

BANKING RE- ENVISIONED

AN OPPORTUNITY TO LEAD
IN THE MAKING OF THE
MODERN ECONOMY



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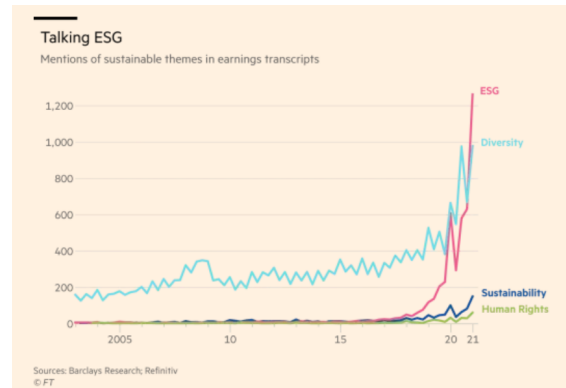


Section 1: Current issues and landscape

Issues and opportunity

Canada's banking sector can become a leader in the transition economy.

In Canada, the effects of climate change are being felt across the country, from extreme heatwaves in the East, rising sea levels in the Atlantic, retreating glaciers in the Prairies and frequent forest fires in the West¹. Although the Government of Canada has set ambitious goals to combat climate change, Canada remains in the top 15 emitters of carbon dioxide, with oil and gas extraction as well as transportation making up most of these emissions². Canada is also amongst the farthest to reach its Paris Agreement commitments and Net Zero targets of all G20 countries³.



Source: Barclays Research; Refinitiv⁴

We rapidly near the point of no return. Quick, swift and tangible action must be taken to integrate sustainability and Environmental, Social, Governance (ESG) factors into lifestyles, businesses, public spheres, and supply chains across Canada - and worldwide.

In the financial industry, the opportunity is tenfold as banks and capital allocators largely underpin systemic risk and change. There is an opportunity for banks to be at the forefront of this change in Canada. The landscape is evolving as individuals and businesses learn the importance of putting people and the planet first, and the second-hand impact this has on increasing profits. Across industries, diversity and inclusion have become core to business models, and mental health is also a top risk and concern in the aftermath of COVID-19. Companies are implementing ESG policies, and some have committed to Net Zero targets. However, there are some industries in Canada that are lagging behind the rest by failing to integrate sustainability and ESG, despite the growing realization that these concepts are not likely to be a passing trend. One of these lagging industries is the banking sector.

The evolving landscape

Sustainability is increasingly important for the banking sector worldwide.

Globally, investors and stakeholders now demand a greater supply of green financial products and services, encouraging banks to become more sustainable. This demand has become a force for change, pushing financial institutions to integrate environmental and climate change considerations and management tools into operational strategies. The Task Force in Climate-Related Financial Disclosures (TCFD) reporting framework is one of the frontline tools for establishing governance in both the banking sector, as well as many others where climate risk is material⁵. These considerations are pushing the adoption of risk management and enterprise performance solutions to assess environmental and social risks of financial transactions, realizing that climate, along with many other ESG risks, are both financial and systemic risks⁵.

Additionally, many financial institutions joined global networks and international agencies such as the International Finance Corporation (IFC) and the United Nations Environment Programme Finance Initiative (UNEP FI), allowing them to gain support and prioritize financing for low-carbon investments and other environmental or social justice initiatives. Frameworks such as the UN Principles for Responsible Banking (PRB) are committed to aligning bank strategies with the Sustainable Development Goals and the Paris Climate Agreement. Over 230 banks have signed the PRB, representing more than one-third of the global banking industry. Other noteworthy collaboration initiatives include the Global Net Zero Banking Alliance (NZBA), the Collective Commitment to Climate Action (CCCA), which both support a transition economy.

1 <https://climateactionnetwork.ca/issues/impacts-and-adaptation/learning-centre/impacts-in-canada/>

2 <https://www-statista-com.eu1.proxy.openathens.net/statistics/271748/the-largest-emitters-of-co2-in-the-world/>

3 <https://www.cbc.ca/news/science/canada-climate-action-1.5355517>

4 <https://www.ft.com/content/49f55dab-ee2a-4451-b076-58280cca6f88?desktop=true&segmentId=d8d3e364-5197-20eb-17cf-2437841d178a#myft:notification:instant-email:content>

5 <https://ajssr.springeropen.com/track/pdf/10.1186/s41180-020-00034-3.pdf>

Section 2: Implications for banks

When Laggards turn Leaders

Canadian banks have a unique opportunity to gain a competitive edge.

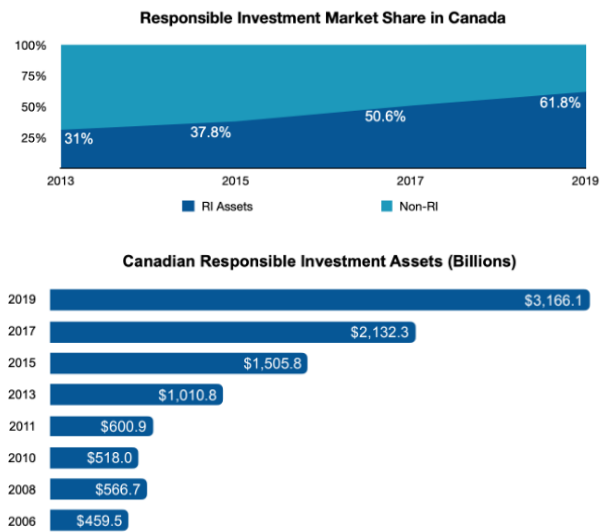
Although some global banks are making climate commitments, in Canada, the industry is lagging behind. Only one financial institution in Canada has signed the Global Net Zero Banking Alliance and the Collective Commitment to Climate Action. Only five Canadian financial institutions have signed the UN Principles for Responsible Banking and seven Canadian financial institutions have signed the Equator Principles, a risk management framework adopted to manage environmental and social risks.

In Canada, there are many incentives to join, at a minimum, the path to ESG integration, and ideally, to Net Zero. Prime Minister Justin Trudeau announced at the 2021 G7 Summit that Canada's climate finance contribution will double from C\$2.7 billion to C\$5.3 billion¹.

All G7 leaders also agreed to end “almost all direct government support” for fossil fuels and phase out gasoline and diesel cars³. Moreover, Canadians across the country believe climate change is happening and already see its impact. There has been strong public support for specific climate policies, with Canadian businesses also showing support by making Net Zero commitments^{4,5}. Between January and March of 2021, \$3 billion was invested in Canadian ESG-focused ETFs, up from about \$1.8 billion in all of 2020, and a recent study showed that the S&P 500 ESG Index outperformed the S&P 500 by 2.21% since its launch^{6,7}. Responsible Investments now have a 61.8% share of Canada's investment industry⁸. Therefore, Canada's financial sector has the opportunity to take action against climate change and aid in the transition to a clean and just economy with ESG integration and commitments to Net Zero.

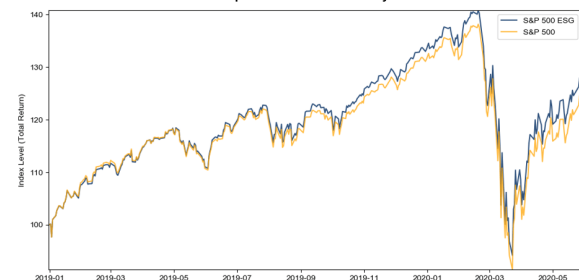
Despite the numerous incentives, initiatives and frameworks available, many Canadian financial institutions that have failed to adapt to the changing landscape are at risk of quickly falling behind. On the flip side, those who currently lag in terms of financial performance may have the opportunity to catch up by setting the right goals with intention, purpose, planning, and, above all, diligent execution. The path to climate action is wide-open for those who want to stay ahead of the curve of inevitable policies.

With the rapid changes in government regulations and long-term (ESG) values coming to reporting and policy, banks that fail to adopt a new norm of doing business with a razor-focused lens on rethinking long-term sustainability, as opposed to corporate philanthropy variants, will have to adapt. Rather than waiting for the ball to drop, banks have the opportunity to become leaders in this transition to a green, and more equitable, economy. Acting swiftly yet thoughtfully presents an opportunity to reap benefits of sustainability and ESG integration, such as fund outperformance, increased revenues, employee satisfaction and a resilient tomorrow.



Source: RIA Canada²

Exhibit 1: The S&P 500 ESG Index Outperformed the S&P 500 by 2.21% since Launch



Source: S&P Dow Jones Indices LLC. Data from January 2019 to May 2020. Index performance based on total return in USD. Past performance is no guarantee of future results. Chart is provided for illustrative purposes.

Source: S&P Dow Jones Indices LLC.⁷

¹ https://www.grainews.ca/global_markets/global-markets-netanyahu-era-comes-to-an-end/

² <https://www.riacanada.ca/research/2020-canadian-ri-trends-report>

³ <https://www.businessinsider.com/main-takeaways-from-the-g7-summit-2021-6#leaders-agree-on-a-plan-to-phase-out-gasoline-cars-6>

⁴ <https://www.cbc.ca/news/science/canada-climate-action-1.5355517>

⁵ <https://www.nrcan.gc.ca/changements-climatiques/impacts-adaptation/overview-climate-change-canada/10321>

⁶ <https://www.newswire.ca/news-releases/mackenzie-investments-mid-year-etf-report-top-etf-trends-for-a-post-pandemic-world-856703453.html>

⁷ <https://www.spglobal.com/en/research-insights/articles/is-esg-a-factor-the-sp-500-esg-index-s-steady-outperformance>

⁸ <https://www.canada.ca/en/health-canada/services/climate-change-health.html>

Section 3: What can we do about it?

About AMNIE™

AMNIE™ is a global management consulting firm that exists to democratize access to sustainability knowledge and integration through a holistic approach and "glocal" partner network. We are committed to systemic value creation and are actively working towards the United Nations 2030 Sustainable Development Goals (SDGs).

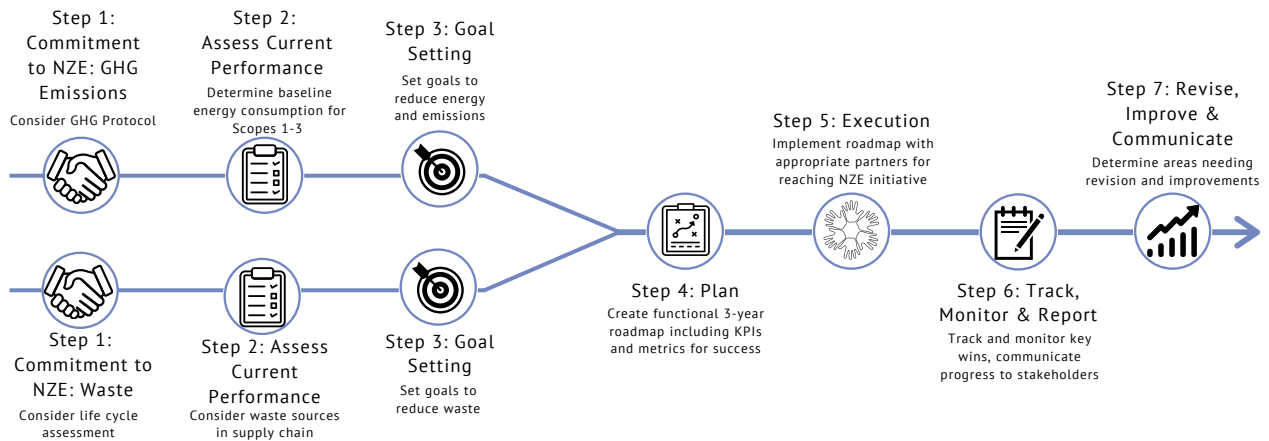
Our Approach

AMNIE™ offers a one-stop-shop ESG Advisory to help you move the needle.

Our offerings include:

- ESG Integration Assessment and Roadmap Co-Creation
- Path to Net Zero and Climate Strategy / Governance
- Program Management and Technology Integration
- Values-Based Leadership Training and Coaching for Executives

Illustrative Example of a Potential Path to Net Zero for a Financial Institution

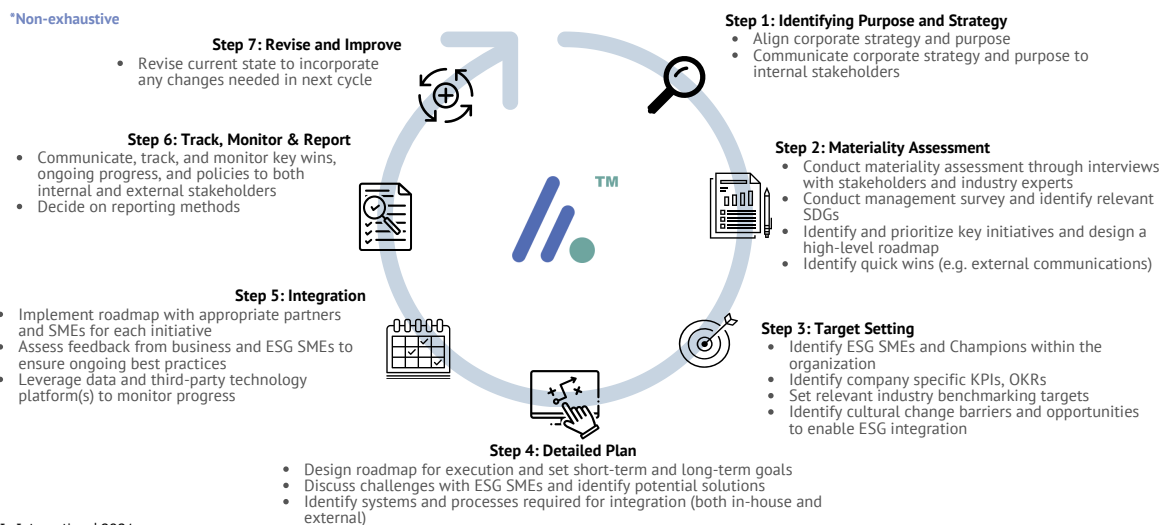


Sample Roadmap for ESG Integration (8 weeks)



Our sustainability integration framework

Using tailored global best practices to suit company needs.



Section 4: Expectations and opportunities for success

Benefits of sustainability integration

Responsible banking reduces risk, increases returns and enhances longevity.

By integrating ESG and embarking on the path to Net Zero, financial institutions can make a systemic impact in the fight against climate change. With the global landscape adapting much too slowly to achieve our tight timeline, banks can take the initiative to create change, staying ahead of policy changes while also reaping the benefits that come along with climate action plans, such as increased customer satisfaction and fund performance.

Some of the direct benefits of sustainability integration are:

Enhanced risk management: Integrating ESG in company performance assessments allows for a holistic analysis of a company's management and longevity¹. Sustainability risks can reduce a business' value by 70% of EBITDA². Therefore, responsible investing allows investors to avoid such risks.

Increase in long-term returns: Research has shown that ESG performance leads to lower costs of equity and debt, which increases overall financial performance¹. Sustainable equities outperform peers. In March 2021, 73% of the S&P 500 ESG funds outperformed the S&P 500 index³.

Positive social change: ESG investing channels capital towards projects that create positive societal and environmental change¹. Responsible investing increases stakeholder engagement, which allows value creation for all company stakeholders¹.

Final thoughts

Banks have an opportunity to be a force for change in Canada.

Sustainability and ESG integration has been proven to yield higher returns socially, economically and environmentally. Banks have an opportunity to be at the forefront in the shift to a green economy, but not for long. Without immediate and sustained action, those currently lagging will continue to fall behind.

The evolving landscape is encouraging the shift to sustainability with frameworks and government incentives to support it. At AMNIETM, we recognize that this can sometimes be overwhelming, which is why we're here to help.

Our offerings can be tailored to suit your needs, and with a detailed methodology, AMNIETM can help create your roadmap for success.

Outcomes banks can expect from AMNIETM's ESG Integration Approach:



Contact us to begin your sustainability integration journey.

<https://amnie.org/>
info@amnie.org

¹ <https://www.riacanada.ca/responsible-investment/#benefits-of-ri>

² [https://www.ceres.org/sites/default/files/reports/2017-09/LFTT_full%20report_online%20\(F\)_0_0.pdf](https://www.ceres.org/sites/default/files/reports/2017-09/LFTT_full%20report_online%20(F)_0_0.pdf)

³ <https://www.institutionalinvestor.com/article/b1r9gb5p9k10b4/Here-s-More-Evidence-That-ESG-Funds-Outperformed-During-the-Pandemic>