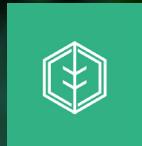


# Green Bond Framework



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## 1.0

# Introduction

The Arab Petroleum Investments Corporation (“APICORP”) was created by 10 countries in the MENA region in 1975 as a multi-lateral development financial institution that provides bespoke and competitive financing solutions to the Arab energy industry. These include equity investments and debt financing as well as advisory services and industry research. APICORP also extends support to non-Arab ventures that bring a direct benefit to Arab economies.<sup>1</sup>

From the time of its inception over 45 years ago, APICORP has set out to support the development of the Arab energy sector. At the time, the energy sector in the region revolved mainly around the petrochemicals industry, and APICORP has proved to be a leader in this space. Over the years, APICORP grew organically to diversify its investments across the energy spectrum. To illustrate, APICORP’s exposure to renewables as a portion of its lending portfolio more than quadrupled from 2015 to 2020. Furthermore, during the first quarter of 2021, APICORP’s Board of Directors approved the institution’s ESG Policy Framework that would allow it to measure and monitor its ESG impact in addition to devising future strategies and thresholds to manage its exposure from an ESG perspective.

APICORP is committed to promoting the sustainable development of the energy sector in its wider definition; this ostensibly includes the Environmental factor through supporting the energy sector’s low-carbon transition.

More specifically, our strategic focus is to promote an organic transition of the energy sector within the Arab region, and beyond, to a more sustainable future in a manner that is cognizant of the challenges that lay ahead, including externalities. Notably, APICORP gives higher attention to projects that rely on the use of efficient technologies which optimize the development of the energy sector and facilitate the formation of low or carbon neutral solutions, thus contributing to the overall reduction in greenhouse gas (GHG) emissions.



To achieve our objective, we have set out to expand our share of green financing within our lending and investing portfolios, understand the ESG impact of our remaining investments across the energy spectrum, set engagement strategies with our stakeholders to spread awareness concerning their ESG exposure, influence energy-related national policies, and advise on financing solutions for low carbon strategies.

<sup>1</sup> In 2011, APICORP established a partnership with the International Finance Corporation (IFC), a member of the World Bank Group, to co-finance developing-country energy projects featuring Arab investments.

1.1

# Integrating ESG into APICORP's Business

The purpose of APICORP's ESG Policy Framework is to solidify and institutionalize our commitment to environmental restoration, social responsibility, robust governance, and ethical operations. It outlines how APICORP identifies ESG objectives as well as builds a foundation from which governance will be undertaken and management actions will stem.



As part of our decision-making process, we evaluate the partners we finance and invest in based on their active policies and existence of tangible targets towards reducing their GHG emissions.



We also assess the efficiency of the measures they deploy to mitigate their environmental impact, and review the performance indicators they use to assess their ESG performance trends. Each company's ESG performance is evaluated on an annual basis, and our own portfolio performance is monitored in a recurrent manner. This helps us ensure our partners are committed to sustainable energy sourcing, investing in carbon capture technologies, and are actively working to mitigate ESG risks.

We have also introduced an ESG Due Diligence Toolkit to evaluate the ESG credentials of prospective companies before we make lending and investment decisions as well as the ESG performance of current portfolio companies.<sup>2</sup> This toolkit classifies ESG risks into high risk, medium risk or low risk thresholds based on a qualitative and quantitative assessment of the ESG performance of both projects and clients.

Notably, the ESG criteria we follow is derived from international standards such as the Equator Principles, the IFC's Performance Standards as well as Environmental, Health and Safety Guidelines, the SASB Standards, and sector-specific guidelines (e.g., IPIECA).

<sup>2</sup> [The reference for this is on page 18 of APICORP's ESG Policy Framework which is available on APICORP's official website at <https://www.apicorp.org/investor-relations/sustainability>]



We also abide by a strict policy regarding our exposure within the energy sector, as outlined below:



#### Coal-fired power

APICORP does not have any coal-related assets and will not finance projects related to coal, including clean coal.



#### Oil Sands

APICORP does not have any assets related to oil sands, and will not finance assets related to oil sands.



#### Fracking

APICORP has no fracking assets in the pipeline. A prudent approach is followed and an enhanced assessment is applied when considering any projects related to fracking.



#### Arctic Oil

APICORP does not have any assets in the Arctic and will not finance projects within the Arctic region.



#### Mining

APICORP follows a prudent approach and applies an enhanced assessment when considering projects related to mining.



#### Nuclear

APICORP has no nuclear asset exposures currently or in the pipeline. In the future, APICORP will only finance nuclear power generators that adhere to the highest international safety standards (including the IAEA's Safety Standards).



1.2

# APCIORP's ESG Strategy

Our 2020-2024 strategy sets out our objective to integrate ESG principles across our business.<sup>3</sup>

Our ESG Policy Framework details our objectives and outlines how it is integrated into our governance and operations.

Our ESG objectives cover **three main pillars** that are mapped to the Sustainable Development Goals (SDGs):



## Pillar 1: Responsible Banking and Investing:

APICORP has set clear ambitions to manage both its direct and indirect environmental and social impacts through the lending and investment portfolios. APICORP also strives to identify and assess ESG risks, promote sustainable financial products/instruments and support client transition to a low carbon economy.



## Pillar 2: Social Inclusion and Partnerships:

APICORP aims to promote access to finance and investment to support the development of the wider energy sector. APICORP also contributes to the social and economic well-being of its member countries through advocating green energy projects as well as forges strategic partnerships to promote its sustainability agenda. APICORP strives to develop and nurture its workforce as well as supports upholding human rights and diversity among its financing/investment partners, employees, and suppliers.



## Pillar 3: Financial Resilience and Governance:

APICORP's solid governance mechanisms, and strong risk management framework helps the organisation maintain its financial resilience and sustainable growth. The oversight of ESG risks and opportunities at the board and management levels coupled with dynamic and proactive engagement through research and advocacy supports APICORP's role as a key player in development of the energy sector.

<sup>3</sup>

[Refer to APICORP's 2019 annual report, "Strategy, Energy Economics, and Sustainability", page 34 [https://www.apicorp.org/files/AR-2019/APICORP%20AR19\\_EN\\_website.pdf](https://www.apicorp.org/files/AR-2019/APICORP%20AR19_EN_website.pdf)]

## Mapping APICORP's ESG objectives to the relevant Sustainable Development Goals (SDGs)

 <p><b>Environment</b></p>	<p>Managing direct environmental impacts.</p> <ul style="list-style-type: none"> <li>• Energy use</li> <li>• GHG emissions</li> <li>• Water consumption</li> <li>• Waste management</li> </ul>	 
	<p>Managing environmental and social risks in lending and investment activities as well as identifying opportunities.</p> <ul style="list-style-type: none"> <li>• The integration of ESG factors in lending and investment decisions</li> <li>• Addressing climate change risks in the lending and investment portfolio</li> <li>• Addressing human rights risks in the lending and investment portfolio</li> </ul>	
	<p>Promoting innovative sustainable financial products</p> <ul style="list-style-type: none"> <li>• Sustainable financial product innovation (loans, bonds, private equity, etc.)</li> </ul>	
	<p>Supporting clients transition to a low carbon economy</p> <ul style="list-style-type: none"> <li>• Financing and investing in renewable energy</li> </ul>	
 <p><b>Social</b></p>	<p>Managing direct environmental impacts.</p> <ul style="list-style-type: none"> <li>• Access to finance</li> </ul>	  
	<p>Developing and nurturing our workforce as well as encouraging human rights and diversity.</p> <ul style="list-style-type: none"> <li>• Employee training and development</li> <li>• Employee health and well-being</li> <li>• Diversity and inclusion</li> <li>• Human rights</li> <li>• Responsible procurement</li> </ul>	
	<p>Enhancing the social and economic profile of member countries as well as forging strategic partnerships.</p> <ul style="list-style-type: none"> <li>• Promotion of social and economic development</li> <li>• Stakeholder engagement</li> </ul>	
 <p><b>Governance</b></p>	<p>Maintaining financial resilience and sustainable economic growth.</p> <ul style="list-style-type: none"> <li>• Financial resilience</li> <li>• Risk management</li> <li>• Sustainable economic growth</li> <li>• Corporate governance</li> <li>• Prevention of corruption</li> </ul>	 
	<p>Ensuring oversight of ESG risks and opportunities at the board and executive management level.</p> <ul style="list-style-type: none"> <li>• Sustainability governance</li> <li>• Climate change board oversight</li> <li>• Human rights board oversight</li> </ul>	
	<p>Promoting policy engagement, advocacy, and research.</p> <ul style="list-style-type: none"> <li>• Policy engagement and research</li> </ul>	

As a leading energy-focused multilateral development financial institution, we are investing directly in various green initiatives, including solar PV plants, wind farms and sustainable sewage treatment facilities, amongst others.

We also recognize our responsibility to not only invest in clean energy and be a catalyst for positive change on the climate front, but to also operate more responsibly, efficiently and sustainably. In doing so, we have inaugurated a plan to upgrade the infrastructure of our buildings to sustainable, energy efficient structures by installing solar panels and other energy saving technologies.

We have also deployed water saving mechanisms and waste management optimization (including recycling initiatives), as well as promote responsible paper use by utilizing electronic platforms for document sharing and archiving.



This affirms our commitment to lead by example and upholds our responsibility to encourage sustainable business practices within our member states.

We also recognize that CO2 capture, utilization and storage (CCUS) is one of the technologies that can decarbonize both power generation and the industrial sectors. Indeed, collectively achieving our international climate goals will be significantly harder without CCUS. As a result of our support for this initiative, APICORP has teamed up with other leading financial institutions (the Finance Sector Lead Group for CCUS under the

auspices of the Clean Energy Ministerial) to draft the “Key Financing Principles for CCUS.” These are principles and recommendations for consideration by governments, industry and the financial sector to establish a business case for CCUS and kick-start the financing of CCUS projects globally. Notably, our participation in the drafting of these principles has served two objectives: 1) supporting a proven technology that is critical for the energy industry’s transition, and 2) aligning our efforts with the expectations of increasingly ESG-focused stakeholders.

2.0

# Green Bond Framework

APICORP's shall utilize the Green Bond Framework as a means to raise Green Bond/ Sukuk for the finance, refinance and/or investment in projects that deliver environmental benefits.

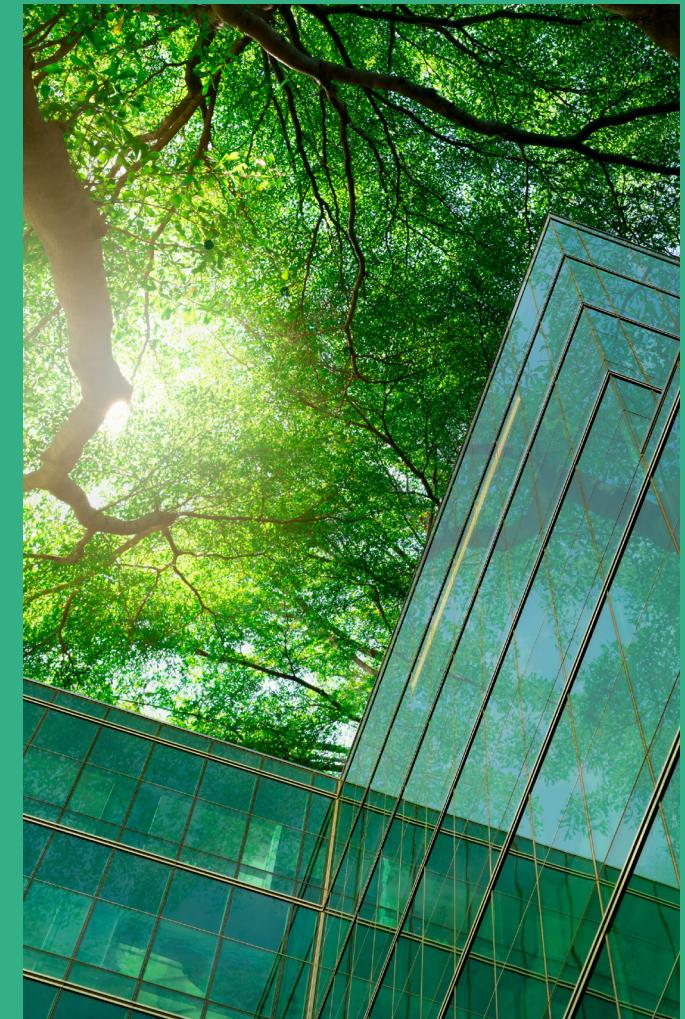
In effect, through the issuance of Green Bond/ Sukuk, we seek to reinforce our commitment to projects that are aligned with our ESG Policy Framework and advance the development of the broader sustainable finance market. We intend to allocate an amount equal to the net proceeds of an issuance to 'Eligible Green Projects' as defined by the Green Bond Framework.

The Green Bond Framework is in alignment with the International Capital Market Association's ("ICMA") Green Bond Principles 2021 ("GBP").

More specifically, this Green Bond Framework is aligned to the four core components of the ICMA GBP:

- 1 Use of proceeds;
- 2 Process for project evaluation and selection;
- 3 Management of proceeds; and
- 4 Reporting

The projects financed, refinanced and/or invested in by APICORP's Green Bond/Sukuk are also intended to be aligned with the Sustainable Development Goals and will aim to promote climate mitigation and adaptation.



2.1

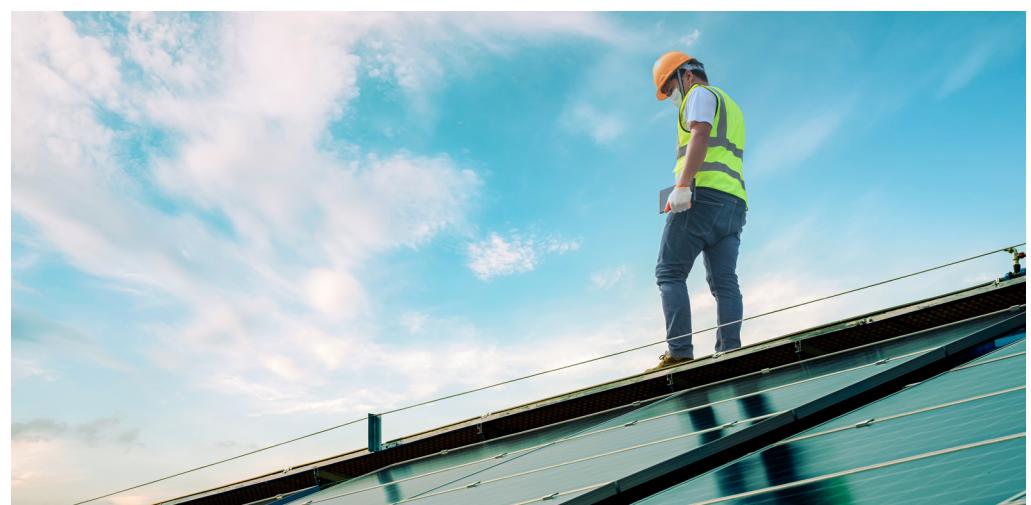
# Use of Proceeds

For all Eligible Green Categories presented below, Eligible Green Projects may include:

- Tangible or intangible assets,
- Capital expenditures, including selected acquisitions of pure green players with 100% of their turnover related to the Eligible Green Categories, and
- Selected operating expenditures (e.g., maintenance costs that increase or maintain the lifetime of related projects in the Eligible Green Categories)

The proceeds from any APICORP Green Bond/Sukuk will exclusively be used to finance, refinance and/or invest in whole or in part, new or existing projects under development and/or projects in operation from any of the Eligible Green Categories as defined below. All Eligible Green Projects are expected to provide significant environmental benefits towards Climate Change Mitigation while avoiding significant harm to either Climate Change Adaptation, Sustainable Use of Water Resources, the Transition to a Circular Economy, Pollution Prevention and Control and Biodiversity Preservation.

APICORP will seek to prioritize new projects in relation to the allocation of proceeds from green financing instruments. As for existing assets eligible for green financing, APICORP aims to apply, on a best effort basis, a three-year look-back period prior to the date of issuance of the green bond.



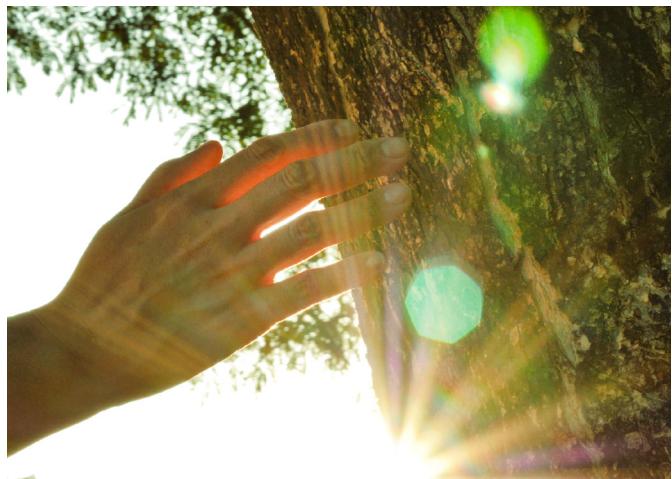
## 2.1.1 Eligible Green Assets

Eligible Green Categories	UN SDG Alignment	Eligibility Criteria
Renewable Energy	 	<p>Generation of energy from renewable sources, namely wind (onshore and offshore) and solar (including rooftop solar projects).</p> <p>This also includes the transmission, distribution, and electrical storage infrastructure related to renewable energy production as well as connection to local grid / direct users along with efficient district heating and cooling system.</p> <p>All energy system considered must have a carbon intensity below 100gCO2e/kWh</p>
Pollution Prevention and Control	 	<p>Recovery and enhancement of waste including;</p> <ul style="list-style-type: none"> <li>• Waste collection</li> <li>• Waste treatment (processing and treatment to prevent and control pollution)</li> <li>• Waste recycling</li> <li>• Composting and Anaerobic digestion of bio-waste with enhanced management of methane emissions</li> </ul>
Green Buildings	  	<p>New construction, building developments, and/or renovation of existing buildings (including public service, commercial, residential and recreational) which meet recognized environmental standards such as LEED – gold, BREEAM – very good/excellent, HQE – very good/excellent, CASBEE – A (very good)/S(excellent) or equivalent</p> <p>Buildings belonging to the top 15% of the national or regional building stock in terms of primary energy demand</p>

2.1.2

## Exclusions

For each Green Bond/Sukuk issued, APICORP affirms that it will explicitly exclude green funding towards any projects associated with:



Nuclear power generation and distribution assets



Coal or gas fired power generation and distribution assets



Fossil fuel related activities, including underlying investments in research and development



Heat or power facilities with emissions intensity above 100gCO2e/kWh



Landfill operations and any incineration of any unsorted waste assets or bio-waste



Exploration and development of new oil and gas fields



Road transportation with emissions intensity above 50gCO2/km



Aviation, airline and airport industries

2.2

## Project Evaluation and Selection

Potential Green assets are identified through APICORP's regular debt financing and equity investment review process under the oversight of the Credit and Investments Committee ("CIC"). These projects are then highlighted to the Green Bond Committee ("GBC") to assess their eligibility for green financing as per the criteria set within the Green Bond Framework.



The Green Bond Committee is a subset of the CIC; it is chaired by the CFO and includes representation from ESG Risk & Compliance (Committee Secretary), Treasury, Strategy, Energy Economics and Sustainability (“SEES”), and other subject matter experts from the business departments.

The Green Bond Committee is responsible for the ongoing evaluation and monitoring of the green assets that are financed by the green bond/ Sukuk proceeds as well as for recommending an appropriate course of action for assets that no longer meet the eligibility criteria.

The GBC will undertake a formal review of the portfolio of Eligible Green Projects for continuing eligibility against the Green Bond Framework on at least a semi-annual basis.

### The evaluation process is as follows:

- The CIC highlights potential green assets (i.e., debt-financing projects and/or equity investments) for the GBC.
- The GBC undertakes a review of the eligibility of potential green assets against the Green Bond Framework’s Use of Proceeds Section (mentioned in section 2.1) utilizing APICORP’s ESG due diligence toolkit.
- Eligible green projects and clients are screened for any ESG related allegations and controversies. The assessment includes both the severity of the allegation and its impact.
- The GBC approves the inclusion of the green asset and documents its decision.

Any Eligible Expenditure that is allocated to an outstanding Green Bond/Sukuk, which is sold, postponed, divested from, deemed to be no longer eligible under the criteria of the Green Bond Framework or subject to a significant ESG controversy will be replaced with alternative Eligible Expenditure(s). Notably, the GBC has the right to reject any proposed Eligible Expenditure that it deems unfit with the criteria of the Green Bond Framework.

The GBC is also responsible for reviewing and approving the publication of the Green Bond Framework related reports, and the associated data collection, as well as periodically reviewing and updating this Framework, as and when deemed necessary.



2.3

# Management of Proceeds

The net proceeds of any Green Bond/Sukuk(s) will be managed by APICORP's Treasury and Capital Markets Department (TCM). More specifically, upon confirmation of Eligible Green Projects for the use of Green Bond/Sukuk proceeds, TCM will allocate the Green Bond/Sukuk proceeds to the identified Eligible Green Projects in accordance with the financing schedule of the projects. This will be formally recorded through APICORP's internal information system.

APICORP's Treasury and Capital Markets Department will periodically confirm with the Corporate Banking and Investments Departments about drawdown of funds to the Eligible Green Projects of the Green Bond/Sukuk to check that the allocation amounts remain up to date and that any unallocated Green Bond/Sukuk proceeds amounts are known.

Pending/unallocated Green Bond/Sukuk proceeds will be invested in Green Bond funds or otherwise in cash, cash equivalents and/or marketable securities, in accordance with APICORP's cash management policies and excluding investments covered by any of the Exclusions mentioned in section 2.1.2 above.

APICORP will strive to allocate all proceeds of its Green Bond/Sukuk within 2 years after issuance.



2.4

## Reporting

APICORP will provide an annual Green Bond Report with the information on the allocation of the Green Bond/Sukuk proceeds and the impact the financing/investments have made. This report will be provided as long as there remains an outstanding Green Bond/Sukuk.

The Green Bond Report shall be posted to APICORP's internet website at <https://www.apicorp.org/investor-relations/sustainability>.



## The Green Bond Report will include the following information:

### Allocation reporting

Allocation reporting for each respective outstanding Green Bond/Sukuk will include the following:

A list of Eligible Green Projects where the Green Bond/Sukuk proceeds have been allocated to.	Where possible (depending on confidentiality), specific information will be provided on the individual projects, allocated regions/areas and dates of commitment.
The total outstanding amount of Green Bond/Sukuk proceeds that remain yet to be allocated to Eligible Green Projects.	Any other relevant information.



### Impact Reporting

APICORP will report on the estimated environmental and social (whenever available) impacts from the Eligible Green Projects that the Green Bond/Sukuk proceeds have been allocated to and the GHG emissions avoided annually (in tCO2e) by the Eligible Expenditures funded from each respective outstanding Green Bond/Sukuk (depending on confidentiality, nature of the Eligible Expenditures and availability of information). In addition, the Impact Reporting will comprise, whenever relevant, the following environmental indicators:

Eligible Project Category	Indicative Impact Indicator
Renewable Energy	<ul style="list-style-type: none"> <li>- Annual energy production in MWh</li> <li>- GHG Emissions avoided (tons)</li> <li>- Installed capacity in MW</li> </ul>
Pollution Prevention and Control	<ul style="list-style-type: none"> <li>- % of waste accepted by our sites which is recycled and given a new life</li> <li>- GHG Emissions per waste handled (tCO2e/tons)</li> <li>- kWh renewable energy generated from waste at our operations</li> <li>- Amount of waste reduced and/or diverted from landfills (tons)</li> <li>- Amount of waste recycled (tons)</li> <li>- Amount of waste reused (tons)</li> </ul>
Green Buildings	<ul style="list-style-type: none"> <li>- Building/landscape certification achieved (system &amp; level);</li> <li>- Energy consumption reduction (kWh)</li> </ul>

APICORP will strive to provide the methodology used to calculate the impact and, where possible, Eligible Green Projects case studies in detail based on the availability of such information.

3.0

## External Review

APICORP has obtained a Second Party Opinion from V.E to confirm the alignment of the APICORP Green Bond Framework with the ICMA GBP, as internationally accepted market standards.

The Second Party Opinion is available on APICORP's official website at <https://www.apicorp.org/investor-relations/sustainability>.

An ongoing assurance report from APICORP's external auditor on the Green Bond Report will be made available on APICORP's official website <https://www.apicorp.org/investor-relations/sustainability>.



4.0

# Forward Looking Statement

Some of the statements contained in this material may be forward-looking statements or statements of future expectations based on currently available information. Such statements are naturally subject to risks and uncertainties. Factors such as the development of general economic conditions, future market conditions, unusual catastrophic loss events, changes in the capital markets and other circumstances may cause the actual events or results to be materially different from those anticipated by such statements. APICORP does not make any representation or warranty, express or implied, as to the accuracy, completeness or updated status of such statements. Therefore, under no circumstances whatsoever will APICORP be liable to any party for any decision made or action taken based on the information and/or statements in this material or for any related damages.

