

Sustainability Framework Alignment Opinion

Qatar National Bank's Green, Social, And Sustainability Bond Framework

May 6, 2021

Sustainability Bond Framework Overview

In our view, Qatar National Bank (Q.P.S.C.)'s (QNB) green, social, and sustainability bond framework, published on May 6, 2021, is aligned with the four components of the Green Bond Principles (GBP) and the four components of the Social Bond Principles (SBP), collectively referred to the Sustainability Bond Guidelines.

QNB provides commercial and Islamic banking products and services, primarily in the Middle East. This bond framework reflects QNB's commitment to promoting and financing sustainable practices across its value chain, while contributing to society beyond financial products and services.

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Framework Alignment Overview



1. Use of proceeds

QNB's green, social, and sustainability bond framework is aligned with this component of the GBP and SBP. The bank commits to using the net proceeds of financing raised under the framework to fund eligible green and social projects, which all belong to categories defined by the principles. Eligible use of proceeds also include general corporate loans to "pure play" companies, i.e. counterparts that derive at least 90% of their revenues from the green and social eligibility criteria. In addition, the framework includes a list of sector exclusions.



2. Process for project evaluation and selection

QNB's green, social, and sustainability bond framework is aligned with this component of the GBP and SBP. This is because it discloses how the bank's Green, Social and Sustainability Bond Committee (GSSBC) evaluates and selects exposures based on the group's eligible projects, wholesale and institutional banking credit policy, and environmental and social risk management policy.



3. Management of proceeds

QNB's green, social, and sustainability bond framework is aligned with this component of the GBP and SBP. The bank commits to track net proceeds of loans that are eligible for the green and social portfolio. QNB also endeavors to grow over time the value of such portfolio so that it matches or exceeds the balance of net proceeds from outstanding sustainable bonds, with quarterly reviews to assess performance and ongoing eligibility of exposures.



4. Reporting

QNB's green, social and sustainability bond framework is aligned with this component of the GBP and SBP. Allocation reports will measure, on an aggregated basis, the use and impact of proceeds raised from sustainable bonds. Impact reporting will cover environmental and social impacts of the projects funded based on a published set of indicative key performance indicators.

Issuer Sustainability Objectives

QNB's goal is to ensure its long-term financial performance by delivering value to its key stakeholders by incorporating environmental, social, and ethical considerations in its business decisions. Financial stability, performance, and risk management are the group's top priorities, compared to community investment, financial inclusion, responsible procurement, and the environmental impact from its operations. The bank's bond framework consists of three pillars: sustainable finance (selection of sustainable exposures), sustainable operations (minimization of its own environmental footprint while maximizing the positive social impact of the business), and beyond banking (philanthropic initiatives in favor of communities). To achieve these objectives, the group finances the growth of small-to-midsize enterprises (SMEs), engages in responsible customer communication and marketing, and focuses on socioeconomic development of communities where it operates. The executive-led Group Strategy Committee is the key decision-making authority for sustainability matters, and reports to the board of directors at least annually.

QNB's green and social loan portfolio eligibility criteria aligns with 13 of the United Nation's Sustainable Development Goals (SDGs), with a focus on sustainable cities and communities. This reflects the group's investment in green buildings (mostly in the U.K. and Qatar), renewable energy, clean transportation, and pollution prevention to a lesser extent. In addition, the specific target population for QNB's social initiatives are the underserved who lack access to essential goods and services. QNB is a signatory to the United Nations Global Compact (UNGC) and is committed to the incorporation of UNGC's Ten Principles into its strategy, operations, and stakeholder engagement.

Framework Description

1. Use of proceeds



The GBP and SBP stipulate that a seeker of finance should commit the net proceeds of an issuance exclusively to eligible green and social projects. According to the GBP, eligible projects will seek to achieve at least one of five environmental objectives: (1) climate change mitigation; (2) climate change adaptation; (3) natural resource conservation; (4) biodiversity conservation; and (5) pollution prevention and control. According to the SBP, following eligible project categories capture the most common social issues: (1) affordable basic infrastructure; (2) access to essential services; (3) affordable housing; (4) employment generation and programs designed to prevent or alleviate unemployment; (5) food security and sustainable food systems; and (6) socioeconomic advancement and empowerment.

We regard QNB's bond framework to be aligned with the use of proceeds component of the GBP and SBP.

QNB commits to allocate all net proceeds of bonds issued under its framework to exclusively (re)finance green and social projects.

It maintains and regularly reviews a broad exclusions list (e.g. fossil fuel energy, weapons and defense, mining, palm oil, etc). The framework clearly articulates the category, definition, eligibility, and mapping of financed projects to UN Sustainable Development Goals.

Eligibility criteria for exposures cover green buildings, renewable energy, clean transportation, biodiversity, water, and pollution prevention. These categories address the five environmental objectives of the GBP. For example, financing the construction or renovation of buildings (with clear minimum energy saving targets) helps to mitigate climate change. Financing organic agriculture, forestry stewardship, sustainable fisheries, and wastewater treatment projects with sustainable credentials supports resource and biodiversity conservation.

Social projects focus on the general public, particularly the underserved, via explicit support for five out of the six SBP categories. The framework addresses financing of

sanitation, healthcare infrastructure, microfinance loans, social housing, and responses to the COVID-19 pandemic.

2. Process for project evaluation and selection



To align with the second component of the GBP and SBP, a seeker of finance must explain the process by which eligible projects are selected, the related eligibility criteria applied to select those projects (including exclusionary criteria, if applicable), and the overall sustainability objectives that underpin the selection process.

We regard QNB's bond framework as aligned with the project evaluation and selection process of the GBP and SBP.

QNB's centralized GSSBC evaluates and selects exposures based on the eligibility criteria set in the framework, the bank's Environmental and Social Risk Management policy, and its Group Wholesale and Institutional Banking Credit Policy. This committee includes members of treasury, corporate and institutional banking; credit; risk; financial control; compliance (if necessary); and sustainability teams.

The framework explains the exclusionary and eligibility criteria of the green and social bond portfolio. QNB commits to invest in targeted projects and to provide corporate general purpose funding to pure play companies.

The GSSBC has clear responsibilities such as evaluation and selection of projects, monitoring allocation of net proceeds, documenting and reporting on the framework, reviewing the framework and eligibility criteria annually, and reviewing existing loans to ensure projects remain eligible to be included in the portfolio.

Eligibility criteria includes clear metrics for some exposure categories such as green buildings (e.g. external certifications) and renewable energy (e.g. energy intensity). QNB's public criteria for social projects are qualitative rather than quantitative.

3. Management of proceeds



The GBP and SBP require a seeker of finance to monitor the net proceeds of all outstanding green and social bond transactions. This includes appropriately tracking the proceeds and adjusting the balance of net proceeds to match allocations to eligible green and social projects. The GBP and SBP also require a seeker of finance to disclose to

QNB's bond framework is aligned with the management of proceeds contained in the GBP and SBP.

The bank will track proceeds identified as part of a green and social bond portfolio. The GSSBC monitors the use of proceeds of all green and social bonds issued by QNB on a quarterly basis. This includes tracking general-purpose pure play loans and assessing the impact reporting of these companies. If a loan or investment ceases to fulfil the eligibility criteria, the GSSBC will remove it from the green and social loan portfolio.

investors the types of temporary placement they intend to use for unallocated proceeds.

The bank will hold the unallocated net proceeds in cash or short-term liquid investments.

4. Reporting



The GBP and SBP stipulate that a seeker of finance should report on the use of proceeds annually until full allocation. Information presented in the annual report must include a list of the projects that receive financing, a description of each project (including the amount allocated to each project), and their expected environmental and social impacts.

QNB's bond framework is aligned with the reporting expectations contained in the GBP and SBP because it commits to allocation and impact reporting on environmental and social considerations.

Allocation reporting will provide indicators such as the size of the eligible green and social loan portfolio, the total amount of proceeds allocated, the balance of unallocated proceeds, and the split between new financing and refinancing.

QNB will report on the environmental and social impact of projects funded with the proceeds of bonds issued under this framework. The bank has identified different categories of green and social projects and has proposed key performance indicators that may be used to measure the impact. These indicators include estimated reductions in green house gas emissions, areas certified for forests or organic farming, and the number of loans granted to support essential services.

QNB will align its environmental reporting with the International Capital Market Association's (ICMA) Harmonized Framework for Impact Reporting on a best-efforts basis. Social indicators are largely based on the number of loans granted, enrollment in training, and jobs provided/preserved.

Reports will be within one year from the date of bond issuance and annually thereafter on an aggregated portfolio (i.e. not individual project) basis. The reports will be publicly available on QNB's website. The coordination of external impact reporting is part of the GSSBC's core responsibilities.

Additional Features Of The Framework

This section of the report provides additional information on whether the framework incorporates recommended aspects of the GBP and SBP and goes beyond minimum requirements. This section does not impact on our alignment opinion with the stated principles.

QNB's framework has a good level of transparency and disclosure, providing sufficient details for investors to understand the company's approach to green, social, and sustainability bonds. The framework has the following strengths:

Sustainability Bond Framework Template

- The exclusions list is comprehensive and is regularly reviewed.
- Eligibility categories align with the Climate Bonds Initiative taxonomy and the European Union taxonomy, where applicable.
- Eligibility criteria reference environmental standards and certifications such as: building standards (e.g. Leadership in Energy and Environmental Design (LEED), BREEAM, BCA Green Mark), forestry (e.g. Forestry Stewardship Council), and economically underperforming regions (defined by the United Nations Conference on Trade and Development).

QNB's framework has the following limitations:

- The framework provides an assurance on the allocation of bond proceeds. For impact reports, it uses project-specific verification reports as part of its decision-making for investment and does not seek additional assurance.

Conclusion

Based on our assessment of the contents of QNB's sustainability bond framework, we regard this framework as being aligned with the four components of the GBP and SBP, collectively referred to the Sustainability Bond Guidelines, given that the seeker of finance has committed to:

- Allocate the full amount of the net proceeds to eligible green and social projects, as defined by the seeker of finance;
- Use clear "green" and "social" criteria (as defined by the seeker of finance) to select projects for funding;
- Manage and track proceeds; and
- Regular reporting of the environmental and social impact and use of proceeds.

Mapping To The UN Sustainable Development Goals

The SDGs were set up by the United Nations in 2015 and form an agenda for achieving sustainable development by 2030. We use the ICMA SDGs mapping for this part of the report. We acknowledge that the ICMA mapping does not provide an exhaustive list and ICMA recommends that each project category should be reviewed individually to map it to the relevant SDG.

QNB's green, social, and sustainability bond framework intends to contribute to the following SDGs:

Use of proceeds

Green Buildings



***11. Sustainable cities and communities**



12. Responsible consumption and production

Renewable Energy



***7. Affordable and clean energy**

















13. Climate action

Clean transportation



13. Climate action

	9. Industry, innovation, and infrastructure	*11. Sustainable cities and communities	
<i>Energy Efficiency</i>			
	*7. Affordable and clean energy	13. Climate action	
<i>Environmentally sustainable management of living natural resources and land</i>			
	*14. Life below water	*15. Life on land	
<i>Sustainable water and wastewater management</i>			
	*6. Clean water and sanitation		
<i>Pollution prevention and control</i>			
	9. Industry, innovation, and infrastructure	*11. Sustainable cities and communities	*12. Responsible consumption and production
<i>Affordable basic infrastructure (e.g. clean drinking water, sewers, sanitation, transport, energy)</i>			
	*9. Industry, innovation, and infrastructure	*11. Sustainable cities and communities	
<i>Access to essential services</i>			
	*3. Good health and well-being	*4. Quality education	
<i>Socio-economic advancement and empowerment</i>			
	*5. Gender equality	*10. Reduced inequalities	

Affordable housing



***11. Sustainable cities and communities**

Pandemic response



3. Good health and well-being



8. Decent work and economic growth

*We could link the eligible project categories to those SDGs based on the ICMA mapping

Sustainability Bond Framework Template

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