



**ESG** INTELLIGENCE



# Sustainable and Responsible Banking in the Gulf

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# GCC banks are poised for change as the region's financial landscape aligns with global ESG trends

Financial institutions across the world are aligning their strategies and operating models with the Paris Agreement on climate change and the UN's 2030 Agenda for Sustainable Development. Through its 2021 Sustainable Finance Action Plan, the EU is leading the way globally in terms of realigning capital flow towards sustainable investment, and promoting sustainability-related operational and organisational transformation. The action plan also seeks to facilitate effective risk management.

While GCC economies have taken initial steps to establish effective regulatory framework related to sustainability, progress across the region has been uneven. However, sector players understand that the mainstreaming of ESG principles is necessary to manage their reputational profiles, keep pace with compliance requirements and tap into new revenue streams arising from the region's decarbonisation and socioeconomic development agendas.

## Sustainable strategic approaches in the banking sector

### SCREENING

- Exclusion of firms with low environmental, social and governance (ESG) ratings from certain loans and avoidance of transactions that might result in negative environmental consequences.
- Deepening of support to borrowers with positive ESG scores, such as by offering preferential terms.

### REORGANISATION

- Comprehensive transformation of operations to advance sustainability goals and support socio-economic priorities.
- Integration of ESG considerations in decision-making; key performance indicator (KPI)-based reviews and reporting requirements; creation of ESG-related positions at the C-suite level.

### IMPACT

- Development of financing initiatives to empower companies or projects having a positive impact on sustainability targets and UN Sustainable Development Goals (SDGs).
- Adoption of sustainable finance frameworks to source impact-oriented funds and channel them to the initiatives above.

## ESG progress in GCC economies

Item	Saudi Arabia	UAE	Qatar	Kuwait	Bahrain	Oman
Public sustainability targets or pledges	YES	YES	YES	YES	YES	YES
Sustainable finance strategy	NO	YES	NO	NO	NO	NO
Corporate sustainability reporting standards	YES	YES	YES	YES	YES	NO
Financial disclosure of climate risks standards	NO	In progress	NO	NO	NO	NO
Sustainable finance taxonomy	NO	In progress	NO	NO	NO	NO
Standards for sustainable investment products	NO	NO	NO	NO	NO	NO
Sovereign sustainable bond programme	In progress	In progress	NO	NO	NO	In progress
Sustainability indices	In progress	YES	YES	NO	NO	NO

# National Bank of Kuwait (NBK) develops comprehensive ESG strategy for long-term value creation

## THREE STRATEGIC CORNERSTONES

### Defend leadership at the core

NBK's core business of retail and wholesale banking in Kuwait accounts for two-thirds of the group's financial earnings. The bank is pursuing a defensive strategy across multiple business lines, while ensuring effective implementation of the digital transformation agenda to enhance the customer experience.

### Grow outside the core

NBK seeks to diversify beyond its core businesses, notably by expanding market share in Islamic banking at home and abroad through its subsidiary Boubyan Bank; the continuous expansion of its MENA presence and customer base; and through the development of a global network that facilitates customers' trade, investment and broader banking needs.

### Improve profitability

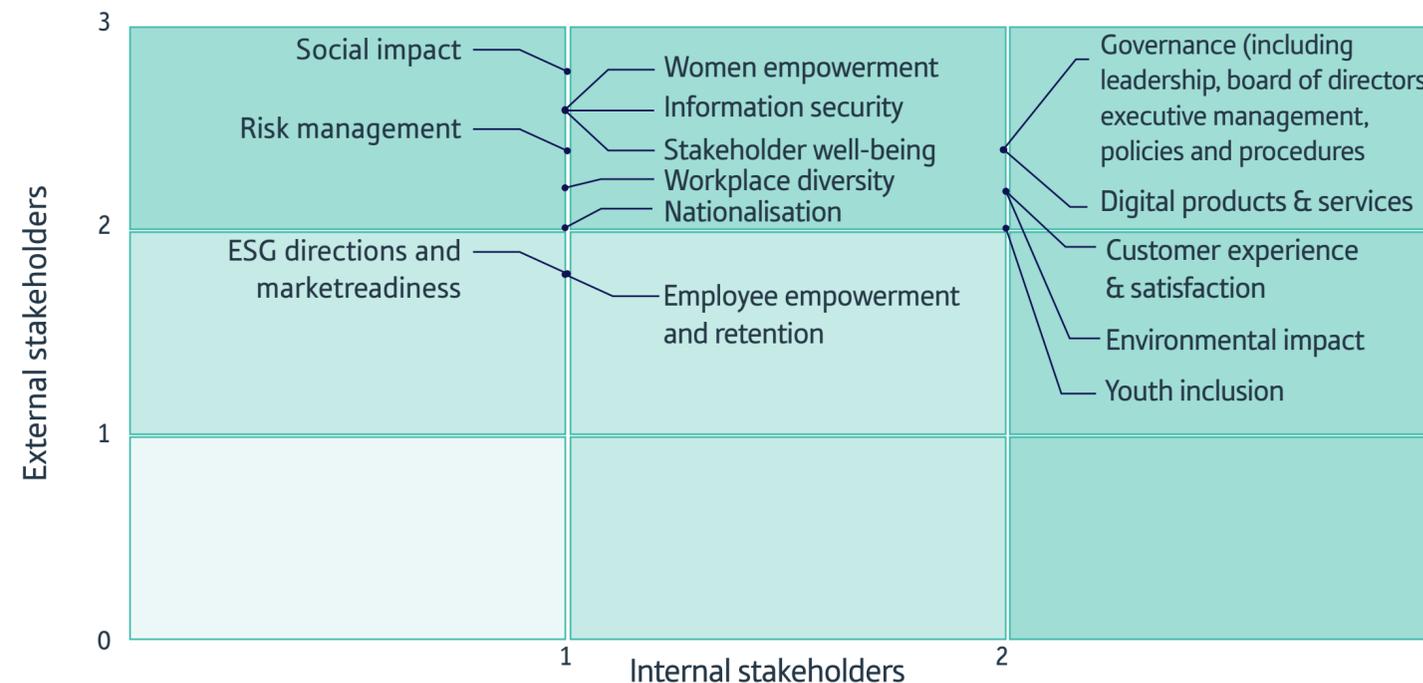
NBK aims to improve profitability by balancing the focus between delivering against absolute targets and maintaining key ratios. Investment in the digital transformation of existing business operations is targeted at achieving sustainable improvements in the cost structure over the long term through the automation of services and internal processes.

NBK's sustainability strategy, initiatives and KPIs are defined within the framework of the company's Six Pillars of Sustainability developed in 2016.



## Materiality assessment

NBK's materiality assessment involved conducting surveys with key external and internal stakeholders. This revealed 14 material topics that were most important to NBK's ESG strategy, with the following five as the most important: **governance, digital products and services, customer experience and satisfaction, environmental impact and youth inclusion.**



As part of its commitment to transparent ESG reporting, NBK develops and publishes an annual Sustainability Report each year, in accordance with the Global Reporting Initiative (GRI) standards, and in alignment with the UN SDGs and the Boursa Kuwait Sustainability Indicators.

# NBK's Sustainable Finance Framework paves the way for improved management of ESG investment

The integration of ESG policies into NBK's business culture and operations is supported by the March 2022 launch of its Sustainable Finance Framework. To that end, the framework is aligned with widely accepted standards established by leading organisations:

The **social bond principles, green bond principles, and sustainability bond guidelines** as set out by the International Capital Market Association (2021)

The **social loan principles and the green loan principles**, as set out by Loan Market Association, the Loan Syndications and Trade Association and the Asia Pacific Loan Market Association (2021)

The proceeds from NBK's issuance of **sustainable financing instruments** will be used to finance or re-finance, in part or in full, different asset classes and businesses, with the instruments divided in three categories:

- Green financing instruments**  
Proceeds exclusively allocated to green asset categories
- Social financing instruments**  
Proceeds exclusively allocated to social asset categories
- Sustainability financing instruments**  
Proceeds exclusively allocated to both green and social asset categories

NBK aims to ensure timely and consistent reporting on allocation and impact for each sustainable financing instrument, as well as appropriate **external review**, with the framework already validated by S&P Global Ratings.

FUNDS

NBK's Sustainable Financing Working Group, formed by senior members of the departments of finance, Treasury, corporate sustainability, risk management and investor relations, will screen assets and businesses to determine those eligible to enter or remain part of NBK's sustainable portfolio, according to the following categories aligned with the UN SDGs:



# ENVIRONMENT



# Expansion of digital banking and green financing solutions can help address climate change challenges

## Going cashless

New digital banking solutions such as e-wallets and tap payment options are convenient, traceable, and have a lower environmental impact due to the reduction in paper usage, plastic cards and brick-and-mortar operations. Smartphones are enabled to allow the secure storage of payment applications, virtual cards and e-wallets, while receipts are also made available digitally rather than in paper format.



## Funding sustainability

As physical risks arise from climate change, new opportunities are also emerging for the financial services sector to finance green projects that can address global warming challenges. Financial service providers need to adapt their internal processes, policies, products and services to meet the sustainability challenges faced by customers and the broader society. Banks have a pivotal role to play in mobilising the necessary financial resources and offering products that will contribute to the transition to a low-carbon economy, as well as help society cope through adaptation and mitigation measures. Increased flows of finance to low-carbon and sustainable technologies and initiatives, and reduced flows to fossil fuel-generating technologies, will have a significant impact on the speed and effectiveness of climate action.



## Environmental impact of traditional payment activities

- Coin production has the largest environmental impact, especially in the area of copper ore extraction and tin mining, as both processes contribute to climate change and the scope to use recycled metals in coin production is limited.
- Most payment cards are made from synthetic plastic (PVC), which is not biodegradable. With the number of credit, debit and prepaid cards in circulation projected by payments research company Nilson to grow from 22.8bn in 2019 to 30.6bn by 2025, card issuers will need to adopt more sustainable solutions.
- Paper receipts are responsible for the consumption of 3m trees and 9bn gallons of water per year in the US. It generates over 4bn pounds of CO<sub>2</sub> and contributes at least 302m pounds of solid waste during production, according to advocacy group Climate Action.
- Producing cash notes and minting coins requires water and electricity. In 2020 alone more than 5bn new cash notes were printed.
- Non-renewable energy used to power ATM machines and the transportation of cash contributes to climate change. ATM machines constantly consume energy in both idle and active mode, so a switch to 100% renewable energy sources would considerably reduce their environmental impact.

## Ways banks can contribute to tackling climate change



Green financing solutions across a broad range of segments and asset classes



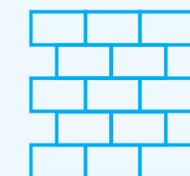
Advisory services for customers seeking to make their properties or businesses greener



Setting up carbon funds and fund custody



Expansion of digital, contactless and paperless banking products and services



Reduction in brick-and-mortar operations

# National Bank of Kuwait (NBK) pursues sustainability through its building designs and operational practices

## NBK is exploring various approaches to tackling climate change

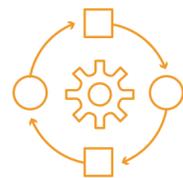
### Mitigation strategies

Including financing energy efficiency infrastructure retrofitting and renewable energy projects



### Adaptation strategies

Including financing early-warning communication systems and projects that help protect people from extreme heat, as well as providing public health messaging



### Climate-resilient development strategies

Including financing climate-resilient infrastructure projects



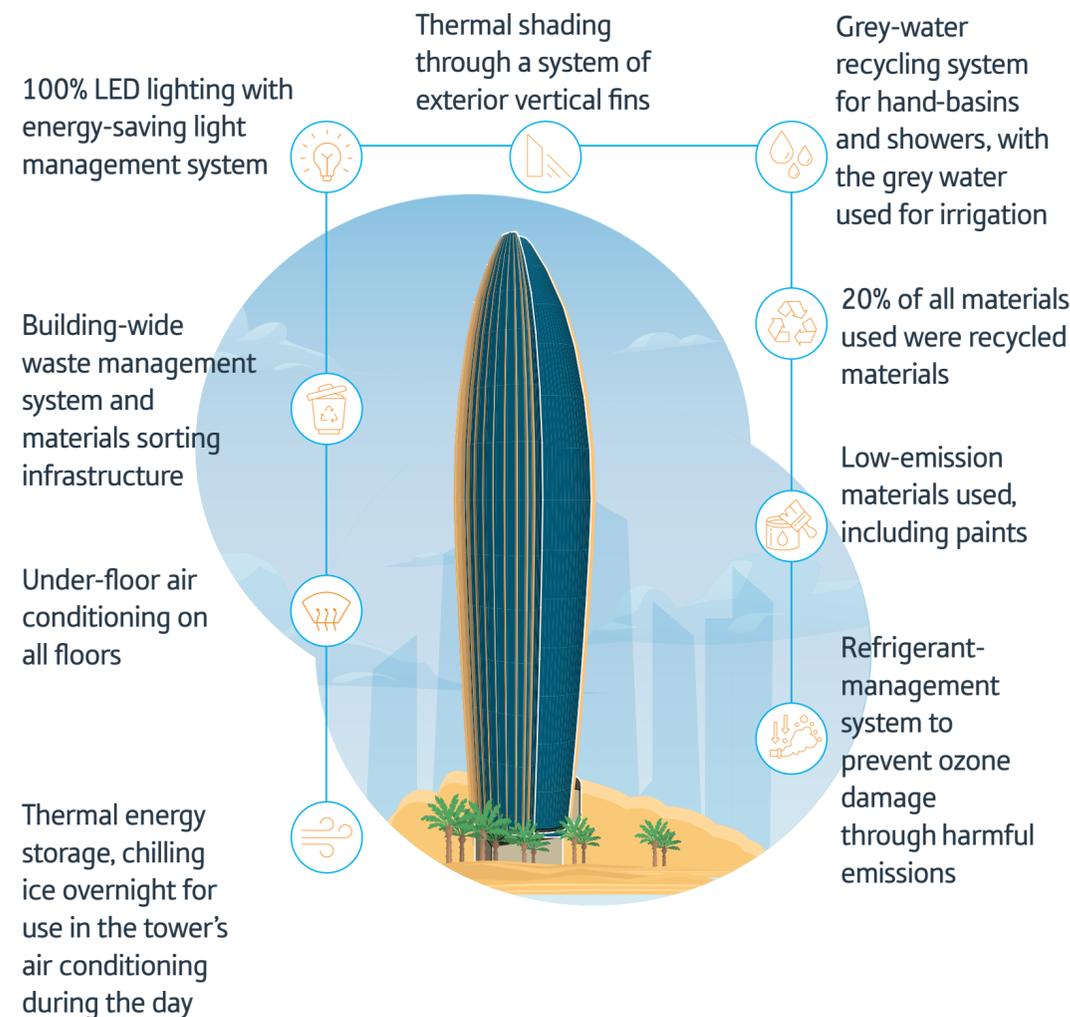
### Transformation strategies

Including offering financing mechanisms like green bonds and funding major geo-engineering projects, as well as collaborating with Kuwait's government to plan a suitable sustainability strategy



## CASE STUDY: NBK's headquarters

NBK moved into its new Leadership in Energy and Environmental Design (LEED) Gold certified headquarters in 2021, which is the first LEED-certified building in Kuwait. The new headquarters lowers energy use by 34% and water consumption by 40%.



Sustainable features in the design of NBK's headquarters

## Digital services continue to reduce environmental impact

- Reduction in the number of printed brochures and flyers to reduce paper and ink consumption
- Utilisation of alternative digital channels to communicate with customers and complete other administrative tasks
- Introduction of Digital Account Opening where all the processes of opening banking accounts can be completed digitally
- Launch of Weyay Bank to provide completely digital end-to-end banking services to customers
- Incentivise customers to become cashless by becoming the first bank in Kuwait to launch contactless payment solutions like Garmin Pay, Fitbit Pay and Samsung Pay

NBK has successfully reduced the use of plastic cards during transactions by enabling contactless payments through Tap and Pay, promoting online transactions and launching three types of digital wallets. This has significantly extended the usable life of plastic cards. Consequently, NBK increased the card expiry date from three years to five years, which will eventually cut plastic consumption by 40%.

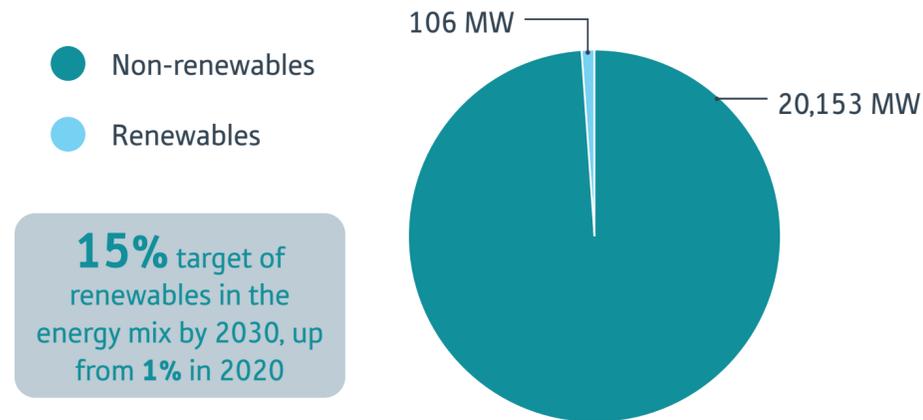
# How NBK's Sustainable Financing Framework will guide environmentally responsible lending

## Eligible green assets under NBK's Sustainable Financing Framework

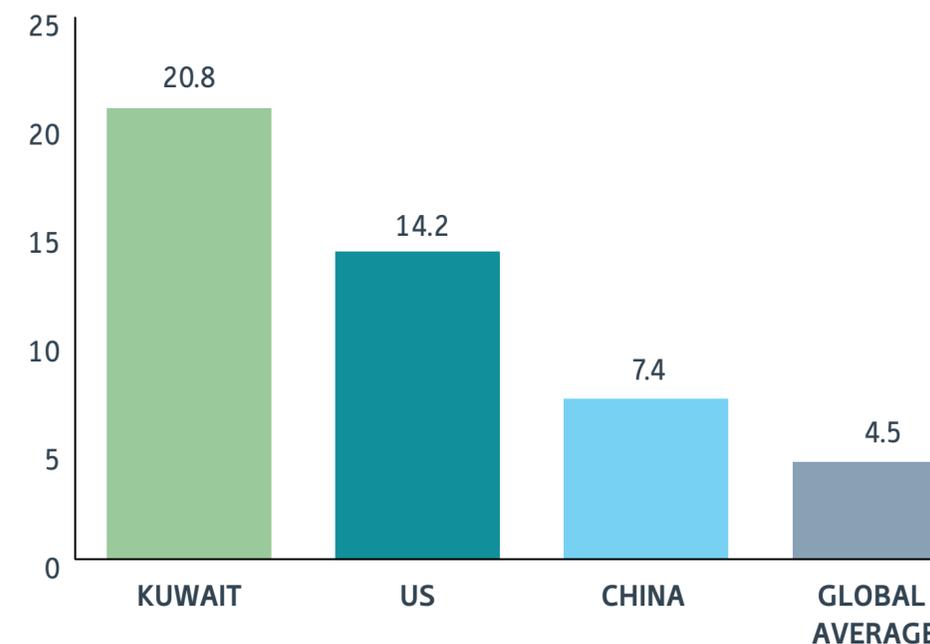
- 
**Renewable energy**  
 Financing related to the acquisition, conception, construction, development, installation and operation of infrastructure in renewable energy production units, as well as the transmission of electricity from renewable sources
- 
**Energy efficiency**  
 Financing related to investment in energy and resource efficiency; refurbishments of buildings to include energy-saving equipment; and retrofitting of heating systems, refrigeration systems, lighting equipment, and related systems
- 
**Clean transportation**  
 Financing related to the development, construction, acquisition, operation, maintenance and upgrade of zero-carbon and low-carbon transport assets
- 
**Sustainable water & wastewater management**  
 Financing related to the development, construction, acquisition, installation, operation and upgrade of sustainable water management projects
- 
**Green buildings**  
 Financing related to the construction, development, acquisition and refurbishment of energy-efficient buildings
- 
**Environmentally sustainable management of living natural resources & land use**  
 Financing targeted towards sustainable forestry, agriculture, fisheries and aquaculture practices that are certified to an independent standard
- 
**Pollution prevention & control**  
 Financing related to investment in technology and related services to reduce environmental pollution

## NATIONAL CONTEXT: Major financing opportunities to reduce Kuwait's carbon footprint

Kuwait's total installed energy capacity, 2020



Per capita CO<sub>2</sub> emissions, 2020 (tonnes)



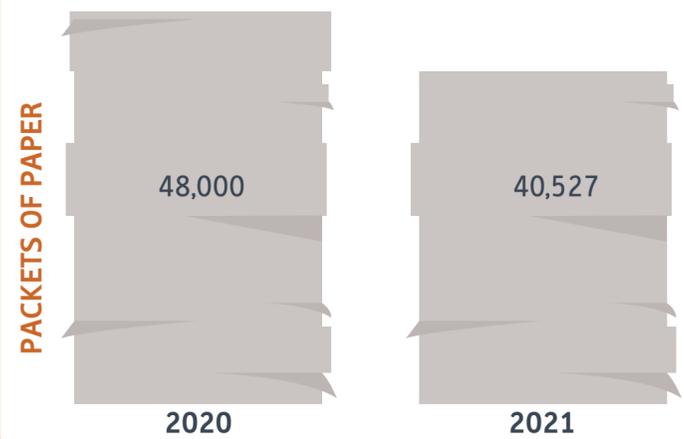
## Responsible finance

NBK has devised a Sustainable Financing Framework to guide the use of green and socially impactful financial instruments. The framework applies to financing instruments issued by NBK and its subsidiaries, including senior unsecured bonds, subordinated bonds, private placements, loans, deposits, commercial paper and any other financial instrument that can be used to finance or re-finance, in part or in full, eligible assets providing distinct environmental and social benefits. The use of green financing assets can help to address sustainability challenges at the national level, with Kuwait currently among the world's largest CO<sub>2</sub> emitters on a per capita basis.

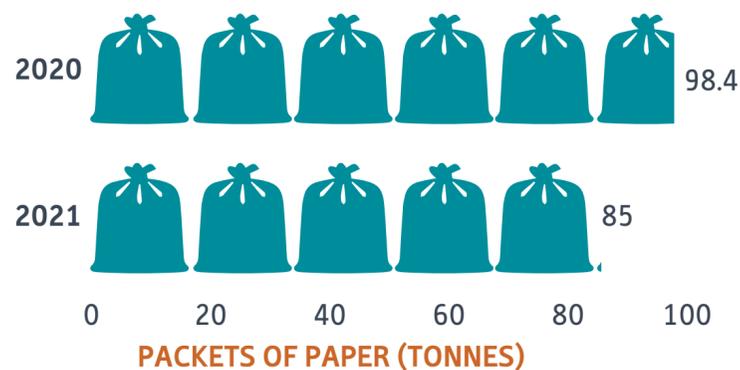
# NBK DATA SNAPSHOT: Sustainable consumption and effective waste management central to green operational strategies

NBK has developed internal targets to reduce its gross operational emissions by 25% by the year 2025. Similarly, the company is considering innovative technologies and research and development opportunities to expand its use of renewable energy beyond 2025, with an aim to achieve net-zero operations by 2035.

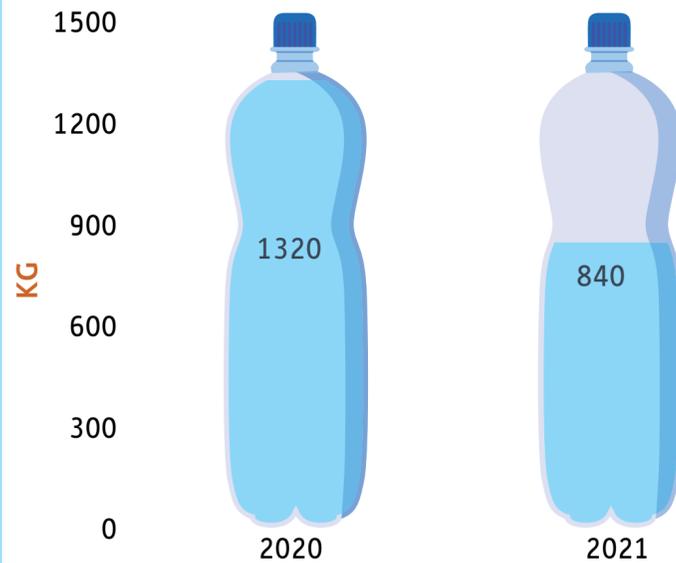
## 16% reduction in paper consumption



## 85 tonnes of paper recycled



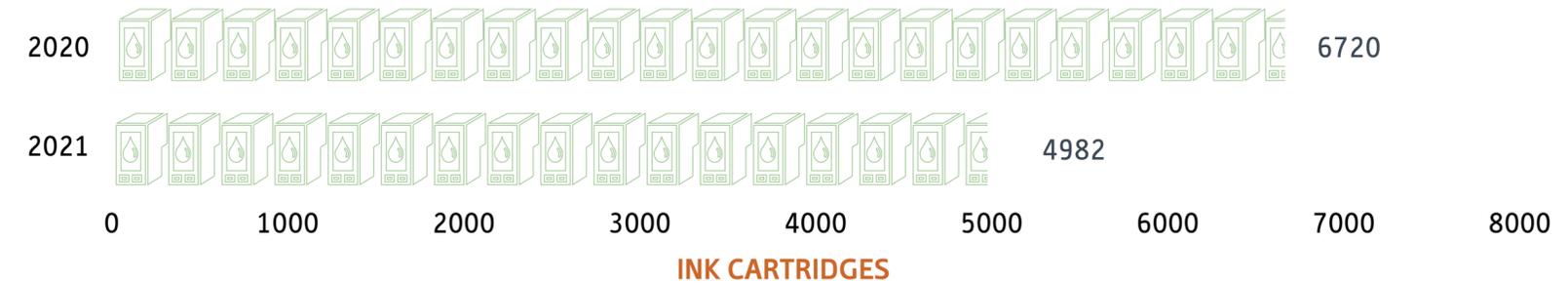
## 64% less plastic consumed



To encourage a reduction in the consumption of plastic, NBK introduced water coolers directly connected to the filter and water systems (instead of replaceable water dispenser gallons) on all floors of NBK headquarters and branches, which reduced the purchase of plastic water bottles for all business units.

Though the total volume of paper recycled was less than 2020 due to less paper being used overall, NBK's paper recycling efforts achieved a 1.7% higher success rate in 2021 and the company was able to achieve 100% recycling of all paper. When translated into environmental impact results, this saved NBK 758 tonnes of greenhouse gas emissions and 694,578 kWh of energy intensity.

## 26% reduction in the use of printer ink cartridges



## Selected efforts by NBK to minimise waste and encourage recycling

- Distribution of glass and ceramic containers to all employees to reduce plastic consumption
- Water coolers placed in every NBK branch to enable staff to fill their glass water bottles, which reduced the purchase of plastic water bottles
- Implementation of the Manage Printing Service (MPS) initiative to reduce the number of printer ink cartridges used
- Launch of a new content management system, an electronic statement system, paperless technology, and an e-banking project to minimise the need to print
- Water-saving efforts in new headquarters including sensor operated faucets for all office floors, live cleaning of cooling towers using a tailor-made solution, low-flow fixtures, grey water recycling and various water-smart technologies

**SOCIAL**



# Financial inclusion and digitalisation emerge as intertwined drivers of resilience and growth

The socio-economic impact of the Covid-19 pandemic highlighted the importance of the banking sector in supporting society during challenging circumstances. In terms of social **resilience**, the understanding of what financial inclusion means has expanded to account for enhanced support to client segments that are most vulnerable to cyclical and non-cyclical crises. This has led to an increased focus on responding to the specific needs of small and medium-sized enterprises (SMEs) to maintain their operations and provide a platform for future **growth**.

Social resilience

Growth

The operational challenges arising from the pandemic – with mobility restrictions leading to the increased adoption of digital channels for interaction between companies, employees and clients – have accelerated existing trends towards banking digitalisation motivated by consumer demand, and the search for new avenues of growth in both top and bottom lines. Today, the quest for **growth** is matched with the need to bolster **resilience**, with Kuwait’s banking ecosystem making strides towards effective digitalisation that generates value to both clients and banks.

## Banking support during the pandemic – selected measures

The Central Bank of Kuwait (CBK) reduced discount rate from 2.5% to 1.5%

The capital adequacy ratio was lowered from 13% to 10.5%

The risk weight for SMEs was lowered from 75% to 25%

The CBK introduced a six-month loan payment deferral for SMEs

The provision of loans on concessional and long-term basis to SMEs, through joint financing from local banks and the Kuwait National Fund for SMEs

## Evolving digital banking framework

The 2018 Electronic Payment Regulation, which was being updated as of mid-2022, contains stringent requirements to ensure the security of ATMs, point-of-sales terminals, and other devices for transfers and payments

The 2018 Sandbox Framework enables financial technology firms to test solutions and obtain a licence through a specifically designed procedure

In 2020 the Cybersecurity Framework for the banking sector was introduced, boosting the widespread adoption of digital banking

The 2020 CBK Digital Banking Guidelines allow for the establishment of standalone digital banks or digital units as part of existing conventional banks, maintaining the traditional requirement for banks to be public joint stock companies and thereby ensuring high governance standards

## NBK SNAPSHOT: Pandemic response

In 2020-21 NBK deferred loans to around 258,000 clients, with a total value of approximately KD540m

In 2021, 20 loans totalling KD1.1m were issued under SME-focused programmes (up from 18 in 2020)

In 2021 total active customers doing their banking digitally increased by 18% over 2020

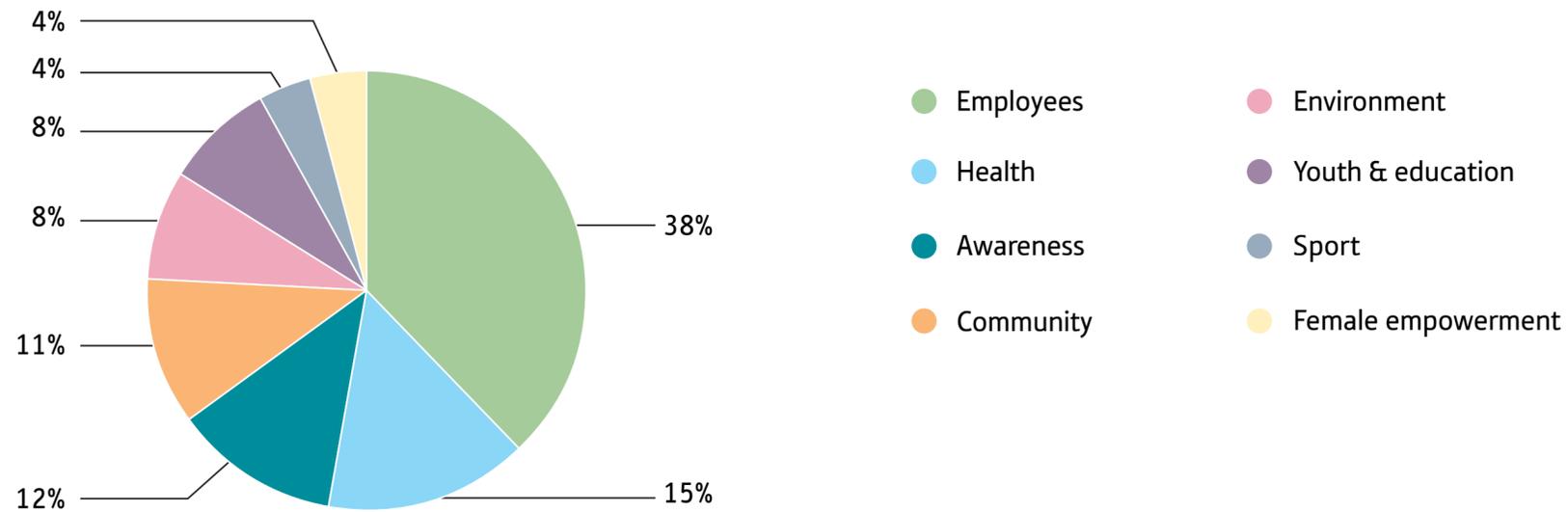
Introduced Customer 360, an enhancement of the existing customer relations solution that delivers a full-spectrum view of relations with corporate clients

Launched a new corporate online banking solution with an improved front-end interface and enhanced integration with other NBK Group entities

Financial inclusion and digitalisation emerge as intertwined drivers of resilience and growth following pandemic disruption

# NBK's social responsibility strategy aims to have wide-reaching impact across Kuwaiti society

Focus areas of corporate social responsibility initiatives, 2021



## Financial inclusion

Inclusive finance is central to NBK's core sustainability pillars of serving customers, giving back to the community and contributing to economic development. This focus has resulted in support for SMEs to access capital and finance their growth. Kuwaiti SMEs form the backbone of the economy, yet they often face challenges accessing the capital needed to mitigate challenges and expand. In 2021 the total number of loans extended to SMEs rose 10% and the total value of loans to SMEs rose 15%.



## Employment opportunities

The Kuwaitisation of jobs is an important component of NBK's recruitment and training strategy, as it seeks to provide employment opportunities for Kuwaiti citizens and contribute to demographic balance in the labour market. NBK achieved a Kuwaitisation rate of 74.6% in 2021 and increased investment in employee training by 71% over the previous year, with employees collectively receiving 41,037 hours of general training and 833,469 hours of digital mindset training in 2021.



## Selected initiatives demonstrating NBK's social impact

- Alongside putting extensive measures in place to protect employees from Covid-19, NBK provides a comprehensive health care programme, wellness programmes, gymnasium and guidance on workplace health and safety.
- Since 1999 NBK has provided annual monetary support and event sponsorship to the Kuwait Association for the Care of Children in Hospital (KACCH) and Beit Abdallah Children's Hospice (BACCH) to enable the delivery of their overall services across eight government hospitals and hospices. In 2021 KD60,000 was donated to BACCH and KD25,000 to KACCH towards paediatric psychosocial and palliative care services, which impacted the lives of more than 8700 patients.
- NBK supported Kuwait vaccination centres in different governorates by donating refrigerators as part of its commitment to support efforts by the Ministry of Health and the Kuwait Red Crescent Society (KRCS) to protect the community from Covid-19.
- In cooperation with the Ministry of Justice (MoJ), NBK in 2020 organised a training course named "Explaining the Mechanism of Banking Business According to the CBK's Governing Laws and Decisions and Its Work Nature" to qualify and train 141 legal experts from the General Directorate of Experts at the MoJ to facilitate litigation proceedings and the resolution of lawsuits related to the banking and financial sector.
- NBK is a key supporter and partner in all initiatives of the CBK aimed at raising financial awareness, especially the Diraya Campaign which advises customers of their rights and responsibilities, the best ways to benefit from banking services, and how to save and invest effectively.
- NBK and the KRCS distributed essential winter supplies to 5000 cleaning workers in Kuwait in a campaign aimed at safeguarding the well-being of low-income workers.
- Through a collaboration with the ministries of education, health, information and interior, NBK sponsored the Safe Education awareness campaign and visited educational institutions to ensure a safe return of students to their schools.
- In collaboration with Creative Confidence, NBK operates TAMAKAN, which is a hands-on training experience for young Kuwaiti graduates to develop entrepreneurship and innovation abilities to support their self-development and growth.

# Women and youth empowerment in the workforce and broader society are key social priorities for NBK

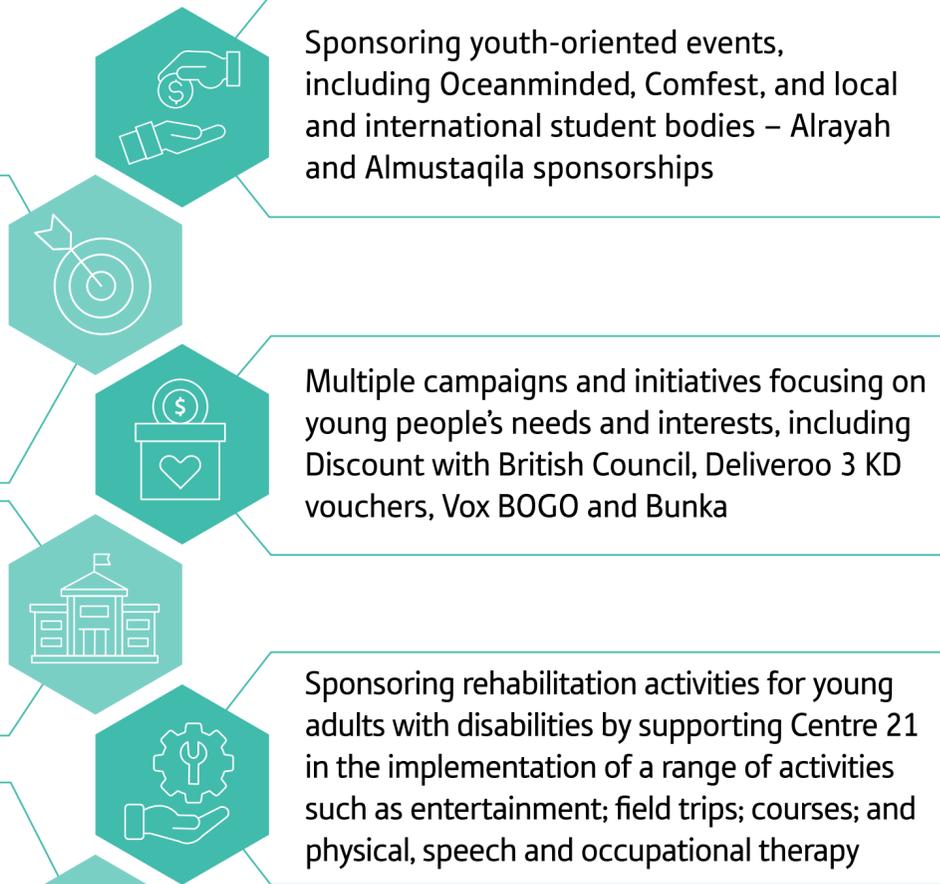
## Actions taken by NBK towards youth inclusion in its operations and services

**41%** of the Kuwaiti population is aged 24 or below

Launching various products and services targeting youth segment, including Shabab Prepaid Visa, Shabab Debit Card, Prepaid Foreign Currency Visa and Weyay, which is Kuwait's first fully digital bank and is geared towards expanding financial inclusion among the youth

Establishing presence on university campuses to support the banking needs of the youth, and increase their awareness about the various campaigns and services to support their lifestyle

Creating platforms and programmes for capacity building such as TAMAKAN, which gives Kuwaiti youth the opportunity to hone their professional skills by working on real business challenges, shaping new business ideas. NBK also recruited eight of the participants in 2021



**Total participants in NBK's TAMAKAN programme**



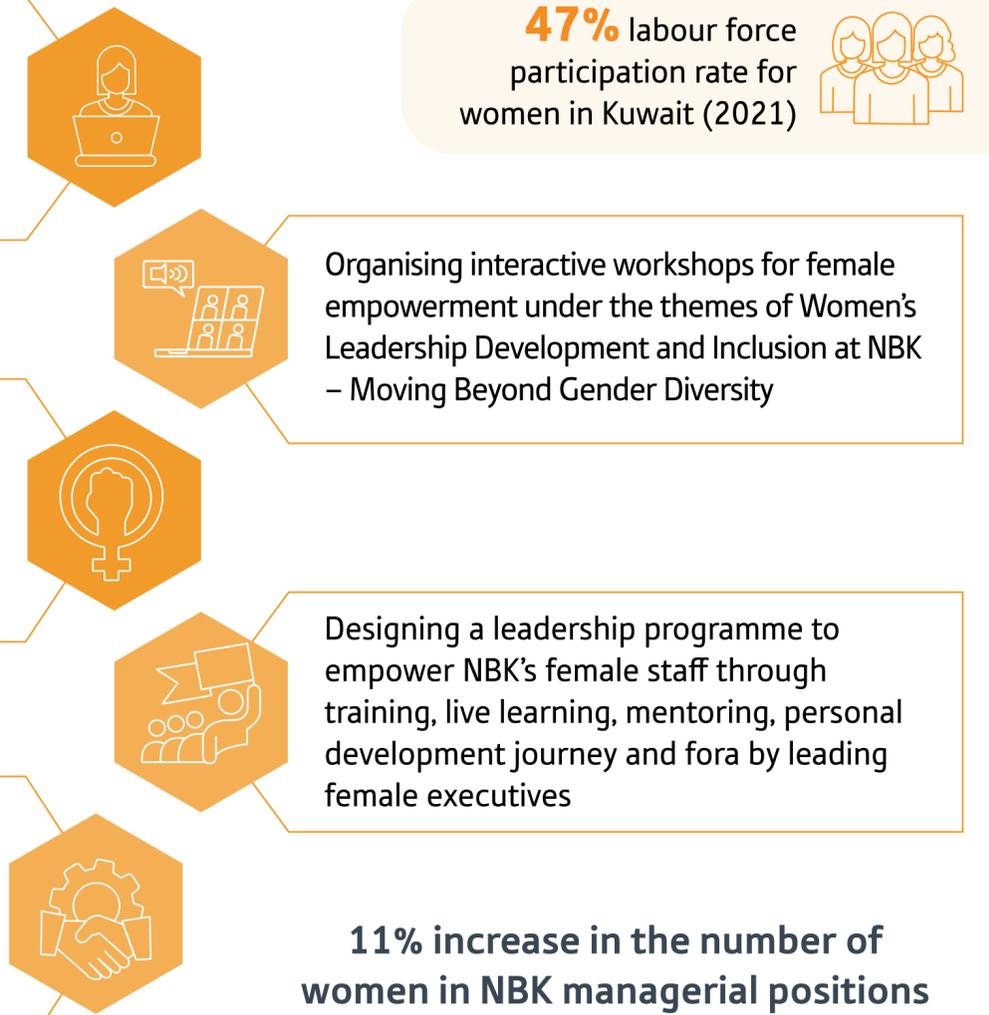
## Efforts made by NBK to promote women's empowerment

**47%** labour force participation rate for women in Kuwait (2021)

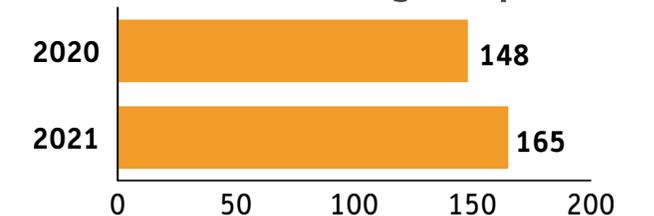
Several programmes and initiatives focused on female employees' health, well-being and safety, and on equipping them with the tools for career advancement within NBK

Participating in national campaigns aimed at female empowerment such as the Ring the Bell Event, organised by UN Women, and the Supreme Council for Planning and Development

Partnering with the Girls for Girls initiative and the Women Cultural and Social Society in Kuwait to deliver training to empower young women and girls to play a leadership role

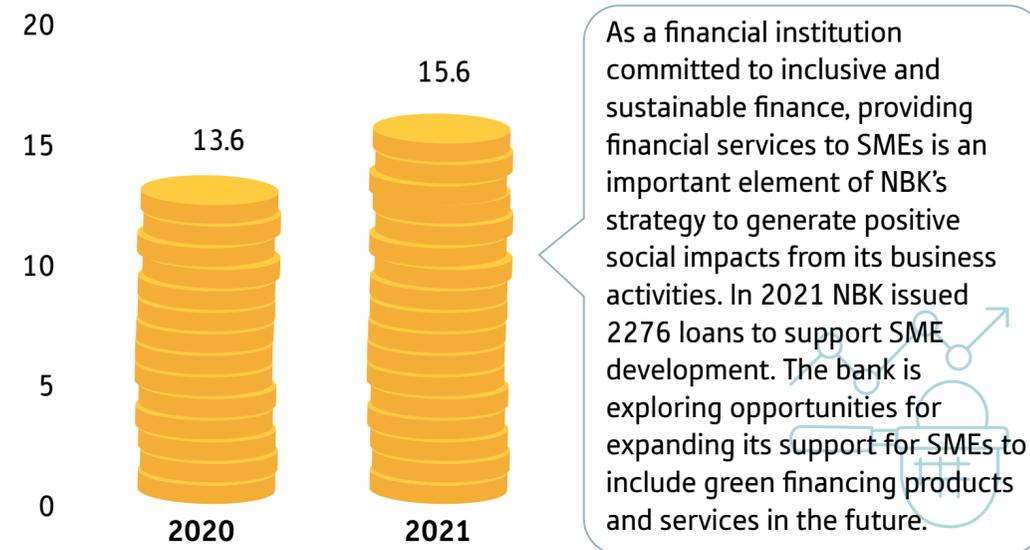


**11% increase in the number of women in NBK managerial positions**

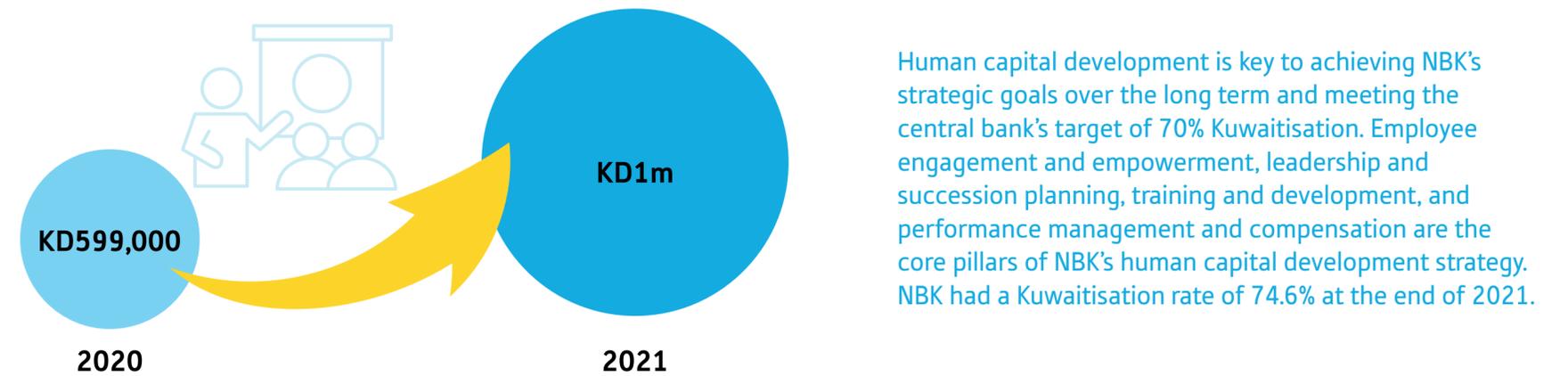


# NBK DATA SNAPSHOT: Progress in financial inclusion and human capital development metrics

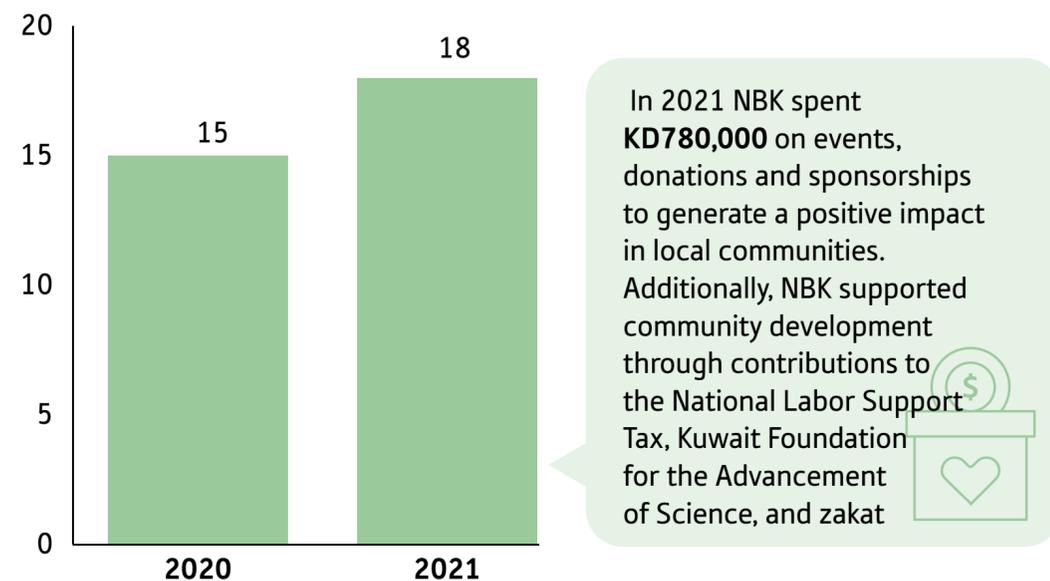
Total amount of financial support to SMEs, 2020-21 (KD m)



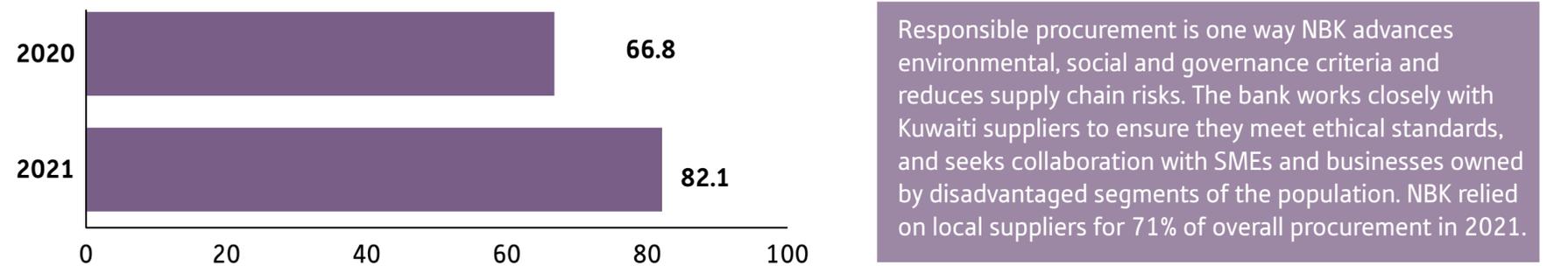
Significant increase in employee training and development expenditure



Total community investment, 2020-21 (KD m)



Value of procurement from local firms and suppliers (KD m)



NBK aims to contribute to Kuwait's national development by expanding access to financial services, and generating positive community impact from its services, policies and corporate social responsibility activities. In recent decades NBK has made voluntary social investments in initiatives that support health care, education and youth inclusion. Understanding the role of financial institutions in economic and social advancement, NBK also follows strategies that promote financial inclusion and support domestic companies through local procurement.



**GOVERNANCE**

# In tandem with regional efforts, Kuwait improves regulatory support of and oversight over corporate governance

Corporate governance standards in the GCC have been spearheaded by the financial sector, with capital markets regulators having introduced corporate governance codes aimed at listed companies. Stock exchanges in the region have introduced or revised their corporate governance codes as they look to adhere to ESG principles within their operations or provide guidance to their issuers.

The Kuwaiti market exhibits a mixed approach to corporate governance involving binding laws and a comply-or-explain approach. The legal framework overseeing corporate governance was first introduced by the Kuwait Companies Law and its executive bylaws, followed by a set of guidelines for listed and licensed companies in 2015 from the Capital Markets Authority (CMA). The revised set of executive bylaws in the CMA Law included 16 modules covering all areas of supervision and regulation of the markets.

## Principal governance regulations under the CMA Law

### Module 15

Provides the corporate governance framework, including voluntary and compulsory measures. Voluntary regulations range from establishing a balanced board composition to promoting a code of conduct and ethical standards. Compulsory rules include safeguarding shareholder rights and ensuring high quality disclosure and transparency. Non-compliance with compulsory rules could expose the company to sanctions

### Module 10

Regulates disclosures and transparency obligations of listed companies to avoid conflicts of interest or insider trading

### Module 11

Amended in 2022, it regulates securities and authorises the issuance of green, social and sustainable bonds and *sukuk* (Islamic bonds). It establishes compulsory reporting obligations for issuers

## Role of Bursa Kuwait in environmental, social and governance (ESG) disclosures

- In 2017 Bursa Kuwait, the national stock market, became a member of the UN-led Sustainable Stock Exchanges (SSE) initiative
- In December of that year Bursa Kuwait launched the ESG Reporting Guide, becoming the 20th stock exchange within the SSE to offer its issuers voluntary guidance on sustainability reporting
- Kuwait seeks to align its sustainability indicators with the Kuwait National Development Plan and 17 UN Sustainable Development Goals
- In 2021 Bursa Kuwait issued its first standalone sustainability report. It previously made ESG disclosures in its annual reports

## Benefits from improved corporate governance

- Strengthened managerial efficiency
- Access to lower-cost funding
- Enhanced supervision and audit procedures
- Better supported corporate social responsibility practices
- Equality, transparency and fair treatment best practices
- Avoidance of conflicts of interest

## Main regional corporate governance challenges

- Transparency and disclosure issues
- Centralised ownership nature of large family-controlled firms
- Lack of structure governing relationships between parent companies and subsidiaries
- Little clarity over succession planning
- Low level of institutionalisation in regional equity markets
- Weak interest or capacity of institutional investors to influence companies
- Lack of information transparency

## Year of introduction of corporate governance codes in GCC countries and issuing entity

Country	Year	Issuing entity
Oman	2002	Capital Market Authority
KSA	2006 (amended in 2009)	Capital Market Authority
UAE	2007	Securities and Commodities Authority
Qatar	2009	Financial Markets Authority
Bahrain	2010	Central Bank of Bahrain
Kuwait	2013	Capital Markets Authority

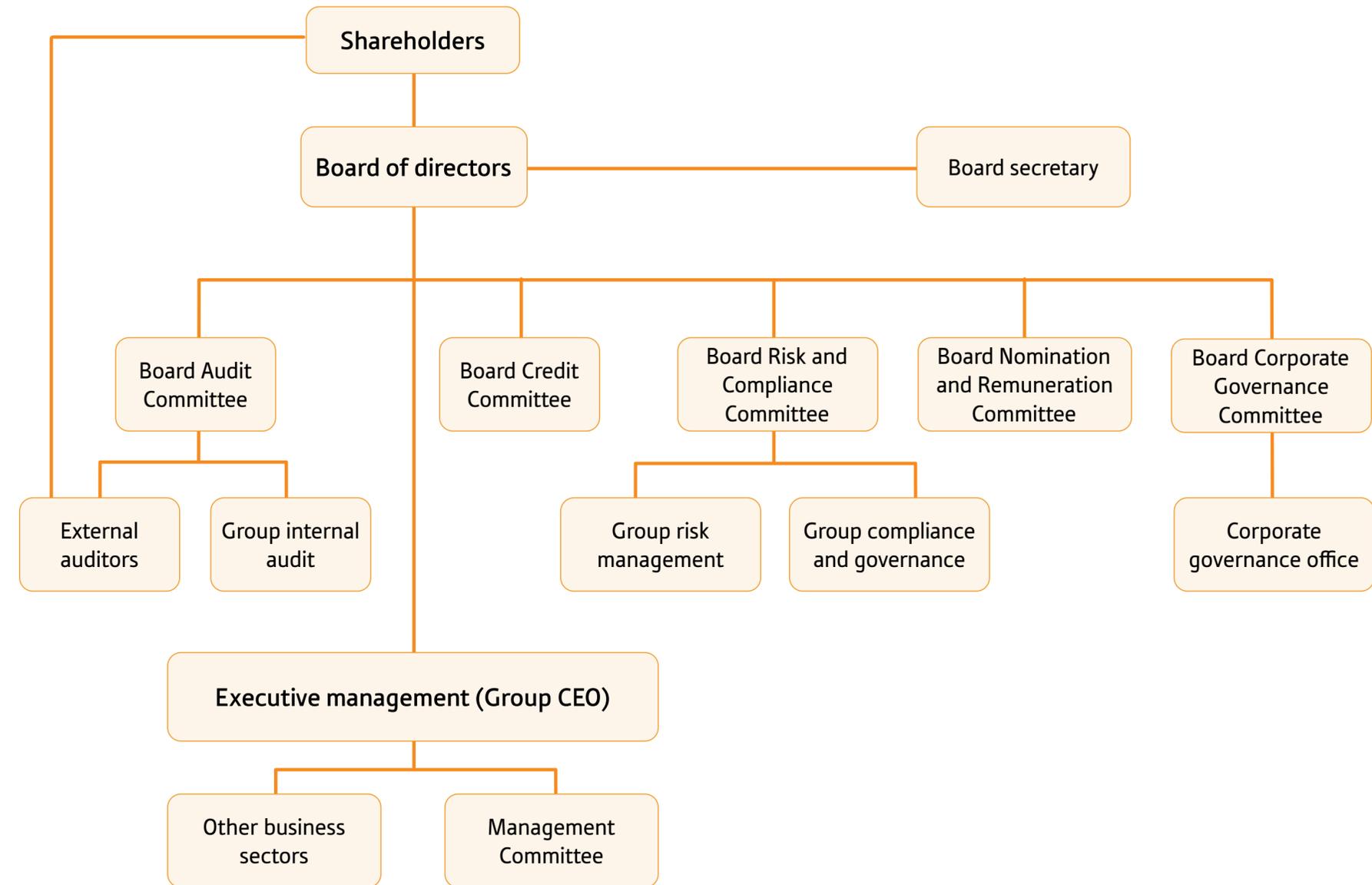
# The National Bank of Kuwait (NBK) strengthens governance structure and processes through strategic planning

## Board of directors' role in good governance

- NBK's highest governance body and ensures that the company's corporate governance framework is implemented.
  - NBK's board is comprised of 11 members, four of which are independent.
  - Following Central Bank of Kuwait-issued regulations in October 2019 that mandated the appointment of four new independent board members, NBK appointed two independent board members at its General Assembly Meeting in March 2021 and appointed another two in March 2022.
  - The roles and responsibilities of the chairman and the segregation of duties from the CEO are included in NBK's board of directors charter.
  - The board of directors elects and forms committees based on the skills and expertise of each member. Committees include the corporate governance, nomination and remuneration, risk and compliance, audit, and credit committees. A Sustainable Finance Committee is planned for 2022.
  - The board's attendance rate in 2021 was nearly 80%.
  - Non-independent board members received no compensation for 2021, while independent board members received KD60,000 per year.
- The board of directors is mandated to meet six times per year. In 2021, they met 10 times.

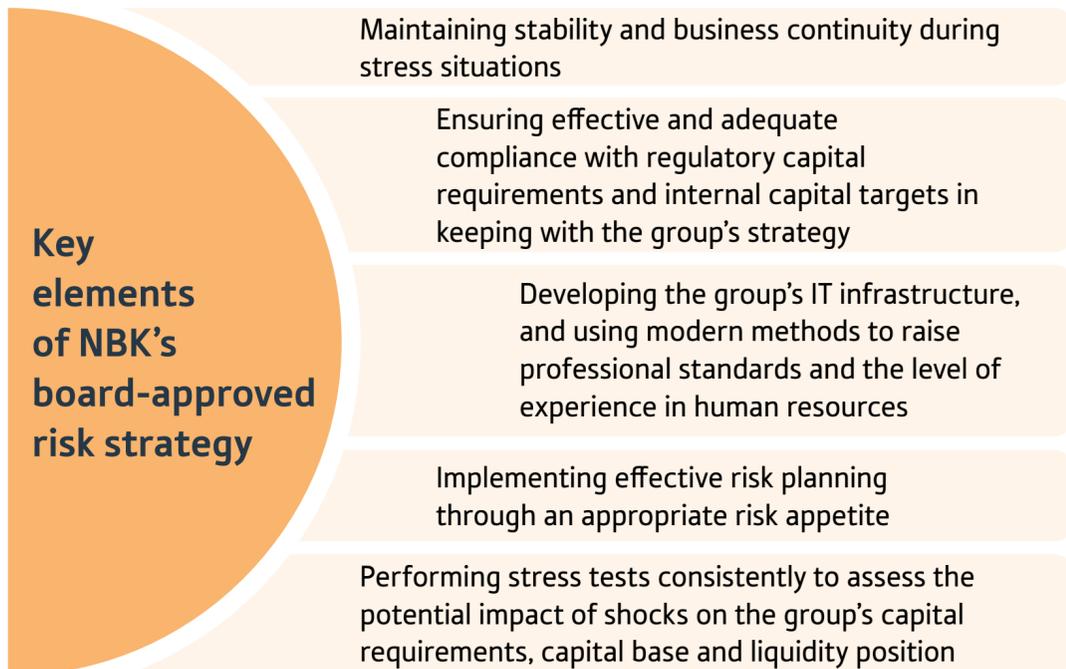
NBK's corporate governance strategy planning occurs every five years, along with routine updates, and is delivered to the board of directors. An executive management strategy session takes place annually where qualitative and quantitative key performance indicators (KPIs) are finalised and communicated to heads of business units, who in turn devise their own strategic initiatives. These results are approved by top management and integrated into the overall NBK Group strategy. All strategic projects follow a governance framework, with the rising importance of digital transformation having resulted in the introduction of an innovative governance framework. Since 2021 NBK Strategy reports directly to the chairman, further enhancing transparency between management and shareholders.

## NBK's governance structure



# NBK's risk and crisis management framework helps to anticipate and mitigate business shocks

## NBK's three lines of risk defence



## Structured and systemic

NBK aims to strengthen its governance framework and manage risk in a structured, systematic manner through its global risk policy, which embeds comprehensive risk management into the organisational structure and processes. Through its Board Risk and Compliance Committee, and Group Executive Committee, NBK manages and oversees risk across its operations.

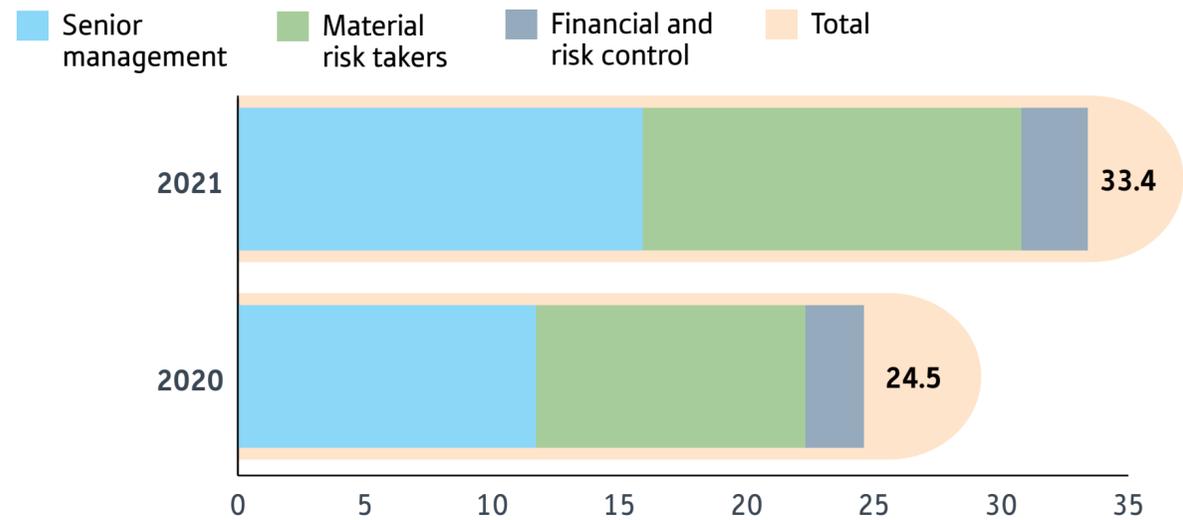
The bank ensures that its risk appetite is reviewed on an annual basis to ensure it remains fit for purpose and is consistent with its strategic objective. The review also helps the institution meet the expectations of regulators and internal and external stakeholders.

## Risks controlled under NBK's governance framework

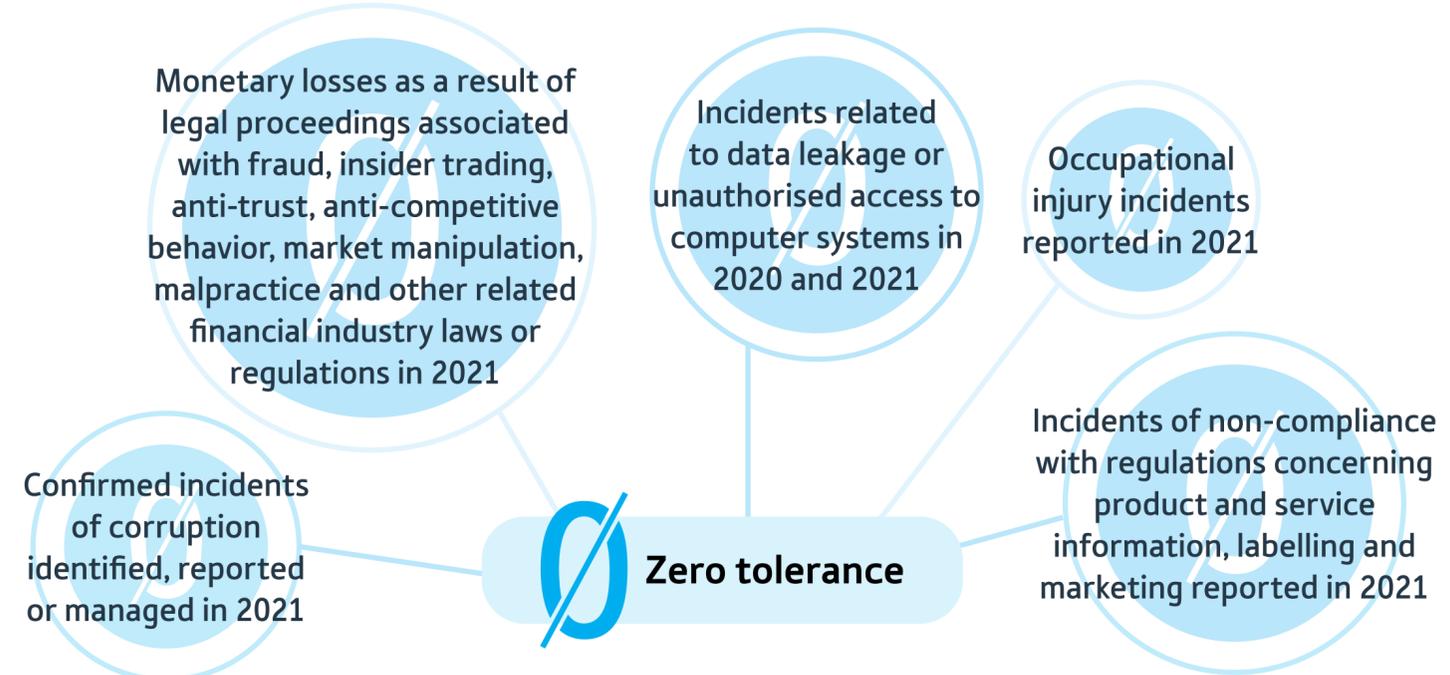
<b>Technological</b>	All of the bank's technology initiatives go through a project management framework, during which they are analysed and key risk metrics are identified and monitored on a quarterly basis
<b>Operational</b>	Business departments identify and mitigate risks related to their processes, products and services using risk control self-assessments for reviewing controls, measuring residual risks and formulating appropriate risk remediation strategies
<b>Financial</b>	NBK identifies, assesses, limits and monitors credit, market and insurance risks, as well as repricing gaps and liquidity issues using a comprehensive range of quantitative and qualitative tools
<b>Business continuity management (BCM)</b>	All business units keep a set of business impact analysis, business recovery plan and call tree documents that are reviewed and updated at least once a year. A fully fledged BCM/disaster recovery test is conducted at least once a year during which a crisis scenario is simulated
<b>Succession</b>	A succession plan is put in place for executive management in the event of anticipated or unforeseen circumstances
<b>Regulatory</b>	NBK monitors both national and international regulations, and anticipates their impact

# NBK DATA SNAPSHOT: Transparency in remuneration and anti-corruption policies aids in good governance progress

Remuneration for senior staff, 2020-21 (KD m)

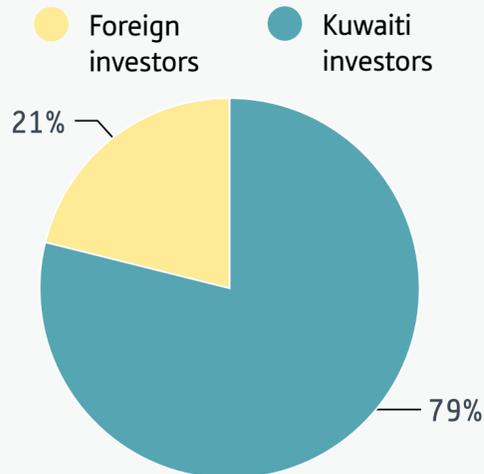


As outlined in the NBK Group Remuneration Policy, compensation is linked with long- and short-term performance objectives, and is determined based on the achievement of KPIs toward the overall strategy.

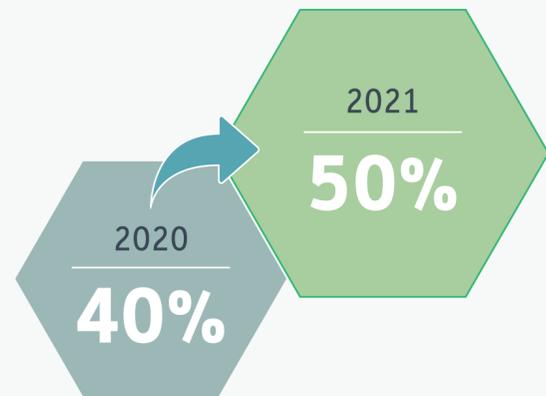


## 2021 investor relations highlights

### High proportion of Kuwaiti shareholders



### Estimated proportion of shareholders identifying as ESG-conscious



**30%**

Cash dividends approved for distribution to shareholders at 2022 the annual general meeting

**5%**

Bonus shares (five shares for every 100 owned)

### NBK's anti-bribery and anti-corruption strategy

- Operated under the supervision of the Board Risk and Compliance Committee
- The programme includes managerial responsibility over bribery and corruption, regular training, operating guidelines addressing record keeping, an internal monitoring system, risk assessments, appropriate procedures and charitable contributions.
- NBK's compliance with the Anti-Money Laundering and Combatting the Financing of Terrorism systems are verified by third parties.
- NBK and its subsidiaries have developed and maintain its Whistleblowing Policy and Procedures to help employees report complaints relating to bad behaviour, or illegal or unprofessional actions, while ensuring that employee protection measures are in place.

# SUMMARY



# SUMMARY: The National Bank of Kuwait (NBK) aligns its policies with national and global frameworks for sustainable development

NBK has structured its environmental, social and governance (ESG) policies to support the Kuwait National Development Plan and to align with international frameworks such as Global Reporting Initiative (GRI) and the UN Sustainable Development Goals (SDGs). All of NBK’s material issues and initiatives are mapped to specific SDGs and its overall reporting practices are aligned with applicable Bursa Kuwait disclosure requirements.

Material topics	How NBK’s ESG priorities relate to SDGs and GRI standards																	GRI standard
	1 NO POVERTY	2 ZERO HUNGER	3 GOOD HEALTH AND WELL-BEING	4 QUALITY EDUCATION	5 GENDER EQUALITY	6 CLEAN WATER AND SANITATION	7 AFFORDABLE AND CLEAN ENERGY	8 DECENT WORK AND ECONOMIC GROWTH	9 INDUSTRY, INNOVATION AND INFRASTRUCTURE	10 REDUCED INEQUALITIES	11 SUSTAINABLE CITIES AND COMMUNITIES	12 RESPONSIBLE CONSUMPTION AND PRODUCTION	13 CLIMATE ACTION	14 LIFE BELOW WATER	15 LIFE ON LAND	16 PEACE, JUSTICE AND STRONG INSTITUTIONS	17 PARTNERSHIPS FOR THE GOALS	
Digital products and services							●	●										417
Information security							●	●										410
Youth inclusion				●			●	●			●							413
Workplace diversity					●					●								405-1
Nationalisation							●			●								405-1
Stakeholder well-being			●			●												403
Social Impact	●	●	●	●							●						●	400
Environmental impact						●		●			●	●	●	●	●			300
Governance							●											405-1
ESG directions and market readiness							●									●	●	413
Risk management							●											207-2
Customer experience and satisfaction							●	●	●	●	●							103
Women empowerment					●					●								405-1
Employee empowerment and retention					●		●		●									402-1, 404

# 6 Key Takeaways

1

## Regional

The regional regulatory landscape for Gulf financial service providers is changing, with growing awareness of the need for banking institutions to adopt sustainable finance frameworks, and responsible lending and operational practices in order to better manage risk and attract international investment.

2

## Sustainable

By establishing sustainable finance frameworks, banks such as NBK are able to better structure their sustainable lending practices and strengthen systemic safeguards against social and environmental risks, while also diversifying their funding sources and raising their international profile.

3

## Digital

Digitalisation has a key role to play in advancing ESG priorities at banking institutions around the world. For example, NBK's digital banking solutions are expanding inclusive financing options, and reducing the need for cash and paper, while data analytics are improving risk management procedures.

4

## Responsible

Banks have a social responsibility to help financially empower underserved segments of society. To this end, NBK is making efforts to expand financial inclusion for small firms, women and young people, while advancing national human capital development goals through employment and training.

5

## Impactful

Despite the disruption of the COVID-19 pandemic, NBK has taken active measures to have a positive social impact by significantly raising its overall level of community investment by 20% from 2020 to 2021, while also expanding its pool of local suppliers and increasing spending on local procurement.

6

## Manageable

NBK's environmental and social policies and priorities are underpinned by a clearly defined governance structure, with transparent strategies and frameworks in place to manage internal and external risks, as well as to ensure that employees and stakeholders are informed of their rights and responsibilities.

# ESG INTELLIGENCE