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ESG: What Is It and Why Should Community Banks Care?

A conversation with



February 18, 2021

Engagement Overview

- ❑ **ESG Policy and Negative Screens – Alliance Partner and BancAlliance**
 - ❑ A set of standards memorialized as a policy to inform lending decisions
- ❑ **Due Diligence Framework – Alliance Partners**
 - ❑ Lending criteria and enhanced underwriting due diligence that considers ESG factors
- ❑ **BancAlliance Impact Report**
 - ❑ A comprehensive report outlining the holistic impact of BancAlliance member banks on their communities
- ❑ **Member Resources**
 - ❑ Working with BancAlliance members to provide resources related to ESG and its application to community banking



Our Philosophy

At Evergood, we seek to fundamentally **change the way enterprises see themselves** in society. We believe that organizations that **intentionally strive to do good also prove to do well**. We built Evergood on this principle. Our unique methodology for assessing impact will **reduce opacity, inform investment and operating decisions, and build trust among stakeholders** to move the society into a sustainable future. Organizations aligned with the long-term sustainability goals of the society will **benefit from the increased trust from their customers, employees, and investors**.



Chaitali Patel

Education

BA, Finance - University of North Texas
MBA, Business Strategy - University of Utah
Financial Planning Certificate - Georgetown University

Experience- SVP & Executive: Banking, FinTech, Social Impact

JP Morgan Chase, First Tennessee Bank, HSBC, Bank of Hawaii, PNC, Zions Bancorp, Fundation Group, Blue Star Families, 100 Women in Finance

Expertise

Bank operations & Strategy, asset management, risk management, B2B finance, credit tech, impact investing, social impact management, ESG strategy & communication





Kate Sharum Daniels

Education

BA, Politics – Saint Mary's College of California, USA
MA, Women's Studies –University College Dublin, Ireland
MBA, Entrepreneurship & Innovation –University of Pretoria, South Africa

Experience- ESG & Impact Investing, Management Consulting, Corporate Partnerships

Oracle NetSuite, Akerblom Advisory, EBS Advisory, University of Witwatersrand, International Finance Corporation, New Forests Company, Ndlovu Care Group

Expertise

ESG management systems & reporting, ESG risk, Impact Investing, Entrepreneurship & Innovation, Reputation Management



Today's Agenda

- What is ESG?
- Why should community banks care about it?
- What are the relevant frameworks and standards?
- BancAlliance Initiative
- Q&A



Environmental, Social, & Governance Investing = sustainable investing = socially responsible investing = mission-related investing = **ESG** screening.

ESG involves the consideration of environmental, social and governance factors alongside financial factors in the lending and investment decision-making process.

“Environmental” = Climate change (contribution & mitigation); natural resource use; pollution & waste; and environmental opportunities

“Social” = Human Capital; Product liability; Stakeholder engagement, feedback and opposition; social opportunities; community investment

“Governance” = Corporate governance; corporate behavior; business integrity



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	Political Risk		Product Stewardship
	Climate change (contribution and vulnerability)		Security of supply chain system
	Resource Optimisation, Resource Efficiency and Waste Reduction		Emergency Response
	Community Development		Permitting and licensing, legislation
	Communication, Reporting		Bulk services (traffic, roads, water, waste, electricity, sanitation)
	Remuneration, Fairness in workplace, Integration of Systems		Reputational risk, Ethics, Corruption, AML
	Land Rights, Town planning, Demographics		



Why should you care about ESG?

- ESG is advanced and elevated by both a **push and a pull**
- Regulated lenders **will likely be asked**, at some point, about **ESG performance**
- **Investors, Regulators, Depositors and Customers Care**

Implementation of an ESG Management System





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Current Frameworks & Standards



PRINCIPLES FOR
RESPONSIBLE
BANKING



WORLD BANK GROUP



SUSTAINABLE
DEVELOPMENT
GOALS



Global
Reporting
Initiative™



EQUATOR
PRINCIPLES

TCFD | TASK FORCE ON CLIMATE-RELATED
FINANCIAL DISCLOSURES

What is SASB?



Environment

- GHG Emissions
- Air Quality
- Energy Management
- Water & Wastewater Management
- Waste & Hazardous Materials Management
- Ecological Impacts

Leadership & Governance

- Business Ethics
- Competitive Behavior
- Management of the Legal & Regulatory Environment
- Critical Incident Risk Management
- Systemic Risk Management



Business Model & Innovation

- Product Design & Lifecycle Management
- Business Model Resilience
- Supply Chain Management
- Materials Sourcing & Efficiency
- Physical Impacts of Climate Change

Social Capital

- Human Rights & Community Relations
- Customer Privacy
- Data Security
- Access & Affordability
- Product Quality & Safety
- Customer Welfare
- Selling Practices & Product Labeling

Human Capital

- Labor Practices
- Employee Health & Safety
- Employee Engagement, Diversity & Inclusion



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		Consumer Goods	Extractives & Minerals Processing	Financials	Food & Beverage	Health Care	Infrastructure	Renewable Resources & Alternative Energy	Resource Transformation	Services	Technology & Communications	Transportation
Dimension	General Issue Category	Click to expand	Click to expand	Click to expand	Click to expand	Click to expand	Click to expand	Click to expand	Click to expand	Click to expand	Click to expand	Click to expand
Environment	GHG Emissions											
	Air Quality											
	Energy Management											
	Water & Wastewater Management											
	Waste & Hazardous Materials Management											
Social Capital	Ecological Impacts											
	Human Rights & Community Relations											
	Customer Privacy											
	Data Security											
	Access & Affordability											
Human Capital	Product Quality & Safety											
	Customer Welfare											
	Selling Practices & Product Labeling											
	Labor Practices											
	Employee Health & Safety											
Business Model & Innovation	Employee Engagement, Diversity & Inclusion											
	Product Design & Lifecycle Management											
	Business Model Resilience											
	Supply Chain Management											
	Materials Sourcing & Efficiency											
Leadership & Governance	Physical Impacts of Climate Change											
	Business Ethics											
	Competitive Behavior											
	Management of the Legal & Regulatory Environment											
	Critical Incident Risk Management											
	Systemic Risk Management											



**ESS1**

Assessment and
Management of
Environmental and
Social Risks and Impacts

**ESS2**

Labor and Working
Conditions

**ESS3**

Resource Efficiency
and Pollution
Prevention and
Management

**ESS4**

Community
Health and
Safety

**ESS5**

Land Acquisition,
Restrictions on Land Use
and Involuntary
Resettlement

**ESS6**

Biodiversity
Conservation and
Sustainable
Management of Living
Natural Resources

**ESS7**

Indigenous Peoples
Historically Underserved
Communities

**ESS8**

Cultural
Heritage

**ESS9**

Financial
Intermediaries

**ESS10**

Stakeholder
Engagement and
Information Disclosure



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Importance of PRI



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The Principles

THE SIX PRINCIPLES

SIGNATORIES' COMMITMENT

"As institutional investors, we have a duty to act in the best long-term interests of our beneficiaries. In this fiduciary role, we believe that environmental, social, and corporate governance (ESG) issues can affect the performance of investment portfolios (to varying degrees across companies, sectors, regions, asset classes and through time).

We also recognise that applying these Principles may better align investors with broader objectives of society. Therefore, where consistent with our fiduciary responsibilities, we commit to the following:

PRINCIPLE 1

WE WILL INCORPORATE ESG ISSUES INTO INVESTMENT ANALYSIS AND DECISION-MAKING PROCESSES.

PRINCIPLE 2

WE WILL BE ACTIVE OWNERS AND INCORPORATE ESG ISSUES INTO OUR OWNERSHIP POLICIES AND PRACTICES.

PRINCIPLE 3

WE WILL SEEK APPROPRIATE DISCLOSURE ON ESG ISSUES BY THE ENTITIES IN WHICH WE INVEST.

PRINCIPLE 4

WE WILL PROMOTE ACCEPTANCE AND IMPLEMENTATION OF THE PRINCIPLES WITHIN THE INVESTMENT INDUSTRY.

PRINCIPLE 5

WE WILL WORK TOGETHER TO ENHANCE OUR EFFECTIVENESS IN IMPLEMENTING THE PRINCIPLES.

PRINCIPLE 6

WE WILL EACH REPORT ON OUR ACTIVITIES AND PROGRESS TOWARDS IMPLEMENTING THE PRINCIPLES.

The Principles for Responsible Investment were developed by an international group of institutional investors reflecting the increasing relevance of environmental, social and corporate governance issues to investment practices. The process was convened by the United Nations Secretary-General.

In signing the Principles, we as investors publicly commit to adopt and implement them, where consistent with our fiduciary responsibilities. We also commit to evaluate the effectiveness and improve the content of the Principles over time. We believe this will improve our ability to meet commitments to beneficiaries as well as better align our investment activities with the broader interests of society.

We encourage other investors to adopt the Principles."



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About TCFD

TCFD | TASK FORCE ON CLIMATE-RELATED
FINANCIAL DISCLOSURES



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TCFD Framework

Governance	Strategy	Risk Management	Metrics and Targets
Disclose the organization's governance around climate-related risks and opportunities.	Disclose the actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning where such information is material.	Disclose how the organization identifies, assesses, and manages climate-related risks.	Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.
Recommended Disclosures	Recommended Disclosures	Recommended Disclosures	Recommended Disclosures
a) Describe the board's oversight of climate-related risks and opportunities.	a) Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term.	a) Describe the organization's processes for identifying and assessing climate-related risks.	a) Disclose the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process.
b) Describe management's role in assessing and managing climate-related risks and opportunities.	b) Describe the impact of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning.	b) Describe the organization's processes for managing climate-related risks.	b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.
	c) Describe the resilience of the organization's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization's overall risk management.	c) Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets.



Working with Evergood

- Increased brand value through complete alignment with CSR and sustainability strategy
 - Customer Loyalty
- Increased reporting preparedness on ESG strategy - Proactive Management
- Creating a long-term sustainable competitive advantage through material risk reduction
 - Value Creation
- Increase overall visibility as a leading corporate citizen driving change through sustainability initiative - Strengthen Brand

How We Help

1. Gap analysis
2. Materiality analysis
3. ESG metrics design
4. ESG strategy communication
5. Impact reporting

Key Products

- ESG Policy
- Due Diligence Frameworks
- SASB Reports
- GRI Reports
- Portfolio Analysis
- Impact Report



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Questions?

