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ALRAYAN BANK

# ■ Policy

| Policy Title: | ESG POLICY |
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| Approved by: | Board of Directors |
| Date of Approval | 16 December 2024 |
| Date of Last review: | New Release |
| Date of next review | One year from Date of Last Review (or earlier for regulatory or strategic changes) |
| Exceptions: | GCEO shall approve any expection or immaterial changes to this Policy. Material changes to be approved by Board CGNRC. Materiality is defined as per DOA. (Request for Approval/Sign-off sheet must be submitted for implementation of any exceptions or changes). |

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## SECTION 1 - INTRODUCTION

AlRayan Bank is committed to promoting a sustainable and responsible business environment. By enhancing social well-being, fostering economic growth, and ensuring environmental integrity, the bank is committed to standing up for its role as a responsible corporate community member and leading Islamic bank in Qatar towards sustainability.

Al Rayan Bank is dedicated to sustainability principles, and this policy articulates Al Rayan Bank's commitment to Environmental, Social, and Governance (ESG) principles and responsible banking. It outlines the specific environmental, social, and governance objectives and the governance processes implemented to achieve these goals. Through these efforts, the bank aims to positively impact and contribute meaningfully to the community and the environment.

### PURPOSE

The policy ensures a comprehensive and unified approach across the bank and defines Al Rayan Bank's ESG commitments. Detailed implementation guidelines will be disseminated through specific, topic-focused policies and position statements. These supplementary documents will facilitate practical application across all departments, including business, risk, support, and control functions.

### SCOPE

This policy applies to Qatar as a comprehensive framework that outlines the minimum compliance requirements for the AL Rayan Group. The subsidiaries hold a significant responsibility to align their internal governance structures with the provisions outlined in this policy while ensuring full compliance with all relevant local laws, regulations, and standards.

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## DEFINITIONS

### Defining ESG

ESG - for Environmental, Social, and Governance - is a set of standards for measuring a business's impact on society and the environment, as well as its transparency and accountability.

ESG represents the integration of Environmental, Social, and Governance factors into the bank's governance framework and banks' business strategies and investment policies. This involves assessing risks and opportunities under the following topics:

| | | |
|---|---|---|
| Environmental | Climate Change | Physical Weather events<br>Transition to a low-carbon economy<br>Carbon footprint |
| | Natural Resources and Pollution | Waste management,<br>Water management<br>Biodiversity and land use |
| Social | Internal Stakeholders | Worker's rights<br>Diversity and Culture<br>Talent Management |
| | External Stakeholders | Community Relations<br>Customer Relations |
| Governance | Board Oversight | Board Independence |
| | Corporate Governance | Business Ethics<br>Ownership and Control |

| Word/Term | Definition |
|---|---|
| QCB | Qatar Central Bank |
| UN SDG | UN Sustainable Development Goals (SDGs) |
| ESG | Environmental, Social, Governance |

## LEGISLATIVE CONTEXT

This policy requires strict adherence to all applicable legislative and regulatory ESG mandates. In addition to compliance, the bank upholds alignment with local and international sustainability standards concerning environmental protection, climate impact, human and labor rights, and anti-corruption initiatives.

| Name | Location |
|---|---|
| QCB Guidelines | Compliance Register |
| Group Corporate Governance Framework | Policies Register |
| Group Credit Risk Management Policy | Policies Register |
| Group Business Continuity Management Policy | Policies Register |
| Group Risk Appetite Statement | Policies Register |
| Stress Testing Policy | Policies Register |
| Group Whistleblowing Policy | Policies Register |
| Anti Bribery and Corruption Policy | Policies Register |
| Group Procurement Policy | Policies Register |
| HR Policy | Policies Register |
| Corporate Social Responsibility Policy | Policies Register |
| TOR for Environment, Social and Governance Committee (ESGC) | Policies Register |
| AlRayan Bank Sustainable Finance Framework | Policies Register |
| Group Business Policy | Policies Register |

# SECTION 2 - POLICY

## PRINCIPLES

### Al Rayan Bank Commitments

Al Rayan Bank aims to be a sustainability leader, providing innovative and impactful banking solutions to facilitate Qatar's sustainability journey in alignment with Qatar's National Vision 2030, UN SDGs and QCB's ESG and Sustainability Strategy for the Financial Sector issued in 2024.

As an essential partner in achieving the ambitious objectives of Qatar's National Vision, the bank is fully committed to this vision and actively contributes to establishing an advanced society that sustains growth while ensuring a high quality of life for all citizens.

The four pillars of Qatar's National Vision 2030 address significant environmental and social challenges, and the bank is committed to addressing these challenges as an integral component of its sustainability strategy.

## POLICY

### A. ESG Governance

ESG Governance should be compliant with QCB guidelines and currently defined as follows.

#### i. Governance structure

The Board of Al Rayan Bank oversees its comprehensive Corporate Governance framework through its Corporate Governance, Nominations, and Remunerations Committee (the "CGNRC"). This includes developing and approving policies and frameworks related to environmental, social, and governance (ESG) considerations.

A senior management-level ESG Governance Committee ("ESG Committee") chaired by the Group Chief Transformation Officer (GCTO) reports directly to the Group Chief Executive Officer (CEO), who provides regular updates to the CGNRC on the progress of the implementation. The CGNRC is responsible for communicating relevant ESG matters to the full Board, including any necessary actions and recommendations.


The ESG Unit/ESG Committee Secretary acts as an advisory entity to the ESG Committee on all sustainability-related matters. It is responsible for engaging with external stakeholders and managing all ESG reporting, disclosures, and interactions with relevant entities, institutions, investors, and partners under the supervision of ESG Committee Chair. The ultimate responsibility of the bank's various ESG initiatives lies with the ESG Committee Chair. The ESG Unit/ ESG Committee Secretary is responsible of monitoring the bank's various ESG initiatives and collaborates closely with relevant departments on projects associated with ESG under the supervision of ESG Committee Chair.

These responsibilities include the defined ESG Risk under the climate risk governance referred to in section D.

### ii. Policy Governance

The ESG Unit/ESG Committee Secretary reviews all departmental policies to ensure ESG integration and abiding by the subject ESG policy commitments.

### iii. Transparency and Reporting

Al Rayan Bank is committed to maintaining transparency in line with QCB guidelines and international standards.

Al Rayan Bank produces an annual report and employs digital channels to publish information to its stakeholders. The annual disclosures aim at reflecting the bank's intention to communicate all significant sustainability and ESG-related information to external stakeholders. The annual ESG report must be approved by the Board or Board CGNRC upon recommendation from the ESG Committee and shall form an integral part of the regulatory Annual Corporate Governance Report.

### iv. International and Local Standards and Frameworks

Al Rayan Bank is committed to aligning its operations with local and global sustainability standards and best practices. This commitment should be facilitating the effective implementation of the Environmental, Social, and Governance (ESG) strategy, significantly impacting the bank stakeholders, reflecting the bank contribution to Qatar's objectives of promoting social equity and fostering an environmentally conscious community.

The table below outlines the bank's global and local frameworks for aligning its activities.

| | |
|---|---|
| International Frameworks | UN Sustainable Development Goals (SDGs) |
| | UN Global Impact (UNGC) |
| | Principles for Responsible Banking (PRB) |
| | Green Bond ICMA Principles |
| | Partnership for Carbon Accounting Financials (PCAF) |
| Local Frameworks | ESG QCB Guidelines |
| | Qatar National Vision 2030 |
| | Qatar Stock Exchange ESG platform |

## B. Pillar I: Human and Social Development

Al Rayan Bank is committed to empowering Qatar to develop advanced educational and healthcare systems while fostering a highly skilled and motivated workforce. The bank initiatives are committed to enhancing social care and protection nationwide, ensuring everyone receives the necessary support.

### i. Commitment to Health, Safety, and Wellbeing

Al Rayan Bank is committed to enhancing the well-being and health of its employees through established policies, processes, and practices. The bank ensures workplace safety for all employees and stakeholders. It upholds these principles through rigorous policies, systematic audits, relevant certifications, targeted training programs that includes ESG training to all board members, senior management and all employees, as well as strict compliance with all applicable regulations.

### ii. Financial Inclusion

Also committed to inclusive growth, Al Rayan Bank is committed to fostering inclusive and sustainable development through a diverse portfolio of products and services designed to promote social and financial inclusion for all customers, clients, and communities.

### iii. Social Responsibility

Al Rayan Bank is dedicated to empowering youth and creating a meaningful impact through various initiatives, including environmental sustainability, community development, sports, and education. The bank encourages volunteering and community engagement, aligning its efforts with Qatar's National Vision. Furthermore, Al Rayan Bank embraces charitable giving and has established a comprehensive Corporate Social Responsibility policy that clearly outlines its commitments to supporting the community and fostering positive change. *(refer to policies register)*

### iv. Qatarization

Al Rayan Bank is committed to enhancing the Qatarization rate by the Qatar National Vision 2030. The bank initiatives focus on creating employment opportunities for Qatari nationals, thereby promoting the establishment of a skilled local workforce. This addresses the immediate objective of Qatarization and secures a prosperous future for the Qatari labor market.

Through active involvement in these initiatives, Al Rayan Bank contributes to the sustainable development of Qatar's economy while strictly adhering to local laws and regulations. The bank is also committed to fostering local talent and ensuring that future generations have the resources necessary to fulfill their aspirations.

#### v. Talent Recognition

Al Rayan Bank is committed to identifying and developing talents by establishing clear career paths and providing support for both educational and professional advancement. Ensuring the well-being of its employees remains a fundamental priority within the organization. The comprehensive performance program, established by the LEAD strategy to promote growth and excellence, is designed to recognize the efforts of all employees. Al Rayan Bank senior management acknowledges and rewards all contributions, with a particular emphasis on high performers, while cultivating an environment that encourages ambition and motivation for all individuals.

The LEAD Strategy sets clear objectives that encourage the development of corporate culture and employee sense of belonging.

### C. Pillar II: Economic Development

Al Rayan Bank is committed to enabling the private sector to contribute significantly to sustainable development.

#### i. Small & Medium Enterprises

Al Rayan Bank is committed to providing financial support to small and medium-sized enterprises (SMEs), facilitating their growth, and enabling them to make substantial contributions to the economy in accordance with the bank LEAD strategy.

Al Rayan Bank's commitment is articulated around an innovative and impactful SME strategy that aligns with the objectives of Qatar National Vision and focuses on:

- Financing Small and Medium Enterprises
- Entrepreneurs and talented Individuals
- Business innovations
- Future job Skills
- Start-ups aligned to UN SDGs
- Support social impact initiatives
- Projects articulated around Youth innovations and Youth development programs

- Women entrepreneurs and women empowerment in the society
- Businesses working on future skills programs

### ii. Digital Financial Services support and innovation

Al Rayan Bank is committed to supporting Digital Financial Services by creating a Digital Financial Services Sandbox in its Innovation Lab ‘NEXT.’ This commitment aligns with QCB's Digital Financial Services Strategy and Qatar's vision for economic sector diversification.

### iii. Sustainable Finance

Al Rayan Bank is committed to facilitating the transition towards sustainability by reducing carbon emissions. The bank must actively engage in financing, investment, and the allocation of funds to support sustainable and transitional initiatives. It must pursue green, social, and sustainable investments and is involved in issuing green sukuk, deposits, and financing products.

These activities aim to mitigate climate change and promote development in green projects, social initiatives, renewable energy, and wastewater management.

Furthermore, Al Rayan Bank is dedicated to fostering sustainable growth by providing diverse financing options. This commitment ensures that economic development aligns with Qatar’s environmental responsibilities. The bank prioritizes protecting vital resources, including air, land, water, and biodiversity, ensuring their preservation for future generations. Through these initiatives, Al Rayan Bank strives to create a positive impact that benefits both the economy and the environment.

Sustainable finance includes environmental, social, and governance criteria in business and investment decisions to recognize shareholders' and stakeholders’ long-term benefits and economic growth aligned with Qatar's national vision and UN SDGs.

Through the Al Rayan Bank Sustainable Finance Framework, the bank standardized its assessment methodology and incorporated the latest international standards to integrate ESG-linked product offerings. The bank provides customers with products and services addressing environmental or social challenges, such as promoting financial inclusion or mitigating climate change.

The bank is committed to advancing sustainable financing and developing a portfolio dedicated to green, social, and sustainability-linked financing. Additionally, the bank is enhancing its internal capabilities to effectively assess the ESG risks and opportunities associated with the clients' investments, ensuring that its practices align with its sustainability commitment.

### D. Pillar III: Environmental Development

Al Rayan Bank firmly supports Qatar's National Environment and Climate Change Strategy (QNE) and the National Climate Change Action Plan (NCCAP). In October 2021, Qatar introduced the QNE, which delivers a comprehensive policy framework to safeguard the nation's environment for future generations. This initiative was preceded by the approval of the NCCAP by Qatar's Council of Ministers in September 2021. The NCCAP is a strategic framework that encapsulates Qatar's long-term sustainability objectives and the imperative to address the climate crisis effectively.

Al Rayan Bank addresses Qatar's environmental priorities through its operational activities. The bank aims to increase financial support across various economic sectors, thereby assisting Qatar in reducing greenhouse gas (GHG) emissions and achieving its climate change mitigation objectives through three actions:

1. Promote sustainable finance
2. Embed ESG as part of vendor sourcing
3. Carbon emission reduction across its operations

Through the Al Rayan Sustainable Finance Framework, the bank invests in green buildings and renewable energy projects, committing to fostering a cleaner and more sustainable future.

Al Rayan Bank adopts responsible procurement practices to promote sustainability. Suppliers are therefore also encouraged to adhere to ethical and sustainable standards. Responsible procurement and supply chain is defined as assessing sustainability risks in the supply chain as part of a procurement policy embedding ESG and collaborating with Third Parties while ensuring compliance. Third Parties are required to adhere to local laws and regulations as a minimum requirement.

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## E. Environmental, Social, Governance, and Climate Risk

Qatar Central Bank ESG guidelines are articulated around principles tackling Environmental, Social, and Climate Risk across the different risk elements and the bank governance structure.

Al Rayan Bank is committed to effectively managing Environmental, Social, and Governance (ESG) risks, aiming to minimize potential negative impacts while creating sustainable long-term value for its stakeholders. The bank prioritizes identifying and assessing relevant environmental, social, and governance risks and opportunities. Al Rayan Bank's dedication includes actively managing and mitigating climate-related risks while recognizing their potential implications on its operations, the assets financed, and the broader community. The bank's commitment comes from understanding that climate risks can influence various traditional risk categories, including credit, market, operational, and legal liability risks.

### i. Defining ESG Risk

Environmental risks relate to detrimental impacts on Al Rayan Bank premises, reputation, and credit exposure to counterparties. These risks may be influenced by climate change and various forms of environmental degradation, including air and water pollution, freshwater scarcity, land contamination, loss of biodiversity, and deforestation. Understanding and addressing these risks are essential for safeguarding the bank's interests and promoting sustainable practices.

Social risks pertain to any adverse effects on Al Rayan Bank's business operations, reputation, and financing activities concerning counterparties and vendor procurement arising from social factors. These factors encompass violations of human rights, unfair labor practices, unsafe working conditions, and the mishandling of customer privacy.

Governance risks encompass the potential adverse effects on a company’s business operations and overall reputation, as well as its financing relationships with counterparties and vendor sourcing, arising from an inadequate governance framework and ethical lapses.

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### ii. Climate Risk

Al Rayan Bank is dedicated to addressing climate risk, mainly through its financing activities and customer relations. Effective climate risk management aims to enhance sustainable financial performance by mitigating potential risks, creating new business opportunities, and strengthening the bank's reputation. The bank is committed to incorporating specific climate-related considerations into its policies concerning risk management and business development, as well as into the procedures of the relevant operational units. These considerations should be aligned with QCB ESG guidelines and principles.

Considerations should include measuring and assessing exposure to climate risks within the financing portfolio, including physical and transition-related risks. This assessment is critical for identifying potential high-risk areas and implementing mitigation measures. It also serves as a vital input to the risk management framework and the establishment of risk appetite.

AL Rayan Bank is committed to measuring and disclosing financed scope 3 greenhouse gas (GHG) emissions associated with its financing portfolio. This initiative supports Qatar's broader objective of facilitating the transition to reduced carbon emissions.

### iii. Climate Risk Governance

The Board and/or its relevant sub-committees are responsible for the governance and management of climate risk strategies. The ESG Committee oversees climate-related activities, initiatives, performance metrics, and management accomplishments.

The Enterprise Risk Management Department holds primary responsibility for evaluating the materiality of commercial climate risks. This entails a comprehensive process of identifying, assessing, and prioritizing risks based on their potential impact on the Bank's operations and financial performance. The Risk department quantifies risk impacts, scenario analyses, stress testing, and the assessment of financed scope 3 emissions.

The ESG Unit/ESG Committee Secretary responsibility lies with several critical climate-related obligations. This includes proposing the Bank's climate risk targets, informed by insights derived from the Risk Management portfolio analysis and the Bank's Risk Appetite framework. The team also compiles data from various divisions to calculate greenhouse gas emissions pertaining to scope 1, scope 2, and scope 3. In addition, the ESG Team/ESG Committee Secretary is responsible for identifying climate risks and opportunities that may impact the Bank's reputation, promoting the climate-related agenda internally, and developing disclosures related to climate risk.

The respective departments are accountable for executing specific initiatives to reduce the Bank's direct environmental impact and carbon footprint.

### iv. Physical and Transition Risks

Defining the two principal channels through which climate and environmental risks are expressed: Physical and Transition Risks.

Physical Risks refer to the potential damage to physical assets, natural resources, and human lives, which can result in output losses due to climate-induced weather events. These risks can be classified as acute, arising from extreme weather occurrences, or chronic, stemming from gradual changes in climate patterns.

Transition Risks arise from the transition to a low-carbon economy. The three primary drivers of transition risk include i. climate-related policy changes, ii. advancements in technology that facilitate the energy transition, and iii. shifts in consumer and investor sentiment or market dynamics may elevate reputation risk.

## v. Climate Risk Transmission Channels

Climate risk is transmitted through various channels, and Al Rayan Bank is committed to complying with QCB ESG guidelines and timelines.

| | |
|---|---|
| **Credit Risk** | Wealth Effect, income effect, transition effect, sovereign effect |
| **Market Risk** | Climate related risk drivers on value of financial instruments, potential risk of losses and increased volatility of the portfolio |
| **Liquidity risk** | Climate related financial risks on net cash flows / value of assets |
| **Operational Risk** | Impact on business continuity, strategic, reputational, compliance and liability risks |

## vi. Materiality assessment

Al Rayan Bank is committed to conducting a materiality assessment exercise to gather insight into the exposure and materiality of different ESG risks for the Bank and to proactively manage the identified risks. This exercise helps identify the critical ESG risks and understand which issues are most material or relevant to business and stakeholders. The materiality assessment will be done annually or more, based on a need-for basis, to assess potential ESG risk's likelihood of occurring and the severity of impact on business.

## vii. ESG Risk assessment

The ESG risk assessment integrates both quantitative and qualitative evaluations to provide a comprehensive ESG risk rating for counterparties. This assessment should be conducted during the onboarding phase for new clients and vendors and during periodic credit reviews.

The quantitative assessments are based on ESG risk ratings from reputable external ESG rating agencies. In contrast, the qualitative evaluation employs an internally developed ESG methodology that evaluates a counterparty's existing ESG policies, commitments, and practices in effectively managing ESG risks.

The resultant combined ESG risk rating should categorize counterparties into three risk categories:

1. Acceptable Risk: Indicates no significant concerns.

2. High Risk: Denotes conditional approval, necessitating a well-supported rationale for this status. This category requires more in-depth due diligence and encourages the client to enhance its ESG risk profile through an agreed-upon mitigation action plan, performance improvement measures, or the imposition of additional finance covenants and conditions associated with the onboarding or transaction.

3. Severe Risk: Implies no engagement is allowed, and the termination of the client or vendor relationship is warranted, unless a relevant committee authorizes an exception.

The onboarding procedure for new clients, involving borrowing and non-borrowing entities, necessitates executing due diligence when applicable. Relationship Managers should conduct a preliminary Environmental, Social, and Governance (ESG) risk assessment for clients. This assessment needs negative screening, the evaluation of external ESG ratings, and the completion of an internal questionnaire, all supported by sufficient evidence and documentation.

The assessment of ESG risks associated with investments is based on data sourced from reputable external ESG risk rating agencies. The ESG risk score assigned to each investee will be derived from an average of scores reported by multiple ESG rating agencies and classified into three categories: acceptable, high, and severe. Investees with aggregated ESG risk scores will be placed on a watchlist for ongoing monitoring, with particular attention to those categorized as high and severe. This watchlist will undergo bi-annual updates and be presented to the relevant ESG committees for review and oversight.

Exclusions: Any Al Rayan Bank investment or financing proceeds, or third-party relation will be considered as severe risk in cases where the main purpose of the business is related to fossil fuels, nuclear power generation, conflict minerals, weapons, vaping, tobacco and mining.

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### viii. ESG Risk Mitigation

Al Rayan Bank is committed to implementing comprehensive measures and controls to address identified environmental, social, and governance (ESG) risks using the risk mitigation principles that should be outlined in the Enterprise Risk Management policy. These measures encompass the following initiatives:

1. Systematic monitoring of sectors deemed vulnerable, specific geographical areas, and customer profiles, which includes establishing a negative screening process and developing a list of ESG-critical activities as part of the ESG risk appetite framework.

2. The provision of sustainable finance products linked to positive environmental and climate outcomes.

3. Engaging with counterparties with high or severe ESG risks linked to the development of mitigation plans designed to reduce their exposure to such risks while encouraging a transition toward sustainable business practices.

Relationship Managers recommend risk mitigation action plans to enhance the ESG risk profiles of clients categorized as having ESG risks or engaged in ESG-critical activities, depending upon effectively managing these risks through a tailored mitigation strategy. The risk department methodically document and review the decision-making process, assessing the proposed mitigation action plans as deemed appropriate.

The bank internal control framework includes reporting lines across the three lines of defense including business, risk and internal audit that provide independent review and objective assurance of the overall internal control framework and systems.

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# SECTION 3 - INSTRUCTIONS

## INSTRUCTIONS

| | Instructions steps | Responsibility |
|---|---|---|
| **1.** | Departmental Policies | Company Secretary |
| **2.** | SOPs | Respective Bank Departments |

## SUPPORTING DOCUMENTATION

### Forms and Records Management

| Form | Retention Time | Retention Location |
|---|---|---|
| All policies as listed in the section 1 | 10 years | Company Secretary register |

### Related Material

| Name | Location | Document Type |
|---|---|---|
| TBD | | |

# SECTION 4 - GOVERNANCE

## RESPONSIBILITY

| | |
|---|---|
| **Policy Owner** | Group Chief Transformation Officer |
| **Policy Author** | Business Development Manager-ESG Committee Secretary |
| **Policy Custodian** | Company Secretary |

## VERSION CONTROL AND CHANGE HISTORY

| Version Number | Approval Date | Approved by | Amendment |
|---|---|---|---|
| V.0 | 16 December 2024 | Board of Directors | New release |