

The background of the slide is a close-up photograph of a tree trunk. The bark is dark and heavily cracked, with a prominent radial crack running through the center. A small, vibrant green sprout with three leaves is growing from the crack, symbolizing growth and resilience. A red rectangular box is overlaid on the left side of the image, containing the main title in white text.

Pianificazione strategica e definizione degli obiettivi: come integrare la componente ESG?

Dicembre, 2021

Giulio Naso – Bain & Co.

The increasing relevance of ESG topic into the Companies' Corporate strategy

Companies show increasing commitment toward ESG principles¹

99%

Of CEOs believe that **sustainability** is important for the **future success** of their business

88%

Of CEOs believe that the **economic system** needs to be re-focused on "**fair growth**"

82%

Of CEOs own themselves accountable to **leave a sustainability mark** as part of their mandate

96%

Companies* publishing a sustainability report in 2020

Stakeholders are asking for greater disclosure level on ESG

Investors



Including sustainability as driver for target selection

Institutions



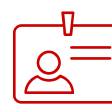
Raising the minimum level of disclosure on ESG

Clients

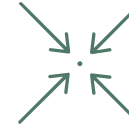


Preferring sustainable goods and services

Employees



Considering ESG profile to evaluate employers

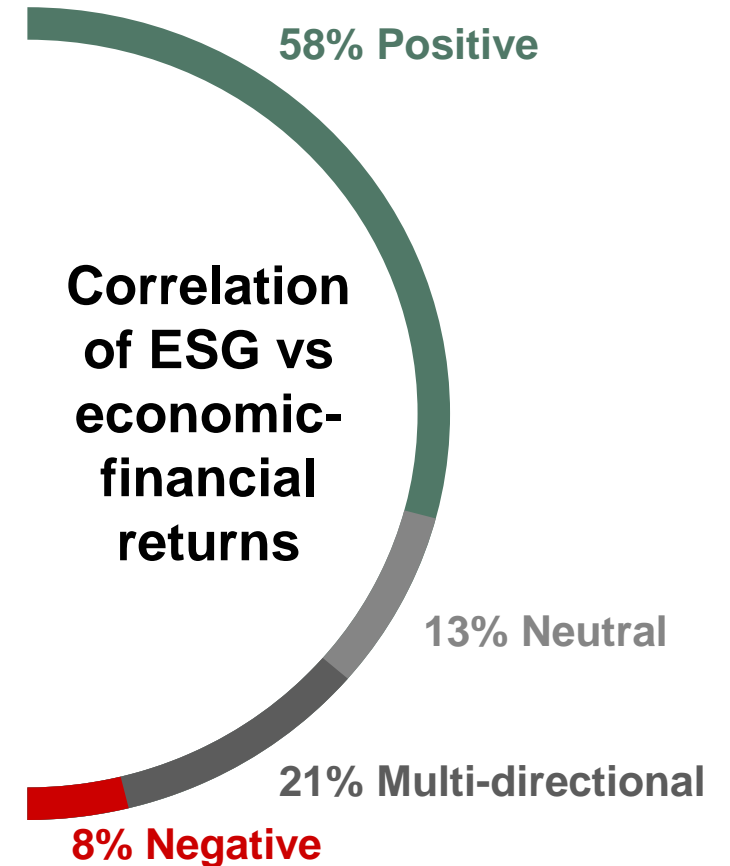


70+
ESG rating agencies

10+

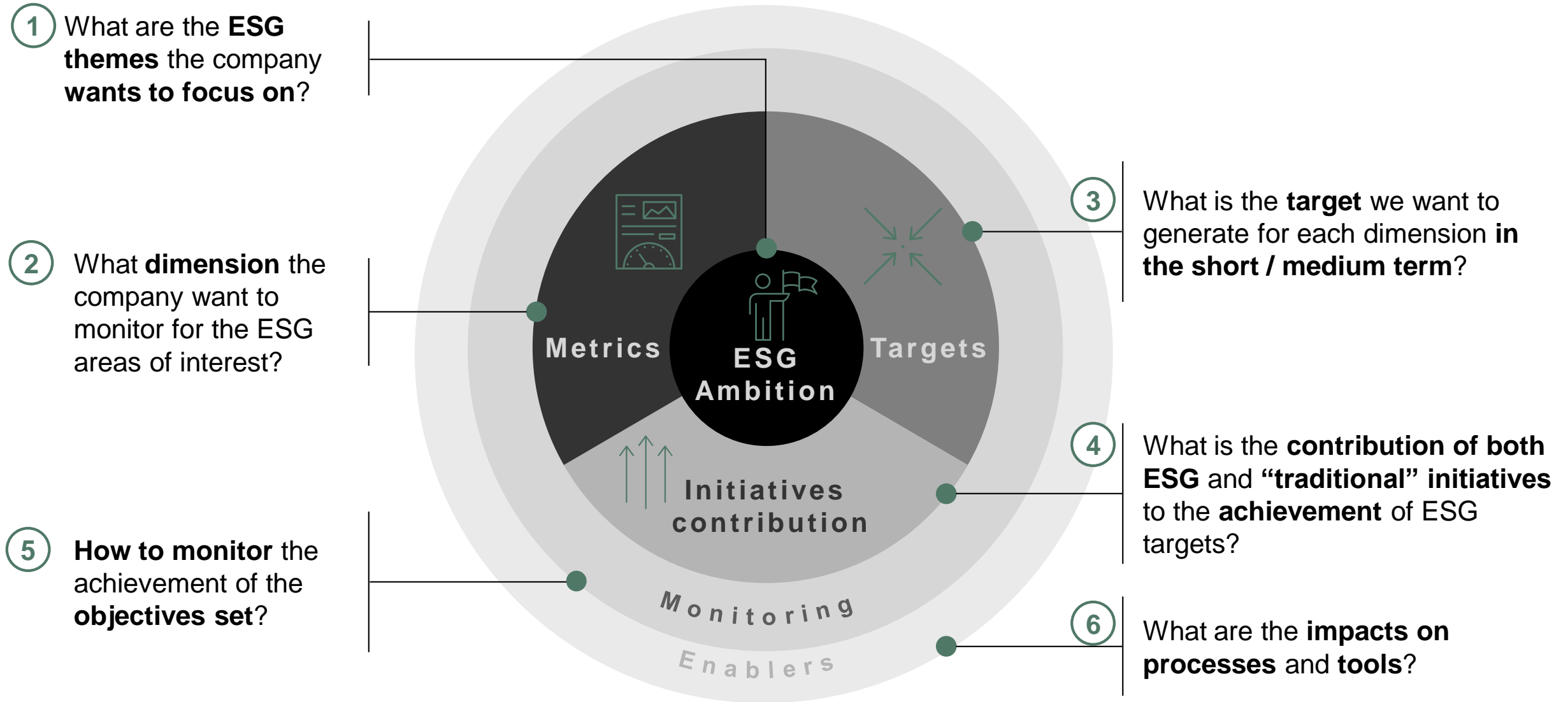
Standards for sustainability reporting

Companies able to embrace sustainability are seeing a return



Source: (1) KPMG ICRR Survey 2015; UN Global Compact-Accenture CEO Study on Sustainability; PwC 19th Annual Global CEO Survey; Note: (*) Among the 250 largest worldwide Companies by revenue

ESG-impacts planning & monitoring is focused on six key questions





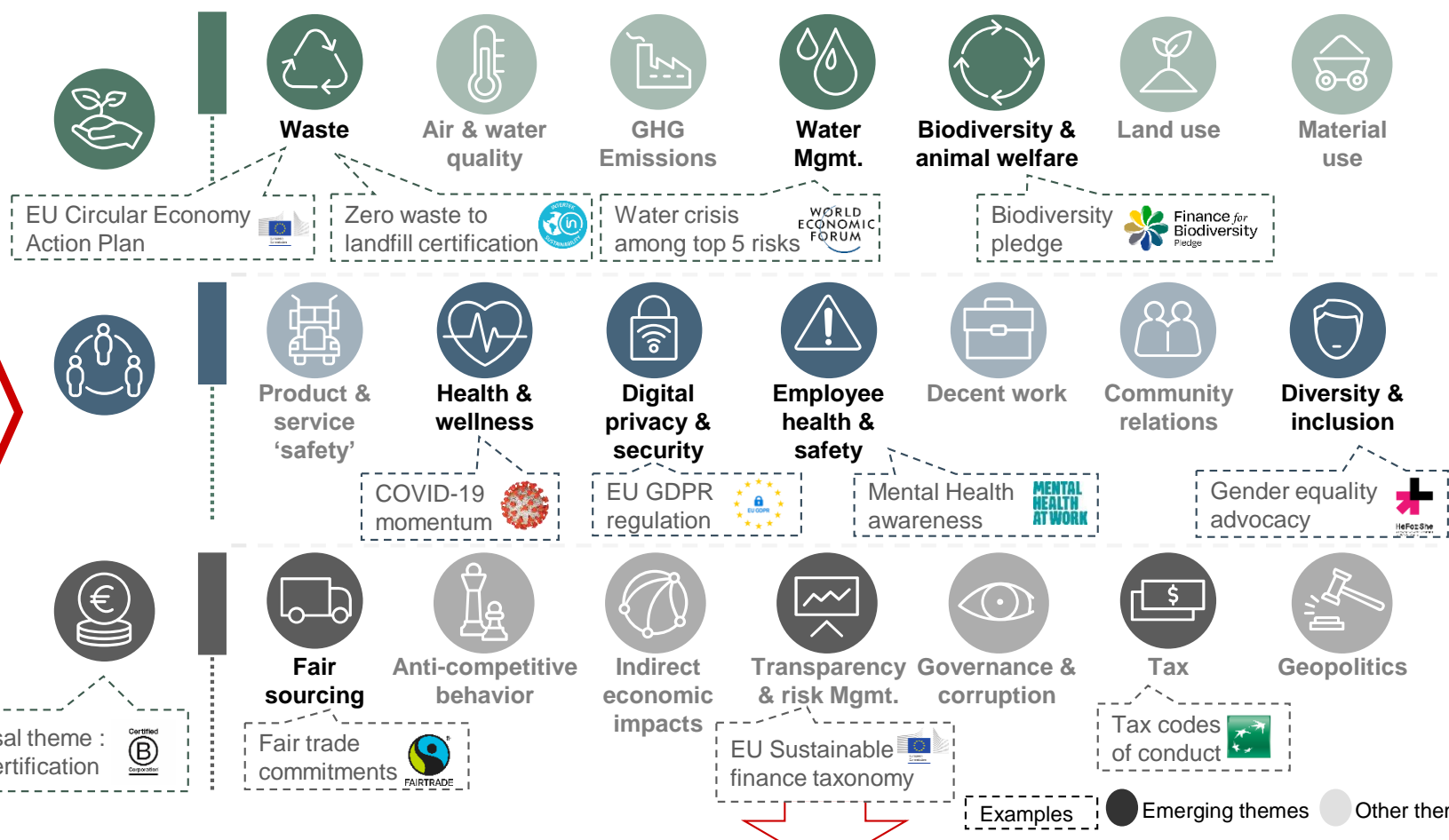
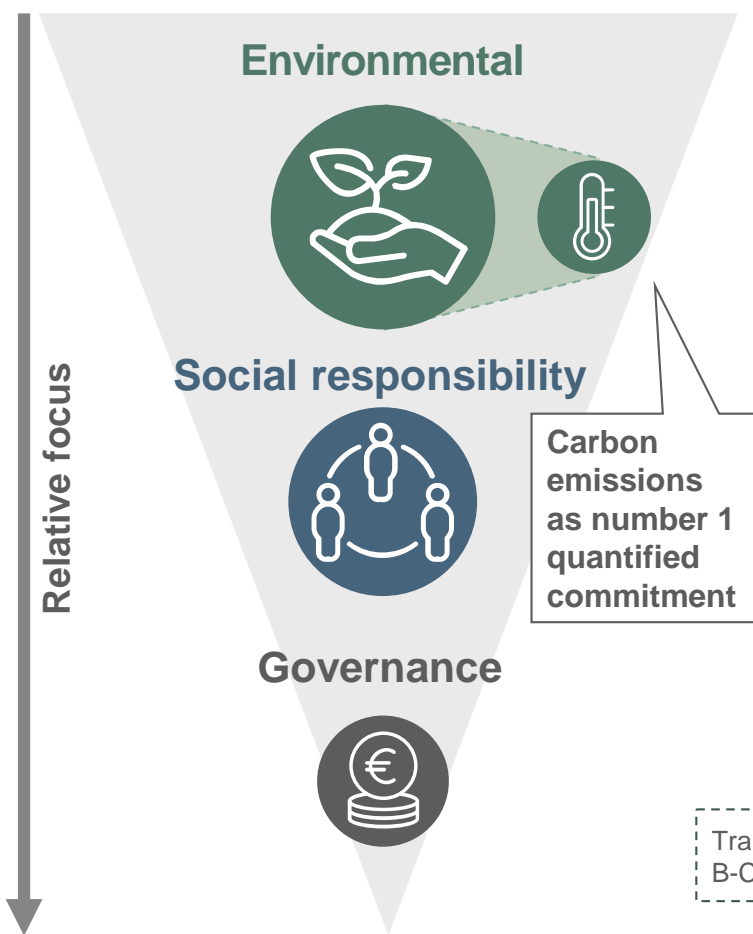
ESG ambition should translate into a limited number of priority themes, focusing not only on the Environmental dimension but also on other emerging topics

ESG AMBITION AND STRATEGY

/ NON-EXHAUSTIVE

Today : Main focus on carbon

Tomorrow: Expansion to full ESG spectrum



Anticipated expansion from carbon to full ESG themes



The design of ESG KPIs / metrics follows 3 distinct needs of the Bank

ESG KPI / METRICS

Defining the list of KPIs to be monitored, the design is determined by three different types of factors



Alignment to requests from regulator / rating agencies



- **KPIs " required" by the regulator, "must-have"** to ensure positive positioning vs. rating agencies

Alignment to Bank's ESG ambition



- **KPIs as a natural consequence of the strategic ESG choices / initiatives** undertaken by the Bank

Alignment to market best practice



- **KPIs defined in line with "standards"** set by market best practices

EXAMPLES

EBA Pillar 3 disclosure - Sectorial Carbon footprint

Joining the Net-zero alliance

Reducing the gender pay gap

Climate stress test BCE - physical risk exposure

Becoming the first world impact Bank

Being plastic free and / or paperless



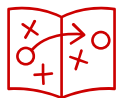
ESG targets setting take place in the same framework of the financial metrics

ESG TARGET



Playing field definition (floor or cap)

- Identification of an **acceptable framework for action, consistent with other prospective strategies and scenarios**



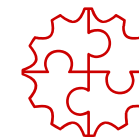
Strategy definition (specific target)

- Definition of the **target as the way of addressing the activity within the defined action framework**



Optimal asset allocation setting (if required)

- In view of the target, **potential development of the optimal asset allocation**



Processes/ rules alignment to the targets' achievement

- **Declining processes and specific rules** to effectively address the achievement of targets

Example: Green Asset Ratio target definition

Activities

- **Acceptable ratio range definition** in line with the **RAF setting**

- **Green Asset Ratio target definition within the range defined by the CRO**

- **Asset allocation optimization strategies** to guarantee the targets, taking into consideration the **portfolio starting point**

- **Lending processes alignment** to the predefined requirements and **dedicated rules** development for **specific sectors / portfolio**

Typical owner

- Owner: **CRO**

- Owner: **P&C**

- Owner: **Lending Strategies**

- Owner: **CLO**



Net-Zero Banking Alliance example: the membership implies the commitment to set long-term Net Zero targets and the need to define the “pathways” to reach them

ESG TARGET

The Net-Zero Banking Alliance commitment

- **Transition** all operational and **attributable GHG emissions** from **lending and investment portfolios** to align with pathways **to net-zero by mid-century**, including CO2 emissions reaching net-zero at the latest by 2050

Target Definition

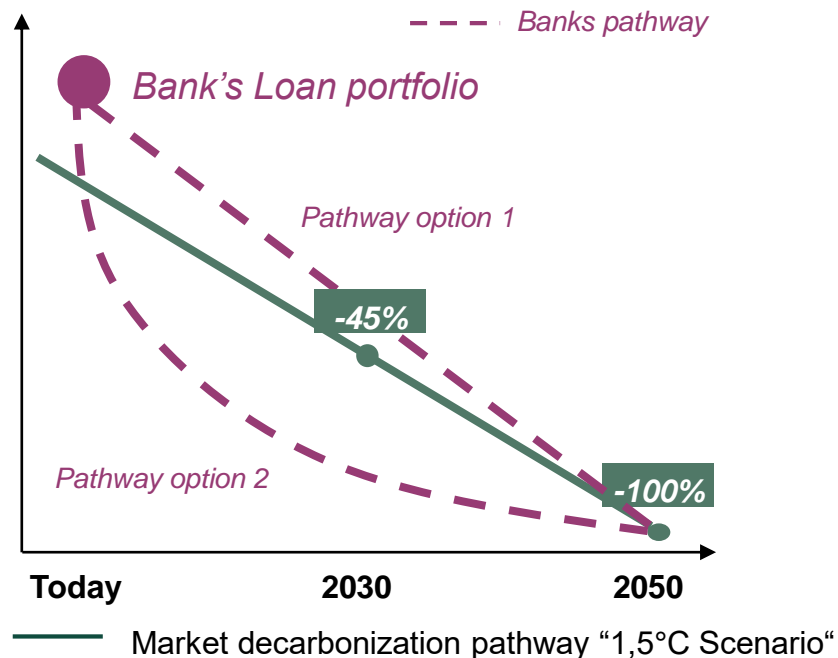


- **Banks shall set**, at a minimum, a **2030** (or sooner) and a **2050 target**
- Further intermediary targets shall be set **every five years after the initial** (2030 or sooner) **interim target**
- Long-term and interim targets shall be **based on widely accepted science based decarbonization scenarios**

Illustrative portfolio assessment



GHG emissions intensity (kg CO₂/unit of output)



Strategic Questions



- What is the **Bank’s portfolio decarbonization pathway** aligned with the “-1,5° Scenario”?
- Should the Bank **set more ambitious / demanding targets** to anticipate NZ2050 targets? (e.g. -55% in 2030)



After set the ambition and the “trajectory”, the Bank needs to quantify ESG contribution from ESG and “standard” initiatives

ESG CONTRIBUTION FROM INITIATIVES

DEFINITION OF DEDICATED BUSINESS CASE FOR ESG INITIATIVES



Project categorization



Differentiated business case by type and size



Minimum set of information required

INCLUSION OF ESG KPIs IN THE «TRADITIONAL» BUSINESS CASES

Standard Initiative **OR** Product/ Services

Qualitative **OR** Quantitative

Persistent **OR** Short-term

Positive **OR** Negative

Manageable **OR** Structural

Real case in the next slides



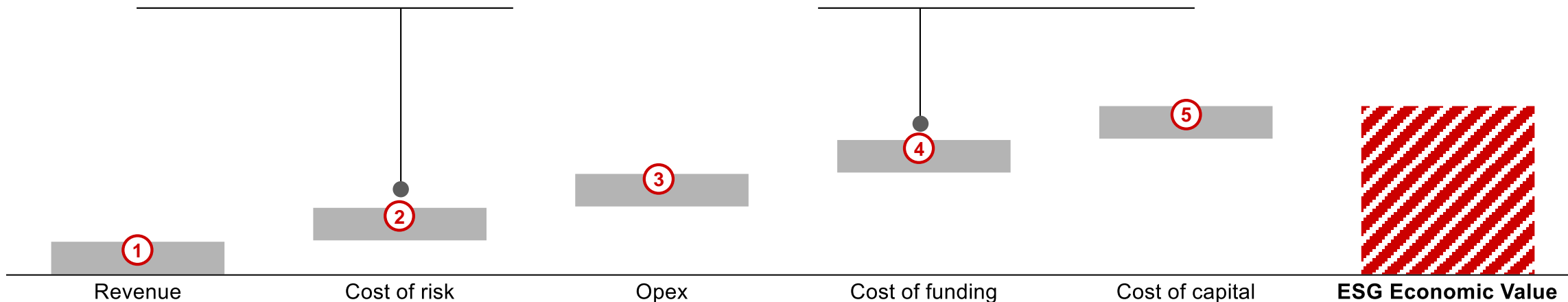
Business Cases not only allow to assure the respect of the targets, but can quantify the significant value creation potential of the ESG strategy

ESG CONTRIBUTION FROM INITIATIVES

/ BAIN ESG VALUE CREATION FRAMEWORK

- **Lower CoR:** banks with a better sustainability profile have a cost of risk > 25% lower than the market. Variance can be higher for banks that do not carefully manage risk associated with climate change

- **Improved debt capital market access:** e.g. improvement through both traditional and sustainable bonds including potential 20-50 bps reduction in cost of funding, resulting from higher level ESG rating



- **New business opportunities:** along with new products, banks can benefit from innovative new opportunities (e.g. advisory desk)
- **Better NPS scores:** a distinctive ESG profile strengthens relations with customers and can lead to more promoters, who are 1.7 – 2.2x more profitable

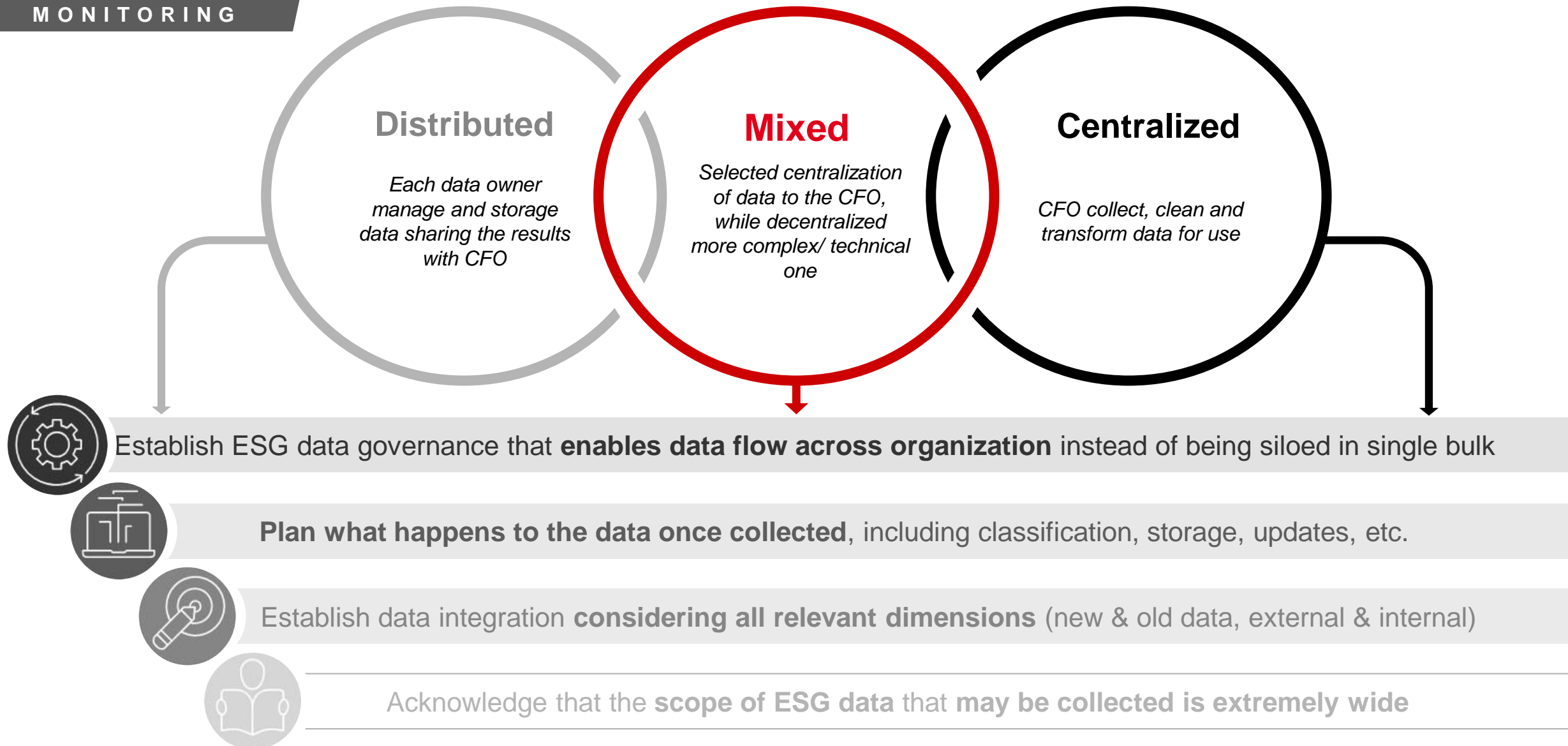
- **Resized cost base:** ESG transformation can represent an opportunity to completely rethink internal consumption models and bring efficiencies up to 5-10% on operating costs

- **Improved share price performance and access to capital markets:** ~50% of asset managers already incorporate ESG factors into investment decisions, a share quickly growing



Alternatives and designing principles when defining the **Governance model**

MONITORING





Evolving P&C processes does not mean disrupting ordinary ones but working to create widespread awareness among all the stakeholders involved

ENABLERS

PROCESSES

Focus on next slide

Strategic planning

Strategic guidelines identification



Definition of ESG Purpose / Ambition / Strategy



Translation of ESG ambition in KPI / metrics

Top-down targets



Definition of ESG targets

Bottom-up target & negotiation



Quantification of ESG contribution from the initiatives

Commit



Integration of ESG performance targets into the traditional MBO system

Control



Monitoring of ESG performances

The **key logical steps** of **defining** and **monitoring** processes are **formally aligned** to the traditional **P&C processes**

The **new elements** concern:

- a** The areas of **discussion** and **negotiation**, typically not present in the **ordinary language** of the **actors involved** in **Strategic Planning & Budgeting** processes
- b** The **number of actors** to be involved **according to the complexity** of the **selected KPI**

Therefore, the **central issue** is the **creation of awareness** among the **actors involved**

Questions

