ARE EUROPEAN BANKS FIT FOR PARIS ?

A status quo analysis of Paris-alignment in the European Banking sector using the 3fP-Banks methodology - December 2020

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3fP finance fit for Paris

A cooperation between Frankfurt School of Finance & Management and Analistas Financieros Internacionales

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INTRODUCTION

The transformation of the European economy towards net-zero emissions and climate resilience is in full swing. The EU Green Deal aims to make Europe the first carbon-neutral continent by 2050. This will require innovation and major technology, policy, and demand shifts. A supportive financial system is necessary to redirect capital flows towards the transformation and to ensure that the European financial system becomes a strong partner for the European economy in financing the transformation, while also building up sufficient resilience against climate change related risk in the financial sector to ensure the financial system's stability.

The Paris Agreement provides the framework for the transformation. It guides the global community towards a future that aims to limit adverse consequences from climate change and limit global heating to "well-below 2°C" and preferable to 1.5°C. Article 2.1.c) of the Paris Agreement stipulates that all financial flows should be made consistent with a low-carbon and climate resilient economic development. Financial institutions and financial regulatory bodies around the globe are acting upon it.

Banks play a crucial role in the transformation. They are the central provider of capital to the real economy and usually act as key financiers for Small and Medium-Sized Enterprises (SMEs). Hence, banks have strong leverage to steer the sustainability transformation of European economy. Banks can be a manager of climate risks and climate opportunities, an advisor on climate impact, an intermediary for climate-related financing opportunities, and a communicator on progress and investment needs. Faced with a growing customer awareness and pressure from regulators, banks need to integrate climate considerations throughout their business model.

The European Green Deal provides a credible policy environment for long-term investments into the transformation. The European policy agenda on sustainable finance by the EU and many European governments show that governments have started to take on their role. Banks should assume at least two roles within the public sphere. (i) Banks will need to operationalise regulatory action and (ii) should become a partner for regulators and governments to cooperate on technical solutions. This requires thinking ahead and pro-actively developing visions, ideas, solutions, methods and tools.

Banks should embark on a long-term journey and become long-term partners for the real economy. Instead of taking binary or shortsighted decisions, banks will need to develop processes and pathways in collaboration with the real economy that allow for a targeted, just, inclusive and effective transformation. This entails the setting up supporting mechanisms and processes of the next two years in order to enter into a long-term dialogue with the real economy. In doing so, banks can reduce painful abrupt transformative disruption and rather smooth transformative processes for the real economy.

This status quo analysis provides an overview on the progress at major European banks in aligning with the Paris Agreement. The analysis shows an increased pace at which banks align their business models with the Paris climate goals. The number and volume of related product offerings and long-term commitments are steadily increasing. However, much remains to be done. The technical translation of commitments into daily business operations remains challenging and a mainstreaming of climate action in the core business is yet to be achieved.

The report provides an overview of strengths and weaknesses of aligning with the Paris goals in the banking sector. It discusses which policy measures and methodological developments would help to further improve market conditions for an accelerated alignment. Finally, the data collection of fifteen European banks is presented, representing major markets in Europe. We invite banks and all interested stakeholders to use this analysis as a discussion opener, a "shopping list" for action, an enabler for climate impact, and as a kick-starter for joint collaboration on supporting the climate transformation through the banking sector.

SUMMARY OF FINDINGS

The pace of climate integration amongst European banks is increasing while Paris alignment is not achieved yet. All fifteen European banks who participated in the study under the finance fit for Paris (3fP)-Banks framework show distinct strengths and weaknesses in their pathways towards Paris alignment. Some banks are closer to being Paris aligned than others.
The aim of this chapter is to summarise key findings and general observations from the interviews and the desk research in order to present a snapshot of the European banking market at the end of 2020, see figure 1. As many banks are in a fast transition, the picture might change within the coming month already.

Strategic considerations of climate action play an increasingly important role at all interviewed banks. Some banks have defined climate-related goals in their strategic plans while others relate their goals to environmental sustainability, sustainability or the United Nations Sustainable Development Goals (UN SDGs). The strategies are largely insufficient to be considered aligned with the Paris Agreement as they are not sufficient to meet a 1.5°C target. The mainstreaming of climate change related considerations throughout the organisation and the business model is mostly not comprehensive yet. Banks will need to avoid financing any harmful activities while also actively thriving to create a positive impact for the climate to fully align business models with the Paris climate goals.

Governance structures of interviewed banks reflect climate goals at different management levels and with differing levels of importance. Most banks' governance structures consider climate-related aspects[1]. The organisational positioning of tasks and responsibilities differs between banks. Most banks have a dedicated sustainability department, which seems to hold key responsibilities in the operationalisation of Paris alignment at banks. Due to the rapid broadening of the scope and workload related to market movements and regulatory requirements, many banks establish working groups throughout the organisation to operationalise specific aspects in relation to climate change, e.g. data collection or risk management. In some institutions, bottom-up approaches supplement the operationalisation processes and allow more employees to actively participate. However, banks with a C-level management more dedicated to climate action seem to take more holistic and ambitious action on the matter.

Climate-related incentivisation is starting to play a relevant role at interviewed banks. Some banks relate parts of the (executive) remuneration to climate or sustainability targets. While only few banks openly report on remuneration policies related to climate aspects, the interviews have shown that for the middle management of quite a number of banks, climate-or sustainability-related Key Performance Indicators (KPIs) represent a share of the variable remuneration. Additionally, many banks run projects to raise awareness for climate change and engage employees on climate action. Such initiatives exist for the core business of banks as well as improving the climate-friendliness or the sustainability of the work environment.

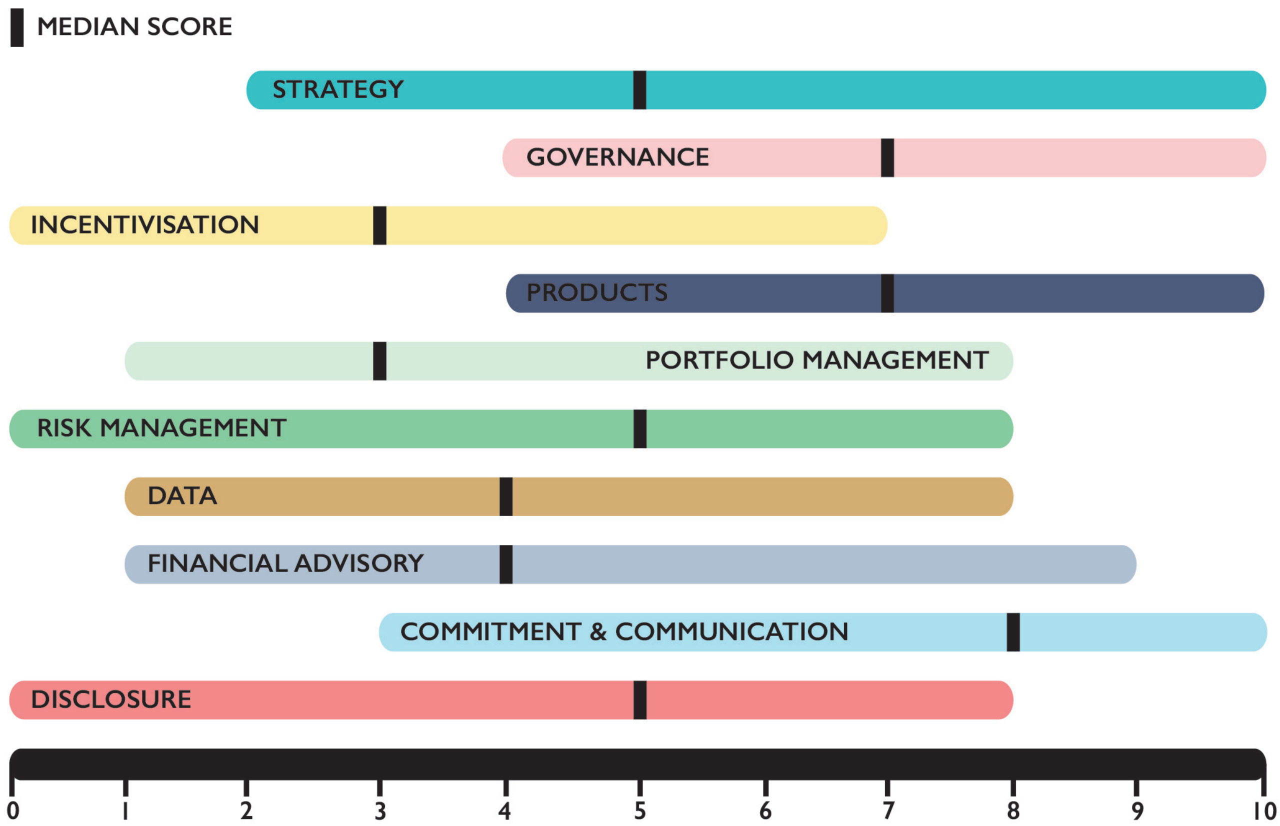

Figure 1: Paris alignment of the European banking sector according to 3fP-Banks

1 *As with the strategic aspects, governance structures sometimes relate to climate change explicitly while others take a broader perspective at sustainability.*

Climate-related products exist in the product portfolio of all interviewed banks and have a varying degree of importance for the business model. Key climate-related products are green bonds, green loans, sustainability-linked bonds and sustainability-linked loans. In the absence of a science-based taxonomy[1], it is not always fully transparent to what degree those products finance economic activities aligned with the Paris climate goals. Financing conditions for those products seem mostly to be similar to plain vanilla products. Interestingly, first banks start to question the relevance of climate-related products and highlight the importance of mainstreaming climate aspects in the entire product portfolio as the superior alternative to developing dedicated products with a view to Article 2.1c) of the Paris Agreement.

Climate change becomes increasingly important for portfolio management. Many interviewed banks have already set specific portfolio climate targets such as reduction carbon emissions or increased volumes for renewable energy finance. Some interviewed banks have committed to align their portfolios with the goals of the Paris Agreement in the next few years, which is reflected in first work on the portfolio alignment already today. However, methodologies seem currently insufficient to allow for a fully Paris-aligned portfolio management. Portfolio carbon accounting advances into the mainstream; however, further technical integration, access to data and data collection, as well as science-based target setting mechanisms are required to make full use of the methodology. In addition, not all commitments define the Paris climate goal as a reduction of global heating to 1.5°C.

The integration of climate-related aspects in risk management is important to most interviewed banks. Some banks regard increasing demand from regulators as the sole driver for adapting risk management processes while others recognise the strategic and social component. The technical integration of climate-related risk management remains a key area of work. Respective tools are at various stages of development. It includes the development of internal tools[2] and the use of tools by external providers. While some banks are already integrating tools throughout their risk management, other institutions are taking first steps. The use of scenario analysis and stress testing remain in their infancy. Most banks plan to apply those methods within the next few years. A key finding of the interviews is that none of the interviewed banks is currently able to translate climate-related risk into changes to financing conditions for the mainstream of their corporate clients. Climate-related risk management, if at all, has an impact on internal pricing. The burdensome process of reporting manual changes to validated risk models, which would be necessary in this case, seems to reduce appetite by many institutions to integrate manual risk adjustments for climate risk considerations. Validated risk models with a climate risk component seem necessary to circumvent this challenge in the future. Additionally, European regulators do not increase capital requirements based on increased climate-related risks[3]. Hence, a key motivator for banks to analyse and reduce climate-related risks is still not utilised.

The lack of data represents a major barrier to Paris alignment for risk management, strategic portfolio development, product development and disclosure. Some banks start to establish their own processes to collect data. These are so far mostly sector-specific and partly not comprehensive. The majority of interviewed banks regard the lack of data as a key challenge fully mainstreaming climate change related aspects in their business model. Regulatory, technical and dialogue processes are still needed to overcome this major barrier.

The role of advisors in aligning the bank's business with the Paris climate goals varies strongly between interviewed institutions. While some banks involve advisors only to a small degree in efforts to communicate climate considerations of the bank to the real economy, others provide services upon request, and few have mandatory climate-related elements in every dialogue with (high-impact sector) corporate clients. In general, two approaches for deploying financial advisors could be observed through the analysis. Some banks have dedicated sustainable finance experts who support client dialogue upon request by the client managers. Meanwhile, other banks try to enable all advisors to support clients in developing climate-related products. Few banks have developed dedicated guidelines on climate-related financial advisory for their advisors. Some banks have tasked their advisors with the collection of climate-relevant data at the corporate level. Few banks provide dedicated capacity building services to clients.

Banks are increasingly disclosing climate-related information. While some reporting already follows the recommendations of international bodies such as the Task Force on Climate-related Financial Disclosures (TCFD), most reporting requires further strengthening in order to fully comprehend the degree of Paris alignment of the banks' business model. It is expected, the update of the Non-Financial Reporting Directive (NFRD) as well as better access to relevant data and subsequent more meaningful analyses will lead to improved disclosure in the medium-term.

Most interviewed banks have signed a commitment. The signature of commitments and regulatory requirements will most certainly lead to an increased quantity and quality of reported information. Most banks openly communicate their efforts on climate action. However, the quality of the content of this communication varies to a large degree. As of now, long-term climate targets of commitments are not fully reflected in Specific Measurable Achievable Reasonable Time Bound (SMART) targets. This will be necessary to track progress and identify gaps between ongoing activities and needed activities for a 1.5°C economy. From most communication, a clear alignment with the Paris Agreement is not observable.

1 Note that taxonomy alignment is still not necessarily Paris alignment.
2 Please also see the 3fP-Banks Handbook.
3 See Capital Requirements Regulation 2 https://eba.europa.eu/regulation-and-policy/single-rulebook/interactive-single-rulebook/100427

NEED FOR POLICY ACTION

The 3fP-Banks analysis and the dialogue with participating banks has shown that further support and a stronger push from policy makers and regulators would help to accelerate the pace for Paris alignment in the banking sector. The following selection of recommendations for policy would help to tackle key issues as described in the previous chapter.

Adjust risk models: currently, it is hardly possible for banks to change their pricing in accordance with potential findings from a climate risk analysis. If a bank decided to adjust the pricing in the persisting low-interest environment, it would most certainly lose the client to a competitor. Regulators should ask banks to integrate climate aspects in risk models and provide clear guidance on the process and quantification of those risks. This would lead to a level playing field.

Provide standard scenarios: climate models and derived economic scenarios represent a key component of climate risk analyses. Regulators should provide mandatory benchmark scenarios or a set of recommended scenarios to banks, which would increase transparency and comparability of climate risk assessments and improve accessibility of climate scenarios to banks. Banks should however be allowed to adjust the model in accordance with their own economic data. The Network for Greening the Financial System (NGFS) undertakes work on standard scenarios and has published two reports "Guide to climate scenario analysis for central banks and supervisors" and "NGFS climate scenarios for central banks and supervisors" in relation to this work. Regulators should use this report as a starting point and a benchmark for their own work.

Adjust capital requirements to reflect climate risks: in a next step, regulators and supervisors should reflect climate-related risks in capital requirements. Updates to the Capital Requirement Regulation (CRR) and/or the Capital Requirements Directive IV (CRDIV) should ensure that increased risks from activities that are not Paris aligned would be reflected in capital requirements. Approaches to defining high-risk activities could include carbon-intensity of credits, the use of taxonomies for harmful activities[1], or deployment of a transformation matrix.

Harmonise frameworks: policy makers should ensure that industry standards (e.g. on products) and classifications (i.e. taxonomies) exist, which should become mainstream in the financial industry and the real economy. Standards should remain ambitious and stable over time to reduce ambiguity for banks and ensure alignment with the political climate targets. Additionally, a harmonised framework for mandatory reporting requirements on Paris alignment of banks (e.g. through KPIs compared to science-based benchmarks) should be introduced. It could increase peer pressure amongst banks and spark a race to the top.

Provide access to data: access to decision-useful data remains a key challenge for banks. If policy makers want to minimise transaction costs and support uptake of climate-related methods and tools, they should develop a comprehensive disclosure regime for the real economy, introduce usable and decision-useful reporting guidelines for SMEs or non-reporting companies and provide access to climate-related raw data through a public database. The GAIA X project is an initiative by France and Germany to develop a data infrastructure for Europe[2]. The project should be utilised to collect and curate climate-related company data. The Financial Big Data Cluster project is a first step in the right direction.

Develop and support a skills agenda: policy makers should ensure that the banking industry, clients and civil society are equipped with the necessary skills to implement Paris alignment throughout business activities and financial decision-making. As supporting measures, policy makers could (i) establish training programmes or (financially) support training, (ii) adjust curricula in schools, apprenticeship programmes, and university to develop skills early on, and (iii) introduce minimum skills requirements for financial advisors, risk managers, and C-level management.

1 *The Platform on Sustainable Finance is currently reviewing the potential introduction of a „negative taxonomy".*
2 *See https://www.bmwi.de/Redaktion/EN/Dossier/gaia-x.html*

METHODOLOGICAL GAPS

An alignment with the Paris Agreement of the banking business model seems challenging at the moment due to persisting methodological gaps. Ongoing (pre-competitive) work tries to solve this challenge. It should focus on the following methodological challenges.

Decision-useful KPIs & data collection: as of now, information flows from the real economy to the banking sector remain insufficient to analyse climate-related aspects appropriately. While larger and/or listed companies start to report relevant information, a particular challenge remains in accessing information from non-reporting companies, usually SMEs. The banking sector should define decision-useful KPIs to be reported by SMEs. Those KPIs should be developed with a particular view to the facts that SMEs tend to have limited access to relevant data themselves, i.e. do not collect the data themselves, and that resources for the establishment of processes for data collection are limited. Agreed industry standards on those KPIs would help SMEs to prepare for upcoming reporting requirements and would allow for the development of solutions, which could drive down transaction costs and complexity. Projects such as the TCFD Think Tank by the Green and Sustainable Finance Cluster Germany should be extended and moved to an international level[1].

Climate target setting for institutions and portfolios: existing approaches to climate target setting do not follow a science-based approach at most banks. Only such an approach can ensure the credibility of Paris alignment of targets. Initiatives such as the Science-Based Target initiative (SBTi) develop relevant methods. An agreed market standard, particularly for climate scenarios, should ensure that targets are comparable between institutions and portfolios.

Portfolio carbon accounting: most banks still need to integrate portfolio carbon accounting methods. The market should strive to find a harmonised method to calculate and (where possible) measure portfolio carbon emissions. This should reduce transaction costs in the implementation and increase comparability between portfolios. The Partnership on Carbon Accounting Financials (PCAF) represents a starting point for respective discussions.

Harmonised approaches to scenario analysis and stress tests: the 3fP-Banks study shows that banks are increasingly testing and applying scenario analysis and stress tests. In order to ensure comparability, the industry will need to use harmonised approaches to scenario analysis and stress tests. Industry working groups as well as facilitation by the regulator should steer this harmonisation process.

Climate-related Remuneration: most banks do not have integrated climate-related aspects in (executive) remuneration yet. A transparent method to link climate targets by the bank with remuneration would increase market transparency on this aspect of compensation and could increase market pressure to integrate the respective aspect. Climate-related remuneration should be discussed in particular with a view to long-term aspects in remuneration policies.

Adjustments of validated risk models: existing validated risk models do not seem to contain elements that allow for the systematic integration of climate-related risks in risk modelling. Banks and regulators should jointly develop such adjustments to existing models.

Capacity building: banks have already started to invest in capacity building amongst its employees. However, most efforts seem insufficient to mainstream knowledge amongst the relevant workforce. Therefore, banks will need to ramp up training programmes to (a) educate a significant share of its workforce on the basics of sustainable finance and (b) train highly specialised experts along the 3fP-Banks action areas.

1 For more information, please see https://gsfc-germany.com/en/tcfd/

SUMMARY OF DATA COLLECTION AT INDIVIDUAL BANKS

PARIS FITNESS CHECK: BANCO SANTANDER

Banco Santander S.A. is a multi-national financial services company with a head quarter in Madrid. It maintains a global presence and it is the 16th largest bank globally measured by total assets. Its retail bank operates in ten markets with mostly high market shares. Santander has developed relevant capacities in relation to climate change integration in the business model. In 2019, the bank's strategy was modified to establish responsible banking goals in relation to green finance, while at the same time internal work has started with the aim of aligning portfolios with the climate transition. A governance process exists that ensures a high-level of involvement by the Board with support from senior Executives and several internal working groups. Santander takes a risks and opportunities perspective and shares some learnings and provides a status update in the climate finance report.
Santander stresses the importance of collaborations with other peers within the framework of international initiatives[1]. It has enhanced the development of internal capacities and the application of new methodologies related to measuring climate risk in the entity's corporate loan portfolios and portfolio alignment. The implementation of scenario analysis is ongoing and a more mainstream perspective is to be expected for the coming years.

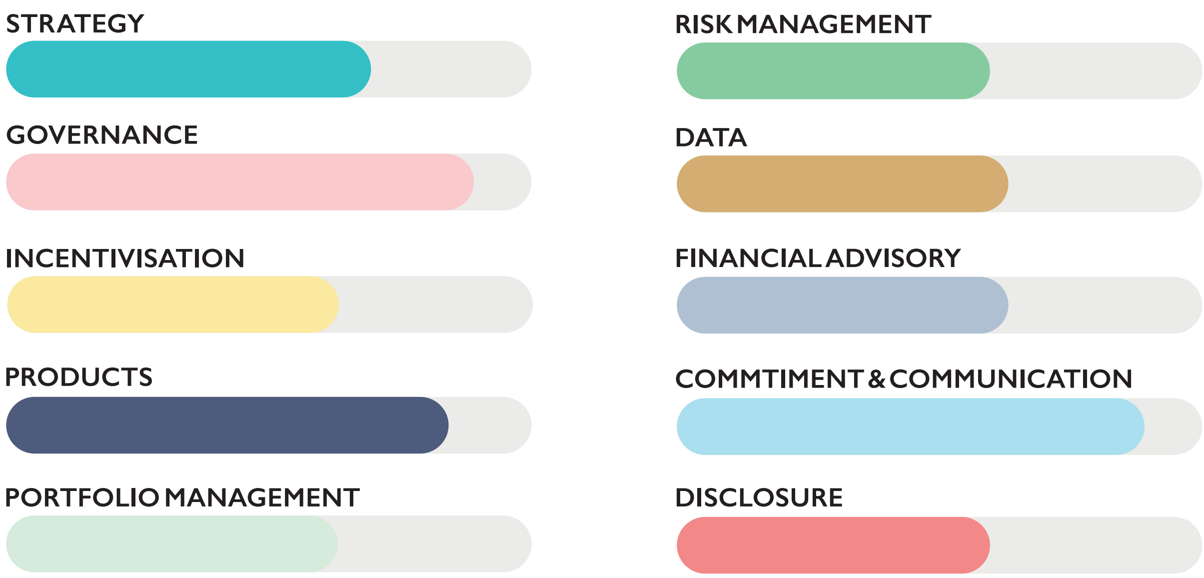

Figure 2: Paris alignment of Banco Santander according to 3fP-Banks

1 *Santander is a founding signatory of the Principles of Responsible Banking and it has also committed to climate action internationally* https://www.santander.com/en/press-room/press-releases/santander-joins-collective-commitment-to-climate-action-to-further-accelerate-the-financial-sectors-transition-to-a-low-carbon-economy

Strengths in aligning with Paris

The 3fP-Banks analysis reflects strong efforts by Santander to mainstream climate-related aspects in its business model.

- **Aligning financial flows with the Paris Agreement:** Santander has committed to the Collective Commitment to climate Action, and will align its portfolio according with the Paris climate goals.
- **Green financing goals:** In the opportunity side, the bank has already established an ambitious public goal of green financing from EUR 120bn in 2019 to EUR 220bn by 2025/2030. It has approved a framework of sustainable bonds based on which it has already issued two green bonds of EUR 1bn each. Green bonds represent a key instrument in the financing plan. Santander has developed an internal taxonomy. It will also support tagging financial purpose by climate criteria.
- **Climate assessment:** In the risk side, a materiality assessment has been performed and is guiding efforts towards those sectors with greater exposure in order to align its financial flows with the Paris Agreement. The translation of the commitment into action also included redirecting the financing from harmful activities and the modification of the risk appetite frameworks in relation to transition risks. The Bank's policies already incorporate among others, the prohibition of financing projects such as coal plants, oil sands in non-designated countries and the construction or expansion of drilling projects related to oil or gas in the Arctic areas (according to the bank's sector policies[1]).

Areas for catching up

Santander has made notable progress in aligning its activity with the Paris climate goals. In this area, various pilot experiences have been developed that have increased the bank's ability to analyse its portfolio, which should continue in the coming years.

- **Climate impact of the existing portfolio:** Santander has begun to analyse the implications of climate risks for its existing portfolio. It takes a sectoral approach for the analysis that starts with car manufacturing, power generation and the mortgage market. Conclusions from this progressive analysis are integrated in the analysis and other sectoral analysis will need to come.
- **Scenario analysis:** Santander has started developing a quantitative risk framework using climate scenario analysis to assess the climate impacts and effects at borrowers' level as well as at the portfolio level. Currently, the time horizon of the analysis is insufficient to capture the full effects of transition and physical risks. Santander therefore needs to extend the horizon of this analysis to a much longer term as well as to other sectors (see above).
- **Capacity building and innovative capacities:** Some departments at Santander, such as Santander Corporate Investment Banking and Private Wealth Management have already established a record of accomplishment in providing some products and advisory services related to climate change to its clients and are developing this proposal. Other areas needs still further developments and clarity around potential demand, regulation, methodologies, that create the environment to innovate and develop further portfolio offer and services capacity. The bank will is to broaden its capacity across segments and businesses at all levels.

1 These policies lay down the criteria governing the Bank's financial activity with the defence, energy, mining & metals and soft commodities (products such as palm oil, soy and timber) sectors. https://www.santander.com/en/our-approach/policies

Potential next steps

Santander should continue its roadmap on climate related banking from both risk and opportunity point of view. Some suggestions for further developments based on the 3fP-Banks methodology related to strategy, portfolio management and disclosure.

- **Align the strategy with geographical and sectoral climate targets:** several governments have established national climate transition and/or energy plans with clear long-term commitment and milestones for 2030 and 2050 respectively. Santander should consider those policy objectives when developing a portfolio strategy to facilitate geographical and sectoral coherence of strategies.
- **Climate-related categorisation of products and services:** Santander has developed green finance products such as project finance, syndicated loans, green bonds, capital finance, export finance, advisory, structuring, and other products to help its clients in the transition to a low carbon economy. It would be helpful to categorise all products and assets financed according to their greenness, e.g. along the EU Taxonomy.
- **Dialogue with the real economy on disclosure:** TCFD recommendations are a clear framework for climate related disclosure. Santander has already started to structure its reporting according to this framework. Although not fully aligned yet, it seems that it will achieve this strategic target soon. Progress would benefit from corporate clients reporting on climate-related disclosure complying to the same standard in order to support its mainstreaming and further improve own reporting on climate-related risks and opportunities in portfolios.

Sources:

- Santander responsible banking report 2019: https://www.santander.com/content/dam/santander-com/en/documentos/junta-general-de-accionistas/03-04-20/jga-2020-04-03-responsible-banking-report-en.pdf
- Santander Climate Finance Report 2019: https://www.santander.com/content/dam/santander-com/en/documentos/informe-anual-de-sostenibilidad/2019/ias-2019-climate-finance-2019-20-en.pdf
- Santander commitments: https://www.santander.com/en/press-room/press-releases/santander-commits-to-becoming-carbon-neutral-in-2020

PARIS FITNESS CHECK : BNP PARIBAS

BNP Paribas is a leading European bank with 198,816 employees in 71 countries and 2,164.71 billion euros of assets on its balance sheet. Since the signature of the Paris Agreement in 2015, the French bank has been strongly involved in the development of sustainable finance.

In 2016, BNP Paribas developed a Corporate Social Responsibility (CSR) Strategy, which is based on twelve pillars. Three of these twelve commitments are linked to BNP Paribas 'contribution to climate action including partnering with clients in the transition to a low carbon economy, reducing the environmental impact of our operations, advancing awareness and sharing best environmental practices. In 2019, BNP Paribas strengthened its commitment with the objective to reach 18 billion renewable energy investment by 2021 and to invest 100 million in Greentech start-ups by 2020. BNP Paribas has also decided to cease all its financing related to the thermal coal sector in the European Union by 2030 and worldwide by 2040.

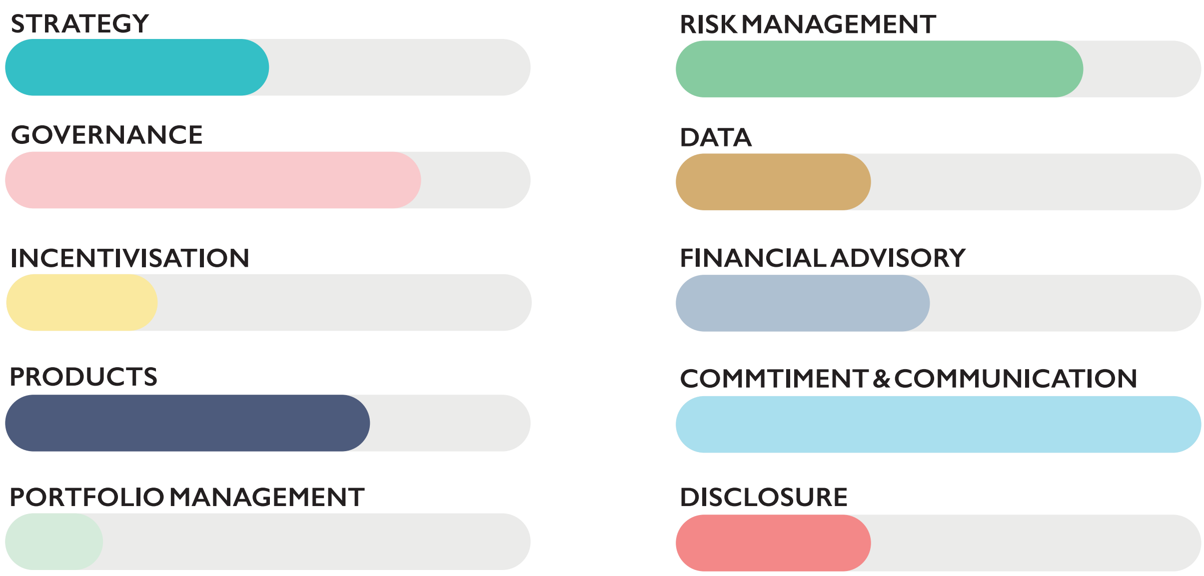

Figure 3: Paris alignment of BNP Paribas according to 3fP-Banks

Strengths in aligning with Paris

Having started early to mainstream sustainable finance in its business model, BNP Paribas has developed strengths in green products and climate risks analysis.

- **Wide range of green financial product offerings:** following its first green bond issuance in 2016, BNP Paribas seized climate-related opportunities on several markets with the development of green financial instruments such as green loans, green mortgages, green funds and green leasing. Each type of green financial product relates to a green finance framework which includes several standards, e.g. environmental performance of buildings or Environmental, Social, and Governance (ESGI) or Socially Responsible Investment (SRI) labels for funds.
- **Integration of climate risks in the general credit policy:** in 2014, BNP Paribas expanded its General Credit Policy to include CSR clauses. As of today, 22 specific credit and rating criteria contain ESG and climate-related criteria. BNP Paribas also developed CSR Sector policies for sectors such as coal-based electricity generation, the mining industry, palm oil production, paper and pulp production, agriculture and unconventional hydrocarbons in order to consider sectoral specificities.
- **Development of a climate risk matrix based on scenario analysis:** BNP Paribas has developed a matrix of transition and physical risks, which applies to operations and relevant deals. The development of this matrix is based on scenarios developed by the Intergovernmental Panel on Climate Change (IPCC), International Energy Agency (IEA) and national research. It assesses potential risks and opportunities arising from climate change and linked economic transition as well as the time frame and significance of impact. In 2019, BNP Paribas also conducted two studies to assess the resilience of a sample loan book to transition risks and physical risks through assessing risk weighted scores of risk such as heat stress, water stress, floods, sea level rise, and hurricanes and typhoons.
- **Pilot programme for climate footprint assessment:** BNP Paribas Cardif, an insurance subsidiary of BNP Paribas, has measured its degree of alignment with the well-below 2° C target stipulated in the Paris Agreement and estimated the temperature pathway to which its equity and bond portfolio is leading. These evaluations were based on two methods developed by the Carbon Impact Analytics (CIA) and the Science Based 2°C Alignment (SB2A).

Areas for catching up

Despite its leading position in sustainable finance, BNP Paribas could improve its approach to climate impact analysis, implement policies to involve its employees and enhance its collection of climate data.

- **Strong reliance on publicly available data in climate risk assessment:** when assessing ESG risks as defined by its General Credit Policy, BNP Paribas primarily relies on the availability of publicly disclosed social and environmental information and the voluntary adoption of the TCFD recommendations by its corporate clients. This approach leads to a lack of relevant data from SMEs as well as a lack of data from less advanced jurisdictions.
- **Climate related incentivisation mechanisms:** BNP Paribas does not provide financial incentives linked to sustainable finance neither to its employees nor to its clients. Providing variable remuneration linked to the achievement of climate-related targets such as the share of green assets in a portfolio, the reduction of portfolio emissions, or the development of a new climate impact assessment methodology would contribute to shifting the working culture towards Paris alignment. BNP Paribas could also consider providing financial incentives for its clients such as interest rate linked to their sustainability performance in order to decarbonize its portfolio of customers not by shifting its clients base but by supporting its clients in their transition towards energy-efficient, low-carbon and climate resilient production processes.
- **Climate impact assessment:** BNP Paribas does not systematically assess the climate impact before financing or investing in an asset. In order to become Paris-aligned, the bank will have to provide a method to assess the climate footprint of financed projects to its portfolio managers and credit managers as well as a clear policy to guide its employees on the decision-making based on this information.
- **Improved disclosure on its portfolios:** BNP Paribas is publishing a sustainability report as part of its annual report. The bank's climate related disclosure would be strongly improved if it were more transparent on its portfolios for example by disclosing the share of green assets in its portfolios. As of today, BNP Paribas only discloses the carbon intensity and assets represented in its energy portfolio.

Potential next steps

In 2021, BNP Paribas will work on reviewing its climate strategy. This is the occasion to raise ambitions on its climate objective and learn from the experience of BNP Paribas' subsidiaries.

- **Paris-alignment of its climate strategy :** in 2021, BNP Paribas will update its objective to invest 18 billion in renewable energy. Its current target was set for three years and covers less than 1% of its total assets. In order to increase Paris alignment, BNP Paribas should adopt targets that cover all its operations and a longer time horizon.
- **"Sustainable" finance labelling not at the expense of "green" finance :** BNP Paribas is pursuing efforts to develop sustainable finance and aims at identifying its financial flows contributing to a "positive banking" or to the UN SDGs. It is important not to undermine the labelling and disclosure of green finance leading to lack of transparency on the contribution of BNP Paribas to the Paris Agreement. BNP Paribas should therefore keep track of green finance and disclose green finance indicators as a subcategory of sustainable finance.
- **Learning from the experience of subsidiaries on climate risks and opportunities management :** BNP Paribas' subsidiaries are running some pilot projects to identify climate risks and opportunities or to assess climate impacts of their portfolios. BNP Paribas could integrate good practices throughout its operations. For example, the whole group could learn from the experience of BNP Paribas Cardif in measuring the impact of natural events on portfolios and assessing projected pathways linked to financed equities and bonds.
- **Disclosure of PACTA methodology results :** during the 24th Conference of the Parties (COP24), BNP Paribas amongst four other banks, BBVA, ING, Société Générale and Standard Chartered, committed to measuring the alignment of their loan portfolios with climate targets and studying their capacities for gradually moving their financial flows towards activities compatible with the Paris Agreement. BNP Paribas has been one of the first banks to participate in the development of tools to achieve this objective with the development of the Paris Agreement Capital Transition Assessment (PACTA) method. BNP Paribas should commence to disclose the results of the PACTA analysis and its assessed progress.

Source:

https://group.bnpparibas/uploads/file/bnpparibas_tcfd_report_en_1.pdf.

PARIS FITNESS CHECK: CAIXA BANK

Due to the COVID19-pandemic, the analysis of Caixa Bank is delayed. It will follow in a revised version of this report soon.

PARIS FITNESS CHECK: COMMERZBANK

Commerzbank is a major German bank operating as a universal bank, headquartered in Frankfurt am Main, Germany. The Bank serves private, small-business and corporate clients. With its strategic programme 'Commerzbank 5.0' published in 2019, the bank tries to transform its business to become more sustainable. Commerzbank sets corporate responsibility as a guiding principle and includes environmental, social and ethical aspects in the management of the company. The three fields of action within the strategic programme are:

I. Sustainable Corporate Governance
II. Markets & Clients
III. Environment & Society

In its 2019 sustainability report, the bank acknowledges that the real economy cannot transition in time to meet the UN SDGs and the Paris Agreement without the banking sector providing the capital and services needed. According to the report, banks need to develop comprehensive sustainability strategies with detailed implementation plans that are supported by appropriate resources and high levels of accountability. Commerzbank is on a good path, but still has some homeworks to do in order to unleash its full potential for climate action, particularly in the fields of portfolio management, risk management, and data solutions.

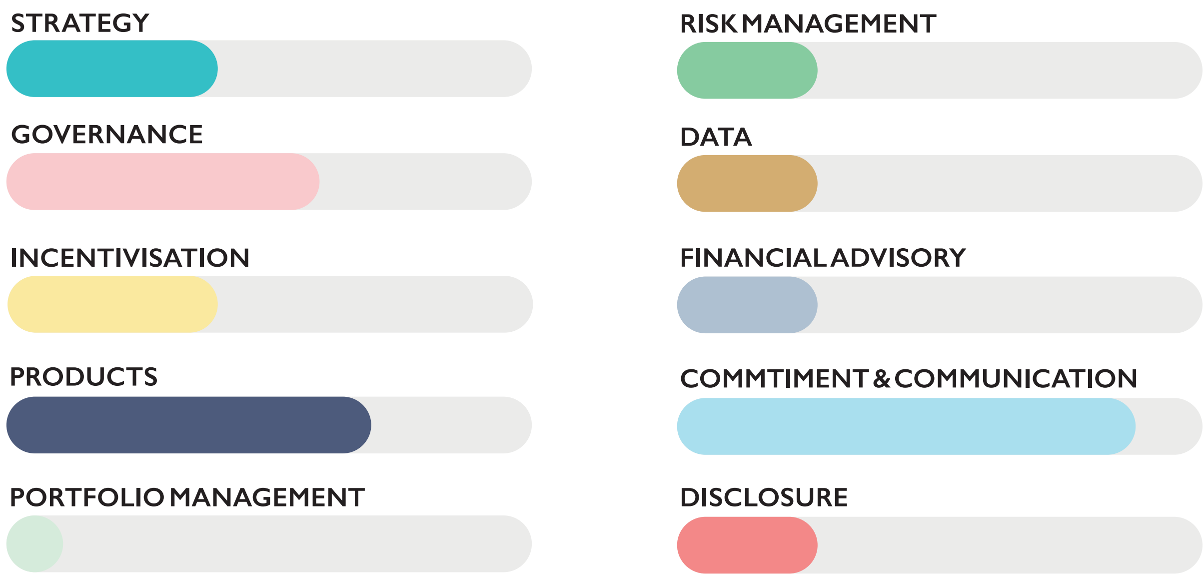

Figure 4: Paris alignment of Commerzbank according to 3fP-Banks

Strengths in aligning with Paris

The bank is involved in a large number of relevant industry associations and has signed numerous voluntary commitments, including the United Nations Principles for Responsible Banking (UN PRB), the UN Global Compact and the German climate self-commitment. By signing the German climate self-commitment the bank pledges to align the credit portfolio with the goals of the Paris Agreement. Above that, the bank's strengths lie in offering green products, funding renewable energy, communication about its sustainability strategy and encouraging its employees to participate in developing the bank's green and sustainable strategy.

- **Green products:** Commerzbank is a member of the Green Bond Principles since mid-2014 and issued its first green bonds in 2018 and 2020. Both bonds had an issuance size of EUR 500 mio and a maturity of 5 years.
- **Renewable energy funding:** Commerzbank established a Competence Center Renewable Energy in 2003, which is one of the biggest financiers of renewable energy in Europe today. With a share of around nine percent in industrial energy efficiency programmes of KfW, Commerzbank is one of the leading banks in using public funding for corresponding investments by German SMEs.
- **Communication:** Commerzbank offers a sustainability newsletter and publishes the Corporate Responsibility Magazine every two years. The GRI report is published on a yearly basis. In addition, Commerzbank is active in initiatives, such as the Development and Climate Alliance of the German Development Ministry[1] or Climate Neutral Now[2], set up by the UN Climate Change Program. The bank is also involved in several public-private initiatives on sustainable finance such as the Green and Sustainable Finance Cluster Germany. Commerzbank is one of the sponsors of the Cluster and is committed both in terms of content and financially.
- **Encouragement of employees:** Commerzbank introduced the platform WikIdee, an employee suggestion programme. It was established back in 1998 as an analogue communication platform and made available online in 2007. The system provides all Commerzbank employees with the opportunity to submit ideas for the improvement of work processes and products and to discuss those ideas online with colleagues.

Areas for catching up

Commerzbank should catch up in some areas to integrate climate action holistically in its core business. Future advancements could focus in particular on the alignment of the strategy with the Paris Agreement, operations and portfolio emission reduction efforts and risk management.

- **Paris-aligned strategy:** Commerzbank sets corporate responsibility as a guiding principle for its business conduct but does not refer to the climate targets defined in the Paris Agreement. Commerzbank's '100 goals on the way to Germany's most sustainable commercial bank' from 2017 do not directly reflect the targets set in the Paris Agreement. But by signing the Principles of Responsible Banking and the German climate self-commitment, Commerzbank made the commitment to align its credit and investment portfolios in line with the objectives of the Paris Agreement through financing the transition towards a low-carbon and climate-friendly economy with products, services and other commitments and to report regularly on individual progress in implementation. The bank is a member of the voluntary disclosure platform TCFD and joined the SBTi. The bank is on its way to make the alignment with the Paris climate goals a strategic element of its agenda.
- **Carbon emission reduction:** Commerzbank's climate target that applies to Commerzbank's international locations in around 20 countries entails to reduce its greenhouse gas emissions by 15% by 2025 compared to 2018 levels. Climate impacts of funding activities are not yet systematically recorded and analyzed. However, Commerzbank plans to use the SBTi method to calculate and reduce the CO2 emissions associated with its credit portfolio in the future and to align the portfolio with the Paris Agreement until 2030.
- **Paris-aligned risk management:** the reputational risk management team at Commerzbank identifies and manages its reputational climate risks. But Commerzbank did not comprehensively integrate climate-related aspects into the banks' overall risk management (physical risks, legal and policy risks, market risks, technology risks) yet.

1 *BMZ: Allianz für Klima und Entwicklung; URL: https://allianz-entwicklung-klima.de.*
2 *UNFCC: Climate Neutral Now; URL: https://unfccc.int/climate-action/climate-neutral-now.*

Potential next steps

The three potential areas for further climate action at Commerzbank are aligning Commerbank's portfolios with the goals of the Paris Agreement, working on climate-related data solutions, and including climate-related aspects in risk management.

- **Portfolio management:** Portfolio management is a central element to align activities with the Paris Agreement. Commerzbank should integrate climate metrics across its investment and lending portfolios to ensure that the effects of climate-related risks and opportunities on the portfolio performance are well understood. It will facilitate the operationalization of disclosure obligations such as the upcoming disclosure according to the EU Taxonomy.
- **Data solutions:** As the availability of relevant and consistent data on climate-related variables is a prerequisite for the alignment of commercial banks with the Paris Agreement, Commerzbank should undertake analysis on accessible and missing climate-related information and engage with its clients on improving information flows. This can happen e.g. through publishing TCFD reports. Commerzbank plans to do its first disclosure in 2022 for the fiscal year 2021 and the first full reporting is planned for 2023 for the year 2022.
- **Risk Management:** Commerzbank should extend the explicit capturing of climate risks in their credit rating processes to corporate clients. It already introduced SBTi and respective scenario analysis. To make further progress, the use of impact assessment tools that cover transition and physical risks[1], scenario analyses for different levels of global heating, differing levels on which the impact is assessed (e.g. portfolio, company, site, asset, etc.) as well as different parameters and the corresponding exposure, sensitivity and adaptive capacity.

Source:

- Commerzbank: Factsheet Sustainability; https://www.commerzbank.de/media/nachhaltigkeit/viii__daten___fakten/factsheet/Factsheet_Sustainability.pdf.
- Commerzbank: Commerzbank policy framework for handling environmental and social risks in its core business; https://www.commerzbank.de/media/nachhaltigkeit/ii__positionen___richtlinien_/Commerzbank_ES_Framework_EN_Final.PDF.
- Bilanz nach der Global Reporting Initiative: https://www.commerzbank.de/de/nachhaltigkeit/daten___fakten/publikationen/gri_bilanz/gri_2019.html.
- Commerzbank: 100 Ziele auf dem Weg zu Deutschlands nachhaltigster Geschäftsbank; https://www.commerzbank.de/media/nachhaltigkeit/ii__governance/Nachhaltigkeitsprogramm_2017_DE.pdf.
- Commerzbank: Klimavereinbarung des Deutschen Finanzsektors; https://www.commerzbank.de/de/nachhaltigkeit/nachhaltigkeitsstandards/mitgliedschaften_und_initiativen/klimavereinbarung_finanzsektor/klima_selbstverpflichtung.html.

1 *for more information, please refer to the 3fP-Banks Handbook*

PARIS FITNESS CHECK: DEUTSCHE BANK

Deutsche Bank is a German multinational bank and financial services company headquartered in Frankfurt am Main, Germany. The bank is listed at the New York Stock Exchange and the Frankfurt Stock Exchange. Deutsche Bank is the largest German banking institution and is also listed in the DAX30 stock market index. It is both a commercial bank and an investment bank with four major divisions: The Corporate Bank, the Investment Bank, the Private Bank, and Asset Management.
Deutsche Bank defines four action areas in its sustainability concept[1]:

- **Sustainable finance:** Deutsche Bank offers a product and services portfolio to support clients in the development of sustainable and low-emission business models. In May 2020, the bank set the goal of facilitating EUR 200 bn in ESG financing plus its portfolio of sustainable investments by 2025.
- **Company policy and commitment:** Deutsche Bank integrates environmental and social aspects in the risk management framework through internationally recognized principles and standards. In June 2020, the bank announced to align the loan portfolios with the goals of the Paris Agreement.
- **Ecological footprint:** Deutsche Bank works on cutting its energy use and CO2 emissions from its own business operations since 2012. The goal is to use 100 percent renewable energies from 2025.
- **Thought leadership:** the bank is a member of the Banking Environment Initiative (BEI)[2] and launched a platform for sustainability research called dbSustainability.

In its 2019 sustainability report, the bank acknowledges that the real economy cannot transition in time to meet the UN SDGs and the Paris Agreement without the banking sector providing the capital and services needed. According to the report, banks need to develop comprehensive sustainability strategies with detailed implementation plans that are supported by appropriate resources and high levels of accountability. Commerzbank is on a good path, but still has some homeworks to do in order to unleash its full potential for climate action, particularly in the fields of portfolio management, risk management, and data solutions.

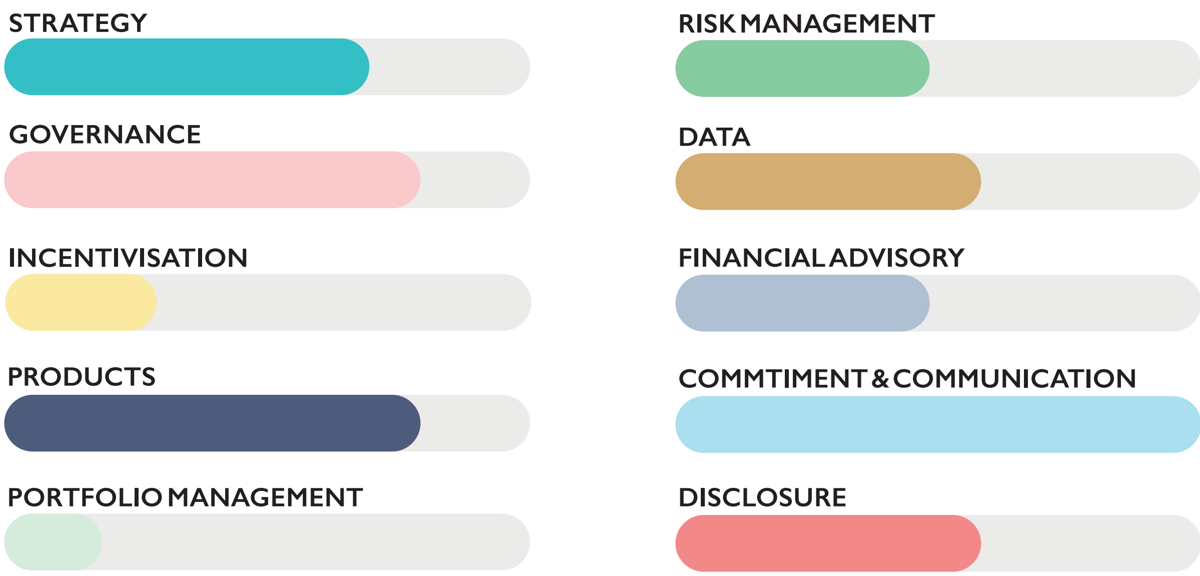

Figure 5: Paris alignment of Deutsche Bank according to 3fP-Banks

1 Deutsche Bank: Klimaschutzerklärung 2020; URL: https://www.db.com/ir/de/download/2020_Klimaschutz_Erklaerung_13_08_2020.pdf
2 The Banking Environment Initiative (BEI) was initiated in 2010 with the support of The Prince of Wales to identify new ways in which banks can collectively stimulate the direction of capital towards environmental sustainable economic growth. BEI's mission is to lead the banking industry in collectively directing capital towards environmentally and socially sustainable economic development.

Strengths in aligning with Paris

Since 2019, sustainability has become a central element in the corporate strategy of Deutsche Bank. The bank committed to accelerating transformational changes to reduce global heating by signing the 'Paris Pledge for Action' in 2015. Additionally, Deutsche Bank pledged to align the credit portfolio with the Paris Agreement by signing the German climate self-commitment. The Bank's strengths lie in developing an internal framework on sustainable finance referring to the EU Taxonomy, the inclusion of climate-related transition risks, the development of a Green Bond framework, own research on climate issues and the implementation of climate-related scenario analysis.

- **Sustainable finance:** Deutsche Bank developed an internal framework on sustainable finance referring to the EU Taxonomy. The framework defines six guiding principles for the classification of economic activities as environmentally and/or socially sustainable. The target is to facilitate EUR 200 bn euro in ESG financing plus its portfolio of sustainable investments by 2025.
- **Identification of climate-related transition risks:** an internal, sector-based climate risk taxonomy classifies the environmental risk exposures of institutional credits. The classification is based on (i) the EU Taxonomy, (ii) scope 1 and 2 carbon emissions data at the client level (where available) or sectoral level and (iii) internal expert judgement.
- **Green Bond framework:** Deutsche Bank's Green Bond Framework is based on the Green Bond Principles of the International Capital Market Association (ICMA) as well as on the latest guidance in the EU Taxonomy. The first Green Bond was issued in mid-2020.
- **Research on climate issues:** Sustainability is Deutsche Banks' own research brand on climate issues and contributes to awareness raising and climate-related development. dbSustainability helps clients identify sustainable investment opportunities and pinpoint the political implications of broad ESG themes on the economy, industries and individual companies.
- **Transformation scenario analysis:** climate transformation scenario analyses are performed to assess how climate change and the transition towards a low-carbon and climate-resilient economy would affect the bank's operations, portfolios and assets. Deutsche Bank tries to map expected losses with different climate transition scenarios using MSCI data.

Areas for catching up

Deutsche Bank partly aligns its business model with the Paris Agreement and is on a good course in many aspects. Still there are areas of action in which Deutsche Bank could catch up. Those include the development of a long-term strategy, climate-related disclosures, the inclusion of carbon accounting, the development of green financial products and research on data solutions.

- **Time horizon of climate targets:** Deutsche Bank defined a time horizon and a timeline for its Paris-aligned strategy of its activities, but the timeline is defined only until 2025. Yet, the bank committed to align the products and services to reach climate neutrality by 2050 through signing German climate self-commitment. The Paris Agreement includes targets until 2050 and the timeline of Deutsche Bank should be extended to over at least 20 years to keep pace with the transition of the EU's economy within the next decades regarding technology, policy, and demand shifts and innovation. The long term perspective should be especially based on a science-based vision for sector-specific decarbonization pathways.
- **Climate-related disclosures:** Deutsche Bank is working towards implementation of TCFD recommendations to develop a reporting framework to provide investors, clients, and other stakeholders with consistent, comparable, and useful information on climate-related risks and opportunities[1]. Deutsche Bank does not yet consider climate-related aspects such as the climate footprint of the bank's financial assets with for example the CO2 emissions being emitted or avoided by the bank's financing in their disclosures.
- **Carbon accounting:** carbon accounting frameworks are not yet included in Deutsche Bank's strategy. They should be applied throughout the portfolio management process to accelerate the transition to a low carbon economy. As part of the German climate self-commitment, Deutsche Bank made the commitment to develop and introduce accepted methods for measuring the climate impact of their loan and investment portfolios by the end of 2022.
- **Data collection:** Deutsche Bank already cooperates with ESG data providers to collect climate-related data. Still, many climate-relevant data points are missing, especially from SMEs. The availability of relevant and consistent data on climate-related variables is a prerequisite for the alignment of commercial banks with the Paris Agreement. Therefore, Deutsche Bank should undertake comprehensive analysis on accessible and missing climate-related information and engage with their clients and investors on the information flow of climate data to fill this gap. Deutsche Bank takes first steps in this direction, for instance by being part of a data initiative by the Green and Sustainable Finance Cluster Germany e.V., the TCFD Think Tank.

1 *Deutsche Bank (2019): Non-Financial Report (https://www.db.com/ir/en/download/Deutsche_Bank_Non-Financial_Report_2019.pdf).*

Potential next steps

Deutsche Bank should continue developing a long-term sustainability strategy and become a partner for the real economy in financing the transformation. The forthcoming suggestions for specific steps for Deutsche Bank to align with the Paris Agreement include the disclosure on Paris alignment of the banks portfolios, the implementation of carbon accounting measures and finding data solutions to collect relevant and consistent data on climate-related variables.

- **Climate-related disclosure of the portfolios:** Deutsche Bank should continue with disclosing comprehensively about climate-related information, especially about climate-related risk exposure of its portfolios and climate impacts of its portfolio. Deutsche Bank should increase and enhance climate related disclosure of relevant and useful information for greater transparency and stimulation of behavioural change. This will also facilitate the operationalisation of disclosure obligations such as the upcoming disclosure according to the EU Taxonomy.
- **Implementation of carbon accounting measures:** Deutsche Bank should implement carbon accounting methodologies in its portfolio management, including the measurement and target setting targets for scope 3 emissions.
- **Finding data solutions:** Deutsche Bank should work on ensuring the availability of climate-related data, on defining climate variables and KPIs and on defining reference frameworks to interpret data on ensuring the adequate collection and application of data.

Source:

- Klimaschutzerklärung Deutsche Bank; https://www.db.com/ir/de/download/2020_Klimaschutz_Erklaerung_13_08_2020.pdf.
- Klima-Selbstverpflichtung der Deutschen Kreditwirtschaft; https://www.klima-selbstverpflichtung-finanzsektor.de.
- Deutsche Bank: Green Bond Framework; https://www.db.com/ir/en/download/Deutsche_Bank_Green_Bond_Framework.pdf.
- Deutsche Bank: Sustainable Finance Framework; https://www.db.com/cr/de/docs/2020July_DB_Sustainable_Finance_Framework_final_for_disclosure.pdf.
- Deutsche Bank: Non-Financial Report (https://www.db.com/ir/en/download/Deutsche_Bank_Non-Financial_Report_2019.pdf).

PARIS FITNESS CHECK: DZ BANK

DZ Bank (Deutsche Zentral-Genossenschaftsbank), based in Frankfurt am Main, is the central institution within the cooperative banking sector, responsible for around 850 German cooperative banks. In addition to this function, DZ Bank is also a commercial bank for corporate customers and institutional investors from Germany and abroad. Under the tagline 'DZ BANK.Die Initiativbank', it supports the business of the independent cooperative banks in their regions with the aim of strengthening their competitiveness. The DZ BANK Group includes Bausparkasse Schwäbisch Hall, DZ HYP, DZ PRIVATBANK, R+V Versicherung, TeamBank, the Union Investment Group, VR Smart Finanz, and various other specialized institutions.
DZ Bank takes the UN SDGs and the Paris Agreement as the framework for their sustainable finance activities and their basis for the commitment to sustainability. The bank signed the UN Global Compact in 2008 and the UN PRB in 2020.

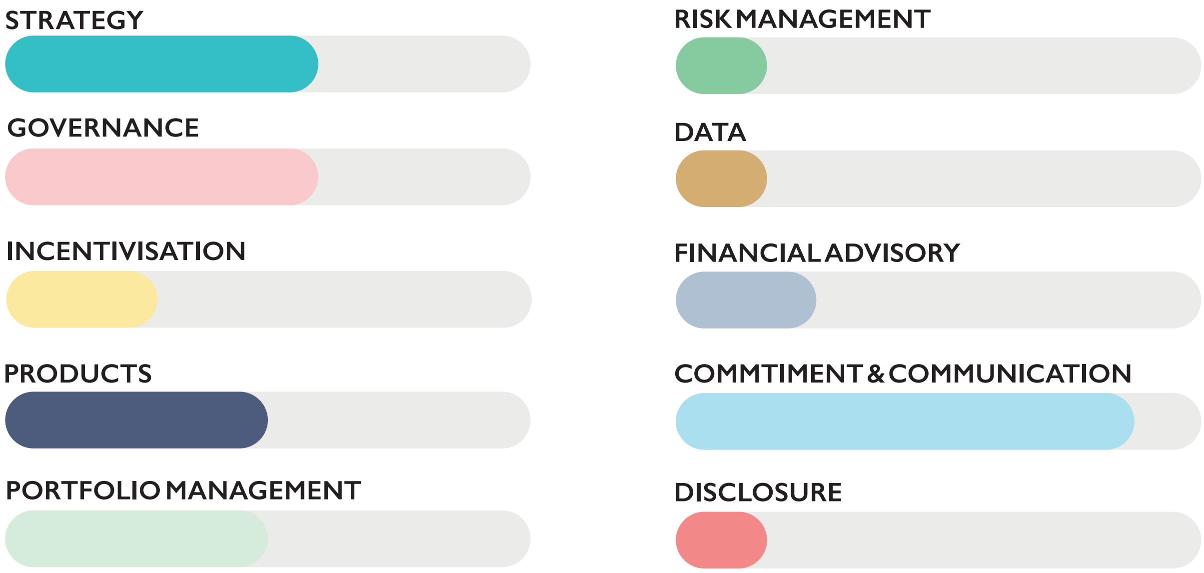

Figure 6: Paris alignment of DZ Bank according to 3fP-Banks

Strengths in aligning with Paris

DZ Bank sees climate change and its impacts as one of the greatest global challenges. The Bank's goal according to the Position Paper Climate[1] is to improve their own carbon footprint, to expand the low-carbon business portfolio, to support the transformation of CO2-intensive industries and activities and to commit to promote sustainability. All business activities should be assessed on the basis of internal sustainability standards such as exclusion criteria, sector principles and the Equator Principles.

- **Green Bonds:** at the end of September 2018, DZ BANK issued its first green bond, with a volume of EUR 250 mio. The design of the bond complies with the Green Bond Principles of the International Capital Markets Association (ICMA). In 2019, the total volume of bond issues with green, social, and sustainable objectives that were supported by DZ BANK as the lead underwriter amounted to around EUR 10.05 bn. Issuance activities are focused on investment projects in the areas of renewable energies and climate change.
- **Sustainable energy:** DZ BANK's project finance business focuses on energy generation and distribution, including renewable energies, and infrastructure/public-private partnerships. At the end of 2019, the volume of project finance credit limits approved by DZ BANK for wind, solar, and biogas/biomass accumulated to around EUR 5.4 bn. The bank already prepares for future renewable energy projects outside the EEG[2] grants by means of Power Purchase Agreements, that are well established forms of finance in other countries.
- **Group Corporate Responsibility Committee:** the group within DZ Bank enables a professional exchange on current developments and activities relating to sustainability.

Areas for catching up

DZ Bank already offers different sustainable financial products and has special expertise in the field of green bonds. To reach a comprehensive low-carbon business portfolio and a climate strategy aligned with the Paris Agreement, DZ Bank however needs to catch up in some areas.

- **Investment policy:** the bank is already checking all lending activities (e.g. traditional loans, project finance, and trading limits) with the help of an internal sustainability checklist which is based on the ten principles of the United Nations Global Compact to ensure that it complies with sustainability criteria. Paris-aligned investment policy is yet to be implemented in all operations and services.
- **Climate-related KPIs:** the bank does not yet collect environmental and climate-related KPIs for the product and service offerings.

1 DZ Bank: Strategic Position Paper (https://www.wertewelt.dzbank.de/content/dam/wertewelt/englisch/berichte_downloads/Position_paper_climate_e_final.pdf).

2 The Renewable Energy Sources Act (German: Erneuerbare Energien Gesetz (EEG)) is (EEG) a series of German laws to encourage the generation of renewable electricity (BMZ: Das Erneuerbare-Energien-Gesetz, URL: https://www.erneuerbare-energien.de/EE/Redaktion/DE/Dossier/eeg.html).

Potential next steps

DZ Bank could increase Paris-alignment of its business by establishing a comprehensive Paris-alignment strategy, a portfolio management that integrates climate metrics and by collecting and processing climate-related data.

- **Paris-alignment strategy:** DZ Bank could quantify its ambitions by setting targets for increasing financing on climate activities. Additionally, the bank could improve its processes with regard to climate change by enhancing transparency towards investors and by communicating climate ambitions. Setting milestones for the climate strategy, e.g. by signing the German climate self-commitment[1] and by that pledging to align the credit portfolio with the Paris Agreement, could help in developing an appropriate climate strategy.
- **Portfolio management:** for Paris aligned investment and lending portfolios, DZ Bank should integrate climate metrics. Only in this way it is possible to build a more resilient business model that includes climate-related risks and opportunities. A Paris aligned portfolio management should also include carbon accounting methods comprising measuring and setting targets for scope 3 emissions.
- **Data solutions:** DZ Bank should undertake a detailed analysis on accessible and missing climate-related information from their clients to measure climate risks and their potential impact on the long-term performance of financial assets, for the quantification of the environmental footprint of financing and investing activities. For financial market actors, the accessibility and quality of data on sustainable finance is critical for the measurement of climate risks and their potential impact on the long-term performance of financial assets as well as for the quantification of the environmental footprint of financing and investing activities.

Source:

- DZ Bank: 2019 GRI data of DZ BANK AG; https://www.wertewelt.dzbank.de/content/dam/wertewelt/englisch/berichte_downloads/2019_GRI_Report_DZBANK.pdf.
- DZ Bank: Strategic Position Paper; https://www.wertewelt.dzbank.de/content/dam/wertewelt/englisch/berichte_downloads/Position_paper_climate_e_final.pdf.

1 *Klimaschutz-Selbstverpflichtung des Finanzsektors; URL:* https://www.klima-selbstverpflichtung-finanzsektor.de.

PARIS FITNESS CHECK : GRUPO COOPERATIVO CAJAMAR

Cajamar is a medium-sized Spanish financial institution that focuses its activity on retail and corporate banking. Its clients are typically private individual customers, self-employed, microbusinesses and SMEs. Environmental, social and governance issues form part of Cajamars' business strategy 2025. Climate-related challenges are a key issue for Cajamar as the agricultural and food processing sectors represent a significant share in Cajamars' portfolio as well as the social economy. The bank has developed an individual approach to incorporating climate aspects into its financial activities. For example, it offers climate-related support to its agro-food clients. In this case the financial service provision is accompanied by other technical advisory in relation to climate and environmental risks and opportunities.

Cajamar integrates climate action in operations and portfolio activities. It calculates emissions of its own operations and buys certificates for compensation. It has begun work on calculating the degree of decarbonisation required in its portfolio to align with the Paris Agreement, achieving initial progress for some sectors.

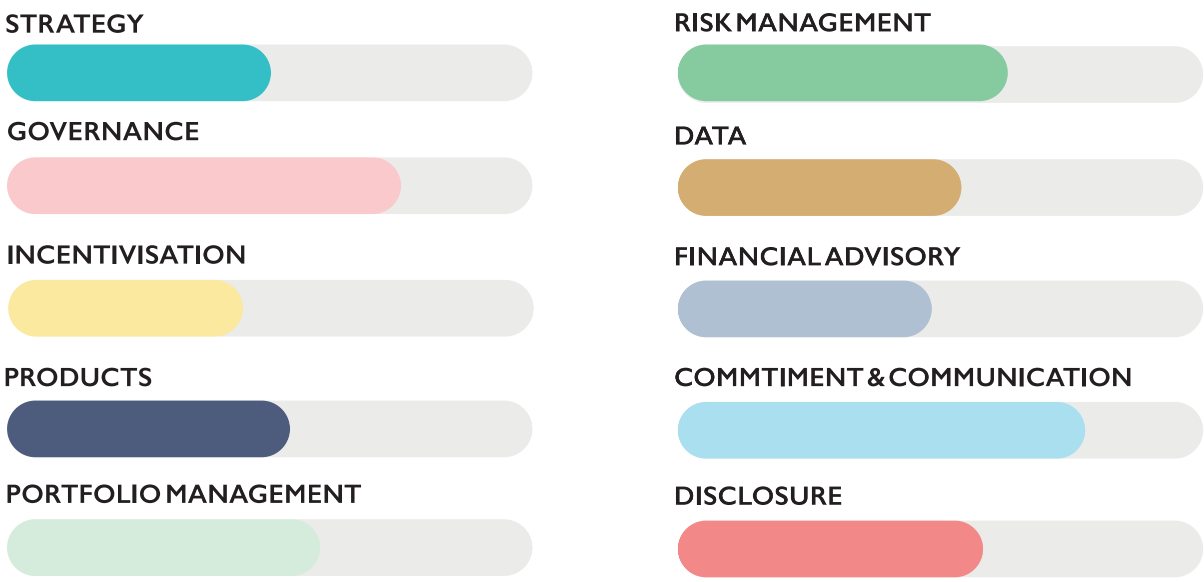

Figure 7: Paris alignment of Grupo Cooperativo Cajamar according to 3fP-Banks

Strengths in aligning with Paris

The Cajamar Cooperative Group, for years, has been developing methodologies that allow, along with the traditional variables used to quantify risks, to include environmentally related aspects.

- **Customer-oriented environmental analysis:** the bank has implemented the tool "ECOrating" that provides an understanding of the exposure to regulatory risk related to the environment of its customers. Consequently, it allows the bank to focus on material risks and manage those with clients. Since 2019, ECOrating has been updated to include new environmental criteria related to climate change and the EU Taxonomy.
- **Climate-related risk and impact disclosure:** Cajamar publishes qualitative information on potential consequences of climate change for the Group in relation to its strategy. In addition, it indicates the transition and physical risks, as well as their gross impact and the probability of occurrence, besides the amount of the portfolio linked to potential carbon leakage. This calculation is highly focused on the impact within the agro-food sector due to its relevance in the activity financed by Cajamar.
- **Mainstreaming of risk pricing:** Cajamar has already developed several green financial products. They are not mainstream throughout the portfolio. Cajamar is not aiming to develop an entire portfolio of green products but wants to set different prices according to climate-related risks throughout the portfolio. This contrasts the current market development.
- **Commitments:** Cajamar shows a high involvement in the field of climate change commitments. The credit cooperative is a signatory of the collective commitment to climate action and the Principles of Responsible Banking. It also leads the Climate Change Cluster; a business platform in Spain that works towards a strategic positioning in relation to climate change. The bank incorporates related aspects of its research, communication and in corporate volunteering work. They were awarded a B rating by CDP for the carbon footprint and climate change management in 2019.

Areas for catching up

Cajamar is making good progress towards aligning its business model with the Paris climate goals. However, some areas for catching-up remain.

- **Integration of the EU Taxonomy:** the establishment of the EU Taxonomy has expanded the scope of work for Cajamar. The existing methodologies require an update to integrate the EU Taxonomy appropriately in the current sectorial identification of climate friendly activities.
- **Climate-related stress tests:** the application of stress tests and longer horizon in climate-related risk analysis is a work in progress at Cajamar. It requires further methodological development as well as the creation of access to relevant data. For a "real life" test, other developments such as carbon pricing and capacity developments in the real economy are necessary to enlarge the impact of those approaches.

Potential next steps

Cajamar is dedicated to the climate agenda and shows unique characteristics in the analysis. Future work will most likely look into:

- **Climate-related target setting:** although Cajamar shows strong commitment to the climate agenda, it needs to define clear targets and milestones in relation to their future portfolio developments according to a decarbonisation agenda.
- **Incentivisation:** Cajamar should establish several incentivisation mechanisms that guide and steer decision-making of its Board and directors and/or employees towards climate action so that client communication, climate ambition, and own actions become aligned.
- **Expand climate risk analysis to the entire portfolio:** Cajamar should carry out an internal analysis of climate risks of its portfolio at company level for the whole portfolio. The existing classification will help steer the analysis at the sectoral level. Key challenges are insufficient access to data and further need to communicate Paris aligned pathways to SMEs.

Source:

- Cajamar, vision 2020: https://www.cajamar.es/es/comun/videos/sostenibilidad/vision-2020-liderazgo/.
- Cajamar, Sustainability report 2019: https://www.bcc.es/es/pdf/responsabilidad-corporativa/informe-integrado.pdf.
- Cajamar Sustainability Commitment: https://www.grupocooperativocajamar.es/recursos-entidades/es/pdf/informacion-corporativa/responsabilidad-social-corporativa/compromiso-sostenibilidad.pdf.
- Cajamar Social commitment: https://compromisosocial.es/wp-content/uploads/2020/07/2020-a291-CERTIFICADO-INSCRIPCION_2019_CR.pdf.
- Cajamar environmental plan: https://www.bcc.es/es/pdf/responsabilidad-corporativa/politica-medioambiental-bcc.pdf.
- Cajamar, ESG assessment: https://www.bcc.es/en/pdf/responsabilidad-corporativa/calificacion-riesgos-asg.pdf.

PARIS FITNESS CHECK: HSBC BANK

HSBC Holdings plc is a British multinational investment bank and financial services holding company with operations in 64 countries and territories and more than 40 mio customers. It was the 6th largest bank[1] in the world in 2020, and the largest in Europe, with total assets of USD 2.715 trn.

HSBC is a leading sustainable finance provider and aims to align their financed emissions to the Paris Agreement. HSBC has formulated the goal to achieve net zero emissions across its portfolio of customers by 2050[2]. HSBC made a commitment to provide and facilitate between USD 750 bn and USD 1 trn in sustainable finance by 2030[3]. Nearly 90% of its total assets under management were considered[4] responsibly invested according to the Global Sustainable Investment Alliance definition. The bank renewed its sustainable finance strategy in 2020[5]. HSBC currently defines sustainable finance as:

- Any form of financial service that integrates ESG criteria into business or investment decisions.
- Financing and investment activities that support the UN SDGs, in particular taking action to combat climate change.

The bank wants to become a net zero bank by 2050 or sooner through aligning the financed emissions – the carbon emissions of the portfolio of customers – to the Paris Agreement goal to achieve net zero[6]. HSBC plans to use the PACTA to develop clear, measurable pathways to net zero.

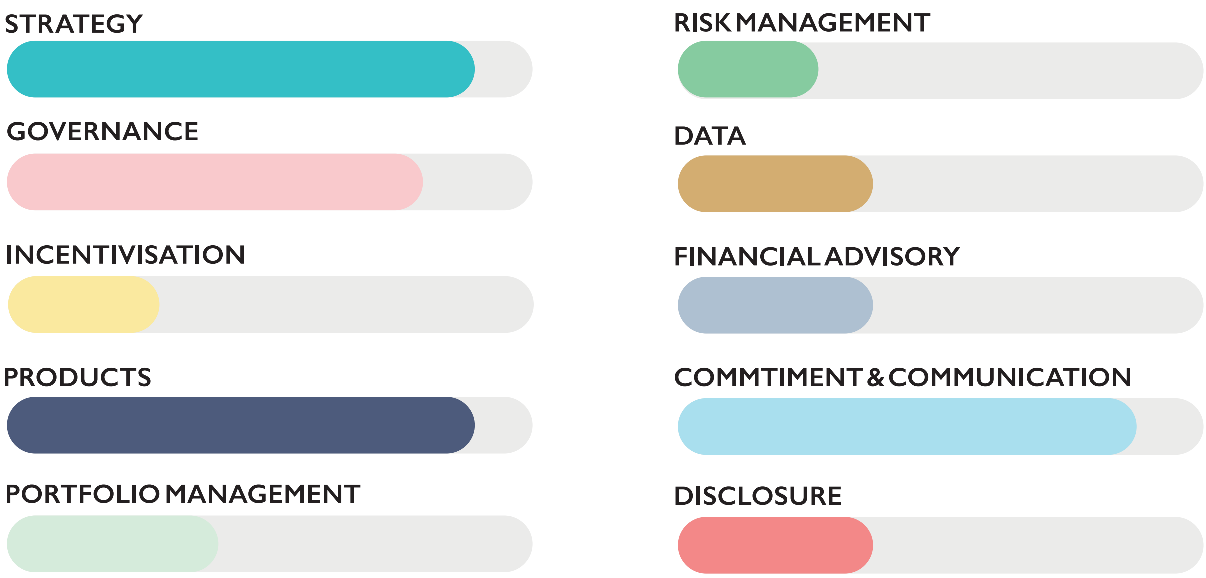

Figure 8: Paris alignment of HSBC Bank according to 3fP-Banks

1 https://www.spglobal.com/marketintelligence/en/news-insights/latest-news-headlines/the-world-s-100-largest-banks-2020-57854079
2 https://www.hsbc.com/our-approach/our-climate-strategy/becoming-a-net-zero-bank.
3 HSBC: Sustainable Finance Opportunities; URL: https://www.hsbc.com/who-we-are/hsbc-news/sustainable-finance-opportunities.
4 https://www.hsbc.com/-/files/hsbc/investors/hsbc-results/2019/annual/pdfs/hsbc-holdings-plc/200218-esg-update-2019.pdf
5 HSBC: Providing Sustainable Finance; URL: https://www.hsbc.com/our-approach/our-climate-strategy/providing-sustainable-finance.
6 HSBC: HSBC sets out net zero ambition; URL: https://www.hsbc.com/who-we-are/hsbc-news/hsbc-sets-out-net-zero-ambition.

Strengths in aligning with Paris

HSBC's strengths lie in its climate strategy, green product portfolio, governance, advisory, communication and scenario analysis.

- **Commitment to Paris alignment:** HSBC clearly committed to align its strategy with the Paris Agreement. HSBC furthermore committed to reduce their exposure to coal and actively manage the transition pathway away from other high-carbon sectors. HSBC's climate strategy focuses on further aspects such as disclosing non-financial information following the TCFD[1] guidelines, research on sustainable finance, and applying PACTA. Related to the climate impact of their own operations, HSBC has implemented carbon emission reduction measures: their CO2 footprint was reduced since 2011 and they have committed to procuring electricity from 100% renewable sources by 2030 as a part of their Five Pledges made in November 2017.
- **Green financing activities:** HSBC revised its Energy policy in April 2018, and since then the bank has not agreed any project financing for any new coal-fired power plants. Additionally, HSBC no longer provides financial services to new offshore oil and gas projects in the Arctic. They set up a dialogue on transition risk with the existing clients as a part of their annual review process. Beyond the sectoral approach, the bank has a dedicated ESG Solutions Unit. HSBC has established a framework for eligible green activities aligned to the Loan Market Association's Green Loan Principles based on proceeds, process for Project Evaluation and Selection, management of proceeds and reporting. This framework has been externally reviewed by Sustainalytics and was found to have an environmentally positive impact[2]. The "HSBC SDG Bond" was the world's first corporate bond based on the SDGs. In 2018, HSBC supported Indonesia in issuing Asia's first sovereign green bond. As at June 2019, the amount disbursed to eligible green projects or businesses through green bonds was around USD 2 bn[3].
- **Governance:** HSBC established a Climate Business Council in 2010. Senior executives representing each business segment provide a co-ordinated and strategic approach to increasing the finance for customers into climate change mitigation or adaptation projects. Senior staff members have overall ESG oversight including the supervision of climate-related practices. The head of ESG research and the head of Corporate Governance cooperate with the Chief Investment Officer to oversee and monitor the integration and stewardship practices. In terms of capacity building, the HSBC Sustainability Leadership Programme was established in 2015. The programme is four days in length and brings together a diverse mix (by Function, Business and geography) of Senior Managers from HSBC. The bank regularly hosts webinars and seminars for employees on various ESG topics.
- **Advisory:** in the framework of the Sustainability Leadership Programme, more than 100 global strategic supply chain partners were trained on topics in relation to climate change. The programme has become a flagship leadership programme and has engaged and trained over 1,500 people from over 50 countries. Next to this, HSBC launched a reporting service that provides asset owners and managers with independent measurement of how focused their listed asset investments are on ESG issues. This tool will enable securities services clients to see at a glance how assets with a large share in their selected portfolios are performing using recognised independent ESG criteria. As of 2019, HSBC had undertaken USD 2.8bn-worth of advisory services on HSBC-issued green/SDG bonds[4]. The dedicated ESG Solutions Unit helps clients around the world to rebuild and transition their businesses and economies in a more sustainable way, including a recent focus on resilient recovery post-COVID-19.
- **Scenario Analysis:** HSBC worked with Vivid Economics to develop six new illustrative low-carbon transition scenarios, initially looking at two critical axes of uncertainty – the timing of action and the technology pathway of the transition. The scenarios[5] are produced using Imperial College London's TIMES Integrated Assessment Model[6]. The analysis was based on modelling of the economic impacts from 2018 to 2050. HSBC adopted the Equator Principles[7] when they were first launched in 2003.
- **Communication:** HSBC helped establish Green Bond Principles as a member of the ICMA's Executive Committee. HSBC was a founding member in the Climate Finance Leadership Initiative formed by the UN Special Envoy for Climate Action. HSBC's Centre for Sustainable Finance generates and promotes reports that support the knowledge base for the climate ambitions of key financial sector stakeholders, building on internal subject matter expertise and external network of experts.

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1 *Task Force on Climate-related Financial Disclosures; URL: https://www.fsb-tcfd.org.*
2 *Sustainable Development Goals Bond Framework of HSBC: Defines SDG bond as a type of sustainability bond that aligns the funded social and environmentally impactful projects with the Sustainable Development Goals; URL: https://www.hsbc.com/-/files/hsbc/investors/fixed-income-investors/green-and-sustainability-bonds/pdfs/171122-hsbc-sdg-bond-framework.pdf*
https://www.sustainalytics.com/wp-content/uploads/2017/11/HSBC-SDG-Bond-Framework_Second-Opinion_Final13Nov.pdf.
3 *https://www.hsbc.com/-/files/hsbc/investors/fixed-income-investors/green-and-sustainability-bonds/pdfs/191001-hsbc-green-bonds-report-2019.pdf?download=1&la=en-gb&hash=746131DE091ECFFD08D22D75903E7B13ECA2EB66.*
4 *https://www.hsbc.com/-/files/hsbc/investors/hsbc-results/2019/annual/pdfs/hsbc-holdings-plc/200218-esg-update-2019.pdf.*
5 *In comparison to the IPCC 1.5° Special Report (IPC 1.5 SR) scenarios, the scenarios used by HSBCare in between IPCC scenarios for achieving 1.5° C with a 50-66% probability, and scenarios for achieving 2° C with a 50-66% probability.*
6 *TIAM is a global system model with a high degree of disaggregation, containing thousands of technologies, fourteen regions and five major energy end-use sectors.*
7 *The Equator Principles provide a due diligence framework for banks to manage the social and environmental risk of financing large projects.*

Areas for catching up

HSBC is on a good track to align its business model with the Paris Agreement. However, there are some areas of action where it can improve. Those include incentivization, data collection, portfolio management, disclosure and stress testing.

- **Incentivization:** ESG metrics are included in the long-term incentive scorecards of senior executive directors. However, the bank doesn't set any clear climate-related target for financial or non-financial incentivatization.
- **Data collection:** the bank uses questionnaires with qualitative questions to collect data on climate transition risks from its customers. Use of ESG data providers is limited to asset management. Data collection and reporting could benefit from a standardized approach.
- **Portfolio management:** HSBC partially manages transition risks in the credit rating process, it does the same for physical risk but only to a limited extent. The bank has a policy to manage risks only of specific sectors and for sectors covered under Equator Principles. The transition risk sectors are oil & gas, chemicals, automotives, power & utilities, metals & mining, building & construction and agriculture, manufacturing, transportation, real estate were added this year.
- **Disclosure:** HSBC discloses its progress on the USD 100 bn target. The bank has applied the TCFD recommendations in its annual reports. The bank considers climate-related risks as a rising trend within its risks overview of its 2019 annual report. This could be further developed by disclosing more detailed information.
- **Stress testing:** HSBC has not developed any climates stress test yet but it plans to develop it in the future.

Potential next steps

- **Data collection:** HSBC should develop a systematic method to collect and interpret data. This should particularly involve defining relevant KPIs along sectoral economic value chains. HSBC should keep in mind that SMEs can only build on a limited amount of information themselves. Therefore, HSBC could also seek to support SMEs in collecting climate-relevant data themselves.
- **Portfolio management:** integration of physical risks in the credit rating process to ensure that the effects of climate-related risks on the portfolio performance are well accounted for at HSBC. Inclusion of more sectors in the policy to manage risk can help to improve Paris alignment of HSBC's overall portfolio, which will further facilitate the operationalization of disclosure obligations.
- **Stress testing:** developing a climate stress testing approach would support HSBC's assessment of how climate-related risks might impact the bank's business across all sectors and geographical locations under different stress scenarios.

Source:

- https://www.hsbc.com/-/files/hsbc/investors/hsbc-results/2019/annual/pdfs/hsbc-holdings-plc/200218-esg-update-2019.pdf?download=1.
- https://www.hsbc.com/our-approach/our-climate-strategy/providing-sustainable-finance.
- https://www.hsbc.com/our-approach/esg-information.
- https://reporting.unpri.org/surveys/PRI-reporting-framework-2020/D2EE0699-6849-4DEC-A5A3-B64E2B6209A7/d0cc681dfa4d45https://www.mainstreamingclimate.org/wp-.

PARIS FITNESS CHECK : ING

ING is a multinational bank with a strong European presence that serves 38.4 mio customers, corporate clients, and financial institutions in over 40 countries. ING's direct carbon footprint has been neutral since 2007. The Dutch bank has furthermore stepped up its efforts in the past years to limit its environmental impact from its EUR 892 bn of assets. To become Paris aligned, ING focused on a dual strategy. It is supporting and engaging with existing clients to shift investments towards low-carbon technologies and shifting its own capital allocation choices towards low-carbon technologies and away from high-carbon assets.

In 2017, ING adopted several climate objectives and targets, like doubling its climate finance[1] portfolio by 2022 and steering its EUR 600 bn portfolio towards meeting the Paris climate goals. As of 2019, ING accumulated EUR 18.7 bn in climate finance and EUR 9.3 bn in sustainable investments. ING has joined multiple international initiatives including as well as the Dutch Climate Agreement[2] and the German financial sector's collective commitment to climate action[3] – both aiming at implementing the Paris climate goals.

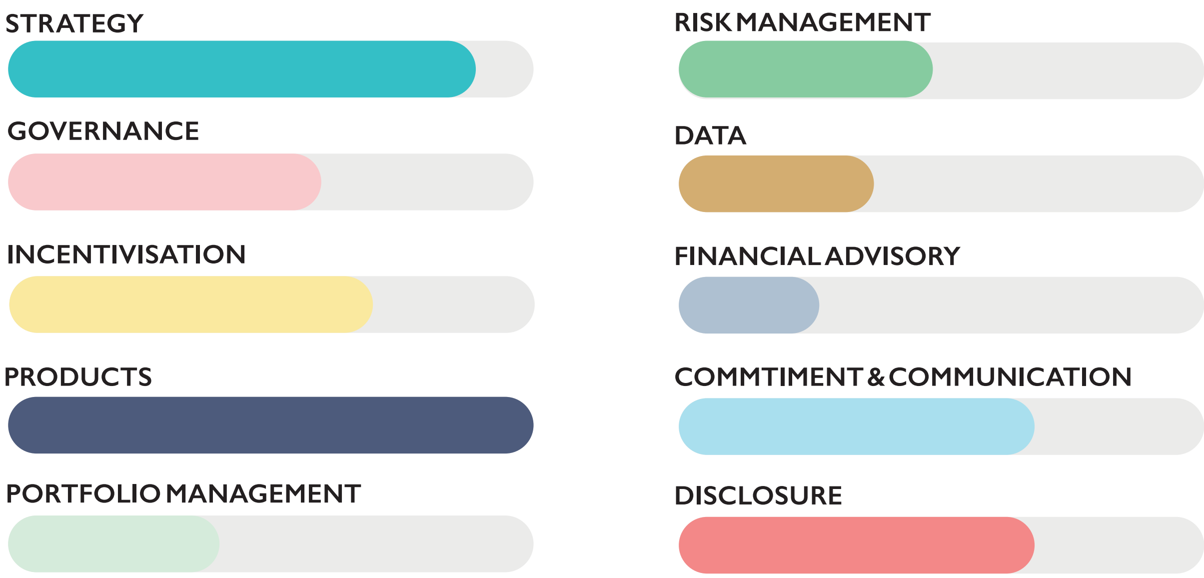

Figure 9: Paris alignment of ING according to 3fP-Banks

1 *In the sector of renewable energy, low-carbon buildings, low-carbon transport, sustainable water and wastewater management and circular economy.*
2 *https://www.government.nl/documents/reports/2019/06/28/climate-agreement.*
3 *https://cdn.website-editor.net/8475c96237754ffc80b1a6b6961f9bcb/files/uploaded/Press%2520release-German%2520Collective%2520Commitment%2520to%2520Climate%2520action_eng.pdf.*

Strengths in aligning with Paris

Since 2017, ING's Paris alignment efforts have been driven by the bank's public commitment to Paris climate goals by setting clear and specific goals. These goals are being implemented with some particularly innovative approaches for example by developing an exemplary environmental reporting methodology and developing new sustainability-linked financing instruments. Some key strengths of ING in aligning with the Paris Agreement include:

- **A governance framework for climate change related issues:** since 2018, a Climate Change Committee is meeting six times a year. The Climate Change Committee is responsible for establishing processes for the identification and management of climate-related financial risks and opportunities, for developing policies, strategy and performance objectives. The Climate Change Committee is in charge of monitoring and overseeing progress against the bank's climate goals and targets. It is composed of ING's top managers and is chaired by the bank's Chief Risk Officer and co-chaired by the board member responsible for Wholesale Banking. The Climate Change Committee is advised by an internal Climate Expert Group.
- **Public commitment and active participation in collective climate action:** ING is part of various national and international initiatives fostering peer-learning such as the Green and Sustainable Finance Cluster Germany or the Principle for Responsible Banking. ING has also disclosed its targets on sustainable finance with for example the aim to minimize its exposure to coal power generation by 2025 or through portfolio-specific targets.
- **Adoption of a portfolio-based environmental footprint analysis methodology:** ING developed the "Terra" approach to measure the climate impact of its portfolio. Terra is based on the PACTA methodology. The Terra approach consists of a climate alignment dashboard to track lending portfolios' carbon intensity in climate-relevant sectors such as power generation, fossil fuels, automotive, shipping, aviation, steel, cement, residential mortgages, and commercial real estate. This approach allows ING to adopt targets specific to a sector portfolio and to provide disclosure on the progress against its Paris alignment goals.
- **A policy to manage environmental and social risks:** ING has developed a framework to manage the environmental and social risks exposure of its corporate clients. ING defines environmental standards such as the existence of an ESG policy and other standards for specific sectors such as the energy sector. Before pursuing a financing transaction, ING assesses the compliance of the institution and the project with this Environmental and Social Risks Policy. The non-compliance to the ESG policy is used as an exclusion criteria but also serves as a support to develop sustainability-linked partnerships with its clients.
- **Innovative green financial products:** ING has been one of the first banks to propose sustainability improvement loans which offer corporate clients a lower interest rate for improved sustainability performance. Since its introduction in 2017, this product was used 60 times. Thanks to a partnership with the European Investment Bank (EIB), ING has been able to offer loans with an interest rate discount of 0.3% to companies selected for their sustainable impact.

Areas for catching up

Although ING is strongly contributing to developing concepts for banks' Paris alignment with innovative mechanisms, ING could build on these initiatives to improve further aspects particularly in the areas of risk management, data, and engagement.

- **Client's involvement in the climate risks assessment:** in order to assess the exposure of its clients to environmental and social risks, ING relies primarily on publicly available information. This approach might not be sufficient to obtain all necessary information, particularly from SMEs. ING should request non-financial information from corporate clients, which could also contribute to raising clients' awareness for climate-related risks and opportunities.
- **Climate risk management:** ING has developed methodologies and models to assess the climate impact of its investing and financing operations but would benefit from using dynamic methodologies, such as climate stress tests, to assess the resilience of its portfolio to different climate change or transition scenarios.
- **Climate issues in financial advisory:** ING could integrate the assessment of climate risks exposure in its process when evaluating the profile of its corporate clients and providing financial advisory. This would give ING an additional opportunity for signaling the importance of the issue and would allow ING to collect climate-related data.
- **Employee engagement:** through climate-related incentivisation and the availability of training on environmental issues, ING could motivate its employees to actively participate in the development of sustainable finance at ING and shape an enabling environment for the bank's Paris alignment.

Potential next steps

ING is on a good track towards Paris alignment. The bank could draw on its existing methodologies and existing policy development to further develop towards its goal.

- **Application of the EU Taxonomy:** in order to facilitate the integration of climate and sustainability issues in portfolio management, ING could consider systematically assessing the alignment of assets with the EU Taxonomy.
- **Use of scenario analysis:** as of today, the Terra approach and PACTA are mainly applied to assess the climate impact of lending portfolios. ING could also develop portfolio-specific scenario analysis and climate stress-test at the bank level based on these methodologies to assess the exposure to climate-related risks.
- **Ambition raising:** ING has developed a strong approach to adopt climate objectives and targets. As a next step, ING could consider developing goals and targets on its overall portfolio and develop more ambitious exclusion criteria. ING could also consider classifying its assets on the basis of different degrees of alignment with the Paris Agreement.

PARIS FITNESS CHECK : LBBW

LBBW (Landesbank Baden-Württemberg) is a medium-sized universal bank in Germany with total assets of approximately EUR 257 bn as of December 2019. It is headquartered in Stuttgart, Germany. The shareholders of LBBW are the Sparkassenverband Baden-Württemberg, the state capital Stuttgart and the state of Baden-Württemberg. The business model of LBBW focuses on the customer business in the segments of corporate customers, real estate and project finance, capital market business, private customers, and savings banks.

In 2017, LBBW adopted an overarching strategy on the basis of four key strategic objectives: business focus, digitalization, agility, and sustainability[1]. The bank made good progress on the development of green products within the last years: LBBW's assets managed in sustainable investments amounted to around EUR 23 bn at the end of 2019. The bank increased the issue base of its green bond program from EUR 2.7 bn in 2017 to EUR 6.4 bn as of December 2019.

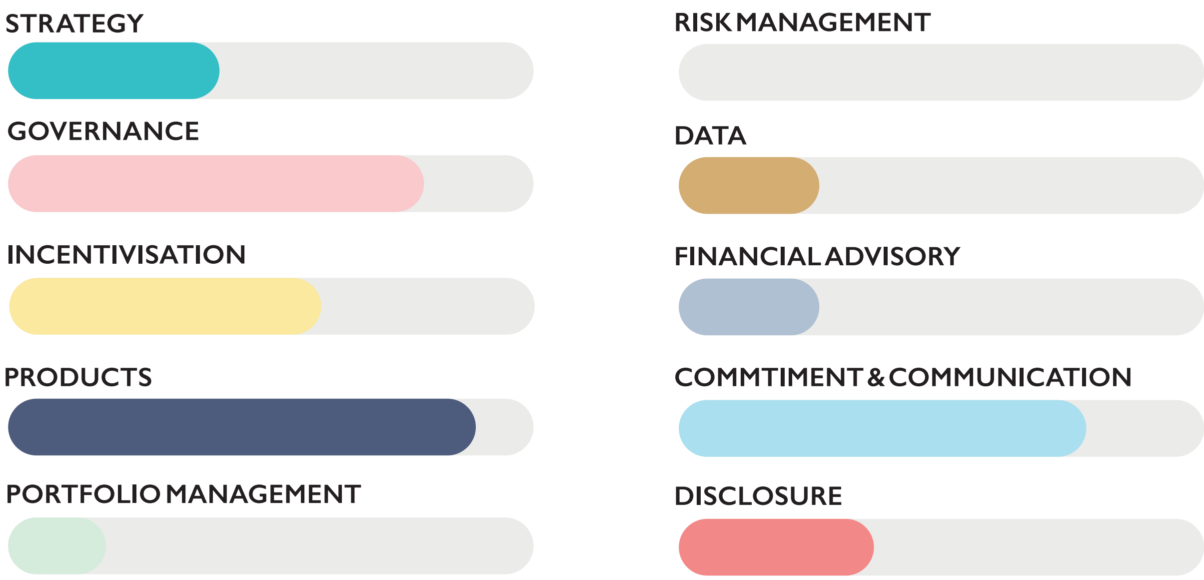

Figure 10: Paris alignment of LBBW according to 3fP-Banks

1 *LBBW-Konzern: Ergebnis zum 31. Dezember 2017; URL: https://www.lbbw.de/konzern/investor-relations/finanzberichte/praesentationen/investorenpraesentation_ergebnis_2017_7vi8ejk8x_m.pdf.*

Strengths in aligning with Paris

The 'Principles and guidelines for the implementation of LBBW's sustainability policy and goals'[1] are the specific framework for implementation of sustainability in daily business. They include specific exclusion criteria for individual business projects, overarching principles for compliance, human rights, climate protection and the preservation of biodiversity as well as guidelines relevant to business areas, the so-called guard rails for the investment and lending business, personnel policy and business operations. LBBW's strengths related to Paris alignment efforts lie in its green finance criteria, governance, and communication.

- **Green finance criteria:** LBBW has developed a traffic light system for the review of sustainability criteria[2], which consists of a uniform process tested for corporate customer business based on the ten principles of the UN Global Compact[3]. For investment projects outside the DACH[4] region, the sustainability team must be consulted if the respective project is located in a specially protected area. An inclusion criteria is defined for the real estate and energy sector. LBBW has an environmental exclusion criteria specific to the energy sector for utilities and mining companies defining specific thresholds.
- **Governance:** the Board of Directors of LBBW is responsible for the sustainable corporate governance of the group and compliance with the sustainability policy. The Sustainability Committee acts as a bridge between the Board of Directors and the specialized divisions. It consolidates and drives the shaping of positions and agenda within the bank concerning strategic sustainability issues and it prepares information to enable the Board of Directors to take decisions. In terms of capacity building, LBBW held awareness training sessions for back office risk managers on financing properties with green bonds across its different locations. In 2018, 35 real estate advisors were trained by an external consultant on the topic of 'Green bonds need green buildings'.
- **Communication:** LBBW Research regularly publishes studies on various sustainability-related topics. Recent studies for instance addressed aspects related to the EU Taxonomy, Sustainability and Credit Ratings, Sustainability in Mobility. The bank signed up to the Principles of Responsible Banking in 2019. LBBW is signatory of the Green Bond Principles and the United Nations Principles for Responsible Investment (UN PRI).

Areas for catching up

Despite performing well in the above areas, LBBW could improve in the areas of incentives for employees, data solutions, management, portfolio management, advisory and disclosure.

- **Incentives for employees:** the bank offers multiple incentives for its clients such as sustainability-linked loans and energy-efficiency loans. However, LBBW has no incentivisation mechanisms for its employees. The bank could implement a variable remuneration linked to achievement of sustainable finance targets such as the increased share of green assets in portfolios.
- **Data collection:** LBBW requires its clients to fill out a questionnaire on ESG issues. However, the questionnaire only focuses on the compliance, governance and social issues. The data cannot be used for the credit rating due to insufficient quality and comparability of data. No explicit study on data gaps has been conducted yet.
- **Climate risk management:** LBBW so far does not sufficiently incorporate climate risks in its risk management process. ESG issues are not part of the credit rating but are assessed separately. However, this assessment focuses only on social and governance issues so far.
- **Portfolio Management:** LBBW uses the Climate Bonds Initiative Taxonomy[5] to classify green assets. The bank doesn't measure the exposure to climate-related risks and environmental impacts of its portfolio. Portfolio managers do not systematically include climate-related information in their decision-making.
- **Advisory:** LBBW advises and provides support to issuers of green bonds. In 2018, five issuers were successfully supported in issuing green bonds and 13 issuers were demonstrably advised on the topic of green bonds. However, the bank doesn't have any framework for the consideration of climate risks when assessing the risk profile of its clients. LBBW should consider training its financial advisors to the implications of climate change and transition towards a climate-resilient and low-carbon economy. This might also allow LBBW to seize new business opportunities.

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1 *LBBW: Prinzipien und Richtlinien für die Umsetzung der LBBW- Nachhaltigkeitspolitik und -ziele; URL: https://www.lbbw.de/konzern/nachhaltigkeit/prinzipien_und_richtlinien_lbbw_nachhaltigkeitspolitik_und_-ziele_7v4a6cttq_m.pdf.*

2 *LBBW: Nachhaltigkeitsregelungen der Landesbank Baden-Württemberg; URL: https://www.lbbw.de/konzern/nachhaltigkeit/lbbw_nachhaltigkeits-regelungen_899tk8tr8_m.pdf.*

3 *United Nations Global Compact: The ten principles of UN Global Compact; URL: https://www.unglobalcompact.org/what-is-gc/mission/principles.*

4 *D (for Germany), A (for Austria) and CH (for Switzerland).*

5 *Climate Bonds Initiative: The Climate Bonds Taxonomy is a guide to climate aligned assets and projects; URL: https://www.climatebonds.net/standard/taxonomy.*

Potential next steps

LBBW should continue developing a long-term sustainability strategy aligned with the Paris Agreement. The forthcoming suggestions for specific steps for LBBW include the introduction of incentives for employees, the collection of climate-related data, the integration of climate metrics in ending portfolios, the inclusion of environmental risks in ESG risk assessment and management framework and the disclosure on Paris alignment of the banks portfolios.

- **Incentives for employees:** The bank should develop, communicate and establish a financial and non-financial incentive policy. Such incentive schemes can be established at the top of the institutions and then passed on through the banks' hierarchy. Setting climate-related targets for middle and lower level management linked to incentives can help motivate employees. Non-financial incentives can include promotions based on performances along climate-related targets. Furthermore, competitions for employees to develop and present their own ideas for the banks' Paris alignment could encourage action.
- **Data collection:** Defining a reference framework to interpret data and benchmarking it against good practices, sectors climate data standards or climate trajectories can help measuring financial flows and their alignment with the Paris Agreement. Inclusion of climate related aspects into overall data collection will help to build a climate risk assessment model. Defining climate variables and KPIs in order to ensure standardization, comparability and coherence between collected data at the bank-level will contribute in steering the banks' overall progress on sustainable finance.
- **Portfolio management:** Integration of climate metrics in lending portfolios can ensure that the effects of climate-related risks and opportunities are well-captured in the portfolio strategy. Developing climate-related exclusion and inclusion criterias for more sectors can help to improve the Paris alignment of the portfolio, which will further support and facilitate the operationalization of disclosure obligations. Methodologies provided by e.g. PACTA's[1] tool for corporate lending portfolios or UNEP FI's[2] Portfolio Impact Analysis Tool are evolving and may support these efforts.
- **Stronger inclusion of environmental risks in ESG risk assessment and management framework:** LBBW should build a comprehensive framework to assess climate-related risk exposure to its portfolio using risk assessment and management tools. Tools should equally cover transition and physical risks. Risk management should include scenario analysis for different levels of global heating pathways, differing levels on which the impact is assessed (e.g. portfolio, company, site, asset, etc.) as well as different parameters and the corresponding exposure, sensitivity and adaptive capacity to test the resilience of the portfolio against climate change risks.
- **Climate-related disclosure:** LBBW could improve the consistency of its sustainability report by disclosing more climate-related information on its portfolio e.g. the share of green assets, the exposure to climate risks, the statistics on the development of different green financial products such as green loans, green mortgage.

Source:

- https://www.lbbw.de/konzern/nachhaltigkeit/lbbw_sustainability_report_2019_abyedzen4o_m.pdf.
- https://www.lbbw.de/konzern/nachhaltigkeit/lbbw_sustainability_report_2018_aac4frumzx_m.pdf.
- https://www.lbbw.de/articlepage/experience-banking/green-loans_9uz7816wn_e.html.
- https://cdn.website-editor.net/8475c96237754ffc80b1a6b6961f9bcb/files/uploaded/German%2520collective%2520commitment%2520to%2520climate%2520action%2520of%2520finacial%2520sector.pdf.
- https://www.lbbw.de/konzern/disclaimer/disclaimer-green-bonds/lbbw_green_framework_and_portfolio_20191231_english_aa91tcrr4h_m.pdf?r=mdi1mg
- https://www.lbbw.de/konzern/investor-relations/finanzberichte/verguetungsberichte/lbbw_remuneration_report_2019_abgqt1qywe_m.pdf.
- https://www.lbbw.de/konzern/news-and-service/research/publikationen_7uv389ycj_d.html

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1 The Paris Alignment Capital Transition Assessment (PACTA) was developed by 2° Investing Initiative with backing from UN Principles for Responsible Investment, PACTA enables users to measure the alignment of financial portfolios with climate scenarios; URL: https://2degrees-investing.org/resource/pacta/.

2 UNEP Finance Initiative:UN PRB; URL: https://www.unepfi.org/banking/bankingprinciples/.

PARIS FITNESS CHECK: OBERBANK

Oberbank AG is a regional bank based in Linz and belongs to the 3 Banks Group[1]. Oberbank has a branch network in five European countries: Austria, Germany, the Czech Republic, Hungary and Slovakia. The foremost vision of the bank is independence, defined as a stable shareholder structure, earnings power and the partnership in the 3 Banks Group. Oberbank carried out a group-wide sustainability project in 2019 with the following goals[2]:

- Implementation of an internal sustainability organization and corresponding process structures to ensure the continuous development of the CSR program.
- Development of a sustainability strategy as well as clear sustainability goals and measures to achieve these goals (including consistent expansion of the sustainable product portfolio, introduction of processes, and systematic analysis of procedures to further increase eco-efficiency).
- Establishment of an active exchange with relevant external stakeholders in the field of sustainability.

The commitment shows that ecological and social aspects are systematically taken into account throughout strategic and operational considerations. The current sustainability strategy of Oberbank is designed for a period of three years, i.e. it spans until 2022

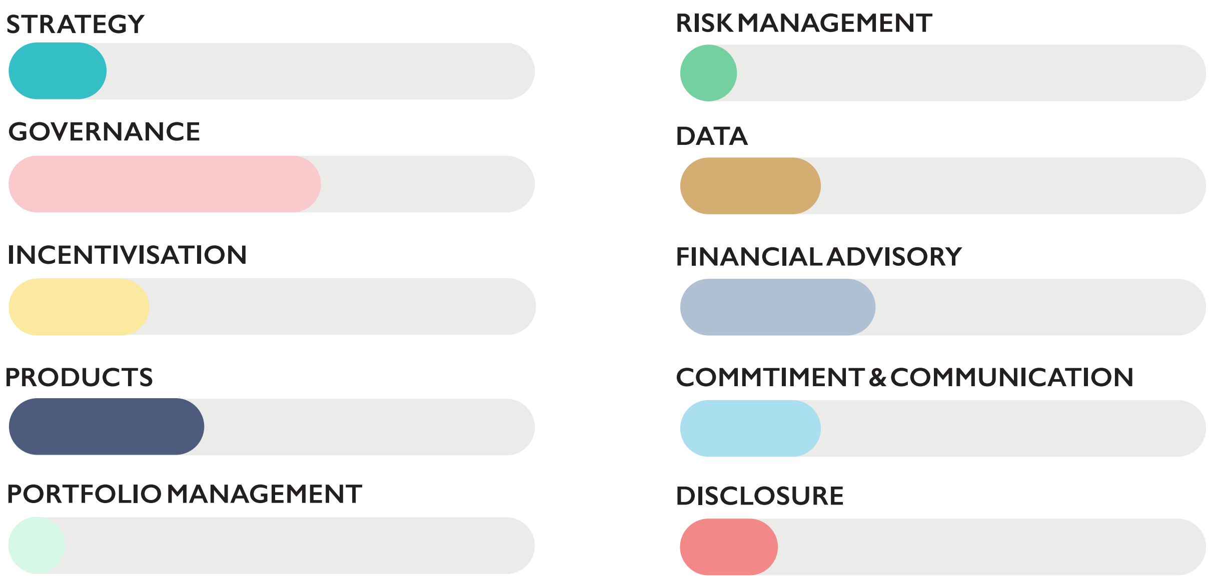

Figure 11: Paris alignment of Oberbank according to 3fP-Banks

1 *The 3 Banken Group is a group of independent regional banks which is composed of BKS Bank AG, Bank fuer Tirol und Vorarlberg AG (BTV) and Oberbank AG; URL: https://www.3bg.at/gesellschafter.*

2 *Oberbank: Nachhaltigkeitsbericht 2019; URL: https://www.oberbank.at/documents/20195/559187/irglobal_nachhaltigkeit19.pdf/88867a8a-6128-ab37-5db1-e93874358d2e.*

Strengths in aligning with Paris

The management board of Oberbank wants to ensure integration of sustainability throughout the business model. The bank focuses on the three dimensions of sustainability: economic, ecological, and social. Oberbank has the goal to make sustainability and successful development guiding principles in all corporate actions. So far, this has translated into particular strengths in the fields of green financial product offerings, the setting of sustainable development goals until 2022 as well as developing sustainable practices within the bank.

- **Products:** Oberbank offers a variety of sustainable financial products. The 'Sustainable Individual portfolio management' offers portfolios with a strong emphasis on sustainability. Clients can choose from three strategies: defensive sustainable, balanced sustainable, dynamic sustainable. These strategies, offered as part of individual portfolio management, have been awarded the Austrian Ecolabel for financial products[1]. Oberbank set the goal of increasing the volume invested in 'Individual portfolio management sustainable' to EUR 15 mio euros by 2022. The 3 banks sustainability fund[2] is a sustainability-oriented equity fund, which was launched in 2001. The fund was awarded the Austrian Ecolabel for sustainable investment products. Above that, the investment volume of sustainable public funds increased to a total of EUR 148 mio in 2019. The bank has set a growth target of EUR 40 mio annually in the field of sustainable public funds and wants to reach a sustainable fund volume of around EUR 270 mio by 2022.
- **Sustainable development goals until 2022:** the bank defined nine fields of action for sustainable development, that are partly oriented towards the UN SDGs[3]. The bank has the target to make measurable contributions to the achievement of global sustainability goals.
- **Internal good practices:** the bank developed good practices in the field of business ecology (e.g. reduction of own carbon footprint) and sustainable procurement (e.g. electronic vehicle fleet).

Areas for catching up

Oberbank still has some areas in which it should catch up to become fully Paris-aligned, especially in aligning the business strategy with climate targets. This could translate into a longer time horizon in setting its climate strategy, Paris-aligned portfolio management and establishing risk management that explicitly considers climate-related risks.

- **Time horizon of climate strategy:** the current sustainability strategy of Oberbank is designed for a period of three years, sustainable development goals are set until 2022. As the effects of global heating start to unfold more strongly in the coming decades, considering climate-related variables in strategic developments requires adopting a longer time horizon until 2030 or even 2050. This can improve decision-making and the long-term sustainability and viability of the bank's business model.
- **Portfolio management:** the department for corporate customers at Oberbank is working on developing lending portfolios called 'environmental loans', that are based on sustainable criteria. Nevertheless, climate metrics are not yet integrated across the bank's overall portfolio management process.
- **Risk management:** Oberbank reduces exposure to sectors, companies and business practices that could have unacceptable effects on ESG aspects. Oberbank is also, since recently, using PACTA to align its financial portfolios with climate scenarios. The bank does not measure climate-related risks directly affecting the bank's operations (e.g. through physical events damaging the bank's premises) and the bank's client activities through the exposure of its clients to climate-related risks, influencing clients' creditworthiness and underlying asset values.

1 Federal Ministry Repulic of Austria Climate Action, Environment, Management, Mobility, Innovation and Technology: The Austrian Ecolabel (https://www.umweltzeichen.at/de/home/start).
2 Oberbank: 3 Banken Nachhaltigkeitsfond (https://www.oberbank.de/nachhaltige-geldanlage).
3 United Nations: The 17 Goals (https://sdgs.un.org/goals).

Potential next steps

The next steps for Oberbank to align with the Paris Agreement should be a clear focus on a Paris-aligned strategy, a portfolio management that integrates climate-metrics and a risk management that includes climate-related risks.

- **Paris-aligned strategy and commitments:** Oberbank could set quantitative targets for increasing financing on climate mitigation and adaptation activities and for decreasing financing in activities not aligned with the objectives of the Paris Agreement such as fossil fuels. Signing international commitments such as the UN PRB[1] could ensure that the strategy and actions of Oberbank are aligned with the Paris Agreement and the UN SDGs. By signing the PRB, Oberbank would need to set targets, to report impact and to provide information on its implementation annual reports or other public reporting.
- **Portfolio management:** Integrating climate metrics into lending portfolios is of great importance for a Paris-aligned portfolio management. It ensures that the effects of climate-related risks and opportunities on the portfolio performance are well-understood. Above that, portfolios should be developed on methodologies, tools, certificates and labels that categorise products in the individual portfolios and managers should take lending decisions based on this information. PACTA[2] is an option for portfolio management, which enables users to measure the alignment of financial portfolios with climate scenarios, as well as the SBTi Sectoral Decarbonisation Approach[3].
- **Risk management:** Building a comprehensive framework for assessing and managing climate-related risks of clients by making use of risk assessment and management tools should help positioning Oberbank as an impact oriented actor in the industry. Transition and physical risks should be analysed for different levels of global heating, differing levels of impact (e.g. portfolio, company, site, asset, etc.) as well as different parameters and the corresponding exposure, sensitivity and adaptive capacity. Above that, the bank's own operational risk related to climate change should be considered, which could refer to operational, reputational, legal and policy risk.

1 *UNEP Finance Initiative: UN PRB (https://www.unepfi.org/banking/bankingprinciples/).*

2 *The Paris Alignment Capital Transition Assessment (PACTA) was developed by 2° Investing Initiative with backing from UN Principles for Responsible Investment, PACTA enables users to measure the alignment of financial portfolios with climate scenarios (https://2degrees-investing.org/resource/pacta/).*

3 *Science Based Target Initiative (https://sciencebasedtargets.org).*

PARIS FITNESS CHECK : PIRAEUS BANK

Piraeus Bank is a Greek multinational financial services company with its headquarters in Athens, Greece. Piraeus Bank's stocks have been listed on the Athens Stock Exchange since January 1918. Piraeus Bank leads a group of companies covering all financial activities in the Greek market. The Group's total assets stood at EUR 64.4 bn as of June 2020[1]. In Greece, it represents 30% market share in terms of customer loans and 29% in terms of customer deposits1. Piraeus Bank possesses particular expertise in the areas of SMEs, agricultural banking, consumer and mortgage credit, green banking, capital markets and investment banking, as well as leasing and factoring. These services are offered through a nation-wide network of 524 branches of the Bank in Greece, as well as through its digital banking platform, winbank.

Piraeus bank started incorporating sustainable practices in its internal operations very early in comparison to other banks. However, the bank doesn't set clear long-term objectives and targets aligned with the Paris agreement. They have a strong base and plan to develop a strategy in the next year.

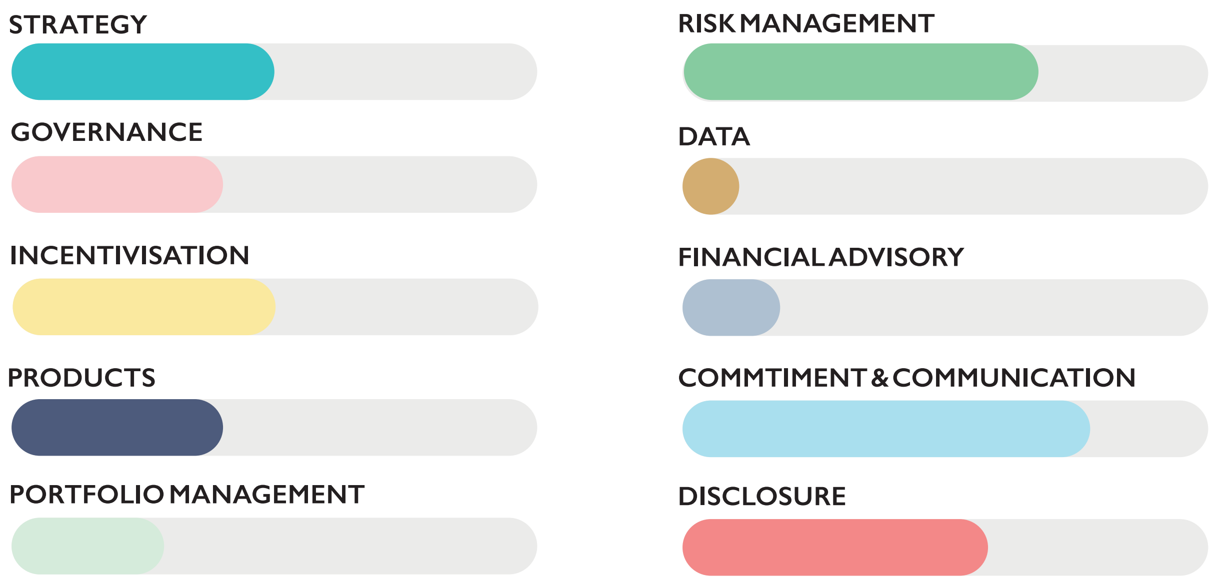

Figure 12: Paris alignment of Piraeus Bank according to 3fP-Banks

1 https://www.piraeusbankgroup.com/en/group-profile/brief-profile

Strengths in aligning with Paris

Piraeus Bank is the first Greek bank to commit to sustainable development and has adopted the UN PRB. The bank has a special Sustainability Unit that coordinates the Bank's efforts in aligning its strategies with the UN SDGs and the Paris Agreement and systematises the implementation of the UN PRB. The bank's strengths lie in developing a robust climate risk assessment model, disclosure of climate risks, inculcating a culture around sustainability within the organisation, facilitating issuance of green products and being affiliated to various sustainable finance initiatives and committees.

- **Climate Risk Assessment:** Piraeus uses a Climate Risk Management Model to assess climate risk of businesses and sectors in which it has significant exposure. This model is able to identify, analyse and categorise risks into physical risks and transitions risks. The Climate Risk Management Model uses climate scenarios, which simulate both the historical (period 1961-1990) and the future (period 2021-2050) climate across the country. However, these risks are mainly used for reporting and overview and don't necessarily impact investment policy. Total climate risk of the Bank's business borrowers was estimated at EUR 1.05 bn for 2019 or 1.8% of their total turnover. The physical risks constitute 32.7% and the transition risks 67.3% of the estimated total climate risk exposure.
- **Climate risk disclosure:** the Sustainability & Business Report 2019 of Piraeus Bank has been prepared by the Bank's Management based on Global Reporting Initiative Sustainability Reporting Standards (GRI Standards). The bank discloses information on scope 1, 2, and 3 emissions and climate risks. It further discloses climate risk exposure based on risk sector classification. The bank reported that 91.6% (2018: 91.3%) of the loan portfolio relates to sectors with negative to low climate risk and only 8.4% of loan portfolio relates to sectors with medium and high climate risk.
- **Governance:** its Development and Sustainable Banking unit promotes Sustainable Finance and integrates directives into the Greek institutional framework. The bank has been undertaking various e-learning courses to train its employees in key environmental concepts and management. Piraeus strives to build a strong culture of sustainability within the organisation. "Green News" is posted on the Bank's intranet and informs employees about important environmental news. Additionally, the bank holds small sustainability-related competitions to further enhance this culture.
- **Affiliations and international communication:** Piraeus Bank participates in the "Collective Commitment to Climate Action", UNEP FI Positive Impact Initiative and EU Business@Biodiversity Platform. The bank is a member of UNEP FI since 2007, has co-signed the UNEP FI "Declaration of Intent on Energy Efficiency" and has joined the "Paris Pledge for Action" Initiative. Also, it is a member of the Sustainable Development Committee of the Hellenic Bank Association, the group of "The Most Sustainable Companies in Greece 2020" and CSR Hellas.
- **Green products:** Piraeus is one of the coordinators and bookrunners for the public offer of EUR 150 mio seven-year bond, Greece's first green bond, launched by Terna Energy Finance. Green financing accounts for 0.5% of the individuals' portfolio of the Piraeus Bank Group and the 4.2% of the business portfolio. Furthermore, the bank issued the first in 2017 ESG type covered bond with the European Bank for Reconstruction and Development, EIB, and the European Investment Fund participation to fund Greek SMEs, and launched the largest ESG Mutual Fund in Greece ~ EUR 50 mio in Assets under Management, the ESG Responsible Investing Fund of Funds, and the 1st with ESG criteria in its investment scope. It also launched the first ESG Mutual Fund in Greece investing directly in securities, the Private Banking World Sustainability Balanced Fund.

Areas for catching up

Piraeus Bank is on a good track to align its business model with the Paris Agreement. However, there are some areas of action where it can improve. Those include portfolio management, data collection, establishing long-term objectives and targets and introducing climate-related advisory and incentives for customers.

- **Long-term targets:** Piraeus has developed a climate strategy that focus on four goals: the reduction of Piraeus Group's direct carbon footprint, the support of investments in renewable energy and energy saving projects, the climate risk assessment for Greek companies, and the provision of solutions to businesses in order to adapt to new climatic conditions[1]. However, Piraeus' climate strategy does not set any quantitative targets and has no time horizon. The bank would benefit from being more ambitious and set quantitative long-term targets and from defining milestones to achieve those goals.
- **Data collection:** currently, the data needed for climate assessment is limited to business borrowers' turnover and sector specific factors. This data is collected on the industry level and is limited to specific economic sectors in which the Bank has a large funding exposure. For an in-depth assessment of the entire portfolio, it is necessary to collect information from all clients with material climate risks and impacts.
- **Portfolio management:** Piraeus bank robustly assesses climate risk of its clients but still hasn't integrated it into pricing and credit analysis.
- **Climate-related advisory and incentives for clients:** Piraeus Bank offers financing tools to help companies achieve the UN SDGs and goals of the Paris Agreement, and to boost investments in renewable energies and energy efficiency. However, this is very limited to only its largest exposures.

Potential next steps

Piraeus Bank could take the following next steps based on its current developments and the 3fP-Banks methodology.

- **Long-term targets:** a concrete timeline with clear climate-related targets will help to streamline the bank's operations and portfolio in accordance with the Paris Agreement. A roadmap for the time horizon of 30 years should be laid out to keep pace with the transition. Piraeus should set sectoral targets for its own portfolios from a risk and impact perspective and start to align its fund and mandate business.
- **Data collection:** Piraeus should start collecting more data on a wider range of clients as availability of relevant climate-related data is necessary to align with the Paris Agreement. Including more firm specific data in the Climate Risk Management Model can increase robustness and accuracy. Defining a reference framework to interpret data and benchmarking them against good practices, sectors climate standards, or climate trajectories can help to measure financial flows and their alignment with the Paris climate targets.
- **Portfolio management:** Piraeus bank robustly assesses climate risk of its clients but still hasn't integrated it into pricing and credit analysis. A synergy between the sustainability unit, risk management and credit department can help in integrating climate risk into pricing and investment policy, given that regulators create a level playing field. The integration of climate metrics across its overall portfolio management process should ensure that the effects of climate-related risks and opportunities on the portfolio performance are well understood. Integrating climate metrics includes the definition of scope (e.g. sectoral approach) and targets (e.g. volume or output based) and the use of and reference to appropriate tools and methodologies.
- **Climate-related advisory and incentives for clients:** the bank should establish advisory frameworks and incentives to nudge clients towards Paris alining their business models. The Climate Risk Management Model could play a central role in this undertaking.

Source:

- CRMM: https://www.piraeusbankgroup.com/en/corporate-responsibility/environment/environmental-fields-of-action/climate-risk-assessment.
- Sustainability and Business Report 2019: https://www.piraeusbankgroup.com/~/media/Com/2020/Files/Investor-Relations/Financials/Annual-Reports/PB-EE-2019-EN.pdf.
- http://annual-report.piraeusbankgroup.com/2019/en/?_ga=2.199105007.1930882257.1601452511-244135141.1601452511.
- Green bond issuance: https://balkangreenenergynews.com/terna-energy-finance-to-launch-green-bond-offer-on-october-16/.

1 https://www.piraeusbankgroup.com/en/corporate-responsibility/environment/environmental-policy-principles/climate-change-strategy

PARIS FITNESS CHECK : SEB

With 15,000 employees and 4.4 million customers, SEB is a leading Nordic financial services group. In 2019, SEB held a green loan portfolio of SEK 19 bn and it managed about 13% of its total assets applying sustainability criteria. SEB is also leading the Nordic green bond market with a market share of 32.2%.
The Swedish bank is dedicated to mainstreaming sustainable finance. SEB is active in the development of the green bond and green loan market and is disclosing its progress. For instance, it measured CO2 emissions for 92% of its funds in 2019.

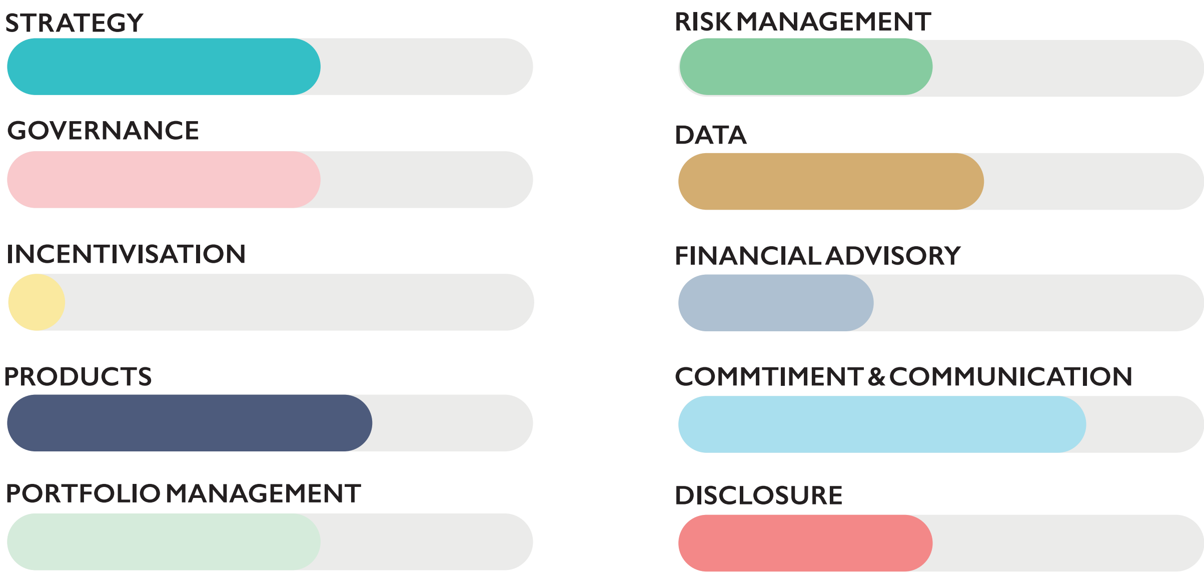

Figure 13: Paris alignment of SEB according to 3fP-Banks

Strengths in aligning with Paris

SEB is on a good path towards aligning with the Paris climate goals thanks to advanced data collection and good climate governance. Furthermore, SEB runs several projects that could lead to substantial positive improvements of its sustainability impact and climate risks and opportunities management.

- **Climate risk assessment in cooperation with the client:** the SEB credit manager is responsible for assessing climate risk exposure of its clients. The assessment consists of the submission of a questionnaire of three to four questions. Clients and employees have access to guidelines for disclosing relevant information.
- **Assessment of assets' sustainability:** SEB establishes a categorization framework for its assets in accordance with the EU Taxonomy. This classification is developed in two steps. First, SEB will classify sectors based on carbon impact and divide the sub-sectors into four categories "low-emissions sector", "CO^2 positive emissions", "negative emissions", and "significantly CO^2 intensive". A company classification will follow in a second step.
- **Climate-related responsibility clearly defined amongst top managers:** SEB's board of directors is explicitly responsible for establishing and executing a strategy for corporate sustainability. The President and Chief Executive officer is also chair of the Group Executive Sustainability Committee. These responsibilities also trickle down to the other management levels: each Head of Division, Head of Group Support function, and Head of Group Staff function have the responsibility to ensure that procedures and controls are in place in order to implement sustainability objectives, strategies and policies set by the Board, the President and GESC. Furthermore, each Division has a Sustainability Risk Committee that assesses and decides upon a new customer or transactional proposal from a material sustainable risk perspective.
- **Annual reporting on sustainable products:** since 2017, SEB is publishing a non-financial statement annually, which tracks the amount of assets managed under sustainability criteria and the amount dedicated to specific green and sustainable instruments such as green bonds, green loans and green mortgage. Like a financial statement, those statistics are compared to the previous years. SEB sets targets for the following year for each indicator.
- **Ongoing development of a new methodology for climate impact and climate risks assessment:** SEB is developing a methodology to capture material sustainability impacts as well as disruption risks in the credit analysis. Qualitative sector analyses are being performed on high impact sectors, e.g. energy, transport, and manufacturing.

Areas for catching up

SEB has the potential to catch up in some areas such as the integration of climate issues in a long-term strategy and in overall risk management.

- **Long-term orientation of SEB's climate strategy:** SEB has numerous goals in relation to sustainable finance e.g. the implementation of the TCFD recommendation or the integration of climate issues in its financial advisory activities. However, SEB's overall strategy isn't linked to specific climate targets and metrics. Most objectives are developed on a year-to-year basis.
- **Systematic consideration of climate issues in financial advisory:** SEB does not systematically evaluate the exposure of its clients to climate risks or the potential for climate-related business opportunities. Developing a policy for climate risks and opportunities assessment and training its financial advisors accordingly would allow SEB to seize further synergies. This framework could be based on SEB's assets classification by sectors.
- **Incentivisation mechanism:** SEB does not have incentivisation mechanisms for sustainable investment in place, neither for its clients nor its employees. The bank could develop financial and non-financial incentives to encourage the creation of a new working culture and rally its employees to move towards Paris alignment.
- **Development of a climate risk management policy:** SEB has not set a clear policy to assess and manage climate risks and opportunities at the bank level yet. The policy could consist of guidelines and environmental standards to consider for each operation.

Potential next steps

As next steps, SEB could build on its sustainability governance structure and its classification of its assets against the EU Taxonomy to strengthen the consideration of climate issues in its business model.

- **Adopting long-term objectives:** SEB should increase the time horizon of climate targets, in the best case until 2050, when developing its 2021-2024 business plan.
- **Incentives for top members:** as SEB's governance structure defines explicit top managers' responsibilities in relation to sustainable finance, the bank could set up financial incentives linked to the progress and fulfilment of SEB's climate-related targets for board members and senior managers.
- **Further development based on the EU Taxonomy:** SEB is undergoing a classification of its assets based on the EU Taxonomy. The bank could, as follow-up, provide its portfolio managers with sustainable finance guidelines enabling systematic considerations for climate risks and climate impact in the investment or financing decision process. Portfolio managers should also be trained on the labelling.
- **Adaptation of SEB's financial offer to climate issues:** the transformation towards a low-carbon and climate-resilient economy offers a wide range of financing opportunities for SEB. The bank could develop innovative products e.g. green leasing or loans linked to the client's compliance with the EU taxonomy.

PARIS FITNESS CHECK: SOVCOMBANK

Founded in 1990, Sovcombank is one of the largest Russian banks with USD 15 bn assets and around 200,000 corporate clients. In the field of sustainable finance, Sovcombank is a forerunner in its country. The group has been one of the first banks on the Russian market to incorporate ESG principles into its core business strategy.

Sovcombank has set itself sustainability goals, including increased accountability and transparency, ethical behaviour, respect for stakeholder interests, respect for the rule of law, respect for international norms of behaviour, and respect for human rights. Furthermore, the Russian bank has set the goal of becoming a country leader in green financing by 2025. Although Sovcombank achieves has still ample room to catch-up to many European peers, its analysis shows encouraging development, which could set an example for Eastern Europe and Russia. Sovcombank shows a good pipeline of projects and initiatives to further integrate environmental issues in its daily operations and it has the ambition to catch up on green finance practices such as the integration of climate risks and opportunities as well as the consideration of climate impact in the business strategy and daily operations.

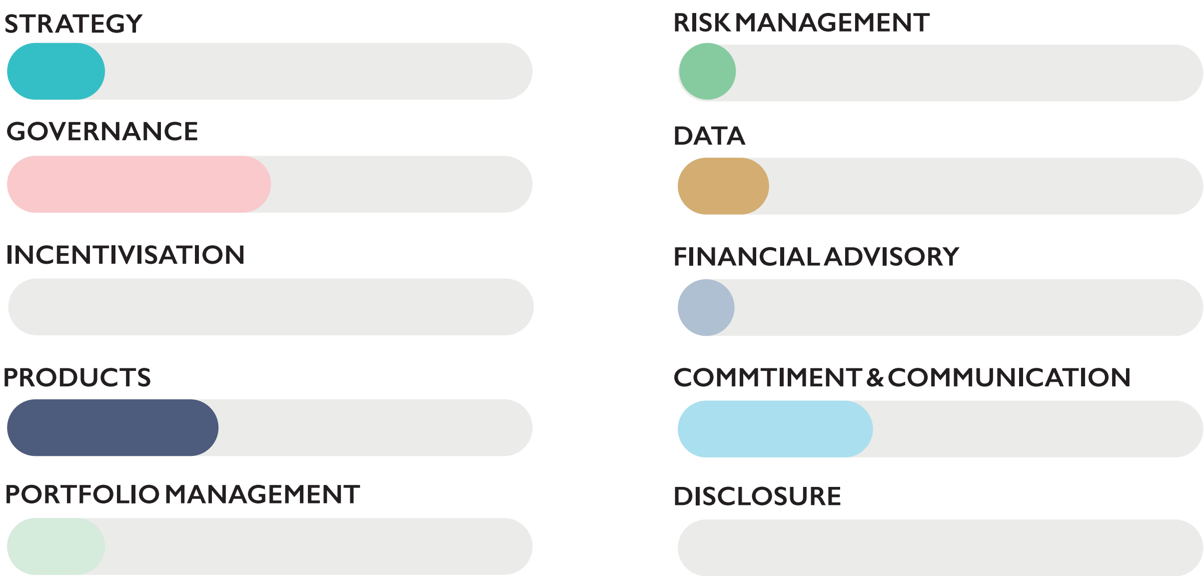

Figure 14: Paris alignment of Sovcombank according to 3fP-Banks

Strengths in aligning with Paris

In the past years, Sovcombank started reflecting the risks and seizing opportunities linked to climate change. Key strengths of Sovcombank relate to the bank joining several national and international sustainable finance initiatives and starting to implement the consideration of climate risks and climate impact into its daily operations.

- **Strong commitment in international initiatives:** Sovcombank is the first Russian Bank that has become a signatory of the UN PRB, the UN Global Compact and the Global Reporting Initiatives. Sovcombank has furthermore publicly committed to the Collective Commitment to Climate Action, being one of 38 banks committing to align their businesses with greenhouse gas (GHG) emissions trajectories that are compatible with the long-term climate change mitigation objective of the Paris Agreement.
- **Engagement to improve the Russian regulatory environment:** Sovcombank is active in several national expert groups looking into how to improve ESG disclosures and target setting in Russia as well as to develop a Russian taxonomy for sustainable activities.
- **Governance framework for ESG issues:** in March 2020, Sovcombank launched an ESG committee which is directly advising the bank's supervisory board. The ESG committee supports the implementation of a set of bank policies in relation to sustainability such as the sustainability policy, the responsible financing policy, the internal audit policy,, and the green bond policy. Each policy distributes respective responsibility to different committees and levels of management.
- **Green project screening framework:** Sovcombank has developed a framework to screen projects' eligibility to green loans. This assessment is undertaken by the Limit Credit Committee and is aligned with the Green Loan Principles. Eligible projects are linked to the sectors renewable and zero-carbon-emission energy, energy-efficient technologies, energy efficiency, water and waste-water treatment, and waste management.
- **Ongoing development of an ESG risks management framework:** Sovcombank set the objective to integrate ESG risk management into its overall risk management framework by 2025 and is therefore developing a traffic light approach for loans. Loans are assessed according to their exposure to climate risks based on national classifications and statistics.

Areas for catching up

Next to its achievements in integrating green finance practices into its daily operations, Sovcombank still has areas where it could step up its efforts to bridge the existing gap with its peers. These refer to the following areas:

- **Involvement of corporate clients in climate risk assessment:** Sovcombank is undergoing a sectoral climate risk assessment based on Russian national statistics. In order to apply a more precise assessment on the company or the project, Sovcombank could require its corporate clients to provide own corporate data, e.g. by completing a questionnaire on several environmental indicators e.g. the existence of a corporate climate-risks management policy and framework, carbon emissions emitted split by the client's economic activities, etc..
- **Integration of climate risks in the assessment for financial advisory:** Sovcombank so far does not review climate related issues of the profile of its corporate clients when providing financial advisory services. Doing so would allow Sovcombank to support its corporate clients in identifying climate-related transition and physical risks as well as in identifying opportunities.
- **Incentivisation linked to sustainability:** as Sovcombank's sustainability policies attribute responsibilities to specific board members and top managers, the bank could consider introducing financial incentives linked to its fulfilment. Sovcombank could also consider integrating sustainable finance practices into their Karma project, a bonus system for "good action" of its employees.
- **Disclosure of quantitative environmental data:** Sovcombank published its first sustainability report in 2019 providing insights into the bank's action with respect to ESG issues. So far, this reporting provides little quantitative information on climate issues. Sovcombank could disclose a non-financial statement with data relating to key indicators such as exposure to climate risks and own climate impact, the amount of green bonds issued, or green loans underwritten.

Potential next steps

Sovcombank could build on the ongoing projects to deepen its understanding and integration of climate risks and climate impact within its business strategy and investment decision and develop further green finance mechanisms. Possible next steps for Sovcombank could include:

- **Development of a long-term climate strategy:** Sovcombank has developed sustainable finance targets for 2025 and is developing objectives on a year-to-year basis in its annual sustainability report. To align with the Paris agreement, Sovcombank should consider adopting a climate strategy with a longer time horizon spanning to 2030 and, in the best case, to 2050.
- **Clear guidelines for portfolio managers:** following the adoption of the traffic light approach for ESG risks management, Sovcombank should consider developing clear guidelines and policies for the implication of this approach to portfolio management e.g. by fostering a best-in class approach or by considering developing new financial products linked to the improvement of the asset score.
- **Diversify green financial product range:** Sovcombank is a leading bank in the Russian green bond market. The bank could consider using this leading position to expand its green product portfolio e.g. by providing other financing instruments such as green mortgage or sustainability improvement loans.
- **Application of the PACTA methodology for setting up dynamic risk management tools:** Sovcombank is planning to run a project to implement the PACTA methodology. This method could be used to improve the management of climate risks at the bank level such as the development of scenario analysis and the implementation of climate stress-test.

PARIS FITNESS CHECK : TRIODOS

Triodos Bank was founded in 1980 in the Netherlands based on anthroposophical principles. With 530,000 customers it is the largest ethical bank in Europe by number of customers. Triodos Bank operates across Europe, with branches in Belgium, Great Britain, Spain, Germany, and France.
Triodos is an "alternative" banks[1] and integrates social, environmental and climate-related, and ethical aspects into their business model. The bank offers current accounts, savings products, and investments. The bank's business model is a different one than that of conventional corporate banks. Due to Triodos' smaller customer base, it lever for climate-friendly, sustainable development of the economy and society is smaller than the one of banks of bigger size. Triodos is included in the 3fP-Banks assessment to get an insight into its alternative business model in comparison to the other 'traditional' commercial banks.
The name Triodos is based on Rudolf Steiner's social three folding: People, Planet, Profit. Triodos Bank has the goal to align it's business model with consideration of human dignity, environmental conservation, and a focus on people's quality of life. Triodos Bank supports the sustainable and inclusive transition of economies and society in line with the Paris Agreement. The bank wants to achieve its mission in three ways:

I. As a value-driven service provider
II. As a relationship bank
III. As a frontrunner in responsible banking.

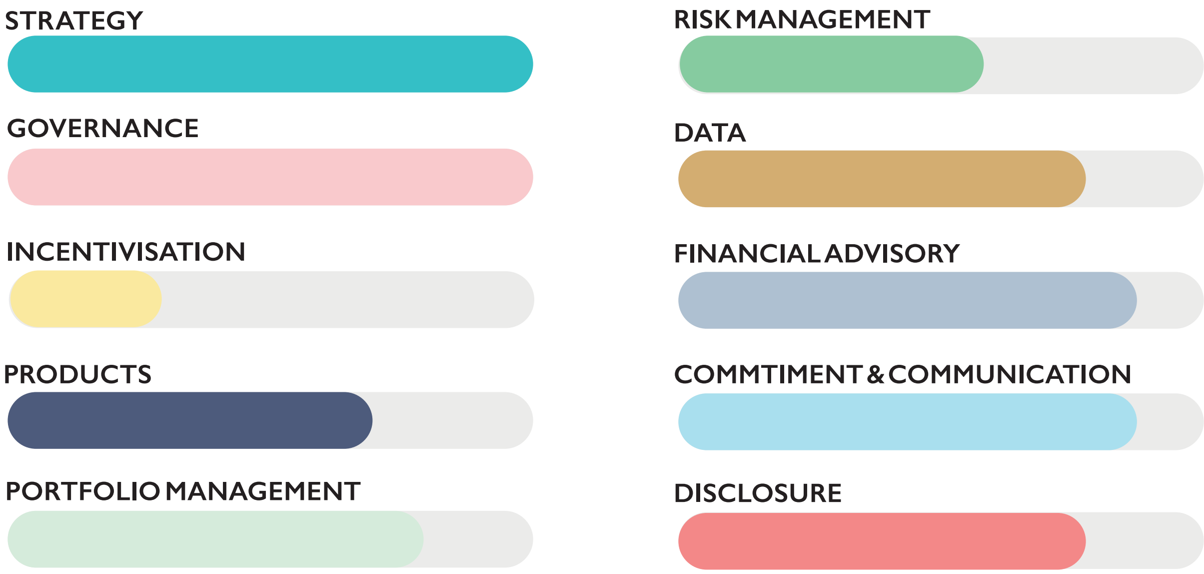

Figure 15: Paris alignment of Triodos Bank according to 3fP-Banks

1 *Alternative banks include banks doing ethical, social or sustainable banking. Examples of other so-called alternative banks in Germany include GLS Bank, Umweltbank, Evangelische Bank, Steyler Bank.*

Strengths in aligning with Paris

Triodos Bank has the goal to connect depositors and investors with socially responsible businesses to build a movement for a sustainable, socially inclusive society, built on the conscious use of money. The bank is a leading expert in sustainable banking with the comprehensive mission to make money work for positive change. Triodos Bank has particular strengths in the fields of impact assessment on sustainability of loans and investments due to its Impact Prism Tool, its comprehensive business principles, its policy regarding transparency and disclosure, its sustainable energy financing portfolio as well as its carbon accounting strategy:

- **Long-term experience:** since its foundation in 1980 the bank has followed its mission to use money consciously through financing social, ecological and cultural projects. Triodos Bank works on a large spectrum of sustainability and climate-related topics since 40 years and thus is leading in the field.
- **Triodos Impact Prism[1]:** Triodos Bank implemented the tool Impact Prism to assess both the positive and negative impacts on sustainability of loans and investments. The tool provides specific information about the sustainability value of a loan or an investment, oriented on the UN SDGs[2], and its capacity to deliver impact in the future.
- **Business Principles[3]:** Triodos Bank uses sustainability criteria for lending as part of its business principles. Based on these principles, Triodos finances companies, institutions, and projects that add cultural value, benefit people and the environment, with the support of depositors and investors who want to encourage socially responsible business and a sustainable society. The business principles include the promotion of sustainable development, respecting human rights, respecting the environment, being accountable, continuing improvement and respecting, and obeying the law. Those principles apply to all Triodos Bank businesses, specifically all Triodos Bank branches, Triodos Investment Management, and Triodos Private Banking.
- **Transparency:** Triodos Bank publishes details of every organisation they lend to and invest in. The bank displays its annual report online, which highlights key Triodos Bank facts and figures on loans and funds entrusted.
- **Sustainable energy financing:** Triodos Bank's energy generation portfolio consists of 100% renewable energies such as wind and solar. The bank has financed renewable energy projects for four decades.
- **Carbon accounting:** Triodos Bank is a founding member of PCAF[4], that provides financial institutions with a methodology to assess the GHG emissions of their loans and investments. In this global initiative, Triodos Bank collaborates with over 50 banks across the world to account for their portfolio climate impact as a first step towards setting science-based targets.

1 Triodos Bank: Integrated Annual Report (https://annual-report-triodos.com/2017/executive-board-report/impact-and-financial-results/the-impact-of-finance-from-triodos-bank.html).
2 United Nations: Sustainable Development Goals (https://sdgs.un.org/goals).
3 Triodos Bank: Business Principles (https://www.triodos.com/binaries/content/assets/tbho/corporate-governance/triodos-bank-business-principles.pdf).
4 Partnership for Carbon Accounting Financials (https://carbonaccountingfinancials.com).

Areas for catching up

Despite being a pioneer in many fields, there are also areas with a potential for catching up. So far, the bank did not issue its own green bond, the scope as well as the time horizon of climate-related risk management could be expanded, and the bank's stress tests do not include sustainability criteria yet.

- **Green Bonds:** Triodos Investment Management[1] has been investing in impact bonds[2] since 2015. Clients launch primary and secondary issues that guarantee a specific standard of reporting. However, Triodos Bank did not issue an own green bond so far.
- **Scope of climate-related risk management:** Triodos Bank has recently started to develop models to measure climate-related risks of the portfolio. A comprehensive framework for assessing and managing climate-related risks of its portfolio is not designed yet. Models to measure climate-related risks of specific clients are also still under development. Client's assets that may be considered to be especially vulnerable to climate-related physical risks are not systematically identified yet as part of the client screening pilot models.
- **Time horizon of risk management framework:** the evaluation of the bank's portfolio resilience to the physical impacts of climate change, e.g. resulting from extreme weather situations, refer to a time horizon of only three years.
- **Including sustainability criteria in stress tests:** Triodos Bank carries out annual stress tests which take extreme but plausible situations into account. Scenarios that are assessed include macroeconomic stress as well as idiosyncratic stress (e.g. operational and reputational stress). However, sustainability considerations are not yet included in those stress tests[3].

Potential next steps

Sovcombank could build on the ongoing projects to deepen its understanding and integration of climate risks and climate impact within its business strategy and investment decision and develop further green finance mechanisms. Possible next steps for Sovcombank could include:

- **Development of a long-term climate strategy:** Sovcombank has developed sustainable finance targets for 2025 and is developing objectives on a year-to-year basis in its annual sustainability report. To align with the Paris agreement, Sovcombank should consider adopting a climate strategy with a longer time horizon spanning to 2030 and, in the best case, to 2050.
- **Clear guidelines for portfolio managers:** following the adoption of the traffic light approach for ESG risks management, Sovcombank should consider developing clear guidelines and policies for the implication of this approach to portfolio management e.g. by fostering a best-in class approach or by considering developing new financial products linked to the improvement of the asset score.
- **Diversify green financial product range:** Sovcombank is a leading bank in the Russian green bond market. The bank could consider using this leading position to expand its green product portfolio e.g. by providing other financing instruments such as green mortgage or sustainability improvement loans.
- **Application of the PACTA methodology for setting up dynamic risk management tools:** Sovcombank is planning to run a project to implement the PACTA methodology. This method could be used to improve the management of climate risks at the bank level such as the development of scenario analysis and the implementation of climate stress-test.

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1 Triodos Investment Management is a globally active impact investor, located in Zeist, the Netherlands, and a wholly-owned subsidiary of Triodos Bank (https://www.triodos-im.com/about-us).

2 Triodos Investment Management: Impact bonds - an integral part of Triodos IM's investment portfolios (https://www.triodos-im.com/articles/2018/triodos-investment-management-invests-in-impact-bonds-since-2015).

3 Triodos Bank mentions De Nederlandsche Bank (DNB) as pioneer regarding sustainability risk considerations within stress tests (DNBulletin: Stress test shows vulnerabilities of European insurers (https://www.dnb.nl/en/news/news-and-archive/DNBulletin2019/dnb386590.jsp).

ANNEX I: METHODOLOGY

The aim of the 3fP-Banks assessment report is to provide an overview of the ongoing operationalisation of Paris-aligning of banks in Europe. This should help to increase transparency with respect to the status quo of the operationalisation at European banks. From this analysis, persisting methodological and policy gaps are derived. This framing is particularly geared at translating the banking commitments into measurable actions and to make the case further commitments by showing that technical solutions exist already.
The 3fP-Banks methodology has a focus on banking activities with a high proximity to the real economy. This implies a strong bias towards lending activities to corporate clients. This focus was chosen to maximise the impact on the transformation of the real economy. While other banking activities will most certainly have an impact on the real economy as well, lending activities seem to have the largest coverage as it includes the SMEs most strongly. Please see the envisaged mechanism for impact depicted in Figure 16.

Figure 16 - Approach of 3fP-Banks

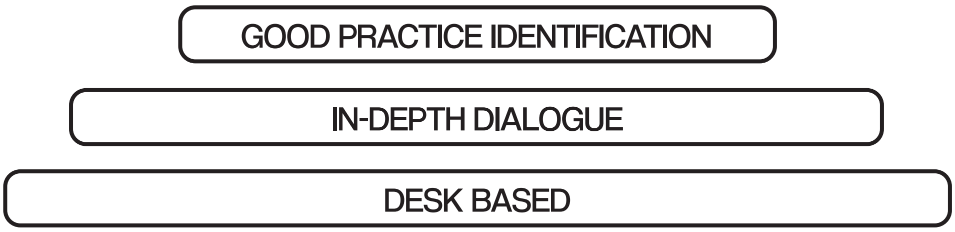

Figure 17 - Three phase approach of the 3fP - Bank handbook's development

The methodology to develop the 3fP-Banks assessment report follows a three-phase approach, see *Figure 8*.

1. Desk research: in the beginning of the development, all relevant existing literature and publicly available information was collected. From this research, the ten 3fP-Banks areas for action were derived and a preliminary assessment of the status quo Paris-aligning banks in Europe was conducted. The assessment is based on a questionnaire containing 100 questions in relation to aligning a bank with the Paris Agreement. The questionnaire was pre-filled using desk research and finalised in collaboration with the banks. The unfilled questionnaire will be provided upon request.

2. In-depth dialogue: an in-depth dialogue with European commercial banks was conducted to confirm the preliminary assessment, close knowledge gaps, and ensure needs by banks are sufficiently captured in the handbook and the assessment report.

3. Identification of good practices: through the research on European banks, good practice case studies are identified. Those are presented in the final 3fP-Banks handbook to show practical steps towards operationalising Paris alignment at banks. Good practice case studies are jointly developed with respective banks.

The development of the 3fP-Banks Handbook and the questionnaire is built on prior work in the field of aligning banks with the Paris climate goals. Special credit goes to:

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ANNEX II: LIST OF ABBREVIATIONS

3fP	Finance fit for Paris
BEI	Banking Environment Initiative
CIA	Carbon Impact Analytics
CO2	Carbon Dioxide
COP24	24th Conference of the Parties
COVID-19	Coronavirus disease 2019
CRD IV	Capital Requirements Directive IV
CRR	Capital Requirement Regulation
CSR	Corporate Social Responsibility
DNB	De Nederlandsche Bank
EIB	European Investment Bank
ESG	Environmental, Social, and Governance
ESMA	European Securities and Market Authority
EU	European Union
GHG	Greenhouse gas
GRI Standards	Global Reporting Initiative Sustainability-Reporting Standards
ICMA	International Capital Market Association
IEA	International Energy Agency
IPCC	Intergovernmental Panel on Climate Change
KfW	Kreditanstalt für Wiederaufbau
KPIs	Key Performance Indicators
NFRD	Non-Financial Reporting Directive
NGFS	Network for Greening the Financial System
PACTA	Paris Agreement Capital Transition-Assessment
PCAF	Partnership on Carbon Accounting-Financials
SB2A	Science Based 2°C Alignment
SBTi	Science-Based Target initiative
SMART	Specific Measurable Achievable Reasonable-Time Bound
SMEs	Small and Medium-sized Enterprises
SRI	Socially Responsible Investment
TCFD	Task Force on Climate-related Financial-Disclosures
UN	United Nations
UN PRB	UN Principles for Responsible Banking
UN SDGs	United Nations Sustainable Development Goals
UNEP FI	UNEP Finance Initiative

ACKNOWLEDGEMENTS

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Special Thanks

Special thanks also go to all participating banks, who delivered their valuable inputs to the assessment of the status quo and further needs in aligning the European banking sector with the Paris climate goals. We hope that this report and the 3fP-Banks handbook provide an useful input to corporations in the future.

Design

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This briefing has been funded with support from the European Climate Foundation. Responsibility for the information and views set out in this briefing lies with the author(s) and the European Climate Foundation cannot be held responsible for any use which may be made of the information contained or expressed therein.

European Climate Foundation

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