

# Sustainable Finance Framework

Our approach and methodology  
for sustainable finance

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# Sustainable Financing Framework

This Framework is presented for the purpose of assisting our stakeholders in understanding our sustainable finance vision, commitments, goals, metrics and targets, as well as our current approach to sustainable finance.

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# I Part. Introduction

ABB, the largest bank in Azerbaijan, is one of the leading banks in the South Caucasus region in terms of assets, customer base, and international operating portfolio with 74 branches and 13 sub-branches in different regions of Azerbaijan. ABB endeavors to enhance the well-being of its beneficiaries through fostering socio-economic progress in Azerbaijan, achieving significant and far-reaching impact.

## 1.1 Glossary

### 1.1.1 Definitions

The following definitions are based on European Commission:

- **Sustainable finance** - the process of taking environmental, social and governance (ESG) considerations into account when making investment decisions in the financial sector, leading to more long-term investments in sustainable economic activities and projects.
- **Environmental considerations** - include climate change mitigation and adaptation, as well as the environment more broadly, for instance the preservation of biodiversity, pollution prevention and the circular economy.
- **Social considerations** - address the issues of inequality, inclusiveness, labour relations, investment in people and their skills and communities, as well as human rights issues.  
Governance considerations - include management structures, employee relations and executive remuneration.
- **Governance considerations** - include management structures, employee relations and executive remuneration.
- **Sustainable Loan** - A loan provided with specific terms and conditions tied to sustainability criteria, such as environmental or social targets, incentivizing borrowers to improve their sustainability performance.
- **Sustainable Bond** - A bond where the proceeds are exclusively used to finance or refinance eligible green or sustainable projects, assets, or activities that promote environmental or social sustainability.
- **Green Label Principles** - These principles outline the criteria and standards that a project must meet to be labeled as "green," focusing on environmental sustainability and impact. (3.1 Section of Part III)
- **Social Label Principles** - Principles similar to Green Label Principles but specifically designed for supporting social objectives, such as affordable housing or healthcare infrastructure. (3.2 Section of Part III)
- **Sustainability Label** - A certification or label indicating that a financial product, such as a loan or bond, meets specific sustainability criteria, demonstrating its environmental or social benefits.
- **Sustainability-linked Product** - A financial product, such as a loan or bond, where the terms and conditions are linked to the borrower's achievement of predetermined sustainability performance targets. (illustrated in "Suggested KPIs" part of Table 1 and Table 2)

- **Environmental & Social Due Diligence (ESDD)** - a tool used to identify the social and environmental aspects of any business that plays an important role in decision making process prior. (Explained in IV Part)
- **Taxonomy** - formal document used to structure, organize, and categorize information, requirements, and directives relevant to a specific field.

### 1.1.2 Abbreviations

- **ABB** - International Bank of Azerbaijan
- **BSE** - Baku Stock Exchange
- **CBAR** - Central Bank of Azerbaijan
- **ESDD** - Environmental & Social Due Diligence
- **ESG** - Environmental Social Governance
- **EWS** - Early Warning System
- **GBP** - Green Bond Principles
- **GLP** - Green Loan Principles
- **ICMA** - International Capital Market Association
- **KPI** - Key Performance Indicators
- **LMA** - Loan Market Association
- **RM** - Relationship Manager
- **SBG** - Sustainability Bond Guidelines
- **SBP** - Social Bond Principles
- **SDG** - Sustainable Development Goals
- **SFC** - Sustainable Finance Commission
- **SLB** - Sustainability-Linked Bond
- **SLBP** - Sustainability-Linked Bond Principles
- **SLL** - Sustainability-Linked Loan
- **SLLP** - Sustainability-Linked Loan Principles
- **SLP** - Social Loan Principles
- **SME** - Small and Medium Enterprise
- **SPT** - Sustainability Performance Targets

### 1.2 Purpose

The Sustainable Finance Framework defines our approach and methodology for sustainable finance. We are dedicated to ensuring clarity in how we define and disclose our methodologies and strategies for reporting on our sustainable finance objectives. It is intended to serve as:

- Establishing a framework for classifying, tracking and disclosing projects in alignment with our sustainable finance pledge.
- Utilizing a mechanism to pinpoint prospects and stimulate expansion, aligning with our belief that sustainable finance signifies a growth avenue for both our clients and our enterprise



### 1.3 General Principles

In formulating this Framework, ABB incorporates the concept of "sustainable finance," encompassing green, social, environmental, and sustainability-linked financial initiatives. In the future, additional instruments may be introduced. As of September 2024, the proposed instruments for sustainable financing are the **Sustainable Loan** and the **Sustainable Bond**. The development process has relied on established industry **standards, principles and other leading banks'** practice (e.g. Barclays, Royal Bank of Canada, Deutsche Bank) which include relevant guidelines where appropriate:

### 1.4 Scope

The Framework specifically governs financing provided by ABB and does not extend to investments held by ABB clients. RMs are responsible for assessing all loan applications to ascertain whether their products align with sustainability criteria; if they do, the Framework will be applicable to those clients as well as the clients who apply for sustainable finance.

The Framework addresses two categories:

- **Sustainable labeled finance** - include 3 Labels
  - **Green Label** - dedicated to environmental and climate outcomes. (will be explained in 3.1 Section of III Part)
  - **Social Label** - focus on delivering positive social outcomes. (will be explained in 3.2 Section of III Part)
  - **Sustainability Label** - a mix of both green & social projects.
- **Sustainability-linked finance** (will be discussed in 2.4 Section of II Part)

### 1.5 Project Identification

The Sustainable financing process begins with the identification of potential projects, which can be initiated via

**Physical channels which** encompass interaction with

- Corporate RM
- SME RM
- Branches, sub-branches

**Digital channels** which involve the submission of E&S Due Diligence documentation via our

- ABB Official Website
- Other digital channels, e.g. ABB Business Mobile and Internet Banking (will be enhanced in the future)

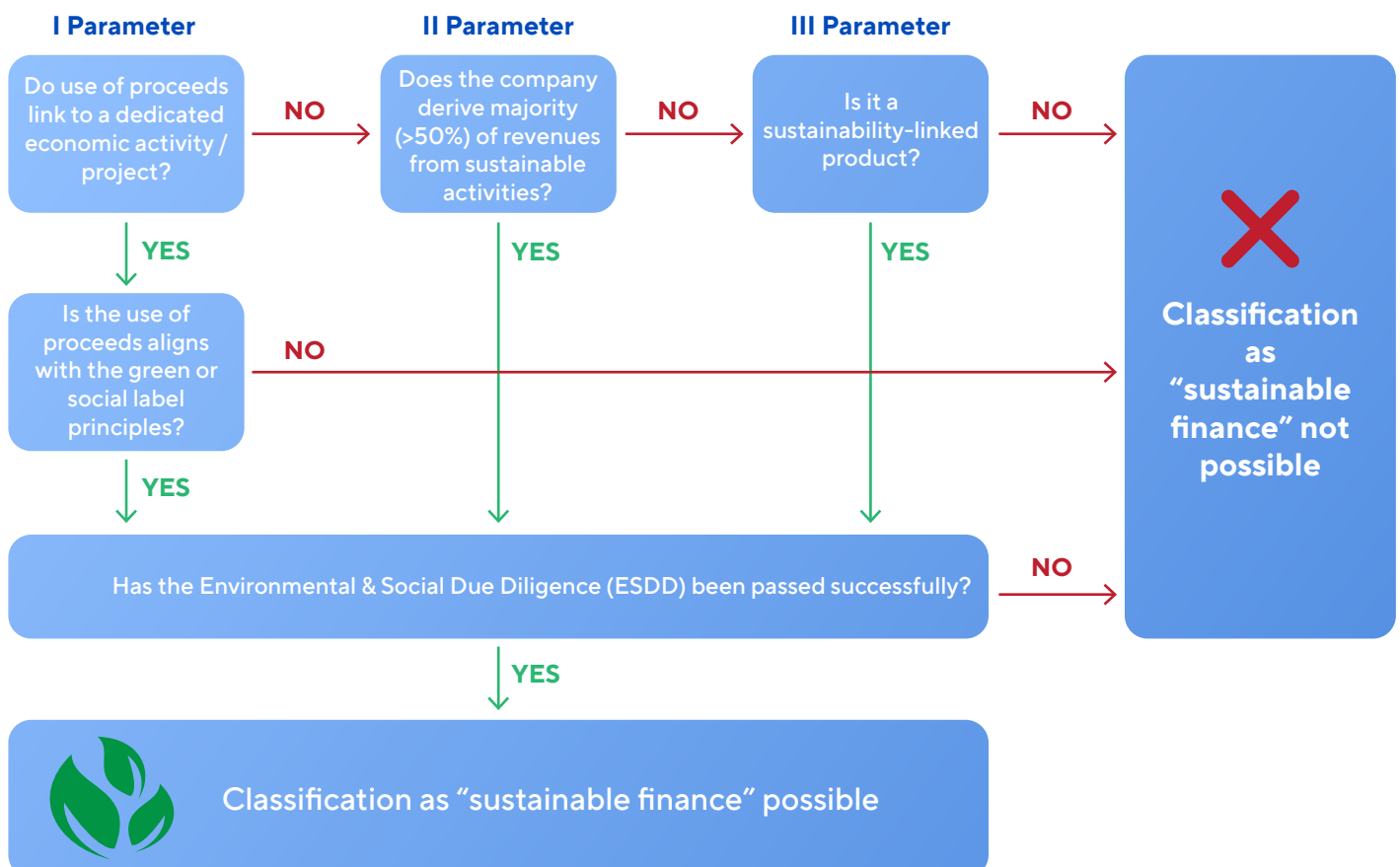
## II Part. Criteria for project selection

A structured decision tree (see 2.1. Section of II Part) helps to understand the process of determining sustainability classification. As illustrated, the **initial step** is to determine whether the use of proceeds is allocated to a specific economic activity or project. Further scrutiny involves evaluating whether it has a **Green or Social** label (explained in Part III). If this condition is not fulfilled, the analysis moves to the **second parameter**: whether the majority of the company's revenues are derived from sustainable activities. If this criteria is not satisfied either, then the assessment proceeds to the **third parameter**: assessing whether the project is sustainability-linked.

Upon meeting any of the above criteria, a comprehensive Environmental & Social Due Diligence (ESDD) (refer to IV Part) is performed. If the score collected from ESDD process **is lower than 30**, then the application **is denied** for sustainable finance. If score is higher than 30, eligibility will be determined by the **Sustainable Finance Commission**.

If a project is rejected, the decision, along with the reasons for refusal, will be duly communicated to the client.

### 2.1 Decision tree



## 2.2 Use of proceed (1st parameter)

*Do use of proceeds link to a dedicated economic activity / project?*

*Is the use of proceeds aligns with the green or social label principles?*

It means that Financing qualifies for categorization as sustainable finance if:

- Allocation of the proceed can be associated with green, social or sustainable labels specified in the “Eligible Activity” part of Table 1 and Table 2.
- The financial instrument qualifies as a designated green, social, or sustainability bond or loan, adhering to applicable guidelines indicated within 1.3 section.

## 2.3 Company profile (2nd parameter)<sup>1</sup>

If the funds' purpose isn't specified or designated for facilitating these activities, we then turn to the second parameter.

*Does the company derive majority of revenues from sustainable activities? 1*

It means that transactions are deemed eligible for classification as sustainable finance if the entity derives significant portion of its revenue from activities that promote green initiatives, decarbonization efforts, and social impact, as specified in “Eligible Activity” part of Table 1 and Table 2.

## 2.4 Financial product itself (3rd parameter)

*Is it a sustainability-linked product?*

Sustainability-linked transactions involve finance agreements where the terms are linked to the issuer's or borrower's achievement of specific sustainability targets measured by **Key Performance Indicators (KPIs)** and assessed against **Sustainability Performance Targets (SPTs)**.

The transactions qualify for classification as sustainable finance if the debt instrument aligns with established guidelines such as the ICMA Sustainability-Linked Bond Principles (SLBP) or the LMA Sustainability-Linked Loan Principles (SLLP). These guidelines encompass:

- **Materiality of the KPIs**
- **Ambitiousness of the SPTs**
- **Impact of target achievement**
- **Performance monitoring**
- **Performance verification**

The recommended KPIs for assessing the project's sustainability linkage are illustrated in “Suggested KPIs” part of Table 1 and Table 2.

*Note 1. ESG rating & sustainability reporting can be also considered as an indicator*

## III Part. Sustainable project classification

The Bank may require verification documents from their clients for the issuance of sustainable and green credit products. Acceptable verification documents may include:

- A) a green certification issued by an independent third party,
- B) an assessment provided by an independent specialized organization or individual expert commissioned by the bank
- C) a self-attestation document provided by the client.

For complex projects, A or B options are acceptable. For less complex and pre-defined standard cases, C may be deemed sufficient.

The following sections is focused on delineating the criteria for identifying **eligible activities** under this framework for the **1st parameter** and Suggested KPIs for evaluating the **sustainability linkage** of projects for the **3rd parameter**.


### 3.1 Green Label Principles

Green Label Principles emphasize economic activities that foster environmental and climate benefits. A project qualifies for a Green label if it involves economic activities that enable or support the following:

- Direct or indirect reduction in GHG emission
- Pollution protection or increase efficiency of energy/ resource consumption
- Transition to a circular economy
- Protection, restoration & promotion of natural resources & healthy ecosystems
- Prevention of waste as well as the promotion of recycling and reusing material
- Measures adapting to acute and chronic physical risks caused or intensified by climate change.
- Conservation of marine and terrestrial (living) resources, including water, crucial and high-carbon stock ecosystems

The Green Label projects include, but are not limited to, the **following categories**:

Table 1. Labeled project (Dedicated Economic Activity) Sustainability linked

Project Category	Eligible activity	Suggested Documentation	Suggested KPIs
 <b>Renewable energy</b>	<b>Renewable energy production</b> Biogas plants, Geothermal wells, Solar panels or solar thermal collectors, Locally sourced pellet or wood chip for heating systems (timber). Whole timber as fuel is not eligible, Heat pumps, Other renewable energy sources	<ul style="list-style-type: none"> <li>Expected annual energy production (kWh/year)</li> <li>Plan for monitoring and contingency of methane leakage (If any)</li> <li>PEFC/ FSC certification (For raw material usage)</li> </ul>	<ul style="list-style-type: none"> <li>Capacity of renewable energy plant(s) constructed or rehabilitated in MW</li> <li>Annual renewable energy generation in MWh/GWh (electricity) and GJ/TJ (other energy)</li> <li>Annual GHG emissions reduced/avoided in tonnes of CO2 equivalent (where possible)</li> </ul>
	<b>Energy storage in connection with energy production facilities</b> Electrical storage, e.g. batteries, Thermal storage, Storage as green hydrogen	<ul style="list-style-type: none"> <li>Expected storage capacity (kWh)</li> <li>Plan for monitoring and contingency of leakage (If any)</li> <li>Expected increase in capacity (kWh)</li> </ul>	
	<b>Energy infrastructure</b> Network capacity, District heating/cooling (The plant must use renewable energy sources for both base and peak loads)	<ul style="list-style-type: none"> <li>Expected distribution between energy sources (%)</li> </ul>	
	<b>Other</b>	<ul style="list-style-type: none"> <li>Project description</li> </ul>	
 <b>Clear Transportation</b>	<b>Cycling and walking</b> Bicycles, Facilitating for walking or cycling	<ul style="list-style-type: none"> <li>Investment decision or other documentation</li> <li>If available: Number of kilometres or square metres</li> </ul>	<ul style="list-style-type: none"> <li>Length and type of clean transportation infrastructure built</li> <li>Annual GHG emissions reduced/avoided in tonnes of CO2 equivalent</li> </ul>
	<b>Land transport</b> Heavy vehicles, Equipment for rail-based public transport	<ul style="list-style-type: none"> <li>Type of vehicle and number</li> <li>Estimated annual mileage (km)</li> <li>If biogas: A contract shows fossil fuels won't be used</li> <li>Investment decision or other documentation</li> <li>Type of transport vehicle and fuel composition</li> </ul>	
	<b>Maritime Transport</b> Maritime transport	<ul style="list-style-type: none"> <li>Type of vessel</li> <li>Estimated fuel usage by previous fossil-fuel-powered vessel (litres/year) or annual delivery of shoreside power (kWh/year)</li> <li>If biogas: A contract shows fossil fuels won't be used</li> </ul>	
	<b>Heavy Machinery</b>	<ul style="list-style-type: none"> <li>Type of heavy machinery/ machines</li> <li>Estimated number of operating hours (hours/year)</li> <li>Estimated new machine energy consumption (kWh/hour)</li> <li>Estimated old machine fuel consumption (litres/hour)</li> <li>If biogas: A contract shows fossil fuels won't be used</li> </ul>	
	<b>Infrastructure</b> Charging points for vehicles, Filling stations for green hydrogen and biogas, Operating equipment for public transport, Trackway and other infrastructure, Shore-side power connections and charging points, Other port infrastructure, Infrastructure for zero-emission heavy machinery	<ul style="list-style-type: none"> <li>Investment decision or other documentation</li> <li>A description of the filling station (type of energy)</li> <li>Type of vehicle and fuel composition</li> <li>If biogas: A contract shows fossil fuels won't be used</li> <li>If available: number of kilometres of new infrastructure (km)</li> <li>Estimated amount of shore-side power supplied annually (kWh/ year)</li> </ul>	
	<b>Other</b>	<ul style="list-style-type: none"> <li>Project description</li> <li>Investment decision or other documentation</li> </ul>	

<div>13 CLIMATE ACTION</div>  <div>Sustainable water and wastewater management</div>	<b>Surface Runoff Management Financed by Wastewater Charges</b> Separating wastewater and surface	<ul style="list-style-type: none"> <li>- Project description</li> </ul>	<ul style="list-style-type: none"> <li>- Number of water treatment facilities built or upgraded</li> <li>- Reductions in water distribution losses</li> <li>- Amount or % of water recycled</li> <li>- Amount of water saved</li> </ul>
	<b>Small Scale Energy Production Measures</b> Heat recovery, Energy recovery	<ul style="list-style-type: none"> <li>- Expected annual energy production (kWh/year)</li> </ul>	
	<b>Climate-friendly Facilities</b> Measures at existing water facilities (Delivers a 20% increase in energy efficiency, Adapts the facility in response to a need for climate change adaptation, Reduces the use of chemicals or leakages, Use of climate-friendly materials); Measures at existing wastewater facilities (same with the previous); Phosphorous recovery; Sludge treatment facilities for biogas production; New facilities for water (The facility is 20% more energy efficient than the previous solution or a likely other solution, The facility is built in response to a need for climate change adaptation, The facility uses less chemicals or has a smaller adverse impact on the local environment, Use of climate-friendly material); New facilities for wastewater (same with the previous)	<ul style="list-style-type: none"> <li>- Energy saving (kWh/year), including calculation method</li> <li>- Project description, investment decision, competitive tender documents</li> <li>- A description of the materials chosen</li> <li>- Description of the technology selected</li> <li>- Expected proportion of phosphorus recovered</li> <li>- If available: risk and vulnerability assessment</li> <li>- Expected amount of sludge produced per year (dry matter/year)</li> <li>- A project description that explains the project's ambitions from a climate and environmental perspective and the plan for using the biogas and the organic residue</li> <li>- Plan for monitoring and contingency of methane leakage</li> </ul>	
	<b>Climate-friendly Construction Projects</b> Zero-emission excavation works/construction sites, No-dig projects	<ul style="list-style-type: none"> <li>- Competitive tender documents or other documents that show the site is zero-emission</li> <li>- Avoided CO2 emissions over the course of the project (including basis for calculation)</li> <li>- Project description</li> </ul>	
	<b>Other</b>	<ul style="list-style-type: none"> <li>- Project description</li> </ul>	
<div>9 INDUSTRY, INNOVATION AND INFRASTRUCTURE</div>  <div>Green building, infrastructure</div>	<b>Measures for Existing Building Stock</b> Individual energy efficiency measures ng, Major renovation projects, Renovation of existing building stock combined with a new extension building, Adapting existing buildings to climate change, Renewable energy in buildings, Energy storage in buildings, Emission-free construction and construction site	<ul style="list-style-type: none"> <li>- Project description</li> <li>- If available: Expected energy saving (kWh/year)</li> <li>- Estimated energy demand or consumption per square metre of heated space (kWh/m2/year) before and after renovation</li> <li>- Estimated delivered energy at standard climate before and after rehabilitation (kWh/m2/year)</li> <li>- Estimated energy demand or estimated energy production (kWh/year)</li> <li>- A description of the chosen materials, including any certification. If available: "Reuse mapping"</li> <li>- Certification achieved or adopted</li> <li>- Which climate change-related challenge the project is intended to address &amp; how this will be achieved</li> <li>- Expected annual energy production (kWh/year)</li> <li>- Expected storage capacity (kWh)</li> <li>- Tender documents or other documents confirming achievement</li> <li>- Avoided greenhouse gas emissions during the project period (incl. calculations)</li> <li>- If available: Achievement according to NS3770</li> <li>- If biogas is used: Contract stipulating that fossil fuels will not be used</li> </ul>	<ul style="list-style-type: none"> <li>- Level of certification by property</li> <li>- Energy efficiency gains in MWh or % vs. baseline</li> <li>- Estimated avoided GHG emissions (tCO2eq)</li> <li>- Annual energy savings (MWh pa)</li> </ul>
	<b>New Buildings</b> New low-energy buildings, New buildings with climate-friendly materials, New buildings with locally produced energy, New buildings with low greenhouse gas emissions, Emission-free construction and construction site, Eco-certified buildings, Swimming pools or ice rink with low resource consumption	<ul style="list-style-type: none"> <li>- An evaluation of the building's total energy demand (kWh/m2) compared with the regulatory requirement in TEK17</li> <li>- If available: nZEB qualification document</li> <li>- A description of the materials chosen, including any certification</li> <li>- Calculated delivered energy demand and estimated energy production (kWh/year)</li> <li>- Greenhouse gas analysis in accordance to NS3720, compared to reference building</li> <li>- Tender documents or other documents confirming achievement</li> <li>- If biogas is used: Contract stipulating that fossil fuels will not be used</li> <li>- Certification achieved or adopted</li> <li>- Project description or other documents confirming low resource use or other positive climate and/or environmental factors</li> </ul>	









<div>9</div> <div>INDUSTRY, INNOVATION AND INFRASTRUCTURE</div>  <div>Green building, infrastructure</div>	<b>Waste Prevention and Reuse</b> Measures to reduce waste or to facilitate greater reuse	<ul style="list-style-type: none"> <li>- Expected impact (qualitative or quantitative)</li> <li>- If relevant: Rate of reuse before investment (tonnes) and after investment (tonnes)</li> </ul>	<ul style="list-style-type: none"> <li>- Annual savings of relevant resources (in tonnes raw material/year)</li> <li>- Annual absolute (gross) amount of waste that is separated and/or collected, and treated and recycled/avoided</li> </ul>
	<b>Waste Collection, Processing And Treatment</b> Measures to increase the waste sorting rate, More efficient waste collection, Measures at existing facilities, New facilities for receiving, sorting or managing waste, Sludge treatment facilities for biogas production, Measures at existing landfill sites, Carbon capture and storage (CCS)	<ul style="list-style-type: none"> <li>- A project description that explains the contribution to the attainment of national targets and ambitions</li> <li>- Sorting rate before investment (in tonnes) and expected sorting rate following investment (in tonnes)</li> <li>- If available: Transportation requirement before investment and expected transportation requirement after investment</li> <li>- Expected impact (qualitative or quantitative)</li> <li>- Amount of waste prepared for reuse before investment (tonnes) and after investment (tonnes)</li> <li>- Comparison of material recovery rate before investment (in tonnes) and expected recovery rate after investment (in tonnes)</li> <li>- Number of litres of diesel reduced (litres/year)</li> <li>- A project description that explains the project's ambitions from a climate and environmental perspective and the plan for using the biogas and the organic residue</li> <li>- Plan for monitoring and contingency of methane leakage</li> <li>- Expected amount of sludge produced per year (tonnes/year)</li> <li>- If available: A risk and vulnerability assessment for the planning area</li> <li>- A project description with details of expected emissions reduction or energy production</li> </ul>	
	Other	<ul style="list-style-type: none"> <li>- Project description</li> </ul>	
<div>15</div> <div>LIFE ON LAND</div>  <div>Environmentally sustainable management of living natural resources and land use</div>	<b>Anti-pollution Measures</b> Measures against pollution on land, Measures against water pollution (ports, seas, rivers, watercourses etc.)	<ul style="list-style-type: none"> <li>- Project description</li> <li>- Status classification before and after the measure</li> </ul>	<ul style="list-style-type: none"> <li>- Amount or % of water consumption reduced</li> <li>- Increase in production efficiency</li> <li>- Amount of the protective agriculture field (ha)</li> <li>- Amount of the agricultural windbreaks fields (ha)</li> <li>- Increase in the amount of green space per capita</li> <li>- Maintenance/safeguarding/increase of natural landscape area (including forest) in km<sup>2</sup> and in % for increase</li> <li>- Increase of area under certified land management in km<sup>2</sup> or m<sup>2</sup> and in % (in buffer zones of protected areas)</li> <li>- Absolute number of indigenous species, flora or fauna (trees, shrubs and grasses...) restored</li> <li>- Annual GHG emissions reduced in tCO<sub>2</sub></li> </ul>
	<b>Area Development And Land Usage</b> Climate and environmentally friendly area development, Restoration of natural areas	<ul style="list-style-type: none"> <li>- Project description</li> <li>- Surface area to be developed (m<sup>2</sup>)</li> <li>- If available: Competitive tender documents</li> <li>- If available: Impact assessment</li> <li>- If available: Risk and vulnerability assessment for the planning area</li> </ul>	
	Other	<ul style="list-style-type: none"> <li>- Project description</li> </ul>	
<div>13</div> <div>CLIMATE ACTION</div>  <div>Climate change adaptation</div>	<b>Surface Runoff Management</b>	<ul style="list-style-type: none"> <li>- Project description</li> </ul>	<ul style="list-style-type: none"> <li>- Reduced/avoided water loss (in reservoirs / waterways / natural habitats etc.) (m<sup>3</sup>)</li> <li>- Reduction in number of operating days lost to floods</li> <li>- Reduction in flood damage costs</li> <li>- Increase in agricultural land using more drought resistant crops (hectares)</li> <li>- Reduction in land-loss from inundation and/or coastal erosion (km<sup>2</sup>)</li> <li>- Decrease in pressure on natural forests, increase in carbon storage capacity</li> </ul>
	<b>Preventative Climate Change Adaptation</b> Protection against natural disasters, Infrastructure relocation	<ul style="list-style-type: none"> <li>- Which climate challenge the project is intended to address and how</li> <li>- Surface area to be protected (m<sup>2</sup>)</li> </ul>	
	<b>Emergency Preparedness</b> Warning systems and emergency preparedness	<ul style="list-style-type: none"> <li>- Project description</li> </ul>	
	Other	<ul style="list-style-type: none"> <li>- Project description</li> </ul>	

## 3.2 Social Label Principles

Social activities eligible under this Framework are those that demonstrably benefit individuals, foster inclusive communities, and contribute to societal resilience. A project qualifies for a Social label if it involves economic activities that enable or support the following:

- Enablement of basic living conditions
- Protection & empowerment of basic human rights
- Access to essential social services
- Equal distribution of economic resources & income
- Equal access to banking, financial services, and other economic resources.
- Prevention of unemployment stemming from socioeconomic crises.

The Social Label projects include, but are not limited to, the **following categories**:

Labeled project (Dedicated Economic Activity)		Sustainability linked	
Project Category	Eligible activity	Suggested Documentation	Suggested KPIs
 <b>3 GOOD HEALTH AND WELL-BEING</b>  <b>4 QUALITY EDUCATION</b> <b>Access to essential services</b>	<p>Construction, development, operation, acquisition, refurbishment, and maintenance of publicly available essential services, including</p> <ul style="list-style-type: none"> <li>- education</li> <li>- healthcare</li> <li>- care centers</li> <li>- disaster relief services</li> <li>- rehabilitation of public spaces</li> </ul>	<ul style="list-style-type: none"> <li>- Project description</li> <li>- Status classification before and after the project</li> <li>- Description of the project's scope</li> <li>- Documentation related to competitive tenders (if available)</li> <li>- Impact assessment (if available)</li> <li>- Risk and vulnerability assessment (if available)</li> </ul>	<ul style="list-style-type: none"> <li>- Number of people benefited</li> <li>- Number of hospital/healthcare facilities built</li> <li>- Amount spent on emergency medical supplies</li> <li>- Number of people benefiting from vocational training and/or with better access to education</li> <li>- Number of students enrolled/educated</li> <li>- Number of classrooms/educational support facilities constructed/rehabilitated</li> </ul>
 <b>11 SUSTAINABLE CITIES AND COMMUNITIES</b> <b>Affordable housing</b>	<p>Constructing, developing, acquiring, operating, refurbishing, and maintaining buildings—both new and existing—that offer housing meeting the affordable housing criteria based on national legislation or international practice.</p>	<ul style="list-style-type: none"> <li>- Project description</li> <li>- Status classification before and after the project</li> <li>- Description of the housing units (if applicable: number of units)</li> <li>- Documentation related to competitive tenders (if available)</li> <li>- Impact assessment (if available)</li> <li>- Risk and vulnerability assessment (if available)</li> </ul>	<ul style="list-style-type: none"> <li>- Number of housing units constructed</li> <li>- Number of individuals / households benefited</li> </ul>
 <b>6 CLEAN WATER AND SANITATION</b>  <b>7 AFFORDABLE AND CLEAN ENERGY</b>  <b>11 SUSTAINABLE CITIES AND COMMUNITIES</b> <b>Affordable basic infrastructure</b>	<p>Building, developing, operating, acquiring, refurbishing, and maintaining essential infrastructure for underserved or remote communities lacking adequate access to services such as clean drinking water, sanitation, sewage systems, and electricity transmission.</p>	<ul style="list-style-type: none"> <li>- Project description</li> <li>- Status classification before and after the project</li> <li>- Description of the infrastructure to be developed (if applicable: specifics such as capacity or coverage area)</li> <li>- Documentation related to competitive tenders (if available)</li> <li>- Impact assessment (if available)</li> <li>- Risk and vulnerability assessment (if available)</li> </ul>	<ul style="list-style-type: none"> <li>- Number of people provided with adequate and equitable sanitation / clean water</li> <li>- Number of water infrastructure projects built</li> <li>- Number of people provided access to clean and affordable energy</li> </ul>

<div> <div>8 DECENT WORK AND ECONOMIC GROWTH</div>  <div>10 REDUCED INEQUALITIES</div>  </div> <p><b>Socioeconomic advancement &amp; empowerment And Diversity &amp; Equity</b></p>	<p>Support for organizations promoting socioeconomic advancement and empowerment of underrepresented groups, including:</p> <ul style="list-style-type: none"> <li>- Enhancing access to financial education and services, housing development.</li> <li>- Facilitating education, skills development, job placement, and economic empowerment.</li> <li>- Assisting enterprises in economically disadvantaged regions.</li> <li>- Projects that help improve the socioeconomic status of women</li> <li>- Projects that help improve the supporting education for refugees</li> </ul>	<ul style="list-style-type: none"> <li>- Project description</li> <li>- Status classification before and after the project</li> <li>- Description of the specific activities or initiatives to be undertaken</li> <li>- Documentation related to competitive tenders (if available)</li> <li>- Impact assessment (if available)</li> <li>- Risk and vulnerability assessment (if available)</li> </ul>	<ul style="list-style-type: none"> <li>- Number of women benefited</li> <li>- Number of children and youth benefited</li> <li>- Number of elderly benefited</li> <li>- Number of disabled individuals benefited</li> <li>- Number of refugees under temporary protection benefited</li> </ul>
<div> <div>8 DECENT WORK AND ECONOMIC GROWTH</div>  </div> <p><b>Unemployment prevention</b></p>	<p>Financing, developing and supporting: Job training and placement programs.</p> <ul style="list-style-type: none"> <li>- Support for small and medium enterprises (SMEs) that create jobs.</li> <li>- Entrepreneurship support for job creation.</li> <li>- Community development projects stimulating local economies.</li> <li>- Crisis response initiatives for economic stability and business support.</li> </ul>	<ul style="list-style-type: none"> <li>- Comprehensive project proposal including objectives and expected outcomes</li> <li>- Partnership agreements with relevant organizations or entities</li> <li>- Documentation of past performance or success stories related to similar initiatives</li> <li>- Impact assessment and evaluation framework</li> <li>- Risk management plan addressing potential challenges</li> </ul>	<ul style="list-style-type: none"> <li>- Number of jobs created and/or retained</li> <li>- Number of people benefited</li> </ul>
<div> <div>2 ZERO HUNGER</div>  </div> <p><b>Food security and sustainable food systems</b></p>	<p>Eligible sustainable activities include:</p> <ul style="list-style-type: none"> <li>- Supporting sustainable agriculture practices.</li> <li>- Investing in efficient food processing and distribution.</li> <li>- Improving market access for smallholder farmers.</li> <li>- Enhancing nutrition programs.</li> <li>- Building resilience to climate change impacts on food production.</li> </ul>	<ul style="list-style-type: none"> <li>- Detailed project description outlining the objectives and activities</li> <li>- Documentation of the current state and expected outcomes post-project implementation</li> <li>- Evidence of partnerships with relevant stakeholders such as farmers' associations, NGOs, or government agencies</li> <li>- Impact assessment including expected improvements in food security metrics</li> <li>- Risk assessment and mitigation strategies, particularly related to climate change impacts</li> </ul>	<ul style="list-style-type: none"> <li>- Number of people benefited</li> <li>- Number of farmers benefited</li> </ul>

## IV Part. Sustainable Financing

### Due Diligence Process

Under the Framework, sustainability risks associated with specific financing decisions are meticulously assessed and managed through a structured, risk-based due diligence process.

#### 4.1 Environmental & Social Due Diligence

The primary objective is to identify potential adverse environmental and social risks linked to a client's activities. This involves **basic checks** on key environmental and social risks a client might face, including any documented association with negative environmental or social impacts over the past years.

Decisions resulting from ESDD:



## Part V. Sustainable loan mechanism

### 5.1 Documentation of sustainability targets & management method

Once projects are identified and selected, the next step involves documenting specific targets. Green or social labeled projects must clearly outline qualitative or quantitative sustainability targets in accordance with respective principles. For sustainability linked projects, targets are linked to sustainability-related indicators with well-defined qualitative and quantitative covenants.

### 5.2 Issuance of sustainable loans

The final stage is the issuance of sustainable loans.

#### 5.2.1 Terms & conditions for internally funded sustainable loans

Terms and conditions (interest rate, grace period, loan term, etc.) of sustainable loan will be defined according to the regulations approved by the Bank's Management Board and the opinions of the relevant internal credit committees and will be based on the information and the project provided by the client.

Any concessions, discounts, or privileges related to sustainable projects will be proposed by the Sustainable Finance Commission.

#### 5.2.2 Terms & conditions for externally funded sustainable loans & grants

Externally sustainability funds may have encompassing interest rate concessions and duration guidelines that will be considered by the Sustainable Finance Commission based on the fulfillment of specified predefined requirements by the proposed projects.

Grants based on external funding are awarded by decision of the **Sustainable Finance Commission** based on **framework & requirements** provided by the respective sustainability fund (the specific grant cannot be awarded multiple times to the same client's unique project).

The results regarding the alignment of proposed projects are conveyed to the project owner either via **email** or via direct communication by the **RM**. If a project is rejected, the decision, along with the reasons for refusal, will be duly communicated to the client.

In adherence to transparency and accountability principles, the bank will **publicly disclose** general information (e.g., internal or external funding sources, project description, amount of financial resources, interest rate, and term) on **all projects** funded under this sustainable finance framework. Details, including project objectives, financing amounts, contractual terms and anticipated environmental or social impacts, will be accessible on the **ABB's official website**.

## Part VI. Sustainable bond mechanism

ABB employs sustainable bonds as a one of the instrument in its sustainable finance strategy. These bonds encompass several categories, including green bonds, social bonds, and sustainability-linked bonds.

For further information, please contact [info@abb-bank.az](mailto:info@abb-bank.az)

## Part VII. Monitoring of the projects

In the monitoring of projects, various methods can be employed by the Monitoring team under Risk Management Department, including Periodical Reporting, on-site visits and inspections and 3rd Party Report.

### 7.1 Periodical Reporting by the client.

Periodic reporting involves the regular and systematic filing of reports by the financed entity to ABB. This mechanism ensures that transparency is maintained.

**Frequency:** Periodic reporting should occur at intervals ranging from 3 to 6 months.

**Content:** Reports may include but not limited to the following:

- Updates on the progress of the projects.
- Key performance indicators (KPIs) related to environmental and social impact.
- Qualitative and quantitative data on sustainability outcomes.
- Any challenges or deviations from the initial targets and the steps taken to address them.

### 7.2 On-site visits and inspections

On-site visits and inspections entail physical examinations of project locations by ABB representatives. This approach allows for direct observation of the project's advancement and adherence to sustainability targets.



**Routine On-site visits and inspections:** Routine on-site visits could be conducted semi-annually.

**Non-routine On-site visits and inspections:** Non-routine On-site visits could be initiated if at least one of the following conditions is met:

- If the client encounters issues with periodic reporting, such as delays or failure to submit reports
- Whenever any other non-routine issue is raised and deemed necessary to clarify in accordance with compliance with sustainability principles.

**Content:** Inspections could focus on:

- Physical verification of the project implementation and progress.
- Assessment of the environmental and social conditions on-site.
- Discussions with project managers, local communities, and other stakeholders.

**Reporting:** Findings from the on-site visits should be documented in detailed inspection reports, highlighting:

- Compliance with sustainability targets and criteria.
- Any discrepancies or issues observed.
- Recommendations for improvement or corrective actions.

### 7.3 3rd Party Report

Third-party reporting will involve independent verification or certification from external agencies that will help confirm whether such projects meet the established criteria and targets in terms of sustainability. This process enhances credibility and provides an additional layer of assurance.

**Frequency:** Independent verification should occur at least one time per annum if third-party report is mandated

**Verification Entities:** Reports could be provided by reputable and accredited third-party organizations, such as rating agencies, consultancy firms, or certification bodies.

**Content:** The 3rd party can verify including but not limited to the following:

- The proper use of proceeds.
- Alignment of the projects with the sustainability criteria defined in the framework.
- Achievement of the stated environmental and social objectives.
- Adherence to international standards and principles.

## 7.4 Monitoring Process

The overall monitoring process will adhere to the internal risk management policies and established procedures applicable to other business loans, but will integrate ESG components.

### 7.4.1 Monitoring the use of sustainable loans for their purpose

- **The frequency** of the monitoring for all sustainable loans will be conducted in accordance with the internal risk management policies and established procedures governing other business loans.
- The department may require the documents from the borrower to confirm the utilization of the funds as intended which is illustrated in **“Suggested Documentation”** part of the Table 1 and Table 2 in Part 3.

### 7.4.2 Complex monitoring of Sustainable loans

Specific **ESG risk indicators and factors** can be incorporated into The Early Warning System (EWS). The Risk Management team is responsible for incorporating these factors, with any corrections or additions reflected in their documentation.

### 7.4.3 Non-routine monitoring of sustainable loans

The monitoring can be initiated if at least **one of the following conditions** is met:

- There is suspicion that the borrower is using the bank's funds for purposes other than those intended to sustainable activities.
- Evidence is found that the borrower is concealing information related to their sustainable activities for any reason.
- A change in the borrower's business sector to one characterized by high ESG risk is detected.
- Negative information regarding the borrower's sustainable activities has been received from external sources.
- There is a deterioration in the borrower's relevant financial indicators and ESG rating.

### 7.4.4 Monitoring of the Asset acting as a Collateral

The monitoring process will adhere to the internal risk management policies and established procedures applicable to other business loans.

## Part VIII. Reporting

We examine each transaction recognized as sustainable finance under this Framework based on our own judgment and discretion. Our **Sustainability Report**, which are published on our website, provide an annual update on our efforts to facilitate sustainable finance.

### 8.1 Distribution Reporting

To the extent possible, we will provide the following information:

- The total amount of outstanding Sustainable Financing Instruments
- The amount equal to the net proceeds allocated to Eligible Green and/or Social Projects
- The remaining amount of unallocated proceeds
- The amount or percentage of new financing and refinancing
- A breakdown of the amounts allocated to Eligible Green and Social Categories

### 8.2 Impact Reporting

We intend to report on the estimated environmental and social impacts of implementing the **Eligible Green and Social Projects**. When possible and accessible, impact reporting could encompass the metrics concerning the environmental effects of the Eligible Green and Social Categories which is also set as a KPIs in the Sustainability-linked financing (see “Suggested KPIs” part of Table 1 and Table 2).