



UNEP
FINANCE
INITIATIVE

BANKING AND SUSTAINABILITY

EDITION 2

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GUIDE TO **BANKING AND SUSTAINABILITY**

EDITION **2**

ACKNOWLEDGEMENTS

The Guide to Banking and Sustainability is an initiative of UNEP FI's Banking Commission Board. Its development has involved extensive input from both the Board and other members of the Banking Commission.

We would like to thank all of them for their valuable time, guidance and contributions.

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FOREWORD

2016 is a timely year to release the 2nd edition of UNEP Finance Initiative's Guide to Banking and Sustainability.

With the establishment of the G20 Green Finance Study Group, financial policy-makers have for the first time been collectively engaged on the role of finance in relation to environmental and broader sustainability issues.

Banking supervisors and regulators have also demonstrated growing awareness of the materiality of sustainability issues, as shown by the establishment of the Financial Stability Board Task Force on Climate-related Financial Disclosures.

At the same time, the banking sector's engagement in sustainability issues has reached a new phase as the rapid growth of the green bonds market has drawn the business teams of numerous banks closer to the agenda.

It is therefore more timely than ever to find answers to the question "What does a sustainable bank look like?". This is precisely the question that this Guide seeks to address. By opting for a hands-on, practitioner-oriented format we have sought, once more, to prioritise action over theory.

Through these pages three key messages emerge on what defines a sustainable bank:

- First, addressing sustainability issues requires responsibilities and actions to be taken at all levels and across all the key functions of banks.
- Second, a sustainable bank is one that not only understands and manages the risks that arise because of sustainability issues, but also perceives the strategic dimension of these issues. This means thinking ahead about business implications and opportunities brought by the increasingly pervasive environmental, social and developmental challenges of our time.
- Third, communicating and engaging, - within the bank, with peers and with stakeholders - is critical to embracing something as complex and as vital as sustainability issues.

On the eve of its 25th anniversary, the UNEP Finance Initiative is proud to release this Guide to Banking and Sustainability. It is our hope that it will provide veterans and newcomers alike with a helpful tool to understand, fulfill and communicate their role in making the world more sustainable.

Addressing sustainability issues requires responsibilities and actions to be taken at all levels and across all the key functions of banks.

Eric Usher
Head, UNEP FI



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ABOUT THIS GUIDE AND HOW TO USE IT

What is the Guide to Banking and Sustainability?

The Guide to Banking and Sustainability (“Guide”) is a high-level, functional overview of what a sustainable bank looks like from inside and to the outside.

Who and what is it meant for?

The Guide is first and foremost a tool for banking practitioners themselves. It is meant as an awareness-raising, integration and outreach tool for:

- Senior management and board members seeking to educate themselves and their employees on banking and sustainability
- Sustainability teams seeking to engage employees across the bank
- Employees seeking to understand the relevance of sustainability issues to their work
- Employees who are engaging with external shareholders and stakeholders on sustainability expectations, risks, inquiries, and other matters

It will also be a useful tool for a number of stakeholders, including:

- Banking associations seeking to understand and promote sustainability among their membership
- Banking regulators and supervisors interested in understanding and promoting banks’ roles in preserving the banking system’s safety and soundness vis-a-vis environmental and social risk drivers
- Anyone from the policy-making sphere to civil society, to the corporate sector and the general public who is interested in understanding how the worlds of banking and sustainability are connected in practice

Working definitions for the purposes of this Guide

Sustainability: “Sustainability” encompasses the business role in balancing environmental and social (human rights and labour) issues and to a lesser degree for the Guide, economic issues.

Sustainable Development: Development that meets the needs of the present without compromising the ability of future generations to meet their own needs (Our Common Future, The Brundtland Commission, 1987).

What’s inside?

The Guide is organized into nine functional chapters, spanning from leadership all the way through to sustainability teams, risk teams and client-facing teams.

Each chapter contains:

- The business case - why embark on a sustainability journey
- Guidance - how to go about it
- Illustrations of current practice taken from UNEP FI members institutions of different types and across the globe

In addition, the Guide contains useful features such as:

- An extensive resources section
- A specialized glossary
- A list of common abbreviations

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CHAPTER I: **LEADERSHIP**

CHAPTER I: LEADERSHIP

This section is intended for those with a senior leadership role within the bank. This includes the board of directors, executive committee, the chief officers, upper management and their advisors who provide day-to-day senior leadership and direction.

“We concentrate on the key issues that most affect our stakeholders and us, but also those over which we have a direct influence and for which there is a sound business case. Sustainability is a way that helps us generate revenue, cut costs, attract talent and future-proof our business. We also see sustainability as a source of competitive advantage. We can help facilitate the transition to a fairer, greener economy by financing projects that accelerate clients’ sustainable transitions and supporting clients that contribute solutions to environmental and social challenges.”

Mr. Ralph Hamers,
Chief Executive Officer, ING Group

"Commitment to Sustainability Development

- I.1 We regard sustainable development - defined as development that meets the needs of the present without compromising the ability of future generations to meet their own needs - as a fundamental aspect of sound business management.
- I.4 We recognize that sustainable development is an institutional commitment and an integral part of our pursuit of both good corporate citizenship and the fundamentals of sound business practices."

**Statement of Commitment
by Financial Institutions on
Sustainable Development**

THE BUSINESS CASE

Why is sustainability relevant to the bank's leadership levels?

In a world where the global population is approaching nine billion people, whose basic needs have to be met, where natural resources are increasingly rare and climate disruptions are becoming more frequent, markets are changing rapidly. A new approach to banking is needed to adapt to new realities and keep pace with these changes. Banks are at a historic tipping point when continuing to grow their business has become closely interconnected with the fulfilment of broader development goals, environmental and social sustainability.

Increasingly, companies across the globe have experienced that saving or making money and acting sustainably are not mutually exclusive. A 2014 report by McKinsey¹ found that leading companies pursue sustainability because it has a material financial impact. Other studies document financial gains such as the 3% Report² published by the World Wildlife Fund and CDP shows that the economic prize for curbing carbon emissions in the US economy is US\$190 billion a year by 2020. Conversely, not acting has strong implications as studies such as the Climate Vulnerability Monitor: A Guide to the Cold Calculus of A Hot Planet³ carried out by the DARA Group found that climate disruption is already costing US\$1.2 trillion annually, cutting global GDP by 1.6%.

While banks can position themselves in a variety of ways on the matter, they cannot remain position-less given that while there are opportunities to finance sustainable developments and activities, diminishing resources and tighter sustainability regulations are impacting certain of their clients and the ability of these clients to repay debt. Stakeholders and the public at large put pressure on banks to assess, address and disclose non-sustainable business that they finance. Seeking at least minimal understanding and integration of sustainability issues in longer term strategy and planning will be essential to establishing a bottom line that makes sense for banks.

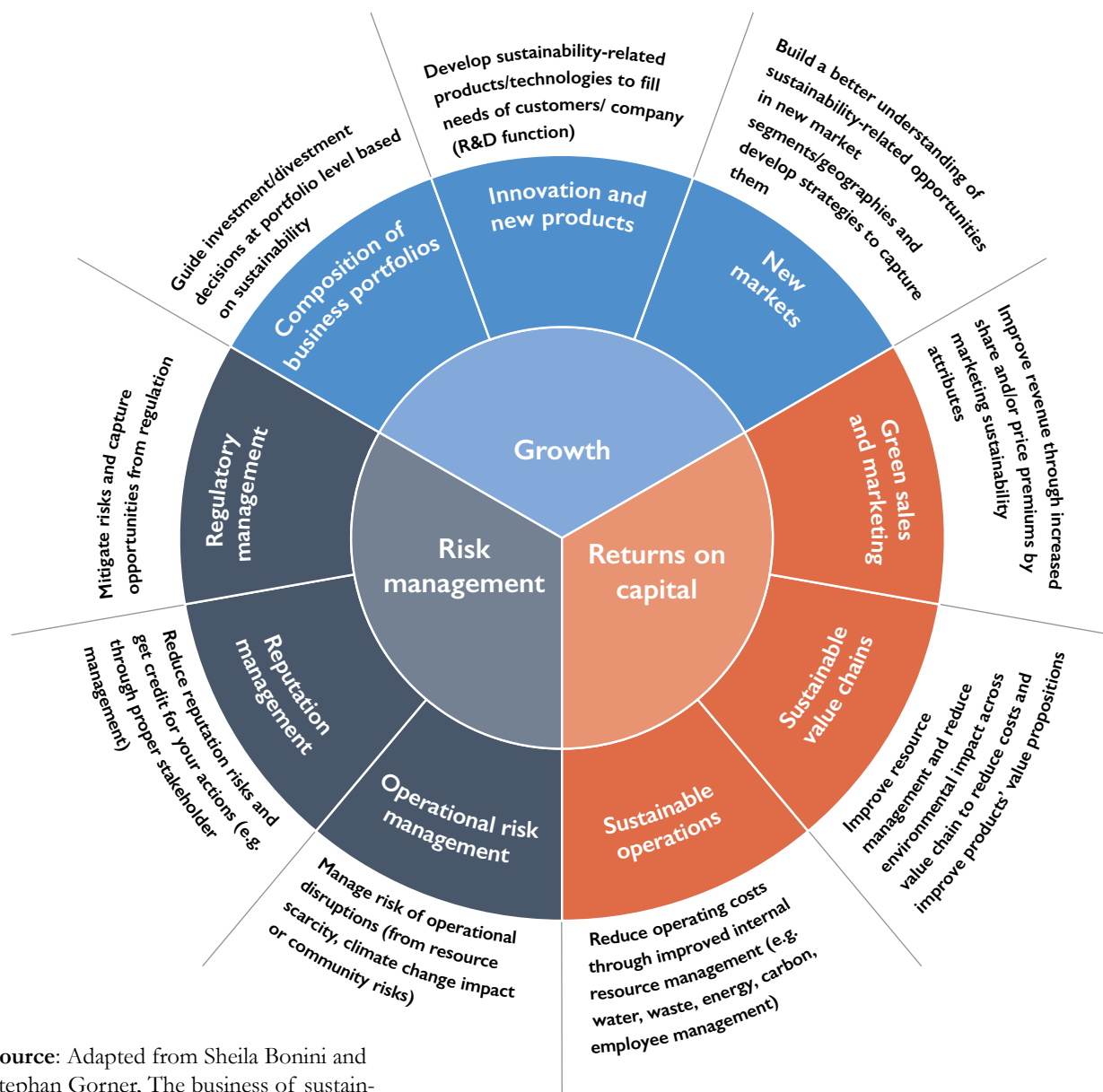
The risks of inaction

- Loss of business opportunities and financing options through a failure to adapt to changing market realities
- Higher overall risk exposure through a failure to understand the materiality of environmental and social risks
- Potential pressure or disengagement of investors prioritizing sustainable investment choices
- Lack of preparedness for regulatory and policy adjustments
- Risks to reputation, credibility and image of the bank through a failure to respond to stakeholder expectations

Opportunities

- New business opportunities and diversified financing options arise from a new understanding of the market and changing world context often allowing for a competitive advantage or achieving par with top banks who have an integrated sustainability strategy
- Stronger, more resilient bank through improved understanding and management of sustainability issues, including environmental and social liabilities
- Bank more highly rated and valued
- Improved reputation, credibility and recognition of the brand
- Increased motivation and retention as employees will react positively to the opportunity to weave environmental and social dimensions into their work
- Operational efficiencies and cost reduction through in-house application of sustainability projects (e.g. cost reduction through energy efficient branches)

Diagram 1: Value Creation of Sustainability



Source: Adapted from Sheila Bonini and Stephan Gorner, The business of sustainability: McKinsey Global Survey results, Oct 2011, mckinsey.com

WHAT CAN YOUR BANK DO?

This section targets leadership who are shaping their bank's sustainability strategy. Key considerations that are explored include:

- Demonstrating vision by ensuring sustainability issues are directly embedded into the bank's strategic vision
- Establishing adequate governance to ensure accountability on sustainability issues at the highest levels across the bank
- Fostering a new type of corporate culture by actively communicating and advocating to show "top-level buy-in", developing employee awareness and expertise and remaining flexible to respond to new and unexpected sustainability developments
- Increasing transparency by promoting clear communications on the bank's sustainability approach internally, as well as externally to ensure one harmonized vision

1. What is our understanding of sustainability issues and the effects on our bank? What strategic vision should we derive for the bank?

When it comes to sustainability issues, information is key and there is no shortage of data on how the global economy and its future development are inextricably linked to environmental and social sustainability issues. Key to understanding is gaining a firm grasp on the connectivity between sustainability and core business functions and backroom offices. The risks and rewards must be clearly understood to pave the way for an integrated sustainability strategy that results in long-term returns, is more than skin deep and will withstand internal and external scrutiny.

Diagram 1 shows how sustainability creates value in the areas of business growth, risk management, reputation and operations – core areas already central to a bank's mission and strategy. To illustrate how sustainability inherently aligns with the bank's mission and creates value, the *International Energy Outlook 2016* (IEO2016⁴) Reference Case projects significant growth in worldwide energy demand over the 28-year period from 2012 to 2040. From a

sustainability angle, the energy sector must be a main contributor if efforts to reduce greenhouse gas emissions are to succeed. Banks can blend business growth/innovation and sustainability by responding to increased energy demands with financing solutions that are targeted towards lower carbon technologies.

A goal to improve the bottom line is another example of the interconnection of the bank's strategy to reduce or cut costs and sustainability. Energy and water efficiency, waste diversion tactics and travel reduction through virtual meetings are just a few sustainability programmes that don't necessarily require a substantial investment but typically yield immediate payback into the long term. Subsequent chapters in this Guide will demonstrate other ways in which sustainability creates value for your bank.

The sustainability strategy can be incorporated into the bank's broader mission, vision and strategy by including sustainability principles or developing a separate standalone sustainability strategy that is in alignment. Examples of bank practices follow this section.

2. What policies and governance structures should be put in place to enact this vision?

In addition to dedicated cross-cutting policies and structures, enacting a sustainability vision requires embedding sustainability directly within existing vision/mission statements, strategic and operational policies and governance structures. This includes integrating environmental and social considerations into the overall business strategy, adopting stand-alone policies (e.g. climate change, water scarcity), as well as assigning specific roles and responsibilities across all departments.

Finding hard and soft governance structures that will hold all the pieces together is critical. Accountability on sustainability issues should be established at the highest levels to ensure success. Some banks have set up dedicated sustainability teams, while others have embedded sustainability responsibilities directly into traditional management functions. Experience shows that each bank needs to find its unique setup.

Key things to take into consideration when setting up or adjusting sustainability governance structures include:

- Establishing a structure that is easy to understand and use to ensure maximum take-up across the bank
- Establishing accountability through a sustainability committee at the top of the bank within the executive committee or on the board in order to ensure the mainstreaming of sustainability considerations throughout the bank. Serving as top-down champions to integrate sustainability considerations in financing and refinancing and treasury teams and with support of senior management across the bank
- Integrating sustainability responsibilities and continuous action transversally across all departments of the bank (see Chapters II – IX for further guidance)
- Examining the need for additional resources, specialized employees and targeted training
- Identifying key positions for the implementation and management of sustainability issues and ensuring clarity of roles of dedicated sustainability employees if applicable. These teams serve as a centralized source of expertise within the bank, delineate the scope of sustainability strategy and concerns and provide research and advisory services
- Creating incentive structures to encourage inclusion of sustainability practices and discourage change resistance
- Including sustainability metrics in internal and external reporting

3. Is the bank's current culture conducive to integrating sustainability considerations? How can I foster the right kind of culture?

More often than not perceptions will be that sustainability issues and banking are not fundamentally linked. Changing such

perceptions inside the bank is both the most complex and most critical change to affect. Several approaches and strategies that have been found effective include:

- Clear and continuous communication on sustainability from the top, for instance in internal and externally facing speeches and by being visible in relevant public spheres and initiatives
- Personal efforts by the top to “walk the talk”
- Informative and transparent communications about qualitative and quantitative progress, performance and challenges
- Incentive schemes such as contests, recognition and compensation (see Chapter VIII for additional guidance), including the rewarding of innovative thinking on how to integrate sustainability issues

4. What do our external stakeholders need to know about our vision and deeds? Are these verifiable and how can they contribute to ensuring good relations with our stakeholders?

An increasing number of stakeholders, from investors to civil society organisations and from government agencies to bank supervisors, are interested in banks' roles in delivering a new, more sustainable economy. Stakeholder expectations vary from those who require assurance that their economic, social and natural capital investments are protected to stakeholders with non-economic interests who want to know the bank is responsible in its broader environmental and social roles. Promoting clear and transparent communications on your bank's sustainability approach internally, as well as externally, can ensure a harmonized vision and inform relevant stakeholders on key issues and objectives.

Communications need to be clear and transparent; credibility is the key to a positive public perception. An acknowledgment of the journey and unknown developments ahead are as important as highlighting successes already achieved.

See Chapters II and III for further guidance on communicating and engaging with stakeholders.

CURRENT PRACTICE ILLUSTRATIONS

The examples below were chosen to illustrate different options discussed in the text. The selection is a regionally balanced representation of our membership. The examples are neither a comprehensive selection nor universally applicable.

FIRSTRAND LIMITED

FirstRand Limited (hereafter referred to as 'FirstRand', 'FSR' or the 'Group') is one of the largest financial institutions in South Africa and represents a very different proposition to its peers, in that it is also the only one of the South African retail, commercial and investment banking groups that applies an "owner-managed" business model. FirstRand provides banking, investment and insurance products and services to retail, commercial, corporate and public sector customers in South Africa and several African countries. As of June 30th 2016, the bank had 41,746 employees.

FirstRand's philosophy and its social value proposition is underpinned by its belief in respecting and empowering individuals, collective and individual accountability, integrity, in its care for the business, being a good corporate citizen by seeing sustainable development and sustainable profit growth as complementary to each other and helping to create a better world that is socially and environmentally viable in the long term.

FirstRand aims to be a responsible financier and to support policy and sustainable economic development. It

therefore pledges its support to the UN Sustainable Development Goals (2015) and the South African National Development Plan. By doing so, FirstRand acknowledges best practice and commits to developing products and services aimed at addressing the major challenges identified by these initiatives with the support of its depositors, investors and clients who want to encourage socially responsible business and a sustainable society.

Over the next few decades, FirstRand is going to be exposed to a growing number of social and environmental changes, posing both risks and opportunities to the organisation. FirstRand understands that these risks and opportunities may be regulatory, physical or financial in nature; and have the potential to significantly impact its ability to create and sustain value in the short, medium and long-term. As a major financial institution in South Africa, FirstRand is committed to assist in the transition to a low carbon economy; and to support the Paris Agreement to keep global temperature increases below 2 Degrees Celsius. In order to contribute meaningfully to this transition, it is important that FirstRand understands the impact of climate change on its business

and the important role of their financing activities in contributing to the transition.

In the short term, FirstRand has a strong focus on greater operational efficiency and cost containment, whilst growing the business. Looking forward, FirstRand will be increasing its involvement in climate-related opportunities to adapt their business and develop relevant finance products and solutions for a carbon-constrained world.

FirstRand developed a formalised programme during FY 2015/2016 aimed at achieving positive social, environmental and sustainability impacts and strive for a blended, sustainable income consisting both of social and financial returns. This new programme has been named the Positive Impact Banking Programme.

FirstRand defines Positive Impact Banking (PIB), as any financial instrument, end-to-end solution, or service which serves to finance an activity, project, transaction or programme that constitutes and/or delivers a positive contribution to one or several of the three pillars of sustainable development (economic, environmental and social),

while ensuring suitable management of negative impacts to any of the pillars have been duly identified and mitigated.

FirstRand has developed a sound Environmental Sustainability Policy, which is supported by an Environmental Sustainability Risk Framework. The purpose of the framework is to ensure that business policies, processes and practices across the Group are consistent with applicable

laws, international best practices and voluntary codes to which FSR subscribes and that environmental risks are identified and managed proactively throughout the Group.

FirstRand has formal governance processes for managing environmental and social risks affecting the Group's ability to successfully implement business strategy. These processes involve the

integration of environmental and social information into the relevant sections of risk reports at Group and franchise level. Tolerances and mitigating actions are defined at Group and franchise level and progress in respect of these is tracked through existing risk reporting structures. Provision is made for the escalation of significant environmental and social issues to the board via the executive committees.

ING

ING is a global financial institution with a strong European base, offering banking services. ING's more than 52,000 employees offer retail and wholesale banking services to customers in over 40 countries. ING's purpose is to empower people to stay a step ahead in life and in business, driving sustainable progress.

In ING's experience financial services have an important role to play in creating a healthy and sustainable world, not just by trying to be more sustainable by reducing its direct footprint, but also in the choices made in lending, investing and the services offered to customers. Sustainability is integrated directly into the core of ING's business strategy.

Climate change is an unparalleled challenge for the world and the need to more efficiently use natural resources has never been greater. ING believes these are challenges where banks also have a role to play. ING plays its part in various ways. ING's contribution to this challenge starts small with reducing its own environmental footprint, as laid out in its Environmental Approach. ING has been

climate neutral since 2007, but recognizes that its biggest impact is in financing, using its balance sheet to transition to a more fair, greener economy with a smaller carbon footprint.

ING wants to help make the transition to a sustainable economy. On the one hand this means ING decided to end financing new coal fired power plants and coal mines and to continue to reduce its coal portfolio and at the same time ING has invested billions of euros in projects that create a green future, such as wind farms, solar energy, and geothermal power production.

It all starts with making choices about how, where and with whom ING does business and being transparent about these transactions. ING's financing and investment policies as well as its broader business ambitions are structured around strongly embedded social, ethical and environmental criteria.

Moreover, ING's sustainable contribution focuses on financing projects that accelerate clients' sustainable transitions and supporting clients that contribute

solutions to environmental and social challenges. Whether it is about building a fleet of energy efficient ships, supporting biomass installations or project financing green offices, ING proactively identifies and seizes opportunities to finance such sustainable projects and companies that are environmental outperformers compared to peers in their sector. ING calls these Sustainable Transitions Financed and has set a target to reach EUR 35 billion of sustainable transitions financed by 2020, for which it is well on track.

The sustainable finance efforts of ING that support transitions in all sectors are the reason for its successful issue of a green bond in November 2015. High interest from investors for this EUR 1,3billion bond shows recognition for ING's ability to grow its sustainable portfolio and select strong sustainable assets.

ING has integrated sustainability throughout all its sector and product teams globally. For specialised sector expertise a number of dedicated teams are in place, seeking financing opportunities with

a focus to reduce indirect CO₂e emissions, waste streams and water use and management. By doing so, in due course, ING's portfolio will become more and more sustainable and the sustainability of ING's business is solidified.

Besides its broad and integrated approach ING is actively accelerating business growth in sustainable developments which pose financing challenges. ING

therefore takes a leading role in the UNEP FI positive impact work.

ING has a strong commitment to solutions for water-related challenges. Last year ING published its first water report- "Too little, too much- The diverse sectoral challenges of water".

Furthermore, ING has committed itself to help support leading clients in designing the economy of tomorrow, for

instance clients developing circular business models. Circular models that allow them to reduce the need for virgin materials, reduce waste and close loops on valuable resources. To this end, ING has issued impactful reports on financing the circular economy and models for clients to move towards a successful circular business model and become the leading companies of tomorrow.

LANDESBANK BADEN-WÜRTTEMBERG

Landesbank Baden-Württemberg (LBBW) is a universal bank and a commercial bank operating worldwide based in Stuttgart, Germany. As of December 31, 2015, it has a staff of approximately 11,120 within the Group. Its head offices are located in Stuttgart, Karlsruhe, Mannheim and Mainz.

LBBW has been attaching key importance to sustainability for more than two decades. Over the last five years it has placed commitment to sustainability on a professional footing step by step, anchoring it firmly in its core business. In its overall business operations and strategy, sustainability is firmly integrated through the mission statement, sustainability goals, the climate strategy, sustainability committee, concrete guidelines for the investment and lending business, human resources policy and business operations. This enables sustainable corporate governance in all levels of their business.

In order to put the sustainability policy in concrete terms, LBBW has defined seven umbrella sustainability goals. The framework for the implementation of LBBW's sustainability goals is provided by LBBW's Guidelines for Sustainability. These mark out the corridor within which LBBW will pursue its sustainability goals in the investment and lending business, in human resources policy and in stewardship of resources and therefore form the foundation for sustainable development.

LBBW ensures compliance with the Sustainability Policy through consistent application of a sustainability management system, which covers all divisions and is being implemented in a multi-stage process throughout LBBW. The Chairman of the Board of Managing Directors of LBBW is responsible for the implementation. The key mechanism for additional leadership is the Sustainability Committee which enables

strategic decision making about sustainability issues. It consists of division heads who are responsible for sustainability issues and managing directors from key subsidiaries and the head of the committee is the chairman of the board of managing directors. This committee offers overall opinion and information regarding strategic sustainability issues to the board of managing directors acting as a communication bridge for decision making process. Then the board of managing directors provides the supervisory board with regular and comprehensive information of key developments at the bank.

CHAPTER II: SUSTAINABILITY

CHAPTER II: SUSTAINABILITY

This section is intended for those teams and committee members with a specific responsibility to develop, promote and communicate the bank's sustainability awareness and strategy.

“Citi’s Sustainable Progress strategy is focused on climate change, sustainable cities, and people and communities, and is rooted in our work with clients and other stakeholders. Our three pillars of sustainable activity are Environmental Finance, including our US\$100 Billion Environmental Finance Goal; Environmental and Social Risk Management; and our Operations and Supply Chain. Over the next five years, I think we’ll continue to see deeper integration and a recognition that embedded sustainability helps to drive stronger business performance. We’ll also see the blending of the environmental and social aspects of sustainability so that they are addressed in a way that is less siloed and more impactful. All of this would not be possible without a dedicated sustainability team focusing on these issues and building connections for them across the firm.”

Valerie Smith

Director and Head of Corporate Sustainability, Citi

"Sustainability Management

2.2 We will comply with all applicable local, national and international regulations on environmental and social issues. Beyond compliance, we will work towards integrating environmental and social considerations into our operations and business decisions in all markets."

Statement of Commitment
by Financial Institutions on
Sustainable Development

BUSINESS CASE

Why are sustainability teams and committees relevant and what is their role?

Dedicated teams and/or committees are an essential part of the sustainability strategy. Until sustainability is truly embedded into all areas of the bank, sustainability teams are necessary as change agents and the viewfinder for trends, risk and opportunities in the short-term and over the mid- to -long-term. They are problem-solvers by finding solutions with financial and other benefits. They expertly put sustainability into a context that's relevant for the bank and its brand using approaches that are coordinated and closely aligned to the bank's vision, core business and bottom line objectives.

Sustainability teams influence, formulate, drive, report, monitor and improve the implementation of the overarching sustainability strategy. They require the depth of knowledge and multi-faceted charter of balancing environmental and social impacts with revenue generation, cost savings, brand equity and other business objectives. They advise their bank on best practice and emerging risk and play a pivotal role by serving as the bankwide sustainability knowledge centre and as a bridge between departments to achieve consistency, collaboration and innovation. Essential to success of the sustainability strategy and thus of sustainability employees, is their ability to shift a bank's culture from more short-term thinking to that of long term perspective built on sustainable revenue generation and income.

Sustainability committees ideally contain leadership members from different departments/functions across the bank. They serve independently from sustainability teams (if present) but among their roles support these teams by advocating and building capacity for sustainability strategies. Other roles of sustainability committees typically include coordinating and communicating efforts between departments to ensure consistency, advise and provide cross-fertilized perspectives on proposed strategies for soundness and provide governance on performance. The number of committees may be dependent upon the size of the bank. Banks that have multiple committees typically have an umbrella

committee as described previously with sub-committees focused on specific topics or business functions such as sustainable finance, risk and operations.

The risks of inaction

- Decentralized view, fragmented development and weak integration of the sustainability strategy
- Poor translation of how sustainability is relevant to core business resulting in missed business opportunities, operational inefficiencies and weak or no goals
- Absence of first-line defenders when dealing with client and stakeholder inquiries and pressure resulting in potential loss of clients and negative PR
- Sporadic and non-transparent, inaccurate reporting and communicating on sustainability performance and bias towards cherry-picking performance measurement

Opportunities

- Centralized agent that develops institutional capacity around sustainability and both distils and aggregates sustainability to facilitate, implement and govern cohesive sustainability strategies and objectives throughout the bank
- Maintenance of a dedicated lens on sustainability resulting in the ability to promote insights and new opportunities for business growth while strategically influencing and driving the overall sustainability program forward
- Absence of organizational silos and inertia through identifying and facilitating sustainability synergies that can exist between multiple business units
- Increased reputation and brand equity through experienced and positive response to clients and other stakeholders
- Dedicated expertise to ensure substance, accuracy and transparency for sustainability reporting and communications

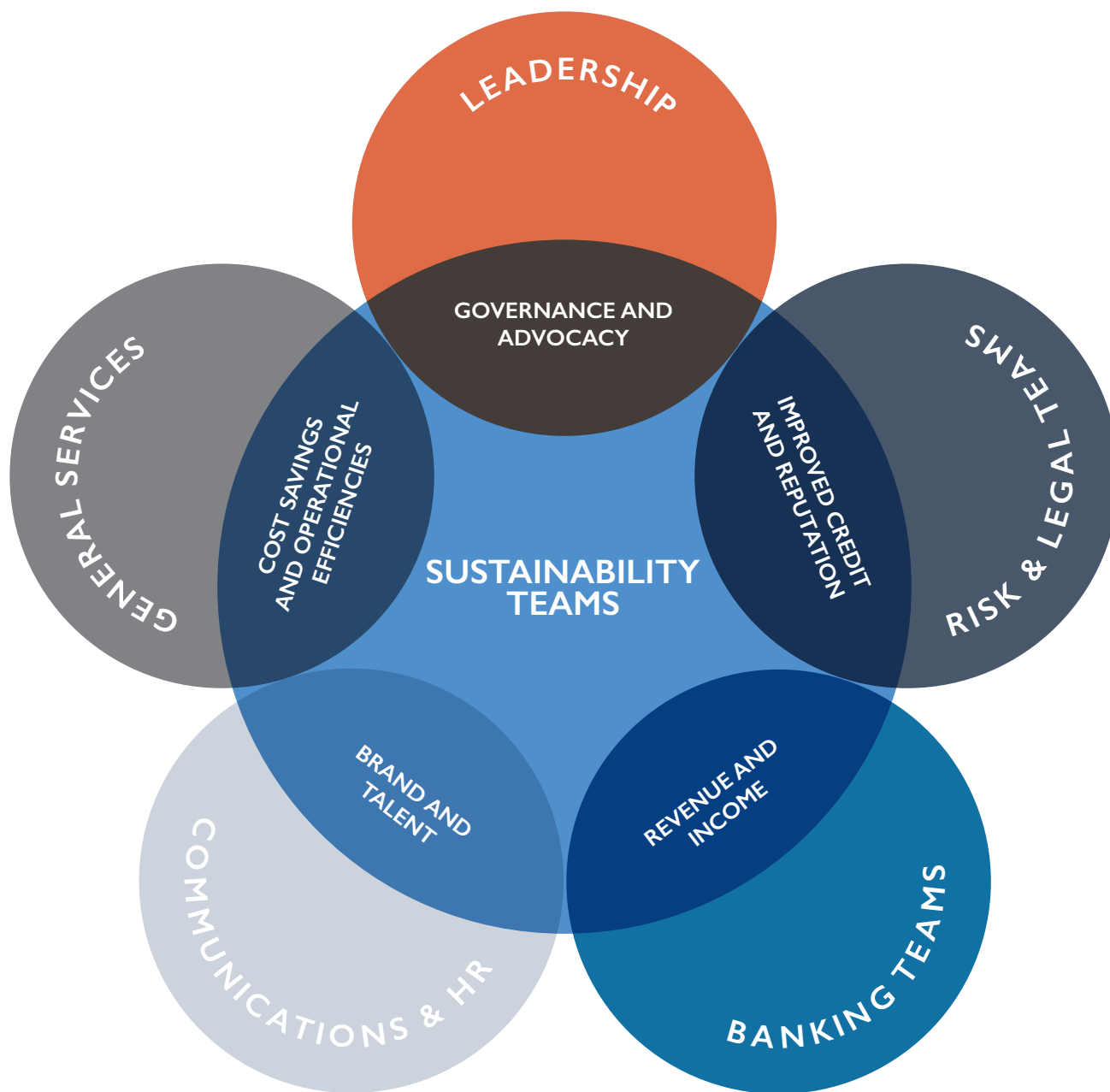


Diagram 2: Synergies of Sustainability in Banking

WHAT CAN YOUR BANK DO?

Sustainability expertise should influence your business strategies, including the resources you use, the processes you operate and the products and services you offer. The following explores several key considerations for sustainability teams and/or committees:

- Sustainability teams and committees must be jack of all trades able to carry out a wide range of responsibilities to show that sustainability has an opportunity-based side, ensure uptake and drive the bank's understanding of sustainability
- Undertaking and/or promoting research that generates understanding and identifies new business opportunities
- Identifying thematic areas and considerations a bank may explore when developing their sustainability policy(ies) and programmes
- Building the best plan to help build capacity for the policy and programmes with effective communication techniques so that sustainability is represented as an integral part of the business strategy

1. What is our role within the bank?

Dedicated sustainability teams and committees are needed because although sustainability issues have become an inescapable market reality, sustainability is not always entirely embraced by some actors of the financial sector. Individual business units do not always see sustainability as an opportunity. However, through sustainability teams' wide lens, presentation of material business cases that interpret and show the connectivity of sustainability to business objectives and innovative ideas, the sustainability strategy can achieve financial benefits, recognition, operational efficiencies and continued momentum. Diagram 2 illustrates key synergies and the benefits that result thereof between the sustainability and other teams. It is the responsibility of sustainability teams to show that sustainability has an opportunity-based side, ensure uptake and drive the bank's understanding of and response to, sustainability issues.

Sustainability teams cover a wide variety of responsibilities and functions. Depending on the organizational setup, the following activities are not necessarily carried out by one team, but may be shared across different departments of the bank.

■ Advise

Bring forward knowledge and interpretation of sustainability matters to advise the board, CEO and executive/senior management, provide strategic guidance on developing and managing the bank's sustainability impacts and exposure, evaluate long-term trends, recommend risk mitigation strategies and identify new opportunities.

■ Facilitate

Initiate, lead and facilitate the development of a shared and consistent understanding of what sustainability means to the bank, including through the establishment of the bank's sustainability strategy, policies, performance and commitments.

Align codes, corporate policies, training and communication so that the subject is integrated, evenly and regularly, across all of the bank's documents and actions.

■ Implement

Balance sustainability strategies with core business goals, cost savings, revenue generation and brand equity. Support other areas in implementing their sustainability responsibilities by providing specific sustainability expertise.

Assist the bank's operational departments to translate and integrate the general concept of sustainability and sustainability risk into their specific operational realities so as to effectively weave sustainability into the actual fabric and culture of the bank.

■ Monitor

Define indicators, targets and mechanisms to monitor and manage the performance of strategies and action plans, seek continuous improvement and transparently report periodically.

■ Promote and Outreach

Articulate how sustainability translates across the bank. Promote collaboration and synergy among all departments by engaging and partnering with managers and employees to demonstrate benefits of integrating sustainability.

Serve as an advocate, promoter, spokesperson and champion for sustainability topics, both inside and outside the bank. Nurture and grow external partnerships through industry meetings and networks to contribute to staying abreast of evolving best practices and emerging issues.

2. What is our understanding of the bank's exposure and impact on sustainability issues?

Banks need to examine the macroeconomic context in which they are operating. Sustainability considerations have become relevant in today's complex markets that are shaped by both population growth and resource scarcity.

Each bank's exposure to said developments depends on their portfolio composition. Crucial factors are the level of resource dependence, the sensitivity to new policies and regulation, as well as potentially stranded assets. On the other hand, resilience of portfolios is directly related to responding to sustainable development needs of a growing global population and thus positive impacts of the financed projects. Identifying opportunities for financial products and services with environmental and social benefits moves the needle on viewing sustainability simply as a risk mitigant to viewing sustainability as a business opportunity.

Undertaking and/or promoting research that generates this understanding and identifies new business opportunities is at the heart of dedicated teams' responsibilities, as is translating this understanding to a variety of audiences in the bank, from the board to senior management to the broader employee base.

3. How might sustainability issues best be addressed in our bankwide policies?

Studies, such as The Innovation Bottom Line⁵ by MIT Sloan Management Review and Boston Consulting Group show that companies who have integrated sustainability into their management agenda have added profit and other gains from sustainability. Sustainability policies enable each bank to provide its own, distinct account of how it relates to sustainability issues and the appropriate actions to be taken. Policies vary in depth and focus from environmental and social risks in lending to procurement of sustainable goods with many shades and combinations in between. They may be standalone policies or sprinkled amongst broader bank policies. Though each account will be different, key thematic areas a typical sustainability policy contains are as follows.

■ Scope

How much of the bank's operations will the policy cover? Will it address financial or non-financial environmental and social performance – or both? How about subsidiaries, branches or holdings – or financial intermediaries in the case of second-tier banks?

■ Commitments

What will the bank commit to? Will it commit to reduction goals such as reducing greenhouse gas emissions by X percent? Or will it pledge to finance X billion in sustainable projects? Policy developers need to think about specific objectives and targets, the means to achieve these and a range of indicators to monitor and report progress.

■ Capacity building

Policy developers need to ensure the text truly espouses the vision and aspirations of senior management while seeking a formulation that the bank as a whole will be able to identify with; engaging key employees and overall employee base is important. They will need to demonstrate that the policy is implementable, isn't viewed as a threat, does not exclude old business while bringing opportunities for new business and supports broader overarching bank policies.

- Revisions

Think ahead. How will you monitor the uptake and implementation of the policy within the bank? How is performance measured and what is the strategy for addressing lagging issues? How does this influence the timing and process of policy revisions? Do these revisions result in continual improvement?

4. How can we ensure effective communication of our work?

Sustainability is important; real and perceived performances do impact a bank's reputation and overall competitiveness. But that performance can largely go unnoticed without a proper communications plan. The right plan helps build capacity for the policy with effective communication techniques so that sustainability is represented as an integral part of the business strategy and not just a "nice to have" or compliance matter.

Know what the specific information requirements of different stakeholder groups are, how often communication is needed and how these constituencies can best be engaged. Tailor timing, communications, reports and meetings to inform and fulfil the audiences' expectations as in the following:

- The top of the house and senior management need to be apprised of the evolution of the sustainability policy, financial and non-financial performance and potential implications for strategic decisions and sustainable product development
- External stakeholders, such as investors, NGOs, regulatory and supervisory authorities and the general public, are increasingly seeking out information about banks' sustainability performance (see Chapter VII for more specifics)
- Business-facing teams both communicate the bank's sustainability requirements to the clients and report back on their clients' existing sustainability strategies
- Risk teams need to be in constant exchange with the sustainability team to ensure risk is adequately factored into their assessments
- All employees benefit from getting involved in sustainability efforts through thought contribution, change management, trainings, newsletters, incentive structures and competitions

CURRENT PRACTICE ILLUSTRATIONS

The examples below were chosen to illustrate different options discussed in the text. The selection is a regionally balanced representation of our membership. The examples are neither a comprehensive selection nor universally applicable.

ANZ

ANZ traces its origins to the Bank of Australasia, which opened its first office in Sydney in 1835. ANZ operates in more than 34 markets across Australia, New Zealand, Asia, Pacific, Europe, America and the Middle East including its technology and operations centre in Bengaluru, India employing over 50,000 people worldwide.

ANZ's approach to corporate sustainability and diversity focuses on the issues and opportunities most relevant to its business and expertise, where ANZ can lead real and positive change, while also creating a competitive advantage for its business. ANZ's agenda is guided by its Corporate Sustainability Framework and Diversity policy.

The ANZ Corporate Sustainability and Diversity (CSD) Committee is a strategic leadership body performing an oversight, advisory and advocacy role in achieving the Group's agenda and priorities. Its purpose is to:

- Advise Management Board and other governance bodies on strategies to address risks and opportunities related to this agenda at a Group and divisional level.
- Agree on corporate sustainability and diversity strategies, policies and targets.
- Monitor progress on strategies and targets, and escalate issues, barriers, challenges and opportunities that may affect desired outcomes and results.
- Ensure leading practice in the management and disclosure of corporate sustainability and diversity issues and opportunities, progress and results.
- Ensure consistency and alignment of Group and divisional corporate sustainability and diversity agendas and activities.
- Identifying, overseeing and monitoring current and emerging Corporate Responsibility risks and opportunities.
- Representing ANZ and advocating on corporate sustainability and/or diversity at the highest level – both internally and externally.
- Ensuring progress on internal audit exceptions as well as relevant assurance recommendations.
- Reporting progress on strategies to achieve the Group's corporate sustainability and diversity objectives to Management Board and the ANZ Board.

The ANZ Corporate Sustainability and Diversity (CSD) Committee is responsible for:

- Providing strategic leadership on ANZ's Group-wide corporate sustainability and diversity strategies, positioning, priorities and targets.
- Reviewing and approving all significant programs and expenditure in excess of AU\$100,000.
- Driving implementation of this agenda including leading the achievement of at least one of ANZ's publicly stated targets and delivering results in the business as relevant.

In carrying out its responsibilities and duties, the Committee will aim to seek fair customer outcomes and financial market integrity in its deliberations.

Each year ANZ sets public sustainability targets and a corresponding Group wide program of work to support the delivery of its business strategy. Progress against ANZ's targets is reviewed by the Corporate Sustainability and Diversity Committee, chaired by ANZ's CEO, and twice a year by the Board Governance Committee, led by ANZ's Chairman. A number of these targets are directly

aligned with the United Nations' Sustainable Development Goals.

ANZ undertakes a materiality review annually, engaging with its stakeholders to ensure ANZ's framework, commitments and reporting continue to reflect the highest priority issues facing ANZ's business and the communities in which it operates.

ANZ's 2016 sustainability targets, performance against which is reported in its 2016 Half Year Corporate Sustainability Update, reflect the actions ANZ is taking on, for example, social inclusion, financial

hardship and cyber security. Case studies show how ANZ is supporting its customers to transition to a low carbon economy, such as:

- ANZ supported the IDBI Bank (formerly known as Industrial Development Bank of India), as the joint lead manager for their first green bond, issued to the value of US\$350m in November 2015. The offering is part of IDBI's efforts to finance new and existing eligible green projects in India in line with the Indian Government's

support for clean energy. The proceeds of the Green Bond will be allocated exclusively for lending in support of greenhouse gas emission reduction, environmental resource management and protection, and sustainable transport. Solar and wind energy projects already underway will continue to be funded and new projects will include: renewable energy, energy efficiency, sustainable water management, waste management and transportation projects.

BMCE

Among leading pan-African financial groups, BMCE Bank of Africa is a universal banking group with diversified business activities including commercial and investment banking, as well as specialized financial services such as leasing, factoring, consumer credit and debt collection. BMCE Bank of Africa is present in 31 countries throughout Africa, Europe, Asia and North America with over 12,800 employees.

With sustainability as an integral part of the Group's business strategy since the BMCE Bank's privatization in 1995, strong commitments were made to advance environmental and social protection. The bank's sustainability activities span from environmental and social analysis of project risks and impacts, to providing innovative sustainable financing solutions in partnership with leading international financial institutions.

Moreover, BMCE has proactively engaged in promoting sustainable finance at an institutional level and making

sustainable finance an additional tool for growth and jobs within financial institutions and more widely, in Morocco and Africa. A recent and ongoing example of BMCE Bank's dedication to sustainable finance is the Morocco Sustainable Energy Financing Facility (MorSEFF).

The European Bank for Reconstruction and Development (EBRD), the Agence Française de Développement (AFD), the European Investment Bank (EIB) and Kreditanstalt für Wiederaufbau (KfW) teamed up to strengthen sustainable energy measures in Morocco, with the support of the European Union Neighborhood Investment Facility (EU NIF). These four financial institutions provided a €20 million financing facility to BMCE Bank and its leasing subsidiary Maghrebail, soon to be followed by a 2d facility of US\$35 million, the first under the Morocco Sustainable Energy Financing Facility (MorSEFF) comprehensive program for sustainable energy investments through financial institutions.

The proceeds of this EBRD-led facility are dedicated to financing energy efficiency and small-scale renewable energy investments. BMCE Bank lent to small and medium-sized enterprises and corporates in the commercial and industrial sectors, including commercial construction and energy service companies. BMCE Bank also raised awareness among its clients, promoting energy-efficient and renewable energy technologies and strengthening local production. In addition, comprehensive technical assistance and investment incentives, funded by the EU NIF and by the EBRD Southern and Eastern Mediterranean (SEMED) Multi-Donor Fund, were provided to support BMCE Bank in the design of business development tools and the successful implementation of the facility. It also allowed its clients to receive support in project implementation, as well as investment incentives, encouraging them to make sustainable energy investments.

One example of support under MorSEFF is one of Morocco's leading and oldest, tea companies in a country famed for its teas. However, the company has faced rising competition and costs during a period of energy market liberalization. The company has responded to this challenge, using its blending expertise and efficiency to maintain its competitive edge. The group has stepped up its investments in more

energy-efficient materials to modernise its production facilities and equipment. It aims to substantially improve energy efficiency to increase its competitiveness, as well as augment its market position as an environmentally-friendly brand.

The company's previous production lines dated back to the 1970s, consuming significant amounts of energy and frequently in need of repair. With the support of a MorSEFF Project

Consultant team, it swapped out its old production lines in favour of new and highly efficient equipment. The MorSEFF team also advised the company to invest in the replacement of its conventional lamps with more efficient LED lamps. This investment has allowed it to reduce its energy consumption and greenhouse gas emissions by 42 percent and increase production capacity from 4,170 tonnes each year to 6,500 tonnes.

CITI

As a global company that employs approximately 230,000 people, does business in over 160 countries and jurisdictions and has over 200 million customer accounts, Citi is an integral part of the communities where it works and well positioned to help address the challenges facing society. Strong citizenship practices, a focus on culture and environmental, social and governance performance makes Citi a stronger and more sustainable company. In 2015, Citi launched its Sustainable Progress Strategy, which is aligned with the bank's corporate strategy and its goal to create value for their company and for future generations. Through a materiality assessment focused specifically on sustainability issues, Citi identified climate change, sustainable cities and people and communities as its top priorities. Citi is tackling these issues with activities in three areas:

1. Environmental Finance: Advising on and financing projects focused on environmental and climate change solutions. This area includes a commitment to lend, invest, and facilitate US\$100 billion over 10 years towards activities that reduce the impacts of climate change and create environmental solutions that benefit people and communities.
2. Environmental and Social Risk Management (ESRM): Helping Citi's clients understand and manage risk associated with the impact of their businesses on the environment and communities.
3. Operations and Supply Chain: Managing Citi's own operations and supply chain to minimize its direct environmental impact, reduce costs.

Citi's Corporate Sustainability team, working across business units and regions, is responsible for setting Citi's sustainability strategy in partnership with the businesses, and for managing and monitoring strategy implementation and reporting on the bank's progress. Citi's ESRM Policy is managed by the ESRM unit, which works closely with ESRM specialists in Citi's Commercial Bank and regional ESRM Champions. Citi's Corporate Realty Services group has a specialized sustainability team that manages the bank's environmental footprint and green building goals, and Citi's Enterprise Supply Chain Development, Inclusion and Sustainability team oversees supply chain sustainability. These specialized teams sit within their respective business units, ensuring ownership of sustainability goals throughout the firm.

FMO

FMO was founded in 1970 and is a public-private partnership, with 51% of shares held by the Dutch State and 49% held by commercial banks, trade unions and other members of the private sector. Throughout 2015 FMO employed an average of 372 full-time people.

FMO's mission is to empower entrepreneurs in emerging markets to build a better world through a firm commitment to sustainable development. FMO believes that long-term profit and viability must go hand in hand with enduring economic and social impact. FMO invests with the motive that ESG – sustainable environmental, social and governance business practices – are the solution in a world facing a surging population and increased consumption.

FMO believes that incorporating ESG opportunities into business models is

essential for both mitigating risk and creating development impact. To this end, FMO works closely with its clients to help them reach mutually agreed ESG and sustainability goals. FMO has installed dedicated ESG specialists in its commercial teams to ensure close engagement and cooperation with its clients throughout the entire investment process. This also contributes to the increased awareness and knowledge about ESG related issues of the commercial staff.

FMO has elected to employ best practice frameworks in guiding sustainability implementation in its clients' businesses and support their progress and provides technical assistance funds which assist clients to build capacity for managing ESG performance.

In addition to incorporating ESG best practice standards into its investments,

FMO sets an ambitious goal for 2020: to double impact and halve footprint. FMO will do this by looking at the opportunity side of sustainability and focusing on green and inclusive investments in its portfolio. FMO proactively seeks investment opportunities that contribute to a Greener, more resource efficient and inclusive economy.

FMO believes that the development of its vision, strategy and policies needs to be done in close consultation with FMO's stakeholder community, consisting, amongst others, of the Dutch government, clients, partner-institutions and Civil Society Organizations. Integrating stakeholder consideration and information in investment and monitoring decisions will further contribute to the quality and positive impact of FMO's investments, as well as community support.



CHAPTER III: **RISK**

CHAPTER III: RISK

This section is intended for those individuals and teams that are responsible for evaluating and managing the risk exposure across the bank.

“As a bank, we do finance a number of industries, some of which present critical environmental, social and governance (ESG) challenges. Because BNP Paribas considers that ESG issues are an integral part of the regular due diligence process, we have developed specific tools to help both risk teams and client-facing staff: for highly sensitive sectors, we have outlined policies which take into account ESG standards, in addition to economic performance criteria, when making financing and investment decisions. For other sectors and businesses, we have implemented a CSR screening tool to support staff in having a fruitful discussion with their clients on ESG issues. Moreover, we progressively embed ESG criteria in all financing and rating policies. At a corporate level, we have integrated ESG risks in our Risk Appetite Framework, which defines and quantifies the type of risks BNP PARIBAS is willing to accept in support of its business strategy. This framework is assessed and reviewed by ECB.”

Franck Roncey
CRO of BNP Paribas

"Sustainability Management

- 2.3 We recognize that identifying and quantifying environmental and social risks should be part of the normal process of risk assessment and management, both in domestic and international operations."

Statement of Commitment by Financial Institutions on Sustainable Development

BUSINESS CASE

Why is sustainability relevant to risk teams?

As per Basel III, the risk management function of a bank should include “identifying material individual, aggregate and emerging risks [...], assessing these risks and measuring the bank’s exposure to them”. Research such as the 2015 KPMG, WWF Ready or Not⁶ assessment of sustainability integration in the European banking sector shows that while the identification and control of environmental and social issues in the core banking practices is becoming more common, the integration of sustainability criteria in lending and investment banking activities still requires significant improvement if banks aim to protect the value of their assets in the short and longer term.

By virtue of their role as financiers of the real economy, banks are de facto exposed to credit, reputational, legal, operational and market risk that is driven by environmental and social (E&S) issues that affect their clients and customers (indirect risk). These risks can stem from the impact clients have on the environment and society, such as pollution, natural resource depletion and health and safety concerns for communities and employees. They can also stem from the physical impacts that environmental issues such as severe weather events, water stress and fluctuating ecosystem services can have on client performance and success.

Banks can also be subject to direct risk as a result of noncompliance with E&S regulation such as workforce conditions or inertia with respect to best practices such as failure to implement greenhouse gas reduction strategies. Risk teams have a key role to play in identifying and managing risks generated by environmental and social issues, both at the supplier and transaction level and at the global portfolio level.

The risks of inaction

- Transfer of liabilities to the bank through foreclosure and other forms of bank activities
- Financial losses due to non-performing lending portfolios
- Immediate damage to the bank’s reputation through financing or investing in an environmentally or socially detrimental project or development
- Prolonged adverse impacts to reputation, credibility and brand value due to negative perception of the bank portfolio’s sustainability performance
- Overexposure to industries sensitive or subject to environmental and social pressures
- Overexposure to industries sensitive or subject to transition risk as new and evolving policies and regulations are enforced to adjust to global sustainability issues such as climate change
- Contribution to the build-up of further environmental and social risks due to a failure to manage portfolio exposure and address new market realities

Opportunities

- Sounder loan portfolios thanks to adequate environmental and social risk identification and management
- Improved reputation, credibility and brand value thanks to a perception of adequate understanding and management of environmental and social risks
- Improved relations with stakeholders including NGOs and participating lenders
- Increased resilience and competitiveness in a changing market due to environmental and social risk management
- Attracting and retaining clients with increasing social and environmental demands. Understanding clients’ positions with regards to sustainability results in better client relationships

Further to the above, Diagram 3 illustrates sustainability opportunities and risks.

Diagram 3: Key Sustainability Opportunities and Risks



Source: Adapted from www.pwc.lu/en/sustainability/docs/pwc-fsbanks.pdf

WHAT CAN YOUR BANK DO?

Banks increasingly are implementing sustainability risk early warning and management systems to identify vulnerabilities and provide positive outcomes. This section will assist your bank to move the treatment of sustainability risk beyond compliance to strategic advantage by outlining key considerations including:

- Working with internal and external sustainability experts to identify and understand the bank's exposure to environmental and social risks
- Working with client-facing teams and legal teams to develop and implement an integral environmental and social risk management system
- Building awareness and communicating on environmental and social risk management efforts within and outside the bank
- Using existing resources and networks to keep abreast of environmental and social trends

1. Do we have a good understanding of the environmental and social risks that the bank is exposed to?

Environmental and social risks vary as shown in Diagram 4 and discussed below. They are inherent to all economic activities, which in turn affect banks through their lending and investment portfolios. Identifying and addressing these risks accordingly is an integral part of a successful strategy and reassures internal and external stakeholders alike.

A bank is impacted by systemic environmental and social risk but at the same time contributes to it through its lending and investment activities. It is essential to build an understanding of the different types and levels of risk that the bank is exposed to based on its operations, lines of business and the contents of its portfolio, in order to begin to identify, mitigate and manage these risks. Organizations, principles and reference documents such as the IFC, Equator Principles Principles for Responsible Investment and UNEP FI provide guidance and best practices for addressing environmental and social risks in the financial sector.

- Direct risks arise from the bank's operations and bankwide policies. These include a wide range of risks, from complying with relevant financial and disclosure regulation to labour provisions and sustainable supply chain management. For example, in the US, the Dodd-Frank Act, among other requirements, requires banks to disclose whether their suppliers are using conflict minerals while France places a carbon reporting obligation on financial institutions.
- Indirect risks to the bank arise from the clients' activities and affect the bank through its lending and investment portfolios. Key to knowing where these risks may come from is gained by mapping out the sectors, real economy players and activities a bank is financing and through what relationship and product (e.g. corporate loan, commercial real estate loan). Certain sectors have inherently higher environmental and social risk either due to their impact on the environment or labour force (e.g. forestry, mining, fossil fuel power generation) or are vulnerable to E&S factors (e.g. water scarcity, deforestation and soil erosion for agriculture). Market risk can stem from a reduction in the value of collateral, for example if the subsurface underlying a financed real estate secured development becomes contaminated; the collateral value will be adversely impacted.

Risks may come from both the transactional level or on the aggregate at the portfolio level if the bank lends or invests to a predominance of risky sectors even when the individual transaction risk level is less intense (e.g. healthcare).

- Reputational risk results from both the direct and indirect impacts of the bank's activities. A health and safety scandal in the bank can do as much damage as financing environmentally controversial projects such as an unsustainable palm oil plantation. Reputational risk affects brand value and credibility and in turn decreases business opportunities with an increasingly sustainability-sensitive clientele.

ENVIRONMENTAL AND SOCIAL RISK IMPACT AREAS				
Financial/Credit	Market	Operational	Reputational	Compliance/legal
■ Loss of collateral/asset value ■ Borrower's inability to repay loans ■ Access to capital ■ Liquidity	■ Reduced competitiveness ■ Product obsolescence ■ Missed market share	■ Higher costs ■ Process inefficiencies ■ Irresponsible product stewardship ■ Equipment end of life obligations	■ Damage throughout financed clients ■ License to operate ■ Talent acquisition and retention	■ Regulations and regulatory actions ■ 3rd party civil actions ■ Lender liability

Diagram 4: Environmental and Social Risks Relevant to Banks

2. How do we integrate environmental and social risks in our risk management systems?

In order to adequately address environmental and social risks, the bank will need to elaborate a set of management policies and procedures reflective of its indirect exposure (see previous guiding question). Environmental and social risk management (ESRM) that can be integrated in existing risk management procedures rather than implemented separately are usually more efficient and effective.

Though each bank will find an E&S risk model that fits its unique structural setup, the following paragraphs set forth general guidance when elaborating the ESRM system.

The essential foundation of effective and efficient ESRMs is crosscutting and targeted policies developed collaboratively by sustainability and other relevant bank teams. These policies clearly articulate the bank's approach to E&S risk management and point to supporting procedures. The below provides general types of policies and elements considered when scoping and adopting policies.

- A bankwide ESRM policy typically sets forth a background and overarching framework of risk management, definition of what constitutes material risk, applicability to business lines including financial intermediaries and subsidiaries and holdings abroad for international banks, governance and

the broad approach to manage the risks. The policy may or may not specifically address certain sectors and topics (e.g. climate change, human rights) and may go so far as to set forth sector and controversial activity (e.g. weapons, tobacco) exclusions. The overarching policy points to other related policies as applicable.

- Client onboarding policies address the requirements for assessing potential client E&S risks associated with their business. These policies can be targeted at all business lines and are typically embedded in know-your-customer policies and processes.
- Product development policies may be developed to assess the E&S risk exposure and management for new products and services.
- Transactional level policies target specific sectors with the greatest potential for E&S impacts. They are typically targeted towards Corporate and Commercial business lines and are designed to assess a client's approach to E&S risk management at the corporate level, asset level, or both. For example, a manufacturing ESRM policy may be developed for Corporate and Commercial banking. The policy typically identifies why the bank considers this a risky sector (e.g. manufacturing can require or produce environmentally sensitive substances and may have labour concerns). Policies typically set forth the standards and due diligence that will be applied to identify and manage E&S risks (e.g. Equator Principles, IFC Industry Sector Guidelines). The policies are flexible to adapt to future emerging risks.

- Policies in the portfolio level address the cumulative E&S risks of financing activities and projects, including small and medium enterprises (SME), retail or even microfinance levels. They can look at the bank's entire E&S risk exposure or be review specific sector or clients such as hydraulic fracturing or soft commodities (e.g. palm oil, timber.) Key lens through which to scrutinize the portfolio include:
 - Natural capital valuation seeks to integrate resource risks into the cost of capital that financial institutions are exposed to through their clients. Ecosystem services and natural capital are mostly unpriced asset classes that affect productivity through scarcity and resource constraints.
 - Environmental stress testing models the vulnerability of loan portfolios to environmental shock scenarios. Environmental shocks can impact the companies in a bank's loan portfolio directly at the operational level, indirectly through value chains or changes in consumer behaviour or via macroeconomic changes triggered by the environmental shock. Stress factors that are relevant to the client's operations, supply chains and business opportunities can include air pollution, climate change, inequality, natural hazards, new technology, soil erosion and water stress, availability of energy and natural resources.
 - Carbon foot-printing and financed emissions methodologies seek to measure the total emissions resulting from financing a set of economic activities. Climate risk exposure is a function of the climate performance of a given portfolio, market and regional factors. Currently, new climate stress testing methodologies are now being devolved to also consider forward-looking risks, unlike carbon foot-printing which only looks at the past emissions.
- Supply chain management policies identify E&S risk assessment when selecting and managing suppliers and services. Policies typically are geared to give the bank a better understanding of the extent the supply chain impacts the E&S footprint (e.g. responsible management of electronic waste from cradle to grave). The policies may outline the E&S criteria to be applied during the sourcing and outsourcing processes and are targeted towards those teams responsible for procurement. They may also be targeted towards retail and other business lines with supplier clients.

Procedures supporting various ESRM policies are typically multi-faceted and require the involvement of multiple experts across the bank including from the sustainability, risk and client-facing teams. This also includes developing and implementing the appropriate systems, processes and tools which can be used in the onboarding process and during the credit approval and renewal processes. Risks can also evolve or emerge after financial close, new customer relationship, or a supplier contract is executed thus it is prudent to include ongoing monitoring considerations in the process.

There is an array of quantitative and qualitative approaches to environmental and social risk considerations. General guidance on the typical approach is set forth in below however each bank should identify the measures that are most relevant to their business model and sphere of activity.

Typical Environmental and Social Risk Management Steps

Risk Identification

Identifying the relevant sustainability risks the client, transaction or supplier are exposed to is crucial to assess potential risks and future performance. Methods to identify E&S risks include:

- Automated screening to filter for industry codes (e.g. NAICS, NACE) and categories of sensitive industries
- Client or supplier questionnaires to collect key E&S information
- Verifying compliance and considering additional legal aspects (e.g. review of environmental fines or review of any sustainability related lawsuits)
- Collecting information through site visits and the client's or supplier's sustainability reports
- Reviewing sustainability indices and ratings and other media research
- Collecting further information by consulting relevant authorities and civil society organisations

Risk Categorization

This step serves to assign the adequate E&S risk level in order to apply the appropriate risk management, monitoring and control procedures. It is up to the bank to develop an internal model for their needs but the categorization could be as straightforward as low, moderate and high risk tiers or follow industry standards such as the IFC and Equator Principles.

Introducing an evaluation process will ensure that new clients, suppliers and projects are screened for any excluded activities and potential E&S risks. In order to keep the process manageable, the screening may exclude transactions, sectors or suppliers that are generally low risk (e.g. very small loan size, small-scale

housing projects). High-risk industry sector lists and categorization systems developed by multilateral or bilateral financial institutions also provide good preliminary guidance.

Risk Analysis

The level of further risk analysis should be determined by the categorization of the E&S risk profile. A more extensive analysis is typically required for medium and high-risk transactions which may require the expertise of sustainability experts within the bank and/or hiring additional sustainability employees, conducting E&S audits, site visits, or contracting external expertise. The risk analysis results in recommendations on potential E&S risk mitigation and approval procedures to the sourcing or financing decision processes (e.g. proceeding with or without contingencies, do not proceed).

Risk Mitigation

Establish a set of risk mitigation measures (e.g. obtaining regulatory permits, external stakeholder buy-in) for issues that have been identified in the screening and analysis stages. Compliance with E&S regulation, as well as the bank's internal sustainability policies need to be contractually agreed. Communicate the necessary mitigation measures to the client or supplier and/or define them as condition precedent for disbursement or contractual agreement.

Monitoring

If necessary, predefined action plans, loan covenants and contractual agreements serve as benchmarks to monitor, evaluate and report on client, project, or supplier performance. Monitoring systems should also cover relevant media reports, industry developments and news from peer groups to ensure the early detection of critical situations such as NGO campaigns or shareholder resolutions.

3. Have we made adequate arrangements for internal and external awareness-raising?

For environmental and social risk management to be successful, the risks need to be widely acknowledged and understood across the bank and by external stakeholders. Capacity building and training needs and opportunities should be assessed by the pertinent teams (e.g. sustainability, HR) to ensure that relevant employees receive ESRM knowledge and training that is tailored to their role.

In addition to in-house offers, banking associations and sustainability networks can be instrumental in developing and delivering training courses and materials. Broad awareness-raising within the bank helps to overcome any resistance there may be to unfamiliar concepts and perceived constraints associated to ESRM procedures. Externally, it is important to promote an understanding of how the bank deals with E&S risk in a way that contributes to reducing E&S issues overall.

Communicating (e.g. news bulletins, webinars) and reporting openly and transparently (e.g. CDP, GRI) on the environmental and social risk management efforts and constraints, increases trust and credibility inside and outside the bank.

4. How do we keep abreast of environmental and social risk trends?

Environmental and social issues are complex, evolving rapidly and the pressure from stakeholders to integrate environmental and social considerations into banking operations is increasing. There is therefore a constant and on-going need for information and learning.

Exchanging with colleagues via national and international peer networks is one essential means to remain aware of differing practitioners' approaches to the topic. There are also a variety of stakeholder networks and roundtables concerned with specific environmental and social risks and or lines of business.

Many international organisations offer capacity building programmes to address your bank's risk management needs. Selecting the appropriate sources amongst an array of specialized outlets will help to stay informed of policy, regulatory, market and academic developments and findings. A selection of sources can be found in the Resources section.

CURRENT PRACTICE ILLUSTRATIONS

The examples below were chosen to illustrate different options discussed in the text. The selection is a regionally balanced representation of our membership. The examples are neither a comprehensive selection nor universally applicable.

THE EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT

The European Bank for Reconstruction and Development (EBRD) was founded in 1991. It is owned by 65 countries from five continents, as well as the European Union and the European Investment Bank. EBRD is active in more than 30 countries, from the Southern and Eastern Mediterranean, to Central and Eastern Europe, to Central Asia. As of December 31, 2015, EBRD had 1,914 employees. The EBRD is committed to promoting environmentally and socially sound and sustainable development in the full range of their activities at the EBRD. The EBRD believes that environmental and social sustainability is a fundamental aspect of achieving outcomes consistent with its transition mandate and recognises that projects that foster environmental and social sustainability rank among the highest priorities of its activities. The EBRD is a member of UNEP FI since January 2005.

Among other commitments, EBRD seeks to ensure that the projects it finances are socially and environmentally sustainable, respect the rights of affected workers and communities and are designed and operated in compliance with applicable

regulatory requirements and good international practices. The EBRD's Environmental and Social Policy (ESP) outlines how EBRD will address the E&S impacts of its projects by setting a strategic goal to promote projects with high environmental and social benefits and mainstreaming environmental and social sustainability considerations into all its activities. The EBRD has adopted a comprehensive set of specific Performance Requirements (PRs) that projects are expected to meet. The EBRD expects its clients to manage projects associated with environmental and social issues to meet the PRs over a reasonable period of time. All projects are appraised against the EBRD's ESP and Performance Requirements. Throughout the investment cycle, the environmental and social performance of all EBRD projects is closely monitored.

The EBRD's E&S requirements for financial intermediary (FI) projects are set out in Performance Requirement 9 of the ESP. They focus on ensuring that banks, private equity funds and other financial institutions receiving finance from the EBRD have appropriate environmental

and social risk management systems in place. The EBRD's Environmental and Social Risk Management Manual for FIs (E-Manual) provides guidance and support tools to FIs to help meet the requirements of PR9. The E&S risk Management toolkit helps FIs screen transactions for E&S risks as well as assess the effectiveness and adequacy of their client's E&S risk management systems. This is to assist judging the appropriate level of E&S investigation that should be carried out. The E-manual also contains an E&S Risk Categorisation List designed to provide credit officers within FIs with a guide to the inherent E&S risks associated with a particular business activities via a risk rated ranked according to the EU statistical classification codes NACE Rev. 2. In addition the manual contains the list of activities which are typically excluded from financing using EBRD funds, as well as a list of Category A projects which are likely to have significant E&S impact and which require more formalised process of assessment such as "development on greenfield land". The EBRD has developed over 80 industry Sub-sectoral E&S Guidelines designed to assist FIs to

identify major environmental activity risk, important management actions and the essentials of E&S due diligence which are also contained in the manual.

The EBRD has been providing capacity building and training to financial intermediaries on environmental and social risk management for many years. EBRD's online E&S Risk Management

Learning Programme for FIs forms part of EBRD's commitment to promote environmentally sound and sustainable development. This course demonstrates simple steps that FIs should take to integrate environmental and social risk management procedures into transaction appraisals and helps FIs better manage the risks that arise from E&S issues in their business activities. Upon completion

of the course, FI staff involved in credit risk management are able to clearly and confidently communicate these topics within their organisation. Webinar sessions are delivered by the EBRD to its partner FIs to provide guidance on establishing and implementing E&S Policy and E&S Management Systems that align with industry best practice.

INDUSTRIAL AND COMMERCIAL BANK OF CHINA

In March 2016, ICBC released a research paper assessing the impact of environmental factors on credit risk of commercial banks, presenting the first environmental stress test conducted by a Chinese bank. The paper sets out a framework for transmission mechanisms of environmental risk, focusing on the impact of environmental standards and climate policies, bank's exposure to joint and several liability due to pollution and reputational changes resulting from the mismanagement of environmental risks.

Stress tests of thermal power and cement firms are conducted by estimating corporate performance under stress scenarios, assessing impacts on income and balance sheets, translating financial indicators to customer credit ratings and evaluation models, and finally assessing changes in credit ratings and impacts on loan quality. Enhanced environmental protection standards are found to impose greater cost pressure structural impacts on the thermal power industry, especially on small and medium sized firms. Under different

stress scenarios, 68% to 81% of the AA-rated and above firms are expected to undergo credit rating downgrade by 2020. Expected low growth and overcapacity may impose financial pressure to the cement industry, leading 48% to 81% of AA-rated and above firms to undergo credit rating downgrades depending on scenarios.

UBS

Headquartered in Zurich, Switzerland, UBS is present in all major financial centers worldwide. As reported in its 2015 annual report, UBS has offices in 54 countries, with about 34% of its employees working in the Americas, 35% in Switzerland, 18% in the rest of Europe, the Middle East and Africa and 13% in Asia Pacific. UBS Group AG employs approximately 60,000 people around the world.

UBS has established a comprehensive framework to prevent or manage environmental and social risks (ESR) for clients and the firm. The framework is applied to all transactions, products, services and activities such as lending, capital raising, advisory services or investments that involve a party associated with environmentally or socially sensitive activities.

The framework is published, and regularly reports progress, in the public domain. Moreover, the framework is aligned with the UBS and Society program, a cross-divisional umbrella platform covering all UBS activities and capabilities in sustainable investing and philanthropy, environmental and human rights policies that govern client and supplier relationships, managing their own environmental footprint, as well as their firm's community investment.

Through the ESR Framework, UBS regularly reviews sensitive sectors and activities prone to environmental and social risks, at portfolio level. The bank assesses client exposure and revenue in such sectors and attempts to benchmark the portfolio quality against regional and or sector averages. Based on the outcome

of these reviews, UBS can explore ways to improve the future portfolio profile along a range of risk parameters. Also, advanced data analytics on companies associated with environmental and social risks is integrated into the web-based compliance tool used by the staff before they enter into a client or supplier relationship, or a transaction. The systematic nature of this tool significantly enhances the ability to identify potential risk. In 2015, 2192 referrals were assessed by the environmental and social risk unit, of which 73 were rejected or not pursued, and 371 were approved with qualifications.

As part of the framework, UBS has identified certain areas of concern and controversial activities where it doesn't engage in, or only engages in under strict criteria. In areas of concern, UBS applies specific guidelines and criteria to transactions with corporate clients. These include soft commodities (palm oil, soy and timber), power generation (coal-fired power plants, large dams and nuclear power) and extractives (hydraulic fracturing, oil sands, arctic drilling, coal mining, precious metals, and diamonds). In controversial activities, UBS will not knowingly provide financial or advisory services to corporate clients whose primary business activity, or where the proposed transaction, is associated with severe environmental or social damage to or through use of world heritage sites as classified by UNESCO, wetlands on the Ramsar list, endangered species of wild flora and fauna listed in Appendix 1 of the Convention on International Trade in Endangered Species, high conservation

value forests as defined by the six categories of the Forestry Stewardship Council (FSC), illegal fire (i.e. uncontrolled and / or illegal use of fire for land clearance), illegal logging including purchase of illegal harvested timber (logs or roundwood), child labor in accordance with ILO-conventions 138 (minimum age) and 182 (worst forms), forced labor in accordance with ILO-convention 2, and indigenous peoples' rights in accordance with IFC Performance Standard 7.

Where business or control functions responsible for identifying and assessing environmental and social risks as part of due diligence processes determine the existence of potential material risks, they refer the client, supplier or transaction to a specialized environmental and social risk unit for enhanced due diligence. If identified risks are believed to pose potentially significant environmental or social risks, they are escalated according to the firm's reputation risk escalation process. Through this overall ESR framework, UBS is capable of identifying and managing potential adverse impacts to the environment and to human rights, as well as the associated risks affecting itself and its clients.



CHAPTER IV: **LEGAL**

CHAPTER IV: LEGAL

This section is intended for those teams responsible for ensuring the bank adheres to applicable regulation and legislation, as well as those teams managing legal risk and advising on any litigation and controversies affecting business activities or assets.

“Our commitment to sustainability includes adhering to relevant regulatory frameworks. Regulation with a stronger emphasis on sustainability considerations continues to emerge over time. Our bank has put in place mechanisms that ready us for emerging regulation. For example, we check the status and support our group affiliates and suppliers’ CSR activities so that they can improve the level of their sustainability, increasing the overall sustainability of the company beyond complying with global standards as well as related regulations.”

Shinhan Bank

Planning & Coordination Department

"Sustainability Management

2.2 We will comply with all applicable local, national and international regulations on environmental and social issues. Beyond compliance, we will work towards integrating environmental and social considerations into our operations and business decisions in all markets."

**Statement of Commitment
by Financial Institutions on
Sustainable Development**

BUSINESS CASE

Why is sustainability relevant to legal and compliance teams?

Sustainability issues are covered by an extensive array of dedicated conventions, norms and standards that straddle the international, national and local levels. They are increasingly embedded in rules and regulation targeted at companies, investors and financial institutions such as banks (see Resources section). Compliance with such norms and standards by banks and their clients is the object of heightened scrutiny as environmental and social (E&S) legal issues such as forced labour and pollution arising from clients' activities may blow back to a bank in the form of credit, market and reputation risk. A bank may ultimately be held liable for a client's non-compliance issues should the client default and the bank forecloses on assets.

Legal and compliance teams have a key role to play, not just to assist with integrating sustainability considerations in regular compliance processes as explained in Chapter III, but also to understand and anticipate how the normative landscape is evolving in alignment with fast-moving stakeholder needs and expectations.

The risks of inaction

- Credit risk (non-performance, defaults, devalued collateral) arising from client's non-compliant or poor E&S activities
- Legal risk such as liability for remediation of contaminated property through foreclosure
- Operational and legal risk due to banks lack of compliance with E&S regulation (e.g. lax worker safety precautions with potential civil or criminal penalties for negligence)
- Reputational and brand risk resulting from public and investor perceptions of a lack of adherence to, and respect of, E&S norms both from the client's and the bank's practices (e.g. financing a client in the coal sector)
- Perceived lax compliance with E&S norms attracts high risk clients and deals
- Public demand for additional legislative and regulatory action

Opportunities

- Increased portfolio resilience due to adequate consideration of E&S regulation and standards
- Improved credibility and reputation and increased market leadership for clients sensitive to E&S concerns
- Competitive advantage from anticipating new norms and equipping frontline bankers for regulatory changes

WHAT CAN YOUR BANK DO?

Proactively addressing legal and compliance aspects of sustainability better safeguards against lender liability and other risks and improves the overall resiliency of banks. These guiding questions provide essential considerations for legal and compliance teams including:

- Assessing the relevancy of and ensuring conformity with, sustainability regulation and standards for the bank's endeavours in cooperation with risk and sustainability teams
- Integrating sustainability requirements into transaction based advisory services, building up a repository of external specialized law firms and advisors
- Supporting the development of internal sustainability policies and ensuring alignment with relevant regulation
- Supporting awareness building efforts across the bank

1. Have we identified and assessed the relevant environmental and social legislation at home and abroad?

Legal teams are among the first line of defense when the bank is facing E&S risk such as credit or reputational impacts from controversial client activities. Key to a strong defense is Legal's knowledge of relevant E&S regulation and industry norms. This includes the interpretation of relevant sustainability frameworks to analyse the implications for the bank and reviewing public statements and commitments for potential liability and regulatory conflicts.

Compliance with all applicable regulations is the baseline of sustainability management, both for a bank's own activities and those of its clients and suppliers. Coverage of sustainability issues in legislative and regulatory frameworks is ever more extensive and is complex. Maintaining a firm grasp on international and national E&S laws, regulations and conventions (e.g. COP21 Paris Accord), business regulation (e.g. disclosure and stock exchange requirements) and financial regulation (e.g. Nigeria's Sustainable Banking Principles) is critical. Those banks operating in multiple geographies will have to be particularly observant, as depending

on the jurisdiction in the country of operation, legal requirements may vary, as will compliance requirements themselves.

The inclusion of soft law (e.g. OECD complaints, Equator Principles) when mapping applicable laws, regulations, etc. in the sustainability realm should not be ignored as corporations (as well as the banks that finance them) with controversial activities often find themselves subject to soft law infractions brought by NGOs and other complainants. Non-binding agreements on issues such as Human Rights or climate policy are a common instrument in this area, particularly at the international level, and are used to assert persuasive force on scales akin to hard laws.

In addition to existing financial legislation, new regulation and soft laws with a stronger emphasis on sustainability considerations are expected in the coming years. Anticipating these by including sustainability compliance today will give banks a head start.

2. Have we integrated sustainability aspects into our advisory services to business teams?

Integrating sustainability considerations into existing regulatory assessment procedures and compliance systems is more efficient both from an operational and a cost point of view than having standalone sustainability legal systems. While every bank will find its own model to do so, it is beneficial to streamline regulatory assessments to avoid a fragmentation of the process through adding different layers of compliance and monitoring for sustainability issues and to avoid liability.

Legal and compliance teams can support efforts by sustainability teams to proactively provide checklists and guidelines for the assessment of individual transactions in business lines such as Project Finance, Business Banking, Commercial Banking, Corporate Banking and Syndications. A bank may opt to develop a matrix or other framework that identifies thresholds and triggers for what constitutes a material legal risk and when legal teams should be involved (e.g. certain loan amounts, whenever a demand or claim is involved or for new products in risky

sectors). Smaller clients may not be immune to E&S risk thus business decisions should be conducted prudently. Legal may maintain a repository of outside counsel of firms that specialize in a particular set of environmental or social issues to seek their services depending upon the bank's level of expertise and the potential severity of the legal risk. It is up to the legal team to assess when this becomes necessary and identify relevant experts.

3. Are our internal sustainability policies aligned with relevant regulation?

In addition to assuring compliance with internal and external E&S regulation, legal and compliance teams have a role to play in the development and integration of sustainability strategies. This includes advising on the elaboration of an internal sustainability strategy to ensure conformity with all relevant regulation and frameworks. Furthermore, it is appropriate to help align internal policies and procedures with the overall sustainability strategy and monitor internal compliance.

The Resources section includes a variety of options for identifying, monitoring and tracking regulatory developments and compliance performance.

4. How can we contribute to awareness building and communication?

A successful integrated sustainability compliance strategy requires legal and compliance teams' contributions to help educate and communicate with stakeholders. Providing the legal perspective and collaborating with the sustainability and other relevant teams is an effective means to ensure consistency in sustainability messaging and tailor the message to specific audiences internally and externally. Client-facing teams for example, need to be especially versed in communicating legal and regulatory requirements along with sustainability requirements. Widespread awareness of legal issues associated with sustainability will help mainstream compliance throughout the bank and avoid risks.

CURRENT PRACTICE ILLUSTRATIONS

The example below was chosen to illustrate different options discussed in the text. The example is neither a comprehensive selection nor universally applicable.

PIRAEUS BANK GROUP

Headquartered in Athens, Greece, with approximately 19,000 employees (as of March 2016) in eight countries in Greece and South East Europe, Piraeus Bank Group offers a full range of financial products and services.

Piraeus Bank has incorporated, on a voluntary basis driven by solidarity, social and environmental actions into its business decisions and its contacts with other stakeholders. It is continuously adapting the financial, social and environmental impacts of its operation to a balanced approach within the scope of: economic development, environmental sustainability and social cohesion.

To assess the relevancy of, and ensure conformity with, sustainability regulation and standards, the Piraeus Bank Group has developed a Database on Environmental Legislation and Case Law (DEL&CL).

The DEL&CL provides a systematic framework for organizing specialized legal support to the implementation of Piraeus Bank Group's Environmental Policy and compliance with applicable legal requirements, via the necessary legal information and documentation.

The four main pillars of the Database are:

1. general obligations and trends for environmental protection and sustainable development
2. requirements for preventing and reducing operational environmental impacts of Piraeus Bank, the Piraeus Bank Cultural Foundation and ETVA VIPE Industrial and Business Parks (subsidiary of Piraeus Bank Group)

3. provisions related to plenty of actions undertaken by the Bank for mitigating its business environmental impacts, as well as
4. detailed content lists.

The DEL&CL covers a broad field of thematic issues, ranging from the Sustainable Development Goals of the UN to specific provisions on environmental licensing for buildings and museums. In the upcoming period, particular emphasis will be placed on further exploring the involvement of the business sector in the implementation process of international environmental agreements.

The Database has been developed and is constantly updated by a lawyer, legal advisor on environmental law issues.



CHAPTER V: **CORPORATE BANKING**

CHAPTER V: CORPORATE BANKING

This chapter is intended for all business teams charged with developing and selling banking products and services at the commercial and corporate level, including project finance and investment banking teams.

“There is an opportunity for banks to help bridge the finance gap to move to a low carbon economy, including providing finance capital for clients, including governments, businesses and supranational institutions. At Barclays, this will allow us to explore emerging markets and the development of social and environmental solutions in partnership with our clients and stakeholders. We will continue to create access to funding solutions for areas including, environmental financing via the capital markets and lending for clean energy, water and low carbon technologies; social infrastructure; national and supranational development institutions; and small business financing. We will also continue to support our Green Bond Treasury portfolio.”

Barclays plc

"Sustainability Management

2.7 We recognize the need for the financial services sector to adapt and develop products and services which will promote the principles of sustainable development decisions in all markets."

Statement of Commitment by Financial Institutions on Sustainable Development

BUSINESS CASE

Why is sustainability relevant to corporate & investment banking?

Climate change, diminishing resources and population growth continue to emerge as a business reality. Investors, clients and other stakeholders (e.g. as of December 2015, the fossil fuel divestment commitments by more than 500 institutions exceeded US\$3.4 trillion at COP21) are increasingly demanding to understand and control the environmental and social impacts (both positive and negative) of their activities. At the same time, policy and regulatory environments are evolving quickly to incorporate sustainability-related requirements and constraints that affect public and private players – including banks- alike. For example, institutions such as the Bank of England, the Financial Stability Board and the European Systemic Risk Board are examining how banks, insurers and pension funds would cope if policies designed to reduce carbon-dioxide emissions led to a sharp drop in the share price of oil, gas and coal companies.⁷ Moreover, in 2015, California in the US passed a bill requiring the state's two largest pension plans to divest their holding in thermal coal as part of the push to address climate change.

In short, the market is changing. Profitable business today may become bad business tomorrow (e.g. carbon stranded assets may face further problems as emissions are further limited), while things that seem unbankable today constitute the business opportunity of tomorrow (e.g. large-scale renewable or alternative energy infrastructure) – for those able to unlock it. As Diagrams 5 and 6 illustrate, today's markets for financial products and services have become constrained in the wake of the financial and economic crisis, while at the same time they have become more global and diverse, with strong actors in emerging economies. Additional competition has emerged from entirely new players delivering innovative and low-cost alternatives to conventional banking models.

The onus is on corporate and investment banking teams to deploy the skills and creativity necessary to stay on top of changing realities and maintain a competitive advantage within the sustainability space.

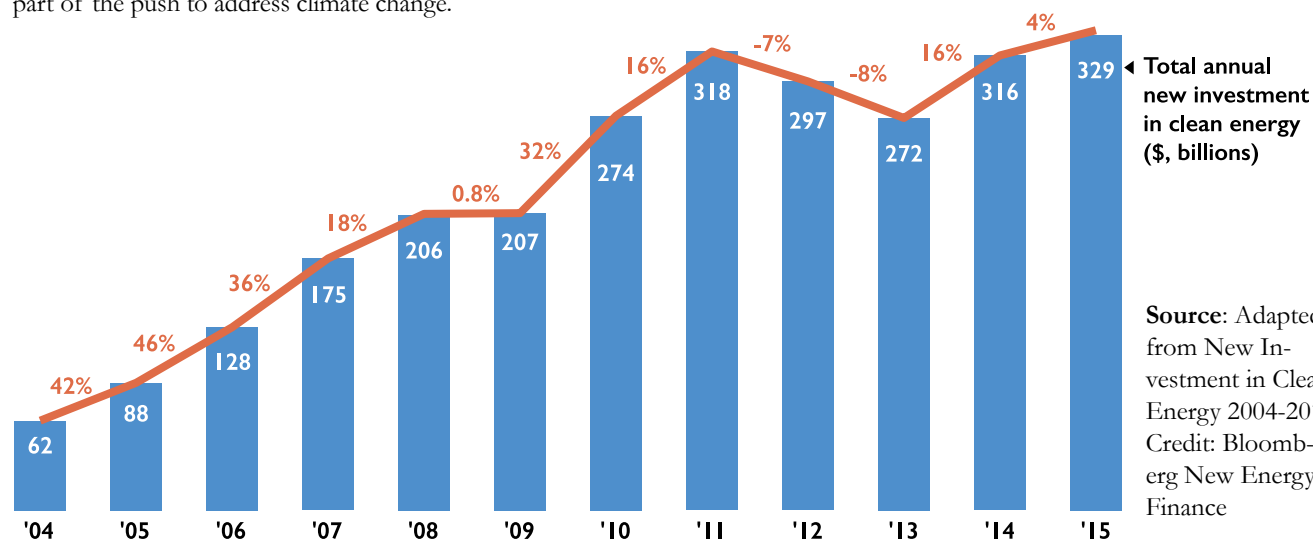


Diagram 5: Trend of New Investments for Clean Energy

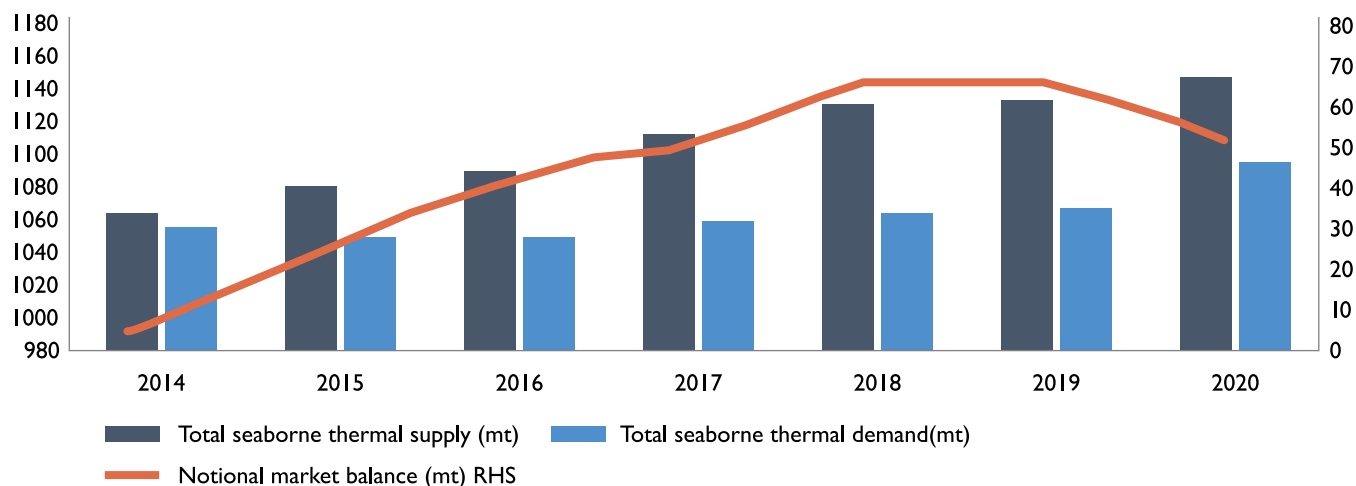


Diagram 6: Trend of Global Thermal Coal Market

Source: Modified from Deutsche Bank Markets Research, 2015 outlook and 4Q preview: Industrial Metals, Energy & Precious, 11 January 2015

The risks of inaction

- Loss of business opportunities due to failure to adapt to changing markets and demand
- Loss of competitiveness and market position in relation to conventional and non-conventional financial actors better suited to new market realities
- Exposure to environmentally and socially driven risk and liabilities, at both the transaction and portfolio level
- Threat to reputation, credibility and brand image

Opportunities

- Business opportunities through adaptation to new market realities
- Competitive advantage and potentially strong first-mover gains where additive and replicable business and financing solutions are found
- Attracting and retaining clients best aligned with changing market realities
- Enhanced expertise as highly motivated staff with new skill sets enter and remain within the workforce; recruiting specialized staff
- Improved reputation, credibility and brand image through positive impact finance
- Reduced environmentally and socially driven risk and liabilities, at both transaction and portfolio level

WHAT CAN YOUR BANK DO?

Minimizing risk, maximizing financial and other benefits of integrating sustainability in corporate banking requires a blend of expertise and tactics that are not overly burdensome. Main strategies and considerations for your bank include:

- Working with risk and sustainability teams to integrate environmental and social risk management policies and processes into the onboarding process and credit risk and investment analysis
- Identifying existing sustainable assets in your portfolio and among incoming deals to structure sustainable investment products
- Developing and offering sustainability oriented banking products and engaging with clients on sustainability issues to enable a shift to sustainable technologies
- Identifying unmet sustainable development needs and financing opportunities that might become strategic business development areas for your bank
- Embedding sustainability experts in business teams
- Supporting your communications team in relaying transparent information on sustainable products and services inside the bank and to investors
- Providing targeted trainings to inform business teams and clients about sustainability risks

1. Do we have the means to understand the sustainability-driven risks and opportunities attached to our business activities?

As a first step, it is crucial to develop the capacity to identify and assess the sustainability-driven risks and opportunities embedded in the existing portfolio as well as for incoming deals and transactions. Further to what has been laid out in Chapter III, business teams should work with sustainability and risk teams to integrate sustainability risk into their onboarding and credit risk processes.

Typical approaches and tools to this end include the use of the Equator Principles and IFC Performance Standards for

Project Finance and large corporate finance deals, as well as the application of ESG screening criteria in the context of general corporate lending - more often than not via an externally contracted and specialised analyst firm. These approaches will however tend to focus on risk mitigation at the transaction level and on getting an overall sense of corporate profiles. They reveal little at the portfolio level or about the end impacts of what are financed - ingredients that are key to access new opportunities, which are closely linked to impacts.

Portfolio level analyses assess the cumulative E&S risks of financed activities and projects across the bank. They are tailored to look at the bank's entire E&S risk exposure or to review clients in a given sector or engaged in certain activities such as soft commodities (e.g. palm oil, timber). Additional discussion of portfolio level risk analyses are included in Chapter III.

Opportunities for new E&S oriented business emerge in many ways - from analysis of new markets driven by policy and regulation, sector based approaches to fill a void created by natural resource depletion and support of a circular economy and to facilitate positive impact financing. For example, renewable energy, storage and transmission markets will be created as a result of the 2016 joint agreement with the United States, Canada and Mexico to generate 50 percent of their electricity from renewable sources by 2025.⁸ Large corporations are piloting circular economy business models based on leasing, remanufacture and extended lifecycle thinking.⁹

Sustainability teams should be a close partner to help the business teams understand the E&S risk and opportunities. It may also be beneficial to embed specialized expertise that have a blended skillset of finance, risk and sustainability experience in business teams.

2. How do we unlock the business potential of sustainability via the products and services that we design and deliver?

Gaining an understanding of where new markets are forming or can be developed is one thing, finding the means to bring them to life is another. Developing the capacity to advise and work with bank clients on opportunities is essential to developing new and growing markets. The key is to work with bank clients to develop innovative financing and investment solutions for business models that are profitable, sustainability oriented and manage risk at the same time. Clients should be engaged on levels sufficient to clearly elaborate the sustainable finance and investment options your bank is offering to encourage them to shift towards more environmentally and socially friendly business models and operations that integrate seamlessly with their existing models.

In 2015, the UN set 17 Sustainable Development Goals (SDGs) aiming at creating a more just and prosperous world by 2030. Member states and actors in civil society—companies, institutions, individuals—were invited to contribute to the achievement of these goals. UNEP FI set up an initiative in 2015 to identify and increase the business potential of activities serving the achievement of the SDGs. The Positive Impact Initiative defines Positive Impact Business as that which serves to deliver a positive contribution to one or more of the three pillars of sustainable development (economic, environmental and social), once any potential negative impacts to any of the pillars have been duly identified and mitigated. All banks are welcomed to participate in this initiative.

Sustainable finance products and services are highly variable depending on the region, level of development, market and industry structure, as well as consumer/client preferences as the examples in Diagram 7 demonstrate.

BUSINESS LINE	EXAMPLES OF SUSTAINABLE PRODUCT/SERVICE
Commercial and Corporate Lending	■ Green, social or responsible credit lines (energy efficiency, commercial buildings, etc.) ■ Green leasing ■ Financing circular economy ■ Environmental and social advisory services ■ Corporate lending to finance companies in their sustainability transition ■ Non-profit organizations with a sustainability angle
Project Finance	■ Sustainable energy infrastructure (renewable energies, smart meters, energy efficiency, etc.) ■ Green transport projects ■ Socially and environmentally compatible telecommunication solutions ■ Environmentally and human rights compatible extractive industry activities ■ Water and waste projects ■ Large-scale green commercial developments, shopping centres etc.
Investment Banking	■ Green, social, sustainable and/or positive impact bonds ■ ESG considerations in the context of mergers and acquisitions and IPOs
Trade Finance	■ Certified sustainable soft commodities ■ Sustainable shipment letter of credit ■ Sustainable trade funds

Diagram 7: Diversity of Sustainable Banking Products and Services

3. Are we communicating our work effectively?

As further elaborated in Chapter VII, a broad communication spectrum plays a key role to build on emerging trends and to make their development approachable and understandable as in the below.

■ Client-facing communication

Communicating your sustainability policies and requirements to clients ensures optimal integration from the start. Client-facing teams will also want to promote the sustainable financial products the bank offers. This will help raise awareness of such financing opportunities (and expertise therein) to ensure maximum uptake by the client base.

Collaborating with the communications and sustainability teams to develop effective materials and strategies will ensure that you are knowledgeable when speaking to your target audience. Update communication plans as the bank's sustainability story evolves.

■ External communication

There is growing consumer and investor preference for sustainable banking products and services. Hence, communicating your activities and projects to external stakeholders is vital to attract and retain customers, investors and improve your bank's reputation and credibility. Highlight your sustainable products and policies to the communications and sustainability teams to ensure your work is disseminated and reaches the broader public and potential clients. Well informed external communications may help to assuage NGOs and advocacy groups who may be scrutinizing the bank for financing unsustainable businesses and activities.

■ Internal communication

Responding to new challenges may mean increased cooperation with other business units and changing everyday operations in order to accommodate the cross-cutting nature of sustainable projects. Identifying sustainability requirements and communicating them openly to other business units and management can precipitate the necessary adjustments. Internal communications and training across the bank also facilitates awareness and may increase new product development and cross-selling opportunities.

CURRENT PRACTICE ILLUSTRATIONS

The examples below were chosen to illustrate different options discussed in the text. The selection is a regionally balanced representation of our membership. The examples are neither a comprehensive selection nor universally applicable.

MIZUHO

Mizuho Bank is a leading bank with a large customer base in Japan and a network encompassing Japan and financial and business centers around the world. The bank had 27,355 employees as at March 31, 2016.

The Mizuho Financial Group believes that environmental initiatives are an essential element for both its subsistence and business activities; a risk and an opportunity. As a global financial group, Mizuho contributes to the sustainable development of society by undertaking environmental initiatives voluntarily and proactively while taking into perspective a precautionary approach. These include addressing climate change issues, building a low-carbon society, promoting the sound life-cycle society, preserving biodiversity and other issues.

Against the backdrop of the increasingly active efforts being made in Japan and overseas to protect the global environment, companies are proactively promoting environment-friendly initiatives. Mizuho believes that part of the financial institution's social mission is to provide financial support for these initiatives.

For example, Mizuho Bank offers environmentally conscious financing products with below-market interest rates to respond

to the working capital and investment capital needs of SMEs that are practicing environmentally conscious management or proactively addressing environmental problems, and to SMEs investing in facilities to improve the environment. It is also involved in other diverse efforts, such as environment-related project finance for clean energy power generation.

From the perspective of structuring a framework, in cooperation with its customers, Mizuho Bank proactively plays an important role in environmental city projects led by the initiatives of Japanese companies from the development stage. Mizuho's goal is to support growth strategies of Japanese industries and promote the development of high-quality, sustainable infrastructure from a financial standpoint using its smart city project management expertise with Japanese environmental technology.

Mizuho Bank recognizes that large scale development projects may have adverse impacts on the environment and local communities. To minimize and/or mitigate the environmental and social risks associated with such large scale developments, Mizuho Bank, in collaboration with the project proponents (customers), conducts appropriate environmental and

social risks assessment/due-diligence as required under Equator Principles. Mizuho believes that environmental and social risk management through Equator Principles creates value for its stakeholders by reducing the credit risk and by ensuring environmentally and socially responsible development of projects.

For this reason, Mizuho Bank conducts regular training sessions on environmental and social risks assessment and Equator Principles requirements for its employees involved in large-scale project financing. And it has been promoting the understanding of the Equator Principles by conducting several outreach events such as proactively holding seminars not only for private financial institutions but also for other stakeholders, including government organizations and private businesses, both in Japan and overseas.

Mizuho is promoting understanding and penetration of CSR in the group by utilizing training programs, internal communication tools and award systems. Furthermore, the CSR department of Mizuho, which develops CSR policies, promotes initiatives, and produces integrated reports, spreads the sustainability issues across the company, departments, and subsidiaries.

SEB

In Sweden and the Baltic countries, SEB offers retail banking, financial advice and a wide range of financial services. In Denmark, Finland, Norway and Germany the bank's operations have a strong focus on corporate and investment banking based on a full-service offering to corporate and institutional clients. The international nature of SEB's business is reflected in its presence in some 20 countries worldwide. At 30 June 2016, SEB has around 15,500 employees.

To meet increasing expectations of transparency as regards sustainability in granting credit, SEB is investigating alternatives for how to enhance transparency in its credit portfolio and its environmental footprint, as well as on standards the bank adheres to and its way of working. Some of this work is done in collaboration with the Bankers' Association to facilitate compatibility and comparisons without limiting competition in any way. Interested parties include supervisory authorities, professional analysts as well as consumers.

One of SEB's focus areas is green finance. SEB aims to identify the best

ways to promote climate friendly and resource efficient solutions. Building on SEB's experience as a pioneer for green bonds, they take a long-term perspective on how they can contribute. Within the context of a financial system that is aligned with sustainable developments, SEB will continue developing the green bond concept and spin off new products for the capital markets.

The green bond market was developed by the World Bank and SEB with a number of forward-thinking Swedish investors in 2007 and 2008. Since then, the market has grown and is now an established part of the global capital market. Companies and organisations seek funding for specific environmental investments and investors are increasingly integrating sustainability into their daily portfolio allocation.

In 2015, the green bond market infrastructure was further strengthened. SEB launched a dedicated Green Bond Fund to private individuals to finance environmental and climate-friendly investments and a sustainable future without compromising on performance.

Within the impact investing area - SEB

has also started three funds for microfinance which cater for institutional clients. SEB has in less than three years become one of the biggest microfinance actors in Europe. The aim is to offer customers an attractive investment opportunity with clear social character, where funds are used to create jobs and growth in developing countries. SEB has also strengthened the role of sustainability aspects in management of all major asset classes. Besides exclusion criteria and limitations related to e.g. carbon, SEB is increasingly using positive selection in fund management and actively includes companies that perform well within environmental areas.

SOCIETE GENERALE

Societe Generale is one of the largest European financial services groups. Based on a diversified universal banking model, the Group combines financial solidity with a strategy of sustainable growth, and aims to be the reference for relationship banking, recognised in its markets, close to clients, chosen for the quality and commitment of its teams.

Societe Generale has been playing a vital role in the economy for 150 years. With more than 145,000 employees, based in 66 countries, Societe Generale accompanies 31 million clients throughout the world on a daily basis. Societe Generale's teams offer advice and services to individual, corporate and institutional customers in three core businesses:

- Retail banking in France with the Societe Generale branch network, Credit du Nord and Boursorama, offering a comprehensive range of financial services on the leading edge of digital innovation;
- International retail banking, insurance and financial services to corporates with a presence in developing economies and leading specialised businesses;
- Corporate and investment banking, private banking, asset management and securities services, with recognised

expertise, top international rankings and integrated solutions.

Societe Generale's proactive role in financing the real economy makes it aware of the environmental, social and economic convergence issues at play within its sphere of influence and to factor them into its business. For the last 10 years or so, the credit risk and reputation management policies and processes have thus gradually incorporated the assessment of Environmental and Social (E&S) criteria. The Group adopted many voluntary commitments and international standards that are set out in its public Environmental and Social General Guidelines and the 12 sector and cross-sector policies appended to them. They are regularly revised to best reflect the consideration of E&S challenges in the economic and social sphere.

This strong framework set out the procedures for the evaluation of E&S risk and impact associated with transactions or clients to whom the bank provides banking and financial services. This process involves the operational implementation of the Equator Principles and its underlying standards. For other types of transactions, an E&S due diligence is conducted based on a framework consistent with the supported standards and

adapted to each type of financial engagement.

Since 2012, Societe Generale went further and developed the Positive Impact Finance methodology, characterised by the financing of any activity that verifiably produces a positive impact on the economy, society or the environment whilst ensuring that the potential negative impact has been properly identified and managed.

As one of the pioneers of this approach in the banking industry, the Group then brought that subject to UNEP FI to launch the Positive Impact Initiative in 2015.

Within Corporate Investment Banking, a Positive Impact Finance team has been put in place, with the responsibility to assess E&S risks, positive and negative impacts both at the client and transaction level and to develop Positive Impact Business.

Societe Generale commitment to a responsible finance is also illustrated by the 2 Positive Impact bonds issued in November 2015 and September 2016 respectively.

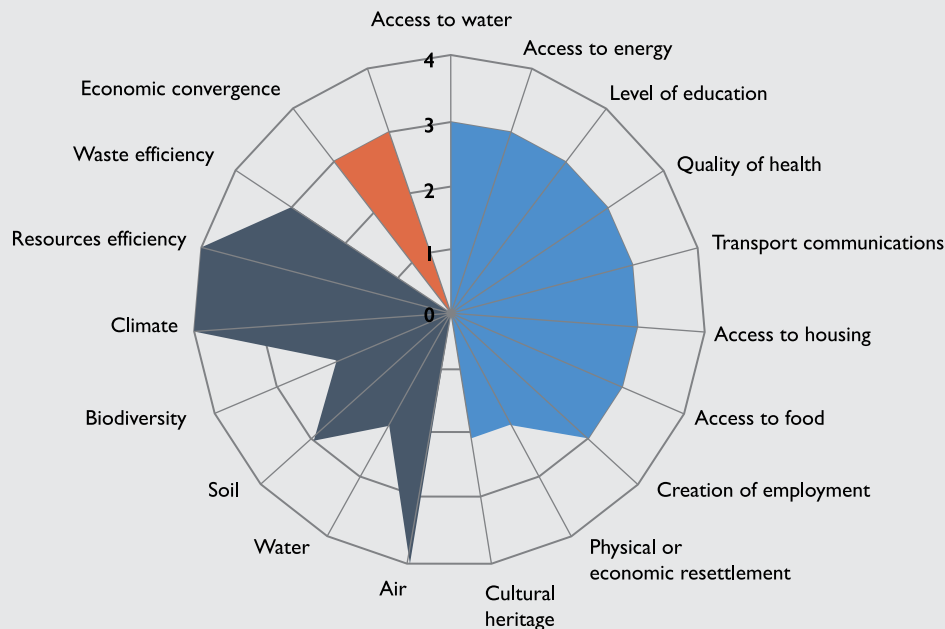
SOCIÉTÉ GÉNÉRALE POSITIVE IMPACT BONDS

Société Générale Positive Impact Bonds illustrate its commitment to finding innovative financial solutions to fund the transition towards a low-carbon economy. The issues are backed by an in-house methodology and combine the best environmental and social standards.

The process for evaluation and selection of eligible assets relies on:

- An ESG assessment framework based on international E&S standards and compliant with the Equator Principles such as exclusion of transactions linked to prohibited activities by international conventions and agreements or a verification of ESG risks and controversies.
- A Positive Impact assessment framework which evaluates positive and negative impacts based on at least 17 impacts categories including social, environment and economic.
- Those frameworks ensure the assessment of positive and negative impacts, the appropriate management of the E&S risks and their continuous monitoring.

For the two first issues, positive impact assets selected were those contributing to the fight against Climate Change and falling within the investment categories of



0: negative impact; 1: passable impact, possible improvement;
2: well remediated impact; 3: neutral impact; 4: positive impact

renewable energies. They raise standards in terms of traceability and transparency as they are backed by a double assurance. On one hand, a second party opinion provided by Vigeo attests to the sustainability credentials of the bond and its alignment with Green Bond Principles and on the other hand, a third party assurance by EY verifies the positive impact characteristics of each asset selected, the climate benefit criteria and the allocation

of funds. The framework associated to the issues is also aligned with the Positive Impact Manifesto launched by UNEP FI.

The Positive Impact Bonds contribute to shift Société Générale' activities towards Sustainable Development and are part of a broader ambition to meet the Sustainable Development Goals as defined by the United Nations.



CHAPTER VI: **RETAIL BANKING**

CHAPTER VI: RETAIL BANKING

This chapter is intended for all business units concerned with developing and selling banking products and services at the retail and small or medium-sized enterprise (SME) level.

“At Desjardins, we believe that the future of our communities depends on sustainable practices and products that encourage socially and environmentally responsible consumption. That’s why we offer a range of products inspired by sustainable development principles, designed to meet the expectations of members, clients and investors who share this concern. We believe that for prosperity to be sustainable, it must be equitably shared among the generations. We therefore have developed a range of green and microfinance products that promotes the integration of both environmental and economic dimensions for our Retail members and clients.”

Pauline D’Amboise

Secretary general and Vice-President Social Responsibility and Foundation, Desjardins

"Sustainability Management

2.7 We recognize the need for the financial services sector to adapt and develop products and services which will promote the principles of sustainable development decisions in all markets."

**Statement of Commitment
by Financial Institutions on
Sustainable Development**

BUSINESS CASE

Why is sustainability relevant to retail banking?

Retail and small or medium-sized enterprise (SME) banking is characterized by its broad networks and strong relationships with individual customers, communities and real economy actors. In terms of business development, retail and SME banking has the advantage to have its finger on the clients' sustainability pulse. In most regions, we see a rise of retail clients who want products that are easy to understand and suit their needs, are easily accessible and improve their and their community's lives and environs. As such retail and SME banking teams can play a key role in understanding changing markets and in ensuring that the bank responds (and is seen to respond) adequately to evolving needs and expectations and the opportunities that these carry.

According to the Alliance for Financial Inclusion,¹⁰ over half of the world's adult population, 2.5 billion people, lack access to formal financial services. Changing markets and consumer preferences increasingly revolve around growing populations, shifts toward more sustainable modes of consumption and production and consumer expectations and perceptions of banks behaviour with what is done with their money.

Retail banking should view these as opportunities to deliver social and economic value by promoting access to finance and financial inclusion to the growing and changing population by providing a broad array of products and services that are affordable, trustworthy, accessible and sustainable. Energy efficient home loans, environmental and social saving or investment funds and mobile banking are just a few examples that enable individual and SME clients to fulfil their banking needs while contributing to sustainability vis-a-vis the clients' needs to reduce utility bills, save for retirement and manage their accounts remotely.

The International Federation of Accountants reports¹¹ that SMEs account for over 95% of all businesses and for the majority of private sector gross domestic product (GDP), wealth and employment creation and social and environmental impacts. The financial health of SMEs is critical for the global economy

and retail bankers can improve their SMEs' profitability through sustainability. Retail bankers can provide the services and products their SME clients require and help integrate sustainability into their core business strategy to benefit from lower operating costs, reduced risk and new opportunities. For example, stakeholder expectations that big business implement sustainability best practices increasingly extend to their SME supply chain as illustrated when a large corporation who is committed to reduce its fossil fuel consumption may require its courier supply chain to utilize fuel efficiency measures in its fleet. To a lesser degree than that faced by large corporations, SMEs can be impacted by environmental and social issues such as worker safety and environmental pollution. Retail bankers have an opportunity to assist SMEs in identifying and managing these risks as well as assisting with financing needs for sustainable activities and sustainable entrepreneurship.

The risks of inaction

- Loss of business opportunities to existing competitors and to new market players
- Loss of existing customers to banks and other service providers seen to be more aligned with their expectations and ideals and/or offering better solutions for their needs
- Loss of market position and competitiveness, weakened reputation, credibility and brand image
- Increased social and environmental liabilities for the bank, as well as vulnerable lending and deposit portfolios

Opportunities

- Increased market participation, penetration and business opportunities
- Attracting and retaining customers and clients with increasing sustainability demands
- Stronger community ties by being the neighbourhood bank of choice and through non-financial efforts such as volunteerism
- Improved reputation, credibility and brand image
- Increased job satisfaction and retention amongst employees

WHAT CAN YOUR BANK DO?

As described in the Business Case section, retail bankers are in an excellent position to embrace sustainability on a large scale. Pursuing a well-rounded sustainability tract will enable your bank to optimize and leverage actions including:

- Identifying retail sustainable development needs that open up strategic business and product development opportunities for your bank
- Identifying existing sustainable business practices in the portfolio and developing screening methods for incoming clients
- Working with risk management and sustainability teams to identify environmental, social and governance concerns that may adversely impact loan performance
- Developing and providing capacity building, training and seminars to assist your bank's SMEs representatives/specialists/teams understand sustainability requirements their clients may have
- Collaborating with HR, sustainability and communications teams to identify training and education needs of client-facing teams to educate and encourage clients to opt for sustainable financial products and services

1. Can we recognize the sustainability-driven opportunities and risks attached to our retail and SME business activities?

Having the foresight to recognize sustainability-driven opportunities and risks requires good knowledge with the evolving market, business development plans and the bank's sustainability strategy (see # 2 below) and concepts (e.g. paperless vs paper benefits, urban sprawl and commuter emissions).

Once knowledge is obtained, opportunities can be identified through various tactics such as set forth in Chapter V, to determine whether the existing client portfolio can be widened based on market analysis and the bank's sustainability positioning. Viewed through a combined portfolio and sustainability lens, opportunities such as providing access to banking in areas currently underserved, demand response for

specialized products and investments, helping SMEs secure contracts with clients with sustainability requirements and stronger partnerships with clients and SMEs on their sustainability journeys should be revealed.

It is crucial to understand where the financing needs of individual clients and local enterprises aren't currently met. Benchmarking of what other banks have in the way of retail and SME banking offers is an effective means to reveal the type of sustainable business endeavours that have so far been financed through conventional products (e.g. home equity mortgages used for energy efficiency upgrades). Benchmarking is also an effective means to identify gaps (lack of hybrid auto loans) and therefore opportunities for sustainable finance for clients. SMEs for example, play an increasing role in international, national and regional economies however often cannot meet conventional financing requirements. SMEs typically view sustainability in terms of cost efficiency or a contractual requirement by one of their clients. SME teams, in concert with sustainability teams, can help develop, educate and build financing and business models that demonstrate that there does not have to be a trade-off between return on investment and sustainability.

Sustainability risks in retail banking can be both different and similar to those on the corporate banking side. While risks may not apply to some individuals there are exceptions as in when a corporate CEO (who is a retail banking client) may be subject to liability for activities such as organising shooting safaris in Africa. Transaction size also does not safeguard against sustainability risks as even small transactions can have issues which compound in magnitude far beyond the transaction size such in a case where an activity (e.g. mining) passes legal muster but fails from a sustainability risk perspective. Sector analysis for retail banking transactions is an effective means to hone in on where sustainability risks may emerge.

Risks do apply to SMEs albeit to a lesser degree than a corporate client but can be significant when aggregated across the SME portfolio. Identifying what the risks (and relevant mitigants) are can be challenging due to the SME smaller size and implementation needs, but they generally include: worker health and safety, extreme weather/climate change, environmental impacts from operations (e.g. parts manufacturing), downstream liability from SMEs larger corporate clients and reputational risks at the community view level. Additional guidance for identifying and managing risks is provided in Chapter III.

Studies¹² increasingly show that SMEs that integrate sustainability into their core business strategy can benefit from lower costs, reduced risk and new opportunities. For example, since SMEs typically have limited capacity to withstand extreme weather events, opportunities may exist to enhance their infrastructure to build up their climate resiliency. Because of their “ground floor” location, retail teams are typically the first line of defense when it comes to helping their clients with environmental and social risk management and develop sound business practices.

2. How might our retail and SME products and services best address sustainability-driven risks and opportunities?

Sustainability considerations are relevant to all products and services, as per Diagram 8. The pertinence of different measures is however highly variable depending on the region, level of development, market and industry, structure and consumer/client preferences. For instance, your bank may find a pressing need for inclusion while another bank finds its priority is on providing transparency on the use of individuals’ money for social and other investments and yet another bank has put innovative SME products and services at the top of their list. These differences illustrate the importance of conducting the analysis previously outlined in guiding question one.

Different measures require different approaches; some may require product development or process changes (e.g. energy efficiency financing, mobile banking); some may require non-traditional approaches (e.g. internet, tele-networking) to initiate economy, microfinance institutions and other player relationships, while still others engage the corporate or investment side of the bank to develop special purpose vehicles for positive impact investment funds. Optimally, your bank’s framework for sustainability product development will involve understanding the market to identify and develop financing that produces a positive impact on society and/or the environment.

Your bank may already have a number of existing offerings that in combination with new offers deliver a robust menu of options for your retail and SME clients such as follows.

Individuals

TYPE OF PRODUCT/ SERVICE	SUSTAINABLE ASPECTS
Bank Accounts	- Online/paperless process and statements - Targeted solutions to promote access and inclusion to basic services such as checking and saving accounts via mobile banking
Payment Facilities	- Online/paperless process and statements - Targeted services with environmental and/or social benefits such as “green” affinity cards
Loans	- Online/paperless process and statements - Targeted products with environmental and/or social benefits such as green mortgages, hybrid or alternative fuel vehicles, education
Savings Facilities	- Online/paperless process and statements - Targeted accounts and products (e.g. certificates of deposit, bonds, investment accounts) that allow the client to choose from a menu of sustainability themes to responsibly save or invest in

SMEs

TYPE OF PRODUCT/ SERVICE	SUSTAINABLE ASPECTS
Bank Accounts	- Online/paperless process and statements - Targeted solutions to promote access and inclusion to basic services such as checking and saving accounts via mobile banking
Payment Facilities	- Online/paperless process and statements - Targeted services with environmental and/or social benefits such as “green” affinity cards
Loans	- Online/paperless process and statements - Targeted products with environmental and/or social benefits such as green mortgages, hybrid or alternative fuel vehicles, education
Savings Facilities	- Online/paperless process and statements - Targeted accounts and products (e.g. certificates of deposit, bonds, investment accounts) that allow the client to choose from a menu of sustainability themes to responsibly save or invest in
Advisory Services	- Targeted services for assistance with environmental and social risk management - Targeted services for assistance with business management such as marketing of sustainable aspects of SME

Diagram 8: Sustainable Offerings for Retail and SME Banking

3. What communication needs and opportunities arise from our work on sustainability issues?

Your sustainability related products, services and other offers deserve to be showcased externally and internally. Externally, your bank will want to promote the sustainability components of products and services (existing and new) to the bank's clients, investors and prospects. Annual reports, main website, direct marketing, newsletters, seminars and other tools are effective means for advertising availability as well as demonstrating your bank's commitment to sustainability. Relevant sustainability policies and requirements should also be communicated to your clients to ensure optimal uptake and integration from the start.

Internally, furthering the bank's sustainability strategy and business opportunities requires retail and SME teams to be well versed on sustainability policies and products/services that are available for their markets. As retail and SME client-facing staff tend to be often geographically decentralized efficient in-person training presents challenges. Technology and tools such as webinars eliminate these challenges and can be used to educate and inform in a consistent way across the teams.

Communicating internally is essential to bring awareness of retail and SME offers and encourage collaboration with other business units on potential cross-cutting business. A diverse communication plan ranges from written broadcasts to in person briefings to optimize awareness raising and capacity building. Update communication plans as the bank sustainability story evolves and new retail and SME offers are developed to help raise client awareness and uptake.

The design of communications and training programmes will vary between banks and even business units, but should include both sustainability and risk policies and strategies pertaining to their day-to-day operations and materials to gain a deep understanding of relevant sustainable finance products and services that are available and how to recognize new opportunities. Work with the communications and sustainability teams to develop effective materials and strategies that speak to your target audience.

CURRENT PRACTICE ILLUSTRATIONS

The examples below were chosen to illustrate different options discussed in the text. The selection is a regionally balanced representation of our membership. The examples are neither a comprehensive selection nor universally applicable.

ASN BANK

ASN Bank was founded on May 1, 1960 by the union of Federatie Nederlandse Vakbeweging (Federation Dutch Labour Union) (FNV) and the insurance company de Centrale (now Reaal insurances).

Sustainability is the guiding principle in all of ASN Bank's activities. Further, its mission is: "Our economic conduct is aimed at promoting sustainability in society. We help to secure changes that are intended to put an end to processes whose harmful effects are shifted to future generations or foisted onto the environment, nature and vulnerable communities. In doing so, we do not lose sight of the necessity to yield returns in the long run that safeguard the continued existence of our bank. We manage the funds that our customers entrust to us in a manner that does justice to their expectations." Therefore, all savings that customers entrust to the bank are invested in a sustainable manner.

Sustainability is the principle that guides ASN Bank's mission and strategy. Sustainability is key in every aspect of ASN Bank's work, both in its banking activities and in its efforts to promote sustainability. ASN Bank does not regard sustainability

and sustainable development merely as environmental objectives. ASN Bank's aim for sustainable development is inspired by a sense of justice: the bank wants to help ensure a fair distribution of wealth, now and in the future. That is why sustainability has a major social aspect to ASN Bank.

ASN Bank builds its sustainability policy on three pillars, which cover all issues that matter to its customers and to the bank. Those pillars are:

- human rights;
- climate change;
- biodiversity

In keeping with its mission, in September 2015, ASN Bank participated with the members of the NpM Platform for Inclusive Finance to present a Letter of Intent on Greening the Inclusive Finance Sector to the Ministry of Foreign Affairs to encourage measures that allow underprivileged people to have access to financial products and services, such as microcredit, savings accounts and insurance.

Further, ASN Bank wants to take the lead by being the bank that makes a maximum contribution to reducing emissions. For this reason, the bank has set itself a

long-term goal: to achieve full net carbon neutrality in all their loans and investments (banking activities) by 2030. ASN Bank reduces the carbon emissions of its banking activities as follows:

- ASN Bank does not invest in the extraction, production and refining of fossil materials and their use to generate electricity.
- ASN Bank only finances energy obtained from renewable energy sources, such as wind and solar energy.
- ASN Bank also finances energy-saving measures, low-energy buildings and energy efficiency.
- ASN Bank avoids investments in energy-intensive companies, preferring companies that limit their energy consumption.

As an example of ASN Bank's carbon reduction strategy, the bank is co-financer of the National Energy Saving Fund which offers energy saving loans to consumers. Energy Saving Loans are provided from the €300 million National Energy Saving Fund (Nationaal Energiebespaarfonds). Homeowners and homeowners' associations may use proceeds for insulation measures and installation of efficient heating and power

systems including solar panels. ASN Bank informs people via their website and customer magazine *Ideaal*.

Sustainability furthermore is not only about the thing one does to further a sustainable society, but also is the way customers are serviced. Integrity, transparency, expertise and reliability are paramount to the bank's customer interaction. ASN Bank offers easy-to-understand banking products and good service, and communicates clearly about this. The bank regularly receives suggestions and comments through

the Customer Service Department and social media in particular. ASN Bank takes these suggestions and comments into consideration when drawing up its sustainability policy and giving shape to their banking services. For example, the ASN Bank organised two interactive customer satisfaction sessions for employees to share their thoughts on what the bank could develop further in order to achieve its long-term goal of 1 million satisfied customers. The ideas were both about sustainability and about services and products.

ASN Bank, together with its partners and other stakeholders, wants to promote a sustainable society. A society in which people are free to make their own choices without harming others. A society without poverty, in which everyone can learn, live and work in a healthy environment. A society in which we respect each other and the natural world, care for those in need and pay due regard to the needs of future generations. Together with ASN Bank's stakeholders, its working towards a better world.

DESJARDINS GROUP

Desjardins Group is the largest integrated cooperative financial group in Canada. It comprises a network of caisses, credit unions and business centers in Québec and Ontario and some twenty subsidiary companies in life and general insurance, securities brokerage, venture capital and asset management. As of December 31, 2015, Desjardins employed 47,654 people.

Desjardins has supported many self-employed just started entrepreneurs to medium sized businesses with its full range of financial products and services designed specifically for the needs of SMEs including Desjardins Microcredit to Businesses, CRÉAVENIR program, Capital croissance PME fund and the Desjardins Energy-Efficiency Loan.

- CRÉAVENIR is a financing program launched in 2007 that supports young entrepreneurs looking to start up a business. Loan proceeds can be used as working capital for the business and none of the usual down payments

or security deposits are required. The program also has a financial education component and mentoring is provided by local partners (local development centres [CLDs], regional development cooperatives, community development agencies [SADCs], etc.) with business start-up expertise. One example is a company that offers LED lighting services launched in 2012 in Montreal. As a member of the Caisse Desjardins since his arrival in Canada in 2008, its founder benefitted from the Créavenir program to be able to access financing geared to his situation.

- One of the most successful products and services is Fonds Capital croissance PME (Capital Growth Fund SMEs), a fund whose mission is to support the development and growth of SMEs in Quebec by providing proper capital for equipment upgrades and expansion, acquisition and transfer plans. This has been managed by Capital régional et coopératif Desjardins

(CRCDD), which is the venture capital fund management arm of Desjardins Group, in conjunction with Caisse de dépôt et placement du Québec.

Created in 2010, the fund has provided financial packages, ranging from CA\$100,000 to CA\$5 million in the form of a loan, an equity investment or, in some circumstances, a combination of both. Also, it offers advisory services with regional and specialized teams which have in-depth industrial and business knowledge and expertise. The fund supports the growth of SMEs, but also helps to keep local businesses local supporting businesses to remain based in Quebec after owners retire, by doing so contributing to the sustainable development of communities. One example is a company specializing in the design, manufacturing and integration of custom recycling equipment. The company has bought back shares

held by US interests, thereby becoming a 100% Quebec-owned company with the support of the fund. To date, CA\$329 million has been directly invested in 284 Quebec-based companies, including CA\$56 million and 75 companies in 2015.

- The Desjardins Energy-Efficiency Loan is designed to help businesses

upgrade their equipment or renovate their space in order to reduce energy consumption, save money and limit their greenhouse gas emissions. Through Desjardins' partnership with the Association québécoise pour la maîtrise de l'énergie, the Energy-Efficiency Loan product line is constantly improving. Clients can use these loans

to finance energy efficiency upgrades for their business, without touching their working capital. It's proved to be a popular idea: this year, a total of CA\$29 million was invested in energy efficiency improvements.

KCB

KCB Bank Group is East Africa's largest commercial Bank that was established in 1896 in Kenya. Over the years, the Bank has grown and spread its wings into Tanzania, South Sudan, Uganda, Rwanda, Burundi and Ethiopia (Representative office). At the end of 2015, the bank employed more than 7,500 employees across these markets. Over the years, the Bank has witnessed a stable and sustainable growth in its performance and has been at the epicentre of driving entrepreneurship and economic expansion across the Eastern Africa region. The Group has created massive transformation and a strong heritage by deepening financial inclusion for people and business in the region.

As Eastern Africa's leading financial solutions provider with significant influence on the socio-economic prospects of the region, KCB owes it to its stakeholders to be considerate of the impact the bank's operations have not only to its profitability, but also on the society and the environment the bank operates in. In this respect, KCB views sustainability as a key driver of its corporate strategy and a means for creating a competitive advantage to and for KCB's stakeholders.

Sustainability has the power to create immense value. KCB has people who can greatly impact the future of generations to come through sustainability.

KCB believes in equipping people with the tools and resources they need to prosper. The economy is buoyed by small entrepreneurs who face significant challenges in accessing finance to enable them to run their business from day to day. KCB acted on this gap in the market and launched their KCB MicroBanking product, specifically targeted at these innovative minds to help them grow. The product allows for loans of between KSh\$5,000 and KSh\$1 million, more flexible security requirements, longer repayment terms and a low loan fee, payable up front. This new product was designed specifically based on customer needs and has been a successful addition to KCB's product portfolio.

The Bank's initiative to increase access of products and services has been hugely successful in KCB across the regions. In 2011, KCB pioneered Agent Banking "KCB Mtanni" and has recruited over 7,000 agents who are transacting an average of 10,000 transactions daily and

generated over KSh\$45 million in revenue. These agents are fully mandated by KCB to offer banking services on behalf of KCB. It gives people access to a wide range of banking services in their neighborhood. In 2013, KCB upgraded their Agent Banking platform to offer service at agent outlets through a POS terminal. It has improved capacity and reliability and enables the bank to offer a wide range of services to customers.

In addition, in 2006, KCB became the first bank in Kenya to launch a mobile phone based banking platform. In 2012, KCB developed a new mobile banking platform "KCB Mobi Bank" which is available to all mobile phone networks. The platform is accessible through both dialing and using the KCB application on the phone. By 2013, KCB had over 1 million registered customers. Also, KCB introduced Internet banking "KCB i-Bank" to individual customers in 2011 and upgraded the platform to be accessible to both individual and corporate customers in 2013. By 2013, KCB had over 5,500 customers registered on KCB i-Bank and actively using the service.



CHAPTER VII: COMMUNICATIONS

CHAPTER VII: COMMUNICATIONS

This section targets teams who shape and develop the bank's corporate identity, including media relations, public affairs, marketing, brand communication, investor relations, consumer research teams and internal communications.

“Triodos Bank is one of the world’s leading sustainable banks. Our mission is to make money work for positive social, environmental and cultural change. For Triodos Bank the starting point is a long-term relationship with our savers and borrowers. As a bank, we are responsible for the money we lend. If there is a problem, we solve it together. We believe that sustainable banking depends on trustworthiness, so we publish details of every single organisation we lend to; which means our savers and investors can see exactly how we’re using their money. To make our vision and the extent to which we’re delivering on it tangible, we focus on sharing stories that illustrate the whole picture. It is also essential for knowledge sharing, learning, and advancing sustainable development.”

Christine van Waveren

Head of Corporate Communications, Triodos Bank

"Public Awareness and Communication

- 3.1 We recommend that financial institutions develop and publish a statement of their sustainability policy and periodically report on the steps they have taken to promote the integration of environmental and social considerations into their operations.**
- 3.3 We will foster openness and dialogue relating to sustainability matters with relevant stakeholders, including shareholders, employees, customers, regulators, policy-makers and the public."**

**Statement of Commitment
by Financial Institutions on
Sustainable Development**

BUSINESS CASE

Why is sustainability relevant to the communications teams?

Your communications teams play a vital role in the sustainability strategy by communicating the bank's sustainability story. To maximize the benefits that sustainability can bring to your bank, the teams need to weave sustainability into mainstream communications with linkages to the broader bank vision/strategy and financial performance to show to internal and external stakeholders alike. According to research by the Principles for Responsible Investment (PRI), Investor Study: Insights from PRI Signatories,¹³ companies are failing to communicate effectively on sustainability. Your communications teams can help the bank set the right tone to creatively and effectively move beyond hard numbers to show sustainability in context with business values and goals to make your bank stand out from competitors.

Different audiences have differing interests, perceptions and expectations for what is communicated to them. Thus there is merit in targeting specific audiences with a defined message appropriate to them as opposed to a mainstreamed communication.

The story that is told could mean the difference between profit or loss as consumer and investor expectations are becoming more sophisticated, with a growing number actively basing their placement and financial choices on sustainability considerations.

Moreover, in a changing world of greater needs and reduced natural resources, corporates and entrepreneurs will seek those financial service providers who express a clear and innovative interest and understanding of sustainability issues, as these will be the best placed to help them adapt their business models to more sustainable consumption and production patterns.

Transparently and credibly telling the right sustainability story is also a risk mitigant as an increasing number of governments across the globe are including sustainability considerations in financial and corporate disclosure, policies and regulation.

Communicating to the workforce, whether it is to help attract talent or to engage and inform existing employees is an essential component of the sustainability strategy the communications teams should assist with. Raising awareness, changing attitudes and transforming behaviours are all outcomes of a successful internal sustainability communications plan.

The risks of inaction

- Increased exposure to reputational risk due to insufficient response to stakeholders' sustainability needs and expectations
- Loss of opportunity to improve reputation, credibility and brand image
- Failure to seize business opportunities as investors, customers and clients fail to perceive the bank as a credible counterpart on sustainability issues
- Loss of market share and position especially as a new generation of customers is increasingly sensitive to banks' sustainability performance
- Dim regulator view on how the bank is performing in the sustainability arena
- Failure to attract and retain top talent

Opportunities

- Improved reputation, credibility and brand recognition
- New business opportunities due to increasing consumer, client and investor preference for sustainable products and services
- Increased customer and stakeholder loyalty as they engage in a two-way exchange to shape the bank's sustainability performance
- Enhanced talent attraction and employee involvement as awareness, ownership and confidence in the bank's sustainability credentials rise
- Improved regulator view on the bank's sustainability performance

WHAT CAN YOUR BANK DO?

Communication has a key role to play to build on emerging trends and to make them approachable and understandable. Informed, motivated and committed people can help us to achieve our bank goals and our sustainability goals. Determining what to communicate, how to communicate it and for which audience is addressed includes:

- Mapping out and facilitating an understanding of the current and potential sustainability interests and expectations of the banks' stakeholders
- Establishing targeted channels of communication for various stakeholders and showcasing the bank's sustainability matrices regularly
- Ensuring an internal understanding of the sustainability strategy and its implications to the bank strategy; relaying external communications on the bank's sustainability performance internally to help the broader employee base understand the business impact and relevance of sustainability issues

1. Who are the bank's key stakeholders and what are their sustainability needs and expectations?

To avoid your bank's sustainability strategy being developed in a vacuum, some measure of stakeholder engagement should be conducted whether it is done informally or more formally through stakeholder mapping and engagement. Stakeholder mapping is a process of clearly defining a bank's areas of interest (customers, competitors, civil society, employees, etc.) and how relevant each stakeholder is to your bank. The below lists stakeholders who are typically significant to a bank.

■ Clients

Clients will seek to increase their sustainability performance, improve their image and reduce risks and costs. On the other hand, clients who are unaware of sustainability issues represent strong potential risks to their financiers. Failure to manage sustainability risk can ultimately translate into financial and reputational risk for the bank.

■ Investors

Investors are increasingly sensitive to including assets from companies with weak sustainability performance and actively seeking to increase investments in companies with high sustainability credentials. Green indices are therefore becoming more popular to investment decisions.

Several studies have demonstrated the robust returns and long-term positive impacts of sustainable funds, thus making it best practice to include in their fiduciary duty considerations, for long term investments today.

■ Financial Rating Agencies

Rating agencies such as the Dow Jones Sustainability Indexes, FTSE4Good and Moody's provide sustainability ratings to assess a company's economic, environmental and social values, risk and performance. Ratings may also consider ESG risks with material credit implications for issuers and sectors.

Sustainability ratings are increasingly valuable for stakeholders including employees, clients and long-term investors as described above to steer capital towards more sustainable companies including banks.

■ Employees

Employees are likely to expect and be motivated by, the existence of a sustainability culture in the bank. Ensuring an internal understanding of the sustainability strategy and performance and its implications to the bank's strategy facilitates broader employee base understanding of the business impacts and how sustainability is relevant to their line of work. Informed employees can serve as a "sustainability think tank" to bring forward innovative ideas and be excellent ambassadors to help spread the word. Regular sustainability communications with employees minimizes the risk of the bank's inability to become a high performer on sustainability issues as a result of a lack of such awareness and engagement.

■ Non-Governmental Organisations (NGOs)

NGOs increasingly target banks as part of campaigns such as that targeted towards non-sustainable projects or human rights matters, but there is also growing involvement and cooperation with banks in order to identify sustainable solutions.

■ Local communities, broader civil society, academia and opinion shapers

Many banks with retail capacities have deep roots within communities, nearby academia and broader civil society. Civil society is often distrustful of the financial sector as a whole and seeks more responsible resource conservation and ethical behaviour by banks. Communicating transparently with these stakeholders can alleviate distrust and nurture community ties.

■ Governments and regulators

Governments (e.g. Brazil, China, Peru) have begun to include sustainability requirements in regulation across the globe as a sign that systemic sustainability risks are relevant to banking sector stability. While a banking regulatory regime which is cogniscent of sustainability challenges, and which as a consequence, provides appropriate guidance to banks is important, of greater importance still is the emergence of a robust and continuous dialogue between financial and environmental policy-makers such as that of Financial Stability Board Task Force on climate-related financial disclosures for use by companies in providing information to investors and other stakeholders.

■ Other banks

Banks are increasingly embracing and communicating about sustainability issues, making it a matter of competitiveness. Specialised firms such as Bloomberg often use external sustainability reports to rank banks against each other on various sustainability metrics.

This increases reputational risk to banks that aren't yet including sustainability criteria in their work. Sustainability reporting also provides a benchmark for scalable and adoptable practices.

■ Suppliers

Not all suppliers have equivalent sustainability credentials. Establishing clear requirements regarding environmental and social standards (e.g. labour practices, sourced paper) that the bank maintains and how those transfer to the supply chain, will

ensure sustainable procurement. Communicating and engaging with the supply chain also allows a two-way conversation on sustainability risk perspectives, optimizes processes, discovers product innovations and can save costs.

■ Media

Sustainability related stories routinely make headlines and can substantially improve or damage public perception of a bank. The multiplicity of modern channels of communication, especially the surge of social media use, implies that stories do not only reach a broader and younger community, but are distributed in real time.

2. What are the best mechanisms to engage with your stakeholders and respond to their sustainability needs and expectations?

Establishing informal and formal channels for engagement and transparently communicating sustainability goals, actions, best practices, performance data and other sustainability matrices on a regular basis increases the visibility and credibility of your bank's sustainability efforts. Engagement at all levels also promotes opportunities for substantive dialogue with your stakeholders to deliver solutions on issues they may raise. Successful communication channels are numerous and typically involve the below.

■ Reporting

Sustainability reporting can be informal or formal encompassing a wide range of frameworks (e.g. GRI, CDP, EP), policies, internal processes and operations, as well as governance aspects. It targets corporate operations, subsidiaries and holding companies and may be verified through internal and external audits, as well as stakeholder reviews and feedback. While there is a growing trend towards integrated reporting, sustainability reporting can also be addressed in stand-alone formats.

■ Materiality Assessments

Materiality Assessments are a means to identify and prioritise the material aspects, stakeholders and information to your bank. These are aspects that have a significant impact or influence and are therefore to be included in decision-making processes, strategy development, client/investor presentations and reporting.

■ Social Media

Directly engaging your bank's clients and stakeholders through social media updates and Q&A sessions, is an effective means to give real-time or frequent sustainability updates and promote your bank's sustainable finance offerings and new product lines.

■ Consultations

Seeking feedback and guidance on existing, future and potential sustainability policies, procedures and activities allows opportunities for substantive dialogue with stakeholders and facilitates constructive collaboration with stakeholders to deliver solutions on issues they may raise. Consultation channels typically include dedicated web interfaces or mailboxes, dialogue and consultation meetings, surveys for employees, clients and suppliers.

■ Public information

Providing information on your bank's sustainability policies, operating models, standards and procedures, via the corporate website, publications and events helps the public better understand the role of banks towards sustainability.

■ Targeted events

Conferences and events offer an opportunity for your bank to exchange information and showcase the bank's sustainability efforts and sustainable finance products. These venues can also be leveraged to explain operating models and principles, risk assessment, and procurement procedures to various stakeholders, especially suppliers.

■ Outreach

Promoting and facilitating community relations and broader societal engagement (e.g. via special outreach and/or awareness-raising events) gets your bank's sustainability efforts known locally while "doing good" for your communities.

■ Research

Promoting research and guidance produced on relevant sustainability issues is an effective means to demonstrate the high level of sustainably expertise your bank has and earns your bank credibility in the field as a reliable go-to resource.

■ Collaboration

Participation in sustainability banking organizations facilitates networking with peers, serves as an avenue to spread the word on your bank's accomplishments and share challenges and aids in staying abreast of emerging issues and best practices.

CURRENT PRACTICE ILLUSTRATIONS

The examples below were chosen to illustrate different options discussed in the text. The selection is a regionally balanced representation of our membership. The examples are neither a comprehensive selection nor universally applicable.

ITAÚ HOLDING UNIBANCO SA

The creation of Itaú Holding Unibanco SA, announced on November 3, 2008, originated the largest private financial institution in Brazil and one of the largest in the world. Through a targeted business strategy, Itaú Unibanco acts prominently, in many business areas domestically and abroad, convenes a team of approximately 93,000 employees and is recognized for its history, financial strength and performance.

An important part of Itaú's strategy is the promotion of a transparent and ongoing relationship with its internal and external stakeholders. Itaú believes that by sharing practices, results, knowledge and also by endorsing dialogue with different audiences, it can inspire initiatives and boost transformations in society and in

their business. The priority stakeholders are employees, clients, suppliers, press, opinion formers and stockholders. Itaú's engagement processes are based on guidelines and criteria of the international standard AA1000 and on an internal circular. Itaú's methodology covers the prioritization of stakeholders and the identification of critical issues, selected according to actual and potential environmental, social and economic impacts for the organization and the stakeholders involved. Itaú's engagement action plan for sustainability issues is based on the following stages: defining scope, identifying stakeholders, determining the degree of engagement, selecting method for engagement, assessing the risks involved and carrying out the engagement process.

This process helps Itaú to raise the confidence of its stakeholders and build reputation. Over the years, in order to achieve its long term goals and to avoid negative impact on the perception of its image by many stakeholders, Itaú implemented many internal processes and initiatives. They include:

- Ethics guidelines and prevention of corruption;
- Ombudsman offices initiatives;
- Processes and guidelines of the governmental and institutional relations;
- Corporate communication process;
- Brand management processes;
- Different communication channels to the market.

RAIFFEISEN ZENTRALBANK ÖSTERREICH AG

Founded in 1927, Raiffeisen Zentralbank Österreich AG (RZB AG) is the central institution and service unit of the Austrian Raiffeisen Banking Group (RBG), the country's largest banking group, head of the RZB Group, including Raiffeisen Bank International AG (RBI). RZB Group employs around 53,000 people.

RZB Group defines its stakeholders as those people or groups of people that have a justified interest in the company through their direct or indirect business activities. Stakeholders are therefore employees, customers, owners, subsidiaries and participations, suppliers and business partners of the RZB Group. There are also several other stakeholder groups with which regular mutual relations exist.

The identification of relevant and sensitive issues takes place through regular effective dialogue with stakeholders. In

particular, this is the role of the RZB Group's Issue Management and Materiality analysis. In addition to regular dialogues with the different stakeholder groups, RZB Group analyses and evaluates topics regularly and with surveys every two to three years with regard to their relevance for stakeholders and the RZB Group. RZB Group process the results and controversial topics from stakeholder dialogues in their sustainability committees and derive corresponding concrete objectives and measures for further development of their sustainability management. RZB Group's sustainability strategy with nine core areas, acting in the roles of a responsible banker, fair partner and engaged citizen, serves as basis regarding management and communication.

On 18 November 2015, 70 people from various stakeholder groups (in the areas of customers and business partners, employees and owners, financial

world and rating agencies, education and research, special interest agencies, media, politics and administration, NGOs and NPOs) participated in the sixth Stakeholder Council of the RZB Group. Several groups discussed various issues on this topic in workshops. One of the discussion topics was the corporation's requirement in terms of sustainability in the banking sector and a possible way for the RZB Group to handle this. The influence of the sustainable added value process of a bank, along with concrete approaches for the RZB Group, were also highlights. The question of the commitment by the RZB Group to national and European (political) governance issues was addressed in an open discussion round. Because of its topicality, another key discussion topic was the integration of the global sustainable development goals (starting with the UN Sustainable Development Goals) in the core business.

UNICREDIT

UniCredit is a leading European commercial bank operating in 16 countries, with more than 144,000 employees and over 7,500 branches as of June 30, 2016 and an international network that spans 50 markets.

UniCredit's group Sustainability unit is responsible for supporting Group management in developing strategies that integrate sustainability considerations into the value creation process and generate long-term benefits for all stakeholders. The unit is also charged with monitoring relevant key performance indicators and communicating UniCredit's sustainability policies to an external audience.

The unit is part of the Group Identity & Communications department and reports directly to the CEO. This direct line of communication strengthens UniCredit's capacity to develop and fine-tune initiatives that significantly contribute to the long-term viability of UniCredit's business. The adoption since 2014 of integrated reporting has proven to be valuable in strengthening the ability to monitor UniCredit's progress towards financial goals as well as environmental, social and governance targets. It has also served to promote a deeper understanding of the benefits of integrated governance.

UniCredit started reporting on sustainability topics in 2000. In the years since, its aim was to provide an overview of the connection between its business

strategies, the management of the relationships with the stakeholders and the Group's main activities during the year.

Since 2014 - in line with the most recent international developments in corporate reporting - the Group has adopted Integrated Reporting. UniCredit's Integrated Report has the aim of illustrating the individual elements, interrelations and dependencies that come into play in the organization's approach to creating value over time. It thus describes the Group's financial and sustainability performance; its corporate governance; its business, compliance and risk management models; and its strategy and capitals. Furthermore, it sets out the competitive environment in which the Company operates.

The reporting boundaries include 15 countries where the Group has significant operations: Italy, Germany, Austria, Poland and a number of CEE (Central Eastern Europe) countries, namely Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Hungary, Romania, Russia, Serbia, Slovakia, Slovenia and Ukraine. The Report undergoes external audits according to the criteria set out by the "International Standard on Assurance Engagements 3000 – Assurance Engagements other than Audits or Reviews of Historical Financial Information" ("ISAE 3000").

Stakeholder engagement and collaboration are integral to UniCredit's core

business operations. In 2002 UniCredit launched its first listening program to assess customer satisfaction and, since that time, the bank has developed a sophisticated model of stakeholder engagement. UniCredit regularly dialogues with its five key groups of stakeholders through various channels that enable the bank to identify issues of interest to stakeholders and to determine where it focuses its activities.

Since 2010, UniCredit has used a materiality assessment to identify the topics that matter most to its stakeholders. This process provides the company with a clearer view on where UniCredit must focus in order to seize new opportunities, mitigate risks and ensure long-term value creation.

Advanced communication techniques with UniCredit stakeholders helps the Group understand their priorities and determine the best practice service for creating long-term value. UniCredit actively engages with stakeholders in all of its territories through dedicated programs managed both centrally and locally.

Stakeholder Audience	Channels
Customers	▪ Customer satisfaction assessment ▪ Instant feedback ▪ Focus groups, workshops, seminars ▪ Our website
Employees	▪ People Survey professional engagement measurement ▪ Group intranet portal ▪ Departmental online communities
Investors/ shareholders	▪ Quarterly webcasts and conference calls to present results ▪ One-on-one and group meetings and calls ▪ Shareholders' meeting ▪ Annual Report ▪ Integrated Report ▪ Our website
Communities	▪ Social media ▪ Social channels ▪ Annual Report ▪ Integrated Report
Advocacy groups/NGOs	▪ Regular meetings and calls

UniCredit created 14 Social Media Country Teams to support colleagues who interact with stakeholders through these new channels. The goal is to establish a common online communications approach in all of its countries of operation, based on an integrated social strategy and shared guidelines compatible with multi-channel banking systems.

UniCredit, however, believes it is essential to prepare for the future by forecasting how banks might continue to grow, recognizing new markets and finding better ways to compete. UniCredit is constantly working to improve its materiality analysis to consider issues of the present as well as the future. To this end, in 2015 the Group conducted in-depth research that identified the systemic trends that are most likely to provide opportunities or pose risks for UniCredit in forthcoming years.



CHAPTER VIII: **HUMAN RESOURCES**

CHAPTER VIII: HUMAN RESOURCES

This section is intended for the teams whose responsibilities relate to the recruitment, retention, skills development and talent management of the bank's employees.

“Our commitment to environmental leadership is a huge point of pride for our employees. It's the top scoring question on our annual employee survey and is key to attracting, developing and retaining employees. A priority for TD leadership is engaging employees as collaborative partners in moving our environmental goals forward, whether through customer interaction or workplace or community initiatives.”

Mike Pedersen

President and Chief Executive Officer, TD Bank,
America's Most Convenient Bank

"Commitment to Sustainable Development

I.4 We recognize that sustainable development is an institutional commitment and an integral part of our pursuit of both good corporate citizenship and the fundamentals of sound business practices."

Statement of Commitment by Financial Institutions on Sustainable Development

BUSINESS CASE

Why is sustainability relevant to human resources?

Sustainability affects a bank's culture and its employees. Among other aims, a bank's sustainability strategy is geared to grow income and revenue, reduce operating costs, reduce risk, increase reputation and benefit the environment and society. Employees are the drivers that put the sustainability strategy in motion to achieve these outcomes. Weaving sustainability expertise into the workforce DNA requires Human Resource (HR) skillsets to shift the bank's culture. Given their employee-centric focus and role as the keeper of a bank's core values, HR teams are well positioned to be a catalytic agent to ensure a successful integration of the sustainability strategy throughout the employee life-cycle.

Numerous reports and surveys confirm that sustainable practices attract and retain talent. According to a 2013 EY report,¹⁴ companies that are active in the sustainability space can position themselves as responsible, progressive and dynamic in the talent market. Further, employees who feel they can make an impact on social and environmental issues while on the job, are twice as satisfied with work as those who don't have this feeling, according to a 2012 nationwide (US) study¹⁵ conducted by Rutgers University. Society's expectations of business are changing with an increasing number of applicants pre-assessing the social and environmental performance of companies before choosing an employer.

A bank's sustainability strategy involves messaging in many ways, including recruiting and training conducted by HR. The strategy also builds in accountability, measurement and transparency with a strong HR link as sustainability reporting frameworks including the Global Reporting Initiative (GRI), incorporate HR performance indicators (e.g. workforce gender, diversity, training).

Beyond the essentials to recruit, hire and help retain appropriate levels of sustainability expertise to grow the business and develop human capital, sustainability is relevant to HR in their many pivotal roles in the bank's sustainability transformation, compliance, organizational effectiveness and workplace practices.

The risks of inaction

- Lack of motivated and qualified employees able to take the bank forward on its sustainability journey
- Loss of market position and business opportunities and increased exposure to environmental and social risks due to ineffective change management
- Weak performance for social indicators if reporting under a framework like GRI or participating in sustainability ratings and rankings
- Difficulty in recruiting and retaining employees with the appropriate sustainability ethos and skills

Opportunities

- Recruiting and retaining top sustainability talent to drive towards the bank's sustainability objectives including long term sustainable business opportunities and increased market participation
- Increased employee productivity and desire to contribute to the sustainability strategy by broad employee base
- Attracting and retaining clients with high social and environmental demands
- Strong performance for social indicators if reporting under a framework like GRI or participating in sustainability ratings and rankings

WHAT CAN YOUR BANK DO?

As sustainability becomes integrated across your bank, the human element and thus HR, play critical roles. This section provides the following key considerations for your HR teams as they redirect themselves towards sustainability:

- Including relevant expertise as determined by sustainability and business teams and integrating experience and responsibilities in job descriptions
- Embedding sustainability in core competencies and performance appraisals
- Leveraging sustainability to recruit and retain talent
- Engaging and inspiring to learn by identifying training and internal dissemination needs to develop programmes on sustainability issues in cooperation with sustainability and other teams
- Encouraging employee participation through incentive and peer recognition programmes
- Ensuring HR familiarity with your bank's sustainability strategy and goals

1. What kind of employees do we need for our sustainability strategy to be a success?

One of the challenges of driving sustainability is its cross-cutting nature and the need for a broad palette of skills, experiences and personalities ranging from a passion for sustainability to those educated and experienced in sustainability and sustainable finance.

Key to determining the kind of talent needed for the bank's sustainability strategy to be a success is a collaborative effort between HR and the sustainability and business teams to identify the needed skillsets. Specific technical and specialized expertise will be required depending upon where a position is to be housed such as whether it is on the finance side requiring a blend of business and environmental acumen or with risk management requiring a blend of regulatory and sustainability expertise. Levels of required expertise and knowledge will also vary depending on what department employees are housed as Diagram 9 illustrates.

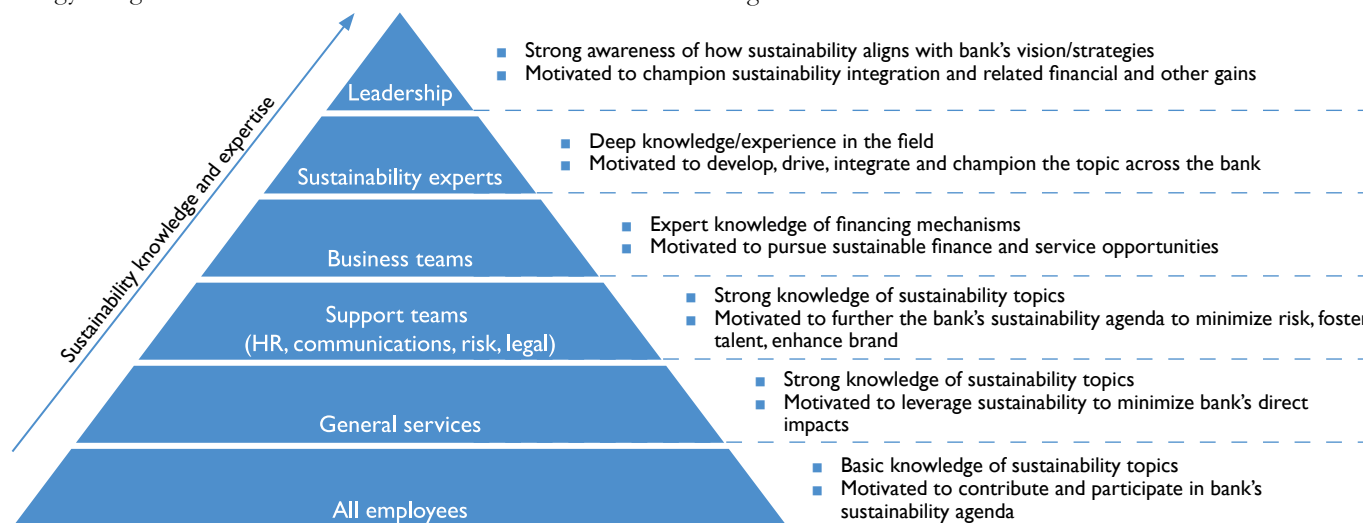


Diagram 9: Sustainability Expertise and Knowledge by Bank Department

2. How do we cultivate the kind of employees we need for our sustainability agenda?

Employees increasingly seek a sound work-life balance – and sustainability in your bank is part of that equation. An additional and growing consideration is that by 2020, millennials will make up nearly 50 percent of the workforce and will represent 30 percent of total retail sales.¹⁶ Unlike their predecessors, millennials are the first generation that has demanded that their employers act as forces for good. HR can help showcase sustainability as a career path in your bank to attract and retain talent.

Sustainability likely has many meanings to employees within your bank; for some it may mean using less paper, for others it may mean financing a renewable energy project and for yet others it may mean giving back to their communities through volunteerism. Beyond educating employees about the technical sustainability requirements applicable to their roles, it is beneficial for your HR teams to cultivate and foster awareness of how employees' work and roles relates to sustainability and vice versa. Cross-department training is an effective method for demonstrating how sustainability interplays between departments.

Awareness raising and involving top management to lead by example is important to achieve buy-in by employees that are not yet familiar with sustainability issues. Creating a sense of engagement that embraces both the bank's and the employees' definitions of sustainability will instill interest and motivation. Lasting behavioural changes can only be effected by giving employees a way to act on their interest in promoting sustainability.

The cross-cutting nature of sustainability projects requires all levels of the bank to have a good understanding of sustainability risks and rewards and how they mesh with bank strategies and policies. Increased collaboration amongst business units on sustainability topics may also be an effective means to further the sustainability agenda as it facilitates employees seeing how the pieces fit together.

Delivering educational and compelling presentations and course offers about the bank's sustainability strategies and training about how employees can contribute to sustainability efforts, will improve your bank's sustainability performance.

Engaging employees in the development and implementation of sustainability programmes creates a sense of ownership over initiatives and enhances employee participation particularly when activities demonstrate links to business and core strategies. Incentivising employee participation in initiatives through recognition, contests and sustainability challenges can also increase the effectiveness of the programmes overall and sustainability performance for the bank as a whole. Outlets such as participating in industry networks and organizing volunteer opportunities in the community facilitate individual contributions and peer-to-peer learning.

Cultivating a sustainability mind-set in employees involves a myriad of mechanisms and means including linking sustainability to business performance through pay and/or bonuses as Diagram 11 illustrates. Another successful means to cultivate the right mind-set is providing a space or interlocutor for employees to voice their concerns about sustainability performance, point out improvements to existing sustainability strategies and suggest innovation.



Diagram 10: Pathways to Cultivating Sustainability in the Workforce

3. How can we leverage sustainability in recruiting and retaining employees?

Sustainability used in the brand can attract top talent because talent wants to work with the “employer of choice” who aligns with their own values. How your HR teams promote the bank’s sustainability in the course of recruiting plays a key role in how the bank is perceived by candidates. HR teams can ensure that recruiting materials and tools such as career websites include key points of your bank’s sustainability strategy and achievements. Highlights and successes of individual employees from your bank’s core areas such as sustainable finance and general services should be included in recruiting materials.

Effective sustainability programmes may persuade competent and talented employees to stay with the bank. Sustainable and safe workplaces, celebrating events such as Earth Day and socially responsible activities such as volunteerism elicit short-term positive employee responses. Frequent engagement, recognition and utilization of employee skills, feedback mechanisms, and knowledge that employee input improves the sustainability strategy and develops core business offers allows a sense of ownership and pride in the bank that results in long-term employee retention.

CURRENT PRACTICE ILLUSTRATIONS

The example below was chosen to illustrate different options discussed in the text. The example is neither a comprehensive selection nor universally applicable.

BANK NEGARA

Sustainability is a process, a challenging journey. One of the largest banks in Indonesia with 26,785 employees at December 31, 2015, PT Bank Negara Indonesia (Persero) Tbk, known as BNI, has chosen to be at the sustainability forefront through the implementation of sustainable finance principles to assist Indonesia in its journey. BNI explicitly states its fourth mission is to improve social and environmental responsibility. Additionally, one of BNI's 14 Points Code of Conducts is committed to the environment.

Indonesia's economic growth is not only healthy and strong in terms of quantity and quality; it takes into account environmental and social sustainability. In 2016, the sustainability journey undertaken by Indonesia and BNI, as part of society, was characterized by a number of challenges both in the domestic market and from global market pressures. Moreover, Indonesia already opened its doors to an era of global markets with the ASEAN Economic Community (AEC) in early 2016. This year (2016) is one in which

BNI evaluates and strengthens all its operational muscles. To build a stronger BNI, the bank is prepared and resilient enough to continue to lead and assist the Indonesian people and the country on the way to realize their dreams and expectations. This spirit is the essence of sustainability: a commitment to sustainable development for all the Indonesian people.

BNI believes that employees are one of its most valuable assets. So that BNI can provide the best service to customers and achieve sustainability, the bank requires human resources that are competent, strong, professional, ethical and environmentally friendly. The bank's employees actively engage in sustainability forums such as renewable and energy efficiency financing workshops and other activities related to sustainable finance including financial inclusion and climate change mitigation.

Therefore, BNI continues to hone the talents and improve the competence of employees through various training, development and employee education programs. Through various Human Resource Development programs conducted in 2015 and 2016, BNI focused on developing productivity; especially considering that in 2016 Indonesia entered into the era of the AEC. In order to create excellent human resources, BNI develops its human resources with focus on:

- Capability Enhancement
- Business Development
- Digital Learning Enhancement
- Environmental, Social and Governance
- Strengthening Risk Management

As a national bank upholding the Triple Bottom Line principle, BNI remains responsible for ensuring the Company and client continue to grow while paying attention to environmental and social issues.



CHAPTER IX: **GENERAL SERVICES**

CHAPTER IX: GENERAL SERVICES

This section is intended for teams responsible for managing the environmental and social impact of operations, including technology services, group property and real estate management, sourcing and procurement.

“We have systems in place to track and manage our direct impact on the environment in terms of energy, water, carbon emissions and waste and processes are in place to reduce our environmental footprint. Managing and reducing our energy consumption reduces our direct environmental impact and lowers operational costs. Actively managing our energy consumption also mitigates the impact of rising electricity costs, pending carbon tax costs and energy supply concerns.”

Wendy Dobson

Head: Group Policy, Advocacy and Sustainability, Standard Bank

"Sustainability Management

2.4 We will endeavor to pursue the best practice in environmental management, including energy and water efficiency, recycling and waste reduction. We will seek to form business relations with customers, partners, suppliers and subcontractors who follow similarly high environmental standards."

**Statement of Commitment
by Financial Institutions on
Sustainable Development**

BUSINESS CASE

Why is sustainability relevant to general services?

Mainstreaming sustainability into all areas of business starts directly in a bank's own offices and buildings. Increasing scrutiny by clients, employees, media and other stakeholders requires a full complement in the bank's sustainability strategy including in the management of property and physical resources. Reducing resources in- and outputs results in environmental and social benefits, increases efficiency and produces considerable cost savings aligning well with bankwide objectives to increase productivity and create a trimmer bottom line to increase profitability. Taking resource reduction one step further by setting resource reduction goals (e.g. greenhouse gas) and measuring and transparently reporting performance improves the bank's visibility in the sustainability arena. Reduction goals can lend a competitive advantage amongst other banks that have no or lesser goals.

Internally, general services teams (GS) can leverage your bank's sustainability strategy as an engagement tool to actively involve employees by soliciting ideas for operational and building improvements, forming resource "green" teams to champion efforts, etc. They can collaborate with your sustainability teams to develop transformational training programmes such as plug load efficiency and tips for travel avoidance. Ensuring compliance with worker safety laws (e.g. asbestos notifications) further ensures employee sense of wellbeing.

Aligning GS efforts to your bank's core values and sustainability vision/strategies requires GS to have good understanding of what those strategies are and the abilities to connect the dots to recognize synergies. Sustainability teams can work side-by-side GS in the alignment process and help avoid siloes. Alignment also helps ensure GS efforts are supported (and funded where applicable) and create value for themselves, leadership and other stakeholders.

The risks of inaction

- Higher operating costs
- Threat to reputation, credibility and brand image
- Inability to be benchmarked against peers who have set sustainability goals and programmes
- Diminished market value of real property
- Downstream liability from irresponsible vendors and supply chains

Opportunities

- Reduced operating costs and hedging against future cost increases
- Increased shareholder value
- Improved market competitiveness among tenants and potential buyers of the bank's real property
- Improved reputation, competitiveness, credibility and brand image
- Reduced risk from supply chain

WHAT CAN YOUR BANK DO?

Integrating sustainability into your bank's operations is an essential pillar of the bank's sustainability strategy. This section provides considerations for cementing this pillar by:

- Aligning the management and reduction of physical resources with your bank's vision (including its sustainability vision) and strategies
- Considering implementing an environmental management system to quantify and demonstrate performance
- Accounting for resource in- and outputs and defining reduction targets
- Favouring and promoting the construction and acquisition of eco-efficient buildings and seeking their certification (e.g. LEED, Green Globes)
- Establishing a responsible sourcing and procurement strategy
- Considering recognizing or rewarding employees who come forward with successful ways to contribute to GS's sustainability efforts
- Collaborating with communication and sustainability teams to include the bank's direct impacts in reporting

1. Do we understand our direct impacts and what we can do to manage these impacts?

Buildings use about 40% of global energy, 25% of global water, 40% of global resources and they emit approximately one third of greenhouse gas (GHG) emissions.¹⁷ Energy usage, fuel combustion, and travel are the typical indicators making up a bank's GHG emissions profile.

While the banking sector is not as resource intensive as other sectors such as manufacturing or power generation, there are multiple environmental and social impacts caused by our buildings, technologies and processes therein that contribute to GHG emissions, resource depletion, workplace safety and more as Diagram 12 illustrates.

Sustainability practices implemented by a bank that reduce or conserve resources (e.g. paper, water, energy) are easily quantifi-

able and measurable. Reduction goals can be built around objectives for performance including sourcing of resources and services (e.g. refuse hauling or equipment disposal). Transparent and credible sustainability metrics and performance towards reduction goals typically serve as the core of a bank's sustainability reporting contributing to a positive image and brand.

GS teams are typically masters at cost benefit analysis. Extending that expertise to the sustainability strategy should be a natural fit. For example, sustainability factors (e.g. GHG emissions avoided by telecommuting, trees saved by printing duplex) can be factored into GS's financial analysis.

You cannot manage what you do not measure. Most banks use either a dedicated management system or embed sustainability performance indicators in existing systems. Your GS may have existing systems that can be modified to incorporate sustainability indicators. Your bank may also opt for a system that is shared across the bank allowing for a one-stop shop for all things sustainability to ensure consistency and transparency amongst all the teams who have sustainability responsibilities. There are a variety of international and national agencies that provide frameworks (e.g. Greenhouse Gas Protocol, CDP) to account for resource in- and outputs and convert consumption to impacts (e.g. electricity to GHG emissions) and other guidance on corporate environmental and social management systems (loosely coined "EMS" for this Guide's purpose). Since sustainability performance is likely internally and externally reported, the EMS should be able to withstand the audit litmus test regardless of whether actually audited to ensure system/data integrity.

Whatever the EMS your bank uses, the general rule of thumb for an EMS is to baseline sustainability indicators (e.g. consumption, workplace accidents, number of green suppliers, etc.), set targets for reduction/improvement and then regularly measure performance going forward. Credible data sets the stage to develop action plans and strategies towards improvement against the baseline. Frequent monitoring serves as an early warning system when the performance trend is going the wrong way.

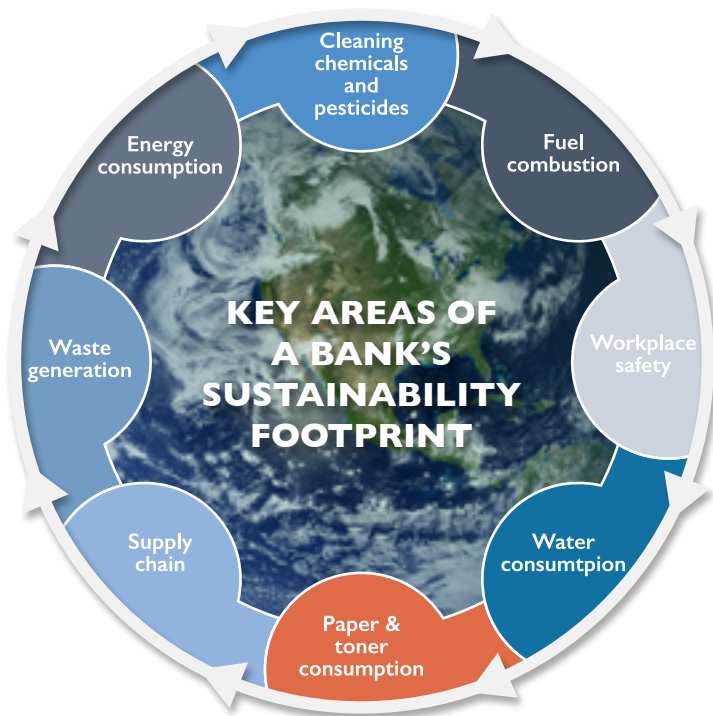


Diagram 11:

Pathways to Cultivating Sustainability in the Workforce

2. What strategies can we use to reduce impacts and optimize our sustainability footprint?

Strategies such as the below are common to the industry, easily measured, help reduce the financial and physical impact of operations, increase visibility and help to engage.

■ GHG Emissions

While the banking sector is not yet mandated by regulation or policy to comply with reducing emissions, there are other competitive, financial and social pressures (and benefits) which make reducing emissions more the norm in the sector. A sample playbook follows:

- Choose a baseline year and establish a GHG emissions reduction goal with reductions in areas such as energy, fuel and travel. Reductions can be achieved by tactics such as reducing energy consumption (e.g. lighting retrofits, replacing older CRT monitors with LCDs employee energy efficiency training), tele- or videoconferencing, green commuting and reducing business travel
- Consider offsetting remaining and unavoidable emissions
- Measure both environmental and financial performance. Report performance towards goals internally and externally

■ Buildings

Buildings account for approximately a third of the world's energy consumption and global greenhouse gas emissions and are a high-impact sector for urgent mitigation action on climate change¹⁸. Energy efficiency measures are a common call to action to reduce emissions. From a business perspective, sustainable buildings result in lower operating costs and healthier workplaces. Tax credits, rebates, grants and other incentives may also be available for certain improvements. Cities and jurisdictions are increasingly imposing building efficiency codes and standards bringing compliance into the business case for sustainable buildings. Studies¹⁹ also show that sustainable buildings increase asset value and tenant attraction. Strategies for current and future bank buildings include:

- Favouring the construction and acquisition of certified (e.g. LEED, BREEAM, Green Star) sustainable buildings, include the number of certified buildings in sustainability reporting
- Embedding environmental criteria in the remodeling and retro-fitting of properties. Where possible, measure before and after utility consumption rates
- Establishing processes for measuring and setting improvement goals around the environmental footprint of data centres (e.g. energy consumption, cradle-to-grave life cycle of equipment)

■ Operations

Ambitious resource conservation programmes can increase operational efficiency, support larger transformation initiatives and increase customer and employee loyalty. Opportunities to implement reduction strategies, measure, set goals and report performance include:

- Energy consumption strategies such as optimized use of daylight, motion-sensitive lighting, energy efficient technology and other equipment
- Water consumption strategies such as low flow faucets and rain sensors on irrigation
- Paper consumption strategies such as moving towards a paperless office, double-sided printing defaults and elimination of fax cover pages
- Employing more environmentally friendly printing methods such as the use of recycled and chlorine free paper and vegetable based inks
- Waste management strategies such as reduction, recycling and recovery programmes
- Worker safety incidents, notifications and trainings
- Supply chain

Extending sustainable procurement criteria to your bank's supply chain maximizes the positive impact of the bank's sustainability efforts and helps protect against reputational and regulatory risks. Many banks include the supply chain in their sustainability performance. A sustainable supply chain has other benefits including bringing in new SME business, reducing costs and increasing efficiency.

Supply chain sustainability is the management of environmental, social and economic impacts and the encouragement of good governance practices, throughout the lifecycles of goods and services. By managing and seeking to improve environmental, social and economic performance and good governance throughout supply chains, companies act in their own interest, the interests of their stakeholders and the interests of society at large.

Sustainable supply chain policies typically require the bank to map the key suppliers and products in the chain (e.g. what are the key products we are sourcing and from where, are there currently any negative sustainability issues associated with any

of our suppliers), assess where there might be the greatest risk (e.g. paper and deforestation issues) and set forth guidelines for purchasing environmentally and socially friendly products and equipment (such as recycled materials, paper from sustainability managed forests, etc.). It can also extend to service providers including utility companies. There are a number of environmental, social and human rights labels (e.g. FSC, MSC, Fair Trade) certifying the provenance and supply chain of products.

3. How can employees be leveraged to maximize the sustainability efforts of GS?

Employee participation in your bank's sustainability strategy has either a causal or correlative effect and is critical for its success. Many opportunities for employee participation evolve from the bank's operations described previously thus the GS department serves as an essential lever. Engaging employees in opportunities to routinely provide grass roots ideas and participate in GS's sustainability efforts creates ownership and greater rates of lasting transformation success for your bank.

Effective motivation tactics vary but generally start by creating (and convening regular meetings) a GS sustainability committee comprised of representatives from across the bank to ensure fluid communications and peer champions outside of GS. Some banks have successfully piloted self-funded programmes where employees submit ideas (e.g. energy efficiency ideas) and if the idea provides a significant return on investment, the generated savings helps to fund other projects. Tools and technology can also be used as engagement and accountability tactics to allow real time monitoring by employees on their carbon and other footprints. Last but not least, is ensuring to recognize and/or reward your employees for their participation and contributions.

CURRENT PRACTICE

The examples below were chosen to illustrate different options discussed in the text. The selection is a regionally balanced representation of our membership. The examples are neither a comprehensive selection nor universally applicable.

BBVA

BBVA is a customer-centric global retail financial group founded in 1857 that provides its customers around the world a full range of financial and non-financial products and services. The bank employs 137,310 employees as of June 30, 2016.

As a financial institution, BBVA has a significant influence on the environment through the consumption of natural resources and the emissions generated and, particularly, through the products and services it offers, especially those related to its funding, asset management and supply chain activities.

BBVA's commitment to the environment is reflected in its environmental policy, which is global in scope. BBVA has also adhered to the major international agreements in this area, such as the United Nations Environment Programme Finance Initiative (UNEP FI), the Equator Principles, the Principles for Responsible Investment (PRI), the United Nations Global Compact, the Green Bond Principles and the Carbon Disclosure Project. In 2015, BBVA also joined the Spanish Green Growth Group.

In 2013 BBVA launched its second Global Eco-efficiency Plan (GEP), which set the following objectives per employee based on the consumption levels verified in 2012:

- A 6% reduction in CO2 emissions.
- A 3% reduction in paper consumption.
- A 3% reduction in water consumption.
- A 3% reduction in electricity usage.
- 33% of people working in buildings and offices that have been awarded environmental certifications.

In addition, the plan included controls on the generation of waste such as paper, toner, electrical and electronic appliances and other dangerous waste.

In 2015 BBVA completed the Plan, far exceeding all the goals set. BBVA has reduced electricity usage by 14%, water consumption by 23%, paper consumption by 43% and CO2 emissions by 16%, always with respect to 2012 figures. Likewise, the 33% objective set for employees working in buildings that have been awarded environmental certification was reached.

In line with the plans already implemented and being executed, in 2016 BBVA will launch a new GEP that will set new eco-efficiency commitment.

For some years now, the Group has moved from traditional maintenance to an integrated and global management of its buildings, where environmental and efficiency aspects play a key role in the design of these new buildings. A total of

16 Group buildings in Spain, the United States and Latin America have been built according to the LEED certification standards of the U.S. Green Building Council. These include the new headquarters in Ciudad BBVA and the data processing center in Madrid. Likewise, the Torre Reforma and BBVA Bancomer Operational Center buildings in Mexico have highly advanced in the process of certification. Application of this standard has resulted in average energy savings of 33%.

At Ciudad BBVA, the Group's new headquarters in Madrid, the use of renewable energy has reduced electricity consumption significantly. The Group has installed 1,945 m² of photovoltaic panels, which produce 750 MWh a year; nearly 600 m² of solar thermal panels capable of producing 476 MWh a year; and a closed-loop geothermal system that captures the stable underground temperature, with 20 wells, each 100 meters deep, and with an installed capacity of 100 kW.

The new headquarters in Chile, recently completed, and Argentina, currently under construction, are also following the LEED standard, which will result in energy consumption savings of 30% compared with a building that does not take into account these criteria.

Refurbishment work is also being carried out in other Group buildings to improve their efficiency through the use of smart elevators and LED lights, the implementation of high-efficiency air conditioning equipment and the installation of photovoltaic and solar thermal panels in countries such as Colombia, Peru and Uruguay.

In line with BBVA's commitment to reducing the impact of buildings on the

environment, in 2015 a total of 35 buildings and 60 bank branches were certified in accordance with the Environmental Management System (ISO 14001) in six countries.

As regards energy management system certification (ISO 50001), in 2015 the certification has been maintained at the BBVA Campus in Madrid and certification has been awarded for Ciudad BBVA, a project where the already efficient

facilities have been boosted by a control system that improves even further the efficiency of this large complex.

An agreement was signed in Spain with the electric power company whereby all the electricity supplied to the network of branch offices and buildings in Spain will come from renewable sources. This will affect BBVA's 3,091 branch offices and 71 buildings in Spain and avoid the emission of 73,240 tons of CO₂ a year.

BRADESCO

Bradesco S.A., one of the largest private financial institutions in Brazil, is engaged in two major lines of business – financial intermediation and other banking services and insurance. At December 31, 2015, Bradesco had approximately 91,000 employees.

Bradesco strives to incorporate best sustainability practice into its businesses, taking into account the context and potential of each region, by integrating these concepts into its corporate strategy, using business risks and opportunities and organizational management as drivers.

Social and environmental responsibility is a fundamental question in the definition of partners, who are seen as key elements in maintaining the standards of quality, innovation and efficiency adopted by Bradesco. To drive supplier awareness about the importance of these questions, every year the bank organizes the Bradesco Suppliers Encounter, as well as workshops and training courses. In 2016, UniBrad will launch a TreiNet program on the Sustainable Value Chain, aimed at raising internal buyers' and suppliers' awareness of the importance of adopting best economic, financial and social and environmental management practices.

In line with the Corporate Sustainability Policy, the Organization gives preference to purchases or services based on the social and environmental practices of the suppliers, as well as continually questioning the characteristics of products and services and analyzing their social and environmental impacts.

Through its Supplier Engagement program, Bradesco drives awareness by informing the supply chain about its sustainable practices. Supplier adhesion to these principles has a major impact on the reduction of waste, waste management and water and energy savings.

STANDARD CHARTERED

Standard Chartered is a leading international banking group, with around 84,000 employees (2015) and a 150-year history in some of the world's most dynamic markets.

Environmental issues, particularly resource scarcity, have an increasing influence on Standard Chartered's clients and its business. The impact will be felt

in every corner of the world, but more immediately in the regions where Standard Chartered operates.

Responding to these issues requires a consolidated effort from businesses, governments and individuals. Standard Chartered has long-term targets to reduce its energy use, water use and paper consumption. Standard Chartered

reports on all its properties that are over 10,000 square feet and a selection of its smaller branches and offices, which make up 73% of the bank's portfolio.

Target	Target date	Applicability	
Energy use intensity	2008 - 2019	Reduce by 35%	Properties in tropical locations
		Reduce by 20%	Properties in temperate locations
Water use intensity	2008 - 2019	Reduce by 71%	All properties where Standard Chartered has control of water facilities
Office paper use	2012 - 2020	Reduce to 10 kg per full time employee	All properties Standard Chartered owns

Standard Chartered's office building in Tianjin, China, exemplifies environment efficiency and is LEED Gold certified.

The building uses:

- 58.3% less water
- 56% less electricity
- 28% less total energy than similar buildings
- and more than 90% of food waste is composted.

Environmentally friendly materials have been used throughout the building, down to the furniture and carpets. It also has ample space for employees to store their bicycles.

Solar panels provide electricity for the building - even the street lamps are solar and wind powered. Sensors detect the amount of natural light in a room, automatically adjusting the light levels throughout the work day and decreasing the amount of electricity used. Glass on the windows eliminates UV light and

reduces infra-red transmission. It also insulates the building and reduces thermal energy loss. Excess heat is recovered from building control systems and used to heat the building in winter months.

Water is saved through dual flush toilets, low flush shower heads, sensor taps and toilet flushes using a grey water system. Paper is recycled and food waste is composted and used as fertilizer for the building's gardens.

The built-to-suit office building in Changi Business Park is another example of Standard Chartered's commitment to sustainability as the building integrates energy and water efficient features and is expected to reduce energy consumption by up to 36 percent compared to conventional buildings in Singapore.

The building has incorporated an endangered species educational garden as part of its comprehensive range of eco-friendly features. First-of-its-kind in

office buildings, the garden is designed to be a recreational space as well as to raise awareness of environmental conservation among employees and the community. Located on the ground level, the garden will feature a range of plants which are extinct or at risk of extinction in the wild due to over-collecting or de-forestation. Approximately 20 percent of the plants across the building's 70,000 square feet landscaping will be of the endangered variety with educational areas focusing on a range of endangered plants with everyday uses in medicine or food. This is part of Standard Chartered's efforts to educate the next generation on the importance of protecting the environment. The Bank will collaborate with Botanic Gardens Conservation International (BGCI) and the Singapore Botanic Gardens to participate in awareness programmes throughout the world.

The Changi Business Park building includes energy efficient and water saving features such as:

- Solar panels to generate additional power to supplement to energy requirements of the building.
- An automatic drip-feed irrigation system utilising rainwater and recycled water for effective landscape management.
- Recycling of waste water, condensate and rain water collection will result in considerable water savings of up to 19,890 m³ of water per year which is enough to fill eight Olympic-size swimming pool.



UNEP STATEMENT

UNEP STATEMENT OF COMMITMENT BY FINANCIAL INSTITUTIONS (FI) ON SUSTAINABLE DEVELOPMENT

We members of the Financial Services Sector recognize that economic development needs to be compatible with human welfare and a healthy environment. To ignore this is to risk increasing social, environmental and financial costs. We further recognize that sustainable development is the collective responsibility of governments, businesses and individuals. We are committed to working collectively toward common sustainability goals.

1. Commitment to Sustainable Development

- 1.1 We regard sustainable development - defined as development that meets the needs of the present without compromising the ability of future generations to meet their own needs - as a fundamental aspect of sound business management.
- 1.2 We believe that sustainable development is best achieved by allowing markets to work within an appropriate framework of cost efficient regulations and economic instruments. Governments have a leadership role in establishing and enforcing long-term priorities and values.
- 1.3 We regard financial institutions to be important contributors to sustainable development, through their interaction with other economic sectors and consumers and through their own financing, investment and trading activities.
- 1.4 We recognize that sustainable development is an institutional commitment and an integral part of our pursuit of both good corporate citizenship and the fundamentals of sound business practices.
- 1.5 We recognize that the sustainable development agenda is becoming increasingly inter-linked with humanitarian and social issues as the global environment agenda broadens and as climate change brings greater developmental and security challenges.

2. Sustainability Management

- 2.1 We support a precautionary approach to environmental and social issues, which strives to anticipate and prevent potential negative impacts on the environment and society.
- 2.2 We will comply with all applicable local, national and international regulations on environmental and social issues. Beyond compliance, we will work towards integrating environmental and social considerations into our operations and business decisions in all markets.
- 2.3 We recognize that identifying and quantifying environmental and social risks should be part of the normal process of risk assessment and management, both in domestic and international operations.
- 2.4 We will endeavor to pursue the best practice in environmental management, including energy and water efficiency, recycling and waste reduction. We will seek to form business relations with customers, partners, suppliers and subcontractors who follow similarly high environmental standards.
- 2.5 We intend to update our practices periodically to incorporate relevant developments in sustainability management. We encourage the industry to undertake research accordingly.
- 2.6 We recognize the need to conduct regular internal reviews and to measure our progress against our sustainability goals.
- 2.7 We recognize the need for the financial services sector to adapt and develop products and services which will promote the principles of sustainable development.

3. Public Awareness and Communication

- 3.1 We recommend that financial institutions develop and publish a statement of their sustainability policy and periodically report on the steps they have taken to promote the integration of environmental and social considerations into their operations.
- 3.2 We are committed to share relevant information with customers, as appropriate, so that they may strengthen their own capacity to reduce environmental and social risk and promote sustainable development.
- 3.3 We will foster openness and dialogue relating to sustainability matters with relevant stakeholders, including shareholders, employees, customers, regulators, policy-makers and the public.
- 3.4 We will work with the United Nations Environment Programme (UNEP) to further the principles and goals of this Statement, and seek UNEP's active support in providing relevant information relating to sustainable development.
- 3.5 We will encourage other financial institutions to support this Statement. We are committed to share with them our experiences and knowledge in order to extend best practices.
- 3.6 We recognize the importance of other initiatives by the financial services sector in forwarding the aims and objectives of sustainable finance and will seek to assist such initiatives in an appropriate manner.
- 3.7 We will work with UNEP periodically to review the success in implementing this Statement and expect all Signatories to make real progress.

END NOTES

1. www.mckinsey.com/business-functions/sustainability-and-resource-productivity/our-insights/profits-with-purpose-how-organizing-for-sustainability-can-benefit-the-bottom-line
2. www.worldwildlife.org/projects/the-3-solution
3. daraint.org/wp-content/uploads/2012/09/CVM2ndEd-FrontMatter.pdf
4. www.eia.gov/forecasts/ico/world.cfm
5. www.bcg.com/documents/file126806.pdf
6. wwf.fi/mediabank/7413.pdf
7. www.wsj.com/articles/regulators-examine-financial-stability-risks-to-climate-change-oil-exposure-1459444688
8. www.whitehouse.gov/the-press-office/2016/06/29/leaders-statement-north-american-climate-clean-energy-and-environment
9. www.theguardian.com/sustainable-business/10-things-need-to-know-circular-economy
10. www.afi-global.org/policy-areas/general-fi
11. www.ifac.org/global-knowledge-gateway/sustainability/discussion/sustainability-imperative-small-business
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14. [www.ey.com/Publication/vwLUAssets/EY-role-of-hr-in-driving-sustainable-business-practices/\\$FILE/EY-Role-of-HR-in-driving-sustainable-business-practices.pdf](http://www.ey.com/Publication/vwLUAssets/EY-role-of-hr-in-driving-sustainable-business-practices/$FILE/EY-Role-of-HR-in-driving-sustainable-business-practices.pdf)
15. www.netimpact.org/sites/default/files/documents/what-workers-want-2012.pdf
16. www.thecro.com/topics/corporate-responsibility/the-growing-influence-of-the-chief-sustainability-officer/#sthash.npny7Ch2.dpuf
17. www.unep.org/sbci/AboutSBCI/Background.asp
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19. www.corporate-engagement.com/files/publication/EKQ_RESTAT_2013.pdf

ABBREVIATIONS

BEI	Banking Environment Initiative
BREEAM	Building Research Establishment Environmental Assessment Method
CDP	formerly known as Carbon Disclosure Project
COP	Conference of the Parties
CRT	Cathode Ray Tube
CSR	Corporate Social Responsibility
EP	Equator Principles
E&S	Environmental and Social
ESG	Environmental, Social and Governance
ESM	Environmental and Social Management
ESRM	Environmental and Social Risk Management System
FSC	Forest Stewardship Council
GABV	Global Alliance for Banking on Values
GHG	Greenhouse Gas
GRI	Global Reporting Initiative
IFC	International Finance Corporation
ISO	International Organization for Standardization
LEED	Leadership in Energy and Environmental Design
MSC	Marine Stewardship Council
NACE	Nomenclature of Economic Activities
NAICS	North American Industry Classifications System
NCP	Natural Capital Declaration
OECD	Organization for Economic Cooperation and Development
SDG	Sustainable Development Goals
UNEP FI	United Nations Environment Programme Finance Initiative

APPENDIX CONTENTS

97 Resources

112 Glossary

RESOURCES

The resources provided herein offer literature, reports, organizations etc. that are valuable and informative for banks who have, or are aiming to have, a sustainability agenda. The collection of resources is not intended to be all encompassing, instead presenting a broad spectrum of resources that have been aggregated under key areas for sustainability banking practitioners.

A CHANGING WORLD & THE IMPLICATIONS FOR BUSINESS

Deloitte (2013) CFOs and Sustainability <www2.deloitte.com/us/en/pages/risk/articles/cfos-and-sustainability-shaping-their-roles-in-an-evolving-environment.html>

Global Alliance for Banking on Values (2014). Real Economy – Real Returns: The Business Case for Sustainability Focused Banking. <www.gabv.org/wp-content/uploads/Real-Economy-Real>Returns-GABV-Research-2014.pdf>

Harvard Business Review (2009). Why Sustainability Is Now the Key Driver of Innovation. <hbr.org/2009/09/why-sustainability-is-now-the-key-driver-of-innovation/es>

IFC (2013). Money Moves Two: How Private Sector Finance Can Work for a Sustainable Future. <www.ifc.org/wps/wcm/connect/62792c80402314359565ff23ff966f85/ifc_moneymoves2-06072013.pdf?MOD=AJPERES>

KPMG (2012). Expect the Unexpected <www.kpmg.com/Global/en/IssuesAndInsights/ArticlesPublications/Documents/building-business-value.pdf>

KPMG (2015) READY OR NOT? An assessment of sustainability integration in the European Banking Sector <www.fii/mediabank/7413.pdf>

McKinsey & Company (2014). Profits with purpose: How organizing for sustainability can benefit the bottom line <www.mckinsey.com/business-functions/sustainability-and-resource-productivity/our-insights/profits-with-purpose-how-organizing-for-sustainability-can-benefit-the-bottom-line>

MIT Sloan Management Review and The Boston Consulting Group (2013). The Innovation Bottom Line <www.bcg.com/documents/file126806.pdf>

Nicholas, S. (2006). Stern Review: The Economics of Climate Change. <mudancasclimaticas.cptec.inpe.br/~rmclima/pdfs/destaques/sternreview_report_complete.pdf>

PRI, UNCTAD, UN Global Compact and UNEP FI (2015). Private Sector Investment and Sustainable Development: The current and potential role of institutional investors, companies, banks and foundations in sustainable development. <www.unglobalcompact.org/library/1181>

TEEB (2012), The Economics of Ecosystems and Biodiversity in Business and Enterprise. Edited by Joshua Bishop. Earthscan, London and New York <www.teebweb.org/media/2012/01/TEEB-For-Business.pdf>

UN Global Compact (UNGC) and Accenture (2013). CEO Study 2013: Sustainable business and the pace of change. <www.accenture.com/us-en/~media/Accenture/Conversion-Assets/DotCom/Documents/Global/PDF/Strategy_4/Accenture-CEO-Study-Sustainable-Business-Pace-Change-Podcast-Transcript.pdf>

SUSTAINABILITY INDEX PROVIDERS AND EXTRA FINANCIAL RATING AGENCIES

Sustainability index providers

Dow Jones Sustainability Index <www.sustainability-indices.com/>

FTSE Russell. FTSE4GOOD Index Series. <www.ftse.com/products/indices/FTSE4Good>

MSCI, MSCI ESG Ratings. <www.msci.com/esg-integration>

Standard & Poor's ESG Indices <www.spindices.com/index-family/sustainability/esg>

See SSE Initiative for other indices, including country indices <www.sseinitiative.org/2016rop/>

including

BM&FBOVESPA and FGV-EAESP, Índice de Sustentabilidade Empresarial (ISE). <www.bmfbovespa.com.br/pt_br/produtos/indices/indices-de-sustentabilidade/indice-de-sustentabilidade-empresarial-ise-1.htm>

Johannesburg Stock Exchange <www.jse.co.za/>

Thomson Reuters. Environmental, Social and Governance (ESG) Indices. <financial.thomsonreuters.com/en/products/data-analytics/market-data/indices/esg-index.html>

Extra Financial Rating Agencies

Oekom Research, Oekom Corporate Rating. <www.oekom-research.com/index_en.php?content=corporate-rating>

RobecoSAM <www.robecosam.com/>

Tools

Ceres. The Ceres Roadmap for Sustainability/Financial Services. <www.ceres.org/roadmap-assessment/sector-analyses/financial-services>

IFC (2013). Guidance for the Directors of Banks. <www.ifc.org/wps/wcm/connect/99c6028040fca8cb8326ef-25d54dfab3/Focus11_GoverningBanks.pdf?MOD=AJPERES>

UN Global Compact (2014) Guide to Corporate Sustainability <www.unglobalcompact.org/library/1151>

WWF (2014). Environmental, Social and Governance Integration for Banks: A Guide to Starting Implementation. <www.panda.org/wwf_news/?226990#>

Networks

Banking Environment Initiative <www.cisl.cam.ac.uk/business-action/sustainable-finance/banking-environment-initiative>

Ceres. <www.ceres.org/>

Global Alliance for Banking on Values <www.gabv.org>

Global Corporate Governance Forum (IFC) <www.ifc.org/wps/wcm/connect/Topics_Ext_Content/IFC_External_Corporate_Site/Corporate+Governance>

UNEP Finance Initiative <www.unepfi.org/>

UN Global Compact <www.unglobalcompact.org>

World Business Council on Sustainable Development. <www.wbcsd.org/home.aspx>

Training

Colombia University School of Professional Studies, Sustainable Finance <sps.columbia.edu/certificates/sustainable-finance-certificate>

IFC (2010). Governing Banks - A Supplement to the Corporate Governance Board Leadership Training Resources. <documents.worldbank.org/curated/en/106641468339267353/pdf/628920WP0Gover00Box0361495B-0PUBLIC0.pdf>

University of Cambridge Institute for Sustainability Leadership. <www.cisl.cam.ac.uk/>

SUSTAINABILITY MANAGEMENT

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EY (2014), Let's talk Sustainability. A dialogue on building a better working world <[www.ey.com/Publication/vwLUAssets/EY-let-talk-sustainability/\\$FILE/EY-lets-talk-sustainability.pdf](http://www.ey.com/Publication/vwLUAssets/EY-let-talk-sustainability/$FILE/EY-lets-talk-sustainability.pdf)>

KPMG (2014). The Essentials of Materiality Assessment <www.kpmg.com/Global/en/IssuesAndInsights/ArticlesPublications/Documents/materiality-assessment.pdf>

Oliver Wyman (2014), FROM GREEN TO SUSTAINABLE <www.oliverwyman.com/content/dam/oliverwyman/global/en/2014/apr/From%20Green%20to%20Sustainable_web_new.pdf>

PwC (2014), Making it your business: Engaging with the Sustainable Development Goals <www.pwc.com/gx/en/sustainability/SDG/SDG%20Research_FINAL.pdf>

Tools

Ceres. The Ceres Roadmap for Sustainability – P4.3: Design for Sustainability <www.ceres.org/roadmap-assessment/progress-report/performance-by-expectation/products-and-services/design-for-sustainability>

Earth Security Group (2015). The Earth Security Index 2015: Managing global resource risks and Resilience in the 21st century <earthsecuritygroup.com/wp-content/uploads/2016/06/The-Earth-Security-Index-2015.pdf>

MIT Sloan Management Review and the Boston Consulting Group (2013), Sustainability's Next Frontier <sloanreview.mit.edu/projects/sustainabilitys-next-frontier/?utm_source=BCG&utm_medium=referral&utm_campaign=sustdec13>

PRI/ UN Global Compact Lead, (2013): A Tool for Communicating the Business Value of Sustainability <www.spainsif.es/sites/default/files/upload/publicaciones/VDM_Report.pdf>

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UN Global Compact and KPMG International (2015). SDG Industry Matrix - Financial Services. <www.unglobalcompact.org/docs/issues_doc/development/SDGMatrix_FinancialSvcs.pdf>

Networks

Banking Environment Initiative <www.cisl.cam.ac.uk/business-action/sustainable-finance/banking-environment-initiative>

Ceres. <www.ceres.org/>

Global Alliance for Banking on Values <www.gabv.org>

Global Corporate Governance Forum (IFC) <www.ifc.org/wps/wcm/connect/Topics_Ext_Content/IFC_External_Corporate_Site/Corporate+Governance>

UNEP Finance Initiative <www.unepfi.org/>

UN Global Compact <www.unglobalcompact.org>

World Business Council on Sustainable Development. <www.wbcsd.org/home.aspx>

Training

IFC. Sustainability Training and E-Learning Program (STEP) <www.ifc.org/wps/wcm/connect/Topics_Ext_Content/IFC_External_Corporate_Site/IFC+Sustainability/Learning+and+Adapting/Tools+for+Clients/#STEP>

The Economics of Ecosystems & Biodiversity (TEEB). Training Resource Material <www.teebweb.org/resources/training-resource-material/>

UNEP FI Climate Change Online Course <www.unepfi.org/training/climate-change/>

World Bank Group Open Learning Campus <olc.worldbank.org/>

NGO BEAT

BANKTRACK
<www.banktrack.org/>

Finance Watch <www.finance-watch.org/>

Global Witness Banks Campaign
<www.globalwitness.org/en/campaigns/corruption-and-money-laundering/banks>

Greenpeace
<www.greenpeace.org>

Amnesty international <www.amnesty.org/en/>

OXFAM
<www.oxfam.org>

IN THE NEWS

Bloomberg Brief: Sustainable Finance <www.bloombergbriefs.com/sustainable-finance/>

Corporate Knights, Global 100 Most Sustainable Corporations in the World. <www.corporateknights.com/reports/global-100/>

Environmental Finance <www.environmental-finance.com/>

ESG Magazine <www.esg-magazine.com/>

Responsible Investor <www.responsible-investor.com/>

LEGAL & VOLUNTARY FRAMEWORKS

International Conventions & Agreements

Convention on Biological Diversity (CBD) <www.cbd.int/>

FIRST for Sustainability (IFC) International Conventions and Agreements <firstforsustainability.org/resources/international-conventions-and-standards/international-conventions-and-agreements/>

Rio Declaration on the Environment and Development <www.unep.org/Documents.Multilingual/Default.asp?documentid=78&articleid=1163>

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UN Sustainable Development Knowledge Platform: Transforming our world: the 2030 Agenda for Sustainable Development <sustainabledevelopment.un.org/post2015/transformingourworld>

Soft Law

OECD Guidelines for Multinational Enterprises (2011) <www.oecd.org/daf/inv/mne/oecdguidelinesformultinationalenterprises.htm>

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UNEP Inquiry Report (2015) The Financial System We Need: Aligning the Financial System with Sustainable Development <unepinquiry.org/publication/inquiry-global-report-the-financial-system-we-need/>

UNEP Inquiry, Institute for Human Rights and Business (2016): Human Rights and Sustainable Finance – Exploring the Relationship <www.ihrb.org/uploads/reports/IHRB_UNEP_Human_Rights_Sustainable_Finance_Feb2016.pdf>

Voluntary Frameworks for Sustainable Banking

Banking Environment Initiative (BEI) and the Consumer Goods Forum (CGF) (2016). ‘Soft Commodities’ Compact <www.cisl.cam.ac.uk/business-action/sustainable-finance/banking-environment-initiative/programme/soft-commodities/soft-commodities>

Carbon Principles <www.carbonprinciples.org/>

Centre for International Governance Innovation (CIGI). Voluntary Sustainability Codes of Conduct in the Financial Sector <www.cigionline.org/sites/default/files/cigi_paper_78.pdf>

Climate Bonds Initiative <www.climatebonds.net/>

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Alliance for Financial Inclusion <www.afi-global.org/>

Network for Sustainable Financial Markets <www.sustainablefinancialmarkets.net/about/>

Sustainable Banking Network (IFC) <www.ifc.org/wps/wcm/connect/Topics_Ext_Content/IFC_External_Corporate_Site/IFC+Sustainability/Partnerships/Sustainable+Banking+Network/>

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Networks

Equator Principles Association <www.equator-principles.com/>

IFC Performance Standards Community of Learning <www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/ifc+sustainability/learning+and+adapting/learning+events/performance+standards+community+of+learning>

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Training

Designing Index Based Weather Risk Management Programs (IBRD) <olc.worldbank.org/content/designing-index-based-weather-risk-management-programs-self-paced>

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IFC E-Learning Course on Managing Environmental and Social Performance <www.ifc.org/wps/wcm/connect/Topics_Ext_Content/IFC_External_Corporate_Site/IFC+Sustainability/Learning+and+Adapting/Tools+for+Clients/#elearning>

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Climate Action Network International <www.climatenetwork.org/>

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UNEP FI, Portfolio Decarbonization Coalition <www.unepfi.org/fileadmin/documents/PortfolioDecarbonizationCoalition.pdf>

Training

C2ES – the Center for Climate and Energy Solutions <www.c2es.org/>

UN Climate Change Newsroom <newsroom.unfccc.int/>

UNEP FI, Risks and Opportunities for the Finance Sector Online Course <www.unepfi.org/fileadmin/training/climate/cc_course_brochure.pdf>

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SAMPLE OF REGIONAL REGISTERS

Useful E&S information provided by governments such as permits, fines, etc.

US Environmental Protection Agency. Facility registry Service: <www.epa.gov/enviro/facility-registry-service-frs>

European Pollutant Release and Transfer Register: <ec.europa.eu/environment/industry/stationary/eper/legislation.htm>

Secretaria de Estado de Meio Ambiente(SEMA),MT- SEMAMT(Secretary of Environment for the state of Mato Grosso)/ BRAZIL: <monitoramento.sema.mt.gov.br/simlam/>

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ValuES <www.aboutvalues.net/>

Wealth Accounting and the Valuation of Ecosystem Services (WAVES) <www.wavespartnership.org/>

Networks

BEI Soft Commodities Compact <www.cisl.cam.ac.uk/business-action/sustainable-finance/banking-environment-initiative/programme/soft-commodities>

Natural Capital Coalition <naturalcapitalcoalition.org/who/coalition-organizations/>

Natural Capital Declaration (NCD) <www.naturalcapitaldeclaration.org/the-declaration/>

TEEB community <www.teebweb.org/about/partners/>

NATURAL RESOURCE STEWARDSHIP

BON SUCRO (Better Sugar Cane Initiative) <www.bonsucro.com/>

Forest Stewardship Council <us.fsc.org/en-us/>

Global Roundtable for Sustainable Beef (GRSB) <www.grsbeef.org/>

Marine Stewardship Council <www.msc.org/>

Round Table on Responsible Soy (RTRS) <www.responsiblesoy.org/>

Find more at ISEAL Alliance Codes of Good Practice <www.isealalliance.org/our-work/defining-credibility/codes-of-good-practice>

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The Global Slavery Index <www.globalslaveryindex.org/>

UNEP FI Human Rights Guidance Tool for the Financial Sector <www.unepfi.org/humanrightstoolkit/>

UN-Global Compact Business and Human Rights Dilemmas Forum <www.unglobalcompact.org/library/9>

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Climate Bonds Initiative <www.climatebonds.net/>

Training

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Ecosystem Valuation Toolkit
<esvaluation.org/>

FIRST for Sustainability. Environmental Business Opportunities - Environmental Business Opportunities by Type
<firstforsustainability.org/opportunities/environmental-business-opportunities-by-type/>

InVEST <www.naturalcapitalproject.org/invest/>

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WBCSD. The Inclusive Business Challenge <www.wbcd.org/pages/EDocument/EDocumentDetails.aspx?ID=12744&NoSearchContext-Key=true>

Tools

Guidance for Issuers of Social Bonds
<www.icmagroup.org/Regulatory-Policy-and-Market-Practice/green-bonds/guidance-for-issuers-of-social-bonds/>

ILO Social Finance Programme <www.ilo.org/employment/areas/social-finance/lang-en/index.htm>

Networks

Alliance for Financial Inclusion (AFI)
<www.afi-global.org/>

International Association of Investors in the Social Economy (INAISE) <www.inaise.org/>

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Tools

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First for Sustainability. Internal Communication and Training <firstforsustainability.org/risk-management/managing-environmental-and-social-risk-2_2/implementing-an-esms/internal-communication-and-training/>

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BSR & UNGC: supply chain sustainability <www.bsr.org/reports/BSR_UNGC_SupplyChainReport.pdf>

Tools

EU Eco-Management and Audit Scheme (EMAS) <ec.europa.eu/environment/emas/index_en.htm>

Greenhouse Gas (GHG) Protocol <www.ghgprotocol.org/>

International Finance Corporation (IFC), EDGE <www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/edge>

Networks

Building Owners and Managers Association International <www.boma.org/Pages/default.aspx>

Energy Managers Society (EMS) <www.aeecenter.org/i4a/pages/index.cfm?pageID=4381>

World Green Building Council <www.worldgbc.org/>

Training

WBCSD Eco-efficiency Learning Module
<www.wbcd.org/pages/EDocument/EDocumentDetails.aspx?ID=13593>

World Bank Group Open Learning Campus. Saving Energy Through Energy Savings Performance Contracts <olc.worldbank.org/content/saving-energy-through-energy-savings-performance-contracts-self-paced>

GREEN CERTIFICATIONS AND LABELS

BREEAM
<www.breem.com/>

EU Ecolabel <ec.europa.eu/environment/ecolabel/>

ISO 14000: Environmental Management <www.iso.org/iso/iso14000>

LEED Certification
<leed.usgbc.org/>

COMMUNICATING & REPORTING ON SUSTAINABILITY

2° Investing Initiative (2013). From Financed Emissions to Long-Term Investing Metrics: State-of-the-art review of GHG emissions accounting for the financial sector <2degrees-investing.org/IMG/pdf/2dii_financed_emissions_short_diff.pdf>

BSR (2012). Back to Basics: How to Make Stakeholder Engagement Meaningful for Your Company <www.bsr.org/reports/BSR_Five-Step_Guide_to_Stakeholder_Engagement.pdf>

Ceres Stakeholder Engagement <www.ceres.org/roadmap-assessment/about/roadmap-expectations/stakeholder-engagement>

FSB Task Force on Climate Disclosures (2016), Phase I Report of the Task Force on Climate-Related Financial Disclosures <www.fsb-tcfd.org/wp-content/uploads/2016/03/Phase_I_Report_v15.pdf>

KPMG et al (2013), Carrots and Sticks Sustainability reporting policies worldwide-today's best practices, tomorrow's trends <www.globalreporting.org/resourcelibrary/Carrots-and-Sticks.pdf>

Tools

CDP, CDSB Framework <www.cdsb.net/sites/cdsbnet/files/cdsb_framework_for_reporting_environmental_information_natural_capital.pdf>

CDP, climate Change, Water, Forestry Reporting <www.cdp.net/en>

GRI: Sustainability Reporting Guidelines & Financial Services Sector Supplement <www.globalreporting.org/resourcelibrary/G3-English-Financial-Services-Sector-Supplement.pdf>

Integrated Reporting <IR>. International Integrated Reporting Framework <integratedreporting.org/resource/international-ir-framework/>

Sustainability Accounting Standards Board (SASB) <using.sasb.org/>

UN Guiding Principles Reporting Framework <www.ungpreporting.org/>

Networks

Corporate Reporting Dialogue <corporatereportingdialogue.com/>

GRI Network Hub <www.globalreporting.org/NETWORK/Pages/default.aspx>

International Integrated Reporting Council <integratedreporting.org>

SustainAbility, The Engaging Stakeholders Network <www.sustainability.com/business-network>

GLOSSARY

Biodiversity: The variability among living organisms from all sources including terrestrial, marine and other aquatic ecosystems and the ecological complexes of which they are part; this includes diversity within species, between species and of ecosystems. (Source: Convention on Biological Diversity)

CDP: CDP provides a global reporting system that collects information from large organizations on their climate change risks, opportunities, strategies and performance, and the way in which they consume and affect natural resources including water and forests.

Climate change: Refers to a significant shift in typical weather conditions.

Ecosystem services: The benefits people obtain from ecosystems. These include provisioning services such as food, water, timber, and fibre; regulating services that affect climate, floods, disease, wastes, and water quality; cultural services that provide recreational, aesthetic, and spiritual benefits; and supporting services such as soil formation, photosynthesis, and nutrient cycling. (Source: BBOP)

Environmental and social risk: In the context of this Guide, banks are exposed to environmental and social risks through their clients/investees operations. The exact environmental and social impacts of each client/investee depend on the industry sector and can be categorized and assessed using Environmental and Social Risk Management Systems.

Equator Principles: A risk management framework, adopted by financial institutions, for determining, assessing and managing environmental and social risk in projects. (Source: EP)

Global Reporting Initiative (GRI): An international independent organization that helps businesses, governments and other organizations understand and communicate the impact of business on critical sustainability issues such as climate change, human rights, corruption and many others (Source: GRI)

Greenhouse Gas Protocol: A global accounting tool for government and business leaders to understand, quantify, and manage greenhouse gas emissions.

Green indices: a set of transparent criteria related to green assets being financed.

Green and social bonds: These bonds mobilize funds from debt capital markets to finance environmentally or socially beneficial projects.

Impact investing: Investments that are made with the goal of creating a positive environmental or social impact, as well as financial returns.

Integrated reporting: A report that builds on the existing financial reporting model to incorporate nonfinancial information that can help stakeholders understand how a company creates and sustains value over the long-term. (Source: PWC)

International Organization for Standardization (ISO): ISO is an independent, non-governmental international organization with a membership of 161 national standards bodies. Through its members, it brings together experts to share knowledge and develop voluntary, consensus-based, market relevant International Standards that support innovation and provide solutions to global challenges. (Source: ISO)

Materiality assessment: The process of identifying, refining, and assessing numerous potential environmental, social and governance issues that could affect business, and/or its stakeholders, and condensing them into a short-list of topics that inform company strategy, targets, and reporting. (Source: KPMG)

Natural capital: The world's stocks of natural assets which include geology, soil, air, water and all living things. It is from this Natural Capital that humans derive a wide range of services, often called ecosystem services, which make human life possible. (Source: Natural Capital)

New economy: A service-based economy that is characterized by cutting-edge technology and has outgrown manufacturing, driven by technology developments such as the internet and increasingly advanced computers.

OECD guidelines: The OECD Guidelines for Multinational Enterprises, 2011 edition provide voluntary principles and standards for responsible business conduct consistent with applicable laws and internationally recognised standards. However, the countries adhering to the OECD Guidelines make a binding commitment to implement them. They contain recommendations made to multinational enterprises operating in or from adhering countries.

Operational risk: The risk arising from inadequate or failed internal processes, people and systems, or from external events (including legal risk).

Positive Impact Finance: Refers to all types of finance which verifiably produce a positive impact on the economy, society or the environment once any potential negative impacts have been duly identified and mitigated.

Real economy: The totality of businesses that produce goods and services (as opposed to businesses that solely buy and sell at financial markets).

Stakeholder: In the context of this Guide, stakeholders are defined broadly as those groups or individuals: (a) that can reasonably be expected to be significantly affected by the bank's activities, products, and/or services; or (b) whose actions can reasonably be expected to affect the ability of the bank to successfully implement its strategies and achieve its objectives.

Environmental stress testing: A method of assessing how certain factors or changes (for example, the introduction of a carbon tax, or a change in commodity prices) could affect the financial performance of an asset or company. In the context of this Guide, it models the vulnerability of loan portfolios to environmental shock scenarios.

Sustainability: The balance of environmental, social and economic factors.

Sustainability committee: In the context of this Guide, a body that is accountable for the sustainability strategy and performance of the bank. It is comprised of decision-making level representatives from across the bank.

Sustainability metrics/ performance: Qualitative or quantitative information about results or outcomes associated with the organization that is comparable and demonstrates change over time. (Source: GRI)

Sustainability policy: In the context of this Guide, a commitment to incorporating social, environmental, economic and governance factors into a bank's strategic decision-making. It extends to evaluating how these factors affect the business, including its stakeholders, and evaluates risks and opportunities of these factors. The policy typically adopts measures and sets forth goals.

Sustainability reporting: A generic term for corporate extra-financial reporting. It refers to the account an organisation gives to describe its performance on a number of sustainability dimensions such as economic, environmental, social and corporate governance performances. Reports can be either internal or external.

Sustainability team: In the context of this Guide, dedicated experts whose sole role is focused on furthering a bank's sustainability agenda.

Sustainable Development: Development that meets the needs of the present without compromising the ability of future generations to meet their own needs (Source: Our Common Future, The Brundtland Commission, 1987)

Sustainable Development Goals: A set of 17 global goals agreed upon by the UN member states, ranging from social to environmental and economic issues to be achieved by 2030.

Sustainable Finance: Any form of financial service that creates environmental, social and governance value and that are sustainable over time.

