

## **BBK Climate – Related Risk Position Statement**

BBK recognizes that climate-related risks represent an increasingly material area of focus within the global financial system with potential implications for financial stability and institutional resilience. In line with the guidance of the Central Bank of Bahrain (CBB) and its Environmental, Social, and Governance (ESG) guidelines for the banking sector, the Bank continues to strengthen how climate considerations are reflected within its overall risk-management framework. Climate-related factors are increasingly influencing risk assessment, lending practices, and product development, and are therefore viewed as integral to BBK’s long-term resilience and strategic positioning.

The statement builds on the Bank’s existing Environmental, ESG, and Climate Change Position Statements and sets out BBK’s intention to integrate climate considerations into its business activities and risk processes.

The following principles outline BBK’s evolving approach to identifying, assessing, and managing climate-related risks in a manner consistent with international best practices, including International Financial Reporting Standard (IFRS) Sustainability Disclosure Standard S2: Climate-related Disclosures and the Basel Committee on Banking Supervision’s Principles for Effective Management and Supervision of Climate-related Financial Risks.

### **Governance & Oversight**

BBK ensures that climate-related risk awareness is embedded within its governance structure, supported by the oversight of the Board of Directors and senior management. The Bank’s senior leadership continues to guide the implementation of its Sustainable Finance Framework, through which BBK promotes lending and investment products that support clients in reducing emissions, adapting to climate impacts, and contributing to broader national sustainability goals.

Entity	Key Roles & Responsibilities
<b>BBK Board of Directors</b>	<ul style="list-style-type: none"> <li>• Oversee the Bank’s comprehensive Climate Change Strategy.</li> <li>• Monitor emissions reduction initiatives and performance.</li> <li>• Ensure compliance with national, regional, and industry regulations.</li> </ul>
<b>Senior Leadership</b>	<ul style="list-style-type: none"> <li>• Led by the Group Chief Executive and Group Chief Strategy and Transformation Officer.</li> <li>• Recommend strategic direction for climate initiatives.</li> <li>• Integrate climate goals into broader bank strategy.</li> </ul>
<b>Sustainability Management Committee</b>	<ul style="list-style-type: none"> <li>• Includes Group Chief Executive and Executive Management.</li> <li>• Align operational goals with sustainability objectives.</li> <li>• Ensure sustainability goals are pursued and embedded in daily operations.</li> <li>• Provide oversight and review emissions performance.</li> </ul>
<b>Sustainability Department</b>	<ul style="list-style-type: none"> <li>• Reports to Group Chief Strategy and Transformation Officer.</li> <li>• Manage implementation of emissions reduction initiatives.</li> <li>• Ensure alignment with targets and reporting requirements.</li> </ul>
<b>Climate Risk Working Team</b>	<ul style="list-style-type: none"> <li>• Integrate green financing and investment principles into the Bank’s operating model.</li> <li>• Expand sustainable product offerings.</li> <li>• Ensure use of proceeds positively impacts the environment.</li> </ul>

As the materiality of climate-related risks continues to evolve, BBK will explore strengthening governance mechanisms to ensure accountability for climate-related decision-making is integrated into the Bank’s existing enterprise risk management framework. Oversight responsibilities will continue to be refined to ensure alignment with the Bank’s strategic priorities, risk appetite, and stakeholder expectations.

## Risk Management Approach

BBK is committed to enhancing its capacity to identify, assess, and manage climate-related risk drivers specifically **physical risks** and **transition risks** across its operations and portfolio.

- **Physical Risk Drivers** include acute events (e.g., floods, storms, heatwaves) and chronic changes (e.g., rising temperatures, sea levels) that may disrupt assets, operations, and supply chains.
- **Transition Risk Drivers** arise from policy shifts, technological innovation, market evolution, and changing stakeholder expectations during the transition to a low-carbon economy.

These can manifest across BBK's traditional financial and non-financial risk categories:

- **Credit Risk** – Clients in high-emission sectors may face declining asset values, higher costs or business model disruptions.
- **Market and Financial Risk** – Asset valuations and collateral may be affected by environmental shocks or regulatory changes.
- **Operational Risk** – Extreme weather events may disrupt facilities, systems, or supply chains.
- **Compliance and Regulatory Risk** – New environmental standards and disclosure requirements may introduce costs and obligations.
- **Reputational Risk** – Public perception and stakeholder scrutiny may impact brand value.
- **Technology Risk** – Rapid innovation in green technologies may render existing assets or business models obsolete.

Priority sectors for climate risk assessment include, but are not limited to, oil and gas; real estate; transport and logistics; manufacturing; and agriculture and food security.

BBK manages climate-related risks through its established Three Lines of Defense model, which provides a structured and transparent approach to identifying, assessing, monitoring, and assuring climate-related risk management activities across the Bank. This model delineates responsibilities between business units, risk and compliance functions, and internal audit, ensuring that climate risks are managed consistently with the Bank's broader enterprise risk framework.

BBK's three lines of defense model:

**First Line of Defense – Business & Support Units**

Business units, operations, and frontline teams are responsible for identifying and managing climate-related risks within day-to-day activities. They ensure that sustainability elements are considered in lending decisions, portfolio management, client engagement, and operational practices.

This includes the Climate Risk Working Team, which integrates green financing principles, expands sustainable product offerings, and ensures the environmental impact of financed activities is communicated and tracked.

**Second Line of Defense – Risk Functions**

The Sustainability Department and the Risk Management function provide independent oversight and effective challenge. They develop climate-related risk frameworks, support the assessment of transition and physical risks, ensure alignment with regulatory requirements, and monitor progress against the Bank's climate commitments.

The Sustainability Management Committee, comprising the GCE and Executive Management, provides direction by aligning operational goals with sustainability objectives and reviewing emissions performance on a quarterly basis.

**Third Line of Defense – Independent Assurance**

Internal Audit provides independent assurance over the effectiveness of climate-related governance, risk management controls, and reporting processes. The function periodically evaluates whether climate-related responsibilities are being carried out effectively across the Bank and whether governance mechanisms remain aligned with emerging regulatory expectations.

### **Climate Risk Adaptation**

To strengthen its resilience to climate-related financial risks, BBK is exploring a range of strategic tools and mitigation approaches. These efforts aim to address the potential transmission of climate risk drivers both physically and transition into traditional financial risk categories across its portfolio.

- Developing sustainable finance products that support clients in adopting low-carbon technologies and business models, helping reduce exposure to regulatory shifts and market transitions. *(Transition risk)*
- Enhancing ESG profiling of clients to assess their readiness for transition and their vulnerability to climate-related disruptions, supporting more informed credit decisions and portfolio segmentation. *(Both physical and transition risk)*
- Engaging suppliers and borrowers to improve emissions and adaptation data, enabling better risk modeling and supporting supply chain resilience across diverse operating environments. *(Both physical and transition risk)*

This multi-dimensional approach supports BBK's ability to remain responsive to climate risks across its diverse operational footprint with distinct environmental and economic contexts.

### **Quantification and Disclosure**

BBK acknowledges the growing importance of transparent climate-related disclosure in line with evolving international standards such as the Task Force on Climate-related Financial Disclosures (TCFD) and IFRS S2. BBK is committed to enhancing consistency, comparability, and relevance of its disclosures for stakeholders.

BBK is committed to expanding upon existing publications to reflect progress in climate risk management, exposure assessment, and governance practices. To further strengthen its disclosure practices, BBK will assess opportunities to align its future reporting with IFRS S2, with the aim of strengthening its climate-related reporting practices. This alignment will also reinforce BBK's commitment to ensuring that climate-related risks and opportunities are transparently communicated.

BBK acknowledges that addressing climate risk is an evolving process that requires capacity building, collaboration, and data-driven decision-making. The Bank is committed to developing and enhancing the internal capabilities, systems, and partnerships necessary to assess and manage climate-related risks in the future.

Going forward, BBK will continue to:

- Enhance internal awareness and training on climate risk across relevant teams.
- Strengthen data collection and monitoring to identify emerging climate-related exposures.
- Explore collaboration with regulators, industry associations, and external experts to align with evolving best practices.
- Continue to assess the feasibility of scenario analysis and stress testing for climate-related factors, once sufficient data becomes available, as part of the Bank's ICAAP.

These efforts will ensure that BBK remains prepared to integrate climate risk fully into its enterprise risk framework when material, supporting the Bank's long-term strategic objectives and resilience.