An S&P Global Second Party Opinion (SPO) includes S&P Global Ratings’ opinion on whether the documentation of a sustainable finance instrument, framework, or program, or a financing transaction aligns with certain third-party published sustainable finance principles. Certain SPOs may also provide our opinion on how the issuer’s most material sustainability factors are addressed by the financing. An SPO provides a point-in-time opinion, reflecting the information provided to us at the time the SPO was created and published, and is not surveilled. We assume no obligation to update or supplement the SPO to reflect any facts or circumstances that may come to our attention in the future. An SPO is not a credit rating, and does not consider credit quality or factor into our credit ratings.

Second Party Opinion

Development Bank of Rwanda's Sustainability-Linked Bond Framework

Sept. 27, 2023

Development Bank of Rwanda (BRD) is a development financial institution incorporated in 1967. BRD is about 98% owned by the government of Rwanda through the Sovereign Wealth Fund and the Rwanda Social Security Board with minority shareholders. BRD has been playing a key role in Rwanda's socioeconomic development through providing long-term finance and supporting the development of private sectors. As of Dec. 31, 2022, BRD had total assets of Rwanda franc (RWF) 478 billion, with the infrastructure (44%) and exports (30%) sectors contributing to the majority of gross loans, followed by energy (10%), housing (10%), agriculture (4%), and education (2%) sectors.

In our view, Development Bank of Rwanda's Sustainability-Linked Bond Framework, published in September 2023 is aligned with:

✔ Sustainability-Linked Bond Principles, ICMA, 2023 (SLBP)

Issuer’s Sustainability Objectives

BRD’s sustainability strategy covers the period 2024-2028 and aims to align with the development objectives of the government of Rwanda’s Vision 2050. In addition to BRD’s areas of interventions, the strategy has listed desired development outcomes relating to women-led finance projects, affordable housing loans/units refinanced, and ESG compliance level, among others. BRD developed this sustainability-linked bond framework to support its objectives to mobilize private capital and to support systematic change in Rwanda, in particular the implementation of environmental and social elements across the financial sector.

Selected Key Performance Indicators (KPIs) And Sustainability Performance Targets (SPTs)

<table>
<thead>
<tr>
<th>KPI</th>
<th>SPT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Robust environmental and social management system (ESMS) implementation</td>
<td>Increase the percentage of participating financial institutions (PFIs) demonstrating robust ESMS implementation to 75% in 2028, from 0% in July 2023</td>
</tr>
<tr>
<td>Loans to women-led SMEs</td>
<td>Increase the number of loans to women-led SMEs among total SME loans to 30% in 2028, from 15.4% in 2022</td>
</tr>
<tr>
<td>Affordable housing</td>
<td>Increase the cumulative number of affordable housing loans extended or refinanced by PFIs to 13,000 in 2028, from 544 in 2022</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Baseline</th>
<th>2023 performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>0% (2023)</td>
<td>0%</td>
</tr>
<tr>
<td>15.4% (2022)</td>
<td>Not available</td>
</tr>
<tr>
<td>544 (2022)</td>
<td>2,596 (Q1 2023)</td>
</tr>
</tbody>
</table>

Primary Analyst
Shirley Lui
Hong Kong
+852-2912-3063
shirley.lui@spglobal.com

Secondary Analyst
Pierre-Brice Hellsing
Stockholm
+46 84 40 5906
pierre-brice.hellsing@spglobal.com

Research Contributor
Mamata Gahan
Pune
CRISIL Global Analytical Center, an S&P affiliate
Second Party Opinion

Second Party Opinion Summary

Selection of key performance indicators (KPIs)

<table>
<thead>
<tr>
<th>Alignment</th>
<th>BRD's Sustainability-Linked Bond Framework is aligned with this component of the SLBP.</th>
</tr>
</thead>
<tbody>
<tr>
<td>KPI 1</td>
<td>Robust ESMS implementation</td>
</tr>
<tr>
<td>KPI 2</td>
<td>Loans to women-led SMEs</td>
</tr>
<tr>
<td>KPI 3</td>
<td>Affordable housing</td>
</tr>
</tbody>
</table>

Calibration of sustainability performance targets (SPTs)

<table>
<thead>
<tr>
<th>Alignment</th>
<th>BRD's Sustainability-Linked Bond Framework is aligned with this component of the SLBP.</th>
</tr>
</thead>
<tbody>
<tr>
<td>SPT 1</td>
<td>Increase the percentage of PFIs demonstrating robust ESMS implementation to 75% in 2028, from 0% in 2023</td>
</tr>
<tr>
<td>SPT 2</td>
<td>Increase the number of loans to women-led SMEs among total SME loans to 30% in 2028, from 15.4% in 2022</td>
</tr>
<tr>
<td>SPT 3</td>
<td>Increase the cumulative number of affordable housing loans extended or refinanced by PFIs to 13,000 in 2028, from 544 in 2022</td>
</tr>
</tbody>
</table>

All SPTs have the same target observation date of Dec. 31, 2028.

Instrument characteristics

<table>
<thead>
<tr>
<th>Alignment</th>
<th>BRD's Sustainability-Linked Bond Framework is aligned with this component of the SLBP.</th>
</tr>
</thead>
<tbody>
<tr>
<td>BRD will link the financial characteristics of the instruments to the achievement of the SPTs for each KPI. Potential variation of the instrument’s financial characteristics will be in the form of a coupon adjustment, and may include a benefit (step down) and/or penalty (step up). The specific mechanism will be specified in each sustainability-linked bonds’ pricing supplement.</td>
<td></td>
</tr>
</tbody>
</table>

Reporting

<table>
<thead>
<tr>
<th>Alignment</th>
<th>BRD's Sustainability-Linked Bond Framework is aligned with this component of the SLBP.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Score</td>
<td>Not aligned</td>
</tr>
</tbody>
</table>

Second Party Opinion

BRD commits to disclosing updates on KPIs in its integrated annual report and on any sustainability-linked bonds issued under this framework on its website. The issuer will also publish a sustainability certificate for the target observation date of Dec. 31, 2028, to confirm the performance against SPTs together with third-party limited assurance report.

Post-issuance review

Alignment ✔️ BRD’s Sustainability-Linked Bond Framework is aligned with this component of the SLBP.

BRD commits to engaging an independent third party to verify its SPT performance on an annual basis and on target observation date. Limited assurance report will be available on BRD’s website.
Framework Assessment

Selection of key performance indicators (KPIs)

The Principles make optional recommendations for stronger structuring practices, which inform our relevancy opinion as aligned, strong, or advanced. For each KPI, we consider how relevant the KPI is for sustainability by exploring the clarity and characteristics of the defined KPI; its significance for the issuer’s sustainability disclosures; and how material it is to the issuer’s industry and strategy.

✔ BRD’s Sustainability-Linked Bond Framework is aligned with this component of the SLBP.

KPI 1  Robust ESMS implementation

We consider this KPI to be aligned with the principles. The KPI aims to influence participating financial institutions (PFIs) to establish environmental and social management system and drive systemic change on ESG compliance at the PFI level. The KPI covers a list of five implementation criteria including: (1) environmental and social management system (ESMS); (2) environmental and social (E&S) contact point; (3) E&S requirements; (4) E&S monitoring and reporting; and (5) grievances. It also requires the PFIs to meet all five criteria and provide evidence of implementation.

We consider this KPI to be addressing a relevant sustainability challenge, given the lack of ESG expertise and knowledge in the Rwandan financial market. The call for better ESG disclosure and reporting is highlighted in Rwanda’s Sustainable Finance Roadmap as well as Rwanda’s National Strategy for Transformation (NST 1, a seven-year government program that supports Rwanda Vision 2050). The KPI is relevant to the BRD’s 2024-2028 strategy as being one of the strategy’s development outcomes.

For most of the criteria, BRD references the alignment with World Bank Environmental and Social Standard—Financial Intermediaries and IFC Environmental and Social performance Standards Interpretation Note on Financial Intermediaries. BRD will also provide evidence of implementation gathered from PFIs to third-party verifier to check alignment with the criteria as per framework to maintain objectivity. Moreover, BRD has an in-house team of E&S experts, and it aims to make use of internal capacity to support and to build a strong culture of ESG compliance and management across the Rwandan financial sector.

We consider that its external verification commitment will help support the implementation and accurate reporting of this KPI.

KPI 2  Loans to women-led SMEs

We consider the KPI selected to be aligned with the principles. The scope, objectives, and calculation methodology are clearly articulated in the framework. The KPI is relevant to the bank sector, given its large impact on access to financial services for individuals and businesses (ESG Materiality Map: Banks). The KPI is also highlighted as one of the key strategy interventions in Rwanda’s NST 1 to support and empower women to create business through entrepreneurship and access to finance. Furthermore, the KPI is relevant to the BRD’s 2024-2028 strategy, as being one of the strategy’s development outcomes. Women-led SMEs (being a subset of SME loans) comprises 2.5% of BRD’s gross loans and advances as of December 2022.

The framework defines SME loans as BRD’s direct lending loans ranging RWF50 million-RWF2 billion. Its definition is influenced by the local context in which data from individual businesses, such as level of investment and turnover are limited. The top manager (managing director, chief executive officer, chair or business owner) of these SMEs needs to be a woman and owns shares of the business in order to be included in the calculation methodology for the KPI. The calculation consists of number of loans (non-cumulative) extended to women-led SMEs divided by total number of SME loans.
Second Party Opinion

BRD has publicly disclosed the percentage of women-led finance projects in its latest annual report for 2022, but not specifically on women-led SME loans. Limited benchmarking against peers constraints our assessment.

KPI 3  Affordable housing

We consider the KPI selected to be aligned with the principles. The scope, objective, and calculation methodology are clearly articulated in the framework. We view the KPI as material and relevant as the growth of affordable housing is highlighted in the NST 1 to accelerate Rwanda’s sustainable urbanization to 35% by 2024. The government of Rwanda aims to create 150,000 new units annually to meet the projected housing needs of 5.5 million units by 2050. BRD supports the government agenda through being a strategic partner on numerous affordable housing programs in the region and offering mortgage loans.

We consider the KPI to be material to BRD’s sustainability strategy as affordable housing is also one of BRD’s six key priority areas of intervention. The KPI is also linked to its 2024-2028 strategy, as being one of the strategy’s development outcomes.

The framework provides clear definitions on the criteria of affordable housing loans, such as household monthly income of mortgagor not exceeding RWF1.2 million, and protected mortgage loan with valid policies of fire and other perils insurance. The KPI is the aggregated number of affordable housing loans approved and disbursed by PFIs. The data provided is based on data collected by BRD and has not been publicly disclosed or externally verified. Limited benchmarking against peers constraints our assessment.

Calibration of sustainability performance targets (SPTs)

The Principles make optional recommendations for stronger structuring practices, which inform our ambition opinion as aligned, strong, or advanced. We consider the level of ambition for each target by assessing its clarity and characteristics, how the issuer defines the target with reference either to its past performance, or to external or competitor benchmarks, and how it explains what factors could influence future performance.

✔ BRD’s Sustainability-Linked Bond Framework is aligned with this component of the SLBP.

SPT 1  Increase the percentage of PFIs demonstrating robust ESMS implementation to 75% in 2028, from 0% in 2023

We believe the ambition, clarity and characteristics of the SPT linked to KPI 1 are aligned with the Principles.

BRD started its environmental and social due diligence exercise in 2021, which means it only has two years of internal performance data for benchmarking. None of the engaged PFIs fulfilled the criteria of having a robust ESMS implementation (i.e. fulfilling all five implementation criteria), hence the historical data has been 0% in 2021 and in 2023. We believe the target is ambitious, given that the overall implementation level of ESG disclosure and reporting in Rwanda are comparatively in their early stages. Lack of ESG regulatory guidelines in the market and the availability of skilled labor will present challenges on achieving the target. BRD outlines its strategy to reach the SPT by having a dedicated E&S team to support the PFIs on improving their level of ESG management. It will also leverage on its existing internal ESMS policies and will develop ESG guidelines to bring formalized guidance on ESG principles within its PFI network.

However, BRD recognizes there are variables involved throughout the observation period. It lists only one target observation date (Dec. 31, 2028) in the framework.

SPT 2  Increase the number of loans to women-led SMEs among total SME loans to 30% in 2028, from 15.4% in 2022

This product is not a credit rating  Sept. 27, 2023
Second Party Opinion

We believe the ambition, clarity and characteristics of the SPT linked to KPI 2 are aligned with the Principles.

When setting the level of ambition for the SPT, BRD takes into consideration its historical performance in which it experienced weakened performance from 2020 to 2022. BRD also has limited benchmarking against peers because their performances are calculated based on different definitions. In our view, the target is considered ambitious. Despite the recent weakened performance, BRD expects growth in financing for women-led SMEs within the country with national and international support.

Its strategy to reach the SPT includes conducting market assessment specifically for women, developing customized products to meet the specific needs of the market, and getting external support such as those from European Investment Bank’s African Women Rising Initiative. The framework also includes key factors beyond BRD’s direct control such as economic development impacting the number of women-led SMEs and cultural and societal norms around women entrepreneurs. With these variables, BRD lists only one target observation date (Dec. 31, 2028) in the framework.

SPT 3 Increase the cumulative number of affordable housing loans extended or refinanced by PFIs to 13,000 in 2028, from 544 in 2022

We believe the ambition, clarity and characteristics of the SPT linked to KPI 3 are aligned with the Principles.

BRD’s past performance on affordable housing loans was relatively low (13 loans in 2021). With the newly defined criteria in 2023, BRD accelerated (2,596 in first-quarter 2023) and expects continual growth. The government of Rwanda has an agenda to increase its urbanization rate for economic growth in the coming years, and initiated various affordable housing programs to meet estimated housing need by 2050. BRD’s data on past performance is limited due to its recent partnership with the government on newly established housing programs. We consider the target ambitious, given that BRD is among several financial institutions in the country offering home loan finance and its historical market share (under 9%).

The framework outlines the hurdles to achieving the SPT, including insufficient housing supply to meet demand, supply chain issues on construction materials given the geographical context, the high interest rate cycle and the impact on homeowners’ ability to qualify for credit, as well as external risks related to poor weather conditions, pandemics, political unrest, and technical risks. With these considerations, BRD lists only one target observation date (Dec. 31, 2028) in the framework.

Instrument characteristics

The Principles require disclosure of the type of financial and/or structural impact involving trigger event(s), as well as the potential variation of the instrument’s financial and/or structural characteristics.

✔ BRD’s Sustainability-Linked Bond Framework is aligned with this component of the SLBP.

Sustainability-linked bonds issued under the framework will be subject to an economic outcome depending on whether the SPT for each KPI is met or not. Potential variation of the instrument’s financial characteristics is expected to be in the form of a coupon adjustments in each sustainability-linked bond’s pricing, and may include a benefit (step down) and/or penalty (step up). The issuer will disclose the applicable KPIs, SPTs and coupon adjustments in sustainability-linked bonds’ pricing supplement. A penalty will also be applicable if BRD fails to deliver a sustainability certificate that confirms the performance against SPTs and limited assurance report by the delivery date stated in the pricing supplement.

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
Second Party Opinion

funding, or the sustainability performance of the financed projects over the lifetime of any dedicated funding, including any commitments to post-issuance reporting.

✔ BRD’s Sustainability-Linked Bond Framework is aligned with this component of the SLBP.

Disclosure score

We consider BRD’s overall reporting practices to be Strong.

BRD commits to disclosing annual updates on KPIs in its integrated annual report, with sufficient information to allow investors and lenders to monitor the performance and progress of the SPTs. The issuer will also publish updates on sustainability-linked bonds issued under this framework on its website on an annual basis.

For the target observation date (Dec. 31, 2028) for all three KPIs, the issuer will publish a sustainability certificate together with a third-party limited assurance report as part of its annual reporting process as well as any market announcement as required by Rwanda’s Capital Market Authority (CMA) in relation to bond instruments. The certificate will confirm each SPT’s performance as per the target observation date and related impact on relevant sustainability-linked bonds’ economic characteristics. The issuer will also disclose any re-assessment of or adjustments to the KPIs, SPTs or baselines in the certificate, and will update the framework and obtain up to date second party opinion, which we view as a strong market practice.

Furthermore, BRD will submit the sustainability certificate and limited assurance report as part of its declaration to the Rwanda Stock Exchange.

Post-issuance review

The Principles require post-issuance review commitments including the type of post-issuance third-party verification, periodicity and how this will be made available to key stakeholders. Our opinion describes whether the documentation is aligned or not aligned with these requirements. Please note, our second party opinion is not itself a post-issuance review.

✔ BRD’s Sustainability-Linked Bond Framework is aligned with this component of the SLBP.

BRD commits to engaging a third-party auditor or specialist consultant to carry out verification on the performance against each SPT for each KPI on an annual basis and on the target observation date. The limited assurance report will be published as part of BRD’s annual reporting process and will be available on its website.
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.

BRD’s Sustainability-Linked Bond Framework intends to contribute to the following SDGs:

<table>
<thead>
<tr>
<th>KPI</th>
<th>SDGs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Robust ESMS implementation</td>
<td>9. Industry, innovation and infrastructure</td>
</tr>
<tr>
<td></td>
<td>11. Sustainable cities and communities</td>
</tr>
<tr>
<td></td>
<td>12. Responsible consumption and production</td>
</tr>
<tr>
<td></td>
<td>13. Climate action</td>
</tr>
<tr>
<td></td>
<td>17. Partnerships for the goals</td>
</tr>
<tr>
<td>Loans to women-led SMEs</td>
<td>5. Gender equality§</td>
</tr>
<tr>
<td></td>
<td>10. Reduced inequalities§</td>
</tr>
<tr>
<td></td>
<td>11. Sustainable cities and communities§</td>
</tr>
</tbody>
</table>

§The KPI is likely to contribute to the SDGs.
Second Party Opinion

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. 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 has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process. 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.

This product is not a credit rating