



EY Aviation Finance Sustainability Survey 2023

eyfs.ie



Building a better
working world

Contents

ESG is firmly on the flight path for the Aviation Industry	01
ESG Strategy: How robust is this amongst Aircraft Lessors?	02
Board Diversity & ESG expertise as an integral part of the overall ESG Strategy	03
Board Diversity & ESG expertise as an integral part of the overall ESG Strategy	04

ESG is firmly on the flightpath for the Aviation Industry

As society becomes more environmentally conscious, there is a global drive to focus on ESG with regards to business planning and practices across the world.

The aviation sector plays a pivotal role in delivering the transition to the low carbon economy for the transport industry. Whilst the three pillars – environment, social and governance - hold equal importance, the environmental element is the main area impacted with regards to aviation.

However, the aviation industry is a complex, multi-layered one with multiple stakeholders, operating under extensive regulatory pressures. It can take time to embed new practices, technologies and local regulations given the global nature of the business.

With demands from airlines, governments, investors and regulators building, aircraft lessors and financiers need a robust ESG strategy that delivers across each stage of their value chain, creating a greener travel and transport system.



“

The aviation finance sector continues to evolve with new market entrants, diversified financing and funding mechanisms and technology advancements driving depreciation rates and asset profiles. Post pandemic airlines, lessors, aircraft traders and investors are facing exciting challenges in an industry with promising global prospects with ESG requirements now key to achieving sustainable growth and global expansion.

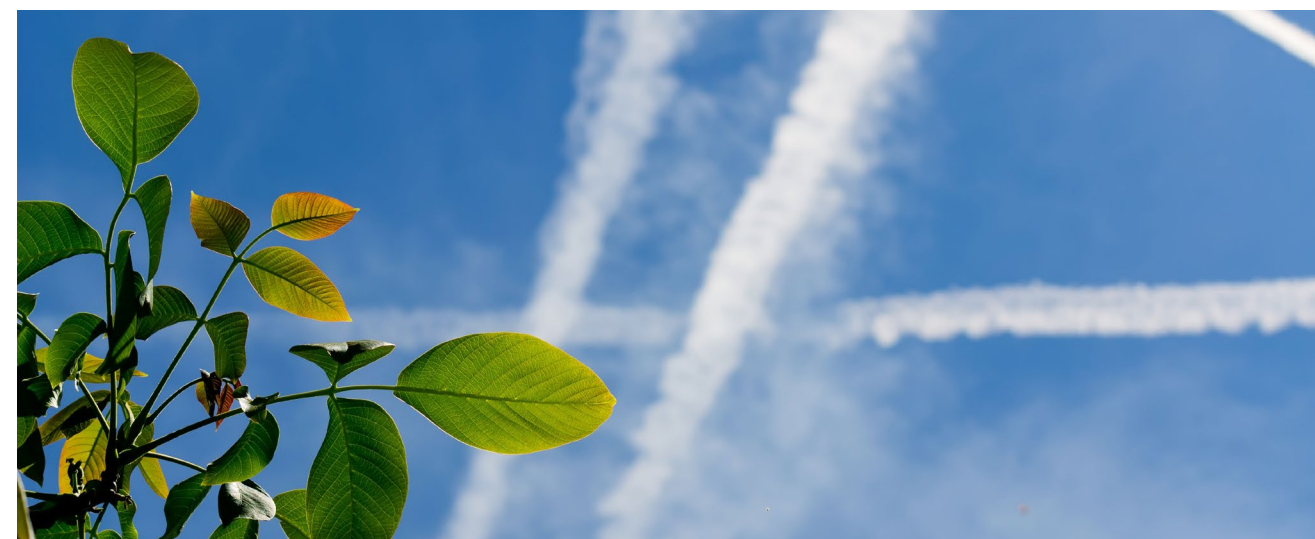
John McCormack
Global Aviation leader
EY

Ireland has established itself as the leading global hub for the aviation sector. Nine of the world's top 10 lessors are headquartered here in Ireland with more than 50% of the world's leased aircraft owned and managed from here. In monetary terms, the aviation industry is worth €4.1bn to the Irish economy with the leasing sector pulling in €550m making it a significant contributor to the exchequer.

Our survey covers over 3,000 aircraft, across a selection of lessors of different sizes from 0 to 50, 51 to 100, 101 to 200, 201 to 500 and 501 to 1000 aircraft, to understand how they are preparing and implementing ESG into their organisations and business model. Our results highlighted that there is certainly a desire and intent among the industry players to move in the right direction but an accelerated effort is required given the pace of regulatory change and societal demands.

Key Highlights:

- ▶ Majority of aircraft lessors (85%) are focussing on this area and have developed an ESG strategy or Sustainability Roadmap
- ▶ Less than a third of our respondents have sustainable finance as part of the firms' overall finance strategy
- ▶ Less than 10% offer their clients (airlines) options to decarbonise their business models but encouragingly, almost two thirds of respondents noted their interest of addressing this issue and expanding their client offerings to facilitate the global decarbonisation agenda.



ESG Strategy: How robust is this amongst Aircraft Lessors?

In our survey we wanted to identify how far along the industry is in terms of placing ESG firmly at the centre of their business strategy. Our results show variances in the approach but the overarching takeaway is that the industry is aware of the importance of a strategic plan over the years ahead.



of respondents have a net-zero target, with the global decarbonisation agenda gaining momentum

A large majority (85%) of respondents have an ESG strategy or sustainability roadmap and for those without one (15%) this is on their agenda across the next 12-24 months

Out of the 85% who confirmed having an ESG strategy, 9% expressed interest in operationalising a sustainability roadmap within the next 12 months.

With the global decarbonisation agenda gaining momentum, it is refreshing to see that over half (54%) of respondents have a net-zero target. However, over a third of respondents who do have an ESG strategy don't have this, highlighting a huge gap in terms of charting progress in this area.



Board Diversity & ESG expertise as an integral part of the overall ESG Strategy



Almost half of our respondents (45%) have started to integrate board diversity as a KPI within their ESG strategy however there is more work to be done in this area as 36% of respondents do not include it.

18% cited that they understand the importance of integrating this into their governance arrangements and would like to elevate their work on this area of focus.

Of the firms that have an ESG strategy (85%), 73% confirm that their Board have the requisite ESG expertise at this point in time. It is interesting to note that, out of the 73%, 37% indicated that they do not currently have diversity related KPIs for their Board, however a majority confirm their interest to expand on this area.

18% of those who have an ESG strategy, cannot confirm that their Board have the requisite ESG expertise which highlights potential gaps in how ESG is being embedded within the firm.

On a positive note, those firms that do not have an ESG strategy (15%), indicated eagerness to address ESG-related Board education with 50% in favour of having board diversity as a KPI.

ESG KPI & Executive reward

Over half (55%) of the firms with an ESG strategy have not linked their executives' performance to the firm's ESG KPIs whereas 27% confirmed partial alignment, demonstrating that there is



of the firms with an ESG strategy have not linked their executives' performance to the firm's ESG KPIs

much work to be done in this area to guarantee commitment at a senior level to ensuring ESG is embedded in business practice. The lack of alignment of metrics to performance is a gap to both delivery on commitments and ensuring accountability across the firm.

This is not indicative of their interest to link rewards to ESG, as half of the firms surveyed did confirm that they want to go down this route.



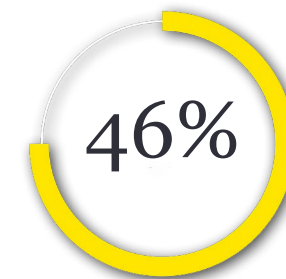
Where does Sustainable Finance feature in the firm's overall Finance Strategy?

Almost a third (31%) of respondents have sustainable finance a part of their firm's overall financing strategy and out of these, 75% confirmed that their organisation had raised debt/equity in a sustainable finance framework.

When asked whether they would opt to finance themselves using sustainable bonds or sustainable loans, 15% of respondents expressed interest for sustainable loans, 46% expressed interest in both instruments. This is hugely encouraging and demonstrates that there will be positive developments in this area over the coming years.



of respondents expressed interest for sustainable loans, when asked whether they would opt to finance themselves using sustainable bonds or sustainable loans



of respondents expressed interest in both instruments



Are Aircraft Lessors offering their clients carbon-friendly solutions?

Given the global momentum around the societal impact of climate change, and an increasing segment of conscious customers, it's no surprise that the majority (62%) of respondents confirmed their interest in addressing this issue and expanding their client offerings to facilitate the global decarbonisation agenda.

Today, only one in five (23%) of respondents offer their clients (airlines) options to decarbonise their business models. Specifically, in relation to sustainability-linked operating leases, only a small portion (8%) of respondents confirmed that they offer their clients (airlines) this option. This offers untapped opportunities for growth for the industry to take a more proactive approach and seriously look at developing more client options with regards to decarbonisation.

What are the barriers and challenges facing the Aviation Finance industry when it comes to ESG?

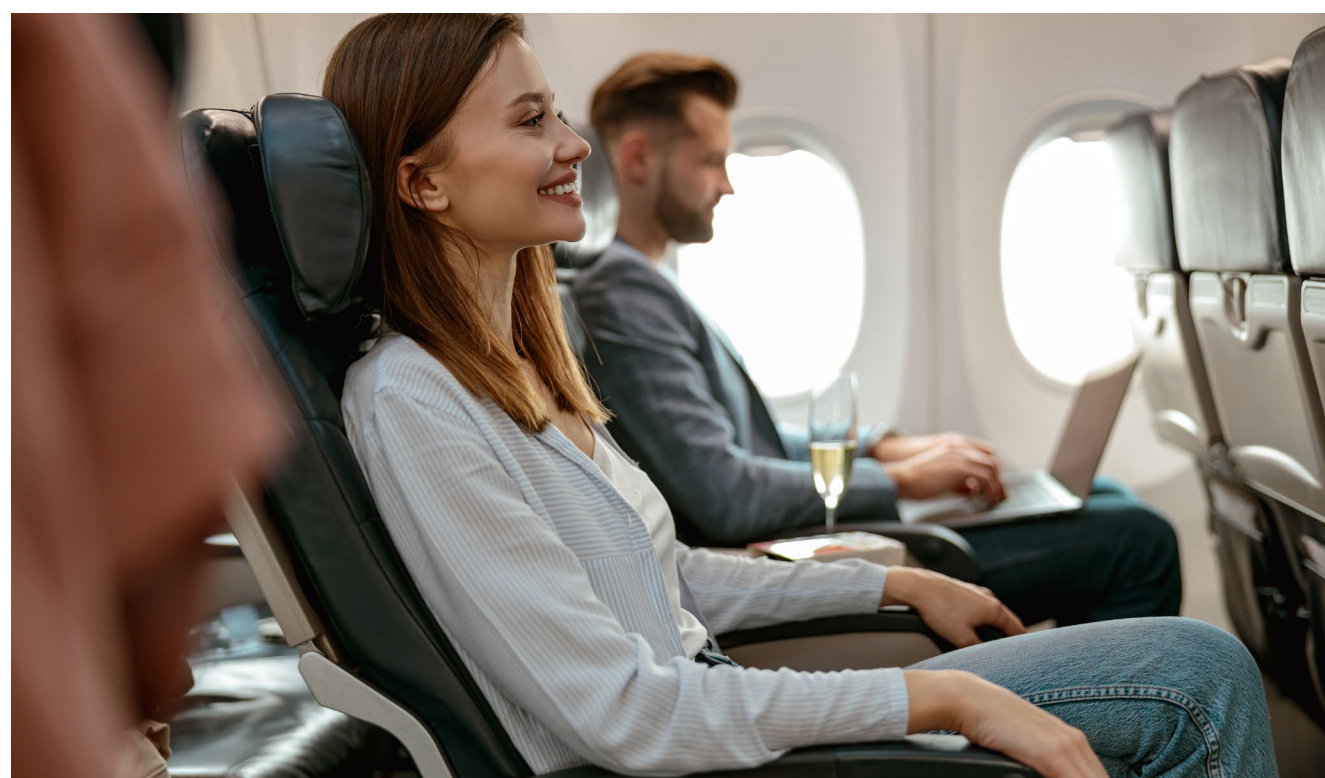
- Gaps in board education of ESG-related issues. Culturally, the tone needs to come from the top to inspire change and build momentum for change.

- ▶ Lack of awareness around the internal levers to fully embed E, S and G within the business. For instance, majority of respondents confirmed that their executives' performance is not linked to ESG KPIs - this creates a gap within the firm in integrating ESG considerations across all functions of the firm and embed it into everyday decision making.
- ▶ Integration of social-related KPIs into governance and business processes is gaining momentum and will be an integral ask in upcoming disclosures for all in-scope companies. Integration of social considerations ensures that all aspects of ESG are embedded within a business.



of respondents offer their clients (airlines) options to decarbonise their business models

- ▶ Gaps in the development of innovative sustainable client propositions due to lack of awareness and tools for development. The trend noted in this survey does not align with preferences of today's ESG conscious customers in the sector.



What are the **Top 4 Priorities** in terms of ESG for Aviation Finance Leaders in 2023?

1

Conduct a thorough ESG assessment to identify risks and opportunities. This should include clients' perspectives so inviting active engagement with clients to understand how the business can facilitate and support their decarbonisation journey.

2

Educate and upskill from Board level down ensuring that teams are sufficiently equipped to advise clients how best to integrate ESG into their business operations. This involves developing a robust strategy and roadmap charting KPI's and objectives over the short and medium term.

3

Develop an ESG commercial proposition to assist customers and stakeholders in the value chain -essentially focussing on sustainable finance, which will ultimately drive behavioural change.

4

Report on progress and strategy delivery with regards to upcoming and ongoing ESG disclosure requirements, for example Corporate Sustainability Reporting Directive (CSRD).

EY exists to build a better working world, helping to create long-term value for clients, people and society and build trust in the capital markets.

Enabled by data and technology, diverse EY teams in over 150 countries provide trust through assurance and help clients grow, transform and operate.

Working across assurance, consulting, law, strategy, tax and transactions, EY teams ask better questions to find new answers for the complex issues facing our world today.

EY refers to the global organisation, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. Information about how EY collects and uses personal data and a description of the rights individuals have under data protection legislation are available via ey.com/privacy. EY member firms do not practice law where prohibited by local laws. For more information about our organisation, please visit ey.com.

© 2023 Ernst & Young. Published in Ireland. All Rights Reserved.

Produced by FSO Ireland | Markets and Business Development
ED None

The Irish firm Ernst & Young is a member practice of Ernst & Young Global Limited. It is authorised by the Institute of Chartered Accountants in Ireland to carry on investment business in the Republic of Ireland. Ernst & Young, Harcourt Centre, Harcourt Street, Dublin 2, Ireland.

Information in this publication is intended to provide only a general outline of the subjects covered. It should neither be regarded as comprehensive nor sufficient for making decisions, nor should it be used in place of professional advice. Ernst & Young accepts no responsibility for any loss arising from any action taken or not taken by anyone using this material.

ey.com

Contacts



Sean MacHale

FS Partner,
Climate Change Advisory and
Sustainability Services
+353 1 221 2749
sean.machale@ie.ey.com



Syreel Mishra

FS Assistant Manager,
Climate Change Advisory and
Sustainability Services
+353 1 475 0555
Syreel.Mishra@ie.ey.com



Niamh Tobin

FS Partner,
CFO Advisory Services
+353 1 221 2780
niamh.tobin@ie.ey.com



Seamus Feeney

FS Partner,
Audit Services
+353 1 221 1703
seamus.feeney@ie.ey.com