

Banks and the net zero transition

Tracking progress with the TPI Net Zero Banking Assessment Framework

September 2023

Sidonie Commarmond, Nelson Diaz, Simon Dietz,
Nikolaus Hastreiter, Carla Jouavel, Carmen Nuzzo
and Antonina Scheer



Transition
Pathway
Initiative



Grantham
Research Institute
on Climate Change
and the Environment

About the TPI Global Climate Transition Centre (TPI Centre)

The Transition Pathway Initiative Global Climate Transition Centre (TPI Centre) is an independent, authoritative source of research and data on the progress of the financial and corporate world in transitioning to a low-carbon economy.

The TPI Centre is part of the Grantham Research Institute on Climate Change and the Environment, which is based at the London School of Economics and Political Science (LSE). The TPI Centre is the academic partner of the Transition Pathway Initiative (TPI), a global initiative led by asset owners and supported by asset managers. As of April 2023, 138 investors globally, representing more than US\$50 trillion combined Assets Under Management and Advice, have pledged support for TPI.

Using companies' publicly disclosed data, the TPI Centre:

- Assesses the quality of companies' governance and management of their carbon emissions and of risks and opportunities related to the low-carbon transition, in line with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).
- Assesses whether companies' current and planned future emissions are aligned with international climate targets and national climate pledges, including those made as part of the Paris Agreement.
- Provides the data for the Climate Action 100+ Net Zero Company Benchmark.
- Publishes its methods and results online and fully open access at www.transitionpathwayinitiative.org and on GitHub.

Contents

Key findings and recommendations	3
Introduction	4
Assessment results	4
1. Net zero commitments	6
2. Target analysis	7
3. Emissions disclosure	9
4. Emissions performance	9
5. Decarbonisation strategy	10
6. Climate solutions	13
7. Climate policy engagement	14
8. Climate governance	14
9. Just transition	15
10. Financial statement disclosure	16
Recommendations and next steps	17

This report was first published in September 2023. Published under a Creative Commons CC BY licence. Editing and production by Natalie Pearson and Georgina Kyriacou.

Key findings and recommendations

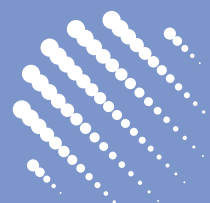
- Banks are making progress towards incorporating climate change into their **business strategies**. Compared with the results of our 2022 pilot study, more banks are setting a greater number of targets to reduce portfolio emissions and are increasingly recognising climate risk as a key financial risk category.
- However, banks are not including all **on- and off-balance sheet activities nor all high-emission sectors in their targets**. This suggests that banks could continue to finance high-emitting activities in the long term.
- Banks' disclosures remain **partial and selective**, especially on key topics such as climate scenario analysis, financed and facilitated emissions, and climate-related risks.
- A lack of external standardised methodologies and insufficient data from clients are **hindering progress** on banks' climate action. However, these challenges should not preclude banks from generating estimates or proxy data for financed and facilitated emissions to support their net zero strategies.
- As next steps, banks could move forward by:
 - Expanding emission reduction target coverage to include all material financing activities
 - Providing a time-bound plan with milestones to cover all financed emissions in their sectoral targets
 - Including climate-related issues and risk analysis in their annual reports and financial statements.



Compared with the results of our 2022 pilot study, more banks are setting a greater number of targets to reduce portfolio emissions.

Further work

The TPI Centre will continue to conduct yearly assessments of banks, and will expand its coverage over time, providing a granular and accessible record to measure the decarbonisation of the banking sector and its progress towards net zero.



Introduction

Investors, governments and wider society are increasingly considering the role of the financial sector in the transition to net zero. Several initiatives have emerged in support, most notably the Glasgow Financial Alliance for Net Zero (GFANZ) and sub-sector alliances such as the Net Zero Banking Alliance (NZBA).

In this context, in June 2023 the TPI Centre published an investor-led 'Net Zero Banking Assessment Framework' to assess banks' climate progress across 10 key areas (see box).

This report presents the results of an assessment of 26 of the world's major global banks using the framework. The banks are listed on the next page.

The public disclosures of the 26 banks were assessed between 6 March and 30 June 2023 and the results presented here are based exclusively on that assessment. Where appropriate, we compare the current figures with those in a pilot study carried out in July 2022.¹

Overview of the framework

The Net Zero Banking Assessment Framework is a comprehensive, open-source set of indicators and data that can be used to evaluate banks' progress in managing the low-carbon transition and mitigating the impacts of climate change. Building on the TPI Centre's established expertise in assessing the climate action of corporates in the real economy, it follows the Centre's design principles of disclosure-based data, accessible and easy-to-use information, alignment with existing initiatives and disclosure frameworks, objectively assessable indicators, and aggregation to the corporate level.

A pilot study of the Framework was conducted in 2022 and included indicators organised into six key assessment areas, which have since been revised into 10 areas.²

Establishing decarbonisation targets in high-emitting sectors is a primary lever for influencing the low-carbon transition, as GFANZ and NZBA have stressed. Going one step further, the framework charts the future course banks can take to align their businesses with the goals of the Paris Agreement and investor expectations, while also serving as a benchmarking tool for comparing the current progress of banks.

The Net Zero Banking Assessment Framework - 10 key areas

1. Net zero commitments
2. Target analysis
3. Emissions disclosure
4. Emissions performance
5. Decarbonisation strategy
 - Financing conditions and capital allocation
 - Climate scenario analysis
6. Climate solutions
7. Climate policy engagement
8. Climate governance
9. Just transition
10. Financial statement disclosure

¹ The pilot study conducted in 2022 covered 27 banks. Following the acquisition by UBS in 2023, Credit Suisse was removed from the sample of assessed banks and is therefore not included in this year's report. See the banking tool which summarises the results for each bank: www.transitionpathwayinitiative.org/banks.

² The Framework was developed in consultation with the Institutional Investors Group on Climate Change (IIGCC) and Ceres. The pilot study is available at: www.transitionpathwayinitiative.org/publications/uploads/2022-tpi-report-framework-of-pilot-indicators-to-assess-banks-on-the-transition-to-net-zero.



The 26 banks included in the assessment

- Agricultural Bank of China
- Bank of America
- Bank of China
- Bank of Montreal
- Barclays
- BNP Paribas
- China Construction Bank
- Canadian Imperial Bank of Commerce
- Citigroup
- Deutsche Bank
- Goldman Sachs
- Groupe Cr dit Agricole
- HSBC
- Industrial and Commercial Bank of China
- ING Bank
- JP Morgan
- Mitsubishi UFJ FG
- Mizuho
- Morgan Stanley
- Royal Bank of Canada
- Scotiabank
- SMBC Group
- Soci t  G n rale
- Toronto Dominion
- UBS
- Wells Fargo

The climate impact of banks

Most of a bank's climate impact is indirect, arising from the finance and services provided to clients that generate emissions from their production and operations.

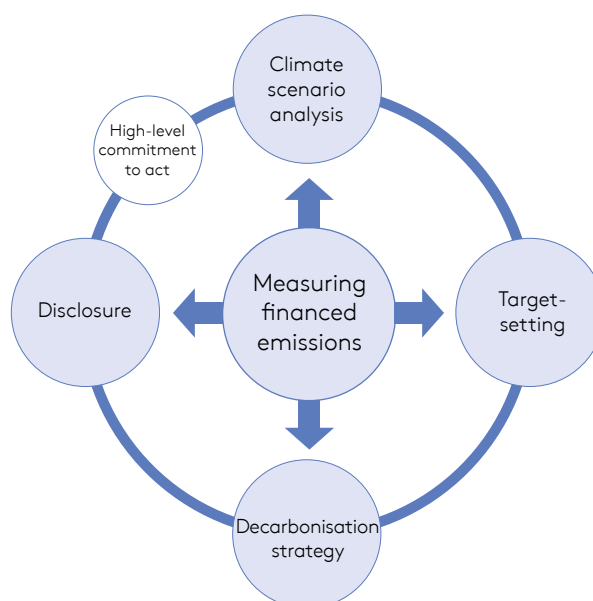
Banks account for this impact within their overall carbon footprint as 'financed' and 'facilitated' emissions³ under Scope 3, Category 15 'investments' emissions, as defined by the Greenhouse Gas Protocol, a standard-setting body measuring and managing emissions.

The climate impact of a bank depends on the scale and allocation of its funds and services across both high- and low-emitting sectors. Each bank's business model is different and each of the activities through which they provide financial services, from deposit-taking and lending to sales and trading, capital markets facilitation and advisory, has its own climate impact.

Most banks follow the Partnership for Carbon Accounting Financials (PCAF) guidelines to establish estimates of their financed and facilitated emissions (illustrated right). This step is key to setting the short-, medium- and long-term emission reduction targets that reflect banks' ambitions to reduce real-world emissions in a given sector. Similarly, emissions accounting informs a bank's climate risk analysis and decarbonisation strategy.

However, PCAF's accounting methodologies only cover selected bank asset classes and off-balance sheet activities. In contrast, our Net Zero Banking Assessment Framework considers emissions from all on- and off-balance sheet activities of a bank, therefore covering a broader set of asset classes than PCAF.

PCAF guide to banks' climate action



Source: PCAF, *The Global GHG Accounting and Reporting standard*.

³The Partnership for Carbon Accounting Financials (2021) distinguishes facilitated from financed emissions in the following way: financed emissions are "absolute GHG [greenhouse gas] emissions from on-balance sheet portfolios" while facilitated emissions "are off-balance sheet (representing services rather than financing) and they can take the form of a flow activity (temporary association with transactions) rather than a stock activity (held on book)." See further in: <https://carbonaccountingfinancials.com/files/consultation-2021/pcaf-capital-market-instruments-paper.pdf>.



Assessment results

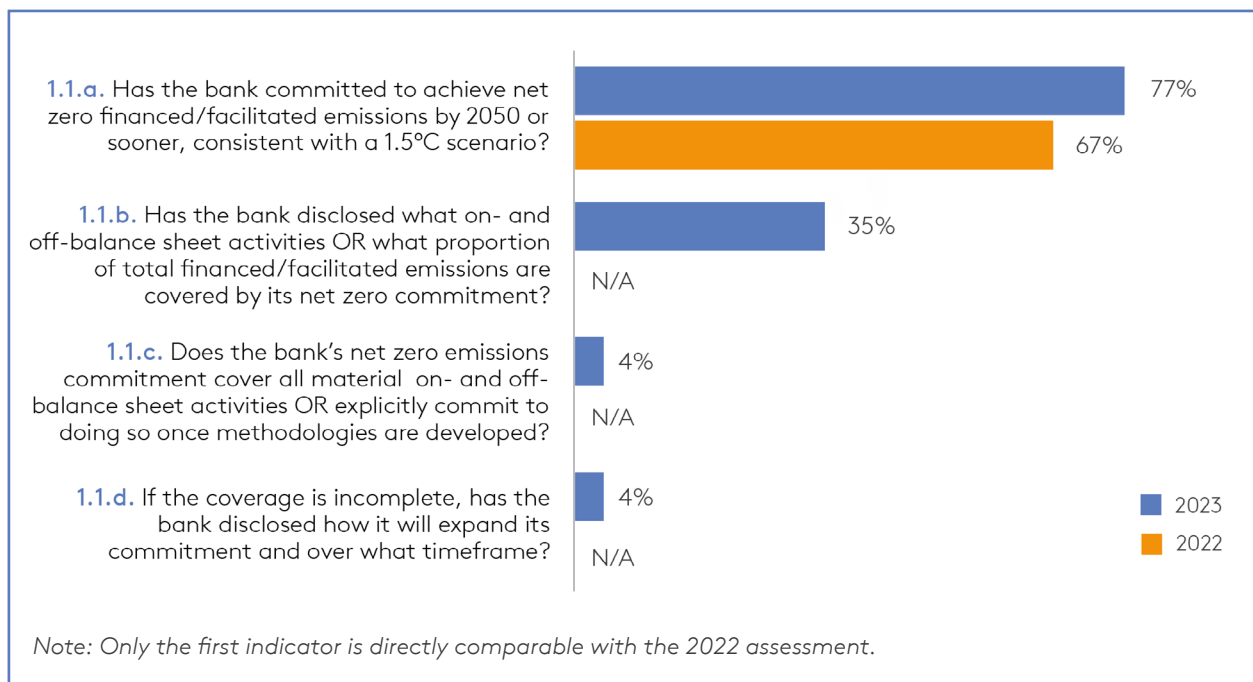
1. Net zero commitments

Most banks have committed to net zero financed emissions by 2050

Our analysis shows that 20 of the 26 banks (77%) have now disclosed a net zero commitment, up from 18 banks in 2022. This is significant because net zero commitments usually set the overarching objective of an organisation's decarbonisation strategy.

However, many banks fail to specify the scope of their commitments. Only half of the banks that have set a target (35%) detail the specific activities, or the proportion of their financed and facilitated emissions, included in their net zero commitments.

When banks do disclose this coverage, we find that it tends to be limited to lending portfolios. Only one bank (4%) has disclosed a net zero commitment for all its on- and off-balance sheet activities.⁴



Net zero commitments usually set the overarching objective of an organisation's decarbonisation strategy.

⁴ On- and off-balance sheet activities include lending activities (commercial, project and retail), capital market activities (bond and stock issuance or underwriting), investment banking activities, asset management, and financing and advisory activities.

2. Target analysis

Targets show weak alignment with climate goals with a high focus on a few high-emitting sectors

Our assessment finds that banks are setting decarbonisation targets for high-emission sectors⁵ in their portfolios, following NZBA recommendations. Currently, 22 banks (85%) have set medium-term targets (to 2030) and at least 21 banks have set medium-term targets for the oil and gas, and electric utilities sectors. This is a large improvement on 2022, at which point only nine banks (33%) had set targets for those sectors. Banks are also increasingly setting targets for transport and industrial sectors such as automotive, cement and steel.

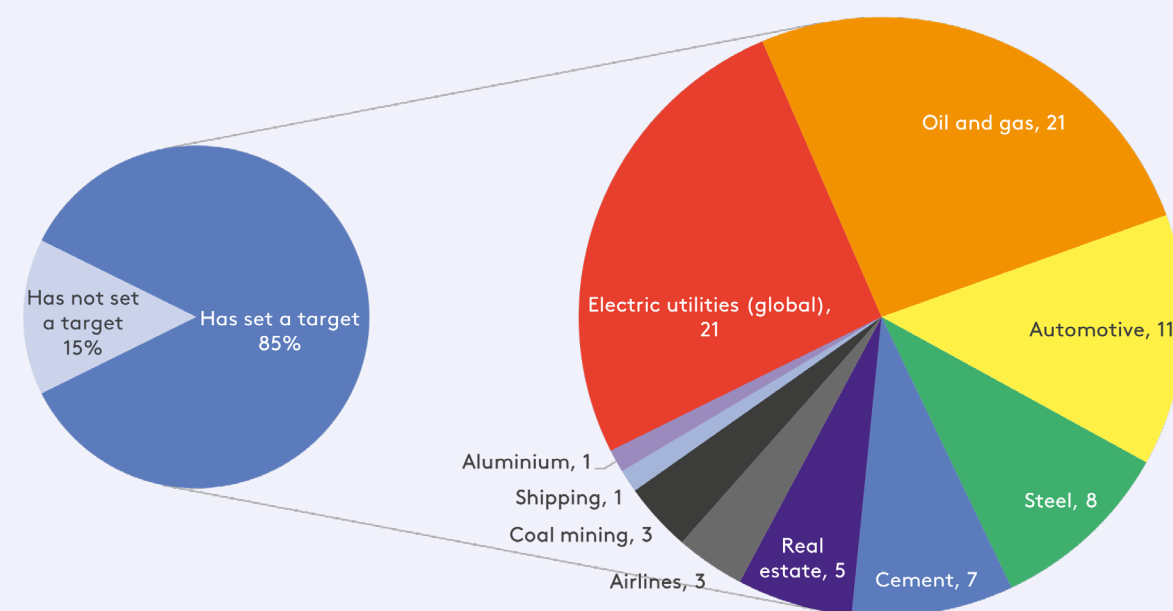
However, only 35% of the oil and gas targets and 45% of the electric utilities sector's targets are aligned in 2030 with limiting global temperature rise to 1.5°C above pre-industrial levels, using the TPI Centre's sectoral benchmarks.⁶ Only two banks have set long-term targets (to 2050) for electric utilities.

Those targets are aligned with limiting global temperature rise to 1.5°C above pre-industrial levels.

Only five banks (19%) have disclosed the materiality test that informed the inclusion of specific sectors and activities in the scope of their targets. This makes it difficult to ascertain what information banks are using to determine the coverage of their targets.

Banks' long-term net zero commitments are not supported by long-term sectoral targets. As required reductions in carbon emissions may vary across sectors (depending on the cost), it is not possible to assume that banks' group-wide net zero targets will translate into each sectoral portfolio reaching net zero emissions.

Number of medium-term sectoral targets set by banks



Note: No bank has set targets for the following high-emission sectors: food; diversified mining; paper; chemicals.

⁵ The TPI Centre defines high-emission sectors as oil and gas; power; coal mining; airlines; shipping; autos; steel, aluminium, diversified mining, paper, cement, chemicals; food; and real estate. Our methodologies for the different sectors can be found at: www.transitionpathwayinitiative.org/.

⁶ TPI Centre benchmarks are used when disclosure is sufficient and sectoral and emission boundaries and methodologies are comparable.



From targets to action

Our analysis suggests that banks' transition pathways generally follow three key steps:

1. **Build robust governance on climate issues and enhance disclosure.**
2. **Set decarbonisation targets for all material sectors and activities.**
3. **Design and implement a clear plan to achieve those targets.**

In practice, while setting decarbonisation targets in high-emission sectors is a key step in banks moving towards net zero, such targets require supporting policies that guide capital allocation decisions. These ultimately affect clients' emission reductions in the real world, by conditioning financing on transition plans and emission reductions.

Our findings show that while a large majority of banks (85%) are setting targets, only a few have specific policies designed to meet their targets. For example, only 27% of those that have set targets (six banks out of 22) have tied financing policies to their sectoral targets. This means, for example, linking a coal financing policy to a coal portfolio emission reduction target.

As a part of their decarbonisation strategy, banks could also set financing targets. These could include increasing the revenue derived from 1.5°C-aligned companies or increasing the share of financing and facilitation that is subject to decarbonisation conditions for high-emitting companies.



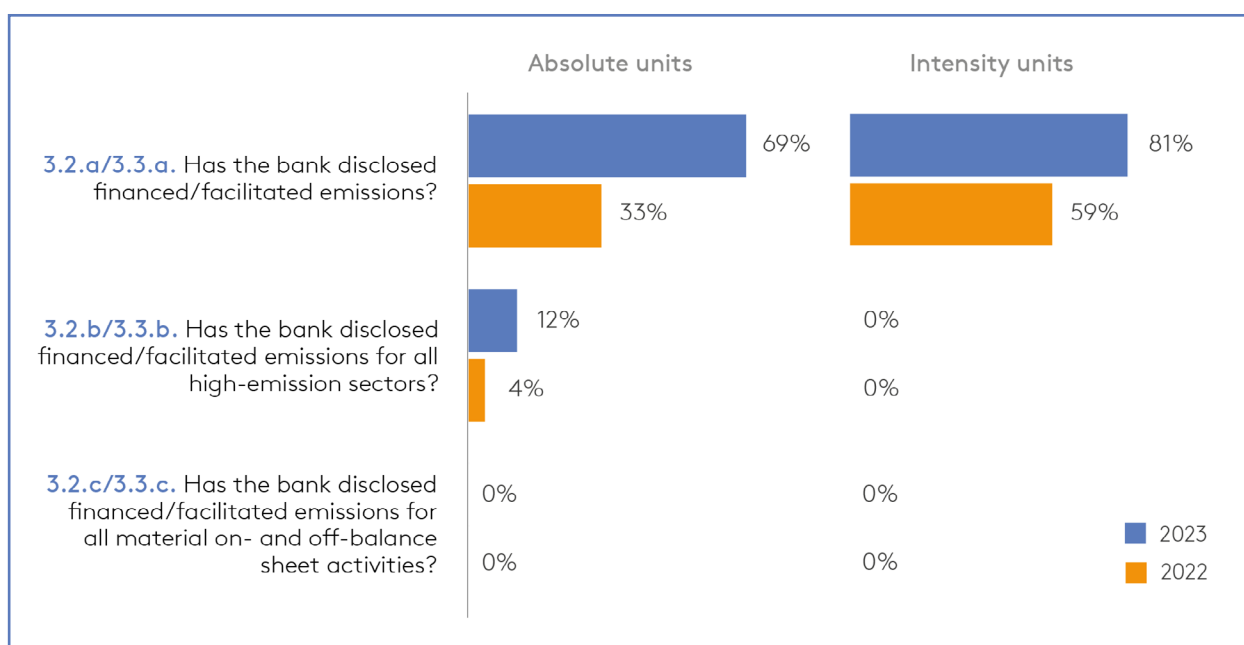
3. Emissions disclosure

Emission sectoral disclosure is improving

Banks are making clear progress in disclosing their financed and facilitated emissions, mainly using the PCAF guidelines. Our analysis shows that 18 banks (69%) have disclosed their absolute financed emissions figures for at least one sector. This increases to 21 banks (81%) having disclosed emissions intensity figures.

However, only three banks (12%) have disclosed their absolute financed and facilitated emissions figures for all high-emission sectors, and no bank has done so for all material on- and off-balance sheet activities. Finally, while half of the banks now disclose their credit exposure to high-emitting sectors, none has disclosed its total financial exposure to those sectors.

Emissions disclosure information is key to understanding the extent of a bank's climate-related risk exposure. While there is a lack of standardised methodologies to calculate emissions, this should not prevent banks from producing their own estimates of financed and facilitated emissions to ensure their targets cover the most material impacts of their business. Our assessments require the coverage of all material on- and off-balance sheet activities to ensure that banks disclose a full picture of their exposure to high-emission sectors and climate risk.



4. Emissions performance

Historical data on banks' portfolio carbon emissions are not yet available and therefore we have not yet assessed the 26 banks on this indicator. We will make this assessment in the future as data become available.



5. Decarbonisation strategy

5.1. Financing policies

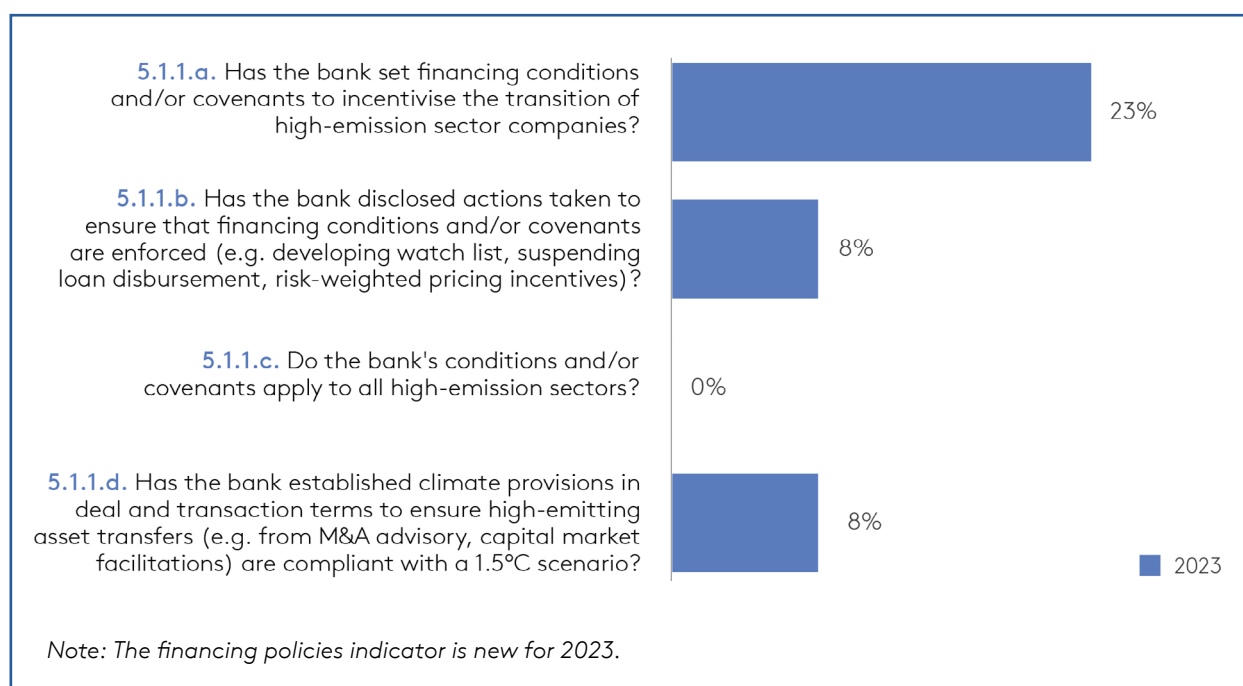
Few banks have established climate-related financing conditions for high-emitting sectors

Financing conditions are key to banks being able to implement targets to reduce their financed emissions as they directly influence capital allocation towards low-carbon activities. Financing policies that target companies in high-emission sectors should incentivise clients to reduce emissions, thereby enabling banks to meet their decarbonisation targets.

Only six banks (23%) have set financing conditions that are tied to their financed emission reduction targets when providing financing and services to clients in high-emission sectors. These financing conditions

require client companies to have robust transition plans (i.e. with emission reduction targets and implementation plans in place). But it is important to note that these policies do not yet apply to all high-emitting sectors.

Additionally, we observe that financing conditions do not yet apply to asset transfers such as mergers and acquisitions (M&A) advisory or capital market facilitation. These activities may result in additional real-world emissions, yet only two of the assessed banks have a policy for these kinds of transfers.



Good practice – examples of HSBC and Deutsche Bank

HSBC has disclosed policies for the energy sector that specifically require clients to formulate transition plans so they “are consistent with HSBC’s targets and commitments”. The bank has also disclosed provisions in its thermal coal policy to ensure that merger activities in those sectors are consistent with a low-carbon trajectory and result in the closing down of underlying assets. Expanding this policy beyond the coal sector would further support the bank’s financed and facilitated emission targets.

Similarly, Deutsche Bank has disclosed an evaluation and management policy for the four sectors it has set targets for. This policy would require clients to set targets and disclose transition plans.

Fossil fuel financing

Significant levels of finance are still flowing towards fossil fuel projects.⁹ Yet the International Energy Agency's (IEA) *Net Zero by 2050* report states that in a scenario in which emissions are brought to net zero and global temperature rise is limited to 1.5°C by 2050, "no new oil and natural gas fields beyond those that have already been approved for development" and "no new coal mines or mine extensions" are required.¹⁰

Financing conditions set by banks are a key lever for incentivising the low-carbon transition of their clients in high-emission sectors. However, in the case of misaligned activities such as thermal coal mining, it is crucial that banks formulate stricter policies to exclude any new financing to new fossil fuel assets. This would facilitate a full phase-out of fossil fuels to reach net zero emissions worldwide, as recommended by the IEA.

Our results show that exclusion policies for fossil fuel companies are still rare among banks. Where they do exist, they are not comprehensive enough in terms of banking activities, leaving ways for banks to continue to financially support and maintain revenue from fossil fuel assets.

⁹ See e.g. *Fossil fuel finance report 2023* by Banking on Climate Chaos: www.bankingonclimatechaos.org/.

¹⁰ IEA *Net Zero by 2050: A roadmap for the global energy sector report* (p.99): www.iea.org/reports/net-zero-by-2050.



5.2. Capital allocation to misaligned fossil fuel activities

Banks' exclusion policies fail to address all means of financing

Exclusion policies are a key tool banks can use to withdraw capital from carbon-intensive activities.

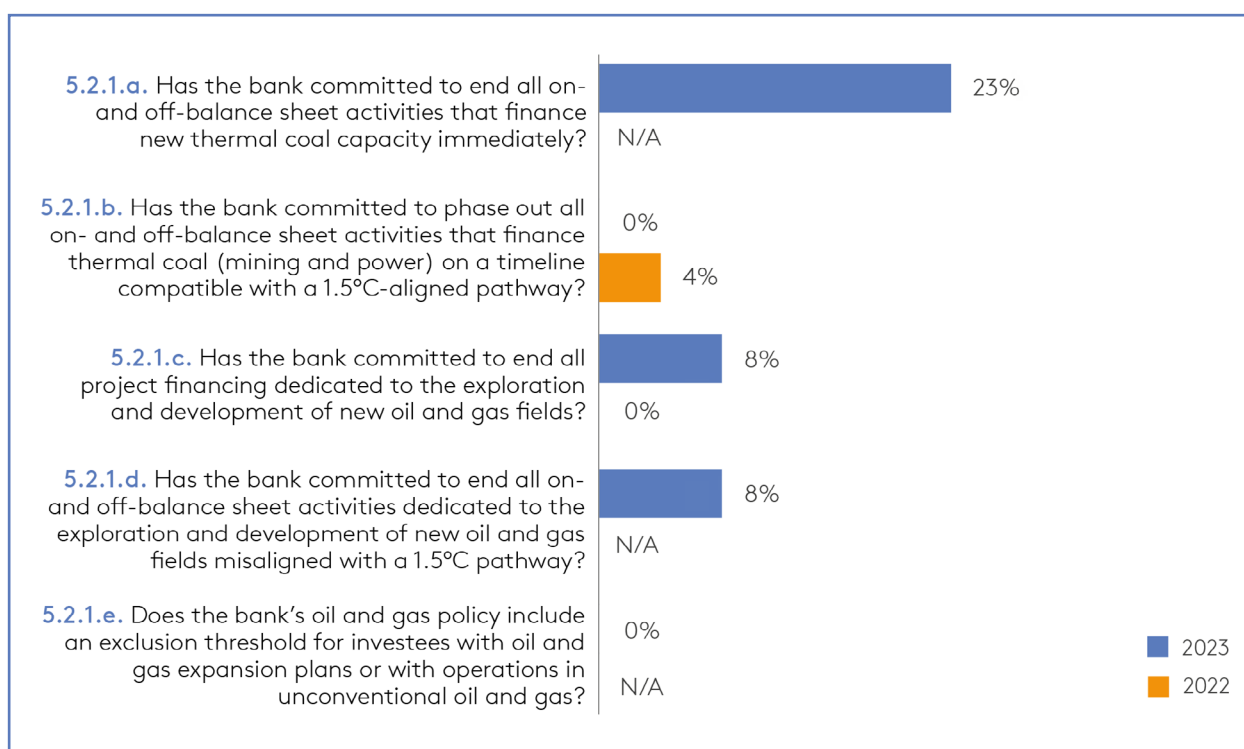
We find that most banks' coal exclusion policies are limited to project finance and corporate finance activities, leaving all other types of financing unrestricted (e.g. underwriting, syndicated loans). Furthermore, some exclusion policies only consider new coal projects or specific techniques for coal extraction, such as mountain-top removal. Any banking or sectoral activity not covered may be used as a 'back door' for continued financing in these sectors. Currently, while six banks (23%) have committed to exclude all on- and off-balance sheet activities that finance new thermal coal capacity immediately, none of the banks has committed to an ambitious phase-out of coal financing, which would mean phasing out by 2040 at the latest.

For oil and gas, our analysis shows that banks are restricting financing to unconventional supply without tackling all new developments in oil and gas fields. Only two banks (8%) include all on- and off-balance sheet activities in their policies.

Good practice – example of ING Bank

Through its coal policy, ING has committed to:

- Excluding financing to new thermal coal-fired power plants or new thermal coal mines
- Excluding financing to new clients whose total power generation capacity is more than 10% reliant on operating coal-fired power plants
- Requiring that existing clients in the utilities sector must reduce to less than 5% reliance on thermal coal by 2025
- Completing its phase-out of lending to coal-fired power plants by 2025. However, the bank has made an exception for coal-fired power plants dedicated to industrial projects. With this caveat, the policy is insufficient to score on the indicator 5.2.1b.





5.3. Climate scenario analysis

Banks are conducting climate scenario analysis, but few are disclosing the quantified results

Banks' assessment of transition and physical climate risks through scenario analysis is still at an early stage. Our assessments show that 17 banks have included climate risks as a key risk category in their disclosure.

However, although many banks have conducted scenario analysis, only eight banks (31%) have disclosed the results of this exercise for physical risks, and just six (23%) have disclosed transition risks. The quantified results include, for example, credit at risk and the portfolio's value at risk for specific sectors.

Furthermore, only three banks (12%) have explicitly covered all the high-emitting sectors in which they have activities.

Although these figures are an improvement from last year, it is important to note that banks are not including all their material balance sheet activities, making it likely that the disclosures are giving an incomplete picture of their climate risk exposure.

5.3.1.a. Has the bank conducted a climate-related scenario analysis for transition risks and disclosed its quantified results, including for a 1.5°C scenario?



5.3.1.b. Has the bank conducted a climate-related scenario analysis for physical risks and disclosed its quantified results, including for a higher temperature scenario?



5.3.1.c. Do the bank's quantitative scenario analyses explicitly cover all its material on- and off-balance sheet activities?



5.3.1.d. Do the bank's quantitative scenario analyses explicitly cover all of the high-emission sectors in which it has activities?



Note: The questions displayed are from 2023 and have changed since the 2022 pilot version to include more demanding criteria. For example, in 2023 the inclusion of a 1.5°C scenario is mandatory for indicator 5.3.1.a. For the questions used in 2022, please see: www.transitionpathwayinitiative.org/publications/uploads/2022-tpi-report-framework-of-pilot-indicators-to-assess-banks-on-the-transition-to-net-zero.

Climate risk

Climate change is a threat to the financial safety and soundness of banks' balance sheets. Both physical and transition risks can impact the financial position of banks and should be addressed in a comprehensive approach similar to that used for any other risk.

Encouraged by central banks,¹¹ scenario analysis is becoming the main approach for financial institutions to assess the resilience of their strategy and business models under future climate and economic scenarios. Scenario analysis can support the management and mitigation of climate-related risks that can have material consequences for banks' financial performance.

Although there are several challenges related to data collection and methodologies, climate scenario analysis is an iterative process that will allow banks to progressively identify vulnerabilities, develop risk mitigation strategies, and make informed decisions to protect their financial stability.

¹¹ In particular, the Network of Central Banks and Supervisors for Greening the Financial System (NGFS) has developed a series of scenarios for banks: www.ngfs.net/ngfs-scenarios-portal/.



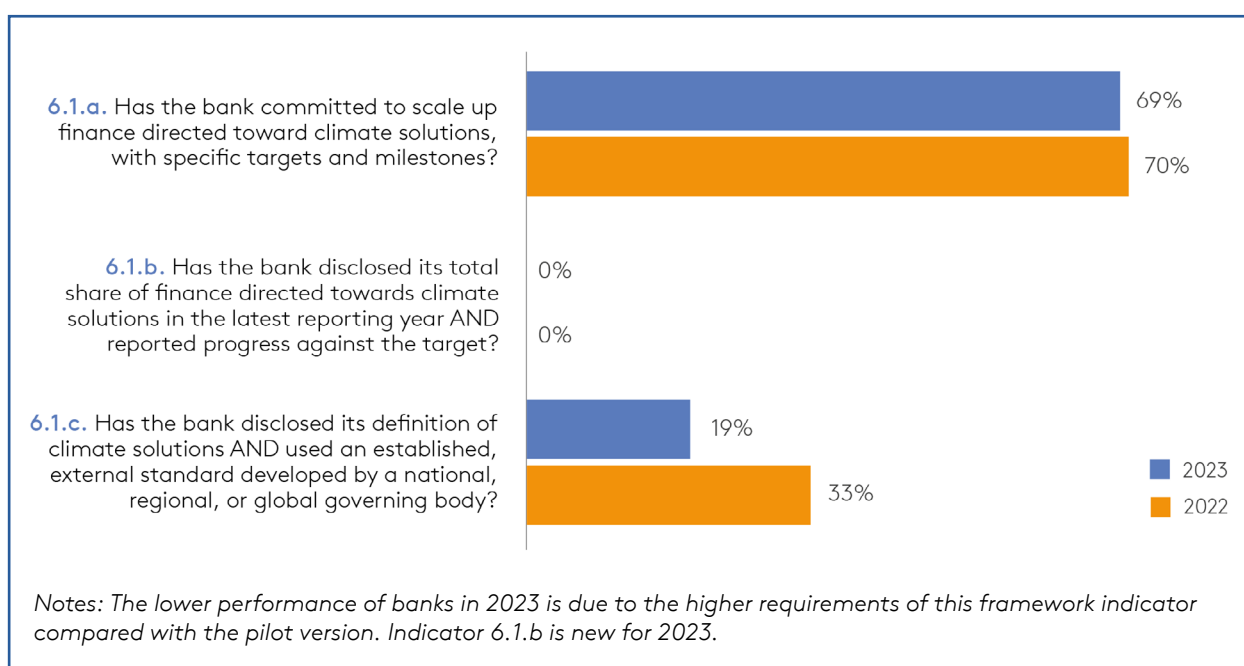
6. Climate solutions

Banks are increasing their financing of climate solutions

Most banks have set sustainable finance targets covering environmental, social and governance (ESG) or climate outcomes: 18 (69%) of the assessed banks have set a dedicated target to increase financing directed towards climate solutions.

However, banks are failing to disclose sufficient details about these targets, such as the share of finance directed towards climate solutions in relation to their total finance in the latest reporting year.

Regarding the scope of activities that count as climate solutions, only five banks (19%) have disclosed a definition of climate solutions that relies on an external standard, despite there being several standards from established bodies to which banks can refer.



7. Climate policy engagement

Banks' disclosure on climate policy engagement remains insufficient.

Policy engagement on climate change refers to the efforts that banks make to directly or indirectly influence decision-making related to climate change by political actors. These efforts can have a significant impact on the stringency and effectiveness of public climate policy and thus the achievement of the Paris Agreement goals.

None of the banks has published a position statement to conduct climate lobbying in line with the goals of restricting global temperature rise to 1.5°C above pre-industrial levels. While some banks

describe their role in engaging with the public sector on climate policy, none has disclosed a commitment to align this engagement with its climate goals.

Similarly, no bank has published a comprehensive review of all its climate policy positions to ensure alignment with the Paris Agreement goals.

These results also hold for the alignment and review of trade association memberships with Paris Agreement goals.

8. Climate governance

Robust climate governance is yet to meet the highest standards

Seventeen (65%) of the assessed banks have acknowledged climate-related risks as key risks alongside other risks but only 14 (54%) have discussed how physical and transition risk can impact the bank's business and how are they are integrating these risks into their decision-making process.

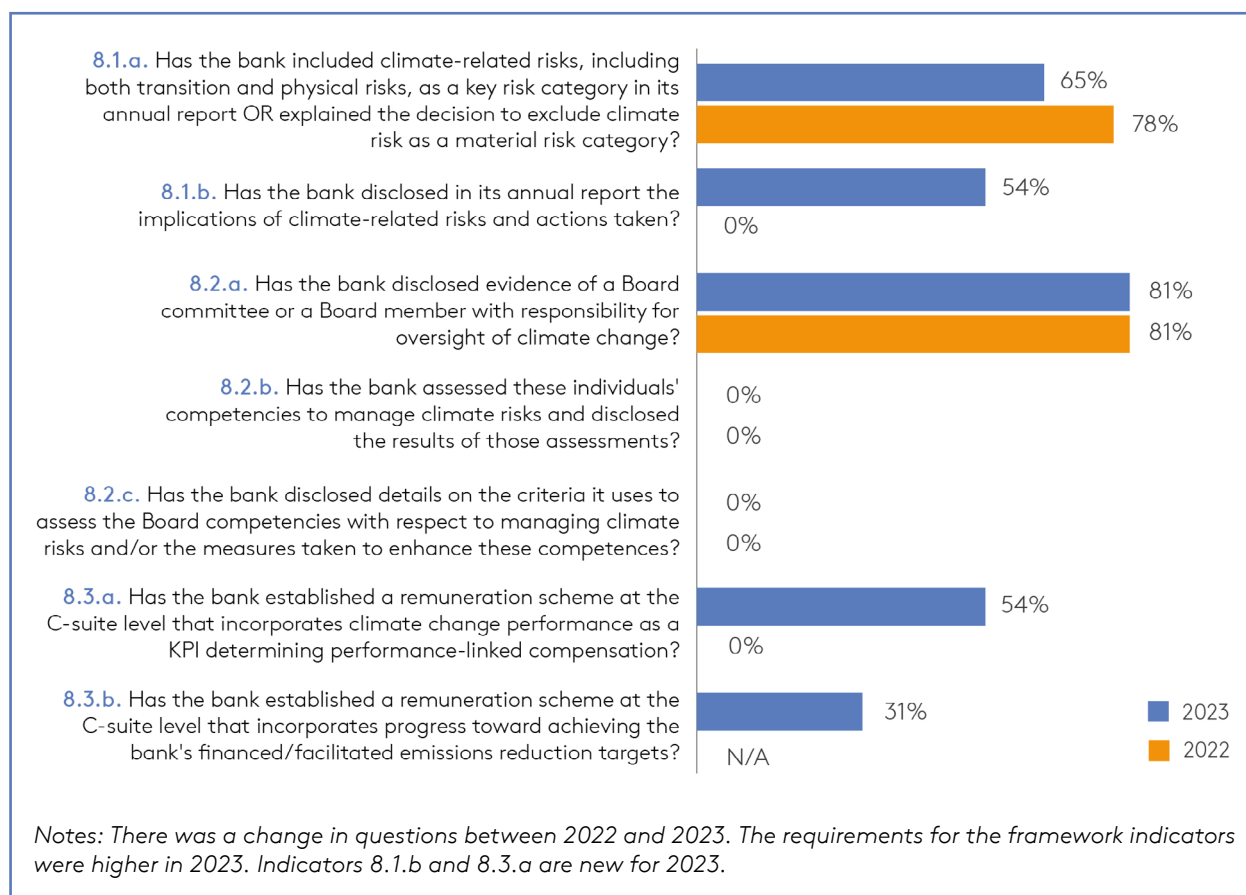
Twenty-one banks (81%) have disclosed evidence of appointing a Board committee or Board member with responsibility for oversight of climate change but none has assessed the competencies of the Board members on climate-related issues or disclosed the results of these assessments.

Fourteen banks (54%) have incorporated climate-related performance in their remuneration policies but only eight have set clear Key Performance Indicators (KPIs) and progress against emission reduction targets as criteria within these policies.

Good practice – examples of Société Générale and Deutsche Bank

Société Générale has disclosed that 20% of variable remuneration is based on the bank's ESG performance and 10% is explicitly conditional on its compliance with commitments to financing the energy transition.

Similarly, Deutsche Bank links executive pay to an ESG component, of which 30% is related to environmental performance. Of this, 10% is explicitly linked to setting targets to reduce greenhouse gas emissions.





9. Just transition

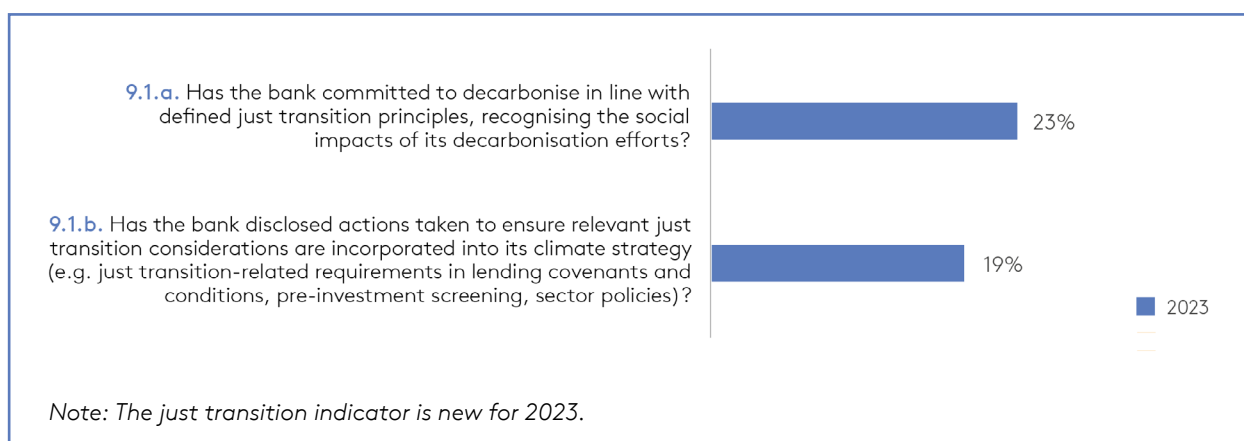
Clear commitments and actions towards just transition principles are lacking

Only five banks (23%) have made a clear commitment to align their climate strategy with transparently defined just transition principles, even though nearly all the banks assessed recognise the need to address the social impacts and opportunities of the low-carbon transition.

Moreover, although guidance on precisely how banks can take action to advance the just transition is emerging, only three banks (19%) disclose one or more such actions to integrate a just transition into their climate strategy.¹² For example, banks can set expectations that companies support the just transition – through engagement and lending conditions, for instance. They can also address the affordability of low-carbon solutions with financial products that support low-income customers to pay for sustainable home renovations or retrofitting or purchase electric vehicles.

Good practice – example of Barclays

Barclays has launched a pilot scheme to integrate just transition principles into its engagement with clients. The bank outlines its considerations, including how clients will address identified social impacts and integrate impacted stakeholders in decision-making.



Nearly all the banks assessed recognise the need to address the social impacts and opportunities of the low-carbon transition.

¹² See the Just Transition Finance Tool for banking and investing activities: www.ilo.org/wcmsp5/groups/public/---ed_emp/documents/publication/wcms_860182.pdf.



10. Financial statement disclosure

Progress in reflecting climate-related risks in financial statements is slow

Only four banks (15%) have demonstrated how climate-related matters are incorporated into their financial statements. Financial statements provide a snapshot of an institution's financial health, giving insights into the most relevant factors affecting its financial performance.

Furthermore, none of the banks has disclosed the quantitative estimates or assumptions used in incorporating climate-related issues into financial statements. Where banks have reported climate risk assessments within sustainability disclosure reports, this is not yet reflected in the financial statements.

Our analysis also shows that audit reports do not yet systematically assess the material impacts of climate-related matters, nor do they assess the assumptions and estimates used by banks in quantifying the financial consequences of climate change. This is despite many auditors who adhere to the Net Zero Service Providers Alliance, as part of the GFANZ, having committed to introducing mandatory consideration of climate-related risks for all their audits.

Data quality and the long-term nature of climate-related risks appear to be factors currently preventing banks from incorporating sustainability and climate considerations into their financial statements.

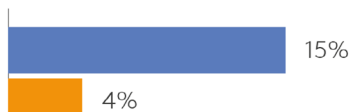
Good practice – example of UBS

UBS has disclosed how sustainability and climate risks are incorporated into its financial statements. For example, the bank has disclosed how it has incorporated these risks at the portfolio level through stress loss assumptions affecting loan quality.



Only four banks
have demonstrated
how climate-
related matters
are incorporated
into their financial
statements.

10.2.a. Has the bank demonstrated how material climate-related matters are incorporated in its financial statements?



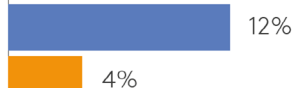
10.2.b. Has the bank disclosed the quantitative climate-related assumptions and estimates (e.g. estimates of future cash flows used in impairment testing) in its financial statements?



10.2.c. Has the bank used, or disclosed a sensitivity to, assumptions and estimates that are aligned with achieving net zero financed/facilitated emissions by 2050?



10.3.a. Has the audit report identified how the auditor has assessed the material impacts of climate-related matters?



■ 2023
■ 2022

Note: These indicators are a beta version; the assessment framework may be subject to change in future iterations.

Recommendations and next steps

Our 2023 assessment reveals an overall improvement in banks' climate action compared with last year. In particular, more banks have been setting emission reduction targets and extending the sectoral coverage of those targets. Following this target-setting, some banks are then defining financing policies to direct capital towards less carbon-intensive companies and industries.

While this progress is encouraging, **important work remains to be done for climate-related matters to be systematically embedded in decision-making across all banking activities.**

We recommend that banks:

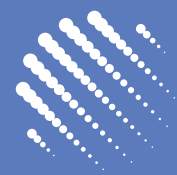
- **Strive to make progress on climate action despite the challenges relating to the lack of standardised methodologies and insufficient data from investee companies.** Banks can generate estimates or proxy data for financed emissions to support their net zero strategy.
- **Expand target coverage to ultimately include all material financing activities,** prioritising those that finance carbon-intensive sectors and that have a high share of financed/facilitated emissions. This should be disclosed as a clear time-bound plan with milestones to eventually cover all financed and facilitated emissions.

- **Formulate comprehensive financing policies for high-emission sectors, covering all on- and off-balance sheet activities. Similarly, formulate equally comprehensive exclusion policies for misaligned activities.**
- **Include climate-related issues and risk analysis in their annual reports and financial statements,** thereby demonstrating a holistic approach to climate risk and a full analysis of the financial implications of the path to net zero.
- **Expand disclosure and governance structures to ensure an in-depth approach to climate action.** This includes disclosure on climate policy engagement, Board competencies and compensation.

Efforts to enhance climate-related disclosure will support banks to implement the global sustainability and climate disclosure standards issued by the International Sustainability Standards Board (ISSB) in June 2023.

The TPI Centre will continue to conduct yearly assessments of banks and will expand its coverage over time, providing a granular and accessible record to measure the decarbonisation of the banking sector and its progress towards net zero.

To see more on the TPI Centre's work on banks, visit:
www.transitionpathwayinitiative.org/banks
Contact: tpi@lse.ac.uk for more information.



Disclaimer

1. Data and information published in this report and on the [TPI Centre website](#) is intended principally for investor use but, before any such use, you should read the TPI Centre's website terms and conditions to ensure you are complying with some basic requirements which are designed to safeguard the TPI Centre while allowing sensible and open use of TPI Centre data. References in these terms and conditions to "data" or "information" on the website shall include the carbon performance data, the management quality indicators or scores, and all related information.
2. By accessing the data and information published in this report and on the website, you acknowledge that you understand and agree to the website terms and conditions. In particular, please read paragraphs 4 and 5 below which detail certain data use restrictions.
3. The data and information provided by the TPI Centre can be used by you in a variety of ways – such as to inform your investment research, your corporate engagement and proxy-voting, to analyse your portfolios and publish the outcomes to demonstrate to your stakeholders your delivery of climate policy objectives and to support the TPI Centre in its initiative. However, you must make your own decisions on how to use the TPI Centre's data as the TPI Centre cannot guarantee the accuracy of any data made available, the data and information on the website is not intended to constitute or form the basis of any advice (investment, professional or otherwise), and the TPI Centre does not accept any liability for any claim or loss arising from any use of, or reliance on, the data or information. Furthermore, the TPI Centre does not impose any obligations on supporting organisations to use TPI Centre data in any particular way. It is for individual organisations to determine the most appropriate ways in which the TPI Centre can be helpful to their internal processes.
4. Subject to paragraph 3 above, none of the data or information on the website is permitted to be used in connection with the creation, development, exploitation, calculation, dissemination, distribution or publication of financial indices or analytics products or datasets (including any scoring, indicator, metric or model relating to environmental, climate, carbon, sustainability or other similar considerations) or financial products (being exchange traded funds, mutual funds, undertakings collective investment in transferable securities [UCITS]), collective investment schemes, separate managed accounts, listed futures and listed options); and you are prohibited from using any data or information on the website in any of such ways and from permitting or purporting to permit any such use.
5. Notwithstanding any other provision of these website terms and conditions, none of the data or information on the website may be reproduced or made available by you to any other person except that you may reproduce an insubstantial amount of the data or information on the website for the uses permitted above.
6. The data and information on the website may not be used in any way other than as permitted above. If you would like to use any such data or information in a manner that is not permitted above, you will need the TPI Centre's written permission. In this regard, please email all inquiries to tpi@unpri.org.

TPI Global Climate Transition Centre

Grantham Research Institute on Climate Change
and the Environment

London School of Economics and Political Science

Houghton Street

London WC2A 2AE, UK

T +44 (0)20 7107 5027

E tpi@lse.ac.uk

Transition Pathway Initiative

C/o UNPRI Association

5th Floor, 25 Camperdown Street

London E1 8DZ, UK

T +44 (0)20 3714 3141

E tpi@unpri.org

@tp_initiative

transitionpathwayinitiative.org

