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In Debt to the Planet

An assessment of the 25 largest European banks' biodiversity and climate strategies

ShareAction»

About ShareAction

ShareAction is a NGO working globally to define the highest standards for responsible investment and drive change until these standards are adopted worldwide. We mobilise investors to take action to improve labour standards, tackle climate change and address pressing global health issues. Over 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. Our vision is a world where the financial system serves our planet and its people.

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The views expressed are those of ShareAction alone.

Report Authors

Abhijay Sood, Dr Claudia Gray, Jeanne Martin, Dr Jonathan Middleton, Lydia Marsden, Marina Zorila, Xavier Lerin

Contact

Jeanne Martin
Head of Banking Programme
jeanne.martin@shareaction.org

Leyla Arpacioglu
Engagement Manager
leyla.arpacioglu@shareaction.org

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- 87.5 > 100
- 75 > 87.5
- 62.5 > 75
- 50 > 62.5
- 37.5 >50
- 25 > 37.5
- 12.5 > 25
- 0 > 12.5

Rank	Bank	Country	Grade	Overall	Biodiversity	Climate
1	BNP Paribas	France	B+	63%	68%	60%
2	Societe Generale	France	B	56%	57%	56%
3	Crédit Agricole	France	B	51%	42%	55%
3	ING	Netherlands	B	51%	56%	48%
5	Barclays	UK	B	50%	38%	55%
5	Lloyds Banking Group	UK	B	50%	40%	54%
7	Santander	Spain	B–	48%	36%	54%
8	HSBC	UK	B–	47%	45%	48%
9	La Banque Postale	France	B–	46%	20%	59%
9	Rabobank	Netherlands	B–	46%	49%	45%
9	BPCE	France	B–	46%	40%	49%
9	NatWest	UK	B–	46%	27%	55%
13	Credit Suisse	Switzerland	C+	44%	50%	41%
14	CaixaBank	Spain	C+	43%	39%	45%
14	UniCredit	Italy	C+	43%	26%	51%
16	Intesa Sanpaolo	Italy	C+	42%	30%	48%
16	Deutsche Bank	Germany	C+	42%	43%	41%
18	Standard Chartered	UK	C	40%	25%	47%
19	UBS	Switzerland	C–	38%	41%	37%
20	Nordea	Finland	C–	36%	14%	47%
20	Crédit Mutuel	France	C–	36%	12%	48%
20	BBVA	Spain	C–	36%	26%	40%
23	Commerzbank	Germany	C–	33%	20%	40%
23	Danske Bank	Denmark	C–	33%	19%	40%
25	DZ Bank	Germany	D+	29%	14%	36%

This ranking is based primarily on publicly available information, compiled by ShareAction researchers or provided by the banks themselves. Private information supplied by the banks complemented this. All banks had the same opportunity to respond to the survey.

Their approaches may have improved between our data collection phase and the publication of this report; this will not necessarily be captured by their scores above.

Please see Chapter 7: Methodology for details of the survey process and grading system. The geographic distribution of banks in this survey, including asset concentration, is displayed in Figure 1 (p.11).

Executive summary

Executive summary

Europe's largest banks are not doing enough to address the twin crises of climate change and biodiversity loss. ShareAction surveyed, scored, and ranked Europe's 25 largest banks on their approach to climate and biodiversity. The gaps we found pose real risks to our planet and everyone on it. All approaches remain deeply insufficient: the average overall score achieved in this survey is 43.7 per cent – equivalent to a C+ grade – and 19 banks did not even score half the available points. While some banks demonstrate leading practice on some topics, none do so across all areas: the highest score was just 63 per cent, or B+.

The surveyed banks largely do not address climate and biodiversity as connected issues. Average performance on biodiversity is lagging climate in all aspects: the mean score was 35 per cent for biodiversity compared to 48 per cent for climate and for some banks, the gap between the two issues is even larger. The financial sector has been slow to address biodiversity loss, although the issue is far from new. There are deep links between climate change and biodiversity loss. Banks should better acknowledge this and respond in an integrated manner.

Key barriers to improvement cited by banks include the availability and quality of emissions data; the lack of standardised methodologies; and a lack of standardised frameworks to understand clients' biodiversity impacts.

In this report, we assess how Europe's largest banks are integrating climate and biodiversity across key aspects of their business – or failing to do so.

Climate and biodiversity governance

Banks are increasingly integrating climate into their governance processes, although it is unclear whether this drives decision-making. In contrast, biodiversity is not a priority at the board level for most of Europe's largest banks. Most banks claim that their boards take the initiative in advancing climate strategy, but many are unable to provide convincing examples of board oversight. No bank was able to demonstrate that its board initiates action on biodiversity-related strategy (p.24). A growing number of banks have at least one board member with specific climate expertise, but board-level biodiversity expertise is lacking (p.26). Nearly all banks mandate sustainability-related training for board members and employees, but specific climate training is less common and biodiversity even less so (p.26). All but three banks incorporate climate-related Key Performance Indicators (KPIs) into board incentive structures, although they may not be sufficiently weighted to drive remuneration. Only two banks explicitly link biodiversity performance to executive remuneration (p.27). In all cases KPIs rarely address the most important components of banks' climate and biodiversity strategies (p.28).

Climate strategy I: climate-related risks and negative impact

Banks are not reflecting identified climate risks in their critical risk management processes. All banks now identify climate-related risks and run climate scenario analysis and stress testing (p.32). Banks often fail to take a holistic approach by not identifying climate-related biodiversity and social risks, such as from deforestation or the just transition (p.33). Climate is not yet adequately integrated into standard risk processes - most banks only require climate-related information (such as greenhouse gas emissions or transition plans) in a limited way when conducting due diligence on clients or transactions (p.33).

Banks are now more transparent in their financing to climate-sensitive sectors and financed emissions. But they aren't disclosing the true extent of risks and impacts. Almost all banks disclose aspects of the financing they provide to climate-sensitive sectors and their financed emissions, but the details of disclosures vary substantially (p.37). Importantly, most banks fail to cover the full scope of their financing activities and therefore underreport their transition risks and support to high-carbon sectors (p.35). Without sufficient detail in disclosures, it is impossible to determine whether banks are on track to achieve their targets (p.39).

With only a few years left to make or break 1.5C, Europe's largest banks' net-zero targets are still incomplete. Most banks have started setting sectoral targets, but only a few have announced interim overarching targets to ensure they are on track to deliver net-zero (p.39). The prevalence of emissions intensity metrics puts net-zero at risk if no additional guardrails are in place (p.41). The limited scope of financing activities included in targets often underestimates climate-related risks and impacts (p.41). Positively, more banks are using 1.5C-aligned reference pathways (p.41). However, obstacles to a wider and strict adoption of these scenarios remain, and more clarity is needed on banks' reliance on carbon offsets (p.43). Targets are key for setting the overall direction of travel, but are insufficient on their own. Robust sector policies are required to restrict financing to activities that are not aligned with the goals of the Paris Agreement.

Sector policies are the key lever banks have to influence the real economy. But banks' fossil fuel policies are not strong enough to align their financing with 1.5C pathways. The average fossil fuel policy scored 43 per cent and even on coal, the most polluting fossil fuel, the average score was only just over 50 per cent (p.46). All banks restrict financing to companies overexposed to thermal coal but, with two exceptions, policies are full of loopholes (p.48). Still, thermal coal is going out of fashion in Europe – over three quarters of Europe's largest banks have committed to phase out their financing and two thirds are restricting expansion of thermal coal (p.48). Oil & gas is now firmly in the spotlight too. Almost half of Europe's top 25 banks now have some form of asset-level restriction on new oil & gas of any type (p.53). However, only three banks restrict corporate finance to oil & gas expansion, meaning most policies fail to address the main source of financing (p.53). Just four banks require transition plans from their oil & gas clients by a set date, and only one prohibits expansion as part of this plan (p.54). Banks show progress on restricting asset finance to unconventional oil & gas activities, but need to ramp up ambition on corporate financing and ultimately phase out their exposure on an accelerated timeline (p.55).

Despite the climate impact of the biomass and shipping sectors, banks show little improvement since our last survey. Most banks with exposure to woody biomass still say it can be a sustainable form of energy subject to certain criteria. However, they fail to publish details of any restrictions on sustainability grounds (p.59). Shipping sector policies are still very limited, despite wide exposure. Some banks have committed to measure alignment of their portfolios with decarbonisation trajectories, but fall short of imposing restrictions or setting targets for their clients to achieve this (p.59).

Climate strategy II: climate-related opportunities and positive impact

Banks' green finance strategies leave room for greenwashing. Compared to climate risks, their approach is less advanced and even less focused on the long-term. We are concerned by the lack of scrutiny of green finance transactions and clear guardrails for exceptions granted to clients that would otherwise be excluded by banks' sector policies (p.64). European banks are ramping up green finance targets, but the level of ambition varies widely (p.65). More clarity is needed on what constitutes a robust green finance target. These targets tend to be much less standardised than decarbonisation targets and are therefore difficult to compare. In addition, banks provide insufficient detail about what financing activities are included in their green finance targets (p.67). Finally, there is no consensus on what counts as 'green'. These uncertainties leave room for greenwashing (p.39).

Biodiversity strategy

Banks are only just starting to identify biodiversity-related risks, opportunities, impacts, and dependencies. Very few integrate biodiversity into key risk management processes. Almost all the banks in our survey at least identify some biodiversity risks and opportunities, impacts, and dependencies (p.70). However, many of these are limited and lack detail and should make better use of the data and tools that are available to them (p.73). Additionally, the vast majority of banks still don't fully integrate biodiversity into their standard risk processes for assessing clients and transactions (p.71). Those that do require only very limited information.

Target setting aimed at protecting and restoring biodiversity is nearly non-existent. Very few of the banks surveyed have set any formal targets relating to biodiversity, particularly for managing risks (p.75)

Integration of biodiversity into sector policies is limited and insufficient to address the negative impacts of banks' financing decisions. Banks vary widely in how they incorporate biodiversity into sector policies (p.75). Policies on areas of global biodiversity importance are limited and should go further – most apply only to project finance and fail to cover many areas officially recognised as critical for global biodiversity (p.76). Many banks acknowledge the principle of Free, Prior, and Informed Consent for Indigenous peoples and affected communities – who are vital stewards of the world's biodiversity – but only one includes this as a general requirement across all sectors (p.79). Not one of Europe's top 25 banks has made a timebound commitment to zero deforestation across its entire business and existing requirements on deforestation are piecemeal (p.79). Banks are focusing most on integrating biodiversity into agriculture, forestry, and fisheries policies more than energy and mining. Within agriculture and forestry, they neglect key soft commodities, such as beef, and rely heavily on clients signing up to external certification schemes to ensure biodiversity preservation (p.81).

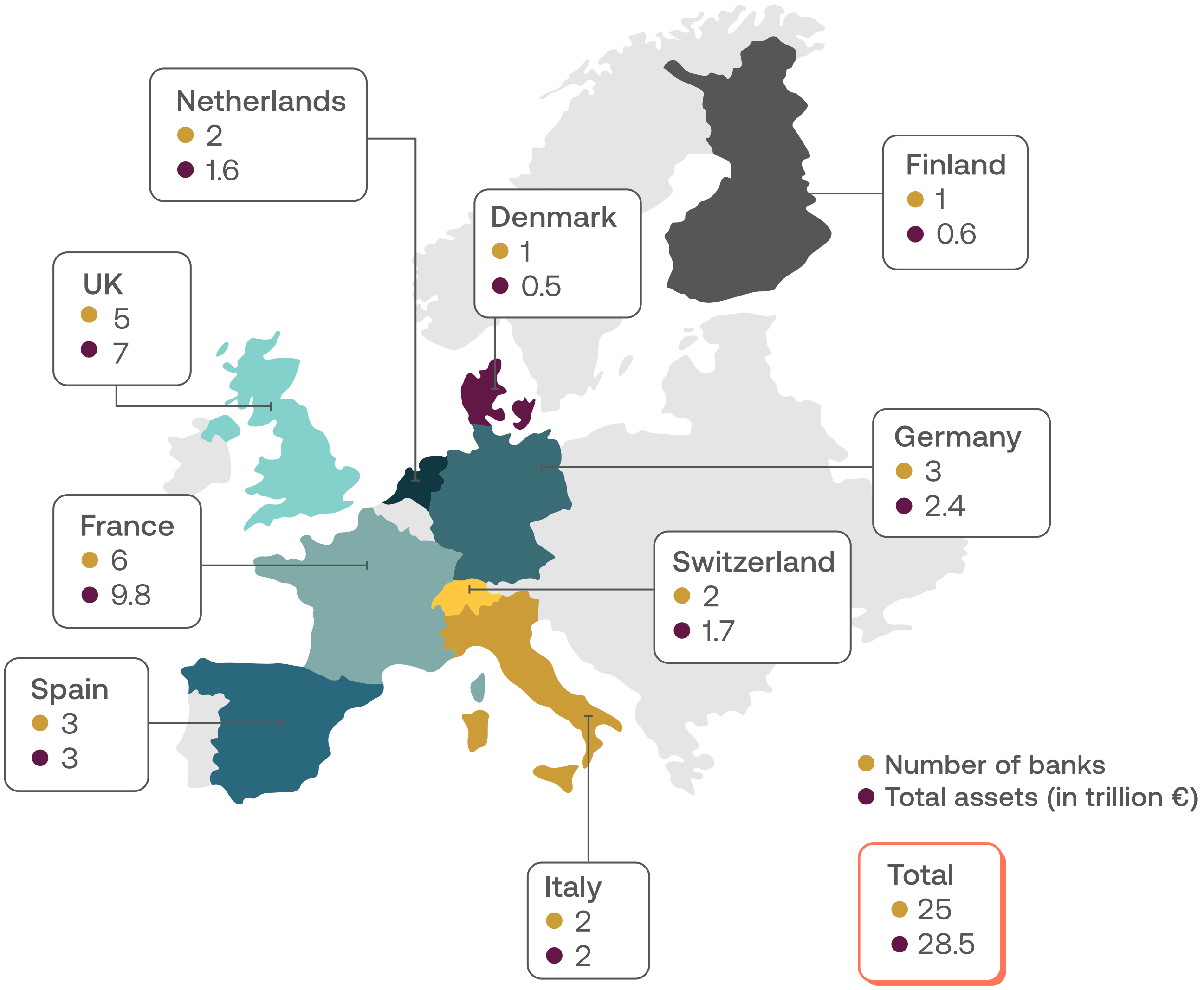
Policy engagement and collaboration with stakeholders

Banks' policy engagement processes often lack transparency, and their consultations with stakeholders rarely appear to result in meaningful change. Banks are not transparent about how they lobby governments on climate and biodiversity issues. When they do reveal their practices, disclosure is often patchy (p.85). However, banks tend to participate in several industry collaborative initiatives and consult a wide range of stakeholders – particularly NGOs and industry experts – on their sustainability strategy. Even so, very few banks could demonstrate that these consultations materially affect strategy updates (p.87).

Recommendations

Delayed action on climate and biodiversity will jeopardise any opportunities that European banks are hoping to grasp through their scaling up of green finance. We present recommendations on how banks can bring their approach in line with, or beyond, leading practice (p.91). Banks and their investors must now ensure that all environmental commitments translate into robust action internally that prioritises people and planet, not clients.

Figure 1: The geographic distribution of banks in this survey, including asset concentration (as a proxy for size)



Introduction

Introduction

It will not be possible to address the interconnected sustainability crises that we face without action in the banking sector.

Banks are the lifeblood of the global economy – the financing decisions made by banks today will influence the world we live in tomorrow. They are uniquely placed to influence companies, by tying finance provision to sustainable outcomes. So far, however, the European banking sector has failed to adequately account for its impact on people and planet, much less take a driving seat in creating a sustainable economy.

So far, most scrutiny of the banking sector's sustainability credentials has focused on the climate crisis – with good reason.

The world's largest banks poured US$4.6 trillion into the fossil fuel industry in the six years since the Paris Agreement was signed[i]. The banks covered in this survey financed companies with upstream oil & gas expansion plans to the tune of over US$400 billion since 2016 – and show no signs of stopping[ii]. The European Central Bank's supervisory stress test found that most banks do not have robust frameworks in place to manage climate-related financial risk[iii]. Meanwhile, the UN's Intergovernmental Panel on Climate Change (IPCC) finds that annual financing needed to contain global temperature rise to 1.5C is around USD 2.4 trillion for the energy sector alone, and annual financing needed for adaptation could be up to USD 300 billion[iv]. Much of this will be facilitated by banks.

Expectations on how banks approach climate change have increased enormously since our last survey. Banks have made some efforts to respond.

When we published our last survey, in 2020, not even one of Europe's largest banks had committed to net-zero by 2050. Barclays became one of the first global banks to set this ambition, in response to a shareholder resolution that we co-filed[v]. Now, every single bank we assess has this commitment. Investors have moved beyond asking for climate-related disclosures and now regularly challenge the content of European banks' net-zero plans[vi]. And regulators have switched from 'assessing' climate risks to actively supervising against them[vii]. Banks have responded with a flurry of new announcements and by setting up voluntary initiatives such as the Net-Zero Banking Alliance (NZBA), which now covers 40 per cent of global banking assets[viii].

But as the path to net-zero gains clarity, the pace of change is becoming a clear area of conflict.

What net-zero by 2050 means for banks has never been clearer. There is broad consensus that no new coal[ix] or oil & gas[x] development is needed if we are to stay within 1.5C and set out many other explicit milestones. But banks are resisting implementing these findings[xi]; some are pushing back on NZBA criteria that would require them to stop financing new fossil fuel assets[xii]. However, other banks have publicly reiterated their commitment to tightening fossil fuel policies, in the context of an energy crisis where the only route out is a transition to a society powered by renewables[xiii].

Europe's largest banks have a choice: they can proactively drive the transition to net-zero or be dragged along in the wake. They must also face up to the fact that they are largely unprepared to face the third most severe global risk in the next decade: biodiversity loss.

According to the World Economic Forum, biodiversity loss is the third most severe risk on a global scale over the next decade, after climate action failure and extreme weather[xiv]. The financial risk is undeniable: US$44 trillion of economic value – more than half of global GDP – is moderately or highly dependent on nature and its services, and therefore exposed to risks from nature loss[xv].

The banking sector must be held accountable for its role in biodiversity destruction.

Banks are exposed to financial risks from biodiversity loss, but they are also driving it. In 2019, 50 global banks provided loans and underwriting of more than US$2.6 trillion in primary sectors driving biodiversity destruction[xvi]. Civil society is increasingly calling on banks to disclose, assess, and reduce their impact on nature and halt financing for the destruction of life-sustaining ecosystems.

European lawmakers, central banks, and investors have already confirmed that biodiversity risks fall within their mandates.

There is ongoing discussion among EU lawmakers on whether financial institutions should be covered by a law that would ban the sale of agricultural products linked to forest destruction, to prevent them investing in projects linked to deforestation[xvii]. The European, French, and Dutch central banks have recognised the threat to the economy and the financial system and called for action to manage biodiversity risks[xviii]. Many investors also share this view: in 2021, we coordinated a letter with 115 investors managing US$4.2 trillion in assets which encouraged banks to make commitments to protect and restore biodiversity ahead of the UN COP15 biodiversity negotiations[xix].

COP15 is due to alter governments' expectations of banks' impacts and dependencies on biodiversity.

This year, governments will adopt a new global agreement on nature: the Convention on Biological Diversity post-2020 Global Biodiversity Framework. Through Target 15, banks will more than likely be required to monitor, assess, and disclose their impacts and dependencies on biodiversity[xx]. Although the specific wording of the Framework is yet to be agreed, we expect it to be a catalyst for substantial action – and banks to be vital actors in its implementation.

It is in this context that we release the 2022 edition of ShareAction's biennial banking survey.

The world has changed since 2020, as has our knowledge of what is required to address the environmental challenges we face. In this report, we provide an update on how Europe's 25 largest banks are addressing climate-related risks, impacts and opportunities, reflecting the increased expectations investors now have on banks' climate strategies. Our questionnaire also includes biodiversity for the first time. We anticipate that biodiversity expectations will evolve and ramp up over time, as they have with climate. We urge banks, investors, policy makers, and individuals to use the findings in this report to drive up ambition in the banking sector.

How to use this report

We designed this report as a standalone reference piece for all stakeholders interested in ramping up environmental standards in the banking sector. While it exclusively focuses on European banks, our standards and recommendations are relevant globally.

Banks can use this report to benchmark their individual performance against peers and discover areas for improvement. Leading practice examples set the minimum standard that banks should aim for.

Investors can use the information and recommendations in this report to engage with the banks they hold in their portfolios, to challenge areas of poor performance and push for action in line with, or above, leading practice.

Policy makers and regulators can use this report to identify areas where voluntary action in the banking sector is moving too slowly to address the environmental crises we face and prioritise appropriate policy action.

Civil society organisations can use the information in this report to identify areas where European banks require further stakeholder scrutiny and inform their own engagement with banks.

Leading practice examples

Throughout this report, we highlight examples of 'leading practice'. This refers to the most ambitious commitments by banks on specific issues to date. We believe that sharing clear examples of leading practice can promote higher standards among banks. However, being featured for leading practice in one area does not mean that any bank can demonstrate environmental leadership generally. Indeed, there is room for progress even from banks identified as performing better than their peers. Furthermore, leading practice is often far from 'best practice', which refers to the desired end goal. Best practice is itself a moving target as science and political ambition evolve. The leading practice examples cited in this report should not be interpreted as what is ultimately needed from banks in the coming years to address the systemic environmental risks we face. That is a far larger task

General findings

General findings

This section reviews the main overarching findings from our survey.

Table 2: Heatmap of scores for the banks across the different sections of our survey

Colours correspond to those shown in methodology, see Figure 32

Heat-map key: section % scores

- 87.5 > 100
- 75 > 87.5
- 62.5 > 75
- 50 > 62.5
- 37.5 >50
- 25 > 37.5
- 12.5 > 25
- 0 > 12.5

Rank	Bank	Climate Governance	Climate Strategy: Risks	Climate Strategy: Opportunities	Climate Engagement & Collaboration	Biodiversity Governance	Biodiversity Strategy	Biodiversity Engagement & Collaboration
1	BNP Paribas							
2	Societe Generale							
3	Crédit Agricole							
3	ING							
5	Barclays							
5	Lloyds Banking Group							
7	Santander							
8	HSBC							
9	La Banque Postale							
9	Rabobank							
9	BPCE							

Colours correspond to those shown in methodology, see Figure 32

Heat-map key: section % scores

- 87.5 > 100
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- 62.5 > 75
- 50 > 62.5
- 37.5 >50
- 25 > 37.5
- 12.5 > 25
- 0 > 12.5

Rank	Bank	Climate Governance	Climate Strategy: Risks	Climate Strategy: Opportunities	Climate Engagement & Collaboration	Biodiversity Governance	Biodiversity Strategy	Biodiversity Engagement & Collaboration
9	NatWest							
13	Credit Suisse							
14	CaixaBank							
14	UniCredit							
16	Intesa Sanpaolo							
16	Deutsche Bank							
18	Standard Chartered							
19	UBS							
20	Nordea							
20	Crédit Mutuel							
20	BBVA							
23	Commerzbank							
23	Danske Bank							
25	DZ Bank							

Finding 1: Banks' overall performance on both climate change and biodiversity remains insufficient.

The average overall score achieved in the survey is just 43.7 per cent. Twenty-one of the 25 banks – including Credit Suisse, Deutsche Bank, and HSBC – achieved less than half of the available points. No single bank demonstrates 'leading practice' across all assessed areas (Table 1). Nevertheless, some banks demonstrate leading practice in specific areas; these are highlighted throughout this report. Many banks' scores were closely clustered in the middle, with the 15 banks from third down to seventeenth place all scoring between 42 and 51 per cent, although the top two and bottom eight banks were a little more spread out (Table 1).

The average score for the climate change section overall was 47.9 per cent. This demonstrates that banks are not moving fast enough to keep up with what is needed to align with the goals of the Paris Agreement.

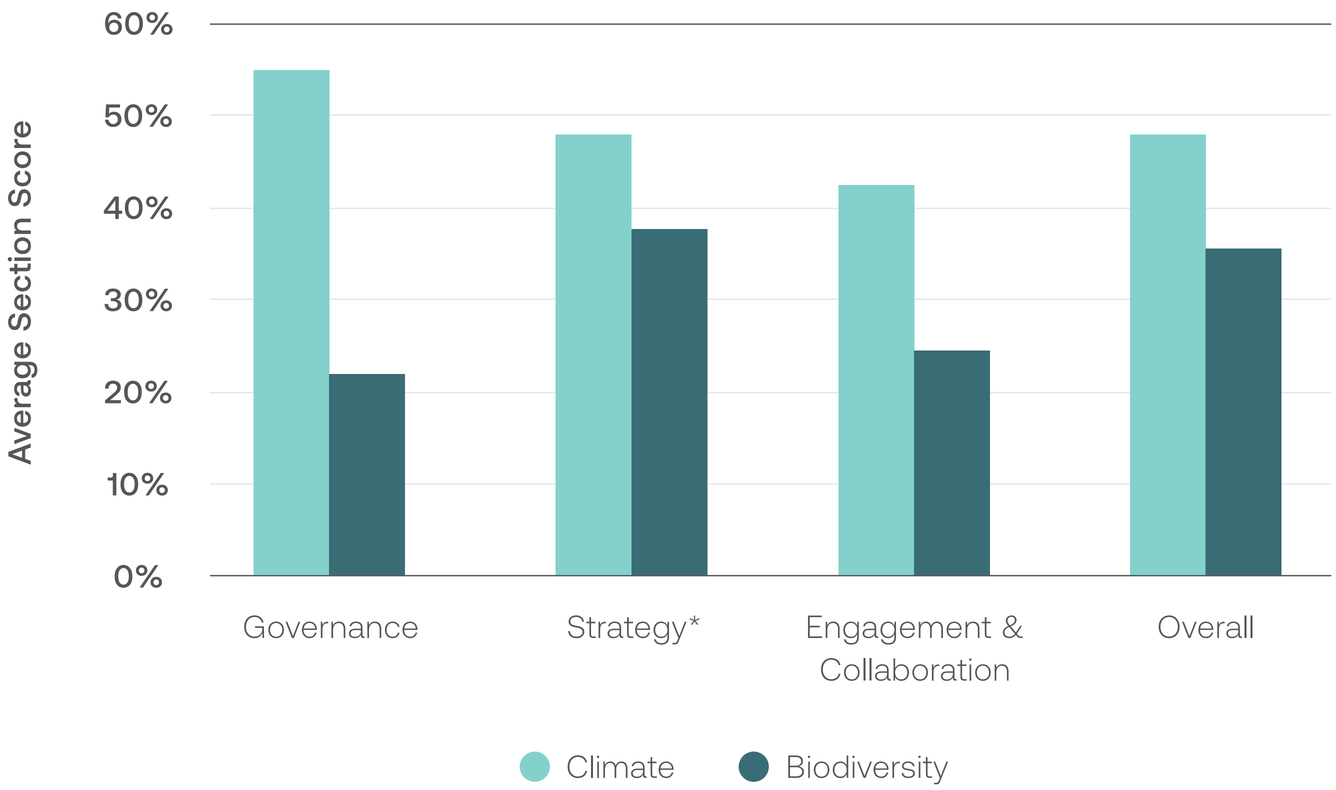
On biodiversity, included for the first time in this year's survey, banks achieved an average score of 35.2 per cent, with a much wider range of scores than for the climate section. There were some particularly low scores on biodiversity, with six banks scoring 20 per cent or less, and three scoring less than 15 per cent.

As the climate and biodiversity crises become ever more urgent, banks need to act rapidly and improve their climate and biodiversity performance to meet internationally agreed environmental goals.

Finding 2: Banks are performing significantly better on climate issues than biodiversity.

Eighteen banks scored higher overall on climate issues than biodiversity issues – eight doing so by over 20 percentage points (Table 1), compared to much smaller margins where banks had higher scores on biodiversity than climate. La Banque Postale and Crédit Mutuel's performances show the greatest discrepancies in thematic scores. La Banque Postale received the second highest mark for the climate section (59 per cent) but was only twentieth for biodiversity (20 per cent). Crédit Mutuel was the worst performer on biodiversity with just 12 per cent, but scored four times higher (48 per cent) on climate. It is a matter of concern that best practice on biodiversity is considerably less well understood than for climate. The questions in our survey were necessarily less detailed for biodiversity and therefore the progress needed by banks on this topic is likely to be even greater than our scores imply.

Figure 2: Banks' average scores are higher for climate than biodiversity in each section of the survey



* The score for climate strategy is a weighted average of the scores for climate risks and climate opportunities.

The biggest difference between scores for the two themes was seen in the governance sections. Every bank scored lower for biodiversity governance (Figure 2) than for climate governance, many by substantial margins, and the average scores were 21 per cent and 53 per cent respectively. BNP Paribas and Crédit Agricole led the pack on biodiversity governance, due to their specific board expertise and biodiversity-related KPIs for board members and other staff.

Banks' average scores for the biodiversity and climate strategy sections were 38 per cent and 47 per cent respectively. In particular, banks' policies and targets are much weaker and less developed for biodiversity than for climate. For example, all banks in our survey have committed to align all their activities with net-zero by 2050 at the latest, and 17 have set specific interim decarbonisation targets for fossil fuels, whereas only three have set any targets to manage biodiversity risks and these are comparatively very basic (Finding 44).

Banks that are making more progress on climate engagement and collaboration are generally better on biodiversity engagement too. While there was still a performance gap – averaging 42 per cent and 24 per cent respectively – banks' individual scores for these two sections were strongly correlated (Appendix A.1). This suggests that, compared with other sections, banks find it easier to transfer their knowledge across themes on engagement and collaboration, and to make this the first step in improving their approach to biodiversity.

Finding 3: Better governance on environmental issues doesn't necessarily indicate banks are better at managing environmental risks.

We found no correlation between performance on climate governance and performance in either the climate opportunities or risk management sections (Appendix A.1). It is possible that banks have improved their governance first and stronger policies will follow. However, it could also be the case that changes in governance are not leading to the policies needed to affect change. This finding highlights the need for more robust standards for climate and biodiversity governance, and that banks must translate this into stronger policies and actions.

In contrast to climate, better performance in the biodiversity governance section did show moderate correlation with better performance on biodiversity strategy and engagement[1]. As biodiversity policies are developed further, banks must learn from the issues observed with climate governance and ensure policies are comprehensive and substantial.

Finding 4: Banks cite the quality and availability of data, evolving methodologies, and a lack of industry standards and frameworks, as the main obstacles to progress.

All respondents but one cited the lack of availability and the variable quality and reliability of data as the most common obstacles to understanding their clients' impacts and managing climate risks. Specific data issues referred to include scope 3 greenhouse gas emissions in general, scope 1 and 2 emissions data for smaller firms in particular, and supply chain details and transparency.

Half of the respondents said that the fact that methodologies are still evolving is a major obstacle to progress. How to identify and integrate climate risks within assessments of financial risks was cited as a specific challenge. For example, Lloyds Banking Group states:

1 To two decimal places, the Pearson correlation coefficient between banks' scores for the climate governance and climate risks was 0.10, between climate governance and climate opportunities was -0.02, between biodiversity governance and biodiversity strategy was 0.53.

“climate scenarios are typically modelled to a significantly longer time horizon than traditional macroeconomic scenarios […]. However, the longer the time horizon, the greater the uncertainty. This leads to increased difficulty in reliably assessing the risk, especially when combined with finance projections that can accompany scenario analysis” and “climate modelling is very complex and its application in financial risk assessment is in its infancy, for example where some effects are not captured.”

On biodiversity, the most common obstacles cited were the complexity of developing metrics that quantify biodiversity impacts and are appropriate to local or global contexts, and the lack of well-established methodologies and standardised frameworks to understand these metrics. A robust Global Biodiversity Framework should guide the development of suitable metrics. The Taskforce on Nature-related Financial Disclosures (TNFD) is due to be launched in 2023 and includes proposed architecture for metrics and targets. While several banks are involved with the TNFD forum and have mentioned that they intend to assess their financing against the pilot process, it remains in development, and none have yet committed to report the results of their assessment.

The climate and biodiversity crises are too urgent and too serious for banks not to act now. While the available data will continue to improve, there are useful tools already available to banks that they aren’t using[xxi]. As banks demonstrate throughout our survey, it is possible to act now – even though no one bank is acting on every area.

Climate and biodiversity governance

Climate and biodiversity governance

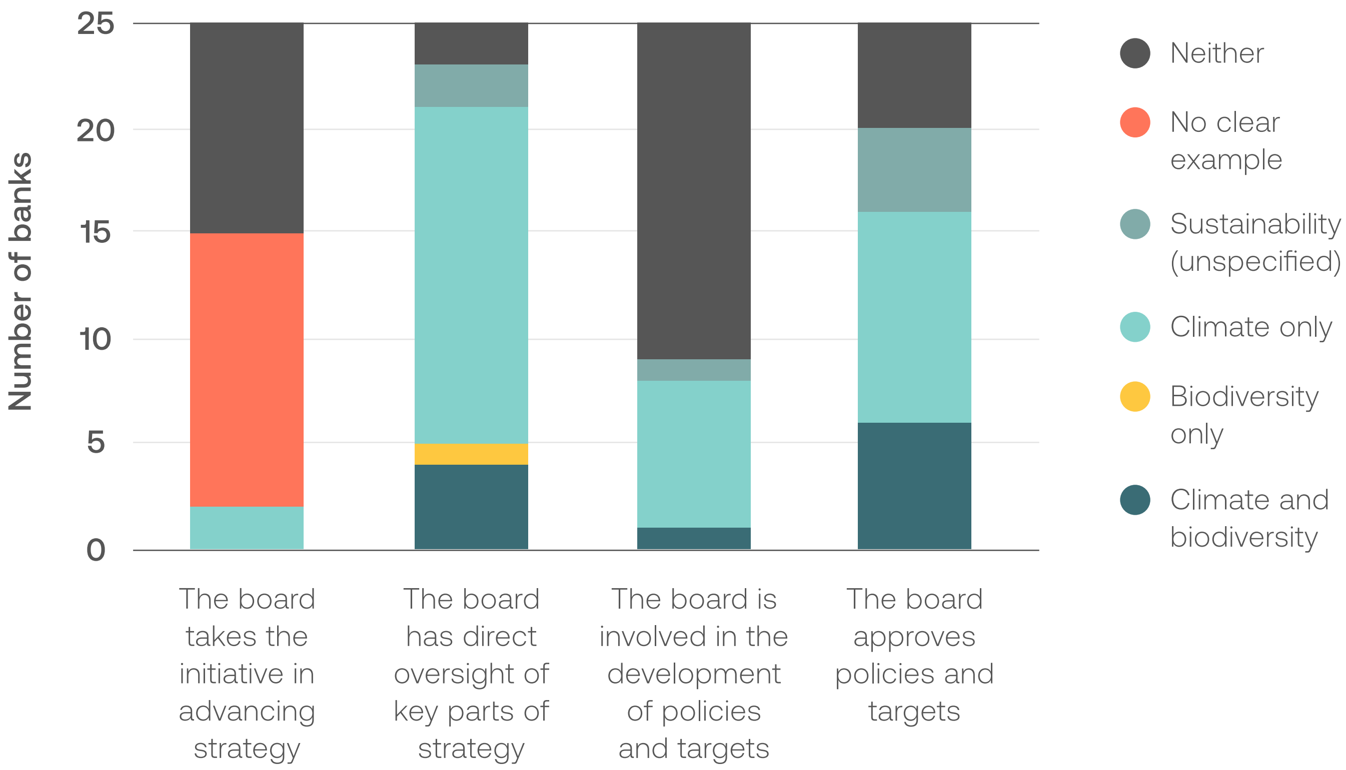
This section assesses the surveyed banks' performance on governance processes related to climate and biodiversity. We analyse the extent of banks' board oversight, as well as the level of internal expertise and training on these issues. We also look at banks' processes for incorporating climate and biodiversity performance into executive and employee remuneration structures.

Finding 5: Banks are not always able to provide concrete examples of board oversight on climate and biodiversity issues.

There is clear room for improvement across all board governance areas; however, there is a clear gap in practices between climate and biodiversity (Figure 3). Overall, two thirds of banks were able to provide concrete evidence for some board involvement in climate-related decision-making, while only a quarter could do the same for biodiversity. Seven banks volunteered that their boards do not currently oversee biodiversity-related issues in any capacity, whereas no banks were willing to indicate this for climate.

Fifteen banks claimed their boards take the initiative in advancing climate-related strategy (equivalent to 60 per cent, compared to the 25 per cent in the previous survey[xxii] that claimed the board is a 'driving force in advancing climate-related concerns within the organisation' – Figure 4). However, only two banks – Barclays and NatWest – could describe specific actions initiated by their boards to advance climate strategy. No bank was able to provide a clear example of the board initiating action on biodiversity-related strategy.

Figure 3: There is a clear gap in governance practices between climate and biodiversity.



Leading practice example: NatWest on transparency in governance

NatWest provides clear, publicly available, examples of how various governance committees have discussed salient climate-related issues. The bank describes the topics that were discussed, by which committees, in which month[xxiii]. This is a model for transparency on governance matters, within and beyond sustainability.

NatWest also provides clear data on board expertise and training: it publishes evidence on its board skills assessment process – which includes self-assessment and objective assessment. It also publishes information on training content and practice for board members and other staff. Though it is not unique in this, and its governance of biodiversity issues is not nearly as strong, NatWest's disclosures relating to board oversight are particularly straightforward and easy to follow, and they provide a useful framework that other banks may wish to emulate.

Finding 6: Board members' expertise on climate issues is growing, but biodiversity expertise is still missing.

In the previous edition of this report, we recommended that all banks ensure at least one board member has expertise on climate-related issues[xxiv]. It is positive to see that 11 banks now report having at least one board member with such expertise, up from five in the previous survey (Figure 4). A further eight banks indicate their boards have at least one member with broader environmental, social and governance (ESG) or sustainability expertise.

Only three banks could identify board members with specific biodiversity-related experience. Six banks were able to share a concrete process for testing that their board's composition allows for an informed debate on biodiversity-related issues. This suggests that, despite increasing recognition that the financial sector needs to act on biodiversity loss[xxv], this is not yet reflected in the skillsets and backgrounds of board members of European banks. Most banks do not have plans to change this in the short term.

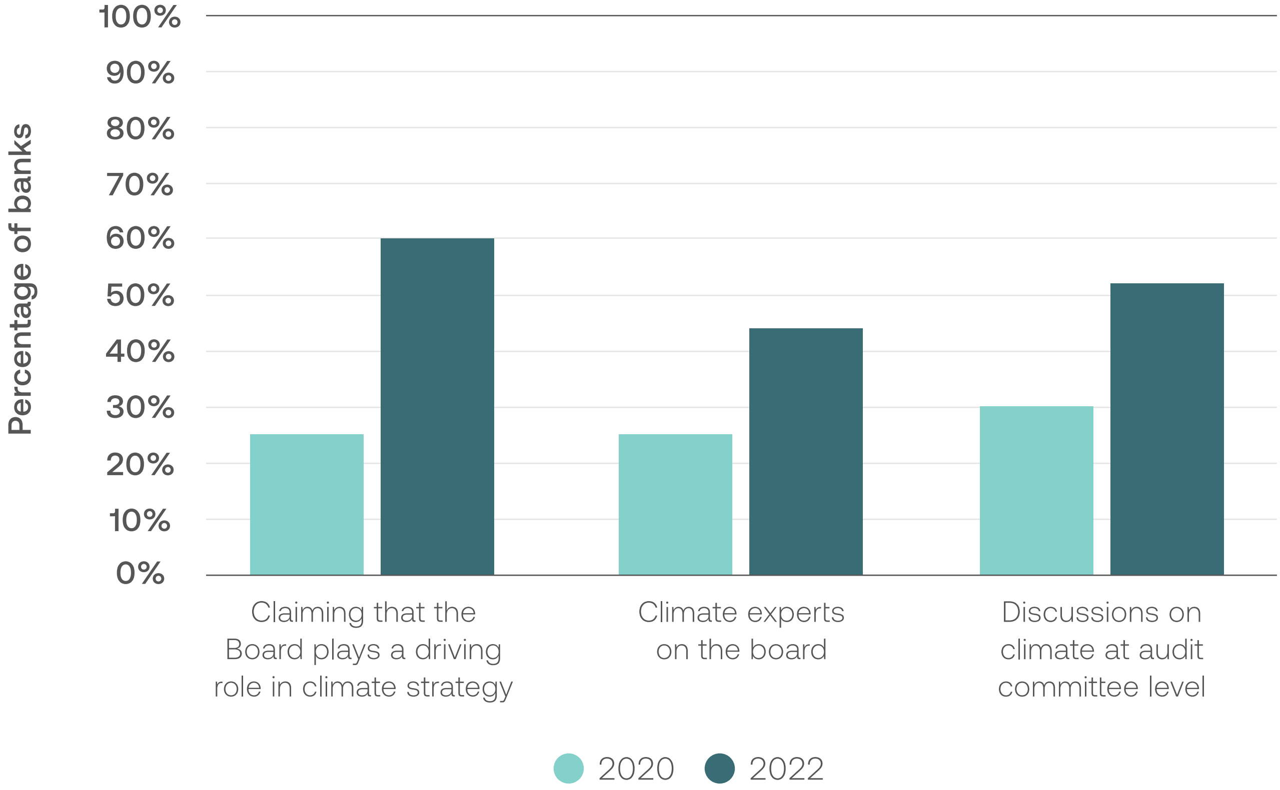
Finding 7: Almost all banks require board members and employees to undergo climate-related training, but mandatory biodiversity training is lacking.

Apart from Danske Bank, all banks reported that their board members receive some form of mandatory climate or sustainability training. Almost half of the banks (11 out of 25) offer regular training sessions to board members throughout their term of office on climate issues. However, only two banks provide explicitly biodiversity-related training to their boards.

The majority of banks (19 out of 25) now mandate sustainability training for at least some of their employees. For at least four other banks, this is available optionally. For 12 banks, the mandated training explicitly relates to climate change. However, most banks declined to give details on the proportion of employees trained, or the number of hours of training they undertook. It is therefore difficult to assess the impact of their training programmes. This finding does, however, reveal that climate change is a priority area for banks.

Once again, biodiversity falls further behind. Only three banks provide biodiversity training to their employees (although in some cases, this fell under broader ESG, corporate social responsibility or sustainability training).

Figure 4: Banks' climate governance performance has improved in several key areas since 2020



Finding 8: Banks are increasingly linking remuneration to climate performance, but the extent to which incentives drive remuneration is unclear.

Twenty-two of the 25 banks now link climate performance to executive remuneration, whereas 19 link it to employee remuneration (Figure 5). However, for the latter, it is not always clear what proportion of employees these KPIs cover. Moreover, as outlined in Finding 9, most 'financing KPIs' fail to focus on the most critical decarbonisation levers.

It is still difficult to determine how much importance banks place on climate-related incentives. Often, climate-related KPIs are either not allocated a specific weighting or they are grouped together with other ESG or non-financial criteria. For at least a third of banks in the survey, other non-financial KPIs (for example, related to employees, customers, social impact, or digitalisation) have more weight than climate, and banks may not disclose clear weightings for the criteria in their remuneration structures.

Figure 5: Banks are more likely to translate climate-related KPIs than biodiversity-related KPIs into remuneration structures for executives

Only nine banks translate biodiversity objectives into their executive remuneration structures; of these, only two (BNP Paribas and Crédit Agricole) have an explicit biodiversity-related KPI, as opposed to a broader ESG or corporate social responsibility objective that may include biodiversity. Fourteen banks do not link biodiversity performance to remuneration at all, while only one bank (Commerzbank) does not link climate performance to executive or employee remuneration.

Finding 9: Climate-related incentives are not always measurable or linked to the most critical decarbonisation levers.

Eighteen banks have defined at least one measurable climate-related KPI, which is important to assess progress. However, only nine banks explicitly link remuneration to portfolio decarbonisation targets and sector policies – the most critical pillars of banks' climate strategies.

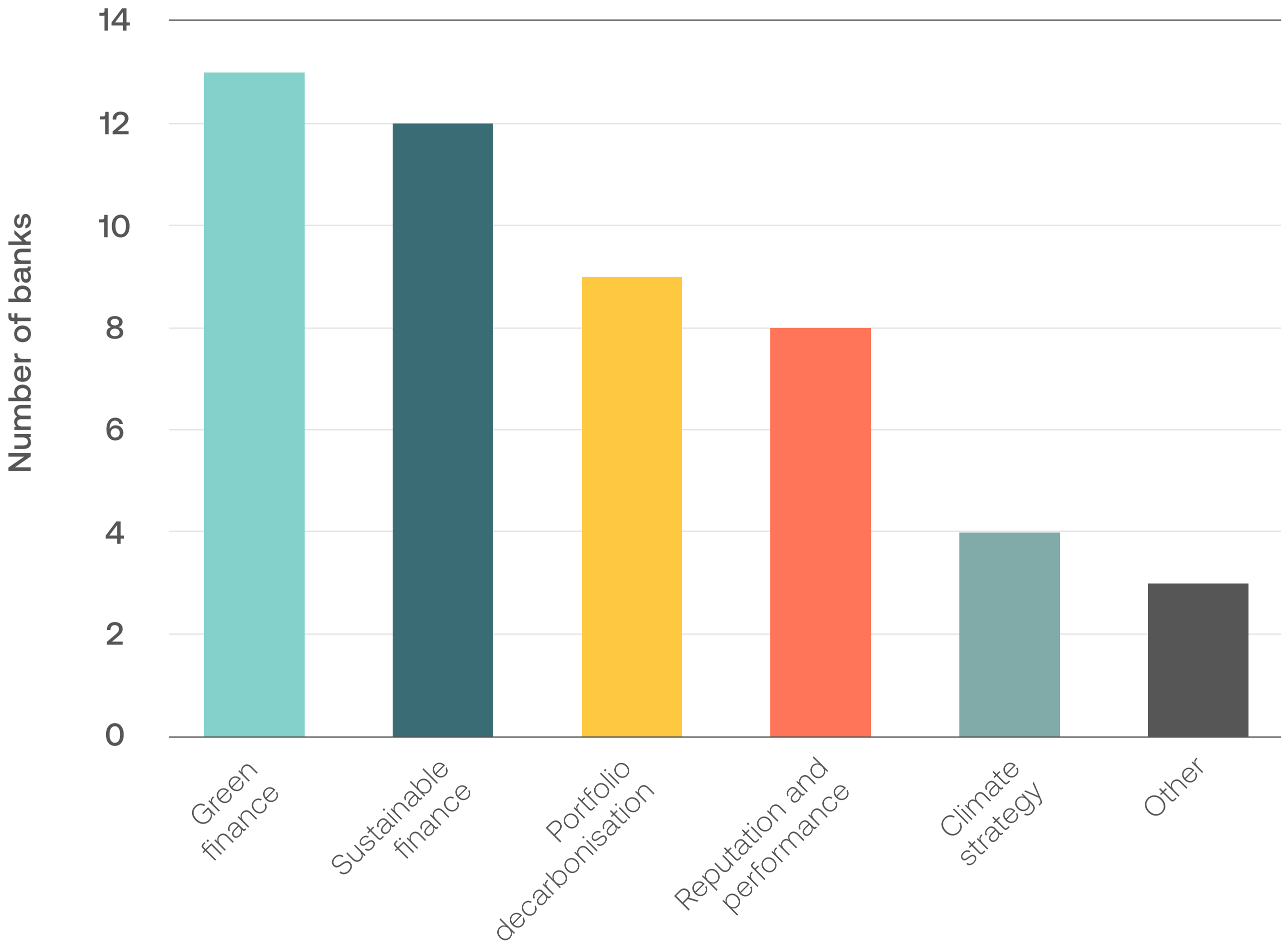
The most common remuneration-linked climate KPIs are related to green and sustainable financing (Figure 6). Green financing KPIs tend to be more specific – for instance, banks may set financing targets for green, transition or circular economy loans, bonds, or mortgages;

as well as targets for the financing of renewable energy or electric vehicles. On the other hand, financing targets for 'sustainable' loans, bonds, or mortgages do not often specify their purpose and may sometimes have social objectives as well as climate ones. Neither green nor sustainable financing targets are very transparent (see Chapter 4), which casts doubt on the level of ambition of such KPIs.

Additionally, other indicators are often vague or discretionary: KPIs such as 'ESG ratings performance' or 'net-zero strategy' make it difficult to assess what drives their completion – and thus, their real-world impact.

To be credible, incentives should be quantifiable, transparent, and linked to core components of climate and biodiversity strategies. This includes the development and implementation of robust policies (Chapters 3.4 and 5.3).

Figure 6: Banks set KPIs related to green and sustainable financing more often than other climate topics



Leading practice example: Crédit Agricole's measurable environmental KPIs and incentives

Non-economic criteria make up 40 per cent[2] of Crédit Agricole's variable compensation criteria for the chief executive officer (CEO) and the deputy CEO. One of the main pillars of this is the 'Societal Project,' which represents eight per cent for the CEO and six per cent for the Deputy CEO. The Societal Project is a 10-commitment programme plan, which includes three commitments on "taking action for the climate and transition to a low-carbon economy" and three commitments that seek to "accomplish agricultural and agri-food transitions". In the former category, commitments include a total halt in the financing of any oil & gas projects in the Arctic; a 20 per cent fall in Crédit Agricole's corporate and investment banking entity's exposure to oil extraction by 2025; and mobilisation for renewable energy, among others. In the latter category, the measurable commitment is the launch of a pan-European private equity and debt fund with a target of €1 billion to support the evolution of techniques towards a competitive and sustainable agri-food system[xxvi].

2 This is higher than many other banks' weighting of non-financial criteria, which tends to range between 5 and 30 per cent.

Climate strategy I

Climate strategy I – climate-related risks and negative impacts

3.1 Identification and integration

This section assesses the surveyed banks' strategies to identify climate-related risks through a 'double materiality' lens – looking both at risks that may affect the banks' activities and risks that the banks' activities pose to the climate. In addition, we assess the progress banks have made in integrating climate-related metrics, tools, and information into their risk assessment process when evaluating transactions, and on entering or renewing client relationships[3].

Finding 10: All surveyed banks identify climate risk; however, they need to improve the quality and depth of their risk identification processes.

All the surveyed banks report that they identify climate-related risks. This is a clear increase from our 2020 report, when only 70 per cent of banks stated that they integrate climate-related risks into traditional types of risk assessment[xxvii]. Despite this, there are several ways in which banks' risk identification continues to be substandard.

Only 16 of the 25 banks surveyed base their definition of materiality on ***both*** the effect of climate-related risks on the bank's returns and risk profile ***and*** the impact of the bank's activities on the climate. All banks should be using a double materiality definition of similar to, for example, UBS's. UBS defines materiality as "(1) how UBS can best contribute to the transition to a net-zero world; and (2) how climate change can impact UBS and its strategy, business planning and processes"[xxviii].

Moreover, banks don't always consider long-term climate risks. Sixteen banks claim to identify climate-related risks over the short, medium, and long term[4], but three of them do not disclose their definition of these timeframes in years. Three other banks claim to identify risks, but fail to specify whether these are short-, medium- and/or long-term risks. Six banks still only identify risks over the short term (one to ten years); of these, three define long-term risks as risks that will happen in four years (BPCE[xxix]) or five years (Deutsche Bank[xxx]).

3 This information should be included for all clients and transactions. However, some banks cited doing so only for transactions within an ESG framework, such as green bonds or sustainability-linked loans. Since this should be done as a bare minimum, they aren't scored or included in our analysis.

4 We define the short term as one to 10 years; the medium term, 10–20 years; and the long term, 20–30 years.

All 25 banks now report conducting climate scenario analyses and climate risk stress-testing, compared to 85 per cent that conducted scenario analyses in 2020[xxxi]. Banks use a range of scenarios: 15 banks use scenarios holding global warming at 1.5C compared to pre-industrial levels, while 21 use scenarios leading to a temperature outcome above 1.5C. This shows what regulation can achieve: the 2022 European Central Bank annual stress test was specifically focused on evaluating banks' capabilities to deal with climate risks[xxxii].

Finding 11: Most banks fail to integrate key social and environmental considerations in their climate-related risk identification.

Only eight of the surveyed banks consider the just transition[5][xxxiii] in their climate-related risk identification. This entails considering the human and labour rights of those affected by climate change as a result of the projects or companies they finance, or the rights of those working for financed projects or companies.

Only nine banks consider emissions related to deforestation and land use change in their climate-related risk identification. This is insufficient, seeing as deforestation and ecosystem destruction account for at least 11 per cent of greenhouse gas emissions[xxxiv], as well as driving global species loss and negatively affecting local communities. Banks need to include deforestation and land use change more comprehensively in their calculations of climate risk.

Finding 12: Banks need to better integrate climate-related information into decisions about initiating or continuing business.

Given the urgent need to reduce emissions, and the wide availability of data at least on scope 1 and 2 greenhouse gas emissions[6], banks should demand this information as a full requirement prior to doing business. Twelve of the surveyed banks require the disclosure of scope 1 and 2 greenhouse gas emissions data to enter or renew a client relationship or execute a transaction. Only five of these also require the disclosure of scope 3 emissions data for sectors that are particularly relevant for climate change (Figure 7).

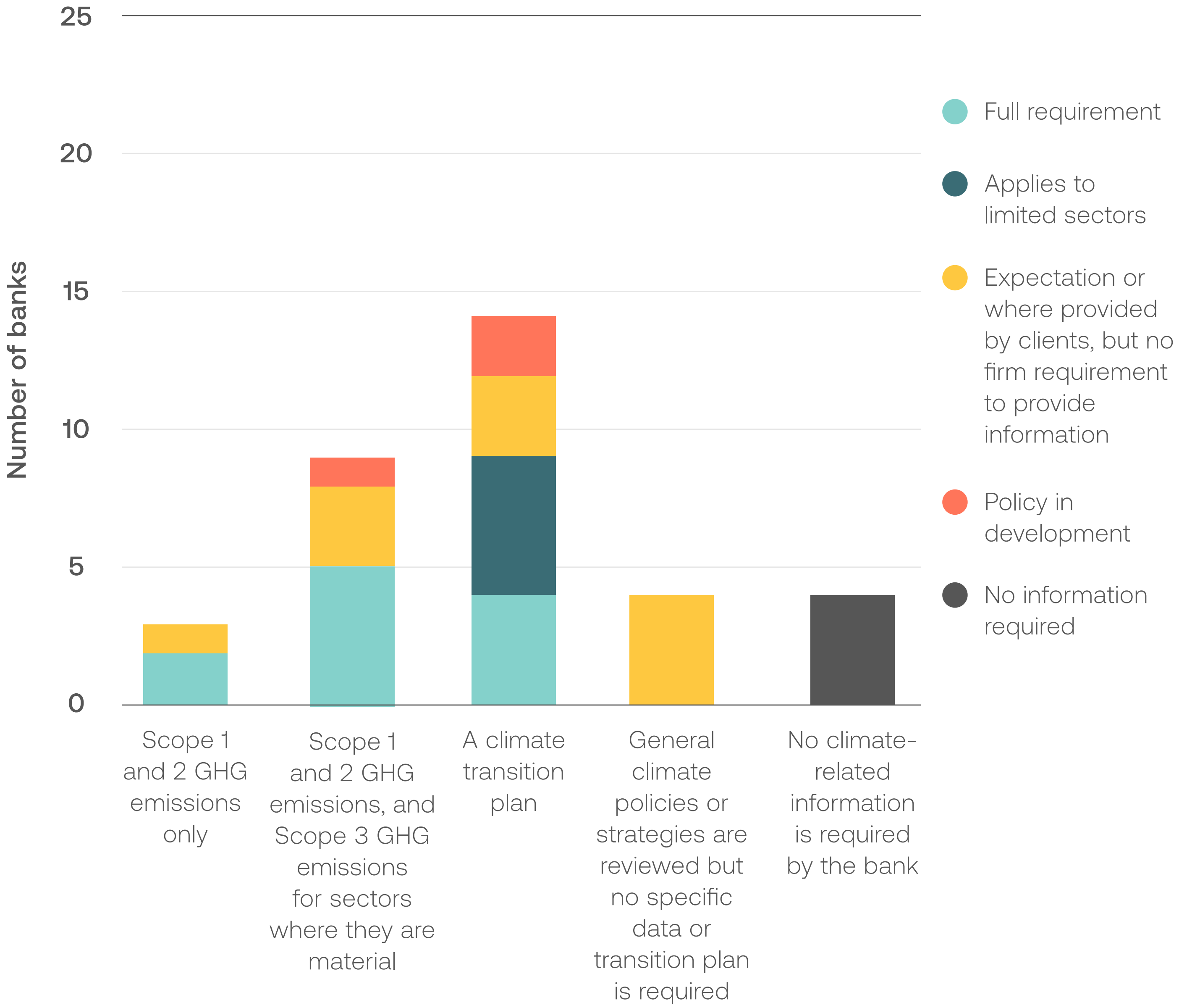
The size or style of the bank is not an excuse for failing to request scope 1 and 2 data: we found examples of both good and bad practice across the range of banks in our survey.

5 A just transition ensures that climate action is designed and delivered so that it improves social justice, considering the rights and interests of workers, communities, and consumers.

6 Scope 1 emissions are the emissions directly generated by the company. Scope 2 emissions include indirect emissions purchased by the company, such as electricity to power buildings. Scope 3 emissions include all upstream and downstream emissions that a company is indirectly responsible for through its activities.

Fourteen banks require clients in climate-sensitive sectors to provide climate transition plans, although only three do so without exceptions[7]. Four banks stated that they review their clients' broader climate strategies, but do not require specific emissions data or the client to provide a transition plan in order to transact (Figure 7).

Figure 7: Only a small number of banks require full climate-related information when entering or renewing a relationship, or executing or renewing transactions in climate-sensitive sectors



7 By an exception, we mean here either that banks only require transition plans for specific sectors – typically only for the coal and/or unconventional oil & gas sectors - or banks expect clients to provide transition plans but do not require them to do so.

Finally, very few banks use climate metrics to evaluate transactions. For example, none uses an internal carbon price to assess transactions, and only one is in the process of introducing this. This could become a problem if regulators implement a carbon price and banks consequently face higher capital requirements. Three banks – BPCE, Crédit Agricole and La Banque Postale – have developed tools that affect capital allocation by weighting transactions according to their environmental impact. For example, BPCE's Green Weighting Factor "adapts the expected return of each transaction depending on the environmental impact [to encourage] financing solutions with the most positive impact [and penalise] negative impacts". However, since these tools are all proprietary, it isn't clear how significant the weighting factors are, or how effectively banks have implemented them. We anticipate this will be a key area to monitor.

Finding 13: Most banks don't include climate-related information as standard when syndicating debt issuance for their clients.

Only three banks are currently including this information for 'vanilla loans'[8]. Three others do so only at their client's request, so rely on issuers wishing to promote their ESG credentials. The fact that seven other banks include this information for loans within an ESG framework shows that banks could do this more widely, but it does not appear to be a priority. Debt syndication typically occurs to allow clients to borrow larger sums of money than they would be able to from a single lender. It can be crucial for a company's growth strategy, being often used to finance new investment projects or fund takeovers, mergers and acquisitions. As such, it's important that banks include all relevant sustainability information when they facilitate the syndication process or generate market interest to enable investors to make informed decisions.

3.2 Disclosure

This section assesses banks' disclosures on the amount of financing they provide to climate-sensitive sectors (oil & gas, coal, power generation, and others), as well as on their financed emissions, which are the greenhouse gas emissions from the activities that they finance.

Finding 14: Banks' disclosures of both the amount of their financing and of their financed emissions fail to cover the full scope of their activities.

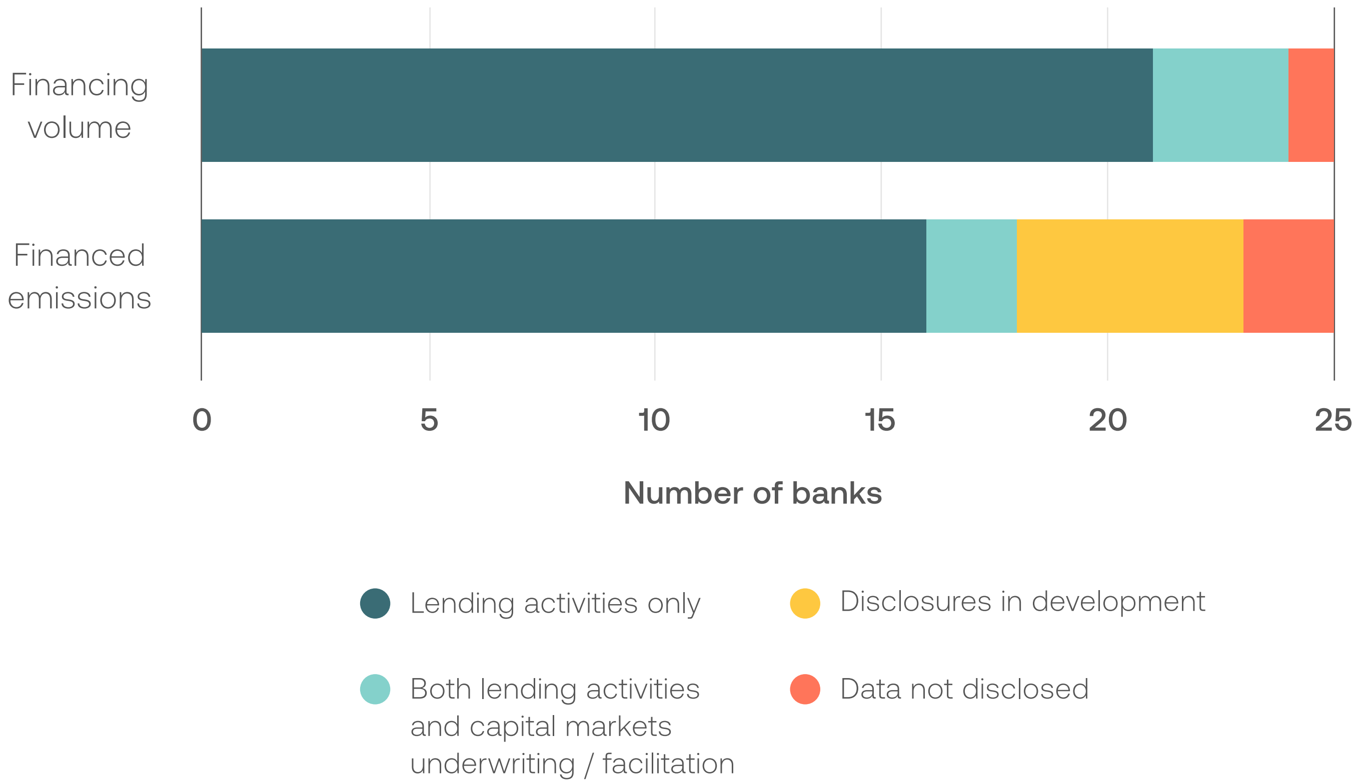
All banks in our survey but one – CaixaBank – disclose the volume of their financing of climate-sensitive sectors. All but two banks – DZ Bank and UniCredit – disclose their financed emissions. Most banks' disclosures only cover their lending activities (Figure 8). However,

8 Loans that do not have any ESG- or sustainability-related labels.

banks also help their clients raise financing from investors by arranging equity and bond issuances. Only two of the banks – Barclays and HSBC – also include these capital markets activities in both these disclosures, and one other bank – Santander – includes them in their financing disclosures.

Not reporting this activity misrepresents the level of financing the bank is directing to high-carbon sectors, some of which rely heavily on debt financing as opposed to conventional corporate loans. We found that between 2016 and 2021, 57 per cent of the financing provided to the top 50 upstream oil & gas expanders was in the form of capital markets underwriting[xxxv]. Although capital markets activities don't appear on a bank's balance sheet (as the banks don't take on credit risk), it underplays transition risks to banks as the investment banking division can earn significant fees from capital markets underwriting.

Figure 8: The majority of banks only disclose climate-related data related to their lending activities



Secondly, banks largely base their disclosures on the drawn amount of lending, and do not include the full amount they have committed to lend in future, meaning their potential impact could be much greater than what is disclosed. Only half disclose the committed financing volumes, while only four banks (Barclays, Crédit Agricole, NatWest, and UBS) disclose the financed emissions relating to their full commitments.

Leading practice example: Barclays' methodology for measuring financed emissions of lending activities and capital markets underwriting

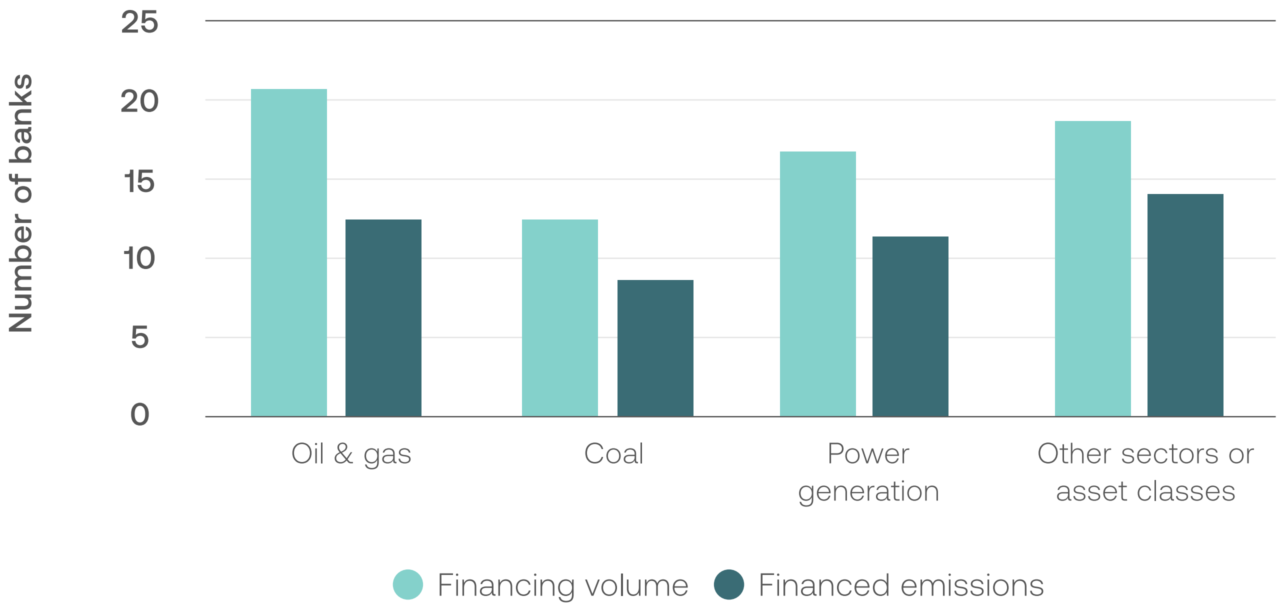
Barclays uses its own methodology – named BlueTrack – to measure and track its financed carbon emissions at the portfolio level against the goals of the Paris Agreement. Importantly, in addition to on- and off-balance sheet lending activity, this covers capital markets financing that the bank facilitated in the 12 months prior to the reporting date. Additionally, the methodology uses the total amount the bank has committed to finance under the facility, outstanding as of the reporting date. It also excludes carbon offsets purchased at a client or portfolio level.

The first step in the methodology is selecting sector benchmarks, which define how financed emissions for a portfolio need to change over time in line with the goals of the Paris Agreement. Next, Barclays determines how its sector portfolios are performing against these benchmarks and creates a portfolio-level metric, which is then compared to the benchmark. For each sector (energy: coal, oil, gas; power [generation]: coal, oil, gas, renewables, nuclear; cement; and steel), Barclays sets a 2025 and/or 2030 financed emissions reduction target[xxxvi].

Finding 15: Almost all banks publish detailed sectoral breakdowns of their climate-sensitive financing volumes, but financed emissions disclosures are less detailed.

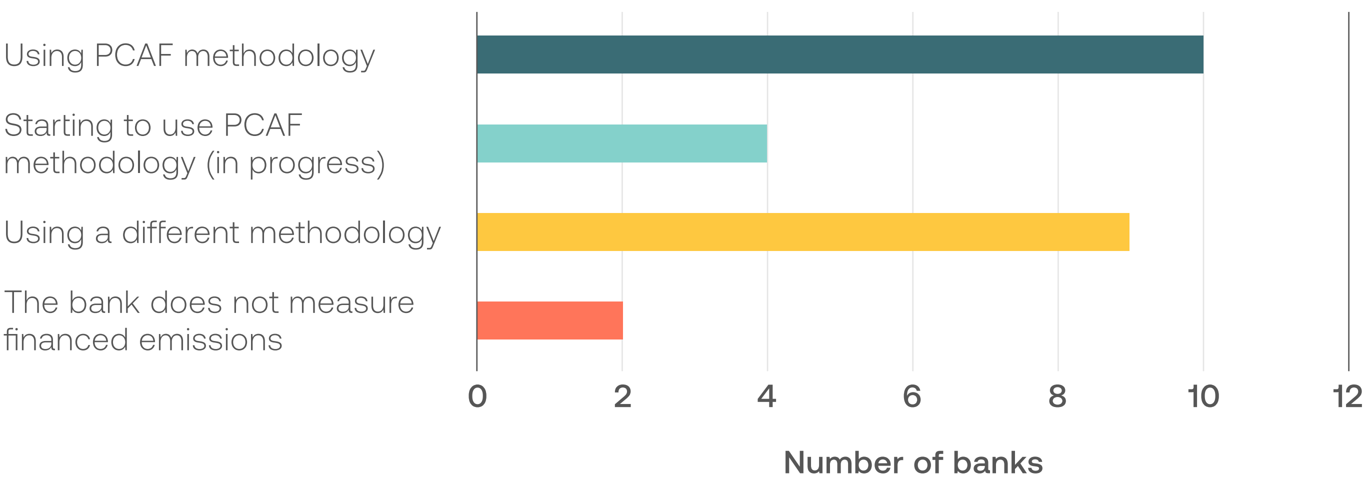
Twenty-one banks disclose their financing volumes separately for the oil & gas, and power generation sectors. However, only 13 disclose their coal financing explicitly. This is problematic as many banks have made coal phase-out commitments or set coal targets, but a lack of data makes it difficult to assess progress. Four banks show good practice by breaking down their oil & gas financing volumes further across different supply chain segments. Many banks also provide data for other specific relevant sectors, such as: chemicals; agriculture; mining; steel; transport; and real estate (Figure 9). Only one bank – Intesa Sanpaolo – disclosed its total financing to climate-sensitive sectors without giving a sectoral breakdown.

Figure 9: Disclosures for financing volumes are more detailed, but are still not fully transparent



In contrast, banks provide much less detail in their financed emissions disclosures, and only six banks disclose separate financed emissions figures for all three major fossil fuel sectors (oil & gas, coal, and power generation). This is partly related to the variation in methodologies used to measure and disclose financed emissions (Figure 10). Ten banks currently follow the industry standard established by the Partnership for Carbon Accounting Financials (PCAF)[xxxvii]. Four banks report that they are starting to use the PCAF methodology, including two that currently disclose emissions using a different methodology. We welcome the growing standardisation of disclosures and call on all banks that don't yet do so to publish the detail of their exposure to the most critical sectors, including fossil fuels.

Figure 10: Nearly all banks now measure financed emissions, though methodologies still vary



3.3 Net-zero targets

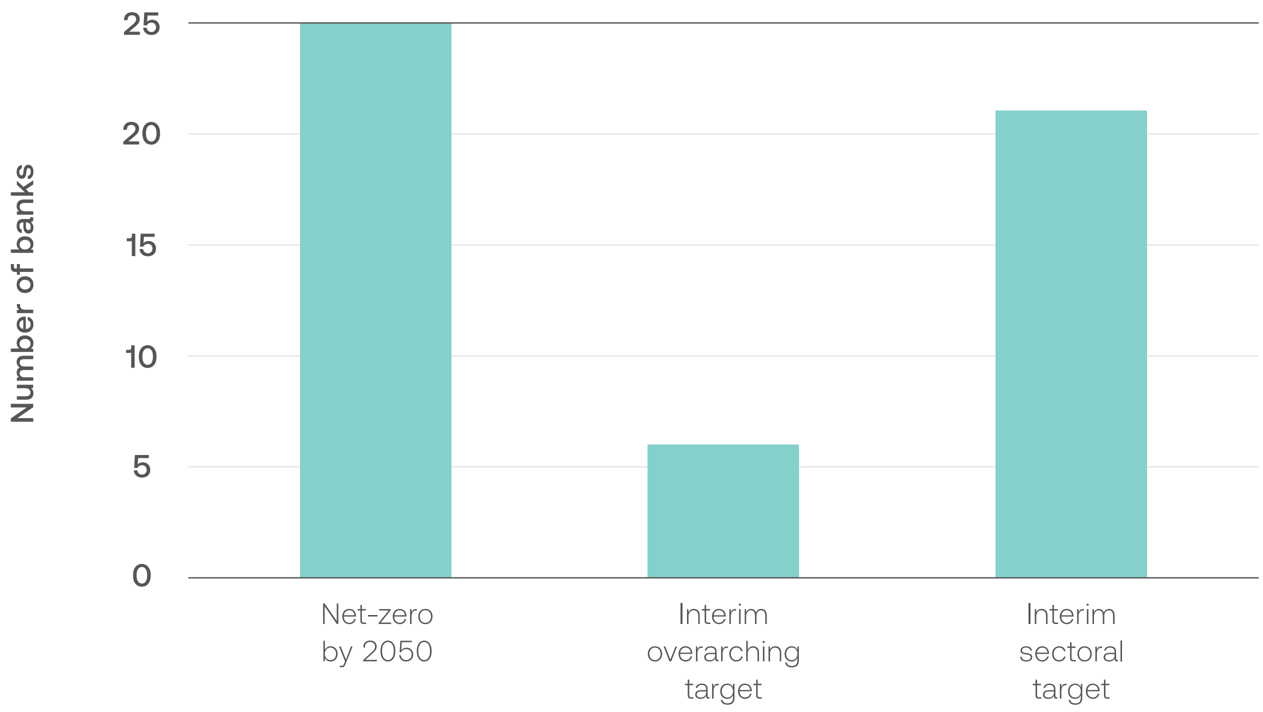
This section reviews decarbonisation targets set by the surveyed banks. Our assessment covers overarching targets and targets for individual sectors. Phase-out commitments can be viewed as sectoral targets and are reflected in the comparison table at the end of this section (Table 3). These commitments are discussed in section 3.4.

Finding 16: Only a few banks have set an interim overarching target to ensure they are on track to net-zero across financing activities.

All 25 surveyed banks have now committed to net-zero by 2050, either through an individual commitment, the Net-Zero Banking Alliance (NZBA) or another alliance. Most of them are also making progress in setting sectoral decarbonisation targets – 21 banks have announced targets for at least one sector.

However, only six banks have set an interim overarching target (Figure 11), and only three (Lloyds Banking Group, NatWest, Nordea) have made commitments aligned with absolute emissions reductions required in credible 1.5C scenarios. As highlighted in our recent review of targets set by members of the NZBA[xxxviii], interim overarching targets are critical to ensure that banks are on track to deliver net-zero across financing activities.

Figure 11: Most banks have set sectoral targets but only six banks have translated their net-zero commitment into an interim overarching target

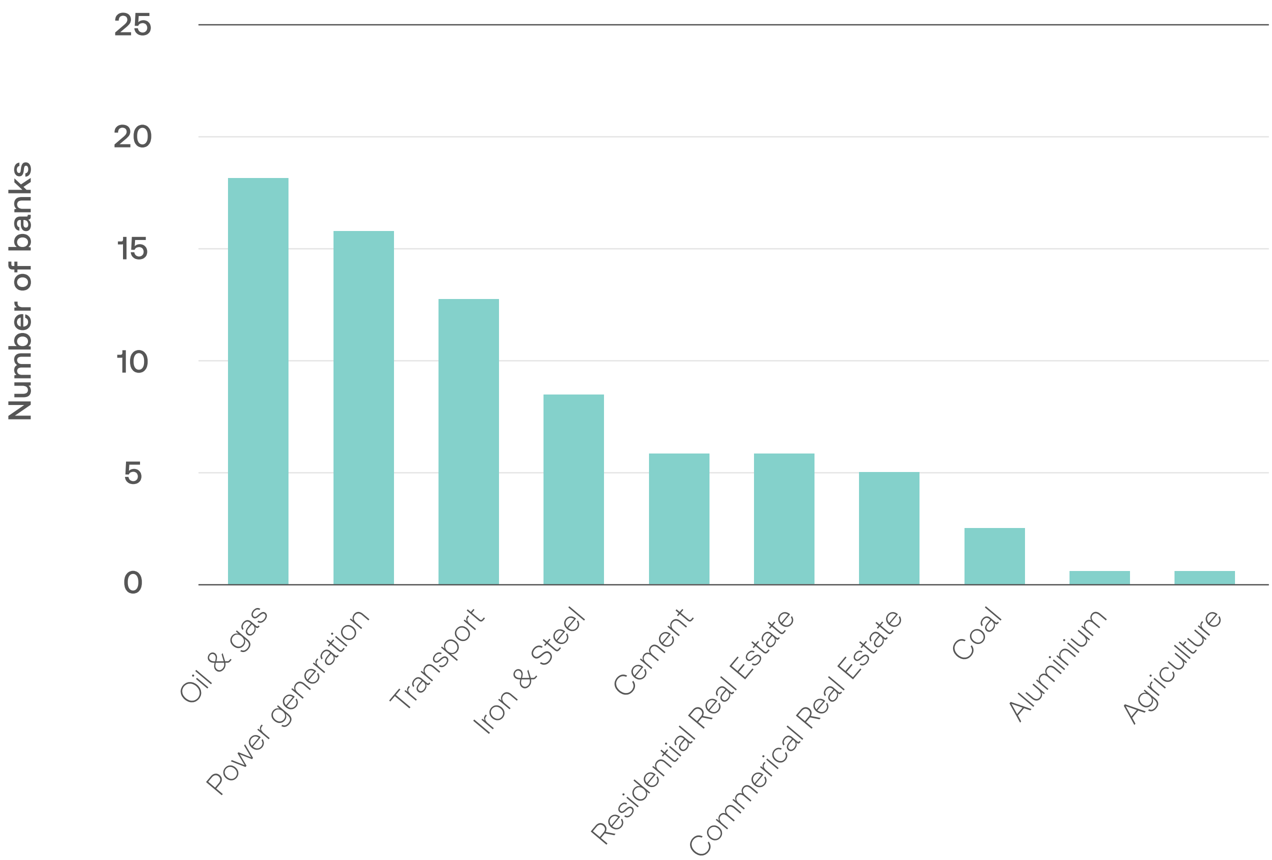


Finding 17: Most banks have prioritised targets for sectors that have the biggest impact on climate.

Of the 21 banks that have set sectoral targets, 15 covered both oil & gas and power generation. Among those who did not, some had addressed these sectors by committing to a phase-out of coal power (e.g. Crédit Agricole) and oil & gas (La Banque Postale). Banks who skipped these sectors entirely should prioritise them now, even if they take up a relatively small portion of portfolios, because of their outsized climate impact.

Banks have made mixed progress on other sectors with high emissions (Figure 12). Thirteen banks now have targets for at least one segment in the transport sector (automotive, aviation, rail, shipping). However, only one bank (NatWest) published a target for agriculture[9] and no bank has covered the chemicals sector, despite its serious ecological impacts[xxxix].

Figure 12: Banks prioritised setting sectoral targets for oil & gas and power



9 Rabobank announced a target for the dairy sector but hasn't disclosed a rate of reduction or target value.

Finding 18: Concerningly, emissions intensity metrics – rather than absolute emissions – are becoming the norm.

Close to 80 per cent of sectoral targets have been set using an emissions intensity metric, and around 20 per cent of oil & gas targets rely on these metrics. This puts us at risk of seriously overshooting 1.5C of warming, as reductions in emissions intensity can be achieved while absolute emissions continue to grow[xl]. Absolute targets are particularly vital for fossil fuels, where banks' should prioritise phasing down output rather than driving improvements in efficiency. Intesa Sanpaolo, NatWest, and Standard Chartered rely on intensity metrics for the oil & gas sector and need to quickly align with leading practice. For sectors other than fossil fuels, emissions intensity metrics can be acceptable but only if banks also report on absolute emissions and set overarching targets in absolute terms.

Finding 19: The scope of financing activities often doesn't provide the full picture on financed emissions.

Capital markets facilitation can represent a significant portion of banks' financial support to carbon-intensive sectors and impact on climate – 57 per cent of the financing provided by the 25 surveyed banks to top upstream oil & gas expanders between 2016–2021 was in the form of capital markets underwriting[xli]. Yet only one bank (Barclays) includes capital markets activities in its sectoral targets, and it only takes partial responsibility for them (33 per cent of its pro-rata share).

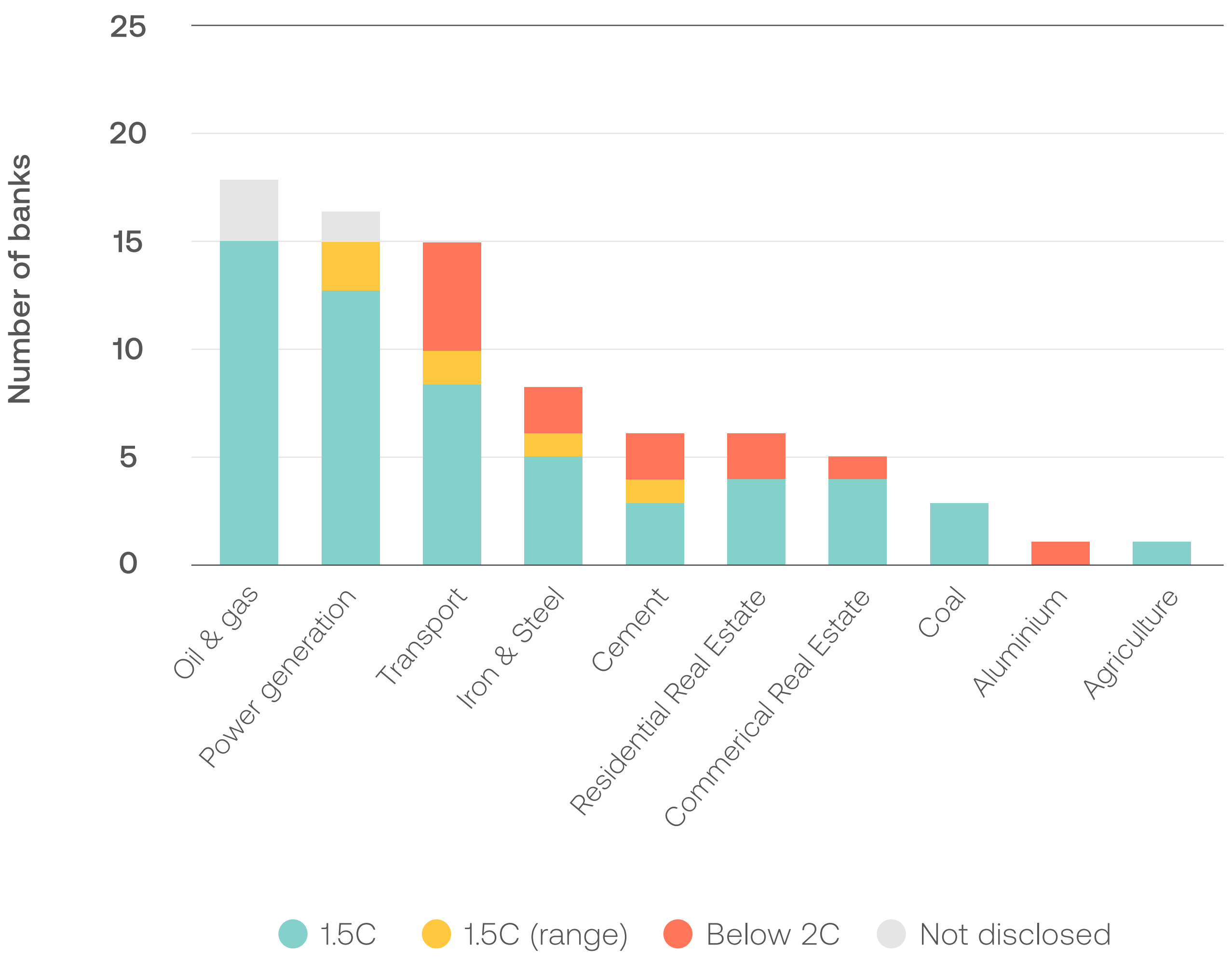
Fifteen banks use the drawn amount of loans to model lending portfolios, in line with guidance from PCAF. In our view, this does not paint an accurate picture of a bank's relationship with its corporate clients and has the potential to underplay transition risks and level of support to carbon-intensive activities. The approach taken by Barclays, BNP Paribas, and UBS, who model loan books using total commitments, is a better proxy for bank's climate-related risks and impact.

Finding 20: Availability of scenarios and level of ambition are obstacles to a wider and strict adoption of 1.5°C-aligned scenarios.

Thanks to the publication of the International Energy Agency (IEA)'s Net Zero Emissions by 2050 Scenario (NZE), many banks are now using reference scenarios aligned with 1.5C to set targets, although this varies considerably between sectors (Figure 13). Importantly, while the range of net-zero scenarios that banks can use to set targets is growing, many still rely on less ambitious scenarios. In some cases, this is because scenario developers have not published data for all sectors and across all regions[xlii].

This adds to the challenges posed by inherent uncertainties about tipping points and other climate phenomena, inaccuracies in portfolio modelling, and the fact that most scenarios have a low probability to achieve the stated outcome[xliii]. For these reasons, targets should go beyond what the scenario requires and allow for a buffer. However, only a limited number of banks are taking this approach and some banks are doing the opposite[xliv].

Figure 13: Most banks are using 1.5C aligned scenarios but the level of ambition varies across sectors[10]



10 The total number of banks using 1.5°C aligned scenarios for transport differs from Figure 12 as several banks set targets for multiple sub-sectors.

Finding 21: A lack of transparency on the target setting process undermines the credibility of targets.

On average, banks disclose around 90 per cent of the information needed to assess the credibility of their sector targets. This includes baseline (disclosed for 80 per cent of targets), scope of emissions (disclosed for 85 per cent of targets), and climate scenarios (disclosed for 95 per cent of targets), among other key components and assumptions. Target setting and portfolio alignment are relatively recent tools, which means that guidance is rapidly evolving, and consensus is yet to emerge. For this reason, it is critical for banks to be as transparent as possible.

Finding 22: More clarity is needed on banks' reliance on carbon offsets for financed emissions.

Twelve banks are yet to develop an official position on offsets for their financed emissions. More clarity is urgently needed on this, as overreliance on offsets reduces the incentive for companies to make absolute emissions reductions[xlv] and elevates climate justice concerns[xlvi]. Any reliance should be aligned with the Science Based Targets initiative's corporate net-zero standard, which requires a limited dependence on carbon removals to neutralise emissions that cannot yet be eliminated[xlvii]. Nine banks indicated that they could be taking this approach. Banks should also make clear that they will not directly use offsets to compensate for their portfolio emissions, as this could allow a bank to artificially achieve a state of net-zero.

Leading practice example: Lloyds Banking Group's interim overarching target aligned with credible 1.5C pathways

Lloyds Banking Group has already set targets for the top priority sectors (oil & gas and power) and for automotive, aviation, and residential mortgages. The bank also has the ambition to reduce the emissions it finances by more than 50 per cent by 2030. While not technically a commitment, this ambition is aligned with the latest findings of the Intergovernmental Panel on Climate Change (IPCC) and ensures that the bank keeps its share of financed emissions in sight. Lloyds Banking Group's sectoral targets and reporting are also credible and transparent. The bank relies on absolute emissions for its oil & gas target and while it uses emissions intensity for the other sectors, it also reports financed emissions across sectors in absolute terms.

Leading practice example: Barclays' sectoral targets cover capital markets facilitation

Barclays is the only bank surveyed to cover both lending and capital markets facilitation in its sectoral targets, although it only takes responsibility for 33 per cent of its facilitated emissions. Setting targets for capital markets activities is critical for Barclays and other large fossil fuel financiers, as these can represent a significant portion of their financial support (and therefore risks and impacts) to these sectors[xlviii]. Barclays also uses a strong 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 can lead to volatility and underestimates climate-related risks and impacts.

Table 3: Comparison of net-zero targets set by Europe's largest 25 banks[11]

Bank	Overarching target	Ag.	Al.	Ce.	Co.	C.RE	R.RE	O&G	Po.	St.	Tr.	Metric	Emissions scope	Lending[(1)]	Capital markets[(2)]	Scenario
Barclays		×	×	✓	✓	×	×	✓	✓	✓	×					
BBVA		×	×	✓	×	×	×	✓	✓	✓	✓					
BNP Paribas		×	×	×	×	×	×	✓	✓	×	✓					
BPCE		×	×	×	×	×	×	✓	×	×	×					
CaixaBank		×	×	×	×	×	×	✓	✓	×	×					
Commerzbank[(3)]		×	×	✓	×	✓	✓	×	✓	✓	✓✓					
Crédit Agricole		×	×	×	×	×	×	✓	×	×	✓					
Crédit Mutuel		×	×	×	×	×	×	×	×	×	✓					
Credit Suisse		×	×	×	✓	×	×	✓	×	×	×					
Danske Bank		×	×	×	×	×	×	✓	✓	×	✓					
Deutsche Bank		×	×	×	×	×	×	✓	✓	✓	✓					
DZ Bank		×	×	×	×	×	×	×	×	×	×					
HSBC		×	×	×	×	×	×	✓	✓	×	×					
ING		×	×	✓	×	✓	✓	✓	✓	✓	✓✓✓					
Intesa Sanpaolo		×	×	×	×	×	×	✓	✓	×	✓					
La Banque Postale		×	×	✓	×	✓	✓	×	×	×	✓✓					
Lloyds Banking Group		×	×	×	×	×	✓	✓	✓	×	✓✓					
NatWest[(3)]		✓	✓	✓	×	✓	✓	✓	✓	✓	✓✓					
Nordea		×	×	×	×	×	×	×	×	×	×					
Rabobank		×	×	×	×	×	×	×	×	×	×					
Santander		×	×	×	×	×	×	✓	✓	✓	✓					
Societe Generale		×	×	×	×	×	×	✓	✓	×	×					
Standard Chartered		×	×	×	✓	×	×	✓	✓	✓	×					
UBS		×	×	×	×	✓	✓	✓	✓	×	×					
UniCredit		×	×	×	×	×	×	×	×	×	×					

KEY

	Leading practice across all targets
	Leading practice on some targets
	Not leading practice across all targets
	No target or missing information
✓	Sectoral target set (multiple marks if more than one sub-sector)

Ag.	Agriculture
Al.	Aluminium
Ce.	Cement
Co.	Coal (highlighted if coal mining phase-out)
C.RE	Commercial Real Estate
R.RE.	Residential Real Estate
O&G	Oil & Gas (highlighted if phase-out)
Po.	Power generation (highlighted if coal power phase-out)
St.	Iron & Steel
Tr.	Transport (Automotive, Aviation, Shipping, Rail)

but

(1) Leading practice is based on the use of total commitments as the lending indicator, but this is not applicable to all sectors (e.g. residential mortgages).
(2) Covering capital markets facilitation in targets is not relevant to all banks (if they don't have debt or equity capital markets capabilities) and sectors (e.g. residential mortgages).
(3) Several targets set by Commerzbank and NatWest are subject to validation by the Science Based Targets initiative.(4) Rabobank announced a target for the dairy sector but hasn't disclosed a rate of reduction or target value.

11 See Chapter 7: Methodology for the cut-off dates of this analysis. The table does not reflect commitments made after the cut-off dates.

3.4 Policies on fossil fuels and other climate-sensitive sectors

3.4.1 Sector policies: Fossil fuels

This section assesses banks' coal and oil & gas policies across five key pillars[12]:

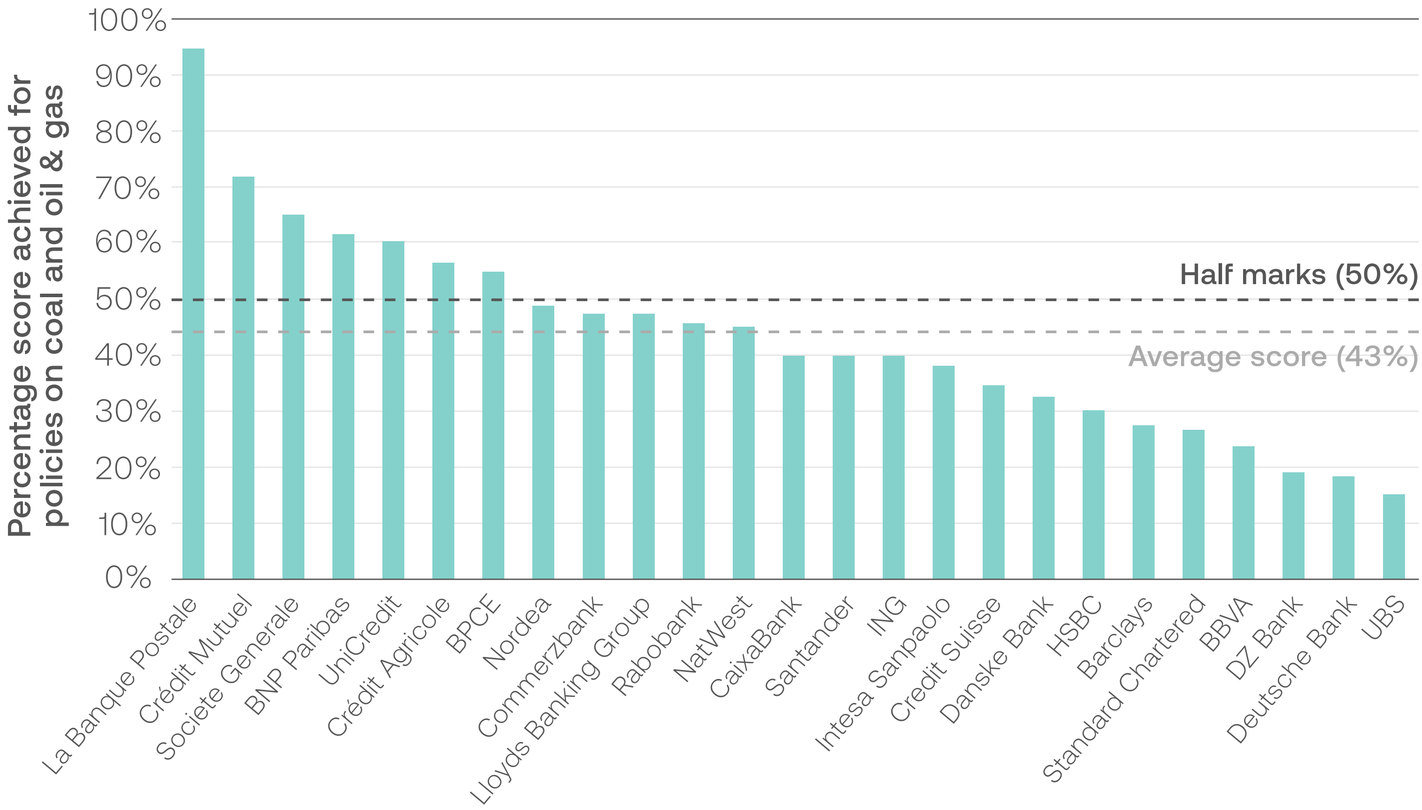
- Asset finance restrictions: excluding dedicated financing for specific assets or projects;
- Corporate finance thresholds: restrictions on general corporate purpose funding (not tied to an asset) delivered to a company, designed to exclude companies that are overly exposed to, or are large players in, coal or oil & gas activities;
- Expansion: restrictions on companies that are expanding their activities in thermal coal or oil & gas by exploring for and/or developing new projects;
- Phase-out: a commitment to end financing to the sector or activity by a set date; and
- Client transition plans: requirements placed on clients not excluded by the above pillars to publish a transition plan by a set date that includes:
  - Coal: A thermal coal phase-out plan in line with the bank's own phase-out dates.
  - Oil & gas: A commitment to no exploration for or development of new oil & gas fields.

The responses to our survey allow for a detailed comparison of banks' policies across each of the above pillars (Tables 4, 5, and 6). Below we present overarching results on the banks' progress across four pillars for thermal coal and all five for oil & gas, as well as current insights on metallurgical coal and unconventional oil & gas.

12 In line with Reclaim Finance's Coal Policy Tool and Oil & Gas Policy Tracker. Scores might differ from those calculated by Reclaim Finance.

Finding 23: Banks' fossil fuel financing policies need considerable improvement.

Figure 14: Only seven banks scored above 50 per cent for their fossil fuel policies



Banks' fossil fuel policies scored less than half marks on average (Figure 14), indicating that considerable improvements are needed. Even on coal – where banks have moved further – the average score was only just above 50 per cent. Policies contain major gaps even among top scorers. For example, BNP Paribas and Societe Generale rank fourth and third respectively for their fossil fuel policies in our survey (Figure 12), but only achieve 63 per cent and 61 per cent, indicating that loopholes remain. This is highlighted by their financing volumes: Societe Generale and BNP Paribas were still Europe's third and fourth largest fossil fuel financiers respectively in 2021[xlix]. There is clearly significant room for improvement among even the better performing banks.

Coal

Finding 24: All banks now restrict financing to companies reliant on thermal coal, but these restrictions continue to be tailored to clients rather than the climate.

Implemented robustly, relative corporate thresholds are a way for banks to exclude companies most exposed to the coal sector, based on their coal activities relative to their overall business. While all banks in scope have now announced some form of corporate threshold (Tables 4 and 5), the vast majority of these contain loopholes (material or technical exceptions) that allow the banks to continue providing corporate financing to companies that should be excluded by the policy. Only two banks – La Banque Postale and Crédit Mutuel – implement robust thresholds without any exceptions across both coal power and mining that are aligned with the Global Coal Exit List (GCEL) recommendations. In contrast, banks particularly lacking in ambition include HSBC (corporate thresholds only apply to clients in EU and OECD markets) and DZ Bank (who will continue to finance companies above its threshold if “a clear will to transform is present”).

Only five banks (BNP Paribas, Crédit Mutuel, HSBC, La Banque Postale, and Societe Generale) implement an absolute threshold to exclude the biggest coal mining clients and only three (Crédit Mutuel, La Banque Postale, HSBC) do so for at least some of their coal power clients. Absolute thresholds complement relative thresholds by ensuring that significant coal producers and plant operators remain excluded from financial support in the face of fluctuating coal prices or coal power generation.

Finding 25: More banks are directly addressing their financing of thermal coal expansion.

Two thirds of surveyed banks now restrict financing to companies expanding thermal coal (17 banks for coal power and 16 banks for thermal coal mining). This is an increase from June 2021, when only one third of the banks had implemented restrictions for companies expanding thermal coal mining and/or power[l]. However, many policies still have significant room for improvement and contain material exceptions. With 46 per cent of companies on the Global Coal Exit List still on an expansion course[li], banks committed to net-zero must now urgently close these loopholes to stop all support for the industry’s expansion. Well-recognised sources like the IEA have confirmed there is no room for coal expansion in a 1.5C pathway[lii].

Finding 26: Over three quarters of Europe's 25 largest banks have now committed to phase-out their financing to thermal coal by 2030 in OECD countries and 2040 globally, at the latest.

More banks have signalled an exit from financing thermal coal, the most polluting fossil fuel, over the past year. Nineteen banks have now committed to phase out financing to thermal coal power and 21 to phase out financing for thermal coal mining – both by 2030 in OECD countries and 2040 globally, at the latest. While some banks do include major exceptions, this is significant progress. It is also a considerable increase from our finding in June 2021 that less than half of surveyed banks had committed to a full phase-out on these timelines[liii]. Banks such as UBS and Deutsche Bank are now part of a rapidly shrinking group without this commitment and urgently need to address this if they are to align with what is needed to keep global average temperature rise under 1.5C[liv].

Finding 27: Few banks have a timebound requirement for clients to publish a transition plan that includes a coal phase-out strategy in line with the bank's own.

Only 10 banks require clients to have a phase-out strategy that aligns with the bank's own phase-out date as a condition of financing. This is despite many banks claiming they are encouraging clients to transition away from thermal coal. If they do not require such a strategy, banks will simply end up selling down their exposure without influencing their remaining clients and the real economy. Engagement measures with clients are not working – less than 3 per cent of companies on the GCEL have timely coal exit dates[lv]. Banks must now strengthen requirements on clients to drive towards a coal phase-out by 2030 in OECD countries and 2040 globally.

Leading practice example: Crédit Mutuel's ambitious coal policy

Crédit Mutuel has the most complete and ambitious coal policy of the banks surveyed. It addresses all five pillars needed for a robust coal policy, without exceptions. The policy covers the entire value chain and through it, Crédit Mutuel:

- Prohibits asset finance for thermal coal mines and coal-fired power plants, for both new projects and expansions of existing projects.
- Excludes finance to companies with coal share of revenue or power production above 20 per cent, in line with the GCEL recommendations. The bank will also not finance clients that extract more than 10 megatonnes of coal per year or have installed coal power generation capacity of more than 5 gigawatts.
- Excludes companies that are expanding thermal coal activities throughout the value chain.
- Commits to reducing its coal exposure to zero by 2030 for all countries worldwide, a decade ahead of the timeline required in 1.5C pathways.
- Makes the continuation of financial support for remaining clients with any exposure to the coal sector conditional on them adopting a plan to close all coal assets by 2030, in line with the bank's own phase-out objective.

Finding 28: Metallurgical coal remains on the backburner.

Only eight banks consider metallurgical coal in their sector policies at all and just four have started to enforce financing restrictions. Due to its end-use in the production of steel, metallurgical coal follows a different transition pathway to thermal coal, and banks have tended to exclude it from coal policy frameworks. In the IEA's NZE scenario, demand for coking coal does fall at a slightly slower rate than steam coal, but existing sources of production are still sufficient to cover demand through to 2050[lvi]. This suggests no new metallurgical coal is needed. Lloyds Banking Group and Societe Generale demonstrate leading practice by excluding dedicated finance to metallurgical coal mines and starting to restrict financing to companies active in metallurgical coal extraction.

Table 4: Comparison of the coal power policies of Europe's largest 25 banks

	COAL POWER													
Bank	Policy score	Asset finance restrictions[1]		Corporate finance restrictions						Phase-out[2]				All services
		Generation	Infrastructure	Relative Threshold		Absolute threshold		Expansion	Infrastructure	Bank	Timeline	Client	By	
Barclays	31%	Y*	N	Y**	5-50% rev, ratchet	N	-	Y**	N	Y**	2030/2035	N	-	N
BBVA	28%	Y**	N	Y**	25% cspp	N	-	N	N	Y**	2030/40	N	-	N
BNP Paribas	73%	Y	N	Y**	25% revenues	N	-	Y	N	Y	2030/40	Y	2021	Y
BPCE	78%	Y	Y*	Y	25% revenues	N	-	Y*	N	Y	2030/40	Y	2021	Y
CaixaBank	23%	Y	N	Y**	25% revenues	N	-	N	N	N	-	N	-	Y
Commerzbank	56%	Y*	Y	Y**	20% cspp	N	-	Y**	Y	N	-	Y**	2025[4]	Y*
Crédit Agricole	75%	Y*	N	Y**	25% revenues	N	-	Y*	N	Y	2030/40	Y	2021	Y
Crédit Mutuel	100%	Y	Y	Y	20% revenues or cspp	Y	5GW	Y	Y	Y	2030	Y	2021	Y
Credit Suisse	50%	Y**	Y	Y**	5-25% rev, ratchet	N	-	Y**	Y	Y**	2030	N [3]	-	N
Danske Bank	30%	Y	N	Y**	5% revenues	N	-	Y**	N	Y**	2030/40	N	-	Y
Deutsche Bank	30%	Y	Y*	Y**	50% capacity	N	-	N	N	N	-	N	-	N
DZ Bank	33%	Y	Y	Y**	5% cspp	N	-	N	Y	Y**	-	N	-	N
HSBC	51%	Y*	Y*	Y**	40% rev or 10% cap	Y**	3GW	Y**	Y*	Y*	2030/40	N	-	N
ING	55%	Y**	Y*	Y*	10-30% capacity	N	-	N	Y*	Y*	2025	Y*[5]	2025[5]	Y
Intesa SanPaolo	27%	Y	N	Y**	35% cap in 2030	N	-	Y**	N	N	-	N	-	N
La Banque Postale	95%	Y	Y	Y	10% rev or cap	Y	5GW	Y	N	Y	2030	Y	2021	Y
Lloyds Banking Group	57%	Y	N	Y*	25% revenues	N	-	Y**	N	Y	2030	N	-	Y*
NatWest	61%	Y*	Y	Y**	15% unabated cspp	N	-	Y	N	Y	2024/30	N	-	N
Nordea	66%	Y**	N	Y**	5% revenues	N	-	Y	N	Y	2030/40	Y**	2021	Y*
Rabobank	67%	Y	Y	Y**	5% revenues	N	-	N	Y	Y	2030/40	Y	2024	Y
Santander	31%	Y	Y	Y**	new clients; 10% rev in 2030	N	-	N	N	N	-	N	-	Y
Societe Generale	80%	Y	Y	Y	25% revenues	N	-	Y*	Y	Y	2030/40	Y	2021	Y*
Standard Chartered	46%	Y*	Y*	Y**	80% rev in 2024, ratchet	N	-	Y**	N	Y	2030	N	-	N
UBS	19%	Y**	N	Y**	20% reliance	N	-	N	N	N	-	N	-	Y
UniCredit	64%	Y	Y	Y**	25% revenues	N	-	Y**	Y	Y**	2028*	Y**	2021	Y

See Methodology for the cut-off dates of this analysis. The table does not reflect commitments made after the cut-off dates.

* indicates exceptions. ** indicates material exceptions that significantly weaken the policy.
Examples of material exceptions: New clients or new projects only; specific region or country; threshold and/or restriction doesn't apply if client has a transition plan, unless the bank requires the client to commit to no expansion and phase-out as part of this transition plan.
cspp = coal share of power production; rev = revenues; ratchet = threshold decreases over time.

(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 any financing.
(3) Commerzbank requires clients to submit 2030 phase-out plans by 2025 only if they don't comply with other requirements including corporate thresholds and expansion plans.
(4) 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 whether the restrictions meet the requirements of this analysis.
(5) ING requires new clients whose reliance on coal is less than or equal to 10 per cent to have a strategy to reduce this percentage to less than or equal to 5 per cent by 2025. Existing clients should have reduced their reliance on thermal coal to less than or equal to 5 per cent by the end of 2025 to continue the relationship beyond that time.

Table 5: Comparison of the coal mining policies of Europe's largest 25 banks.

Bank	Policy score	COAL MINING: Asset finance restrictions[1]: Extraction	Asset finance restrictions[1]: Infrastructure	Corporate finance restrictions: Relative threshold		Corporate finance restrictions: Absolute threshold		Corporate finance restrictions: Expansion	Corporate finance restrictions: Infrastructure	Phase-out[2]: Bank	Phase-out[2]: Timeline	Phase-out[2]: Client	Phase-out[2]: By	All services
Barclays	32%	Y*	N	Y**	5-50% rev, ratchet	N	-	Y**	N	Y**	2030/2035	N	-	N
BBVA	30%	Y	N	Y**	25% activity	N	-	N	N	Y**	2030/40	N	-	N
BNP Paribas	98%	Y	Y*	Y	20% revenues	Y	10Mt	Y	Y*	Y	2030/40	Y	2021	Y*
BPCE	81%	Y	Y*	Y	25% revenues	N	-	Y*	N	Y	2030/40	Y	2021	Y*
CaixaBank	24%	Y	N	Y**	25% revenues	N	-	N	N	N	-	N	-	Y
Commerzbank	59%	Y	Y	Y**	20% revenues	N	-	Y**	Y	N	-	Y**	2025[4]	Y*
Crédit Agricole	89%	Y	Y	Y	25% revenues	N	-	Y*	Y	Y	2030/40	Y	2021	Y
Crédit Mutuel	100%	Y	Y	Y	20% revenues	Y	10Mt	Y	Y	Y	2030	Y	2021	Y
Credit Suisse	46%	Y**	N	Y**	5-25% rev, ratchet	N	-	Y**	N	Y**	2030	N[3]	-	Y**
Danske Bank	31%	Y	N	Y**	5% revenues	N	-	Y**	N	Y**	2030/40	N	-	Y
Deutsche Bank	20%	Y**	Y	Y**	50% revenues	N	-	N	N	N	-	N	-	N
DZ Bank	33%	Y	Y	Y**	5% sales	N	-	N	Y	Y**	immediate	N	-	N
HSBC	51%	Y*	Y*	Y**	40% rev or 15% prod	Y**	5Mt	Y**	Y*	Y	2030/40	N	-	N
ING	41%	Y**	Y*	Y*	30% reliance	N	-	N	Y*	Y*	2025	N	-	Y
Intesa SanPaolo	25%	Y**	N	N	-	N	-	N	N	Y	2025	N	-	N
La Banque Postale	95%	Y	Y	Y	0%	Y	0Mt	Y	N	Y	2030	Y	2021	Y
Lloyds Banking Group	59%	Y	N	Y	5% revenues	N	-	Y**	N	Y	2030	N	-	Y*
NatWest	58%	Y**	Y	Y**	15% revenues	N	-	Y	N	Y	2024/30	N	-	N
Nordea	71%	Y	N	Y**	5% revenues	N	-	Y	N	Y	2030/40	Y**	2021	Y*
Rabobank	68%	Y	Y	Y**	5% revenues	N	-	N	Y	Y	2030/40	Y	2024	Y
Santander	44%	Y	Y	Y**	new clients	N	-	N	N	Y	2030	N	-	Y
Societe Generale	96%	Y	Y	Y	20% revenues	Y	10Mt/y	Y*	Y	Y	2030/40	Y	2021	Y*
Standard Chartered	51%	Y	Y*	Y**	80% rev from 2024, ratchet	N	-	Y**	Y*	Y	2030	N	-	N
UBS	25%	Y	N	Y**	20% revenues	N	-	N	N	N	-	N	-	Y
UniCredit	65%	Y	Y	Y**	25% revenues	N	-	Y**	Y	Y**	2028*	Y**	2021	N

See Methodology for the cut-off dates of this analysis. The table does not reflect commitments made after the cut-off dates.

* indicates exceptions. ** indicates material exceptions that significantly weaken the policy.
Examples of material exceptions: New clients or new projects only; specific region or country; threshold and/or restriction doesn't apply if client has a transition plan, unless the bank requires the client to commit to no expansion and phase-out as part of this transition plan.
cspp = coal share of power production; rev = revenues; ratchet = threshold decreases over time.

(1) For the purpose of this analysis 'asset finance' is defined as any form of dedicated financing, as opposed to general purpose corporate 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 financing.
(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) Commerzbank requires clients to submit 2030 phase-out plans by 2025 only if they don't comply with other requirements including corporate thresholds and expansion plans.

Oil & gas

Finding 29: The number of banks announcing asset finance restrictions on new oil & gas fields has doubled in eight months.

Eleven of the 25 banks now have asset finance restrictions linked to the development of new oil & gas fields, regardless of the supply segment[13]. This is up from five banks in just eight months[lvii] and new announcements keep coming – for example, Nordea recently announced it will not provide project financing dedicated to expanding exploration of new oil & gas fields. There is broad consensus that new oil & gas fields are incompatible with limiting global average temperature rise to 1.5C[lviii]. In our analysis (Table 6), five banks differentiated oil from gas, but this has changed at the time of writing. Lloyds Banking Group recently updated its policy to prohibit asset finance to new greenfield gas developments that did not receive approval before the end of 2021, on top of its existing asset finance exclusion of new oil fields. To align with their net-zero commitments, banks must restrict asset financing to new upstream oil & gas projects.

These commitments send a strong signal to the market that European banks are losing their appetite for financing new oil & gas. However, banks must now move to introduce corporate finance restrictions for oil & gas expansion, as we have previously found that asset finance only makes up eight per cent of the financing by European banks to top oil & gas expanders[lix].

Finding 30: Banks are still reluctant to introduce corporate restrictions based on oil & gas expansion.

Only three surveyed banks (Commerzbank, La Banque Postale, and Santander) have a specific restriction on financing to companies expanding oil & gas regardless of supply segment (Table 6). This is despite 92 per cent of the financing from these 25 banks to the world's largest oil & gas expanders being at the corporate level[lx]. Commerzbank and Santander's policies are still too weak: Commerzbank's only applies to new clients with oil & gas expansion plans, and Santander's only applies to new clients expanding oil. Lloyds Banking Group has taken a different approach – it will not provide financing to any new clients in the oil & gas sector (regardless of their expansion plans) unless it is for green projects and clients have transition plans at the point of onboarding.

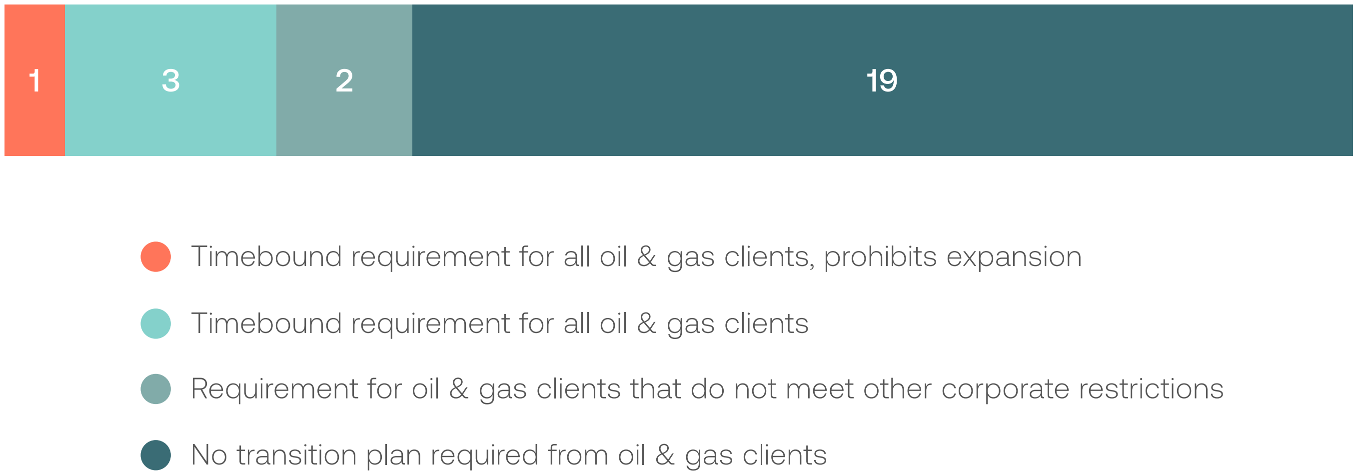
13 Supply segment refers to the different sources of oil & gas. Unconventional oil & gas segments refer to oil & gas extracted using new methods compared to traditional vertical well extraction (fracking, oil sands, ultra-deepwater oil & gas). We also include Arctic oil & gas in our definition of unconventional oil & gas.

To align with what is needed to keep global average temperature rise below 1.5C, it is essential that all banks start to restrict corporate financing at the corporate level for new oil & gas.

Finding 31: Most banks are still not publicly requiring transition plans from their oil & gas clients.

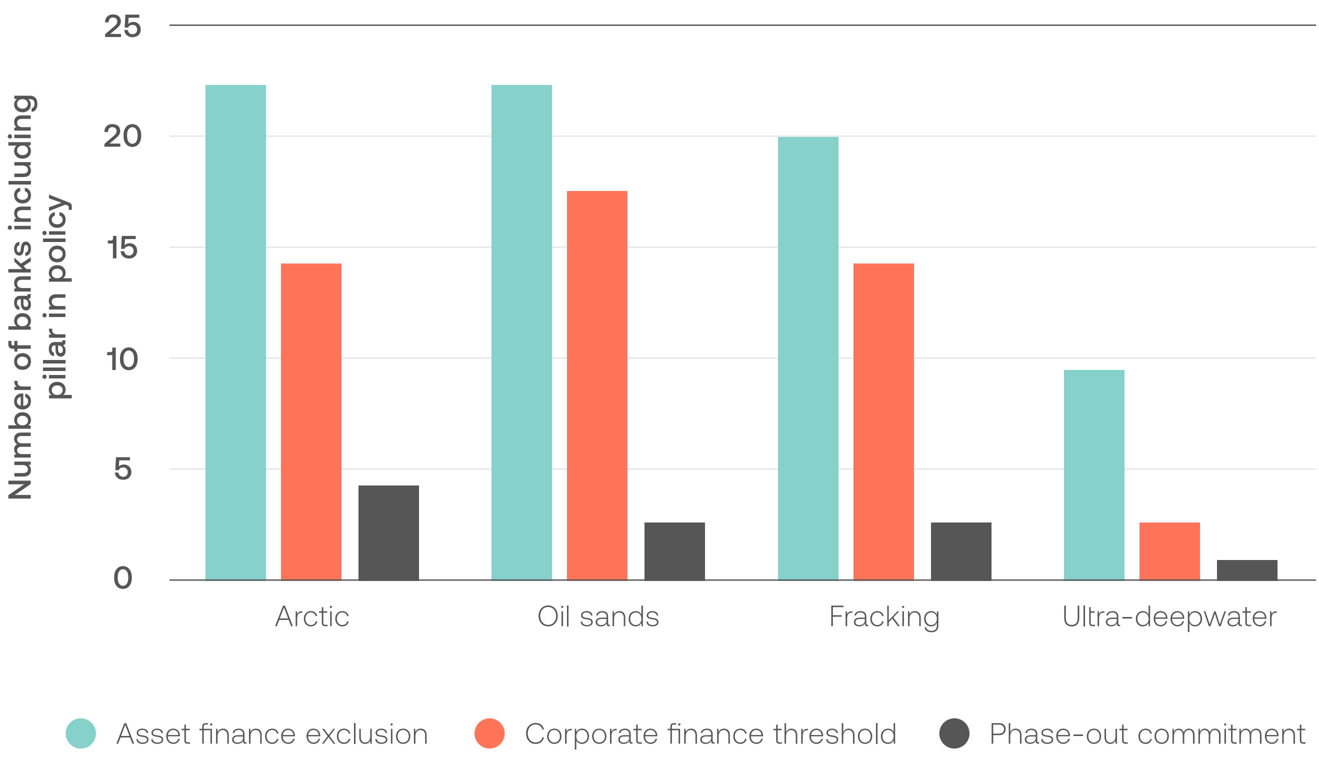
Just four banks (La Banque Postale, Danske Bank, NatWest, and Lloyds Banking Group) require transition plans from oil & gas clients across all segments as a condition of financing, and only one specifies what these plans should entail (Figure 15). La Banque Postale has publicly clarified what its red lines are for these transition plans and leaves no room for the development of new oil & gas fields, in line with IEA guidance. For all other banks, the criteria that will be used to assess oil & gas clients remain opaque and urgently need to be improved.

Figure 15: Most banks do not require their oil & gas clients to submit transition plans by a set deadline



Finding 32: Banks have shown progress on restricting asset finance to unconventional oil & gas activities but need to ramp up ambition on all other pillars of their policies.

Figure 16: Many banks now restrict asset finance to some segments of unconventional oil & gas. Fewer have moved on corporate finance and only a handful plan to phase-out from these environmentally damaging activities



Unconventional oil & gas activities (or segments) carry higher environmental and financial costs and are often more carbon- and methane-intensive than conventional oil & gas production[lxi]. We include fracking, oil sands, ultra-deepwater oil & gas and Arctic oil & gas in our definition of unconventional oil & gas.

Positively, all banks now exclude asset finance to at least one unconventional oil & gas segment and 17 banks exclude asset finance to three or more segments. However, fewer banks have introduced corporate finance restrictions to exclude companies overexposed to unconventional oil & gas (Figure 16). Only eight banks restrict corporate finance to three or more segments and a further eight have no corporate restrictions at all. Many restrictions have clear loopholes and gaps which appear tailored to existing client bases. For example:

- Credit Suisse restricts corporate finance to oil sands and Arctic oil & gas but not fracking, despite the fact that it provided 17 and 30 times more financing to fracking than oil sands and Arctic oil & gas respectively between 2016 and 2021[lxii].
- Barclays (the largest European financier for fracking), ING, and NatWest all exempt North America from corporate restrictions based on fracking activities. The US is the world's largest shale gas producer by far, followed by Canada[lxiii].
- Only four banks (BNP Paribas, Crédit Agricole, Crédit Mutuel, La Banque Postale) apply the most robust definition of the Arctic in their policies: the perimeter defined by the Arctic Council's Assessment and Monitoring Programme. Narrower geographical definitions miss out hundreds of assets located in the region[lxiv].

Six banks (Crédit Mutuel, Commerzbank, La Banque Postale, Lloyds Banking Group, NatWest, and UniCredit) restrict financing to corporates expanding unconventional oil & gas for select segments. For example, Lloyds Banking Group will not support financing to companies involved in the exploration or development of oil sands, except fields already approved for development as of 2021.

Only four banks have committed to phase out any unconventional segments (Table 6). Nordea, Intesa Sanpaolo, and La Banque Postale will phase out financing to fracking, oil sands, and Arctic oil & gas by 2030 or sooner. Credit Suisse, following a shareholder resolution filed ahead of its 2022 AGM[lxv], committed to only retain residual exposure to Arctic oil & gas by 2035[14]. Banks should phase out financing to unconventional oil & gas activities on an accelerated timeline due to their greater environmental and social impacts. Banks should also begin asking remaining clients active in unconventional oil & gas to communicate a strategy to phase out unconventional segments as part of a credible transition plan. Some banks (such as BNP Paribas) require transition plans from oil & gas clients if their unconventional oil & gas activity is above the threshold defined by corporate restrictions. However, these do not apply to all clients and do not require them to publish a phase-out plan. No bank had clear requirements in place for this at the time of writing.

14 Residual exposure defined here as companies with less than 5 per cent revenues related to the activity.

Leading practice example: La Banque Postale's landmark policy leaves no room for the development of new oil & gas fields

In 2021, La Banque Postale announced that it will exit the oil & gas sector by 2030. The bank no longer finances oil & gas projects and companies listed on the Global Oil & Gas Exit List, except where financing is related to renewable energy, or the company has published a credible transition plan to phase out oil & gas by 2040. These transition plans must prohibit the development of new oil & gas projects and any existing developments should not last beyond 2030. La Banque Postale is the La Banque Postale is one of the smaller banks in our scope and comparatively less exposed to fossil fuels, but this policy sets a standard for larger banks to follow.

Leading practice example: Lloyds Banking Group progressively tightening financing to oil & gas

In 2022, Lloyds Banking Group expanded its oil & gas policy. It broadened asset finance exclusions for unconventional oil & gas to cover midstream activities fields already approved for development as of 2021 or provide financing to any new clients in the oil & gas sector unless it is for viable projects in renewable energies and transition technologies and clients have credible transition plans at the point of onboarding. Lloyds Banking Group continues to signal its declining appetite for financing oil & gas development – at the time of writing, the bank announced it was expanding its project finance exclusions to cover greenfield gas developments[lxvi].

Table 6: Comparison of the oil & gas policies of Europe's largest 25 banks.

Bank	UNCONVENTIONAL OIL & GAS (oil sands (O), fracking (F), Arctic (A), ultra-deepwater (D))							
	Policy score	Asset finance		Corporate finance			Phase-out	Arctic
		Upstream	Midstream	Relative threshold		Midstream	Bank	Definition
Barclays	25%	(F**,A)	(A)	(F**,A)	50% revenues(1)	(A**)	N	Y**
BBVA	22%	(O,A)	(O,A*)	(O**)	10% production	N	N	N
BNP Paribas	47%	(O,F,A)	(O,F*,A)	(O,F,A)**	10% res or rev	N	N	Y
BPCE	36%	(O,F,A**)	(O*)	(O,F)	25% activity	(O)	N	Y*
CaixaBank	58%	(O,F,A)	(O,A)*	(O,A)	10% revenues	(O,A)*	N	N
Commerzbank	40%	(O,F,A,D)**	N	N(3)	-	N(3)	N	N
Crédit Agricole	41%	(O,F,A**)	(O,A)*	(O,F)	30% activity	N	N	Y*
Crédit Mutuel	48%	(O,F,A,D)	(O,F,A,D)*	(O,F)(4)	30% activity(4)	(F)	N	Y*
Credit Suisse	26%	(A)	(A)	(O,A)**	5-25% revenues	N	(A)**	Y*
Danske Bank	36%	(O,F,A,D)	N	(O,F,A,D)**	5% revenues	N	N	Y*
Deutsche Bank	14%	(O,F,A)**	(O*,A)	N	-	N	N	Y*
DZ Bank	8%	(O,F)	N	N	-	N	N	N
HSBC	12%	(O,A)**	(O*)	N	-	N	N	Y**
ING	36%	(O,F**,A)	(O*)	(O*,F**,A*)	30% reliance	(O*)	N	Y**
Intesa SanPaolo	63%	(O,F,A**)	(O,F,A)*	(O,F,A)**	30% revenues(7)	(O,F,A)*	(O,F,A)	Y*
La Banque Postale	93%	(O,F,A,D)	(O,F,A,D)	N/A	No tolerance	(O,F,A,D)	(O,F,A,D)	Y
Lloyds Banking Group	35%	(O,F,A,D**)	(O,F,A)	N(9)	-	N	N	Y**
NatWest	31%	(O,F,A,D**)	N	(O,F)**	No tolerance	N	N	N
Nordea	38%	(O,F)**	(O,F)*	(O,F,A)**	5% revenues	N	(O,F,A)**	Y**
Rabobank	25%	(O,F,A,D)	(O,F,D)*	N	-	N	N	Y**
Santander	47%	(O,F,A)	N	(O,F,A)	30% activity	N	N	Y*
Société Générale	47%	(O,F,A**)	(O*,F**,A*)	(O,F,A**)	30% prod or revenue	N	N	Y*
Standard Chartered	5%	(O,A)**	N	N	N	N	N	N
UBS	10%	(O,A**)	N	(O,A)**	20% res or prod	N	N	N
UniCredit	60%	(O,F,A,D)	(O,F,A,D)*	(O,F,A,D)**	25-50% revenues	(O,F,A,D)*	N	Y*

Bank	Policy score	OIL & GAS EXPANSION				GENERAL OIL & GAS		
		Asset Finance		Corporate Finance		Phase-out	Client transition plans	
		Upstream	Midstream	Upstream	Midstream		Required	By
Barclays	0%	N	N	N	N	N	N	-
BBVA	0%	N	N	N	N	N	N	-
BNP Paribas	2%	N	N	N	N	N	Y**	2022
BPCE	0%	N	N	N	N	N	N	-
CaixaBank	43%	Y**(2)	Y**(2)	N	N	N	Y**	2022
Commerzbank	39%	Y**	N	Y**(3)	Y**(3)	N	N	
Crédit Agricole	0%	N	N	N	N	N	N	-
Crédit Mutuel	27%	Y	Y	N(4)	N	N	N	-
Credit Suisse	0%	N	N	N	N	N	N(5)	-
Danske Bank	36%	Y	N	N	N	N	Y**	2023
Deutsche Bank	0%	N	N	N	N	N	N	-
DZ Bank	0%	N	N	N	N	N	N	-
HSBC	0%	N	N	N	N	N	N(6)	-
ING	18%	Y	N	N	N	N	N	-
Intesa SanPaolo	0%	N	N	N	N	N	N	-
La Banque Postale	88%	Y	Y	Y*	Y*	Y*	Y	2021(8)
Lloyds Banking Group	40%	Y**	N	Y**(9)	N	N	Y	2023
NatWest	38%	Y**	N	Y**	N	N	Y	2021
Nordea	0%	N	N	N	N	N	N	-
Rabobank	17%	Y**	N	N	N	N	N	-
Santander	32%	Y**	N	Y**	N	N	N	-
Société Générale	0%	N	N	N	N	N	N	-
Standard Chartered	0%	N	N	N	N	N	N	-
UBS	0%	N	N	N	N	N	N	-
UniCredit	40%	Y	Y*	Y**	N	N	N	-

See Methodology for the cut-off dates of this analysis. The table does not reflect commitments made after the cut-off dates.

* indicates exceptions. ** indicates material exceptions that significantly weaken the policy; ()* and ()** indicate exceptions or material exceptions that apply to all segments in brackets. For the definition of the Arctic region specifically, Y indicates a definition aligned with the AMAP, Y* indicates a narrower definition including onshore and offshore activities, ** indicates a narrower definition with limited coverage of offshore and/or onshore activities.
res = reserves; rev = revenues; prod = production.
Examples of material exceptions: New clients or new projects only; specific region or country; threshold and/or restriction doesn't apply if client has a transition plan; transition plan or expansion criteria only applies to certain clients.

(1) Barclays' threshold is assumed to be equivalent to 50 per cent or more for the purpose of this analysis. Barclays also requires oil sands clients to "have projects to reduce materially their overall emissions intensity, and a plan for the company as a whole to have lower emissions intensity than the level of the median global oil producer by the end of the decade".
(2) CaixaBank will not assume credit risk for long-term transactions (2040) linked to natural gas and medium-term transactions (2030) linked to oil; this applies across unconventional and conventional segments.
(3) Commerzbank has committed not to establish new relationships with companies with expansion plans in the oil & gas sector. This applies to expansion plans in the upstream and midstream sector following the definition of the Global Oil & Gas Exit List.
(4) Crédit Mutuel has committed to restrict corporate financing for clients who undertake exploration of new oil & gas fields and for clients who derive a significant portion of revenues from unconventional activities, pending thresholds to be defined by Urgewald, but is yet to spell out this restriction in its policy. In parallel, the bank committed not to provide financing to companies reliant on oil sands and shale oil & gas for 30 per cent or more of their activities.
(5) Credit Suisse will waive its corporate threshold for oil sands if companies have materially reduced their overall emissions intensity over time and have credible plans to materially reduce carbon intensity further. 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.
(6) HSBC
(7) Intesa Sanpaolo's threshold is based on "significant revenues" (deemed 30 per cent for the purpose of this analysis) and applies only if transactions increase exposure.
(8) In October 2021, La Banque Postale committed to only provide financing services to companies that have published transition plans.
(9) Lloyds Banking Group will not provide financing to companies involved in the exploration or development of oil sands, outside fields already approved for development as of 2021; or to new clients in the oil & gas sector unless it is for viable projects in renewable energies and transition technologies and clients have credible transition plans at the point of onboarding. It will not provide finance to new oil fields outside fields that received approval as of 2021.

3.4.2 Sector policies: Other climate-sensitive sectors

We have previously highlighted why banks' policies on biomass[lxvii] and shipping[lxviii] in particular deserve greater attention for their high carbon impact. Our 2019 leading practice report[lxix] and 2020 survey of banks[xxii] reviewed the gaps in banks' policies in these areas. Our 2022 survey results reveal little progress has been made.

Finding 33: Banks' biomass policies contain very few financing restrictions.

Of the 16 banks that said they have exposure to clients operating in the biomass sector, three don't have a policy or position on biomass. Those banks that do have policies are extremely limited. Some banks that don't currently report having exposure nevertheless have positions on biomass. We expect all banks to have a biomass policy as its use is likely to increase as alternatives to coal, oil, and gas are sought.

Ten banks say that using woody biomass for energy can be sustainable subject to certain criteria but fail to publish details of what these are. Two banks don't even take a position on its sustainability. Biomass should not be considered as either sustainable or a solution to climate change[lxx]: Banks need to address this urgently and impose strict criteria on financing.

No banks place any restrictions on financing new biomass power projects and only two restrict financing to companies transitioning from coal, although with significant exceptions. Rabobank "does business with clients […] that only use biomass to transition rather than to extend the lifespan of [coal] power plants […or] have an acceptable timebound plan to do so[lxxi]". Crédit Mutuel considers financing coal-to-biomass conversion projects if they "benefit from satisfactory supply plans allowing sustainable management of resources."

Crédit Mutuel is not the only bank to have exclusion criteria relating to the source of the biomass. However, our view is that regardless of where it is produced, woody biomass is not a climate friendly source of energy.

Finding 34: Shipping policies are still very limited on climate impact, despite wide exposure.

Of 22 banks that said they have exposure to shipping, only 11 have a shipping policy in place. This is concerning as the sector's total greenhouse gas emissions are increasing and now account for 2.9 per cent of global emissions[lxxii].

Nine banks in our survey are signatories of the Poseidon Principles and thereby required to measure their shipping portfolios' alignment with the International Maritime Organisation (IMO)'s target of reducing greenhouse gas emissions by 50 per cent by 2050. However, simply measuring alignment will not ensure the IMO target is achieved: only three have set targets to do so, none require their clients to align with this trajectory, and only two – Credit Suisse and Societe Generale – encourage their clients to do so. On 22 September 2022, the Poseidon Principles announced a new commitment to benchmark portfolios against a second, more ambitious, Paris-aligned trajectory[lxxiii]. It is disappointing that there has been little apparent progress since our 2020 survey, but we hope that the new commitment may act as a spur to banks to set targets and require their clients make progress towards them.

Climate strategy II

Climate strategy II – climate-related opportunities and positive impacts

This section assesses how banks approach opportunities related to the low-carbon transition and maximise their positive impact on climate. We discuss how opportunities and positive impact are identified and integrated into banks' strategies and disclosures.

Finding 35: Banks' strategies to capture climate-related opportunities are less advanced and more short-termist than their strategies to mitigate climate-related risks.

There is no generally agreed method for identifying climate-related opportunities. Eight banks mentioned using climate scenario analysis to this end, 13 mentioned taxonomies, and 10 their own bespoke processes[15]. However, most of the information provided in public disclosures or responses to our questionnaire was vague, often explaining that their processes aid in identification of opportunities without describing how they work in detail. Banks also identify opportunities over shorter time frames than climate-related risks, despite the transformational nature of the low-carbon transition. Only 11 banks aim to assess climate-related opportunities in the medium- to long-term (more than 10 years).

There is also no generally agreed method for setting green finance targets. Of the seven banks that provided any information on how they determine the magnitude of their green/sustainable finance target, none described the clear integration of an external framework. Instead, targets were largely set on the basis of existing financing offered by the bank, some internal or regional assessment, and benchmarking against peers.

15 Some highlighted more than one of these, while only CaixaBank failed to identify a process explicitly related to climate opportunities.

Leading practice example: UBS identifying climate opportunities

UBS has a clear process for identifying opportunities, which is described in depth in its 2021 climate report[lxxiv] and covers mitigation, adaptation, and transition. This process includes:

1. An in-depth, cross-divisional process, featuring consultation with and expert oversight from different parts of the bank;
2. Classification of opportunities into separate categories "recognized as major climate-related opportunities for the financial sector";
3. Assessment of materiality against the Global Reporting Initiative's definition (which includes double materiality as discussed in Finding 10). This relies on a simple matrix (included in the report) factoring in overall revenue, strategic relevance to the appropriate division, and potential societal impact.

While this may not be as well developed as the work banks do on climate risks, it is a clear, public process linked to an external standard. This is an important step towards a more robust and strategic (that is, less arbitrary) selection of climate opportunities, which will require more work on the part of regulators and other experts.

Finding 36: Positively, both mitigation and adaptation are widely discussed by banks in the context of climate opportunities.

Mitigation and adaptation[16] are both crucial aspects of humanity's response to climate change[lxxv]. Every bank we surveyed identified mitigation as part of their climate opportunities financing, while only 20 (80 per cent) identified adaptation. The proportion identifying adaptation was similar in our 2020 survey (75 per cent), indicating not only that adaptation is more challenging than mitigation, but also that it is an area in which progress may have been limited. Then, as now, banks identified the lack of a clear taxonomy as a barrier to identifying adaptation opportunities.

16 Mitigation refers to actions that will limit harmful activities which worsen the climate crisis (such as decarbonisation plans, renewable energy), while adaptation means actions that will help humanity cope with the effects of global warming (such as flood defences).

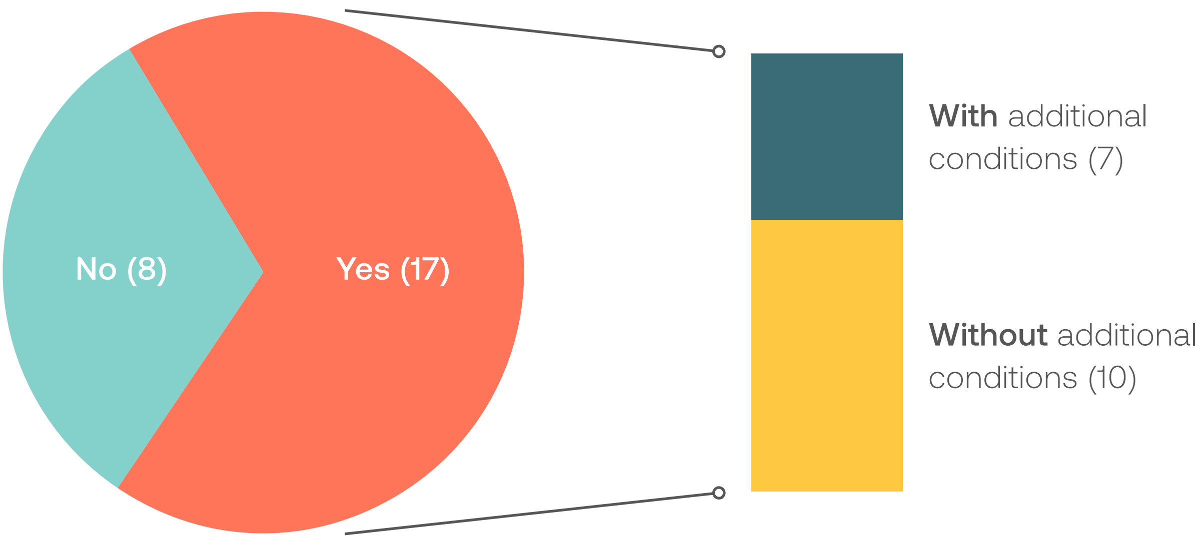
Finding 37: The lack of scrutiny on green finance transactions can open the door to greenwashing.

Only 12 banks indicated that any portion of their green finance transactions is externally audited throughout the life of the financing. Auditing is critical to ensure that borrowers are delivering against KPIs, in particular where green or sustainable financing is not tied to a specific asset (for example, sustainability-linked loans).

Seventeen banks grant green financing to clients that would otherwise be excluded by their climate risk management frameworks. This usually arises as a result of exceptions in sector policies (for example, funding a renewable energy project undertaken by a fossil fuel company), and these exceptions are usually justified on the grounds that funding is directed towards green assets or to support the borrower's transition. However, only seven banks require borrowers to chart a path towards alignment with their climate risk management frameworks (discussed in the previous chapter) and 10 banks grant exceptions with no strings attached (Figure 17).

Figure 17: 17 banks grant green financing to clients that would otherwise be excluded by their climate risk management frameworks and 10 of these do so with no strings attached

Do banks provide green financing to clients that would otherwise be excluded by their climate risk management framework?

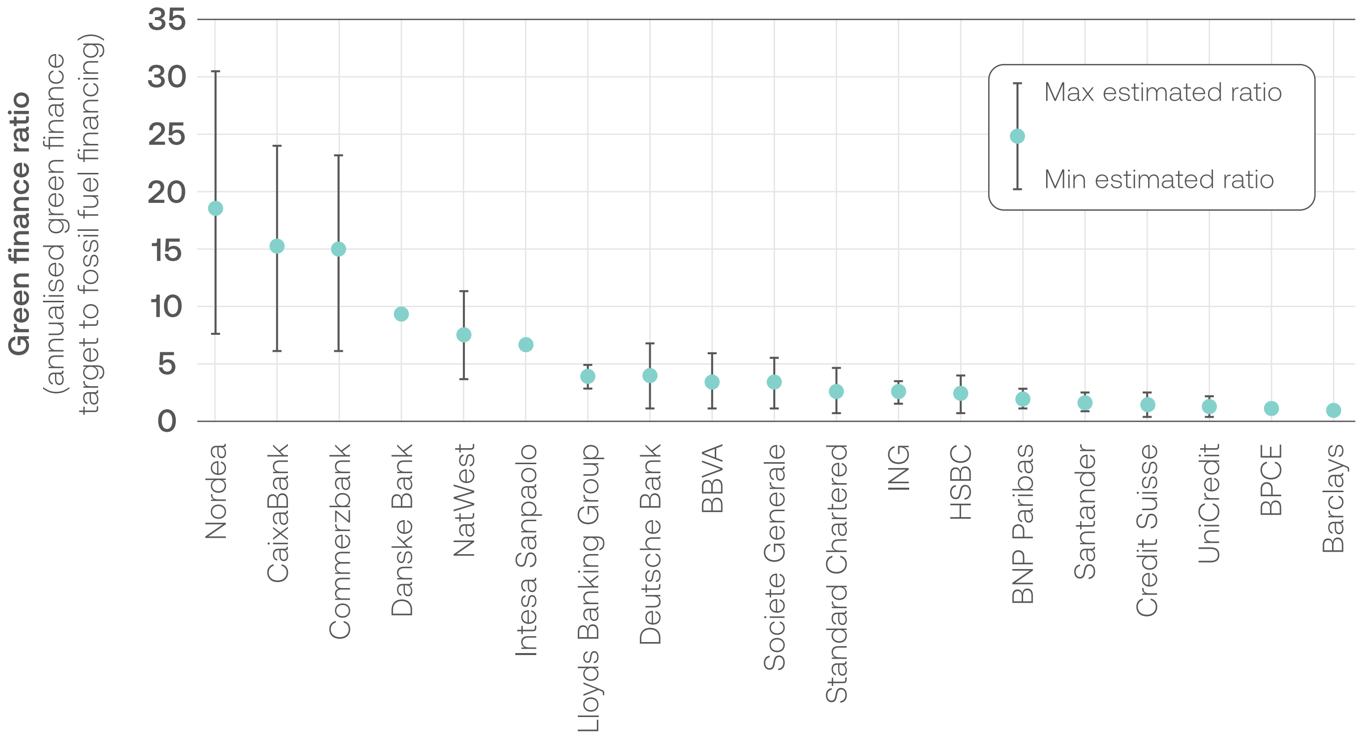


Finding 38: European banks are ramping up green finance targets, but the level of ambition varies widely.

All but one bank (the exception is Crédit Mutuel) have publicly set at least one green or sustainable finance target (equivalent to 96 per cent, up from 70 per cent in 2020). These targets cover relatively short timeframes – between three and 13 years. The widespread adoption of short-term green finance objectives is encouraging, as banks must play a critical role in mobilising private capital to finance the low-carbon transition[lxxvi].

Green finance targets vary considerably and assessing how ambitious they are remains challenging. To shed some light on their level of ambition, we compare banks' green finance targets with their historical levels of fossil fuel financing. The results vary widely. We estimate that Nordea is planning to provide between seven and 30 times more green finance annually than it provides fossil fuel financing on average, while Barclays' target seems to fall short of its fossil fuel financing (Figure 18). Bloomberg NEF finds that in 1.5C-aligned scenarios, the low-carbon to fossil energy supply investment ratio must reach roughly 4:1 on average in the 2020s[lxxvii].

Figure 18: Green finance target to fossil fuel ratios vary widely across banks

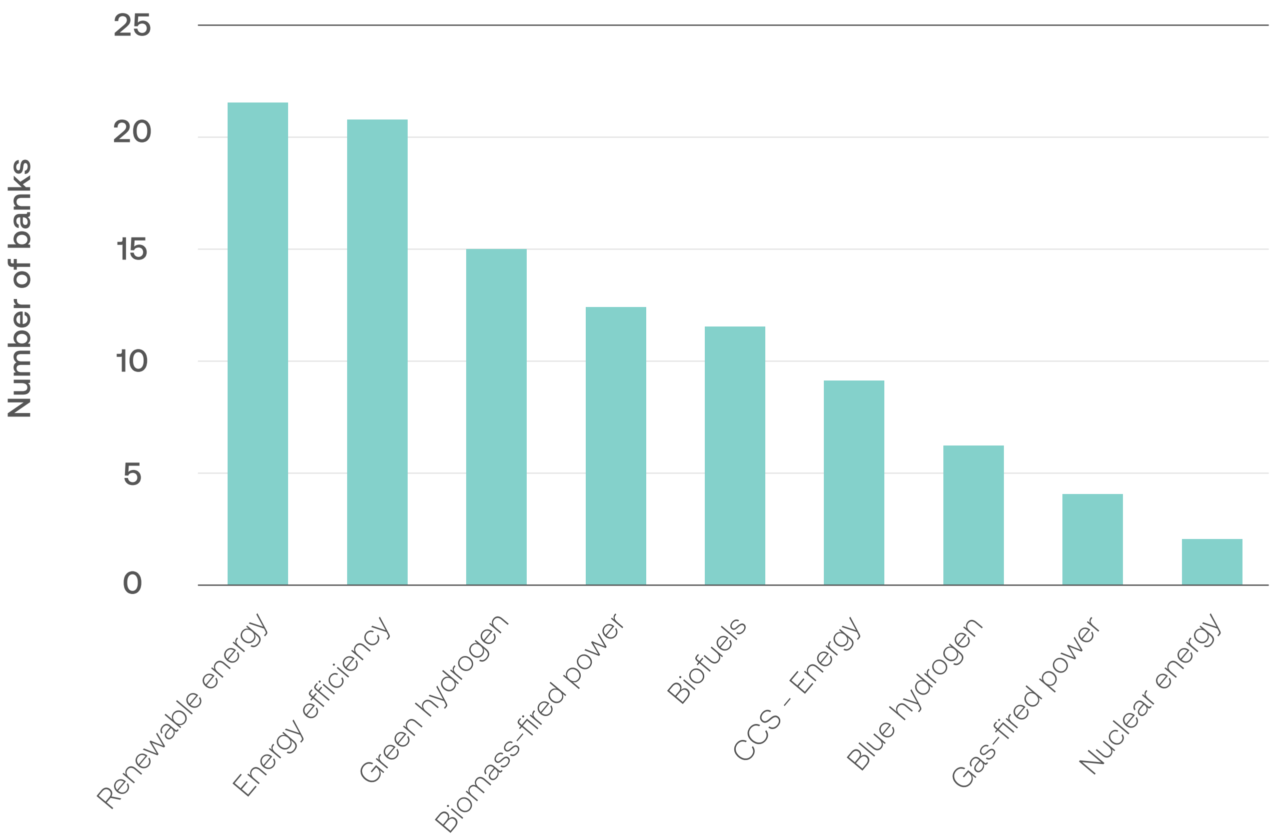


Source: Company disclosures, Rainforest Action Network, and ShareAction calculations. A range is estimated when the bank's target includes 'sustainability'-related opportunities that are not directly connected to climate change and/or when the bank includes products & services other than lending and capital markets facilitation (see methodology).

Finding 39: There is no consensus among banks on which sectors count as 'green'.

There is no clear consensus among the surveyed banks on which sectors should count towards a green finance target. Despite many banks stating that they rely on the EU taxonomy to identify climate-related opportunities, only a few indicated that they would include gas-fired power and nuclear energy in their sustainable finance target (Figure 19). This highlights how controversial the inclusion of these activities in the EU taxonomy is, and echoes concerns from other financial institutions[lxxviii] and civil society[lxxix].

Figure 19: Activities eligible for green finance targets vary across banks



Finding 40: There is little consistency on how banks report on green finance activities, and disclosures are often opaque.

No single bank comprehensively reports how their green finance volumes are differentiated:

- from other sustainable finance activities (e.g. sustainability, social);
- across sectors or activities (e.g. renewables, real estate);
- types of financing (e.g. debt, equity, lending);
- products and services (e.g. sustainability-linked bonds, green bonds);
- by geography (e.g. regional or national); or
- by division (e.g. corporate and investment banking, retail).

In addition, we find that disclosures currently suffer from at least one of the following flaws:

- Reporting only inventory (e.g. credit exposure) or flows (e.g. financing provided), but not both;
- Not reporting against targets, or with a different reporting scope (e.g. when various targets overlap or when the target is refreshed); and
- Disclosing green finance volumes only on a cumulative basis, with no possibility to determine year-on-year progress.

Because of the above limitations, progress is difficult to assess, and stakeholders only have a partial view of how the bank is capturing opportunities and achieving positive impact.

Leading practice example: Barclays' green finance sub-target and clear disclosures

Many banks leave us guessing how much of their green finance target is actually green. However, Barclays has set a sub-target to facilitate £100 billion of green financing by 2030, clearly differentiating green finance from its broader target to facilitate £150 billion of social, environmental, and sustainability-linked financing by 2025. Barclays' sustainable finance framework also clearly specifies that eligible financing activities include "debt and equity capital markets, corporate lending and consumer lending" and it explicitly excludes mergers & acquisitions advisory. The bank also publishes an ESG Data Hub which provides a clear overview of green finance volumes, including a breakdown by type of financing and geography. These disclosures are also clearly mapped against the bank's targets and progress is reported year on year. It is important to note, however, that Barclays has the lowest green finance target to fossil fuel ratio among surveyed banks and transparent disclosures cannot compensate for higher levels of fossil fuel financing.

Biodiversity strategy

Biodiversity strategy

In this chapter, we review how banks are tackling the issue of biodiversity loss. While we recognise that many banks' policies on this issue are still being developed and improved, the issue of biodiversity loss is not new and it is important that banks tackle the twin crises of climate change and biodiversity loss together, and with the same urgency. We consider the identification, integration, and disclosure of biodiversity risks and opportunities, impacts and dependencies; biodiversity targets; and the integration of biodiversity into policies that govern financing conditions.

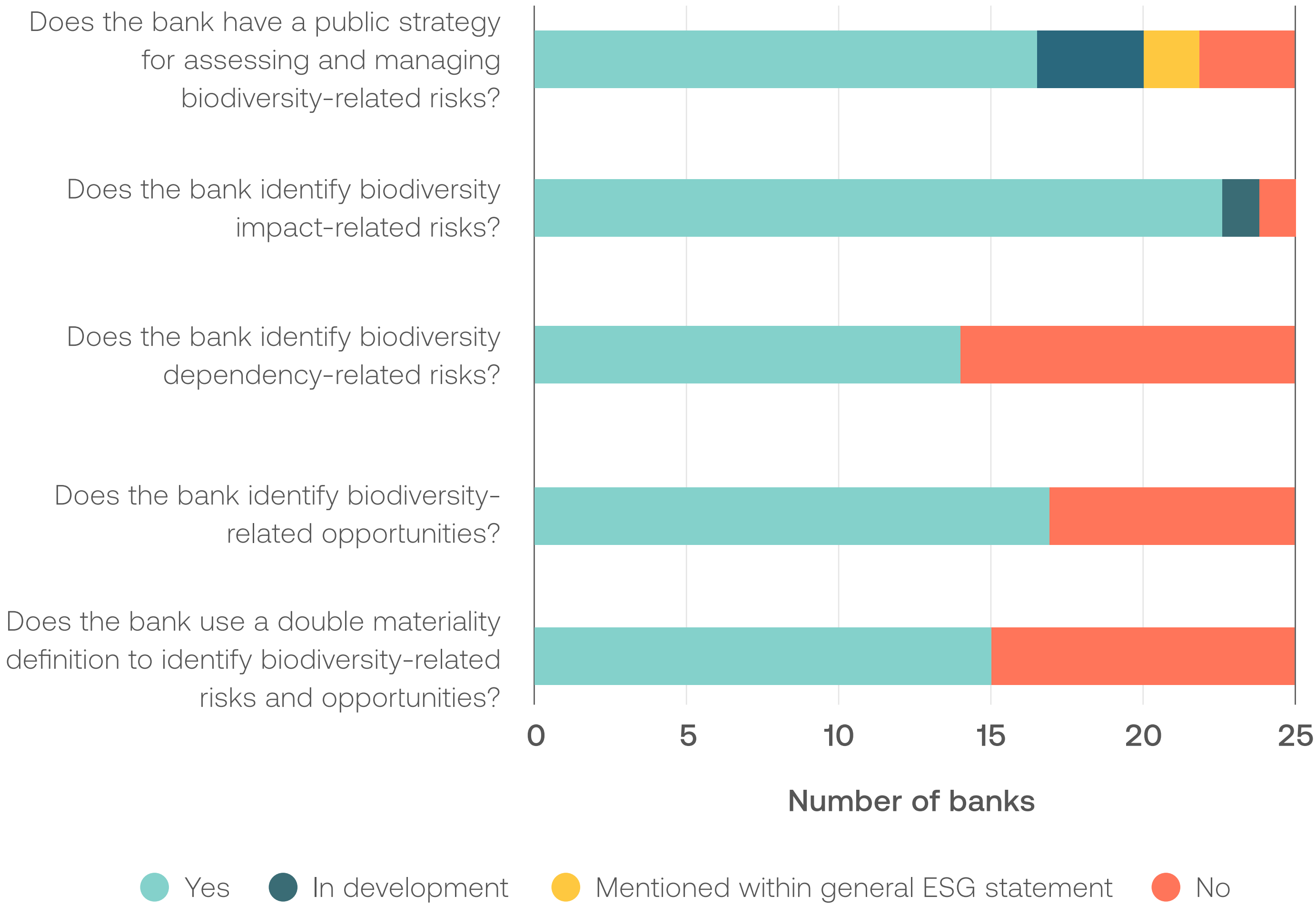
We use the term 'double materiality' to refer to both the impact that biodiversity-related risks and opportunities might have on a bank's own activities (dependencies), as well as the impact of its activities on biodiversity. In contrast, 'financial materiality' is based only on the impact that biodiversity-related risks and opportunities might have on the bank's own activities. Direct impacts such as habitat loss and degradation occur directly as a result of a company's activities and tend to be localised to the area of operations. Indirect impacts arise as by-products of project activities, for example population changes putting greater pressure on local resources, or impacts from the supply chain on biodiversity. Compared with direct impacts, they are often more complex and harder to quantify, and tend to affect a wider geographical area.

5.1 Identification and integration

Finding 41: More banks need to have publicly available strategies for assessing and managing direct and indirect impacts and dependencies on biodiversity.

Only 16 of the 25 banks in our survey publicly set out any form of strategy to assess biodiversity-related risks and opportunities (Figure 20) and many of these lack detail or do not address all aspects of direct and indirect impacts and dependencies. Four banks disclose limited strategies that are in the process of development, and two others only consider biodiversity implicitly within a general ESG strategy. Three banks – BBVA, Commerzbank, and DZ Bank – have no public strategy at all.

Figure 20: Just over half the banks have some form of strategy to identify biodiversity risks, opportunities, impacts and dependencies

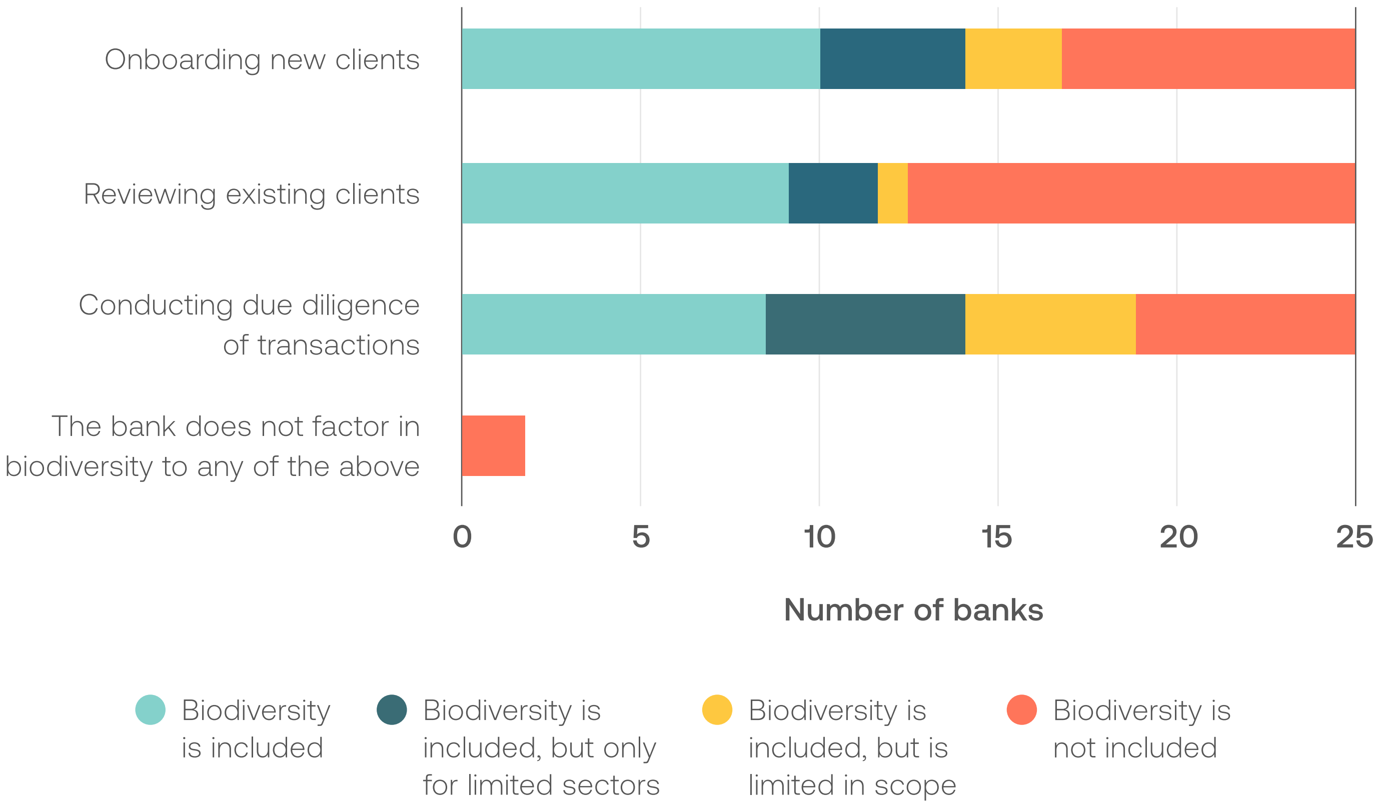


While 23 of the 25 banks currently identify risks related to potential impacts on biodiversity and nature, only 14 currently identify dependency-related risks. In addition, just 15 of the surveyed banks demonstrated a double materiality perspective when assessing the materiality of biodiversity risks. The 10 banks that use only a financial materiality definition, and those that identify impacts but not dependencies, risk underestimating the true scale of their impacts and failing to develop effective mitigation strategies.

Finding 42: Biodiversity is frequently not considered in banks' assessments of risk for clients and transactions, or is based on very limited information.

Worryingly, two banks (Crédit Mutuel and Nordea) don't consider biodiversity at all, and a further 18 are yet to fully integrate biodiversity as part of their standard risk processes for onboarding new clients, reviewing existing clients, and conducting due diligence of transactions (Figure 21). Positively, five banks – BNP Paribas, BPCE, Credit Suisse, ING, and Societe Generale – include biodiversity in each of these risk assessments. This shows it is possible; all banks need to consider biodiversity an integral part of their due diligence.

Figure 21: Most banks do not robustly factor biodiversity into risk assessments

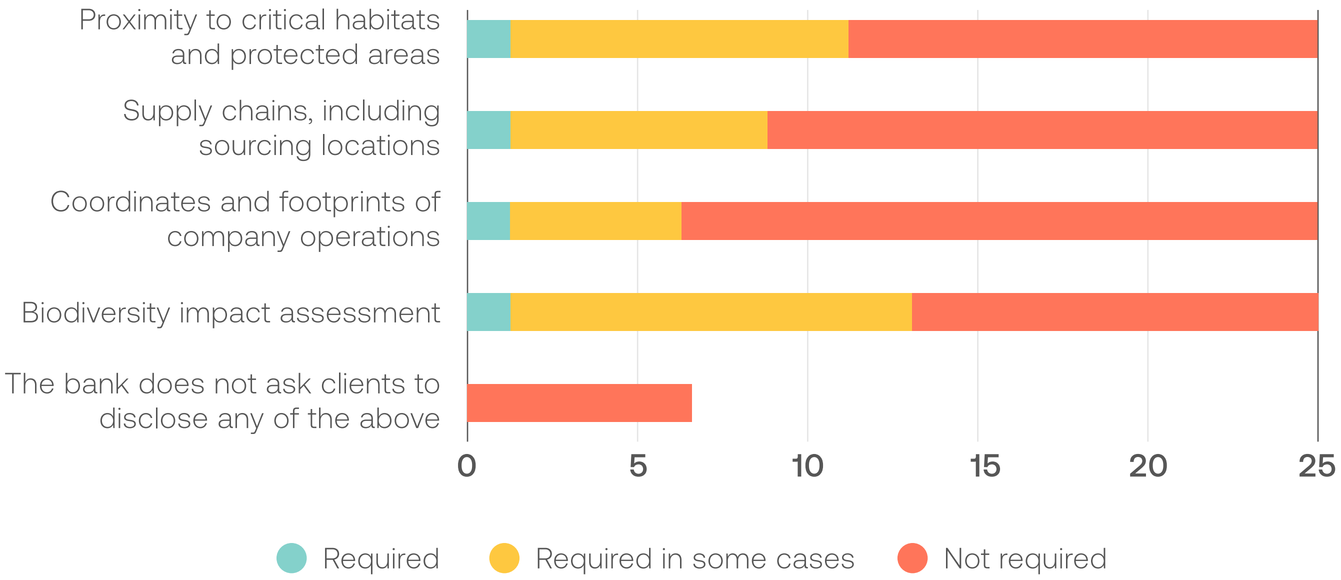


Even when banks do factor biodiversity into risk assessments, the information used is very limited.

We asked whether banks ask their clients to provide four key pieces of information (Figure 22). Only three banks required any one of these without any form of exception: Rabobank (locations of company operations, and supply chains), Lloyds Banking Group (proximity to critical habitats), and Societe Generale (impact assessments). Eight banks ask for impact assessments only for transactions covered by the Equator Principles, while seven banks ask whether operations are located in critical habitats or protected areas, but should expand this to include operations in surrounding areas that may directly or indirectly affect these habitats.

We have called on banks and other financial institutions to require companies to disclose location-level data about their main operations and supply chains, and provide site-level biodiversity assessments[lxxx]. These data are important as the severity and consequences of biodiversity loss are location-specific. They can be used in conjunction with the tools and approaches described below to identify site-specific risks to biodiversity and engage companies on their efforts to reduce these risks.

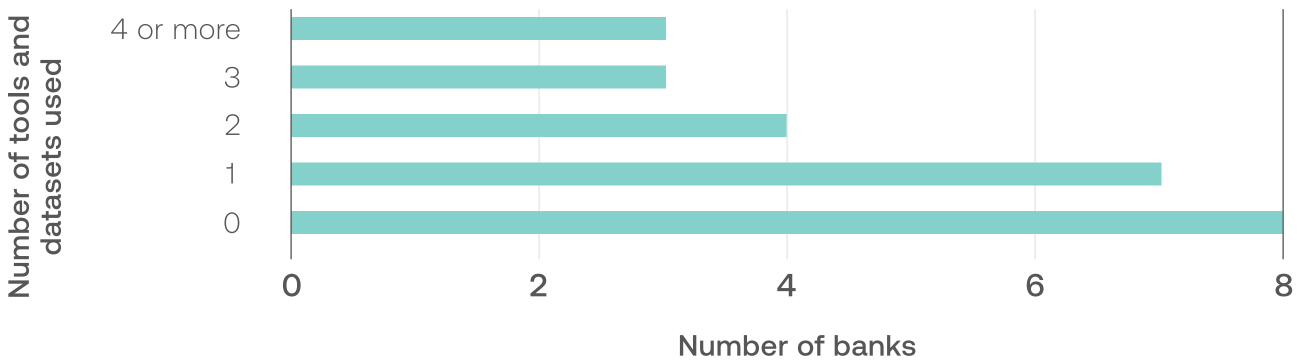
Figure 22: Banks require only very limited biodiversity-related information from their clients



Finding 43: Despite lack of biodiversity data commonly being cited as an issue by banks, very few banks are using data and tools that are available now.

Only 10 banks use more than one tool or dataset to identify and assess risks, and eight don't currently use any, despite a range of tools being available (Figure 23). We expect banks displaying best practice to use multiple tools and datasets as there is not yet a universal one that can support the assessment of all types of biodiversity-related risk. Our recent report[lxxxi] provides further details of current tools and datasets and how they might be used to assess the potential risks, opportunities, impacts, and dependencies of banks' portfolios on biodiversity.

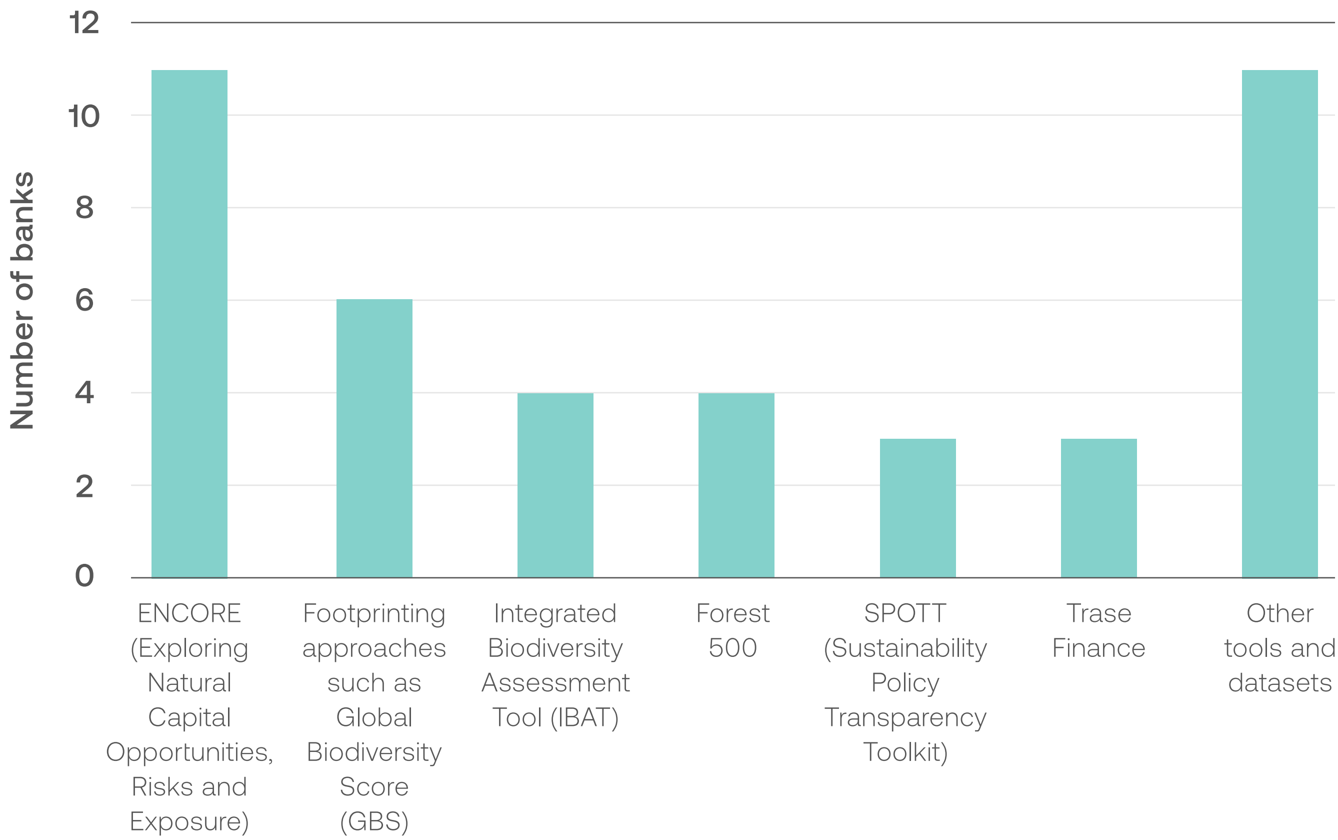
Figure 23: Most banks aren't using enough tools to assess biodiversity risks and opportunities



The most popular tool used at present is ENCORE (Exploring Natural Capital Opportunities, Risks and Exposure) (Figure 24), which guides understanding in how businesses across different sectors potentially depend on and impact nature, and how these potential dependencies and impacts might represent a business risk[lxxxi]. Footprinting approaches were the next most common type of tool; these can provide helpful detail about potential impacts on biodiversity.

It is particularly worrying that location and supply chain tools such as IBAT (Integrated Biodiversity Assessment Tool) and Trase Finance are only used by a handful of banks. Banks should be using IBAT for most project finance decisions to assess proximity to protected and/or important areas for biodiversity, as it is currently the only place where three key global datasets are available for commercial use (the International Union for the Conservation of Nature (IUCN) Red List of Threatened Species, World Database on Protected Areas and World Database of Key Biodiversity Areas). Yet, while 19 banks have a requirement that covers project finance on areas of biodiversity importance, only four are using IBAT. Without these data, it is difficult to see how banks can track key requirements (e.g. for all International Finance Corporation-linked loans) and follow general good practice advocated by Equator Principles and others.

Figure 24: Only a few banks use a full range of tools and datasets to identify and assess biodiversity risks



5.2 Targets

Finding 44: Very few of the banks surveyed have set any formal targets relating to biodiversity.

Only three banks (BNP Paribas, BPCE, and Societe Generale) have set any targets to manage biodiversity-related risks, and two of these are limited to very specific activities and areas. BPCE (via its Corporate and Investment Banking subsidiary Natixis) gave the broadest example[lxxxii], including commitments to: assess the impacts on biodiversity of clients' activities and integrate this analysis into the credit approval process for all clients by the end of 2023; progressively align its financing activities with the objectives of the Paris Agreement using a green weighting tool with biodiversity criteria; and publicly report progress.

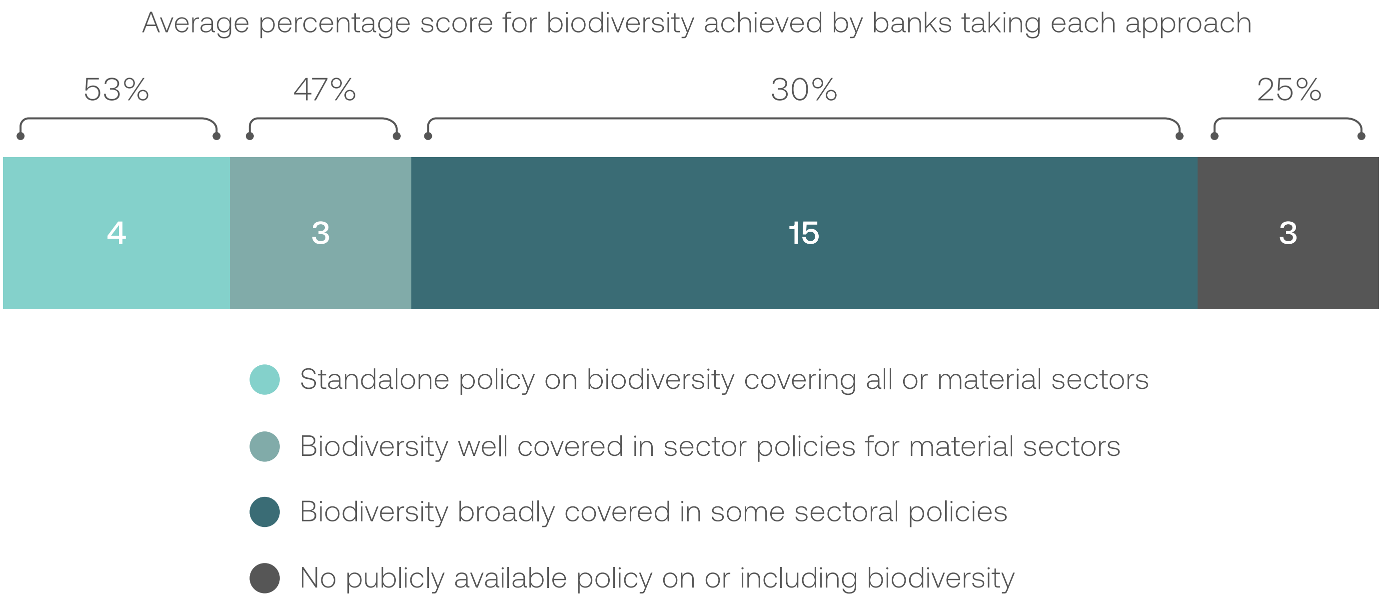
Banks need to go further and start using available tools and data (Finding 43) to set more specific, measurable, time-bound targets and track progress. We expect improvement in 2023 following the launch of the Global Biodiversity Framework, which will set goals and targets at an international policy level to guide what all actors should work together to achieve. It is important that banks participate in discussions about how financial institutions should respond to meet these global goals[lxxxiii], for example through groups like the Finance for Biodiversity Foundation.

5.3 Sector policies

Finding 45: The majority of banks only broadly cover biodiversity in their sector policies.

There is wide variation and limited consistency in how the banks we surveyed are incorporating biodiversity into their sector policies, and banks with a standalone biodiversity policy generally performed better in our survey (Figure 25). Sector policies specify the internal rules that a bank follows when making financing decisions on different sectors, based on environmental (and other) criteria. These rules determine whether clients or projects receive financing, rather than identifying the level of risk associated with a client. Fifteen banks broadly integrate biodiversity into some sector policies (forestry, for example), but only seven take a more systematic approach covering most sectors known to affect and depend on biodiversity. Effective and comprehensive sector policies will ensure banks address all drivers of biodiversity loss (habitat loss, direct exploitation, invasive species, pollution, and climate change) in their conditions for financing.

Figure 25: The majority of banks only broadly cover biodiversity in their sector policies.

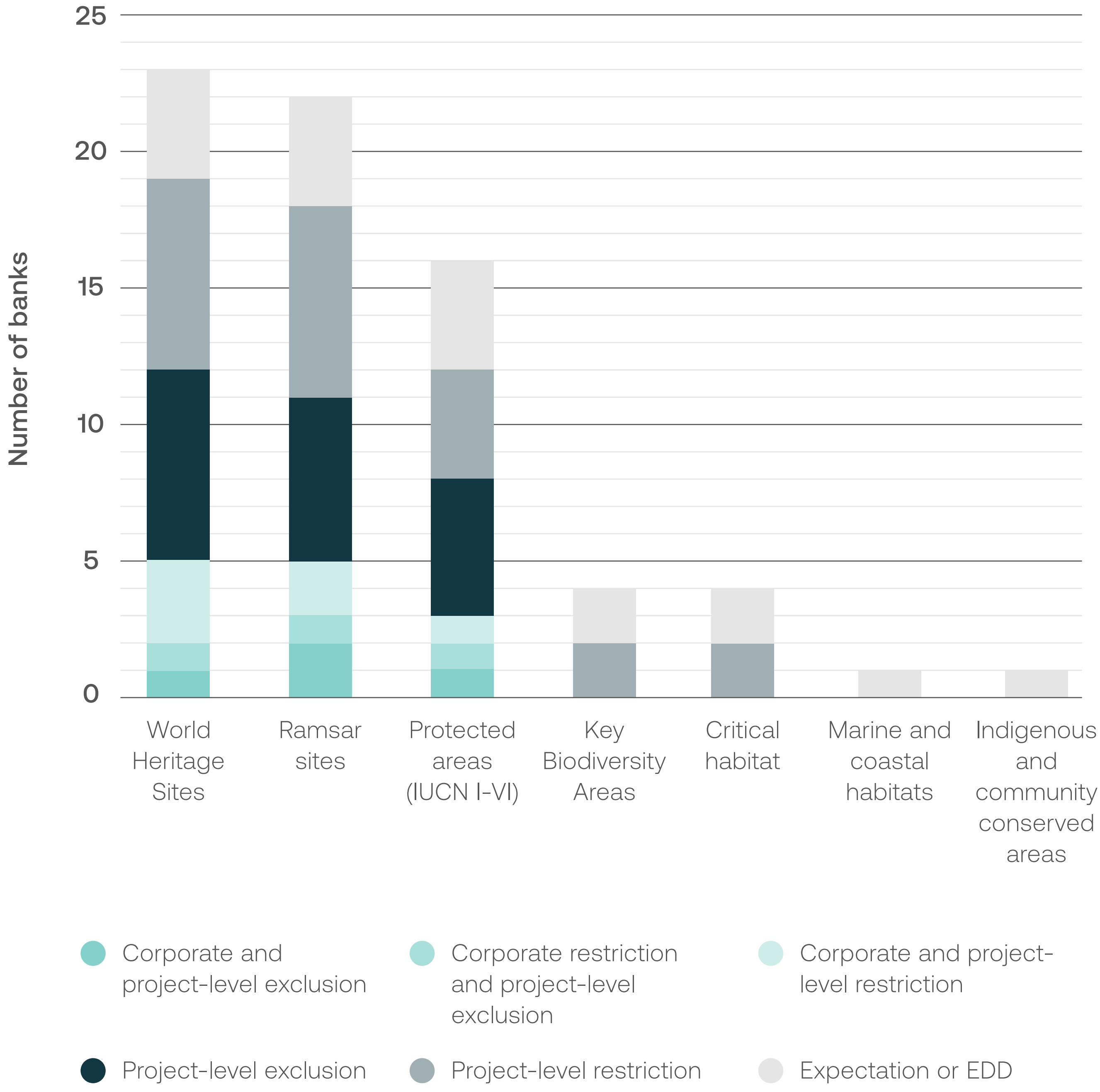


FInding 46: All but two banks surveyed have a policy on areas of global biodiversity importance, but few constitute a requirement not to operate in these areas and very few go beyond project finance.

Only two banks (DZ Bank and La Banque Postale) had no publicly available policy on activities in areas of global biodiversity importance. The remaining 23 take a wide variety of approaches, with policies addressing areas protected or otherwise designated under various systems because they support unique, highly threatened and/or ecologically important species and habitats (Figure 26).

Policies most often cover areas created under global conventions such as World Heritage Sites and Ramsar sites (Figure 26). However, World Heritage and Ramsar sites are only a limited part of the network of sites officially designated for biodiversity conservation. Sixteen banks have policies covering IUCN protected areas. Thirteen banks restrict operations in areas in management categories I and II (those with the strictest management requirements under the IUCN system); the other three did not disclose which categories they covered. Just four banks (BBVA, BNP Paribas, Crédit Agricole, and Societe Generale) cover any type of Key Biodiversity Area - sites recognised as important for threatened species and ecosystems. Only NatWest has a policy on operations in Marine Protected Areas; more banks' policies must comprehensively cover marine and freshwater habitats as well as those on land. And only one bank – Danske Bank – has a weak policy referencing Indigenous Peoples' and Community Conserved Areas, which are recognised globally for their vital role in conserving biodiversity[lxxxiv].

Figure 26: Banks' policies on areas of global biodiversity importance are highly varied and many are relatively weak.



EDD = enhanced due diligence. Exclusion – operations in these areas prohibited; restriction – operations in these areas can proceed under certain conditions (e.g., with prior agreement from the UNESCO World Heritage Committee, or if significant impacts are avoided). Definitions for each type of area available online at: https://www.biodiversitya-z.org/themes/areas?s=home-icons. For an explanation of critical habitats consistent with International Finance Corporation Performance Standard 6 on Biodiversity Conservation and Sustainable Management of Living Natural Resources, see here: https://www.biodiversitya-z.org/content/critical-habitat.

Not all the policies constitute a requirement not to operate in the area: only eight policies are full exclusions. Eleven banks' policies contain exceptions, meaning the transaction/client can proceed under certain conditions. Four banks only implement non-binding expectations or enhanced due diligence for clients or projects operating in the areas they cover.

Most banks do not cover all relevant types of financing. Nineteen banks have a policy that covers project finance, but only five of these banks (ING, Intesa SanPaolo, Rabobank, Standard Chartered, and UBS) also restrict financing to companies that operate in areas of global biodiversity importance. For policies to be meaningful, banks should restrict financing at both project and corporate level. Taken with the fact that relatively few policies act as exclusions (Figure 26), most banks are not yet adequately protecting areas critical for biodiversity through their sector policies.

Leading practice example: Rabobank's policy applies at the project- and corporate-level, with clear consequences for clients that do not comply

Rabobank covers areas of global biodiversity importance in its cross-sectoral Exclusion List and standalone Biodiversity Policy. The bank excludes both new and existing clients that operate in specified areas of global biodiversity importance. The areas covered by the policy are:

- **Ramsar wetlands:** wetlands considered to be of international importance to conserving global biodiversity and sustaining human life;
- **UNESCO World Heritage Sites:** globally recognised sites of outstanding universal value based on their natural or cultural values, or a mixture of the two; and
- **IUCN Category I and II protected areas:** strict nature reserves; wilderness areas that are largely unmodified by human activity; and large natural or near natural areas.

Rabobank will not enter into business with companies that operate in these areas as it views this as incompatible with sustainable development. It will not expand financing and will exit relationships with existing clients that do not comply with the policy, after contractual commitments are honoured. Any transactions directly facilitating operations in these areas will be refused.

This is the strongest policy in our assessment, but Rabobank could still go further by more comprehensively incorporating all areas of critical habitat into their policy, in line with the International Finance Corporation Performance Standard 6, as well as including Key Biodiversity Areas and ICCAs.

Finding 47: Two thirds of banks include the principle of Free, Prior and Informed Consent for Indigenous peoples and affected communities in their policies in some form, but only one implements this as a general requirement across all sectors.

Slowing and reversing biodiversity loss is inseparable from preserving the rights of Indigenous peoples, who protect 80 per cent of global biodiversity[lxxxv]. Despite the principle of Free, Prior and Informed Consent (FPIC[17]) being an international norm[lxxxvi], only one bank – BBVA – implements a general exclusion for clients involved in violating the rights of Indigenous groups without their free, prior, and informed consent. A further five banks (Barclays, BNP Paribas, Credit Suisse, HSBC, and ING) include FPIC as a requirement for clients in specific sectors, and three include it as a project-level, but not client-level requirement. Eight banks expect, but do not require, clients or projects to obtain FPIC. Concerningly, eight banks do not reference the FPIC principle at all in their policies; this should be addressed urgently as it is a human rights issue as well as being critical for biodiversity conservation. Twenty-one of the 25 banks surveyed are Equator Principles signatories and through this have committed to FPIC at a high-level. It is concerning that almost 20 years since the Principles launched, and despite pressure from investors[lxxxvii], FPIC is still not adequately reflected in the rules governing banks' financing decisions. A more consistent approach to the human rights practices of their clients will enable banks to better manage their impacts not only on people but also on biodiversity.

Finding 48: None of Europe's largest banks have committed to zero deforestation across their entire business and existing requirements on deforestation are piecemeal.

None of the banks we surveyed had a timebound zero deforestation commitment covering all financing activities. Forests host some of the richest concentrations of biodiversity globally: tropical forests are estimated to be home to more than half of the planet's species[lxxxviii]. Stopping deforestation is not only crucial to halting biodiversity loss; a net-zero future cannot be achieved without ending deforestation by 2030[lxxxix].

Consensus has formed that commodity-driven deforestation must be eliminated even earlier[xc]. Yet, we find that few banks are acting on this. Critical sectors driving commodity-driven deforestation include beef, soy and palm oil, which are together responsible for 60 per cent of tropical deforestation[xci].

17 The principle of Free, Prior and Informed Consent (FPIC) defines an obligation to respect the human right of Indigenous Peoples and Local Communities to give or withhold their consent to a project that may affect them and/or their territories prior to the commencement of any activities.

Seven banks require palm oil clients to commit to no deforestation (via a No Deforestation, No Peat, No Exploitation framework[xcii]). Only four banks (BNP Paribas, Crédit Agricole, Santander, and Societe Generale) have set explicit timebound requirements for beef and soy clients to commit to zero deforestation by 2025 or sooner. However, these only cover clients in South America, or specifically the Amazon and Cerrado regions, leaving huge areas of forest vulnerable elsewhere in the world. These are leading practice commitments but must go further to cover other key regions such as African countries and Indonesia and other commodities like forestry products and cereals (responsible for 13 per cent and 10 per cent of deforestation respectively[xcii]). Ultimately, it is unlikely that a piecemeal approach to individual commodities and regions will be sufficient to eliminate commodity-driven deforestation by 2025.

Leading practice example: BNP Paribas and Societe Generale require soy and beef clients to commit to an end date for deforestation in key biodiverse regions

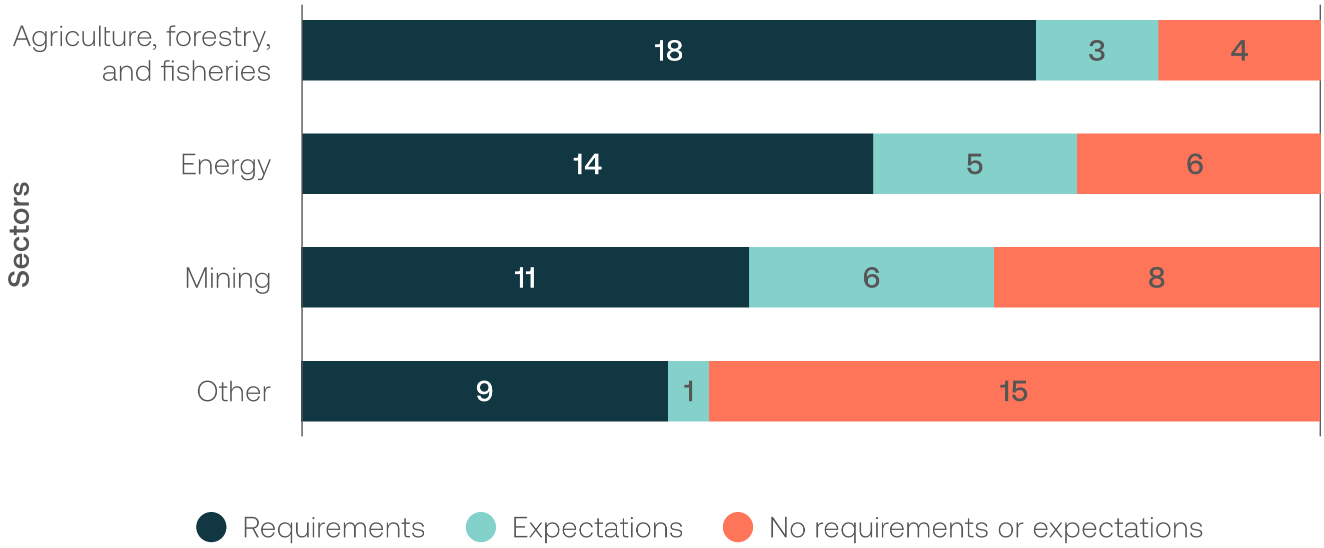
The Amazon[xciii] and Cerrado[xciv] regions are critical ecosystems holding huge biodiversity value, which are under threat from commodity-driven deforestation, particularly relating to soy and cattle[xcv].

BNP Paribas will only provide services to soy and beef companies which have a strategy to achieve zero deforestation in their production and supply chains by 2025 at the latest. It will not finance customers producing or buying these commodities from land cleared or converted after 2008 in the Amazon. The bank will also ‘encourage’ its clients not to buy or produce beef or soy from land in the Cerrado which was cleared or converted after 1 January 2020. By 2025, all BNP Paribas customers must have full traceability of beef and soy channels.

Societe Generale will not provide new financial services to any company involved in beef or soy production or trading from land cleared or converted after 2008 in the Amazon. It also will not provide services when the underlying activities are related to soy or cattle in the Amazon and the Cerrado, covering both production and processing.

Finding 49: All but one of the banks integrate biodiversity-related criteria into policies for at least one sector – but there is a bias towards agriculture, forestry, and fisheries.

Figure 27: Banks most commonly integrate biodiversity into agriculture, forestry, and fisheries policies with energy and mining receiving less focus



Expectations are less binding than requirements, which generally refer to an explicit condition of financing on the basis of that criterion. Figures refer to the number of banks including biodiversity-related criteria in their policy for that sector.

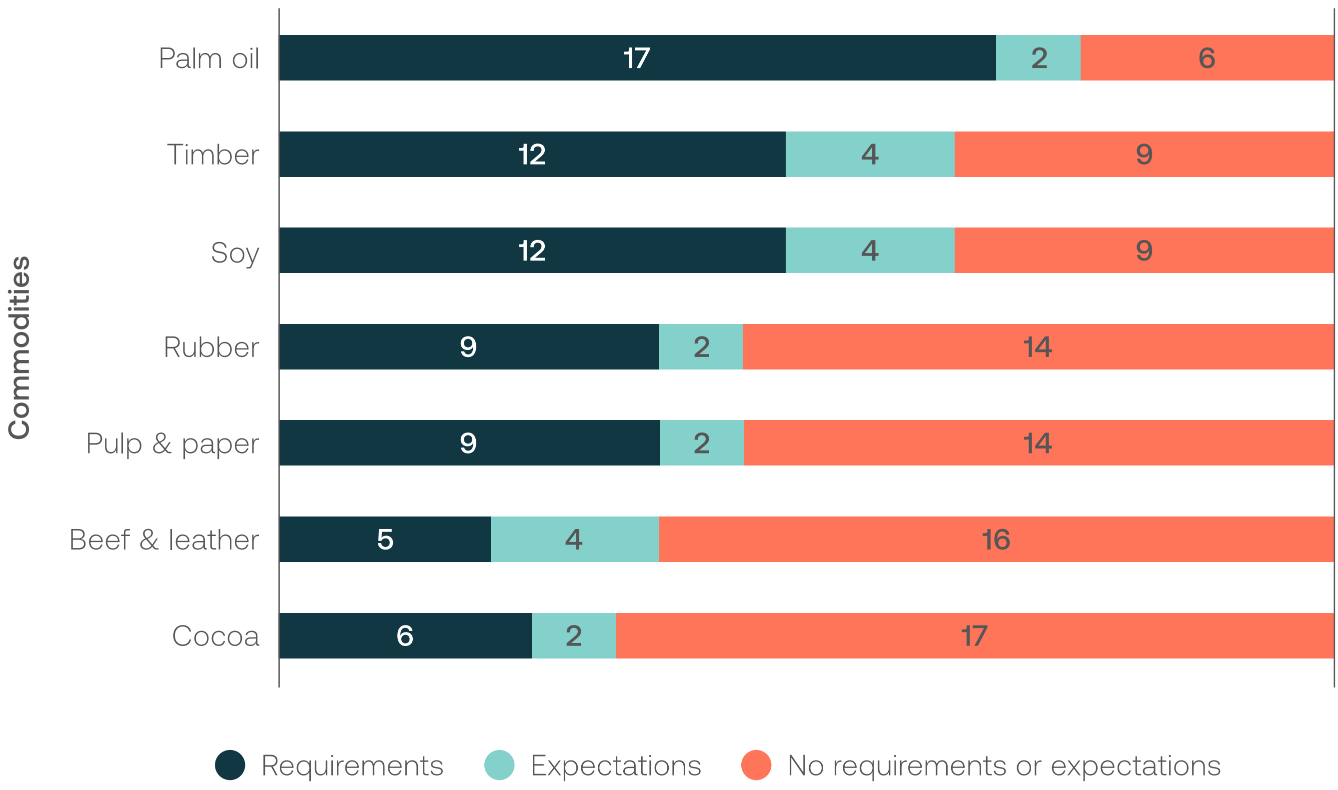
Twenty-four banks integrate some form of biodiversity-related criteria into at least one of their policies towards a selection of sectors considered to be high risk for biodiversity[18]; only La Banque Postale does not. However, not all sectors are receiving the same attention (Figure 27). Banks prioritised integrating biodiversity into their agriculture, forestry, and fisheries policies, with fewer addressing energy or mining. All banks surveyed already integrate climate change into their energy and mining policies, and must start to address biodiversity and climate as connected issues.

18 Sectors were selected from "The Climate-Nature Nexus: An investor guide to expanding from climate- to nature-data" produced by UNEP-WCMC and the Finance for Biodiversity Initiative (https://www.f4b-initiative.net/_files/ugd/643e85_63b59c5f5cab417ea731658f4321725d.pdf). Agriculture, forestry, and fisheries; energy; and mining are the three sectors with the highest potential risk exposure to biodiversity impacts and dependencies.

Across all sectors, the policies most often took the form of an exclusion or restriction on operating in areas of global biodiversity importance. This reliance on simple geographic exclusions should be complimented by use of location-specific data to quantify the actual impact of individual companies (and/or projects) to prevent damage to critical ecosystems and biodiversity, yet very few banks are asking for these data (Finding 43).

Finding 50: Banks are neglecting some key soft commodities, and four banks don't have criteria for any soft commodity.

Figure 28: Banks most commonly integrate biodiversity into policies on palm oil, followed by timber and soy; other soft commodities are relatively overlooked



Expectations are less binding than requirements, which generally refer to an explicit condition of financing on the basis of that criteria. Figures included within the bars refer to the number of banks including biodiversity-related criteria in their policy for that sector.

Seventeen banks have policies on palm oil, and 12 do so for timber and soy (Figure 28). A handful of other banks include criteria as expectations. Rubber; pulp & paper; beef & leather; and cocoa are much more poorly covered. Four banks – Crédit Mutuel, Danske Bank, La Banque Postale, and Nordea – don't have biodiversity-related requirements for any commodity. It is particularly concerning that just nine banks have biodiversity requirements or expectations for beef clients. Beef production is associated with 41 per cent of deforestation[xcii], 25 per cent of greenhouse gas emissions from food production[xcvi], and agricultural runoff, all of which heavily affect biodiversity. Banks should integrate requirements to address the main drivers of biodiversity loss into all soft commodity policies within the agricultural and forestry sectors.

Between 60 to 90 per cent of policies that include biodiversity considerations require or expect clients to be accredited by a certification scheme[19]. Relying on these schemes has been criticised as an inadequate approach to eliminating commodity-driven deforestation as many are perceived as too weak[xcvii]. Moreover, while they often have a strong focus on deforestation, these schemes tend to have fewer critical requirements linked to other drivers of biodiversity loss, such as climate change[xcviii].

19 Commodity certification schemes are voluntary initiatives in the agricultural sector that aim to ensure sustainable production of specific commodities. Examples include the Roundtable on Sustainable Palm Oil (RSPO); Roundtable on Responsible Soy; and Forest Stewardship Council (FSC).

Climate and biodiversity engagement and collaboration

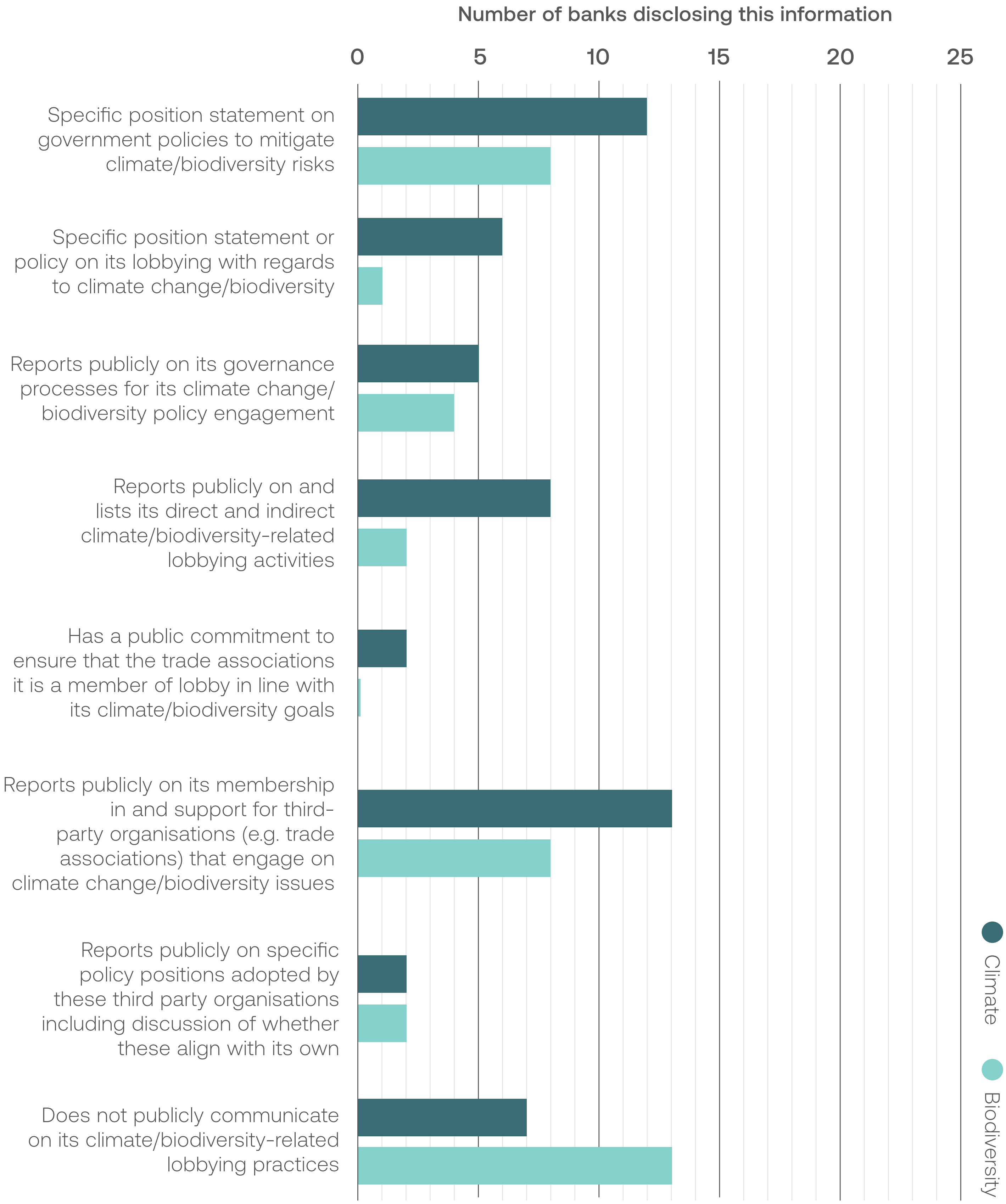
Climate and biodiversity engagement and collaboration

In this section, we assess how transparently and effectively banks engage and collaborate with other banks and stakeholders (governments, NGOs, academics, industry experts, investors, and more) on climate- and biodiversity-related issues. Engagement may be through policy engagement; collaborative initiatives; or consultations on methodology and strategy.

Finding 51: European banks are not transparent about how they are lobbying governments on climate and biodiversity issues.

Investors are increasingly demanding more transparency on climate policy lobbying and the focus on engagement with biodiversity policy is also set to rise[xcix]. Despite this, we found that seven of the surveyed banks do not publicly communicate about their climate-related lobbying practices at all. For biodiversity, this rises to 13 banks. Of those that do communicate on the subject, disclosure was patchy (Figure 29). Just two banks – Barclays and Standard Chartered – have a clear public commitment to ensure that the trade associations they belong to lobby in line with the Paris Agreement. However, neither systematically reports on this commitment by disclosing areas of misalignment and what action is taken to remedy this. For example, the banks do not report on how membership of associations such as the US Chamber of Commerce aligns with their climate position; this trade association is actively opposed to climate policy in the US[c]. Not one bank has a commitment to ensure its trade associations support policy aimed at preventing and reversing biodiversity loss. This is concerning as recent research suggests that industry associations are actively lobbying against emerging biodiversity policy in the EU and the US[ci].

Figure 29: Many banks do not publicly disclose key information about their public policy engagement in relation to climate change and biodiversity

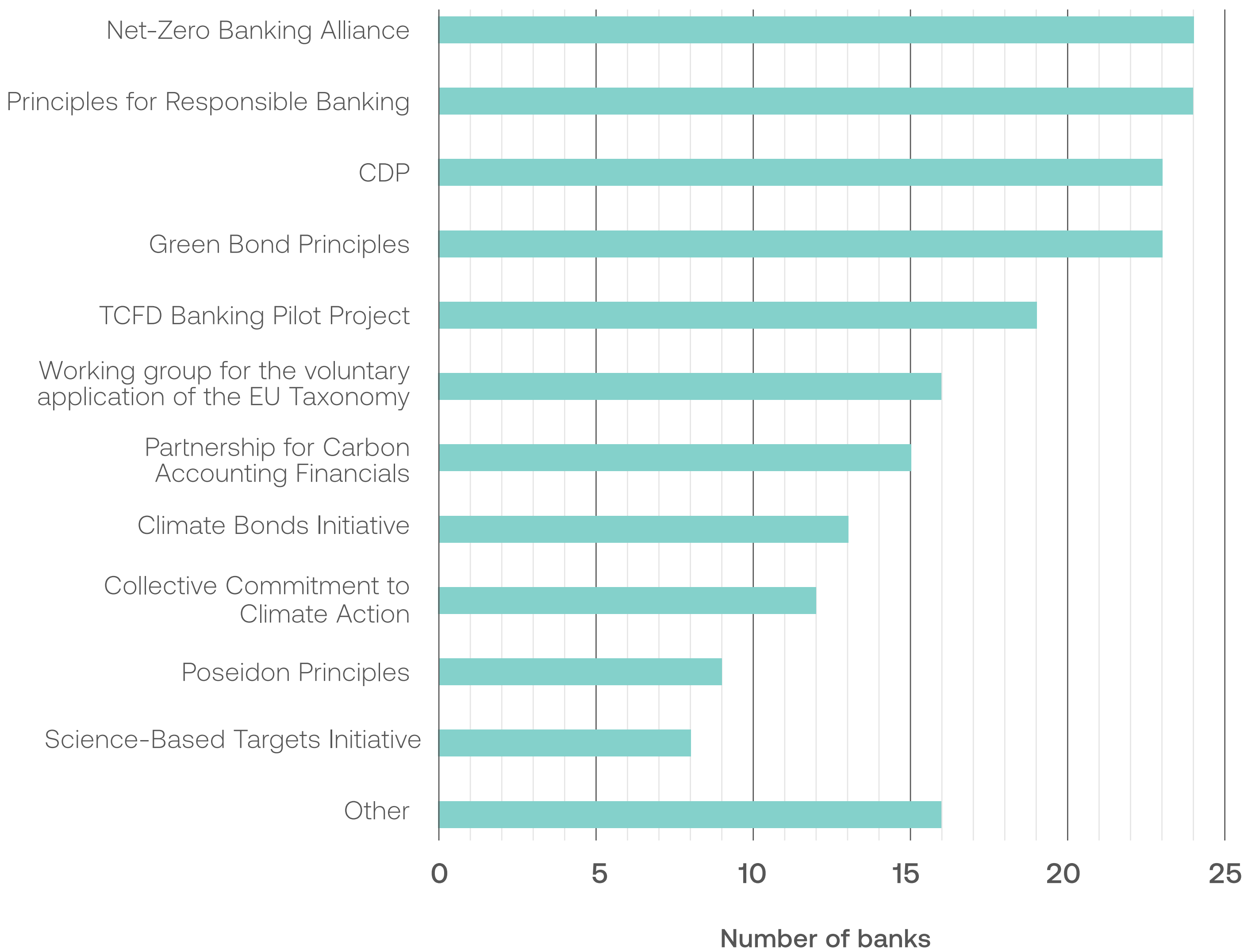


Finding 52: All banks participate in industry initiatives and consult a wide range of stakeholders on climate- and biodiversity-related issues, but few demonstrate that this materially influences their strategy.

Membership and participation levels in climate- and biodiversity- related collaborative initiatives is high: on average, each bank participates in seven climate-related and two biodiversity-related initiatives (Figures 30 and 31). All banks except for one (DZ Bank and HSBC respectively) are members or signatories of the Net-Zero Banking Alliance (NZBA) and the Principles for Responsible Banking (PRB).

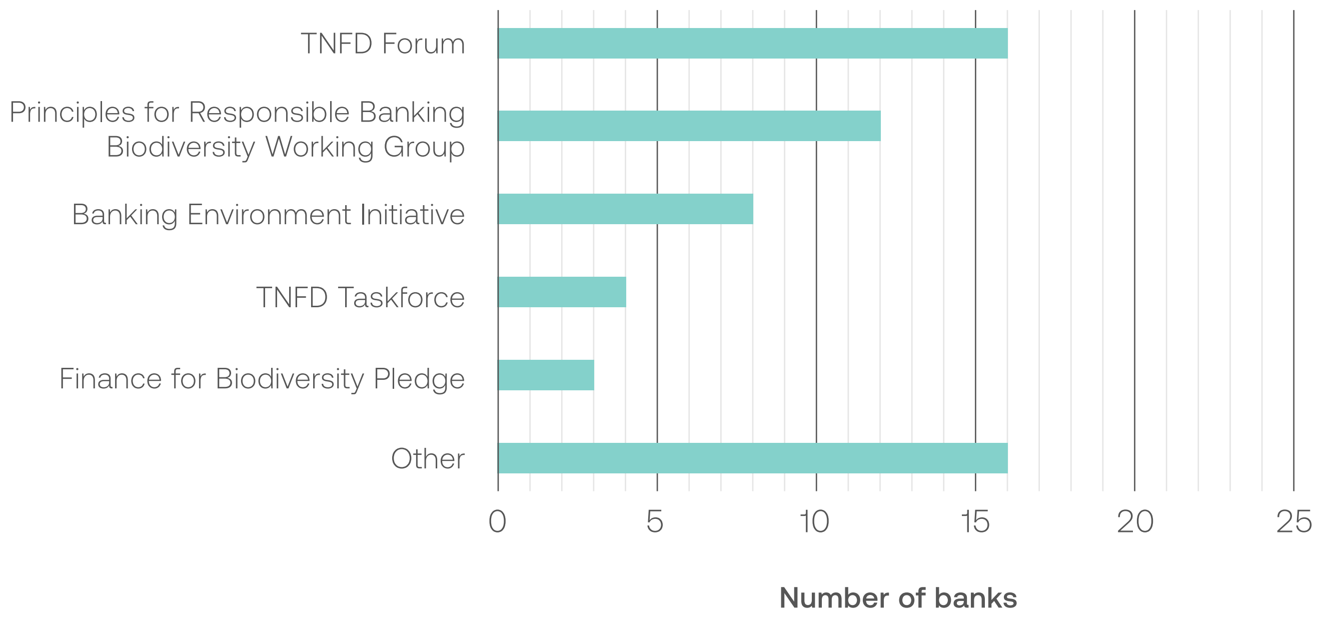
It is positive that banks are cooperating with industry peers to overcome climate- and biodiversity-related challenges collaboratively; a well-coordinated problem-solving approach and uniform disclosures across the sector are beneficial for all stakeholders. However, our findings show that there is no correlation[20] between banks' participation levels in climate-related collaborative initiatives and actual performance in terms of climate strategy in our survey. This suggests that the need for regulation persists: voluntary participation in such initiatives appears insufficient – on its own – to actually improve practices.

Figure 30: Nearly all banks are members/signatories of the NZBA and the PRB



20 The Pearson correlation coefficient was 0.05 to 2 decimal places.

Figure 31: Banks are less likely to participate in biodiversity-related collaborative initiatives than climate-related ones



All banks report engaging in consultations with a range of stakeholders to strengthen methodologies or to improve strategy on climate and/or biodiversity. Most often, they consult with NGOs, industry or sector experts, and academics and the scientific community. Only four banks (Barclays, BNP Paribas, Lloyds Banking Group, and Santander) provided a valid example of consulting with impacted communities on climate and/or biodiversity strategy; and no banks were able to convincingly demonstrate engagement with impacted workers.

Despite engaging in widespread consultations, very few banks were able to demonstrate how these collaborations materially affected updates to their climate or biodiversity strategy. Only seven banks provided a convincing example of a major update to biodiversity strategy influenced by an external stakeholder; 12 banks provided an example of a major update to climate strategy. Banks reported that these major updates were most often influenced by NGOs; the next most commonly mentioned stakeholder were investors.

ING presented one of these few examples. The bank reported that in 2020, it decided to no longer enter new contracts for oil & gas exports from Ecuador. This was a result of pressure from NGOs Stand.earth and Amazon Watch – as well as hard commodities trading clients – regarding oil & gas activities in the Amazon Sacred Headwaters region. ING expanded this moratorium to new oil & gas export contracts from Peru in 2021, after continued dialogue with NGOs[cii].

Leading practice example: HSBC engages with ShareAction and investors on its climate strategy

Following the announcement of HSBC Group's climate strategy in October 2020, and ahead of the 2021 AGM, ShareAction, more than 130 retail investors and 15 institutional investors representing $2.4 trillion in assets co-filed a shareholder resolution on the Group's climate agenda. Several Board members and senior management engaged with ShareAction and the institutional co-filing group. Following months of negotiations, the HSBC Board put forward a resolution that was co-drafted with the co-filing group and committed the bank to phase out thermal coal by 2030 in the EU and OECD and by 2040 elsewhere, and issue a new thermal coal policy by the end of 2021, among other things. We withdrew our resolution in response and HSBC committed to engaging with ShareAction and the co-filing group on the implementation of these commitments[ciii,civ].

Recommendations for banks

Recommendations for banks

The scale and urgency of the climate and biodiversity crises demand that banks demonstrate – and even exceed – leading practice on all the issues highlighted in this report. While some banks demonstrate leading practice in specific areas, no bank demonstrates leading practice across all assessed areas. The list of recommendations below summarises some priority actions we expect banks to take. We urge banks to implement recommendations across all categories, as a good performance on one topic does not necessarily translate into good performance overall.

1 General recommendations

Banks' overall performance on climate and biodiversity remains insufficient, and only a few of them consider the social impacts that their financing decisions might have. We recommend that banks:

- Tackle the twin crises of climate change and biodiversity loss together, and with the same urgency.
- Explicitly commit to the principle of FPIC for Indigenous peoples and affected communities. Reflect this commitment in sector policies, such as by excluding projects and clients that violate FPIC.
- Commit to a just transition and publish a plan of action to that effect.
- Report on their progress in Annual Reports.

2 Climate and biodiversity governance

Boards of banks should take full ownership of their bank's climate and biodiversity agendas. We recommend that banks:

- Ensure that at least one board member has climate expertise, and another has biodiversity expertise.
- Provide adequate and regular training to board members about climate and biodiversity.
- Integrate climate and biodiversity goals into board remuneration policies.
- Ensure that any climate or biodiversity KPIs are explicitly linked to the implementation of action-oriented policies leading to material reductions in both emissions and biodiversity loss. Ensure that these KPIs are adequately weighted relative to other KPIs.

3 Identification, integration, and disclosure of climate-related risks

For banks' internal risk identification and management processes to capture the full range of risks faced by the bank, we recommend that they:

- Take a double materiality approach to identifying and managing risk, by considering both the financial risks that the bank faces due to the climate and biodiversity crises and the impacts that its activities have on people and planet. This should include all relevant financial services – including capital markets activities – and environmental and social risks that are interlinked with climate.
- Carry out scenario analyses and climate stress tests across all portfolios using 1.5C, 2C, and >2C scenarios. Disclose the results of these analyses, and how findings have been integrated into their strategy and decision-making processes.
- Require the disclosure of scope 1, 2 and/or 3 emissions (for sectors where scope 3 emissions are material, such as fossil fuels) to enter or renew a relationship or execute a transaction.

4 Carbon-related disclosures

The Task Force on Climate-Related Financial Disclosure requests that banks disclose their exposure to carbon-related assets. For these disclosures to fully reflect banks' exposure and financing to different sectors, we recommend that they:

- Disclose financing volumes and financed emissions both in relative and absolute terms per sector, using the Partnership for Carbon Accounting Financials methodology to inform sector breakdown. Provide a breakdown by activity for sectors (such as fossil fuels, across oil & gas, coal power, coal mining) and for any activity a bank has set a target for (such as a specific segment of the transport industry).
- Include both lending and capital markets activities, where relevant, in any carbon-related disclosures.
- Report drawn and undrawn exposures in financed emissions disclosures.

5 Net-zero targets

Europe's largest 25 banks have all committed to net-zero by 2050. They must now translate their long-term commitment into interim milestones for the bank as a whole and for specific parts of their portfolios. We recommend that banks:

- Set a 2030 overarching target to reflect their fair share of absolute emissions reduction across all activities.

- Set 2030 or earlier targets for the most carbon-intensive parts of their portfolio. Targets for oil & gas, coal and power should not be delayed any further unless the bank has made a credible commitment to phase out coal (mining and power) and oil & gas. Oil & gas targets must be expressed on an absolute basis.
- Ensure their targets cover all relevant greenhouse gases. For oil & gas, banks should cover CO_2 and methane at a minimum.
- Include all relevant financing activities in their targets, including capital markets activities. Banks should account for the full share of their capital markets activities in their targets.
- Go beyond what reference scenarios require by adding a buffer to any targets that the bank sets. This is even more critical where 1.5C-aligned scenarios are not available.
- Disclose all key components and assumptions supporting sector targets. This includes baseline and base year, target (rate of reduction and/or end value), metric, scope of emissions, greenhouse gases, financing covered, lending indicator, and climate scenario.
- Publicly disclose their reliance on carbon offsets – and those of their clients.

6 Sector policies for climate

Banks' emissions reduction targets need to be complemented by robust sector policies to truly align financial flows with the Paris climate goals. Robust sector policies can minimise offsetting between high-carbon and low-carbon activities; prevent the financing of Paris-misaligned activities, such as coal expansion and new oil & gas; and drive ambitious corporate change by setting climate-related conditions for financing. We recommend that banks take the following actions across the coal, oil & gas, biomass and shipping sectors.

a Coal

- Exclude dedicated financing for any new thermal coal projects and expansion of existing projects.
- Commit to phase out thermal coal mining and power by 2030 in OECD countries and by 2040 in non-OECD countries at the latest.
- Require that clients with exposure to thermal coal mining and power publish a coal phase-out plan in line with the bank's own by a specific date.
- Restrict financing to companies expanding thermal coal and companies highly exposed to the sector (both on an absolute and relative basis).
- Expand the scope of their policy to cover metallurgical coal.

b Oil & gas

- Publish oil & gas policies that cover all types of unconventional oil & gas, including Arctic oil & gas, fracking oil & gas, ultra-deepwater and oil sands.
- Exclude asset financing to new oil & gas fields, new upstream oil & gas projects and unconventional oil & gas projects including related infrastructure such as pipelines.
- Publish a plan by end 2023 at the latest to restrict financing at the corporate level for new oil & gas. This can include:
  - A commitment to require clients to publish transition plans by a specific date, setting out red lines for it and specifying that these plans must prohibit the development of new oil & gas fields;
  - A commitment to exclude oil & gas companies with expansion plans.
- Introduce corporate financing restrictions for companies that are highly exposed to unconventional oil & gas. These restrictions should be ratcheted up over time to lead to a phase out and cover companies that have a diversified asset base but remain large unconventional producers or developers.

c Biomass

- Classify woody biomass as a restricted activity.
- Prohibit financing for any new biomass power projects and coal-to-biomass conversions by clients.
- Disclose strict financing criteria for companies that have exposure to the biomass sector.

d Shipping

- Sign up to the Poseidon Principles and commit to set targets to align with the International Maritime Organization’s 1.5C pathway.
- Exclude shipping companies with a large coal-related share of revenues, in line with the bank’s own restrictions.
- Require that shipping clients publish plans that are 1.5C aligned.

7 Climate opportunities

Much of the estimated US$5.7 trillion investment needed annually in green infrastructure and other climate adaptation and mitigation efforts will be facilitated by banks. We recommend that they:

- Set a green finance target that is commensurate with their historical climate impact and market size.
- Transparently communicate on green finance volumes by providing a breakdown by sector or by activities, types of financing, products and services, geography, and division. Banks should avoid using the gas and nuclear taxonomy criteria to guide their green finance decision-making.
- Make sure all green finance transactions are externally audited.

8 Identification, integration, and disclosure of biodiversity-related risks

Banks' approach to tackling the issue of biodiversity loss is even more limited than their approach to addressing climate change. While we recognise that many banks are still developing their policies on biodiversity loss, the issue is not new and it is important that banks tackle the twin crises of climate change and biodiversity loss together, and with the same urgency. We recommend that banks:

- Make biodiversity one of their priority topics for 2023.
- Use existing tools, metrics, and datasets – such as ENCORE, IBAT, and others – to understand and assess different types of biodiversity risks, opportunities, impacts, and dependencies.
- Require clients to disclose location-level data on their operations and supply chains, and/or site-level biodiversity assessments, to support more accurate risk assessments.
- Publish a strategy for assessing and managing direct and indirect biodiversity impacts and dependencies. This should include a commitment to factor biodiversity into financial and climate risk assessments.
- Cover marine and freshwater ecosystems as comprehensively as terrestrial ecosystems.

9 Biodiversity targets

To ensure that the financial sector contributes to halting and reversing the loss of biodiversity, we recommend that banks:

- Publish measurable and timebound biodiversity targets, which are in line with the Convention on Biological Diversity's Global Biodiversity Framework, and which cover both the risks and opportunities biodiversity poses to banks.
- Encourage their clients to set science-based targets for nature.

10 Sector policies for biodiversity

Sector policies complement targets by making sure that banks do not end up financing activities that undermine their stated goals. For this reason, we recommend that banks:

- Incorporate biodiversity into high-risk sector policies (including agriculture, forestry, fisheries, energy, and mining) and high-risk commodity policies (including beef & leather, cocoa, palm oil, pulp & paper, rubber, soy, and timber).
- Commit to zero deforestation and back this up with clear client and project requirements in relevant sector and commodity policies.
- Restrict financing to projects and clients operating in areas of global biodiversity importance – including but not limited to World Heritage and Ramsar sites and following the categories of Protected Area recognised by the International Union for the Conservation of Nature.

11 Engagement and collaboration

Banks' ability to have an impact is not limited to their financing. Banks can also engage with external stakeholders and lobby governments. To make sure their influence benefits climate and biodiversity, we recommend that they:

- Disclose positions on climate- and biodiversity-related regulatory issues and membership of climate- and biodiversity-related trade associations.
- Introduce a governance process to deal with any differences between the bank's climate and biodiversity positions and those of their trade associations.
- Consult with external stakeholders on their climate and biodiversity policies, including but not limited to affected communities, affected workers, and subject experts. Annual reports should provide at least one example of consultation on climate and one on biodiversity, and how these materially affected their policies.

Methodology

Methodology

Scope

This survey features the 25 largest European banks (excluding Russia). We selected banks based on their total assets, according to the S&P 2022 list of the world's 100 largest banks[cv]. This resulted in the inclusion of all the banks in the previous iteration of this survey[cvi] aside from ABN AMRO, and six additional banks, listed as follows (with headquarters):

- BPCE (France)
- CaixaBank (Spain)
- Crédit Mutuel (France)
- DZ Bank (Germany)
- La Banque Postale (France)
- Rabobank (Netherlands)

Aside from CaixaBank, none of these are publicly listed, but productive engagement is possible with all of them. Their inclusion represents not only an expansion in the number of banks we are including (from 20 to 25), but also a broadening of our methodology; only publicly listed banks featured in our 2020 survey.

The total assets covered by these banks totals over €28 trillion[21].

Survey questionnaire

The most substantial change to this year's survey is that **we have included questions on biodiversity for the first time.** This is a growing strategic priority for ShareAction, reflecting the growing consensus on its importance as an area of focus in the finance sector[cvii].

We have also built considerably on our approach to climate benchmarking. Our questionnaire builds on but goes beyond the Taskforce for Carbon-Related Disclosures recommendations by focusing on both the risks faced by banks and the impacts that their financing has on the climate and our ecosystems (that is, taking a double materiality approach). It also reflects the significant transformation that the banking sector has gone through since our last survey (December 2019). As an example, at that time no bank in our sample had committed to net-zero – now all of them do.

21 This figure is from 31 December 2021 according to S&P Global Market Intelligence, the most recent data available when we selected banks for inclusion in the survey.

Our examination of banks' sectoral policies and net-zero targets has been particularly detailed and robust, reflecting how important these are for banks, civil society organisations, and investors. The differences in methodology between this survey and our 2020 survey is such that scores are not directly comparable.

The questionnaire had four parts:

Theme 1: Climate and biodiversity governance

The focus of this theme is how banks' governance structures and processes facilitate good decision-making on financing with impacts on climate and biodiversity, rather than on governance as a thematic topic for ESG financing. Questions focused on board oversight, training, and the linking of key performance indicators to climate and biodiversity topics. This section divides into two very similar subsections: one focusing on climate change, the other on biodiversity.

Theme 2: Climate strategy

In this section, our emphasis was on the banks' financing activities. For almost all questions, we explicitly set aside the banks' own operations (for example, commitments to ensure the bank's offices are energy efficient), which, while laudable, have a much less significant real-world impact. Investments, and associated policies from asset management arms, were also set aside for almost all questions. This helps ensure the banks can be compared fairly. We publish a separate ranking of global asset managers, including many of the asset management wings of these large European banks – the next edition of which is due to be published in early 2023.

2.1 Climate strategy I - climate-related risks and negative impacts

This focuses on banks' approaches to the negative impacts of climate change, including risk identification and integration, net-zero alignment, and high-carbon disclosures. It also features a detailed analysis of targets and policies for key industrial sectors and carbon-intensive areas, including decarbonisation plans, phase-out plans, and exclusions.

2.2 Climate strategy II - climate-related opportunities and positive impacts

This focuses on how banks are identifying and seeking opportunities to contribute to the climate transition, such as by financing green energy. This is commonly called 'green finance' or 'sustainable finance'. It includes assessments of how opportunities are identified and scrutinised, target-setting, and the scope of current disclosures.

Theme 3: Biodiversity strategy

As for Theme 2, our emphasis was on the banks' financing activities and not their own operations. This includes the identification and integration of biodiversity issues, target-setting, and policy and sectoral commitments. The latter examines banks' approaches to areas of global biodiversity importance, key sectors and commodities, and deforestation. The focus is mainly on risks associated with biodiversity loss, though opportunities feature in some questions.

Theme 4: Climate and biodiversity engagement and collaboration

This includes lobbying practices, participation in collaborative initiatives, and engagement with other organisations on the issues identified in the survey. As with governance, similar questions were asked separately regarding climate change-related and biodiversity-related engagement.

Survey process

We began developing the survey questionnaire in late 2021 and completed it in May 2022. The selection of banks was finalised in January 2022.

Across all areas, we consulted extensively with in-house subject matter specialists and external experts to develop our questionnaire. The full survey questionnaire can be found here.

To alleviate the burden on participants, we pre-filled the questionnaire for each bank based on publicly available information: annual reports, policies, and other forms of online disclosures. Banks were made aware of our survey timelines in February 2022 and we sent the pre-filled questionnaires to them in June 2022. For the net-zero target theme, data was collected until 31 October 2022 to align with the deadline given to founding members of the NZBA to set targets. For all other themes, our cut-off date for publicly available information was 25 July 2022, and we considered requests to include information published after this on a case-by-case basis until 20 August 2022.

We received a 100 per cent response rate; all 25 banks responded to our request to verify their data and provided additional information themselves. As well as data linked to publicly available sources, banks were given an opportunity to share information with us privately to complement their answers and help contextualise their approaches. As we made clear to banks, our scoring has been led by the publicly available data they provided; for most questions in the survey, maximum credit was only awarded if public, specific examples could be shared.

Scores and grades

We assigned scores to individual answer options within the survey, which were used to calculate an overall score for each bank.

The questions regarding biodiversity were clearly separated from those regarding climate change. The scores for biodiversity and climate were therefore calculated separately. Biodiversity contributes one third to the overall score, climate two thirds. This reflects the fact that climate change is a more mature topic for banks, on which we asked a greater number of questions, in more detail. It is not intended as a comment on the relative importance of these two areas. Similarly, sections within Climate and Biodiversity were given specific weights (e.g. the section on climate risks was weighted more than twice as much as that on climate opportunities). Further information on these section weights is available on request.

As with our most recent surveys for asset managers and insurance companies, we have assigned grades to the performance of each bank (Figure 32). These grades are intended to help with interpretation of banks' performance. We chose to use common international examination grades as we felt these would be generally easy to understand. The average grade – 43.7 per cent – corresponds to a C+.

Figure 32: Maximum and minimum for the grade boundaries applied to the banks' scores. Each band is one standard deviation wide (~7.6 per cent), aside from three in the middle which are half a standard deviation wide (~3.8 per cent), in order to more clearly differentiate between banks in the middle of the ranking.

Heat-map key: section % scores

- 87.5 > 100
- 75 > 87.5
- 62.5 > 75
- 50 > 62.5
- 37.5 >50
- 25 > 37.5
- 12.5 > 25
- 0 > 12.5

Grade	Minimum	Maximum
A+	79.7%	100.00%
A	72.1%	79.7%
A–	64.5%	72.1%
B+	57.0%	64.5%
B	49.4%	57.0%
B–	45.6%	49.4%
C+	41.8%	45.6%
C	38.0%	41.8%
C–	30.5%	38.0%
D+	22.9%	30.5%
D	15.3%	22.9%
D–	7.8%	15.3%
F	0.00%	7.8%

Additional detail on Figure 18

The green finance multiple is calculated by dividing the annualised green finance target by the annualised average volume of fossil fuel financing over 2016–2021. A range is calculated when the bank's target includes sustainability-related opportunities that are not directly connected to climate change and/or when the bank includes products and services other than lending and capital markets facilitation. The higher end of the range is calculated using the target published by the bank without any adjustments. The lower end of the range is calculated by a) dividing the target by three if it includes sustainable finance commitments or equivalent, to account for the spread across green, social, and sustainability, and b) applying a 25 per cent discount to the target if it covers products and services other than lending and capital markets facilitation. Annualised volumes include the start and end year. Exchange rates used as of 11 August 2022: euros to US dollars – 1.03; pounds to US dollars – 1.22; Swiss francs to US dollars – 1,06; Danish krone to US dollars– 0.14. Crédit Agricole, Crédit Mutuel, DZ Bank, La Banque Postale, UBS, and Rabobank's targets were excluded from this analysis as the metrics used didn't fit this methodology.

Appendices

Appendices

A.1: Correlation between subthemes. A number close to 1 shows a strong link between the scores, 0.5 indicates a moderate link, while 0 shows no link at all.

	Biodiversity Strategy	Biodiversity Engagement & Collaboration	Biodiversity Governance	Climate Engagement & Collaboration	Climate Governance	Climate Opportunities	Climate Risks
Biodiversity Strategy		0.75	0.53	0.46	0.41	0.14	0.07
Biodiversity Engagement & Collaboration	0.75		0.43	0.74	0.42	0.07	0.10
Biodiversity Governance	0.53	0.43		0.18	0.17	0.14	0.14
Climate Engagement & Collaboration	0.46	0.74	0.18		0.48	0.17	-0.01
Climate Governance	0.41	0.42	0.17	0.48		0.10	-0.02
Climate Opportunities	0.14	0.07	0.14	0.17	0.10		0.01
Climate Risks	0.07	0.10	0.14	-0.01	-0.02	0.01	

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ShareAction is a NGO working globally to define the highest standards for responsible investment and drive change until these standards are adopted worldwide. We mobilise investors to take action to improve labour standards, tackle climate change and address pressing global health issues. Over 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. Our vision is a world where the financial system serves our planet and its people.

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Authors

Abhijay Sood, Dr Claudia Gray, Jeanne Martin, Dr Jonathan Middleton, Lydia Marsden, Marina Zorila, Xavier Lerin

ShareAction»

shareaction.org
info@shareaction.org
+44 (0)20 7403 7800

Runway East,
2 Whitechapel Road,
London, E1 1EW, UK

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