



Adopting responsible banking practices

How KPMG can help

Pressure grows on banks to operate more sustainably

The global banking sector is under increasing pressure to operate more sustainably and be more transparent about its economic, social and environmental impacts.

A constant flow of new regulations around the world is bringing compliance challenges for banks. At the same time, banks are also expected to follow voluntary guidelines such as the Equator Principles, UN Principles for Responsible Banking and the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).

As a result, more and more banks recognize the need to integrate environmental, social and governance (ESG) factors into their investment, lending and project finance approaches and decisions.

Many banks run significant asset management businesses and are exposed to a complex array of ESG risks and opportunities. ESG is also entering the lending and project finance space where banks have a critical role as the providers of loans to corporations, financing to projects and advice to issuers of securities.

Awareness is also growing that responsible banking approaches and skillful management of ESG can improve risk-adjusted returns, enhance reputation, spark commercial opportunities, mitigate portfolio risks, and improve market positions and value.

Yet, many banks face multiple challenges in designing and implementing a successful approach to responsible banking and ESG. These range from a lack of internal resources to insufficient ESG data to verify performance.

KPMG member firms can help. Our professionals offer bespoke responsible banking services, tailored to match differing needs and levels of maturity.

Contact us to find out how KPMG member firms can help you.



Tomas Otterström

Global Leader, Sustainable Finance Services, KPMG International.
Partner, KPMG in Finland and KPMG in Sweden.
tomas.otterstrom@kpmg.fi | tomas.otterstrom@kpmg.se

Tomas works with financial sector clients to enable them to build robust ESG strategies and effectively communicate these to their boards, analysts and wider stakeholders. With over 20 years of professional experience, he has worked with dozens of banks, asset managers and investors. He is well connected with key organizations in this space such as the UN Principles for Responsible Banking and the UN Principles for Responsible Investment.



Troy Mortimer

Head of Responsible Investment & Sustainability Services, KPMG in the UK.
Director, KPMG in the UK.
troy.mortimer@kpmg.co.uk



Riikka Sievanen

Leader, Sustainable Finance Global Network, KPMG International.
Senior Manager, KPMG in Finland.
riikka.sievanen@kpmg.fi



Bill J. Murphy

Leader, Responsible Banking Services (Americas), KPMG International.
Partner, KPMG in Canada.
billmurphy@kpmg.ca



Niven Huang

Leader, Responsible Banking Services (Asia Pacific), KPMG International.
Partner, KPMG in Taiwan.
nivenhuang@kpmg.com.tw

How KPMG can help



01 Identify ESG risks and opportunities

- **Assess your readiness to comply with regulation:** KPMG professionals help banks understand how new ESG-related regulation is likely to affect the organization. They help to assess regulatory risks and opportunities and ensure you are ready to comply.
- **Assess your current ESG maturity level:** KPMG professionals analyze your bank's current approach to responsible banking and ESG. This covers aspects including your ESG governance structure, investment policies, research processes, products and services, credit risk processes and disclosures.
- **Benchmark your organization against your peers:** KPMG professionals help you understand how other banks and financial sector actors are approaching responsible banking and sustainable finance. By taking a detailed look at what your peers are doing, they can identify where you lead and where you lag.
- **Understand what your stakeholders expect from you:** As banks come under increasing pressure to act responsibly, different stakeholders expect different things. KPMG member firms help you engage internal and external stakeholders – from regulators to risk managers, clients to portfolio companies. They help you make sense of the differing views and develop the right strategies to respond.

02 Develop your strategic ESG approach and roadmap

- **Define principles:** KPMG professionals help you define the right responsible banking principles for your organization and integrate them into your bank's policies, practices and mandates.
- **Set goals and targets:** KPMG professionals help you set the right goals and targets to adapt to the new regulatory environment and realize opportunities in the transition to sustainable finance.
- **Develop an implementable roadmap:** KPMG professionals help you draw the roadmap from your bank's current maturity level to achieving your responsible banking goals and targets.

Help your bank comply with the UN Principles for Responsible Banking: KPMG professionals specialize in helping banks to implement the UN Principles for Responsible Banking. The six principles are:

- Align the bank's business strategy with the Sustainable Development Goals (SDGs) and Paris Climate Agreement
- Continuously increase positive impacts and reduce negative impacts
- Work responsibly with clients and customers to encourage sustainable practices
- Consult proactively and responsibly with stakeholders to achieve society's goals
- Implement effective governance and a culture of responsible banking
- Be transparent about, and accountable for, the bank's impacts on society

How KPMG can help (continued)



03 Implement responsible banking across businesses and functions

- **Implement ESG in risk management:** KPMG advisers help you integrate ESG into your governance and compliance processes including Know-Your-Customer (KYC), credit reviews, client advice and risk management.
- **Monitor ESG in your investments and loans:** KPMG member firms help you measure the ESG performance of your investment funds, managed assets and credit portfolio to help you assess risk exposure and engage with portfolio companies.
- **Develop innovative products and services:** KPMG professionals help you develop innovative financial products and services such as green loans, ESG-integrated investment funds and green and social bonds.
- **Build capability and align your people with your ESG approach:** KPMG member firms help to make responsible banking part of your bank's culture and DNA through team education, training and communications.
- **Showcase the impact of responsible banking:** KPMG professionals can help you strengthen the business case for responsible banking within your organization by showcasing the impact it has on your business, your clients and society.



04 Monitor, review and report

- **Monitor and steer performance:** KPMG professionals help you measure and report your progress in implementing responsible banking.
- **Stress testing of portfolios:** KPMG member firms help you stress test your portfolios to understand how they are likely to perform under a wide variety of regulatory, economic and climate scenarios.
- **Review processes and goals:** KPMG member firms can be a sparring partner in your implementation of responsible banking and ESG. They implement internal audit processes, independent reviews and controls to make sure your approaches and targets are up-to-date and fit-for-purpose.
- **Report ESG performance:** KPMG can help you improve your external ESG reporting to align with frameworks such as the UN Principles for Responsible Banking/Investment and the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).
- **Assure green loans and green bonds:** KPMG professionals can verify that your management of green loans and green bonds is in accordance with international standards such as the Green Loan Principles and the Climate Bonds Standards.

Client stories

01

Assessing risks in a bank's project finance business

To showcase its leadership in the Asian market, Cathay United Bank (CUB) wanted to become the first Taiwanese bank to implement the Equator Principles (an international framework to assess environmental and social risks in the finance of large infrastructure and industrial projects).

The bank faced two key challenges. Firstly, knowledge to manage environmental and social risks among its employees was limited. Secondly, the bank needed a more comprehensive process to evaluate environmental and social risks in finance opportunities, in order to comply with the Equator Principles.

KPMG in Taiwan worked with the bank to design a new evaluation process that categorized projects into risk groups aligned with the Equator Principles and helped the bank embed it in its IT system. Subsequently, KPMG designed and implemented a training program to improve employees' knowledge of environmental and social risks and enable them to apply the Principles in their lending decisions.

As a result, CUB completed the first project finance case in Taiwan to follow the Equator Principles and is now using the Principles to establish CUB's sustainable finance policy.



02

Developing a roadmap to implement responsible banking

A major Nordic bank aims to be a market leader in responsible banking. However, its management recognized that its existing approach to responsible banking risked being partly disconnected from its core banking business and the bank's targets relating to transparency, being an attractive workplace and sustainable finance.

KPMG in Sweden helped the bank to develop a roadmap to implement responsible banking across all areas from credit risk reviews to procurement and its financial products and services.

KPMG began with a comprehensive engagement across various areas within the bank to assess the current maturity in each business area and to identify opportunities and challenges to achieve its ambition in responsible banking.

The engagement process revealed variation in responsible banking maturity and ambition across the bank. It identified, amongst other, opportunities in procurement and in financial products and services.

The roadmap has been successful in setting off changes within the bank, including the issuance of green bonds to finance discounted green mortgage loans for energy-efficient homes.

In addition, KPMG continues to work with the bank to implement the roadmap, including identifying ESG risks in the bank's supplier base.



Local KPMG contacts

Angola Martim Santos martimsantos@kpmg.com	France Philippe Arnaud parnaud@kpmg.fr	Kazakhstan Saken Zhumashev szumashev@kpmg.kz	Singapore Ian Hong ihong@kpmg.com.sg
Australia Adrian V. King avking@kpmg.com.au	Germany Christian Hell chell@kpmg.com	Luxembourg Julien Ganter julien.ganter@kpmg.lu	South Africa Paresh Lalla paresh.lalla@kpmg.co.za
Austria Peter Ertl pertl@kpmg.at	Greece George Raounas graounas@kpmg.gr	Malaysia Kasturi Nathan kasturi@kpmg.com.my	South Korea Hyoung-Chan Kim hyoungchankim@kr.kpmg.com
Belgium Mike Boonen mboonen@kpmg.com	Hungary István Szabó istvan.szabo@kpmg.hu	Mexico Jesus Luna jjluna@kpmg.com.mx	Jung-Nam Kim jungnamkim@kr.kpmg.com
Brazil Ricardo Zibas rzibas@kpmg.com.br	Iceland Helga Harðardóttir hhardardottir@kpmg.is	Netherlands Arjan de Draaijer deDraaijer.Arjan@kpmg.nl	Spain Ramon Pueyo Viñuales rpueyo@kpmg.es
Canada Bill J. Murphy billmurphy@kpmg.ca	India Santhosh Jayaram santhoshj@kpmg.com	New Zealand Simon Wilkins SWilkins1@kpmg.co.nz	Sweden Tomas Otterström tomas.otterstrom@kpmg.se
Cyprus Iacovos Ghalanos iacovos.ghalanos@kpmg.com.cy	Indonesia Ian Hong ihong@kpmg.com.sg	Nigeria Tomi Adepoju tomi.adepoju@ng.kpmg.com	Switzerland Arjan de Draaijer deDraaijer.Arjan@kpmg.nl
Chile Luis Felipe Encina lencina@kpmg.com	Ireland Michael Hayes michael.hayes@kpmg.ie	Norway Anette Rønnow anette.ronnov@kpmg.no	Taiwan Niven Huang nivenhuang@kpmg.com.tw
China Patrick Chu patrick.chu@kpmg.com	Israel Oren Grupi ogrupi@kpmg.com	Peru Rosario Calderon rccalderon@kpmg.com	Thailand Paul Flipse pflipse@kpmg.co.th
Colombia Fabian Echeverria fecheverria@kpmg.com	Italy PierMario Barzaghi pbarzaghi@kpmg.it	Poland Krzesztof Radzivon kradzivon@kpmg.pl	Turkey Sirin Soysal ssoysal@kpmg.com
Czech Republic Miroslava Prokesova mprokesova@kpmg.cz	Japan Kazuhiko Saito kazuhiko.saito@jp.kpmg.com	Portugal Martim Santos martimsantos@kpmg.com	UAE and Oman (Lower Gulf) Daniel Gribbin dgribbin1@kpmg.com
Costa Rica Luis Rivera lgrivera@kpmg.com	Yoshitake Funakoshi yoshitake.funakoshi@jp.kpmg.com	Romania Gheorghita Diaconu gdiaconu@kpmg.com	UK Troy Mortimer troy.mortimer@kpmg.co.uk
Denmark Frances Iris Lu franceslu@kpmg.com	Jordan Gina Hamameh ghamameh@kpmg.com	Russia, Ukraine, Georgia and Armenia Igor Korotetskiy ikorotetskiy@kpmg.ru	US Katherine Blue kblue@kpmg.com
Finland Tomas Otterström tomas.otterstrom@kpmg.fi			



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