Gulf International Bank

Taskforce for Climate-related Financial Disclosure Report

2023

Contents

Introduction

"Banks are exposed to climate-related risks and opportunities through their lending and other financial intermediary activities as well as through their own operations. As financial intermediaries, banks may assume exposure to material climate-related risks through their borrowers, customers, or counterparties. Banks that provide loans or trade the securities of companies with direct exposure to climate-related risks (e.g., fossil fuel producers, intensive fossil fuel consumers, real property owners, or agricultural/food companies) may accumulate climate-related risks via their credit and equity holdings. In particular, asset-specific credit or equity exposure to large fossil fuel producers or users could present risks that merit disclosure or discussion in a bank's financial filings. In addition, as the markets for lower-carbon and energy-efficient alternatives grow, banks may assume material exposures in their lending and investment businesses. Banks could also become subject to litigation related to their financing activities or via parties seeking damages or other legal recourse. Investors, lenders, insurance underwriters, and other stakeholders need to be able to distinguish among banks' exposures and risk profiles so that they can make informed financial decisions."

TCFD Supplemental Guidance for Banks

This document sets out disclosures on climate-related risks and opportunities for Gulf International Bank B.S.C. (GIB), excluding Gulf International Bank (UK) Limited. Gulf International Bank (UK) Limited has been reporting against Taskforce for Climate-related Financial Disclosures (TCFD) for several years, and equivalent disclosures can be found here: https://gibam.com/about/governance

This document covers the reporting year 1 January 2023 – 31 December 2023.

We disclose in line with the recommendations set out by TCFD. We draw on the supplementary guidance for banks.

This report has been approved by the Group Chief Sustainability Officer.

Glossary

the Bank	Gulf International Bank B.S.C
the Board	Gulf International Bank B.S.C Board
BRPC	Board Risk Policy Committee
BSCCC	Board Sustainability & Climate Change Committee
Council	Sustainability Council
CO2e	Carbon Dioxide equivalent
ESG	Environmental, Social and Governance
FTE	Fulltime Equivalent
GCC	Gulf Cooperation Council countries
GIB	Gulf International Bank B.S.C.
GNRC	Board Governance, Nomination and Remuneration Committee
Group	Refers to all legal entities within the Gulf International Bank Group
KSA	Kingdom of Saudi Arabia
SEAC	Sustainability Evaluation and Assessment Committee
STFF	Sustainable and Transition Finance Framework
TCFD	Taskforce for Climate-related Financial Disclosures

Governance

We believe that an effective governance structure is imperative to mitigating climate-related risk and capitalising on opportunities.

a) The Board's oversight of climate-related risks and opportunities

Sustainability is a key pillar in GIB's strategy and embedded into entity and divisional strategies. GIB views climate as one component of sustainability.

The Board is responsible for oversight of sustainability-related risks and opportunities. Within that, climate-related issues are treated as a sub-set of sustainability. It responsibilities specifically include:

- reviews, approves and oversees the execution of the Group's strategy, business model, business plan, budgets and financial plans, and performance objectives, having taken into account sustainability-related risks and opportunities
- ensures that sustainability-related risks and opportunities are taken into account when making decisions on major transactions and in its risk management processes and related policies, including any trade-offs associated with those risks and opportunities
- reviews, approves and monitors Key Performance Indicators (KPIs), including ones relating directly and indirectly to sustainability
- regularly informed about, and monitors, sustainability-related risks and opportunities
- oversees the setting of targets related to sustainability-related risks and opportunities, and monitors progress towards those targets
- approves the Group Sustainability Framework governing GIB's activities relating to sustainability

The Board meets at least quarterly.

The Board established the **Board Sustainability and Climate Change Committee (BSCCC)**, which plays an advisory role in the design of GIB's sustainability (which includes Environmental, Social Governance (ESG) and climate change strategy and ensures that sustainability and climate change risks and opportunities are effectively embedded into the Bank and Group businesses. The BSCCC is informed about sustainability matters at the Group level (including climate-related) issues at its meetings, which usually take place twice a year.

The BSCCC is responsible for – among other matters – overseeing:

- The Sustainability Framework
- The Sustainable and Transition Finance Framework and other related sustainability frameworks and policies
- Endorsing sustainability targets and monitoring associated metrics

The **Board Risk Policy Committee (BRPC)** has been mandated by the Board to maintain oversight of the management of non-financial risks, including but not limited to: regulatory compliance, sustainability (ESG) risks, and outsourcing and 3rd party risks. It ensures the development of the governance, framework, policies, processes, and responsibilities within this area, in line with global and local developments. The Board Risk Policy Committee meets at least quarterly.

The **Board Governance, Nomination and Remuneration Committee**:

- determines whether appropriate skills and competencies are available, or will be developed, to oversee strategies designed to respond to sustainability-related risks and opportunities.
- ensures that relevant sustainability-related performance metrics are included in remuneration policies

The Governance, Nomination and Remuneration Committee meets at least twice a year.
The Board and its Committees keep up to date on sustainability-related regulations, in particular they consider:

- International Financial Reporting Standards (IFRS)
- International Sustainability Standards Board (ISSB)
- International Accounting Standards Board (IASB)
- any local regulatory requirements with respect to climate-related issues with which the Bank is required to comply

b) Management's role in assessing climate-related risks and opportunities

The **Group Management Committee** is the most senior decision-making committee in the Bank's management structure. The Committee receives an ESG update, including in relation to climate, usually every quarter.

The main management body with responsibility for climate change is the Sustainability Council. The purpose of the Sustainability Council is to provide high-level steering, guidance, support and challenge to drive and enable the implementation of GIB's vision to be a sustainable finance provider. The Council works to ensure alignment, internally and externally, with respect to GIB's sustainability initiatives and commitments, including those relating to the Principles for Responsible Banking and Taskforce for Climate-related Financial Disclosure. The Council is primarily an information sharing, socialisation and advisory body. It works alongside other management bodies and decision-makers, and the Board Sustainability and Climate Change Committee.

The **Risk Committee** receives inputs on climate risk as and when it pertains to matters under discussion. Although not yet formally included within the relevant terms of reference, the Committee is aligning with the other management bodies to progress development of the climate risk agenda. This includes any matters regarding review and discussion of climate risk considerations pertaining to current and potential customers of GIB, which falls under the responsibility of the entity Credit Committees.

GIB has a **Sustainability Evaluation and Assessment Committee**. The purpose of the Sustainability Evaluation and Assessment Committee (SEAC) is to ensure that GIB's suite of sustainable finance products maintain their integrity and alignment with GIB's Sustainable and Transition Finance Framework (STFF) which is itself based on best practice. The SEAC has a particular focus on mitigating sustainability-related risk, including that relating to climate change and reputational risk ("green-washing").

GIB considers that sustainability is every employee's responsibility. In 2023, a decision was made to include certain responsibilities relating to sustainability, including climate, into the job descriptions of all senior management.

Management sustainability responsibilities – text included in senior management role descriptions

The bank has a responsibility to manage sustainability including climate-related risk by:

- Identifying and assessing sustainability and climate-related risks and opportunities in the Bank's operations and finance & investment activities
- Developing strategies to mitigate and adapt to these risks, including investing in low-carbon or sustainable projects
- Reporting on the bank's exposure to sustainability, including climate-related risk and progress towards reducing its carbon footprint
- Engaging with stakeholders, including customers, regulators, and investors, on sustainability and climate-related issues
- Developing & maintaining material to showcase GIB's sustainability credentials whilst avoiding greenwashing

Strategy

a) The climate-related risks and opportunities GIB has identified over the short, medium and long-term

In this report, GIB has chosen to focus on disclosure of risks and opportunities relating to its banking business, specifically its wholesale banking financing activities. This covers financing activities across all relevant jurisdictions. Detailed information about its asset management and treasury business conducted in its subsidiary GIB UK can be found here. GIB has low exposure to mortgage, consumer auto, card or other consumer business; hence the decision to prioritise wholesale banking for this initial set of disclosures.

Climate risks

GIB has developed a climate risk heatmap to identify climate risks across its wholesale banking portfolio segments. The heatmap exercise assesses the bank's loan exposures as at 31 December 2022.
The heatmap covers two types of climate risk:

- Physical risk: the change to climate patterns, including acute and chronic climate events, pose material, immediate and long term risks to investors, lenders and insurers and can also give rise to sentiment risk
- Transition risk: the transition to a net zero economy presents financial risks that can arise from a range of factors, including changes in policy, regulation, technology and customer sentiment

It utilises the following scoring definition:

POSITIVE IMPACT	NO IMPACT	1 – LOW RISK	2 – MODERATE RISK	3 – HIGH RISK	4 – VERY HIGH RISK
Improvement of credit ratings from climate-related effects Slight benefit to segment credit portfolios that will likely manifest in the future (e.g. renewables)	No adverse credit impact from climate-related effects No likelihood of any direct or indirect credit risk to materialize in the future	De-minimis level of climate-related credit risks Little pressure on segment credit portfolios currently, and a low likelihood that it will manifest in the future	Level of climate-related credit risks is moderate, or roughly on par with the national average risk level Credit pressures from climate risks are less pronounced or are less likely to develop in a way that is influential in the future, as segments can diversify, adapt to or manage these risks over the medium/long run	Meaningfully higher level of climate-related credit risks than national average risk level Credit pressures are present or are likely to crystallise in the future, but are less influential for the segment credit portfolios than very high-risk segments	Reserved for segments with the highest level of climate-related credit risks Material climate risk pressures for the segments' credit profiles currently or in the near future, and the segments have limited mechanisms to manage these risks in the near term without structural changes

The scores capture the marginal credit risk of GIB's exposure from climate-related impacts due to physical and/or transition risk.

The number of segments was chosen to: align with the level of granularity GIB typically uses in management information; deliver relatively high levels of consistency of risk level within the segment; and to provide sufficient granularity to aid informative insights.

The risk score was assessed through industry perspectives, quantitative data and qualitative judgement overlays from subject matter experts. This included adjusting for regional and portfolio specific dynamics, and incorporating input from business representatives.

Industry	Heatmap Segment	Transition risk	Physical risk
Agriculture and Mining	Protein and Agriculture	3	4
Communication and Media	Advertising and marketing	1	1
	Hardware manufacturer	2	2
	Telecommunications Services	1	2
	Media	1	1
Construction and Engineering	Construction & Contracting	2	2
	Construction Materials	3	2
	Other – construction	2	2
Energy, Oil and Petrochemical	Chemicals	2	2
	Electric, oil and gas utilities with production and generation	2	2
	OFS	2	2
	Refining	2	2
	Midstream	2	2
	Petrochemicals	2	2
	Infrastructure construction	2	1
	Integrated O&G	2	2
	Pharmaceuticals	2	2
	Power Generation	1	1
	Electric and Gas Utilities without Generation	2	2
	Steam & Air Conditioning	1	1
	Waste Disposal	1	2
	Water	1	1
Financial	Financial institutions and funds	2	1
Government	Government	2	2
Manufacturing	Aircraft Lessors	2	1
	Electrical Equipment Manufacturing	2	2
	Food, Beverage & Tobacco	2	2
	Industrial products	2	2
	Medical products and devices	2	2
	Metal and metal products	2	3
	Other Light Industry	2	2
	Packaging & Paper	2	2
	Software	1	1
	Telecommunications	1	2
Other	Conglomerates	2	2
	Other	2	1
Real Estate	REIT/REIF	2	2
	Real Estate	2	2

Industry	Heatmap Segment	Transition risk	Physical risk
Trading and Services	Auto Dealers	2	2
	Retail	2	2
	Hospitals and medical services	1	2
	Hospitality	2	1
	Services	1	1
	Wholesale and services	2	2
	Consumer products	2	1
Transportation	Airlines	2	2
	Other Transportation	2	3
	Shipping	3	2
	Transportation Services	2	2

Overall, the analysis identified the sectors in which GIB is most likely to see climate risks impact its financing portfolio.

Heatmap insights

- The most common score was 2 – moderate risk.
- Levels of physical risk and transition risk were generally assessed to be similar, with the modal score for both being moderate risk.
- There were few differences in risk exposure of the portfolio between Saudi Arabia (KSA) and exposures to the remainder of the GCC.
- Transition risk was notably lower for GIB's exposures relative to the exposure levels suggested by the industry heatmaps. This largely reflected an assessment that the GCC governments are less likely to impose a carbon tax relative to other countries. Furthermore, given the low marginal cost of oil production in the Gulf region, GCC oil producers are likely to be the last to reduce production in response to climate transition-driven energy switching.

High and very high risk sub-sectors

- The highest risk sector was protein and agriculture. The largest companies within the portfolio were mostly feedstock, livestock and dairy companies, which are considerably emissions intensive and stand to suffer more from carbon tax policies.
- There were several high-scoring segments within the energy, oil and petrochemicals sector for physical risks. It was noted that oil refineries typically operate on coastlines, where flooding and hurricanes can adversely affect operations. Generally, KSA has significantly above-average vulnerability scores in coastal / energy infrastructure. Similarly, oilfield equipment and services businesses are vulnerable to lengthy business disruptions from hurricanes affecting offshore drilling as well as delays in drilling due to weather and strong winds. Petrochemicals companies are vulnerable to direct asset damages as well as supply chain disruptions caused by physical climate risk.
- Construction was assessed as having high transition risk. This was because GIB's exposure is concentrated in cement companies, which have very high emissions through their manufacturing. Moreover, the transition pathway and decarbonisation technology for cement companies is still under development.

- Within the transportation sector, maritime cargo shipping has a relatively high emissions intensity and limited decarbonisation technology. Carbon taxation and other regulatory pressures are expected to have an impact on this segment globally, with limited opportunities for a differentiated approach within the GCC. 'Other' transportation includes public transportation and is impacted more by physical risks than other transportation segments within GIB's portfolio. Although Saudi Arabia has higher human habitat vulnerability than other portfolio countries, Bahrain and Qatar have particularly high sensitivities to climate change.

Climate opportunities

The heat-mapping exercise indicated sectors with low climate risks that could potentially be opportunities for financing. In particular, these included: advertising and marketing, media, steam and air conditioning, software, and other consumer trading services.

The heatmap analysis did not find any areas of net positive impact from climate on GIB's financing portfolio.

More generally, GIB considers that there are opportunities where GIB can support its clients in transitioning to net zero. This would include through the provision of 'green' finance (i.e. finance that meets environmental criteria) or sustainability-linked financing with climate-related targets.

b) The impact of climate-related risks and opportunities on GIB's businesses, strategy and financial planning

GIB has a vision to accelerate a positive global transition for people and the planet. Within that, its goals are:

- To provide compelling sustainable finance and investment solutions to our clients
- To embed sustainability considerations into our business model, decision-making, and how we run our business
- To report transparently on our activities and plans
- Proactively and responsibly, to consult, engage and partner with the relevant stakeholders to achieve society's goals

As a result, GIB has incorporated its assessment of climate opportunities – through provision of sustainable finance – into its business model, strategy and financial planning. This includes the development of new products and services, and the ongoing financial planning, costs and revenues associated with that. With respect to operational emissions, see the section on metrics and targets.

c) The resilience of GIB's strategy, taking into consideration different climate-related scenarios including a 2° or lower scenario

GIB has not yet conducted scenario analysis to understand the resilience of its lending strategy and business model to climate change. This is an area for future work, and will be likely to build on the heat-mapping analysis conducted for the wholesale banking portfolio and cover both physical and transition risks in a range of scenarios.

Risk Management

a) GIB's process for identifying and assessing climate-related risks

GIB conducts risk evaluation and assessment for all material risks to which it is exposed. A holistic view of risk is adopted on an enterprise-wide basis. A review of its risk profile is conducted on a periodic basis to ensure that it remains current and in recognition of emerging and escalating risks.

GIB considers a number of categories of risk in its risk profile and assessment. It has self-defined this risk classification, and the list includes ESG risks, which in turn includes:

- **Environmental**: the natural environment (including climate), such as its carbon emissions, energy use, waste management, and water usage.
- **Social**: society, including its treatment of employees, customer relations, community engagement, and human rights policies.
- **Governance**: internal management and oversight, including issues such as executive compensation, board diversity, and transparency.

However, GIB considers that ESG risk has probable impacts across other risk categories.

GIB assesses ESG risks at a client level and, where relevant, transaction level. It does this using information provided during the transactions, internal ESG Scorecard analysis and external ESG scoring (where available). This includes methodologies for assessing the potential size and scope of climate-related risks. The heatmap described earlier is one input to the overall assessment of climate risk.

b) GIB's processes for managing climate-related risks and integration into its overall risk framework

GIB is in the process of systemically integrating climate-related risks into its risk framework. However, from a risk strategy perspective, ESG risk has been identified for consideration with respect to each of GIB's main business lines.

For sustainable finance products, GIB has a systematic process in place to assess ESG-related risks. This is overseen by the SEAC.

Metrics and targets

a) The metrics used by the organisation to assess climate-related risks and opportunities

The metrics used by GIB include:

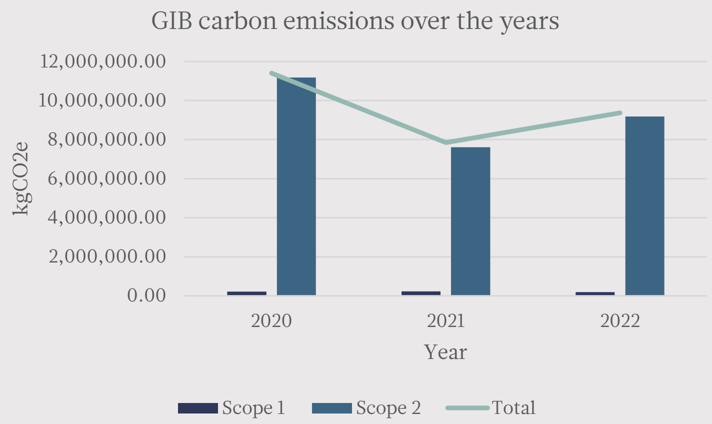
- Carbon emissions
- Heatmap scores (see above) and portfolio exposure to segments by risk score, split by physical and transition risk and by geography
- ESG scorecard
- Number and volume of transactions categorised as sustainable finance
- Number of sustainable finance products being offered

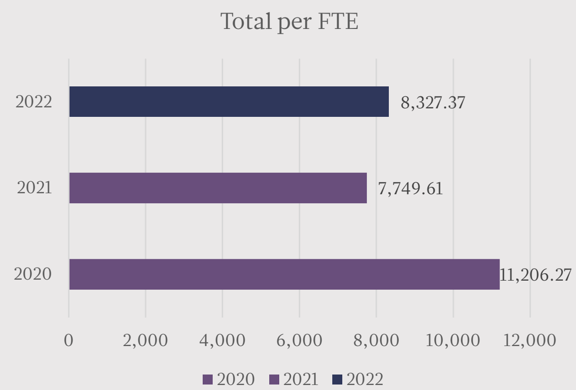
b) Greenhouse gas emissions and related risks

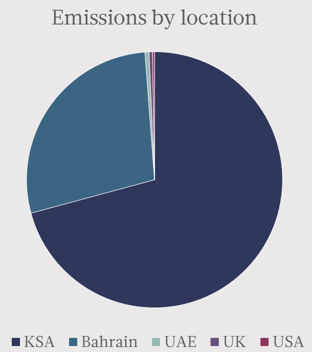
GIB has published its Scope 1 and Scope 2 data in line with the Greenhouse Gas Protocol. Further information on the methodologies and results can be found in its Sustainability Report (link)

GIB kgC02e emission estimates

	2020	2021	2022	Change YoY	Change since 2020
Scope 1	219,172.26	233,220.47	187,282.31	-20%	-15%
Scope 2	11,177,600.86	7,609,379.95	9,181,009.48	21%	-18%
Total	**11,396,773.12**	**7,842,600.42**	**9,368,291.78**	**19%**	**-18%**
Total per FTE	11,206.27	7,749.61	8,327.37	7%	-26%







GIB is at varying stages of maturity in measuring Scope 3 emissions across our business, and hence we are not yet in a position to capture accurately past emissions on a consolidated basis. For our Wholesale Banking business, we have sought to collect carbon emissions data from our clients via our ESG Scorecard; however, data availability has proved poor. We are working on addressing data gaps and applying a consistent methodology for Scope 3 emissions.

c) GIB's targets to manage climate-related risks and opportunities

GIB set itself carbon reduction targets using the Absolute Contraction approach. According to the Science Based Target for the Financial Sector, this approach is the most straightforward method to link reduction targets to the Paris Agreement goal of limiting global temperature rise to below 2°C.

Under this method, a minimum of 2.5 per cent annual absolute emissions linear reduction is required to be in line with the 2°C target. GIB committed to reduce its Scope 1 and 2 emissions by 11.89 per cent by 2025 compared to 2020 baseline to be in line with the 2°C target, which is equivalent to a 2.5 per cent per year reduction.

According to the Science Based Target for the Financial Sector, base and target years must cover a minimum of five years and a maximum of fifteen years. For GIB, a five-year target was set using 2020 as the base year and 2025 as a target year. The reason for choosing a five-year target was that GIB wanted to ensure that it focuses on making a difference in the short and medium term, consistent with the need to halve global emissions by 2030.

Conclusion

This report outlines the ways in which we have considered climate risk and opportunities in our governance, strategy, risk management, have set targets and monitor progress against them.

The reason for providing this document is that we believe in the power of disclosure of climate-related risks and opportunities to encourage companies (including ourselves) to take action that will ultimately help to raise our chances of meeting the Paris Agreement commitments and limit global temperature rise. Understanding the implications of climate change for our business, and how we ourselves impact the environment, is not easy. Climate risk is complex and interconnected with other risk factors, and remains challenging to assess given data issues, lack of sophisticated models / tools and given the uncertainties inherent in climate analysis. We will look to build on the disclosure in this report in future publications.