2023 ESG in the Banking Industry Share Forum Series “Starting Strong”

June 6, 2023

Administrative

CPE regulations

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- attend for entire session
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Participation is tracked, and failure to actively participate will result in denial of CPE credits.

Technical issues

- If you have any technical issues, please submit a question through the Questions & Answers panel and our producers will respond to you directly.

Content questions

- Submit all content questions through the Questions & Answers panel.

Agenda

Session 1		1 – 1:20 pm	
01	ESG in the banking industry & SEC development update	12:00pm – 12:30pm	Alysha Horsley KPMG Audit
02	ESG internal controls over sustainability reporting	12:30pm – 1:00pm	Aila Pallera KPMG Internal Audit & Enterprise Risk
03	Global ESG landscape	1:00pm – 1:20pm	Yuval Ron KPMG Accounting Advisory Services Sean Stiso KPMG Accounting Advisory Services

Break 10 minutes

Session 2		1:30 – 2:30 pm	
04	Perspectives on ESG as a Business Opportunity	1:30pm – 1:50pm	Dylan Roberts KPMG Strategy
05	ESG industry panel discussion	1:50pm – 2:30pm	Dylan Roberts KPMG Strategy

01

ESG in the banking industry & SEC development update

Alysha Horsley

KPMG Audit

Major shifts impacting ESG

Physical Risks

Economic consequences of a 3 to 4° global warming trajectory. Natural disasters as a risk for **credit**, **global operating business models,** and **investments**.

Consumer & Employee Sentiment

Social **pressure**, rising **purchasing power** and **growing wealth** of the young environmentally conscious **generations "Y" and "Z"**.

Capital Markets

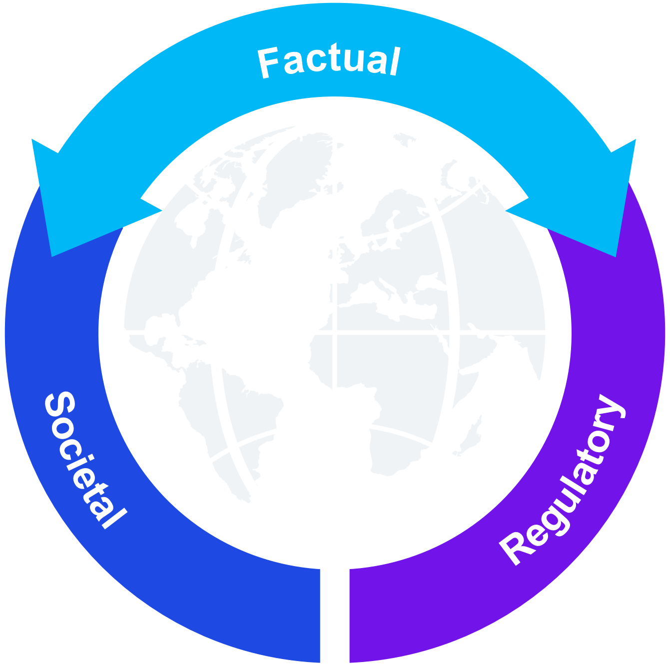
Emergence of **ESG investment strategies** and increasing importance of **ESG-related reporting**.

Higher ESG score, lower **cost of capital**

Tax Acceleration

More countries adopting **Country by Country** reporting. Greater pressure to understand **total global tax footprint**.

The FASB's proposed ASU would require disclosure of income taxes paid (net of refunds received) to an individual jurisdiction when more than 5% of the total.



SEC Requirements

Anticipated **disclosure mandates for climate change, social, and cyber security data** in April 2023.

IRA

Signed into law in 2022, the **largest federal clean energy investment** in history is setting the course for how the nation produces energy and how businesses make decisions.

Banking Regulators

OCC, FDIC and FRB have each issued Climate Principles focused on **climate-related financial risks** for large banking organizations.

FRB's **climate risk pilot scenario analysis**

Global Policy Shifts

Formal adoption of **CSRD by EU** with standards still to be finalized

ISSB to require scope1, 2 and 3 GHG emissions

Biden administration is realizing more ambitious climate policies.

FitchRatings

Bank Credit Ratings & ESG Risks

Mark Narron, Sr. Director, N. American Banks

June 6, 2023

Fitch Ratings and Sustainable Fitch ESG Solutions

ESG-integrated Credit Research & Analysis

Short-term → **Long-term**

ESG Relevance Scores

- ESG Relevance Scores articulate the level of influence an environmental, social or governance issue has had on a credit rating decision
- ESG Relevance Scores are forward looking and based on the base case forecasts for the credit ratings of entities and transactions
- Fitch Ratings' credit analysts systematically evaluate ESG credit considerations incorporated in its ratings methodologies
- The scores cover Environmental, Social and Governance (E, S and G, respectively) risks under a transparent sector based, cross-asset, global framework
- Sector based templates provide clear articulation of credit relevant ESG risks

Sector / Entity / Transaction

Corporates Climate Vulnerability Signal

- Credit risk analysis based on a credible downside credit risk scenario whereby climate change is limited to 2 degrees of warming by 2050
- Vulnerability scores provide a time series comparative risk score of credit risk vulnerability for sectors, entities within a sector, and debt instruments
- Time-profiled assessment at regular intervals from 2025 to 2050. Unique granular view for investors looking to manage longer term ESG credit risks
- Based on the UN-backed Principles for Responsible Investment's Inevitable Policy Response scenario, refined and adjusted for the in-depth sector knowledge of Fitch's rating analysts

Sector / Entity / Transaction

Medium-term

ESG Research

- Dedicated global ESG Research team based across 3 continents who cover thematic and cross-sector ESG credit risk, as well as supporting credit analysts with themed issuer and transaction specific research
- Thematic reports analysing ESG themes at a macro-level, a sector level, and an entity / transaction level with an emphasis on how they are likely to affect sectors and entities from a credit perspective
- The ESG Research team prioritize emerging ESG themes that are most material and likely to disrupt industries and business models

Sector / Thematic

Pure ESG Analysis & Reports

Short-term → **Medium-term**

ESG Ratings

- Holistic ESG analytical tools that help market players to discriminate the ESG quality of financial instruments and companies/issuers

3 main pillars:

- ESG Entity Rating, with ESG peer comparison tool
- ESG Instrument Rating (bond and loan) for both framework and conventional bonds and loans. Financial instrument assessment which takes account of the ESG credentials of the issuer as well as the debt instrument to produce an absolute comparative grade for every piece of debt issued.
- ESG Framework Rating for Green / Social / Sustainability / Sustainability-linked bonds and loan

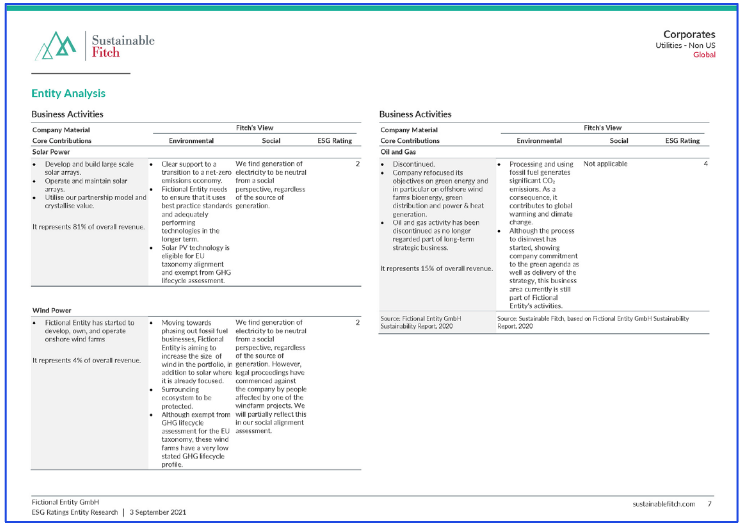
Entity / Transaction

Sustainable Fitch - ESG Rating Report

Reports are produced for each instrument, covering the entity and the bond framework, as well as additional sections on alignment with ICMA guidelines and UN SDGs

ESG Entity Rating

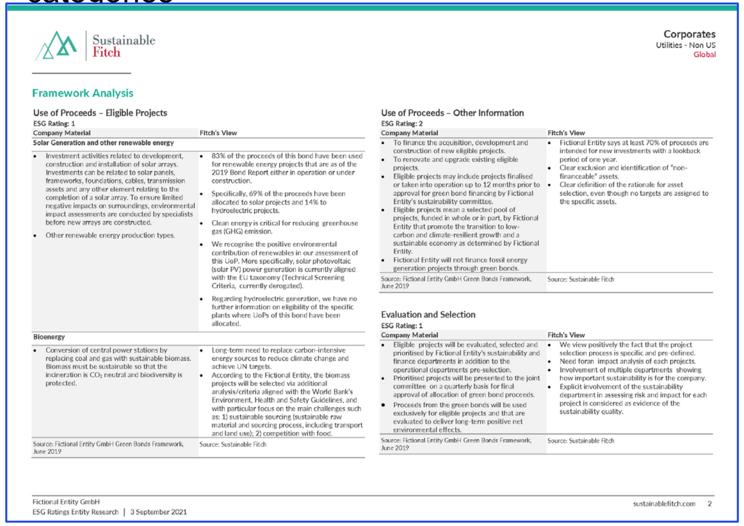
- We opine on the entity overall E,S,G profiles and its Business Activities.
- We refer to an internationally recognised taxonomy



Sustainable Fitch
Corporates
Utilities - Non US
Global
Entity Analysis

ESG Framework Rating

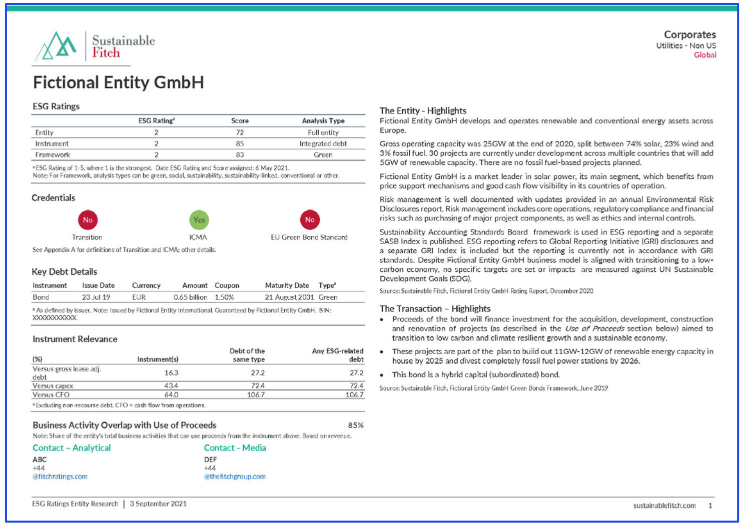
- We opine on the bond structuring features and Use of Proceeds
- We check the UoP with the ICMA principles
- We distinguish between main GSS bonds categories



Sustainable Fitch
Corporates
Utilities - Non US
Global
Framework Analysis

ESG Instrument (bond or loan) Rating

- We can analyse ESG credentials for both GSS bonds and conventional bonds via the ESG Instrument Rating



Sustainable Fitch
Corporates
Utilities - Non US
Global
Fictional Entity GmbH

General Issues in ESG Relevance Scores Framework

Environmental	Social	Governance
GHG Emissions & Air Quality (EAQ)	Human Rights, Community Relations, Access & Affordability (SCR)	Management Strategy (GEX)
Energy Management (EFM)	Customer Welfare; Fair Messaging, Privacy & Data Security (SCW)	Governance Structure (GGV)
Water & Waste Management (EWT)	Labour Relations & Practices (SLB)	Group Structure (GST)
Waste & Hazardous Materials Management; Ecological Impacts (EHZ)	Employee Wellbeing (SEW)	Financial Transparency (GTR)
Exposure to Environmental Impacts (EIM)	Exposure to Social Impacts (SIM)	Political Stability & Rights (GPS)
Water Resources Management (EWR)	Human Rights & Political Freedoms (SHR)	Rule of Law, Institutional & Regulatory Quality, Control of Corruption (GRL)
Biodiversity & Natural Resources Management (EBN)	Human Development, Health & Education (SHD)	International Relations & Trade (GIR)
Natural Disasters & Climate Change (ENC)	Employment & Income Inequality (SEI)	Creditor Rights (GCR)
	Public Safety & Security (SPS)	Data Quality & Transparency (GDQ)
	Demographic Trends & Population Demographics (SDT)	Transaction & Collateral Structure (GTC)
	Privacy & Data Security (SPD)	Transaction Parties & Operational Risk (GOR)
		Data Quality & Privacy (GDT)
		Policy Status & Mandate Effectiveness (GSM)

- Applies to all analytical groups
- Applies to Corporates, Financial Institutions (FI), International Public Finance (IPF; Government-Related Entities), US Public Finance (USPF; Revenue, Infrastructure), Structured Finance (SF) & Covered Bonds, Supranationals
- Applies to Sovereigns, IPF (local & regional Governments), USPF (Tax), Supranationals
- Applies to Corporates, FIs, IPF (Government-related entities), USPF (Revenue & Infrastructure), Supranationals
- Applies to SF & Covered Bonds
- Applies to Supranationals
- Applies to Sovereigns, IPF (local & regional Governments), USPF (Tax), Supranationals, SF & Covered Bonds
- Applies to Corporates, FIs, IPF (Government-Related Entities), USPF (Revenue, Infrastructure), SF & Covered Bonds, Supranationals
- Applies to Sovereigns, IPF (local & regional governments), USPF
- Applies to Corporates, FIs, SF & Covered Bonds, IPF (Government-related entities), USPF
- Applies to Sovereigns, IPF (local & regional governments), USPF
- Applies to Corporates, FIs, IPF (Government-related entities), USPF, Supranationals
- Applies to Sovereigns
- Applies to Sovereigns, IPF (local & regional governments), USPF
- Applies to Sovereigns, SF & Covered Bonds, USPF, IPF (local & regional governments)

Fitch ESG Relevance Scores Defined

Score	Relevant to Sector	Relevant to Issuer	Material to Rating	Description
5	Yes	Yes	Key Rating Driver	• Highly relevant to the rating. A Key Rating Driver
4	Yes	Yes	Rating Driver	• Moderately relevant to the rating. Not a Key Rating Driver by itself, but has a moderate impact on the rating in combination with other factors
3	Yes	Yes	Minimal	• Minimally relevant to the rating. Either has a very low impact or is actively managed in a way that results in no impact on the entity rating
2	Yes	No	No	• Irrelevant to the entity rating but relevant to the sector
1	No	No	No	• Irrelevant to the entity rating and irrelevant to the sector

Fitch Ratings - Social Relevance Examples

ESG Relevance Scores – Social Issues Assessed

Social (S)

General issues	Sector-specific issues	Reference
Human Rights, Community Relations, Access & Affordability	n.a.	n.a.
Customer Welfare – Fair Messaging, Privacy & Data Security	Fair lending practices, pricing transparency, repossessions/ foreclosure/collection practices, consumer data protection, legal/ regulatory fines stemming from any of the above.	Operating Environment, Risk Profile, Asset Quality
Labour Relations & Practices	Impact of labour negotiations, including board/employee compensation and composition.	Business Profile, Earnings & Profitability, Capitalisation & Leverage, Funding
Employee Wellbeing	n.a.	n.a.
Exposure to Social Impacts	Shift in social or consumer preferences as a result of an institution's social positions, or social and/or political disapproval of core activities.	Business Profile, Earnings & Profitability

Source: Fitch Ratings

GSEs

Freddie Mac and Fannie Mae are US government sponsored entities that play a core role in the US housing finance market. Both have an ESG.RS of '4[+]' for 'Human Rights, Community Relations, Access & Affordability' as their public policy missions are key ratings drivers relevant to Fitch's view on the US sovereign's propensity to provide support.

Other US GSEs with similar positive ESG.RS are Farm Credit System, AgFirst Farm Credit Bank, Agribank, FCB, CoBank, ACB and Farm Credit Bank of Texas.

Fitch Governance Relevance Examples

ESG Relevance Scores – Governance Issues Assessed

Governance (G)

General issues	Sector-specific issues	Reference
Management & Strategy	Operational implementation of strategy.	Business Profile
Governance Structure	Board independence and effectiveness, ownership concentration; protection of creditor/stakeholder rights, legal/compliance risks, business continuity, key person risk, and related-party transactions.	Business Profile
Group Structure	Organisational structure, appropriateness relative to business model, opacity, intra-group dynamics and ownership.	Business Profile
Financial Transparency	Quality and timing of financial reporting, and auditing process.	Business Profile

Source: Fitch Ratings

<u>Governance Weaknesses</u>

The ratings of Credit Suisse Group AG and Wells Fargo & Co. were affected by Fitch's assessment of governance weaknesses, leading to ESG.RS scores of '4' for Governance Structure and 'Management & Strategy', respectively.

Fitch Ratings - Environmental Relevance Examples

ESG Relevance Scores – Environmental Issues Assessed

Environmental

General issues	Sector-specific issues	Reference
GHG Emissions & Air Quality	Regulatory risks, emissions fines or compliance costs related to owned equipment, which could affect asset demand and profitability.	Operating Environment
Energy Management	Investments in or ownership of assets with below-average energy/fuel efficiency, which could reduce future valuation of these assets.	Risk Profile
Water & Wastewater Management	n.a.	n.a.
Waste & Hazardous Materials Management, Ecological Impacts	n.a.	n.a.
Exposure to Environmental Impacts	Impact of extreme weather events on assets and/or operations and corresponding risk appetite and management, catastrophe risk, credit concentrations.	Business Profile, Asset Quality

Source: Fitch Ratings

<u>Severe Weather</u>

A number of issuers operating in geographies more exposed to extreme weather events have ESG.RS of ‘3’ for ‘Exposure to Environmental Impacts.’

FRB proposed climate risk management principles

At a glance

- Principles follow closely with previous proposed guidance from the OCC and FDIC
- Topic areas include the following: Governance; Policies, procedures, and limits; Strategic planning; Risk management; Data, risk management, and reporting; and Scenario analysis
- Risk areas include the following: Credit risk; Liquidity risk; Other financial risk (interest rate risk and pricing risk); Operational risk; Legal/Compliance risk; and Other nonfinancial risks
- Only proposed guidance from U.S. prudential banking regulators to mention the connection between climate risk management and compensation strategies
- Emphasizes that any final guidance will be in the form of interagency guidance[1]

FRB proposed general climate risk management principles

Governance	Policies, procedures, and limits	Strategic planning
Risk management	Data, risk measurement, and reporting	Scenario analysis

FRB proposed management areas

Credit risk	Liquidity risk	Other financial risk
Operational risk	Legal/ compliance risk	Other nonfinancial risk

(1) FRB, “Press Release” (December 2022)

Climate Risk: FRB's Pilot Scenario Analysis & Risk Management Practices

The FRB's Climate Scenario Analysis has two primary objectives: "to learn about large banking organizations' climate risk management practices and challenges and to enhance the ability of large banking organizations and supervisors to identify, measure, monitor, and manage these risks."

Physical risk:

- Effect on residential and CRE exposures over one-year horizon (2023)

Transition risk

- Effect on Corporate and CRE loan portfolios over a 10-year time horizon (2023-2032)

Qualitative Questions:

- Governance & risk management practices
- Measurement methodologies
- Results (risk metrics & data challenges)
- Lessons learned and future plans

Scenarios:

- For each scenario, calculate traditional credit risk parameters, such as probability of default, risk rating grade and loss given default for each loan

Regulatory Insights | Climate Risk: FRB pilot scenario analysis

ESG is ultimately a competitive advantage

Rising interest

from C-suite on ESG impact as **47% of Banking CEOs agree that ESG programs improve financial performance**, an11% increase from last year(1)

ESG story

Backed by **financial and non-financial information**

- **GHG emissions**
- **Diversity, equity and inclusion**
- **Governance**
- **Cyber**

"

Our approach to sustainable finance is to help our clients make the transition they seek. It is great business and great for society."

- Brian Moynihan, Bank of America CEO(2)

Source(s): (1) KPMG CEO Outlook 2022;(2) Brian Moynihan's Annual Letter to Shareholders (2023) | Bank of America

02

ESG and Internal Controls

Aila Pallera

KPMG Internal Audit & Enterprise Risk

Agenda

Robust reporting requires robust controls

The ESG Journey

Assess
Identify current state of ESG and prioritize critical areas

Initiative Inventory
Capture, align, and 'take credit' for existing ESG efforts

Maturity + Materiality
Evaluation of material topic areas related to ESG and current organizational maturity

Market Positioning
Assess ESG initiatives and ratings against select peers

Carbon Baseline
Establish process and execute on GHG emission measurement

SEC Proposal Diagnostic
Rapid assessment of current reporting against SEC climate disclosure proposal

Diversity, Equity, & Inclusion
Rapid assessment of DEI status and potential gaps

Design
Integration of current & future state into goals that feed strategy

Strategic Plan
Consideration of how ESG focus areas align with existing strategic plans or aspirations

Roadmap
Outline of potential, tangible steps to take for delivering on ESG focus areas

Target-setting
Setting of goals and discrete targets that will guide implementation of ESG tenets

Operationalize
Tangible initiatives to make progress against specific areas identified as ESG focal points

Decarbonization
Set net zero ambition, approach, timeline, and measurement. Model impacts (e.g., ROI)

Resilience & Capital Planning
Build ESG and the impacts of a changing climate into capital program choices

Financing
Adopt regulatory standards, financing options, and audit/tax implications

Diligence
Integrate ESG needs into M&A strategy, portfolio, cost operating model and target identification

Diversity, Equity, & Inclusion
Incorporate DEI principles like better governance & controls into decisions

Governance
Tightly integrate ESG into decision-making and evaluation methodologies

Measure & Report
Continuously review performance and future ESG-related decisions that need to be made

Carbon Accounting
Quantifies emissions and creates a robust reporting system fit for a wide variety of both internal and external uses

Reporting
Track ESG progress and any key adopted standards (SASB, TCFD, etc.)

Assurance
Independent assurance on ESG reporting

Project & Climate IQ
Highlights impact of climate change, resilience, and risk mitigation on the overall asset base along with the resulting shifts in macroeconomic landscape (e.g., demand and supply factors)

Technology Enablement, Data Sources, Control Infrastructure, Policy & Procedures, and Governance Framework

Program & Change Management

ESG Internal Control Considerations

Why internal controls in ESG is so important

Accelerating ESG compliance

- Aspects of SEC Climate Rule will be SOX relevant
- Attestation will be required for parts of the SEC climate rules
- Validation is already required for EU rules on climate disclosures and in several other country disclosures
- Assurance will become best practice as ESG progress and reporting evolves
- There are other areas of ESG not yet covered by the SEC; this could easily change

Reliance by stakeholders

- Stakeholders and analysts will continue to rely on CSR reports as well as the 10k to compare companies on ESG areas outside of mandatory disclosures
- If stakeholders rely on that information, companies will need to put some diligence into validating the effectiveness of internal controls put in place to confirm the accuracy of these disclosures.
- Stakeholders will include investors, regulators, customers, vendors, lenders, etc.

Board and Executive leadership confidence

- Boards and Executive leadership are going to be asked about their strategy and goals involving ESG and progress towards those goals
- Assurance will be needed in order to give boards and management the confidence to speak to company progress with some degree of evidence supporting what is said

Increasing attention from bank examiners

- OCC, FDIC and FRB have issued draft principles for managing exposures to climate-related financial risk.
- Federal Reserve Board's pilot climate scenario analysis exercise.

Focus areas as you consider internal controls over ESG reporting

Consider the following list of topics that are core elements of any risk and controls program and how they apply to ensuring strong internal controls around ESG reporting.

Support for estimates and assumptions. Particularly with ESG data, various estimates and assumptions are often used in preparing the calculations. The rationale and support for such estimates and assumptions should be clearly documented and supported by reliable data.

Evidence of secondary review and approval. ESG data and reporting should be subject to reviews and approvals by appropriate reviewers to validate the data, calculations, and presentation.

Controls over data. Regardless of where the data is originating (e.g. 3rd party), the company is ultimately reporting and has responsibility for its accuracy and needs to define consistent measurement of data.

IT general controls. Systems used for ESG data need to have appropriate IT general controls, including appropriate access controls.

Defined policies and procedures. Similar to accounting policies that document the specific principles and procedures for preparing and presenting financial statements, companies need documented definitions for measurement and principles for how their ESG reporting is prepared and presented.

Homogeneity across processes, locations, and countries. Companies should strive for activities that are truly homogeneous and consistently measured across processes and locations. Initially arriving at common policies to define how data is defined, measured, captured, and controlled will be a challenge.

Governance over disclosures. A governance process needs to be established to define policies, oversee the end-to-end ESG process from the definition of strategy through to the disclosures being made, and ensure there are appropriate controls throughout the process.

Completeness and accuracy controls around key reports. Adequate controls should be in place to verify that reports used for ESG data and calculations accurately capture data in a consistent, complete, and accurate manner.

These are common topics and themes for those that have been involved with ICFR for the past 20 years, but applying those same concepts across a new set of non-financial controls for ESG is going to be a much different challenge.

ESG Controls Journey

Metric prioritization, documentation and assessment are critical elements of the ESG controls strategic journey banks are taking to mature their ESG control structure. Below is KPMG's view of this journey

- ✓ Defined process?
- ✓ Documented?
- ✓ Audit trail?
- ✓ Complexity?
- ✓ Source - system or manual?
- ✓ Significant estimates?
- ✓ Complexity of calculation?

Inventory Key ESG Reports & Metrics

Inventory ESG data metrics against key ESG reports.

Metric Prioritization

Identify material metrics for key ESG reports. Decompose material metrics to identify key process areas.

Document Process Flows

Document Process Flows for identified process areas and capture existing controls across the complete data lifecycle.

Identify Key ESG Controls

Define minimum control requirements for key metrics and disclosures. based on criticality of should be established at the process level.

Identify Control Gaps & Develop Remediation Plans

Document controls that are missing or require uplift to align to the minimum control requirements. Develop remediation plans for identified control gaps and identify if remediation required is Manual / Technical or a longer-term technology solution. Identify metrics to track progress.

Ongoing Monitoring, Update, Testing

Internal Controls Over Sustainabilty Reporting (ICSR)

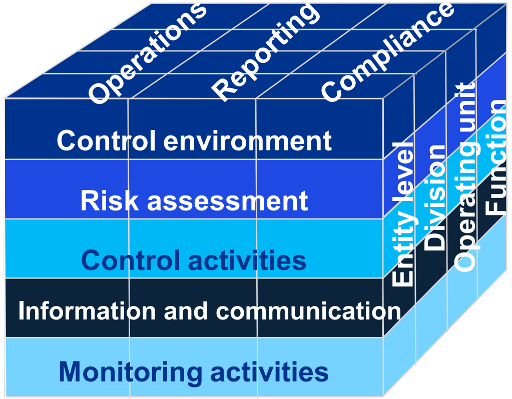
COSO Components and principles

For effective internal control:

Each of the five components and 17 relevant principles must be present and functioning

Points of focus are characteristics supporting achievement of control objectives

The five components must operate together in an integrated manner

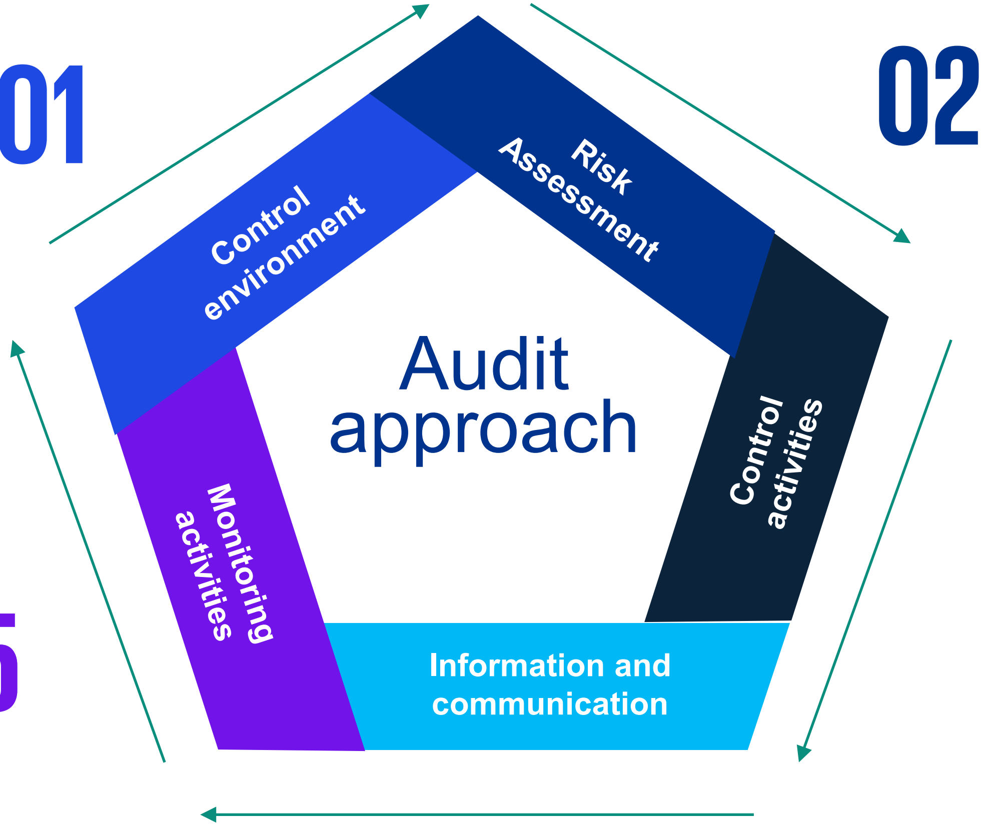


Control environment	1. Demonstrates commitment to integrity and ethical values 2. Exercises oversight responsibility 3. Establishes structure, authority, and responsibility 4. Demonstrates commitment to competence 5. Enforces accountability
Risk assessment	1. Specifies suitable objectives 2. Identifies and analyzes risk 3. Assesses fraud risk 4. Identifies and analyzes significant change
Control activities	1. Selects and develops control activities 2. Selects and develops general controls over technology 3. Deploys through policies and procedures
Information and communication	1. Uses relevant information 2. Communicates internally 3. Communicates externally
Monitoring activities	1. Conducts ongoing and/or separate evaluations 2. Evaluates and communicates deficiencies

Key considerations for each component

01 Control environment

- Evaluate the organizational structure and identify the areas most likely to be impacted by current and pending regulation
- Hire, train, and retain the right people with the right skills
- Establish and communicate the structure, roles, and responsibilities to all involved in ESG reporting
- Define realistic and attainable metrics that do not create undue pressure that could lead to fraudulent reporting



02 Risk Assessment

- Define sustainability reporting objectives in sufficient detail to form the basis for a thorough risk assessment
- Identify and analyze material risks to the achievement of sustainable reporting objectives
- Consider the potential risk of fraud in sustainability reporting during the risk assessment
- Continuously monitor for changes that could impact sustainability reporting objectives

03 Control Activities

- Design the ICSR program and controls to be scalable to achieve the desired level of assurance. Remember to design controls that address future commitments and not just current metrics. Using the ICSR program can be beneficial in supporting potential internal or external assurance needs
- Get control performers prepared with expectations prior to assurance requirements
- Develop and regularly update policies, procedures, and training to create tools to achieve ESG reporting objectives

04 Information and communication

- Consider how to integrate sustainability data capture and controls into any future system discussions to scale the technology environment appropriately
- Gauge the consistency, veracity, and completeness of the data for ICSR.
- Design and implement controls to mitigate the risk of inaccurate or missing ESG data

05 Monitoring Activities

- Consider expanding the role of internal audit functions to include assurance of ICSR. Internal audit can assess the design, implementation, and effectiveness of ESG data controls prior to any external assurance
- Encourage the chief audit executive to collaborate with leadership to build an efficient, effective, risk based ICSR portfolio

03

Global ESG landscape

Sean Stiso & Yuval Ron

KPMG Accounting Advisory Services

Snapshot: International ESG Reporting Regulations

KPMG has identified over 300 reporting requirements* that pertain to ESG reporting and disclosure in over 100 of the largest countries worldwide.

Given the Regulatory landscape, this number is likely to continue to increase as ESG topics continue to be added to the agenda's of international regulatory bodies

Regulation Status*	Number	Percentage
Mandatory for Companies – Final	175	65%
Mandatory for Companies – Proposed	20	7%
Optional for Companies – Final	65	24%
Optional for Companies – Proposed	10	4%
Regulations with scoping requirements in Banking / Financial Services**	52	19%

*Some of the reporting requirements include plans from regulatory bodies to implement future ESG reporting requirements and are not included in the represented table.

** Please note – some Banking and financial services institutions may trigger other ESG reporting requirements if they trigger other reporting thresholds, such as being traded on a public exchange or have a certain amount of revenue each year.

Snapshot: ESG Reporting Regulations by Jurisdiction

Below represents a snapshot of the top 10 jurisdictions (by number of regulations) who have issued ESG requirements. As you can see from the chart, ESG reporting regulations are becoming prominent in globally, with a majority centered in the European Union and United Kingdom.

There are also several requirements that are specifically being developed for Banks and financial institutions. A majority of these are centered around assessing and managing climate-related risks within a Bank's risk management processes.

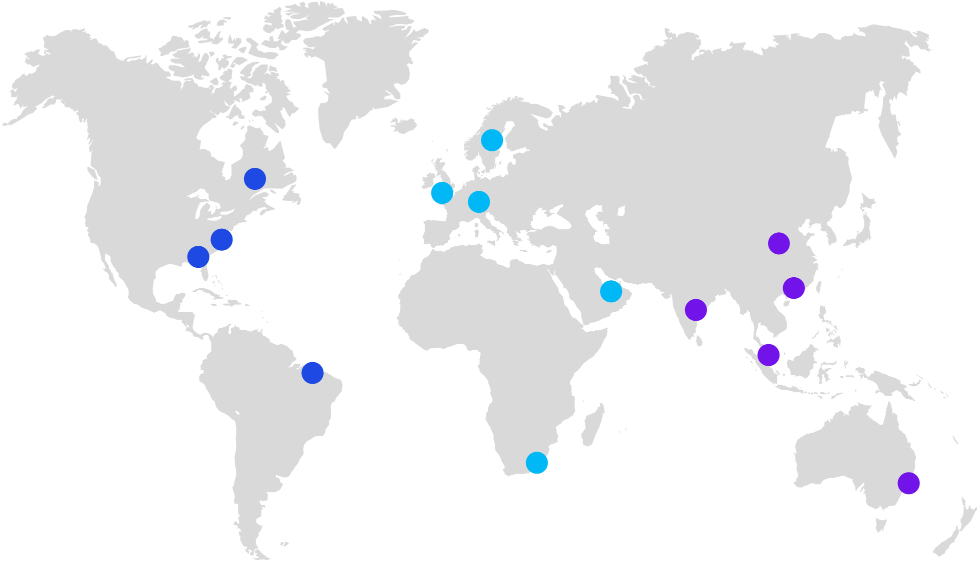
Regulation Status*	Number of Regulations	# Mandatory	# Finalized	# With scoping requirements specific to Banking / Financial Services*
United Kingdom	15	13	12	1
European Union	12	12	9	4
Hong Kong	10	9	10	3
Australia	10	4	10	1
United States of America	8	8	3	3
India	7	2	5	1
Canada	6	4	4	1
Switzerland	6	6	5	2
Norway	5	5	4	1
China	5	5	5	1

* Please note – some Banking and financial services institutions may trigger other ESG reporting requirements if they trigger other reporting thresholds, such as being traded on a public exchange or have a certain amount of revenue each year.

Other Financial Services Regulations around the world

Americas

Climate Disclosures for Banks and Insurance Companies	**Canada**
Resolution BC No. 139/2021	**Brazil**
Enhanced Disclosures by Certain Investment Advisers and Companies about ESG Practices	**United States**
OCC Principles for Large Bank Climate Risk Management	**United States**



Asia Pacific

Fund Manager Code of Conduct	**Hong Kong**
Environmental Risk Management Guidelines for Banks, Asset Managers, Insurers	**Singapore**
Regulations on Green Finance of Shenzhen Special Economic Zone	**China**
ESG Mutual Fund Schemes	**India**
CPG 229 – Climate Change Financial Risks	**Australia**

EMEA

Green Taxonomy	**United Kingdom**	Regulation 28 of Pension Funds Act	**South Africa**
Securitizations Related Sustainability Disclosures	**European Union**	EBA Pillar III Disclosures (CRR)	**European Union**
CBB Circular – Climate Related Risks	**Bahrain**	SFDR – Disclosure of information related to sustainability	**European Union**
Sustainable Finance Act	**Norway**	EU Taxonomy	**European Union**

This is intended for illustrative purposes only and does not represent a complete population of global ESG regulations that may be applicable to banks.

The ESG regulatory landscape

Two ISSB proposals

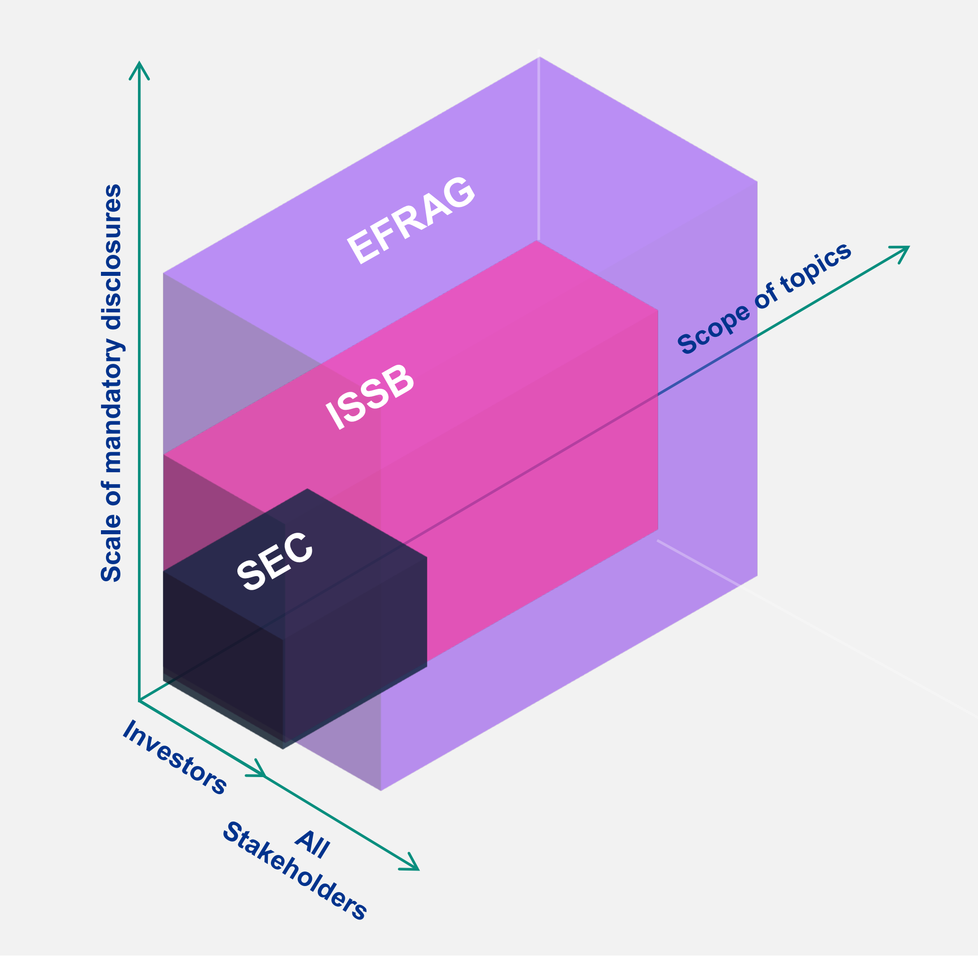
- Investor focus
- General principles, including proposed requirement to report across all significant sustainability-related risks and opportunities (not just climate)
- To date, detailed guidance on climate only[1]

Twelve EFRAG draft standards

- Multi-stakeholder focus, including investors
- Core principles for disclosure
- To date, granular requirements published for sustainability impacts, risks and opportunities

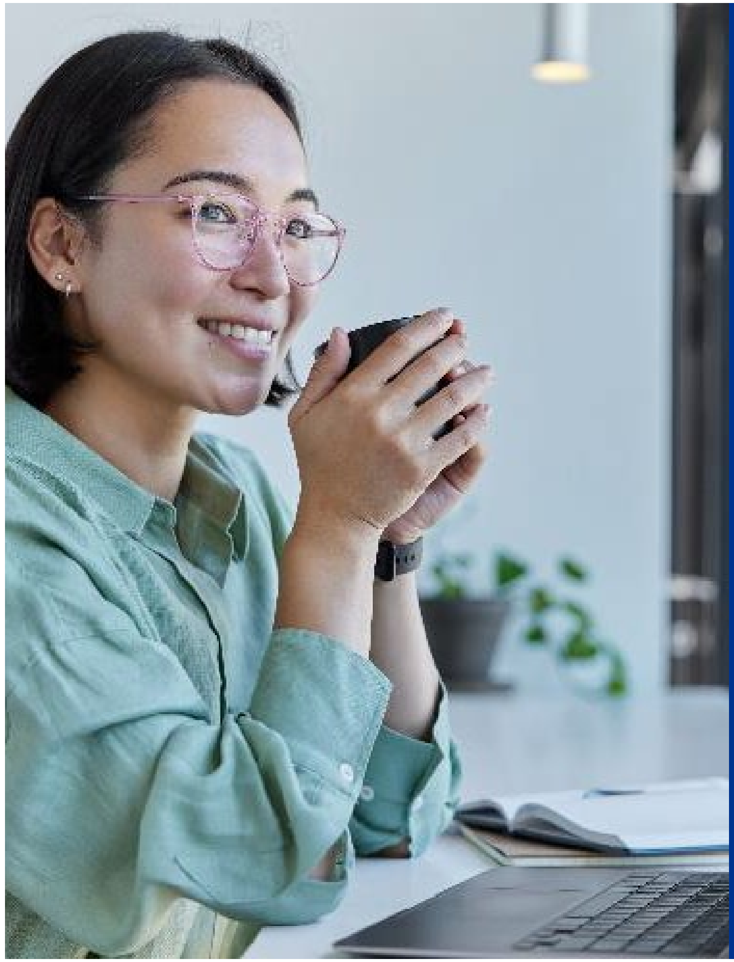
One SEC climate proposal

- Investor focus
- Detailed requirements to report on climate only



[1] Additional detailed guidance on other topics is planned for the future.

10 Minute Break Please return at 1:30pm.

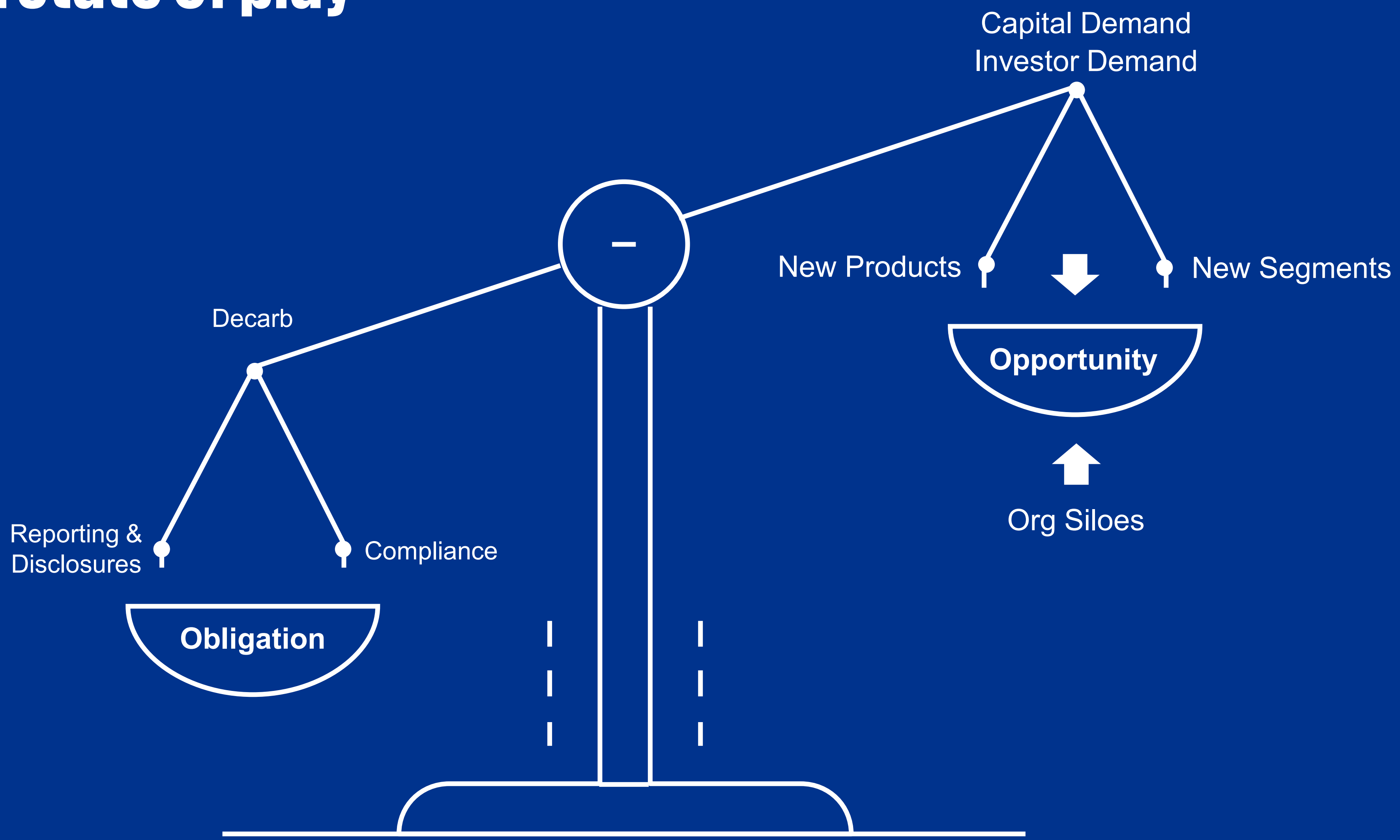


04

Perspectives on ESG as a Business Opportunity

Dylan Roberts
KPMG Strategy

Current state of play



ESG-related business opportunities and imperatives for banks

New Products

- Green credit, securitizations, C/RPACE, etc
- Carbon Advisory
- Green and values-based WAM
- Green consumer deposits, mortgages

New Segments

- Clean energy tech
- Resiliency and coastal risk ag tech
- Clean water tech
- Sustainable development (water, education, healthcare, housing access financing)

Portfolio Strategy

- “Non-renewal” and asset sale strategies
- Segment & geographic rebalancing
- “Brown” segment demand and “Green” segment growth balance

New Business Models

- Deep verticalization with specialized regulatory, tax, payments expertise
- Ecosystem/partnership models
- Markets infrastructure

Supporting Capabilities, Processes, and Resources

Coverage | U/W | Pricing | Communications | Analytics

Bank focus on sustainable finance opportunities is growing – but is bipolar in nature

Large commitments and aggressive product strategies, focused on green bonds and project finance, from **Global Universal Banks** in the US and Europe

Barclays	**£100BN** green financing by 2030, £175MM equity in early-stage enviros. by 2025
Citi	**$1TR** sustainable finance (50/50 environmental/social)
GS	**$750BN** financing & investing on climate transition and inclusive growth
JPMC	**$2.5TR** clean energy and sustainable finance financing 2021-2030
MS	**$1TR** for sustainable solutions
Wells	**$500BN** sustainable financing by 2030

Some, but significantly less, activitity among mid-sized **Regionals and Superregionals**

PNC	**$20BN** green financing by 2025
US Bank	**$50BN** environmental finance by 2030

"All in" strategic commitment from **niche institutions** whose identity and strategy are completely or largely based on ESG

Amalgamated	"America's Socially Responsible bank empowering organizations and individuals to advance positive social change"
Climate 1st:	"Bank like tomorrow depends on it. The status quo of inaction is no longer an option"$50BN sustainable finance (50/50 environmental/social)
Forbright:	"A bank for a brighter future – accelerating the transition to a sustainable and clean energy economy"
Sunrise Banks	"The world's most socially responsible bank"

Sustainability-linked loans and debt financing offer a number of potential benefits to banks

ESG and sustainability linked loans typically include incentives for the borrower to reach predetermined sustainability performance targets. ESG and sustainability-linked loans or SLLs, have become the second-largest and fastest-growing segment of ESG debt instruments[1]. Global SLL sales increased from $5.4 billion in 2017 to $269.9 billion in August 2022.[2]

What's in it for lenders?

Lower cost of risk

Higher costs of ESG due-diligence and reporting are offset by a lower cost of risk. European members of the Global Alliance for Banking on Values had a **five-year average cost of risk of 25 basis points, 32% lower than the top 25 European banks** by assets in 2019.[3]

Regulatory and market alignment

While EU SFDR is not prescriptive about security type, bond frameworks are likely to impact Article 8 vs. 9 classification and associated inflows.

Customer attraction

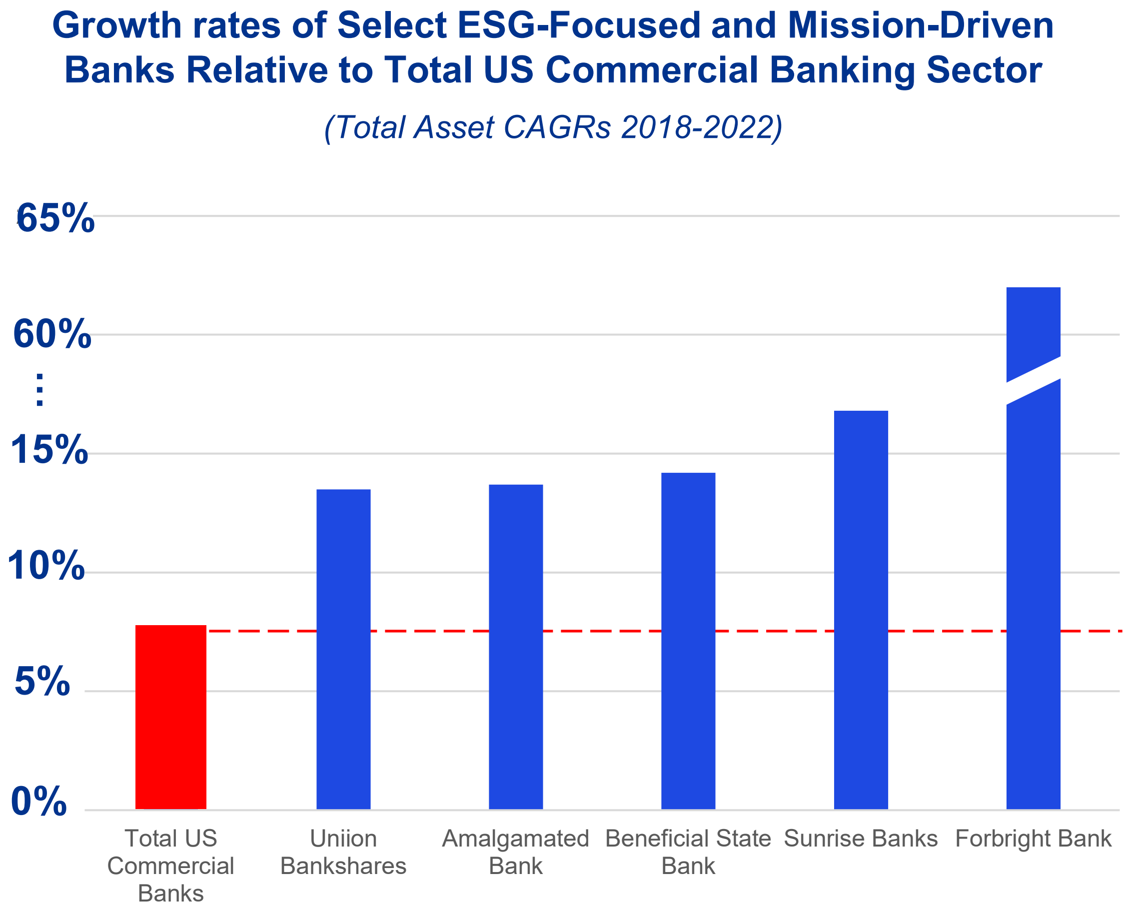
SLL lenders attract more deposits than matched non-SLL lenders. **SLL lenders become more attractive to ESG conscious depositors, generating positive NPV growth**.[4]

Goodwill & marketing

Leading banks see SLLs as an opportunity to **strengthen public trust.**[5]

Sources: (1) How ESG-Linked Loans Help to Hold Firms Accountable, Bloomberg, 2022. (2) Sustainability-linked loans: A strong ESG commitment or a vehicle for greenwashing, UNPRI Academic Article, 2022. (3) Higher Value, Lower Risk: ESG Finance Moves to the Banking Mainstream, Bain & Company 2020. (4) Du, Kai and Harford, Jarrad and Shin, David (Dongheon), Who Benefits from Sustainability-linked Loans? (October 27, 2022). 5) Retooling the bank for sustainable lending, Accenture, 2021

Banks which have made ESG a core of their business strategy have experienced much stronger than average growth



Source: Capital IQ (3/20/23), company websites , St. Louis Fed FRED database

Possible opportunities & initiatives

- Build-out of green financing product set (not "vanilla products with lower rates")
  - Products with complex regulatory and tax considerations (e.g., Solar, RPACE)
  - Transition finance aimed at unlocking "hidden" commercial demand (e.g., clean energy and efficiency, CRE climate upgrades, clean fleet loans) - bundled with advisory offer/sales process
  - Standardized measurement and attestation frameworks and analytic support
- Enhanced. focused coverage of emerging green/transition segments
  - Dedicated coverage teams
  - Tailored U/W processes to account for segment age, growth characteristics
  - Establish securitization capability
  - Specialized pricing unit to facilitate trading
- Acquisition/partnership with mission-driven ESG banks with at-risk funding bases and/or with complementary footprints
- White-label or back-to-back products, syndications for smaller regional and community banks

KPMG

05

ESG industry panel discussion

Dylan Roberts

KPMG Strategy

Thank you for joining us.

The player will now refresh to display an exit survey. Please complete this survey and click the Submit button.

If you met the CPE requirements, you will receive your certificate at the email address you entered when logging in in approximately two weeks.

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