







# How Today's Banks are Adopting ESG-Based Strategies to Become More Sustainable

With sustainable finance gaining momentum around the world, banks are developing strategies to embed ESG factors into their lending and investment decisions. In this infographic, we review several of the key sustainability-focused strategies banks are using, including environmental and social due diligence, integration, thematic investing, ESG engagement, and sustainable finance frameworks.

Strategy	How it Works	What it Looks Like
<b>Negative Screening</b>	Excludes or avoids transactions not aligned with environmental, social, and ethical standards. Currently the most popular technique used for ESG asset management.	 Negative screening criteria often include issues like weapon manufacturing, tobacco sales, or production of fossil fuels.
<b>Positive Screening</b>	Selects corporate borrowers that score highly on ESG factors relative to their peers.	 Positive screening criteria may include best-in-class screening, companies and sectors with higher ESG scores compared to their peers, or companies that are actively improving their ESG performance. <sup>i</sup>
<b>Integration</b>	Integration strategies incorporate ESG issues in financing decisions to better manage risks and improve returns.	 Additions to the bank's sustainable finance portfolio are selected using both financial and ESG factors, such as calculating the ESG risks of an investment or valuing the revenue impact of increasingly stringent environmental regulations. <sup>ii</sup>
<b>Thematic Investing</b>	Prioritizes companies or projects aimed at positive social or environmental change, e.g., addressing climate change, gender equality, or United Nations Sustainable Development Goals (SDGs).	 Banks may develop lending initiatives to accelerate the transition to a low-carbon, sustainable economy, particularly projects targeting the SDGs. Impact investing also falls under the thematic category.
<b>ESG Engagement</b>	With engagement, banks take a more active role in managing ESG impacts, including discussing ESG issues with corporate borrowers with the aim of improving their performance.	 The Net-Zero Banking Alliance strongly encourages signatory banks to engage with clients on reducing their carbon emissions and to develop innovative solutions to support clients' efforts to reduce emissions.
<b>Sustainable Finance Frameworks</b>	These frameworks outline banks' ESG lending and investment practices and processes, and often align with well-established international standards. <sup>iii</sup>	 Here are some important commonalities in banks' sustainable finance frameworks: <ul style="list-style-type: none"> <li>• Sustainable finance goals, targets, strategies, material ESG factors</li> <li>• Transparent classification of eligible financing activities</li> <li>• Alignment with international goals</li> <li>• Due diligence processes</li> <li>• Regular third-party review (necessary for the issuance of certain products, such as sustainability-linked loans)</li> </ul>

**LEARN MORE** about why banks are embracing sustainable finance by downloading our latest ebook, *How Sustainable Finance is Shaping Change in Banking*.

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### References

- In comparison to corporate lending transactions, the intensity of screening is often higher for project finance transactions given due diligence requirements under the Equator Principles.
- ESG factors to be included in integration strategies should only be those material ESG issues that can significantly affect corporate and investment performance.
- Banks often seek support from third-party ESG advisors on the classification requirements of sustainable finance instruments.