

An investor-led framework of pilot indicators to assess banks on the transition to net zero



Lead author:



Transition
Pathway
Initiative

Commissioned by:



The Institutional Investors
Group on Climate Change

The Transition Pathway Initiative

The Transition Pathway Initiative (TPI) is a global initiative led by asset owners and supported by asset managers, established in January 2017. Aimed at investors, it assesses companies' progress on the transition to a low-carbon economy, supporting efforts to address climate change. Over 130 investors globally, representing more than US\$50 trillion combined Assets Under Management and Advice, had pledged support for TPI as of June 2022.

Using companies' publicly disclosed data, TPI:

- 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.

TPI strategic relationships

The Grantham Research Institute on Climate Change and the Environment at the London School of Economics and Political Science (LSE) is TPI's academic partner. The Institute has developed the pilot indicators, provides company assessments, and hosts the online tool. FTSE Russell is TPI's data partner. FTSE Russell is a leading global provider of benchmarking, analytics solutions and indices.

The Institutional Investors Group on Climate Change

The Institutional Investors Group on Climate Change (IIGCC) is the European membership body for investor collaboration on climate change and the voice of investors taking action for a prosperous, low-carbon future. IIGCC has more than 350 members, mainly pension funds and asset managers, across 23 countries, with over €51 trillion in assets under management. IIGCC works to support and help define the public policies, investment practices and corporate behaviours that address the long-term risks and opportunities associated with climate change.

IIGCC is one of the founding network partners behind the Climate Action 100+ initiative, the world's largest investor-led corporate engagement initiative on climate change. Launched in 2017, the initiative now has over 700 investor signatories with more than US\$68 trillion in Assets Under Management. It works closely with signatories to support their engagements with European listed companies on the Climate Action 100+ focus list, addressing climate risk in their portfolios and driving real economy decarbonisation. Climate Action 100+ is also responsible for the Net Zero Company Benchmark, which assesses focus companies against the initiative's three high-level goals – emissions reduction, governance and disclosure – presenting a key measure of corporate progress on climate action.

For more information visit www.iigcc.org and @iigccnews.

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Foreword

Banks have an integral role to play in driving economic growth. Through lending, securitisation, underwriting and advisory services, they support investment into real-world activities across entire economies. There can be little doubt that aligning banks' activities with net zero is key to delivering global decarbonisation.

Banks need to be effective gatekeepers for ensuring capital allocation is aligned with a 1.5°C pathway. They must facilitate investments that are consistent with achieving this outcome and demonstrate how they are addressing the risks associated with misaligned activities.

In the run-up to COP26, banks were in the spotlight. Mark Carney, former governor of the Bank of England, called upon parties across the financial system to commit to aligning with the delivery of the goals of the Paris Agreement, as part of the Glasgow Financial Alliance for Net Zero. The UN-convened Net Zero Banking Alliance launched in April 2021 with 43 of the world's biggest banks as signatories. At the time of writing, this has grown to over 100 banks, representing around 40% of global banking assets.

Similarly, many investors have also made commitments to align their portfolios with net zero. Many of those investors count banks among their portfolios and it is therefore critical that investors have sufficient information on banks' transition planning. To help meet this need, the Transition Pathway Initiative (TPI) has joined forces with the Institutional Investor Group on Climate Change (IIGCC) to develop an investor-led framework for assessing banks' alignment with the goals of the Paris Agreement.

IIGCC's banks working group was formed in April 2021 following the publication of an ambitious set of **Investor Expectations**, supported by investors representing US\$11 trillion in assets. These expectations were sent to 27 banks, with investors from the working group using them to guide engagement with banks on climate goals.

This report represents an important step in the development of the final framework, providing a set of pilot indicators drawn from the Investor Expectations and developed through

“Decarbonisation will not happen overnight, and it is significant that the majority of banks have pledged to act.”

consultations with IIGCC members. These pilot indicators cover net zero commitments, emissions targets, decarbonisation strategies, lobbying, governance and accounting. The same set of banks have been assessed for alignment with these indicators based on public disclosures up to 25 February 2022.

The results of this pilot study show that while banks have stepped up in committing to net zero (18 of the 27 reviewed), disclosure on implementation of those commitments is less consistent, with many banks currently failing to meet criteria set out in the pilot indicators. These results should not come as a surprise, nor should they leave us despondent. Decarbonisation will not happen overnight, and it is significant that the majority of banks have pledged to act. While it is important to know where we are starting from, what matters is where we go from here.

As shareholders and creditors on behalf of their clients, investors must share the responsibility to ensure banks act. This is vital to underpin sustainable returns both within these companies and more broadly across the market. The framework of pilot indicators presented in this report provides a perspective on banks' alignment with a 1.5°C pathway today and a basis to chart the course ahead. We hope that the finalised framework will support investor efforts to encourage banks to step up on their climate commitments, to challenge inaction, and to guide voting. We look forward to the progress we will make together.

Natasha Landell-Mills, Head of Stewardship, Sarasin & Partners

Miguel CuUnjieng, Associate Director, EOS at Federated Hermes

IIGCC banks working group co-chairs

Summary

The banking sector has a critical role to play in the low-carbon transition. Banks can facilitate investments in low-carbon solutions and encourage emissions reductions in the real economy through climate-aware financing and engagement with their clients. From an investor perspective, banks that continue to finance activities that are not aligned with the low-carbon transition create both significant transition risks and physical risks associated with accelerating global warming.

The Transition Pathway Initiative (TPI), in partnership with the Institutional Investor Group on Climate Change (IIGCC), is developing a framework to assess how prepared banks are for the low-carbon transition and support investors in their engagement. The framework of pilot indicators presented in this report is a key step in this process. The pilot indicators have been developed following significant investor consultation and tested on 27 banks from across the globe based on disclosures published up to 25 February 2022. While several of these banks have since released updated climate reports, the purpose of this pilot study was to test the validity of the proposed indicators and provide a baseline assessment of banks, ahead of improved reporting seen after the cut-off date.

Over the coming months, IIGCC and TPI will invite further consultation on these indicators to determine whether they are fit for purpose, ahead of publishing a final framework in late 2022. This will also involve the development

of a scoring methodology, which may ascribe weights to certain indicators. It is important to emphasise, therefore, that the indicators in this report should not be aggregated as this scoring mechanism has not yet been developed and would produce misleading results. In response to feedback already received, IIGCC and TPI will also consider whether company scorecards can be updated on a rolling basis with an annual stocktake.

The pilot indicators cover the following six areas and are intended to provide a comprehensive picture of a bank's net zero transition plan:

1. Net zero commitments
2. Short- and medium-term targets
3. Decarbonisation strategies
4. Climate governance
5. Climate policy engagement
6. Audit and accounts.

Assessing banks against the framework of pilot indicators in these areas shows average alignment to be low (as illustrated in Figure 1). Several banks have now published updated reporting but this still indicates that while the banking sector has started its transition towards net zero, it still has a long way to go and needs to substantially accelerate decarbonisation efforts to align with a pathway to limiting warming to 1.5°C.

Figure 1. Average percentage of sub-indicators that banks align with across the 27 banks assessed



The banking sector performs best when it comes to the governance and management of climate-related risks and opportunities, with banks aligning with just under half (44%) of the sub-indicators in this area. This is in line with TPI's findings from assessing 16 real-economy sectors. However, average performance in other areas is weaker, with banks scoring positively for around 20% of sub-indicators in decarbonisation strategy and net zero commitments, and 10% on short- and medium-term emissions reduction targets. Banks' performance is weakest on climate policy engagement, and audit and accounts, averaging alignment with roughly 1% of the indicators.

Nevertheless, there are some examples of best practice from banks, particularly in setting long-term net zero commitments and establishing governance over climate-related risks. The sector can build on these to ramp up progress.

Overview of the six areas and key results¹

1. Net zero commitment

Overview: Examining whether banks have a commitment to becoming net zero by 2050 and analysing the material financing activities and high-risk sectors (i.e. high-carbon sectors posing material transition risk to investors) covered by banks' long-term goals.

Results: Most banks have published commitments to reach net zero by 2050 in at least one material business segment, typically lending and asset management. Only one bank (UBS) has committed to full coverage across all its material business segments and sectors.

2. Short- and medium-term targets

Overview: Evaluating banks' short- and medium-term targets to reduce financed emissions – i.e. those associated with financing, investment and advisory activities.

Results: Three banks have published short-term targets to reduce financed Scope 3 emissions and nine banks have published medium-term targets. ING demonstrates advanced target-setting for its lending activities, having published emissions-based targets for seven high-risk sectors: upstream oil and gas, power generation, automotive, aviation, cement, steel and residential real estate. No bank has published intermediate targets that fully cover its business segments and sectors.

3. Decarbonisation strategy

Overview: This area contains the most indicators and sub-indicators, assessing the actions taken by banks to deliver on their financed emissions reduction targets, specifically: engagement with clients and capital allocation to high-risk sectors; exposure

to and disclosure of financed emissions; and climate scenario analyses.

Results: Banks are in the early phases of engaging with high emission sectors on transition plans and have yet to establish financing conditions that enforce accelerated decarbonisation efforts. However, banks' asset management branches widely disclose incorporating climate change considerations in proxy voting guidelines. Policies to withdraw financing from activities that are not aligned with a 1.5°C scenario are largely underdeveloped, but ING and HSBC are breaking this trend with comprehensive commitments to end the financing of coal activities, and deforestation and peatland conversion, respectively. Faster progress is being made in setting milestones to scale up green finance (although definitions of green finance vary widely). In terms of disclosure of exposure to high-risk sectors, most banks report on their loan books but are yet to include other business segments. Climate scenario analysis of banks' activities is still a nascent field, with only eight banks (30% of our assessed sample) disclosing quantitative results.

4. Climate policy engagement

Overview: Assessing if banks can demonstrate that they align their direct and indirect lobbying activities with the Paris Agreement.

Results: None of the assessed banks explicitly conducts its lobbying activities in line with the Paris Agreement, nor ensures the trade associations of which it is a member carry out their lobbying in line with the Paris Agreement.

5. Climate governance

Overview: Evaluating how a bank incorporates climate strategy into its governance structure and remuneration policies.

Results: Most banks establish board-level oversight of their climate change policy and of climate risk management. However, board-level oversight of the bank's net zero policy remains rare. Executive remuneration is yet to be tied to progress against financed emissions reduction targets.

6. Audit and accounts

Overview: Assessing whether banks capture the risks associated with the transition to net zero in their audited financial statements.

We would expect, for instance, that where banks highlight material risks from climate change, these risks would be reflected in the accounting process.

Results: Beyond a brief mention in one case (Société Générale), none of the banks incorporates climate risks into its financial statements and their auditors are yet to comprehensively consider the effect of climate-related matters in their audits.

Recommendations – next steps for banks

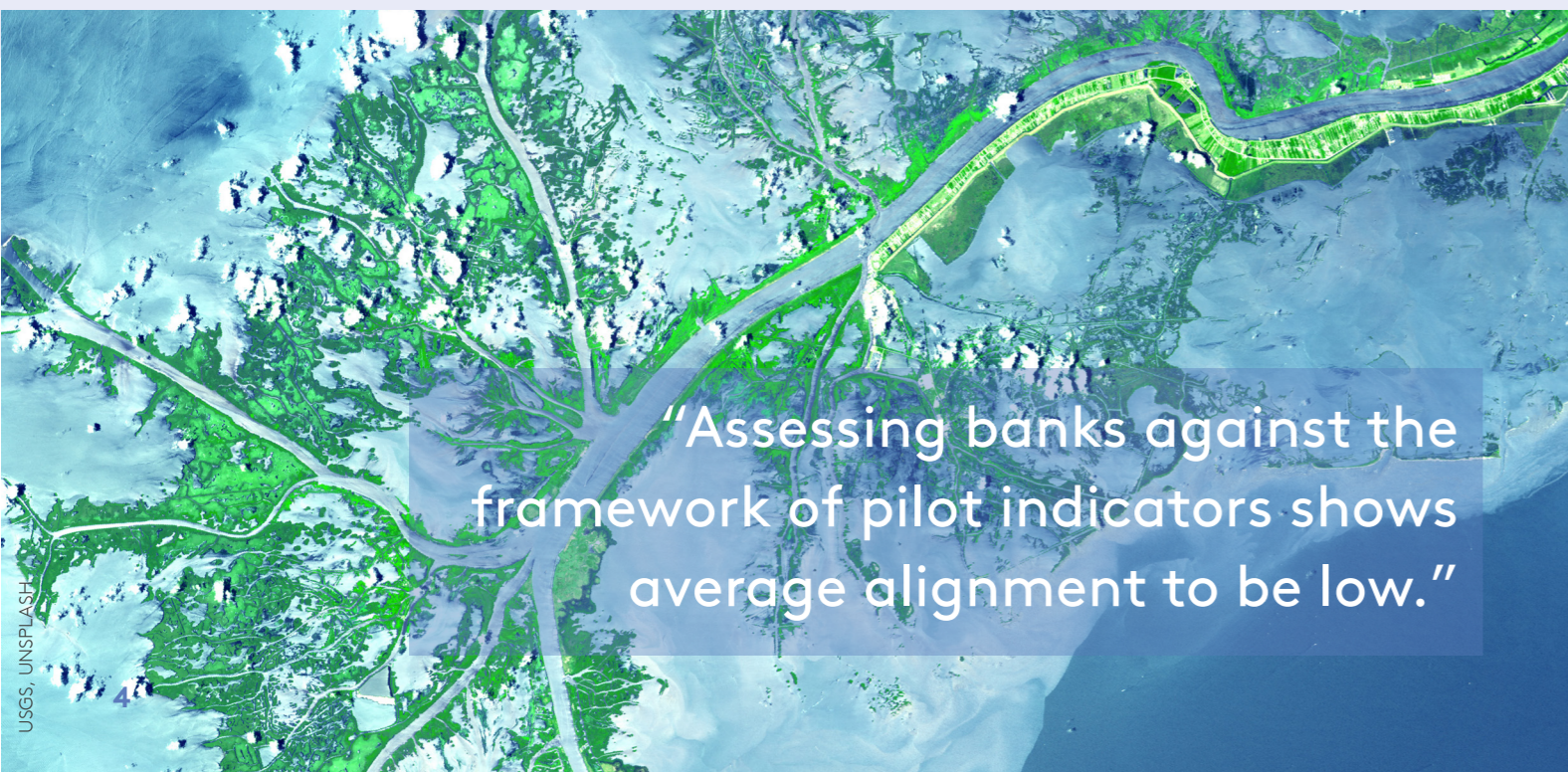
The framework of pilot indicators and assessment results provide investors with a basis for engaging with banks on necessary climate action.

There are eight key areas that we have identified as opportunities for banks to improve:

- Expanding the coverage of decarbonisation targets to all material business segments and sectors.
- Underpinning long-term net zero ambitions with short- and medium-term milestones.
- Engaging with clients on transition plans and phasing out financing of activities not aligned with the net zero transition.
- Improving the quality of disclosure of financed emissions and of their exposure to high-risk sectors.
- Integrating a 1.5°C scenario into climate scenario analyses of transition and physical risks and disclosing quantitative results.
- Aligning lobbying activities with the goals of the Paris Agreement.
- Linking executive remuneration with progress on decarbonisation targets.
- Incorporating climate risks into financial statements and audits, including sensitivities for a 1.5°C pathway.

It is important to recognise that methodological barriers exist that can prevent banks taking more ambitious actions, such as quantifying financed emissions and setting targets to reduce them. In these domains, tools are still in development or in the pilot stage. Rapid progress is now needed to enable banks to fulfil their role as catalysts of the low-carbon transition.

1. All the results and analysis in this report are based on bank disclosures up to 25 February 2022.



“Assessing banks against the framework of pilot indicators shows average alignment to be low.”

Table 1. Assessed banks' alignment with the pilot indicators across the six areas (% of sub-indicators aligned with)

Bank	1. Commitment	2. Targets	3. Decarbonisation strategy	4. Climate policy	5. Climate governance	6. Audit and accounts
Agricultural Bank of China	0%	0%	0%	0%	13%	0%
Bank of America	25%	0%	13%	0%	50%	0%
Bank of China	0%	0%	0%	0%	13%	0%
Bank of Montreal	50%	0%	11%	17%	38%	0%
Barclays	0%	50%	25%	0%	50%	17%
BNP Paribas	0%	25%	30%	0%	50%	0%
China Construction Bank	0%	0%	0%	0%	25%	0%
CIBC	25%	0%	13%	0%	50%	0%
Citigroup	25%	25%	45%	0%	75%	0%
Credit Suisse	25%	0%	36%	0%	63%	0%
Deutsche Bank	25%	0%	26%	0%	38%	0%
Goldman Sachs	0%	17%	31%	0%	50%	0%
Groupe Credit Agricole	25%	0%	56%	0%	50%	0%
HSBC	25%	25%	47%	0%	50%	0%
Industrial and Commercial Bank of China (ICBC)	0%	0%	0%	0%	25%	0%
ING Bank	25%	42%	19%	0%	50%	0%
JP Morgan	0%	17%	28%	0%	38%	0%
Mitsubishi UFJ FG (MUGF)	25%	0%	20%	0%	50%	0%
Mizuho	0%	0%	25%	0%	50%	0%
Morgan Stanley	25%	25%	9%	0%	50%	0%
Royal Bank of Canada (RBC)	25%	0%	10%	0%	50%	0%
Scotiabank	25%	0%	13%	0%	50%	0%
SMBC Group	25%	0%	19%	0%	50%	0%
Societe Generale	25%	58%	37%	0%	38%	11%
Toronto Dominion (TD)	25%	0%	20%	0%	50%	0%
UBS	100%	0%	13%	0%	50%	0%
Wells Fargo	25%	0%	15%	0%	38%	0%

A. Introduction

A.1. Why is a net zero banking framework needed?

The Intergovernmental Panel on Climate Change (IPCC) emphasised in its *Sixth Assessment Report* that “deep, rapid and sustained emissions reductions” are required to achieve the Paris Agreement goal to limit global warming to 1.5°C or well below 2°C. While the emissions reductions are expected to be achieved in the real economy, they must be supported by significant shifts in investments and capital flows towards a low-carbon economy.

Investors, governments and the general public are increasingly focusing on the financial sector’s role in facilitating an economy-wide transition towards net zero emissions, as highlighted at COP26 in November 2021. In response to this trend, a growing number of guidelines are emerging to help financial institutions measure their ‘financed emissions’, i.e. those associated with their loans, investments and other financial products.² These include the guidelines of the Partnership for Carbon Accounting Financials (PCAF), the Paris Agreement Capital Transition Assessment (PACTA) and the Science Based Targets Initiative’s (SBTi) guidance for the financial sector. In parallel, several initiatives have emerged to align the financial sector with net zero, most notably the Glasgow Financial Alliance for Net Zero (GFANZ) and the sub-sector alliances, including the Net Zero Banking Alliance. GFANZ also includes the Net Zero Asset Managers initiative and Paris Aligned Asset Owners group, which IIGCC co-founded.

The focus on the role of financial institutions in decarbonising the economy has also shaped the regulatory environment. This includes the development of the EU’s taxonomy for sustainable activities and the publications of the Climate Financial Risk Forum in the UK, which aim to guide financial institutions in addressing climate-related financial risks.

As significant providers of capital to the real economy, banks must play their part in decarbonising the economy by reducing the financing of carbon-intensive operations,

while simultaneously increasing the financing of low-carbon solutions. For investors, banks that continue to finance activities that are misaligned with the low-carbon transition create both significant transition risks, such as stranded assets, and physical risks associated with accelerating global warming. Delaying action further raises the likely severity of economic and market disruption in the future.

To help investors navigate the banking sector’s transition to net zero, TPI has taken part in a multi-stakeholder project, led by the Institutional Investors Group on Climate Change (IIGCC), to develop a framework for net zero banking. It assesses how banks manage climate-related risks and opportunities to align their activities with the goals of the Paris Agreement. This report presents the methodology and the framework of pilot indicators against which TPI has assessed the alignment of 27 banks.

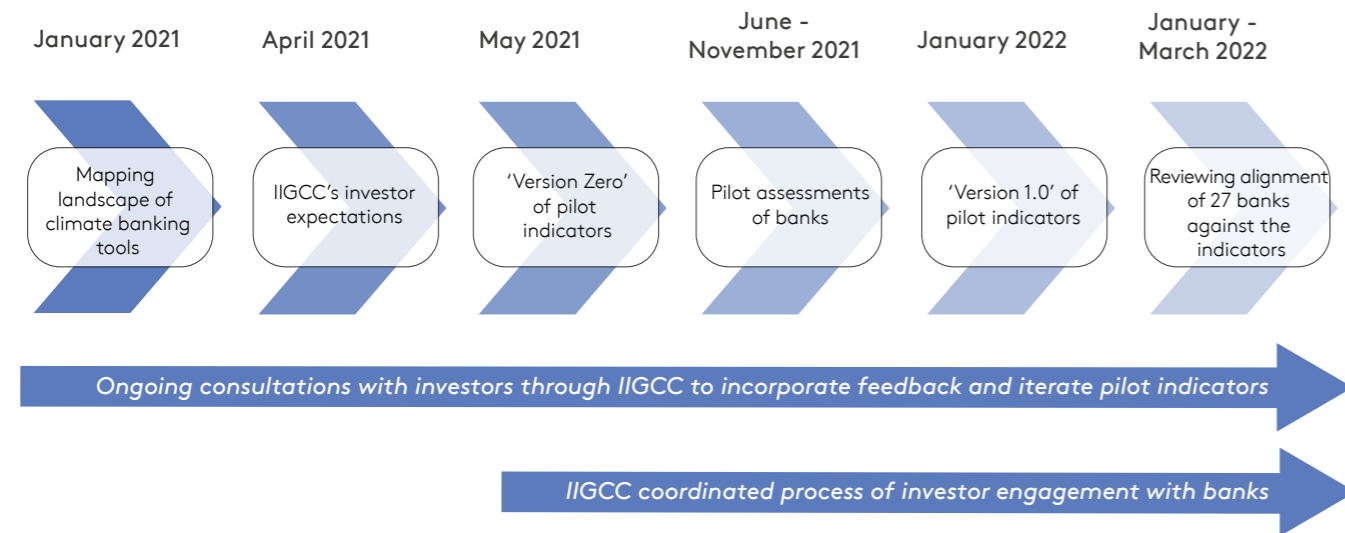
Later in 2022, TPI and IIGCC, in consultation with investors, will refine this framework of pilot indicators. The finalised framework will be used to underpin an annual assessment of banks and inform investor engagement with the banking sector.

A.2. Project objectives and process

Our goal is to develop a bespoke and action-focused framework that enables investors to assess banks on their climate action and alignment with the Paris Agreement goals. To this end, we have built on TPI’s experience in developing climate-related frameworks for assessing the Management Quality and Carbon Performance of corporates in high-risk sectors of the real economy, as well as our joint work on the Climate Action 100+ initiative and IIGCC’s ‘Investor Expectations for the banking sector’ to achieve a net zero transition in line with the goals of the Paris Agreement. We have sought to complement existing tools to avoid adding to banks’ corporate reporting burden, while at the same time adding value to the ecosystem of reporting and assessment frameworks and initiatives.

2. Financed emissions are explained further in Section B.

Figure A.1. Timeline: development of the framework of pilot indicators



We took a co-creation approach to developing the framework of pilot indicators, consulting on project outcomes with investors at every stage and creating several iterations. This has ensured that while the indicators remain grounded in the original Investor Expectations, it also reflects evolving investor views and feedback. Twenty-seven banks were invited to provide feedback on the framework indicators and on our assessments of them against the indicators, to ensure we accurately captured banks' disclosures.



"We took a co-creation approach to developing the pilot indicators, consulting with investors at every stage."

BEATA BIENKOWSKA, TPI RESEARCH DEPUTY AND PROJECT LEAD

A.3. Key features of the framework of pilot banking indicators

This framework will not be the first attempt to assess banks' decarbonisation efforts. Non-profit organisations such as ShareAction and the Rainforest Action Network, and asset managers such as Boston Common Asset Management, have developed environmental assessment frameworks for banks' performance on climate and biodiversity-related topics.

The framework of pilot banking indicators builds on existing tools, but is different in the following ways:

- **Investor-led:** The indicators have been developed from an ambitious set of published **Investor Expectations**. They have been created together with investors, who have a direct view on how they can and need to be implemented. As banks' climate-related disclosures evolve and investor

expectations of banks' climate action broaden and deepen, the indicators and final framework will develop to ensure they stay relevant and useful.

- **Action-focused roadmap to net zero:** The indicators set actionable criteria required for banks to align their financing activities with pathways that limit the global temperature rise to 1.5°C or well below 2°C. To encourage transparency, these are complemented by disclosure-based indicators, namely indicators that assess whether banks disclose their exposure to high-risk clients, calculation of financed emissions, and their position on using client-purchased offsets to meet bank-wide targets. Together, these indicators present a roadmap to becoming a net zero bank.
- **Bespoke elements:** The framework of pilot indicators contributes several bespoke elements to the ecosystem of bank assessment tools, placing a focus on

targets for reducing financed emissions by analysing their relative ambition across material business segments, high-risk sectors and alignment with a 1.5°C scenario. The measures that banks have taken to meet targets are also analysed, including engagement strategies with high-risk clients and policies to withdraw finance from misaligned activities such as coal-fired power generation, exploration of new oil and gas fields and deforestation.

- **Alignment with existing frameworks:** The indicators build on existing initiatives and disclosure frameworks, such as the Climate Action 100+ Net Zero Benchmark for corporates and the Net Zero Investment Framework. The indicators reflect the Climate Action 100+ approach to assessing targets on three time horizons (short, medium and long term) and include indicators on lobbying, audits and accounts. By optimising alignment with Climate Action 100+, this enables portfolio-wide comparisons of banks with other sectors.

A.4. Intersection with the NZBA

Alongside the development of independent assessment frameworks, some banks have developed their own guidelines for setting financed emissions targets through the Net Zero Banking Alliance (NZBA). The NZBA is an industry-led alliance, convened by the United Nations, that represents over 40% of global banking assets. Of the 27 banks analysed by TPI, 23 are members of NZBA.

There is some overlap between the NZBA guidelines and the framework of pilot indicators: they both require medium-term targets to prioritise high-risk sectors and encourage engagement with clients through transition plans, for example. However, several key differences remain. Using the IIGCC Investor Expectations for banks as a starting point, the pilot indicators require greater sectoral and activity coverage of targets, in addition to including requirements around climate policy, climate governance, and audit and accounts.



PATRICK HENDRY, UNSPLASH

B. Understanding transition risk in the banking sector

Banks allocate finance across the real economy through various financial products and services. A bank's structure is typically made up of some combination of the following business segments:

- Investment banking (e.g. lending, debt and equity underwriting, advisory services)
- Global markets (e.g. trading across asset classes, market making, intermediation)
- Retail and commercial banking (e.g. individual and corporate client banking, insurance services)
- Asset and wealth management (e.g. debt and equity investments, private banking, investment and wealth advisory).

Each bank has a unique structure consisting of different business segments, which creates a challenge for analysing the sector's decarbonisation efforts.

Assessing banks through the lens of transition risk requires an evaluation of banks' total carbon footprint. Unlike most sectors in the real economy, direct and indirect emissions from energy use (i.e. Scope 1 and 2 emissions) are negligible in the finance sector. While banks should aim to mitigate emissions from their energy consumption (e.g. electricity and heating in offices), their indirect impact on the climate through their financing and advisory activities is far more significant. These 'financed emissions', also referred to as Scope 3 category 15 emissions, are essentially the emissions of a banks' clients.

The challenge of double-counting

Example: A bank owns all the bonds of an electricity utility and all the stocks of an aluminium manufacturer. The electricity utility is the sole power supplier to the aluminium manufacturer, so the Scope 2 emissions of the aluminium manufacturer are also included in the Scope 1 emissions of the electricity utility. If the bank includes Scope 1 and 2 emissions of both companies in its reported financed emissions, the same real-world emissions will be counted twice.

Compared with other emissions categories, methodologies to quantify financed emissions are still at an early stage. Accounting that deals with financed emissions needs to overcome several challenges, including which scopes (1, 2 or 3) of clients' emissions should be included in financial institutions' carbon footprint and how to avoid double-counting of emissions across different clients.

The Partnership for Carbon Accounting Financials (PCAF) is playing a leading role in overcoming such challenges by developing financed emissions accounting guidelines that conform with the Greenhouse Gas (GHG) Protocol.³ The PCAF Standard currently provides detailed guidance to measure emissions associated with six asset classes: listed equity and corporate bonds; business loans and



"Each bank has a unique structure of different business segments, which creates a challenge for analysing the sector's decarbonisation efforts."

NIKOLAUS HASTREITER, RESEARCHER

3. The GHG Protocol, set up by World Resources Institute and the World Business Council for Sustainable Development, is a globally recognised standard for corporate greenhouse gas accounting.

unlisted equity; project finance; commercial real estate; mortgages; and motor vehicle loans. PCAF also launched a public consultation in late 2021 on a report on GHG accounting methods for green bonds and sovereign bonds, and a discussion paper on capital markets. Significant progress has therefore been made over the past two years; however, there is still a lack of established methodologies for some banking business segments, such as merger and acquisition advisory or insurance activities.

Beyond challenges associated with accounting guidelines, banks also face the issue of limited availability of emissions data from their clients. In the absence of reported emissions, banks typically rely on estimates, which vary in quality. While tools that allow banks to set financed emissions targets are emerging (e.g. PACTA and the SBTi guide for the finance sector), they are yet to cover all business segments of a bank.

The variety in banks' business models, a lack of established methodologies and limited data availability can lead to significant differences in how banks prioritise and report on decarbonisation efforts. Alignment with a 1.5°C-aligned pathway requires that all financing and advisory activities are included in a bank's decarbonisation targets and strategy. Focusing solely on specific business segments for which methodologies have been established, such as lending, could underestimate the transition risk for investors.

As we discuss in Section C, indicators have been developed to ensure alignment across all material business segments of a bank. This holistic approach aims to ensure wide applicability of the final framework across different banks and to allow investors to assess any given bank's progress towards net zero.



C. Proposed methodology for the banking framework

C.1. Design principles

The following high-level principles have guided our approach to designing the framework of pilot banking indicators, with the development of the final framework in mind:⁴

- 1. Assessments are based solely on publicly available disclosure.** Encouraging companies to be transparent in how they manage climate risks is a core design component across TPI's work. By using only public data, we ensure companies are assessed consistently and fairly.
- 2. Indicators can be objectively evaluated.** All stakeholders using TPI data should be able to understand the rationale behind scores across indicators.
- 3. The final framework should be relevant to all types of banks.** The framework should take into consideration the variety in banks' business models and be applicable to as many in the sector as possible.
- 4. The framework will seek to align with existing initiatives.** Several indicators are linked to the Climate Action 100+ Net Zero Benchmark and it is largely aligned with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).
- 5. Indicators apply to the bank as an aggregated entity.** TPI's analysis reflects commitments and practices at the group-wide level. Investors may choose to use this analysis in conjunction with other data points, such as financial performance indicators, to assess more targeted components of a bank's climate performance.

Banks' assessments and methodology are available for everyone to use via the **TPI online tool**.

C.2. Pilot indicator areas

The framework of pilot indicators consists of six 'areas' that reflect a bank's level of preparedness for a net zero transition by 2050, shown in Figure C.1.

The six areas of pilot indicators complement and inform one another. Ambitious decarbonisation targets aligned with a 1.5°C pathway should be the cornerstone of a bank's net zero strategy. However, a bank will not be able to meet its targets unless it has a strategy to engage with clients and to withdraw finance from misaligned activities. Similarly, a bank may publish targets for reducing financed emissions in the short and medium term, but unless executive remuneration is tied to such targets, or financial statements incorporate

Figure C.1. TPI pilot banking framework structure



material climate risks, the bank may not decarbonise at a pace necessary to align with a 1.5°C emissions pathway.

By comparing a bank's performance in different areas, it is possible to identify inconsistencies in its approach. For example, a bank may have decarbonisation targets in several high-risk sectors (e.g. oil and gas, power and autos), but only impose financing conditions on coal-sector clients; or a bank may identify climate risks as material and conduct climate scenario analysis but fail to mention how climate risks are considered in its financial statements. As these examples illustrate, the indicators complement each other and should be considered together when assessing the state of a bank's net zero transition.

Within each of the six areas there are indicators and sub-indicators to capture the relative climate performance of banks in detail – Figure C.2 provides an example.

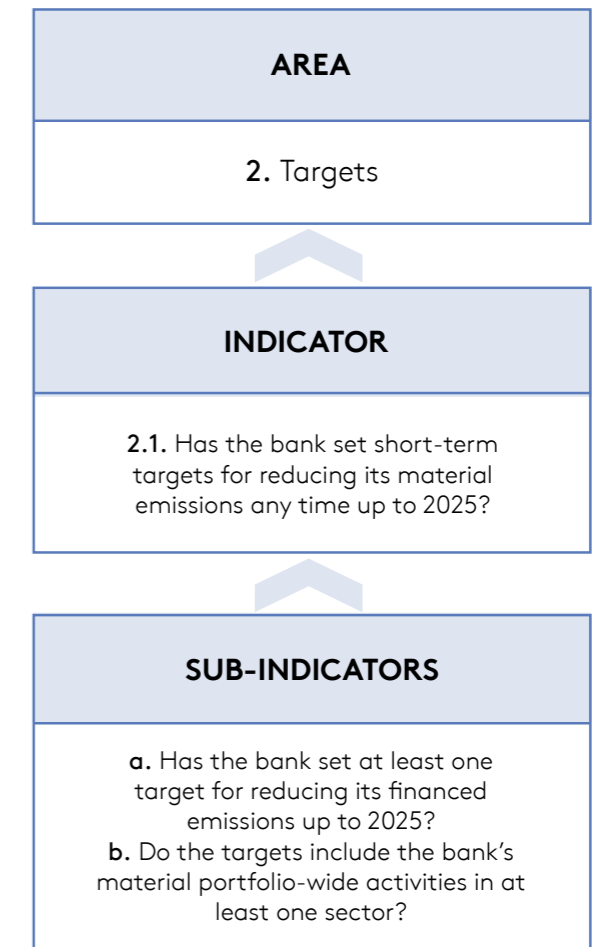
C.3. Scope of analysis

To align with a net zero pathway, banks must cover all material business segments and all high-risk sectors across their commitments, strategies and disclosures. Omissions prevent investors from accurately evaluating banks' progress and could risk misinterpreting their climate performance.

We applied the following rules to measure banks' coverage of material business segments and high-risk sectors:

- Material business segments:** A business segment (e.g. lending, investment banking, underwriting, securities trading) must account for at least 5% of the bank's total revenue or total financed emissions to be considered material. Activities exceeding this threshold must be included in the bank's targets, strategies and disclosures.
- High-risk sectors:** A material sector is defined by TPI's list of coverage: oil and gas; power; coal mining; airlines and shipping; autos; steel, aluminium, diversified mining, paper and cement; and food.⁵ If a bank does not have clients from one of these sectors, this should be explicitly stated in its public disclosures.

Figure C.2. Example of one area (Targets) with indicator and sub-indicators



C.4. Overview of banking indicator areas

Below we describe the six indicator areas in greater detail. Some areas contain more indicators and sub-indicators than others, hence the varying length of the descriptions. The full framework of pilot indicators and sub-indicators is presented in the Appendix.

1. Net zero commitment

This area assesses whether banks have committed to achieving net zero by 2050 and analyses the material financing activities and high-risk sectors covered by their long-term goals.

Typically, TPI assesses companies' climate commitments – such as reaching net zero by 2050 – by calculating their emissions pathways and quantitatively comparing them to the sector average needed for 1.5°C alignment. For banks, we are unable to use this approach, since quantifying the indirect emissions attributed to banks' financial

4. As mentioned in the Introduction, the current iteration of the framework of pilot indicators will be refined into a final framework later in 2022.

5. TPI's methodology to assess food companies' alignment with decarbonisation pathways is due to be published in the second half of 2022. Methodologies for the other sectors can be found at www.transitionpathwayinitiative.org/publications.

services would require visibility of their entire loan books and transaction activities. Even where banks publish emissions pathways for certain sectors, it is often unclear if they are comparable with established low-carbon benchmarks. Instead, we evaluate a bank's long-term decarbonisation commitment across four qualitative sub-indicators which together assess the breadth, ambition and underlying scenarios used.

2. Targets

This area evaluates banks' targets for reducing financed emissions against two indicators: 1) in the short term, to 2025, and 2) in the medium term, to 2035. These timeframes are aligned with the Climate Action 100+ Net Zero Benchmark. TPI evaluates the coverage, timescale and scenario alignment of intermediate targets.

3. Decarbonisation strategy

This area has the most indicators. It looks at the actions taken by banks to deliver on their targets to reduce financed emissions, specifically banks' engagement with clients and capital allocation to high-risk sectors, disclosure of financed emissions and climate scenario analyses.

Engagement with high-risk companies on their transition plans is a primary lever for banks to meet their reduction targets for financed emissions and drive real-world decarbonisation. As such, TPI analyses bank-wide engagement policies on climate change and their outcomes, as well as banks' clients' transition plans. The indicators assess the engagement activities of banks' asset management and wealth management divisions separately, as those business segments employ their own particular engagement mechanisms, such as proxy voting.

The area then aims to evaluate banks' capital allocation to high-risk sectors. The indicators here assess the comprehensiveness of sectoral policies that should limit financing to sectors and activities that are incompatible with a 1.5°C scenario. Based on integrated climate-economy scenario modelling, TPI has identified a set of misaligned activities (e.g. the construction of new coal power plants) and we evaluate banks' policies to engage with, and phase out, financing of these activities.

Banks also have a role to play in accelerating the low-carbon transition by scaling up the financing of 'green' projects and activities.

Because definitions of 'green' finance vary widely, the indicator assesses how banks' definitions of 'green' finance targets relate to taxonomies that have been established by external governing bodies.

To encourage transparency, this area includes several disclosure-based indicators. Disclosure of portfolio exposure to carbon-intensive sectors and portfolio value at risk in a 1.5°C scenario can provide investors with important context when evaluating a bank's level of preparedness for the transition.

Lastly, it evaluates banks' use of climate scenario analysis by assessing how banks disclose the financial impact expected from extreme weather events and from climate policies associated with a 1.5°C scenario.

4. Climate policy engagement

In line with the Climate Action 100+ Net Zero Company Benchmark, this area seeks evidence that banks are aligning their direct and indirect lobbying activities with the Paris Agreement. To achieve emissions reductions aligned with a 1.5°C temperature limit, ambitious climate policies are necessary to support and guide corporate mitigation efforts.

5. Climate governance

Delivering on decarbonisation targets and making progress on mitigating climate risk requires effective governance structures within banks and therefore this area assesses oversight of the bank's net zero strategy at the board level, as a signal that climate considerations have been integrated across bank-wide operations. Net zero transition planning has implications ranging from transaction-level reviews to bank-wide policies that restrict financial flows to certain sectors. Linking executive remuneration with progress towards emissions reduction targets is also considered important to delivering against targets.

6. Audit and accounts

In line with the Climate Action 100+ Net Zero Company Benchmark, this area evaluates whether banks incorporate risks associated with the transition to net zero in their audited financial statements.

Climate risks – both transition and physical – could be material to future economic growth and to the earnings prospects of many carbon-intensive industries. This is frequently stated by banks in their narrative disclosures

and discussion of risks. It is also the focus of a growing number of climate stress testing exercises mandated by prudential regulation, involving many of the banks covered in our pilot study.

Given this backdrop, we would expect to see climate risks incorporated in banks' audited accounts, notably in the commentary on critical accounting assumptions and judgements, as well as in their disclosures of sensitivities provided in the Notes to the Financial Statements.

C.5. Choice of banks assessed in this study

Our pilot assessments were carried out on 27 banks from three continents (Asia, Europe and North America) and are based on information publicly disclosed up to 25 February 2022. Data that was communicated to TPI but published after this cut-off date is indicated on TPI's website alongside banks' individual assessments. Disclosures published after this date will be assessed in the next assessment cycle.

The banks assessed display a variety of business models. For example, ING Bank's retail banking segment provides a large share of

the bank's net result (92% in 2020), whereas Goldman Sachs generates the most significant proportion of its revenue through its global markets business (47% in 2020). Most banks also operate an asset management arm, but Wells Fargo has recently sold its asset management division. Moreover, business segments are composed differently across banks. Société Générale's insurance services sit under the retail banking business, whereas the Bank of China attaches them to its investment banking segment. Similarly, equity and debt trading come under J.P. Morgan's Corporate & Investment Bank segment but under Bank of America's global markets segment.

The sample reflects well the level of variety within the banking sector at a global level. Furthermore, the scale of financing that these 27 large publicly listed banks provide to customers – and specifically to high-risk companies – is substantial. The sample is therefore well suited for a study to test the pilot indicators.

Table C.1 on the next page lists the banks that were assessed, their location, and the size of their assets.



MATT PALMER, UNSPLASH

Table C.1. Bank-specific scores across sections and total scores with ratings

Bank	North America	Europe	Asia	Total assets >\$2tn?
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	✓			
Credit Suisse		✓		
Deutsche Bank		✓		
Goldman Sachs	✓			
Groupe Crédit Agricole		✓		✓
HSBC		✓		✓
Industrial and Commercial Bank of China			✓	✓
ING Bank		✓		
J.P. Morgan	✓			✓
Mitsubishi UFJ FG			✓	✓
Mizuho			✓	
Morgan Stanley	✓			
Royal Bank of Canada	✓			
Scotiabank	✓			
SMBC Group			✓	✓
Société Générale		✓		
Toronto Dominion	✓			
UBS		✓		✓
Wells Fargo	✓			

D. Results and insights

In this section we present the findings of the assessments using the pilot indicators, plus details of good practice by individual banks.

D.1. Level of alignment across each area

Figure D.1 shows the average alignment across the 27 banks assessed. Table D.1 (on the next page) shows the alignment across each area. For the pilot, alignment is assessed by a simple count of sub-indicators that received a 'yes'.

In line with TPI's assessment of the real-economy sectors,⁶ the banking sector performs best on implementing governance and management mechanisms to manage climate-related risks and opportunities. On average, banks were aligned with 44% of the sub-indicators under climate governance, whereas performance in other areas is significantly weaker.

The second highest result is for decarbonisation strategy, where the banks align with roughly 21% of sub-indicators on average. Banks are starting to disclose engagement strategies,

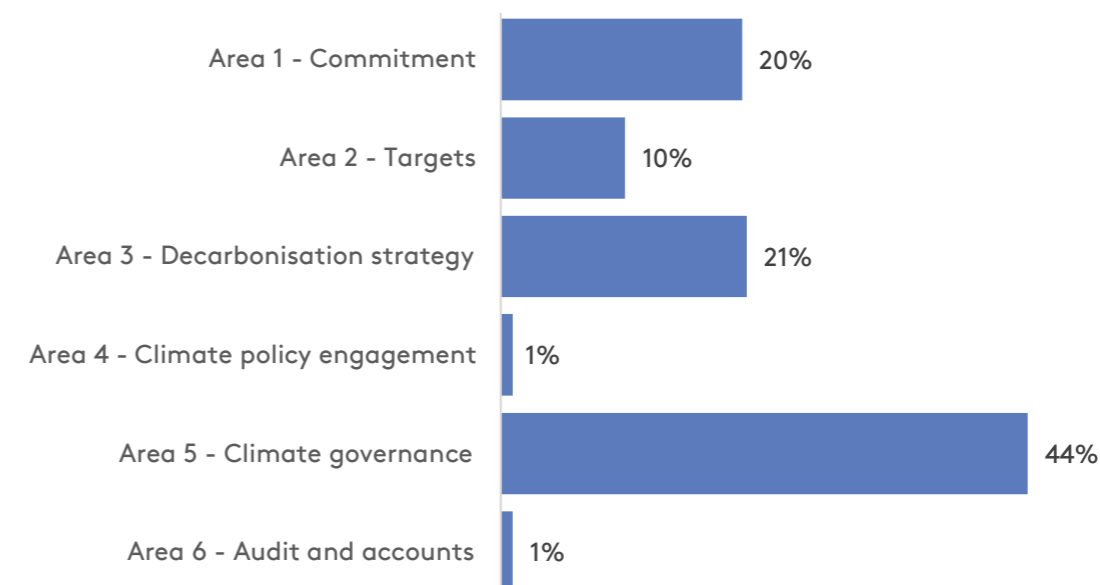
targets to scale up green finance, sectoral policies, financed emissions and results from climate scenario analysis. However, actions in all these areas do not apply comprehensively across all activities. Net zero commitment saw a similar level of performance, with banks aligning with 20% of sub-indicators on average. While most banks set long-term net zero ambitions, these are in almost all cases significantly limited in terms of their coverage.

Banks' performance is weak when it comes to short- and medium-term targets, with banks on average aligning with 10% of sub-indicators, suggesting that most banks do not underpin long-term net zero ambitions with short- or medium-term milestones.

The weakest performance is for climate policy engagement, with banks aligning with only 1% of sub-indicators on average.

These results indicate that while the banking sector has started its transition towards net zero, it needs to substantially accelerate its decarbonisation efforts to align with a 1.5°C pathway.

Figure D.1. Average percentage of sub-indicators that banks align with across the 27 banks assessed



Note: These are the mean scores across the 27 banks.

⁶. For more information, please see the TPI online tool.

Table D.1. Assessed banks' alignment with the pilot indicators across the six areas (% of sub-indicators aligned with)

Bank	1. Commitment	2. Targets	3. Decarbonisation strategy	4. Climate policy	5. Climate governance	6. Audit and accounts
Agricultural Bank of China	0%	0%	0%	0%	13%	0%
Bank of America	25%	0%	13%	0%	50%	0%
Bank of China	0%	0%	0%	0%	13%	0%
Bank of Montreal	50%	0%	11%	17%	38%	0%
Barclays	0%	50%	25%	0%	50%	17%
BNP Paribas	0%	25%	30%	0%	50%	0%
China Construction Bank	0%	0%	0%	0%	25%	0%
CIBC	25%	0%	13%	0%	50%	0%
Citigroup	25%	25%	45%	0%	75%	0%
Credit Suisse	25%	0%	36%	0%	63%	0%
Deutsche Bank	25%	0%	26%	0%	38%	0%
Goldman Sachs	0%	17%	31%	0%	50%	0%
Groupe Credit Agricole	25%	0%	56%	0%	50%	0%
HSBC	25%	25%	47%	0%	50%	0%
Industrial and Commercial Bank of China (ICBC)	0%	0%	0%	0%	25%	0%
ING Bank	25%	42%	19%	0%	50%	0%
JP Morgan	0%	17%	28%	0%	38%	0%
Mitsubishi UFJ FG (MUGF)	25%	0%	20%	0%	50%	0%
Mizuho	0%	0%	25%	0%	50%	0%
Morgan Stanley	25%	25%	9%	0%	50%	0%
Royal Bank of Canada (RBC)	25%	0%	10%	0%	50%	0%
Scotiabank	25%	0%	13%	0%	50%	0%
SMBC Group	25%	0%	19%	0%	50%	0%
Societe Generale	25%	58%	37%	0%	38%	11%
Toronto Dominion (TD)	25%	0%	20%	0%	50%	0%
UBS	100%	0%	13%	0%	50%	0%
Wells Fargo	25%	0%	15%	0%	38%	0%

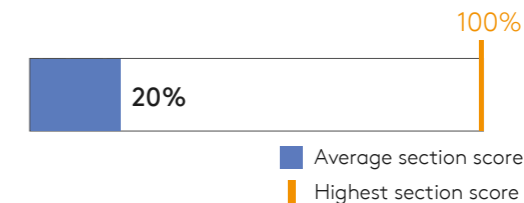
D.2. Analysis by area



1. Net zero commitment

1.1. Has the bank committed to achieving net zero emissions from its product portfolio by 2050 or sooner, consistent with a 1.5°C scenario?

Net zero commitment: average and highest score*



*UBS achieved the highest score here.

Many banks are beginning to set net zero commitments, but only one bank (UBS) is comprehensive in its commitment's coverage.

The years 2020 and 2021 saw an explosion of net zero commitments from banks on their financed emissions. Two-thirds (18 of the 27) of the banks assessed made a net zero commitment, marking an industry shift towards recognising that reducing financed emissions is a primary lever for the low-carbon transition. Nevertheless, these commitments vary widely in how comprehensively they cover banks' material business segments and high-risk sectors.

Across banks' published net zero commitments, business segment and sectoral coverage often remain unclear. Banks typically include their lending and investment operations, in line with the requirements of the Net Zero Banking Alliance. However, in many cases they do not extend this to other business lines such as capital markets, insurance or retail banking. This finding is in line with the fact that detailed guidelines on quantifying financed emissions from loans and investments already exist (PCAF, 2020), whereas they are still under development for other activities, such as underwriting (PCAF, 2021b). Although methodologies for quantifying financed emissions are still in their early stages and face some implementation challenges, there are several ways banks can ramp up their ambition to accelerate their decarbonisation efforts.

UBS

In its net zero commitment from April 2021, UBS states its goal to "achieve net zero greenhouse gas emissions resulting from all aspects (Scope 1, 2, 3) of our business by 2050".

UBS's commitment appears to cover all material financing of high-risk sectors across all business segments. However, it does not explicitly disclose the scope of coverage across sectors or business segments in more granular detail. Improved transparency around its net zero target coverage would enable investors to better assess the bank's transition strategy.

In terms of sectors, banks rarely disclose the scope of their net zero commitments. Among the 27 banks assessed, only UBS explicitly commits to achieving net zero financed emissions by 2050 across all its material business segments (those comprising at least 5% of the bank's total revenue or total financed emissions) and high-risk sectors (see box). Our findings also show that four banks (Agricultural Bank of China, Bank of China, China Construction Bank and the Industrial and Commercial Bank of China) do not publish any net zero commitment.

Net zero commitment – recommended next steps

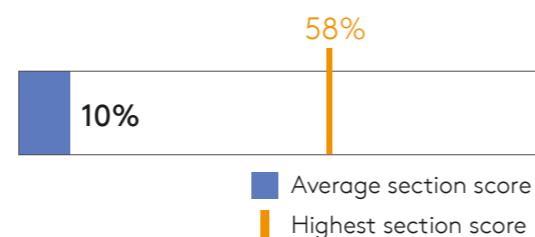
- Banks should publish a commitment to achieving net zero emissions for all high-risk sectors across all material business segments.
- Banks should disclose their material business segments and sectors covered or explain why some business segments or sectors have been omitted.

2. Short- and medium-term targets

2.1. Has the bank set short-term targets for reducing its material emissions any time up to 2025, consistent with a 1.5°C pathway?

2.2. Has the bank set medium-term targets for reducing its material emissions any time between 2026 and 2035, consistent with a 1.5°C pathway?

Targets: average and highest score*



*Société Générale achieved the highest score here.

Despite the proliferation of net zero commitments, markedly fewer banks have set intermediate emissions reduction targets, especially short-term targets.

Only a few of the announced net zero commitments are underpinned by short- and medium-term milestones. This is problematic, as intermediate targets allow investors to gauge the seriousness of banks' long-term commitments and whether banks will front- or backload their transition efforts. If too many banks (and companies) plan to backload their emissions reductions, global emissions will not be curbed rapidly enough in this decade and the decarbonisation curve of the global economy will have to be significantly steeper post-2030.

Our analysis shows that:

- Only three banks (Barclays, ING Bank and Société Générale) have set short-term emissions targets up to 2025.
- Nine banks have set medium-term targets with target years between 2026 and 2035.

Similar to long-term net zero commitments, banks' intermediate targets (short and medium-term) are limited to covering only certain business segments. With a few exceptions, intermediate targets focus solely on banks' lending activities. Barclays (see box) and J.P. Morgan are starting to include some capital market activities, but none of the assessed banks yet aims for complete coverage of all its material business segments.

With respect to sectoral coverage, 17 intermediate targets are applied by the banks to the energy *supply* side, namely the power, oil and gas, and thermal coal sectors. While emissions intensity targets are more often

Barclays

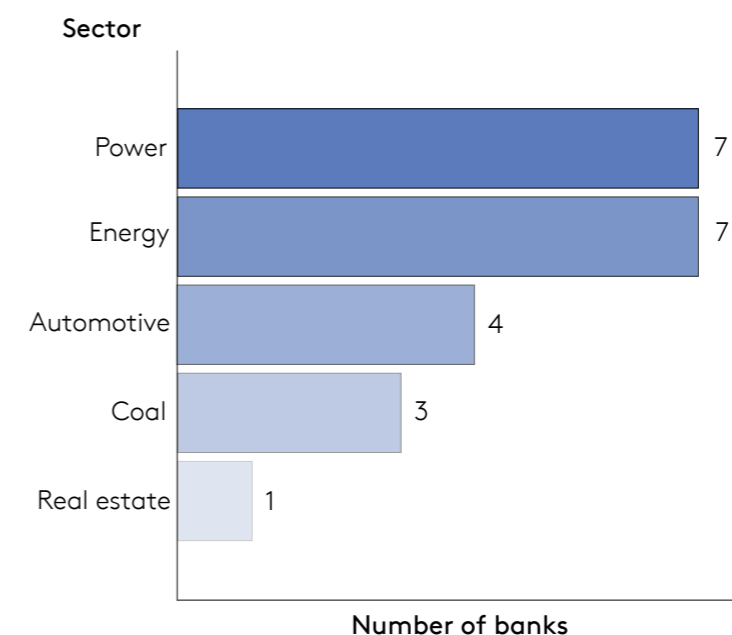
Barclays' short- and medium-term targets (to 2025 and 2035, respectively) cover lending, including undrawn loans, and underwriting activities. The latter is based on Barclays' in-house methodology BlueTrack™, which allows the bank to quantify financed emissions from its underwriting activities.

ING

ING Bank demonstrates advanced target setting for its lending activities:

- The bank publishes short-, medium- and long-term emissions-based targets for seven high-risk sectors, including energy (upstream oil and gas, power generation) and non-energy sectors (autos, aviation, cement, steel and residential real estate).
- The bank uses externally validated climate scenarios for target-setting and aligns its short-term target in the upstream oil and gas sector with the IEA's Net Zero Emissions by 2050 scenario.
- A dashboard reports transparently on the bank's progress on pathways to sectoral targets.

Figure D.4. Number of banks that have set intermediate targets by sector



applied to banks' targets in the power sector, absolute emissions targets are typically applied to the upstream oil and gas sector. Complete coverage of the oil and gas value chain, including the downstream segment, remains rare. J.P. Morgan was the only bank assessed to opt for an emissions intensity approach in the oil and gas sector that covers companies operating in upstream and downstream segments. In line with TPI methodology in other sectors, both absolute and intensity targets are accepted. Significantly fewer targets – only five – are set by the banks for the energy *demand* side.

The first non-energy sectors already included in targets are autos and real estate. At present, none of the assessed banks sets targets across all its material sectors.

Intermediate targets are predominantly set using climate scenarios from the International Energy Agency (IEA). For the power sector, most banks apply the IEA's Sustainable Development Scenario (SDS) pathway for electricity generation in OECD countries, although HSBC and Morgan Stanley use the IEA's Net Zero Emissions by 2050 (NZE) scenario. The IEA's SDS scenario does not limit warming to 1.5°C. For the oil and gas sector, the NZE scenario is primarily used.

Goldman Sachs is the only bank to opt for the use of in-house scenarios (GS Net Zero Carbon Models) to establish targets in the power, energy and autos sectors. The use of in-house methodologies may complicate the assessment of target ambitions from an investor perspective due to limited comparability with other independent benchmarks.

Short- and medium-term targets – recommended next steps

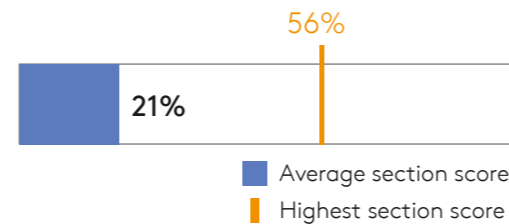
- Banks should set financed emissions targets with clear milestones across different time frames (i.e. short-term targets up to 2025 and medium-term targets any time between 2026 and 2035).
- Banks should cover all material financing of high-risk sectors across all their business segments or explain why some business segments or sectors have been omitted.
- All sectoral targets should be set using 1.5°C-aligned, sector-specific scenarios, where climate modelling is available.

3. Decarbonisation strategy

To evaluate how banks have established measures to deliver against their decarbonisation targets, this area is divided into three parts:

- 3.1. Engagement and capital allocation;
- 3.2. Exposure to and disclosure of financed emissions; and
- 3.3. Climate scenario analysis.

Decarbonisation strategy: average and highest scores*



* Groupe Crédit Agricole achieved the highest score here.

Banks' policies and engagement practices with high-risk sectors do not yet indicate that capital is being reallocated away from companies that are misaligned with a 1.5°C pathway.

Very few banks disclose comprehensive policies that restrict financial flows to high emission sectors and activities. Engagement with high-risk companies is often limited to companies in certain sectors – especially the coal sector – and typically does not include

setting financial conditions on companies that are lagging in their transition. Banks' overall weak performance on setting comprehensive decarbonisation strategies poses a challenge for investors who aim to assess the credibility of banks' targets to reduce financed emissions.

3.1. Engagement and capital allocation

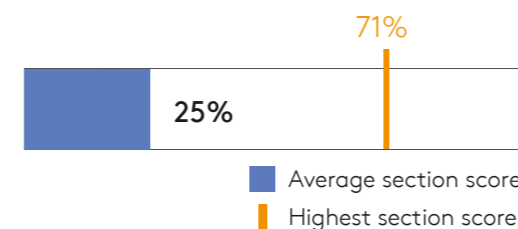
3.1.1. Does the bank disclose its engagement activities with companies on climate change matters?

3.1.2. Do the bank's asset management and/or wealth management divisions disclose their engagement activities with companies on climate change matters?

3.1.3. Does the bank set and disclose explicit criteria for the withdrawal of financing to unaligned activities?

3.1.4. Does the bank set and disclose a strategy to scale up green finance with clear goals and timelines?

Engagement and capital allocation: average and highest scores*



*HSBC achieved the highest score here.

Engagement on climate-related matters is often conducted through proxy voting by banks' asset or wealth management divisions. Few banks establish a bank-wide engagement strategy requiring transition plans from high-risk companies.

Given the variety of engagement practices on climate-related matters across banks, the indicators aim to assess the planned actions and outcomes that result from engagement activities with high-risk sectors. Separate indicators assess engagements conducted by asset management or wealth management

divisions from other business segments of the bank to reflect differences in active ownership engagement strategies. For example, it is recognised that company engagement by banks' asset management and wealth management divisions is conducted through proxy voting on climate-related shareholder

proposals. The findings indicate that banks more often have climate engagement policies within their asset management divisions.

- Fourteen banks (52% of our sample) publish the engagement policy of their asset management and/or wealth management division. However, only four banks quantify the proportion of engagements that addressed climate change alongside comprehensive explanations of engagement outcomes.

Engagement with high-risk companies when providing indirect finance, such as capital markets facilitation and lending, also represents an opportunity for banks to leverage their capital influence to encourage sectoral transitions. However, only six banks (22%) apply a bank-wide policy that requires companies from certain sectors to adopt transition plans consistent with bank-specific emissions targets. This is problematic, as the ability of banks to achieve their targets to reduce financed emissions hinges on reducing their portfolio exposure to high-carbon companies.

- Twenty-one banks (88%) do not require that companies they finance provide transition plans as a condition for receiving financing.
- BNP Paribas, HSBC, and Société Générale require transition plans from coal companies, but not from other high-risk sectors.
- Five banks (19%) apply financing conditions to ensure that client transition plans are enforced. They do this by establishing a watchlist of clients, setting exclusionary loan terms (e.g. suspending or phasing out disbursement) and providing climate-linked credit lines explicitly aimed at accelerating clients' transitions.

Several banks have set sectoral policies to withdraw financing from activities misaligned with a 1.5°C scenario but these policies are often weakened by loopholes.

The indicator identifies misaligned activities according to what recent climate science has determined is incompatible with a low-carbon future. In order to follow an emissions pathway aligned with a 1.5°C temperature limit, certain high emitting economic activities

must end immediately. For the financial sector, this means strong commitments that phase out financing of coal, oil and gas fields, deforestation and peatland conversion. Our analysis shows that:

- Only ING Bank commits to ending all types of financing to all coal activities in line with the IEA's Net Zero Emissions by 2050 scenario (see box). Other banks have limitations to their coal policies covering certain types of financing (e.g. project finance) or specific coal extraction activities (e.g. mountain-top removal).
- Deforestation policies are typically limited to specific regions and applications, such as agribusiness in high conservation value forests. Only HSBC publishes a comprehensive policy that commits to ending the financing of deforestation (see box).
- Credit Suisse and HSBC commit to ending the financing of conversion of peatlands by 2030.
- None of the four lowest scoring banks (Agricultural Bank of China, Bank of China, China Construction Bank, Industrial and Commercial Bank of China) sets restrictions on financing any thermal coal operations aside from requesting enhanced due diligence and legal compliance.
- No bank makes a commitment to end financing activities that aim to explore or develop new oil and gas fields in line with the IEA's Net Zero Emissions by 2050 scenario.⁷

HSBC

HSBC's policy to stop financing deforestation commits the bank to ending its provision of finance to customers involved directly, or indirectly via the supply chain, in forest or peatland conversion. The bank states that this commitment applies to customers with 'high forest-risk commodities' in their supply chains. These are commodities whose extraction or production contributes significantly to deforestation or forest degradation in the tropics and they include palm oil and soy, cattle and rubberwood.

7. ING's recent policy to restrict financing of new oil and gas fields was published after the cut-off date of this report and will be assessed in the next assessment cycle.

ING

ING Bank's coal policy meets the indicator's requirements to phase out thermal coal finance on a timeline compatible with a 1.5°C scenario by committing to ensure:

- No finance to new thermal coal-fired power plants or thermal coal mines.
- No engagement of new clients whose total power generation capacity is more than 10% reliant on operating coal-fired power plants.
- Existing clients in the utilities sector reduce their reliance on thermal coal to under 5% by 2025.

These examples represent strong policies that mitigate the financing of activities not aligned with a 1.5°C pathway. However, there remains substantial uncertainty about how banks' sectoral policies actually translate into finance provision given the lack of visibility into banks' portfolios.

Banks' withdrawal of capital from high-carbon activities may be slow but they are showing faster progress in setting milestones to scale up green finance.

Most banks acknowledge opportunities to scale up 'green' financing for low-carbon products and services, although definitions of green finance vary widely across banks. The heterogeneity of green finance definitions

makes relative comparisons between banks' targets difficult and underscores the need for further standardisation of green criteria that apply across banks and account for regional differences. The indicator assesses if a bank discloses a strategy to scale up green finance with specific targets, and if a bank aligns its definitions of eligible green projects with an externally recognised taxonomy published by a governing authority.

Our analysis shows:

- Nineteen banks (70%) disclose a target and strategy to scale up green finance investment.
- Nine banks (33%) reference or use elements of a taxonomy published by a national, regional or global governing body with which they align their green financing.
- Other banks with green finance targets use in-house frameworks or industry-led standards to determine eligible green finance activities.

Engagement and capital allocation – recommended next steps

- Banks should disclose explicit financing conditions for clients whose transition plans are not aligned with a net zero emissions pathway.
- Banks should align all their high-risk sector policies with a 1.5°C scenario. For banks' coal sector policies, the IEA's Net Zero Emissions by 2050 scenario requires:
 - No financing of additional capacity for thermal coal operations.
 - Phasing out of financial services and portfolio exposure to unabated coal-fired power generation by 2030 in the EU and OECD countries, and in the rest of the world by 2040 at the latest.
 - Coal policies to extend their coverage to include all financing and coal operations.
- Banks should clearly disclose their definition of green activities and align green finance definitions with taxonomies published by a national, regional or global governing body.

3.2. Exposure to and disclosure of financed emissions

3.2.1. Does the bank disclose exposure to high emissions sectors, from all of its material financing activities, on an emissions or a portfolio basis?

3.2.2. Does the bank disclose absolute emissions from all of its material financing activities?

3.2.3. Does the bank disclose emissions intensities from all of its material financing activities?

3.2.4. Does the bank disclose its approach to offsetting in the accounting of financed emissions, including explicit disclosure in case offsetting is included in financed emissions reduction targets?

Our findings indicate that banks are beginning to disclose financed emissions on an absolute and intensity basis. However, disclosure does not typically cover all high-risk sectors, or all material business segments outside of lending.

- Nineteen banks (70%) disclose their exposure to high-risk sectors on a portfolio or financed-emissions basis. Of these, 16 banks (59%) only provide their exposure associated with lending.

While methodologies used to quantify financed emissions for certain activities are still under development, recognised carbon accounting methodologies such as PCAF have been widely

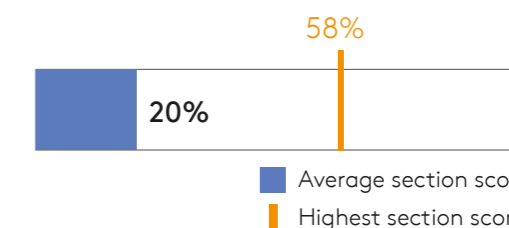
Citigroup

Citigroup discloses its exposure to high-risk sectors in a granular way, such that:

- Exposure covers all high-risk sectors across its lending portfolio, including a sub-sector breakdown.
- The levels of physical and transition risk by sub-sector are included.
- Exposure to high-risk sectors is disclosed in dollars, as a percentage of total lending exposure, total funded, and percentage of funded exposure.

However, Citigroup only discloses its lending portfolio exposure.

Financed emissions: average and highest scores*



*Citigroup and Groupe Crédit Agricole achieved the highest scores here.

Banks are beginning to disclose financed emissions using recognised carbon accounting tools such as PCAF, but few banks disclose how client-purchased offsets are treated in their financed emissions accounting.

employed by banks to disclose their financed emissions from their lending activities. However, the absence of established standards should not stop banks from calculating the financed emissions associated with their other activities.

- Sixteen banks (59%) disclose financed emissions in at least one sector and activity on an emissions intensity basis. Eight of these banks (30%) also disclose financed emissions on an absolute emissions basis, with Groupe Crédit Agricole disclosing only on an absolute emissions basis (see box).
- Five banks (19%) – Deutsche Bank, HSBC, Royal Bank of Canada, Scotiabank and Société Générale – report emissions intensities based on a financial metric (e.g. tonnes of CO₂ per million dollars of revenue), rather than a physical metric (e.g. tonnes of CO₂ per terajoule), although a reason for this is typically not given.

One indicator looks at whether banks disclose how the carbon offsets purchased by their clients are treated in banks' calculations of financed emissions. We find that disclosure of offset methodologies used for financed emissions accounting is rare. Nevertheless, four of the assessed banks (15%) – Citigroup (see box), Goldman Sachs, Groupe Crédit Agricole, and J.P. Morgan (see box) – provide information on their approaches to clients' use of offsets and carbon sequestration.

Crédit Agricole

- Crédit Agricole discloses financed emissions comprehensively across all high-risk sectors.
- The bank uses the P9CXA Methodology to quantify absolute emissions and transparently discloses the assumptions and variables used in its carbon accounting approach.

J.P. Morgan

J.P. Morgan clearly states that offsets purchased by its oil and gas and autos clients are included in the bank’s accounting of financed emissions. All types of company-implemented carbon removals – including carbon capture and storage, direct air capture, and nature-based solutions – are accepted by J.P. Morgan, provided they follow standard greenhouse gas accounting protocols. J.P. Morgan is transparent about allowing company-implemented carbon removals to count towards the bank’s targets for reducing financed emissions.

Mitsubishi UFJ FG

- MUFG demonstrates some good practice in its climate scenario analysis disclosure by:
- Including a 1.5°C scenario to assess transition risks.
 - Quantifying financial impacts on credit portfolios and changes in credit ratings of the energy, utilities, and autos sectors.
 - Quantifying physical risk based on monetary damage from floods.

Climate scenario analysis – recommended next steps

- Banks should include coverage of all high-risk sectors in climate scenario analysis and disclose the results by quantifying the potential impact on banks’ portfolios. They should also disclose any mitigation actions taken following their analysis.
- Banks should incorporate a 1.5°C scenario in the assessment of both transition and physical risks, being transparent about the scenario, variables and sources used.
- Banks should conduct comprehensive climate scenario analysis based on the guidance and pilot programmes of regulatory authorities and central banks.

Financed emissions – recommended next steps

- Financed emissions calculations should cover all high-risk sectors. Detailed assumptions and data sources used should also be disclosed.
- Disclosure of exposure to high-risk sectors should include both financed emissions and the absolute monetary value in dollars they relate to and cover all material business segments and sectors.

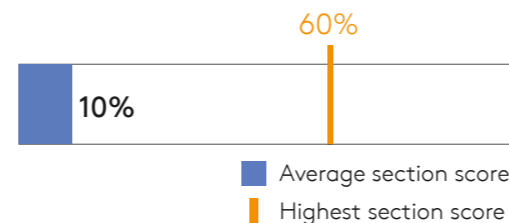
3.3. Climate scenario analysis

3.3. Does the bank undertake 1.5°C climate scenario planning?

Several banks disclose that they conduct climate scenario analysis or stress tests, although most do not report findings from their analyses and very few quantify the potential impact on their portfolio.

For most banks their climate scenario analysis is at the pilot stage. The scenarios used vary widely in terms of the temperature limits they work to (2°C, below 2°C, 1.5°C) and the scope of coverage across business segments. Typically, banks do not disclose the results of their climate scenario analysis and even fewer report quantitative results. This prevents investors being able to assess banks’ resilience to the various structural disruptions (e.g. policy, technology, weather events) implied by different climate outcomes.

Climate scenario analysis: average and highest score*



*Mitsubishi UFJ FG (MUFG) achieved the highest score here.

- Eight banks (30%) quantify results from their climate scenario analyses. The most commonly disclosed metric is credit exposure at risk.
- Seven banks (26%) conduct climate scenario analyses assessing transition risks to their portfolios and five banks (19%) have conducted analyses of physical risks. However, all results have limited sector and financing coverage.
- Only Mitsubishi UFJ incorporates the use of a 1.5°C scenario into its climate scenario analysis of transition risks (see box).



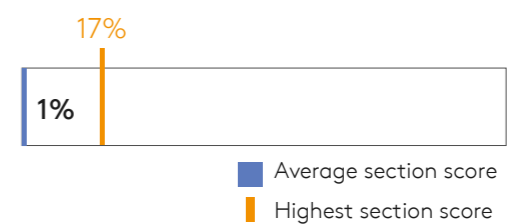
4. Climate policy engagement

4.1. Does the bank have a Paris Agreement-aligned climate lobbying position, and are all of its direct lobbying activities aligned with this?

4.2. Does the bank align its trade association memberships with the goals of the Paris Agreement, and does it disclose its trade association memberships?

4.3. Does the bank have a process to ensure its trade associations lobby in accordance with the Paris Agreement?

Climate policy engagement: average and highest scores*



*Bank of Montreal achieved the highest score here.

Banks’ disclosure of lobbying activities and trade association memberships in line with the Paris Agreement is still in its infancy.

Unlike progress seen in other economic sectors analysed by TPI, banks’ disclosure on external policy outreach is limited, with no clear discussion of their climate-related lobbying activities conducted directly or indirectly through trade association memberships.

- No bank publishes a position statement that pledges to conduct all direct lobbying activities in line with the goals of the Paris Agreement.
- Two banks, BNP Paribas and Royal Bank of Canada, disclose efforts to ‘encourage’ or ‘support’ climate-related policy issues, though these statements do not constitute a commitment to align all lobbying with the Paris climate agenda.

The indicator seeks an exhaustive list of all climate-related lobbying activities conducted by the bank in the latest reporting year.

- No bank publicly records or details all direct climate-related lobbying activities carried out in the latest reporting year. Such activities may include holding meetings with regulators, presenting policy submissions and making political donations.
- Six banks disclose certain climate-related lobbying activities in their CDP Climate Change Questionnaire (C12.3), although TPI is unable to confirm if this disclosure is a complete list of all climate-related lobbying activity.

Trade association memberships are also crucial in demonstrating a bank's commitment to aligning industry-wide interests with the Paris Agreement.

- No bank publishes a clear statement that it ensures all trade association policy positions, and their lobbying activities, are aligned with the Paris Agreement.
- Only Bank of Montreal clearly discloses all trade association memberships on its website and in its sustainability reporting.

Climate policy engagement – recommended next steps

- Banks should publish a clear commitment to ensure all of a bank's direct and indirect lobbying and advocacy activities are aligned with the goals of the Paris Agreement.
- Banks should disclose a complete list of all climate-related lobbying activities and all trade associations of which the bank is a member.

Citigroup

Citigroup embeds climate change risk and its net zero strategy into its governance processes:

- Two board committees are responsible for oversight of the climate change policy.
- The risks associated with the transition to net zero are discussed in its 'Form 10-K' and incorporated into the bank's key risk categories.

Climate governance – recommended next steps

- Banks should nominate a board member or board committee with explicit oversight of their net zero strategy.
- Risk committees should incorporate physical and transition climate risks as key risk categories.
- Banks should tie the remuneration of at least one senior executive with the bank's financed emission targets as a KPI, thereby establishing performance-linked compensation within its governance.

5. Climate governance

5.1. Has the bank nominated a board member or board committee with explicit responsibility for oversight of the climate change policy?

5.3. Does the bank's remuneration for senior executives incorporate climate change performance aligned with a 1.5°C transition?

5.2. Does the bank's risk committee explicitly discuss and consider the impacts of climate-related risks?

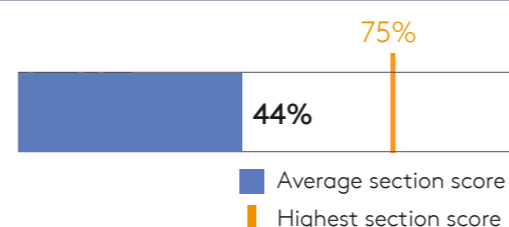
5.4. Does the bank commit to implement the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD)?

Investors expect banks' governance structures to integrate climate considerations into financial planning and risk management. Many banks have governance mechanisms that provide such oversight.

- Twenty-two banks (81% of the sample) oversee climate change policy at board level, while 20 banks (74%) incorporate climate-related risks into their key risk categories.

These results reflect the growing recognition that climate impacts pose significant structural changes, which require oversight at the highest level of governance. Nevertheless, significantly less progress is being made in establishing oversight of banks' net zero transition.

Climate governance: average and highest scores*



*Citigroup achieved the highest score here.

Most banks have governance structures around climate change policy and climate risks, although very few assign direct oversight of the bank's net zero strategy. No bank explicitly links executive remuneration to financed emissions reduction targets.

- Only three banks (11%) – Citigroup (see box), Credit Suisse and UBS – oversee the net zero strategy at board level, and only Citigroup incorporates the risks associated with the transition to net zero into its key risk categories.

As a growing number of net zero commitments are published and subsequently bolstered by interim financed emissions reduction targets, investors expect governance incentives that explicitly reward progress on reducing financed emissions. Banks are yet to act on those expectations. No bank yet ties executive remuneration with material financed emissions.

6. Audit and accounts

6.1. Do the bank's audited financial statements and notes thereto incorporate material climate-related matters?

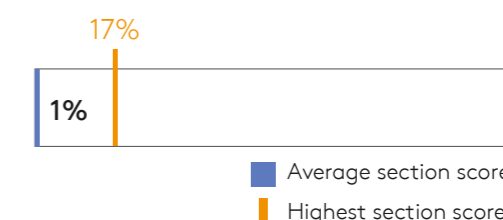
6.2. Does the audit report demonstrate that the auditor considered the effects of material climate-related matters in its audit?

6.3. Do the audited financial statements and notes thereto incorporate the material impacts of the global drive to net zero emissions by 2050 (or sooner), equivalent to achieving the Paris Agreement goal of limiting global warming to no more than 1.5°C?

While material climate risks are often acknowledged in public disclosures, such as stress testing or TCFD reports, banks have yet to reflect climate risks in the expected revaluations across financial accounts.

Financial reporting that reflects climate considerations remains in its infancy across sectors and the banking sector is no exception. None of the assessed banks comprehensively incorporates material climate-related matters into its financial accounts. Only Société Générale incorporates some material climate-related matters into its financial reporting.

Audit and accounts: average and highest scores*



*Barclays achieved the highest score here.

No quantitative climate-related assumptions or estimates are disclosed in any bank's financial statements.

The pilot assessments reveal a distinct inconsistency between banks' financial statements and other public disclosures (such as principal risks identified in annual reports, stress testing data, sustainability reports, TCFD reports and so on), which often acknowledge climate risk as a key financial risk impacting on bank-wide activities. When reviewing the consistency and accuracy of banks' financial statements, most auditors do not consider the effects of material climate-related matters.

- Only KPMG, Barclays' financial auditor, includes the material impacts of climate-related matters within the scope of its financial audit.
- No bank's financial statements use, or disclose a sensitivity to, assumptions and estimates that are aligned with achieving net zero emissions by 2050.

Audits and accounts – recommended next steps

- Banks should indicate how material climate matters are integrated into its financials, providing detail relating to the accounting for materially relevant items. Quantitative climate-related assumptions and estimates used in financial accounts should also be disclosed.
- Banks should provide sensitivity analysis for a net-zero-by-2050 pathway in the notes to their accounts.
- Banks’ auditors should consider the effects of material climate-related matters in their audit, as well as the sensitivity to a 1.5°C pathway, and confirm the accuracy and reliability of these disclosures.



“No quantitative climate-related assumptions or estimates are disclosed in any bank’s financial statements.”

TESS SOKOL-SACHS, POLICY OFFICER

E. Lessons learned and avenues for future research

The framework of pilot indicators has been designed to reflect ambitious investor expectations and set a high standard for the actions needed by banks to align with a 1.5°C trajectory. The results from our pilot study demonstrate that the banking sector is still at the beginning of its transition. Even banks that demonstrate best practice in several areas are yet to establish more advanced decarbonisation practices in other areas. However, we have identified several examples of good practice and leadership that banks can build on to accelerate their own transitions.

It is important to recognise that there are methodological barriers to banks taking more ambitious actions, for example in quantifying financed emissions and setting targets to reduce them. In these domains, tools are still in development or in the pilot stage; rapid progress is now needed to enable banks to fulfil their role as catalysts of the low-carbon transition.

The framework of pilot banking indicators should be seen by investors as setting a clear path forward for their assessment of, engagement with and support to banks on their low-carbon transition.

Building on the results of this pilot assessments of 27 banks and the potential areas for future development, **eight key engagement priorities with banks have been identified:**

- Expanding the coverage of banks’ decarbonisation targets to all material business segments and sectors.
- Underpinning long-term net zero ambitions with ambitious short- and medium-term milestones.
- Encouraging banks to engage with their clients on transition plans and phasing out financing of misaligned activities.
- Improving the quality of banks’ disclosure of financed emissions and their exposure to high-risk sectors.
- Integrating a 1.5°C scenario in climate scenario analyses of transition and physical risks and disclosing quantitative results.



“We have identified several examples of good practice and leadership that banks can build on to accelerate their own transitions.”

SIMON DIETZ, RESEARCH LEAD

- Aligning banks’ lobbying activities with the goals of the Paris Agreement.
- Linking executive remuneration with bank’s progress on decarbonisation targets.
- Incorporating climate risks into banks’ financial statements and audits, including sensitivities for a 1.5°C pathway.

For this pilot study we only present bank scores by area. At this stage a comprehensive scoring methodology is yet to be developed in consultation with investors. As scoring is not currently weighted by indicator, it would be misleading to provide an overall ranking of banks. A key priority therefore will be to develop a scoring methodology for the finalised framework which is aligned as far as possible with other investor frameworks.

Other important priorities for the final framework will be to further develop how we assess targets to reduce financed emissions and the quality of the disclosure of financed emissions; how we measure engagement outcomes, in particular in terms of voting activities for banks’ asset and wealth management divisions; and how banks might tie executive remuneration to climate targets, for example in the form of a Paris underpin.⁸ Depending on the progress that banks make in improving the quality of their disclosure of financed emissions pathways, it may be possible to establish a methodology for assessing the carbon performance of the banking sector in the future.

8. A pre-condition that must be met for performance-related variable remuneration to be paid.

F. Implications for investors

Investors are increasingly committing to align their portfolios with delivering the goals of the Paris Agreement.⁹ As primary mechanisms for channelling capital into all economic sectors and influencing capital expenditure, banks are vital to achieving this.

Banks' exposure to climate-related financial risk has become an increasing concern from investors, highlighting the need for a framework to assess financial sector alignment with a 1.5°C pathway. This led to the publication of IIGCC's Investor Expectations for the Banking Sector in 2021 and the ongoing work to develop this framework.

This framework of pilot indicators, derived from the Investor Expectations and to be further developed as 2022 progresses, is intended to be a key tool in supporting shareholder engagement with banks on net zero. The framework is intentionally ambitious, reflecting the need to focus on the ultimate goal of 1.5°C alignment, which the IPCC has highlighted as being necessary. While this sets a high bar today, we anticipate that performance will improve over time as banks begin to implement existing net zero commitments and respond to evolving regulation.

Shareholders also have a responsibility both to engage constructively and to hold banks to account. **Used in conjunction with IIGCC's Net Zero Stewardship Toolkit, the final framework may be used to help investors:**

- Evaluate the climate-related performance of banks in their portfolios
- Engage in dialogue with individual banks, particularly on the eight key engagement areas
- Set objectives for engagement and a strategy for meeting them
- Assess progress against the indicators, and inform AGM engagement activities, such as voting where progress has been deemed insufficient.

The framework of pilot indicators is still being refined. Over the coming months, IIGCC will consult with its members, network partners and assessed banks on the pilot indicators to ensure they are fit for purpose and that any scoring methodology is aligned with other investor frameworks. Once finalised, we would encourage investors to apply and embed the banking sector framework within their engagement plans.



“While the analysis is based on pilot indicators, the emerging picture is of a banking sector that needs to substantially accelerate its decarbonisation efforts to align with a 1.5°C pathway. Given the integral role banks play in directing capital across entire economies, aligning banks’ activities with net zero is key to delivering global decarbonisation.”

STEPHANIE PFEIFER, CEO, IIGCC

9. As of 31 December 2021, 236 investors totalling US\$57.5 trillion in Assets Under Management had signed the Net Zero Asset Managers initiative, and in so doing have committed to supporting the goal of net zero greenhouse gas emissions by 2050 or sooner.

Appendix: Pilot banking indicators version 1

Indicator	Sub-indicator
1. Net zero commitment	
1.1.	
Has the bank committed to achieving net zero emissions from its financed emissions by 2050 or sooner, consistent with a 1.5°C scenario?	<ul style="list-style-type: none"> a. Has the bank committed to achieving net zero emissions from its financing activities by 2050 or sooner, consistent with a 1.5°C scenario? b. Does the net zero emissions commitment cover the bank's material financing activities in at least one high-risk sector? c. Does the net-zero emissions commitment cover all material financing of high-risk sectors in at least one business segment (e.g. wholesale lending, retail lending, capital market activities)? d. Does the bank's net zero emissions commitment cover all its material financing of high-risk sectors across all business segments?
2. Targets	
2.1.	
Has the bank set short-term targets for reducing its material emissions any time up to 2025, consistent with a 1.5°C scenario?	<ul style="list-style-type: none"> a. Has the bank set at least one target for reducing its financed emissions up to 2025? b. Do the targets cover the bank's material financing activities in at least one high-risk sector? c. Do targets cover all material financing of high-risk sectors in at least one business segment (e.g. wholesale lending, retail lending, capital market activities)? d. Do the targets cover all material financing of high-risk sectors across all business segments? e. Has the bank disclosed the scenarios it uses to set sector-specific targets? f. Has the bank set at least one target that is aligned with a 1.5°C scenario?

2.2.

Has the bank set medium-term targets for reducing its material emissions anytime between 2026 and 2035, consistent with a 1.5°C pathway?

- a. Has the bank set at least one target for reducing its financed emissions between 2026 and 2035?
- b. Do the targets cover the bank's material financing activities in at least one high-risk sector?
- c. Do the targets cover all material financing of high-risk sectors in at least one business segment (e.g. wholesale lending, retail lending, capital market activities)?
- d. Do the targets cover all material financing of high-risk sectors across all business segments?
- e. Has the bank disclosed the scenarios it uses to set sector-specific targets?
- f. Has the bank set at least one target that is aligned with a 1.5°C scenario?

3. Decarbonisation strategy

3.1. Engagement and capital allocation

3.1.1.

Does the bank disclose its engagement activities with companies on climate change matters?

- a. Does the bank disclose an engagement policy requiring companies to adopt transition plans consistent with the bank's emissions targets?
- b. Does the bank disclose actions taken to ensure transition plans are enforced?

3.1.2.

Do the bank's asset management and/or wealth management divisions disclose their engagement activities with companies on climate change matters?

- a. Do the bank's asset management and/or wealth management divisions disclose their engagement policy with companies on climate change matters?
- b. Do the bank's asset management and/or wealth management divisions disclose the number of companies they have engaged with and relevant details, including stakeholders, focus, and outcomes of engagement?
- c. Do the bank's asset management and/or wealth management divisions disclose the value of associated financing or percentage of overall financing they have engaged with?

3.1.3.

Does the bank set and disclose explicit criteria for the withdrawal of financing to misaligned activities?

- a. Has the bank committed to phasing out thermal coal related financing (mining and power) in a timeline compatible with a 1.5°C aligned pathway?
- b. Has the bank committed to ending financing activities which aim to explore or develop new oil and gas fields?
- c. Has the bank committed to ending financing deforestation no later than 2030?
- d. Has the bank committed to ending the financing of conversion of peatlands no later than 2030?

3.1.4.

Does the bank set and disclose a strategy to scale up green finance with clear goals and timelines?

- a. Has the bank set and disclosed a strategy to scale up green finance with specific milestones and targets?
- b. Does the bank use an established external definition of green activities (e.g. the EU Taxonomy)?

3.2. Exposure and financed emissions disclosure

3.2.1.

Does the bank disclose exposure to high-risk sectors, from all of its material financing activities, on an emissions or a portfolio basis?

- a. Does the bank disclose exposure to high emissions sectors?
- b. Does the bank disclose exposure to high emissions sectors across all material business segments?
- c. Does the bank disclose exposure to high emissions sectors across all sectors in which it has activities?

3.2.2.

Does the bank disclose absolute emissions from all of its material financing activities?

- a. Does the bank quantify and disclose financed absolute emissions?
- b. Does the bank quantify and disclose financed absolute emissions for all its material business segments?
- c. Does the bank quantify and disclose absolute emissions for all high-risk sectors in which it has activities?

3.2.3.

Does the bank disclose emissions intensities from all of its material financing activities?

- a. Does the bank quantify and disclose financed emissions intensities?
- b. Does the bank quantify and disclose emissions intensities for all its material business segments?
- c. Does the bank quantify and disclose emissions intensities for all high-risk sectors in which it has activities?

3.2.4.

Does the bank disclose its approach to offsetting in the accounting of financed emissions, including explicit disclosure in case offsetting is included in financed emissions reduction targets?

3.3. Climate scenario analysis

3.3.1.

Does the bank undertake 1.5°C climate scenario planning?

- a. Has the bank conducted a climate-related scenario analysis for transition risks, including quantitative elements, and disclosed its results?
- b. Has the bank conducted a climate-related scenario analysis for physical risks, including quantitative elements, and disclosed its results?
- c. Has the bank conducted a climate-related scenario analysis for all its material business segments and disclosed its results?
- d. Does the quantitative scenario analysis explicitly cover all of the high-risk sectors the bank has activities in?
- e. Does the scenario analysis explicitly include a 1.5°C scenario, cover the entire portfolio, disclose key assumptions and variables used, and report on the key risks and opportunities identified?

4. Climate policy engagement

4.1.

Does the bank have a Paris Agreement-aligned climate lobbying position, and are all of its direct lobbying activities aligned with this?

- a. Has the bank have a specific position statement to conduct its lobbying in line with the goals of the Paris Agreement?
- b. Does the bank list all of its climate-related lobbying activities (e.g. meetings, policy submissions)?

4.2.

Does the bank align its trade association memberships with the goals of the Paris Agreement, and does it disclose its trade association memberships?

- a. Does the bank have a specific commitment to ensure that the trade associations it is a member of lobby in line with the goals of the Paris Agreement?
- b. Does the bank disclose all of its trade associations memberships?

4.3.

Does the bank have a process to ensure its trade associations lobby in accordance with the Paris Agreement?

- a. Has the bank conducted and published a review of its trade associations' climate positions/alignment with the Paris Agreement?
- b. Does the bank explain what actions it took as a result of this review?

5. Climate governance

5.1.

Has the bank nominated a board member or board committee with explicit responsibility for oversight of the climate change policy?

- a. Has the bank nominated a board member or board committee with explicit responsibility for oversight of the climate change policy?
- b. Has the bank nominated a board member or board committee with explicit responsibility for oversight of the net zero strategy?

5.2.

Does the bank's risk committee explicitly discuss and consider the impacts of climate-related risks?

- a. Has the bank's risk committee explicitly included physical and transition as a key risk category?
- b. Does the bank's risk committee explicitly discuss how the impacts of risks associated with the transition to net zero are integrated in the bank's key risk categories?

5.3.

Does the bank's remuneration for senior executives incorporate climate change performance aligned with a 1.5°C transition?

- a. Does the bank's CEO and/or at least one other senior executive's remuneration arrangements specifically incorporate climate change performance based on material Scope 3 emissions as a KPI determining performance-linked compensation?
- b. Are the bank's CEO and/or at least one other senior executive's remuneration arrangements explicitly aligned with a 1.5°C pathway?

5.4.

Does the bank commit to implement the recommendations of the Task Force on Climate related Financial Disclosures (TCFD)?

- a. Is the bank listed as a supporter on the TCFD website or does it explicitly commit to align its disclosures with the TCFD recommendations?
- b. Does the bank explicitly signpost TCFD aligned disclosures in its annual reporting or publish them in a TCFD report?

6. Audit and accounts

6.1.

Do the bank's audited financial statements and notes thereto incorporate material climate-related matters?

- a. Do the financial statements demonstrate how material climate-related matters are incorporated?
- b. Do the financial statements disclose the quantitative climate-related assumptions and estimates?
- c. Are the financial statements consistent with the bank's other reporting?

6.2.

Does the audit report demonstrate that the auditor considered the effects of material climate-related matters in its audit?

- a. Does the audit report identify how the auditor has assessed the material impacts of climate-related matters?
- b. Does the audit report identify inconsistencies between the financial statements and 'other' information?

6.3.

Do the audited financial statements and notes thereto incorporate the material impacts of the global drive to net zero emissions by 2050 (or sooner), equivalent to achieving the Paris Agreement goal of limiting global warming to no more than 1.5°C?

- a. Do the financial statements use, or disclose a sensitivity to, assumptions and estimates that are aligned with achieving net zero emissions by 2050 (or sooner)?
- b. Does the audit report identify that the assumptions and estimates that the bank used were aligned with achieving net zero emissions by 2050 (or sooner) or does it provide a sensitivity analysis on the potential implications?

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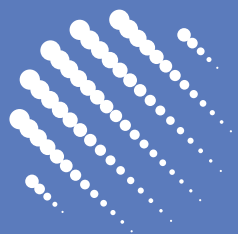
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