Banks' climate-related disclosures (Phase 1)

Benchmarking climate-related disclosures that are part of banks' 2022 annual reports

April 2023

Purpose of this report

Sustainability reporting, including climate-related disclosures, is high on the agenda as it rapidly evolves and formalises. The first two IFRS® Sustainability Disclosure Standards will be finalised in June 2023, and there are also major developments in specific jurisdictions like the EU and the US.

The International Sustainability Standards Board (ISSB) is taking a 'climate-first' approach, as is the US Securities and Exchange Commission (SEC). Therefore, like in previous years we focus our analysis on climate-related disclosures made by 35 major banks around the world.

Our benchmarking analysis consists of two phases. **This report summarises our Phase 1 results** from our analysis of banks' climate-related disclosures that are part of their 2022 annual reports.

The Task Force on Climate-related Financial Disclosures (TCFD) framework provides common input into many of the incoming standards. Our follow-up report in Phase 2 will focus on banks' TCFD disclosures and will also cover climate-related disclosures in banks' other standalone reports.

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Banks need to step up to meet new reporting challenges

Those reporting their climate-related disclosures under heightened regulation are powering ahead, leaving behind those in jurisdictions with less of a climate-related regulatory focus

Financial reporting

Location and timing of climate-related disclosures make it challenging to understand the big picture – these are often provided in multiple documents, published on different dates

The word ‘climate’ is starting to appear more frequently in financial statements

Improving connectivity to the large amounts of information included in the front part of the annual report and other documents remains key

Governance

Some banks are linking variable remuneration to climate-related targets; however, assessing the impacts on total remuneration amounts remains challenging

Risk management

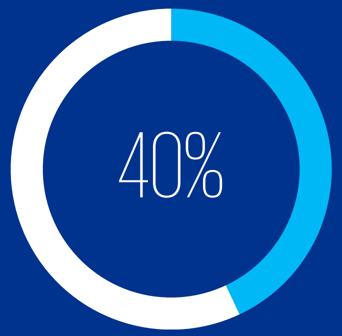
Credit risk remains the focus – many banks disclose the integration of climate-related factors in their credit risk acceptance and monitoring processes.

Data: strategy, metrics and targets

- Data challenges including availability, reliability and time lags are impacting the scope and extent of scenario analysis and the disclosures on metrics and targets
- Most banks aim to achieve net zero in financed emissions by 2050 – better data and a globally accepted methodology would help them deliver more clarity on their progress towards achieving these targets and allow comparability between banks

Auditors’ reports

Climate features more prominently in some auditors’ reports – generally those in the UK, Australia and Europe



40 percent of banks are obtaining assurance (albeit mostly limited) over selected climate-related information included within the annual report

Scope and approach

Climate-first

Like in previous years, our benchmarking analysis focuses on climate-related disclosures. This aligns with the ISSB's 'climate-first' approach and is the most mature area in sustainability reporting.

Benchmarking analysis: A two-phase approach

Phase 1 looks at the climate-related disclosures made as part of banks' 2022 annual reports.

Phase 2 will look at how the climate-related disclosures of these banks align with the TCFD framework. The TCFD provides common input into many of the incoming sustainability standards and is used by many banks in 2022, often within other standalone reports.

Our combined Phase 1 and Phase 2 analysis provides insights into the climate-related disclosures provided by banks in the 2022 reporting cycle.

Scope and approach

Which banks are included?

Our 2022 climate-related disclosure analysis covers 35 major banks. It includes five major banks in the UK, seven in Europe, five in Australia, five in Canada, seven in Asia (across China, Japan and India) and six in the US.

Which areas are covered?

Our analysis focuses on the following key areas: Financial reporting, Governance, Strategy, Risk management (including credit risk), and Metrics and targets.

Governance, Strategy, Risk management, and Metrics and targets are consistent with the four pillars of the TCFD framework (currently used by many banks) and the ISSB's sustainability reporting proposals (see pages 9-10).

How did we perform the Phase 1 analysis?

We reviewed the climate-related disclosures made by 35 banks as part of their 2022 annual reports. This includes other information that was incorporated via cross-reference, covering the same reporting period and released at the 'same time' as the financial statements (see page 5).

We compared these disclosures between the banks. Where appropriate, we compared our 2022 observations with those in our previous analysis that covered the 2021 reporting cycle.

We have exercised a certain level of **judgement** when making these comparisons and assessing banks' disclosures.

Scope and approach (continued)

This is the third year we are conducting our analysis.

Details of our benchmarking analysis from the previous years can be found below.

2021 reporting cycle:

- Phase 1: Benchmarking banks' annual reports
- Phase 2: Benchmarking banks' TCFD disclosures

2020 reporting cycle:

- Phase 1: Climate risk is financial risk – For banks it's a board-level issue
- Phase 2: Climate disclosure at banks – Risks are clear, but what are the opportunities?

Scope and approach (continued)

Which reports/information have we reviewed?

For the 35 banks selected, we reviewed their 2022 annual reports, including other information as outlined below.

- We looked at information throughout the annual report (i.e. the financial statements as well as the front part[1] of the annual report).
- In addition, for the first time this year we considered 'other information' that was incorporated via cross-reference. This includes climate-related disclosures in other standalone reports covering the same reporting period that banks released at the same time as the financial statements[2].
- We made this change compared to our previous years' analyses as, under the ISSB™ proposals, information can be included outside the annual report via cross-referencing to other documents where these are released at the same time. This also treats all banks that accelerated the publication of climate-related disclosures equally, regardless of placement. In our previous analyses over 2021 and 2020, Phase 1 was solely based on climate-related disclosures in the annual report.
- We reviewed the online 'glossy' version of the 2022 annual reports, except for a few banks, where these were not yet publicly available at the time of conducting our Phase 1 analysis. In such a scenario, we reviewed the relevant regulatory filings (e.g. Form 10-K).
- We reviewed the English language version of the 2022 annual reports.
- The 2022 annual reports for many of the banks in our analysis cover the year ended 31 December 2022. However, the 2022 annual reports of banks in Australia, Canada, India and Japan cover a different annual period.

[1] 'Front part' throughout this report refers to the directors' report and areas of the annual report other than the financial statements. 'Financial statements' refers to the financial statements and notes of the financial statements.

[2] For Phase 1 of our benchmarking analysis, in determining 'at the same time', we reviewed the 2022 other standalone reports where these were released no later than one week after the release of the 2022 financial statements (and incorporated via cross-reference in the annual report).

Observations on banks' climate-related disclosures

Observations across jurisdictions

As the forthcoming sustainability disclosure requirements draw near, there is still significant ground to cover by all banks.

- The banks in jurisdictions with heightened sustainability or climate-related reporting regulation continue to power ahead and make more progress in enhancing their climate-related disclosures.
- Banks in other jurisdictions have significant catching up to do, especially if they are to meet the various forthcoming sustainability reporting proposals (see pages 9-10).
- Going forward, it will also be interesting to see the impact of increased regulation around mandatory sustainability-related disclosure requirements on banks operating across multiple jurisdictions.

UK banks continue to take the lead

- In 2021, the TCFD recommendations became mandatory for UK premium listed banks on a comply or explain basis (which includes a statement in the annual report on whether/how they have complied with the TCFD recommendations). This is reflected in the nature and extent of climate-related disclosures of UK banks.
- UK banks appear to be ahead in some areas.
  - All banks included in our analysis publish climate-related disclosures (including those in other standalone reports) on the same date as their financial statements.
  - Continued progress is generally observed in climate-related disclosures made as part of 2022 annual reports – including:
    - although still limited, UK banks have started to disclose climate-related impacts in their financial statements (see page 14);
    - they provide more clarity on the TCFD recommendations they have disclosed vs not disclosed (with explanations); and
    - they show continuing progress on the more challenging areas – e.g. quantification of financed emissions for certain loan portfolios, sharing insights from scenario analysis to date, and development of initial transition plans which are already released or will be released in 2023.

Other banks continue to make progress in 2022

- Continuing progress is seen in jurisdictions with heightened regulation or where regulators have emphasised the importance of climate-related disclosures.
- Although disclosures are not (yet) at the same level as the UK banks, the banks in Australia and Europe have generally continued to make progress – e.g. some have started to disclose impacts in the financial statements (see page 14).
- A few banks in Australia and Europe disclose judgemental adjustments to their expected credit losses (ECLs) due to extreme weather events or country-specific regulation (see page 14).

Some banks lagging behind

Banks in jurisdictions with less or no regulation on climate-related disclosures generally provide less climate-related information in their annual reports. No significant year-on-year progress is noted for such banks, with the nature and extent of disclosures being consistent with 2021.

Location, timing and connectivity

100%

of the banks provide climate-related disclosures **mainly** in the front part of their 2022 annual reports

34%

of the banks release their full suite of climate-related disclosures at the same time as the financial statements

Location and timing of climate-related disclosures make it challenging to understand the big picture – these are often provided in multiple documents, published on different dates.

Highlights from our analysis:

Location

- In 2022, large amounts of climate-related information is often included both in the annual reports and other standalone reports (such as climate or ESG reports). For a comprehensive view, users need to navigate various documents.
- Climate-related disclosures are mainly included in the front part of 2022 annual reports – typically the wider risk management, governance and strategy sections.
- Often there is repetition in and across the 2022 annual reports and other standalone reports – e.g. the amount of sustainable financing commitments is often reported multiple times.

Timing

- The publication date of banks' climate-related disclosures impacts users' ability to obtain a comprehensive view at a specific point in time.
- Banks in the UK, as well as some in Australia and Europe, published their full 2022 climate-related disclosures at the same time as their financial statements – either in the front part of their annual report or in other standalone reports.
- However, many banks currently do not release their other standalone reports at the same time as their financial statements, even when these reports are mentioned or cross-referenced in the front part of the annual reports. Most banks release these a few months later, while a few cross-refer to standalone reports that were released at an earlier date and that covered a reporting period inconsistent with the financial statements.
- As part of incoming IFRS Sustainability Disclosure Standards and other local requirements, banks will need to prepare to report their climate-related disclosures at the same time as the financial statements (see pages 9-10).

Connectivity

- Improving the connectivity of climate-related information to the financial statements is key, including in the forthcoming sustainability reporting proposals (see pages 9-10).
- Synchronised publication dates of annual reports and other standalone reports accompanied by effective cross-referencing will enhance connectivity to help users understand the big picture.

Getting ready for the new standards

Sustainability reporting is developing quickly

The ISSB proposals are expected to be finalised in June 2023 and will be effective for annual reporting periods beginning on or after 1 January 2024.

Adoption of the current two standards is dependent on individual jurisdictions, so the effective date may vary by location, but a rapid route to full adoption is expected by a number of jurisdictions.

Beyond the ISSB proposals, the mandatory reporting landscape is developing rapidly in many jurisdictions. For example, in the US the SEC has proposed rules and the draft European Sustainability Reporting Standards (ESRS) contain climate-related requirements that are yet to be finalised.

The ESRSs would first apply for years beginning on or after 1 January 2024 with a phased introduction. The effective date of the SEC-proposed rules will remain open until adoption of the final rules.

Comparing the ISSB, SEC and ESRS sustainability reporting proposals

There is commonality among the ISSB, ESRS and SEC proposals – including that the TCFD framework forms a shared starting point.

However, **there are also areas where they are not aligned, which may create practical challenges for entities (including internationally operating banks)** trying to design coherent and consistent reporting that meets both global investors' needs and jurisdictional requirements.

For multinationals and others needing to apply multiple frameworks, the challenges would be magnified if the requirements are not compatible.

Our talkbook Comparing sustainability reporting proposals provides more details.

Getting ready for the new standards (continued)

Based on observations in Phase 1, which areas require the biggest lift to meet the sustainability reporting proposals?

More work is needed on timing, location and connectivity of climate-related information to meet the proposed requirements in future sustainability reporting proposals.

The ISSB, ESRS and SEC proposals require not only climate-related information **but also other sustainability-related information** to be reported at the same time, and for the same period, as the annual financial statements[3].

Banks would need **sufficiently rigorous processes and controls** to generate timely, high-quality disclosures and achieve connectivity. This is likely to involve multiple departments, including and beyond financial and sustainability reporting.

Some banks (such as the UK banks, some Australian and European banks) are ahead on areas such as timing (see page 8). However, others still require significant progress to get ready for the proposals – although in some cases there may be some transitional relief.

'Where' and 'when' would the information be disclosed under the three sustainability reporting proposals?

- Many banks currently do not report all their climate-related information within the annual report – and if in other standalone reports, these are mostly not published at the same time as the financial statements (see page 8).
- In the 2022 annual reports of many banks, climate-related information is provided in multiple locations without clear connectivity to the financial statements (see page 8).
  - Under the ISSB, ESRS and SEC proposals, achieving connectivity between sustainability reporting and financial reporting would be important.
  - Cross-referencing of climate-related information in the annual report would be permitted under the sustainability reporting proposals; however, the requirements vary across the different proposals. Refer to the Comparing sustainability reporting proposals talkbook for further information.

[3] The ISSB proposes first-year reliefs that would allow companies to report sustainability information later than the financial statements, and to include climate-related information only. For further information, refer to the ISSB – Sustainability reporting resource centre articles: Timing of sustainability reporting and Introducing a climate-first option.

Comparisons across the TCFD pillars

Similar to previous years, in 2022 the climate-related disclosures on risk management and governance are more advanced than those on strategy as well as metrics and targets in terms of their nature and extent. Our general observations are highlighted below. More detailed observations are provided on pages 16–26.

Based on our Phase 1 analysis, many banks generally provide disclosures for each TCFD pillar as part of their annual reports. However, it is less clear how the four pillars interact; there is room to enhance this linkage, which would help users' understanding of the big picture. We will look at this in more detail in Phase 2.

	Comparisons between 2022 and 2021	Some areas that banks with enhanced disclosures include as part of their 2022 annual reports
1. Governance	• Many of the banks continue to provide relatively advanced disclosures on governance. • In 2022, more banks: - disclose that their Board Skills Matrix considers skills in the area of sustainability, including climate-related matters; and - mention the involvement of audit committees to review sustainability-related information, in particular climate-related disclosures.	• Details of oversight provided by the board(s) on climate-related matters, including key decisions taken by the board(s) during the year • Details of activities delegated by the board(s) to board committees (including the responsibility of audit committees over climate-related reporting matters) • Clear identification of responsibilities held by key senior management roles, including the CEO • How and which elements of remuneration are impacted by climate-related targets and metrics
2. Strategy	• There is generally limited disclosure on scenario analysis (particularly when it comes to quantitative disclosures both on the scenarios used and the results, see page 20). Based on the information currently disclosed, it remains challenging to assess the financial impacts of – or resilience to – climate-related risks. • In 2022, more banks: - highlight data challenges relating to developing meaningful scenario analysis (see page 20); and - mention the development and publication of their initial climate transition plans (however, this is still limited to a few banks in 2022).	• Clear identification of strategic focus areas • Details of scenario analysis – what is the maturity status, what scenarios are being used, what insights have been gained from results to date and how did results impact the strategy • Clear identification of climate-related opportunities – although the opportunities identified in the annual reports remain limited to those more current or short term in nature

Comparisons across the TCFD pillars (continued)

	Comparisons between 2022 and 2021	Some areas that banks with enhanced disclosures include as part of their 2022 annual reports
3. Risk management	• Similar to governance, many of the banks continue to provide relatively advanced disclosures on risk management. • In 2022, more banks: - identify liability or litigation risk as a risk impacted by climate-related matters; and - mention introducing a climate-related credit risk committee to manage climate-related impacts on credit exposures.	• How climate-related risks are defined and categorised by the bank, generally as a top risk (or equivalent) • Details of physical and transition risks that the bank is exposed to • Whether/how risk management processes have been updated to integrate climate-related risks • Details of other risks (or areas of the business) which are impacted by climate-related risks, in particular credit risk
4. Metrics and targets	• Metrics and targets on financed and facilitated emissions remain vague for most banks. However, a few banks have been making progress on quantification and/or disclosing detail on additional sectors as part of their 2022 annual reports – e.g. beyond oil and gas, and coal. • In 2022, more banks: - acknowledge data challenges to calculate financed emissions (e.g. due to lack of availability and timing lag); and - identify targets for carbon-intensive sectors of their loan portfolio (some banks also note these are in line with the commitments to the Net-Zero Banking Alliance).	• More information on financed and facilitated emissions – e.g. the methodologies that the bank is using (or intends to use) and quantitative details of financed emissions (or preliminary numbers) of at least certain sectors of their loan portfolio • Quantitative details of Scope 1, Scope 2 and Scope 3 greenhouse gas emissions (the latter currently focuses mainly on business travel and exclude financed and facilitated emissions) • Identification of carbon-intensive sectors, lending exposures to and financed emissions targets for these sectors • Usage of absolute or intensity-based emissions metric pathways to net zero in 2050 with intermediate objectives against the actual historic emissions data

There is an emerging focus on **biodiversity – 74%** of banks include biodiversity disclosures as part of their 2022 annual reports. These banks acknowledge its importance when it comes to climate change. Biodiversity may impact climate change – at the same time, climate change may also affect biodiversity. These banks disclose how they have started to address biodiversity loss through their sustainability strategy. *We will provide more insights on biodiversity in our Phase 2 report.*

Financial reporting

Financial reporting – Key observations

54% of the banks mention climate in the financial statements

From these banks that mention climate in the financial statements…

32% of these banks disclose an overall statement that climate does not have a material impact on the current financial statements

Financial statement notes that mention climate include:

Financial risk management / credit risk 46%

Basis of preparation (including critical estimates & judgements): 26%

Tax (mainly deferred tax): 11%

Financial instruments (fair value measurement or classification): 11%

Do banks disclose climate-related information in the financial statements?

- 54 percent of banks mention climate in the financial statements. This includes all the banks from the UK, and some from Europe and Australia.
  - The nature and extent of information disclosed in the financial statements by these banks is often limited – e.g. disclosing in a single statement that climate-related risks have been considered in the assessment of deferred tax assets.

What do these banks disclose in their financial statements?

- Of the banks that mention climate in their financial statements, 32 percent make an overall statement (typically in the basis of preparation) that they have assessed the impact of climate-related risks on their financial statements and concluded there is no material impact at this time or in the short to medium term.
- Most of these banks consider climate-related impacts with respect to specific notes in the financial statements – commonly in notes related to credit risk, basis of preparation (including critical estimates and judgements), tax (mainly deferred tax), financial instruments (fair value measurement or classification).
- Credit risk is the most common note where climate-related impacts are considered.
  - These banks disclose how climate-related impacts on credit risk are managed – e.g. through integration into existing credit risk policies.
  - These banks disclose they have considered climate-related risks in their measurement of ECLs (e.g. by considering climate-related scenarios or incorporating climate-related factors in ECL models). Most often these banks state that the impacts on ECLs are immaterial (see page 23).
  - Some Australian banks disclose judgemental adjustments for extreme weather events when measuring ECLs, and one European bank disclosed such an adjustment due to the impact from country-specific regulation on emissions.

What is the focus going forward?

- Connectivity between climate-related disclosures in and outside the financial statements is key (see pages 8 and 10). Some international bodies have also started projects on this area (e.g. the International Accounting Standards Board and the European Financial Reporting Advisory Group).

Financial reporting – Other observations

23% of the auditors' reports of banks mention climate either in or outside the key audit matters (KAMs)

Auditors' reports mention climate in the following areas:

In the KAMs

17%

In a dedicated section on climate

17%

40% of the banks disclose that they obtained an assurance report on certain climate-related information provided as part of the annual report

Auditors' reports

- Like in 2021, climate features more prominently in some auditors' reports. This is generally in jurisdictions with heightened regulation.
- 23 percent of the 2022 auditors' reports acknowledge climate. This trend is observed mainly in the UK, Australia and Europe.
  - These auditors' reports mention climate often in existing KAMs – commonly the KAM on ECLs.
  - A few include a dedicated section on climate which is outside of the KAMs (usually as part of the audit scope) to outline how climate-related matters have been considered in the audit.
  - Generally, the auditors' reports mention:
    - involving climate-related risk specialists to understand the climate-related risks impacting the bank;
    - evaluating and challenging the bank's considerations of climate-related risks in the assessment of going concern; and
    - assessing the climate-related disclosures made in the annual report.
- Climate does not appear within auditors' reports from the US, Canada or Asia (within or outside KAMs/ critical audit matters (CAMs).

Assurance reports

- 40 percent of banks disclose that they obtain assurance over specific climate-related information disclosed as part of the 2022 annual report.
- Like in 2021, banks typically obtain limited assurance. Also, the assurance obtained is over certain metrics such as operational emissions and amount of sustainable financing provided in the year (rather than financed emissions).
- Some banks disclose they have obtained assurance over climate-related information disclosed in other standalone reports. ***We will look at this further in Phase 2.***

Governance

Governance – Key observations

Remuneration

% of banks disclosing that senior management are remunerated based on climate-related metrics and targets:

66%

Remuneration metrics

% of banks disclosing the climate-related metrics and targets impacting senior management remuneration:

Sustainable financing

37%

Operational emissions

23%

Financed and facilitated emissions

9%

Board composition and skills

% of banks disclosing that the board composition skills matrix takes into account sustainability or climate-related skills:

37%

What are the key observations?

Roles and responsibilities:

- Many banks disclose climate change as a matter overseen by the board. Boards provide oversight over two key areas: a bank's climate-related strategy and its climate-related risks.
- Boards are generally supported by their risk committees from a risk management perspective. A few banks also have specific board committees that are focused on the bank's sustainability strategy.
- More banks also noted the involvement of their audit committees, to oversee their climate-related reporting and to consider the impacts of climate on going concern and viability assessments.
- Most banks have assigned climate-related responsibilities to their senior management, with the CEO often noted as having overall responsibility for climate-related matters.

Remuneration:

- The remuneration report disclosures within the annual reports show that banks are linking variable remuneration of senior management to climate-related metrics and targets.
- However, the weighting placed on climate is often limited and sometimes forms a smaller portion of wider ESG metrics and targets. This makes it challenging for users to assess the extent of the impact of climate-related achievements on actual total remuneration amounts.
- Remuneration is mainly linked to the banks' targets on green or sustainable financing and operational emissions. Until financed and facilitated emissions are further quantified and considered in remuneration measures, it remains challenging to assess whether and how banks' variable remuneration is aligned with achieving their 2050 net-zero targets.

Skills and experience of the board:

- Notably, more banks are considering expertise on sustainability/climate in the composition of their board members – in 2022, some banks identify board members who have skills and experience in sustainability (including climate-related experience) within their Board Skills Matrix, disclosed as part of the annual reports.

Strategy

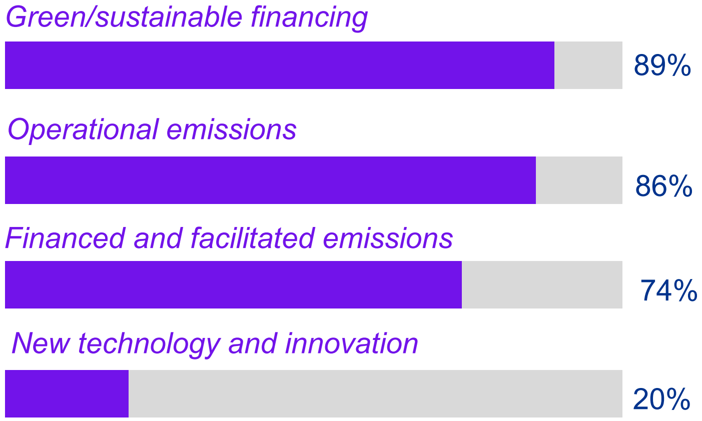
Strategy – Key observations

Net-zero goals

% of banks clearly disclosing they are focused on becoming net zero by 2050:

Areas of focus

% of banks disclosing that their climate strategy focuses on the following areas:



What are the key observations?

Strategic focus areas:

- Many banks have a climate-related strategy centred around becoming a net-zero bank by 2050.
- To achieve this, banks' climate strategies focus on the following key areas.

Supporting customer transition through sustainable financing or facilitation	• Banks have committed significant amounts to provide sustainable financing or facilitating through their product/service offerings (e.g. green loans with certain incentives such as reduced interest rates) to customers purchasing or re-mortgaging energy-efficient residential properties. • This area attracts the most attention in the front part of the annual reports, often repeated throughout. However, the connectivity between these disclosures in the front part and the financial statements is often not clear – e.g. how ESG/green loans are defined, or classified and measured for accounting purposes.
Reducing financed emissions	• Most banks disclose an overarching target to achieve net zero in financed emissions by 2050. • To achieve this, a few banks disclose sector targets to phase out or reduce lending to certain high-emitting sectors – e.g. oil and gas, coal, cement and power generation. • Some banks also disclose absolute or intensity-based emissions metric pathways to net zero in 2050, with intermediate objectives against actual historic emissions data for specific sectors. • However, based on most banks' disclosures it is not yet clear how these banks plan to achieve net zero in financed and facilitated emissions by 2050 and whether this is achievable, particularly if financed and facilitated emissions are not yet fully quantified and tracked (see pages 25-26).
Reducing operational emissions	• Most banks disclose a focus on achieving net zero in operational emissions – e.g. sourcing 100% of electricity from renewable energy, using electric vehicles or ultra-low emission vehicles as company cars, and installing electric charging points in office premises.

- In the 2022 annual report disclosures, a few banks disclose that they have developed an initial iteration of their climate transition plans – *we will look at this in more detail in Phase 2 of our report.*

Strategy – Key observations

Climate-related scenario analysis

% of banks clearly disclosing they have performed climate-related scenario analysis, or that they have started such an analysis:

83%

What about the nature and extent of these disclosures made as part of annual reports?

% of banks disclosing the scenarios used in the scenario analysis:

43%

% of banks disclosing certain insights from the results of their scenario analysis performed to date:

34%

What are the key observations?

Climate-related scenario analysis:

- Many banks disclose that they have started developing climate-related scenario analysis. In many cases, these banks also participate in climate-related scenario analysis or climate-related stress testing initiated by their local regulators.
  - However, the nature and extent of disclosures on scenario analysis are limited – e.g. not many banks provide information on results from such analysis in the disclosures that are part of the annual reports – and where provided, these are largely qualitative and not yet comprehensive.
  - Many of these banks acknowledge that **data challenges**, including availability, reliability and time lags, are impacting the scope and extent of scenario analysis – e.g. more granular climate-related data is needed to produce meaningful scenario analysis (such as data at counterparty level rather than at portfolio level) which banks may not yet be able to source.
- It is a limited number of banks that have started using scenario analysis to assess climate-related risks and shape their climate-related strategy.
- The 2022 disclosures on climate-related scenario analysis make it challenging to understand:
  - how effective climate strategies are in achieving net zero by 2050; and
  - how resilient banks' strategies are to climate-related risks and opportunities.
- It is also not yet clear how climate-related scenario analysis connects to other scenario analysis already performed by banks and often disclosed in the financial statements – e.g. scenario analysis used in ECL measurements and going concern or viability assessments.
- Some banks disclose more details on scenario analysis in their other standalone climate reports, which we will look at further in Phase 2 of our report.

Risk management

Risk management – Key observations

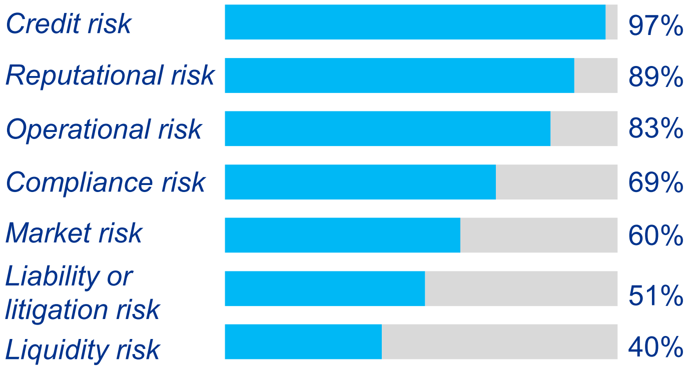
Impact on the bank

% of banks clearly disclosing that climate-related risks could have material or adverse impacts on their businesses:

Impact on other risks

% of banks disclosing that climate-related risks impact other types of risks:

Types of risks impacted



What are the key observations?

Categories of climate-related risks:

- Many banks categorise climate-related risks as a principal risk (or equivalent) with both financial and non-financial impacts.
- They acknowledge there are both physical and transition risks that could have a material or adverse impact on their businesses. However, the impacts of these risks over the short, medium and long term are most often not yet clear in the disclosures.

Other risks impacted:

- Banks are integrating climate-related risks into their overall risk management frameworks and considering climate-related impacts in relation to their other primary risks.
- Some banks have established dedicated risk teams to look at ESG (including climate-related) risk, with the primary responsibility for risk management sitting with the Chief Risk Officer.
- Credit risk remains the focus when it comes to risk management (see page 23), followed by the impacts on reputation and operational risks.
- In 2022, more banks disclose impacts on liability or litigation risk – e.g. from a potential failure to meet climate-related obligations or commitments. Some banks note that making misleading sustainability claims or greenwashing increases such risk.

Materiality assessments:

- A limited number of banks disclose how they identify and assess material risks and opportunities relating to climate, and therefore what they need to disclose.
- Some of these banks provide detail on how they determine material risks and opportunities for ESG issues more broadly, or refer to detail that is disclosed in other ESG reports.

Risk management – Key observations

Credit risk policies and processes

% of banks disclosing that they have integrated (or started to integrate) climate-related risks in their credit assessment and monitoring processes:

These disclosures are typically included in the wider risk management disclosures within the front part of the annual report, and at times as part of the credit risk management disclosures in the financial statements.

ECL measurement – Reference to climate-related risks

% of banks disclosing that they have considered climate-related risks in measuring ECLs:

ECL measurement – Disclosure of impacts

% of banks disclosing they have assessed that the impacts of climate-related risks on measuring ECLs are immaterial:

What are the key observations?

More progress can be seen in the 2022 credit risk disclosures, with banks describing how they are addressing climate-related impacts through their credit risk policies and processes. Some also state they have considered climate-related impacts in measuring ECLs, and a few include judgemental adjustments in their current year's ECLs for specific climate-related risks. However, the quantitative impacts on future ECLs are less clear.

Credit risk impacts:

- Key credit risk impacts noted by banks include the following.
  - Increased frequency and severity of climate-related events could impact borrowers' ability to repay loans, increase defaults and reduce collateral values.
  - Changes in regulations or market preferences could affect the profitability of customers in high-emitting sectors (e.g. oil and gas), leading to increased credit risk.

Credit risk management:

- Many banks disclose they have integrated climate-related factors into their credit assessment and monitoring processes – e.g. using questionnaires to better understand climate-related impacts on wholesale customers, considering climate-related factors in wholesale credit applications, using a climate-related risk scorecard to assess customers and considering energy-efficiency ratings for residential mortgages.
- In 2022, a few banks disclose they have a separate climate change credit risk committee at senior management level to identify and manage the potential impact of climate-related risks on credit exposures.

ECL measurement:

- Some banks disclose that they have considered climate-related risks in their measurement of ECLs and the impacts are immaterial at this time or in the short to medium term. This is not surprising given a shorter time horizon is considered in such measurements compared to the longer climate-related risk time horizon.
- While most banks assess the current impacts as immaterial, under the proposed requirements, banks will need to consider the future financial statement impact as well as the current impacts under the forthcoming sustainability proposals. This may require more comprehensive analysis and disclosure.
- Some banks have disclosed judgemental adjustments in their ECL estimate, as noted on page 14.

Metrics and targets

Metrics and targets – Key observations

Common focus areas – Targets

% of banks disclosing the following specific targets:

A committed amount of green/sustainable financing or facilitation (usually by 2030):

74%

To reduce operational emissions to net zero (usually by 2030):

69%

To reduce financed and/or facilitated emissions by 2050:

74%

Climate-related data challenges

% of banks disclosing climate-related data challenges:

54%

*These data challenges are mentioned for **scenario analysis** (page 20) and calculating **financed and facilitated emissions**.*

What are the key observations?

Metrics and targets commonly disclosed:

- Many banks disclose a target to achieve a committed amount of sustainable financing (usually by 2030) and net zero in operational emissions (usually by 2030). Generally, these banks detail how they plan to achieve these through their climate-related strategy (see page 19).

Financed and facilitated emissions:

- For financed and facilitated emissions, banks often disclose an overarching target to achieve net zero by 2050.
  - **However, banks do not yet disclose the total financed and facilitated emissions across their full lending and investment activities.** Where numbers are disclosed by some banks (see page 26), these are often for certain lending portfolios.
  - Some banks also disclose specific financed emissions targets for certain sectors as part of their annual reports – however, it is often challenging to assess whether/how these targets will enable them to meet the overarching goal to achieve net zero by 2050.
- In 2022, more banks note that **data challenges** are impacting both scenario analysis (see page 20) and the disclosures on metrics and targets, in particular their ability to quantify financed and facilitated emissions. To calculate financed and facilitated emissions, banks require emissions data from their customers, which is often limited in availability, variable in quality and collected with a time lag.
  - Where data is available, this is often for a subset of their loan portfolios (e.g. specific customers or sectors of a bank's loan portfolio) and there is a time lag of one to two years.
  - Total financed and facilitated emissions across lending and investment activities are not yet quantified and disclosed.
  - In the absence of customer emissions data, banks note they use estimates (which could be subject to estimation uncertainty).
  - A few banks also specifically mention that their ability to provide climate-related disclosures in line with the sustainability reporting proposals (noted on pages 9–10) may be hindered by a lack of reliable data.

Metrics and targets – Key observations

Financed and/or facilitated emissions – Quantitative metrics

% of banks disclosing quantitative details of their metrics related to the following as part of annual reports:

Metrics for financed and/or facilitated emissions:

43%

What are the key observations?

Financed and facilitated emissions (continued):

- Some banks provide details on 'how' they calculate financed and facilitated emissions for certain sectors of their loan portfolio. These banks commonly refer to the following methodologies:
  - the greenhouse gas (GHG) Protocol to measure GHG emissions; and
  - the Partnership for Carbon Accounting Financials to assess GHG emissions from loans and investments.
- There is currently a lack of universally accepted and mandatorily applicable methodologies for measuring and disclosing these emissions. Some banks acknowledge their current methodologies may change or evolve in line with market practice and regulation. Without a means of measuring these emissions consistently, reliably and in a comparable way, it's not clear how banks can meet their emissions targets.
- A limited number of banks have started to disclose quantified pathways to net zero by 2050 for specific sectors of their loan portfolio. This involves the usage of absolute or intensity-based emissions metric pathways, with intermediate objectives shown against actual historic emissions data.
- **Overall, better data and a globally accepted methodology would help banks deliver more clarity.** Based on the current disclosures made as part of annual reports, it is often challenging to:
  - understand how financed and facilitated emissions are quantified, what source data is used and which calculation and estimation methods are applied;
  - compare disclosed financed and facilitated emissions across banks, as quantitative details for total lending and investment activities are not disclosed – and if disclosed, these are often for a subset of loan portfolios, with often vague details of the applied methods hindering comparability, even for those portfolio subsets across banks that are similar;
  - assess the overall progress of a bank against its overall net-zero 2050 target, as progress is often tracked for limited financed and facilitated activities; and
  - understand how banks plan to achieve net zero in financed and facilitated emissions by 2050 through their strategic activities and whether this target is achievable based on the financed and facilitated emissions as currently disclosed (see page 19).

Keeping in touch

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