

ESG in the financial sector: don't be late to the party



ENVIRONMENT



SOCIAL



GOVERNANCE

DISCLAIMER

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**ESG is not only
environment and
is here to stay**

Whether you are a regulator, an individual financial organization, or a stakeholder, you may see ESG as an annoying hassle that merely ushers in new and costly regulations, compliance procedures, and disclosures. Or you may consider ESG as an opportunity that paves the way towards new and lucrative business developments.

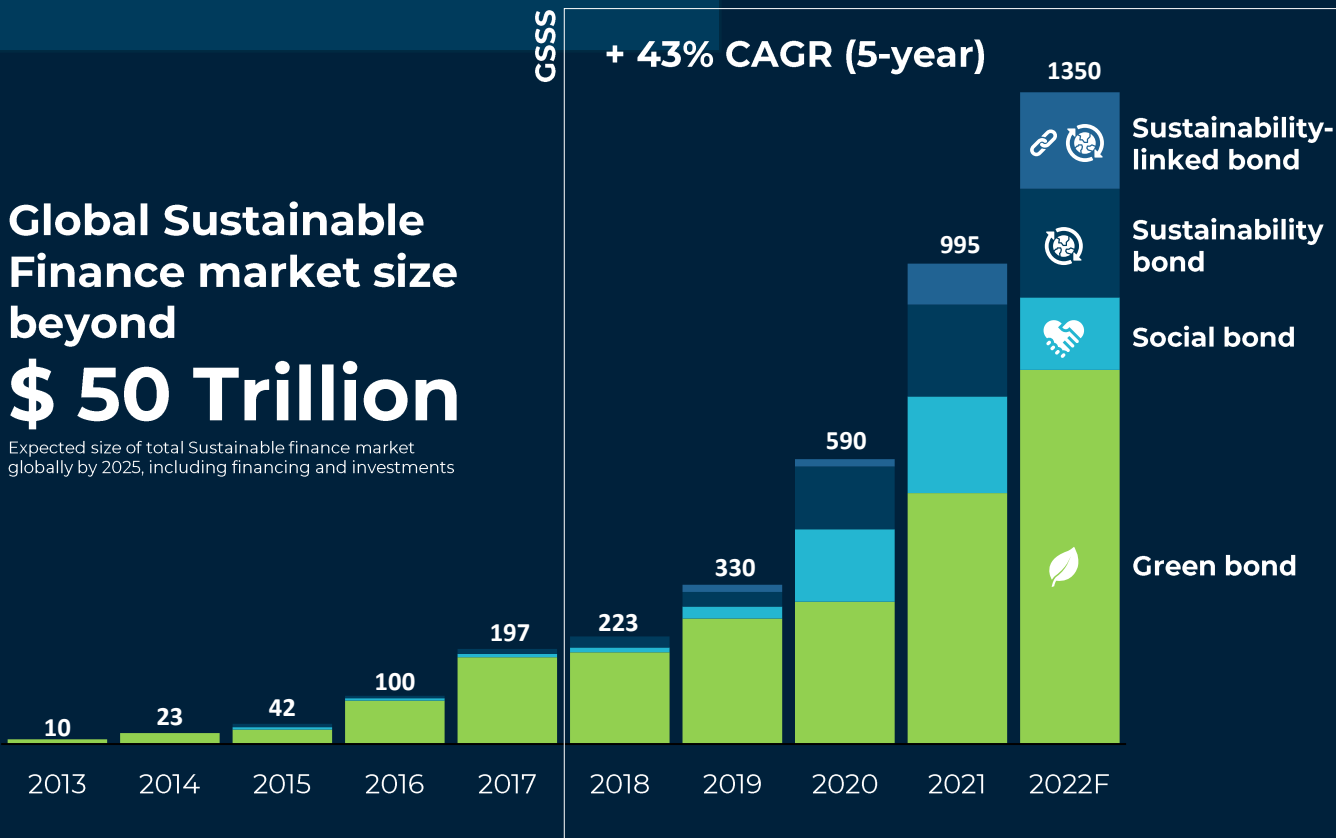
Regardless of how you feel, ESG is here to stay and should be addressed strategically and with the intention to make clear choices about the journey from compliance to commercial proactiveness, in the most favourable way possible for your company.

The ESG financing market is on the rise globally, at an increasingly rapid pace

Green, social, sustainability and sustainability-linked (GSSS) bond issuance, 2013-2022 (\$ Billion)

Global Sustainable Finance market size beyond \$ 50 Trillion

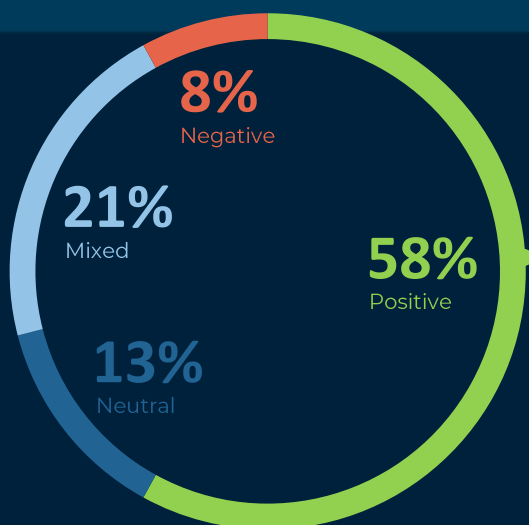
Expected size of total Sustainable finance market globally by 2025, including financing and investments



Source: Whiteshield, Bloomberg, Sustainalytics, Moody's, S&P Global Ratings. Values are approximate and rounded.

Sustainability is positively correlated to corporate financial performance

Correlation between ESG and financial performance for corporations (% of cases, 2016- 2020)¹



Drivers of performance improvement for Financial Institutions with high ESG scores

Increased cash flows

Better management of institutions' specific risks

Better management of sector risks

Source: Whiteshield, 1) Whelan et al. 'ESG and Financial Performance: Uncovering the relationship by Aggregating Evidence from 1,000 Plus Studies Published between 2015 – 2020', NYU Stern, research completed over 245 international studies, financial performance consider metrics such as ROE, ROA or stock price performance

ESG evaluation of companies and countries assesses how they are taking in hand and addressing:

- Environmental aspects, such as contribution to climate change through greenhouse gas emissions, along with waste management and energy efficiency. Given renewed efforts to combat global warming, cutting emissions and decarbonizing is become ever more critical.
- Social aspects, such as diversity, inclusion and employee wellness within the company, as well as externally, via support to underrepresented populations, positive societal impact and good labour standards across the supply chain. Companies that are well integrated with their local communities benefit from a 'social license to operate' with consent.
- Governance aspects, such as principles and rules defining rights, responsibilities and expectations between different stakeholders in the governance of corporations. A well-defined corporate governance system balances and aligns interests between stakeholders, on ethical conduct, tax strategy, fair supply chains, anti-bribery, anti-corruption programs, transparency, and can reinforce a company's long-term strategy.

Decide where to position yourself

In the ESG mature markets, higher expectations are putting ESG performance under stricter scrutiny as far as external perception, while in ESG emerging markets, performance is rewarded more generously. A player in a mature market has therefore more downside in terms of ESG perception in case of a delay in action vs peers, while in emerging markets acting earlier translates into immediate benefits also in perception.



Global level

UK and Central Europe, high performance is driven by strong ESG Governance (*key parameter for financial institutions*)

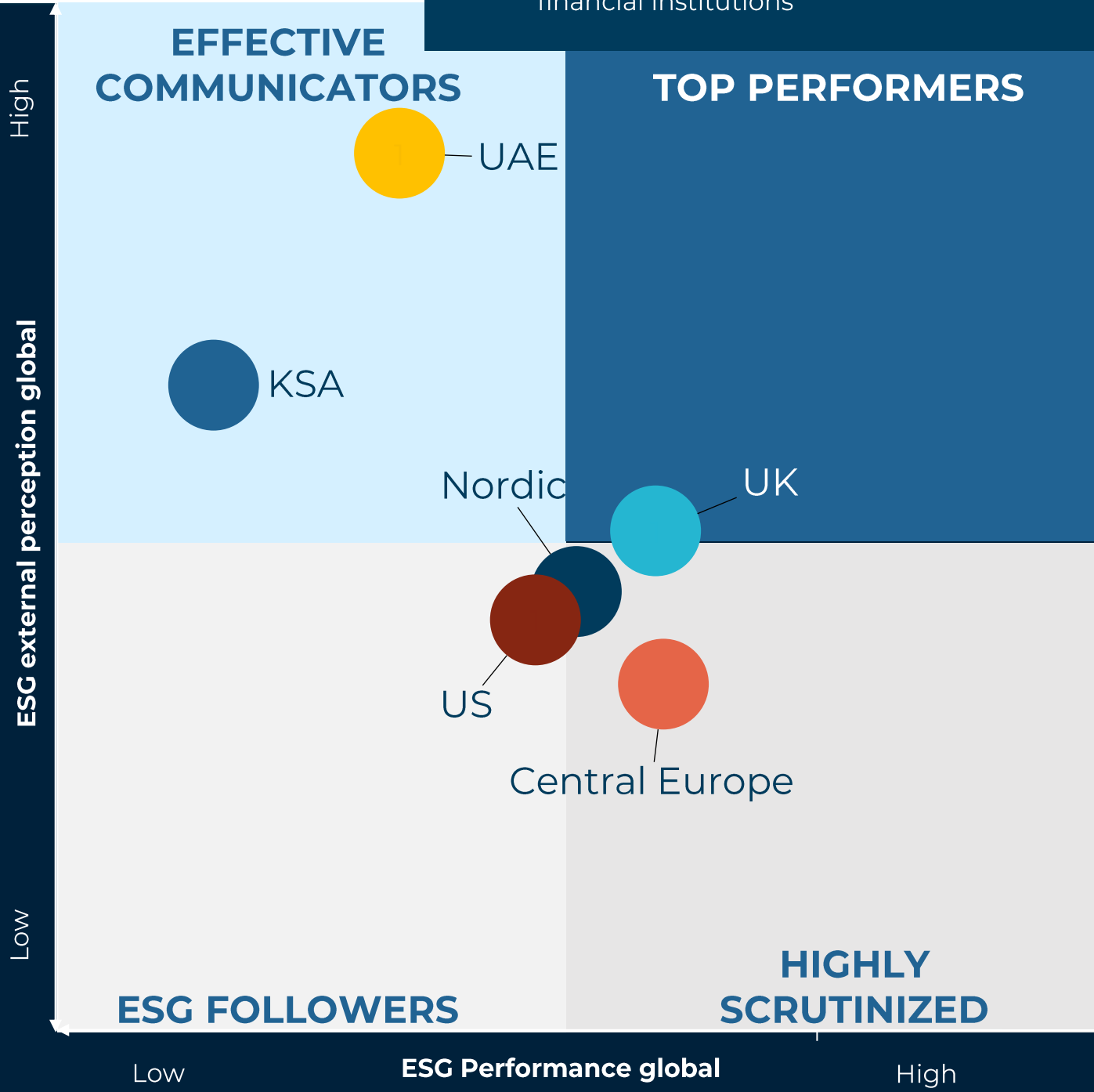
Middle East catching up on Social and Governance, yet still relatively behind on Environmental dimension

In more mature markets, ESG expectations are on the rise, with harsher scrutiny in terms of perception

ESG Resilience Index – Selected geographies

Globally, markets are quickly maturing, expecting more in terms of ESG performance

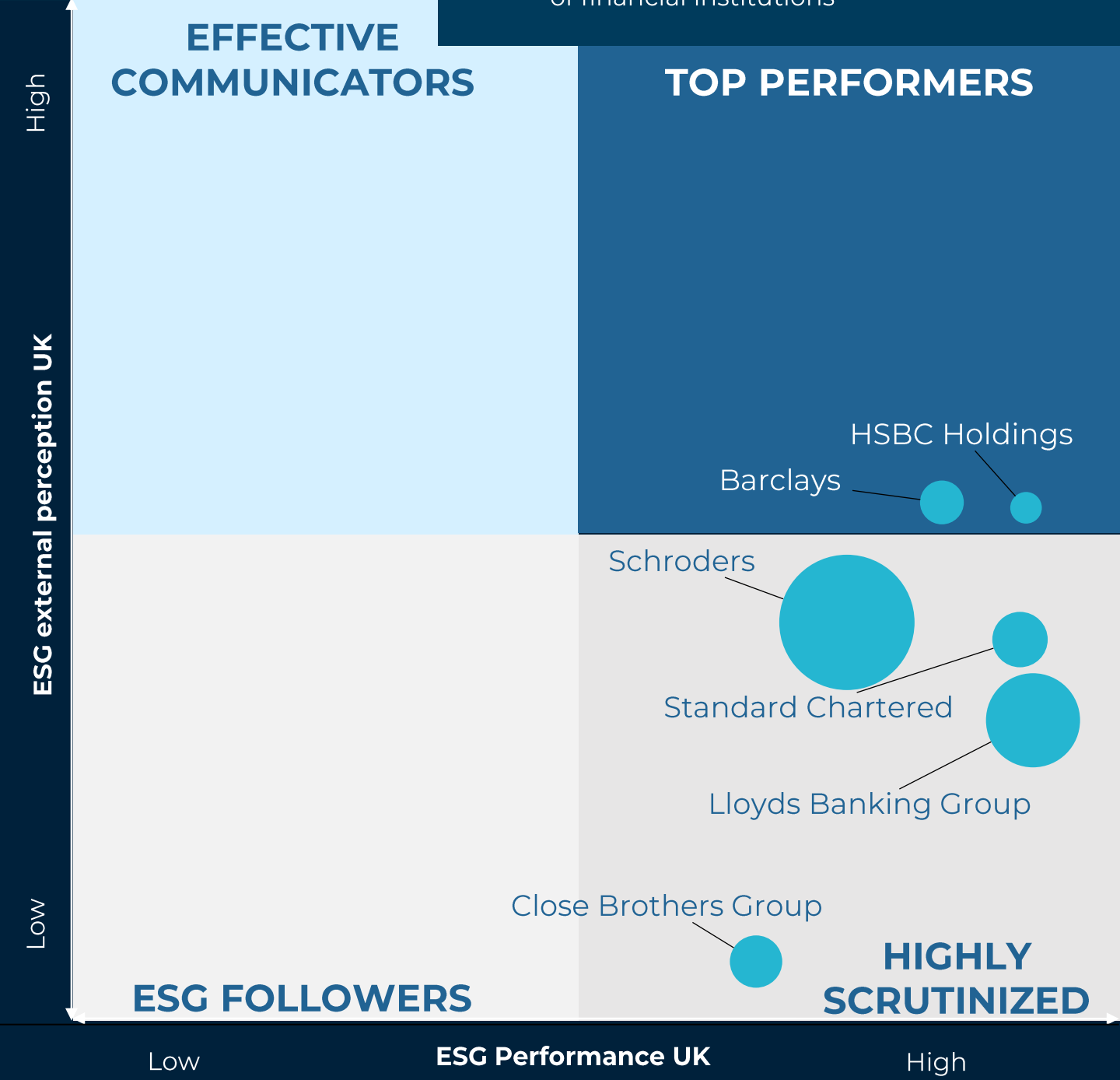
Between-country ESG assessment of financial institutions



ESG Resilience Index – Selected banks

At the country-level, UK financial institutions are top ESG performers in a context of growing expectations

UK: Within-country ESG assessment of financial institutions



ESG Resilience Index

Example - United Kingdom



Country level

In the UK, HSBC is leading on ESG due to performance on Social pillar

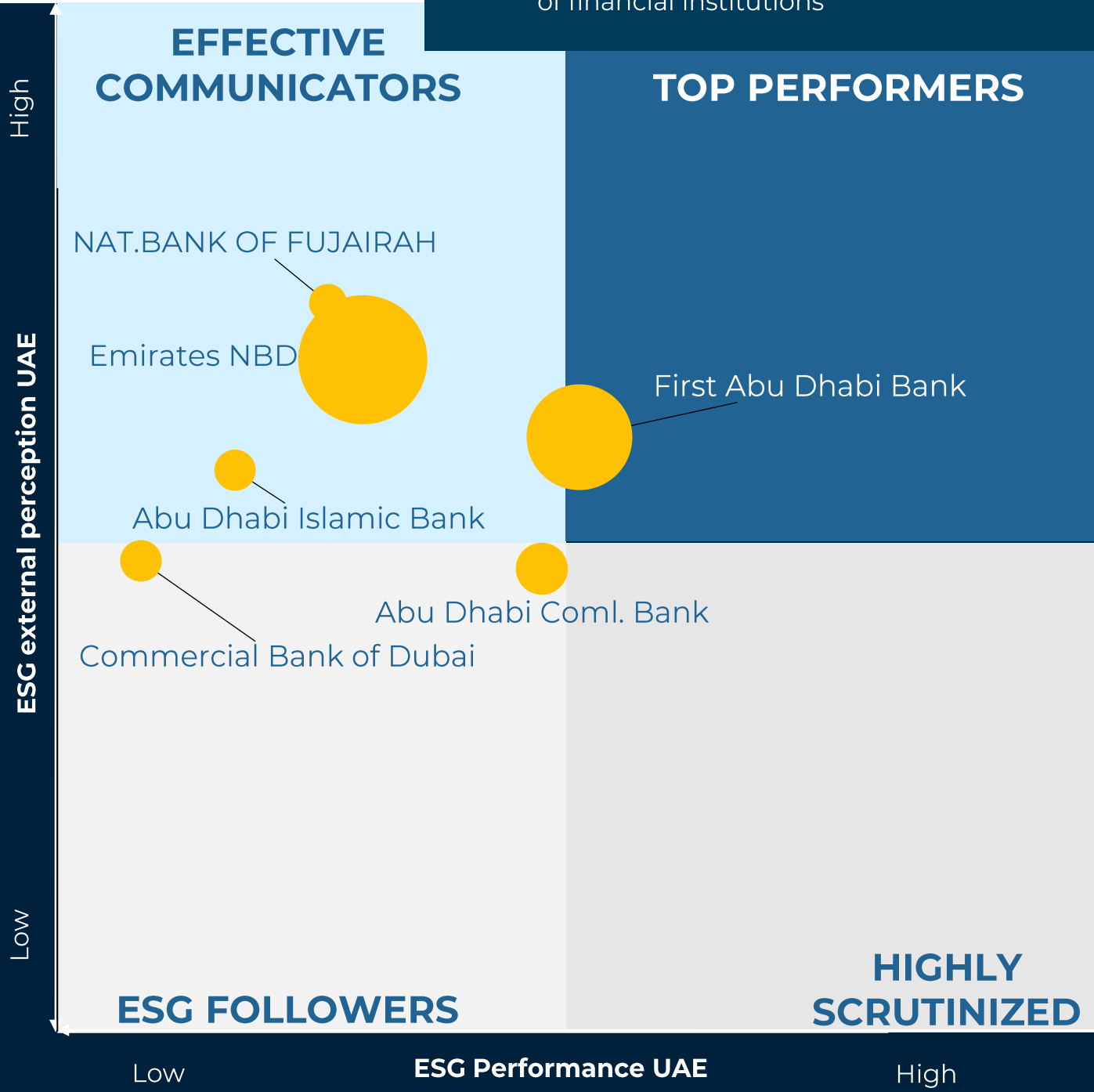
Close Brothers Group and Schroders have room to catch up on Social and Governance

UK banks are increasingly punished for smaller gaps in performance

ESG Resilience Index – Selected banks

At the country-level, UAE financial institutions should move quickly on ESG as to reap further perception benefits

UAE: Within-country ESG Assessment of financial institutions



ESG Resilience Index

Example - United Arab Emirates



Country level

In the UAE, time to act now on ESG not to play catch up with rising ESG expectations

First Abu Dhabi Bank strong leader mainly due to Governance performance

Room for more nimble banks to catch up on Environmental performance

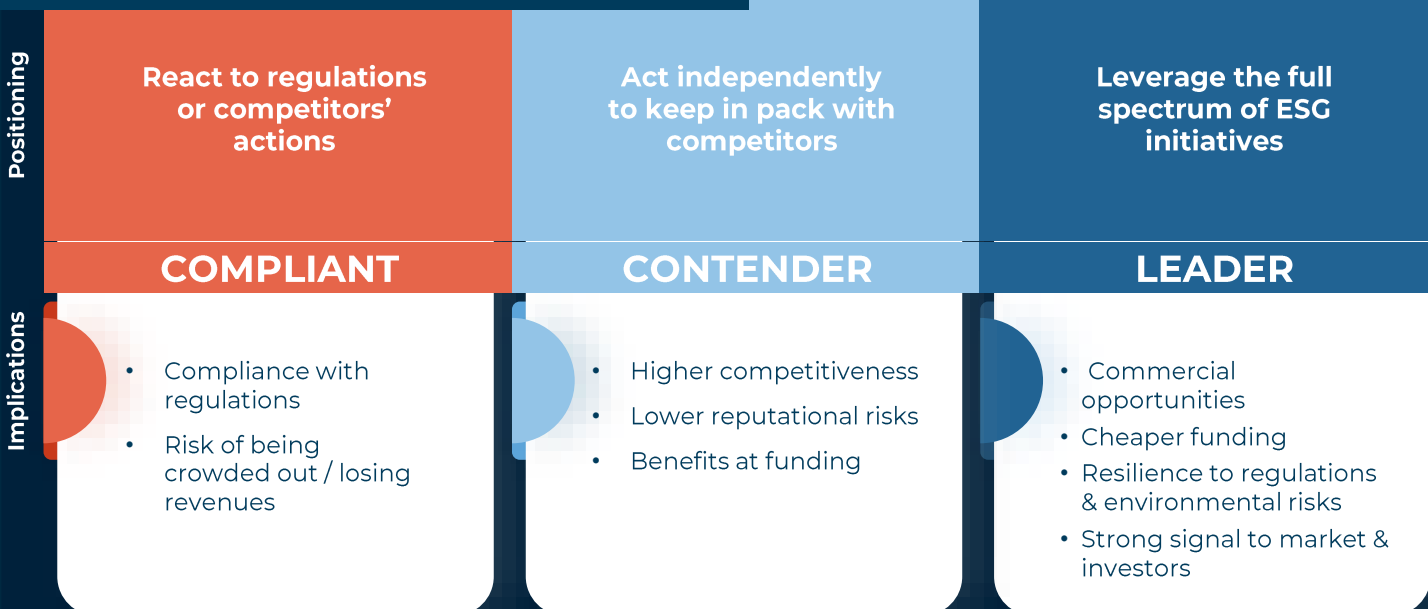
For the individual financial institution, there is an immediate need to decide how aggressively to integrate ESG imperatives into its strategy and activities.

Do they prefer to merely comply with the minimal regulatory requirements as they become mandatory in their jurisdiction?

Or do they choose to move faster, aligning with more rigorous standards and with investor and financial analyst ESG-expectations?

From “compliant” to a “leader” role to seize commercial and funding opportunities and to avoid playing ‘catch up’

ESG Positioning Options

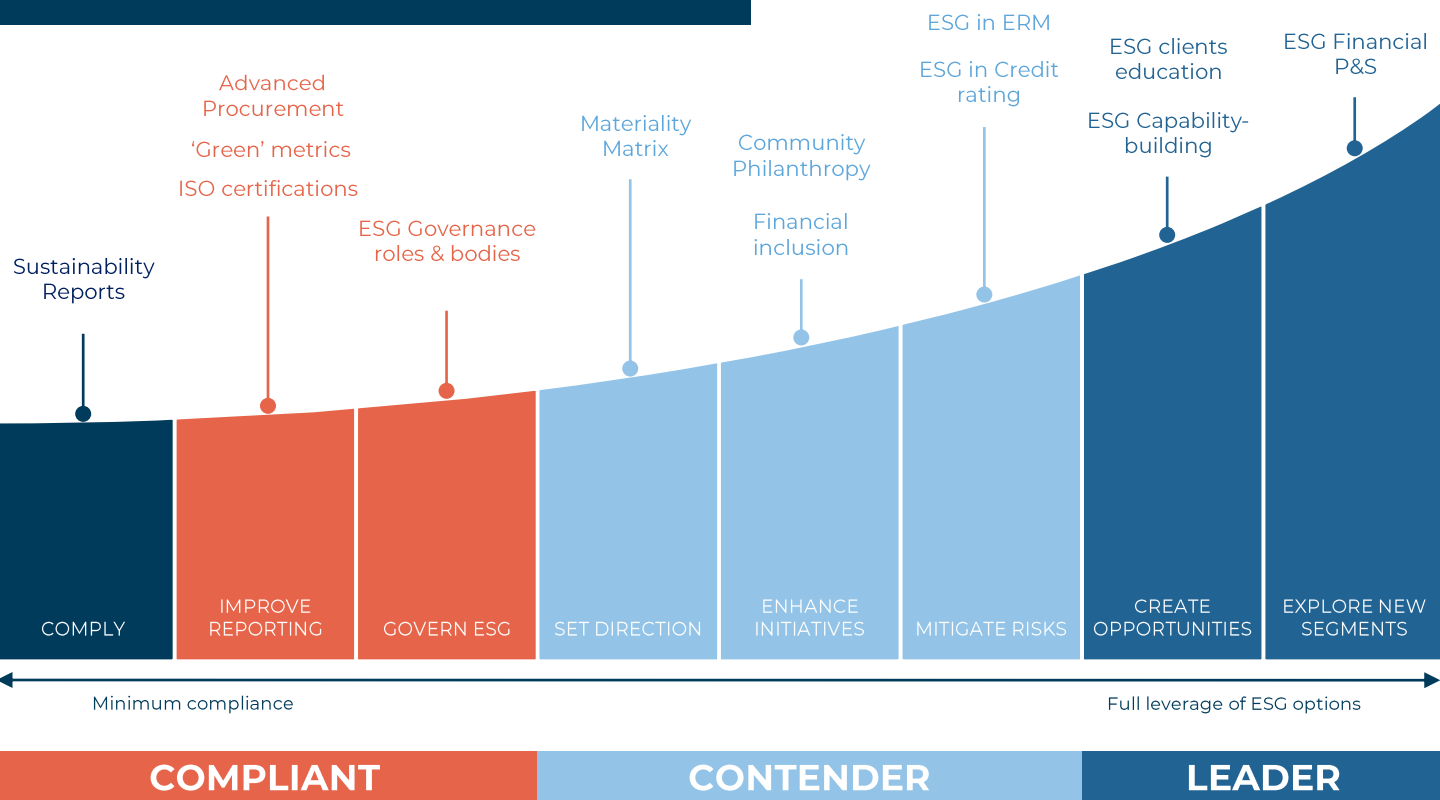


You need to start the journey now

Much like any other strategic choice, ESG is about market positioning, defining the strategy, implementing, and monitoring it. One thing is clear though: not acting now, means almost certainly arriving late to the “ESG party”.

A set of ESG initiatives to move from “compliant” to a “leader” position

ESG Spectrum: examples of ESG initiatives

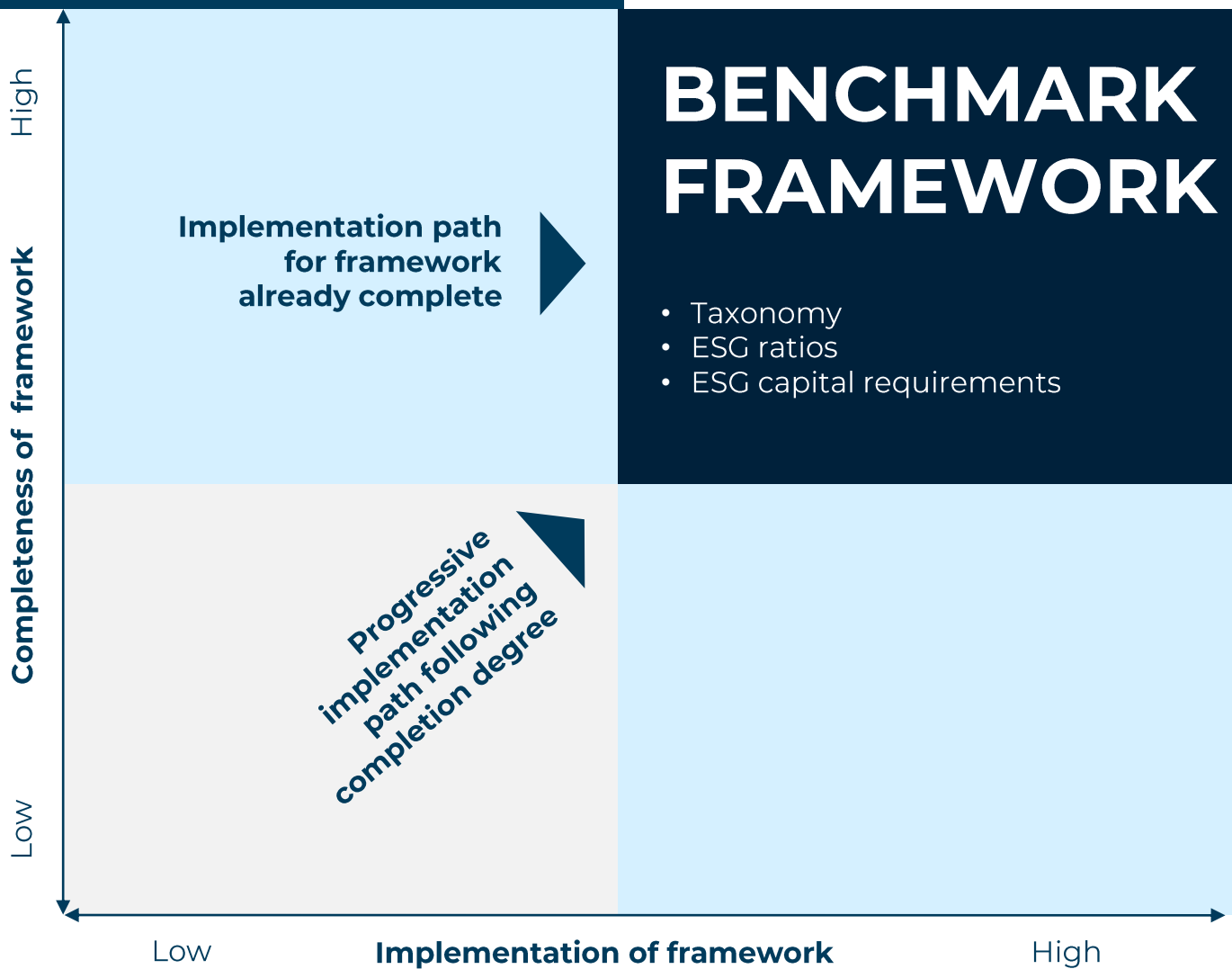


How regulators should move

European Central Bank's sustainability framework is currently the benchmark for other regulators

Potential paths of evolution for the adoption of Sustainable Finance frameworks

For the regulator, the main questions related to ESG are about the timeframe to introduce an ESG-compliant regulatory framework, balancing the rollout of recommendations versus regulations, and ensuring enforcement.



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