DTB | DIAMOND TRUST BANK

2022 TCFD REPORT

About DTB's Task Force for Climate-related Financial Disclosures Report

Diamond Trust Bank Kenya Ltd's (DTB's) inaugural Task Force on Climate-related Financial Disclosures (TCFD) Report provides a status update on how the Bank is addressing climate-related risks and unlocking opportunities, and progress made in implementing TCFD recommendations.

The Report adheres to the guidelines outlined by the Financial Stability Board's (FSB) Task Force on Climate-related Financial Disclosures framework, and the Central Bank of Kenya's Guidance on Climate-Related Risk Management.

Scope and reporting period
The data provided in this Report covers the period 1 January 2022 to 31 December 2022 and includes any notable or material events after this period.

Oversight
Oversight of DTB's Sustainability and Citizenship Strategy rests with the Board of Directors which delegates responsibility to relevant Board and Management Committees.

The Bank's Sustainability Management Committee (SUSCO) is responsible for aligning the sustainability strategy with the TCFD's recommendations, ensuring the accuracy and transparency of the TCFD report and actively addressing climate-related risks and opportunities.

Approval
This TCFD Report has been approved by DTB's Board of Directors.

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ABBREVIATIONS

ABBREVIATION	MEANING
BACC	Board Audit and Compliance Committee
BCC	Board Credit Committee
BNHRC	Board Nomination and HR Committee
BRMC	Board Risk Management Committee
BSC	Board Strategy Committee
CBK	Central Bank of Kenya
DTB	Diamond Trust Bank Kenya Ltd
The Bank	Diamond Trust Bank Kenya Ltd
E&S	Environmental and Social
ERAS	Enterprise Risk Appetite Statement
ERMF	Enterprise Risk Management Framework
ESDD	Environmental and Social Due Diligence
ESG	Environmental Social and Governance
ESIA	Environmental, Social Impact Assesment
ESM	Environmental and Social Management
FSB	Financial Stability Board
GHG	Greenhouse gases
HRMC	Human Resource Management Committee
IFRS	International Financial Reporting Standards
LT	Long – Term
MCC	Management Credit Committee
MT	Medium – Term
NSE	Nairobi Securities Exchange
RAF	Risk Appetite Framework
RMCC	Risk Management Compliance Committee
SDGs	Sustainable Development Goals
SEMS	Social and Environmental Management Systems
ST	Short – Term
SUSCO	Sustainability Management Committee
TCFD	Task Force on Climate–related Financial Disclosures
IFC	International Finance Corporation
AfDB	African Development Bank
DEG	Deutsche Investitions- und Entwicklungsgesellschaft
AFD	French Development Agency
ToRs	Terms of Reference

DEFINITIONS

TERM	DEFINITION
Environmental and Social Management System (ESMS)	A set of policies, procedures, tools, and internal capacity to identify and manage a financial institution's exposure to the environmental and social risks of its clients.
Anthropogenic	Resulting from or produced by human activity.
Climate change	A change in the climate system which is caused by significant changes in the concentration of greenhouse gases because of human activity and which is in addition to natural climate change that has been observed during a considerable period.
Greenhouse gases	Gaseous constituents of the atmosphere, both natural and anthropogenic, that absorb and emit radiation at specific wavelengths within the spectrum of infrared radiation emitted by the Earth's surface, atmosphere, and clouds.
Climate-related risks	Potential risks that may arise from climate change, their related impacts, and economic and financial consequences, which include drivers of climate risks, namely physical, transition and liability risks.
Physical risks	Economic costs and financial losses resulting from the increasing severity and frequency of extreme climate change-related weather events, and longer-term gradual climate shifts.
Transition risks	Risks related to the process of adjustment towards a low-carbon economy including changes in Government policies, legislation and regulation, technology as well as market and customer sentiment.
Transmission channels	The causal chains that explain how climate risk drivers give rise to financial risks that impact financial institutions directly or indirectly through their counterparties, the assets they hold and the economy in which they operate.
Carbon neutrality	Occurs when net contribution to GHG emissions is zero as emissions are fully compensated by offsets.
Net Zero	The balance between the amount of greenhouse gases produced and the amount removed from the atmosphere.
Climate adaptation	The process or actions taken to lower the negative effects and/or moderate harm caused by climate change.
Climate mitigation	The process of reducing or preventing emission of GHG into the atmosphere.
Scenario	A plausible description of how the future may develop based on a coherent and internally consistent set of assumptions about key driving forces (e.g., rate of technological change) and relationships. Notably, scenarios are neither predictions nor forecasts but are used to provide a view of the implications of developments and actions.
Stress testing	Typically used to evaluate a financial institution's near-term resiliency to severe but plausible economic and financial shocks, often through a capital adequacy target.
Paris Agreement	An international agreement signed in 2015 to keep the average global temperature rise in this century well below 2°C above preindustrial levels and to pursue efforts to limit the temperature increase to 1.5°C.
Development Partners	Established international development financial institutions that the Bank collaborates with in the development agenda such as IFC, AfDB, DEG, AFD and PROPARCO.
E&S Procedure	The Procedure detailing how organisation addresses E&S issues as part of its lending operations.
E&S Risk Categorisation	To ensure that the extent of the E&S review is commensurate with the nature of risk, categorisation of the ESG risks is critical. The categorisation procedures are based on basic information about a project such as sector and scale ,and the level of E&S risk the project could pose is determined. This enables the Bank to determine the extent and sophistication of the E&S review. Examples of E&S risk categorisation include High, Medium, and Low risk or as commonly referred by Category A, B, C.
Environmental & Social Risk Management Policy (ESRP)	The ESRP establishes processes for identifying, assessing, managing, mitigating, and reporting material environmental and social risks across the business. The policy is based on international guidelines including the International Finance Corporation (IFC) Performance Standards.
Environmental and Social Due diligence (ESDD)	The systematic identification, quantification and assessment/evaluation of environmental and social risks associated with a proposed transaction.

DEFINITIONS (CONTINUED)

TERM	DEFINITION
Environmental and Social Impact Assessment (ESIA)	A process or tool, based on an integrated assessment, where the scale and type of potential biophysical and social risks are borne by projects. It involves environmental and social policy reviews to predict, acknowledge, evaluate alternatives, and design appropriate mitigation, management, and monitoring measures to manage the predicted potential impacts.
Environmental Social Action Plan (ESAP)	A document outlining identified social and environmental issues that Relationship Managers prepare after reviewing the financed project and its documents agreeing on actionable items by the clients, which are duly tracked.
Environmental Social Monitoring Reports (ESMR)	These are progress reports, of un-addressed E&S issues of financed projects, prepared by the Relationship Manager along other covenant tracking items.

1.0 INTRODUCTION

Reflecting the financial sector's commitment to address climate change, the Financial Stability Board (FSB) established the industry-led Task Force on Climate-related Financial Disclosures (TCFD), in December 2015, to propose a set of recommendations for consistent disclosures to help financial market participants understand their climate-related risks.

TCFD aims to promote more informed investment, credit, and insurance underwriting decisions, foster an early assessment of these risks, and facilitate market discipline. For DTB, sustainability is one of its key strategic pillars and the Bank is committed to supporting the implementation of TCFD recommendations.

Based on the requirements of CBK's Guidance on Climate-Related Risk Management, issued in October 2021, DTB developed a climate risk and opportunities implementation plan, to identify, manage, and disclose its climate-related financial risks and opportunities.

In 2022, DTB's climate risk and opportunities implementation plan delivered in the following areas:

1. DTB undertook the work prescribed by the Central Bank of Kenya's Guidance on Climate Related Risk Management to develop its climate risk management framework as well as identify the opportunities presented by climate change to its internal and external stakeholders.

2. Various governance instruments were developed and/or reviewed, including the Board's Terms of Reference (ToRs) and Bank policies to align them with CBK's Guidance on Climate Related Risk Management and the Nairobi Securities Exchange (NSE) ESG Guidance Manual.

3. DTB conducted ESG sensitisation workshops for the Bank's Board, employees and customers to make them more conversant with the risks and opportunities presented by climate change and sustainability in general. More sessions are planned for these and other DTB stakeholders, including vendors and partners.

The Bank will continue to ensure that it complies with CBK's Climate-related Risk Management Guidelines including the TCFD requirements which are pegged on four categories namely: Governance, Strategy, Risk Management, and Metrics and Targets.

2.0 GOVERNANCE

2.1 Introduction

As a financial institution, DTB is alive to the significant role it plays to combat climate change by supporting the transition to a low-carbon and climate-resilient global economy. As such, DTB supports the school of thought that financial flows should be directed in line with the Paris Agreement's objective to limit the rise in global temperature to within 2°C above pre-industrial levels, with the aim of achieving a rise of no more than 1.5°C by the end of this century.

Aligned to this, the Bank is pursuing a three-pronged approach when addressing climate change and climate-related risks.

- First, by working with its customers to support their transition to low-carbon and climate-resilient business models, and to integrate climate change risk management models as part of the climate risk implementation plan.

- Second, by focusing on delivering sustainable financial solutions to enable customers achieve their goals and contribute to the realisation of the UN Sustainable Development Goals (SDGs).

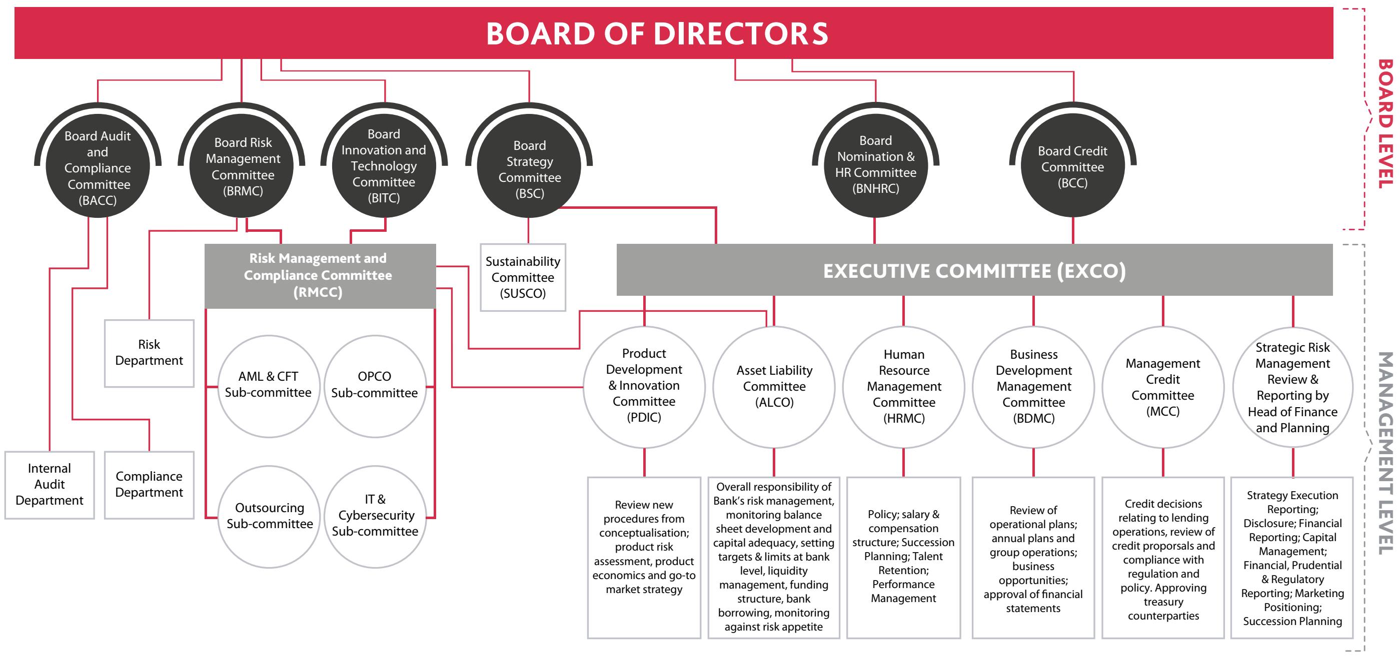
- Third, by working to further reduce the carbon footprint of its own operations and those of its value chain.

To achieve its net-zero ambitions, the Bank has put in place a plan to reduce its lending exposure and emissions associated with its financing activities in climate sensitive sectors. In 2022, DTB's green lending portfolio was approximately 5.4%. The Bank plans to increase this, in line with the Paris Agreement ambitions, and as part of its commitment to underwrite a sustainable future.

2.0 GOVERNANCE (CONTINUED)

2.2 Governance Structure Schematic

Preliminary progress, detailed in this chapter, is an endorsement of the Bank's governance efforts, which lends considerable weight to customer transition to a carbon-neutral economy, and is an example of the Bank's climate commitments being translated into action.



2.3 Board and Delegated Oversight Committees' Responsibilities

Board of Directors (BOD)

The Bank is governed by a duly elected, highly competent and diverse Board. The Board under CBK/PG/02 has overall responsibility for the Bank, including approving and overseeing the implementation of the Bank's strategic objectives, risk strategy, corporate governance, and corporate values. The Board is also responsible for providing oversight of senior management.

The Board has undergone training on emerging risks including ESG and Climate-Related Risks and has delegated oversight of risk management, strategy formulation and execution, and other key roles to the committees listed below.

Board Strategy Committee (BSC)

In 2022, the Board of Directors formed the Board Strategy Committee (BSC) to oversee the development and implementation of the Bank's growth strategy, which is premised on three key pillars: customer reach, digital transformation, and sustainability excellence. The strategy, operationalised in the same year, is the vehicle DTB is using to attain social and economic relevance in the countries it operates. To support the strategy's successful implementation, BSC ensures the availability of adequate resources and the necessary corporate governance structures.

Additionally, BSC oversees the deployment of a robust sustainability agenda and ensures that the Bank's ESG and climate related opportunities and risks are properly mapped and incorporated into the business strategy, with the necessary responses highlighted and actioned. Additionally, BSC reviews and approves the Bank's sustainability report and other climate related disclosures.

The Board Strategy Committee meets at least once every quarter.

Board Risk Management Committee (BRMC)

The Board has delegated oversight of enterprise risk management to the Board Risk Management Committee (BRMC) making it responsible for overseeing the effective management of the Bank's ESG and climate-related risks and ensuring that they are considered within the overall Enterprise Risk Management Framework (ERMF).

BRMC is also responsible for ensuring that the Bank's exposure and responses to ESG and climate-related risks, arising from its various lines of business, are assessed, quantified, and reported to the Board alongside other material risks.

2.0 GOVERNANCE (CONTINUED)

2.3 Board and Delegated Oversight Committees' Responsibilities (CONTINUED)

Board Risk Management Committee (BRMC) (CONTINUED)

Additionally, it oversees the development and implementation of an ESG and climate risk plan, and approves the necessary resources, processes, systems, and controls required for its effective implementation. This includes setting the Bank's ESG and climate-related financial risk appetite, obtaining assurance that the risks are being effectively managed and controlled, and approving the ESG and climate plan recommended by Management, with due regard to relevant local, regional, and global developments.

Notably, BRMC is tasked with cultivating a culture that embeds climate-related risk considerations into the Bank's activities and decision-making processes.

BRMC meets at least once every quarter.

Board Audit and Compliance Committee (BACC)

BACC is responsible for strengthening the Bank's corporate governance standards by continuously improving the quality of financial reporting, enhancing the robustness of the control environment as well as the efficacy of internal and external auditing operations.

It is also responsible for the establishment of an independent, and effective Internal Audit Department (IAD) and ensuring that internal audit policies and mechanisms are commensurate with the Bank's size, nature, and complexity of its operations. Its mandate covers ensuring that the Bank's IAD has the necessary resources, standing and authority to enable it to discharge its functions effectively. It also reviews the scope and effectiveness of the IAD and provides direction on how to enhance its utility through clearly laid down processes, procedures, and time frames.

Additionally, BACC is responsible for ensuring that the Bank has an independent Compliance Department with the necessary resources, standing, and authority to enable it identify, assess, advise, monitor, and report on the institution's compliance risk. Compliance risk arises from legal or regulatory sanctions and can manifest through financial or reputational losses.

BACC also approves the Compliance Risk Management Policy and Oversight Framework which provides Management with clear guidelines and procedures to manage compliance risk and promote a culture that encourages ethical conduct and adherence to applicable rules, standards, and internal controls.

It further reviews correspondence between Management and regulatory authorities, such as the Central Bank of Kenya's pronouncements that have a material impact on the Bank. It also reviews all significant issues concerning litigation, contingencies, claims, or assessments and all material accounting issues that require disclosure in the financial statements.

BACC meets at least once every quarter.

Board Nomination and Human Resource Committee (BNHRC)

The BNHRC is mandated by the Board to oversee all human resource mattersincluding strategies and policies and the remuneration and incentives for Executive Directors and Management. Its main role revolves around the regular review of the structure, size and composition of the Board and making recommendations on any adjustments deemed necessary. It also identifies and proposes new nominees to the Board and evaluates and considers candidates for directorship in addition to conducting annual reviews of the mix of skills and expertise that the Executive and Non-Executive Directors bring to the Board.

This Committee is also responsible for recommending the continuation (or not), in service, of any Director, in addition to facilitating the annual evaluation of the performance and effectiveness of the Board and its Committees. Further, it ensures that newly appointed Directors are provided with necessary training. It also oversees the design and operation of the Bank's compensation policies and practices (compensation system) on behalf of the Board.

BNHRC meets on a quarterly basis.

Board Credit Committee (BCC)

The Board Credit Committee (BCC) defines the Bank's broad credit risk parameters and limits for consideration and approval by the Board. It reviews the credit risk appetite and ensures that it is commensurate with the long-term strategy of the Bank's capital. It also considers all issues that may materially impact the present and future quality of DTB's credit risk management.

2.0 GOVERNANCE (CONTINUED)

2.3 Board and Delegated Oversight Committees' Responsibilities (CONTINUED)

Board Credit Committee (BCC) (CONTINUED)

BCC assists the Board to monitor the quality of the Bank's credit portfolio, and those of its subsidiaries, to ensure adequate provisions for bad and doubtful debts in compliance with IFRS9 requirements and prudential guideline no. CBK/PG/04 (Risk Classification of Assets, Provisioning and Limitation on Interest Recoverable on Non-Performing Loans).

It further ensures compliance with regulatory requirements to underwrite the quality, integrity, and reliability of the overall credit risk management. It also oversees the allocation of effective resources to identify and manage irregular problem credits, minimise credit loss and maximise recoveries and that the credit policy, risk lending limits and IFRS9 ECL models are reviewed at least once a year or as and when the environment dictates.

It provides independent and objective oversight and review of recommendations by the Board Audit and Compliance Committee (BACC) on credit risk management and monitors external developments relating to the practice of corporate accountability and the reporting of credit risks, including emerging and prospective impacts.

It meets at least once every quarter.

Board Innovation and Technology Committee (BITC)

The Board has delegated oversight of the Bank's IT risk management and governance framework, as well as the monitoring of the implementation of its various innovation related initiatives to BITC. This includes the creation of bespoke solutions that will support the transition to a carbon neutral economy. BITC also reviews budgets and utilisation of approved funding for ICT related investments.

BITC meets at least once every quarter.

2.4 Management Committees' Responsibilities

Risk Management and Compliance Committee (RMCC)

The RMCC reports to the BRMC and is responsible for overseeing environmental, social and climate change risks related matters at Management level. RMCC assists the Board to oversee the assessment and quantification of the Bank's ESG and climate risks' exposure arising from its various lines of business. It defines and formally allocates roles and responsibilities, as appropriate, within the organisational structure to support the implementation of the Bank's ESG and Climate Risk Management Framework.

It also reviews the internal reporting structure, for Board and Management, on a periodic basis as well as the status updates on the identification, assessment, and management of climate-related risks. This Committee further reviews and reports on aggregated risk data, reflecting the Bank's exposure to climate-related and environmental risks, to enable the Board to make informed decisions. These reports are based on the internal climate-related risk management plan developed and adopted by the Bank.

RMCC meets once every six weeks.

Sustainability Management Committee (SUSCO)

SUSCO, which reports to the BSC, was established to assist the Board fulfil its oversight role with respect to the development and implementation of DTB's ESG (Sustainability) and climate risk agenda, including the identification of the Bank's material sources of ESG risks, opportunities, and associated actions.

SUSCO is liable for ensuring that DTB's sustainability agenda's short- and long-term objectives are in place and the progress of key actions, targets and metrics scrutinised and reported on. It is also responsible for identifying and monitoring external developments that may have a significant impact on the Bank's sustainability approach making recommendations to the Board, through the BSC, on sustainability matters..

It further reviews and supports the development of new, and the enhancement of existing policies and codes of conduct to embed sustainability requirements within them. These include: the Sustainability Policy (New), Climate Related Risk Management Policy (New); Credit Policy, Credit Risk Strategy, Product Development Policy, Diversity Policy, Supplier Code of Conduct; and Modern Slavery Statement (Declaration), and Anti-bribery and Corruption Policy.

SUSCO meets once every two months or more frequently if so warranted.

2.0 GOVERNANCE (CONTINUED)

2.4 Management Committees' Responsibilities (CONTINUED)

Human Resource Management Committee (HRMC)

HMRC's primary responsibility is to review and recommend appropriate actions, with respect to HR functions, requiring major policy decisions, to ensure the efficient management of HR within the Bank. HRMC reviews and recommends appropriate actions on HR policies regarding staff incentives, remuneration, compensation and benefits, promotions, recruitment, training and professional development, staff appraisal and any other strategic HR issue.

Additionally, it ensures that HR policy issues, relating to the operations of the Bank, are regularly reviewed and appropriate recommendations made to the BNHRC and/or the Board. It also oversees the implementation and continuous review of the Bank's HR strategy.

HRMC meets at least once every quarter.

Management Credit Committee (MCC)

MCC assists BCC to review the quality of the Bank's loan portfolio and ensure that DTB makes adequate provisions for bad and doubtful debts, in compliance with IFRS 9 and prudential guidelines on risk classification of assets and provisioning. MCC further reviews business growth,across the various segments, within approved risk tolerances, as well as credit management reports, and makes recommendations as appropriate.

It also ensures that relevant polices/procedures are adopted, implemented and the responsibilities of the various functions clearly defined and communicated to the entire Bank. Additionally, MCC reviews credit related policies and procedures on an annual basis or earlier if warranted and then submits them for Board approval.

The Committee is also responsible for ensuring that internal audit reviews of the credit risk management system and credit portfolios are undertaken regularly and the same presented to the Board through BACC and BCC.

MCC is further responsible for monitoring, reviewing, and considering all issues that may materially impact the present and future quality of the Bank's credit risk management. These include monitoring the Key Risk Indicators (KRIs) in the Bank's lending portfolio including set risk appetite limits for related concentration risks for the Bank's total exposure by industry, sector, product type, risk grade, and single borrower limits (SBL).

MCC meets at least once every month.

Asset Liability Committee (ALCO)

ALCO reports to the BRMC and has oversight of the overall management and monitoring of the Bank's balance sheet development and capital adequacy. ALCO defines the strategy in terms of mix of assets and liabilities given its expectation of the future and potential consequences of interest-rate movements, liquidity constraints, foreign exchanges and capital adequacy. It also ensures that all strategies conform to the Bank's risk appetite and levels of exposure as determined by the Board.

ALCO meets once every month.

3.0 STRATEGY

3.1 Introduction

Recognising that climate risk is one of the most significant risks facing the planet, DTB has put in place measures to limit the impacts that may result from the transition or physical effects of climate change due to its activities.

As such, the Bank is implementing measures to address climate change and support the transition towards lower-carbon operations through its lending activities. Consequently, the overarching aim of the Risk Appetite Framework (RAF) is to understand the financial risks stemming from climate change and how they affect the Bank's business model. This is being achieved by assessing climate-related risks in its portfolio and highlighting areas for further development. This process is driving the improvement of the identification, measurement, monitoring, and reporting of these risks.

In line with this, an enterprise view is being adopted, in which the Bank is identifying key risks associated with climate change (refer to the table below) and then considering them against different time spans over the short, medium, and long terms. This identification process includes a climate assessment of the various risk types (market, credit, liquidity, business, reputational and operational) and the various products within the Bank's portfolio. Based on this assessment, remediation plans are then put in place to close any gaps that may be identified.

Key risks associated with climate change and how they are likely to manifest.

Manifestation	Risk Type
Energy and transportation decarbonisation	Credit risk Market risk Liquidity risk
Misalignment vs. Paris trajectory	Reputational risk Compliance risk Regulatory risk
Loss of credibility in DTB's Brand and Business Strategy	Reputational risk Business risk
Loss of revenues associated with traditional business	Business risk Reputational risk
Extreme weather events	Credit risk Operational risk Market risk

- **Energy and transportation decarbonisation:**
  Global and national policies and/or technological breakthroughs might accelerate the transition towards greener energy sources and products which could trigger a wave of defaults and reallocation of capital.

  Manifestation: Credit risk, market risk, liquidity risk.

- **Misalignment vs. Paris trajectory:**
  Industry-wide trajectories, common metrics and pathways for financial institutions are currently being set. DTB will actively promote the transition by working closely with employees, clients, suppliers, and other stakeholders to engage, commit and deliver on net-zero commitments.

  Manifestation: Reputational risk, compliance risk, regulatory risk.

- **Loss of credibility in DTB's Sustainability excellence ambition:**
  DTB is pursuing sustainability excellence and thought leadership. This will entail the adoption of various strategies which incorporate business risks and take into consideration, external dependencies.

  Manifestation: Reputational risk, business risk.

- **Loss of revenues associated with traditional business:**
  Based on the Bank's Enterprise Risk Management Framework (ERMF), transactions with clients without a credible transition plan, may be rejected resulting in revenue loss. Conversely, a slow pivot, by DTB, towards "green" may alienate clients that strongly support the transition, which will also result in revenue loss.

  Manifestation: Business risk, reputational risk.

3.1 Introduction (CONTINUED)

Extreme weather events:
More frequent and severe weather events might lead to credit risk implications related to the financed portfolios as well as operational risks related to buildings and infrastructure owned by DTB. This is in addition to impacting overall business continuity.

Manifestation: Credit risk, operational risk, market risk.

3.2 Time horizons

Global climate change and the mitigation of its effects are a key focus for the Bank. In this context, the physical and transition risks arising from climate change will pose threats in the short, medium and long terms. On the other hand, provided they are well planned for and managed, they may present valuable opportunities for the Bank. Being cognisant of this, DTB is integrating climate risks into its business processes and is materialising them through targets and performance indicators.

Time horizons	Start Year	End Year	Explanation for the choice of time frame
Short-term (0-1 years)	2023	2024	Risks and opportunities that the Bank is likely to be exposed to within a year but whose strategic interventions are achievable within the time-frame.
Medium-term (2-5 years)	2023	2027	Risks and opportunities that the Bank is likely to be exposed to over a period of 2-5 years and whose initiatives and strategic interventions cannot be achieved over a short period.
Long-term (6-30 years)	2029	2050	Risks and opportunities that the Bank is likely to be exposed to, and strategic interventions achievable over a long period.

3.3 Opportunity identification

Climate related opportunities for DTB can be assessed from the Bank's internal and external operating environment. These relate to efforts to mitigate and adapt to climate change, such as resource efficiencies and cost savings, the adoption of low-emission energy sources, the development of sustainable products and services, access to new markets, and building resilience along the supply chain.

Resource efficiency

Strain on natural resources is a major outcome of climate change. The Bank is currently pursuing a resource optimisation approach, in its operations, to make a positive impact and mitigate the negative effects of climate change. Some of the identified areas include:

- Use of more efficient modes of transport and limiting business travel to when necessary.
- Recycling of waste.
- Engaging with businesses that are efficient in production and distribution.
- Operating from more efficient buildings.
- Paper-lite strategy.

Energy systems

DTB supports the increased adoption of renewable energy and clean energy technology. In its own operations, it is rolling out an energy efficiency work plan which is premised on the recommendations of an energy audit conducted every 3 years on DTB-owned property. This includes the adoption of energy efficient appliances and bulbs in all its premises, and the installation of solar generation equipment, at its Head Office, which is expected to reduce DTB Centre's electricity consumption by approximately 20%.

Being in a region with sufficient sunlight throughout the year, there is huge potential for DTB to play a leading role in financing and supporting the adoption of solar energy. Opportunity also lies in geothermal and wind power projects, being spearheaded by the government, as it moves to 100% clean energy by 2030.

Products and services

Climate change presents the Bank with opportunities to diversify its products and services to meet demand on sustainable solutions. This is being driven by various factors such as changing stakeholder demands, reputational benefits accrued from offering green products, increasing regulations on climate related risks and opportunities, and the drive for low emission goods and services.

3.2 Opportunity identification (CONTINUED)

These factors are, in turn, catalysing the proliferation of investments in sustainability-led research and development, as well as innovations.

In response to this, and based on future projections, the Bank is focused on developing innovative sustainable/green solutions to support this transition.

Resilience

Climate change transition or physical risks do not necessarily present a significant threat to achieving the Bank's business strategy over the next five years. However, material risks will emerge over the long term if DTB does not take steps to manage the potential impact of climate change. Identification of partnerships and adoption of sustainable programmes will provide vast opportunities to the Bank. This will be complemented with new products and services related to ensuring resilience.

The table below illustrates the climate-related opportunities sighted by the Bank.

#	Type	Climate-Related Opportunity	Horizon*	Timelines
1	Markets	Financing: Issue green debt financing instruments (private or public debt, structured notes). Financing: Evaluate new property investments through an ESG lens as regards the ST-LT impact on a property's current and potential future value with respect to energy efficiency, public transport connectivity, use of sustainable materials, tenant well-being, and community engagement.	MT-LT	By 2030
2.	Products and services	Expand the product offering to include solutions for green or climate-related projects (e.g., renewable energy infrastructure) to support the transition to a low-carbon economy.	ST-MT	By 2030
3.	Resource mobilisation	Mobilise resources from like-minded lending entities to provide climate related financing for onward lending to customers.	ST-MT	By 2030
4.	Resilience: Employee engagement	Enhance employee awareness of ESG/climate change issues to trigger the adoption of climate actions, in their personal and professional lives, through a range of actions which include efficient energy use, recycling, adoption of clean energy equipment and more efficient modes of travel.	ST-LT	From 2023
5.	Stakeholder Engagement	Provide advice and training to existing and prospective clients to enhance their understanding of ESG matters and manage their exposure to climate risks as well as enhance their resilience to physical and transition risks. Engage the Bank's suppliers to effect low carbon policies.	ST - LT	From 2023
6.	Resource Efficiency: Office and data centre efficiency	Invest in energy efficient technologies and renewable energy generation to improve energy usage in office spaces and capture cost-savings. Data Centre optimisation: Source third-party suppliers and cloud providers with improved energy and carbon performance aligned to industry best practice.	ST-LT	From 2014 (continuous) From 2023 (Solar project at HO-2023)
7	Resilience: Data and management information	Develop management information dashboards structured on climate-impact data, to enable decision making processes.	ST-LT	From 2024

3.0 STRATEGY (CONTINUED)

3.4 Impact on business, strategy, and financial planning

In September 2023, the Sustainability and Citizenship master plan will be presented to the Board for approval which will pave the way for it to be embedded in the business strategy. It will have objectives committing to actions enabling the Bank's sustainability journey including Environmental, Social and Governance (ESG) elements.

DTB has identified 5 sustainability strategic pillars:

Climate Action and Net Zero Strategy (Internal Scope 1 and Scope 2)

This is the coordinated management, governance, and processes to identify, monitor and control climate-related physical and transition risks. The Bank plans to achieve carbon neutrality in its own operations (Scope 1 and Scope 2) by 2030, and in Scope 3, by 2050, in alignment with the Paris Agreement.

Sustainable Financing

The Bank will mobilise and scale capital deployment to drive social and environmental change, including inclusive development and the transition to a low-carbon economy. It will also reduce lending to customers with exposure to high GHG emitting sectors.

Responsible Supply Chain

The Bank is committed to ensuring responsible supply chains by taking into account social and environmental impacts throughout its procurement processes and to strengthen risk management and build resilience within its supply chain.

Partnerships

DTB recognises partnerships as a valuable tool to drive change toward more responsible, inclusive, and sustainable growth. The Bank will therefore engage with like-minded partners to achieve its net zero ambitions and support its customers transition to a carbon neutral economy.

Employee Welfare and Development

DTB is committed to facilitating the overall mental, physical, emotional, economic well beingandprofessional development of its employees.

3.5 Strategy: Scenario analysis

Climate scenario analysis is a tool to develop critical strategic thinking for future uncertainties. Scenario analysis comprises a set of projections based on forecasting multiple variables such as economic growth, technological development, greenhouse gas emissions, social values and demography. The purpose of scenario analysis is to project the performance of institutions, in different situations that they could potentially encounter in future, to inform a better understanding of the consequences. Climate scenario analyses seek to develop and expand the level of awareness as well as resilience, foresight and financial planning of financial institutions with regards to climate-related physical and transition risks and opportunities.

The Bank intends to perform climate scenario analyses as part of its operations and to integrate climate risk.

4.0 RISK MANAGEMENT

As a provider of short and long-term financing, DTB is exposed to potential climate risk-related financial impacts. The Bank is therefore committed to establishing a comprehensive and prudent climate risk management framework in line with prevailing regulatory requirements and best banking and market practices.

4.1 Risk identification

Climate related risks

Climate-related risk is the potential negative impact of climate change on a company and its stakeholders. The Bank is exposed to these risks in its own operations as well as through the climate-related risks faced by its customers. There are two main climate-related risk types: transition and physical risks.

Physical Risks

Physical risks are either acute or chronic. Acute risks are mainly considered short term (0-2 years) while chronic risks are viewed as medium and long term (2 years and beyond).

Acute risks are those that emanate from climate change and are event driven, resulting from the increased frequency and severity of extreme weather events such as:

- Wildfires
- Floods
- Heatwaves
- Cold waves /frost
- Droughts
- Landslides

Chronic risks refer to longer-term shifts in climate patterns e.g., sustained higher temperatures, changing precipitation patterns. These are characterised by:

- Water stress
- Rising mean temperatures
- Rising sea levels
- Heat stress and permafrost thawing
- Changing wind patterns
- Soil and coastal erosion
- Soil degradation

These risks may cause physical damage to company assets or disrupt supply chains.

For DTB, climate-sensitive sectors such as real estate, agriculture and transport are more vulnerable to physical risks. The Bank's operations can also be affected by physical risks, such as floods which could damage branches or data centres, resulting in business continuity challenges. Weather-related claims can also have a material impact on short-term insurance operations by increasing motor, home, and household claims.

Transition risks

Transition risks are those that emanate from the transfer to a low carbon economy and changes necessitated by climate change responses. These include changes in:

- Policy and legal actions e.g., increased pricing of GHG emissions, enhanced emissions' reporting obligations, mandates on and regulation of existing products and services and exposure to litigation, among others.
- Technology e.g., substitution of existing products and services with lower emission options, costs of transitioning to lower emissions technology and unsuccessful investments in modern technologies etc
- Market responses i.e., changing customer behaviour, uncertainty in market signals, increased cost of raw materials, inability to attract co-financiers and/or investors due to uncertain risks related to climate change and loss of clients due to a fund's poor environmental performance outcomes
- Reputational considerations including negative press due to support of projects or activities with negative impacts on the environment such as GHG emissions, deforestation, and water stress among others.

This section details the Bank's approach to identifying, managing, and integrating climate risk, which was developed in line with emerging regulations, best practice, as well as CBK recommendations.

DTB has embedded a risk culture which places the responsibility of risk management on all employees mainly by holding regular training sessions to sharpen employee risk acuity. Having said that, it remains the Board's responsibility to oversee the

4.1 Risk identification (CONTINUED

establishment of an appropriate risk identification and management governance process. This includes the development and enforcement of policies, procedures, and systems to avoid unintentional risk exposure.

The Bank actively manages current and emerging risks through the effective implementation of the Board-approved ERMF. Within this framework, risks associated with customer loans, which could be impacted by climate change or transition risk, fall under credit risk which is the largest risk-type. As of 31 December 2022, credit risk accounted for 89% of the Group's risk-weighted assets while market risk accounted for the remaining 11%.

The Bank's principal risks that are addressed under the ERMF include but are not limited to:

Principal Risks	
Financial	**Non – Financial**
Credit Market Liquidity IT & Cyber Country & Transfer Risk	Strategic Operational Reputational Compliance Regulatory ESG and Climate Related Risks

The table below shows DTB's climate sensitive sectors:

Sector	Impact
Energy and Water Supply	• Emissions • Water availability • Landscape degradation and disturbances • Leaks and explosions
Agriculture, fishing, and forestry	• Water usage and pollution • Chemical usage • Biodiversity loss • Deforestation
Manufacturing	• Air and water pollution • Water and energy consumption • Resource intensive • Technology change
Real Estate	• Energy intensive • Pollution • Increased densification • Material intensive
Construction	• Energy intensive • Water usage • Community impact • Occupational health and safety
Transport and Logistics	• Energy intensive • Carbon emissions • Old technology replacement • Changing consumer preferences
Mining and quarrying	• Occupational health and safety • Water access and pollution • Acid mine drainage • Transition risk for coal

4.2 Risk assessment

Since climate-related risks exist predominantly in DTB's lending activities, the Bank measures and monitors its exposure to climate-sensitive economic activities.
Where these exposures are material, the Bank moves to manage the risk over the short and medium terms, including stress testing and scenario planning. DTB has disclosed its exposure to these sectors under the metrics and targets section captured on section 5.2 on page 20 of this report.

Risk Operating Model

DTB's approach to climate risk management is aligned to its Enterprise Risk Management Framework (ERMF) and the three lines of defence model, which set out how the Bank identifies, assesses, and manages risks. DTB then uses stress testing and scenario analysis to assess and identify how these risks impact its stakeholders, business, and infrastructure. With the increased focus on climate risk, the Bank plans to augment the stress testing policy framework to include climate-related risks' scenarios. This approach will ensure that Board and Management have visibility and oversight of the Bank's key risks.

4.2 Risk assessment (CONTINUED)

The 3 Lines of Defence Model

Risk strategy and appetite

The strategy is set within the parameters of an agreed risk appetite. The risk strategy is developed alongside the Group's strategy. The risk appetite defines the nature and amount of risk the Group is willing to take to achieve strategic objectives.

Risk management framework

The Group's approach to managing risk is outlined in the ERMF. The following foundations underpin the ERMF:

1. A robust and consistent governance structure at Group, country, business and enterprise core function level.
2. Well defined material risk categories known as principal risks.
3. A three lines of defence model with clear accountability for overseeing and managing risk.
4. A structured three-step process to evaluate, respond to and monitor risks.
5. A robust risk operating model which provides clear roles and responsibilities.

Principal Risks

Financial
Credit, Market (Interest Rate, Forex Risk), Liquidity Risk, Counterparty Risk

Non- Financial
Operational, Technology/Cyber Risk, Reputational, Climate and ESG, Compliance and Regulatory, Strategic, Model Risk

Risk operating model

The Group applies a three line of defence model, which provides independent, aligned and coordinated assurance in the risk and control environment across the group.

1st line (Business Owner)
Responsible and accountable for the day to day identification, control and management of risk in their functional areas to stop loss or risk materialising as they provide products and service to customers. Accountable for the operationalisation of strategies in a way that limits risk while ensuring compliance with regulation, policy and procedure.

2nd line (Risk and compliance management)
Engage continuously with the 1st line to ensure that processes and controls are working as expected. Provide oversight and training on risk management strategies. Assist 1st line to identify, review and track to closure existing and emerging risks issues. Monitor and report on risk and compliance with regulation, policies and processess. Monitor control against the early warning indicators (EWI) and Board approved limits.

3rd line (Internal Audit)
Review and provide independent and objective assurance to the Board and Management on the overall effectiveness of the internal framework at both 1st and 2nd line. Provide advisory role to Management.

Evaluate, respond, monitor

The risk management process is structured in three steps. This enables Management to identify and assess risks, determine the appropriate response and monitor the effectiveness of the risk response and any change to the risk profile.

Evaluate
Identify the objectives being assessed and the events that could cause a failure to meet the objectives, identify risks, measure impact and probability, and analyse root cause.

Respond
Determine the appropriate risk response, so that risks are managed within risk appetite. This includes: mitigation, transfer, and the cessation of certain activities.

Monitor
Ensure that risk profiles remain within agreed appetite levels, verify that controls are working as intended and challenge or promote re-evaluation of the risks. Analyse current and evolving risk trends.

4.0 RISK MANAGEMENT (CONTINUED)

4.2 Risk assessment (CONTINUED)

In October 2021, the Central Bank of Kenya (CBK) issued Guidance on Climate-related Risk Management which requires banks to:

- Embed the consideration of financial risks from climate change in their governance arrangements.
- Incorporate financial risks from climate change into their existing financial risk management practice.
- Disclose financial risks resulting from climate change.

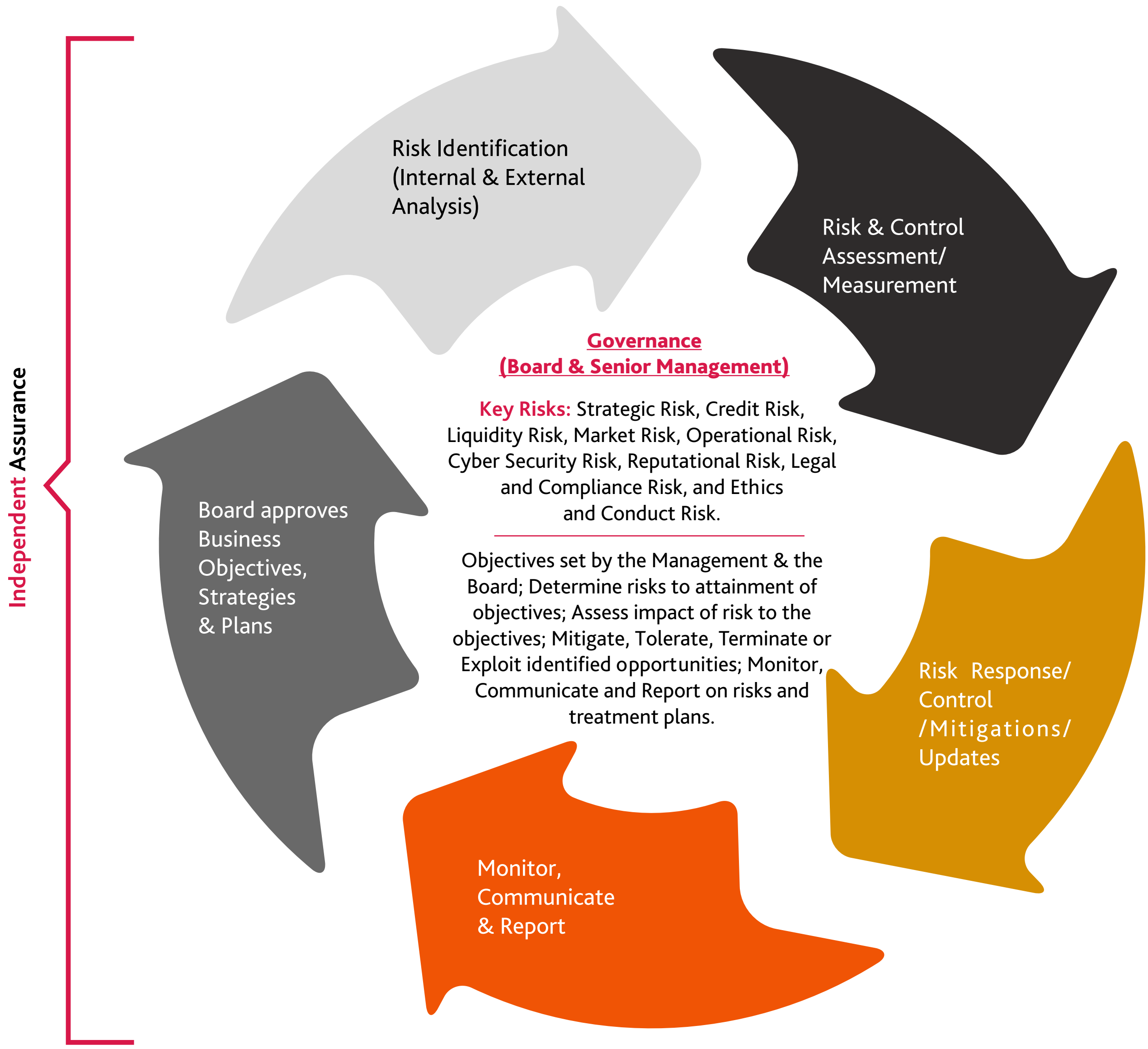
The pace and volume of policy, regulatory changes and expectations has increased, amid a global focus on the formalisation of climate risk management, stress testing, scenario analysis and disclosures.

4.3 Process of managing risks

The Board has clearly articulated the extent of DTB's willingness to take risks through the Enterprise Risk Appetite Statement (ERAS). ERAS provides a guide on the overall approach, including policies, controls and systems through which the Bank's risk appetite is established, communicated and monitored. It demonstrates the implicit link between risk and strategy, by defining risk limits and tolerances. It also clarifies action required in the event of a breach in addition to defining the roles and responsibilities of the individuals responsible.

Risk Management Process

The Risk Management Framework is illustrated below:



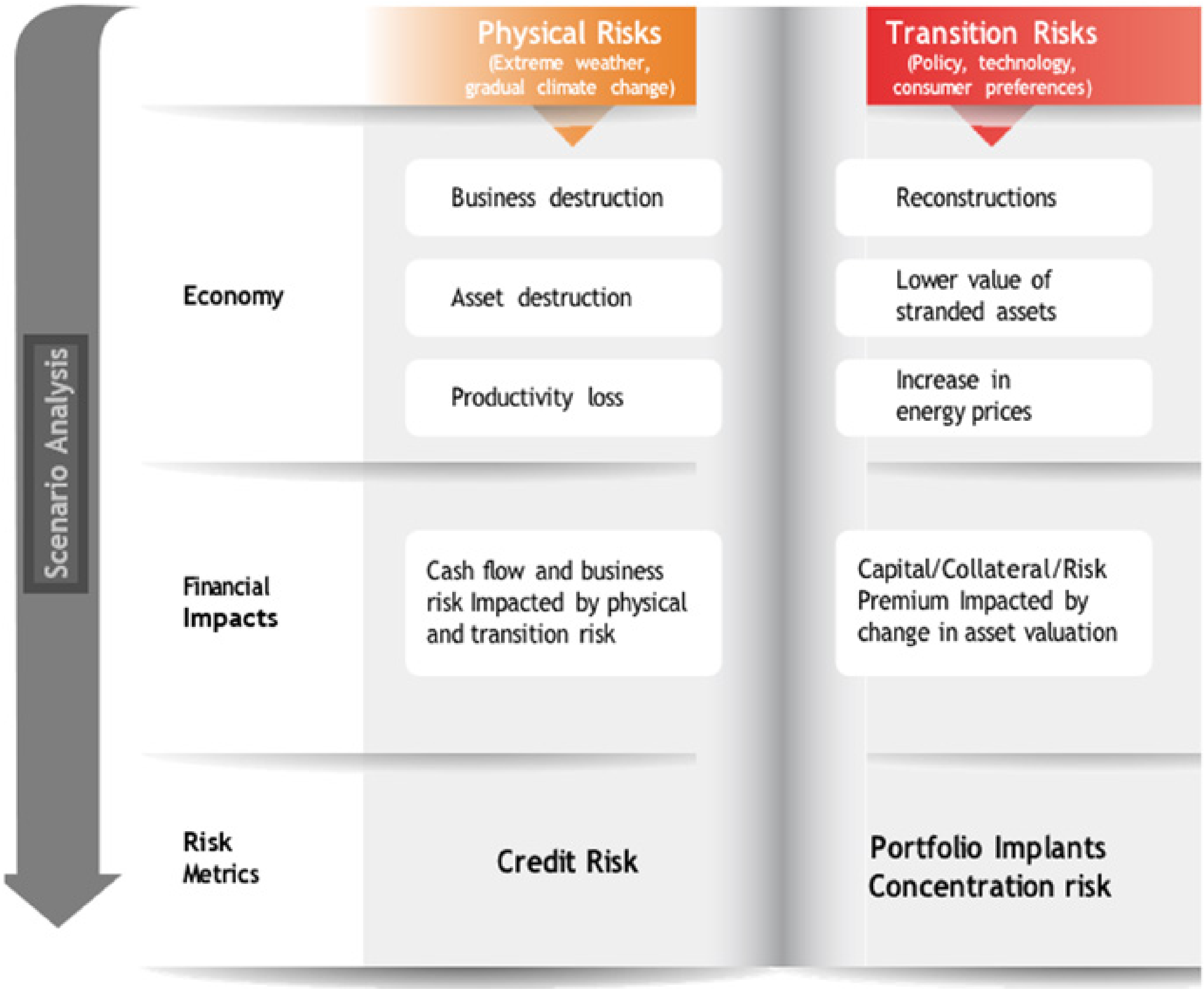
4.0 RISK MANAGEMENT (CONTINUED)

4.4 Integration into overall risk management

With the increasing focus on climate related risks across all sectors, there is an expectation on companies to lead the transition to a low-carbon economy. The Bank is thus mindful of the impact of environmental issues, on each of its touch points and is committed to running its operations in a sustainable manner. To achieve this, DTB is focused on:

- Managing climate risk
- Supporting the transition to a low carbon economy
- Taking action to reduce its carbon footprint
- Making ESG disclosures transparently

Climate risk conceptual framework



Social and Environmental Management Systems (SEMS)

The Bank's SEMS is a procedure, with a reference manual and tool, that is designed to identify and manage exposure to environmental and social risks at client/facility onboarding and screening stages. The management and administration of SEMS is carried out by designated environmental officers. The Bank underwrites effective social and environmental management practices in all its activities by ensuring that credit applications are reviewed and evaluated against the following Social and Environmental requirements:

- National Environmental and Social Laws
- IFC Exclusion List
- AFDB Exclusion list
- PROPARCO Exclusion list
- DEG Exclusion list

5.0 METRICS AND TARGETS

5.1 Context for DTB's TCFD Disclosures

The disclosures contained within this report are inherently limited by the emerging science and market practices, the use of estimates for certain figures, the dependency on management judgments in the absence of established methodologies, and the reliance on third party references and other data that may be immature in some instances. Notwithstanding, the Bank strives to be transparent on these limitations to its disclosures throughout the report.

Additionally, the Bank's climate risk disclosures are impacted by the lack of granular industry standards to underpin methodologies. For instance, the assessment of scope 3 financed emissions is not possible, despite the Bank recognising the importance of expanding this scope and notes its intention to cover additional elements of the disclosures as it evolves its approach.

Consequently, the results shared in this report should be viewed as inaugural. Subsequent reporting will keep improving as data becomes available, and the reporting framework matures.

5.2 Climate sensitive sectors

Economic sectors	2021		2022	
	Loans Kshs (Bn)	Percentage of total	Loans Kshs (Bn)	Percentage of total
Agriculture	12.45	7.50%	13.23	6.84%
Building and construction	3.84	2.30%	4.26	2.20%
Energy and water	4.84	2.90%	5.91	3.05%
Financial services	4.81	2.90%	7.46	3.85%
Manufacturing	20.2	12.10%	32.38	16.74%
Mining and quarrying	0.26	0.20%	0.18	0.09%
Personal	6.75	4.00%	6.51	3.37%
Real estate	36.19	21.70%	40.49	20.93%
Tourism	27.15	16.30%	29.68	15.34%
Trade	36.77	22.00%	36.65	18.94%
Transport and communication	13.78	8.20%	16.74	8.65%
Total	**167.03**	**100%**	**193.49**	**100%**

5.3 Renewable energy financing (FY 2022)

Total renewable energy loans (Kshs Billion)	1.63
Percentage of total energy lending	0.84%

5.4 Greening DTB's operational footprint

The Bank is committed to conducting its operations with due consideration to the environment. Informed by this, tDTB takes stock of its carbon emissions every quarter and outlines measurable mitigation actions being implemented to reduce or off-set the same.

It also measures and discloses its resource consumption with a particular focus on energy, water, fuel (transport and generator) and paper. Additionally, DTB conducts energy audits every three years and uses the report to inform the implementation of energy management initiatives. DTB has also trained its sights on greening its own buildings in Nairobi (DTB Centre), Mombasa and Kisumu and has commenced the process of acquiring Edge certification.

Driving energy efficiency in the Bank's operations

To achieve energy efficiency, DTB:

- Has installed LED lighting, occupancy sensors and daylighting controls in all its owned buildings.
- Has fixed energy efficient electrical appliances in all its new branches.
- Is replacing old/derelict electrical equipment with energy efficient models.

Additionally, as stated in a different section of this report, the Bank's head office in Nairobi will, from the second half of this year, draw an estimated 20% of its energy needs from solar generated power.

5.0 METRICS AND TARGETS

5.4 Greening DTB's operational footprint (CONTINUED)

Driving energy efficiency in the Bank's operations (CONTINUED)

	2021 (KWH)	2022 (KWH)
Energy consumption	567,931.00	557,886.18

Driving greenhouse gas emission reductions within the Bank's operations

The Bank generates direct GHG emissions (scope 1) through onsite fuel consumption within its facilities, owned vehicles, and emissions from cooling equipment. It also generates indirect emissions from purchased energy in its facilities (scope 2) as well as through its supply chain and financed activities (scope 3). During the period under review, the Bank assessed its scope 1 and scope 2 emissions. It plans to continue widening its coverage as the requisite data becomes available by enhancing its measurement tools.

The Bank aims to reduce its emissions by implementing energy efficiency measures across its premises, increasing renewable energy supply, and reducing travel emissions. DTB is also exploring the possibility of compensating for the balance of emissions that cannot be reduced by growing trees to enable to achieve net-zero status, in its own scope 1 and scope 2 emissions, by 2030.

	2021	2022
	Scope 1 & 2 Emissions (tCO_2e)	Scope 1 & 2 Emissions (tCO_2e)
Q1	499.351	193.368
Q2	224.143	204.528
Q3	170.755	185.447
Q4	221.661	217.608

5.5 ESDD Classification

All credit applications, except structured lending products, are subjected to environmental and social due diligence (ESDD) to determine their potential to cause environmental or social harm. All proposed projects are categorised according to the scale, nature, and severity of their potential environmental and social impacts as illustrated below:

No	Category of Project	Remarks
1	A	Projects likely to have significant adverse environmental or social impacts i.e., diverse, widespread, or irreversible.
2	B	Projects with potentially adverse impacts that are less severe than Category A projects, i.e., they are fewer in number, smaller in scale, less widespread, reversible, or easily mitigated.
3	C	Projects with no adverse environmental or social impacts.

The ESDD tool is used to determine the extent to which the project requires further environmental and social assessment, mitigation, and management. The results of the environmental and social screening are then included in the project's credit proposal submitted to the Bank. If during the screening process the Bank determines that further information on the environmental and social assessment, mitigation, and management of risks is required, the client is requested to provide it.

As a guideline, and following the initial screening process, customers under category A and B are required to prepare an environmental and social impact assessment (ESIA) to identify any environmental or social risks. The assessment considers:

- All potential direct, indirect, trans-boundary, and cumulative impacts and risks that could result from the proposed project.
- Alternatives to the project and
- Possible measures to avoid, minimise, or mitigate environmental and social risks of the proposed project.

In some Category B projects, where the proposed activities requiring such assessment represent a minor part of the project, and when inclusion in the credit proposal is not feasible, a timeline for completing the environmental and social assessment before disbursement of the loan will be incorporated in the offer letter.

A copy of the ESIA is then availed to the Bank as soon as the assessment is completed.

5.0 METRICS AND TARGETS (CONTINUED)

The table below illustrates the E&S category and the related porfolio exposures

E&S Category	Total Exposure (Ksh '000') (On Balance Sheet) – Dec 2022	% Of Total Exposure
A	0	0%
B	71,318,092	37%
C	122,161,637	63%
Grand Total	**193,479,729**	**100%**

6.0 LOOKING AHEAD

The Bank is still at an early stage of its sustainability journey and, as such, recognises that there remains significant ground to be covered. That said, DTB is fully committed to achieving its ambitions and will therefore build on its current momentum, and continue to be transparent about its progress.

In the near term the Bank is focused on building on a number of areas particularly: achieving net zero in its own operations in the medium term, mobilising sustainable funds to support customers make the green transition, embed responsible supply chain practices, formalise partnerships with like minded organisations to amplify the impact of the Bank's initiatives, and importantly, invest in employee development to support the entrenchment of a sustainability and ethical business culture.

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