

ESG IN BANKING

Governance e modelli organizzativi

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Where companies fall short in their journey to sustainability

Hourglass phenomenon

Decision makers and junior staff are ready for change, but middle management lacks accountability and clear objectives and incentives for sustainability

Trade-off *mentality*

Executives see finance and sustainability as opposing forces or a trade-off *and* do not bring innovative ideas to find solutions.

Non-integrated/isolated

Companies fail to mobilize adequate and sufficient resources to adapt and capture new opportunities; Sustainability remains "on the sidelines" with insufficient influence

Bain Beliefs on the Sustainability Operating Model

OF

- 1 Sustainability functions or roles that drive most siloed progress**
- 2 Executives are not fully integrated and only discuss sustainability periodically**
- 3 Limited or no incentives for sustainability performance, despite sustainability ambitions**
- 4 Executives and junior staff are motivated to make big changes, but generally stick with the trade-off mindset.**
- 5 Sustainability area providing information on specific requests on key business decisions or processes**
- 6 Companies navigating the dark on sustainability issues due to lack of data, KPIs and irregular data updates**

TOWARDS

- 1 Sustainability teams that truly work cross-functionally and address specific problems in an agile way, solving and scaling**
- 2 Collaborative governance established between CEO and Board of Directors challenged by employees and external coalitions**
- 3 Incentives consistent with the sustainability strategy and objectives and implemented in the short and long term**
- 4 Sustainability management promoted by the CEO, leading by example, showing that there is no trade-off**
- 5 Sustainability as one of the drivers in decision making in key processes and involved throughout the process or decision**
- 6 Establish a data perimeter and integration system, link sustainability to decision-making, and leverage ecosystem partners**

Sustainability must be reflected in the six elements of the operating model: Financial Services Industry Best Practices

EXECUTIVE SUMMARY



Leadership and Governance

- The leadership **styles** of Executive Committee **members** are **complementary** and lead to high sustainability impact.
- **Sustainability Committees** the Board of Directors and the Executive Committee with the appropriate experience and expertise
- **Collaborative** governance actively involves workers' representatives in key meetings



Structure and responsibilities

- Clear responsibilities and accountability: control **of the center, or led by business units, or co-direction**
- Sustainability is **well integrated into** the organization and sustainability issues are addressed in a transversal and agile way
- **A Chief Sustainability Officer (CSO)** whose scope will depend **on urgency and internal capacities/resources**



Business Processes and Management

- Sustainability is a **key responsibility distributed across all business** functions, including product development, marketing, finance, treasury, risk, HR, public affairs, and communications and purchasing.
- Integration of sustainability into **key management processes and decision-making rights**



Objectives and Incentives

- All employees **have significant sustainability targets in environmental, social and governance indicators** and **are** incentivized to achieve those goals.
- Incentives **are set consistently:** applicable to all functions and integrated with short- and long-term objectives



Talent and culture

- Sustainability team with the **best talent and deep experience, investment in new capabilities** in the organization
- Sustainability leadership is seen as a **key hiring and retention tool**
- Mindset **focused on the** total value of the entire organization, without a trade-off between sustainability and financial considerations



Technology and data

- **A clear data** strategy, including an **intentional** data perimeter **defined in line with ESG KPIs**
- The **data is perfectly** integrated: with other data and in all UdN (not isolated in a department)
- **External ecosystem capabilities are actively leveraged by** drawing on strategic partners (vs. doing everything internally)

Leadership and governance: the governance wheels that define sustainability success

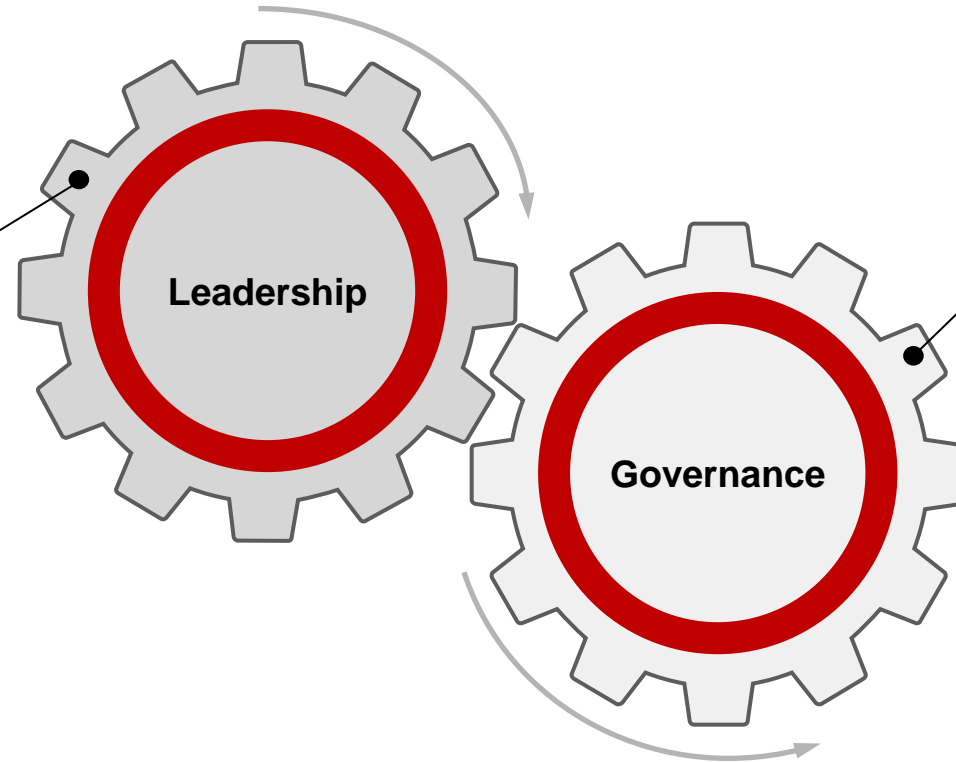
LEADERSHIP AND GOVERNANCE

"Leaders must push the boundaries of sustainability to drive radical change in impact over the next five years."

The support of **senior management** is the factor that most **contributes to the success of** sustainability in organizations

Sustainability success requires a combination of **leadership styles:**

- **Leader with purpose**
- **Activist/innovator**
- **Facilitator**
- **Pragmatic**



Boards and Executive **Committees** are expected to **push the boundaries of sustainability** in the coming years

Collaborative **governance best practices** are made possible by:

- Decision-making bodies with **clear responsibilities**
- Broad **internal engagement**
- **External** alliances and **coalitions** to bring the external perspective in place

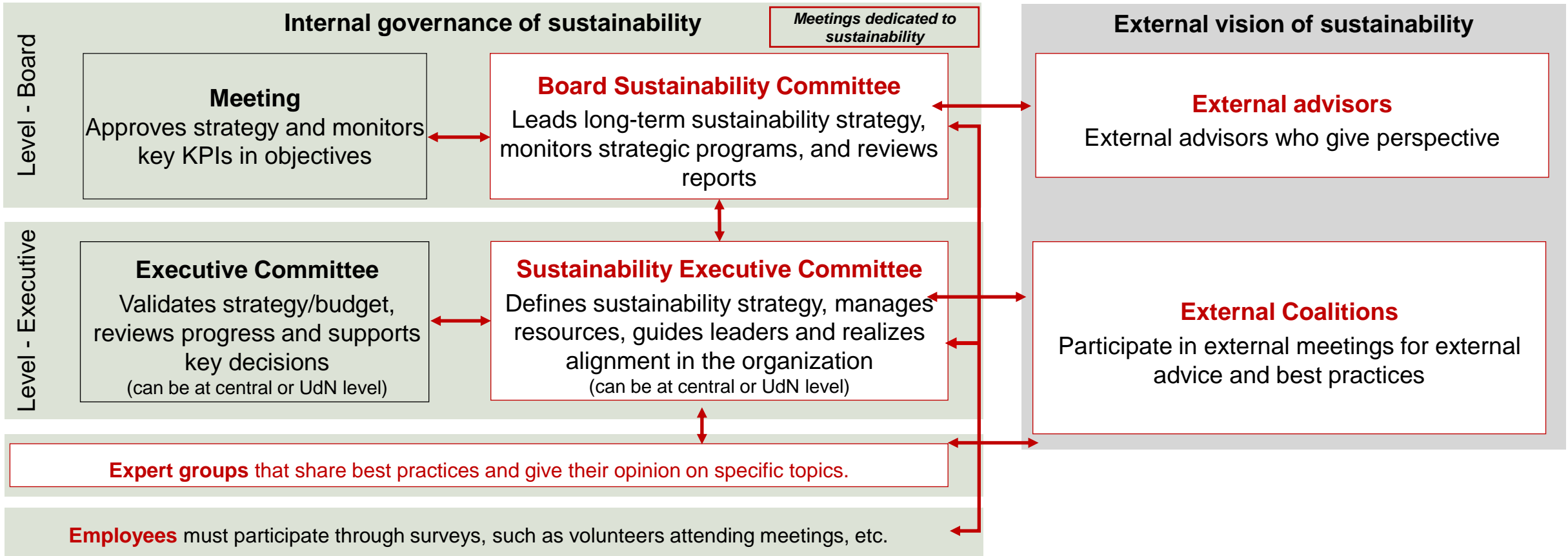
Leadership and **governance**: Embedding sustainability into the organization through internal and external governance to generate sustainable value

Internal governance through broad participation

Collaborative governance involves the Board and cross-functional teams or business units with clear responsibilities for sustainability integration

External collaboration through external advisory mechanisms and coalitions

External alliances and coalitions offer an external perspective on best practices and external strategic advice



We found 7 best practices for Board oversight over ESG matters



Types of committee



01

ESG Committee

Responsible for all ESG issues except risks; in some cases it's just Risk Committee

02

Risk Committee

Responsible for all risks, including ESG risks



Composition



03

Composition of committees

Composed exclusively of Board members, from 3 to all members



Main functions



04

ESG Strategy

Design, oversee, or approve the company's ESG strategy, including ESG commitments and goals, and implementation plans

05

ESG Risks

Identifying, managing and controlling ESG risks, including topics such as stress testing, defining risk appetite¹, implementation plans and response systems



Other functions



06

Disclosure of Information

oversee and approve ESG disclosures



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07

Established frequency

ESG topics should be in most Board meetings
The ESG committee must meet at least every 2 months

Note: 1) Risk appetite should be assessed and decided between ESG and Risk committees

We found 7 best practices for senior management oversight over ESG matters



Types of committee



01

ESG Committee

Responsible for all ESG issues except risks

02

Risk Committee

Responsible for all risks, including ESG risks



Composition



03

Composition of committees

Members of the Executive Committee (CEO, CFO, CRO, COO or CSO)
Directors of the areas involved in decision-making



Main functions



04

ESG Strategy

Propose, evaluate and implement the company's ESG strategy, this includes sustainable finance and investment issues, priorities and consistency between strategy and execution

05

ESG Risks

Definition and implementation of the ESG risk management system



Other functions



06

Commitments

Evaluation and decision-making of the company's commitments



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07

Established frequency

Meetings must be at least every 2 months

Thank you

