



FOCUS ON BUSINESS VALUE
2022 Crowe Financial Services Conference

Carpe Diem Navigating and Capitalizing on ESG

November – December 2022

Presented by:

Crowe Industry Specialists

ESG?



ENVIRONMENTAL



How business operations impact the environment (and vice versa)

- Natural resource management - energy, materials, and product compliance
- Impact of climate change including greenhouse gas (GHG) emissions and net-zero strategies

SOCIAL



How an organization's operations affect its people and communities

- Social considerations, such as human rights due diligence, labor practices, community investments, diversity equity and inclusion
- Human capital management including culture, training, and compensation

GOVERNANCE



How a company behaves and governs

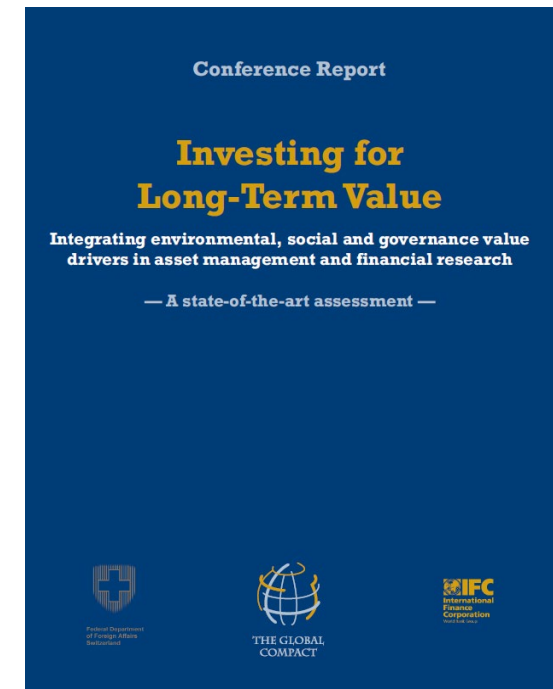
- Leadership, transparency, board diversity and ethics
- Supply chain oversight including sanction monitoring, and labor practices
- Governance considerations, such as stakeholder engagement and anti-fraud policies

How Did ESG Originate?

“In a more globalised, interconnected, and competitive world, the way that environmental, social, and corporate governance issues are managed is a key part of companies’ overall management quality that’s necessary to compete successfully.

“Companies that perform better with regard to ESG issues can increase shareholder value by, for example, properly managing risks, anticipating regulatory action, or accessing new markets, while at the same time contributing to the sustainable development of the societies in which they operate. Moreover, these issues can have a strong impact on reputation and brands, an increasingly important part of company value.”

Sustainability + Corporate Responsibility => ESG



Zurich, 2005

Why Do We Care?



CUSTOMERS



79%

Nearly 4 in 5 people in the US report they are “passionate” about climate change. However, only 22% say they know whether their bank is financing fossil fuels.

Bank of the West's Money Matters Report—Revealing the Sustainability Intention Gap

EMPLOYEES



72%

By 2029, the Millennial and Gen Z generations will make up 72 percent of the world's workforce, compared to 52 percent in 2019. These generations place greater importance on environmental and social concerns than their predecessors do – and will expect more from employers on these issues.

ESG as a Workforce Strategy, Marsh & McLennan Advantage

INVESTORS



88%

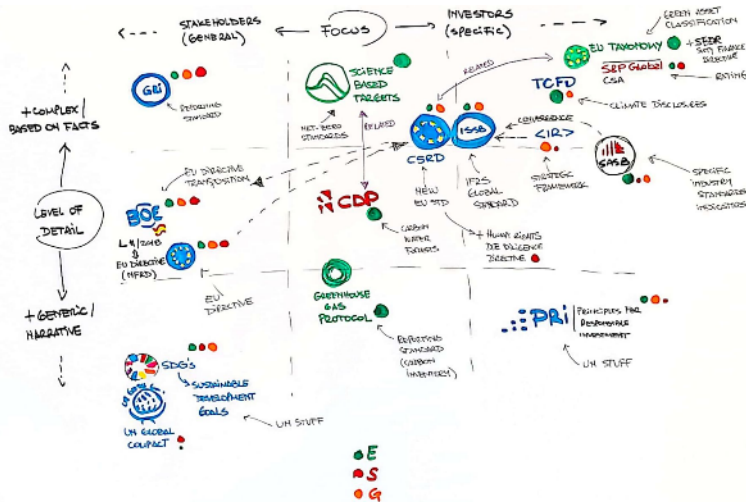
of Institutional Investors subject ESG to the same scrutiny as operational and financial considerations.

2021 Edelman Trust Barometer, Special Report: Institutional Investors

How Do We Navigate?



STANDARDS/FRAMEWORKS



Courtesy of Luis Piacenza, Crowe Spain

RATINGS



“There is little clarity and alignment on definitions, including on what ratings or data products intend to measure.”

International Organization of Securities Commissions (IOSCO) Final Report (November 2021), Environmental, Social and Governance (ESG) Ratings and Data Products Providers

REGULATORS



Strategic Goals of the Department of the Treasury

1. Promote Equitable Economic Growth and Recovery
2. Enhance National Security
3. Protect Financial Stability and Resiliency
4. Combat Climate Change
5. Modernize Treasury Operations

Department of the Treasury Strategic Plan, 2022-2026

Agenda

What's Going On?

What are Banks Doing?

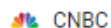
Steps to Take Now



What's Going On?

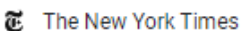


What's Going On



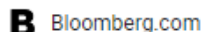
Big business likes to trumpet ESG credentials. But a 'greenwashing' reckoning could be on the horizon

Today, companies that give their products or services the "ESG" or "sustainable" label are finding their business practices and claims...



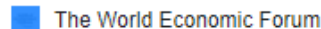
'Woke, Inc.' Author Ramaswamy Targets Apple and Disney

A prominent critic of investing that factors in climate and social considerations wants to use shareholder pressure to refocus companies on...



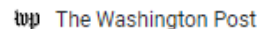
'Dilbert' Becomes the Voice of the ESG Opponents: Green Insight

Sign up to receive the Bloomberg Green newsletter in your inbox. There's now little doubt ESG has gone mainstream.



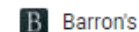
ESG disclosures are transforming companies. Here's how ...

The Forum's flagship Stakeholder Capitalism Metrics provides businesses with a common approach to ESG disclosures. As global regulation develops...



Opinion | Texas's war against ESG investing is ingenious but futile

The state's pension funds have been directed to divest from financial firms such as BlackRock and UBS that supposedly boycott fossil fuels.



ESG Is Just a New Tool to Solve an Old Problem For Investors

Environmental, social, and governance investing is fundamentally about finding new ways to manage risk, write Alex Friedman and Scott...



ESG Ratings

PRESS RELEASE

Fitch Group Announces Creation of Sustainable Fitch and Launches ESG Ratings Products

Wed 15 Sep, 2021

Target of full ESG coverage of investable fixed-income universe, backed by best-in-class analytics, transparency and robust methodologies

ENVIRONMENTAL, SOCIAL, AND GOVERNANCE (ESG) DATA

Refinitiv ESG company scores

Our ESG scores are designed to transparently and objectively measure a company's relative ESG performance, commitment and effectiveness across 10 main themes, based on publicly available and auditable data.

S&P Global Ratings ESG Evaluation

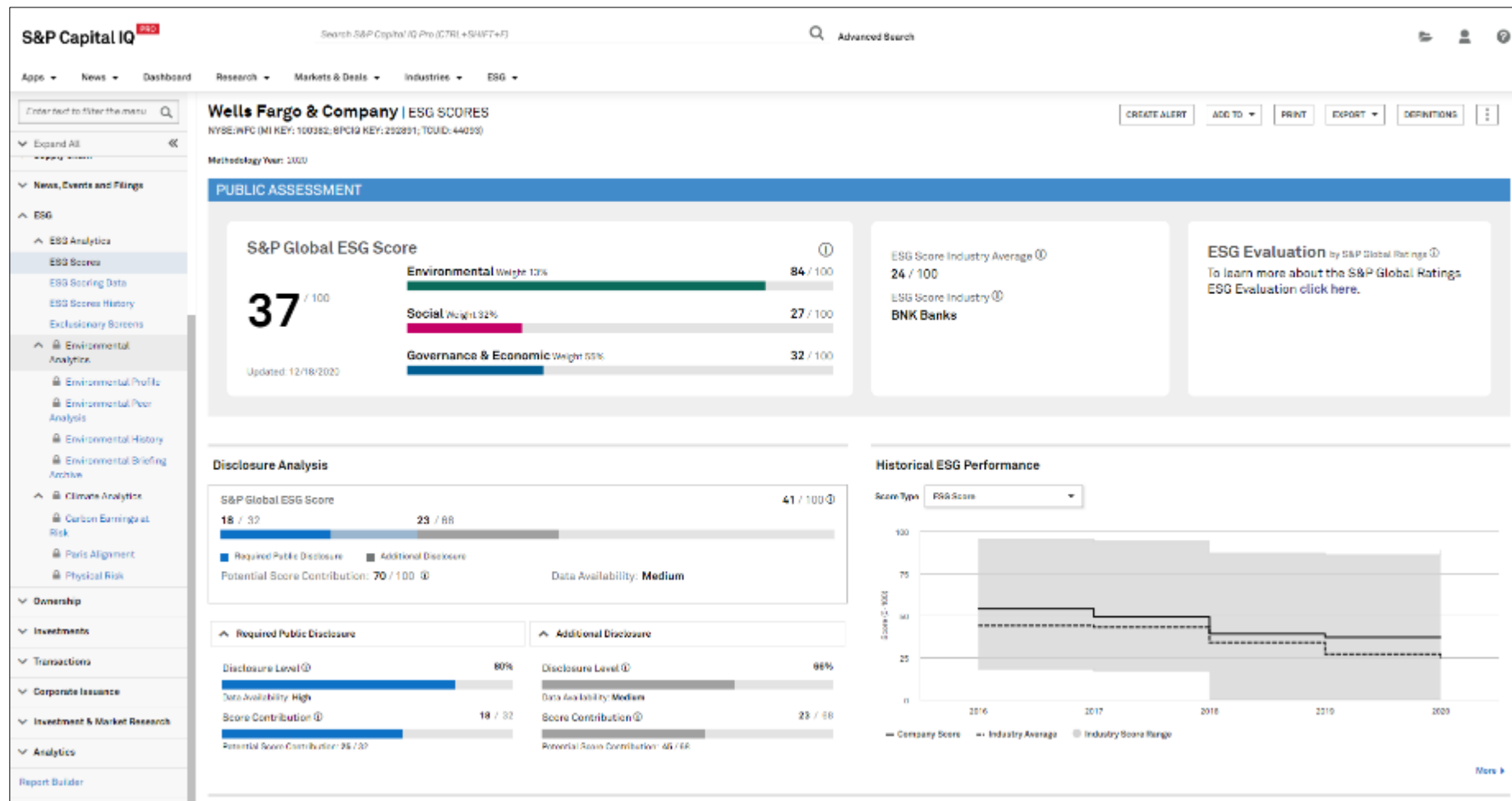
S&P Global Ratings ESG Evaluation is a one of a kind assessment of a company's ESG strategy and ability to prepare for potential future risks and opportunities. The ESG Evaluation is the ideal tool for investors in that it provides a forward looking, long term opinion of readiness for disruptive ESG risks and opportunities. The methodology is founded on our analysts' sector and company expertise, relying upon in-depth engagement with company management to assess material ESG impacts on the company, past, present and future.



ENVIRONMENTAL, SOCIAL AND GOVERNANCE EVALUATION ANALYTICAL APPROACH >

From July 1 2020, we will be extending our ESG Evaluation product to also include the assessment of banks and insurance companies. For more information, please email esg.evaluation@spglobal.com

ESG Ratings



ESG Score Breakdown

84 Environmental Weight 13%

CRITERIA

- Climate Strategy
- Environmental Reporting
- Operational Eco-Efficiency

27 Social Weight 32%

CRITERIA

- Human Capital Development
- Talent Attraction & Retention
- Financial Inclusion
- Labor Practice Indicators
- Corporate Citizenship and Philanthropy
- Human Rights
- Occupational Health and Safety
- Social Reporting

32 Governance & Economic Weight 55%

CRITERIA

- Corporate Governance
- Sustainable Finance
- Codes of Business Conduct
- Risk & Crisis Management
- Anti-crime Policy & Measures
- Information Security/Cybersecurity & System Availability
- Materiality
- Policy Influence
- Tax Strategy
- Customer Relationship Management
- Financial Stability and Systemic Risk
- Privacy Protection

ESG Industry Materiality Map

MSCI ESG Ratings provide an assessment of the long-term resilience of companies to environmental, social, and governance (ESG) issues. Our ESG Industry Materiality Map is a representation of the current Key ESG Issues and their contribution to companies' ESG Ratings. It is part of our ESG Ratings transparency initiatives, through which we have made ESG Ratings of [companies](#) and [funds](#) accessible to the public.

To see the Key Issues assessed for companies in a specific GICS®¹ sub-industry or sector, find the industry in the dropdown list or use the search bar on the right. [Click here](#) for more information.

Financials

Regional Banks

Clear

Environmental

Issue	Average Weight		
Financing Environmental Impact	13%	■ ■ ■ ■ ■ ■ ■ ■	↗
Carbon Emissions			↗
Product Carbon Footprint			↗
Water Stress			↗
Biodiversity & Land Use			↗
Raw Material Sourcing			↗
Toxic Emissions & Waste			↗
Packaging Material & Waste			↗
Electronic Waste			↗
Opportunities in Clean Tech			↗
Opportunities in Green Building			↗
Opportunities in Renewable Energy			↗
Climate Change Vulnerability			↗

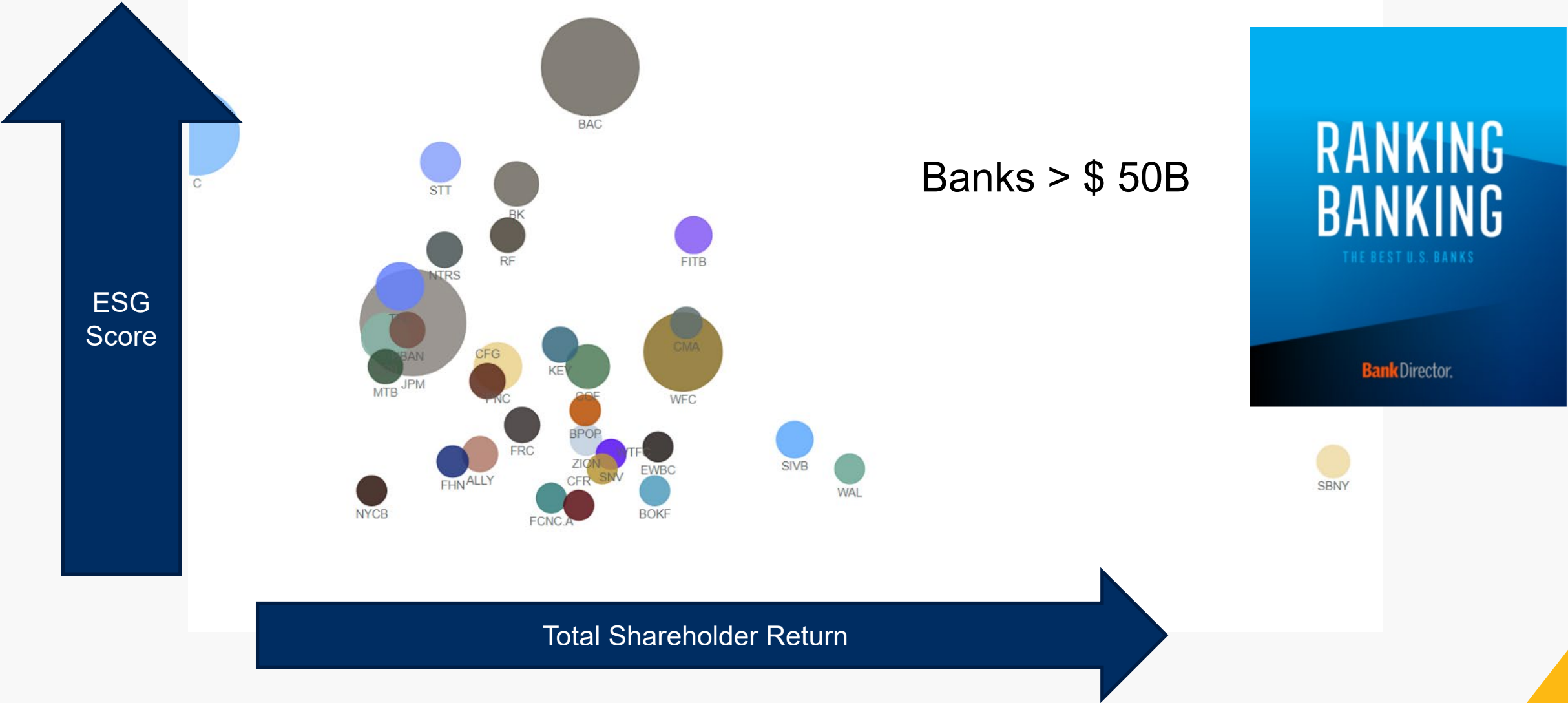
Social

Issue	Average Weight		
Consumer Financial Protection	16.9%	■ ■ ■ ■ ■ ■ ■ ■ ■ ■	↗
Human Capital Development	13%	■ ■ ■ ■ ■ ■ ■ ■	↗
Privacy & Data Security	12%	■ ■ ■ ■ ■ ■ ■ ■	↗
Access to Finance	12%	■ ■ ■ ■ ■ ■ ■ ■	↗
Insuring Health & Demographic Risk			↗
Labor Management			↗
Health & Safety			↗
Supply Chain Labor Standards			↗
Product Safety & Quality			↗
Chemical Safety			↗
Community Relations			↗
Controversial Sourcing			↗
Access to Communications			↗
Access to Health Care			↗
Opportunities in Nutrition & Health			↗
Responsible Investment			↗

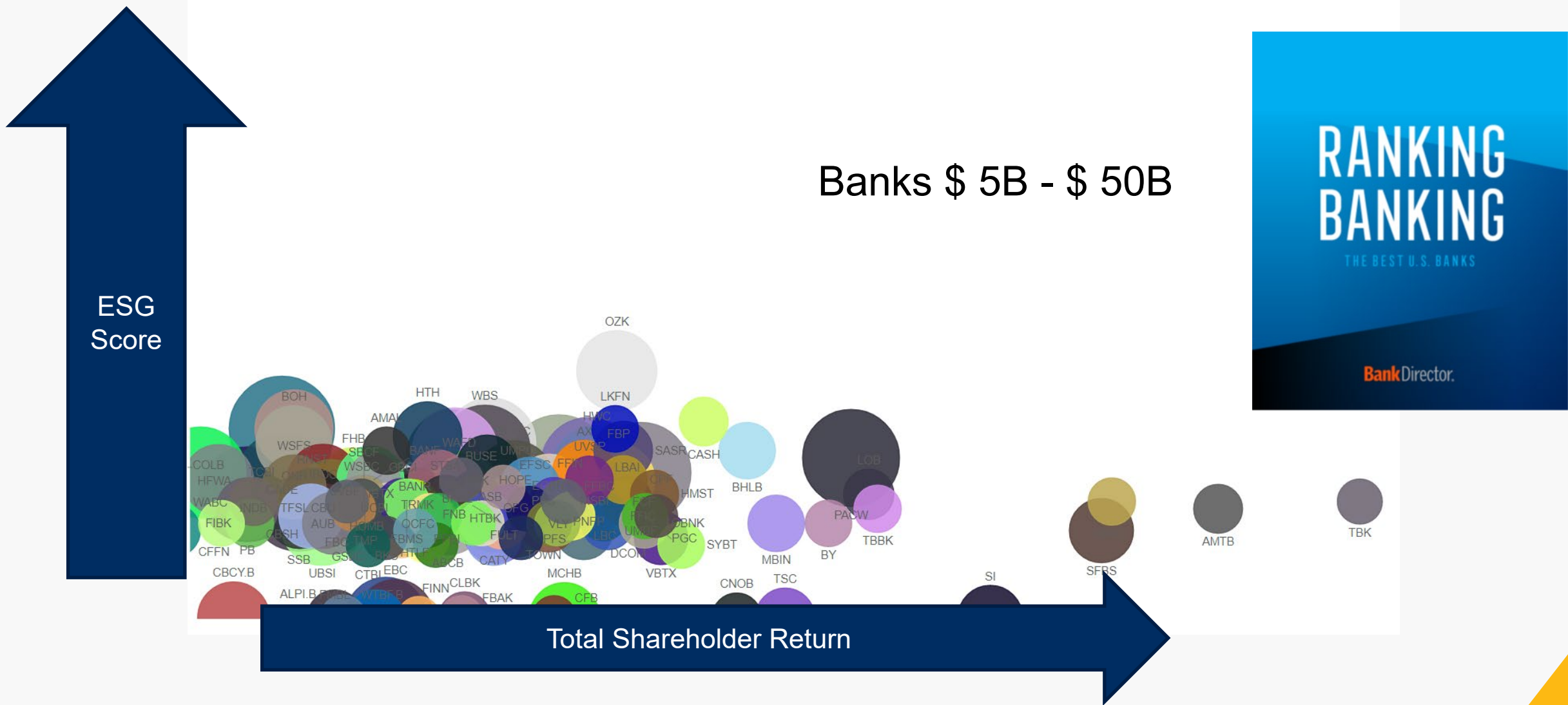
Governance

Issue	Average Weight		
Governance	33%	■ ■ ■ ■ ■ ■ ■ ■ ■ ■ ■ ■ ■ ■ ■ ■ ■ ■ ■ ■	↗
Ownership & Control			
Board			
Pay			
Accounting			
Business Ethics			
Tax Transparency			

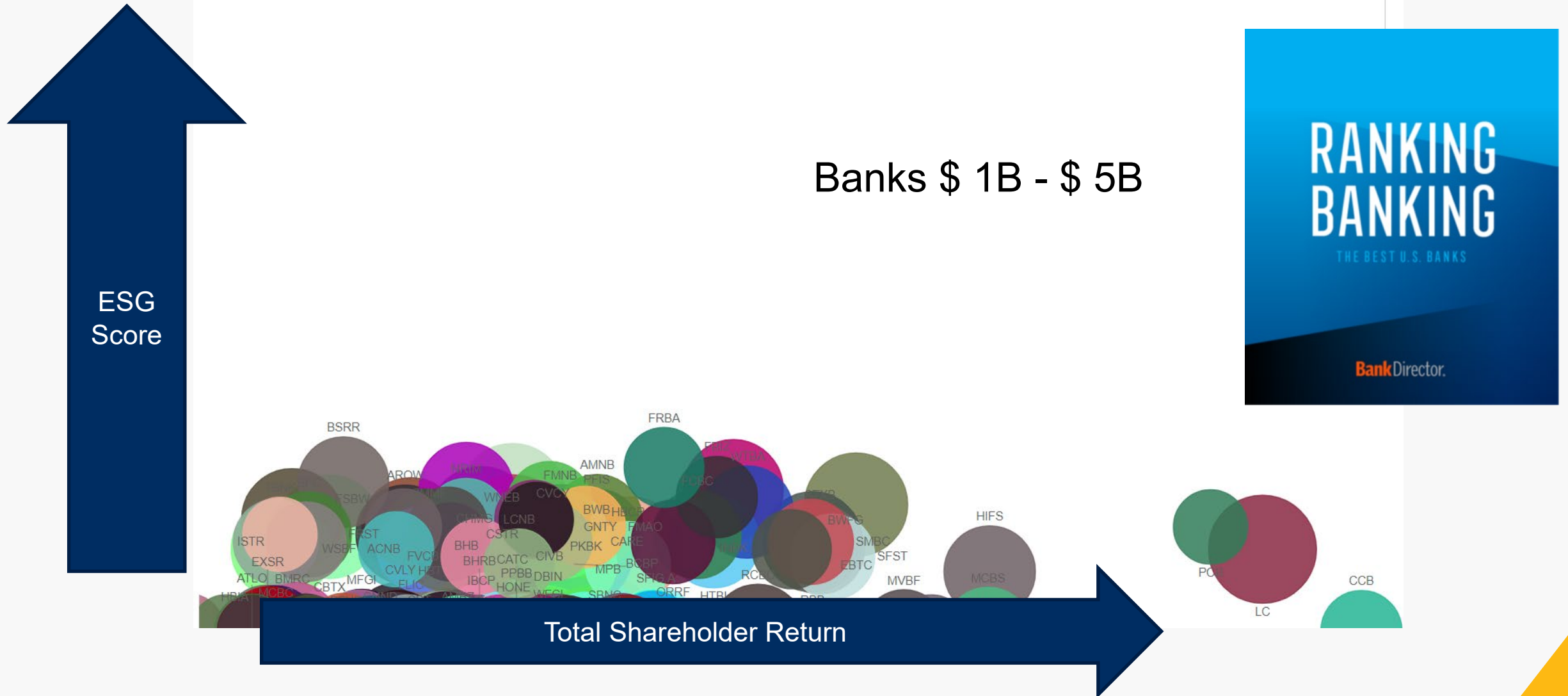
ESG in Context of Measuring Business Performance



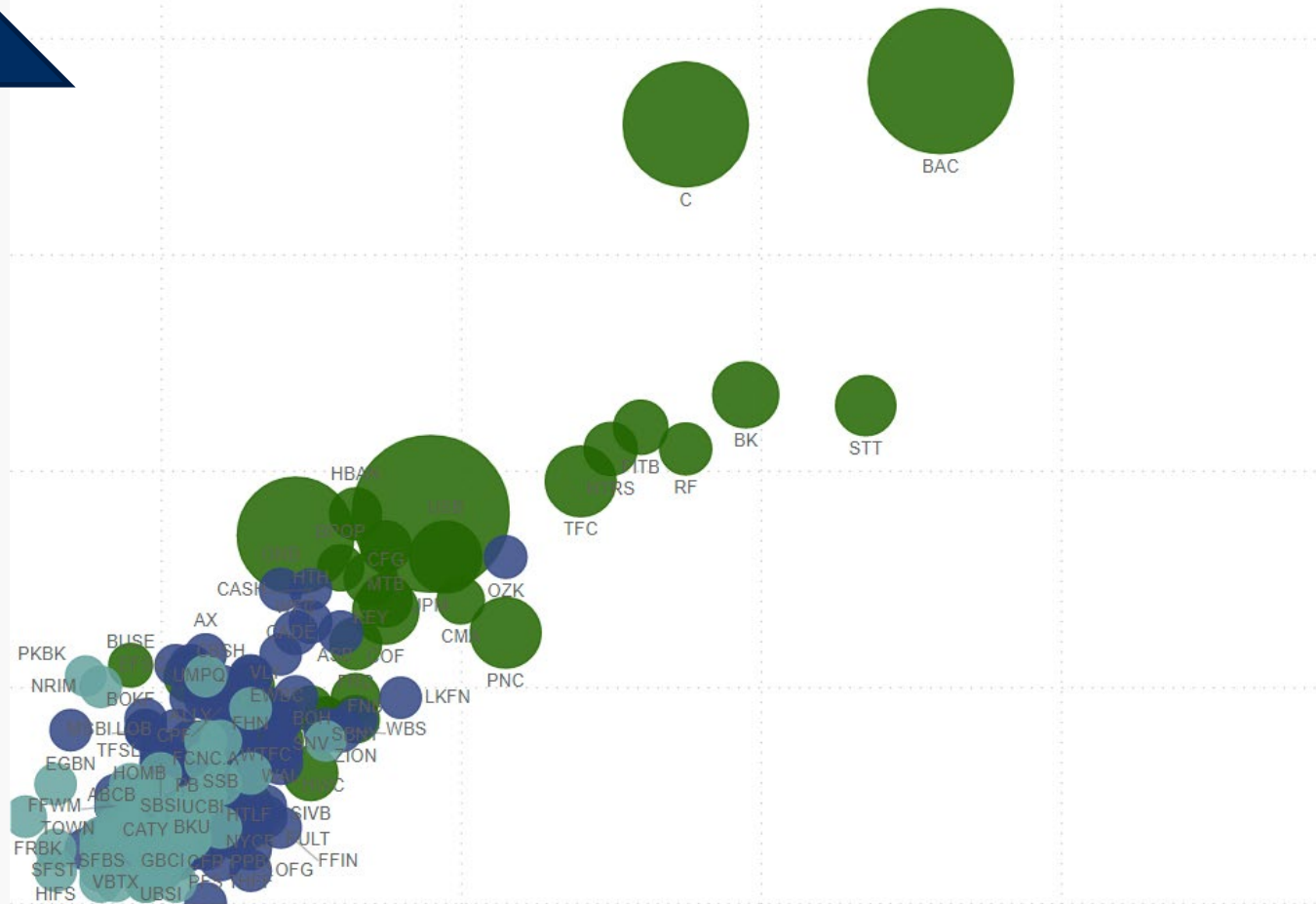
ESG in Context of Measuring Business Performance



ESG in Context of Measuring Business Performance



Banks are Strongest in “S” and “G”



Social Weight 32%		
CRITERIA		SCORE
Human Capital Development ⓘ		64
Employee Development Programs ⓘ		50
Human Capital Return on Investment ⓘ		92
Training & Development Inputs ⓘ		55
Talent Attraction & Retention ⓘ		0
Financial Inclusion ⓘ		42
Labor Practice Indicators ⓘ		7
Corporate Citizenship & Philanthropy ⓘ		27
Human Rights ⓘ		0
Occupational Health & Safety ⓘ		0
Social Reporting ⓘ		50
Governance & Economic Weight 55%		
CRITERIA		SCORE
Corporate Governance ⓘ		72
Sustainable Finance ⓘ		0
Codes of Business Conduct ⓘ		41
Risk & Crisis Management ⓘ		28
Anti-crime Policy & Measures ⓘ		0
Information Security/ Cybersecurity & System Availability ⓘ		34
Materiality ⓘ		0
Policy Influence ⓘ		20
Tax Strategy ⓘ		50
Customer Relationship Management ⓘ		0
Financial Stability & Systemic Risk ⓘ		100
Privacy Protection ⓘ		9

- Banks > \$ 50B
- Banks \$ 5B - \$ 50B
- Banks \$1B - \$5B

Value through the Lens of Integrated Thinking

Financial Driven World

- Optimize Returns
- Financial Materiality
- Risk Based Taxonomy
- Risk Avoidance
- Standards and Language Clearly Defined
- Strategy Based On Business Targets and Goals
- Rules Based

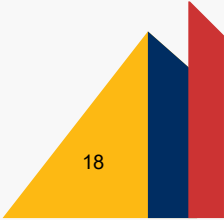
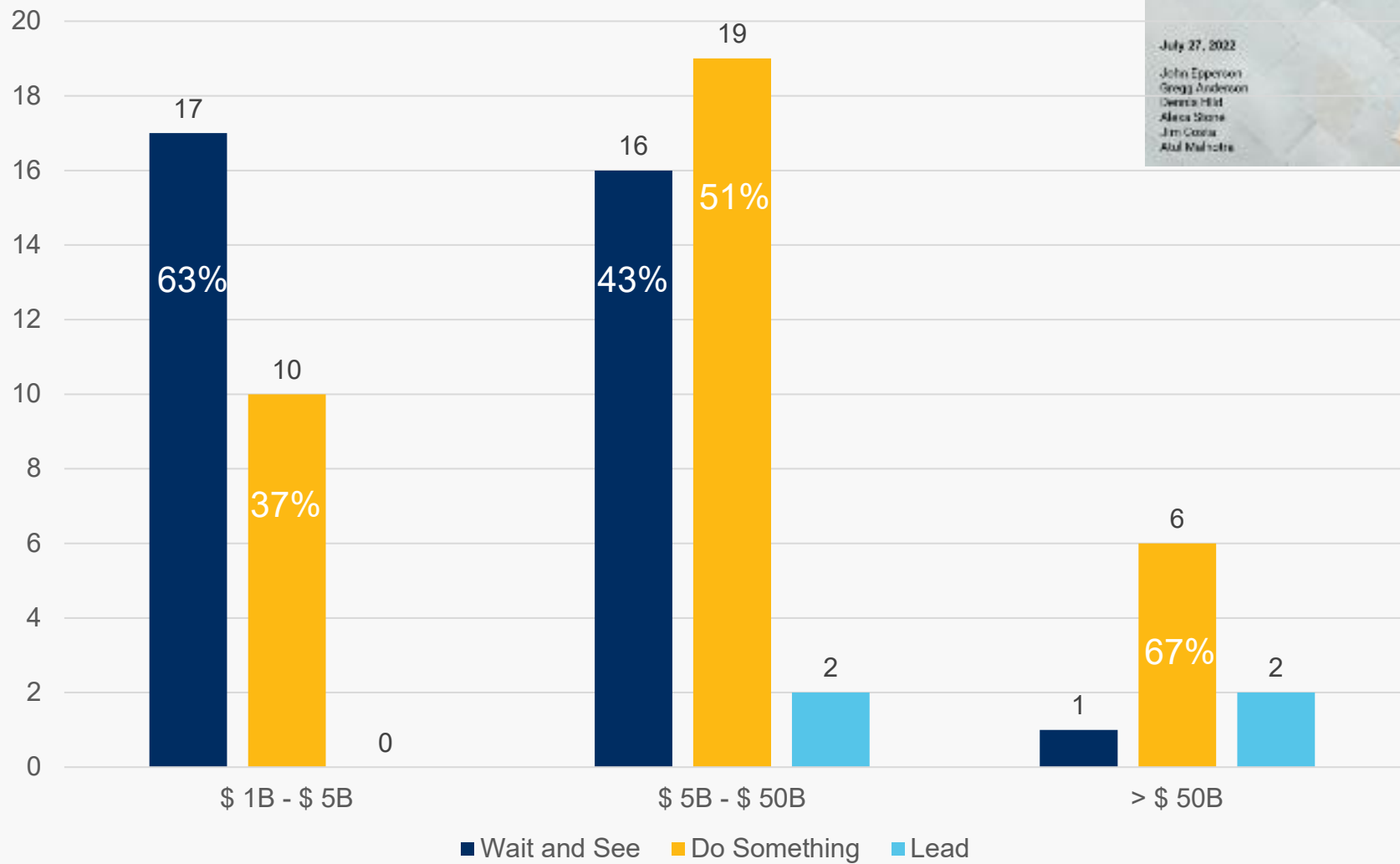
ESG Driven World

- Integrated Thinking
- Dual Materiality
- Topic Based Taxonomy
- Risk and Opportunity Balanced
- Standards and Language Immature
- Strategy Based On Purpose, Sustainability, and Responsibility
- Principle Based

What are Banks Doing?



Where do you see your organization in its ESG journey?





Wait & See



Watching the Banking Regulators



Watching the SEC

On March 21, 2022, the SEC issued a 500+ page draft proposal on climate-related disclosure requirements for public registrants.

The proposal was subject to a 60-day comment period that ended on June 17, 2022. The SEC reopened the comment period in October through November 1, 2022 due to a technical glitch.

The proposal highlights five major types of disclosures that may be required in periodic reports for public registrants.



How entity governs and manages climate-related risks



Actual or material impacts of climate-related risks on business, strategy, outlook



Quantitative measures of Greenhouse Gas (GHG) emissions

assurance requirements



Climate-related targets and goals, scenario analysis, and transition plans (if any)

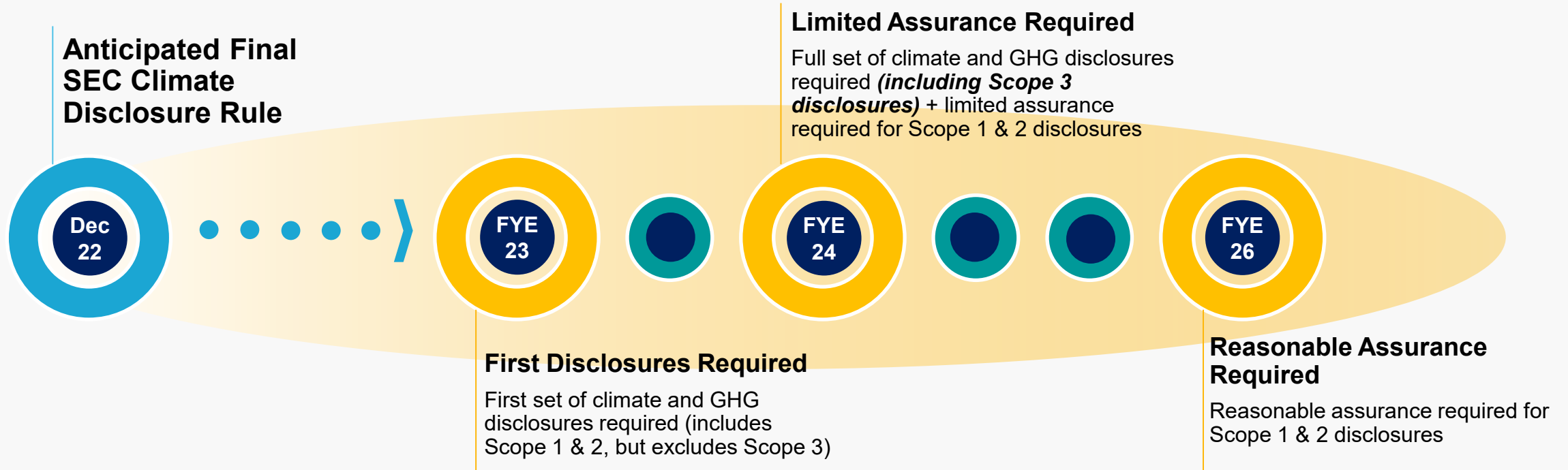


Footnote disclosures with financial impacts (expenses, estimates)

impacts audited financials

Proposed phase-in timeline for large accelerated filers

Based on the SEC's current proposal, we believe the timeline below is the most relevant phased-in timeline for climate-related disclosures. We expect that this timeline will be applicable if the proposed rule goes into effect unchanged on or before December 2022.

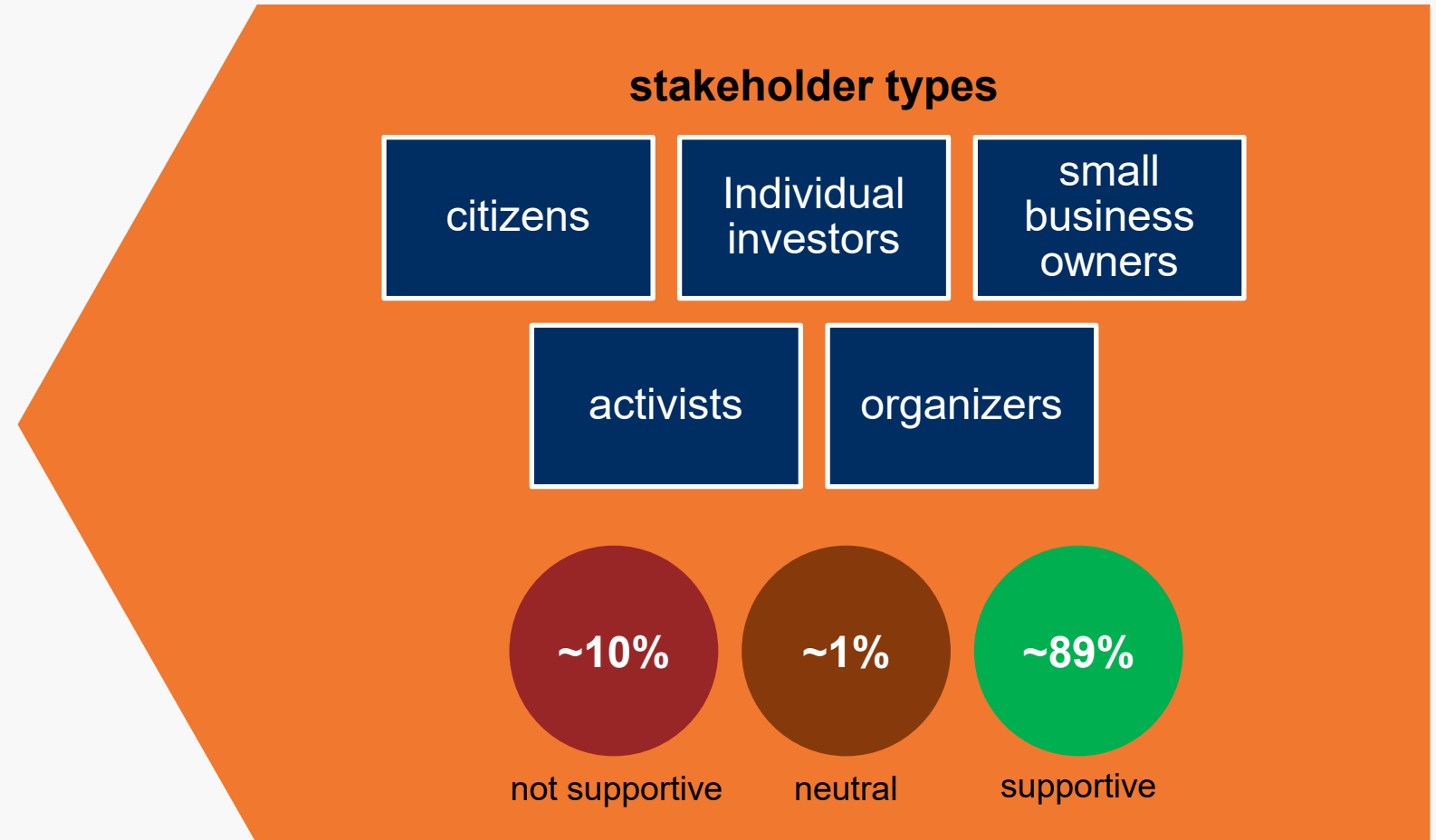


Themes from Public Comments Submitted

Widely varied sentiments depending on individual stakeholder types, but overall sentiment was supportive based on number of individual signers

~10,400

letters submitted via 28
templated letter formats



Themes from Public Comments Submitted

Based on review of ~100 letters, respondents are generally supportive of the SEC's efforts*

~4,200
unique letters submitted
through June 17, 2022

major stakeholder types	sentiment
Users of Financials	Supportive
Preparers of Financials	Supportive
Audit, Accounting, Law Firms	Supportive
Regulators / Legislators	Mixed
Associations	Mixed
Service Providers	Supportive
Others ⁽¹⁾	Supportive

* Based on Crowe's preliminary analysis

(1) Others group includes a large range of indirect stakeholder types including individuals & activists, academics, voluntary frameworks, small business owners (private companies), etc.

Themes from Public Comments Submitted

Many respondents were supportive of the SEC's efforts. Among comments, many proposed practical changes with the following emerging themes*

Concerns regarding complexity of Scope 3 disclosures and GHG boundaries

Concerns regarding materiality, specifically the use of the 1% threshold for footnote disclosures

Phase-in periods are too short and should be expanded to allow for assurance readiness

Remove board expertise requirement, or otherwise provide safe harbor

SEC is over-reaching its responsibilities and should defer to legislators on climate issues

Cost of implementation isn't fully understood and may be more significant than anticipated

Indirect burden on private companies will be significant if Scope 3 disclosures are required

**Based on Crowe's preliminary analysis*

(1) International Sustainability Standards Board

Watching the SEC

Investor Advisory Committee Schedule

MATTERS TO BE CONSIDERED on September 21, 2022:

The agenda for the meeting included:

1. A panel discussion human capital management labor valuation and performance data;
2. A panel discussion regarding esg fund disclosure; and
3. A discussion of a recommendation on cybersecurity disclosure; a discussion of a recommendation on climate disclosure

The next meeting is scheduled for December 8, 2022. Stay Tuned.

Banks Who Wait & See



Assign Responsibility



Attend Education and Regulatory Training



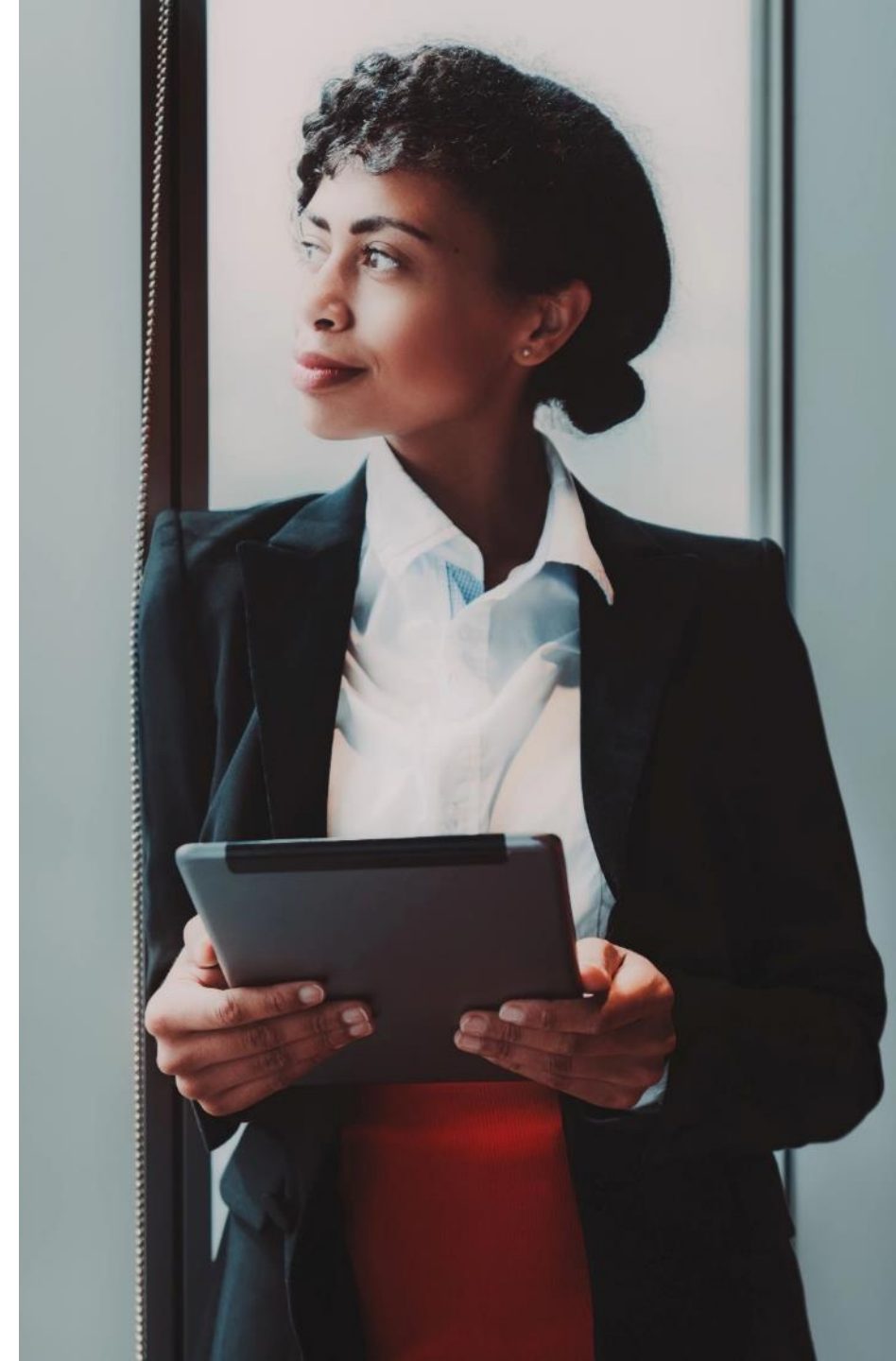
Benchmark Peer & Role Model Organizations



Identify Relevant ESG Topics



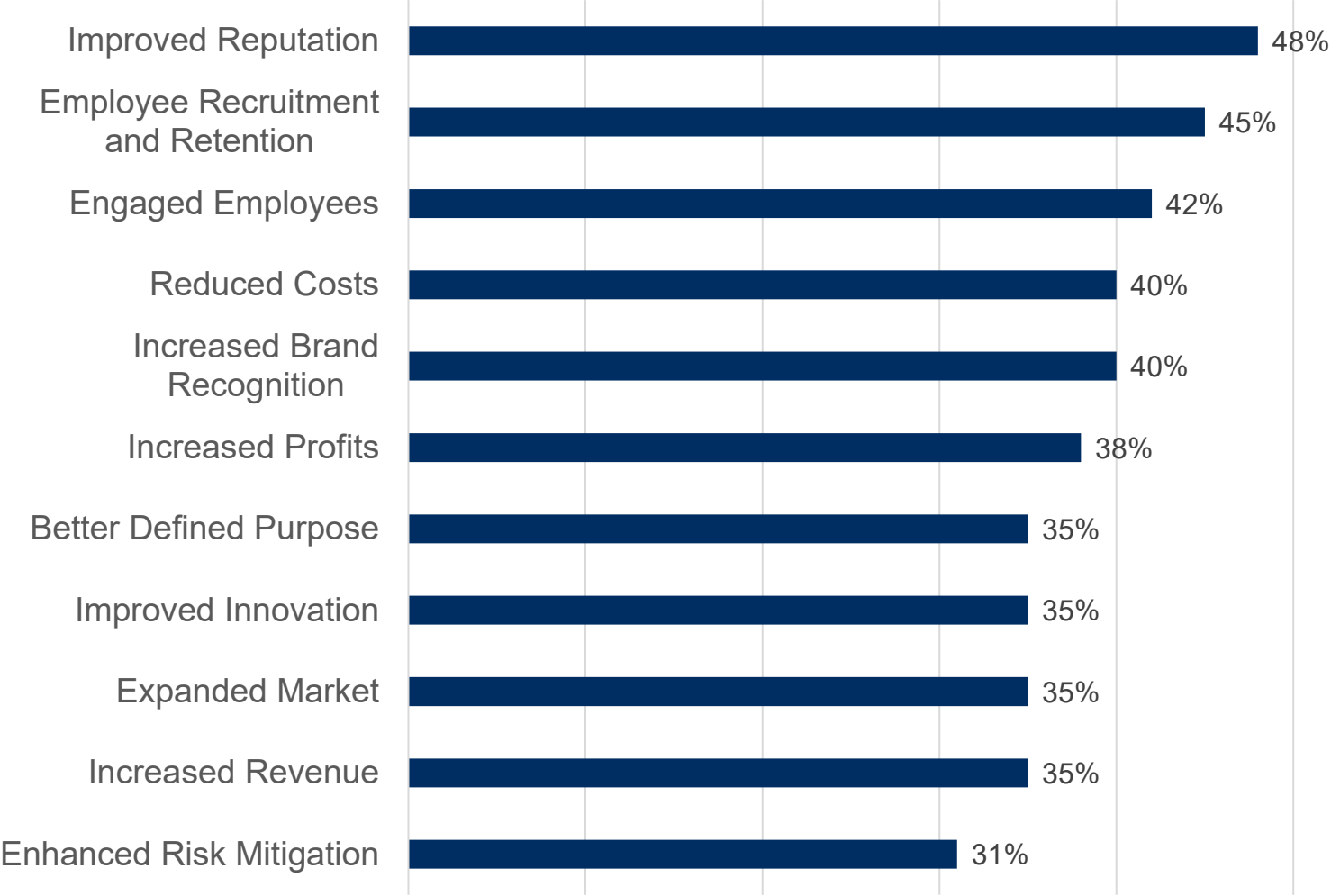
Review the Bank's Purpose, Mission and Values



A group of volunteers, mostly men, are participating in a cleanup activity in a wooded area. They are wearing light blue t-shirts and white caps. In the foreground, a man in a teal shirt and white cap is bending over, putting a clear plastic bottle into a green and white striped trash bag. He is wearing white gloves. In the background, other volunteers are also working, some holding large green bags. The scene is set in a forest with tall trees and sunlight filtering through the leaves.

B Do Something

Do Something - Benefits



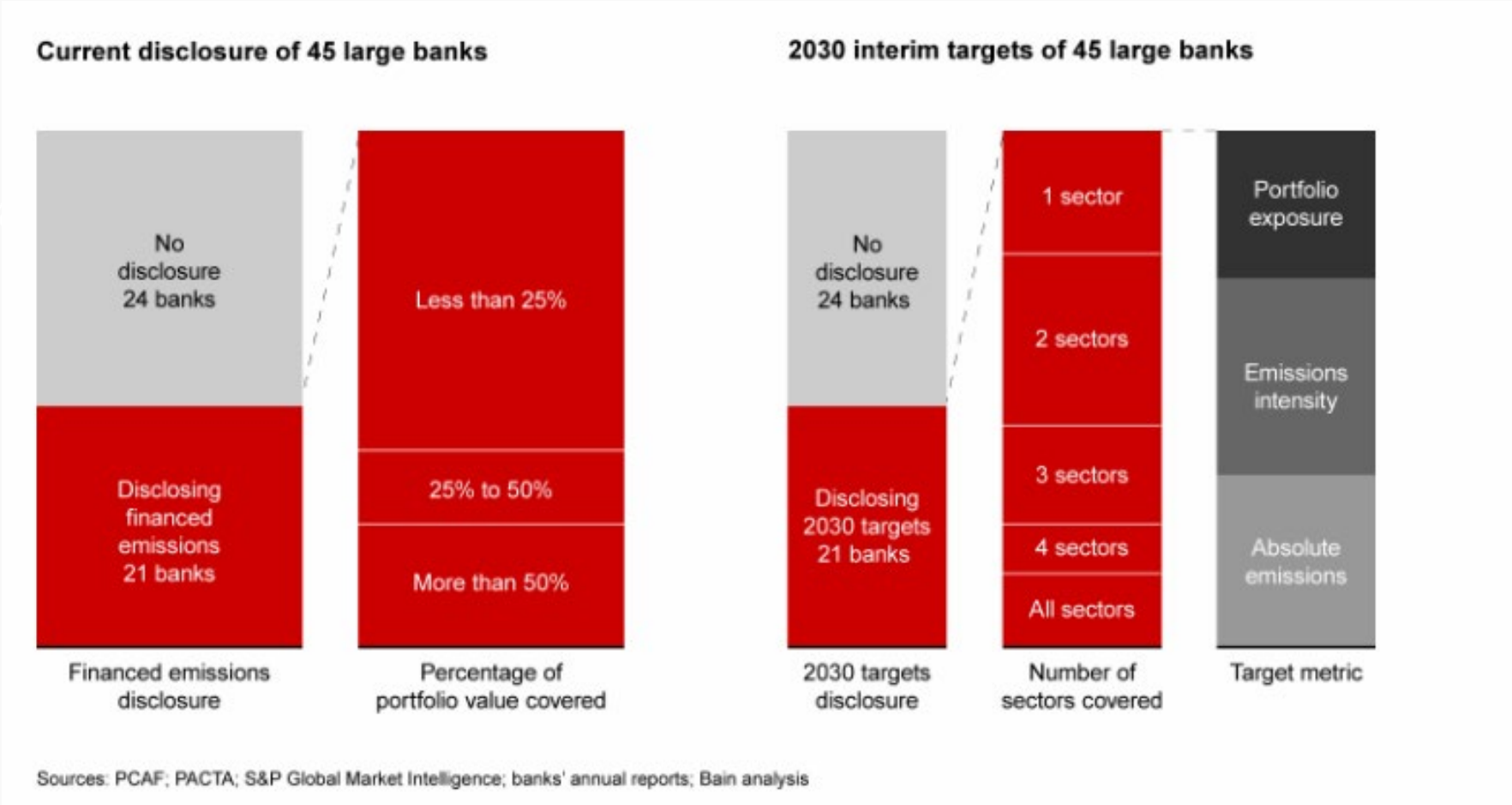
Among the business professionals who have a CSR/ESG Strategy, 97% experienced at least one of these benefits.

Bank of the West's Money Matters Report—Revealing the Sustainability Intention Gap

How are banks doing on GHG Disclosures?

About half of big banks disclose current financed emissions and interim targets, but only on part of their portfolio.

63%



Bain & Company - Banks' great carbon challenge

Why care about TCFD

Alignment of SEC proposed climate related disclosure rule to TCFD framework



Support and pressure from asset managers for regulators to require TCFD and climate-related disclosures

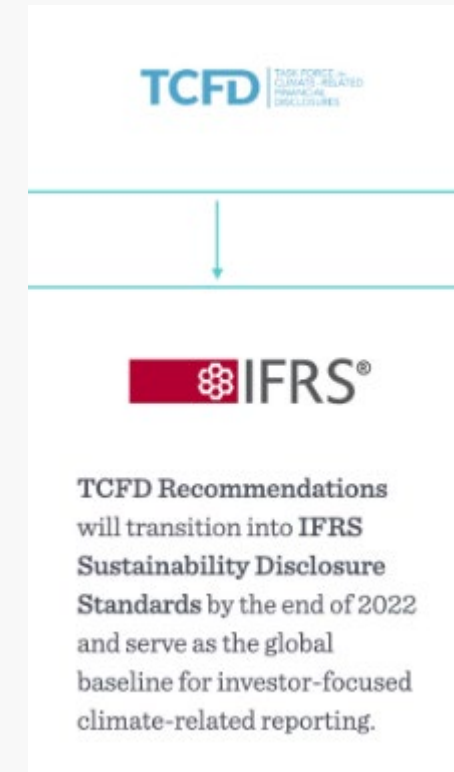


BlackRock

STATE STREET

Vanguard

Convergence of global ESG reporting standards



Task Force on Climate-Related Disclosures (TCFD)

TCFD
Framework

Governance

Disclose the organization's governance around climate related risks and opportunities.

Strategy

Disclose the actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning where such information is material.

Risk Management

Disclose how the organization identifies, assesses, and manages climate-related risks.

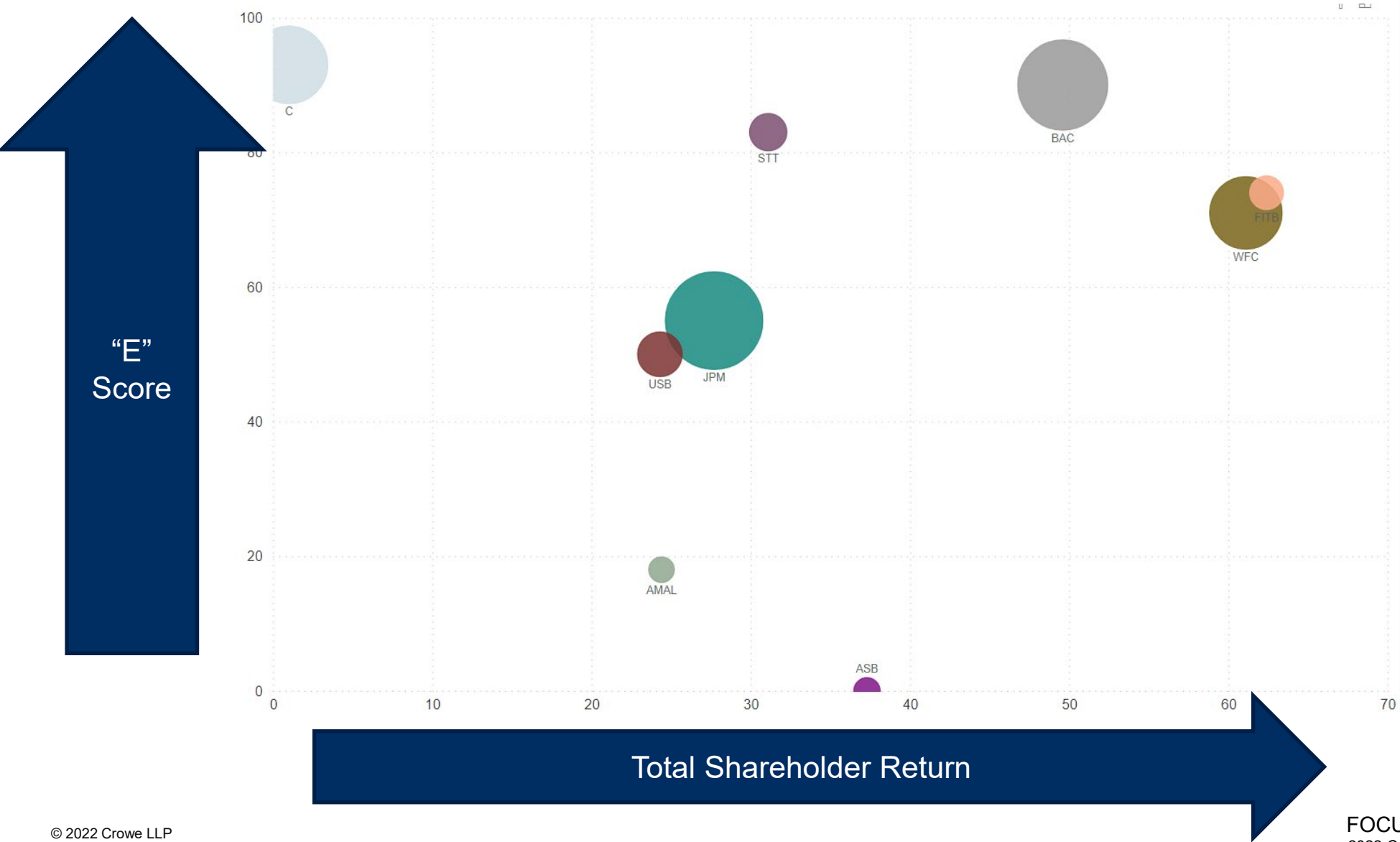
Metrics & Targets

Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.

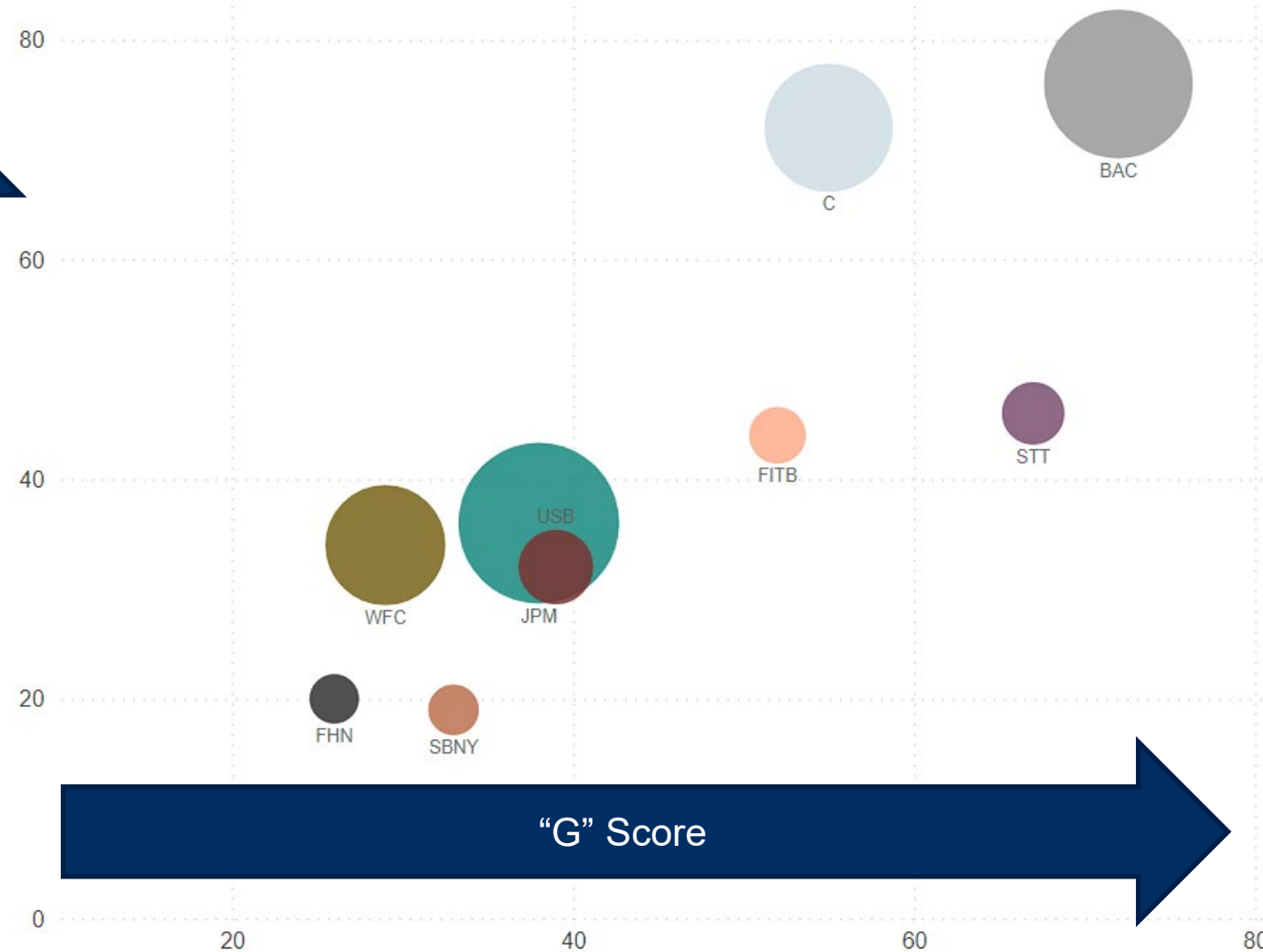
“E” Scores for TCFD Reporters

Environmental Weight 13%

▼	CRITERIA
▼	Climate Strategy ⓘ
▼	Environmental Reporting ⓘ
▼	Operational Eco-Efficiency ⓘ



"S" and "G" Scores for TCFD Reporters



Social Weight 32%

CRITERIA

Human Capital Development ⓘ

Employee Development Programs ⓘ

Human Capital Return on Investment ⓘ

Training & Development Inputs ⓘ

Talent Attraction & Retention ⓘ

Financial Inclusion ⓘ

Labor Practice Indicators ⓘ

Corporate Citizenship & Philanthropy ⓘ

Human Rights ⓘ

Occupational Health & Safety ⓘ

Social Reporting ⓘ

Governance & Economic Weight 55%

CRITERIA

Corporate Governance ⓘ

Sustainable Finance ⓘ

Codes of Business Conduct ⓘ

Risk & Crisis Management ⓘ

Anti-crime Policy & Measures ⓘ

Information Security/ Cybersecurity & System Availability ⓘ

Materiality ⓘ

Policy Influence ⓘ

Tax Strategy ⓘ

Customer Relationship Management ⓘ

Financial Stability & Systemic Risk ⓘ

Privacy Protection ⓘ

Banks Who Want to Do Something



Provide Education and Regulatory Training



Plan to Produce a TCFD Report



Conduct Formal ESG Materiality Workshops (Dual)



Develop a Multi-Year Roadmap



Review Current Bank Reporting with an ESG Lens



Strengthen ESG Reporting Processes, Disclosure Controls and Data Governance



Engage Employees, Customers, Investors, Regulators and Communities





Lead



Leaders in the News

Fifth Third Bank Hosts Sixth Supplier Diversity Summit to Educate and Connect Diverse Suppliers

**Enterprise Bank & Trust
Announces Investment Into
Empower the Change Fund**

**Lake City Bank Supports the
Lilly Center for Lakes & Streams**

**Sunrise Banks Recognized as a “Best for the
World” B Corporation for Ninth Year in a Row**

**Old National Announces \$8.3B Community Benefits
Agreement to Strengthen Small Businesses and
Minority and Underserved Communities**

**First Internet Bancorp
Appoints Two Directors**

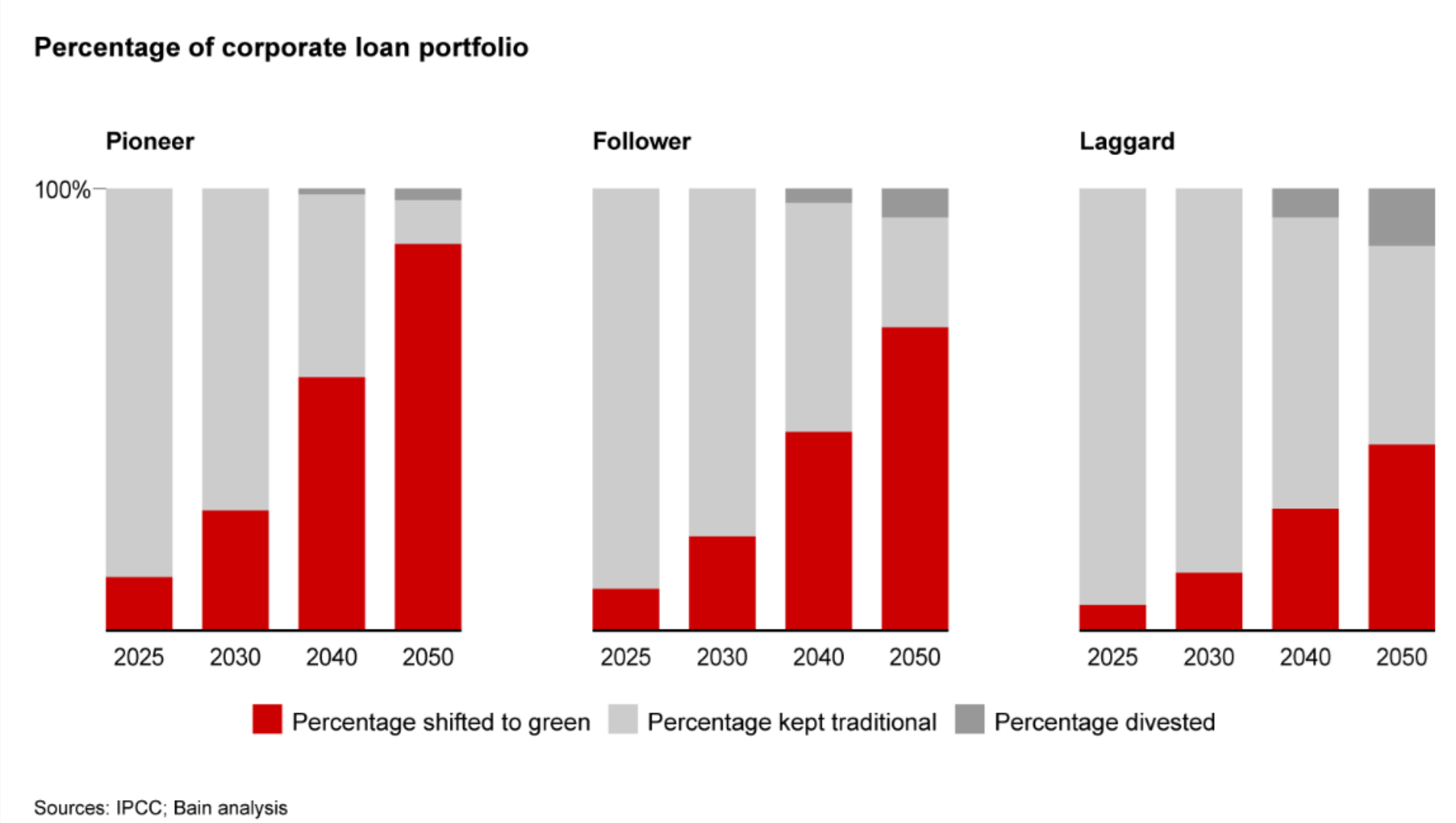
**Bank OZK Completes
Construction of Solar
Power Plant in
Arkansas**

**Florida’s Climate First Bank
launches online solar lending
with no fees**

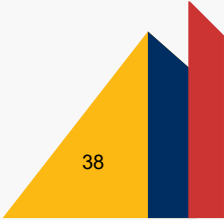
**Umpqua Bank Crowdfunding Partnership Accelerates
No-Cost Financing for BIPOC, Women Entrepreneurs**

**Amalgamated Bank Announces \$15
million Loan for Decarbonization and
Climate Resilience Initiatives**

Leaders



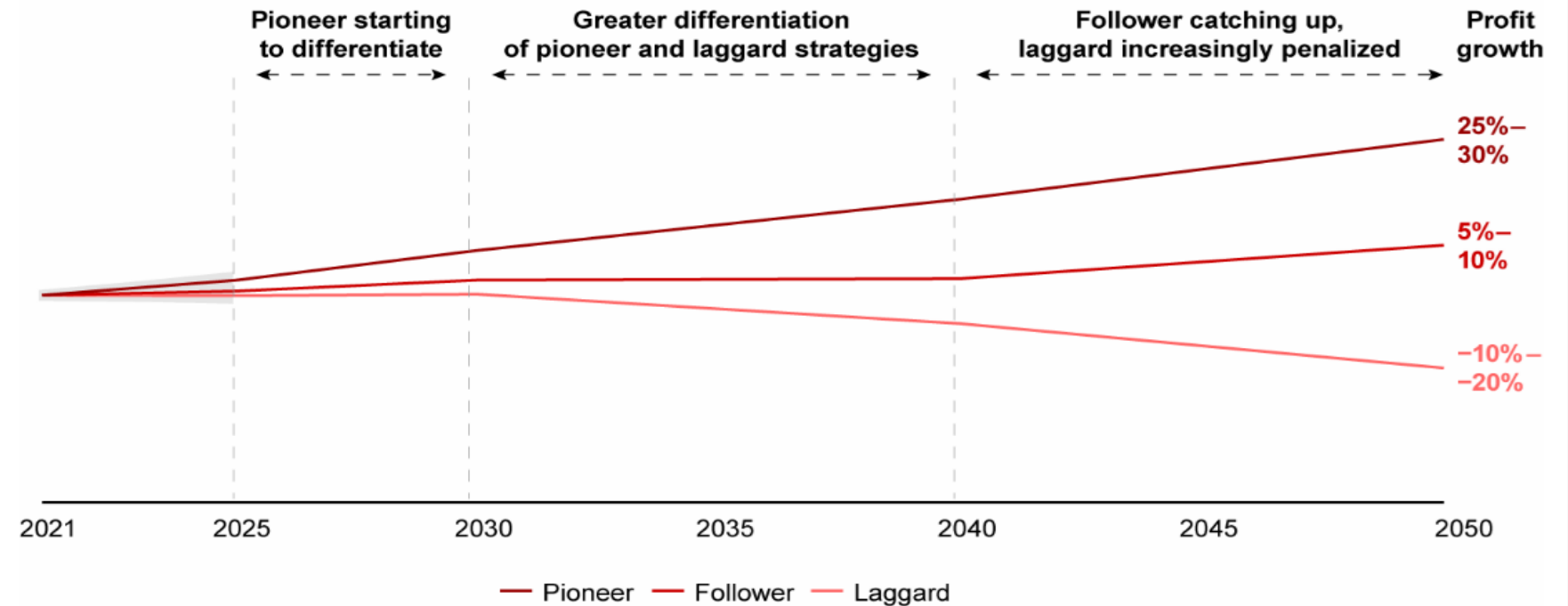
Bain & Company - Banks' great carbon challenge



Leaders

A pioneer
will start to
reap
outsized
profitability
after 2025

Profit growth, indexed to 2021



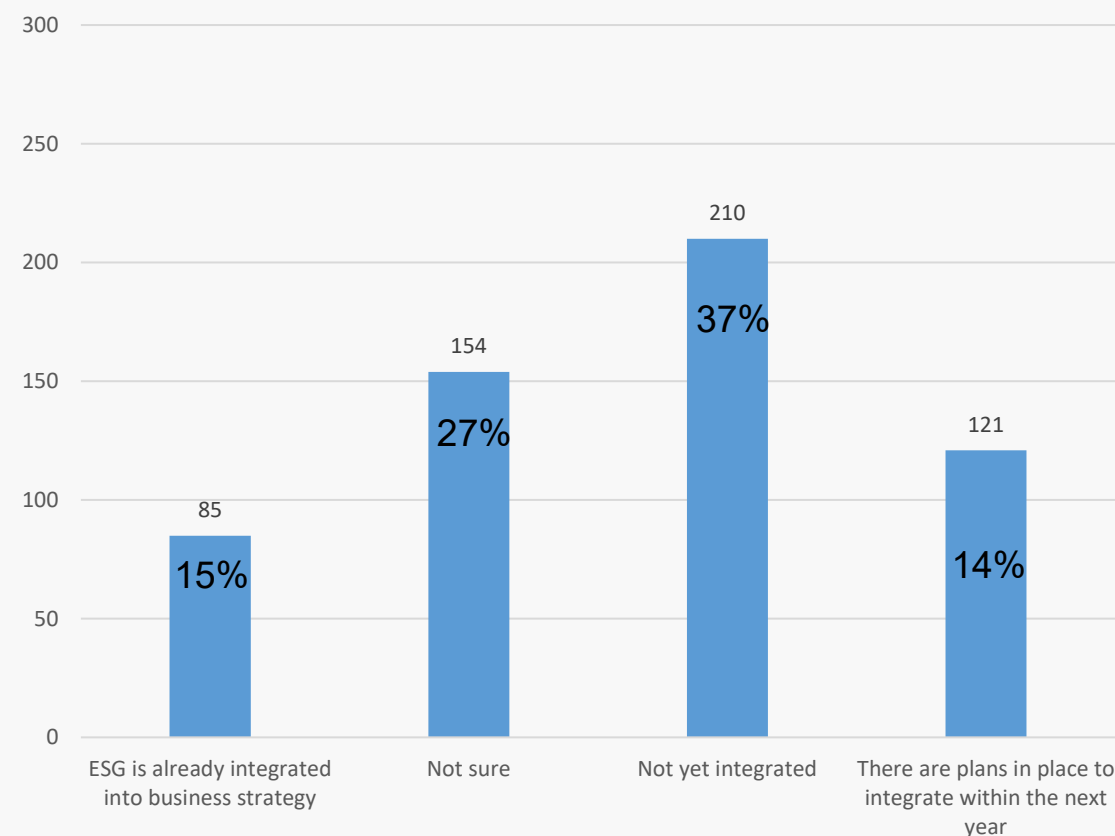
Sources: IPCC; GFANZ; annual reports; Bain analysis

Bain & Company - Banks' great carbon challenge

Crowe ESG and Banking Webinar Survey

What is the level of your organization's integration of ESG into business strategy?

n=570





Banks Who Want to Lead



Perform Climate Financial Risk Assessments



Formally Engage Stakeholders



Calculate and Disclose GHG Emissions



Launch New Products

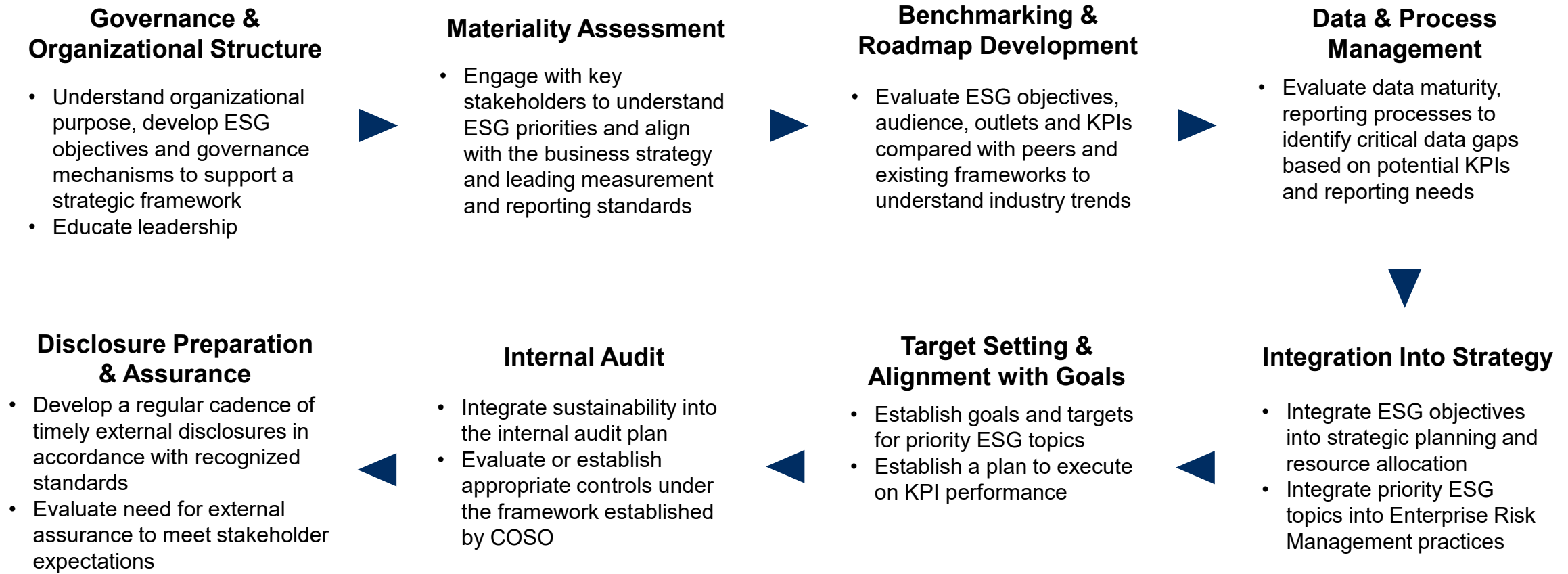


Set Climate Targets and Establish Action Plans



Collaborate and Lead (Global Alliance for Banking on Values (GABV) and/or Net-Zero Banking Alliance (NZBA))

The Journey to ESG Integration and Investor-Grade Disclosure while Meeting Regulatory Expectations



Steps to Take Now

1. Review the Bank's Current Strategy (both written and informal) through the Lens of ESG
2. Evaluate the Materiality of Specific ESG Topics
3. Engage Stakeholders
4. Formalize and Confirm the Governance Structure for Addressing ESG Issues
5. Identify the Data Requirements for Measuring and Reporting ESG Issues
6. Determine Baselines and Start Documenting Existing ESG Efforts
7. Update Senior Management, Educate Employees; and Inform All Other Stakeholders About Already-Existing ESG Efforts
8. Stay Informed on ESG Issues

QA

ESG creates
~~challenges~~
OPPORTUNITIES



Gregg Anderson

Managing Director

Gregg.Anderson@crowe.com



crowe.com/esg

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ESG Resources

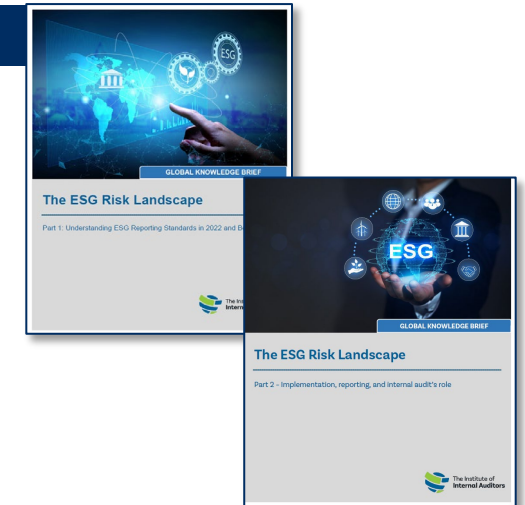
CAQ and AICPA

- **“ESG Reporting and Attestation: A Roadmap for Audit Practitioners” (February 2021)**
 - <https://www.thecaq.org/esg-reporting-and-attestation-a-roadmap-for-audit-practitioners/>
- **“Key Actions for Establishing Effective Governance Over ESG Reporting” (April 2021)**
 - https://www.thecaq.org/wp-content/uploads/2021/04/caq_key-actions-for-establishing-effective-governance-over-esg-reporting_2021-04.pdf
- **“S&P 100 and ESG Reporting” (April 2021)**
 - <https://www.thecaq.org/sp-100-and-esg-reporting/>



IIA

- **“Internal Audit Plays Critical, Collaborative Role in ESG Reporting” (February 2022)**
 - <https://www.theiia.org/en/content/communications/2022/february/internal-audit-plays-critical-collaborative-role-in-esg-reporting/>
- **“The ESG Landscape Part 1” (February 2022)**
 - <https://www.theiia.org/en/content/articles/global-knowledge-brief/2022/february/the-esg-landscape-part-1/>
- **The ESG Risk Landscape Part 2: Implementation, Reporting, and Internal Audit’s Role (March 2022)**
 - <https://www.theiia.org/en/content/articles/global-knowledge-brief/2022/february/the-esg-risk-landscape-part-2-implementation-reporting-and-internal-audits-role/>
- **“The ESG Risk Landscape, Part 3: Evaluating ESG Risk” (March 2022)**
 - <https://www.theiia.org/en/content/articles/global-knowledge-brief/2022/march/global-knowledge-brief-the-esg-risk-landscape-part-3-evaluating-esg-risk/>





Thank you

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