Climate risk framework

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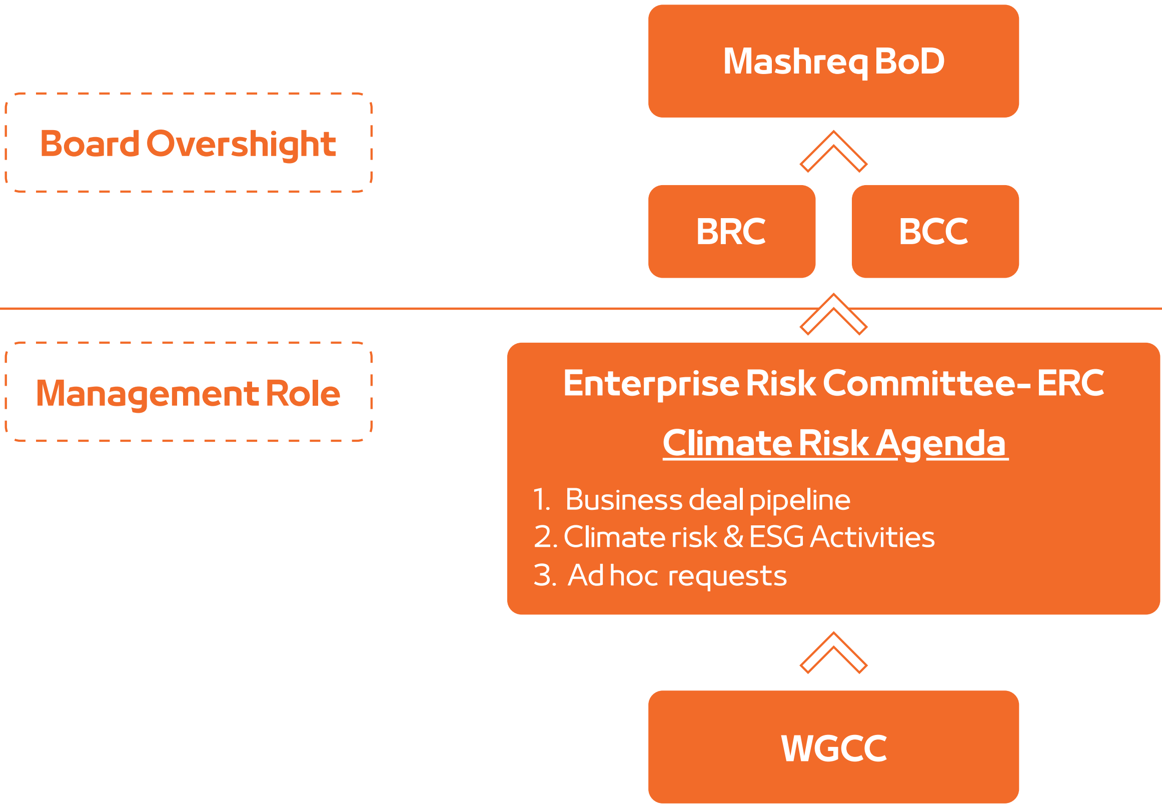
Governance

Board oversight

The Board of Directors (the "Board") sets our strategic direction, including having responsibility for our climate strategy. We realise that our climate and sustainable finance ambitions will only be successful if they are integrated into our governance structure. As a result, our Group Chief Executive is the main sponsor of our climate ambition, and we provide regular updates on our climate and sustainable finance initiatives to the Board.

The Board, through the Board Risk Committee (BRC), establishes and maintains oversight of the Group's Risk Management Framework. While the Board carries ultimate responsibility for overall Risk Management within the Bank, the BRC will assist the Board in discharging its responsibilities in relation to Risk Management, which includes identifying, analyzing, assessing, treating, monitoring and communicating the risks associated with all activities, functions and processes within the Bank



BRC purpose is to assist the Board of Directors (the "Board") of the Bank to exercise oversight of Climate risks of the Bank and the group on behalf of the Board and make appropriate recommendations to the Board . Enterprise Risk Committee (ERC) will have a standing Agenda item for WGCC (Working Group Climate Change) to provide updates of climate risks and opportunities.

The Group CEO along with Business Heads, Chief Financial Officer (CFO), Chief Risk Officer (CRO), Chief Credit Officer (CCO) are responsible for climate risks. They attend Board meetings and where appropriate provide written updates to the ERC, BRC, BCC and Mashreq Board.

Management's role in assessing and managing climate related risks and opportunities

The BCC (Board Credit Committee) and BRC manage our climate ambitions and are advised by ERC. In 2023/24 an information dashboard will be provided to the BCC and BRC every quarter to seek to improve our awareness and management of key climate risks. Management responsibilities for climate risk are integrated into the relevant business and functional areas.

Enterprise Risk Committee (ERC) will have a Standing agenda item for (WGCC) and will be responsible for shaping and overseeing Mashreq approach to climate risk. ERC will also provide updates to the BoD through BCC and BRC on climate risk matters. All these forums interact with each other on items that require broader co-ordination, discussion with business or risk engagement.

Roles and responsibilities for managing climate risk are aligned to Mashreq risk management framework and the three lines of defense model to ensure robust oversight and challenge of our capabilities.
In 2022, the Strategy Group shaped the Mashreq ESG strategy and climate ambition that was subsequently approved by the Board in June 2022. In addition, climate risk updates were provided to our branches in Egypt, Doha, Bahrain, Kuwait , London, Hong Kong, and New York.

Governance – Working Group Climate Change (WGCC)

Working Group Climate Change (WGCC)
Risk ,Credit, Finance, Strategy , IT, Business , Marketing Communication

Roles & Deliverables of WGCC members:

- Drive Carbon decarbonization 2050 strategy for UAE, Finance the transition of US $ 30 billion by 2030 .
- Review progress of Climate risk & ESG Initiatives.
- Approve sustainable finance and ESG initiatives and share feedback with Business
- Resolve road blockers - Issues being brought to the attention of WGCC members.

Strategy

At Mashreq, we are determined to play our part in helping accelerate the transition to a low-carbon economy. Our strategy is underpinned by the way we assess and manage our exposure to climate-related risk.

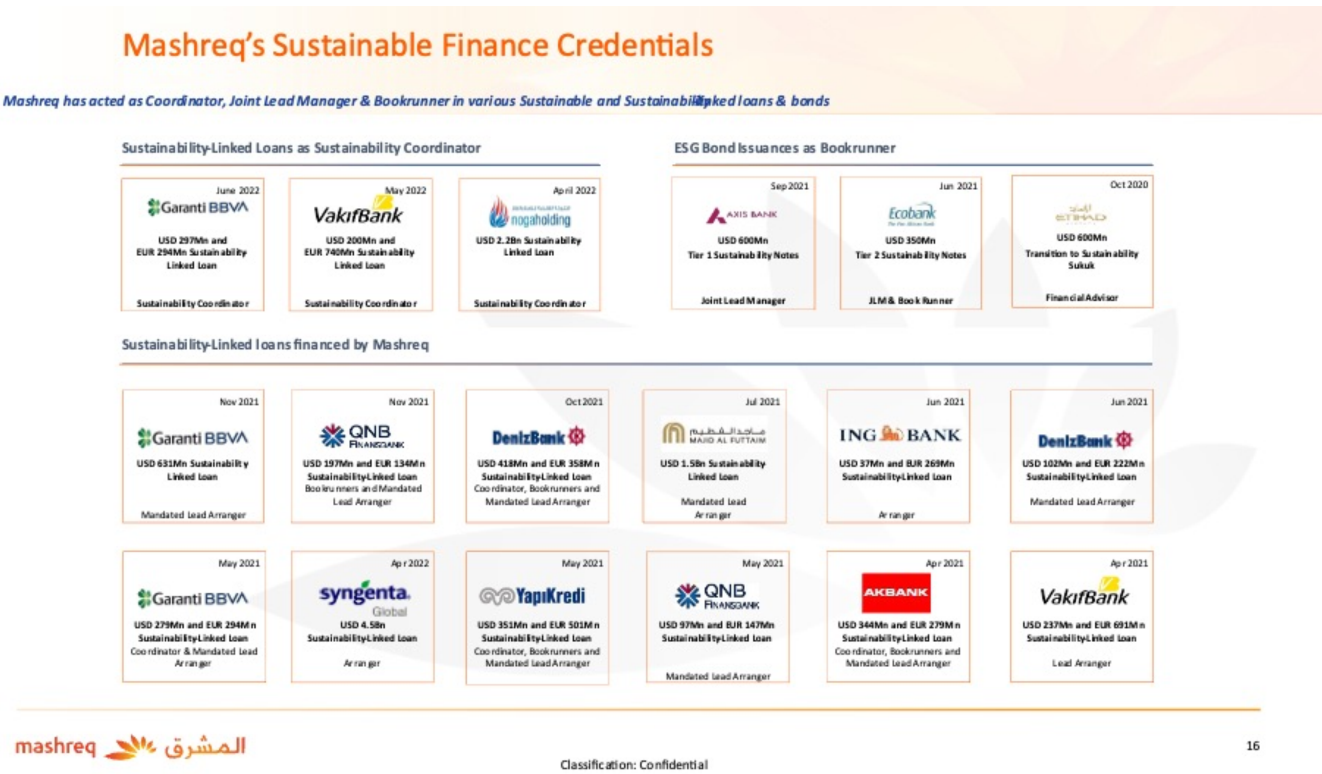
Our climate strategy is focused on the following Climate approaches:

1. **Achieving net zero operations**
   Mashreq is working to achieve net zero operations and supply chain emissions, investing in the continued decarbonisation of our operations by 2050, and in the development of a net zero pathway for the emissions from our supply chain by 2050

2. **Reducing our financed emissions**
   Mashreq is committed to aligning its financing with the goals and timelines of the Paris Agreement 2050 as per UAE government NDC.

3. **Financing the transition**
   Mashreq is providing the green and sustainable finance required to transform the economies and clients we serve and are determined to play our part as SSL Sustainability Coordinator, ESG bond issuance Bookrunner , SSL financing .

Following is a list of Sustainable finance credentials as of July 2022.



We have a strategy to turn ambition into action

1. **Achieving net zero operations**
   Mashreq is working to achieve net zero operations and supply chain emissions. Mashreq has plans to be carbon neutral by 2050. We plan to achieve this by reducing or eliminating sources of carbon dioxide emissions associated with our operations and business travel.

   We intend to remain carbon neutral for scope 1, scope 2 and scope 3 (3 parameters only- Business Travel, Waste management & Paper consumption), while investing in the continued decarbonization of our operations and in the development of a net zero pathway for the emissions from our supply chain.

2. **Reducing our financed emissions**
   Mashreq is committed to aligning its financing portfolios, in every sector, with the goals and timelines of the Paris Agreement. We continue our work on setting targets consistent with our commitment and proposed CBUAE requirements to reduce our financed emissions. We are also engaging with our clients to support their transitions to a low-carbon economy. We plan to review restrictions on financing certain activities in 2023.

3. **Financing the transition**
   Mashreq is providing the green sustainable finance (SSL, SLB) required to transform the economies we serve. We plan to direct investment, into new green technologies and infrastructure projects that will build up low-carbon energy capability. We plan to use our advisory, product sets and financial expertise to help our customers and clients realise their own transitions. Our strategy is underpinned by the way we assess and manage our exposure to climate-related risk. As we look towards a more sustainable tomorrow, will continue to be a force for good by financing the future direction of energy supply, buildings, transportation, waste, water, and food.

Climate-related risks and opportunities identified over the short, medium, and long term

We see the climate-related risks and opportunities for Mashreq as falling into one of three categories. The first category are those on our physical environment due to global warming and changing climate patterns. These are likely to lead to increased extreme weather events, which in turn could lead to economic loss for our clients, as well as for our company.

The second category stems from efforts by governments, institutions and businesses to accelerate the transition to a low-carbon economy, which may result in policy and regulatory intervention, new market incentives or shifts in demand and behavior that could lead to financial impacts on our customers and clients, and on Mashreq. This can lead to opportunities to support clients to shift to new technologies and business models. The size and severity of these impacts will be affected by the rate of transition the world's economies undergo in the coming years.

The third is from connected risks or so called second order risks. For example, these could be reduced household affordability or recessionary pressures from the rise in credit defaults as a result of transition or physical impacts.

Resilience of our strategy, taking into consideration different climate-related scenarios

In 2023, we will conduct analysis of the magnitude of impacts on our business from climate risks through Scenario analysis. This means we will look at potential outcomes – from a rapid transition of the global economy through to minimal transition over the coming decades – and consider the impact on our Portfolio from globally accepted Scenario analysis.

Mashreq will start to explore climate scenario analysis and more specifically stress testing in 2023/24. While climate stress testing will be an exploratory phase across our Financial & Banking sector, our work will commence in 2023, using certain assumptions, indicates that our business is resilient to all scenarios explored under the NGFS scenario. We plan to explore how our strategic approach to climate change would mitigate risks under a scenario where there is early and orderly transition as well as under a scenario where there is late and disorderly transition.

For further updates on the resilience of our strategy, taking into consideration different climate-related scenarios, will happen as Home regulator CBUAE shares guidelines.

Risk Management

Risk Management Group (RMG) will take a decision to make climate a Principal Risk, reflects our approach to ensuring we are proactively managing climate-related risks across the organization. The elevation of climate risk to Principal Risk, includes establishment of governance elements, including:

Climate Risk Framework (CRF) defines climate risk and summarizes the approach to identification, measurement, monitoring and reporting of climate risk

Working Group for Climate Change (WGCC) provides oversight of the Mashreq Group Climate Risk profile

Climate Risk Appetite (CRA) - at Group level establish the Group's risk appetite approach and informed by scenario analysis

Scenario Analysis – List of accepted Global reference Scenarios:

- **IPCC** has developed (1) RCP Representative Concentration 4 -pathways (2.6,4.5,6.0,8.5) and SSP \ Shared Socioeconomic Pathways.
- **IEA –** Stated Policies Scenario (STEPs), SDS, Net zero scenario 2021
- **IRENA –** Planned energy scenario, 1.5 C scenario
- **Greenpeace –** Advanced energy Revolution
- **NGFS –** Orderly scenario, Disorderly, Hothouse
- **2 degrees** has developed PACTA for Banks methodology (Paris Alignment Capital Transition Assessment)
- **IAM –** Integrated Assessment Models

Following is a selection of some of the ways in which we are working towards broader climate risk integration in our business.

Climate Risk Management Framework

- We are developing our end-to-end climate risk management framework.

Enterprise-wide Climate Risk & ESG Training

- Mashreq RMG Team launched a climate risk training module for select employees, and ESG for all staff.

Expanded Resources for Climate Risk Function

- We have grown our dedicated Climate Risk team as discussed in the Governance section

Climate Related Risks:

Physical Risk	**Acute weather hazards** (floods, cyclones, droughts) **Chronic weather hazards** (sea level rise, heat, water stress)	**Facility level: Anything in a hazard zone** (infrastructure, residential property, commercial facilities) **Corporate level: Firms with facilities/supply chains in hazard areas**	**Facility level: Extent adaptive infrastructure** (e.g.) flood pumps, fire breaks) **Corporate level: Viability of contingency plans; to insurance access**
Climate Risk —	**Hazards/Drivers** ×	**Exposure** ×	**Vulnerability**
Transition Risk	**Policy changes** (carbon tax, coal shutdowns) **Technological changes** (cheaper renewables) **Conusmer pressure**	**Facility level: High-emissions assets** (fossil fuel power plants, steel plants, ICE vehicles) **Corporate level: Firms with business operations dependent on emissions**	**Facility-level: Extent of ability to decarbonize** (e.g. biomass or hydrogen conversion) **Corporate-level: Viability/robustness of transition plans**

Physical risk

Physical risks from climate change arise from a number of factors and relate to specific weather events and longer-term shifts in the climate. The nature and timing of extreme weather events are uncertain, but they are increasing in frequency and their impact on the economy is predicted to be more acute in the future. The potential impact on the economy includes, but is not limited to, lower GDP growth, higher unemployment and significant changes in asset prices and profitability of industries.

Damage to properties and operations of borrowers could impair asset values and the creditworthiness of customers leading to increased default rates, delinquencies, write-offs and impairment charges in the Mashreq Group's portfolios.

In addition, the Mashreq Group's premises and resilience may also suffer physical damage due to weather events leading to increased costs for the Mashreq Group.

Transition risk

As the world transitions to a low-carbon economy, financial institutions such as the Mashreq may face significant and rapid developments in stakeholder expectations, policy, law and regulation which could impact the lending activities Mashreq undertakes, as well as the risks associated with its other portfolios, and the value of the Mashreq financial assets.

As sentiment towards climate change shifts and societal preferences change, Mashreq may face greater scrutiny of the type of business it conducts, adverse media coverage, reputational damage and financial and operational risks, which may in turn impact customer demand for the Mashreq products, returns on certain business activities and the value of certain assets and trading positions resulting in impairment charges.

Climate change, being a unique phenomenon and a driver of risks, may lead to economic and operational impacts and may increase the likelihood or severity of other risks, for example:

cyclical: amplifying economic cycles, including deeper troughs

structural: macroeconomic shifts as economies transition to a low-carbon economy, driven by regulatory tightening; introduction and deepening of carbon pricing mechanisms, including carbon taxes; emission trading schemes (ETS) cap & trade and technology evolution; and as the climate system changes

potential for tail risks and tipping points: for example, from chronic physical risks that are not currently clearly understood. This might include impacts from lack of access to clean water, mass human migration due to inhospitable conditions, biodiversity and ecosystem services loss, second order impacts on food chain, or conflict resulting from competition for environmental resources.

Climate change directly or indirectly impacts all risks included in Mashreq Risk Taxonomy; we have highlighted some of our areas of focus below.

Credit risk

Definition The risk of loss to the Group from the failure of clients, customers or counterparties, including sovereigns, to fully honour their obligations to the Group, including the whole and timely payment of principal, interest, collateral and other receivables.

Climate risk identification Risk identification is driven by assessing sectors' susceptibility to climate risk. Sectors are categorised into elevated, moderate and low risk. These sectors have been identified through the analysis of Mashreq Industrial Classifications by portfolio.

To assist determining the level of the potential credit risk arising from climate change for Sovereigns with material exposure, Risk Factors are reviewed, minimum annually. Across corporate and industrial sectors, elevated risk sectors are those with high exposure to both physical and transition risks of climate change. This assessment will be updated on an annual basis.

Each climate-related risk in elevated sectors is assessed by risk drivers and impacts. Risk drivers and impacts will be designed internally and are based on rating agencies' climate change assessments, recommendations of the TCFD.

Elevated Industry Risk Sector analysis: To Be determined in 2023.
Climate-related risk management process
Frequency of assessment - Annually

Description - The risk of loss to the Group from the failure of clients, customers or counterparties, including sovereigns, to fully honour their obligations to the Group, including the whole and timely payment of principal, interest, collateral and other receivables.

Risk Identification - identified as part of sovereign, portfolio and obligor credit annual reviews.
Risk Measurement Process have to be augmented with new climate risk methodologies

- At Group level measured vis scenario analysis and stress testing.
- Portfolios will be monitored through regular reporting of climate metrics once established in 2023/24.

Example - A client operating in a carbon intensive sector which does not have an adaptation plan to transition to a low-carbon economy and becomes subject to high carbon tax payment that negatively affects its cash flow.

Market Risk

The risk of loss arising from potential adverse changes in the value of the Group's assets and liabilities from fluctuation in market variables including, but not limited to, interest rates, foreign exchange, equity prices, commodity prices, credit spreads, implied volatilities and asset correlations.

Climate risk identification - Climate change may lead to Market risk through a disorderly transition to a low-carbon economy or via physical climate events and shifts in supply and demand for financial instruments, which may then impact market prices for susceptible sectors or countries. Climate-related risks are determined at a Group level and used in the Market risk identification process.

Climate risk assessment - Market risk arising from climate change is measured by applying a range of stress scenarios, that stress the core risks susceptible to climate change over long and short-term horizons to individual risk factors.

Market Risk will perform an assessment of the impact of a disorderly transition to a low-carbon economy on the market risk portfolios across Mashreq group.

Climate risk management - The pattern of stress losses arising from the stress scenario is used to estimate and set ongoing limits, consistent with the Board-approved maximum stress loss capacity for Market risk, under which Mashreq monitors and controls Market risk arising from climate change.

These limits are reviewed on an annual basis and must include consideration of potential portfolio impacts arising from climate-related risks.

Furthermore, climate-related Market risk will be managed through ongoing monitoring that is reported through the existing risk committee structures so that key risk indicators are monitored and escalated as required.

Operational risk

The risk of loss to the Group from inadequate or failed processes or systems, human factors or due to external events (for example, extreme weather events) where the root cause is not due to credit or market risks.

Climate risk identification
From a climate risk perspective, Mashreq is exposed to climate change risks in its operations, either directly or via the operations of its suppliers. This exposure is predominantly related to physical risks such as extreme weather events (e.g., cyclones, hurricanes and floods), along with longer-term changes in weather patterns (e.g., increased mean temperatures, sea levels, changing rain patterns, water stress/ scarcity or drought conditions).

The Operational Risk Framework will include risks that are associated with Climate Change as well as the activities required to identify, measure and manage these risks as part of the operational risk profile. Operational Risk maintains a taxonomy of operational risks on behalf of the Group, which includes the operational risks across Principal Risks (e.g., Conduct risk, Legal risk, Model risk) as well as operational failures associated with the financial Principal Risks (Credit, Market, Treasury and Capital).

The Operational Risk Taxonomy is managed and governed in accordance with the Operational Risk Taxonomy Standard that forms part of the Operational Risk Framework.

This framework is reviewed and updated, where appropriate, on an annual basis. As physical risk events related to extreme weather events could impact Mashreq operational capabilities, climate change will be integrated into the Operational Risk Framework, with relevant existing risks being in scope of climate change.

The risks categories most likely to be impacted by physical risks are Premises risk and Operational Recovery Planning:

Premises risk ensures that operational risk requirements are understood, monitored and mitigated appropriately, and are managed to ensure compliance with relevant legal and regulatory requirements, including any required authorisations, permissions and licenses.

Premises risk is managed under the Group Property Policy and Standards, which outline ' approach to addressing environmental risks with respect to the availability of operational premises. This Policy defines a low tolerance threshold for premises unavailability which covers the risk of the physical impacts of climate change, and aims to ensure that Mashreq premises do not become unavailable and/or do not affect Mashreq product/service for a sustained period of time. Additionally, any potential strategic site's exposure to extreme weather events is considered.

Operational Recovery Planning ensures that Mashreq is able to recover business services. Operational Recovery Planning determines business requirements in maintaining services and responding to business disruption, which could be caused by climate change. Mashreq maintains and annually reviews global operational recovery plans and capabilities.

Climate risk assessment
Operational Risk continues to identify, manage and measure climate risk as part of the existing operational risk profile through its business-as-usual activities. These activities include working with Premises and Operational Recovery Planning Owners to identify and respond to any new emerging climate risk related impacts or regulatory requirements, and consideration of changes to approach or taxonomy in line with regulatory requirements.

We will continue to explore different approaches to provide a quantification assessment, albeit challenges for quantification relating to the lack of appropriately granular, business-relevant data and tools remain. Quantifying operational risk through existing structured scenarios would allow us to better examine and size the potential incremental impact arising from climate risks. However, the challenge of determining scenarios that are business orientated, sourcing available and relevant information to support the effort, and connecting the given scenario to the idiosyncrasies of operational risk will require further consideration.

Climate risk management
The Group Property team outlines Mashreq approach to addressing environmental risks with respect to the availability of operational premises. Additionally, exposure to extreme weather events is considered during the design or refurbishment of new and existing strategic sites.

The Operational Recovery Planning requirements outline Mashreq requirements to anticipate, prevent, adapt, respond to, recover and learn from internal or external disruption. Our focus is on continuing to deliver important business services to customers and clients, and minimize any impact on the wider financial system, in the event of operational disruption.

The Operational Recovery Planning risk from climate change is expected to manifest through premises and supplier risk in the first instance, and if this leads to operational disruption, our operational recovery planning framework would help mitigate the impacts through invocation of crisis management, and response and recovery plans. Our approach to Operational Recovery Planning evolves in response to the changing threat landscape, and this will include consideration of climate change and its associated impacts.

Mashreq deploys and validates appropriate recovery strategies for its critical processes, including the ability to transfer processing to alternative locations or premises per Business Continuity policy. For our third-party service providers, Operational Recovery Planning requirements are articulated through our Supplier Control Obligations (SCOs). Each third-party service provider is required to attest to their compliance with the SCOs on an annual basis and further assurance is undertaken on a risk-based approach.

Metrics & Targets

We know this is a journey and recognize that the current means of measurement of financed emissions globally need improving to track reductions better.

Over the course of 2023-25, we will be refining our approach to financed and supply chain emissions Formalizing the qualifying criteria for sustainable finance and enhancing reporting on investments.

Our metrics used to assess climate-related risks and opportunities in line with our strategy and risk management process.

Operational Footprint

- Group Metrics – Total GHG emissions by scope 1, 2 & 3 waste management & paper consumption (location based) – Energy consumption – GHG emissions intensity (full time employee)
- Campus Metrics – Energy intensity – Water efficiency

Reducing our financed emissions

- Energy absolute emissions MtCO2
- Power emissions intensity KgCO2/MWh
- Fuel mix – Energy, Power (%)

Financing the transition

- Sustainable Financing (SSL & SLB) AED bn
- Sustainable Sukuk, ESG Bonds

Scope 1, Scope 2 and Scope 3 greenhouse gas (GHG) emissions

- Total GHG emissions by scope 1, 2 & 3 business travel (Market based)
- Scope 2 -Energy absolute - carbon emissions MtCO2e
- Scope 3- Other indirect emissions.

Our performance against targets

1. Operational footprint Net Zero 2050
2. Aligning our portfolios and reducing financed emissions – Business clients bases
3. Financing the transition.

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Rise every day