

QNB FINANSBANK ENVIRONMENTAL AND SOCIAL RISK MANAGEMENT POLICY

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1.0 Introduction

Established in alignment with QNB Group Environmental and Social Risk Framework, this Environmental and Social Risk Policy (the Policy) sets forth QNB Finansbank's (the Bank) approach to E&S (environmental and social) matters, in alignment with both QNB Group's and QNB Finansbank's sustainability policy, strategy and ESG (environmental, social, governance) commitments.

2.0 Our Commitment

QNB Finansbank is committed to building a better future and being a responsible partner for all its stakeholders. We do this by embedding a culture of sustainability and sustainable practices into our business, to better enable us to manage environmental, social, and governance (ESG) factors today, and well into the future.

As one of the most pressing topics impacting our society, there is an ever increasing demand from investors, clients, regulators and our own employees for greater transparency on our approach to ESG issues. We recognize the significant contribution QNB Finansbank can make to society by adopting business practices to address these, especially through our financing activities. Furthermore, we believe that a proactive approach to sustainability strengthens QNB Finansbank's business resilience and supports sustainable financial performance.

Our principles and sustainability approach have been developed in accordance with all applicable laws, national and international regulations and standards. In addition, we support and recognize the following conventions, standards and initiatives as part of our E&S (environmental and social) commitments and sustainability framework:

- United Nations Global Compact
- United Nations Sustainable Development Goals (SDG)
- United Nations Guiding Principles for Business and Human Rights
- International Labour Organisation's (ILO) Declaration of Fundamental Principles of Rights at Work
- World Bank Environment, Health and Safety Guidelines
- Global Reporting Initiative (GRI)
- International Capital Markets Association (ICMA) Green and Social Bond Principles
- International Finance Corporation (IFC) Performance Standards

A key pillar in QNB Group and QNB Finansbank's sustainability framework, Sustainable Finance, is the integration of ESG criteria into QNB Finansbank's financing activities to deliver profit with purpose. Our ambition is to help clients manage their E&S risks, and lend to businesses that contribute towards sustainable development goals and the transition to a green economy.

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QNB Finansbank's commitment to sustainable lending practices recognizes that large infrastructure and industrial projects can have adverse impacts on people and on the environment. We are therefore committed to work with our clients to identify, assess and manage E&S risks. Such collaboration promotes sustainable performance and can lead to improved financial, environmental and social outcomes.

3.0 Purpose

This Policy provides an overview of QNB Finansbank's approach to E&S matters in terms of:

- Commitments
- Impacts of our operations
- Environmental and Social Risk Management

Hence, as required, in addition to relevant internal policies and procedures in effect, this Policy will be supplemented by topic-specific guidelines, procedures and training to support effective implementation across the Bank and all relevant divisions (business, support and control).

4.0 Scope

This policy is applicable to all domestic and abroad branches of the Bank. Implementation of such within QNB Finansbank's subsidiaries will be determined on a case-by-case basis with the respective Board of Directors.

All respective business units/divisions are responsible for aligning with the requirements of this Policy, and to ensure continued compliance with all applicable laws, regulations and standards.

This policy is relevant to all employees in the Bank. It is the responsibility of the Bank's Senior Management to ensure that this policy is implemented and complied with where relevant to their respective areas of responsibility. As a minimum, QNB Finansbank will expect and encourage its clients and suppliers to adopt an approach to comply with the principles laid out herewith.

5.0 Approval and Review

The Board approves this document, which is determining the rules and practices of the Bank.

Taking into consideration of the amendments in the relevant legislations, this document is submitted to the approval of the Board upon the review of the Risk Committee and the Corporate Governance Committee.

Corporate and Commercial Loans Group is responsible for the annual revision of the document whereas Risk Management Department is responsible for the generation of relevant agenda of the Board and obtaining the required approvals.

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Corporate and Commercial Loans Group is authorized to update this document apart from the date of regular renewal by obtaining the required approval.

6.0 Reference

This policy is aligned and implemented in conjunction with the established QNB Finansbank policies listed below:

- QNB Finansbank Sustainability Policy
- QNB Finansbank Corporate Credit Policy
- QNB Finansbank Employees Code of Conduct

7.0 Main Principles

7.1 Environmental and Social Commitments

QNB Finansbank will:

- Ensure that all applicable environmental and social laws and regulations, related to its operations, are followed and complied with,
- Respect human rights, support diversity and inclusion, and ensure that its business activities, operations and financing decisions are not associated with any acts that can be deemed as infringement of such,
- Act with the awareness that its operations have direct and indirect impacts on environment and society, and look to put in place measures to address such impacts where feasible. (this includes resource consumption and opportunities associated with climate change),
- Aim to support sustainable and responsible development through its products, services, financing activities, and influence in its supply chain,
- Not knowingly finance projects or engage in business activities which are illegal, or likely to create adverse, irreversible and detrimental effects on environment and society, as stated in detail in its **Exclusion List** (section 7.3),
- Apply risk based categorisation to designated projects and transactions, and integrate environmental and social risk assessment in the due diligence process,
- Guide, encourage, collaborate and/or mandate relevant clients and third parties, as appropriate and where feasible, to actively manage their sustainability and Environmental&Social related risks to support the transition to a green economy and sustainable business practices,
- Build internal capacity and capability to manage our sustainability and E&S related agenda, risks, demands and inquiries, as well as establish ESG related projects and initiatives

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- Disclose our environmental, social and sustainability performance within our public reporting activities, and engage with stakeholders to understand their expectations via designated communication channels
- Include E&S and sustainability in employee training programmes and ensure that key principles and any commitments are understood and adopted by employees

7.2 Environmental and Social Risk Management Overview

QNB Finansbank will apply ESR screening process and subsequent risk management to all in-scope clients:

1. First screening against QNB Finansbank Exclusion List (*All loans*) (Section 7.3)
2. Second screening with ESRA (Environmental and Social Risk Assessment) Model
 - All project loan applications with a credit amount of minimum 10 million USD and a tenor of 24 months and above
 - All loan applications with a credit amount of minimum 25 million USD and a tenor of 24 month and above (except project loans)
3. Project Categorization (A, B+, B-, C)
4. Monitoring against agreed action plan
5. Reporting as applicable
6. Lessons learnt to enhance ESMS and continuous improvement

7.3 Exclusion List

QNB Finansbank will not engage in any financing where there is clear evidence of illegal activities or severe damage to the environment and/or society. The following, lists the prohibited activities/ sectors that the Bank will not knowingly finance, directly or indirectly:

- Production or trade in any product or activity deemed illegal under host country laws or regulations or international conventions and agreements,
- Production or activities violating human rights, involving harmful or exploitative forms of forced labor/child labor²,
- Activities conducted in wetlands as defined in “The List of Wetlands of International Importance” (The Ramsar List)³,

² As defined by relevant ILO conventions, forced labor means all work or service, not voluntarily performed, that is extracted from an individual under threat of force or penalty. **Child labor** refers to **work that is mentally, physically, socially or morally dangerous and harmful to children**; and/or **interferes with their schooling** by depriving them of the opportunity to attend school; obliging them to leave school prematurely; or requiring them to attempt to combine school attendance with excessively long and heavy work.

³ RAMSAR: Convention on Wetlands of International Importance, especially as Waterfowl Habitat. Current RAMSAR list is available on the Ramsar website.

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- Production or trade in unbounded asbestos (This does not apply to purchase and use of bonded asbestos cement sheeting where the asbestos content is less than 20%).
- Drift net fishing in the marine environment using nets in excess of 2.5 km in length; including using explosives and toxic substances,
- Activities falling within the scope of prohibited activities in CITES⁴,
- Production or trade in any product or activity containing/related to PCB's (Polychlorinated biphenyls) regardless of the sector⁵,
- Transboundary commerce of wastes or disposals not in compliance with Basel convention and related regulations⁶,
- Production or trade in controversial weapons or important components for the production of controversial weapons (Anti-personnel mines, biological and chemical weapons, cluster bombs, radioactive ammunition, nuclear weapons are considered as Controversial weapons").⁷,
- Activities posing a threat to the areas in UNESCO World Heritage List,
- Production or trade in Ozone Depleting Substances not permitted by the national regulations
- Production of alcoholic beverages⁸,
- Activities of gambling, casinos and equivalent enterprises (except authorized lottery shops)^{9,10},
- Production or trade in any pharmaceuticals, pesticides / herbicides subject to international bans and local legislation
- Transportation of oil and other hazardous substances via tankers that do not comply with the requirements of International Maritime Organization (IMO)
- New coal thermal power plant and new coal mining investment projects
- Production or trade of radioactive products (Medical equipment, quality control (measurement) equipment or practices are not included within this scope.)
- Commercial logging operations for use in primary tropical moist forests,
- Production or trade in wood or other forestry products other than from sustainably managed forests
- Production or activities that impinge on the lands owned, or claimed under adjudication, by Indigenous Peoples, without full documented consent of such peoples

⁴ CITES: Convention on International Trade in Endangered Species of Wild Fauna and Flora. Current checklist of CITES species is available on the CITES website.

⁵ PCBs: Polychlorinated biphenyls—a group of highly toxic chemicals. PCBs are likely to be found in oil-filled electrical transformers, capacitors and switchgear dating from 1950-1985.

⁶ Basel Convention (1989) on the control of trans-boundary movements of hazardous wastes and their disposal.

⁷ As per the classification in the QNB Finansbank Sector Classification List

⁸ As per the classification in the QNB Finansbank Sector Classification List

⁹ As per the classification in the QNB Finansbank Sector Classification List

¹⁰ This does not apply to Project sponsors who are not substantially involved in these activities, "Not substantially involved" means that the activity concerned is ancillary to a project sponsor's primary operations.

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Total Cap in MSME will not exceed 1% risk in the following MSME* activities;

- Trade in alcoholic beverages¹⁰
- Production or trade of tobacco¹⁰
- Production, trade, storage or transport of significant volumes of hazardous chemicals or commercial scale usage of hazardous chemicals. Hazardous chemicals include: gasoline, kerosene, and other petroleum products¹¹
- Coal related sub-projects and activities including coal mining, coal transportation and coal trade¹⁰

*Description of MSME Activities are given below;

MSME is the abbreviation of micro and SME and SME means small and medium enterprises.

Segments as per IFC Definition	Sales Amount (Annual)	Total Assets
Micro	Below USD 100,000 and equivalent currency	Below USD 100,000 and equivalent currency
Small	Below USD 3,000,000 and equivalent currency	Below USD 3,000,000 and equivalent currency
Medium	Below USD 15,000,000 and equivalent currency	Below USD 15,000,000 and equivalent currency

7.4 Environmental and Social Risk Categorization

QNB Finansbank applies the Environmental and Social Risk Assessment Model to all project loan applications that are not listed in the “QNB Finansbank Exclusion List” which have a credit amount of minimum 10 million USD, and a tenor of 24 months and above and all loan applications with a credit amount of minimum 25 million USD and a tenor of 24 month and above (except project loans). Through such, appropriate Environmental and Social Risk Categorization (of which details are provided down below) is determined:

Category A: Projects with significant potential adverse social or environmental impacts or risks that are diverse, irreversible or unprecedented.

Category B+: Projects with generally limited potential adverse social or environmental impacts or risks that are site-specific and readily addressed through mitigation measures, but having some specific features that can have significantly larger adverse social or environmental impacts.

Category B-: Projects with limited potential adverse social or environmental impacts or risks that are site-specific and readily addressed through well-known mitigation measures.

¹¹ Only in Micro segment

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Category C: Projects with minimal or no adverse social or environmental impacts or risks.

8.0 Reporting, Disclosures and Transparency

Where necessary, QNB Finansbank will disclose and report its E&S performance in accordance with relevant local and global reporting standards, provided that such disclosure and reporting do not contradict with the provisions set out in the regulations in effect.

9.0 Dialogue with Stakeholders and Grievance Mechanism

In order to receive all important feedback and understand their priorities, QNB Finansbank will maintain dialogue and consultation channels with its main stakeholders; employees, shareholders, clients, suppliers and regulators. QNB Finansbank will also establish effective E&S grievance mechanisms for individuals and communities who may be impacted negatively by the Bank's operations.

10.0 Governance

QNB Finansbank Board of Directors: The Board ensures that this Policy and Exclusion List are implemented effectively throughout the organization. The Board is the ultimate responsible body for approving any amendments done in this Policy and Exclusion List.

QNB Finansbank Sustainability Committee: QNB Finansbank Sustainability Committee (SC) is the main sustainability oversight and decision-making body. This includes reviewing the strategic framework and ambition, deciding on priority initiatives for implementation with accountable working groups, monitoring performance, and assessing ESG-related risks and opportunities. When required, the SC reports key risks and opportunities to the Board of Directors.

Corporate and Commercial Loans Allocation, Risk Management, Sustainability Teams: As the subject matter experts, within the sphere of their responsibility, aforementioned will be responsible for managing daily activities stated in this policy and related procedures. **Environmental and Social Specialist**, under Corporate and Commercial Loans Allocation organization, will also act as an advisor to business units, sustainability team and senior management for all E&S related matters including providing opinions on regulatory changes, performing regular/ad-hoc reporting activities and responding to internal and external stakeholders' E&S related inquiries and complaints.

Internal Systems (Risk Management, Internal Control, Internal Audit): Within their sphere of responsibility, internal systems provide guidance and adequate support to ensure the provisions set out in this policy are adopted and implemented correctly. Within this scope;

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Internal Control Department: Determining the cases that might affect procedures negatively or the issues that do not comply with internal regulations and sharing results with the Audit Committee and Top Management.

Internal Audit Department: Examining and auditing that credit practices are carried out in parallel with ethical principles, approval and control functions are effectively performed by taking into consideration relevant articles in internal systems regulation, Sharing results of audit with Audit Committee, Top Management and relevant managers and making rehabilitative suggestions.

Business Units: Management and execution of daily activities falling within the scope of this policy is the responsibility of all relevant business units.