

NMB Bank PLC



Social Bond **Framework**

Introduction

Harnessing the power of vast network, deep rooted local presence in Tanzania, spanning over 24 years, NMB Bank PLC (a Listed Company, incorporated in the United Republic of Tanzania) continues to build upon its legacy as a banking pioneer, advancing Tanzania's ambitions through financial services.

NMB Bank PLC has been playing a vital role in the financial sector and Tanzania economic development for over 24 years. Since its inception in 1997, the Bank has grown successfully into the largest and most profitable Bank in Tanzania. The Bank has a balance sheet size of over TZS 8.2 trillion as of 30th September 2021, with a customer base of more than 4 million customers and 3,483 full-time employees.

NMB Bank has played a significant role in the Country's economic development agenda and continues to support the country's growth aspirations. It has been pivotal in supporting the high growth sectors, as well as purposeful driving the financial inclusion agenda. The Bank offers a full suite of financial services and products to a wide range of our clientele in our Retail, Wholesale, and Treasury business divisions. NMB's products and services, including both conventional and specialized, involve Trillions of Shillings of domestic and international transactions, which significantly impact the Tanzania economy each year.

NMB Bank continues to leverage on its vast network to offer the best banking experience to its valued customers. With a footprint across 169 Districts, and a broad suite of digital channels, the Bank's vast network gives its clients the flexibility and convenience of banking. NMB has 225 branches, 9,758 active agents (Wakala) and 753 ATMs across the country as of 30th September 2021.

Owing to its proven track record of excellence and its strong commitment to innovation, the Bank has received numerous local and international recognitions, including being awarded the "Best Bank in Tanzania" by Euromoney for nine years in a row (2013-2021), the Safest Bank in Tanzania for the last two years by Global Finance Magazine, Best Retail Bank in Tanzania for the year 2021 by Global Banking and Finance Award, and Best Investment Bank in Tanzania for the year 2021 by World Economic Banking Award.

NMB is a licensed Investment Advisor by the Capital Markets and Securities Authority (CMSA) and the only commercial bank with a Medium-Term Note program in the market of TZS 200 Billion. Through this we have structured and mobilized funds in 3 different tranches to a tune of TZS 149 Billion from the public to finance bank's lending to the private sector.

NMB is committed to supporting the country's social-economic development agenda by;

- Promoting employment through job-creation
- Increasing women and youth participation in businesses and promoting gender equality
- Improving sustainability of the environment and natural resources
- Supporting growth and development of Agriculture sector
- Improving access to finance to widen financial inclusion; and
- Improving overall access to healthcare.



NMB Bank's commitment to ESG

NMB Bank, through its efforts seek to fulfill its goal of being a strategic ally in the economic, environmental, and social development of Tanzania.

In recognition of our responsibilities as a vehicle for sustainable social-economic prosperity in Tanzania, our goals extend beyond economic and financial dimensions, to include environmental, social, and governance challenges. Observing the principles of sustainable banking, NMB Bank PLC, as a responsible financial intermediary, aims to promote the United Nations' Sustainable Development Goals (SDGs) through provision of products and services and our business operations, all undertaken with a sense of social and environmental responsibility and stewardship. NMB Bank PLC holds strong to our conviction in continuing to grow our business, while fulfilling broader development goals which include financial inclusion ranging from the underserved to the women, SMEs and retail segments. The Debut Jasiri Gender Bond issuance reaffirms NMB Bank's corporate citizenship practices towards sustainable development with positive impacts on women clients and is part of our broader ambition to meet the Sustainable Development Goals defined by the United Nations:



Enhanced Value Propositions

Launch of Women Proposition – “Jasiri”: the women's proposition was launched in recognition of the important role that women play in the social-economic development of Tanzania.

- The proposition aims to increase women's access to formal financial services through a package of banking services which are aimed at addressing their unique needs and helping them achieve their goals.
- The proposition forms a core part of the bank's women strategy and complements efforts to widen financial inclusion and address barriers to accessing financial services for women.

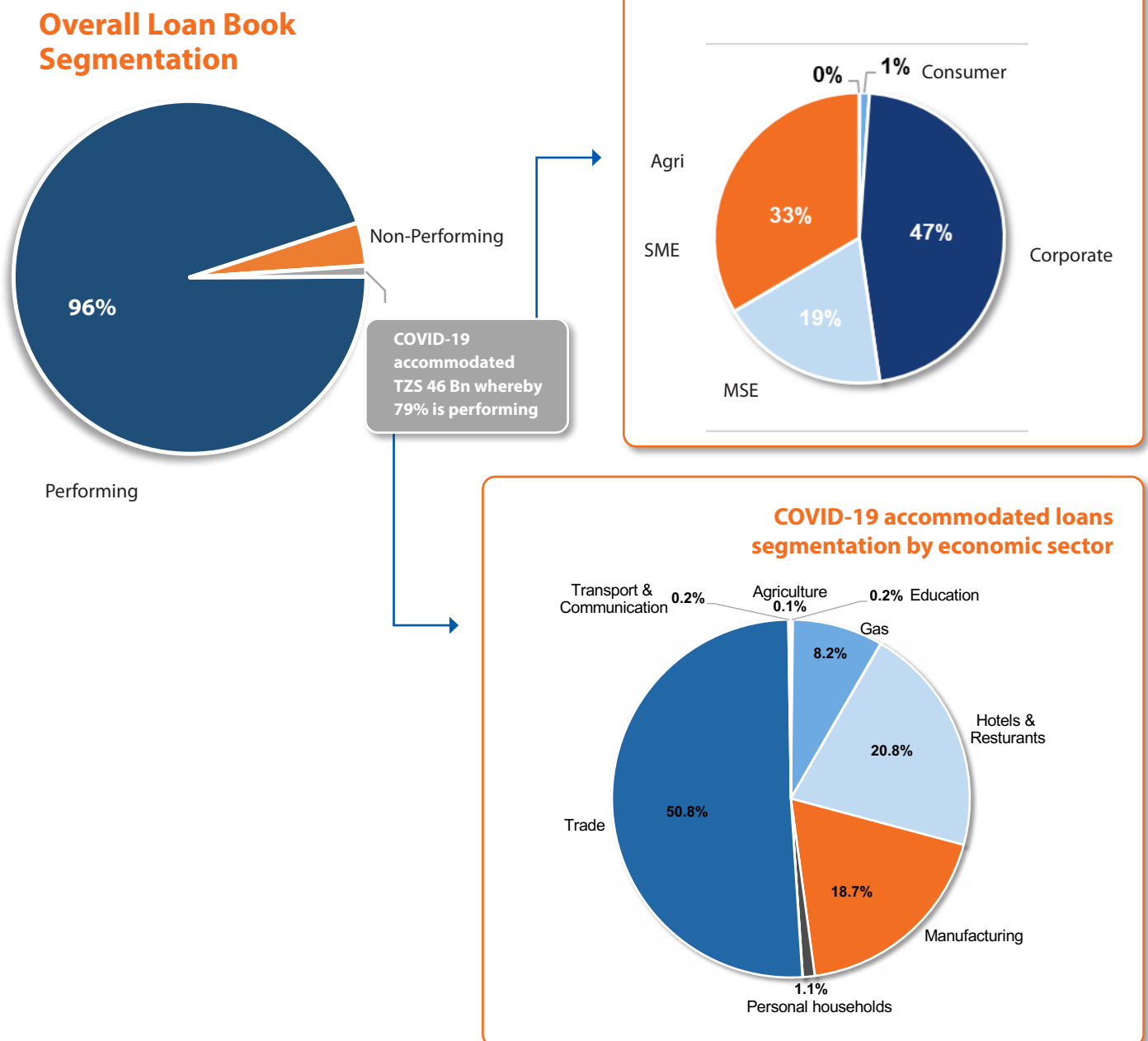
Youth Proposition Launch: The bank launched “Go na NMB”, the first-in-the-market youth-focused value proposition, which offers unique benefits for the youth in helping them build a more financially secure future. The initiative complements the Wajibu Proposition which aims to build financial literacy skills for the youth.

- This key initiative goes hand-in-hand with the bank's commitment to providing improved access to financial services (widening financial and digital inclusion), which further reiterates the bank's role of supporting Tanzania's social-economic development.

Our Response to the COVID-19 Pandemic

In the context of the Covid-19 crisis, the Bank deployed an emergency response plan with the following goals:

- Support the employment sector notably for women and young people. The aim is to preserve (and create when possible) jobs and production tools of Small and Medium companies and micro-enterprises. To do so, NMB Bank PLC created a special COVID-19 relief fund, geared towards credit extension to businesses, economic activities and sectors adversely impacted by the COVID-19 Pandemic.



- Support Tanzania Government by providing funding (COVID Relief) for basic health care programs and health equipment and supplies. As part of its support to the Government in the fight against the spread of COVID-19, an overall package TZS 200 Million was extended in donation to the Government of Tanzania.

Overview of NMB Bank's Social Bond Framework

Rationale for NMB Bank to issue Social Bonds

NMB Bank's mission is to be the bank of choice, delivering innovative and transformative customer experience that promotes financial inclusion and well-being. The implementation of this mission "delivering human development and social inclusion", amongst the objectives of the strategy of NMB Bank is the support of efforts that lead to reduction of poverty, inequality and in a focused manner contribute to Tanzania's economic prosperity. Within its priorities, NMB Bank has the objective of financing Country's social projects, as well as strengthening the portfolio of its projects within sustainable development scope. Thus, the issuance of a Social Bond to finance social projects is a means for NMB Bank to further commit to the fight against social inequality and to contribute to economic and social development. NMB Bank's Social Bond issuances intend therefore to redirect financial flows towards strategic sectors, including, but not limited to: Access to Essential Services, Employment Generation, Socioeconomic Empowerment, Affordable Basic Infrastructure, Food Security and Sustainable Food systems. In that way, the most impacted SDGs are: 1. No poverty, 3. Good health and well-being, 4. Quality education, 5. Gender equality, 8. Decent work and economic growth, 10. Reduced inequalities and 11. Sustainable cities and communities.

NMB's Social Bond Framework is aligned with the ICMA Social Bond Principles as updated in 2021 and its four components, as detailed in the next sections

1. Use of Proceeds

- The net proceeds of any NMB Bank Social Bond issuance will be used to finance and/or refinance eligible social projects and assets selected from NMB's loan portfolio, as defined below.

Eligible Asset Categories:

1.1. Access to essential services

- Health systems development Investments to finance operation, maintenance, improvement, and development of healthcare institutions, this may include healthcare attention equipment and/or services, healthcare prevention equipment and/or services.

Definitions of eligible projects and activities:

- Financing construction, operation, maintenance, improvement and/or purchase of equipment for public hospitals and other public healthcare institutions.
- Financing construction, maintenance, improvement and/or purchase of equipment for private hospitals and other private healthcare institutions which provide free or subsidized access to vulnerable communities¹ (living below poverty line, excluded and/or marginalized populations, People with disabilities, unemployed, Elderly, Sick and underserved).

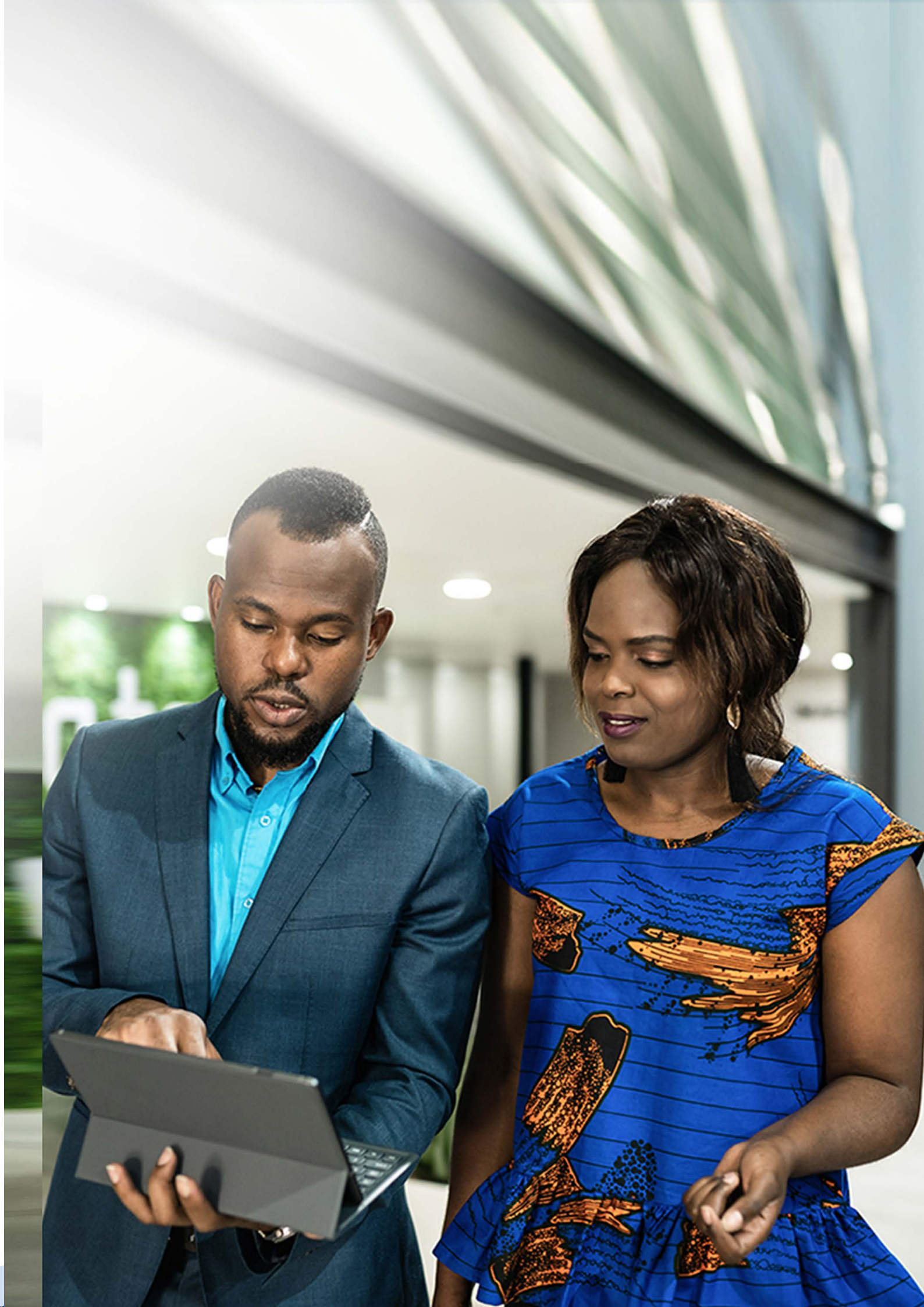
Target Population:

- Underserved, owing to a lack of quality access to essential goods and services
- Sick, elderly or vulnerable people

This refers to [population segments that have a higher risk of being subjected to discrimination, violence, natural or environmental disasters, or economic hardship.

Targeted SDGs:





1.2 Employment generation

- Proceeds under this category will be targeted at Micro, Small and Medium Enterprises (MSMEs) in order to generate employment and reduce inequalities

Table 1: SMEs NMB's definition - Enterprise size (Turnover)

MSE: Turnover of up to TZS 150 million

SME: Turnover between TZS 150 million- TZS 15 billion

Corporates: Turnover above TZS 15 billion

Definitions of eligible projects and activities:

- Credit facilities, preferential interest rate loans for all SMEs, such as but not limited to (health, education, agriculture, manufacturing etc.).
- Long-term working capital and credit to balance cash flow and support unforeseen expenses to micro and small business.
- Poverty alleviation, employment programs and other programs that contribute directly to the stimulation of sustainable economic activity.

Target Population:

Micro, Small and Medium Enterprises (MSME's)

Targeted SDGs:



1.3 Socio-Economic Empowerment

- Gender inclusion: Proceeds in this category can support SMEs, as defined by NMB Bank (Table 1 above) owned and/or controlled by women and boost the advent of new female entrepreneurs.

Definitions of eligible projects and activities:

- Credit facilities, preferential interest rate loans to increase productivity for SMEs controlled by women (SMEs with women with capital stock with more than 50% ownership).
- Long-term working capital and credit to balance cash flow and support unforeseen expenses for SMEs controlled by women.
- SMEs & MSMEs that offer products and services that specifically or disproportionately benefit Women
- Credit facilities to SMEs & MSMEs that have 30-50% women as workforce

Target Population:

- Women

Targeted SDGs:



1.4 Food security and sustainable food systems

- Access to adequate food for low-income populations Investments and financing in the agricultural sector and food systems to end hunger, achieve food security and significantly enhance nutrition. For low-income population, we refer to the population that is living below the poverty line²

Definitions of eligible projects and activities:

- Small scale irrigation and agriculture value chain development – with a view to improve productivity of small-scale producers
- Provision of farm infrastructure and agriculture inputs for rural farmers
- Small scale fishing and aquaculture sectors of the Blue Economy in Zanzibar

Target Population:

- Farmers living in rural areas marked by food insecurity
- Small holder farmers

Targeted SDGs:



To be earmarked as eligible, Assets must meet the definition of Social Bond Assets and be financed by eligible types of financing within a specific period. The bank has a plan to have all the proceeds deployed within 18 months of issuance. **(the Lookback and Look-forward periods i.e., 2 years respectively)**. These include: Loans and advances to customers:

- MSE
- Other Consumer loans
- Salaries workers loans
- Corporate customers
- SMEs
- Agribusiness

As at December 31	2019	%	2020	%
	TZS million		TZS million	
Financial institutions	1,933,687	35%	1,904,108	32%
Manufacturing	327,713	6%	202,047	3%
Trading and commercial	362,464	7%	214,262	4%
Transport and communication	118,832	2%	76,244	1%
Wholesale and retail	354,923	6%	577,906	10%
Agriculture	100,512	2%	203,639	3%
Individuals	2,150,573	39%	2,829,529	47%
Others	163,535	3%	5,633	0%
Total	5,512,239	100%	6,013,368	100%

² NMB Bank Plc aligns with the World Bank's definition of poverty line as those with income of less than USD 1.90 per day (in Purchasing Power Parity terms)

Exclusionary criteria:

The Bank's Internal Non-Exhaustive Exclusion list which is in alignment with Country's legal requirements and IFC's exclusion list of project and activities) details a list of economic activities that should not be financed by the Bank.

In this regard, NMB Bank commits to not knowingly using the Proceeds of Social Bonds for the financing of assets/ projects included in the exclusionary criteria:

Table 2: Activities and Projects Not Eligible for NMB Bank's Social Bond Portfolio

1. Production or activities involving exploitative forms of forced labor or human trafficking.
2. Production or trade in any product or activity deemed illegal under Tanzania laws or regulations or international conventions and agreements.
3. Production or trade in weapons and munitions or other activities related to war industry.
4. Gambling, casinos and equivalent enterprises.
5. Trade in wildlife or wildlife products protected by national or international law or regulations.
6. Production or trade in radioactive materials.
7. Financing of Tobacco (specific for this framework)
8. Production or trade in unprotected asbestos fibers as well as their use.
9. Commercial logging operations or the purchase of logging equipment for use in primary tropical moist forest.
10. Production or trade in products that contain high toxic chemicals.
11. Production or trade in pharmaceutical products subject to gradual elimination or international bans.
12. Production or trade in pesticides or herbicides or any other agrochemical subject to gradual elimination or international bans.
13. Production or trade in ozone depleting substances subject to gradual elimination or international bans.
14. Production, trade or manufacture of illegal drugs or psychotropic substances.
15. Activities which, because of their nature, are deemed against NMB Bank's environmental policy (under Credit Policy) or Tanzania laws.
16. Activities which, because of their nature, are deemed against the ethical and moral principles established in the NMB Bank's Code of Conduct and complementary laws.
17. Projects for the generation of power or heat using fossil fuels, as well as projects that are directly linked to power or heat generated on the base of fossil fuels (specific for this framework).



2. Process for project evaluation and selection

NMB Bank's Social Bond Framework guides the selection process for the Social Bond project portfolio, and fully reflects the guidelines set forth in the SBPs.

Projects are approved based on compliance with local laws and regulatory social requirements. Furthermore, projects will undergo an extensive internal credit review process.

The Evaluation and Selection Process is as follows:

The loan process consists of several stages that must be carried out to evaluate a potential eligible customer. It becomes an ongoing process if the customer is approved.

A robust decision-making process defines how Social Bond Assets are approved:

Internal selection and evaluation process		Committee sign-off	Periodic Reviews
1	2	3 Confirmation	On-going
<p>At a minimum, on a quarterly basis, the business lines as owners of the projects/assets will make selection to match the eligibility criteria for either refinance or financing.</p> <p>Note: Environmental and social risk assessment tools are integrated in our loan approval processes to assess E&S risk profile of projects and customers.</p>	<p>Then the Loan Evaluation begins. Fundamental components at this stage include identifying the use of proceeds, classifying it into a segment, and accurately understanding the business and differentiating variables that make it successful at what it does.</p> <p>The Bank's Environmental and Social Impact Management Policy (E&S Policy) is the principal policy which will be used during the evaluation stage in mainstreaming environmental and social considerations. The Policy ensures the systematic assessment of environmental and social impacts and risks; and apply the Operational Safeguards to the entire portfolio of Bank operations.</p> <p>After selection, Business Engagement Request is developed that demonstrates the Bank's interest to finance/invest in the identified asset.</p>	<p>In the approval stage, the Bank formally designates the applicant as creditworthy or not. To accomplish this, NMB Bank Plc has defined approval authority levels based on the amount. Approval decisions are made by either at:</p> <ul style="list-style-type: none"> • Branch Mandate level • Management Committee (Cred-Co) • Board Credit Committee (BCC) depending on the amount. <p>Upon submission and approval of this request by the relevant committee, Credit Appraisal is submitted to either the Cred-Co or BCC accompanied by social management plan detailing the nature of the project and the intended positive impact expected from financing/investing in the particular project.</p> <p>Note: Social Bond Assets will be tracked with a special mark in the Bank's IT system to ensure strong governance and oversight of the portfolio</p>	<p>The Bank will endeavor to conduct periodic peer reviews to check whether allocated assets meet eligibility criteria.</p> <p>The periodic reviews are done by the Credit Monitoring and Evaluation team</p>

This review processes is designed to provide feedback to enhance, improve and if necessary, adjust project's operations to achieve positive impacts in line with desired outcomes. For refinancing projects sub-allocation of funds will be done by Treasury team from the available proceeds.

The following table shows typical impact metrics per sector of investment that will be available to the Credit Committee (Cred-Co) and Board Credit Committee (BCC) when evaluating and selecting eligible projects:

Table 3: Examples of Impact metrics (including, but not limited to)

Project Category	Selected Output & Outcomes Indicators
Access to Essential Services	Number of people with access to better health services Number of health centres constructed and/or equipped
Employment Generation	Number of SMEs financed Number of Employment created through SME financing
Socio-Economic Empowerment	Number of female owned businesses financed Number of Employment created towards women Number of loans to women
Food security and sustainable food systems	Number of agri-businesses financed Number of small holder farmers engaged Number of farmers reached

- The **number of jobs created** and the **number of beneficiaries**, particularly with respect to **women** and **youth**, is a common evaluation

metric running through all the Bank's projects reviewed for selection

3. Management of Proceeds

The net proceeds of the outstanding bonds will be credited to a sub-account under Retail Business. Allocations and repayments will be monitored by Credit Administration department and shared to on a monthly basis to Treasury who will reported to the Executive Committee on quarterly basis. Disbursements will be made within a year, depending on when each project/business milestone is reached. These projects will be assigned a special code for ease of identification in the Bank's Business Intelligence (BI) reporting tool. However, outstanding proceeds will be adjusted to match allocations to eligible projects made during that period.

Where applicable, unutilized proceeds will be invested in accordance to the Bank's liquidity asset management investment policy until disbursement. This is mainly in short term money markets products from Sovereign, Supranational, Agencies, Development Banks and Financial Institutions. As a financial institution we have a high level of transparency and third-party assurance to verify the internal tracking method and the allocation of funds can be given by internal/external auditors. In case loans or investments are no longer eligible or have been repaid early, NMB will make an effort to replace these assets with other Eligible projects.

4. Reporting

4.1 Allocation Reporting

On a quarterly basis Treasury will prepare a Social Bond Outstanding Report to update investors on the allocated assets. This report will provide the following information:

- the allocated assets including a breakdown of exposure by type of assets is maintained by Retail Business with the support of Credit Admin.
- Share of new financing and refinancing
- the total outstanding of social bond transactions
- unallocated proceeds

Note: The Report will be Publicly available via NMB Bank's Corporate Website

4.2 Impact reporting:

On an annual basis, NMB Bank will provide an impact report. The methodologies and calculation model used to estimate the impact will be developed by an independent external consultant/Auditors.

- The results will be published via NMB Bank's Corporate Website

External Verification of Allocation and Impact Reporting

- Allocation report: Letter of attestation to be provided by the Bank's independent auditor
- Impact Reporting: To be verified by the SPO Provider

Note: Verification documents will be publicly available via NMB Bank's Corporate Website

5. External Review

As per Social Bond Principles, NMB Social Bond Framework will be reviewed by Sustainalytics which confirms this framework is well aligned with these principles. This Second Party Opinion will be available in our Corporate Channels www.nmbbank.co.tz

Any material changes to this Framework will be submitted for review to the Second Party Opinion Provider.



