



Webinar

Navigating ESG without breaking the bank in 2022

Environmental, social, and governance (ESG) for banking

February 2022
Webinar | ABA



Presenters

Navigating ESG without breaking the bank in 2022

Many important banking ESG initiatives can create significant, measurable value for the business. We'll provide context, underlying principles, and examples.



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Agenda

1. Why is ESG so important right now?

2. Areas an ESG strategy should consider

- Caring for the planet
- Advancing social causes
- Making the world a safer place
- Acting with integrity

3. How do we integrate ESG into the business?

4. 5 things a bank of any size can do right now

5. Key takeaways

6. Questions and discussion

Polling question

Regarding ESG maturity, my organization is:

A. Very mature.

We regularly publish ESG reports or disclosures and have established (or are starting to establish) a suitable control environment.

B. Fairly mature.

We have a strategy we are pursuing and are still fine tuning our reports and report cadence.

C. On the way.

We have evaluated what's material and are starting down the path to formulate our strategy.

D. Just starting.

We are just beginning to learn about ESG.

Now is the time to define
your ESG strategy and
**incorporate ESG initiatives
into your core business.**

If you don't tell your story, someone else will.



Environmental-related issues are becoming the **defining risks of our lifetime.**

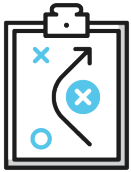


Climate change continues to be perceived as the gravest threat to humanity.

- Global Risks Report 2022, The World Economic Forum

Social issues are closely following and often related.

Your ESG story must be grounded on **authentic purpose.**

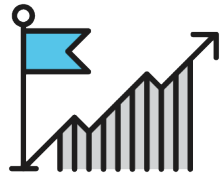


A strong and sustainable ESG strategy needs to flow from your bank's purpose.



With an authentic purpose articulated, you'll have a north star that helps you set priorities and align your strategy.

Investors are pressuring banks and other financial services companies to **get serious about ESG.**



Market expansion for
ESG funds and ETFs



Voluntary standards available
to help individuals and
companies evaluate ESG



Investor demand for
better and more consistent
ESG disclosure

Regulatory interests and pressure related to ESG are building fast.

- Emergence of new standards and regulations



- Build Back Better framework
- Network for Greening the Financial System



Most recent **developments**

- **Nov. 3 (21):** Formation of International Sustainability Standards Board (ISSB) signals leap in ESG disclosures
- **Jan. 27:** Commissioner Lee (SEC) eyes ESG performance and executive pay
- **Feb. 7:** FDIC announces intent to join the Network for Greening the Financial System

Companies are already creating new products to capitalize on **the rising demand for ESG.**

S&P Global trends

Sustainability-linked loans
outpacing green bonds

Bank of America

Equality Progress Sustainability
Bond (\$2 billion)

Bank of the West

Environmental linked loan
(\$300 million)



Big banks have led the way so far, but the entire market is shifting in this direction.

More ESG data is available than ever, making it easier for consumers to **match their banking with their values.**

Digitalization and mobile banking aren't the only issues that will disrupt the banking industry.

Bank for Good

**Global Alliance for
Banking on Values**

**Partnership for Carbon
Accounting Financials**

Data availability is high, but public confidence in it is low. As the market matures, assurance might be on the horizon. And when data is not available, consumers will make their own assumptions.

Polling question

The biggest driver of ESG reporting for my organization is:

A.
Regulatory requirements

B.
Customer requests

C.
Employee attraction and retention

D.
Investor pressure

E.
Core to our mission / strategic differentiator

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You don't have to do everything
at once. **We all improve the
world together.**



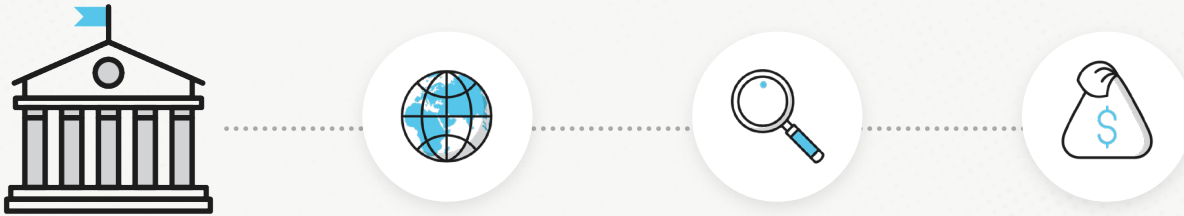
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Critical ESG area

Caring for the planet



What does it mean for a bank to help care for the planet?

Environmental sustainability of branches and operations matter – but that’s just one small piece.



The bigger picture: Understanding financed emissions
(and this doesn't have to mean divestment)

Examples

Citibank

Bank of the West

Many banks are in wait-and-see mode – **but soon the market may leave them behind.**

Assessing risk is routine. But there's also opportunity at the table. Start by “kicking the tires” on loan and investment portfolios – your traditional tools and datasets can help.

Economic sector and industry concentrations

Geographic concentrations

Energy market concentrations

Polling question

Regarding carbon emissions, my organization:

A.

Has completed a carbon inventory and is starting to evaluate financed (scope 3) emissions

B.

Has completed a carbon inventory (scope 1 and 2) using actual energy consumption data

C.

Has completed a carbon inventory using estimated/proxy consumption data

D.

Is in the process of completing its first carbon inventory

E.

Plans to complete a carbon inventory within the next 2 years

F.

Does not plan to complete a carbon inventory

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Critical ESG area

Advancing social justice



What does it mean for a bank to advance social causes?

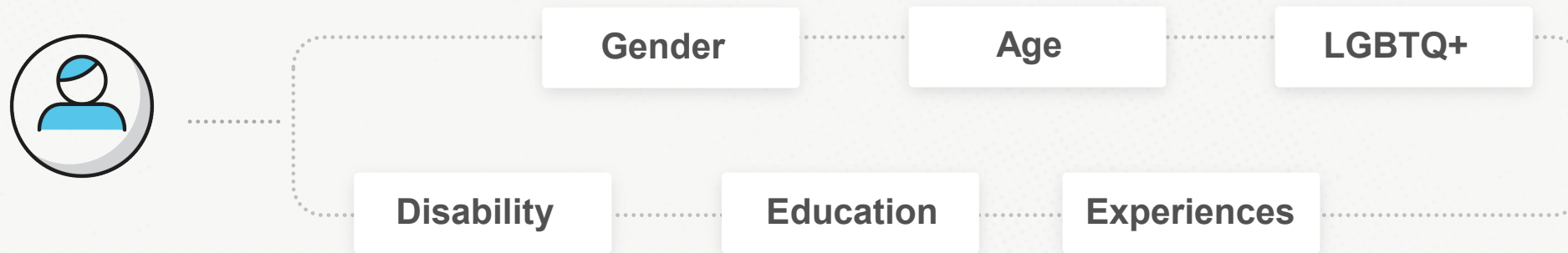
Compliance with existing programs, such as CRA, are table stakes, and they can help establish a framework for self-evaluation.

- ! Diversity, equity, and inclusion
- ! Community engagement
- ! Labor and workforce development

Banks are not solely responsible for enacting social change – but everyone must play a role.

Diversity doesn't **look the same** at every bank.

Race is a key element of diversity, but also:



It's not just about employees. **How is your bank serving diverse groups?**

Because diversity can mean many things, it all comes back to **linking to your bank's purpose.**

Diversity means many things to many different people.

The big question to ask: **Is your bank's purpose authentic?**

If not, new talent and customers alike will be able to tell – and they'll look elsewhere.



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**Community engagement
takes many shapes and
serves many objectives.**



Large banks tend to dominate the social justice conversation – **but they don't have to.**

Community banks tend to carry a better reputation, which creates opportunity.



Investing in your community and neighborhood



Helping vulnerable populations and communities navigate disruption

All of it matters and can feed into a compelling ESG story — when it aligns with and advances your bank's purpose.

Your social goals should extend far beyond compliance, but that doesn't mean **your compliance initiatives aren't part of the story.**

Community Reinvestment Act

Fair and Responsible Banking

You might be making community investments in projects that may not qualify for CRA, but still benefit diverse communities.

LGBTQ+ communities

Small-business owners

Young business owners

Public health focus

Teachers

.....

It all goes back to a **clear sense of purpose**

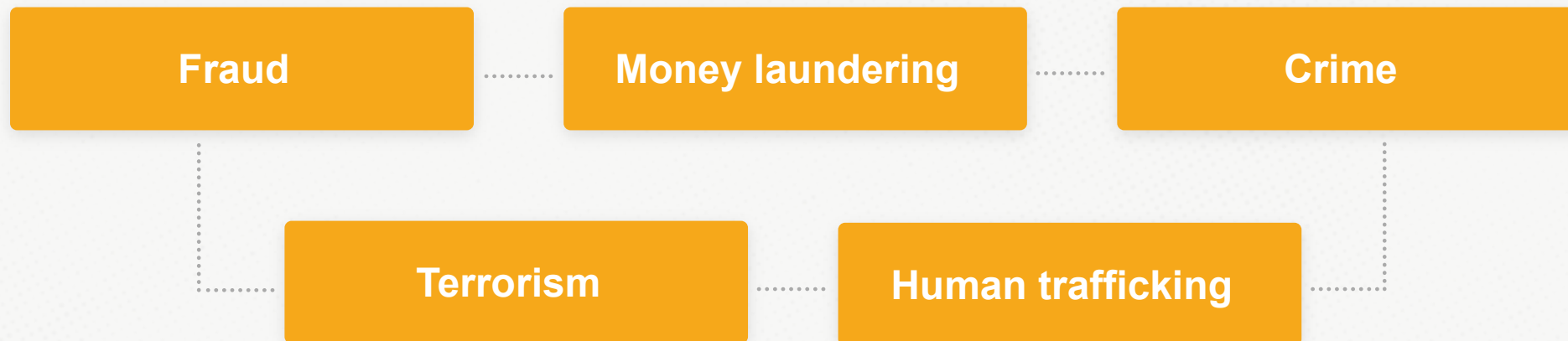
Critical ESG area

Making the world a safer place



What does it mean for a bank to help make the world a safer place?

- Safety and security for people
- Fighting to stop criminal and malicious activity:



Regulators and customers alike are raising their standards for **banking cybersecurity** and **data protection**.

Media attention on high-profile breaches has made customers more aware than ever about cybersecurity and data privacy issues.



A strong cybersecurity program makes business sense and reduces some of the most pressing, evolving sources of risk.



**Fraud
prevention**



AML



**Account
monitoring**



**Suspicious
activity**

—
Critical ESG area

Acting with integrity



What does it mean for a bank to **act with integrity**?

Consistent mindset of doing what's right

Intentionality in everything you do (alignment to the purpose)

Thoughtful, comprehensive codes of conduct (and adherence)

Support and resources to do the ESG work that backs up talk

ESG isn't a one-off or a side project. Banks that succeed in this area **integrate ESG into core business strategy and initiatives.**



No matter how much more you need to do, you can benefit by **organizing and framing what you're already doing.**

Find current strengths and opportunities

Become more focused and intentional even if you can't spend more right now

Polling question

My organization has identified the following topics that are material (choose all that apply):

A.

Climate Change / Energy Consumption / Carbon Emissions (including financed emissions)

B.

Diversity, Equity & Inclusion / Talent Attraction & Retention

C.

Human Rights / Community Relations

D.

Codes of Business Conduct (Ethics)

E.

Data Privacy / Cybersecurity

F.

I'm not sure / we have not completed a materiality assessment yet

Five things a bank of any size can do right now.

1. Perform an ESG materiality analysis and take stock of your purpose

2. Establish your baseline

3. Take an inventory of your energy usage (it's coming...)

4. Start thinking about ESG, and especially climate, when you think about risk

5. Examine your lending and investing portfolios (as much risk as it may identify, it may also help you unearth opportunities)

The takeaway: ESG and profitability can go hand in hand.



Climate risk is investment risk. Profits and purpose are inextricably linked.

- Larry Fink, CEO, Blackrock

Your bank can contribute to “saving the world” – **without trying to do everything all at once.**

Take stock of what you’re doing and start creating an ESG narrative now.

Banks that succeed in this area integrate ESG into an overall strategy that’s part of their core business. They’re playing a long game.

Questions?

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You don't have to do this alone. We're here to help.



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