UNEP FINANCE INITIATIVE

PRINCIPLES FOR RESPONSIBLE BANKING

Collective Commitment to Climate Action

Year One in Review

December 2020

UNEP FINANCE INITIATIVE | PRINCIPLES FOR RESPONSIBLE BANKING

About United Nations Environment Programme Finance Initiative
United Nations Environment Programme Finance Initiative (UNEP FI) is a partnership between UNEP and the global financial sector to mobilize private sector finance for sustainable development. UNEP FI works with more than 350 members—banks, insurers, and investors—and over 100 supporting institutions – to help create a financial sector that serves people and planet while delivering positive impacts. We aim to inspire, inform and enable financial institutions to improve people's quality of life without compromising that of future generations. By leveraging the UN's role, UNEP FI accelerates sustainable finance.

About the CCCA

The Collective Commitment to Climate Action (CCCA) is the **most ambitious global banking sector initiative supporting the transition to a net zero economy by 2050.** It brings together a leadership group of 38 banks from across all six continents who have committed to align their portfolios with the global climate goal to limit warming to well-below two degrees, striving for 1.5-degrees Celsius.

The CCCA banks, representing more than USD 15 trillion in assets, are **fast-tracking the commitment all Principles for Responsible Banking signatories have made to align their business strategy with the temperature goals of the Paris Agreement.**

Signatories to the Collective Commitment to Climate Action are required to:

- **Take decisive action from the moment of signing, focusing on the most carbon-intensive and climate-vulnerable sectors within their portfolios**
- **Set and publish sector-specific intermediary and long-term targets for aligning their portfolios with a well-below 2-degrees and striving for 1.5-degrees Celsius trajectory, based on scientific climate scenarios**
- **Drive and facilitate the necessary transition in the real economy through their client relationships, products and services.**

Each bank is required to report annually on its progress in implementing the Commitment and achieving set targets. Every two years, the signatories will report on their collective progress.

The collective work of the CCCA banks will also provide leadership, guidance, tools and frameworks for the 200+ signatories to the Principles for Responsible Banking, helping all signatories to strategically align their business with the temperature goals of the Paris Agreement.

The full text of the Collective Commitment to Climate Action can be found on the CCCA's official website.

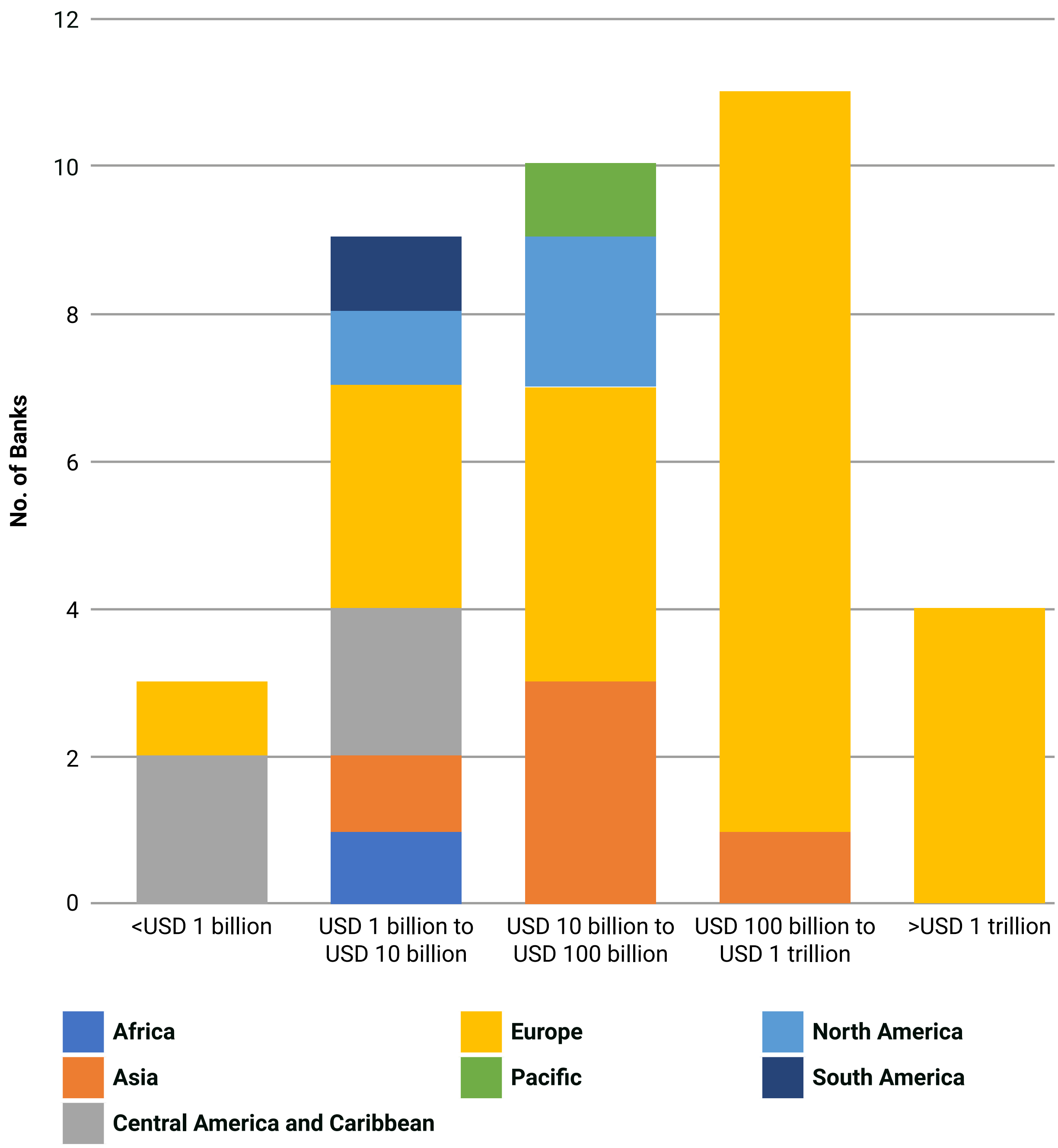


Chart 1: CCCA signatories by volume of lending assets (USD) and location of head-quarters

Further information about the CCCA and how to join

unepfi.org/climate-pledge

Further information about the Principles for Responsible Banking

unepfi.org/banking/bankingprinciples/

Table of Contents

Message from the CCCA Signatories

Ten months into a global pandemic, society is seeing and understanding in stark terms the consequences of systemic crises and risk. **We see clearly how our economic, civic, and political systems are connected and must work together to achieve society's needs and goals.**

It is with this in mind that we mark the first anniversary of the Collective Commitment to Climate Action through which we, as signatories to the UN Principles for Responsible Banking, have taken on the responsibility to lead in addressing the climate crisis. Our institutions have stepped up to put into practice the commitment embedded in the Principles to align our business strategies with the Paris Agreement. We are working collaboratively to help develop and apply methods and tools, harmonized approaches, and common metrics, through which the global banking sector can act collectively to address climate risk.

This report documents some of the first steps we have taken. We share this work, to demonstrate the scope of action that is underway and to communicate **the next steps we will take in our collective commitment.**

As we started to work on our collective commitment to action this past year, the science and urgency of the climate crisis has continued to grow, at a rate which is outpacing the global response. The time horizon for action which will achieve the Paris Agreement temperature goals is diminishing and the consequences of decades of inaction are becoming clearer, evidenced by reports of natural disasters, market disruption and escalating scientific urgency. As **the urgency continues to grow, so does our ambition and our responsibility to act.** The current COVID-19-related delay in COP26 has allowed both governments and the private sector the space to organize themselves and take strong action to arrest this crisis and determine how nations jointly advance the global agreement, which was reached in Paris, through its next iteration.

As we report on our first year of action, we also look to the year ahead and what we anticipate as the global mandate of the next COP. Considering our collective commitment to Paris Agreement alignment, and reflecting on our current work and the direction of the global community, **we understand that our objective of aligning with a well-below 2-degree scenario and striving for a 1.5-degree goal supports the urgent need to realize a net-zero economy by 2050.**

Accordingly, as we issue this report, we confirm our **commitment to align our portfolios** with the temperature goals of the Paris Agreement and to **develop more comprehensive metrics and plans for achieving that goal**, including near-term intermediate targets and actions.

As we look to the year ahead, **we anticipate the Glasgow COP reaching agreement focused around a global net-zero ambition for 2050.** We are working to understand how this may be achieved, and how this may be implemented by banks, commencing now by scaling up the finance required to support the low-carbon transition.

The CCCA Signatories

Executive Summary

> **"Achieving net zero emissions will require a whole economy transition – every company, every bank, every insurer and investor will have to adjust their business models."**
>
> **Mark Carney**
> UN special envoy on climate action.
> February 2020

The role of the banking industry in tackling climate change is clear. Banks need to support the low-carbon transition through their lending and financing decisions and through helping their clients' transition. By setting scenario-based targets, banks signal to all stakeholders that this change is both necessary and feasible.

This is the task taken on by the 38 signatories to the Collective Commitment to Climate Action (CCCA), the largest coalition of banks making ambitious commitments in the run-up to COP26. These signatory banks from across all six continents, representing assets of USD 15 trillion, have stepped forward and **committed to the most ambitious global banking sector initiative supporting the transition to net zero.** The CCCA commits signatories to aligning their portfolios with the global climate goal of limiting warming to well-below two degrees and striving for 1.5-degrees Celsius. In doing so, the banks not only aim to decarbonize their own portfolios but are creating the tools and guidance that can be used by all 200 signatories of the Principles for Responsible Banking, who together represent approximately 40% of the global banking sector.

This report provides a **snapshot of the progress made in the first year since the launch of the CCCA.** It synthesises the individual reporting by each of the signatory banks on priority measures they have taken in the first 12 months to deliver on the commitments they have made. This includes the work they have done to support learning and capacity-building for less advanced banks, recognising that achieving global climate goals requires systemic change and banks from all parts of the world need to advance together. It is not a comprehensive report of all the activities the 38 banks are taking, but rather showcases the areas of common focus as well as pointing to the shared challenges the Signatories are still to meet.

As Mark Carney has said, “commitments need to be backed by credible transition plans”. With this report, **the 38 signatories are demonstrating that they are making those plans and putting in place the building blocks towards alignment with the Paris Climate Agreement.**

Steps being taken by the 38 banks

This report provides an overview of key actions and measures taken by CCCA signatory banks in the first 12 months to deliver on their pledge to support the transition to a net-zero economy by 2050. With these actions and measures, signatory banks have both delivered on specific parts of the Commitment and put in place the necessary building blocks towards publishing scenario-based targets and aligning their portfolios with the goals of the Paris Agreement.

The measures reported by the 38 signatory banks fall into six key areas:

1 Assessing portfolio alignment

Assessing alignment against climate scenarios will support banks in:

- Assessing the position of counterparties and portfolios against the net zero goal.
- Effectively allocating capital to support real economy emissions reductions.
- Comparing progress to peers and tracking their progress/contribution over time.

Most importantly, assessing portfolio alignment is one of the initial steps which signatories are taking towards setting scenario-based alignment targets.

2 Financial products and services to support clients’ reductions of GHG emissions

For banks to deliver on their commitment and targets to align their portfolios with global climate goals and support the low-carbon transition of the real economy, they must work closely with their clients.

Tailored green financial products and services are key instruments which banks can use to support clients’ transition to new technologies, business models and lifestyles.

3 Assessing climate-related ‘transition risks’

Addressing climate-related matters for banks can have two distinct, though complementary, objectives: one, to reduce the indirect environmental impact of the bank, and two, to understand, monitor and limit exposures to risks.

In their submissions, signatory banks reported examples of changes to their risk management practices including measuring absolute or relative exposure to certain sectors, industries or activities, and processes to monitor and manage transition risks. Having this visibility supports CCCA banks in meeting their commitment to “engage and work with their clients on their transition.”

4 Exclusion policies

CCCA banks have committed to working with others to develop clear and feasible sector-specific roadmaps to reach well-below 2 and strive for 1.5 degrees Celsius for all relevant sectors and across different geographies. Some sectors will end up being not compatible with a net-zero economy.

Leading banks can send clear and tangible signals of a strategy to shift capital away from high-emitting sectors through exclusion policies. In doing so, they indicate clear target dates after which no more financing activities will occur for these sectors.

5 Strategies to grow the customer base in specific sectors

As part of their commitment, CCCA signatories agreed to "align their portfolios" and, in doing so, "to finance a low-carbon, climate-resilient economy". As such, a number of banks have taken initial steps towards strengthening their investments in sectors aligned with the Paris Agreement.

6 Client engagement and capacity building programmes

A key commitment made by CCCA signatory banks is to "engage and work with their clients on their transition". As banks, this is how they can most effectively realise the changes required in the real economy to achieve a low-carbon, climate-resilient economy.

Assessing progress

It should be noted that the CCCA signatory banks are part of the only financial sector initiative on climate that brings together banks from all six continents, from both 'developed' and 'emerging markets'. The measures submitted to date reflect the diversity in maturity and progress across different geographies. For instance, a bank in an emerging market may be supporting SMEs on their individual transition plans whereas a bank in a developed market that is funding large corporates may have data, knowledge and resources to undertake a portfolio-wide assessment. While all CCCA signatories are demonstrating leadership through their participation in the CCCA, banks from emerging markets should particularly be commended for committing to the CCCA goals and working towards meeting the requirements

Overall, there is a **growing use of scientific climate scenarios in banks' strategies** and many banks have announced exclusion policies reflecting the timelines imposed by science for achieving "well-below 2-degrees" of global warming. Growing use and awareness among banks of scientific scenarios will also enable banks to set scenario-based Paris-alignment targets, as required of CCCA signatories.

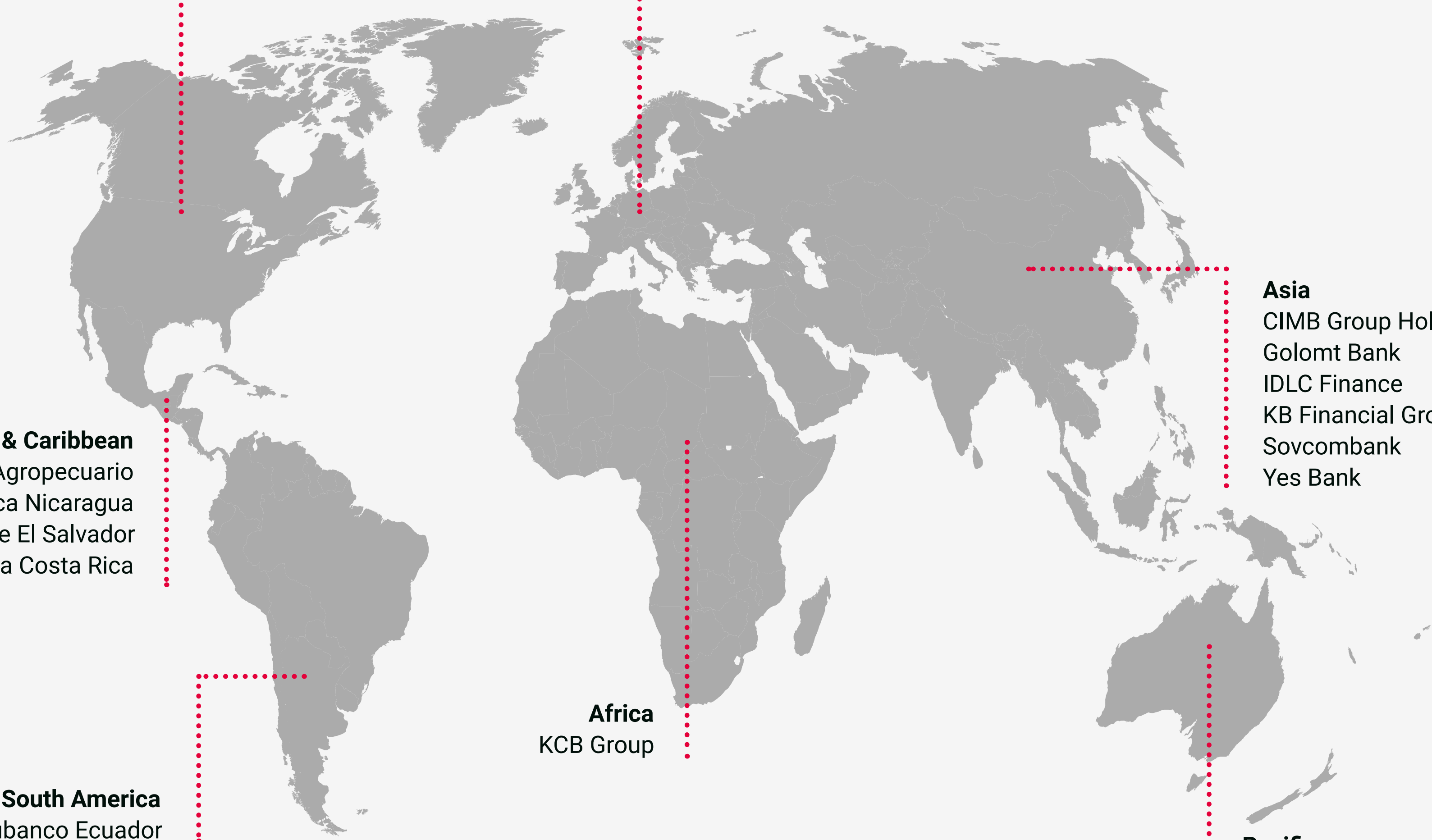
However, most banks still have some way to go before they can publish a **full assessment of their portfolios' alignment and set and publish scenario-based targets.** All 38 banks have committed to doing so within three years of signing the Collective Commitment.

Outlook

Going forward, the **banks will continue to work together to tackle methodological challenges and build the capacity** necessary for all banks to complete their portfolio assessments and set targets. A key step will be the publication of agreed principles and standards for assessing portfolio alignment and setting and reporting on targets by the end of the first quarter of 2021. In doing so, the CCCA signatories will continue to provide leadership and vision for the wider UN Principles for Responsible Banking group.

In the lead-up to COP 26 in Glasgow in November 2021, **anticipating that the global ambition regarding climate action will further gravitate towards achieving net-zero emissions by 2050**, the CCCA banks are building their understanding of how this may be achieved, and how this may be credibly implemented by banks.

Map 1: CCCA members by region



CCCA Collective Activities in Year One

In the CCCA's first year, in addition to developing and implementing measures within their banks, the 38 signatories worked closely together **to support each other on the journey** to assess and aligning their portfolio with the Paris Agreement.

The CCCA banks worked in two groups: one to share expertise about **existing approaches and methodologies and one to establish harmonized practice and agree common standards for setting and reporting on climate alignment targets.** Within these working groups, sub-working groups with specific regional and sectoral focus met regularly.

In the third quarter of 2020, based on knowledge-gaps identified, **technical clinics** provided signatories with key knowledge and support to advance their own assessment of, and target setting for, portfolio alignment. The clinics focused on: target setting and the SBTi-FI approach; the PACTA methodology; climate scenarios; and challenges specific to the real estate sector; and agricultural sectors.

In their first year, signatories have **delivered on their commitment to publish the measures** they are taking to align their portfolios with international climate goals. These include developing methodologies for assessing portfolio alignment, exclusion policies for sectors such as coal and strategies to help clients reduce emissions. These are all outlined in this report.

In year two, **CCCA signatories will continue their capacity building activities. By the end of the first quarter in 2021, CCCA signatories aim to publish agreed principles and guidance for assessing portfolio alignment and setting and reporting on alignment-targets.**

CCCA: Year one in review

This report provides an overview of key actions and measures taken by CCCA signatory banks in the first 12 months to deliver on their pledge to support the transition to a net-zero economy by 2050. With these actions and measures, signatory banks have both delivered on specific parts of the Commitment and put in place the necessary building blocks towards publishing scenario-based targets and aligning their portfolios with the temperature goals of the Paris Agreement.

Banks are required to report annually on their progress and, in doing so, were asked to submit up to three key measures implemented in the first 12 months following their commitment. The actions and measures reported by signatory banks form the basis of this report. Full details of all the measures submitted by the CCCA banks can be found on the CCCA website.

It should be noted that the CCCA signatory banks are part of the only financial sector initiative on climate that brings together banks from all six continents, from both 'developed' and 'emerging markets'. The measures submitted to date reflect the diversity in maturity and progress across different geographies. While all CCCA signatories are demonstrating leadership through their participation in the CCCA, banks from emerging markets should particularly be commended for committing to the CCCA goals and working towards meeting the requirements.

It should also be noted that this report:

- Does not represent a full review of signatory banks' implemented actions, as signatories were only asked to report on up to three measures each.
- Is a snapshot as at November 2020 and hence doesn't include measures implemented and actions taken before September 2019.

The measures reported by signatories fall into six key areas and are described in the following chapters:

1. **Assessing portfolio alignment**
2. **Financial products and services to support clients' reductions of GHG emissions**
3. **Assessing climate-related 'transition risks'**
4. **Exclusion policies**
5. **Strategies to grow the customer base in specific sectors**
6. **Client engagement and capacity building programmes**

1

Assessing portfolio alignment

Assessing alignment against climate scenarios will support banks in:

- Assessing the position of counterparties and portfolios against the net zero goal.
- Effectively allocating capital to support real economy emissions reductions.
- Comparing progress to peers and tracking their progress/contribution over time.

Most importantly, assessing portfolio alignment is one of the initial steps which signatories are taking towards setting scenario-based alignment targets.

As an increasing number of countries commit to meeting a net zero target by 2050 or sooner, all sectors of the economy will need to adapt. This means banks will need to identify and manage risks and opportunities linked to the net zero transition. In addition, it will mean demonstrating Paris Agreement portfolio alignment to a range of stakeholders. Aligning portfolios – which is at the core of the CCCA – is a particularly credible way for banks to support the low-carbon transition.

Being able to assess alignment against climate scenarios will support banks in:

- Assessing the position of counterparties and portfolios against the net zero goal.
- Effectively allocating capital to support real economy emissions reductions.
- Comparing progress to peers and tracking their progress/contribution over time.

Most importantly, assessing portfolio alignment is one of the initial steps which signatories are taking towards setting scenario-based alignment targets. As CCCA Signatories, banks have committed to, "no later than within three years of signing … set and publish sector-specific, scenario-based targets for portfolio alignment".

Some banks have already set specific portfolio alignment targets, such as **La Banque Postale** who has a portfolio target of net zero emissions by 2040. Other signatory banks are reporting a range of approaches to assessing their alignment with the temperature goals of the Paris Agreement: this is partly a reflection of the fact that methodologies to assess portfolio alignment are new and still evolving. Some approaches are focused on sector pathways, others on technology mix, and some are assessing attributable financed emissions.

The most reported methodology is the PACTA (Paris Agreement Capital Transition Assessment) approach, which was reported by **BNP Paribas, BBVA, ING, KBC, Santander, Société Générale** and **Standard Chartered**. This methodology was updated throughout 2019 and 2020 to cover corporate loans, in addition to its scope which included bonds and equity. The PACTA approach is described in more depth on page 19. The banks listed above took part in a PACTA pilot in 2019, before supporting the launch of an open-source climate scenario analysis toolkit in 2020.

- In 2019, **BNP Paribas** applied the methodology to more than 80% of its outstanding loans to calculate its loan book profile at various maturity dates for extraction of fossil fuels and electricity generation. BNP will progressively apply this approach to three other high-carbon sectors (transport, steel production and cement production).

- Likewise, **BBVA** took part in the PACTA pilot. This led BBVA to carry out an initial analysis of its loan portfolios in 2019 and has published the metrics chosen to measure the alignment of key sectors (oil & gas, power, automotive, steel and cement, marine transportation).

- PACTA, whose corporate-lending methodology **ING** co-developed with the 2 Degrees Investing Initiative think tank, forms one of the underlying methodologies of ING's Terra approach. Over the past 12 months, ING's Terra approach has been used to help ING understand the current performance and progress made for nine sectors (power generation, fossil fuels, automotive, aviation, shipping, commercial real estate, residential real estate, steel and cement) and set ambitious, time-bound targets for aligning with science-based scenarios. This has mobilised the organisation to set sector sustainability strategies in line with its ambition to steer portfolios towards the Paris Agreement temperature goals.

- **Santander** applied PACTA for the first time in 2019, which allowed the bank to better understand the methodology and to provide data for its climate disclosures. Santander has committed to run the exercise again during 2020, as part of the process of setting sector specific scenario-based targets.
- **Société Générale** applied the PACTA methodology to measure the alignment of its energy (oil & gas, coal, power generation), automobile and cement manufacturing portfolios.

Other banks reported alternative in-house or proprietary methods for assessing alignment to the Paris Agreement temperature goals.

- **GLS Bank** noted that it worked in 2020 with consultants who developed the "X-Degree Compatibility" (XDC) methodology, which measures a company's or a portfolio's contribution to global warming by expressing by how many degrees the earth would warm up in 2050, if all companies were as emission-intensive as the company under consideration, provided the same economic output. The software – applied in the first assessment to GLS Bank's loan portfolio and climate fund – makes it possible to calculate the contributions of a specific company or portfolio to climate change (Temperature Alignment) expressed in a tangible °C number.

Additional measures reported by banks in response to this area of focus include:

- **Golomt Bank**, in Mongolia, has improved its internal credit system so it can now categorize the bank's overall loan portfolio based on E&S risk levels. If the sub-sector is included in its 'Green Taxonomy', approved by the Central Bank of Mongolia, then the bank records the loan as "green" on the system. This will support Golomt Bank's ability to better measure its climate impacts and plan more effectively.
- **Natixis** has developed a proprietary and granular taxonomy to evaluate the climate-related impact of all the economic activities it finances, except for the financial sector. Each transaction is rated on a seven-level scale ranging from negative impact (brown) to positive impact (green). The taxonomy is being used in the bank's internal credit process as a mandatory and systematic step ahead of credit decisions and is currently applied to 80% of the bank's lending book. It is expected to support the bank in setting impact targets in 2021 and monitor its climate trajectory over time. See page 32 for a case study overview.
- **Santander** is developing a taxonomy (considering international standards and adapting them to banking activities) to identify green transactions. A simplified version of the taxonomy has allowed Santander to start providing focus for its business and disclose its 2019 green financing.

BNP Paribas - PACTA

In accordance with the Katowice Commitment signed in 2018 and the Collective Commitment to Climate Action adopted in September 2019 under the aegis of UNEP FI, the Group worked on developing tools that can be used to align its loan book with the goals of the Paris Agreement.

In 2019, BNP Paribas applied the PACTA methodology for corporate-lending to calculate the loan book's profile at various maturity dates for five high-carbon sectors (extraction of fossil fuels, electricity generation, transport, steel production and cement production).

The method, tailored to each sector, employs benchmark scenarios used and developed by independent organisations such as the International Energy Agency (IEA). For electricity generation, extraction of fossil fuels and the automotive sector, the approach is based on the energy mix or technology mix. For aviation, maritime transport, cement and steel, carbon emissions intensities are analysed.

BNP Paribas worked together with the banks who signed the Katowice Commitment to test and recommend ways to improve the general methodology developed by the 2 Degrees Investing Initiative.

The analysis allowed BNP Paribas to develop an overview of the technology mix and alignment of its loan book with a benchmark scenario at a given date, in addition to a projection for that same portfolio five years later.

Over time, the loan book will be made increasingly compatible with the Paris Agreement scenario through dynamic management of the loan book itself and through external technological developments. The Group is focusing its efforts on not only improving the percentage and quality of client coverage, but also gaining a better understanding of projected trends in each sector.

The results of these efforts will support the development of sector strategies and measure their impacts on the alignment of the loan book with the Paris Agreement goals.

BNP Paribas' case study fits within the context of the pledge made at COP24 in Katowice in 2018 when five banks (**BBVA, BNP Paribas, ING, Société Générale and Standard Chartered**) committed to develop an open source methodology to progressively steer their activities in line with the goals of the Paris Agreement.

In September 2020, the banks published a report aiming to help banking peers understand and apply the open-source PACTA methodology developed with the 2 Degrees Investing Initiative think tank.

The five Katowice banks are at different stages of progress and expect to communicate on their respective levels of alignment by the end of 2021.

Carbon Accounting and Target Setting

Developments in the previous 12 months have paved the way for banks to set targets that can be certified as "science-based targets" by the Science Based Targets Initiative. The exercise is complex and requires significant pre-work and data collation and validation before banks can consider publishing targets. In the first 12 months post signing, several CCCA signatories have taken steps towards setting science-based targets by measuring the attributable financed carbon emissions in their portfolio.

- In 2020, **Amalgamated Bank** used the Partnership for Carbon Accounting Financials (PCAF) methodology to assess 90% of its lending portfolio. This included residential mortgages, commercial real estate, business lending and project finance. Following this initial analysis, Amalgamated Bank is finalising an "after action report" on potential improvements to its data management systems, options for increasing the quality of data needed for the analysis, and systems to allow faster and more efficient report annual reporting. Amalgamated has also committed to the Science Based Targets Initiative (SBTi) and is preparing to use the data from its financed emissions measurement with PCAF in the target setting process.
- **Beneficial State Bank** joined 28 other Global Alliance for Banking on Values members to work with PCAF in standardizing the carbon accounting methodology in the financial industry. As a key contributor to the development of PCAF for North American financial institutions, they began in 2019 and 2020 to measure the carbon emissions for a number of their asset classes, with an aim to cover their full portfolio by the end of 2020.
- **GLS Bank** used PCAF as a base framework for its wider assessment methodology in 2019.
- **KBC** piloted the PCAF methodology on its car loan portfolio in Belgium, its car lease portfolio in Belgium and Luxembourg and its mortgage portfolio in the Flemish region in 2019. It expects to extend the reporting to additional countries and regions from 2020 onwards.
- **KCB Group** contributed to the development of the PCAF methodology in 2020 and intends to pilot it on their portfolio in Q2 2021.
- **Produbanco Ecuador** explored different tools and methodologies, including PCAF and the UNEP FI Impact Analysis Tool, for assessing the impact of its portfolio and developed preliminary results in 2020 and aims to set its first portfolio alignment targets, as well as report on it in 2021. The bank was part of the working group in charge of developing the PCAF methodology and led the workstream for developing the assessment approach for Vehicle Loans.

- **Triodos Bank** has an energy generation portfolio which consists only of renewable energy projects, since they exclude any company that produces or retails energy from fossil fuel (coal, oil, and gas) and power plants (utilities).
  - Triodos Bank has been using PCAF since 2018. Triodos took measures to improve its transparency about its CO_2 impact in 2019. The bank extended the scope of its carbon accounting to 100% of its loans and funds' investments, as well as improving data quality for some sectors.
  - Triodos Bank noted how accounting for the carbon emissions will ultimately allow them to set climate targets and steer investments towards a low-carbon economy.

- In 2020, **Vancity** applied the PCAF methodology to its residential and commercial mortgages and motor vehicle loans, and to the investment funds it manages on behalf of members and clients through its subsidiary Vancity Investment Management. Vancity is currently working to apply the methodology to its business loans using the web-based Emissions Factor Database recently developed by PCAF.
  - Vancity reported that its preliminary results are based on highly estimated data, with its data quality scores for loans being 4 or 5, with 5 being the lowest quality. This indicated that high level estimates had been used, i.e. estimates based on building type or industry sector. As such, the data is limited in its application especially for strategic decision making and tracking reductions as a result of specific products and initiatives. However, despite the low data quality, the results provided them with insights into the relative sizes of attributable financed emissions by asset class and compared to their operational emissions.
  - Vancity was able to conclude that vehicle loans result in the highest emissions per USD millions invested and understand that when it comes to residential properties, replacing gas-powered heating and cooling systems with more energy efficient solutions is a key opportunity.

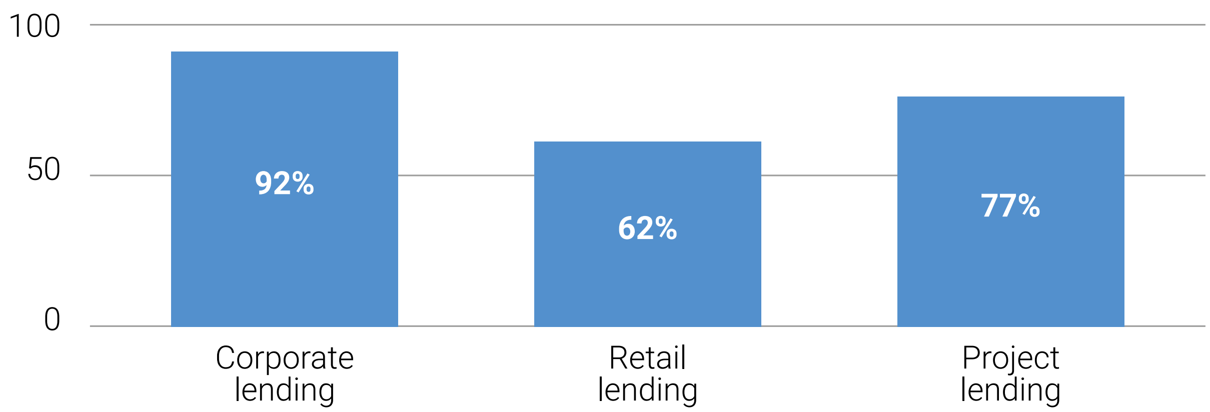


Chart 2: Percentage of portfolio alignment measures covering different types of lending [1]

1 For charts 2, 3, 4, 6, 7 and 8, the following categories apply: Corporate Lending (Electricity, gas, steam and air conditioning supply, Agriculture, forestry and fishing, Mining and quarrying,Transportation and storage, Manufacturing, Construction, and Real estate activities), Retail Lending (Mortgages, Auto Loans, other retail lending) and Project Finance (Electricity (generation, transmission), Fossil fuel extraction and storage, Transport (roads, airports, ports), Other project lending).

2 Financial products and services to support clients' reductions of GHG emissions

For banks to deliver on their commitment and targets to align their portfolios with global climate goals and support the low-carbon transition of the real economy, they must work closely with their clients.

Tailored green financial products and services are key instruments which banks can use to support clients' transition to new technologies, business models and lifestyles.

Banks impact climate change through the companies, projects and economic activities they finance. Therefore, for banks to deliver on their commitment and targets to align their portfolios with global climate goals and to support the low-carbon transition of the real economy, they have to work closely with their clients. Tailored green financial products and services are a key instruments banks can use to support clients' transition to new technologies, business models and lifestyles.

CCCA signatory banks reported the development and deployment of a significant volume of new products and services covering a wide range of activities: financing renewable energy projects, green loans, green bonds, green financing, green mortgages, sustainability-linked loans, green car loans, to name but a few. With these, CCCA Signatories are delivering on their commitment to "engage and work with our clients on their transition."

- **Banco Promerica Costa Rica** reported implementing green loans worth USD 70m in 2019.
- **Banpro Grupo Promerica Nicaragua** launched the 'Green Credit for Employees' scheme in early 2020 to provide accessible financing to employees to support them in the installation of energy-efficient measures: it set a target of USD 100k of credit provided in its first year.
- **Bankia** identified a series of business opportunities for the development of new products and services in the short-term as a result of the materiality assessment undertaken in 2019. In total, Bankia promoted €9bn of green financing in 2019, and created the Business and Sustainable Finance Department to drive and promote the marketing of green products and services, as well as to pave the way for the creation of a Sustainable Financing Framework that was due to be ready around the middle of 2020. The bank also signed various financing arrangements that encourage customers to achieve sustainable goals by including financial clauses linked to the achievement of specific sustainability targets or indicators.
- **BBVA** has a Green finance target—included in their Pledge 2025—of €70 Bn from 2018 to 2025. This target is being reviewed and will be updated at the beginning of next year. As of June 2020, BBVA had mobilised close to €24bn. BBVA has also defined sustainability as one of its strategic priorities for 2020–2024 with two aspirations: (1) helping their clients in their transition to sustainable future; (2) integrating climate change into their processes and embedding the CCCA into their strategy.

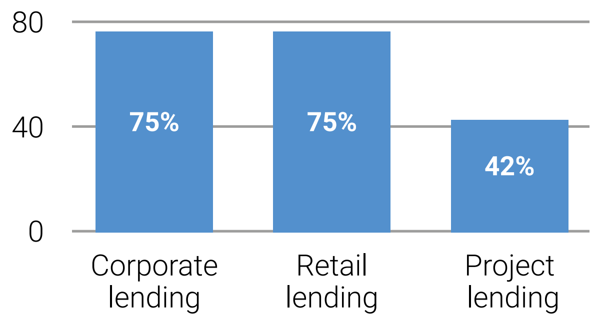


Chart 3: Percentage of financial products and services covering different types of lending

- **CIMB** launched its sustainability-linked loan offerings in 2020, with USD 750m being set aside for corporate borrowers through to 2024 and up to USD 250m of the total allocation already accepted. The first two sustainability-linked loans were based on climate-specific sustainability performance targets to spur borrowers to enhance their climate performance.
    - In addition, CIMB developed its Positive Impact Products & Services Framework to set out specific focus areas and economic activities in which CIMB is actively seeking to create significant positive impacts. Examples of focus areas include renewable energy, climate change adaptation and carbon capture & storage. One of the products launched include CIMB's SME Renewable Energy Financing, which was their first SME Renewable Energy Financing scheme aimed to enable SMEs in Malaysia to reduce their operational costs for power consumption. CIMB allocated USD 24m for SMEs to fulfil their financing needs to purchase solar PV and other renewable energy systems and is financing and advising clients bidding for large scale solar photovoltaic plant projects.
- **CaixaBank** issued, in 2019, eleven green loans worth USD 1.5bn, and 505 eco-loans worth €10.2m for financing energy-efficient home refurbishment, the refurbishment and the purchase of energy-efficient vehicles and domestic appliances and eco-financing for the agricultural sector. Eleven loans were linked to sustainability indices worth €919m and they signed a €30m credit line with the EIB to fund projects by SMEs, individuals and the public sector to combat climate change. See page 27 for a case study overview.
- **Ecology Building Society** want to incentivise people to build, buy or renovate sustainably so they reward borrowers whose properties are more energy efficient. In 2019, their mortgage discounts provided an interest rate reduction for the life of the mortgage of up to 1.25% off their standard variable rate for the most energy-efficient new and self-build homes, which supported the uptake of green building materials and low energy techniques such as Passivhaus, and up to 1.5% discount for the renovation of existing buildings.

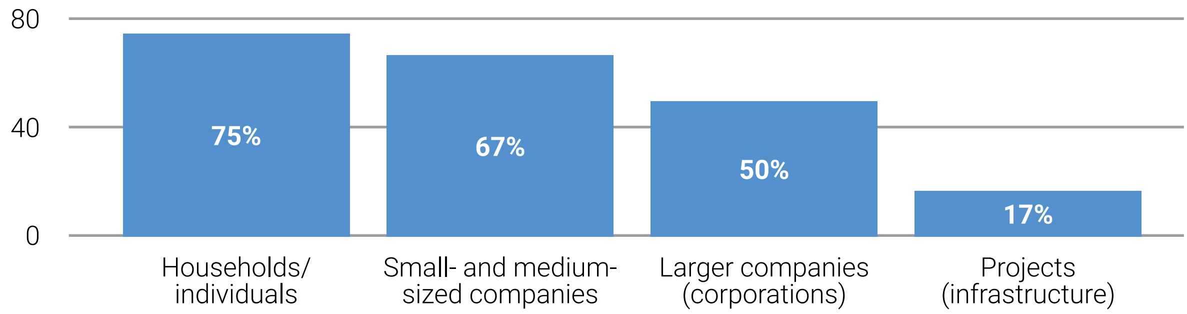


Chart 4: Percentage of financial products and services covering different types of customers

- **Fana Sparebank** established a Green Finance Framework in accordance with the ICMA Green Bond Principles in 2019. The Green Finance Framework outlines the standards for future lending, especially within the retail market. Assuming the standards set represent a true reduction of the carbon emissions by at least 30 percent, the Green Mortgage which the Bank launched in September 2020, will work towards aligning the lending portfolio with the goals of the Paris Agreement.

- **KBC** has developed sustainable mobility solutions for its clients.
    - In Belgium, a bicycle leasing offer—with 16,000 bicycles available in June 2020—was developed as a new business line. It enables SMEs, midcaps and large corporates, as well as various governments, municipalities and institutions to offer their employees a fiscal friendly bicycle for commuter travel. This creates both positive social and environmental outcomes, with over 4,000 tonnes of CO_2 avoided per year.
    - In addition, other low-carbon transport initiatives were developed through KBC's mobile app which provides easy access to public transport and car sharing. During the first 6 months of 2020, this resulted in 239,000 bus tickets sold, 184,000 train tickets sold and 5,700 shared bicycle sessions.
    - For electric vehicles in the KBC Fleet, KBC provides charging solutions, including the installation of a fully installed charging point at home.

- **KB Financial Group** launched new green products for customers, increased their green investments, and expanded green loans. KB Financial Group provided a cumulative of USD 6.5bn of green investments and loans up to 2019 and made commitments to expand their green investments and loans to USD 22.6bn[2] by 2030.

- In order for **KCB Group** to scale up its support for clients with initiatives and projects aimed at GHG emissions reduction, the bank secured through the IFC USD 150m to support climate sensitive investment for SME and corporate clients.
    - The Bank achieved in November 2020 its accreditation status from the Green Climate Fund B27 Board following a rigorous internal review and assessment. Through this accreditation, the bank will support climate mitigation and adaptation projects worth between USD 50m and USD 250m.

- **La Banque Postale** launched "green loans" in 2019—refinanced by "green bonds"—which are subject to reporting requirements involving a measurement of their positive environmental impact (CO_2 reductions). Over 100 loans offered to local authorities and SMEs worth EUR 750m have so far been approved.

- **National Australia Bank** is working to integrate environmental and climate-related considerations into their product offering for customers. In 2019, NAB increased its environmental financing commitment from USD 55 billion to USD 70 billion by 2025, by increasing their commitment to financing for green infrastructure, capital markets and asset finance from USD 20 billion to USD 35 billion. It also includes USD 35 billion in new mortgage lending flow for 6 Star residential housing in Australia. As of 30 September 2020, NAB had provided USD 42.5 billion in environmental finance since 1 October 2015.

2 Where banks submitted financial information using their local currency, this was converted to USD using November 2020 exchange rates.

- **Nordea** noted that sustainability-linked loans can be any type of loan instrument: the main characteristic is that sustainability performance is included in the loan documentation with clear targets that the borrower must meet.
  - Nordea's Green Bond Asset Portfolio has more than tripled in three years by September 2020 to EUR 2.585bn. The growth was driven by increased market demand for green loans, as well as the launch of green loans in the smaller Business Banking segment. As a result, approximately 1.3 Mt CO_2e were avoided in 2019.

- **OP Financial Group** added sustainability-linked loans and green loans to their portfolio in 2019: in 2019, the value of granted loans was EUR 730m.

- **Piraeus Bank** provided funding to private individuals and businesses for green products of EUR 1.4bn in 2019: the majority of these loans were allocated to renewables projects, in particular photovoltaic systems. EUR 86m was allocated to individuals and EUR 1.3bn to business finance. In total, green finance accounts for 0.5% of the bank's retail portfolio and 4.2% of the business portfolio.

- In 2019, **Santander** set themselves the ambition to raise or facilitate the mobilisation of EUR 120bn in green finance between 2019 and 2025, and EUR 220bn between 2019 and 2030. In support of this commitment, Santander is developing an approach to identify green transactions, both through products that incorporate a specific green feature, or through the identification of green use of proceeds in the general-purpose lending.

- **SpareBank 1 Østlandet** expanded their agriculture product portfolio with a green agriculture loan of up to EUR 25k for the installation of solar panels. This loan provides farmers with very favourable interest rates. The total lending volume was EUR 550k.[3]

- **Vancity** rolled out a climate-focused portfolio of refreshed loan products. This portfolio of lending products is designed to enhance the ability of members to address basic life necessities such as housing and transportation in a manner that reduces emissions and other environmental impacts.
  - These loans cover 5 key areas: transportation emissions, home-energy emissions, emissions from business operations, climate literacy and community action and resource efficiency.

3 Exchange rates as of November 2020 – NOTE: there should be a reference somewhere that says that everything has been converted back to USD or EUR based on November 2020 exchange rates

CaixaBank

Green Business

CaixaBank has started the analysis of its portfolios as an essential first step to setting the most appropriate measures and targets to align the portfolios to the Paris Agreement, as stated in the Collective Commitment to Climate Action. CaixaBank currently provides the following green business funding:

- **Financing energy-efficient properties:** operations for which there is documented evidence of an energy efficiency certificate with A or B rating are considered environmentally sustainable. The promotions formalised in 2019 include operations for €938 million with A or B rating.
- **Renewable Energy projects (wind, photovoltaic, etc.):** in 2019, CaixaBank helped to finance 28 projects for a total of € 2,453 million, funding 8,322 MW of installed renewable power. CaixaBank's energy portfolio accounts for 51% of all project financing. Of these projects, 62% are renewable energy projects.
- **Loans classified as "green" according to the Green Bond Principles (GBP) established by the International Capital Markets Association (ICMA):** in 2019, CaixaBank was ranked 13th in the green loan market Global Mandated Lead Arranger, participating in 11 green loans for a volume of US$1,546 million. All of these loans obtained the Green Certificate, based on the criteria of the Green Loan Principles established by the ICMA.
- **Eco-loans for financing energy-efficient home refurbishment and the purchase of energy-efficient vehicles and domestic appliances and Eco-financing for the agricultural sector:** CaixaBank has specific financing lines for buying environmentally-friendly vehicles and household appliances, investing in energy efficient housing, promoting investments to make resources more efficient and reduce their environmental impact. In 2019, the Company granted a total of 505 loans for €10.2 million linked to EcoFinancing.
- **Loans linked to sustainability indices:** in 2019, CaixaBank gave 11 loans for a total of €919 million which were conditional upon the achievement of a strong sustainability performance by the company, measured according to ESG indicators applied by independent bodies.
- **EIB Climate Action Lines:** the €30 million credit line agreement signed by CaixaBank with the European Investment Bank (EIB) in 2018 to fund projects by SMEs, individuals, and the public sector to combat climate change (especially electric vehicles, modifications to facilities and home improvements) is still in place.

3

Assessing climate-related 'transition risks'

Addressing climate-related matters for banks can have two distinct, though complementary, objectives: one, to reduce the indirect environmental impact of the bank, and two, to understand, monitor and limit exposures to risks.

In their submissions, signatory banks reported examples of changes to their risk management practices including measuring absolute or relative exposure to certain sectors, industries or activities, and processes to monitor and manage transition risks. Having this visibility supports CCCA banks in meeting their commitment to "engage and work with their clients on their transition."

Addressing climate-related matters for banks can have two distinct, though complementary, objectives: one, to reduce the indirect environmental impact of the bank, and two, to understand, monitor and limit exposures to risks. In their submissions, signatory banks reported examples of changes to their risk management practices including measuring absolute or relative exposure to certain sectors, industries or activities, in particular processes to monitor and manage transition risks. Having this visibility supports CCCA banks in meeting their commitment to "engage and work with their clients on their transition."

In some instances, signatories have implemented climate risk assessment as part of their wider risk management frameworks and processes, and several banks have also developed specific exposure tools to assess climate-related risks. Regulatory and supervisory drivers in specific geographies (notably Europe in particular) appear to be driving some of the risk management approaches adopted and reported by banks.

- **BBVA** has developed an internal transition risk taxonomy to classify sectors according to their sensitivity to transition risk. In addition, metrics are identified at the customer level to assess their vulnerability and integrate this aspect into risk and customer support decisions.
  - As of June 30, 2020, 18.4% of exposure measured by exposure at default of wholesale banking portfolio (9,7% of the Group's EAD) corresponds to sectors that they define as "Carbon sensitive" with a very high, high or intermediate level of exposure to this risk.

- In April 2019, **CaixaBank** joined the second phase of the UNEP FI pilot to promote the implementation of the TCFD recommendations of the Financial Stability Board (TCFD Banking Pilot Phase II), with a focus on the analysis of physical and transition risk scenarios.
  - In this context, CaixaBank is prioritising the analysis and quantification of Transition Risks in the Oil & Gas and Power Utilities sectors. Given CaixaBank's current loan portfolio, the energy sector is the one where the greatest potential risks are perceived with regards to corporate lending. The roll-out to other portfolios has been planned for 2021.
  - They have also measured their lending exposure to economic activities considered to be linked to high CO_2 emissions. In 2019, such activities accounted for around 2% of the total financial instruments' portfolio.
  - CaixaBank has also started to develop an additional internal metric of carbon exposure considering a more analytical review of large exposures. This metric includes additional sectors as proposed by external experts plus the inclusion of CO_2 exposures of listed companies according to external sources, together with individual analysis of additional inclusions and reasoned exclusions.

- In the first quarter of 2020, **KCB Group** screened loans worth USD 4.1bn through its Environmental and Social Risk screening criteria, in alignment with its commitment to be carbon neutral by 2028. The screening criteria has since been extended to cover 5% of the group's portfolio (USD 5.3bn).
- In September 2019, **Natixis** started applying its Green Weighting Factor, a proprietary tool to evaluate climate impact and climate-related transition risks of activities being financed.
  - The Green Weighting Factor includes both a methodology to assess each financing transaction's climate transition risk and an internal capital allocation mechanism that adjusts the amount of internal capital being allocated of each transaction depending on its level of transition risk. The bank's overall loan book exposure to climate transition risk is monitored through a Green Weighting Factor indicator included in the Risk Appetite Framework (the share of credit risk weighted assets allocated to the most negatively impactful activities). See page 32 for a case study overview.
- **Piraeus Bank**, in the context of the EU Life project Climabiz, developed the Climate Risk Management Model (CRMM) to estimate in monetary terms the climate risk of its Greek business borrowers across different economic sectors mostly impacted by climate change. The model uses climate scenarios, which simulate both the historical (period 1961-1990) and the future (period 2021-2050) climate across the country. The model can identify and analyse the cost per economic sector, sub-sector, and business borrower for the two main categories of risks related to climate change: physical risks & transition risks. Piraeus Bank carried out an economic assessment on climate risk of the Bank's business portfolio in Greece through the Climate Risk Management Model.
  - For 2019, the model calculated that the climate risk attributable to the Bank's business borrowers amounted to EUR 1.05bn which corresponds to 1.8% of the total turnover of the specific creditors. The model assessed that physical risks constituted 32.7% of the business portfolio's overall climate risk and transition risks 67.3%.
- **Produbanco Ecuador** reported developing an assessment/measurement approach and/or system to determine/quantify portfolio exposures to climate-related transition risks covering corporate clients in the utilities and mining sectors.

- **Santander** has developed an internal Risk Taxonomy and a Heat Map: the taxonomy identifies sectors that are exposed to climate change risks through physical and/or transition impacts while the heat map assesses each sector's climate related vulnerability on a five level scale.
  - This risk classification, complemented with exposure data for each of the sectors and geographies, is the starting point for quantitative and qualitative measurement of the most relevant climate change related risks.
  - Santander's objective is to calculate the sensitivity to transition risks of the Probability of Default and Loss Given Default of the customers in the sectors most vulnerable to physical and/or transition risks through the application of scenario analysis, selecting different climate scenarios and risk factors, identifying key drivers by sector and subsector and other relevant aspects important for the calculation of impacts.

- **Société Générale** has implemented a Climate Vulnerability Indicator which aims to reinforce the credit analysis on the most exposed counterparties. The approach adopted by Société Générale for measuring transition risks is inspired by the UNEP FI TCFD Pilot for banks, to which Société Générale contributed along with 15 other international banks in 2018. This approach aims to assess transition risks by quantifying the marginal impact of the climate scenario on the credit rating of borrowers for a set of priority sectors, under the assumption that the borrower does not adapt to this scenario. See page 33 for a case study overview.

- **SpareBank 1 Østlandet**, in Norway, uses due diligence assessments to identify which customers and projects have a high risk of having a negative impact and the potential for a positive impact. The Bank uses the methodological framework in the OECD's Due Diligence Guidance for Responsible Business Conduct. In 2019, the Bank developed due diligence assessments for all the relevant industries.

Green Weighting Factor

The Green Weighting Factor is a proprietary tool developed by Natixis in order to achieve several objectives: **accelerate its transition** to sustainable finance, integrate **climate transition risk** systematically in its financing activities, **monitor its climate alignment**, and eventually prepare for upcoming **climate regulation**.

This internal tool will enable Natixis to set climate impact targets for each of its business activities, and ultimately align its balance sheet with the objective of the Paris Agreement. The tool includes both (i) **a comprehensive methodology** to assess the climate impact and climate transition risk of each financing (rated on a 7-level colour scale from brown to green), and (ii) **an internal capital allocation mechanism** that links the amount of internal capital being allocated of each transaction to its level of positive or negative impact on climate change (and other environmental impacts when material). By using a favourable or adverse adjustment to risk weighted assets (credit RWA), the Green Weighting Factor adapts the expected return of each transaction depending on the environmental impact of the object being financed (project, asset, general corporate purpose). It therefore encourages financing solutions with the most positive impact ("green" transactions) and penalizes negative impact ("brown" transactions). It has proved to be a concrete way of triggering behavioural change amongst teams to develop sustainable finance.

The Green Weighting Factor rating methodology was finalized in 2019 for all sectors financed by the bank. After the methodological development and a proof of concept phase, the Green Weighting Factor was implemented in the bank's IT systems and incorporated in the bank's processes along the lending value chain. The Green Weighting Factor is being gradually deployed globally to all business lines. 82% of the bank's balance sheet within the tool's scope (all but financial sector exposures) has now been rated, representing €145bn of assets.

Because the Green Weighting Factor is **fully imbedded in the bank's credit process**, it has proved to be more than a mere assessment and reporting tool. Since it was rolled-out a year ago, it has become a **decision making, strategic dialogue and operation incitation tool**. The Green Weighting Factor has been used for several purposes in 2020, including the following use cases:

- Credit process and lending decision making;
- Credit risk assessment: the Green Weighting Factor is used to monitor the bank's overall climate transition risk as well as for projecting the balance sheet until 2050 as requested by the French banking regulator ACPR as part of an inaugural climate stress test exercise currently being completed;
- Strategic dialogue with clients and the resulting sustainable finance product structuring;
- Commercial strategic planning, including client tiering, priority setting and identification of sustainable finance opportunities;
- Active portfolio management, including distribution and securitization.

Additional work is currently ongoing to **translate the balance sheet's rating mix resulting from the Green Weighting Factor methodology into a temperature trajectory**. Natixis is committed to using the Green Weighting Factor initiative to set climate impact targets for all its banking activities. The climate impact targets will be defined with different time horizons (short, medium and long term) at the bank level, and for each business line in 2021.

SOCIETE GENERALE

Climate Vulnerability Index

The impact of transition risk on the credit risk of Société Générale's corporate clients has been identified as the main climate change-related risk for the Group. As a result, this was a first area of focus while implementing a climate-related risk framework. To measure this impact, the Group is gradually implementing a Climate Vulnerability Indicator that aims to reinforce the credit analysis on the most exposed counterparties.

The approach aims to assess transition risks by quantifying the marginal impact of the climate scenario on the credit rating of borrowers for a set of priority sectors, under the assumption that the borrower does not adapt to this scenario. This climate scenario is validated every year by the Group Risk Committee following the proposal of the Economics and Sector Research department.

The approach has 5 key steps: **identify priority sectors; choice of a single climate scenario; define homogeneous segments, assign borrowers into segments; and assess the 'climate vulnerability' of borrowers.** From this last stage, the borrowers automatically inherit the level of sensitivity of the segment to which they belong, materialised by a climate vulnerability indicator (CVI). The CVI is represented by a 7-level scale and corresponds to the marginal impact on the counterparty current internal rating over a 20–year time horizon of the selected transition scenario. It is evaluated in parallel to the internal rating (which is based on a 1-year probability of default), and under the assumption that the counterparty does not take any adaptation measures.

The Climate Vulnerability Index leads to two key outputs:

- **Quantifying an impact on credit risk metrics**. Once calculated, borrowers' vulnerability can be translated into a quantified impact in terms of Expected Losses and Risk-Weighted Assets. This is expressed in average rating degradation (for each of the 7 CVI levels is associated a rating degradation that can be applied to the related clients). In a bottom-up process, this quantification exercise can then be done at segment and sector level.
- **A list of clients vulnerable to transition risks for which the strategy will be examined.** For borrowers that are identified as vulnerable or highly vulnerable, the client relationship manager formalises an opinion on the client's adaptation strategy as regards to the transition risk. For long-term exposure, attention is paid on the financing risk at maturity. Vigilance is also paid to the timeliness of the client's strategic shift compared to that of the scenario. Indeed, in the case of a slow adaptation, the borrower could find itself in difficulty to raise the liquidity needed to finance its transformation plans.

4

Exclusion policies

CCCA banks have committed to working with others to develop clear and feasible sector-specific roadmaps to reach well-below 2 and strive for 1.5-degrees Celsius for all relevant sectors and across different geographies. Some sectors will end up being not compatible with a net-zero economy.

Leading banks can send clear and tangible signals of a strategy to shift capital away from high-emitting sectors through exclusion policies. In doing so, they indicate clear target dates after which no more financing activities will occur for these sectors.

CCCA banks have committed to working with governments, scenario providers and other relevant entities on the development of clear and feasible sector-specific roadmaps to reach well-below 2 and strive for 1.5-degrees Celsius for all relevant sectors and across different geographies. As a consequence, some sectors will grow, as highlighted in investment and product development decisions listed in chapters 2 and 5 of this report, while others will end up being not compatible with a net zero economy.

As highlighted by CCCA signatories (see Chart 5), leading banks can send clear and tangible signals of a strategy to shift capital away from high-emitting sectors through exclusion policies. In doing so, they indicate clear target dates after which no more financing activities will occur for these sectors.

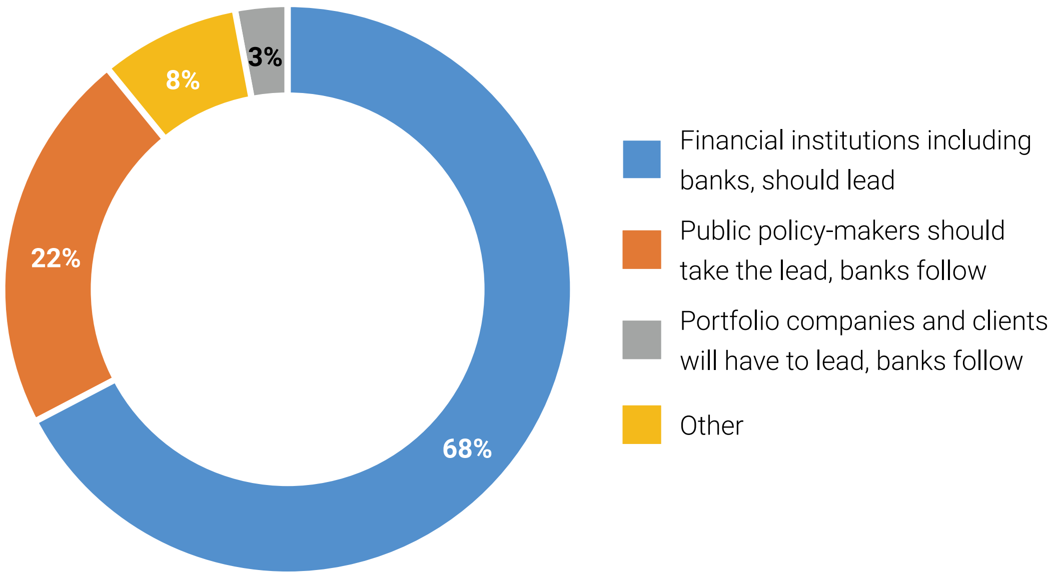


Chart 5: CCCA signatory's position on the role of the banking industry in achieving the objectives of the Paris Agreement

The use of climate scenarios, as well as the longer-term outlook of banks, is evident both in the risk-assessment approaches outlined in chapter 3, but also through the fact that some of the timelines self-imposed by the banks concur with the timelines imposed by science: for instance, a number of banks reported objectives to fully phase out thermal coal by 2030 in OECD countries and by 2040 in the rest of the world.

In the first 12 months of the CCCA commitment, almost a third of CCCA signatories strengthened existing exclusion policies or introduced new exclusion policies. While the majority focused on coal-related activities, a handful of banks worked on developing additional policies for other high-emitting sectors or sub-sectors. This is an area where, as expertise and confidence grows and as additional commitments are made to align their portfolios with a net zero economy, it is expected that additional CCCA signatories will announce wider-ranging fossil-fuel/high-emitting sector exclusions in 2021.

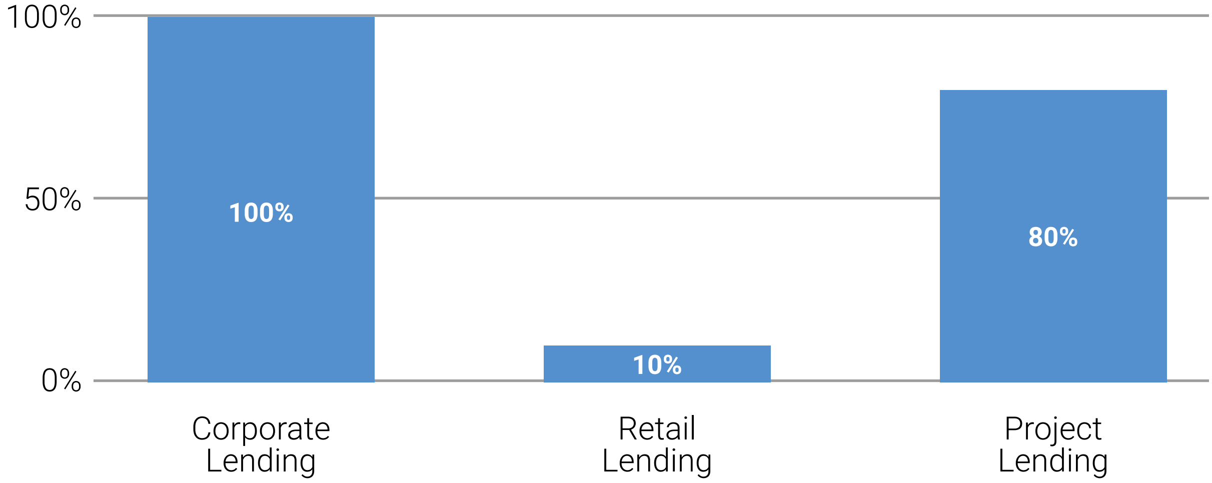


Chart 6: Percentage of exclusion policies covering different types of lending

Coal-related exclusion policies

The exclusion of thermal coal and other coal-related activities from a portfolio is a key focus of signatory banks. In certain jurisdictions, such as France, government policy has driven the development of coal-related exclusion policies. Exclusion policies reported by signatories include:

- In July 2020, **BNP Paribas** reinforced its policies related to coal (for both power utilities and mining sectors). The Group has decided to completely phase out from coal-related lending by 2030 in Europe and OECD countries and 2040 in the rest of the world. In addition, the Group will not onboard any new clients having more than 25% of their revenues from coal.
- **Caixa Bank** will assume no credit risk in new projects involving coal mining, will assume no credit risk in new long-term transactions or arrangements requested by companies at which coal extraction accounts for over 40% of their consolidated revenue, will assume no credit risk in new projects specific to the construction, development or expansion of coal-fired power plants and will assume no credit risk under new long-term transactions requested by companies where coal-fired power generation accounts for over 40% of the company's turnover.
- **CIMB** will cease providing financing for new and expansion of thermal coal mines and coal fired power plants from 2021, except where there is an existing commitment. CIMB will require their power generation clients with coal in their energy mix to provide a plan to reduce the share of coal in their generation mix. In the longer term, CIMB aims to reduce its exposure to coal to zero by 2040.

- **Crédit Agricole** will exit coal-related financing by 2030 in EU and OECD countries and 2040 in the rest of the world.
  - As of 2019, no new relationships with companies developing new thermal coal capacities are accepted, and a transitional phased approach is being put in place over the 2020–21 period for existing clients.
  - In order to continue dedicated and non-dedicated financing services, Crédit Agricole expects its clients to develop and communicate a phasing out plan in line with the timetable recommended by climate science (2030 for EU and OECD countries and 2040 for the rest of the world), including a commitment not to develop new projects.
- **ING** reduced its direct exposure to coal-fired power plants by 43% in 2019 as a result of their coal policy (updated in 2017) to no longer finance clients in the utilities sector that are over 5% reliant on coal, and aim for zero coal by 2025.
  - In parallel, ING increased renewable power generation financing by EUR 1.19bn in 2019 with renewables (including includes wind, solar, water and geothermal power) accounting for 59% of power generation lending outstandings at year-end 2019.
- **KBC** updated its exclusion policies and will abstain from any direct financing or insurance of coal related projects as well as general corporate financing and insurance of energy companies, when new customers have any portion of their energy production capacity which is coal-fired or existing customers have more than 25% of their energy production capacity which is coal-fired. See page 41 for a case study overview.
  - From 2030 on, KBC will abstain from all financing or insurance of and advisory services to energy companies which have any coal-fired energy production capacity.
- **KB Financial Group** from South Korea announced in September 2020 that they were exiting coal financing with immediate effect. KB Financial Group announced that they would no longer:
  - provide project financing for the construction of new coal-fired power plants globally.
  - underwrite bonds issued by a special purpose company for the construction of new coal-fired power plants globally.
  - underwrite any other bonds issued for the construction of new coal-fired power plants globally.
- While **La Banque Postale** does not have an official exclusion policy, it is committed to continue excluding funding for fossil-fuel-based energy projects

- **National Australia Bank** undertook a review of its thermal coal mining and coal-fired power generation portfolios in 2019 with a goal to decarbonise its portfolio over time, whilst supporting customers to make the low carbon transition. See page 40 for a case study overview.
  - NAB monitors its progress against these transition pathway measures for thermal coal mining and thermal coal-fired power and updates key stakeholders on progress every 6 months.
  - NAB will no longer finance new thermal coal mining projects or new-to-bank thermal coal mining customers; oil / tar sands extraction projects; oil and gas projects within, or impacting, the Arctic National Wildlife Refuge area and any similar Antarctic Refuge and new, or material expansions of, coal-fired power generation facilities, unless there is technology in place to materially reduce emissions.
- In May 2020, **Natixis** strengthened its pre-existing exclusions in the most carbon-intensive sectors. It no longer supports companies that develop any new capacity in coal-powered power generation or thermal coal mining, and therefore aims to be fully withdrawn from the thermal coal sector by 2030 for EU and OECD countries, and 2040 for the rest of the world.
- **Natwest** will stop lending to and underwriting companies with more than 15% of activities related to coal, unless they have a credible transition plan in line with 2015 Paris Agreement by the end of 2021 and will fully phase-out from coal by 2030.
- **Société Générale** updated its public Thermal Coal Policy to clarify how it will reduce the Group's exposure to thermal coal to zero by 2030 in OECD countries and 2040 in the rest of the world.
  - This will be achieved by disengaging from the most exposed companies (>25% of revenues derived from the thermal coal sector) which have not made commitments to exit the thermal coal sector.
  - From the end of 2021 at the latest, they will stop providing new financial products and services to any company with mining of power thermal coal assets.
- **Standard Chartered** will only support group level clients who have reduced their exposure to thermal coal to below 10% by 2030.

Other Sectors

- **BNP Paribas**' Group's sector policies – including Coal fired power plant, Mining, Unconventional Oil & Gas (shale oil and gas, oil sands, offshore Arctic projects), as well as Wood Pulp, Palm Oil and Agriculture - were applied to the Group's existing clients, in some cases meaning it could no longer do business with them.
  - A total of 418 companies were placed on an exclusion or monitoring list in 2019 in accordance with the Group's sectoral policies

- **BBVA**'s Sector Norms are a key instrument in their management of environmental and social risks in general, and climate risks in particular: in 2019, a new exclusion policy was introduced for oil sand projects.
  - The Norm's purpose is to address the specific aspects of sustainability and establish a decision framework for the management of customers and transactions in those sectors with the greatest potential impact on nature and people and exposure in the transition to a low-carbon economy: energy, mining, infrastructure and agribusiness.
  - Having been approved in 2018, the Norms are updated annually to ensure alignment with sustainability trends, international regulation, best practices, and the demands of their stakeholders.

- **Banco Hipotecario de El Salvador** implemented their exclusion policy in 2019 which aligns them with international standards such as IFC's performance standards, meaning they no longer finance any activity with high exposure to certain legal or reputational credit risks.

- **Natixis** extended its pre-existing oil & gas exclusion policy (which already excluded tar sands, extra heavy oil and exploration in the Arctic) in May 2020 to projects and companies involved in shale oil and gas exploration and production. It therefore no longer finances shale oil and gas exploration and production projects worldwide and has pledged to halt financing companies whose activity is reliant by more than 25% on shale oil and gas exploration and production.

- **Natwest** will stop lending to and underwriting major oil and gas producers unless they have a credible transition plan in line with the 2015 Paris Agreement by the end of 2021.

CASE STUDY

National Australia Bank

Portfolio Alignment and Coal Exclusion Policy

In 2019, NAB Group ("NAB") undertook a review of its thermal coal mining and coal-fired power generation portfolios. This is part of a phased review of credit policy settings for carbon intensive, climate sensitive and low-carbon sectors. This review considered a range of factors including: (i) various climate change scenarios for both transition and physical risk; (ii) customer strategies and plans and their degree of alignment to the Paris Agreement temperature goals; (iii) industry trends; and (iv) trends in Group exposures to these sectors. This work has led to NAB Group implementing the following measures:

- Supporting current coal-fired power generation customers implementing transition pathways aligned with Paris Agreement goals of 45% reduction in emissions by 2030 and net zero emissions by 2050. However, NAB will not finance new or material expansions of coal-fired power generation facilities unless there is technology in place to materially reduce emissions.
- Capping thermal coal mining exposures at 2019 levels and committing to reduce thermal coal mining financing by 50% by 2028 and intended to be effectively zero by 2035, apart from residual performance guarantees to rehabilitate existing coal assets. NAB will not take on new-to-bank thermal coal mining customers. NAB now expects its thermal coal mining exposure to reduce by 50% by 2026, and to be effectively zero by 2030."

Outcomes/impacts:

The outcome NAB is seeking is to decarbonise its portfolio over time, whilst supporting customers to make the low-carbon transition. NAB is monitoring its progress against these transition pathway measures for thermal coal mining and thermal coal-fired power and update key stakeholders on progress in its half and full year investor presentations and annual report suite.

At half year 2020, NAB's thermal coal mining exposure had reduced by 3% from FY2019 and exposure to thermal coal-fired power had reduced from 1.7% to 1.5% of NAB's power generation portfolio. NAB expects its exposure to thermal coal mining and thermal coal-fired power to reduce to net zero by 2035 and 2050 respectively through these measures. NAB expects that, combined with its provision of environmental finance to support the low-carbon transition, this will lead to a positive change and decarbonisation in the lending portfolio over time as the bank supports its customers in making the transition and building resilience to climate risk.

Implementation:

NAB is publicly reporting its progress against these measures on a six-monthly basis and will consider updates to its measures as its reviews industry and technology developments and the latest global climates scenarios.

Results achieved to date:

At the first half of 2020, NAB's thermal coal mining exposure had reduced by 3% from FY2019. NAB's exposure to thermal coal-fired power had reduced from 1.7 to 1.5% of its power generation portfolio. NAB expects its exposure to thermal coal mining and thermal coal-fired power to reduce to net zero by 2035 and 2050 respectively through these measures.

Exclusion Policy

Following the signing of the CCCA membership, KBC's coal-related business exclusion policies were revised upwards twice in 2020.

This new target aimed to take a clearer and more concrete stance on coal-related projects activities that KBC wishes to no longer support though its lending, insurance or advisory services including advise on debt and equity capital market transactions and M&A transactions.

It also strengthens the conditions to be met by each counterparty in non-excluded areas to remain eligible for the bank's services and financial products.

For new customers, KBC will abstain from direct financing or insurance of coal-related projects as well as from general corporate financing or insurance of energy companies if they have any portion of their energy production capacity which is coal-fired – as of 1 July 2020. There was no such restriction regarding new clients before this exclusion policy was updated in June 2020.

In terms of existing clients, the bank will abstain from direct financing or insurance of coal-related projects and stop all financing and insuring of clients engaged with coal activities if they have more than 25% of their energy production capacity being coal related. For customers who no longer meet this limit, the current credit and insurance contracts will be phased out within the applicable contractual agreement.

From 2030 onwards, KBC plans to abstain from all financing or insurance and advisory services to energy companies which have any coal-fired energy production capacity.

However, some exceptions have been built into the exclusion policy for a few very specific cases:

- For existing customers, the bank remains prepared to finance projects linked to the energy transition, even when a company's coal-fired energy production capacity exceeds the 25% threshold, providing that the projects are part of a strategic and credible transition plan of the customer.
- In the Czech Republic, given the current local energy mix and regarding KBC's responsibility towards local economies and societies in which it operates, limited exceptions are made to financing by CSOB. In its strategy update presentation in November 2020, KBC indicated it would exit all existing direct coal-related financings by the end of 2021.

Regarding thermal coal activities, KBC will stop any trade finance transactions when it is the underlying goal of the transaction.

5

Strategies to grow the customer base in specific sectors

As part of their commitment, CCCA signatories agreed to “align their portfolios” and, in doing so, “to finance a low-carbon, climate-resilient economy”. As such, a number of banks have taken initial steps towards strengthening their investments in sectors aligned with the Paris Agreement.

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Indeed, as governments turn the Paris Agreement goals into legal frameworks to achieve Net Zero, the financial sector will need to adapt and allocate capital according to their understanding of the opportunities and risks and ability to maximise impact. As noted by **BBVA**, "the climate transition will require significant investments in the short term in many industries. In addition, technological advances in energy efficiency, renewable energy, efficient mobility or circular economy, mean that the fight against climate change is now affordable and profitable, moving from a limited market to a more massive one with enormous business potential."

Their ability to, and speed to, implement capital reallocation will reflect their local market, their experience, their underlying portfolio and their level of ambition. In addition, local regulation will also be a key driver for defining sectors deemed aligned with policy goals. Consequently, four banks highlighted work in 2019 and 2020 to assess the implications of the recently published EU Taxonomy and its impact on their CCCA commitment:

- **CaixaBank** and **Nordea** stressed that a focus of the portfolio assessment is the implementation of the EU Taxonomy and, as such, in November 2019, they joined the UNEP FI working group to draw up guidelines to apply the EU taxonomy to banking products.
- **Fana Sparebank** established a Green Finance Framework in accordance with the ICMA Green Bond Principles in 2019. The Use of Proceeds set a higher standard for financing green buildings than outlined by the final EU Taxonomy. The Bank's principle approach for a qualified green financing is whether the actual financing will contribute to reducing the carbon footprint, as opposed to representing a set (building) standard.
- **Piraeus Bank** participated in the UNEP FI/European Banking Federation working groups providing input for the technical report on the application of the EU Taxonomy to the banking sector.

Some banks have developed measures which encompass a range of renewable energy-linked sectors, while some focus on specific technologies, such as solar or nuclear. Some strategies to grow the customer base which were reported include:

- In 2019, **Abanca** contributed to the financing of EUR 517m of renewable energy production infrastructure.
- **CaixaBank** helped finance 28 renewable energy projects in 2019 worth EUR 2.5bn and equivalent to 8,322MW of installed renewable power. 62% of their energy portfolio project financing were renewable energy projects. They also formalised financing for energy-efficient properties (A or B rating) worth EUR 938m in 2019.
- **KBC Group** implemented an ambitious target to increase the share of renewables in the total energy credit portfolio. This target is set at a minimum of 50% and was increased in November 2020 to 65% by 2030.

- Renewable energy projects that **La Banque Postale** could refinance with a green bond had reached EUR 1.275bn by July 2020. The bank also committed to doubling its outstandings in favour of renewables energies to EUR 3bn (of which EUR 1bn had been financed by 2019).
- **National Australia Bank** increased their environmental financing commitment from USD 55bn to USD 70bn by 2025, by increasing their commitment to financing for green infrastructure, capital markets and asset finance from USD 20bn to USD 30bn.
- **Natixis** has become one of the leading financiers of renewable energy infrastructure worldwide, particularly offshore wind power in Europe. Natixis has financed 22.7 GW of installed capacity in renewable energy over the past 5 years, including 7.8GW in the past year. At the end of 2019, renewable energy accounted for more than 90% of the bank's power generation loan book.
- **Sovcombank** noted that it is ready to consider allocation of credit financial support to projects developing low-carbon energy, taking into account the analysis of each project's specifics and requirements. The Russian bank highlighted the importance of nuclear energy as a source of low-carbon energy.
- **Yes Bank**, headquartered in India, is working to mobilise finance towards climate-aligned sectors, working together with governments, scenario providers and other relevant entities by supporting each other in developing the bank's capabilities and identifying risks and opportunities from a sectoral perspective. Since September 2019, the bank has been reducing its overall exposure to non-renewable energy.

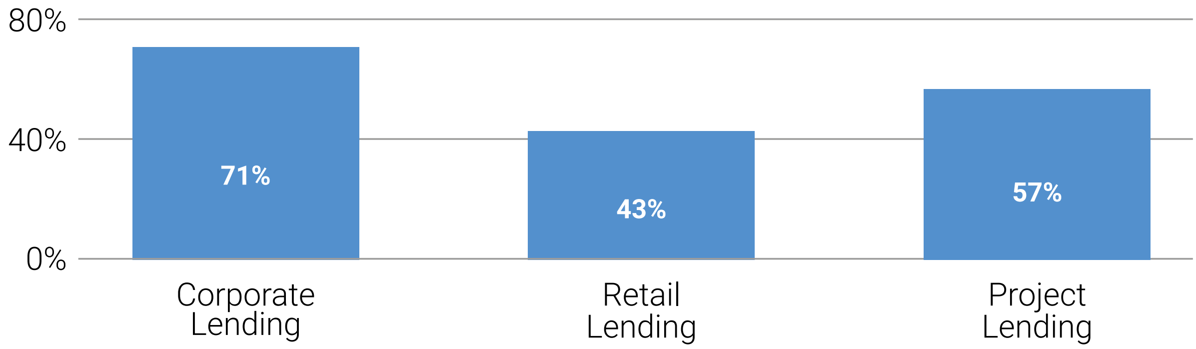

Chart 7: Percentage of customer-base measures covering different types of lending

6 Client engagement and capacity building programmes

A key commitment made by CCCA signatory banks is to "engage and work with their clients on their transition". As banks, this is how they can most effectively realise the changes required in the real economy to achieve a low-carbon, climate-resilient economy.

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CCCA banks have been very active in this area, though a large number of client engagement measures also integrate activities which cover portfolio alignment assessment, new products and services, transition risk assessment, exclusion policies, sector strategies and client engagement. As such, a majority of the client engagement activities taken by CCCA banks in the first 12 months of the commitment are included in measures reported in other chapters.

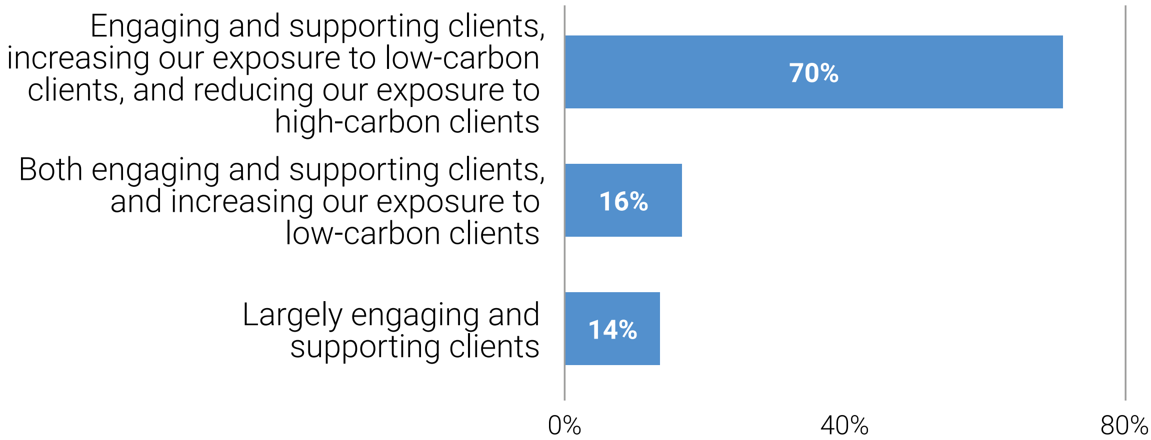

Chart 8: Percentage of banks reporting statement which best reflects the approach they are taking to align financial portfolios with the goals of the Paris Agreement

While any engagement approach can be as impactful as another, it is natural that the ability to engage with clients is impacted by the bank's maturity on the topic, its size, and the local economy. The CCCA is comprised of banks from emerging and developed economies ranging in size from under USD 1 billion in lending assets to over USD 1 trillion (see Chart 1). The following measures therefore reflect the differences in bank sizes and approaches taken.

- The majority of **Banco de Fomento Agropecuario (BFA)**'s credit portfolio in El Salvador are individuals and small farmers with loans under USD 20,000.
  - BFA implemented the Microfinance for Ecosystem-based Adaptation (MEbA) approach which provides these types of clients with an assessment of their climate risks and negative climate related impacts. This allows them to order to approve or deny their credit requests and offer them finance and technical assistance to implement the solutions they need based on the risks and negative impacts identified. This supports BFA's clients to adapt, become more resilient, and minimise their negative impacts regarding the technologies they use in their production process.
  - Through this approach, BFA have been able to identify the five most important climate related impacts according to frequency and relevance in their agriculture portfolio: droughts, loss of productivity, crop damages, loss of crops, and increase in pests. In addition, they have identified the more common risks such as extreme heat, intense rain, sudden changes in temperature, and changes in rain patterns. Based on the impacts and risks identified, they have been able to define 15 solutions to adapt to climate change such as crop diversification, greenhouses, natural shadows or seed banks. See page 48 for a case study overview.

- **Credit Agricole** has developed an Energy Transition Score. This is used – primarily by Crédit Agricole Corporate and Investment Bank and Amundi's Corporate Clients - both as a measurement tool to determine whether or not a company is engaged in a dynamic of adaptation to the changes required by the energy transition and as a tool for dialogue to encourage the counterparties to engage in such a dynamic, whatever its starting point. See page 49 for a case study overview.
  - For Crédit Agricole, the tool is not conceived as a "risk" tool but as a score intended to define the intensity of the Bank's commercial relationships, thereby giving them a better-rounded picture of the client's business case and supplementing the existing financial score.
  - The scoring is based on a double approach: an understanding of the client's performance to date on energy / climate issues and a dynamic vision of the intensity and speed of its decarbonisation process.
  - The scoring is based on external / public data, when available. Given the large volume of the Group's client companies, the score implies relying on public and easily available and exploitable third-party data for reasons of feasibility, cost, and time.

- In 2020, **KCB Group** engaged 90% of its employees on the principles for sustainable banking through webinars, e-learnings and workshops, as well as engaging with the Kenya Bankers' Association.

Providing Support to SMEs

Banco de Fomento Agropecuario (BFA) joined forces with UN Environment to implement the Microfinance for Ecosystem-based Adaptation (MEbA) project in El Salvador.

As the majority of BFA's clients in their credit portfolios are individuals and small farmers from rural areas of El Salvador, BFA was looking for a methodology to assess the climate related negative impacts and risks they are facing. There is a twofold purpose for this methodology: help their clients to become more resilient to climate change whilst guiding them to reduce the negative impacts their activity has on climate.

The tool developed provides a climate risk assessment to approve or deny credit requests. Following the tool's outcomes, financial and technical assistance can be offered to implement relevant solutions to face the risks and impacts their production process has on climate change. For each client applying for credit, the MEbA approach allows to:

- Determine the Adaptive Capacity Index
- Determine the more common risks (e.g. Extreme changes of temperature) and negative impacts (e.g. Droughts) related to climate among the segment of individuals and small farmers
- Determine the most common solutions (e.g. Crop diversification) each client need to implement to face theses climate related challenges

In order to implement the suggested solutions, the bank will collect environmental and social data when granting credit. Following this, data is uploaded to a tool developed to arbitrate whether or not the credit is approved according to the climate risks and impacts. If it is denied, some solutions will be suggested to the client. Incentives like grace period, term and low interest rate will be put in place to convince customers that they must choose the proposed solution that will allow him to be more resilient and minimise the negative impacts of their production process.

Since the establishment of this measurement system, the five most important climate related impacts identified by BFA according to their portfolio are: droughts, loss of productivity, crop damages, loss of crops and increase in pests. In addition, extreme heat, intense rain, sudden changes in temperature and change in rain patterns are the most common risks. Based on the impacts and risks identified, 15 adequate solutions have been defined to adapt to climate change (crop diversification, greenhouses, natural shadows, seed banks…).

CASE STUDY

CRÉDIT AGRICOLE S.A.

Energy Transition Score

Credit Agricole developed a tool called "the energy transition score" to capture and support their corporate client's energy transition pathway. It is designed to meet one of the major ambitions of the Group's climate strategy: integrate energy transition issues at the very heart of customer relations.

The transition score is conceived both as a measurement tool - to determine whether or not a company is engaged in a dynamic of adaptation to the changes required by the energy transition -, and as a tool for dialogue - to encourage the counterparty to engage in a such dynamic, whatever its starting point (incentive rather than sanction).

Unlike other mechanisms, it has not been designed as a "risk" tool but rather as a score supplementing the existing financial score to give a more accurate view on the bank's commercial relationship.

How is the energy transition score built? The tool is based on a benchmark of various impact assessment methodologies developed by the market such as PACTA, NEC, ACT and SBT to get the most relevant elements out of them, according to the Group's specifications and ambitions. The score is designed with the business's contribution throughout the construction process to both meet their needs and ensure transparency and feasibility of the tool. Based on public data and/or data purchased from external reliable data providers, the scoring is applied first to CACIB and AMUNDI's large client's portfolios.

By the end of 2020, Credit Agricole's teams will start applying the score to their portfolios. It is planned to be developed and applied in a second phase to intermediate sized enterprises and SMEs once overall assessment and further methodological work have been carried out in 2021.

Though only two entities of the bank will start implementing this tool in 2020, the transition score is meant to be spread to the whole group at a later stage. In the long term, the idea is also to strengthen the Group's consistency as all subsidiaries will use one single rating for the same client. Only some variations will be allowed, but they'll be materialised by an "exponent" added to the global rating (e.g. Aa, Ab…) and will not affect the Group score.

The transition score will be articulated and hosted internally in an IT system under development called the Group extra-financial reporting platform.

In the 2020 version of the score, the scoring scope remains limited to the energy transition, i.e. mostly GHG issues related to energy. In a further version, a broader scope will cover other climate issues like GHG emissions related to deforestation.

Conclusion

As highlighted in this report, the CCCA banks have, in the first year since the launch of the commitment, taken steps to **developing the knowhow and underlying data to align their portfolios with the Paris Agreement.** To deliver on their commitment made, they have been **developing new financial products, implementing exclusion policies, assessing and managing risks, conducting portfolio alignment assessments and engaging with their clients.**

All of these activities have put in place the **foundations for the signatory banks to, within 3 years of joining, set targets for aligning their portfolios with the Paris Agreement** and to successfully deliver on them.

Most of the banks still have a number of steps to implement before they can publish a full assessment of their portfolios' alignments or set targets. This is consistent with the novelty of the tools and methodologies currently available to conduct such assessments. For 2021, it will be the focus of the group to keep building capacity for portfolio assessment and target setting. A key step to that end will be the **publication planned for Q1 2021 of a collectively agreed set of principles and standards for measuring alignment and for setting and reporting on targets.** This will help ensure consistency, transparency and ambition of targets sets by CCCA members.

In parallel, growing use and understanding within banks of climate scenarios—their meaning, their strengths, their limitations, the implied risks and opportunities—will support the banks in **adopting scenario-based targets and reallocating capital accordingly.**

As governments worldwide - as well as an increasing number of corporates and financial institutions, commit to **net zero emissions by 2050**, the CCCA banks will, in the next year, **continue to deliver on the commitment made in September 2019 and build on actions taken in the past 12 months.** As the coalition grows, the signatories will continue to look to **provide leadership to the wider UNEP FI Principles for Responsible Banking signatories** to align their business strategy with the goals of the Paris Agreement on Climate Change.

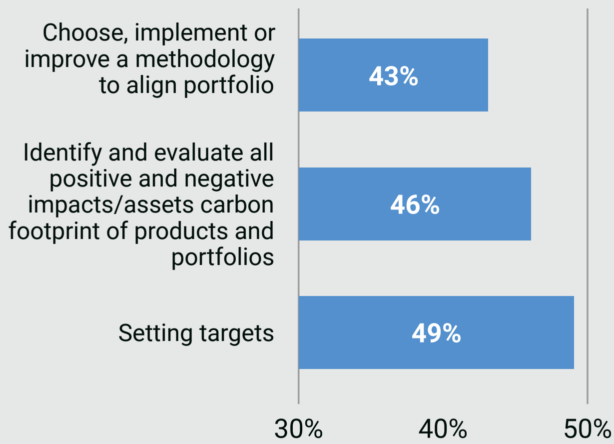

Chart 9: Three most commonly reported next steps planned by banks

UNEP FINANCE INITIATIVE

United Nations Environment Programme Finance Initiative (UNEP FI) is a partnership between UNEP and the global financial sector to mobilize private sector finance for sustainable development. UNEP FI works with more than 300 members—banks, insurers, and investors—and over 100 supporting institutions – to help create a financial sector that serves people and planet while delivering positive impacts. We aim to inspire, inform and enable financial institutions to improve people's quality of life without compromising that of future generations. By leveraging the UN's role, UNEP FI accelerates sustainable finance.

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