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# A Path to Net Zero: A Climate Mitigation Journey for Banks

An end-to-end view of the business capabilities banks should consider developing and advancing over time in order to align their business and operating models to climate mitigation.



May 2024

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# Executive summary

Banks are facing increasing pressure to accelerate their climate mitigation efforts, driven by climate-related and transition risks related to their portfolios, international inter-governmental climate agreements (e.g. Paris Agreement), evolving regulatory developments, and elevated expectations from investors and customers. The imperative for the banking sector to transition towards a net-zero economy is no longer optional but an essential undertaking. Currently, many banks have made climate commitments through UNEP FI's [Principles for Responsible Banking](#) framework and its climate accelerator the [Net-Zero Banking Alliance](#) and taken important steps in advancing climate mitigation, oftentimes though without a clear action plan of how to effectively operationalise their decarbonisation approaches. Other banks are hesitating to make climate commitments and still considering their approach towards net zero. In both cases, there are multiple challenges that banks face as they look to advance their path to net zero, including the following:

- **Lack of a universally accepted end-to-end view of what climate mitigation entails**—most banks looking to advance their path to net zero are lacking clarity on where they are and where they need to be in their climate journey and how different climate initiatives complement each other.
- **Evolving standards and methodologies**—banks looking to progress various aspects of climate mitigation should leverage standards and methodologies which are evolving rapidly, and they should make sure they constantly keep up with those.
- **Multitude of frameworks**—there is a breadth of frameworks provided by different bodies that banks can leverage across various aspects of climate mitigation. Banks find it hard to gain clarity on how they all connect to each other and who they should engage with and when.
- **Limited integration of regional context**—currently, some of the existing frameworks give limited consideration to regional components. For example, there is lack of country-specific climate scenarios and sectoral trajectories that banks can use for target-setting purposes.
- **Emissions and climate data availability**—access to accurate emissions and climate data is essential for banks to be able to advance various aspects of climate mitigation however the availability and quality of such data are still lagging in many regions.

In addition to the above, many banks operate across multiple jurisdictions and thus face another layer of complexity, rendering it progressively challenging for them to navigate and prioritise their climate initiatives and actions. In view of these challenges, it becomes imperative for banks to undertake a strategic approach that involves a

multi-year exercise of substantial transformative changes across the entire organisation. In that respect, UNEP FI's [Principles for Responsible Banking](#) framework outlines six key principles that signatory banks commit to embedding across all their business areas at the strategic, portfolio and transactional levels. It is through the implementation of these principles that banks can set the foundations for undertaking a strategic approach towards net zero. Building upon the [PRB](#), this paper introduces the concept of the **Climate Mitigation Journey (CMJ) for banks**—a climate strategy framework that individual banks can use to assess where they stand in terms of their climate journey and tailor their implementation approach based on their climate maturity and context. In particular, the paper:

- Presents three capability blocks outlining all the business competencies banks should develop and iterate for years to come as they are looking to advance their path to net zero.
- Maps out relevant standards, methodologies, and frameworks as well as actors of the net-zero banking ecosystem that banks should engage with across each of the three capability blocks.
- Outlines how banks should consider the integration of regional or national components across each of the three capability blocks, for example climate policy and regulatory requirements.

Leveraging the concept of the CMJ, the paper highlights key considerations for its practical application by individual banks. Given the extensive range of activities that banks cover, this paper focuses exclusively on lending activities in the context of climate mitigation. Furthermore, considering that a bank's financed emissions—those associated with loans and investments (Scope 3 emissions)—can be in the region of 700 times greater than its direct emissions (Climate Disclosure Project, 2021), the primary emphasis is on addressing the reduction of these emissions rather than banks' Scope 1 and 2 emissions arising from their own operations.

# Introduction

## The imperative of climate mitigation for banks

Climate mitigation and achieving net-zero objectives have gained prominence within the financial services sector. COP26 marked a monumental step, witnessing financial services firms commit a substantial USD 130 trillion in assets under management to transition to a net-zero framework. Subsequent advancements at COP27 and COP28 elevated this commitment to USD 150 trillion in assets under management, and COP28 signalled a shift away from fossil fuels. Banks, including those who have led significant efforts to decarbonise their portfolios to-date, are now facing increasing pressure from diverse stakeholders to accelerate their climate mitigation efforts. Regulators and policymakers, investors, clients and customers, and civil society actors are not merely urging banks to address climate concerns—they are pushing for leadership in the realm of green and transition finance. In particular:

- **Regulators and policymakers** are elevating climate change to a top priority. Banks face a tightening regulatory landscape, where action on climate mitigation is or will eventually be mandated. For example, in Europe, with the implementation of the [Corporate Sustainability Reporting Disclosure \(CSRD\)](#), and the [European Sustainability Reporting Standards \(ESRS\)](#) that specifically focus on climate change, EU companies—including banks—are mandated to report on their climate change transition plans and outline actions and policies undertaken for mitigation and adaptation (EFRAG, 2022). Other countries are moving at their own pace; for example, the UK government committed to consult on introducing requirements for its largest companies to disclose their transition plans (Transition Plan Taskforce, 2023); SEC in the US recently adopted rules to enhance and standardise climate disclosures by public companies while Brazil, Colombia, Japan, Egypt and the UAE are only some of the countries that have introduced climate disclosure requirements for banks, aimed at fostering transparency and accountability. Irrespective of the geographic location, the pace of regulatory advancements is only expected to increase. Therefore by adopting a proactive approach and joining voluntary frameworks such as UNEP FI's [Principles for Responsible Banking](#) framework and its climate accelerator the [Net-Zero Banking Alliance](#), banks are well-prepared for upcoming regulation and can navigate future regulations with agility.
- In parallel, **investors** are actively urging banks to effectively manage climate risks associated with their portfolios and expand their financing of green and transition initiatives, reflecting a growing demand for environmentally conscious investment options. Institutional investors are increasingly leveraging their influence in that direction, through various initiatives such as the [Net-Zero Asset Owner Alliance \(NZAOA\)](#),

a member-led initiative of institutional investors committed to transitioning their investment portfolios to net zero by 2050, and [Climate Action 100+](#), an alliance of 700 global investors overseeing USD 68 trillion in assets under management that are engaging the world's largest greenhouse gas emitters to take necessary action on climate change. Investors are not only actively participating in the process, but there is also a growing appetite for green and transition finance products among institutional and retail investors. In fact, sustainable investments grew to USD 30.3 trillion in 2022—a 20% increase since 2020—reflecting the growing demand and a shift towards an upswing in sustainable finance (Global Sustainable Investment Alliance, 2023).

- Banking **clients and customers** across various segments, be they retail clients, small businesses, or large corporates, are actively seeking banks to spearhead initiatives in green and transition finance. In fact, according to Bloomberg, new records were set in green bond sales from corporates and governments in 2023, as they climbed to USD 575 billion, a step up from 2022 (Bloomberg, 2024). Banks are in a particularly good position to provide transition finance to their clients since they can draw on their close client relationships (European Commission, 2023).
- **Civil society** actors have also come to realise the orchestrating role of banks towards a net-zero economy, putting increasing pressure on the banking system to advance the net-zero agenda through various initiatives such as [Bankers for Net Zero](#). Such initiatives are only expected to grow in the future. UNEP FI currently works with 12 civil society organisations which form an advisory body mandated to support and hold PRB signatory banks accountable to their commitment, which, for the majority of signatories, includes their climate journey.

Beyond the above driving forces, the imperative for banks to align with climate mitigation presents a substantial financing opportunity. With an estimated USD 4.5 trillion needed each year by 2030 in clean energy investments to reach net zero emissions by 2050 (International Energy Association, 2021), embracing green and transition finance products is not just the right thing to do but also presents a unique financing opportunity for banks. In this shake-up environment of transition, there will be first movers and followers, winners and losers, in both the underlying portfolio industry segments, as well as in the banking sector itself. It is, hence, imperative for banks to position themselves strategically in the race towards sustainable finance and profitably plan the decarbonisation of their portfolios.

## Outlook of the banking sector

Embarking on climate mitigation represents a multifaceted and multi-year transformation for banks that will eventually impact every single aspect of their business and operating models. While many banks have embarked on that transformation journey by joining UNEP FI's [Principles for Responsible Banking](#) and its climate accelerator the [Net-Zero Banking Alliance](#), as standards, methodologies, public policies and regulation evolve the way to go about this transformation is still being shaped and approaches by different banks vary significantly. For instance, in a recent banking survey on net-zero commitments, a bank highlighted the lack of a "joint approach between the front line and



back office/CROs”, expressing the considerable difficulty in translating net-zero goals into practical strategies (Accenture, 2022).

In more **mature banking sectors**, particularly in Europe, where policies and regulations are more advanced, most large institutions have successfully established a baseline of climate capabilities, focusing predominantly on climate reporting and risk management. These banks have made net-zero commitments, set initial targets, and are now looking to expand these capabilities and progress towards practical implementation. However, despite meaningful progress in this region, there is still a lot of work that needs to be done in establishing a good set of climate capabilities. In fact, according to the European Central Bank’s latest report on climate risk management, only 40% of EU banks have included climate risks in the stress-testing framework, and of those with a climate stress testing framework only 19% use it to inform their loan granting process (European Central Bank, 2022). This illustrates that even within more mature banking sectors, large institutions face challenges in developing robust climate capabilities. These difficulties stem from various factors, including issues related to data availability regarding counterparties. The smaller banking players are now following suite, and the progress frontier is defined by the quality of their work with small and medium enterprise clients who in some cases lag large corporates in terms of data availability.

In **Emerging Markets and Developing Economies (EMDEs)**, banks are now also increasingly taking the required steps towards climate mitigation, by building a baseline of climate capabilities and setting their net-zero commitments and initial targets. As of 2023, 66 PRB signatories from EMDEs had climate as an impact area while 35 had joined its climate accelerator, the Net-Zero Banking Alliance. However, most banks in EMDEs encounter additional challenges in making progress, primarily due to the less mature policy and regulatory environment and the less advanced nature of climate disclosures, mitigation commitments, and technologies in those regions. This becomes apparent when examining the progress and implementation of different countries’ Nationally Determined Contributions (NDCs), as these directly reflect national efforts to reduce emissions. For instance, this encompasses the rate at which the grid in a country undergoes decarbonisation as this has a direct impact on the financed emissions of banks that operate in that country.

Overall, some significant progress has been made in recent years—for example, 62% of PRB signatories are currently supporting their clients’ transition to a low carbon economy or are setting up an engagement process to do so, as outlined in the [PRB 2023 Progress Report](#), while over half of the members of the [Net-Zero Banking Alliance](#) have set intermediate decarbonisation targets, as outlined in the [NZBA 2023 Progress Report](#). However, despite these advancements, progress across banks seems to vary significantly. For example, according to recent research, 41% of banks are off track and increasing emissions (Accenture, 2023). A specific study on banking showed that merely 12% are presently on course to achieve net-zero status for their Scopes 1 and 2 emissions by 2050, and less than 5% for their Scope 3, specifically category 15, encompassing financed emissions (Accenture, 2022).



# A Climate Mitigation Journey for banks

## An end-to-end approach for banking climate mitigation

As outlined in the introductory sections of this paper, there are some challenges that banks face as they are looking to advance their path to net zero. These challenges may gradually diminish, however their complete elimination is improbable. Within that context, establishing a consistent end-to-end view of what climate mitigation entails for banks can help alleviate some of the challenges that banks face, empowering them to adopt a more strategic approach. The adoption of such an approach can help executives and practitioners in several aspects of planning and delivering their decarbonisation efforts, including the following:

- Inform the development or advancement of accountable and practical decarbonisation strategies that allow the **realisation of synergies** between existing climate initiatives.
- Assess the maturity of existing climate initiatives through the lens of an end-to-end approach and identify **gaps and opportunities** to accelerate action across different areas.
- Develop a clear understanding of how different standards, methodologies, and frameworks **complement each other** and who to engage with at every step of the journey.
- Review and **prioritise transformation investment** across existing climate initiatives such as green and transition finance products and data infrastructure that can drive business growth.
- Mitigate climate risks and **future-proof** against current and evolving public policies and regulations as well as stakeholder expectations in markets of operation.
- Develop a clear understanding of how evolving **public policies and regulations** in markets of operation relate to different aspects of the end-to-end journey.
- Develop a clear understanding of **regional and/or national components** banks should consider when developing their approach across different aspects of the end-to-end journey.
- Plan and coordinate the delivery of **capacity-building exercises** across all different organisational layers including business and operational teams and corporate functions.

# Making sense of the Climate Mitigation Journey for banks

Building upon the [PRB](#), the **Climate Mitigation Journey (CMJ) for banks**, presented in this section, is a climate strategy framework that outlines relevant business capabilities banks should consider building and iterating for years to come as they are looking to individually align themselves to their independent net-zero objectives. The framework aims to introduce a universally accepted end-to-end approach to banking climate mitigation that will enable shared language between banks and other actors of the ecosystem and improve access to materials and guidance available to-date as well as the discourse among peers.

## The CMJ is not exhaustive

The framework provides a comprehensive overview of the different business capabilities all banks—regardless of region or climate maturity—should consider developing and advancing over time as they are looking to individually align themselves with their independent net-zero objectives. However, it's essential to acknowledge that the CMJ, while providing a comprehensive overview of the areas to focus on, may not cover every single aspect. For instance, the document deliberately excludes regional and local mapping of actors and regulations to maintain its global nature and applicability. Nonetheless, these actors and regulators can be readily mapped onto the CMJ which delineates the most important areas that banks should advance in their journey towards climate mitigation.

## Capabilities and sub-capabilities outlined in the CMJ are dynamic as opposed to a one-off

Banks start by building a baseline against each of those sub-capabilities that they then should continually refine as guidance, frameworks, methodologies, policies, regulation, and data quality evolve. This process is dynamic, iterative, and ongoing, recognising that there may never be a definitive endpoint. For example, banks can start today by building a baseline climate risk management function which they then should continually enrich in line with climate science as scenarios become more granular and disclosure requirements evolve. Another example is that as data collection techniques improve and AI helps to fill hypotheses about transition plan qualities, banks can enhance their understanding of sectoral reduction strategies and persistently evolve their capabilities around transition plans and engagement.

## The CMJ is not a waterfall or linear framework

There is no golden rule about the order in which a bank chooses to develop and/or advance the different capabilities and sub-capabilities outlined in the CMJ. A bank may choose to build business capabilities across all three blocks in parallel, sequentially, or separately. Sometimes a bank might be able to take a deliberate decision on where to start and how to run its Climate Mitigation Journey, and sometimes things have already been set in motion in different parts of the bank, requiring bridge-building and filling the blank spaces.

## Capabilities and sub-capabilities outlined in the CMJ are interrelated

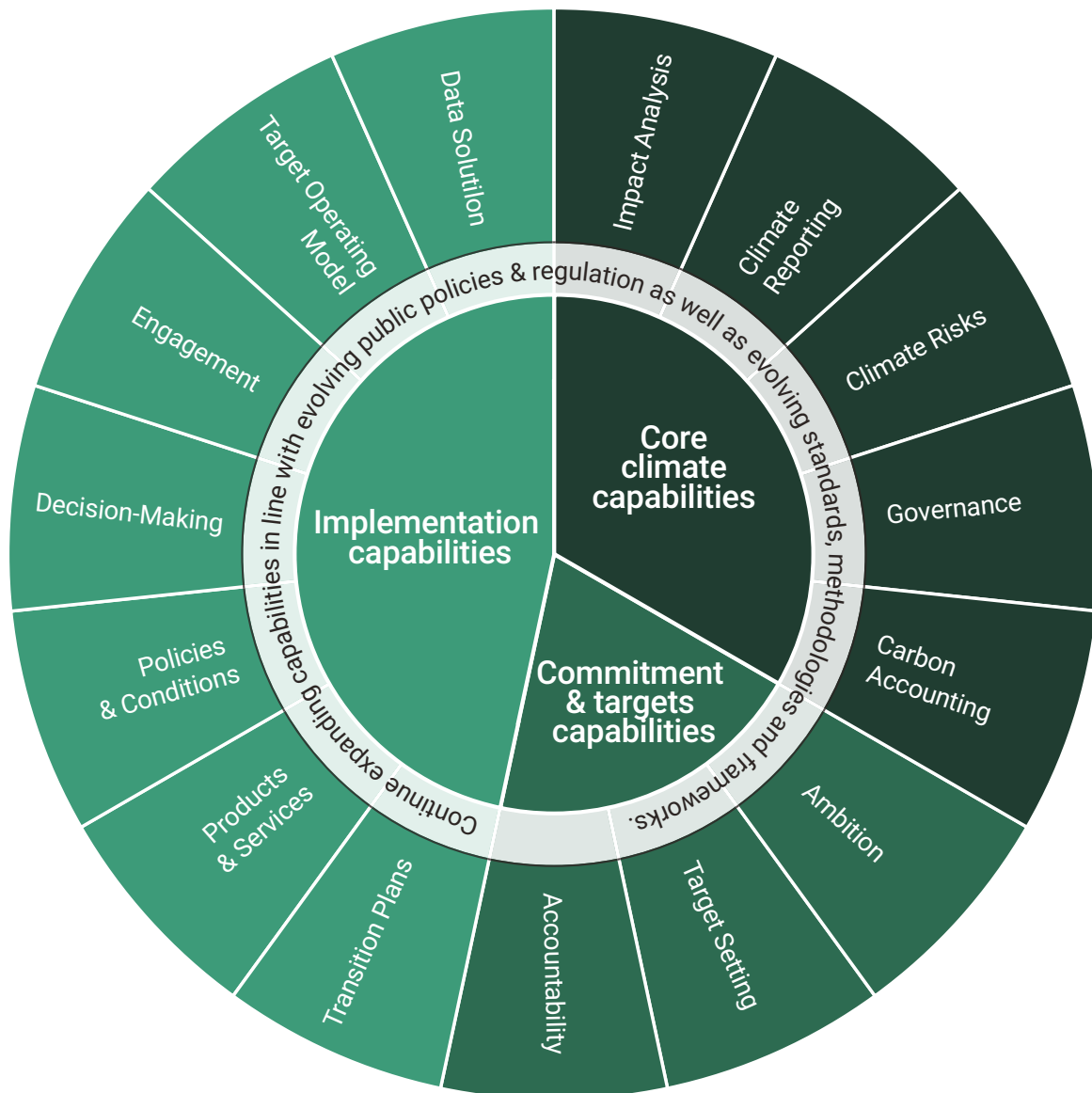
While the framework has been structured into capability blocks and sub-capabilities, it's crucial to recognise the interconnectedness and complementarity among these sub-capabilities and the synergies that exist among those. For instance, advancements in carbon measurement within the Core Climate Capabilities block, also contribute to understanding carbon footprint baselines, which are a key step for target setting within the Commitment and Targets Capabilities block. This example highlights the interconnected nature of the framework.

## Interlinkages with other impact areas

All the business capabilities outlined in the CMJ have interlinkages with other impact areas. This means that whatever capacity a bank builds for developing a particular area outlined in the CMJ, can be relevant to other impact areas in the future. For example, the risk management capacity that a bank builds today for assessing and managing physical and transition risks from the climate mitigation angle can be used in the future for assessing and managing nature-related or social risks. In that sense, the CMJ has a future-proofing value for other impact areas.

# Overview of the Climate Mitigation Journey for banks

There are three business capability blocks outlined in the CMJ, those are namely the **Core Climate Capabilities**, the **Commitment and Targets Capabilities**, and the **Implementation Capabilities**. Within these three business capability blocks, there are various sub-capabilities reflected in the CMJ that banks must build and advance over time. The CMJ purposefully calls out business capabilities rather than a step-by-step journey because it is observed that different banks progress differently on their approach towards climate mitigation and even individual starting points differ. For example, some banks set net-zero goals ahead of COP26 before any baseline was calculated, while other banks want to carefully work through the targets of any key clients in key sectors before they set an overall decarbonisation goal for the portfolio. The CMJ is hence dynamic and has been designed to be flexible and adapt to individual approaches, evolving standards, methodologies and frameworks that reflect the ever-changing landscape in which banks operate.

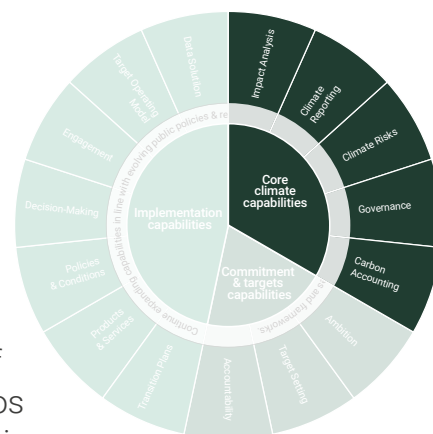


**Figure 1:** Climate Mitigation Journey (CMJ) for banks

Through its various initiatives, namely the [Principles for Responsible Banking](#) framework and its climate accelerator the [Net-Zero Banking Alliance](#) as well as its [Climate Risk Programme](#), UNEP FI supports banks with materials and guidance across all the business capabilities outlined in the CMJ (see Appendix 1). These resources, in combination with the voluntary guidance provided by the [Glasgow Financial Alliance for Net Zero \(GFANZ\)](#) on transition planning and transition finance and its regional analyses, provide a strong basis upon which banks can advance their path to net zero. The three business capability blocks outlined in the CMJ are discussed in this section, including a detailed mapping of each capability to materials and voluntary guidance provided by UNEP FI, GFANZ as well as other actors in the ecosystem. This discussion includes providing examples and illustrating what various maturity levels may entail.

## Core Climate Capabilities





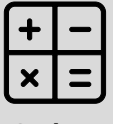
The first block of the CMJ, Core Climate Capabilities, is about banks embarking on the path to net zero by building strong foundations that will help them develop the operational capacity for climate mitigation. Under this block, banks perform a shift in identifying climate as a paramount organisational priority, prompting a thorough evaluation of how climate change impacts their operations and portfolios across business lines and sectors and opening the door to various opportunities. Core Climate Capabilities entail the identification, reporting, assessment, mitigation, and measurement of a bank's climate-related risks and its carbon footprint, now and in the future. The bank starts building its internal capacity for managing physical and transition risks and then keeps expanding that over time, including during the target setting and implementation stages. Complementing this risk angle, a bank also establishes essential governance structures to ensure the accurate consideration of the impact and opportunity of climate change within its operations and, most importantly, within its financing activities across business lines and portfolios. By setting strong foundational grounds and starting to familiarise different parts of the organisation with the emerging standards, and methodologies on climate mitigation, banks can start building internal skills and the capacity required for the development and advancement of their decarbonisation approaches. To do so, they may opt to use training resources such as the [climate modules](#) by the [PRB Academy](#).



It is common that these Core Climate Capabilities originate from the Risk and Sustainability teams, with a gradual shift to the Finance team. Oftentimes, the bank's Risk departments have started early on to integrate climate considerations in their analysis and stress testing activities. New team capacity must then be built on the impact and opportunity side, usually radiating from the Sustainability teams of the bank, which also initially measure and report on carbon. With ever-increasing reporting duties (e.g. integration into financial reporting in Europe with the [Corporate Social Responsibility Directive](#)), these capabilities then usually find new homes in the CFO realm (non-financial reporting) or under Strategy (for opportunity management).

The Core Climate Capabilities are very important because they lay the foundations for banks to start identifying, assessing, and mitigating the impact of climate on their business (risk for the bank) as well as the bank's impact on people and planet (impact of the bank). Within the block, there are five distinct sub-capabilities that banks should build upon. Below is a description of each sub-capability, along with a real-world example of how an advanced bank has approached each of those.

**Table 1:** Overview of core climate capabilities

Core Climate Capabilities	What is it for?	Real-world example of an advanced bank
 <p><b>Impact Analysis</b></p>	<p>Conduct portfolio analysis across business lines and sectors to recognise the double materiality (incl. financial and impact materiality) of climate, identifying climate as a strategic priority and a source of opportunities.</p>	<p>Conducted portfolio analysis using <a href="#">UNEP FI's Impact Analysis Tools</a> for all relevant portfolios (incl. commercial, business and consumer banking) and identified climate mitigation as a strategic priority with Impact, Risk and Opportunity (IRO) areas (i.e. IRO's per CSRD materiality), while understanding (potential) impacts on other impact areas.</p>
 <p><b>Climate Reporting</b></p>	<p>Build a climate reporting capability in line with global evolving standards and methodologies and national disclosure requirements in markets of operation.</p>	<p>Established a dynamic climate reporting capability in line with <a href="#">TCFD recommendations</a>,<sup>1</sup> further expanding it over time in line with <a href="#">GRI standards</a> and <a href="#">CDP standards</a> and eventually aligning climate reporting with the <a href="#">ISSB standards</a> (IFRS1, IFRS2) and the Basel III disclosure framework for climate-related risks.</p>
 <p><b>Climate Risks</b></p>	<p>Identify, assess, and mitigate climate-related risks (incl. physical and transition risks) across business lines and sectors and develop climate stress testing capability in line with evolving standards.</p>	<p>Established a climate stress testing capability for physical and transition risks, initially covering carbon-intensive sectors, then further expanding to the entire portfolio by leveraging a combination of <a href="#">IEA climate scenarios</a> and <a href="#">NGFS climate scenarios</a>.</p>
 <p><b>Governance</b></p>	<p>Build capacity by setting up core climate team and start incorporating climate/emissions considerations in decision-making and across internal governance structures.</p>	<p>Appointed a Chief Sustainability Officer (reporting to CEO) and set up a Climate Team that populated initial set of climate/emissions considerations across key internal governance forums including a TOR update of the Board Committee and Executive Committee to include climate.</p>
 <p><b>Carbon Accounting</b></p>	<p>Measure the carbon footprint of financed emissions across business lines and sectors in line with evolving carbon accounting standards, data developments, and national requirements.</p>	<p>Joined the <a href="#">Partnership for Carbon Accounting Financials (PCAF)</a> and used the <a href="#">PCAF standard</a> to measure its baseline carbon footprint of the corporate loans book for some carbon-intensive sectors, then further expanding to the entire portfolio.</p>

There is a breadth of materials and guidance provided by [UNEP FI](#) that banks can leverage in respect of their Core Climate Capabilities. Additional resources and frameworks are also available by other actors of the ecosystem with some of these frameworks being mandated across different jurisdictions.

1 From October 2023, the Financial Stability Board asked the IFRS Foundation to take over the monitoring of the progress of companies' climate-related disclosures with ISSB standards having incorporated TCFD recommendations.

**Table 2:** Core climate capabilities—materials and guidance (non-exhaustive)

Overview of Materials and Guidance	UNEP FI Materials and Guidance	Resources by other actors of the ecosystem
<b>Impact Analysis</b>		
<p>Multiple tools for Impact Analysis are provided by UNEP FI through the <a href="#">Principles for Responsible Banking</a> framework, and there are also some additional resources by other actors that banks may wish to leverage.</p>	<ul style="list-style-type: none"> <li>▪ <a href="#">Impact Analysis Interactive Guidance</a></li> <li>▪ <a href="#">Impact Protocol</a></li> <li>▪ <a href="#">Portfolio Impact Analysis Tool for Banks</a></li> <li>▪ <a href="#">Impact Radar</a></li> <li>▪ <a href="#">Impact Analysis Case Studies</a></li> </ul>	<ul style="list-style-type: none"> <li>▪ <a href="#">Harmonised Framework for Impact Reporting</a> (by the International Capital Market Association)</li> <li>▪ <a href="#">Conceptual Framework for Impact Accounting</a> (by the Value Balancing Alliance)</li> </ul>
<b>Climate Reporting</b>		
<p>Multiple materials on climate reporting are provided by UNEP FI through the <a href="#">Principles for Responsible Banking</a> framework and the <a href="#">Climate Risk Programme</a>, and then there are various frameworks that banks can leverage for climate reporting, taking into consideration national disclosure requirements and mandates.</p>	<ul style="list-style-type: none"> <li>▪ <a href="#">Principles for Responsible Banking Guidance</a></li> <li>▪ <a href="#">PRB Reporting and Self-Assessment Template</a></li> <li>▪ <a href="#">PRB Academy—Unit 2: Climate Change Risks and Impacts</a></li> <li>▪ <a href="#">How financial institutions can better disclose climate-related physical risks</a></li> <li>▪ <a href="#">Creating Board-Level Climate Dashboards for Banks</a></li> </ul>	<ul style="list-style-type: none"> <li>▪ <a href="#">IFRS Sustainability Disclosures (IFRS 1) (IFRS 2)</a> (by the International Sustainability Standards Board)</li> <li>▪ <a href="#">Global Reporting Standards</a> (by the Global Reporting Initiative)</li> <li>▪ <a href="#">Climate Change Reporting Guidance</a> (by CDP)</li> <li>▪ <a href="#">Task Force on Climate-Related Disclosures<sup>2</sup></a> (by the Financial Stability Board)</li> </ul>
<b>Climate Risks</b>		
<p>A breadth of materials and guidance on climate risk management is provided by UNEP FI through the <a href="#">Climate Risk Programme</a>, and then there are various climate scenarios and other resources available that banks can leverage for climate risk management and stress testing purposes.</p>	<ul style="list-style-type: none"> <li>▪ <a href="#">Pathways to Paris: A practical guide to climate transition scenarios for financial professionals</a></li> <li>▪ <a href="#">Assessing Credit Risk and Opportunity in a Changing Climate</a></li> <li>▪ <a href="#">Mapping Climate-related Financial Risk Assessment Methodologies</a></li> <li>▪ <a href="#">Good Practice Guide to Climate Stress Testing</a></li> <li>▪ <a href="#">Climate Risk Tool Dashboard</a></li> <li>▪ <a href="#">Sectoral Risk Brief—Real Estate</a></li> <li>▪ <a href="#">Sectoral Risk Brief—Industrials</a></li> <li>▪ <a href="#">Sectoral Risk Brief—Agriculture</a></li> <li>▪ <a href="#">Sectoral Risk Brief—Oil &amp; Gas</a></li> </ul>	<ul style="list-style-type: none"> <li>▪ <a href="#">NGFS Climate Scenarios</a> (by the Network for Greening Financial System)</li> <li>▪ <a href="#">IEA Climate Scenarios</a> (by the International Energy Agency)</li> <li>▪ <a href="#">Climate Scenario Analysis for Corporate Lending Portfolios</a> (by PACTA and 2° Investing Initiative)</li> </ul>

2 From October 2023, the Financial Stability Board asked the IFRS Foundation to take over the monitoring of the progress of companies' climate-related disclosures with ISSB standards having incorporated TCFD recommendations.

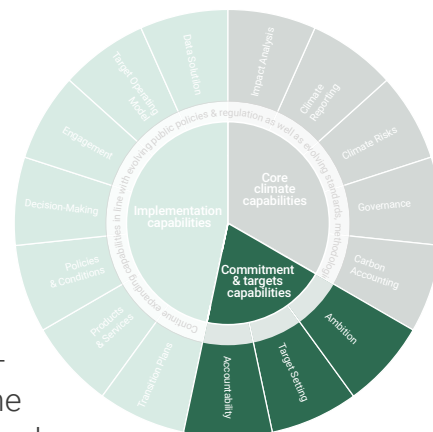


Overview of Materials and Guidance	UNEP FI Materials and Guidance	Resources by other actors of the ecosystem
<b>Governance</b>		
<p>A breadth of materials and guidance on governance is provided by UNEP FI through the <a href="#">Principles for Responsible Banking</a> framework and the <a href="#">Climate Risk Programme</a>, and there are also some additional resources by other actors that banks may wish to leverage.</p>	<ul style="list-style-type: none"> <li>▪ <a href="#">Principles for Responsible Banking Guidance</a></li> <li>▪ <a href="#">From Disclosure to Action</a></li> <li>▪ <a href="#">The Climate Risk Tool Landscape</a></li> <li>▪ <a href="#">Leadership strategies for client engagement: Advancing climate-related assessments</a></li> <li>▪ <a href="#">Principles for integrating physical and transition climate risk assessment with sectoral examples</a></li> </ul>	<ul style="list-style-type: none"> <li>▪ <a href="#">Equator Principles for Financial Institutions</a> (by the Equator Principles)</li> <li>▪ <a href="#">Task Force on Climate-Related Disclosures</a><sup>3</sup> (by the Financial Stability Board)</li> </ul>
<b>Carbon Accounting</b>		
<p>Some guidance on carbon accounting is provided by UNEP FI through the <a href="#">Principles for Responsible Banking</a> framework and the <a href="#">Climate Risk Programme</a>, and then there are carbon accounting standards and carbon emissions factors that banks can leverage for carbon accounting purposes, taking into consideration any national carbon measurement requirements and mandates.</p>	<ul style="list-style-type: none"> <li>▪ <a href="#">Principles for Responsible Banking Guidance</a></li> <li>▪ <a href="#">PRB Academy—Unit 4: Monitoring and reporting banks' GHG emissions and a Call to Action</a></li> <li>▪ <a href="#">Exploring Metrics to Measure the Climate Progress of Banks</a></li> </ul>	<ul style="list-style-type: none"> <li>▪ <a href="#">The Greenhouse Gas Protocol</a> (by the WRI and WBCSD)</li> <li>▪ <a href="#">Global GHG Accounting &amp; Reporting Standard for the Financial Industry + PCAF Academy</a> (by the Partnership for Carbon Accounting Financials)</li> <li>▪ <a href="#">Emissions Factor Database</a> (by the Intergovernmental Panel on Climate Change)</li> <li>▪ <a href="#">Emissions Factors</a> (by the International Energy Agency)</li> <li>▪ <a href="#">Emissions Factors</a> (by the Joint Impact Model)</li> </ul>

3 From October 2023, the Financial Stability Board asked the IFRS Foundation to take over the monitoring of the progress of companies' climate-related disclosures with ISSB standards having incorporated TCFD recommendations.

## Commitment and Targets Capabilities




The second block of the CMJ, Commitment and Targets Capabilities, is about how banks develop and communicate, both internally and externally, their net-zero ambition and translate that ambition into measurable targets. This block involves establishing net-zero targets for the bank as well as targets across the business portfolio and operations, in line with scientific findings and best practices in the market. Furthermore, it entails maintaining alignment with evolving climate science, scenarios, and standards. The Commitment and Targets Capabilities are crucial as they address the expectations of diverse stakeholders, such as regulators and policymakers, investors, clients and customers, and civil society actors. They demonstrate that banks are actively engaging in the Climate Mitigation Journey and making both short- and long-term commitments to it. Setting commitments and targets is a way of demonstrating the banks' ambition and articulating their strategies for climate mitigation. Furthermore, this block benefits from abundant external guidance and best practices for establishing net-zero commitments and targets.



Under this block, building capabilities is crucial both at the top levels of the institution, for understanding and signing off on commitments and targets, as well as across the entire organisation, including front-line sector teams. Sometimes, a bank's commitment is made by the C-suite and net-zero targets are established by Sustainability teams, which then inform the business. Nevertheless, while this approach is commonly adopted by banks, it remains crucial for the entire organisation, whether the commitment has already been made or is still in the process, to begin early engagement in understanding what the impact of carbon reduction efforts could entail. In addition to the commitment frameworks ([Principles for Responsible Banking](#) and its climate accelerator the [Net-Zero Banking Alliance](#)) and the [revised Guidelines for Climate Target Setting for Banks](#) provided by [UNEP FI](#), this block heavily relies on external guidance, particularly regarding the use of sectoral pathways for target-setting purposes. Such guidance is provided by organisations such as the [International Energy Agency \(IEA\)](#), the [Network for Greening the Financial System \(NGFS\)](#), and the [Science-Based Targets initiative \(SBTi\)](#), as listed in Table 4. Banks should build internal capacity by investing in individuals who possess the knowledge and experience for assessing sectoral pathways, setting targets, and understanding the implications of setting them. For example, in a bank with a significant loan portfolio of shipping clients, there might be only one skilled individual capable of assessing various sectoral pathways, such as evaluating the [Poseidon Principles](#) by the [International Maritime Organisation](#) versus the [Science-based target setting for the Maritime Transport Sector](#) by [SBTi](#). In some cases, there may not be anyone internally with such expertise, prompting banks to seek external support. Despite potentially seeking external advice on setting targets, this example underscores the importance of banks cultivating their own expert personnel over time, recognising that climate mitigation is a long game.

In the spirit of creating a culture of responsible banking (incl. bottom-up as well as top-down efforts on climate mitigation), ultimately all layers should take on accountability once a commitment is made. Within Commitment and Targets Capabilities, there are three distinct sub-capabilities that banks should build upon. Below follows a description of each sub-capability along with a real-world example of how an advanced bank has approached each of those.

**Table 3:** Overview of commitment and targets capabilities

Commitment and Targets Capabilities	What is it for?	Real-world example of an advanced bank
 <p><b>Ambition</b></p>	<p>Develop Board-level climate commitment to align business portfolio and operations to net zero in line with international climate agreements (Paris 1.5°C alignment) and evolving climate science.</p>	<p>Became a founding signatory of the <a href="#">Principles for Responsible Banking</a> and its climate accelerator the <a href="#">Net-Zero Banking Alliance</a>, making a Board-level commitment to align with the Paris Climate agreement (1.5°C) and achieve net zero, based on the results of the impact analysis. Also communicated ambition to investors, customers, and other stakeholders.</p>
 <p><b>Target Setting</b></p>	<p>Develop interim targets to reduce financed emissions across business lines and sectors, in line with evolving climate science, scenarios, and sectoral reduction pathways.</p>	<p>Developed and announced interim reduction targets for the corporate loans book for the Oil &amp; Gas, Power Generation, Aviation and Corporate Real Estate sectors, leveraging a mix of sectoral reduction pathways provided by <a href="#">IEA</a>, <a href="#">SBTi</a> and <a href="#">CRREM</a>, while understanding (potential) target implications on other impact areas for those sectors.</p>
 <p><b>Accountability</b></p>	<p>Continuously demonstrate to investors, customers, and other stakeholders progress against climate commitment and interim targets across the business portfolio, considering any green-washing risks.</p>	<p>Completes annual <a href="#">PRB Report</a> as well as a Sustainability Report showcasing progress against its NZBA climate commitment and targets, and also sought external assurance for the review and validation of its calculated financed emissions and targets.</p>

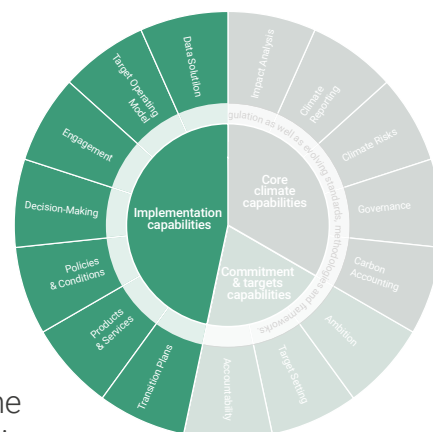
There is a breadth of materials and guidance provided by [UNEP FI](#) that banks can leverage in respect of their Commitment and Targets Capabilities. Additional resources and frameworks are also available from other actors of the ecosystem since this block relies heavily on external guidance, particularly regarding the use of sectoral pathways for target-setting purposes.

**Table 4:** Commitment and targets capabilities—materials and guidance (non-exhaustive)

Overview of materials and guidance	UNEP FI materials and guidance	Resources by other actors of the ecosystem
<b>Ambition</b>		
<p>The world's leading commitment frameworks for banks are provided by UNEP FI through the <a href="#">Principles for Responsible Banking</a> framework and its climate accelerator the <a href="#">Net-Zero Banking Alliance</a>, and there is also the additional commitment framework of SBTi that banks may wish to leverage.</p>	<ul style="list-style-type: none"> <li>▪ <a href="#">Principles for Responsible Banking Signature Document</a></li> <li>▪ <a href="#">NZBA Signature Document</a></li> <li>▪ <a href="#">NZBA Commitment FAQ</a></li> </ul>	<ul style="list-style-type: none"> <li>▪ <a href="#">SBTi Commitment Letter</a> (by the Science-Based-Targets initiative)</li> </ul>
<b>Target setting</b>		
<p>A breadth of materials and guidance on target-setting is provided by UNEP FI through the <a href="#">Principles for Responsible Banking</a> framework and its climate accelerator the <a href="#">Net-Zero Banking Alliance</a>, and then there are also various climate scenarios and sectoral pathways that banks can leverage for target-setting purposes, taking into consideration any national sectoral requirements and mandates.</p>	<ul style="list-style-type: none"> <li>▪ <a href="#">Foundations of Climate Mitigation Target Setting</a></li> <li>▪ <a href="#">Revised Guidelines for Climate Target Setting for Banks</a></li> <li>▪ <a href="#">PRB Target Setting FAQ</a></li> <li>▪ <a href="#">NZBA Supporting Notes to Guidelines</a></li> <li>▪ <a href="#">The Use of Carbon Credits in Climate Target Setting</a></li> <li>▪ <a href="#">NZBA Target Disclosure Checklist</a></li> <li>▪ <a href="#">Climate Target Setting for Real Estate Sector Financing</a></li> <li>▪ <a href="#">Climate Target Setting for Automotive Sector Financing</a></li> <li>▪ <a href="#">Climate Target Setting for Steel Sector Financing</a></li> </ul>	<ul style="list-style-type: none"> <li>▪ <a href="#">NGFS Climate Scenarios &amp; Sectoral Pathways</a> (by the Network for Greening Financial System)</li> <li>▪ <a href="#">IEA Climate Scenarios &amp; Sectoral Pathways</a> (by the International Energy Agency)</li> <li>▪ <a href="#">SBTi Sectoral Pathways + Sector Guidance</a> (by SBTi)</li> <li>▪ <a href="#">Real Estate Sectoral Pathways</a> (for real estate finance, by CRREM)</li> <li>▪ <a href="#">Aviation Net Zero Roadmaps</a> (for aviation finance by IATA)</li> <li>▪ <a href="#">Poseidon Principles</a> (for ship finance, by IMO)</li> <li>▪ <a href="#">Steel Transition Strategies</a> (for steel finance, by MPP)</li> </ul>
<b>Accountability</b>		
<p>The world's leading accountability mechanisms for banks are provided by UNEP FI through the <a href="#">Principles for Responsible Banking</a> framework and its climate accelerator the <a href="#">Net-Zero Banking Alliance</a>, and then banks can complement that capability through their Annual Sustainability Reports and by seeking external assurance of their targets.</p>	<ul style="list-style-type: none"> <li>▪ <a href="#">Principles for Responsible Banking Governance</a></li> <li>▪ <a href="#">PRB 2023 Progress Report</a></li> <li>▪ <a href="#">Net-Zero Banking Alliance Governance</a></li> <li>▪ <a href="#">NZBA 2023 Progress Report</a></li> <li>▪ <a href="#">Net-Zero Banking Alliance Target Disclosure Checklist</a></li> <li>▪ <a href="#">PRB Report</a></li> </ul>	<ul style="list-style-type: none"> <li>▪ Annual Sustainability Reports</li> <li>▪ External validation of targets</li> </ul>

## Implementation Capabilities

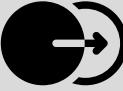




The third block of the CMJ, Implementation Capabilities, is about how to deliver transformation initiatives that will allow banks to gradually transition their business and operating models to achieve net zero. This block involves developing sectoral strategies tailored to the bank's portfolio, building green/transition finance plans, redefining client engagement approaches and setting the right policies in place to achieve the committed targets. Although this block is the most challenging—because it involves a comprehensive re-evaluation of the entire business and operating model—it is the one that will deliver a significant impact. While some smaller units or specific sector teams may already have made early and fast progress on this block, ultimately the transformative process needs to impact the entire organisation, leading to significant changes in how the bank mitigates risk, generates profit, and fosters growth. The Implementation Capabilities will eventually reduce the carbon footprint of the bank's loan portfolio—and should aim to do so profitably.





Implementation clearly touches all departments of a bank, and the interplay of front and second line is crucial here. Consider agriculture as a significant component of a bank's portfolio: in this scenario, the front-line teams, credit teams, and risk teams must collaborate to establish appropriate policies for mitigating risks for both customers and the bank, as well as define engagement strategies and provide the financing required to help customers reduce their carbon footprint. The front-line teams must customise their engagement approach based on the agreed-upon policies and the maturity levels of various clients. For instance, they might develop an outcome tree to guide decisions on whether to pursue a phase-down engagement strategy when customers lack transition plans or can offer transition financing to assist customers in their decarbonisation efforts, targeting the most impactful decarbonisation strategies based on industry best practices. It's important not only to develop strong engagement strategies with current customers but also to consider attracting new customers and developing new revenue streams by exploring key areas essential for transitioning to net zero. Whether it's customers producing advanced biofuels or synthetic fuels, the financing opportunities are significant (IEA, 2021). Crucially, data plays a pivotal role in supporting the bank's ambitious climate goals, underpinning every aspect of the implementation strategy. Banks must gain a comprehensive understanding of their clients' emissions data, evaluating its quality and charting a path from proxy data to more precise measurements. This would entail collaboration between the front-line teams, back-office staff, and technology teams to comprehensively understand current data collection processes, the bank's technology infrastructure, and the potential capabilities. Transforming the data collection process is crucial, especially considering that many banks still rely on manual or semi-automated procedures. While advanced use cases such as assessing carbon data for enhanced real-time credit decisioning are highly desirable for the net-zero agenda, they entail a substantial effort to implement but are essential for global financial decarbonisation.

Ultimately, the Implementation Capabilities not only address the challenges of reducing a bank’s financed emissions but also unveil substantial opportunities for sustainable finance. Within this block, there are seven distinct sub-capabilities that banks should build upon. Below follows a description of each sub-capability along with a real-world example of how an advanced bank has approached each of those.

**Table 5:** Overview of implementation capabilities

Implementation capabilities	What is it for?	Real-world example of an advanced bank
 <p><b>Transition plans</b></p>	<p>Develop sectoral business strategies (climate solutions/ aligned-aligning clients/managed phase-out) to achieve climate commitment and interim targets, in line with evolving guidance and best practices, and to enhance the mitigation of physical and transition risks.</p>	<p>Developed and signed off transition plans for the four sectors of the corporate loans book that it set targets for (Oil &amp; Gas, Power Generation, Aviation and Corporate Real Estate), including phase-out policies, transition finance, and new client growth, utilising the voluntary <a href="#">GFANZ transition planning guidance</a>.</p>
 <p><b>Products and services</b></p>	<p>Build green/transition finance propositions across business lines and sectors in line with evolving taxonomies in markets of operation and mobilise financing towards green and transition initiatives to drive revenue growth.</p>	<p>Developed green/transition finance propositions initially for the four sectors of the corporate loans book that it set targets for in line with <a href="#">EU’s Sustainable Finance Taxonomy Framework</a>, then expanding to other sectors and calculated the financing requirements to deliver on targets.</p>
 <p><b>Decision making</b></p>	<p>Update the Risk Model to embed climate/emissions criteria into the risk appetite, credit analysis, limits, underwriting, annual review, pricing, and portfolio management processes.</p>	<p>Incorporated the evaluation of climate criteria directly into the credit risk models or as a nudge up/down to existing credit ratings and set up expert team to assess clients with high climate-related risks.</p>
 <p><b>Policies and conditions</b></p>	<p>Develop climate/emissions policies and T&amp;Cs for customers and products across business lines and sectors to enable alignment with climate commitment and targets, while considering other impact areas too.</p>	<p>Set up internal carbon budget policies across business lines and sectors, including an oil and coal phase-down policy, differentiated by source (e.g. oil sand) and tiered over time by client life cycle, while considering other impact areas.</p>
 <p><b>Engagement</b></p>	<p>Develop short- and long-term engagement plans with customers across business lines and sectors as well as with industry actors and regulators to accelerate action, as required.</p>	<p>Developed tailored engagement plans for the corporate banking clients in the four sectors it set targets for, considering the specific decarbonisation strategies relevant to each sector, as well as a broader strategy to build engagement with industry actors and regulators.</p>

 <p><b>Target operating model</b></p>	<p>Develop and implement an end-to-end target operating model for climate mitigation to deliver changes across teams, systems, and processes required for the operationalisation of net zero.</p>	<p>Conducted deep-dive impact assessment across teams, systems and processes and developed and currently delivering a Target Operating Model for the operationalisation of net zero across the banking value chain.</p>
 <p><b>Data Solution</b></p>	<p>Build climate/emissions data solution to support various data use cases across business and operational teams and corporate functions.</p>	<p>Built internal emissions data utility, leveraging data from 3rd parties as well as directly from corporate clients, enabling both monitoring ex-ante (front-line decision) and ex-post (reporting).</p>

There is a breadth of materials and voluntary guidance provided by [UNEP FI](#) and [GFANZ](#) that banks can draw on in respect of their Implementation Capabilities. The transition planning and transition finance voluntary guidance provided by GFANZ as well as its regional analyses on phase-out and transition finance opportunities are particularly relevant under this block. Additional resources and frameworks are also available by other actors of the ecosystem.

**Table 6:** Implementation capabilities—materials and guidance (non-exhaustive)

	Overview of materials and guidance	Materials and guidance	Resources by other actors of the ecosystem
<p><b>Transition Plans</b></p>	<p>A breadth of materials and voluntary guidance on transition plans is provided by <a href="#">UNEP FI</a> and <a href="#">GFANZ</a>, and there are some resources by other actors that banks may wish to leverage in addition.</p>	<p><b>UNEP FI</b></p> <ul style="list-style-type: none"> <li>▪ <a href="#">Net-Zero Banking Alliance Transition Finance Guide</a></li> <li>▪ <a href="#">Developing Metrics for Transition Finance</a></li> </ul> <p><b>GFANZ</b></p> <ul style="list-style-type: none"> <li>▪ <a href="#">Financial Institutions Net Zero Transition Plans</a></li> <li>▪ <a href="#">Expectations for Real-economy Transition Plans</a></li> <li>▪ <a href="#">Towards a Global Baseline for Net-zero Transition Planning</a></li> <li>▪ <a href="#">Scaling Transition Finance and Real-economy Decarbonisation</a></li> <li>▪ <a href="#">Asia-Pacific Cases Studies on Components of Financial Institutions' Net-Zero Transition Plans</a></li> <li>▪ <a href="#">Transition Planning Examples</a></li> </ul>	<ul style="list-style-type: none"> <li>▪ <a href="#">Sector Guidance on Transition Plans + Transition Plans Disclosure Framework</a> (by the Transition Plan Taskforce)</li> <li>▪ <a href="#">Transition Pathway Initiative Centre</a> (by the London School of Economics and Political Science)</li> <li>▪ <a href="#">The Good Transition Plan</a> (by the Climate Safe Lending Network).</li> </ul>

	Overview of materials and guidance	Materials and guidance	Resources by other actors of the ecosystem
Products And services	A breadth of materials and voluntary guidance on products and services, decision-making and policies and conditions is provided by <a href="#">UNEP FI</a> and <a href="#">GFANZ</a> , and then there are evolving taxonomy frameworks and other resources that banks can leverage by taking into consideration any national requirements.	<p><b>UNEP FI</b></p> <ul style="list-style-type: none"> <li>▪ <a href="#">Implementing Principles for Responsible Banking</a></li> <li>▪ <a href="#">Net-Zero Banking Alliance Transition Finance Guide</a></li> <li>▪ <a href="#">Developing Metrics for Transition Finance</a></li> <li>▪ <a href="#">PRB Academy Unit 3—Opportunities for banks to support positive impacts on climate and nature</a></li> </ul> <p><b>GFANZ</b></p> <ul style="list-style-type: none"> <li>▪ <a href="#">Actions to Mobilise Capital to Emerging Markets and Developing Economies</a></li> <li>▪ <a href="#">Financing the Managed Phaseout of Coal-Fired Power Plants in Asia Pacific</a></li> <li>▪ <a href="#">The Managed Phaseout of High-emitting Assets</a></li> </ul>	<ul style="list-style-type: none"> <li>▪ <a href="#">EU Taxonomy for Sustainable Activities</a> (by the European Commission)</li> <li>▪ <a href="#">Asian Transition Finance Guidelines</a> (by ACMF)</li> <li>▪ <a href="#">Transition Finance Guidelines</a> (by Japan’s Ministry of Economy, Trade, and Industry)</li> <li>▪ <a href="#">Sustainable Finance Transition Framework</a> (by UNDP)</li> <li>▪ <a href="#">Transition Finance Toolkit</a> (by the OECD)</li> <li>▪ <a href="#">Green Finance Case Studies</a> (by the Green Finance Platform)</li> <li>▪ <a href="#">Green Finance Case Studies</a> (by the Green Finance Institute)</li> <li>▪ <a href="#">Sustainable Lending Guidance</a> (by the Loans Market Association)</li> <li>▪ <a href="#">Climate Transition Finance Handbook</a> (by ICMA)</li> <li>▪ <a href="#">Climate Bonds Standards and Taxonomy</a> (by the Climate Bonds Initiative)</li> <li>▪ <a href="#">Transition Finance in the Debt Capital Markets</a> (by ICMA)</li> </ul>
Decision Making			
Policies and conditions			
Engagement	Some voluntary guidance on engagement is provided by <a href="#">UNEP FI</a> and <a href="#">GFANZ</a> , and then there is some guidance from other actors that banks may wish to leverage in addition.	<p><b>UNEP FI</b></p> <ul style="list-style-type: none"> <li>▪ <a href="#">Implementing Principles for Responsible Banking</a></li> <li>▪ <a href="#">Leadership strategies for client engagement</a></li> </ul> <p><b>GFANZ</b></p> <ul style="list-style-type: none"> <li>▪ <a href="#">Financial Institutions Net Zero Transition Plans</a></li> <li>▪ <a href="#">Actions to Mobilise Capital to Emerging Markets and Developing Economies</a></li> </ul>	<ul style="list-style-type: none"> <li>▪ <a href="#">The essential guide to bank-client engagement</a> (by the University of Cambridge)</li> </ul>



	Overview of materials and guidance	Materials and guidance	Resources by other actors of the ecosystem
Target Operating Model	<p>Some voluntary guidance on the operationalisation of net zero is provided by <a href="#">UNEP FI</a> and <a href="#">GFANZ</a> while <a href="#">GFANZ</a> also supports the <a href="#">Net Zero Data Public Utility</a> which is the world's first free, accessible database with company-level emissions that banks can use to enhance or complement their internal data solutions.</p>	<p><b>UNEP FI</b></p> <ul style="list-style-type: none"> <li>▪ <a href="#">Implementing Principles for Responsible Banking</a></li> <li>▪ <a href="#">Climate Risk Tool Dashboard</a></li> </ul> <p><b>GFANZ</b></p> <ul style="list-style-type: none"> <li>▪ <a href="#">Financial Institutions Net Zero Transition Plans</a></li> <li>▪ <a href="#">Net Zero Data Public Utility</a></li> </ul>	<ul style="list-style-type: none"> <li>▪ Internal ESG Data Solutions—develop bespoke internal and private emissions data solutions.</li> <li>▪ 3<sup>rd</sup> party ESG Data Solutions—use external suppliers, including both data providers and data collectors, for emissions data use cases.</li> <li>▪ Customer ESG Solutions—banks develop and build data solutions for their own customers to measure their carbon footprint.</li> </ul>
Data Solution			



# Adoption of the Climate Mitigation Journey by banks

## Practical use of the Climate Mitigation Journey by banks

All banks—regardless of region and climate maturity—can utilise the CMJ to inform their decarbonisation approach as they see fit, taking into consideration their broader strategy, client and sector portfolio mix and climate maturity. It can still prove useful to outline some specific use cases that address the challenges cited in the introductory sections of this paper.

### Strategic planning

First and foremost, the CMJ can be used for executive-level planning purposes, aiding banks in developing long-term plans and decarbonisation strategies as they progress along their path to achieving their individual net-zero targets. The real advantage of the framework lies in the mindset shift from siloed and reactive initiatives to an end-to-end strategic and proactive approach towards a multi-year transformation. By establishing a clear roadmap for advancing capability blocks and sub- capabilities, the framework guides long-term planning and shapes the development of those areas in the future—ultimately empowering banks to tackle climate mitigation in a well-structured and consistent way.

### Maturity assessment and gap analysis

Banks can utilise the CMJ to assess their current position in the Climate Mitigation Journey, understanding their maturity across different capability blocks and sub-capabilities. This can help them understand where there are gaps in their current approach and where there are potential opportunities to accelerate action. Where a bank may be mature in one sub-capability, it may be lagging in another area. Gaining a clear understanding of the starting point is essential for banks to strategically assess their strengths and identify areas for improvement. For example, it can help identify where to bolster internal capabilities and where to seek external and industry-wide support in developing key capacities. Understanding maturity is the initial step, yet it's vital to recognise that comprehensive progress and refinement across all sub-capabilities will be essential in the long run.

## Guidance and methodologies uptake

Given the numerous evolving frameworks available in the banking climate mitigation space, the CMJ can help banks make sense of the multitude of bodies, guidance, and methodologies available and how they all connect, thereby facilitating their climate mitigation journey. The framework provides a view of how to navigate the capability blocks and sub-capabilities in alignment with best practice and international standards. Furthermore, the CMJ offers benefits for advancing climate mitigation on an industry level. It aims to foster a shared understanding and a consistent approach to banking climate mitigation, drawing on and setting in context a multitude of guidance and methodologies, with the hope to ultimately accelerate global decarbonisation efforts.

## Regionalisation

As addressed previously, the landscape of climate mitigation initiatives encompasses various bodies and frameworks. Banks must consider regional and local components in the jurisdictions where they operate. The CMJ can be used to help banks identify those regional and local components that will impact and influence their climate mitigation journey. The advantage of the framework lies in the ease with which regional and local components can be mapped out, such as legislation or best practice against the sub-capabilities, as demonstrated in Appendix 2. Mapping the CMJ against regional and local components can help banks to achieve compliance with evolving environmental regulations and align their decarbonisation strategies with the specific requirements of each region. This approach not only mitigates risks but also positions banks to proactively contribute to the development of sustainability standards in different markets. Below are a few regional and local components banks should consider for each block:

- **Core Climate Capabilities:** under this block banks should consider regional and/or national policy and regulatory initiatives related to climate reporting, risk management and carbon accounting such as national climate disclosure and stress-testing requirements issued by central banks as well as any guidance and/or mandates regarding the adoption of carbon accounting standards and/or the use of national emissions factors by banks.
- **Commitment and Targets Capabilities:** under this block banks should consider regional and/or national policy and regulatory initiatives related to target-setting and the climate alignment of the banking sector such as guidance and/or mandates regarding the use of climate scenarios and sectoral pathways. Banks should also consider regional and/or country plans towards decarbonisation, including Nationally Determined Contributions (NDCs) and national sectoral decarbonisation policies as long as those align with international climate commitments and the 1.5°C pathway.
- **Implementation Capabilities:** under this block banks should consider regional and/or national policy and regulatory initiatives related to implementation such as guidance and/or mandates regarding the adoption of green finance taxonomies and the operationalisation of net zero by banks. Banks should also consider regional and/or country financing opportunities and understand any financial resources that are accessible from regional and/or local Multilateral Development Banks (MDBs).

## Capacity building

The CMJ framework can be utilised to increase a banks' internal understanding of climate mitigation and upskill the workforce. As banks move towards achieving net zero, significant changes will be necessary across their workforce, both in terms of knowledge requirements and experience. The CMJ can be used as an educational tool to elevate employees' knowledge of climate mitigation and bring to light how it impacts all facets of the bank. By providing employees with the knowledge and tools to understand climate mitigation and its impact on the bank and themselves, the bank can ensure employee buy-in and ensure that the right teams are skilled. Capacity building is crucial for banks to deliver on their net-zero commitments, and the CMJ is one tool that can help.



# Recommendations and next steps

This paper has discussed some of the key challenges encountered by banks as they are looking to develop or advance their path to net zero. These challenges include the lack of a universally accepted end-to-end narrative on what climate mitigation entails for banks, the dynamic nature of evolving standards and methodologies, the multitude of frameworks stemming from various bodies, and the limited integration of regional factors into mitigation strategies.

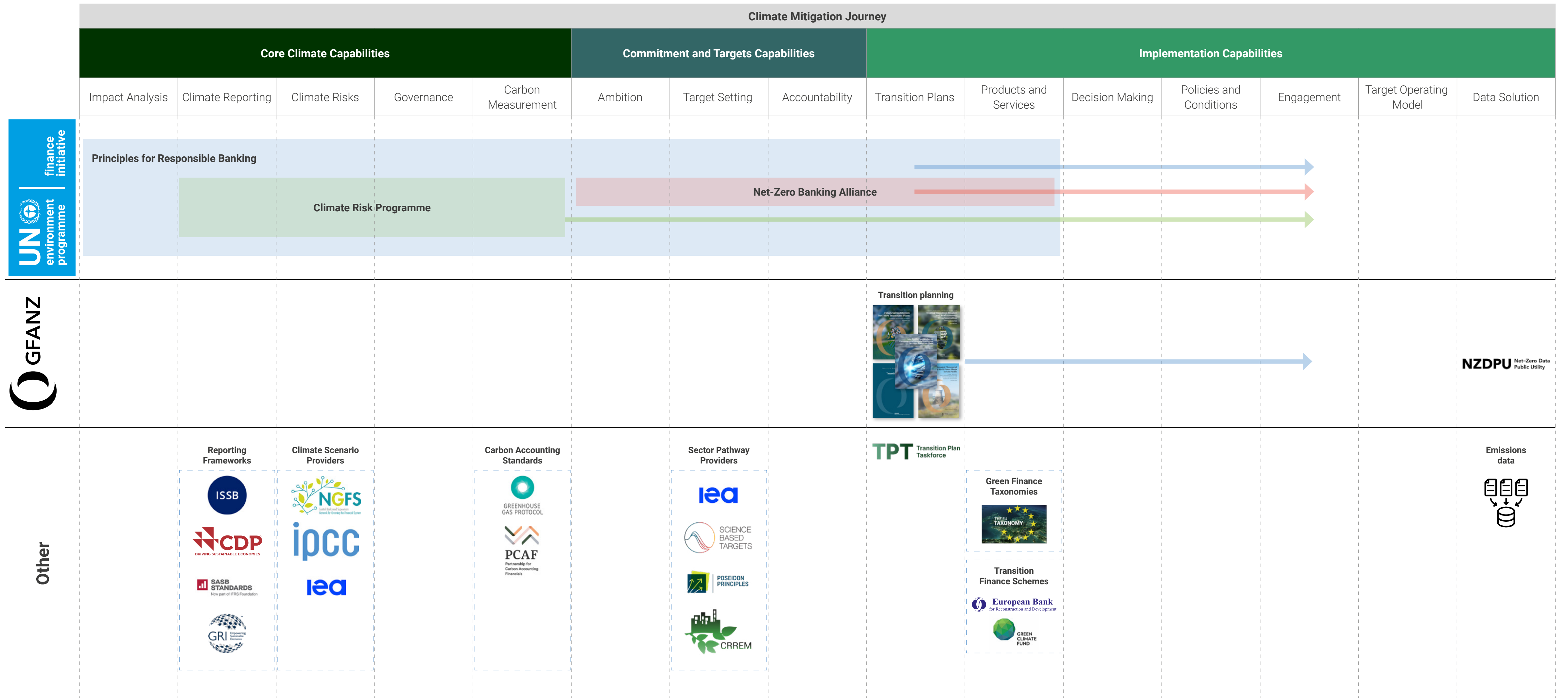
Given the industry challenges, there is a need for banks to take an approach that looks at how the whole bank needs to transform progressively. Building upon the [PRB](#), [UNEP FI](#) has developed the **Climate Mitigation Journey for banks**, a climate strategy framework that identifies three Capability Blocks with sub-capabilities within each that banks should consider building and advancing over time. The Core Climate Capabilities are about banks building the foundational activities they need to develop across climate-related risks and their measurement, accounting, and reporting. The Commitment and Targets Capabilities are about banks developing their individual net-zero ambition, setting targets across their business and portfolios, and showcasing progress over time. The Implementation Capabilities are about banks successfully operationalising their individual net-zero strategy across all different levels of their particular organisation. All three Capability Blocks are equally important and provide a helpful guide for banks to develop their business capabilities across different aspects of climate mitigation, while also allowing flexibility for banks to tailor to their specific context. [UNEP FI](#) will utilise the CMJ to drive global climate capacity-building with banks and engage with actors in the net-zero banking ecosystem across different regions.

Moving forward, it is recommended that individual banks begin drawing on the CMJ to inform their short- and long- term decarbonisation strategies, ideally early in their climate mitigation journey. Initiating efforts at an early stage, even in regions with less developed regulatory environments, can yield substantial benefits in the future. The paper has highlighted some use cases, but ultimately, the CMJ can support banks in identifying climate-related opportunities and effectively managing climate-related risks more strategically. Banks can act as stewards in the transition to net zero, creating value not just for themselves but also for their clients, society and all stakeholders involved. However, there are numerous challenges, and the CMJ aims to offer support and guidance for global financial decarbonisation efforts.



# Appendix

Appendix 1 illustrates how UNEP FI, through its various initiatives—namely the [Principles for Responsible Banking](#) framework and its climate accelerator the [Net-Zero Banking Alliance](#) as well as its [Climate Risk Programme](#), supports banks with materials and guidance across all the business capabilities outlined in the CMJ. It also illustrates the broader ecosystem of actors that banks need to engage with at various stages as they are looking to advance their path to net zero beyond UNEP FI. These actors are a mix of standard setters, providers of frameworks such as climate scenarios and sectoral pathways and providers of guidance and/or financing resources



Appendix 1: Illustrative view of the net-zero banking ecosystem & the CMJ (non-exhaustive).

Appendix 2 illustrates an example of the regional and national components that banks need to navigate as they are looking to advance their path to net zero. These vary across jurisdictions in terms of depth and maturity and banks that operate across multiple jurisdictions need to make sure that they comply with evolving policy and regulatory initiatives in those jurisdictions.

**Appendix 2:** Illustrative example of regional/national considerations relevant to the CMJ

<b>Core climate capabilities</b>	<b>Impact Analysis</b>	<ul style="list-style-type: none"> <li>National Mandates/Guidance for banks on Impact Analysis</li> </ul>
	<b>Climate Reporting</b>	<ul style="list-style-type: none"> <li>National Mandates/Guidance for banks on Climate Reporting</li> <li>National Climate Disclosure Requirements</li> </ul>
	<b>Climate Risks</b>	<ul style="list-style-type: none"> <li>National Mandates/Guidance for banks on Climate Risks</li> <li>National Climate Stress-Testing Requirements</li> <li>Regional/National Climate Scenarios</li> <li>Country Emissions Data &amp; Ecosystem</li> </ul>
	<b>Governance</b>	<ul style="list-style-type: none"> <li>National Mandates/Guidance for banks on Governance</li> </ul>
	<b>Carbon Accounting</b>	<ul style="list-style-type: none"> <li>National Mandates/Guidance for banks on Carbon Accounting</li> <li>Country Emissions Factors</li> <li>Country Emissions Data &amp; Ecosystem</li> </ul>
<b>Commitments and targets capabilities</b>	<b>Ambition</b>	<ul style="list-style-type: none"> <li>National Mandates/Guidance for banks on Ambition</li> <li>Nationally Determined Contribution Plans (NDCs)</li> </ul>
	<b>Target Setting</b>	<ul style="list-style-type: none"> <li>National Mandates/Guidance for banks on Target Setting</li> <li>Nationally Determined Contribution Plans (NDCs)</li> <li>Regional/National Sectoral Pathways</li> <li>Regional/National Sectoral Transition Strategies</li> <li>Country Emissions Data &amp; Ecosystem</li> </ul>
	<b>Accountability</b>	<ul style="list-style-type: none"> <li>National Mandates/Guidance for banks on Accountability</li> <li>National Climate Disclosure Requirements</li> </ul>
<b>Implementation capabilities</b>	<b>Transition Plans</b>	<ul style="list-style-type: none"> <li>National Mandates/Guidance for banks on Transition Plans</li> <li>Nationally Determined Contribution Plans (NDCs)</li> <li>Regional/National Sectoral Pathways</li> <li>Regional/National Transition Finance Schemes</li> <li>Regional/National Sectoral Transition Strategies</li> </ul>
	<b>Products &amp; Services</b>	<ul style="list-style-type: none"> <li>Regional/National Sustainable Finance Taxonomies</li> <li>Regional/National Transition Finance Schemes</li> <li>Regional/National Incentivisation Schemes for banks</li> </ul>
	<b>Decision Making</b>	<ul style="list-style-type: none"> <li>National Mandates/Guidance for banks on Decision Making</li> </ul>
	<b>Policies &amp; Conditions</b>	<ul style="list-style-type: none"> <li>National Mandates/Guidance for banks on Policies and Conditions</li> </ul>
	<b>Engagement</b>	<ul style="list-style-type: none"> <li>National Mandates/Guidance for banks on Engagement</li> </ul>
	<b>Target Operating Model</b>	<ul style="list-style-type: none"> <li>National Mandates/Guidance for banks on Target Operating Model</li> </ul>
	<b>Data Solution</b>	<ul style="list-style-type: none"> <li>National Mandates/Guidance for banks on Data Solution</li> <li>Country Emissions Data &amp; Ecosystem</li> </ul>





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UNEP Finance Initiative brings together a large network of banks, insurers and investors that collectively catalyses action across the financial system to deliver more sustainable global economies. For more than 30 years the initiative has been connecting the UN with financial institutions from around the world to shape the sustainable finance agenda. It has established the world's foremost sustainability frameworks that help the finance industry address global environmental, social and governance (ESG) challenges. Convened by a Geneva, Switzerland-based secretariat, more than 500 banks and insurers with assets exceeding US\$100 trillion work together to facilitate the implementation of UNEP FI's Principles for Responsible Banking and Principles for Sustainable Insurance. Financial institutions work with UNEP FI on a voluntary basis and the initiative helps them to apply the industry frameworks and develop practical guidance and tools to position their businesses for the transition to a sustainable and inclusive economy.

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