



SECOND PARTY OPINION (SPO)

Sustainability Quality of the Issuer and Sustainable Finance Framework

Abu Dhabi Islamic Bank
30 October 2023

VERIFICATION PARAMETERS

Type(s) of instruments contemplated	<ul style="list-style-type: none"> Sustainable Financing Instruments Green Bond Principles (GBP), as administered by the International Capital Market Association (ICMA) (as of June 2021 with June 2022 Appendix 1) Social Bond Principles (SBP), as administered by the International Capital Market Association (ICMA) (as of June 2023)
Relevant standards	<ul style="list-style-type: none"> Sustainability Bond Guidelines (SBG), as administered by the International Capital Market Association (ICMA) (as of June 2021) Green Loan Principles, as administered by the Loan Market Association (LMA), (as of February 2023) Social Loan Principles, as administered by the Loan Market Association (LMA), (as of February 2023)
Scope of verification	<ul style="list-style-type: none"> Abu Dhabi Islamic Bank Sustainable Finance Framework (as of October 30, 2023) Abu Dhabi Islamic Bank Eligibility Criteria (as of October 30, 2023)
Lifecycle	<ul style="list-style-type: none"> Pre-issuance verification
Validity	<ul style="list-style-type: none"> Valid as long as the cited Framework remains unchanged

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SCOPE OF WORK

Abu Dhabi Islamic Bank (“the Issuer”, “the Bank”, or “ADIB”) commissioned ISS Corporate Solutions (ICS) to assist with its Sustainable Financing Instruments by assessing three core elements to determine the sustainability quality of the instruments:



1. ADIB’s Sustainable Finance Framework (as of October 30, 2023) – benchmarked against the International Capital Market Association’s (ICMA) Green Bond Principles (GBP), Social Bond Principles (SBP) and Sustainability Bond Guidelines (SBG), and Loan Market Association’s (LMA) Green Loan Principles (GLP) and Social Loan Principles (SLP).
2. The Eligibility Criteria – whether the project categories contribute positively to the United Nations Sustainable Development Goals (UN SDGs) and how they perform against proprietary issuance-specific key performance indicators (KPIs) (See Annex 1).
3. Linking the transaction(s) to ADIB’s overall Environmental, Social, and Governance (ESG) profile – drawing on the issuance-specific Use of Proceeds (UoP) categories.

ADIB BUSINESS OVERVIEW

ADIB is classified in the Commercial Banks and Capital Markets industry, as per ISS ESG’s sector classification.

Abu Dhabi Islamic Bank engages in the provision of Shariah-based banking, financing, and investment services. It operates through the following segments: Global Retail Banking, Global Wholesale Banking, Private Banking, Treasury, Real Estate, and Other Operations. The Global Retail Banking segment handles small and medium businesses and deposits of individual customers, and provides consumer and commercial Murabaha, Ijara, Islamic covered card, and funds transfer and trade finance facilities. The Global Wholesale Banking segment covers financing, other credit facilities, deposits, and current accounts for corporate and institutional customers. The Private Banking segment includes financing, other credit facilities, deposits, and current accounts for high net worth individual customers. The Treasury segment consists of money market; trading and treasury services; and management of funding operations of the bank by use of investment deposits. The Real Estate segment acquires, sells, develops, and leases land and buildings. The Other Operations segment consists of head office, subsidiaries, associates, and joint ventures, which are not included in other segments. The company was founded on January 1, 1997 and is headquartered in Abu Dhabi, United Arab Emirates.

ASSESSMENT SUMMARY

SPO SECTION	SUMMARY	EVALUATION ¹
<p>Part 1:</p> <p>Alignment with GBP, SBP, SBG, GLP and SLP</p>	<p>The Issuer has defined a formal concept for its Sustainable Financing Instruments regarding use of proceeds, processes for project evaluation and selection, management of proceeds and reporting. This concept is line with the ICMA’s GBP, SBP and SBG, and the LMA’s GLP and SLP.</p>	<p>Aligned</p>
<p>Part 2:</p> <p>Sustainability quality of the Eligibility Criteria</p>	<p>The Sustainable Financing Instruments will (re)finance eligible asset categories which include:</p> <p>Green categories: Renewable Energy, Energy Efficiency, Green Buildings, Pollution Prevention and Control, Sustainable Water and Wastewater Management and Clean Transportation;</p> <p>Social categories: Access to Essential Services, Employment Generation and Affordable Housing.</p> <p>Product and/or service-related use of proceeds categories² individually contribute to one or more of the following SDGs:</p>  <p>Other use of proceed categories³ improve the operational impacts of ADIB’s borrower(s) and mitigate potential negative externalities of their sectors on one or more of the following SDGs:</p> 	<p>Positive</p>

¹ The evaluation is based on the ADIB’s Sustainable Finance Framework (October 30, 2023 version) and on the Indicative Corporate Rating applicable at the SPO delivery date.

² Renewable Energy, Energy Efficiency, Green Buildings, Pollution Prevention and Control, Sustainable Water and Wastewater Management, Clean Transportation, Access to Essential Services, Employment Generation and Affordable Housing.

³ Energy Efficiency, Sustainable Water and Wastewater Management and Green Buildings.

	The environmental and social risks associated with those use of proceeds categories are managed.	
Part 3: Linking the transaction(s) to ADIB's ESG profile	<p>The key sustainability objectives and the rationale for issuing Sustainable Financing Instruments are clearly described by the Issuer. The majority of the project categories considered are in line with the sustainability objectives of the Issuer.</p> <p>At the date of publication of the report and leveraging ISS ESG Research, no severe controversies have been identified.</p>	Consistent with Issuer's sustainability strategy

SPO ASSESSMENT

PART I: ALIGNMENT WITH THE GREEN BOND PRINCIPLES, SOCIAL BOND PRINCIPLES, SUSTAINABILITY BOND GUIDELINES, GREEN LOAN PRINCIPLE AND SOCIAL LOAN PRINCIPLES

This section evaluates the alignment of the ADIB’s Sustainable Finance Framework (as of October 30, 2023) with the ICMA’s GBP, SBP, and SBG and LMA’s GLP and SLP.

GBP, SBP, SBG AND GLP, SLP	ALIGNMENT	OPINION
<p>1. Use of Proceeds</p>	<p>✓</p>	<p>The Use of Proceeds description provided by ADIB’s Sustainable Finance Framework is aligned with the GBP, SBP, SBG, GLP and SLP.</p> <p>The Issuer’s Green and Social categories align with the project categories as proposed by the GBP, SBP, SBG, GLP and SLP. Eligibility Criteria are defined in a clear and transparent manner.⁴ Disclosure of distribution of proceeds by project category is provided, and environmental/social benefits are described and quantified. The Issuer defines exclusion criteria for harmful projects categories.</p> <p>Moreover, ADIB has established a 36-month look-back period for refinancing activities, which is in line with best market practice.</p>
<p>2. Process for Project Evaluation and Selection</p>	<p>✓</p>	<p>The Process for Project Evaluation and Selection description provided by ADIB’s Sustainable Finance Framework is aligned with the Green Bond Principles, Social Bond Principles, Sustainability Bond Guidelines, the Green Loan Principles and Social Loan Principles.</p> <p>The project selection process is defined and structured in a congruous manner. ESG risks associated with the project categories are identified and managed through an appropriate process. Moreover, the projects selected show alignment with the sustainability strategy of the Issuer.</p> <p>ADIB’s ESG Department (the “Department”) in collaboration with members from the Wholesale Banking, Treasury, and Credit teams will be</p>

⁴ Under the Framework, eligible assets include general financing or refinancing for “pure-play” companies that derive ≥ 90% of their revenue from assets and projects in line with the eligibility criteria defined in the Framework.

		<p>responsible for the evaluation and selection of eligible projects under the Framework. Additionally, the Bank has developed an ESG Due Diligence Toolkit (the “Toolkit”) that is used to further assess proposed projects and identify and manage environmental and social risks associated with eligible projects. The Department leverages the information provided by the Toolkit to make its’ investment decisions. This process is in line with best market practice.</p>
<p>3. Management of Proceeds</p>	<p>✓</p>	<p>The Management of Proceeds provided by ADIB’s Sustainable Finance Framework is aligned with the Green Bond Principles, Social Bond Principles, Sustainability Bond Guidelines, the Green Loan Principles and Social Loan Principles.</p> <p>The net proceeds collected will be equal to the amount allocated to eligible projects, with no exceptions. The net proceeds are tracked in an appropriate manner and attested in a formal internal process. The net proceeds are managed on an aggregated basis for multiple Green Bonds (portfolio approach). Moreover, the Issuer discloses the temporary investment instruments for unallocated proceeds. The Framework may include multi-tranche financing instruments. ADIB has confirmed that it will only label the tranches of such facilities whose proceeds will be allocated to the activities defined as per the eligibility criteria in the Framework.</p> <p>The Issuer intends to allocate all proceeds to eligible assets within two years of issuance. The Issuer discloses the nature of temporary investments, in line with best market practice.</p>
<p>4. Reporting</p>	<p>✓</p>	<p>The allocation and impact reporting provided by ADIB’s Sustainable Finance Framework is aligned with the Green Bond Principles, Social Bond Principles, Sustainability Bond Guidelines, the Green Loan Principles and Social Loan Principles.</p> <p>The Issuer commits to disclose the allocation of proceeds transparently and to report in an appropriate frequency. The reporting will be publicly available on the Issuer’s website.⁵ ADIB explains that the level of expected reporting will be at project category level and</p>

⁵ ADIB, “ESG and Sustainability”, at: <https://www.adib.ae/en/pages/esg-and-sustainability.aspx>

		<p>the type of information that will be reported. Moreover, the Issuer commits to report annually, until the proceeds have been fully allocated.</p> <p>Allocation reporting will include information on the list of eligible project categories that have received allocation, the unallocated amounts and its' temporary use, the proportion of financing versus refinancing, and the lookback period.</p> <p>Impact reporting will include quantitative and qualitative impact indicators, such as annual GHG emissions reduced/ avoided (tCO₂e), number of water treatment facilities built or upgraded, and number of beneficiaries.</p>
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PART II: SUSTAINABILITY QUALITY OF THE ELIGIBILITY CRITERIA

A. CONTRIBUTION OF THE SUSTAINABLE FINANCING INSTRUMENTS TO THE UN SDGs⁶

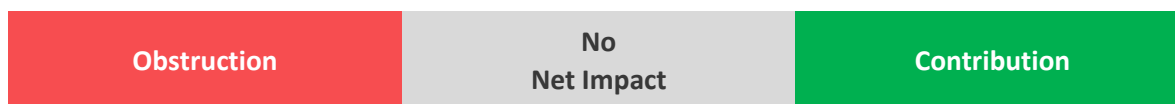
Companies can contribute to the achievement of the SDGs by providing specific services/products which help address global sustainability challenges, and by being responsible corporate actors, working to minimize negative externalities in their operations along the entire value chain. The aim of this section is to assess the SDG impact of the UoP categories financed by the Issuer in two different ways, depending on whether the proceeds are used to (re)finance:

- specific products/services,
- improvements of operational performance.

1. Products and services



The assessment of UoP categories for (re)financing products and services is based on a variety of internal and external sources, such as the ISS ESG SDG Solutions Assessment (SDGA), a proprietary methodology designed to assess the impact of an Issuer's products or services on the UN SDGs, as well as other ESG benchmarks (the EU Taxonomy Climate Delegated Acts, the ICMA Green and/or Social Bond Principles and other regional taxonomies, standards and sustainability criteria).

The assessment of UoP categories for (re)financing specific products and services is displayed on a 3-point scale (see Annex 1 for methodology):



Each of the Sustainable Financing Instruments' Use of Proceeds categories has been assessed for its contribution to, or obstruction of, the SDGs:

GREEN CATEGORIES

USE OF PROCEEDS (PRODUCTS/SERVICES) ⁷	CONTRIBUTION OR OBSTRUCTION	SUSTAINABLE DEVELOPMENT GOALS
<p>Renewable energy</p> <p><i>Production:</i></p> <ul style="list-style-type: none"> ▪ Photovoltaic generation facilities ▪ Concentrated solar power facilities with a minimum 85% of power generation derived from solar sources ▪ Wind farms (onshore and offshore) ▪ Geothermal plants with a lifecycle intensity lesser than 100g CO₂e/kWh 	Contribution	 

⁶ The impact of the UoP categories on UN Social Development Goals is assessed with proprietary methodology and may therefore differ from the Issuer's description in the framework.

⁷ The review is limited to the examples of projects spelled out in the Framework.

- *Hydroelectric power projects including run-of-the-river projects with no artificial reservoir or projects with a power density greater than 5W/ m² or projects with a lifecycle carbon intensity of under 100g CO_{2e}/kWh⁸*
- *Production of hydrogen, hydrogen-based synthetic fuels, or ammonia through electrolysis powered by renewables (as defined above)*

Renewable energy

Production:

- *Bioenergy from non-food based waste sources⁹, e.g. used cooking oil, agriculture and forestry residues*

Renewable energy

Products and appliances:

- *Manufacturing facilities wholly dedicated to solar/wind energy development such as PV cells & components, CSP dishes, troughs & components, wind turbines, geothermal turbines, hydro turbines and components*
- *Transmission and distribution infrastructure (allocated based on the pro-rata share of transmission that is dedicated to renewable energy) including:*
 - *Storage, distribution, installation, wholesale and retail*
 - *Transmission infrastructure*
 - *Supporting infrastructure including inverters, transformers, energy storage systems and control systems*

Energy efficiency

Improved efficiency in the delivery of bulk energy services, including

- *smart grids with clear linkage to renewable energy technologies*
- *the storage of renewable energy¹⁰*

Energy efficiency

Development/manufacture of energy efficiency technologies including LED lights

Contribution



Contribution



Contribution



Contribution



⁸ ADIB's Framework notes that hydroelectric powerplants exceeding 1000 MW of capacity will be excluded from financing.

⁹ ADIB has confirmed to ICS that Sustainable Aviation Fuel (SAF) will be excluded from financing under the Framework.

¹⁰ ADIB's Sustainable Finance Framework confirms that investments in energy storage technologies will be solely dedicated to the storage of renewable energy.

Energy efficiency

Development/manufacture of energy efficiency technologies including smart grid meters¹¹

Green Buildings

Financing of green buildings which meet any one of the following green building certification requirements:

- LEED Gold or above
- BREEAM Excellent or above
- GSAS 4 star rating or above
- HQE Very Good or above
- BCA Green Mark Gold Plus or above
- Estidama Pearl Building Rating of 4 Pearl or above

Pollution prevention and control

Recycling plants focused on converting waste into new materials

Pollution prevention and control

Soil remediation investments such as land remediation for urban land sites

Sustainable Water and Wastewater Management

Projects related to construction, operation, maintenance or upgrades, of water collection, recycling, transportation, and treatment technologies, including:

- Water and wastewater treatment plants (WWTP) including reuse of WWTP effluents.¹²
- Sewer systems and pumping stations

Sustainable Water and Wastewater Management

Water desalination projects running on reverse osmosis technology with a carbon intensity of less than 100gCO₂e/kWh over the residual asset life. (The asset may be partially powered by renewables)

Clean Transportation

Projects that promote a shift towards less polluting and more energy efficient modes of transport, particularly in the case of long distance, urban travel and freight, including:



¹¹ ADIB's Sustainable Finance Framework notes that smart grid meters will be In line with EU Taxonomy Technical Screening Criteria 7.5(c).
¹² ADIB's Sustainable Finance Framework confirms that treatment of wastewater from fossil fuel operations will be excluded under the Framework.

- *Electric vehicles with zero direct emissions*
- *Hybrid vehicles with an emissions intensity lower than 50g CO₂e/p-km*
- *Investments towards enablement of cleaner modes of transport such as EV charging stations, e-bicycles/ e-scooters infrastructure and walking paths*
- *Rail Infrastructure including metro, high-speed rail, and interurban rail*
- *Bus rapid transport infrastructure including dedicated lanes and bus depots*

Clean Transportation



Projects that promote a shift towards less polluting and more energy efficient modes of transport, particularly in the case of long distance, urban travel and freight, including:

- *Investments towards enablement of cleaner modes of transport such as bicycles*

Contribution



SOCIAL CATEGORIES

USE OF PROCEEDS (PRODUCTS/SERVICES) ¹³	CONTRIBUTION OR OBSTRUCTION	SUSTAINABLE DEVELOPMENT GOALS
<p>Access to essential services</p> <p><i>Facilities, equipment, and activities that enhance access to public, not-for-profit, free, or subsidized education for target populations including students from low-income households¹⁴ and minority groups who have historically lacked access given income and social constraints. This includes:</i></p> <ul style="list-style-type: none"> ▪ <i>Construction and retrofit of public schools, universities, and university campuses</i> ▪ <i>Acquisition and development of related facilities and services to improve access to tertiary educational and vocational training</i> ▪ <i>Acquisition and development of related facilities to improve access to child education</i> 	<p>Contribution</p>	
<p>Access to essential services</p> <p><i>Facilities, equipment, and activities that enhance access to public, not-for-profit, free, or subsidized education for target</i></p>	<p>Contribution</p>	

¹³ The review is limited to the examples of projects spelled out in the Framework.

¹⁴ ADIB has confirmed to ICS that those are defined as people living below the national poverty line and/or people in developing countries, defined as countries in the MSCI Emerging Markets index and/or least developed, low income and lower middle-income countries on the DAC list of ODA recipients. In addition to this subsidized housing in the UAE is provided to low-income locals, which is the threshold income of under AED 25,000.00

populations including students from low-income households¹⁵ and minority groups who have historically lacked access given income and social constraints. This includes:

- Services to improve access to child education

Access to essential services

Facilities, equipment, and activities that enhance access to public, not-for-profit, free, or subsidized education for target populations including students from low-income households¹⁶ and minority groups who have historically lacked access given income and social constraints. Type of investments include:

- Activities such as school transportation service

Access to essential services

Facilities, projects, and equipment that enhance access to healthcare services in emerging markets through affiliations with government health programs or are more broadly accessible to the whole public through government spending, subsidies, or social security. This includes:

- Development, expansion, or acquisition of buildings, facilities, and equipment relating to hospitals, laboratories, clinics, healthcare, and hospices
- Activities that support the funding of health-related R&D programs supporting such as new medicines, treatments, vaccinations, or health equipment
- Investing in activities that will strengthen the provision of early warning system utilizing data and predictive analytics to monitor healthcare systems for potential risks and provide alerts to healthcare organizations when pre-defined thresholds are met, helping to mitigate the impact of potential epidemics, pandemics, or other health-related crises.

Employment Generation

Financing of local SMEs (as defined by local UAE central bank regulation¹⁷) with an aim to enhance access to traditional shari'a compliant banking products, promote competitiveness of local businesses, and enhance their operations.

Employment Generation

Financing of local SMEs (as defined by local UAE central bank regulation¹⁸) with an aim to enhance access to traditional shari'a compliant banking products, promote competitiveness of local

Contribution



Contribution



Contribution



Contribution



¹⁵ Ibid.
¹⁶ Ibid.
¹⁷ [UAE central bank definition](#)
¹⁸ Ibid.

businesses, and enhance their operations. These may also include:

- *Businesses owned and operated by minority groups such as people of determination and migrants*
- *Businesses operated¹⁹ by minority groups such as women*

Employment Generation

Financing of local SMEs (as defined by local UAE central bank regulation²⁰) with an aim to enhance access to traditional shari'a compliant banking products, promote competitiveness of local businesses, and enhance their operations. These may also include:

- *Businesses owned²¹ by minority groups such as women*

Affordable Housing

Financings for the development and construction of social housing or affordable housing projects which are defined and eligible under local regulated programs²² for low-income households²³.

Contribution



Contribution



¹⁹ ADIB has confirmed to ICS that those are defined as with at least one women member as CEO

²⁰ [UAE central bank definition](#).

²¹ ADIB has confirmed to ICS that those are defined as businesses at least 51% owned by women

²² Including Sheikh Zayed Housing Programme and Mohammed bin Rashid Housing Establishment (<https://u.ae/en/information-and-services/housing/housing-authorities-and-programmes>)


²³ Low income households are defined as households with an average monthly income under AED25,000 as defined by the [UAE Social Welfare Program](#).

2. Improvements of operational performance (processes)

The below assessment aims at qualifying the direction of change (or “operational impact improvement”) resulting from the operational performance projects (re)financed by the UoP categories, as well as related UN SDGs impacted. The assessment displays how the UoP categories are mitigating the exposure to the negative externalities relevant to the business model and the sector of the Issuer’s clients.

ADIB finances operations/processes in a variety of third-party sectors. For clarity, ICS does not display the exposure to negative externalities linked to the sectors of the operations/processes financed.

The table below aims at displaying the direction of change resulting from the operational performance improvement projects. The outcome displayed does not correspond to an absolute or net assessment of the operational performance.

USE OF PROCEEDS (PROCESSES) ²⁴	OPERATIONAL IMPACT IMPROVEMENT ²⁵	SUSTAINABLE DEVELOPMENT GOALS
<p>Energy efficiency</p> <p><i>Development and implementation of products or technologies that reduce the energy consumption by 30% or more of underlying assets, projects, appliances, products or systems i.e. improved lighting, improved chillers, or reduced power usage in manufacturing operations</i></p>	✓	 
<p>Energy efficiency</p> <p><i>Improved efficiency in the delivery of bulk energy services, including</i></p> <ul style="list-style-type: none"> Existing district heating/cooling systems that result in 30-50% energy savings 	✓	 
<p>Sustainable Water and Wastewater Management</p> <p><i>Projects that increase water-use efficiency by at least 20%, such as water recycling and reuse projects, water saving systems, water saving technologies and water metering (as part of wider water saving technologies).</i></p>	✓	
<p>Green Buildings</p> <p><i>Renovation of commercial or residential buildings that achieve a minimum of 30% improvement in energy use or carbon emission as a result of renovation</i></p>	✓	 

²⁴ The review is limited to the examples of projects spelled out in the Framework.

²⁵ Limited information is available on the scale of the improvement as no threshold is provided. Only the direction of change is displayed.

B. MANAGEMENT OF ENVIRONMENTAL & SOCIAL RISKS ASSOCIATED WITH THE FINANCIAL INSTITUTION AND THE ELIGIBILITY CRITERIA

The table below evaluates the Eligibility Criteria against issuance-specific KPIs. The vast majority of the assets are and will be located in the United Arab Emirates (UAE), and the few that are outside the UAE are in Saudi Arabia, Kuwait, Qatar, Bahrain, and Oman.

ASSESSMENT AGAINST KPIs

ESG guidelines into financing process

ADIB has created an ESG due diligence toolkit based on international standards (IFC Performance Standards; Equator Principles) for its financing and investing activities. It allows the Bank to evaluate the Environmental, Social and Governance performance and risks of its clients and projects it invests in based on multiple criteria. The ESG risks toolkit evaluates the client's and project's overall sustainability performance on a wide range of material ESG issues such as environmental management systems, human rights commitments and measures as supported by Shari'a, anti-corruption conduct, and allegations screening. Public information and internal documents provided by the clients (i.e., Environmental and Social Impact Assessment studies, Environmental and Social Action Plans) are used for the assessment.

The assessment results in a qualitative and quantitative score, used to classify the project deals ESG risk level under three layers of risks: high, medium, or low. The Bank has created an ESG Risk Management Framework and Policy,²⁶ which includes a mitigation plan to deal with projects deals that are identified as medium or high risk by the ESG risk classification tools. The ESG risk management framework is separated into four steps: 1) Initial ESG Screening (due diligence toolkit), 2) ESG evaluation, 3) Clearance, and 4) Monitoring.

It works as follow: ADIB's Relationship Managers (RMs) engage with clients or projects to identify and evaluate ESG risks, using the ESG due diligence toolkit. The credit report and approving officers independently review and approve the ESG due diligence report and engage with clients to agree on ESG action plan. For deals which reached financial close, the Bank monitors ESG performance, allegations and controversies and progress against action plan and covenants in order to ensure that all risks are mitigated in line with the ESG due diligence toolkit. In addition, the results of ESG risk exposure monitoring will be reported to the Management Credit Committee and the Enterprise Risk Committee in cases any material ESG risks are identified. ADIB confirmed that the projects that are categorized as medium and high risks, according to the ESG due diligence process, and fail to mitigate the risks that are identified, will not be considered eligible assets for sustainable financing instruments covered by ADIB's framework.

Finally, ADIB has an internal audit team, which is responsible to provide assurance that this process is effective and complies with regulations and the Bank's internal standards.

²⁶ ADIB's ESG Policy framework is publicly available on ADIB's website, via this link: <https://www.adib.ae/en/pages/policies-statements-and-disclosures.aspx>.

Health and Safety and Labor Standards

The Issuer does have measures in place systematically ensuring that assets financed under this framework provide for high health and safety and labor standards.

Within its ESG Due Diligence Questionnaire process, ADIB verifies if the investees have health and safety commitments (i.e., policies, code of conduct that promotes health and safety or certificates such as ISO45001) and report on quantitative health and safety indicators (i.e., lost time injury rates, total recordable injury rates, or fatalities). In addition, ADIB has also created a questionnaire based on the Equator Principles (EP) and International Finance Corporation (IFC) Performance standards 2, to identify and evaluate the health and safety risks related to the projects financed under this framework.



ADIB asks if investees have measures and policies in place to ensure that basic human rights are respected in all their activities and have mechanisms in place to verify that environmental and social risks are addressed in the supply chain. In addition, ADIB has also created a questionnaire based on the Equator Principles (EP) and International Finance Corporation (IFC) Performance standards 2, to identify and evaluate the labor risks related to the projects financed under this framework.

ADIB confirms that for projects deemed medium and high-risk, an Environment and Social Action Plan, along with a Monitoring Plan is appointed, to ensure the effective mitigation of all identified health and safety risks. In cases where such plans are not adopted, the projects are not considered eligible for funding under sustainable financing instruments covered by ADIB's framework.

Biodiversity

The issuer has policies and measures in place to ensure that assets financed under this framework feature the respect of biodiversity as an integral part of the planning process.



Within its ESG Due Diligence Questionnaire process, ADIB verifies if investees have an Environmental Management System (i.e., ISO 14001) in place, and that they adhere and apply national legislations regarding environmental risks, including the respect of biodiversity and natural reserve. Indeed, ADIB requires the investees to comply with the UAE Federal Law No. 24 of 1999 on the Protection and Development of the Environment and all articles below it.²⁷ Moreover, the Issuer's ESG due diligence toolkit assesses the ESG performance of all green and social assets financed under this framework, against the IFC performance standards 6.

ADIB confirms that for projects deemed high-risk, an Environment and Social Action Plan, along with a Monitoring Plan is appointed, to ensure the effective mitigation of all identified biodiversity risks. In cases where such plans are not adopted, the projects

²⁷ Protection and Development of the Environment, Federal Law No. (24) of 1999, http://www.vertic.org/media/National%20Legislation/United%20Arab%20Emirates/AE_Federal_Law_Environment_24_1999.pdf

are not considered eligible for funding under sustainable financing instruments covered by ADIB's framework.

Community Dialogue

The Issuer does have policies in place to ensure that assets financed under this framework feature community dialogue as an integral part of the planning process.



As part of the ESG due diligence process, ADIB request the client to provide documents that demonstrate effective stakeholder engagement and evidence of grievance mechanisms for communities, especially for projects that can potentially affect Indigenous Peoples.²⁸ The assessment is based on the IFC Performance Standards 5, 7 and 8.

ADIB confirms that for projects deemed high-risk, an Environment and Social Action Plan, along with a Monitoring Plan is appointed, to ensure the effective mitigation of all identified community dialogue risks. In cases where such plans are not adopted, the projects are not considered eligible for funding under sustainable financing instruments covered by ADIB's framework.

Inclusion



The Issuer does not have policies in place to ensure universal access for vulnerable or disadvantaged populations to the basic services financed under this framework.



The current nationality requirements on the financial product dedicated to affordable housing hinder achieving the financial inclusion objective. However, ADIB ensures that borrowers are not discriminated on the basis of their religion, nationality, gender, age, income level and marital status on all the other products.²⁹

Data protection and information security

The Issuer does have policies in place for systematically ensuring that data collection processes on borrowers meet minimum requirements for data and information security, and data security in outsourced data processing.



The Bank has an information security management system that is ISO 27001 certified, which runs risk assessments, audits, incident management system, physical and technical safeguards, training, and awareness-raising. In addition, when outsourcing data, the Issuer requests third parties to comply with the Bank's policies and standards, such as ISO 27001 certification, Payment Card Industry Data Security

²⁸ For example, projects with impacts on lands and natural resources subject to traditional ownership or under the customary use of Indigenous Peoples, or projects requiring the relocation of Indigenous Peoples.

²⁹ Employees Code of Ethics and Standards of Professional Conduct, ADIB, 2022, https://www.adib.ae/en/siteassets/sustainability/employees-code-of-ethics_2022.pdf

Standard (PCI/ DSS) and all applicable UAE government security standards (including the National Electronic Security Agency UAE Information Assurance Standards).³⁰

Responsible treatment of customers with debt repayment problems

The Issuer has implemented various measures to deal with clients having debt repayments problems.



The Issuer has measures in place for implementing preventive actions to avoid clients having debt repayment problems (i.e., educational programs and workshops). In cases a customer encounters debt repayment problem, ADIB has a debt retention and rehabilitation department, responsible to help indebted clients to navigate through their repayment in a non-predatory manner. The team advises the indebted customers and offer some debt restructuring measures such as debt postponement period twice a year for free, grace period of 90 days, lower installment, debt consolidation (even when debt is coming from other conventional banks), and debt scheduling. In addition, the Issuer has measure in place to ensure that the Bank sells mortgages under conditions that are not detrimental to clients and guarantee that all alternative options are examined before undertaking foreclosure as a last resort.

Sales practices

The Issuer does have policies and measures in place systematically ensuring that assets financed under this framework provide for responsible sales practices.



The reward system for the sales team at ADIB includes ethical considerations in the calculation of bonus payments, since bonus awards can be rejected, for example, in the event of violation of conduct of ethics and conduct. Moreover, the Bank has dedicated trainings and educational sessions for its employees, covering the main topics of responsible sales practices such as product transparency, fair and honest treatment to all customers based on ethical and behavioral standards, and no aggressive sales especially regarding vulnerable customers.³¹ Finally, the Bank has audits systems in place to monitor and oversee responsible sales practices. Indeed, ADIB has contracted a vendor to conduct mystery shopping visits to branches and call centers and conducts as well customer surveys focusing on their post-sale understanding of products and services via post-sale calls. ADIB also regularly conducts client assessment to determine risk profiles against the risk profile of the investment

Responsible marketing



The Issuer has a responsible marketing policy in place, which obliges all employees working at ADIB to be transparent in its marketing activities.³²

³⁰ ADIB's Privacy Policy, https://www.adib.ae/en/pages/privacy_policy.aspx

³¹ ADIB's Responsible Marketing Policy, 2023, <https://www.adib.ae/en/siteassets/sustainability/responsible-marketing-policy.pdf>

³² Ibid.

According to it, ADIB made a commitment to provide customers with up-to-date, unbiased, accurate, sufficient, and consistent information. It also commits to avoid using ambiguities and omissions across all communication channels by using plain language and in a clear form and the sales personnel should be able to provide clients with information on products risk. Moreover, the Bank commits to no hidden costs or small print as all fees are publicly available as per UAE laws.³³ Finally, ADIB complies with the Consumer Protection Law (Circular No. 8/2020), which obliges the bank to inform customers about the reasons leading to rejection of, for example, loan or insurance application.³⁴ The client confirms that those commitments are applicable in every countries were the assets are located.

Exclusion criteria

The Issuer has created an exclusion list of all the activities that the company does not finance, it applies at the sustainable framework level. This list includes the following projects:

- Conventional financial activities or services
- Alcohol (brewers, distillers & vintners, packagers, transporters, sellers and resellers)
- Tobacco
- Pork-related products (food products, food retailers & wholesalers, hotels, restaurants & bars)
- Weapons and defence (defence industries, manufacturers of weapons, contractors, suppliers of offensive components and systems)
- Casinos/gambling, and adult entertainment

ADIB also excludes the following sectors under this Framework:

- Coal or gas fired power generation and distribution assets
- Coal mining and transportation
- Fossil-fuel related exploration and distribution / transportation
- Fracking and unconventional oil and gas - shale oil and gas or coal bed methane, due to concerns about the environmental and health impacts of these extraction methods.
- Tar sand extractions
- Deep sea drilling
- GMOs
- Genetic cloning
- Deforestation
- Palm Oil
- Any activity prohibited by Islamic shari'a

³³ UAE consumer protection law, <https://u.ae/en/information-and-services/justice-safety-and-the-law/consumer-protection>

³⁴ Consumer Protection Regulation (Circular No. 8 – 2020), <https://www.centralbank.ae/media/5crd24gm/cp-standards-pdf.pdf>

PART III: LINKING THE TRANSACTION(S) TO ADIB'S ESG PROFILE

A. CONSISTENCY OF SUSTAINABLE FINANCE INSTRUMENTS WITH ADIB'S SUSTAINABILITY STRATEGY

Key sustainability objectives and priorities defined by the Issuer

In 2022, ADIB developed an ESG Strategy (the "Strategy"), which outlined a three-year roadmap towards integrating ESG considerations into the Bank's financing and investments products and portfolio.³⁵ The Strategy utilizes sustainable banking practices to foster carbon emission reductions in line with the UAE's Net Zero by 2050 Strategic Initiative through: (i) Responsible Banking, (ii) ESG Risk Assessment, (iii) Access to Finance, and (iv) Environmental Management.^{36,37}

- **Responsible Banking-** ADIB has invested over AED 1.94 billion in green projects as of 2022, including the financing of three sewage treatment plants and sustainable development projects, such as sustainability-linked financing and renewable energy generation. The Bank reports that project financing was used for the construction of a solar plant, which added 900 MW of renewable energy capacity in Dubai. Furthermore, ADIB also financed a desalination project in Saudi Arabia yielding a daily capacity of 600,000 cubic meters. Additionally, the Bank has invested over AED 1.8 billion in sustainable and green sukuks across the region.³⁸
- **ESG Risk Assessment-** ADIB has integrated ESG Assessment procedures in line with the Equator Principles to assess the environmental and social risks and benefits, and carbon emissions associated with proposed projects. The Bank currently reports that 61% of its financed portfolio is qualified as low or medium risk. Additionally, the Bank has also initiated the review of its Tier 1 finance portfolio to measure the exposure to carbon emissions and inform investment decisions in line with its emission reduction targets.³⁹
- **Access to Finance-** As of 2022, the Bank has provided nearly AED 1 billion in financing to SMEs and has established branches in remote communities to increase access to financing. ADIB is also the banking partner of the Sheikh Zayed Housing Program,⁴⁰ the Ministry Finance and the Ministry of Energy and Infrastructure to provide retail loans for low-income citizens to obtain affordable housing. Furthermore, the Bank has launched a series of financial inclusion initiatives such as financial education workshops, complimentary webinars for SMEs on accounting, entrepreneurship, and lower-cost online banking services for SMEs.
- **Environmental Management-** The Bank's lending practices are aligned with UAE's national plans and commitments including the Principles of the 50 and Climate Change National Plan,

³⁵ ADIB, "Maximizing Our Positive Impact 2022 ESG Report", (2022), at: https://www.adib.ae/en/siteassets/investor-relations/esg-reports/adib-esg-report-2022_en.pdf

³⁶ Government of UAE, "UAE Net Zero 2050", at: <https://u.ae/en/information-and-services/environment-and-energy/climatechange/theuaesresponsetoclimatechange/uae-net-zero-2050>

³⁷ ADIB, "Maximizing Our Positive Impact 2022 ESG Report", (2022), at: https://www.adib.ae/en/siteassets/investor-relations/esg-reports/adib-esg-report-2022_en.pdf

³⁸ Ibid.

³⁹ Ibid.

⁴⁰ United Arab Emirates Ministry of Energy and Infrastructure, "Sheikh Zayed Housing Program", at: <https://www.moei.gov.ae/en/about-ministry/szhp-program.aspx>

Abu Dhabi Economic Vision 2030,⁴¹ and the National Green Economy for Sustainability Development. Furthermore, the Bank is also a signatory of the Principles for Responsible Banking (PRB) Initiative, and Net Zero Banking Alliance (NZBA), and reports in line with the Global Reporting Initiative (GRI) Standards, and Sustainability Accounting Standards Board (SASB).

Additionally, ADIB highlights the transition to a low carbon future as one of its' policy objectives, which includes the measurement of baseline emissions, setting emission reduction targets, building business strategies to achieve GHG emissions reductions in financing and operations, and engaging with customers to support their decarbonization activities. The Bank has established ESG governance structures, including an ESG Board Committee and ESG Management Committee to oversee the integration of ESG considerations in its' investment and policy objectives. ICS notes that ADIB has not established time-bound, quantitative sustainable finance targets.

Rationale for issuance

In line with ADIB's Sustainable Future Plan and ESG Policy Framework, the Bank's Sustainable Finance Framework aims to provide dedicated financing for debt investments.

ADIB has developed the Sustainable Finance Framework, under which it intends to issue green, social, and sustainable sukuks and use the proceeds to finance projects aimed at supporting UAE's transition to an environmentally sustainable economy.

Opinion: *The key sustainability objectives and the rationale for issuing Sustainable Financing Instruments are clearly described by the Issuer. The majority of the project categories financed are in line with the sustainability objectives of the Issuer.*

⁴¹ UAE, "Abu Dhabi Economic Vision 2030", at: <https://u.ae/en/about-the-uae/strategies-initiatives-and-awards/strategies-plans-and-vision/finance-and-economy/abu-dhabi-economic-vision-2030#:~:text=Abu%20Dhabi%20Economic%20Vision%202030%20aims%20to%20build%20an%20open,levels%20of%20inflation%20amongst%20others.>

B. ADIB'S BUSINESS EXPOSURE TO ESG RISKS

This section aims to provide an overall level of information on the ESG risks to which the Issuer is exposed through its business activities, providing additional context to the issuance assessed in the present report.

ESG risks associated with the Issuer's industry

The Issuer is classified in the Commercial Banks and Capital Markets industry, as per ISS ESG's sector classification. Key challenges faced by companies in terms of sustainability management in this industry are displayed in the table below. Please note, that this is not a company specific assessment but areas that are of particular relevance for companies within that industry.

ESG KEY ISSUES IN THE INDUSTRY
Business Ethics
Customer and Product Responsibility
Labor Standards and Working Conditions
Sustainable Impacts of Lending and Other Financial Services/ Products
Sustainable Investment Criteria

ESG strengths and points of attention related to the Issuer's disclosures

Leveraging ISS ESG's Research, the following strengths and points of attention⁴² have been identified:

STRENGTHS	POINTS OF ATTENTION
The Bank has a robust compliance procedure in place that includes publishing a code of conduct in the local language, raising business ethics awareness among employees, and conducting compliance training. Further, it also facilitates anonymous and confidential non-compliance reporting channels, and provides whistleblower protection.	The bank's code of business ethics cover topics such as money laundering, gifts favors and entertainment, and corruption. However, details on antitrust violations, insider dealings, conflicts of interest, and validity of financial information are not sufficiently disclosed.
The bank has an ISO 45001 certified health and safety management system for its employees. It provides dependent care support (e.g., on-site nursery and financial assistance) and special leaves to its employees. Further, it also discloses	The bank offers workplace flexibility to its employees, however further details on tenure and telecommuting options are missing. Issues such as management of employees' mental health and working time reduction are not

⁴² Please note that ADIB is not part of the ISS ESG Corporate Rating Universe. Thus, the information is based on a disclosure review conducted by the analyst in charge of the Commercial Banks and Capital Markets sector, based on publicly available information exclusively. No direct communication between the Issuer and the analyst has taken place during the process. The below is not based on an ISS ESG Corporate Rating but considers ISS ESG Research's methodology.

<p>the ratio of directly to not directly employed workforce.</p>	<p>reported. Further, the bank’s position on the use of non-regular employment is missing.</p>
<p>The bank has implemented elements of an information security management system such as risk assessments, audits, incident management system, physical and technical safeguards, training, and awareness-raising.</p>	<p>The bank has provided a basic commitment to responsible marketing, however, a commitment to clear and correct pricing, transparency regarding product risks, and to refrain from using small prints is not available. There is no evidence of the bank’s information security management system being certified to an international standard. Additionally, there is limited information on procedures to ensure information security in outsourced data processing. Further, the bank’s position on responsible sales practices, procedures to ensure responsible treatment of clients with debt repayment issues, provision of equal access to financial services, and the bank’s stand on offshore banking and tax compliance is also missing.</p>
<p>The bank provides social financial services such as social housing programmes for vulnerable or disadvantaged groups (e.g. financing of housing for low-income group).</p>	<p>The bank’s environmental and social guidelines for lending and investment banking cover client related risk and impact management aspects such as responsibility, risk assessment, and performance monitoring; however further aspects are missing. The bank also applies equator principles to project finance, no further information is available on environmental and social application procedures and guidelines covering specific requirements for forestry and paper, energy generation, resource extraction and related infrastructure, and agriculture, fisheries, and aquaculture. There is no indication of green financial services such as financing of sustainable buildings according to internationally recognized standards, financing of energy efficiency technologies, etc. for private, corporate, and public sector customers. No information is available on environmental lending guidelines covering the retail credit rating processes.</p>
	<p>The bank’s environmental and social guidelines cover exclusion criteria for its mainstream asset management services and investment products; however, the scope of positive screening criteria remains missing. The bank’s disclosure on socially responsible investment products and services, and the volume of strict and diligently selected socially responsible investments is</p>

missing. Further, no information is available on reporting of engagement outcomes and the bank's position to divest engagement activities in case of an unsatisfactory outcome.

Please note that the consistency between the issuance subject to this report and the Issuer's sustainability strategy is further detailed in Part III.A of the report.

Sustainability impact of products and services portfolio

Leveraging ISS ESG's Sustainability Solutions Assessment methodology, ISS ESG assessed the contribution of the issuer's current products and services portfolio to the Sustainable Development Goals defined by the United Nations (UN SDGs). This analysis is limited to the evaluation of final product characteristics and does not include practices along the issuer's production process.

Social Impact of Product Portfolio:

The bank is active in financing affordable housing to low-income households, thereby positively contributing to the social Sustainable Development Goal of providing basic services. The bank also provides SME financing in low- and medium-income countries, thereby positively contributing to the Social Development Goal of alleviating poverty. However, limited details are available to estimate the contribution to social SDGs. Thus, the impact of product portfolio on social Sustainable Development Goal is estimated to be neutral.

Environmental Impact of Product Portfolio:

The bank's products or services contribute neither positively nor negatively to the environmental sustainability objectives. Thus, the impact of product portfolio on environmentally Sustainable Development Goal (SDG) is considered neutral.

Breaches of international norms and ESG controversies

At Issuer level

At the date of publication and leveraging ISS ESG Research, no controversy in which the Issuer would be involved has been identified.

At industry level

Based on a review of controversies over a 2-year period, the top four issues that have been reported against companies within the Commercial Banks and Capital Markets industry are as follows: Failure to mitigate climate change impacts, Financial market irregularities, Failure to prevent money laundering and Anti-competitive behaviour.

Please note that this is not a company specific assessment but areas that can be of particular relevance for companies within that industry.

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ANNEX 1: Methodology

The ISS ESG SPO provides an assessment of labelled transactions against international standards using ISS ESG proprietary methodology. For more information, please visit:

<https://www.issgovernance.com/file/publications/SPO-Use-of-Proceeds-Bonds-and-Loans.pdf>

ANNEX 2: Quality Management Processes

SCOPE

ADIB commissioned ICS to compile a Sustainable Financing Instruments SPO. The Second Party Opinion process includes verifying whether the Sustainable Finance Framework aligns with the ICMA's GBP, SBP and SBG, and the LMA's GLP and SLP to assess the sustainability credentials of its Sustainable Financing Instruments, as well as the Issuer's sustainability strategy.

CRITERIA

Relevant Standards for this Second Party Opinion:

- ICMA Green Bond Principles
- ICMA Social Bond Principles
- ICMA Sustainability Bond Guidelines
- LMA Green Loan Principles
- LMA Social Loan Principles

ISSUER'S RESPONSIBILITY

ADIB's responsibility was to provide information and documentation on:

- Framework
- Eligibility Criteria
- Documentation of ESG risks management at project category level

ISS ESG'S VERIFICATION PROCESS

ISS ESG is one of the world's leading independent environmental, social and governance (ESG) research, analysis and rating houses. The company has been actively involved in the sustainable capital markets for over 25 years. Since 2014, ISS ESG has built up a reputation as a highly-reputed thought leader in the green and social bond market and has become one of the first CBI approved verifiers.

This independent Second Party Opinion of the Sustainable Financing Instruments to be issued by ADIB has been conducted based on a proprietary methodology and in line with the ICMA's GBP, SBP and SBG, and the LMA's GLP and SLP.

The engagement with ADIB took place in September and October 2023.

ISS' BUSINESS PRACTICES

ISS has conducted this verification in strict compliance with the ISS Code of Ethics, which lays out detailed requirements in integrity, transparency, professional competence and due care, professional behavior and objectivity for the ISS business and team members. It is designed to ensure that the verification is conducted independently and without any conflicts of interest with other parts of the ISS Group.

About this SPO

ISS ESG is one of the world's leading rating agencies in the field of sustainable investment. The agency analyses companies and countries regarding their environmental and social performance.

We assess alignment with external principles (e.g. the ICMA Green / Social Bond Principles), analyse the sustainability quality of the assets and review the sustainability performance of the Issuer themselves. Following these three steps, we draw up an independent SPO so that investors are as well informed as possible about the quality of the bond / loan from a sustainability perspective.

Learn more: <https://www.isscorporatesolutions.com/solutions/esg-solutions/green-bond-services/>

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