Lending Against the Climate's Future

BI ESG, Global Dashboard


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As Banks Step Up Climate Ambitions, Targets and Data Fall Short

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(Bloomberg Intelligence) -- While nearly 40 of the top 54 global banks have committed to aligning their lending portfolios with net-zero climate goals by 2050, fewer than 15 have set interim targets for 2030 that meet the IEA's Net Zero scenario. And recent increases in lending for oil and gas and power generation suggest banks will continue to assume climate-related risks and that their disclosures don't yet match the severity of the exposure.

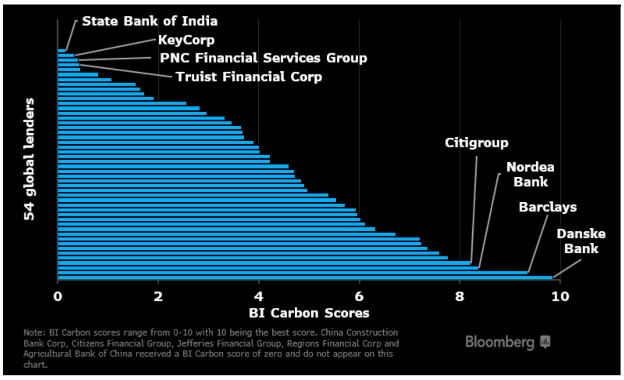
This executive summary is the first in a series that analyzes lending data compiled by Bloomberg and stated targets to create a unique data set of historical and forecasted financed emissions and examine whether banks are aligning their ambitions with their actions. (10/26/22)

1. Danske Bank and Barclays Among Leaders on BI Carbon Scores

Danske Bank, Barclays, Nordea and Citigroup lead a peer set of the top 54 global lenders on BI's Carbon Scores, indicating the best combination of current and forecasted performance on financed emissions from loans. Current performance measures reductions in calculated financed emissions intensity from the oil and gas (integrated and exploration and production) and power generation sectors -- in million metric tons CO2e/total loans in trillions -- over the latest five-year period and current intensity. Forecasted performance is based on calculated financed emissions and publicly reported targets, and measures future reduction, intensity and distance from a 2030 benchmark based on the International Energy Agency's Net Zero by 2050 (NZE) scenario.

The methodology and limitations of the analysis are included below. (10/26/22)

BI Carbon Scores: Banks (Click Data Button for List)



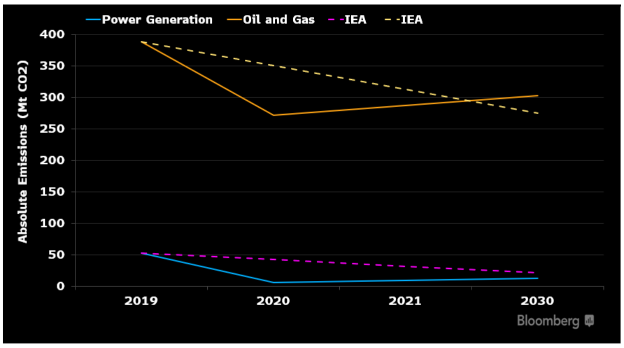
Source: Bloomberg Intelligence

2. Financed Emissions Outlook Is Mixed, While Risks Could Build

Based on our forecasts, the financed emissions from oil and gas (based on the loan recipient's Scope 3) and power (Scope 1) lending for the 41 companies with reduction targets will decline to 315 million metric tonnes in 2030 from 430 million in 2019. Recent increases in lending to these sectors -- from $150 billion in 2020 to nearly $200 billion to date in 2022 -- indicate that these reductions will not be linear, and that banks may continue to increase financed emissions and accumulate more climate risk in the near term.

The European Central Bank's climate stress test found that banks face a €70 billion loss due to natural disasters and changing industries. Yet, it determined that roughly 60% of banks don't have a climate stress-testing framework, and only one in five consider climate when issuing loans. (10/26/22)

Power, Oil & Gas Financed Emissions vs IEA NZE

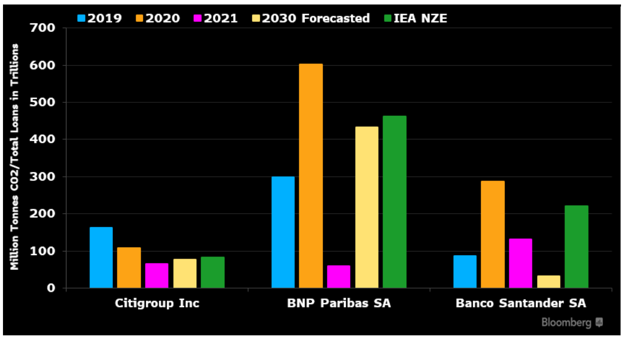


Source: Bloomberg Intelligence

3. Top Lenders Commit to Net-Zero, But Paths Remain Unclear

Nearly 40 of the top 54 global lenders have committed to aligning their lending portfolios with net-zero by 2050 as part of the Net-Zero Banking Alliance. However, our analysis suggests that only 14 -- including Citigroup, BNP Paribas and Santander -- have set interim 2030 targets for lending toward power generation and oil and gas that are consistent with an IEA Net Zero by 2050 pathway. Citi, for example, plans to reduce its absolute financed emissions from oil and gas (Scope 1, 2 and 3) by 29% by 2030 from a 2020 baseline, while decreasing the CO2 intensity (Scope 1) of its power portfolio by more than 60%. (10/26/22)

Historic, Forecasted Financed Emissions vs IEA NZE



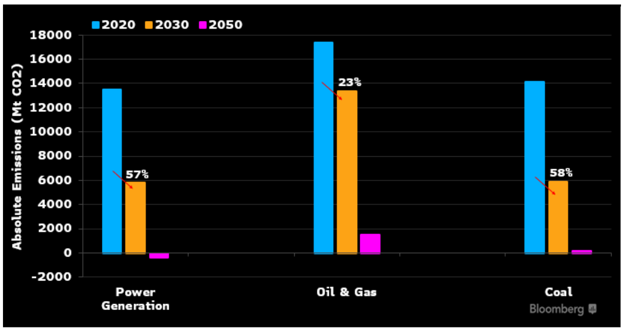
Source: Bloomberg Intelligence

4. Ambition, Progress Hard to Track With Divergence in Benchmarks

Financed emissions targets should align with sectoral pathways that provide scientific and industry-specific guidance on the pace of reducing carbon. However, many banks have yet to tie their reduction strategies to these benchmarks -- and those that do use different pathways. Citi, for example, uses the IEA's Sustainable Development scenario for power and its Net Zero by 2050 scenario for oil and gas. Danske uses Network for Greening the Financial System (NGFS) and IEA scenarios for mapping oil and gas transition risk, but doesn't disclose which it uses to determine the reduction targets.

BI uses the IEA's Net Zero scenario to gauge ambition and to develop a company-specific benchmark based on a 57% reduction in power emissions between 2020-30 and a 23% reduction in oil and gas emissions. (10/26/22)

IEA NZE CO2 Emissions and Reductions



Source: Bloomberg Intelligence

5. Disclosure Is Yet to Match Ambition

Based on our analysis of more than 50 top global lenders, roughly 60% have yet to report any absolute financed emissions data. For those reporting, the majority only provide data for their loans to the oil and gas sector. The lack of disclosure hampers investors' ability to understand current performance and track progress toward 2030 and 2050 targets. More than half of the banks in our peer set lent to coal companies between 2016-21. However, the majority of these loan recipients are private, making calculations of the associated financed emissions impossible given the lack of production data.

Limited emissions reporting from portfolio companies is a stated obstacle for banks to calculate financed emissions. However, those that are committing to reach net-zero should make financing conditional on these disclosures. (10/26/22)

BI Carbon Banks: Qualitative Data

Company	Target Coverage	Net Zero Banking Alliance Membership	Offsets	Carbon Neutral Target	Stop Coal Financing	Current Coal Financing	Financed Emissions Disclosure
Bank of China Ltd	No Industry Target	No	No	No	No	Yes	No
Mizuho Financial Group Inc	No Industry Target	Yes	No	Yes	Yes	Yes	No
Credit Agricole SA	Oil & Gas	Yes	Yes	Yes	Yes	No	No
Bank of America Corp	Oil & Gas and Power	Yes	Yes	Yes	No	Yes	No
Citizens Financial Group Inc	No Industry Target	No	No	No	No	Yes	No
Danske Bank A/S	Oil & Gas and Power	Yes	Yes	Yes	Yes	No	No
DNB Bank ASA	Oil & Gas	No	Yes	Yes	No	No	No
First Abu Dhabi Bank PJSC	No Industry Target	Yes	No	Yes	Yes	No	No
Fifth Third Bancorp	No Industry Target	No	Yes	Yes	No	No	No
ING Groep NV	Oil & Gas and Power	Yes	Yes	Yes	Yes	Yes	No
Jefferies Financial Group Inc	No Industry Target	No	Yes	Yes	No	Yes	No
KeyCorp	No Industry Target	No	Yes	Yes	No	Yes	No
PNC Financial Services Group	No Industry Target	No	Yes	No	Yes	Yes	No
Royal Bank of Canada	No Industry Target	Yes	Yes	Yes	No	No	No
Regions Financial Corp	No Industry Target	No	Yes	No	No	Yes	No

Bloomberg

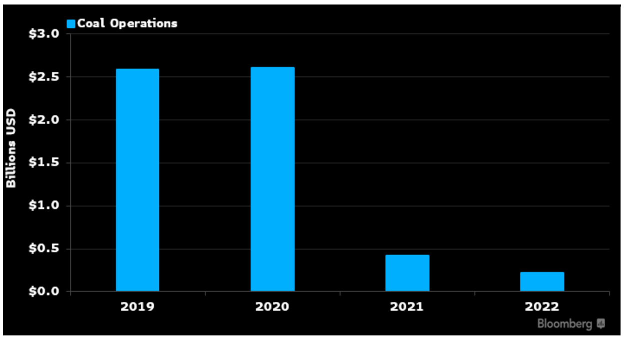
Source: Bloomberg Intelligence

6. An End to Coal Financing? Yes, Maybe.

Loans to coal companies by the top 54 global lenders have decreased by more than 90% to roughly $215 million from 2019-22, based on Bloomberg's league table data (LEAG <GO>). The data may be a bellwether for future financing trends, with all but 11 companies in the peer set planning to limit or exit coal financing. Effective in 2022, Credit Suisse will not provide lending or capital markets underwriting to new clients that derive more than 5% of revenue from coal mining or coal power generation. The company will apply the same threshold to existing clients in 2030.

The IEA calls for an end to all unabated coal-fired power generation in advanced economies by 2030, and in emerging and developing markets by 2040. Coal-fired power generation accounts for roughly 30% of global energy-related CO2 emissions. (10/26/22)

Coal Lending 2019-22



Source: Bloomberg Intelligence

7. Banks Seek to Capture Upside to Climate Finance

While banks pledge to limit their financed emissions, the industry is also capitalizing on the opportunities associated with sustainable finance. Nearly 80% of the banks in our set have sustainable finance targets covering topics including energy transition, social projects and the UN's Sustainable Development Goals.

JPMorgan plans to finance and facilitate more than $2.5 trillion by 2030 from 2021 to advance climate solutions and contribute to sustainable development. Of that, $1 trillion will be focused on facilitating clean energy and the transition to a low-carbon economy. The company reports having financed and facilitated $285 billion in 2021. This is compared to more than $17 billion in reported loans to integrated oils, exploration and production, power generation and coal operations the same year. (10/26/22)

Sustainable Finance Targets

Company	Sustainable Investment Goal
Australia & New Zealand Banking	AUD 50 billion in sustainable financing by 2025
Banco Bilbao Vizcaya Argentaria	€200 billion toward sustainable finance by 2025
Banco Santander	€120 billion in green finance by 2025 and €220 billion in green finance by 2030
Bank of America	$1 trillion by 2030 to mobilize capital towards a low carbon transition, part of $1.5 trillion commitment to support the UN SDGs
Barclays	£150 billion for social and environmental financing by 2025, £175 million investment in green innovation and £100 billion for green financing by 2030
BMO Capital Markets	$300 billion in sustainable lending and underwriting by 2025 and $700 billion via responsible advisory and investment management services by 2025
BNP Paribas	€300 billion euros in sustainable and responsible investment by 2025 and €350 billion euros in loans and sustainable issuances
CIBC	CAD 300 billion in sustainable financing activities by 2030
Citi	$1 trillion in sustainable finance by 2030
Commerzbank	€300 billion euros sustainable products by 2025

Click for full list of sustainable finance targets.

Source: Bloomberg Intelligence

8. BI Carbon – Banks: Methodology

To overcome the lack of disclosure and poor comparability of financed emissions data, BI uses Bloomberg's league table data to derive financed emissions for lending to oil and gas, coal and power generation by applying an attribution factor (loan value / portfolio company's enterprise value including cash) to the borrower's emissions (consistent with PCAF methodology). For oil and gas and coal companies, we focus on Scope 3 emissions, calculated by applying a CO_2 coefficient to the amount each produced in the given year. For power generation, we focus on the company's Scope 1 emissions as reported. Forecasts are determined by applying stated targets to the baseline year of calculated financed emissions.

Coal financing is not included in the forecasts due to a lack of historical data and commitments to exit coal financing. (10/26/22)

BI Carbon Banks: Calculated Financed CO2 Emissions

Enhanced C02 Forecasts | Bank C02 Forecasts | C02 Neutral Basket | Country C02 Forecasts

Financed Emissions | Financed Intensity | Scenarios | Qualitative

View GHG Emissions

Total | Any Region

Data Chart

Click a Company to drilldown

Company	2050	2030	2021	2020	2019
Australia & New Zealand Banking Group Ltd	0	1,108.14	870.21	4,130.97	1,320.87
BNP Paribas SA	0	38,723.61	5,929.81	53,820.94	23,288.74
Banco Bilbao Vizcaya Argentaria SA	0	2,025.38	2,087.18	44.8	888.7
Banco Santander SA	0	898.36	2,894.31	8,040.69	1,460.31
Bank of America Corp	0	17,913.87	12,410.02	11,230.32	39,713.18
Bank of Montreal	0	22,189.64	7,947.09	6,070.59	43,481.73
Bank of Nova Scotia/The	0	32,143.96	27,108.39	9,874.07	40,311.12
Barclays PLC	0	2,534.21	3,338.16	4,276.89	15,648.84
Canadian Imperial Bank of Commerce	0	9,021.24	23,802.19	12,395.32	31,957.62
Citigroup Inc	0	10,702.06	15,444.46	18,961.94	31,274.69
Commerzbank AG	0	424.32	1.91	46.73	773.7
Commonwealth Bank of Australia	0	3,222.15	870.21	4,130.97	
Credit Agricole SA	0	3,590.03	5,065.05	13,124.68	3,480.08
Credit Suisse Group AG	0	1,338.02	1,533.08	251.25	6,032.93
DBS Group Holdings Ltd	0	461.38	.01	640.81	191.64

Source: Bloomberg Intelligence

9. BI Carbon – Banks: Limitations

BI's carbon analysis provides insights into current and future financed emissions. However, the analysis is limited by data constraints, including -- but not limited -- to the following. The analysis is dependent on loan data reported to Bloomberg and captured on LEAG, and the level of associated disclosure varies by region. The purpose of the loans is not reported, and therefore a distinction cannot be made between loans that may go to reduce emissions or another purpose. Loans to private companies are not included in the analysis due to a lack of data on oil and gas or coal production needed to calculate Scope 3 emissions from the loan recipient or Scope 1 data from power generators. These factors can contribute to financed emissions calculations that vary from reported values.

The data and targets are as of Aug. 15. (10/26/22)

Bloomberg League: Loans to Power Generation

Table: Loans to Power Generation | Party: JP Morgan

Period: Year of 2022 | Table view: Credit | Role: Bookrunner

League Table | History | Analysis | Deals

Bookrunner	Rank		Vol (MM USD)	Deals	Table Share (%)	Mkt Share Diff
BNP Paribas	1	↑8	5,826.49	17	9.46	6.40
RBC Capital Markets	2	↑6	4,556.56	14	7.40	4.26
Barclays	3	↑12	4,386.37	11	7.12	5.07
Mitsubishi UFJ Financial Group Inc	4	↓3	2,671.83	21	4.34	-5.11
UniCredit	5	↑19	2,414.80	6	3.92	2.71
CIBC	6	↓2	2,240.90	7	3.64	-1.79
Commerzbank	7	↑31	2,238.72	4	3.63	2.85
Credit Agricole CIB	8	↓2	2,043.08	14	3.32	-1.17
TD Securities	9	↑4	1,833.58	6	2.98	0.52
Bank of China	10	↓8	1,712.48	4	2.78	-4.05
JP Morgan	11	0	1,525.04	8	2.48	-0.29
Sumitomo Mitsui Financial	12	↓9	1,400.37	11	2.27	-3.18
Credit Suisse	13	↑8	1,262.94	10	2.05	0.78
Goldman Sachs	14	↓2	1,207.22	10	1.96	-0.64
Mizuho Financial	15	↓8	1,200.90	11	1.95	-1.40
Citi	16	0	1,191.78	8	1.93	-0.10
BofA Securities	17	↓3	1,143.98	6	1.86	-0.27
UBS	18	↑74	1,012.44	6	1.64	1.62
National Bank Financial Inc	19	↓1	993.81	4	1.61	-0.24
Morgan Stanley	20	↑24	989.04	7	1.61	1.18

Source: Bloomberg Intelligence

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