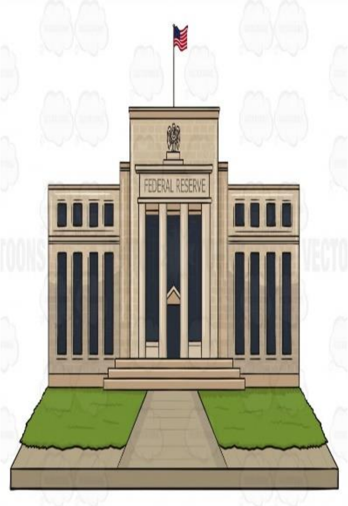
FAB ESG WEEKLY UPDATE

20 January 2023

This week, we identified the following events of significance within sustainability and their respective business implications.

REGULATORY

1. The **U.S. Federal Reserve** announced the **details and instructions for its inaugural climate scenario analysis exercise for the six largest U.S. banks**. A move aimed at assessing the banks' climate-related risk management practices and their resilience to a range of climate outcomes. Results from the exercise are to be submitted by the banks by the end of July. The banks participating in the climate scenario exercise are Bank of America, Citigroup, Goldman Sachs, JPMorgan Chase, Morgan Stanley and Wells Fargo.



- The goals of the exercise include generating a deeper understanding of climate risk management practices at the banks, and building capacity to identify, measure, monitor, and manage climate-related financial risks. The banks will explore the effects of two climate scenarios on specific areas of their loan portfolios. The scenarios, based on those provided by the Network of Central Banks and Supervisors for Greening the Financial System (NGFS) include one based on current policies and one based on reaching net zero greenhouse gas emissions.
- The exercise will be composed of two separate modules, each exploring the key climate risk areas of physical risk and transition risk. The physical risk module will examine the impact of potential future shocks arising from harm to people and property from acute climate-related events such as hurricanes, wildfires, floods, and chronic events such as higher temperatures and rising sea levels on the banks' real estate portfolios. The transition risk module will assess the impact on corporate loans and commercial real estate portfolios from the transition to a lower carbon economy, including shifts in policy, consumer and business sentiment, or technologies.

2. IFRS Foundation's International Sustainability Standards Board (ISSB) will release the [finalized versions of the first global standards for sustainability and climate-related reporting in June]. The IFRS Chair Erkki Liikanen announced the timeframe for the standards release during the World Economic Forum in Davos, Switzerland. The aim to publish, adopt and issue the finalized standard by mid this year is mainly due to the urgency of meeting the Paris Agreement and the pressure from the different markets.

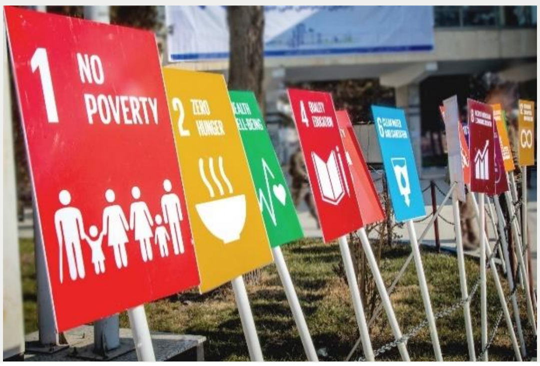
- The IFRS Chair also added that the release of the standard is only the first step to establish a globally consistent and transparent reporting system, with a need to ensure widespread endorsement and adoption by regulators. The IFRS has been working closely with the International Organization of Securities Commissions (IOSCO), the leading standards setter for securities regulators, and expects to receive the organization's endorsement soon. Following adoption, the next step will be to establish assurance for auditors to assure that companies are following the standards.
- In terms of ISSB's future ambitions, Liikanen said that following the release of the initial standards this year, the board will consult on a series of issues, including reporting on biodiversity, human capital and human rights, as well as the connectivity of financial reporting with sustainability reporting.

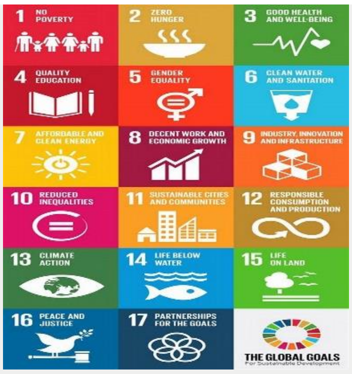
3. New York unveiled a **cap-and-Invest program to reduce emissions and fight climate change**. Large greenhouse gas emitters and fuel distributors in New York will be required to pay more than $1 billion per year, with proceeds to be reinvested in emissions reduction initiatives and support for vulnerable communities facing rising energy prices.

- Under the new program, large-scale greenhouse gas emitters and distributors of heating and transportation fuels will be required to purchase allowances for the emissions associated with their activities, based on an economy-wide emissions cap. The cap will be reduced every year, on a trajectory aligned with the state's Climate Act which requires New York to reduce economy-wide emissions by 40% by 2030 and at least 85% by 2050.
- The new program will incentivize consumers, businesses, and other entities to transition to lower-carbon alternatives, while enabling investments in areas including climate mitigation, energy efficiency, clean transportation, and other projects, as well as funding rebates for New Yorkers to mitigate higher consumer costs associated with the program. At least 35% of the proceeds are to be allocated to programs directly benefiting disadvantaged communities, including funding for programs to improve air quality, reduce reliance on polluting power plants, retrofit homes and schools, and decarbonize transportation systems.

RESEARCH

1. The **United Nations Global Compact (UNGC)** and **Accenture** co-authored a [survey] where **87% of CEOs felt the UN sustainable development goals (SDGs) at risk**. The study targeted more than 2,600 CEOs across 128 countries and 18 industries. Nearly 9 out of 10 CEOs believes that progress on global sustainable development goals is at risk due to emerging geopolitical and economic challenges, even as business leaders increasingly see sustainability as a top priority. The most impactful challenges cited by the CEOs included inflation, talent scarcity, public health threats, climate change and trade regulation.





- The survey showed that 43% of the CEOs reported that geopolitical instability has set back their businesses' sustainability efforts, including 49% of SME CEOs. Also, 87% of the CEOs believe that the world's ability to achieve the sustainability development goals would be limited by current geopolitical risks.
- The focus on sustainability rose as 72% of the CEOs surveyed agreed that they were responsible for their firms' sustainability performance, compared to only 19% in a 2013 survey. Similarly, 98% of survey respondents agreed that the role of a CEO is to make their business more sustainable, an increase of 15% from 2013. Moreover, 63% of CEOs reported that they are launching new product or service offerings for sustainability, and 49% said that they are investing in renewable energy to reduce dependency on fossil fuel use, and that they are transitioning to circular business models.

2. Deloitte issued a **survey** highlighting that **97% of top executives expect climate change to impact companies' strategy and operations**. Almost all high-level executives at large companies worldwide expect climate change to impact their organizations' strategy and operations over the next 3 years. The most recurrent issues already affecting businesses included resource scarcity, changing consumption patterns and carbon taxes. The survey targeted more than 2,000 C-level executives in 24 countries, across a broad range of industries and companies, ranging from $500 million in revenues to over $10 billion.

- Climate change ranked second in the survey's list of top 3 most pressing issued to focus on over the next year, at 42%, behind economic outlook at 44%, and ahead of other high profile issues such as supply chain at 33% and competition for talent at 34%. Nearly all of the executives surveyed stated that climate issues have impacted their companies over the past year, with 46% citing resource scarcity or cost of resources, 45% reporting changing customer consumption patterns or preferences, and 43% referring to emissions regulations such as carbon taxes or emission caps.
- Three quarters of the executives acknowledged increased sustainability investments in 2022, including 19% who reported increases of 20% or more. Key sustainability-focused actions include the use of more sustainable materials cited by 59%, as well as increasing the efficiency of energy use by 59% or developing new climate-friendly products and services by 49%. Engaging employees has also become a key initiative, with 50% reporting training employees on climate change. Nevertheless, only 44% of organizations required suppliers and business partners to meet sustainability criteria, and only a third tied senior leaders' compensation to environmental performance.

3. Circle Economy published a **report** highlighting that the **global economy is now only 7.2% circular and getting worse year-on-year**. The underperformance is driven by rising material extraction and use. The first edition of the global circularity report in 2018, a first ever to measure global circularity, found that circularity of global economy was at 9.1%. It dropped to 8.6% in 2020 and has now fallen to 7.2%.

- Circular solutions for only four of the key global systems such as food, building, manufactured goods and consumables, or mobility and transport would address the lion's share of environmental pressures, while reversing the current negative trend. To reverse the overshoot and achieve wellbeing within safe limits, purpose-driven collaboration between the public and private sectors is essential.
- A circular economy offers solutions on how to reduce, regenerate and redistribute vital materials use, for both the planet and all its living beings. The achievement of a circular economy could completely fulfil people's needs with just 70% of the materials that are currently being used.

COMMERCIAL

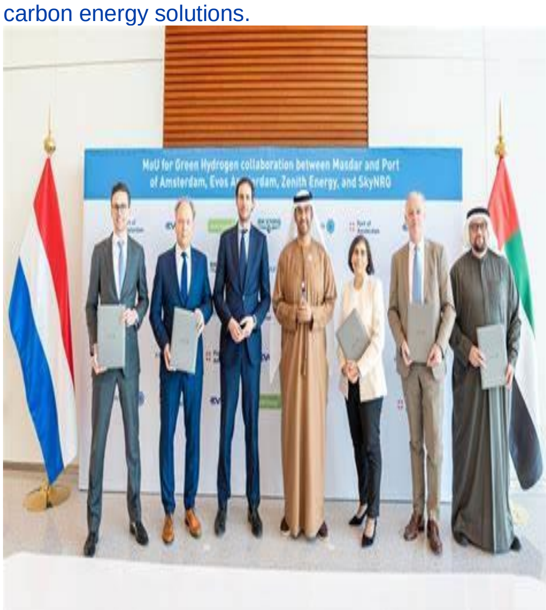
1. The **United Arab Emirates** launched **11 environmentally-friendly energy projects worth Dh159 billion in 2022**. The UAE Minister of Energy and Infrastructure Suhail Al Mazrouei announced these figures while adding that the UAE's clean energy production in 2021 totalled 7,035 megawatts, underscoring the country's pioneering efforts in the clean energy sector. The minister stressed that clean energy's contribution to the energy mix in 2021 reached 19.63% while the contribution of renewable energy reached 12%, and the contribution of nuclear energy reached 7.55%.

- Al Mazrouei also stressed that the Barakah nuclear power plant is a leading innovative energy project in the process of energy transition. Once fully operational, its four reactors will offset 22.4 million tonnes of carbon emissions, the main cause of climate change, annually.
- The country launched the UAE Energy Strategy 2050, the first unified energy strategy by the Emirates, which aims to integrate the renewable and clean energy mix to achieve a balance between economic needs and climate goals, in addition to reducing dependency on other fuel sources over the next three decades.

2. ADNOC and **TAQA** closed a **landmark transaction on clean energy and decarbonization**. Both Emirati companies are teaming up to create a joint venture that will build and operate electric vehicle (EV) infrastructure in Abu Dhabi. The new company E2GO aims to become the principal provider of EV charging points and associated infrastructure across the UAE capital.

- The partnership will include a network of fast chargers at key locations, with associated solutions such as parking and tolling services, in addition to related digital platforms to boost EV charging. The joint venture will include a network of fast chargers at key locations, with associated solutions such as parking and tolling services, in addition to related digital platforms to boost EV charging.
- Demand for EVs in the UAE continues to rise and is projected to record a compound annual growth rate of 30 per cent between 2022 and 2028, according to the global electric mobility readiness index published in 2022. An expected 70,000 charging points are required in Abu Dhabi by 2030 to meet growing EV demand with an investment of up to $200 million.

3. Masdar signed an **agreement to explore the exportation of green hydrogen from Abu Dhabi to Europe**. Masdar, Port of Amsterdam, SkyNRG, Evos Amsterdam and Zenith Energy signed a memorandum of understanding (MoU) to explore the development of a green hydrogen supply chain between Abu Dhabi and Amsterdam to support Dutch and European markets. The agreement builds upon the existing relationship between the UAE and the Netherlands and demonstrates a mutual commitment to exploring low and zero-carbon energy solutions.



- Under this MoU, the parties will join their efforts to develop a green hydrogen supply chain, focusing on production in Abu Dhabi and export to the Netherlands through the port of Amsterdam. The exported green hydrogen will be delivered to key European sectors such as sustainable aviation fuel (SAF), steelmaking, and bunkering for shipping. The renewable fuel will also be supplied to new, emerging European off takers, via pipeline, truck and barge. Together, the parties will explore several hydrogen transportation methods, with a focus on liquid organic hydrogen carriers and liquid hydrogen.
- Last December, Masdar announced its new shareholding structure and green hydrogen business unit, with a goal of achieving 100 gigawatts of renewable energy capacity and green hydrogen production of 1 million tonnes per annum annually by 2030. Masdar is actively involved in several projects related to green hydrogen production.