



Bank of the Year, ASIA 2021
Bank of the Year, Nepal
2017, 2018, 2020 & 2021



NMB BANK LIMITED Carbon Disclosure Report FY 2023



Background

Nepal is making strides toward achieving its 17 Sustainable Development Goals, currently holding the 99th position with an overall score of 66.47. Notably, it has successfully achieved milestones in SDGs 12 and 13, focusing on Responsible Consumption and Climate Action, respectively.

In alignment with global efforts, the COP26 commitments for Nepal encompassed a three-point agenda. This included the ambitious goals of achieving Net Zero emissions by 2045, preventing deforestation while increasing forest cover to 45% by 2030, and ensuring that at least 15% of the total energy demand is met through clean energy sources.

Aligned with the nation's ambitions and commitment adhering to the Paris Agreement, NMB Bank is demonstrating a strong commitment to sustainability and is dedicated to implementing sustainable banking practices. This commitment is clearly outlined in our comprehensive 5-year strategic plan.

Sustainability Commitments

Recognizing the imperative role that financial institutions play in fostering sustainable development, our bank is steadfast in its commitment to environmental and social responsibility.

- Aligning portfolio to support country's Sustainable Development Goals.
- Support Customers in Green transition.
- Reduce the bank's environmental impact.
- Embed Climate in Risk Management
- Promote and support Social Impact initiatives including diversity and inclusion.

Sustainability Strategies

Sustainability Strategies of the bank include:

- Follow principles of Value-based banking by focusing on People, Planet and Prosperity.
- Financing more than 50% towards supporting real economy of the country.
- Lead in financing Hydropower projects in the country thereby replacing one of the largest imports of the country as well as offset at least 10,500 tons of CO2 by 2025.
- Implement international standard of ESG following IFC Performance Standards.
- Being responsible and transparent with prudent disclosures to its stakeholders.



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Fiscal Highlights 2022/23

Country

Nepal continues to confront ongoing challenges stemming from climate change including adverse effects of floods, landslides, and occasional seismic events.

While the political landscape maintained a general sense of stability, the government grappled with persistent challenges related to developmental and economic priorities.

- Inflation rose beyond a single-digit figure, reaching 7.74.
- Agriculture and Service sectors witnessed a nominal growth of over 2 percent each during the fiscal year, contributing 24.12 percent and 62.43 percent, respectively to country's GDP.
- Hydropower projects, one of the country's top priorities, observed increase in installed capacity of electricity by around 500 megawatts, reaching a cumulative total of 2,684.4 megawatts.

Bank

NMB Bank has strived to be a forerunner in ESG management, embodying its commitment to sustainability aspirations by adopting global best practices, not only within its own operations but most importantly in promoting and assisting its clients and other stakeholders.

The bank worked to decrease its carbon footprint through financing green projects, potential carbon offset options and minimizing carbon emissions in its internal operations.

Some of the major highlights were:

- Over 61% of the year-on-year growth in risk assets is attributed to sectors such as Agriculture, Renewable Energy (including Hydropower), and Project Financing.
- Maintained a forefront position in attracting international financing to the country, securing new funding of USD 25 million from British International Investment and USD 10 million from FMO, Dutch Entrepreneurial Development Bank for investment in Hydropower and Green Projects respectively. Overall outstanding from various international development financial institutions stood at USD 112.83 million.
- Ensured enhanced Environmental & Social Due Diligence for all project financing proposals including Hydropower projects and high-risk Corporate accounts.
- Various stakeholders' reporting and disclosures including Carbon Emission Disclosure.

Value-based banking:

As dedicated members of the Global Alliance for Banking on Values (GABV), we wholeheartedly embody and uphold the six guiding principles of Value-Based Banking. Our unwavering commitment is reflected in our earnest pursuit of i) Social and Environmental Impact and Sustainability in Business Models; ii) Serving Communities and the Real Economy; iii) Cultivating Strong Client Relationships; iv) Ensuring Long-Term Resiliency; v) Upholding Transparent and Inclusive Governance; and vi) Fostering a Culture deeply rooted in these fundamental values. This serious commitment underscores our mission to drive positive change and ethical practices in the banking sector.



Carbon Disclosure Report 2023

GHG Emissions: Business Loans & Project Financing Portfolios

Method

Source: Partnership for Carbon Accounting Financials (PCAF)

The Bank has used the Global GHG Accounting and Reporting Standard for the Financial Industry to estimate and disclose greenhouse gas emissions for its Business Loans and Project Financing portfolios.

Date of data: Nepali Fiscal Year-end 16th July 2023.

Overview

This is the second year in a row, the bank is releasing data related to carbon footprint in its financed portfolios for Business and Project Financing loans.

In the year 2022, as Nepal country-specific data was not available, the disclosure was based on GICS Sector codes with Emission Factor reference from *Asia Pacific – Rest of the world*. This year, we have based our disclosure on following new parameters:

- Exiobase Sector Classification 2019 database available with PCAF – Partnership for Carbon Accounting Financials
- Referring to emissions related to *Emerging Economies*

PCAF Database for Emissions are continuously updated based with most recent information available for various geographies, asset classes and sectors. Accordingly, Emission Factors for some business activities within our portfolio have significantly increased vis-à-vis the previous year, resulting in increase of the bank's overall CO2 emissions rather than due to any changes in the portfolio of the bank.

Further, Nepal specific Emission Factors are still is not available, hence the disclosure continues to be relative.

With this disclosure, the bank continues on its efforts to be transparent and prudent.

Portfolio Details

As of Nepali Fiscal Year (16th July, 2023), Business Loans and Project Finance (including Hydro Projects; excluding retail/consumer loans) portfolio outstanding comprised **58.8% and 15.3% of the bank's total loan portfolio** respectively (Previous year reporting: January 2022 amounted to 57.7% and 12.7%).

Calculation Methodology

The analysis is based on the following primary calculation methodology taking reference of PCAF Global GHG Accounting Standards for Financial Industry:

Classification Type	Exiobase Sector Classification
Methodology Option	Option 3B
Activity Variable	Assets
Country	Emerging Economies Emission Factors data as Nepal specific data are not available.
Emission Factor Source/ Year	PCAF Database 2019

Climate impact by industry 2023

INDUSTRY	Exposure (USD million)	SCOPE 1 tCO ₂ e	SCOPE 2 tCO ₂ e	TOTAL SCOPE 1 & 2 tCO ₂ e	Climate impact intensity tCO ₂ e/\$ mil
Business Loans	883.7	124,057	38,632	162,689	184.10
Project Finance	229.3	156,475	6,621	163,097	711.90
Grand Total	1,113	280,532	45,253	325,786	292.76

Results

Portfolio growth

Year-on-year *Business Loans* have increased by *1.4% only* while Project Finance portfolio has increased by 19.1%.

Business Loans Emissions

- Two major sectors with highest emissions are **Agriculture** and **Trading** which comprises almost 70% of the overall portfolio emissions. The size of business (portfolio outstanding) in these sectors have also contributed significantly in having higher emissions.
- Likewise, in terms of Emission Intensity, **Agriculture** and **Construction** segments have higher intensities of 727.7 and 294.7 tCO₂/\$ million.

Project Financing Emissions

- In Project Financing, **Construction** segment which primarily includes cement, iron and steel factories contributes for more than 96% of total emission of the portfolio.



Portfolio management for Emission reduction

With a resolute commitment to reducing carbon emissions, our strategic portfolio adjustments during this period have been instrumental. Notably, we achieved a remarkable **USD 29 million increase (15% growth) in the Hydropower portfolio, coupled with a substantial reduction of nearly USD 13 million (6.6% decrease) in the Construction portfolio.** These deliberate moves underscore our strong dedication to environmentally conscious practices and emission control.

Investing in hydropower emerges as a transformative force in our commitment to reducing carbon emissions. By strategically bolstering our hydropower portfolio, we actively replace fossil fuel consumption, fostering a cleaner and more sustainable energy landscape. This deliberate shift not only mitigates environmental impact but also propels us towards a future marked by reduced carbon emissions, aligning with our unwavering dedication to responsible and impactful investment strategies.

Further in context of Nepal, our strategic emphasis on **Hydropower investments** takes on added significance. With an abundance of untapped hydroelectric potential, channeling resources into hydropower projects becomes a vital step toward reducing the nation's reliance on fossil fuels. This concerted effort not only positions Nepal as a leader in sustainable energy but also contributes significantly to curbing carbon emissions. By harnessing the power of its rivers, Nepal has the opportunity to create a cleaner, greener future while simultaneously addressing the global challenge of climate change through the reduction of carbon footprints.

Scope 3 Emissions

PCAF guidelines directs to follow a phase-in approach for Scope 3 as well as separately disclose the emission. For reports published 2023 onwards, the following NACE L2 sectors are to be considered:

- energy (oil & gas) and mining (i.e., NACE L2: 05-09, 19, 20)
- transportation, construction, buildings, materials, and industrial activities (i.e., NACE L2: 10-18, 21-33, 41-43, 49-53, 81)

Scope 3 Emissions for the above mentioned sectors only is reported as follows:

INDUSTRY	Scope 3 (tCO2)
Business Loans	21,739
Project Financing	2,242
Total	23,982

Data Quality Score of Scope 1, 2 & 3 Emissions:

Referring to the PCAF classification methodology, data quality is considered **Score 5** and Option to estimate financed emission **3b**.

$$\sum_c Outstanding\ amount_c \times \frac{GHG\ emissions_s}{Assets_s}$$

Additional Details:

ABSOLUTE EMISSIONS (tCO₂e) – BUSINESS LOANS PORTFOLIO

The results details

Total Section-wise financed emissions under Business Loans portfolio:

- Though Emission Factor for Wholesale & Retail Trade is relatively low, Financed Emission under the section has amounted highest due to outstanding loan volume which comprises 49.9% of Business Loan Portfolio.
- Agriculture, Forestry & Fishing and Manufacturing are the other high emission sections due to their nature of business.

NACE GROUP	NACE SECTIONS	SCOPE 1&2	
		Emissions tCO ₂ e	%
1,2,3	Agri Forestry & Fishing	55,222.65	33.9%
7,8	Mining & Quarrying	1,593.17	1.0%
10-11, 13-14, 17-18, 20, 22-27, 31	Manufacturing	43,154.67	26.5%
35	Electricity, Gas, Steam & Air Conditioning	436.48	0.3%
42	Construction	382.69	0.2%
45-47	Wholesale & Retail Trade	60,001.42	36.9%
49, 52	Transportation & Storage	197.05	0.1%
55	Accommodation, Food Service	255.39	0.2%
59	Information & Communication	7.46	0.0%
64	Financial & Insurance	63.61	0.0%
68	Real Estate	17.27	0.0%
70	Professional, Scientific & Technical	341.83	0.2%
84	Public Administration & Defense	656.73	0.4%
85	Education	358.72	0.2%
	Total (tCO₂e)	162,689.15	

ABSOLUTE EMISSIONS (tCO₂e) – PROJECT FINANCING PORTFOLIO

The results details

Total Section-wise financed emissions under Project Financing portfolio:

The most *carbon-intensive* section/sector is **Manufacturing** as it includes Cement and Iron & Steel industries. Though it comprises only 18.6% of the portfolio, emission Intensity is high.

Almost **58%** of the portfolio pertains to **Hydropower financing** which significantly contributes to emission reduction by replacing usage of fossil fuel.

NACE GROUP	NACE SECTIONS	SCOPE 1&2	
		Emissions tCO ₂ e	%
23-25	Manufacturing	156,942.26	96.2%
35	Electricity, Gas, Steam & Air Conditioning	2,764.89	1.7%
42	Construction	28.45	0.0%
47	Wholesale & Retail Trade	1,007.86	0.6%
49, 52	Transportation & Storage	1,824.17	1.1%
55	Accommodation, Food Service	230.52	0.1%
64	Financial & Insurance	0.45	
68	Real Estate	32.22	0.02%
70	Professional, Scientific & Technical	0.62	
84	Public Administration & Defense	265.06	0.2%
	Total (tCO₂e)	163,096.50	

SCOPE 3 EMISSIONS (tCO₂e) – BUSINESS & PROJECT FINANCE

The results details	NACE GROUP		SCOPE 1&2	
		NACE SECTIONS	Emissions tCO ₂ e	%
Section-wise Scope 3 Emissions:	Business Loan			
Manufacturing is most carbon-intensive section/sector for both Business Loans and Project Financing portfolios.	42	Construction	257.74	1.2%
	10,11,13,14,17 18, 20,22-27,31	Manufacturing	19,658.63	90.4%
This is because it involves a complex network of suppliers, distributors and customers.	7, 8	Mining & Quarrying	1,676.05	7.7%
	49, 52	Transportation & Storage	147.24	0.7%
			21, 739.66	
A large portion of this emission is generated during production of goods and services.	Project Finance			
	23, 24	Construction	257.74	11.5%
	42	Manufacturing	1,609.17	71.8%
	49	Transportation & Storage	374.87	16.7%
			2,241.77	

NMB's Climate Ambitions

As we stand at the forefront of financial stewardship, our bank is unwaveringly committed to a transformative journey towards sustainability and climate resilience. Guided by a profound sense of responsibility, our climate ambitions encompass a multifaceted approach.

- We are dedicated to reducing our carbon footprint through strategic investments in renewable energy, with a particular emphasis on hydropower projects that replace fossil fuel consumption.
- Moreover, our commitment extends beyond internal operations, as we actively seek compensation and support from developed nations for the climate impacts experienced by our community. By integrating climate considerations into our risk management, supporting climate-resilient infrastructure, and fostering international collaborations.
- We aim to be a catalyst for positive change in both the financial sector and our broader global community.

Our climate ambitions are not mere aspirations; they are a testament to our unwavering commitment to a sustainable and equitable future.

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Financed Emissions. The Global GHG Accounting & Reporting Standard. Part A. Second edition 2022.