

Second Party Opinion

**Saudi National Bank Sustainable Finance Framework**

Dec. 23, 2021

The Saudi National Bank (SNB) is the largest financial institution in Saudi Arabia. Headquartered in Riyadh, SNB was created in April 2021 as a result of the merger between the National Commercial Bank and Samba Financial Group, both well-established Saudi banks with long-standing customer relationships. With a 30% market share built on solid franchises, SNB now enjoys a prime market position. The bank operates through five segments: Retail, Corporate, Treasury, Capital Market, and International. It has 431 branches, 11 retail service centers, four corporate service centers, and 127 QuickPay remittance centers in Saudi Arabia, as well as two overseas branches in Bahrain and Singapore.

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In our view, SNB's Sustainable Finance Framework, published Dec. 23, 2021, 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

**Issuer's Sustainability Objectives**

SNB's sustainability strategy is intertwined with Saudi Arabia's broad vision to create a more diverse and sustainable economy by 2030. SNB aims to position itself as a leading bank by making a positive impact both on the national and international level through its ESG approach. SNB aims to develop its ESG disclosures in line with the Saudi Stock Exchange's latest guidelines.

The bank defines sustainability as the delivery of long-term value in financial, environmental, social, and ethical terms, prioritizing the benefit to customers, shareholders, employees, and communities. SNB's sustainability framework consists of four main pillars: promoting sustainable financing, preserving the environment, empowering individuals and communities, and promoting principles of good ethical governance that underpin the integrity of the organization.

In addition, SNB is supporting the government in achieving its 2030 renewable energy target through relevant financing. It has also put in place several social initiatives and projects, including supporting small businesses, microfinance, and other community activities.

## Second Party Opinion Summary

### Use of proceeds

**Alignment**  Saudi National Bank's sustainable finance framework is aligned with this component of the applicable Principles.

**Score** Not aligned Satisfactory **Strong** Advanced

SNB commits to using the net proceeds from any green, social, or sustainable bond or loan issued under the framework to exclusively finance or refinance eligible projects that fit within its eligible criteria: renewable energy, management of living natural resources and land use, and small and midsize enterprises (SME). In addition, SNB has defined relevant sustainability objectives related to each eligible project through their mapping to the United Nations' Sustainable Development Goals (SDGs) and the relevant benefits in accordance with Saudi Arabia's "Vision 2030" strategy. Furthermore, all eligible projects show strong social and environmental characteristics.

### Process for project evaluation and selection

**Alignment**  Saudi National Bank's sustainable finance framework is aligned with this component of the applicable Principles.

**Score** Not aligned **Aligned** Strong Advanced

SNB clearly defines the process and criteria by which it selects eligible green and social projects. A dedicated sustainable finance working group comprising representatives from across divisions will be in charge of reviewing the projects list, assessing eligibility, and replacing projects that are no longer eligible. Moreover, SNB will appoint an external reviewer to verify that selected projects meet the eligibility criteria.

### Management of proceeds

**Alignment**  Saudi National Bank's sustainable finance framework is aligned with this component of the applicable Principles.

SNB commits to tracking funds allocated to eligible green and social projects until proceeds have been fully allocated. The bank will follow its internal sustainable financing register to track these funds. Funds that are not immediately fully allocated will be held in cash or short-term marketable securities until allocation. In addition, an external reviewer will be appointed to make sure proceeds are allocated adequately.

### Reporting

**Alignment**  Saudi National Bank's sustainable finance framework is aligned with this component of the applicable Principles.

**Score** Not aligned **Aligned** Strong Advanced

SNB commits to disclosing annually the allocation of net proceeds of any green, social, or sustainable bond/loan until full allocation. Final allocation reports will be subject to third-party verification by an external reviewer. The issuer also commits to report the expected or actual environmental and social impact of eligible sustainability projects on an annual basis, as well as the methodologies used to calculate these metrics.

# Framework Alignment Assessment

## Use of proceeds

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

 Saudi National Bank’s sustainable finance framework is aligned with this component of the applicable Principles.

### Commitments score

Not aligned   Satisfactory   **Strong**   Advanced

We consider SNB's overall commitments regarding the use of proceeds to be strong.

SNB has committed to allocating the net proceeds of any bonds or loans issued under its framework exclusively to fund projects addressing various environmental and social issues. The framework outlines eligible project categories as well as a list of projects. Eligible sustainable project categories comprise renewable energy, management of living natural resources and land use, and SME financing. We believe all eligible projects listed in the sustainable finance framework will contribute to sustainability objectives and are in line with the relevant categories of the Principles.

We view as a strength of the framework that SNB has identified relevant sustainability benefits of eligible environmental and social projects, including diversifying the country’s energy mix, reducing emissions, improving biodiversity, financing women-owned SMEs, and reducing unemployment. In addition, SNB commits to disclosing the proportion of funds used for financing versus refinancing, and the framework also outlines a look-back period for refinancing eligible projects, both practices we view as strong. In our opinion, another strength of the framework is that all financed projects show strong social and environmental features.

## Process for project evaluation and selection

The Principles make optional recommendations for stronger structuring practices, which inform our alignment opinion as satisfactory, 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.

 Saudi National Bank’s sustainable finance framework is aligned with this component of the applicable Principles.

### Commitments score

Not aligned   **Aligned**   Strong   Advanced

We consider SNB's overall process for project selection and evaluation commitments to be aligned.

The framework clearly outlines the process and criteria to select eligible green and social projects and provides an exclusionary list comprising fossil fuels, nuclear power generation, conflict minerals, weapons, gambling, vaping, and/or tobacco.

The bank aims to establish a sustainable finance working group (SFWG), which will comprise representatives from across divisions. The SFWG will review the project list and assess project eligibility for sustainable financing in accordance with the predetermined eligibility criteria, oversee the arrangements established to ensure the green, social, or sustainable bonds/loans are in line with the applicable principles, and review and monitor the allocation of the proceeds. The SFWG will also replace any eligible green or social project that is no longer eligible under the framework, ensure proceeds are used in accordance with the framework, and ensure the generation of information to create periodic reports and update the framework if required.

The identification of internal bodies responsible for evaluating and selecting projects is, in our view, a positive feature of the framework. In addition, the company defines the target population of its social projects, although somewhat less clearly than for environmental 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.

 Saudi National Bank's sustainable finance framework is aligned with this component of the applicable Principles.

SNB commits to maintaining a dedicated register to manage the allocation of proceeds and track a list of indicators that define the type of sustainable financing transactions and the allocation of proceeds. Furthermore, the bank specifies that if funds cannot be fully allocated, unallocated proceeds will be temporarily held in cash or short-term marketable securities until allocated to eligible social or green projects.

## Reporting

The Principles make optional recommendations for stronger disclosure practices, which inform our disclosure opinion as satisfactory, 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.

 Saudi National Bank's sustainable finance framework is aligned with this component of the applicable Principles.

### Disclosure score

Not aligned

**Aligned**

Strong

Advanced

We consider SNB's overall reporting practices to be aligned.

The bank has committed to producing allocation and impact reports annually until full allocation. The allocation report will include the total amount of proceeds allocated to eligible projects, the breakdown of allocation by eligible project category and location, refinancing versus new financing, and the balance of unallocated proceeds. As for the impact report, it will include, where feasible, expected or actual impact metrics such as the amount of renewable energy generated, used, and saved, the amount of carbon dioxide (CO2) avoided, number of trees planted, number of SMEs financed, amount of loans granted to SMEs, and the number of jobs created.

SNB also commits to disclose, when feasible, the methodologies used to calculate these metrics. Nevertheless, performance indicators used to measure the actual impact of social projects could be more advanced, in our view. We view positively that the bank is committing to having a third party verify the allocation report.

## 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.

Saudi National Bank's sustainable finance framework intends to contribute to the following SDGs:

### Use of proceeds

### SDGs

Renewable energy



**\*7. Affordable and clean energy**    **13. Climate action**

Environmentally sustainable management of living natural resources and land use



**13. Climate action**

SME financing / employment generation



**\*8. Decent work and economic growth**

**\*9. Industry, innovation and infrastructure**

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

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