



IMPACT REPORT 2020

Executive Summary - June 2020

INTRODUCTION

2019 marked Banca Etica's twentieth year of activity. It was a year filled with new initiatives and good results, which we're able to describe in detail in terms of social and environmental impact for the first time.

We believe that this represents an important step towards realising the objectives that have always characterised our work, as described in our "founding" documents, such as our Articles of Association and the Ethical Finance Manifesto: transparency and accountability.

This report provides all stakeholders with our definition of the "impact" concept and, above all, the data collected with the most recent version of our recording, measurement and reporting procedure: the "Socio-Environmental Impact Assessment" (SEA).

Our bank carefully collects information on the corporate social responsibility profile of its clients, partners and investee organisations, allowing us to report on the bank's social-environmental impact with regard to all its lending and investment activities: loans to companies and organisations, loans to people and financial assets.

The real highlight of this report is undoubtedly the impact generated by the organisations and companies that we finance. Data collection in this regard is managed by our "Credit Platform", an internet-based tool that allows us to liaise with all those who play a part in our lending activities: bank operators, voluntary partners and clients. Special thanks therefore go to all our clients, who have dedicated their time to filling in the onerous questionnaire that allows the bank to ensure its loans are ethical in nature, and to our Impact Models and SEA department in charge of producing the impact reporting presented herein.

A great deal of analytical work is carried out by our branches and network of Social Assessors, who meet with clients, guaranteeing the quality of the information collected. Our special thanks also go to them, who have made it possible for the bank to now be able to offer all this information.

As always, this represents a new step on a long journey: we remain committed to improve even further. This year, numerous technical and procedural changes will come into effect, which are the result of a lengthy task to gather feedback (suggestions and criticism!) from the various stakeholders involved. Starting from 2020, our Social-Environmental Assessment will also cover the Spain Area.

This report answers the question asked by so many of our savers: "Can I really use my money to support people and organisations whose work focuses on helping communities and the planet?".

Happy reading!

On behalf of the BoD - The Chair

Anna Fasano

"Ethically oriented finance: (...)

4. Transparency:

(...) Depositors are entitled to be informed about how the financial institution works and about its lending and investment decisions. The ethically oriented intermediary shall provide appropriate information channels to ensure the transparency of its work.

taken from the Ethical Finance Manifesto, 1998.

HIGHLIGHTS

Please find below some examples of the positive impacts generated by the loans granted by Banca Etica in 2019

- 9,800 new jobs created
- 4,000 vulnerable people entered the world of work
- 4,100 cultural events held, attended by 885,000 people
- 8,300 migrants welcomed in a dignified way
- 38,000 people received social care services
- 456 homes for 474 families through social housing projects
- 107,000 people attended education/training courses
- 138,000 people received assistance through international cooperation projects
- 5,000 hectares of land farmed organically, producing 18,000 tonnes of organic food
- 291,000 tonnes of waste recycled
- 425 jobs saved through the financing of 24 worker buy-outs
- 58,000 people encouraged to do sports
- Renewable energy systems with a capacity of 6 MW installed
- 28% of companies financed by Banca Etica in 2019 were female enterprises, creating 1,000 new jobs
- 4,900 tonnes of CO2 emissions saved
- 44% of personal loans granted to women
- 20% of personal loans granted to citizens from southern hemisphere countries

What does “impact” mean for Banca Etica?

The loans granted by Banca Etica have a positive impact because they contribute towards creating a more just and inclusive society that respects people and ecosystems, building new development models that harmoniously bring together economic, social and environmental sustainability.

After years of analysis and research, we’re now able to finally present a report that measures the impacts achieved by our lending activities to companies and organisations, aimed at effectively fulfilling the fundamental obligation of accountability for our actions, as stated in the Ethical Finance Manifesto of 1998.

Impact Finance positioning

Based on the framework proposed by the OECD in 2019, Banca Etica works in the field of both social financing (i.e. generating a social return and with a below-the-market rate) and impact investments with financial returns in line with market rates. Some of the bank’s lending activities also fall under the category of “Sustainable and responsible investments”, i.e. financing (especially personal loans) granted by only taking into account the exclusion criteria adopted by the bank, which, in any case, guarantee the “non-detrimental” nature of the investment.

Category	Social impact investing					
	Traditional philanthropy (donations)	Philanthropy with investments in risk capital	Social investments	Impact investments	Sustainable and responsible investments	Exclusively “commercial” companies/investors
Focus/ Objectives	Addressing social challenges by offering donations	Addressing social challenges with a venture capital investment approach	Investments focused on social and/or environmental results and partly on expected financial returns	Investments aimed at obtaining social and/or environmental as well as financial performance	Adapting environmental, social and governance practices in order to add value or mitigating these practices to protect value	Limited or no respect for environmental, social or governance practices
Expected returns	Only social return	Focused on social return	Social return and below-the-market financial rate	Social return and market financial rate	Paying attention (also) to market financial rates	Only market financial rate
	SOCIAL IMPACT		SOCIAL AND FINANCIAL IMPACT		FINANCIAL RETURNS	
Banca Etica Group’s Presence/ Activities	FEE foundations (Italy and Spain)		Credit (Banca Etica)			
	Donations approved by the shareholders’ meeting (Banca Etica)		Financial equity investments (Banca Etica)		Purchasing government securities (Banca Etica)	
	Microcredit guarantee fund (subscribed by clients of Etica Sgr)		‘Avanzi Impact’ fund	Fund management (Etica Sgr)		Shareholder engagement (Etica Sgr)

Source: OECD 2019, “Social impact investment: the impact imperative for sustainable development”

How Banca Etica uses its resources

Lending: composition of the loan portfolio

Composition of the loan portfolio as of 31/12/2019 (credit used)			
	Loans (€M)	of which impact finance (% , €M)	
People	338.4	70.7%	239.4
Organisations and companies	665.8	100.0%	665.8
Total	1,004.2	90.1%	904.8

Organisations and companies: all loans may be considered impact financing. In fact, all clients that receive financing must first pass our thorough Socio-Environmental Assessment, presenting a corporate social responsibility profile.

People and families: we class loans granted to women, young people, the unemployed, immigrants from the southern hemisphere and people with a low level of education to be examples of impact financing. Loans that are specifically designed to generate a positive impact.

Investments: composition of the securities portfolio

Composition of the securities portfolio as of 31/12/2019		
	value (€M)	%
Government	983.5	95.2%
Impact	44.7	4.3%
Other	4.7	0.5%
Total	1,032.9	100.0%

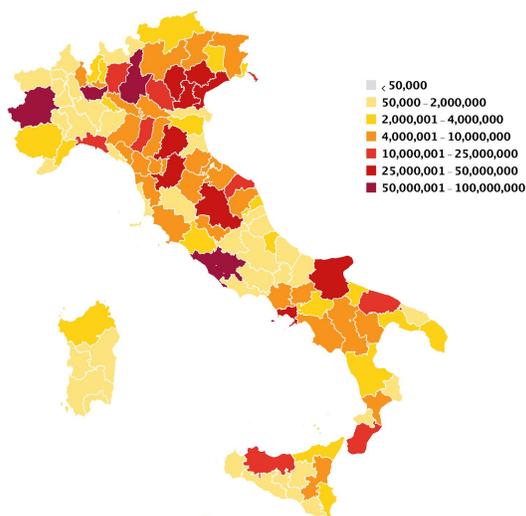
Corporate and government securities are chosen based on exclusion criteria that guarantee the ethical nature of investments, selecting virtuous options in terms of ESG:

- **Government securities:** we exclude securities issued by countries that still have the death penalty or that do not guarantee civil liberties, press freedom and political rights.
- **Corporate securities:** we exclude investments in arms, tobacco, gambling, nuclear energy, pesticides and genetic engineering. We also exclude companies that have been involved with incidents involving corruption and failure to respect the environment or workers' rights.

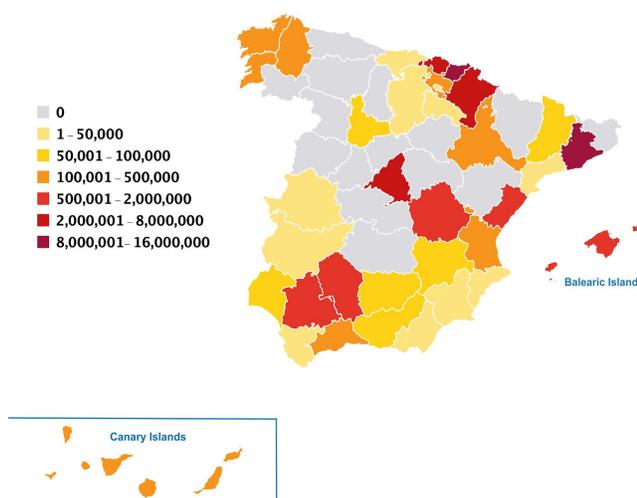
Furthermore, we currently **do not invest in the financial, oil or mining industries.**

Lending per geographical area

Credit used as of 31/12/2019 per province – Italy



Credit used as of 31/12/2019 per province – Spain



Credit used and lending-to-funding ratio: a comparison between Banca Etica in Italy and the Italian banking system (31/12/2019)

Geographical area	% credit used		lending-to-funding ratio	
	Banca Etica	Total Italy	Banca Etica	Total Italy
Southern Italy	19.2%	14.8%	1.6	0.8
Regions with a high risk of poverty or social exclusion	18.9%	14.7%	1.6	0.8
Provinces with a high unemployment rate	8.4%	5.3%	1.9	0.8
Provinces with a high rate of financial exclusion	3.2%	2.0%	1.5	0.6

Impact of loans: Direct and Indirect impact

Banca Etica investigates how its loans are used from both a direct (**direct impact**, i.e. the specific activities the financing will be used for) and an indirect point of view (**indirect impact**, i.e. defining/identifying the areas of impact of the organisation's general activities). Direct impact is then specifically monitored by collecting data relating to specific quantitative indicators.

However, we also consider impact financing to refer to indirect impacts generated by organisations and companies that create positive change. It is of course possible that some organisations, especially the larger and more complex ones, have more than one sector of impact and the bank is therefore not able to discern how much of its loan will affect the various components (which may, in many cases, be synergetic).

New loans granted (net amount approved) by area and type of impact - 2019

Area of impact	Direct impact		Indirect impact	Total impacts
	(€M)	%	(€M)	(€M)
Social assistance	€ 54.7	17.4%	€ 17.2	€ 71.9
Culture	€ 37.3	11.9%	€ 11.7	€ 49.0
Combating climate change	€ 33.5	10.7%	€ 4.8	€ 38.3
Helping disadvantaged people to find work	€ 30.9	9.8%	€ 20.8	€ 51.7
Welcoming migrants	€ 29.5	9.4%	€ 26.0	€ 55.4
Social housing	€ 21.5	6.8%	€ 5.3	€ 26.7
Education and research	€ 16.5	5.3%	€ 10.7	€ 27.2
International cooperation	€ 16.0	5.1%	€ 2.0	€ 18.0
Organic farming	€ 15.5	4.9%	€ 2.8	€ 18.4
Environmental protection	€ 14.6	4.6%	€ 3.0	€ 17.6
Health	€ 14.6	4.6%	€ 11.6	€ 26.2
Other impacts	€ 10.7	3.4%	€ -	€ 10.7
Worker buy-outs	€ 7.7	2.5%	€ -	€ 7.7
Sport	€ 5.8	1.8%	€ 2.2	€ 8.0
Management of confiscated goods	€ 5.7	1.8%	€ -	€ 5.7

* the sum of the items is greater than the total as each loan may have an impact in more than one area.

In addition to monetary measures, Banca Etica supervises specifically the direct impact of every granted credit. Clients declare what is the foreseen actual impact generated by the use of the financing in terms of non-monetary indicators. The information is then validated through the Socio Environmental Assessment procedure. For each area of impact Banca Etica collects data about one or more specific quantitative indicator.

Impacts directly generated by granted loans - 2019

Area of impact	Specific impacts produced by clients		
	€M	Organizations	Non-monetary indicators
Social assistance	€ 54.7	220	38,587 people received social care services
Culture	€ 8	115	4,123 cultural events 884,015 people attended
Combating climate change	€13.4	25	596 renewable energy systems installed 6 MW of clean energy produced
			207 energy efficiency interventions 560 MWh saved
Helping disadvantaged people to find work	€ 30.8	180	3,996 vulnerable people entered the world of work
Welcoming migrants	€ 29.5	99	8,291 migrants welcomed in a dignified way
Social housing	€ 21.5	33	456 houses available 474 families housed
Education and research	€ 16.5	108	106,997 people involved
	€ 4.3	33	540 research projects
International cooperation	€ 16.0	43	38 projects 138,000 people aided
Organic farming	€ 3.1	24	18,561 tonnes of organic food 4,913 hectares of land
Environmental protection	€ 7.6	11	86,837 tonnes of waste reused 203,785 tonnes of waste recycled
Health	€ 10.6	50	13,039 patients assisted
Worker buy-outs	€ 3.5	11	425 jobs saved
Sport	€ 5.8	33	58,349 people encouraged to do sports

Microfinance

Microcredit and microfinance are among the cornerstones of our Ethical Finance project¹, representing effective tools to develop entrepreneurial and social initiatives and to combat poverty.

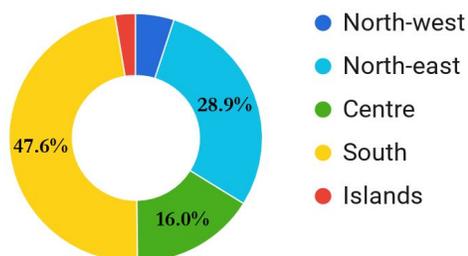
We develop these projects by integrating them with training and support activities, always working with professional partners that share our values and with local social networks - the public administration or voluntary organisations - guaranteeing the link between the bank, the local area and the people benefiting from the financing.

Almost 5 million euros in microfinancing have been provided by Banca Etica **in Italy and Spain**.

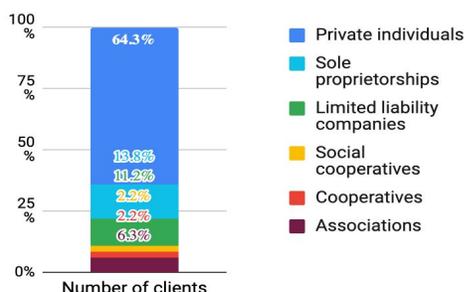
Microfinancing in Italy – 2019			
Microcredit granted directly	Loans to microfinance institutions	Other investments and equity holdings	TOTAL microfinancing in Italy
3,465,780	200,000	1,294,070	4,959,850

Half of the microcredit granted directly by Banca Etica went to clients in the south of Italy. In the vast majority of cases, loan beneficiaries are individuals or sole proprietorships. 37% of these two groups are represented by women and 6% by citizens of southern hemisphere countries².

Geographical distribution of microfinancing clients in Italy



Legal form of microfinancing clients in Italy



Abroad. Since it was first founded, Banca Etica has been committed to supporting microfinance institutions operating in the “global South”. In 2019, this commitment exceeded **Euro 15 million** in equity investments and financing.

¹ www.bancaetica.it/progetti-speciali/microcredito-microfinanza

² Citizens coming from Asia, Africa and Latin America

Female entrepreneurship

Banca Etica was founded twenty-one years ago and the fact that its birthday falls on 8th March acts as a constant reminder that women are a pillar of our economy and our society, and that there is still much to be done in order for their role to be fully recognised.

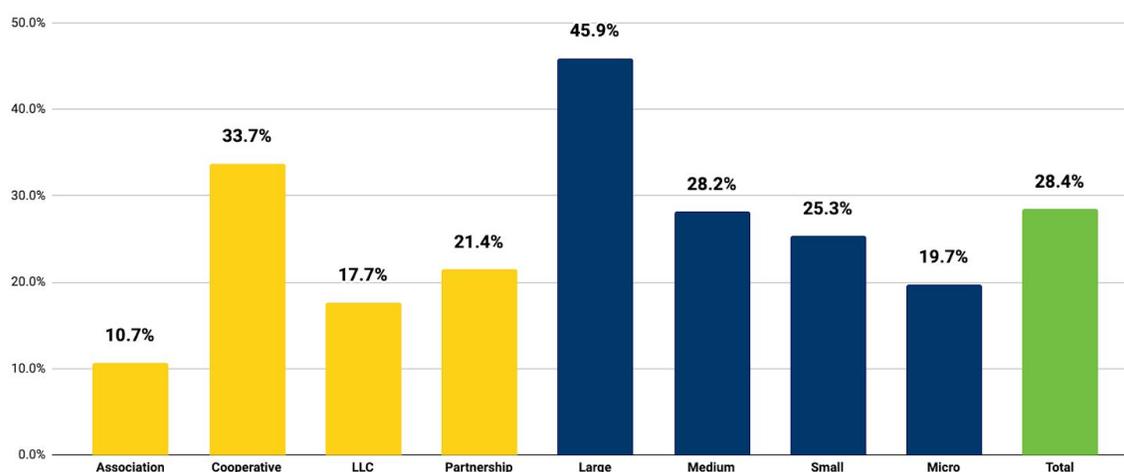
We promote gender equality and female **empowerment** by granting loans to support female entrepreneurship and to encourage financial inclusion for women.

We consider any company with a number of female directors exceeding the thresholds defined by Italian law no. 198/2006 to be a “female enterprise”.³

In 2019, Banca Etica funded 328 female enterprises, representing **28% of the organisations and companies financed** by the bank in 2019. Considering that, in Italy, these companies represent 22% of the total (Unioncamere data⁴, 2018), it is clear that the bank has a particular inclination towards these enterprises.

However, not all the types of organisations that receive financing are represented by the same proportion of female enterprises. In 2019, 46% of large companies and a third of cooperatives were run by women, with this number decreasing to 11% for associations.

Percentage of female enterprises in the groups of enterprises defined by type and size – 2019



In 2019, it was more common to find female enterprises working in the typical sectors of social assistance, culture, social co-operatives and welcoming migrants.

³ Italian law no. 198/2006 promotes initiatives to support:

- co-operatives and partnerships, made up of at least 60% women;
- limited liability companies (LLC) at least two-thirds owned by women and whose governing bodies are made up of at least 2/3 women;
- sole proprietorships run by women in the sectors of industry, crafts, agriculture, trade, tourism and services;
- companies, consortia, associations, organisations, business promotion firms, also with mixed public/private capital, training centres and professional bodies that promote courses or consulting and assistance for at least 70% women.

⁴ Unioncamere, press release dated 8/3/2019 “Female enterprises: almost 6 thousand more in 2018. 4 thousand are run by foreign women”.

The impact of loans granted to people

The majority of Banca Etica's loans dedicated to people (individuals and families) are specifically designed to meet needs that may be considered as "impact".

With regard to the purchase of property, considering that Banca Etica believes that everyone has the right to a home, a significant strategy has been to **exclude purchases of properties with luxury characteristics from the financing available.**

The impact of loans granted to people and families can therefore be monitored by using the various products on offer:

Loans granted to people - Net amount approved in 2019 (€M)	
Right to a home	78.2
	of which
<i>"Responsible" mortgages, intended to help single people and families gain access to credit, with priority being given to requests submitted by "weaker" categories (young couples or single-parent families, "unusual" workers, exercising an option to purchase a council house, etc.)</i>	48.5
<i>"Green home" mortgage: designed for homes that adopt energy efficient solutions or that produce energy from renewable sources</i>	4.2
"Common Good", financial support for healthcare costs; adoptions; A+ domestic appliances, systems to produce energy from renewable sources; electric, hybrid or LPG and methane-powered cars.	2.1
Microfinance	0.9
Anti-usury agreements	0.7
Other liquidity	15.9
General total	97.9

Profile of people who receive financing

The following tables show a cross-section of our clients, highlighting the bank's activities vis-à-vis the main categories of individuals who, for various reasons (gender, age, citizenship, level of education and professional standing) may be considered “at risk of financial exclusion”.

It is interesting to underline that the loans granted by Banca Etica are distributed on a substantially equal basis, with women representing 44% of clients (compared with an estimated average of 35% in Italy) and receiving over 48% of the new financing issued in 2019. They therefore receive higher amounts on average.

Loans to families and individuals by gender in 2019			
	Women	Men	Overall total
	Number of clients*		
Number	1,861	2,348	4,209
Percentage	44.2%	55.8%	100.0%
	Net amount approved		
€ million	47.2	50.6	97.9
Percentage	48.3%	51.7%	100.0%
* All clients are considered on an individual basis, even if they are joint account holders - therefore, the total number of clients does not necessarily coincide with the same number published elsewhere.			

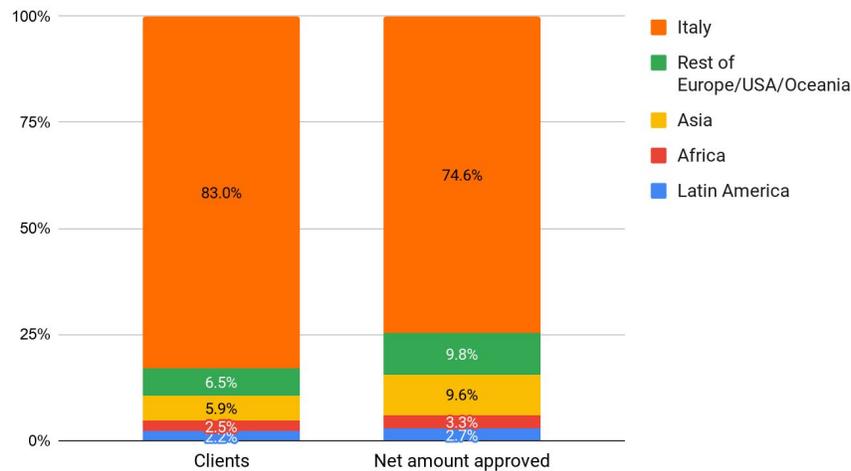
Considering that it is increasingly difficult for young people to define a clear path in life, combined with the gradually increasing average age of the entire population, Banca Etica mainly lends to people aged between 35 and 64, who receive more than three quarters of loans. Our effort to maintain an “open” approach towards younger people, as described above in Par. 4.1 (please refer, in particular, to our “Mutuo 50e50” product), means that 21% of our loans are granted to individuals aged between 18 and 34 (representing 18% of the population⁵), a significant figure at a time when the press continues to talk about “Banks closing the door on young people⁶”.

⁵ Istat [Italian national institute of statistics] as of 31st December 2019

⁶ https://rep.repubblica.it/pwa/commento/2020/02/16/news/banche_mutui_giovani-248751154

“No one is a foreigner for Banca Etica”⁷ for us, this isn't just a slogan: despite the fact that more than 80% of the people receiving loans are Italian, the doors of our bank are open to all; once again based on the logic that credit is a human right, almost 20% of individuals who are granted financing come from other places, but are always met with the same greeting: “Welcome!”.

Clients and net amount approved, by citizenship – 2019



Measuring environmental impact: Carbon footprint

Banca Etica has decided to measure **all emissions for which it is directly and indirectly responsible**. These are defined by the Greenhouse Gas GHG Protocol, based on three main categories:

Scope 1: emissions produced directly by the bank: heating of offices and transport used for business trips.

Scope 2⁸: emissions due to the bank's use of electricity.

Scope 3: indirect emissions. This category includes:

- 'upstream', emissions caused by workers commuting to and from work, which Banca Etica started monitoring this year by carrying out a specific survey among its employees, and transport with vehicles that are not owned;
- 'downstream', the estimate of emissions produced by the bank's loans, based on the model proposed by the GABV as part of its Climate Change Commitment.

⁷ www.bancaetica.it/blog/storie-realta-finanziate/banca-etica-nessuno-straniero

⁸ Scope 1 and 2 emissions are published annually in the bank's non-financial statement.

This report includes an initial estimate of **Scope 3 indirect emissions**. Estimates are based on methodologies that are continuously evolving at international level, based on the standards proposed by the PCAF⁹. **Banca Etica is currently able to estimate the emissions produced by 87% of its loans and investments.**

Direct and indirect emissions produced by Banca Etica in 2019		
Category	tCO2e	notes
SCOPE 1: Direct emissions		
Company facilities	13	
Company vehicles	19	
SCOPE 2: Indirect emissions		
Purchased energy	0.4	
SCOPE 3: Travel		
Employee commuting	196	
Business travel	204	
SCOPE 3: Loans and investments		
Investments		
Sovereign bonds	7,750	47% of assets
Equity holdings and investments	477.4	0.3% of assets
Use of sold products		
Corporate/SME loans	184,893	39% of assets
Mortgages	395	0.7 % of assets
TOTAL EMISSIONS	193,947	Emissions per €M of loans & investments 92.1 tCO2e/€M
Emissions avoided	4,907	

Overall, Banca Etica's activities generate **194 thousand tonnes of CO2 equivalent**. In terms of **emission intensity, 92 tonnes of CO2 are generated for every Euro 1 million** used by the bank.

Finally, thanks to the positive impact of loans to companies producing renewable energy or the adoption of energy saving measures, Banca Etica's credit activity has also made it possible to avoid the emission of almost 5 thousand tons of CO2 equivalent.

⁹ Platform for Carbon Accounting Financials www.carbonaccountingfinancials.com

Impact Appetite Framework (IAF)

Banca Etica has adopted a continuous monitoring tool for its activities in terms of their social-environmental impact, which is made available to the BoD. The aim of the 'Impact Appetite Framework' (IAF) is to ensure that the bank's main objectives in terms of social and environmental impact are being met, by promptly introducing corrective actions should there be any deviations from the predefined path. The IAF works alongside the 'Risk Appetite Framework' (RAF), the document required by banking legislation to calculate and monitor risk appetite. The IAF is also produced on a quarterly basis and includes an amended version of the monitoring system used by the RAF; this is based on the following thresholds:

Appetite: the objective that the BoD intends to reach for each social-environmental indicator.

Early Warning: threshold that signals a possible deterioration of results for each, to levels that make corrective action necessary.

Tolerance: the minimum level data can reach before there is a serious risk of not reaching the objectives stated by the bank's statutory objectives and/or those stated by its mission, thereby representing a reputational risk.

23 indicators have been selected covering the following five areas:

Environment	Rights	Governance	Peace and international justice	Ethical finance promotion
A1. Loans to combat climate change	D1. Loans for social assistance	G1. Income disparity within the bank	PG1. Loans for international cooperation	FE1. Organisation of public events by the bank and its shareholders
A2. Loans for waste management	D2. Work placements generated by loans granted	G2. Shareholder engagement	PG2. International microfinance	FE2. People attending public events
A3. Loans for organic farming	D3. Lending-to-funding ratio in provinces at risk of financial exclusion	G3. Shareholders entitled to vote at shareholders' meetings	PG3. Impact investments	FE3. Unique visitors to the website
A4. The bank's direct CO2 emissions	D4. Loans for social housing	G4. Gender equality in positions of responsibility at the bank		FE4. Press releases
	D5. Microfinancing in Italy	G5. Rate of staff leaving the bank during the previous year		
	D6. Loans to non-profit organisations			
	D7. Jobs created by loans granted			

