

global alliance  
for banking  
on values



# Assessing Banks: Delivering a Triple Bottom Line in the Real Economy

Overview

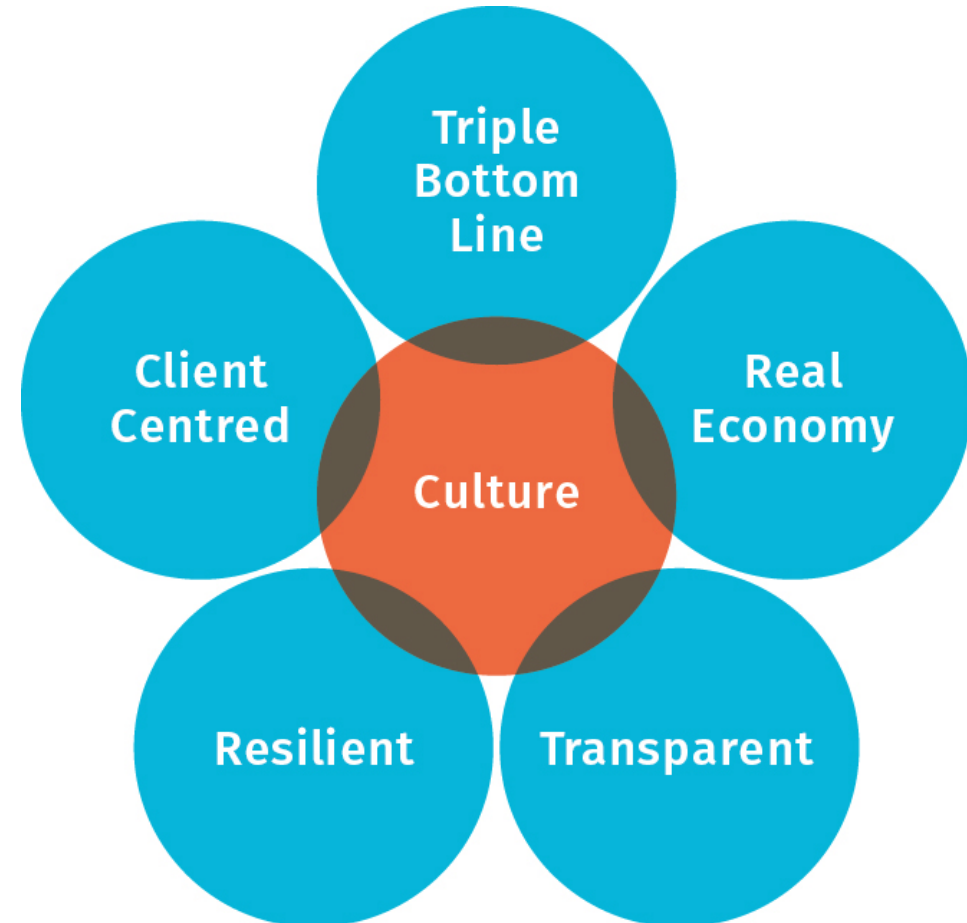
# Global Alliance for Banking on Values



- The Global Alliance for Banking on Values, established in 2009, is an independent network of banks using finance to deliver sustainable social, environmental and economic development
- Since inception it has worked on developing metrics to measure and communicate how a bank meets the critical human needs of:
  - Social Empowerment - **People**
  - Environmental Regeneration - **Planet**
  - Economic Resiliency - **Prosperity**
- This work has evolved into the development of a Scorecard to assess any bank based on the Principles of Sustainable Banking

# Principles of Sustainable Banking

- The Principles of Sustainable Banking are the basis of the business models of Global Alliance members
- A Triple Bottom Line of People, Planet and Prosperity is the leading principle
- Research has shown that banks operating with these Principles provide better financial returns with lower volatility



# Research

- In 2012 the Global Alliance published research comparing the largest banks in the world with sustainable banks
- The most recent update of this research shows that through 2014 sustainable banks continue to deliver:
  - **Better and less volatile financial returns**
  - **Greater focus on the real economy**
  - **Stronger growth**
- A growing number of external studies further support these conclusions

# Scorecard Development

- The Scorecard is a structured way to capture the vision and strategy of a bank and identifiable results
- The Scorecard, developed with practitioner knowledge and experience, uses a sustainability perspective to make possible for any bank:
  - **Self-assessment**
  - **Structured reporting**
  - **Stakeholder assessment**

# Key Underlying Concepts

## → Money at Risk Exposures

→ To a large degree the value that a bank delivers is determined by its management of Money at Risk Exposures

## → Real Economy vs. Financial Economy

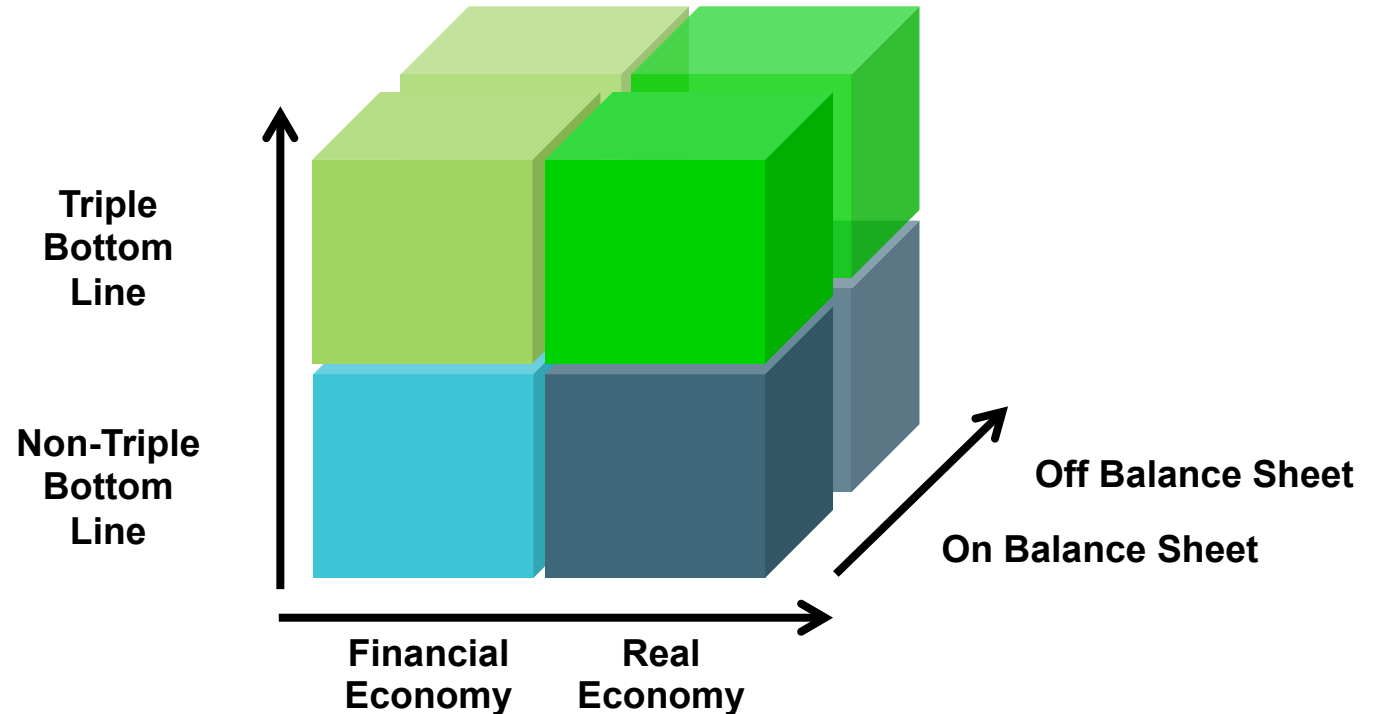
→ A key differentiating factor among banks is relative exposure to the Real Economy and the Financial Economy

## → Triple Bottom Line

→ Further differentiation can be seen by exposure to individuals and enterprises delivering Social Empowerment, Environmental Regeneration and Economic Resiliency

# Money at Risk Exposures






- Managing Money at Risk Exposures is the core banking activity executed by intermediating between providers and users of capital
- Money at Risk Exposures are created by banks through financial instruments
- Financial instruments can be identified across three dimensions for any bank
- Any financial instrument can therefore fit into one of eight classifications across these dimensions







# On/Off Balance Sheet Exposures

A bank manages not only its own balance sheet assets but also off balance sheet intermediation of Money at Risk

## On Balance Sheet - Assets

	<b>Cash:</b> Short-term liquidity management
	<b>Trading:</b> Financial instruments held for short-term trading purposes
	<b>Investments:</b> Financial instruments held for long-term investment
	<b>Loans:</b> Extensions of credit to clients
	<b>Other Assets:</b> Fixed assets and other categories not included above

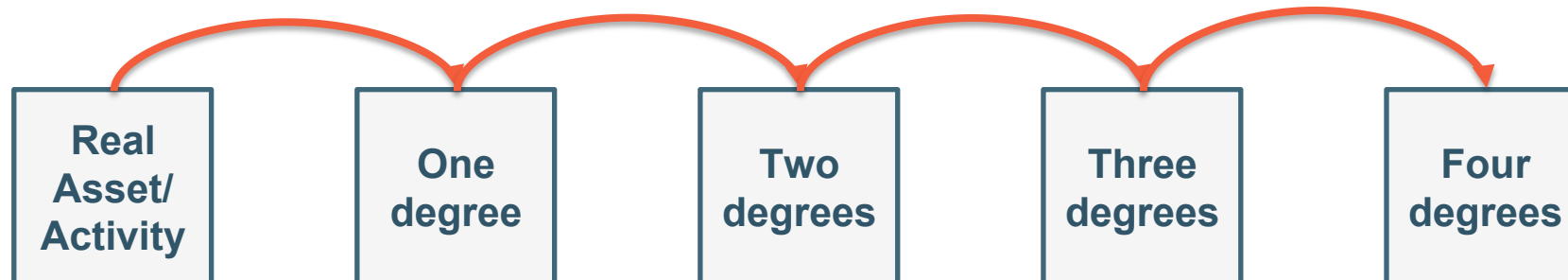
## Off Balance Sheet

	<b>Funds Under Management:</b> Funds managed for third party owners
	<b>Guarantees and Letters of Credit:</b> For clients on exposures held by third parties
	<b>Special Purpose Vehicles:</b> Off balance sheet activities organised by a bank
	<b>Other Off-Balance Sheet Exposure:</b> Elements not included above



# Real Economy or Financial Economy

Financial exposures are classified as Real Economy if **no more than one degree** from a Real Economy Asset or Activity  
Specific financial instruments could be in different categories depending on actual use by a bank



**Real Economy**

**Financial Economy**

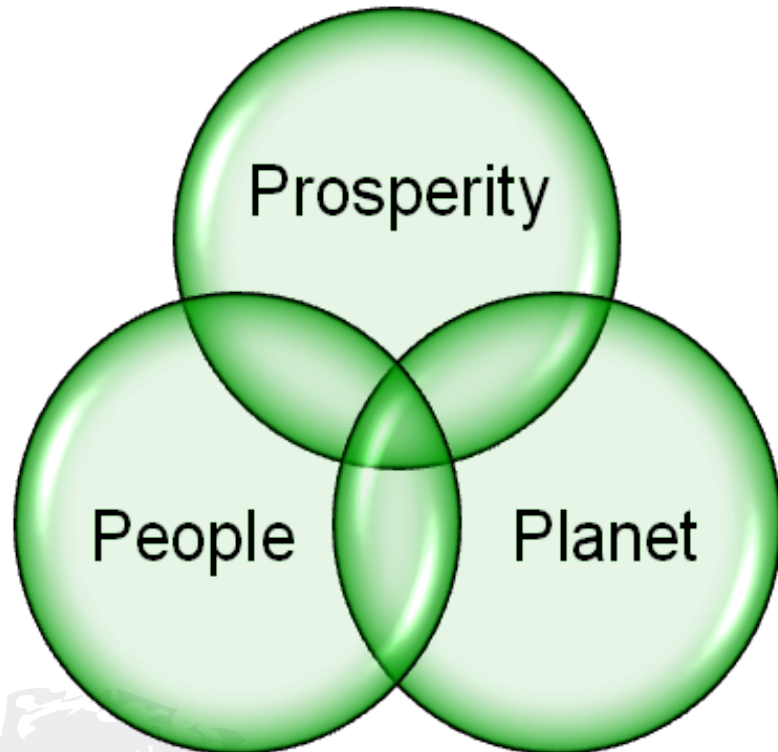
Financial instruments with fewer degrees of separation from the Real Economy are more **Transparent** and reflect stronger **Client Partnerships**

# Real/Financial Economy Examples

Real Asset/ Activity	<ul style="list-style-type: none"> <li>Local medical clinic</li> <li>Organic farm</li> <li>Clothing manufacturer</li> </ul>	<ul style="list-style-type: none"> <li>Energy-efficient office building</li> <li>Coal energy plant</li> <li>Housing for seniors</li> </ul>
One degree	<ul style="list-style-type: none"> <li>Loan to finance energy retrofit</li> <li>Loan to food manufacturer</li> <li>FX forward contract for clothing exporter</li> </ul>	<ul style="list-style-type: none"> <li>Alternative energy equity stake</li> <li>Direct financing leveraged buyout</li> <li>Real-estate fund with direct investments in property</li> </ul>
Two degrees	<ul style="list-style-type: none"> <li>Shares purchased in secondary market for SRI fund</li> <li>Liquidity deposit with other banks</li> <li>Loan to hedge fund for buyout</li> </ul>	<ul style="list-style-type: none"> <li>Hedge of client FX positions with other banks</li> <li>Mortgage backed securities for low income housing</li> </ul>
Three degrees	<ul style="list-style-type: none"> <li>Specific maturity tranche of mortgage-backed securities</li> <li>Credit default swap</li> </ul>	
Four degrees	<ul style="list-style-type: none"> <li>Tranche of a Collateralised Debt Obligation for commercial loans</li> </ul>	

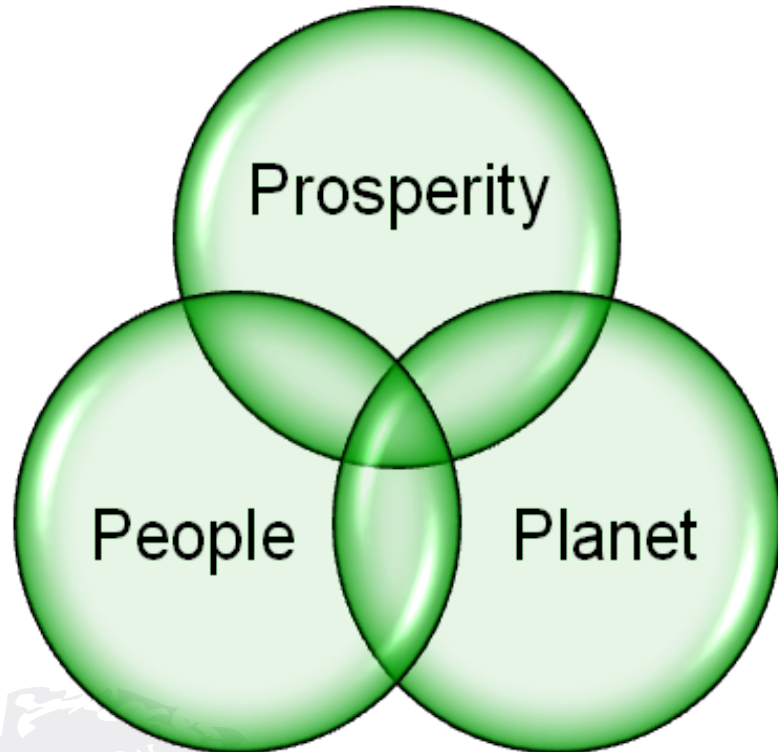
Real Economy Financial Economy

# Triple Bottom Line



- Money at Risk Exposures are Triple Bottom Line if they support individuals or enterprises in at least one of three dimensions:
  - **People – Social Empowerment**
  - **Planet – Environmental Regeneration**
  - **Prosperity – Economic Resiliency**
- Money at Risk Exposures may deliver more than one dimension

# Triple Bottom Line - Examples



## People: Social Empowerment

Education, health care, social inclusion, arts and culture, special needs housing, etc.

## Planet: Environmental Regeneration

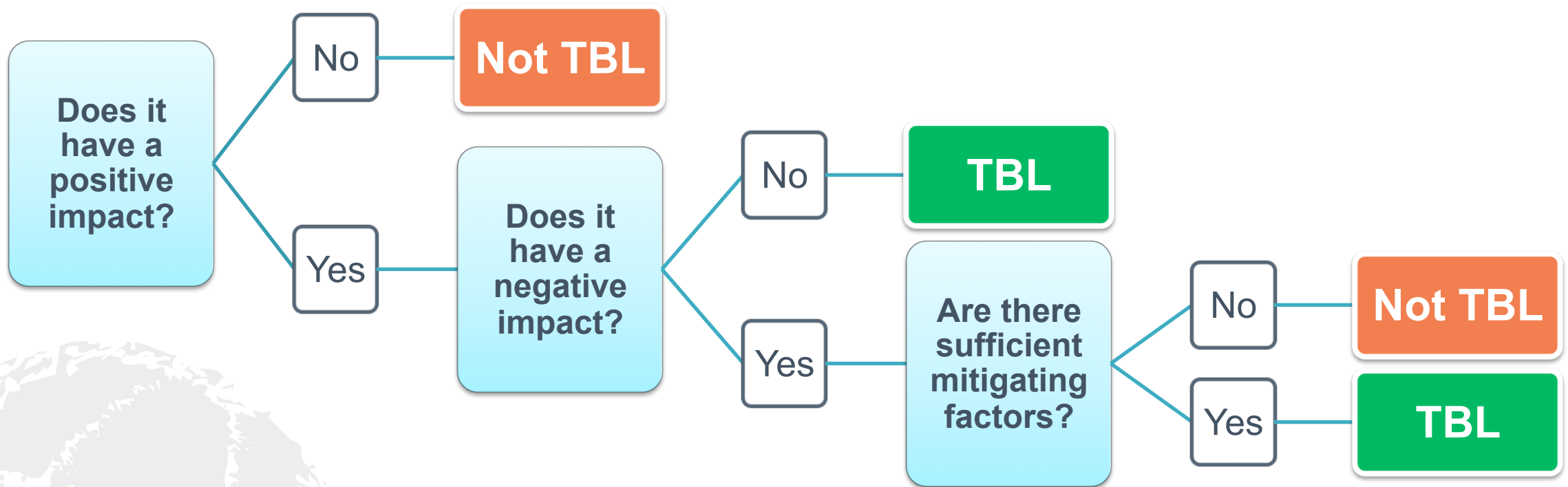
Renewable energy, energy efficiency or retrofits, green-oriented housing or buildings, waste or pollution reduction, water efficiency and access, sustainable agriculture, etc.

## Prosperity: Economic Resiliency

MSME lending, micro-finance for micro-enterprises, economic inclusion, etc.

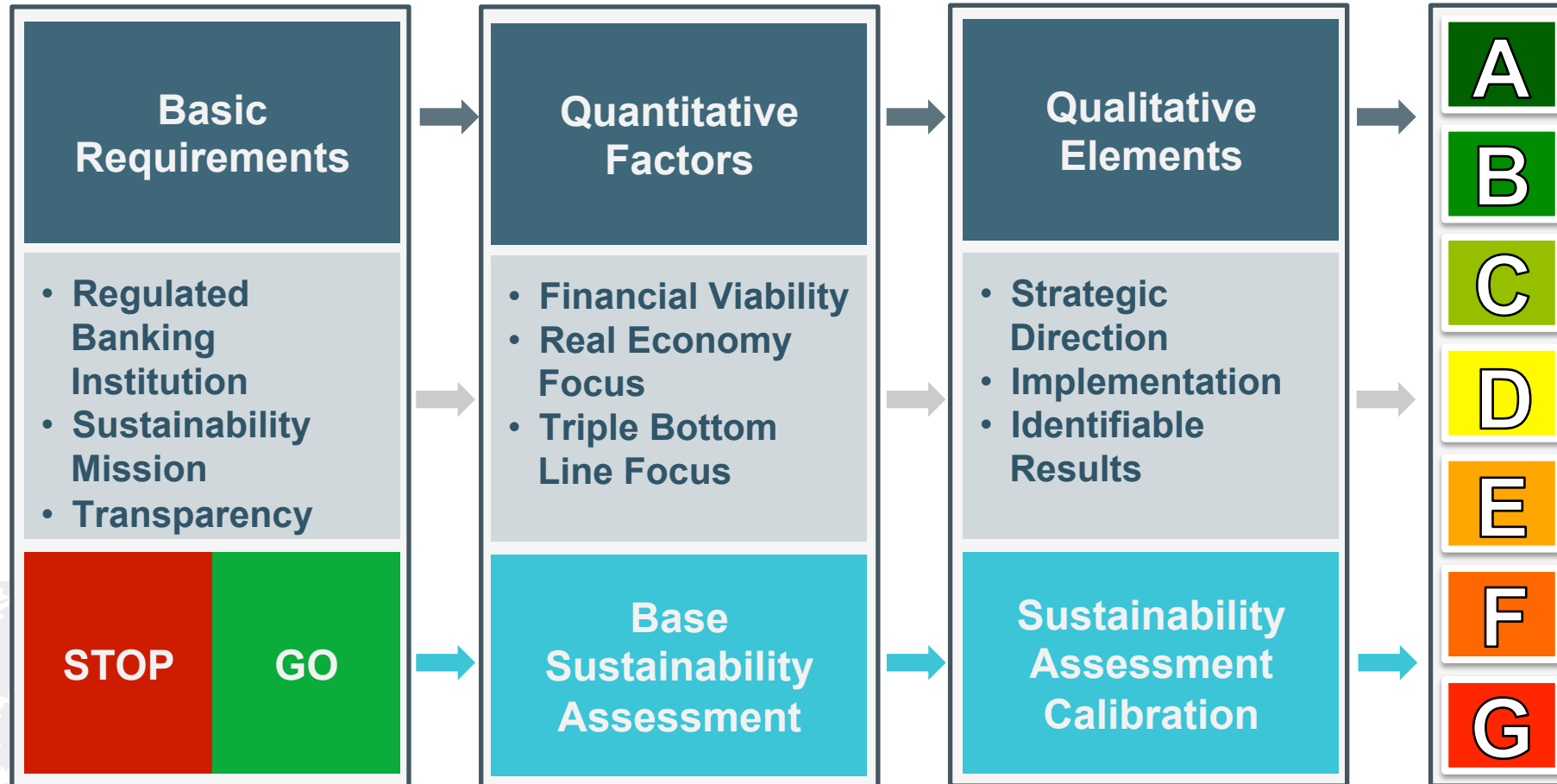
# Triple Bottom Line Classification

→ A simple decision tree can determine for each exposure whether it qualifies or not as **Triple Bottom Line**

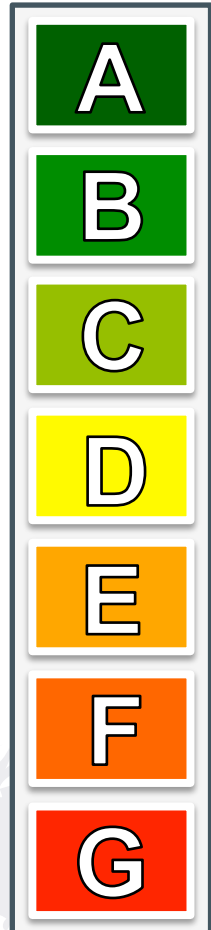


# Scorecard Structure

→ The Scorecard was structured to holistically assess a bank



# Scorecard Assessment Results



**Established** : Financial institutions that already demonstrate, through their business models, internal practices and results, an authentic and thorough commitment to embedding sustainability into their banking model to meet the needs of their communities

**Engaged**: Financial institutions whose leadership has embraced the sustainability-focused banking model and have made concentrated efforts to steer the organization in this direction, though its products and internal practices lack full realisation

**Emerging**: Financial institutions whose management is convinced of the power of a sustainability focused banking model and has the sincere intention and initial actions for steering its institution towards the adoption of sustainability-focused banking products and services

# Basic Requirements

## Regulated Banking Institution

Statement regarding regulatory framework and status and evidence of client deposit and lending relationships

## Mission Statement

Institution's mission statement has elements related to at least one of the Principles of Sustainable Banking

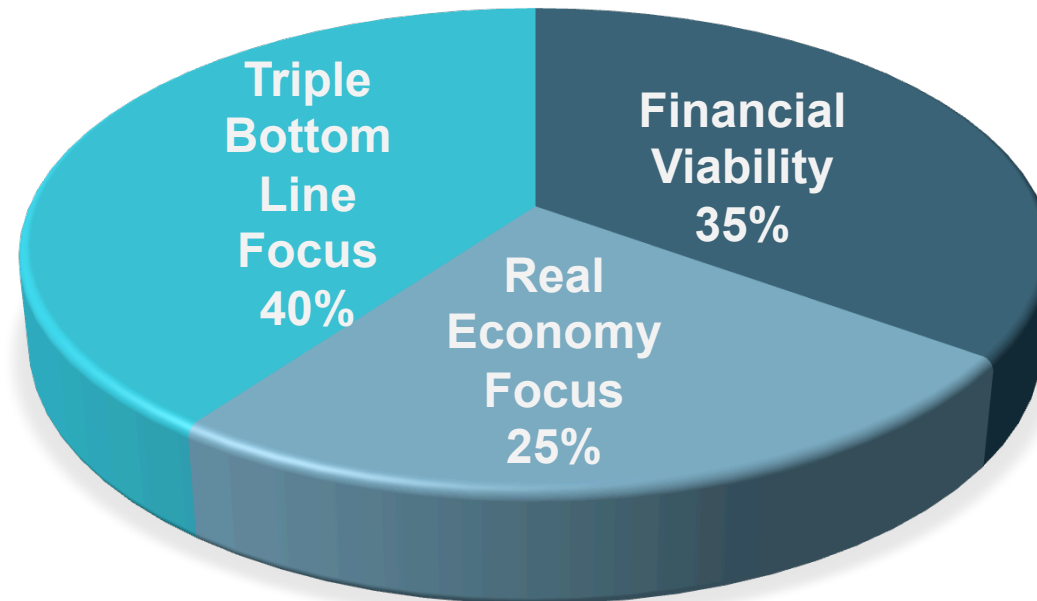
## Reporting Transparency

Evidence of transparency of reporting to all stakeholders, especially relative to sustainability commitments



# Quantitative Factors

The Quantitative Factors provide insight into three elements – Financial Viability, Real Economy Focus and Triple Bottom Line Focus – addressed in the Principles



# Quantitative Factors - Details

Metric	Weight
1. Return on Average Assets (ROAA) – 3 year average	10
2. Equity to Total Assets (E/A)	10
3. Asset Quality Ratio (AQR)	5
4. Client Funding to Total Assets (CFA)	10
5. Real Economy Exposure to Total Exposures (REE)	15
6. Real Economy Revenues to Total Revenues (RER)	10
7. Triple Bottom Line Exposure to Total Exposures (TBLE)	40

# Qualitative Elements

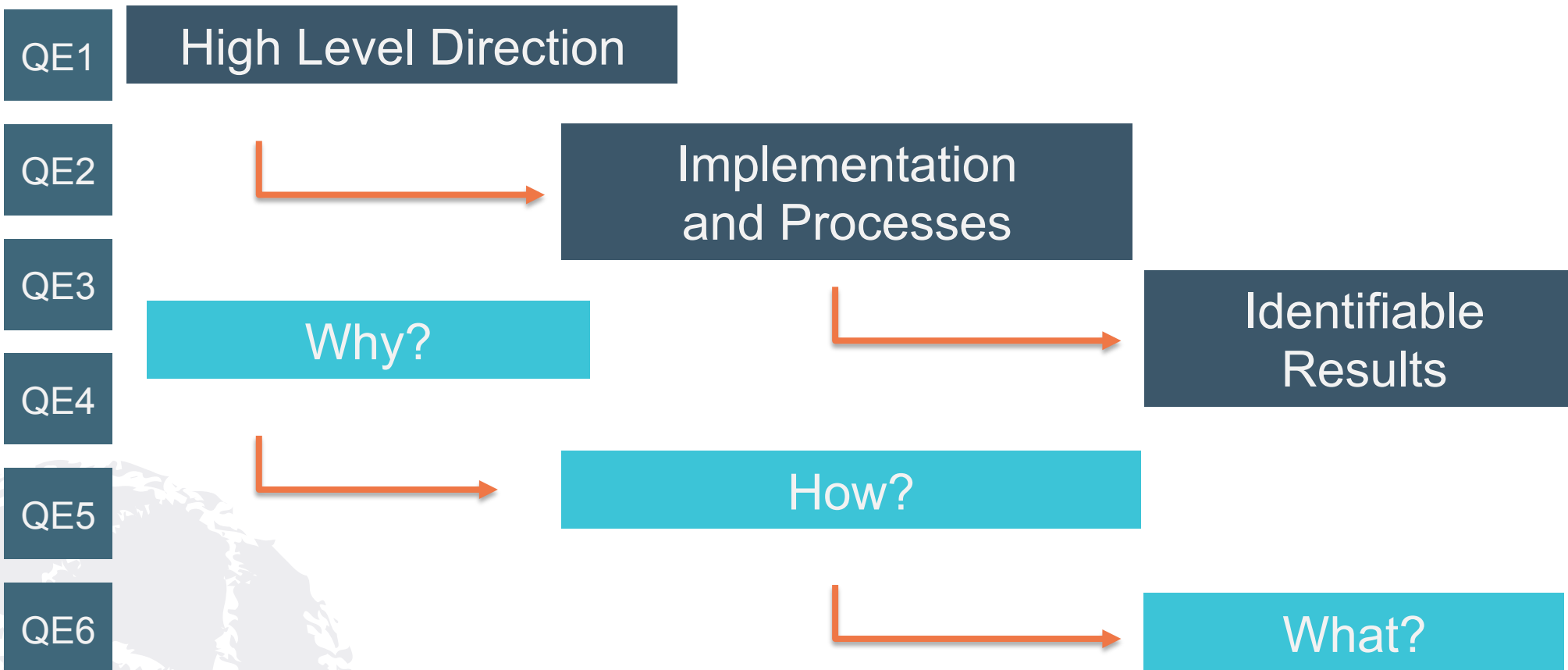
- Although Quantitative Factors provide insight into a bank and its activities, they can not provide a complete picture
- Qualitative Elements provide a holistic and enriched view of the bank through a structured approach
- Insight into each Qualitative Element is provided across three dimensions
  - **Strategic Direction**
  - **Implementation**
  - **Identifiable Results**
- Information included in the Qualitative Elements of the Scorecard allows for a calibration of the bank assessment derived from the Quantitative Factors

# Qualitative Elements – High Level

QE1	Leadership
QE2	Organizational Structure
QE3	Products & Services
QE4	Management Systems
QE5	Human Resource Tools
QE6	Performance Reporting

# Qualitative Elements – Details

A holistic **Flow** from High Level Direction to **Identifiable Results** provides grounding to the commitment to the Principles of Sustainable Banking



# Qualitative Elements – Examples

	Strategic Direction	Implementation	Identifiable Results
<b>Performance Reporting</b>	Bank will be transparent in reporting on its activities	All lending clients requested to allow publication of financing	Detailed information on 95% of all loan clients available on bank website
<b>Products &amp; Services</b>	Bank is committed to financing only sustainable clients	All clients to be assessed using a standard tool relative to client sustainability	40% of clients have top sustainability assessment and only 10% of clients had an inadequate sustainability assessment
<b>Human Resources Tool</b>	Bank is committed to relative equality of compensation	Human Resources to ensure that ratio of highest to lowest pay is relatively equal	Ratio of Top 10% compensated staff to Lowest 10% was 2.3
<b>Management Systems</b>	Bank will be compliant with the Equator Principles	Credit approvals for project finance require explicit review relative to Equator Principles	Loans declined for 15 projects due to lack of compliance. 10 projects restructured to comply with Equator Principles

# Questions?

## Global Alliance for Banking on Values

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