Beyond balance sheets:

The ESG imperative for GCC banks' future

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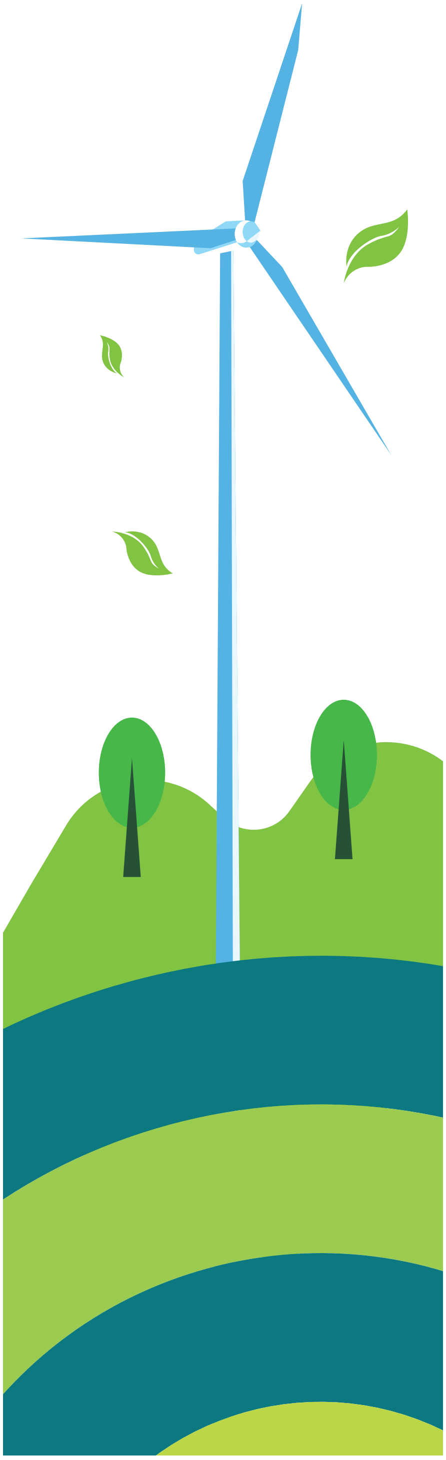

Introduction

The banking industry is experiencing a transformational shift with ESG principles transitioning from a mere consideration to a disruptive force that is shaping the future of banking. ESG principles are used by banks to measure their environmental, social, and governance performance and impact. Environmental factors are key, as they encompass a bank's impact on the planet, including its carbon footprint, water usage, waste management, and involvement in providing products or services that may have a detrimental impact on the environment, such as financing activities related to fossil fuels, deforestation, or other environmentally harmful practices. Social factors are equally important, as they reflect a bank's impact on people, including aspects such as labor practices, human rights, community engagement, and the societal implications of the products and services offered. Additionally, governance factors play a significant role, covering a bank's internal management and oversight, including its board structure, executive compensation, and transparency in financial reporting, as well as the ethical and legal implications of its business activities.

ESG has emerged as a critical driver of sustainable growth and a key factor in transforming the operations of banks worldwide. To remain competitive in today's market, banks must align their traditional practices with emerging ESG imperatives. Failure to do so risks losing market share, reputational damage, and regulatory scrutiny.

Incorporating ESG principles into strategies and operations is imperative, as it has become the norm, driving investment strategies and shaping stakeholder expectations. While commendable efforts have been taken, a comprehensive analysis needs to be conducted to gain a thorough understanding of the banks' ESG maturity level and to determine the necessary follow-up steps.

This POV provides an analysis of how ESG is expected to shape the layers of banks' operating models in the GCC towards a more sustainable and responsible future. It includes a benchmark using nine (9) maturity metrics to measure maturity against major global banks, highlighting the need for GCC banks to take proactive steps towards incorporating ESG principles into their strategies and operations. The sample of global banks selected comprises 37 European banks, 8 North American banks, 3 Asian banks, 1 Australian bank, and 1 African bank.

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1. ESG landscape in the GCC: The current state of ESG adoption in the GCC region

Considering the region's history of relying heavily on the Oil & Gas industry as a main source of wealth, several measures are being put in place by GCC countries to achieve sustainability transformation.

Taking the lead, Saudi Arabia has launched several initiatives to promote sustainability. The Saudi 2030 vision, launched by Crown Prince Mohammed bin Salman, aims to reach net-zero carbon by 2060 and has been investing heavily in green technology such as carbon capturing and clean hydrogen. The Saudi approach to attain the carbon zero plan is the 'Carbon Circular Economy' approach, which follows the steps of "reduce, reuse, recycle, and remove". The Saudi & Middle East Green Initiatives umbrella includes the Saudi Green Initiative and the Middle East Green Initiative, which aims to plant 50 billion trees, reduce and eliminate carbon emissions. The initiatives are expected to generate investment and job opportunities that benefit millions of people.

The UAE has committed to being net-zero by 2050 and has invested heavily in renewable energy ventures worth around $16.8 billion in 70 countries, with a focus on developing nations. The Abu Dhabi Security Exchange and Dubai Financial Market have announced ESG guidelines for listed companies. The Abu Dhabi Global Market launched 'The Abu Dhabi Sustainable Finance Declaration' to support the UAE in meeting the United Nations Sustainable Development Goals. The UAE Security and Commodities Authority has established the requirements for all the listed companies on Dubai Financial Market or on the Abu Dhabi Securities Exchange to produce an annual ESG report, including the company strategy and the impact of the company's activities on ESG and the economy.

The Central Bank of the UAE has issued the principle of 'Incorporation of climate-related financial risks into risk management framework' to oversee the development of policies and procedures to monitor and report financial risk exposures related to climate.

Looking at Qatar, the Qatar National Vision 2030 was launched to diversify the economy and reduce reliance on hydrocarbons. The Qatar Stock Exchange introduced ESG guidance in December 2016, with a call for reduction in carbon emission to net-zero by 2050. While the Qatar Financial Market Authority (QFMA) requires listed companies to comply with ESG reporting, the Qatar Stock Exchange (QSE) developed its own guidance for ESG reporting. The guidance includes 'Qatarization,' which monitors the employment of Qatari nationals in the private and public sector.

The below graph provides a summarized timeline for each country with the most relevant developments:

SAUDI ARABIA

2017

Capital Market Authority
CMA issued new corporate governance regulations emphasizing on board diversity

2018

Saudi exchange (Tadawul)
Signed a partnership with the UN sustainable stock exchanges initiatives to promote ESG awareness, initiatives and encourage sustainable investment

Saudi exchange (Tadawul)
Published the ESG disclose guidelines for listed companies

2021

Saudi exchange (Tadawul)
Tadawul the Saudi stock exchange, launches an ESG index to further incentivize ESG reporting

Saudi government
Launched the Saudi Green initiative and the Middle East Green initiative

2022

Public investment fund
Launched the Saudi Green Finance Framework, guiding green bond issuance

Saudi government
Saudi has attracted over 4B$ in renewable energy investments

2023

MEP, CMA and Saudi exchange
Signed MoU advanced ESG industry standards through developing a Saudi ESG taxonomy, establishing a national ESG disclosure framework, and promoting ESG awareness

UNITED ARAB EMIRATES

2019

Abu Dhabi security exchange
Announced the ESG guidelines for listed companies

Dubai financial market
Launched its sustainability strategic plan 2025

Abu Dhabi Global Market
Launched the Abu Dhabi Sustainable Finance Declaration

Dubai International Finance Center
Established Dubai Sustainable Finance Working Group to promote ESG integration in the Dubai financial sector

2020

Abu Dhabi security exchange
Required all the listed companies to produce an annual sustainability report

UAE government
Committed to be net zero emission by 2050

Ministry of climate change & environment
Published the UAE Sustainable Finance Framework 2021-2031 outline the national roadmap for sustainable finance

2023

Abu Dhabi Global Market
Implemented its sustainable finance regulatory framework

Central bank of the UAE
Introduced the "incorporation of climate-related financial risks into risk management" framework

QATAR

2009

Qatar financial markets authority
Mandated how listed companies are required the operate within a "comply or explain" framework for their corporate governance code

2016

Qatar government
Introduced the ESG guidance and a plan to reduce carbon emission to net zero by 2050

Qatar stock exchange
Became a signatory to the United Nations sponsored Sustainable Stock Exchange initiative

2017

Qatar central bank
Establishes Financial Inclusion Task Force to promote financial inclusion and access to finance for undeserved customer segments

2020

Qatar government
Qatar issued its first sovereign green highlighting its focus on sustainable finance

2022

Qatar stock exchange
Published guidance on ESG disclosure for listed companies including "Qatarization"

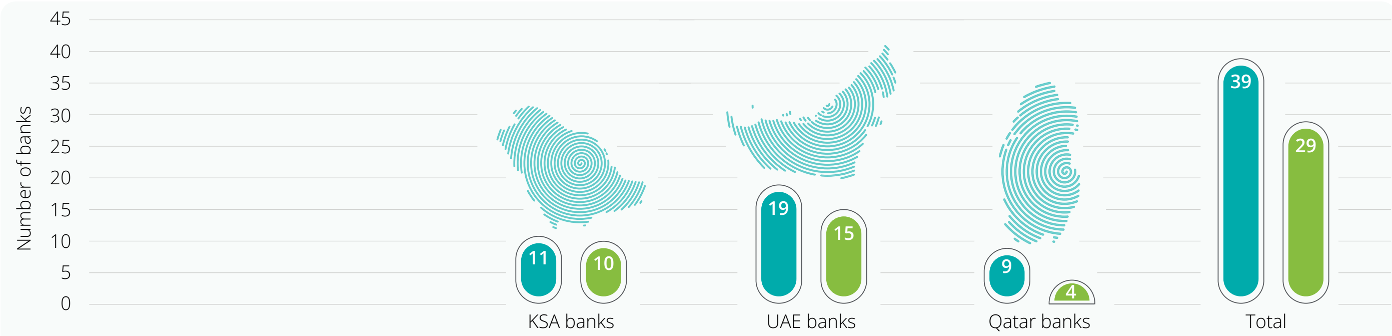
2. Greening the gulf: Assessing the sustainability practices of GCC banks

Through a comprehensive benchmark exercise leveraging our global network, Deloitte in the Middle East has assessed the current adoption of sustainability principles by GCC banks. This exercise will allow GCC banks to track their performance against major global banks and prioritize sustainable practices aiming to achieve their ESG goals. The analysis focuses on the Kingdom of Saudi Arabia, Qatar, and the United Arab Emirates, examining ten key metrics across three categories: strategy, governance, and enablers to assess maturity levels.

The findings provide valuable insights into the genuine commitment and progress of GCC banks towards ESG compliance and maturity, serving as a starting point for discussion and analysis of the potential impact operating models.

The analyzed sample includes 29 based GCC banks that have published their ESG reports.

This exercise will allow GCC banks to track their performance against major global banks and prioritize sustainable practices aiming to achieve their ESG goals



	KSA banks	UAE banks	Qatar banks	Total
Number of national banks	11	19	9	39
ESG reporting	10	15	4	29

Graph 1: GCC banks with published ESG reports

Graph 1 showcases a promising picture, with around 75% of GCC banks now adhering to government regulations by publishing ESG reports. This demonstrates a growing commitment to ESG and associated transparency within the region.

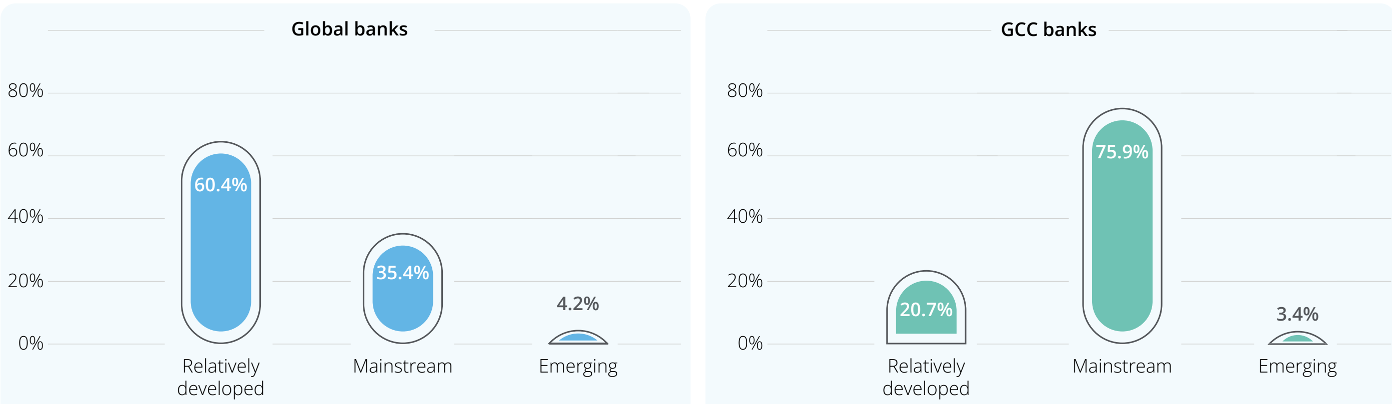
Saudi Arabia paves the way with almost all Saudi banks issuing ESG reports, showcasing their alignment with SAMA's regulations and Vision 2030 goals.

While the current indicators are very promising, further analysis of reports across KSA, UAE, and Qatar highlight opportunities for growth. There is an opportunity to deepen the internal commitment, enhance data transparency by providing comprehensive metrics on environmental and social impacts, and set clear, measurable goals for improvement.

As part of our benchmarking, we reviewed the publications and assessed these against the following criteria:

Incorporation of sustainability in the vision, mission and/or purpose statements

Ranking	Definition
Relatively developed	The bank's vision, mission or purpose contains an explicit reference to their role in the transition to a sustainable society
Mainstream	Sustainability is not part of the bank's vision, mission or purpose. However, there is a strong reference to their role in the transition to a sustainable society on website or in annual reports
Emerging	No explicit reference to their role in the transition to a sustainable society in vision, mission or purpose. Limited reference their website or in annual reports



*The number of global banks included in the study varies depending on the availability of information.

Graph 2: Incorporation of sustainability in the vsion, mission and/or purpose statements

The benchmark findings in graph 2 reveal interesting insights into the incorporation of sustainability in the vision, mission, and/or purpose statements of global banks compared to GCC banks.

Most global banks have explicitly included references to their role in the transition to a sustainable society in their vision, mission, or purpose statements. This indicates a strong commitment to sustainability and aligning their business strategies with sustainable goals, It also reflects the presence of regulatory requirements that mandate such commitments—regulations that are not yet established in the GCC region.

While sustainability may not be explicitly mentioned in the vision, mission, or purpose statements of mainstream global banks, there is a strong reference to their role in the transition to a sustainable society in their communications. This demonstrates a recognition of the importance of sustainability and a commitment to integrating sustainable practices into their operations. The higher proportion of GCC banks identified as mainstream in graph 2 also show a strong reference to their role in the transition to a sustainable society on their websites or in their annual reports, highlighting their efforts to align with global sustainability goals.

Overall, the benchmark findings highlight the varying levels of sustainability integration among global and GCC banks. This indicates a potential opportunity for GCC banks to enhance their explicit references to sustainability in their vision, mission, and/or purpose statements, aligning their strategic objectives with global sustainability goals and further establishing themselves as leaders in sustainable banking practices.

Commitment, target setting, and reporting on Sustainable Development Goals (SDGs)

Ranking	Definition	# of global banks*	# of GCC banks
Relatively developed	The bank has set targets for its contribution to the SDGs and provides credible reporting on their progress towards achieving the SDGs	23	5
Mainstream	The bank has set targets for its contribution to the SDGs; however, reporting on progress towards achieving the SDGs is limited or non-existent	21	18
Emerging	The bank has not set targets for its contribution to the achievement of SDGs	4	6
Total		**48**	**29**

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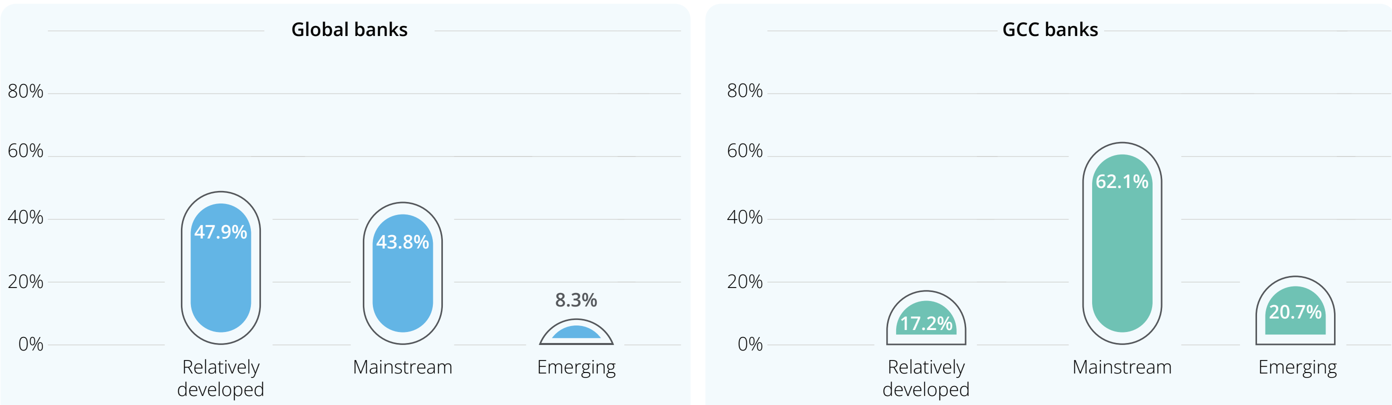

Graph 3: Commitment, target setting, and reporting of Sustainable Development Goals (SDGs)

Graph 3 depicts the analysis of global banks versus GCC banks on their commitment, target setting, and reporting of SDGs and reveals that a higher percentage of global banks have set targets for their contribution to the SDGs and provide credible reporting on their progress towards achieving them compared to GCC banks.

A high percentage of GCC banks are considered mainstream, meaning they have set targets for their contribution to the SDGs but have limited or non-existent reporting on progress towards achieving them. These findings suggest that while there is room for improvement in both global and GCC banks' commitment to SDGs, GCC banks may need to focus more on developing credible reporting mechanisms to track their progress towards achieving SDGs. This will enable them to demonstrate their commitment to sustainability and ESG principles to stakeholders, including investors, customers, and regulators.

Net Zero commitment ambition

Ranking	Definition	# of global banks*	# of GCC banks
Relatively developed	Bank has a net-zero commitment for which it has its targets verified by the SBTi1 and has set interim targets by becoming a member of the NZBA2 (Net Zero Banking Alliance 2)	30	0
Mainstream	The bank has a net-zero commitment for which it either has its targets verified by the SBTi1 or has set interim targets by becoming a member of the NZBA2	16	4
Emerging	Bank does not have a net zero commitment	4	25
Total		**50**	**29**

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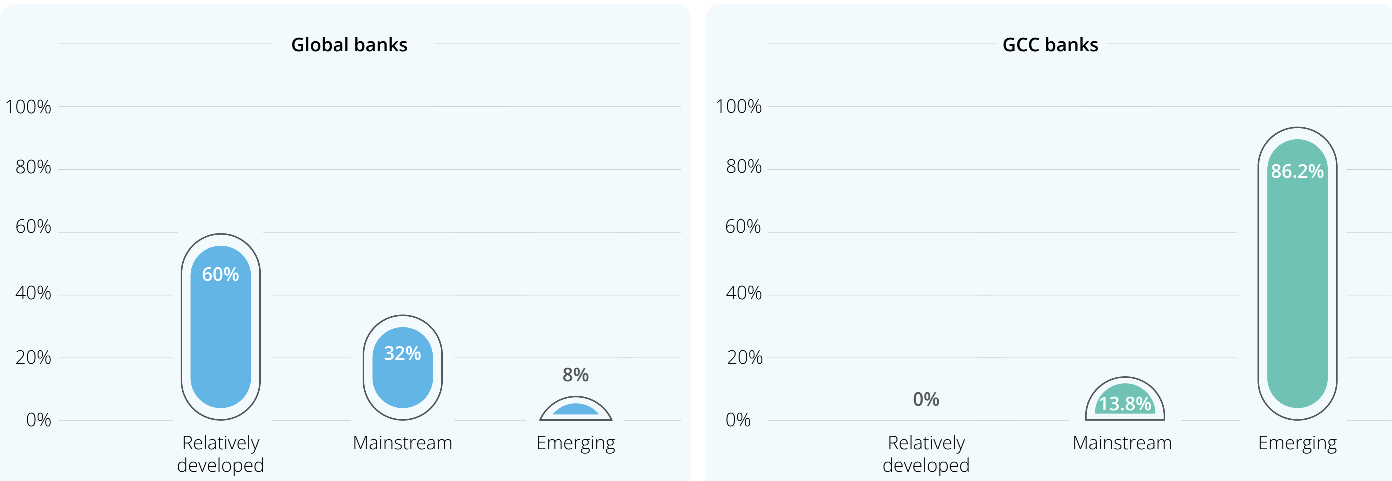

Graph 4: Net Zero commitment ambition

The benchmark analysis comparing global banks and GCC banks on their Net Zero Commitment Ambition (graph 4) reveals substantial disparities between the two groups, influenced significantly by EU regulations that impose more stringent and targeted rules regarding the commitment to achieving net zero emissions.

The regulatory framework in Europe and the GCC countries diverges significantly concerning ESG. In Europe, stringent regulations enforce comprehensive ESG reporting requirements, mandating banks to disclose detailed information on sustainability practices, carbon emissions, and adherence to international standards. Conversely, in the GCC, while awareness of ESG is growing, regulatory frameworks are generally less prescriptive and standardized. Banks in the GCC may face varying degrees of regulatory guidance and enforcement, impacting the consistency and depth of ESG reporting and integration into core business practices.

Among the global banks assessed, a higher proportion of developed banks demonstrate a robust net-zero commitment, with verified targets by the SBTi (Science Based Targets initiative) and interim targets as members of the NZBA (Net Zero Banking Alliance).

GCC banks have a significant opportunity to enhance their net-zero commitment and target-setting practices to align with global standards and industry best practices. The observed disparities can be attributed to variations in sustainability strategies, regulatory frameworks, ESG awareness, resource accessibility, expertise availability, and regulatory or regional disparities in sustainability practices.

To elevate and align with the level of global banks, GCC banks should focus on reaching and setting net-zero targets across different layers of their operating model:

- Process layer: GCC banks should optimize their operations by implementing environmentally friendly practices, minimizing resource consumption, and reducing carbon emissions. This involves integrating ESG principles into their processes and ensuring that sustainability considerations are embedded in their day-to-day operations.
- Technology layer: GCC banks should

leverage technology to prioritize environmental conservation and societal advancement. This includes adopting innovative technologies that reduce energy consumption, enhance efficiency, and promote sustainable practices. By embracing digital solutions, such as energy-efficient data centers and digital banking channels, GCC banks can contribute to their net-zero targets while providing customers with enhanced convenience and flexibility.

- Channels layer: GCC banks should embrace digital banking channels, such as mobile apps and online banking, which are not only more environmentally friendly compared to traditional physical branches but also offer customers a seamless banking experience and can achieve higher levels of financial inclusion. By prioritizing digital channels, GCC banks can reduce their carbon footprint while meeting the evolving needs of their customers.
- Locations layer: GCC banks should focus on energy efficiency and sustainable design in branch construction and operation. By implementing energy-saving measures, utilizing renewable energy sources, and adopting sustainable building practices, GCC banks can minimize their environmental impact and contribute to their net-zero targets.

By addressing these recommendations across the process, technology, channels, and locations layers, GCC banks can enhance their net-zero commitment and align with global best practices. This will not only contribute to environmental sustainability but also position them as leaders in the banking industry's transition towards a more sustainable future.

The next metric will focus on the operations and facilities of GCC banks, with the aim of identifying and addressing gaps and potential opportunities for improvement within the operational framework.

Own operations and facilities

Ranking	Definition	# of global banks*	# of GCC banks
Relatively developed	Bank has extensive ESG targets for its office buildings, covering carbon, water, waste and energy, and uses their sustainable facilities to connect with stakeholders.	14	0
Mainstream	Bank has partially introduced ESG targets for its office buildings, covering carbon, water, waste and energy.	21	5
Emerging	Bank has not clearly communicated ESG targets for its office buildings, covering carbon, water, waste and energy.	15	24
Total		**50**	**29**

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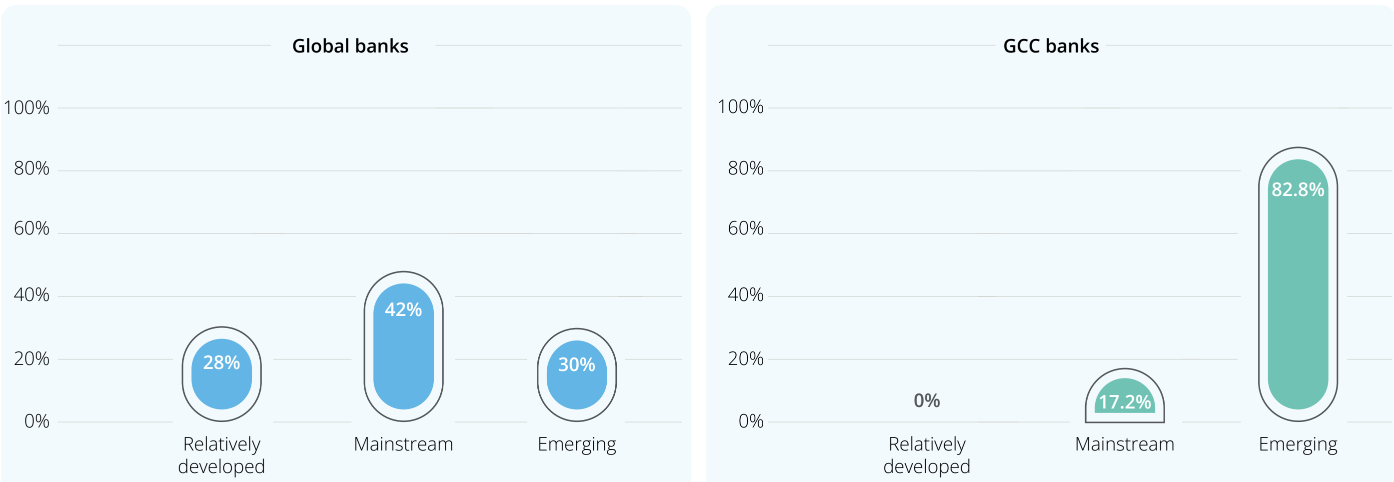

Graph 5: Own operations and facilities

While ESG is now a business imperative, GCC banks are working towards a more sustainable future, though not yet at the same pace as global banks. This doesn't reflect a lack of commitment – GCC banks are actively addressing areas like carbon neutrality and waste reduction. However, a strategic gap exists.

Global banks exhibit a notable lead over GCC banks in the advancement of sustainability and ESG practices within their own operations and facilities, as evidenced by the larger representation in categories like "Relatively Developed" and "Mainstream" categories. This can be attributed to factors such as their extensive experience, exposure to more international regulations, and the increasing demand for ESG integration from stakeholders.

However, there are encouraging signs from GCC banks, with an increasing number of banks that are transforming their offices into eco-friendly environments. These initiatives not only involve the use of renewable materials, which positively impact the environment, but also include provisions for catering to the needs of customers with disabilities. Such efforts not only display promising signs for the future but also underscore a clear potential for improvement in sustainability practices. With several GCC banks categorized as 'Emerging,' there is evident room for enhancement and growth in sustainability practices over time.

Extent to which sustainable products are offered to commercial clients

Ranking	Definition	# of global banks*	# of GCC banks
Relatively developed	Segment-specific sustainable products offered	11	7
Mainstream	Sustainable products offered	28	16
Emerging	No sustainable products offered	5	6
Total		**44**	**29**

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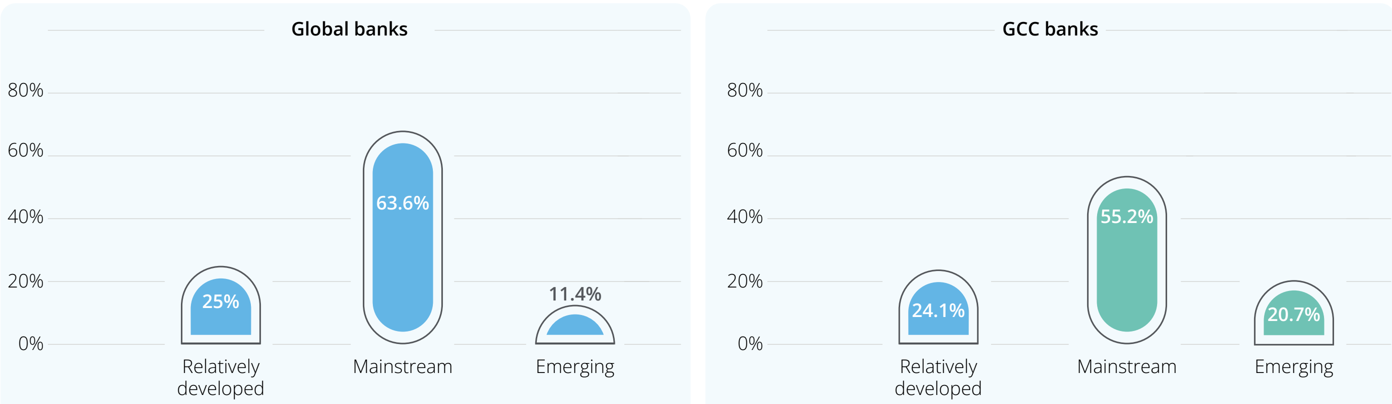

Graph 6: Extent to which sustainable products are offered to commercial clients

Extent to which sustainable products are offered to retail clients

Ranking	Definition	# of global banks*	# of GCC banks
Relatively developed	Customers can be offered the full green experience (loans + savings + payment + mortgage products)	4	0
Mainstream	Sustainable loans (mortgages, car loans) offered	27	13
Emerging	No sustainable products offered	12	16
Total		**43**	**29**

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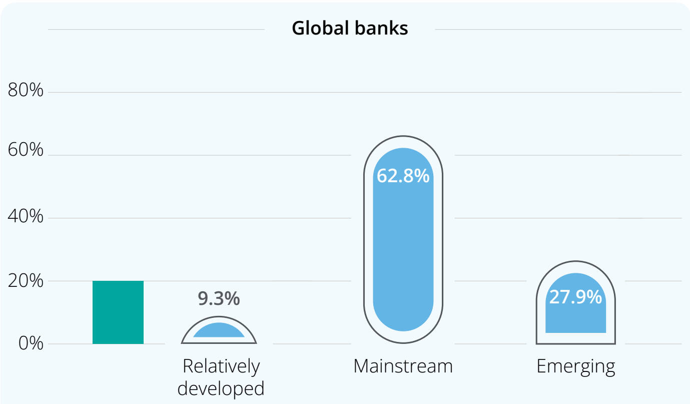
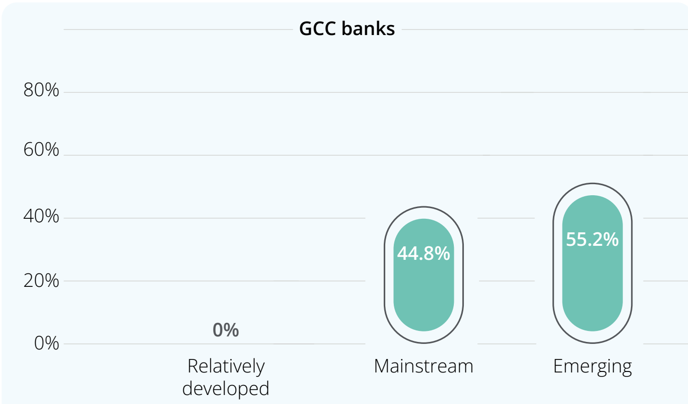
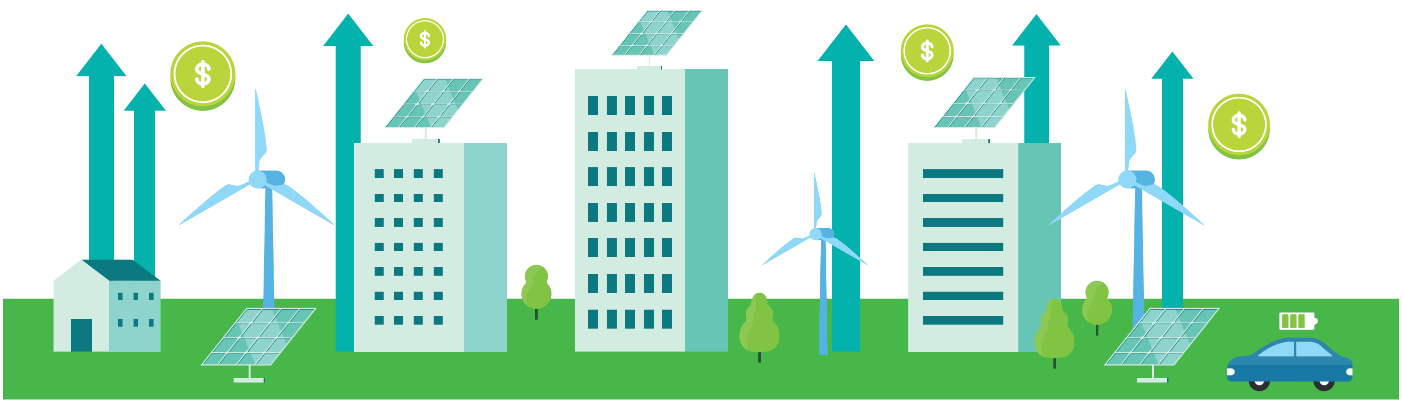




Graph 7: Extent to which sustainable products are offered to retail clients



Extent to which Sustainable Products are Offered to Wealth Management Clients

Ranking	Definition	# of global banks*	# of GCC banks
Relatively developed	Extent to which Sustainable Products are Offered to Wealth Management Clients	8	0
Mainstream	Sustainable loans offered	23	2
Emerging	No sustainable products offered	14	27
Total		**45**	**29**

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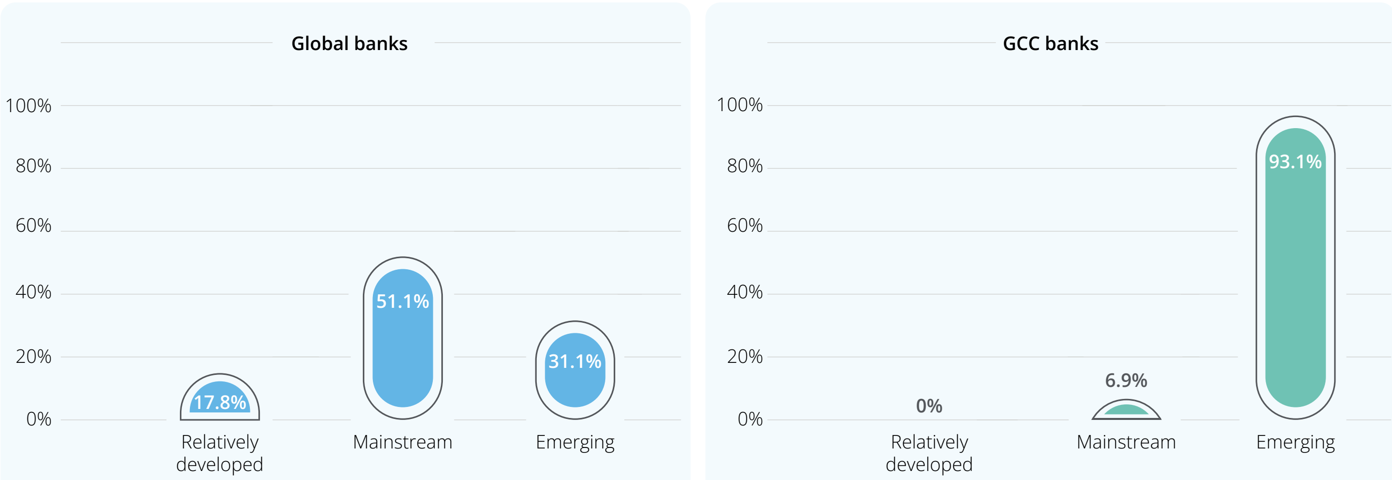

Graph 8: Extent to which Sustainable Products are Offered to Wealth Management Clients

Banks are strategically introducing green products as part of building sustainable societies initiative. Those products cover green homes and green vehicles encouraging individuals and businesses to invest in energy efficient residences and environmentally friendly transportation. Banks are also offering different investment opportunities designed specifically for customers who prioritize ESG considerations.

The graph analysis (graphs 5,6 and 7) suggests that global banks and GCC banks have comparable offerings in terms of lending products for retail and commercial customers. There are distinct differences in their approach to sustainability. Global banks tend to provide a more comprehensive "green experience" by offering bundles of sustainable products and services, while GCC banks primarily focus on green loans. This divergence can be attributed to factors such as the size and diversity of customer bases, the appetite of customers/investors, the integration of sustainability into business strategies, and regional market dynamics.

In wealth management, global banks are more active and offer a wider range of sustainable options, including green advice and products, whereas GCC banks are still in the early stages of addressing this segment. GCC banks have the opportunity to expand their sustainable wealth management offerings, provided that customers and investors show an interest in these types of products.

This section is intricately connected to the product layer of the operating model, directly influencing and shaping it.

Extent of executive board ESG experience

Ranking	Definition	# of global banks*	# of GCC banks
Relatively developed	Bank has two or more executive board members with ESG experience	1	1
Mainstream	Bank has one executive board member with ESG experience	11	0
Emerging	Bank has no executive board members with ESG experience	19	28
Total		**31**	**29**

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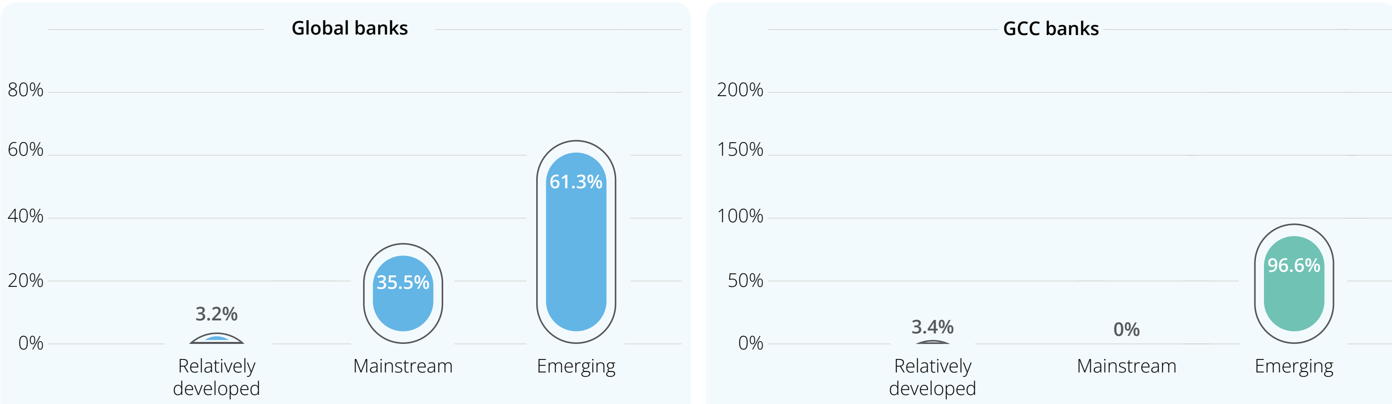


Graph 9: Extent of executive board ESG experience

The graph reveals a significant disparity in the maturity of Global Banks compared to GCC Banks regarding ESG-experienced board members. ESG experience being defined as a previous or current main occupation (not a board membership or secondary occupation) within an organization that strives to achieve goals directly related to ESG; or a previous or current main occupation in a role that exists to achieve goals directly related to ESG, within any type of organization.

One-third (11 out of 31) of Global Banks are represented by one board member with ESG expertise. This presence can positively impact the bank's sustainability initiatives and ambitions by integrating ESG considerations into strategic decision-making.

In contrast, none of the 28 GCC Banks have board members with ESG experience. This lack of representation is a clear area for improvement. The absence of ESG expertise at the board level could hinder GCC Banks' ability to effectively integrate ESG principles into their operations and limit their overall ESG involvement and sustainability engagement.

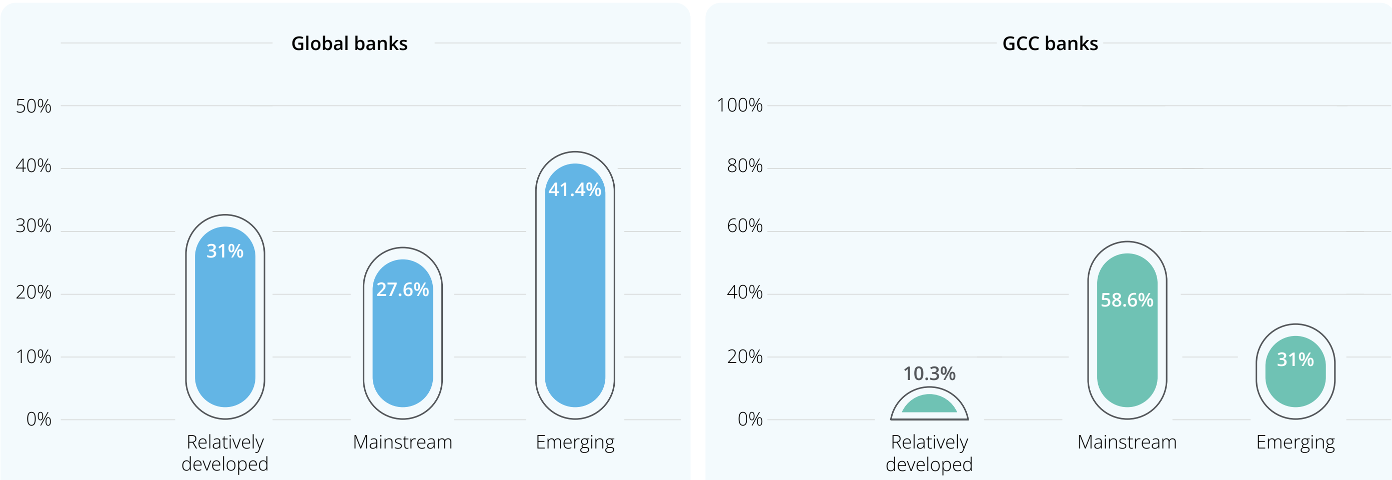
Multiple layers of the operating model are impacted by this metric such as:

- Governance and process: Banks should ensure to have board members with ESG experience as this ensures that sustainability imperatives are key factors inputted into the strategic decision-making process demonstrating a clear shift towards embracing responsible governance practices.
- People: Board members with ESG expertise can champion the integration of ESG principles into recruitment strategies, ensuring the bank attracts and retains talent passionate about sustainability. They can also advocate for ESG training programs, developing a workforce equipped to implement these principles effectively.
- Stakeholders: Board members with ESG expertise can foster more meaningful dialogue with stakeholders, including investors and communities interested in ESG, by demonstrating a credible commitment to sustainable and responsible practices.

Talent and culture sustainability initiatives

Ranking	Definition	# of global banks*	# of GCC banks
Relatively developed	The bank is making concerted and persistent efforts to embed sustainability into the organizational culture	9	3
Mainstream	The bank is engaged in some serious initiatives, but overall impact remains to be determined	8	17
Emerging	The bank is making a limited to no effort to embed sustainability into organizational culture	12	9
Total		**29**	**29**

*The number of global banks included in the study varies depending on the availability of information.



Graph 10: Talent and culture sustainability initiatives

The comparison in graph 9 reveals how both Global and GCC banks are putting a strong emphasis on talent and culture sustainability within their organizational cultures. Global banks seem to be more committed to promoting talent and culture through various events, trainings, awareness campaigns and by integrating sustainability practices compared to GCC banks. However, there are positive signs in the GCC region, with more than 50% of banks taking serious initiatives aimed at promoting talent and fostering an environment where both the bank and its people can flourish together. These initiatives not only impact the People layer but also influence the governance layer, which plays a crucial role in facilitating and promoting a sustainability culture within banks. Banks are encouraged to prioritize sustainability and inclusivity by embedding ESG principles into their approach to employee well-being, diversity, fair compensation, and talent development. It's important to introduce training programs that cover important ESG issues like water scarcity and climate change to ensure comprehensive engagement among employees and promotion of sustainable practices.

Banks are encouraged to prioritize sustainability and inclusivity by embedding ESG principles into their approach to employee well-being, diversity, fair compensation, and talent development

3. Conclusion | Outlook and challenges

As GCC banks navigate the integration of ESG principles, they face a mix of challenges and opportunities that extend beyond the introduction of new products. This journey requires a comprehensive reassessment of their operating models, necessitating alignment with ESG principles to become a core part of their identity and positioning in the global market.

This transformative journey comes with its set of considerations. Navigating the road to sustainable and responsible banking is a complex and lengthy process, prompting banks to take proactive steps at the earliest opportunity to:

1 Incorporate sustainability in core statements:

Explicitly reference sustainability in the core statements of the bank to signal commitment and align with global goals.

2 Enhance reporting and transparency:

Develop and implement credible reporting mechanisms for tracking progress towards ESG goals and commitments following global standards.

3 Commit to net-zero targets and invest in sustainable operations:

Set and work towards achieving net-zero targets by optimizing processes, leveraging technology, and designing sustainable branches.

Transform bank facilities into eco-friendly environments and use renewable materials to reduce environmental impact.

4 Balance ESG strategy with financial returns:

Develop models to better understand how ESG initiatives impact financial performance by collaborating with industry experts to establish frameworks for quantifying the impact of sustainable practices on the bottom line.

5 Expand sustainable product offerings:

Introduce comprehensive green products and services across retail, commercial, and wealth management sectors.

6 Ensure robust governance and employee engagement:

Promote the development of governance structures to ensure efficient oversight of ESG activities and establish robust governance frameworks with ESG principles embedded at all levels, ensuring board members have relevant ESG experience.

7 Bridge talent and skill gaps:

Implement training programs and educational initiatives led by subject matter experts to upskill employees, ensuring they are aligned with the bank's core values and ESG goals.

In line with the ever-growing omnipresence of the ESG topic within the banking sector, organizations are urged to embark on this sustainable and socially responsible journey for diverse reasons.

Navigating the road to sustainable and responsible banking is a complex and lengthy process, prompting banks to take proactive steps at the earliest opportunity

. Our team understands the complexities and importance for GCC banks to align with ESG principle and we remain committed to offer strategic support and tailored solutions to facilitate a sustainability related seamless transition.

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