S&P Global Ratings

Second Party Opinion

Dubai International Financial Centre's Sustainable Finance Framework

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Dubai International Financial Centre (DIFC) is a global financial hub in the Middle East, Africa, and South Asia (MEASA) region. Established in 2004, it accommodates over 4,900 financial institutions and firms, and a workforce of over 39,000 individuals. Participants operate predominantly in banking and capital markets, insurance, asset management, fintech, the corporate sector, and professional services. DIFC's main statutory bodies are the DIFC Authority (DIFCA), in charge of public administration and oversight; Dubai Financial Services Authority (DFSA), an independent financial regulator; and DIFC Courts, an English-language, common law judiciary.

In our view, DIFC's Sustainable Finance Framework, published in July 2023, is aligned with:

- ✔ Social Bond Principles (SBP), ICMA, 2023
- ✔ Social Loan Principles (SLP), LMA/LSTA/APLMA, 2023
- ✔ Green Bond Principles (GBP), ICMA, 2021 (with June 2022 Appendix 1)
- ✔ Green Loan Principles (GLP), LMA/LSTA/APLMA, 2023
- ✔ Sustainability Bond Guidelines ICMA, 2021

Issuer's Sustainability Objectives

DIFC's 2030 Strategy aims to promote investment in Dubai and encourage financial institutions and companies to establish themselves in the DIFC. Its objectives are to promote a sustainable business environment, engage the DIFC community, and build social and business capital in the United Arab Emirates (UAE). The DIFC has established four strategy pillars, namely, Environmental, Social, Governance, and Government Alignment within its Sustainability Framework. These align with the UAE's Sustainable Development Goals 2030 and the Dubai Economic Agenda D33 to drive economic growth, innovation, and promote environmentally friendly and energy-efficient businesses.

DIFC has developed the Sustainable Finance Framework to raise funds for investments in environmental and social projects that enable sustainable business operations.

Second Party Opinion Summary

Use of proceeds

Alignment	✔ DIFC's Sustainable Finance Framework is aligned with this component of the GBP, GLP, SBP, and SLP.
Score	Not aligned / **Aligned** / Strong / Advanced

DIFC commits to allocating an amount equal to the net proceeds from financing instruments issued under the framework to eligible projects. Eligible projects aim to meet specific environmental or social objectives, and match some of the U.N.'s Sustainability Development Goals (SDGs). DIFC will disclose the share of financing versus refinancing. The look-back period for refinanced projects will not exceed three years from the time of issuance.

Process for project evaluation and selection

Alignment	✔ DIFC's Sustainable Finance Framework is aligned with this component of the GBP, GLP, SBP, and SLP.
Score	Not aligned / Aligned / **Strong** / Advanced

DIFC's framework outlines the process by which the company's Sustainable Finance Committee, comprising management representatives from various departments, will select and evaluate projects against the eligible categories and a list of exclusion criteria. The committee's responsibility includes assessing and monitoring environmental and social risks associated with eligible projects. The framework details transparent eligibility criteria for all projects, including certifications, quantitative thresholds, and specific local regulations, definitions, and guidelines.

Management of proceeds

Alignment	✔ DIFC's Sustainable Finance Framework is aligned with this component of the GBP, GLP, SBP, and SLP.

DIFC will deposit the net proceeds from financing instruments in its general funding accounts and maintain a register to track the allocation of net proceeds to eligible projects. The issuer commits to regularly monitoring the asset pool and substituting projects that cease to be eligible with alternative eligible projects. DIFC will hold unallocated net proceeds in short-term instruments, such as cash or cash equivalents, according to its liquidity policy.

Reporting

Alignment	✔ DIFC's Sustainable Finance Framework is aligned with this component of the GBP, GLP, SBP, and SLP.
Score	Not aligned / Aligned / **Strong** / Advanced

DIFC commits to disclosing annually the allocation of net proceeds across eligible projects, as well as both expected and actual environmental and social impact of financed projects, until full allocation. The information will be available on the company's website. DIFC also commits to externally verifying its allocation report annually.

Framework Assessment

Use of proceeds

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

✓ DIFC's Sustainable Finance Framework is aligned with this component of the GBP, GLP, SBP, and SLP.

Commitments score	Not aligned	**Aligned**	Strong	Advanced

We consider DIFC's overall use of proceeds commitments to be aligned.

DIFC commits to allocating an amount at least equivalent to the net proceeds of financing instruments issued under the framework to finance or refinance eligible projects within three years of issuance. The framework has six eligible green projects; green buildings; energy efficiency; clean transportation; sustainable water and wastewater management; and pollution prevention and control. The framework has two eligible social projects: employment generation and programs that alleviate unemployment and promote small and medium-sized enterprises financing and microfinance, as well as socioeconomic advancement and empowerment.

Each category contributes to at least one environmental or social objective and supports specific U.N. SDGs. For instance, the investments in green buildings, solar energy, energy efficient cooling and LED systems, and electric and low carbon vehicles and associated infrastructure help the transition to a low carbon economy through reduced emissions associated with fossil fuel combustion. The issuer will exclude expenditures relating to activities that involve the use of fossil fuels or thermal coal. This will contribute to climate change mitigation and support affordable and clean energy (SDG 7) and sustainable cities and communities (SDG 11). Citing specific thresholds and some market-based taxonomies also contributes to transparency for the climate-related projects.

DIFC aims to protect water resources through spending on gray water reuse and sewage effluent treatment for irrigation, which supports clean water and sanitation (SDG 6). Similarly, the issuer identifies waste monitoring, collection and storage, categorization, reuse, and recycling projects to prevent and control pollution arising from the operations at DIFC. This supports DIFC's goal to increase waste diversion, contributes to promoting responsible consumption and production (SDG 12).

The investment in entrepreneurs and start-ups aims to create jobs, both through direct funding and non-financial support. Means include start-up focused funds, accelerator or incubator programs, subsidized licenses, and courses. The programs contribute to employment generation, benefiting small and medium-size enterprises, including start-ups, as defined by the Dubai's Department of Economic Development. They support quality education (SDG 4) and decent work and economic growth (SDG 8).

Additionally, expenditure on female career mentorship programs aims to build capacity among female professionals. DIFC has specified junior female working professionals (six months' to five years' work experience) in the financial industry as the target group. The program aims to align with the United Arab Emirates Gender Balance Council Strategy to reduce the gender gap and achieve gender balance in decision-making positions. This would support socioeconomic advancement and empowerment and contribute to reduced inequalities (SDG 10). The size and characteristics of this target population may limit the impact of such spending, compared with other eligible projects.

DIFC will disclose the share of financing and refinancing when it reports on the use of proceeds allocation. The framework outlines that the look-back period for refinanced projects will not exceed 36 months from the time of issuance, which contributes to transparency of the use of proceeds. While this is the market standard, shorter maximum look-back periods are a better practice.

Process for project evaluation and selection

The Principles make optional recommendations for stronger structuring practices, which inform our alignment opinion as aligned, strong, or advanced. For our assessment on the 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.

✔ DIFC's Sustainable Finance Framework is aligned with this component of the GBP, GLP, SBP, and SLP.

Commitments score	Not aligned	Aligned	**Strong**	Advanced

We consider DIFC's overall process for project selection and evaluation commitments to be strong.

The framework communicates the company's process to determine how projects belong to the eligible categories and fit within DIFC's environmental and social strategic pillars. This supports the company's 2030 Strategy, specifically to promote environmental preservation and community well-being.

DIFC has set up a Sustainable Finance Committee, comprising management representatives from the strategy, finance, corporate development, and property management department. Led by the Strategy Department, the committee will meet at least semiannually to discuss, select, and evaluate the eligibility of projects proposed by the constituent team members.

The framework's exclusionary list prevents proceeds going to activities related to fossil fuels, thermal coal power generation, defense or weapons, modern slavery or forced labor, gambling, and adult entertainment. DIFC will ensure that all eligible projects have been assessed from an environmental and social risk perspective. The company maintains a risk management framework that oversees risks at the group level. However, the framework could be more explicit about management of the perceived environmental and social risks associated with the financed projects.

DIFC details transparent eligibility criteria for all projects. For instance, it incorporates certifications as part of its selection criteria for green buildings, and commits that a third party will verify certifications, which include the Leadership in Energy and Environmental Design (LEED) (Gold or above), the Building Research Establishment Environmental Assessment Method (BREEAM) (Excellent or above), the Estidama Pearl Building Rating System (4 Pearl and above), or the Global Sustainability Assessment System (GSAS) (4 star or above). We understand that buildings which are uncertified at the time of the investment will receive target certification within three years from funds allocation.

In addition, the issuer commits that energy efficiency projects, namely the retrofit of cooling systems will achieve a minimum of 20% energy reduction; solar energy will achieve a minimum 85% of power generation derived from solar sources; and clean transportation will maintain a low-carbon emission threshold of under 50gCO2/p-km up to 2025, and 0gCO2/km thereafter.

The use of treated sewage effluent (TSE) for irrigation will align with the physiochemical, metals, and bacteriological threshold limits detailed in the Environmental Standards and Allowable Limits of Pollutants on Land, Water, and Air Environment set out by the Environment Department of the Dubai Municipality. Similarly, DIFC has drafted its Waste and Recycling Management Plan in accordance with the Dubai Municipality regulations. This provides detail about waste classifications such as paper, plastic, glass, cooking oil, and metal. The plan also details other criteria, such as key performance indicators, and waste treatment, handling, and monitoring measures.

In the eligibility criteria for its social projects, DIFC cites a report prepared by Dubai SME, an agency of Dubai's Department of Economic Development (The State of Small & Medium Enterprises (SMEs) In Dubai) on the definition of micro, small and medium enterprises based on the total number of employees and annual turnover. The selection for eligible female professionals is based on the number of years of work experience and internal screening processes.

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.

✔ DIFC's Sustainable Finance Framework is aligned with this component of the GBP, GLP, SBP, and SLP.

The net proceeds of each instrument will be deposited in DIFC's general funding accounts and earmarked for the allocation to eligible projects in a sustainable finance register. DIFC commits to tracking and adjusting the balance of net proceeds to match allocations to eligible projects during the time the instrument is outstanding. If a designated project ceases to meet the eligible criteria under the framework, DIFC will reallocate the net proceeds to an alternative eligible project during the time the instrument remains outstanding.

Pending allocation, unallocated proceeds will be held in cash or cash equivalents, according to the company's liquidity policy. DIFC commits to not investing unallocated proceeds in sectors defined in the exclusionary list.

Reporting

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

✔ DIFC's Sustainable Finance Framework is aligned with this component of the GBP, GLP, SBP, and SLP.

Disclosure score	Not aligned	Aligned	**Strong**	Advanced

We consider DIFC's overall reporting practices to be strong.

DIFC commits to reporting the allocation of proceeds, and the impact of the financed projects. It will report the information on an annual basis until the net proceeds are fully allocated. This information will be available on the company's website.

Allocation reporting will include a list of eligible projects, the amount of proceeds allocated to each project, a brief description of financed projects, the share of financing and refinancing, examples of financed projects, and the balance of unallocated proceeds.

The company will disclose both the expected and actual impact of the financed projects. Environmental impact indicators include certification per property; avoided carbon emissions (in tons of CO_2 equivalent; tCO_2e); annual energy savings (in megawatt hour; MWh); amount of water recycled and reused (liter); waste treated, collected, avoided, reused, or recycled (% of total waste or tons) and the associated carbon emissions avoided (tCO_2e); and annual renewable energy purchased and generating capacity (MWh). Social indicators will include the number of beneficiaries, such as start-ups and women entrepreneurs, the amount of funding provided, and the number of jobs created. In the case where actual impacts may not be available, DIFC will estimate the impact using proxies and disclose the underlying assumptions.

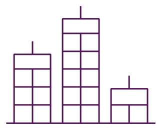
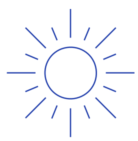
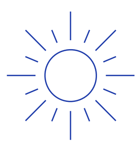
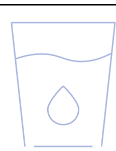
DIFC will disclose the calculation methodologies and key assumptions behind the quantitative performance indicators, subject to data availability. Where available, the company will align its impact reporting with the International Capital Market Association (ICMA)'s Harmonized Framework for Impact Reporting. DIFC will have an independent third party verify its post issuance allocation reports, adding transparency to its undertakings.

Mapping To The U.N.'s Sustainable Development Goals

The SDGs, which the U.N. formulated in 2015, are an agenda for achieving sustainable development by 2030.

We use the 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.

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

Use of proceeds	SDGs
Green Buildings	 ***11. Sustainable cities and communities**
Renewable Energy	 ***7. Affordable and clean energy**
Energy Efficiency	 ***7. Affordable and clean energy**
Clean Transportation	 ***11. Sustainable cities and communities**
Sustainable Water and Wastewater Management	 ***6. Clean water and sanitation**

Pollution Prevention and Control	***12. Responsible consumption and production**
Employment Generation	***4. Quality education** / ***8. Decent work and economic growth**
Socioeconomic Advancement and Empowerment	***10. Reduced inequalities**

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