



How to align with the Paris Agreement

A Resource Note for Banking Associations and Banks

Inhoud

Executive summary	3
1 Introduction	6
2 Summary of the commitments	8
3 The policy context of international, European, and national developments	9
4 Key factors for an effective climate commitment	14
5 Challenges and obstacles	19
6 Recommendations for banking associations	22
Annex I Best practices: some banking initiatives	24
Annex II Commitments	30

Acknowledgement

This paper is prepared by Juan Carlos Delrieu and Carmen Fernández Fernández of Spanish Banking Association (AEB), Mónica Malo of the Spanish Association of Retail and Savings Banks (CECA), Thomas Mog and Sebastian Rink of the Net Zero Banking Alliance Germany (NZBAG) and Maryse Hazelzet of the Dutch Banking Association (NVB). Thanks for the support of Bas Metz and Mireille Reijs of the Dutch Banking Association.

We appreciate the international developments under the umbrella of UNEP FI and we are therefore pleased for the valuable contributions of Alice Anders, Daniel Bouzas, Johanna Dichtl and Sarah Kemmitt of UNEP FI to the paper.

Executive summary

In 2015, the Paris Agreement was signed with a global action plan to limit global warming to well below 2°C and pursue efforts to limit it to 1.5 °C. However, still much needs to be done and in Glasgow efforts were made to formalize 1,5 °C as the new main target. COP26 President Alok Sharma stated during the COP26 last November: ‘COP26, is our last best hope to keep 1.5 in reach [1].’ The European Commission also announced that ‘the binding Union 2030 climate target shall be a domestic reduction of net greenhouse gas emissions (emissions after deduction of removals) by at least 55 % compared to 1990 levels by 2030 [2].’

Also at international, European and national level many initiatives such as the Principles for Responsible Banking of UNEP-FI and regulations such as the EU Sustainable finance action plan and national climate laws provide frameworks to align with the Paris Agreement. Banks can play an important role in the transition by aligning their portfolios with the Paris agreement. Against that backdrop, banking associations and banks have developed commitments to support companies in reducing GHG emissions.

This paper will provide further insights into how banking associations, along with their members, or a group of frontrunner banks can align with the Paris Agreement by formulating joint objectives through commitments and opportunities for collaboration.

What are the commitments

All the commitments aim to transition the GHG emissions from finance and investments activities in accordance with the Paris Agreement and/or national climate goals. These commitments are signed on a voluntary basis. Examples are the Germain, Spanish and Dutch Climate Commitment. Also UNEP FI plays an important role in creating a level playing field and developing tools such as the climate target setting guidelines.

A commitment can have added value for various reasons such as a platform for peers, to engage with the government, to prepare for (future) regulation such as supervisory expectations.

1 Cop26 Alok Sharma's opening speech, Government UK, [see here](#).

2 Article 4 EU Climate Law.

Key factors for an effective climate commitment

a Preparatory work

Start of the commitment

The preparatory work usually begins with a leadership initiative. This may be led by one or several leading financial institutions with an advantage in terms of commitments, by the government or influenced by other countries.

Participants of the commitment

Every commitment has different formats. (varying from a smaller to a larger group of banks or the entire financial sector).

Pre-competitive space

A pre-competitive space is key where banks can share good practices.

Partnering with the government

Engage with the government in an early stage.

Developing the content of the commitment

Aligning as much as possible with international commitments (NZBA).

b Content of the commitments

The commitments exist of two main deliverables:

- Most of the commitments have elements that focus on climate impact measurement of portfolios. Various climate impact measurement approaches can be used to support the transition of lending and investments portfolios, for instance PACTA (Paris Agreement Capital Transition Assessment) or PCAF (Partnership for Carbon Accounting Financials).
- The second element focuses on developing action plans, including reduction targets, aligned with the Paris Agreement or national climate goals. Banks will need to steer their loan and investment portfolios in line with climate transition pathways to fulfil their climate commitment. This requires banks measuring current alignment/misalignment and acting on the findings together with their clients. Examples of useful tools are the project Pathways to Paris [3], Climate Action Portfolio Indicator (CAPI) [4] and the UNEP FI Guidelines for Climate Change Target Setting for Banks of the NZBA.

c Knowledge alignment

Knowledge alignment is very relevant. The Spanish commitment has focused its efforts on advancing in the analysis of the different tools and methodologies available for the assessment and measurement of risks and the analysis of scenarios under a programme called 'Knowledge Alignment'. A catalogue developed by Finrep, Center for Sustainable and Responsible Finance of Spain, of support service providers for the sustainable transformation of companies has been developed as an outcome of the knowledge sharing.

3 Pathways to Paris, [see here](#).

4 Lending to a climate neutral Germany by 2045, Net Zero Banking Alliance Germany, July 2021, [see here](#).

d Reporting

Transparent reporting on progress towards targets is essential for monitoring the commitments. The Dutch Commitment has set up a clear monitoring framework to measure the progress of the banks.

Challenges and obstacles

The commitments can be a good starting point to discuss challenges and obstacles banks face in the alignment with the Paris Agreement. These challenges and obstacles cover a range of different topics: level playing field, transition with all clients, methodological challenges, data, technology, reputational effects, training and client dialogue.

Recommendations for banking associations

Banking association can start furthering the role banks can play in the transition by:

- engaging with governmental and EU regulators to improve data availability, to advocate for regulatory measures that introduce mandatory disclosure of all relevant data on GHG emissions by non-financial corporations;
- engaging with other banks, governments, financial associations or real economy in expanding the commitments and its activities;
- engage with the government to develop mandatory decarbonisation pathways and portfolio alignment approaches;
- avoid any fragmentation and consolidate where possible.

1 Introduction

'Climate Action tops the list of people's concerns, across countries, age, and gender. We must listen, we must act, and we must choose wisely.'

António Guterres, UN Secretary General, COP 26 opening ceremony [5]

In 2015, the Paris Agreement was signed with a global action plan to limit global warming to well below 2°C and pursue efforts to limit it to 1.5°C. The International Panel on Climate Change (IPCC) has shown that, to meet the goals of the Paris Agreement, emissions need to decline by 45% by 2030 compared to 2010. However, the sum of national policy ambitions as expressed in the Nationally Determined Contributions (NDC) of nation states still falls short of the necessary reductions [6]. Recent IPCC reports reiterate the urgency. In Glasgow efforts were made to formalize 1,5°C as the new main target. COP26 President Alok Sharma stated during the COP26 last November: COP26, is our last best hope to keep 1.5 in reach [7].

In the meantime, the European Commission (EC) announced that 'the binding Union 2030 climate target shall be a domestic reduction of net greenhouse gas emissions (emissions after deduction of removals) by at least 55 % compared to 1990 levels by 2030 [8].' Greenhouse gas emissions should decrease by 7.6% every year in order to keep the 1.5°C goal within reach [9]. The latest IEA net zero scenario comes to the same conclusion [10].

By providing finance to companies in the real economy, banks support economic activity that results in the emissions of greenhouse gases (GHG). 'Financed emissions' is a term used to describe the attribution of client emissions to a bank's financing. Banks can play an important role to reduce the financed emissions by assisting their clients in the transition. Banks have pivotal role in facilitating systemic change, but also need to prepare themselves for this transition in future-proofing their own balance sheet. That is why commitments to understand the carbon impact of portfolios, set targets, and develop actions plans that align portfolios with the Paris Agreement have been developed in various countries.

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5 António Guterres opening speech COP 26, [see here](#).

6 Taking the Plunge, 2degrees, November 2021, p. 4, [see here](#).

7 Cop26 Alok Sharma's opening speech, Government UK, [see here](#).

8 Article 4 EU Climate Law.

9 Net-Zero Banking Alliance reaches milestone with over 90 banks commitment, November 2021, [see here](#).

10 Net Zero by 2050, IAE, May 2021, [see here](#).

At the international level, banks come together under the umbrella of UNEP-FI through the UN Principles for Responsible Banking and the UN-convened, bank-led Net Zero Banking Alliance (NZBA). The Principles for Responsible Banking, the world's foremost sustainable banking framework, are designed to ensure that banks' strategy and practice align with the vision society has set out for its future within the UN Sustainable Development Goals (UN SDGs) and the Paris Climate Agreement. The Net Zero Banking Alliance is part of the implementation of a bank's overarching commitment to the PRB framework and helps accelerate banks' climate work.

This paper will provide further insights into how banking associations, along with their members, or a group of frontrunner banks can align with the Paris Agreement by formulating joint objectives through commitments and opportunities for collaboration. The paper starts with a short summary of these climate commitments and explains the policy context of these commitments. It then goes on to provide key factors for developing these climate commitments. Finally, it sets out challenges and obstacles as well as recommendations for the associations.

2 Summary of the commitments

● ● Purpose of the commitments

Banks can steer financial flows to a greener economy and society by supporting the decarbonisation of their clients.

In various countries, banking associations and banks have developed their own commitments to support their clients in reducing GHG emissions. This paper will focus on Germany, Spain, and the Netherlands, but more initiatives are taking place in other countries such as Switzerland and Austria. Additionally, UNEP FI plays an important role in creating a level playing field and developing tools such as the climate target setting standard.

The commitments described in this paper illustrate a range of considerations that could be useful for establishing similar commitments in other jurisdictions. All the commitments aim to transition the GHG emissions from loan and investments portfolios in accordance with the Paris Agreement or national climate goals. These commitments are signed on a voluntary basis. They recognise methodologies for measuring GHG emissions as an important step to determine a baseline for reduction targets and action plans. Some of the commitments focus on the reporting and monitoring of a bank's performance against its set targets. In addition, some of the commitments also benefit from governmental involvement. This provides an opportunity to discuss challenges and opportunities with governments, to seek solutions to facilitate the transition, and to remove identified obstacles.

The benefits of the commitments include:

- The introduction of a level playing field at national and international level to align portfolios with national climate agreements and international agreements.
- The provision of a platform to pre-competitively exchange best practices among peers.
- The provision of a platform to demonstrate the role financial institutions can play in the transition, creating greater clarity on the role of financial institutions and the government.
- Supporting the measurement of financed emissions, which allows participants to begin collecting information on transition risks, which in turn can help banks comply with supervisory reporting as described under Pillar III ITS on ESG disclosures.
- The provision of a platform to discuss challenges with the government and other banking associations.
- Enabling collaboration with other financial institutions or sectors, across value chains or on specific projects, which would not otherwise be available.

3 The policy context of international, European, and national developments

● ● International level

In 2019, under the umbrella of UNEP FI, banks set up the Principles for Responsible Banking (PRB). The UN Principles for Responsible Banking are the world's foremost sustainable banking framework. They are designed to ensure that banks' strategy and practice align with the vision society has set out for its future within the UN Sustainable Development Goals and the Paris Climate Agreement.

A voluntary commitment, the Principles represent a partnership between the United Nations and banks worldwide, focused on strategically aligning banks' portfolios with the UN SDGs for a positive environmental and social impact worldwide while looking at critical areas such as climate change, nature loss, pollution, and social issues. The Principles drive global momentum to shape the future of banking into one that is positive for people and the planet. Over 250 banks, representing almost half of the global banking industry, have now joined this movement for change. Following the endorsement of the PRB, banks set up the Collective Climate Action Commitment, with the Net Zero Banking Alliance following in 2021. The purpose of this international-level commitment is to align banking portfolios with the Paris Agreement.

In 2021, the UN-convened, bank-led Net-Zero Banking Alliance (NZBA) was launched. The NZBA is part of the implementation of a bank's overarching commitment to the PRB framework. The NZBA specifically addresses climate and carbon emissions. It provides technical guidance, peer learning and capacity building on the development of net-zero pathways in accordance with the 1.5°C ambition. For those PRB signatories that have identified climate as an area of impact, the NZBA is an accelerator, providing a dedicated forum in which to align their activities with the [1.5°C] ambition of the Paris Climate Agreement. Other accelerator commitments of the PRB include the Commitment to Financial Health and Inclusion.

The Net Zero Banking Alliance is a partner of the Race to Zero campaign which was established by the UNFCCC's High-Level Climate Action Champions to mobilise a coalition of leading net-zero initiatives by actors outside national governments. Race to Zero sets minimum criteria that are required of alliances to become partners based around the '4 Ps': Pledge, Plan, Proceed and Publish.

The High-Level Climate Action Champions established an Expert Peer Review Group (EPRG) tasked with reviewing Race to Zero partner applications and providing independent recommendations to the Champions on whether the initiatives meet the Minimum Criteria for participation.

The financial sector's net-zero alliances that are Race to Zero partners have been brought together within the Glasgow Financial Alliance for Net Zero (GFANZ), which was launched in April 2021 by Mark Carney in his capacity as the UN Special Envoy for Climate Action and Finance to accelerate the transition to a net-zero economy. GFANZ has workstreams that focus on topics critical to the net-zero transition across the financial sector.

● ● European level

The aim of the European Green Deal is for Europe's economy and society to become climate-neutral by 2050. In July 2021, the European Climate Law entered into force and made this goal legally binding. The law also sets the intermediate target of reducing net greenhouse gas emissions by at least 55% by 2030, compared to 1990 levels.

Climate neutrality by 2050 means achieving net-zero greenhouse gas emissions for EU countries, mainly by cutting emissions, investing in green technologies and protecting the natural environment.

The law aims to ensure that all EU policies contribute to this goal and that all sectors of the economy and society play their part.

Since the launch of the EC's Action Plan on Sustainable Finance in March 2018, a series of legislative initiatives have been developed to steer financial flows towards a more sustainable society. One of these key regulatory pieces is the EU Taxonomy, which defines economic activities that can be considered environmentally sustainable, clearly identifying levels of substantial contribution, and which do no harm and observe minimum safeguards. These are activities that are aligned with the stated objective of climate neutrality by 2050.

In July 2021, the EC announced in its strategy for financing the transition to a sustainable economy that, among many other actions, it would examine voluntary pledges of financial institutions. The taxonomy is also an important development as it indicates how far lending activities contribute to a positive impact. On the other hand, there are increasing expectations from supervisory bodies to include climate risks in risk management. The main objective of this European framework is the mobilisation of capital to finance the transition as well as the mitigation of the risks linked to greenwashing in order to make transparent and efficient the financial decision-making process by investors.

● ● National legislations

Since this paper focuses on the Dutch, German and Spanish commitments, the national contexts will be described in this section.

Dutch Climate Act

Since 2019, the Netherlands has set the objective to lower greenhouse gas emissions by 49% in 2030 compared to 1990 levels. This is established in the Climate Law (and aligns with, among other regulations, the Paris Climate Agreement) [11]. Recently, this ambition has been set even higher, although not yet incorporated in the law. In addition, four sectors received specific sector targets. These sectors developed a set of proposals on how to meet these targets by participating in the Climate Agreement.

2030 climate targets

A greenhouse gas reduction target of 49% in 2030 compared to 1990 levels. To achieve this objective, the government, companies, and civil society organisations have developed a climate agreement. The sectors with the highest emissions have agreed to objectives to meet the reduction target of 49% by 2030. In December 2021, the government increased its ambition to a minimum reduction in greenhouse gas emissions of 55%, aiming for 60%, in 2030. This follows the 55% reduction target of the European Union.

Post-2030

After 2030, the ambition is to keep on reducing greenhouse gasses by 70% in 2035 and 80% in 2040.

Climate Agreement action plans

The Climate Agreement comprises four sectors: built environment, mobility, industry, agriculture and land use, and electricity. Each sector platform needs to meet a sector-specific target in megatonnes by 2030 to achieve the government's objective of a 49% GHG reduction. 'These sector-specific targets have been developed by the Netherlands Environmental Assessment Agency (PBL). They are an indication and based on the national cost effectiveness of various carbon emissions reduction measures [12].' The Netherlands favours a collaborative approach with the private sector, meaning that more than 100 parties consisting of the sectors concerned and civil society organisations developed a set of proposals in a Climate Agreement to meet these sector-specific targets.

Overarching platform

There is an overarching platform that coordinates and oversees progress and reports back to the Dutch parliament, the so-called Climate and Energy Report (Klimaat- en Energieverkenning, KEV). This report publishes the expected carbon dioxide emissions in 2030 [13].

Finance

Under its current plans, the government has reserved € 35 billion in a climate and transition fund and € 22 billion for three additional objectives: € 15 billion for technology, € 4 billion for sustainable energy infrastructure and at least € 3 billion for CO₂ reduction by large industry players.

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11 National Climate Agreement, p. 7, [see here](#).
12 National Climate Agreement, p. 6, [see here](#).
13 National Climate Agreement, p. 7, [see here](#).

German Climate Change Act

The German Climate Change Act of May 2021 establishes the framework for Germany's decarbonisation pathway, with the aim of reaching carbon neutrality by 2045 [14]. The Climate Change Act is a reaction to the ruling of the Federal Constitutional Court on 29 April 2021 as well as climate targets stipulated in the European Green Deal. The Federal Constitutional Court ruled that the state shall accelerate action to prevent any future disproportionate restrictions in the fundamental liberties of today's young generation [15].

Key features of the German Climate Change Act are as follows:

More ambitious 2030 climate targets

Germany is to reduce its GHG emissions by 65% in 2030 compared to 1990 levels. Sector targets shall reflect this. The Council of Experts for Climate Matters is going to monitor the implementation of the goals. If they are not met, the Federal Government will adjust its approach immediately.

Climate neutrality by 2045

By 2040, GHG emissions should be 88% lower compared to 1990 levels and Germany is to become greenhouse gas neutral by 2045. From 2050, Germany should be carbon negative, i.e., it will be removing more GHG emissions than it emits.

Strengthening natural sinks

Germany shall improve the impact of natural sinks in binding GHG emissions agreements.

Action plan and finance

In June 2021, the German Federal Government approved the Immediate Action Programme, which should intensify short-term support for decarbonisation of high-impact sectors and industries [16]. The programme is worth € 8 billion.

Coordinating climate action at European level

European and national instruments in support of the climate goals shall be well coordinated.

Spanish Climate Change Act

The Spanish Climate Change and Energy Transition Act [17] of May 2021 sets the targets for achieving full decarbonisation of the Spanish economy by 2050 and provides a first upward revision of its targets in 2023. It is based in the Integrated National Energy and Climate Plan (INECP) [18] which involves investments up to € 241 billion for 2020-2030.

14 Federal Climate Change Act, [see here](#).

15 Constitutional complaints against the Federal Climate Change Act partially successful, [see here](#).

16 The Federal Government, additional funds for climate protection, [see here](#).

17 Ley 7/21 de cambio climático y transición energética, [see here](#).

18 Integrated national energy and climate plan 2021- 2030, 20 January 2020, [see here](#).

It is also aligned with the Just Transition Strategy, that provides for support and a just transition to ensure that people and regions make the most of the opportunities presented by this transition and nobody is left behind [19]. Furthermore, Spain's government is working on Ant3nio Guterres which is expected to be published in 2022.

Key features:

Climate targets for 2030

Spain is to reduce GHG emissions by 23% by 2030 compared to 1990 levels. This is low compared to the EU's ambition of a 55% reduction. However, it should be recognised that this effort is equivalent to a 38% reduction compared to total gross emissions in 2010. This objective is fully consistent with a balanced path to climate neutrality in Spain in 2050.

Decarbonisation

Spain's commitment to decarbonisation is reflected in the emission reduction targets in non-ETS sectors (mobility, thermal uses in buildings, waste and agriculture) with a 39% reduction compared to 2005 levels, which is 13 percentage points above the 26% target set by the European Union. Sectors subject to the ETS will contribute with a reduction of 61% compared to 2005.

Renewable energy

Increased penetration of renewables to between 38% and 40% of final energy consumption by 2030 compared to the current 20%.

Energy efficiency

The EU considers an increase in energy efficiency of 36-37% is needed by 2030, while the Spanish target is 39.5%.

Net Zero Target for 2050 [20]

The long-term strategy for Spain is to achieve climate neutrality by 2050. The goal includes all the main greenhouses gasses, and it covers all sectors, excluding international aviation. The remaining emissions in 2050 will be compensated by natural sinks, whereas the use of international carbon credits is excluded.

Action plan and finance

The estimated investment needs for achieving the net-zero targets are up to € 300 billion (in addition to achieving carbon neutrality) and an additional € 200 billion of cumulative investment under the baseline scenario. Of the investments required, it is expected that 80% will be made by private sector and 20% by the public sector.

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19 Estrategia de transici3n de justa, [see here](#).

20 Assessment of the Long-Term Strategies of EU Member States, [see here](#).

4 Key factors for an effective climate commitment

● ● Preparatory work

When a banking association or a group of frontrunner banks wants to start a commitment, it can consider the following steps:

1 Start of the commitment

The preparatory work usually begins with a leadership initiative. This may be led by one or several leading entities with an advantage in terms of commitments, by the government or influenced by other countries. For example, the Dutch and Spanish banking associations started their respective commitments while a group of frontrunner banks initiated the German commitment.

2 Participants of the commitment

Every commitment has different formats. The Spanish Banking Commitment was started with a large group of banks whereas the Net Zero Banking Alliance Germany (NZBAG) started with a smaller group of leading banks. The Dutch commitment works with a broader group spanning the whole financial sector including insurance companies, pension funds and asset managers. Cross-sectoral approaches are key as the different financial sectors face similar challenges.

3 Pre-competitive space

The next step is to create a pre-competitive space where banks can find common objectives and exchange best practices within the remit of competition law.

4 Partnering with the government

It can be useful to engage with the government in an early phase of the process.

5 Developing the content of the commitment

In the development phase of the commitment, international commitments should be taken into account. Many banks have already joined the NZBA, hence alignment with this initiative is key to avoid different standards at national levels.

● ● Content of the commitments

Climate impact measurement

Most of the commitments have elements that focus on climate impact measurement of portfolios. Various climate impact measurement approaches can be used to support the transition of lending and investments portfolios. There are a few common methodologies that banks use to measure the climate impact of the companies and projects banks finance. Banks have different asset mixes and therefore a toolbox approach with various climate impact measurement and reporting methodologies could be useful [21]. The different methodologies focus on different elements of the portfolio and use different kind of metrics [22]. Most commitments include an objective to measure climate impact but leave the choice of methodology to the participating institutions to provide interoperability within their chosen frameworks. This means that the participating institutions can choose a suitable methodology that is scientific and credible, for instance PACTA (Paris Agreement Capital Transition Assessment) or PCAF (Partnership for Carbon Accounting Financials).

Action plans and sector-specific transition pathways

The second element focuses on developing action plans, including reduction targets, aligned with the Paris Agreement or national climate goals. Banks will need to steer their loan portfolios in line with climate transition pathways to fulfil their climate commitment. This requires banks measuring current alignment/misalignment and acting on the findings together with their clients. A harmonised approach between banks is desirable as it creates comparability and ensures a more comprehensive view of the portfolio transition. Defining transition pathways and key performance indicators (KPIs) is necessary to harmonise approaches. In Germany, two initiatives are worth mentioning since they aim to develop concrete transition pathways and define KPIs to support further implementation of the commitment/action plans.

The project Pathways to Paris [23] brings together financial and non-financial industry actors to define sector-specific transition pathways for the German economy and to agree on the most relevant sector-specific KPIs for ten high-impact sectors. The project outputs include dialogue protocols for financial institutions and a transformation tool that helps non-financial companies in developing cost-effective decarbonisation strategies. WWF Germany and PwC Germany are steering the project funded by the German Federal Ministry for the Environment, Nature Conservation and Nuclear Safety.

The NZBAG brings together eight banks to develop methods for Paris-aligned loan portfolio steering. NZBAG developed the Climate Action Portfolio Indicator (CAPI) as a measure for assessing portfolio alignment with the Paris climate goals [24].

21 Climate impact measurement, NVB, p. 6, [see here](#).

22 Climate Impact Measurement, NVB, p. 10, [see here](#).

23 Pathways to Paris, [see here](#).

24 Lending to a climate neutral Germany by 2045, [see here](#).

The approach aggregates sectoral alignment measures, such as the sectoral transition pathways and KPIs provided by Pathways to Paris, at the loan portfolio level in a single alignment KPI. CAPI is methodologically agnostic, allowing participating banks to continue working with their chosen Paris alignment tools and methodologies but still making results comparable beyond these tools.

In close cooperation, Pathways to Paris and NZBAG support the harmonised use of decarbonisation scenarios. Pathways to Paris has selected three decarbonisation scenarios for the German economy which incorporate country specificities and define sectoral decarbonisation pathways based on the structure of the German economy. NZBAG has suggested minimum requirements for international scenarios, largely in line with UNEP FI's suggestions. Based on the minimum requirements, NZBAG suggests three international decarbonisation scenarios in line with global warming targets of 1.5°C and well below 2°C each for the loan portfolio steering.

NZBAG welcomes the EU Taxonomy [25] and Green Asset Ratio [26] in the context of KPIs for loan portfolio steering. Those KPIs should not be used to measure Paris alignment of loan portfolios, but rather in the context of defining positive impacts on the climate transition through a loan portfolio. While CAPI helps answer the question in how far a loan portfolio is in alignment with the Paris climate goals, the EU Taxonomy and the Green Asset Ratio indicate in how far the lending activities of a bank contribute positively to the climate transformation of the economy.

Another relevant example to further support the action plans are the UNEP FI Guidelines for Climate Change Target Setting for Banks of the NZBA, which require banks, within 18 months of signing up to the NZBA, to set 2030 targets (or sooner) and a 2050 target, with intermediary targets to be set every 5 years from 2030 onwards [27].

● ● Knowledge Alignment

As stated before, the development of commitments creates the opportunity to exchange good practice in a pre-competitive space, especially if there is a large variety of banks participating in the commitment. Since the end of 2019, when the main Spanish banks, which represent more than 95% of the sector, presented a joint commitment to reduce the carbon footprint in their credit portfolios in line with the objectives set out in the Paris Agreement based on the UNEP FI Collective Commitment to Climate Action (CCCA), the sector has focused its efforts on advancing in the analysis of the different tools and methodologies available for the assessment and measurement of risks and the analysis of scenarios under a programme called 'Knowledge Alignment'.

25 EU Taxonomy, [see here](#).

26 EBA, Eba advises the Commission on KPIs on transparency on institutions' environmentally sustainable activities, including a green asset ratio, [see here](#).

27 UNEP-FI, Guidelines for Climate Change Target Setting, [see here](#).

The Spanish banks, with the assistance of Spanish Banking Association (AEB), the Spanish Association of Retail and Savings Banks (CECA) and the Instituto de Crédito Oficial (ICO), have worked together and supported each other with the aim of achieving a common language within the necessary methodologies to measure climate impact, in a way that can be compared with internationally approved standards in this field. Some of these methodologies, in addition to being complex to implement and difficult to interpret, are subject to a wide set of challenges.

There are a multitude of methodologies, and a financial institution must choose which one is most appropriate for its circumstances, depending on, among other factors, the objectives it pursues, the type of financial activity it carries out, the range of products it provides, its degree of maturity in sustainability, the data it has, and its resources.

During 2020, as part of the 'Knowledge Alignment' programme, bank signatories joined task forces in which a wide range of professionals from different areas (business, risks, public policy) participated and shared experiences with each other.

Through the organisation of a series of workshops and webinars, AEB and the Spanish Association of Retail and Savings Banks (CECA) presented various approaches to addressing the risk derived from climate change. Several methodologies were selected as examples to illustrate the analysis of climate risks in the market.

Specifically, the following methodologies have been discussed: Partnership for Carbon Accounting Financials (PCAF), Trucost (S&P), climate change stress tests of the Bank of Spain, Climate Credit Risk Tool of Alvarez & Marsall, Paris Agreement Capital Transition Assessment (PACTA) and Terra Approach, and Science Based Target Initiative (SBTi).

During 2021, the entities went deeper into this knowledge, with two key vectors. The first was supported by Finresp, the Center for Sustainable and Responsible Finance of Spain, in which the banking sector participates, as well as the insurance and investment sector. With the documents published in 2021, Finresp has supported and disseminated knowledge and the main best practices of the intersection between finance and sustainability. Of these, the following stand out: a catalogue of support service providers for the sustainable transformation of companies; a catalogue of tools and methodologies with which to incorporate sustainability factors in financial activity, both environmental and social and corporate governance; and an inventory of sustainability initiatives and commitments promoted by the different subsectors that make up the financial activity.

The second has been very relevant for the preparation of the climatic stress tests of the European Central Bank, and it should be also a key element for defining the climate objectives. In particular, the Spanish entities, represented by AEB and the Spanish Association of Retail and Savings Banks (CECA), have obtained energy performance certificates and an evaluation of the exposure to physical risks of the total housing stock in Spain. This is especially important given the weight of the real estate market on the balance sheet of the Spanish banking sector.

● ● Reporting

Transparent reporting on progress towards targets is essential for monitoring the commitments. The Dutch Commitment has set up a clear monitoring framework to measure the progress of the banks. A framework was developed to measure the progress of the sector. The report is based on the annual reports of the institutions [28]. As part of the commitment, the four financial umbrella organisations (the Dutch Banking Association, the Dutch Association of Insurers, the Federation of Dutch Pension Funds and DUFAS) have set up a commission to monitor the progress of the sector and discuss challenges. The commission comprises the directors of the financial umbrella organisations, the directors of the ministries of Economic Affairs and Climate and of Finance, sub-sector experts and an independent chair appointed by the Ministry of Finance.

The sector associations annually publish a progress report. The report, together with a letter of the commission, is sent to the Ministry of Finance and the Ministry of Economic Affairs and Climate. The Minister of Finance then sends the report to the Parliament to discuss the progress of the sector.

The NZBA also requires members to publish their progress against targets annually. The commitment is also designed for full transparency and accountability. Each time a target is set, the signatory must report against those targets within 12 months, covering both absolute emissions and emissions intensity in their publicly available reports. Within the same timeframe, members are to publish a high-level transition plan providing an overview of the actions expected to be undertaken to meet the targets and an approximate timeline [29]. Based on banks' reporting, the initiative will publish collective progress reports, monitor consistency with the UN Race to Zero criteria and evidence that action is being taken in line with the commitments made [30].

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28 Raamwerk Klimaatcommitment Financiële sector, [see here](#).

29 UNEP-FI, Net-Zero Banking Alliance reaches milestone with over 90 banks committed, [see here](#).

30 Net zero Banking Statement.

5 Challenges and obstacles

The commitments can be a good starting point to discuss challenges and obstacles banks face in the implementation to align with the Paris Agreement.

● ● Level playing field

The diverse market environment seems to reduce the effectiveness of climate action by banks. So far, banks do not have uniformly defined ambition levels and joint actions. Regulators leave a lot of room for manoeuvre in climate harmful activities and communication. The situation reduces the impact of single banks in driving the climate transformation. To overcome this challenge, banks will need to agree on a set of basic rules in supporting the climate transition such as minimum requirements for scenarios, minimum standards for client dialogue, standards in governance systems, etc. The regulator should reward those banks who support the climate transition while penalising overly risky lending to climate harmful activities.

● ● Transition with all clients

For the climate transition to be successful, all relevant actors need to develop ambitious long-term climate strategies. Large corporates increasingly present such strategies. Small and medium-sized enterprises (SMEs) face challenges in formulating such strategies due to resource constraints. Banks play a pivotal role in supporting SMEs on their journey towards developing Paris-aligned business models. This requires the introduction of standardised approaches for supporting clients by banks and support measures by policy makers.

● ● Methodological challenges

As described earlier, there are different methodologies for measuring GHG emissions for different portfolios. However, there are still challenges in the application of the methodologies. Banks are allocating their GHG emissions as these are not directly measured. As described in the Dutch Climate Commitment report: ‘The different attribution methods vary widely, and data providers sometimes have their own methods as well. Institutions call for standardisation in annual and sustainability reports to prevent different countries/regulations from setting different guidelines for attribution methods.’ However, some asset classes such as, for example, sovereign bonds, cannot yet be measured due to a lack of methodologies [31].

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31 Dutch Climate Commitment Progress Report, 2021, p. 13, [see here](#).

● ● Data

To measure the GHG emissions, banks need reliable data from clients. The first progress report of the Dutch Climate Commitment states that there are still a few challenges: *“The availability of reliable asset-specific data at scope 3 level is still very limited, as many companies do not yet have this data available. In addition, double-counting occurs in the CO₂-impact when reporting scope 2 and scope 3 emissions and, as a result, institutions sometimes choose to measure only scope 1 emissions [32].”*

● ● Technology

The environmental problems require joint action of society to find effective solutions and technological innovations, which can be some of the main tools to stabilise greenhouse gas levels. However, unlike innovations in other industries, there is no natural market for most environmental technologies whose function is to reduce a pollutant discharge into the environment [33]. In this case, the role of government policies becomes decisive for ensuring the appropriate conditions for meeting the requirements for financial resources in technological innovation. Specifically, the regulations must help the banking sector to provide such financial resources for early technologies.

● ● Reputational effects

We must take into consideration that banks, for reasons beyond their control, may find themselves in a position where it is not possible to meet their own commitments or those required by current regulations, thus creating a worrying reputational effect. Accordingly, stakeholders could focus on a couple of metrics (for example, the EU Green Asset Ratio), leaving aside the effort that banks are making to adequately manage the transition. The EU must avoid developing poorly defined and confusing metrics which could distort markets instead of creating a level playing field for entities.

● ● Training

Most of the training since 2008/2009 has been reactively devoted to ensuring compliance with new regulation. Banks need to extend and build up their sectoral understanding on sustainability to help their clients. They may require a large amount of training hours, covering climate alignment basics and enhancing sectoral understanding to enable client advisors to facilitate their clients on a decarbonisation trajectory. For example, bank mortgage consultants need to develop a sound understanding of building energy performance to appropriately advise their clients.

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32 Dutch Climate Commitment Progress Report, 2021, KPMG, p. 13, [see here](#).

33 Innovation and climate change, [see here](#).

● ● Client dialogue

For banks it is important to understand whether their clients are on the way to becoming Paris aligned or not. Especially for smaller clients, this means banks need to gather data through their interactions. And even blue-chip clients may not have sufficient plans; just one in ten (9%) companies are on track, having cut their emissions in half over the past ten years [34].

34 Reaching net zero by 2050, [see here](#).

6 Recommendations for banking associations

Before embarking on developing a national climate commitment, there are some practical recommendations to consider.

● ● Data

Banks need data to assess the GHG emissions of their clients. You can engage with governmental and EU regulators (European Commission, EBA, ECB) to advocate for regulatory measures that introduce mandatory disclosure of all relevant data on GHG emissions by non-financial corporations. Additionally, governments sometimes have data that they can disclose. For example, in the Netherlands, Statistics Netherlands (CBS) has linked data of real estate owners to mortgages portfolios, while at the same time protecting the privacy of the owners. This is a good practice example of how the government can help to facilitate better access to data.

● ● Engagement

The following steps can be undertaken:

- Collaborate with frontrunner banks to develop a framework for a commitment to align with the Paris Agreement.
- Seek collaboration with the government where possible and examine challenges the banking sector faces and where more collaboration with the government is needed.
- Engage with the other financial sector associations to examine whether you can expand the commitment.
- Find a sector that is material for the participating banks, for instance the mortgage sector, to seek further collaboration.

● ● Objectives & transition paths

Banks are a necessary tool for the transition to a sustainable economy, but the responsibility is not ours. Only authorities with legal measures at their disposal can compel the elements of the economy to make the necessary transition, together with the other sectors of the economy. Governments can develop mandatory decarbonisation pathways and portfolio alignment approaches to reduce the room for manoeuvre regulators currently allow to climate harmful activities. Other minimum requirements are also helpful. For instance, in the Netherlands an act has been adopted whereby all commercial real estate is to have at a minimum an Energy Efficiency label C in 2023.

● ● Fragmentation and consolidation

The sustainable finance field comprises many initiatives and endeavours, which can make navigation of the landscape challenging for practitioners. Therefore, to as great an extent as possible, it is advisable for new initiatives to drive alignment with the greatest possible ambition and to work towards consolidation of efforts, rather than generating further fragmentation of standards, approaches, and interpretations of alignment to net zero.

Annex I

Best practices: some banking initiatives

● ● Santander Net Zero 2050 commitment and milestones

Commitments

- In February 2021, Santander announced, after Group Board approval, its ambition to have net-zero carbon emissions across the Group by 2050.
Santander is committed to:
 - Ending financial services to power generation customers by 2030 if over 10% of their revenues depend on coal.
 - Cutting our exposure to thermal coal mining to zero by 2030.
 - Reducing the emissions intensity of our power generation portfolio from 0.23tCO₂e/MWh in 2019 to 0.18tCO₂e/MWh by 2025 and to 0.11tCO₂e/MWh by 2030.
- In April 2021, Santander became a founding member of the Net Zero Banking Alliance (under the United Nations Environment Programme Finance Initiative, NZBA), committing to:
 - transition operational and attributable greenhouse gas (GHG) emissions from lending and investment portfolios towards pathways to net-zero by mid-century;
 - setting intermediate targets for priority GHG-emitting sectors for 2030 (or sooner); and
 - prioritising client engagement with products and services that facilitate the necessary transition in the real economy.
- In March 2021, Santander Asset Management (SAM) became the Spain's first asset manager to join the Net Zero Asset Managers initiative (NZAMi).
- In July 2021, Santander published a GHG decarbonisation target for the Power Generation sector for 2025 and 2030, using a methodology based on PCAF and SBTi-SDA and in line with the 'International Energy Agency (IEA) – Net-zero emissions' scenario.

Santander climate strategy and lines of action

- Aligning the portfolio to Paris:
 - Assessing the rest of the most concerning sectors to set NZBA decarbonisation targets by September 2022 (oil & gas, steel and iron, aviation).
 - Will set decarbonisation targets for the rest of the NZBA sectors by March 2024, or earlier subject to data and methodology available.
- Supporting the customers in the green transition:
 - Commitment to raise or mobilise € 120 billion in Green Finance between 2019 and 2025 and € 220 billion by 2030 to support customers in the green transition. Already raised € 65.7 billion between 2019 and 2021 (€ 32.3 billion in 2021).

- Leader position in renewables projects financing: Santander renewable energy Greenfield and Brownfield portfolio totalled more than € 12.9 billion by the end of 2021. Spread over 326 transactions, it accounts for approximately half of our project finance portfolio.
- In 2021, Santander launched its third green bond and raised € 1 billion in an eight-year non-preferred senior debt issue that will finance wind and solar power projects.
- In relation to WMI, as of December 2021, Santander had over € 27 billion AuM, € 11 billion in Santander Asset Management and € 16 billion from third party funds in Private Banking.
- Reducing the direct environmental impact:
 - Have become carbon neutral in their own operations since 2020.
 - Increasing the use of electricity coming from renewable energy sources (74%). With a target of 100% in 2025.
- Embedding climate in risk management:
 - Further integration of climate in risk appetite and policies across the group, including the updating of the Environmental, Social & Climate Change Risk Management policy, to ensure the transition to a green economy and the fulfilment of their climate ambition.
 - Expanded risk materiality assessment for a broader coverage, covering >80% of the loan book.

● ● BBVA commitment and decarbonisation target

Commitments

BBVA lines of action to reach the climate commitments:

- BBVA is a founding member of the Net Zero Banking Alliance (NZBA) representing a higher ambition with respect to the United Nations Collective Commitment to Climate Action, signed by the Company in September 2019.
- BBVA became carbon neutral in direct CO₂ emissions in 2020. The BBVA Group managed to meet this goal by offsetting its entire carbon footprint through carbon mitigation projects, which also benefited the local communities where they are developed.
- In 2021, BBVA announced targets for the decarbonisation of its loan portfolio in 2030 for four CO₂-intensive industries. These are intermediate targets with a view to becoming carbon neutral by 2050.
- In March 2021, a commitment was published to reduce exposure to coal-related activities to zero by 2030 in developed countries, and by 2040 in the rest of the countries in which it is present, by ceasing to finance companies in these activities. This decision is in line with the proposal of the Intergovernmental Panel on Climate Change (IPCC) to limit the rise in temperatures to a maximum of 1.5°C and with the aim of achieving a carbon-neutral economy by 2050.
- In April 2021 BBVA announced the Net Zero 2050 commitment (zero net emissions in 2050), which considers both direct and indirect emissions, including among the latter those of customers who receive financing from the bank. BBVA wants to accompany its customers in their transition to a more sustainable future, with specific plans and objectives.

- In July 2021, BBVA Asset Management committed to supporting reducing net greenhouse gas emissions to zero by the year 2050, in line with global efforts to limit global warming to 1.5°C. To this end, the asset manager is committed to including investments that are in line with this goal in its portfolios.
- In November 2021 BBVA Asset Management joined the Net Zero Asset Managers initiative.
- In November 2021, BBVA published intermediate decarbonisation targets for 2030 for the power, automobile, steel and cement sectors. These sectors, together with coal, account for 60 percent of global CO₂ emissions [35].
- BBVA is working towards publishing the remaining alignment targets for the sectors defined in the Guidelines for Climate Target Setting for Banks: oil and gas, real estate and transportation.
- BBVA published a first exercise to align its loan book with the Paris Agreement. The document provides a breakdown of the commitment on this topic, with implementation deadlines and a detail of the metrics used to give shape to this commitment.
- BBVA, in a joint effort with the Katowice banks and the 2dii think tank, has implemented the PACTA (Paris Agreement Capital Transition Assessment) methodology to measure the alignment of its loan book with the Paris objectives, covering the coal, power generation, automotive, steel and cement industries. In addition, it will continue working to expand the methodology to cover other industrial sectors and transportation.
- BBVA wants to expand its commitment to other sectors with a significant impact on greenhouse gas emissions - such as oil and gas, real estate and transportation- and is therefore cooperating in the development of the PCAF (Partnership for Carbon Accounting Financials) methodology, that will allow it to measure its emissions and set alignment objectives in compliance with the aforementioned principles.
- BBVA has decided to adopt the 1.5°C scenario by way of reference, and specifically the Net Zero by 2050 scenario defined by the International Energy Agency (IEA). The IEA's new Net Zero scenario brings the net zero deadline forward to 2040 for the power generation sector and proposes a car fleet with 86% electric cars by 2050.

● ● CaixaBank's stance in the face of climate change

CaixaBank is a founding member of the Net Zero Banking Alliance (NZBA), which represents the bank's higher ambition with respect to the United Nations Collective Commitment to Climate Action, signed by the Company in December 2019.

The bank is currently working to set and publish by October 2022 the decarbonisation targets for 2030. In addition, VidaCaixa is the first Spanish insurer to join the Net Zero Asset Owner Alliance, which shares the objective of net zero CO₂ emissions by 2050.

CaixaBank has been adhered to the Partnership for Carbon Accounting Financials (PCAF) since July 2021. Progress has been made in estimating the financed emissions for mortgage portfolio assets, debt securities, equity instruments and corporate loans and advances.

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35 International Energy Agency and UNEP.

Climate management and progress

- The Environmental Risk Management Policy establishes the requirements for general and sectorial exclusions relating to activities that have a significant environmental impact: energy, oil and gas, infrastructures, mining and agriculture, fishing, stockbreeding, and forestry.
- CaixaBank has measured its lending exposure to CO₂-intensive economic activities since 2018. In 2021, it represented 2% of the total portfolio (the main metric is 'carbon-related assets', as defined in 'Implementing the Recommendations of the TCFD').
- During 2021, CaixaBank analysed in depth the scenarios of transition climate risk:
 - Qualitative analysis: to identify the portfolio segments most affected by material risks (oil & gas, electricity, transport, and construction) and to highlight the highest impact of the main risk variables and establish heat maps for different time horizons (2025, 2030, 2040 and 2050), geographies and climate scenarios. During 2021, heat maps were further elaborated to incorporate an analysis by activity at a CNAE level. This analysis was conducted for transition scenarios that are compatible with the bank's decarbonisation commitments (1.5°C scenarios in territories committed to net zero emissions by 2050).
 - Quantitative analysis: based on the methodology developed in the UNEP FI (TCFD Banking Pilot) working group to assess how this risk can be translated into key financial metrics for companies in the short, medium and long term (2025, 2030, 2040 and 2050), under the most stringent transition scenario (1.5°C, assuming a limited use of carbon capture technology). To this end, the predictions of the REMIND model of the Potsdam Institute for Climate Impact Research (PIK) are used as a basis. This is an IAM (Integrated Assessment Models) model.

Business milestones to advance in the economic and climate transition

- Develop a methodology based on the guidelines of the Cambridge Institute for Sustainability Leadership and UNEP FI, with the aim of providing an ESG advisory service for corporate and institutional clients (launched in January 2022).
- Adherence to the European Clean Hydrogen Alliance and fostering the financing of green hydrogen initiatives that will advance the transition towards global decarbonisation.

● ● Examples of Dutch Banks

ING commitment and integrated climate approach

Steer ING's portfolio to achieve net zero by 2050 or sooner

- ING has been steering its loan book towards global climate goals and reporting on progress since 2018, focusing on the sectors in the loan book that are responsible for most greenhouse gas emissions, and measuring whether the lending in each sector aligns with ING's climate ambitions.

- In August 2021, ING committed to steer its loan book towards limiting the rise in global temperatures to a maximum of 1.5°C, rather than well below 2°C, committing to achieve net zero emissions ultimately by 2050.
- In the 2021 Climate Report, the target for upstream oil & gas has already been updated in line with the International Energy Agency's scenario to achieve net zero by 2050 (IEA NZE2050). The aim is to reduce funding to upstream oil & gas by 12% by 2025 (from 2019).
- The aim is to have the steps and intermediate targets in place that are needed for the more ambitious net-zero commitment for all sectors in scope by the end of 2022.
- ING also recognises that other areas benefit from and contribute to tackling climate change, such as human rights, biodiversity and the circular economy. There is an approach for each of these areas and they're connected with the climate action agenda wherever possible.

Finance and advise clients in line with a net-zero economy

- To support clients in their climate transition and help protect their business from climate risks, ING focuses on accelerating the green economy by advising clients, financing their transitions, and pioneering financing for new technologies and business models.

Manage climate and environmental risks

- ING manages the risks associated with climate change as an integral part of its risk management framework, including credit, market, liquidity and operational risks. This approach continues to develop as methodologies advance and regulatory guidance and requirements evolve.

Reach net zero in our own operations

- ING monitors and manages its environmental impact closely, investing in operational efficiency solutions and sourcing 100% renewable energy for the buildings the company has management control over. ING continues to implement new measures to reduce its carbon footprint, improve energy efficiency, and reduce waste and water consumption.

Triodos bank

- In 2021 Triodos Bank announced its net-zero target. It wants to be net-zero as early as possible, at the latest in 2035. Its ambition is that the greenhouse gas emissions of all Triodos Bank's loans and funds' investments will be greatly reduced, using a science-based targets approach. The remaining emissions will be balanced or 'inset' by investing considerably in nature projects that remove greenhouse gases from the air. With this target, Triodos Bank's portfolio of loans and funds' investments will be aligned with a maximum global temperature rise of 1.5°C.
- In 2021 Triodos Bank was lead arranger of the cleanest energy deals worldwide for the sixth year in a row.
- In 2021, Triodos Bank's mortgages, offered in the Netherlands, Belgium and Spain, received the Energy Efficient Mortgage Label (EEML) from 1 July. This is a clear and transparent label that enables consumers, lenders and investors to identify mortgages that help make the built environment more sustainable. As of 1 August 2020, Triodos

Bank has lowered the maximum loan amount for a non-energy-efficient home. By lowering maximum loan amounts for non-energy efficient dwellings and offering a favourable interest rate for customers taking out additional loans to make their homes more sustainable, Triodos Bank seeks to encourage homeowners to save energy.

- The Energy Saving Tool is suitable for first-time buyers, homeowners and switchers and can be used for all types of mortgages offered by Triodos Bank. The calculation tool calculates, among other things, the effect of (additional) interest charges that arise from financing, write-downs on solar panels or heat pumps, for example, and the expected savings caused by lower energy consumption. In this way, Triodos Bank hopes to stimulate even more people to make their homes more energy efficient.
- In 2018, Triodos Bank reported for the first time on the climate impact of a major share of its loans and investments. Since 2019, Triodos reports its climate impact of 100% of its loans and investments.

Rabobank

- Rabobank disclosed its financed emissions in a Impact Report (Feb 2022) and will publish a Paris Alignment report in the second half of 2022. At the moment, Rabobank considers 70% of its assets to be climate-material, covering both the loan portfolio as well as a set of other assets. A best estimate of the financed emissions has been made for 85% of the loan portfolio. Meanwhile progress has been made with provision of financial services and financial solutions to reduce carbon and to increase sustainability.
- Rabobank's sustainable mortgages increased to € 44bn in 2021 and 25% of its customers took measures to reduce their energy consumption when taking out a new mortgage.
- Rabobank's sustainable AuM increased substantially to € 33bn (103 %) and is now the new standard in its product offering. Of this sustainable AUM Rabobank has € 31bn invested in funds which target a 30% lower CO₂ intensity compared to the benchmark.
- A new initiative of Rabobank, the Rabobank Carbon bank, aims to reduce CO₂ emissions and remove CO₂ from the atmosphere, totalling up to 1 Gt CO₂ eq 2030.

Annex II Commitments

● ● Net Zero Banking Alliance, UNEP FI

At the international level, a strong movement has been created by UNEP FI and banks to commit to the Paris Agreement. The latest development following the Collective Commitment for Climate Action, the Net Zero Banking Alliance, was launched in April 2021. Currently over 100 banks have signed the Net Zero Banking Alliance, managing 68 trillion US dollars covering 38% of global banking assets, committing to:

- Transition the operational and attributable GHG emissions from their lending and investment portfolios to align with pathways to net zero by 2050 or sooner.
- Within 18 months of joining, set 2030 targets (or sooner) and a 2050 target, with intermediary targets to be set every 5 years from 2030 onwards.
- Annually publish absolute emissions and emissions intensity in line with best practice and within a year of setting targets, disclose progress against a board-level reviewed transition strategy setting out proposed actions and climate-related sectoral policies.
- Banks' first 2030 targets will focus on priority sectors where the bank can have the most significant impact, i.e., the most GHG-intensive or emitting sectors within their portfolios, with further sector targets to be set within 36 months.
- Take a robust approach to the role of offsets in transition plans [36].

The Net Zero Banking Alliance requires the implementation of the following four guidelines for climate target setting:

- 1 Banks shall set and publicly disclose long-term and intermediate targets to support meeting the temperature goals of the Paris Agreement.
- 2 Banks shall establish an emissions baseline and annually measure and report the emissions profile of their lending portfolios and investment activities.
- 3 Banks shall use widely accepted science-based decarbonisation scenarios to set both long-term and intermediate targets that are aligned with the temperature goals of the Paris Agreement.
- 4 Banks shall regularly review targets to ensure consistency with current climate science [37].

Methodologies and scope

The Net Zero Banking Alliance provides guidance that: 'the scope and boundary of the targets should account for a significant majority of the bank's portfolio emissions where data and methodologies allow. Banks should explain significant exclusions.' It indicates that sector-level targets will be set for all or a substantial majority of the carbon-intensive sectors, including agriculture, cement, coals, commercial and residential real estate, iron and steel, oil and gas, power generation and transport.

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36 The Commitment – United Nations Environment – Finance Initiative (unepfi.org), [see here](#).

37 UNEP-FI, Guidelines for Climate Change Target Setting, [see here](#).

Banks will prioritise these sectors based on GHG emissions, GHG intensities and and/or financial exposure in their portfolio in their first round of target setting (within 18 months of signing) [38]. It further indicate *‘a client with more than 5% of their revenues coming directly from thermal coal mining, and electricity generation activities shall be included in the scope of targets [39].’*

- ● Commitment to Climate Action, Spanish Banking Association and CECA

95% of the Spanish banking industry have signed the commitment to climate action

ICO, Banco Santander, BBVA, Caixabank-Bankia, Banco Sabadell, Bankinter, Abanca, Kutxabank, Unicaja Banco, Ibercaja Banco, Liberbank, ING Bank, BNP Paribas, Banca March,, BCC-Grupo Cajamar, Cecabank, Société Générale, Bankoa – Grupo Credit Agricole, Banco Mediolanum, Triodos Bank, Caja de Ahorros y Monte de Piedad de Ontinyent and Colonya-Caixa D’Estalvis de Pollença.

To coincide with the United Nations Conference on Climate Change (COP25), held in Madrid, the main Spanish banks, which represent more than 95% of the sector, presented at the end of 2019 a joint commitment to proceed within a certain period of time to reduce the carbon footprint in their credit portfolios, in a way that can be measured with internationally approved criteria and in line with the objectives set out in the Paris Agreement. Thus, these financial entities are aligned with the Collective Commitment to Climate Action promoted by UNEP FI under the rationale that the decarbonisation of the economy is uncharted territory. The only way to find the right path is through consensus building. Under this agreement, the signatory banks undertake to develop the necessary methodologies to assess the impact that the activity carried out by their clients can have on their balance sheets, considering an environmental preservation point of view to ensure that their balances are aligned with both the Paris Agreement and the Spanish climate agreement. The main objective of both agreements is to reinforce climate action pledges by keeping a global temperature rise well below 2°C above pre-industrial levels, and to pursue efforts to limit the temperature increase to 1.5°C.

Financial entities also commit to work together and support each other to develop the necessary methodologies to measure climate impact. The agreement’s signatories are free to choose their own methodologies, although they are willing to share experiences with each other to make it possible to compare results and improve measurements. In addition, they will do everything possible to adapt to international best practices and standards.

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38 Q&A Net Zero Banking Alliance, [see here](#).

39 Q&A Net Zero Banking Alliance, [see here](#).

The agreement includes that, within a maximum period of three years, financial entities will have established and published the specific objectives of the sector, based on scenarios for the portfolios' alignment with the objectives of the Paris Agreement. Commencing within the first year of signing the Agreement, the first results of this commitment could begin to show, as banks intend to publish and implement in that period a set of measures, which they will take in permanent dialogue with their clients, to encourage the shift towards low-carbon, climate-resilient technologies, business models and societies. Each financial entity will also report annually on its individual progress and every two years on the collective progress achieved in the development of this commitment.

Initially, the signatory banks will focus their efforts on the most carbon-intensive and climate-vulnerable sectors within their portfolios, which are key to the transition to a low-carbon economy and to build resilience in those communities most exposed to climate change effects.

Even though this voluntary commitment of the Spanish banking sector was signed independently of the Spanish government, we have always received its support. Similarly, Bank of Spain monitors every year our progress in this sectoral commitment.

During the first year of the commitment to climate action of Spanish banks, the sector, with the support of the AEB, the Spanish Association of Retail and Savings Banks (CECA) and the ICO, has focused its efforts on advancing in the analysis of the different tools and methodologies available for the assessment and measurement of risks and the analysis of scenarios under a programme called 'Knowledge Alignment'. As a result of this effort, we have published a first qualitative progress report on the climate commitment.

We have noticed during this time that there has been a significant widespread progress in the launch of new green products and services. In the last year, most of the Spanish banks' signatories have launched products for the financing of renewable energy, green loans, green bonds, green mortgages, sustainability-linked bonds, and green car loans, among others. The signatory banks have also been very active in terms of commitment to customers and collaboration with them to facilitate the transition process, although the ability to engage with customers has differed depending on the degree of maturity of the banks, their size and local conditions. Consequently, we have started to work on the creation of a repository of products and good practices aligned with the commitment.

Looking ahead to 2022, the sector should be attending to the UNEP FI guidelines to facilitate the definition of objectives that entities must publish by the end of 2022 in accordance with the commitments acquired when adhering to the Climate Action Agreement. The adaptation of these guidelines to the Spanish banking sector will be a central axis during next months. Similarly, the next stage on the road to sustainability seems to be marked by achieving climate neutrality ('Net Zero') by 2050 as many of our larger entities have already signed under the Net Zero Banking Alliance.

● ● Dutch Climate Commitment

±50 signatories to the voluntary climate commitment, for example the following banks

ING, ABN AMRO, Rabobank, Volksbank, NIBC, Triodos Bank, NWB Bank, BNG Bank and Insinger Gillissen.

In 2019, the Financial Sector committed voluntarily to the climate objectives of the Netherlands, as part of the Dutch Climate Agreement. The ambition of the Dutch Government is to cost-effectively reduce greenhouse gas emissions by 2030 to 49% of the level recorded in 1990. The Dutch Climate agreement covers the highest emission sectors such as the energy and the building sector. The financial institutions can play an important role in contributing to the Dutch Climate Agreement through loans and investments. All signatories are expected to follow-up on the four objectives as described below.

- a The parties concerned will participate in financing the energy transition and, to this end, accept a best-effort obligation within the compass of statutory and regulatory frameworks and risk-return objectives. Where necessary and useful, financing options for sustainable economic activities will be optimised in collaboration with Invest-NL and other relevant parties.
- b The parties will take action to measure the carbon footprint of their relevant financing and investment activities. From 2020 onwards, they will issue public reports on these activities in whatever format is most appropriate. The parties are free to choose their own methodologies but are committed to a process geared towards sharing experiences with one another, making it possible to compare results, and taking steps to improve and deepen the measurements. Furthermore, efforts will be made to dovetail with international developments and standards in this regard.
- c The parties will announce their action plans, including reduction targets for 2030, for all their relevant financing and investment activities by no later than 2022. The parties will clarify what actions they will be taking to contribute to the Paris Agreement. This could comprise a combination of approaches, including CO₂ reduction targets for their portfolio where possible, engagement, and financing CO₂-reducing projects.
- d This commitment forms an integral part of the Dutch climate agreement. Parties will organise an annual meeting on progress vis-à-vis fulfilment of the agreements with all those involved. The progress will be reported in the Climate Committee to be set up.

Fifty financial institutions, including pension funds, asset managers, insurance companies, and banks, signed the commitment. The financial sector is willing and able to play an encouraging and supporting role in combating climate change, partly through the approximately € 3,000 billion in loans and investments that it manages.

Scope

The commitment covers lending and investments. For reporting, see section 4.

Current implementation

Last October the sector published its first progress report. Eighty-nine percent of the financial institutions participating in the Dutch Financial Sector Climate Commitment have measuring the CO₂ impact of their financing and investment activities. Most of the sector is using PCAF as a methodology to measure climate impact. PACTA is also considered a relevant method to measure climate impact based on scenarios. In addition, 51% of the signatories have drawn up action plans to contribute to the Paris Agreement. Just over half, therefore, are ahead of schedule and are implementing the agreements in the Climate Commitment sooner than planned [40].

● ● The Net Zero Banking Alliance Germany

19 signatories to the voluntary climate commitment

BNP Paribas, Commerzbank, Deutsche Bank, DZ Bank, EdekaBank, Evangelische Bank, GLS Bank, HypoVereinsbank, ING, Hannoversche Kassen, KD-Bank, LBBW, Münchener Verein, National Bank, Standard Chartered, Steyler Ethik Bank, Triodos Bank, Umweltbank and Verka.

In June 2020, 16 banks operating in Germany signed the voluntary climate commitment by the German financial industry (*Klimaschutz-Selbstverpflichtung des deutschen Finanzsektors*) [41] in support of the Paris climate goals. The signatories aim to align their loan and investment portfolios with the goals of the Paris Agreement and achieve net zero emissions at the latest by 2050. This means limiting global warming to well below 2°C and aiming for a target of 1.5°C. In line with the amendment to the Climate Change Act [42], German loan portfolios should already reach climate neutrality by 2045. Interim targets of the government apply, that is, emissions reduction of 65% by 2030 and 88% by 2040 compared to 1990 levels. Signatories will communicate sector-specific climate targets by the end of 2022. Since June 2020, the number of signatories has grown to 19 (see box).

40 Progress report Dutch Climate Commitment, KPMG, [see here](#).

41 Gemeinsame Maßnahmen und Ziele zur Erreichung der Klimaziele vereinbart, June 2020, [see here](#).

42 Federal Climate Change Act, [see here](#).

The voluntary climate commitment was developed by the financial industry and independently of the German government. However, it should support the governmental aim to make Germany a 'leading sustainable finance centre' [43]. As such, it is a supporting measure by the financial industry for the German Sustainable Finance Strategy [44].

The Net Zero Banking Alliance Germany (NZBAG) supports the German banking sector in the implementation of the voluntary climate commitment [45]. Eight banks are collaborating in the NZBAG to harmonise methodologies, approaches, and ambition of action. The secretariat of the NZBAG is hosted by the Green and Sustainable Finance Cluster Germany e.V [46]. The NZBAG will cover at least the following areas of work until the end of 2022 [47]:

- Paris-aligned portfolio steering: develop a set of indicators to measure Paris alignment, agree on a set of scenarios (national and international) to measure progress and ambition.
- Skills: harmonisation of training contents, development of pre-competitive training elements for bank-wide basic training on climate change and banking.
- Client dialogue: agree on a set of sector-specific indicators for the client dialogue with the German Mittelstand, develop a client dialogue tool and communication toolkit.
- Governance: define minimum requirements for Paris-aligned governance structures.
- Reporting: develop the reporting framework for voluntary climate commitment.

The NZBAG is collaborating with the project Pathways to Paris by the World Wide Fund for Nature (WWF) Germany and PricewaterhouseCoopers Germany (PwC) [48]. In this project, participants develop decarbonisation pathways for ten high-impact sectors in the German economy. This collaboration will enable NZBAG participants to gain a deep understanding of needed actions in those sectors.

In its first publication 'Lending to a climate-neutral Germany by 2045' [49], the NZBAG presents the Climate Action Portfolio Indicator (CAPI) as a single portfolio indicator that enables the methodological agnostic measurement of compliance with (or deviation from) the Paris-aligned decarbonisation pathway of loan portfolios. In addition, the NZBAG suggests minimum requirements for choosing climate scenarios under CAPI and it makes a first attempt at narrowing the possible range of scenarios.

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43 Sustainable finance, State Secretaries' Committee for Sustainable Development Resolution adopted on 25 February 2019, [see here](#).

44 German Sustainable Finance Strategy, [see here](#).

45 International cooperation with UNEP-FI, [see here](#).

46 Green and Sustainable Finance Cluster Germany, [see here](#).

47 Project Charta, Net Zero Banking Alliance Germany, June 2021 [see here](#).

48 Pathways to Paris, [see here](#).

49 Lending to a climate neutral Germany by 2045, [see here](#).

