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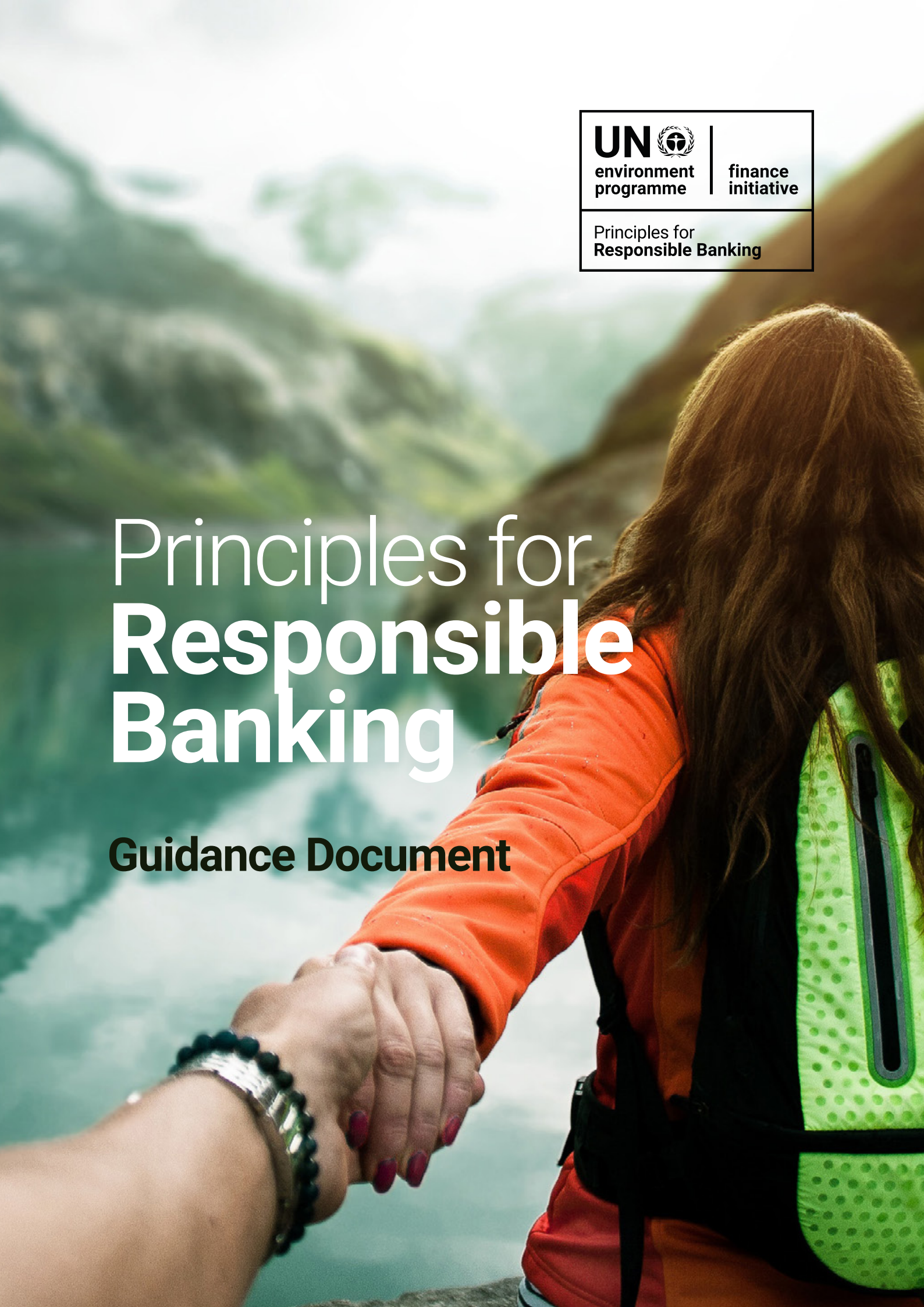


finance  
initiative

Principles for  
**Responsible Banking**

# Principles for **Responsible Banking**

**Guidance Document**



## Acknowledgments

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# Introduction to this Guidance Document

The Principles for Responsible Banking and their mechanisms for implementation and accountability are captured in three primary documents: [The Principles Signature Document](#), [the Key Steps to be Implemented by Signatories](#), and [the Reporting and Self-Assessment Template](#). These are referred to as the Principles for Responsible Banking Framework Documents.

The purpose of this Guidance Document is to support the implementation of the Principles by providing non-binding guidance to banks on measures they can take to implement each Principle.<sup>1</sup>

Each section of the document begins with the Principle, an introductory paragraph that sets out the intention of the Principle and a summary of what the Principle requires from a signatory. This is followed by suggested measures banks can employ to implement each Principle, key resources banks can use, and examples that provide some concrete ideas.

The document ends with a high-level example of what implementation of the Principles could look like in the first four years.

**See pages 42–47**



This Guidance Document will be updated periodically to include resources that offer practical guidance on implementing the Principles. In addition to the support provided in this document, signatories will benefit from an annual feedback and support meeting with the UNEP FI Secretariat. As UNEP FI members, signatories to these Principles can join bank-led working groups and have access to a wealth of support, tools, expertise and peer learning.

<sup>1</sup> The suggestions provided in this document are general in nature and do not take into account any specific institution's circumstances. Nothing in this document should be read or construed to imply that any bank is obliged to act contrary to any applicable law, regulation or rule, or contrary to its internal governance framework.

# Principle 1: Alignment

**We will align our business strategy to be consistent with and contribute to individuals' needs and society's goals, as expressed in the Sustainable Development Goals, the Paris Climate Agreement and relevant national and regional frameworks.**

**Strategic alignment** means gearing a bank's business strategy towards being consistent with, and contributing to, the [Sustainable Development Goals](#) (SDGs),<sup>2</sup> the [Paris Climate Agreement](#) and other relevant national, regional or international frameworks, such as the [UN Guiding Principles on Business and Human Rights](#), **where a bank is best positioned to do so through its business**. These frameworks articulate globally agreed goals and challenges for building a more **sustainable future**. By aligning its strategy with society's goals, the bank shows that its business, and the products and services it provides, can support a sustainable future while achieving long-term business benefits. It signals that the bank accepts its **shared responsibility** for shaping and securing our future.

The **SDGs and the Paris Climate Agreement** identify the most pressing societal, environmental and economic needs of our time. Banks have a pivotal role to play in enabling them to be delivered. While the SDGs and the Paris Climate Agreement are directed at governments, they are underpinned by a series of specific targets and programme areas where banks can make substantial contributions and, by doing so, align themselves clearly with the needs of society, their countries, clients and customers.

## Principle 1: Requirements set out in the Framework Documents

In line with the Principles for Responsible Banking Framework Documents, banks are required to describe how they are aligning their business strategy with the SDGs, Paris Climate Agreement, and other frameworks that are most relevant to their operating contexts. The bank's business strategy may be articulated in one or across several of its strategy documents. What should be clear is how the bank intends to contribute towards the achievement of the SDGs, the Paris Climate Agreement and other relevant national, regional or international frameworks.

### How your bank can work towards Principle 1

- Ensure that your bank, notably the Board and appropriate departments and committees, including those that deal with strategy, have a comprehensive understanding of

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<sup>2</sup> Report "Business Reporting on the SDGs: An Analysis of the Goals and Targets", by UN Global Compact, GRI and PWC; "Rethinking Impact to Finance the SDGs" by UNEP FI's Positive Impact Initiative.

the [SDGs](#), [the Paris Climate Agreement](#), the [UN Guiding Principles on Business and Human Rights](#) and other relevant national, regional or international frameworks that are relevant to your bank, and how your bank, through its business, can contribute to these frameworks.

- Management and Board commitment is crucial to aligning your business strategy (see detailed guidance under Principle 5).
- Identify and focus on the social and environmental issues that are most relevant. A proper impact analysis (Principle 2) should enable you to identify your areas of most significant impact. This may require focusing on specific targets and indicators underlying the SDGs, the Paris Agreement and/or other national, regional and international frameworks.
- Use climate targets and SDGs as a framework to evaluate and adapt your bank's value creation model and strategy:
  - Assess current misalignment with the SDGs and the Paris Climate Agreement as well as all relevant international frameworks (such as e.g. the UN Guiding Principles on Business and Human Rights) and relevant regional/national frameworks.
  - Identify where your bank can contribute to society's goals and seize business opportunities at the same time.
- Integrate the SDGs, the Paris Climate Agreement and other relevant national, regional or international frameworks explicitly into your business strategy, core banking processes (such as lending, investment, risk management etc.) and business decisions, including your product development and capital allocation decisions.
- Regularly consult and engage with relevant stakeholders to ensure full understanding of their expectations and their relevant ideas and suggestions, with an aim to further increase your contribution to society's goals (see Principle 4).

## Some key resources

### Core documents:

- [Sustainable development goals \(SDGs\)](#): they recognize that ending poverty and other deprivations must go hand-in-hand with strategies that improve health and education, reduce inequality, and spur economic growth—all while tackling climate change and working to preserve our oceans and forests. The [SDG Compass](#) is a tool developed by GRI, the UN Global Compact and the World Business Council for Sustainable Development (WBCSD), which provides guidance for companies on how they can align their strategies with the SDGs, and measure and manage their contribution towards realizing them.
- [Paris Agreement](#): its goal is to limit global warming to well below 2°C, preferably to 1.5 degrees Celsius, compared to pre-industrial levels. It provides a framework for financial, technical and capacity building support to enable the necessary economic and social transformation, based on the best available science. This is backed by numerous reports explaining the science, such as the [IPCC's Special Report on 1.5 degrees](#), which highlights the importance of net zero by 2050 to limit warming below 1.5°C, the [IPCC's Sixth Assessment Report](#), which refers to latest science, and [UNEP's Emissions Gap report](#).

- [UN Guiding Principles on Business and Human Rights](#): these are the globally recognized and authoritative framework for the respective duties and responsibilities of Governments and business enterprises to prevent and address adverse impacts on people resulting from business activities in all sectors, including the banking sector. To meet their responsibility to respect human rights, banks are required to exercise human rights due diligence to identify, prevent, mitigate and account for how they address impacts on human rights; and provide remediation for adverse impacts, which the enterprise has caused or contributed to. The [UN Office of the High Commissioner for Human Rights](#), the [UN Working Group on Business and Human Rights](#), and the [OECD](#) provide Guidance on the implementation of the UN Guiding Principles. The online [Business and Human Rights](#) offers a useful compendium of guidance documents and tools.

### Other key frameworks:

- [Addis Ababa Action Agenda \(AAAA\)](#): this is the key international agreement that provides a global framework for financing sustainable development, by setting out the role of private finance and business in achieving the sustainable development goals, including specifically banking.
- [Rules of the Game: A brief introduction to International Labour Standards](#): the Standards will help banks better understand the ILO Conventions and Recommendations, and how international labour standards are applied and supervised. They provide clear rules to ensure that economic progress occurs together with social justice, prosperity, and peace for all.
- [IFC Operating Principles for Impact Management](#): Impact investing has emerged as a significant opportunity to mobilize both public and private capital into investments that target measurable positive social, economic or environmental impact alongside financial returns. The objective is to establish a common discipline and market consensus around the management of investments for impact and help shape and develop this nascent market.

### Climate-specific resources:

- [Nationally Determined Commitments \(NDCs\)](#): to translate their commitment under the Paris Climate Agreement into national targets, plans and priorities, countries have published NDCs. This provides a valuable starting point for banks wishing to understand the local priorities and the scale of action required at country level.
  - Where NDCs are not yet fully in line with the level of CO<sub>2</sub> reduction required to keep global warming well below two degrees, banks can consult available “2 or 1.5°C scenarios” developed by institutions such as the International Energy Agency (IEA), the Potsdam Institute for Climate Impact Research (PIK) and the International Institute for Applied Systems Analysis (IIASA).<sup>3</sup>

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<sup>3</sup> Please refer to the [Guidelines for Climate Target Setting for Banks](#) for guidance on which scenarios are appropriate.

- The [EU Action Plan on sustainable finance](#): this framework supports the goal of the EU to support the flow of private finance towards sustainable economic activities to make the transition to a carbon neutral economy by 2050 possible. Since the plan's launch in 2018, the EU has established the building blocks underpinning the strategy, including the [EU Taxonomy](#), the [Sustainable Finance Disclosure Regulation \(SFDR\)](#), the [Corporate Sustainability Reporting Directive \(CSRD\)](#) and the [European Green Bond Standard \(EUGBS\)](#).
- [Testing the application of the EU Taxonomy to core banking products](#): High level recommendations: this report shares key insights from the information collected, including case studies and subsequent discussions between participating banks, focusing on the benefits and challenges experienced by banks whilst also proposing high level principles to follow in order to apply the EU Taxonomy to retail banking, SME lending and corporate banking, including trade, export and project finance.
- [Principles for Mainstreaming Climate Change](#): a large coalition of the world's leading financial institutions have signed the five voluntary Principles, which support and guide financial institutions in the process of adapting to and promoting climate smart development. They were launched in 2015 under the umbrella of the World Bank.
- [Bank 2030: Accelerating the transition to a low carbon economy](#) (CISL) outlines a curve of change for the banking sector characterised by three stages: banking-as-usual, the transition zone and the zone of institutionalisation. Each stage has its own distinguishing features. The report details how, as they move along the curve, banks can help to transform the economy to a low carbon one by 2030. Many of the main ESG rating agencies and data providers (e.g., MSCI, ISS Oekom, Sustainalytics, RobecoSam, Vigéo Eiris, Ethifinance, etc.) use the SDGs as a reference to assess the sustainability performance of corporates and financial institutions. Their questionnaires and methodologies can be a valuable source of guidance and inspiration to banks that wish to align their business strategies with the SDGs.



# Examples

## a. Integrating Human Rights into business strategy

A major Australian bank sets out how they can serve customers, communities and nation, and contribute to solving global challenges through its [Sustainability Strategy](#). The Strategy specifically integrates respect for human rights into its ambitions to 2023. See progress towards these ambitions including Human Rights [here](#). This includes the priority: ‘Helping when it matters most’: helping individuals and businesses build strong financial futures and navigate times of change, providing extra support for customers experiencing hardship. Another priority focuses on ‘Collaborating for impact’: this recognises that finance has a central role to play in addressing the biggest challenges facing our world. The bank does so by respecting human rights and amplifying Indigenous voices, and supporting the transition to a climate resilient future.

The bank’s [Human Rights Position Statement and 2023 Action Plan](#) sets out the principles that guide the bank’s approach and commits to 19 actions to more deeply embed respect for human rights into business and business relationships in line with the UN Guiding Principles on Business and Human Rights.

## b. A European Founding Bank’s climate strategy

This commercial bank, recognizing that it has a crucial role to play in financing the transition to a low carbon economy, has developed a comprehensive [climate strategy](#). This integrated approach to climate action is about steering this bank’s portfolio to achieve net zero by 2050 or sooner, providing green financing and advice to clients, and managing climate risk, also recognising that other areas benefit from and contribute to tackling climate change, such as human rights, biodiversity and the circular economy. It developed the [Terra approach](#), which is an open and transparent way to steer its lending portfolio towards keeping the rise in global temperatures to a maximum of 1.5 degrees Celsius, using science-based scenarios, and considering the technology shift needed across certain sectors to follow that path, supported by a toolbox of sector-specific methodologies. The bank will focus on the sectors in its loan book that are responsible for most greenhouse gas emissions, which include energy, automotive, shipping and aviation, steel, cement, residential mortgages and commercial real estate. Its own operations have been carbon neutral since 2007 (i.e. reducing and offsetting the GHG emissions arising from its buildings and transportation), with an ambition to reach net zero.

### c. The SDGs and Islamic Banking

As a responsible Islamic financial institution, a founding bank embraces the principles of value-based intermediation (VBI) to deliver the intended outcomes of Shariah through practices and offerings that generate positive and sustainable impact to the economy, community and environment, consistent with shareholders' expectations of sustainable returns. The VBI principles are reflected in and implemented through various frameworks and initiatives of the bank, in particular the Green, Social, Sustainable Impact Products & Services (GSSIPS) framework which enables the bank to innovate products and services that enable our customers to fulfil their economic, environmental and social aspirations while banking with us. Examples of the bank's impactful programmes and offerings include, among others, its first green Savings Account product, [EcoSave Savings Account](#), [GreenBizReady](#) which provides a one-stop sustainability solution for Malaysian small and medium enterprises looking to start and progress on their sustainability journey, and strategic collaboration with partners to accelerate the growth of Malaysia's green exporters.

# Principle 2: Impact and Target Setting

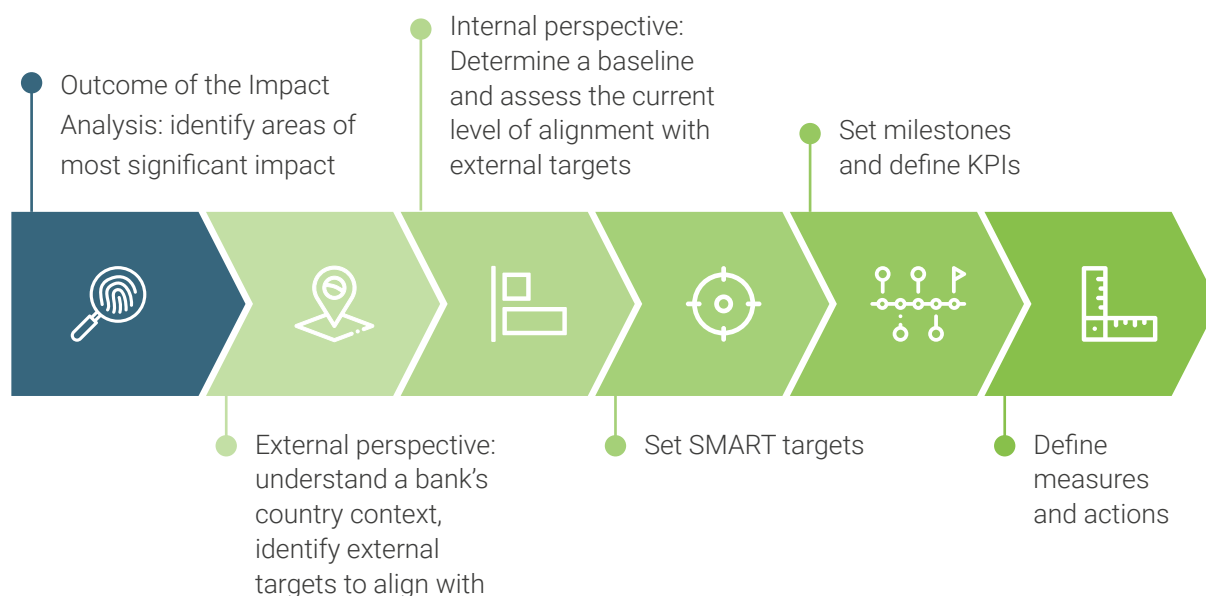
**We will continuously increase our positive impacts while reducing the negative impacts on, and managing the risks to, people and environment resulting from our activities, products and services. To this end, we will set and publish targets where we can have the most significant impacts.**

In the Preamble to these Principles, banks have defined their purpose as helping to develop sustainable economies and to empower people to build better futures. To put this purpose into practice, banks need to **identify, assess and improve the impact on people and environment** resulting from their activities, products and services. For the banks to **continuously increase positive impact while reducing negative impact** on people and environment, they need to incorporate assessment of impacts on all three dimensions of sustainability (environmental, social and economic) into business decision-making at strategic, portfolio and transaction levels. **Setting targets** is an essential component to scaling up banks' contributions to society's goals.

## Principle 2: Requirements set out in the Framework Documents

In line with the Principles for Responsible Banking Framework Documents, this Principle requires banks to undertake an analysis of their impacts on society, the environment and the economy, to identify their most significant impacts and to set a minimum of two targets that address at least two of the identified significant impacts. Your bank's impact analysis should be based on (1) scope: the bank's core business areas, products/services across the main geographies that the bank operates in; (2) scale of exposure: where the bank's core business/major activities lie in terms of industries, technologies and geographies; (3) context and relevance: the most relevant challenges and priorities related to sustainable development in the countries/regions in which it operates; (4) the scale and intensity/salience of (potential) social, economic and environmental impacts resulting from the bank's activities and provision of products and services. The bank should engage with relevant stakeholders, including civil society, to inform aspects of the analysis. See the [Reporting and Self-Assessment Template](#) for more guidance.

Targets may be qualitative or quantitative. The targets, and their level of ambition, should be linked to the SDGs, Paris Climate Agreement and other relevant national (such as the UN Guiding Principles on Human Rights), regional or international frameworks. Banks are required to establish milestones/KPIs for monitoring progress against their targets. When setting and monitoring progress against targets, banks should be conscious of any negative impacts that may result from this process, and should address these if they arise.



Targets should be SMART:

- **Specific:** It should be clear what activity is the subject of the targets, how the objectives and targets relate to individuals' needs and society's goals, what improvements in performance and in impact are being sought.
- **Measurable:** It should be clear how the baseline performance and impact are being measured or assessed.
- **Achievable:** The targets should be attainable.
- **Relevant:** The targets should focus on, based on the outcomes of the impact analysis, areas where the bank has the greatest impact. They should clearly link to one or more of the Sustainable Development Goals, the Paris Climate Agreement and other relevant national, regional or international frameworks.
- **Time-bound:** It should be clear when the targets are to be met, and the timeframes should be at least as ambitious as those expressed in the Sustainable Development Goals, the Paris Climate Agreement and other relevant national, regional or international frameworks.

## How your bank can work towards Principle 2

### Impact analysis

- Conduct an impact analysis of your bank's significant impacts based on the requirements detailed under (1) scope, (2) scale of exposure, (3) context and relevance, (4) the scale and intensity/salience of impacts. More detailed explanations of the require-

ments for conducting an impact analysis can be found in the Guidance Document on Impact Analysis. UNEP FI has developed [several impact analysis tools](#).

- Undertake a forward-looking assessment that analyses your bank's dependency on nature, and the associated risks. One of the tools available for this is the [ENCORE Tool](#) and the [Finance Sector Supplement to the Natural Capital Protocol](#) (detailed under 'Key resources for biodiversity target-setting' below).
- Assess, monitor and be transparent about your bank's portfolio exposure to technologies, business models and sectors with significant sustainability impacts.
- Develop and publish increasingly quantitative and forward-looking assessments of your bank's positive and negative impacts, and risks and opportunities.
- Based on the outcome of the impact analysis, develop strategies, policies and KPIs to address, reduce and mitigate negative impacts and to realise opportunities to continuously expand and scale up positive impacts, and put in place processes and systems to manage risks, to people and the environment. Actions should include:
  - Integrating the results of the impact analysis into strategy decisions and portfolio-allocation decisions, and defining strategic opportunities to increase positive impact, e.g., by expanding in certain sectors or segments.
  - Defining overarching lending policies (e.g. sectoral) and developing and monitoring KPIs for portfolio adjustments over time to increase positive and reduce significant negative impacts.
  - Establishing management systems and processes (e.g. policies, procedures, monitoring) to identify and manage social and environmental risks and negative impacts. For client analysis, your bank could use the Corporate Impact Analysis Tool to understand the impact profile of its clients, and help them progress on their impact journey (see 'resources for impact analysis').
  - Introducing key questions on sustainability impacts and risks in your bank's know-your-client processes.
  - Integrating environmental and social risk into your bank's overall risk assessment. This could include integrating the TCFD framework into your bank's risk management strategy.
- Build capacity and expertise on sustainability impact and risk as well as their assessment in credit committees, among client relationship managers and other relevant business committees.
- Harness technology to mitigate identified risks, seize opportunities, and enable better monitoring of impacts.
- Invest in innovation and strategic development of new client/customer segments, sectors/technologies and innovative product offerings.

## Target setting

- Once your bank has identified its areas of most significant impact, assess which of those areas should be prioritized, and set targets in those areas.
- It is recommended to show how each target is linked to and how it drives alignment with and greater contribution to appropriate Sustainable Development Goals, the goals of the Paris Agreement, and relevant international, national, or regional frameworks. In setting a long-term target for climate, we recommend considering joining the industry-led, UN-convened Net-Zero Banking Alliance. The Alliance will reinforce,

accelerate, and support the implementation of decarbonization strategies, providing an internationally coherent framework and guidelines in which to operate, supported by peer-learning from pioneering banks.

- Determine the activities or sectors to prioritise, and establish your bank's baseline/starting point in those activities or sectors. Then set SMART targets against the determined baselines.
- Define measures to achieve your bank's targets, such as working with clients and customers (see Principle 3: Clients and Customers), and proactively working to expand/reduce your bank's exposure to certain sectors, etc. Allocate resources and responsibilities to ensure that the targets can be met.
- Set processes to monitor and review progress against the targets, including setting KPIs.
- Analyse whether there are any actual or potential negative impacts associated with your targets (eg. damage to ecosystems, effects on indigenous population) and take corrective precautions or measures to address these.
- Establish mechanisms to periodically review targets with the objective of ratcheting them up over time.
- Frequently report on progress to the Board of Directors and executive team to ensure their buy-in.
- Link internal functions, such as marketing and communication, training, human resources, innovation and compliance to the targets to ensure internal coherence.
- Link the achievement of targets and progress relating to your bank's sustainability objectives to remuneration and incentive systems throughout the organization. Join collective commitments to support your target-setting. PRB Signatories can align with net zero through the Net-Zero Banking Alliance and reinforce their work on financial health and inclusion through the Commitment to Financial Health and Inclusion.

## Some key resources:

### Resources for impact analysis:

- **PRB Guidance** [Guidance Document on Impact Analysis](#): this document provides guidance on how banks can approach their impact analysis. It provides more detailed explanations of the requirements for conducting an impact analysis, as well as practical guidance on what data is required, and the internal and external stakeholders to engage in this process.
- [Portfolio Impact Analysis Tool for Banks](#): this tool is designed to guide banks through an impact analysis of their portfolios. Developed jointly with signatories of the Principles for Responsible Banking and UNEP FI Member Banks, the Tool helps banks analyse the impacts associated with their portfolios. The analysis will enable banks to set targets where it matters in order to drive their contribution to society's goals, as required by the Principles for Responsible Banking.
- [Corporate Impact Analysis Tool](#): this tool helps banks and investors gain a cross-cutting view of the impact status and possibilities of their clients and investee companies. It was developed through a Working Group of banks, investors and service providers. Following the Positive Impact Initiative's unique approach, the Tool enables users to perform a holistic analysis of companies, based on the reality of those companies' business activities and the needs of the countries in which they operate, whether for sourcing, production or sales.

- [UNEP FI Human Rights Guidance Tool for the Financial Sector](#): this provides financial practitioners with information on human rights risks, specifically focusing on human rights issues relevant to the assessment of business relationships and transactions. This tool assists finance sector professionals to identify human rights risk and possible risk mitigation measures, as particularly relevant for lending operations. It also contains references to existing human rights standards, banking practice and further resources to help practitioners operationalize human rights due diligence.
- The [Impact Management Platform](#): the website supports practitioners to manage their sustainability impacts by clarifying the actions of impact management and explaining how standards and guidance can be used together to enable a complete impact management practice.

### Resources for Biodiversity Target Setting:

- **PRB Guidance** [Guidance on Biodiversity Target-Setting](#): this guidance document allows banks to take a systematic approach to setting and achieving biodiversity targets. The guidance presents four real-life case studies, and includes a detailed how-to guide
- [Global Biodiversity Framework](#): this is a first draft of a global framework to guide actions worldwide through 2030, to preserve and protect nature and its essential services to people.
- [Taskforce on Nature-related Financial Disclosures \(TNFD\)](#): The goal of the TNFD is to provide a framework for organisations to report and act on evolving nature-related risks, in order to support a shift in global financial flows away from nature-negative outcomes and toward nature-positive outcomes. A first [report](#) sets out its goals.
- [ENCORE \(Exploring Natural Capital Opportunities, Risks and Exposure\)](#): is a web-based tool that helps global banks, investors and insurance firms assess the risks that environmental degradation, such as the pollution of oceans or destruction of forests, causes for financial institutions. The below reports complement the tool:
  - [Exploring Natural Capital Opportunities, Risks and Exposure](#) helps financial institutions understand, assess, and integrate natural capital risk in their operations.
  - [Integrating Natural Capital in Risk Assessments: A step-by-step guide for banks](#) is designed to help financial institutions conduct a rapid natural capital risk assessment.
  - [The Natural Capital Credit Risk Assessment in Agricultural Lending](#): is a framework, developed by the Natural Capital Finance Alliance, that enables financial institutions to conduct natural capital credit risk assessment across different agricultural sectors and geographies, taking into account factors such as water availability, use and quality; soil health; biodiversity; energy use and greenhouse gas emissions.
- [Beyond 'Business as Usual': Biodiversity Targets and Finance](#): this report sets out the 9 priority sectors with large financial flows and major potential dependencies or impacts on biodiversity and outlines approaches to target-setting on biodiversity. This approach enables financial institutions to reduce risk exposure and create a more resilient global economy.
- The [Nature-Positive Finance Guide](#): this guide, which is geared towards all financial institutions, stakeholders and partners, aims to mobilise financial institutions to ensure a nature positive world, by fostering better understanding of nature's impor-

tance for the financial sector, providing insight on the CBD process.

- [Connecting Finance and Natural Capital, a Finance Sector Supplement to the Natural Capital Protocol](#): this provides a framework for financial institutions to assess the natural capital impacts and dependencies of their investments and portfolios.
- The [Sustainable Blue Economy Finance Principles](#): this framework for banks, insurers and investors promotes the implementation of SDG 14 (Life Below Water), and sets out ocean-specific standards, allowing the financial industry to mainstream sustainability of ocean-based sectors.
  - The [Rising Tide](#) report maps the current state of ocean finance revealing trends in lending, underwriting and investment activities which impact the ocean. It reveals the frameworks and financial instruments that are successfully addressing ocean sustainability and highlights new opportunities and gaps in the market.
  - [Turning the Tide: How to Finance a Sustainable Ocean Recovery](#): this is a practical guide for financial institutions to pivot their activities towards financing a sustainable blue economy. The guidance outlines how to avoid and mitigate environmental and social risks and impacts, as well as highlighting opportunities, when providing capital to companies or projects within the blue economy.
  - [Financing a sustainable blue economy: recommended exclusions list](#): this provides financial institutions with an overview of activities to exclude from financing due to their high risk and damaging impact on the ocean. It examines multiple ocean-related activities and covers various sectors including seafood, ports, maritime transportation, marine renewable energy, and coastal and marine tourism.
- [Banking beyond Deforestation](#) highlights opportunities for banks to grow the supply of soft commodities that are deforestation-free or forest restorative.
- [Handbook for Nature-related Financial Risks](#): this handbook connects the natural and financial worlds from a risk perspective, explaining key concepts, terms and transmission channels and contains a framework for plotting financial risk exposures.
- The World Wildlife Fund (WWF) provides a free-to-use [water risk filter](#).
- The [Soft Commodity Risk Platform \(SCRIPT\)](#): this is a freely available system to help financial institutions understand and mitigate the deforestation risks associated with financing companies in soft commodity supply chains.
- African Development Bank Group (AfDB) [Integrated Safeguards System](#): this is the AfDB's strategy to promote growth that is socially inclusive and environmentally sustainable. Safeguards are a powerful tool for identifying risks, reducing development costs and improving project sustainability, thus benefiting affected communities and helping to preserve the environment.

### Resources for Climate Target Setting:

- **PRB Guidance** [Guidelines for Climate Target Setting for Banks](#): these guidelines outline key principles to underpin the setting of credible, robust, impactful and ambitious targets in line with achieving the objectives of the Paris Agreement.
- [Net zero: an introductory guide for financial institutions](#): this guide looks to support financial institutions in navigating the technical questions they may ask themselves when assessing their portfolio for alignment with a net-zero scenario and answer some of the key technical challenges which will support the implementation of robust, science-based strategies.



- [Platform Carbon Accounting Financials \(PCAF\)](#): PCAF has proposed a harmonized carbon accounting approach for the financial sector. The Standard equips financial institutions with robust methods to measure financed emissions across six asset classes. This enables banks to develop informed climate strategies, assess climate-related risks, set science-based targets and report to stakeholders.
  - PCAF's [Strategic Framework for Paris Alignment](#) is a framework that clarifies the complex landscape of net-zero commitments, initiatives, methodologies and tools and describes the non-linear process that financial institutions can embark on to achieve Paris alignment, no matter what stage of the journey they are in.
- [Paris Agreement Capital Transition Assessment \(PACTA\)](#): this is a free online tool from 2 Degrees Investing Initiative (2°i) enables banks to measure the alignment of their corporate lending portfolios with climate scenarios across a set of key climate-relevant sectors and technologies.
  - [Credit Portfolio Alignment](#): this report provides an overview of the application of the PACTA methodology and the options viewed as most useful by the Katowice Banks.
- [Science Based Targets initiative \(SBTi\)](#): the SBTi provides tools and methodologies that enable banks to set financing strategies that are consistent with what science requires to keep global temperature rise under the 2°C threshold. Companies can submit their targets for validation and verification against established criteria. SBTi have developed comprehensive [guidance for the financial sector](#) as well as many other [financial sector-specific resources](#).
- [Task Force on Climate-related Financial Disclosures \(TCFD\)](#): this provides corporations with a framework for assessing and reporting on their climate-related risk management strategy. Many corporates throughout the world, including banks, issue an annual TCFD Report where they disclose their climate-related risk in consistency with TCFD guidelines.
- [ISO14097 standard](#): this document specifies a general framework, including principles, requirements, and guidance for assessing, measuring, monitoring, and reporting on investments and financing activities in relation to climate change and the transition into a low-carbon economy.
- Through its [TCFD Banking Pilot](#), UNEP FI has published several reports, including:
  - [TCFD Playbook](#): this document, in partnership with the Institute of International Finance (IIF), provides guidance on and examples of leading practices around TCFD reporting in the financial sector. This desk reference also aims to enhance the depth and comparability of TCFD disclosures by financial institutions.
  - [Pathways to Paris: A practical guide to climate transition scenarios for financial professionals](#) is a detailed guide, in partnership with CICERO, for financial sector practitioners looking to understand and apply climate scenarios in a financial risk.
  - [The Climate Risk Landscape: Mapping Climate-related Financial Risk Assessment Methodologies](#) provides a summary of the key developments across third party climate risk assessment providers since May 2019, including new and updated scenarios, methodological tools, key guidelines, as well as an overview of the changing regulatory landscape and potential developments into 2021.
- [Equator Principles](#): this is a risk management framework that guides banks in determining, assessing, and managing environmental and social risk in projects. The framework requires banks to consider risks to society and the environment as well as

to the bank and sets out a framework for assessing and managing social and environmental risk in project finance.

- [IFC Performance Standards](#): these Standards outline responsibilities for managing environmental and social risks and can be used to understand sector-specific ESG risks.
- The [Green Bond Principles](#): these are voluntary guidelines that provide a framework for transparency and disclosure for the issuers of Green Bonds. As such, they are primarily designed to aid investors by ensuring availability of information necessary to evaluate the environmental impact of Green Bond investments.
- The [Climate AIR toolbox](#) can help financial institutions identify and access the relevant tools, frameworks, and platforms to measure and report their climate-related alignment, impact, and/or risk.
- There are many reports that explore the practicalities of alignment and target-setting:
  - [Exploring Metrics to Measure the Climate Progress of Banks](#) assesses the various metrics that can be used to assess a bank's contribution to climate change and makes recommendations for choosing climate metrics by asset class.
  - [The Alignment Cookbook](#) analyses and compares methods and frameworks available today to investors.
  - The [Good Transition Plan](#) is designed to be practical, actionable guide for banks to create effective climate transition plans.
  - The [Practitioner's Guide for Banks](#) provides practical insights into approaches to measuring financed emissions, setting targets and engaging with clients.
  - [Taking the Carbon out of Credit](#) sets out set out five strategic elements that together can form an integrated approach to climate.

### Resources for other impact areas:

- **PRB Guidance** [Guidance on Gender Equality Target Setting](#): this document delivers a practical example of what a gender equality target can look like, providing guidance on the different elements of setting targets in line with the requirements of the PRB, and what alignment with international and national frameworks can look like.
- The [Women's Empowerment Principles](#) provide guidance on the measures your bank can take, which include:
  - [The Power of Women's Market Data: A How-to Guide](#): this is a practical guide to support banks that are looking to start disaggregating their data by sex, or those looking to improve their current practices.
- **PRB Guidance** [Guidance on Financial Health & Inclusion Target Setting](#): this document outlines the key steps for setting targets to drive increasing economic and social inclusion, followed by two illustrative examples of targets in financial inclusion and financial health.
- **PRB Guidance** [Guidance on Resource Efficiency and Circular Economy](#): a comprehensive, step-by-step guide for banks interested in increasing the sustainable use of resources such as energy, waste, water and raw materials and building a circular economy, where waste and pollution are eliminated, products and materials are kept in use at their highest value and natural systems are regenerated.
- [Financing Circularity: Demystifying Finance for the Circular Economy](#): this report outlines how the financial sector can scale up financing to accelerate the shift to circular business models in order to keep resources at their highest value long-term and to reduce waste.

### **Other sources:**

- Many banks publish lists of the activities that they will not finance. These are a useful resource for banks looking to develop their own lists, although it is noted that banks adopting such lists need to account for local regulations and societal expectations.
- Sectoral policies have already been adopted and published by several global banks. These list the binding and evaluation criteria that their clients must meet to be eligible for capital allocation. These criteria are generally made public, which is key for banks that aim to develop their own internal policies that are adapted to their operational contexts and market positions.
- Strategic risk assessment studies such as those produced annually by the World Economic Forum or other think tanks could assist banks when engaging stakeholders and assessing risk to their own strategies, operations, and their stakeholders as well as the natural environment.
- NGO reports, which highlight the social or environmental impacts of lending activities are useful for ensuring a comprehensive mapping of issues and facilitating understanding of civil society expectations.

# Examples

## a. A Canadian bank on measuring its impact

To understand both its positive and negative impacts, and to identify the impact areas it can best influence within the framework of the Paris Agreement and the Sustainable Development Goals, a Canadian values-based financial co-operative used the following tools: [Embedding Project's Prioritization Radar assessment tool](#), [UNEP FI Portfolio Impact Analysis Tool for Banks](#), and [Partnership for Carbon Accounting Financials \(PCAF\)](#). Informed by its impact analysis, the two most relevant issues identified are climate and financial health & inclusion. The values-based financial co-operative used these findings to inform its [five commitments](#) focused on building community resilience by strengthening local economies and addressing systemic inequities to support a just climate transition. One of the climate commitments is to reach net-zero carbon emissions by 2040 across the credit union's entire lending portfolio. As the financial institution implements these climate commitments, it plans to incorporate other impact areas that emerged through its impact analysis, including biodiversity and inequality.

## b. A bank's work on deforestation and biodiversity

A European founding bank acknowledges the crucial role of forest protection to reach the climate goals and to protect biodiversity. Forests are the lungs of the earth and hotspots for many species of animals and plants. Therefore, the bank aims to support its corporate clients in soft commodity value chains to achieve zero net deforestation. [In Brazil](#), home to a large part of the Amazon forests, it does not finance deforestation in any biome and does not accept as collateral land which has been deforested in the last five years. The bank encourages its customers to abide high sustainability standards, which can result in cheaper loan pricing. It also promotes the provision of ecosystem services. With the help of AGRI3 Fund for forest protection and sustainable agriculture it further supports the sustainability transitions. The bank is also a member of the Round Table on Responsible Soy and of the Brazilian Roundtable on Sustainable Livestock.

## c. An international bank's 2050 net-zero pathway

In October 2021, this international bank published a [pathway](#) to reach net zero by 2050, in line with the International Energy Agency's Net Zero Emissions by 2050 scenario (NZE). The bank will reduce emissions associated with its financing activities to net zero by 2050, with 2030 interim intensity targets in the most carbon-intensive sectors covering two thirds of baseline emissions, such as 63% intensity reduction for the power sector. The bank will stop financing, at an individual client entity level, companies that are expanding in thermal coal. To scale impact across its footprint markets in Asia, Africa and the Middle East, the bank will mobilise USD 300 billion in green and transition finance, guided by a [Transition Finance Framework](#). The bank has also formed a dedicated Transition Acceleration Team to support clients in high-emitting sectors. This NZE pathway builds on metrics and targets published in the bank's 2020 [TCFD report](#), is a component of the bank's Scorecard and Long-Term Incentive Plan, and is subject to an advisory AGM resolution in 2022.

# Principle 3: Clients and Customers

**We will work responsibly with our clients and our customers to encourage sustainable practices and enable economic activities that create shared prosperity for current and future generations.**

Banks are vital economic intermediaries and as such can make their most significant contributions to society's goals by **creating synergies** with customers and clients, **encouraging sustainable practices** and **accompanying their customers and clients in their transition towards more sustainable business models, technologies and lifestyles**. A bank's most significant impacts on society, the economy, and the environment, are indirect. They are associated with the activities of the bank's clients and customers. Partnering with clients and customers is an essential element in assessing the bank's impacts, understanding risks and opportunities, and achieving targets. In addition to contributing towards shared prosperity for current and future generations, **enabling sustainable economic activities** in this way presents a clear business case for banks: clients that are shifting to sustainable business models and technologies are better prepared for emerging regulations, and better positioned to succeed in our changing economy and society. Accompanying their clients in their own journeys to contribute to society's goals enables **stronger relationships with customers and clients**; and positions the bank as the **partner of choice**. Further, getting to know the bank's customers and clients better drives **business growth** and supports **improved risk management**. A strong relationship between the banks and its client and customers—built on trust—is crucial for any bank's success. Responsible conduct is the foundation of trust.

Responsible conduct means **treating clients and customers fairly**, understanding their needs and providing products and services that meet these needs, giving them key product information to enable comparison shopping, transparent pricing, and putting in place customer complaints and dispute resolution mechanisms.

## Principle 3: Requirements set out in the Framework Documents

In line with the Principles for Responsible Banking Framework Documents, banks are required to report—at a high-level—on how their policies and practices promote responsible conduct, encourage sustainable practices, and enable sustainable economic activities.

## How your bank can work towards Principle 3

### These steps can be taken for all of your bank's client and customer segments

- Systematically identify where your bank can support its customers and clients in reducing their negative impacts, and increasing their positive impacts, through adopting new technologies, business models, and practices. Based on your analysis of your clients, develop a strategy, identify steps to take. Such steps can include:
  - Identifying your most significant clients in terms of their impact (e.g. major GHG emitters; major clients in high intense sectors) and relevance to the bank's business in order to develop specific engagement processes.
  - Raising awareness, engaging customers and clients and providing advice.
  - Developing new products and services that encourage and support more sustainable business models, technologies, practices, and lifestyles.
  - Incentivising more sustainable investments and choices.
- Proactively informing and engaging with clients and customers about your commitment to sustainability and to responsible banking.
- Establishing partnerships with third parties, to deliver solutions for sustainable production and consumption beyond your bank's current customer and client base. These can include technology providers and FinTech firms to leverage digital technology for new solutions that contribute to financial inclusion, greater access to credit, and improved data security. These partnerships can be with firms that provide sustainability-related products and services; social entrepreneurs who drive social innovation to meet society's goals; and renewable energy firms able to support your bank's clients and customers own transition to a low-carbon economy.
- Building capacity among bank employees to better engage with clients and customers about sustainable finance; and establishing internal guidelines and protocols for supporting clients and customers on sustainability considerations.
- Developing policies, and training staff, to ensure that clients and customers are treated fairly. Reviewing specific products and services to ensure they meet their needs—including sustainability needs.
- Collect relevant data from clients and customers. If the clients and customers do not have the needed data yet themselves, develop an information plan by when you are expecting to receive relevant data from them.
- Assessing employee incentive structures and remuneration policies to ensure that these are not encouraging mis-selling and other unfair practices. Ensuring that account managers' incentives are aligned with your bank's responsible banking strategy and objectives.
- Involving clients and customers as stakeholders in your bank's stakeholder engagements; and systematically engaging customers and clients on sustainability issues.
- Integrating questions on your bank's clients and customers sustainability preferences in the on-boarding process.
- Building expertise within your bank, or through partnerships with other organizations, to effectively advise clients and customers on adopting more sustainable business models, technologies, and lifestyles.
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- Developing appropriate incentives for clients and customers to make more sustainable investments and financial decisions. This can be through preferential interest rates, rewards programmes for sustainable consumption choices, etc.
- Offer “sustainability-linked loans” or “positive impact loans”, where some of the terms could be linked to corporate progress on sustainability (e.g., discounts could be provided based on the use of the funds or the realization of certain sustainability-related targets).
- Creating a “race to the top” among clients and customers, offering more attractive interest rates, pricing, terms and conditions, and value-added services for more sustainable clients and customers.

### **These steps can be taken for your bank’s retail customers**

- Identifying where your bank could encourage and support sustainable behaviour and consumption choices.
- Mapping your bank’s retail customers, and for each major segment, identifying the existing and potential sustainability-related behaviours and actions where your bank can provide support and/or incentives.
- Identifying retail customer segments with low financial literacy, and potential retail customer segments that are under-served by banks.
- Based on this analysis of your bank’s retail customers, developing a strategy and identifying steps to take. For example, your bank can consider expanding and adapting its current offerings to the “bottom of the pyramid” through microfinance, micro-insurance, low-cost savings products and transactional services. In addition, your bank can finance and incentivise sustainable energy use through “green loans” for home insulation, the use of renewable energy, or carbon offsetting.
- Helping your bank’s retail customers acquire the knowledge and skills to effectively manage their finances, e.g. through financial literacy programmes. Your bank can consider working with customer advocacy organisations on such programmes.

### **These steps can be taken for your bank’s entrepreneurs and small enterprise customers**

- Mapping your bank’s small business customers and identifying the existing and potential sustainability-related activities where your bank can provide further support through new products and services.
- Identifying small enterprises and entrepreneurs who will benefit from greater financial literacy, business development support, and innovative financial products and services that will support the growth of their businesses.
- Providing specialised financial products and services to social enterprises and social entrepreneurs making a positive contribution to sustainable development, for example through innovation hubs, incubators, and supplier development programmes.
- Helping your bank’s small business customers improve their knowledge and skills to effectively manage their business finances. Your bank could consider working with small business support organisations on such programmes.
- Using digital platforms to deliver financial products and services more efficiently to small businesses and entrepreneurs, and to help these customers solve many of their business challenges, for example the use of blockchain to facilitate letters of credit for importers and exporters.

## These steps can be taken for your bank's corporate and institutional clients

- Mapping your clients according to their economic sector. For each major sectoral grouping, identifying the sustainability impacts, positive and negative, that these clients need to manage and where your bank could play a role in supporting these efforts.
- Asking clients for information on their significant impacts, and environmental and social risks, for consideration when assessing broader credit risks.
- Encouraging clients to improve their own social and environmental impacts and adopt robust sustainability standards.
- Identifying where new or existing financial solutions may play a pivotal role in fostering sustainable business practices by clients. This can be undertaken during various routine client engagements, including client on-boarding, Know Your Client reviews, transaction assessments, etc. Examples of such sustainable practices include:
  - Introducing energy efficiency practices
  - Use of renewable energy sources
  - Transition to lower carbon transportation options
  - Developing energy efficient buildings
  - Investing in smart cities
  - Responsible water and waste management systems
  - Harnessing opportunities in the circular economy
  - Introducing climate-smart agricultural practices
  - Reducing plastic pollution and investing in sustainable packaging
  - Assessing and disclosing financial-related climate risks through the TCFD
  - Increasing female representation in Boards and senior management
  - Close the gender pay gap within the company
  - Ensure decent employment standards and safety at work
  - Set up and follow human rights due diligence processes for sub-/contractors and suppliers

## Some key resources

- For information on financial inclusion, consult the PRB Guidance on [Financial Health and Inclusion](#) or visit the website of the [Global Partnership for Financial Inclusion](#).
- [CGAP Customer-Centric Guide](#): this is a collection of hands-on toolkits and experiments that help design and deliver effective financial services for low-income customers. The Consultative Group to Assist the Poor (CGAP) is a global partnership, under the umbrella of the World Bank, of 34 organizations that seek to advance financial inclusion. CGAP is developing a [Customer Outcomes Framework](#), which financial institutions and regulators can apply practically in order to achieve better customer outcomes. This framework will be supported by Customer Outcomes Indicators.
- [OECD/G20 Inclusive Framework on Base erosion and profit shifting \(BEPS\)](#): the OECD has issued an international collaboration to end tax avoidance that has released several documents and tools to understand what tax avoidance is, and how financial players may contribute to resolve this global issue.



- The [United Nations Global Compact](#) has numerous publications on Sustainable Finance that provide helpful information relevant to aligning with Principle 3, including:
  - [SDG Bonds and Corporate Finance](#)
  - [Engagement Guidance on Corporate Tax Responsibility](#)
  - [Carbon Markets](#)
- A World Bank [survey of the South African retail banking sector](#) provides useful insights into several responsible conduct topics.
- The [UK Financial Conduct Authority](#) has a wealth of guidance of conduct topics.
- The FARMS Initiative has published [Responsible Minimum Standards](#) that financial institutions can use to influence and guide meat, milk and egg producers, and other companies in the supply chain, towards responsible treatment of farm animals, including how farm animals are raised, transported and slaughtered.
- [Let's Discuss Climate: The essential guide to bank-client engagement](#) published by the Cambridge Institute for Sustainability Leadership (CISL) has been designed for immediate use by relationship managers and client facing staff. It will also be valuable for sustainability strategy teams and those who structure the remit and education of relationship managers, including the heads of business lines. CISL also has [numerous other useful publications](#).

# Examples

## **a. Increasing financial literacy for retail customers in developing countries**

A bank focused on retail customers in emerging economies might create the most positive impact by increasing financial literacy and access to appropriate and affordable services while also taking care that remuneration incentives within the bank don't unintentionally encourage overselling to people (e.g. to seasonal workers whose livelihoods are uncertain). In an example from Turkey, a bank partnered with the Government to support financial literacy sessions for families and households. Several hundred thousand people have been trained since the inception of the initiative.

## **b. Enabling financial inclusion through technology**

Some ways to increase financial inclusion include educational programmes for young adults, youth and children to familiarize themselves with basic money concepts, offering free accounts for those who need them and providing various routes through which to access banking.

## **c. Supporting rural development**

One of the most prominent private sector banks in Bangladesh conducts all banking activities in accordance with Shari'ah law and was the first Shari'ah interest-free bank in the country. Amongst the bank's most established programs is their Rural Development Scheme, which is a micro credit system based on financial inclusion strategies geared towards poverty alleviation and economic development. It funds rural housing, income-generating activities, safe drinking-water and sanitation facilities. The bank's objectives include extending investment opportunities to rural areas, financing self-employment, alleviating rural poverty, and providing more education and health-care opportunities.

# Principle 4: Stakeholders

## We will proactively and responsibly consult, engage and partner with relevant stakeholders to achieve society's goals.

The scale of change necessary to meet the objectives of the SDGs, the Paris Climate Agreement and other relevant national, regional or international frameworks requires **collective action and partnerships**. Banks are a crucial part of our economic and social system and can contribute to these important societal goals. By **partnering** with relevant stakeholders (notably peers, investors, clients, customers, regulators, employees, policy-makers, suppliers, scientists, academia, civil society, trade unions and communities), banks can significantly **increase the impact** of their actions and support action at the **scale of change** that is required. **Proactively consulting** stakeholders ensures your bank benefits from their knowledge and subject-matter expertise and enables the correct/legitimate definition of society's goals; it drives legitimacy and capacity to identify positive and negative impacts. **Proactively engaging** stakeholders early on ensures that all relevant interests are taken into account and a bank will not encounter challenges down the line.

## Principle 4: Requirements set out in the Framework Documents

Your bank is part of a social system, in which it has to identify its key stakeholders and understand their roles, capabilities and needs. In line with the Principles for Responsible Banking Framework Documents, your bank is required to consult, engage, collaborate and/or partner with relevant stakeholders for the purpose of implementing the Principles, which includes engaging on its impacts. Banks are required to give a high level account of the stakeholders they identified and engaged with, as well as the key issues raised by stakeholders and how they were addressed by the bank.

At the collective level, the Civil Society Advisory Body is a unique forum for constructive and collective engagement between the banking industry and wider civil society, designed to help monitor collective progress, advise signatories banks on strategic matters and help maintain the relevance of the Principles for Responsible Banking with societal needs.

## How your bank can work towards Principle 4

- Identify and map key external stakeholders such as regulators, investors, governments, suppliers, customers and clients, academia, civil society institutions, communities, representatives of indigenous population and non-profit organizations. Pay

special attention to “affected” stakeholders by setting up processes to identify potential and actual adverse impacts on human rights of individuals and groups, i.e., such as communities or wildlife (represented by NGOs).

- Identify those issues or areas where collaboration could help accomplish results beyond what your bank could deliver on its own.
- Establish multi-disciplinary consultation channels and use digital and connected technologies to facilitate continuous and fruitful engagement with stakeholders.
- Establishing partnerships with third-parties, to deliver solutions for sustainable production and consumption beyond your bank’s current customer and client base. These can include technology providers and FinTech firms to leverage digital technology for new solutions that contribute to financial inclusion, greater access to credit, and improved data security. These partnerships can be with firms that provide sustainability-related products and services; social entrepreneurs who drive social innovation to meet society’s goals; and renewable energy firms able to support your bank’s clients and customers own transition to a low-carbon economy.
- Consult and engage all relevant stakeholders to allow them to express their expectations regarding your bank’s impacts, strategy, targets, the role your bank can play in driving sustainability, and your efforts to implement these Principles. Make use of stakeholders’ expertise and knowledge.
- Engage with regulators and policymakers to advocate for regulations and policies that are in line with the goals and objectives of the *Principles for Responsible Banking*, and sustainable development more broadly. Be transparent about your bank’s policy engagements and activities, and make sure they are in line with your bank’s commitments under these Principles.
- Partner with relevant stakeholders that can help your bank reduce negative impacts, achieve or scale up positive impacts and deliver more than you could by working on your own. Create partnerships or relationships that enable your bank to leverage its intellectual and social capital, and develop and implement solutions that make substantial contributions to the goals of the SDGs, the Paris Climate Agreement and other relevant national, regional or international frameworks.
- Work with other banks and financial institutions to facilitate concrete and at-scale change in the sector, taking into account the applicable competition law restrictions that may exist in your jurisdictions.
- Regularly review your stakeholder engagement strategy to ensure that it is comprehensive and include new relevant stakeholders when necessary.

## Some key resources

- The IFC has issued a comprehensive guide to help companies with [stakeholder mapping](#). The guide provides corporations and banks with concrete proposals to enable them to identify their key stakeholders and to establish fruitful relationships with them.
- [AA1000 AccountAbility Stakeholder Engagement Standard](#): a stakeholder engagement standard designed to support organizations in designing, implementing and communicating an integrated approach to stakeholder engagement.
- [BSR \(Business for Social Responsibility\)’s Five Step Approach to Stakeholder Engagement](#): a simple, 5-step guide that provides a toolkit for engaging stakeholders and

building trust, including how to develop a stakeholder engagement strategy and conduct stakeholder mapping exercises.

- [International Integrated Reporting Framework](#): this framework provides organizations with a useful and concrete canvas to manage stakeholder relationships. Integrated Reporting (<IR>) aims to improve the quality of information available to providers of financial capital by communicating the full range of factors, including environmental and social drivers, that materially affect the ability of an organization to create value over time. The International Integrated Reporting Council's (IIRC) view is that value is not created by or within an organization alone, but is created through relationships with others, and that stakeholders provide useful insights about matters that affect the ability of the organization to create value.
- [OECD Principles for Transparency and Integrity in Lobbying](#): these principles help banks that engage with policymakers and stakeholders to change policies in a manner that is transparent so it cannot be mistaken for acting in narrow self-interest. It includes the following points, which should be considered when undertaking the engagement:
  1. Do the bank's rules and guidelines respect the socio-political and administrative context?
  2. Are the rules and guidelines consistent with the wider policy and regulatory frameworks?
  3. Is sufficient information on bank interventions publicly available?
  4. Can stakeholders scrutinize the positions and approaches?
  5. Are those undertaking the work on behalf of business meeting standards of professionalism and transparency?
  6. Are the rules of engagement and compliance with them periodically reviewed?
- [Business and the SDGs: Building Blocks for Success at Scale](#): this report provides practical knowledge through an analysis of successful case studies, enabling different sectors to develop context specific action plans towards sustainable development.
- [Business and the United Nations: Working Together towards the SDGs](#): this framework suggests that core business investments and activities are the most effective means with which a business can implement sustainable development strategies.
- [Embedding the SDGs into Business](#) provides specific and practical examples of three stakeholder engagements with the SDG's outline steps that can be used by other businesses towards sustainable development, including understanding the SDG's, mapping priorities, setting relevant targets, integrating sustainability strategies, and aligning with existing reporting activities.

# Examples

## a. The Civil Society Advisory Body

Established in March 2021, the Civil Society Advisory Body (CSAB) of the Principles for Responsible Banking is a unique forum for meaningful and constructive engagement between wider civil society and PRB Signatories. The Body puts each signatory's commitment to Principles 4 into practice at the collective level. It is a key mechanism to help the PRB maintain ongoing relevance with societal needs and ensure Signatory Banks deliver on their commitments with ambition and transparency.

The CSAB provided an [independent view](#) (p.22–28) on the collective progress of signatories in October 2021 and shared their recommendations on how to improve PRB implementation and maximize the collective impact. These recommendations guide the strategic priorities and work of the PRB

## b. One bank's approach to stakeholder engagement

This South African bank recognises that to be maintain its social licence to operate it must understand the societies in which it does business and respond in a relevant and appropriate way. As such it engages with diverse organisations to inform its thinking, including political parties, communities, professional bodies, think tanks, environmental and human rights organisations, and NGOs. These engagements are guided by several policies and principles to ensure mutual respect, consistency of approach, and an ethos of listening to stakeholders.

The bank proactively engages on public policy issues through discussions with government departments and legislators, and through active participation in trade associations. These engagements are conducted in a transparent and constructive manner, and are aimed at highlighting the potential impact of policy and regulatory changes on customers, other stakeholders, and the economy. This advocacy work is evidence-based and respectful of democratic legislative processes. Its aim is to promote a balanced and proportionate policy and regulatory framework that protects customers, depositors, shareholders, and society.

Click [here](#) for more information.

# Principle 5: Governance and Culture

**We will implement our commitment to these Principles through effective governance and a culture of responsible banking.**

To be able to respond with the speed and scale necessary to address global challenges requires **leadership**, buy-in and active support of the Board of Directors, the CEO, and senior and middle management. It requires establishing a **daily business culture and practice** in which all employees understand their role in delivering the bank's purpose and integrate sustainability in their work and their decision-making. To deliver on its commitments under these Principles, a bank needs to put in place **effective governance procedures** pertaining to sustainability, including assigning clear **roles and responsibilities**, setting up effective management systems and **allocating adequate resources**.

## Principle 5: Requirements set out in the Framework Documents

In line with the Principles for Responsible Banking Framework Documents, banks are required to develop governance structures that enable and support effective implementation of the Principles. This includes having appropriate structures, policies and processes in place to manage its significant impacts and risks, and achieve its targets. Your bank will also be required to disclose measures it is implementing to foster a culture of responsible banking among its employees.

## How your bank can work towards Principle 5

- Assign clear and specific roles and responsibilities at the Board level and across all functions of your bank regarding your bank's sustainability agenda and provide adequate resource allocation.
- Build internal expertise on the environmental, social and economic topics relevant to your bank's context, such as climate change, deforestation, pollution, biodiversity, human rights, gender equality, by recruiting specialists supplemented with training of staff on ESG strategies, policies and tools, including providing external guidance through consultants to inform and educate staff.
- Set up a dedicated, specialized team of sustainability experts (e.g., a corporate sustainability department) with strong leadership and clear roles and responsibilities, to facilitate sustainable finance and the implementation of the Principles across all functions of your bank.

- Establish appropriate policies, systems and procedures with effective management systems and controls, including risk, compliance and third-party assurance procedures.
- Integrate sustainability objectives and targets into decision making processes across your bank. Regularly review existing management systems and processes to assess whether these need to be modified or strengthened to enable your bank to deliver on its sustainability-related goals.
- Formally include sustainability criteria into the Terms of Reference or Charter for your Board’s nomination, remuneration and audit committees or create a dedicated Board Committee focused on sustainability and responsible banking.
- Integrate sustainability into a clearly communicated statement linking environmental and social issues to the vision and mission of your bank, with clear C-suite endorsement.
- Embed your bank’s sustainability targets into its remuneration and incentive as well as its performance management systems. Reward strong sustainability performance and leadership, for example, through promotion decisions.
- Communicate internally and externally (see Principle 6) on your bank’s sustainability approach and performance. Actively communicate top-level buy-in from CEOs and the C-suite with statements, quotes and interviews in internal and external media, and regularly address sustainability-related topics to raise awareness, understanding, knowledge and interest among staff.
- Educate and train employees on your bank’s sustainability strategy and targets in general, and in particular on sustainability issues pertaining to their respective area of work to develop appropriate awareness and expertise at all levels.
- Embed sustainability values and ethos into day-to-day operations of your bank and its culture through policies, processes and everyday practices such as gender equality and pay equity, climate-friendly transport options, sustainable and inclusive procurement practices, etc.
- Build an internal community of sustainability champions that includes all the employees who have a clear contribution and responsibility towards the achievement of your sustainability goals and targets. Manage and strengthen this community with frequent engagements, such as webinars, meetings and seminars, and newsletters. Honor and publicly recognize sustainability leaders.
- Align lending policies with scientific and robust approaches, which may be developed via a multi-stakeholder process. Where available, use sustainability standards and certification systems developed via multi-stakeholder processes such as the ISO and [ISEAL](#) standards.

## Some key resources

- [UNEP FI Integrated Governance: A New Model of Governance for Sustainability](#): this 2014 report sets out a new model of governance that puts sustainability at the heart of governance and corporate boards’ strategic agendas. The report makes a compelling case for the development and execution of sustainable strategies in corporations and illustrates why the current state of governance is not well suited to advancing sustainability effectively.
- [Sustainability and the board: What do directors need to know in 2018?](#): this report gives an updated and concise view on the issues, questions and references that directors should have in mind or address when discussing sustainability at board level. [The](#)



[future of the Chief Sustainability Officer](#) looks at the evolving role of the Chief Sustainability Officer (CSO) in the financial services industry.

- [Corporate Governance Principles for Banks](#): the Basel Committee on Banking Supervision (BCBS) issued set of principles for enhancing sound corporate governance practices at banking institutions. The principles provide guidance on (1) the role of the board of directors in overseeing the implementation of effective risk management systems, (2) emphasise the importance of the board's collective competence, and (3) provide guidance on risk governance, including the risk management roles played by business units, risk management teams, and internal audit and control functions (the three lines of defence), as well as underline the importance of a sound risk culture to drive risk management within a bank.
- [OECD Corporate Governance Principles](#): these principles aim at helping policymakers evaluate and improve the legal, regulatory, and institutional framework for corporate governance. They also provide guidance for stock exchanges, investors, corporations, and others that have a role in the process of developing good corporate governance. First issued in 1999, the Principles have been adopted as one of the Financial Stability Board's Key Standards for Sound Financial Systems and endorsed by the G20.
- The Group of 30 has produced two reports on Banking Conduct and Culture:
  - [A Call for Sustained and Comprehensive Reform](#): this report addresses the governance challenges facing the world's largest banks, their boards, their management, and the supervisors who oversee the health of the financial system, and the economic sustainability and strength of the individual firms.
  - [A Permanent Mindset Change](#): this report examines the progress made by banks on conduct and culture, shares findings from interviews with over 50 financial sector leaders, and reiterates guidance on the areas where additional efforts and attention are still required.
- [Earth On Board](#): this organization is an ecosystem of sustainability actors dedicated to helping organizations achieve an Earth Competent Board, where board members are proficient in sustainability, with the right governance, asking management the right questions, recognizing that peer exchange is key to driving transformation.
- [WWF Sustainable Banking Assessment \(SUSBA\) Tool](#): an interactive tool for banks to assess and benchmark their Corporate Governance (CG) and Environmental, Social, Governance (ESG) integration performance to accelerate their efforts to stay competitive, resilient and relevant in a resource constrained, low carbon future.
- [The International Social and Environmental Accreditation and Labeling Alliance \(ISEAL\)](#): this organization provides a database of sustainability certification standards which can be incorporated into banks' policies and client assessment criteria.
- [Strengthening Governance Frameworks to Mitigate Misconduct Risk: A Toolkit for Firms and Supervisors](#): this report, issued by the Financial Stability Board, provides a toolkit for use by firms and supervisors to strengthen the ability of governance frameworks to mitigate misconduct risk.
- [OECD Due Diligence Guidance for Responsible Business Conduct](#): this will help financial institutions to implement the diligence recommendations set forth by the United Nations Guiding Principles on Business and Human Rights.

- [Net zero: a practical guide for finance teams](#) explores the steps that finance teams can take to help their organizations progress towards net-zero emissions and address the practical issues of setting credible net-zero targets and embedding them into finance processes and decisions.
- [A Banker's Guide for Transforming Finance](#) investigates the role of banking professionals in transforming mainstream financial institutions from the inside and [Climate Intrapreneurs: Insights from the front lines of bank climate action](#) shares insights about the experiences of those driving climate-focused change within banks and lending institutions.
- [Bank 2030: Accelerating the transition to a low carbon economy](#) highlights the need for banks to develop an 'active mindset' in order to accelerate the transition to a low carbon economy.

# Examples

## a. Linking sustainability objectives to remuneration

More and more banks are incorporating sustainability-related considerations into the performance assessment and remuneration of staff throughout the organization, including for their executive committees and board members. Aligning remuneration programmes with the sustainability agenda of the bank creates awareness, delivers action, and demonstrates credibility.

For example, a major European bank measures the share of its lending portfolio that strictly contributes to at least one of the 17 SDGs. This indicator is embedded in a set of sustainability-linked KPIs (e.g. exposure to renewable power sector, operational carbon footprint, number of individuals that have benefited from a financial education session provided by the group, etc.). Part of the long-term compensation for the bank's 5000 top managers across the group is linked to these criteria.

## b. Governance structure to support implementation of the Principles

A European Founding Bank has fully incorporated the Principles for Responsible Banking (PRB) in its new Sustainability Policy and ESG Strategy and has set targets that are discussed regularly at the Executive Committee. The CEO has the overall oversight of the PRB implementation and schedules regular ESG Work Shops where progress and future steps are discussed and agreed upon. Furthermore, the Board Ethics & ESG Committee was established with the objective to consider the material ethical, environmental, social and governance issues relevant to the Bank's business activities. The Committee's role is to support the Board of Directors and its Committees by proactively setting, challenging, supporting and overseeing policies and strategies implemented by Management to generate value for all stakeholders and to promote the right values and corporate culture of the Group. The Committee works closely in coordination with the BoD's Nomination, Remuneration, Audit, Risk and Strategy Committees. To promote the PRB and support the work of all business units an ESG unit was established to act as a link between the Board of Directors and the executive units of the Bank.

## c. Bringing diverse stakeholder voices into banking

A major Australian bank hosts a regular forum comprising a range of external stakeholders who provide advice and insights to its executives and sustainability leaders on approaches to sustainability. It is an important mechanism that helps inform the bank's approach to the issues that matter most to their stakeholders, both in the short and longer term. The Council is made up of up to ten external members and is co-chaired by the bank's CEO.

Examples of topics examined by the Council have included approaches to customer vulnerability, climate change, human rights and artificial intelligence and support for women in business and the community. See more examples [here](#)

# Principle 6: Transparency and Accountability

**We will periodically review our individual and collective implementation of these Principles and be transparent about and accountable for our positive and negative impacts and our contribution to society's goals.**

Banks are **accountable** to their employees, investors and society as a whole. Public disclosure is critical because it enables internal and external stakeholders to **assess your banks' contribution to society, and the progress it is making**. This, in turn, helps build confidence in your bank's sustainability-related commitments and helps to distinguish your bank from its competitors. **Making targets public and reporting progress** significantly increases the potential for success in achieving them. Progress reports are key to ensuring the effectiveness of your approach, to motivating employees, competing with peers, driving innovation, and strengthening reputation and trust.

## Principle 6: Requirements set out in the Framework Documents

In line with the Principles for Responsible Banking Framework Documents, banks are required to provide information on their implementation of the Principles for Responsible Banking, in their existing public reporting, within the first 18 months of becoming a signatory, and every year thereafter.

The [Reporting and Self-Assessment Template](#) is a crucial part of reporting. Banks are required to complete the Template by providing references/links to where in their public reporting the relevant information on their implementation of the Principles for Responsible Banking can be found. In the same Template, banks will assess their progress against six criteria: (1) impact analysis, (2) target setting, (3) plans for target implementation and monitoring, (4) progress on implementing targets, (5) governance structure for implementation of the Principles, (6) progress on Implementing the Principles. Limited assurance of your self-assessment on these six criteria is required. The assurance process should be in place by no later than year four from the date the bank became a signatory to the Principles. Banks are encouraged to put this process in place well in advance. The outcome of this assurance process should be included in the bank's reporting. Where third-party assurance is not feasible, an independent review may be conducted.

Banks are also required to show they have considered existing and emerging international/regional good practices, and how they are working to integrate these into their existing practices.

Your bank will benefit from the annual feedback and support meeting with the UNEP FI Secretariat, where guidance on how your bank can advance in implementing the Principles will be provided.

## How your bank can work towards Principle 6

- Publish an annual transparent, balanced account (in your existing reports) of your bank's significant positive and negative impacts, its risks, and the progress it is making in implementing the Principles, focusing on outcomes and impacts, rather than process.
- Integrate disclosures relating to the implementation of the Principles into your bank's existing reporting (e.g., annual report, sustainability report, company website, etc.). Where your bank cannot provide certain information yet, include a description on how your bank is planning to work towards obtaining and publishing that information.
- If the report does not meet the current reporting requirements, allocate adequate resources and take steps to close the gap and bring your public reporting in line with the reporting requirements.
- Try to quantify as much information as possible, for example by showing sectoral exposures, GHG emissions associated with certain portfolios and/or sectors, proportion of portfolios covered by policies or targets etc.
- Disclose at aggregated level, engagements with clients and other stakeholders to deliver this industry and market-shifting initiative.
- Demonstrate that your bank has, through consistent processes linked to its own governance mechanisms, determined its most significant impacts, identified where it can have the most impact in terms of contribution to the SDGs, the Paris Climate Agreement, and other relevant frameworks, and the targets it has set in this regard.
- Disclose at aggregated level strategic risks and opportunities and how these are integrated into your bank's own governance processes and strategy.

## Some key resources

- **PRB Guidance** on [Reporting](#) supports signatories of the PRB with reporting on their implementation of the Principles.
- **PRB Guidance for Assurance Providers: Providing Limited Assurance for Reporting** aims at assisting assurance providers with undertaking limited assurance on PRB reporting, and at harmonizing the assurance approach and procedures for signatory banks. It shall thus foster transparency and robustness in signatory disclosures.
- International reporting frameworks (or local frameworks with equivalent level), e.g.,
  - [The Integrated Reporting <IR> Framework](#), to enhance transparency on your bank's material issues regarding the SDGs and the Paris Climate Agreement
  - The [GRI Standards](#) and [Financial Sector Supplement](#)
  - [SASB](#) (Sustainability Accounting Standards Board) financial sector standards

- The [recommendations of Task Force on Climate related Financial Disclosures](#) (TCFD): these recommendations provide a reference framework for companies, including those in the financial sector, to report on their climate-related risk management strategies. Have a look at the UNEP FI TCFD page for a [list of useful resources](#).
- The [Materiality Map of the Sustainability Accounting Standards Board \(SASB\)](#) provides suggestions for accounting metrics for sustainability issues that affect a number of specific industries, including the banking industry.
- [Integrating the Sustainable Development Goals into Corporate Reporting: A Practical Guide](#): this document outlines a three-step process to embed the SDGs into existing business and reporting processes. It helps business to better report their impact on the SDGs and address the information needs of relevant stakeholders. This Guide follows an approach that is aligned with the UN Guiding Principles on Business and Human Rights and the GRI Standards.
- [Business Reporting on the SDGs: An Analysis of the Goals and Targets](#): this document is an inventory of possible disclosures per SDG, at the level of the 169 targets. To facilitate transparency, a set of disclosures were developed—both qualitative and quantitative—based on globally accepted disclosure frameworks for business. Any business can use these disclosures to report on their efforts towards achieving the SDGs.
- Benchmarking conducted for the Dow Jones Sustainability Index (DJSI) and the FTSE Russell index series, as well as ratings and assessments produced by organizations such as MSCI, CDP, Sustainalytics, ISS-ESG and VigéoEiris. These benchmarks and ratings enable stakeholders to compare the performance of different companies on a range of sustainability-related issues. They also provide a useful reference framework for companies on the data and information that are of interest to investors and other stakeholders.

# Examples

## a. The EU taxonomy

The Article 8 of the [EU Taxonomy Regulation](#) mandates large companies, financial and non-financial to report the proportion of revenues and expenditures associated with environmentally sustainable activities as defined in the Taxonomy Regulation and the [Climate Delegated Act](#). It is a very good example of a mandatory reporting framework that integrates a inside-out approach to economic activities and allows for understanding to what environmentally sustainable activities (as defined in the EU Taxonomy) the bank's financing and portfolio is going. The concrete aspects on how to report can be found in the [Article 8 Delegated Act](#) and its [annexes](#).

The so-called "Green Asset Ratio" (GAR) is the KPI credit institutions should disclose, and it is defined as the proportion of the credit institutions' assets invested in Taxonomy-aligned economic activities as a share of total assets. It is calculated based on the on-balance sheet exposures according to the prudential scope of consolidation for the types of assets held by the bank (stock & flow, covering the loans and advances, debt securities, equities, repossessed collaterals financing Taxonomy-aligned economic activities, thus capturing total Taxonomy-aligned exposures). These exposures should be broken down based on the Taxonomy objective they are contributing to, type of counterparty and type of financing, allowing banks to have a full picture of how well they are performing against the stated environmental objectives of the EU (including the long-term temperature goal of the Paris Agreement—thus allowing among other KPIs to see the level of alignment of a bank's portfolio with the net zero by 2050 objectives) . These disclosures will be complemented by Banks Pillar 3 disclosures once the European Banking Authority ITS will be published.

## b. TCFD

In October 2021, the TCFD released its latest guidance on climate-related metrics, targets and transition plans to enable banks to effectively assess investment and lending risks. For better climate reporting, the TCFD has provided guidance on:

- Selecting and disclosing metrics, including a set of metrics recommended by the Task Force for banks to disclose
- Selecting and disclosing climate-related targets and the use of climate scenario analysis to determine targets to set
- Inclusion of firms' transition plans in their climate-related financial disclosures
- The use of information climate-relate metrics, targets and transition plans to disclose the actual or potential impact of climate-risks on a financial institution

The guidance developed by the Task Force acts to support banks in disclosing decision-useful metrics. The guide has identified a set of climate-related metric categories for banks to disclose and use to make financial decisions. The metrics provided allow for comparability in disclosure but also flexibility among firms. Financial institutions are encouraged to report on GHG emissions in relation to their investing, lending, and

underwriting. It is also important that banks report on their transition plans as it shows aspects of their overall business strategy which focuses on targets and actions for transitioning to a low-carbon economy. The Task Force is also supporting banks on better disclosure of actual and potential financial impacts of climate change to enable effective pricing of climate risks and opportunities, as well as the allocation of capital. The TCFD has also published an associated technical supplement on portfolio alignment with the Portfolio Alignment Team (PAT).



# Assessment of collective progress

Based on the signatory banks' aggregated individual reporting, signatories will take stock of their collective progress, and publish the outcome of the assessment through UNEP FI every two years.

The results will be published in the form of a short report which will include:

- An assessment of the collective progress of all of the signatories against the Principles, and of their aggregate contribution to society's goals.
- An independent view of the Civil Society Advisory Body.

The periodic review of collective progress will support continuous improvement, enable banks to share lessons learned, and establish the credibility of the Principles, signatory banks, and of the sector as a whole.

The [first collective progress report](#) was published in October 2021.

# Example implementation of the Principles

The following is an example of the steps taken by a fictitious signatory bank. Its purpose is to provide guidance on the steps a bank can take to implement the Principles. It is not binding or prescriptive.

<b>1<sup>st</sup> &amp; 2<sup>nd</sup> year of Implementing the Principles</b> Understanding where the bank stands and making a plan	<b>43</b>
<b>3<sup>rd</sup> year of Implementing the Principles</b> Developing the bank's foundation	<b>44</b>
<b>Examples of target setting</b>	<b>45</b>
<b>4<sup>th</sup> year of implementing the Principles</b> Build on the foundation	<b>46</b>
<b>From year 5 on</b> Working on implementing the targets	<b>47</b>

# 1<sup>st</sup> & 2<sup>nd</sup> year of implementing the Principles:

## Understanding where the bank stands and making a plan

The bank begins with an assessment of where/how far it is in its sustainability journey. It also gets a sufficiently detailed view of its portfolio including sectors, client and customer types.

P1.	P2.	P3.	P4.	P5.	P6.
<p>The bank works to get an understanding of the Sustainable Development Goals and the Paris Agreement, as well as other relevant national, regional and international frameworks.</p> <p>It identifies which of the goals set out in these frameworks are of specific relevance to the society/ies in which it operates. In its country of operation, climate change, air and water pollution, gender inequality, and economic inequalities across different regions, are high priority issues.</p> <p>The bank considers how its business is relevant to the goals set out in these frameworks and starts to develop an understanding of how it can strategically contribute to society's priority goals and challenges as set out in national and international frameworks through its business activities and, with that seize strategic business opportunities. It also identifies where it's current strategy may be inconsistent with and run counter to the achievement of these objectives. To assist this process, the bank undertakes an impact analysis (see Principle 2). The bank realizes that its current growth strategy in the energy sector and in several industrial sectors is not taking into account the required transition towards renewable energy and pollution control. It also identifies significant opportunities to encourage gender equality.</p>	<p>The bank undertakes an impact analysis (see pages 6 &amp; 7 for guidance) of its portfolio to identify its significant impacts (both positive and negative). The analysis is informed by its core business areas, its products/ services across the main geographies that the bank operates in, its major activities in terms of industries and technologies, the most relevant challenges and priorities related to sustainable development in the countries/regions it operates in, and the scale and intensity/salience of the (potential) social, economic and environmental impacts resulting from the bank's activities, products and services.</p> <p>The impact analysis gives the bank a detailed view of the impacts associated with its business by sector, geographies, and where applicable, technologies and client &amp; customers types.</p> <p>The bank does not have all of the data that is required to undertake a very accurate assessment at this stage, but is able to obtain an objective understanding of its significant impacts, which it can refine as more data becomes available.</p> <p>Based on this, the bank is able to identify the areas in which it can have the most significant impacts. The bank has substantial exposure to the energy and transport sector. It operates in a country with ambitious climate goals. Gender inequality is a significant challenge which is expressed as a priority in government policies. Gender imbalance is a pervasive challenge amongst its clients. The bank identifies Climate and Gender as its two areas of most significant impact.</p>	<p>The bank assesses how clients engaged in sectors and activities associated with significant impacts could transition towards more sustainable and resilient business models, adapt to the changing social, economic and environmental context, and reap efficiency gains as well as new business opportunities. This assessment helps the bank plan how it can support its clients in their transition. The bank also explores opportunities for developing products and services that will help its clients and customers deliver sustainable outcomes.</p>	<p>The bank undertakes a stakeholder mapping exercise to identify key external stakeholders (see page 17), and starts developing a stakeholder engagement strategy, which details its relevant stakeholders, what to engage them on, who engages them, how, and when. This helps to identify which stakeholders it should engage in order to get a better understanding of its significant impacts, and for guidance when developing strategies for addressing these impacts.</p>	<p>The bank assesses which teams and stakeholders internally need to be involved in implementing the Principles, and dedicates resources as needed.</p> <p>It considers whether its governance structure is adequate for supporting implementation of the Principles. It determines what the reporting lines should be, who is accountable for implementation, and which committees will have oversight of these processes. It establishes a dedicated committee which is responsible for overseeing the implementation of the Principles, and periodically reporting to the board on progress, therefore ensuring that the CEO and senior management are included in the governance processes that support the Principles, and are regularly briefed.</p>	<p>Within 18 months from becoming a signatory to the Principles, the bank communicates its progress on implementing the Principles in its public reporting. It completes the sections of the Reporting and Self-Assessment Template that it is able to at this stage, and publishes this as well.</p>
<p><b>To go further:</b></p>		<p>The bank is in a position to include its self-assessment in its existing assurance process. Therefore it obtains limited assurance of its self-assessment, which determines the accuracy of the information that the bank relied upon in completing its self-assessment.</p> <p>The bank engages with the UNEP FI Secretariat for guidance and support on how it can build on its current achievements going into Year 2</p>			

# 3<sup>rd</sup> year of implementing the Principles: Developing the bank's foundation

The Bank develops the structures and processes to support target setting and implementation.

P1.	P2.	P3.	P4.	P5.	P6.
<p>The bank decides to include gender equality, climate transition and pollution as strategic focus areas. It identifies strategic business opportunities that will enable both the bank and society to develop sustainably.</p>	<p>Based on the outcome of its impact analysis, the bank assesses how it is currently addressing its significant positive and negative impacts, and develops strategies for improving existing measures to address these impacts and manage risk arising from negative impacts (where they were not previously being addressed).</p> <p>The strategy includes:</p> <ul style="list-style-type: none"> <li>working with peers to develop new tools and methodologies that will assist with setting targets and developing KPIs;</li> <li>setting two SMART targets, that address two distinct most significant (potential) impacts identified in the impact analysis;</li> <li>developing milestones to meet the targets, as well as measures to monitor progress against the targets;</li> </ul> <p>The bank ensures that its decision-making committees and bodies are aware of actual and potential risks and impacts associated with the bank's activities, and incorporates them in their processes.</p> <p>See next page for examples of target setting</p>	<p>The bank identifies which clients it needs to work with to achieve the targets, and begins to engage with them. The bank integrates questions about its clients and customers sustainability preferences into its on-boarding process, as well as questions about their significant impacts.</p> <p>Through engagement with its clients and customers, amongst other stakeholders, the bank is able to deliver an innovative product that supports and incentivizes more sustainable practices.</p>	<p>The bank systematically engages its stakeholders in line with its stakeholder engagement strategy. Based on these engagements, the bank gets a better understanding of how it can contribute to the needs of its society through its business. Through this process, it is able to identify stakeholders it can partner with to accelerate its impacts.</p> <p>The bank engages with peer banks on the implementation of the Principles through UNEP FI, by participating in working groups and peer learning sessions. In order to share views and best practices, and to combine advocacy efforts for the banking sector in its country, the bank works with other banks through its banking association. During this process, the bank is mindful of competition laws, and the extent to which banks are able to share information with each other.</p>	<p>The CEO, Board of Directors, the appropriate Executive Committees, as well as senior management who will be responsible for implementing the strategy, communicate their buy-in clearly and regularly. The bank makes further changes to its governance structures and processes in order to facilitate the effective implementation of the Principles. These include integrating sustainability objectives into decision making processes across the bank, including sustainability criteria in the Terms of Reference of the Board's nomination policy, and ensuring that existing policies (such as credit policies, customer treatment/engagement policies, procurement policies) are consistent with its strategy.</p> <p>The bank engages with internal stakeholders to determine what a SMART target could look like for the business, how it could be achieved, the business areas that need to be involved, and how much time the bank will need to achieve the target. In addition, the bank develops a strategy for fostering a culture of sustainability to ensure employees are on board. It trains staff on their roles and functions in implementing the Principles, and more broadly on their role in achieving the bank's sustainability strategy. The bank begins to work on aligning with the good practices it identified, and elected to prioritize. The bank decides to adopt a human rights screen process in order to ensure that it does not enable human rights abuses. It also decides to become a signatory to the Equator Principles, which will guide the bank with assessing and managing the social and environmental risks associated with its project finance portfolio.</p>	<p>The bank reports on the progress it has made this far in its implementation of the Principles, this includes reporting on the targets it has set. It completes the Reporting and Self-Assessment Template, providing as much information as it is able to at this stage, and publishes it.</p>
<p><b>To go further:</b></p>	<p>The bank is in a position to include its self-assessment in its existing assurance process. Therefore it obtains limited assurance of its self-assessment, which determines the accuracy of the information that the bank relied upon in completing its self-assessment.</p> <p>The bank gets feedback and guidance from UNEP FI on its targets, and support for how any gaps relating to the targets could be addressed, in addition to getting feedback on other aspects of implementation.</p> <p>The bank joins the Net-Zero Banking Alliance or the Collective Commitment to Financial Health and Inclusion to reinforce its ambition.</p>				

# Examples of target setting

**The bank decides to set a target that contributes to the goal set out in the Paris Agreement and latest science—to keep global warming to below 1.5°C.**

While undertaking its impact analysis, the bank assessed its portfolio, and was able to identify the sectors that it should focus on. These were energy, transport and agriculture. Within these sectors, the bank identified the technologies it has exposures to, and its exposure to key clients in those sectors. This enabled it to determine its baseline (its starting point).

With the use of scenarios, the bank was able to establish what aligning the identified sectors with a 1.5°C goal, would require in its country of operation. With this knowledge, the bank was able to set its target:

- **To align the bank's funding and investment to the energy, transport and agricultural sectors with a 1.5°C goal by reaching net-zero financed emissions by 2050.**

The bank determines the measures it will have to take to achieve its target from its starting point. These measures include:

- Working with key clients in the identified sectors towards achievement of the target;
- Identifying new technologies the bank could expand into
- Engaging with policy-makers, government transport agencies, and other stakeholders to understand how the bank can contribute effectively to making transport systems more sustainable
- Developing methodologies with peers and experts that will guide the bank, and ensure it achieves its target

Based on the scenarios the bank used, it establishes KPIs to monitor progress against its target:

- Reduce exposure to carbon intensive technologies by 60% within X years
- Increase funding and investment in renewable energy by X% annually
- Introduction of conditions in loan agreements requiring methods of agriculture that result in reduced GHG emissions, by X year.
- Partnership with government transport agencies to support public transport infrastructure by X year

The bank also assesses whether there are potential negative impacts that may arise as a result of its targets, and puts measures in place for mitigating them

**The bank identifies gender equality as an area where it could have significant impact. It intends to set a target to contribute to the achievement of Gender Equality (SDG 5, with particular focus on Indicator 5.5.2: 'Proportion of women in managerial positions') in its country**

The bank begins with determining its baseline by assessing the proportion of its commercial lending portfolio that is attributed to companies with equal gender representation at the board and senior managerial level. It also assesses the proportion of women in board and senior managerial positions within the bank, as well as in its primary procurement partners. Once it has established its baseline, the bank sets its target:

- **50% allocation of corporate lending to companies with an equal gender representation at board level and in management functions within X Years**

The bank establishes the measures it will take to meet its target. These include identifying existing clients to work with, and developing incentives to encourage existing and prospective clients to work towards gender equality. The bank recognizes that it must ensure that it is living up to this standard within its own organization in order to ensure that it has the requisite credibility to encourage other companies, therefore the bank will also work towards creating gender equality within its organization. It also puts measures in place for mitigating negative impacts that could result from the activities associated with the achievement of its target.

The bank establishes KPIs to monitor progress against the target:

#### Outside the organization

- X% increase in loans provided to companies with an equal gender representation at board level and senior management level per year
- Engagement with X% of identified existing corporate clients to encourage them to develop gender equal policies within X years
- Provision of X% of loans in the corporate portfolio by X year linked to incentives for corporate clients who achieve equal gender representation at board level.

#### Within the organization

- X% of all procurement from companies with gender equal representation at board level and senior management level by X date
- Policies have been revised to facilitate and ensure gender equality at board level and within the organization within X years
- X% increase in the number of training opportunities and bursaries available to women within the bank in X years
- The gender pay gap closed within X years
- Equal representation of women and men in senior managerial positions, including the board, within the next X years.

Please note: This is merely an example, and does not prescribe what targets a bank should set

# 4<sup>th</sup> year of implementing the Principles: Build on the foundation

The bank builds on the progress made in the previous years in order to ensure continuous and effective implementation of the Principles .

P1.	P2.	P3.	P4.	P5.	P6.
<p>Building on its analysis in year one, and the targets it has set, the bank revises its overall strategy to align with society's goals, ensuring that the bank's business strategy doesn't run counter to the achievement of society's goals.</p>	<p>The bank monitors the progress it is making in implementing its targets to ensure that it is on the right track with respect to its KPIs.</p> <p>It assesses whether there are any negative impacts created in the process of working towards its targets, and takes relevant steps and actions to mitigate them as far as is feasible.</p> <p>Recognizing that it should have two targets at all times, it re-evaluates its significant impacts and identifies the next area of most significant impact, in order to begin the process of working on developing the next target.</p>	<p>The bank continues to work closely with its clients in the achievement of its targets. Based on the information gathered from client on boarding process, the bank is able to better structure its existing products and manage its risks, while assisting its clients and customers to choose more sustainable practices and business models.</p>	<p>The bank develops and implements a strategy to work in partnership with the identified stakeholders in order to benefit from their expertise, accelerate its impact.</p> <p>The bank engages with its policy-makers and regulators on various aspects of the Principles, in order to share its perspective and advocate for policies that create an enabling environment for implementation of the Principles, and contributing to sustainable development more generally. The bank also engages with government agencies more broadly to establish how it could support government policies in the areas it has set targets in, as well as to determine how government priorities could influence the bank's next target, therefore ensuring that it is able to contribute significantly to society's needs and goals.</p>	<p>The bank reviews employee incentive structures, and revises them in order to ensure they facilitate fair treatment of customers and clients. The bank also ensures that incentives facilitate the effective implementation of the Principles, and the bank's sustainability strategy more broadly, by including KPIs in employee contracts.</p> <p>Now that the bank has adopted a human rights screening process and the Equator Principles, it starts the process of mapping and assessing other existing and emerging international/regional good practice, and establishes which practices it intends to start working towards integrating into existing practices during the following year. The bank also integrates sustainability into a clearly communicated statement that links environmental and social issues to its vision and mission.</p>	<p>The bank ensures that its reporting reflects the progress it has made over the year. Its report includes disclosures of its significant impacts, its risks, the targets it has set, the KPIs that are used to measure progress, the progress made so far, and the governance measures in place to ensure ongoing success in implementation.</p> <p>At this point the bank is able to report on the good practices it has adopted, and how these practices have made or are making changes to its business.</p> <p>The bank is able to fully complete the Reporting and Self-Assessment Template, indicating that it is in line with its commitments under the Principles, and provides evidence to support this, which is assured by a registered assurance provider that the bank works with, and includes this in its report.</p>
<p><b>To go further:</b></p>	<p>The bank gets feedback from UNEP FI on measures that it can take for the next year in order to maintain continued improvement and provide leadership towards the implementation of the Principles throughout the banking sector.</p>				

# From year 5 on:

## Working on implementing the targets

After the four year mark, a bank's implementation journey continues iteratively. The bank should continue to assess its impacts and monitor progress on its targets. Over time, targets should be adjusted to reflect changing contexts.

The bank should have targets in at least two impacts areas at any given time. The bank should continue to engage with regulators, customers, clients and other stakeholders, consistently refining its approach.



United Nations Environment Programme Finance Initiative (UNEP FI) is a partnership between UNEP and the global financial sector to mobilise private sector finance for sustainable development. UNEP FI works with more than 450 members—banks, insurers, and investors—and over 100 supporting institutions—to help create a financial sector that serves people and planet while delivering positive impacts. We aim to inspire, inform and enable financial institutions to improve people’s quality of life without compromising that of future generations. By leveraging the UN’s role, UNEP FI accelerates sustainable finance.

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