



INDUSTRIAL AND COMMERCIAL BANK OF CHINA (MALAYSIA) BERHAD

Registration No. 201001000001 (839839-M)

(Incorporated in Malaysia)

CLIMATE-RELATED DISCLOSURES REPORT

2025

TABLE OF CONTENTS

1	INTRODUCTION	3
2	GOVERNANCE	
2.1	Board Oversight of Sustainability and Climate-related Matters	3
2.2	Sustainability Governance Structure Including Climate-related Matters at the Management Level	4 - 5
2.3	Sustainability and Climate-related Training	6
2.4	Sustainability and Climate-related Discussions in Board Meetings	6
3	STRATEGY	7
4	RISK MANAGEMENT	
4.1	Process for Identifying, Assessing and Managing Climate-related Risks	8 - 10
4.2	Integration and Management of Climate-related Risks	11

1 INTRODUCTION

Climate risk is the risk that may arise from climate change and its related impacts, economic and financial consequences, which include drivers of climate risk as follow:

- i. **Physical risk:** Refers to economic costs and financial losses resulting from increasing severity and frequency of extreme climate change-related weather events (or extreme weather events), longer-term gradual shifts of the climate and indirect effects of climate changes.
- ii. **Transition Risk:** Refers to the risks related to the process of adjustments towards a carbon-neutral economy.

Given the risks that climate change poses for financial stability in the long run, there are increasing regulatory expectations and requirements on the Bank's management of climate-related risks and on the Bank's role in driving a just and orderly transition toward a carbon-neutral economy, to enhance the long-term climate resilience of the financial sector.

2 GOVERNANCE

2.1 Board Oversight of Sustainability and Climate-related Matters

The Board is responsible for the overall oversight of sustainability and climate-related risks of the Bank in accordance with the Shareholders' Mandate and prevailing regulatory requirements.

Board	<u>Roles and responsibilities of the Board:</u>
	<ul style="list-style-type: none"> • To act as the approving authority for sustainability and climate-related propositions, including sustainability and climate-related policies, goals/targets, risk appetite and strategies. • To oversee effective management of sustainability and climate-related risks and opportunities when reviewing and approving the Bank's strategies and business plan. • To oversee that adequate management capacity and resources, including budget and staff are allocated to support effective sustainability and climate-related strategies and risk management practices. • To be provided with regular and timely updates, as and when needed, with material exposures in sustainability and climate-related risks and major climate events to facilitate the Board in carrying out its oversight roles.

2.2 Sustainability Governance Structure Including Climate-related Matters at the Management Level

In discharging its responsibilities, the Board is assisted by Board Risk Management Committee (“BRMC”), Management Committee (i.e. Senior Management Committee (“SMC”) and Management Risk Management Committee (“MRMC”).

BRMC	<p><u>Roles and responsibilities of the BRMC:</u></p> <ul style="list-style-type: none"> • To review and recommend sustainability and climate-related propositions, including sustainability and climate-related policies, goals/targets, risk appetite and strategies for the Board’s approval. • To assist the Board in achieving its oversight role on the sustainability and climate-related risk management.
SMC/MRMC	<p><u>Roles and responsibilities of the SMC/MRMC:</u></p> <ul style="list-style-type: none"> • To implement the sustainability and climate-related risk management practices approved by the Board by developing risk management infrastructure, policies and procedures that are comprehensive for managing material climate-related risks arising from the Bank’s business activities. • To supervise progress in achieving sustainability and climate-related strategy, goals/targets, risk appetite and regulatory requirements. • To ensure that sufficient resources and capacity are allocated and that roles and responsibilities are clearly defined, to facilitate the effective implementation of the sustainability and climate-related risk management framework. • To formulate effective escalation channels for reporting material sustainability and climate-related risks and exceptions to the BRMC and the Board for deliberation.

2.2 Sustainability Governance Structure Including Climate-related Matters at the Management Level (cont.)

Three Lines of Defence

The Bank has established the roles and responsibilities of the following three lines of defence to ensure all the departments and branches within the Bank can carry out the management of climate-related risks effectively.



Notes:

- i. Business Departments such as Corporate Banking Department, Global Banking Department, Global Treasury Department, Digital & Retail Banking Department, Global Trade & Institutional Banking Department, and Branches.
- ii. Functional Departments such as Credit Evaluation/Credit Management Department and Human Resource and Administration Department.

2.3 Sustainability and Climate-related Training

The Board comprises five members, including three independent non-executive directors, one executive director and one non-independent non-executive director.

During FY2025, the Board attended external training programmes on climate-related matters. The Bank also conducted sustainability and climate-related training to enhance employees' awareness and understanding of climate risk. In the fourth quarter of 2025, a bank-wide training session on "Scenario Analysis and Stress Testing on Climate Risk" was conducted. The session covered recent developments in climate risk, industry practices and the outcomes of the Bank's participation in the BNM's 2024 Climate Risk Stress Testing ("CRST") Exercise.

2.4 Sustainability and Climate-related Discussions in Board Meetings

The Board periodically holds discussions on sustainability and climate-related matters to ensure alignment with the Bank's long-term goals and its dedication to managing climate risks and opportunities. The Bank has held a total of five Board meetings in 2025. Among the topics tabled and discussed in Board meetings include climate-related risk exposures, status of Climate Risk Classification pursuant to BNM's Climate Change and Principle-based Taxonomy ("CCPT") and the BNM's 2024 CRST Exercise.

3 STRATEGY

The Bank formulates sustainability and climate strategies to ensure the business development is in line with the risk appetite set and the Bank remains competitive in anticipation of the changing market environment along with increasing scrutiny and preference towards climate-friendly solutions and responsible practices. This include promoting the transition by customers and counterparties towards a carbon-neutral economy and more sustainable practices across business portfolios and engagements as well as expanding the financing of climate-related opportunities and sustainable economic activities.

The Bank's engagement strategy focuses on classification, disclosure, and sustainability-linked conditions. Customers are assessed based on the climate risk classification, with ESG or emissions-related documentation required during initial loan/facility approval and annual review. This ensures transparency and systematic monitoring of climate-related risks.

In 2025, as part of its commitment to supporting Malaysia's low-carbon transition, the Bank introduced green financing into its investment portfolio for the first time, allocating RM55 million for sustainable purpose. The initiative underscores the Bank's strategic focus on sustainable finance while supporting environmentally responsible projects.

Following the 2024 BNM CRST Exercise, the Bank has integrated the climate risk assessments into its lending policies, prioritising financing for green and low-carbon projects. As part of the Bank's climate risk management framework, clients whose operations pose material environmental risks are subject to stricter due diligence and inclusion in a monitoring watch list. This mechanism ensures ongoing oversight through systematic reviews at key stages, including client on-boarding, annual credit assessments, and post loan disbursement evaluations, aligning with our commitment to sustainable finance principles.

4 RISK MANAGEMENT

4.1 Process for Identifying, Assessing and Managing Climate-related Risks

As climate change continues to reshape the global economic landscape, the Bank acknowledges that its potential financial impacts extend beyond environmental considerations to the broader stability of the financial system. The Bank therefore strives to strengthen its governance, analytical tools, and risk management processes to ensure preparedness for emerging climate-related challenges. By embedding climate factors into its existing risk assessment framework, the Bank aims to maintain resilience and support a sustainable transition.

Climate-related risks influence banks through multiple channels and often interact with conventional risk types such as credit, market, operational, and liquidity risks. In line with the Task Force on Climate-related Financial Disclosures (“TCFD”), the Bank evaluates how these risks are transmitted across its portfolios and identifies areas most susceptible to climate-driven disruptions.

These risks are generally grouped into two broad categories: physical risks and transition risks.

- A. Physical risks refer to potential financial losses that arise from the direct consequences of environmental and climatic events. Severe weather occurrences such as typhoons, floods, and prolonged heatwaves, as well as slower-onset phenomena like rising sea levels or temperature increases, can disrupt customer operations, impair asset values, and weaken repayment capacity. Environmental degradation, loss of ecosystem services, and pollution incidents may further intensify these effects and translate into higher credit risks for the Bank.
- B. Transition risks, in contrast, stem from the adjustments required to achieve a low-carbon economy. Regulatory reforms, the introduction of carbon pricing mechanisms, shifts in consumer preferences, and advances in clean technologies may alter business models and impact the financial performance of certain sectors. Customers exposed to these changes might experience reduced profitability or face challenges adapting, which could indirectly influence the Bank’s risk exposure.

Recognising the complex and interlinked nature of climate risk, the Bank continues to monitor evolving policy, market, and environmental developments. The Bank is committed to enhancing its capacity to evaluate climate scenarios, measure potential impacts, and integrate climate considerations into strategic and credit decision-making processes.

The following table outlines the key transmission channels by which climate-related risks may impact the Bank’s business strategy and operational activities:

Risk Category	Risk Dimension	Description	How it may arise	Risk Types Affected	Risk Exposure Period ¹	Potential Implications to the Bank
TRANSITION RISK	Regulatory Shift	Exposure to policy or regulatory changes as jurisdictions strengthen climate-related rules.	Introduction of carbon taxes, emissions reporting standards, or tighter lending criteria for high-emission sectors.	Market Risk, Credit Risk	Medium to Long Term	Higher probability of credit defaults; pressure on collateral values tied to carbon-intensive assets.
	Economic Adjustment	Economic shifts resulting from large-scale transition to sustainable industries.	Decline in demand for fossil-fuel-based products, growth of renewable energy markets, and changing investor sentiment.	Market Risk, Credit Risk	Medium Term	Market revaluation of securities and potential for stranded assets within the portfolio.
	Technology Change	Technological breakthroughs accelerating the move toward low-carbon operations.	Development of cleaner energy, alternative materials, or carbon capture systems that render older technologies obsolete.	Market Risk, Credit Risk	Medium Term	Reduced profitability of borrowers unable to adapt; increase in sector concentration risk.
	Social & Market Behaviour	Shifts in public attitudes, consumer demand, and investor expectations around sustainability.	Preference for green products, ESG-focused investments, and sustainability-linked financing.	Reputational Risk, Operational Risk	Short to Medium Term	Potential reputational risk if the Bank is perceived as lagging behind peers in green finance offerings.

¹ Short Term indicates a duration of one to three years; Medium Term indicates a duration of four to ten years; Long Term indicates a duration of more than ten years.

Risk Category	Risk Dimension	Description	How it may arise	Risk Types Affected	Risk Exposure Period ¹	Potential Implications to the Bank
PHYSICAL RISK	Acute	Short-term, high-impact environmental disruptions.	Typhoons, flash floods, heatwaves, or wildfires affecting client operations and asset values.	Credit Risk, Operational Risk	Short Term	Collateral impairment; temporary operational disruption; increased loan defaults.
	Chronic	Gradual climatic shifts affecting economic productivity and resource availability.	Sea-level rise, changing rainfall patterns, declining water resources, or soil degradation.	Market Risk, Liquidity Risk	Long Term	Reduced asset valuations, higher provisioning, and potential liquidity strain on affected sectors.

The TCFD Application Guide for Malaysian Financial Institutions (issued by Joint Committee on Climate Change dated 29 June 2022) was used as a guidance in the mapping between climate-related risks and traditional risk types.

Bank Negara Malaysia's 2024 Climate Risk Stress Test

In 2025, the Bank has completed the inaugural BNM's 2024 CRST Exercise to assess potential credit risk impacts under three long-term climate scenarios (i.e., Net Zero 2050 "NZ 2050", Divergent Net Zero 2050 "DNZ 2050" and Nationally Determined Contributions "NDCs") based on the Network for Greening the Financial System ("NGFS") and a short-term acute physical risk scenario, which considers a one-off 1-in-200 years flood event in Malaysia.

The outcome of the exercise include greater awareness of climate risk transition channels, the development of internal capability to support future assessment and regulatory expectation and provided valuable insights into future enhancements to the Bank's climate risk framework.

4.2 Integration and Management of Climate-related Risks

The Bank has developed the following policy and procedure to guide its climate risk management:

1. Sustainability and Climate Risk Management Policy

The Sustainability and Climate Risk Management Policy is formulated to drive the identification, measurement and understanding of climate-related risks and opportunities, their impact on the Bank's business activities/ operations and to outline the risk controls to ensure that the identified climate-related risks are progressively mitigated to achieve sustainable growth.

This document aims to create a strong risk culture within the Bank and improve the quality of the risk management function and serves as a source of reference for the Bank in relation to its climate-related risk management on an integrated basis.

2. Sustainability and Climate Risk Assessment Procedure

The Sustainability and Climate Risk Assessment Procedure is devised to provide a standardised and systematic approach and control in climate-related risk management that is to be integrated into the existing credit assessment flow, and to be observed during credit initiation and on-going credit surveillance throughout the tenor of the credit facility.

This document outlines a general guide on climate-related risk assessment processes in identifying, measuring, controlling, reporting, and monitoring of climate-related risks and opportunities arising from credit lending and investment activities.

The Bank adopts BNM's CCPT in classifying climate risk category for its credit exposures. The Bank has embedded its internal climate risk classification framework (C1 – C5b) into the credit process, and engages customers through routine due diligence, annual reviews, and sustainability-related documentation requirements. In general, CCPT ratings of borrowers are assessed across two dimensions: at the transaction level (GP1 and GP2) and at the overall business level (GP3 and GP4). These Guiding Principles determine whether a borrower falls into Climate Supporting (C1), Transitioning (C2 or C3) or Climate Watchlist (C4, C5a or C5b) categories.

As at 31 December 2025, the CCPT classification distribution for the loan and bond portfolio consisted majority of C5b (63.24%), followed by C3 (16.74%). C1 (16.52%, C2 (3.50%) and nil for C5a and C4. The Bank regularly monitors the CCPT classification distribution and reports (i) to the BRMC and to the Board via the Bank's risk report and (ii) to BNM on a semi-annual basis.

- End of the report -