

Disclosure on Green Banking

The banking sector is one of the major sources of financing industrial projects, such as steel, paper, cement, chemicals, fertilizers, power, textiles, etc., which cause maximum carbon emissions. Therefore, the banking sector can fulfill an intermediary role between sustaining economic development on the one hand and improving environmental protection on the other.

Sustainable banking is, by definition, deploying funds with responsible consciousness about environmental, cultural and social impact and with active support from investors and other constituents of the ecosystem who aspire to make a difference by meeting present day needs without compromising on those of future generations.

In respect of this, ecological conservation and sustainable development are globally regarded as overriding imperatives for protection of our planet from the ill-effects of global-warming and climate change. Moreover, banks and financial institutions can play a pivotal role in global efforts to mitigate environmental risks and make the planet a better place to live.



Organizations worldwide are increasingly becoming interested in implementing strategies that help address environmental issues that contribute towards sustainable development. A major step in this direction is the emergence of prominent environmentally- and socially-responsible banks or 'green' banks. Thus, green banking is a broad concept that principally refers to those practices and guidelines that make banks environmentally-, economically- and socially-responsible. The concept also emphasizes on banking institutions to extend their reach to those industry segments that

would help in the overall reduction of external carbon emissions and also enable the minimization of their carbon footprint.

1. Purpose and scope:

The purpose of this disclosure is to demonstrate our banking philosophy that we adhere to in our daily operations. In parallel, it is also a part of our regulatory compliance practice. Importantly, our green banking practices are comprehensively aligned with regulatory guidelines and international best practices. In the year 2017, we explored several uncharted territories and embraced bold new strides in the realm of green banking. Moreover, new initiatives were taken to bolster the nation's economic growth and development in a more sustainable manner, while keeping in mind the expectations of key stakeholders as well as shareholders.

2. Introduction:

The most devastating phenomenon that the world is facing today is climate change. There have been continuous endeavors the world over to measure and mitigate climate change risks caused by human activities. Many countries, including Bangladesh, have committed to control the impact of climate risks. As socially-aware and ecologically-responsible corporate citizens, Bangladeshi banks have a major role and responsibility in supplementing governmental efforts towards ensuring substantial reduction in carbon emissions. Although banks are considered environment-friendly and do not impact the ecology greatly through their internal operations, their external impact on the environment by way of their customer activities is substantial. The banking sector is one of the major sources of financing industrial projects, such as steel, paper, cement, chemicals, fertilizers, power, textiles, etc., which cause maximum carbon emissions. Therefore, the banking sector can fulfill an intermediary role between sustaining economic development on the one hand and improving environmental protection on the other, for promoting environmentally-sustainable and socially-responsible investments. In this context, 'Green banking'

refers to the banking business conducted in such areas and in a manner that helps the overall reduction of carbon emissions to minimize the carbon footprint. To aid the reduction of external carbon emissions, banks are looking to finance green technologies and those projects that aim to reduce pollution.

Attainment of the United Nation's Sustainable Development Goals (SDGs) has become an agenda of paramount significance across the globe. Hence, maintaining pace in this global endeavor, our Government is also amply emphasizing on achieving the goals, as enshrined in the SDGs, at the national level. In order to do so, co-operation from multiple stakeholders is pivotal for success. In this regard, banks and financial institutions have a lot to contribute as they are usually considered to be the lifeblood of the economy. Unambiguously, the two fundamentals of sustainable banking include:

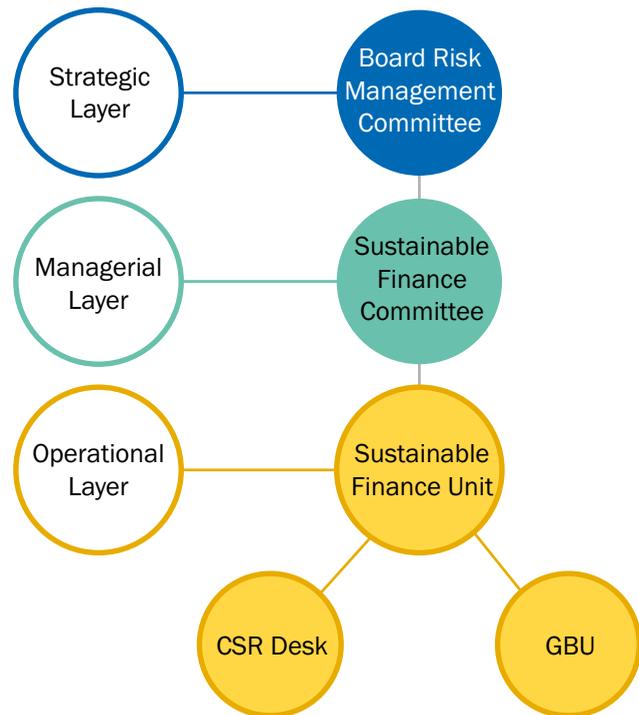
- Environmental friendly or 'Green banking'
- Corporate social responsibility (CSR)

Collective and concerted efforts from both these segments can ensure long-term sustainability in the financial sector. In light of this, Bangladesh Bank has taken a commendable step through which banks' Green Banking Unit (GBU) and CSR desk are encouraged to collaborate for more impactful outcomes and sustainable solutions. Hence, to bring greater efficiency in streamlining processes, as per the directives from the regulators, we have established a Sustainable Finance Unit (SFU) under the auspice of credit risk management.

3. Internal sustainability framework

At BRAC Bank, we established a Sustainable Finance Unit (SFU) and a committee, Sustainable Finance Committee (SFC), to oversee the activities of the SFU. Both the unit and the committee were formed upon the approval of the Board. The SFC consists of top management officials and is chaired by our Deputy Managing Director and CRO. SFU is guided by the Sustainable Finance Committee and works according to the 'Terms of Reference' set forth by Bangladesh Bank. The apex authority to monitor and supervise all sustainability activities within the bank is the Board Risk Management Committee (RMC). They are made aware and kept updated with regards to every sustainability issue of the bank.

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The Board RMC has been entrusted with the authority to approve budgets for green / CSR activities. SFC convenes every month to guide and oversee all SFU deliverables.

Having started its journey only last year in 2017, SFU has allotted more than BDT 5,400 million under green budget during the year, whereby the achievement rate is way more. The SFU activities comprise green financing, climate risk fund disbursement, marketing and providing training and capacity building platforms. Moreover, we have developed a comprehensive green strategic plan that guides us to actively explore every corner of the bank for efficiency improvements. For instance, we have installed solar panels in some of our SME branches and our dedicated infrastructure management team regularly checks the working condition of the solar panels. In addition, we are in the process of building rain water harvesting systems and installing solar panels across select branches too. Moreover, the consumption of water, paper and energy has been optimized as we strive to utilize these resources more efficiently and responsibly. As far as our in-house green management efforts are concerned, we cautiously adhere to the guidelines prescribed in our Green Office Guide. While all the aforementioned aspects are duly addressed, SFU also ensures the creation and management of a climate risk fund, signing of participatory agreement for on-lending/on-blending re-finance, green marketing and also work to establish green branches. With a large number of CSR activities under the purview of the SFU, we aim to touch more lives in the society and enhance the wellbeing of citizens.

On the other hand, being a proponent of environment-friendly banking practices, we extensively promote and

offer alternate banking services such as internet banking, SMS banking and e-statements to our valued clients. Through these alternate delivery channels (ADCs), we strive to ensure less commuting and lower footfalls in our service outlets, thereby ensuring lesser pollution and carbon emissions due to limited vehicular movement. As a part of our 3P (People, Planet, Profit) philosophy, we constantly strive to provide people- and planet-friendly solutions for our customers. In our endeavor to promote green banking and help preserve our planet's ecology, we continuously undertake various initiatives to enroll our customers for green services.

3.1. SMS banking:

BRAC Bank's SMS banking platform is a service that enables customers to access their account information via their mobile phone. Through BRAC Bank's SMS banking, a BRAC Bank account holder can access his / her account's latest information, such as account balance, the last few transactions and a range of other financial information, by typing a pre-defined key letter (like 'A' for account balance and 'T' for the last few transactions, etc).

3.2. E-statement:

An e-statement is an electronic ledger of a bank account statement that is sent to a customer's registered email address every month. E-statements are a safer, faster and greener alternative to paper statements. BRAC Bank's e-statement service is completely secured (password protected), easier, faster and free of charge. In our endeavor to promote comprehensive green banking solutions, we have taken several initiatives to enroll our accountholders to e-statement services instead of dispatching paper-based account statements. This initiative is expected to incur significant cost savings as well as help improve our service quality.

3.3. Internet banking:

BRAC Bank's internet banking enables its customers to avail various services such as fund transfers, credit card bill payments, utility bill payments, account statements checking, etc., through the bank's website. Our internet banking platform is secured by a state-of-the-art two-factor authentication system.

4. Incorporation of ESRM into credit risk management

In 2017, Bangladesh Bank issued new ESRM guidelines with a vision of integrating sustainability into the credit risk management process. In this context, the year 2017 was considered to be a phase-in period for the implementation of 'Guidelines on ESRM' and, from 1 January 2018, the guidelines have become enforceable under the Bank Company Act, 1991. Whatever the

source of funds, these guidelines will represent the master framework for the bank in assessing E&S risks in credit proposals. In line with this new legislation, we extend credit facilities upon duly appraising each eligible borrower against E&S standards. It is worth mentioning that the number of projects applicable for the environmental and social due diligence (ESDD) and the projects being rated (i.e. E&S risk rating) have been appreciably increasing over time. E&S rating is an integral part of our credit appraisal process. Our prudent credit risk management team has established a robust end-to-end process for the appraisal of borrowers. BRAC Bank, with the support from different local and foreign experts, has also arranged learning and capacity development programs for employees regarding the importance of ESRM into lending considerations. The procedure for incorporating the requirements of ESRM for sustainable credit risk management has been focused with high priority. There is a strong support system in place from our regulator for any sort of assistance and guidance required.

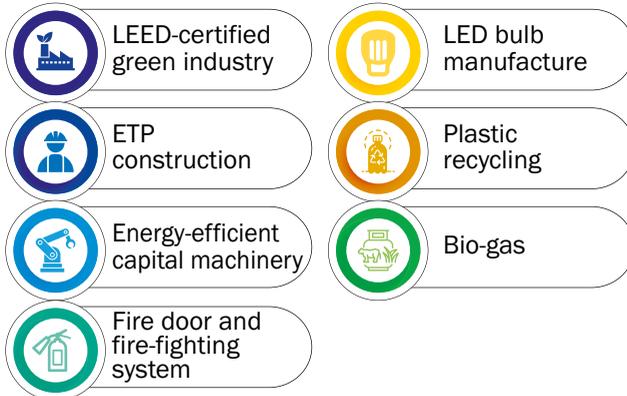
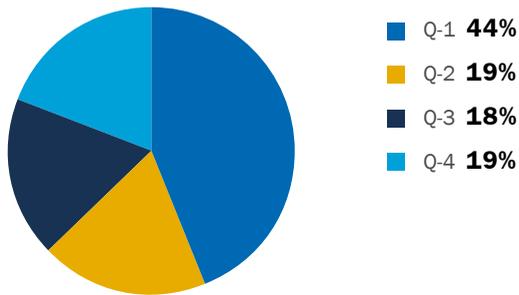
5. Green financing

Green financing can be referred to as financial investments flowing into sustainable development projects and initiatives, environmental products and policies that encourage the development of a more sustainable economy. Though not limited to it, green finance may include climate finance. It also refers to a wider range of other environmental objectives, for example, industrial pollution control or biodiversity protection. Combating climate change and environmental pollution are, without doubt, issues that are at the forefront of the global policy discourse. Today, the impact of climate change, particularly in a country like Bangladesh, is becoming evident more than ever before. By all accounts, Bangladesh remains a highly vulnerable nation affected by climate change and environmental pollution. There are specific sectors of the country that require intervention, namely, crops and fisheries, textiles and leather, brick manufacturing and renewable energy. In this context, we have strong support from the central bank. They offer various refinancing schemes for encouraging environment-friendly initiatives that enable entrepreneurs as well as banks to focus on green ventures.

BDT 11,000 mn
BRAC Bank's disbursements in green
financing in 2017

BRAC Bank is aligned with the 'triple bottomline' approach. We emphasize on green financing and also strive to exceed our green financing targets set by the management. In the year 2017, we disbursed around BDT 11,000 mn in green financing (both direct and indirect). The investment areas included:

GREEN FINANCING



Green financing is considered to be the path to sustainable profits. Although green financing does not represent a substantial part of the industry, BRAC Bank strives to expand its footsteps in sustainable banking by means of actively engaging in green financing activities. Moreover, it also provides such services as:

Fact!

When it comes to supporting environmental causes, we have actively made donations for the flood-affected regions, directly and through the Prime Minister's Relief Fund. Moreover, BRAC Bank donated 50,000 blankets to help the cold-affected people as climate change is often attributed to causing severe cold spells in certain parts of Bangladesh. The bank also distributed 15,000 blankets in Nilphamari, Kurigram, Khulna and Barguna.

- Technical support to internal resources
- Technical support to clients (if required)
- Exploring green financing projects and providing advisory to clients
- Complying with the requirements of regulatory authorities with regards to green financing
- Assessing the scope and value of green projects

6. Capacity development programs and CSR

With the evolutionary nature of the banking business, it is imperative to constantly upgrade and update skills to align with a dynamic industry environment. Capacity building (or capacity development) is the process by which individuals and organizations obtain, improve and retain the skills and knowledge needed to do their jobs competently. This is precisely why more than 1,500 staff have been educated on E&S risk management and mitigation. By virtue of our affiliation with local and foreign counterparts, we ensure adaptation of best practices faster and with more efficiency. Our regulators also organize various training sessions by bringing professionals and experts from relevant fields.

Under capacity development, BRAC Bank has supported marketing campaigns in the digital space, i.e. Shohoz, Pickaboo and others. We have also partnered with e-commerce platform, Bagdoom.com and introduced the country's first-ever SME loan product for e-commerce under BRAC Bank – Bagdoom Merchant.

7. Conclusion

Banks are responsible corporate citizens and at BRAC bank we believe that every small 'green' step taken today will go a long way in building a greener tomorrow. We are certain that our proactive initiatives will assist to reduce our carbon footprint as well as build awareness and consciousness about the environment and the ecology. Green banking or ethical banking is indeed a strong approach for people to become more aware about global warming and will contribute to a better environment and make the planet a better place to live. There is definitely substantive opportunity in renewable energy technologies, emission reduction and reduced carbon transportation that can be progressively achieved with the cooperation from all sectors of the economy. Banks, being an integral part of our economy, must lead from the front. The concept of green banking is gaining momentum in Bangladesh and BRAC Bank is actively looking for ways to emerge as a pioneering green bank of Bangladesh.