



Bank Windhoek

Green Bond Framework



November 2018
Version 1.2

Executive Summary

The Bank Windhoek Green Bond Framework sets out the guidelines for the Green Bond issuance in accordance with the four core components of the Green Bond Principles established by the International Capital Market Association (ICMA). The framework as described herein is henceforth applicable for all future Green Bonds issued by Bank Windhoek, subject to market conditions.

Bank Windhoek and the Capricorn Group's commitment to sustainability means taking a long-term, holistic view that considers the perspectives of all stakeholders. Our sustainability framework provides the structure and processes through which we create enterprise-wide awareness and ensure aligned thinking and practices. In other words, our sustainability strategy is based on addressing sustainability holistically, encompassing environmental, social and economic issues. Bank Windhoek will update the Green Bond Framework periodically at its sole discretion to reflect developments in the Namibian Green Bond Market.



— GREEN BONDS —

MAIN USES



Renewable
energy



Energy
efficiency



Clean
transportation



Responsible
waste management

Image From: <https://www.iberdrola.com/top-stories/iberdrola-shares-with-you/investments-green-bonds>

¹ <https://www.icmagroup.org/green-social-and-sustainability-bonds/green-bond-principles-gbp/>



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Abbreviations

AFD	French Development Agency
BCC	Board Credit Committee
COP21	The 21st Conference of the Parties to the UN Framework Convention on Climate Change
CRF	Credit Risk Forum
DMTN	Domestic Medium Term Note Programme
EIF	Environmental Investment Fund of Namibia
GBP	Green Bond Principals
ICMA	International Capital Market Association's
IFC	International Finance Cooperation
NAD	Namibian Dollar (N\$)
NDP 5	Namibian National Development Plan
NSX	Namibian Stock Exchange
SIC Code	Standard Industrial Classification Code
SUNREF	Sustainable Use of Natural resources And Energy Finance Namibia
WB	World Bank



1. Introduction

Capricorn Group's aim is to become the Green Financier of choice for sustainable projects in the countries we operate in. Bank Windhoek, as the only locally owned commercial bank in Namibia, we share the responsibility to protect Namibia for future generations by actively contributing to and facilitating the transition to a low-carbon and climate resilient economy.

Bank Windhoek has been an implementing partner of the Sustainable Use of Natural Resources and Energy Finance (SUNREF) program by Agence Française de Développement's (AFD) The funding from SUNREF aims to finance renewable energy projects within Namibia. The initiative was a great learning journey for the Bank's staff and clients involved in related renewable energy projects and this experience encourages Bank Windhoek to continue to expand its green lending activities.

For this purpose, Bank Windhoek aims to obtain additional sources of funding for its green lending activities by raising funds in the debt market through a local Green Bond issuance, of which the proceeds will be used solely to finance eligible green projects and assets throughout Namibia.

Green Bonds generally are a fixed income instrument where the proceeds are exclusively applied to finance or re-finance, in part or in full, new and/or existing eligible Green Projects and which are aligned with the four core components of the International Capital Market Association's (ICMA) Green Bond Principles (GBP).

In its simplest form, the bank will raise a fixed amount of capital, repaying the capital (principal) and accrued interest (coupon) over a set period of time.

It is a win-win situation for both the bond issuer (the Bank) and the investor, as they can contribute toward a sustainable future on one hand and showcase themselves as a responsible organisation/institution/individual on the other hand. Furthermore, by issuing a Green Bond the bank and Capricorn Group make a strong commitment to be a sustainable and responsible organisation. Sustainable finance therefore will be embedded in the Bank's future growth strategy.

2. Framework Overview

Bank Windhoek is committed to ensure that our clients have sufficient access to funding that supports Namibia in its transition to an environmentally sustainable and low-carbon economy and demonstrates an added environmental value to the society at large. The Bank Windhoek Green Bond Framework clearly exemplifies how Bank Windhoek proposes to raise additional funding through the Green Bond issuance and to use its proceeds for green projects in accordance with the green eligibility criteria set out in this Green Bond framework. In order to ensure the credibility of the Bank Windhoek Green Bond program, the framework is developed based on the International Capital Market Association's (ICMA) Green Bond Principles (GBP) and the Definitions and Metrics for Climate Related Activities of the International Finance Cooperation (IFC).

² The GBP have four core components:

1). Use of Proceeds, 2). Process for Project Evaluation and Selection 3). Management of Proceeds, 4). Reporting

³ Green Principles are voluntary international guidelines which the bank/issuer can put in place to issue a credible Green Bond that will attract investors. For more details regarding the GBP, please follow the link below: <https://www.icmagroup.org/green-social-and-sustainability-bonds/green-bond-principles-gbp/>

⁴ <https://www.ifc.org/wps/wcm/connect/8ea3b242-c6bb-4132-82b1-ee4bd7007567/IFC+Climate+Definitions+v3.1+.pdf?MOD=AJPERES>

3. Green Bond Listing

The Green Bond will be raised as part of the Bank Windhoek NAD 5 billion Domestic Medium Term Note Programme (DMTN) and will be listed on the Namibian Stock Exchange (NSX). In the next section of this document, the Bank Windhoek Green Bond Framework will be further explained based on the following core components of the ICMA Green Bond principles:

- Use of Proceeds
- Green Project Evaluation and Selection Process
- Management of Proceeds
- Reporting

4. Use of Proceeds

The cornerstone of a Green Bond is the use of the proceeds of the bond. The proceeds of each successful Bank Windhoek Green Bond issuance will be used to finance and refinance, in whole or in part, eligible projects in Namibia included in the IFC Definitions and Metrics for Climate Related Activities. Eligible projects include;

- Renewable energy
- Energy Efficiency & Resource efficiency
- Green Buildings
- Sustainable Waste Management
- Sustainable Land Use
- Clean Transportation
- Sustainable Water Management
- Climate Change Adaptation
- Green trade
- Climate smart agriculture
- Non-energy Green House Gas emission reduction

Details regarding the activities that are eligible to be financed with proceeds of the Green Bond can be found in Appendix A of this Framework. The Bank will regularly update this Appendix to reflect relevant changes and updates by the ICMA's Green Bond Principles and IFC's Definitions and Metrics for Climate-related activities.

Bank Windhoek has already identified a pipeline of potential projects within the Renewable Energy, Energy Efficiency and Smart and Sustainable Agriculture categories. In the case of refinancing, the Bank would limit within the 12 month look back period.

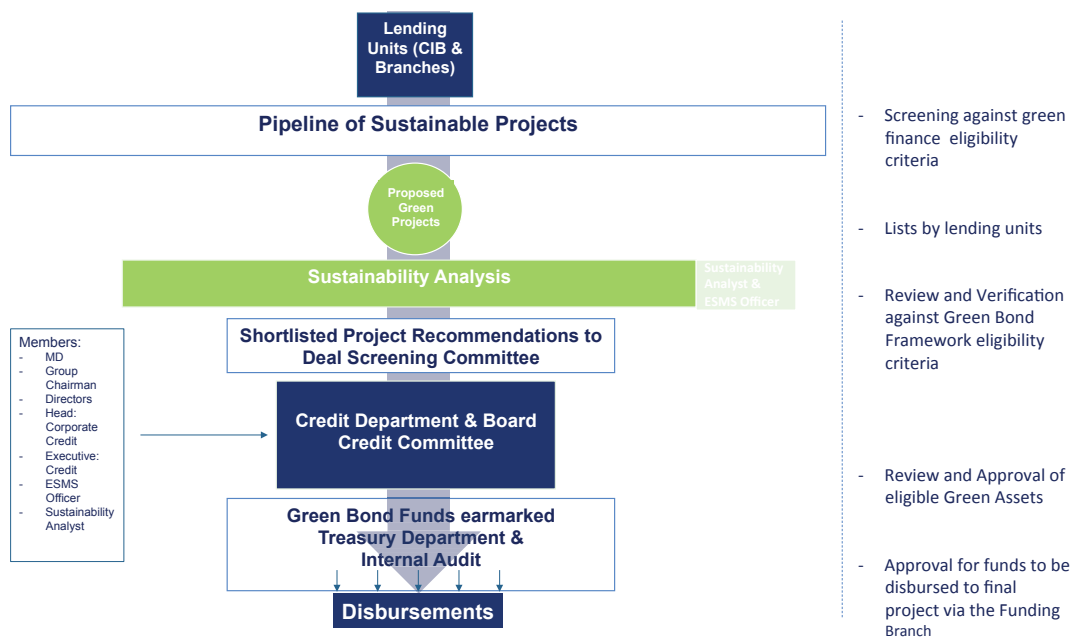
5. Green Project Evaluation and Selection Process

Bank Windhoek will adopt the IFC Definitions and Metrics for Climate Related Activities to evaluate and select projects for its Green Bond program. In addition to using the stipulated criteria, the Bank will use the web-based software application Climate Assessment for Financial Institutions ("CAFI"), which is developed based on the IFC definitions and metrics for climate related activities and the Excellence in Design for Greater Efficiencies ("EDGE") online tool. These tools will enable the Bank to assess and screen projects against the climate eligibility set out in this Framework before making a decision to allocate Green Bond proceeds and consistently report on their impacts afterward to investors.

Bank Windhoek will make use of its existing internal credit evaluation process and the deal screening platform, for the review of each potential green project with an added layer of green eligibility checking by a dedicated focal point, i.e. the Sustainability Analyst. The dedicated Sustainability Analyst will be trained by IFC and has the responsibility to check all the projects proposed by business units against the green eligibility criteria set out in this Green Bond Framework, before making a shortlist of eligible green projects and recommending them to the Credit Department and/or Board Credit Committee (depending on the size of these projects) for approval. The ESMS Officer of Bank Windhoek and the dedicated Sustainability Analyst will participate in the Committee's discussion of the green projects.

The Bank's ESMS officer is tasked with the evaluation of the entire selection and screening process to ensure the consistency with the Bank Windhoek Green Bond Framework. The Committee will evaluate and approve each of the proposed green projects (and where needed, might seek confirmation on eligibility from IFC experts). After the Committee approval of these green projects, Bank Windhoek Internal Audit will provide formal clearance for the allocation of the Green Bond Proceeds to these approved green projects. The Internal Audit will also review the annual impact report to Green Bond investors. The flow chart below shows the screening, selection and approval steps for green projects to be funded by the proceeds of Green Bonds.

⁵ EDGE (Excellence in Design for Greater Efficiency) is a software tool for green buildings that enables the user to determine the most ideal technical solutions to reduce environmental impacts while capturing upfront costs and projected operational savings. EDGE ensures that a building achieves 20 percent efficiencies in energy, water, and material consumption, defining a much-needed universal green standard. While the drivers behind EDGE are financial, the results are environmental – EDGE helps mitigate climate change by encouraging sustainable development (IFC, 2018).



Bank Windhoek is confident that this is a rigorous due diligence process with built-in checkpoints to ensure that projects selected comply with the Bank's internal Credit policy and the Bank's Green Bond framework.

6. Management of Proceeds

The net proceeds of the Green Bond will be credited to Bank Windhoek's Treasury liquidity portfolio, specifically ring-fenced for the Green Bond issuance. Bank Windhoek (the issuer of the Green Bond) will establish a Green Bond Register for all the final Green projects and assets which will be used to keep track of the allocation of funds and will be updated during the term of the bond. Bank Windhoek Treasury will exercise its professional judgement, discretion and sustainability expertise in the use of proceeds. In the event that any proceeds from the Bank Windhoek Green Bond issuance cannot be applied to finance eligible Green projects, the unallocated funds will temporarily be invested in conservative and liquid money market instruments such as Treasury Bills, deposits and unit trusts, subject to market conditions. Moreover, Bank Windhoek will aim to fully allocate the net proceeds of a Green Bond within 12 months of issuance. The Bank will only permit the disbursement of funds raised from the Green Bond issuance when financing eligible projects and assets that have met the applicable criteria.

An external auditor appointed by Bank Windhoek will verify, on an annual basis, the proceeds allocated to eligible Green projects and assets and the remaining balance of unallocated proceeds. The Bank Windhoek Green Bond(s) proceeds will be tracked and managed by the internal accounting and core banking system through a dedicated Standard Industrial Classification Code (SIC code). Investors of the Bank Windhoek Green Bond can rest assured that the payment of principal and interest on any Green Bond issuance will be made from Bank Windhoek's general funds and will not be directly linked to the performance of any eligible project or asset.

7. Reporting

Bank Windhoek will publish an annual report (the "BW Green Bond Impact Report") on the status of our Green investments in the Investor Relations section of our website. The Green Bond Impact Report will be reviewed by an independent external reviewer/auditor. The report will depict the detailed description of each Green project including the project location, amount financed and climate impact indicators (e.g. annual GHG emission reductions, annual saved energy, renewable energy generated per year, etc.). These impact indicators will be consistent with those reported on an ongoing basis through CAFI. In addition, the Green Bond Impact Report will detail the management of proceeds as well as the remaining balance of unallocated proceeds (if any) up and until the end of the Green Bond program.

8. External Review

Bank Windhoek will commission external review to confirm the alignment of its Green Bond program with the four core principles of the GBPs. The Bank will also ensure the accuracy and completeness of the reporting on its Green Bond Framework implementation, especially on the use of proceeds and therefore will be verified on an annual basis as part of the Annual Financial Statement audit process. This verification report will be included as a separate section in the Bank's official Annual Financial Statements as well as in the Capricorn Group Intergraded Report.

APPENDIX A

Projects Eligibility Criteria

- Bank Windhoek will only finance sustainable projects located in Namibia.
- The project developer takes responsibility for sufficient operational control of the site and operation of the project and must at least provide the following documentation:
 - o Proof of ownership;
 - o Proof of leasing contract enabling the project implementation;
 - o or permission from the site owner or operator to implement the project.

Bank Windhoek's green asset eligibility framework is largely based on the climate metrics and eligibility criteria of the International Finance Corporation, while taking into account also the Green Bond Principles' definitions and Climate Bond Initiative taxonomy. The following table summarizes the eligibility criteria to be applied to screen and select green assets for Bank Windhoek to finance using proceeds from its Green Bond issuances.

The proceeds of the Green Bond will be used for green projects included in "IFC definitions and metrics for climate related activities".

Eligible Sectors	Description and Select Examples
Renewable Energy	<ul style="list-style-type: none"> • Investments in equipment, systems and services which enable the production of energy from alternative renewable resources such as hydro, wind, solar, biomass, biogas, geothermal production. Examples include: • Heat and power generation using renewable energy sources, including wind, solar, biogas, biomass. • Measures to facilitate the integration of renewable energies into the grid networks, including transmission and storage. • Manufacture or import of components used exclusively in alternative renewable energy (including but not limited to wind turbines, solar panels, inverters, storage batteries, etc.) • Production of biofuels • Waste to Energy projects (landfill methane, bagasse, etc.)
Energy Efficiency & Resource efficiency	<ul style="list-style-type: none"> • Investments in equipment, systems and services which result in at least 15% energy savings per unit of product or service generated, such as waste heat recovery, cogeneration, building insulation, energy loss reduction in transmission and distribution; • Investments in manufacturing of components used exclusively in energy efficiency projects described above. Examples include but not limited to LED lights, fuel cells, smart grid meters, etc. • Investments to improve energy, water and raw materials efficiency in services, products or industrial processes;
Green Buildings	<ul style="list-style-type: none"> • New construction building developments or renovation of existing buildings (including public service, commercial, residential and recreational) which comply with one or more of the following green buildings standards: IFC's Excellence in Design for Greater Efficiencies (EDGE) certificate, Environmental Assessment Method (BREEAM) certificate as defined by the Building Research Establishment BREEAM, certificate issued by the German Sustainable Building Council (DGNB), GREEN STAR, or Leadership in Energy and Environmental Design (LEED) certificate; • Buildings which have reduced life cycle consumption of energy levels of at least 20% less than statute/city baseline consumption levels, where this can be easily and transparently demonstrated.

⁶ The complete list of activities eligible under the IFC Climate Definitions is available at <https://www.ifc.org/wps/wcm/connect/8ea3b242-c6bb-4132-82b1-ee4bd7007567/IFC+Climate+Definitions+v3.1+.pdf?MOD=AJPERES>

Sustainable Waste Management	<ul style="list-style-type: none"> Waste minimisation, collection, management, recycling, re-use, processing, disposal (such as methane capture) products, technologies and solutions
Sustainable Land Use	<ul style="list-style-type: none"> Investments in afforestation, reforestation and sustainable forest management that increase carbon stock; Forestry with PEFC certification
Clean Transportation	<ul style="list-style-type: none"> Low energy or emission transportation assets, systems, infrastructure, components and services <ul style="list-style-type: none"> Examples include but not limited to; Rail Tram, Metro, Bus Rapid Transit systems, Electric/Hybrid Vehicles; or transportation solutions/systems with fuel efficiency improvement of at least 15%, or using non-fossil fuel and/or hybrid technologies, and supporting infrastructure.
Sustainable Water Management	<ul style="list-style-type: none"> Investments in climate-related water projects: reducing Non-Revenue Water (NRW) in drinking water processing and distribution, capturing methane in wastewater processing facilities, and water reuse/recycling/optimization in water stressed areas; Water collection, treatment, recycling, re-use technologies and related infrastructure; Examples include but not limited to; water pipes and collection facilities to collect water/rainwater, dams, and treatment plant facilities. Drip irrigation technologies, rainwater harvesting and storage in climate smart agriculture
Climate Change Adaptation	<ul style="list-style-type: none"> Flood defences systems and climate-resilient infrastructure projects Climate smart agriculture activities that help improve yield and resilience against climate risks.
Green trade	<ul style="list-style-type: none"> Trade finance activities that support renewable and energy efficiency product supply chains. Crops certified under RTRS (Roundtable on Responsible Soy Production), Bonsucro, BCI (Better Cotton Initiative), RSB (Roundtable on Sustainable Biomaterials) or Global GAP (Good Agricultural Practices).
Climate smart agriculture	<p>Projects that contribute to Climate Smart Agriculture:</p> <ul style="list-style-type: none"> Reduction of post-harvest crop/food losses (e.g. warehousing, cold chain, improved packaging for highly perishable produce) Reduction in energy use in traction (e.g., efficient tillage) and other agricultural processes Reduction in water consumption (efficient irrigation), laser soil leveling, switching to less-water-intensive crops, water harvest and storage facilities Agricultural projects that improve existing carbon pools (e.g., rangeland management; collection and use of bagasse, rice husks, or other agricultural waste; reduced tillage techniques that increase carbon contents of soil; rehabilitation of degraded lands; peatland restoration) increase of agricultural productivity without increasing GHG emissions per unit of product, reduction of nitrogen oxide emissions from fertilizer applications Livestock and aquaculture projects that reduce methane and other GHG emissions (e.g., improved animal health, animal husbandry, manure management with bio- digesters, improved nutrition, increase of animal protein productivity without increasing GHG emissions per unit of product, etc.)
Non-energy GHG emission reduction	<ul style="list-style-type: none"> Project that reduce fugitive emissions such as reduction of gas flaring or fugitive methane emissions in existing oil and gas industry installations Projects with carbon capture and storage benefits (not involving enhanced oil recovery) Replacement of refrigerants with high global warming potential in existing industrial, commercial, or residential infrastructure with solutions with lower global warming potential



APPENDIX B

Exclusion List

The proceeds of Bank Windhoek's Green Bonds will be used only for the projects that comply with the Bank's Environmental and Social Risk Management Policy and IFC approved exclusion list. Businesses and projects that are involved in the listed operations will not be eligible to be supported by the Green Bond's proceeds.

- Coal mining
- Weapons (munitions, plant etc.)
- Production of alcoholic beverages (excluding beer and wine)
- Gambling / Adult entertainment
- Deforestation
- Biodiversity threat etc.
- Fossil fuel energy generation projects (including green-field gas power plants)
- Production of tobacco;
- Production or trade in any product or activity deemed illegal under host country laws or regulations or international conventions;
- Activities or materials subject to international phase outs or bans, unless the activity or product is permitted under Namibian law;
- Production or activities involving harmful or exploitative forms of forced labour/harmful child labour
- Production or activities that impinge on the lands owned, or claimed under adjudication, by Indigenous Peoples, without full documented consent of such peoples.
- Destruction of High Conservation value areas.

