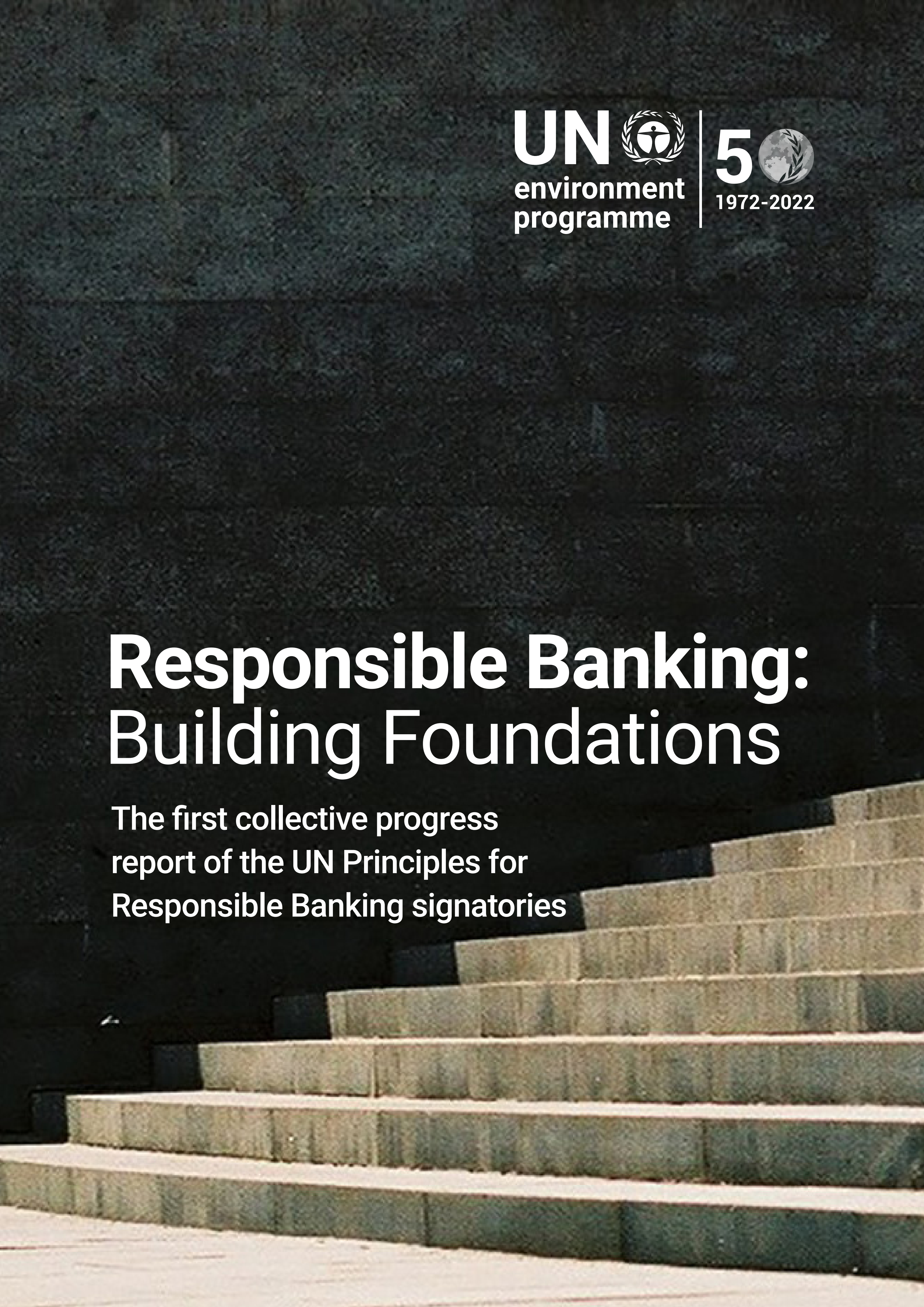

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# Responsible Banking: Building Foundations

## The first collective progress report of the UN Principles for Responsible Banking signatories

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# Table of contents

# List of figures



# List of tables

# Forewords

## UNEP Executive Director

**Inger Andersen**
Under-Secretary-General of the United Nations and
Executive Director of the United Nations Environment Programme

In 2019 the UN Environment Programme Finance Initiative (UNEP FI) launched the Principles for Responsible Banking. Speaking at the launch, UN Secretary-General António Guterres called on the banking sector to scale up financing to stimulate green growth. To disinvest from fossil fuels and pollution. To invest in the future of the green economy.

The UN Principles for Responsible Banking are a guide for the global banking industry to respond to, drive and benefit from a sustainable development economy. Over 40% of the global banking sector has signed up to this critical framework.

Two years later, the world has changed significantly. As we seek to emerge from the COVID-19 global pandemic, we do so with the clear understanding that we face a triple planetary crisis—of climate change, of nature and biodiversity loss, and of pollution and waste. We have not done enough to protect the world's poor and vulnerable. As COVID-19 has so clearly revealed, we have also not done enough to address societal inequalities, both within and among countries. And rich or poor, we are all being impacted by climate change. The planetary crisis has been driven by humanity's unsustainable consumption of the planet's finite resources.

Decarbonizing our economies and societies is no longer an option. It is the only way to secure the future and, quite frankly, we can't get there without the banking sector driving this transformation. So just how are we doing? This is the focus of the Collective Progress Report of the UN Principles for Responsible Banking. Over 90% of banks have identified sustainability as a strategic priority and are establishing the systems and policies to set targets for action. We are seeing early signs of impact on the real economy with the mobilization of US$ 2.3 trillion of sustainable finance. We are seeing a clear focus on climate and financial inclusion.

But I would not be doing my job if I did not push you do to better and to move more rapidly. So, allow me to focus on four asks as you move forward:

**First, take an integrated approach to the environmental emergency.** It is no longer sufficient to focus on climate, nature and pollution as distinct challenges and therefore, neither can your finance flows do so. Thus far you have demonstrated a commendable effort on climate but only 15% of banks identified biodiversity and nature as an area of significant impact. Given that half of global GDP depends on nature and the services it provides, it is time to step up the focus on nature-positive finance flows.

**Second, improve availability and quality of data.** You need to be able to better track and measure progress. So, work together, along with stakeholders, so you can increase the availability of shared knowledge sources.

**Third, strengthen impact analysis.** Deepen your technical knowledge and expertise so that you can review a portfolio of environmental impacts—both positive and negative for all products and services.

**Fourth, and importantly, listen to what civil society tells you.** As the Intergovernmental Panel on Climate Change has made clear, for more than three decades, we have listened but not heard climate scientists. We cannot afford to continue to make that same mistake again. The Civil Society Advisory Body's independent view has encouraged a more holistic focus including on human rights, gender and equality. Fold this into the steps you will take in the years ahead.

The bottom line is that sustainable finance—one that works for people and the planet—is the only way to ensure long-term profitability. Because we all know, there are no profits to be made on a destroyed planet. Sustainable finance is about creating prosperity for this and future generations. Sustainable finance is about accelerating positive change. Sustainable finance is all about ensuring healthy people and a healthy planet.

I thank you for all that you are doing to realise this vision—there can be no more powerful a legacy than this.

# Forewords

## UNEP FI Banking Board Co-Chairs

**Wendy Dobson**
Standard Bank Group

**Siobhan Toohill**
Westpac Group

The Principles for Responsible Banking commit signatories to aligning their business strategies with the Sustainable Development Goals (SDGs) and the Paris Climate Agreement. Since their launch in September 2019, banks from across the globe, now representing close to half the world's banking system, have been collaborating on implementing the actions. These actions are needed to make meaningful change in addressing the most pressing environmental, economic and societal issues, as well as putting governance structures in place to support implementation and accountability. This first report reflects the collective progress achieved 18 months since the formal launch of the Principles for Responsible Banking.

Together, smaller regional and larger global banks, Latin American and Asian banks, specialized and universal-services banks, have been developing the tools to support effective implementation of the Principles. This is a journey of unprecedented scale and scope at a time when such ambition is urgently needed—particularly in response to climate change. It has been encouraging to see the investment of time that banks have made. Together, they are forming working groups, considering collective commitments, and creating guidance and tools in areas such as portfolio impact assessment and analysis, target-setting and reporting.

With the guidance and tools in hand, banks are assessing and measuring their impacts, a prerequisite for setting targets. This is not an easy task, especially for smaller banks and banks just beginning their sustainability journey. Impact assessment and measurement requires considerable work to build capacity and gain organisational support, including executive sponsorship. However, it is necessary and important. We must not only continue to build on the momentum evidenced in the first 18-months, but accelerate it, in order to deliver on our commitments.

There are clear signs of progress. 94% of signatory banks now include sustainability as part of their core business strategy. Over the past year, we have witnessed a step-change in the pace of action across the signatories. The more recent acceleration of activity, particularly action on climate change and a growing focus on biodiversity, is not captured in this initial baseline report (as it includes data up to March 2021). We look forward reporting significant progress in these areas in future collective progress reports.

As Banking Board co-chairs we especially welcome the review of our collective efforts by the Civil Society Advisory Body. Their constructive dialogue and valuable perspectives are shared in this report. The establishment of this body has been an important milestone in our progress since the launch of the Principles.

It is our responsibility to harness the insights from this report to inform our strategic priorities as we move forward. We must keep up momentum. A crucial element will be ensuring robust targets are set that address the most significant areas of social and environmental impact associated with our activities. This report highlights the promising progress made, but also the array of existing and emerging challenges to be addressed. By working together, we can ensure that the banking sector is helping to create an inclusive, low-carbon and resilient economy—for our world today, and for future generations.

# Executive summary

## The first Collective Progress Report of the UN Principles for Responsible Banking (PRB) signatories maps the early stages of implementation by signatories

**The coalition of PRB signatories has grown to represent 40% of the global banking system by assets.** This report synthesizes individual reporting from 203 signatories, providing a status update on their progress in implementing the PRB framework, and thereby taking steps to align their business strategies with the UN Sustainable Development Goals and Paris Climate Agreement.

Signatories provided information regarding their progress addressing key impact areas. These areas were grouped into the following categories:

- **Environmental**—climate change mitigation, climate change adaptation, biodiversity, resource efficiency
- **Social**—gender equality, financial inclusion, human rights, decent employment
- **Internal changes**—progress of integrating sustainability into strategy and processes internally

In addition to reviewing progress across these categories, the report includes:

i. an independent view from the **Civil Society Advisory Body (CSAB)**, a 12-member body mandated to support Signatory Banks with their PRB implementation, assess progress made by the community of signatories, and provide advice on priority areas
ii. details of the **resources delivered** by the community of signatories so far that support and build capacity for effective PRB implementation.

## The report provides an update of signatories' progress in implementing the principles

Signatories' progress is assessed according to their fulfilment of three key steps:

1. Analysis of their current impact on people and planet
2. Based on this analysis, prioritisation and setting of targets where they have the most significant impact. This is followed by implementing actions to meet targets.
3. Publicly reporting on progress, and, by year four, having this reporting verified by a third-party.

Signatory banks must implement these steps within their first four years of joining the Principles. This report is the first collective baseline review, marking 1.5 years of the Principles' initial 4-year timeline. This report captures banks progress up to March 2021. Signatories will be in their first or second year of reporting depending on when they joined the Principles.[1]

## Signatories are making progress in establishing systems and policies in order to set targets for action

PRB signatories' reporting indicates that banks' current implementation has focused on putting the systems and policies in place for concerted action. Some banks have been undertaking a retooling of their core banking processes, with

- **94% Focusing on sustainability as part of their strategy:** Most banks identify sustainability as a strategic priority for their organisation.
- **93% Analysing Impact:** 93% of banks have begun to establish impact analysis systems, with 29% reporting that they have completed their initial impact analysis.
- **30% Setting Targets:** 17% of banks have set at least one robust target in an area of significant impact (this is mainly climate mitigation and financial inclusion). These targets fulfil all required steps for robust targets as specified by the Principles (e.g. determining baselines, establishing milestones and developing key performance indicators (KPIs)). Another 13% of banks have also set at least one target in an area of most significant impact, but have not yet fulfilled all required steps for robust target-setting as specified by the Principles.

[1] Data submitted by banks for this report may be up to 6 or 12 months old, and therefore some results may not be fully indicative of where bank's stand in their implementation journey at the date of publication of this report.

## Early signs of impact in the real economy

There are some early indications of progress as signatories start to shift financing and investment practices towards positive sustainability impacts. There are early signs of visible impact on the ground, including during the last year:

- **15,131 clients** (corporates and SMEs) being advised on climate strategies (as reported by 20 banks)
- **113 million vulnerable customers** gaining access to financial services (as reported by 41 banks)
- **69% of banks** with climate change mitigation as an impact area investing in green assets and low-carbon technologies
- **US$ 2.3 trillion of sustainable finance** being mobilized (as reported by 87 banks)

## Progress differs widely across signatories

Many banks are navigating the complex process of analysing their impact in line with the PRB requirements. However, the progress made by PRB signatories differs widely. Good examples of implementation are emerging from a small number of advanced banks. These can be used as practical examples for peers on their own implementation journey.

## Banks are currently focussed on issues around climate and financial inclusion

Many banks are making considerable progress setting targets and engaging with clients in three main topics—climate mitigation, climate adaptation, and financial inclusion. In summary,

### 87% are focusing on Climate

- 177 banks identified climate as an impact area.
- 46% of these banks have already set or are actively working to set a climate target, and a further 30% plan to do so in the next year.
- 62% of signatories are supporting clients' transition to a low-carbon economy or are setting up an engagement process to do so. More than 15,000 clients were engaged by PRB signatories in the last year.

### 47% are focusing on Financial Inclusion

- 95 banks identified financial health & inclusion as an impact area.
- 82% of these have either developed financial solutions to improve customers' financial access or are working to do so.

## Signatories are collaborating, particularly where impact approaches are less advanced

Where impact measurement approaches and action are less advanced, there is increasing evidence of collaboration amongst signatories to develop resources that support target setting and implementation.

In areas such as climate change where data and methodologies are more advanced, banks are establishing impact measurement systems and setting targets to drive impact. They are also developing the associated customer engagements strategies, products, and services needed for the climate transition.

Signatories have also identified biodiversity, gender equality and decent employment as areas of impact to be accurately measured and addressed. In these impact areas, banks are working together to increase their capabilities for target setting and implementation. For example, they have developed guidance for gender equality targets, financial inclusion and financial health, and biodiversity, as well as impact analysis tools and resources. This will enable progress in driving positive impact in these areas that are, to date, less advanced.

## Continued and accelerated action is needed

As they move forward, banks must continue to improve their impact analysis, refine their target setting, and strengthen their data management. Although signs of positive contributions to the SDGs and the Paris Climate Agreement are emerging, there remains a long way to go for banks to comprehensively implement the three key steps.

Signatories must accelerate their commitments to address key challenges, notably:

- **Improve the availability and quality of data.** Many banks lack the ability to track and measure progress due to the limited availability and quality of internal and external data. They must therefore work together and with stakeholders to increase the availability of shared knowledge sources and agree on approaches where data is not available, such as using national averages or appropriate proxies. Banks must also improve corporate disclosure and management of available data in order to address this challenge.
- **Strengthen impact analysis**. Banks need to gain technical knowledge and expertise to deepen their understanding of how to review the impacts, both positive and negative, of their activities, products, and services across their portfolios.
- **Increase action on further critical sustainability issues.** Some sustainability themes that have been identified by science and the international community as critical are underrepresented. For example, currently only 15% of banks identified biodiversity as an area of significant impact, and 23% identified human rights as significant, despite research and stakeholders indicating both are important risks and impacts to be addressed by the sector.

- **Sufficiently link all targets to the outcomes of impact analyses.** Targets should be in line with banks' PRB commitments and encompass the activities financed by the organisation. Too many banks are setting targets linked to internal, operational activities such as head office electricity consumption rather than portfolios. Additionally, some of the existing targets do not show compelling links to identified significant impacts, or fulfil the commitment of setting specific, measurable, achievable, relevant and timebound (SMART) targets.

## UNEP FI's work programme aims to scale and strengthen action of PRB signatories

The PRB work programme will be further developed to support banks in scaling up their progress and addressing these key challenges. The PRB will continue to provide platforms for banks to engage, develop approaches, and consult and learn from experts, including the Civil Society Advisory Body, standard setters and industry stakeholders.

Banks' commitment to implementing the PRB framework is vital to uphold the credibility of each signatory and the Principles. The next Collective Progress Report (in 2023) will build on the baseline established here. Individual progress of each bank will also be reviewed on an annual basis. This will help banks to fulfil the commitment they have made within the Principles, drive progress and facilitate accountability. Together, these reports (individual and collective) will ensure the PRB framework is used effectively to align the banking industry with the Sustainable Development Goals and the Paris Climate Agreement.

## Summary of Civil Society Advisory Body's independent view

The CSAB's independent review of the Collective Progress Report is based on the collective perspectives of the 12 CSAB members as well as the 46 stakeholders that these members consulted with across all major regions and sustainability areas.

The CSAB welcomes the work that PRB and many of its member banks have done to identify activities and progress to date. However, as noted throughout the independent view, CSAB members encourage a more holistic focus (including on key issues such as human rights, equality, and biodiversity), comprehensive goal setting, and demonstrated execution against these goals by the following PRB Collective Progress Report, with indications of meaningful progress from member institutions in the interim.

## Next Steps

The findings in this report, including the CSAB independent view, will be considered by UNEP FI's Banking Board, and inform the strategic priorities of the PRB work programme. They will also inform a review of the Principles for Responsible Banking Framework Documents in the fourth quarter of 2021, which aims to maintain ongoing relevance and alignment with evolving sustainability needs and objectives.

# Overview of progress across the 6 Principles for Responsible Banking

The community of PRB signatories has grown to represent **40% of the global banking system by assets**

## US$ 2.3 trillion of sustainable finance is being mobilized*

### Principle 1: **Alignment**

**94%** focusing on sustainability as part of bank strategy

### Principle 2: **Impact and target setting**

**93%** analysing impact

**30%** setting targets

**87%** climate focus

**47%** financial inclusion focus

### Principle 3: **Clients & customers**

**56%** have an engagement process or policy in place

**30%** are working on an engagement process

### Principle 4: **Stakeholders**

**65%** have a process to regularly consult, engage, collaborate, and partner with stakeholders

**12%** are setting up a process to regulary consult stakeholders

### Principle 5: **Governance & culture**

**80%** established a governance system that incorporates the PRB

### Principle 6: **Transparency & accountability**

**69%** published their first PRB report

**30%** set up third party assurance of their PRB reporting

* as reported by 87 banks

# I. Introduction

The Principles for Responsible Banking (PRB) provide a global framework to ensure that Signatory banks' strategy and practices align with the future society demands. The framework enables the sector to align itself to global goals and targets stated within the Sustainable Development Goals and the Paris Climate Agreement.

In September 2019, during the annual United Nations General Assembly, the Principles (see fig. 1) were launched by UN Secretary General Antonio Guterres and 132 founding Signatory banks. Since the launch, the PRB Signatory community has grown to more than 240 banks who have joined this **movement for change, leading the way towards a future in which the banking community makes the kind of positive contribution to people and the planet that society expects. PRB signatories now represent approximately 40% of the global banking industry.**[2] This is a journey of unprecedented scale and scope at a time when such ambition is urgently needed to address the climate and nature crises and social challenges such as inequality.

**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.

**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.

**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.

2 Bank's global financial assets (2019) according to FSB (Financial Stability Board 2020): US$ 155.4 trillion.

**Principle 4: Stakeholders**
We will proactively and responsibly consult, engage and partner with relevant stakeholders to achieve society's goals.

**Principle 5: Governance and Culture**
We will implement our commitment to these principles through effective governance and a culture of responsible banking.

**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.

**Figure 1: The Principles for Responsible Banking**
Source: UNEP Finance Initiative

The first Collective Progress Report of the UN Principles for Responsible Banking signatories, in line with Principle 6: "Transparency and Accountability", is designed to assess progress a year and a half after the Principles' launch in September 2019. It aims to give examples of emerging good practices, detail how the community of signatories to the Principles are delivering on the commitments made, and where more progress is needed. It therefore underpins the credibility of the Principles and their signatories. There will be a biennial review of signatories' progress to evaluate and understand how the PRB Signatory community is bringing about change and positive impact. This first report provides a collective baseline and maps the early stages of framework implementation.

Banks' role for sustainable development: A bank's most significant impacts on society, the economy, and the environment, are indirect—i.e. through its financing and investment activities instead of its own operations. Therefore, impacts are linked to the activities of the bank's clients and customers. Taking an intermediary role, banks have a crucial steering function in the wider economy and thus contribute to sustainable development by directing monetary flows towards sustainable activities.

## Commitment of PRB signatories

Signatory banks commit to taking three key steps which enable them to continuously improve their impact and contribution to society:

1. Analyse their current impact on people and planet
2. Set targets where they have the most significant impact and take implementation actions towards meeting them
3. Publicly report on progress and, by year four, have this reporting third party verified.

Within their first four years, Signatory banks must have met all these requirements (see fig. 2).

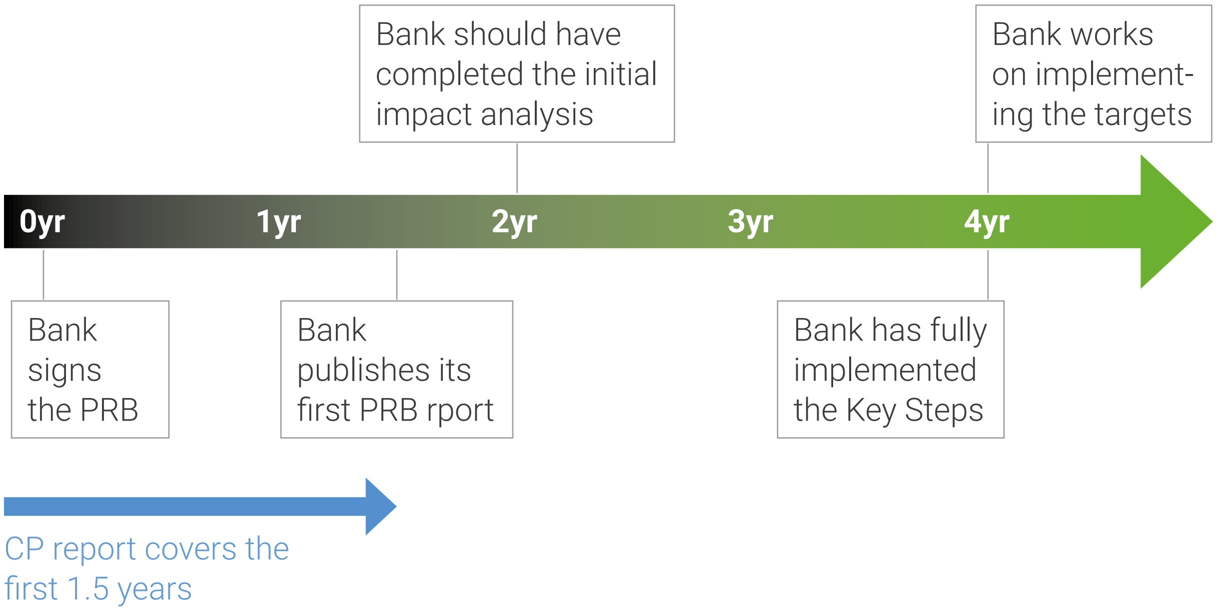


**Figure 2: Timeline of implementing the PRB**
Source: UNEP Finance Initiative

This report is the first collective baseline, marking 1.5 years since the launch of the Principles. Banks contributing to this report are either in their first (22% of banks) or in their second year of implementation (78% of banks), marking the one-and-a-half-year point for founding signatories in their 4-year journey to implement the Key Steps. After having set up these processes within the first four years, banks will then work on implementing the targets they have set, continuously strengthening their impact analysis and implementation across the Principles (see fig. 2).

## Developing this report

This first PRB Collective Progress Report synthesizes individual reporting from **203 signatories**, providing a status update on their progress in implementing the Principles and aligning their business strategies with the SDGs and Paris Climate Agreement. The report is based on information delivered by the signatories who provided feedback to a detailed questionnaire developed specifically for this purpose. More than 94% of Signatory banks (203 out of 218 signatories that had signed the PRB before March 2021) contributed to this report, with a little more than half of banks (56%, i.e., 114 banks) from Europe, followed by 17% (35 banks) from Latin America and the Caribbean, 14% (28 banks) from Asia Pacific, 8% (16 banks) from Africa & Middle East, and 5% (10 banks) from North America (see fig. 3). Mapping the banks against their development context, 62% of banks are headquartered in developed economies, 37% in developing economies, and 2% in economies in transition.[3]

3 United Nations (2019) data were used to categorize developing/developed countries.

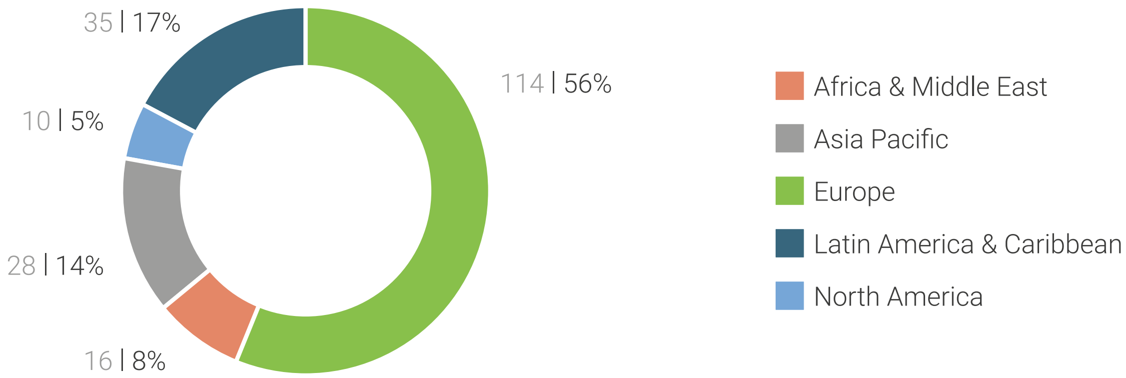


**Figure 3: Regional distribution of PRB signatories contributing to this report**
Source: UNEP Finance Initiative

The 203 PRB signatories contributing to this report account for bank assets of US$ 54.4 trillion in total, which is 35% of global banking assets[4].

The questionnaire consisted of 57 pre-determined common indicators (see Annex I) and asked banks to provide details (where possible) concerning their progress in relation to specific KPIs. It was designed by the 'Collective Progress Monitoring & Evaluation' working group, which comprised 41 banks. The PRB signatories completed this questionnaire within a period of six weeks between March 29 until May 7, 2021.

Indicators used to measure the progress of PRB signatories were grouped into three categories: internal changes, environmental impact and social impact (see table 1).

| | |
|---|---|
| **Internal changes** | ▪ Strategy Alignment (reflecting Principle 1)<br>▪ Impact & Target Setting (reflecting Principle 2)<br>▪ Clients & Customers (reflecting Principle 3)<br>▪ Stakeholders (reflecting Principle 4)<br>▪ Governance & Culture (reflecting Principle 5)<br>▪ Transparency & Accountability (reflecting Principle 6) |
| **Environmental impact** | ▪ Climate Change Mitigation<br>▪ Climate Change Adaptation<br>▪ Resource Efficiency & Circular Economy<br>▪ Biodiversity |
| **Social impact** | ▪ Decent Employment<br>▪ Gender Equality<br>▪ Human Rights<br>▪ Financial Inclusion |

**Table 1: Areas covered by the indicators**

4 Bank's global financial assets (2019) according to FSB (Financial Stability Board 2020): US$ 155.4 trillion. obal Monitoring Report on Non-Bank Financial Intermediation 2020 (fsb.org). Since March 2021, the PRB Signatory group has grown to more than 235 signatory banks as of July 2021, which in total account for approx. 40% of global banking assets.

The data collected from individual banks was aggregated and anonymized. Banks were expected to answer the questions on Internal Changes as well as for a minimum of two impact areas to the best of their ability. The results shown in this report always refer to the number of banks that answered the respective question. The gathered data was analysed by the UNEP FI Secretariat. **It is expected that the data would have been validated by each bank in terms of quality and accuracy**. The results shown are based on a self-assessment by the banks; the data was not verified by the UNEP FI Secretariat.

Data submitted by banks for this report may be up to 6 to 12 months old at date of publication, and therefore some results in this report may not be fully representative of signatories' implementation progress at the point of publication. For example, the work undertaken by banks having signed the Net-Zero Banking Alliance (NZBA) is not reflected by the findings in this report, since the NZBA was launched close to the deadline for the data collection for this report.

# The vision of responsible banking

The common vision of signatories is to serve and contribute to an inclusive society that uses its natural resources sustainably, positioning a responsible banking industry as an integral part of society in the 21st century. Within their initial 4-year implementation period, all signatories must set clear, time-bound targets in their key impact areas. This will enable banks to align their portfolios with society's goals as set out in the SDGs and Paris Climate Agreement. Signatories' individual and collective measurable impacts are expected to increase substantially each year, resulting in positive contributions to societal and environmental goals.

The report is structured as follows: After an overview of the Principles for Responsible Banking journey so far (chapter II, Principles for Responsible Banking: Building foundations), the Civil Society Advisory Body presents its independent view of PRB signatories' collective progress (chapter III). The findings from the Collective Progress Review are then presented, first in terms of internal changes happening within banks (chapter IV), then in terms of early signs of progress on the ground that can be seen (chapter V). Chapter VI will cover areas of focus going forward, informed by common challenges PRB signatories are facing. Finally, the report provides an outlook on the PRB journey in the coming years in the last chapter (chapter VII).

# II. The Principles for Responsible Banking: Building foundations

The growing community of PRB signatories representing approximately 40% of the global banking industry are together building foundations for a necessary transformation of the banking industry. They continue to provide sector-wide leadership, having established the Principles for Responsible Banking as the leading global sustainable banking initiative.

## Jointly providing sector-wide leadership

By working collaboratively with leading peers on the same journey, and stakeholders with expertise (including members of the CSAB), banks are jointly creating good practices and defining new standards for sustainability leadership. These are beyond what any bank could achieve on its own. Peer working groups have been set up bringing signatories together to learn from each other and co-develop tools, guidance, and methodology to support PRB implementation. More than 300 staff from Signatory Banks have been actively involved in 13 Working Groups to help advance responsible banking market practice, thus showing an unprecedented level of engagement.

The outputs of the Working Groups including tools, methodologies, and guidance. These outputs facilitate capacity building among all signatories as well as in the wider banking industry through the dissemination of expertise and practical resources. Key outputs of these working groups include i) the launch of the impact analysis tools and impact analysis guidance, ii) target setting guidance issued on Gender Equality, Financial Inclusion and Financial Health, Climate and Biodiversity, and iii) reporting and assurance guidance.

## Working collectively to create impact

Banks are innovating together, at the cutting-edge of sustainable finance, to deliver impact as a collective. Sixty-eight signatories are currently part of commitments that seek to drive climate action. These commitments are underpinned by a set of Guidelines, developed by signatories of the Collective Commitment to Climate Action (CCCA—see below) and technical experts, that ensure targets set by banks have sufficient rigor and credibility to deliver on the Paris Climate Agreement and the latest science. The recently launched Net-Zero Banking Alliance (NZBA) is a commitment to align banks' lending and investment portfolios with net-zero emissions by 2050 and to set intermediate targets for 2030 or sooner. Since its launch in April 2021, the **Alliance has grown to 53 members, of which 50 are signatories**, from 27 countries, representing US$ 37 trillion in assets, constituting 24% of global banking assets. This coalition of leading banks continues to grow, and currently encompasses 11 of the 30 Global Systemically Important Banks (G-SIBs).

The Collective Commitment to Climate Action brings together 37 Signatory banks from all continents, representing more than US$ 15 trillion in assets. In September 2019, these first movers committed to align their portfolios with the global climate goal to limit warming to well-below 2 degrees Celsius, striving for 1.5 degrees. Since signing the commitment, the CCCA banks have developed the Guidelines for Climate Targets Setting for Banks, mentioned above. These, underpin both commitments under the CCCA and the NZBA, and will guide banks as they work on measuring the emissions across their portfolios and setting targets in the most carbon intensive sectors. Last year, the CCCA banks delivered their first collective reporting in the Year One in Review report, where they publicly reported on actions and measures they have taken so far to deliver on their commitment.

Work is underway to develop a commitment statement to support more inclusive economies by a working group of 25 banks which will focus on driving greater financial inclusion and financial health in their economies. The commitment will launch in October this year.

## Robust accountability

UNEP FI has put in place governance structures and accountability mechanisms to ensure the community of PRB signatories delivers on their commitments with ambition and transparency. This includes i) the establishment of the *Civil Society Advisory Body*, 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, ii) individual and collective progress review processes, and iii) a process for removing signatories who do not deliver on their commitments. The Civil Society Advisory Body has produced an independent view of PRB signatories' progress which is included in chapter III.

# III. Independent view of the Civil Society Advisory Body

The following is the PRB's Civil Society Advisory Body's independent review of the Collective Progress Report on the member banks' first two years in the PRB process. This document is based on the collective perspectives of the 12 CSAB members as well as the 46 stakeholders that these members consulted with across all major regions and issue areas. While the CSAB gathered input from these 46 stakeholders, this document reflects the perspective of the CSAB and has not been reviewed by each stakeholder. The CSAB welcomes the work that PRB and many of its member banks have done to identify activities and progress to date. However, as noted throughout this document, CSAB members encourage a more holistic focus (including on key issues such as human rights, equality, and biodiversity), comprehensive goal setting, and demonstrated execution against these goals by the following PRB Collective Progress Report, with indications of meaningful progress from member institutions in the interim. This document provides some overall reflections, then more specific responses to the three questions put to the CSAB by the PRB.

## Overall reflections

Target setting: While 94% of the banks say they focus on sustainability, this has yet to sufficiently translate into goal setting, let alone action. Only 17% have set at least one target for an area of "most significant impact" that includes milestones, KPIs, and measurement, and an additional 13% are working to establish such supporting details ("First Collective Progress Report" [p. 37]). Therefore, 70% of the responding banks have yet to move past the most preliminary steps in this essential task of holding themselves and their clients accountable for progress. This puts the reported information in perspective, in terms of progress that must be made--both on execution and related reporting.

### Recommendations:

1. The prevalence, ambition, and specificity of banks' target setting, with supporting metrics and actions should be a primary focus of PRB signatories, and UNEP FI itself. To facilitate the acceleration and ambition of measurable goal setting, the PRB could help identify challenges that these banks are facing (including regional differences, bank size, etc.) and, where relevant, leverage the expertise of the CSAB and its members (see p. 18).

2. An important gap between commitment and impact can be around consistent, comprehensive, and ambitious implementation across a business. Therefore, in future evaluations, it would be helpful to probe the scope and consistency of this implementation across the business.

Maximizing the credibility of targets, claims and impact. It is encouraging to see the magnitude of sustainable products that have been developed and offered by the banks (see p. 32). However, differing national laws and other location-specific considerations for banks can lead to different criteria upon which they deem a product sustainable, leading to varying actual performance, comparability, or impact. In Europe, the EU is bridging this open interpretation (which can also lead to greenwashing or social washing) with its work on the Taxonomy and disclosures. At the same time, the EU has hinted that it will monitor the credibility of the voluntary initiatives, for these reasons.

## Recommendations:

1. It could be beneficial to ask banks to indicate in their reporting to which of the referenced sustainability criteria (e.g., SDGs, Paris Agreement, national or regional instruments, etc.) are their targets related and how. Furthermore, the current EU Taxonomy or the announced "global/common" Taxonomy could be used as a specific reference. Lastly, it could be beneficial to expand UNEP FI´s definition (see p. 33) with an explicit inclusion of at least the UN Guiding Principles on the same level as the SDGs and the Paris Agreement—this could also help improve the work on human rights, including across value/supply chains.

2. Given the urgent need to reduce emissions, as highlighted in the recent IPCC Sixth Assessment Report--which builds on the 2018 IPCC SR 15 calling for halving emissions this decade to limit warming to 1.5°C--financed emissions of banks' businesses should be included in further progress reports to provide evidence on whether and to what extent such emissions for which banks carry responsibility are being reduced. In this context, it is critically important that targets on the reduction of fossil fuel financing are set and published in detail across PRB members.

3. Importantly, while sustainable products are listed and quantified, no account is given of unsustainable financial services (lending, underwriting, M&A advisory, etc.) to harmful sectors/activities, in particular to the fossil-fuel related industries. The CSAB believes it is vital that such transparency is provided, as without it, the CSAB's ability to judge the progress of PRB and its members is limited.

4. Both financed emissions reductions and sustainable finance commitments should be part of broader net-zero-by-2050 (at the latest) strategies with meaningful and measurable 2030 interim targets and transition plans. As part of such commitments, member banks are encouraged to join the Net-Zero Banking Alliance.

5. Furthermore, the PRB should ask its members to go beyond target setting which does not always lead to a reduction in negative impact on the climate and the environment in the short term, as targets can allow for some offsetting between high- and low-carbon activities, for example. In addition, they do not differentiate carbon-intensive assets from a broader ESG perspective. A barrel of oil sourced

from the Arctic Circle or the Canadian oil sands is treated as equivalent to any other barrel of oil. Robust sectoral policies and decarbonisation expectations for clients can be more effective than targets to prevent the financing of Paris-misaligned activities and drive ambitious corporate change on climate and biodiversity.

### Additional Overall Recommendations

1. Because of regional differences, the CSAB recommends that progress data be broken out by geographical region.

2. Reporting on progress should be a binding requirement for PRB membership as this demonstrates the absolute minimum level of commitment to the PRB's objectives.

3. A common theme raised by many of the CSAB stakeholders consulted was a concern about the lack of visible impact on key topics highlighted by the PRB, such as climate change, gender equality, human rights, and biodiversity. This could be remedied by the introduction of an 'accountability' mechanism by the PRB.

## Specific Reflections

### Question 1:

**Based on the outcome of the Collective Progress Review, and considering the different levels of maturity of the community of banks, what is your assessment of the progress signatories have made with regards to internal changes (e.g, strategy alignment, governance and culture etc.)?**

Areas and sectors of focus: Generally, climate change (both mitigation and adaptation) remains a relevant impact area among respondents, while gender and diversity, human rights, and biodiversity are identified as low impact areas, despite all of them being mentioned in banks´ strategies. It seems that the alignment on all three fronts (impact area, strategy, business opportunity) is valid only for climate change (see pp. 46–47). The perception could be that priority has been given to topics closest to "core business", where products and services most easily can be developed and/or adjusted. See Question 2 response, below, for further detail and recommendations on areas of focus beyond climate change. Similar to a comparatively narrow focus on the climate impact areas, only half of banks included all "key" sectors and markets in their impact analysis.

Sustainability culture and related competence: When it comes to promotion of a sustainability culture among employees, the report states that 90% of PRB signatories have measures in place to promote a culture of sustainability among employees, considering regular communication from the top and capacity building as best measures, especially if done together (see p. 42). However, it is not evident that banks are doing this[5].

5 This statement is based on a document shared with the CSAB providing detailed findings from all the indicators assessed.

Data availability, quality, and focus on impact have been raised as main challenges in the implementation of the Principles (see p. 59). This is a valid and known challenge, especially for external information. Along with improved bank capabilities, having assurance needs to meet the Principles and EU (and other jurisdictional) legislation should help drive data availability and consistency. It is noteworthy, however, that sustainability-related competence is not called out as a specific need for the banking community—especially because most of the other challenges that are identified (see p. 59) could be remedied with competence development. As an illustration that progress is being made in this regard, initiatives have been reported to CSAB in some countries where trade unions and banks jointly are working on developing education programs for staff in connection to sustainability.

## Recommendations:

1. Because most sectors beyond the heavy emitters (such as coal, oil & gas, and electric power) have impacts on and are impacted by climate change, CSAB encourages a broadening of sectoral focus to ensure that analyses by banks do not omit key risk areas where they could have significant impacts.

2. To better understand the efficacy of banks' sustainability trainings, it would help to understand the role of senior leadership and what types of employees are involved in trainings and best practices development, including for differing levels of sophistication as smaller banks level up.

3. Although "dialogue formats" have been identified as an existing measure by nearly two thirds of the respondents[6] there have not been any significant examples of engaging employees in the implementation of the activities. We recommend that a formal record of social dialogue be included, as well as employee representation at company board or related sustainability-devoted bodies.

4. It would be helpful to identify which types of data are missing and whether this offers an opportunity for action. Competence needs and good practices in competence development could be a joint area of work between the Board and CSAB, including through best practice sharing (thus also amplifying the work done by trade unions to date).

5. Much more effort needs to be put into bringing IT systems in line with sustainability, particularly related to data availability, management and analysis. Data analytics underpins all elements of other pillars, like strategy development, and risk management and should also inform investment decisions, and is therefore a critical foundational element of any strategic alignment process. As part of these risk management efforts, banks should conduct scenario analysis using the most ambitious scenarios (e.g., the IEA's net-zero by 2050 pathway).

6 This statement is based on a document shared with the CSAB providing detailed findings from all the indicators assessed.

## Question 2:

**Based on the outcome of the Collective Progress Review, and considering the different levels of maturity of the community of banks, what is your assessment of the progress signatories have made with regards to key impact areas changes (e.g. climate, biodiversity, decent work etc.)?**

Impact areas: As noted above, climate change receives the preponderance of attention as an area of "significant impact" relative to gender and diversity, human rights, and biodiversity. For example, just 15% of banks identified biodiversity as an area of "significant impact". While this may be due, in part, to the difficulty of measuring short- to medium-term financial materiality of biodiversity loss, it is nonetheless a notable and important omission.

On human rights, only 13% of the total respondents have engagement processes with affected stakeholders (including employees). However, the quality of this engagement is even lower, as demonstrated by only 10 banks having complaint mechanisms, six banks have the engagement process evaluated by the affected stakeholders, and nine banks could clearly articulate salient human rights issues across activities and business relationships (see p. 57). This suggests significant gaps in banks' due diligence processes, given that banks can be linked to human rights impacts across regions (impacts with reported links to banks have included for example arbitrary detention, impacts on human rights defenders, and impacts on indigenous peoples).

## Recommendations:

1. Notwithstanding banks' need to prioritize impact areas on which to focus, the CSAB encourages banks to ensure that they are not neglecting other impact areas, such as biodiversity, gender/equality, and human rights, particularly when addressing one can help address others (e.g., improving biodiversity helping to ameliorate climate change impacts).

2. To the extent to which banks are having difficulty measuring the financial materiality of some of these impact areas, such information gaps should be prioritized in specific environmental and social data requests of their clients, as well as their suppliers for their own purchasing and procurement processes.

3. There is a relative dearth in policies to address biodiversity, human rights, and gender equality compared to climate adaptation/mitigation. At a minimum, in terms of setting targets, exclusion lists for illegal activities should be established across the board for biodiversity and human rights, and more widespread gender equity targets along with mandatory human rights and environmental due diligence reporting and clear remedy/complaint mechanisms.

4. Regarding decent employment, it was encouraging that almost all respondents who identify the area as a priority have internal policies, only 35% also looked externally to their business activities. The CSAB would encourage member banks to ensure an adequate focus is applied to both internal policies and business interactions, for this impact area and all others.

## Question 3:

**Based on the view established in part A, what priority areas should signatory banks focus on in the next two years?**

Based on the CSAB perspective in questions 1–2, we have the following recommendations for signatory banks' (and the PRB's) prioritization going forward:

1. More widespread, and actionable target setting: As noted above, target setting needs to be more ubiquitous, ambitious, and measurable in order to realize the PRB's, and broader societal and commitments. For example, any bank that has identified a priority impact area should have plans to set targets (if not already have done so) yet 23 of 162 banks that have identified climate as the priority area have no plans to set targets within the next year.[7] Similarly, any bank with SMART targets should have milestones and KPIs to track progress yet a third of the 61 banks with such targets do not yet have any such milestones and KPIs (see p. 46–47).
2. View impact areas more holistically: More fulsomely address the range of impact areas, as many are interlinked, without omitting important ones like biodiversity loss.
3. Impact reporting: Shift the focus to impact/effect-related instead of effort-related reporting, particularly on significant areas that lack action (biodiversity, gender equality, human rights) is needed.
4. Data verifiability: These progress results are based on self-assessment of banks' implementation of the Principles. The PRB's credibility would be strengthened if the information was externally reviewed. Additionally, for greater consistency and measurability (as well as to demonstrate seriousness of banks' intent), the PRB should consider instituting a "comply or explain" approach for non-responses, as well as greater standardization of its survey questions and clarity of key terms (e.g. green assets) to minimize response variability and improve comparability.
5. Stakeholder engagement: Employee inclusion and representation in governance or other relevant bodies that work with sustainability should be specifically measured. There should also be a greater focus on establishing effective grievance mechanisms and avenues for remedy, and delivering remedy, especially for groups such as indigenous people and human rights defenders.
6. Whole supply/value-chain approach: The supply and value chain is in the remit of the Principles but is currently missing. Its inclusion could help with cross-border activities.
7. Due Diligence: Develop rights-holder centric processes to identify human rights and environmental risks in operations, loans, and investments; and action to mitigate or eliminate these risks, in consultation with stakeholders. Ensure that assessments include risks linked to activities of the technology sector, such as with the use of digital technologies or the environmental impact of such usage.

7 This statement is based on a document shared with the CSAB providing detailed findings from all the indicators assessed.

8. Capacity building: With so many banks and regions engaged on these important issues, there is the opportunity to share best practices and help those with comparatively fewer resources build their capabilities.

9. Greater coordination: Among the banks themselves, as well as the PRB and other regional and multilateral efforts (e.g., the Net-Zero Banking Alliance, MDBs), it's not clear how these efforts are, or are not collaborating. For example, page [19] states that "more than 300 staff from Signatory Banks have been involved in 13 working groups to help advance responsible banking market practices". It would be helpful to clarify what practices are being focused on and who from the banks are engaged in these working groups. Additionally, because of a proliferation of such efforts, different initiatives should consider how to collaborate to avoid duplication. Transparency should be provided on how these initiatives relate to the PRB (e.g., how memberships overlap and how governance across initiatives is ensured), with the aim of minimizing redundancy and effort while maximizing impact.

10. Collective advocacy: Though the financial sector has a significant role to play, regional and national policies and regulations will be equally important. PRB members should collectively advocate for stronger international business regulation and incentives to help enable progress towards their goals.

# IV. Putting the pillars in place

Signatory banks have been making progress internally by putting the pillars in place to be able to meaningfully contribute to the Sustainable Development Goals (SDGs) and/or the Paris Climate Agreement. These changes are a prerequisite for showing progress and driving positive impact. Internal changes taking place in banks are captured across each of the six Principles.

## Alignment (Principle 1): Banks' top-down integration of sustainability into strategy and processes

**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.

**The majority of signatories are actively integrating sustainability into their strategy and undertaking a significant retooling of core banking processes:**

- **94%** of signatories identify sustainability as a strategic priority for the bank
- **65%** of signatories have implemented sustainability within financing, sales and origination processes, **33%** are currently working on it
- **63%** of signatories have integrated sustainability into the investment process, **18%** are currently doing so

Aligning banks' strategies with sustainability is the starting point of becoming a responsible bank. This means developing a bank's business strategy so that it is consistent with, and contributes to, the Sustainable Development Goals (SDGs), the Paris Climate Agreement and other relevant national, regional or international frameworks, such as the UN Guiding Principles on Business and Human Rights. By embedding sustainability within business strategies, banks ensure that their business, and the products and services they provide, support a sustainable future while achieving long-term business benefits. It also signals that the bank accepts its shared responsibility for shaping and securing our future. **The vast majority of PRB signatories (94%)[8] identify sustainability as a strategic priority for the bank.** Mainly smaller banks constitute the remaining 6%. These banks will benefit from further implementation support in the individual review and support meetings commencing in Q3 this year. By embedding sustainability within banks' strategies, a bank will set goals and priorities, determine actions to achieve the goals and mobilize resources to execute these actions in line with the SDGs and the Paris Climate Agreement. This will ensure banks will have a positive impact on environment and society across all business areas of the organisation.

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, the environment, their countries, clients and customers. **86% of banks include references to society's goals as expressed in the SDGs and/or the Paris Climate Agreement in their corporate or sustainability strategy.** Climate change, gender equality and financial inclusion are amongst the most prominent key areas that are specifically included in banks' business or sustainability strategies (see fig. 4).

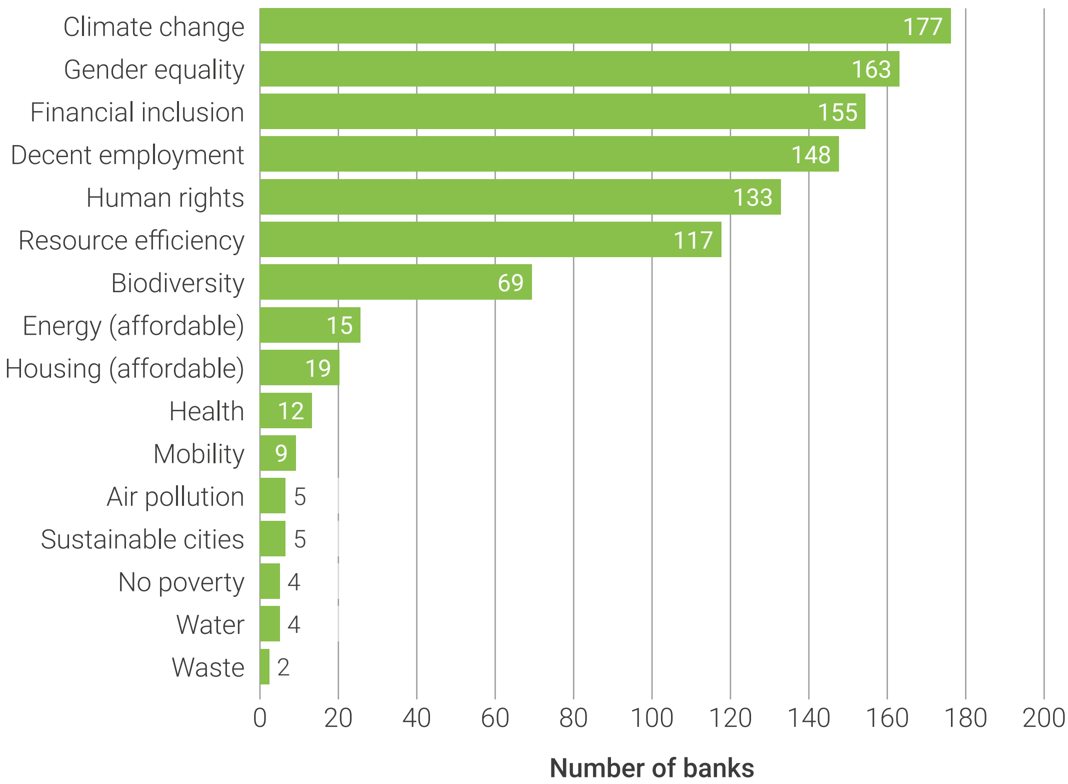


**Figure 4: Key areas included in banks' strategies**

Source: UNEP Finance Initiative

8 These percentages given in this chapter refer to the total of PRB Signatories who have contributed to this report (n = 203), unless otherwise stated.

By integrating sustainability into their business strategies, banks are initiating internal governance changes. These are necessary to analyse, measure and manage impacts on society and the environment, and align their businesses with international and national priorities and goals. Measuring the progress of integrating sustainability into core banking processes such as financing, investment, risk management, strategy development or IT management can therefore be considered a prerequisite for banks aligning themselves clearly with the needs of society, the environment and their clients and customers. The majority of banks have already integrated sustainability within core banking processes or are currently working on it (see fig. 5), with:

- **94% of banks having sustainability integrated (partially or fully) into strategy development**. This means that, for example, when reviewing or developing the business strategies, sustainability is considered in a structured way and consistencies and potential inconsistencies of the current strategy with relevant SDG targets and Paris Climate Agreement are being identified, regularly monitored and addressed
- **65% of banks having sustainability implemented in the sales/origination/financing process, 33% are currently working on it**. Examples of this include developing and offering specific sustainability-related products to clients and customers, expanding business in certain (sectors or new technologies), offering clients and customers sustainability solutions that respond to their needs, and research and development or innovation teams working on sustainability solutions
- **53% of banks have sustainability integrated into risk management, 41% currently working on it**. This means that sustainability-related risk assessments help to identify potential business risks that would be out of alignment with the SDGs and/or the Paris Climate Agreement
- **53% of banks having partially, 16% having fully integrated sustainability aspects in IT management and customer analytics.** This includes aspects such as gathering of sustainability-related data (such as greenhouse gas emissions of clients and customers, energy efficiency of mortgages, possibilities to flag e.g. female-owned companies and unbanked/underbanked customers, sustainability and climate-risk data, human rights risks in client databases etc.), or the set-up of a structured data management and IT process for sustainability-related data.
- **63% of banks having implemented sustainability in the investment process, 18% currently doing so**. Examples of this include buying or issuing sustainable investment products such as green bonds, social bonds, sustainability bonds etc.

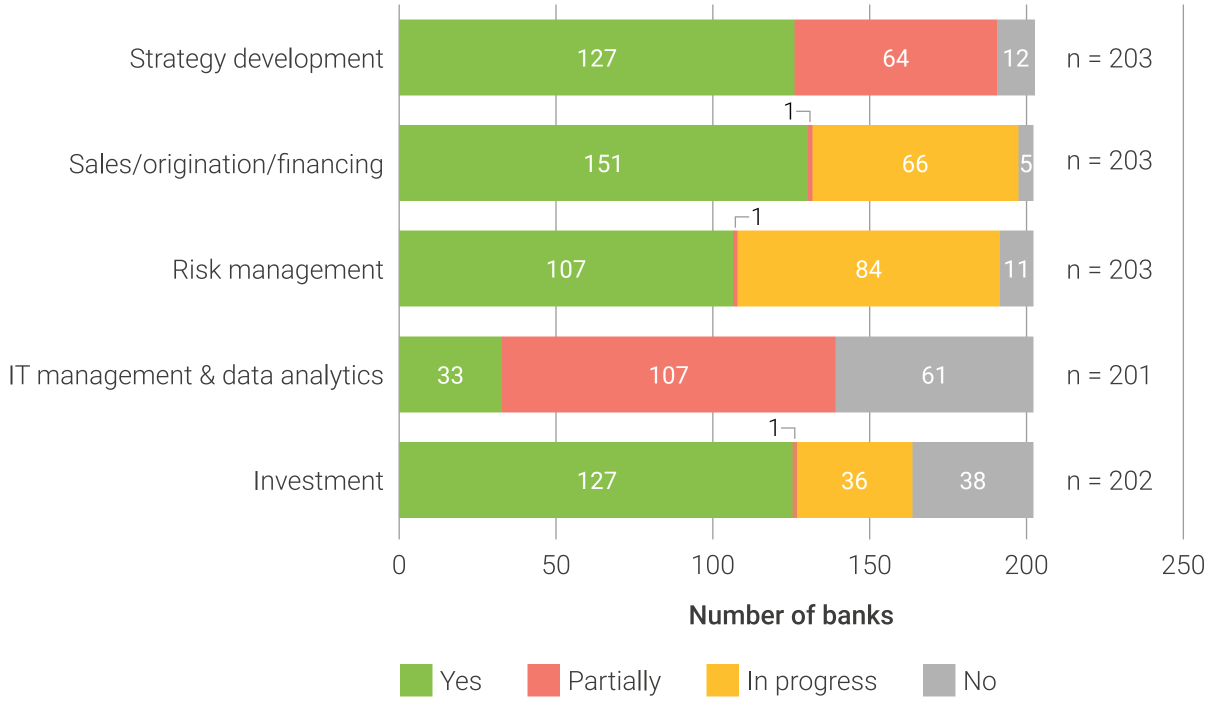


**Figure 5: Strategic alignment of core banking processes**

Source: UNEP Finance Initiative

Banks' retooling of core banking processes, especially in return-generating fields, comes with the development of several sustainable products and services. These products and services tend to be focussed on the environment but also include a small number of products that can be considered socially sustainable. Examples of sustainable products developed and offered by banks include:

- Green lending, green loans
- Issuance/origination of green bonds
- Renewable energy project finance
- Green accounts deposits, Retail Environmental, Social and Governance (ESG)-linked deposit plan
- Eco-improvement loans and housing reform loans for improving energy efficiency
- Positive impact finance
- ESG-linked and KPI-linked financing
- Social bonds
- Sustainability bonds
- Green infrastructure finance
- Response Bonds to Covid-19, supporting the provision of products and services contributing to health conditions

The sustainable financial volume of signatories that have developed such products (n=87) amounts to US$ 2.284 trillion in the last fiscal year (2020).[9] This makes a ratio of 6.86% of the assets of these banks. To align banks' portfolios with the SDGs and the Paris Climate Agreement, this value is expected to increase over time. For sustainable investment products, most banks that were able to deliver these numbers report to have a sustainable investment volume aggregating to values in the range between 0–24% of the entire investment volume (see fig. 6).

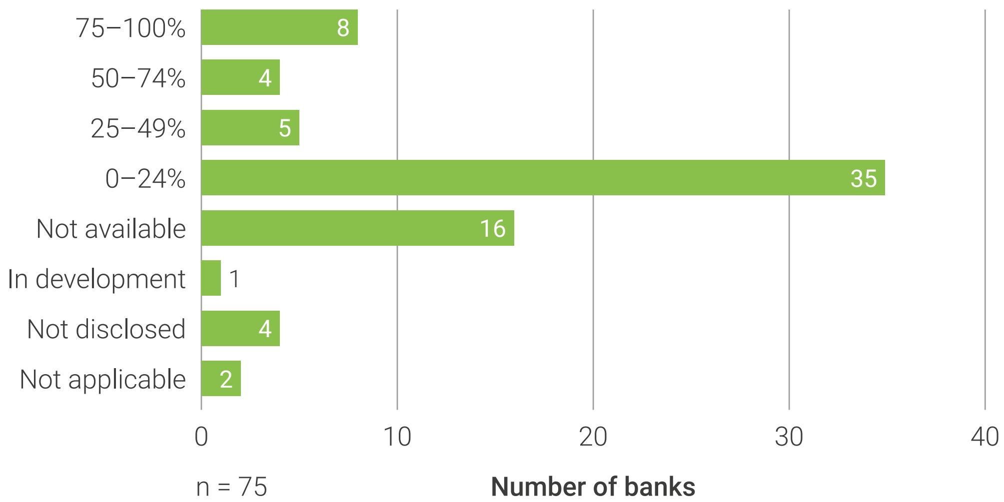


**Figure 6: Ratio of sustainable investment volume to entire investment volume [%]**
Source: UNEP Finance Initiative

The integration of sustainability into IT systems and management on a strategic level, i.e. by setting up the internal structures to be able to flag sustainability-related data or by installing sustainability-related data gathering requirements in the financing and/or investment process is less advanced among the PRB signatories, with 16% of banks having implemented and 53% having partially worked on this. This finding reflects the number one challenge named by banks when implementing the PRB: data availability and quality (see chapter VI).

9 Sustainable financial volume here was defined as the financial volume that contributes to sustainable development in the wider sense, more specifically to climate change mitigation and adaptation, the preservation of biodiversity, pollution prevention and circular economy, as well as considerations on inequality, inclusiveness, labour relations or human rights issues etc. Each bank's definition of sustainable (including green, social, etc.) products was considered sufficient for this purpose, it was presumed though that the definition the bank used was aligned with market standards such as the Green or Social Bond Principles, the EU Taxonomy, applicable national and international standards and definitions etc.

# Impact and Target Setting (Principle 2): Banks' core commitment to analysing impact and accordingly setting targets

**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.

**The majority of banks are analysing their portfolio impacts**

**93%** of banks have begun the process of establishing impact analysis systems, with **29%** reporting that they have completed their initial impact analysis.

Signatories 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 their impact on people and environment resulting from their activities, products, and services. For banks to continuously increase their positive impact whilst reducing their negative impact on people and environment, they must first analyse their current impact on society, the environment, and the economy. Based on this analysis, they can identify their areas of most significant impact. After prioritising by significance, banks are then expected to set a minimum of two targets that address at least two of the identified significant impact areas.

The process of establishing impact analysis systems has gotten underway at 93% of the banks, with 29% reporting completion of an initial impact analysis. 52% report to have included all key sectors and key markets/geographies in the impact analysis. These are tangible steps—the expectation is that within two years of signing the Principles, banks will have established the processes for monitoring impact across their entire business. It is recognised that methodologies for this complex process are still in their nascent stages. Work continues amongst signatories to develop methods for improving the quality of analysis across their entire portfolio.

The most common impact areas identified by banks are climate change (identified by 87% of PRB banks, with 162 identifying climate change mitigation and 115 identifying climate change adaptation) and financial inclusion, identified by 47% of PRB signatories. Other areas identified by banks as being of key importance include gender equality, decent employment, resource efficiency, human rights and biodiversity (see fig. 7).

**Which (most significant) impact areas or topics did you identify for your bank, as a result of the impact analysis?**

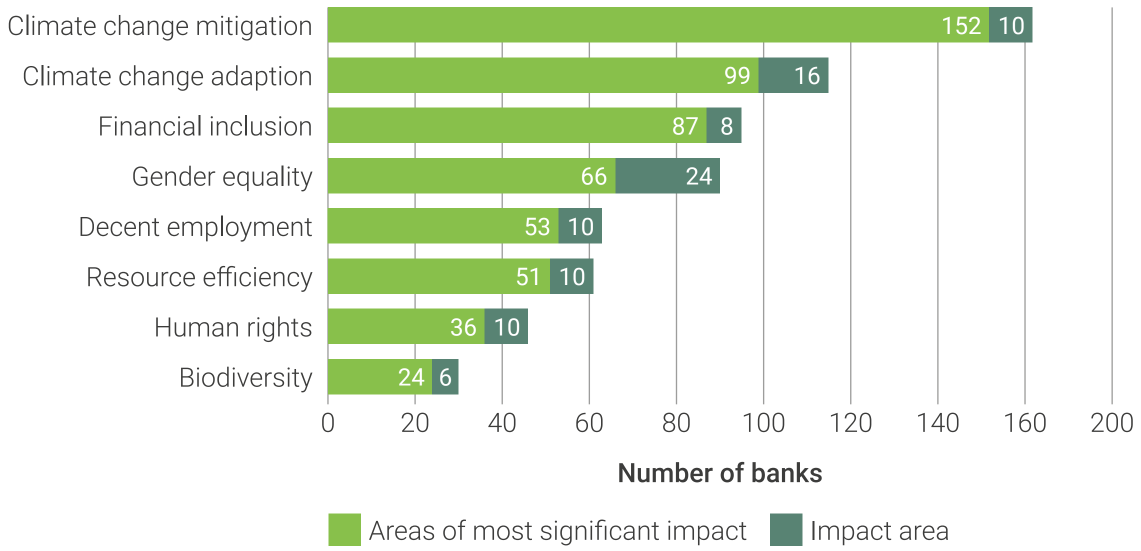


**Figure 7: Impact areas identified by PRB banks**

Source: UNEP Finance Initiative

Breaking the impact areas identified down to regional importance (see fig. 8), climate change mitigation is relatively important for banks from North America, Scandinavia and Western Europe (with 90%, 89% and 92% of banks in the region respectively having climate mitigation as an impact area), whereas financial inclusion is also highly relevant in North America and Central America & the Caribbean (80% and 72% of banks in the region having identified this area). Meanwhile gender equality was identified as relatively important for banks in Sub-Saharan Africa, Central America & the Caribbean and North Africa & the Middle East (for 80%, 72%, and 67% of banks in the region). Human rights as well as biodiversity score relatively low across all regions, with biodiversity being relatively more important in Western Europe and human rights relatively higher on the agenda in Sub-Saharan Africa.

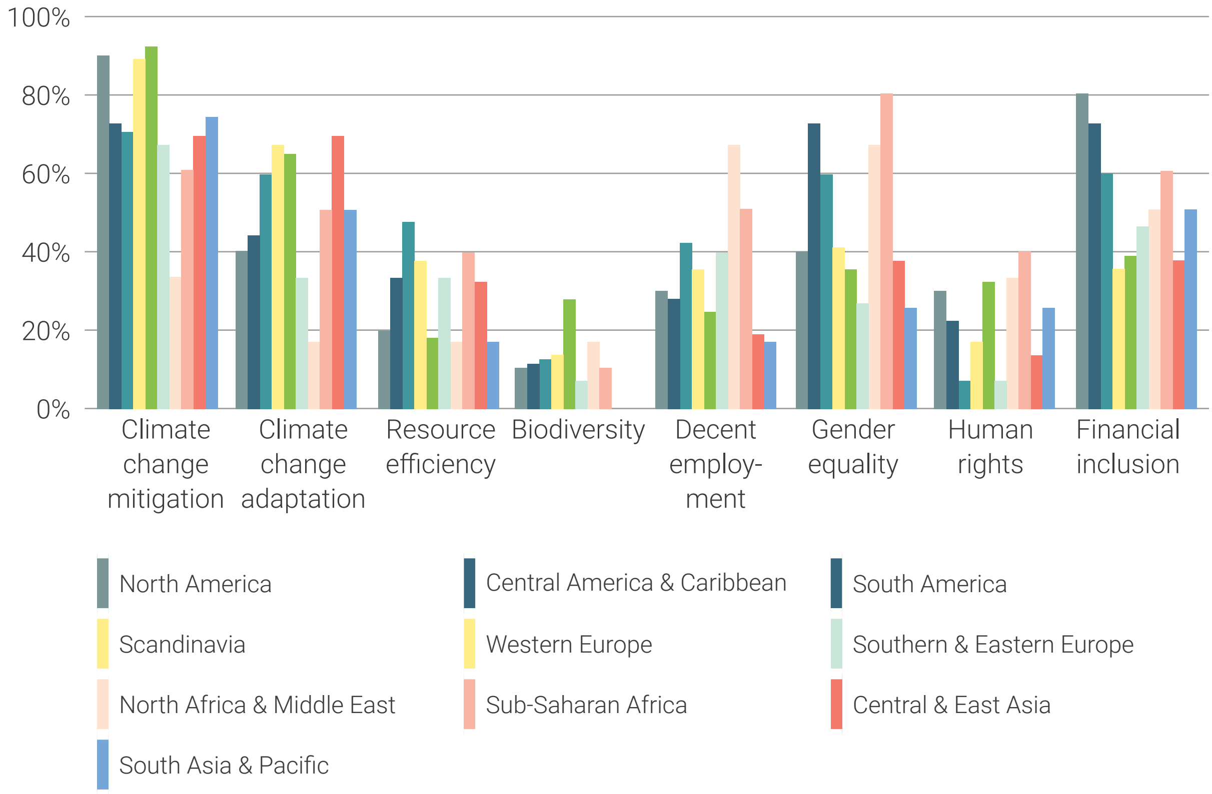


**Figure 8: Relative importance of impact areas in regions[10]**
Source: UNEP Finance Initiative

The relative importance of impact areas does not only differ from one region to the other, but also in terms of developing context (see fig. 9). There is a tendency that social impact areas are of greater focus for banks in developing countries in comparison to developed countries. The data shows that climate change is more of a focus area for banks in developed countries, although this is an area that developing countries are also identifying as important.[11]

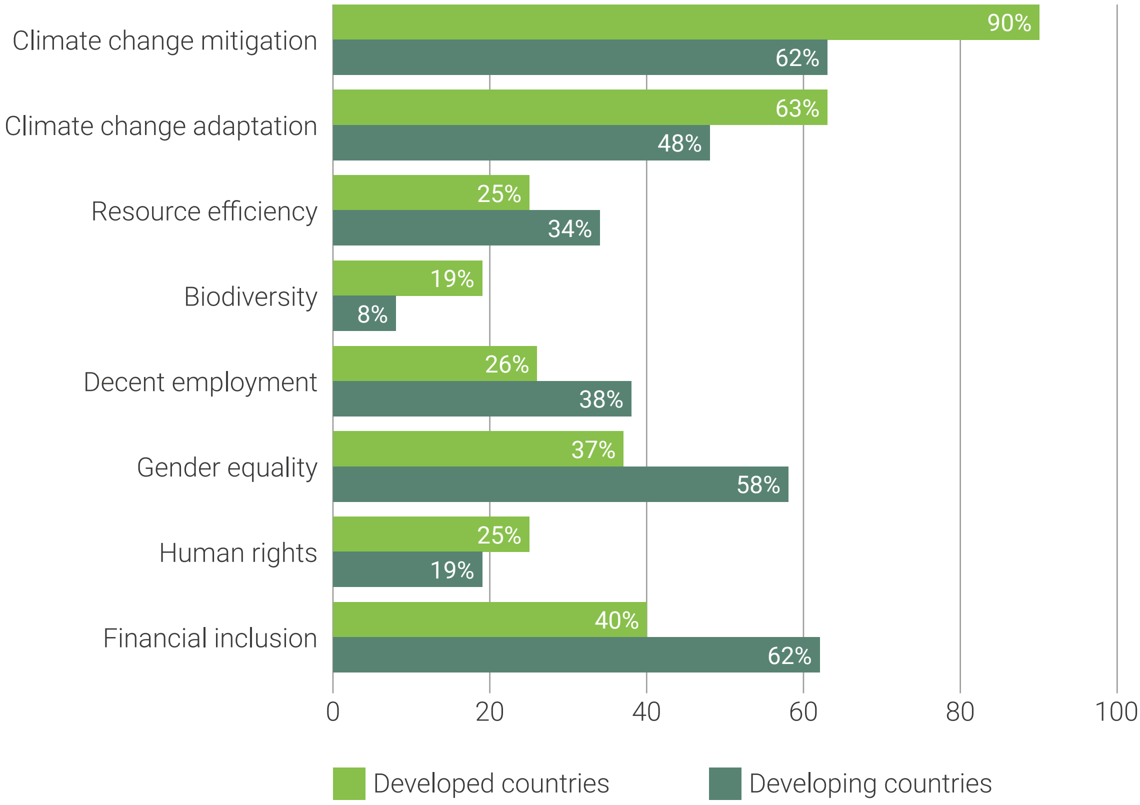


**Figure 9: Relative importance of impact areas in developed and developing countries**

Source: UNEP Finance Initiative

Another driver for identifying certain impact areas is the bank size. For example, the bigger the bank, the more likely it is to have climate change as an impact area, with all banks having more than US$ 1 trillion in assets identifying climate change mitigation as an impact area. For smaller banks, in addition to climate change mitigation, decent employment and financial inclusion are seen as relatively important impact areas (see fig. 10).

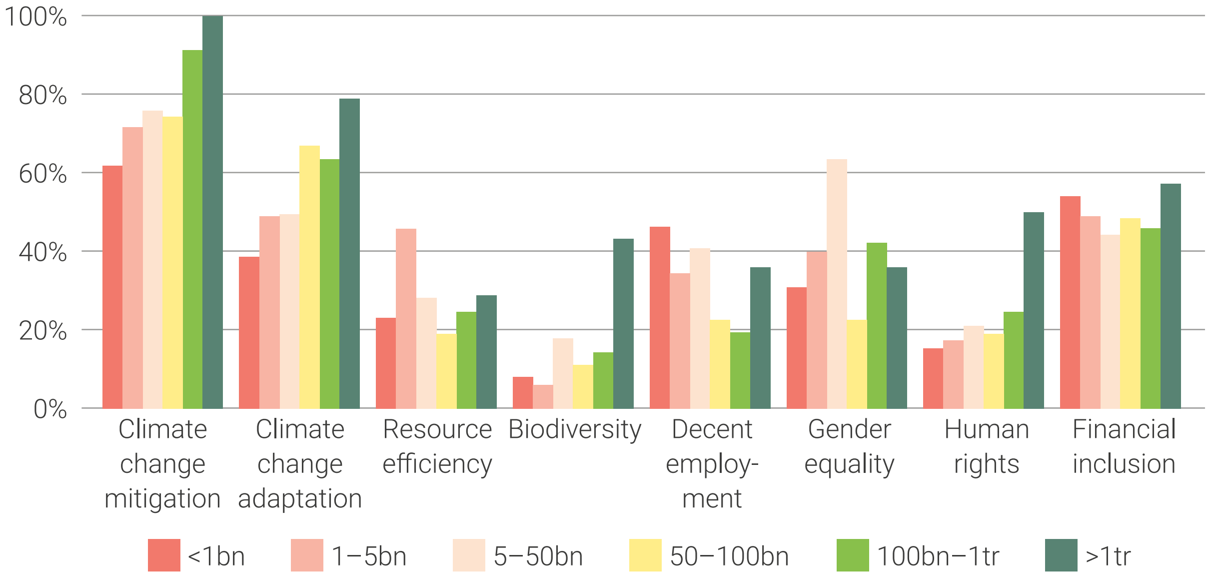


**Figure 10: Relative importance of impact areas by bank assets**

Source: UNEP Finance Initiative

PRB banks are jointly increasing their capabilities for impact analysis, having developed and piloted several impact analysis tools and guidance in the last two years. Conducting an impact analysis in line with PRB requires an assessment that includes:

- the entire scope of the core business
- the scale of activities to be taken into account
- context/relevance of challenges in the operating context
- Distinction of intensity/salience across identified impacts and sectors.

Impact analysis is an assessment of a bank's external impact on society and the environment with regard to its lending and investment activities. This is a relatively new concept for banks. Many banks are still in the early stages of undertaking their impact analysis and assessing the intensity of impacts, as well as the scale of exposure. We expect to see further progress in banks' endeavours of analysing their internal and external impact in the coming years. A capacity building programme is under way to help banks make further progress in analysing all of the material impacts of their portfolios.

**30% of banks are setting targets**

**17%** of banks have set at least one robust target in an area of significant impact (this is mainly climate mitigation and financial inclusion). These targets fulfil all required steps for robust setting as specified by the Principles (e.g. determining baselines, establishing milestones and developing key performance indicators (KPIs)).

**13%** of banks have also set at least one target in an area of most significant impact, but have not yet fulfilled all required steps for robust target-setting as specified by the Principles.

Setting targets is an essential component to scaling up banks' contributions to society's goals and aligning their businesses with the most pressing international and national priorities. Targets may be qualitative or quantitative. The targets, and their level of ambition, should be linked to, and drive the goals set out in the SDGs, Paris Climate Agreement and other relevant national, regional or international frameworks. Banks are required to establish milestones and key performance indicators (KPIs) for monitoring progress against their targets.

**17% of banks report to have set at least one robust target in an area of most significant impact** (climate, financial inclusion, etc.). These targets fulfil all required steps for robust setting as specified by the Principles (e.g. determining baselines, establishing milestones and developing key performance indicators (KPIs)). An **additional 13% of banks have also set at least one target** but have not yet fulfilled all required steps for robust target-setting as specified by the Principles. While banks are making progress, we expect to see more targets being set over the next two years once impact systems are fully established.

Since setting targets that address banks' areas of most significant impact is a complex and relatively new approach for many banks, particularly in challenging impact areas such as climate change mitigation, biodiversity conservation, resource efficiency etc., Signatory banks have shown leadership in the market and worked on building knowledge and resources to guide banks through the target setting process.

The process of setting a target follows a similar pattern for all impact areas, with methodologies and metrics differing from one impact area to another (see fig. 11). Having identified the most significant impact areas in which negative impacts need to be decreased and positive impacts should be increased, the bank should first understand its market context and identify relevant external targets from national policies, national and international frameworks, the SDGs etc. The bank then determines a baseline, its starting point for reaching the target and compares its status quo to the identified relevant external targets, i.e. assessing its level of alignment with these external targets. This is followed by setting specific, measurable, achievable, relevant and time-bound (SMART) targets, that are also adequately ambitious, supported by defined milestones, KPIs, measures and actions for how to achieve them.

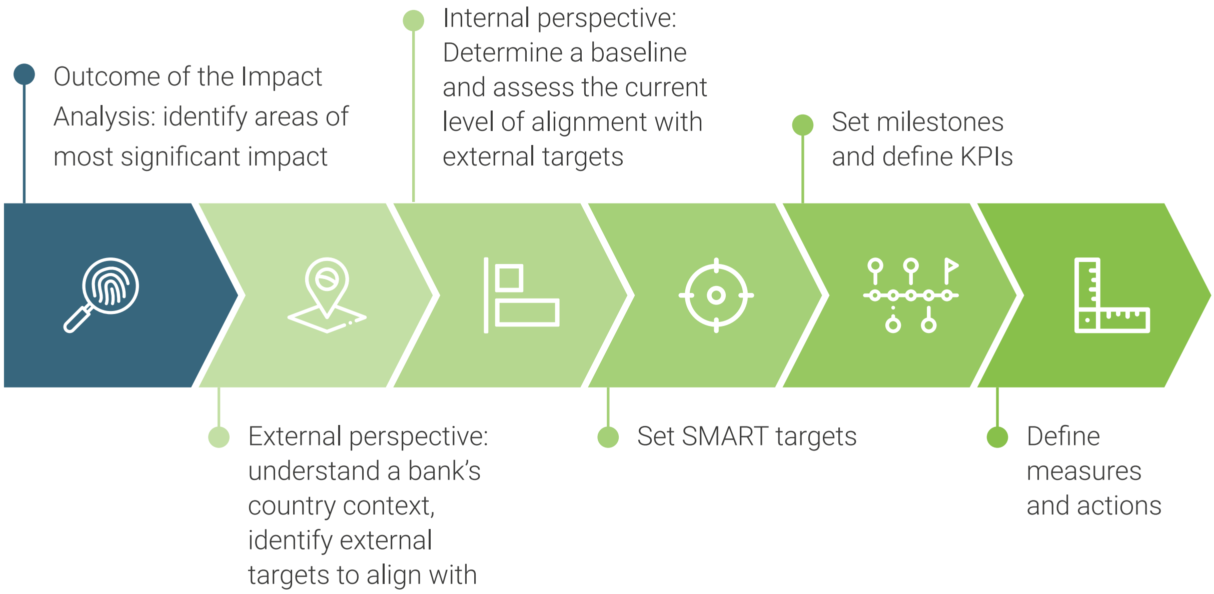


**Figure 11: Process for setting targets**

Source: UNEP Finance Initiative

The UNEP FI Secretariat has worked with PRB banks and external experts to collaboratively produce guidance documents for target setting in the areas of Gender Equality, Financial Inclusion and Financial Health, Climate and Biodiversity in the last 2 years, and are developing guidance on target setting for resource efficiency. This will result in substantial progress towards making a positive impact in areas that are to date less advanced.

# Clients and Customers (Principle 3): Engaging clients and customers on sustainable practices

**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. In addition to contributing to 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.

Banks' clients and customers usually have a direct impact on the environment and society, whereas banks have an intermediary function and thus have their biggest impacts indirectly via their financing and investment activities. Partnering with clients and customers is therefore an essential element in assessing the bank's impacts, understanding risks and opportunities, and achieving targets. Banks' policies and practices should encourage and steer sustainable practices of clients and customers and enable sustainable activities. **56% of PRB banks have an engagement policy or process in place, 30% are currently working on it.** 29% of PRB signatories have already embarked on a client and customer engagement process, i.e. a process of interacting with customers through a variety of channels in order to help them transform their business models.

Engaging with clients is expected to lead to a shift in lending and investment activities over time. Setting up policies for sector with the highest negative impacts, such as policies for the most greenhouse gas-intensive sectors or sectors particularly prone to human rights violations, is one starting point for this process. 54% of banks have established policies for such sectors, 25% are in the procress of setting up a policy.

Early signs of a shift in lending and investment towards (more) sustainable activities can be observed due to these policies, with 42% of signatories having increased their sustainable lending and 32% of banks having increased their sustainable investment activities in the last year. Out of 40 that were able to disclose the growth rate of their green lending activities in the last fiscal year (and out of 22 banks for socially sustainable lending activities), nearly all had positive growth rates, most frequently in the range between 0–24%. Being able to show a shift in the lending and investment book of banks towards sustainable activities is considered good practice at this early stage of the PRB journey, e.g. by disclosing the growth rates of sustainable lending and investment activities over time.

# Stakeholders (Principle 4): Consulting relevant stakeholders

**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. Proactively consulting stakeholders ensures that banks benefit from their knowledge and subject-matter expertise and enables a credible approach to contributing to meeting society's goals—driving 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 be better positioned to address challenges down the line.

**91% of banks have a process to identify relevant stakeholders**. These include stakeholders that are known for their expertise in a certain field or stakeholders that are particularly affected by the bank's activities, in place or are currently setting up the process. 65% of banks have a process in place to regularly consult, engage, collaborate and partner with those stakeholders (or stakeholder groups), 12% are in the process of setting this up. Among the most frequent stakeholders that banks engage with are employees (engaged by 97% of banks), clients (by 96%), investors (by 89%), policy-makers (by 88%), suppliers (by 84%), academia (by 83%) and civil society organizations (by 79%). 17% of banks report having consulted stakeholders specifically for the purpose of impact analysis.

By partnering with peers, another important stakeholder group, banks can significantly increase their impact and support action at the scale of change that is required. Collaboratively developing guidance and learning together will assist banks in achieving their vision of contributing to an inclusive society that uses its natural resources sustainably. Banks also collectively realise Principle 4 by engaging with the Civil Society Advisory Body.

# Governance and Culture (Principle 5): Banks setting up governance structures for responsible banking

**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. **80% of the PRB signatories have established a governance system that incorporates the PRB**. 71% report that the governance system entails structures to oversee PRB implementation (including target setting, actions to achieve these targets and processes of remedial action in the event targets/milestones are not achieved or unexpected negative impacts are detected). 68% state that there is high(est)-level commitment to the Principles within the bank, for example by the CEO chairing the PRB governance system.

Responsible banking also 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. **90% of PRB signatories report having measures in place to promote a culture of sustainability among employees.** These include regular communications (from the top) about current performance, projects and the future outlook of the sustainability strategy, e-learning, dialogue formats to collect and respond to ideas from employees regarding sustainability topics, newsletters, capacity-building or sustainability-theme days. Regular communication from the top as well as capacity-building measures, ideally combined, are considered to be most effective by banks, the former because it raises awareness and continuously updates employees about the strategic importance, the latter because it builds up technical capacity on sustainability and sustainable finance among employees. This enables employees to engage with the content on a more meaningful level including potential possibilities within both their work and personal lives.

Assigning clear roles and responsibilities as well as allocating adequate resources is another important prerequisite to deliver on the banks' commitments under the Principles. **92% of banks have established sustainability structures at an operational level**, by having a dedicated sustainability team/organizational unit(s), cross-function working teams or specific sustainability committees.

# Transparency and Accountability (Principle 6): Banks' self-assessment and (assured) reporting

**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, regulators and society as a whole. Public disclosure is critical because it enables internal and external stakeholders to assess the banks' contribution to society, and the progress they are making. This, in turn, helps build confidence in banks' sustainability-related commitments and helps to distinguish banks from their 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 banks' approaches, to motivating employees, competing with peers, driving innovation, and strengthening reputation and trust. In March 2021, 69% of banks have already published their first PRB report, 30% have already put 3rd party assurance of their Principles reporting in place. Signatories' reports are available online.

# V. Early indications of progress

Although much of the emphasis so far has been on putting the systems and policies in place, there is evidence that signatories are already having significant impact on the ground, including:

**15,131 clients** (corporates and SMEs) advised on climate strategies (as reported by 20 banks)

**113 million vulnerable customers** gaining access to financial services (as reported by 41 banks)

**69% of banks with climate change mitigation** as an impact area investing in green assets and low-carbon technologies

**US$ 2.3 trillion of sustainable finance** being mobilized by 87 banks

Climate change, where data and methodologies are more advanced, and financial inclusion, are most frequently mentioned as areas of impact. Banks are establishing impact measurement systems and setting targets to drive impact. They are also developing the associated customer engagements strategies, products, and services needed to facilitate climate transition and increase financial inclusion. There are clear, early indicators of progress and signs of impact on the ground in the areas of climate change and financial inclusion.

## Climate change

**Why do banks matter for climate?** Banks have a role to play in financing the transition to a low carbon economy. Banks need to decrease the carbon footprint of their lending and/or investment portfolios to align with the goals of the Paris Climate Agreement. They can develop different strategies to reach the target of Paris Climate Alignment, and in line with the latest science achieve net-zero emission portfolios by 2050, e.g. by redirecting financing to green projects, supporting their clients in their transition, investing in scaling up green technologies, and progressively excluding greenhouse gas-intensive activities that are out of alignment with a low carbon future.

**87% focusing on climate**

**177 banks** identified climate as an impact area.

**46%** of these have already set or are actively working to set a climate target, and a further 30% plan to do so in the next year.

**62%** of signatories are supporting clients' transition to a low-carbon economy or are setting up an engagement process to do so. **More than 15,000 clients** were engaged by PRB signatories in the last year.

**Climate is the most important impact area to many banks**. In total, 87% of PRB banks have identified climate as an impact area (either mitigation, or adaptation, or both, see fig. 12). Though climate is not the only important area of work, methodologies are most developed in this area.

**This is in line with the level of activity on climate within UNEP FI**. 37 PRB banks signed the CCCA in 2019, which commits them to setting targets in line with well-below 2°C pathways. The NZBA was launched in April 2021 for banks to align lending and investment portfolios with net-zero emissions by 2050. It now brings together 53 banks from 27 countries with over US$ 37 trillion in assets, which are committed to aligning their lending and investment portfolios with net-zero emissions by 2050. PRB banks are also participating in the UNEP FI Task Force on Climate-Related Financial Disclosures (TCFD) pilots.

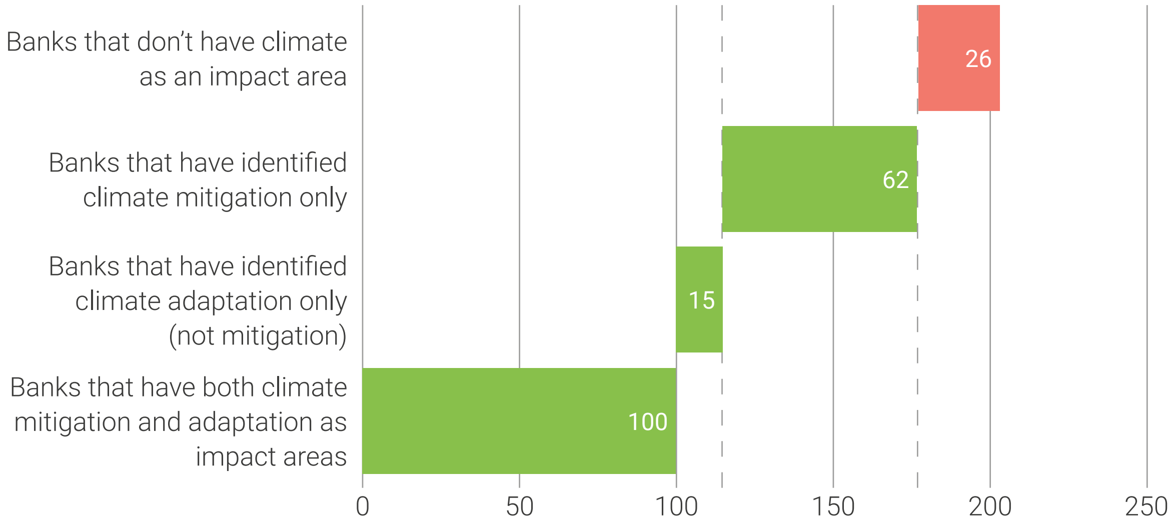


**Figure 12: Number of banks with climate as an impact area (this can be broken down as follows: 49% list both, 7% list climate adaptation only and 31% list climate mitigation only).**

Source: UNEP Finance Initiative

## Climate mitigation

**Climate mitigation is the most cited impact area for PRB signatories.** Nearly 75% of banks indicated climate mitigation as their area of most significant impact, and a further 10 banks (5%) noted it was an impact area. All signatories with assets over US$ 1 trillion named climate mitigation as an impact area.

**Climate is strategically relevant to the majority of banks**. 94% have identified climate-related risk as strategically relevant to the organisation. 65% have approved a specific climate change and/or climate response policy. The carbon footprint of financial products and services, i.e. the greenhouse gas emissions associated with lending, investment and advisory services, collectively known as financed emissions, are crucial for managing banks' climate impact. About 83% are analysing and reporting on Scope 3 emissions, which include investments.

**Work on climate mitigation is in progress**. Almost three-quarters of banks are in the process of analysing their portfolios relative to a below 2° pathway. Most of them are currently analysing or planning to analyse their portfolio in terms of exposure to GHG-intensive sectors, with most progress visible in corporate, commercial and retail banking portfolios. For example, 76% of banks with corporate banking portfolios are analysing or have analysed them. Where applicable, 61% and 56% have analysed or are currently analysing their commercial and retail banking portfolios respectively. The majority of banks are currently analysing their portfolios and sector exposures in terms of Paris alignment. 4–12% of the banks with climate change mitigation as an impact area have completed the analysis of certain sectors (see fig. 13). Based on data received from banks, five banks have already set targets to align their portfolios with a less than 2 degree goal that apply to their entire portfolios, three banks have 1.5 degree targets applicable to the entire portfolio. One bank reported being fully aligned with a 1.5 degree pathway. These banks are leading the way and provide examples of good practices that other banks can be guided by, in addition to material developed by signatories, as they make progress implementing the Principles.

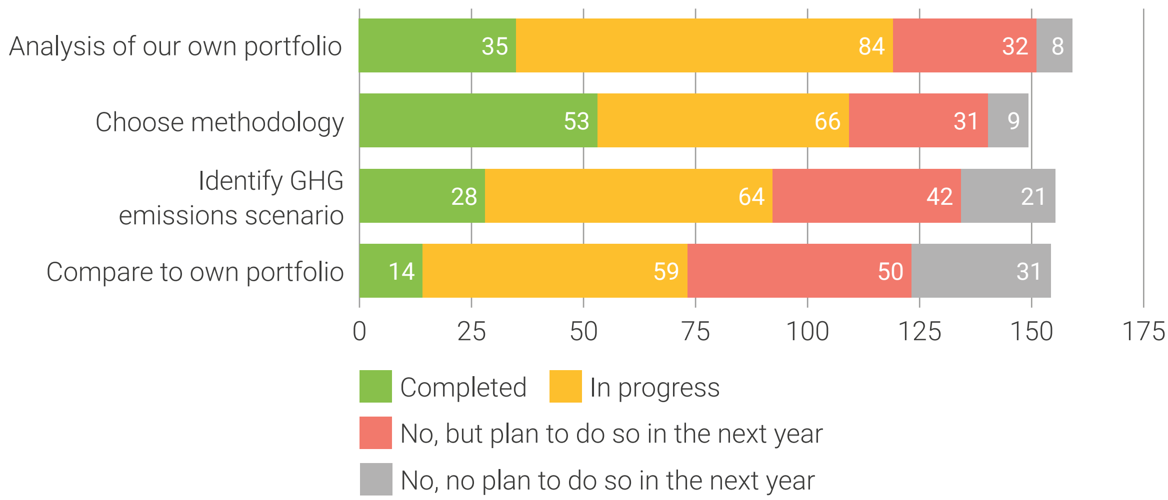


**Figure 13: Number of banks having completed certain components of scenario-based target setting for Paris climate goal alignment**

Source: UNEP Finance Initiative

**Many banks are investing in green assets/loans as part of their climate work.** 69% of banks invest in green assets/loans and low-carbon technologies and 25% have targets for financing green assets/loans and low-carbon technologies. In total, the financial volume lent to/invested in green assets/loans and low-carbon technologies, as disclosed by 67 banks, amounts to US$ 758,746 billion.[12]

**Banks are identifying business opportunities and working with their clients.** More than three-quarters of banks have developed financial products supporting a reduction of GHG emissions, including green loans, green bonds, and green mortgages. 78% of these banks are working with clients to support them in transitioning towards a low-carbon economy or are setting up an engagement process to do so. More than 15,000 clients were engaged in the last fiscal year. Three banks reported that 100% of their clients from GHG-intensive sectors have an approved low-carbon transition strategy.

## Climate adaptation[13]

**Climate adaptation, which is particularly important in many developing countries, is considered less frequently by banks than climate mitigation as a significant impact area.** 49% of PRB signatories identify climate adaptation as an area of most significant impact, 8% as an impact area. 63% of banks are analysing the physical risks associated with sectors in their portfolios. 8% of banks report having analysed all sectors for physical risk vulnerability, while more than half have conducted or are in the process of conducting a scenario-based physical risk assessment of all sectors. Mortgage and (commercial) real estate are the most frequent fully assessed sectors, followed by power generation, agriculture and transportation. As a company increases its degree of adaptation, the exposure of the lender to climate risk is reduced. 14% of banks have started an engagement process with their clients on climate adaptation.

12 In case currency other than US$ was given: average currency exchange rates for 2020 used (e.g. EUR/USD: 1.142 USD)

13 Percentages in this section refer to the number of banks that have chosen climate change adaptation as an area of (most significant) impact (57%, n = 115), unless stated otherwise.

# Financial Inclusion[14]

**Why do banks matter for financial inclusion?** Every adult person, particularly people from vulnerable[15] groups, and every small business should have access to affordable and inclusive financial products and services and possess relevant financial knowledge to protect themselves from unexpected events and save for the future. Banks can provide vulnerable individuals with access to financial solutions and can help their customers' overall financial health.

**47% focusing on financial inclusion**

95 banks identified financial health & inclusion as an impact area.

82% of these have either developed financial solutions to improve customers' financial access or are working to do so. 113 million vulnerable customers benefitted from access to financial solutions.

Financial inclusion and financial health are an enabler of several SDGs, including, but not limited to, SDG1: No Poverty, SDG 5: Gender Equality, and SDG 10: Reduced Inequalities. It is the second most prominent impact area after climate change, with a total of 95 banks (47%) identifying it as an area of impact. Of these, 62% report having set targets in this impact area.[16] These targets fall into two categories: financial support (e.g. concessional loans for SMEs and marginalized populations) or non-financial support (including financial education and financial literacy programs).

Providing **financial access to unbanked or underbanked customers** and customer groups is one important aspect of financial inclusion. Every adult—particularly people from vulnerable groups—and every small business should have access to affordable and inclusive financial products and services. 76% of PRB signatories are already focusing on specific vulnerable customer groups to provide them with financial access, and another 14% are planning to focus on vulnerable groups. Microentrepreneurs with limited access to financial services, low-income clients and women are the most frequent vulnerable customer groups banks focus on. **67% report having developed financial solutions to improve vulnerable customer groups' access to finance**, e.g. by providing fee-free accounts, lower interest rates on loans, close-monitoring of non-performance,

14 Percentages in this section refer to the number of banks that have chosen financial inclusion as an area of (most significant) impact (n=95), unless stated otherwise.

15 Vulnerability refers to customers facing personal circumstances which expose them to increased susceptibility to damage, harm or loss when interacting with financial institutions. Vulnerable groups need to be treated fairly and consistently across financial services sectors. Examples of vulnerable customers are migrant workers, low-income clients in rural areas, clients from ethnic minority groups, women (in some contexts), people with disabilities, elderly, refugees, indigenous population, customers with primary education etc.

16 The described targets do not in all cases meet the requirement of being SMART. More information about Financial Inclusion and Financial Health target setting can be found here.

and lower bureaucratic hurdles to gain access to financial services. Another 16% are currently planning to develop these solutions. Based on the reporting of PRB signatories, a total of at least **113.1 million vulnerable customers have benefitted** from access to financial solutions in the last fiscal year.

Opening up the first bank account for formerly unbanked individuals is another aspect of financial inclusion. 13 banks report that a total of 6.3 million vulnerable persons opened their first bank account in the last fiscal year. Banks recognize that it is important that customers actually utilize the accounts, with five banks tracking how actively these newly opened bank accounts were used.

**Financial health** refers to the financial services and products that banks offer to enable vulnerable customers to build a financially sound situation, including pension funds, and long-term investment products. **45% of banks report offering financial products that aim to improve customers' financial health**.

Governance structures and processes that protect customers' interests also help customers understand the financial products. For example, they can prevent customers from signing contracts without fully understanding them. **86 banks report having product governance structures in place**, including responsible sales practices (such as adequate financial advisory services), responsible marketing (e.g. simple language, no misleading advertisements) and responsible lending practices (such as the protection of customer rights, mechanisms to prevent over-indebtedness etc.).

To be in a sound position to protect themselves from unexpected events and save for the future, customers should be equipped with relevant financial knowledge. Financial education is therefore an important aspect of financial inclusion and financial health. **80 banks (84%) report offering financial education to clients**, with 32 banks analysing the impact of the financial education programs provided.

# Addressing other SDG impacts

Banks are jointly developing and increasing their capabilities for setting and implementing targets in impact areas where methodologies for measurement and indicators are currently less advanced in comparison to climate change mitigation for example. This is in part due to some impacts not being perceived as material in risk and impact as climate and financial inclusion for signatories. With advancements in measurement, indicators and policy action on other SDGs (e.g. the International biodiversity summit earlier in 2021), there is evidence this is starting to change.

A summary of findings across the other five impact areas assessed (other than climate change and financial inclusion) (see table 2) shows which policies are most frequently in place. Human rights policies are the most frequently named, while policies pertaining to resource efficiency of companies financed are the least frequent). Target setting is mostly in the early stages, which is an expected result given the early stage of implementation for PRB signatories.

Some of the existing targets in these areas of impact do not yet meet the requirement of being SMART and closer linkages need to be made to the outcomes of the impact analysis. Some banks still need to adapt targets to cover the scope of their business activities. Rather than being limited to internal, operational targets, such as electricity consumption in bank office buildings, or the share of women on the Board of Management within the bank, targets should encompass the economic activities financed by the bank. Consequently, the development of KPIs is still in its infancy, some promising examples of KPIs can be seen, as well as further improvements needed in other cases , in terms of quality of the KPIs (not to be conflated with measures, or sometimes applicable to internal operational targets). Many banks have already developed or are currently identifying business opportunities in different impact areas, whereas fewer are already setting up and conducting engagement processes.

| | **Biodiversity** | **Resource Efficiency** | **Gender Equality** | **Decent employment** | **Human rights** |
|---|---|---|---|---|---|
| **Policy in place** | Actions taken in order to commit to starting the process of setting targets (e.g. signing of a pledge, defining no-go policies for protected areas etc.: 67% of banks | For Water (regarding water use and management of companies financed): 18% of banks;<br>For Waste (regarding management and valorisation of waste and circular economy strategies of companies in the resource-intensive sectors industry): 23% of banks | / | 35% of banks (aspects most frequently covered: health and safety standards, freedom of association, social and employment security, minimum wages and maximum working hours) | 75% of banks (for 61%, the policy sets out the scope of its application (covering the bank's activities and its business relationships) and include processes e.g. per sector, geography or based on other criteria) |
| **Set SMART targets pertaining to the impact area via their lending and investment business activities** | 20% of banks | 43% of banks | 25% of banks (mostly apply to the retail banking portfolio) | 48% of banks | 17% of banks |

| | | | | | |
|---|---|---|---|---|---|
| **Developed KPIs to measure progress** | 20% of banks | 25% of banks | 30% of banks | 11% of banks | / |
| **Identified business opportuni-ties** | 67% of banks | 64% of banks | 60% of banks | 27% of banks | / |
| **Engage with clients and customers** | / | / | 24% of banks, to promote gender equality with corporate and business clients | 13% of banks, to improve decent employment structures within companies in identified high impact sectors[17] | Engagement process with potentially affected stakeholders: 61% of banks; Engagement process with affected stakeholders: 50% of banks |

**Table 2: Findings for different impact areas (excluding climate and financial inclusion)[18]**

## Biodiversity

**Why do banks matter for biodiversity?** Banks have a role to play in financing the transition to a nature-positive economy. Living organisms from a variety of sources, including terrestrial, marine and aquatic ecosystems, provide essential services that underpin the liveability of our planet. Banks can contribute to avoiding biodiversity loss and ecosystems degradation by setting and attaining relevant targets such as no net loss of species or critical habitat results from their lending and investment activities, by financing nature-based solutions and the sustainable blue economy or removing deforestation from portfolios. See the recently-released Guidance on Biodiversity Target-setting for PRB signatories for further details.

Our global ecosystem is rapidly approaching a planetary tipping point that urgently needs to be tackled. Over 50% of global GDP is moderately or highly dependent on nature and its services and is therefore exposed to nature loss (World Economic Forum 2020a). Risks of not taking action to prevent further nature loss go beyond reputational and legal exposures. Operational and financial risks of both corporations and the financial institutions supporting them increase as nature declines (University of Cambridge Institute for Sustainability Leadership 2021).

17 Sectors of significant impact in terms of decent employment are for example: agriculture, forestry and fishing; construction; wholesale and retail trade; human health and social work activities etc.)

18 Percentages in this table refer to the number of banks that have identified the corresponding impact area (for biodiversity: n=30; for resource efficiency: n=61; for gender equality: n=90, for decent employment: n=63; for human rights: n=46)

All banking institutions should aim to reduce their negative and increase positive impacts on biodiversity in line with global biodiversity goals and the Sustainable Development Goals 14 and 15. Biodiversity is declining faster than it has at any other time in human history (Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services 2019). Loss of biodiversity is the third top risk in terms of impact in the next ten years, according to the World Economic Forum's 2020 Global Risks Report (World Economic Forum 2020b). Yet, only 24 PRB signatories identified biodiversity as a significant impact area, and a further six noted it as an impact area.

Banks are preparing to set targets in the area, either by having signed a pledge for biodiversity or by being part of various initiatives such as the Partnership for Biodiversity Accounting Financials (PBAF), the Taskforce on Nature-related Financial Disclosures (TNFD), the ENCORE tool[19] testing group, Act4Nature, the PRB Biodiversity Target Setting Working Group or other. About half of the banks have policies in place related to key themes of biodiversity, covering aspects such as deforestation-free portfolios, no loss of species/habitat derived from all direct and indirect activities of investments and investee companies, nature-positive finance or the sustainable blue economy.

Some of the policies reported set either biodiversity criteria to loans, processes to ensure lending to companies with deforestation free supply chains by end of 2024, exclusion lists for specific harmful activities (e.g. drift net fishing, illegal logging or activities that affect reservoirs of biodiversity such as High Conservation Values areas, Alliance for Zero Extinction sites, Ramsar Sites wetlands, IUCN Category I-IV areas and UNESCO World Heritage Sites), or risk management criteria to avoid, mitigate, restore or offset habitat loss from lending activities. The examples provided demonstrate banks' practices to start addressing their impact on biodiversity. PRB signatories have delivered guidance that will help banks set targets that are supported by KPIs, and will continue to work with experts to develop further resources.

The banking sector's awareness and response to biodiversity loss needs to rapidly increase. With COP26's[20] push for public and private finance to speed and scale action on nature to contribute to climate change mitigation and adaptation, throughout this year we expect to see an increase in the numbers reported. Moreover, regulations will likely complement voluntary contributions towards biodiversity from banking institutions. France has recently issued a regulation to require financial institutions to disclose biodiversity risks and impacts. It is expected that in future banks globally will include detailed disclosure of how their finance is tackling biodiversity aspects, in line with the TNFD and various standards such as the Climate Disclosure Standards Board (CDSB).

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19 The tool links environmental change with its consequences for the economy and has been developed by the Natural Capital Finance Alliance (NCFA). The web-based tool, called ENCORE (Exploring Natural Capital Opportunities, Risks and Exposure), 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.

20 The 2021 United Nations Climate Change Conference, also known as COP26, is the 26th United Nations Climate Change conference, scheduled to be held in the city of Glasgow from 31 October to 12 November 2021.

## Resource efficiency[21]

**Why do banks matter for resource efficiency?** Companies the bank finances or invests in should use resources (including water) efficiently and ideally in a circular way. This includes keeping materials at their highest value along the value chain, minimising waste, and manufacturing made-to-last, reusable, repairable, recyclable products. Since 45% of greenhouse gas emissions come from products and food (Ellen Macarthur Foundation 2019), banks can contribute to the Paris Climate Agreement and other environmental and social international goals by improving resource efficiency.

Banking institutions must make an important contribution towards setting and, eventually, achieving ambitious targets for resource efficiency and circular economy. In order to accomplish this, banks should have a clear understanding of what this impact area entails and how to best set targets. Signatories are currently in the early stages of addressing resource efficiency and circular economy. A working group of Signatory banks is currently developing guidance on indicators, metrics and methodologies on resource efficiency and circular economy to facilitate the target setting process for banks. This will be published in the fourth quarter of 2021.

Fifty-one signatories (25%) identified resource efficiency and circular economy as an area of most significant impact, while 10 (5%) Signatory banks marked it as an impact area. 64% identified business opportunities in the field of resource efficiency and circular economy.[22] The most frequently found business opportunities, in order of frequency, were:

- Funding and microfinancing for SMEs' projects related to energy efficiency, renewable energy, water efficiency, waste management, sustainable transport and/or sustainable building;
- Financing of or investments in technological advancements, and
- Green bonds with use of proceeds dedicated to water or energy efficiency.

Where water use, energy consumption or waste generation are priority areas for the sectors financed, being able to track water used (applicable to 7% of banks) or waste generated by the industrial activities the bank finances (applicable to 8% of banks) is an important prerequisite to decrease negative impact over time in the area. Tracking this data can be considered good practice at this early stage of the PRB journey. Indicators and information on water use, energy consumption and waste generation included in the Global Reporting Initiative Guidance, the Sustainability Accounting Standards Board (SASB) or the CDP can be used to help banks to collect relevant data from their clients. Over time, water consumption and/or waste generation should decrease in the sectors financed by the banks (as it should with energy use where that is a priority). Progress

21 Percentages in this section refer to the number of banks that have identified resource efficiency as an impact area (n=61).

22 In addition to these business opportunities, banks identified cost-saving potential related to resource efficiency and circularity from an operational perspective, e.g. recycling expired or cancelled cards, moving towards renewable energies, reusing materials or collaborating with other institutions that upcycle materials. Although these operational opportunities do not constitute major impact changes, they provide for good internal practices that contribute in smaller scale towards resource efficiency and circular economy.

can be measured by defining different types of KPIs, such as financial KPIs (for example, the finance related to energy efficiency and circular economy projects, which one bank has in place) or material KPIs (waste savings in tons per year in the companies financed, which was developed by another bank). Having these kind of KPIs is considered good practice among the PRB signatories active in the area.

## Gender Equality[23]

**Why do banks matter for gender equality?** Every person should be treated equally and no one should be discriminated against because of their gender. That means, women (and people with other gender identities24) should have the same rights and possibilities in terms of access to education, health & sanitation, employment, information, political participation, financial services and economic participation etc. as men do. Banks can promote gender equality in their own company and via their business activities, the latter being in scope of the PRB.

This impact area aligns with SGD5 on gender equality which aims to guarantee females' equal and inclusive access to banking services. Gender equality is the fourth most frequently selected impact area by banks, chosen by 90 banks representing 45% of PRB signatories.

For banks, promoting gender equality via their business activities covers aspects such as lending to or investment in female-owned companies, offering women-specific products and Non-Financial Services or engaging with company clients to promote gender equality within the companies financed. 31% of banks report tracking their lending to or investment in female-owned companies, and 13% were able to name the financial volume lent to or invested in female-owned companies in the last fiscal year, which comes to a total of US$ 2.7 billion.

Being able to track women's representation in management levels of companies that banks have a financial relationship with (24% of banks) and to track lending to female-owned companies (31%) is an important prerequisite to increase positive impact over time in the area. Tracking these data can be considered good practice at this early stage of the PRB journey. Offering Non-Financial Services and women-specific products[25] (which 37% of banks do) including a feedback process to measure the effectiveness

23 Percentages in this section will refer to the subset of PRB signatories with gender equality as an area of (most significant) impact (45%, n = 90).

24 The indicators developed referred to gender equality of women only, whereas persons with other gender identities were not yet in focus.

25 Non-financial services (NFS) are services beyond financial products and services. NFS often includes training, communications, awards of recognition and/or networking opportunities targeted to women customers and/or non-customers in order to increase their financial confidence and skills and build a relationship, beyond financial transactions, with the institution. Examples of NFS are: Dedicated website for women, Dedicated interactive portal for women, Dedicated support specifically for women around facilitating bank interaction, Dedicated self-directed newsletter or other medium to provide information to women, Training, workshops or capacity building specifically targeting women, Consulting or advisory services for women, Networking events specifically targeting women, Direct mentoring or referral services for women, Published profiles of women entrepreneurs or leading women or women customers' journeys on your media (Entrepreneurial Development Bank and International Finance Corporation 2020).

(which is in place for 10% of banks) is another example of good practice in this area (Entrepreneurial Development Bank and International Finance Corporation 2020).

While setting a target to drive alignment with international and national goals and priorities through its products and services, banks should also ensure that they are being responsive to these gender equality goals and priorities through their practices within the organization. None of the respondents who identify gender equality as a main area of impact or area of impact has achieved equal representation of women on managerial level yet.

## Decent employment[26]

**Why do banks matter for decent employment?** Individuals should have access to full and productive employment and decent work, which delivers a fair income, security in the workplace, social protection for families, and involves prospects for personal development and social integration, etc. Banks can promote decent employment in their own company and via their business activities by financing or investing in companies that guarantee decent employment standards—the latter being in scope of the PRB.

Decent work is encompassed within several Sustainable Development Goals, particularly SDG 8: Decent Work and Economic Growth. Fifty-three signatories (26%) identified decent employment as an area of most significant impact, 10 banks (5%) as an impact area.

Financial institutions can support decent employment by setting up policies for their business activities, as well as taking financing decisions in support of decent employment objectives, the latter being a significant contribution that could be made by banks. The survey conducted by PRB signatories regarding decent employment for the first year of PRB implementation shows an area of improvement for this impact area; namely, looking outwards and inwards, instead of only the latter. Whereas almost all PRB signatories that have chosen the impact area decent employment have a policy for internal decent employment measures in place, only 35% apply this policy also to their business activities. Criteria covered by these policies that apply to decent employment structures of the banks' clients financed are (see fig. 14):

26 Percentages in this section will refer to the subset of PRB signatories with decent employment as an area of (most significant) impact (n = 63).

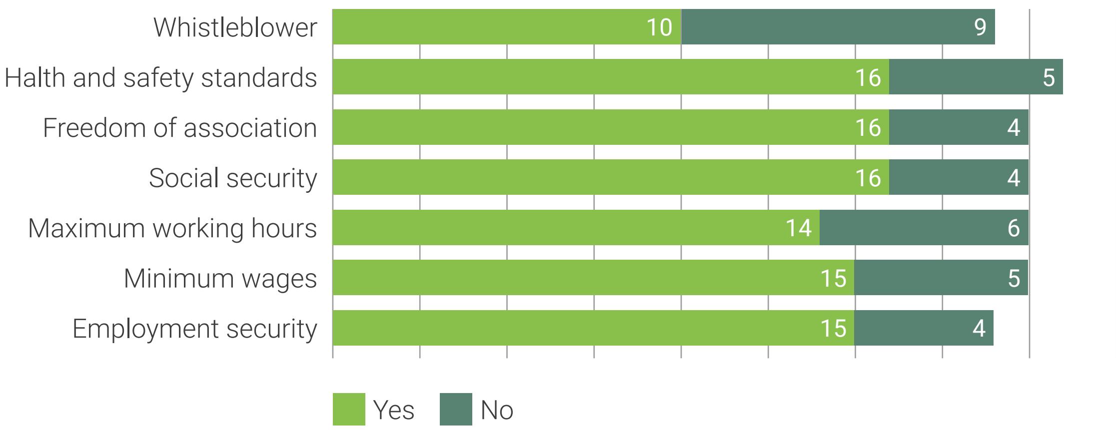



**Figure 14: Aspects covered by decent employment policies of PRB signatories**
Source: UNEP Finance Initiative

28% of banks have analysed their exposure to sectors of significant impact in terms of decent employment. This is a prerequisite to working with the customer base to improve decent employment structures within their companies. Of this percentage, 44% reported working with the existing customer base of high impact sectors to improve the employment structures within their companies. Approximately one-third of banks report taking decent employment standards into account as part of their new client review processes. In terms of internal changes necessary to manage decent employment impact of banks, this is considered good practice at this early stage of implementing the Principles. 11% of banks were able to state the percentage of new clients that fulfil decent employment standards: 3% stating that 75–99% of their new clients fulfil these standards, 8% state this for 100% of their new clients, which is currently best practice among the PRB signatories.

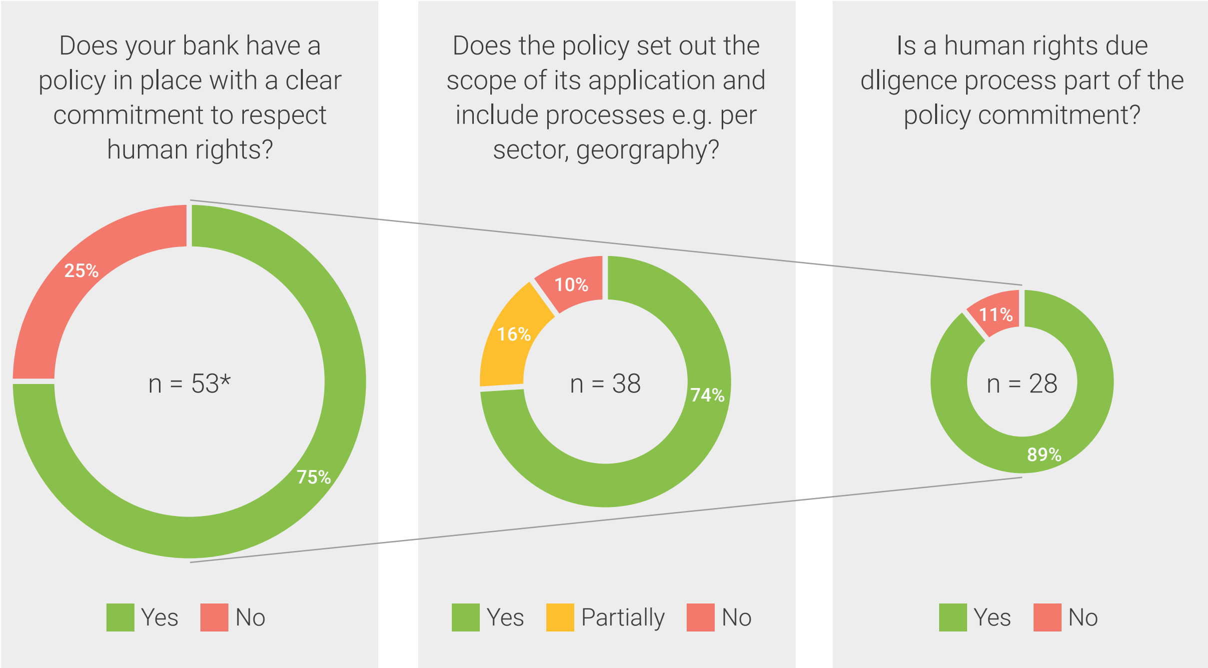
## Human rights[27]

**Why do banks matter for human rights?** Banks should respect human rights. This means that they should avoid infringing on the human rights of others and should address actual and potential adverse human rights impacts with which they are (potentially) involved via their financing and investment activities.

Human rights were identified by 36 PRB banks (18%) as an area of most significant impact, while 10 (5%) Signatory banks marked it as an impact area. Three quarters of PRB signatories that have human rights as an impact area (40 banks) have a policy commitment to respect human rights in place, e.g. by referencing to the UN Guiding Principles on Business and Human Rights. Twenty-eight banks set out its scope of application, covering the bank's activities and its business relationships, and including processes e.g. per sector, geography or based on other criteria. Twenty-five banks also have a human rights due diligence process as part of the policy commitment to identify, prevent, mitigate and account for how the bank addresses its impact on human rights (see fig. 15).

27 Percentages in this section refer to the subset of PRB signatories that identified human rights as an area of (most significant) impact (n = 46).

**Policy commitment to meet responsibility to respct human rights:**




* 46 PRB signatories have identified human rights as a (most significant) impact area, but more banks have answerred this question (although not required). Therefore, not all banks necessarily considered this question.

**Figure 15: Human rights policies**

Source: UNEP Finance Initiative

An initial step for banks for whom human rights are a key area is to identify potential human rights issues, both actual as well as adverse impacts on human rights of individuals or groups. 65% of banks report having a process in place to identify these human rights issues, whereas 20% (9 banks) can clearly outline the salient human rights issues across their activities and business relationships. 17% (8 banks) regularly publish and review the list of (potential) human rights issues identified.

Managing human rights issues, both of potentially affected stakeholders before taking up client relationships as well as of actually affected stakeholders in already existing client relationships are the necessary steps in order to decrease human rights impacts. About a half the signatories have set up respective engagement processes, with 43% (20 banks) having a process of informed consultation and participation of potentially affected stakeholders before new business relationships are taken up or new projects are financed. 22% (10 banks) having a complaint mechanism established to address human rights issues by actually affected stakeholders. Six banks report having a qualitative or quantitative evaluation of the engagement process by affected stakeholders (e.g. by asking for feedback if their situation really has improved, whether monetary compensation was sufficiently helpful etc.).

# VI. Areas of focus moving forward

The Principles for Responsible Banking implementation journey has just begun. Although early signs of progress are evidenced, **banks need to accelerate their implementation of the key steps**, including working on the following identified challenges:

1. **The availability and quality of data**. The report shows that many banks are struggling to track and measure progress due to the limited availability and quality of data, both within the banks' internal IT systems and from external data sources.

2. **Strengthening their impact analysis** as banks develop a better understanding of how to review the impact of their products, portfolio and services on society and the planet.

3. **Increasing action on further critical sustainability issues.** Some sustainability themes appear underrepresented, when they have been identified by science and the international community as critical. For example, at this time only 15% of banks identified biodiversity as an area of significant impact, and 23% human rights despite research and stakeholders suggesting both are important risks and impacts to be addressed by the sector.

4. **Ensuring all targets are sufficiently linked to the outcomes of the impact analysis.** Targets should be in line with the PRB requirements and encompass the activities financed by the bank. Too many banks are setting targets linked to internal, operational activities such as head office electricity consumption. Additionally, some of the existing targets do not show compelling links to identified significant impact areas, or meet the requirement of being SMART at this stage.

Firstly, **an important prerequisite for disclosing the banks' progress and making statements about banks' impacts is the availability and quality of data.** In order to get a well-rounded picture of how banks contribute to the SDGs and the Paris Climate Agreement, banks need to report on positive and negative externalities such as job creation, the carbon footprint or efficient use of resources of financing activities etc. A key challenge across all impact areas is the difficulty of obtaining impact-related information due to a lack of available data, both from companies and private customers. Gathering sustainability-related data (depending on the impact area, this can include sustainability data on a transactional level, customer-related data, risk data, financial data such as the sustainable financial volume mobilized or percentages of sustainable assets in the loan book, or resource use-related data) requires investments in setting up data and client onboarding processes, adapting appropriate IT systems and gaining access to data that is available on the market. This view is shared by banks, who perceive data availability as a major challenge in implementing the Principles (see fig. 16).

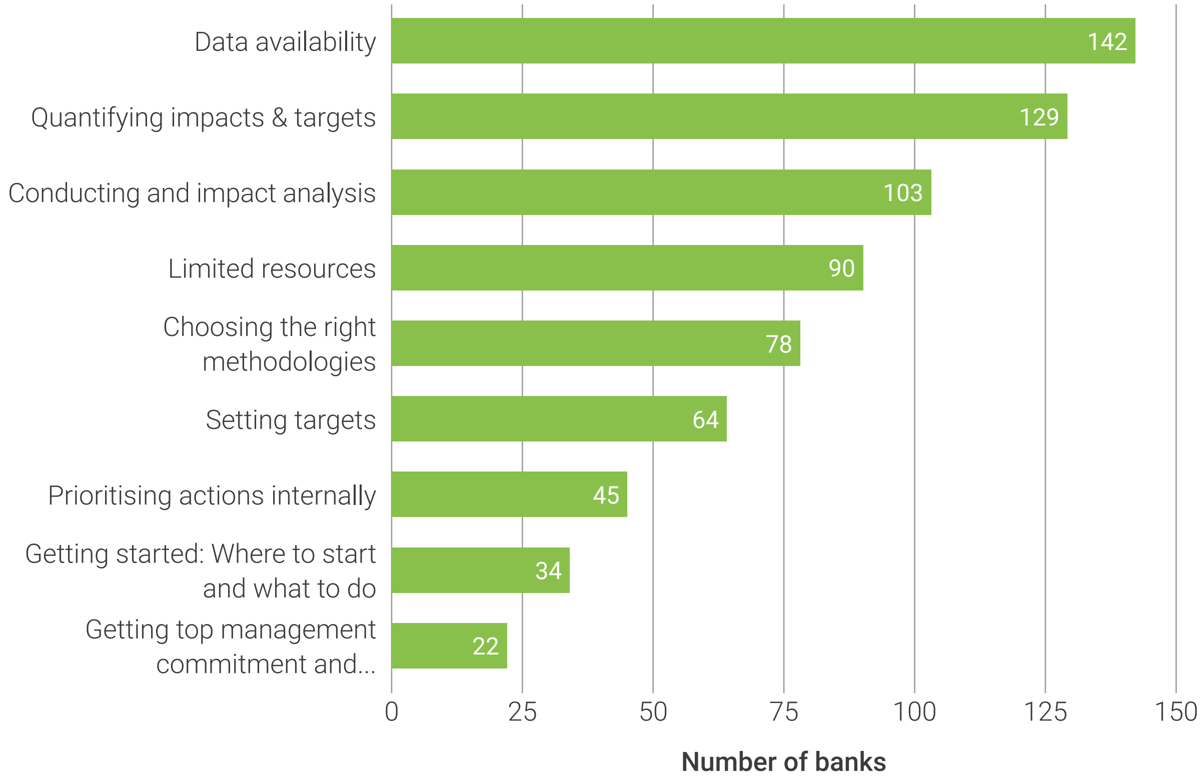



**Figure 16: Signatory banks' challenges in implementing the Principles for Responsible Banking (banks indicated their top 3 challenges)**
Source: UNEP Finance Initiative

Secondly, **banks need to strengthen their impact analysis**. Many banks are currently working on understanding how to review the impact of their products, portfolio and services. The outward-looking assessment of a bank's effects on the environment and society (as opposed to an inward-looking perspective, with environmental and societal effects on the bank) is the basis of the concept of impact analysis, and in some cases needs to be more closely aligned with the PRB requirements for undertaking an impact analysis. The second most frequent named challenge banks are facing when implementing the PRB—quantifying impacts and targets—is closely related to this area for future improvement (see fig. 16).

Thirdly, **banks are yet to recognize some critical sustainability issues as impact areas**. Science and the international community indicate that addressing the biodiversity crises is critical; however, only 15% of banks have identified biodiversity as an area of significant impact. Methodologies and metrics for financial institutions to address biodiversity at a portfolio level are still in their infancy and policy-makers are expected to step up policy and regulatory measures to strengthen nature protection. It is expected that further uptake on nature-related themes and biodiversity will be seen in the coming years, in line with recent political and sector-based action in this area. Human rights are another impact area that seem underrepresented, with 23% of banks reporting to have identified it as an impact area. Both gender equality and decent employment are also underrepresented areas of action, despite this being a critical area of banks' impact that signatories must address.

Moreover, **some of the existing targets are not sufficiently linked to the outcomes of the impact analysis.** Some targets will have to be adapted in terms of scope to the business activities of banks. Instead of internal, operational targets, such as electricity consumption in bank office buildings, or the share of women on the Board of Management within the bank, impact-related targets in line with the PRB requirements should encompass the activities financed by the bank. Especially in the areas of gender equality, resource efficiency or decent employment the targets reported by banks often relate to internal operational targets. Consequently, the development of KPIs is still in its infancy.

Some promising examples of KPIs can be seen (such as the percentage of lending to/investment in female-owned companies, or the financial volume lent to / invested in companies with decent employment structures), as well as some further improvements in other cases needed, in terms of quality of the KPIs (not to be conflated with measures). Additionally, some of the existing targets do not meet the requirement of being SMART at this stage. Given that banks can start to work on setting targets only after having conducted an initial impact analysis (i.e. in the second half of the first four implementation years), these findings for target setting would have been expected at these early stages of the PRB implementation journey.

# VII. Outlook: How the report will inform PRB strategy

The findings from the first 1.5 years of the PRB journey have shown that banks are putting internal systems and processes in place but that significantly more work will be needed over the next two years. Early signs of progress and initial evidence of impact on the ground is visible—but acceleration is needed. This report is the first of a series of biennial reports on the collective progress of all signatories and marks the baseline of the implementation journey.

Being accountable to stakeholders is a key element of the PRB, and the next Collective Progress Report, planned for Q3 2023, will evaluate the progress of PRB banks on the next stages of their journey. By that time, most signatory reporting will include 3rd party verification, which should further improve the rigour and credibility of progress assessment.

The outcomes of this report, including the CSAB independent view, will inform the strategic priorities of the PRB, as determined by the Banking Board, therefore informing the workplan to support signatories with their implementation of the Principles.

An individual review of each bank's progress in implementing the PRB will be provided to each Signatory bank on an annual basis. This will provide tailored advice to banks in fulfilling the commitment they have made. The Individual Review is key to upholding the credibility of each Signatory and ensuring the PRB as a framework fulfils its potential as a tool for banks to align their institutions' strategies with the UN Sustainable Development Goals and the Paris Climate Agreement. Individual Reviews will enable the UNEP FI Secretariat to identify which banks need additional support and guidance, thereby helping to strengthen implementation, so that all banks are in the best possible position to align their financial products, services and portfolios with the needs of society.

To maintain ongoing relevance and alignment with evolving sustainability needs and objectives, the Principles for Responsible Banking Framework Documents (namely the Key Steps to be Implemented by signatories and the Reporting and Self-Assessment Template) as well as the Principles Signature Document will be reviewed biennially. The upcoming framework review will be informed by the Civil Society Advisory Body's independent view on banks' progress and their recommendations, as well as by the findings from this report.

PRB signatories are committed to driving ambition in the banking sector and to supporting their clients and customers in the transition to sustainable economies. Implementing the PRB is still a learning ground for everyone involved, but banks will jointly push beyond current foundational practices and define standards for sustainability leadership.

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# Annex I: Overview of the indicators

The questionnaire required to develop this first PRB Collective Progress Report consisted of pre-determined common indicators. Indicators used to measure the progress of PRB signatories were grouped into three categories: (i) internal changes; (ii) environmental impact areas, and (iii) social impact indicators. Within each of these categories, the following 57 indicators were used. For environmental and social impact areas, examples of metrics used are given in brackets.

## Internal changes

### Strategy Alignment

- Q1 Strategic priorities
- Q2 Strategic alignment of core banking processes

### Impact Analysis and Target setting

- Q3 Impact analysis
- Q4 Most significant impact areas
- Q5 Target setting

### Clients and Customers

- Q6 Engagement policy or process
- Q7 Shift in lending/investment

### Stakeholders

- Q8 Stakeholder identification
- Q9 Stakeholder engagement

### Governance and Culture

- Q10 PRB governance structure and high-level commitment
- Q11 Remuneration practices linked to sustainability objectives
- Q12 Implementation / set-up of sustainability-focused teams
- Q13 Promotion of a culture of sustainability amongst employees

### Transparency and accountability

- Q14 Transparency
- Q15 Accountability

# Environmental indicators

## Climate change mitigation

- Q16 Climate change as impact area/strategic priority
- Q17 Exposure of portfolios to GHG-intensive sectors
- Q18 Climate target setting
- Q19 Carbon intensity and Paris alignment of bank's portfolio
- Q20 Investment in green assets/loans and/or low/carbon technologies
- Q21 Business opportunities and financial products
- Q22 Working with clients to support the transition of carbon-intensive sectors

## Climate change adaptation

- Q23 Physical risk assessment
- Q24 Working with clients on climate adaptation

## Resource efficiency & circular economy

- Q25 Targets for resource efficiency and circular economy
- Q26 Business opportunities
- Q27 Water
- Q28 Waste and resource efficiency

## Biodiversity

- Q29 Actions to prepare target setting process
- Q30 Targets for biodiversity
- Q31 Business opportunities
- Q32 Sustainable blue economy
- Q33 Nature-positive finance
- Q34 Deforestation-free portfolios
- Q35 Species and habitat related to fauna

# Social indicators

## Decent employment

- Q36 Targets for decent employment
- Q37 Policy for decent employment internally
- Q38 Policy for decent employment through core banking business
- Q39 Exposure to sectors of significant impact in terms of decent employment
- Q40 Business opportunities
- Q41 Decent employment as part of new clients review process

## Gender equality

- Q42 Gender equality within the bank
- Q43 Business opportunities
- Q44 Lending to / investment in female-owned companies

- Q45 Women-specific products and non-financial services
- Q46 Engagement process to work with clients on gender equality
- Q47 Targets for gender equality

### Human rights

- Q48 Policy commitment for human rights
- Q49 Potential human rights issues
- Q50 Targets for human rights
- Q51 Management of human rights issues of potentially affected stakeholders
- Q52 Management of human rights issues of actually affected stakeholders

### Financial inclusion and financial health

- Q53 Targets for financial inclusion and / or financial health
- Q54 Financial access: focus on vulnerable groups or organisations
- Q55 Financial access: financial solutions for vulnerable customer groups
- Q56 Financial health
- Q57 Financial Knowledge

# Annex II: List of civil society organsations providing feedback to the Civil Society Advisory Body

## Feedback institution

### CSAB Members

1. The John D. Gerart Center
2. Conservation International
3. World Wildlife Fund
4. Climate Action Network
5. Business & Human Rights Resource Centre
6. ShareAction
7. Center for Sustainability Studies, Fundação Getulio Vargas (FGVces)
8. Ceres
9. Uni Finance - Uni Global Union
10. International Labor Organization
11. BETTER FINANCE
12. Value Reporting Foundation

### Other stakeholders

1. Alianza Empresarial para el Desarrollo
2. Association of Senior Staff Of Banks, Insurance and Financial Institutions (ASSBIFI-NG)
3. BEUC (Bureau Européen des Unions de Consommateur)
4. CDP
5. Center for African Philanthropy and Social Investment, Wits Business School
6. Center for Development Services
7. Centre for Science and Environment, India
8. Climate Disclosure Standards Board
9. Dibeen Association for Environmental Development
10. EFC West
11. Eurogroup for Animals
12. Federation Of Non-Life Insurance Worker's Unions Of Japan
13. Finance Sector Union Norway
14. Financial Services Union Ireland
15. Finansforbundet-DK

16. Fisac/CGIL
17. Germanwatch
18. Green Innovation and Development Centre
19. Hana financial-union
20. Heinrich Boll-Stiftung Foundation
21. Industrial Bank of Korea-Union
22. KB Financial-Union
23. NongHyup Finance Labor Union
24. Nordic Financial Unions
25. OZBP
26. Practical Action
27. Reseau Action Climat - France (CAN France)
28. Rocky Mountain Institute
29. SCS - Sdružení Českých Spotrebitelu, o.s.
30. Servicios CCOO
31. Shinhan Financial Group-Union
32. Solidarity Center
33. Takatof Association for Development
34. The B-Tech Project, OHCHR
35. The Ford Foundation, Middle East and North Africa
36. UNI Africa
37. UNI Asia & Pacific Regional Organization
38. UNI Europa Finance
39. UNI Finance
40. Union of DGB Financial Group
41. Universidad Anahuac Mexico, Facultad de Responsabilidad Social
42. WooriFinancial-Union
43. World Benchmarking Alliance
44. World Resources Institute
45. WWF Brazil
46. Zimbabwe Environmental Law Association

UN environment programme

finance initiative

United Nations Environment Programme Finance Initiative (UNEP FI) is a partnership between UNEP and the global financial sector to mobilize private sector finance for sustainable development. UNEP FI works with more than 400 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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