

RHB's Climate-related Financial Disclosures

As part of our efforts to continuously improve stakeholder trust and confidence, we have adopted the Taskforce for Climate-related Financial Disclosures (“TCFD”) recommendations, recognised widely as the prevailing standard for climate reporting. TCFD reporting improves the transparency surrounding our management of climate-related risks and opportunities. This is in line with the requirements of the Climate Risk Management and Scenario Analysis policy document issued by Bank Negara Malaysia (“BNM”) for financial institutions to produce reliable, meaningful and comparable climate-related disclosures, to support informed decisions by stakeholders and reinforce the effective management of material climate-related risks in the financial sector. The Group’s alignment with TCFD is gradual and will be done in phases as we build our capabilities in climate management and disclosures.

GOVERNANCE

Overview of the Group’s sustainability and climate governance structure

Board of Directors Oversight

The RHB Bank Board of Directors (“BOD”) is responsible for the Group’s overall sustainability and climate-related strategies, including management of the associated climate-related risks and opportunities. The Board members’ diverse skills composition enhances the Group’s competency in climate-related matters.

Every quarter, the Board receives updates on climate-related matters based on the progress of the Group Climate Action Programme (“GCAP”) and the Group’s implementation roadmap towards achieving carbon neutral operations by 2030, which are also part the overall Group Sustainability Strategy and Roadmap.

In 2022, the Board Sustainability Committee (“BSC”) was set-up with the objective to assist the Board of Directors in providing oversight and in ensuring the integration of Sustainability and climate-related considerations into the Group’s long-term corporate strategy and decision-making process, and to enable more in-depth discussions on climate-related risks and opportunities at the highest level. This is also in line with Bank Negara Malaysia (“BNM”)’s recommendations for climate risk management and the Malaysian Code of Corporate Governance (“MCCG”).

To meet their objectives, the BSC meets bimonthly and works in close collaboration with the Board Risk Committee (“BRC”), Board Audit Committee (“BAC”) and Board Nominating & Remuneration Committee (“BNRC”) on matters associated with sustainability- and climate-related matters.

The BSC held two meetings in 2022, where the Group’s climate-related agenda was extensively deliberated, covered in each of the following discussion:

- 1 Progress on the 5-Year Sustainability Strategy and Roadmap
- 2 Progress on the targets of the Group Climate Action Programme
- 3 Achievements and opportunities in sustainable financing, that includes green financing
- 4 The Group’s ESG Eligible Business Activities Guidelines
- 5 Capability-building on climate competency for senior management and relevant business and functional units
- 6 Identification and assessment of climate risks and the management approaches

Management Oversight

The Group Sustainability Committee (“GSC”) comprised of the members of the Group’s Senior Management, and is responsible to strategically drive and ensure the effective execution of the Group’s sustainability and climate action agenda in line with the Group’s Sustainability vision, aspirations, commitments, key pillars and prioritised United Nations Sustainable Development Goals (“SDGs”).


To support the GSC, the Sustainable Business Council (“SBC”) and Responsible and Sustainable Practices Council (“RSPC”) drive the

execution of the Group's climate-related strategies and initiatives. Both councils meet on a bimonthly basis. The SBC's responsibilities cover the management of the risks and commercial opportunities from climate change across the Group's business activities, while the RSPC drives the Environmental Stewardship agenda, particularly on the reduction of the Group's operational (own) GHG emissions.

The Group Climate Action Programme ("GCAP"), which is a core component of the Group's Sustainability Strategy and Roadmap, will help the Group to further entrench climate-related considerations within our risk management processes with the ultimate objective of assisting the Group to develop a pathway to net zero by 2050. Chaired by the Group Chief Risk Officer, the GCAP Project Steering Committee ("PSC") convenes monthly to ensure the Group's climate action plan is on track. The GCAP Project Steering Committee is responsible to steer, coordinate and ensure the effective implementation of the Group's climate transformation journey in line with the Group's strategic direction and commitments and adhere to relevant regulatory guidelines. The Strategic Business Groups ("SBGs") and the Strategic Functional Groups ("SFGs") are responsible to implement and monitor on-ground climate-related initiatives and programmes under GCAP.

During the financial year, climate-related capability-building and awareness sessions were conducted for Board members and Senior Management, including climate risk awareness knowledge sharing session conducted as part of GCAP. The briefing covered the following areas on climate risks and opportunities:

- 1 Climate Governance
- 2 Climate Risk Management Framework
- 3 Scenario analysis and stress testing
- 4 Climate change adaptation and mitigation commercial opportunities
- 5 Net zero alignment
- 6 Disclosure/reporting according to the recommendations of the TCFD and regulators

For more information on the Group's Sustainability Governance Structure, please refer to page 26 of RHB Bank Berhad Sustainability Report 2022. 

STRATEGY

The Group acknowledges the position and role it plays in supporting the transition to a low-carbon economy in line with national and global commitments. Climate change has been a material matter for RHB Banking Group since 2019.

The Group Sustainability Strategy and Roadmap places a strong emphasis on the climate agenda. The Group's third Sustainability Aspiration is to achieve carbon-neutral operations by 2030 and develop a pathway to net zero by 2050.

Additionally, "Developing a pathway towards a climate-resilient future" is a key sub-pillar of the Group Sustainability Strategy and Roadmap, which represents our approach to managing our own operational carbon emissions; addressing our financed emissions across key business sectors and activities by integrating climate into our risk management approach; and identifying climate change adaptation and mitigation commercial opportunities. This aligns with regulatory expectations and supports Malaysia's transition to a low-carbon economy. In order to achieve this, RHB has implemented climate risk management initiatives right down to portfolio levels.

As part of our climate commitment, effective 2022 onwards, we will no longer pursue opportunities or provide finance for any new thermal coal mine projects and coal-fired power plant projects. In addition, we have also adopted a stance on No Deforestation, No Peat and No Exploitation ("NDPE") whereby effective January 2022, RHB will only support responsible companies, including in the relevant sectors - Palm Oil, Forestry and Agriculture - that demonstrate alignment with our NDPE guidelines.

The Group Climate Action Programme, which is a core component of the Group's Sustainability Strategy and Roadmap and forms part of the Group Key Performance Indicators, is a catalyst towards enhancing RHB's climate risk management practices and builds expertise in managing-climate related risk, which includes integrating Bank Negara Malaysia Climate Change and Principle-based Taxonomy ("CCPT") into our risk management process. GCAP Phase 1 was completed in the second quarter of 2022 and the outcome was the completion of the Group Ambition Setting and Blueprint benchmarking against industry-leading practices and relevant regulatory requirements.

In November 2022, the Group embarked on GCAP Phase 2, which covers all elements of Climate Framework across Governance, Strategy, Risk Management and Disclosure, aligned with leading peer practices as well as Bank Negara Malaysia guidelines, towards developing the Group's pathway to net zero by 2050. Initiatives under GCAP Phase 2, which are of varying efforts and complexity will be rolled out across the Group over a 2-year period.

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As part of GCAP Phase 2 which is currently ongoing, we are calculating our Scope 3 financed emissions baseline which will be used to identify our key high-emitting clients and corresponding sectors. We will then develop a strategic pathway for sector decarbonisation, to develop pathway to net zero by 2050. This will also enable us to come up with appropriate commercial opportunities for our clients to enable them to embark on or further accelerate their decarbonisation efforts.

We will continue to enhance our analytical capabilities to develop a comprehensive understanding of potential future pathways for our business in various possible climate scenarios and align with regulatory requirements. Through GCAP, we will also embark on a preliminary scenario analysis in 2023 that shall provide us the data and information critical for our climate strategy development and business decision making.

Our management approach to climate change focuses on two areas:

- Reducing our operational footprint to achieve carbon neutrality by 2030 and developing a pathway to achieve net zero by 2050, covering Scope 1, 2, and 3 emissions, including our financed emissions
- Engaging with selected customer segments to better understand their decarbonisation strategy and providing financial support for their transition plan towards low carbon and sustainable practices

In 2019, RHB committed RM5 billion by 2025 under its Green Financing Commitment to support green activities that promote the transition to a low-carbon and climate-resilient economy, through core activities of lending and financing, capital markets and advisory, and investment.

One of the Group's Sustainability aspirations is to mobilise RM20 billion in sustainable financial products and services by 2026 through our business activities of lending and financing, capital markets and advisory, wealth management, investments, and insurance businesses, which includes financing and investing in green, social and ESG-linked activities. This is to support our customers in their decarbonisation strategy and to transform their operations towards sustainable practices, guided by the Group ESG Eligible Business Activities Guidelines ("ESG EBAG") which facilitate the classification of green, social, and sustainable financing.

As of December 2022, we have extended almost RM8 billion to eligible green projects and activities. The top three green activities are attributed to Sustainable Water and Wastewater Management at 50%, while Green Buildings is about 22% and Renewable Energy constituted 16%.

The Sustainability Financing Programme ("SFP"), a green financing product bundling programme was launched in September 2021 to meet the needs of both SME and Retail customers. The four types of green financing under the SFP, which are Green Energy, Green Buildings, Green Products and Green Processes, contribute to climate adaptation and mitigation, such as a special financing scheme and a 10% discount on insurance premiums for hybrid, plug-in hybrid and electric vehicles. As of end-December 2022, a total of more than RM490 million has been extended under the SFP since its launch.

RISK MANAGEMENT

As a financial services provider, the Group is exposed to potential climate risk-related financial impacts, arising from our financing and investment activities. We are committed to establishing a comprehensive and prudent climate risk management framework in line with prevailing regulatory requirements as well as best practices in the financial sector, aimed to be achieved through our Group Climate Action Programme that will be implemented across the Group over this 2-year period.

Since December 2019, ESG considerations have been gradually incorporated into our lending and financing criteria, including climate-related considerations. Our General ESG Risk Assessment ("ERA") tool was developed to identify ESG risks in our customer portfolio, which forms the financing decisions of our teams. We have also developed eight industry-specific ERA tools that comprehensively assess exposure to high-risk sectors.

Rating ESG risks as ‘Low’, ‘Medium’, or ‘High’, the ERA tool enables monitoring of high-risk assets in our portfolio. In 2022, the Group’s exposure to ESG Sensitive Sectors (“ESS”) was RM16.3 billion or 15.4% of the total non-retail loan/financing portfolio. Our ESG Sensitive Sectors highest exposure are Palm Oil, Energy Supply, Iron, Steel & Other Metals, Oil and Gas, and Cement sectors which constitute about 75% of the total exposure to ESG Sensitive Sectors.

The ERA tools are being deployed across our domestic and regional operations. Exposure is reported to the relevant Management Committee and the Board on a quarterly basis. Meanwhile, our Business Units continue to engage with customers to raise climate awareness and encourage the adoption of climate-resilient practices.


An initial step we took to manage physical climate risks is the incorporation of due diligence assessments for assets that could face potential impacts from flooding.

The Group has also taken steps to align with BNM’s Climate Change and Principles-based Taxonomy (“CCPT”) requirements. The CCPT classifies climate-related risk exposure, providing an outline for the financial sector to make financing and investment decisions based on climate considerations. RHB has enhanced the ESG Risk Assessment (“ERA”) tool to include the key guiding principles under the Climate Change and Principle-based Taxonomy (“CCPT”) and ASEAN Taxonomy. The tool was first implemented in our Malaysia and Singapore operations in May 2022 and December 2022 respectively. RHB targets to roll out the tool in phases across the remaining overseas operations. The internal tool is a document that will be regularly reviewed and expanded to cater to multiple taxonomies.

RHB strives to improve our management of climate risks. GCAP Phase 1 was completed in 2022, which resulted in the successful development of a roadmap to achieve the RHB Group’s climate risk ambitions and further align with regulatory requirements. Our first step has been to include climate considerations in credit risk assessments. Moving forward, the Group intends to further integrate climate risk management through GCAP Phase 2. This translates into products and services across our different customer segments that create social or environmental value and improved portfolio resilience for the benefit of our shareholders. One notable enhancement from GCAP Phase 2 would be the incorporation of sector-specific transition and physical risk considerations into the underwriting process.

Through GCAP Phase 2, RHB Group is currently reviewing and enhancing the existing climate risk controls, processes, and strategies to align with BNM’s Policy Document on Climate Risk Management and Scenario Analysis issued on 30 November 2022. Additionally, we plan to establish an effective climate risk management framework, policies and guidelines that cover the interaction with other risk types such as credit risk, market risk, liquidity risk, operational risk as well as insurance/ takaful underwriting.

We recognise the critical need to build capability and expertise to manage climate risks adequately. This is an area of priority in GCAP Phase 2 towards integrating climate risks within our business strategy and risk management framework. The Group’s Sustainability Capability Building Framework which will be launched in FY 2023, identifies the sustainability and climate-related knowledge and skills needed for our people to materially drive and achieve our ESG and climate agenda goals and objectives.

For more information on the ESG and climate risk management, please refer to page 48 of RHB Bank Berhad Sustainability Report 2022. 

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METRICS & TARGETS

Approach

We take a progressive approach to our climate ambitions, setting milestones along a realistic time horizon.

We are guided by the GHG Protocol: Corporate Accounting and Reporting Standard to measure our operational GHG inventory. We have progressed from monitoring Scope 1 and 2 emission since 2016, and included Scope 3 emissions starting 2020 with a 2016 baseline. Data collection is an integral part of measuring and tracking the Group's operational footprint. We continue to engage an independent third-party environmental specialist to facilitate quality control and assurance in order for us to ensure that our data and methodology are complete, relevant, consistent, transparent and accurate.

The following are the Group's progress in expanding our reporting boundary for operational emissions, as well as the methodology used, consolidation approach, reporting scope, and baseline year.

Reporting boundary target: Group-wide

Methodology: GHG Protocol: A Corporate Accounting and Reporting Standard

Consolidation approach: Operational approach

Baseline year: 2016 (Scope 1, Scope 2 and Scope 3)

Year	Reporting Boundary
2019	RHB Centre and RHB Complex Bangi
2020	West Malaysia
2021	Malaysia
2022	Malaysia and Regional operations

Reporting Scope	
Scope 1	Owned/controlled generator sets and company-owned vehicles
Scope 2	Purchased electricity and cooling
Scope 3	Business travel by road and air

The following are measures of our climate commitments, focusing on our twin management approaches of operational GHG emissions reduction to minimise climate change impact from our business operations, and green financing commitment to support the transition to a low-carbon economy.

Metric: Operational GHG emissions

Target: Reduce 45% of total GHG emissions by 2026 from the 2016 baseline as per 5-year GHG emission reduction roadmap; and achieve carbon neutral operations by 2030

Year	Operational GHG Emissions	Reduction in GHG Emissions Malaysia Operations (compared to base year 2016)	Scope 1 Emissions (% of total)	Scope 2 Emissions	Scope 3 Emissions
2017	34,479	20%	0.4	92.4	7.2
2018	32,453	25%	0.6	91.9	7.5
2019	30,268	30%	0.7	91.2	8.1
2020	27,419	37%	0.5	93.7	5.9
2021	25,580	41%	0.6	93.1	6.3
2022	25,271	42%	0.7	92.1	7.2

Metric: Amount mobilised under the Green Financing Commitment

Target: RM5 billion by 2025

Year	Amount Mobilised Under the Green Financing Commitment (RM'billion)
2021	4.32
2022	7.77

Note:

*RHB's Green Financing Commitment excludes SME

Metric: Amount mobilised under the Sustainability Financing Programme

Target: RM1 billion in new financing granted by 2025

Year	Amount Mobilised Under the Sustainable Financing Programme (RM'million)
2021	44.36*
2022	494.74**

Notes:

* Includes 221 Green Financing loans for hybrid, plug-in, and electric vehicles, and 5 loans for SMEs

** Includes 825 Green Financing loans for Hybrid, plug-in and EV, 67 loans for SMEs and 2 loans for Lifestyle Financing

As a financial service provider, we acknowledge the importance for us to measure and disclose the greenhouse gas emissions associated with our portfolio of loans, investments, and other financial products and services i.e. financed emissions. Financed emissions are a necessary input for climate scenario analysis, which is crucial in managing climate-related transition risks and opportunities. One of the key objectives of the Group Climate Action Programme is to enable the Group to establish financed emissions baseline and identify a transition strategy that will shape the Group's future business portfolio.

By calculating and analysing the financed emissions data, the Group would be able to progress towards performing quantitative scenario analysis to design pathways in reducing our financed emissions in line with our risk appetite and targets while engaging customers, especially the SMEs, to support them towards low-carbon practices and operations.

All of these initiatives will be part of the ongoing Group Climate Action Programme which will be implemented over a 2-year period. The Group has, in January 2022 started evaluating our portfolio exposure across high impact and high risk sectors, which would enable us to determine and establish our financed emissions baseline by end of FY2023, and thereafter develop the Group's decarbonisation strategy. This is in line with the Group's aspiration to develop a pathway to net zero by 2050.

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