ESG / Sustainability Overview – Workshop

Internal Session for Capital Market Authority

May 2023

Contents

Contents (contd..)

1. The ESG concept

History of ESG / Sustainability

Decoding ESG: What does ESG mean for an Organization?

History of Sustainability

1987

Brundtland Commission: Established by the UN to rally countries to pursue sustainable development.

1994

UN Framework Convention on Climate Change (UNFCCC): Set out a framework concerning greenhouse gas (GHG) emissions.

1995

Conference of Parties (COP): The first COP to implement various climate initiatives.

1997

Global Reporting Initiative (GRI): An international independent standards organization, which is the main framework for sustainability reporting, headquarter in Amsterdam.

2000

UN Global Compact: Initiative to encourage businesses worldwide to adopt sustainable & socially responsible policies, and report implementation.

2005

Kyoto Protocol: Agreement between countries around the world to recognize the need to reduce GHG and address climate change.

2013

International Integrated Reporting (IIR): Released to offer guidance and principles concerning financial & non-financial reporting.

2014

European Commission – Directive for Mandatory Reporting: Required all large companies in Europe to disclose sustainability issues.

2015

UN Sustainable Development Goals (UNSDGs): Released by the UN to set out 17 sustainability goals and 169 targets.

2016

The Paris Agreement: a legally binding international treaty on climate change. It was adopted by 196 countries at COP 21 in Paris, Its goal is to limit global warming to well below 2°C.

2017

Principles of Responsible Investment (PRI): UN-supported initiative to implement sustainability principles in investing.

2019

Principles of Responsible Banking (PRB): a framework for a sustainable banking system, and help the embed sustainability at the strategic, portfolio and transactional level. It has over ~190 members.

2022

Exposure Draft S1 and S2: The General Requirements Exposure Draft sets out the core content for a complete set of sustainability-related financial disclosures

RSM

Examples of ESG topics

Environmental

How a company performs as a steward of natural capital

Social

How a company manages relationships with employees, suppliers, customers, community

Governance

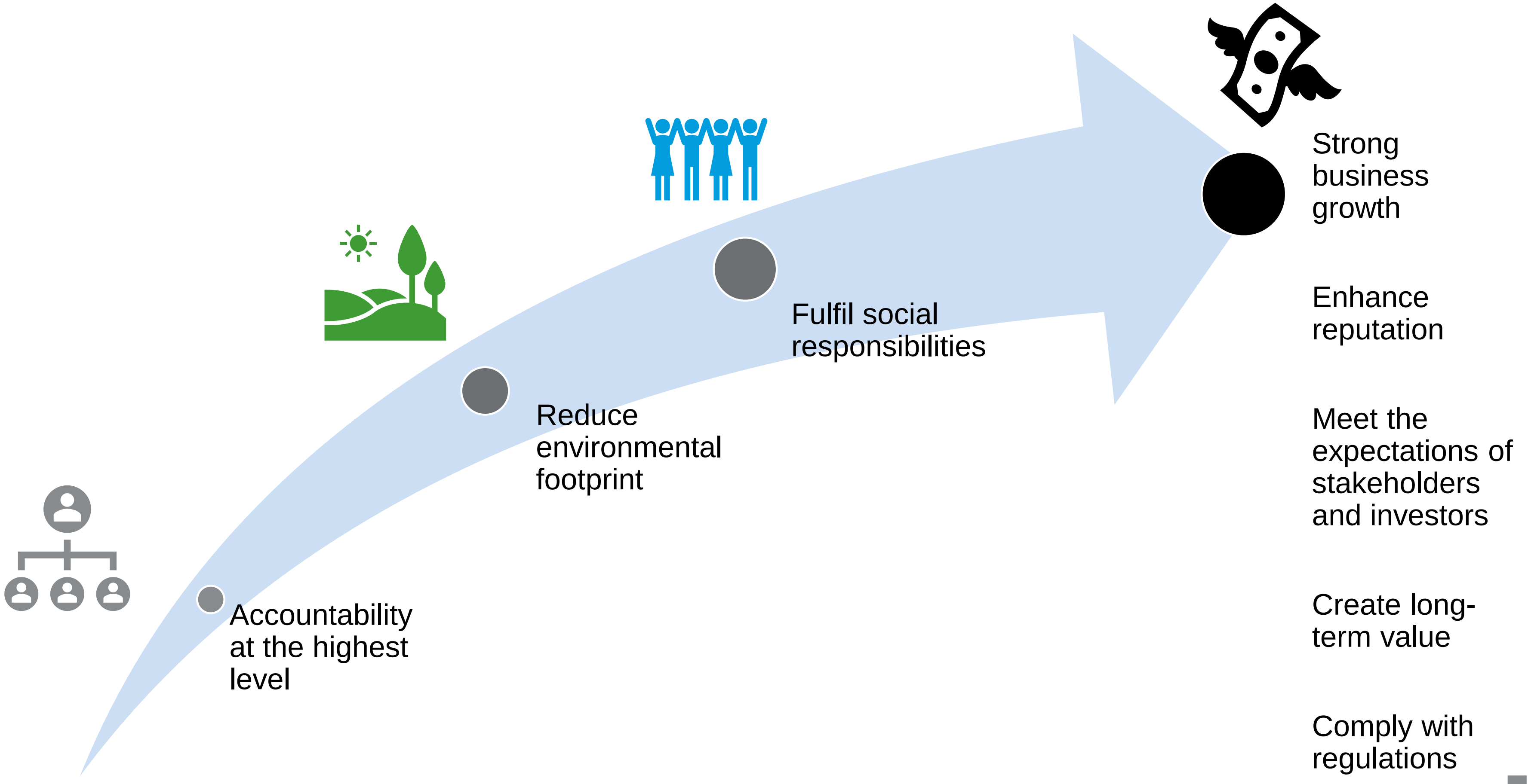
How a company is governed

Source: UNPRI

6

What ESG means for an organization?

Commitment to



2. Why is ESG important?

The ESG drivers

Benefits of integrating ESG into businesses

Key ESG drivers

ESG priorities

From June to August 2022, Morningstar Sustainalytics conducted a global survey of 556 participants who identified as corporate social responsibility or sustainability professionals.
Source: Morningstar-Sustainalytics-Corporate-ESG-Survey-Report-2022

Outlook on ESG drivers for listed companies

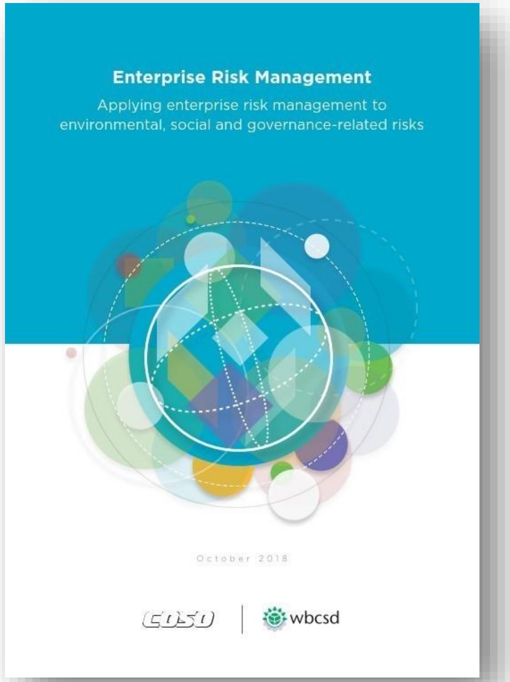
1 Accountability

Corporate governance

Regulations

ESG Disclosures

2 Risk Management



3 Evolving Concept of Value

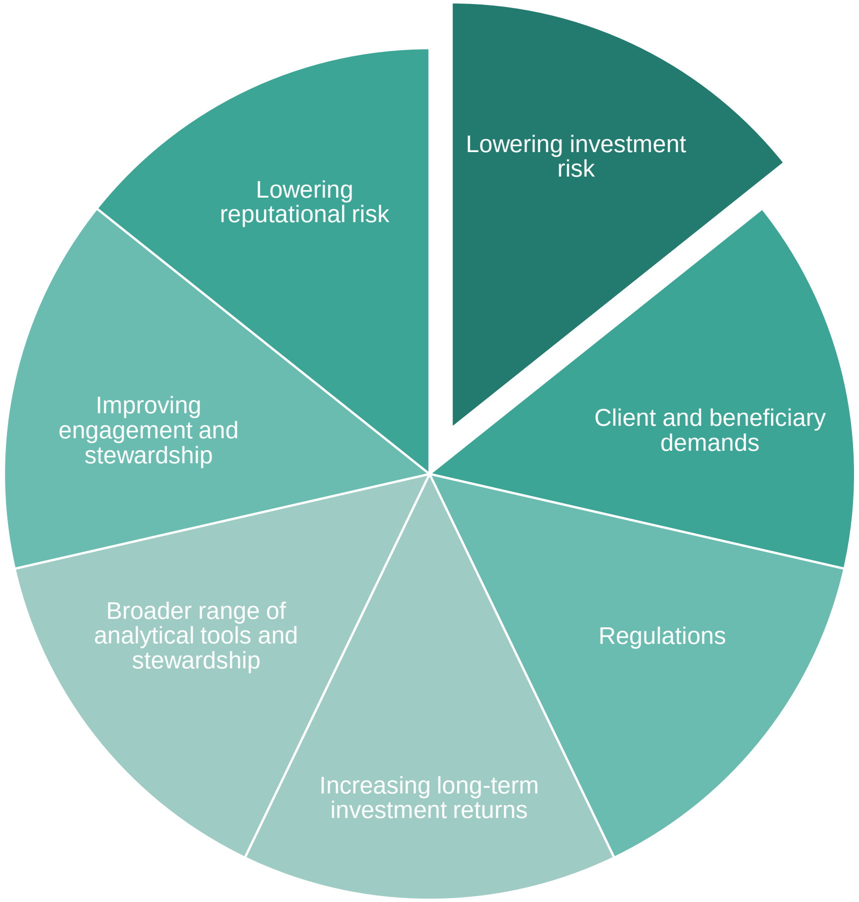
4 Attract Capital

RSM

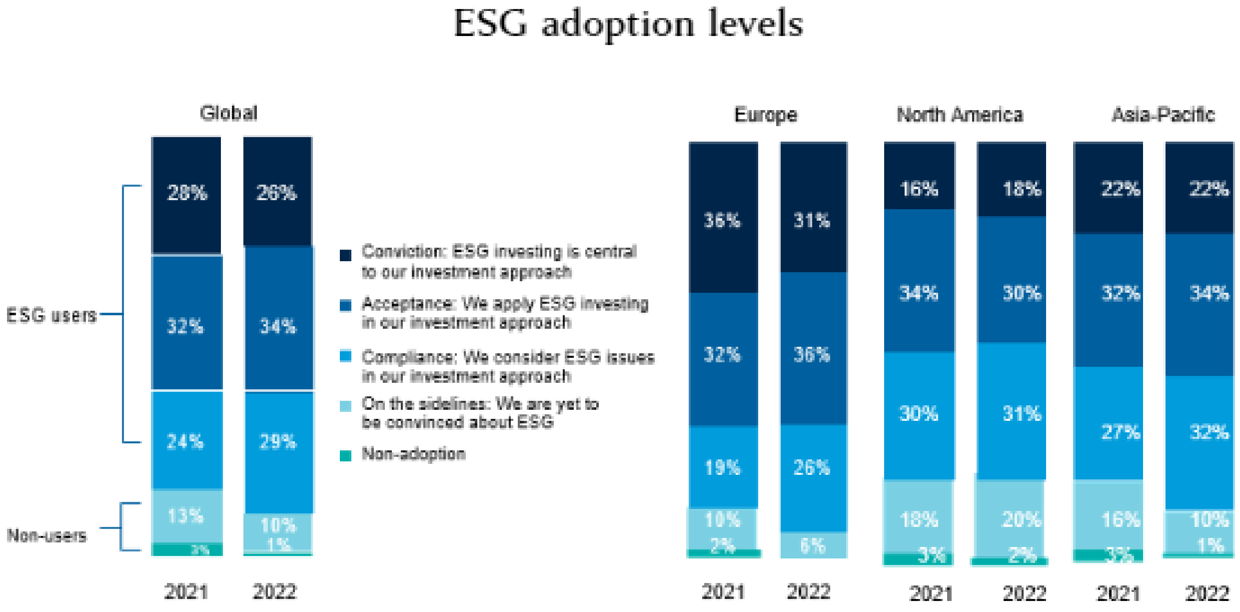
Benefits of integrating ESG into businesses

Why investors integrate ESG?

Investors are increasingly getting conscious about the climate-related risks and their potential impact on their investment portfolio. On several occasions, an investor may decline to invest in a company, only because of un-sustainable business practices.



As with 2022, **more than a quarter of global investors say ESG is central to their investment approach**



[ESG Global Study 2022 (harvard.edu)]

RSM

Value of ESG integration in business (1/2)

Identification of climate risks and their impact on traditional risk management metrics can add resilience to organizations.

Efficiently managing ESG aspects in organizations have shown to reduce costs for the same level of output.

Risk management and resilience

Reduced costs by eliminating inefficiencies and optimizing resource use

Competitive advantage

Access to international funding, markets & listings

Incorporating ESG aspects into the business administration process has been shown to positively impact organizations. It provides a competitive advantage over organizations that don't adopt ESG.

Adopting ESG practices can open new possibilities and business opportunities from international markets and investors.

Value of ESG integration in business (2/2)

ESG integration leads to improved relationships and engagement with stakeholders thus reducing possibility of social cohesion and conflicts.

Adopting ESG practices is essential to help meet national and international targets around sustainable development and low carbon transition.

Enhanced stakeholder engagement and trust, and reduce possibilities of conflict

Contribution to Sustainable Development

Better positioning to respond to local & global regulatory compliances

Retain and attract employees

Integrating ESG practices in business operations help organizations adapt to changing legal and regulatory requirements.

Following ESG best practices can motivate employees and help in retention. Also it places the organization favourably to attract new talents.

3. Standards, frameworks and regulations

ESG reporting frameworks and enablers

IFRS sustainability disclosure standards

ESG reporting frameworks and enablers

Methodologies that help practitioners incorporate ESG

ESG Methodologies

Reporting Standards
- Global Reporting Initiative (GRI)
- SASB
- IFRS Sustainability Disclosure

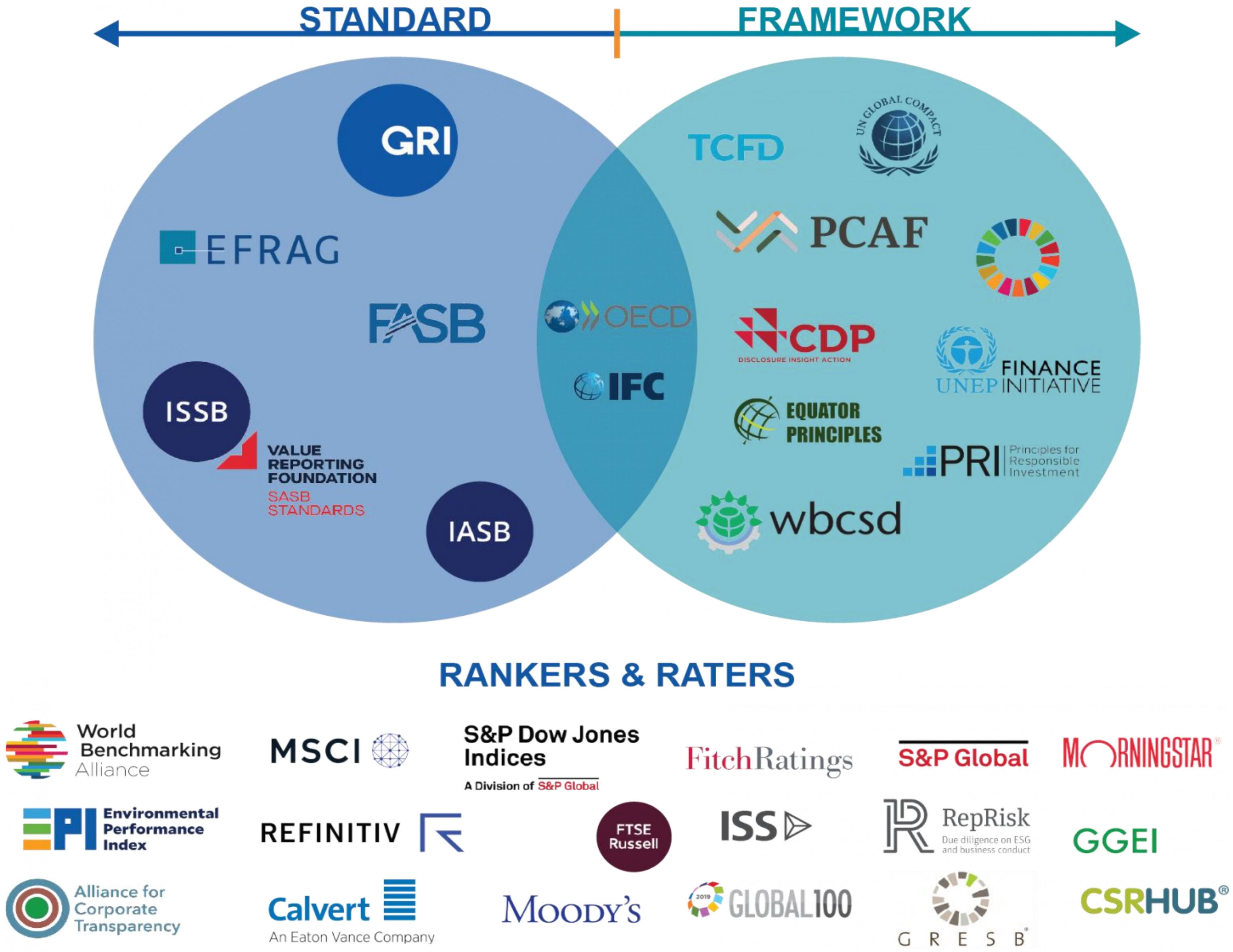
Rating Indices
- S&P Global
- FTSE 4 Good
- Morningstar Sustainalytics
- MSCI ESG Rating
- Refinitiv

Assurance standards
- AA 1000
- ISAE 3402

Guidelines, Governance Principles & Codes of Practice
- UN Global Compact
- ISO 26000
- Equator principles
- PRI Principles
- UNEP Finance Initiative
- Task Force on Climate-Related Financial Disclosures (TCFD)
- SDGs

Law and Regulations and International Mandates
- Capital Market Authority
- Central Bank of Kuwait
- Sustainable Finance Disclosure Regulations

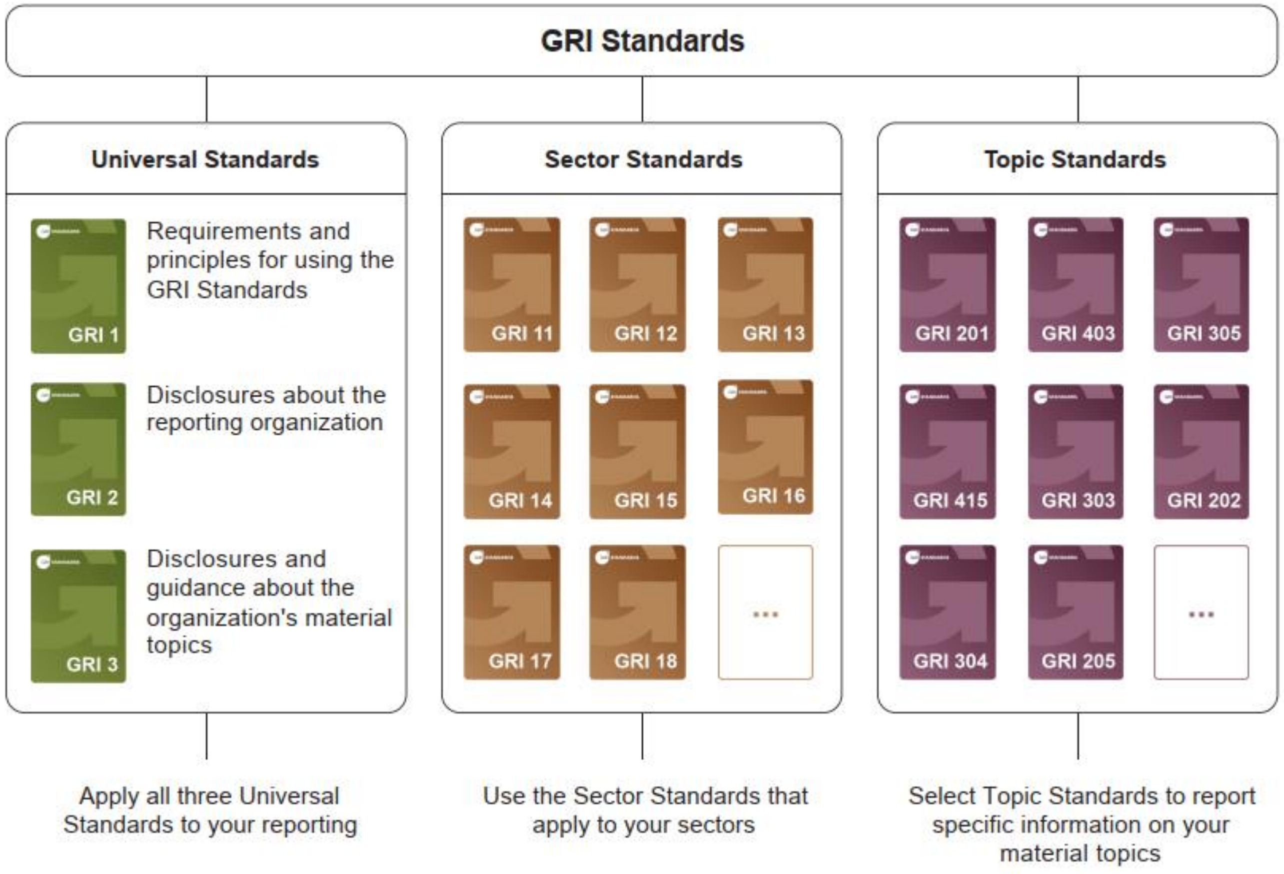
Selected reporting standards & frameworks ecosystem



RSM

Reporting framework – Global Reporting Initiative (GRI)

The Global Reporting Initiative (GRI) is a non-profit organization that promotes economic sustainability. They do this by producing one of the most comprehensive standards for sustainability reporting. Companies can communicate their ESG performance through a report by referring to a comprehensive, global framework such as the GRI: 2021.



KEY TAKEAWAYS

- Since inception in 1997, GRI Standard is **adopted by 90%+ of the world's largest 250 organizations.**
- **GRI has partnered with the United Nations Global Compact (UNGC)** to provide organizations with a prioritized metrics/disclosures that organizations can use to show their progress regarding the SDGs.
- In March 2022, **GRI and the IFRS Foundation signed a Memorandum of Understanding (MoU)** to coordinate their work programs and standard-setting activities as well as join each other's consultative bodies related to sustainability reporting.
- As on 2022, **10,000+ organizations** use the GRI Standards for reporting and **30,000+ GRI-aligned reports** have been published.

The global leader for impact reporting

Sustainability Accounting Standards Board (SASB)

The SASB Foundation was founded in 2011 as a not-for-profit, independent standards-setting organization. Its mission is to establish and maintain industry-specific standards that assist companies in disclosing financially material, decision-useful sustainability information to investors

SASB standards are designed to meet the needs of providers of capital, such as shareholders and creditors. SASB standards are complementary to and may be used in conjunction with other frameworks focused on multiple audiences.

The SASB's due process is designed to produce standards for information that is:

- reasonably likely to be material
- decision-useful for companies and their investors
- cost-effective for corporate issuers

https://www.sasb.org

SASB universe of topics

Environment

- GHG Emissions
- Air Quality
- Energy Management
- Water & Wastewater Management
- Waste & Hazardous Materials Management
- Ecological Impacts

Leadership & Governance

- Business Ethics
- Competitive Behavior
- Management of the Legal & Regulatory Environment
- Critical Incident Risk Management
- Systemic Risk Management

Business Model & Innovation

- Product Design & Lifecycle Management
- Business Model Resilience
- Supply Chain Management
- Materials Sourcing & Efficiency
- Physical Impacts of Climate Change

Social Capital

- Human Rights & Community Relations
- Customer Privacy
- Data Security
- Access & Affordability
- Product Quality & Safety
- Customer Welfare
- Selling Practices & Product Labeling

Human Capital

- Labor Practices
- Employee Health & Safety
- Employee Engagement, Diversity & Inclusion

SASB's sustainability topics are organized under five broad sustainability dimensions

How does the standard fit in with existing frameworks?

The IFRS Standards and their interconnectivity with existing frameworks and regulations

4. Disclosures and key metrics for listed companies

ESG benchmarking and positioning

ESG metrices and indices

ESG target setting

Scoring methodology of ESG raters

ESG benchmarking and positioning

Types of ESG benchmarking

Some popular benchmarking methods companies can use to inform their decisions and gauge their success to include the following

1. Peer benchmarking on ESG
Peer benchmarking allows companies to view others in their industry and evaluate how sustainable their own products and services are compared to similar ones in the marketplace.

2. ESG SWOT analysis
SWOT stands for strengths, weaknesses, opportunities, and threats, and it can provide companies with a valuable framework for self-evaluation. Like peer benchmarking, SWOT offers companies an opportunity to look at the market and understand how their ESG performance relate to their competition.

3. ESG Performance benchmarking
Performance benchmarking is a technique companies use to evaluate a single ESG aspect (e.g., energy consumption, GHG emissions, etc.) of their business.

4. Collaborative benchmarking
Some companies make their relevant metrics and data publicly available through ESG communication. By doing this and encouraging others in their industry to do the same, businesses can share effective strategies that elevate their field and help everyone perform their best. This is crucial for carbon-intensive sectors such as power, oil and gas, transport, real estate, etc.

5. Process benchmarking
Process benchmarking is a strategy larger businesses can use to compare the ESG performance of their internal branches.

Benchmarking is important because they:

- Help companies gain a competitive edge in the marketplace
- Encourage employees to work together toward a common goal
- Relate goals to measurable metrics and performance indicators
- Help companies discover innovative strategies to help their products and services stand out in the marketplace
- Make it easier to evaluate the strengths and weaknesses of a product or service

RSM

Sample: ESG SWOT analysis

Strength, Weakness, Opportunities, Threat (SWOT) analysis using ESG aspects can help companies improve on their sustainability journey. Following is a sample SWOT analysis for an automotive retail company.

ESG - SWOT Analysis

Strength (S)	Weakness (W)
• Skilled Labour Availability • Market Demand for ESG Financial Products • ESG Risk Management • Corporate Governance	• GHG Regulations • Customer's Bargaining Power • Low-lying Assets • Chronic Physical Climate Risks
Opportunities (O)	**Threats (T)**
• Expanding Markets (e.g., BRICS, Asian) • Digitization • Partnerships • Relationship Marketing • E-commerce • Green Bonds	• Economic Recession • Liquidity Shocks • Increasing Competition • Climate Risks • Stranded Assets

ILLUSTRATIVE

Outcome

1. Understand where the company stands w.r.t ESG, forming a baseline and clear understanding of areas of improvement
2. Provide the ability for future target setting and improvement
3. Allow for comparability with peers (Nationally, Regionally, Globally)
4. Emphasize alignment to local, regional, and international frameworks and drivers related to Sustainability and ESG
5. Opportunity of driving excellence through ESG lens

Sample: ESG positioning in industry

To understand the position of any organization in the respective industry and sector of operation, organizations can rely on ESG Raters such as MSCI, S&P, and others. Such raters provide a comprehensive report to each participating organization exactly highlighting the positives and negatives to position themselves on ESG in their industry.

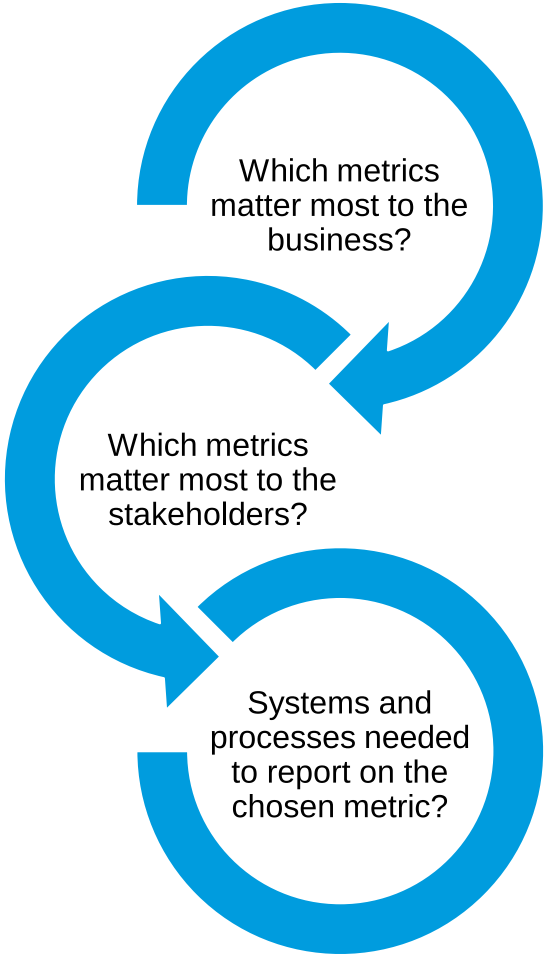
	Applesauce Inc	Bruschetta PLC.	Coffee Holdings Co	Dumplings Financials Ltd.	Enchilada S.p.A	Falafel Bank	Guacamole Transport Ltd.	**Sample Company here**	Hummus Technolo Corporation	Lasagna Automotives
Total ESG Score	**92**	**92**	**88**	**87**	**84**	**77**	**74**	**72**	**72**	**69**
Economic Dimension	**88**	**90**	**88**	**84**	**87**	**67**	**76**	**70**	**73**	**74**
Business Ethics	100	100	98	89	100	85	95	93	85	84
Corporate Governance	47	64	43	40	56	67	58	55	73	72
Information Security/ Cybersecurity & System Availability	93	94	92	93	85	53	63	52	50	65
Innovation Management	100	100	100	100	82	74	98	80	81	73
Materiality	100	100	100	93	100	100	83	88	60	83
Policy Influence	100	100	100	100	100	74	100	85	64	41
Product Quality & Recall Management	100	100	100	100	100	0	100	45	90	100
Risk & Crisis Management	100	100	100	85	94	71	40	79	79	44
Supply Chain Management	96	93	95	91	100	76	79	83	84	86
Tax Strategy	61	50	85	100	81	53	40	0	0	71
Environmental Dimension	**95**	**96**	**88**	**90**	**88**	**86**	**74**	**75**	**71**	**68**
Biodiversity	62	53	73	25	12	8	0	0	0	0
Climate Strategy	97	95	91	82	87	90	58	59	57	60
Environmental Policy & Management Systems	92	100	99	95	89	95	99	72	63	73
Environmental Reporting	100	100	100	100	100	100	100	100	100	84
Operational Eco-Efficiency	97	99	69	96	94	81	81	87	74	84
Product Stewardship	100	100	100	100	100	100	66	95	100	62
Social Dimension	**93**	**89**	**89**	**87**	**73**	**79**	**69**	**70**	**71**	**65**
Corporate Citizenship & Philanthropy	100	99	100	85	100	95	88	88	83	57
Customer Relationship Management	100	58	100	100	37	100	100	NAP	33	66
Human Capital Development	100	100	88	87	65	76	68	92	84	88
Human Rights	89	89	81	81	85	86	69	80	50	71
Labor Practice Indicators	93	80	85	92	60	54	60	61	80	35
Privacy Protection	98	98	98	96	81	51	81	82	67	54
Social Reporting	100	100	100	100	100	100	50	100	50	100
Talent Attraction & Retention	80	83	81	76	65	79	61	30	85	56

[Sample - Company Benchmarking Report (CBR) - 2022 (spglobal.com)]

ESG metrices and indices

Selection of ESG Key Performance Indicators (KPIs)

With increasing number of KPIs across ESG pillars to choose from, companies need to decide which KPIs are most relevant to their business and that stakeholders are most interested in. The selection of KPIs takes several things into consideration such as the company industry, the benchmarks, ESG Raters such as SASB, MSCI and GRI, stakeholders' engagement and the corporate ESG strategy.



What is measured, monitored and reported should start with a company's specific strategy and purpose. There needs to be a clear link to strategy. The ultimate decision about which metrics to disclose should be taken by the entire top team, working in collaboration.

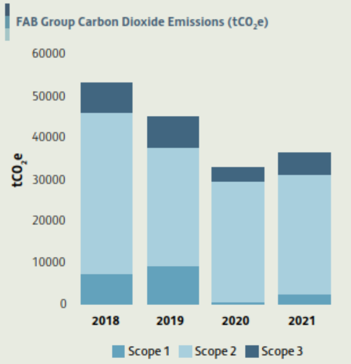
What matters to management and what matters to their stakeholders will inevitably overlap, but the match is unlikely to be perfect. There will often be a need to provide information simply because stakeholders demand it.

Companies will need to disclose the information that investors and other stakeholders want, or they will suffer the consequences. However, it will often be a journey to get from what is disclosable today to what is needed tomorrow. Non-financial disclosures will only be credible to markets if the data that is collected and analyzed is as robust as the data used in financial disclosures. Companies therefore need to bring the same focus on relevance and reliability as they bring to financial reporting. One untrustworthy disclosure - or material omission - can undermine confidence in everything else.

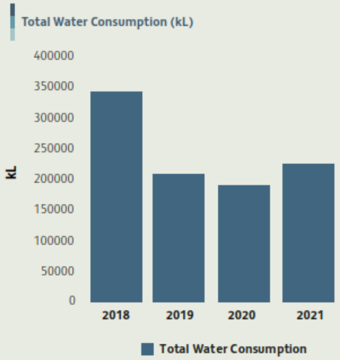
ESG Key Performance Indicators (KPIs)

ESG key performance indicators, or KPIs, are trackable figures meant to help firms understand the environmental, social and governance impact of their operations. For venture capital and private equity managers, ESG KPIs are integral in understanding the ESG impact of the companies they invest in or are thinking about investing in, and thus the impact of their funds. ESG KPIs also provide managers and investors with an idea of what risks their investments and funds face. Investors are increasingly expecting these ESG metrics to be reported on. The following shows some ESG KPIs disclosed by a leading bank in Saudi Arabia.

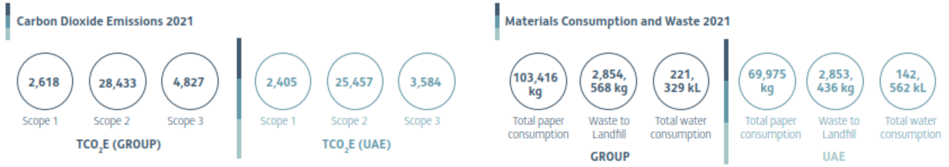
Direct environmental impact of operations



With the gradual return of our employees to office, we saw a 9% increase in total carbon dioxide emissions in comparison to 2020. However, total carbon dioxide emissions levels have been reduced by 21% from 2019 to 2021.



The water consumption in 2021 increased by 18% in comparison to 2020. This is mainly due to the increase branch merger in Egypt that took place during 2021 and due to gradual return of our employees to offices in all our international locations.



FAB CORPORATE ESG REPORT 2021

Absenteeism	Unit	Scope	2018	2019	2020	2021
Employee absentee rate*	%	UAE	7.90	13.40	11.16	9.66

* The year 2018 was the year of integration and employees could not utilise their entire leave entitlements due to work requirements. The leave carry forward policy was relaxed as an exception and 2018's leaves were carried forward and utilised in 2019, thus causing an increase in absenteeism.

Code of Conduct	Unit	Scope	2018	2019	2020	2021
Breaches of code of conduct	Number	UAE	165	126	151	144

Grievances	Unit	Scope	2018	2019	2020	2021
Number of grievances filed in the reporting period	Number	UAE	24	63	23	15
% of these grievance addressed or resolved	%	UAE	100%	100%	100%	100%
Number of grievances filed prior to the reporting period that were resolved during the reporting period	Number	UAE	0	0	0	0

Parental Leave	Unit	Scope	2018	2019	2020	2021
Number of female employees that took parental leave	Number	UAE	98	146	117	113
% of female employees who returned to work after maternity leave	%	UAE	100%	100%	100%	100%
Number of female employees returned from parental leave who were still employed twelve months after return to work (retention)	Number	UAE	97	135	117	113
Return to work rate (%)	%	UAE	100	100	100%	100%
Retention rate (%)	%	UAE	63	92	100%	100%

Emiratisation	Unit	Scope	2018	2019	2020	2021
Nationalisation of senior management	%	UAE	8	17	24	24.3
Nationalisation among total workforce	%	UAE	33	33	37	42.2
Total number of national employees	Number	UAE	1,370	1,298	1,339	1,505
Number of female national employees	Number	UAE	1,038	999	1031	1152

Workforce Overview	Unit	Scope	2018	2019	2020	2021
Total workforce (excluding trainees, students and outsourced staff)	Number	Group	5,433	5,451	5,054	5,078*
Full-time employees	Number	Group	4,520	5,438	5,032	5,064
Part-time employees	Number	Group	13	13	22	14
* This figure excludes full-time employees of Bank Audi Egypt. Our total workforce including 1522 employees in Bank Audi post acquisition in Dec 2021 is 6600. For further details, please refer to our 2021 Annual Report						
Workforce by contract type:						
Employees on an indefinite or permanent contract	Number	Group	5,429	5,444	5,036	5,058
Employees on a fixed term or temporary contract	Number	Group	4	7	18	20
Workforce by job category:						
Senior management employees	Number	Group	40	45	41	38
Middle management employees	Number	Group	3,853	4,135	3,934	4,075
Non-management employees	Number	Group	1,540	1,271	1,079	965
Workforce by age:						
Employees age 18-30	Number	Group	766	813	678	788
Employees age 31-50	Number	Group	4,187	4,170	3,839	3,785
Employees age +51	Number	Group	480	468	537	505

ESG target setting

How to set and announce ESG targets?

Setting ESG goals is an essential part of defining an organization's ESG strategy. Intentionally choosing a path on ESG strategy is more likely to lead to improved performance. The following highlights some of the considerations for organizations to set up ESG targets.

1 Understand the value of ESG goal setting

Managing stakeholder expectations require companies to understand the importance of ESG targets and the value it adds.

2 Assess ESG baseline before setting goals

Prioritizing areas of ESG impact is an important early step in every company's ESG journey and should come before goal setting. Materiality and baseline assessments are two important and distinct evaluative steps in this regard.

3 Familiarize with and set SMART goals

Creating Specific, Measurable, Achievable, Relevant and Time (SMART) ESG goals helps establish attainable objectives within a predetermined timeframe. By taking this approach, companies can eliminate generalizations and guesswork while setting goals and targets over clear timeframes, and intentional ways to track progress.

4 Measure ESG goals and set timelines by creating KPIs

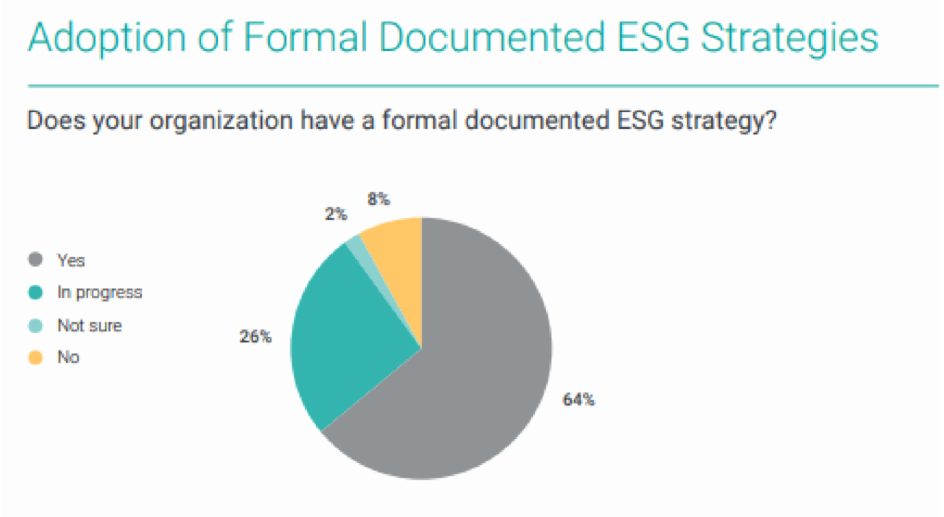
For each ESG goal decided it is important enough to track, one should have a key performance indicator (KPI), a quantifiable measure of performance. By adding quantifiable metrics, a company can track progress from their baseline overtime and adjust as needed as they drive towards their ultimate ESG goal.

5 Share and announce ESG goals

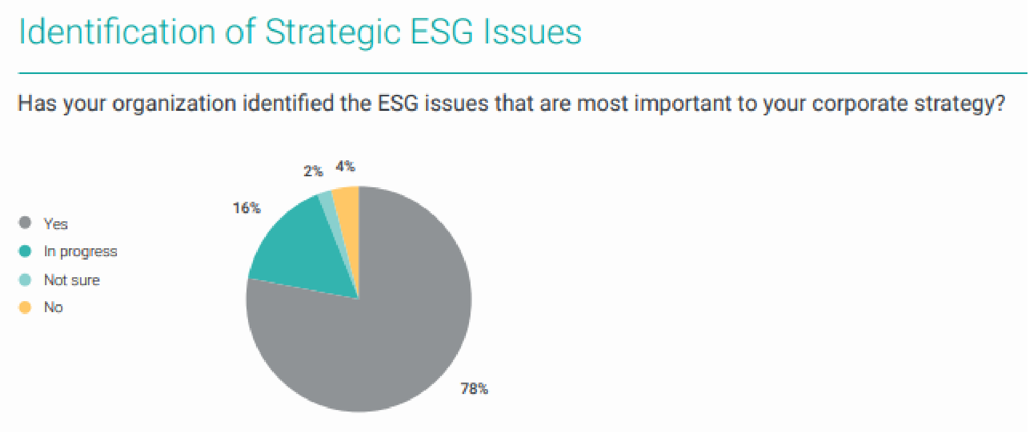
Having identified the company's stakeholders, determined the key ESG issues, and established governance and operational practices, now is the time to be transparent and publicly disclose the ESG goals and progress. Being transparent can increase accountability and credibility.

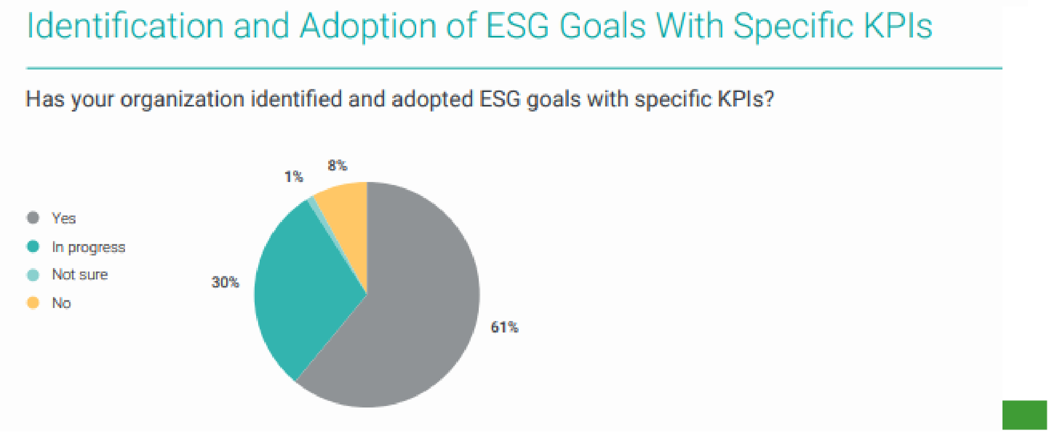
Sample- Corporate ESG strategy survey by Morningstar Sustainalytics

Morningstar Sustainalytics conducted a survey to understand the ESG strategy uptake amongst organizations. Some interesting results were revealed. The majority of survey respondents reported that their firms have a documented ESG strategy. The results also reveal how these strategies develop, from identifying material ESG issues, to goal-setting, establishing KPIs, and finally, putting it all together in a formal strategy document.



- Nine in ten survey respondents (90%) said their firms have or are developing a formal ESG strategy. It appears that companies that employ CSR and sustainability professionals are highly likely to have a formal ESG strategy or have one in progress.
- A small proportion of respondents (2%) aren't sure about their firms' ESG plans, which raises questions about how companies integrate and communicate their efforts across the organization.





Scoring methodology of ESG raters

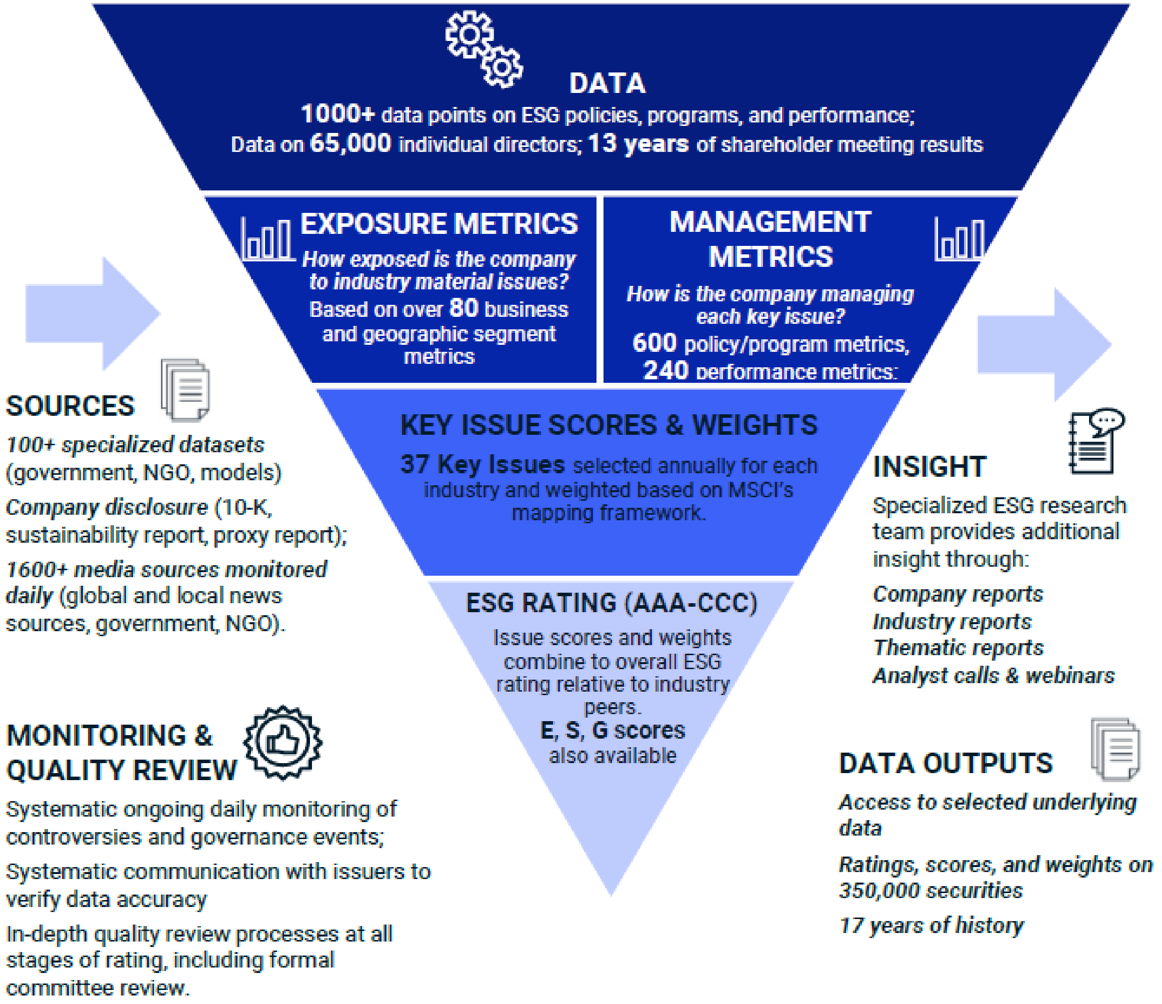
Morgan Stanley Capital International (MSCI)

MSCI assess thousands of data points across **37 ESG Key Issues** that focus on the **intersection between a company's core business and the industry-specific issues** that **may create significant risks and opportunities for the company**.

The Key Issues are weighted according to:

- Impact of the risk / opportunity
- Time horizon of the risk / opportunity

All companies are assessed for Corporate Governance and Corporate Behavior.



RSM

Morgan Stanley Capital International (MSCI)

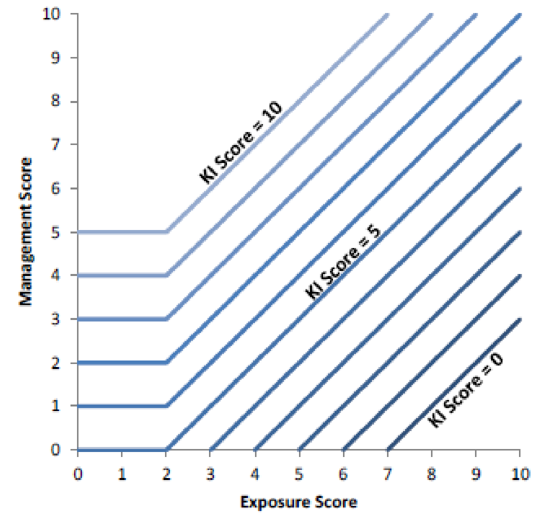
3 Pillars	10 Themes	37 ESG Key Issues	
Environment	**Climate Change**	Carbon Emissions Product Carbon Footprint	Financing Environmental Impact Climate Change Vulnerability
	Natural Resources	Water Stress Biodiversity & Land Use	Raw Material Sourcing
	Pollution & Waste	Toxic Emissions & Waste Packaging Material & Waste	Electronic Waste
	Environmental Opportunities	Opportunities in Clean Tech Opportunities in Green Building	Opp's in Renewable Energy
Social	**Human Capital**	Labor Management Health & Safety	Human Capital Development Supply Chain Labor Standards
	Product Liability	Product Safety & Quality Chemical Safety Financial Product Safety	Privacy & Data Security Responsible Investment Health & Demographic Risk
	Stakeholder Opposition	Controversial Sourcing	
	Social Opportunities	Access to Communications Access to Finance	Access to Health Care Opp's in Nutrition & Health
Governance	**Corporate Governance***	Board* Pay*	Ownership* Accounting*
	Corporate Behavior	Business Ethics Anti-Competitive Practices Tax Transparency	Corruption & Instability Financial System Instability

** Corporate Governance Theme carries weight in the ESG Rating model for all companies. In 2018, we introduce sub-scores for each of the four underlying issues: Board, Pay, Ownership, and Accounting.*

Figure 2 Framework for Setting Key Issue Weights

		Expected Time frame for Risk/Opportunity to Materialize	
		Short-Term (<2 years)	Long-Term (5+ years)
Level of Contribution to Environmental or Social Impact	Industry is major contributor to impact	Highest Weight	
	Industry is minor contributor to impact		Lowest Weight

Figure 3 Combining Exposure and Management – 'Risk' Key Issues



Morgan Stanley Capital International (MSCI)

Figure 5 Assessment of Controversial Cases

Scale of Impact	Nature of Impact: Egregious	Serious	Medium	Minimal
Extremely Widespread	Very Severe	Very Severe	Severe	Moderate
Extensive	Very Severe	Severe	Moderate	Moderate
Limited	Severe	Moderate	Minor	Minor
Low	Moderate	Moderate	Minor	Minor

Figure 6 Corporate Governance Component Structure

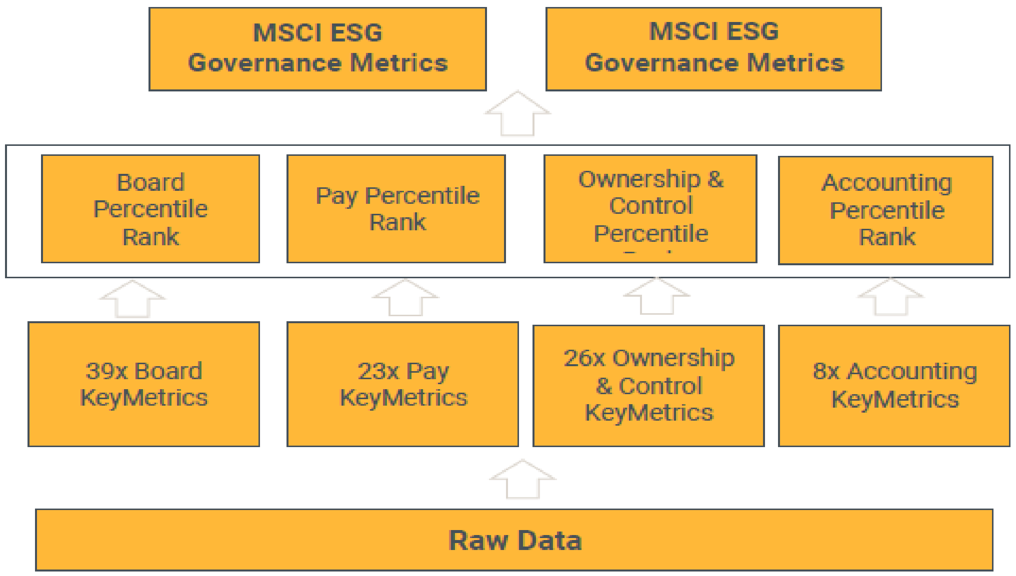
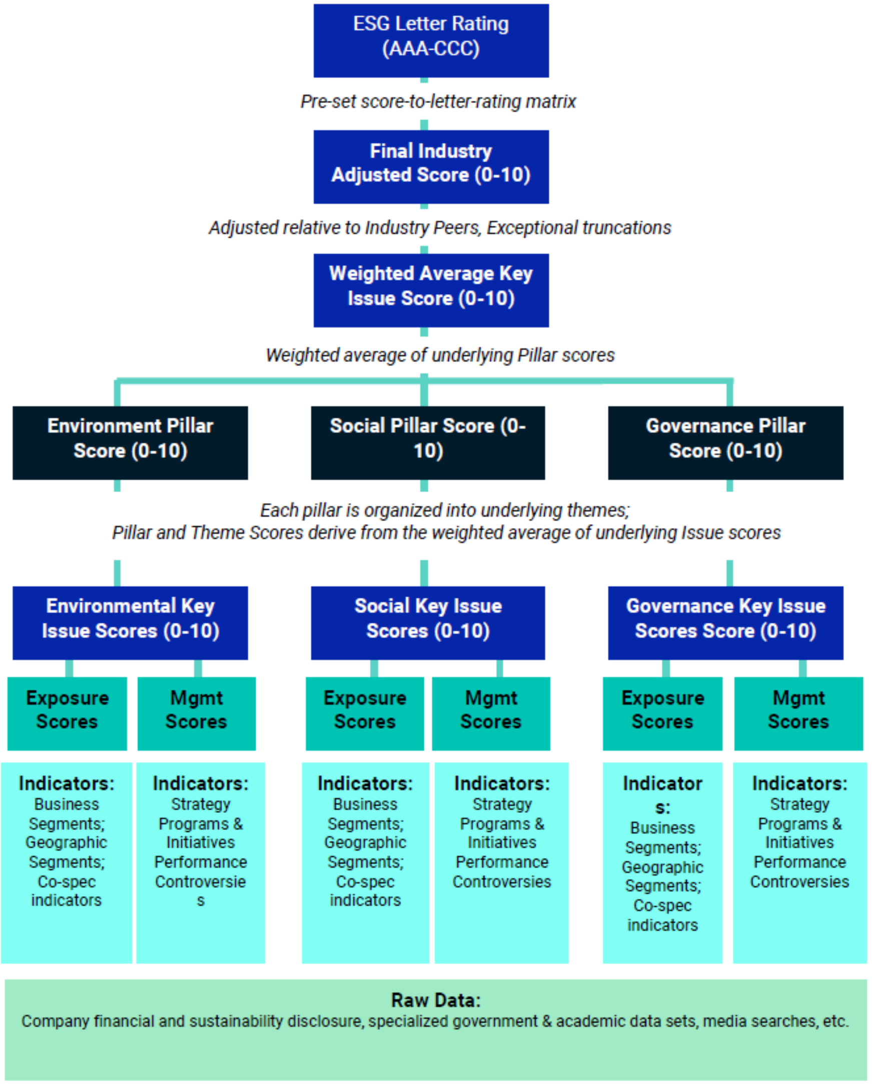


Figure 7 Hierarchy of ESG Scores



RSM

Morgan Stanley Capital International (MSCI)

Figure 8 Rating The Final Industry Adjusted Company Score is mapped to a Letter as follow.

Letter Rating	Final Industry-Adjusted Company Score
AAA	8.6* - 10.0
AA	7.1 – 8.6
A	5.7 – 7.1
BBB	4.3 – 5.7
BB	2.9 – 4.3
B	1.4 – 2.9
CCC	0.0 – 1.4

CCC	B	BB	BBB	A	AA	AAA

LAGGARD

A company lagging its industry based on its high exposure and failure to manage significant ESG risks

AVERAGE

A company with a mixed or unexceptional track record of managing the most significant ESG risks and opportunities relative to industry peers

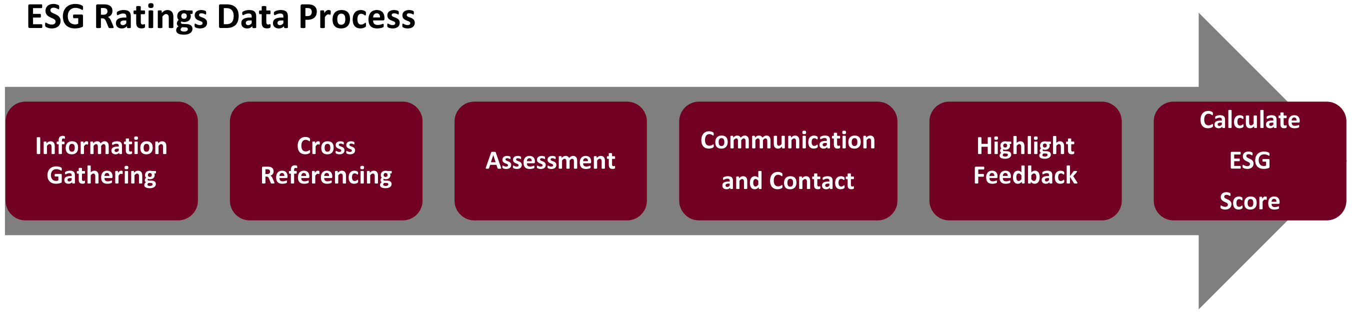
LEADER

A company leading its industry in managing the most significant ESG risks and opportunities

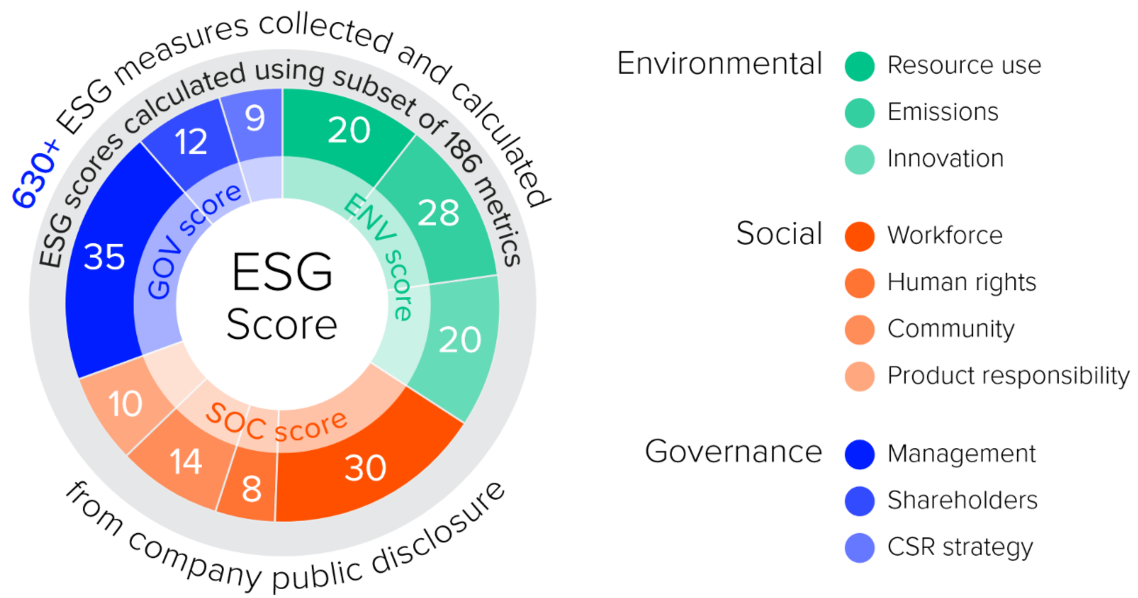
FTSE Russell ESG Ratings

- FTSE Russell's ESG Ratings and data model **allows investors** to understand a **company's exposure to and management of ESG** issues in multiple dimensions
- The ESG Ratings are comprised of an overall Rating that breaks down into underlying **Pillar and Theme Exposures and Scores**
- The Pillars and Themes are built on **over 300 individual indicator** assessments that are applied to each company's unique circumstances
- The FTSE ESG Ratings can be accessed through the online data model and includes 7,200 securities in 47 Developed and Emerging markets

ESG Ratings Data Process



Refinitiv



Pillars	Catagories	Themes
Environmental	Emission	Emissions
		Waste
		Biodiversity*
		Environmental management systems*
	Innovation	Product innovation
		Green revenues, research and development (R&D) and capital expenditures (CapEx)
	Resource use	Water
		Energy
		Sustainable packaging*
		Environmental supply chain*
Social	Community	Equally important to all industry groups, hence a median weight of five is assigned to all
	Human rights	Human rights
	Product responsibility	Responsible marketing
		Product quality
		Data privacy
	Workforce	Diversity and inclusion
		Career development and training
		Working conditions
		Health and safety
Governance	CSR strategy	CSR strategy
		ESG reporting and transparency
	Management	Structure (independence, diversity, committees)
		Compensation
	Shareholders	Shareholder rights
		Takeover defenses

*No data points available that may be used as a proxy for ESG magnitude/materiality

RSM

Figure 2.20: Risk decomposition and calculation of the Unmanaged Risk score at the issue level – example of a fictitious auto manufacturer and the risk it is facing regarding the Carbon – Products and Services issue

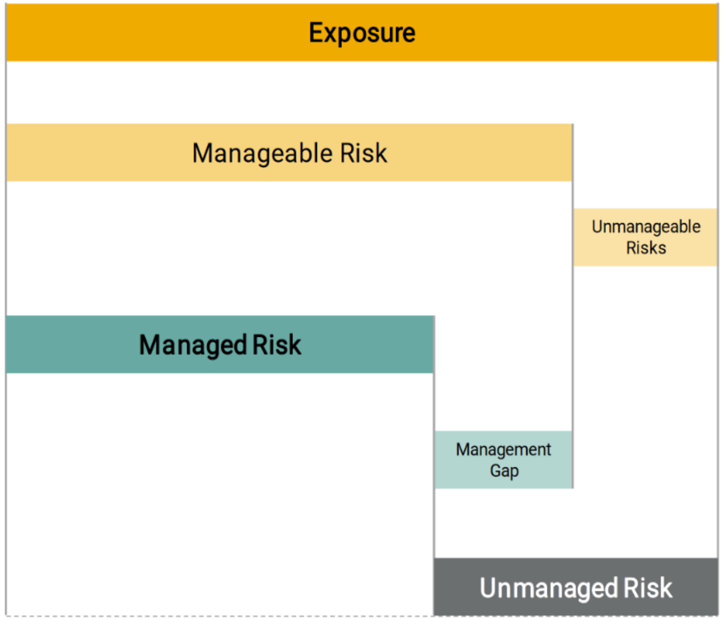


Figure 2.27: Overview of the six Corporate Governance pillars

Board and management quality and integrity	Do the board's experience, track record and behaviour demonstrate its ability to provide strategic leadership and oversight?
Board structure	Do the organization and structure of the board provide sufficient oversight, representation and accountability to shareholders?
Ownership and shareholder rights	Do the constitution of the company and its ownership structures respect the right of outside shareholders relative to the board, management and major shareholders?
Remuneration	Do the company's remuneration policies and practices provide appropriate incentives for management to build value?
Financial reporting	Are the company's financial reports reliable and subject to appropriate oversight?
Stakeholder governance	Does the company have appropriate structures in place to manage ESG issues generally and is the company transparent about these?

Source: Sustainalytics

5. ESG performance and regulatory requirement

Selected regulations and impact on companies

TCFD TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

CENTRAL BANK OF KUWAIT

رؤية الكويت 2035 KUWAIT VISION

هيئة أسواق المال Capital Markets Authority State Of Kuwait دولة الكويت

IFRS Sustainability

- Risk Management
- Strategy
- Governance and Organization
- Enablers
- Products and Services

Transmission of Regulations to Companies

RSM

The challenges to regulatory compliance

01 Fragmented ESG Approach, Limited Perspective

Leaders have managed ESG issues across departments using different protocols and controls. As a result, little coherence has formed around the ways to direct initiatives and create comprehensive standards and guidelines.

02 Weak ESG Corporate Governance

Companies' siloed ESG efforts that have been limited in scope have not developed the governance structures needed to support risk management across ESG areas and business units. The result is weak corporate ESG governance. Strong, comprehensive governance will become more important as regulations begin to emphasize cross-functional compliance.

03 ESG Regulatory Inexperience

Many companies are not used to the high degree of regulatory scrutiny that the proliferation of ESG regulation brings. Unlike those in heavily regulated industries, such as financial services and health care, companies in less regulated industries have not learned what to expect when facing sophisticated regulations or how to implement changes. They are inexperienced and poorly equipped to deal with the mass of ESG regulations that is emerging—and that grows more intricate every year.

04 ESG Data Shortfalls

To improve transparency, regulators are pushing companies to provide more granular ESG-related data. Companies then meet two problems: data availability and data quality.
For example, scope 3 emissions data from ecosystem partners is difficult for companies to access. In terms of quality, companies' data collection systems are built on methodological foundations that are always evolving in reaction to—rather than in anticipation of—changing regulatory standards.

05 ESG Technology Limitations

In the past, sustainability officers could choose how to measure ESG outcomes and provide reports, and they often settled on spreadsheets. However, regulators are increasingly demanding reports that are similar to traditional financial reports. Such reporting mandates may very well be so exact and extensive that regulators are unlikely to accept spreadsheets for reasonable assurance, setting up the need for more sophisticated reporting capabilities.

Navigating ESG Compliance With Tighter Regulations | BCG

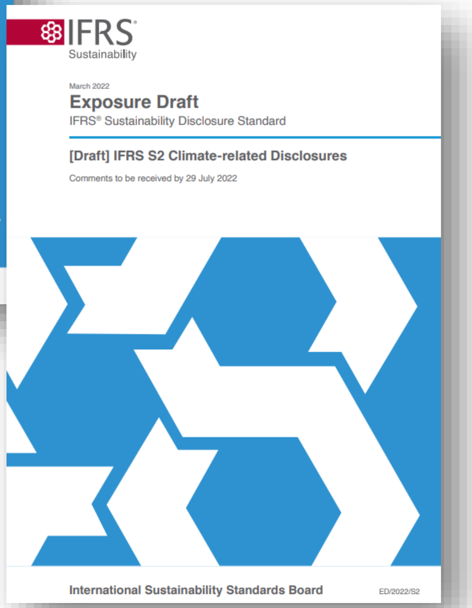
The IFRS exposure drafts (S1 and S2)

The General Requirements Exposure Draft**, published by the ISSB on 31 March 2022,** was developed in response to calls from primary users of general-purpose financial reporting for **more consistent, complete, comparable and verifiable sustainability-related financial information** to enable them to **assess an entity's enterprise value***.

- ❑ The proposed ***IFRS S1 General Requirements*** *for Disclosure of Sustainability-related Financial Information (General Requirements Exposure Draft)* would require companies to disclose information about all of their significant sustainability-related risks and opportunities.

- ❑ The proposed ***IFRS S2 Climate-related Disclosures (Climate Exposure Draft)*** focuses on climate-related risks and opportunities. It incorporates the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) and includes metrics tailored to industry classifications derived from the industry-based SASB Standards.

S1: General requirements for disclosure of sustainability-related financial information



S2: Climate-related Disclosures

[Exposure Draft IFRS S2 Climate-related Disclosures]

RSM

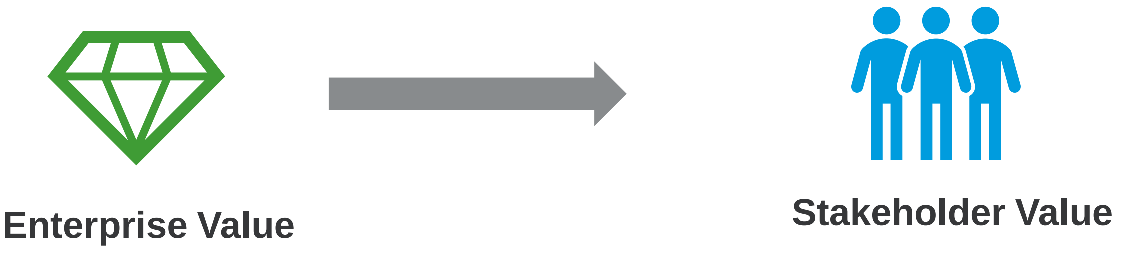
How is enterprise value measured?

***Enterprise value** is the total value of an entity's equity and net debt and reflects expectations of the amount, timing and uncertainty of future cash flows over the short, medium and long term and the value attributed to those cash flows (reflecting the cost of capital).

To comply with the proposed requirements, **a company would disclose material information about all significant sustainability-related risks and opportunities to which it is exposed**—the materiality judgement is made in the context of the sustainability-related information necessary for users of general-purpose financial reporting (investors) to assess enterprise value.

Entity's future **cash flows** over the short, medium and long term in terms of:
- amount,
- timing and
- uncertainty

Entity's significant **sustainability-related risks and opportunities** including:
- Their effect on cash flows
- Extent of climate risk mitigation or increase
- Management response



sustainability-related financial information

consistent **comparable**

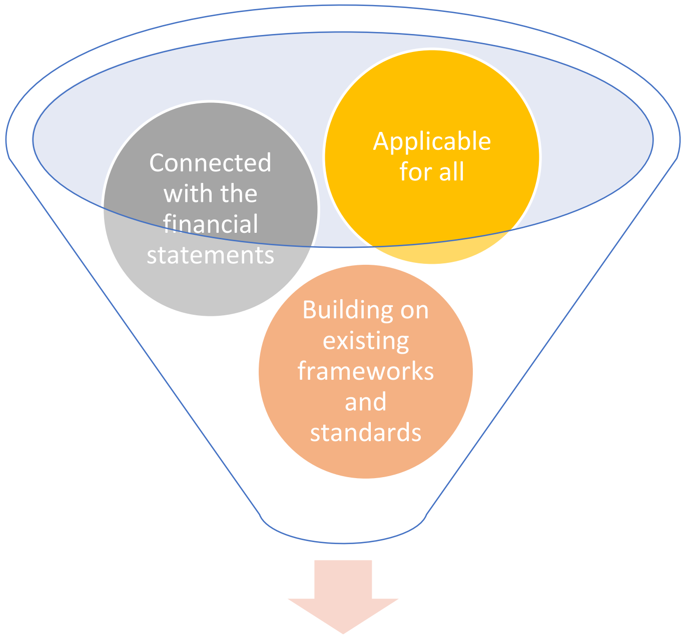
complete **verifiable**

Compliance with the standards

What is expected of companies?

- The concept is potentially ***relevant for all companies*** regardless of the framework applied in preparing the financial statements

- The information regarding compliance with the Drafts need to be reported at ***the same time as financial statements***.



Compliance with the Exposure Drafts

How can companies prepare themselves?

Identify the differences between the proposals and the existing reporting content and create an action plan to fill the gaps.

Consider whether a change in reporting structure is required such as integrating sustainability reporting into general purpose financial reporting.

Understand the processes and resources required to provide detailed information reliability and on time

The principle of double materiality

Financial Materiality

To the extent necessary for an understanding of the company's development, performance, and position…

Environmental & Social Materiality

…and impact of its activities

Company ← climate change impact on company ← Climate

Company impact on climate can be financially material ←

Company → company impact on climate → Climate

Primary audience: **Investors**

Primary audience: **Consumers, Civil Society, Employees, Investors**

RECOMMENDATIONS OF THE TCFD

NON-FINANCIAL REPORTING DIRECTIVE

* Financial materiality is used here in the broad sense of affecting the value of the company, not just in the sense of affecting financial measures recognized in the financial statements.

Source: European Commission on Reporting Climate-Related Information

6. Governance over ESG issues

Robust governance and risk management

ESG / Sustainability policies

Climate-related risks & opportunities

Sustainable finance

Key elements related to ESG to be considered for robust governance

Board and Management Diversity

Board Committees

Board Performance

Average Board Tenure

Remuneration and Compensation

Sustainability Oversight

Management Industry Experience

Independent Audit

Share Ownership and Control

ESG Governance: board oversight

I. Board Oversight of ESG Issues

A. Board Oversight Structure

The key for companies is to develop an oversight structure and associated accountability (*e.g.,* via committee charters and/or corporate governance guidelines), as well as internal processes and procedures, that are appropriate for the company. Companies should then develop corresponding disclosure to inform investors and other stakeholders as to how the board is overseeing these issues and that the oversight is supported by appropriate documentation and processes.

B. Reporting up to the Board

i. Assessing the Board's ESG competencies
ii. ESG Topics and Metrics to Share with the Board
iii. Frequency of Management Reporting to the Board on ESG Issues

ESG governance: management organization

II. Management Organization Relating to ESG Governance

A. Composition of Management-Level ESG Committees

As with other matters, day-to-day implementation of the ESG strategy usually rests with senior management, and companies employ different approaches in creating and staffing their ESG teams, delineating internal reporting lines, and determining whether any formal procedures are used for such management-level ESG governance.

B. Formal Procedures for Management-Level ESG Committees

As to the level of formalities followed by management-level ESG committees (such as adoption of a charter and taking of minutes), company practices vary widely.

C. ESG Staffing and Reporting Lines

ESG staffing and annual spend vary significantly from company to company, from less than one full-time professional (leveraging multiple internal areas and/or external resources) to larger teams handling ESG reporting, in-house modeling of future climate scenarios, investor engagement, employee engagement, and/or supply chain auditing.

ESG governance: disclosure

III. Disclosure Regarding ESG Governance

A. Considerations for Disclosing ESG Governance Structure

Investors and other stakeholders increasingly seek information, in an easily understandable manner, explaining how board composition, expertise, and oversight tie into the company's ESG and business strategy. They often seek to ensure that companies have corporate governance processes in place that are effective for overseeing the company's management of significant ESG risks and whether and how it capitalizes on relevant ESG opportunities.

B. Approaches to Disclosure of ESG Governance

Whether on company websites, in sustainability reports, or in proxy statements or other reports or filings, ESG disclosures are usually drafted with investors (as well as employees and other constituents) in mind and take into account the input that companies receive through their shareholder engagement processes.

ILLUSTRATIVE

Corporate Governance Highlights

Board Members and Leadership

- Appointment of two new directors, Ime Archibong and Craig Anthony Williams, in 2021
- Eleven of our twelve director nominees are independent; the Chief Executive Officer ("CEO") and founder is the only member of management who serves as a director
- Active and empowered Lead Independent Director elected annually by the independent members of our Board ("Independent Directors")
- Active and empowered committee chairs, all of whom are independent
- Directors have a mix of tenures, including long-standing members, relatively new members, and others at different points along the tenure continuum
- Directors reflect a variety of experiences and skills that match the Company's complexity and strategic direction and give the Board the collective capability necessary to oversee the Company's activities
- Regular discussions regarding Board recruiting, succession and refreshment, including director skills and qualifications, that support the Company's long-term strategic objectives

Board Governance Best Practices

- Frequent executive sessions of Independent Directors that regularly include separate meetings with our Chief Financial Officer ("CFO"), General Counsel, Chief Risk Officer, Chief Audit Officer, Chief Credit Review Officer, Chief Compliance Officer, and/or Chief Information Security Officer
- Annual assessments of the Board and each of its committees, the Independent Directors and the Lead Independent Director
- Active engagement and oversight of Company strategy, risk management and the Company's political activities and contributions
- Direct access by the Board to key members of management at the discretion of Independent Directors
- Annual CEO evaluation process led by the Lead Independent Director
- Regular talent and succession planning discussions regarding the CEO and/or other key executives
- Regular meetings between the Board and federal banking regulators

Stockholder Engagement and Stockholder Role in Governance

- Regular outreach and engagement throughout the year by our CEO, CFO and Investor Relations team with stockholders regarding Company strategy and performance
- Formal outreach and engagement with governance representatives of our largest stockholders at least two times per year
- Feedback from investors regularly shared with our Board and its committees to ensure that our Board has insight on investor views
- Board and Governance and Nominating Committee review extensive briefings and benchmarking reports on corporate governance practices and emerging corporate governance issues
- Majority voting for directors with resignation policy in uncontested elections
- Stockholders holding at least 25% of outstanding common stock may request a special meeting
- Stockholders are able to act by written consent, subject to certain procedural and other safeguards that the Board believes are in the best interests of Capital One and our stockholders
- Proxy access by stockholders holding 3% of outstanding common stock for three years can nominate director candidates
- No supermajority vote provisions for amendments to Bylaws and Certificate of Incorporation or removing a director from office
- No stockholder rights plan (commonly referred to as a "poison pill")

70712___BMKLPDF_LAN_19Mar202115291929_021.PDF (capitalone.com)

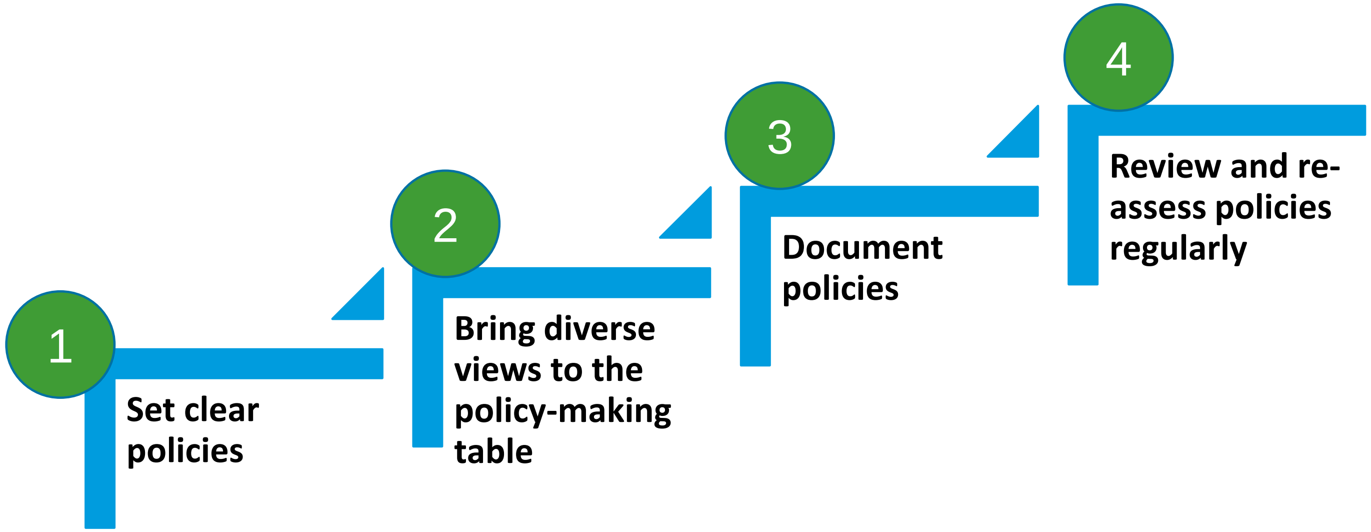
Key focus areas:

- Shareholder right
- Voting rights
- Stock ownership
- Board gender diversity
- Board remuneration
- Board performance evaluation
- Board independence

ESG / Sustainability policies

Developing and implementing ESG policies

ESG policies are **documented business approaches to environmental, social, and governance issues**. These are criteria used by investors to evaluate companies' sustainability and risks. ESG policies can cover a broad range of topics and show a company's commitment to responsible practices. However, some activists may use ESG policies to advance their political causes and punish certain industries



1. A systematic and inclusive approach is the key here: involve the people responsible for managing the process in question and work through the stages involved to identify pain points and essential steps to capture.

2. If your policy-makers are at risk of groupthink due to limited diversity, consider drawing on insights from individuals outside the group.

3. This can be neglected, especially in start-ups or smaller enterprises, where the need for rigor in process and policy management can be under-estimated. Similarly, with newer concepts like ESG, organizations can be slow to capture policies in a formal document.

4. ESG is a rapidly evolving construct; as your approaches, priorities and success measures advance, your stated policies should change in tandem. External regulatory and legislative imperatives are likely to develop at pace; your policies need regular reviews to keep track.

RSM

List of Sustainability/ESG policies

Social and Community

1. Policy on Social Development and Community Involvement
2. Corporate Social Responsibility Policy
3. Human Rights Policy
4. Indigenous Peoples and Resettlement Policy
5. Cultural heritage Policy
6. Grievance Redressal Mechanism

Employee Health and Well Being

1. Health and Safety Policy
2. Remuneration Policy
3. People Policy

Ethics

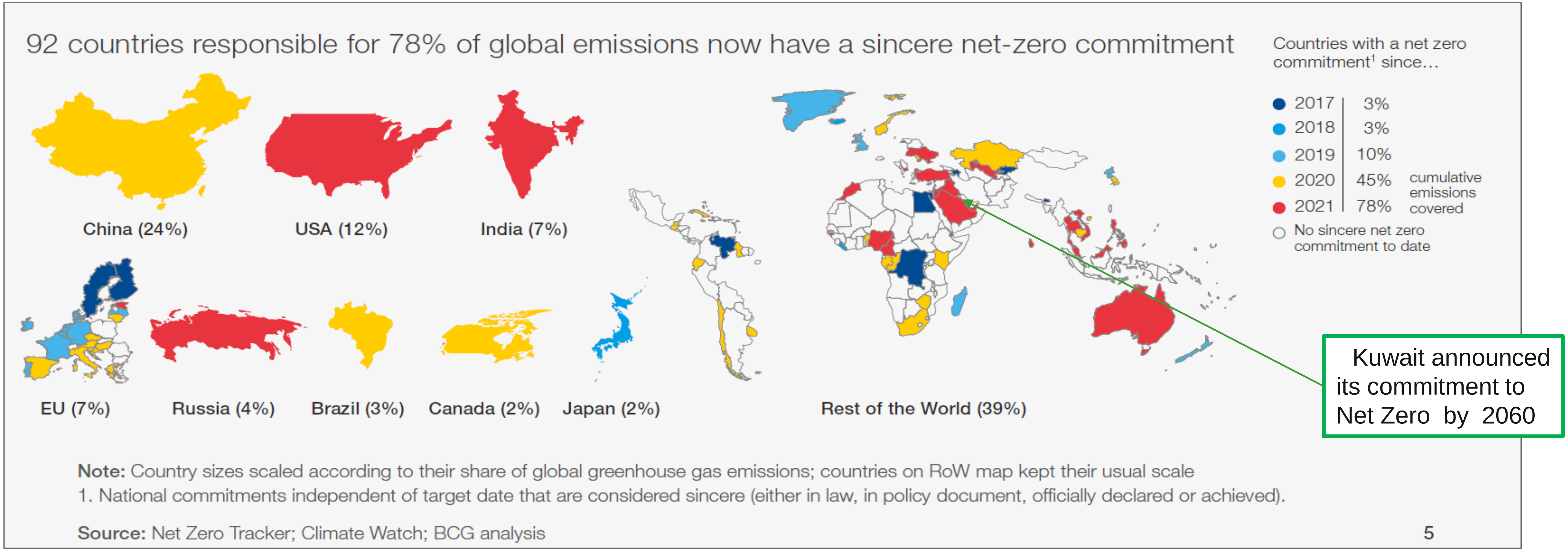
1. Policy on Business Conduct
2. Policy on Stakeholder Engagement
3. Board Diversity Policy
4. Fair Disclosure Policy
5. Whistle-blower Policy
6. Policy on dealing with related party transactions

Climate Change

1. Climate Change Policy
2. Energy Policy
3. Resource Conservation Policy
4. Quality Policy
5. Research & Development Policy
6. Water Resource management policy
7. Wastewater management Policy
8. Air Emissions Management Policy
9. Biodiversity Policy

Climate-related risks & opportunities

Net zero commitments



The world is not on track to reach the Paris Accord targets. COP26 did not deliver an updated set of national commitments to limit global warming to well below 2°C – let alone 1.5°C. Yet things are changing.

In 2019, only 10% of global emissions were covered by national pledges (29 countries) to achieve net zero emissions.

Today, 127 countries representing 78% of global emissions have made sincere net zero commitments on a national level

Environmental risk premium

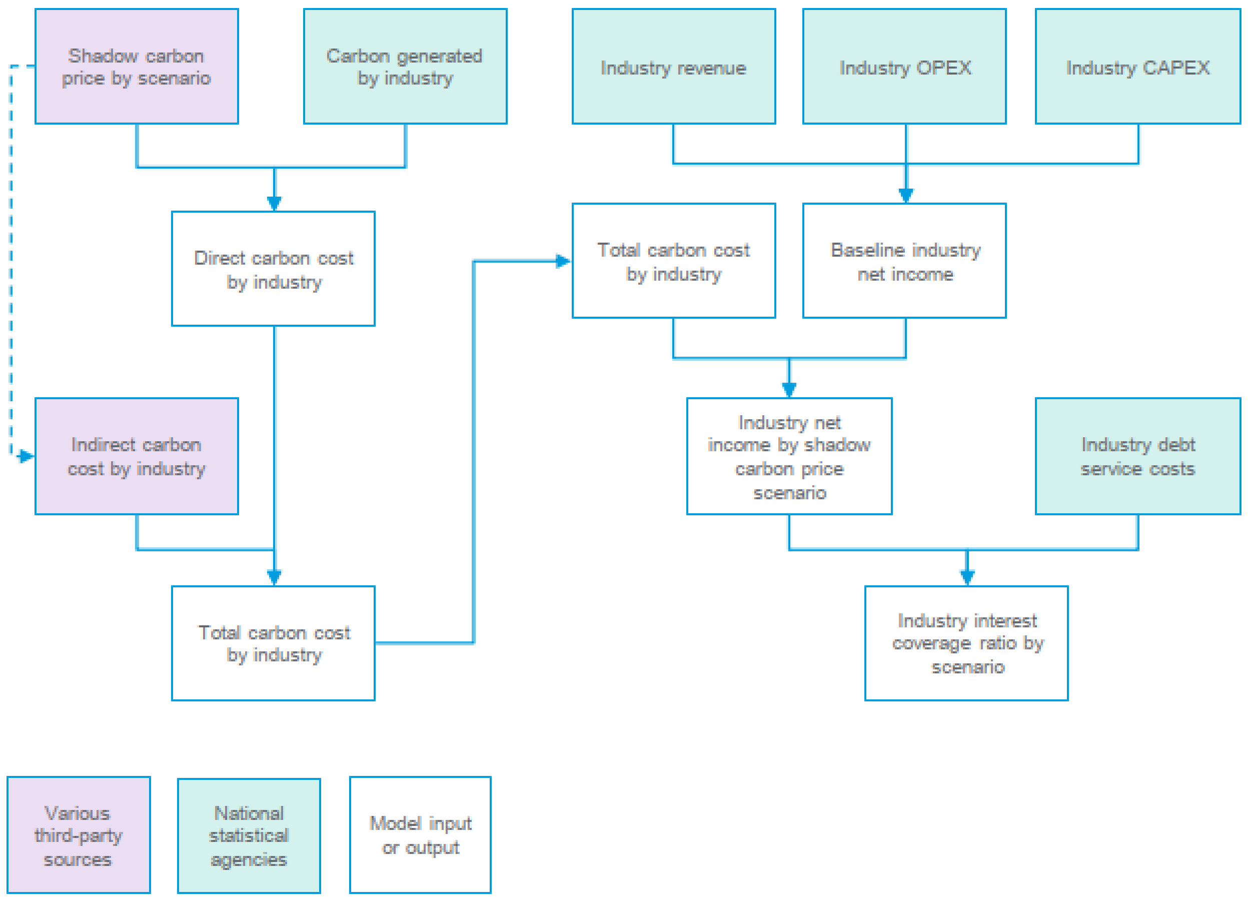
The Environmental Risk Score ("E-Score") – which measures how a company is managing climate policy risk and GHG intensity by industry by leveraging reputable data sources. Using such a methodology, a company can calculate risk premiums across an investment portfolio.

The e-score can leverage Total Return on Investment model to understand and quantify the extent of a company's risk management practices as it relates to climate policies/regulations

Industry sources provide a robust understanding of how significant climate policies may impact a company's operations and financials

Risk Premium

MODEL STRUCTURE



TCFD recommendations

The Task Force developed **four widely-adoptable recommendations** on climate-related financial disclosures that are applicable to organizations across sectors and jurisdictions.

The recommendations are structured around **four thematic areas** that represent core elements of how organizations operate:

Governance
The organization's governance around climate-related risks and opportunities

Strategy
The actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning

Risk Management
The processes used by the organization to identify, assess, and manage climate-related risks

Metrics and Targets
The metrics and targets used to assess and manage relevant climate-related risks and opportunities

Climate-related risks/opportunities and their financial impact

RISKS

Transition	**Policy and Legal** – Carbon pricing and reporting obligations – Mandates on and regulation of existing products and services – Exposure to litigation **Technology** – Substitution of existing products and services with lower emissions options – Unsuccessful investment in new technologies **Market** – Changing customer behavior – Uncertainty in market signals – Increased cost of raw materials **Reputation** – Shift in consumer preferences – Increased stakeholder concern/negative feedback – Stigmatization of sector
Physical	– Acute: Extreme weather events – Chronic: Changing weather patterns and rising mean temperature and sea levels

OPPORTUNITIES

Resource Efficiency	– Use of more efficient modes of transport and production and distribution processes – Use of recycling – Move to more efficient buildings – Reduced water usage and consumption
Energy Source	– Use of lower-emission sources of energy – Use of supportive policy incentives – Use of new technologies – Participation in carbon market
Products & Services	– Development and/or expansion of low emission goods and services – Development of climate adaptation and insurance risk solutions – Development of new products or services through R&D and innovation
Markets	– Access to new markets – Use of public-sector incentives – Access to new assets and locations needing insurance coverage
Resilience	– Participation in renewable energy programs and adoption of energy-efficiency measures – Resource substitutes/diversification

Strategic Planning
Risk Management

Financial Impact

Revenues
Expenditures

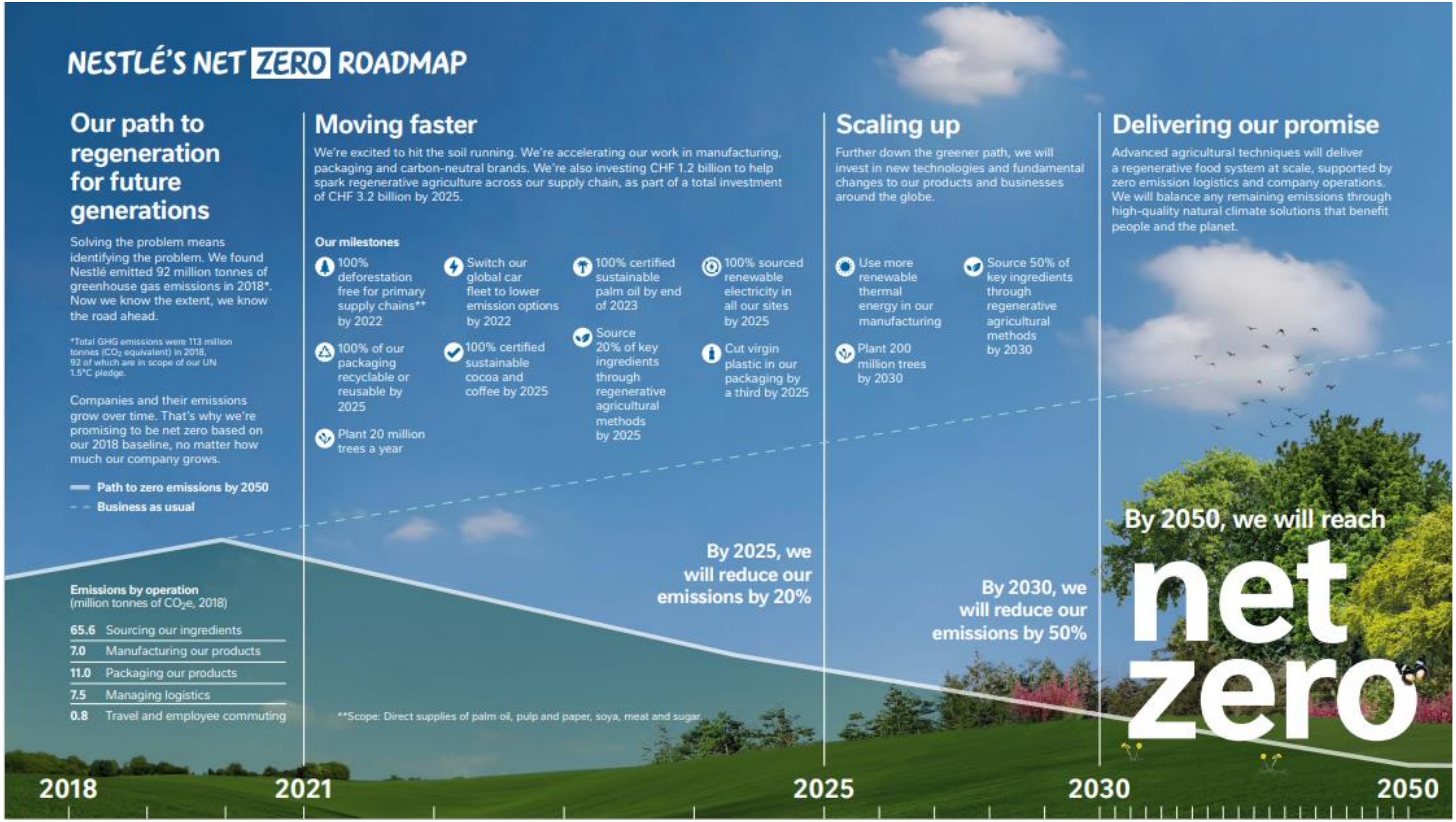
Income Statement

Cash Flow Statement

Balance Sheet

Assets & Liabilities
Capital & Financing

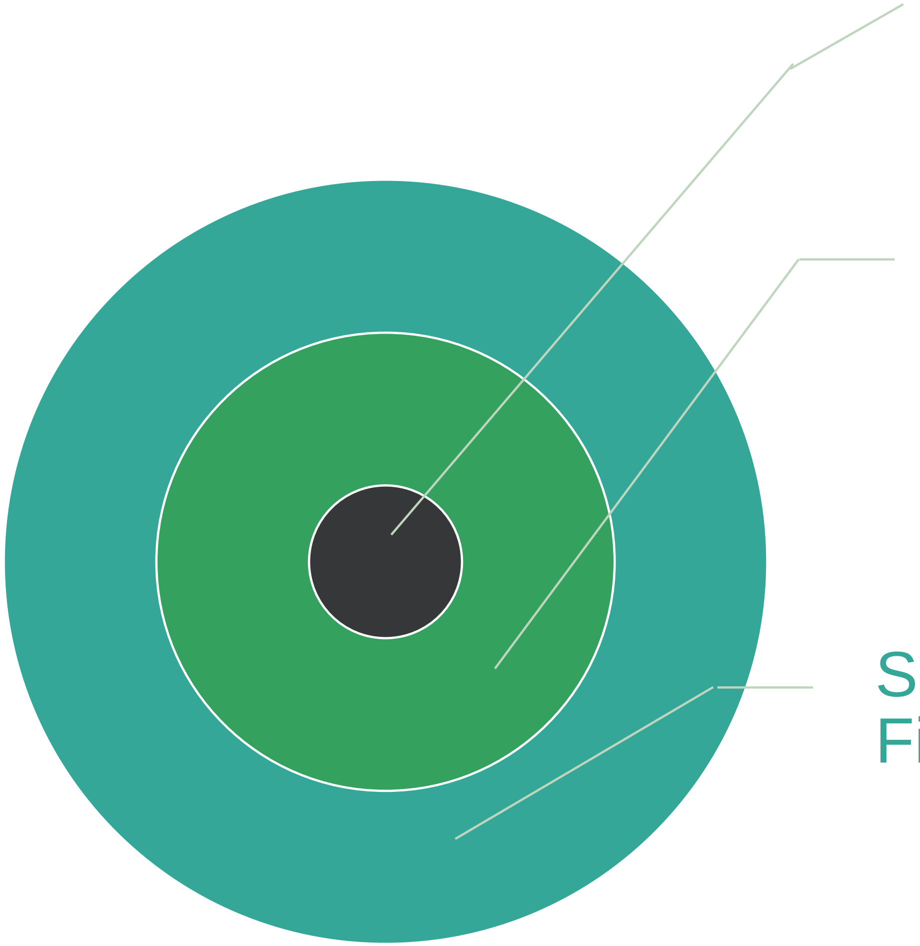
Sample: Nestle net zero roadmap



nestle-net-zero-roadmap-en.pdf

Sustainable finance

Green finance and climate finance



Climate Finance

"Climate finance" is a subset of green finance, and in a narrower sense of the term, refers primarily to public finance that promotes multilateral efforts to combat climate change through the UN Framework Convention on Climate Change (UNFCCC).

Green Finance

The G20 uses the term "Green Finance" as a broad umbrella term that refers to the major shift in financial flows required to support projects that benefit the environment and society by reducing pollution or tackling climate change.

Sustainable Finance

Sustainable Finance is the process of taking due account of environmental, social and governance (ESG) considerations when making investment decisions in the financial sector, leading to increased longer-term investments into sustainable economic activities and projects (European Commission). It has become a powerful movement led by regulators, institutional investors and asset managers globally.

Sustainable and green financial products and instruments

In general terms, sustainable financial products come in three broad varieties. For some, the use of proceeds is earmarked and ring-fenced for sustainable use (e.g., green bonds). For sustainability-linked instruments, the financial instrument itself is linked to sustainability targets, such as through an interest rate penalty or reward on achievement of a specified target. For still other products, sustainability acts as selection criteria for inclusion (e.g., in a sustainable equity fund) or for targeted engagement with the management of a company.

ESG Product	Characteristics of the ESG Product
Green Bond/Loan	Earmarked for environmental projects. Separately labelled, and the use of proceeds is reported to current and prospective bondholders.
Social Bond/Loan	Earmarked proceeds for projects that will bring social benefits.
Sustainability-linked Bond/Loan	Address both environmental and social projects through sustainability-linked targets.
Sustainable Development Goal (SDG) Bond	Linked to achievement of sustainable development goals and came in to prominence post covid-19 pandemic.
Sustainable and Green Fund	Consist of only sustainably managed funds such as mutual funds, exchange-traded funds, or such funds.
Other Products	Aimed at specific E and S issues such as green car loans, green mortgages, sustainable credit cards, etc.

Sustainable finance framework

The Green Bond Principles (GBP) are voluntary process guidelines that recommend transparency and disclosure and promote integrity in the development of the Green Bond market by clarifying the approach for issuance of a Green Bond.

The GBP are intended for broad use by the market: they provide issuers with guidance on the key components involved in launching a credible Green Bond; they aid investors by promoting availability of information necessary to evaluate the environmental impact of their Green Bond investments; and they assist underwriters by moving the market towards expected disclosures that will facilitate transactions.

1. Use of Proceeds
2. Process for Project Evaluation and Selection
3. Management of Proceeds
4. Reporting

External Review

Green+Bond+Principles+-+June+2018+140618+WEB.pdf (ifc.org)

Responsible investing including ESG aspects

There are many ways to invest responsibly. Approaches are typically a combination of two overarching areas:

CONSIDERING ESG ISSUES WHEN BUILDING A PORTFOLIO (known as: ESG incorporation)			IMPROVING INVESTEES' ESG PERFORMANCE (known as: active ownership or stewardship)	
ESG issues can be incorporated into existing investment practices using a combination of three approaches: integration, screening and thematic.			Investors can encourage the companies they are already invested in to improve their ESG risk management or develop more sustainable business practices	
Integration	**Screening**	**Thematic**	**Engagement**	**Proxy voting**
Explicitly and systematically including ESG issues in investment analysis and decisions, to better manage risks and improve returns.	Applying filters to lists of potential investments to rule companies in or out of contention for investment, based on an investor's preferences, values or ethics	Seeking to combine attractive risk return profiles with an intention to contribute to a specific environmental or social outcome. Includes impact investing.	Discussing ESG issues with companies to improve their handling, including disclosure, of such issues. Can be done individually, or in collaboration with other investors.	Formally expressing approval or disapproval through voting on resolutions and proposing shareholder resolutions on specific ESG issues.

RSM

68

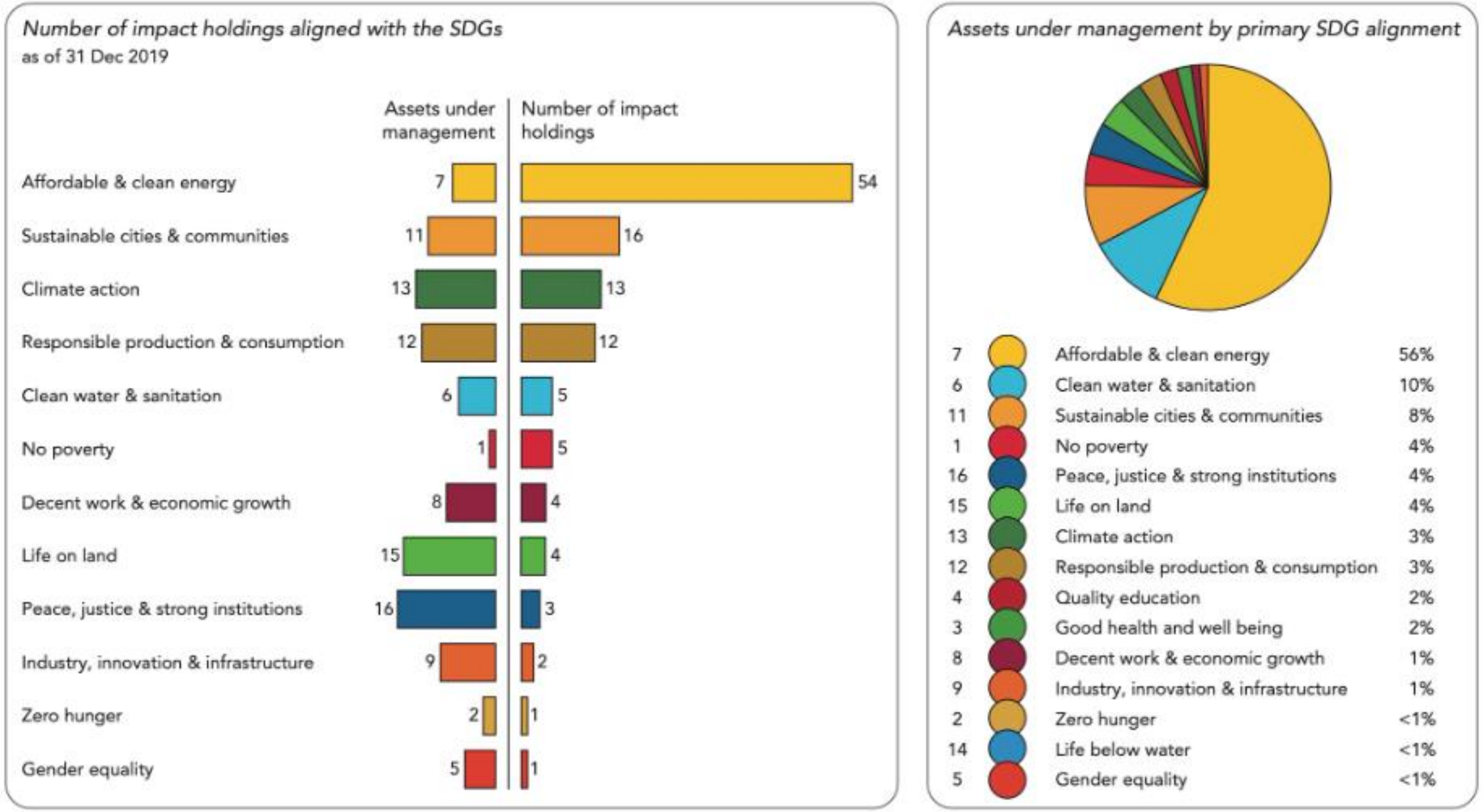
Case Study: SDG alignment in investment process

Nuveen, a large American asset manager, explicitly promotes “SDG alignment” in its fixed-income impact investing portfolio.

Its impact investments are targeted at four thematic areas, which the firm has mapped to SDGs:

- ❑ Affordable housing
  - • SDG 1, No poverty;
  - •SDG 11, Sustainable cities
- ❑ Renewable energy and climate change
  - • SDG 13, Climate action;
  - •SDG 7, Affordable and clean energy
- ❑ Community and economic development
  - •SDG 3, Good health;
  - •SDG 4, Quality education;
  - •SDG 8, Decent work and growth;
  - •SDG 9, Industry and innovation;
  - •SDG 11, Sustainable cities
- ❑ Natural resources
  - •SDG 6, Clean water and sanitation;
  - •SDG 11, Sustainable cities;
  - •SDG 12, Responsible consumption;
  - •SDG 14, Life in water;
  - •SDG 15, Life on land

Alignment with the United Nations Sustainable Development Goals (SDGs)



Q&A on today’s session

Thank you for your time and attention