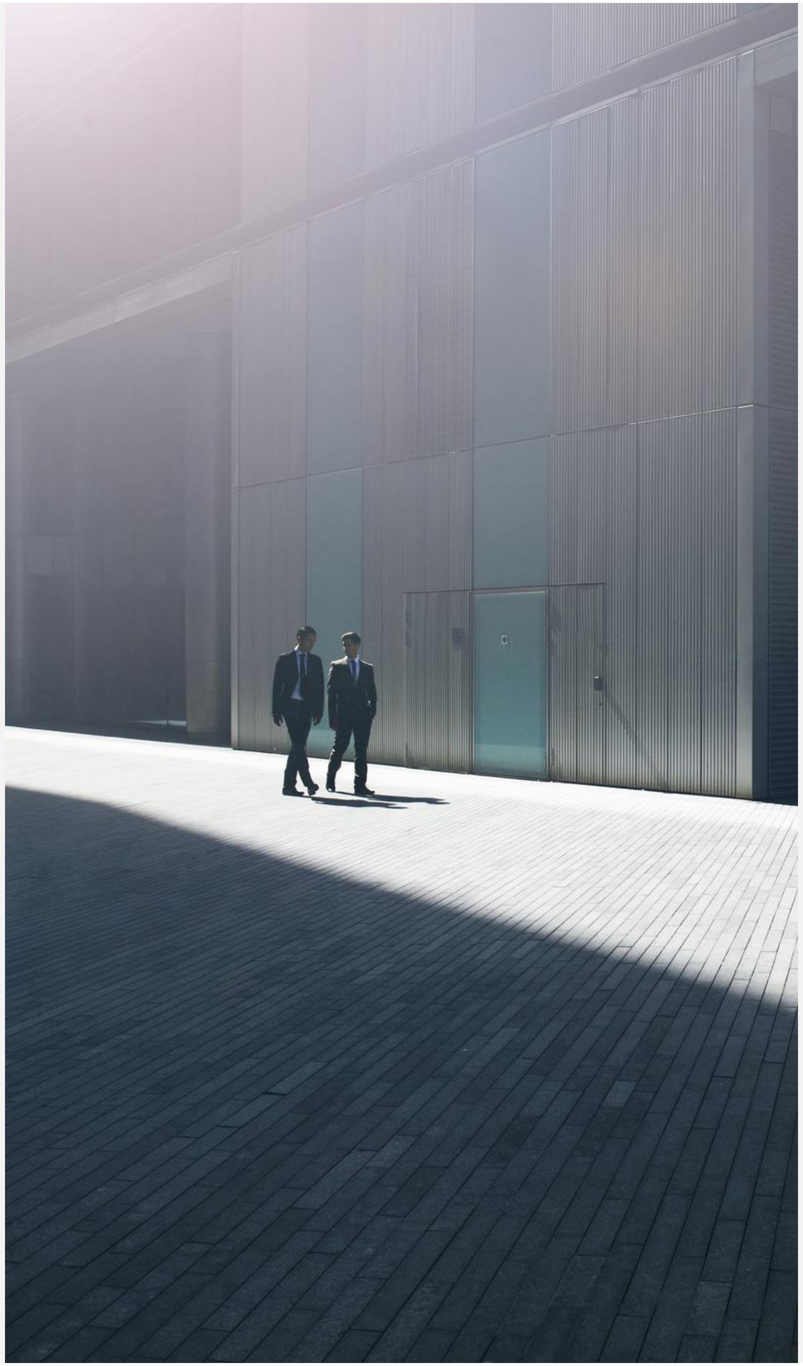
بنك أبوظبي الأول
FAB
First Abu Dhabi Bank

An Overview of FAB's ESG Risk Management Framework

June 16, 2021



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Stakeholders have increasing expectations of FAB. This is driving FAB's work on the ESG roadmap

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Clients/ Customers/ Society and community

- ⇨ Customers, especially the younger generation (Z), look careful at ESG track record and concrete ambitions on the companies behind the products they buy, and the jobs, they apply for. If there has been a controversy, the chances are they will choose another company's products. E.g., banks direct financing of carbon intensive sectors is under increasing scrutiny. ESG is set to become an increasingly critical factor for brand and reputation over time, as the share of customers with strong Sustainability convictions grows.
- ⇨ Private retail investors at the same time has increasing appetite for green investing, asking their bank supplying them ESG and green funds etc.
- ⇨ Corporates is a diverse group, some very advanced in addressing ESG issues. Especially on climate issues corporates need to orderly transition to a world of more sustainable energy sources and make themselves robust to hazards and weather events. To that end they expect their bank to help facilitate in e.g., developing and offering new financial innovations such as green loans and bonds, green and sustainable linked deposits etc.

Market Participants

- ⇨ Investor's ESG expectations are increasing and becoming more demanding. 1/3 of total AUM globally now managed with some degree of ESG integration – and rising exponentially. Expected to be 95% of global AUM by 2030. Key market participants viz. rating agencies and investor communities expect banks and financial institutions to have a robust Sustainability strategy and ESG framework including earmarked portfolios (lending and investment).
- ⇨ Over the last year Investor Relations have been met with an increasing amount of request for ESG disclosures.

Regulators

- ⇨ In line with National Governments sustainability goals, financial regulators globally are moving towards making ESG risk disclosures mandatory, and actively exploring ways to tilt the playing field in favor of green finance.
- ⇨ Several regulatory authorities viz. BoE, HKMA, MAS, etc. have rolled out ESG guidelines and reporting requirements, and more are expected to follow soon (The Basel Committee, ECB, Federal Reserve/SEC and Peoples Bank of China).
- ⇨ CBUAE expect to deliver guidelines on ESG risk management in 2022 based on a stock taking among UAE banks later in 2021.

Long term benefits of ESG and Sustainability

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ESG focus is no longer only a corporate social responsibility (CSR) and public relations issue, but a key driver in better business performance and stakeholder value, especially for shareholders.

Potential benefits include:

⇨Lower costs from:

- Better management of risks especially on companies with governance issues such as corruption and fraud, leading to fewer losses. Corporate clients with focus on ESG in general also have better financial performance.
- Attract investors on both bonds and equity, resulting in improvement in cost of capital, especially if FAB is part of international ESG indices that are increasingly popular among institutional & long-term investors.
- Prevent costly controversies including lawsuits, fines and litigation (and keep activists at bay).
- Possible pricing benefits due to capital benefits, in future.

⇨New streams of revenue

⇨Forster customer loyalty

⇨Raise brand awareness and build the best corporate identity in the region, and in that way differentiate FAB from our peers

⇨Assist in talent acquisition, especially Emirati millennials, and improve employee morale and improve retention

What the Sustainability and ESG agenda means for FAB

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To establish FAB as **#1 sustainable bank in the region**, the Sustainability strategy and Roadmap will set out how FAB can optimise across 3 dimensions:

Opportunity

⇨ Develop expertise in meeting clients' and customers' ESG-related needs, enabling FAB to deepen relationships with existing clients/customers and attract new business from ESG-conscious clients/customers

Impact

⇨ Monitor and measure the societal impact of all business activities

⇨ Focus on optimizing impact in areas where FAB can make the biggest difference to outcomes nationally and globally – in line with the UAE Government's commitments

Risk

⇨ Ensure FAB is effectively monitoring and managing all ESG-related risks

⇨ Integrate ESG lens into all risk management processes

Through our ESG risks framework and roadmap, we seek to integrate ESG into all risk management processes to effectively monitor and manage our ESG risks

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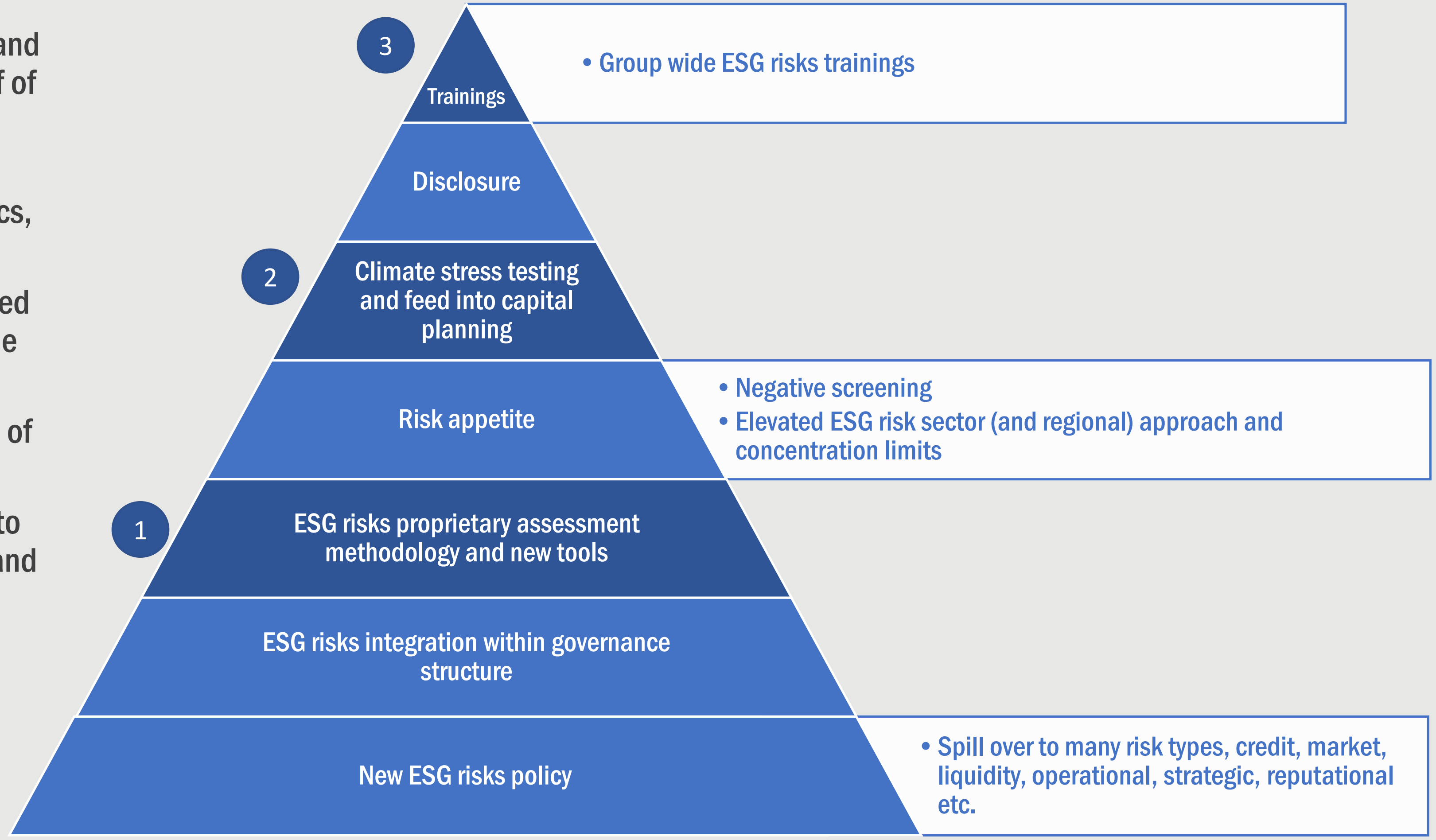
- ⇨ We are developing a 5-year ESG risks framework and roadmap, which will go live during the second half of 2021
- ⇨ It will be integrated within FAB's Enterprise Risk Management framework (e.g., risk appetite metrics, stress testing, etc.)
- ⇨ We are considering a proportionality and risk-based approach, focusing on larger companies facing the highest ESG risks scrutiny
- ⇨ With time, we will be able to cover more and more of FAB's balance sheet
- ⇨ Rolling out the ESG risks roadmap will require us to actively engage with customers on our ESG risks and mitigation measures



Examples provided in more detail the next three slides

Example #1 on FAB's ESG risk initiatives: ESG risk assessment models and tools

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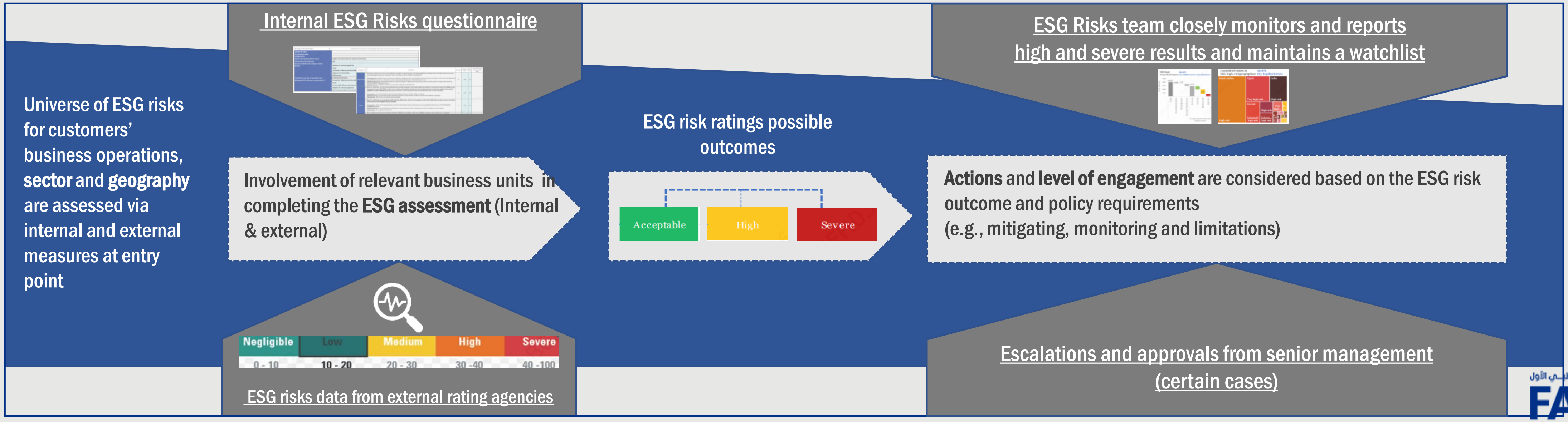
Context and Overview

- ⇨ Our ESG risk models and tools will provide us with in-depth insights on clients, investments and suppliers ESG risks profile during onboarding, renewal and transactions (also on an ad-hoc basis).
- ⇨ Clients' ESG information will be assessed internally in combination with ESG risks data by rating agencies.
- ⇨ Different level of actions dependent on assessment outcome needed by the Bank are recommended by our ESG risks policy.
- ⇨ Ultimately, these assessments will reduce the likelihood of onboarding high ESG risk clients and will increase the ESG risk awareness of ESG issues within FAB and customers.

A high-level illustration of our ESG risks assessment approach



Example #2 on FAB's ESG risk initiatives: Climate stress testing

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Context and Overview

⇨ A toolbox for climate stress testing and scenarios analysis is under development to assess the impacts of climate change (physical and transition e.g., emerging new carbon policies and demand for renewable energy) on our borrower's profitability (e.g., Probability of Default and Expected Credit Loss) under plausible climate scenarios.

⇨ There is an increased number of interest from stakeholders (e.g., investor and regulators) towards greater disclosures on climate change risk exposures through loans and investments.

⇨ This way we also increase our understanding on how climate change risks impact our balance sheet.

Some examples on the climate stress testing assessments under development (illustrative only)

Risks sensitivities ranking

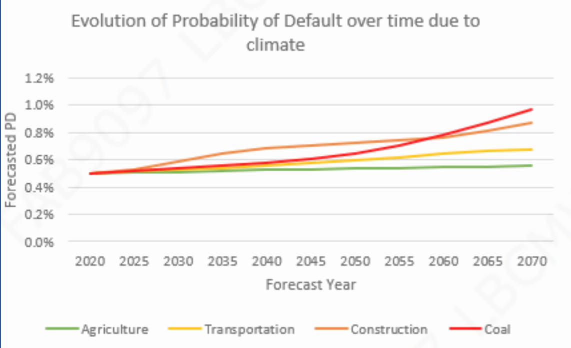
⇨ Relative sensitivities help us indicate the impact of transition risk drivers (direct/indirect emission costs, low carbon capex, etc.) on one sector relative to others.

⇨ For example, here we can see that high emission sectors, such as Coal, are highly sensitive to Direct Emissions Cost.

	Direct Emissions Cost	Indirect Emissions Cost	Low-carbon CAPEX	Revenue
Agriculture				
Transportation				
Construction				
Coal				

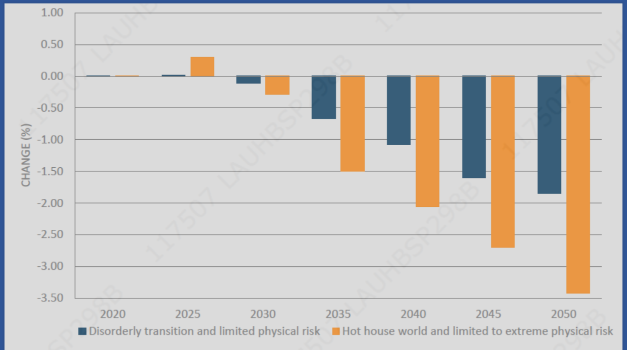
Probability of default curves

⇨ Probability of default increases for sectors responsible for higher green-house gas emissions



Percentage change in GDP due to different climate scenarios

⇨ Impact of climate change on macroeconomic indicators such as GDP



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Example #3 on FAB's ESG risk initiatives: Group-wide ESG trainings

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Context and Overview

⇨ We are rolling out a group-wide E-learning course on ESG risks to improve the employees' level of awareness and to build an ESG risks culture at FAB.

⇨ We are also rolling out a specialized workshop training for ESG risks upskilling for business units that are going to apply the new ESG policy and tools (e.g., Relationship Managers and Credit).

A high-level overview of our ESG trainings

ESG Risks Awareness

⇨ Objective: Improve the ESG risks culture

⇨ Target: Group-wide FAB employees

⇨ Content: ESG risks definitions, trends and global guidelines for the banking sector

ESG Risks Deep Dive

⇨ Objective: ESG skills upskilling on FAB's ESG risk framework and policy

⇨ Target: Relevant business units (e.g., credit & RM)

⇨ Content: FAB's ESG risk framework, ESG due diligence tools/models and practical banking case studies