TCFD

Climate-related financial disclosures

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We, at Gulf International Bank UK Limited (GIB UK), continue to support the important work led by the Task Force for Climate-related Financial Disclosures (TCFD). We are actively implementing the recommendations set out by the TCFD.

Further, we support the roadmap towards mandatory climate-related disclosures as set out by Her Majesty's Treasury in 2020.

As part of our engagement activity, we actively encourage our investees in our proprietary portfolios to consider and disclose against the TCFD recommendations. We also commend our investees that have put measures in place to disclose in line with TCFD recommendations.

Governance

Board oversight of climate-related risks and opportunities

Our Board of Directors and the associated Board committees take climate-related risks very seriously. Our Governance Framework includes roles and responsibilities with respect to climate-related risks. This included the roles and responsibilities of the Board of Directors and the Audit and Risk Oversight Committee (AROC). The Board of Directors was assigned responsibility for reviewing and approving GIB UK management's plan to manage financial risks from climate change and overseeing their execution. The AROC was assigned responsibility for ensuring that financial risks from climate change are embedded within the Risk Management Framework, and reviewing metrics relating to climate-risk on a regular basis.

In addition to the Governance Framework, other policies were updated to include financial risks from climate change, as appropriate.

The Board and AROC receive information about sustainability-related issues on a regular basis. The AROC receives metrics and analysis from the Chief Risk & Compliance Officer (CRCO) – who is responsible for Climate-related risks under the Senior Manager and Certification Regime (SM&CR) – about Climate-related risks on a quarterly basis. The Board receives an update of the firm's progress against the strategic goals it has set relating to sustainability (including climate) on a quarterly basis. On an annual basis, the Board receives information on company-level performance metrics and targets, including on sustainability, in the company's Balanced Scorecard.

We continued providing the Board of Directors with targeted climate-related risk training in 2020 . This was to ensure that the Board of Directors' knowledge on the subject is continuously refreshed and enhanced.

The effectiveness of the oversight provided by the Board and its committees is reviewed on at least an annual basis, as part of the Board Effectiveness Review.

Management’s role in assessing and managing climate-related risks and opportunities

The Chief Risk & Compliance Officer (CRCO) has the overall responsibility for managing climate change risk by integrating financial risks from climate change within GIB UK’s risk framework. The CRCO is responsible for reviewing and enhancing the types and quality of metrics used to assess climate-related risks, recognising that data availability is still challenging and methodologies need to be improved.

Nevertheless, similar to other risks, all three Lines of Defence have a role in managing climate-related risks. The Head of Strategy has responsibility for all aspects of corporate sustainability, including leading efforts to embed sustainability (including climate) considerations across our business. The Head of Business Development has responsibility for considering climate-related risks as part of new and ongoing investment management strategies.

The Head of Business Development and the Head of Strategy have led a number of initiatives that consider climate-related issues. For example, as well as embedding climate considerations into the strategy setting process, the Head of Strategy rolled out climate measures and metrics initiatives that aim to reduce the Bank’s carbon footprint. Working with the investment teams and product development function, the Head of Business Development considered the carbon intensity of the new products under development, and ensured that such considerations are considered as standard in all new products going forward.

We do not have a separate sustainability committee for the UK business that is solely dedicated to addressing sustainability and climate-related topics. The rationale for this was that sustainability and climate-related risks and opportunities sit at the heart of our strategy and are regularly discussed during other committee meeting, such as the Executive Committee and Business Risk Committee. However, a Sustainability Council was set up in 2020 at a Group level to drive a sustainable finance approach across the Group.

Strategy

Climate-related risks impact on our strategy and business planning

Climate-related risks and opportunities are considered and assessed as part of our corporate strategy and business planning approaches. Our business strategy is set on a rolling 3-year basis, with a horizon of between one and five years, varying with the nature of the strategic initiatives.

Table 1: GIB UK key climate risks:

Risk type	Risk	Time frame
Transition risk	Reliance on oil-related income could see disruption in revenue; caused by both disruption in oil prices and transitioning away from oil	Short term
	Application of carbon price to GIB UK’s green house gas emissions	Medium term
	Loss of market share, caused by not adapting sufficiently and in a timely manner to changing client demand for more low carbon products	Medium term
Physical risk	Extreme weather events could weaken the resilience of investees and disrupt their business operations therefore affecting their profitability and survival	Medium term

Risk type	Risk	Time frame
Reputational Risk	Poor perception of GIB UK, especially if we do not adequately support the transition to a lower carbon economy	Medium term
Litigation Risk	Litigation due to incomplete or inaccurate disclosures of GIB UK's direct or indirect environmental impact	Medium Term

Table 2: GIB UK key climate opportunities [non-exhaustive]:

Opportunity	Time frame
Renovation of office premises leading to reduced energy and water consumption and lower utility bills	Short term*
Launch new products and services aimed at supporting clients in the transition to a lower carbon economy	Medium term
Demand from clients interested in accessing low carbon investment opportunities	Medium term

*This has taken place in 2020. For more information, please see page 32 of the Sustainability Report.

In order to assess climate-risks as relevant for our business strategy, we conduct SWOT analyses, and political, economic, social, technological, environmental and legal (PESTEL) factors analysis. In our regular peer analysis, we consider what others are doing, both best practice and areas for improvement. We produce industry/economy scenarios including temperature and adoption variants relating to carbon/ sustainability. Our climate strategy is to ensure that both climate-related risks and opportunities are incorporated systematically into our business purpose, vision and strategic goals. With respect to products, this means designing new investment strategies that aim to benefit from the global economy's transition to net zero emissions by 2050, and to reduce exposure to physical and transitions risks.

We understand that the transition to a net zero world will require changes in behaviour for many of clients, and this may require changes in their own business models, approach and raised levels of understanding in some cases. We are keen to ensure that our clients can benefit from our own expertise as investors focused on climate risk, and the journey we ourselves have been on to increase understanding and awareness. As a result, we have included as part of our business strategy a goal of facilitating the transition to a more sustainable approach through offering advisory services to clients on matters relating to climate risk.

In setting our strategy, we considered a number of other areas, but these were not judged to be as important for our sustainability as a business:

- Supply chain. Our supply chain mainly consists of professional service activities (such as accountancy), and other financial services firms (such as brokers and custodians).
- Investment in research and development. While this a small proportion of our overall effort, we conduct analysis of sustainability-related risks and opportunities, and regularly speak to stakeholders on these topics.
- Operations. We operate from our premises in London, which is subject to low physical risks. In addition to this, we have renovated our office in 2020 to have additional sustainability considerations including energy considerations. For more information, refer to page 32 of the Sustainability Report.

Climate-related stress tests are included in our capital adequacy plan (ICAAP), and these scenarios are used to information strategy-setting, business planning and financial planning. The time period used for business planning is usually 5 years, although we also take into consideration longer horizons with a higher degree of uncertainty in the analysis.

Impact of transition to lower-carbon economy on investment strategies

Passive equity strategies

- Due to the passive nature of these discretionary mandates, we have little control over their carbon intensity, apart from insofar as engagement with companies is permissible and effective. There are a number of both physical and transition risks associated with the investment portfolios. However, we expect that the carbon intensity of our strategies would reduce over time as companies in the index transition to lower carbon
- To mitigate these risks, we are using engagement (unless explicitly instructed by clients not to engage in stewardship) as a tool to encourage the transition to net zero.

Treasury investment bond portfolios

- Our treasury investment bond portfolios are heavily exposed to emerging markets, where transitioning to a lower carbon economy is considered a key potential risk
- Thus, similar to the emerging markets debt strategies, data availability and reliability renders assessing climate-related risks and opportunities challenging
- Like in all Fixed Income investments, ESG is fully incorporated into the investment process. However the buy-and-hold nature of the portfolio, combined with numerous constraints liked to the portfolio (rating, duration, spread limitations), reduce our investment flexibility and the potential speed of change in portfolio characteristics

Emerging markets debt strategies

- In emerging markets, rapid transition into a lower carbon economy is considered a key potential risk
- Data availability and reliability is a known issue in the world of sustainability and climate change. This issue is even more pronounced in emerging markets compared to developed markets. Thus, assessing climate-related risks and opportunities in emerging markets is crucially important yet challenging and requires higher level of qualitative assessment
- Yet we use direct engagement to raise companies' awareness of all ESG issues, including climate risks and push for more actions and greater public disclosure

ESG Plus equity strategy

- Our ESG Plus equity strategy is a rules-based strategy. As part of this, companies are dynamically scored over 1,600 ESG factors, including climate factors, to identify best potential companies and best improved companies from an ESG perspective
- Although climate factors are considered, they are not the only factors taken into account. Thus, the strategy does not guarantee that all selected companies score well in terms of their climate-related credentials
- Having said that, our strategy has proven to score strongly against climate-related metrics, especially when compared against the index (see targets and metrics section)
- Climate-related risks associated with this strategy are similar to our passive strategies. However, some risks are mitigated due to our rules based selection of best in class companies, and the most improved companies
- To further mitigate such risks, we use active engagement as a tool to encourage transition to net zero

Risk management

Climate-related risks identification, assessment, mitigation, monitoring and reporting

Our risk function (as second Line of Defence) is supporting and overseeing the first Line of Defence in their management of climate-related risks. Climate-related risks are identified through, amongst other methods, research, analysis, discussions, the Key Risk Register process and Risk and Control Self-Assessments. Carbon emission data is provided to GIB UK by third parties, such as MSCI. While third party data provide a good basis for climate-risk analysis, GIB UK is in the process of exploring data gaps and ways to bridge such gaps.

The risk function also facilitates the assessment of climate-related risks through conducting scenario analysis and stress tests. The main risks relate to the bank's investments and revenues through our client portfolios. Note that, apart from the traded securities shocked as part of this climate change stress test, GIB UK holds no retail exposures (e.g. mortgages), very little corporate exposures (the vast majority of assets are placed with financial counterparties) and the duration of the book is very low. Hence, we are little affected by climate-related risks through these channels. Nonetheless, we will continue to monitor and conduct regular scenario modelling as part of our stress testing approach.

Although all efforts are made to ensure sound management of climate-related financial risks, there remain challenges in conducting rigorous analysis. Limited data are available, especially for companies in emerging markets. What data do exist, they are mostly backward-looking (such as actual emissions) rather than providing information about companies' targets and time frames for reaching net zero emissions. There is little consistency of methodology and approach, resulting in challenges in making meaningful comparisons across time and entities. The process for managing these risks will continue to evolve as data, methodologies and tool kits improve.

Scenario and stress tests

In 2020, we conducted climate change stress scenario testing on the positions the Bank holds as part of its seed investments in the ESG Plus portfolio on a quarterly basis. The aim was to measure the impact of physical and transition risk on these investments which are made with the Bank's capital. Please note that we conducted climate change stress scenario testing on the position that the Bank holds as part of its bond portfolio in 2019. Details can be accessed in our 2019 Sustainability Report.

The rationale behind conducting the analysis on this portfolio was that we believe, when it comes to climate-related financial risks, the value of our capital invested in equities is likely to be affected by climate change risks (please refer to figure 1).

The stress test was conducted by translating the impact of climate-related environmental and economic risks into financial risks, using different market risk factors. The market risk factors included changes in share prices.

We modelled shocks to the market risk factors using scenarios developed from the International Energy Agency Beyond Two Degrees energy transition scenarios. The scenarios measured the exposure of our portfolio to both physical and transition risks, and estimated the stressed impact on the value of our seed capital.

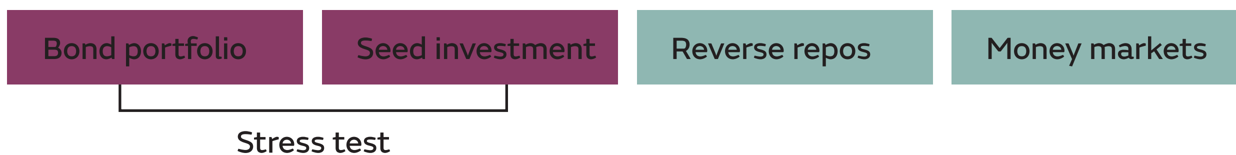
The International Energy Agency Beyond Two Degrees energy identified four scenarios. These are: smooth transition, too late, too sudden transition, full damage and targeted natural disaster. Refer to table 3 for more information. For the purposes of our analysis, we determined that the "too late, too sudden" transition scenario and the "weather event" physical scenario were best suited to our stress tests. The "too late, too sudden" is based on a horizon of 2025. The weather event scenario is based on a horizon of immediate impact.

The stress tests concluded that our exposure to climate-related risks was relatively low and not larger than our Pillar 1 assessment for market risk. The results of the stress tests were reported to the Investment Risk and Performance Committee every quarter, with a comparison to the underlying benchmark.

Figure 1: High level heat map of GIB UK climate-related risks

Treasury and banking

Assets



Liabilities

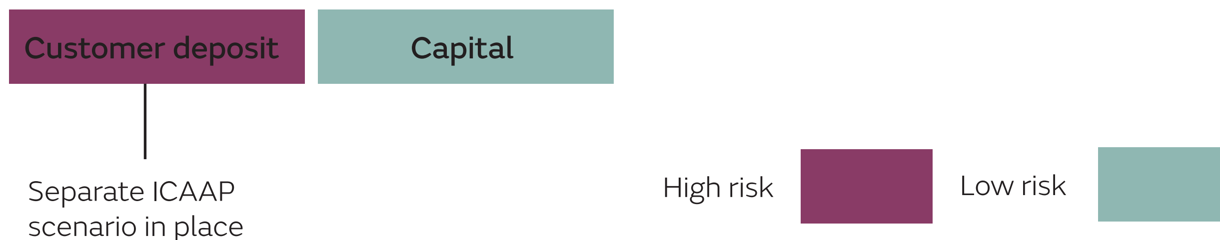


Table 3: Transition and physical risk scenarios

Transition risk		Physical risk	
Smooth transition	Too late, too sudden	Full damage	Target natural disaster
Implementation allowing a gradual economic transition. Horizon 2025 – downward shocks on energy and commodity sectors	Abrupt and sudden policies implementation. Horizon 2025 - More severe downward shock on energy and commodity sectors	Incremental and long term effects of climate change. Horizon 2100 – downward shocks by region and key sectors.	Acute effects resulting from the increased frequency and intensity of natural disasters. Immediate effect of 1 in a 250 years natural disaster

Climate- related risk engagements

In addition to assessing and managing climate-related risks at a firm level, we engage with our investees (on our proprietary portfolios) on climate-related risks. Such engagements include encouraging investees to improve data availability through better disclosure. In 2020, 33% of our equity engagement efforts were related to our investees alignment with the Paris agreement. For more information on our engagement activity, please see page 15 of our Sustainability Report. Our engagement activities related to climate-related risks are still at early stages.

We are committed to improve engagement with our investees. Going forward, we will continue to effectively engage with our investees on climate-related topics.

Targets and metrics

We consider carefully which targets would be most suitable, and impactful, given the nature of our business. We aim to collect metrics, associated with those targets, that provide a timely and clear view of the underlying drivers of the associated activity, as well as how well we are progressing towards achieving our ultimate aims. Metrics are tracked on a regular basis, and whether they remain the correct metrics is reviewed at least annually.

Our own carbon emissions and targets

In 2020, the carbon footprint of GIB UK's physical activities was tCO2e 144.4 of carbon. This equates to tCO2e 1.95 per FTE. This approximately is 70% lower than what we emitted in 2019. The breakdown of our emissions is detailed in table 4.

Table 4: GIB UK's physical activities in TCO2e

	TCO2e estimate		
	2019	**2020**	**Change YoY%**
Scope 1	N/A	N/A	
Scope 2			
Electricity consumed in office and in data recovery sites	73.4	53.3	-27.4%
Scope 3			
Employee business travel (air, commute, taxi, hotel)	409.9	60.9	-85.1%
Additional scope 3 estimated disclosures*	12	30.2	151.7%**
Total	**495.4**	**144.4**	**-70.8%**
Total per FTE	**5.97**	**1.95**	**-67.3%**

*Includes electricity consumed T&D to GIB offices, material use (including in new office) and waste disposal
**Increase in emissions in 2020 is attributed to moving offices

Carbon targets

In 2019, we set ourselves ambitious carbon reduction targets:
- By 2030, reduce overall carbon emissions by 50%, using 2019 as a baseline, and
- By 2030, reduce carbon emissions by 50-55% per FTE, using 2019 as a baseline

These targets were chosen to be consistent with temperature warming of 1.5 degrees above pre-industrial levels. To prevent undoing the positive impact of the pandemic, we have set ourselves an interim target of reducing emissions by 10% in 2021, using 2019 as a baseline. For more information about our 2020 emissions and how we plan to meet our targets, please see page 33 of our Sustainability Report.

Opportunities and risks

The COVID-19 pandemic has presented us with an opportunity to reduce significantly our carbon emissions, particularly our travel emissions, through investing in effective remote working technology. The advantages of this opportunity extends beyond emissions and into travel expenses reductions. Beyond the pandemic, we plan to continue reducing our business travel where possible.

In terms of risks, our carbon emission data do not take into consideration the emissions emitted by our supply chain. Nevertheless, as part of our suppliers and third parties on-boarding process, we vet all of our suppliers' environmental practices including their efforts to reduce their greenhouse gasses emissions. The vetting process is conducted by the first Line of Defence and is supported by the second Line of Defence.

In addition to this, we have added an additional margin on top of our actual emissions for the volume that we offset, as a rough way of allowing for any emissions they produce on our behalf.

Portfolio carbon intensity

We consider our investment emissions as a more important and a more impactful area than our own emissions. As a result, we monitor the carbon intensity of our portfolios.

We acknowledge the limitations and challenges set out by TCFD of using carbon foot printing metrics such as carbon intensity, including that they should not necessarily be interpreted as risk metrics. However, in line with TCFD, we view that such disclosures act as a first step. We also believe that disclosing such information is likely to prompt advancement in the development of decision useful climate-related metrics.

Our passive equity strategies

Due to the passive and discretionary nature of our portfolios, setting carbon reduction targets is difficult. However, we expect that the carbon intensity of our portfolios will go down as the market transitions towards lower carbon.

Average portfolio carbon intensity (tCO2e/ $ sales)
156.74

It is important to note that although some of our portfolios' carbon intensity are lower than those of the benchmarks, it is not intentional. The difference in carbon intensity is attributed to exclusions driven by our clients.

ESG Plus equity strategy

Due to the nature of the ESG Plus equity portfolio (see strategy section), setting carbon targets is difficult. Nonetheless, our strategy actively targets companies with superior carbon metrics and thus we view this investment strategy as a way to provide our clients with access to lower carbon investments.

We monitor the climate-related characteristics of our ESG Plus portfolio. As at the end of 2020, our portfolio exhibited the following:

Indicator	
Weighted average carbon intensity in relation to benchmark	-20%
Portfolio overweighted / (underweighted) companies offering clean technologies compared to benchmark	5.3%
Proportion of portfolio companies with carbon reduction targets	79.7%

Further, between 2017 and 2020, the ESG Plus portfolio reduced its carbon intensity by 16% compared to that of 11% of the benchmark.

Emerging markets debt strategies

It is extremely difficult to set carbon targets on our emerging markets debt strategies for a number of reasons including:

- Data availability and reliability issues. As at the end of December we only had data coverage for 56% of issuances within our portfolios
- The client led nature of our mandates (guidelines set by the clients). Although we engage with our clients on the benefits of reducing our investments' carbon intensity, the ultimate decision on whether or not to do so lies with our clients

Despite these difficulties, our portfolios' carbon intensity at the end of 2020 was approximately 686.4 tCO2e / USD million sales; 19.5% lower than the market as represented by the JP Morgan Corporate Bond ETF.

Treasury investment bond strategies

The heavy exposure of our portfolios to emerging markets renders it difficult to set carbon targets. In spite of this, our portfolios' weighted average carbon intensity at the end of 2020 was approximately 360.1 tCO2e / USD million sales; 19.2% lower than the Barclays Global Aggregate benchmark.

Looking ahead, and as the market offers more investment opportunities, we expect that our portfolios' carbon intensity would continue to go down.

Conclusion

We have made considerable progress against the TCFD recommendations over the past year, and aim to make further improvements to our disclosures for 2021. We encourage others to do the same.

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