From laggards to leaders: An assessment of Australian banks' climate commitments

AUSTRALIAN CONSERVATION FOUNDATION

Nature needs us, now

We acknowledge the Traditional Owners of Country and their continuing connection to land, waters and community. **We pay respect to their Elders past and present** and to the pivotal role that First Nations Peoples continue to play in **caring for Country across Australia.**

Acknowledgements

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The Australian Conservation Foundation, as authors of the study, take full responsibility for all conclusions and recommendations drawn and the study method used.

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Cover. Solar panels with sheep *Photo. zsolt_uveges / Shutterstock*
Right. Tallebudgera Creek QLD Australia *Photo.Kai Craig/ Pexels*

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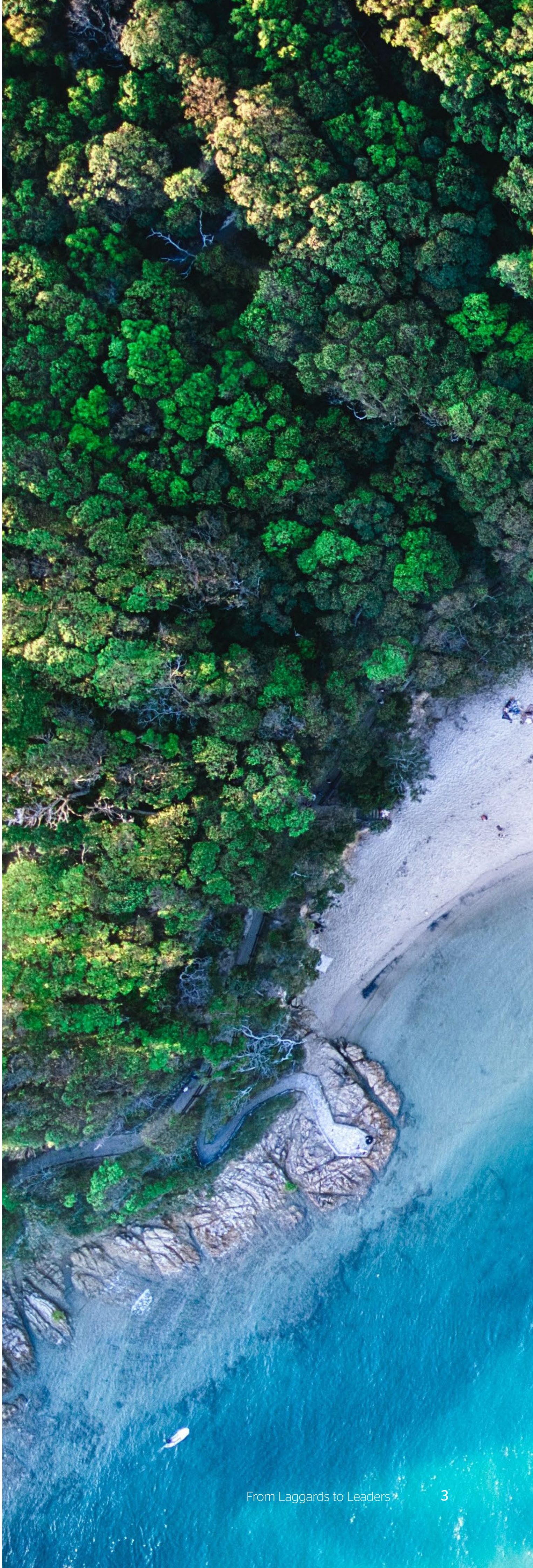

Foreword

We have been talking about climate change for decades.

For business, climate change poses a set of risks and opportunities.

It would be fair to say that, to date, Australian businesses generally have underinvested in the management of those risks and failed to make the most of the opportunities. This matters to shareholders, creditors, and insurers with financial exposures to those businesses.

But it matters far more than that. The climate-related decisions being taken by Australian businesses affect the lives of all Australians and, especially because Australia is a global leader in the extraction and commercialisation of fossil fuels, those decisions will affect the lives of every one of the Earth's inhabitants, both human and non-human, for centuries to come.

In developing the 2021 Glasgow Climate Pact, world leaders affirmed the need to limit global warming to an increase in average temperatures of no more than 1.5°C by the end of the century. They understood that a failure to secure a trajectory to that goal would expose lives and livelihoods to increasingly severe and frequent droughts, heatwaves, fires, storms, and rising sea levels. In recent years, people all over the world, including in Australia, have had merely a glimpse of what a future beyond 1.5°C warming would look like.

To limit global warming to no more than 1.5°C, greenhouse gas emissions must peak by 2025, and then fall sharply. Signatories to the Glasgow Climate Pact, including Australia's political leaders, understand that achieving that goal implies considerable economic and social transformation. The Australian economy must change shape, and on a scale considerably larger than for most other economies.

In this transformation, there are also risks and opportunities, especially for Australia's banks. Banks intermediate the flow of funds from savers to borrowers. In Australia, much of bank lending is to households in the form of residential mortgages. But business banking, including energy, resources and agricultural lending, also occupies a substantial space on bank balance sheets.

The pattern of credit risk exposures sitting on the business banking balance sheets of Australian banks reflects the structure of the Australian economy. Both climate change and the economic transformation catalysed by action to mitigate it, will reshape the balance sheets of Australian banks. Some will fare better than others.

Importantly, Australian banks don't have to be mere passive actors in this transformation. They are, themselves, major players in the Australian economy, and they know it. Most business bankers with whom I engaged, when working in the Treasury and subsequently on the NAB Board, were justifiably proud of the contribution they were making, through their lending decisions, to Australia's economic development.

Many treasured rich histories of judgement calls that anticipated and accelerated important social and economic turning points in Australia's economic development; judgement calls based on clear-sighted assessments of risks and opportunities. These are narratives of leadership.

Responding to the threats posed by climate change demands the writing of new leadership narratives. Of course, government action is essential. But Australia's political leadership does not have a respectable legacy in dealing with climate change. Leadership has had to come from other quarters; notably many Australian businesses and industry associations have set higher ambitions than government in recent years.

Consumers, investors, insurers, and workers are wanting to know how these commitments are being converted into action. Whilst businesses in all industry sectors are of interest, the transformation of bank balance sheets warrants especially close monitoring.

There's a lot riding on it.

Dr. Ken Henry AC

Dr. Ken Henry AC is the Chair of the Australian Climate and Biodiversity Foundation and a director of Accounting For Nature. He previously served as the Secretary of the Department of the Treasury and the Chair of NAB.

Executive summary

This report is the first of its kind – a benchmark of the performance of Australia's biggest banks in achieving their commitments to reach net zero emissions.

Its insights are timely: we are now three years into the critical decade for climate action – the decade in which greenhouse gas emissions must be cut by half to limit global warming to 1.5°C.[1]

Australia is already experiencing the impacts of a heating climate. Extreme weather events such as floods and bushfires are too often devastating ecosystems, communities and local economies. The 2019-20 bushfires alone killed more than 30 people and an estimated three billion animals, while costing our economy around $80 billion.

We know the catastrophic effects of climate change can still be limited through immediate, concerted action by businesses, governments and communities.

This is the decade we choose how we respond to the climate crisis. Every action we take will make a difference, and every fraction of a degree matters.

Slashing climate pollution is critical. It also brings enormous opportunities as the energy transition accelerates worldwide. To seize these, Australia must urgently shift from being one of the world's worst emitters and exporters of climate-wrecking fossil fuels to being instead a global leader in climate solutions and clean exports.

By tapping into our abundant wind, sunlight and know-how, Australia can lead the world on renewable energy, creating more than 400,000 jobs and generating more than $100 billion in gross value added.[2]

Banks have an essential role to play in that transformation. They have the unique power to direct billions into solutions to the climate crisis – and away from making it worse.

Companies that continue to ignore the pace and reality of the energy transition by expanding destructive coal, oil and gas exploration or production, cannot do so without loans, bonds, investment and other financial services.

Equally, the reshaping of our energy systems, industries and communities will require a vast increase in financial support for climate change solutions.

The past three years have seen an enormous surge in corporate net zero commitments both here and internationally, with Australia's five largest banks joining the Net-Zero Banking Alliance, a global network representing more than 40% of global banking assets.

Despite these public commitments, this report finds that the climate policies of Australia's biggest banks are failing to deliver. They are not cutting flows of capital to damaging new coal, oil and gas projects. They are not scaling up the climate solutions at the pace we need. And they are lagging far behind comparable jurisdictions such as the United States and the European Union.

This report reveals the gaping holes in the big banks' climate policies. While most banks now have policies around not providing direct finance to coal, oil and gas projects, their policies still don't cover the main ways they finance fossil fuel expansion through general use of proceeds finance, bonds and capital markets facilitation.

It confirms a lack of consistency in setting targets and transparency in reporting financed emissions. And it identifies gaps in bank governance, such as: failing to be guided by climate scenario modelling, not incentivizing management to achieve climate goals, and insufficient accountability at a board level on climate outcomes.

Our research did find signs of leadership and momentum in the banking sector to reshape society for a clean energy future and a safe climate. By building on this leadership and raising their ambitions in line with climate science, banks can become powerful allies in protecting nature, creating healthy communities and building a prosperous, renewable-powered Australia.

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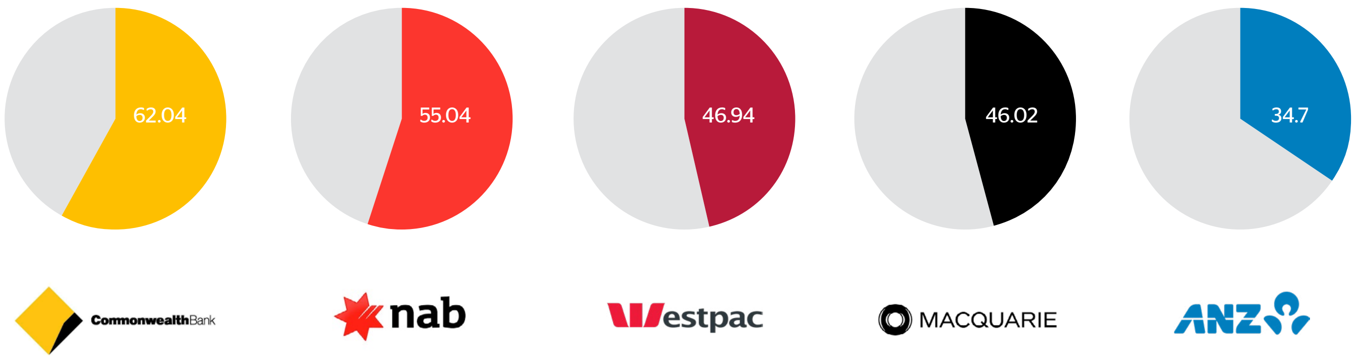
[1] https://www.ipcc.ch/report/ar6/wg3/downloads/report/IPCC_AR6_WGIII_FullReport.pdf

[2] https://www.acf.org.au/sunshot-summary-report

Key findings



Australia's big five banks have all committed to achieving net zero emissions as part of their pledges under the UN-convened Net-Zero Banking Alliance. But there remains an enormous gap between those headline commitments and the action needed to shift financial flows and drive the economic transformation necessary to meet the science-based goals of the Paris Agreement.[3]

Our research found that:

1. No bank scored more than 63 out of 100, with ANZ scoring lowest at just 34.7.
2. Macquarie Bank is the only bank to restrict lending to companies building new or expanded coal projects. Commbank is the only bank to prohibit direct lending to new oil and gas projects.
3. While banks have set targets to reduce emissions from their lending activity, these targets fail to capture the full spectrum of bank financing activities, including investment and capital markets facilitation – even though some banks include facilitation in their climate solutions targets.
4. Unlike leading banks internationally, none of the five banks link a set proportion of executive incentives to achieving climate change targets.
5. ANZ is the only one of Australia's big five banks which has not disclosed any analysis of how it will be impacted by climate change and the transition to net zero.
6. While the big five are starting to report their financed emissions, there remains a lack of consistency and comparability of metrics and targets. This highlights the importance of standardised, mandatory climate-related financial disclosures.
7. Despite signs of momentum in the banking sector, there is an urgent need for banks to accelerate their action on the climate crisis.

[3] https://www.un.org/en/climatechange/paris-agreement

Introduction

Banks play a critical role in enabling activities that either worsen or reduce the risks of climate change – in their roles as lenders, investors, arrangers, risk managers, underwriters, advisors, and facilitators of finance to both the causes of, and solutions to, the climate crisis.

Bank finance enables companies seeking to explore for or produce fossil fuels, or other greenhouse-intensive industries. They can also unlock and scale up the solutions we need in zero emissions technologies like renewable energy and storage, filling the investment gap needed to achieve the rapid cuts in emissions needed before the end of the decade.

In 2015, the then chair of the global Financial Stability Board, Mark Carney, gave a landmark speech[4] in which he warned of a looming "tragedy of the horizon" – a failure to plan for climate change's financial risks beyond the traditional forecast period of most banks and other economic actors. These risks include: physical risks (such as extreme weather); transition risks (associated with stranded assets when companies fail to keep up with the energy transition); and the reputational risks of inaction (for example, litigation and inability to retain key staff).

Financial risks are no longer in the distant future – they are visible now.

They are, of course, not the primary reasons to act on climate change, given its wide-reaching and systemic implications for our planet. Nevertheless, there is now a clear nexus between society's urgent need to tackle climate change and the interests of investors in publicly listed companies such as banks, not only because of the climate-related impacts on the value of a company, but also because of the climate-related impacts on a portfolio as a whole.

Action on climate change was once considered separate to, or even in conflict with, a bank's legal obligations to look after the best interests of shareholders. That is no longer the case – today, it is well understood that the two are inseparable.

Banks worldwide face increasing scrutiny of their climate change commitments and actions. This report provides a unique assessment of how Australia's five largest banks are performing in their governance, strategy, and action on climate change, measured against internationally-recognised frameworks.

[4] https://www.bankofengland.co.uk/speech/2015/breaking-the-tragedy-of-the-horizon-climate-change-and-financial-stability

Below. Turtle on surface at Great Barrier Reef
Photo. Naoto Jack Fukushima/ Shutterstock

Glossary

Absolute emissions

Total emissions of greenhouse gases produced by a company, sector or portfolio.

Business segment

The type of financial service provided by a bank – for example lending, investment banking, underwriting, or securities trading. Business segments are considered material (significant) where they represent more than 5% of a bank's total revenue or financed emissions.

Capital markets facilitation

Services provided by banks to help companies fundraise from debt or equity markets.

Climate-related financial risk

Risks which have a potentially negative impact on the value of a company and arise from climate change related physical risks (e.g. floodings or drought) or transition risks (e.g. policy responses or technological change).

Climate solutions finance

Local, national or transnational financing of climate change mitigation and adaptation initiatives.

Continuous disclosure

The obligation that a company traded on a stock exchange has to immediately disclose any information that may affect the company's financial position.

Corporate finance

Finance provided to a company at an entity level, rather than for a specific activity. This represents about 80% of lending by banks to the fossil fuel industry. See also "Project finance".

Emissions-intensive sector

A sector responsible for emitting a significant amount of greenhouse gases (GHGs) into the atmosphere. The Net-Zero Banking Alliance defines these sectors as agriculture, aluminium, cement, thermal coal, commercial and residential real estate, iron and steel, oil and gas, power generation, and transport.

Financed emissions

Refers to the greenhouse gas emissions associated with the activities or projects supported or facilitated by financial institutions.

Financed emissions intensity

Absolute emissions as a proportion of the amount of lending, investment or other financial activity in a company, sector or portfolio. A reduction in financed emissions intensity does not necessarily reflect a reduction in absolute emissions.

General use of proceeds finance

A financial product (such as a loan) which can be used by a company for any purpose, rather than being earmarked for a specific purpose.

Green finance

Finance that is promoted as contributing to an environmental outcome. In practice, "green" or "sustainable" finance often refers to the financing of activities, including those that contribute to a positive social outcome. The Australian Sustainable Finance Initiative is currently developing an Australian sustainable finance taxonomy to create a common definition of sustainable finance.

Independent limited assurance

Verification of a report by an auditor to ensure that the report does not contain any obvious significant misstatements.

Interim targets

Targets set on the path to a net zero goal, generally on a five-year basis such as 2025, 2030 or 2035.

Material asset class

See "Business segment"

Mitigation hierarchy

The mitigation hierarchy for emissions reduction is a framework that outlines the required order of actions for reducing greenhouse gas emissions: avoid; eliminate; reduce; and finally, offset any emissions which cannot be avoided, eliminated or reduced.

Net zero

A future climate state where global emissions have been reduced close to zero, with any residual emissions balanced out with removals or natural carbon sinks. Atmospheric greenhouse gas concentrations no longer rise.

Net-Zero Banking Alliance

An industry-led climate initiative convened under the United Nations' Principles for Responsible Banking, aimed at accelerating science-based climate target setting and developing common practices among member banks.

Off-balance sheet emissions

Emissions that occur as a result of financing activities that do not appear on a bank's balance sheet.

Production-based emissions-intensity

Tonnes of greenhouse gas emissions per tonnes of product, megawatt-hours of electricity, or gigajoules of energy. Production-based emissions-intensity can fall even if absolute emissions rise due to growth in output.

Project finance

Project finance is a form of finance typically provided to large-scale projects that have a long lifespan and require a significant amount of capital, such as a gas processing facility.

Scenario analysis

The use of modelling to determine future changes in portfolio or company value according to a range of possible futures. These can include energy market modelling or scenarios that model climate change impacts according to a range of possible societal responses.

Sector-based targets

Emission reduction targets for a specific sector, such as electricity or thermal coal. See also "Emissions-intensive sector".

Sustainable finance target

A timebound target to provide a certain amount of financing to activities which contribute to a positive social or environmental outcome. Some banks include a broad suite of activities in their sustainable finance target, including lending, investment and capital markets facilitation.

Mother and baby koala *Photo. Kylie Ellway / Shutterstock*

Methodology

Design principles

1. Alignment with science and industry best practice

The assessment criteria was developed using key international initiatives, reports and benchmarks outlining finance sector best practice. These include:

- the Net-Zero Banking Alliance
- the Task Force on Climate-related Financial Disclosures
- The Science Based Targets initiative (SBTi)
- the UN High-Level Expert Group on the Net-Zero Emissions Commitments of Non-State Entities
- the International Energy Agency
- the Intergovernmental Panel on Climate Change (IPCC)
- the Transition Pathway Initiative
- the World Benchmarking Alliance
- Climate Action 100+

These initiatives and reports guided the requirements relevant to each indicator, as well as the indicator importance levels.

2. Collaboration and verification from industry experts

The criteria was developed with input from relevant experts in the sustainable finance industry, including from NGOs, banks, and academia, and verified by experts at the Monash Business School's Green Lab.

3. Assessment based on publicly available information

Assessment of banks' performance against criteria was based on information publicly available as of August 2023. Ensuring transparency in how banks address climate-related risks and opportunities as part of their net zero commitment is essential to guarantee that banks are benchmarked consistently and fairly and are accountable for their actions to mitigate climate change.

4. Assessment conducted at a group level

Where a banking group was made up of multiple entities, bank policies were assessed as they applied to the group as a whole.

5. Assessment can be replicated

The benchmark criteria were designed with simplicity in mind to ensure that the assessment of banks' performance can be easily replicated, yielding consistent results.

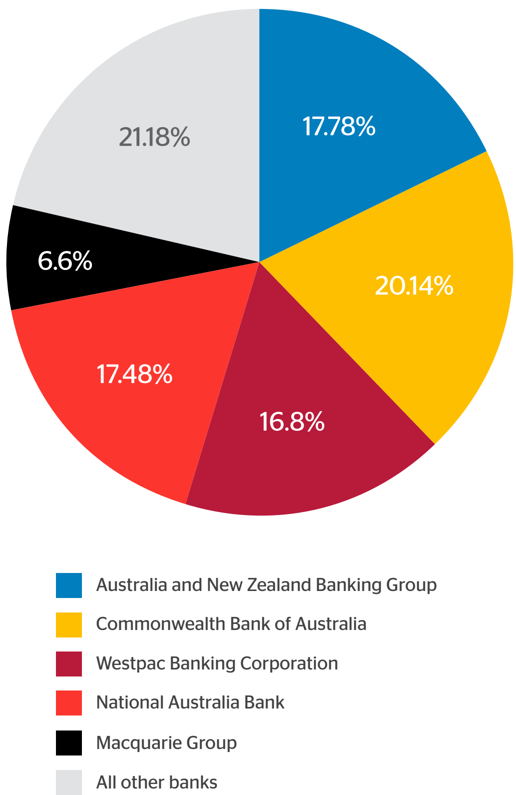
6. Feedback from relevant banks

The banks included in the benchmark initiative were invited to provide feedback on results as part of our commitment to fair and accurate assessment.

Banks assessed

Australia's five largest banks, each with more than $300 billion in total assets as of the financial year ending 30 June 2022 (FY22), were selected for evaluation. These include Commonwealth Bank of Australia (Commbank), Australia and New Zealand Banking Group (ANZ), National Australia Bank (NAB), Westpac Banking Group (Westpac), and Macquarie Group (Macquarie). The chosen threshold for analysis accounts for variations in bank size and ensures genuine comparison between peers.

Total assets of all banks in Australia: $6,035bn



Source: APRA, bank annual reports

Overview of scoring rubric

The benchmark comprises a total of 26 indicators grouped into four different scoring themes, as seen in Figure 1.

Each indicator is assigned a level of importance (very high, high, medium or low) depending on its relative contribution towards a robust net zero commitment. As seen in Figure 2, the level of importance informs the maximum score attributed to each indicator, as well as the points that are assigned to each level of partial alignment.

When considered together, the points attributed to each indicator total 100, allowing the banks to be benchmarked against one another on a scale of 0 to 100.

The scoring rubric includes:

Aligned criteria

The bank will be awarded full points if it meets all requirements listed in the 'Aligned' criteria for a particular indicator.

Partially aligned criteria

The bank will be awarded partial points if there is insufficient evidence for the bank to be assessed as 'Aligned' but sufficient evidence that the bank should not be assessed as 'Not aligned'.

Occasionally, sub-sections are added to the 'Partially aligned' criteria allowing the bank to be awarded additional points for gradual improvements. Once the bank has achieved all possible points in the 'Partially aligned' criteria, the score is equivalent to the 'Aligned' criteria.

Not aligned criteria

The bank will receive no points if there is no evidence available, or there is inconsistent or poor-quality reporting on the indicator which makes it difficult for the assessor to assign a score.

Figure 1: Scoring themes

Targets
(6 indicators)
(21 points)

High-level commitment (2 indicators)

Supporting targets (4 indicators)

Strategy and action
(7 indicators)
(35 points)

Policies and practises the bank has in place to support its targets (7 indicators)

Governance
(8 indicators)
(28 points)

Climate-risk management (2 indicators)

Governance and remuneration (3 indicators)

Engagement on climate policy (3 indicators)

Reporting
(5 indicators)
(16 points)

Indicators on reporting and transparency of the banks' practices (5 indicators)

Figure 2: Scoring guide

Scoring guide					
		Importance Level			
		Very High	High	Medium	Low
Scoring Rubric	Aligned	5	4	3	2
	Partially aligned	2.5	2	1.5	1
	Additional points for partially aligned	2.5 divided by the number of sub-sections	2 divided by the number of sub-sections	1.5 divided by the number of sub-sections	1 divided by the number of sub-sections
	Not aligned	0	0	0	0

Overview of scoring themes

Targets (21 points)

Focuses on the targets that the bank has in place to support its net zero commitment. It includes indicators on the bank's interim financed emissions targets, sector-based financed emissions targets, climate solutions financing target and renewable energy consumption commitment.

Strategy and action (35 points)

Assesses the policies and practices that the bank has in place to support its net zero commitment and its financed emissions reduction targets. It encompasses various indicators that assess the bank's policies related to the provision of finance for new or expansionary coal, oil or gas operations, as well as the bank's expectations for emissions-intensive customers to adopt and implement transition plans aligned with a 1.5°C pathway. This theme also evaluates whether the bank has a policy on deforestation.

Governance (28 points)

Covers the governance structures that the bank has in place to inform and execute its net zero commitment. This includes indicators on the adequacy of climate scenario analysis, the accountability, competency and remuneration of board members and the bank's engagement on climate change-related policy.

Reporting (16 points)

Measures the transparency of the bank's reporting on climate change-related topics. The indicators assess the disclosure of the bank's financed emissions and the methodology used to calculate financed emissions. Additionally, indicators assess the disclosure of activities included in its climate solutions target and the third party verification of sustainability performance reporting and financial statements.

According to the IPCC, 11% of global greenhouse emissions are caused by deforestation and the conversion and degradation of coastal wetlands, peatlands, savannah and grasslands. For this reason, the UN High-Level Expert Group on Net-Zero Emissions by Non-State Entities has determined that net zero commitments are incomplete without a commitment to ending deforestation.

Results

Targets

High-level commitment

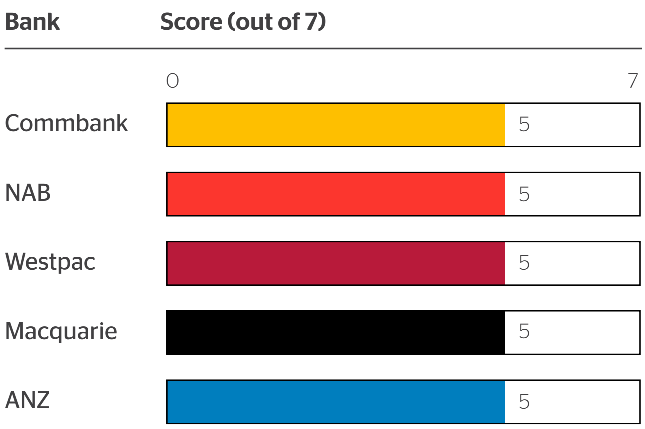
1.1 The bank discloses a commitment to achieve net zero financed emissions by 2050 or sooner, consistent with a 1.5°C scenario.

1.2 The bank is a member of the Net-Zero Banking Alliance.

All five banks achieved partial alignment on the scope of their net zero commitments, given nearly all banks' targets applied to their lending only, and not to other financial services they provide, including investments, bond finance and capital markets facilitation.

Macquarie's net zero commitment appears to have the broadest scope, including both lending and equity investment activities within its net zero ambition. However, Macquarie's target does not include facilitated emissions or off-balance sheet activities, which are likely to be significant given the size of the bank's asset management division.

Each of the banks received full points for their membership of the Net-Zero Banking Alliance.



Meeting the goals of the Paris Agreement requires deep emission reductions this decade, with any residual emissions balanced by carbon removals by the middle of the century. According to the principles enshrined in the Paris Agreement, countries such as Australia with higher per capita emissions and a greater share of responsibility for historic emissions should achieve this goal sooner.

The banking sector plays a vital role in determining whether or not the goals of the Paris Agreement can be achieved. Through their lending and investments, banks shape the decisions that businesses make and can either accelerate action on climate change, or inhibit progress. The most significant role that banks play in helping or hindering action on climate change is through making finance available that results in emissions - this is known as their 'financed emissions'.

In recognition of the critical role of the financial sector, the Glasgow Financial Alliance for Net Zero was formed at the 26th Conference of the Parties of the United Nations Framework Convention on Climate Change, and included the establishment of the Net-Zero Banking Alliance (NZBA), a coalition of 133 banks with a combined US$74 trillion in assets, committed to aligning their lending and investments to net zero by 2050.

In order to genuinely drive decarbonisation in the real world, net zero commitments need to cover all emissions-intensive sectors, and all material asset classes, such as loans, equity, bonds and capital markets facilitation.

In the absence of commitments that cover the full spectrum of asset classes, banks risk increasing emissions even while their financed emissions from lending are decreasing. For instance, the responsible investment advocacy organisation ShareAction has found that more than half of Europe's 25 largest banks' support for oil and gas expansion is in the form of capital markets facilitation.[5]

As the intention of the NZBA is to increase the scope of targets over time, it is expected that members' targets will increasingly extend to all financial products. The NZBA intends to include facilitated emissions within membership requirements in late 2023.

[5] https://cdn2.assets-servd.host/shareaction-api/production/resources/reports/Oil-Gas-Expansion-lose-lose.pdf

Leading the way

The Canadian Imperial Bank of Commerce (CIBC) has outlined four principles guiding its net zero commitment, which state that its targets should be science-aligned, comprehensive, transparent and iterative.

Its targets cover lending and all of its emissions facilitated through debt and equity underwriting. Although this is not yet required under the Net-Zero Banking Alliance guidance, CIBC's comprehensive net zero strategy is a sector leader.

NZBA intends to include capital markets facilitation in its requirements for members once the Partnership for Carbon Accounting Financials releases its guidance on quantifying facilitated emissions later this year.

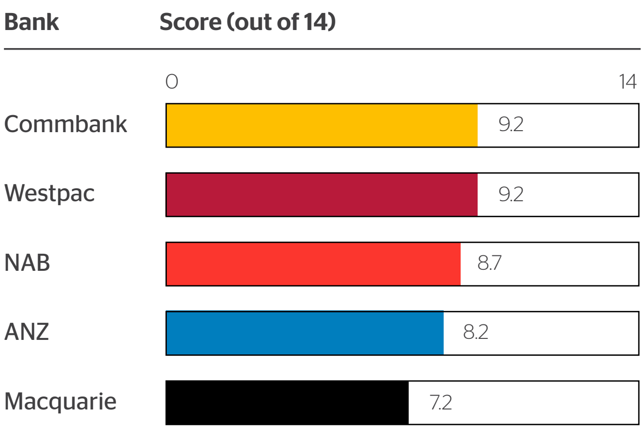
Sector targets

2.1 The bank discloses an interim financed emissions reduction target, consistent with a 1.5°C scenario.

2.2 The bank discloses sector specific financed emissions reduction targets, consistent with a 1.5°C scenario.

2.3 The bank discloses a climate solutions financing target.

2.4 The bank discloses a commitment to reach 100% of electricity consumption from renewable sources by 2030 or sooner.



Beyond their high-level commitment to net zero emissions, banks should set science-based near-term goals across their portfolio, as well as on a sector-specific basis, given each of the emissions-intensive sectors (agriculture, aluminium, cement, coal, commercial real estate, residential real estate, iron and steel, oil and gas, power generation, and transport) will have different decarbonisation pathways.

Ambitious short-term targets are critical given that climate change is the result of total historical emissions. To limit warming close to 1.5°C, Australia should aim to reach net zero by the middle of next decade, with most emissions reduction needed by 2030.

As members of the Net-Zero Banking Alliance, each of the big five banks have set sector-based targets for at least three emissions-intensive sectors. However, there is considerable variability in how targets are set, making it hard to compare directly. Additionally, targets which measure emissions intensity, rather than absolute emissions, could end up leading to an increase in overall emissions (see "What's in a target"). For example, while ANZ, Commbank and NAB's oil and gas targets are on the basis of reducing absolute emissions, Macquarie has elected to set targets on an emissions intensity basis.

Australia's big five banks are yet to disclose their material business segments, or whether their targets cover all material asset classes, such as lending, equity, bonds and underwriting. Over time, sector-based targets are expected to expand to cover financial services other than lending.

None of the banks assessed have adopted a portfolio-wide near-term target. Given the need to achieve real emission reductions this decade, banks should move to adopt near-term targets that cover their entire portfolio.

Figure 3: Sector-based targets by bank

	ANZ	CBA	WBC	NAB	MBG
Agriculture	No	No	No	No	No
Aluminium	Yes	Yes	No	No	No
Cement	Yes	Yes	Yes	Yes	No
Thermal Coal	No	Yes	Yes	Yes	Yes
Metallurgical Coal	No	No	No	No	Yes
Commercial Real Estate	Yes	No	Yes	No	No
Residential Real Estate	No	Yes	No	No	No
Iron and Steel	Partly	Partly	No	No	No
Oil & Gas	Yes	Partly	Partly	Yes	Yes
Power Generation	Yes	Yes	Yes	Yes	No
Transport	No	No	No	No	Partly

Yes No Partly

Commbank and Westpac's oil and gas targets cover exploration and extraction only.
ANZ and Commbank's iron and steel targets are for steel only, and Macquarie's transport target covers motor vehicles only.

Tackling the climate crisis will require unprecedented levels of investment to scale up new industries and transform existing ones. The four largest banks – ANZ, Commbank, Westpac and NAB – have set climate solutions financing targets to be met by 2025 or 2030. The banks differ in how they set these targets – for instance, Westpac has set a target for lending, while ANZ includes facilitation in its climate solutions target, and expressly includes gas as an eligible activity for climate solutions financing. This contrasts with the fact that none of the banks include capital markets facilitation within the scope of their financed emission reduction targets.

As an Australian sustainable finance taxonomy is developed to determine what can be labelled "sustainable finance" the comparability and integrity of climate solutions finance is expected to improve.

Given more than 99% of bank emissions are the financed emissions of their customers, banks' efforts to reduce their direct emissions, such as electricity use, have less impact. Nevertheless, as significant electricity users in their own right, banks have also been setting targets to reach 100% renewable electricity generation, and this was recognised in our assessment.

Nearly all banks assessed have targets to procure the equivalent of 100% of their electricity use from renewable energy by 2025. Commbank, Westpac and Macquarie have already achieved this goal.

Above. Solar farm *Photo.Geoff Hunter*

What's in a target?

While banks are increasingly setting targets for some of the high-emitting sectors that they lend to, not all metrics have the same impact on real-world emissions.

Absolute emission reduction targets are expressed in tonnes of carbon dioxide equivalent (tCO2e) and should include all greenhouse gases.

Economic emissions intensity emission reduction targets are based on tonnes per million dollars of lending and investment exposure (tCO2e/$m). If total lending and investment increases, absolute emissions can be unaffected or even increase, even if the emissions intensity has reduced.

Production emissions intensity targets are expressed as emissions per unit of energy produced (tCO2e/PJ). If fossil fuel production increases but the emissions intensity of production goes down, absolute emissions can rise.

Strategy and action

3.1 The bank does not provide project financing to new or expanded thermal coal mines.

3.2 The bank does not provide corporate financing to companies developing new or expanded thermal coal mines.

3.3 The bank does not provide project financing to new or expanded oil or gas projects.

3.4 The bank does not provide corporate financing to companies that are undertaking new or expansionary oil or gas projects.

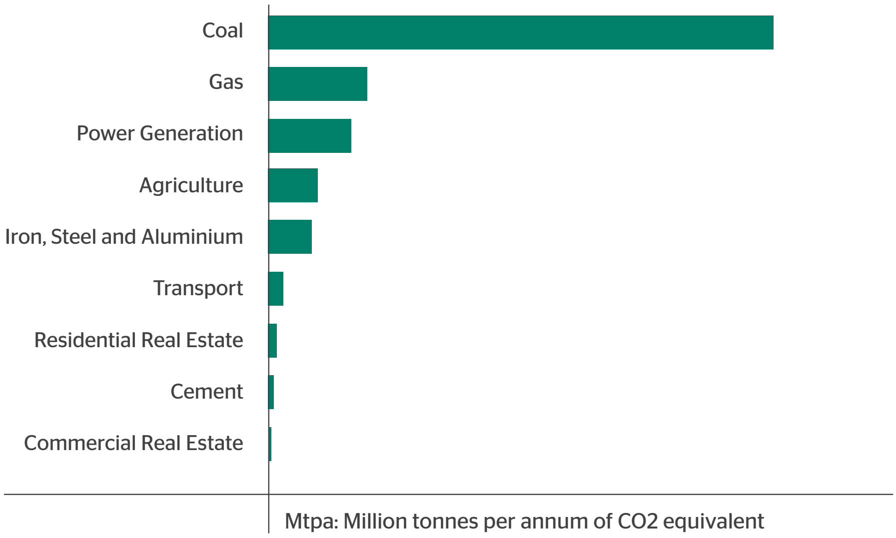
3.5 The bank requires customers in emissions-intensive sectors to adopt a transition strategy based on a 1.5°C pathway by 2025.

3.6 The bank has a policy which states that it will cease financing to customers in emissions-intensive sectors unless they have adopted a transition strategy which is aligned with a 1.5°C pathway by 2025.

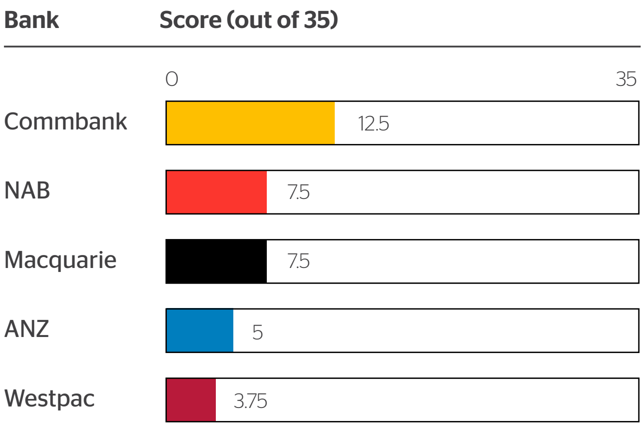
3.7 The bank has a policy on deforestation.

Above. Wind farm, Genex Power *Photo. Geoff Hunter*

Figure 4: Emissions-intensive sectors in Australia



Note: Coal and gas emissions represent exported emissions, which account for around 90% of their value chain emissions
Sources: Australian National Greenhouse Accounts, Grattan Institute



All of the banks scored weakest on indicators relating to their finance for new and expansionary coal, oil and gas projects due to the very limited scope of their policies.

The International Energy Agency,[6] the Intergovernmental Panel on Climate Change (IPCC),[7] and the United Nations' High-Level Expert Group Report on Net -Zero Commitments by Non-State Entities[8] have stressed that new unabated coal, oil or gas exploration or production are inconsistent with the action needed to limit warming to 1.5°C. According to the UN, investment by financial institutions in new fossil fuel exploration, production or deforestation is incompatible with a net zero commitment with integrity.

Aside from Westpac, each of the banks assessed in this report have adopted a policy of not directly financing new thermal coal mines. However, direct lending is no longer typically the way that new thermal coal projects are financed. More commonly, coal expansion is financed through a combination of general corporate purpose loans and bonds.[9] Macquarie is the only bank with a policy not to enter into any new business activity with any counterparty where the underlying purpose is to fund the purchase, development or expansion of a coal mine.

Commbank has a policy precluding direct lending to oil and gas expansion, however this does not cover loans to companies building new oil and gas projects. NAB has a policy precluding direct lending to new oil projects, although has only a qualified restriction on direct lending to new gas projects. Likewise, Westpac's policy on direct finance to new oil and gas projects is qualified in a way that leaves it open to interpretation, while ANZ and Macquarie do not have an oil and gas policy at all.

[6] https://www.iea.org/reports/net-zero-by-2050
[7] https://www.ipcc.ch/sr15/
[8] https://www.un.org/sites/un2.un.org/files/high-levelexpertgroupupdate7.pdf
[9] https://www.bankingonclimatechaos.org/

Consistent with their approach to corporate lending to the thermal coal industry, no bank has a policy that rules out the provision of finance for companies involved in oil and gas expansion.

It is positive that four of the biggest banks each have a policy stating that they require their customers to develop transition plans by 2025. However, for the most part it remains unclear how each bank is assessing the credibility of its customers' transition plans, or how the bank will respond if its customers have not achieved sufficient progress by 2025.

While Commbank assesses customer transition plans on the basis of Climate Action 100+ assessments and their full value-chain emissions, it does not require alignment with 1.5ºC and the consequences for failing to align are not clear.

In addition to its fundamental importance to life on our planet, halting deforestation is critical to protecting and enhancing land-based carbon sinks, especially given that eastern Australia is a global deforestation hotspot, alongside the Amazon Basin and the Congo.

None of Australia's biggest five banks have a policy on this crucial challenge.

Figure 5: Fossil fuel lending policies

	ANZ	CommonwealthBank	Westpac	nab	MACQUARIE
No project finance - thermal coal expansion	Partly	Yes	No	Partly	Yes
No corporate finance - thermal coal expansion	No	No	No	No	Partly
No project finance - oil and gas expansion	No	Yes	Partly	Partly	No
No corporate finance - oil and gas expansion	No	No	No	No	No

Yes No Partly

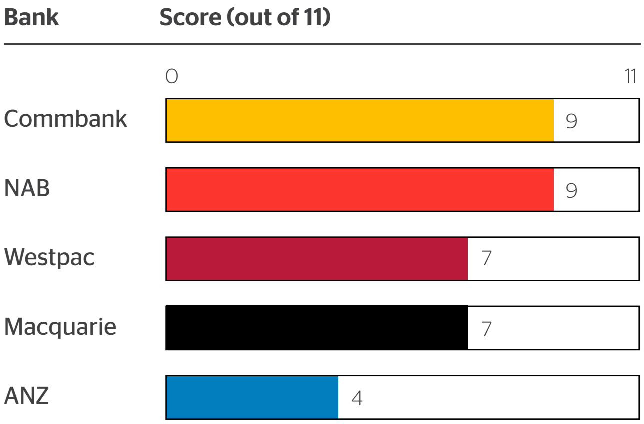
Governance

Board and executive governance

4.1 The bank has clear accountability for climate strategy at the board level.

4.2 The bank's board has sufficient capabilities or competencies to assess and manage climate-related risks and opportunities.

4.3 The bank's remuneration of senior executives incorporates performance on climate change-related topics.



Australia's prudential regulator APRA emphasises that the far-reaching and unprecedented risks of climate change for financial institutions must be managed at a board level.[10] In light of this, the Governance Institute of Australia recommends appointing board and management level committees and executives with specific responsibilities for climate change.[11]

Encouragingly, nearly all banks in the benchmark had disclosed evidence of specific board committees or members with responsibility for climate-related issues. Likewise, nearly all banks had disclosed evidence that at least one board member had relevant skills or experience in managing climate-related risks.

ANZ was found to lack sufficient climate change expertise on its board. Only one board member is listed as having career experience in sustainability, in a People and Culture role at a former employer.

Contrary to a growing number of banks internationally and smaller banks in Australia, none of the banks have disclosed a proportion of executive remuneration linked to the achievement of climate targets. This is crucial in creating high-level incentives to achieve targets and ensuring that long-term systemic risks like climate change are not overlooked in favour of short-term returns.

Leading practice globally for banks to incentivise the achievement of their climate targets is to link these to executive remuneration.[12]
For example, Barclays allocates 10% of its Long Term Incentive Plan for the executive director to climate and sustainability goals.[13] Likewise, Bendigo & Adelaide Bank links 10% of executive remuneration to indicators on People and Planet, including climate change metrics.

[10] APRA, CPG 229, Climate Change Financial Risks, https://www.apra.gov.au/sites/default/files/2021-11/Final%20Prudential%20Practice%20Guide%20CPG%20229%20Climate%20Change%20Financial%20Risks.pdf

[11] Governance Institute of Australia (2020), Climate Change Risk Disclosure: A practical guide to reporting against ASX Corporate Governance Council's Corporate Governance Principles and Recommendations, https://www.governanceinstitute.com.au/advocacy/thought-leadership/climate-change-risk-disclosure/

[12] Nguyen, H.T.T., Ullah, S., Le, H.T.M. et al. Sustainability Targets in Executive Remuneration Contracts and Corporate Sustainability Performance in the United Kingdom and European Union. Environ Syst Decis (2023). https://doi.org/10.1007/s10669-023-09901-6

[13] https://capitalmonitor.ai/institution/banks/long-read-how-the-biggest-banks-are-adding-esg-into-ceo-pay/

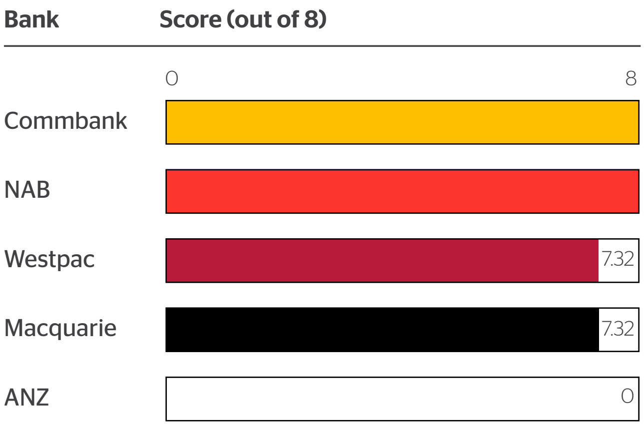
Above Left. Power station cooling towers

Photo. Shutterstock

Climate risk assessment

5.1 The bank employs climate scenario analysis to assess its exposure to transition risks.

5.2 The bank employs climate scenario analysis to test its exposure to physical risks.



Climate change poses a number of material financial risks to companies, including the impacts of bushfires, flooding, drought, coastal inundation and other climate change impacts on company assets and supply chains (physical risks), the risks of companies holding worthless assets if they fail to keep up with the pace of the energy transition (transition risks), and risks to their corporate reputation, including the risk of litigation (reputational risks). The Taskforce on Climate-related Financial Disclosures has noted that while companies are increasingly factoring transition risk into decision-making, physical risks remain poorly understood.[14]

While climate risk modelling has known limitations, in that models cannot fully account for cascading impacts and systemic risks, it is prudent for banks to undertake high-quality modelling in order to be able to plan for mitigation and adaptation.[15] The Intergovernmental Panel on Climate Change (IPCC) notes that even 1.5°C of global warming "would cause unavoidable increases in multiple climate hazards and present multiple risks to ecosystems and humans."[16] There is a significant risk that undertaking modelling without understanding its limitations could lead to financial institutions under-recognising risks.

Commbank and NAB received full points on indicators related to climate risk assessment due to their disclosure of quantitative information covering all relevant sectors relying on credible scenarios. Westpac and Macquarie also achieved nearly full points for this indicator.

Notably, Commbank has also disclosed that $85.4 billion, or 6.1%, of its portfolio is exposed to heightened risks from climate change risks. This is likely to be understated, given the model limitations that Commbank has noted.

Like all of the five major banks, ANZ has participated in APRA's Climate Vulnerability Assessment, but has not disclosed information about any other internal climate modelling or the results of those models, and therefore received zero points on scenario analysis.

As data availability and model sophistication improves, banks should disclose more granular information about climate risks, both to meet their continuous disclosure obligations under the *Corporations Act 2001*, and to ensure that communities and businesses more vulnerable to losses from climate change are not disadvantaged by information disparity.

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[14] https://assets.bbhub.io/company/sites/60/2022/10/2022-TCFD-Status-Report.pdf

[15] Topping, N. (2012), How Does Sustainability Disclosure Drive Behavior Change?. Journal of Applied Corporate Finance, 24: 45-48. https://doi.org/10.1111/j.1745-6622.2012.00377.x

[16] IPCC AR6 WGII Summary for Policymakers, https://www.ipcc.ch/report/ar6/wg2/resources/spm-headline-statements/

Policy engagement

6.1 The bank has direct climate policy engagement that is aligned with the IPCC and the Paris Agreement.

6.2 The bank has indirect climate policy engagement that is aligned with the IPCC and the Paris Agreement.

6.3 The bank reviews its own and its trade associations' climate policy engagement positions or activities.

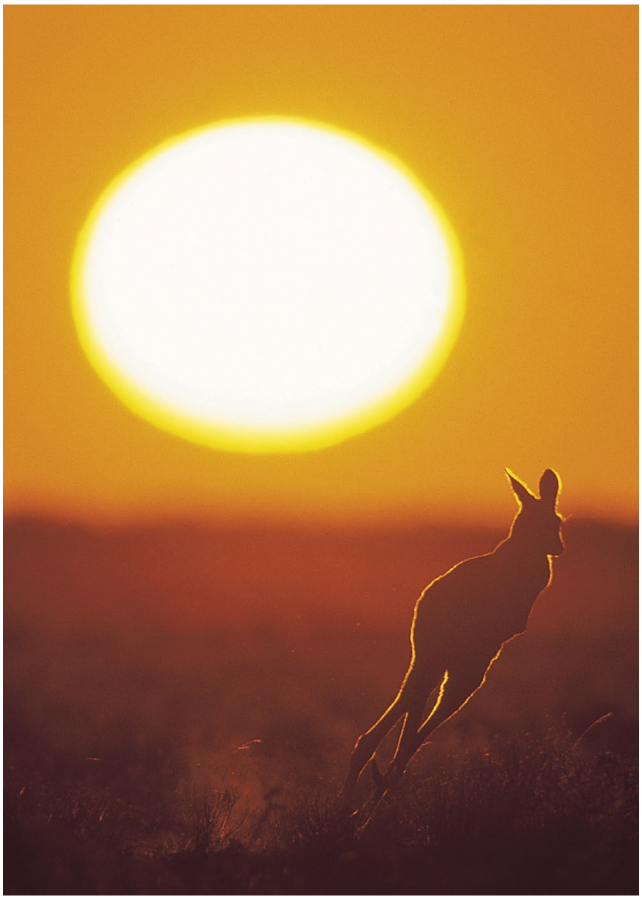
Bank	Score (out of 9)
Commbank	3
NAB	3
Westpac	3
ANZ	3
Macquarie	3

Tackling the climate crisis at the speed and scale required will require ambitious and coordinated efforts by governments of all levels, businesses, the financial sector and communities. Corporate engagement with climate policy has increasingly come under the spotlight due to its potential to influence public policy through direct lobbying and via industry associations.

The direct and indirect engagement of banks with policy was assessed with reference to scoring by InfluenceMap, which regularly assesses corporate lobbying as defined under the United Nations' Guide for Responsible Corporate Engagement in Climate Policy, using a standardised scoring system based on publicly available information. InfluenceMap's methodology is relied on by Climate Action 100+, a network of more than 700 global investors representing US$68 trillion in assets.

Overall, each of the five banks received equal scores on this indicator, reflecting only moderate public advocacy efforts to further the goals of the Paris Agreement.

The Global Standard on Responsible Climate Lobbying recommends that companies conduct a review on an annual basis. While some banks have historically reviewed the alignment of their industry associations with their own climate policy, none of the banks have done so in the past two years. For example, ANZ's last review of industry associations in 2020 found that it was only partly aligned with the Australian Petroleum Production and Exploration Association, the peak body representing the interests of the oil and gas industry, but it chose to retain its membership pending the resolution of any misalignment. ANZ is due to repeat its review of industry associations in 2023 as part of a three-year cycle.



Above. Kangaroo at sunset
Photo. John Carnemolla / Shutterstock

Reporting

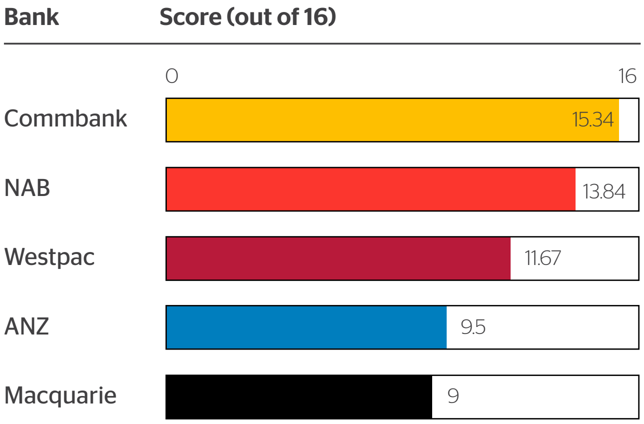
7.1 The bank discloses its financed emissions on an annual basis.

7.2 The bank discloses the methodology used to calculate its financed emissions.

7.3 The bank discloses a list of activities included in its climate financing target.

7.4 The bank obtains independent limited assurance on its sustainability performance reporting.

7.5 The material impacts of climate-related matters have been taken into account in the audit of the bank's financial statements.



Our research shows that Australia's big five banks are increasingly disclosing their financed emissions, the types of activities that qualify for climate solutions finance, and obtaining independent limited assurance on their financed emissions reporting. However, there remains wide variation in the consistency and comparability of this reporting.

To obtain full points for financed emissions disclosure, banks need to disclose their financed emissions on an absolute basis, across all emissions-intensive sectors and material business segments. The Net-Zero Banking Alliance expects that banks will expand their targets to include capital markets facilitation when an agreed methodology is published later in 2023.[17]

While Commbank and NAB received nearly full points for the indicator on disclosure, so far none of the banks report their off-balance sheet or facilitated emissions, often citing the lack of a commonly agreed methodology for doing so, notwithstanding the fact that ANZ and NAB include facilitated emissions as part of their climate solutions targets. Encouragingly, all banks disclose the methodology used to calculate their financed emissions.

Despite the fact that the Net-Zero Banking Alliance has not yet agreed on a methodology for accounting for emissions from facilitation activities, JPMorgan and Goldman Sachs already include these within the scope of their metrics and targets. Goldman Sachs explains its decision by noting that "we consider this a core service that we provide to our clients".

An Australian sustainable finance taxonomy setting out which activities may be eligible for "green" financing is currently being developed by the Australian Sustainable Finance Institute and the Council of Financial Regulators. In the absence of an Australian-specific taxonomy, banks have been disclosing some level of detail about the activities that fall within the remit of their sustainable finance target. The European Union's sustainable finance taxonomy is currently being challenged on the basis that it explicitly includes financing gas or nuclear projects, although there is some debate about whether gas projects would ever meet the thresholds necessary to qualify under the EU taxonomy.[18]

[17] https://www.unepfi.org/industries/banking/guidelines-for-climate-target-setting-for-banks/

[18] The EU's Sustainable Finance Taxonomy requires projects to make a substantial contribution to at least one of six environmental objectives, including climate change mitigation, adaptation, sustainable use and protection of water and marine resources, transition to a circular economy, pollution prevention and control, and protection and restoration of biodiversity and ecosystems. Additionally, the project must do no significant harm to any of the other five environmental objectives, comply with minimum social safeguards, and meet technical screening criteria to be eligible.

In Australia, Commbank and Westpac are leaders in the disclosure of sustainable finance activities, providing an exhaustive list of activities that qualify for climate solutions finance (not including gas or nuclear). ANZ's definition of eligible climate solutions finance activities is open-ended, and it has stated that gas projects are eligible.[19] NAB's disclosure was not sufficient to determine what kinds of projects it considered eligible.

While all banks had obtained limited assurance on their sustainability performance reporting, only Commbank and NAB factor climate-related risk into their audited financial statements.

In the absence of regulatory guidelines for reporting financed emissions, Australian banks use a range of reporting metrics. This makes comparison between banks challenging.

Our benchmark found that ANZ, NAB and Macquarie report their financed emissions on an Exposure at Default (EAD) basis, which reflects only the portion of a loan that has been drawn and therefore the bank's stranded asset risk.

Westpac and Commbank, in contrast, provide a more complete oversight of their financial support for emitting sectors by reporting on a Total Committed Exposure (TCE) basis. This includes not only the amounts their customers have drawn from a loan, but also finance that is available to be drawn and used to expand emissions-intensive production.

[19] https://www.anz.com.au/content/dam/anzcomau/documents/pdf/aboutus/esg/responsible-business-lending/energy-policy.pdf

Below. Aerial view of coal mine *Photo. Tom Fisk / Pexels*

Next steps

Australia's first benchmark of banks' climate commitments reveals that while the nation's largest five banks have made some progress in the race to net zero, none have a fully fledged plan to reach the finish line.

While the nation's biggest banks have made bold headline commitments to tackle climate change, we have found too many gaps in their policies, performance and disclosure on their net zero commitments.

Banks can and must play a vital role in mitigating climate change and scaling up climate solutions. They should be central in helping Australia seize the enormous opportunities of a renewable-powered economy.

By adopting these recommendations, banks can drive action on climate change, while championing leading practices in governance, strategy and accountability.

1. Banks' net zero commitments should cover all emissions-intensive sectors and business segments, including (but not limited to) lending, investments, bonds and capital markets activities such as debt and equity underwriting.
2. Banks should disclose the reasons why sectors or business segments have been omitted from the scope of their targets, for example, due to data limitations or capacity gaps, and disclose on a reasonable basis their intentions to deal with these limitations.
3. For activities or clients that predominantly operate within Australia or another high-income country with a higher share of cumulative historic emissions, banks should aim to meet their targets sooner than 2050, in order to respect the principles of equity and common and differentiated responsibilities.
4. Banks should conduct and disclose an assessment of their physical and transition risks including quantitative metrics, and disclose the models, scenarios and transition pathways used in their assessment. These assessments should incrementally cover all material emissions-intensive and climate-vulnerable sectors across all business segments.
5. Banks should adopt a portfolio-wide and science-based 2030 absolute emissions reduction target aligned with limiting warming to 1.5°C.
6. Banks should adopt sector-specific targets for all material emissions-intensive sectors covering all material business segments, aligned with disclosed credible science-based scenarios aligned with 1.5°C with no or limited overshoot. Baselines should be no more than two full years before the setting of the target, and be recalculated in line with the global GHG Protocol subsequent to any significant structural changes such as acquisitions, divestments and mergers.
7. Banks should set an ambitious climate solutions target based on a share of their portfolio, and disclose a breakdown of activities and business segments supported by the target. Climate solutions finance should be provided on an activity basis, and banks should not provide climate solutions finance to harmful or emissions-intensive activities such as gas or the nuclear value chain.

8. Banks should not lend, invest, provide bonds or facilitate finance to companies expanding coal, oil or gas production or exploration, other than for finance specifically tied to meeting rehabilitation, employee liability or community obligations. Policies should cover both specific and general use of proceeds finance, as well as other financial products.
9. Banks should require companies in emissions-intensive sectors to develop transparent, credible and independently verified transition plans aligned with limiting warming to 1.5°C. Banks should disclose how they assess transition plans, including a requirement that offsets cannot be used to meet interim targets, and commit to cease refinancing companies who have failed to develop credible transition plans.
10. Banks should not lend to or invest in companies or activities linked to deforestation that has occurred since the 2020 cut-off date adopted by the SBTi.
11. Banks should disclose their absolute financed emissions across all emissions-intensive sectors and business segments on a total committed exposure basis, accounting for all greenhouse gases.
12. Banks should disclose their methodologies for calculating financed emissions, with reference to recognised methodologies such as PCAF.
13. Banks should obtain limited financial assurance on their sustainability performance reporting.
14. Banks should require auditors to assess the material climate-related matters in their audited financial report, with a sensitivity analysis for a business-as-usual pathway and a 1.5°C-aligned pathway.
15. Banks should ensure a nominated board member or board committee is explicitly responsible for climate-related issues.
16. Banks should appoint board members with specific climate change skills and expertise and disclose relevant qualifications, training and ongoing skill development.
17. A significant portion of banking executives' long-term remuneration should be linked to the achievement of climate change metrics. Best practice is to ensure 10% of executive remuneration is linked to climate change performance.
18. Banks' direct and indirect lobbying should be completely aligned with the goals of the Paris Agreement. Banks should review on an annual basis the climate policy alignment of industry associations of which they are members, and end their membership of any association where there is a material misalignment.
19. Banks should ensure that they have well-resourced internal capacity and capability to manage climate-related risks.

Appendix: Full scoring

Indicator	Source	Max score	CBA	NAB	WBC	MBG	ANZ
Targets							
High-level commitment (out of 7)							
The bank discloses a commitment to achieve net zero emissions by 2050, consistent with a 1.5°C scenario	Integrity Matters, Transition Pathway Initiative (TPI), World Benchmarking Alliance	4	2	2	2	2	2
The bank is a member of the Net-Zero Banking Alliance	NZBA	3	3	3	3	3	3
Sector targets (out of 14)							
The bank discloses an interim financed emissions reduction target, consistent with a 1.5°C scenario	NZBI, SBTi	4	0	0	0	0	0
The bank discloses sector specific financed emissions reduction targets, consistent with a 1.5°C scenario	NZBA	4	3.2	3.2	3.2	3.2	3.2
The bank discloses a climate solutions financing target	World Benchmarking Alliance	4	4	4	4	2	4
The bank discloses a commitment to reach 100% of electricity consumption from renewable sources by 2030 or sooner	RE100	2	2	1.5	2	2	1

Below. Dorrigo National Park *Photo. Taras Vyshnya / Shutterstock*

Indicator	Source	Max score	CBA	NAB	WBC	MBG	ANZ
Strategy and action							
The bank does not provide project financing to new or expanded thermal coal mines	Integrity Matters, IEA NZ2050, IPCC	5	5	2.5	0	5	2.5
The bank does not provide corporate financing to companies developing new or expanded thermal coal mines	Integrity Matters, IEA NZ2050, IPCC	5	0	0	0	2.5	0
The bank does not provide project financing to new or expanded oil or gas projects	Integrity Matters, IEA NZ2050, IPCC	5	5	2.5	1.25	0	0
The bank does not provide corporate financing to companies that are undertaking new or expansionary oil or gas projects	Integrity Matters, IEA NZ2050, IPCC	5	0	0	0	0	0
The bank requires customers in emissions-intensive sectors to adopt a transition strategy based on a 1.5°C pathway by 2025	Integrity Matters, SBTi	5	2.5	2.5	2.5	0	2.5
The bank has a policy which states that it will cease financing to customers in emissions-intensive sectors unless they have adopted a transition strategy which is aligned with a 1.5°C pathway by 2025	Integrity Matters, TPI	5	0	0	0	0	0
The bank has a policy on deforestation	Integrity Matters, TPI, SBTi	5	0	0	0	0	0

Appendix: Full scoring

Indicator	Source	Max score	CBA	NAB	WBC	MBG	ANZ
Governance							
Board and executive governance (out of 11)							
The bank has clear accountability for climate strategy at the board level	APRA CPG 229	4	4	4	4	4	4
The bank's board has sufficient capabilities or competencies to assess and manage climate-related risks and opportunities	APRA CPG 229	3	3	3	3	3	0
The bank's remuneration of senior executives incorporates performance on climate change related topics	APRA CPG 229	4	2	2	0	0	0
Climate risk assessment (out of 8)							
The bank employs climate scenario analysis to assess its exposure to transition risks	TCFD, TPI	4	4	4	3.32	4	0
The bank employs climate scenario analysis to test its exposure to physical risks	TCFD, APRA CPG 229	4	4	4	4	3.32	0
Policy engagement (out of 9)							
The bank has direct climate-policy engagement that is aligned with the IPCC and the Paris Agreement	United Nations' Guide for Responsible Corporate Engagement in Climate Policy	3	1.5	1.5	1.5	1.5	1.5
The bank has indirect climate-policy engagement that is aligned with the IPCC and the Paris Agreement	United Nations' Guide for Responsible Corporate Engagement in Climate Policy	3	1.5	1.5	1.5	1.5	1.5
The bank reviews its own and its trade associations' climate policy engagement positions or activities	Global Standard on Responsible Climate Lobbying	3	0	0	0	0	0

Indicator	Source	Max score	CBA	NAB	WBC	MBG	ANZ
Reporting *(out of 16)*							
The bank discloses its financed emissions on an annual basis	TCFD	4	3.34	3.34	2.67	0	2
The bank discloses the methodology used to calculate its financed emissions	TCFD	3	3	3	3	3	3
The bank discloses a list of activities included in its climate financing target		3	3	1.5	3	3	1.5
The bank obtains independent limited assurance on its sustainability performance reporting	NZBA	3	3	3	3	3	3
The material impacts of climate-related matters have been taken into account in the audit of the bank's financial statements	APRA CPG 229	3	3	3	0	0	0
Total		**100**	**62.04**	**55.04**	**46.94**	**46.02**	**34.7**

We love

our beautiful planet

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