

Driving Climate & Sustainability Integration in Bangladesh's Banking Sector

A Strategic 3-Year Roadmap for Regulatory Compliance and Long-Term Value Creation





Bangladesh Bank's December 2023 guideline requires banks to adopt ISSB's IFRS S1 and S2 frameworks for FY2024 disclosures. Banks must report on sustainability governance, risk management, key metrics, and climate-specific risks. Additionally, they must disclose Scope 1, 2, and financed emissions using the Global GHG Accounting Standard, delivering forward-looking data on sustainability's financial impact for investors and regulators.

Bangladesh Bank's New Sustainability Disclosure Mandate

Mandatory IFRS-aligned reporting on governance, risks, and emissions starting FY2024

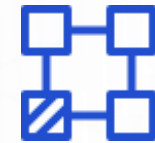


Bridging Data Gaps in Climate Metrics

Addressing key challenges and practical steps for banks



Banks face significant gaps in **quantitative data**, especially for Scope 3 emissions and climate risk exposures by industry.



Use the **best-available data** initially, including industry proxies and third-party sources for critical sectors like power, agriculture, and textiles.



Gradually integrate improved data into **IT systems** and **loan documentation** to enhance tracking and management.



Engage with **regulators** to develop and adopt emerging metrics for high-impact sectors.



Focus on material sectors to prioritize data improvements and risk assessments effectively.



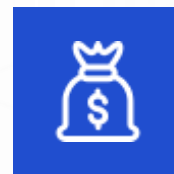
Combine practical steps to close data gaps while managing evolving climate risk standards.

Overcoming Local Capacity Gaps in Sustainable Finance

Addressing skill shortages through training, hiring, and collaboration



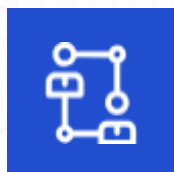
Shortage of **in-house skills** in climate modeling, ESG reporting, and low-carbon finance limits effective implementation



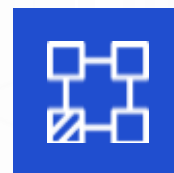
Allocate resources for targeted training programs to build internal expertise



Hire **specialized experts** when necessary to strengthen technical capacity



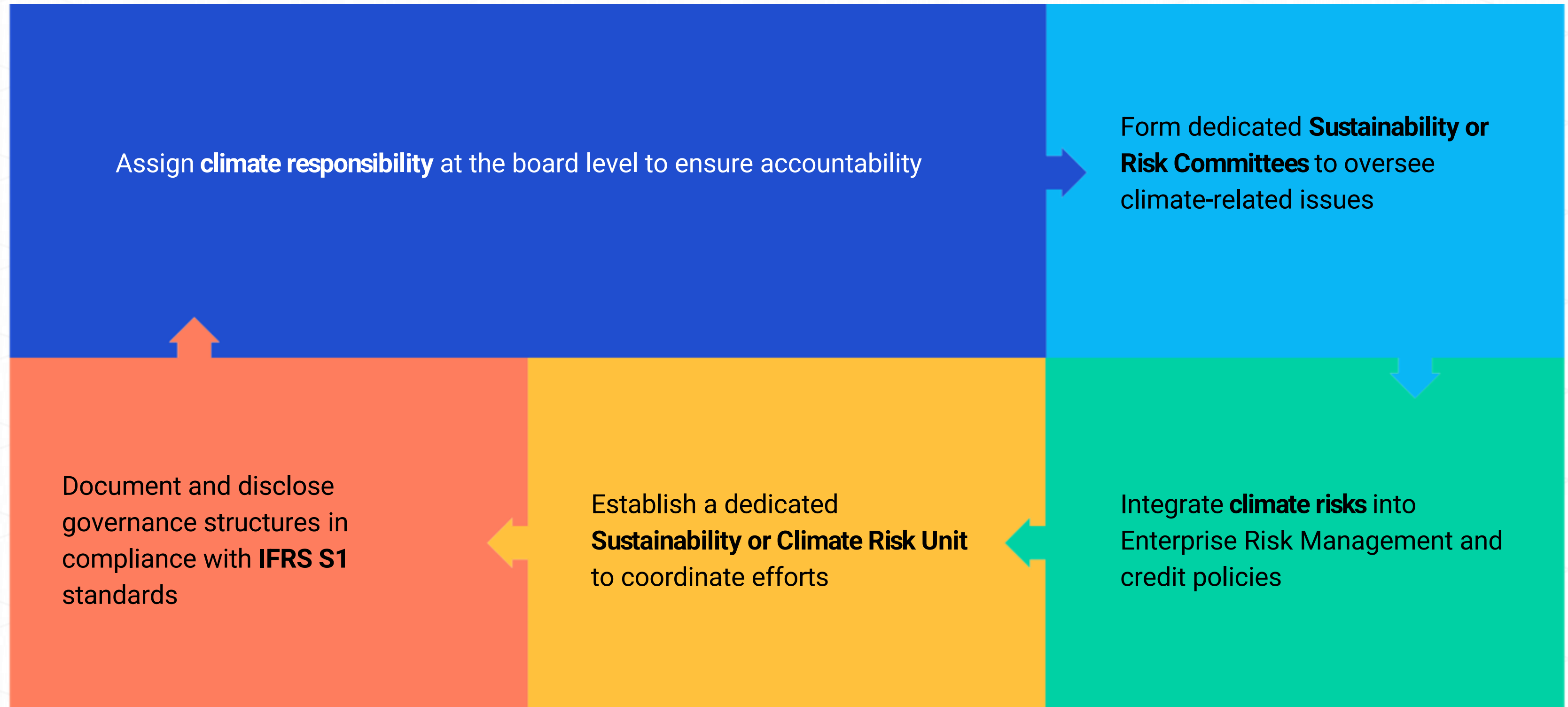
Promote **collaboration** through working groups and workshops to create a shared knowledge base



Leverage Bangladesh Bank's Sustainable Finance Unit **training programs** to upskill leadership and key staff

Strengthening Governance for Climate Risks

Key steps for integrating climate responsibility and risk management at the board and management levels



Assurance Readiness for Climate Disclosures

Meeting External Assurance Requirements with Robust Data and Controls



- 1 Ensure **limited assurance** of climate disclosures by external auditors or ESG assurance providers
- 2 Treat **climate data** with the same rigor as **financial data** in accuracy and completeness
- 3 Maintain **detailed records** and documentation to support disclosure accuracy
- 4 Strengthen **internal controls** to ensure reliable data collection and reporting processes
- 5 Engage early with auditors to clarify the **scope of assurance** and facilitate smooth verification

Phased Implementation of Climate Scenario Analysis

Meet IFRS S2 requirements through evolving qualitative and quantitative risk tools



Year 1: Initiate with **qualitative scenarios** and **basic sensitivity analyses** to build foundational understanding



Focus on **local risks** such as flooding and energy transition policies to tailor risk assessment



Years 2–3: Advance to **quantitative models** incorporating sector impact studies and climate stress tests



Maintain rigorous **documentation of assumptions** to identify portfolio vulnerabilities and strategic opportunities

Implementation Roadmap: Year 1 – Establish Foundations

Key milestones for banks to build sustainability frameworks and begin disclosures in 2024



Milestone	Key Actions	Notes
Policy Approval	Banks approve formal sustainability policies	Critical first step to formalize commitments
Team Formation	Establish dedicated sustainability teams	Build internal capacity for implementation
Gap Analysis	Conduct gap analysis against IFRS S1/S2 standards	Identify areas needing development and alignment
Baseline Data Collection	Collect Scope 1 & 2 emissions and key sector exposure data	Foundation for accurate future reporting
Training Programs	Launch training for leadership and credit officers	Equip teams with necessary expertise
Initial Disclosures	Prepare disclosures using best-available data with noted limitations	Begin transparency despite data challenges
Acknowledgement of Challenges	Recognize 2024 as a scaling and learning year	Bangladesh Bank highlights expertise growth needs

Implementation Roadmap: Year 2 – Integrate and Expand

Enhancing data, embedding climate risks, and setting green finance targets in 2025



Milestone	Description	2025 Focus
Data Systems Enhancement	Develop tools to measure Scope 3 emissions and create climate risk scenarios	Integrate comprehensive emissions and risk data
Credit Appraisal Integration	Embed findings into credit assessments with new covenants and sector limits	Manage climate risks in lending decisions
Preliminary Target Setting	Define and track initial targets for green lending and emissions reduction	Drive measurable sustainability progress
Sustainability Disclosures	Issue detailed sustainability reports with limited assurance on Year 2 data	Increase transparency and credibility



Year 3 Execution: Full Climate Reporting and Strategic Integration

Deliver robust IFRS-aligned disclosures, refine targets, and embed climate governance by 2026

Focus Area	Key Actions	2026 Expectations
Climate Disclosures	Publish robust reports aligned with IFRS S1/S2 supported by external assurance	Full transparency and verified climate data
Scenario and Target Refinement	Adjust scenarios and targets using previous years' data insights	Improved accuracy and relevance of climate goals
Climate Strategy	Develop and implement medium-term climate strategies	Clear strategic direction for sustainable finance
Governance	Regular board-level reviews of climate integration	Enhanced oversight and accountability
Sustainability Finance Unit	Update and monitor the action plan for progress	Ongoing alignment and execution of climate initiatives



Practical Early Steps for Smaller Banks

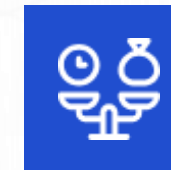
Assign leadership, simplify governance, and build foundational climate disclosures



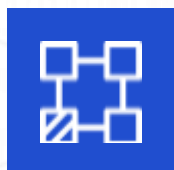
Assign **senior managers** to lead climate reporting efforts



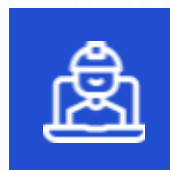
Implement **simplified governance structures** to streamline oversight



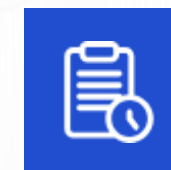
Start with **easier data** such as **Scope 2 emissions** and **qualitative risk descriptions**



Join **industry forums** to share knowledge and access resources



Outsource technical tasks to **specialized providers** for efficiency



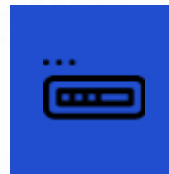
Focus early disclosures on **narrative risk descriptions** and **basic metrics**, expanding complexity over time

Scaling Climate Risk Management for Smaller Banks

Progressively Enhance Reporting with Bangladesh Bank's Support



Document **climate risk frameworks** and establish basic data collection by Year 3



Increase reporting complexity gradually as institutional capacity develops



Leverage **Bangladesh Bank's Sustainable Finance Department** for guidance and assistance



Utilize simplified guidance to ease adoption and compliance



Contribute meaningfully to national climate goals through progressive capacity building



Establish a foundation for sustainable finance integration in smaller banks and NBFIs

Driving National Climate Goals Through Incentives

Aligning disclosures with Bangladesh's key climate strategies and motivating banks to integrate sustainability



Disclosures align with Bangladesh's Mujib Climate Prosperity Plan, Delta Plan 2100, and NDC targets



Reporting financed emissions enables tracking progress toward national climate goals



Bangladesh Bank incentivizes compliance via supervisory recognition and sustainability rankings



Financial schemes for green lending encourage banks to embed sustainability in core operations



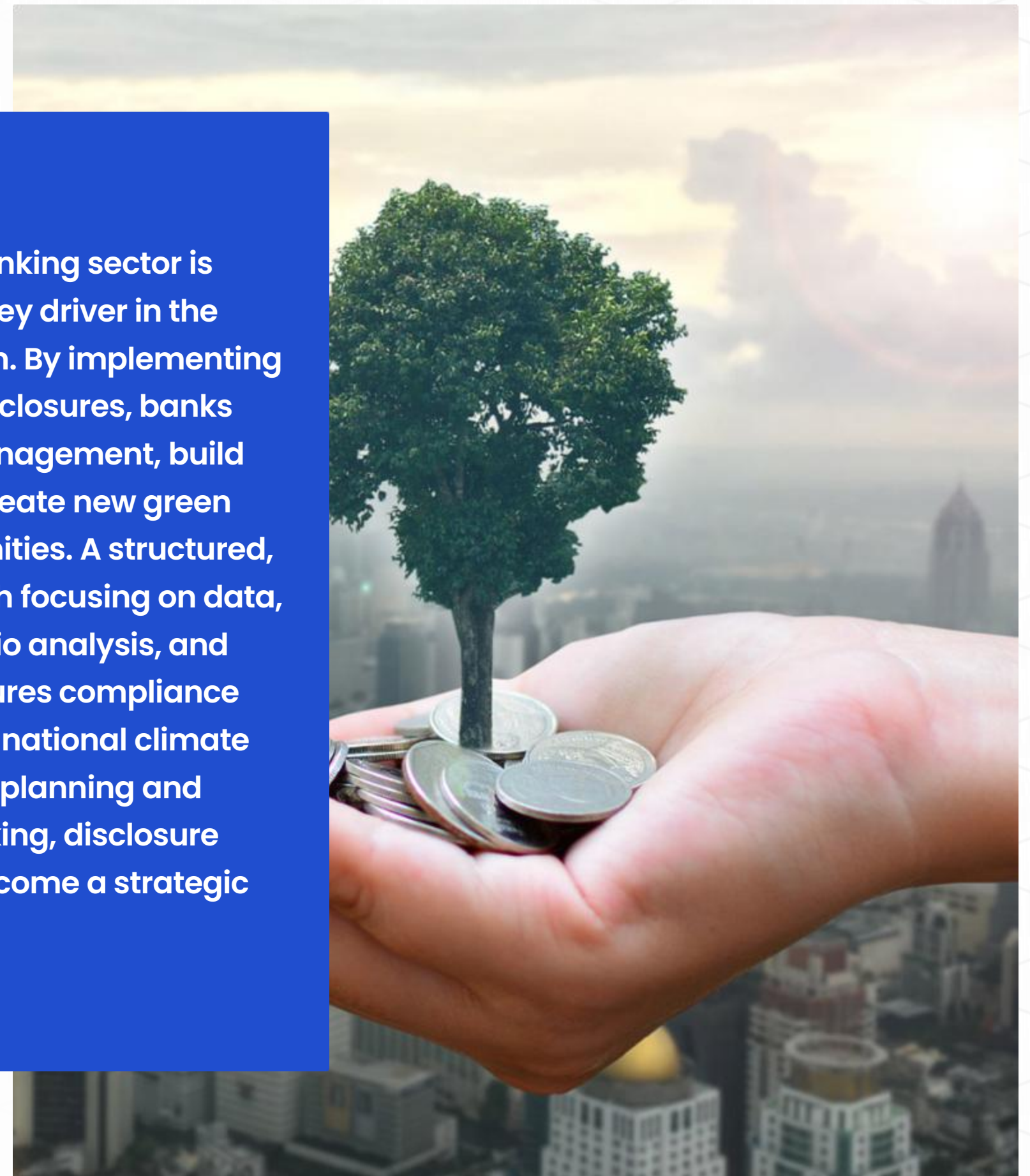
This combined approach drives sustainable finance to support Bangladesh's climate ambitions

Leading Climate Transition in Banking

Unlocking resilience and green finance through strategic sustainability disclosures



Bangladesh's banking sector is positioned as a key driver in the climate transition. By implementing sustainability disclosures, banks enhance risk management, build resilience, and create new green finance opportunities. A structured, phased approach focusing on data, capacity, scenario analysis, and governance ensures compliance while supporting national climate goals. With clear planning and supervisory backing, disclosure requirements become a strategic





Contact us for tailored guidance.

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