Alinma ESG Risk Framework

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Contents

Background

The Kingdom of Saudi Arabia (KSA) has made significant strides in sustainability, sustainable finance, and ESG integration, underpinned by its Vision 2030 strategy. This roadmap emphasizes economic diversification, environmental stewardship, and social development, positioning the Kingdom as a global leader in sustainable growth. Central to this progress is the Saudi Central Bank (SAMA), which has been instrumental in shaping the regulatory landscape to drive ESG integration and sustainable financial practices.

The Saudi Exchange has introduced ESG Disclosure Guidelines to promote consistency and comparability in sustainability reporting among listed entities. These guidelines consider international standards such as the Global Reporting Initiative (GRI), the Task Force on Climate-related Financial Disclosures (TCFD), and the International Financial Reporting Standards (IFRS) S1 and S2. The Taskforce on Nature-related Financial Disclosures (TNFD) complements IFRS S2 by providing a framework to assess and disclose nature-related risks, which are increasingly relevant to banks like Alinma.

By considering these global standards, Alinma seeks to enhance ESG risk management and disclosure, improve transparency, address climate-related financial risks, and strengthen investor confidence in its sustainability approach. In this regulatory ecosystem, the Capital Market Authority (CMA) plays a pivotal role in enhancing ESG governance, promoting disclosure of material ESG risks and opportunities. These initiatives reflect the Kingdom's commitment to achieving sustainable economic growth and fostering investor confidence.

As a key player in the Saudi financial landscape, Alinma seeks to support national and international efforts to address environmental, social, and governance (ESG) risks. Recognizing the evolving regulatory and stakeholder expectations, Alinma considers frameworks such as the United Nations Principles for Responsible Banking (PRB), and CDP (formerly the Carbon Disclosure Project). Additionally, Alinma has developed a Sustainable Finance Framework and has already initiated financing for renewable energy projects, reinforcing its role in sustainable finance.

This ESG risk framework reflects Alinma's dedication to embedding ESG considerations into its core activities, ensuring its financing and investment operations contribute to the Kingdom's sustainable development goals. Alinma underscores its leadership in responsible banking and its commitment to creating long-term value for stakeholders while addressing critical ESG challenges. This includes supporting Vision 2030 priorities, such as reducing emissions, enhancing economic diversification, and fostering innovation.

1. Purpose

The purpose of this ESG risk framework is to formalize Alinma's commitment to managing environmental, social, and governance (ESG) risks. The framework operates under the broader framework of the Alinma Sustainability Policy, which addresses overarching ESG considerations.

This framework emphasizes the integration of ESG considerations into Alinma's strategic decision-making processes. This includes enhancing risk assessment methodologies, prioritizing sustainable financing, and embedding ESG objectives across all levels of the organization. The framework also seeks to foster innovation in ESG practices, leveraging emerging technologies to monitor and report ESG performance. Through these measures, Alinma reinforces its commitment to transparency, accountability, and long-term value creation for all stakeholders.

2. Scope

This ESG risk framework applies to Alinma's indirect operations, primarily within financing and investment activities, ensuring that ESG risks are identified, assessed, and managed effectively. The framework serves as a reference for integrating ESG considerations into risk management practices and decision-making processes.

The framework encompasses:

- Governance structures and processes for ESG risk management.
- Risk identification, assessment, and mitigation strategies.
- Consideration of ESG principles in strategic and operational decisions.
- Reference to national and international ESG regulations and frameworks, including Vision 2030 priorities.
- Stakeholder engagement and feedback mechanisms to adapt to evolving ESG expectations.
- Collaboration with industry bodies to align with global best practices and innovative ESG solutions.
- Regular reviews and updates to ensure the framework remains relevant in addressing emerging ESG risks.

3. Risk Culture

Alinma's overall risk culture, central to its Enterprise Risk Management (ERM) policy, promotes transparency, accountability, and proactive risk management. It is embedded through leadership commitment, employee engagement, and regulatory compliance, ensuring risks are identified, assessed, and mitigated effectively.

The risk management philosophy aligns risk practices with strategic goals, optimizing risk-return trade-offs while ensuring strict compliance with statutory and regulatory guidelines. The risk management framework, based on COSO guidelines, establishes risk appetite, limits, and policies to guide decision-making.

Risk ownership is clearly assigned across business units, covering credit, investment, operational, and data integrity risks.

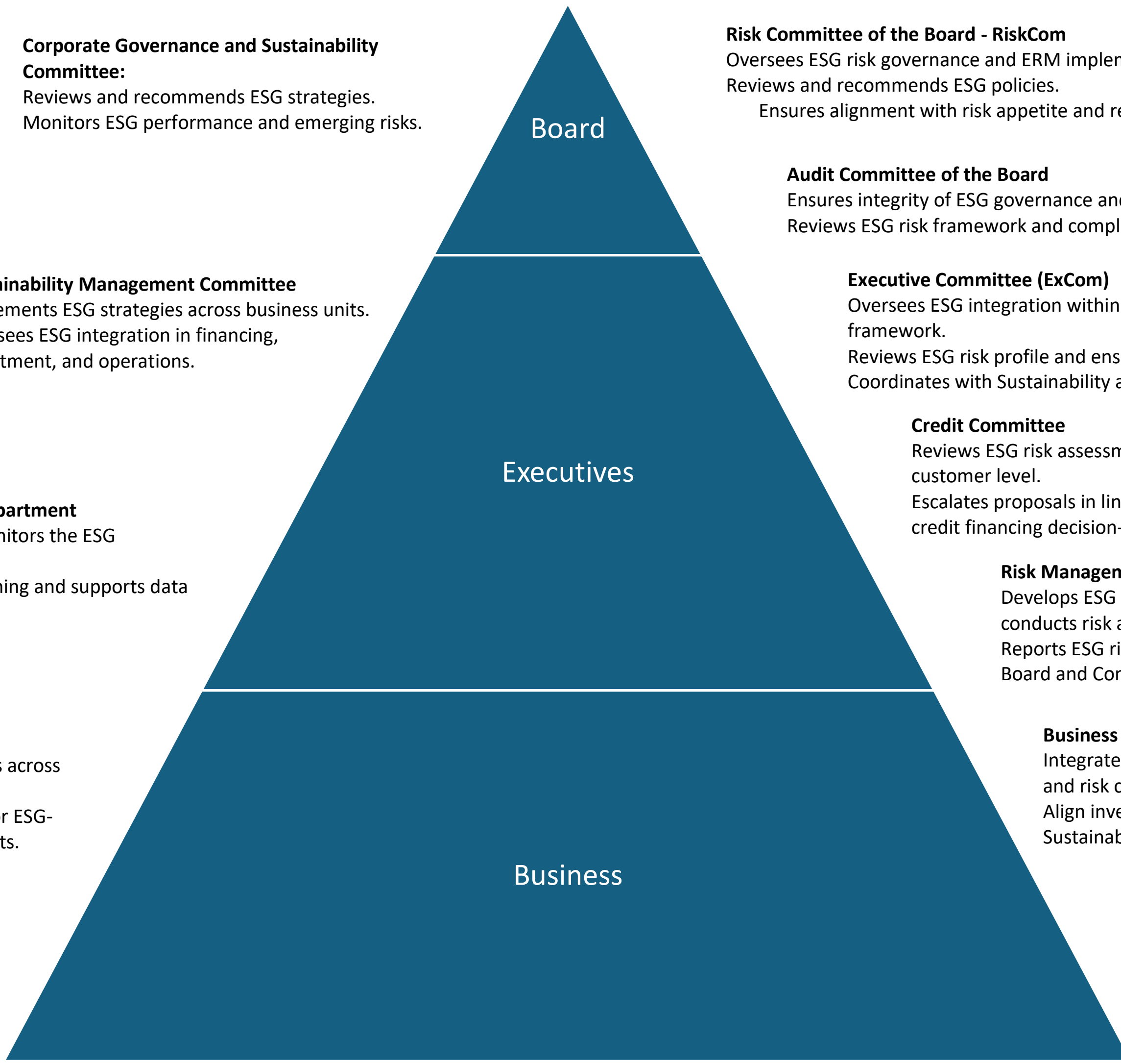
Governance is maintained through oversight by the Board, and Internal Audit, ensuring effective monitoring and control. Regular training and awareness programs foster a risk-aware culture.

ESG risks are treated with the same rigor as other risk categories. The risk appetite framework will incorporate ESG risks, enabling dynamic adjustments based on emerging trends and regulatory requirements. Workshops and cross-functional collaboration ensure ESG considerations are embedded into decision-making, governance, and operational practices.

4. ESG Risk Governance

The governance structure at Alinma ensures comprehensive accountability and oversight for ESG risk management, integrating sustainability into strategic decision-making at all organizational levels.

Board of Directors
Ultimate responsibility for ESG risk governance.
Approves ESG policies, frameworks, and targets.
Ensures ESG integration into long-term strategy.



Corporate Governance and Sustainability Committee:
Reviews and recommends ESG strategies.
Monitors ESG performance and emerging risks.

Risk Committee of the Board - RiskCom
Oversees ESG risk governance and ERM implementation.
Reviews and recommends ESG policies.
Ensures alignment with risk appetite and regulations.

Audit Committee of the Board
Ensures integrity of ESG governance and internal controls.
Reviews ESG risk framework and compliance.

Sustainability Management Committee
Implements ESG strategies across business units.
Oversees ESG integration in financing, investment, and operations.

Executive Committee (ExCom)
Oversees ESG integration within the ERM framework.
Reviews ESG risk profile and ensures mitigation.
Coordinates with Sustainability and Risk

Credit Committee
Reviews ESG risk assessments at the customer level.
Escalates proposals in line with the credit financing decision-making

Sustainability Department
Develops and monitors the ESG strategy.
Provides ESG training and supports data reporting.

Risk Management Group
Develops ESG risk policies and conducts risk assessments.
Reports ESG risk exposures to the Board and Committees.

ESG Champions
Drive ESG awareness across business units.
Act as focal points for ESG-related improvements.

Business Units
Integrate ESG into operations and risk classifications.
Align investments with the Sustainable Finance Framework.

IT & Data Teams
Manage ESG data aggregation and KPI tracking.

Control Units
Ensure adherence to Sharia, regulatory, and ESG commitments.
Conduct compliance

5. ESG Risk Management

5.1 ESG Risk Definition

ESG risks encompass environmental, social, and governance-related risks that may impact the Bank's financial stability, operational resilience, and reputation. These risks include:

- **Environmental Risks:** Environmental risks refer to the potential negative impacts arising from environmental factors or conditions that may affect an entity's financial performance, operational resilience, or creditworthiness. Such as climate risks (both physical and transition risks), resource depletion, pollution, and biodiversity loss.
- **Social Risks:** Social risks refer to potential adverse impacts arising from social factors that can affect an entity's operational performance, reputation, and financial stability. These risks are associated with how an organization manages relationships with its workforce, customers, suppliers, and the communities in which it operates. Related to labor practices, human rights, community relations, and demographic shifts.
- **Governance Risks:** Governance risks refer to potential adverse impacts resulting from weaknesses or failures in an entity's internal structures, policies, practices, and leadership oversight. These risks relate to how an organization is directed, controlled, and held accountable Involving ethical business conduct, compliance, board diversity, and executive compensation.

Climate risks are a subset of environmental risks, climate risks present complex and interdependent challenges, impacting financial institutions and their stakeholders. These risks are classified into two main categories:

Physical Risks:

- Acute Physical Risks: Sudden and severe events such as hurricanes, floods, wildfires, and heatwaves that directly affect infrastructure, supply chains, and business operations.
- Chronic Physical Risks: Gradual and long-term changes, including rising temperatures, sea-level rise, and changes in precipitation patterns, which may lead to resource scarcity, reduced agricultural productivity, and population displacement.

Transition Risks:

- Policy and Regulatory Risks: Changes in climate-related regulations, carbon pricing, and compliance requirements that may impose additional costs or limit business activities.
- Technology Risks: The potential obsolescence of existing technologies due to advancements in low-carbon alternatives or innovations in renewable energy and energy efficiency.
- Market Risks: Shifting market dynamics as consumer preferences and investor priorities favor environmentally sustainable practices and products.
- Reputation Risks: The negative perception of organizations failing to address or adapt to climate risks, impacting customer trust, stakeholder relationships, and market value.

5.2 The ESG Due Diligence Process

The ESG Due Diligence Process is a structured, phased approach to identifying, assessing, and mitigating ESG risks and opportunities associated with investments, partnerships, and business activities. This process is implemented in distinct phases to ensure systematic and strategic integration of ESG considerations into financial and operational decision-making while aligning with sustainability objectives, regulatory compliance, and stakeholder expectations. At this state, the ESG due diligence process does not impose ESG risk-related constraints on obligor evaluation, investment decision-making, or financing approvals until mandated by SAMA. This phased approach ensures that ESG risk management processes are well-developed in anticipation of future regulatory integration.

The implementation begins with Phase 1: Gap analysis and strategy alignment, where initial ESG risk categorization is conducted on borrowers and investments. During this phase, deals are classified as high, medium, or low ESG risk, and key ESG risks and opportunities related to the investment are identified.

In Phase 2: Integration to inform decision-making, ESG assessments are conducted for clients, investments, and financed projects. This phase includes reviewing ESG performance, allegations and controversies, and GHG emissions, culminating in the generation of an ESG due diligence report. Phase 3: Risk-based approval mechanism involves the review of the ESG Due Diligence Report and engagement with clients or projects to assess and agree on an ESG action plan. Finally, Phase 4: Implementation and monitoring ensures ongoing oversight of ESG performance, allegations, and controversies.

Initial ESG Screening - (Due Diligence Toolkit) ESG Risk Classification	ESG Evaluation	Clearance	Monitoring
Conduct initial ESG risk categorization on borrower/investment Classify deal/ investment as high/medium/low ESG risk Identify key ESG risks/opportunities related to the deal/investment	Conduct an ESG assessment for client /investment Conduct an ESG assessment for projects financed Review allegations and controversies Review GHG emissions Generate ESG due	Review ESG Due Diligence Report Engage with client or project to access ESG in and/or agree on ESG action plan Approve/Reject the deal based on normal evaluation process	Monitor ESG performance, allegations and controversies, progress against action plan and covenants Monitor ESG risk exposure
Scope: Deals above SAR 37mil classified as High/Medium risk **Key roles:** - Business Units **Supporting role**: - Sustainability team	**Scope:** Deals classified as high/medium risks **Key roles:** -Business Units **Supporting role:** - Sustainability team	**Scope:** Deals classified as high/medium risks **Key roles:** - Business Units **Assurance role**: - Credit Management	**Scope:** Deals/investments that have reached Financial close **Key roles:** - Business Units **Assurance role:** - Credit Management

5.3 Three Lines of Defense

Alinma employs a Three Lines of Defense model to ensure comprehensive accountability and oversight in ESG risk management. This model defines clear roles and responsibilities across the organization, promoting transparency, consistency, and effectiveness in identifying, assessing, and mitigating ESG risks.

First Line of Defense	**Second Line of Defense**	**Third Line of Defense**
Business and Credit Functions	**Group Risk & Control Functions**	**Internal Audit**
Business Units and Credit Functions are responsible for embedding ESG risk management into their day-to-day operations and decision-making.	Group Risk, Compliance, and the Sustainability Department provide independent oversight and ensure ESG risks are managed within the Bank.	Internal Audit provides independent assurance on the effectiveness of ESG risk management practices.
Key responsibilities Integrating ESG considerations into project evaluations, client engagements, and classifications (high, medium, low risk). Ensuring alignment of financing and investment decisions with the Alinma Sustainable Finance Framework. Implementing risk mitigation strategies and adhering to ESG-related policies. Reporting identified ESG risks to the Second Line of Defense for oversight and review.	**Key responsibilities** Developing and maintaining ESG-related policies, frameworks, and compliance programs. Overseeing ESG risk exposure at the portfolio level, rather than individual transaction risk management. Monitoring regulatory compliance with global ESG standards and internal risk limits. Providing guidance and oversight on ESG risk assessments and mitigation strategies. Reporting on ESG risk exposures and compliance trends.	**Key responsibilities** Auditing ESG policy implementation and the effectiveness of ESG frameworks. Evaluating alignment of ESG risk practices with regulatory requirements and the Bank's strategic objectives. Reporting findings and recommendations to the Audit Committee and Board of Directors to enhance ESG governance and compliance.

5.4 ESG Risk Management Process

Effective ESG risk management ensures that environmental, social, and governance risks are systematically identified, classified, assessed, and mitigated within Alinma's financing and investing activities. This flowchart illustrates the structured approach followed by the Bank to integrate ESG considerations into its risk management framework, supporting compliance, transparency, and strategic decision-making.

5.4.1 ESG Risk Identification

Alinda employs a comprehensive and systematic approach to ESG risk identification and assessment, leveraging its ESG Due Diligence Toolkit to integrate sustainability considerations into financing and investment decisions. Covering Financing and Investments, the ESG Due Diligence Toolkit categorizes deals into High, Medium, and Low ESG risks based on an evaluation of potential environmental, social, and governance impacts. This classification supports informed decision-making and risk prioritization. A list of high-risk sectors is included in Annex 2.

Risk Level	Definition	Examples of Sectors
High Risk	Deals with significant environmental, social, or governance concerns that could severely impact compliance with Alinma's ESG policies and regulatory requirements. Examples include projects in high ESG risk sectors or involving activities on exclusion lists (See Annex 3).	Oil and Gas, Mining and Quarrying, Coal-fired Power Generation, Heavy Chemical Industries, Unsustainable Agriculture (e.g., deforestation-linked), and Non-compliant Waste Management.
Medium Risk	Deals with moderate ESG risks that require ESG due diligence and monitoring. These typically involve risks that can be mitigated with specific interventions, such as implementing corrective action plans.	Manufacturing, Real Estate Development, Transport and Logistics, Renewable Energy with Minor Environmental Concerns, and Medium-scale Agriculture.
Low Risk	Deals with minimal ESG risks, often involving industries or activities aligned with Alinma's Sustainable Finance Framework. These pose no significant adverse impacts and generally comply with all relevant ESG policies and standards.	Education, Healthcare, Information Technology, Financial Services, and Renewable Energy Projects with Strong ESG Alignment.

5.4.2 ESG Opportunities Identification

The toolkit also supports Alinma identifies deals that deliver environmental and social benefits, ensuring alignment with the Alinma Sustainable Finance Framework. A full list of eligible categories is included in Alinma's Sustainable Finance Framework. These benefits include:

ICMA Category	Examples of Projects	Benefits
Renewable Energy	Solar PV, wind power, green hydrogen projects, small hydroelectric plants	Reduces carbon emissions, promotes clean energy, supports Saudi Vision 2030 sustainability goals
Energy Efficiency	LED lighting, smart grids, district heating/cooling systems, industrial energy upgrades	Improves energy efficiency, reduces operational costs, lowers environmental impact
Sustainable Water and Wastewater Management	Desalination plants powered by renewable energy, wastewater treatment, flood mitigation	Enhances water security, reduces flood risks, ensures sustainable water management
Pollution Prevention and Control	Recycling facilities, soil remediation, sustainable waste management	Minimizes pollution, promotes circular economy, improves waste recycling rates
Clean Transportation	Electric vehicles, mass rapid transit (MRT), hydrogen fuel cell transport, bicycle lanes	Reduces air pollution, supports sustainable mobility, enhances urban quality of life
Green Buildings	LEED or Mostadam 'Gold' certified buildings, energy-efficient retrofits, smart buildings	Lowers energy and water consumption, increases building sustainability, enhances occupant health
Climate Change Adaptation	Early warning systems, flood defense infrastructure, resilient urban planning	Increases resilience to climate risks, safeguards communities and infrastructure
Affordable Basic Infrastructure	Expansion of clean energy, water supply, and sanitation infrastructure	Expands access to essential infrastructure, improves quality of life, reduces inequality
Access to Essential Services: Education	Construction of schools, vocational training centers, digital learning platforms	Improves educational access, enhances workforce skills, fosters innovation
Access to Essential Services: Healthcare	Building hospitals, healthcare clinics, maternal and child health facilities	Strengthens healthcare access, improves public health outcomes, reduces disease burden
Employment Generation	SME financing, microfinance for entrepreneurs, job creation programs	Supports entrepreneurship, increases economic participation, drives sustainable job growth
Socioeconomic Advancement and Empowerment	Women-led business financing, financial inclusion programs, affordable housing initiatives	Promotes gender equity, strengthens financial inclusion, fosters social empowerment

5.4.3 ESG Risk Assessment, Mitigation, and Monitoring

In addition to ESG risk classification and opportunities identification, the ESG due diligence toolkit aims to support Alinma to evaluate clients' operations, projects, project sponsors as well as investments. It enables the Bank to classify, assess, and monitor ESG risks and opportunities across its portfolio, ensuring alignment with the Alinma Sustainable Finance Framework and global best practices such as the IFC Performance Standards and Equator Principles.

The ESG Due Diligence Toolkit categorizes risks on a scale from **0 to 100**. These thresholds inform decision-making, ensuring incorporation with the Bank's ESG policies and sustainability objectives.

Score Range	Performance Level	Definition	Examples of Actions
0–25	**Critical**	Significant ESG risks with the potential to severely impact compliance, reputation, or operations. Likely involves exclusion list sectors or activities.	▪ Conduct enhanced due diligence (EDD). ▪ Engage with clients and implement corrective action plans.
26–50	**Moderate**	Moderate ESG risks requiring specific mitigation measures. Risks can be managed through corrective actions and close monitoring.	▪ Implement corrective action plans. ▪ Regular ESG monitoring. ▪ Report status to Senior Management.
51–75	**Strong**	Minimal ESG risks with limited potential for adverse impacts. Activities typically align with Alinma's ESG policies.	▪ Proceed with standard approval. ▪ Periodic ESG performance review. ▪ Minimal monitoring required.
76–100	**Aligned/Beneficial**	No discernible ESG risks, and activities align closely with Alinma's Sustainable Finance Framework, offering positive environmental or social benefits.	▪ Approve with priority. ▪ Highlight in ESG performance reports. ▪ Promote as sustainable success.

Application Across Sectors:

- High-risk sectors, as defined in Annex 3, are subject to stricter thresholds and require additional scrutiny regardless of their ESG score – See Annex 1 for sector and themes position statements.
- Low-risk or aligned transactions are prioritized to enhance the Bank's ESG performance and sustainability reporting.

ESG Monitoring and Performance Review

- The ESG Due Diligence Toolkit facilitates ongoing monitoring of ESG performance for corporate finance and project finance deals. Key features include:
  - Tracking compliance with ESG commitments outlined during deal approval.
  - Measuring ESG performance against defined Key Performance Indicators (KPIs).

5.4.4 Reporting on ESG Risks

Alinma's ESG risk reporting framework promotes transparency, accountability, and regulatory alignment by incorporating qualitative and quantitative assessments of ESG risks across financing and investment activities. Regular disclosures provide insights into ESG risk exposures and mitigation efforts. Regulatory and market reporting aims to support compliance with local regulations, and industry standards, enhancing investor understanding of climate risks and ESG performance.

5.5 Climate Risk Management

Alinma recognizes climate change as a significant risk to financial stability and global sustainability. The Bank aims to integrate climate-related risks into its Enterprise Risk Management (ERM) framework to address both physical and transition risks. Key practices include:

- Embedding climate risk considerations into financing and investment decisions through the ESG Due Diligence Toolkit.
- Identifying opportunities for climate-resilient financing, investments, including renewable energy, energy efficiency, and green sukuk.
- Reviewing climate risk management practices against TCFD, IFRS S2, and Alinma's Sustainable Finance Framework.

5.6 Scenario Analysis and Stress Testing

Alinma acknowledges the critical importance of scenario analysis and stress testing as tools to enhance its understanding of climate-related risks and opportunities. The Bank strives to assess portfolio emissions to evaluate environmental impacts, it also aims to adopt scenario analysis and stress testing methodologies as part of its evolving climate risk management strategy.

Scenario analysis enables Alinma to model the potential impacts of diverse climate pathways. This forward-looking approach helps the Bank explore how regulatory changes, physical risks like extreme weather events, and resource constraints could affect its portfolio and operations. By simulating these scenarios, Alinma aims to proactively identify risks and opportunities, ensuring a strong position with its long-term sustainability objectives.

6. Training and Capacity Building

Alinma prioritizes continuous learning to strengthen ESG understanding and risk management across the organization. Through targeted training for board members, employees, and specialized departments, the Bank enhances governance, operational capacity, and compliance with ESG principles. The ESG capability-building efforts are overseen by the EBAC Committee, ensuring alignment with regulatory expectations and strategic objectives. Alinma encourages its employees to participate in SAMA's ESG-related programs, including the Environmental & Social Risk (ESR) and Climate Risk training, to enhance their expertise and preparedness for emerging ESG challenges.

Collaborating with industry experts and regulatory bodies, Alinma ensures its ESG training aligns with global best practices and Vision 2030. Regular updates keep training programs relevant, equipping employees to navigate emerging ESG challenges effectively.

7. Implementation and Review

The ESG Risk Framework will take effect upon approval by the Board of Directors. To ensure relevance:

- **Annual Reviews:** Assessing alignment with regulatory changes and emerging risks.
- **Updates:** Incorporating lessons learned and stakeholder feedback into periodic updates.

8. Annexures

Annex 1: Sector and Theme Position Statements on Financing

Alinma recognizes the importance of aligning its financing practices with sustainable development goals and mitigating ESG risks. This position statement outlines the Bank's approach to financing in key sectors, emphasizing the use of the ESG Due Diligence Toolkit to evaluate, monitor, and manage ESG risks effectively.

1. Agriculture

Alinma recognizes the role of sustainable agricultural practices in promoting food security while minimizing environmental and social impacts.

Considerations in Financing:

- Preference may be given to projects that enhance resource efficiency (e.g., water-efficient irrigation, precision farming).
- Financing may prioritize activities that incorporate measures to address deforestation, biodiversity loss, and land degradation.
- Review of recognized sustainable agriculture certifications (e.g., Rainforest Alliance, Fair Trade) may be considered.

Risk Assessment and Monitoring:

- The ESG Due Diligence Toolkit serves as a reference for evaluating risks such as deforestation, water scarcity, and labor practices.
- Ongoing monitoring mechanisms help assess compliance with sustainable agricultural practices, with adjustments made as needed.

2. Biodiversity

Alinma acknowledges the importance of biodiversity protection, particularly in sectors with potential ecosystem impacts. The Bank takes into account biodiversity conservation objectives and integrates environmental safeguards into its risk assessment processes.

Considerations in Financing:

- Financing for projects within protected areas, UNESCO World Heritage Sites, or high conservation value regions may be evaluated based on biodiversity conservation and environmental safeguards.
- Nature-based solutions and projects that enhance ecosystem resilience (e.g., reforestation, habitat restoration) may be considered.

Risk Assessment and Monitoring:

- The ESG Due Diligence Toolkit serves as a reference to assess potential impacts on critical habitats, species, and ecosystems.
- Biodiversity impact mitigation measures, such as offset programs or conservation funding, are reviewed, with ongoing monitoring facilitated through the toolkit.

3. Energy Use

Alinma acknowledges the importance of supporting the energy transition while considering the environmental and social impacts of energy-related activities. The Bank takes into account renewable energy development, energy efficiency, and emissions reduction in its financing approach.

Considerations in Financing:

- Financing may prioritize renewable energy projects, energy efficiency initiatives, and clean energy infrastructure.
- Exposure to fossil fuel-related projects may be gradually reviewed, considering Vision 2030 and broader decarbonization trends.
- Energy projects that consider national and international energy efficiency and emissions standards may be considered.

Risk Assessment and Monitoring:

- The ESG Due Diligence Toolkit serves as a reference to assess lifecycle greenhouse gas emissions, regulatory compliance, and renewable energy targets.
- The environmental and social impacts of energy use are monitored, with ongoing risk management strategies informed by toolkit outputs.

4. Mining

Alinma acknowledges the economic significance of the mining sector while considering the need to manage environmental and social impacts effectively. The Bank considers responsible mining practices, regulatory compliance, and community well-being in its financing approach.

Considerations in Financing:

- Financing for mining projects may be evaluated based on best practices, including the International Council on Mining and Metals (ICMM) principles.
- Responsible financing may consider measures to prevent significant water contamination, land degradation, and displacement of local communities.

Risk Assessment and Monitoring:

- The ESG Due Diligence Toolkit serves as a reference to assessing mining projects against national regulations and international mining standards.
- Ongoing monitoring may include risk mitigation plans, tailing management, community engagement, and rehabilitation measures.

5. Oil and Gas

Alinma acknowledges the economic role of the oil and gas sector while considering the importance of supporting the transition to a low-carbon economy. The Bank considers cleaner technologies, emissions reduction, and reviewing energy transition strategies in its financing approach.

Considerations in Financing:

- Financing for upstream oil and gas activities may be evaluated based on the incorporation of cleaner technologies, carbon capture, and emission reduction measures, while considering investments in renewable energy.
- Financing may be restricted for projects with significant methane emissions, non-compliance with emissions standards, or adverse community impacts, unless robust mitigation measures are in place.
- Support may be considered for projects that consider energy transition strategies, including gas as a transition fuel.

Risk Assessment and Monitoring:

- The ESG Due Diligence Toolkit serves as a reference to assess environmental impacts, climate goals, and adherence to international standards.
- Emissions reduction plans, community engagement, and energy transition objectives may be monitored using the toolkit.

Annex 2: Examples of High-Risk Sectors from an ESG Perspective

The following table outlines high-risk sectors from an ESG perspective. These sectors are characterized by heightened environmental, social, and governance (ESG) risks due to their operational impacts, regulatory exposure, or ethical challenges. The table provides sector definitions and highlights key risks to offer a comprehensive understanding of their ESG implications and significance in risk management.

Sector	Definition	Key Risks
Oil & Gas Extraction	Exploration, drilling, and extraction of crude oil and natural gas.	Environmental damage, market volatility, transition risks, regulatory changes.
Mining	Extraction of minerals, metals, and other geological materials.	Environmental degradation, biodiversity loss, community opposition, labor disputes.
Chemicals and Petrochemicals	Production of chemicals and derivatives for industrial and consumer applications.	Toxic waste, pollution, compliance costs, health impacts on nearby communities.
Construction	Building infrastructure, residential, and commercial properties.	Labor rights issues, project delays, environmental challenges, worker safety concerns.
Transportation & Logistics	Movement of goods and people, including air, sea, and land transport.	Carbon emissions, regulatory compliance, fuel price volatility, infrastructure vulnerabilities.
Tourism, Entertainment, and Hospitality	Businesses providing leisure, travel, and accommodation services.	Disruptions from global crises (e.g., pandemics), labor exploitation, environmental impacts in sensitive areas.
Agriculture and Food Industries	Farming, livestock rearing, and food processing industries.	Water scarcity, land degradation, biodiversity loss, dependency on global supply chains.
Utilities (Power, Water, and Sewage)	Providers of essential services like electricity, water, and waste management.	Fossil fuel dependency, regulatory changes, aging infrastructure, vulnerability to extreme weather events.
Manufacturing	Production of goods ranging from machinery to consumer products.	High energy consumption, supply chain disruptions, labor management challenges.
Defense and Arms Manufacturing	Production of weapons and military equipment.	Ethical concerns, dependency on government contracts, regulatory restrictions.

Annex 3: Exclusions

Sector	Exclusion	Definition and Rationale
Oil and Gas	Financing for coal mining, tar sands, Arctic drilling.	Activities with high carbon intensity, significant environmental damage, and adverse community impacts.
Mining and Quarrying	Projects involving mountaintop removal mining, illegal mining, and activities in protected areas.	Practices causing irreversible environmental damage, biodiversity loss, and violations of local and international regulations.
Utilities	Coal-fired power plants, nuclear power projects without robust waste management, and large-scale dams.	High greenhouse gas emissions, long-term radioactive waste risks, and significant ecosystem disruption.
Agriculture	Financing for deforestation-linked palm oil plantations, unsustainable monoculture farming, and illegal logging.	Activities causing biodiversity loss, soil degradation, and violations of labor rights.
Fisheries	Overfishing, destructive fishing methods (e.g., bottom trawling, cyanide fishing), and illegal practices.	Practices threatening marine ecosystems, biodiversity, and sustainable food supplies.
Forestry	Projects involving illegal logging, unsustainable timber harvesting, or destruction of old-growth forests.	Activities contributing to deforestation, loss of carbon sinks, and harm to indigenous communities.
Real Estate	Developments encroaching on ecologically sensitive areas or UNESCO World Heritage Sites.	Activities causing ecosystem fragmentation, loss of biodiversity, and violations of international conservation guidelines.
Chemical Industries	Production of persistent organic pollutants (POPs), hazardous chemicals.	Activities with high pollution potential, long-term environmental harm, and risks to community health.
Defense and Weapons	Financing for production or trade in controversial weapons (e.g., nuclear, chemical, biological, and cluster munitions).	Activities violating international conventions, causing indiscriminate harm, and undermining global security.
Tobacco	Financing for tobacco production, processing, and distribution.	Activities with adverse health impacts, regulatory risks, and negative social outcomes.

Adult Entertainment	Production or distribution of adult content.	Activities with reputational risks and potential violations of community standards and norms.
Gambling	Establishment or operation of gambling businesses, including casinos and online gambling platforms.	Activities often linked to social harm, including addiction and economic instability for individuals and communities.
Waste Management	Landfills or waste disposal projects without proper environmental controls, including hazardous waste mismanagement.	Activities causing soil and water contamination, air pollution, and harm to nearby communities.

Key Definitions and Rationale

1. High Carbon Intensity: Activities generating significant greenhouse gas emissions, contributing to climate change and global warming.
2. Irreversible Environmental Damage: Practices leading to long-term harm to ecosystems, biodiversity, and natural resources.
3. Labor and Human Rights Violations: Activities involving exploitation, unsafe working conditions, or displacement of communities.
4. Regulatory Non-Compliance: Entities failing to adhere to national and international environmental, social, or governance standards.
5. Reputational Risks: Activities undermining public trust or Alinma’s commitment to sustainable and ethical banking practices.