

Second-Party Opinion

Alinma Bank Sustainable Finance Framework

Evaluation Summary

Sustainalytics is of the opinion that the Alinma Bank Sustainable Finance Framework is credible, impactful and aligned with the Sustainability Bond Guidelines 2021, Green Bond Principles 2021, Social Bond Principles 2023, Green Loan Principles 2023 and Social Loan Principles 2023. This assessment is based on the following:



USE OF PROCEEDS The eligible categories for the use of proceeds¹ are aligned with those recognized by the Green Bond Principles, Social Bond Principles, Sustainability Bond Guidelines, Green Loan Principles and Social Loan Principles. Sustainalytics considers that investments in the eligible categories will lead to positive environmental or social impacts and advance the UN Sustainable Development Goals, specifically SDGs 1, 3, 4, 6, 7, 8, 11, 12 and 13.



PROJECT EVALUATION AND SELECTION Alinma Bank has established a Sustainability Committee which will be responsible for evaluating and selecting projects in accordance with the eligibility criteria under the Framework. Alinma conducts an ESG risk assessment for all allocation decisions using its ESG Due Diligence Toolkit which identifies, manages and quantifies environmental and social opportunities and risks associated with the assets financed under the Framework. Sustainalytics considers the project selection process to be in line with market practice.



MANAGEMENT OF PROCEEDS Alinma's Sustainability Committee will be responsible for the management and allocation of proceeds and will track the proceeds using its sustainable finance asset register. Alinma intends to allocate proceeds within 24 months of each issuance. Pending full allocation, unallocated proceeds will be temporarily invested in short term sharia-compliant instruments in accordance with the Bank's local liquidity management guidelines. This is in line with market practice.



REPORTING

Alinma commits to report on the allocation of proceeds on its website on an annual basis until full allocation. Allocation reporting will include the total amount of allocation to eligible categories, project locations, the share of financing versus refinancing and the balance of unallocated proceeds. In addition, Alinma is committed to reporting on relevant impact metrics. Sustainalytics views Alinma's allocation and impact reporting as aligned with market practice.

Second-Party Opinion



Reviewed by:

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Evaluation Date March 7, 2024

Issuer Location Riyadh,
Saudi Arabia

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¹ The eligible use of proceeds categories are: Renewable Energy, Energy Efficiency, Sustainable Water and Wastewater Management, Pollution Prevention and Control, Clean Transportation, Green Buildings, Climate Change Adaptation, Affordable Basic Infrastructure, Access to Essential Services: Education, Access to Essential Services: Healthcare, Employment Generation, and Socioeconomic Advancement and Empowerment.

Introduction

Alinma Bank (“Alinma” or the “Bank”) is a commercial bank headquartered in Riyadh, Saudi Arabia. The Bank started operating in 2006 and offers sharia-compliant loans, investment and cash management, trade operations, savings, credit and debit cards, merchant, and online banking services. It became publicly listed on the Saudi Exchange in 2008. As of 2022, Alinma has 3,676 employees serving 3.98 million customers and reported a total asset base of SAR 200.4 billion (USD 53.4 billion).²

Alinma has developed the Alinma Bank Sustainable Finance Framework dated March 2024 (the “Framework”) under which it intends to issue sukuks and loans that are compliant with Sharia financial solutions, and use the proceeds to finance or refinance, in whole or in part, existing or future projects that are expected to contribute to Saudi Arabia’s transition to a low-carbon economy and promote socioeconomic development. The Framework defines eligibility criteria in the following green and social areas:

The Framework defines eligibility criteria in seven environmental categories:

1. Renewable Energy
2. Energy Efficiency
3. Sustainable Water and Waste-water Management
4. Pollution Prevention and Control
5. Clean Transportation
6. Green Buildings
7. Climate Change Adaptation

The Framework defines eligibility criteria in five social areas:

8. Affordable Basic Infrastructure
9. Access to Essential Services: Education
10. Access to Essential Services: Healthcare
11. Employment Generation
12. Socioeconomic Advancement and Empowerment

Alinma engaged Sustainalytics to review the Framework and provide a Second-Party Opinion on the Framework’s environmental and social credentials and its alignment with the Sustainability Bond Guidelines 2021 (SBG), Green Bond Principles 2021 (GBP), Social Bond Principles 2023 (SBP),³ Green Loan Principles 2023 (GLP) and Social Loan Principles 2023 (SLP)⁴. The Framework will be published in a separate document.⁵

Scope of work and limitations of Sustainalytics’ Second-Party Opinion

Sustainalytics’ Second-Party Opinion reflects Sustainalytics’ independent⁶ opinion on the alignment of the reviewed Framework with the current market standards and the extent to which the eligible project categories are credible and impactful.

As part of the Second-Party Opinion, Sustainalytics assessed the following:

- The Framework’s alignment with the Sustainability Bond Guidelines 2021, Green Bond Principles 2021, and Social Bond Principles 2023, as administered by ICMA, and the Green Loan Principles 2023 and Social Loan Principles 2023, as administered by LMA, APLMA, and LSTA;
- The credibility and anticipated positive impacts of the use of proceeds; and
- The alignment of the issuer’s sustainability strategy and performance and sustainability risk management in relation to the use of proceeds.

² Alinma bank, “Sustainability report”, (2022), at: https://alinmabank2022.annualreport.plus/download/pdf/Alinma_ESG_Report_2022.pdf

³ The Sustainability Bond Guidelines, Green Bond Principles, and Social Bond Principles are administered by the International Capital Market Association and are available at <https://www.icmagroup.org/sustainable-finance/the-principles-guidelines-and-handbooks/>

⁴ The Green Loan Principles and Social Loan Principles are administered by the Loan Market Association, Asia Pacific Loan Market Association and Loan Syndications & Trading Association and are available at: <https://www.lsta.org/content/green-loan-principles/#> and <https://www.lsta.org/content/social-loan-principles-slp/>

⁵ The Alinma Bank Sustainable Finance Framework is available on Alinma Bank’s website at: www.Alinma.com

⁶ When operating multiple lines of business that serve a variety of client types, objective research is a cornerstone of Sustainalytics and ensuring analyst independence is paramount to producing objective, actionable research. Sustainalytics has therefore put in place a robust conflict management framework that specifically addresses the need for analyst independence, consistency of process, structural separation of commercial and research (and engagement) teams, data protection and systems separation. Last but not the least, analyst compensation is not directly tied to specific commercial outcomes. One of Sustainalytics’ hallmarks is integrity, another is transparency.

For the use of proceeds assessment, Sustainalytics relied on its internal taxonomy, version 1.15, which is informed by market practice and Sustainalytics' expertise as an ESG research provider.

As part of this engagement, Sustainalytics held conversations with various members of Alinma's management team to understand the sustainability impact of their business processes and planned use of proceeds, as well as management of proceeds and reporting aspects of the Framework. Alinma representatives have confirmed (1) they understand it is the sole responsibility of Alinma to ensure that the information provided is complete, accurate and up to date; (2) that they have provided Sustainalytics with all relevant information and (3) that any provided material information has been duly disclosed in a timely manner. Sustainalytics also reviewed relevant public documents and non-public information.

This document contains Sustainalytics' opinion of the Framework and should be read in conjunction with that Framework.

Any update of the present Second-Party Opinion will be conducted according to the agreed engagement conditions between Sustainalytics and Alinma.

Sustainalytics' Second-Party Opinion, while reflecting on the alignment of the Framework with market standards, is no guarantee of alignment nor warrants any alignment with future versions of relevant market standards. Furthermore, Sustainalytics' Second-Party Opinion addresses the anticipated impacts of eligible projects expected to be financed with bond and loan proceeds but does not measure the actual impact. The measurement and reporting of the impact achieved through projects financed under the Framework is the responsibility of the Framework owner.

In addition, the Second-Party Opinion opines on the potential allocation of proceeds but does not guarantee the realised allocation of the bond and loan proceeds towards eligible activities.

No information provided by Sustainalytics under the present Second-Party Opinion shall be considered as being a statement, representation, warrant or argument, either in favour or against, the truthfulness, reliability or completeness of any facts or statements and related surrounding circumstances that Alinma has made available to Sustainalytics for the purpose of this Second-Party Opinion.

Sustainalytics' Opinion

Section 1: Sustainalytics' Opinion on the Alinma Bank Sustainable Finance Framework

Sustainalytics considers the Alinma Bank Sustainable Finance Framework credible, impactful and aligned with the four core components of the GBP, SBP, GLP and SLP. Sustainalytics highlights the following elements of the Framework:

- Use of Proceeds:
 - The eligible categories - Renewable Energy, Energy Efficiency, Sustainable Water and Wastewater Management, Pollution Prevention and Control, Clean Transportation, Green Buildings, Climate Change Adaptation, Affordable Basic Infrastructure, Access to Essential Services: Education, and Access to Essential Services: Healthcare, Employment Generation, Socioeconomic Advancement and Empowerment - are aligned with those recognized by the GBP, SBP, GLP and SLP.
 - Alinma has established a three-year look-back period for refinancing activities, which Sustainalytics considers to be aligned with market practice.
 - Alinma intends to use proceeds from instruments issued under the Framework for project-based lending and for general-purpose financing for pure play companies that derive at least 90% of their revenue from eligible activities as identified in the Framework. Sustainalytics recognizes that the GLP, SLP, GBP and SBP favour project-based lending and financing, which provide better transparency in general than non-project-based lending. Nevertheless, Sustainalytics recognizes that the financing of pure play companies through green and social bonds is commonly accepted as an approach that can generate positive impacts.
 - Under the Renewable Energy category, the Bank may finance or refinance the construction, development and operation of renewable energy generation facilities in accordance with the following criteria:

- Onshore and offshore solar photovoltaic systems.
 - Concentrated solar power. Alinma confirmed that most of the electricity (more than 85%) generated from such facilities will be derived from solar energy.
 - Onshore and offshore wind power.
 - Run-of-the-river hydroelectric plants with no artificial reservoir.
 - Green hydrogen projects produced from the electrolysis of water powered by renewable sources.
 - Development and manufacture of renewable energy components and technologies, including wind turbines, solar panels and other constituent parts for renewable energy projects. In addition, Alinma confirmed that such expenditures will be wholly dedicated to components for generating renewable energy. Sustainalytics further encourages Alinma to report on the exact components financed under this activity.
 - Development of technologies and systems to store renewable energy, such as battery storage systems; transmission and distribution (T&D) assets and infrastructure elements, such as fuses, transmission lines, voltage regulators, circuit breakers, meters and belts. Alinma confirmed to Sustainalytics that such T&D infrastructure will be dedicated to renewable energy. T&D infrastructure dedicated to connecting fossil fuels or nuclear power will be excluded from financing under the Framework.
 - Sustainalytics considers the expenditures in this category to be aligned with market practice.
- Under the Energy Efficiency category, Alinma may finance or refinance:
 - Energy efficient products or technologies intended to reduce power usage in manufacturing operations, such as LEDs, chillers, hydrogen fuel cells and smart grid meters.
 - Sustainalytics notes that the Framework excludes products or technology related to fossil fuel production and all processes that are inherently carbon intensive or primarily powered by fossil fuels.
 - The Bank confirmed that hydrogen fuel cells will be produced via electrolysis powered by renewables or using 100% sustainably sourced biomass or biogas.
 - Sustainalytics notes that Alinma intends to finance smart meters for gas or other components and systems. While noting that the financing of these assets is consistent with the EU Taxonomy Delegated Act, Sustainalytics notes that such investments may still prolong fossil fuel consumption.
 - Construction of energy efficient district heating and cooling distribution systems complying with the following criteria:
 - At least 50% powered by renewable energy, 50% waste heat or a combination of both. This is in line with market practice.
 - Smart grids technologies. Sustainalytics acknowledges that smart grid technology may have a variety of definitions and applications, and views positively investments that are designed to improve grid efficiency. At the same time, Sustainalytics encourages the Bank to select projects that are anticipated to deliver specific and tangible efficiency improvements that result in quantifiable outcomes.
 - Under the Sustainable Water and Waste Management category, the Bank may finance or refinance:
 - Desalination plants primarily powered by low-carbon energy sources, such as renewables, or by electricity with average carbon intensity up to 100 g CO₂e/kWh. The Bank has confirmed to Sustainalytics that desalination plant projects will comply with local laws and regulations that cover brine disposal and waste management.
 - Sustainable urban drainage systems, river training works and other forms of flood mitigation systems, including wastewater treatment. The Bank has confirmed the following: i) it will exclude financing facilities that treat wastewater from fossil fuel operations; ii) each project will undergo a vulnerability assessment and have an adaptation plan.
 - This is in line with market practice.

- Under the Pollution, Prevention and Control category, Alinma may finance or refinance projects for soil remediation and processing recyclable waste fractions into secondary raw materials, such as steel, aluminium or glass.
 - Alinma has communicated to Sustainalytics that: i) soil remediation projects will exclude the soil remediation projects that are related to the contamination or negative environmental externality from the borrower's own activities; ii) chemical recycling of plastics will not be financed under this category; and iii) if recycling activities include e-waste or waste from electrical and electronic equipment, they will be accompanied by robust waste management processes to mitigate associated risks.
 - This is in line with market practice.
- Under the Clean Transportation category, Alinma may finance or refinance low-carbon transport vehicles and associated infrastructure in accordance with the following criteria:
 - Low-carbon private passenger vehicles, such as cars, with an emissions intensity threshold of 50 gCO₂/km.
 - Low-carbon public passenger vehicles, such as buses, with an emissions intensity threshold of 50 gCO₂/pkm.
 - Traffic management systems. Sustainalytics recognizes that infrastructure investments for ICT systems support the optimization of transport use, duration or distance in many cases, therefore have the potential to reduce fuel consumption and associated GHG emissions.
 - Ships powered by battery or alternative fuels, such as biofuel or hydrogen.
 - Bunkering or powering facilities for battery-, biofuel- or hydrogen-powered ships.
 - Low-carbon rail transport assets, such as carriages and other assets for subways or metro systems, intercity trains, high-speed rail, mass rapid transit systems, light rail transit, trams and freight rail. Alinma communicated to Sustainalytics that these assets will be electric.
 - Sustainalytics notes that such expenditures will exclude financing systems, vehicles, ships and associated infrastructure dedicated to the transportation of fossil fuels.
 - Sustainalytics considers these expenditures to be aligned with market practice.
- Under the Green Buildings category, Alinma may finance or refinance the acquisition and construction of new, existing or refurbished residential and commercial buildings that meet one of the following criteria:
 - Buildings that have achieved one of the following minimum certification levels: LEED (Gold or above),⁷ Mostadam (Gold or above)⁸ and Pearl Rating System (3 Pearl with a 20% improvement of energy efficiency over ASHRAE 90.1).⁹ Sustainalytics views these certifications to be credible and the levels selected as aligned with market practice.
 - New or existing buildings in the top 15% of the emissions intensity performance in the region, determined by a third-party assessment.
 - Based on the above, Sustainalytics considers investments under this category to be aligned with market practice.
- Under the Climate Change Adaptation category, Alinma intends to finance or refinance the following:
 - Communities or climate observation and early warning systems. Alinma confirmed to Sustainalytics that such activities will be used for long-term purposes and will exclude devices used for short-term meteorological purposes.
 - Water-resilient infrastructure to address flooding, including wetlands, lagoons and bridges.
 - Systems and infrastructure for anticipated wind speeds, heavy rains and increased temperatures, including landscaping features to slow down strong winds, such as planting trees.
 - Alinma has communicated to Sustainalytics that each project: i) will undergo a vulnerability assessment of climate risks; and ii) follow an adaptation plan.
 - Based on the above, Sustainalytics considers investments under this category to be aligned with market practice.

⁷ LEED: <https://www.usgbc.org/leed>

⁸ Mostadam: <https://www.mostadam.sa/>

⁹ Pearl Rating System: <https://pages.dmt.gov.ae/en/Urban-Planning/The-Pearl-Rating-System-for-Estidama>

- Under the Affordable Basic Infrastructure category, the Bank may finance or refinance the construction, development, operation, renovation and maintenance of facilities, services, systems or equipment in accordance with the following:
 - Transport-related infrastructure such as walkways, bike paths and roads to increase connectivity in communities that have limited or no access to such services. Financing may also include shared electric shuttles and vehicles for such communities. Alinma confirmed that vehicles will comply with the emissions thresholds applicable under the Clean Transportation category.
 - Water-related infrastructure such as water or wastewater treatment plants to improve access of potable water and sewage treatment and sanitation in communities that have limited or no access to such services.
 - Energy-related infrastructure such as transmission and distribution (T&D) infrastructure to improve access of energy in communities with limited or no access to such services. T&D Activities may also include financing power generation plants that comply with the renewable energy category under this Framework. Alinma has confirmed to Sustainalytics that energy-related infrastructure projects will exclude financing transmission grids that are directly connected to fossil fuel power generation facilities.
 - Sanitation infrastructure such as wastewater treatment plants in areas that lack access to such infrastructure. The Bank intends to finance desalination facilities, which are highly energy-intensive. Alinma communicated to Sustainalytics that such facilities are renewable-powered and have brine disposal plans in place. Sustainalytics notes positively that the facilities to be financed will be powered primarily by renewable electricity. Sustainalytics recommends Alinma to assess and implement other environmentally benign operational practices, especially related to brine management.¹⁰
 - Infrastructure to improve telecommunication services such as wired, wireless and satellite infrastructure for the transmission of voice, data, text and sound in communities that have no access to such services. Alinma communicated to Sustainalytics that such telecommunication services will be affordable and will be set at a price of less than 2% of the monthly gross national income (GNI) per capita.¹¹
 - Sustainalytics considers expenditure under this category to be socially impactful.
- Under Access to Essential Services: Education category, the Bank may finance or refinance the following:
 - Construction of public schools, universities and university campuses.
 - Retrofitting of educational infrastructure such as school transportation service, remote education services to improve access to primary, secondary, university and vocational education.
 - Financing remote education services, such as training programmes for teachers to improve access and quality to primary, secondary, university and vocational education.
 - Financing vocational training programmes, hackathons and fintech competition to improve skills of individuals and promote entrepreneurship.
 - Alinma confirmed to Sustainalytics that facilities and services financed under this category will be accessible to all regardless of ability to pay.
 - Sustainalytics considers expenditure under this category to be socially impactful.
- Under the Access to Essential Services: Healthcare category, the Bank may finance or refinance the following:
 - Development, expansion or acquisition of hospitals, laboratories, clinics, healthcare centres and hospices.
 - Financing children's paediatric care or maternal or reproductive healthcare products and services for women.
 - Financing healthcare products and services for cancer patients.

¹⁰ Desalination plants produce tremendous amounts of brine. Due to the use of pre-treatment and anti-fouling additives within the process, this hypersaline by-product liquid stream may contain heavy metals and chemicals that can accumulate and/or affect the ecosystem.

¹¹ International Telecommunication Union, "The affordability of ICT services 2022", at: https://www.itu.int/en/ITU-D/Statistics/Documents/publications/prices2022/ITU_Price_Brief_2022.pdf

- Late-stage research and development (R&D) programmes related to developing new medicines, treatments, vaccinations or health equipment. Examples may also include R&D projects related to cancer research and activities that improve provision of early warning, risk reduction and management of health crisis. This may include COVID vaccine research, pandemic vaccine research and launch. Alinma confirmed the following:
 - Financing of R&D of medicine will be addressed towards: i) untreated diseases, ii) addressing a gap in availability for essential medicines, and iii) addressing a gap towards major diseases.
 - Such medication, after R&D projects, will be affordable, in a way that: i) an assurance that the medicine is destined for public health systems, or that access will be available to all regardless of ability to pay; or ii) that manufacturers to be financed make at least 80% of revenue from affordable or generic medication.
 - Alinma confirmed to Sustainalytics that facilities and services financed under this category will be accessible to all regardless of ability to pay.
 - Sustainalytics considers expenditure under this category to be socially impactful.
- Under the Employment Generation category, Alinma may finance or refinance the following:
 - Loans to MSMEs.
 - MSMEs play a particularly important role in developing economies, where they provide jobs and promote economic development. Nevertheless, the growth and success of SMEs in developing countries is often hampered by limited access to finances.¹² In the context of high-income countries that have relatively stable and accessible financial services, Sustainalytics considers it good practice to prioritize financing to SMEs that have a specific target population, such as SMEs owned by members of a disadvantaged group or located in a disadvantaged region that still suffer from lack of access in the local context. Saudi Arabia can be considered as a developing country, but it is a high income country whose banking system can be seen as “well-capitalised and healthy”.^{13,14} Sustainalytics recognizes the need to close the financing gap for SMEs in Saudi Arabia,¹⁵ but views that disadvantaged SMEs face obstacles in securing access to finances more than other companies, and encourages the Bank to prioritize SMEs, which endure disproportionate obstacles when qualifying loans under this category.
- Under the Socioeconomic Advancement and Empowerment category, the Bank may finance MSMEs in accordance with the following:
 - MSMEs where at least 51% of the share capital is owned by women or a woman.
 - MSMEs where at least 51% of top management are women.
 - Sustainalytics considers expenditure under this category to be socially impactful.
- Sustainalytics notes that Alinma is a sharia-compliant bank and excludes the financing of projects associated with gambling, tobacco, alcohol, involvement with political organizations, military purposes, including weapons, weapon components and munitions, fossil fuels, nuclear energy generation, conflict minerals, and oil and gas.
- Project Evaluation and Selection:
 - Alinma has established a Sustainability Committee which will be responsible for evaluating and selecting projects in line with the Framework’s eligibility criteria. The Committee consists of representatives from the Bank’s corporate banking, retail banking, treasury, compliance and anti-financial, risk management, credit management sustainability departments. The Bank’s regional managers identify potential projects and recommend them to the committee for approval. Alinma’s board level committee oversees and reviews this process of project selection and evaluation periodically.

¹² World Bank, “SMEs Finance”, (2019), at: <https://www.worldbank.org/en/topic/sme/finance>

¹³ UN, “World Economic Situation and Prospects”, (2023), at: <https://www.un.org/development/desa/dpad/publication/world-economic-situation-and-prospects-2023/>

¹⁴ International Trade Administration, “Saudi Arabia - Country Commercial Guide”, (2024), at: <https://www.trade.gov/country-commercial-guides/saudi-arabia-trade-financing>

¹⁵ Deloitte, “Bridging the SME Finance gap in GCC”, (2022), at: https://www2.deloitte.com/content/dam/Deloitte/xs/Documents/strategy/me_bridging-the-sme-finance-gap-in-the-gcc.pdf

- Alinma has developed an ESG Due Diligence Toolkit to identify, manage and quantify environmental and social opportunities and risks associated with the assets financed under the Framework. The toolkit assesses a range of ESG key performance indicators in line with the European Bank for Reconstruction and Development Risk Classification Criteria and the Equator Principles and screens any ESG-related controversies and allegations relating to the assets. This toolkit will be used for all allocation decisions made under the Framework.
- Based on the established process for project selection and risk management system, Sustainalytics considers the process to be in line with market practice.
- Management of Proceeds:
 - Alinma's Sustainability Committee will be responsible for the management of proceeds on a portfolio basis and will track the allocation of proceeds using its sustainable finance asset register.
 - Alinma intends to allocate all proceeds to eligible assets within two years of issuance. Pending full allocation, proceeds will be temporarily held in short-term sharia-compliant instruments in accordance with the Bank's local liquidity management guidelines.
 - Debt issued under the Framework may include multi-tranche loan facilities. Alinma intends to label only those tranches of such facilities where proceeds will be allocated according to the eligibility criteria in the Framework.
 - Based on the presence of a tracking system and the disclosure of the temporary use of proceeds, Sustainalytics considers this process to be in line with market practice.
- Reporting:
 - The Bank commits to report on the allocation of proceeds and the corresponding impact on its website on an annual basis until full allocation. Allocation reporting will include the total amount of allocation to eligible categories, project locations, the share of financing versus refinancing and the balance of unallocated proceeds.
 - On a best effort basis, Alinma may align its impact report with the ICMA Harmonised Framework for Impact Reporting Handbook.¹⁶ This may include relevant environmental and social impact metrics, where available, such as annual renewable energy capacity (in GWh or MWh), estimated reduced or avoided annual GHG emissions (in tCO₂e), annual absolute (gross) amount of waste that is separated or collected, and treated (including composted) or disposed of (in tonnes per annum and in percentage of total waste), type of green buildings certifications, number of water infrastructure projects financed, number of hospitals and healthcare facilities financed, among other indicators.
 - Alinma has communicated to Sustainalytics that if it obtains revolving credit facilities under the Framework, it will report on allocation until loan maturity.
 - Based on the commitments to report on allocation and impact, Sustainalytics considers this process to be in line with market practice.

Alignment with Sustainability Bond Guidelines 2021

Sustainalytics has determined that the Alinma Bank Sustainable Finance Framework aligns with the four core components of the GBP, SBP, GLP and SLP.

Section 2: Sustainability Strategy of Alinma

Contribution to Alinma's sustainability strategy

Sustainalytics is of the opinion that Alinma demonstrates its commitment towards sustainability which focuses on the following six ESG pillars: i) accelerate sustainable finance; ii) foster environmental stewardship and a circular carbon economy; iii) empower customers; iv) build a thriving workplace; v) strengthen communities and contribute to greater financial inclusion; and vi) robust governance and responsible operations.¹⁷

Alinma has adapted a sustainability roadmap divided in three phases with targets for each of these phases. Phase I includes: i) integrating ESG criteria into the Bank's lending and investment decisions, achieved in 2023.

¹⁶ ICMA, "Haarmonized Framework for Impact Reporting Handbook", (2022) at: https://www.icmagroup.org/assets/documents/Sustainable-finance/2022-updates/Harmonised-Framework-for-Impact-Reporting-Green-Bonds_June-2022-280622.pdf

¹⁷ Alinma Bank, "Inaugural Sustainability Report 2022", (2022), at: https://alinmabank2022.annualreport.plus/download/pdf/Alinma_ESG_Report_2022.pdf

The Bank developed an ESG Due Diligence Toolkit to identify and evaluate projects environmental and social impact; ii) launching sustainability-oriented products; and iii) integrate sustainability activities through the Bank's day to day operations, based on its sustainability strategy and prioritizing sustainable finance and environmental stewardship.¹⁸ Furthermore, the Bank has committed to net zero carbon emissions by 2050.¹⁹

The Bank intended to issue a CSR policy in 2023, aiming to take initiatives to support local community and financial inclusion, literacy and support to youth-led or women-led businesses. Moreover, Alinma supports MSMEs and has doubled its MSME customers in 2022 from 2021. In 2022, Alinma became a signatory member to the UN Women's Empowerment Principles.²⁰

Sustainalytics is of the opinion that the Alinma Bank Sustainable Finance Framework is aligned with the Bank's overall sustainability strategy and initiatives and will further the Bank's action on its key environmental priorities. Sustainalytics recognizes the sustainability-focused efforts of Alinma but encourages Alinma to establish quantifiable, time-bound targets and to publicly disclose its targets and report on its progress towards them.

Approach to managing environmental and social risks associated with the projects

Sustainalytics recognizes that the proceeds from the instruments issued under the Framework will be directed towards eligible projects that are expected to have positive environmental and social impacts. However, Sustainalytics is aware that such eligible projects could also lead to negative environmental and social outcomes. Sustainalytics acknowledges that the Bank plays a limited role in the development or implementation of specific projects, but notes that it is exposed to risks associated with companies or projects to which it provides lending and financial services. Some key environmental and social risks possibly associated with the eligible projects may include issues involving: i) land use change and biodiversity issues associated with large-scale infrastructure development; ii) emissions, effluents and waste generated in manufacturing or construction of facility; iii) occupational health and safety; iv) predatory lending or over-indebtedness of financially vulnerable individuals; v) bribery and corruption, money laundering; vi) customer privacy and data security issues; and vii) human and labour rights issues and restriction of freedom of expression.

Sustainalytics is of the opinion that Alinma is able to manage or mitigate potential risks through implementation of the following:

- To manage risks related to land use change and biodiversity issues associated with large-scale infrastructure development, as well as emissions, effluents and waste generated in manufacturing or construction of facility, Alinma has adopted an Environmental Management System (EMS) based on ISO 14001 which outlines procedures to assess environmental and business risks to the Bank's overall business operations. The Bank conducts a client-level risk classification based on the categorization list of the European Bank for Reconstruction and Development (EBRD) Environmental and Social Risk. For project-level financing, the Bank conducts risk assessment to categorize projects as per the International Finance Corporation's (IFC) environmental and social risk categorization process and the recommendations of the Equator Principles. For projects categorized as high risk, Alinma has in place ESG due diligence toolkit, which analyzes exposure to material ESG topics, such as human rights, climate change and biodiversity. In addition, Alinma has communicated that large-scale infrastructure projects such as NEOM city are planned to be constructed on deserts and these areas may not be close to protected areas or habitats.
- Regarding occupational health and safety risks, Sustainalytics notes that Saudi Arabia has faced controversies related to human and labour rights, especially with respect to discrimination against women, working conditions of migrant workers, and restriction on freedom of expression.²¹ In order to address these risks, Alinma has in place a supplier code of conduct in line with the United Nations Guiding Principles on Business and Human Rights. Sustainalytics acknowledges the co-operation between the International Labour Organization (ILO) and the government of Saudi Arabia towards strengthening inclusiveness and non-discrimination, and abolishing child labour.²² Further, the Bank follows the ILO Forced Labour Convention 1930 (No. 29), ILO Abolition of Forced Labour Convention 1957 (No. 105) and the ILO Minimum Age Convention 1973 (No 138), which prohibit all types of slavery such as forced and bonded labour. Alinma Bank also complies with the Saudi Labor Law – Royal Decree No. M/51, which requires a safe working environment in accordance with workers safety, health and social care. Additionally, the Bank is a signatory to the UN Women's Empowerment

¹⁸ Ibid.

¹⁹ Ibid.

²⁰ Women Empowerment Principles. "Alinma Bank", at: <https://www.weps.org/company/alinma-bank>

²¹ Human Rights Watch, "Saudi Arabia: events of 2022", at: <https://www.hrw.org/world-report/2023/country-chapters/saudi-arabia>

²² ILO, "Saudi Arabia", at: https://www.ilo.org/beirut/countries/saudi-arabia/WCMS_544148/lang-en/index.htm

Principles, which sets out principles to promote gender equality and women's empowerment in the workplace and community. Despite these reforms, human and labour rights issues and restriction of freedom of expression remain prevalent in the country, and Sustainalytics considers these to be ongoing risks.

- To address risks related to predatory lending or over-indebtedness of financially vulnerable individuals, Alinma's Banking services, which are sharia-compliant provide financial services on a non-interest basis with tools, such as mudarabah, musharakah and zakah and predatory lending and over-indebtedness go against sharia principles. In addition, Alinma Banking Protection principles outline standards for its bank employees, including the commitment to: disclose transparent, clear and accessible information, and provide financial education to its customers to ensure basic financial understanding as well as financial risks and opportunities.²³
- To mitigate risks related to bribery and corruption, and money laundering, Alinma's 2022 Code of Conduct in 2022 outlines standard rules on work ethics for all the Bank's employees according to the following principles: honesty and integrity, respect for all, professionalism, confidentiality and protection of stakeholder information, protection of basic assets, compliance with applicable laws, rules and regulations, combatting fraud and corruption, and conflict of interest.²⁴ Additionally, through its Anti-Bribery and Corruption Policy, Alinma sets out rules to respect the sharia law which prohibits the unlawful gain of profit. The Bank also introduced a "new customer acceptance policy", and a "know your customer policy" to assess customer's background information, which serves as a preventive measure against money laundering and terrorist financing or misuse of the Bank's services in any illegal activity. Furthermore, the Bank provides annual training to its employees on these topics.²⁵
- Regarding customer privacy and data security issues, Alinma has implemented internal regulations related to personal data protection and data security.²⁶ These include procedures such as the management of security, rules regarding the obligations of Alinma's financial entities' employees to maintain the confidentiality of personal data and information, subject to professional secrecy incidents, personal data breaches, as well as annual capacity building activities, regular audits and targets to achieve zero annual breaches of customer privacy by 2025.²⁷ The Information Security and IT Steering Committee is responsible for the Bank's digital security infrastructure.
- Regarding risks related to human and labour rights issues and restriction of freedom of expression, Alinma has in place supplier code of conduct in line with United Nations Guiding Principles on Business and Human Rights.²⁸ In addition, the Bank follows the ILO Forced Labour Convention 1930 (No. 29),²⁹ ILO Abolition of Forced Labour Convention 1957 (No. 105)³⁰ and ILO Minimum Age Convention 1973 (No 138),³¹ which prohibit all types of slavery, such as forced and bonded labour. Additionally, the Bank is a signatory to the UN Women's Empowerment Principles,³² which sets out principles to promote gender equality and women's empowerment in the workplace, and community.

Based on these policies, standards and assessments, Sustainalytics is of the opinion that Alinma Bank has implemented adequate measures to manage and mitigate some of the environmental and social risks commonly associated with the eligible categories, and strongly encourages the Bank to establish a formal policy addressing risks related to occupational health and safety.

Section 3: Impact of Use of Proceeds

All use of proceeds categories are aligned with those recognized by the GBP, SBP, GLP or SLP. Sustainalytics has focused below on where the impact is specifically relevant in the local context.

²³ Alinma Bank, "Principles and rules for protecting clients of financial institutions", (2022), at: <https://www.alinma.com/en/retail/digital-channels/other-services/-/media/9fc236f980894c98833d8938a494526c.ashx>

²⁴ Alinma Bank, "Code of Conduct", (2022), at: <https://www.alinma.com/-/media/project/alinma/media/about-the-bank/compliance-and-anti-financial-crimes-division/CodeofConduct.pdf>

²⁵ Alinma Bank, "Anti-Money Laundry and Terrorists Financing and Know your Customer Policy", at: <https://www.alinma.com/-/media/project/alinma/media/about-the-bank/compliance-and-anti-financial-crimes-division/AlinmaBankAMLCTFPolicySummary2021.pdf>

²⁶ Alinma Bank, "Principles and rules for protecting clients of financial institutions", (2022), at: <https://www.alinma.com/en/retail/digital-channels/other-services/-/media/9fc236f980894c98833d8938a494526c.ashx>

²⁷ Ibid

²⁸ UN, "The United Nations Guiding Principles on Business and Human Rights", at: https://www.ohchr.org/sites/default/files/Documents/Issues/Business/Intro_Guiding_PrinciplesBusinessHR.pdf

²⁹ ILO, "ILO Forced Labour Convention 1930 (No. 29)", at: https://www.ilo.org/dyn/normlex/en/f?p=1000:12100:0::NO::P12100_ILO_CODE:C029

³⁰ ILO Abolition of Forced Labour Convention 1957 (No. 105), at: https://www.ilo.org/dyn/normlex/en/f?p=1000:12100:0::NO::P12100_ILO_CODE:C105

³¹ ILO Minimum Age Convention 1973 (No 138), at: https://www.ilo.org/dyn/normlex/en/f?p=normlexpub:12100:0::no::P12100_ilo_code:C138

³² UN Women, "Women's Empowerment Principles (WEPs)", at: <https://asiapacific.unwomen.org/en/countries/china/weps>

Importance of financing renewable energy generation in Saudi Arabia

Electricity generation in Saudi Arabia is heavily dominated by fossil fuels, with natural gas and oil accounting for 67% and 33% of it, respectively, while less than 1% came from renewables in 2022.³³ Thus, to reduce the dependency on fossil fuels and as a signatory to the Paris Agreement, Saudi Arabia has recognized the need to increase its renewable energy generation capacity and reduce its carbon footprint.³⁴ In 2016, Saudi Arabia launched its Vision 2030 with the aim of diversifying the country's economic resources and increase its share of non-oil GDP from 16% to 50% by 2030.³⁵ Additionally, the country aims to increase the share of renewable energy in its energy to 50% by 2030 as compared to less than 1% in 2022.³⁶ To realize this target, Saudi Arabia updated its Nationally Determined Contribution in 2021 to add that the country will implement projects to reduce, avoid or remove 278 million tCO₂e GHG emissions annually by 2030, with the year 2019 as the baseline year.³⁷ This update represents a twofold increase in target as compared to the previous NDC, which aimed at 130 million tCO₂e GHG emissions annually by 2030, with the year 2019 as the baseline year.³⁸ In addition, Saudi Arabia has set a target of producing 2.9 million tonnes and 4 million tonnes of clean hydrogen annually by 2030 and 2035 respectively.³⁹

Based on the above, Sustainalytics is of the opinion that Alinma's provision of financing to renewable energy projects is expected to contribute to increasing the share of renewable energy production in Saudi Arabia and support the climate change mitigation targets of the country.

Contribution to SDGs

The Sustainable Development Goals were adopted in September 2015 by the United Nations General Assembly and form part of an agenda for achieving sustainable development by 2030. The instruments issued under the Alinma Bank Sustainable Finance Framework are expected to help advance the following SDGs and targets:

Use of Proceeds Category	SDG	SDG target
Renewable Energy	7. Affordable and Clean Energy	7.2 By 2030, increase substantially the share of renewable energy in the global energy mix
Energy Efficiency	7. Affordable and Clean Energy	7.3 By 2030, double the global rate of improvement in energy efficiency
Sustainable Water and Wastewater Management	6. Clean Water and Sanitation	6.3 By 2030, improve water quality by reducing pollution, eliminating dumping and minimizing release of hazardous chemicals and materials, halving the proportion of untreated wastewater and substantially increasing recycling and safe reuse globally
Pollution Prevention & Control	12. Responsible Consumption and Production	12.4 By 2020, achieve the environmentally sound management of chemicals and all wastes throughout their life cycle, in accordance with agreed international frameworks, and significantly reduce their release to air, water and soil in order to minimize their adverse impacts on human health and the environment
Clean Transportation	11. Sustainable Cities and Communities	11.2 By 2030, provide access to safe, affordable, accessible and sustainable transport systems for all, improving road safety, notably by expanding public transport, with special attention to the needs of those in

³³ US Energy Information Administration, "Saudi Arabia", (2023), at: <https://www.eia.gov/international/analysis/country/SAU>

³⁴ World Economic Forum, "Fostering Effective Energy Transition- Saudi Arabia", (2023), at: <https://www.weforum.org/publications/fostering-effective-energy-transition-2023/in-full/saudi-arabia/>

³⁵ Ibid.

³⁶ IEA, "Saudi National Renewable Energy Program (NREP)", at: <https://www.iea.org/policies/14658-saudi-national-renewable-energy-program-nrep>

³⁷ United Nations Climate Change, "Saudi Arabia First NDC (Updated submission)", (2022), at: <https://unfccc.int/documents/497886>

³⁸ Ibid.

³⁹ The Emirate Policy Center, "GCC's Hydrogen Landscape: Challenges and Opportunities", (2023), at: <https://epc.ae/en/details/brief/gcc-s-hydrogen-landscape-challenges-and-opportunities>

		vulnerable situations, women, children, persons with disabilities and older persons
Green Buildings	11. Sustainable Cities and Communities	11.3 By 2030, enhance inclusive and sustainable urbanization and capacity for participatory, integrated and sustainable human settlement planning and management in all countries
Climate Change Adaptation	13. Climate Action	13.1 Strengthen resilience and adaptive capacity to climate-related hazards and natural disasters in all countries
Affordable Basic Infrastructure	11. Sustainable Cities and Communities	11.3 By 2030, enhance inclusive and sustainable urbanization and capacity for participatory, integrated and sustainable human settlement planning and management in all countries
Education	4. Quality Education	4.1 By 2030, ensure that all girls and boys complete free, equitable and quality primary and secondary education leading to relevant and effective learning outcomes
Access to Essential Services	3. Good Health and Well-Being	3.8 Achieve universal health coverage, including financial risk protection, access to quality essential health-care services and access to safe, effective, quality and affordable essential medicines and vaccines for all
Employment Generation	8. Decent Work and Economic Growth	8.10 Strengthen the capacity of domestic financial institutions to encourage and expand access to banking, insurance and financial services for all
Socioeconomic Advancement and Empowerment	1. No Poverty	1.4 By 2030, ensure that all men and women, in particular the poor and the vulnerable, have equal rights to economic resources, as well as access to basic services, ownership and control over land and other forms of property, inheritance, natural resources, appropriate new technology and financial services, including microfinance

Conclusion

Alinma has developed the Alinma Bank Sustainable Finance Framework under which it may issue sustainability sukuk and loans, and use the proceeds to finance or refinance, in whole or in part, existing or future projects that are expected to contribute to Saudi Arabia's transition to a low-carbon economy and promote socioeconomic development. Sustainalytics considers that the eligible projects are expected to provide positive environmental and social impacts.

The Alinma Bank Sustainable Finance Framework outlines a process for tracking, allocation and management of proceeds, and makes commitments for reporting on allocation and impact. Sustainalytics considers that the Alinma Bank Sustainable Finance Framework is aligned with the overall sustainability strategy of Alinma and that the use of proceeds will contribute to advance the UN Sustainable Development Goals 1, 3, 4, 6, 7, 8, 11, 12, 13. Additionally, Sustainalytics is of the opinion that Alinma Bank has implemented adequate measures to manage and mitigate some of the environmental and social risks commonly associated with the eligible categories, and strongly encourages the Bank to establish a formal policy addressing risks related to occupational health and safety.

Based on the above, Sustainalytics is confident that Alinma is well positioned to issue sustainability bonds and that that Alinma Bank Sustainable Finance Framework is robust, transparent and in alignment with the four core components of the Green Bond Principles 2021, Social Bond Principles 2023, Green Loan Principles 2023 and Social Loan Principles 2023.

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