Corporate responsibility reporting in the Banking sector

Key findings from the KPMG Survey of Corporate Responsibility Reporting 2015

July 2016
Banks have the highest rate of CR reporting

All of the world’s largest banks, and over four fifths of smaller N100 banks, report on corporate responsibility (CR). This suggests that CR reporting is well established as a standard business practice in the Banking sector.

Banks are more likely to present CR information in their annual financial report than companies in any other sector. Almost all (93 percent) of the largest banks do so, which is almost 30 percentage points above the global average (65 percent).

CR reporting rates by sector

Large banks recognize the importance of assuring CR information

Four out of five (80 percent) of the world’s largest banks seek third party independent assurance of CR information. This indicates the sector recognizes the importance of assuring stakeholders that its non-financial information is accurate and credible. This may be driven by the high rate of reporting CR information in the annual financial report – banks require non-financial information to be able to withstand the same level of stakeholder scrutiny as financial information.

Among smaller banks, assurance of CR information is far less common with less than half (46 percent) of N100 banking companies seeking assurance. However, this is still higher than the N100 global cross-sector average (42 percent). Assurance rates among the N100 are likely to increase over time as they follow the example set by the largest banks.

1 http://fortune.com/global500/2014/
Quality of reporting by banks above average but could be improved

All large banks are publishing data on their CR and sustainability performance, but how does the quality of their reporting measure up against the other sectors?

KPMG analyzed the quality of CR reporting among the G250 against a framework of 7 quality criteria (see below). Researchers awarded each company a reporting quality score out of a maximum of 100.

The quality of reporting by banks is above the global cross sector average. The sector average score is 66 out of a possible 100 whereas the global average score is 57 out of 100.

KPMG’s quality assessment criteria for CR reporting

1. **Stakeholder engagement**
   The report should explain how the company identifies and engages its stakeholders and how their views inform CR strategy.

2. **Materiality**
   The report should demonstrate a clear, on-going process to identify the issues that are most significant to the company and its stakeholders.

3. **Risk, opportunity and strategy**
   The report should identify environmental and social risks and opportunities, and explain the company’s strategic response.

4. **Targets and indicators**
   The report should declare time-bound and measurable targets.

5. **Transparency and balance**
   The report should be open about the CR challenges the company faces, as well as its achievements, and should communicate both effectively.

6. **Suppliers and value chain**
   The report should show how the company’s CR strategy and targets address the material social and environmental impacts of its suppliers, products and services.

7. **Corporate responsibility governance**
   The report should detail how CR is governed within the organization, who has responsibility for it and how CR performance is linked to remuneration.

Overall CR reporting quality score

<table>
<thead>
<tr>
<th>Sector</th>
<th>Quality Score</th>
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<tbody>
<tr>
<td>Banking</td>
<td>66%</td>
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<tr>
<td>Global average</td>
<td>57%</td>
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*Base: 230 G250 companies that report on CR*
*Source: KPMG Survey of Corporate Responsibility Reporting 2015*

Banks score well on strategy, stakeholder engagement and governance

Banks score particularly highly across criteria such as CR strategy, stakeholder engagement and governance of CR.

Over three quarters (77 percent) of banks clearly define and discuss the opportunities to their business as a result of global social or environmental trends – 20 percentage points higher than the global average (57 percent).

Almost all banks (93 percent) identify key stakeholders and 90 percent of reports in the Banking sector contain at least some information about the process used to engage stakeholders.

The majority of reports (87 percent) in the Banking sector also identify the primary person or function responsible for sustainability in the company, demonstrating a level of transparency on CR governance.

Room for improvement on targets and the supply chain

Banks are one of the sectors least likely to set targets for material CR issues. Over a quarter (27 percent) of banks do not set any targets at all, which is significantly worse than the global average (17 percent).

Additionally, fewer than half of banks report in detail on the social and environmental impacts of their suppliers (37 percent) or of their products and services (47 percent).

Banks could report more on the financial impact of sustainability risk

It is not yet common practice for banks to discuss or quantify the financial impact of sustainability risk to their business - less than a quarter (23 percent) of banks do so.

This is an issue of increasing importance as investors look for better quality information on how sustainability risks and opportunities will affect the companies they invest in. The recently launched Financial Stability Board Task Force on Climate-related Financial Disclosures is just one example of high profile initiatives in this area.²

Most banks report on carbon, but the quality of reporting could improve

Companies are under increasing pressure to cut their carbon emissions, as the global economy shifts towards a low-carbon, and ultimately zero-carbon, model.

With this in mind, KPMG has analyzed the carbon information published by the world's 250 largest companies (G250) in their CR and annual financial reports, using the following 3 principles:

1. Reporting should be clear about whether the company sees carbon as a material issue and, if so, what data is covered and why. Carbon data should also be assured to ensure accuracy.

2. Where carbon is seen as material, reporting should show that the company has set clear targets to reduce its carbon emissions and how it is performing against those targets.

3. Reporting should communicate carbon data clearly and explain how carbon reduction helps the business.

The Banking sector has the highest rate of carbon reporting at 93 percent. However, the average quality score for banks is 48 out of 100 - less than the global average (51 out of 100) and among the lowest four scoring sectors.

Banks tend to score better for presenting carbon data than for setting targets and communication.

Banking outperforms almost all other sectors in reporting on emissions in the supply chain (Scope 3 upstream). Over two thirds (68 percent) of banks do this. This is likely because it is easier for banks to measure emissions in their supply chain than many other sectors. Emissions in the banking supply chain tend to be limited to factors such as business travel.

However, only half of companies in the Banking sector set targets to reduce their carbon emissions. This is below the global average (53 percent) and lags Technology, Media & Telecommunications, the lead sector, by 25 percentage points.

In addition, less than half (46 percent) of banks report on how cutting their own carbon emissions can benefit the business.

KPMG member firms can provide you with a bespoke assessment of the quality of your corporate responsibility reporting and a benchmarking report that compares your reporting with sector or country peers, and the global cross-sector average.

For further information, contact your local KPMG member firm professional listed on page 6 of this briefing.
About the KPMG Survey of Corporate Responsibility Reporting 2015

KPMG has been tracking corporate responsibility (CR) reporting trends for 22 years and The KPMG Survey of Corporate Responsibility Reporting, 2015 is the ninth edition. It is one of the largest surveys of CR reporting trends globally.

Definition of the Banking sector

In the KPMG Survey of Corporate Responsibility Survey 2015, the Banking sector was classified in line with the International Classification Benchmark (ICB) system.

G250 banks by region

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<tr>
<th>Region</th>
<th>Percentage</th>
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<tr>
<td>Asia Pacific</td>
<td>27%</td>
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<tr>
<td>Europe</td>
<td>43%</td>
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<tr>
<td>Americas</td>
<td>30%</td>
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Base: 30 G250 banks
Source: KPMG Survey of Corporate Responsibility Reporting 2015

N100 banks by region

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<tr>
<th>Region</th>
<th>Percentage</th>
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<td>Asia Pacific</td>
<td>22%</td>
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<td>Europe</td>
<td>23%</td>
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<td>Americas</td>
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<tr>
<td>Africa &amp; Middle East</td>
<td>40%</td>
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Base: 334 N100 banks
Source: KPMG Survey of Corporate Responsibility Reporting 2015

Download the full report from kpmg.com/crreporting
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<thead>
<tr>
<th>Country</th>
<th>Contact Name</th>
<th>Email Address</th>
</tr>
</thead>
<tbody>
<tr>
<td>Argentina</td>
<td>Martin Mendivelzua</td>
<td><a href="mailto:mmendivelzua@kpmg.com.ar">mmendivelzua@kpmg.com.ar</a></td>
</tr>
<tr>
<td>Australia</td>
<td>Adrian V. King</td>
<td><a href="mailto:avking@kpmg.com.au">avking@kpmg.com.au</a></td>
</tr>
<tr>
<td>Austria</td>
<td>Peter Ertl</td>
<td><a href="mailto:pert@kpmg.at">pert@kpmg.at</a></td>
</tr>
<tr>
<td>Azerbaijan</td>
<td>Vugar Aliyev</td>
<td><a href="mailto:valiyev@kpmg.az">valiyev@kpmg.az</a></td>
</tr>
<tr>
<td>Baltic</td>
<td>Marko Siller</td>
<td><a href="mailto:msiller@kpmg.com">msiller@kpmg.com</a></td>
</tr>
<tr>
<td>Belgium</td>
<td>Mike Boonen</td>
<td><a href="mailto:mboonen@kpmg.com">mboonen@kpmg.com</a></td>
</tr>
<tr>
<td>Brazil</td>
<td>Ricardo Zibas</td>
<td><a href="mailto:rzibas@kpmg.com.br">rzibas@kpmg.com.br</a></td>
</tr>
<tr>
<td>Canada</td>
<td>Bill J. Murphy</td>
<td><a href="mailto:billmurphy@kpmg.ca">billmurphy@kpmg.ca</a></td>
</tr>
<tr>
<td>Chile</td>
<td>Luis Felipe Encina</td>
<td><a href="mailto:lencina@kpmg.com">lencina@kpmg.com</a></td>
</tr>
<tr>
<td>China</td>
<td>Maria Cheng</td>
<td><a href="mailto:maria.cheng@kpmg.com">maria.cheng@kpmg.com</a></td>
</tr>
<tr>
<td>Colombia</td>
<td>Maria Teresa Agudelo</td>
<td><a href="mailto:magudelo@kpmg.com">magudelo@kpmg.com</a></td>
</tr>
<tr>
<td>Cyprus</td>
<td>Iacovos Ghalanos</td>
<td><a href="mailto:iacovos.ghalanos@kpmg.com.cy">iacovos.ghalanos@kpmg.com.cy</a></td>
</tr>
<tr>
<td>Czech Republic</td>
<td>Milan Fosman</td>
<td><a href="mailto:mfosman@kpmg.cz">mfosman@kpmg.cz</a></td>
</tr>
<tr>
<td>Denmark</td>
<td>Jakob Bilcher-Hansen</td>
<td><a href="mailto:jabhansen@kpmg.com">jabhansen@kpmg.com</a></td>
</tr>
<tr>
<td>Finland</td>
<td>Tomas Otterström</td>
<td><a href="mailto:tomas.otterstrom@kpmg.fi">tomas.otterstrom@kpmg.fi</a></td>
</tr>
<tr>
<td>France</td>
<td>Philippe Arnaud</td>
<td><a href="mailto:parnaud@kpmg.fr">parnaud@kpmg.fr</a></td>
</tr>
<tr>
<td>Germany</td>
<td>Simone Fischer</td>
<td><a href="mailto:simonefischer@kpmg.com">simonefischer@kpmg.com</a></td>
</tr>
<tr>
<td>Greece</td>
<td>George Raounas</td>
<td><a href="mailto:graounas@kpmg.gr">graounas@kpmg.gr</a></td>
</tr>
<tr>
<td>Hungary</td>
<td>István Szabó</td>
<td><a href="mailto:istvan.szabo@kpmg.hu">istvan.szabo@kpmg.hu</a></td>
</tr>
<tr>
<td>India</td>
<td>Santhosh Jayaram</td>
<td><a href="mailto:santhosh@kpmg.com">santhosh@kpmg.com</a></td>
</tr>
<tr>
<td>Indonesia</td>
<td>Iwan Atmawidjaja</td>
<td><a href="mailto:iwan.atmawidjaja@kpmg.co.id">iwan.atmawidjaja@kpmg.co.id</a></td>
</tr>
<tr>
<td>Ireland</td>
<td>Eoin O’lideadha</td>
<td><a href="mailto:eoin.olideadha@jp.kpmg.com">eoin.olideadha@jp.kpmg.com</a></td>
</tr>
<tr>
<td>Israel</td>
<td>Oren Grupi</td>
<td><a href="mailto:ogrupi@kpmg.com">ogrupi@kpmg.com</a></td>
</tr>
<tr>
<td>Italy</td>
<td>PierMario Barzagli</td>
<td><a href="mailto:pbarzagli@kpmg.it">pbarzagli@kpmg.it</a></td>
</tr>
<tr>
<td>Japan</td>
<td>Kazuhiro Saito</td>
<td><a href="mailto:kazuhiro.saito@jp.kpmg.com">kazuhiro.saito@jp.kpmg.com</a></td>
</tr>
<tr>
<td>Japan</td>
<td>Yoshitake Funakoshi</td>
<td><a href="mailto:Yoshitake.Funakoshi@jp.kpmg.com">Yoshitake.Funakoshi@jp.kpmg.com</a></td>
</tr>
<tr>
<td>Kazakhstan</td>
<td>Gregor Mowat</td>
<td><a href="mailto:gmowat@kpmg.ru">gmowat@kpmg.ru</a></td>
</tr>
<tr>
<td>Luxembourg</td>
<td>Jane Wilkinson</td>
<td><a href="mailto:jane.wilkinson@kpmg.lu">jane.wilkinson@kpmg.lu</a></td>
</tr>
<tr>
<td>Malaysia</td>
<td>Kasturi Paramanathan</td>
<td><a href="mailto:kparamanathan@kpmg.com.my">kparamanathan@kpmg.com.my</a></td>
</tr>
<tr>
<td>Mexico</td>
<td>Jesus Gonzalez</td>
<td><a href="mailto:jesusgonzalez@kpmg.com.mx">jesusgonzalez@kpmg.com.mx</a></td>
</tr>
<tr>
<td>Netherlands</td>
<td>Wim Bartels</td>
<td><a href="mailto:bartels.wim@kpmg.nl">bartels.wim@kpmg.nl</a></td>
</tr>
<tr>
<td>New Zealand</td>
<td>Gabrielle Wyborn</td>
<td><a href="mailto:gwyborn@kpmg.co.nz">gwyborn@kpmg.co.nz</a></td>
</tr>
<tr>
<td>Nigeria</td>
<td>Tomi Adepoju</td>
<td><a href="mailto:tomi.adepoju@ng.kpmg.com">tomi.adepoju@ng.kpmg.com</a></td>
</tr>
<tr>
<td>Norway</td>
<td>Anette Ronnov</td>
<td><a href="mailto:anette.ronnov@kpmg.no">anette.ronnov@kpmg.no</a></td>
</tr>
<tr>
<td>Peru</td>
<td>Rosario Calderon</td>
<td><a href="mailto:rcalderon@kpmg.com">rcalderon@kpmg.com</a></td>
</tr>
<tr>
<td>Philippines</td>
<td>Henry D. Antonio</td>
<td><a href="mailto:hantonio@kpmg.com">hantonio@kpmg.com</a></td>
</tr>
<tr>
<td>Poland</td>
<td>Krzysztof Radziwon</td>
<td><a href="mailto:kradziwon@kpmg.pl">kradziwon@kpmg.pl</a></td>
</tr>
<tr>
<td>Portugal</td>
<td>Martim Santos</td>
<td><a href="mailto:martimsantos@kpmg.com">martimsantos@kpmg.com</a></td>
</tr>
<tr>
<td>Romania</td>
<td>Gheorghita Diaconu</td>
<td><a href="mailto:gdiaconu@kpmg.com">gdiaconu@kpmg.com</a></td>
</tr>
<tr>
<td>Russia, Ukraine, Georgia &amp; Armenia</td>
<td>Igor Korotetskiy</td>
<td><a href="mailto:iodkorotetskiy@kpmg.ru">iodkorotetskiy@kpmg.ru</a></td>
</tr>
<tr>
<td>Singapore</td>
<td>Sharad Somani</td>
<td><a href="mailto:sharadsomani@kpmg.com.sg">sharadsomani@kpmg.com.sg</a></td>
</tr>
<tr>
<td>Slovakia</td>
<td>Quentin Crossley</td>
<td><a href="mailto:qcrossley@kpmg.sk">qcrossley@kpmg.sk</a></td>
</tr>
<tr>
<td>South Africa</td>
<td>Shireen Naidoo</td>
<td><a href="mailto:shireen.naidoo@kpmg.co.za">shireen.naidoo@kpmg.co.za</a></td>
</tr>
<tr>
<td>South Korea</td>
<td>Sungwoo Kim</td>
<td><a href="mailto:sungwoo@kpmg.com">sungwoo@kpmg.com</a></td>
</tr>
<tr>
<td>Spain</td>
<td>Jose Luis Blasco Vazquez</td>
<td><a href="mailto:jblasco@kpmg.es">jblasco@kpmg.es</a></td>
</tr>
<tr>
<td>Sweden</td>
<td>Daniel Dellham</td>
<td><a href="mailto:daniel.dellham@kpmg.se">daniel.dellham@kpmg.se</a></td>
</tr>
<tr>
<td>Switzerland</td>
<td>Isabelle Hirs Schaller</td>
<td><a href="mailto:ihirs@kpmg.com">ihirs@kpmg.com</a></td>
</tr>
<tr>
<td>Taiwan</td>
<td>Niven Huang</td>
<td><a href="mailto:nivenhuang@kpmg.com.tw">nivenhuang@kpmg.com.tw</a></td>
</tr>
<tr>
<td>UK</td>
<td>Paul Holland</td>
<td><a href="mailto:paul.holland@kpmg.co.uk">paul.holland@kpmg.co.uk</a></td>
</tr>
<tr>
<td>US</td>
<td>Katherine Blue</td>
<td><a href="mailto:kblue@kpmg.com">kblue@kpmg.com</a></td>
</tr>
<tr>
<td>Uruguay</td>
<td>Martin Clerino</td>
<td><a href="mailto:martinclerino@kpmg.com">martinclerino@kpmg.com</a></td>
</tr>
<tr>
<td>Venzuela</td>
<td>Jose O. Rodrigues</td>
<td><a href="mailto:jroduigues@kpmg.com">jroduigues@kpmg.com</a></td>
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