

Burgan Bank



# ESG Policy



# Introduction

This booklet has been developed by and is the exclusive property of Burgan Bank. Any attempt to copy, duplicate or modify this booklet may be considered an act of forgery and may be the subject of criminal proceedings. This booklet is given to every director, executive and employee of Burgan Bank, and the guidelines mentioned herein are considered by Burgan Bank as a necessary code of ethical behavior and good conduct to be strictly adhered to and followed by all such directors, executives, and employees of Burgan Bank; each of whom has a duty to conduct him/herself based on the principles of good faith and integrity.

# Policy Statement

Burgan Bank Kuwait ("BBK") recognizes the global sustainability challenges and is transforming itself continuously to contribute towards a more sustainable future. The Bank is committed to responsibly managing its Environment, Social and Governance ("ESG") obligations by identifying and promoting financially and environmentally sustainable banking products and services, to support its customers by continuing to embed responsible financing and investing practices and controls. BBK aim at reducing the environmental footprint of its operations and investment portfolio.

BBK believes that social responsibility to the community is an important pillar of the long-term sustainability for the Bank and the community at large. The Bank endeavors to give back to the community at an institutional and employee level, with time, effort, financial contributions and financial literacy outreach programs and efforts.

The Bank will continue its commitment to uphold corporate governance standards, consistent with regulatory expectations, leading practices, evolving strategy and risk appetite for ethical, transparent, and compliant business. The Bank adheres to the relevant national laws and regulations, and is also committed to the following national and international ESG standards and guidelines:

- United Nations Principles for Responsible Investing ("UNPRI").
- United Nations Development Programme ("UNDP") Sustainable Development Goals.
- Boursa Kuwait' Sustainability Disclosure Guide.
- Committee of Sponsoring Organizations ("COSO")
- Enterprise Risk Management ("ERM").
- Kuwait's 2035 "New Kuwait" Strategic developmental goals with a focus on the "Sustainable living Environment" pillar.

## Purpose

The purpose of this policy is to outline BBKs commitment and approach towards integrating ESG aspects into its key activities and decision-making process, and sets out its ESG guidelines and main management and control objectives.

This policy will apply to BBK, and shared with its subsidiaries to apply on best effort basis, provided that there is no conflict with the local regulators. BBK's supply chain partners are encouraged to cascade the sustainable practices to their supply chain and collectively promote sustainable development.

# Application

## 1. Sustainability Commitments

BBK focuses on four sustainability commitment areas to establish common standards across the Bank and its subsidiaries on best efforts basis. The Bank endeavors to be a purpose driven business by integrating ESG considerations in the evaluation, management and growth of its strategic objectives. It strives to adopt principles and practices that enable long term value creation. Therefore, it is committed to the following practices:

### 1.1 FINANCIAL RESPONSIBILITY

BBK strives to promote financially and environmentally sustainable banking products and services that support customers at every stage of life embedding responsible financing and investing in its practices.

The Bank makes the following commitments regarding financing responsibly:

- Integrate material ESG considerations within the investment decision making processes.
- Deliver ESG relevant, secure and innovative products and services to customers, while ensuring data privacy and security.
- Pursue impact investing, while targeting companies and sectors that have direct social and / or environmental impacts for investment purposes.
- Encourage investment in small and midsize enterprises (“SME”) sector as a sustainable means to grow the economy and tackle unemployment.
- Incorporation of ESG considerations in the Risk Assessment Framework to reflect due consideration in qualitative credit / investment analysis of borrowing entities / investee companies.
- Provide new sustainable banking products and services that are designed to empower the individual through economic opportunity.
- Provide relevant products and services to the unbanked or underbanked communities as a part of commitment towards financial inclusion.

### 1.2 COMMUNITY IMPACT

BBK’s ambition is to make positive contributions towards community. In this regard, the Bank promotes social inclusion through contribution and participation in community causes.

The Bank makes the following commitments to deliver a positive community impact:

- Support the local community in the areas of health, youth, education, environment, and culture.
- Encourage a culture of giving back with institution-wide initiatives which involve employees’ and encourages their active participation in outreach programs.
- Promote diversity and social inclusion through contribution and participation in community causes which enhance the welfare of the community, advancement of the special needs segment of society and enable women empowerment.

- Undertake initiatives and activities for fostering financial literacy and participation in the community.
- Sponsor initiatives based on a Corporate Social Responsibility (“CSR”) specific strategy.

### 1.3 MINIMIZING ENVIRONMENTAL IMPACT

BBK values its commitment to environment and aims at reducing the environmental footprint of its operations and investment portfolio. The Bank believes that improving own operations is an essential part of being committed to sustainability. Therefore, it will focus its approach on energy efficiency, emissions reduction and waste minimization, among other efforts.

The Bank will make the following commitments to minimize environmental impact:

- In accordance with its ESG strategy, the Bank will establish targets and Key Performance Indicators (“KPI”), as well as identify opportunities for improvement in the areas of emissions, energy, water and waste.
- The Bank will strive to reduce its carbon footprint by implementing initiatives to monitor and optimize energy consumption throughout the operation, track Greenhouse Gas (“GHG”) emissions and report progress.
- The Bank will make efforts to dispose waste in the most responsible manner. Therefore, it will establish waste management guidelines to be applied throughout the Bank. Further, the electronic waste generated by the Bank will continue to be disposed through authorized personnel in the local market.
- At a minimum, this policy will ensure compliance with all relevant environmental laws and regulations of the country it operates in, and for subsidiaries on best effort basis.

### 1.4 ENDORSING ETHICAL PRACTICES AND TRANSPARENCY

Strong governance, ethical business practices and prudent risk management are critical to BBK’s achievement of its goal for long-term value creation for shareholders and driving sustainability. Corporate Governance Guidelines assist the Board in the exercise of its responsibilities and to promote the effective functioning of the Board and its committees. BBK’s Code of Conduct and Ethics, applies to all employees and Board members, and serves as the foundation for high standards of integrity and ethics, the deterrence of wrongdoing and the promotion of compliance with applicable regulations.

The Bank pledges to uphold highest ethical practices and ensure the following:

- Disclose strategy, key targets and goals with all key stakeholder groups, employees and other significant stakeholders and report progress annually.
- Be active owners and incorporate ESG aspects into policies and practices, and as part of being accountable, provide transparency about activities and actions through annual sustainability reporting.
- Preventing money-laundering and combat corruption and terrorism with stringent anti-money laundering policies and controls.
- Board approved Employee Code of Conduct policy on bribery and anti-corruption.
- Conduct regular audits of Ethical Standards of all operations.
- Provide regular training on Ethical Standards to all employees.

# 2. Implementation

The four pillars of BBKs sustainability commitment and the respective focus areas underpin the strategy to achieve its ESG vision and sustainable growth. The key components for policy implementation are:

## 2.1 INTEGRATING ESG INTO LENDING / INVESTING OPERATIONS

BBK has developed an ESG Framework which seeks to establish ESG monitoring practices and improve the Bank's performance by incorporating ESG factors into the Bank's strategy, risk management and governance processes, with the purpose of facilitating tangible contributions to the creation of a sustainable environment and society. To implement its ESG Framework, and promote responsible financing, the Bank instituted an ESG Integration Model that shall seamlessly integrate its ESG considerations with its overall engagement and financial / investment processes.

The ESG Integration Model is based on four principles, which include:

- Avoiding decisions with negative implications, in alignment with the Bank's *Risk Appetite* policy;
- Assessing risks and opportunities;
- Amplifying positive attitude towards ESG; and
- Aiming for positive environmental and social impact.

Furthermore, BBK is committed to conducting ESG risk assessments to ensure that the credit / investment analysis of borrowing entities / investee companies and investment decision making processes are aligned with Bank's ESG considerations. The ESG risk assessments, which will ensure the effective management of ESG risks and / or opportunities will also be aligned with the Bank's existing ERM structures and processes that are in place to identify, assess, manage monitor and communicate risks.

## 2.2 SUSTAINABLE FINANCING FRAMEWORK

BBK has created a Sustainable Financing Framework to finance projects that will deliver environment and social benefits in alignment with its vision and business strategy. The framework governs the deployment of proceeds obtained from the issuance of Green, Social or Sustainability Bonds and Loans in alignment with the Sustainability Bond Guidelines 2021, Green Bond Principles 2021, Social Bond Principles 2021, Green Loan Principles 2021, and Social Loan Principles 2021.

The Bank will adopt an Environment and Social Risk Management process for the credit / investment analysis of borrowing entities and investee companies and investment decision making processes, which are applicable to all allocation decisions made under the mentioned Framework. BBK shall report on allocation of proceeds in its Sustainability Report until full allocation. In addition, BBK is committed to reporting on relevant impact metrics.

## 2.3 GOVERNANCE

Corporate Governance remains integral to the way BBK operates, and it is committed to operating in a correct, principled and commercially astute manner while staying accountable to its stakeholders. As an essential part of this commitment, the Bank operates within a well-defined governance structure and embeds governance principles and practices in its operations based upon the four cornerstones of accountability, transparency, fairness, and integrity.

BBK abides by a strict Code of Conduct in its business practices, decision-making and range of

relevant updated internal policies. The Bank follows the guidelines of the Central Bank of Kuwait, which are based on Basel Committee recommendations on Corporate Governance.

## **2.4 RISK MANAGEMENT**

BBK is cognizant of their ESG risks and embeds a culture of risk awareness across the Bank. The ESG Risk Management process will be managed by Risk Management ("RM") and reported to the Management Environmental, Social and Governance Committee ("MESGC") and where applicable on subsidiaries to be shared with International Bank Office ("IBO") and Board Risk Committee ("BRC").

The centralized approach to risk management is guided by Risk Management Framework which includes the following:

- Risk identification: RM accomplishes this through internal stakeholder consultation. Furthermore, the identified risks are precisely documented in the risk register in terms of their impact on strategic and business objectives, as well as their nature, source, complexity, and root cause.
- Assessment and Prioritization of ESG Risk: Subsequent to the identification of key risks, these risks are appropriately assessed and measured using methodologies appropriate to the nature of the BBK's risk which includes both qualitative and quantitative measures. The Bank prioritizes the assessed risks basis risk rating and strategic importance.
- Risk Response / Risk Control: involves evaluation of risks, action plans, scenario analysis, risk treatments and aligning of costs and benefits. The responsibility of approving the risk response to mitigate impact of the ESG risk lies with the BRC.

## **2.5 STAKEHOLDER ENGAGEMENTS**

BBK endeavors to build meaningful relationship with its key stakeholders to create value for them. It believes that dialogue with various stakeholders will help minimize ESG-related risk and impact, while enabling early identification of problem-solving opportunities. To foster active involvement, the Bank encourages all stakeholders to share feedback to understand their priorities and promote sustainable practices in the financial sector.

## **2.6 TRAINING AND CAPACITY BUILDING**

BBK will organize training and learning across the Bank to build awareness on ESG Framework as part of its annual engagement exercise. Furthermore, specialized training will also be conducted for relevant employees who regularly deal with specific ESG issues to understand environmental risks and opportunities and integrate ESG considerations into their decision-making and work practices.

# 3. Materiality Assessment

BBK intends to maintain an open line of communication with stakeholders to understand their expectations and align its sustainability strategy accordingly. The Bank prioritizes the most material topics basis interaction with stakeholders, independent analysis and expert advice from specialist external consultants, if required.

BBK will conduct a comprehensive Stakeholder Engagement and Materiality Assessment at least once every three years. Furthermore, the Bank will conduct an annual internal review of material topics for any required alignments.

# 4. Prohibitions

Before taking a decision on any activity or investment, the activity or investment will be screened for its alignment with BBK's ESG goals, targets, commitments and principles, as well as the Bank's *Risk Appetite* policy. The pre-screening will review the nature and impact of the activity or investment. Activities and investments that are likely to pose high risks and severe negative impacts on the material ESG factors will not be supported by BBK, including but not limited to:

- Activities involving human trafficking or harmful or exploitative forms of forced labor.
- Activities involving harmful or exploitative forms of child labor.
- Illegal activity under the host country laws or regulations.

# 5. Governance Structure For ESG

BBK recognizes that for the *ESG* policy to be properly integrated, effective governance structures must be implemented to ensure accountability and appropriate controls.

To this end, the Bank has established ESG Governance Structure consisting of MESGC, ESG Management Team and the position of ESG Analyst under the guidance of Board of Directors ("BoD"). The MESGC shall steer the ESG integration throughout the Bank and monitor the ESG performance of the Bank. The areas of focus will evolve over time to reflect the changing environmental and social context, community expectations and to account for new regulatory settings.

The roles and responsibilities of the various ESG governance bodies are summarized below:

## 5.1 BOARD OF DIRECTORS

The Board will be responsible for:

- Endorsing *ESG* policy statements;
- Ensure appropriate resource allocation to enable the effective operation and continual improvement of the *ESG* integration;



- Review and approve the ESG risk mitigation plans, and activities undertaken by the Bank;
- Conduct annual review of the progress on material ESG factors; and
- Ensure that transparent reporting on ESG is undertaken continuously.

## **5.2 MANAGEMENT ENVIRONMENTAL, SOCIAL AND GOVERNANCE COMMITTEE**

MESGC will have the responsibility and authority according to its charter to:

- Support the Bank's on-going commitment to environmental, health and safety, corporate social responsibility, corporate governance, sustainability, and other public policy matters relevant to the Bank (collectively "ESG Matters"). It will establish ESG programs, with clear objectives and targets that contribute to the four focus pillars at BBK.

## **5.3 ESG MANAGEMENT TEAM**

This cross-functional team shall be responsible for:

- Monitoring implementation of ESG initiatives in conjunction with business units / functions;
- Develop of action plans for any nonconformity to ESG strategy and ensure corrective and preventive action have been taken to mitigate any impacts caused;
- Review reports presented by RM team and ESG Analyst on various ESG risks;
- Drive internal communication of ESG factors between management and employees; and
- Act as a point of contact for external rating agencies regarding sustainability disclosures for BBK.

## **5.4 ESG ANALYST**

The ESG Analysts shall be responsible for:

- Developing plans for ESG activities to be undertaken by the Bank, and present the plan to the ESG Management team and MESGC;
- Co-ordinate with the Risk Department on enterprise ESG risks;
- Facilitate the implementation of the approved ESG initiatives throughout the Bank, report on progress and escalate any issues to the ESG Management team and MESGC;
- Develop ESG reporting guidelines and prepare periodic Sustainability Report in line with the Sustainability strategy;
- Create Bank wide awareness by coordinating with management and employees for all ESG related aspects; and
- Lastly, support all on-going ESG matters at BBK.

# 6. Reporting and Transparency

BBK shall annually publish a Sustainability / ESG Report covering areas relevant to this policy. The report will include the development of products and services to address the needs and concerns of underserved communities, progress toward public goals, as well as specific transactions that are escalated due to heightened environmental and social risks. This reporting shall provide transparency to stakeholders on the nature of the transactions and issues that are escalated and demonstrates robust risk management routines and governance.

BBK's Annual Sustainability / ESG Report will be reviewed and approved by MESGC and then made available in public domain and an archive of the annual reports will be available on BBKs's website. The report shall be aligned with the Global Reporting Initiative ("GRI") Standards, Sustainability Accounting Standards Board ("SASB"), Bursa Kuwait's ESG requirements, and Kuwait 2035 New Kuwait Strategic Development Goals.