CABS CLIMATE RISK POLICY

Risk Policy Owner

Deputy Managing Director

Contacts

Head of Credit & Head of Operations

Version/Date

Version 1/Approved 30 August 2024

Effective Date

This Policy was approved by the CABS Board. It is effective from 30 August 2024.

This Policy must be read in conjunction with the CABS Enterprise Risk Management Policy.

1. What is the Purpose of this Policy?

1.1. The objective of this policy is to set the CABS-wide principles for the management of Climate risk.

1.2. The Bank is committed to integrating climate change impacts into its operations and decision-making to lend momentum towards transitioning to a greener and more climate resilient business. The Policy guides the bank to transition towards low carbon and climate resilient operations and investments.

1.3. Climate risk management is an integral component of the sustainability initiatives; thus, this Policy is subordinate to the CABS Environmental Social and Governance (ESG) Policy (to be renamed the Sustainability Policy at the next policy review).

1.4. The Deputy Managing Director (DMD) is accountable for overseeing the implementation of this Policy as the CABS Climate Risk Policy Owner. The DMD will also assist in coming up with minimum standards for associated processes, methodologies, and tools, including the proportional application of requirements and related waivers. The DMD will be primarily assisted or supported by the Head of Credit (given the proportion of climate risk that is credit risk related); and the Head of Operations (given the number of operational related climate risk metrics). In addition, the Compliance and Commercial Services Departments contribute to processes to adhere to climate risk policies.

1.5. This policy must be managed and maintained as per the requirements set out in the CABS ERM Policy. This Policy must be reviewed at least annually to ensure it remains relevant or more frequently if circumstances require it.

1.6. In addition to climate-related risks, business opportunities presented by climate change shall also be explored, allowing the bank to better position itself in not only reducing costs for own operations but also meeting growing demand for low carbon lending.

2. Who Does the Policy Apply to?

2.1. This Policy is applicable to CABS.

3. What risks are managed by this policy?

3.1. Climate risk, which is defined as the financial impact of a changing climate, including more frequent extreme weather events and gradual changes in climate, as well as of environmental degradation, such as air, water and land pollution, water stress, biodiversity loss and deforestation.

3.2. Climate risk is usually divided into two (2) broad categories: physical risk and transition risk.

3.2.1. Physical risks arise from the physical climate (and weather) impacts that result from the changing climate. Physical risks result from hazards that are usually subdivided into acute and chronic hazards. The former includes weather-related or weather-exacerbated events, whose incidence are increasing with climate change, such as floods, hurricanes, droughts, and wildfires. The latter includes gradual, long-term trends such as rising average temperatures and sea levels.

3.2.2. Transition risks arise from the economic transformation and any dislocation needed to drastically reduce, and eventually eliminate, net greenhouse gas emissions to reach net zero emissions - a goal that many countries including Zimbabwe have set for themselves to reach by 2050. The drivers of transition risk include factors such as tighter government policies to reduce emissions (e.g., through carbon taxes), technological changes (e.g., cheaper renewables making fossil fuel–based power generation less economical by comparison), and bottom-up consumer pressures for sustainable products.

3.3. For the purposes of this policy, it is key to consider the following:

a) Climate change which is a change in the climate system which is caused by significant changes in the concentration of greenhouse gases arising from human activities and which is in addition to natural climate change that has been observed during a considerable period.

b) Climate-related financial risks which are the potential risks that may arise from climate change or from efforts to mitigate climate change, their related impacts, and their economic and financial consequences.

4. What Risk Appetite Statements Apply to this Policy?

4.1. The CABS risk preferences and appetite limits are set out in the CABS Risk Strategy document which describes specific risk preferences and metrics. This Risk Strategy is reviewed at a minimum at least annually by the CABS Board.

4.2. We have a **low** appetite for climate risks, as these risks have a marginal risk/return trade-off in relation to the business objectives. Of particular consideration would be the physical risk impacts of climate risk for which CABS has a **limited** preference for given their adverse impact.

5. What are the Minimum Mandatory Requirements of this Policy?

5.1. Model Governance Roles and Responsibilities

Board…

5.1.1. The CABS Board is responsible for climate risk management within CABS. In overseeing the management of climate risks, the Board needs to:

a) ensure an appropriate understanding of, and opportunity to discuss, climate risk at board meetings and sub-committees;

b) set clear roles and responsibilities of senior management in the management of climate risks;

c) re-evaluate the risks, opportunities and accountabilities arising from climate change on a periodic basis, and consider these risks and opportunities in approving the institution's strategies and business plans;

d) approve changes to the Climate Risk Policy at least annually;

e) take both a shorter-term view (consistent with the institution's regular business planning horizon) and longer-term view when assessing the impact of climate risks and opportunities;

f) ensure that, where climate risks are found to be material, the institution's risk appetite framework incorporates the risk exposure limits and thresholds for the financial risks that the institution is willing to bear; and

g) set the risk appetite thresholds for climate and climate-related risks.

5.1.2. Reporting to the Board on climate risk is to be done at least quarterly. Reporting to the Board should include, among others:

a) changes in business strategy, climate risk strategy/risk appetite;

b) the bank's performance and financial condition;

c) breaches of risk limits or compliance rules;

d) internal control failures; and

e) legal or regulatory concerns.

Board Committees…

5.1.3. The Board will be supported by the Board Risk and Compliance Committee (BRCC) in executing their mandate to oversee climate risk. Reporting to the BRCC on climate risk related matters will be done quarterly.

5.1.4. The Board Loans Review Committee (BLRC) will oversee credit related climate risk aspects. Reporting to the BLRC to be done quarterly.

Executive Committee (Exco)…

5.1.5. Exco is responsible for:

a) applying the risk management framework to assess and manage climate risk exposures on an ongoing basis, including developing and implementing appropriate policies;

b) regularly reviewing the effectiveness of the framework, policies, tools, and metrics and targets, and making appropriate revisions;

c) providing recommendations to the Board on the institution's objectives, plans, strategic options, and policies as they relate to climate risks that are assessed to be material. This may include the establishment and use of relevant tools, models, and metrics and targets to monitor exposures to climate risks so as to enable the board to make informed decisions in a timely manner; and

d) ensuring that adequate resources, skills, and expertise are allocated to the management of climate risks, including thorough training and capacity building amongst relevant staff.

5.1.6. Reporting to Exco on climate risk is to be done monthly.

Sustainability Committee…

5.1.7. The main function of the Committee is to develop the Society's ESG (including climate) Strategy which is aligned to the Society's overall business strategy and goals; monitor progress against the Climate Risk Implementation Plan as well as implementation of the Climate strategy; and climate metrics against the agreed thresholds.

5.1.8. The committee also identifies climate risk and strategic opportunities for the Society that arise for the Society's operations or initiatives and oversees the Society's approach to external communication relating to climate risk and ensure a good dialogue with stakeholders on climate risk is maintained.

5.1.9. The Sustainability Committee will meet monthly to deliberate on sustainability (including climate risk) matters. The Sustainability Committee is assisted by the Sustainability Working Group which is comprised of representation from various departments within CABS. The Sustainability Working Group also meets monthly.

5.2. Risk Management

5.2.1. The board is ultimately responsible for the institution's risk management framework, and for the oversight of its operation by management.

5.2.2. Senior management of the institution monitor and manage all material risks consistent with the strategic objectives, risk appetite statement and policies approved by the Board.

5.2.3. Climate risks are to be considered within the risk management existing framework, including the Board approved risk appetite statement, risk management strategy and business plan.

5.2.4. Arrangements to identify, measure, monitor, manage, and report on exposure to climate risks are to be conducted in a manner proportionate to the bank's size, business mix and complexity of its operations.

5.2.5. Risk identification

5.2.5.1. CABS will seek to understand climate risks and how they affect its business model, including being able to identify material climate risks and assess their potential impact on the institution. Scenario analysis with both a short- and long-term time horizon, may be used to inform the risk identification process.

5.2.5.2. CABS will consider climate risks within the established risk categories as identified in the risk categorisation model. In addition, the bank will determine the materiality of climate risk within each of the established risk categories.

5.2.5.3. CABS will identify economic sectors with higher or lower exposures to physical and/or transition climate risks. Assessment of economic sectors may be used to develop sector specific interventions. An integrated approach to climate risks is to be taken across different business lines. The criteria for this identification may include a range of factors, such as:

a) vulnerability to extreme weather events;
b) the level of greenhouse gas emissions;
c) potential exposure to changes in climate-related policy or technology;
d) vulnerability to climate-related supply chain changes or disruption;
e) vulnerability to climate-related disruption of business activities; and/or
f) linkages to unsustainable practices.

5.2.5.4. CABS needs to:

a) consider and record any material impact on capital adequacy as a result of climate risks. The Internal Capital Adequacy Assessment Process (ICAAP) will be used for this purpose;
b) evaluate the impact of climate related risk drivers on the credit risk profiles and ensure credit risk management systems and processes consider material climate-related financial risks;
c) identify and understand how climate-related risk drivers could impact the value of financial instruments in its portfolio, evaluate the potential risk of losses on and increased volatility of the portfolio, and establish effective processes to control or mitigate the associated impact;
d) consider the impact of climate-related risk drivers on its liquidity risk profile and ensure that liquidity risk management systems and processes incorporate material climate-related financial risks; and
e) ascertain the impact of climate-related risk drivers on operational and other risks should be ascertained. The bank should, therefore, assess the impact of climate-related risk drivers on its operations and on business resilience particularly for critical operations.

5.2.6. Risk Monitoring

5.2.6.1. Both a qualitative and quantitative approach, including developing metrics to measure and monitor climate risks appropriate to the institution's size, business mix and complexity of business operations will be employed by CABS. Such metrics might be used to assess portfolio exposures to geographical areas and economic sectors with higher or lower climate risk.

5.2.6.2. More advanced quantitative risk metrics may take a variety of forms, such as direct and indirect emissions (usually classified into scope 1, scope 2 and relevant scope 3 emissions), exposure to physical risks, monitoring potential impacts to core business metrics such as credit risk, losses or investment returns, modelling the impact of climate scenarios on project returns and/or quantifying the impact of adaptation measures.

5.2.6.3. Data from both publicly available and proprietary sources may be utilised, and in need assistance from external experts will be sought.

5.2.6.4. Climate-related targets for the various activities will be determined (this will be done as per the timelines outlined in the Climate Strategy). The metrics and targets are to be updated regularly to support decision making by the Board and senior management. At times, circumstances arise which might trigger a review of the strategy or engagement with customers and counterparties.

5.2.6.5. Risk monitoring extends to monitoring the impacts that climate risks may have on outsourcing arrangements, service providers, supply chains and business continuity planning.

5.2.7. Risk controls

5.2.7.1. CABS will document and implement plans to mitigate climate risks and manage exposures, as well as regularly review and assess the effectiveness of those plans.

5.2.8. Risk reporting

5.2.8.1. CABS should have procedures to routinely provide relevant information on material climate risk exposures, including monitoring and mitigation actions, to the Board and senior management.

5.2.8.2. Reporting to the Board, BRCC, BLRC will be done quarterly whilst reporting to Exco and the Sustainability Committee will be done monthly.

5.3. Internal Controls & Internal Control Framework

5.3.1. The Bank shall implement adequate internal control measures, in line with the various Board approved policies, with the aim of offsetting the potential impact and/or reducing the severity of impact of the identified climate-related risks.

5.4. CABS use the three (3) lines of assurance model in Climate risk management.

a) The first line of assurance being business line management. Business line management have the primary responsibility for identifying and managing climate risks inherent in the products, activities, processes, and systems for which they are accountable.

b) The second line of assurance, the risk function, will undertake independent climate-related risk assessments and monitoring, including challenging the initial assessment conducted by the frontline, while the compliance function will ensure adherence to applicable rules and regulations.

c) The third line of assurance, Internal Audit is an independent assurance function which challenges the Society's climate risk management controls, processes and systems and provides assurance that the lines of assurance are working effectively and efficiently. The internal audit function should carry out regular reviews of the overall internal control framework and systems in the light of changes in methodology, business, and risk profile, as well as in the quality of underlying data.

5.5. Scenario Analysis[1]

5.5.1. CABS is to undertake climate risk scenario analysis and stress testing. This analysis assists in informing the risk identification process over both the short and long term.

5.5.2. Scenario analysis and stress testing for climate risks needs to be proportionate to the bank's size, business mix and complexity.

5.5.3. In the event that CABS lacks the data, resources, or expertise to conduct climate risk stress testing with appropriate quantitative assessments, the Society may employ a narrative driven scenario. Qualitative scenarios can provide insights into the operations and channels of risk transmission, and findings from such an assessment can be reflected in business plans, strategies, and risk management practices.

5.5.4. When conducting more advanced quantitative climate risk analysis, CABS will seek to identify and simulate scenarios which are both plausible and relevant to its operations.

5.5.5. Factors to consider when undertaking climate risk stress testing:

a) Shorter-term assessment of current exposures to climate risks, in line with current business planning cycles.

b) Longer-term assessment of future exposures based on a range of different climate related scenarios, potentially extending to 2050 or beyond. Key considerations when building such scenarios include, among others:

- Future temperature rise:
  - global average temperatures continuing to rise in the absence of mitigating actions and policies, leading to greater physical climate risks; and
  - limiting global average temperature increase to well below 2˚C by 2100, consistent with the Paris Agreement, reducing the magnitude of longer term physical risks;
- Economic transition pathway:
  - an orderly transition to a lower-emissions economy, with policies and activities to address climate change being introduced early and gradually

[1] This section is to be read in conjunction with the CABS Stress Testing Framework.

becoming more stringent, minimising both physical and transition risks; and
  - a disorderly transition to a lower-emissions economy, with delayed action to reduce emissions leading to an increase in acute transition risks.

c) Incorporating both qualitative and quantitative factors into the scenarios used to project the future financial conditions of an institution

d) Assessing both physical and transition risks within each scenario used.

e) Seeking input from external experts, as required (or in need), while maintaining appropriate internal knowledge and oversight to ensure that the results of any outsourced analysis are credible, realistic, and understood by CABS.

f) Measuring the impact of climate risks on a range of business obligations and considerations, including, among others, capital adequacy, liquidity, and the ability (as appropriate) to meet obligations to depositors.

g) Incorporating forward-looking information into scenario analysis, such as considering future trends in catastrophe risks, technology innovation or policy development. Analysis that relies solely on historical data has the potential to systematically underestimate the impacts of climate risks, due to the complex dynamics of interconnected lines of business and the non-linear and unprecedented levels of disruption.

5.5.6. When selecting inputs into climate assessments, CABS should pay due regard to:

a) the time horizon of datasets used, including the need for appropriate longer-term timeframes as well as sufficient temporal resolution for the risks assessed (for example, some physical risks might require seasonal data, while annual or decadal data may be appropriate for other risks);

b) geographic specificity, ensuring that local extreme weather events and locations to which CABS may be exposed are represented;

c) the impact of multiple extreme weather events arising concurrently; and

d) the range of global emissions pathways included in a dataset and the capacity for a model (where in use) to evaluate simulations and projections, noting that testing scenarios at the extreme ranges is more likely to identify risks.

5.5.7. Where climate risk scenario analysis or stress testing results are disclosed, significant design features should be disclosed to enable stakeholders to effectively interpret results and compare them between institutions.

5.5.8. Appropriate documentation of the method and results of climate risk scenario analysis and stress testing, including an assessment of the limitations of the analysis for assessing the climate risks faced by CABS, should be in place. Material results are to be communicated to the institution’s Board and senior management, and used to inform business planning and strategy setting, as well as setting and reviewing the overall climate risk management approach.

5.5.9. Climate scenario models, frameworks and results should be regularly reviewed by internal and/or external experts and independent functions.

5.6. Disclosure

5.6.1. The disclosure of climate risk information allows interested stakeholders to assess an institution’s resilience to climate risks.

5.6.2. The disclosures are to be guided by the requirements outlined in the Reserve Bank of Zimbabwe, Bank Supervision Division Guideline No.01-2023/BSD: Climate Risk Management as well as best practice requirements - Global Reporting Initiative (“GRI”) Standards

5.6.3. At a minimum, the bank’s disclosure should incorporate the following:

a) Governance, including the Board’s oversight and management’s role in assessing and managing climate-related risks and opportunities;

b) Strategy, in relation to the actual and potential impact of climate-related risks and opportunities on the regulated institution’s businesses, strategy and financial planning, where such information is material;

c) Risk management, regarding identification, assessment, and management of climate-related risks; and

d) Metrics and targets, to assess and manage relevant climate-related risks and opportunities where such information is material.

5.6.4. CABS should continually look to evolve its disclosure practices, and to regularly review disclosures for comprehensiveness, relevance, and clarity.

6. The Role of Management Information Systems (MIS)

6.1. From time-to-time CABS shall adopt an appropriate management information system to allow for data collection, management, and reporting.

7. What Needs to be Escalated?

7.1. CABS is responsible for immediately escalating material non-compliance with this policy to Exco, and where applicable, to BRCC and the Board, within one (1) day of discovery of the matter[2].

8. Appendix 1 - Document Version Control

Document Version Control			
Version	**Details / Description**	**Author / Reviewer**	**Date of Edition / Approval**
1.0	Draft Policy	DMD and Head of Risk	August 2024
1.1	Initial Policy version	Exco & Sustainability Committee	August 2024
1.2	Consideration by BRCC	BRCC	August 2024
1.2	Consideration by Main Board	Main Board	August 2024

[2] Section also to be read in conjunction with the CABS Escalation and Risk Event Policy which stipulates how escalation within CABS is to be done.