

Transparency in sustainable finance: it's more than a tick box exercise

Episode two, part 1

Emily Farrimond, Baringa: A very warm welcome to our Climate and Sustainability Trailblazers podcast with me, Emily Farrimond. Today we are exploring the topic of credibility and transparency of sustainable finance products, and delving deeply into the topic on everyone's lips, greenwashing. I'm delighted to be joined today by Wendy Whewell from Santander and Natalia Cermeno from Baringa. Welcome both and thank you for joining me to discuss this important topic.

Let me come to you first, Wendy. Can I ask you to introduce yourself and tell us about your personal and professional interest in sustainability?

Wendy Whewell, Santander: Good morning, Emily and Natalia, and thank you so much for inviting me on this amazing podcast. I've already listened to the previous episode with Rishi and Tom, and those are a set of shoes to follow in, but it's really exciting. About me and my passion for sustainability: it probably starts as a 13-year-old girl who was given as a birthday present a ceramic bedside lamp, which was an elephant. Ever since then, I have absolutely adored anything to do with elephants. I've collected over 300 – my husband says about 450 and he should know as he's the one who normally cleans them or prints the pictures. I'm absolutely fascinated with wildlife and everything to do with looking after the environment. From a professional aspect, I have been involved throughout my corporate banking career in working with businesses and understanding their journey. I think before the word sustainability ever came into our language, I've really wanted to understand every single component of a business and how it impacts the people that are in those businesses - the consumer, the journey, and how we actually support them. Over the last ten, twenty years, I've been involved in a number of social projects, whether it's with businesses in the community, working with young people, looking at education, improving diversity and inclusion for young people, and just really working on that whole holistic area. That's now culminated probably in the best job of my career. I'm extremely privileged and humbled and overwhelmed with heading up in the corporate commercial bank and being in charge of ESG and climate change. To me, that's really very important. It's not just looking at how we deal with the climate emergency, but how we do it in a responsible, sustainable manner.

Emily Farrimond, Baringa: That's a fantastic introduction, Wendy, and wonderful to hear about your personal passion and how you've translated it into what you do on a day-to-day basis. I know that many of us feel the same about the privilege we have to be able to do this every single day of our working lives.

And Natalia Cermeno joins us for from Baringa.

Natalie Cermeno, Baringa: Thank you for having us here today. My name is Natalia Cermeno, and I work here as part of the Baringa team in sustainable finance. My background is in investment banking and I have been helping banks to structure production for capital markets, specialising in fixed income for almost 20 years. My interest in sustainability developed over time, when I realised there was a need from investors wanting to invest in sustainable products and there was not enough offered to suit that demand. I then started looking at the wider aspects of climate change and the social aspects, and that got me into sustainable finance as a whole. From a personal perspective, I have always been interested in the social aspects of it and I was volunteering, before I came to London around 20 years ago, in Spain with ecommerce

initiatives. But if I'm honest, once I came to London and started working in banking, I put that aside. It was only when the pandemic started that I got involved with charities and I wanted to add more to the community. To me, it is the obvious choice to be working on the professional side, helping finance. And then on the personal side, doing what you can for the community. I also think it's very important to educate, to be a role model for the next generations to come and ensure that we use circularity, we reduce, we recycle, as much as we can on a day-to-day basis. I have a passion for those aspects, too.

Emily Farrimond, Baringa: Great. Thanks, Natalia, for sharing that. Today we're going to talk about sustainable finance and the role that it has to play in supporting the transition to net zero. I wanted to come to you first, Wendy, to get your thoughts on that.

Wendy Whewell, Santander: It's a very big part that it will play in supporting all businesses and the consumer in the journey to net zero. I think it is the solution and the important part of sustainable finance is how we work with our clients, and with our prospects, in understanding their own sustainable journey. The importance of that is the education side of it and how we as professionals - and we are all learning, learning every single day with the support of people like yourselves and Baringa, and with other consultants - how we bring that subject to the clients in what is a very difficult time at the moment, whether it's the situation in Ukraine, the cost of living crisis, the rising energy prices and how we actually support the clients in looking at the steps that they need to take on this journey. And it is a very big journey. We know that the goal is to get net zero to prevent temperatures rising above one and a half degrees since the Industrial Revolution. But how do we actually do that? There is no straight line. I don't think any of us have the exact answer as much as we would absolutely love to. It's really understanding what's important to the clients and starting to work at it on a very simplistic basis, breaking it down and looking at each component part, but then looking at the consequences of every action that we take to ensure that it's done in a sustainable manner. The sustainable finance to me provides a massive framework for us to support our clients on that journey.

Emily Farrimond, Baringa: Fantastic. I think you're going to talk to us a little bit more about how you're supporting some of your clients as we go through this. It's really interesting to see the fantastic role that Santander's playing in supporting, in particular, your commercial banking clients in that space. Natalia, what about your point of view? What are you seeing in the market in terms of both the role sustainable finance has to play, but also why it is so important?

Natalie Cermeno, Baringa: If you think of financial institutions, I think they have, and have always had, and sometimes for good reason, very bad press. It's very easy to go against them. But the other way to look at it is that they have a lot of power, they have a lot of influence. It's where the money is, whether we like it or not. The reality is they have a lot of power, but they also have a big responsibility. I think that's the way I look at them. It's the fact that they can channel the finance and they have a massive influence on how it's done and why. So, it's a matter of working with those banks, with those financial institutions, to use these funds for the better. But also, bankers like the challenge - and what bigger challenge than putting this world right in the future. It's a big thrill to be able to work on this. We are all talking about sustainable finance, but the biggest compliment that you could have in the future is that there's no such thing as sustainable finance work because all finance is sustainable. And that's the goal - to have a mainstream which is equal to sustainable in the future.

Wendy Whewell, Santander: I couldn't agree with you more, Natalia. It's a massive responsibility as well. We have to get this right. I was the banker during the financial crash. I've seen historical recessions and have seen the role that banks have played up to that point. I think there has been an amazing change since the pandemic and during the pandemic and working with all my colleagues through that period as to how we developed amazing partnerships with our clients, really understanding every single component part of their business, working out what support we could give them. And it was ensuring that we were there to support them, not just with the finance, but understanding them, working through the trials and tribulations of working from home, how you get your products to where they need to be, the transport and logistics. I think that partnership that has developed since the pandemic and during the pandemic, we have to take forward as a responsibility. We're a facilitator. It's interesting as to whether the onus should be totally on the financial sector, but we have a significant impact to play. If we work as a collective ensuring that we're educating clients, supporting them, getting them to understand this whole new lexicon of sustainability. So, there's new risks that are out there. We've got the physical risks, whether it's the acute or the chronic risk from the changes in the climate. Well, how do you do the transition risk? How do you do the migration from all of these diesel or petrol vehicles into the electric vehicles? How do you get the solar panels on the roofs if they don't have the great infrastructure that they should do? How do you deal with the rising energy costs at the moment? And where do they get those products from? Are they coming from China? Are they coming from Asia? And now we've got this big, big challenge in respect of what's happening in Ukraine with regards to all the different aspects - in respect of food, in respect of the energy - and how do we manage that and support the businesses. One of the things that we have to do is keep it simple. It's something that I was taught many, many years ago as a very young banker by one of my clients who used the KISS acronym, keep it simple for the stupid. It's really important to me. We break it down into small pieces and we start understanding what's important to the client and how we will support with that. From a sustainability point of view, we've seen that there is now a situation where there is almost full employment. So young people, older people, those that have retired who may want to come back to work, they want to work for businesses that have a really good understanding of purpose and are doing things in the right way and wanting to help society so that we all pull together and really make a difference. I think that's where sustainable finance really encapsulates all of that. When looking at the E, it's looking at what the impact is on the climate, but making sure that the work that's done on that climate actually doesn't end up having an impact elsewhere either in the UK or further afield across the world. The social side of it, looking at the diversity, inclusion, perhaps improving digital skills, improving financial skills. We're so proud of our partnerships with Santander universities, 86 universities we partner with. If you want to learn more about sustainability, we're supporting over a thousand people to go and get a certificate in sustainability, understanding all the issues around the green agenda. There's lots of things that businesses can do and it's really important as to how we build in the governance of all of this. Getting it right is very, very important.

Emily Farrimond, Baringa: I think that's really interesting, Wendy. You've outlined a lot of challenges that your clients are facing and really a complex web of things that they need to try and work through in order to make the most sustainable decisions for their businesses. It must be really challenging for them to navigate that and it's a critical role for you to play. You've talked a little bit about how you're helping them address some of those challenges - and also the opportunities, let's not forget about those. Credibility is critical in this market and we see a lot of noise specifically about that and avoiding what could be termed greenwashing. How do you work with clients to satisfy yourself that you're not accidentally, potentially financing something that isn't quite as sustainable as you might like it to be, or

others might view it as greenwashing? How are you navigating that? That feels quite complex and challenging.

Wendy Whewell, Santander: It certainly is. I know this is something that Rishi and Tom raised on the last podcast and it's vitally important to anybody that's involved in finance, as well as to the businesses that we work with. We have launched what's called the Santander Sustainable Finance Classification System and it sets out exactly what we consider to be green, what we consider to be social. It provides the framework. It is based around the EU Green Taxonomy because we are part of the Santander Group, but we've gone further because we've already started to build out the social elements as well. So, if a client says to us that they would like a green facility or a social facility, we're actually looking at it and saying: what is the purpose of this facility? If it's to say, put some solar panels on the roofs, then that's to improve their energy, to improve their carbon footprint. Then we will determine that it meets our purpose and then the use of proceeds would be to buy those solar panels. But we don't leave it just there. We will be looking to check that the solar panels are still generating the right renewable energy year on year for the time of that facility. That provides one example of looking at it from a very specific use of proceeds. The other area is around the sustainability lending. For that framework we're looking at: how does the client set up their sustainability strategy? How have they pulled it together? Have they put in place a materiality map? These are new words, new lexicons that are coming out, but there's some great frameworks and indices. Whilst they do apply to the large corporates, I believe that any business could actually look at these and get great guidance from them. They use things like the MSCI index and matrices. They use the GRI - Global Reporting Index. They're using the Sustainability Accounting Standards Board. We are also going to see later this year and next year the introduction of transition plans. Again, this will apply to the larger businesses, to banks such as Santander. But I think that we will be able to look at them and say, this is a great template. We can find a way to see how this would apply to whether you are a large corporate or whether you're an SME or sole trader. How do they go about that transition in an orderly fashion, in a sustainable manner? I think by putting those frameworks around and understanding exactly what's important to the business, where they're going to go and creating that map and that journey. And it won't be a straight line journey, we know it won't. There will always be kinks in the road. It will be like a river trying to work out which is the right way to go. It will hit hurdles and bumps, but as long as we're getting there, that will be very, very important. And those that get to net zero by 2030, that's brilliant. What we need to do is take the education from those clients and share that, working collectively with other clients to show them how businesses go about.

Emily Farrimond, Baringa: Thanks, Wendy, that's great insight there. Natalia, is there anything you want to add from the work you've been doing with clients on this topic?

Natalie Cermeno, Baringa: Yeah, I totally agree with Wendy on this. Just as Santander has embarked on the Sustainable Finance Classification System, we have seen all the big banks putting in place these frameworks. As I said, the next stage is moving away from sustainable finance into transitional finance. But this is not just for the big guys. We are seeing the smaller banks and the smaller entities also starting to look at this journey. I think it's two ways: it's a pull and a push. On one hand, the banks have committed publicly, and they want to deliver. I think they genuinely want to deliver change. I think the pandemic has humanised banking in a way and has shown that there's a massive role to play and now's the time to deliver on this. Then there is the push from the regulators. In a way, I think regulation is another word that has bad press potentially coming from the bankers. You see that tension between regulation and banking, but I think

regulation can be a massive catalyst for change and to help the banks. EU has done a lot of great work on the taxonomy, looking at social now. The UK is also going to follow those steps as well as other jurisdictions that are looking at them. I think between the pull and the push of bankers wanting to do the right thing and the regulator helping bankers do the right thing, we are really set for a good journey.

Emily Farrimond, Baringa: Wendy and Natalia, many thanks for your time. I've massively enjoyed the discussion and that brings the end of part one. Looking forward to continuing our discussion in part two of this podcast.