Why SDGs matter to the banking industry

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Content overview

- Why Sustainability is important for banks; what do banks say themselves?
- How do they report?
  - Approaches used by banks to identify key material topics to report on
- What are the key sustainability topics
- How do they report on key topics?
  - Environmental topics
  - Social topics
  - SDGs

DISCLAIMER

The objective of this document is to provide an indicative impression on how the banking sector is currently reporting on their sustainability topics. Please consider the following:

- A sample of 10 publicly available sustainability reports has been assessed
- Companies range from Small Medium Enterprises to Multi National Enterprises
- Reports assessed include GRI Standards, G4 Guidelines and non GRI reports

The content of this document does not reflect the opinion of GRI and should not be seen as an endorsement of best practices of sustainability reporting.

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Who We Are

We are an international independent organization that has pioneered sustainability reporting for two decades.

DRIVING GLOBAL CHANGE SINCE 1997

Our Work

We help businesses and governments understand and communicate their impact on critical sustainability issues.

Our Vision

A thriving global community that lifts humanity and enhances the resources on which all life depends.

Our Mission

To empower decisions that create social, environmental and economic benefits for everyone.

GRI Standards

GRI Standards are a set of interrelated reporting standards, enabling organizations to report publicly on their economic, environmental and social impacts and contribution towards sustainable development.

The GRI Standards represent global best practice for reporting sustainability information – enhancing its comparability and quality.

Development of the GRI Standards

The GRI Standards were developed and issued by the Global Sustainability Standards Board (GSSB) – GRI's dedicated standard-setting body, following the GSSB's Due Process Protocol. This ensures:

Multi-stakeholder input throughout the process (public consultation period plus in-depth stakeholder workshops around the world)

Full transparency: all GSSB standard-setting meetings and all materials are open to the public

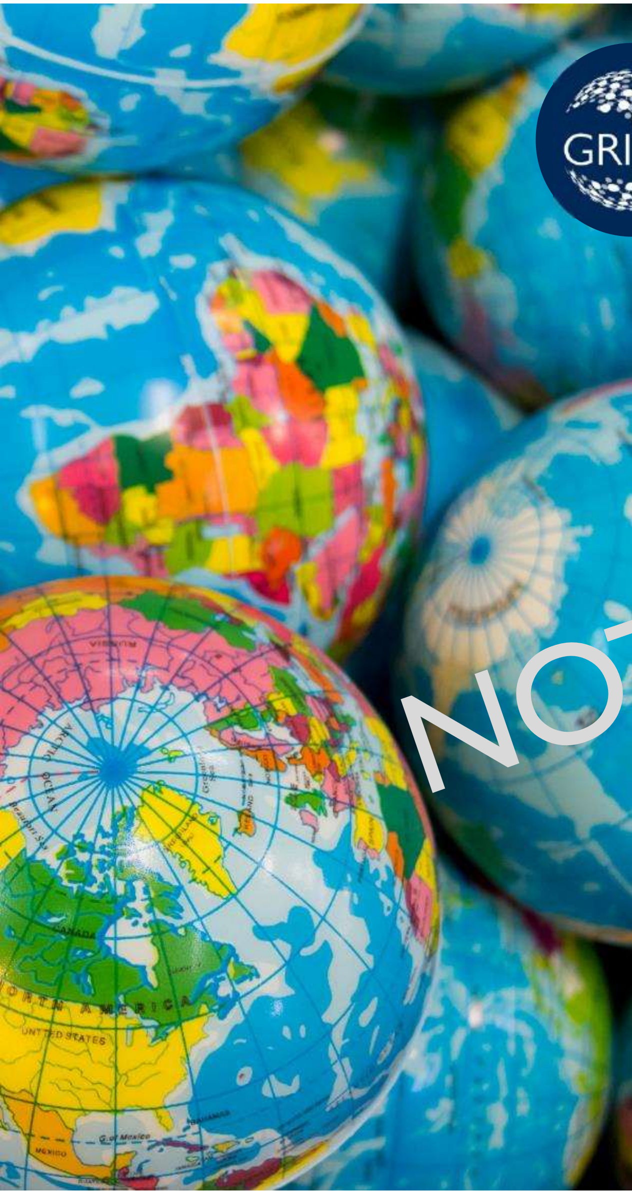
Learn more:
globalreporting.org/standards

Governmental Partners and Programs

- Australian government - Department of Foreign Affairs and Trade (DFAT)
- Norway
  Norwegian Ministry of Foreign Affairs (MFA)
- Sweden
  Swedish International Development Cooperation Agency (Sida)
- Swiss Confederation
  State Secretariat for Economic Affairs (SECO)
- The United Kingdom
  UK Department for International Development (DFID)

Reports included

- Santader, Sustainability Report 2017
- Itau Unibanco, Consolidated Annual Report 2017
- BNP Paribas, Registration Document and Annual Financial Report 2016
- Deutsche Bank, Sustainability Report 2017
- JPMorgan Chase & Co., Environmental Social and Governance Report 2017
- HSBC Group, Sustainability Report 2016
- Citi, Sustainability Report 2017
- Triodos bank, Annual report 2017
- Commercial Bank of Ceylon (Sri Lanka), Annual report 2017
- DBS, Annual Report 2017



Asia and the Pacific SDG Progress Report 2019

On its current trajectory, Asia and the Pacific will not achieve any of the 17 Sustainable Development Goals (SDGs) by 2030.

Little progress has been made on the following:

- Ending hunger (Goal 2),
- Supporting industry, innovation and infrastructure (Goal 9)
- Reducing inequalities (Goal 10),
- Building sustainable cities and communities (Goal 11)
- Combating climate change (Goal 13),
- Protecting life below water (Goal 14) and life on land (Goal 15)
- Supporting peace, justice and strong institutions (Goal 16).

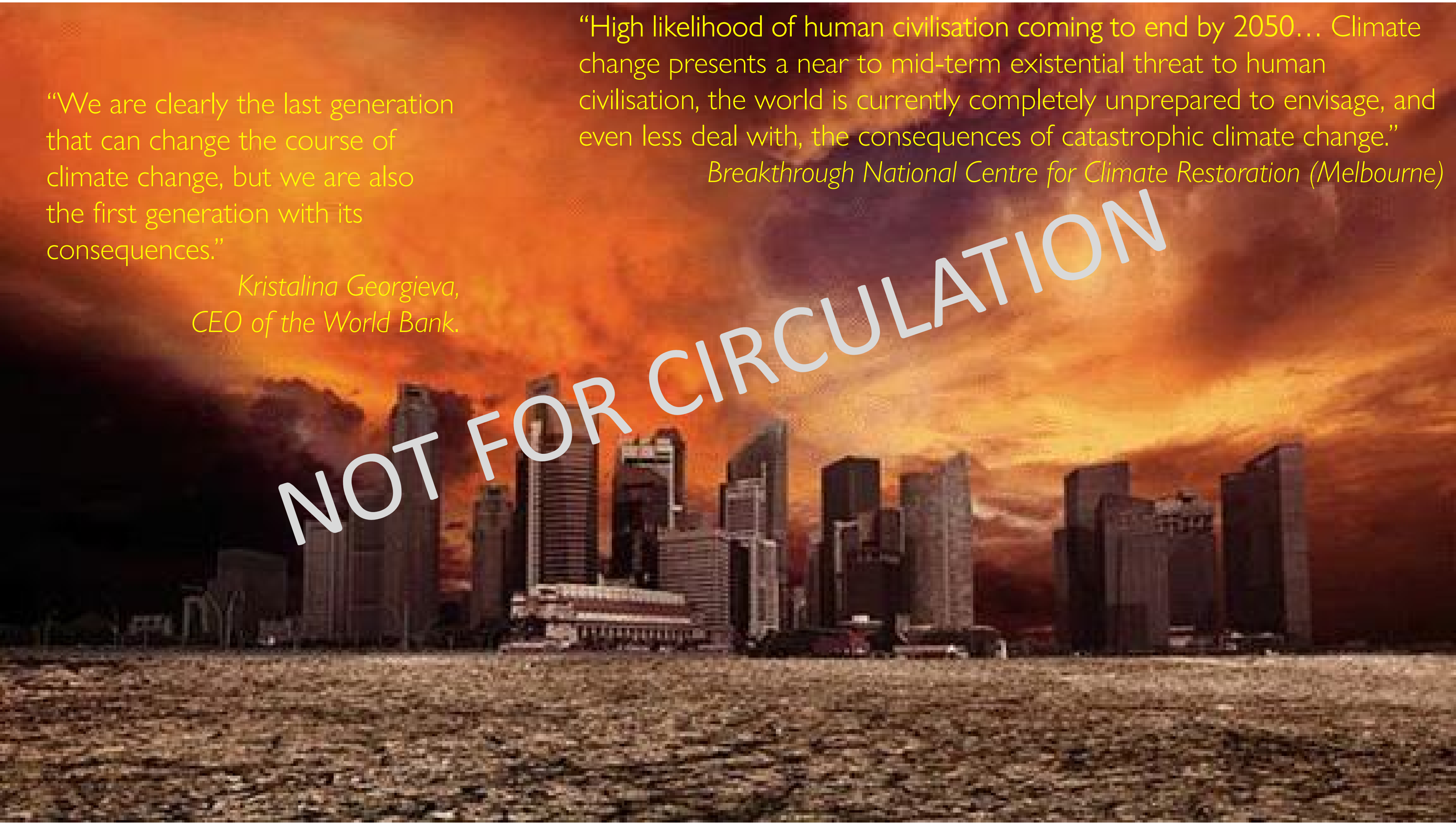
Negative trends have been registered on the following:

- Clean water and sanitation (Goal 6)
- Ensuring decent work and economic growth (Goal 8)
- Supporting responsible consumption and production (Goal 12).

The Economic and Social Commission for Asia and the Pacific (ESCAP)

Sustainability challenges





"High likelihood of human civilisation coming to end by 2050… Climate change presents a near to mid-term existential threat to human civilisation, the world is currently completely unprepared to envisage, and even less deal with, the consequences of catastrophic climate change."
Breakthrough National Centre for Climate Restoration (Melbourne)
"We are clearly the last generation that can change the course of climate change, but we are also the first generation with its consequences."
Kristalina Georgieva,
CEO of the World Bank.

How do banks contribute to environmental and social crises?

A report published today names the banks that have played the biggest recent role in funding fossil fuel projects, finding that since 2016, immediately following the Paris Agreement's adoption, 33 global banks have poured $1.9 trillion into financing climate-changing projects worldwide.

The top four banks that invested most heavily in fossil fuel projects are all based in the U.S., and include JPMorgan Chase, Wells Fargo, Citi, and Bank of America. Royal Bank of Canada, Barclays in Europe, Japan's MUFG, TD Bank, Scotiabank, and Mizuho make up the remainder of the top 10.

'Funding Polluters'

MMENTS

By Ida Karlsson, originally appeared on IPS

RUSSELS, Jul 4 2013 (IPS) – The European Investment Bank, th
nstitutional bank in the world, is facing criticism for its funding of

Vanguard's quarter-tril

CANBERRA — Even as the impacts of climate change are increasingly felt worldwide, coal plants, gas pipelines, and other non-renewable energy projects continue to receive vast sums of funding from the world's biggest development banks. For many, the financing of non-renewables is an issue that needs to be addressed by development and humanitarian sectors — both within developing and donor countries.

by JPMorgan Chase, Invested $1.9 Trillion in Paris Climate Pact

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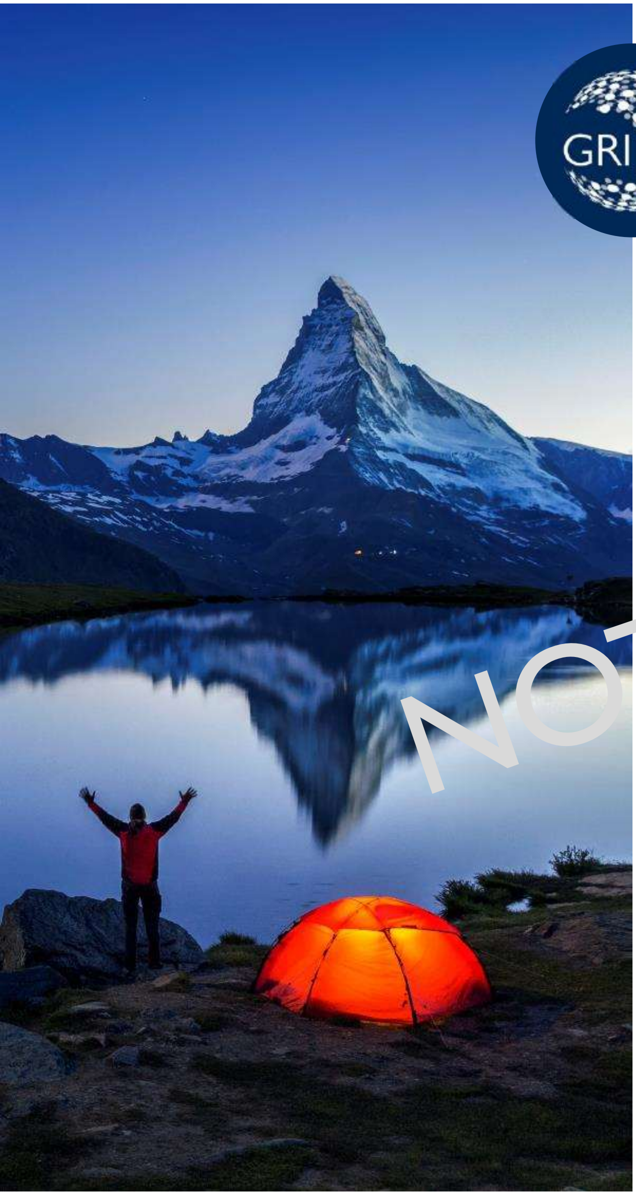
Read time: 6 mins

INSIDE DEVELOPMENT | ENERGY

Financing dirty energy: Development's next big political challenge

*By **Lisa Cornish** // 28 May 2018*

role funding carbon polluters



“Banks funding fossil fuels”*

- Financing for extreme fossil fuels (those dirtier, more dangerous and higher-polluting than standard fossil fuels, like tar sands and coal) increased to $115 billion in 2017. There was an $11 billion increase in bank financing in 2018 from $22 billion decrease the year before.
- The rise was largely due to a financial injection of $98 billion by banks into the tar sands sector – a 111% increase from 2017. The tar sand industry commonly uses surface mining to extract bitumen, which is refined into gasoline. According to the Union of Concerned Scientists, a gallon of gasoline made from tar sands produces about 15% more carbon dioxide emissions on a lifetime basis than one made from conventional oil.
- While JP Morgan Chase lists sustainability goals on its website, the bank was one of the biggest backers of tar oil in 2017 and increased their extreme fossil fuel financing overall by $4 billion.
- Goldman Sachs was one of the biggest western backers of coal mining, In 2017 the bank increased their extreme fossil fuel financing by $1.2 billion.

**Banking On Climate Change, an international finance report researched by leading environmental organizations*

Why should banks care about sustainability?

Why should banks care: regulatory requirement

- SEC MC No. 4 s. 2019 Sustainability reporting guidance for publicly-listed companies, starting April 2020.
- "The BSP is cognizant that environment and social risks post financial stability concerns that may have protracted effects [on] the economy….The financial system in the country is an important stakeholder in driving investments to activities that will promote sustainable, environment-friendly and disaster-proof activities in the country." *BSP Deputy Governor Chuchi Fonacier*
- The BSP is currently working on a two-pronged approach in creating an environment for banks that is friendly to sustainable financing, by particularly focusing on banks' capacity building and by mainstreaming environmental, social and governance (ESG) standards for banks' overall operations.

'Climate value at risk' of global financial assets*

- An expected US$2.5 trillion of the world's financial assets, are at risk from the impacts of climate change if global mean surface temperature is expected to rise by 2.5°C by 2100.
- Climate change will affect all sectors of the economy, and is relevant to investors and financial institutions.
- There are risks and opportunities associated with policy measures directed at reducing greenhouse gas (GHG) emissions.
- Physical impacts of climate change will affect assets and investments.
- There will be significant demand for capital, with governments looking to the private sector to provide much of it.

**paper by Simon Dietz, Alex Bowen, Charlie Dixon and Philip Gradwell published in Nature Climate Change Journal*

Why is it important to know the impact of climate change on asset values?

- Levels of awareness about climate change remain low in the financial sector as a whole
- Institutional investors, notably pension funds, have been at the forefront in this area.
- The possibility that climate change will reduce the long-term returns on investments makes it a matter of fiduciary duty towards fund beneficiaries, which is why it is not unusual to see pension funds advocating significant emissions reductions.

A message to the S&P 500 companies and Europe's largest corporations

"Focus more on long-term value creation rather than short-term dividend payouts; be open and transparent about growth plans; and focus on environmental, social and governance factors because they have "real and quantifiable financial impacts." – Laurence Fink, Chairman and CEO of BlackRock

Investors see long-term financial benefits in companies with high ESG ratings

Survey of investors, EY 2017

92% agrees

Over the long term, ESG issues — ranging from climate change to diversity to board effectiveness — have real and quantifiable impacts. For example through reputational risks, climate related events and new regulations.

89% agrees

Generating sustainable returns over time requires a sharper focus not only on governance, but also on environmental and social factors

82% agrees

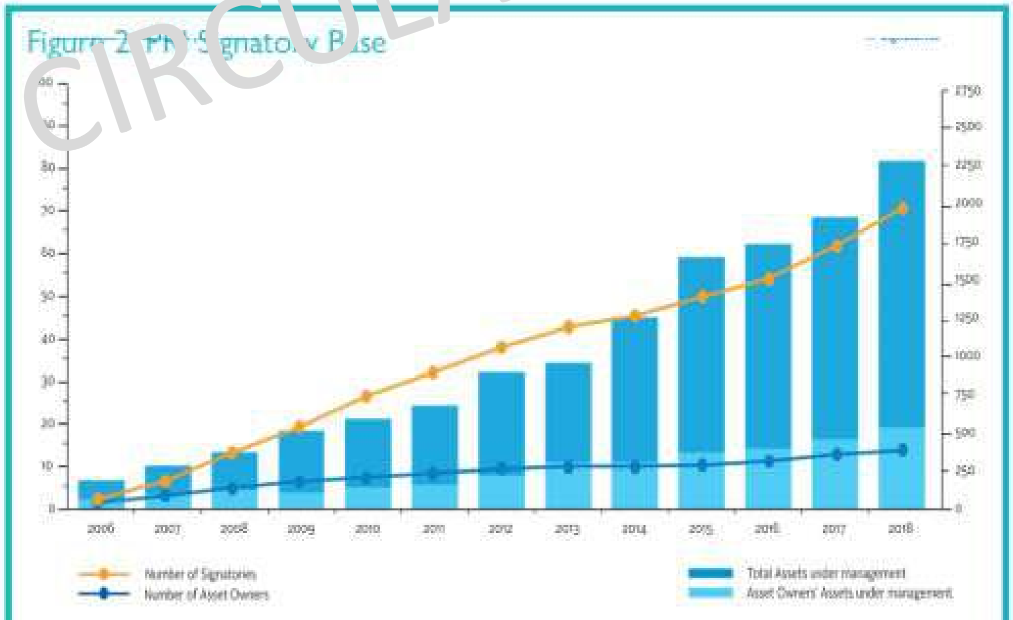
Environmental and social issues offer both risks and opportunities, but for too long, companies have not considered them core to their businesses

The increasing interest in sustainable development and investment

Commitment and Action

$22.5 Trillion

The total amount of assets that are managed under responsible investment strategies in 2016, up 25% from 2014. Just over a quarter of all AUM globally. (GSIA, 2016)



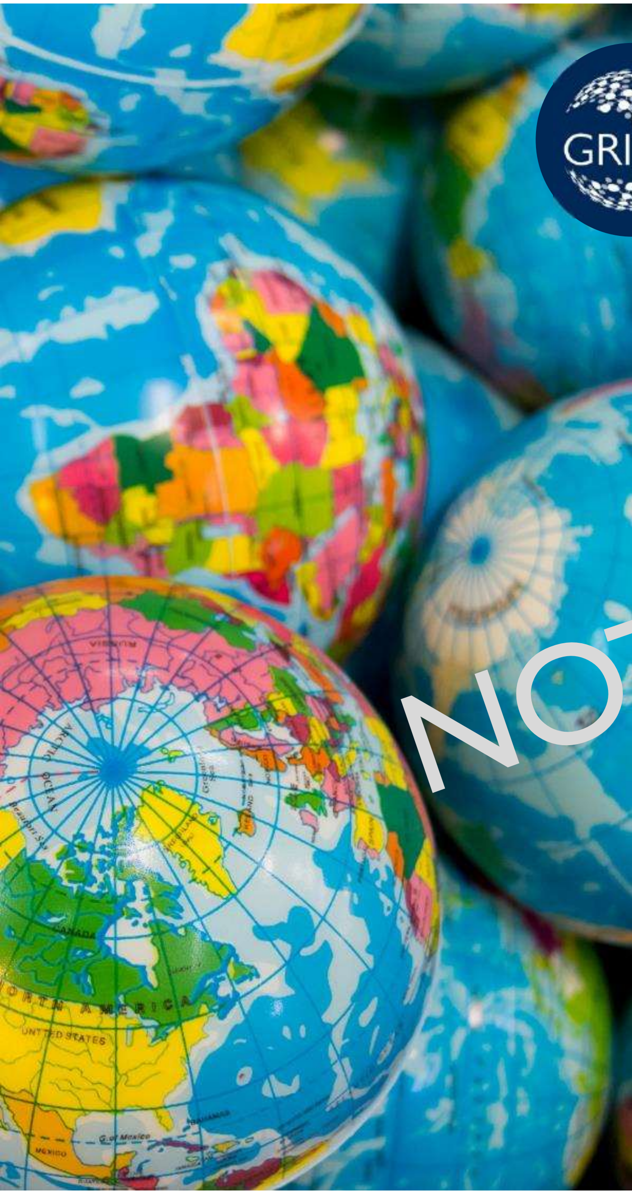
Source: PRI

Why do investors care?

- ESG investments have been outperforming conventional benchmarks over the last years
- Investors better understand that climate change can bring additional risks, related to for example increases in extreme weather events or new regulations.
- Investor need to know how a company is addressing their impacts and risks:
    - Climate change
    - Pollution
    - Working conditions
    - Corruption
    - Gender diversity

What is the role of banks in driving sustainable development in the Philippines?

Sustainable Development Goals



Contributing to the SDGs

Responsibility for Banks: 2 non-exclusive focus points

1. Contributing to the SDGS by ensuring that your business operates in a sustainable way

2. Contributing to the SDGs through your investment portfolio and innovative products and services

Importance of sustainability for banks

CEO letter, Santander 2017

What makes a truly successful business? For me, the answer is simple. It's a business that recognises it has a responsibility to its employees, customers, shareholders and the wider community - everyone who has a stake in the business, or is touched by its activities in some way. It's a business that understands its purpose is more than making a profit: it has a clear sense of how, by making a profit, it benefits society as a whole, today and for generations to come.– Santander, 2017

Source: 2017 Sustainability report, Santander

Summary: What do banks report on?

GRI reviewed sustainability reports issued by the financial sector and on the basis of this analysis we identified the following top 15 of most frequently reported disclosures of the GRI Standards

Environmental topics

- (6) 305-1 Direct (Scope 1) GHG emissions
- (7) 302-3 Energy intensity

Social topics

- (1) 417-2 Incidents of non-compliance concerning product and service information and labeling
- (3) 404-2 Programs for upgrading employee skills and transition assistance programs
- (4) 404-1 Average hours of training per year per employee
- (5) 401-1 New employee hires and employee turnover
- (9) 403-4 Health and safety topics covered in formal agreements with trade unions
- (11) 401-2 Benefits provided to full-time employees that are not provided to temporary or part-time employees
- (12) 413-2 Operations with significant actual and potential negative impacts on local communities
- (13) 403-1 Workers representation in formal joint management–worker health and safety committees
- (15) 416-2 Incidents of non-compliance concerning the health and safety impacts of products and services

Economic topics

- (2) 205-1 Operations assessed for risks related to corruption
- (8) 201-2 Financial implications and other risks and opportunities due to climate change
- (10) 205-2 Communication and training about anti-corruption policies and procedures
- (14) 201-1 Direct economic value generated and distributed

Note this information originates from GRI's Benchmarking Tool which looks at how companies reported using G4. The G4 Disclosures were "converted" using the by GRI Developed Mapping G4 to the Gri Standards tool

What is needed to achieve the SDGs?

Your investment portfolio → Financing the SDGs

Estimated $5 to $7 trillion annually needed to achieve the SDGs – UNCTAD

50-80% funding by domestic governments – World Bank

Financial industry – World Bank

Controversy financial sector

"The role of the financial sector, however, is ambivalent as investors contribute, sometimes even at the same time, to both the causes of sustainability problems as well as to the solution to these problems through a variety of different investment and lending practices" - CIGI 2018

Market opportunity

Financing the SDGs

Core themes for banking according to UNEP FI:

- Climate Risk & Performance
  - *Support and catalyze the transition to the low-carbon economy by mobilising and convening institutional investors committed to gradually restructuring their portfolios accordingly*
  - *Committing to enhance energy efficiency financing activities. According to the International Energy Agency, energy efficiency accounts for 49% of the measures needed to stay in line with a 2°C degrees scenario globally (and 56 % in G20 countries).*
- Natural Capital Risk & Valuation
  - *Ecosystems management – includes all areas of natural capital (biodiversity, ecosystem services, sustainable land use and water issues)*
  - *Removing deforestation from soft commodity supply chains*
  - *Innovative solutions to give agricultural smallholderes access to finance*
- Banking & Human Rights
- Positive impact – impact based financing
- Training and professional development

Financial products and services addressing the SDGs

Centre for International Governance Innovation

SDG	Products and Services
1. No poverty	Private international development finance through impact investing
2. Zero hunger	Microfinance for smallholder farmers
3. Good health and well-being	Health-care investments
4. Quality education	Philanthropic donations to schools
5. Gender equality	Microfinance and lending to women and female entrepreneurs
6 Clean water and sanitation	Socially responsible mutual funds investing in water
7 Affordable and clean energy	Renewable energy investment
8 Decent work and economic growth	General investments into the real economy
9 Industry innovation and infrastructure	Project finance and commercial lending integrating social and environmental criteria for lending decisions
10 Reduced inequalities	Fair payment of financial sector employees
11 Sustainable cities and communities	Mortgage lending
12 Responsible consumption and production	Socially responsible investing
13 Climate action`	Climate finance
14 Life below water	Financing ecological services
15 Life on land	Financing ecological services
16 Peace, justice and strong institutions	Lending to public institutions

Source: PWC, 2018

Top 5 SDGs for the financial sector

1 — SDG 13: Take urgent action to combat climate change and its impacts

2 — SDG 8: Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all

3 — SDG 4: Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all

4 — SDG 5: Achieve gender equality and empower all women and girls

5 — SDG 3: Ensure healthy lives and promote well-being for all at all ages
SDG 11: Make cities and human settlements inclusive, safe, resilient and sustainable