2020 Partnership for Carbon Accounting Financials (PCAF) Disclosure Report

SUNRISE BANKS

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Global Alliance for Banking on Values

*APADANA

In 2004, Kian was challenged by his 7-year-old daughter, who asked him what he was doing for her future. She wasn't asking about savings accounts, Kian points out. Rather, she wanted to know what he was doing to improve the world.

*TARE MARKET

1/3 of the landfills in the world are filled with packaging materials that could have been recycled.

Source: United States Environmental Protection Agency

Sunrise Banks Operational and Financed Greenhouse Gas Emissions

Overview

Climate change is an existential threat that requires a long-term commitment to environmental sustainability. The effects of a warming planet have far-reaching consequences that go beyond the financial sector and influence our ability to live happy and productive lives.

We also know that the banking sector has a unique opportunity to be part of the solution. Banks decide where money is invested and subsequently what that money supports. Historically, large banks have funded fossil fuels and other carbon-emitting entities, halting progress towards a greener economy.

Sunrise Banks has made a point to prioritize measuring its carbon footprint and disclosing the results to foster a more responsible banking sector – and encourage other financial institutions to do the same.

But our commitment to sustainability goes beyond the bank. We're proud to have clients who take climate change as seriously as we do. Sunrise Banks works with organizations like *Apadana, an LED lighting firm that knows there's no such thing as a "planet B," as CEO Ahmad Kian puts it. *Tare Market, a Sunrise client and zero-waste grocery store in Minneapolis, offers a chance to build community through greener shopping.

Our goal as a financial institution is to use our influence to create positive change. That's why we've committed to reduce our greenhouse gas emissions to net zero by 2050 in alignment with the Paris Agreement.

Following the Global Alliance for Banking on Values (GABV) Summit in 2019, Sunrise Banks took part in a concerted, global effort among banking institutions to track and monitor the carbon impact of their portfolio of loans and investments within a period of three years.

The GABV is a network of 67 banking leaders with combined assets of more than 200 million (USD) from around the world committed to advancing positive change in the banking sector. The GABV's goal is to change the banking system so that it is more transparent, supports economic, social, and environmental sustainability, and is composed of a diverse range of banking institutions serving the real economy. The GABV was founded in 2009, creating a network of progressive financial institutions that had already been operating in a sustainable and viable way for many years.

The GABV Climate Change Commitment, otherwise known as the '3C initiative', reflects the dire need to correct our current environmental trajectory and aligns with the Paris Agreement goals to keep global temperature increases this century well below 2 degrees Celsius.

The participating GABV institutions intend to influence the wider banking sector by demonstrating that banks can assess and report on their greenhouse gas emissions. By doing so, they also plan to demonstrate to their stakeholders what their contribution is to keep the global increase in temperature within safe levels.

The Partnership for Carbon Accounting Financials (PCAF) provides its members with the industry-standard methodology to measure the Greenhouse Gas (GHG) emissions related to their lending activities. Working with PCAF helps financial institutions set science-based targets and align their portfolios with the Paris Climate Agreement. As of February 2022, PCAF consists of more than 222 financial institutions in more than 40 countries, out of which 30 are GABV member banks (GABV.org, 2022).

The GABV has contributed to globalizing PCAF. It is a constituent member of the PCAF initiative and sits on the steering committee. In addition, GABV members are active in the working groups coordinated by the PCAF Secretariat to develop and adapt existing GHG accounting methodologies for global application.

For more information visit: www.gabv.org

The 'Climate Change Commitment' (3C initiative)

The members of the GABV have pioneered responsible finance, proving daily that positive impact can be at the heart of everyday banking. Together they have financed positive social, environmental, and cultural change all over the world. Addressing the urgent challenge of climate change and decarbonizing our economy is only one part of this work, but it is more urgent now than ever. That is why the GABV's 3C initiative members have committed to assess and disclose the climate impact of their portfolio of loans and investments within a period of three years, and ultimately ensure the climate impact of their loans and investments are in line with the Paris Agreement.

To achieve this goal, Sunrise began calculating its GHG emissions in 2020. These emissions are split into two categories: operational and financed emissions.

OPERATIONAL EMISSIONS: Operational emissions include activities within Sunrise Banks such as purchased electricity and heating at its office buildings, vehicle fleets, and air travel.

FINANCED EMISSIONS: Financed emissions are the emissions that are funded by Sunrise. Measuring financed emissions is the starting point to manage risk and identify opportunities associated with GHG emissions and allows financial institutions to make transparent climate disclosures on their GHG emissions exposure, identify climate-related transition risks and opportunities, and set the baseline emissions for target setting in alignment with the Paris Agreement. Sunrise's financed emissions loan portfolio is composed of five general asset classes including business loans, residential mortgages, Commercial Real Estate (CRE) loans, motor vehicle loans, and consumer loans.

Partnership for Carbon Accounting Financials (PCAF)

Sunrise used the PCAF Global Standard for measuring and reporting financed emissions. The PCAF Standard is being implemented in five regions: Africa, Asia-Pacific, Europe, Latin America and North America. Each region has implementation teams with a clear governance structure.

In September 2019, PCAF was launched globally. Currently, more than 158 institutions with $50 trillion in assets have subscribed to the PCAF initiative. PCAF institutions work together to jointly develop the Global Carbon Accounting Standard for the financial industry to measure and disclose the GHG emissions of their loans and investments. By doing so, PCAF institutions take the first step required to assess climate-related risks, set targets in line with the Paris Climate Agreement, and develop effective strategies to decarbonize our society.

PCAF's system measures and discloses the financed emissions of six different asset classes: listed equity and corporate bonds; business loans and unlisted equity; project finance; Commercial Real Estate (CRE); mortgages; and motor vehicle loans. The idea is that by tracking and cutting the emissions, the emissions of their clients and investments, financial institutions can act as better stewards of the environment.

For more information: https://carbonaccountingfinancials.com/

Our Goal

To establish a baseline understanding of the bank's financed emissions, which will inform what actions Sunrise must take to improve data quality and reduce operational and financed emissions to meet its net zero goal.

Fundamentals of Calculating Financed Emissions

The goal is to establish a baseline understanding of the bank's financed emissions, which will inform what actions Sunrise must take to improve data quality and reduce operational and financed emissions to meet its net zero goal. To do this, there are three fundamentals for calculating financed emissions.

#1: DATA QUALITY

Because access to data is one of the greatest barriers to calculating emissions, PCAF developed a scoring system for data quality. In this system, 1 is the highest quality and 5 is the lowest quality.

#2: REPORTING IN STANDARDIZED UNITS

To standardize the data, all GHG emissions are converted to the carbon dioxide equivalent. For example: methane is 25 times as potent as carbon dioxide, so 1 unit of methane is equal to 25 units of carbon dioxide. Because participating banks will be reporting on an annual basis, all emissions are reported in annual metric tons of carbon dioxide equivalent or tCO_2e.

#3: CARBON EMITTING ACTIVITIES ACROSS THE ENTIRE VALUE CHAIN

To gain a holistic picture of the entire value chain, Scopes 1, 2, and 3* help to account for all carbon emitting activities (Figure 1).

- Scope 1 includes the "direct GHG emissions from sources that are owned or controlled by the reporting company".
- Scope 2 encompasses "the indirect GHG emissions from the generation of purchased or acquired electricity, steam, heating, or cooling that is consumed by the reporting company".
- Scope 3 incorporates "all other indirect GHG emissions that occur in the value chain of the reporting company. Scope 3 can be broken down into upstream emissions that occur in the supply chain (for example, from production or extraction of purchased materials) and downstream emissions that occur because of using the organization's products or services".

*Source: PCAF (2020). The Global GHG Accounting and Reporting Standard for the Financial Industry. First edition.

2020 PCAF Results

Following the PCAF 2020 Global Standard for disclosure, Sunrise is committed to upholding the principles of PCAF reporting which include relevance, completeness, consistency, transparency, and accuracy. To ensure all these principles are maintained, Sunrise's PCAF results for 2020, along with a description of justifications used in calculations, are below.

RELEVANCE

This initial inventory reflects the GHG emissions of Sunrise and thus provides a baseline to inform our climate strategy. It is important to note that while Sunrise participated in the Paycheck Protection Program (PPP), the PPP loans were excluded from this baseline calculation.

COMPLETENESS

In August 2020, Sunrise's loan portfolio was composed of five asset classes and totaled $1.1B. This report covers four asset classes and accounts for 87% of the portfolio dollar amount, excluding consumer loans because there is not an existing PCAF methodology (Figure 2). This inventory covers 100% of business loans and CRE lending activities, 95% of residential mortgages, and 88% of motor vehicle loans. These asset classes did not reach 100% coverage because there was not enough information to properly identify the remaining loans (Table 1).

CONSISTENCY

Future PCAF calculations will follow the same methodology established by this report.

TRANSPARENCY

Sunrise did not have any significant deviations in key assumptions or PCAF Global Standard methodology calculations. Key assumptions utilized in the analysis include:

- To determine attribution for both commercial real estate and residential mortgages, Sunrise used the collateral value to represent the "value of the property at origination." For a small percent of both asset classes, Sunrise utilized estimates when the collateral value was not available.
- The data quality score for business loans was 5 because Sunrise did not have access to business revenues for each loan. Therefore, Sunrise used a weighted average emission factor (tCO2e/M$) for the calculations.

ACCURACY

In alignment with PCAF's Global Reporting Standard, Sunrise reported Scope 1 and Scope 2 together (Table 1). At this point, Sunrise only calculated Scope 3 for business loans, which is reported separately (Table 2). All asset classes are at a data quality score of 5 because Sunrise used average emission factors from the PCAF database for all calculations. The data quality will improve over time as Sunrise identifies new data elements to capture.

KEY FINDINGS

- **CRE makes up 46% of the loan portfolio dollar amount and 72% of the Scope 1 + Scope 2 emissions (Figure 2 & Figure 3).**
- **By loan count (number of loans), about 96% of Sunrise's portfolio is responsible, small-dollar consumer credit-building loans (Figure 4).**

Opportunities to Move Forward

Based on the 2020 PCAF results, Sunrise recognizes the following future opportunities:

- Calculate 2021 financed emissions using approved PCAF methodology and compare to baseline calculations.
- Use this comparison and consult with industry experts to set a specific, short-term emissions reduction target.
- Identify and gather more data elements that will improve the data quality score of all asset classes.
- Explore opportunities to offset or directly reduce GHG emissions through projects such as solar financing, climate fintechs, and electric car loans.
- Develop and distribute an internal survey to capture employee commuting trends for future reporting of operational emissions.
- Implement a cross-functional, internal team to address these future opportunities.
- Climate Risk Certification for relevant Sunrise Banks leaders.

Appendix

Table 1. 2020 Financed Emissions (Scope 1+2)

Asset Class	Total $ in Asset Class (M$)	Total Outstanding Loans Covered (M$)	% Coverage	Total tCO2e	Emission Intensity (tCO2e/M$)	Data Quality Score*
Business Loans	338	338	100%	18,182	53.8	5
Residential Mortgages	117	111	95%	3,505	31.5	5
Commercial Real Estate	508	508	100%	63,583	125.2	5
Motor Vehicle Loans	12	11	88%	2,662	253.5	5
Consumer Loans	140	Excluded - No methodology exists yet				
Project Finance	0	Excluded – Sunrise does not have assets in this class yet				
Total	$1,115	$968	87%	87,932	90.9	5
*Data Quality Score (1 = High Quality, 5 = Low Quality)						

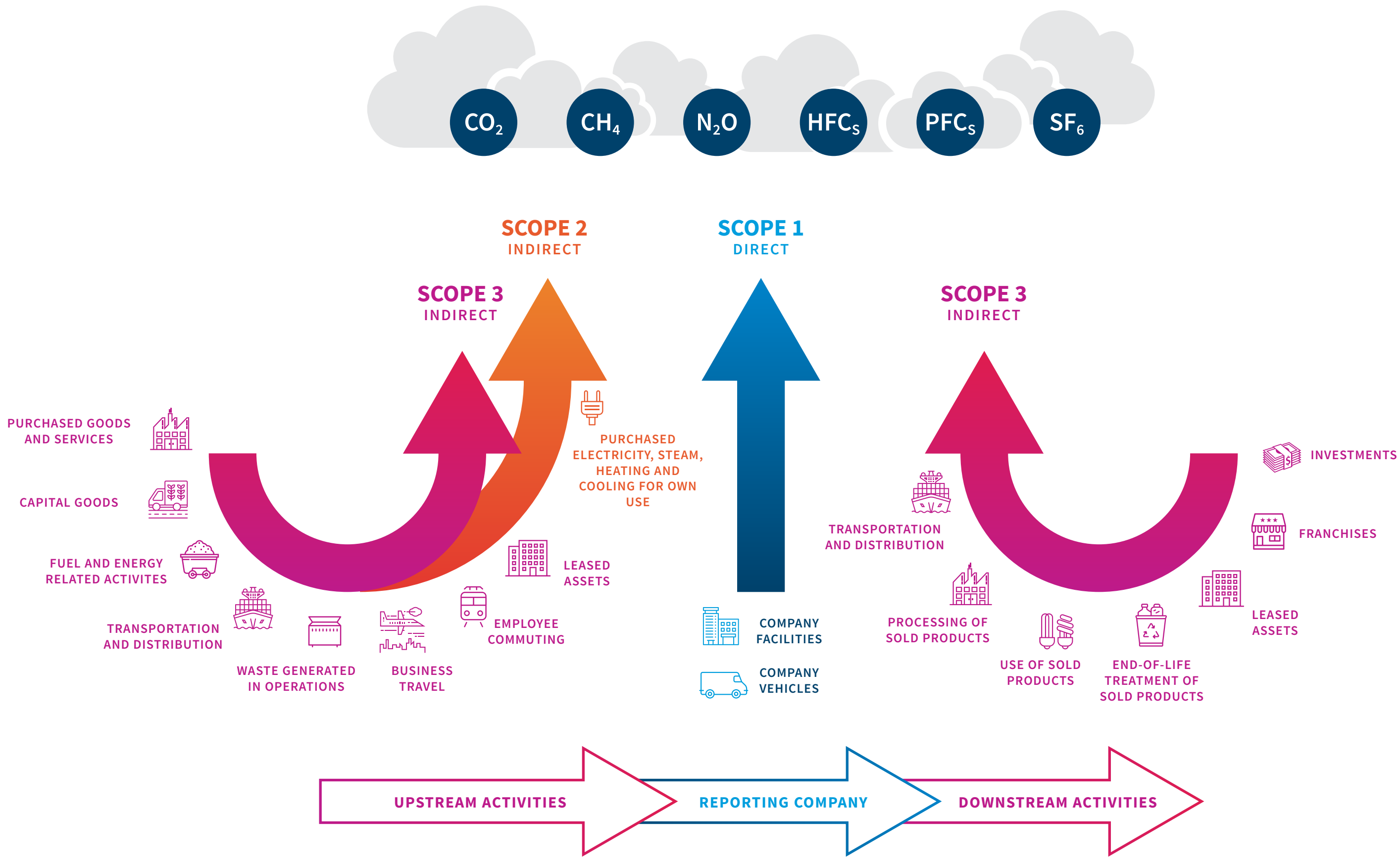
Table 2. 2020 Financed Emissions (Scope 3)

Asset Class	Total $ in Asset Class	Total Outstanding Loans Covered (M$)	% Coverage	Total tCO2e	Emission Intensity (tCO2e/M$)	Data Quality Score*
Business Loans	338	338	100%	48,366	143	5
*Data Quality Score (1 = High Quality, 5 = Low Quality)						

Table 3. 2018, 2019, and 2020 Operational Emissions

		Annual Emissions (tC02e)		
	Activity	2018	2019	2020
Scope 1	Heating	305	295	257
Scope 2	Purchased electricity	885	849	723
Scope 3	Vehicle fleet	0	0	0
Scope 3	Business travel (airplane and car rental)	59	58	8
Scope 1, 2, and 3	Total Operational Emissions (tCO2e)	1249	1202	988

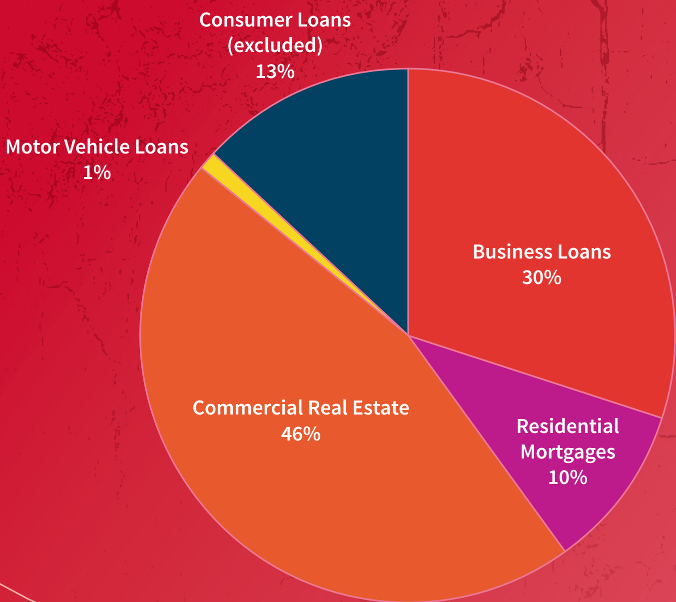
Figure 1. Overview of GHG Protocol Scopes and Emissions Across the Value Chain



Source: (WRI and WBCSD, 2011)

Figure 2.

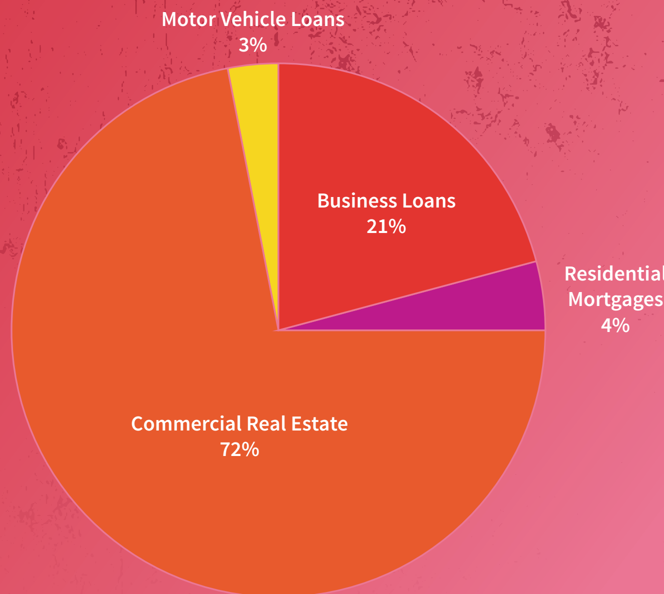
SUNRISE BANKS: 87% OF LOANS ($) ARE COVERED IN THIS REPORT



Total Dollar Amount in 2020 Loan Portfolio **$1.1 Billion**

Figure 3.

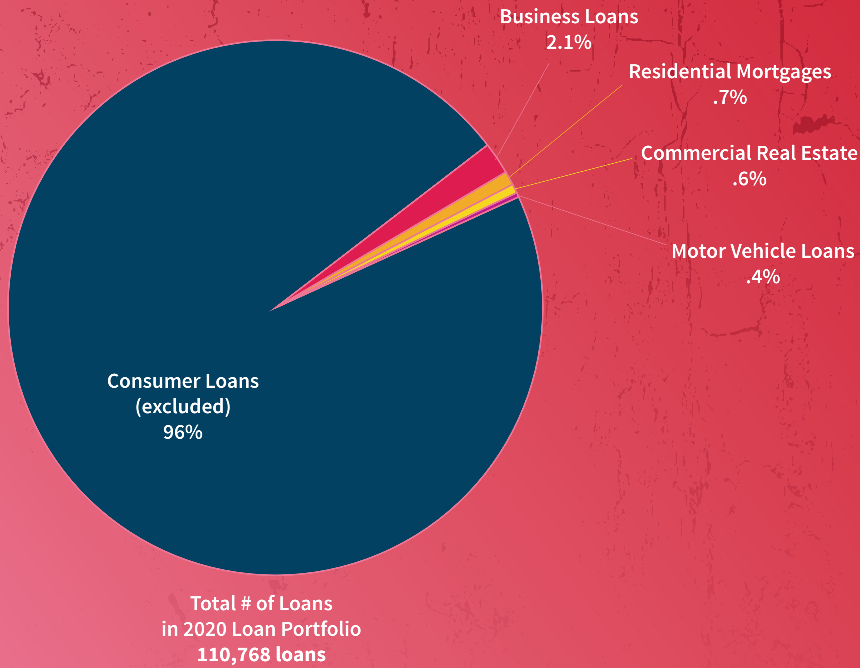
SUNRISE BANKS: COMMERCIAL REAL ESTATE REPRESENTS 72% OF FINANCED EMISSIONS (SCOPE 1 + SCOPE 2)



Total Financed Emissions in 2020 Loan Portfolio **87,932 tCO_2e**

Figure 4.

SUNRISE BANKS: CONSUMER LOANS REPRESENT 96% OF LOANS (#)



OUR PROMISE TO OUR PLANET

EQUAL HOUSING LENDER

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