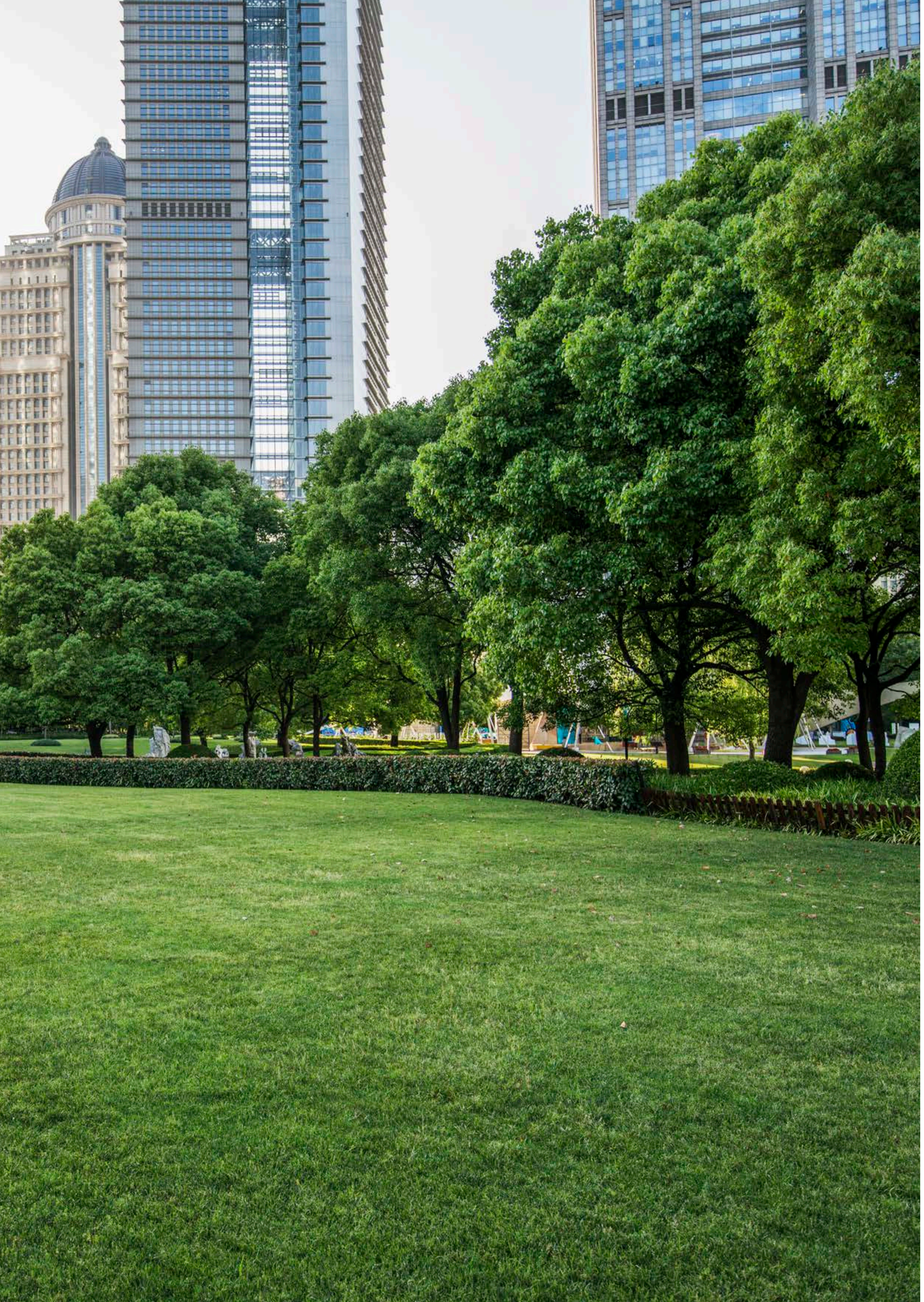
Responsible banking practices

Benchmark study 2021

mazars



Contents

Foreword

Mazars' third benchmark study of responsible banking practices highlights the increasing recognition by financial institutions that climate change and other environmental, social and corporate governance (ESG) risks jeopardise the world's economy and financial system.

Entering a post-pandemic period, banks around the world recognise they have a key role to play in the transition to a sustainable future aligned with the objectives of the United Nations' Sustainable Development Goals (SDGs) and the Paris Agreement.

In the aftermath of the Covid-19 pandemic, which underlined the importance of system resilience, banks are paving the way for a strong commitment to a more sustainable world. In the year of COP26, banks further contemplate environmental and social considerations as critical pillars of their risk management framework. Leaders worldwide are now actively observed and held responsible for their countries' efforts to support a sustainable economy. During his opening speech at the COP26 climate summit in Glasgow, French President Emmanuel Macron called on the world's biggest emitters to catch up and raise their climate ambition. He stated that "too many of us make commitments here and then sign trade agreements that do exactly the opposite."

Similarly, President Joe Biden urged the American nation to "work together as never before"[1] in a year where climate and Covid-19 crises have devastated entire regions. Speaking at the United Nations General Assembly, Biden announced that the US would double its funding to developing nations to tackle climate change.

With the world fast approaching a point of no return, the financial world can no longer see its future as separate from the environment and climate change developments. Despite the progress made by banks worldwide, the full implementation of relevant practices to achieve the transition to a socially responsible and net zero economy remains an important challenge. Lord Deben, Chairman of the Climate Change Committee, urged the British Government to prove that it can "lead a global change in how we treat our planet", aware that we are in the "decisive decade for tackling climate change."[2]

Building on Mazars' previous report: "Responsible banking practices, Benchmark study 2020", our latest report identifies how banks are taking collective responsibility to create the new foundations of a sustainable financial industry and contribute to building healthier economies.

Our report examines a sample of 37 banks based across all continents. Using publicly available reporting, we identify evolving best practices and developing trends in managing climate change risk and broader social and governance issues.

We segmented the 37 banks into four categories – outstanding, leaders, supporters, and followers. Similar to last year's report, one bank is ranked as outstanding, achieving a positive score against more than 95% of the criteria set in our assessment. It is, however, encouraging to see more banks rank as leaders compared to the last benchmark's findings, achieving a positive score between 80% and 95%, despite the tightening of our assessment criteria to reflect the improvement of the practice and requirements.

However, many challenges remain. There is still room for improvement, especially in regions where industry guidelines and ESG-related regulations are lacking. In effect, strong sustainability practices often come hand-in-hand with consistent industry and legal incentives.

Mazars will continue to shine a light on banking best practices relating to governance, strategy, risk management, and disclosure. By providing financial institutions with sound practices and a set of solid recommendations, we can help banks progress to a more sustainable, socially responsible and net zero economy.

Phuong Gomard
Partner, Mazars

1. US to double climate change finance to poorer countries, Biden tells United Nations | Climate News | Sky News
2. Time is running out for realistic climate commitments - Climate Change Committee (theccc.org.uk)

Executive summary

Key findings

1. Most banks under review have now allocated formal responsibility for sustainability-related matters within their board and management function(s), with specific oversight processes. Although chief executive officers (CEOs) are often identified as accountable, 48% of European banks allocate this responsibility to their chief risk officers (CROs), demonstrating the prevalent risk-oriented approach from European regulators. In addition, 66% of banks now include sustainability criteria in variable remuneration (compared to 41% last year). Nevertheless, only 33% of banks identify clear criteria linked to both internal sustainability initiatives and financing activities.

Recommendation: banks should further pursue their work linking remuneration frameworks with ESG performance, taking into account both sustainable initiatives and financial activities objectives.

2. Most banks now identify environmental targets for their activities, but only 24% of them have set net zero financed emissions targets in line with the Paris Agreement objectives. Some 35% of banks initiated the Science Based Targets initiative (SBTi[3]) framework for setting targets, mainly across Europe. The Paris Agreement Capital Transition Assessment (PACTA) methodology is also making progress in Europe, Australia, and South America.

Recommendation: banks should adopt methodologies such as the United Nations Environment Programme Finance Initiative (UNEP FI) Portfolio Impact Assessment Tool[4] to assess their impact and set relevant financed emissions targets.

3. Most banks use a variety of approaches to assess their exposure to climate change risk. Most have implemented dedicated identification and assessment processes based on tools such as physical or transition risks heatmaps and internal climate risk taxonomies. While 70% of banks are building scenario analysis and stress testing capabilities, gaps in data remain a challenge for assessing climate change risk. However, 62% of banks are developing solutions to bridge the gaps. Finally, only 19% of banks disclose on materiality of climate risk through credit or market risk metrics.

Recommendation: banks should continue developing and strengthening their climate change risk assessment methodologies and tools to disclose climate risk-adjusted credit and market risk metrics.

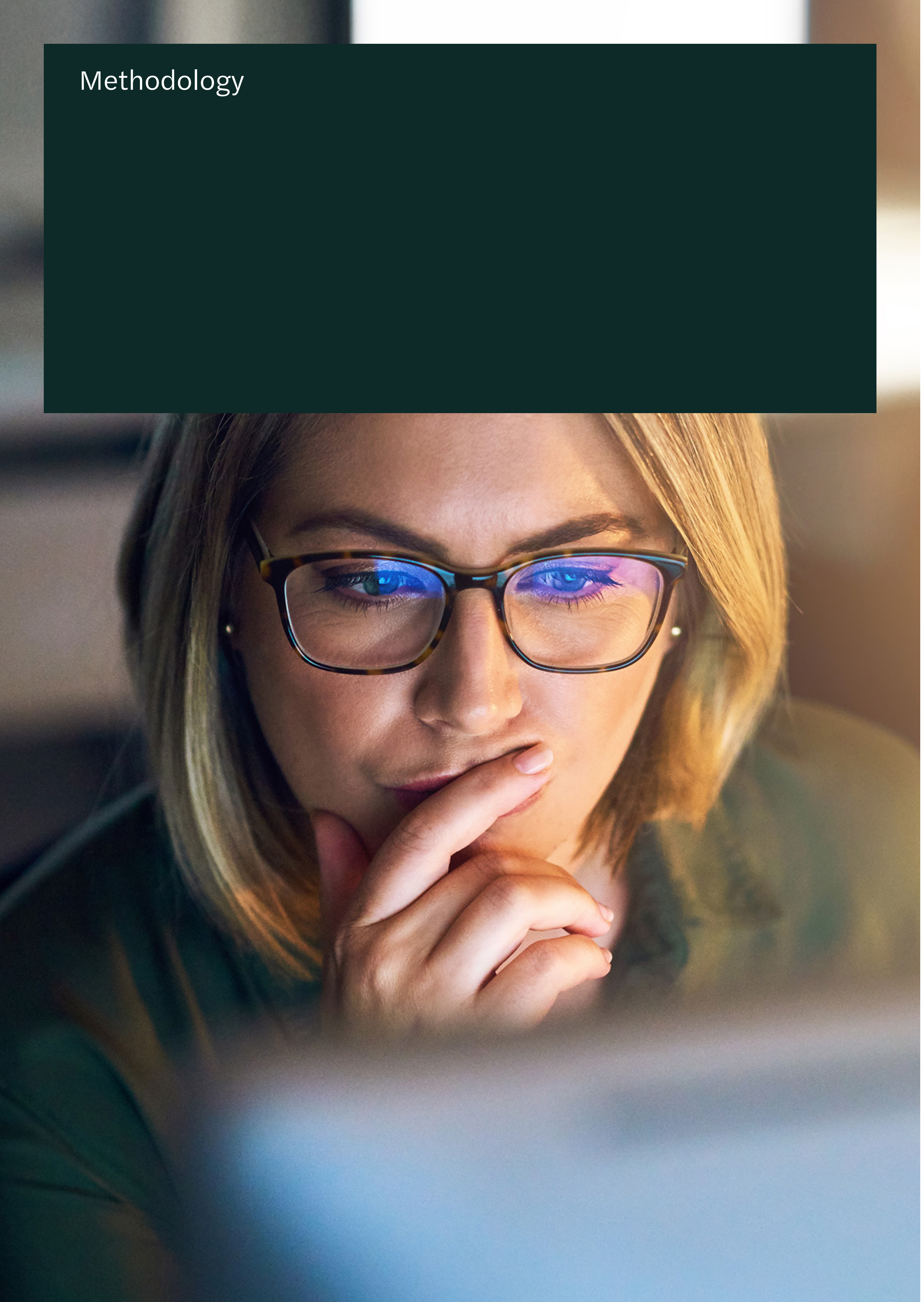
4. Some 92% of the banks make disclosures aligned with the Task Force on Climate-related Financial Disclosures (TCFD) recommendations, compared to 76% last year. This increase may be due to more governments considering making TCFD reporting mandatory. The Partnership for Carbon Accounting Financials (PCAF) standards are used by 43% of banks for disclosing greenhouse gas emissions (GHG) associated with their loans and investments. Financed emissions metrics are disclosed by 62% of banks, but only 13% of banks currently use the Weighted Average Carbon Intensity (WACI) metric.

Recommendation: banks should evaluate their financed emissions, focusing on their main activities and high carbon-intensive portfolios, and expand their sustainability reporting in line with the TCFD recommendations.

State of play

Outstanding	Leaders	Supporters	Followers
1 Bank 3%	12 Banks 32%	16 Banks 43%	8 Banks 22%

3. Science-based targets provide companies with a clearly-defined path to reduce emissions in line with the Paris Agreement goals. More than 1,000 businesses around the world are already working with the Science Based Targets initiative (SBTi)
4. Developed jointly by the Positive Impact Initiative with signatories of the Principles for Responsible Banking (PRB) and UNEP FI Member Banks, the Tool helps banks analyse the impacts associated with their retail (consumer and business banking) and wholesale (corporate and investment banking) portfolios. The analysis enables banks to set targets where it matters in order to drive their contribution to society's goals, as required by the PRB.



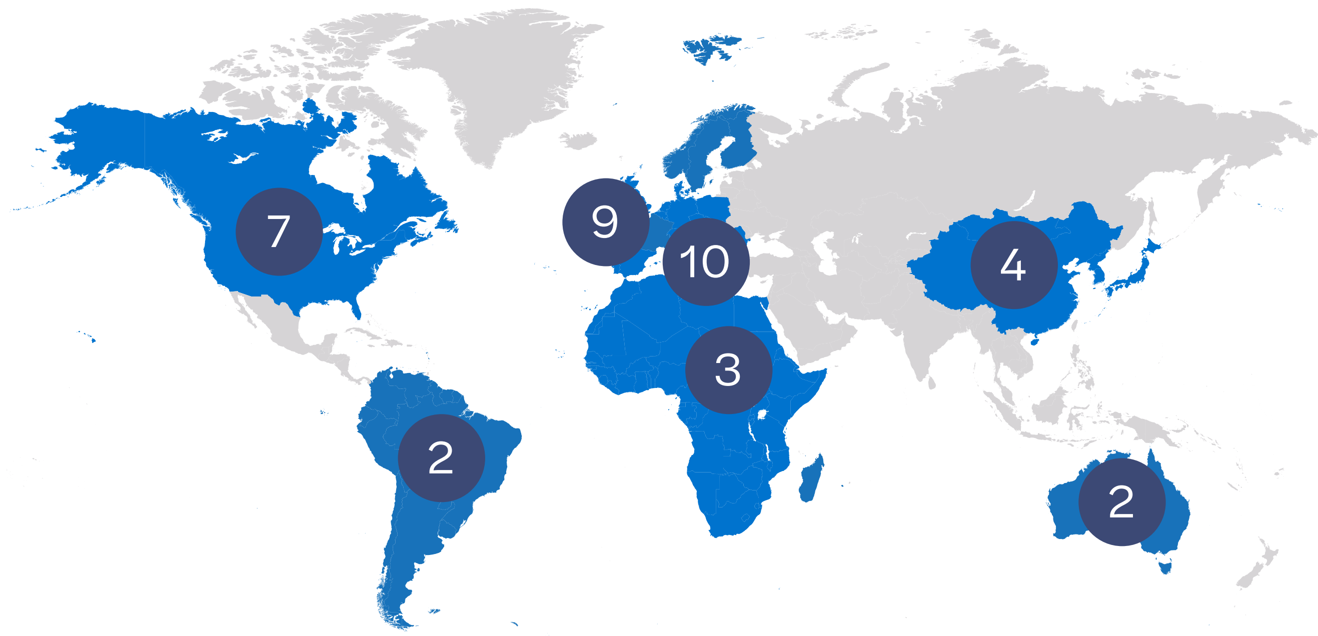
Methodology

Scope

This benchmark assesses the sustainability practices of a sample of 37 banks. We have focused our analysis on banks based in Africa, the Americas, Asia-Pacific, and Europe. The banks selected are the largest, by total assets, in their respective geographies.

Most of the banks selected have demonstrated an interest in sustainability and have already advanced significantly in their sustainability journey by implementing frameworks, for example participating in the UNEP FI and/or committing to the UNEP FI Principles for Responsible Banking (PRB).

This study builds on previous reports published by Mazars in February 2021 and 2020: "Responsible banking practices, benchmark study 2020", "Responsible banking practices, benchmark study 2019" and "How banks are responding to the financial risks of climate change"



Sample of banks

North America (7)
Bank of America
Citibank
Goldman Sachs
JP Morgan Chase
Morgan Stanley
Royal Bank of Canada
Wells Fargo

South America (2)
Banco Bradesco
Itaú Unibanco

UK & France (9)
Barclays
BNP Paribas
Credit Agricole
Groupe BPCE
HSBC
Lloyds Bank
NatWest Group (RBS)
Societe Generale
Standard Chartered

Europe (ex.France, UK) (10)
BBVA
Credit Suisse
Deutsche Bank
ING
Nordea
Santander
SEB
Swedbank
UBS
UniCredit

Africa (3)
Absa Group
FirstRand
Standard Bank

Asia-Pacific (6)
Agricultural Bank of China
Australia and New Zealand Banking Group
Commonwealth bank
ICBC
Mitsubishi FG
Mizuho Financial Group

Methodology

Assessment process

Our analysis is based on banks' 2020/2021 reporting period and publicly available information, such as CSR/annual reports and information held on banks' websites up to July 2021.

We used an assessment matrix to evaluate the banks' approach to sustainability, covering:

- Governance
- Strategy
- Risk management
- Disclosure and reporting

Our assessment criteria are based on expectations set out by UNEP FI and global financial regulatory bodies, for embedding sustainability and for managing the financial risks from climate change. Criteria are expressed as questions, e.g. "Does the bank use scenario analysis to determine the impact of the financial risks from climate change on its risk profile and business strategy?"

Scoring and ranking

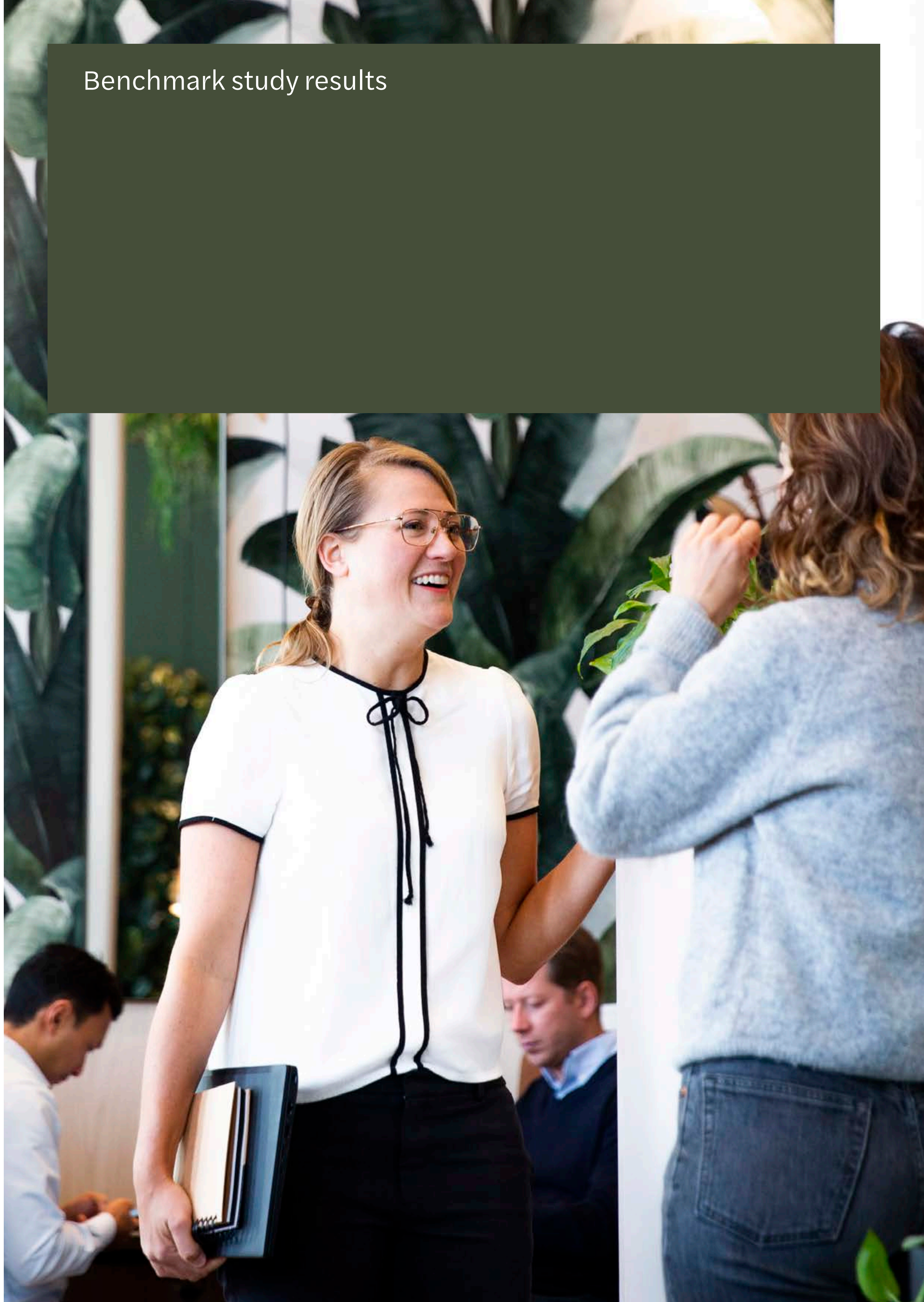
For each assessment criteria, banks that demonstrated sufficient evidence of compliance achieved a positive score. Those that did not achieve compliance with the criteria received a negative score. With an equal weighting given to each assessment criteria, banks were then ranked and grouped based on the percentage of positive scoring, as detailed in the table below.

Category	Rating bands	Performance
Outstanding	Achieved a 'positive score' in over 95% of criteria	Demonstrate a comprehensive approach that meets almost all criteria.
Leaders	Achieved a 'positive score' in 80% to 95% of criteria	Demonstrate a strong approach that meets most of the criteria.
Supporters	Achieved a 'positive score' in 60% to 79% of criteria	Demonstrate a sustainable approach across some criteria.
Followers	Achieved a 'positive score' in under 60% of criteria	Demonstrate limited evidence of a sustainable approach across the criteria.

Structure

In our report, the "Key finding" sections highlight the state of play of banks' practices in the relevant area, illustrated by an overall statement and the main underlying metrics. The "Examples of leading practices" sections provide concrete examples of good practices.

Benchmark study results



Governance for sustainability

Banks with a sustainability culture foster awareness and demonstrate top-level commitment. This approach is also reflected in their corporate governance structure through board and management responsibilities, board composition and incentives that align with ESG criteria.

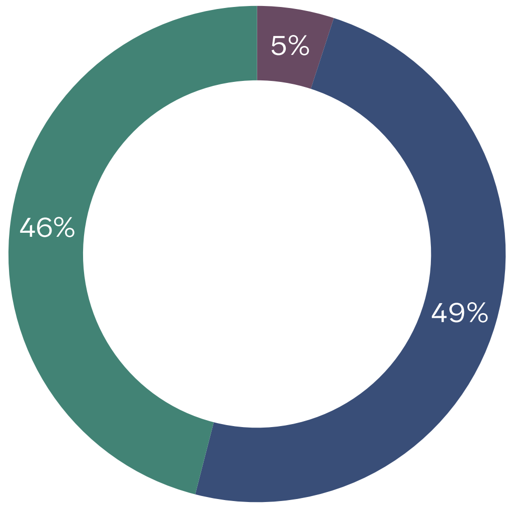
Most banks under review have now allocated formal responsibility for sustainability-related matters within their board and management function(s), with specific oversight processes. Although chief executive officers (CEOs) are often identified as accountable, 48% of European banks allocate this responsibility to their chief risk officers (CROs), demonstrating the prevalent risk-oriented approach from European regulators.

While

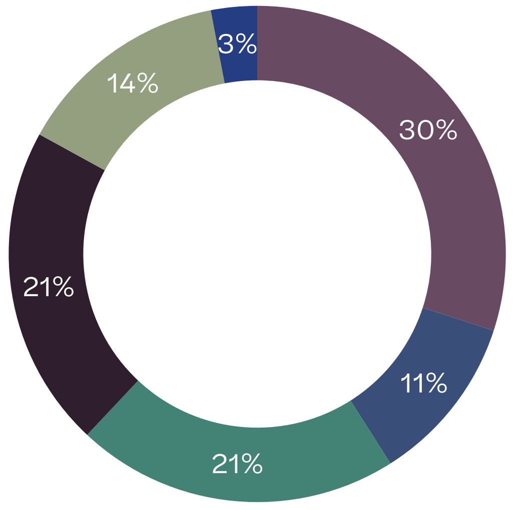
66%

of banks are now including sustainability criteria in variable remuneration (compared to 41% last year), only 33% of banks identify clear criteria linked to both internal sustainability initiatives and financing activities.

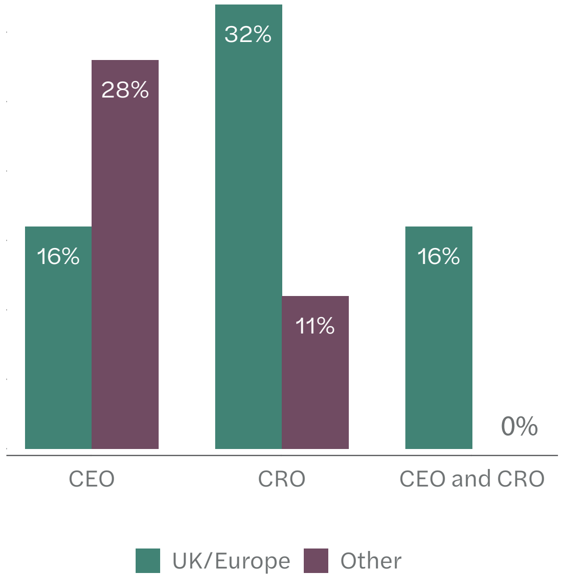
Board oversight on climate risks and sustainability matters



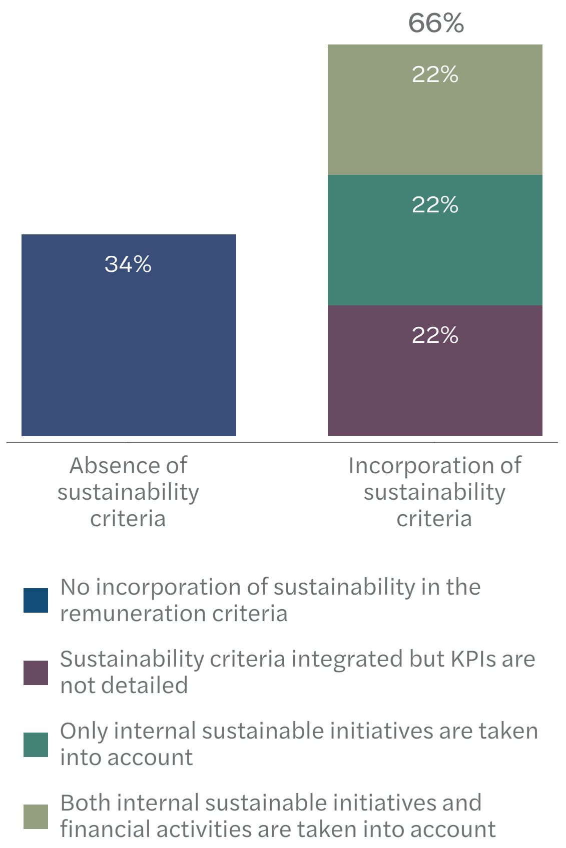
Identification of management functions responsible for sustainability



Identification of CEO and CRO management functions responsible for sustainability per geography



Incorporation of sustainability criteria in the remuneration framework



Examples of leading practices

MI reporting

- The bank's climate-related risks were addressed a dozen times at board and board committee meetings in 2020 to present results and discuss ESG roadshows. The Risk Management and Compliance Committee reviewed the internal control report in the universal registration document twice and analysed the oil & gas budget. Climate-related risks were addressed at half of the board of directors meetings to present the ESG Action plan, a cross-business programme aimed at strengthening the bank's ESG risk management processes.
- The bank introduced a climate dashboard. The dashboard is reviewed by the Board Risk Committee on a quarterly basis; it provides updates to the committee on evolving climate risk governance, and on the bank's exposure to elevated risk sectors and countries across financial and operational risks.

Responsibilities for sustainability

Management of climate-related risks and opportunities is a shared responsibility across the bank. Senior managers from public affairs, risk, finance, legal, operations & technology, and various business units combine their expertise to address these challenges. The bank created the new role of chief sustainability officer (CSO) who plays an integral role in developing the climate strategy, elevating sustainability and climate-related matters, and ensuring coordination and alignment of environmental and social activities across the bank. Last year, the bank appointed a head of crisis management and climate risk who reports to the CRO and is a member of the Risk Management Executive Council.

Incorporation of ESG criteria in incentive structures

- CSR objectives form part of the evaluation criteria for the CEO's annual variable remuneration determination. Long-term incentives are aligned with group CSR targets for 20% of the award: one half is based on external analysis of the bank's CSR performance and the other half is based on the achievement of the bank's commitments in terms of financing the energy transition.
- For the board and managing directors, progress against green financing, internal diversity (employee gender diversity, representation in senior roles), or again net zero targets, are considered. The reduction of the operational footprint and the bank's ESG rating are also taken into account by the bank.

Sustainability strategy

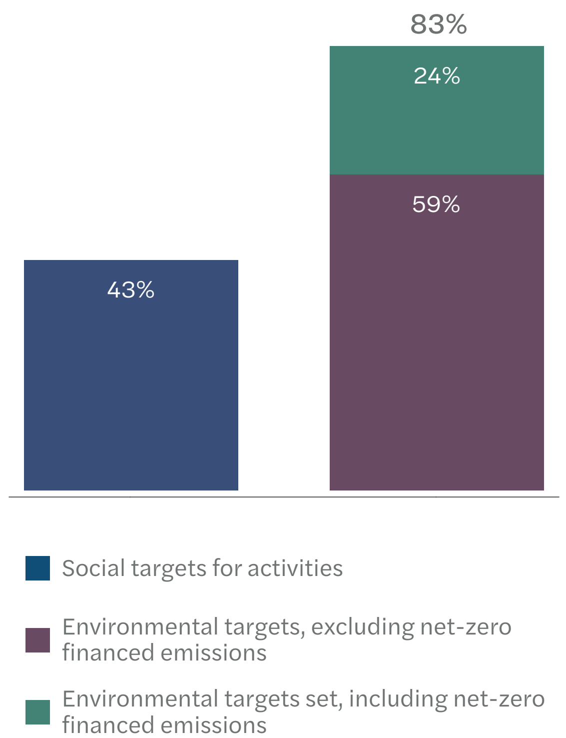
Banks with a sustainability strategy integrate the SDGs, the Paris Agreement objectives, and other relevant frameworks into their key business decisions. They also continuously assess their most significant environmental and social impacts to set up specific targets that ensure contribution to societal goals.

Most banks now identify environmental targets for their activities, but only 24% of them have set net zero financed emissions targets in line with the Paris Agreement objectives. Some

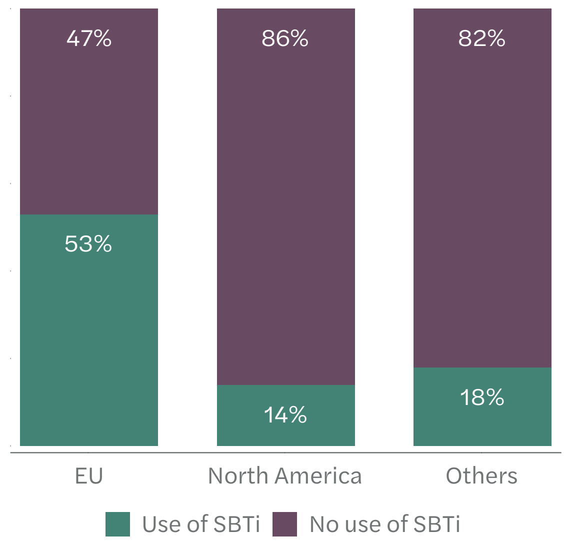
35%

of banks initiated the use of the SBTi[5] framework for targets setting, mainly across Europe. The PACTA methodology is also making progress in Europe, Australia, and South America.

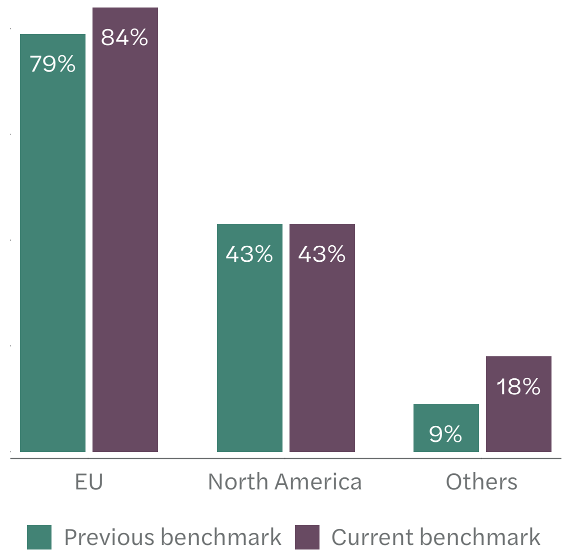
Identification of long-term targets driving the sustainability strategy



Use of SBTi per geography



Geographic progression of PACTA implementation



5. Science-based targets provide companies with a clearly-defined path to reduce emissions in line with the Paris Agreement goals. More than 1,000 businesses around the world are already working with the Science Based Targets initiative (SBTi)

Examples of leading practices

Financed emissions targets

The bank is committed to net zero greenhouse gas emissions by 2050 including both its own operations and its financing. The bank's net zero plan includes emissions reduction targets for carbon-intensive sectors that also have low-carbon transition opportunities, including interim emissions targets for 2030 for its energy and power portfolios. The bank also announced its 2025 Sustainable Progress Strategy and an associated five-year goal of $250bn for environmental finance to accelerate the transition to a low-carbon economy.

Methodology

- The bank uses Network for Greening the Financial System (NGFS) scenarios and aligns its climate analysis with UNEP FI pilot projects. The overall structure is aligned with the outcomes from both UNEP FI and TCFD Banking Pilot Projects, where the details have been tailored to the bank's portfolio and home markets. The bank also uses PACTA for managing its investments to identify the most strategic goals to be supported in the future.
- The participation in the SBTi's road testing enabled the bank to improve available methods in cooperation with a range of stakeholders.

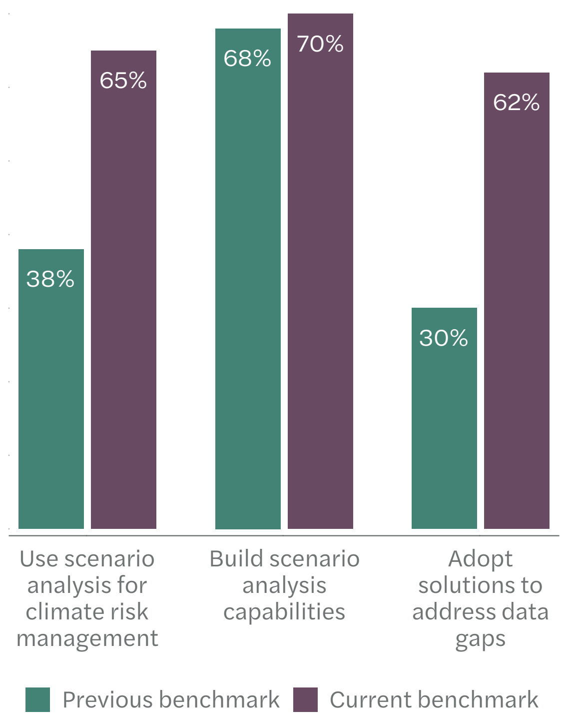
Banks with an effective ESG risk management framework have adapted their risk policies and processes to identify and measure environmental and social impacts, including climate risks. They adopt specific metrics to monitor identified impacts and risks and implement mitigation measures to address them when material.

Most banks use a variety of approaches to assess their exposure to climate change risk. Most have implemented dedicated identification and assessment processes based on tools such as physical or transition risks heatmaps and internal climate risk taxonomies. While

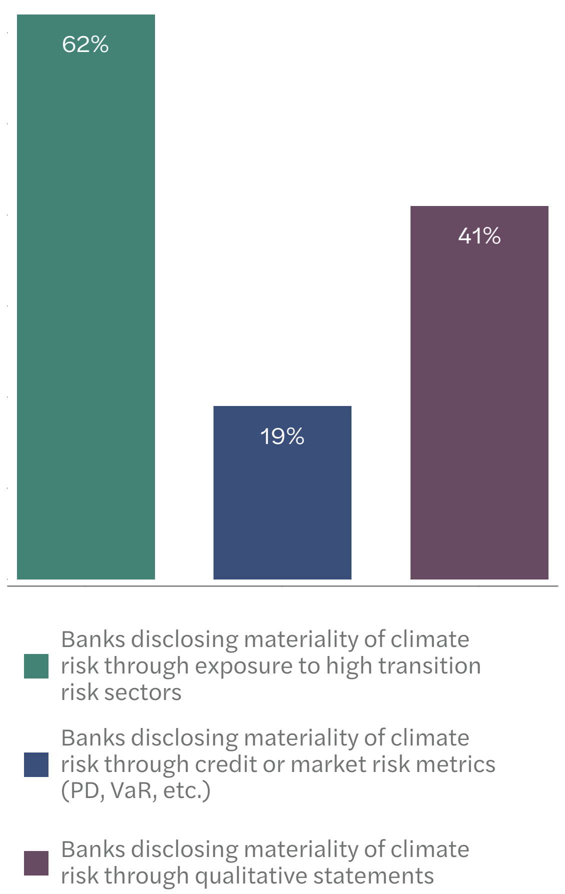
70%

of banks are building scenario analysis and stress testing capabilities, gaps in data remain a challenge for assessing climate change risk. However, 62% of banks are developing solutions to bridge these gaps. Finally, only 19% of banks disclose on materiality of climate risk through credit or market risk metrics.

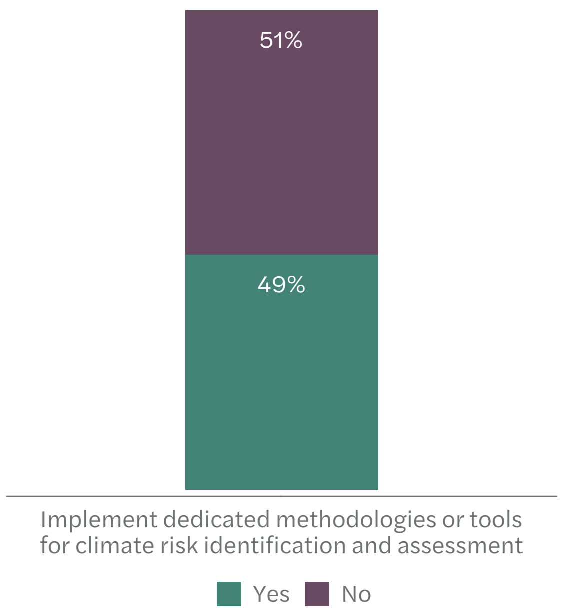
Scenario analysis and data gaps



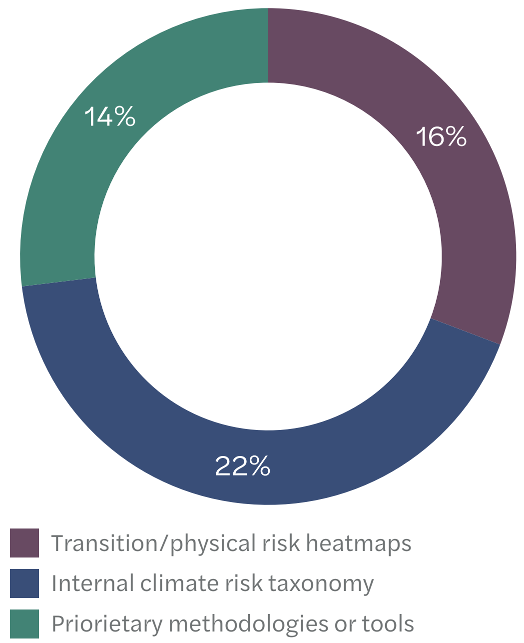
Disclosure on materiality of climate risk



Methodologies and tools



Dedicated methodologies and tools used for climate risk identification and assessment



Examples of leading practices

Scenario analysis capabilities

The bank used three representative scenarios prescribed by the NGFS and translated them into a set of key drivers for companies' performance: price, demand, unit cost, capital expenditures and asset value. These key drivers were then projected on the companies' financial statements to assign a scenario-adjusted credit risk rating.

Addressing data gaps

- Since 2020, the bank has been working with an external service provider to assess the physical risks represented in its loan book. Impacts from six major climate-related events were modelled (water stress, sea level rise, flooding, wildfires, hurricanes and heat waves).
- The bank has launched a project to gather environmental data from its clients in collaboration with third-party providers and by creating industry-specific sustainability questionnaires. The aim is to increase the knowledge of the bank's portfolio's environmental performance and to be able to make better data-driven decisions.
- The bank participates in international initiatives (TCFD, UNEP FI Pilot II) or pilot programmes organised by central banks.

Engaging with clients on their transition

The bank developed a "climate transitioning tool" to determine whether a company is engaged in a process of adapting its business model to the changes required by climate transition. The tool is designed to support clients in their transformation journey.

Benchmark study results
ESG reporting standards

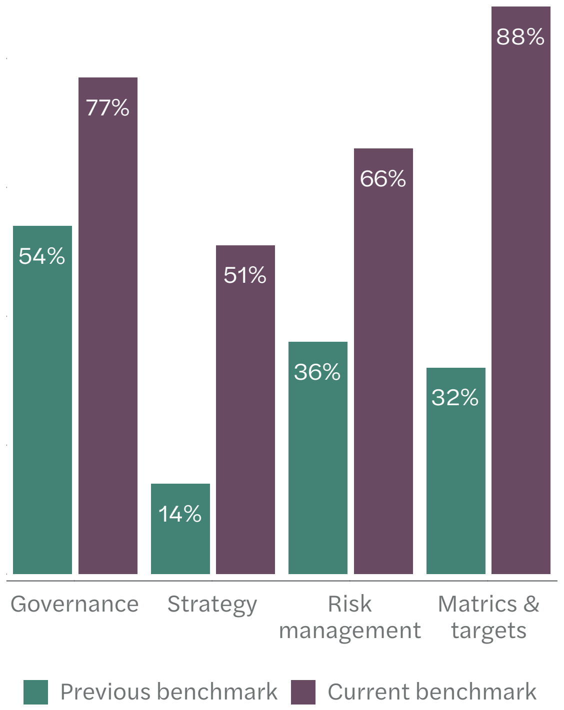
ESG disclosure and reporting standards provide banks with guidelines to demonstrate their ESG impact, the implications of ESG issues for business performance, and how these are managed across the organisation. Banks also standardise disclosures, enhancing transparency for external stakeholders.

92%

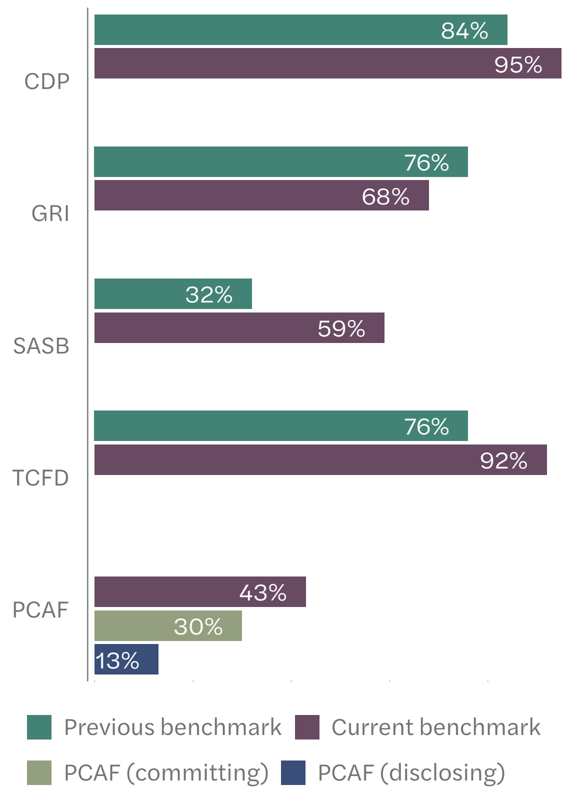
of the banks make disclosures aligned with the TCFD recommendations, compared to 76% last year.

While this may be a consequence of the fact that more governments have considered making TCFD reporting mandatory, 43% of banks use the PCAF standards for disclosing GHG emissions associated with their loans and investments. Financed emissions metrics are disclosed by 62% of banks, but only 13% of banks currently use the WACI metric.

State of alignment with the TCFD recommendations

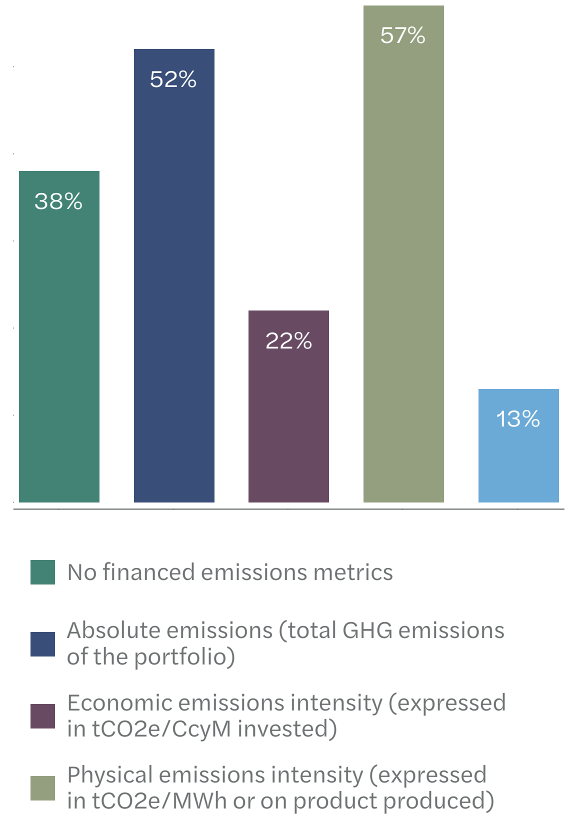


Use of voluntary sustainability reporting standards[6]



6. Based on 2021 GRI reporting made

Methodologies and tools



Examples of leading practices

Reporting frameworks

- The bank reports under sustainability reporting standards such as TCFD, SASB, GRI and CDP.
- The bank sits alongside engagement with leading industry and academic groups on common approaches to tackling the climate challenge, including the PCAF.

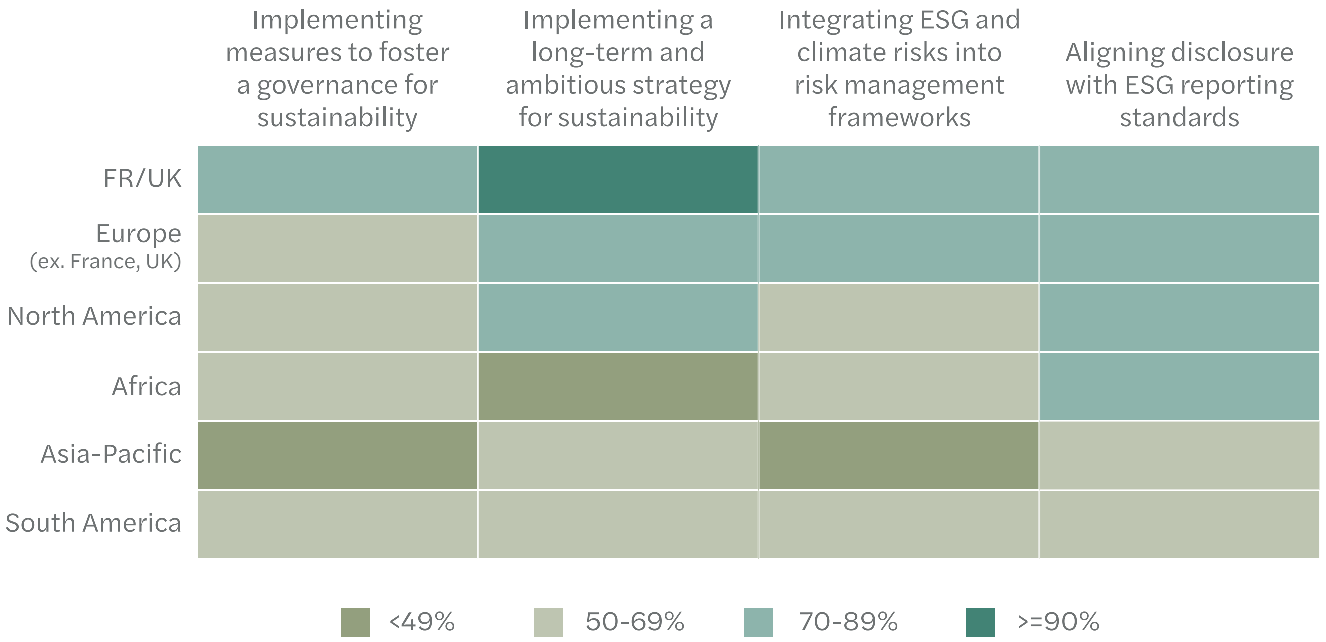
TCFD metrics and targets

The bank discloses metrics on Scope 1, 2 and 3 emissions against its 2018 baseline. Metrics showing performance against objectives are also included in the report. Finally, the bank discloses amounts on social and environmental financing achieved against its 2025 target.

The bank discloses metrics on direct and indirect GHG emissions (in tonnes). The bank also gives details on its energy consumption (e.g. electricity, natural gas, diesel, power purchase, water, wastewater, number of disposed computers etc.).

Benchmark study results
Geographic analysis

Criteria score per geography
(% of banks assessed)



Using the [OMFIF Sustainable Finance Policy Tracker] in addition to the benchmark analysis, we were able to compare trends across the following regions:

Europe

- French and UK banks still hold the leading position in all fields assessed, with the implementation of sustainability strategies being their strongest point. They also achieved the highest scores across all geographies in ESG risk management.
- Significant discrepancies between UK/FR and other European banks still exist. Indeed, there is room for improvement for European banks' (ex. UK/FR) governance and disclosure arrangements. This situation will probably improve in the coming months as sustainability-related disclosure regulations continue to emerge and enter into force across the region.
- Also enforced this year, the 'EBA Report on Management and Supervision of ESG risks' provides a proposal on how ESG factors and risks should be included in the regulatory and supervisory framework. We therefore expect European banks to bridge the gap with French and UK banks .

The regulations relating to the EU action plan are now in place and are gradually coming into force with an implementation schedule spread out to 2024. Beyond the EU action plan, certain progress has been made with the ACPR's and ECBs climate stress tests. The ECB's guide on climate risks has the merit of formalising banks' action plans to integrate climate risk into their management frameworks. Now the time for action plans and roadmaps is over, and the time for implementing regulations and executing roadmaps has come. French banks are therefore getting down to work on ambitious ESG transformation plans that will have to be implemented operationally. These plans are cross-functional, multi-faceted and complex. In addition to regulations, they also encompass ESG business lines with normative, organisational, architectural, governance and data dimensions. With the ESG data provider market in full mutation, the exploitation of ESG data is vital, from the acquisition stage to its restitution.

Another key development in France is the implementation of SFDR into French law (LEC 29) in 2022, which is more prescriptive than SFDR in terms of scope, biodiversity requirements, portfolio alignment with the Paris Agreement and risk management. Such actions demonstrate France's leadership in sustainable finance. It also underlines the strategic importance of the regulatory issues related to sustainable finance and the decisive role of Europe in demonstrating best practices.

Matthieu Ribes
Partner, France

In the ramp-up to COP26, the UK announced their ambition to become the first net zero global financial centre. It means that financial institutions operating in the UK will be amongst the most affected companies globally in terms of upcoming regulations. They will be subject to new requirements and will need to publish transition roadmaps towards sustainable systems.

In reality, since 2019, the Prudential Regulation Authority (PRA) and the Bank of England (BoE) have been publishing their supervisory expectations for banks on their management of climate-related financial risks. They have been providing guidance and feedback on progress and worked with industry groups to address the challenges posed by the transition. They are currently working on the results from the 2021 climate biennial exploratory scenario.

Due to all these initiatives, the PRA will soon require that firms demonstrate their ability to understand and manage climate-related financial risks on an ongoing basis. In other words, thematic reviews will start on this topic, and supervisory mechanisms and tools will be used.

Ultimately, this demonstrates that the regulator has a duty to ensure the safety and soundness of the financial system and that climate change does pose a risk that all market participants must address.

Phuong Gomard
Partner, UK

Geographic analysis

North America

- Though North American banks still rank among the leading institutions, as in last year's benchmark, they did not make significant progress this year, in comparison to their European peers.
- North American banks are performing well in disclosure as reporting under TCFD may become mandatory in the near future. There is still room for better integration of ESG risks into risk management frameworks, but we expect the New York Stock Exchange ESG Guidance enforced in 2021 to help banks progress in this area.

Significant progress in ESG issues is evident around the globe as we see more economies adopting mandatory disclosure requirements. But beyond reporting, ESG goals make a difference when they impact local communities. Scaling up investments and eliminating barriers to adaptation, particularly in more vulnerable areas and demographics, will make a real impact in building an ESG-resilient global economy.

In terms of the US, 2021 continues to be a patchwork of an all-agency approach by regulators to address the increased threat of climate risk to financial stability. This year, the SEC continues to review feedback received on climate risk disclosures. The US Treasury published 'A RoadMap To Build A Climate-Resilient Economy'.

More recently, the Financial Stability Oversight Council (FSOC) released its 'Report on Climate-Related Financial Risks. Composed of major US regulatory agencies, the FSOC presented specific recommendations for its members to effectively address climate-related physical and transition risks. Key challenges include building capacity by member agencies to develop and promote standardised metrics and processes to define, identify, measure, assess and monitor these risks. As a result, we can expect to see detailed supervisory expectations and guidance in the coming year.

Gina Omolon
Partner, USA

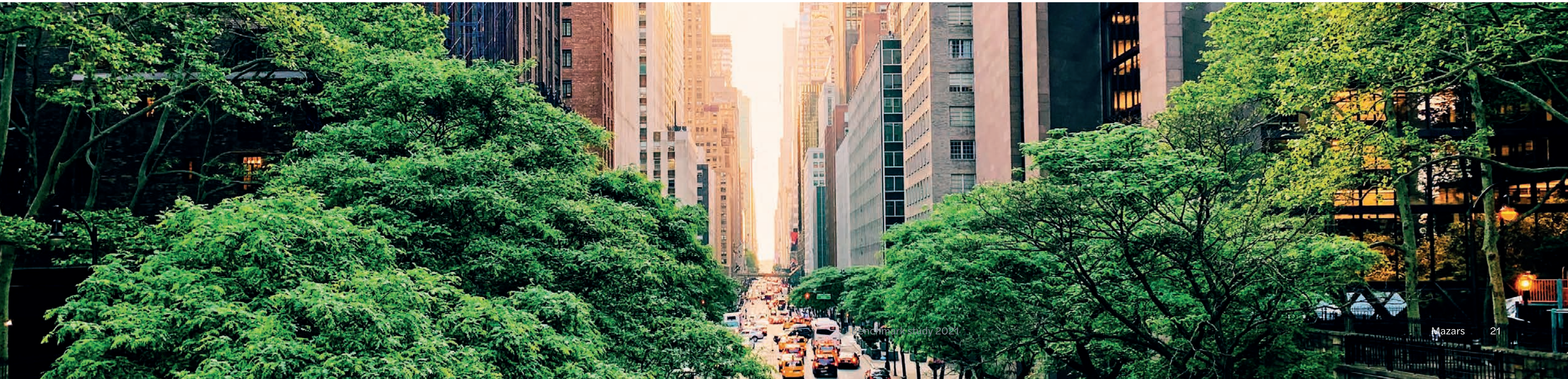
South America

- Overall, South American banks achieved a better score than Asia-Pacific and Africa on strategy. However, there are significant discrepancies between the two South American banks we assessed, with one attaining a 75% overall score and the other 38%.
- The local regulatory and governmental initiatives in sustainability and climate change remain at an early stage of development given the absence of any sustainable finance taxonomy.
- As announced by the Central Bank of Brazil in September 2020, TCFD reporting is expected to become mandatory by 2022. We expect this regulation to reduce the discrepancies between banks on ESG reporting standards.

The Central Bank of Brazil has made a concrete move to advance sustainability issues through the launch of six more regulations aimed at financial institutions. Comprehensive regulations related to mandatory disclosures and reports, content and criteria; a definition and reporting framework for environmental, social and climate risk management criteria; plus, among other things, restrictions to credit to companies from the Agro sector not committed to ESG aspects, highlights the Central Bank's commitment to ESG implementation. Approved and launched on 15 September 2021, these new standards bring a more tangible timeline for initiatives to be implemented by financial institutions by 1 December 2022. Moreover, they have set the standards and oriented clearly how the Central Bank wishes to move forward with commitments on ESG and how it will monitor adherence. Another interesting aspect to emphasise is the specific restrictions to Agro sector companies not aligned with regulatory requirements.

With clear instructions now available to finally put in place ESG practices, we expect to see action from financial institutions of all sizes and characteristics as they move towards compliance with this new set of regulatory demands during 2022. As next steps, we can expect a specific rule for a credit line oriented to sustainable liquidity, criteria based on sustainability for international reserves and investment selections and the development of stress tests for climate risks within the financial services industry. Finally, banks still need to promote more clearly what they have been doing and their level of adoption of ESG standards, as well as the impact on their business.

Douglas Souza De Oliveira
Partner, Brazil



Benchmark study results
Geographic analysis

Asia-Pacific

- One Australian bank is performing well with regards to Governance and Risk Management and is ranked as a leader. The new Prudential Practice Guide released in April 2021 by the Australian Prudential Regulation Authority (APRA), as well as the announcement that reporting under TCFD would be mandatory in Australia by 2024, largely explains the high performance of this bank.
- The Asia-Pacific region obtained the worst score in governance, risk management and disclosure. Significant discrepancies in the region remain between the best-performing countries and China. In Australia, the 10-year road map on sustainable finance explains the progress made.
- In China, the Green Finance Development Regulations enforced in 2021 will oblige listed financial companies registered in Shenzhen to disclose environmental-related information from January 2023.

As a region, Asia accounts for approximately 50% of global energy consumption as well as global carbon emissions. It is therefore increasingly clear that to win the war on climate change, critical battles need to be fought and won in Asia. As a result, certain progressive Asian regulators have introduced initiatives to ramp up green finance through improving disclosures and enhancing green solutions. In May 2021, the Monetary Authority of Singapore issued a detailed implementation guide for climate-related disclosures by financial institutions, which sets out best practices aligned with the TCFD recommendations. Similarly, in July 2021, the Hong Kong Monetary Authority issued draft guidelines for climate risk management by financial institutions across areas of governance, strategy, risk management and disclosure.

Other regulators such as the Financial Supervisory Commission in Taiwan announced in August 2020 the "Green Financial Action Plan 2.0", which aims to create financial mechanisms to increase the awareness of companies and investors on ESG issues. Based on this plan, the guidelines for the Principles for Responsible Banking (PRB) were announced. In 2021, two of the top five banks in Taiwan declared their adoption of the PRB, highlighting a noticeable trend of adopting international ESG-related principles and initiatives by banks in Taiwan. Ultimately, improved governance and risk management on climate change by financial institutions are essential steps but which also need to lead to tangible progress in the mobilisation of vast global capital to support Asia's transition to a more sustainable future.

Roger Loh
Director, Singapore

David Chung
Director, Taiwan

The risks associated with a changing climate extend across many, if not all, sectors of the economy. Each sector will face its own challenges in understanding, assessing and managing the most material climate-related risks. For firms in the finance sector, the ability to build a comprehensive understanding of their climate risk exposure will require knowledge of their own businesses exposure to climate-related risks and those of their customers and counterparties across a wide range of sectors.

In an initiative led by the Australian Prudential Regulation Authority (APRA), Australia has adopted a scenario analysis approach to assess potential financial exposure to climate risk. This initiative will give the ability to understand how Australian banks may adjust business models, implement management actions in response to different scenarios, and foster improvements in climate risk management capabilities. Implementation will begin with Australia's five largest banks completing a climate vulnerability assessment (CVA) stress testing programme that will inform planning for the range of potential future financial impacts that may be triggered by climate change. This assessment is expected to improve the understanding of financial risks associated with climate change by industry and Council of Financial Regulators (CFR) agencies, as well as support strategic decision-making on climate-related risks.

Angela Winton
Partner, Australia

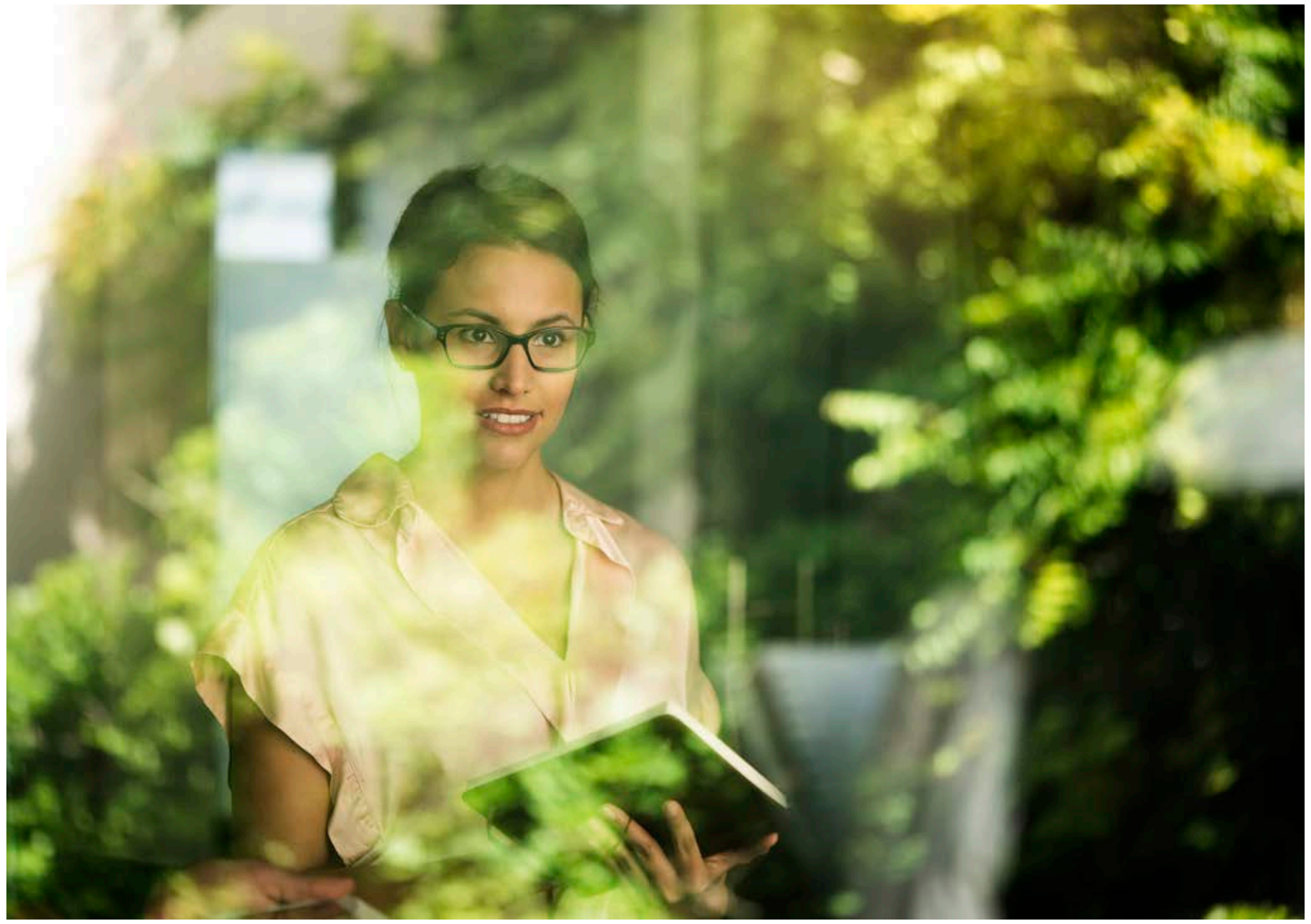
Africa

- Similarly to last year, disclosure is a strength of banks operating in Africa, with an overall score of 78%. This performance is mainly explained by a large, voluntary adoption of reporting standards such as TCFD, as there is currently no disclosure-related regulation.
- African banks achieved a better score than Asia-Pacific, South American and European banks (ex. UK/FR) on both disclosure and governance.
- Significant enhancements can be made on strategy, but improvements are expected since all banks are UNEP FI PRB signatories. For example, they could better identify and report metrics regarding their progress towards strategic targets. Furthermore, since South Africa has a sustainable taxonomy under development and committed to a net zero target by 2050, we expect the region to continue progressing in this area.

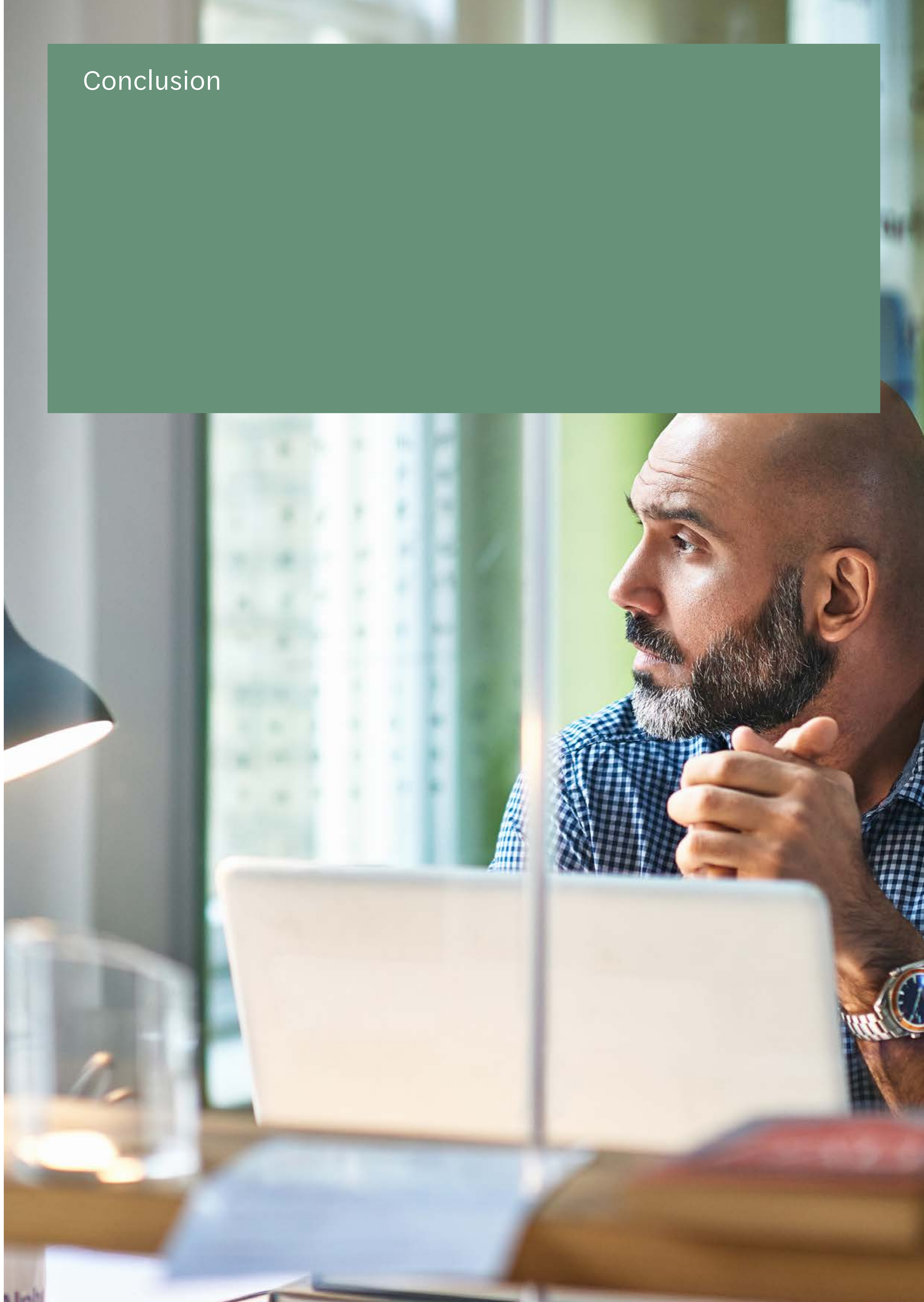
Banks in South Africa are continuing their focus on ESG issues, particularly as shareholders raise specific questions on climate disclosure. As a developing country, South Africa is particularly vulnerable to the impacts of climate change and the financial sector has an important role to play in helping the transition to a low carbon economy. In terms of sustainability initiatives, the financial sector is working hard to develop a framework on sustainable finance.

Major banks are stepping up to the plate in terms of voluntary adoption of some standards, but the next step needs more consistency between government and industry-led initiatives to ensure there is a unified approach that offers clear standards and guidance.. We expect progress to be made following South Africa's commitment to a net zero target by 2050 and the current development of a sustainable taxonomy.

Riaan Eksteen
Partner, South Africa



Conclusion



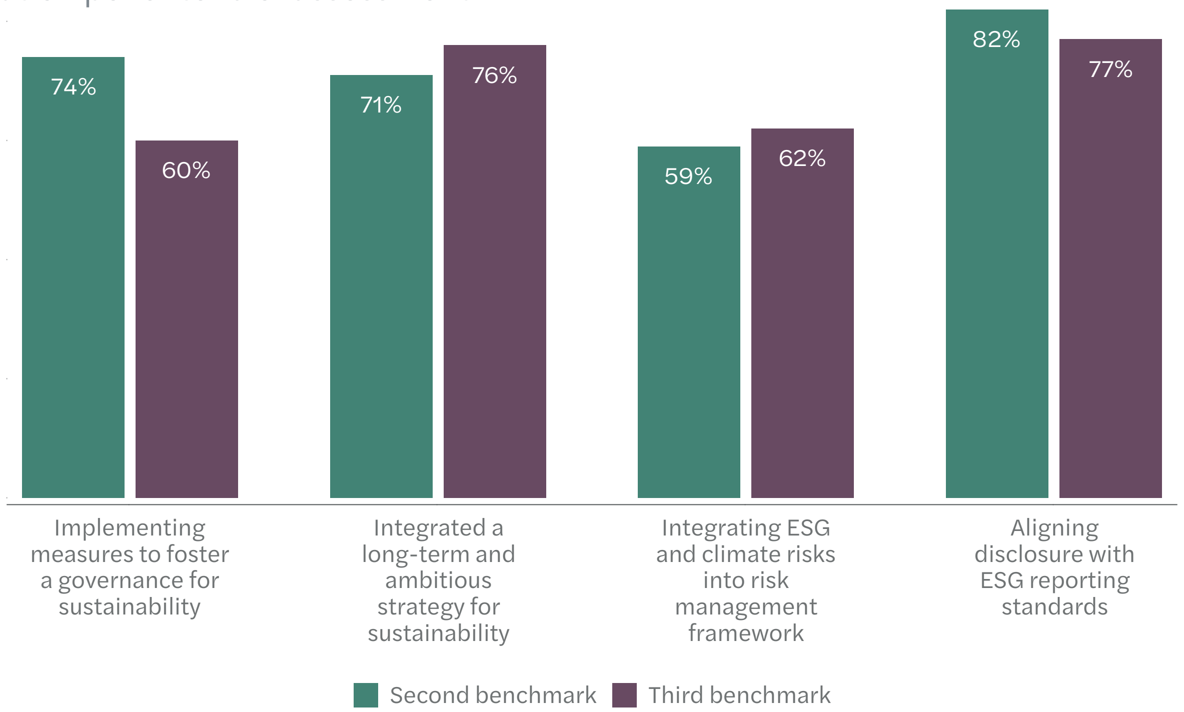
Progress made

Since Mazars' last benchmark study published in February 2021, we have tightened our criteria in all four areas assessed. This adjustment better reflects the progress made in implementing sustainability practices. It also highlights that progress remains to be made as banks continue on the pathway to sustainability and making a contribution to low carbon economies.

Despite our criteria becoming more stringent, more banks have been found to have set a long-term and ambitious strategy for sustainability. Better scores were also obtained by banks in relation to risk management.

However, the changes in our criteria led to a decrease in governance- and reporting-related scores. In reality, progress was made in these areas compared to last year, but improvements still need to take place to bridge the gap with outstanding practices.

Evolution per criteria of assessment



Conclusion

What's next?

The coming years present genuine opportunities for progress in sustainability and climate change-related matters.

If the development of governmental initiatives pushes banks to pursue sustainability efforts, ESG transformation projects will be geared towards dealing with both regulatory and non-regulatory objectives.

In particular:

- The growing adoption of TCFD recommendations, with France, Germany, Italy, Canada and the US now considering making climate-related disclosures mandatory, will encourage banks to better manage climate-related risks. In Brazil and Australia, reporting under TCFD is to become mandatory by 2022 and 2024 respectively. The TCFD 2021 status report notes that, "as support from the private sector has grown, governments around the world have begun to codify aspects of the TCFD recommendations into policy and regulation, using the TCFD's work as a foundation for climate-related reporting requirements".[7]
- The development of a green taxonomy in the UK, South Africa and Australia as well as the implementation of European regulations including the EU Taxonomy Regulation and the Level 2 measures of the Sustainable Finance Disclosure Regulation (SFDR) in June 2022, will likely reinforce the quality of disclosures in those regions.
- The development of the PCAF, launched in September 2019, will drive further improvement in the assessment of climate-related risks and opportunities and the implementation of long-term strategies for sustainability. Currently, more than 145 banks and investors have subscribed to the PCAF initiative. PCAF participants work together to jointly develop the Global GHG Accounting and Reporting Standard to measure and disclose GHG emissions of their activities.
- Finally, in the medium to long term, the convergence work between the International Integrated Reporting Council (IIRC), Global Reporting Initiative (GRI) and Sustainability Accounting Standards Board (SASB), as well as the creation of a global sustainability standard by the International Financial Reporting Standards (IFRS) Foundation, should help to improve the comparability of sustainability disclosures across geographies - although it may be a while before this materialises in banks' reporting.

For this purpose, significant improvements in data collection and management - process, architecture, applications, and governance - will be key to achieving the transition to a sustainable economy.

7. 2021 Status Report: Task Force on Climate-related Financial Disclosures - Financial Stability Board (fsb.org)

Glossary

Term	Definition
Climate-related risk	Refer to the potential negative impacts of climate change on a company or organisation. • Physical risks emanating from climate change can be event-driven (acute) such as increased severity of extreme weather events (e.g. cyclones, droughts, floods and fires). They can also relate to longer-term shifts (chronic) in precipitation and temperature and increased variability in weather patterns (e.g. sea-level rise). • Climate-related risks can also be associated with the transition to a lower-carbon global economy, the most common of which relate to policy and legal actions, technology changes, market responses and reputational considerations.
Greenhouse gas (GHG) emissions scope levels	Emissions are disclosed across three scopes: • Scope 1 refers to all direct GHG emissions. • Scope 2 refers to indirect GHG emissions from consumption of purchased electricity, heat, or steam. • Scope 3 refers to other indirect emissions not covered in Scope 2 that occur in the reporting company's value chain, including both upstream and downstream emissions.

Abbreviations

Term	Definition
ACPR	Autorité de contrôle prudentiel et de résolution (French Prudential Supervision and Resolution Authority)
APRA	Australian Prudential Regulation Authority
BoE	Bank of England
CDP	Carbon Disclosure Project
CSR	Corporate Social Responsibility
EBA	European Banking Authority
ESG	Environmental, Social and Corporate Governance
GHG	Greenhouse gases
GRI	Global Reporting Initiative
IIRC	International Integrated Reporting Council
KPI	Key Performance Indicator
MI	Management Information
NFRD	Non-Financial Reporting Directive
PACTA	Paris Agreement Capital Transition Assessment
PCAF	Partnership for Carbon Acocunting Financials
P&L	Profit and Loss
PRB	Principles for Responsible Banking
SASB	Sustainability Accounting Standards Board
SBTi	Science Based Targets initiative
SDGs	Sustainable Development Goals
SFDR	Sustainable Financial Disclosure Regulation
SMART	Specific, Measurable, Accurate, Relevant, Time-bound
TCFD	Task Force on Climate-related Financial Disclosures
UNEP FI	United Nations Environment Programme Finance Initiative
WACI	Weighted Average Carbon Intensity

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