GuiaDos**Bancos** Responsáveis

An analysis of the socio-environmental and climate policies and guidelines of Brazil's eight largest banks

| EXECUTIVE SUMMARY |

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| 1. INTRODUCTION |

The **10th edition of the Guide to Responsible Banks (GBR)** is being launched at a time when not only the country, but the whole world is facing increasingly urgent socio-environmental challenges. In Brazil, the burning and deforestation of biomes for the advancement of agriculture, combined with violence against the Black population and Indigenous peoples caused by extractive sectors such as mining, are the main causes of the climate emergency[1]. These actions are responsible for tragedies such as the floods that occurred this year in Rio Grande do Sul which primarily affected the historically vulnerable population[2].

In order to address the multiple crises[3] that we are experiencing, we need to rely on key players: **financial institutions** and the **bodies that regulate this sector**. This is because it is their decisions about their financing and investments that make economic activity in the country viable, and can contribute (or not) to overcoming today's challenges.

How do the socio-environmental, climate and human rights, arms and animal welfare commitments of the eight largest financial institutions operating in Brazil measure up? In this **10th edition of GBR** we will now present our findings and assessment.

1 According to the SEEG study, deforestation caused by changes in land use, which contribute to the devastation of Brazilian biomes, corresponds to 1.12 billion gross tons of carbon dioxide equivalent (CO2 e), or 48% of total national emissions in 2023, with the agricultural sector alone accounting for 27% of the country's gross emissions. https://seeg.eco.br/wp-content/uploads/2024/02/SEEG11-RELATORIO-ANALITICO.pdf

2 The World Weather Attribution (WWA) study points to the lack of public investment and maintenance of the flood containment system in the state as one of the main reasons for the large scale of the disaster, aggravated by social inequality in the lack of infrastructure adapted to a climate crisis scenario aimed at the vulnerable population. In addition, according to FUNAI data, 70% of indigenous territories and more than 8,000 families were affected by the floods. The National Coordination for the Articulation of Quilombos (Conaq) reported that of the 7,000 quilombola families in Rio Grande do Sul, approximately 850 families were affected directly and around 1,300 indirectly. https://www.worldweatherattribution.org/climate-change-made-the-floods-in-southern-brazil-twice-as-likely/

3 According to the United Nations Development Program, climate change and the loss of biodiversity, wars and conflicts, and the persistence of COVID-19 are exacerbating poverty and inequality, contributing to hunger and food insecurity. https://www.undp.org/policy-centre/governance/events/how-can-we-emerge-stronger-todays-multiple-crises

| 2. THE GBR |

The **Guide to Responsible Banks** is a project coordinated by the **Institute for Consumer Protection (Idec)** in coalition with four other Brazilian civil society organizations: **Conectas Human Rights**, the **Sou da Paz Institute**, **Oxfam Brazil** and **World Animal Protection**.

The initiative is part of **Fair Finance International (FFI)**, a network of civil organizations from different parts of the world working to transform global financial systems and present in 24 countries: Bangladesh, Belgium, Bolivia, Brazil, Cambodia, Colombia, Germany, Ghana, India, Indonesia, Japan, Lao PDR, the Netherlands, Nigeria, Norway, Pakistan, Peru, South Africa, Mozambique, Sweden, Thailand, the Philippines, Uganda and Vietnam.

It is the FFI network, in partnership with Profundo, a sustainability consultancy based in the Netherlands, that develops the methodology applied by the GBR. Financial institutions are also invited and encouraged to contribute to its improvement. This edition of the GBR used the most recent version of the methodology, published in 2023.

We start from the premise that, before deciding to invest money in a particular project, the bank must rigorously assess the risks that this financing represents for the people and nature that may be affected by it - rather than focusing solely on the investment itself.

To contribute to the debate, in addition to the assessment of Brazilian banks' responsibility policies, published every two years, we produce case studies to see how and if these commitments are being applied in practice. We also engage with regulatory institutions to impose stricter rules on financial institutions.

The GBR also informs and sensitizes consumers about the relationship between the financial services they use - for example, current accounts, savings and investments - and how banks utilize their funds. Do you know where your money goes?

Where does your money go?

Did you think your hard-earned money would just sit in the bank?
That's not how it works, follow the directions!

YOUR MONEY IN THE SAVINGS ACCOUNT

You put your money in savings

Your savings start to pay off (but why?)

Savings are the safest form of investment. Part of the money you're putting into savings is "borrowed" for a real estate loan and the other part for any type of loan the bank decides on (but which one?).

YOUR MONEY IN INVESTMENTS

You decide to invest to get a higher return than savings

You choose an investment fund offered by the bank

This invested resource will go to a company that may be violating human, social and environmental rights (but which companies?)

There is no transparency about the companies in the banks' portfolios. Your money may be invested in companies condemned for slave labor.

YOUR MONEY IN A CHECKING ACCOUNT

You open an account with a bank that allows you to earn a return on the money in the checking account

This return means that the bank pays you to lend your money to others at a much higher rate

Your money could be financing companies that commit illegal deforestation, for example.

Questioning banks and asking for more transparency is your right. That way, you can be sure that your money isn't contributing to activities that go against what you believe is right.

| 3. ASSESSMENT RESULTS: Overview of the banks and themes evaluated |

In this section, we briefly present the general results of the **10th edition of the Guide to Responsible Banks (GBR)**. As in the previous edition, the eight largest financial institutions operating in the country were evaluated. Together they account for 71.7% of the Brazilian banking system's assets[4]. They are: Banco do Brasil, BNDES, Bradesco, BTG Pactual, Caixa Econômica Federal, Itaú Unibanco, Safra and Santander Brasil.

The evaluation looked at the 18 themes:

- Animal welfare;
- Climate Change;
- Corruption;
- Gender equality;
- Human Rights;
- Labor Rights;
- Environmental Rights;
- Taxes;
- Arms;
- Food;
- Forests;
- Mining;
- Oil and Gas;
- Power Generation;
- Consumer Protection;
- Financial Inclusion;
- Remuneration;
- Transparency and Accountability

4 Information available at: https://www3.bcb.gov.br/ifdata/#

In this edition of the GBR, the overall average of the eight banks evaluated was **3.3**, down from 3.8 in the previous edition. With the exception of Banco do Brasil, all the banks have had their scores lowered. The worsening performance is mainly due to the withdrawal of the automatic legislation points that were granted until 2022, this is a recommendation of the methodology applied, which suggests that legislation points should only be granted when the respect for the laws is well consolidated - which is not the case in Brazil and the banks that operate here, highlighting the urgency of incorporating stricter socio-environmental and climate criteria into the policies (and practices!) of financial institutions.

Let's take a look at the overall ranking by bank:

	Bank Ranking 2024		Variation	2022
1º	BNDES	5,1	-0,1	5,2
2º	Banco do Brasil	3,8	0,11	3,7
3º	Itaú	3,6	-0,5	4,1
4º	Santander	3,3	-0,6	3,9
5º	Caixa Econômica	2,9	-0,5	3,4
6º	Bradesco	2,9	-0,8	3,7
7º	BTG Pactual	2,5	-0,6	3,1
8º	Safra	2,4	-1,0	3,4
	Average	**3,3**	**-0,5**	**3,8**

And by theme:

Theme Ranking			Variation	2022
Financial Inclusion	7,4	1º	-0,08	7,5
Consumer Protection	7,4	2º	0,42	7,0
Corruption	5,0	3º	-0,21	5,3
Labor Rights	4,9	4º	-1,11	6,0
Human Rights	4,8	5º	-0,14	5,0
Gender Equality	3,8	6º	0,26	3,5
Transparency and Accountability	3,5	7º	-0,67	4,2
Nature	3,5	8º	-1,75	5,3
Climate Change	3,0	9º	0,55	2,4
Remuneration	2,9	10º	0,51	2,4
Forestry	2,4	11º	-1,02	3,4
Arms	2,3	12º	0,31	2,0
Mining	2,1	13º	-1,31	3,4
Oil and Gas	2,0	14º	-1,27	3,3
Power generation	2,0	15º	-1,08	3,1
Tax	2,0	16º	-0,20	2,2
Food	0,7	17º	-2,30	3,0
Animal welfare	0,2	18º	0,18	0,0
Average	**3,3**		**-0,5**	**3,8**

As in previous editions, the performance of financial institutions in the topics assessed is quite diverse: in some cases the score is extremely low, while in others they reach reasonable levels. For example, we observed that operational topics, which refer to the bank's internal actions, and those related to compliance, such as labor and human rights, receive higher scores. This is mainly due to the legal consequences that can be imposed if the social rights provided by law are not respected and guaranteed, which should also be made explicit in the banks' policies.

Overall, however, the scores are poor: more than 70% of the topics have scores between 0 and 4 points, indicating that financial institutions need to implement urgent measures to improve their policies. Compared to the previous assessment, only six themes showed significant improvements in their averages: Consumer Protection, Gender Equality, Climate Change, Remuneration, Arms and Animal Welfare.

On this last topic, this is the first time that Animal Welfare has received a score above 0, albeit incipiently, thanks to the adoption of measures by BTG Bank, which has committed to evaluating responsible animal management practices: facilities and appropriate diet, stress reduction, hygiene conditions and disease prevention.

Similarly, the Climate Change theme, which analyzes banks' strategies for the transition to a low-carbon economy, highlights the issue. The latest update of the methodology included thirteen new elements on non-renewable energy sources. Most banks scored on these new elements for adopting exclusion policies and phase-out strategies, with a deadline of 2050, for financing projects and companies involved in mining, exploration and development of coal mines, power generation from thermal coal, as well as extraction of unconventional oil and gas. However, their investment portfolios do not have the same guarantees as their loans and financing. These actions are essential for the adoption of renewable energies which should reduce the negative impacts caused by burning oil which contributes to global warming.

On the subject of arms, more banks scored points, although four of them still scored zero. They often score because they are against the production and sale of weapons of mass destruction, such as nuclear, biological and chemical weapons. However, the banks still fail to adequately address issues such as assessing the possible use of weapons and the clear risk of them being used for serious violations of human rights or international humanitarian law. In addition, many banks do not evaluate the risks of financing companies that supply military goods to countries with evidence of systematic corruption. Since 2022, Banco Safra has stood out as a good example, in that it has explicitly committed to all of these aspects in its policies.

In the area of human rights, the banks maintain the same standard as in the previous evaluations: respect for human rights as described in the United Nations Guiding Principles on Business and Human Rights is guaranteed in their internal operations. However, the problem arises in the lack of guarantees that the companies financed or invested in follow practices that respect fundamental principles, such as the application of Free, Prior and Informed Consent (FPIC) to indigenous peoples and traditional communities. This is an essential instrument for protecting indigenous peoples' right to land, allowing them to exercise self-determination in relation to government or business decisions that impact their territories, in accordance with their uses, customs and traditions. The absence of clear policies requiring the application of FPIC can be a determining factor in the violation of these peoples' rights.

Finally, it should be noted that while both credit and project finance policies are weak, the scenario is even more worrying for investment portfolios, which have very few guidelines. While credit commitments tend to be stricter, investment portfolios lack policies, making their management open to more negligence.

| FINAL CONSIDERATIONS |

The **10th edition of the Guide to Responsible Banks** shows that the eight largest banks operating in the country still have a long way to go in terms of their socio-environmental and climate commitments.

The removal of the automatic points of legislation has led to a decrease in the scores of all evaluated banks, with the exception of Banco do Brasil. This does not indicate that the institutions have reduced their commitments, rather it signifies that they fail to make explicit basic guidelines which, mandated by law, should be reinforced in their policies.

The increase in Banco do Brasil's score demonstrates that adopting stricter policies aimed at minimizing socio-environmental impacts is fundamental to securing a positive evaluation. However, despite this improvement, its policies still have significant gaps, especially with regard to transparency and investment management.

This lack of commitments related to investment management is a characteristic common to all evaluated banks, indicating a deficiency in policies that guide the responsible application of resources.

As in the last evaluation, we would like to reinforce the recommendation that all banks assess whether the companies they finance or invest in have environmental, social and governance responsibility policies that cover their entire supply chain. The importance of a policy that ensures that social and environmental clauses are applied to suppliers of financed and invested companies lies in the attempt to guarantee that supply chains remain free of any violations.

Although almost all the scores have been lowered, it is important to note that most Brazilian banks have adopted some divestment measures with regards to the fossil fuel sector, due to its detrimental impact on both the environment and also human health. Banco do Brasil, Santander, Itaú, Bradesco and BNDES have started implementing some exclusion policies and gradual phase-out strategies. There is, however still a lack of policies for their own and third-party investment portfolios.

To summarize, the 2024 assessment highlights the need for a renewed and effective commitment by Brazilian financial institutions to socio-environmental and climate issues. The current general scenario indicates a worrying distance from the expectations of civil society and the urgencies imposed by the climate emergency and other socio-environmental crises we are facing, pointing to the need for banks to incorporate stricter commitments and guidelines.

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