



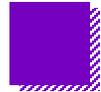
ESG in Banking

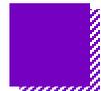
Sostenibilità come fonte di Valore

Goffredo Amodio

13 Luglio 2022

AGENDA

 **SUSTAINABILITY VALUE MANAGEMENT IN FINANCIAL SERVICES**

 **ESG CURRENT AND FUTURE VALUE**

 **EXAMPLE “INDUSTRY VALUE AT STAKE”:
FASHION DEEP DIVE ON CIRCULAR ECONOMY**

 **STEERING MECHANISMS ARE A NET ZERO ENABLER**

 **ESG PROJECT GOVERNANCE EXAMPLE**

SUSTAINABILITY VALUE MANAGEMENT IN FINANCIAL SERVICES

THE NEED TO MOVE FROM ESG STRATEGIES TO IMPLEMENTATION



Targets definition in line with the **2030 Agenda** for Sustainable Development is a **priority** in the **strategies of almost all Banks** but only **14% of FS CEO** defines targets with «**science based**» **criteria**



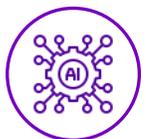
67% of CEO in **Financial Services defined** an **ESG Strategy** but **only 8%** owns **business models and advanced solutions** to address and monitor the sustainable transition



More than other industries, **FS** shows **relevant challenges** in **collecting and measuring ESG data** along **supply chains**, especially for **SMEs** (**70% of CEOs** see it as a barrier to ESG integration)



Over 50% of **CEO FS** performed a scenario analysis and **is planning investments** to proactively address **climate risks** but **only 10% integrated** them into the **business strategy**



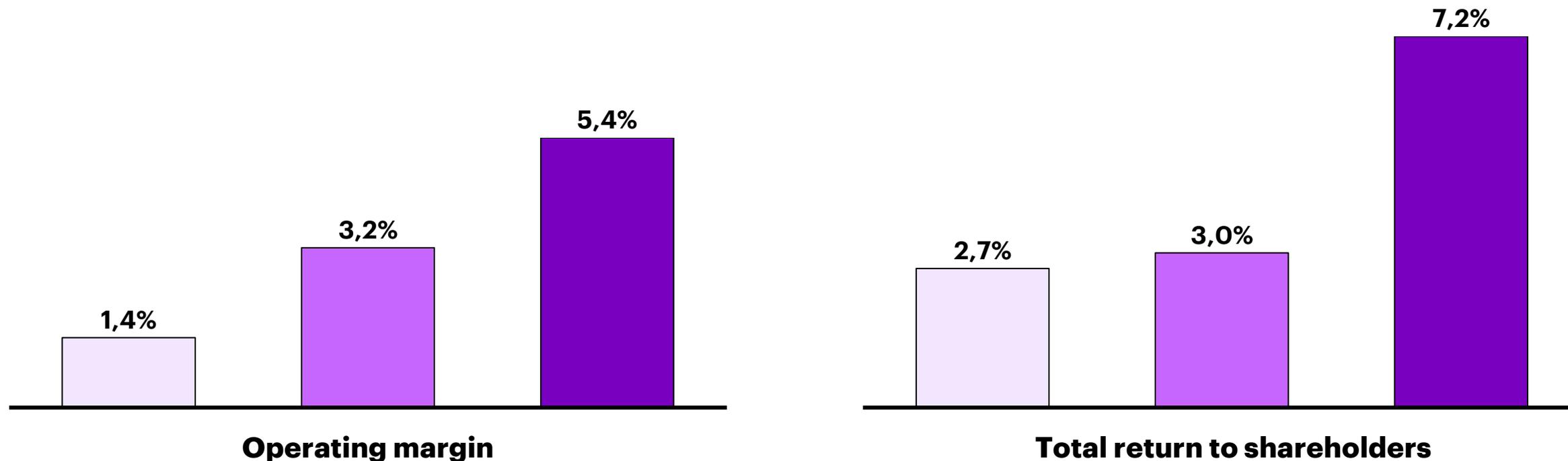
Artificial Intelligence, Remote Operations and **IoT** are the most impactful **technologies** to **accelerate the integration** of **Sustainability** in the business (opinion of **3 CEO FS out of 4**)

ESG CURRENT AND FUTURE VALUE

COMPANIES WITH HIGH ESG PERFORMANCE REPORT BETTER FINANCIAL PERFORMANCE, GIVING INVESTORS THE OPPORTUNITY TO OBTAIN A LONG-TERM REWARD

Percentage-points premium over companies with low ESG performance, annual average 2013-2018¹

- Companies with medium ESG performance
- Companies with high ESG performance
- Companies with consistently high ESG performance



¹Research analysis of Arabesque S-RAY® and S&P Capital IQ data. Number of companies analysed = 7,761. Outputs from panel econometric regression models with coefficients significant at the 5% level. Operating profit = earnings from continuing operations, defined as earnings before tax including unusual items less income tax expenses.

EXAMPLE “INDUSTRY VALUE AT STAKE”: FASHION DEEP DIVE ON CIRCULAR ECONOMY

FASHION INDUSTRY VALUE CAPTURE OPPORTUNITIES



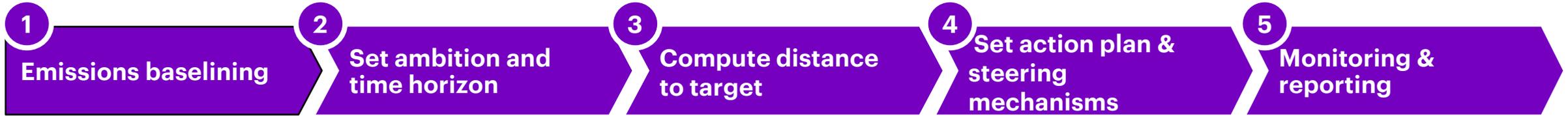
• **Value at Stake:**
ca. 10% of EBITDA

	BETTER PRODUCTS: PRICING POWER	BRAND VALUE: MARKET SHARE	BUSINESS MODELS: RESALE	FORECASTING: DELIVERING LESS	SOURCING: BUYING BETTER
Overview	Sustainable materials cost brands more but also translate to pricing power due to willingness to pay premiums by consumers	Companies embracing circularity and embedding it in their brand promise of being sustainable and ethical will preserve market share	Companies can take on used goods retailing to find second life for premium products and take share away from mass-market brands	Companies can predict demand better to reduce the cost of goods sold by producing less inventory	Sourcing recyclable materials, using byproduct from own and other industries not only reduce material intensity but could also lower costs
Value created	\$1-2 bn	\$10-20 bn	\$10-20 bn	\$5-15 bn	\$5-30 bn
	Price Premium	Market Share gain (loss avoidance)	New Sources of Revenue	Reduced Cost of Goods Sold	Reduced Cost of Material
Waste addressed	<i>Not available</i>	<i>Not available</i>	<ul style="list-style-type: none"> Lack of utilization across product use Lack of second-use options 	<ul style="list-style-type: none"> Material choice and sourcing Processing and manufacturing processes and technologies 	<ul style="list-style-type: none"> Material choice and design for recyclability End-of-use recovery Reverse logistics and textile recycling



PLANNING THE JOURNEY: NET ZERO EXAMPLE

THE NET ZERO JOURNEY BEGINS WITH BASELINING EMISSIONS DATA, AND IS A JOURNEY THAT INVOLVES THE FULL COMPANY



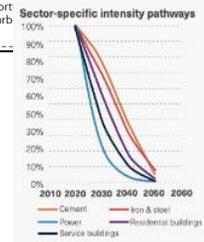
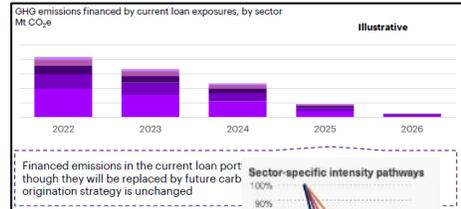
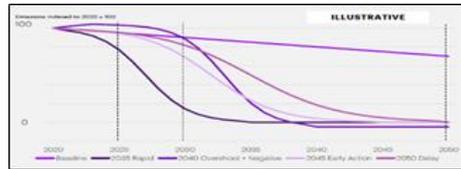
- Investee's and borrower's scope 1 and 2 emissions weighted by FI's exposure
- Own-operations scope 1 and 2 emissions

- Choose scenarios (often depends on standard applied)
- Time horizons (mid- and long-term)

- Indicates distance to target per asset class and sector
- Prepare for registration with initiative e.g., SBTi

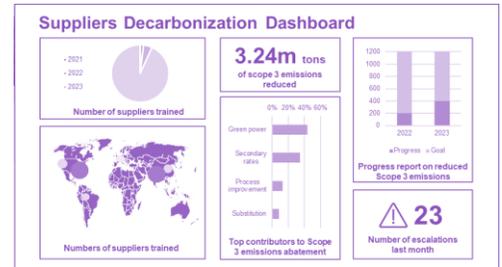
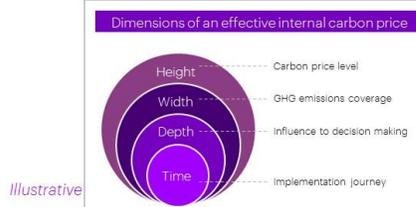
- Decarbonization strategies (policies, divestment, client engagement)
- Climate-solution financing (technologies for Net Zero emissions)
- Net Zero industrial plan

- Upgrading from manual to systems monitoring
- Information sharing via various channels:
 - Annual report
 - Supported initiatives e.g., PRB, CDP, TCFD
 - Customer information



Steering Mechanism by asset class matrix (example)

	EXCLUSION POLICIES	INVESTMENT	ENGAGEMENT	NET ZERO TRANSFORM FINANCING	GREEN INFRASTRUCTURE FINANCING	CARBON REMOVAL FINANCING
PROJECT FINANCE	-	applicable	applicable	applicable	applicable	applicable
MORTGAGES	List of sector exclude from financing and investing activities	-	applicable	-	-	applicable
LISTED BONDS	-	-	applicable	-	-	applicable
LISTED EQUITY	-	-	applicable	-	-	applicable
CORP LENDING	-	applicable	applicable	applicable	applicable	applicable

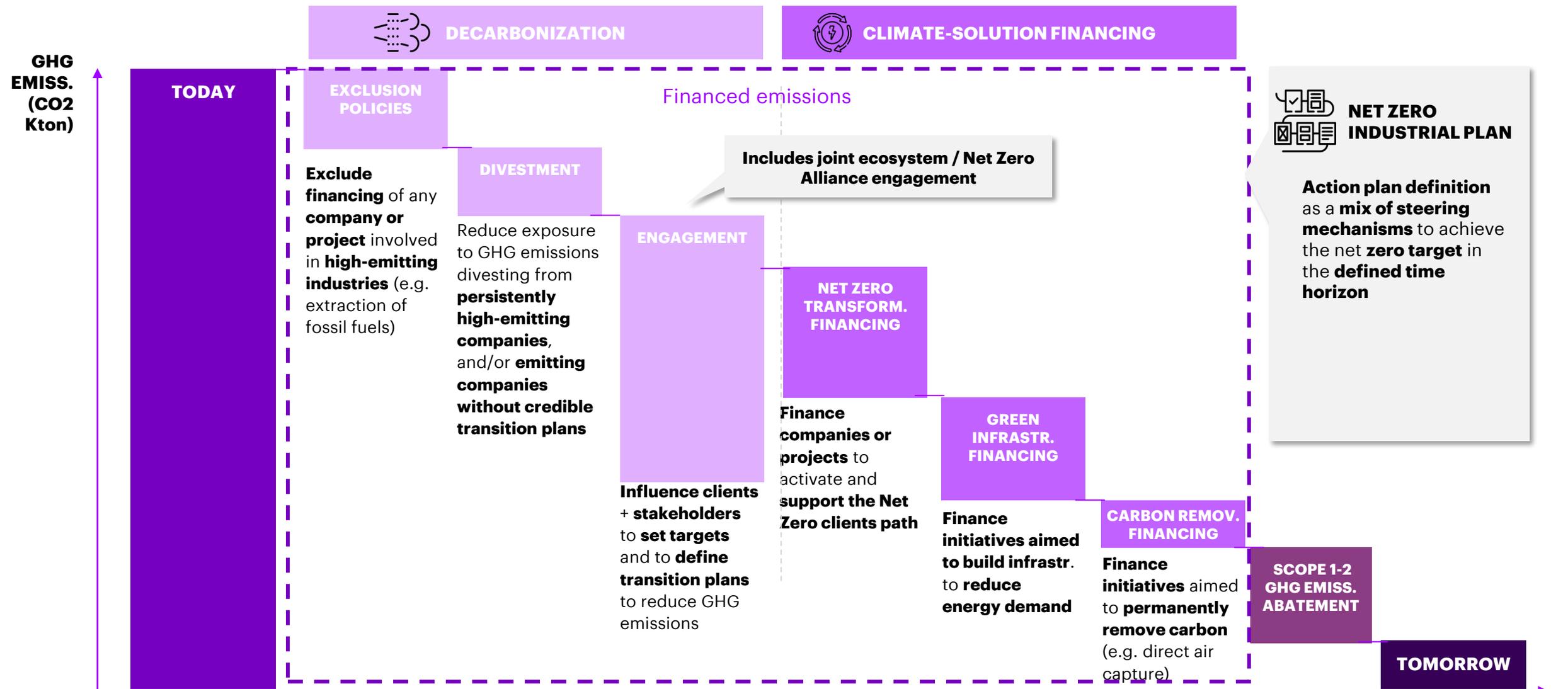


STEERING MECHANISMS ARE A NET ZERO ENABLER

SET ACTION PLAN & STEERING MECHANISMS: THE APPROACH

NET ZERO JOURNEY DRIVEN BY STEERING MECHANISMS

ILLUSTRATIVE



ESG PROJECT GOVERNANCE EXAMPLE

SET UP A UNIQUE GOVERNANCE PROCESS ENABLES ESG GROUP INITIATIVES
INTERACTION AND POSSIBLE SYNERGIES/ OPTIMIZATIONS

UNIQUE ESG GOVERNANCE PROCESS

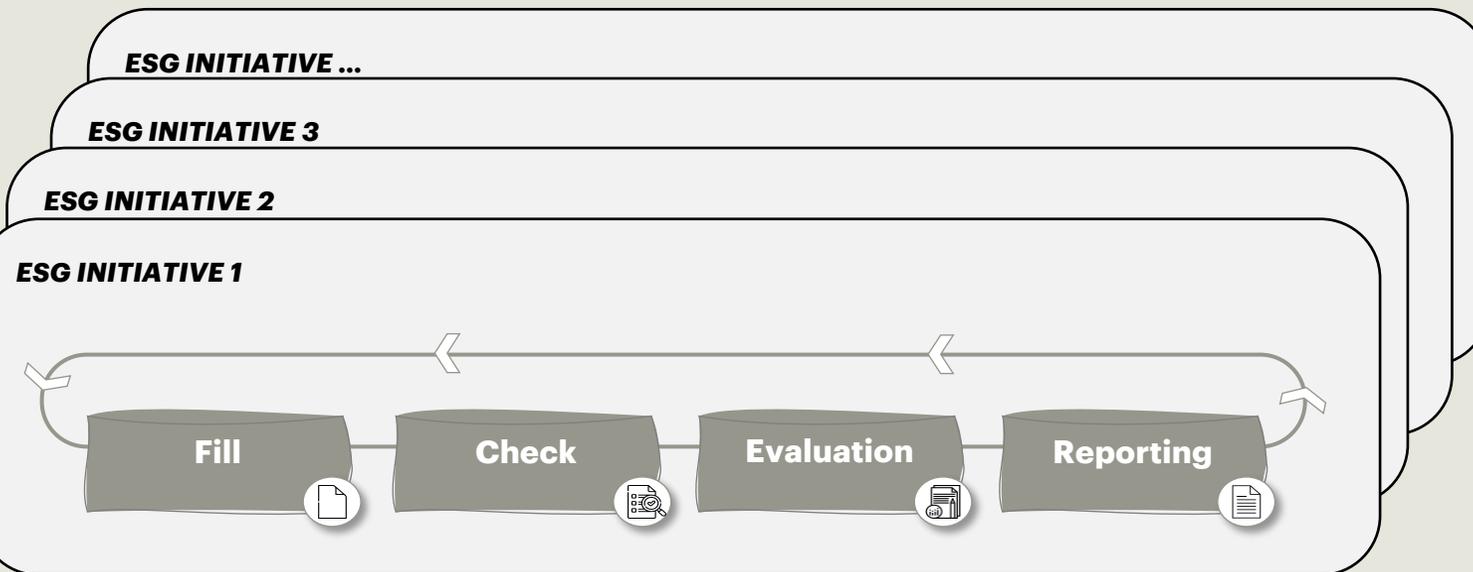
PROCESSES

ESG MANAGEMENT
AND GOVERNANCE

ESG PROJECT
MAPPING

CAPITAL
BUDGETING

...



USERS

ESG

DATA & ANALYTICS

BUSINESS MANAGERS

NON FINANCIAL
REPORTING

...

ACTIVATION OF SYNERGIES AND OPTIMIZATIONS

