

SECOND PARTY OPINION (SPO)

Sustainability Quality of the Issuer and Sustainable Finance Framework

National Bank of Bahrain BSC

23 December 2024

VERIFICATION PARAMETERS

Type(s) of instruments contemplated

- Sustainable financing instruments

Relevant standards

- Green Bond Principles (GBP), as administered by ICMA (as of June 2021 with June 2022 Appendix 1)
- Social Bond Principles (SBP), as administered by ICMA (as of June 2023)
- Green and Social Loan Principles, as administered by the LMA (as of February 2023)

Scope of verification

- National Bank of Bahrain BSC's Sustainable Finance Framework (as of Dec. 22, 2024)
- National Bank of Bahrain BSC's eligibility criteria (as of Dec. 22, 2024)

Lifecycle

- Pre-issuance verification

Validity

- Valid as long as the cited Framework remains unchanged

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SCOPE OF WORK

National Bank of Bahrain BSC (“the Bank,” “the Financial Institution” or “NBB”) commissioned ISS-Corporate to assist with its sustainable financing instruments by assessing three core elements to determine the sustainability quality of the instruments:

1. NBB’s Sustainable Finance Framework (as of Dec. 22, 2024), benchmarked against the International Capital Market Association’s (ICMA) Green Bond Principles (GBP), Social Bond Principles (SBP) and Sustainability Bond Guidelines (SBG), and the Loan Market Association’s (LMA) Green Loan Principles (GLP) and Social Loan Principles (SLP).
2. The eligibility criteria — whether the project categories contribute positively to the United Nations Sustainable Development Goals (U.N. SDGs) and how they perform against proprietary issuance-specific key performance indicators (KPIs) (see Annex 1).
3. Consistency of sustainable financing instruments with NBB’s sustainability strategy, drawing on the key sustainability objectives and priorities defined by the Issuer/Borrower.

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 companies¹ 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.

¹ 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



SPO SECTION	SUMMARY	EVALUATION ²
<p>Part I:</p> <p>Alignment with GBP/SBP/ GLP/SLP</p>	<p>The Issuer has defined a formal concept for its sustainable financing instruments regarding use of proceeds, processes for project evaluation and selection, management of proceeds and reporting. This concept is in line with the GBP, SBP, GLP and SLP.</p> <p><i>*Certain criteria of Energy Efficiency,³ Environmentally Sustainable Management of Living Natural Resources and Land Use⁴ and Clean Transportation⁵ are assessed as providing no clear environmental and/or social benefits according to ISS-Corporate’s methodology (see Part II of this report). However, as there are currently several national and international initiatives and the definition of green might vary depending on sector and geography, it is recognized that those categories might be considered eligible green or social categories by investors.</i></p>	<p>Aligned with exceptions *</p>
<p>Part II:</p> <p>Sustainability quality of the eligibility criteria</p>	<p>The sustainable financing instruments will (re)finance the following eligible asset categories:</p> <p>Green categories: 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.</p> <p>Social categories: Access to Essential Services; Affordable Housing; Employment Generation, and programs designed to prevent and/or alleviate</p>	<p>Positive</p>

² The evaluation is based on NBB’s Sustainable Finance Framework (December 2024 version), on the analyzed selection criteria as received on Dec. 22, 2024.

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

⁴ 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, and agricultural practices that use no synthetic fertilizers and pesticides.

⁵ Consumer vehicles, trucks, commercial vehicles and public transportation such as buses and taxis, may include other public transportation methods such as metros and trains: under 75 gCO₂/p-km up to 2020, and 50 gCO₂/p-km thereafter up till 2030, or freight transportation, including rail (under 25 gCO₂/t-km up till 2030, 21 gCO₂/t-km from 2030 up to 2050).

	<p>unemployment stemming from socioeconomic crises; Food Security and Sustainable Food Systems.</p> <p>Product and/or service-related use of proceeds categories⁶ individually contribute to one or more of the following SDGs:</p>  <p>Process-related use of proceeds categories⁷ individually (i) improve the Issuer's/Borrower's operational impacts and (ii) mitigate potential negative externalities of the Issuer's/Borrower's sector on one or more of the following SDGs:</p>  <p>For certain criteria of Clean Transportation⁸ there is no evidence of an environmental/social contribution or of an improvement on the Issuer and/or end users' potential negative externalities.</p> <p>The environmental and social risks associated with the use of proceeds categories are managed.</p>	
<p>Part III:</p>	<p>The key sustainability objectives and the rationale for issuing sustainable financing instruments are clearly described by the Issuer. The majority of the</p>	<p>Consistent with Issuer's</p>

⁶ 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.

⁷ Energy Efficiency, Environmentally Sustainable Management of Living Natural Resources and Land Use, Sustainable Water and Wastewater Management, and Green Buildings.

⁸ Consumer vehicles, trucks, commercial vehicles and public transportation: (i) under 75 gCO₂/p-km up to 2020, and 50 gCO₂/p-km thereafter up till 2030, or freight transportation, including rail (under 25 gCO₂/t-km up till 2030, 21 gCO₂/t-km from 2030 up to 2050).

SECOND PARTY OPINION


Sustainability Quality of the Issuer
and Sustainable Finance Framework

Consistency of sustainable finance liabilities instruments with NBB's sustainability strategy	project categories considered are in line with the Issuer's sustainability objectives. At the date of publication of the report and leveraging ISS ESG research, no severe controversies have been identified.	sustainability strategy
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SPO ASSESSMENT

PART I: ALIGNMENT WITH GBP, SBP, GLP AND SLP

This section evaluates the alignment of the NBB’s Sustainable Finance Framework (as of Dec. 22, 2024) with the Green Bond Principles, Social Bond Principles, Green Loan Principles and Social Loan Principles.

GBP, SBP, GLP, SLP	ALIGNMENT	OPINION
<p>1. Use of Proceeds</p>	<p> * with exceptions</p>	<p>The Use of Proceeds description provided by NBB’s Sustainable Finance Framework is aligned* with exceptions with the GBP, SBP, GLP and SLP.</p> <p>The Issuer’s green and social categories align with the project categories as proposed by the GBP, SBP, GLP and SLP. Criteria are defined clearly and transparently. Disclosure of an allocation period and commitment to report by project category has been provided and environmental and social benefits are described and quantified. The Issuer defines exclusion criteria for harmful projects categories, in line with best market practice.</p> <p>The Issuer/Borrower defines a lookback period of three years, in line with best market practice.</p> <p><i>*Certain criteria of Energy Efficiency,⁹ Environmentally Sustainable Management of Living Natural Resources and Land Use¹⁰ and Clean Transportation¹¹ are assessed as providing no clear environmental and/or social benefits according to ISS-Corporate’s methodology (see Part II of this report). However, as there are currently several national and international initiatives and the definition of green might vary depending on sector and geography, it is recognized</i></p>

⁹ Upgrading older generation (3G/4G) telecommunications infrastructure and networks to 5G.

¹⁰ 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, and agricultural practices that use no synthetic fertilizers and pesticides.

¹¹ Consumer vehicles, trucks, commercial vehicles and public transportation such as buses and taxis, may include other public transportation methods such as metros and trains: under 75 gCO₂/p-km up to 2020, and 50 gCO₂/p-km thereafter up till 2030, or freight transportation, including rail (under 25 gCO₂/t-km up till 2030, 21 gCO₂/t-km from 2030 up to 2050)

		<p><i>that those categories might be considered eligible green or social categories by investors.</i></p>
<p>2. Process for Project Evaluation and Selection</p>	<p>✓</p>	<p>The Process for Project Evaluation and Selection description provided by NBB’s Sustainable Finance Framework is aligned with the GBP, SBP, GLP and SLP.</p> <p>The project selection process is defined and structured in a congruous manner. ESG risks associated with the project categories are identified and managed appropriately. Moreover, the projects selected show alignment with the Issuer’s sustainability strategy and clearly show the intended benefit to the relevant population.</p> <p>The Issuer/Borrower identifies alignment of its Sustainable Finance Framework and green projects with the EU Taxonomy and references any green standards or certifications used, in line with best market practice.</p> <p>The Bank involves various stakeholders in this process, in line with best market practice.</p>
<p>3. Management of Proceeds</p>	<p>✓</p>	<p>The Management of Proceeds provided by NBB’s Sustainable Finance Framework is aligned with the GBP, SBP, GLP and SLP.</p> <p>The net proceeds collected will equal the amount allocated to eligible projects, with no exceptions. The net proceeds are tracked appropriately and attested in a formal internal process. The net proceeds are managed per bond (bond-by-bond approach) or on an aggregated basis for multiple green bonds (portfolio approach), as appropriate. Moreover, the Issuer discloses the temporary investment instruments for unallocated proceeds.</p> <p>The Issuer/Borrower commits to segregate the proceeds collected by having them earmarked toward specific projects as a temporary measure.</p>

		<p>The Issuer/Borrower has defined an expected allocation period of two years, in line with best market practice.</p> <p>The Issuer/Borrower discloses on the portfolio balance of unallocated proceeds, in line with best market practice.</p>
<p>4. Reporting</p>	<p>✓</p>	<p>The allocation and impact reporting provided by NBB's Sustainable Finance Framework is aligned with the GBP, SBP, GLP and SLP.</p> <p>The Issuer commits to disclose the allocation of proceeds transparently and to report with appropriate frequency. The reporting will be publicly available on the Issuer's website. NBB explains the type of information that will be reported and that the level of expected reporting will be at the project category level. Moreover, the Issuer commits to report annually until the bond matures or until the proceeds have been fully allocated.</p> <p>The Issuer/Borrower discloses roles and responsibilities in the monitoring and reporting process, in line with best market practice.</p> <p>The Issuer/Borrower is transparent on the information reported and further defines the duration, scope and frequency of the impact reporting, in line with best market practice.</p> <p>The Issuer commits to have the allocation report audited by an external party, in line with best market practices.</p>

PART II: SUSTAINABILITY QUALITY OF THE ELIGIBILITY CRITERIA

A. CONTRIBUTION OF THE SUSTAINABLE FINANCING INSTRUMENTS TO THE U.N. SDGs¹²

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 Issuer 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 the ISS ESG SDG Solutions Assessment (SDGA), a proprietary methodology designed to assess the impact of an Issuer'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>	<p>Contribution</p>	 

¹² The impact of the UoP categories on U.N. Sustainable Development Goals is assessed with proprietary methodology and may therefore differ from the Issuer's description in the Framework.

- *Solar photovoltaic systems (including floating)*
- *Wind (onshore and offshore)*
- *Green hydrogen (from electrolysis powered by 100% renewable energy, including wind and solar, or under a GHG emissions threshold of 3 tCO₂e/tH₂)¹³*
- *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/kWh¹⁴*

Renewable Energy

The generation of electricity from the following renewable sources:

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

Renewable Energy¹⁵

The generation of electricity from the following renewable sources:

- *Biofuels produced from waste sources such as cooking oil*

Contribution



Contribution



¹³ The Issuer 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.

¹⁴ The Issuer confirms the exclusion of artificial reservoirs.

¹⁵ The assessment is limited to the examples of projects spelled out in the Framework.

- *Biomass from sustainable feedstock only.*¹⁶

Renewable Energy¹⁷

The manufacture of components for renewable energy technology:

- *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.*

Contribution



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:

- *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 heat*¹⁸
- *Investment in smart energy meters and management systems*

Contribution



¹⁶ Where feedstock is from sustainable sources of local raw material that is sourced from agricultural residues or forestry residue and does 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.

¹⁷ The assessment is limited to the examples of projects spelled out in the Framework.

¹⁸ The eligibility criterion mentioned under this category is aligned with the Technical Screening Criteria of Activity 4.15 of the EU Taxonomy.

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:

- *Investment in smart energy grids and battery storage facilities for renewable energy¹⁹*

Pollution Prevention and Control

Projects related to construction, upgrades and renovation of facilities for collection, sorting, processing and conversion and treatment of waste:

- *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)²⁰*

Pollution Prevention and Control

Projects related to construction, upgrades and renovation of facilities for collection, sorting, processing and conversion and treatment of waste:

Contribution



Contribution



Contribution



¹⁹ 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).

²⁰ 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.

- Waste to energy from municipal solid waste, only where bottom ash recovery and removal of all recyclables and hazardous materials prior to incineration is ensured²¹

Clean Transportation

Investments and expenditure in low energy consuming or low emission transportation, including:

- Consumer vehicles, trucks, commercial vehicles²² and public transportation such as buses and taxis, may include other public transportation methods such as metros and trains:
 - Under 75 gCO₂/p-km up to 2020, and 50 gCO₂/p-km thereafter up till 2030, or²³
- Freight transportation, including rail (under 25 gCO₂/t-km up till 2030, 21 gCO₂/t-km from 2030 up to 2050)²⁴

**No
Net Impact**

Clean Transportation

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.

Contribution



²¹ The Issuer will align with the [CBI's Waste Management Criteria](#) for facilities producing electric and/or heat via the combustion of municipal solid waste.

²² The Issuer 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.

²³ 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).

²⁴ 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.

Sustainable Water and Wastewater Management

Activities that improve water quality:

- *Water and wastewater treatment plants (WWTP) and facilities, including reuse of WWTP effluents*
- *Wastewater discharge infrastructure, including sewer systems and pumping stations*
- *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*
- *Projects related to sustainable urban drainage and that improve flood control*

Contribution



Green Buildings

New and existing residential, commercial or mixed-use buildings that meet the minimum external green building certification level of either:

- *LEED Silver or above*
- *BREEAM Very Good or above*
- *Estidama, Pearl Building Rating System in the Emirate of Abu Dhabi 2 Pearl Rating or above*
- *Global Sustainability Assessment System (GSAS) 4 star or above*
- *Mostadam Silver or above*
- *Al Sa'fat, Dubai Green Building System in the Emirate of Dubai Golden*

Contribution



Green Buildings


- *Projects related to acquisition, development, construction and refurbishment of buildings belonging to the top 15% in*

Contribution



<p><i>terms of energy efficiency of their local market²⁵</i></p> <ul style="list-style-type: none"> ▪ <i>Projects related to acquisition, development, construction and refurbishment of data centers with a PUE of under 1.5</i> 		
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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> <ul style="list-style-type: none"> ▪ <i>Distribution of healthcare equipment²⁶ and healthcare services</i> ▪ <i>Infrastructure for the provision of emergency medical response and disease control services</i> <p><i>Target population:</i></p> <p><i>General population, irrespective of income</i></p>	<p>Contribution</p>	

²⁵ 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.

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

Access to Essential Services (Education)

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.

Target population:

General population, irrespective of income

Contribution



Access to Essential Services (Other)

Projects related to provision of essential public services, including manufacturing of firefighting and other emergency equipment.²⁷

Target population:

General population, irrespective of income

Contribution



Affordable Housing

Financing and/or refinancing of government-supported or government-subsidized mortgages for the provision of affordable housing under such programs.²⁸

Target population:

Populations meeting the criteria for government-supported affordable housing mortgage financing scheme

Contribution



Affordable Housing

Financing and/or refinancing of government-supported or government-

Contribution



²⁷ Ibid.

²⁸ The assessment is limited to the example spelled out in the Framework (Bahrain's Mazaya program).

subsidized mortgages for the provision of affordable housing under partnership with Eskan Bank.

Target population:

Populations meeting the criteria for government-supported affordable housing mortgage financing scheme

Affordable Housing

Financing and/or refinancing of projects related to the development and construction of homes covered under government-supported or government-subsidized programs.²⁹

Target population:

Populations meeting the criteria for government-supported affordable housing mortgage financing scheme

Employment Generation

Financing and/or refinancing of loans to micro, small and medium enterprises (MSME) and microfinance clients.

Target population:

MSMEs³⁰

Employment Generation

Financing and/or refinancing of loans to MSME and microfinance clients, targeted at women.

Contribution

Contribution

Contribution



²⁹ 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.

³⁰ Defined in line with the Kingdom of Bahrain’s Ministry of Industry and Commerce’s definition of MSMEs.

Target population:

Women-owned and women-focused MSMEs.³¹

Employment Generation, and programs designed to prevent and/or alleviate unemployment stemming from socioeconomic crises

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 includes provision of supportive measures, including extension of payment periods (deferred payments program) and exemption of facility fees during natural disasters and pandemics.

Target population:

MSMEs³² whose economic activities have been affected by pandemics and natural disasters

Food Security and Sustainable Food Systems

Activities which enhance food security:

Investment in the manufacture,³³ 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](#)

Contribution



Contribution



³¹ Defined in line with the Kingdom of Bahrain's Ministry of Industry and Commerce's definition of MSMEs. With at least 51% women ownership.

³² Defined in line with the Kingdom of Bahrain's Ministry of Industry and Commerce's definition of MSMEs.

³³ Where the manufacture of food and nutritional supplements refers to the financing of companies that provide food to aid agencies in the targeted countries.

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.³⁴

Target population:

Population in developing countries as per the U.N.'s [World Economic Situation and Prospects report](#) regardless of ability to pay

Food Security and Sustainable Food Systems

Activities that enhance food security:

- *Investment in infrastructure such as warehouses aimed at providing adequate storage, improved food conservation or connectivity in the food chain for reducing food loss³⁵*

Target population:

Population in developing countries as per the U.N.'s [World Economic Situation and Prospects report](#)

Food Security and Sustainable Food Systems

Support to smallholder farmers, including equipment and facilities that help prevent food loss and waste, improve productivity and increase market access to smallholder producers.

Target population:



³⁴ 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.

³⁵ 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.

*Smallholder farmers*³⁶

Food Security and Sustainable Food Systems

Provision of capacity building and training programs with a clear focus on sustainable improved agriculture resilience, productivity and efficiency.

Target population:

*Smallholder farmers*³⁷

Contribution



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 Issuer’s business model and sector.

NBB finances operations/processes in third-party sectors that are not listed in the Issuer’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 ³⁸	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>		

³⁶ 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.

³⁷ Ibid.

³⁸ Limited information is available on the scale of the improvement as no threshold is provided. Only the direction of change is displayed.

- 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 5G³⁹

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
 - Agricultural practices that use no synthetic fertilizers and pesticides

³⁹ The assessment is No Net Impact because despite the improved energy efficiency, high usage still leads to high energy consumption.

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 accumulation⁴⁰*



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 emissions⁴¹



⁴⁰ NBB will on a best-efforts basis seek to obtain third-party verification on the effectiveness of relevant sequestration projects.
⁴¹ The Issuer 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.

B. MANAGEMENT OF ENVIRONMENTAL AND SOCIAL RISKS ASSOCIATED WITH THE ELIGIBILITY CRITERIA

The table below evaluates NBB's ESG-specific risk management measures and policies that are considered relevant for NBB and in the context of its sustainable financing activities. The KPIs emphasize sustainability-related risks considered relevant to the Bank's operations. The KPIs are derived leveraging the [ISS ESG Corporate Rating](#) to identify the relevant topics based on its industry. These KPIs are then further integrated with additional elements derived from market principles such as the [Task Force on Climate-Related Financial 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 of 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 NBB's risk processes. During the credit process the Bank uses a toolkit that assesses the client's risk profile and the respective mitigation measures. NBB defined due diligence processes regarding project financing and borrowers. The due diligence process for financing is aligned with the Equator Principles and applies the assessment against the International Finance Corporation (IFC) Performance Standards. Any corporate/project financing taking place will go through an ESG risk eligibility assessment first to determine whether NBB applies the ESG risk assessment toolkit or not. If it applies the toolkit, the borrower/project will get assessed against a number of 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, which 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 from high/medium/low and reflects the scale and severity of an impact in case it materializes, while reversibility of adverse impact refers to ability to reverse the negative impact if occurred. The categorization would then be divided 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. NBB monitors the project at regular intervals to ensure the continuation of proper application of mitigation strategies for each standard. 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 review and approval.

ESG guidelines into financing process for most sensitive sectors⁴² 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 are 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, Global Reporting Initiative and Sustainability Accounting Standards Board 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, Global Reporting Initiative and Sustainability Accounting Standards Board 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.

⁴² 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. 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 installment 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 and 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 immediately communicated to clients.

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 or forced labor payday loans, gambling, adult entertainment, alcohol and tobacco.

PART III: CONSISTENCY OF SUSTAINABLE FINANCING INSTRUMENTS 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 NBB’s commitment to integrate environmental, social and economic considerations into its operational and business models and contribute to the Kingdom of Bahrain’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:⁴³</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

⁴³ As outlined on Page 42 of NBB’s [2023 Annual Financial and Sustainability Report](#).

<p>ESG goals/targets</p>	<p>By 2022, NBB reported to have already achieved its targets set in its three-year Sustainability Roadmap,⁴⁴ 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 certified environmental management system. 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 Issuer 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 towards 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>

⁴⁴ As outlined in NBB’s [2022 Annual Financial and Sustainability Report](#).

	<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 Issuer continued to report in line with TCFD recommendations in 2023.</p> <p>Scope 3 emissions currently do 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 industry⁴⁵</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 Issuer/Borrower</p>	<p>At the date of publication and leveraging ISS ESG Research, no controversy in which the Issuer would be involved has been identified.</p>
<p>Sustainability reporting</p>	<p>The Issuer/Borrower 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 U.N. Sustainable Development Goals ▪ Bahrain Economic Vision 2030 ▪ The International Financial Reporting Standards (IFRS) S1 "General Requirements for Disclosure of Sustainability-Related Financial Information" and the IFRS S2 "Climate-Related Disclosures"⁴⁶

⁴⁵ 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.

⁴⁶ According to NBB's 2023 Annual Financial and Sustainability Report, alignment with S2 is limited to the environmental section (Natural Capital).

<p>Industry associations, collective commitments</p>	<p>NBB joined the U.N. Global Compact in 2022.</p>
<p>Previous sustainable/sustainability-linked issuances or transactions and publication of sustainable financing framework</p>	<p>-</p>

Rationale for issuance

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 decided to integrate sustainability into its funding strategy by developing the Sustainable Finance Framework.

The Sustainable Finance Framework is applicable for issuance of green, social or sustainability bonds, sukuk (in several formats, including senior unsecured or subordinated issuances), loans and other debt instruments. Such bond(s) (or sukuk) and any loans entered into under this Framework will be standard recourse-to-the-issuer obligations. Through the issuance of its first green, social or sustainability bonds or loans, 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 and other companies in their pursuit of becoming more sustainable
- Gain economic benefits from attracting a wider customer and investor base

This Sustainable Finance Framework forms the basis for future green, social or sustainability bond or loan issuances of NBB and 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 issuing green bonds are clearly described by the Issuer. The majority of the project categories financed are in line with the Issuer’s sustainability objectives.*

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ANNEX 1: METHODOLOGY

The ISS-Corporate SPO provides an assessment of labeled transactions against international standards using ISS-Corporate's proprietary [methodology](#).

ANNEX 2: QUALITY MANAGEMENT PROCESSES

SCOPE

NBB commissioned ISS-Corporate to compile a sustainable financing instruments SPO. The second-party opinion process includes verifying whether the Sustainable Finance Framework aligns with the GBP, SBP, SBG, GLP and SLP and assessing the sustainability credentials of its sustainable finance liabilities instruments, as well as the Issuer's sustainability strategy.

CRITERIA

Relevant standards for this second-party opinion:

- Green Bond Principles
- Social Bond Principles
- Sustainability Bond Guidelines
- Green Loan Principles
- Social Loan Principles

ISSUER'S RESPONSIBILITY

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

- Framework
- Selection criteria

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.

This independent second-party opinion of the sustainable finance liabilities instruments to be issued by NBB has been conducted based on proprietary methodology and in line with the GBP, SBP, SBG, GLP and SLP.

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 behavior 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 SPO

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.

ISS-Corporate assesses alignment with external principles (e.g., the Green/Social Bond Principles), analyzes the sustainability quality of the assets and reviews the sustainability performance of the Issuer itself. Following these three steps, we draw up an independent SPO so that investors are as well-informed as possible about the quality of the bond/loan from a sustainability perspective.

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

For more information on SPO services, please contact: SPOsales@iss-corporate.com.

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