²⁴ Green ammonia (i.e., ammonia produced from green hydrogen, including conversion of conventional ammonia production into green ammonia) Hydroelectric: Run-of-river plants with a capacity of less than 1 GW and either generating no more than 5 W/m² or having emissions intensity of less than 100 gCO₂e/kWh²⁵ 	<p style="text-align: center;">Contribution</p>	
<p>Renewable Energy</p> <p>The generation of electricity from the following renewable sources:</p> <ul style="list-style-type: none"> Concentrated solar heat and power generation, where large majority of electricity (more than 85%) generated from the facility is derived from solar energy sources 		
<p>Renewable Energy²⁶</p> <p>The generation of electricity from the following renewable sources:</p> <ul style="list-style-type: none"> Biofuels produced from waste sources such as cooking oil 		

²⁴ The Bank will align with Section 3.10 of the [EU Taxonomy's technical screening criteria](#) for the manufacture of hydrogen, where the GHG emissions threshold is being used as the qualifying criteria.

²⁵ The Bank confirms the exclusion of artificial reservoirs.

²⁶ The assessment is limited to the examples of projects spelled out in the Framework.

USE OF PROCEEDS (PRODUCTS/SERVICES)	CONTRIBUTION OR OBSTRUCTION	SUSTAINABLE DEVELOPMENT GOALS
<ul style="list-style-type: none"> Biomass from sustainable feedstock only.²⁷ <p>Renewable Energy²⁸</p> <p>The manufacture of components for renewable energy technology:</p> <ul style="list-style-type: none"> Development and/or manufacture of renewable energy technologies and associated assets wholly dedicated and used to support renewable energy generation facilities, including equipment for renewable energy generation and energy storage. Examples could include wind turbines, solar panels, battery storage connected to renewables and wind turbine installation vessels. 	<p style="text-align: center;">Contribution</p>	
<p>Energy Efficiency</p> <p>Projects that reduce energy consumption by at least 20% compared to the average of national energy consumption of an equivalent project or technology, such as:</p> <ul style="list-style-type: none"> District cooling systems: energy-efficient air conditioning systems powered by at least 50% renewable energy or 50% waste heat or 75% cogenerated heat or 50% of a combination of such energy and heat²⁹ 		<p style="text-align: center;">Contribution</p> 

²⁷ Where feedstock is from sustainable sources of local raw material that are sourced from agricultural residues or forestry residue and do not deplete existing terrestrial carbon pools or compete with food production. Eligible biofuels/biomass projects are those that target converting feedstock to energy through anaerobic digestion.


²⁸ The assessment is limited to the examples of projects spelled out in the Framework.

²⁹ The eligibility criteria mentioned under this category is aligned with the technical screening criteria of Activity 4.15 of the EU Taxonomy.

USE OF PROCEEDS (PRODUCTS/SERVICES)	CONTRIBUTION OR OBSTRUCTION	SUSTAINABLE DEVELOPMENT GOALS
<ul style="list-style-type: none"> Investment in smart energy meters and management systems <p>Energy Efficiency</p> <p>Projects that reduce energy consumption by at least 20% compared to the average of national energy consumption of an equivalent project or technology, such as:</p> <ul style="list-style-type: none"> Investment in smart energy grids and battery storage facilities for renewable energy³⁰ 	<p>Contribution</p>	
<p>Pollution Prevention and Control</p> <p>Projects related to construction, upgrades and renovation of facilities for collection, sorting, processing and conversion and treatment of waste:</p> <ul style="list-style-type: none"> Development of waste collection and waste storage facilities Development of industrial and non-industrial hazardous waste management and treatment plants Waste sorting, separation and material recovery Waste prevention, waste reduction and waste recycling, including the development, operation and upgrade of recycling plants and activities, such as for metals, plastic and paper Biological treatment plants (including anaerobic digestion and composting facilities)³¹ 		<p>Contribution</p>

³⁰ The allocation of proceeds would take place based on one of the following criteria: 1) if the project is to finance battery storage facilities with a minimum of 90% from renewable energy, the full allocation would take place; 2) if the project is to finance battery storage facilities with a threshold lower than 90% from renewable energy, then allocation would take place on pro-rata basis (i.e., if 50% of the storage facility is of renewable energy, then 50% allocation would take place).

³¹ This can be for both the production of biogas through anaerobic digestion and energy generation based on biogas with feedstock in line with the criteria listed for biogas in the Renewable Energy category.

USE OF PROCEEDS (PRODUCTS/SERVICES)	CONTRIBUTION OR OBSTRUCTION	SUSTAINABLE DEVELOPMENT GOALS
<p>Pollution Prevention and Control</p> <p><i>Projects related to construction, upgrades and renovation of facilities for collection, sorting, processing and conversion and treatment of waste:</i></p> <ul style="list-style-type: none"> Waste to energy from municipal solid waste, only where bottom ash recovery and removal of all recyclables and hazardous materials prior to incineration is ensured³² 	<p>Contribution</p>	
<p>Clean Transportation</p> <p><i>Investments and expenditure in low energy consuming or low emission transportation, including:</i></p> <ul style="list-style-type: none"> Consumer vehicles, trucks, commercial vehicles³³ and public transportation such as buses and taxis, may include other public transportation methods such as metros and trains: <ul style="list-style-type: none"> Under 75 gCO₂/p-km up to 2020, and 50 gCO₂/p-km thereafter up till 2030, or³⁴ Freight transportation, including rail (under 25 gCO₂/t-km up till 2030, 21 gCO₂/t-km from 2030 up to 2050)³⁵ 	<p>No Net Impact</p>	


³² The Bank will align with the CBI’s [Waste Management Criteria](#) for facilities producing electric and/or heat via the combustion of municipal solid waste.

³³ The Bank defines commercial vehicles as those where NBB provides financing to a company, whereas consumer vehicles relate to individuals. Who is borrowing the funds will ultimately define commercial or consumer.


³⁴ Nonelectric vehicles will meet the following criteria: passenger cars and public rail transportation (under 75 gCO₂/p-km up to 2020, and 50 gCO₂/p-km thereafter up till 2030).

³⁵ Nonelectric vehicles will meet the following criteria: freight transportation (under 25 gCO₂/t-km up till 2030, 21 gCO₂/t-km from 2030 up to 2050). The thresholds have been aligned with the IEA 2-degree scenario criteria.



USE OF PROCEEDS (PRODUCTS/SERVICES)	CONTRIBUTION OR OBSTRUCTION	SUSTAINABLE DEVELOPMENT GOALS	
<p>Clean Transportation</p> <p><i>Investments and expenditure into development and production of electric vehicles (EVs), including construction of new dedicated manufacturing facilities and upgrading and retrofitting of existing facilities for the purpose of expanding production, as well as the manufacture or development of specialized parts, such as EV batteries.</i></p>	<p>Contribution</p>		
<p>Sustainable Water and Wastewater Management</p> <p><i>Activities that improve water quality:</i></p> <ul style="list-style-type: none"> ▪ <i>Water and wastewater treatment plants (WWTP) and facilities, including reuse of WWTP effluents</i> ▪ <i>Wastewater discharge infrastructure, including sewer systems and pumping stations</i> ▪ <i>Desalination plants powered by electricity with an average carbon intensity at or below 100 gCO_{2e}/kWh over the residual asset life or desalination plants primarily powered by low-carbon sources, such as renewables</i> ▪ <i>Projects related to sustainable urban drainage and that improve flood control</i> 		<p>Contribution</p>	
<p>Green Buildings</p> <p><i>New and existing residential, commercial or mixed-use buildings that meet the minimum external green building certification level of either:</i></p> <ul style="list-style-type: none"> ▪ <i>LEED Silver or above</i> ▪ <i>BREEAM Very Good or above</i> 			<p>Contribution</p>

USE OF PROCEEDS (PRODUCTS/SERVICES)	CONTRIBUTION OR OBSTRUCTION	SUSTAINABLE DEVELOPMENT GOALS
<ul style="list-style-type: none"> ▪ <i>Estidama, Pearl Building Rating System in the Emirate of Abu Dhabi 2 Pearl Rating or above</i> ▪ <i>Global Sustainability Assessment System 4 star or above</i> ▪ <i>Mostadam Silver or above</i> ▪ <i>Al Sa'fat, Dubai Green Building System in the Emirate of Dubai Golden</i> <p>Green Buildings</p> <ul style="list-style-type: none"> ▪ <i>Projects related to acquisition, development, construction and refurbishment of buildings belonging to the top 15% in terms of energy efficiency of their local market³⁶</i> ▪ <i>Projects related to acquisition, development, construction and refurbishment of data centers with a PUE of under 1.5</i> 	<p>Contribution</p>	

SOCIAL CATEGORIES

USE OF PROCEEDS (PRODUCTS/SERVICES)	CONTRIBUTION OR OBSTRUCTION	SUSTAINABLE DEVELOPMENT GOALS
<p>Access to Essential Services (Healthcare)</p> <p><i>Projects related to the construction or expansion of hospitals, primary care facilities, affiliated with the relevant national healthcare system, for the:</i></p>	<p>Contribution</p>	

³⁶ Financing under this criteria to take place only upon the establishment of the top 15% threshold as defined by the relevant government, government affiliates or third-party accredited institutions.

USE OF PROCEEDS (PRODUCTS/SERVICES)	CONTRIBUTION OR OBSTRUCTION	SUSTAINABLE DEVELOPMENT GOALS
<ul style="list-style-type: none"> ▪ <i>Distribution of healthcare equipment³⁷ and healthcare services</i> ▪ <i>Infrastructure for the provision of emergency medical response and disease control services</i> <p><i>Target population:</i> <i>General population, irrespective of income.</i></p>	<p>Contribution</p>	
<p>Access to Essential Services (Education)</p> <p><i>Projects related to the construction or expansion of schools affiliated with the relevant national education system, for child, youth or adult education and vocational training services.</i></p> <p><i>Target population:</i> <i>General population, irrespective of income.</i></p>		
<p>Access to Essential Services (Other)</p> <p><i>Projects related to provision of essential public services, including manufacturing of firefighting and other emergency equipment.³⁸</i></p> <p><i>Target population:</i> <i>General population, irrespective of income.</i></p>		

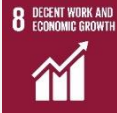


³⁷ The assessment is limited to the examples of projects spelled out in the Framework.

³⁸ Ibid.

USE OF PROCEEDS (PRODUCTS/SERVICES)	CONTRIBUTION OR OBSTRUCTION	SUSTAINABLE DEVELOPMENT GOALS
<p>Affordable Housing</p> <p><i>Financing and/or refinancing of government-supported or government-subsidized mortgages for the provision of affordable housing under such programs.³⁹</i></p> <p><i>Target population:</i></p> <p><i>Populations meeting the criteria for government-supported affordable housing mortgage financing scheme.</i></p>	<p>Contribution</p>	
<p>Affordable Housing</p> <p><i>Financing and/or refinancing of government-supported or government-subsidized mortgages for the provision of affordable housing under partnership with Eskan Bank.</i></p> <p><i>Target population:</i></p> <p><i>Populations meeting the criteria for government-supported affordable housing mortgage financing scheme.</i></p>		  
<p>Affordable Housing</p> <p><i>Financing and/or refinancing of projects related to the development and construction of homes covered under government-supported or government-subsidized programs.⁴⁰</i></p>		  


³⁹ The assessment is limited to the example spelled out in the Framework (Bahrain’s Mazaya program).

⁴⁰ The assessment is limited to the example spelled out in the Framework. A positive assessment was awarded based on the additional information provided by NBB regarding the program currently implemented with Eskan Bank. Eskan Bank is a public bank with a clear mandate to support the development of social housing (and can be considered a pure player). The programs provided as examples implement caps regarding the income of eligible applicants and the price to which the units can be sold. The housing units are intended for primary residence only.

USE OF PROCEEDS (PRODUCTS/SERVICES)	CONTRIBUTION OR OBSTRUCTION	SUSTAINABLE DEVELOPMENT GOALS
<p><i>Target population:</i></p> <p><i>Populations meeting the criteria for government-supported affordable housing mortgage financing scheme.</i></p>	<p style="text-align: center;">Contribution</p>	
<p>Employment Generation</p> <p><i>Financing and/or refinancing of loans to micro, small and medium enterprises (MSME) and microfinance clients.</i></p> <p><i>Target population:</i></p> <p><i>MSMEs.⁴¹</i></p>		
<p>Employment Generation</p> <p><i>Financing and/or refinancing of loans to MSME and microfinance clients, targeted at women.</i></p> <p><i>Target population:</i></p> <p><i>Women-owned and women-focused MSMEs.⁴²</i></p>		
<p>Employment Generation, and programs designed to prevent and/or alleviate unemployment stemming from socioeconomic crises</p> <p><i>Financing and/or refinancing of loans to MSMEs, dedicated to emergency response to a crisis (health crises, natural disasters and emergency situations) to alleviate unemployment and/or provide financial support. It</i></p>		

⁴¹ Defined in line with the Kingdom of Bahrain’s Ministry of Industry and Commerce’s definition of MSMEs.

⁴² Defined in line with the Kingdom of Bahrain’s Ministry of Industry and Commerce’s definition of MSMEs. With at least 51% women ownership.

USE OF PROCEEDS (PRODUCTS/SERVICES)	CONTRIBUTION OR OBSTRUCTION	SUSTAINABLE DEVELOPMENT GOALS
<p><i>includes provision of supportive measures, including extension of payment periods (deferred payments program) and exemption of facility fees during natural disasters and pandemics.</i></p> <p><i>Target population:</i></p> <p><i>MSMEs⁴³ whose economic activities have been affected by pandemics and natural disasters.</i></p>	<p style="text-align: center;">Contribution</p>	
<p>Food Security and Sustainable Food Systems</p> <p><i>Activities which enhance food security:</i></p> <p><i>Investment in the manufacture,⁴⁴ logistics, provision and distribution of food and nutritional supplements in developing, but not high-income, countries as per the U.N.'s World Economic Situation and Prospects report, where there is an explicit need to tackle food security or food loss that will be affordable to all regardless of ability to pay.⁴⁵</i></p> <p><i>Target population:</i></p> <p><i>Population in developing countries as per the U.N.'s World Economic Situation and Prospects report regardless of ability to pay.</i></p>		

⁴³ Defined in line with the Kingdom of Bahrain’s Ministry of Industry and Commerce’s definition of MSMEs.


⁴⁴ Where the manufacture of food and nutritional supplements refers to the financing of companies that provide food to aid agencies in the targeted countries.

⁴⁵ Where the provision of financing is exclusively for food producers and/or distributors that deliver to aid agencies in the targeted region. Examples of eligible aid agencies include but are not limited to the World Food Programme, the Hunger Project, UNICEF and Feed the Children. The assessment is limited to the example spelled out in the Framework.

USE OF PROCEEDS (PRODUCTS/SERVICES)	CONTRIBUTION OR OBSTRUCTION	SUSTAINABLE DEVELOPMENT GOALS
<p>Food Security and Sustainable Food Systems</p> <p><i>Activities that enhance food security:</i></p> <ul style="list-style-type: none"> Investment in infrastructure such as warehouses aimed at providing adequate storage, improved food conservation or connectivity in the food chain for reducing food loss⁴⁶ <p><i>Target population:</i></p> <p>Population in developing countries as per the U.N.'s World Economic Situation and Prospects report.</p>	<p>Contribution</p>	
<p>Food Security and Sustainable Food Systems</p> <p><i>Support to smallholder farmers, including equipment and facilities that help prevent food loss and waste, improve productivity and increase market access to smallholder producers.</i></p> <p><i>Target population:</i></p> <p>Smallholder farmers.⁴⁷</p>	<p>Contribution</p>	

⁴⁶ NBB will on a best-efforts basis ensure that the relevant technical and due diligence reports include an analysis of the foreseen impact to reduce food waste and improve food security.

⁴⁷ Smallholders as defined by the [Food and Agriculture Organization of the United Nations](#) as those farming on less than 10 hectares of land on average.

USE OF PROCEEDS (PRODUCTS/SERVICES)	CONTRIBUTION OR OBSTRUCTION	SUSTAINABLE DEVELOPMENT GOALS
<p>Food Security and Sustainable Food Systems</p> <p><i>Provision of capacity building and training programs with a clear focus on sustainable improved agriculture resilience, productivity and efficiency.</i></p> <p><i>Target population: Smallholder farmers.⁴⁸</i></p>	<p>Contribution</p>	

2. Improvements of operational performance (processes)

The below assessment qualifies the direction of change (or “operational impact improvement”) resulting from the operational performance projects (re)financed by the UoP categories, as well as related U.N. SDGs impacted. The assessment displays how the UoP categories mitigate the exposure to the negative externalities relevant to the Bank’s business model and sector.

NBB finances operations/processes in third-party sectors that are not listed in the Bank’s Framework. As such, ISS ESG is not in a position to display the exposure to negative externalities linked to the sector of the operations/processes financed. Negative externalities, if present, could have an impact on the overall sustainability quality of the issuance.

The table below displays 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 ⁴⁹	SUSTAINABLE DEVELOPMENT GOALS
<p>Energy Efficiency</p> <p><i>Projects that reduce energy consumption by at least 20% compared to the average of national energy consumption of an equivalent project or technology, such as:</i></p>		

⁴⁸ Ibid.

⁴⁹ Limited information is available on the scale of the improvement as no threshold is provided. Only the direction of change is displayed.

USE OF PROCEEDS (PROCESSES)	OPERATIONAL IMPACT IMPROVEMENT ⁴⁹	SUSTAINABLE DEVELOPMENT GOALS
<ul style="list-style-type: none"> Upgrade in grid infrastructure to improve electricity transmission efficiency and reduce transmission losses Investment in smart energy grid 		

Energy Efficiency

Projects that reduce energy consumption by at least 20% compared to the average of national energy consumption of an equivalent project or technology, such as:

- Upgrading older generation (3G/4G) telecommunications infrastructure and networks to 5G⁵⁰

-

Environmentally Sustainable Management of Living Natural Resources and Land Use

Improving the energy efficiency of irrigation.



Environmentally Sustainable Management of Living Natural Resources and Land Use

- Investments in improved farming techniques and equipment that improve yields and reduce inputs such as water, pesticides and fertilizers.
- Examples include:
 - Crop sensors
 - Vertical farming, only when coupled with the implementation of strong energy efficiency measures and renewable energy procurement
 - No-till farming systems

-

⁵⁰ The assessment is No Net Impact because despite the improved energy efficiency, high usage still leads to high energy consumption.

USE OF PROCEEDS (PROCESSES)	OPERATIONAL IMPACT IMPROVEMENT ⁴⁹	SUSTAINABLE DEVELOPMENT GOALS
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- *Agricultural practices that use no synthetic fertilizers and pesticides*

Environmentally Sustainable Management of Living Natural Resources and Land Use

- *Investments in improved farming techniques and equipment that improve yields and reduce inputs such as water, pesticides and fertilizers.*
- *Examples include:*
 - *Hydroponics or aeroponics, only when coupled with the implementation of strong energy efficiency measures and renewable energy procurement*
 - *Crop rotation for the purpose of carbon sequestration and nitrogen accumulation⁵¹*



Sustainable Water and Wastewater Management

Activities that increase water-use efficiency:

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



Green Buildings

Refurbished buildings that achieve a minimum 30% improvement in energy use and/or carbon emissions⁵²



⁵¹ NBB will on a best-efforts basis seek to obtain third-party verification on the effectiveness of relevant sequestration projects.
⁵² The Bank confirms that it will require design plan proof/certification and will track performance of any related projects to ensure the 30% threshold is met, otherwise projects will be declassified as being sustainable.

ANNEX 3: Quality management processes

SCOPE

NBB commissioned ISS-Corporate 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-labeled products, including:

- ICMA's Green Bond Principles, Social Bond Principles, Sustainability Bond Guidelines and Sustainability-Linked Bond Principles
- The LMA's Green Loan Principles, Social Loan Principles and Sustainability-Linked Loan Principles
- UNEP-FI PRB
- Climate Bonds Standard V4.0
- Guidelines proposed by the European Banking Authority with respect to environmentally sustainable lending

CLIENT'S RESPONSIBILITY

NBB's responsibility was to provide information and documentation on:

- Sustainable Finance Framework
- ESG impact and risk management
- Governance procedures

ISS-CORPORATE'S VERIFICATION PROCESS

Since 2014, ISS Group, which ISS-Corporate is part of, 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-Corporate has conducted this independent External Review of NBB's Sustainable Finance Framework based on proprietary methodology and in line with market practices and relevant market standards for sustainable finance.

The engagement with NBB took place from January to December 2024.

ISS-CORPORATE'S BUSINESS PRACTICES

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

As part of our sustainable (green and social) bond services, we provide support for companies and institutions issuing sustainable bonds, advise them on the selection of categories of projects to be financed and help them to define ambitious criteria.

ISS-Corporate provides External Review services for sustainable financing and responsible investment strategies by assessing the robustness of its client’s frameworks.

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

For more information on External Review services, contact: SPOsales@iss-corporate.com.

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