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Countdown to COP26

An analysis of the climate and biodiversity practices of Europe's largest banks

ShareAction»

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ShareAction is a non-profit working to build a global investment sector which is responsible for its impacts on people and planet. We mobilise investors to take action to improve labour standards, tackle the climate crisis, and address pressing global health issues, such as childhood obesity. Over the last 15 years, ShareAction has used its powerful toolkit of research, corporate campaigns, policy advocacy and public mobilisation to drive responsibility into the heart of mainstream investment. We want a future where all finance powers social progress.

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Executive Summary

This report discusses how the 25 largest European banks approach five critical climate and biodiversity-related themes:

- Net-zero targets and alignment
- High-carbon disclosures
- Sector policies (fossil fuels, shipping, biomass)
- Biodiversity
- Executive remuneration

Each theme includes a comparison table, leading practice checklist, leading practice case studies, and next steps. The objective of this report is to catalyse ambitious climate and biodiversity commitments from the banking sector ahead of COP26. We encourage investors to use the list of suggested questions at the end of this report in their engagement with their bank holdings.

Theme 1: Net-zero targets and alignment

The increasing number of net-zero-by-2050 commitments marks an important shift in how banks approach climate change. Twenty out of 25 banks have pledged to zero-out emissions from their portfolios by 2050. But in this defining decade for climate action, very few banks have started taking concrete steps to get there. Only three banks (Lloyds Banking Group, NatWest, and Nordea) have committed to halve their financed emissions by 2030 to ensure they are on track to meet their commitment of reaching net-zero emissions by 2050. Eight banks have set interim sectoral targets for the most carbon intensive sectors (fossil fuel extraction and power generation) and only three of them (Barclays, Crédit Agricole, and NatWest) use an absolute emissions metric or complement their targets with additional financed emissions disclosures to ensure their fossil fuel targets lead to an actual decrease in emissions. Even though 65 per cent of fossil fuel financing activity by banks came from capital market underwriting in 2020,¹ only one bank (Barclays) currently covers underwriting in its targets (albeit only a fraction of it). Much more progress has been made on portfolio alignment disclosures with 15 banks now reporting on alignment at sectoral level.

Theme 2: High-carbon disclosures

Measuring and disclosing the greenhouse gas (GHG) emissions associated with banks' lending and underwriting activities is necessary for stakeholders to have visibility over whether banks' activities are in line with their decarbonisation commitments and with the goals of the Paris Agreement. Eighteen of the 25 banks we assessed currently report their exposure to high-carbon sectors. Only eleven of them provide a breakdown by fossil fuel assets. UBS

demonstrates leading practice by identifying 16 climate-sensitive sectors and reporting their relative and absolute exposure to these transition-risk-sensitive sectors across investment banking and personal & corporate banking. Eight banks are currently a member of the Partnership for Carbon Accounting Financials (PCAF) or follow its guidelines to report financed emissions. NatWest demonstrates a leading practice by covering four sectors and reporting financed emissions for Scope 1, 2, and 3 emissions.

Themes 3.1 & 3.2: Fossil fuels policies (thermal coal and oil and gas)

While reliance on all fossil fuels needs to decrease rapidly to hold global warming at around 1.5°C, specific sectors need to be prioritised and eventually phased-out on an accelerated timeline considering the environmental and/or social risks associated with them. This is the case for thermal coal and unconventional oil and gas activities. Less than half of the banks in scope have committed to a full phase-out of financing to thermal coal-related activities on a timeline that is compatible with the goals of the Paris Agreement. Even fewer banks are using their influence to make their clients change course. Currently, only seven of them require their clients to publish a transition plan in line with their own phase-out strategy by a set deadline. Most banks are now restricting dedicated financing in relation to ‘unconventional’ oil and gas (oil sands, fracking, Arctic oil and gas) but retain an open-ended exposure to these activities as their policies lack meaningful corporate thresholds. Only one bank (Intesa SanPaolo) has committed to phase-out its exposure to unconventional oil and gas.

Well-recognised sources like the International Energy Agency (IEA) have confirmed there is no room for fossil fuel development in a 1.5°C pathway. Banks should rapidly integrate these findings into their sectoral policies. While most banks restrict dedicated financing for the expansion of existing coal assets, only seven banks restrict corporate finance for companies developing their coal mining capacities. Two banks (Danske Bank and NatWest) have started excluding dedicated financing in relation to the development of new oil and gas reserves. These two banks also require their oil and gas clients to publish a credible transition plan by a specific date. Others have been working on client transition assessment frameworks to guide their engagement. These steps go in the right direction, but greater transparency is needed around what would qualify as a credible transition plan, and what would happen if the client failed to deliver.

Theme 3.3: Shipping sector policies

While the shipping sector initially avoided scrutiny, it is now slowly attracting the attention of some banks with high exposure to the sector. And rightly so, as emissions from shipping account for nearly 3 per cent of global greenhouse gas (GHG) emissions and could rise by as much as 50 per cent over 2018 levels by 2050 if business continues as usual.² Eleven of the banks analysed have a publicly available shipping sector policy, and ten have signed up to the

Poseidon Principles – a framework for integrating climate considerations into lending decisions that is designed to promote the decarbonisation of international shipping. Some banks, such as Societe Generale, may refuse financing due to non-alignment with decarbonisation trajectories, while others, such as Crédit Mutuel, exclude shipping companies with a large coal-related share of revenue. However, only one bank (ING) has disclosed a negative climate alignment score, and there is still a long way to go until banks make it a requirement for their clients in the shipping sector to be aligned with the goals of the Paris Agreement.

Theme 3.4: Biomass sector policies

Biomass urgently deserves greater attention because the climate impacts can be more significant than for coal. The financing of new biomass infrastructure would lock in future carbon emissions, which must be avoided. Biomass is a sector that has so far generally been neglected by banks, with only six publishing a relevant sector policy and 13 still listing biomass as a sustainable form of energy, without considering its high carbon emissions. However, it is promising that 17 banks exclude wood sourced from some carbon-rich stocks, even if a specific link to biomass is not always made. Rabobank currently discloses the most comprehensive policy, in which it states that it expects clients to produce biofuels that provide clear GHG emission benefits after considering the entire lifecycle of raw material compared to fossil fuels. Crédit Mutuel is the only bank to explicitly reference clients who are looking to transition from coal to biomass and requires them to demonstrate satisfactory supply plans that allow for the sustainable management of resources.

Theme 4: Biodiversity

Biodiversity loss is one of the greatest risks facing society today. However, the financial sector has been slow to make progress on the issue. Just ten of the 25 banks we assessed have a biodiversity policy. Rabobank demonstrates leading practice in this area, with strong criteria relating to biodiversity and deforestation imbedded into its policy including, a strong commitment to protected areas, and a commitment to obtain Free, Prior and Informed Consent (FPIC) from indigenous peoples. Two banks are using the IPBES drivers of biodiversity loss as a framework for their biodiversity approach, with BNP Paribas using these drivers to guide their policy strategy while ABN Amro using them to guide their impact reporting. All the banks assessed show a weak policy commitment to halting deforestation. Many banks assessed had previously signed-up to the Soft Commodities Compact, which aimed to achieve net zero deforestation by 2020 but failed to achieve its goals. No banks currently have a policy commitment to a conversion-free or deforestation-free approach to deforestation.

Theme 5: Executive remuneration

Climate-linked pay can help rebalance the excessive emphasis on short-term performance targets in typical remuneration packages and create better accountability on sustainability-related performance across management structures. Our analysis suggests that only a handful of banks have failed to link their executive remuneration to climate-related metrics, which is encouraging at first glance. However, of those banks that include climate-related metrics in the short-term variable plans and/or the Long-Term Incentive Plans of at least one of their executives, the most commonly used metrics do not focus on the most material climate issues (e.g. Scope 1 and 2 emissions instead of Scope 3 emissions) nor on incentivising executives to implement the bank's wider climate strategy. That said, a few exceptions exist: Crédit Agricole, ING, and NatWest, amongst others. It is however important not to overestimate the impact of including climate-related metrics in remuneration policies: pay usually follows strategy, it doesn't drive strategy.



Introduction

Human-induced climate change is unequivocal, causing widespread and rapid changes to oceans, ice and land surface across the world. Many are irreversible. Abrupt changes and tipping points – such as rapid Antarctic ice sheet melt and forest dieback – cannot be ruled out. This is the stark warning of the latest [report](#) by the leading authority on climate science – the Intergovernmental Panel on Climate Change (IPCC).³

Despite the IPCC's grave warning, it is still possible to stabilise global warming at around 1.5°C if the world commits to “immediate, rapid and large-scale reductions in greenhouse gas emissions” on the path to net-zero emissions by 2050. In the words of Alok Sharma, the President for COP26, the IPCC report should be a “wake-up call for anyone who hasn't yet understood why this next decade has to be absolutely decisive in terms of climate action.”⁴

Those failing to respond can expect to be challenged. In July 2021, 115 investors representing USD 4.2 trillion of assets under management and/or stewardship [wrote](#) to 63 global banks calling on them to strengthen their climate and biodiversity strategies in the run-up to COP26 and the Convention on Biological Diversity (CBD) COP15.⁵ This includes setting interim decarbonisation targets ahead of the [timeline](#)⁶ contemplated by the Net Zero Banking Alliance (NZBA) and “[consigning coal to history](#)”.⁷

How to use this report

This report compares how the 25 largest European banks approach five critical climate and biodiversity-related themes, namely net-zero targets and alignment, high-carbon disclosures, sector policies (fossil fuels, shipping, biomass), biodiversity, and executive remuneration.

Progress has been achieved across the board in the past few years with banks ramping up commitments at varying speeds and taking different approaches. However, in many cases 'best practices' are yet to be defined. Where they have been defined, no bank has implemented them to date.

This report seeks to identify leading practice examples to showcase the top-level of commitments in the industry at time of writing. ShareAction's ambition is that banks can use this report to benchmark where they currently stand and draw inspiration from others in the industry. There is also room for progress from banks that have been identified as leaders throughout this report and ShareAction's recommendation would be for these organisations to also continue improving their practices.

To help banks make ambitious climate and biodiversity commitments ahead of COP26, this report includes the following elements within each theme:



- 1 **Summary tables:** These tables provide an overview of the state of play in each area and allow for a comparison on banks' current commitments.



- 2 **Leading practice checklist:** These lists summarise the most ambitious commitments to date in relation to specific items. Checklists include commitments from more than one bank.



- 3 **Leading practice case studies:** These case studies provide more details on commitments made by banks identified as leaders in relation to specific items. Further steps leaders can take to refine their approach are also highlighted at the end of each theme.



- 4 **Next steps:** where applicable, next steps aim to define what remains to be done across the sector to get closer to best practice or discuss specific considerations to improve the approach of banks on an issue.



- 5 **Suggested questions:** for investors looking to engage with banks on their commitments

Methodology

This assessment of the European banking sector examines the environmental practices of the 25 largest European banks and showcases leading practice case studies among the banks assessed. This report sits alongside ShareAction's work to publicly rank the world's largest financial institutions on their approach to sustainable finance, such as the 2020 ranking of the 20 largest [European banks](#).⁸ It also complements ShareAction's other leading practice work, including the [2020 guide for asset managers](#). An updated in-depth ranking and analysis of the banking sector is due to be published in early 2023.

European banks were selected based on their size from the [S&P Global list](#) of the world's largest banks, published in April 2020.^{i,9} This includes publicly listed and cooperative banks.

ShareAction created an assessment framework with specific indicators for each of the themes examined. A copy of this framework is available upon request. Unless specifically stated otherwise, the report focusses on the banks' financing activities. This means that asset management activities are not in scope unless otherwise specified.

The data featured in this report were sourced from publicly available information from banks' public disclosures. Banks were also contacted to verify the data populated in this framework. Twenty of the 25 banks we assessed verified the data. CaixaBank, Crédit Mutuel, Crédit Agricole, DZ Bank, and Rabobank did not provide feedback on the data. The cut-off date for information collected from public sources was 10 June 2021. Banks were given the opportunity to inform ShareAction of updates expected to occur before 15 August and these have been included where applicable.

i Excluding banks domiciled in Russia

Theme 1: Net-zero targets and alignment

This section compares the banks' commitments and disclosures in relation to their approach to net-zero targets and portfolio alignment. It is largely based on ShareAction's [best practice recommendations](#) for Paris-alignment of bank portfolios.¹⁰

Race to Zero – many are showing up on the starting line, but few have started to run.

The number of net-zero targets has grown exponentially since the launch of the UN Race to Zero in 2019.¹¹ Countries with such targets now account for more than two-thirds of global GDP and one fifth of the world's 2,000 largest public companies have committed to reach net-zero emissions.¹² However, only a quarter of these companies meet the [criteria](#) set by the UN for the race to zero to be credible.¹³ This includes setting interim targets and reporting on progress every year.

Getting ready for the race might seem like a daunting task. The scale and speed of efforts demanded to limit global warming to 1.5 °C is – in the words of IEA's Executive Director Fatih Birol – “perhaps the greatest challenge humankind has ever faced”.¹⁴ Complicating things, the race can only be won by through the collective effort of parties, but [not all of them agree](#) on the pathway to net-zero that should be used.¹⁵ Despite disagreements, it is steps taken today that will determine whether we can collectively achieve this goal. The IPCC Sixth Assessment Report (AR6) finds that “unless there are immediate, rapid and large-scale reductions in greenhouse gas emissions, limiting warming to close to 1.5°C or even 2°C will be beyond reach”.¹⁶ It is regrettable that many banks will not set targets and/or publish plans supporting these targets for another [two to three years](#).¹⁷

Several portfolio-alignment tools [...] have been developed to help banks take steps to set these targets. These approaches are not always comparable and can be complementary. They are also iterative, and many technical questions will have to be answered along the way. While it might be too early to conclude which approach is the most efficient, it is important to [assess the underlying assumptions](#) to evaluate banks' methodologies against the intended goal.¹⁸



Analysis of the 25 largest European bank's net-zero and alignment frameworks shows that:

- Five banks have set an overarching interim target and three of them (Lloyds Banking Group, NatWest, and Nordea) have committed to halve their financed emissions by 2030 to ensure they are on track to meet their commitment of reaching net-zero by 2050
- Eight banks have set sectoral interim targets, either via a methodology or a sector policy for the most carbon-intensive sectors (fossil fuels extraction and power generation). Three of them (Barclays, Crédit Agricole, and NatWest) use an absolute emissions metric or complement their targets with additional financed emissions disclosures to ensure their fossil fuel targets lead to a decrease of emissions in absolute terms
- Only one bank (Barclays) includes capital markets activities in its interim targets despite the important volume of financing channelled by banks towards fossil fuels via capital markets
- Seven banks go beyond what the climate scenario requires when they set targets or define alignment. The other banks track the climate scenario they rely on to derive a benchmark despite uncertainties associated with both climate and portfolio modelling
- 15 banks are now communicating on portfolio alignment at sectoral level



Current leading practices (includes commitments from more than one bank)

- ✓ Commitment to achieve net-zero emissions from financing activities by 2050
- ✓ Commitment to at least halve the impact of financing activity by 2030
- ✓ Interim targets set for the most carbon-intensive sectors (fossil fuels extraction and power generation) covering Scope 3 emissions where they are material
- ✓ Interim target is based on a climate scenario aligned with a 1.5 °C outcome or reaching net-zero by 2050
- ✓ Interim targets are more ambitious (include a “buffer”) than the benchmark derived from the climate scenario
- ✓ Interim targets cover lending and capital market activities
- ✓ Interim target for fossil fuels is expressed in absolute terms or the bank is reporting absolute emissions associated with its fossil fuel portfolio
- ✓ A full phase-out of thermal coal related financing (mining and power) in a timeline compatible with a 1.5 °C aligned pathway underpins the bank's sectoral targets

Net-zero targets and alignment summary table

		Bank wide net-zero by 2050 target	Interim targets & alignment disclosures				Decarbonisation approach			
			Sector or asset class	Interim targets set	Alignment disclosed	Loan Book	Capital Markets	Primary metric or method	Absolute emissions target or reporting	Climate scenario
ABN Amro	Y	Energy	2024	N	Y	N	Energy Mix	N	IEA SDS	N
		Commercial Real Estate	N ⁽¹⁾	Y	Y	N	Emissions intensity	Reporting	IEA B2DS	N
		Residential Real Estate	N ⁽¹⁾	Y	Y	-	Emissions intensity	Reporting	IEA B2DS	N
		Shipping	N ⁽¹⁾	Y	Y	N	Emissions intensity	N	IMO	N
Barclays	Y	Power	2025	Y	Y	Y ⁽²⁾	Emissions intensity	N	IEA SDS	N
		Fossil Fuels	2025	Y	Y	Y ⁽²⁾	Absolute emissions	-	IEA SDS	Y
BBVA	Y	Coal Power & Mining	2030-2040	-	Y	Y	Phase-out			
BNP Paribas	Y	Coal Power & Mining	2030-2040	-	Y	Y	Phase-out			
		Oil & Gas	2025	N	Y	N	Credit exposure	N	IEA SDS	Y
		Power	N	Y	Y	N	Fuel mix/intensity	N	IEA SDS	N
		Energy	N	Y	Y	N	Energy mix	N	IEA (actual)	-
		Shipping	N	Y	Y	N	Emissions intensity	N	IMO	N
BPCE	Natixis	Coal Power & Mining	Y	-	Y	Y	Phase-out			
		Balance sheet activities (all sectors)	2024-2030	N	Y	N	Implied Temp. Rise	N	Not disclosed	-
	BP & CE	Power	N	Y	Y	N	Fuel mix	N	Not disclosed	-
CaixaBank	Y	-	-	-	-	-	-	-	-	
Commerzbank	Y	-	-	-	-	-	-	-	-	
Crédit Agricole	Y	Coal Power & Mining	2030-2040	-	Y	Y	Phase-out			
		Shipping	N	Y	Y	N	Emissions intensity	N	IMO	N
		Energy	N	Y	Y	N	Energy mix	Reporting	IEA SDS	N
Crédit Mutuel	CMAF & Arkea	Coal Power & Mining	2030	-	Y	Y	Phase-out			
	CMAF	Corporate loans (all sectors)	2023	-	Y	N	WACI	-	Not disclosed	-
	CIC	Shipping	2025	Y	Y	N	Emissions intensity	N	IMO	Y
Credit Suisse	Y	Fossil Fuels	N	Y ⁽³⁾	Y	N	Fuel mix/WACI	N	NGFS Orderly	N
Danske Bank	N	Coal Power & Mining	2030-2040	-	Y	Y	Phase-out			
		Shipping	N	Y	Y	N	Emissions intensity	N	IMO	N
Deutsche Bank	Y	-	-	-	-	-	-	-	-	
DZ Bank	N	-	-	-	-	-	-	-	-	
HSBC ⁽⁴⁾	Y	Automotive	N	Y	Y	N	Technology mix	N	IEA B2DS	N

The table includes commitments made via the [Net Zero Banking Alliance](#) and the [Collective Commitment to Climate Action](#). This analysis focuses on bank financing activities (including lending and capital markets underwriting) and purposefully excludes investment activities (e.g. asset management).

Energy portfolio: based on primary demand or a combination of power generation and fossil fuel extraction. Power and Fossil Fuel portfolios specifically refer to power generation and fossil fuel (oil, gas, coal) extraction.

- ABN Amro has committed to the following objectives:
 - ✓ Commercial & Residential Real Estate: raise the average energy label of all properties that we finance to 'A' by 2030.
 - ✓ Shipping: aim to improve the portfolio's energy efficiency by increasing the percentage of 'A' and 'B' labels to 30 per cent by 2022.
- Barclays' targets cover 33 per cent of its pro-rata share of capital markets activities.
- Credit Suisse's disclosures are based on a preliminary assessment of its top 50 loans to upstream fossil fuel producers.
- HSBC's [commitment](#) to set interim targets and publish a policy to phase out financing of coal-fired power and thermal coal mining¹⁹ is yet to be implemented and is not reflected in the table as it couldn't be assessed at the time of writing.
- NatWest has disclosed preliminary estimates for each sector.
- Standard Chartered has published preliminary estimates based on a limited number of clients.

Net-zero targets and alignment summary table (continued)

	Bank wide net-zero by 2050 target	Interim targets & alignment disclosures					Decarbonisation approach			
		Sector or asset class	Interim targets set	Alignment disclosed	Loan Book	Capital Markets	Primary metric or method	Absolute emissions target or reporting	Climate scenario	Buffer
ING	Y	Coal Power & Mining	2025	-	Y	Y	Phase-out			
		Power	N	Y	Y	N	Emissions intensity	N	IEA SDS	N
		Oil & Gas	N	Y	Y	N	Financing amount	N	IEA SDS	N
		Commercial Real Estate	N	Y	Y	N	Emissions intensity	N	PBL	Y
		Residential Real Estate	N	Y	Y	-	Emissions intensity	N	IEA B2DS	N
		Cement	N	Y	Y	N	Emissions intensity	N	IEA B2DS	N
		Steel	N	Y	Y	N	Emissions intensity	N	IEA B2DS	N
		Automotive	N	Y	Y	N	Emissions intensity	N	IEA B2DS	N
		Aviation	N	Y	Y	N	Emissions intensity	N	IEA B2DS	N
Shipping	N	Y	Y	N	Emissions intensity	N	IMO	N		
Intesa SanPaolo	N	-	-	-	-	-	-	-	-	
Lloyds Banking Group	Y	Financed emissions (all sectors)	2030	-	Y	N	Reduce financed emissions by more than 50%			
		Power	2030	N	Y	N	Emissions intensity	N	Not disclosed	-
NatWest	Y	Financed emissions (all sectors)	2030	-	Y	N	Halve impact of financing activity			
		Residential Mortgages	2030 ⁽⁵⁾	N	Y	N	Emissions intensity	Reporting	UK CCC 1.5°C	Y
		Agriculture	2030 ⁽⁵⁾	N	Y	N	Emissions intensity	Reporting	UK CCC 1.5°C	Y
		Automotive	2030 ⁽⁵⁾	N	Y	N	Emissions intensity	Reporting	IEA B2DS	Y
		Oil & Gas	2030 ⁽⁵⁾	N	Y	N	Emissions intensity	Reporting	-	-
Nordea	Y	Financed emissions (all sectors)	2030	-	Y	N	Reduce carbon emissions from lending portfolio by 40-50%			
		Shipping	N	Y	Y	N	Emissions intensity	N	IMO	N
Rabobank	N	Power	N	Y	Y	N	Fuel mix/intensity	N	IEA SDS / B2DS	N
		Residential Real Estate	Y	Y	Y	-	Energy Label	N	-	-
Santander	Y	Coal Mining	2030	-	Y	Y	Phase-out			
		Power generation	2025-2030	Y	Y	N	Emissions intensity	N	IEA NZE	Y
Societe Generale	Y	Coal Power & Mining	2030-2040	-	Y	Y	Phase-out			
		Power	2025	Y	Y	N	Emissions intensity	N	IEA SDS	Y
		Oil & Gas	2025	Y	Y	N	Financing amount	N	IEA SDS	Y
		Energy	N	Y	Y	N	Energy mix	N	IEA SDS	N
		Shipping	N	Y	Y	N	Emissions intensity	N	IMO	N
Standard Chartered	Y	Coal Power & Mining	2030	-	Y	Y	Phase-out			
		Construction	N	Y ⁽⁶⁾	Y	N	Implied Temp. Rise	N	Not disclosed	-
		Cons. Durables & Apparel	N	Y ⁽⁶⁾	Y	N	Implied Temp. Rise	N	Not disclosed	-
		Commercial Real Estate	N	Y ⁽⁶⁾	Y	N	Implied Temp. Rise	N	Not disclosed	-
		Energy	N	Y ⁽⁶⁾	Y	N	Implied Temp. Rise	N	Not disclosed	-
		Automotive	N	Y ⁽⁶⁾	Y	N	Implied Temp. Rise	N	Not disclosed	-
Cement	N	Y ⁽⁶⁾	Y	N	Implied Temp. Rise	N	Not disclosed	-		
UBS	Y	-	-	-	-	-	-	-	-	
UniCredit	N	Coal Power & Mining	2028	-	Y	Y	Phase-out			

The table includes commitments made via the [Net Zero Banking Alliance](#) and the [Collective Commitment to Climate Action](#). This analysis focuses on bank financing activities (including lending and capital markets underwriting) and purposefully excludes investment activities (e.g. asset management).

Energy portfolio: based on primary demand or a combination of power generation and fossil fuel extraction. Power and Fossil Fuel portfolios specifically refer to power generation and fossil fuel (oil, gas, coal) extraction.

WACI: Weighted Average Carbon Intensity.

1 ABN Amro has committed to the following objectives:

- ✓ Commercial & Residential Real Estate: raise the average energy label of all properties that we finance to 'A' by 2030.
- ✓ Shipping: Aim to improve the portfolio's energy efficiency by increasing the percentage of 'A' and 'B' labels to 30 per cent by 2022.

2 Barclays' targets cover 33 per cent of its pro-rata share of capital markets activities.

3 Credit Suisse's disclosures are based on a preliminary assessment of its top 50 loans to upstream fossil fuel producers.

4 HSBC's [commitment](#) to set interim targets and publish a policy to phase out financing of coal-fired power and thermal coal mining¹² is yet to be implemented and is not reflected in the table as it couldn't be assessed at the time of writing.

5 NatWest has disclosed preliminary estimates for each sector.

6 Standard Chartered has published preliminary estimates based on a limited number of clients.



Leading practice case studies

NatWest: An overarching 2030 commitment to keep its sectoral portfolios on track to 1.5°C

As a founding member of the Net-Zero Banking Alliance (NZBA),²⁰ NatWest has committed to align its lending (and investment) portfolios with a net-zero emissions by 2050 pathway. NatWest previously [committed](#) to at least halve the climate impact of its financing activity (defined as loans and investments on the bank's balance sheet) by 2030.²¹ Setting an overarching 2030 target to reduce financed emissions by 50 per cent (also set by Lloyds Banking Group and Nordea) is in line with the findings of the IPCC Special Report on 1.5°C (SR1.5)²² and is an important milestone to ensure the bank is on track to meet its net-zero by 2050 commitment. This is not specifically required by the NZBA guidelines, unlike other Glasgow Financial Alliance for Net-Zero initiatives, such as the [Net-Zero Asset Manager initiative](#).²³

NatWest has disclosed preliminary estimates of its financed emissions baseline and decarbonisation efforts required to achieve its 2030 target for four carbon-intensive sectors (oil and gas, automotive, residential mortgages, and agriculture).²⁴ Despite data limitations, estimates for the oil and gas sector cover Scope 3 emissions, which should always be the case because they represent the [bulk](#) of its carbon footprint.²⁵ While the bank uses emission intensity metrics for its targets, it also discloses financed emissions in absolute terms following [PCAF guidelines](#).²⁶ Intensity targets used in isolation are ill-suited for the oil and gas sector because they are incompatible with pursuing a “managed decline” strategy and do not guarantee a fall in emissions.²⁷

NatWest relies on a 1.5°C aligned scenario ([Sixth Carbon budget](#) “Balanced Net-Zero Pathway”)²⁸ to set targets for two of the sectors it covers in its disclosures (agriculture and residential mortgages portfolios). In addition, NatWest's overarching 2030 interim target implies a steeper decrease of emissions for the four portfolios in scope compared to the climate scenario used for benchmarking. Considering the uncertainties associated with both climate and portfolio modelling, banks should take a [precautionary approach](#) when setting targets or defining alignment.²⁹ This includes going beyond what the models suggest and allow for an additional buffer when setting targets and/or measuring alignment.

Further steps for NatWest:

- Define a full phase-out of coal-related activities to complement the first round of targets covering sectors to be decarbonised in priority (see Crédit Agricole, Crédit Mutuel)
- Include capital markets activities in overarching and sector-specific targets (see Barclays)

Barclays: Interim targets covering capital markets activities and expressed in absolute terms for its fossil fuel portfolio

Almost a year before it joined the NZBA as a founding member, Barclays had already committed to become a net-zero bank by 2050 in response to a [shareholder resolution](#).³⁰ In line with the resolution, Barclays has set 2025 targets for fossil fuels (oil, gas, and coal).³¹ The bank's fossil fuel target includes Scope 3 emissions and is expressed in absolute emissions terms as the primary metric for this portfolio.³² Based on an analysis of Barclays' disclosures, its fossil fuel target could imply a steeper decline of emissions compared to the benchmark (IEA Sustainable Development Scenario) over the target period.

Barclays is the only bank in scope to cover both lending and capital markets activities, although the latter only includes 33 per cent of its pro-rata share. Banks involved in capital market activities (e.g. underwriting or advisory for the issuance of equity and debt instruments) should endeavour to include them in their targets despite current accounting limitations. In 2020, 65 per cent of bank financing for fossil fuels came from capital markets underwriting.³³ Barclays also uses a strong financial indicator for its loan book as it models gross commitments (i.e. including both drawn and undrawn amounts). Modelling only the drawn amount of loans could lead to volatility in the portfolio and would not reflect the potential financing to a borrower.³⁴

Further steps for Barclays:

- Define a full phase-out of coal-related activities to complement the first round of targets (see Crédit Agricole, Crédit Mutuel)
- Update the methodology with a climate scenario aligned with a net-zero by 2050 commitment and NZBA guidelines (see Santander's [power generation target](#))³⁵
- Increase the share of pro-rated capital markets financing allocated to the bank

ING: A comprehensive alignment framework backed by a coal phase-out strategy

ING was among the second wave of banks joining the NZBA in July 2021. However, the bank has been publishing a [comprehensive portfolio alignment framework](#) since 2019.³⁶ ING's Terra Approach covers nine sectors (power, oil and gas, commercial real estate, residential real estate, cement, steel, automotive, aviation, and shipping) and eight out of ten priority sectors recommended by the NZBA (aluminium and agriculture sectors are not yet covered). While they can't replace targets, alignment disclosures are powerful indicators for stakeholders to assess the direction of travel of the bank's sectoral portfolios. ING has also indicated that it generates forward-looking data for internal steering purposes, although this is not included in its disclosures.

The Terra approach is a good example of how sector-specific policies can be more effective than target-setting or a portfolio-alignment framework for restricting financing to specific sectors within set timelines. Through this method, ING has committed to reduce its thermal coal-related lending exposure to close to zero by 2025. While the bank's coal policy suffers from several caveats (see Theme 3), this commitment will override the target derived from the climate scenario used to define alignment. ING has also indicated that it goes beyond what the scenario requires for its commercial and real estate portfolios.

Further steps for ING:

- Set interim targets for the sectors included in portfolio-alignment disclosures
- Include a climate scenario aiming for net-zero by 2050 and compliant with NZBA guidelines in its portfolio-alignment disclosures

BPCE/Natixis: A pioneering methodology anticipating future regulatory changes

BPCE joined the NZBA in July 2021 but started working on portfolio alignment and target-setting ahead of many of its peers. Since 2018 Natixis has been rolling out an internal Green Weighting Factor that scores the environmental impact of assets it finances across all sectors except financials. The bank uses this [mechanism](#) to adjust risk-weighted assets (RWA) for green transactions (decrease RWA by up to 50 per cent) and facilities that have a negative environmental and climate impact (increased RWA by up to 24 per cent).³⁷ Natixis is in effect anticipating future changes in regulatory capital requirements or carbon prices that could affect the profitability of these transactions. Leveraging this methodology, the bank has [committed](#) to align its portfolio with a 2.5°C trajectory by 2024 and 1.5°C by 2050.³⁸ The BPCE group is also rolling out Green Evaluation Models to give a climate score to other balance sheet activities.

Further steps for BPCE:

- Disclose the in-house methodology's underlying assumptions including climate scenarios and sectoral pathways



Discussion: net-zero targets and alignment disclosures should always be backed by strong sectoral policies

Regardless of the methodology, targets and alignment metrics can allow for some offsetting between high-carbon and low-carbon activities and do not differentiate carbon intensive assets from a broader ESG perspective. For example, a barrel of oil sourced from the Arctic Circle or the Canadian oil sands would be treated as equivalent to any other barrel of oil. Similarly, targets and alignment disclosures do not consider human rights issues across assets in the same sector. Robust sectoral policies and decarbonisation expectations for clients are more effective than methodologies to prevent the financing of activities that are not aligned with the goals of the Paris Agreement and drive ambitious corporate change on climate and biodiversity.



Suggested questions for investors looking to engage with banks on their net-zero commitments

- 1 Has the bank committed to halve its financed emissions by 2030 to ensure it is on track to meet its net-zero by 2050 ambition?
- 2 Has the bank set interim (up to 2030) sectoral targets for the most carbon intensive sectors (including oil and gas and power sectors)?
- 3 Is the bank using an absolute emissions metric to set interim targets for the fossil fuel sector or is the bank regularly disclosing absolute emissions from its portfolio?
- 4 Are the bank's interim targets covering both lending and capital markets activities (if relevant for the bank)?
- 5 Is the bank using a climate scenario aligned with a 1.5°C pathway with limited to no overshoot and reliance on Negative Emission Technologies to set interim targets or define alignment?

Theme 2: High-carbon disclosures

To give stakeholders visibility over whether climate-related considerations are adequately taken into account and in line with a bank's decarbonisation strategies, banks should report on their exposure to high-carbon or climate-sensitive sectors and measure and disclose their financed emissions in line with the [Partnership for Carbon Accounting Financials](#) (PCAF)'s methodology.³⁹

High-carbon disclosures summary table

	Discloses exposure to climate sensitive / high-carbon sectors	Breakdown by fossil fuel assets provided	Member of PCAF or follows its guidelines
ABN Amro	No	-	Yes
Barclays	Yes	Yes	Yes
BBVA	Yes	No	Yes
BNP Paribas	Yes	Yes	No
BPCE	No	-	No
CaixaBank	No	-	No
Commerzbank	No	-	No
Crédit Agricole	Yes	Yes	Yes*
Crédit Mutuel	Yes	No	No
Credit Suisse	Yes	Yes	No
Danske Bank	Yes	Yes	Yes
Deutsche Bank	Yes	No	No
DZ Bank	No	-	No
HSBC	Yes	Yes	No
ING	Yes	No	No
Intesa SanPaolo	No	-	-
Lloyds Banking Group	Yes	Yes	Yes
Natwest	Yes	Yes	Yes
Nordea	Yes	-	Yes
Rabobank	No	-	Yes
Santander	Yes	No	No
Societe Generale	Yes	Yes	No
Standard Chartered	Yes	Yes	No
UBS	Yes	Yes	No
Unicredit	Yes	No	No

*Although not a member of PCAF, Crédit Agricole developed a proprietary methodology for calculating financed emissions so has been included here



Current leading practices (includes commitments from more than one bank)

- ✓ Reporting on exposure to high-carbon or climate-sensitive sectors included in bank's annual report
- ✓ Definition of high-carbon or climate-sensitive sectors disclosed
- ✓ Disclosure of high-carbon or climate-sensitive sectors in both absolute and relative terms
- ✓ Disclosure includes breakdown by fossil fuel assets
- ✓ Scope of disclosure goes beyond loans to include capital market financing
- ✓ Membership of PCAF and implementation of its guidelines on financed emissions reporting
- ✓ Methodology and data quality of financed emissions reporting disclosed





Leading practice case studies

UBS: Disclosure of climate-sensitive sectors

UBS provides disclosure on climate-sensitive sectors in its 2020 Sustainability report.⁴⁰ Climate-sensitive sectors are defined as business activities that are rated as having vulnerability to transition risks, including policy, technology, and demand risk factors based on the methodology available in UNEP FI Phase II heatmap report.

Sectors included in UBS' disclosures include: aerospace and defence; automotive; chemicals; constructions and materials; food and beverage; industrial materials; machinery and equipment; mining; oil and gas; plastics and rubber; primary materials; textile products and apparel; real estate; transportation; and utilities. These sectors further include a breakdown by fossil fuel assets.

UBS discloses gross exposure (in USD billion) to transition-risk-sensitive sectors, across investment banking and personal & corporate banking. It also discloses a percentage share of its total exposure to all sectors.

Further steps for UBS:

- Include disclosure on exposure to high-carbon sectors in the annual report alongside financial information

Barclays: Disclosure of capital market financing for high-carbon sectors

In its [2020 TCFD Report](#), Barclays goes beyond reporting on loans and provides disclosure of total capital raised for clients across all sectors, including carbon-related energy and extractive sectors. This includes mining; oil and gas; and utilities and energy.⁴¹ Barclays provides a breakdown by business type across the oil and gas sector and utilities and energy sectors. Financing volumes are reported on a manager-proceeds basis including bonds, equities, loans, and securitised bonds.

Barclays discloses its capital market financing across these sectors (in USD million) for 2020 and 2019 and tracks the year-on-year change. Additionally, Barclays discloses financing for high-carbon sectors as a percentage of total capital market financing.

NatWest: Financed emissions reporting

NatWest is a member of PCAF and uses their guidelines to calculate financed emissions. These are disclosed in their annual report.⁴² Financed emissions reporting covers four sectors: residential mortgages, agriculture (primary farming), automotive manufacturing, and oil and gas extraction.

Within the reporting, NatWest states which scenario is used as well as its Paris-aligned emissions intensities estimation approach and the emission intensity metrics it uses. The calculations cover loans and investments.

The disclosure states the percentage of each sector analysed to estimate financed emissions and states the reason for any differences or exclusions in the percentage coverage of certain sectors. Disclosures cover financed emissions (megatons of CO₂e/year) for Scope 1 and 2, and Scope 3 emissions. Alongside this, NatWest discloses PCAF data quality scores for the reported figures. The reporting features a deep dive into the methodology used to calculate financed emissions for each sector.



Suggested questions for investors looking to engage with banks on their high-carbon disclosures:

- 1 Does the bank disclose exposure to climate-sensitive/high-carbon sectors?
- 2 Does the bank provide a breakdown of its exposure by fossil fuel assets?
- 3 Does the bank measure and disclose financed emissions?
- 4 Is the bank a member of PCAF or does it follow its guidelines to estimate financed emissions?
- 5 Does the bank report its high-carbon disclosures alongside financial information in its annual report?



Theme 3: Sector policies

This section discusses leading practice policies for the following sectors: thermal coal, oil and gas (including a specific focus on ‘unconventional’ oil and gas), shipping, and biomass. These sectors pose serious environmental risks and require specific risk assessment frameworks. Together with biodiversity-related commitments discussed in Theme 4, these sector policies should form the cornerstone of any global bank’s climate strategy.

For the purpose of this analysis, ‘exclusion’ is used to describe criteria preventing any transaction in the targeted activity while ‘restriction’ is used to describe criteria allowing transactions to take place based on certain conditions.

Theme 3.1: Thermal coal policies

This section compares banks’ thermal coal (mining and power) policies. The analysis is largely based on Reclaim Finance’s [Coal Policy Tool](#)⁴³ and Urgewald’s [Global Coal Exit list](#) (GCEL)⁴⁴.

A robust coal policy must tick all the boxes (coal phase-out, financing restrictions, robust and timebound engagement)

There is a recurring disclaimer in many of the disclosures ShareAction has reviewed while conducting this analysis: banks are willing to restrict financing to coal-related activities, but first and foremost they want to help their clients transition. Some have even [argued](#) that phasing-out coal financing is not compatible with this motto⁴⁵. Considering that reliable pathways to net-zero foresee little room for unabated coal in the global energy mix, one is left thinking whether this is simply public relations semantics or genuine concern.

Climate Analytics has shown that thermal coal needs to be phased out by 2030 in OECD countries and by 2040 worldwide to keep global temperature rise under 1.5°C.⁴⁶ The IEA Executive Director Fatih Birol has recently warned that coal power cannot expand and must be prematurely phased out to meet global green recovery goals.⁴⁷ This need to phase out coal power worldwide by set deadlines was [recognised](#) in 2019 by a group of 631 investors managing over USD 37 trillion in assets.⁴⁸ More recently, a group of 30 asset owners [asserted](#) that no further coal power plants should be financed, insured, built, developed, or planned, and that there should be a phase-out of all unabated existing coal-fired electricity generation in accordance with 1.5°C pathways.⁴⁹

By adopting robust coal policies that drive towards a coal phase-out, banks can effectively help their client transition and adapt to a 1.5°C aligned economy in a timely manner to mitigate climate-related risks.



Analysis of coal policies from the 25 largest European banks shows that:

- Only one bank (Crédit Mutuel) has implemented both relative and absolute thresholds for the coal power and mining sector in line with the GCEL recommendations
- Around one-third of banks (seven for coal mining, nine for coal power) have started enforcing corporate finance restrictions for companies expanding their coal capacity
- Less than half of the banks in scope have committed to a full phase-out of their financing to coal related activities by 2030 in OECD countries and 2040 globally at the latest. However, an increasing number of banks are aiming for earlier coal phase-out dates
- Only seven banks require their clients to publish a credible transition plan in line with their phase-out strategy by a specific date



Current leading practices (includes commitments from more than one bank)

- ✓ Exclusion of dedicated financing to existing (brownfield) or new (greenfield) coal mines, coal-fired power plants, and associated infrastructure
- ✓ Corporate finance restriction for companies deriving more than 20 per cent of revenues from coal mining or coal share of power production
- ✓ Corporate finance restriction for companies producing more than 10 megatons (Mt) of coal or generating more than 5 gigawatts (GW) of electricity from coal-fired plants per year
- ✓ Exclusion of corporate financing for companies expanding their coal capacity
- ✓ Companies acquiring thermal coal assets are deemed to be developing their coal capacity unless the buyer has committed to close them
- ✓ Corporate finance restrictions apply to associated infrastructure segments
- ✓ Full phase-out of exposure of coal mining and coal power by 2030 in OECD countries and 2040 in non-OECD countries at the latest and earlier dates depending on the bank's profile (e.g. commitment to a phase-out by 2028)
- ✓ Requirement for clients to issue a coal phase-out strategy aligned with the bank's phase-out plan by 2021, failing which they would be excluded from the bank's client universe
- ✓ The bank's coal policy and phase-out strategy cover all products and services (including asset management)

Coal power policies summary table

	Asset finance restrictions ⁽¹⁾		Corporate finance restrictions				Timebound Phase-out plan ⁽²⁾			
	Power generation	Infrastructure	Relative threshold > 30%	Relative threshold <= 30%	Absolute threshold	Developers	Infrastructure	Bank	Client	All products & services included
ABN Amro	Y*	N	-	Y*	N	Y*	N	N	N	-
Barclays	Y*	N	Y	-	N	N	N	N	N	-
BBVA	Y* (countries not highly dependent or with viable alternatives)	N	-	Y* (countries not highly dependent or with viable alternatives)	N	N	N	Y	N	Y
BNP Paribas	Y	Y	-	Y (new clients)	N	Y	N	Y	Y	Y
BPCE	Y	Y	-	Y	N	Y*	N	Y	Y	Y
CaixaBank	Y	N	Y* (countries not highly dependent or with viable alternatives)	-	N	N	N	N	N	-
Commerzbank	Y*	N	Y* (outside Germany)	Y* (Germany)	N	N	Y	N	N	-
Crédit Agricole	Y	Y	-	Y*	N	Y*	Y	Y	Y	Y
Crédit Mutuel	Y	Y	-	Y	Y	Y	Y	Y	Y	Y
Credit Suisse	Y	Y	-	Y*	N	N	Y	N	N (3)	-
Danske Bank	Y	N	-	Y*	N	Y*	N	Y*	N	Y
Deutsche Bank	Y	Y	Y*	-	N	N	N	N	N	-
DZ Bank	Y	N	-	Y	N	N	N	N	N	-
HSBC (4)	Y*	N	N	N	N	N	N	N	N	-
ING	Y*	Y*	-	Y*	N	N	Y*	Y	Y	Y
Intesa SanPaolo	Y	N	N	N	N	Y* (if increases exposure)	N	N	N	-
Lloyds Banking Group	Y	N	-	Y* (new clients)	N	N	N	N	N	-
NatWest	Y*	N	-	Y*	N	N	N	N	N	-
Nordea	Y	N	Y* (new clients)	-	N	N	N	N	N	-
Rabobank	Y	Y	-	Y	N	N	N	N	N	-
Santander	Y	Y	N	N	N	N	N	N	N	-
Societe Generale	Y	Y	-	Y*	N	Y*	Y	Y	Y	Y
Standard Chartered	Y*	Y	Y	-	N	N	N	Y	N	Y
UBS	Y	N	-	Y	N	N	N	N	N	-
UniCredit	Y	Y	-	Y	N	Y	Y	Y	Y	Y

Coal mining policies summary table

	Asset finance restrictions ⁽¹⁾		Corporate finance restrictions				Timebound Phase-out plan ⁽²⁾			
	Coal extraction	Infrastructure	Relative threshold > 30%	Relative threshold <= 30%	Absolute threshold	Developers	Infrastructure	Bank	Client	All products & services included
ABN Amro	Y	N	-	Y	N	N	N	N	N	-
Barclays	Y*	N	Y	-	N	N	N	N	N	-
BBVA	Y* (countries not highly dependent or with viable alternatives)	N	-	Y* (countries not highly dependent or with viable alternatives)	N	N	N	Y	N	Y
BNP Paribas	Y	Y	-	Y	Y	Y	Y	Y	Y	Y
BPCE	Y	Y	-	Y	N	Y	N	Y	Y	Y
CaixaBank	Y	N	Y* (countries not highly dependent or with viable alternatives)	-	N	N	N	N	N	-
Commerzbank	Y*	N	N	N	N	N	N	N	N	-
Crédit Agricole	Y	Y	-	Y*	N	Y*	Y	Y	Y	Y
Crédit Mutuel	Y	Y	-	Y	Y	Y	Y	Y	Y	Y
Credit Suisse	Y	N	-	Y*	N	N	N	N	N (3)	-
Danske Bank	Y	N	-	Y*	N	Y*	N	N	N	-
Deutsche Bank	Y*	Y	-	-	N	N	N	N	N	-
DZ Bank	Y	Y	N	N	N	N	N	N	N	-
HSBC (4)	Y*	N	Y	-	N	N	N	N	N	-
ING	Y*	Y*	-	Y*	N	N	Y*	Y	Y	Y
Intesa Sanpaolo	Y*	N	N	N	N	N	N	Y*	N	Y
Lloyds Banking Group	Y	N	-	Y* (New clients)	N	N	N	N	N	-
NatWest	Y*	N	-	Y*	N	N	N	N	N	-
Nordea	Y	N	Y* (new clients)	-	N	N	N	N	N	-
Rabobank	Y	Y	-	Y	N	N	N	N	N	-
Santander	Y	Y	N	N	N	N	N	Y	N	Y
Societe Generale	Y	Y	-	Y	Y	Y*	Y	Y	Y	Y
Standard Chartered	Y*	Y	Y	-	N	N	N	Y	N	Y
UBS	Y	N	-	Y	N	N	N	N	N	-
UniCredit	Y	Y	-	Y	N	Y	Y	Y	Y	Y

* Indicates material exceptions. A note is included when it particularly weakens the policy (e.g. the restriction only applies to specific countries or new clients).

1 For the purpose of this analysis 'asset finance' is defined as any form of dedicated financing, as opposed to general corporate purpose finance.

2 Phase-out is defined as a residual exposure to clients for which coal represents 5 per cent of their activities or less. 'Bank' refers to a commitment by the bank to phase out financing of coal mining and/or coal power by 2030 in OECD countries and 2040 globally at the latest. 'Client' refers to a requirement (i.e. not an expectation) for clients to publish a credible transition plan in line with the bank's phase-out plan by a certain date. Failing that, clients would be excluded from the bank's client universe.

3 Credit Suisse has developed a Client Energy Transition Framework that can eventually exclude clients under certain conditions. Not enough details are available in the public domain to confirm if the restrictions meet the requirements of this analysis.

4 HSBC's [commitment](#) to publish a policy to phase-out financing of coal-fired power and thermal coal mining⁵⁰ is yet to be implemented and is not reflected in the table as it couldn't be assessed at the time of writing.



Leading practice case studies

Crédit Agricole: One of the most ambitious coal policies among global corporate and investment banks

Crédit Agricole's [policy](#) excludes dedicated financing for thermal coal mines and coal-fired power plants including expansions as well as coal infrastructure projects.⁵¹ In addition, the bank will not participate in any dedicated refinancing and will be watchful that its involvement does not expand the life of these plants. Crédit Agricole restricts corporate finance for companies that derive more than 25 per cent of revenues from thermal coal – one the most stringent thresholds among European banks.

In addition, Crédit Agricole does not enter relationships with clients that have expanded their coal capacity since 2020 and from 2021, it will stop working with existing clients that are expanding their coal capacity. Crédit Agricole considers that companies acquiring thermal coal assets are developing their coal capacity unless the buyer has committed to close them. The bank's corporate finance restrictions apply to associated infrastructure segments as well.

In line with other leading practice policies, Crédit Agricole has implemented a coal phase-out strategy by 2030 in the OECD and 2040 in the rest of the world. The bank also requires its clients to publish a coal phase-out plan in line with these timelines by the end of 2021. Crédit Agricole's phase-out strategy is consistent across the bank and all products and services (including asset management) are in scope for the policy.

Further steps for Crédit Agricole:

- Adopt relative and absolute corporate finance thresholds in line with the GCEL recommendations, i.e. 20 per cent revenues and 10Mt per year for coal mining and 20 per cent coal share of power generation and 5GW for coal power (see Crédit Mutuel)

Crédit Mutuel: A policy that covers the entire value chain

Crédit Mutuel's [policy](#) means they exclude asset finance for thermal coal mines and coal-fired power plants including expansions, as well as coal infrastructure projects.⁵² The bank restricts corporate finance for companies with coal share of revenue or coal share of power production above 20 per cent, as recommended by the GCEL. Crédit Mutuel also restricts corporate finance for companies with an annual coal production above 10Mt or installed coal power capacity above 5GW. The bank's corporate finance restrictions apply to associated infrastructure segments as well.

Crédit Mutuel is one of the very few banks that excludes corporate finance for companies developing activities in the coal sector throughout the entire value chain and has also committed to exit all positions taken by the investment and asset management business lines in such companies. The bank's policy is articulated according to the goal of a global coal phase-out by 2030 and any relationship with companies with exposure to the coal sector is subject to the client adopting a plan to close all coal assets by 2030.

Further steps for Crédit Mutuel:

- Strengthen its exclusion of coal developers by specifying that companies acquiring coal assets would be considered coal developers unless they commit to close those assets (see Crédit Agricole or La Banque Postale's [policy](#))⁵³



Suggested questions for investors looking to engage with banks on their coal policies:

- 1 Does the bank restrict corporate finance for companies dependent on coal (relative threshold) and large producers (absolute threshold) in line with the Global Coal Exist List?
- 2 Does the bank exclude companies expanding coal capacity including companies acquiring existing assets if they don't commit to wind them down by a specific date?
- 3 Is the bank's policy articulated around a full phase-out coal exposure by 2030 in OECD countries and 2040 globally at the latest?
- 4 Does the bank require its clients to issue a coal phase-out strategy aligned with its own by a specific date, failing which they would be excluded?
- 5 Does the bank include all products and services (including asset management) in its phase-out strategy?

Theme 3.2: Oil and gas policies

This section compares the 25 largest European banks' position on:

- **'Unconventional' oil and gas:** financing restrictions related to oil sands, fracking (shale oil and gas), and oil and gas activities in the Arctic region
- **'General' oil and gas:** financing restrictions related to the development of new oil and gas reserves and requirements for oil and gas clients to publish credible transition plans, regardless of the supply segment

Net-zero by 2050 means no new oil and gas exploration investments after 2021

The publication of the IEA Net-Zero by 2050 Scenario (NZE) in May 2021 was a watershed moment for global climate action.⁵⁴ The roadmap was “designed to maximise technical feasibility, cost-effectiveness and social acceptance”, and leaves no room for development of new oil and gas fields beyond projects already committed to as of 2021.⁵⁵ These findings are not **new**,⁵⁶ but because many banks rely on the IEA's climate scenarios (see Theme 1), it would be rather odd not to integrate them into a net-zero strategy going forward.

The NZE assume a significant increase in the pace of fossil fuel decline compared to previous IEA climate scenarios. However, it remains more conservative than 1.5°C pathways with limited

to no overshoot and ones that do not rely on Negative Emission Technologies as defined by the IPCC SR1.5.⁵⁷ The NZE also continues to underestimate the growth potential and cost decline of solar and wind power, makes unrealistic assumptions for the roll-out of carbon capture and storage technology (enabling increased levels of fossil production and fossil gas in particular), and foresees an aggressive ramp-up of bioenergy requiring an area the size of India and Pakistan combined.⁵⁸ Banks should therefore caveat their analysis and ask oil and gas clients to publish credible transition plans discussing these issues.

While most banks are yet to spell out an oil and gas strategy aligned with the findings of the IEA, NZE, or other reliable 1.5°C pathways, many have started implementing policies for specific supply segments known for being on a direct collision course with the goals of the Paris Agreement.⁵⁹ This includes [oil sands](#),⁶⁰ [fracking](#),⁶¹ and [Arctic](#) oil and gas⁶² (jointly referred to as ‘unconventional’ oil and gas hereafter). These activities pose serious environmental and/or social risks and need to be restricted as a priority before being phased-out according to an accelerated timeline.



An analysis of the 25 largest European banks’ oil and gas policies shows that:

- While many banks claim to be exiting certain unconventional segments like Arctic oil and gas, only one bank (Intesa SanPaolo) has committed to phasing out its exposure to unconventional oil and gas
- Most banks restrict one or more unconventional segments for companies overexposed to these sectors. However, none of the banks in scope have implemented thresholds incentivising oil majors and other diversified companies to transition away from these activities
- Only five banks (including BBVA, BNP Paribas, BPCE, ING, Intesa SanPaolo) restrict corporate finance for companies involved in the transportation of unconventional oil and gas
- Only two banks (Danske Bank and NatWest) are restricting asset finance in relation to the development of new oil and gas reserves and require their clients to publish a credible transition plan by a specific date
- None of the banks currently enforce corporate finance restrictions for companies involved in the development of new oil and gas reserves, although one bank (Crédit Mutuel) has committed to do so once it can define appropriate thresholds



Current leading practices (includes commitments from more than one bank)

- ✓ Asset finance exclusion for unconventional oil and gas, including pipelines transporting a significant volume of oil and gas from these activities
- ✓ Corporate finance restriction for companies deriving more than 25 per cent of revenues from unconventional oil and gas
- ✓ Corporate finance restriction for companies owning or operating pipelines supplied with a significant volume of unconventional oil and gas
- ✓ The Arctic is defined as the region inside the Arctic Circle (i.e. it includes both onshore and offshore areas)
- ✓ Phase-out of exposure to unconventional oil and gas by 2030
- ✓ Asset finance exclusion for the expansion of oil and gas exploration and production (E&P)
- ✓ Exclusion of companies undertaking exploration of new oil fields
- ✓ Corporate finance restriction for oil and gas E&P companies that do not set a credible transition plan in line with the Paris Agreement by 2023
- ✓ Exclusion of lending and underwriting to major oil and gas producers unless they have a credible transition in place by the end of 2021 that is aligned with the Paris Agreement

Oil & gas policies summary table

	'Unconventional' oil & gas ⁽¹⁾						General oil & gas		
	Asset finance restrictions		Corporate finance restrictions			Timebound phase-out plan	New fields		Client Transition Plans requirement
	Upstream	Transport	Relative threshold > 30%	Relative threshold <= 30%	Transport		Asset finance restrictions	Corporate finance restrictions	
ABN Amro	Y (O, A)	Y (O, A)*	N	N	N	N	N	N	
Barclays	Y (A, F) F: UK and Europe	N	Y (A, F) F: UK and Europe	-	N	N	N	N	
BBVA	Y (O, A)	Y (O, A)	-	Y(O)	Y(O)	N	N	N	
BNP Paribas	Y (O, A, F)	Y (O, A, F)*	-	Y (O, A, F) ⁽²⁾	Y (O, A, F)*	N	N	N	
BPCE	Y (O, A, F)	Y (O*)	-	Y (O, F)	Y(O*)	N	N	N	
CaixaBank	Y (O, A, F)	Y (O*)	-	Y(O)	N	N	N	N	
Commerzbank	Y (O, A, F)	N	N	N	N	N	N	N	
Crédit Agricole	Y (O, A)	Y (O, A)*	N	N	N	N	N	N	
Crédit Mutuel	Y (O, A, F)	Y (O, A, F)*	-	Y (O, A, F) ⁽²⁾	N	N	Y	N	
Credit Suisse	Y (A)	Y (A)	N	N	N	N ⁽³⁾	N	N	
Danske Bank	Y (O, A, F)	N	-	Y (O, A, F)*	N	N	Y*	Y	
Deutsche Bank	Y (O, A, F)*	Y(O)	N	N	N	N	N	N	
DZ Bank	Y (O, F)	N	-	Y (O, F)	N	N	N	N	
HSBC	Y (O, A)*	Y(O*)	N	N	N	N	N	N	
ING	Y (O, A, F)* F: Europe	Y(O*)	-	Y (O, A, F)	Y(O*)	N	N	N	
Intesa	Y (O, A, F)	Y (O, A, F)*	N	Y (O, A, F*) if increases exposure	Y (O, A, F*) if increases exposure	Y (O, A, F)*	N	N	
Lloyds Banking Group	Y (O, A*, F)	Y (O*)	N	N	N	N	N	N	
NatWest	Y (O, A, F)	N	N	N	N	N	Y	Y	
Nordea	Y (O, F)	N	Y (O, F) ⁽⁴⁾	-	N	N	N	N	
Rabobank	Y (O, A, F)	Y (O, A, F)*	N	N	N	N	N	N	
Santander	Y (O, A, F)	N	-	Y (O, A, F)	N	N	N	N	
Societe Generale	Y (O, A, F*) F: onshore US	Y (O, A)*	Y (O, A) ⁽⁴⁾	-	N	N	N	N	
Standard Chartered	Y (O, A)	N	N	N	N	N	N	N	
UBS	Y (O, A*)	N	-	Y (O, A)	N	N	N	N	
UniCredit	Y (O, A, F)	Y (O, A, F)*	-	Y (O, A, F)*	N	N	N	N	

* Indicates material exceptions. A note is included when it particularly weakens the policy (e.g. the restriction only applies to specific countries or new clients).

1 O: Oil sands; A: Arctic oil and gas; F: Fracking

2 BNP Paribas' threshold ("significant" production, volume, reserves or revenue) and Crédit Mutuel's threshold ("significant proportion of revenues") are assumed to be equivalent to 25 per cent or less for the purpose of this analysis.

3 Credit Suisse has developed a Client Energy Transition Framework that can eventually exclude clients under certain conditions. Not enough details are available in the public domain to confirm if the restrictions meet the requirements of this analysis.

4 Nordea's threshold ("main business") and Societe Generale's threshold ("primary revenues or majority reserves") are assumed to be equivalent to 50 per cent or more for the purpose of this analysis.



Leading practice case studies

UniCredit: Asset finance restrictions on a broad range of unconventional oil and gas activities

UniCredit's [policy](#) excludes financing for projects related to unconventional oil and gas extraction and transportation if the pipelines or infrastructure are solely dedicated to these segments.⁶³ UniCredit also restricts corporate finance for companies deriving more than 25 per cent of revenues from unconventional oil and gas with exceptions for existing clients that have plans to reduce their reliance on these assets below 25 per cent of revenues. The bank defines the Arctic region as the “region inside the Arctic Circle (66.5 degrees north of the Equator)”. This broad definition [includes](#) offshore operations but would also capture equally harmful operations in the Arctic National Wildlife Refuge (ANWR) and other onshore areas.⁶⁴

Further steps for UniCredit:

- Exclude asset finance for projects involving the transportation of unconventional oil and gas, including pipelines and infrastructure that are not solely dedicated to these activities (see BBVA, BNP Paribas, Deutsche Bank)
- Restrict corporate finance for companies involved in the transportation of unconventional oil and gas (see BNP Paribas)
- Reduce the corporate finance threshold to a level that incentivises diversified companies to transition away from unconventional oil and gas assets (see discussion below)
- Commit to a full phase-out of exposure to unconventional oil and gas activities (see Intesa SanPaolo's [policy](#))⁶⁵
- Implement restrictions targeting expansion of oil and gas activities and the development of new oil and gas reserves (see Danske Bank, NatWest)

BNP Paribas: Restricting finance to unconventional oil and gas throughout the value chain

BNP Paribas' policy excludes financing to greenfield and brownfield projects involving oil sands, fracking, and Arctic oil and gas exploration and production (E&P) as well as pipelines transporting a significant volume of oil and gas from these activities. While BNP Paribas does not define what exactly it means by 'significant', its exclusion criteria would be more effective than those adopted by banks excluding financing for pipelines solely dedicated to unconventional oil and gas. Such policies would not capture pipelines that **batch** different types of liquids like the Trans Mountain pipeline in Canada⁶⁶.

BNP Paribas restricts corporate finance for companies where oil sands, fracking, and Arctic oil and gas represent a "significant part of their total reserves" for E&P companies, a "significant share of revenues" for diversified companies, a "significant part of their business" for trading companies, and "significant volume" for companies that own or operate pipelines or LNG export terminals.

While BNP Paribas excludes financing to oil and gas projects located in the ANWR, it has adopted a narrow definition of the Arctic region ("offshore area featuring the widest ice coverage over a 12-month period") which does not capture other onshore areas.

Further steps for BNP Paribas:

- Adopt a broader definition of the Arctic region (see UniCredit)
- Reduce the corporate finance threshold to a level that incentivises diversified companies to transition away from unconventional oil and gas assets (see discussion below)
- Commit to a full phase-out of exposure to unconventional oil and gas activities (see Intesa SanPaolo)
- Implement restrictions targeting expansion of oil and gas activities and the development of new oil and gas reserves (see Danske Bank, NatWest)



Discussion: Implement corporate finance thresholds incentivising diversified companies to transition

UniCredit and BNP Paribas' corporate finance thresholds are among the most stringent and exclude companies overexposed to unconventional oil and gas activities. However, these thresholds do not incentivise oil majors and diversified companies to transition away from unconventional sources. Without a planned reduction of the threshold over time, the banks would retain open-ended exposure to the segments they are restricting – a questionable strategy considering the [associated risks](#).⁶⁷ This exposure can be material. UniCredit has been the largest financier of Arctic oil and gas activities (USD1.5bn) among European banks since the Paris Agreement was signed, driven by its exposure to companies such as Gazprom and OMV.⁶⁸ Over the period 2018 to 2020, following the implementation of its unconventional oil and gas policy in 2017, BNP Paribas was among the largest finance providers for oil sands (USD 0.8 billion – 3rd among European banks, 12th globally), Arctic oil and gas (USD 0.6 billion – 5th among European banks, 13th globally), and fracking (USD 4.4 billion – 5th among European banks, 18th globally).⁶⁹

Danske Bank and NatWest: Excluding asset finance for oil and gas expansion and requiring clients to publish a credible transition plan

Danske Bank and NatWest have started implementing oil and gas policies that are compatible with the findings of the IEA NZE. Danske Bank's [position statement on fossil fuels](#) excludes project finance for the expansion of oil and gas exploration and production.⁷⁰ NatWest's [oil and gas policy](#) excludes dedicated financing for projects involving exploration activities for new oil and gas reserves.⁷¹

Danske Bank will also exclude E&P companies that do not set a credible transition plan in line with the Paris Agreement by 2023, subject to several exceptions. NatWest will stop lending and underwriting to major oil and gas producers unless they have a credible transition plan aligned with the Paris Agreement in place by the end of 2021.⁷²



Discussion: Develop transparent frameworks to assess the transition plans of oil and gas companies and make timebound asks

Danske Bank and NatWest are still developing their transition plan assessment frameworks and are yet to provide more details on their approach. So far, NatWest has indicated its methodology will be based on a quantitative (alignment with climate scenarios) and qualitative (credibility of the transition plan) assessments. Other banks like Credit Suisse have developed a [Client Energy Transition Framework](#) with a view to reducing exposure and/or excluding clients not willing to transition. However, not many details on the underlying criteria are available in the public domain.⁷³

Banks should be transparent on the criteria they use to determine if a transition plan is credible or not. In addition, banks' expectations of partners need to be timebound and aligned with a reliable 1.5°C pathway for frameworks to efficiently guide clients towards a timely transition.



Suggested questions for investors looking to engage with banks on their oil and gas policies:

- 1 Does the bank exclude asset finance for unconventional oil and gas activities (oil sands, fracking, Arctic oil and gas) including transportation?
- 2 Does the bank restrict corporate finance for companies involved in oil and gas activities (including transportation), and does the threshold considered provide an incentive to diversified companies to transition away from these activities?
- 3 Is the bank's policy articulated around a phase-out of unconventional oil and gas by a specific date aligned with its net-zero by 2050 strategy?
- 4 Does the bank exclude asset finance and corporate finance in relation to the development of new oil and gas reserves?
- 5 Does the bank require oil and gas clients to publish a credible transition plan by a specific date, failing which they would be excluded?

Section 3.3: Shipping policies

This section identifies leading practice examples among banks' shipping policies. The analysis is partly based on the expectations of the [Poseidon Principles](#),⁷⁴ which ten of the assessed banks are signatories of, as well as some additional next steps not currently required by the initiative.

Pressure is ramping up for the shipping industry

Relative to other carbon-intensive industries, shipping initially faced less scrutiny, falling outside the scope of the 2015 Paris Agreement.⁷⁵ However, for investors and banks that support the Paris goal of limiting global warming to 1.5°C, the industry warrants attention. Emissions from shipping account for 2.89 per cent of global GHG emissions and could rise by as much as 50 per cent over 2018 levels by 2050 under a business-as-usual scenario.⁷⁶ In 2018, after years of relative inaction, the International Maritime Organisation (IMO) announced its GHG strategy, targeting at least a 50 per cent reduction in shipping emissions by 2050.⁷⁷ While this is a step forward, it is worth noting that this target is insufficient if banks want to align with 1.5°C climate trajectories.

The IMO GHG strategy was soon followed by the launch of the Poseidon Principles – a framework for integrating climate considerations into lending decisions to promote the decarbonisation of international shipping.⁷⁸ It requires banks to publish a climate alignment score, which indicates the carbon intensity of their shipping portfolios relative to decarbonisation pathways in line with the IMO target. This initiative has helped several banks make considerable progress towards decarbonising their shipping portfolios, but much remains to be done for these portfolios to become truly aligned with the Paris agreement.



An analysis of the 25 largest European banks' shipping policies shows that:

- 11 banks publicly disclose a shipping sector policy
- Eight banks state that climate alignment and/or climate-related risk is factored into credit risk assessments
- Ten banks have signed up to the Poseidon Principles
- Only one bank (ING) currently has a negative climate alignment score, and only one other bank (Crédit Mutuel) has set a target that can be considered more ambitious than the IMO, aiming to be below the IMO curve by 2025

- No bank explicitly uses well-to-wake emissions when calculating its climate alignment score: This would include GHG emissions from primary production to carriage of the fuel in a ship's tank (well-to-tank, or upstream emissions), as well as from the ship's fuel tank to the exhaust (tank-to-propeller, tank-to-wake, or downstream emissions)⁷⁹
- No bank requires clients to set targets to align with 1.5°C pathways or to publicly disclose the climate alignment of their fleet



Current leading practices (includes commitments from more than one bank)

- ✓ Public disclosure of shipping policy
- ✓ Climate alignment and/or climate risk factored into credit risk assessments
- ✓ Membership of the Poseidon Principles
- ✓ Target-setting more ambitious than IMO target
- ✓ Disclosure of climate alignment of shipping portfolio
- ✓ Requirement for clients not to be dependent on revenues from the transportation of coal
- ✓ Requirement for clients to disclose GHG emissions at fleet level

Shipping sector policies summary table

	Public disclosure of shipping policy	Climate alignment / risk factored into credit risk assessments	Member of Poseidon Principles	Bank target more ambitious than IMO target	Shipping portfolio climate alignment disclosed	Requires client target to reduce emissions in line with IMO	Requires client target to be net-zero by 2050	Requires clients not to be dependent on coal transportation	Requires clients to disclose GHG emissions at fleet level	Requires clients to disclose climate alignment of fleet	Requires ship ability to be retrofitted
ABN AMRO	Y	Y	Y	N	Y	N	N	N	N	N	N
Barclays	N	Y	N	N	N	N	N	N	N	N	N
BBVA	N	Y	N	N	N	N	N	N	N	N	N
BNP Paribas	Y	Y	Y	N	Y	N	N	N	N	N	N
BPCE	N	N	N	N	N	N	N	N	N	N	N
CaixaBank	N	N	N	N	N	N	N	N	N	N	N
Commerzbank	Y	N	N	N	N	N	N	N	N	N	N
Crédit Agricole	Y	N	Y	N	Y	N	N	N	N	N	N
Crédit Mutuel	Y	N	Y	Y	Y	N	N	Y	N	N	N
Credit Suisse	N	N	Y	N	N	N	N	N	N	N	N
Danske Bank	N	N	Y	N	Y	N	N	N	N	N	N
Deutsche Bank	N	N	N	N	N	N	N	N	N	N	N
DZ Bank	Y	N	N	N	N	N	N	N	N	N	N
HSBC	N	N	N	N	N	N	N	N	N	N	N
ING	Y	Y	Y	N	Y	N	N	N	Y	N	N
Intesa SanPaolo	N	N	N	N	N	N	N	N	N	N	N
Lloyds Banking Group	N	Y	N	N	N	N	N	N	N	N	N
NatWest	N	N	N	N	N	N	N	N	N	N	N
Nordea	Y	N	Y	N	Y	N	N	N	N	N	N
Rabobank	Y	N	N	N	N	N	N	N	N	N	N
Santander	N	N	N	N	N	N	N	N	N	N	N
Societe Generale	Y	Y	Y	N	Y	N	N	Y	N	N	N
Standard Chartered	Y	Y	Y	N	N	N	N	N	N	N	N
UBS	N	N	N	N	N	N	N	N	N	N	N
UniCredit	N	N	N	N	N	N	N	N	N	N	N

Note: Some of the banks listed have very limited exposure to the shipping industry and have therefore not focused on this sector as a key priority within their wider decarbonisation efforts. This includes BPCE, Lloyds Banking Group, and UBS.



Leading practice case studies

ING: The only bank with a negative climate alignment score for the shipping sector

ING is a signatory of the Poseidon Principles alongside nine other banks included in our analysis. The principles support banks in assessing and disclosing the climate alignment of their shipping portfolios, based on the IMO ambition for GHG emissions to peak as soon as possible and to be at least 50 per cent lower by 2050.

ING is the only bank in our sample to have a negative climate alignment score for its shipping portfolio (-0.36 per cent), which means the bank's portfolio is already below the threshold required by the IMO's ambitions for decarbonising the sector.⁸⁰ [ING measured its shipping portfolio](#) using the UMAS Fuel Use Statistics and Emissions (FUSE) approach, which uses ship-specific data to model a ship's distance travelled, speed, fuel consumption, and resulting emissions.⁸¹ FUSE relies on satellite and terrestrial automatic identification system (AIS) data from exactEARTH, a satellite data provider. This data is combined with ship-specific data, such as transport capacity (deadweight tonnage), fuel type, and a ship's age, to arrive at the ship-level emissions intensity estimate per deadweight tonne-nautical mile. This is done for each ship in ING's portfolio.

A key challenge is getting access to accurate data. That is why ING asks its clients to share the CO₂ emissions-related data necessary for the bank to comply with the reporting requirements under the Poseidon Principles. ING does this for every new financing agreement as part of the credit approval process, where the bank requires loan covenants in relation to emissions data.

In terms of client engagement, ING focuses on how efficiently clients operate their vessels and how efficiently the ships are designed to run. The bank has discussions on fleet renewal, engine efficiencies, fuel-type developments, vessel recycling, and incentives for clients to improve their sustainability performance. Furthermore, ING sets up funds with third parties to support financing requests that contribute to a sustainable transition in the shipping sector.

Further steps for ING:

- Exclude shipping companies with a large coal-related share of revenue, in line with the criteria ING applies to utility sector companies (those that are over 5 per cent reliant on coal by 2025)
- Refuse financing to shipping companies misaligned with targeted decarbonisation trajectories

Crédit Mutuel: Excluding shipping companies with a large coal-related share of revenue

Crédit Mutuel, which is also a signatory of the Poseidon Principles, has set a target of being below the IMO curve by 2025,⁸² with its current alignment score being 1.1 per cent above the IMO curve.⁸³ For all types of financing, Crédit Mutuel will consider clients' sustainability policies and commitments, as well as extra-financial ratings provided by an independent expert and/or agency. Crédit Mutuel prioritises financing ships powered by gas or hybrid fuel (diesel and gas) engines or other alternative fuels, such as hydrogen and ammonia. Passenger ships (cruise ships and ferries) must be equipped with the Plug Ready system, which allows them to be supplied with electric power in ports. All companies operating in the maritime transport sector need to comply with the IMO's 2020 regulation on nitrogen and sulphur oxide (NOx and SOx) emissions from ship exhausts.

The bank's coal policy applies to the coal sector throughout the value chain, which includes transport. Crédit Mutuel therefore refuses financing for all companies, including shipping companies, if the coal-related share of their revenue is above 20 per cent. This threshold will be revised downwards annually in order to ensure a gradual and total phase-out of coal-related activities by 2030. Additionally, Crédit Mutuel does not participate in the financing of oil carriers, non-conventional gas carriers, or shuttle tankers.

Further steps for Crédit Mutuel:

- Refuse financing to shipping companies misaligned with targeted decarbonisation trajectories
- For each new financing agreement, require clients to share CO2 emissions-related data as part of the credit approval process

Societe Generale: May refuse financing due to non-alignment with decarbonisation trajectories

Societe Generale integrates the Poseidon Principles into decision-making processes for financing and refinancing operations in the shipping sector to align the sector with the IMO's decarbonisation strategy. For new transactions, the bank systematically assesses a ship's carbon efficiency and may refuse operations for reasons of non-alignment of the vessel with the decarbonisation trajectories published by the Poseidon Principles Association.⁸⁴ This decision is made by the head of the shipping finance team, which is in charge of aligning the portfolio with the long-term objectives of the Poseidon Principles.

Further steps for Societe Generale:

- Commit to achieving a negative climate alignment score for its shipping portfolio by a specified date
- For each new financing agreement, require clients to share CO2 emissions-related data as part of the credit approval process





Next steps for the sector:

- ▶ Use well-to-wake emissions when calculating a climate alignment score: This includes GHG emissions from primary production to carriage of the fuel in a ship's tank (well-to-tank, or upstream emissions), as well as from the ship's fuel tank to the exhaust (tank-to-propeller, tank-to-wake, or downstream emissions)⁸⁵
- ▶ Requirement for clients to have a target to align with 1.5°C pathways
- ▶ Requirement for clients to publicly disclose the climate alignment of their fleet
- ▶ Requirement for ships to have the ability to be retrofitted for alternative fuel usage



Suggested questions for investors looking to engage with banks on their shipping policies:

- 1 Is the bank a member of the Poseidon Principles?
- 2 Does the bank use well-to-wake emissions when calculating the climate alignment score of its shipping loan portfolios?
- 3 Does the bank require its clients to have a target to align with 1.5°C pathways?
- 4 Does the bank require its clients to publicly disclose the climate alignment of their fleet?
- 5 Does the bank require for ships to have the ability to be retrofitted for alternative fuel usage?

Theme 3.4: Biomass policies

This section identifies leading practice examples among banks' biomass policies, with a particular focus on biomass that is derived from wood and used in the energy sector.

The expansion of biomass power infrastructure is damaging our prospects of achieving the goals of the Paris Agreement

Biomass urgently deserves greater attention because the climate impacts can be even more significant than for coal. The financing of new biomass infrastructure would lock in future carbon emissions, which must be avoided. There is an outdated and flawed assumption that biomass is a carbon-neutral fuel and a solution to climate change. This view appears to be supported by several banks assessed in this report. Thirteen out of the 25 banks we assessed list biomass as a sustainable form of energy, without explicitly considering its high carbon emissions. However, at the point of combustion, wood emits more CO₂ than coal.⁸⁶ It takes decades for this carbon to be reabsorbed by forest growth.

For banks, there is a financial risk from the increasing probability that subsidy regimes will be altered, as the carbon reduction credentials of biomass are increasingly questioned by policymakers and their advisors.⁸⁷ Removal of subsidies will impact profitability and asset valuations.

There are also reputational risks. At the local level, biomass power plants often face opposition from local communities.⁸⁸ On a broader level, banks that have publicly committed to support the goals of the Paris Agreement could find that financing biomass projects reduces their credibility on portfolio decarbonisation and in addressing climate-related financial risks.



An analysis of the 25 largest European banks' biomass policies shows that:

- Six banks publicly disclose a biomass sector policy
- Four banks class biomass as a restricted activity
- 17 banks exclude wood sourced from at least some rich carbon stocks, even if a specific link to biomass is not always made
- 13 banks list biomass as a sustainable form of energy, without considering its high carbon emissions
- Only one bank (Crédit Mutuel) has started setting biomass-related criteria for utility providers looking to phase-out coal



Current leading practices (includes commitments from more than one bank)

- ✓ Public disclosure of biomass policy
- ✓ Biomass classed as a restricted activity
- ✓ Exclusion of biomass sourced from environments that should be protected as rich above-ground carbon stocks, such as primary forest and high conservation value (HCV) forests
- ✓ Exclusion of biomass sourced from environments that should be protected as rich below-ground carbon stocks, such as peatland
- ✓ Exclusion of forestry that depletes soil carbon
- ✓ Engagement with existing biomass power operators and supply chains to adopt and enforce strict criteria
- ✓ Biomass criteria for utility providers looking to phase-out coal
- ✓ Consideration of other criteria, such as competition with food production, or origination from intensive agriculture

Biomass sector policies summary table

	Public disclosure of biomass policy	Biomass classed as a restricted activity	Exclusion of biomass sourced from rich above-ground carbon stocks	Exclusion of biomass sourced from rich below-ground carbon stocks	Exclusion of forestry that depletes soil carbon	Exclusion of new biomass power infrastructure	Engagement with existing biomass power operators	Biomass criteria for utilities looking to phase out from coal	Consideration of other criteria*
ABN AMRO	N	N	Y	Y	N	N	N	N	N
Barclays	N	N	Y	Y	N	N	N	N	N
BBVA	N	N	Y	N	N	N	N	N	N
BNP Paribas	N	N	N	N	N	N	N	N	N
BPCE	N	N	N	N	N	N	N	N	N
CaixaBank	N	N	Y	N	N	N	N	N	N
Commerzbank	N	N	N	N	N	N	N	N	N
Crédit Agricole	N	N	Y	Y	N	N	N	N	N
Crédit Mutuel	N	N	N	N	N	N	N	Y	N
Credit Suisse	N	N	Y	Y	N	N	N	N	N
Danske Bank	N	N	N	N	N	N	N	N	Y
Deutsche Bank	N	N	Y	Y	Y	N	N	N	N
DZ Bank	N	N	N	N	N	N	N	N	N
HSBC	N	N	Y	Y	N	N	N	N	Y
ING	N	N	Y	Y	N	N	N	N	N
Intesa SanPaolo	N	N	N	N	N	N	N	N	N
Lloyds Banking Group	Y	Y	Y	Y	N	N	N	N	N
NatWest	Y	Y	Y	Y	N	N	N	N	N
Nordea	N	N	Y	N	N	N	N	N	N
Rabobank	Y	Y	Y	Y	Y	N	N	N	Y
Santander	Y	N	Y	Y	N	N	N	N	N
Societe Generale	Y	N	Y	N	N	N	Y	N	N
Standard Chartered	Y	Y	Y	N	N	N	Y	N	Y
UBS	N	N	Y	N	N	N	N	N	N
UniCredit	N	N	Y	N	N	N	N	N	N

* Other criteria could include, for example, competition with food production, or origination from intensive agriculture.



Leading practice case studies

Rabobank: The most comprehensive approach to biomass among assessed banks

Rabobank includes its policy on biofuels within its general [Sustainability Policy Framework](#) and considers biomass a restricted activity.⁸⁹ Specifically, the bank expects clients:

- Not to produce biofuels that contain raw material obtained from land with high carbon stock, such as HCV forests and peatlands;
- To produce biofuels that provide clear greenhouse gas emission benefits after considering the entire lifecycle of raw material compared to fossil fuels, where natural resources are used as efficiently as possible;
- To ensure that the biomass/feedstock used for the biofuels does not replace (land for) staple crops when there are indications of local food insecurity.

Moreover, the bank also commits to encouraging clients to deploy good industry practices, such as establishing a track-and-trace system to identify sustainably sourced biofuels, and to be transparent about their current production and sourcing and their plans to increase the production of sustainably produced biofuels. Rabobank also supports feedstock production that provides clear additional benefits to local communities, such as livelihood opportunities, energy/fuel security, and economic and social stability.

Further steps for Rabobank:

- Set strict criteria specifically for clients looking to transition from coal to biomass and discourage of coal-to-biomass conversions

Crédit Mutuel: The only bank referencing clients who are looking to transition from coal to biomass

Crédit Mutuel is the only bank in our sample that specifically references clients who are looking to phase-out coal and transition to biomass. The bank does consider financing for projects that aim to convert a coal-fired power plant to the sole use of renewable energies, but these projects are required to demonstrate satisfactory supply plans that allow for the sustainable management of resources.⁹⁰

Further steps for Crédit Mutuel:

- Publicly disclose a biomass sector policy, including any exclusion criteria in terms of acceptable environments to source biomass from
- Consider strengthening wording in relation to clients transitioning from coal to biomass to discourage such conversions





Next steps for the sector:

- ▶ Exclusion of new biomass power infrastructure
- ▶ Plan phase-out of financing of existing biomass power capacity
- ▶ Discourage coal-to-biomass conversions



Suggested questions for investors looking to engage with banks on their biomass policies:

- 1 Does the bank have a publicly available policy on biomass that classes biomass as a restricted activity?
- 2 Does the bank exclude new biomass power infrastructure?
- 3 Does the bank exclude biomass sourced from environments that should be protected as rich carbon stocks, such as primary forests, HCV forests or peatland?
- 4 Does the bank engage with existing biomass power operators and supply chains to adopt and enforce strict criteria?
- 5 Does the bank set strict criteria for utilities looking to phase out from coal and transition towards biomass?

Theme 4: Biodiversity

The 2021 World Economic Forum (WEF)'s [Global Risk Report](#) conducted across a global community of experts and decision-makers, found that the loss of biodiversity is considered among the existential threats facing society today in terms of both impact and likelihood.⁹¹ Indeed, the WEF [New Nature Risk Rising report](#) highlighted that \$44 trillion of economic value generation, over half the world's total GDP, is potentially at risk as a result of the dependence of businesses on nature and its services.⁹²

While many financial institutions have warmed up to the existential risk posed by climate change with commitments and initiatives now widespread across the industry, the sector's approach to biodiversity loss is still in its infancy. While the Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services (IPBES) has outlined the interlinkages between climate change and biodiversity loss (with decarbonisation of the economy essential to limiting longer-term nature loss), climate change is currently responsible for between 11 per cent and 16 per cent of biodiversity loss.⁹³

The other direct drivers of nature loss must be tackled in conjunction with climate change. Banks through their financing and investment activities directly impact nature through facilitating changes in land and sea use, as well as through overexploitation and pollution.

Initiatives have sought to address the need for urgent action on biodiversity. The Taskforce on Nature-related Financial Disclosures (TNFD) is working on developing a framework for nature-related disclosures modelled on the TCFD. Several banks have already signed up to the working group for the development of this standard.⁹⁴ The Principles for Responsible Banking has released [guidance](#) for biodiversity target-setting.⁹⁵ Similarly, the [Finance for Biodiversity Pledge](#) has sought to commit signatories to commit to science-based nature targets by 2024, among other commitments.⁹⁶ The Partnership for Biodiversity Accounting Financials (PBAF) is seeking to develop principles to underlie biodiversity impact assessments. Importantly, these initiatives come ahead of the Convention of Biodiversity COP-15, intended to develop the post-2020 framework for biodiversity. This provides a unique opportunity for the banking sector to be ambitious about halting and reversing the vast and severe degradation of nature that underpins all life on earth.



An analysis of the 25 largest European banks' approaches to biodiversity shows that:

- Only ten banks have published a cross-sectoral policy outlining their approach to biodiversity
- Ten banks' sector policies outline an expectation that clients have a No Deforestation, No Peat and No Exploitation (NDPE) policy, but none include this as a strict requirement for clients

- Not a single bank has made a commitment to zero deforestation by a specific date
- 13 banks have made a commitment to obtain Free, Prior and Informed Consent (FPIC) from indigenous peoples for projects that may impact their territories, either in a cross-sectoral policy or across certain sector policies



Current leading practices (includes commitments from more than one bank)

- ✓ Standalone cross-sectoral biodiversity policy covering financing activities and all portfolios under management
- ✓ Specific and granular biodiversity-related criteria integrated into sector policies for sectors with a high impact and/or dependency on biodiversityⁱⁱ
- ✓ Commitment to No Deforestation, No Peat, and No Exploitation (NDPE)
- ✓ Commitment to obtain Free, Prior and Informed Consent (FPIC) from indigenous peoples for projects that may impact their territories
- ✓ Commitment to setting science-based nature targetsⁱⁱⁱ
- ✓ Requirement for clients to not operate in protected areas and areas of global biodiversity importance

ii Sectors that have direct impact on biodiversity through their operations (such as mining, construction and energy), and/or sectors who directly depend on biodiversity in order to operate (such as forestry, fishing, agriculture and ecotourism).

iii Rabobank and ABN Amro have made a commitment to setting science-based nature targets by 2024 as part of the Finance for Biodiversity Pledge.

Biodiversity summary table

	Cross sectoral biodiversity policy	Biodiversity-related criteria integrated into sector policies	NDPE commitment	Finance for Biodiversity Pledge signatory	Exclusionary criteria in protected areas and areas of global biodiversity importance	Free, Prior and Informed Consent (FPIC) policy	Commitment to zero deforestation by specific date
ABN Amro	No	Yes	No	Yes	Yes	Yes, cross sectoral policy	No
Barclays	No	Yes	Sector specific client expectation	No	Partly ⁽ⁱ⁾	Yes, included in certain sector policies	New York Declaration on Forests
BBVA	No	Yes	No	No	Yes	Yes, cross sectoral policy	No
BNP Paribas	Yes	Yes	Sector specific client expectation	No	Yes	Yes, included in certain sector policies	No
BPCE	Yes	Yes	No	No	Yes	No	No
CaixaBank	No	No	No	No	No	No	No
Commerzbank	No	Yes	No	No	Partly ⁽ⁱⁱ⁾	No	No
Crédit Agricole	Yes	Yes	No	No	Yes	No	No
Crédit Mutuel	No	Yes	No	No	Yes	No	No
Credit Suisse	Yes	Yes	No	No	Yes	Yes, included in certain sector policies	No
Danske Bank	No	No	No	No	Yes	Yes, included in certain sector policies	No
Deutsche Bank	Yes	Yes	Sector specific client expectation	No	Yes	Yes	New York Declaration on Forests
DZ bank	No	Yes	Sector specific client expectation	No	No	No	No
HSBC	No	Yes	Sector specific client expectation	Only on asset management side	Yes	Yes, included in certain sector policies	No
ING	Yes	Yes	Sector specific client expectation	No	Yes	Yes	No
Intesa Sanpaolo	No	No	No	No	Yes	No	No
Lloyds Banking Group	No	Yes	No	No	Yes	No	No
NatWest	Yes	Yes	No	No	Yes	Yes, included in certain sector policies	No
Nordea	No	Yes	No	No	Yes	Yes, included in one sector policy	No
Rabobank	Yes	Yes	Sector specific client expectation	Yes	Yes	Yes, included in biodiversity policy	Net zero deforestation commitment
Santander	No	Yes	No	No	No	No	No
Societe Generale	Yes	Yes	Sector specific client assessment criteria	No	Yes	Yes, included in one sector policy	No
Standard Chartered	No	Yes	Sector specific client expectation	No	Yes	No	No
UBS	Yes	Yes	Sector specific client expectation	No	Yes	No	No
UniCredit	No	No	No	No	Yes	No	No

i does not set exclusion or client expectation however policy states “enhanced due diligence” is conducted

ii does not set exclusion or client expectation however policy states operation in these areas form part of client assessment



Leading practice case studies

BNP Paribas and ABN AMRO: Using the IPBES drivers of biodiversity loss as to guide their policy approach and impact reporting

The Intergovernmental Science–Policy Platform on Biodiversity and Ecosystem Services (IPBES) – an independent intergovernmental body on the conservation of biodiversity – identified five direct drivers of biodiversity loss in its 2019 [Global Assessment Report](#).⁹⁷ In order of impact these are:

- 1 Changes in land and sea use
- 2 Direct exploitation of certain organisms
- 3 Climate change
- 4 Pollution
- 5 Invasive alien species

BNP Paribas uses these direct drivers of biodiversity loss as an assessment framework to analyse its impacts on biodiversity and steer its actions. Its approach is outlined in its [2021 biodiversity policy](#). For each of the first four direct drivers of biodiversity loss listed above, BNP Paribas lists the key risks and impacts identified in their activities and the action taken to mitigate these impacts.⁹⁸

For example, relating to changes in land and sea use, BNP Paribas identifies fighting deforestation, contributing to reforestation, and reducing the impact of real estate activities on net land artificialisation, as the key strategic actions taken by the bank to mitigate its impacts on this direct driver of biodiversity loss. Within each of these actions BNP Paribas outlines its specific commitments in its approach, and how these commitments are applied across sectors.

This approach allows BNP Paribas to assess how its activities might impact biodiversity loss, where its current policies seek to prevent biodiversity loss, and areas where the bank might require further policy development to prevent it contributing to the direct drivers of biodiversity loss.

ABN AMRO's approach also uses the IPBES to frame disclosure of nature-related impacts. ABN Amro's [2020 Impact report](#) discloses nature-related indicators roughly in line with the first four of the five direct drivers of biodiversity loss as defined by the IPBES (invasive alien species omitted). Each of the drivers has a negative impact score between zero and ten associated with it. However, no specific metrics are disclosed.⁹⁹

Further steps for ABN AMRO:

- Disclose specific metrics used for biodiversity-related impact assessments

Rabobank and BNP Paribas: Protected areas and areas of global conservation importance

Rabobank's biodiversity policy sets out expectations from clients in relation to protected areas and areas of global conservation importance. These are:

- 1 To not damage, cause or contribute to the conversion of HCV or high carbon stock areas;
- 2 To not operate in national or international legally protected or preserved areas and areas containing globally, regionally or nationally significant concentrations of biodiversity values; and
- 3 To not operate in legally protected areas, [UNESCO World Heritage sites](#) and [RAMSAR wetlands](#) unless the development is legally permitted and consistent with recognized management plans for the area.

It is important to note that while this policy does set out expectations for clients, it does not explicitly prohibit clients from operating in these areas.

BNP Paribas' biodiversity policy, however, *does* exclude project funding in areas classified for biodiversity, i.e. sites classified as International Union for Conservation of Nature (IUCN) [Category I – IV areas](#), wetlands listed in the RAMSAR Convention, UNESCO World Heritage sites, Alliance for Zero Extinction sites, and peatlands. However, this funding restriction is limited to specific sectors, including agriculture, palm oil, mining, and unconventional oil and gas.

Further steps for Rabobank:

- Require clients to not operate in areas classified for biodiversity
- Introduce project finance exclusions and corporate financing restrictions tied to the protection of biodiversity

Further steps for BNP Paribas

- Broaden project finance exclusion policy to cover all sectors
- Broaden exclusion policy to cover all sectors and corporate financing activities



Discussion box: Bank's commitments to stop deforestation

Land use, including deforestation, is a major driver of biodiversity loss.¹⁰⁰ Numerous high-impact sectors that drive deforestation – including pulp, palm oil, and soy, and agriculture – are financed by banks.

However, despite financing activities in these high-impact sectors, none of the 25 banks assessed demonstrate a strong commitment to stopping deforestation. The [Forest 500 methodology](#)^{iv} identifies a conversion-free commitment or a deforestation-free commitment (sometimes referred to as zero deforestation) as the strongest form of commitment in this area. No banks assessed have made such a commitment. Several banks had previously been signatories of the Soft Commodities Compact. This banking sector initiative aimed to achieve zero net deforestation by 2020, where net zero deforestation allows deforestation to continue as long as forest loss is offset. This approach is itself problematic.¹⁰¹ Even so, BankTrack research shows that the Soft Commodities Compact initiative has been unable to demonstrate any progress towards its target of supporting zero net deforestation. The research shows that banks adopting the Compact have considerably increased their financial exposure to forest-risk companies since 2014, while the global rate of forest loss has continued to increase throughout the Compact's lifetime.¹⁰²

Similarly, the [New York Declaration on Forests](#) – an initiative involving commitments by governments and businesses aimed at halting natural forest loss by 2030 – has also failed to show progress on its goals. Indeed, a progress report notes that “there is a general a lack of transparency in how and whether financial institutions [...] avoid investments with high forest risks. Even institutions which have adopted safeguards often fail to publish information on their impact on forests”.

Only one bank (Rabobank) makes any commitment to net zero deforestation outside of these initiatives. Rabobank's biodiversity policy includes a commitment to “strive to achieving zero net deforestation by preferably not engaging in transactions that are directly linked to deforestation activities”. However, this approach still allows for deforestation to continue with the use of offsets, in committing to net-zero deforestation, not zero deforestation. Moreover, no specific date has been set to achieve this goal.

Banks also show poor performance on their policies concerning No Deforestation, No Peat, and No Exploitation (NDPE). Ten of the 25 assessed banks' sector policies include expectations that clients adopt NDPE policies. However, not a single bank requires clients to adopt such a policy.

iv Forest 500 methodology on deforestation commitments for financial institutions from strongest to weakest; Conversion-free commitment or a deforestation-free commitment that explicitly includes all other natural ecosystems; Deforestation-free commitment; Zero net deforestation commitment; Reduce deforestation commitment; signatory to a finance sector initiative on deforestation.



Next steps for the sector:

- ▶ Go beyond net-zero deforestation commitments, to conversion-free commitments, entailing no conversion of natural ecosystems anywhere
- ▶ Conduct transition-specific assessments of biodiversity risks
- ▶ Commit to engage in the process to develop a Taskforce on Nature-Related Financial Disclosures (TNFD) and, once the new disclosure framework is launched in 2023, draw on the TNFD to refine biodiversity strategies, approaches and disclosures
- ▶ Set nature targets that are science-based by 2024 at the latest



Suggested questions for investors looking to engage with banks on biodiversity:

- 1 Does the bank have a publicly available policy on biodiversity?
- 2 Do the bank's sectoral policies include restrictions and/or criteria related to deforestation and biodiversity in sectors considered sensitive?
- 3 Has the bank committed to set science-based nature targets?
- 4 Does the bank's biodiversity policy or sectoral policies contain a commitment to No Deforestation, No Peat, and No Exploitation (NDPE)?
- 5 Does the bank have a policy that commits it to zero deforestation by a specific date?

Theme 5: Executive remuneration

This section analyses whether banks' executive directors are being incentivised to act on climate change by climate-related individual objectives and/or Key Performance Indicators (KPIs) as part of short-term variable compensation packages and Long-Term Incentive Plans (LTIPs).

Prominent institutions and individuals, such as the [European Central Bank](#)¹⁰³, the [Taskforce for Climate-Related Financial Risks](#) (TCFD),¹⁰⁴ and [former Bank of England Governor Mark Carney](#),¹⁰⁵ have called on banks to link executive pay to climate risk management. Yet typical remuneration packages often run contrary to long-term financial and sustainability objectives. Climate-linked pay can help rebalance the excessive emphasis on short-term performance targets in typical remuneration packages and create better accountability on sustainability-related performance across management structures.¹⁰⁶



An analysis of the 25 largest European banks' approaches to executive remuneration shows that:^v

- Some banks continue to have no climate metrics in their executive remuneration. This is concerning as a [survey](#) of Europe's largest 20 publicly listed banks using 2019 data and conducted by ShareAction had already found that 35 per cent of the banks surveyed do not set any climate-related objectives or KPIs or provide climate-related incentives.¹⁰⁷
- Of those banks that did include climate-related metrics in the short-term variable plans or LTIPs of at least one of their executives, the most common pre-disclosed metrics and/or individual objectives focused on:
 - Reducing operational emissions (Barclays, Danske Bank, Lloyds Banking Group, Santander, Standard Chartered);
 - Sourcing renewable electricity (Barclays, Deutsche Bank, Santander);
 - Achieving a sustainable finance target in either short-term or long-term plans (Barclays, BBVA, Deutsche Bank, HSBC, ING, Intesa SanPaolo, Standard Chartered, Societe Generale, UBS);
 - Managing the bank's reputation and performance relative to peers^{vi}. Metrics considered included:
 - Inclusion in top quartile of key indices such as the Dow Jones Sustainability Index, Robeco SAM, Sustainalytics, etc. (ABN Amro, BNP Paribas, BPCE, Natixis, Societe Generale, UBS, Unicredit)
 - Developing a global reputation index and linking it to the LTIP of executive directors, c-suite members and other senior managers (CaixaBank)

^v We could not find data for the remuneration policies of Crédit Mutuel (Groupe) and DZ Bank.

^{vi} The CEO of Commerzbank has an individual target linked to the external perception of the bank although climate change is not cited.

The most used metrics fail to focus on the bank's strategy to align its business model with the Paris climate goals and reduce their exposure to high-carbon sectors, with a few exceptions (See 'Leading Practice Case Studies'). In some cases, banks have complemented the metrics above with metrics linked to the implementation of their climate strategy.

Furthermore, the analysis finds that:

- The weight of sustainability metrics in remuneration plans varies from 0 per cent (e.g. Rabobank, Nordea)^{vii} to 35 per cent. Climate change is often bundled up with other sustainability issues, making it hard to know how much weight is given to climate change over other issues. Many banks failed to disclose the weight of sub-indicators and the breakdown between each indicator.
- Assessments provide further colour on the issues that are considered when devising an executive's total variable remuneration. However, in many instances, individual objectives are disclosed retrospectively. This could lead to banks 'cherry-picking' ESG issues on an ex-post basis and make it harder for investors and stakeholders to hold executives to account for failing to meet their objectives.



Current leading practices (includes commitments from more than one bank):

- ✓ Climate-related objectives linked to variable remuneration are clearly disclosed in public reporting, including the percentage of variable remuneration linked to those objectives and their sub-objectives (if applicable)
- ✓ Climate-related objectives are separated from other sustainability objectives
- ✓ Climate-related objectives are clearly linked to the bank's implementation of its climate strategy and focus on the most important elements of that strategy (e.g. focus on reducing its Scope 3 emissions instead of – or as well as – Scope 1 and 2 emissions)
- ✓ Climate-related objectives are given appropriate weight and are applicable to all relevant directors, including the bank's Chief Risk Officer
- ✓ Climate-related objectives are robust, measurable, and quantifiable
- ✓ A list of criteria to assess the executive director's performance against their targets should be published in advance

vii Nordea plans to add sustainability related targets in its executive remuneration policy in 2022.



Leading practice case studies

ING and NatWest: CEOs incentivised to help set climate-related targets for their loan book of clients in specific sectors

The CEO of ING had a personal target linked to the implementation of the bank's Terra Approach. This entails making sure that nine sectors – automotive, power generation, residential real estate, commercial real estate, cement, fossil fuels, aviation, and steel and shipping – are added to the Terra Approach by 2020 and have associated quantitative results and targets. The bank measures and benchmarks whether its lending in each sector is adding up to contribute to climate resilience. As such, ING CEO's' remuneration is partly based on whether the bank achieves climate alignment in the above target sector.¹⁰⁸

The CEO of NatWest had a similar individual objective in 2020 to set sector-specific targets for high-impact sectors by its 2020 financial year results announcement. However, climate objectives are bundled together with other objectives and the specific weighting for each performance category have not been disclosed.

Crédit Agricole: Remuneration policy linked to implementation of specific climate commitments and setting climate strategy

Crédit Agricole links its executive remuneration policy to the achievements of its three strategic pillars. Its third Pillar “Commitment to Society” has three sub-themes:

- 1 The bank’s commitment to inclusive development;
- 2 Making green finance a key growth driver for the group; and
- 3 Being an influential player in a more inclusive and less carbon-intensive economy¹⁰⁹.

Targets for the Group’s CEO and Deputy CEO are set under each sub-theme.

These include:

- Committing all the Group’s entities to a common climate strategy, in line with the Paris Agreement and getting it verified by a third party;
- Achieving its commitment for a total disengagement of thermal coal in 2030 for EU and OECD countries, and in 2040 for the rest of the world;
- Assign a transition rating to large corporate customers in order to structure dialogue with them on their energy transition roadmap; and
- Implementing actions to preserve biodiversity.

Further steps for Crédit Agricole:

- Crédit Agricole should go one step further and disclose the weight of each sub-target and provide additional details on some of its vaguer targets (e.g. ‘implementing actions to preserve biodiversity’) to allow investors to judge whether these targets have been met



Discussion: A word of caution

Whilst it is essential that banks have a climate-linked remuneration policy, it is important not to overestimate the impact of including climate-related metrics into such policies.

According to [PwC](#), there's a commonly held belief that ESG targets in pay can be used to direct CEOs to undertake activities that benefit society, which they wouldn't undertake without the incentive. This misunderstands how board governance works. Pay follows strategy; it doesn't drive strategy. However, linking remuneration policies to climate-related metrics can be a useful way of mobilising companies behind a new set of priorities.¹¹⁰

Furthermore, vague ESG factors [can add to](#) the complexity of remuneration structures, and ESG targets that are too easily achievable may unnecessarily boost pay for executives, particularly during economic downturns.¹¹¹

Finally, these metrics will have limited impacts in cases where CEOs and other executive directors decide not to receive variable compensation due to external factors, such as a pandemic.



Suggested questions for investors looking to engage with banks on linking remuneration policies to climate-related metrics

- 1 Does the bank incentivise its executives to act on climate change, and if so which executives?
- 2 Are the objectives set robust, measurable, and quantifiable?
- 3 Does the bank pre-disclose the weight of each objective – and each sub-objective if applicable –, and the criteria that will be used to assess the executive's performance?
- 4 Are the climate-related objectives separate from other sustainability objectives?
- 5 Do the objectives set focus on the most material aspects of the bank's climate change strategy (e.g. focus on setting targets and phasing out from coal instead of reducing the bank's operational emissions)?

Conclusion: Engagement questions for investors

This analysis of the climate and biodiversity practices of Europe's largest 25 banks demonstrates that the European banking sector still has a long way to go to fully address the systematic risk posed by climate change and biodiversity loss. Whilst 80 per cent of European banks included in this analysis have committed to net-zero by 2050 at the latest, most of them fail to support these long-term ambitions with short-term, measurable, and all-encompassing plans that are commensurate with a science-based approach.

Investors that are shareholders or bondholders of banks have an opportunity to use their influence to encourage banks to update their climate and biodiversity strategies in line with the recommendations made in this report.

We have suggested a list of engagement questions that investors can use in their engagement with banks. Investors should set clear timelines and objectives for their engagement with banks and be prepared to escalate their engagement with banks that are showing little sign of progress. This should include publicly calling on banks that are lagging to improve their climate and biodiversity practices ahead of their 2022 Annual General Meeting, using their voting rights to vote against directors at banking laggards, and filing and voting for shareholder resolutions on climate change and biodiversity.

Theme 1: Net-zero targets and alignment

- 1 Has the bank committed to halve its financed emissions by 2030 to ensure it is on track to meet its net-zero by 2050 ambition?
- 2 Has the bank set interim (up to 2030) sectoral targets for the most carbon intensive sectors (including oil and gas and power sectors)?
- 3 Is the bank using an absolute emissions metric to set interim targets for the fossil fuel sector or is the bank regularly disclosing absolute emissions from its portfolio?
- 4 Are the bank's interim targets covering both lending and capital markets activities (if relevant for the bank)?
- 5 Is the bank using a climate scenario aligned with a 1.5°C pathway with limited to no overshoot and reliance on Negative Emission Technologies to set interim targets or define alignment?

Theme 2: High-carbon disclosures

- 1 Does the bank disclose exposure to climate sensitive/high-carbon sectors?
- 2 Does the bank provide a breakdown of its exposure by fossil fuel assets?
- 3 Does the bank measure and disclose financed emissions?
- 4 Is the bank a member of PCAF or does it follow its guidelines to estimate financed emissions?
- 5 Does the bank report its high-carbon disclosures alongside financial information in its annual report?

Theme 3: Sector policies

Theme 3.1: Thermal coal (power and mining)

- 1 Does the bank restrict corporate finance for companies dependent on coal (relative threshold) and large producers (absolute threshold) in line with the Global Coal Exist List?
- 2 Does the bank exclude companies expanding coal capacity including companies acquiring existing assets if they don't commit to wind them down by a specific date?
- 3 Is the bank's policy articulated around a full phase-out coal exposure by 2030 in OECD countries and 2040 globally at the latest?
- 4 Does the bank require its clients to issue a coal phase-out strategy aligned with its own by a specific date, failing which they would be excluded?
- 5 Does the bank include all products and services (including asset management) in its phase-out strategy?

Theme 3.2: Oil and gas

- 1 Does the bank exclude asset finance for unconventional oil and gas activities (oil sands, fracking, Arctic oil and gas) including transportation?
- 2 Does the bank restrict corporate finance for companies involved in oil and gas activities (including transportation), and does the threshold considered provide an incentive to diversified companies to transition away from these activities?
- 3 Is the bank's policy articulated around a phase-out of unconventional oil and gas by a specific date aligned with its net-zero by 2050 strategy?
- 4 Does the bank exclude asset finance and corporate finance in relation to the development of new oil and gas reserves?
- 5 Does the bank require oil and gas clients to publish a credible transition plan by a specific date, failing which they would be excluded?

Theme 3.3: Shipping policies

- 1 Is the bank a member of the Poseidon Principles?
- 2 Does the bank use well-to-wake emissions when calculating the climate alignment score of its shipping loan portfolios?
- 3 Does the bank require its clients to have a target to align with 1.5°C pathways?
- 4 Does the bank require its clients to publicly disclose the climate alignment of their fleet?
- 5 Does the bank require for ships to have the ability to be retrofitted for alternative fuel usage?

Theme 3.4: Biomass policies

- 1 Does the bank have a publicly available policy on biomass that classes biomass as a restricted activity?
- 2 Does the bank exclude new biomass power infrastructure?

- 3 Does the bank exclude biomass sourced from environments that should be protected as rich carbon stocks, such as primary forests, HCV forests or peatland?
- 4 Does the bank engage with existing biomass power operators and supply chains to adopt and enforce strict criteria?
- 5 Does the bank set strict criteria for utilities looking to phase out from coal and transition towards biomass?

Theme 4: Biodiversity

- 1 Does the bank have a publicly available policy on biodiversity?
- 2 Do the bank's sectoral policies include restrictions and/or criteria related to deforestation and biodiversity in sectors considered sensitive?
- 3 Has the bank committed to set science-based nature targets?
- 4 Does the bank's biodiversity policy or sectoral policies contain a commitment to No Deforestation, No Peat, and No Exploitation (NDPE)?
- 5 Does the bank have a policy that commits it to zero deforestation by a specific date?

Theme 5: Linking executive remuneration to climate-related metrics

- 1 Does the bank incentivise its executives to act on climate change, and if so which executives?
- 2 Are the objectives set robust, measurable, and quantifiable?
- 3 Does the bank pre-disclose the weight of each objective – and each sub-objective if applicable –, and the criteria that will be used to assess the executive's performance?
- 4 Are the climate-related objectives separate from other sustainability objectives?
- 5 Do the objectives set focus on the most material aspects of the bank's climate change strategy (e.g. focus on setting targets and phasing out from coal instead of reducing the bank's operational emissions)?

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