State of transition in the banking sector

December 2024

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Transition Pathway Initiative

LSE

Grantham Research Institute on Climate Change and the Environment

About the LSE Transition Pathway Initiative Centre

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

The TPI Centre is part of the Grantham Research Institute on Climate Change and the Environment, based at the London School of Economics and Political Science (LSE). The TPI Centre is the academic partner of TPI, a global initiative led by asset owners and supported by asset managers. As of October 2024, over 150 investors globally, representing around US$80 trillion combined Assets Under Management and Advice,[1] had pledged support for TPI.

The TPI Centre provides data on publicly listed equities, corporate bond issuers, banks and sovereign bond issuers. The TPI Centre's research and data:

- Assess the quality of entities' governance and management of their carbon emissions and risks and opportunities related to the low-carbon transition.
- Evaluate whether entities' current and planned future emissions are aligned with international climate targets and national climate pledges, including those made as part of the Paris Agreement.
- Are published alongside the methods online and fully open access at: www.transitionpathwayinitiative.org.

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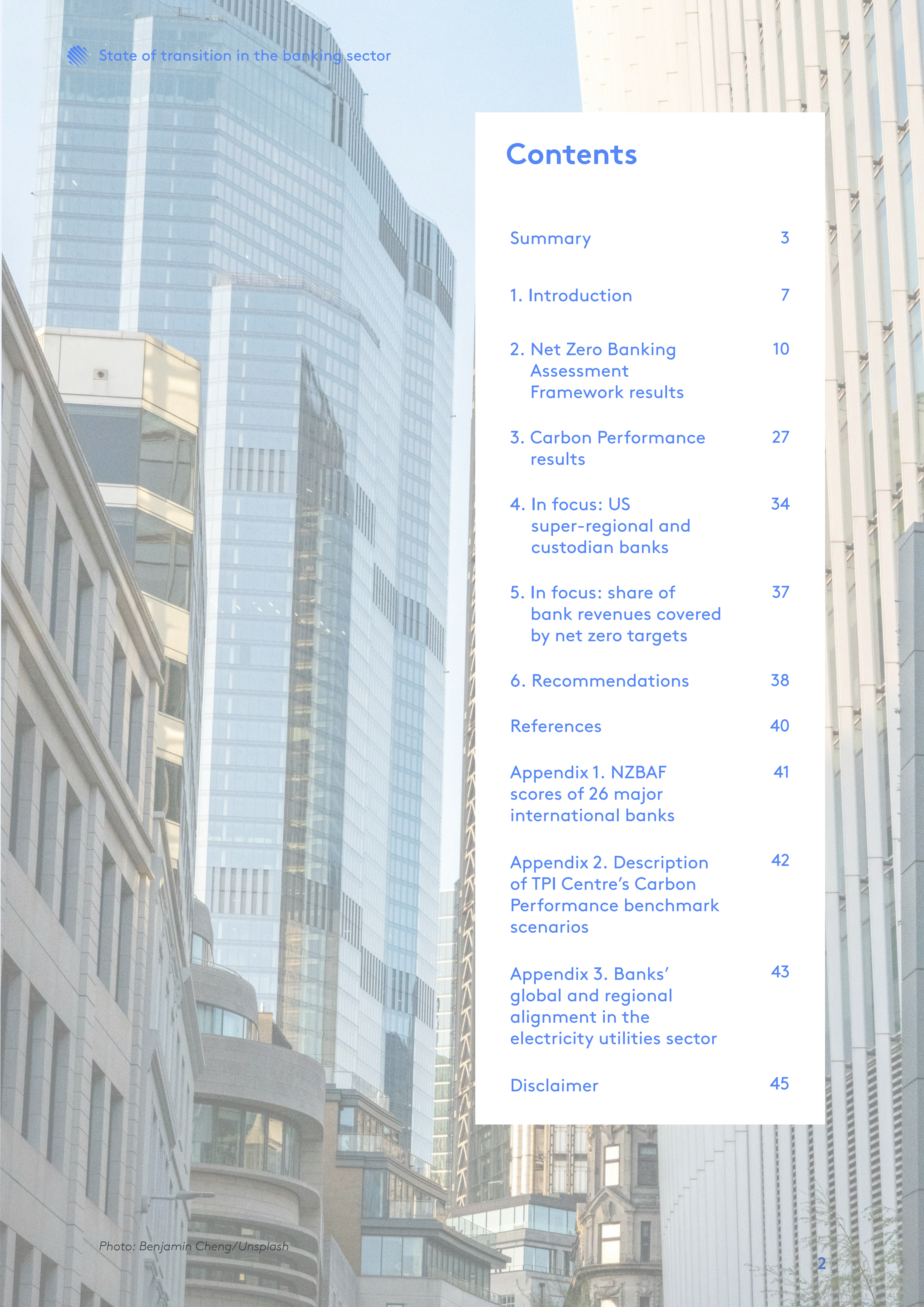
[1] This AUM figure is subject to market price and foreign exchange fluctuations. As the sum of self-reported data by TPI supporters, some assets may be double-counted.



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Summary

Banks are integral to the transition to a low-carbon economy. By providing direct financing and financial services, they can actively promote low-carbon activities and support businesses that are striving to reduce their carbon footprint. However, the transition also presents significant challenges for banks: their involvement in financing high-emission sectors contributes to climate change and exposes them to transition risks that stem from the increasing regulatory and market pressures on polluting industries to decarbonise. Additionally, the physical risks associated with climate change can adversely affect the creditworthiness of banks' clients, generating knock-on financial risks to banks.

The TPI Centre began assessing the banking sector's progress on the low-carbon transition with a pilot study in 2022. This 2024 assessment includes an evaluation of 26 major international banks, 10 US super-regional banks and two US custodian banks, on two elements:

1. **The Net Zero Banking Assessment Framework (NZBAF).** Developed by the TPI Centre in consultation with the investor networks the Institutional Investors Group on Climate Change (IIGCC) and Ceres, this framework evaluates banks on 72 sub-indicators organised into 10 areas. These sub-indicators can be used to assess banks' overall performance in managing the low-carbon transition and mitigating the impacts of climate change, covering banks' decarbonisation strategies, climate risk management practices and emissions disclosures.
2. **Carbon Performance.** The NZBAF is complemented by an in-depth, quantitative assessment of banks' Carbon Performance, i.e. their alignment with low-carbon scenarios. We evaluate banks' sectoral decarbonisation pathways over different timeframes and their alignment with sectoral benchmarks (1.5°C, Below 2°C, and National/International Pledges; see definitions in Appendix 2). The analysis also shows which sectors and bank business activities are covered by banks' emission reduction targets.

Key findings from the 2024 assessment

The results of our 2024 assessment send a clear message: **the overwhelming majority of banks are still in the early stages of their transition to a low-carbon economy.** This is despite the fact that most banks are now publicly disclosing some of their financed emissions and half are committing to reducing them to net zero by 2050. Our assessment finds that banks score poorly on both the NZBAF and Carbon Performance assessments.

On average, the 38 banks assessed in 2024 score on only 15% of the 72 sub-indicators that make up the NZBAF, and no bank scores on more than half of the sub-indicators (see Figure S1). Banks' Carbon Performance is similarly weak, with low levels of alignment with the 1.5°C and Below 2°C benchmarks, particularly in the medium and long term.

Apart from the general lack of concrete and well-defined climate disclosures, a key aspect preventing banks from scoring higher is that their commitments, targets and policies often cover only a limited number of their business activities and few economic sectors. While overall performance is weak, there is considerable variation across banks.

Net Zero Banking Assessment Framework analysis – results

- **Net zero commitments:** Setting net zero commitments has become common practice among major international banks, but these commitments remain limited in scope due to the exclusion of material business segments, particularly capital market activities.
- **Sectoral targets:** Sectoral target-setting is very common among major international banks, particularly in the electricity utilities and oil and gas sectors. However, banks typically set targets that cover only a small number of sectors and business segments.

- **Exposure and emissions disclosure:** Reporting of financed and/or facilitated emissions is becoming more commonplace but remains fragmented across business segments and sectors. While some banks disclose their credit exposure to high-emission sectors, no bank discloses its revenue exposure. The lack of bank disclosures related to the exposure of their credit and revenue to high-emission sectors impedes stakeholders' ability to assess banks' potential vulnerability to transition risks.
- **Decarbonisation strategy:** While most major international banks evaluate their clients' progress towards a low-carbon economy, few have linked these assessments to financing conditions. Similarly, few asset managers disclose concrete voting escalation policies for investee companies that are not aligned with a 1.5°C pathway.

  Most banks have limited or no commitment to phase out or reduce their financing of fossil fuels, despite several banks recently updating their policies in this area. The limited scope of the commitments enables the continued funding of misaligned fossil fuel activities. Similarly, banks' policies on deforestation and land conversion often fall short of their commitments by covering only a few regions and not all high-risk forest commodities.
- **Climate solutions:** Banks are increasingly setting targets for financing climate solutions, but a lack of disclosure on the amount of such financing as a proportion of their total portfolio limits investors' ability to make comparisons across banks.
- **Climate policy engagement:** No bank has committed to aligning its lobbying position with the goal of limiting global temperature rise to 1.5°C.
- **Climate governance:** Most banks now acknowledge climate risk as a material risk and have established board-level oversight of it. However, less than half of banks explain how climate risk impacts their business and state their actions to address it. Furthermore, no bank assesses the climate competencies of its board and only a minority link executive pay to climate-related performance.
- **Just transition:** A few banks have started to incorporate just transition principles into their decarbonisation strategy, but no bank explicitly commits to decarbonise in line with just transition principles.
- **Annual reporting, accounts and audits:** While most banks state that climate risks could have a material impact on their business, very few integrate climate risk considerations into their financial statements. None of the banks we assess conclude that climate-related matters are material for their financial statements.
- **US super-regional banks:** The overall performance of the 10 US super-regional banks is significantly weaker than the 26 international banks assessed: none of them score on 63 of the 72 sub-indicators of the NZBAF.

Figure S1. Overview of banks' performance on the NZBAF in 2024

Region of bank's headquarters: Asia, Europe, North America

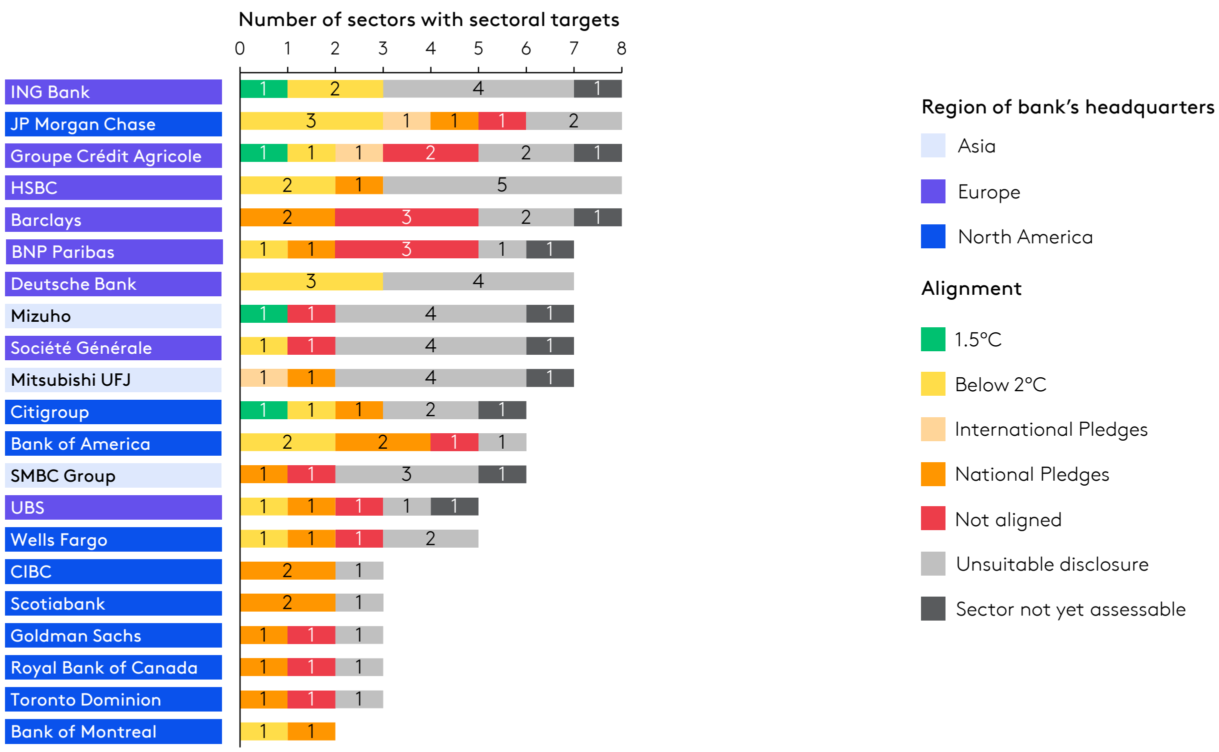
Category	Major international banks						US super-regional banks	Custodian banks
% of yes Scores	0-10	10-20		20-30	30-40	40-50	0-10	0-10
Banks	Agricultural Bank of China	Bank of America	Bank of Montreal	BNP Paribas	Groupe Crédit Agricole	Barclays	Capital One	BNY
				Deutsche Bank			Citizens	
	Bank of China	Canadian Imperial Bank of Commerce	Citigroup		HSBC		Fifth Third	State Street Corp
				Mitsubishi UFJ			Huntington	
	China Construction Bank	Goldman Sachs	JP Morgan Chase	Royal Bank of Canada	ING Bank		KeyCorp	
							M&T Bank	
	Industrial and Commercial Bank of China	Morgan Stanley	Scotiabank	SMBC Group	Mizuho		PNC	
				Toronto Dominion			Regions	
		Société Générale	Wells Fargo				Truist	
				UBS			US Bancorp	

Note: The % of 'Yes' scores represents the proportion of positive scores out of the total 72 sub-indicators in the NZBAF.

Carbon Performance assessment – results

- **Most banks are still not on course to meet the Paris Agreement temperature goals:** only 19% of the banks' sectoral pathways are aligned with 1.5°C or Below 2°C benchmarks in the medium term (2035). Only 3% are aligned with the more stringent 1.5°C benchmark (see Figure S2).
- **The scope of banks' decarbonisation targets is limited.** Of the banks providing sufficient information, we estimate that targets cover on average only 22% of their total revenue. Only seven banks include capital market activities in their sectoral targets, meaning that significant portions of banks' businesses are not covered.
- **Banks prioritise setting decarbonisation targets for certain sectors, which include electricity utilities, oil and gas and automotive manufacturing.** This leaves gaps in coverage for other high-emission sectors such as airlines, cement, food, diversified mining and steel.
- **European and Japanese banks have, on average, set more sectoral decarbonisation targets than North American banks.** Chinese banks have not yet set any sectoral decarbonisation targets.
- **Of the banks we assess, Barclays, BNP Paribas, Groupe Crédit Agricole, HSBC, ING Bank and JP Morgan Chase have set the most targets:** BNP Paribas covers nine of the 14 high-emission sectors with at least one target, while the others cover eight sectors.
- **Most of the assessed banks have 2030 decarbonisation targets in line with the recommendations of the Net-Zero Banking Alliance (NZBA),** but many lack short- and long-term targets to map a clear pathway to net zero by 2050.

Figure S2. Banks' alignment with low-carbon benchmarks in the medium term (in 2035)



Recommendations

Drawing on the trends identified in our assessment data, and investor expectations as set out in the IIGCC's *Net Zero Standard for Banks* (IIGCC, 2023) and the Transition Plan Taskforce's Bank Sector Guidance (TPT, 2023), we recommend that banks do the following:

- **Expand the scope of commitments, targets and policies.** Banks' coverage of business segments and economic sectors is currently insufficient across all sub-indicators. A limited scope of action reduces the impact of banks' net zero commitments, decarbonisation targets, emissions disclosures, and financing, lobbying and remuneration policies.
- **Strengthen the alignment of existing sectoral targets.** Most banks' sectoral targets do not currently align with low-carbon scenarios. By using tools like the TPI Centre's Carbon Performance methodologies, banks can determine the required levels of emissions reduction to align with low-carbon scenarios.
- **Develop robust accounting methodologies for capital market activities.** Few banks include capital market activities in their commitments, targets and policies. This is true even for banks that derive the bulk of their revenue from these activities. Where capital market data is unavailable, banks should calculate proxy data to support their net zero strategies, as some banks in our sample are already doing.
- **Close loopholes in financing policies.** Financing policies aimed at companies in high-emission sectors, such as coal and oil and gas, are often limited by exclusions based on regions or revenue thresholds. These exclusions enable the continuation of substantial capital flows to high-emitting activities.
- **Turn sustainable finance targets into more meaningful commitments.** Banks' climate finance targets represent an important source of capital for deploying climate solutions. For investors to properly understand the scale and level of commitment of these targets, and to be able to compare banks against each other, the targets need to be stated on clearly defined boundaries. This means using clear definitions of climate solutions and stating climate finance as a share of the bank's total financing.

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1. Introduction

This report presents the results of the TPI Centre's 2024 assessment of the banking sector's progress on the transition to a low-carbon economy. We evaluate the measures that banks have taken to date and quantify the alignment of banks' decarbonisation targets with global climate goals. The report covers 26 major international banks, 10 US super-regional banks and two US custodian banks. The assessments were carried out between February and August 2024, based on information published by the banks before 11 July 2024.

The need to assess banks' performance on the low-carbon transition

Banks are integral to the global economy: they facilitate investments and provide financial services across numerous economic sectors. This makes them significant enablers of climate change as they support business activities in high-carbon sectors such as the fossil fuel industry. At the same time, banks' influence over the deployment of capital in the real economy offers a powerful opportunity to support the transition to net zero emissions. In both ways, bank behaviour is critical to the future trajectory of global emissions and the resultant impacts of human-induced climate change.

As the low-carbon transition accelerates and the impacts of climate change become more pronounced, banks face increasing exposure to climate-related risks. These include transition risks from changes in regulation and policy, technology, and consumer preferences; and physical risks from extreme weather events and slow-onset climate change impacts. Banks also need to consider legal risks from their own, or their business partners', failure to manage climate-related risks. Regulatory bodies have recently been responding to these heightened risks by imposing stricter guidelines for financial institutions to manage them effectively.

By assessing banks' performance on climate change, investors can determine whether the banks they invest in and do business with are well-prepared to manage climate-related risks and well-positioned to comply with future regulations. Investors are themselves setting ambitious targets to align their portfolios with net zero goals. To ensure that banks contribute to these targets, investors must clearly understand the status of banks' transitions.

Assessing banks: key considerations

Financed and facilitated emissions

Financed and facilitated emissions often constitute the majority of a bank's climate impact, so their assessment is critical for understanding a bank's overall carbon footprint. *Financed* emissions are the greenhouse gas emissions associated with a bank's lending and investment activities, while *facilitated* emissions are from activities the bank supports through other services such as underwriting and advisory. Capital underwriting facilitates access to financing, but underwriters do not provide financing directly to clients. An important distinction is that the calculation of facilitated emissions is based on flows (annual transaction volume) whereas the calculation of financed emissions is based on stocks (outstanding balance).

Materiality of banks' business activities

Banks operate in various business segments, including retail, corporate and investment banking, and asset and wealth management. Each segment presents distinct climate-related risks and opportunities. A business activity is considered material if it represents more than 5% of bank revenues. A high-emission sector[2] is considered material if it represents more than 1% of a bank's credit exposure. Assessing banks' progress on the low-carbon transition involves evaluating how each segment contributes to overall emissions and how its activities are being aligned with net zero goals. This comprehensive approach ensures that all areas of bank operations contribute effectively to the transition to a low-carbon economy. (See Section 5 for more on the topic of materiality.)

[2] The TPI Centre's list of high-emission sectors includes: airlines; aluminium; automotive; cement; chemicals; coal mining; diversified mining; electricity utilities; food; oil and gas; paper; real estate; shipping; and steel.

Assessment methodology

The TPI Centre's banking assessment comprises two elements: the Net Zero Banking Assessment Framework (NZBAF); and Carbon Performance.

- The NZBAF is a granular framework that evaluates banks' overall performance in managing the low-carbon transition and mitigating the impacts of climate change. It is based on a set of investor expectations published by the Institutional Investors Group on Climate Change (IIGCC) in 2021 (IIGCC, 2021) and the resulting *Net Zero Standard for Banks* (IIGCC, 2023). In collaboration with IIGCC and Ceres, we translated these investor expectations into 72 sub-indicators across 10 areas, culminating in the publication of the framework in June 2023 (TPI Centre, 2023). These results are presented in Section 2.
- Carbon Performance shows which sectors and business activities are covered by banks' emission reduction targets. It also measures banks' sectoral decarbonisation pathways over different timeframes and their alignment with international climate goals at the sectoral level (1.5°C, Below 2°C, and National/International Pledges – see Appendix 2). These results are presented in Section 3.

Assessment principles

The TPI Centre's banking assessments are guided by the key design principles of transparency, accountability and robustness, which are essential for ensuring the credibility of the assessment process. The assessment principles in full are:

1. **Assessments must be based solely on publicly-available bank disclosures.** Transparency from banks on how they manage climate risks is critical to the TPI Centre's ability to assess them. It also enables users to understand and verify assessment outcomes. Using only public data ensures that banks are assessed consistently and fairly.
2. **Indicators can be evaluated objectively.** All stakeholders that use TPI Centre data should be able to understand the rationale behind scores across indicators.
3. **The assessment framework is relevant for all types of banks.** The framework should consider the variety of banks' business models and be applicable to as many banks as possible.
4. **The framework aligns with existing initiatives.** Several of the framework's indicators are linked to the Climate Action 100+ Net Zero Company Benchmark, and they are largely aligned with the S2 Climate-related Disclosures Standard of the International Sustainability Standards Board (ISSB).[3]
5. **Indicators apply to the bank as an aggregated entity.** The TPI Centre's analysis reflects commitments and practices at the group-wide level.

Our methodology and assessments of individual banks are available on an open-access basis via the TPI Centre online tool: www.transitionpathwayinitiative.org/banks.

[3] This Standard succeeded the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) as the universal benchmark for alignment with a net zero emissions pathway in 2023.

Box 1. Note on the assessment sample

The report covers 26 major international banks, 10 US super-regional banks and two US custodian banks. We carried out assessments between February and August 2024 based on information published by the banks before 11 July 2024.

26 major international banks: This sample of banks is a good reflection of the variety within the banking sector globally. The scale of financing these 26 large publicly listed banks provide to customers and specifically to high-risk companies is substantial. The banks assessed display a variety of business models. For example, ING's income from interest, mainly from lending, accounts for a large proportion of its net revenue (71% in 2023). By contrast, Goldman Sachs generates most of its revenue from non-interest income (84% in 2023), mainly from capital market activities. Business segments are also organised differently across banks. Société Générale's insurance services are part of its retail banking business, whereas Bank of China attaches these services to its investment banking segment. Equity and debt trading come under J.P. Morgan's corporate and investment bank segment but under Bank of America's global markets segment. Most banks operate an asset management arm.

These banks are the focus of the report. See Sections 2 and 3 for results and analysis.

10 US super-regional banks and two US custodian banks: To form a more accurate picture of the state of transition of US banks, we expanded the research sample from the six large international US banks assessed last year to include 12 additional US banks. This group comprises 10 US super-regional banks and two US custodian banks. US super-regional banks have a more limited geographic focus and the products and services they offer are usually focused on corporate banking as opposed to investment banking and asset management. They also tend to have smaller asset sizes than their (multi-)national counterparts. The two custodian banks' main business activity is holding and safeguarding assets and performing various administrative functions, for which they charge a fee. Their operations across retail, commercial, investment banking and capital markets are smaller.

See Section 4 for results and analysis.

2. Net Zero Banking Assessment Framework results

Introduction: how the Framework is structured

The Net Zero Banking Assessment Framework (NZBAF) comprises 10 areas which serve as a generic roadmap for banks' low-carbon transition (see Table 1). Banks typically first acknowledge the need to meet international climate goals by committing to reach net zero greenhouse gas emissions by 2050. This acknowledgement sets the foundation for a structured and focused assessment process. The net zero commitment is therefore Area 1 of the NZBAF.

Once a net zero commitment has been made, it is important to establish a robust greenhouse gas accounting baseline to understand the bank's entire carbon footprint and exposure to transition risk so that specific and achievable decarbonisation targets can be set. These targets should articulate a complete decarbonisation pathway from the present day to 2050 and reflect the different decarbonisation challenges faced by different real-economy sectors. For example, as the automotive sector faces different challenges to the cement sector, it will decarbonise at a different speed, and different decarbonisation targets will be appropriate for each sector. Setting clear targets is crucial for third parties to be able to assess and compare banks. Sectoral target-setting and emissions disclosure are therefore covered in Areas 2 and 3.

Investors need to understand how banks plan to achieve their emissions targets so that they can evaluate their credibility. Relevant aspects of transition planning and implementation include how banks: integrate climate considerations into all business segments; develop decarbonisation plans; ensure robust governance and accountability mechanisms; align policy engagement; and report climate risks appropriately in their financial statements. Investors also need to understand banks' ambition to scale up climate solutions. These aspects are covered in Areas 5–10.

Table 1. Summary of the 10 areas of the Net Zero Banking Assessment Framework

Area	Description
1. Net zero commitments	Evaluation of banks' formal commitments to achieving net zero emissions by 2050 or sooner.
2. Sectoral targets	Analysis of short-, medium- and long-term emission reduction targets set by banks.
3. Exposure and emissions disclosure	Transparency in reporting financed and facilitated emissions across various business segments.
4. Historical emissions performance	Tracking annual progress against established emissions targets.
5. Decarbonisation strategy	Detailed strategies to phase out high-carbon financing and support low-carbon initiatives.
6. Climate solutions	Financing and support for low-carbon technologies and infrastructure.
7. Climate policy engagement	Alignment of lobbying activities with climate goals.
8. Climate governance	Governance structures and incentive mechanisms to support the bank's transition strategy.
9. Just transition	Addressing social impacts and ensuring equitable economic transitions.
10. Annual reporting, accounting and audits	Compliance with Task Force on Climate-related Financial Disclosures (TCFD) recommendations or adoption of International Financial Reporting Standards (IFRS) S2 climate-related disclosures standards and inclusion of climate considerations in financial reporting.

Overview of NZBAF results

The rest of this section presents the results of our assessment of 26 of the world's major international banks using the NZBAF, based on the banks' public disclosures published before 11 July 2024.[4]

Banks' overall performance on the NZBAF is weak. On average, banks score on only 20% of the 72 sub-indicators and no bank scores on more than half of the sub-indicators. This means that all banks in our sample still have a long way to go to prepare for the low-carbon transition.

However, there are significant differences between banks that underly the weak overall performance. Four Chinese banks score on a negligible share of sub-indicators (0–10%), with none setting a sectoral decarbonisation target. Ten banks score on 10–20% of sub-indicators. These banks generally have at least one sectoral decarbonisation target and are predominantly major North American banks. At a more advanced level are the seven banks from Europe, Japan and Canada that score on 20–30% of sub-indicators. These banks set multiple sectoral decarbonisation targets and implement a relatively robust governance framework. One bank (Barclays) stands out for meeting more than 40% of the framework's sub-indicators.

The NZBAF results presented in Figure 1 provide a high-level overview of banks' performance on the assessment framework and situate banks relative to their peers in broad terms. A detailed analysis of banks' performance in each area follows, including the actions they are taking and their individual strengths and weaknesses.

Figure 1. Overview of banks' performance on the NZBAF in 2024

Region of bank's headquarters: Asia, Europe, North America

Category	Major international banks						US super-regional banks	Custodian banks
% of yes Scores	0-10	10-20		20-30	30-40	40-50	0-10	0-10
Banks	Agricultural Bank of China	Bank of America	Bank of Montreal	BNP Paribas	Groupe Crédit Agricole	Barclays	Capital One	BNY
	Bank of China	Canadian Imperial Bank of Commerce	Citigroup	Deutsche Bank	HSBC		Citizens	State Street Corp
	China Construction Bank	Goldman Sachs	JP Morgan Chase	Mitsubishi UFJ	ING Bank		Fifth Third	
	Industrial and Commercial Bank of China	Morgan Stanley	Scotiabank	Royal Bank of Canada	Mizuho		Huntington	
		Société Générale	Wells Fargo	SMBC Group			KeyCorp	
				Toronto Dominion			M&T Bank	
				UBS			PNC	
							Regions	
							Truist	
							US Bancorp	

Note: The % of 'Yes' scores represents the proportion of positive scores out of the total 72 sub-indicators in the NZBAF.

[4] Disclosures published after this date will be evaluated in the 2025 assessment cycle.

Area 1: Net zero commitments

Background

Banks committing to achieving net zero emissions is vital for meeting global climate objectives and ensuring an orderly low-carbon transition. With investors increasingly interested in assessing how committed banks are to net zero, this area looks at whether banks commit to achieving net zero financed and/or facilitated emissions by 2050, and how detailed these commitments are. Banks' net zero commitments are evaluated across four qualitative sub-indicators on the breadth of business activities covered, degree of ambition and timeframes set. Figure 2 presents these sub-indicators and the results of the assessment.

Summary of results

Setting net zero commitments by 2050 is now common practice among the assessed banks. Nevertheless, banks' net zero commitments are still limited in scope and do not yet cover all material business segments.

- **18 of the 26 assessed banks have disclosed a net zero commitment covering their financed and/or facilitated emissions (1.1.a).** The breadth of these commitments varies significantly across banks, with no bank making commitments that cover all their material business segments. Three banks disclose a net zero ambition but no firm commitment, thereby falling short of scoring on sub-indicator 1.1.a. Four Chinese banks do not meet the indicator's requirements as they express support for government targets but do not set their own commitment.
- **Of the 18 banks that have committed to reaching net zero, only seven specify the proportion of on- and off-balance-sheet activities covered (1.1.b).** All seven banks specify that lending and investment operations are covered by their commitment, but two banks (Barclays and Crédit Agricole) also include insurance or capital market operations. There is significant scope to improve the comprehensiveness and transparency of banks' net zero commitments.
- **No bank sets a net zero commitment that covers all on- and off-balance-sheet activities, or commits to doing so within a defined timeframe (1.1.c and 1.1.d).** Banks do not yet comply with industry guidelines, which are laid out, for example, in the *Facilitated Emissions Standard* by the Partnership for Carbon Accounting Financials (PCAF, 2023) and the *Guidelines for Climate Target Setting for Banks* by the Net-Zero Banking Alliance (NZBA, 2024). The latter specifically states that targets should cover both financing and capital market activities.
- **Incomplete coverage of business activities in banks' net zero commitments can lead to exposure to regulatory, reputational and financial risks as climate policy and market expectations evolve.** Given the interconnected nature of financial instruments, banks should ensure that their net zero commitments cover all material business activities, including investment banking, asset and wealth management, and insurance. This is especially important for banks that rely heavily on capital market activities in addition to their lending-related activities. (See more on the coverage of banks' commitments and targets in Section 5.)

Figure 2. Scores for Area 1: Net zero commitments

Sub-indicator	Yes	No
1.1.a. Has the bank committed to achieve net zero by 2050 or sooner?	18	8
1.1.b. Has the bank disclosed the coverage of its net zero commitment?	7	19
1.1.c. Does the bank's net zero emissions cover all material activities?		26
1.1.d. Has the bank disclosed a timeframe to expand its commitment, if incomplete?		26

Note: The figures with area scores in this report contain a shortened version of the sub-indicator wording. For the full wording, see: www.transitionpathwayinitiative.org/banks.

Area 2: Sectoral targets

Background

While net zero commitments can serve as a guide, sectoral targets enable banks to convey realistic transition expectations to high-emitting industries across different business segments. By taking a sectoral approach to setting decarbonisation targets, banks can tailor targets to the unique challenges and opportunities of each sector.

By examining banks' short- (2024–27), medium- (2028–35) and long-term (2036–50) targets, entire sectoral decarbonisation pathways can be assessed – not just the endpoints. Short-, medium- and long-term targets show whether banks plan to frontload or backload their transition efforts. If too many banks (and companies) opt to backload their emissions reductions, global emissions will not be curbed rapidly enough to stay within a Paris-compliant carbon budget, because global temperatures depend principally on cumulative carbon dioxide emissions. Medium-term targets are therefore particularly important to ensure that emissions are reduced fast enough to realise an orderly transition to net zero.

Area 2 assesses whether banks have set short-, medium- and long-term sectoral decarbonisation targets. It also looks at the methodology used by banks to set these targets, noting its coverage. Figure 3 outlines the sub-indicators on which banks are assessed and the results of these assessments. Results from our quantitative test of whether banks' targets are sufficient to align with international climate goals – our Carbon Performance assessment – can be found in Section 3.

Summary of results

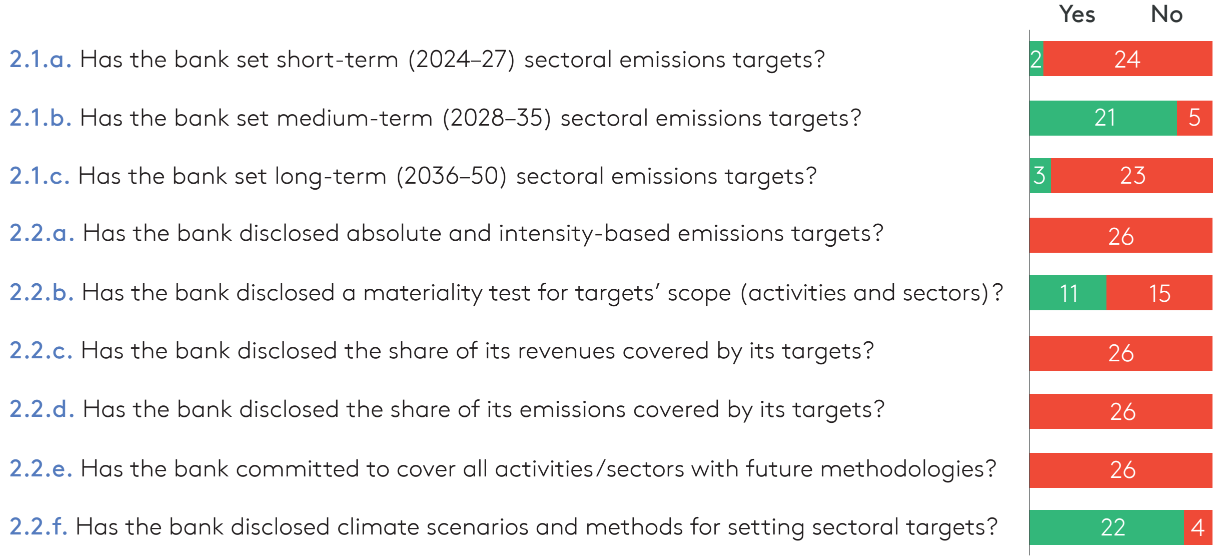
2.1: Short-, medium- and long-term sectoral emissions targets

To support the delivery of their net zero commitments, most banks have set sectoral targets for 2030. However, few banks set short- or long-term sectoral targets.

- **It is common for banks to have sectoral decarbonisation targets: 21 of the 26 banks, including all banks with a net zero commitment (1.1.a), have set at least one sectoral decarbonisation target (2.1.a–c).**[5] This implies that these banks have started integrating decarbonisation considerations into their financial and operational decision-making processes. The availability of these targets means that, for most banks with targets, the alignment of their forward-looking decarbonisation pathways can be assessed using robust methods such as the Sectoral Decarbonisation Approach (SDA)[6] used by the TPI Centre. (The results of the alignment assessments can be found in Section 3.)
- **Most sectoral targets are medium-term; few banks set short- or long-term sectoral targets.** The most common medium-term target year is 2030, in line with NZBA guidance. Only three banks disclose long-term sectoral targets.
- **All sectoral targets apply to corporate lending and project financing, but no sectoral target covers all relevant business activities.** The most advanced banks (seven in total) also include capital market activities in their sectoral targets but most do not. No bank covers all relevant business activities, meaning targets currently omit significant portions of banks' businesses.
- **Sectoral targets most commonly apply to the energy sector.** All banks with at least one sectoral decarbonisation target (21) cover the electricity utilities sector, while 20 cover oil and gas. Other sectors included in the targets include automotive manufacturing (19), steel (15), cement (10), airlines (10) and real estate (10). (See Figure 17 for the alignment of sectors with low-carbon benchmarks.)

[5] For these sub-indicators, the TPI Centre only considers absolute and physical intensity emission reduction targets. Consequently, Morgan Stanley does not score on these sub-indicators as it sets emission reduction targets using an economic intensity measure.
[6] The Sectoral Decarbonisation Approach (SDA) was created by CDP, World Resources Institute (WRI) and the World Wide Fund for Nature (WWF) in 2015.

Figure 3. Scores for Area 2: Sectoral targets



2.2: Target-setting methodology

No bank has set sectoral targets on an absolute and intensity basis, contrary to best practice guidelines. How banks select sectors and business activities for target-setting remains unclear as there is limited quantitative disclosure of how materiality tests for sectors and business activities inform the target-setting strategy.

- **None of the assessed banks disclose their financed or facilitated emissions targets on both an absolute and physical emissions intensity basis (2.2.a).** The vast majority (75%) disclose targets based on physical intensity metrics. Absolute emission reduction targets are much less common, set for just 16% of the targets, and they mainly apply to the coal mining and oil and gas sectors. The key advantage of physical intensities is their comparability across banks and with low-carbon benchmarks (such as those developed by the TPI Centre). While they offer a lesser degree of comparability across banks, absolute emissions disclosures are still needed to track a bank portfolio's overall exposure to financed and/or facilitated emissions over time.
- **Many banks disclose a qualitative explanation of the criteria used to select business activities and sectors for target-setting, but fewer disclose quantitative criteria.** Qualitative explanations of sector coverage criteria encompass sectoral contribution to global greenhouse gases and data availability. The materiality assessment of business activity coverage is typically limited to corporate lending activities without further discussion of other business activities. Only 11 banks provide quantitative information on the materiality test that informs the bank's target-setting strategy (2.2.b). Banks that score positively on this sub-indicator disclose the proportion of financed emissions or total commitments covered by their targets as a share of the total financed emissions or commitments related to the business activities the target applies to. Banks including Deutsche Bank, SMBC and UBS reference external frameworks, such as the NZBA's *Guidelines for Climate Target Setting for Banks* (NZBA, 2024).
- **Banks often omit material business segments and high-emission sectors from their materiality assessment.** Most assessments focus solely on corporate lending, ignoring other material business segments. No bank reports exposure or sets targets for the 18 sectors included in the TCFD's guidance on sectoral target-setting (TCFD, 2017).

Area 3: Exposure and emissions disclosure

Background

Banks engage in a wide range of business activities and provide numerous services. Investors require clear information on the emissions a bank is financing and facilitating across these activities to understand the bank's carbon footprint and transition risk. To measure progress against targets, it is essential to have comprehensive emissions disclosure, along with clear explanations of underlying accounting methodologies and coverage of business activities or economic sectors.

Area 3 assesses banks' financing and emissions exposure to high-emission sectors across their business activities and how transparently they disclose the methodological choices made when quantifying financed and/or facilitated emissions (see Figure 4). These assessments are based on an analysis of the exposure of banks' credit and revenue to high-emission sectors across business activities, and analysis of the quality of banks' financed and/or facilitated emissions reporting. Also examined are the banks' methods and assumptions, including their approaches to client-purchased offsets.

Summary of results

3.1: Exposure to high-emission sectors

Banks' sectoral reporting often lacks granularity, making it difficult to accurately estimate exposure to high-emission sectors.

- **While most banks disclose their credit exposure to all high-emission sectors (3.1.a), information on revenue exposure to these sectors is not currently available (3.1.b).** Fourteen banks disclose their credit exposure to all material high-emission sectors (3.1.a). Of these, six disclose figures for all 14 high-emission sectors and eight only disclose their exposure to materially relevant sectors (those that represent more than 1% of a bank's total credit exposure). No bank covers all material on- and off-balance-sheet activities in its reporting of revenue exposure to high-emission sectors (3.1.b). Investors need disclosures of both credit and revenue exposure to identify concentrations of transition risk across banks; the omissions impede their ability to do so.
- **Banks' average credit exposure to high-emission sectors is around 30% of their total loan portfolio.** Across banks, credit exposure to high-emission sectors ranges from 10% of their total loan portfolio for the least exposed banks to 49% for the banks with greatest exposure. On average, banks are most exposed to the real estate sector, representing around 10% of the total loan portfolio of 14 banks. There is no substantial difference in banks' exposure to high-emission sectors across the regions in our sample (North America, Europe and Asia).

3.2 and 3.3: Financed and facilitated absolute emissions and emissions intensities

Reporting of financed and/or facilitated emissions is becoming common practice but is concentrated in a few high-emission sectors (primarily electricity utilities and oil and gas) and in banks' loan books.

- **Twenty-one of the 26 banks disclose absolute financed emissions figures for at least one high-emission sector, but disclosure often does not include all high-emission sectors and is limited to corporate lending and project finance (3.2.a).** Less than one-third of banks (8 of the 26) disclose their absolute financed and/or facilitated emissions for all material high-emission sectors (3.2.b). No bank discloses their absolute financed and/or facilitated emissions for all material on- and off-balance-sheet activities (3.2.c). Like sectoral targets, emissions disclosure is often limited to corporate lending and project finance activities. Only five banks include facilitated emissions from capital market activities. No bank quantifies sectoral emissions figures for other material business activities, citing issues with methodologies.
- **Similarly, while it is standard practice for banks to report their financed and/or facilitated emissions using relevant sectoral physical emissions intensities (21 banks score on 3.3.a), their reporting is limited in scope.** Only Barclays and Deutsche Bank have disclosed financed and/or facilitated emissions intensities for all material high-emission sectors (3.3.b). No bank has done so for all material on- and off-balance-sheet activities (3.3.c).

3.4: Financed and facilitated emissions methodology

Most banks rely on either the Partnership for Carbon Accounting Financials (PCAF) or the Paris Agreement Capital Transition Assessment (PACTA) framework when measuring their financed and/or facilitated emissions. Diverging from these standards can compromise comparability across banks.

- **All banks that disclose at least one financed or facilitated emissions target for at least one sector specify the methodological framework and/or variables and assumptions used to quantify this figure (22 of the 26 banks; see 3.4.a).** Most banks (18) follow the PCAF standard, using PCAF's data quality scoring methodology to assess the quality of underlying client emissions data (3.4.b). Banks that do not exclusively use PCAF either use a combination of PCAF and the Paris Agreement Capital Transition Assessment (PACTA) tool or comprehensively disclose their own financed emissions methodologies. These banks also disclose where they have deviated from the PCAF standards. Some banks calculate financed emissions in relation to total lending commitments or average committed financing/capital market activities (as opposed to outstanding amounts) or use multi-year average Enterprise Value Including Cash (EVIC) instead of matching reporting years. This highlights that banks often follow divergent approaches to quantifying emissions even where methodological standards are available.

3.5: Approach to client-purchased offsets

Banks' current disclosures lack transparency regarding the use of client-purchased offsets to reduce their financed and/or facilitated emissions and meet targets.

- **Overall, banks are not transparent in disclosing the share of offsets purchased by clients in their accounting of financed and/or facilitated emissions.** Only five banks clarify the role of client-purchased offsets by explicitly stating that they are not considered in their emissions disclosures (3.5.a). No other bank quantifies the contribution of client-purchased offsets.
- **Fewer than one-quarter of assessed banks (7 of the 26) exclude client-purchased offsets from counting towards meeting their financed and/or facilitated emissions targets (3.5.b).** Most banks do not disclose their approach.

Figure 4. Scores for Area 3: Exposure and emissions disclosure

	Yes	No
3.1.a. Has the bank disclosed its credit exposure to all high-emission sectors?	14	12
3.1.b. Has the bank disclosed its revenue exposure to all high-emission sectors?		26
3.2.a. Has the bank disclosed financed/facilitated absolute emissions?	21	5
3.2.b. Has the bank disclosed absolute emissions for all high-emissions sectors?	8	18
3.2.c. Has the bank disclosed absolute emissions for all material activities?		26
3.3.a. Has the bank disclosed financed/facilitated emissions intensities?	21	5
3.3.b. Has the bank disclosed emissions intensities for all high-emission sectors?	2	24
3.3.c. Has the bank disclosed emissions intensities for all material activities?		26
3.4.a. Has the bank disclosed the methodology to quantify its emissions?	22	4
3.4.b. Has the bank disclosed the PCAF score of its clients' emissions data?	18	8
3.5.a. Has the bank disclosed the contribution of client-purchased offsets?	5	21
3.5.b. Has the bank excluded client offsets towards meeting its emissions targets?	7	19

Area 4: Historical emissions performance

Historical data on banks' portfolio carbon emissions are not yet available. As a result, we have not yet been able to assess banks in this area, but we will do so when the data become available.

Area 5: Decarbonisation strategy

Background

A bank's decarbonisation strategy, which includes specific actions to facilitate the achievement of decarbonisation targets, forms the core of a well-structured transition plan. A comprehensive decarbonisation strategy thus lends credibility to a bank's targets.

Area 5 assesses banks' decarbonisation strategies by examining their financing conditions and asset management activities, allocation of capital to misaligned activities, and whether climate scenario analysis has been undertaken. Because Area 5 is very comprehensive, we select three indicators for discussion: financing conditions (5.1.1); asset management activities (5.1.3); and capital allocation to misaligned activities (5.2). We do not include a discussion of the indicator 5.1.2 results in this report. The results for indicator 5.3 on climate scenario analysis can be found in Appendix 1.

Figure 5. Scores for Area 5: Decarbonisation strategy (1/2)

	Yes	No
5.1.1.a. Has the bank set financing conditions for high-emitters to transition?	10	16
5.1.1.b. Has the bank disclosed actions to ensure enforcement of financing conditions?	5	21
5.1.1.c. Do the bank conditions cover all high-emission sectors?		26
5.1.1.d. Are there provisions to ensure high-emitting asset transfers are 1.5°C compliant?		26
5.1.2.a. Does the bank target increase financing to decarbonise high-emitting companies?	1	25
5.1.2.b. Has the bank set a target to increase revenue from 1.5°C-aligned companies?		26
5.1.3.a. Has the bank's AM disclosed its escalation policy for misaligned assets?	2	24
5.1.3.b. Has the bank's AM disclosed a target to increase the share of 1.5°C-aligned assets?	2	24
5.1.3.c. Has the bank's AM disclosed the share of AUM invested in 1.5°C-aligned assets?	4	22

Summary of results

5.1.1: Financing conditions

Financing policies are key to achieving financed and facilitated emission reduction targets as they directly influence capital allocation and can incentivise clients to reduce their emissions. A limited number of banks (10 of the 26) have financing conditions to incentivise the low-carbon transition of companies in high-emission sectors. Only five banks disclose actions taken to enforce financing conditions (see Figure 5).

- **Most banks (21 of the 26) disclose assessment frameworks to evaluate some of their clients' progress towards net zero.** These frameworks generally follow a similar structure to the TCFD areas, with banks first assessing their clients' implementation of climate-related measures linked to governance, strategy, risk management, and metrics and targets, then categorising them according to their readiness for transition. In some cases, banks link the provision of financial products and services to the results of this assessment (5.1.1.a).

- **Ten banks link the results of these climate assessments to the provision of financial products and services (5.1.1.a).** For the most part, only the coal and oil and gas sectors are subject to these assessments. Some banks have started to set decarbonisation targets for high-emission sectors, such as airlines, automotive, real estate, and shipping, but none have tied them to financing conditions. This is also evident in that no bank discloses financing conditions that apply to all high-emission sectors (5.1.1.c).
- **Even when banks link the results of the climate assessments to the provision of financial products and services, only five banks disclose clear actions to ensure that financing conditions are enforced (5.1.1.b).** The measure most frequently disclosed by banks is to halt the provision of financial services to clients that do not disclose some or all of the following: net zero targets; greenhouse gas emissions data; board oversight of climate change; transition plans; or company emissions aligned with a 1.5°C decarbonisation pathway.
- **No bank has established climate provisions in deal and transaction terms to ensure that high-emitting asset transfers comply with a 1.5°C scenario (5.1.1.d),** such as from mergers and acquisitions (M&A) advisory, or capital market facilitation.

5.1.3: Climate strategy of asset management divisions

Banks' asset management businesses[7] can influence the capital allocation of large volumes of resources to drive change in investment practices as they represent up to 60% of banks' revenues.[8] Banks can use their asset management activities to engage and encourage investee companies to align with international climate goals. Most asset management divisions (AMs) disclose climate expectations for investee companies, but few disclose a voting or escalation policy for assets that are inconsistent with these expectations.

- **More than half of banks' AMs (16 of the 26) disclose expectations for how their investee companies should address risks and opportunities related to climate change.** These tend to focus on criteria including net zero commitments, risk management frameworks, companies having approved science-based targets according to the Science-Based Targets initiative (SBTi), emissions disclosures and emission reduction targets. More advanced AMs measure the alignment of companies' pathways with low-carbon scenarios and consider whether companies' board remuneration is linked to climate change. Although 13 banks mention these criteria in their proxy voting policy, three AMs only report on them in their general climate disclosure (e.g. TCFD report or sustainability reports), suggesting varying degrees of commitment to these policies.
- **Despite several AMs disclosing climate expectations, only two disclose a clear escalation policy for voting and engagement with assets that do not align with 1.5°C (5.1.3.a).** Other AMs that include climate-related criteria use language that is not specific enough to score on this sub-indicator. Banks frequently disclose qualifying statements explaining that they may choose to vote against the Chair of a company's board if they determine that insufficient progress has been made, or that they will vote on a case-by-case basis. However, the ambiguity of these statements leaves it uncertain whether asset managers will take action if companies fail to align with a 1.5°C pathway. This contrasts with AMs' policies on other issues, such as financial performance or executive and non-executive compensation, which often include specific and concrete escalation actions if expectations are not met.
- **In terms of disclosure of carbon emission metrics, 15 of the 26 banks' AM divisions report at least one carbon metric for their investment portfolios.** These metrics are 'weighted average carbon intensity' (i.e. tonne of CO_2 equivalent per US$1 million of revenue [$tCO_2e$/$m revenue]), 'carbon footprint' (tCO_2e/$m invested) and 'absolute emissions' (tCO_2e). Full coverage of assets under management (AUM) is far

[7] When the TPI Centre refers to asset management business, it also includes wealth and investment management activities.
[8] As banks operate in different regions and have different business structures, the proportion of revenues from asset management activities varies considerably. Using 2023 information and taking into account data limitations, we find that these activities generally contribute between 3% and 30% of total revenues. However, there are exceptions where, due to the nature of their business, banks have a higher proportion of revenues from asset management: up to 60%.

from being achieved as these metrics only cover certain asset classes and emissions scopes. Listed equities and corporate bonds are the most common asset classes for which metrics are disclosed. Some more advanced AMs (6 of the 26) disclose metrics for government bonds and real estate. Typically, AM divisions only include Scope 1 and 2 emissions from investees, and only three also include Scope 3 emissions in their metrics. On average, the 15 AM divisions reporting carbon metrics cover 73% of their asset class exposure.

- **Four AMs disclose the share of AUM invested in 1.5°C-aligned assets (5.1.3.c) and only two disclose a portfolio coverage goal to increase the share of AUM invested (5.1.3.b).** The methods used by AMs to define 1.5°C-aligned assets vary, resulting in different levels of ambition and alignment with the TPI Centre's Carbon Performance methodology. Some use science-based targets as a proxy for a company's alignment with a 1.5°C pathway, but this does not always imply alignment with a 1.5°C pathway. Indeed, SBTi currently uses temperature alignment labels of 'Below 2°C' and '2°C' in addition to 1.5°C. In some cases, targets do not have a temperature alignment label at all due to methodological considerations and sector-specific criteria. Therefore, only AMs that explicitly refer to companies with a 1.5°C science-based target and refer to both medium- and long-term alignment (in line with the TPI Centre's methodology) score positively on this sub-indicator.
- **Four AMs disclose that they will increase their exposure to companies that meet a specific category on the Net Zero Investment Framework (NZIF).** The NZIF has five levels of alignment: (i) achieving net zero; (ii) aligned to a net zero pathway; (iii) aligning towards a net zero pathway; (iv) committed to alignment; and (v) not aligning. Only companies in categories (i) and (ii) are aligned to a 1.5°C pathway. AMs that include companies outside of these two categories in their figures do not score on these sub-indicators.

5.2.1: Capital allocation to misaligned fossil fuel activities

Fossil fuel exclusion policies are an essential component of banks' decarbonisation strategies, as achieving 1.5°C requires a rapid phase-down of fossil fuel capacity and related infrastructure. With only five of the 26 banks scoring on at least one sub-indicator in this section (see Figure 6), banks' fossil fuel-related activities remain significantly misaligned with a 1.5°C scenario.

- **Most banks (22 of the 26) disclose a commitment to stop financing new coal capacity.** However, many of these commitments only cover parts of the banks' business or certain types of coal activities. Typically, the commitments apply only to project or direct financing, or are limited to mountaintop removal mining. Two banks even abandoned their coal exclusion policies: Bank of America removed its exclusions for direct financing of new thermal coal mines and new coal-fired power plants in 2023; and the Bank of Montreal dropped its policy of restricting lending to the coal industry.

Figure 6. Scores for Area 5: Decarbonisation strategy (2/2)

	Yes	No
5.2.1.a. Has the bank committed to immediately stop financing new coal capacity?	3	22
5.2.1.b. Has the bank committed to phase out all coal activities in line with 1.5°C?		26
5.2.1.c. Has the bank committed to end all project financing for new oil and gas fields?	2	24
5.2.1.d. Has the bank committed to end all activities related to new oil and gas fields?		26
5.2.1.e. Does the bank have an exclusion threshold for firms with oil and gas expansion plans?		26
5.2.2.a. Has the bank committed to end all activities that finance deforestation by 2025?		26
5.2.2.b. Are all high-risk deforestation commodities covered by the bank's commitment?		26
5.2.2.c. Has the bank committed to end all activities that finance land conversion by 2025?		26

- **Only four banks have commitments to immediately cease all on- and off-balance-sheet activities that finance new coal capacity (5.2.1.a).** Some banks with coal policies do not score on these sub-indicators because their commitments exclude some on- and off-balance-sheet activities. Exclusions often relate to the banks' asset management activities, existing clients that have high coal-related revenues, or new coal projects with a capacity below 300 megawatts.
- **None of the banks assessed commit to phasing out all on- and off-balance-sheet activities that finance thermal coal (mining and power) on a timeline consistent with a 1.5°C pathway (5.2.1.b).** Although half of banks (13) disclose some coal phase-out commitments, these are limited to lending activities, exclude certain types of clients, or allow financing to companies with a large share of coal-derived revenues (20–60%, compared with our threshold of 5%), enabling substantial investment into coal-related activities to continue.
- **Performance is worse still on oil and gas-related indicators: only two banks score 'yes' in at least one of the three sub-indicators in this category.** No bank commits to ending all on- and off-balance-sheet activities dedicated to exploring and developing new oil and gas fields (5.2.1.d). Only two banks commit to ending all project-related financing to new oil and gas fields (5.2.1.c). Most banks' oil and gas restrictions focus on unconventional projects, such as oil sands and hydraulic fracturing, or specific regions (e.g. the Amazon and the Arctic Circle). However, new conventional oil and gas projects remain mostly unrestricted. No bank discloses an exclusion threshold for investees with oil and gas expansion plans (5.2.1.e).

5.2.2: Capital allocation to misaligned land conversion activities

A comprehensive decarbonisation strategy for banks needs to focus not only on reducing emissions from energy and industry but also on the link between climate change and natural ecosystems. Banks' deforestation and land conversion policies are weak in terms of commitments and incomplete as they do not include all high-risk forest commodities.[9]

- **Banks' deforestation policies have incomplete coverage.** No bank commits to ending all on- and off-balance-sheet activities that finance deforestation by 2025 at the latest (5.2.2.a). Banks often have deforestation policies that apply to specific regions (e.g. the Brazilian Amazon or Cerrado regions in South America) or specific business activities (e.g. lending and corporate banking), leaving other regions and/or activities unrestricted.
- **Similarly, banks only disclose commodity-specific deforestation policies for some high-risk forest commodities.** No bank discloses a policy for all high-risk forest commodities or explicitly states that its overarching commitment covers all specific commodity supply chains (5.2.2.b). Banks' disclosures often leave out one or two high-risk forest commodities.
- **No bank commits to ending all on- and off-balance-sheet activities that finance land conversion of other natural ecosystems, including natural savannah, grasslands, peatlands and wetlands, by 2025 (5.2.2.c).** Although some banks disclose restrictions on converting legally protected areas (e.g. UNESCO World Heritage Sites, Ramsar-protected wetlands and Category I and II critical natural habitats according to the International Union for the Conservation of Nature [IUCN]), they are insufficient to score on this sub-indicator.

[9] High-risk forest commodities include cattle, palm oil, pulp and paper, timber and soy.

Area 6: Climate solutions

Background

Many investors anticipate that banks will play an important role in accelerating the transition to a low-carbon economy, providing finance, services and expertise to support climate solutions encompassing a wide range of low-carbon technologies and infrastructure.

Area 6 assesses whether banks disclose initiatives to scale up finance for climate solutions, looking at banks' commitments to increasing financing for climate solutions as well as their transparent reporting on progress towards meeting this commitment (see Figure 7). Given that definitions of climate solutions may differ depending on the (private or regulatory) taxonomy-setting body, we assess whether banks use definitions set by national, regional or global governing bodies.

Figure 7. Scores for Area 6: Climate solutions

	Yes	No
6.1.a. Has the bank committed to scale up climate finance with targets/milestones?	15	11
6.1.b. Has the bank disclosed its climate finance share and target progress?		26
6.1.c. Has the bank defined climate solutions (using an external standard)?	3	23

Summary of results

Most banks have set specific targets to contribute to climate solutions, but the lack of standardised definitions and the breadth of products and services included in the targets hinders comparability across banks.

- **Fifteen of the 26 banks have set quantified and time-bound targets to increase their total financing of climate solutions (6.1.a).** Most banks include a distinct, ringfenced sub-target dedicated to climate solutions within their broader sustainable financing goals. This ensures that banks are not only committing to general sustainability goals but are also focusing on concrete actions to support climate-related initiatives. Banks that do not attain a positive score tend to disclose imprecise sustainable finance targets encompassing a wide array of environmental, social, governance (ESG) activities without delineating their specific contributions towards climate solutions.
- **Although banks typically disclose financing towards their climate solution targets, detailed information is often lacking.** The lack of information and context means that investors cannot accurately gauge the materiality of a bank's financing of climate solutions or make comparisons across banks. Climate solution targets often have broad coverage, adding to the difficulty of ascertaining their materiality. In addition to traditional lending and investments, they often include capital market activities, M&A deals, advisory services, treasury and trade solutions, and sometimes private banking investments. This is in stark contrast to net zero commitments and sectoral decarbonisation targets, which are typically limited to lending and investment activities.
- **Only three banks follow definitions of climate solutions established by international or national governing bodies such as the EU Taxonomy or China's Green Industry Catalogue (6.1.c).** Most banks base their classification system on market standards developed by the International Capital Market Association (ICMA) and the Loan Market Association (LMA). However, ICMA and LMA only provide guidelines for loans and bonds. For all other asset classes, banks either do not have a definition of climate solutions or have developed their own. Given that methodologies applied by banks can differ substantially in how they define climate solutions and their asset class coverage, our methodology assesses whether banks follow taxonomies established by governing bodies.

Area 7: Climate policy engagement

Background

To achieve the goals of the Paris Agreement, more robust public policy on climate change is essential, both in the financial sector and the real economy. Banks exert considerable influence over public policymaking given their central role in the economy.

Area 7 evaluates whether banks have aligned their lobbying activities with 1.5°C. Our analysis examines banks' direct lobbying and their work through trade associations.

Figure 8. Scores for Area 7: Climate policy engagement

	Yes	No
7.1.a. Has the bank aligned its lobbying activities with a 1.5°C target?		26
7.1.b. Does the bank review its climate positions for alignment with a 1.5°C target?		26
7.2.a. Does the bank lobby for a 1.5°C target in the associations it is a member of?		26
7.2.b. Does the bank publish a review of the 1.5°C alignment of its associations?		26
7.2.c. Does the bank disclose the role it plays in each association?		26

Summary of results

None of the banks commit to aligning their lobbying activities with the goal of limiting global temperature rise to 1.5°C and therefore no bank scores in this area (see Figure 8). Some banks have committed to supporting the aims of the Paris Agreement, but as the Agreement's precise wording is to "limit global mean temperature rise to well below 2°C and pursue efforts to limit it to 1.5°C above pre-industrial levels", these cannot be confidently interpreted as commitments to align with 1.5°C.

Area 8: Climate governance

Background

Achieving international climate goals requires banks to integrate climate considerations into their strategic and operational activities. Investors seek clarity on the oversight measures and incentive structures that are in place to implement these plans.

Area 8 looks at whether banks have established good climate governance. This means whether they have evaluated whether climate risks are material to banks' businesses, established clear oversight of climate change at the board level, and linked executive compensation to achieving climate objectives.

Summary of results

8.1. Materiality of climate-related risks

A large majority of banks (20 of the 26) have integrated climate-related risks into their risk management processes. However, only half (13) detail the implications of climate-related risks and the actions they are taking to address these risks (see Figure 9).

- **Twenty banks categorise climate change as a material risk and explain how it relates to their overall risk framework (8.1.a).** As part of this, they clearly define transition and physical climate-related risks and include them in their annual reports as a key material risk category.

- **Only 13 banks explain how climate risks impact their business and set out how they are addressing these risks (8.1.b).** Such explanations include evidence of how climate change is integrated into the bank's capital allocation decision-making process, how climate risks relate to the bank's climate strategy, and the impacts of the net zero transition on the bank's business. The lack of detailed information from half of the assessed banks on how they address climate risks raises questions about how embedded their climate risk management is.

8.2: Board-level oversight of climate change strategy

With 23 of the 26 banks having board oversight of climate change, sub-indicator 8.2.a is the highest-scoring in the framework. However, no bank discloses how it assesses its board members' competencies in managing climate risks or the results of these assessments (8.2.b).

- **Almost all banks (23) partially align with the Basel Committee on Banking Supervision suggestions (BCBS, 2022) and clearly assign responsibilities for managing climate-related risks to board members and/or committees (8.2.a).** For most banks, the board's risk committee is responsible for overseeing climate risk, sometimes sharing climate oversight responsibilities with other board committees (e.g. an audit, sustainability or corporate social responsibility [CSR] committee). This indicates that many banks now recognise the importance of addressing climate-related risks at the highest levels of governance.
- **No bank assesses its board members' competencies in managing climate risks specifically (8.2.b).** Disclosures often focus on board members' ESG, corporate social responsibility (CSR) or sustainability competencies instead of climate-specific competencies. This makes it impossible for investors to determine whether banks comply with the BCBS suggestion that board members have appropriate skills to manage climate-related financial risks.

8.3: Executive remuneration linked to climate change performance

A minority of banks (9 of the 26) link executive remuneration to climate change-related key performance indicators (KPIs). Only five of these nine banks include achievement of the bank's financed and/or facilitated emissions targets in these climate KPIs.

- **Nine banks link executive remuneration to concrete and measurable climate-related KPIs (8.3.a).** These banks disclose the proportion of remuneration for high-level staff members linked explicitly to climate, such as setting targets related to sectoral decarbonisation or sustainable finance. Targets aggregated under broader 'ESG' or 'sustainability' goals are insufficient to score on this sub-indicator. This is in line with the guidance of the European Central Bank (ECB, 2020), which states an expectation that banks ensure executive remuneration policy stimulates behaviour consistent with their climate-related approach and voluntary commitments. The BCBS (2020) also urges banks to consider whether incorporating material climate-related risks into their strategy warrants adjusting their executive compensation policy. Progress towards the bank's financed and/or facilitated emissions targets is a factor in determining executive compensation for only five banks (8.3.b).

Figure 9. Scores for Area 8: Climate governance

	Yes	No
8.1.a. Does the bank address climate risk in its annual report?	20	6
8.1.b. Does the bank discuss the impacts of climate risks and actions taken?	13	13
8.2.a. Does the Board have oversight of climate change?	23	3
8.2.b. Does the bank assess the climate risk competency of its Board?		26
8.2.c. Does the bank disclose climate competency criteria/training for the Board?		26
8.3.a. Does the bank tie C-suite pay to climate change performance?	9	17
8.3.b. Does the bank tie C-suite pay to achieving the bank's emission reduction target?	5	21

Area 9: Just transition

Background

The transition to a low-carbon economy is expected to have significant social impacts in economies and communities that are most reliant on fossil fuels. Banks and investors have a clear rationale to support a just transition: it is necessary to win public trust for decarbonisation, and it builds the social and human capital needed to create long-term value (Robins et al., 2024).

Area 9 looks at whether banks have: (i) disclosed a commitment to the just transition; and (ii) already taken action to decarbonise in line with just transition principles.

Summary of results

9.1. Just transition in banks' decarbonisation strategy

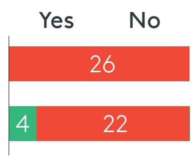
While no bank commits to decarbonising in line with just transition principles, four banks disclose actions for incorporating just transition principles into their climate strategy (see Figure 10).

- **None of the banks have a sufficiently broad commitment to decarbonise in line with just transition principles (9.1.a).** However, two banks, Crédit Agricole and HSBC, have made some advances in this area. Crédit Agricole has committed to supporting the transition of all its customers towards carbon neutrality and established dedicated governance structures to oversee the implementation of its just transition strategy. However, as the bank does not explicitly commit to decarbonising in line with a just transition approach at group level, it does not score on this sub-indicator. HSBC includes just transition considerations when assessing the transition plans of its customers in power and utilities, oil and gas, and thermal coal mining. However, the measure does not apply to all business activities covered by the bank's decarbonisation strategy, so this bank also falls short on this sub-indicator.
- **Four banks disclose actions to incorporate just transition principles into their decarbonisation strategy (9.1.b).** These banks are Barclays, Crédit Agricole, HSBC and BNP Paribas. The first three have programmes for assessing and engaging with their clients on just transition considerations. For example, Barclays piloted its approach to the just transition in its Client Transition Framework, which is used to annually evaluate its corporate clients' alignment with the bank's decarbonisation targets and 1.5°C scenario benchmarks. BNP Paribas has partnered with microfinance institutions to issue financing linked to just transition objectives.

Figure 10. Scores for Area 9: Just transition

9.1.a. Has the bank committed to decarbonise in line with just transition principles?

9.1.b. Has the bank incorporated just transition actions into its climate strategy?



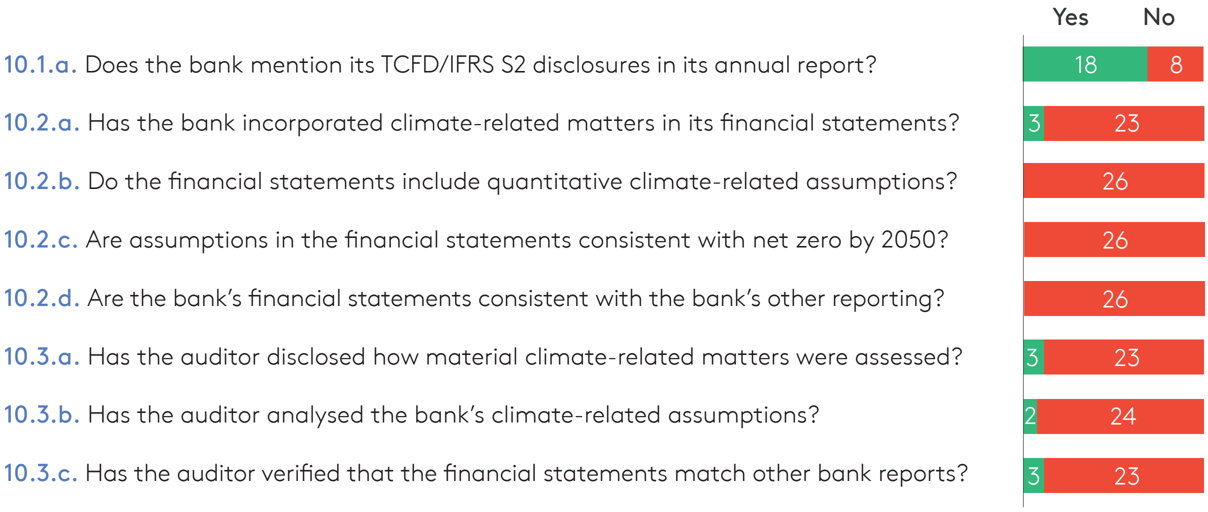
Area 10: Annual reporting, accounting and audits

Background

Clear disclosures, including in banks' financial statements, are essential for investors to gain a clear, comprehensive and accurate picture of a bank's progress on the low-carbon transition. This is particularly important given the financial implications of the transition, which are increasingly being recognised by prudential authorities.

Area 10 assesses whether banks' climate commitments and strategies are an integral part of their financial reporting. It evaluates whether: (i) banks disclose climate-related matters following standards (TCFD or the ISSB S2 standards) and signpost these disclosures in their annual reports; (ii) banks incorporate material climate-related matters in their financial statements; and (iii) auditors have considered the effect of material climate-related matters.

Figure 11. Scores for Area 10: Annual reporting, accounting and audits



10.2: Climate-related matters in financial statements

While eight banks mention climate in their financial statements, only three banks comprehensively explain how they have considered climate change in relevant financial statement items (see Figure 11).

- **Only three banks have clearly explained how they account for the impact of climate-related risks on their financial position and performance (10.2.a).** This number is particularly low given that 18 of the 26 banks recognise the materiality of climate risks (see sub-indicator 8.1.a), and it shows a disconnect between the banks' sustainability disclosures, the risk sections of their annual reports, and their financial statements. Some banks discuss the challenges of integrating climate risk into the scenarios they use to derive the weighted average expected credit loss (ECL), including difficulties of calibration and probability weight assessment, given the lack of data. For individual counterparties, when transition risks are a significant driver of a client's creditworthiness, banks sometimes explore downward revisions of their credit rating or adopt risk mitigation measures, thus influencing the ECL. Some banks consider sector-specific risks, particularly for sectors with high climate risk exposure. When analysing its corporate loan book, UBS found that "any potential significant impacts from transition costs or physical risks would materialize over a time horizon that exceeds in most cases the contractual lifetime of the underlying assets". UBS states this would also apply to its private clients' mortgages and real estate financing due to the long lead times required for investments to upgrade the housing stock. As a result, UBS concludes that "the magnitude of any impact of sustainability and climate risk on the weighted-average ECL would not be material as of 31 December 2023" (UBS Group, 2024).

10.3: Considerations of climate-related matters in the audit report

For three of the banks that mention climate change in their financial statements, auditors identify how these banks assess the material impact of climate-related matters (10.3.a). For two of the three banks, auditors analyse the assumptions and estimates used by banks to quantify climate-related matters.

- **In audit reports for three banks, auditors explain how they assess the material impact of climate-related matters (10.3.a).** This includes the auditing of Barclays' annual report by KPMG, which explains how it evaluates the bank's retail credit risk, corporate credit risk and market risk. For retail credit risk, the auditor assesses the potential impact of physical risks (such as flooding and subsidence) on the valuation of mortgage collateral. For corporate credit risk, the auditor assesses how climate risks could impact certain counterparties, including through changes in their credit rating. KPMG focuses specifically on counterparties operating in sectors more exposed to climate risk, such as the energy, transportation, materials and building, food, and forest product sectors. For market risks, it considers the impact of climate change on unobservable inputs used in the valuation of some financial instruments in sectors with elevated risks, such as energy, and metals and mining. Finally, the auditor considers consistency between climate-related information in other sections of the annual report and the financial statements and its audit knowledge.

Photo: Yzy Pop/Unsplash

3. Carbon Performance results

The Carbon Performance Alignment Matrix

The assessment of banks against the NZBAF, as outlined in Section 2, enables a better understanding of banks' positioning and performance on climate change, especially in relation to their managerial practices, commitments and policies. However, it is also crucial to evaluate whether banks' targets are sufficient to align with international climate goals, and how different banks' targets compare with each other. Few tools to date have been available to address these questions. The TPI Centre has developed the Carbon Performance Alignment Matrix for banks to bridge this gap and complement our analysis in Area 2 of the NZBAF on sectoral targets. Although the Carbon Performance assessment can apply to all banks, this section focuses on the 26 major international banks, as none of the 10 US super-regional banks or the two US custodian banks have set sectoral decarbonisation targets.

Our Carbon Performance assessment for banks is based on the Sectoral Decarbonisation Approach (SDA), like the Paris-aligned methodologies and benchmarks for real-economy corporates developed by the TPI Centre. We can calculate banks' decarbonisation pathways across sectors and business activities, provided that banks disclose sector-specific decarbonisation targets[10] along with the specific business activities to which these targets pertain. By comparing banks' sectoral decarbonisation pathways with our sectoral low-carbon benchmarks, we can determine banks' alignment, including on a given timeframe (short, medium and long term) (see Figure 12).

We use the following benchmarks:

- **'National Pledges' and 'International Pledges':** the global aggregate of countries' emission reduction pledges made as of mid-2021, plus targets set for international aviation and shipping by the relevant UN bodies.[11]
- **'Below 2°C' and '1.5°C':** pathways to limit global temperature rise to these specified levels, which correspond to the targets in the Paris Agreement.[12]

More so than most real-economy companies, banks are multi-faceted businesses involved in many sectors and various business activities. To tackle this complexity, our Carbon Performance Alignment Matrix for banks summarises the alignment assessments by: (i) the sectors the bank has set targets for; (ii) the business activities and banking activities that are covered by the targets; and (iii) timeframes, i.e. short, medium and long term.

The Matrix covers 14 real-economy sectors, 11 business activities and three timeframes (see Figure 13). Targets defined in terms of economic intensities or other economic metrics, such as outstanding amounts, are not included in the Matrix. Physical intensity metrics are directly linked to the carbon performance of real-economy assets, such as their specific technology mix, as opposed to economic intensity metrics. These are based on financial flows which may be unrelated to real-world carbon performance and more volatile compared with physical intensity metrics. While targets are important to estimate banks' sectoral pathways, it is not necessary to set a unique target for each business unit or timeframe. A single target can apply to multiple business activities (for example, corporate finance and project finance together) or timeframes (for example, a medium-term target also specifies a bank's short-term pathway). Consequently, the number of targets and alignment scores for a given bank can differ.

[10] This only includes absolute and physical intensity emission reduction targets and not economic intensity targets.
[11] For the airlines and shipping sectors we use International Pledges instead of National Pledges (see Appendix 2).
[12] For the paper sector, we use the 'Below 2°C', '2°C' and 'Paris Pledges' benchmarks instead. For the food sector, we use '1.5°C', 'Below 2°C' and '2°C' instead. For more detail on these benchmark scenarios, please consult the relevant sector methodology: www.transitionpathwayinitiative.org/publications.

Figure 12. Illustrative sectoral pathway for the electricity utilities sector – Bank A

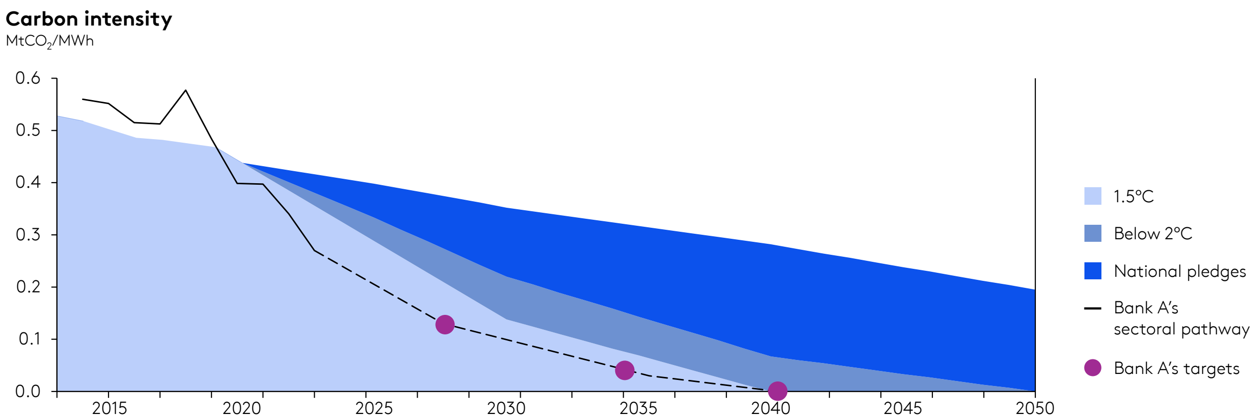


Figure 13. Illustrative emission reduction targets for banks within the Carbon Performance Alignment Matrix

Short-term alignment | Medium-term alignment | Long-term alignment

● 1.5°C ● Below 2°C ● National pledges
● Not aligned ● Not assessable using TPI's methodology – No or unsuitable disclosures

Business segment	Mortgages	Auto loans	Corporate banking		Investment banking and capital markets						Asset management
Activities	**Mortgages**	**Auto loans**	**Corporate lending**	**Project finance**	**Sales and trading[1]**	**M&A advisory**	**Debt and equity facilitating**	**Derivatives**	**Commodities**	**Treasury and risk management**	**All wealth and AM[2]**
Aluminium	-	-	1.5°C	1.5°C	-	-	1.5°C	-	-	-	-
Airlines	-	-	-	-	-	-	-	-	-	-	-
Autos	-	-	Not assessable using TPI's methodology	Not assessable using TPI's methodology	-	-	Not assessable using TPI's methodology	-	-	-	-
Cement	-	-	National pledges	National pledges	-	-	National pledges	-	-	-	-
Chemicals	-	-	-	-	-	-	-	-	-	-	-
Coal mining	-	-	-	-	-	-	-	-	-	-	-
Diversified mining	-	-	-	-	-	-	-	-	-	-	-
Electric utilities (global)	-	-	1.5°C	1.5°C	-	-	1.5°C	-	-	-	-
Electric utilities (regional)	-	-	National pledges	National pledges	-	-	National pledges	-	-	-	-
Food	-	-	-	-	-	-	-	-	-	-	-
Oil and gas	-	-	Not aligned	Not aligned	-	-	Not aligned	-	-	-	-
Paper	-	-	-	-	-	-	-	-	-	-	-
Real estate	-	-	-	-	-	-	-	-	-	-	-
Shipping	-	-	-	-	-	-	-	-	-	-	-
Steel	-	-	1.5°C	1.5°C	-	-	1.5°C	-	-	-	-

1. Market-making for securities and client assets
2. Asset management, including for private banking and across all asset classes

Banks' sectoral targets

Area 2 of the NZBAF (sectoral targets) shows that while sectoral target-setting is common, coverage across different business activities and timeframes is limited. It finds that almost all of our assessed banks' sectoral targets focus only on corporate lending and project finance, and that most banks set targets for the medium term, with only a few setting short- or long-term targets. Assessing banks against the Carbon Performance Alignment Matrix provides additional details and insights on the coverage of targets by sector and business activity:

- **The vast majority of banks have set sectoral decarbonisation targets.** A total of 139 sectoral emission reduction targets have been set by 21 of the 26 major international banks we assess. Only five banks have not set any sectoral targets. Of the 139 targets, 119 are medium-term (typically to 2030), 16 are long-term, and only four are short-term.
- **Among banks that have set sectoral targets, the average coverage is of 5.8 sectors, which is well below the 14 high-emission sectors identified.**[13] Barclays, BNP Paribas, Groupe Crédit Agricole, HSBC, ING and JP Morgan Chase are the highest-performing banks in this area: BNP Paribas covers nine of the 14 high-emission sectors with at least one target, while the others have set targets across eight sectors. The average number of sectors covered by banks is higher in Europe (7.5) and Japan (6.7) than in North America (4.2). JP Morgan Chase is the only North American bank that has set more targets than the average European bank, with targets covering eight sectors. None of the four banks headquartered in China have set a sectoral decarbonisation target.
- **All banks with sectoral targets (21) cover the electricity utilities sector, while 20 banks cover oil and gas, and 19 also cover the auto manufacturing sector.** After establishing targets in these key sectors, banks appear to expand their focus to include others such as steel (15 targets), cement (10), airlines (10) and real estate (10). However, target coverage remains low for the other industrial and transport sectors (see Figure 14a). Notably, only one bank has a target for the food sector, even though the food sector's emissions are on a par with the oil and gas sector's (Crippa et al., 2021). No bank has yet set a target for the diversified mining, chemicals or paper sectors.

Figure 14a. Number of decarbonisation targets by sector and region

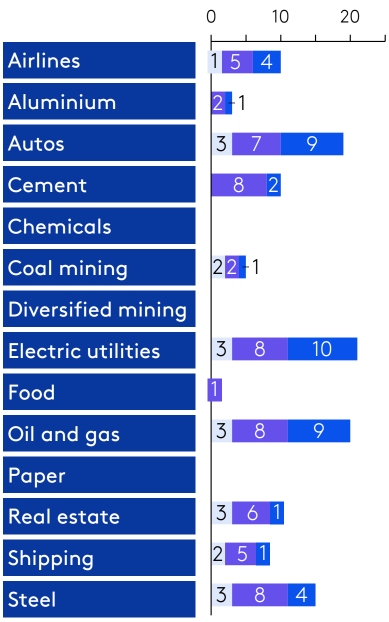
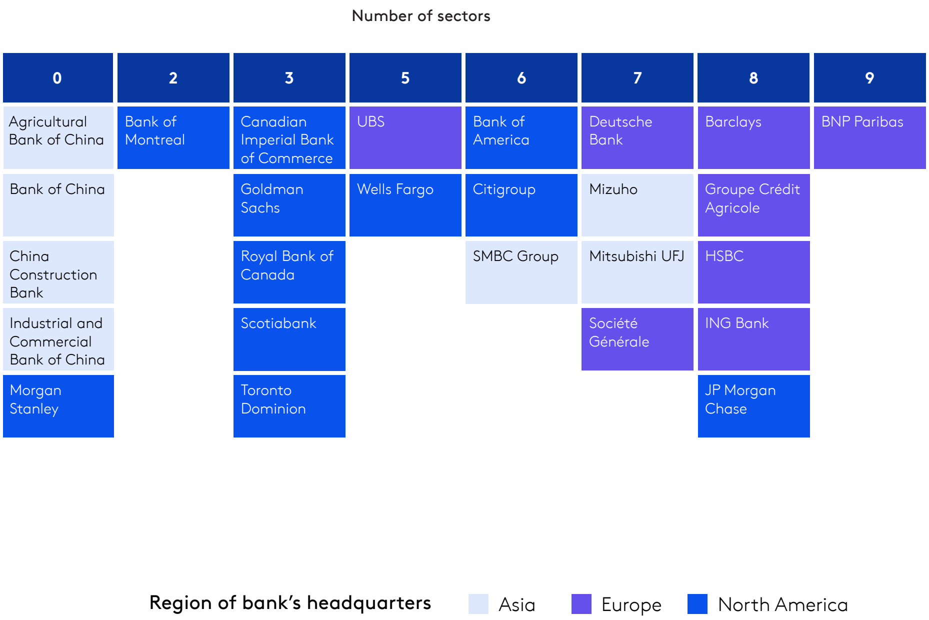


Figure 14b. Number of sectors covered by decarbonisation targets



Note: These figures only include absolute and physical intensity emission reduction targets, and not economic intensity targets.

[13] Here, full sectoral coverage refers to each bank having set at least one sectoral target for at least one business activity in all 14 high-emission sectors. This assumes all sectors are material for all banks.

- **All banks' targets cover corporate lending and project financing, but coverage of other business activities remains partial (see Figure 15).** Banks' focus on corporate lending and project financing (corporate banking) is consistent with the scope of their net zero commitments. Only seven banks have included capital market activities (debt and equity facilitation) in some targets, mainly for the electricity utilities and oil and gas sectors. The issue of partial coverage of targets is further explored in Section 5.
- **The target metric most commonly used by banks is physical intensity, followed by absolute emissions, while using alignment scores[14] for target-setting is emerging in the shipping and steel sectors (see Figure 16).** Sector-specific intensity is the metric used for 75% of targets, and absolute emissions is used for 16% of targets. In shipping, two-thirds of targets are set using the Poseidon Principles' portfolio-level alignment scores, and in the steel sector, one-fifth of targets are set using the Sustainable Steel Principles' alignment score. Both approaches rely on reductions in physical intensity but, due to additional permutations in the data, these cannot be assessed using the TPI Centre's physical intensity-based approach.

Figure 15. Business activities covered by each sectoral target

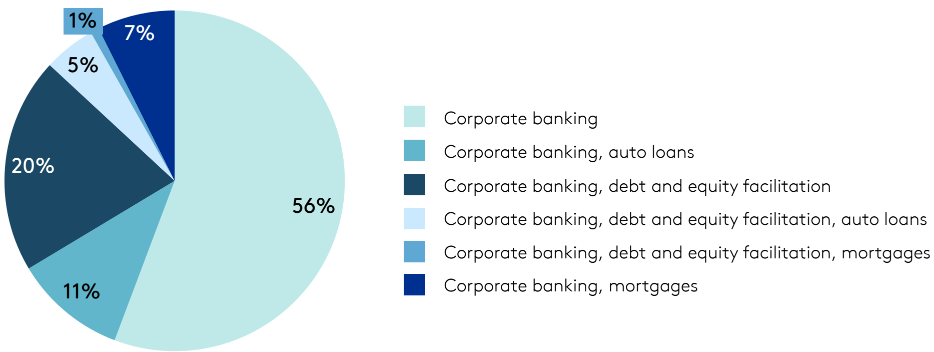
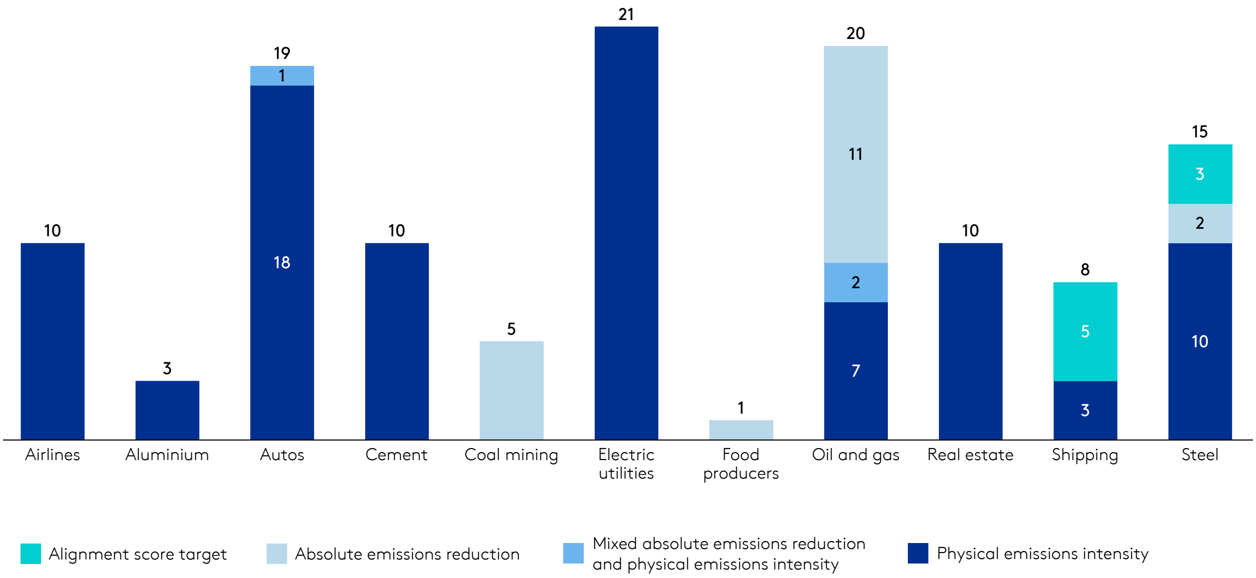


Figure 16. Type of metric used by banks to set sectoral decarbonisation targets



[14] Alignment scores measure the degree to which the carbon intensity of a bank's portfolio aligns with decarbonisation benchmarks used in the scoring methodologies.

Alignment of banks' decarbonisation pathways

As noted above, a bank's number of targets and alignment scores can differ significantly as a single target can apply across multiple business activities and timeframes.

- **Currently, 53% of the 139 sectoral targets set by banks can be assessed using the TPI Centre's Carbon Performance methodologies.** Most non-assessable targets are stated on accounting boundaries that are inconsistent with our methodology or are not fully specified. For example, although most banks have set targets in the oil and gas sector, roughly two-thirds of these targets cannot currently be assessed – primarily because banks are not stating the base year emissions against which the target is expressed, or they use an accounting boundary different to the TPI Centre's.[15] Of the 47% of targets that are not assessable, 8% (11 targets) relate to the real estate sector, for which the TPI Centre has not yet developed low-carbon benchmarks, and are therefore marked as 'not yet assessable' in subsequent sections.

Alignment by timeframe

While a significant share of banks' sectoral pathways align with 1.5°C or Below 2°C benchmarks in the short term, alignment in the medium term is markedly lower, and drops even further in the long term. This indicates a need for greater emphasis on medium- to long-term decarbonisation efforts.

- **Alignment with the benchmarks is highest in the short term (in 2027), when 30% of banks' pathways are aligned with 1.5°C or Below 2°C.** In comparison, 25% of pathways only align with National or International Pledges, or do not align with any of the low-carbon scenarios. Short-term alignment is largely a function of banks' business models and emissions performance to date. Greater focus should therefore be placed on medium- to long-term alignment, given banks' limited ability to change their business or financing models in the short term.
- **Medium-term alignment (in 2035) is markedly worse than short-term alignment, and alignment drops to very low levels in the long term (in 2050).** In the medium term, aligning with low-carbon scenarios requires significant emission cuts across all sectors. Banks' pathways do not reflect this level of ambition. Only 3% of banks' pathways are 1.5°C-aligned in the medium term and 16% are aligned with the Below 2°C benchmark scenario. As a result, around one-fifth of pathways are aligned with either the 1.5°C or Below 2°C scenario in the medium term. A further 34% of pathways align with National or International Pledges or are not aligned with any of the three low-carbon scenarios. Only three banks have set long-term targets, but these are more likely to align with lower-temperature scenarios than banks' short- or medium-term targets. Of the sectoral pathways estimated from these targets, six (38%) align with 1.5°C or Below 2°C benchmarks in the long term (in 2050).

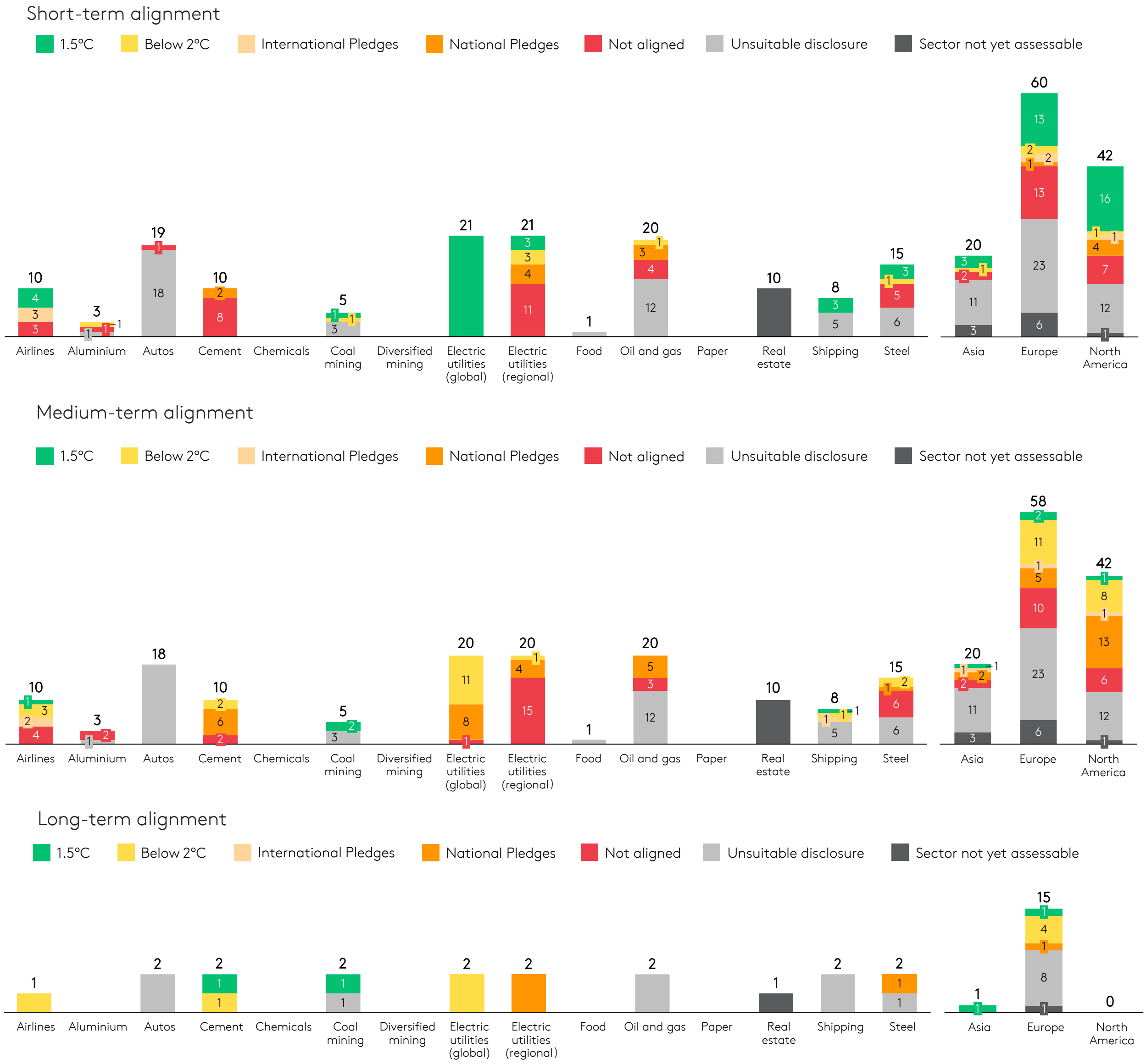
Alignment by sector

The short-term alignment of banks' sectoral targets with a 1.5°C scenario is highest in the electricity utilities sector. However, using regional instead of global benchmarks significantly reduces the alignment of electricity sector targets. Banks' oil and gas sector targets show the lowest level of alignment across all timeframes.

- **Banks' alignment with the 1.5°C and Below 2°C scenarios is highest for targets applying to the electricity utilities sector, especially in the short term.** Although most assessed banks have a global footprint, the majority of their corporate finance activities are typically concentrated in their home markets.
- **When banks' electricity sector pathways are assessed against regional instead of global benchmarks, few banks (or none in certain timeframes) are aligned with 1.5°C or Below 2°C.** See Appendix 3 for more information and an overview of banks' alignment in the electricity sector against global and regional (North American and European) benchmarks.

[15] Additionally, most banks set sectoral targets in the autos sector on a lifecycle basis, whereas the TPI Centre's methodology focuses on the emissions intensity of new cars sold. In the steel and shipping sectors, alignment-score metrics are common but they cannot be directly compared with TPI Centre's sectoral benchmarks. The TPI Centre has not finalised its Carbon Performance assessment approach to the real estate sector and thus targets in this sector cannot currently be assessed.

Figure 17. Alignment with low-carbon benchmarks in the short, medium and long term



Note: The regional breakdown only considers global benchmarks.

- **Targets in the airline and shipping sectors are rare but they have a relatively high level of alignment with 1.5°C and Below 2°C compared with other sectors.** Of the banks with airline targets, 40% are aligned with 1.5°C or Below 2°C in the medium term, and of those with shipping targets, 25% are aligned with these scenarios. This compares with 19% of targets that are aligned with 1.5°C or Below 2°C in the medium term across all sectors.
- **Alignment of banks' targets in the oil and gas sector is low, despite this being the second most popular sector for banks' target-setting.** No bank aligns with 1.5°C or Below 2°C in the medium or long term for oil and gas sector targets, and only one aligns with Below 2°C in the short term. In addition to not aligning with the goals of the Paris Agreement, targets in this sector are rarely well-defined, leading to a high share of banks with decarbonisation pathways that currently cannot be assessed. Eight banks do not state the base year emissions against which their oil and gas targets are expressed, three use an accounting boundary inconsistent with our methodology, and one uses an alignment score metric.

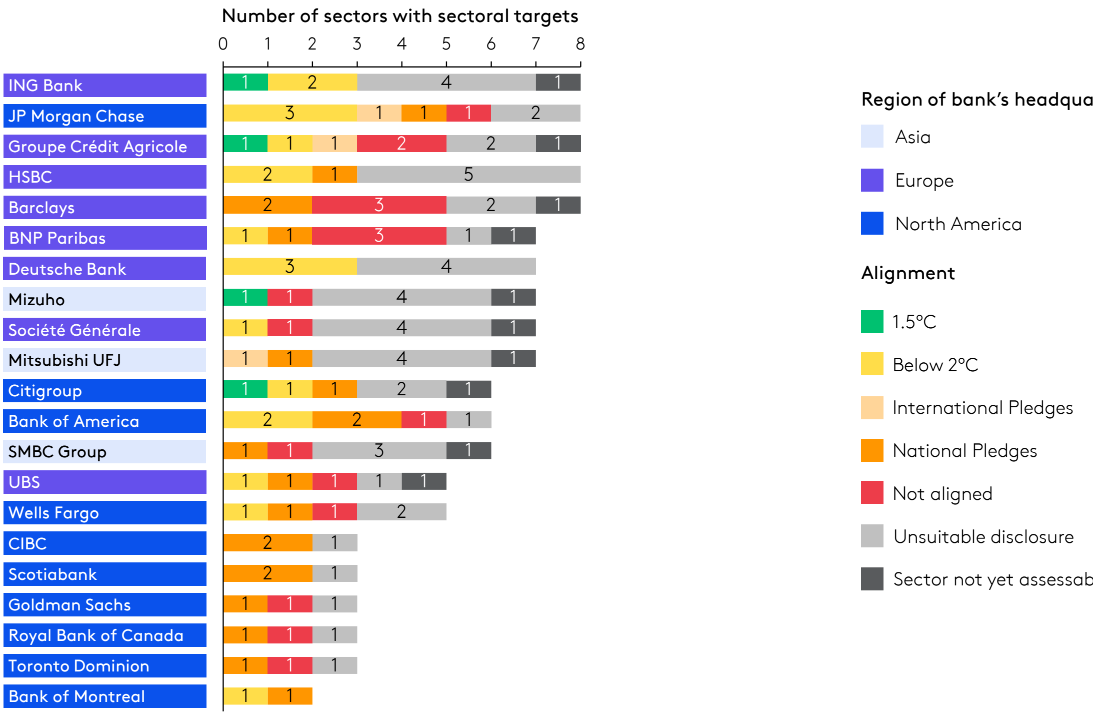
Alignment by region

- **European banks show the highest overall level of alignment with low-carbon benchmark scenarios.** Around one-fifth (22%) of European banks' sectoral pathways are aligned with either 1.5°C or Below 2°C in the medium term, compared with 21% of North American banks and 5% of Asian banks.We do not find an association between the location of a bank's headquarters and the sectors it is setting targets for, implying that this effect is not due to differences in sectoral importance across regions.

Alignment of individual banks

- **The overall alignment of banks is relatively evenly distributed, with no clear leaders.** Around two-thirds of banks with sectoral targets (13 of 21) have set at least one sectoral target that aligns with a 1.5°C or Below 2°C scenario in the medium term. However, there are some important differences to note between banks. ING, Deutsche Bank, and JP Morgan Chase each have three targets aligned with either 1.5°C or Below 2°C pathways, the highest among banks. Notably, all three banks' electricity utilities sector pathways are aligned with the Below 2°C pathway. ING and JP Morgan are also among the banks that set sectoral targets for the largest number of sectors (see Figure 18).

Figure 18. Banks' alignment with low-carbon benchmarks in the medium term (in 2035)



4. In focus: US super-regional and custodian banks

The 2024 cycle of the Net Zero Banking Assessment Framework also assesses 10 US super-regional banks: Capital One; Citizens; Fifth Third; Huntington Bancshares; KeyCorp; M&T Bank; PNC; Regions; Truist; and US Bancorp. Two US custodian banks were also included in this year's assessment: BNY and State Street Corporation. As these banks have different geographical concentrations, asset bases and risk profiles to the other 26 assessed banks, this analysis offers new insights into the state of the low-carbon transition in the banking sector.

US super-regional banks

Super-regional banks differ from major international ones in two key aspects: (i) their geographical focus is often limited to a country, or a group of countries or states; and (ii) the products and services offered are usually focused on corporate banking, as opposed to investment banking and asset management. Given their regional focus, these banks tend to have smaller asset sizes than their (multi-)national counterparts. The Federal Reserve (2021) defines super-regional banks as banking organisations with total assets of US$10–100 billion.

Overall, the performance of US super-regional banks on the low-carbon transition is particularly weak: no bank scores on 63 of the framework's 72 sub-indicators (see Figure 19).

Figure 19. NZBAF scores of 10 US super-regional banks

Area	Sub-indicator	Yes	No
1 Net zero commitment	1.1.a.	1	9
	1.1.b.		10
	1.1.c.		10
	1.1.d.		10
2 Targets	2.1.a.		10
	2.1.b.		10
	2.1.c.		10
	2.2.a.		10
	2.2.b.		10
	2.2.c.		10
	2.2.d.		10
	2.2.e.		10
	2.2.f.		10
3 Exposure and emissions disclosure	3.1.a.	1	9
	3.1.b.		10
	3.2.a.	3	7
	3.2.b.		10
	3.2.c.		10
	3.3.a.		10
	3.3.b.		10
	3.3.c.		10
	3.4.a.	2	8
	3.4.b.	1	9
	3.5.a.		10
	3.5.b.		10
5 Decarbonisation strategy	5.1.1.a.		10
	5.1.1.b.		10
	5.1.1.c.		10
	5.1.1.d.		10
	5.1.2.a.		10
	5.1.2.b.		10
	5.1.3.a.		10
	5.1.3.b.		10
	5.1.3.c.		10
	5.2.1.a.		10
	5.2.1.b.		10
	5.2.1.c.		10
	5.2.1.d.		10
	5.2.1.e.		10
	5.2.2.a.		10
	5.2.2.b.		10
	5.2.2.c.		10
	5.3.1.a.		10
	5.3.1.b.	1	9
	5.3.1.c.		10
	5.3.1.d.		10
	5.3.1.e.		10
6 Climate solutions	6.1.a.	5	5
	6.1.b.		10
	6.1.c.		10
7 Climate policy engagement	7.1.a.		10
	7.1.b.		10
	7.2.a.		10
	7.2.b.		10
	7.2.c.		10
8 Climate policy engagement	8.1.a.	2	8
	8.1.b.		10
	8.2.a.	10	
	8.2.b.		10
	8.2.c.		10
	8.3.a.		10
	8.3.b.		10
9 Just transition	9.1.a.		10
	9.1.b.		10
10 Annual reporting, accounting and audits	10.1.a.		10
	10.2.a.		10
	10.2.b.		10
	10.2.c.		10
	10.2.d.		10
	10.3.a.		10
	10.3.b.		10
	10.3.c.		10

Areas 1–3: Net zero commitments; sectoral targets; and exposure and emissions disclosure

Only one of the 10 US super-regional banks commits to reaching net zero financed emissions by 2050. None of the banks have set sectoral decarbonisation targets, but emissions disclosures are emerging, which may serve as a basis for future target-setting.

- **Only US Bancorp explicitly commits to reaching net zero financed emissions by 2050 (1.1.a).** Most of the emission reduction targets set by other US super-regional banks are limited in coverage to their operational emissions, which represent a very small fraction of the banks' overall emissions and are insufficient to meet the criteria of the NZBAF.
- **None of the 10 banks set financed and/or facilitated sectoral decarbonisation targets (2.1.a–2.1.c).** Eight of them have disclosed, or are in the process of estimating, their financed emissions. These initiatives will serve as a basis for future strategies, which may include target-setting.
- **Only Truist discloses its exposure to all material high-emission sectors (3.1.a).** Disclosing the amount in dollars and percentage share of credit exposure to all high-emission sectors enables investors to understand the bank's exposure to transition risks.
- **Fifth Third, Huntington Bancshares and PNC are the only banks that disclose absolute financed emissions (3.2.a).** These disclosures are limited in scope as they do not cover all material on- and off-balance sheet activities or all high-emission sectors. Huntington Bancshares and PNC disclose the methods, assumptions and variables used to quantify their financed emissions, with PNC also disclosing the PCAF data quality scores that assess the quality of underlying client emission data.

Area 4: Historical emissions performance

As stated in Section 3, historical data on banks' portfolio carbon emissions are not yet available.

Area 5: Decarbonisation strategy

US super-regional banks have made initial efforts but limited progress on decarbonisation strategies. Across key metrics used to gauge progress, they achieve positive ratings in just 1% of cases.

- **No bank meets the criteria to score in areas related to financing conditions, revenue alignment or capital allocation to misaligned activities.** Banks have not implemented specific, concrete financing conditions that incentivise the low-carbon transition of companies in high-emission sectors, do not have policies to phase out financing of coal or oil and gas, and do not have policies to end activities that finance land conversion activities.
- **Regions is the only bank to score on any of the sub-indicators related to climate scenario analysis.** The bank has carried out a climate scenario analysis of physical risks and assessed the sensitivity of its real estate portfolio to sea-level rise.

Areas 6–10: Climate solutions; climate policy engagement; climate governance; just transition; and annual reporting, accounting and audits

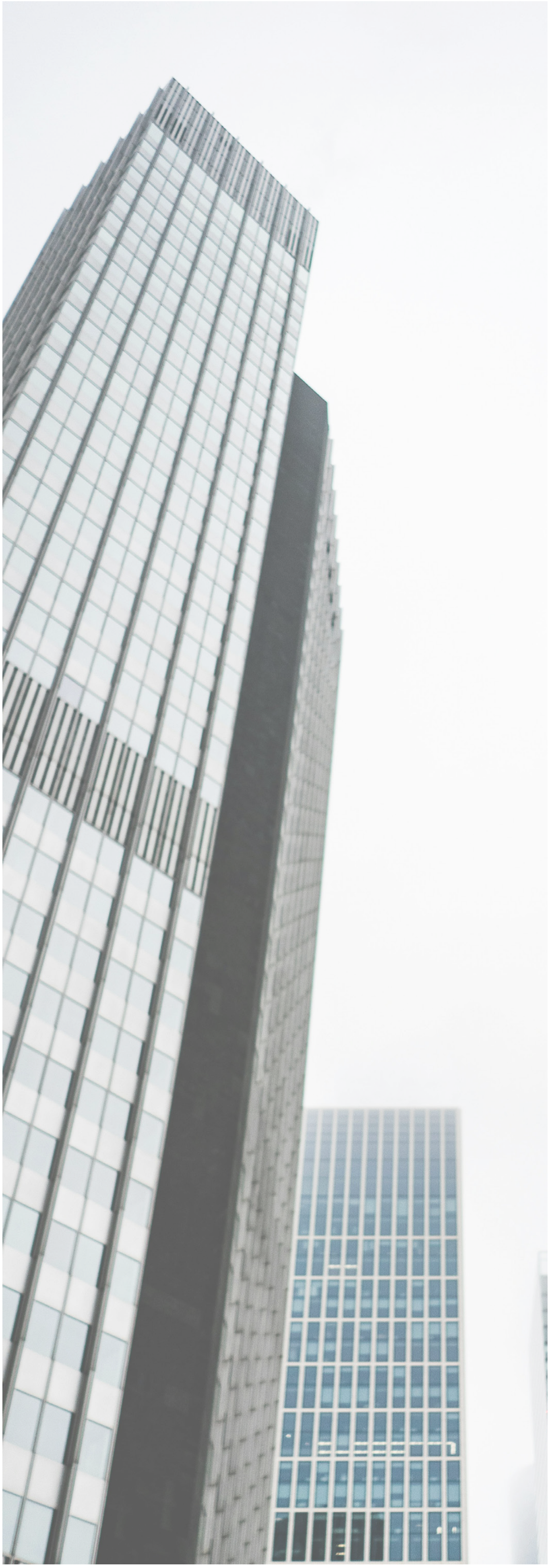
Performance in these areas of the framework is poor: banks meet the sub-indicator criteria in less than 7% of cases.

- **No bank scores positively in the following areas: climate lobbying, just transition, and annual reporting, accounting and audits.** This means that the assessed banks do not have a 1.5°C-aligned lobbying position, do not integrate just transition considerations into their climate strategy, and do not consider climate-related matters in their financial statements.
- **Five of the 10 banks commit to scaling up climate finance and have specific targets and milestones.** Other banks disclose targets for sustainable or green financing but ultimately do not score on this sub-indicator, which specifically aims to assess whether the bank has set a financing target for climate solutions.
- **Climate governance is the area in which these banks score most highly.** All 10 banks disclose evidence of a board committee's responsibility for oversight of climate change (8.2.a). Performance on other sub-indicators in this area remains poor: the only other scores are for Huntington Bancshares and PNC, which classify climate-related risks as a key risk category in their annual reports (8.1.a). No bank includes climate performance in the remuneration of its C-suite executives (8.3.a).

Custodian banks

This assessment includes two US custodian banks for the first time: BNY and State Street Corporation. Their main business activity is holding and safeguarding assets and performing various administrative functions, for which they charge a fee. Their operations across retail, commercial, investment banking and capital markets are smaller than those of other banks assessed. State Street Corporation's lending activities, for instance, are not material. As it cannot set financing conditions or covenants for its clients, four of our framework's sub-indicators are not applicable. In the case of BNY, its lending portfolio is material and therefore all the indicators are relevant.

- **Overall, the performance of these two banks is very weak.** State Street Corporation only scores on sub-indicator 8.1.a, which evaluates board oversight of climate change. BNY also scores on 8.1.a and on five other sub-indicators related to financed emissions disclosure and climate-related scenario analysis. It is worth noting that both these banks have set financed/facilitated emission reduction targets, but have done so using the portfolio-level economic intensity method, which falls outside the scope of Area 2 of the NZBAF.



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5. In focus: share of bank revenues covered by net zero targets

As we have shown in the preceding sections, net zero targets currently do not fully cover banks' operations and revenues. Incomplete coverage of business activities by banks' net zero commitments can lead them to be exposed to regulatory, reputational and financial risks, as well as reducing the world's chances of meeting the Paris Agreement targets. This section takes a look at this incomplete coverage in more detail.

Linking banks' business activities with net zero initiatives

A commercial bank's core function involves accepting deposits and mobilising them to grant loans and advances to a diverse customer base. Lending, both to consumers and businesses, typically constitutes over 50% of a bank's total revenue and is often their most significant source of financed emissions. Therefore, prioritising lending in net zero strategies will enable banks to influence borrowers through covenants that incentivise emission reduction targets and transition plans.

However, net zero strategies extend beyond lending. There are substantial opportunities to build net zero strategies into investment strategies, active ownership and advisory services, and to scale up climate solutions in corporate and investment banking, wealth and asset management, and insurance. Current industry guidelines, such as the NZBA's *Guidelines for Climate Target Setting for Banks* (NZBA, 2024), emphasise lending but also include capital market activities and urge banks to adjust their target-setting by November 2025 at the latest.

Our analysis shows that only a small minority of banks provide detailed reporting that would enable accurate estimates of revenue[16] coverage by net zero commitments and sectoral decarbonisation targets to be made. Only 10 of the 21 banks with sectoral targets have suitable reporting, with many failing to separate personal and commercial banking activities. This lack of transparency makes it difficult for investors to gauge the full scope of banks' commitments, particularly because net zero commitments and sectoral targets are usually limited to corporate lending.

Our findings indicate that, on average, only 22% of banks' total revenues are from activities covered by sectoral decarbonisation targets. This share is higher for commercial banks (30%) than for those combining commercial and investment banking activities (15%) – which is unsurprising as the revenue structures of the former rely more heavily on lending. The limited scope of sectoral targets, which (where they exist) are often misaligned with the Paris Agreement goals, exposes banks to significant transition risk. Moreover, overemphasising credit portfolio risk, while overlooking other business activities, can potentially lead to revenue losses if transition and physical risks are not mitigated.

[16] Where there is sufficient data, revenue is defined as net operating income before changes in expected credit losses and other credit impairment charges.

6. Recommendations

Based on the results of our 2024 assessment, this section provides recommendations for banks on each area of the Net Zero Banking Assessment Framework (NZBAF) to support their progress towards net zero alignment and facilitation of a low-carbon economy.

1. Net zero commitments

- **Banks should make their net zero commitments more transparent by explicitly disclosing the business activities and scope of emissions that are covered by the commitments.** The business activities covered should be explicitly mentioned: broad terms such as 'financing or investment activities' are too unclear for investors to be able to assess the materiality of the commitment.

2. Sectoral targets

- **Banks should set comprehensive sectoral emission reduction targets** across all relevant high-emission sectors, business activities and timeframes to support their net zero commitments.
- **In particular, banks should focus on setting targets that encompass a wider range of asset classes, beyond lending and capital markets.** A narrow focus on credit portfolios could expose banks to significant revenue losses from other business activities if transition and physical risks materialise without adequate mitigation strategies being in place.
- **Banks could use the TPI Centre's sectoral benchmarks to identify the level of ambition required to meet the 1.5°C scenario,** and use this information to strengthen their currently weak alignment with international climate targets.

3. Exposure and emissions disclosure

- **Banks should not view the lack of external standardised methodologies and insufficient client data as insurmountable barriers to measuring financed and facilitated emissions.** They need to build on good practice to generate the proxy data required to support their net zero strategies. Some banks have developed their own methodologies, enabling them to start measuring and iterating the methodologies to improve data quality over time. Examples include HSBC for facilitated emissions in the electricity utilities and oil and gas sectors, Barclays for financed emissions in the agricultural sector, and BNP Paribas for financed emissions in the aluminium sector.

4. Historical emissions performance

- **Banks should continue to disclose their financed and facilitated emissions using a stable methodology,** including for previous years. Where methodological changes are made, banks should restate figures for the previous three years at a minimum, so that trends can be estimated.

5. Decarbonisation strategy

- **Banks should link the provision of financial products and services to the climate performance of their clients.** They could use the TPI Centre's data on Management Quality and Carbon Performance[17] to measure the climate-related performance of their publicly-listed clients where available.
- **Asset management divisions should clarify their proxy voting policies** by having concrete and specific escalation mechanisms in place for when clients do not meet their expectations on climate-related performance.
- **Banks' fossil fuel policies should be more ambitious, covering not only lending but also facilitation activities.** In addition, banks should apply their policies to all their clients by removing special conditions based on regions and applying their policies to all coal companies with revenues above 5%.
- **Banks' policies on deforestation and land conversion could be improved if they covered all types of high forest-risk commodities and their supply chains.** To support this process, banks can use the *Eliminating Commodity-Driven Deforestation: Finance Sector Roadmap* (Accountability Framework initiative, 2024).

[17] This can be found in the TPI Centre online tool at: www.transitionpathwayinitiative.org/sectors.

6. Climate solutions

- Banks should be more transparent about their climate action by creating an explicit category with funding amounts dedicated to climate solutions (and the associated timeframes) within their current sustainability targets, or by creating a separate target for climate solutions.
- Banks should provide more transparency on the materiality of these targets to their business by reporting the volume of transactions that go towards climate solutions as a proportion of total financing.

7. Climate policy engagement

- Banks should align their lobbying activities with the goal of limiting global temperature rise to 1.5°C above pre-industrial levels.
- Banks should regularly review their climate policies to verify alignment with 1.5°C. They should do the same for the trade associations they are a member of.

8. Climate governance

- Banks should ensure that they are managing climate risk appropriately, and explain the actions they are taking to mitigate it.
- Banks should ensure that board members overseeing climate risks have climate-specific competencies.
- Banks should link executive remuneration to climate-related performance, including the achievement of the bank's financed and/or facilitated emission reduction targets.

9. Just transition

- Banks should integrate just transition considerations into their decarbonisation strategies. They can follow existing guidance on good practice, such as the practical guidance to financial institutions on integrating just transition considerations produced by the International Labour Organization (ILO) and the Grantham Research Institute on Climate Change and the Environment (Chubarova et al., 2022).

10. Annual reporting, accounting and audits

- Banks should show consideration in their financial statements of the impact of climate-related risks on their financial position and performance and disclose the quantitative climate-related assumptions and estimates used.
- Auditors should state how they assess the material impacts of climate-related matters and analyse the assumptions and estimates used by banks in quantifying climate-related matters.

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Appendix 1. NZBAF scores of 26 major international banks

Area	Sub-indicator	Yes	No
1 Net zero commitment	1.1.a	18	8
	1.1.b	7	19
	1.1.c		26
	1.1.d		26
2 Targets	2.1.a	2	24
	2.1.b	21	5
	2.1.c	3	23
	2.2.a		26
	2.2.b	11	15
	2.2.c		26
	2.2.d		26
	2.2.e		26
	2.2.f	22	4
3 Exposure and emissions disclosure	3.1.a	14	12
	3.1.b		26
	3.2.a	21	5
	3.2.b	8	18
	3.2.c		26
	3.3.a	21	5
	3.3.b	2	24
	3.3.c		26
	3.4.a	22	4
	3.4.b	18	8
	3.5.a	5	21
	3.5.b	7	19

Area	Sub-indicator	Yes	No
5 Decarbon-isation strategy	5.1.1.a	10	16
	5.1.1.b	5	21
	5.1.1.c		26
	5.1.1.d		26
	5.1.2.a	1	25
	5.1.2.b		26
	5.1.3.a	2	24
	5.1.3.b	2	24
	5.1.3.c	4	22
	5.2.1.a	3	23
	5.2.1.b		26
	5.2.1.c	2	24
	5.2.1.d		26
	5.2.1.e		26
	5.2.2.a		26
	5.2.2.b		26
	5.2.2.c		26
	5.3.1.a	6	20
	5.3.1.b	5	21
	5.3.1.c		26
	5.3.1.d	1	25
	5.3.1.e		26
6 Climate solutions	6.1.a	15	11
	6.1.b		26
	6.1.c	3	23

Area	Sub-indicator	Yes	No
7 Climate policy engagement	7.1.a		26
	7.1.b		26
	7.2.a		26
	7.2.b		26
	7.2.c		26
8 Climate governance	8.1.a	20	6
	8.1.b	13	13
	8.2.a	23	3
	8.2.b		26
	8.2.c		26
	8.3.a	9	17
	8.3.b	5	21
9 Just transition	9.1.a		26
	9.1.b	4	22
10 Annual reporting, accounting and audits	10.1.a	18	8
	10.2.a	3	23
	10.2.b		26
	10.2.c		26
	10.2.d		26
	10.3.a	3	23
	10.3.b	2	24
	10.3.c	3	23

Appendix 2. Description of TPI Centre's Carbon Performance benchmark scenarios

National Pledges and International Pledges

National Pledges is consistent with the global aggregate of emissions reductions related to policies introduced or under development as of mid-2023. According to the International Energy Agency, this aggregate is currently insufficient to put the world on a path to limit warming to 2°C, even if it will constitute a departure from a 'business-as-usual' trend. This scenario is applied to all sectors in the NZBAF except for international shipping and aviation, for which we use an 'International Pledges' scenario based on emissions commitments made by the International Maritime Organization (IMO) and the International Civil Aviation Organization (ICAO). Both existing nationally determined contributions (NDCs) to the Paris Agreement and international commitments are insufficient to limit global warming to 2°C or below, and if this does not change, a global temperature increase of 2.4°C by 2100 is projected with a probability of 50%.

Below 2°C

Consistent with the overall aim of the Paris Agreement to limit global average temperature rise, albeit at the lower end of the range of ambition, this scenario gives a 50% probability of holding global temperature increase to 1.7°C.

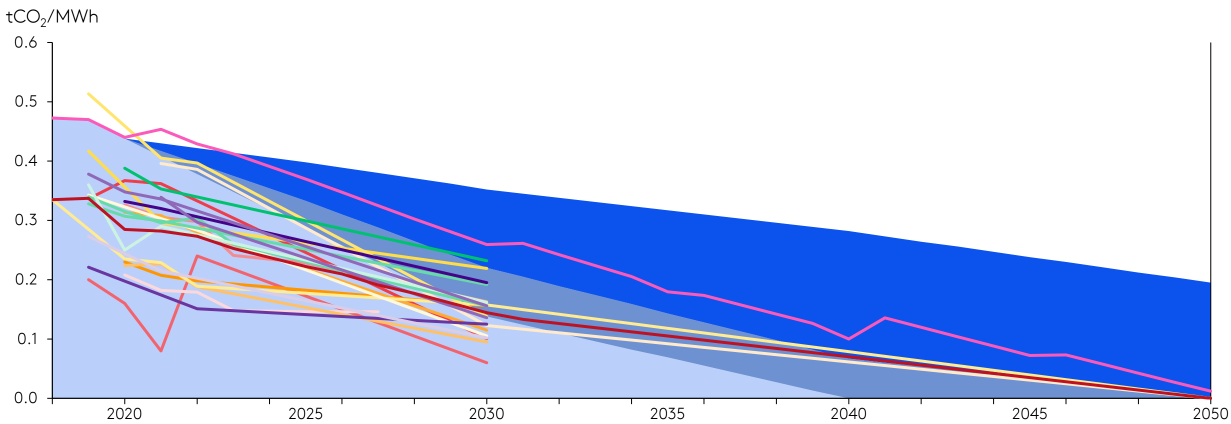
1.5°C

This scenario is consistent with the overall aim of the Paris Agreement to hold "the increase in the global average temperature to well Below 2°C above pre-industrial levels and to pursue efforts to limit the temperature increase to 1.5°C above pre-industrial levels". It gives a 50% probability of holding global temperature increase to 1.4°C.

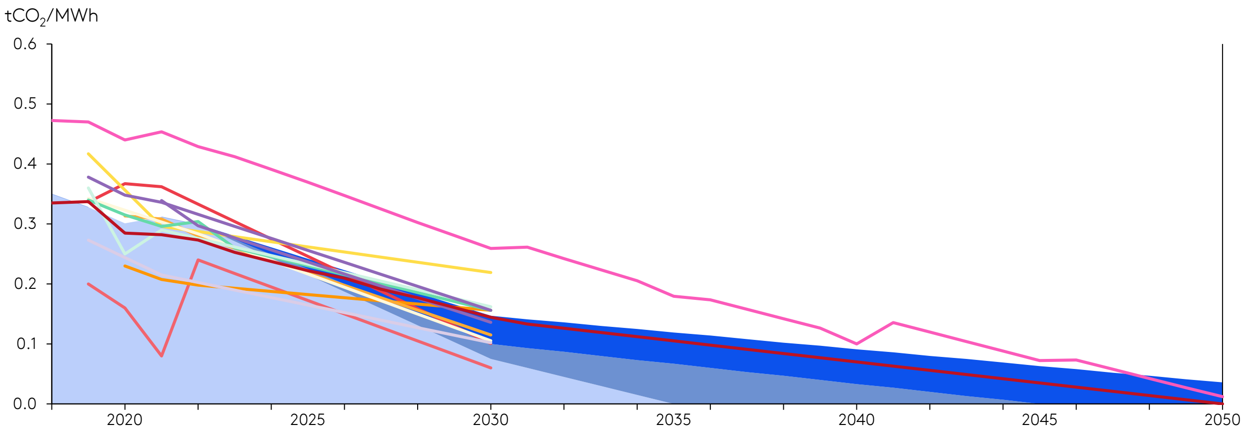
Appendix 3. Banks’ global and regional alignment in the electricity utilities sector

1.5°C
Below 2°C
National Pledges
Bank of America
Bank of Montreal
Barclays
BNP Paribas
CIBC
Citigroup
Crédit Agricole
Deutsche Bank
Goldman Sachs
HSBC
ING Bank
JPMC
Mizuho
MUFG
Royal Bank of Canada
Scotiabank
SMBC
Société Générale
Toronto Dominion
UBS
Wells Fargo
Banking sector average (Global)
Electric utilities sector average (Global)

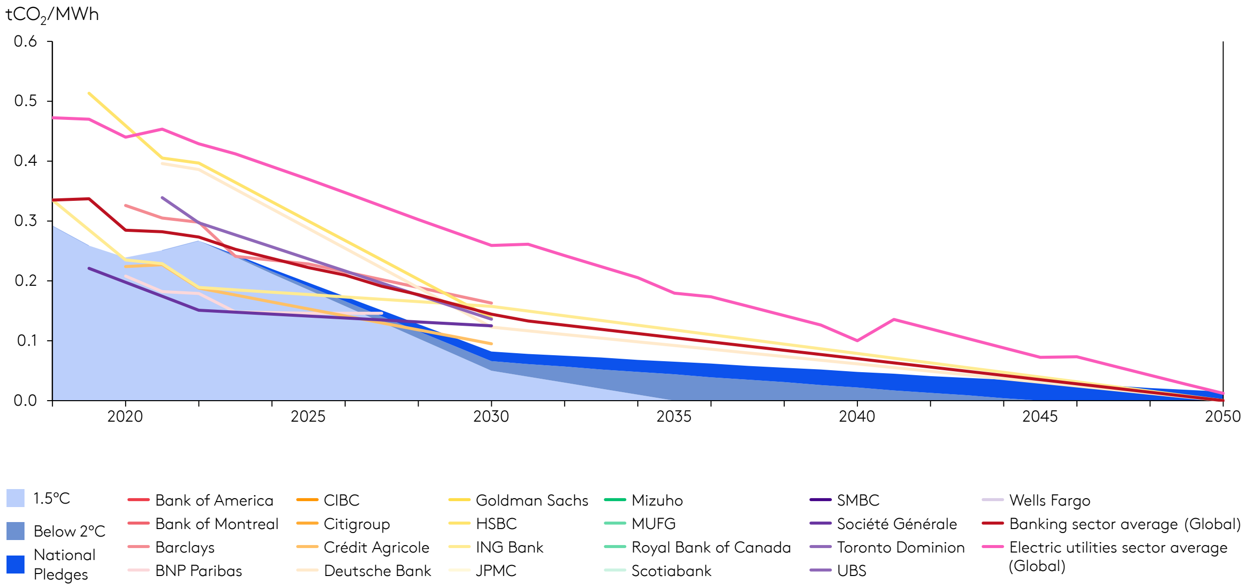
Carbon Performance assessment in the electricity utilities sector: global



Carbon Performance assessment in the electricity utilities sector: North America



Carbon Performance assessment in the electricity utilities sector: Europe



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