



Responsible banking practices

Benchmark study 2019



Contents

04	Foreword
06	Executive summary
08	Methodology
12	Sustainable strategy, governance and culture
13	ESG risk management
14	ESG disclosure and reporting standards
15	ESG frameworks, initiatives and targets
16	Responsible investment

Foreword

Time to reflect on purpose and values

Environmental, Social and Governance (ESG) factors, and responsible banking practices more broadly have become an essential focus for the banking industry.

Whether it's supporting environmental initiatives or acknowledging its societal impact, the industry is on a mission to operate responsibly and embed sustainability into its very purpose and value proposition. More recently, the Covid-19 pandemic has brought to the fore the importance of the positive role the banking sector can play with both governments and regulators looking to banks to provide support to corporates and customers, keep the economy going and help mitigate the economic effects of the Covid-19 crisis.

This reflection on purpose and values seems likely to continue as subsequent events, such as the rise in the Black Lives Matter movement, continue to shape society's expectations of social justice, diversity and of the role financial actors have to play in ensuring that the activities they invest in are not only environmentally sustainable but also socially inclusive. An interesting recent example being Goldman Sachs' new policy on Board diversity, to only advise companies on IPOs where there is at least one diverse Board member (increasing to two next year).⁽²⁾

Achieving demonstrable progress in meeting these new goals, as well as the goals and targets set by global leaders, such as the UN's Sustainable Development Goals or the Paris agreement targets means that banks need to go further than implementing CSR programmes. As regulatory scrutiny increases, banks now need to take into account ESG factors in their strategy-setting, governance, risk management and disclosures.

To assist banks and their stakeholders to ascertain where they stand, this benchmarking study examines the sustainability practices of a sample of 30 banks who are UNEP-FI Members and/or signatories to the Principles for Responsible Banking, to compare them and identify, where possible, examples of best practice. Our research is based on publicly available information, including the banks' CSR reports. Our assessment methodology which is described in more detail in the report, leveraged guidance as to "what good looks like" from the UNEP FI.

Our assessment shows that although many banks report working towards embedding sustainability, this is not always yet reflected in their corporate strategy, governance and policies. Much work remains to be done for ESG factors to be fully integrated in banks' risk management framework. Overall, only three out of the 30 banks assessed were identified as demonstrating best practice across a wide range of sustainability factors (Leaders), with 10 banks identified as showing a sustainable approach across some factors (supporters) and 17 banks identified as indicating limited evidence of a sustainable approach across most factors (followers).

As the report highlights, environmental and climate change issues continue to be a key component of banks' sustainability strategies. At the launch of the COP 26 Private Finance Agenda in February 2020⁽³⁾, Christine Lagarde declared that "by shifting the horizon away from the short term and contributing to a more sustainable economic trajectory, the financial sector can become a powerful force acting in our collective best interest." Current initiatives such as the EU Green Taxonomy, the revised EU Non-Financial Reporting Directive and the introduction of the Task Force on Climate-related Financial Disclosures (TCFD) disclosures, or the proposed European Central Bank guide on climate-related and environmental risk⁽⁴⁾ will undoubtedly assist these banks in continuing their progress on this journey and getting one step closer to meeting one of the defining challenges of our time.

As we find ourselves in a crisis that touches many aspects of our lives, Madame Lagarde's call to action which arguably applies to a broader range of sustainability issues should resonate with individual banks and lead them to play an even greater role in meeting some of the social and economic challenges that have emerged since Covid-19.

“In 2019, NPL reallocated SEK 25bn to more sustainable investment, reducing carbon emissions from those investment by 46%.”

Nordea

Sustainability Report 2019, p.15

“If gaps are found between a client’s environmental and social plans, policies or practices and international standards, we develop an Environmental and Social Action Plan(ESAP) to fill the gaps. As a condition of financing, we require the client to implement the ESAP, and we monitor progress over time.”

CITI

Environmental, Social and Governance Report 2019, p.55

“Santander in the UK originated £1.09bn of debt financing to 21 renewable energy projects in 2019. We provide advisory and financing solutions for renewable and alternative energy clients across a range of renewable schemes, including onshore and offshore wind, solar and biofuel projects.”

Santander

ESG Supplement 2019, p. 12

“In view of the many environmental and social challenges globally, as encompassed by the SDGs, these topics will continue to increase in relevance for banks. These developments therefore require regular and critical assessment of our policies and practices, based on an accurate monitoring and analysis of societal topics of potential relevance to UBS. This process is the responsibility of [...] the Global Environmental and Social Risk (ESR) Committee.”

UBS

Sustainability Report 2019, p.51

“This year we worked to embed human rights considerations into our client due diligence processes in sectors with elevated human rights risks. For example, we included forced labour considerations in our Forestry & Palm Oil Statement and indigenous rights/ local community engagement in our Energy & Climate Change Statement.”

Barclays

ESG Report 2019, p.36

(1) <https://www.unepfi.org/banking/bankingprinciples/covid-19-and-sustainable-recovery/responsible-banking-in-the-covid-19-crisis/>

(2) <https://www.goldmansachs.com/what-we-do/investing-and-lending/launch-with-gs/pages/commitment-to-diversity.html>

(3) Climate change and the financial sector, Speech by Christine Lagarde, President of the ECB, at the launch of the COP 26 Private Finance Agenda, London 27 February 2020

(4) <https://www.bankingsupervision.europa.eu/press/pr/date/2020/html/ssm.pr200520~0795c47d73.en.html>

Executive summary



Executive summary

Key findings

Most of the banks assessed:

1. Report working towards embedding sustainability frameworks, but this is not always reflected in their corporate strategy, governance and policies.

Recommendation: Banks could consider allocating sustainability responsibilities to a Board-level committee so that sustainability considerations are fully taken into account in the corporate strategy. Banks could also set sustainability-related incentives (including financial incentives) for the Board and top Management, e.g. performance assessment, remuneration criteria.

2. Have yet to fully integrate Environmental, Social and Governance (ESG) factors in their Risk Management Framework using quantitative approaches.

Recommendation: Banks could consider more fully including ESG risks into their Risk Management Framework by developing quantitative and forward-looking approaches to complement existing, mostly qualitative assessments of ESG impacts, risks and opportunities.

3. Have adopted or are implementing voluntary ESG reporting standards.

Recommendation: In the current fragmented regulatory context, banks should consider the range of ESG disclosure standards available and identify those most relevant to their business model, stakeholder needs and internal capabilities. The Task Force on Climate-related Financial Disclosures (TCFD) framework is emerging as the preferred standard in respect of climate change, however, other disclosure frameworks such as the Global Reporting Initiative (GRI) and Sustainability Accounting

Standards Board (SASB) could be considered in order to address the full range of ESG issues.

4. Support sustainability frameworks and have launched Corporate Social Responsibility (“CSR”) programmes. However, the definition and disclosure of SMART (Specific, Measurable, Achievable, Relevant and Time-Bounded) sustainability targets is not a common practice yet.

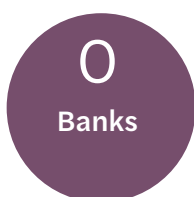
Recommendation: Banks could consider defining and publishing SMART targets covering ESG factors where they can have the most significant impacts. Targets may be qualitative or quantitative. The targets should be linked to the Sustainable Development Goals (SDGs), the Paris Climate Agreement and other relevant national, regional or international frameworks. Banks could also establish processes for monitoring and reporting progress against their targets in a regular manner.

5. Currently offer a wide range of environmentally responsible products, but have yet to develop a product offering that fully addresses socioeconomic issues. In light of the Covid-19 situation, banks might become more inclined to develop products and services that respond to the current socioeconomic challenges.

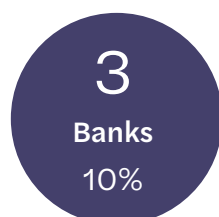
Recommendation: Banks should build on their experience in green finance to develop more ESG-linked products and services to encourage and support business models, technologies, practices and lifestyles that are in line with all three dimensions of sustainability (economic, social and environmental).

State of play

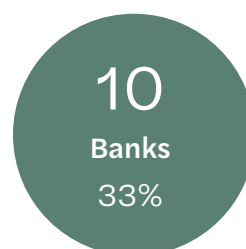
Outstanding



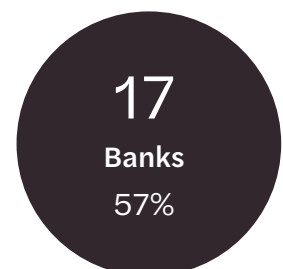
Leaders



Supporters



Followers



Methodology

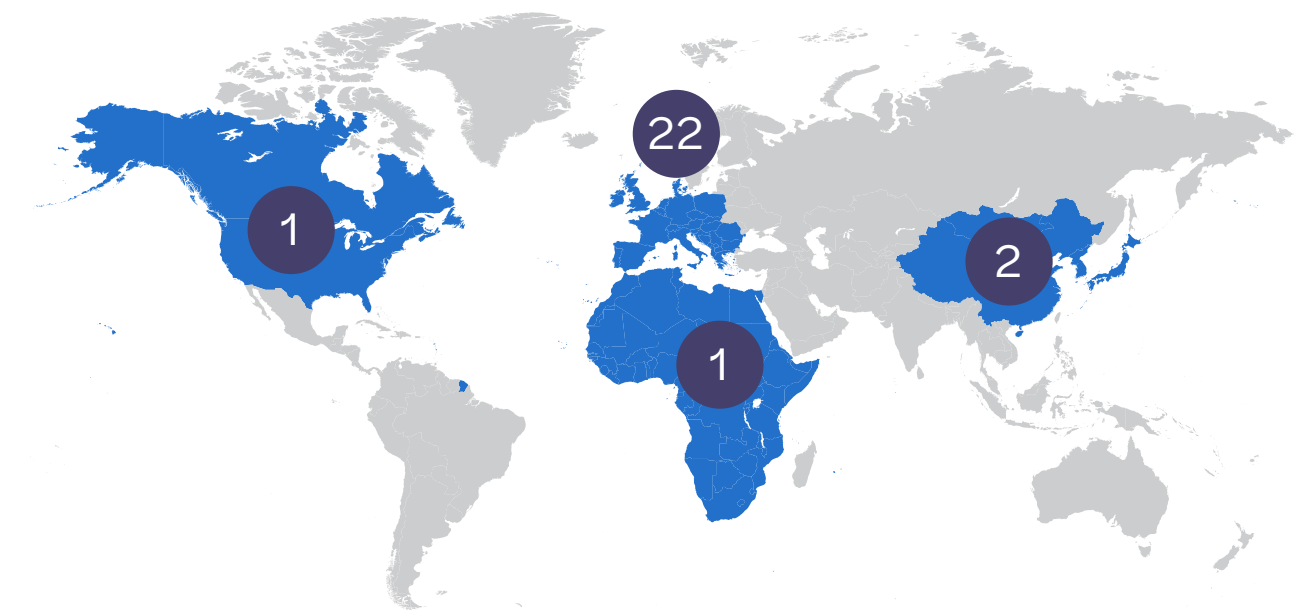


Scope

The benchmark assesses the sustainability practices of a sample of 30 banks. We have focused our analysis on European banks. Southeast Asian, African and American banks have been included for illustration purposes. The banks selected have demonstrated a significant interest in sustainability

by participating in the United Nations Environment Programme Finance Initiative (UNEP FI) initiatives and/or by being signatories to Principles for Responsible Banking (PRB).

The sample includes banks varying in size (large, medium and small) to achieve a more comprehensive view of sustainability practices.



ABN AMRO

Alpha Bank

Arion Bank

Barclays

BBVA

BNP Paribas

Citi

Credit Agricole S.A.

Credit Suisse

Deutsche Bank

Eurobank

Groupe BPCE

ICBC

ING

Intesa SanPaolo

Jyske Bank

KB Financial Group

Natixis

Netherlands Development Finance Company (FMO)

Nordea

Piraeus Bank

Santander

SEB

Societe Generale

Standard Bank

Standard Chartered

Swedbank

Triodos Bank

UBS

Uni Credit

Methodology

Assessment process

Our analysis is based on banks' publicly available information only (2018/2019 Corporate Social Responsibility ('CSR') and annual reports).

We used an assessment matrix to evaluate the banks' approach to sustainability, covering:

- Culture and governance;
- Risk management;
- Disclosures and reporting standards;
- Products and services;
- Frameworks and working groups; and
- Initiatives and targets.

Our assessment criteria were based on UNEP FI sustainability guidance¹ expressed as questions, e.g. "Does the bank's Risk Management Framework consider ESG criteria?"

Scoring and Ranking

For each assessment criteria, banks that demonstrated sufficient evidence of compliance achieved a positive score. Those that did not achieve compliance with the criteria received a negative score. With an equal weighting given to each criteria, banks were then ranked and grouped based on the percentage of positive scoring, as detailed in the table below.

No banks assessed achieved a positive score above 90%, so there are currently no banks in the 'outstanding' category. The highest rank a bank has achieved is 85%. However this is likely to change in the coming years as banks continue to improve their sustainability practices.

Leading practices

In the core of our report, the "leading practices" section illustrates the banks' most common practices by category (leaders, supporters, followers) and for each criteria.

Category	Rating bands	Performance
Outstanding	Achieved a 'positive score' in over 90% of categories	Best practice. Demonstrate a comprehensive approach that meets all criteria.
Leaders	Achieved a 'positive score' in 71% to 90% of categories	Demonstrate a strong approach to sustainability. Actively consider risks, impacts and opportunities related to most of the criteria.
Supporters	Achieved a 'positive score' in 50% to 70% of categories	Demonstrate a sustainable approach across some criteria.
Followers	Achieved a 'positive score' in under 50% of categories	Very limited evidence of a sustainable approach across most criteria.

¹ UNEP FI, Guidance Document, <https://www.unepfi.org/banking/bankingprinciples/>

Benchmark study results



Benchmark study results

Sustainable strategy, governance and culture

A bank embedding a sustainable culture identifies and prioritises sustainability in its vision, values and overall corporate strategy. This is reflected throughout the bank’s corporate governance (structure, roles and responsibilities) by the implementation of policies and processes fostering accountability, oversight and incentives to achieve sustainability goals.

Finding

Most of the banks assessed are reporting working toward embedding sustainability, but this is not always reflected in their corporate strategy, governance and policies.

Best practice

13%

of the banks assessed have sustainability-related financial incentives for the Board and top Management, e.g. performance assessment, remuneration criteria.

Examples of leading practices

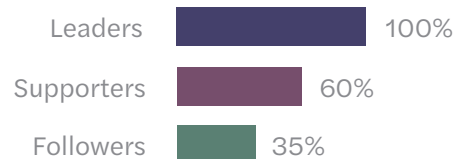
- **Integrated committees:**
 - The bank’s wholesale Credit Risk Management Committee approves the Environmental Risk Standard and supporting Coal Risk Appetite.
 - Correspondents from all business lines regularly attend an Environmental and Social Responsibility (ESR) Steering Committee aimed at embedding sustainability in their product offerings.
- **Board oversight:** The bank’s sustainability committee contains Executive Directors.
- **Director remuneration:** The bank’s Performance Measurement Framework for Directors considers progress on E&S objectives.

Leading practice

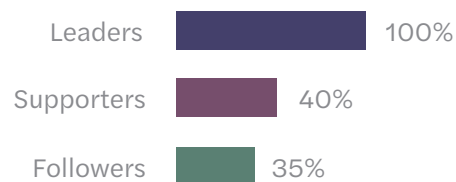
100% of **leaders** incorporate sustainability in the organisation’s mission, vision, values



100% of **leaders** have a committee(s) responsible for sustainability



100% of **leaders** have allocated sustainability-related responsibilities to their Board



Benchmark study results

ESG risk management

An ESG Risk Management Framework (RMF) considers the potential impact of ESG factors on the bank’s business model and its resilience to ESG related shocks. ESG factors can be assessed by using qualitative and/or quantitative approaches.

Finding

Most of the banks assessed have yet to fully consider ESG factors using quantitative methods.

Best practice

43%

of the banks assessed integrate ESG factors in their RMFs using both qualitative and quantitative methods.

Leading practice

100% of **leaders and supporters** have integrated ESG factors into their RMFs



100% of **leaders** have assessed ESG factors using quantitative methods



Examples of leading practices

- **Climate Risk Management:**
 - The bank systematically considers climate transition risk when assessing financing opportunities.
 - The bank uses Paris Agreement Capital Transition Assessment (PACTA) methodology to evaluate high-risk (ESG-wise) portfolios and align them with the temperature goals of the Paris Agreement.
 - For more details on climate risk management in banks, please refer to our report “[How banks are responding to the financial risks of climate change](#)”, May 2020.
- **Taxonomy:** The bank employs an internal capital allocation model, which uses climate impact to adjust expected return on financing solutions.
- **E&S Risk Management:** The Bank manages its E&S risk through the implementation of the Enterprise Risk Management Framework (ERMF) looking at environmental, social and climate risk management; culture and conduct; and technology resilience, cybersecurity and data privacy. The ERMF sets the strategic direction for risk management by defining clear standards, objectives and responsibilities for all areas.

Benchmark study results

ESG disclosure and reporting standards

ESG disclosure and reporting standards foster transparency and accountability across the market. Standards such as GRI, SASB, Carbon Disclosure (CDP) and TCFD provide banks with guidelines to disclose their impacts on ESG issues, as well as the consequences of ESG issues on their performance.

Finding

Most of the banks assessed have adopted or are implementing voluntary reporting standards.

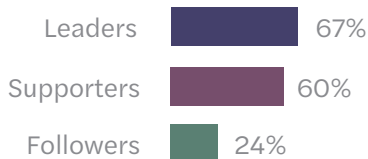
Best practice

63%

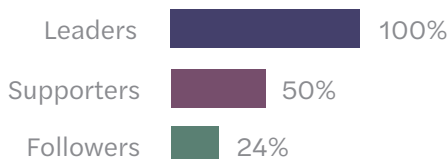
of the banks assessed follow GRI reporting standards.

Leading practice

2 out of 3 **leaders** disclose according to more than one reporting standard (GRI, CDP, TCFD...)



100% of **leaders** have initiated an alignment with TCFD recommendations



Examples of leading practices

- **Reporting standards:**
 - The bank's ESG Report provides additional information on key non-financial topics and forms part of the Annual Report. The report has been prepared in accordance with GRI Standards. The bank is also working to enhance its reporting on environmental matters, in line with the recommendations of the TCFD.
 - The bank conducts an annual internal process to identify issues that are material to our stakeholders and our business as defined by the GRI Standards.
 - The bank supports the CDP, as an investor member as well as a questionnaire respondent, in their aim to improve company disclosure of risks and opportunities related to natural resources.

For more details on climate-related disclosures, please refer to our report [“How banks are responding to the financial risks of climate change”](#), May 2020.

Benchmark study results

ESG frameworks, initiatives and targets

International and local frameworks provide guidance and global targets upon which banks can tailor their strategy, e.g. Paris Agreement, United Nations SDGs¹. Also, participation in working groups helps facilitate knowledge-sharing and collaboration on sustainability initiatives, e.g. International Finance Corporation (IFC) Sustainable Banking Network, Katowice Commitment.

Finding

Most of the banks assessed support sustainability frameworks and have launched CSR initiatives.

However, defining SMART targets is not a common practice yet.

Best practice

27%

of the banks assessed have set SMART socioeconomic targets in line with sustainability frameworks.

Leading practice

100% of **leaders, supporters** and **followers** have launched CSR initiatives



Examples of leading practices

- **Working Groups:** The bank participates in Climate Action 100², an investor-led initiative encouraging firms to reduce emissions.
- **SDG alignment:** The bank supports the four SDGs where the bank can achieve the greatest impact, based on the risks and strengths identified in the business impact assessment.
- **Economic targets:** The bank provides 'last mile' payments to SMEs between point-of-sale and cash collection in all markets.
- **Social targets:** The bank targets a minimum Gender Equality Index score of 75% by promoting more women to management positions.
- **Environmental targets:** The bank aims to raise 100bn euros via green bond issues by end of 2020.

100% of **leaders** have set SMART environmental targets



¹ United Nations, Sustainable Development Goals: <https://sustainabledevelopment.un.org/?menu=1300>

² Climate Action 100+: <http://www.climateaction100.org/>

Benchmark study results

Responsible investment

The PRI defines responsible investment as a strategy and practice to incorporate ESG factors in investment decisions and active ownership¹.

Responsible products and services vary considerably by region, level of development, market and industry structure, as well as by customer preferences. In light of clients’ growing awareness for ESG factors, financial institutions have recognised the need to adapt and grow their responsible products and services range to address these issues.

Finding

Most of the banks assessed currently offer a wide range of environmentally responsible products, but have yet to develop a product offering that addresses socioeconomic issues to a similar extent.

Best practice

43%

of the banks assessed offer socially responsible investment products.

Examples of leading practices

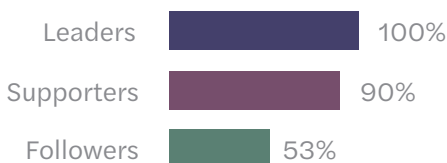
- **Economic products:** “... funding to community partners to empower entrepreneurs and small business owners with business development support and training..”
- **Social bonds:** “Social corporate financing, provided to customers that undertake more than 80% of their activities in social sectors – according to the Social Bond Principles: health, education, community support, social housing and sustainable agribusiness.”
- **Sustainability-linked loans:** “... Solutions include sustainability-linked loans (SLL), whose interest rates are linked to the achievement of Sustainable Development Goals or environmental and social criteria...”

Leading practice

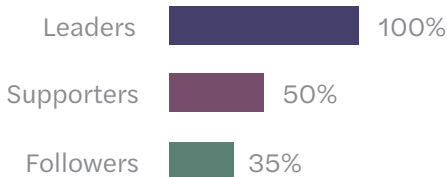
100% of **leaders, supporters** and **followers** offer environmentally responsible products to their clients



100% of **leaders** offer favourable financing terms for SMEs



100% of **leaders** propose socially responsible lending and savings



¹ <https://www.unpri.org/pri/an-introduction-to-responsible-investment>

This report was produced by

Leila Kamdem-Fotso

Partner

Virginie Mennesson,

Director, Head of Regulatory Affairs

Cecile Rigault

Manager

Laure Dall'ava

Senior consultant

Benjamin Taylor

Junior consultant

Contacts

Leila Kamden-Fotso

Partner, Mazars

+44 (0)7557 033 694

leila.kamden-fotso@mazars.co.uk

Mazars is an internationally integrated partnership, specialising in audit, accountancy, advisory, tax and legal services*. Operating in over 90 countries and territories around the world, we draw on the expertise of 40,400 professionals – 24,400 in Mazars' integrated partnership and 16,000 via the Mazars North America Alliance – to assist clients of all sizes at every stage in their development.

*where permitted under applicable country laws

www.mazars.com

mazars