



Climate disclosures within the Annual Financial Reports of Banks (Phase 1)

**Benchmarking on how banks reported
on climate change in the 2020
reporting season**

April 2021



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Purpose of this report

This report outlines the key trends observed on climate-related disclosures within the 2020 Annual Financial Reports of some of the major banks around the world. It offers insights to those who have a responsibility for preparing and assessing these disclosures within a bank's Annual Financial Report.

We performed benchmarking of the climate-related disclosures included in the 2020 Annual Financial Reports of **25 banks** major banks¹. The banks we have selected span across the UK and Europe, Australia, Canada and the US. This report presents the key results of the benchmarking we have conducted for these banks.

This report focuses on the disclosures made in the 2020 Annual Financial Reports rather than the disclosures included in other standalone reports which may contain information on climate change. This report is issued as part of Phase 1 of our analysis.

The disclosures made in the other standalone reports will be the focus of our follow up report in Phase 2 of our analysis.



¹ The 25 banks selected for our benchmarking analysis consist of 5 major banks in the UK, 5 banks in Europe, 4 banks in Australia, 5 banks in Canada and 6 banks in the US. The benchmarking looked at the 2020 Annual Financial Reports to shareholders (online glossy version) for all banks except for two US banks where this was not available at the time of our analysis. For these two banks, Form 10-K was used.

Executive summary

Key trends in climate change reporting

Climate change is now a board matter with clear outlined responsibility.



72%

of banks disclosed climate change is a matter overseen by their board.

[See Page 12](#)

More and more banks are linking climate-related targets to their remuneration of key management personnel.



36%

of banks disclosed that their remuneration of key management personnel are linked to climate measures.

[See Page 14](#)

Climate change and credit risk are closely linked – banks have started considering the impacts of climate exposures within their loan books.



48%

of banks banks noted they have started integrating climate risk in their credit risk assessments of borrowers.

[See Page 23](#)

Climate change is identified as a financial risk – but so far, the disclosures haven't filtered through to the financial statements and notes.



72%

of banks acknowledged climate risk is a financial risk. **28%** mentioned climate change in the financial statements and notes.

[See Pages 7 & 19](#)

Green bonds and financing are growing businesses for banks.



84%

of banks disclosed their strategic focus to provide green/sustainable financing products, and **72%** disclosed metrics and targets around sustainability financing.

[See Pages 16-17 & 26](#)

Most banks have set funding targets to increase sustainable funding.



Target amounts range from a few billions to one trillion USD by 2030.

[See Pages 25-28](#)



Disclosures made by the UK banks in the 2020 Annual Financial Reports are ahead of the curve when compared to their peers in other countries.

[See Page 7](#)

The banks have significantly improved their climate reporting – in the ‘front end’

The climate disclosures included by banks in the front end² of their Annual Financial Reports have improved significantly in the last three years, and continues to improve year-on-year.

As global efforts to tackle climate change grows, these disclosures in the Annual Financial Reports of banks will continue to receive further attention and scrutiny from investors and other users in the coming years. There have already been developments on climate disclosures in certain jurisdictions, including announcements by New Zealand and UK governments around mandatory disclosure of climate-related information.

The IFRS Foundation Trustees have also recently outlined their strategic direction for a new international sustainability standards board. This could signal a new era in corporate reporting where the same rigour is demanded for sustainability reporting (including climate-related information) as for financial information.

² ‘Front end’ throughout this report refers to the directors’ report and areas of the Annual Financial Report other than the financial statements and notes. ‘Back end’ refers to the financial statements and notes of the Annual Financial Report.

Climate change buzzwords are frequently mentioned in the 2020 Annual Financial Reports. This is just one indication of the growing importance of climate change.

The word “climate” appears 99 times on average in an individual bank’s Annual Financial Report in 2020 – this is almost triple the number in 2018.

In one bank, “climate” was even mentioned more than 400 times in its 2020 Annual Financial Report.

Average wordcount of ‘climate buzzwords’ in a bank’s Annual Financial Report

Buzzwords:	2020:	2019:	2018:
“Climate”	99	62	36
“Green”	27	20	17
“Net zero”	8	1	0

What role do banks play in climate change?

Banks can act as a catalyst for everyone to do more on climate change.

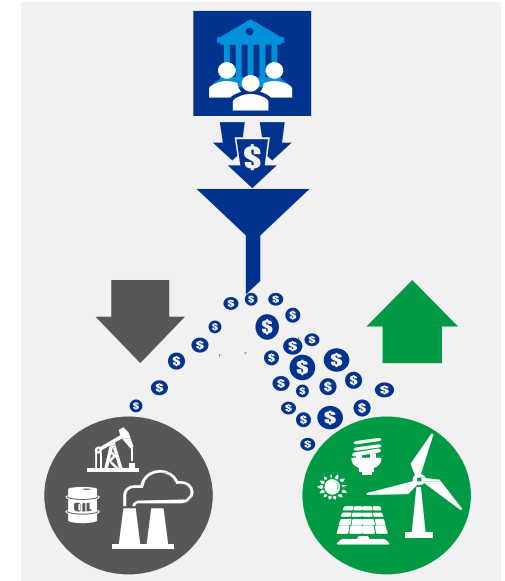
Climate change is a systemic risk that is impacting the banking sector.

Banks are exposed to climate-related risks and opportunities through their lending and investment activities as well as through their own operations. In particular, banks that provide loans to, or invest in securities of companies with direct exposure to climate-related risks (such as fossil fuel producers) may accumulate risks from their loan book and equity holdings. **Here, banks can play a critical role to shape and finance a more sustainable future.**

What actions have banks taken to date?

What is clear from the 2020 climate disclosures is that banks have already started taking action on climate change – from issuing green bonds to investing in climate solutions – see Pages 15-17.

As global efforts to tackle climate change grows, there will be even more pressure for banks to continue to take further action on climate change.



Where is climate change reported?

Annual Financial Report disclosures:

25/25

All 25 banks included climate-related information within their 2020 Annual Financial Reports.

25/25

All 25 banks included their climate-related information mainly in the front end of the 2020 Annual Financial Reports.

7/25

7 out of 25 banks (or 28% of banks) mentioned 'climate' in the notes to the financial statements.

Key observations:

- Although all 25 banks in our benchmarking analysis disclosed climate-related information in their 2020 Annual Financial Reports, **the nature and extent of these disclosures varies** between the banks.
- Climate disclosures in the 2020 Annual Financial Reports were often approached on a siloed-basis, with a specific section of the front end of the Annual Financial Report (basic TCFD and/or risk information) devoted to the issue, and no or limited disclosure in the financial statements and notes.
- 7 out of 25 banks (or 28% of banks) mentioned 'climate' in the financial statements and notes.
 - ❖ Financial statement notes where climate disclosures were made included the notes for 'credit risk' and 'deferred tax assets (DTA)'.
 - ❖ Where 'climate' was mentioned in the notes, the commentary was often limited – e.g. including a single statement that cash flows used in assessing credit impairments have considered inherent uncertainties associated with climate change.



Who is ahead of the curve in their climate disclosures?

The UK banks in our sample included more detailed climate disclosures in their 2020 Annual Financial Reports than their peers in other countries.

Where is climate change reported (continued)?

Disclosures in 'other standalone documents':

24/25

24 out of 25 banks included their detailed climate disclosures in one or more 'other standalone documents' – i.e. reports other than the 2020 Annual Financial Report, such as the TCFD Disclosure Report and/or the Environment, Social and Governance (ESG) Report³.

Key observations:

- 24 out of 25 banks included their detailed climate disclosures in 'other standalone documents' with a summary of the information included in the 2020 Annual Financial Report. As a result, users of the Annual Financial Report often need to go through multiple reports in order to fully comprehend a bank's climate-related information.
- Some banks obtained and released an assurance report or an agreed-upon procedures report on their climate disclosures which are included either in their other standalone documents (e.g. TCFD Disclosures Report and ESG Report) or the Annual Financial Report.
- The disclosures made in the other standalone reports will be the focus of our follow up report in Phase 2.

³ At 31 March 2021, a minority of banks had not released their other standalone documents – however they noted these documents will be released in the coming months.

Potential impacts on Annual Financial Reports



72% of banks clearly acknowledged climate change as a financial risk to their business – see Page 19.
28% mentioned it in the financial statements and notes – see Page 7.

Climate change is having an increasing impact on the business decisions made by banks, from decisions about remuneration of key management personnel to the origination of new green products.

Users of the Annual Financial Reports want to understand how climate risks impact a bank and its environment, including its business strategy and the judgements and assumptions used to make estimates.

Whilst there is no dedicated accounting standard in the globally accepted accounting frameworks which is dedicated to climate risk and their financial impacts, there are several existing accounting standards where these may get captured.

Front end vs back end – where to report?

Climate risks resulting from business decisions and their financial impacts may have potential disclosure implications in various places of the Annual Financial Report under existing accounting standards, both the front end and the back end⁴ – for example, from climate risk management disclosures in the directors' report, to disclosures relating to significant judgements and sources of estimation uncertainty affecting certain assets or liabilities in the notes to the financial statements.

⁴ 'Front end' throughout this report refers to the directors' report and areas of the Annual Financial Report other than the financial statements and notes. 'Back end' refers to the financial statements and notes of the Annual Financial Report.



TCFD Recommended Disclosures

The banks have made headway in adopting the TCFD Recommended Disclosures for climate-related financial disclosures.

100% of banks disclosed in their 2020 Annual Financial Report that they have reported in line with the TCFD Recommended Disclosures.

96% of banks included their TCFD Recommended Disclosures mainly in 'other standalone documents' – such as the 'TCFD Disclosures Report' or the 'ESG Report' – in some instances, these reports usually focussed entirely on the TCFD Recommended Disclosures. Here, the 2020 Annual Financial Reports often included a summary of their TCFD Recommended Disclosures.

Although significant progress has been made in adopting the TCFD Recommended Disclosures, a number of the banks acknowledged they are still in the process of making their climate-related information fully compliant with the TCFD Recommended Disclosures.

The TCFD Recommended Disclosures are voluntary – however steps are being taken to mandate climate disclosures in some jurisdictions.

% of banks disclosing that they have aligned their climate disclosures to the TCFD Recommended Disclosures⁵:



% of banks disclosing their TCFD Recommended Disclosures mainly in 'other standalone documents' – e.g. the TCFD Disclosures Report or the ESG Report:



The Task Force on Climate-related Financial Disclosures (TCFD) was established by the Financial Stability Board in 2015 to respond to the threat of climate change to the stability of the global financial system.

The purpose of the Task Force was to improve corporate reporting on climate-related risks and enable financial stakeholders – investors, lenders and insurers – to factor climate-related risks into their decisions.

The Task Force published its recommended climate-related disclosures in 2017.

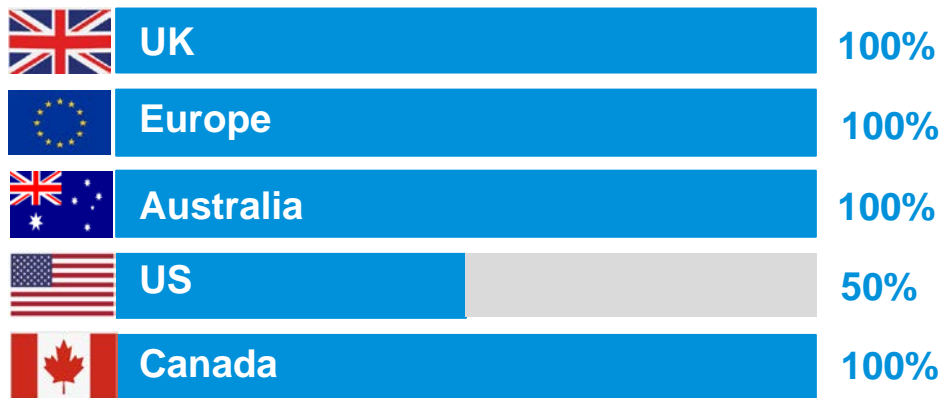
⁵ 2 out of the 25 banks did not specifically state that they have aligned their climate disclosures to the TCFD Recommended Disclosures in their 2020 Annual Financial Report. However, these banks made this acknowledgement in their other standalone reports.



Governance



Of the banks disclosed details of their governance around climate-related risks and opportunities.



88% of the banks included disclosures around their governance of climate-related risks and opportunities within their 2020 Annual Financial Reports.

What is clear from these disclosures is that climate change is now a board-level matter, with clear outlined responsibility for the board of directors to drive the climate strategy of a bank forward – see Page 12.



Governance

Board oversight

Banks disclosing climate change as a matter overseen by the board:



Board Committees

Banks disclosing the roles and responsibilities of its Board Committees over climate-related matters:



Key observations:

- Climate change is a complex topic and for many time-pressured board members, it has been unclear in the past on whether or not climate change is a board responsibility at all.
- However in 2020, climate change is now at the forefront of board agendas. 72% of banks identified climate change as a matter overseen by the board in their 2020 Annual Financial Reports.
- There are two common areas overseen by the boards of banks:
 - 1 A bank's **climate strategy**, including the climate-related metrics for measuring the bank's progress, and targets against which the bank would report and be held to account.
 - 2 A bank's approach to **managing climate-related risks**, including review and approval of key risk documents such as the Risk Appetite Statement.
- 52% of banks disclosed climate-related responsibilities assigned to the **Risk Committee**, which is responsible for overseeing and monitoring the more specific aspects of a bank's approach to climate-related risks. However, any impacts on reputational risk from climate change still sits directly as a responsibility of the Board.
- A small minority of banks noted that their **Audit Committee** has delegated responsibility from the board to review climate disclosures in the Annual Financial Report and other standalone reports (including TCFD Recommended Disclosures).
- Some banks noted that they will review the composition of non-executive directors making up the board to consider whether they have the appropriate level of skills and experience in the area of climate change. Some banks also noted that they are already providing training to their board members to increase their awareness of climate issues.



Governance (continued)

Management responsibility

Banks disclosing that they have assigned climate-related roles and responsibilities to management:



Specific responsibilities

Banks disclosing that they have assigned climate-related roles and responsibilities to specific members of their executive management team:



New roles

Banks disclosing that they have created new management roles and/or Committees for sustainability and climate change in 2020:



Key observations:

- 80% of banks disclosed that they have assigned climate-related roles and responsibilities to their management.
 - ❖ 32% of these banks disclosed that they made climate change a key responsibility of the Chief Executive Officer (CEO). These banks noted the CEO as the key member of the executive team responsible for driving the climate strategy within the bank.
 - ❖ 28% of banks identified the Chief Risk Officer (CRO) as the senior manager responsible for managing the climate-related risks. Here, the CRO was noted as the member of senior management responsible for ensuring that financial risks from climate change are adequately reflected in a bank's risk management framework, and measuring and monitoring a bank's exposure to climate-related risks.
- 56% of banks disclosed that they created new management roles and/or Committees for sustainability and climate change during 2020. Such roles/Committees include the following.
 - ❖ Global Head of Climate Change
 - ❖ Global Head of Sustainability or Sustainability Officer
 - ❖ Global Head of Climate Risk
 - ❖ Head of Policy and Corporate Responsibility
 - ❖ Board Climate Committee
 - ❖ Climate Risk Management Forum
 - ❖ Investment Committee for responsible investing



Governance (continued)

Remuneration

% of banks disclosing they have linked remuneration of key management personnel to climate-related targets:



Analysis of the above results relating to remuneration by country/region:



Key observations:

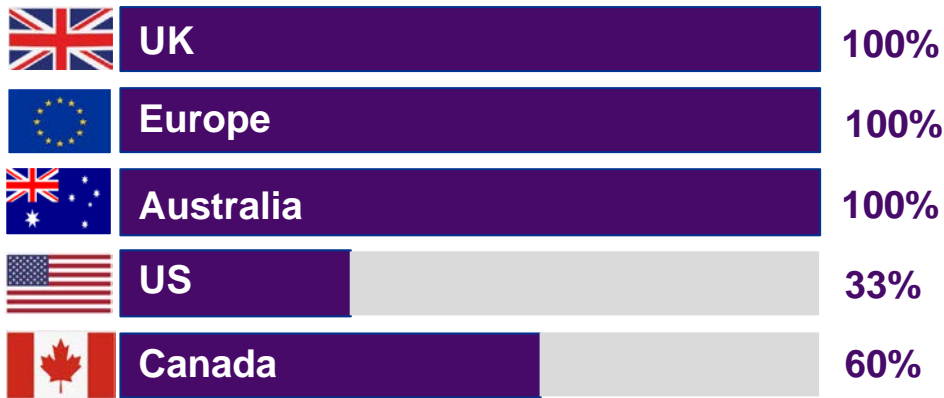
- Climate change is starting to impact the way key management personnel are remunerated – 36% of the banks have already linked their remuneration to climate-related targets. This trend is most noticeable in the UK and Europe.
- Types of remuneration where banks have linked climate-related targets are: long-term incentives (LTIs) and annual incentive payments. The weightings allocated to climate-related targets for LTIs and annual incentives often ranged between 7.5% to 25%.
- Common climate-related targets disclosed by banks for assessing remuneration include the following.
 - ❖ Target levels of sustainable or green financing – e.g. achieve £8bn of sustainable financing in 2021.
 - ❖ Sector specific targets for financed emissions – e.g. only provide financial services to clients who are less than 80% dependent on earnings from thermal coal.
 - ❖ Targets related to achieving net zero in a bank's own operations – e.g. reduce property emissions by 10% annually.
 - ❖ Other targets – e.g. develop and implement a framework to align the bank's financial services with net zero emission by 2050.



Climate strategy

76%

Of the banks made disclosures on their business strategy related to climate change.



76% of the banks disclosed details of their climate strategy in the 2020 Annual Financial Report, including how it fits in with their wider business strategy.

In these disclosures, the banks provided details of potential climate-related opportunities and how these opportunities have been integrated into their climate strategy, including the issuance of new products such as green bonds.



Climate strategy (continued)

Net zero ambition:

% of banks disclosing an ‘ambition to become a net zero bank’ as the **cornerstone** of their climate strategy:

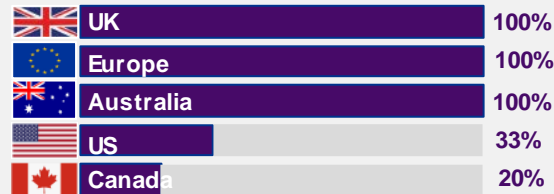


Paris Agreement:

% of banks acknowledging their support of the Paris Agreement – the international treaty on climate change adopted in 2015:



Analysis of the above results relating to the Paris Agreement by country/region:



Key observations:

- 56% of banks focused on their ‘ambition to become a net zero bank’ (i.e. to make their net emissions zero by 2050) as the cornerstone of their climate strategy.
- 100% of the banks in the UK, Europe and Australia acknowledged their support of the Paris Agreement in their 2020 Annual Financial Reports. The climate strategy for these banks were predominately aligned to meeting the goals of the Paris Agreement.
- The banks disclosed **four common areas** where they are focusing their efforts as part of their climate strategy – these are outlined below. See Pages 25-28 for the metrics and targets that banks are using to measure and track progress in these areas.



Reducing financed emissions: 15 out of 25 banks noted their strategic focus to reduce the client emissions that they finance by 2050. Many of the banks noted that this starts with aligning their financing activities with the Paris Climate Agreement.



Reducing their own operational emissions: 20 out of 25 banks noted they intend on reducing their own carbon footprint in their operations. Many of the banks are aiming to achieve net zero in their own operational emissions by 2030.



Providing green/sustainable products: 22 out of 25 banks have noted their strategic focus on providing green or sustainable financing products – see Page 17. These banks have committed significant amounts to sustainable financing – see page 26.



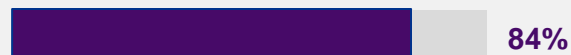
Increasing investment in climate solutions, innovation and technology: 15 out of 25 banks have noted they are investing in new climate solutions and innovation, such as investment in natural resources, clean technology and sustainable infrastructure. Some banks have also invested in sustainability-focused start-ups, participated in philanthropic climate programs and formed partnerships with other businesses to support climate solutions.



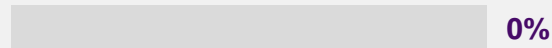
Climate strategy (continued)

Green/sustainable products:

% of banks disclosing details about the type of green/sustainable financing products they are providing:



% of banks disclosing these products in the financial statements and notes:



Key observations:

- Climate-related financing is a growing business and banks are seizing the opportunities. 84% of banks disclosed details of the types of green/sustainable financing products they are providing to customers, as noted below.



Green bonds: 19 out of 25 banks issued green bonds in 2020. These relate to bond issuances for which the proceeds are used to fund "green" projects, such as mortgages on energy efficient homes, or for which the underlying assets are "green". These include banks issuing their own green bonds as well as assisting their clients to issue bonds.



Green deposits: 5 out of 25 banks are providing green deposit products. These involve deposits where proceeds are used to finance projects with environmental benefits.



Green loans: 13 out of 25 banks are offering green loans to their customers. These are loans that offer preferential or discounted rates to customers engaging in "green" businesses/projects or customers purchasing homes with certain energy efficiency ratings.



Sustainable funds: 9 out of 25 banks are offering sustainable funds for investors. These are investment funds set up specifically to invest in sustainable and environmentally friendly projects such as renewable energy.

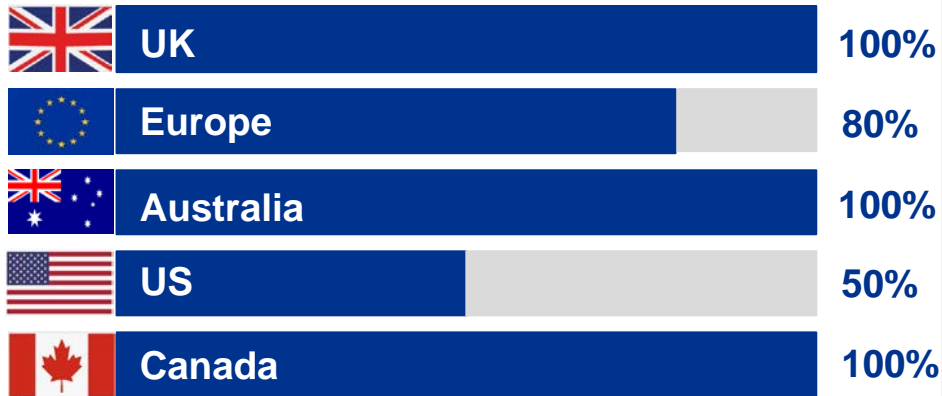
- These financing products may have accounting and disclosure implications for banks, including the recognition of new financial instruments – for example, green loans might include terms linking contractual cash flows to a borrower's achievement of climate-related targets, which may affect how the loan is classified and measured. In another example, green deposits may include a separable embedded derivative.
- These financing products may become material in the coming years as banks continue to increase their strategic effort on these, which may trigger disclosure requirements in the financial statements and notes.



Risk management

84%

Of the banks made disclosures about risk management when it comes to climate-related risks.



Disclosures about a bank's climate-related risks help investors and other users of the Annual Financial Report to understand the climate impacts on a bank and evaluate how these risks are being managed.

Banks are increasingly recognising the importance of climate change and the financial impacts it may have on their businesses.

84% of the banks disclosed details on their risk management framework related to climate change in their 2020 Annual Financial Reports. This includes disclosures around the implications of climate-related risks on their business and how they are assessing, managing and monitoring their climate-related risks.



Risk management (continued)

Financial risk

% of banks disclosing climate risk as a financial risk to their business:



Material or principal risks

% of banks disclosing climate risk as a material or a principal risk (or equivalent):



Changes to risk assessment

% of banks disclosing an increase in their risk assessment for climate risk in 2020:



Key observations:

- Climate change is a financial risk and in many cases it's a material one too.
 - ❖ 72% of the banks say that climate change is a financial risk.
 - ❖ 68% consider it a material or principal risk (or equivalent).
 - ❖ 20% of the banks disclosed an increase in their risk assessment of climate change from an emerging risk to a material or principal risk in 2020.
- Banks have categorised their financial risk related to climate change into two buckets: physical risks and transition risks. The potential impacts from these risks disclosed by the banks include the following.
 - ❖ Physical risks: Damage to the properties and operations of borrowers could impair asset values and the creditworthiness of customers leading to increased default rates, delinquencies, write-offs and impairment charges. Additionally, a bank's own premises may suffer physical damage due to weather events leading to increased costs for the bank.
 - ❖ Transition risks: Developments in stakeholder expectations, policy, law and regulation could impact the lending activities a bank undertakes and the value of its financial assets, as well as cause reputation damage to a bank if climate risks are not addressed.



Risk management (continued)

Impact on other risks:

% of banks disclosing climate risk as an overarching risk which impacts on their other risks:



Types of other risks impacted:

% of banks disclosing that climate risk impacts on the following types of other risks:



Credit risk: Refer to Pages 22-24 for details.

Key observations:

- 72% of banks disclosed that climate risk is an overarching risk impacting other risks, both financial and non-financial risks. These other risks include: reputational risk, compliance risk, market risk and operational risk.
- Banks acknowledged there may be significant impacts across its business if climate-related risks are not managed appropriately. Such impacts include the following.
 - ❖ Impact on ability of borrowers to repay their loans and the credit worthiness of customers which may lead to increased default rates.
 - ❖ Impact on business growth by failing to manage climate-related risks whilst failing to act on climate-related opportunities.
 - ❖ Impact of extreme weather conditions which may affect a bank's assets and operations.
 - ❖ Legal and compliance issues that may arise as a result of climate risks.
- What is apparent from the disclosures in 2020 is that banks are starting to see climate risk as a 'business as usual' risk on par with their other typical risks. In fact, many of the banks disclosed they have now integrated climate risk into their wider risk management framework, and they are starting to follow the "normal" processes of identification, assessment, management and reporting of climate risk.



Risk management (continued)

Climate scenario analysis:

% of banks disclosing they have performed a climate scenarios analysis, or they are in the process of developing and testing such an analysis:



The % of banks that disclosed details of the scenarios used in the scenario analysis:



The % of banks that disclosed details of the results related to the scenario analysis.



Key observations:

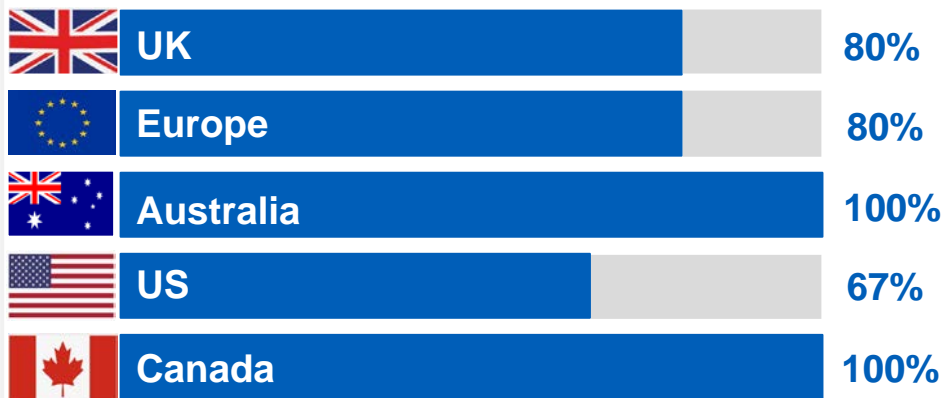
- Scenario analysis is an important and useful tool for understanding and measuring strategic implications of climate-related risks and opportunities.
- 68% of banks disclosed that they have performed a scenario analysis for climate change in 2020 or they are in the process of developing and testing such an analysis.
 - ❖ Majority of these banks disclosed that they have developed their scenario analysis methodology and started testing their methodology to quantify climate-related risks on selected loan portfolios (although they have not finalised their scenario analysis).
- There were less disclosures across the banks on details of their scenario analysis for climate change in the 2020 Annual Financial Reports with 12% banks disclosing details of the scenarios used, and 20% of banks disclosing the results of their scenarios analysis (even if these were the results of testing performed in 2020).
- Some banks noted they have engaged with third-parties to develop their scenario analysis, particularly in assessing the impacts from sectors with high exposure to climate risk.
- All the UK banks included in our sample disclosed they plan to execute the Bank of England's Climate Biennial Exploratory Scenario in 2021.
- Overall, climate scenario analysis is still an evolving area in the banking industry, where we are yet to see the full results of such analysis. It is certainly an area to watch in the coming years as banks develop and refine their methodologies and capabilities in this area.



Credit risk

84%

Of the banks disclosed details about the impact of climate change on their credit risk



Climate-related risks could impact the lending activities of banks as well as their associated credit risk. In particular, the impacts of climate change may increase losses for those sectors sensitive to the effects of climate change, resulting in subsequent increase in defaults by borrowers in these sectors and higher credit loss charges for the banks whilst decreasing the value of collateral.

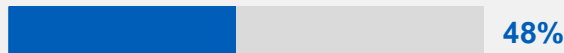
84% of the banks disclosed details about such impacts on their credit risk in the 2020 Annual Financial Reports.



Credit risk (continued)

Impact on credit risk processes:

% of banks disclosing that they have integrated climate-related risks in their credit assessments of borrowers:



Key observations:

- What is apparent from the climate disclosures in the 2020 Annual Financial Reports is that climate change will become an evermore important consideration of ‘who’ banks lend to.
- 48% of banks disclosed that they have already started to integrate climate-related risks in their credit assessments of borrowers. These include the following.



Introducing mandatory requirements as part of the credit policy to consider climate risk for new lending facilities.



Using capabilities to estimate financed emissions and emission intensities for high emitting sectors to manage climate-related lending exposures.



Detailed due diligence questionnaire completed for borrowers in high emitting sectors, which is used to evaluate their performance on a range of environmental issues.



Using a climate change risk rating tool as a mandatory part of credit due diligence.

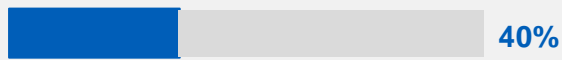
- Additionally, 44% of banks disclosed that they plan to stop lending to thermal coal activities by 2050 (or earlier) – see Page 27.
- Banks have further noted that they will work with their customers to provide expert advice and support them on their transition to lower carbon emissions, particularly to borrowers in sectors with high exposure to climate change.



Credit risk (continued)

Sector exposures

% of banks disclosing quantitative details of their lending exposures in sectors which are at increased risk from climate impacts:



Key observations:

- 40% of banks disclosed quantitative details about their lending exposures in sectors which are at increased risk from climate impacts. Where quantitative details were provided, these were at times limited to commercial portfolios.
- Banks have made limited disclosures of quantitative exposure in the lending books of banks to customers in sectors at increased risk from the impacts of climate change within the 2020 Annual Financial Reports – and any disclosures made have been outside the financial statements and notes.
- Sectors with increased risk from impacts of climate change disclosed by banks include the following.

Commercial banking:	Retail banking:
<ul style="list-style-type: none"> • Commercial real estate • Automotive • Agriculture • Power utilities • Construction • Oil and gas • Airlines • Chemicals • Mining and metals 	<ul style="list-style-type: none"> • Residential mortgages • Motor finance

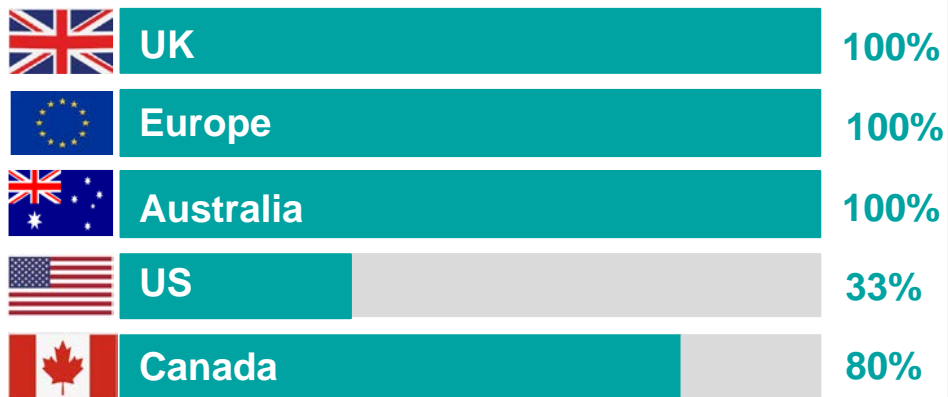
- Residential mortgages followed by commercial real estate were often the top two sectors with the highest total sector exposures from climate-related risks, as disclosed by banks.
- For residential mortgages, the banks identified two primary climate-related risks: (i) the physical risk related to potential property damage from weather events such as floods, and (ii) the transition risk related to the energy efficiency of properties.



Metrics and targets

80%

Of the banks disclosed their key metrics and targets related to climate change.



80% of the banks identified and disclosed metrics and targets which are directly linked to achieving their climate strategy.

There is diversity in practice in the metrics and targets identified by the banks and how these have been calculated across the banks – See Page 27.



Metrics and targets (continued)

Common metrics and targets:

% of banks disclosing their metrics and targets related to:

1. Sustainable financing:



2. Operational emissions:

(a) Carbon emissions



(b) Energy consumption



3. Financed emissions:

See Page 27 for financed emissions.

Key observations:

- Climate change is a source of both opportunities and risks for banks – the metrics and targets used by banks focus on seizing the opportunities whilst also managing the risks.
- Metrics and targets disclosed by banks relate to three common areas: sustainable financing, operational emissions and financed emissions.
- **Sustainable financing** refers to funding committed to projects, businesses and products that provide environmental benefits (e.g. development of renewable energy sources).
 - ❖ 72% of banks disclosed metrics and targets related to sustainable financing in their 2020 Annual Financial Reports. These banks have committed to providing significant amounts of sustainable financing in the coming years, with target amounts ranging from a few billions to one trillion by 2030 (or earlier).
- Banks are also targeting to make their **operational emissions** net zero by 2030 (or earlier) with 68% of banks disclosing metrics and targets around carbon emissions and 56% around energy emissions.
 - ❖ Many of the banks with energy consumption targets disclosed they are committed to sourcing 100% renewable power across their operations by 2030 in line with RE100 initiative.
 - ❖ Some banks also noted that travel emissions fell in 2020 due to Covid-19, and they will continue to encourage the use of technological solutions where possible to provide connectivity with colleagues and customers going forward.



Metrics and targets (continued)

Common metrics and targets:

% of banks disclosing their metrics and targets related to:

Financed emissions:



Quantitative disclosures on financed emissions:

% of banks disclosing quantitative details of financed emissions related to their lending portfolios (e.g. carbon intensity of certain sectors):



Thermal coal:

% of banks disclosing that they will stop lending to thermal coal activities by 2050 (or earlier):



Key observations:

- **Financed emissions** are absolute green house gas (GHG) emissions that banks finance through their lending and investment activity.
 - ❖ 60% of banks disclosed set targets to reduce financed emissions. However, many of the banks are still refining their approaches and capabilities to estimate and track financed emissions (including carbon intensity for specific portfolios) with 24% of banks providing quantitative details of financed emissions.
 - ❖ Some of the banks have committed to reducing their financing to sectors such as power, energy and oil and gas, and a number of the banks (44%) have committed to a full phase-out of lending to specific carbon intensive sectors such as thermal coal.
- As there is currently no universally accepted framework or methodology for identifying and calculating climate-related metrics and targets, there is diversity in practice as noted below.
 - ❖ Sustainable financing: there are differences in how banks define sustainable financing, including the scope of products and initiatives captured when calculating the amount of sustainable financing.
 - ❖ Operational emissions: the specific metrics used to measure operational emissions vary between the banks (e.g. CO₂ emissions per FTE vs absolute CO₂ emissions), and it is unclear whether banks have calculated these emissions in a consistent manner.
 - ❖ Financed emissions: currently, there is no universally accepted methodology for calculating financed emissions, resulting in differences between banks.



Metrics and targets (continued)

Snapshot of key metrics and targets disclosed by banks:

Key area	Examples of metrics/targets used by banks
Sustainable financing	<ul style="list-style-type: none"> Amount of green financing Amount of sustainable financing Number of deals and amount of financing for key product types (e.g. green bonds)
Financed emissions	<ul style="list-style-type: none"> Percentage of loans in carbon-intensive sectors Total amount of lending to customers in carbon-intensive sectors Target to reduce power portfolio emissions intensity by X% by 2050 Target to reduce energy portfolio absolute emissions by X% by 2050 Target to reduce the level of carbon intensity for the equity component of the banks' funds and portfolios by X% by 2050 Full phase-out from coal by 2030 Target to reduce X% of financing to upstream oil and gas by 2040 compared with 2019 levels
Operational emissions	<ul style="list-style-type: none"> Target to reduce annual greenhouse gas emissions to net zero by 2030 CO2 emissions per FTE across scope 1, 2 and 3 Absolute CO2 emissions across scope 1, 2 and 3 Percentage of renewable electricity sourced Energy consumption (kWh) Reduce annual office paper use by X% to 10kg/FTE/year Reduce waste per colleague to Xkg/FTE/year Reduce X% of waste annually
Other	<ul style="list-style-type: none"> Ranking in Dialogic green, social and sustainable bond league tables Continued implementation of TCFD recommendations

Other observations

Other observations from the disclosures of the 2020 financial reports include the following.

Employee training



Of banks disclosed they are providing training to relevant employees to educate them on climate-related issues. This includes training provided to banking and credit officers as well as board members.

Donations



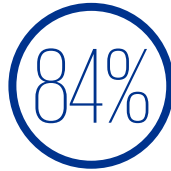
Of banks disclosed that they have provided donations to climate-related issues or to programs that support climate solutions.

Pension funds



Of banks disclosed that they consider climate risk in managing their pension schemes.

Memberships / climate initiatives / industry groups



Of banks disclosed their memberships or participation in a wide variety of climate initiatives or industry working groups for climate-related issues/topics.

These include:

- Member of RE100 initiative
- Signatory to the UN Principles for Responsible Banking
- Signatory of the Terra Carta
- Signatory to Equator Principles
- Signatory of UN Environment Programme Finance Initiatives Principals of Sustainable Insurance
- Signatory of the Green Finance Institute's Green Home Retrofit Finance Principles
- Participation in United Nations Environment Program Finance Industry (UNEP FI) working group on TCFD scenario analysis
- Participating in Principles for Responsible Banking Collective Commitment to Climate Action





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