

Rating ESG

moderfinance

a TeamSystem company



ESG issues in finance

Sustainable finance

- Sustainable finance is a topic of growing importance, especially in relation to the European Green Deal, Europe's plan to achieve climate neutrality by 2050. In particular, the European Commission and its delegated commissions have identified the need to guide this transition by encouraging EU funding towards energy efficiency projects and deserving companies.

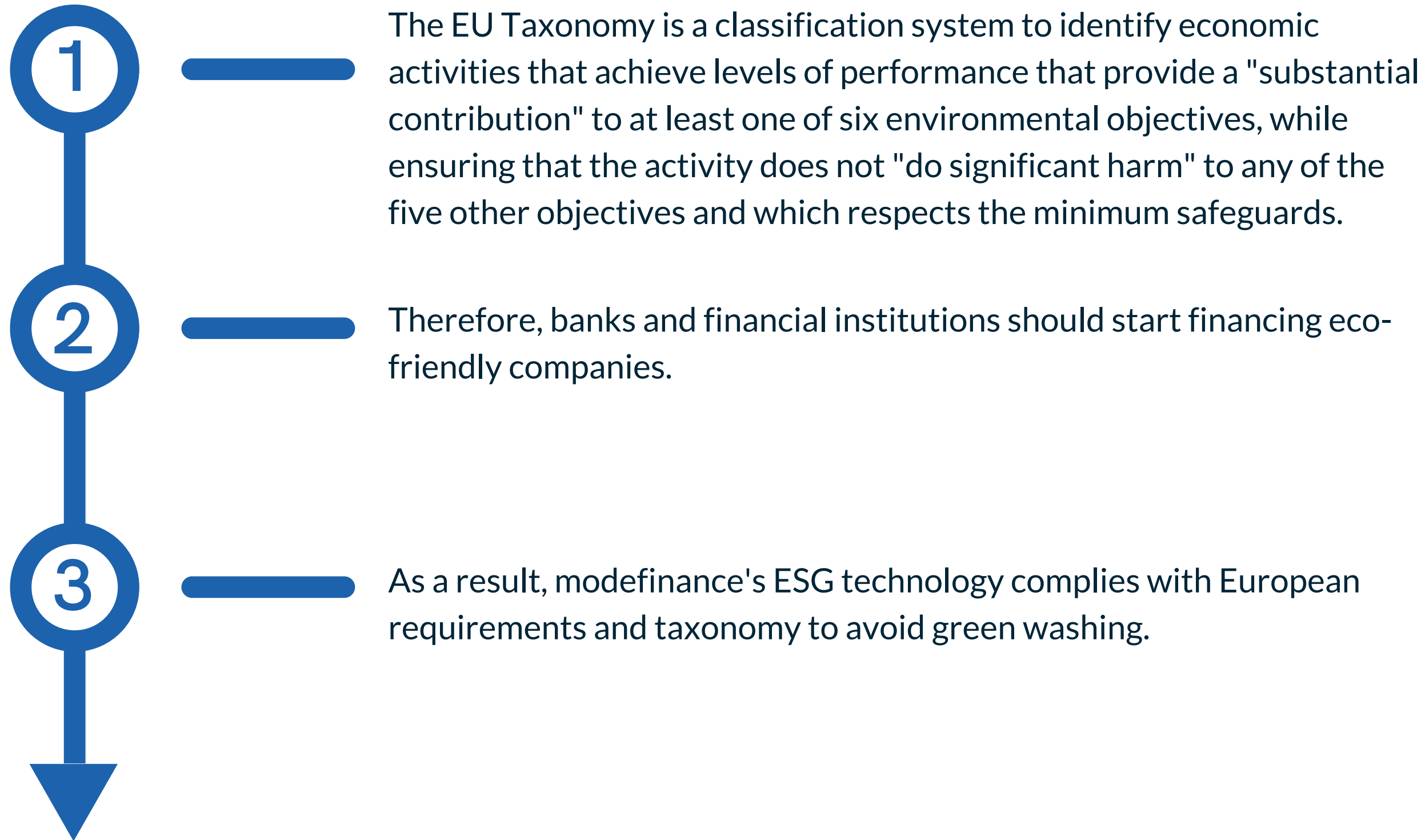
Impact

- The impact on financial institutions and companies (large and listed) will be immense, with the former needing to meet ESG reporting requirements for future credit and the latter needing to understand the strengths and weaknesses to focus their development .

The role of modefinance

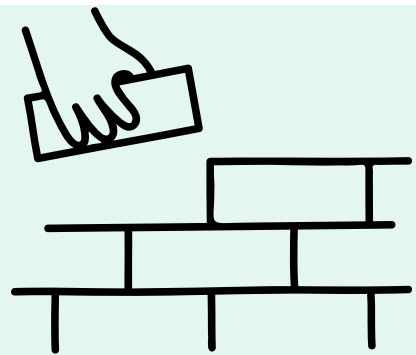
- As part of a global movement to rethink the future, modefinance aims to play a key role in the development of sustainable finance, combating the phenomenon of Greenwashing through the development of a proprietary ESG rating and, importantly, an ESG scoring model.
- Considering all this and considering that the issues of energy efficiency and ESG will be fundamental for access to company financing, the analysis of creditworthiness cannot ignore these issues. modefinance wants to provide its customers with transparency, process automation and technologies that can adapt to different individual needs, thanks to its EE-ESG scoring model, its rating methodology and integration with the tigran RaaS platform.

The objectives



- environmental objectives**
- *Mitigation and adaptation to climate change*
 - *Sustainable use and protection of water and marine resources*
 - *Transition to a circular economy*
 - *Pollution prevention and control*
 - *Protection and restoration of biodiversity and ecosystems*
 - *Promotion of green investments*

The positioning of modefinance



Developing an evaluation procedure on ESG issues is not an easy task and must start from the definition of an adequate scoring model.
modefinance approached this design using a multidisciplinary process: integration of technology and knowledge between the Fintech team, the Rating Team and the IT Team.

Thanks to the technology developed and the predisposition to research, modefinance is part, together with important private and public research centers, of the European Transpareens project, which aims to develop a scoring model for SMEs on EE and ESG issues.



Within this project, modefinance deals with the development of a model for SMEs, which goes from the collection of variables to the development of a questionnaire to be submitted to Italian SMEs.

Partners



Università
Ca' Foscari
Venezia



EMF | ECBC
EUROPEAN MORTGAGE FEDERATION
EUROPEAN COVERED BOND COUNCIL



Sustainability: the vision of modefinance



- Each of the three sets represents a complex set of topics.
- Only the area represented as the intersection of the three sets indicates truly sustainable development, where all the identified aspects are reconciled.
- No area can be "preferred" to the detriment of the others.
- Corporate Governance is a key element in modefinance's ESG Rating and reflects our belief that poor governance poses material risks to companies.

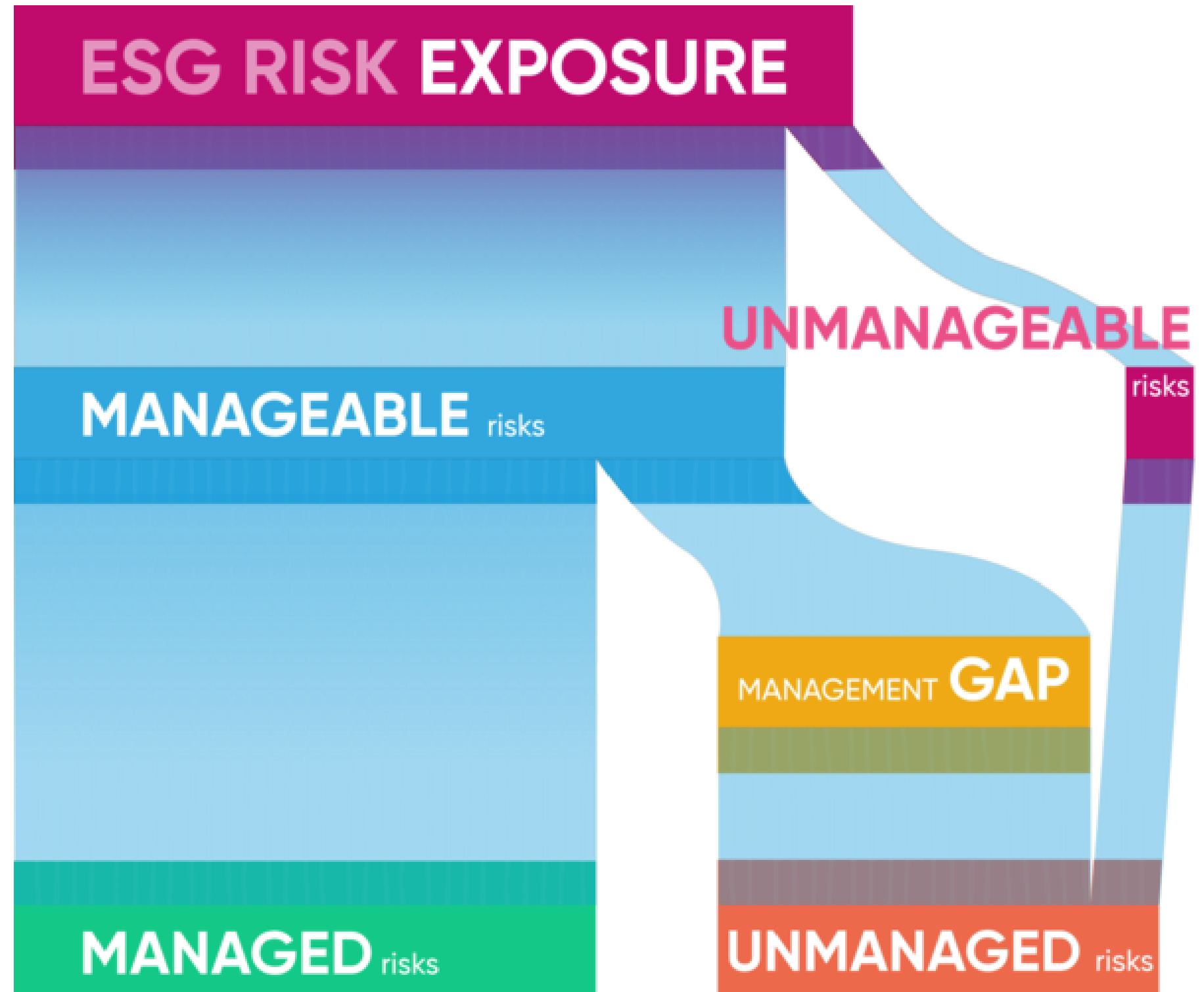
Sustainability: the vision of modefinance

In order to be as consistent as possible with global policies, modefinance adopts the **SUSTAINABLE DEVELOPMENT GOALS** defined by the UN within its methodologies.



➤ Dynamism/fragility in risk management

In the modefinance vision, an "exposure VS. management" perspective is paramount: ESG factors that pose potential economic risks that compromise the health of the company are assessed against a series of management indicators (policies, management systems, certifications, etc.) and results-focused indicators, to measure whether the company is able to manage these risks.



▶ The ESG rating scale



DYNAMIC

Company aware of the ESG risks to which it is subjected and which demonstrates that it actively implements the policies and procedures for their management.

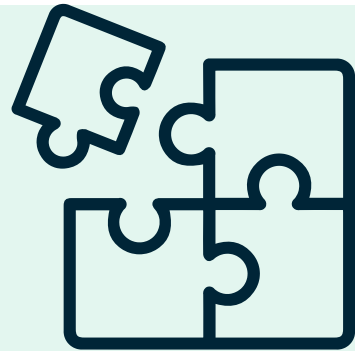
AWARE

Company aware of the ESG risks to which it is subjected and intends to begin determining and designing policies for managing them.

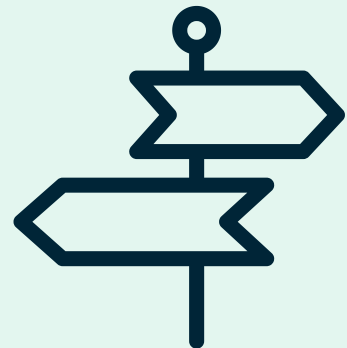
FRAGILE

Company not aware of the ESG risks to which it is subjected and which would consequently be vulnerable to the manifestation of the same.

➤ The modefinance ESG model



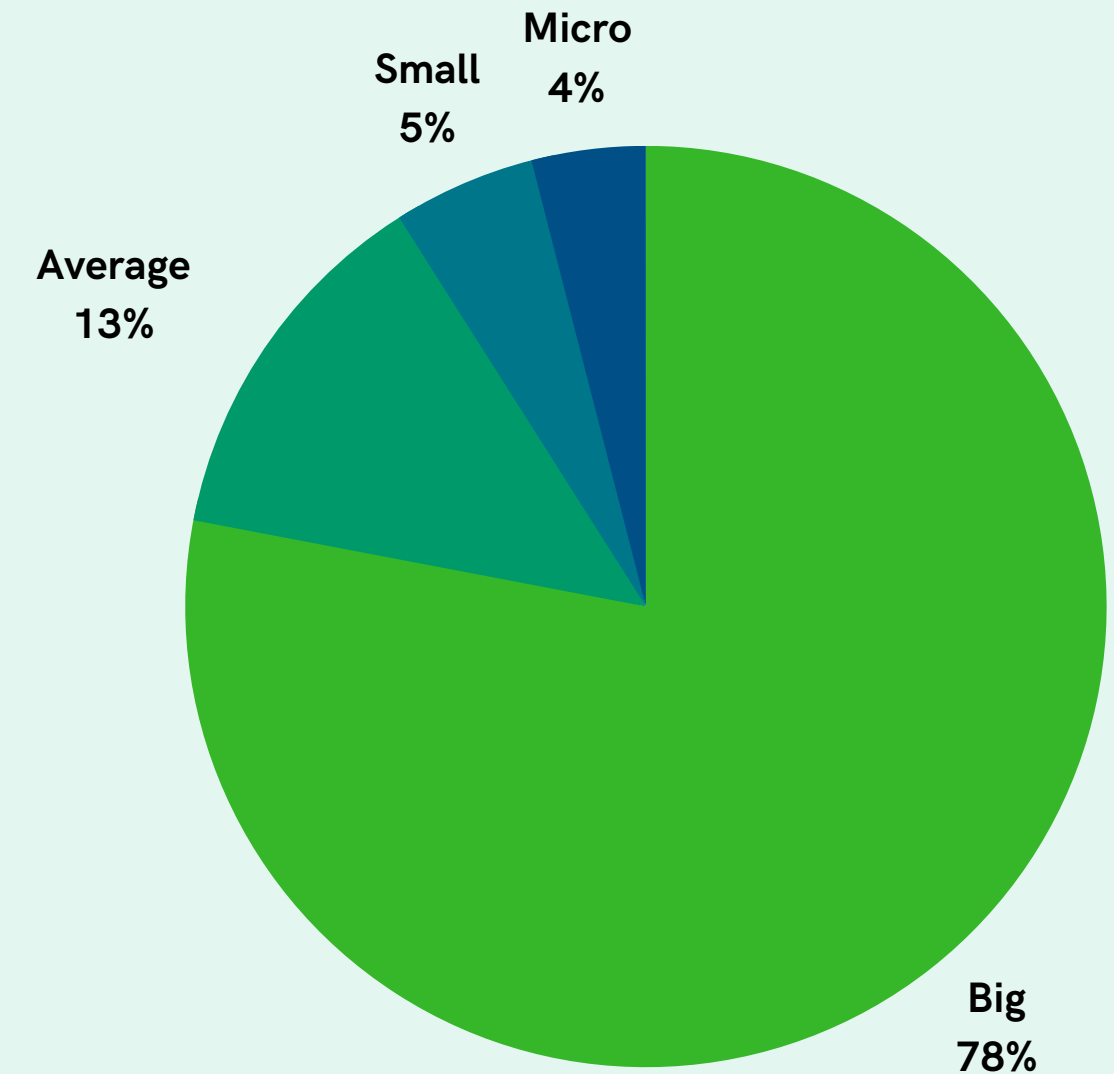
modefinance's ESG model is based on a set of KPIs based on data availability, ease of collection, and guiding principles defined by sustainability frameworks (e.g. Taxonomy, Universal Declaration of Human Rights, OECD Organization for Economic Co-operation and Development , ILO, Global reporting initiative etc.)



Two types of KPIs are used:
 Generic KPIs: transversal indicators and therefore applicable to all sectors;
 Sectoral KPIs: non-transversal indicators, applicable depending on the reference sector.

The "specificities" of these KPIs are studied starting from a set of listed companies with the following characteristics, but are then applied, using a fractal model, also to SMEs, in order to adapt to the individual specific data recovery possibilities.

COMPOSITION OF THE COMPANY DATASET



The ESG analysis of modefinance

- modefinance's ESG analysis, divided into three pillars - environmental, social, governance - stands out for its modularity and customization - both in terms of the breadth and depth of the investigation and in terms of the needs which the analysis aims to respond to - always depending on the size and complexity of the organisation/company analysed.
- modefinance's ESG analysis incorporates the principles of the EU Taxonomy, mapping the economic sectors included and the related technical screening criteria. Analyzes companies' environmental, social, economic and corporate governance exposures and practices through quantitative and qualitative information. The analysis involves the evaluation of the reference framework, comparison with peers/benchmarks, as well as consistency tests and analytical interpretation in a "forward-looking" perspective.
- Importantly, modefinance's ESG analysis also evaluates reputational risk and subsequent financial repercussions by taking into account controversies the company may be involved in, from corruption, to workplace discrimination, environmental incidents and compliance to international norms and principles.



Our ESG assessments offer

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ESG Assessment



ESG assessment measures the long-term sustainability and future social and environmental impact of a business. The modefinance proprietary system of integrated ESG assessments is based on the most modern AI technologies and the aggregation of standardized ESG data sources to achieve positive results on both a financial, social and environmental level.

A high ESG score reflects high performance at the company's level of social responsibility, and helps increase brand value.

The modefinance ESG Assessment is a summary assessment of the ESG situation. Sustainability indicators help certify the solidity of the company through the quality of the governance body, the management's ability to identify risks, and the actions undertaken (or in the process of being adopted) to support environmental sustainability, offering a vision transparent, global and easy to understand the competitive business position with stable returns over time of a small and medium-sized enterprise.

Sustainability indicators aim to capture the quality of the governing body and the management's ability to identify environmental and social risks and opportunities, and translate them into organizational change and product improvement, considering the economic sector, places, dimensions and the complexity of the company.

Dynamic

Aware

Fragile

ESG Assessment - Model scheme

The rapid and automatic evaluation obtained with the ESG Fast Core model can subsequently be enriched by completing a questionnaire - available on the Tigran platform.

The questions are structured in order to capture the salient aspects of sustainability issues.





The environmental pillar

➔ The evaluation of a company's commitment from an environmental perspective is based on what is defined in the European Taxonomy Regulation. It specifies 6 different strategic objectives that companies must address in order to move the economy towards sustainable development.





The environmental pillar

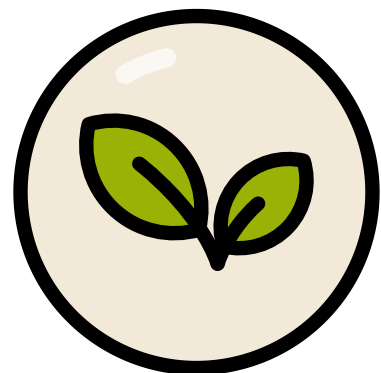
Our model is focused on those specific actions that the company can carry out in order to reduce its impact on climate change and water stress.

- Reduction of greenhouse gas emissions (GHG emissions);
- Greater efficiency in the use of resources;
- Investments in the circular economy.

All these actions are strongly supported by the European Union.

Low environmental performance can induce financial risks triggered by the adverse reaction of stakeholders such as:

- Increased taxation by governments: carbon, gas, electricity taxes.
- Loss of customers more interested in using products obtained from renewable sources.
- Disputes with the community due to the environmental impact of a production activity.



Some environmental KPIs

KPI	KPI
Scope 1 emissions (tonnes of direct CO2 and equivalent CO2 emissions)	Specify the share of electric energy consumption coming from renewable sources
Scope 2 emissions (tonnes of indirect CO2 and equivalent CO2 emissions)	Does the company possess hydro efficiency objectives?
Energy consumption in GJ	Does the company possess hydro efficiency policies?
Does the company possess energy efficiency policies?	Is the company active in waste recycling? If so, indicate the share of the total waste
Have energy efficiency targets been defined?	



The social pillar

➔ Estimating a company's commitment to social responsibility issues is not a simple undertaking, as there are no single criteria, methodologies and common regulatory frameworks in Europe and the rest of the world.

However, it is important, in identifying the factors that outline the social pillar, to start from the rules and principles (shown below) existing at a European and international level, as well as to refer to the reporting framework such as GRI.

- 1. European Convention on Human Rights*
- 2. UN Guiding Principles on Business and Human Rights*



Dependence on size, sector, geographical area

From the study of the available data it can be seen that for many KPIs the evaluation depends on the characteristics of the company in question, such as size, sector and geographical area.

For example, a high employee turnover value could indicate unsatisfactory or inadequate working conditions, however the company size can have an impact on the interpretation of this data.



Some social KPIs

KPI	KPI
What's the company accident rate within the company?	Please provide the gender gap as female/male remuneration ratio
Select the type of benefits and welfare tools available for the employees	Please fill the following table of number of males and females per seniority
Does the company provide its employees with training courses on hard and soft skills?	Average age of employees
Are ESG topics considered when choosing between one or more suppliers?	Does the company impacts its community with civic activities?



The pillar of governance

➔ The pillar for governance responsibilities is -probably- the most important, it defines the set of rules that the company must follow and which will have an impact on both environmental, social and governance factors.

The following aspects are evaluated in the analysis:

- Quality of governance in terms of:
 - 1.- *Board of Directors*
 - 2.- *Committee for external and internal control*
- Presence of committees within the Board of Directors;
- Materiality analysis;
- Stakeholder involvement and CSR strategies.



Some governance KPIs

KPI	KPI
What's the governance structure in the company?	Does the company have a risk management committee
Specify the number of people in the Board of Directors	Is there a remuneration committee within the organization?
Specify the number of independent members within the Board of Directors	Is there any form of annual reporting on the ESG activities, objectives and performances?
Is there an external auditing company?	



Methodologies for evaluating ESG metrics

Best-in-class performance:

this methodology consists of identifying within a homogeneous group those companies that obtain the best performances and then using them as a reference to assign a rating.

This approach is all the more reliable the more compatible the reference group of the company in question is in terms of company size and business activities.

We have data from SMEs collected as part of the European TranspArEEs project.

Impact-based approach:

this methodology consists in evaluating the impact that an activity has on the environment (for example: water withdrawal, GHG emissions) taking into account territorial specificities. Performance qualities are assessed against a given threshold.

Relative improvement approach:

this methodology is used to evaluate trends in ESG metrics, think for example of those variables for which historical data is asked to be reported (for example GHG emissions).

Additional data sources

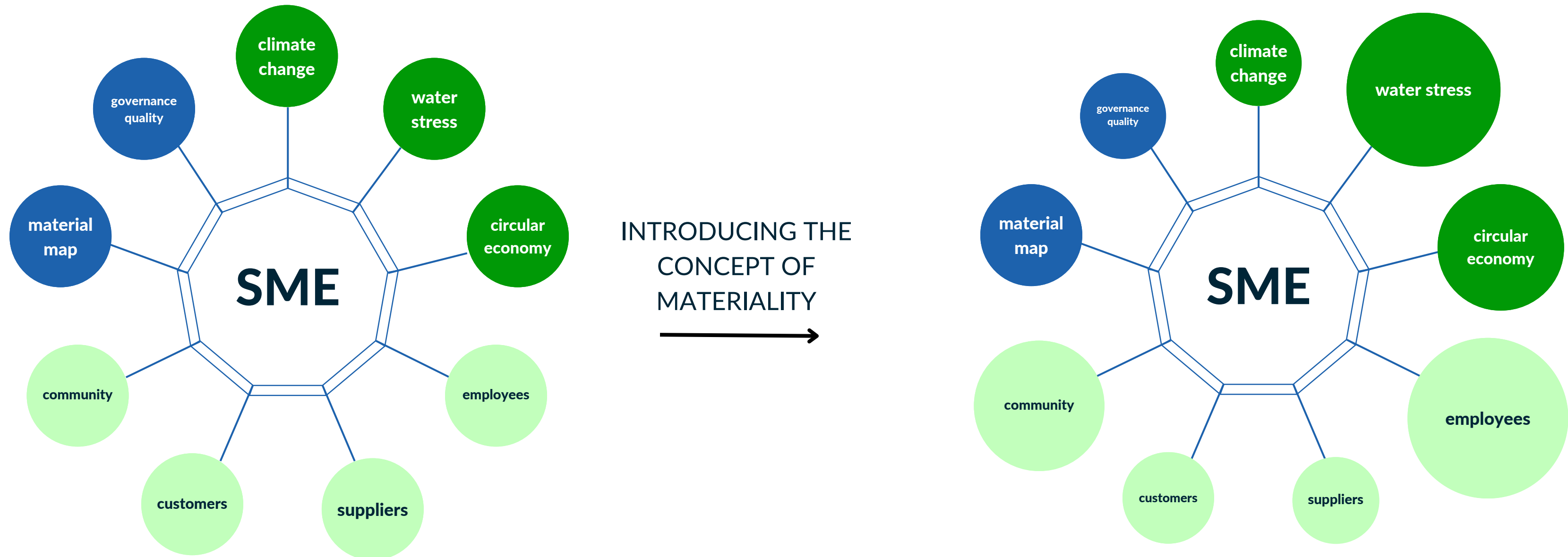
To evaluate the KPIs of the model it is necessary to use a statistical approach which, in turn, requires the availability of a large number of historical data.

Alongside the data collected by the TranspArEEs project on listed companies and SMEs, another important public data source that makes a large set of statistical trends available is EUROSTAT. With EUROSTAT it is possible to define benchmarks at a European level in order to obtain a more accurate evaluation of the model indicators.

To evaluate the governance factors, additional data sources internal to modefinance are used.

Weights and materiality maps

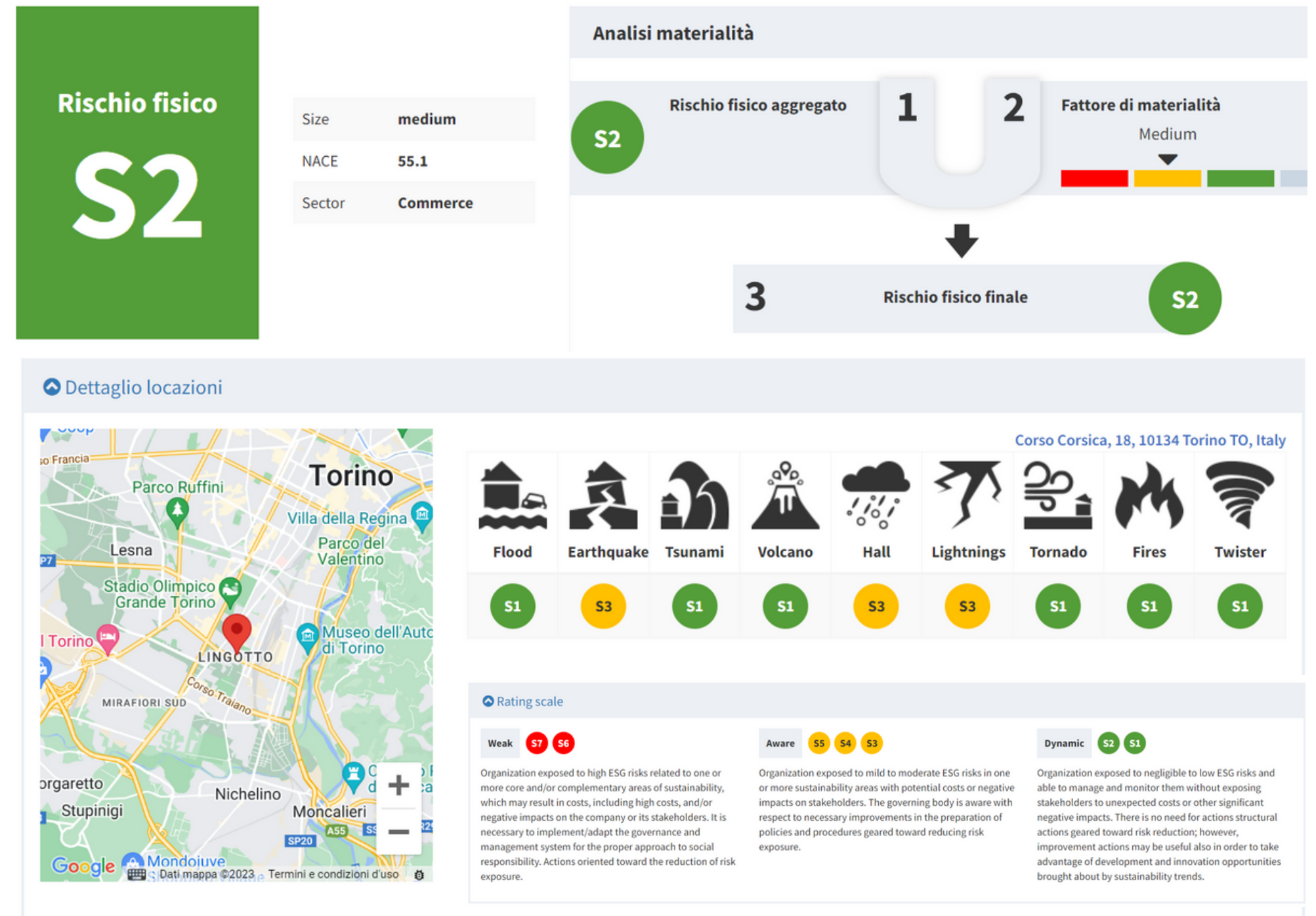
Starting from a common evaluation framework, the model is verticalized to a specific business area. The ESG factors considered most relevant for the company will guide the final score.



ESG score integrated into Tigran



All modefinance's tools and models are embedded within the proprietary platform Tigran. The platform integrates both quantitative analysis based on physical risk evaluation and board/balance sheet data as well as the more qualitative oriented analysis and a "core assessment" to evaluate the high level commitment and preparation of a firm against ESG topics.



➤ Example of ESG analysis - physical and transition risk

Physical and transition risk models are meant to give a fast overview of the strengths and vulnerabilities of a SME in relationship to existing risks as well as the actions taken by the firm to manage the ESG transition.

Registry / MECCANICA BAUD... / Pratica ESG / Automated ESG + Transition Risk

Dettagli analisi

Automated ESG + Transition Risk Company xyz

PDF Excel EUR

General information Environmental focus Social focus Governance focus Approval

S2 S4 S3

Physical risk Transition risk

Step 2/8 - Transition risk analysis

Energy consumption and mix		
KPI	GRI corresponding variable	Answer
In relationship to the energy supplier, is the energy mix mostly comprised of renewable energy sources (above 50%)?	302-1 Energy consumption within the organization	Yes
Does the company possess self energy production capabilities? If yes, detail the type of facilities.		<ul style="list-style-type: none"> No Wind Photovoltaic Waste to energy Hydroelectric Biogas Fossil fuels Trigeneration Cogeneration

➤ Example of ESG analysis - fast ESG

The Fast ESG is a model meant to assess on publicly available data (limitations due to regional availability of data may apply) the ESG outlook of a company. It takes into account the physical risk of the firm, the attention of the firm against its employees and the governance of the company.

Registry / EME S.R.L. / Pratica ESG / Automated ESG

Dettagli analisi

Automated ESG Company xyz

PDF Excel EUR

General information Environmental focus Social focus Governance focus Approval

S2 S3 S3 S2 S2

Physical risk

Step 2/6 - Physical risk

Physical risk S2

NACE	26.60.02
Sector	Industry

Materiality analysis

1 Overall physical risk S2

2 Materiality impact Medium

3 Materiality weighted physical risk S2

➤ Example of ESG analysis - Core assessment

The core assessment model is aimed at giving a simple, first level assessment of the ESG compliance of a company, as well the actions the company is or is not taking to match the key ESG topics. This model is developed around a simple questionnaire, shown in the image, to broaden the set of companies that can fill the data.

The screenshot displays the 'Analysis details' page for 'Company xyz' under the 'ESG Core Assessment - Unsolicited' category. The progress bar indicates the following status: General information (checked), Environmental (S3, active), Social (S4, pending), Governance (S2, pending), and Score ESG (pending). The active 'Environmental' section shows 'Step 2/11 - Environmental' with a question: '1) Has a quantitative based energy policy been defined?'. The options are: Yes (selected), It's being implemented, It's in the company's short term objectives (specify due date for the activity), No, and Else, not applicable (please give details).

Example of ESG analysis - advanced ESG

The advanced ESG model is the most accurate model of modefinance. This model is strongly customizable although a “standard version” exists. The model can leverage more than 50 KPIs (with more added every month) to completely assess the ESG risk originating from a company.

Registry / SACER - ULIANA L... / Pratica ESG / ESG Advanced Assessment

Analysis details

ESG Advanced Assessment Company xyz

PDF Excel EUR

General informations E - Environmental S - Social G - Governance ESG Rating

S5 S2 S5 S2

Transition Risk Environmental

Step 2/8 - Transition risk analysis

Energy consumption and mix		
KPI	GRI corresponding variable	Answer
In relationship to the energy supplier, is the energy mix mostly comprised of renewable energy sources (above 50%)?	302-1 Energy consumption within the organization	Yes
Does the company possess self energy production capabilities? If yes, detail the type of facilities.		<ul style="list-style-type: none"> No Wind Photovoltaic Waste to energy Hydroelectric Biogas Fossil fuels Trigeneration Cogeneration

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