

GHG Emissions of Nabil's Infrastructure & Project Financing Portfolio (IPF)



Overview

The bank had formed Sustainable Banking vertical to incorporate ESG standards into its Products and services and also achieve sustainable development goals, with decision based on risk, return and impact. During the course, bank has launched various financial literacy programs in rural areas, has been promoting entrepreneurship through Nabil School of Social Entrepreneurship, promoting women's economic empowerment and undertaking various CSR activities aimed to have an impact on sustainable livelihood. Bank has further oriented its lending activities towards agriculture, commercial farm, entrepreneurship, women led enterprises and lending in other productive sectors (SME/MSME) to support the UN's Sustainable Development Goals (SDGs).

Nabil Bank has been implementing the Environmental and Social Risk Management (ESRM) guidelines prescribed by the regulator. However, even before this adoption, bank's credit policy already had a "Negative List" where it will not invest in or finance and a "Critical Sector list" where it shall ensure proper Environment and Social Due Diligence is carried out and those units do not carry adverse environmental and social impact while appraising them for bank financing.

Realizing that bank is also responsible for the emissions directly from its own activities as well as indirectly through its loans and investments, Nabil bank voluntarily took the membership of Partnership for Carbon Accounting Financials (PCAF) in January 2021. While bank itself is also responsible for its own Scope 1^a and Scope 2^b emissions from its direct operations, such emissions will not be significant. However, bank indirectly may be contributing significantly for the overall emissions through its loans and investments to businesses.

The emission disclosure made herein is thus the financed emissions from bank's loan and investment portfolio under IPF division as of FY 2021/22 closing (comprises portfolio from erstwhile Nepal Bangladesh Bank also) which construes as the Scope 3^c category 15 emissions disclosure under the PCAF Standard. The portfolio under IPF division represented 10.17% of bank's total LDO as on FY 2021/22 closing, i.e., 15th July 2022 and comprises exposure to business sectors like energy, cement, airlines & telecommunication services that come under the asset class of Project Finance as per the PCAF Standard.

- a. Scope 1 emission- emissions that occur from sources owned or controlled by the reporting company
- b. Scope 2 emission- Indirect GHG emissions from the generation of purchased or acquired electricity, steam, heating, or cooling consumed by the reporting company
- c. Scope 3 emission-All other indirect GHG emissions (not included in Scope 2) that occur in value chain of the reporting company.

Disclosure Method and Assumptions:

The Bank uses the Global GHG Accounting and Reporting Standard for the Financial Industry to estimate greenhouse gas (GHG) emissions under its IPF portfolio. The references to the emission calculation are as below:

Emission Factor Type	Emissions Generated and Avoided Emissions for renewable sectors
Emission Factor Option	Physical Activity Based, i.e., Option 2 (Energy produced annually in Mega Watt hour in FY 2020/21) & Economic Activity Based, i.e., Option 3 (Company Revenue in the financials of FY 2020/21)
Country	ROW (Rest of the World) Asia Pacific since Scope 1 and Scope 2 Emission Factors data specific to Nepal is not available & In case of Physical Activity Based emission factor for hydropower projects, the PCAF database provided factor specific to Nepal based on Combined Margin Grid Emission Factor has been referred for calculation
Source	The Global GHG Accounting & Reporting Standard for the Financial Industry by PCAF (First edition published on November 18, 2020) & PCAF Database last updated on December 22, 2021

The analysis is based on regional emission factors at an industry group level (GICS code) as available from the PCAF Database and bank's attribution to the absolute emissions up to the extent of its financing.

Though disclosure is for FY 2021/22, the attribution is determined from the total equity and debt of borrowing entities from their last available audited financial statement of FY 2020/21.

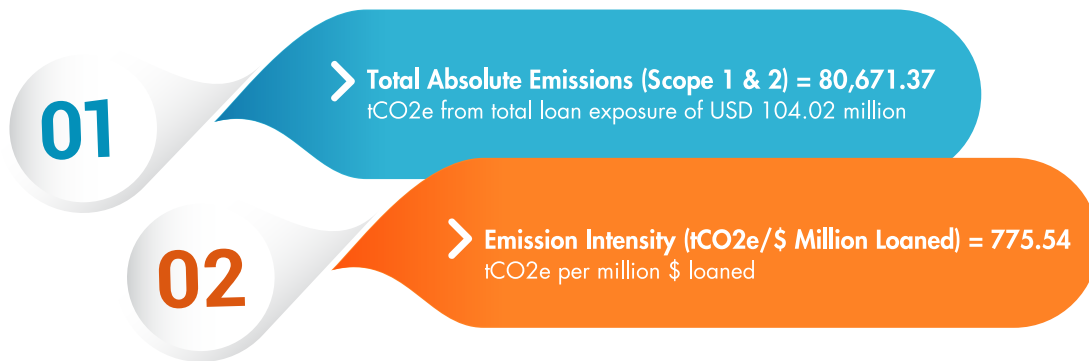
The construction emissions for renewable (energy) projects financed by bank are excluded for disclosure in the report as these projects generally are run of river (ROR projects), have low construction/lifecycle emissions and the emissions associated to these projects are generally their Scope 3 emissions coming from the Contractors and the Supply Chain which is not available for the calculation.

Disclosure Results:

The absolute emission attributable to loans and investments of Nabil Bank under IPF division (excluding renewable energy) is tabulated below:

S.N.	Global Industry Classification Standard (GICS)	Absolute Emission tCO ₂ e		Total Absolute Emission tCO ₂ e (Scope 1 & 2)	Bank's Exposure in USD Million	Data Quality Score
		Scope 1 tCO ₂ e	Scope 2 tCO ₂ e			
1	Construction Materials	74,970.32	914.11	75,884.43	56.06	Score 4 Option 3 (3a)
2	Airlines	4,426.61	15.03	4,441.64	15.40	Score 4 Option 3 (3a)
3	Integrated Telecommunication Services	321.13	24.17	345.30	32.57	Score 2 Option 1 (1b)
	Total	79,718.06	953.31	80,671.37	104.02	

(Weighted data quality score for above calculation is 3.37 where score of 1 indicates high data quality and score of 5 indicates low data quality.)



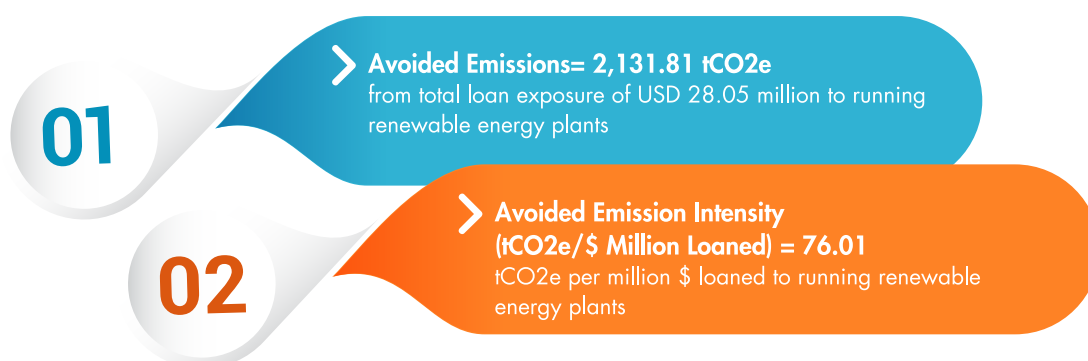
The highest emission is observed to be from Construction Materials (GICS sector/Materials/Construction Materials) which mainly comprise of mine based clinker/cement plants financed by bank and the exposure therein is almost representing 26.79% of the IPF portfolio on the reporting date.

However, the construction/cement units which are financed by bank have already commissioned and/or completed their capacity expansion programs and bank's loan exposure to them is now diminishing due to scheduled repayments while new exposure to this sector shall focus on more efficient cement plant technologies and satisfactory ESDD outcome.

Avoided emissions from loans and investments in energy & renewables (operational projects)

The avoided emission attributable to renewable energy projects (viz., ROR hydropower schemes and Grid Solar PV Plant) financed by Nabil bank under IPF division that are under operation is also disclosed below:

S.N.	Global Industry Classification Standard (GICS)	Emission tCO ₂ e (Avoided)	Bank's Exposure in USD Million	Data Quality Score
1	Renewable Electricity (Hydropower)	2,086.54	26.82	Score 3 Option 2 (2b)
2	Renewable Electricity (Solar)	45.27	1.23	Score 3 Option 2 (2b)
	Total	2131.81	28.05	



Since attribution factor has been based on the financed project's last available financials of FY 2020/21, the projects which had already commissioned in FY 2021/22 are thus excluded from the calculation.

The lending to Energy sector is a directed lending requirement of NRB and bank continues to finance under this sector.

Conclusion:

This disclosure process shall be further extended to include loan portfolio under other portfolios and/or asset classes going ahead. Where available and is possible, bank shall also try to use more qualitative data over time through engagement with borrowers and consultants on deemed required basis.

The measurement and disclosure of emission will help bank to set targets, develop strategy and take actions in the future to decarbonize and align its business activities with Paris Accord. This insight on emission intensity per sector shall be a base for developing decarbonization strategy and help bank pursue, reorient as well as align its business activities more towards achieving net zero.

Production : NABIL BANK LIMITED, NEPAL

Published : MARCH, 2023

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References : The Global GHG Accounting & Reporting Standard for the Financial Industry by PCAF (First edition published on November 18, 2020) & PCAF Database last updated on December 22, 2021

