

Second Party Opinion

Masraf Al Rayan's Sustainable Finance Framework

April 20, 2022

Masraf Al Rayan (Q.P.S.C.) engages in Islamic banking, financing, investing, and brokerage activities in Qatar and internationally. It operates through five segments: Corporate Banking, Retail Banking, Treasury & Financial Institutions, Asset Management, and International Operations. The bank serves retail and individual customers as well as corporate, commercial, and multinational clients. In addition to its 17 branches in Qatar, the bank has operations in the U.K., France, and United Arab Emirates.

In 2021, Masraf Al Rayan merged with Al Khalij Commercial Bank to form one of the largest Shariah-compliant banks in the region.

Masraf Al Rayan (Q.P.S.C.) was incorporated in 2006 and is based in Doha, Qatar.

PRIMARY ANALYST

Salaheddine Soumir
Paris
+336-0374-8108
salaheddine.soumir@spglobal.com

SECONDARY ANALYST

Jesús Palacios
Paris
jesus.palacios@spglobal.com

In our view, Masraf Al Rayan's Sustainable Finance Framework, published on April 20, 2022, is aligned with:

- ✓ Social Bond Principles, ICMA, 2021
- ✓ Social Loan Principles, LMA/LSTA/APLMA, 2021
- ✓ Green Bond Principles, ICMA, 2021
- ✓ Green Loan Principles, LMA/LSTA/APLMA, 2021
- ✓ Sustainability Bond Guidelines ICMA, 2021

This second party opinion does not assess the alignment of any individual transaction issued under the framework with the Principles listed above.

Issuer's Sustainability Objectives

Masraf Al Rayan aims to become a key sustainability player in Qatar through its commitment to Qatar's National Vision 2030. The national vision seeks to develop a sustainable society with high living standards for its people through human, social, economic, and environmental development.

The bank's sustainability strategy is intertwined with Qatar's National Environment and Climate Change Strategy, which outlines a policy framework to protect Qatar's environment. In addition, Qatar's Council of Ministers ratified a National Climate Change Action Plan that constitutes a framework and reflects Qatar's long-term sustainability goals and its need to act on the climate crisis.

In this context, the bank launched its Sustainable Finance Framework, which also follows the Qatar Financial Center's newly launched Sustainable Sukuk and Bonds Framework.

Second Party Opinion Summary


Use of proceeds

Alignment  Masraf Al Rayan's Sustainable Finance Framework is aligned with this component of the Principles.

Score Not aligned Aligned **Strong** Advanced

Masraf Al Rayan has committed to using an amount equivalent to the net proceeds of financing instruments issued under the framework to finance or refinance projects that fit categories that are in line with the Principles. Furthermore, all eligible green and social projects contribute to environmental and social objectives, in line with Qatar's National Vision 2030, and are mapped to specific targets of the U.N.'s Sustainability Development Goals (SDGs).


Process for project evaluation and selection

Alignment  Masraf Al Rayan's Sustainable Finance Framework is aligned with this component of the Principles.

Score Not aligned Aligned **Strong** Advanced

Masraf Al Rayan outlines the process it follows and the criteria it uses to select eligible projects. The bank's ESG Governance Committee, chaired by the group's chief financial officer, will, among other things, assess projects' eligibility according to the set criteria, monitor the allocation of proceeds, and replace projects that are no longer eligible. In addition, the committee will also monitor potential social and environmental controversies linked to the eligible projects, which may lead to their exclusion. Furthermore, environmental projects follow market-based taxonomies and certifications. Social projects, on the other hand, rely on national definitions and are guaranteed by government-backed programs.

Management of proceeds

Alignment  Masraf Al Rayan's sustainable finance framework is aligned with this component of the Principles.

Masraf Al Rayan's ESG Governance Committee will be in charge of tracking and allocating an amount equivalent to the net proceeds to eligible projects through its Sustainable Finance Register. Furthermore, unallocated proceeds pending full allocation will be held in cash or short-term marketable securities.

Reporting

Alignment  Masraf Al Rayan's Sustainable Finance Framework is aligned with this component of the Principles.

Score Not aligned **Aligned** Strong Advanced

Masraf Al Rayan has committed to annually report on the allocation of proceeds and the impact of the projects until full allocation. The impact reports will include actual impact metrics. Furthermore, the bank has committed to have its allocation reporting verified by an external reviewer.

Framework Assessment

Use of proceeds

The Principles make optional recommendations for stronger structuring practices, which inform our alignment opinion as aligned, strong, or advanced. For use of proceeds, we consider the commitments and clarity on how the proceeds are used.

 Masraf Al Rayan's Sustainable Finance Framework is aligned with this component of the Principles.

Commitments score

Not aligned

Aligned

Strong

Advanced

We consider Masraf Al Rayan's overall use of proceeds commitments to be strong.

Masraf Al Rayan has committed to allocating an amount equivalent to the net proceeds of financing instruments issued under the Sustainable Finance Framework to exclusively finance or refinance projects that contribute to at least one environmental or social objective. Moreover, we view positively that the bank has committed to report on the proportion of funds used for financing versus refinancing and has defined an expected look-back period of no more than three years.

The framework outlines eligible green project categories, in line with the Green Bond Principles, which include the two categories of green buildings and renewable energy (energy production from solar photovoltaic and wind, and infrastructure dedicated to transmissions of renewable energy only).

Regarding the green projects, the bank clearly outlines their alignment with Qatar's National Vision 2030 under the pillar of environmental development. In addition, the bank specifies the U.N. SDG targets that these green projects are set to meet, which we view as a strong practice.

As for social projects, Al Rayan Bank specifies its project category in line with the Social Bond Principles, which is small and midsize enterprise financing. In addition, the bank links social projects to Qatar's National Vision 2030 under the pillars of human, social, and economic development and indicates the specific SDG targets to be met through these projects, which we view positively.

Process for project evaluation and selection

The Principles make optional recommendations for stronger structuring practices, which inform our alignment opinion as aligned, strong, or advanced. For our process for project selection and evaluation, we consider the commitments and clarity on the process used to evaluate and select eligible projects to fund with the proceeds of the sustainable finance instrument.

 Masraf Al Rayan's Sustainable Finance Framework is aligned with this component of the Principles.

Commitments score

Not aligned

Aligned

Strong

Advanced

We consider Masraf Al Rayan's process for project selection and evaluation commitments to be strong.

The Sustainable Finance Framework outlines the criteria and process Masraf Al Rayan will use to select eligible projects and includes an exclusion list comprising investments in projects related to mining and oil and gas. Furthermore, the bank ties its green projects' eligibility conditions to criteria driven by market-based taxonomies or certifications. For example, the financing of energy-efficient buildings is tied to a certain level of green certification, such as LEED "Gold" or above, BREEAM "Excellent" or above, or a Global Sustainability Assessment System of "4 stars". With regards to social projects, Masraf Al Rayan's small and midsize enterprise (SME) financings fall under the government-backed Al Dhameen guarantee program. Moreover, the bank adopts the Qatari national definition of SMEs.

Second Party Opinion

Masraf Al Rayan's ESG Governance Committee will oversee and assess projects' eligibility for financing in accordance with the set criteria, ensure projects alignment with the Principles, replace projects that are no longer eligible with other eligible green or social ones, ensure an appropriate use of proceeds, and review and treat potential controversies linked to eligible green or social projects. In addition, the bank has committed to implement processes that guarantee the compliance of eligible green projects with the environmental impact assessment provisions of Qatar's Environmental Protection Law. Furthermore, Masraf Al Rayan has also committed to implement social risk assessment procedures to manage risks associated with social projects.

Management of proceeds


The Principles require disclosure of the issuer's management of proceeds from sustainable finance over the life of the funding. The alignment opinion focuses on how clear in the documentation is the issuer's commitment to ensure that the funds raised will remain dedicated to eligible sustainability projects throughout the life of the sustainable finance funding.

 Masraf Al Rayan's Sustainable Finance Framework is aligned with this component of the Principles.

Masraf Al Rayan has committed to manage the allocation of proceeds through its Sustainable Finance Register and will track information concerning the type of the sustainable financing transactions and the allocation. The bank states that proceeds pending full allocation will be held in cash or short-term marketable securities until allocation to eligible green or social projects. Moreover, the bank has committed to allocate the proceeds of the Sustainable Finance Framework within two years from the date of the issuance, which we view as in line with the market's best practice.

Reporting

The Principles make optional recommendations for stronger disclosure practices, which inform our disclosure opinion as aligned, strong, or advanced. We consider plans for updates on the sustainability performance of the issuer for general purpose funding, or the sustainability performance of the financed projects over the lifetime of any dedicated funding, including any commitments to post-issuance reporting.

 Masraf Al Rayan's Sustainable Finance Framework is aligned with this component of the Principles.

Disclosure score

Not aligned

Aligned

Strong

Advanced

We consider Masraf Al Rayan's overall reporting practices to be aligned with the Principles.

Masraf Al Rayan has committed to publishing an annual allocation and impact report until proceeds are fully allocated.

The allocation report will provide information on the total amount of proceeds allocated to eligible green and social projects, the breakdown of allocation by project category and location, the proportion of funds used for financing versus refinancing, and the balance of unallocated proceeds. In addition, the allocation report will be subject to external review to verify the compliance of assets financed with the defined eligibility criteria, the allocation of the proceeds to eligible projects, and the management of both allocated and unallocated proceeds.

Additionally, Masraf Al Rayan has committed to disclosing a range of actual impact metrics related to its social and environmental projects.

Mapping To The U.N.'s Sustainable Development Goals

The Sustainable Development Goals (SDGs), which the United Nations (U.N.) set up in 2015, form an agenda for achieving sustainable development by 2030.

We use the International Capital Market Association's (ICMA's) SDG mapping for this part of the report. We acknowledge that ICMA's mapping does not provide an exhaustive list of SDGs and that ICMA recommends each project category be reviewed individually to map it to the relevant SDGs.

Masraf Al Rayan's sustainable finance framework intends to contribute to the following SDGs:

Use of proceeds

SDGs

Green Buildings



11. Sustainable cities and communities*

Renewable energy



7. Affordable and clean energy*

SME financing



8. Decent work and economic growth*



9. Industry, innovation and infrastructure*

*The eligible project categories link to these SDGs in the ICMA mapping.

Second Party Opinion

Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P) receives compensation for the provision of the Sustainable Financing Opinions product (Product). S&P may also receive compensation for rating the transactions covered by the Product or for rating the issuer of the transactions covered by the Product. The purchaser of the Product may be the issuer.

The Product is not a credit rating, and does not consider credit quality or factor into our credit ratings. The Product does not consider, state or imply the likelihood of completion of any projects covered by a given financing, or the completion of a proposed financing. The Product encompasses Second Party Opinions and Transaction Evaluations. Second Party Opinions consider features of a financing transaction and/or financing framework and provide an opinion regarding alignment with certain third-party published sustainable finance principles and guidelines ("Principles"). For a list of the Principles addressed by our Second Party Opinions, see the Analytical Approach and Analytical Supplement, available at www.spglobal.com. Transaction Evaluations provide an opinion which reflects our assessment of the potential relative environmental benefit of the funded or resilience projects. The Product is a statement of opinion and is neither a verification nor a certification. The Product is a point in time evaluation reflecting the information provided to us at the time that the Product was created and published, and is not surveilled. The Product is not a research report and is not intended as such.

S&P's credit ratings, opinions, analyses, rating acknowledgment decisions, any views reflected in the Product and the output of the Product are not investment advice, recommendations regarding credit decisions, recommendations to purchase, hold, or sell any securities or to make any investment decisions, an offer to buy or sell or the solicitation of an offer to buy or sell any security, endorsements of the suitability of any security, endorsements of the accuracy of any data or conclusions provided in the Product, or independent verification of any information relied upon in the credit rating process. The Product and any associated presentations do not take into account any user's financial objectives, financial situation, needs or means, and should not be relied upon by users for making any investment decisions. The output of the Product is not a substitute for a user's independent judgment and expertise. The output of the Product is not professional financial, tax or legal advice, and users should obtain independent, professional advice as it is determined necessary by users.

While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Product. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for reliance of use of information in the Product, or for the security or maintenance of any information transmitted via the Internet, or for the accuracy of the information in the Product. The Product is provided on an "AS IS" basis. S&P PARTIES MAKE NO REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, INCLUDED BUT NOT LIMITED TO, THE ACCURACY, RESULTS, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE WITH RESPECT TO THE PRODUCT, OR FOR THE SECURITY OF THE WEBSITE FROM WHICH THE PRODUCT IS ACCESSED. S&P Parties have no responsibility to maintain or update the Product or to supply any corrections, updates or releases in connection therewith. S&P Parties have no liability for the accuracy, timeliness, reliability, performance, continued availability, completeness or delays, omissions, or interruptions in the delivery of the Product.

To the extent permitted by law, in no event shall the S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence, loss of data, cost of substitute materials, cost of capital, or claims of any third party) in connection with any use of the Product even if advised of the possibility of such damages.

S&P maintains a separation between commercial and analytic activities. S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

For PRC only: Any "Sustainable Financing Opinions" or "assessment" assigned by S&P Global Ratings: (a) does not constitute a credit rating, rating, sustainable financing framework verification, certification or evaluation as required under any relevant PRC laws or regulations, and (b) is not intended for use within the PRC for any purpose which is not permitted under relevant PRC laws or regulations. For the purpose of this section, "PRC" refers to the mainland of the People's Republic of China, excluding Hong Kong, Macau and Taiwan.

Copyright © 2022 by Standard & Poor's Financial Services LLC. All rights reserved.