



# GROUP ESG RISK FRAMEWORK

January 02, 2021

### Background

Environmental, Social and Governance (ESG) related issues as well as the impacts they create, the opportunities they provide and risks that they generate are becoming more and more relevant for financial institutions.

Banks are exposed to e.g., credit, reputational, legal, operational, market, liquidity and funding risks driven by ESG issues. The relevance of ESG has now transcended the traditional view of a good governance practice and has moved into the risk management frameworks.

Promoting green projects, investments and finance represents one of the main six paths of the UAE's Green Growth Strategy. In line with this ambition, the Central Bank of the UAE (CBUAE) along with other key stakeholders, issued the "Guiding Principles on Sustainable Finance" in 2020 followed by a Sustainable Finance Framework (SFF) 2021-2031, which collectively propose recommendations on assessing and managing ESG and climate related risk exposures in lending and investing. While the recommendations are voluntary, UAE banks are encouraged to incorporate them in their risk management framework to support the gradual transition of national and international green strategies.

On a global level, the number of ESG related regulations have soared (doubled in 2020 in comparison with 2018)<sup>1</sup>. Additionally, regulators are starting to incorporate climate analyses into the stress tests conducted on and by the banking sector to assess how climate related risks impact their portfolios. ECB, BoE, MAS, HKMA, CBE and CBUAE are examples of central banks having issued ESG related guidelines in markets that FAB is represented in. In addition to authorities, other FAB stakeholders increasingly promote an agenda on ESG, be it owners, market participants, clients, organizations and people in the surrounding society.

FAB's ESG ambition is to be a pace setter in the region by helping key stakeholders' transition faster towards the Paris Agreement goals and UN's Sustainable Development Goals (UN SDGs) and creating a thriving economy based on inclusive growth and resilience. This is achieved through becoming the trusted advisor, tailoring effective solutions and collaborating positively. FAB Group also recognizes the importance of incorporating ESG risks as part of the Enterprise Risk Management framework. This goes for both financial and non-financial ESG risks and according to a double materiality concept e.g., not just how our operations impact the world around FAB, but also how the world impacts FAB's business, whether it is climate or social issues.

Although ESG is crosscutting different risk types, FAB's approach in the beginning is to treat ESG as a standalone risk to secure focus on a new theme. Eventually it will be more and more consolidated into existing risk types. This paper gives a high-level introduction to FAB's ESG risk management framework. It should be seen in combination with FAB's Sustainable Finance framework and Group ESG Framework, among others, and we will work with our many stakeholders to enrich the ESG risk management framework going forward.

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<sup>1</sup> MSCI: *Who will regulate? (Who will regulate ESG - MSCI)*.

## GROUP ESG RISK FRAMEWORK

### 1.1. Objective

The ESG risk framework is backed up by FAB's ESG risks policy to establish principles and guidelines for identifying, assessing, measuring, monitoring, and reporting of ESG risks for all business units across the Group.

The ESG risk framework outlines among other things:

- Setting an effective ESG risk governance structure and oversight across the three lines of defence
- Establishing a guideline for identifying and assessing ESG risks across the Group
- Defining key ESG risk metrics and performance indicators for monitoring and reporting
- Developing ESG risk assessment process for onboarding new clients, transactions, and vendors
- Encouraging an ESG risk culture within the Group through ESG risks awareness at all levels

### 1.2. Scope

ESG risks for FAB Group arise from its internal business activities as a company from its counterparties. Therefore, it impacts a wide range of activities within the Group. There are other policies within the Group that currently address different aspects of ESG risks.

The ESG risk framework lays out the principles of ESG risk management and addresses, primarily, the indirect risks and impacts emanating from counterparties. Direct risks are mainly addressed via our ESG strategy and related policies.

The scope of the ESG risk framework will be phased in according to the following plan<sup>2</sup>:

Phase	Phase 1	Phase 2	Phase 3	Phase 4
Timeline	2022	2022-23	To be decided	To be decided
Scope coverage across business products and operations	<ul style="list-style-type: none"> <li>• Selected clients from Investment Banking (except FI/NBFI) with focus on lending business</li> <li>• Group's own investments in bonds and listed equity</li> <li>• Group's internal supply chain with focus on vendors</li> <li>• Trade finance</li> </ul>	<ul style="list-style-type: none"> <li>• Consumer Banking</li> <li>• Private banking</li> <li>• Investment Banking (except FI/NBFI)</li> <li>• Corporate and Commercial Banking clients</li> <li>• Strategic products such as capital markets</li> <li>• Lending business</li> </ul>	<ul style="list-style-type: none"> <li>• Investment Banking and Corporate and Commercial Banking clients, with supply chain finance and Cash management</li> </ul>	<ul style="list-style-type: none"> <li>• Commit to other relevant business activities with material ESG risks (based on the annual ESG risks materiality assessment results)</li> </ul>

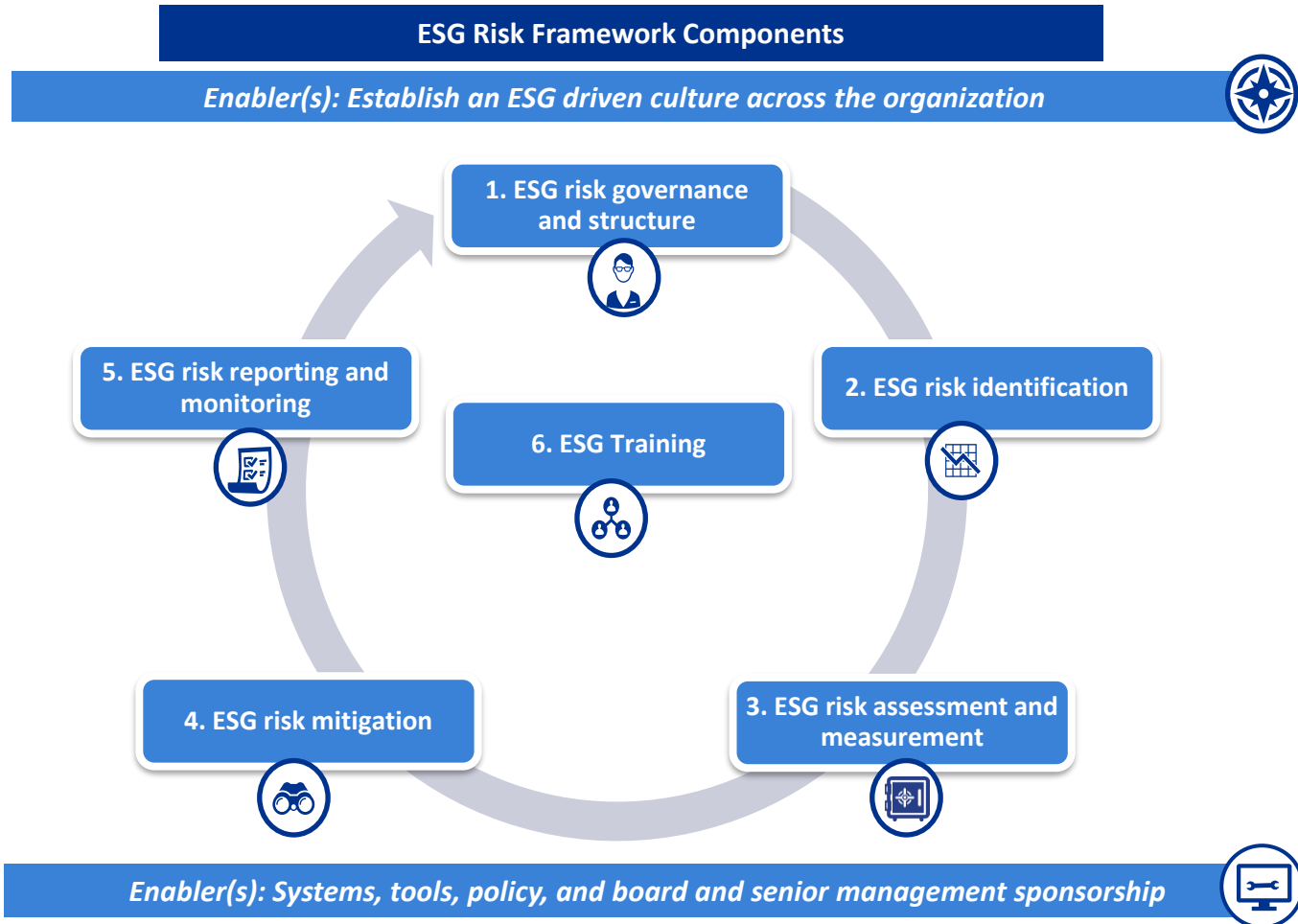
The ESG risk framework is applicable to all FAB Group entities (Head Office, domestic and international branches, and subsidiaries) across all countries of operations.

The following sections include an introduction to the content of the ESG risk framework and an addendum on the ESG risk governance structure.

<sup>2</sup> The geographic scope of the clients included in phase 1 will be limited to the UAE, USA, UK, France, Switzerland, Singapore, Hong Kong, Egypt, India, and China.

# ESG risk management framework components

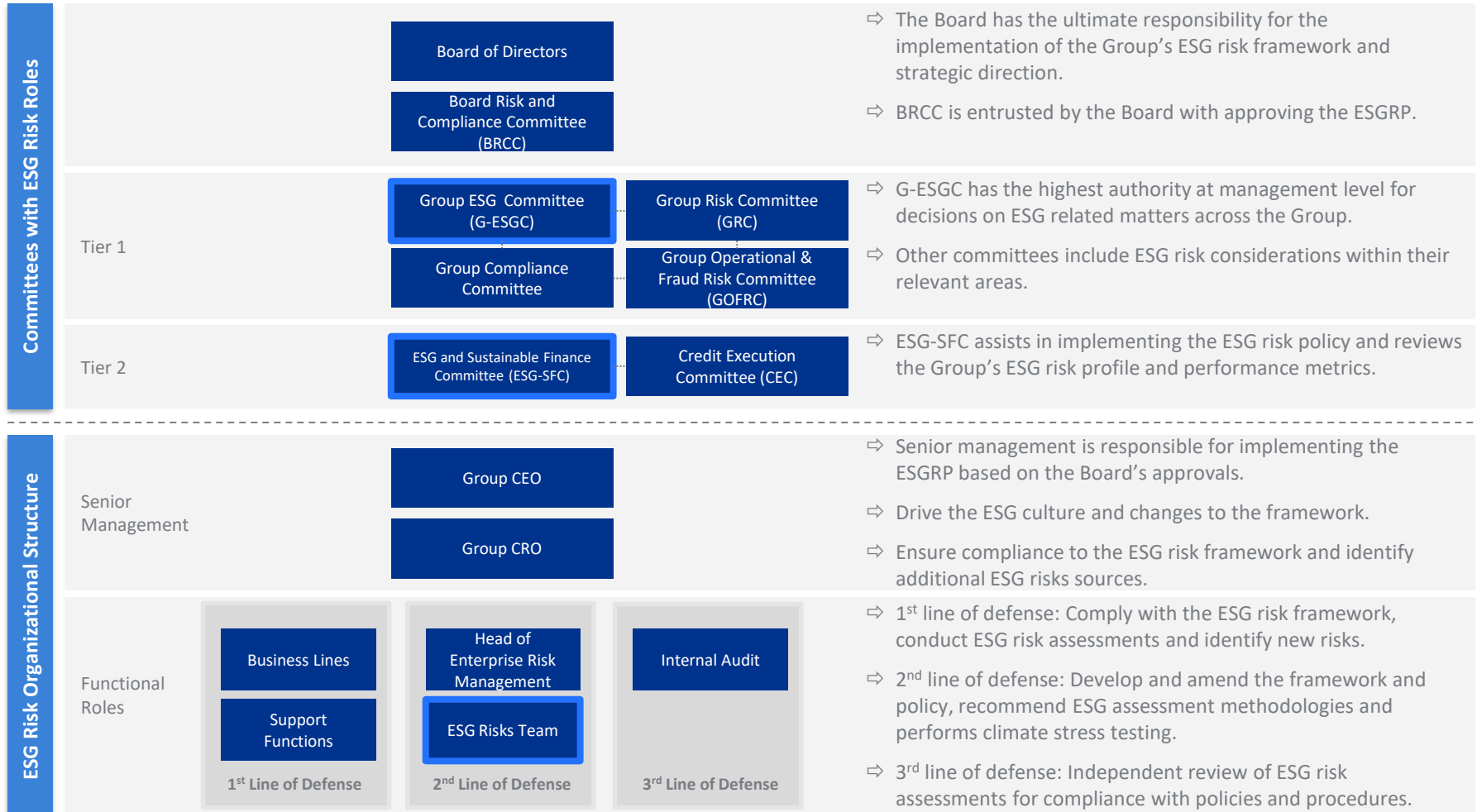
The Group adopts a holistic approach in integrating ESG risks starting with raising the level of ESG awareness and preparedness, developing a sound ESG risk governance structure and responsibilities, and developing tools and methods to identify, assess, manage, and report on ESG risks.



# 1. ESG risk governance and structure



The Group integrates ESG risk within its Three Lines of Defense model and responsibilities are shared across the organization all the way to the c-suite and board level. Committees with ESG responsibilities to oversee the ESG risk policy (ESGRP), approve escalations and agree on mitigation measures.



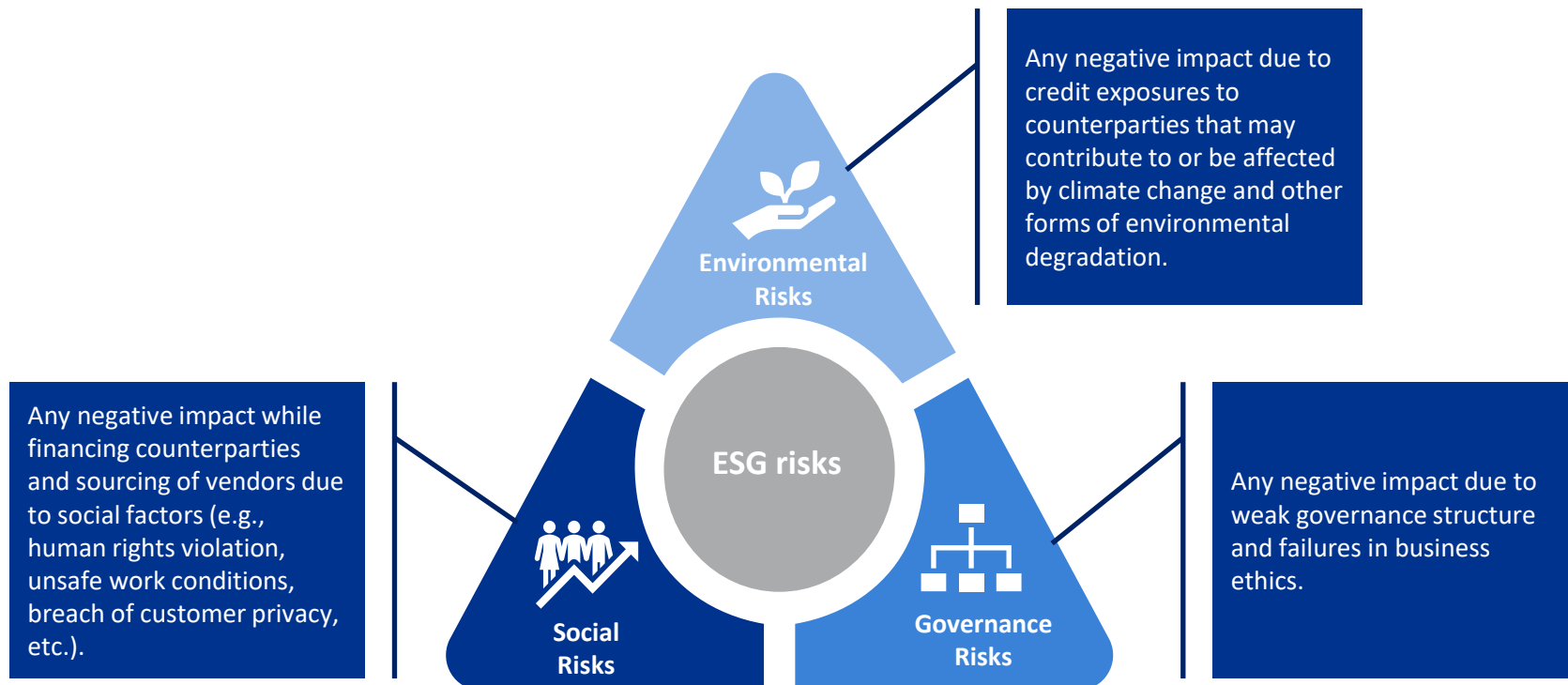
New committees/Support function

Existing structure



### 2.1 ESG risk definition

ESG risks are any negative financial and non-financial repercussions on the Group triggered by the impacts of ESG factors on the Group's internal business activities as a company, its counterparties and vendor management. They can have a direct and indirect impact\* on the Group.

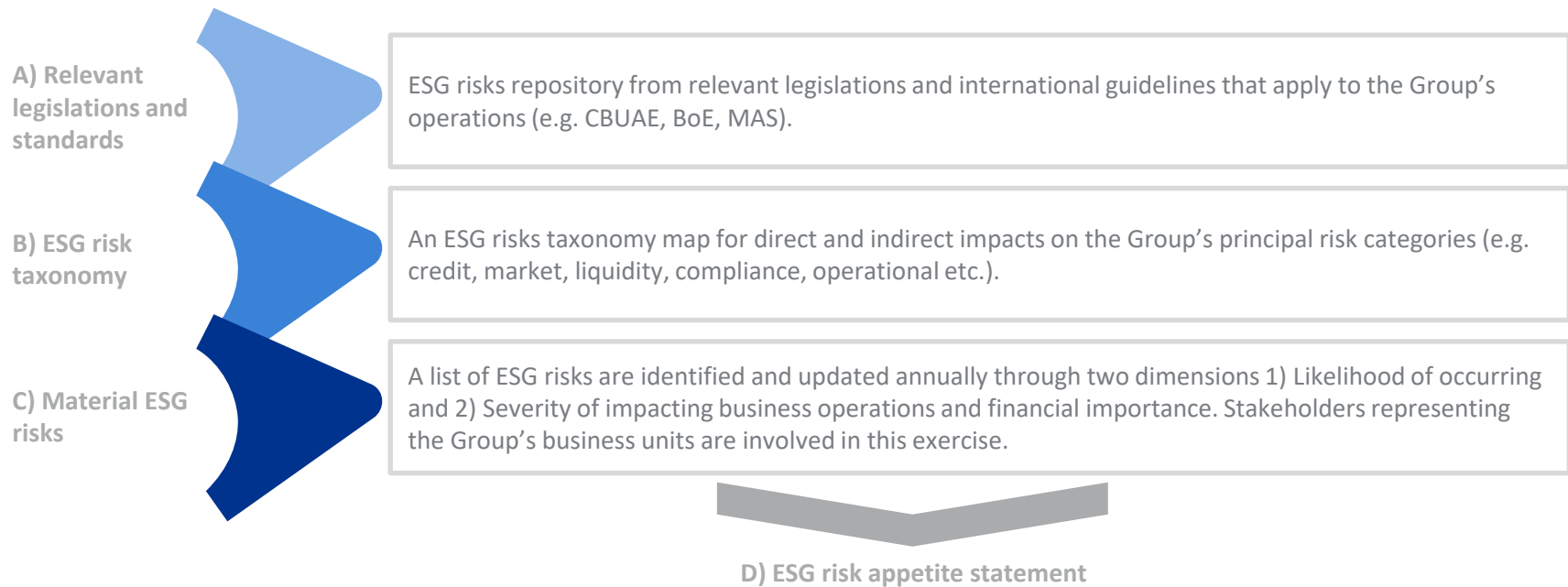


*\*Direct ESG risks are defined as ESG related risks that result from the bank's internal operations and associated physical assets. Indirect ESG risks may manifest from the impact of ESG factors on an institution's economic and financial activities through its value chain (e.g., lending, investing and supply chain).*



### 2.2 ESG risk identification measures

The key measures considered in identifying ESG risks across the Group's operations include:



The ESG risk appetite is aligned with the Group's risk appetite framework. It includes quantitative and qualitative criteria that sets the Group's tolerance to ESG risks.

- **Quantitative metrics:**
  - ✓ ESG risk indicators set the Group's tolerance to indirect ESG risks emanating from exposures to counterparties and vendors with high-risk ratings, along with appetite limits cascaded down to business functions.
  - ✓ ESG performance indicators set the Group's risk tolerance to direct ESG risks by monitoring the performance of the Group's own ESG performance.
- **Qualitative risk criteria** includes a list of countries, sectors and activities of heightened sensitivity to ESG risks, which could negatively impact the Group (e.g., negative screening list, ESG critical activities and high ESG risk areas). Refer to appendix (A) for more details.

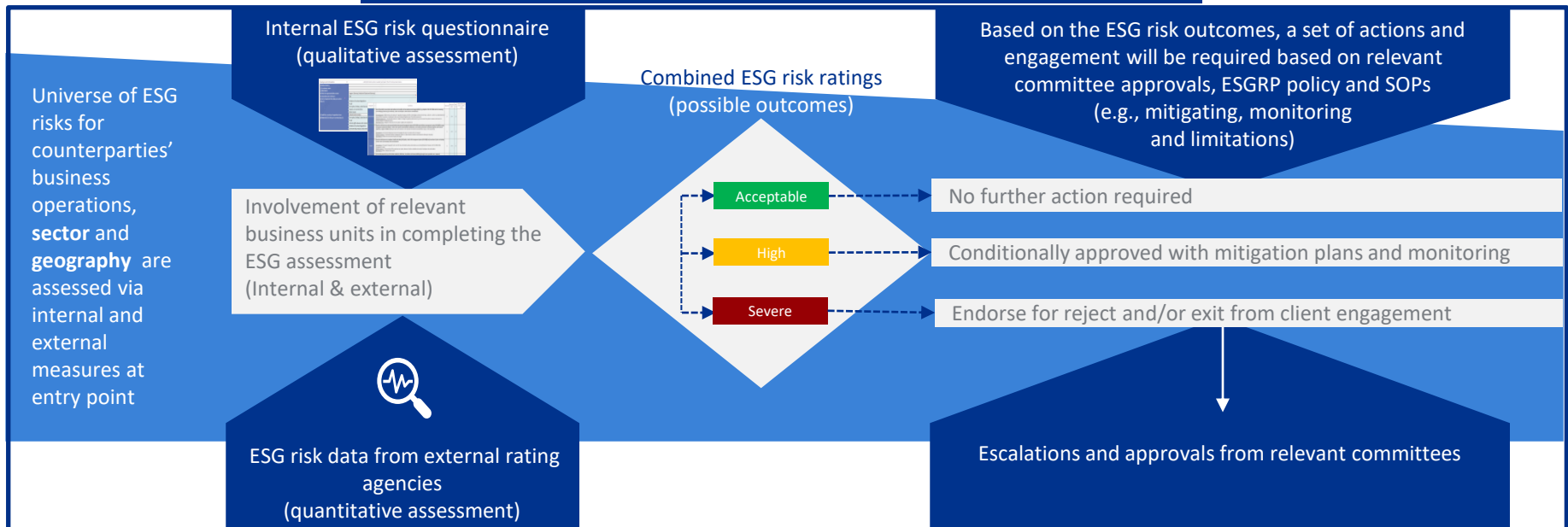
### 3. ESG risk assessment and measurement



#### 3.1 ESG risk assessment across business activities

- ⇒ The Group's activities are assessed through an ESG risk assessment tool in addition to the Equator Principles (a risk management framework for managing environmental and social risks in project finance).
- ⇒ This assessment is conducted during onboarding of new clients/vendors, periodic credit and customer reviews, new transactions, ad-hoc event driven reviews and investments from the Group's own funds.
- ⇒ The assessment combines inputs from ESG risk ratings provided from credible external agencies, and an internally developed ESG risk questionnaire to assess the counterparties ESG management approach.

#### High-level ESG risks assessment approach across business lines

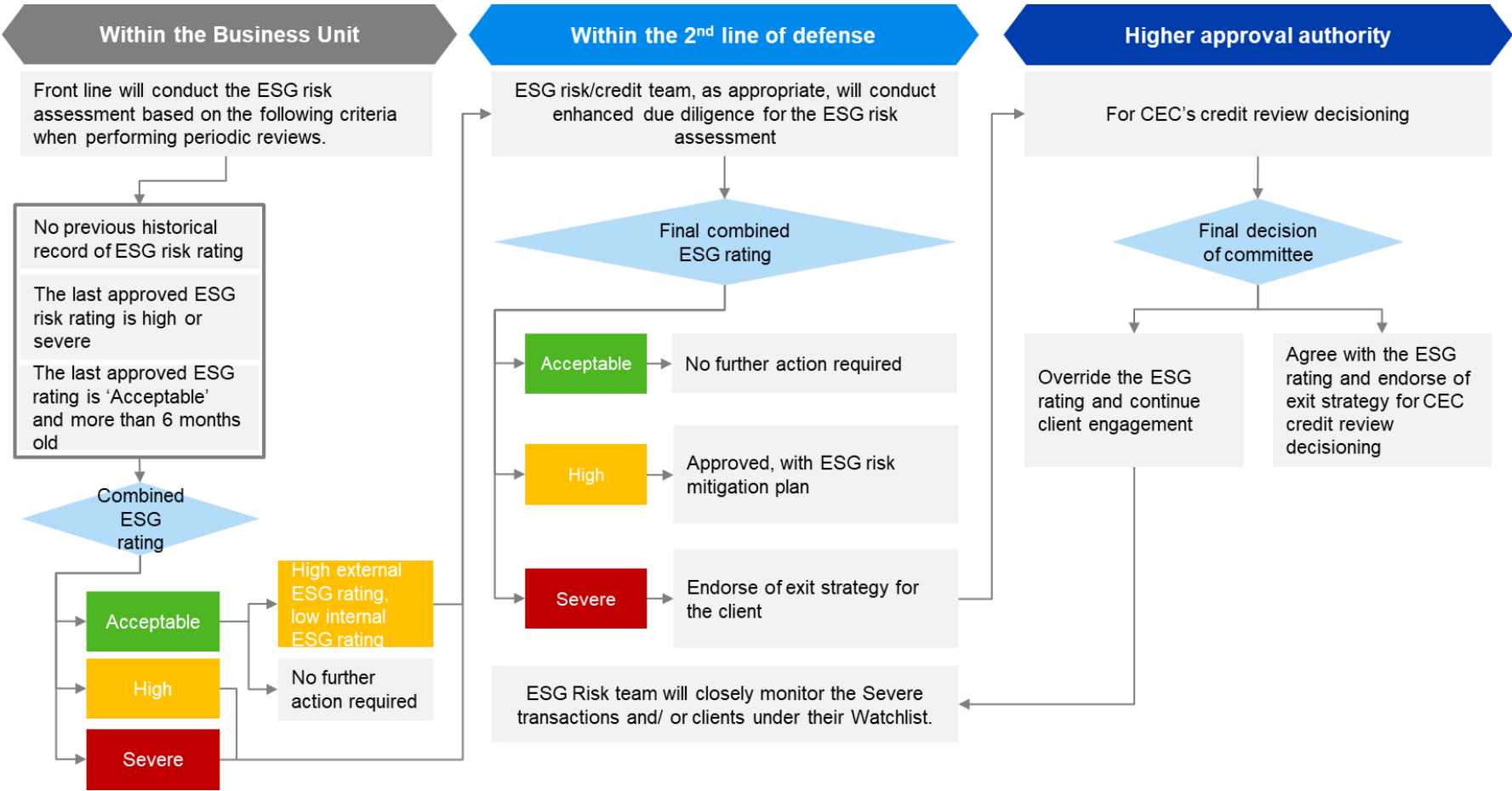




### 3. ESG risk assessment and measurement



#### ESG risk assessment process for periodic credit reviews





#### 3.2 Climate stress testing and scenario analysis

- ⇒ Climate stress testing and scenario analysis approaches have been developed to assess the Group’s financial resilience to climate-related risks and potential impacts on selected portfolios.
- ⇒ Due to modelling challenges with respect to relatively longer time horizons, limited historical observations and data availability, climate stress testing and scenario analysis is still work in progress.

We are developing climate scenarios based on NGFS and UNEP FI to estimate the financial impacts of climate change mainly for high environmental risk sectors (such as energy, power utilities, mining, transportation, manufacturing, buildings and construction).

#### Quantitative climate stress testing approach

##### Step 1: Climate transition scenario

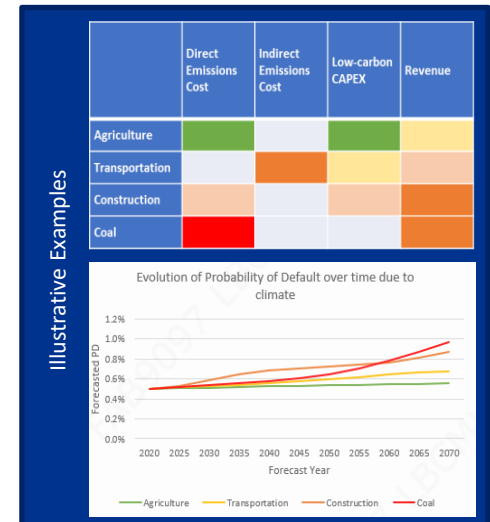
- ⇒ Expected climate scenarios are selected to help explore the low and high-risk outcomes for different sectors across plausible climate change futures.

##### Step 2: Borrower-level calibration

- ⇒ Assess borrowers’ exposure to transition and physical risks by using industry experts and risk sensitivities to estimate the climate scenario’s impacts on credit outcomes.

##### Step 3: Portfolio impact assessment

- ⇒ Assess the quantitative transition and physical risks on lender’s portfolio by building on the outcomes from step (2) to calculate PD\*, LGD\*\* and ECL\*\*\* for borrowers within a sector and geographical segment.



\*PD: Probability of Default

\*\*LGD: Loss Given Default

\*\*\*ECL: Estimated Credit Loss

## 4. ESG risk mitigation



In line with risk mitigation principles outlined in the Enterprise Risk Management policy, the Group adopts the following measures and controls as part of risk mitigation for the identified ESG risks:

- ⇒ Monitoring vulnerable sectors, geographies and customers, and identifying negative screening and ESG critical activities list as part of ESG risk appetite framework.
- ⇒ Offering sustainable finance products, such as Green Bond, to finance projects that have positive environmental and climate benefits.
- ⇒ Engaging with high ESG risk counterparties with mitigation plans to assist in reducing customer's exposures to ESG risks and transition towards sustainable business practice.

### Guiding principles for reviewing mitigation action plans



**Objective:** A well-defined set of actions that will improve client's ESG profile and ensure to stay away further critical activities.



**Direct:** To have a direct impact on the client's business activities and revenue model.



**Measurable:** To touch a material portion of the total revenue, so that the non-critical activities reaching revenue threshold of 75%.



**Commitment:** Backed by buy-in from senior management to committing objectives.



**Timely:** Clear timelines with a target date.

# 5. ESG risk reporting and monitoring

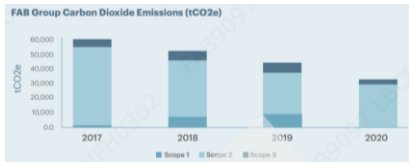


The Group will monitor its ESG risks and performance and prepare periodic reports to update different stakeholder groups. Annual public disclosures will be prepared in line with the Task Force on Climate-Financial Disclosures (TCFD) recommendations and will live up to regulatory guidelines and requirements.

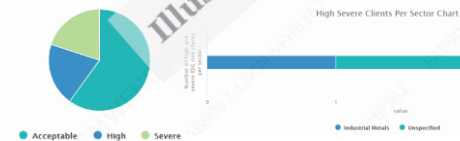
## TCFD recommended reporting



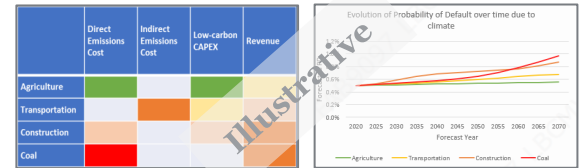
## ESG reporting metrics as per the balance score card



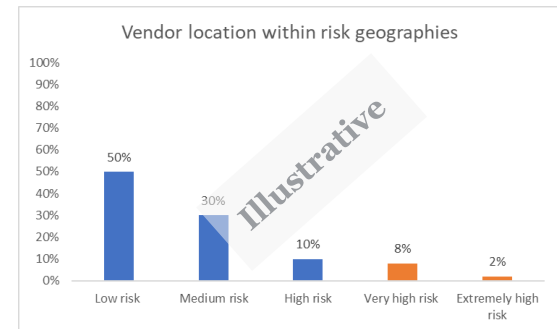
### # and % of clients per ESG risk outcome



## Climate stress testing and scenario analysis



## Watchlist reporting on significant external ESG rating changes by counterparties and vendors



## 6. Training and awareness



The Group will work towards creating an organizational culture that enables individuals to make informed decisions in line with the prudent ESG risk management principles defined within the ESG risk policy.

- ⇒ ESG training be conducted annually to include mandatory and ad-hoc training sessions topics (e.g., ESG regulatory requirements, ESG assessment methodology, processes et cetera.).
- ⇒ Specialized trainings will be conducted at all levels including senior management and board committees.

Examples of ESG trainings conducted to increase employee's awareness and expertise:

### ESG risk awareness



- ⇒ Improve the ESG risks culture.
- ⇒ Involve the group-wide employees.
- ⇒ Increase awareness on the ESG risks, trends and global guidelines for the banking sector.



### ESG risk deep dive



- ⇒ Upskill relevant business units on the Group's ESG risk framework and policy.
- ⇒ Focus on the Group's ESG risk framework, ESG due diligence tools/models and practical case studies.



## Annexure A: List of ESG risk activities, sectors and countries

List of ESG critical activities*	High ESG risk sectors (non-exhaustive)	High ESG risk countries (non-exhaustive)
All restricted activities in CIB GCP	<ul style="list-style-type: none"> <li>Agriculture, forestry, and fishing (crop and animal production, hunting and related service activities, fishing and aquaculture, forestry and logging).</li> <li>Construction (civil engineering, construction of buildings, specialized construction).</li> <li>Electricity, gas steam and air conditioning supply (Electric power generations, transmission, and distribution, production of electricity, transmission of electricity, distribution of electricity, manufacture of gas; distribution of gaseous fuels through mains, manufacture of gas)</li> <li>Manufacturing (e.g., Manufacture of basic metals, manufacture of chemicals and chemical products, manufacture of coke and refined petroleum products, manufacture of electrical equipment, manufacture of fabricated metal products, etc.)</li> <li>Mining and quarrying (Extraction of crude petroleum and natural gas, mining of coal and lignite, mining of metal ores, mining support service activities and other mining and quarrying)</li> <li>Transportation and storage (air transport, land transport and transport via pipelines)</li> </ul>	Very high ESG risk
All excluded activities under Group		Afghanistan
Customer Due Diligence procedure		Democratic Republic of Congo
Tar sand extraction		Ivory Coast
Fracking		Eritrea
Ultra-deep-sea drilling		High ESG risk countries
Arctic drilling		India
Thermal coal		Medium ESG risk countries
Palm oil, soy, and timber		China
Landfill without gas capture		Egypt
Waste incineration without energy capture		Kingdom of Saudi Arabia
Animal mistreatment		Low ESG risk countries
Hazardous substances		Singapore
Speculative transactions		Switzerland
Predatory lending		United Arab Emirates
Hostile takeovers		United Kingdom
Adult entertainment	United States	
	Etc.	Very low ESG risk countries
		France

\*FAB can engage with customers under one of the following conditions as long as the purpose of the transaction and new engagement is in accordance with the Group's vision and principles in order to help the customer to rely increasingly more on ESG friendly business areas:

- Critical activities make up less than 25% of the total revenue;
- If the relevant transaction is expected to reduce the negative ESG impact of a critical activity e.g., an impact on the environment; and
- Risk mitigation actions are in place.



# ADDENDUM TO GROUP ESG RISK FRAMEWORK

January 02, 2021

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## 1 Introduction

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Environmental, Social, and Governance (ESG) related issues as well as the impacts they create, the opportunities they provide and risks that they generate are becoming more and more relevant for financial institutions. FAB Group recognizes the importance of incorporating ESG risks as part of the Enterprise Risk Management framework.

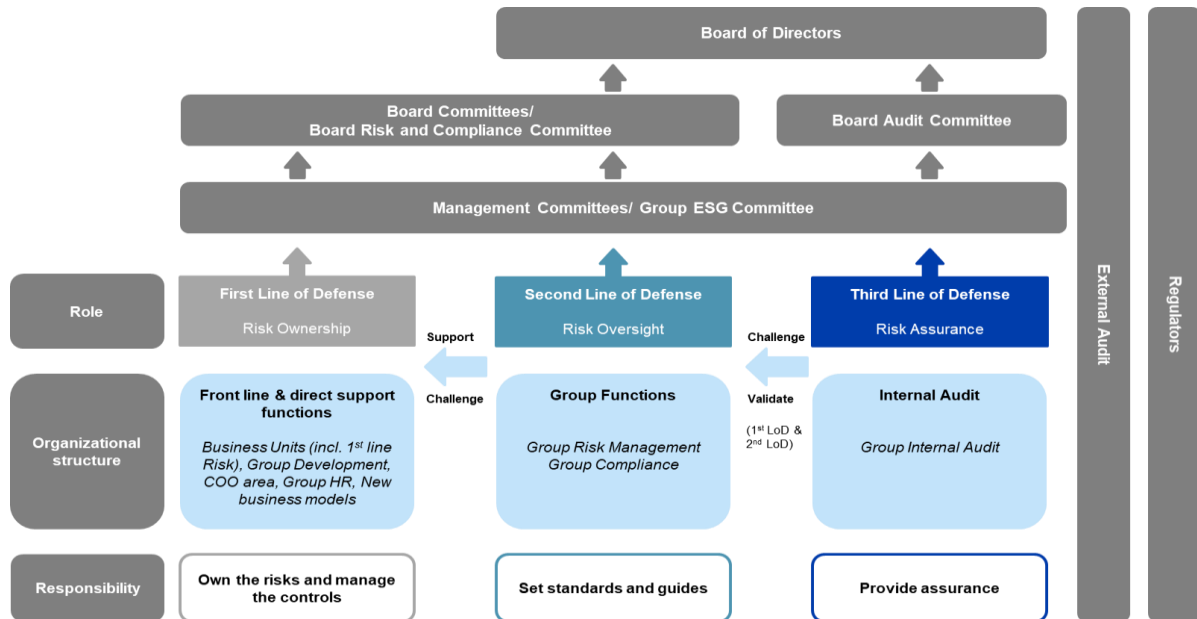
Managing ESG risks are just as important as opportunities in the pursuit of sustainable growth and transitioning towards a more ESG friendly environment.

This document is an addendum to the Group ESG Risk Framework describing the Governance around ESG risks. The purpose is setting an effective ESG risk governance structure and oversight with clear responsibilities across the Three Lines of Defence.

## 2 ESG Risk Governance

To ensure robust ESG risk management, FAB Group adopts the “Three Lines of Defense” model, described below.

Figure 2. 1: Three Lines of Defense model



### 2.1 Roles and responsibilities of the Board and Key committees

#### 2.1.1 Board of Directors (BoD)

The Board has the ultimate responsibility for effective implementation of the Group’s ESG risk framework, setting directions for ESG strategic initiatives that the Group will take, and entrusting Board Risk and Compliance Committee with the responsibility for approving the ESGRP including the ESG risk appetite and further delegating ESG risk management activities.

Under the BoD the following will be the key committees and personnel responsible for managing ESG risks.

1. Board Risk and Compliance Committee
2. Group ESG Committee
3. Group Risk Committee
4. Credit Execution Committee
5. Group Operational and Fraud Risk Committee
6. Group Compliance Committee
7. ESG and Sustainable Finance Committee
8. Group Chief Risk Officer
9. Head of Enterprise Risk Management
10. Head of ESG Risk team

The ESG risk governance structure is as described below:

### 2.1.2 Board Risk and Compliance Committee (BRCC)

BRCC is responsible for approving the Group's ESG framework, ESGRP including risk appetite and further delegating ESG risk management activities. The BRCC ensures a robust ESG risk management culture within the Group by delegating responsibilities for decision making and controls to appropriate personnel, units, or committees. The BRCC delegates the responsibility for ESG risk oversight to the Group ESG Committee, Group Risk Committee (GRC) and Group Chief Risk Officer (GCRO). The BRCC is also responsible for reviewing and approving any amendments proposed by the ESGRP.

### 2.1.3 Group ESG Committee (G-ESGC)

G-ESGC is the highest authority at management level responsible for decision making on all ESG related matters of the Group. This includes matters related to the Group's own ESG goals and ESG risks. The primary objectives of the G-ESGC are as follows:

- To review and approve FAB Group's ESG philosophy and strategy, including Sustainable Finance framework.
- To review and approve FAB Group's roadmap to Net-Zero by 2050.
- To ensure that there are adequate group wide ESG processes and systems for identifying and reporting risks.
- To review reports on the ongoing use of proceeds to confirm continued compliance with FAB's Sustainable Finance Framework.
- To review FAB's ESG risk profile against the approved risk appetite and key performance metrics on FAB Group's own operations on a periodic basis.
- To review the performance and project status of the ESG committee and sub-committee.
- To foster an ESG risk culture within the organization.
- To review and endorse for approval the ESG risk framework and policy and significant amendments to GRC.
- To review and endorse the Equator Principles (EP) approach to GRC and monitor the risk categorization of project related financing products considered within the EP's framework.

Note: Please refer to Group ESG committee charter in Annexure I.

### 2.1.4 Group Risk Committee (GRC)

GRC, in its role as the main management level committee from risk perspective, has parallel oversight over the ESG related aspects. GRC is responsible for overseeing the business lines adherence to Environmental, Social and Governance (ESG) risk appetite framework and policy, including the appropriate risk appetite and tolerance for each business line and approve any escalations related to breaches or exceptions to FAB Group's ESG Risk Policy guidelines

### 2.1.5 Group Compliance Committee (GCC)

GCC assists the BRCC in fulfilling the objective of overseeing the Group's regulatory responsibilities as well as ensuring the Bank's compliance with the applicable laws and regulations by various regulatory

authorities across the Group. GCC is also responsible for decision making regarding high risk onboarding cases as per the risk rating matrix, which may be approved GCC sub-committees under the delegated authority of GCC. As part of the onboarding decision process for severe ESG risk clients, GCC will take into consideration of the ESG risk rating provided by ESG risk team and any relevant guidelines related to onboarding that is part of the ESGRP. GCC will invite or solicit additional opinions or clarifications from the Head of ESG Risk team in order to better understand the ESG risk rating and the implication of onboarding on the overall ESG risk appetite, when necessary, and decide on whether to override the ESG rating and to continue client engagement or to endorse an exit strategy for newly onboarded (non-borrowing) clients and reviews.

#### 2.1.6 Group Operational and Fraud Risk Committee (GOFRC)

GOFRC assists the BRCC and the GRC in fulfilling their objectives of overseeing the consolidative Bank's Operational and Technology Risk Management. In its role of managing the operational risks in all new products, processes, and activities, GOFRC will consider ESG risk ratings of escalated severe-risk vendors provided by ESG risk team and decide on whether to override the ESG rating and to continue vendor engagement or to endorse an exit strategy for newly onboarded vendors.

#### 2.1.7 ESG and Sustainable Finance Committee (ESG-SFC)

ESG-SFC is a sub-committee appointed by the Group ESG Committee to assist in implementing the ESG strategy, risk policy and overseeing activities under the Sustainable Finance Framework. The primary objective of the ESG-SFC are as follows:

- To monitor and review the execution of the ESG Strategy
- To follow up on the Net Zero by 2050 roadmap
- To review and evaluate all new proposed use of proceeds of each Sustainable Financing Transaction and endorse for approval of eligible green/blue/social projects to Credit Execution Committee, as appropriate, in accordance with the standards and processes set out in Sustainable Finance Framework
- To review comprehensive reports on ESG risk profile against the approved risk appetite, key performance metrics on the Group's own operations and portfolio performance by vulnerable sectors, countries and ESG rating on a periodic basis
- To review reporting on watch-listed accounts and status of mitigation action plans on high and severe-risk accounts on a periodic basis
- To review and certify proposed allocation of proceeds of FAB Sustainable Financial Transactions, tracked in the Sustainable Finance Register.
- To monitor the ongoing use of proceeds to confirm continued compliance with FAB's Sustainable Finance Framework on a periodic basis and review any issues raised by the G-ESGC
- To review and certify the annual Sustainable Finance Report, Equator Principles Report and ESG Report

Note: Please refer to ESG and Sustainable Finance Committee charter in Annexure I.

### 2.1.8 Credit Execution Committee (CEC)

CEC is a sub-committee appointed by the Group Credit Committee to decide on credit lending propositions and to monitor the quality of the Corporate and Investment Banking portfolio. As part of the credit origination and review process, CEC will take into consideration the ESG risk rating provided by the Credit team and any relevant guidelines related to lending that is part of the ESGRP.

CEC can invite or solicit additional opinions or clarifications from the Head of ESG Risk team in order to better understand the ESG risk rating and the implication of the transaction on the overall ESG risk appetite, when necessary. For severe ESG risk rating cases escalated by the Credit team, CEC will decide on whether to override the ESG rating and to continue engagement or to endorse an exit strategy for borrowing clients and credit renewals.

## 2.2 Roles and responsibilities of the Senior Management and Business Units

### 2.2.1 Senior management (EXCO)

With regards to ESG risk management, the Senior Management is responsible for the following:

- Implement the Group's ESGRP based on criteria and standards approved by the BoD
- Drive changes to policies and procedures to address any changes necessitated by the ESGRP
- Drive ESG culture within the organization
- Define performance measures or KPIs linked to ESG related metrics
- Ensure integrity and compliance to ESG related laws and regulations
- Identify sources of ESG risks for the Group and play a proactive role in highlighting such risks and in mitigating them
- Ensure compliance with ESG risk appetite of the Group
- Ensure compliance with applicable local regulations and guidelines related to ESG

### 2.2.2 Group Chief Risk Officer (GCRO)

GCRO has overall responsibility for ESG risk management for the Group. He/ she has the following responsibilities with respect to the ESG risk function:

- Defining the policies around ESG risk for the Group
- Ensuring compliance with regulatory requirements, and leading industry practices with regards to ESG risks management
- Identification, assessment and reporting of potential ESG risks posed to the Group
- Preparing ESG risks report at defined frequency, as defined in the ESGRP, for submission to the GRC and BRCC
- Defining and implement various controls and risk mitigation action-plans to mitigate the overall ESG risk of the Group
- Define the responsibilities and KPIs for the ERM function and ESG Risk team

The GCRO is supported in the above responsibilities by the ESG Risk team under Enterprise Risk Management. The ESG Risk team is headed by the Head of ESG Risks reporting into the Head of Enterprise Risk Management.

### 2.2.3 Risk taking business units and operations/functions

Risk taking business groups accept risks in due course of business and act as the first line of defense to manage them. Business groups and operations/ functions are responsible for:

- Complying with ESG risk policy and processes
- Conducting ESG risk assessments at customer/investee/ vendor level for onboarding and transaction/ renewals
- Identifying new ESG risk incidents through regular dialogue with customer and third-party information and take measures proactively, including developing mitigation plans

### 2.2.4 Group ESG team

The Group has gathered all the ESG strategy related activities and responsibilities within the Group ESG team. The Group ESG team focuses on the performance and progress of the ESG strategy, sustainable finance framework and net zero pathway. The key roles and responsibilities of this function with respect to ESG specific activities are as follows:

- Advise front liners on the process for Sustainable Finance Framework
- Develop the Group's ESG strategy and roadmap, including KPIs to achieve the Group ambitions
- Develop and follow-up on Diversity and Inclusion strategy and the Group's approach to Modern Slavery
- Ensure holistic overview of strategy streams and link on targets/KPIs
- ESG Governance/Policy support
- Monitor and report on the ESG performance indicators for the Group
- Prepare sustainability and ESG related reporting (e.g., TCFD reporting, net zero targets)
- Follow the latest ESG trends, market analysis and regulatory changes
- Develop the ESG education for first line (general and specific)
- External profile of ESG, prepare ESG analysis and disclosures
- Support business units with product development

### 2.2.5 Investor Relations

Investor Relations team is responsible for managing ESG related external engagement activities with the investment community (including investors and analysts) and reviewing and releasing annual ESG-related disclosures such as the ESG Report and TCFD reporting. Investor Relations is also responsible for managing the relationship with rating agencies when it comes to ESG matters, in collaboration with the Group ESG team.

## 2.2.6 Credit team

Credit team will share the responsibility with ESG Risk team on enhanced ESG risk assessment e.g., on high and severe ESG risk cases. Credit team will take the lead where appropriate, e.g. onboarding of borrowing clients and credit renewals. And to take decisions on the escalated ESG risk assessments covering risk rating, risk mitigation action plans, and implication in the group wide ESG risk profile; and endorse to CEC severe ESG risk cases for consideration of ESG risk assessments in decision making of new borrowing clients and credit proposals.

## 2.2.7 ESG Risk team

The primary roles and responsibilities of this function are as follows:

### **ESG risks framework, policy and methodology related:**

- Develop the ESG risks framework, policy, and processes
- Propose amendments to the ESG risks framework and policy as required
- Develop and recommend ESG risks assessment methodologies, metrics, targets, and tolerances associated with the Group's ESG risk appetite
- Determine climate risk assumptions/scenarios and methodology for stress testing
- Develop and revise internal ESG rating models for screening at customer/vendor
- Conduct materiality assessment annually to identify material ESG risks
- Update and define of ESG critical areas for lending/ investment

### **Day-to-day operations, monitoring and reporting:**

- Conduct enhanced ESG risk assessment for high and severe risk clients and vendors
- To take decisions on the escalated ESG risk assessments covering risk rating, risk mitigation action plans, and implication in the group-wide ESG risk profile; and endorse severe ESG risk cases to GCC and GOFRC for consideration of ESG risk assessments in decision making of onboarding of new clients (non-borrowing) and vendor assessments, respectively. Credit team can also involve ESG Risk team as appropriate in ESG assessments related to credit
- Perform sample checks for acceptable ESG risks for clients and vendors
- Identify ESG risks profile at portfolio level and monitor compliance against risk appetite thresholds
- Conduct climate risk stress test and/or scenario analysis
- Oversee the first line of defense, business units, approach in managing ESG risks
- Provide inputs for internal and external communications on ESG risk activities and processes
- Coordinate with the Group ESG team in training and awareness to foster an ESG risks culture
- Conduct training for front line units in performing ESG risk assessments
- Assess and update the Equator Principles (EP) methodology
- Conduct the Environment and social (E&S) due diligence assessments for the project related financing products that fall within the EP's framework and sustainable finance framework

### 2.2.8 Risk Appetite and Strategy Team

Risk Appetite and Strategy team acts as the first point of contact for any matters relating to the Risk Appetite Framework (“RAF”) including but not limited to embedding the RAF and risk limits into the day-to-day management of risks. Risk Appetite and Strategy team along with the ESG Risk team will be responsible for reporting and monitoring the Group’s ESG risk profile relative to its risk appetite.

### 2.2.9 Portfolio Capital Management Team

Portfolio Capital Management team is responsible for the preparation of ICAAP report and therefore will be responsible for integrating the estimates from the ESG Risk team on the ECL and capital impact under the approved stress scenarios for ESG risks into the ICAAP process.

### 2.2.10 Group Internal Audit

As a third line of defense within the enterprise risk management framework, Group Internal Audit is responsible for independent review of ESG risk assessments and risk functions to check the compliance with policies and procedures within the Group.



### 3 Contacts

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In case there are questions on the ESGRP, please contact

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## 4 Annexures

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### 4.1 Annexure I: Group ESG Committee and ESG & Sustainable Finance Committee charters



Annexure 4. Group  
ESG Committee chart



Annexure 5. ESG and  
Sustainable Finance C