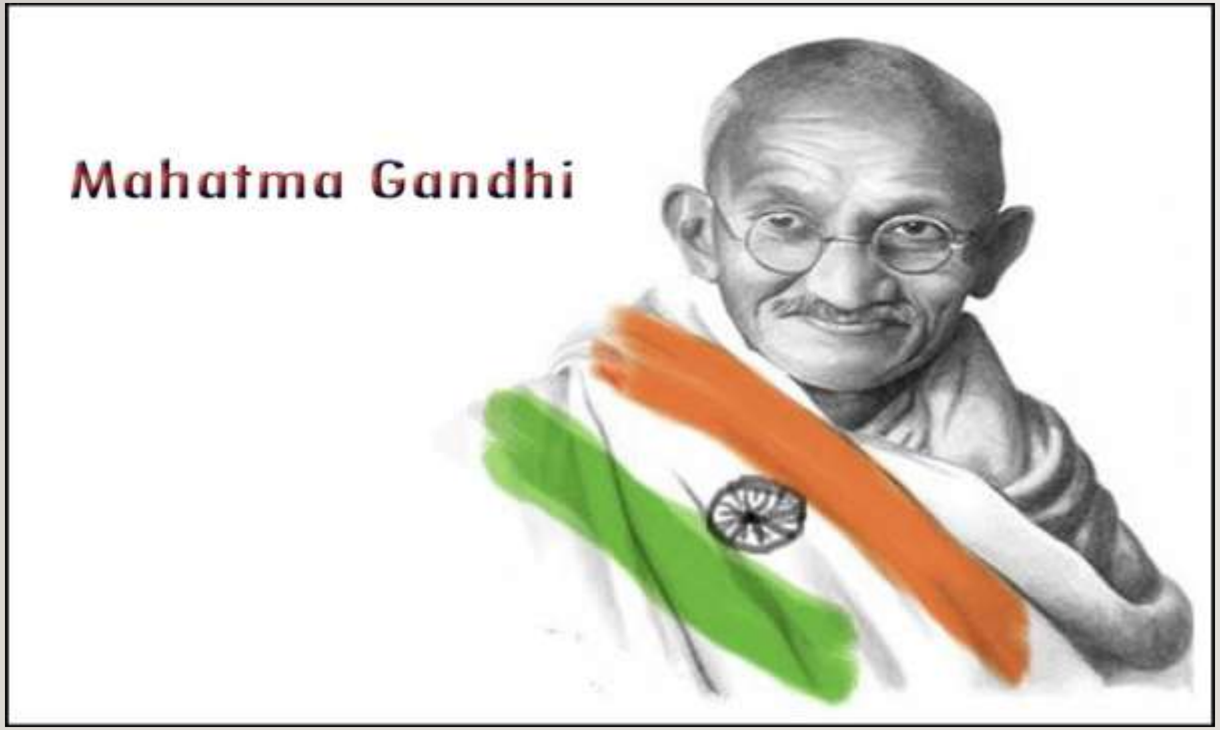
GUIDING BORROWERS TO REDUCE BANK'S SCOPE 3 EMISSIONS

ESG COMPLIANCE

PROTECTS BOTH BANKS & BORROWERS

THOSE WHO CARE…WIN…



Creating wealth
through fairer means,
without jeopardising
Sustainable
Development,
must be the foundation of
Economic Policy

AGENDA

Scope 3 Emissions

Effective Communication with Clients on Sustainability

How to Build Rapport with Clients on Sustainability Topics

Net-Zero Transition as a Business Opportunity

(Cost Savings, Efficiency & Market Access)

Overcoming Client Doubts & Resistance.

Role-Playing Exercises: Engaging Clients in Discussions Around

Sustainability Goals & Finance Options.

WHY IS ESG IMPORTANT FOR BANKS ?

As the world increasingly prioritises Sustainability and Ethical Practices, developing a good understanding of ESG in banking is more important than ever.

- **Environment, Social, and Governance (ESG)** factors are crucial in shaping the financial landscape to determine how a bank operates and interacts with its stakeholders.
- ESG represents a set of standards for evaluating a Bank's sustainability and societal impact. It helps investors assess how well the Bank manages risks and opportunities arising from environmental, social, and ethical management factors.
- Integrating ESG principles effectively aligns banks' operations with sustainable practices, enhances reputation, and contributes to positive societal outcomes.

ESG COMPLIANCE ATTRACTS MORE INVESTMENTS

- Incorporating ESG principles into banking has been recognised as a positive green and social finance force.
- Banks can avoid potential losses and reputational damage by proactively mitigating risks linked to Social issues, Climate change, and Regulatory changes.
- Strong ESG credentials attract additional investment, resulting in positive long-term financial outcomes.

WHAT IS ESG SCORING FOR BANKS?

When evaluating and rating a bank's performance, ESG scoring provides a snapshot of how aligned an institution's operations are with global standards for responsible and ethical business practices.

Determining an ESG score for a bank involves a few key factors.

Firstly, it's essential to consider its carbon emissions, energy efficiency, level of investment in sustainable finance, and resource management.

Secondly, social factors are measured, including labour practices, community impact, and customer relations.

Thirdly, governance criteria such as board composition, executive compensation, and transparency are discerned.

ESG reporting is now mandatory for 1000 top capitalised companies and banks monthly through the BRSR Report.

SBI's ongoing sustainability reporting process emphasises the importance of continuous improvement, reflecting a dedication to growth.

A Bank's commitment to meeting ESG targets creates value over time.

HOW TO IMPLEMENT ESG PRACTICES?

Introducing effective ESG practices begins with developing a clear Sustainability Strategy that aligns with a bank's core values and business objectives.

Set measurable ESG targets, integrate sustainability into all aspects of the bank's operations, and ensure leadership fully commits to these goals.

Sustainability aims to empower all stakeholders while unlocking the bank's potential.

A strong ESG strategy requires regular monitoring, transparent reporting, and stakeholder collaboration.

Banks should lead by example by prioritising environmental impact reduction, promoting meaningful social initiatives, and maintaining robust governance practices.

WHAT ARE THE COMPONENTS OF E(NVIRONMENT)?

E

This focuses on how an entity's actions impact the natural environment and manage its ecological footprint.

1. Carbon Emissions Reduction: Efforts to lower greenhouse gas emissions, such as adopting renewable energy sources.
2. Waste Management: Implement recycling programs and reduce single-use plastics in operations.
3. Water Conservation: Using technologies to minimise water usage in manufacturing and agriculture.
4. Biodiversity Protection: Preserving ecosystems by avoiding deforestation and supporting rewilding projects.

WHAT ARE THE COMPONENTS OF S(OCIAL)

S

This pertains to how an entity manages its relationships with employees, customers, communities, and society:

1. Employee Welfare: Offering fair wages, benefits, and safe working conditions.
2. Diversity and Inclusion: Promoting equitable hiring practices and ensuring representation across gender, race, and other demographics.
3. Community Engagement: Supporting local charities and investing in infrastructure for underserved areas.
4. Product Safety: Ensuring that goods and services meet high safety standards to protect consumers.

WHAT ARE THE COMPONENTS OF G(OVERNANCE) ?

G

This relates to the internal systems, policies, and leadership practices that guide a Bank's operations and accountability.

1. Board Diversity: Ensuring the board of directors includes diverse perspectives of gender & expertise.
2. Transparency: Providing clear and accurate financial reporting while disclosing business practices to stakeholders.
3. Anti-Corruption Policies: Enforce strict rules against bribery and unethical financial dealings.
4. Executive Compensation: Aligning CEO and leadership pay with company performance and ethical outcomes.

BANKERS' DILEMMA

- Seven energy and land use systems contribute to global emissions: Power, Industry, Mobility, Buildings, Agriculture, Forestry, Land use, and Waste.
- These are the prime sources of Climate Risk.
- They also absorb the maximum bank finance, capital and investments.
- Funding these assets provides growth and income to all banks.
- The growth of these climate-risky assets is directly proportional to the development of banks and inversely proportional to climate safety.
- **Banks must acquire a Golden Mean of financing these assets: Grow & Sustain…**

WHAT ARE GREENHOUSE GASES ?

- Atmospheric Blankets: Greenhouse gases blanket the Earth, trapping the sun's energy. This natural process keeps our planet warm to support life.
- Key Components: The primary greenhouse gases in Earth's atmosphere include water vapour (H2O), carbon dioxide (CO2), methane (CH4), nitrous oxide (N2O), and fluorinated gases.
- Selective Absorption: GHGs have a unique molecular structure that allows them to absorb and re-emit infrared radiation, heat radiating from the Earth's surface.
- The Greenhouse Effect: The warming of the Earth's surface and lower atmosphere due to greenhouse gases is known as the greenhouse effect.

Without GHGs, Earth's average temperature would be significantly colder.

GLOBAL WARMING

Human Influence: Human activities, notably the burning of fossil fuels, coal, oil, and natural gas, deforestation, and industrial processes, increase the concentration of greenhouse gases in the atmosphere.

Enhanced Warming: The increased concentration enhances the greenhouse effect, trapping more heat and warming the planet. This is referred to as anthropogenic, human-caused global warming.

Long Atmospheric Lifetimes: GHGs, like carbon dioxide and fluorinated gases, persist in the atmosphere for decades, meaning their warming influence can be long-lasting.

Rising greenhouse gases and the resulting climate change are major global concerns due to their potential impacts on sea levels, weather patterns, ecosystems, and human societies.

THREE SCOPES OF GREENHOUSE GAS EMISSIONS

EFFECTIVE COMMUNICATION WITH CLIENTS ON SUSTAINABILITY & THREE SCOPES OF ESG

The terms **“scope 1,” “scope 2,” and “scope 3”** refer to the different levels of emissions generated by a Bank or Organisation.

- Scope 1 emissions are direct emissions from owned or controlled sources, such as fuel/energy combustion in the Bank's vehicles or offices.
- Scope 2 emissions are indirect emissions from the generation of purchased electricity, heating, and cooling that the Bank consumes.
- Scope 3 includes all other indirect emissions in a Bank’s value chain. This includes business travel emissions, procurement, waste, employee commuting, and the use and end-of-life treatment of sold products/services.
- Scope 3 emissions are the most significant portion of the carbon footprint, extending far beyond the Bank’s direct control.
- They encompass activities from sources not owned or directly controlled by the Bank but related to its operations. These are called Financed Emissions…

DEFINING FINANCED EMISSIONS

- Financed emissions are greenhouse gas (GHG) emissions associated with a bank's loans and investments.
- They fall under Scope 3, Category 15 (Investments) of the GHG Protocol.
- These emissions are generated by the activities of the bank's clients, not the bank itself.
- Understanding financed emissions is crucial for assessing a bank's actual climate impact.

THE IMPORTANCE OF SCOPE 3 FOR BANKS

- For banks, Scope 3 emissions, particularly financed emissions, are significantly larger than Scope 1 and 2.
- They reveal the indirect climate impact of a bank's financial decisions.
- Ignoring financed emissions can lead to underestimating a bank's contribution to climate change.
- Stakeholders, regulators, and investors are increasingly focused on Scope 3 emissions.

CALCULATING FINANCED EMISSIONS

- Calculating financed emissions involves measuring the emissions of a bank's borrowers and investees.
- The Partnership for Carbon Accounting Financials (PCAF) provides a standard methodology.
- Attribution factors are used to allocate a portion of the borrower's emissions to the bank.
- Data quality and availability are key challenges in accurate calculation.

CALCULATING SCOPE 3 EMISSIONS: MEET THE CHALLENGE

- Calculating scope 3 emissions is a complex process due to various activities.
- It requires a thorough understanding of the company’s value chain and the ability to track and measure emissions from many indirect sources.
- Despite these challenges, addressing scope 3 emissions is crucial for organisations aiming for sustainability.
- Engaging with suppliers and customers can drive emission reductions throughout a company's value chain, leading to significant environmental benefits.

ASSESSING SCOPE 3 EMISSIONS THROUGH A STRUCTURED APPROACH

1. Define the boundaries of the assessment, which includes determining the different stages of the product's life cycle that will be included, i.e., raw material extraction, manufacturing, distribution, product use, and end-of-life.
2. Gather data on energy use, raw materials, and transportation for each stage of the product's life cycle. This data should cover both direct emissions, like fuel combustion, and indirect emissions like electricity use.
3. Calculate the greenhouse gas emissions associated with each stage of the product's life cycle. Common greenhouse gases considered include carbon dioxide (CO_2), methane (CH_4), and nitrous oxide (N_2O).
4. Normalise the emissions data per unit of product produced to compare different products. Then, aggregate the emissions across all life cycle stages to get the total carbon footprint.
5. Finally, assess the environmental impact of the calculated emissions, considering the Regulator's benchmarks on global warming.

MANAGING AND REDUCING FINANCED EMISSIONS

- Banks must manage financed emissions by aligning their portfolios with low-carbon activities.
- Engage with clients to encourage their decarbonisation efforts.
- Set science-based targets for reducing financed emissions.
- Develop new financial products that support the transition to a net-zero economy.

BENEFITS OF MEASURING SCOPE 3 EMISSIONS

Measuring and managing scope 3 emissions provides several advantages.

It allows organisations to identify emission hotspots and prioritise reduction strategies, improve sustainability across the supply chain, and make more informed procurement and product development decisions.

It enables companies to innovate and develop more sustainable products, engage employees in emission reduction efforts, and contribute meaningfully to national and global efforts to combat climate change.

While emissions in scopes 1 and 2 are critical, emissions in Scope 3 offer a broader perspective on an organisation's environmental impact. They present both a challenge and an opportunity for businesses to lead in the transition to a low-carbon economy. Organisations that effectively measure and manage their scope 3 emissions can gain a competitive edge, enhance their reputation, and play a pivotal role in the global effort to reduce greenhouse gas emissions and mitigate climate change.

CHALLENGES AND FUTURE OUTLOOK

- Data availability and quality remain significant obstacles.
- Methodologies need to be standardised for comparability across institutions.
- The development of more sophisticated tools and data is ongoing.
- Addressing financed emissions is crucial for mitigating climate change and financial risk.

STRATEGIES FOR SCOPE 3 REDUCTION

Scope 3 emissions in **banking** primarily come from **financed emissions** (loans, investments) and **operational supply chains** (procurement, employee travel).

A. Financing & Investment Emission Reduction

- **Align lending with Net Zero** → Prioritise financing low-carbon industries.
- **Sustainable finance products** → Green bonds, sustainability-linked loans, and ESG-focused investments.
- **Divest from high-carbon sectors** → Reduce exposure to coal, oil, and gas projects.
- **Engage clients in transition** → Work with corporate clients to set emission reduction goals.

INNOVATIVE STRATEGIES

B. **Sustainable Procurement & Operations**

- **Greener supply chain policies** → Source from low-emission vendors.
- **Remote work & low-carbon commuting** → Reduce business travel, encourage EVs and public transport.
- **Digital banking** → Reduce reliance on paper & physical branches.

C. **Carbon Offsetting & Reporting**

- **Adopt industry frameworks** → Use PCAF (Partnership for Carbon Accounting Financials) for emissions tracking.
- **Invest in carbon credits & offsets** → Support reforestation, carbon capture projects.

UNDERSTAND THE CURRENT POSITION AND AMBITIONS OF CUSTOMERS.

- Initiate the Conversation: Don't jump straight into net zero. Start by understanding their business, current energy consumption, operational costs, and sustainability initiatives. Ask open-ended questions like:
  - "What are some of the biggest operational costs your business faces?"
  - "Have you considered any measures to improve energy efficiency or reduce your environmental footprint?"
  - "What are your long-term goals for the business?"
  - "Are you seeing any pressure from stakeholders (customers, investors, regulators) regarding sustainability?"
- Assess Their Awareness: Gauge their understanding of climate risks and opportunities and the concept of net zero. Tailor your language and information accordingly. Some clients might be well-versed, while others might be new to the idea.

EDUCATE AND HIGHLIGHT THE BENEFITS:

- Frame Net Zero as an Opportunity, Cost Savings regarding Reduced energy consumption, waste management costs, and potential carbon taxes.
- Share Relevant Information: Provide customers with easily digestible information on:
  - The concept of net zero and its relevance to their industry.
  - Potential pathways to achieve net zero.
  - Success stories of businesses in their sector that have embarked on this journey.
  - Upcoming regulations and market trends related to sustainability.

OFFER TAILORED FINANCIAL SOLUTIONS:

- Promote Green Loan Products: Actively present and explain loan products specifically designed to finance green projects, such as:
  - Renewable energy installations in solar, wind &waste.
  - Energy efficiency upgrades include insulation, efficient lighting, and HVAC systems
  - Sustainable transportation through electric vehicles.
  - Green building certifications.
  - Sustainable agriculture practices.

MOTIVATING CUSTOMERS FOR SUSTAINABLE FINANCE

- Emphasise potential benefits associated with green loans:
  - Lower interest rates.
  - Extended repayment periods.
  - Reduced fees.
  - Subsidies or grants linked to green projects.
- Explore creative financing solutions that align with their net-zero goals, such as:
  - Performance-based loans where repayment is linked to energy savings.
  - Sustainability-linked loans (SLLS) are loans with interest rates for achieving specific environmental targets.

CONNECT CUSTOMERS WITH RESOURCES AND EXPERTISE

Internal Partnerships: Collaborate with your bank's sustainability experts, ESG teams, or specialised departments to provide clients with comprehensive support.

External Networks: Connect clients with relevant consultants, technology providers, industry associations, and government agencies that can assist with their net-zero transition.

Workshops and Seminars: Organise or invite clients to educational events related to sustainability and financing options.

HOW TO BUILD RAPPORT WITH CLIENTS ON SUSTAINABILITY TOPICS

Build Long-Term Relationships and Track Progress:

- Become a Trusted Advisor: Position yourself as a partner in their sustainability journey, offering ongoing support and guidance.
- Regular Check-ins: Follow up with clients to discuss their progress, challenges, and evolving needs related to net zero.
- Track and Report Impact: Where appropriate and with client consent, track the environmental impact of the projects financed through green loans.[5] This can help showcase the collective contribution towards net zero.

KEY CONSIDERATIONS FOR SUCCESS

Be Authentic and Passionate: Your genuine interest in sustainability will be contagious.

Use Clear and Accessible Language: Avoid jargon and explain complex concepts.

Focus on Tangible Benefits: Quantify the potential financial and operational advantages of transitioning to net zero.

Be Patient and Persistent: Transitioning to net zero is a journey, and clients may require time and multiple conversations.

Lead by Example: Highlight your bank's sustainability initiatives.

A Banker can significantly drive the transition towards a net-zero economy by proactively offering tailored financial solutions and providing access to valuable resources.

Remember the key to finance is in your hands…Good luck!

YOU CULTIVATE WHAT YOU SOW…

Net-Zero Transition as a Business Opportunity
(Cost Savings, Efficiency & Market Access)

Transitioning to net-zero is crucial for our survival. It involves calculating greenhouse gas emissions and working towards reducing them to zero.

Embracing net-zero as a business strategy offers SMEs significant financial benefits and opportunities.

They save costs through energy efficiency and renewable energy adoption, attract environmentally conscious consumers, and secure new partnerships and funding opportunities. **By embracing sustainable practices…**

Banks contribute to a greener planet and a nice place to do business…

OVERCOMING CLIENT DOUBTS & RESISTANCE.

- Lack of Awareness: Many clients may not fully understand Scope 3 emissions or their significance. Explain.
- Cost Concerns: Clients might worry about the financial implications of reducing emissions, such as investments in new technologies. Guide.
- Data Challenges: Some clients may lack the capacity or resources to measure and report their emissions accurately. Advise.
- Competitive Disadvantage: Clients could fear that reducing emissions might put them at a disadvantage compared to competitors. Remove doubts.

STRATEGIES FOR CLIENT ENGAGEMENT

- Education and Awareness: Provide clients with clear and concise information about Scope 3 emissions, their importance, and the business benefits of reduction.
- Financial Support and Incentives: Offer tailored financial products, such as green loans or sustainability-linked loans, to support clients' transition to lower emissions.
- Technical Assistance and Guidance: Help clients develop emissions measurement and reporting capabilities through workshops, tools, and expert advice.
- Collaboration and Partnerships: Foster industry collaborations and partnerships to share best practices and drive collective action on emissions reduction.

SMALL THINGS MATTER

Start Engaging Clients in Discussions Around Sustainability Goals

- Understand Client's Current Position: Assess their sustainability goals, reporting practices, and emission reduction targets.
- Highlight the Importance of Alignment: Explain how aligning with global sustainability goals can benefit their business through enhanced reputation, reduced risk, and new market opportunities.
- Connect Sustainability to Financial Performance: Showcase how sustainable practices can lead to cost savings, improved efficiency, and increased long-term value.
- Frame the Discussion as a Partnership: Emphasise that the bank partners in their sustainability journey, offering support and expertise.

PROVIDE SUSTAINABLE FINANCE OPTIONS

- Introduce Green Loans and Bonds: Explain how these financial instruments can fund specific green projects in renewable energy and energy efficiency.
- Promote Sustainability-Linked Loans: Describe how these loans incentivise clients to achieve ambitious sustainability targets through interest rate adjustments.
- Explore ESG-Integrated Financing: Discuss how Environmental, Social, and Governance (ESG) factors can be incorporated into traditional financing to promote sustainable practices.
- Offer Advisory Services: Guide sustainability reporting, target setting, and accessing sustainable finance options.

YOU CAN WIN…