FAB ESG WEEKLY UPDATE

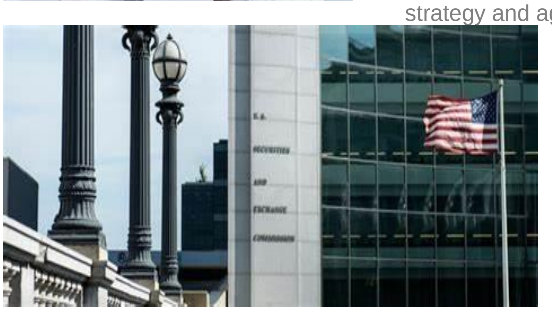
10 February 2023

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

REGULATORY

1. The **United Arab Emirates (UAE)** introduced amendments to **increase Emiratisation in skilled jobs by 1% every six months**. The UAE government remains on track to achieve the 2% overall Emiratisation target by the end of the year, having witnessed a 70% increase of Emiratis working in the private sector in 2022, compared to 2021.

- The amendments don't include any additional commitments on the companies, nor any changes to the amounts of financial contributions imposed for non-compliance. However, these contributions will now be collected semi-annually. Companies with 50 employees or more are required to achieve a 2% increase in Emiratisation of skilled jobs. The new mechanism stipulates that companies need to achieve 1% increase in Emiratisation before the end of June 2023 and reach the targeted 2% by end of the year.
- The financial contributions on companies that don't meet the target for the first half of 2023 will begin in July 2023, and the contributions for non-compliance from 2022 will continue to be collected. This initiative supports the continuity of the Emiratisation pace in the private sector year-round, in line with the directives of the Government of the UAE, which prioritises Emiratisation in its national strategy and agenda.



2. The **Securities and Exchange Commission (SEC)** announced that **ESG investing will be a priority area of focus for its division of examinations in 2023**. The U.S. regulator will continue its focus on ESG-related advisory services and fund offerings, including whether funds are operating in the manner set forth in their disclosures. In addition, SEC will assess whether ESG products are appropriately labelled and whether recommendations of such products for retail investors are made in the investors' best interests.

- ESG issues were added to SEC's priority list last year, following a risk alert issued in 2021, highlighting observations from its examinations that uncovered several potential ESG-related problem areas. These included portfolio management practices that didn't align with disclosures about ESG approaches, inconsistencies between ESG-related proxy voting claims and actual practices, and compliance programs that didn't address adherence to the firms' stated ESG frameworks. It also included marketing materials that made unsubstantiated or potentially misleading claims regarding the risk and reward characteristics of ESG investing.
- Regulators across the world are planning to take a close look at how advisors are handling a new rule on marketing and advertising, describing their approach to value-based investing, and complying with the regulation best interest advice standard.

3. The U.K. **Financial Conduct Authority (FCA)** informed British asset managers that it will be **testing ESG and sustainable investing claims communicated to investors**. FCA's letter to asset managers is an effort by to tackle greenwashing risk, as well as a direct call to consider the risk and adopt mitigation strategies. The asset management market in the U.K. is made by 1,000 firms managing approximately £11 trillion of assets for regional and global clients, ranging from large institutions to small retail investors.

- The FCA recognized the risk of some claims about ESG and sustainable investing being misleading or inaccurate. Inaccurate or misleading information may negatively impact the integrity of the U.K. financial disclosure regime and is likely to harm consumers' confidence to invest. In addition, it undermines efficient allocation of capital intended for the delivery of environmental and social outcomes.
- The U.K. regulator will also focus on ensuring that asset managers' governance bodies are structured to oversee and manage information about product development, ESG and sustainability integration in the investment process, ESG information providers, and other sustainability claims made by the firms. FCA will soon publish a review conducted on some firms' ESG practices and aims to share the final decision on its product labelling and disclosure proposals.

RESEARCH

1. The **International Energy Agency (IEA)** issued a **report** forecasting **low-emissions sources to cover almost all the growth in global electricity demand by 2025**. The annual publication focused on the electricity market forecasted that renewables and nuclear energy will dominate the growth of global electricity supply over the next 3 years, together meeting on average more than 90% of the additional demand. The 2023 edition of the report also added that global electricity generation from both natural gas and coal is expected to remain broadly flat between 2022 and 2025. The renewables share in the global power generation mix will rise from 29% in 2022 to 35% in 2025.

- China's share of global electricity consumption is poised to rise to one-third by 2025, compared with one-quarter in 2015. Over the next 3 years, more than 70% of the growth in global electricity demand is set to come from China, India and Southeast Asia combined. Electricity demand in the Middle East grew by about 4% in 2021, following a 1% decline in 2020 due to Covid-19 lockdowns. Members of the Gulf Cooperation Council (GCC), particularly Saudi Arabia, Iraq, Oman, and the United Arab Emirates saw the strongest absolute increases in electricity consumption. IEA estimated a consumption growth of 2.6% in 2022.
- In the **UAE**, electricity consumption increased by 9% in 2021 following a slump of about 1% in 2020 due to Covid-related restrictions. Growth has continued in 2022 as well. IEA anticipates total electricity consumption to expand at a 2% annual average rate in the 2023-2025 period on the back of strong economic growth averaging about 4% per year, according to the IMF. Installed generation capacity across the UAE reached 35 gigawatts in 2021, of which 31 gigawatts was gas-fired, 2.6 gigawatts solar and 1.4 gigawatts nuclear. Shares of gas, renewables and nuclear in the generation mix are projected at 64%, 10% and 26% by 2025.

2. BloombergNEF published a report pointing at a **record $495 billion invested in renewable energy during 2022**. While these investment figures almost reached half a trillion dollars and were the highest value ever recorded, the amount falls short of BloombergNEF's estimates of what is needed to be on track for global net-zero carbon emissions by 2050. Global investment in the low-carbon energy transition totalled $1.1 trillion in 2022, also setting a new record and a huge acceleration from the year before, as the energy crisis and policy action drove faster deployment of clean energy technologies.

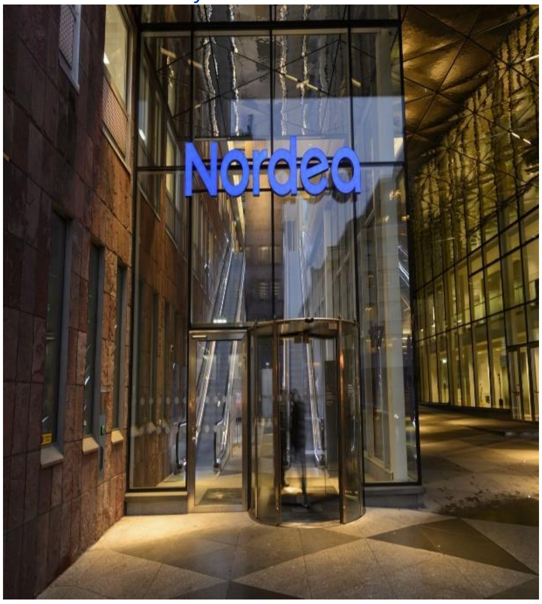
- Solar investment jumped 36% year-on-year to $308 billion and is estimated to have installed 260 gigawatts of new capacity in 2022. Investment in the second-largest sector, wind, stayed roughly stable at $175 billion, held back by slow procedures for securing permission to build on land and connect to the grid, especially in Europe and North America.
- China made up 55% of the world's renewable energy investment, putting $164 billion into new solar farms and $109 billion into new wind farms. The U.S. was the next largest single market, at nearly $50 billion. The European Union countries invested just $39 billion, down 10% from 2021 despite a strong rise in solar.

3. CDP authored a report flagging that **a record number of companies disclosed environmental data in 2022 but only 0.4% had credible climate transition plans**. The study is based on the 18,606 organizations that disclosed to CDP in the climate category during 2022, representing a 40% increase from 2021. Moreover, only 81 of the 18,606 companies disclosed against all of its 21 key indicators denoting a credible climate transition plan.

- Despite the increase in reporting companies, a smaller number were found to have presented credible transition plans compared to the prior year's report, which indicated that 135 reported across all key indicators. The decline was due to its stronger criteria this year, which now enforces that a plan must be aligned to 1.5°C and have a rigorous target. Additionally, while 4,100 organizations reported that they have developed a 1.5°C-aligned climate transition plan, fewer than half of these reported that the plan was publicly available with a mechanism in place to collect feedback from shareholders.
- Climate transition plans are defined by CDP as a time-bound action plan that clearly outlines how an organization will achieve its strategy to pivot its existing assets, operations and entire business model towards a trajectory that aligns with the latest and most ambitious climate science recommendations. As an example, halving greenhouse gas emissions by 2030 and reaching net-zero by 2050 at the latest, thereby limiting global warming to 1.5°C.

COMMERCIAL

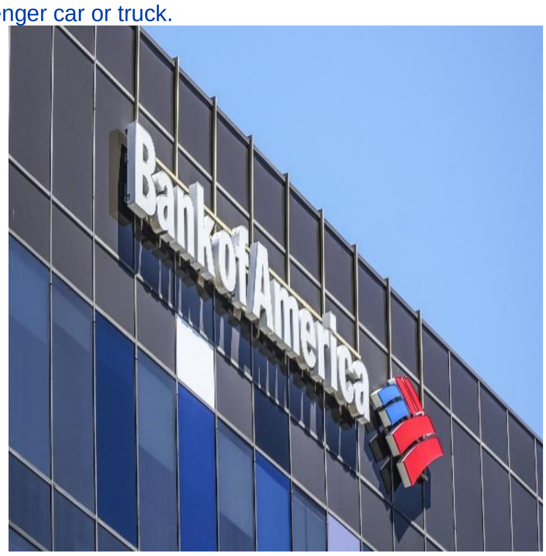
1. Nordea introduced **ESG targets as a performance criteria for senior executive remuneration**. It is the first time that the Finnish bank ties sustainable finance, net-zero committed assets under management, gender balance and credit profile targets to a part of its long term incentive plan (LTIP) for the 2023-2025 period. Nordea had first included ESG targets in executive remuneration programmes in 2021, while aiming to reach net-zero by 2050 the latest.



- Nordea's 2023-2025 LTIP applies to senior executives and key employees whose efforts have a direct impact on Nordea's results, profitability, customer vision and long-term growth. This includes the bank's CEO, the 9 members of the group leadership team, and approximately 50 senior leaders. The move aims to achieve an exceptional financial and sustainability performance.
- In addition to total shareholder return and cumulated adjusted earnings per share, performance criteria for the incentive plan will utilize an ESG scorecard driven by Nordea's 2025 sustainability targets. Nordea's 2025 goals include facilitating more than €200 billion in sustainable financing, ensuring that 90% of the company's exposure to large corporate customers in climate-vulnerable sectors are covered by transition plans, doubling the share of net-zero-committed assets under management, and reaching at least 40% representation by each gender at the top three leadership levels.

2. Bank of America launched a **new loan option to finance residential electrical vehicles chargers**. Due to growing client demand, the bank will offer consumers the option of financing their residential electric vehicle chargers alongside their auto loans. The bank already works with over 10,000 dealers and multiple electric vehicle manufacturers in the U.S., having also provided eligible staff members with $4,000 for a purchase or $2,000 for a lease of a qualified new all-electric passenger car or truck.

- Demand for the charging units, by which drivers charge their cars at home, is expected to grow in the U.S. to nearly 27.5 million by 2030, up from just 1.3 million in 2021, according to Mckinsey. At-home charging stations range in price from $200 to $2,000 in the country. Boosted by the 2022 inflation reduction act, electric vehicles on U.S. roads are expected reach 26.4 million by 2030, substantially higher figure than the 2.4 million at the end of 2021.
- In 2021, Bank of America set a goal to achieve net-zero greenhouse gas emissions in financing activities, operations and supply chain before 2050. As part of the company's commitment to deploy $1.5 trillion in sustainable finance by 2030, the bank mobilized and deployed approximately $250 billion of capital aligned with the United Nations Sustainability Development Goals (SDGs) in 2021.



3. BMW could **reach a 50% target of fully electric vehicles sales earlier than 2030**. The carmaker also shared plans to invest €800 million in a Mexican electric vehicle production site and battery assembly facility. Besides the positive environmental implications from accelerating its ramp-up of e-mobility, the move also has positive social connotations as it will create 1,000 new jobs.

- The company had recently announced an investment of $1.7 billion in the expansion of a production site in the U.S. This includes $1 billion for production of electric vehicles at the BMW's U.S. plant and $700 million for the construction of a new assembly centre for high-voltage batteries. By 2030, the BMW group aims to build at least six fully-electric models in the U.S.
- The Mexican production site holds BMW's first paint shop to operate without producing process wastewater. The water required for the painting process is treated and then reused. In addition, the plant sources only green power, which it generates itself at a more than 70,000 m2 solar power installation on the plant grounds, supplemented by electricity from an external solar farm.