

Second Party Opinion

## Riyad Bank Sustainable Finance Framework

Feb. 7, 2022

Founded in 1957, Riyad Bank (RB) is the third-largest financial institution in Saudi Arabia by market capitalization. Headquartered in Riyadh, RB operates through a network of 341 branches mostly located in Saudi Arabia, but is also present in London, Houston, and Singapore. RB provides various banking products and services, which can be summarized in its four main segments: retail banking, corporate banking, treasury and investment, and investment and brokerage services. RB is a key financier and arranger of syndicated loans in Saudi Arabia, with its main focus being infrastructure projects.

In our view, Riyad Bank's Sustainable Finance Framework, published on Feb. 7, 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

### Issuer's Sustainability Objectives

RB aims to become the regional leader in sustainable practices that add value for its various stakeholders. Its sustainability objectives are aligned with Saudi Arabia's Vision 2030 agenda, which targets expanding and diversifying the economy, enabling social responsibility, and increasing employment, among other goals.

The bank plans to achieve these objectives through its Bukra strategy. Launched in 2019, the strategy is defined through four key pillars: environment (creating initiatives that increase environmental awareness), community (creating initiatives that cater to sustainable development), economy (economic development through models that target the improvement of social welfare for citizens and the national economy) and knowledge (increasing education by creating and developing new skills).

The bank's Sustainable Finance Framework will help achieve these goals through the targeted financing of relevant green and social initiatives. These initiatives include social projects that target small businesses and parts of the population that lack access to basic infrastructure and essential services among others, as well as green projects that support the energy transition in Saudi Arabia.

**PRIMARY ANALYST**

**Maxime Chul**

Paris

+33 6 10 45 00 98

[maxime.chul@spglobal.com](mailto:maxime.chul@spglobal.com)

**SECONDARY ANALYST**

**Florence Devevey**

Paris

+ 33 1 40 75 25 01

[florence.devevey@spglobal.com](mailto:florence.devevey@spglobal.com)

**Jesús Palacios**

Mexico City

+ 52 55 5081 2872

[jesus.palacios@spglobal.com](mailto:jesus.palacios@spglobal.com)

**RESEARCH CONTRIBUTOR**

**Bruno Massinga**

## Second Party Opinion Summary

### Use of proceeds

**Alignment**  Riyadh Bank's Sustainable Finance Framework is aligned with this component of the Principles.

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

RB commits to allocating an equivalent amount to the net proceeds of the debt instruments issued under its Sustainable Finance Framework to fund eligible green or social projects or companies that derive more than 90% of their revenue from eligible project categories. Moreover, the framework clearly defines all eligible project categories, their associated eligibility criteria, and target populations, where relevant.

### Process for project evaluation and selection

**Alignment**  Riyadh Bank's Sustainable Finance Framework is aligned with this component of the Principles.

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

RB's framework clearly describes its processes to select and approve green and social projects, including exclusionary criteria for projects. The issuer's Sustainable Finance Working Group (SFWG) is responsible for approving eligible projects and identifying and managing potential social and environmental risks associated with eligible projects. The SFWG is also responsible for monitoring these projects' continued eligibility with the criteria defined in the framework.

### Management of proceeds

**Alignment**  Riyadh Bank's Sustainable Finance Framework is aligned with this component of the Principles.

RB commits to tracking the proceeds allocated to all eligible green and social projects until they have been fully allocated. In accordance with the framework, unallocated proceeds will be invested in cash or cash equivalents, in line with the bank's liquidity policy.

### Reporting

**Alignment**  Riyadh Bank's Sustainable Finance Framework is aligned with this component of the Principles.

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

RB commits to reporting, at least annually until full allocation of the proceeds, on the allocation of funds across eligible projects and on the impact metrics associated with financed projects. The report may include certain impact indicators, in which case calculation methodologies and key assumptions will be disclosed. Final allocation reports will be subject to a review by an independent third party.

## Framework 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.

 Riyadh Bank's Sustainable Finance Framework is aligned with this component of the Principles.

### Commitments score

Not aligned

Aligned

**Strong**

Advanced

We consider RB's overall use of proceeds commitments to be strong.

RB commits to using an amount equal to the net proceeds of instruments issued under its framework to finance or refinance eligible green and/or social projects or general-purpose loans to companies that derive more than 90% of their revenue from activities that are in line with the eligibility criteria. The bank also commits to a three-year look-back period for refinanced projects, which we consider in line with market practice and a strength of the framework. The framework also mentions that RB will disclose, where possible, the share allocated to financing or refinancing of the instruments issued under the framework, which we view as another strength.

Green project categories are aligned with the Green Bond and Loan Principles' eligible categories and comprise renewable energy, energy efficiency (resulting in at least a 20% reduction in energy consumption), clean transportation projects related to low-carbon vehicles and associated infrastructure, water and wastewater management, pollution prevention and control (excluding hazardous waste management and collection to landfill), green buildings, and sustainable management of natural resources and land use (sustainable forestry specifically).

Social projects are also directly linked to the Social Bond and Loan Principles' eligible categories such as employment generation, affordable basic infrastructure, access to essential services, and affordable housing. Target populations are defined as micro, small, and midsize enterprises (MSME), populations that lack access to basic infrastructure including water and basic sanitation, populations that lack access to essential goods and services in health care or education, and those eligible for government-supported mortgage financing schemes.

### 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.

 Riyadh Bank's Sustainable Finance Framework is aligned with this component of the Principles.

### Commitments score

Not aligned

**Aligned**

Strong

Advanced

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

The issuer's Sustainable Finance Framework clearly outlines its process of identifying and selecting eligible green and social projects, while also providing an exclusionary list of projects, including those where most revenue is derived from fossil fuels, nuclear power generation, conflict minerals, weapons, gambling, vaping, tobacco, alcohol, mining, and/or oil and gas.

Eligible projects will be evaluated and selected by the bank's SFWG, which is co-chaired by the asset, liability, and capital management, and corporate social responsibility departments. The SFWG will meet bi-annually to approve or reject projects in accordance with the clear eligibility criteria detailed in the framework. The SFWG will also be responsible for ensuring that all eligible projects are assessed from an environmental and social risk management perspective, although the framework only details that process for specific projects, such as structured and asset

## Second Party Opinion

financing. In addition, the SFWG will be responsible for monitoring and reviewing the asset pool to ensure continued eligibility throughout the life of the project. Moreover, the SFWG commits to facilitating regular reporting in accordance with the framework's reporting commitments, managing future framework updates, and replacing any project that no longer meets the eligibility criteria with a new eligible project.

We view positively the identification of the SFWG as the body responsible for evaluating and selecting eligible projects, as well as the bank's well-defined eligibility criteria for green projects, which include criteria such as Leadership in Energy and Environmental Design (LEED) gold or above for green buildings. We consider some of the social project categories' eligibility criteria, and especially the target populations, less clearly defined. However, we view positively projects benefiting a specific target population, which are in line with governmental initiatives and correspond to the categories of employment generation and affordable housing. We also note that these eligibility criteria do not all follow market-based taxonomies and standards, which may limit the comparability and benefits of the 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.

 Riyadh Bank's Sustainable Finance Framework is aligned with this component of the Principles.

We view RB's framework as aligned with this component of the relevant principles because it commits to maintaining a sustainable finance register that will track the allocation (and non-allocation) of proceeds to each eligible project, while also specifying the type of each sustainable finance instrument used such as sukuk, bonds, or loans. The issuer has also committed to invest any unallocated proceeds in accordance with the bank's standard liquidity policy, which includes investments in cash or cash equivalents. Should a project be identified as not meeting its eligibility criteria through monitoring by the SFWG, RB has also committed to reallocate the proceeds, to the extent possible, to another eligible project.

### 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.

 Riyadh Bank's Sustainable Finance Framework is aligned with this component of the Principles.

### Disclosure score

Not aligned

**Aligned**

Strong

Advanced

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

The issuer commits to publishing annual allocation and impact reports until the net proceeds are fully allocated, or until no more instruments are outstanding.

The allocation reports will include a list of all eligible projects, the total amount of proceeds allocated to each eligible project category, the amount of unallocated proceeds, and examples of some eligible projects financed. On the other hand, the impact reports will disclose impact indicators to reflect the actual environmental and/or social benefits of the eligible projects. These benefits may potentially be measured with relevant metrics such as, annual greenhouse gas (GHG) emissions reduced in tons of carbon dioxide (CO<sub>2</sub>), number and type of clean transportation infrastructure financed, annual reduction in water use, or number and amount of loans granted to MSMEs.

## Second Party Opinion

We view positively that RB commits to disclosing its calculation methodologies and key assumptions for its reporting metrics, as well as the issuer's intention to engage an external reviewer who will assess the alignment of the allocation of funds with the framework's criteria. We also positively note that this verification report will be posted on RB's website. RB also commits to using indicators suggested by ICMA's Harmonized Framework for Impact Reporting, where available. Additionally, we note that RB commits to, where possible, disclose actual figures for operational projects and expected figures for nonoperational projects or where information is not fully available. We believe the level of sophistication of the social impact indicators is somewhat limited but reflects the still-nascent stage of the social financing market.

## 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.

Riyad Banks's Sustainable Finance Framework intends to contribute to the following SDGs:

### Use of proceeds

### SDGs

---

Renewable Energy



**\*7. Affordable and clean energy**

---

Energy Efficiency



**\*7. Affordable and clean energy**

---

Clean Transportation



**\*11. Sustainable cities and communities**

---

**Second Party Opinion**

---

Sustainable Water and  
Wastewater Management



**\*6. Clean water  
and sanitation**

---

Pollution Prevention and  
Control



**\*12. Responsible  
consumption and  
production**

---

Green Buildings



**\*11. Sustainable  
cities and  
communities**

---

Environmentally sustainable  
management of living natural  
resources and land use



**\*15. Life on land**

---

Employment generation, and  
programs designed to prevent  
and/or alleviate unemployment  
stemming from socioeconomic  
crises, including through the  
potential effect of SME  
financing and microfinance



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

---

**Second Party Opinion**

---

Affordable basic infrastructure



**\*6. Clean water  
and sanitation**

---

Access to essential services



**\*3. Good health  
and well-being**



**\*4. Quality  
education**

---

Affordable housing



**\*11. Sustainable  
cities and  
communities**

---

\*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](http://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.