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

2024 progress report

AUSTRALIAN CONSERVATION FOUNDATION

Nature needs us, now

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

Acknowledgements

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The Australian Conservation Foundation takes full responsibility for all conclusions and recommendations drawn and the study method used.

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Cover. Solar panel technician *Photo:* zstockphotos
Right. Jim Jim Falls, Kakadu National Park Northern Territory *Photo:* Umomos / Shutterstock

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Foreword

Nobody would be surprised at increasingly keen interest in the role being played by Australia's largest banks in Australia's contribution to dealing with the global climate challenge, reducing carbon emissions and removing carbon from the atmosphere.

Because the banks either directly intermediate, or facilitate, debt finance for almost every commercial activity in the economy, their balance sheets are exposed to profound levels of risk. This risk exposure tends to attract elevated interest during periods of macroeconomic volatility and large structural change.

The global transformation to a low carbon emissions economy is as big a structural change as any previously navigated. How our banks deal with the risks in that transformation is of considerable interest to their shareholders, wholesale funding counterparties and the prudential regulator.

But the role being played by the banks in carbon financing is of much broader interest than that. The climate and biodiversity consequences of carbon financing are affecting all of us. And those banks that lead in the financing of lower emissions activities, and in nature repair that absorbs carbon, are helping all of us. For that reason, we have a legitimate interest in knowing which institution is doing best, and those that could do better.

I applaud the Australian Conservation Foundation for the role it is playing in contributing to much-needed transparency in this area.

Right now, the banks are grappling with a formidable challenge relating to emissions disclosures, not just relating to their own activities, but including the activities of those to whom they lend.

Some challenges are best handled by waiting for others to figure out the best means, by being a 'fast follower' rather than a leader. This is not one of those. In being seen to be dealing appropriately with the climate challenge, the stakes could not be higher. This is the sort of challenge that rewards leadership.

Dr Ken Henry AC

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

Executive summary

This is the second iteration of the Australian Conservation Foundation's benchmark of the climate strategies of Australia's five largest banks.

It shows important progress across the sector, although this progress needs to accelerate greatly to spur on the decarbonisation and modernisation of our economy at the speed and scale required.

While all banks are moving, they're not moving at the same pace, and are yet to align with the Paris Agreement. Three themes stand out.

First, banks have finally started tackling the thorny but important issue of bond facilitation. Bonds are growing in importance as a source of debt (compared with loans) for polluting industries such as coal, oil and gas that are attempting to expand the size of their operations despite the obvious threat this poses to our fragile climate. These bonds are generally on-sold on secondary markets, making it harder to trace this source of finance.[1] Bonds are making their way into climate policies. They will soon make their way into targets too.

Second, banks are being more transparent about the frameworks they use to assess their customers' transition plans, yet complete disclosure remains elusive. While banks are starting to be clearer about how they intend to deal with customers that do not align their business strategies to a liveable planet, progress on this front remains slow. With bank deadlines for credible transition plans only a year away, the writing is on the wall for companies that refuse to accept the science.

Third, banks are starting to align executive remuneration with climate change metrics. While this is yet to match international best practice, it will incentivise change across the sector.

Despite these signs of progress, bank strategies to address the climate crisis continue to fall short.

Australia's major banks still lack clear policies to end support for new coal, oil and gas projects – projects that have no place in a clean future. Clear consequences for companies who fail to align to the Paris Agreement are still lacking, and significant asset classes remain out of scope of bank climate strategies.

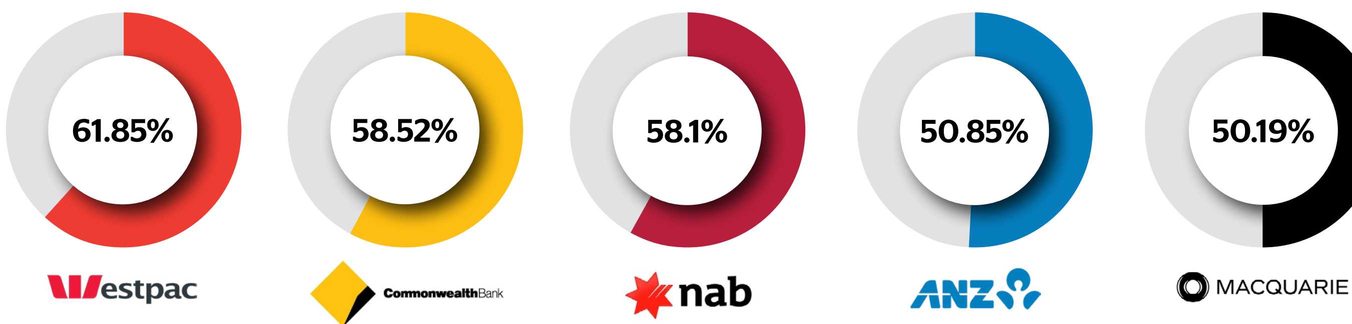
This assessment comes at a pivotal moment in Australia's decarbonisation trajectory, with most banks requiring customers to have Paris-aligned transition plans by next year and mandatory climate-related financial disclosures to begin from 1 January 2025.

While there is encouraging progress, banks cannot rest on their laurels. The stakes are too high – for communities, for nature, for the economy – for banks to shirk their responsibility, as Australian corporate citizens and prudent fiduciaries.

Right. Male Yellow-bellied sunbird, Cairns, Australia *Photo.* David Clode / unsplash

Left. Blue Mountains, New South Wales, Australia *Photo.* Jacques Bopp / unsplash

Key findings



Australia's big five banks have all committed to achieve net zero emissions as part of their pledges under the UN-convened Net Zero Banking Alliance.

This assessment shows an overall improvement in the banks' strategies to support their commitments this year, with the median score increasing from 49 to 55.

While all banks are moving, they're not moving at the same pace and are yet to fully align their strategies with the Paris Agreement. Faster progress is needed to achieve the economic transformation required to meet the science-based targets of the Paris Agreement.

1. Westpac, which previously had few policy commitments on fossil fuel lending, edged past Commbank due to coal finance restrictions, yet still lacks strong policies on oil and gas lending. Macquarie's improvement was insufficient to prevent it from coming last.
2. The majority of progress made by Westpac and NAB this year was due to the tightening of lending policies to environmentally harmful industries. Nonetheless, bank lending policies remain the area requiring the most action from lagging and leading banks to meet their net zero commitments and spur systemic change.
3. Banks are increasingly introducing policies to restrict fossil fuel financing via bond facilitation, with CommBank and Westpac introducing bond restrictions for polluting projects and companies.
4. CommBank, NAB, Westpac and ANZ have all set some form of requirement for fossil fuel intensive companies to implement a transition plan by 2025. One year out from that deadline, it remains unclear how banks will assess these plans and the consequences for non-compliance. CommBank is the only bank to clearly state it has no longer been refinancing clients that lack Paris-aligned transition plans. Macquarie has conducted an assessment of customer's transition plans but has not communicated expectations of customers.
5. Movement has begun on tackling deforestation, with Westpac adopting a zero-deforestation policy for livestock agriculture.
6. Macquarie, ANZ and Westpac joined NAB and CommBank in incorporating climate metrics into executive remuneration, although transparency remains well behind best practice.
7. Banks do not have discrete targets to fund energy-intensive trade-exposed projects that are powered by renewables, such as green iron, suggesting an opportunity for leadership.
8. Troubling inconsistencies have emerged in how some banks report climate solutions finance as compared to how they report on financed emissions. For example, Macquarie exaggerates its support for renewables by reporting total renewable capacity despite only financing a small share of that capacity and combining both their own lending and funds under management. This is juxtaposed with how the bank reports on financed emissions, which only accounts for the proportion of the project financed.

Introduction

As lenders, arrangers, underwriters, investors and facilitators, banks play a crucial role in enabling activities that either worsen or reduce the risk of climate change.

While the primary reason to act on climate change is out of concern for our Earth, future generations and the animals and plants we share it with, the economic imperatives are obvious.

Today, the impacts of climate change are tangible, with Australia having experienced more frequent and intense bushfires, more intense flooding, longer periods of drought and deadly heatwaves.

So too, are the economic impacts. Houses in some vulnerable areas are now uninsurable as insurance firms retreat from high-risk zones. Heatwaves and other climate change events dent productivity as manual labourers face extreme weather. Agriculture and tourism are at particular risk and the possibility of water shortages threatens many industries.

Simultaneously, businesses are having to rapidly come to terms with growing nature-related risks and impacts, of which climate change is one part. Roughly half of Australia's GDP is directly dependent on nature, illustrating the potential far reaching consequences of ecosystem decline, if we continue with the status quo.[2]

As the interconnected and compounding nature of these risks becomes clear, so too does the urgent need for action.

At first blush the energy transition might seem an impossible challenge for Australia, one of the world's largest fossil fuel exporters. Yet, with abundant wind, sunshine, and critical minerals, Australia is well positioned to prosper if we act now to seize these opportunities.

Banks play a crucial role in this future; major projects, whether fossil fuel or renewable, cannot move forward without financial backing. In a decarbonising world, Australia can choose to become a leading renewable exporter or risk economic decline as demand for coal, gas and low-grade iron ore wanes.

The International Energy Agency emphasizes there is still a narrow pathway to limiting warming to 1.5C – a vital goal for low-lying regions, coral reefs and other ecosystems. This pathway requires halting new fossil fuel infrastructure.[3] The reason is clear. Large capital expenditures on fossil fuel assets will prolong their use and slow down the energy transition, at a time when there is not a second to waste.[4]

Climate change is a challenge and an opportunity that requires action at every level – government, business and the community. Each step forward creates positive ripple effects that spur further action. As banks join a race to the top on climate ambition, our prospects for a positive future become brighter.

Numbat *Photo.* Martin Pelanek / Shutterstock

Glossary

Absolute emissions

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

Business segment

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

Capital markets facilitation

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

Climate-related financial risk

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

Climate solutions finance

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

Continuous disclosure

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

Corporate finance

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

Emissions-intensive sector

A sector responsible for emitting a significant amount of greenhouse gases (GHGs) into the atmosphere.

The Net-Zero Banking Alliance defines these sectors as agriculture, aluminium, cement, thermal coal, commercial and residential real estate, iron and steel, oil and gas, power generation and transport.

Financed emissions

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

Financed emissions intensity

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

General use of proceeds finance

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

Green finance

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

Independent limited assurance

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

Interim targets

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

Material asset class

See "Business segment"

Mitigation hierarchy

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

Net zero

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

Net-Zero Banking Alliance

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

Off-balance sheet emissions

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

Production-based emissions-intensity

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

Project finance

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

Scenario analysis

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

Sector-based targets

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

Sustainable finance target

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

PinkCockatoo *Photo.* Rixipix / iStock

Methodology

Design principles

1. Alignment with science and industry best practice

The assessment criteria were developed with reference to key international initiatives, reports and benchmarks outlining finance sector best practice. These include:

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

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

2. Collaboration and verification from industry experts

The criteria, which were originally developed in 2023, were developed with input from relevant experts in the sustainable finance industry, including from NGOs, banks and academia. They were verified by experts at the Monash Business School's Green Lab.

3. Assessment based on publicly available information

Assessment of banks' performance against criteria was based on information publicly available as of September 2024 and not more than three years old. Ensuring transparency in how banks address climate-related risks and opportunities as part of their net zero commitment is essential to guarantee that banks are benchmarked consistently and fairly and are accountable for their actions to mitigate climate change.

4. Assessment conducted at a group level

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

5. Assessment can be replicated

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

6. Feedback from relevant banks

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

Banks assessed

Australia's five largest banks, each with more than $300 billion in total assets as of the financial year ending 30 June 2023, were selected for evaluation.

These were the Commonwealth Bank of Australia (CommBank), Australia and New Zealand Banking Group (ANZ), National Australia Bank (NAB), Westpac Banking Group (Westpac) and Macquarie Group (Macquarie).[5]

The chosen threshold for analysis accounts for variations in bank size and ensures genuine comparison between peers.

Overview of scoring rubric

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

Each indicator is assigned a level of importance (very high, high, medium or low) depending on its relative contribution towards a robust net zero commitment.

As seen in Figure 2, the level of importance informs the maximum score attributed to each indicator, as well as the points that are assigned to each level of partial alignment.

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

Where banks refer to initiatives conducted by subsidiaries in their group level reporting, points available for relevant indicators are halved.

The scoring rubric includes:

Aligned criteria

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

Partially aligned criteria

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

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

Not aligned criteria

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

Figure 1: Scoring themes

Targets
(6 indicators)
(21 points)

High-level commitment (2 indicators)

Supporting targets (4 indicators)

Strategy and action
(7 indicators)
(35 points)

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

Governance
(8 indicators)
(28 points)

Climate-risk management (2 indicators)

Governance and remuneration (3 indicators)

Engagement on climate policy (3 indicators)

Reporting
(5 indicators)
(16 points)

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

Figure 2: Scoring guide

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

Overview of scoring themes

Targets (21 points)

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

This year, in response to developments globally and within the financial sector, more gradation was introduced to assess targets based on whether individual targets have been developed for specific greenhouse gases, such as methane. Additional gradation was also introduced to assess whether banks had adopted direct or facilitated climate solutions financing targets, as well as targets for renewable exports such as green iron.

Strategy and action (35 points)

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

Governance (28 points)

Covers the governance structures that the bank has in place to inform and execute its net zero commitment.

This includes indicators on the adequacy of climate scenario analysis, the accountability, competency and remuneration of board members and the bank's engagement on climate change-related policy.

Reporting (16 points)

Measures the transparency of the bank's reporting on climate change-related topics. The indicators assess the disclosure of the bank's financed emissions and the methodology used to calculate financed emissions. Additional gradation was introduced this year to identify whether banks are reporting separately for different greenhouse gases.

Additionally, indicators assess the disclosure of activities included in its climate solutions target and the third party verification of sustainability performance reporting and financial statements.

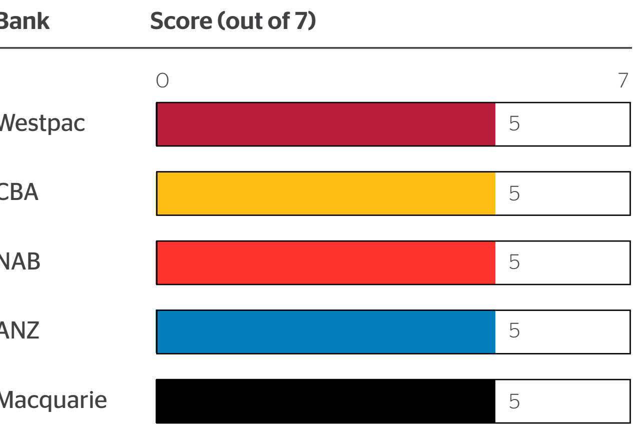
Results

Targets

High-level commitment

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

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



There was no movement on banks' high-level climate commitments from the previous iteration of the report, as no bank had expanded the scope of their target to cover all their financing activities.

All banks assessed received partial points, since their net zero commitments only cover lending activities or, in Macquarie's case, lending and equity investments, while excluding other key financial services such as capital markets facilitation.

For banks' net zero commitments to be effective in driving real-world change, the scope of these net zero commitments must target all material asset classes, including loans and capital markets activities. This is especially important given the significance of the bond market to the debt structures of major emitting companies.

While none of the banks currently include capital markets facilitation within the scope of their net zero commitments, we expect this to change soon with new guidelines anticipated from the Net-Zero Banking Alliance following the 2023 publication by the Partnership for Carbon Accounting Financials (PCAF) of a methodology for measuring facilitated emissions.

Each of the banks assessed is a member of the Net-Zero Banking Alliance (NZBA) and received full points on this indicator. The NZBA, which continues to grow, now includes 144 banks with US$74 trillion in assets and requires signatory banks to progressively set emission reduction targets across each of their emissions-intensive sectors.[6]

While the Paris Agreement commits countries to reach net zero emissions by mid-century, countries such as Australia that are relatively wealthier, endowed with abundant renewable energy resources and with a higher relative contribution to climate change are expected to achieve this goal sooner, by about the mid-2030s. Faster pathways to decarbonisation are not only good for the climate, but come with energy and productivity benefits and first mover advantages.

As well as bank loans, bonds are a major source of debt finance for fossil fuel expansion. Bonds are facilitated by banks and then sold on to investors, reducing transparency. Yet until now, bonds have not attracted as much attention or been included in bank targets, in part due to the lack of an agreed methodology. This is despite other banks internationally taking responsibility for bond facilitation, and the inclusion of bonds in climate solution targets.

Fortunately, a methodology now exists and bank targets are expected to become more complete.

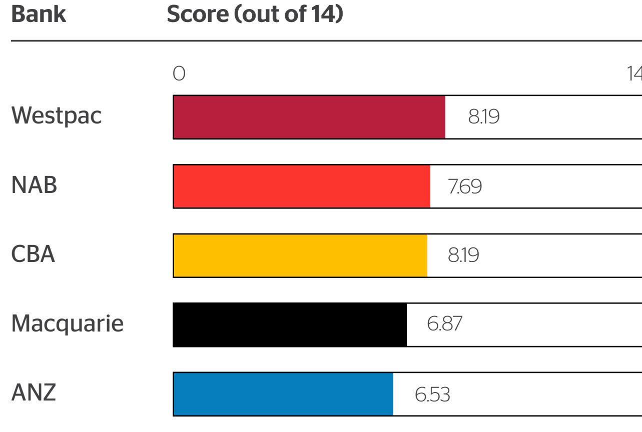
Sector targets

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

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

2.3 The bank discloses a climate solutions financing target.

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



While high-level commitments to reaching net zero emissions are a first step, ambitious short-term targets are critical given changes in climate result from the cumulative total of historic emissions. Any shortfall in short-term ambition risks exhausting the entire carbon budget this decade.

No bank has set a portfolio-wide 2030 financed emissions target, instead all have taken a sector-by-sector approach.

Setting targets separately for emissions-intensive sectors is important because some sectors such as electricity can decarbonise relatively quickly, while some sectors have harder to abate emissions. The NZBA expects banks to progressively set targets for agriculture, aluminium, cement, coal, commercial and residential real estate, iron and steel, oil and gas, power generation and transport within the first three years of becoming a signatory.

CommBank and Westpac have the broadest sectoral coverage, with CommBank having deferred setting its final sector target for agriculture, and Westpac expecting to have full coverage of sectors once it sets targets in the aluminium sector in its 2024 reporting. Macquarie Bank covers the fewest sectors, although says these sectors account for more than 80% of the financed emissions within its portfolio (See Figure 3).

This year, each of the banks added new sector targets, with ANZ setting targets for thermal coal and three transport sub-sectors, CommBank adding commercial property and transport, Macquarie setting a target for residential mortgages, NAB expanding to aluminium, iron and steel and aviation, and Westpac adding transport, iron and steel, residential real estate and agriculture.

Figure 3: Sector-based targets by bank

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

Yes No Partly

Further details on partly aligned sector-based targets:

Iron and steel: ANZ, CommBank and Westpac's target only covers steel.

Commercial and residential real estate: ANZ's target only covers commercial real estate, while Macquarie's only covers residential real estate.

Transportation: ANZ's target only covers aviation and shipping, Westpac's target only covers aviation and Macquarie's target only covers motor vehicles.

Oil and gas: ANZ, CommBank and Westpac's target only covers upstream oil and gas.

As with the headline net zero commitments, banks have not included capital markets activities within the scope of their sector targets. This limitation on the scope of coverage is reflected in the scoring.

This year, we introduced further gradation to the sector-based targets criteria to cover all scopes of emissions and all greenhouse gases relevant to the sector.

Since the signing of the Global Methane Pledge, there has been increased attention on the opportunity to make significant emission reductions in greenhouse gases other than carbon dioxide, such as methane and nitrous oxide.[7] At present, banks report emissions and set targets based on carbon dioxide equivalent, a single metric that weights different greenhouse gases based on their global warming potential (GWP). This is problematic due to the differing warming rates and lifetimes various greenhouse gases have in the climate system. There is a risk of missing opportunities to reduce more potent greenhouse gases such as methane, which is responsible for about a third of all the warming we are currently experiencing. None of the banks have set separate targets for the various greenhouse gases that are relevant to each sector.

In addition to emission reduction targets, banks were also assessed on their targets to finance climate solutions, such as transport and clean manufacturing.

ANZ, CommBank, Westpac and NAB have all adopted climate solutions targets.

Westpac and NAB scored highest on this indicator as they disclose separate targets for both lending and facilitation. In Westpac's case, this involved a significantly increased lending ambition and a new facilitation target, while NAB also increased its ambition and disclosed for the first time how the target is broken down by asset class.

Left. Pygmy Possum
Photo. Annette Ruzicka

However, the benchmark found surprising discrepancies between how banks measure and account for climate solution finance as compared to financed emissions, in some cases reporting climate solution finance which appears over-inflated.

For example, while banks have not included facilitated emissions in their sector emission reduction targets due to the absence of a methodology prior to December 2023, they do include facilitation in their climate solutions financing targets. This contrast in accounting methods suggest a willingness on banks to inflate their support for climate solutions, while minimising responsibility for the emissions they finance. For instance, ANZ aggregated their climate solution lending and their facilitation activities together, which can make a target appear larger than it otherwise might. Higher points were awarded where banks set separate targets to avoid overstating their contribution.

Rather than a target, Macquarie has a strategy to increase its climate solutions financing, which was $2.4 billion in 2024. Macquarie's report refers to 110GW of green energy assets in development, under construction or operating. This does not involve lending to renewable energy projects, but rather investment and arranging activities. It is worth noting that where Macquarie has a small equity stake in a project, it counts the entire project capacity towards its 110GW figure. This contrasts with the approach the bank has taken in counting financed emissions, where a portfolio weighting applies, meaning it only accounts for a percentage of emissions reflecting its own exposure to a company or project. This approach of counting support for climate solutions on a total capacity basis rather than an equity basis risks significantly overstating support for the energy transition.

This year, banks were also assessed on targets for climate solution finance in renewable-based energy-intensive trade-exposed (EITE) sectors, such as green iron or green steel, to capture the need for Australia to remain trade-relevant in a decarbonising economy and counter the tendency to over-rely on green buildings to meet climate solutions targets.8 As this is an emerging issue, none of the banks were found to have targets in this area. Nevertheless, as global demand moves away from fossil fuels, low-grade crude iron ore, and metallurgical coal, Australia will need to move quickly if we want to take capitalise on our natural advantages and remain trade-relevant in a decarbonising world.

All the banks assessed had 100% renewable electricity targets for their own operations. Notably, CommBank, Macquarie and Westpac have already achieved this target, with NAB at 88% and ANZ at 49%.

Strategy and action

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

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

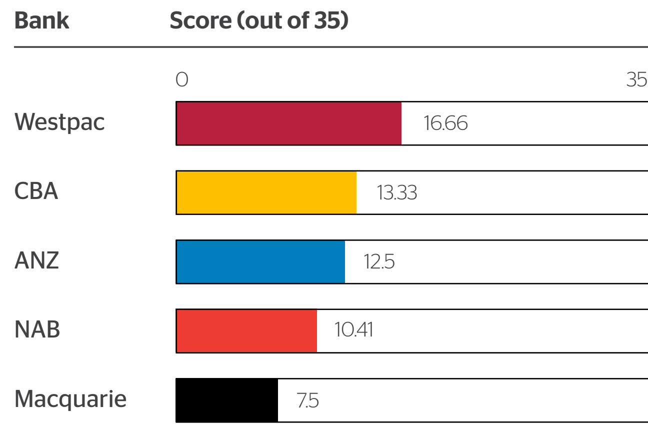
3.3 The bank does not provide project financing to new or expanded oil or gas projects.

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

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

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

3.7 The bank has a policy on deforestation.



Significant progress was made in banks' policies surrounding fossil fuel expansion this year. Until this year, Westpac had very little policy relating to companies expanding fossil fuel production and did not disclose much detail on how it assessed customer transition. Westpac has also become the first Australian bank with a zero deforestation commitment for beef, sheep and dairy.

The International Energy Agency's Net Zero by 2050 scenario requires no new coal, oil or gas projects, consistent with the IPCC's finding that existing fossil fuel infrastructure is sufficient to exceed the temperature goals of the Paris Agreement unless existing assets are retired early. As fossil fuel projects incur high capital expenditure early, new development risks locking in emissions for decades and competing against renewable energy development. The United Nations High-Level Expert Group on the Net-Zero Emissions Commitments of Non-State Entities also requires banks committed to net zero not to finance new fossil fuel exploration or production.

ANZ and Westpac both strengthened their policies on direct thermal coal mine financing. ANZ now rules out thermal coal expansions as well as new mines, while Westpac made a new commitment not to directly finance new thermal coal mines or expansions, consistent with the approach taken by CommBank and Macquarie. NAB has a commitment not to directly finance new thermal coal mines and have also reached zero exposure to the thermal coal mining sector, stating that they intend to maintain that position, which effectively means they will no longer finance coal mine expansions either.

However, most lending to the thermal coal mining sector is in the form of corporate finance, where a loan to the company can be used for any purpose, including the development of a thermal coal mine or expansion. Most banks still do not restrict this form of finance, meaning they may still provide finance to companies expanding thermal coal.

Westpac and CommBank nonetheless made significant announcements related to companies expanding thermal coal production this year. While CommBank's policy only applies to new clients, and therefore is not sufficient to gain points on this indicator, Westpac announced that it will no longer provide lending or bond facilitation to thermal coal companies, including for new mines and expansions. The inclusion of bond facilitation in this commitment is significant as bonds are becoming a more significant source of debt to fund fossil fuel expansion over traditional loans, and are traded on secondary markets, reducing accountability.

This year, ANZ joined CommBank in adopting a policy that restricts direct lending to any new or expanded upstream oil or gas project. Westpac and NAB also have policies that restrict lending to new oil and gas projects, although they don't explicitly rule out the provision of finance to new or expanded oil and gas projects. Macquarie is now the only bank that lacks a policy on oil and gas projects.

In 2021, the International Energy Agency published a roadmap to limiting warming to 1.5 degrees, and found no new coal, oil or gas projects were needed to meet this goal, while still meeting the world's energy needs. In 2023 the roadmap was updated to be more ambitious, because real-world solar and electric vehicle uptake in the previous two years had exceeded the pathway in the 2021 roadmap.

As with the thermal coal sector, new oil and gas projects typically rely on general use of proceeds finance (also referred to as corporate finance) or debt from capital markets such as bonds. None of the banks assessed have a policy which precludes finance to companies building new oil and gas projects.

However, this year CommBank disclosed the application of a policy that stands out as the strongest bank policy approach to the oil and gas sector. Under their approach, CommBank has no longer been financing or refinancing oil and gas companies unless they have a "well below" two degrees transition plan, a policy that prevents most new oil and gas projects from receiving financing. Given that the benchmark assesses banks against a 1.5°C aligned target, this approach was not enough to award points but is nevertheless commendable.

Except for Macquarie, each bank expects customers to adopt a credible Paris-aligned transition plan by 2025, although there are varying degrees of transparency in how this is assessed and variances in the quality of the assessment. Westpac and NAB are most transparent about their ambition, disclosing that transition plans must cover all material scopes of emissions, align with the 1.5°C goal, and be based on independent third-party scenarios, although NAB are still developing their assessment framework. ANZ require a transition plan by 2025, although their assessment framework does not explicitly require emission reduction targets for material Scope 3 emissions, but merely disclosure.

Banks were also assessed on what actions they will take in relation to customers that are not aligned. This year CommBank has gone furthest by stating it will no longer refinance companies that are not aligned with a well below 2°C implied temperature rise. This is to be independently assessed, although it is not clear who will make these assessments. Except for CommBank, other banks have yet to commit to cease financing customers that do not have a credible transition plan.

Finally, banks were assessed on whether they had a policy on deforestation. Protecting forests is vital in the global effort to mitigate and abate the effects of climate change and as such the United Nations High-Level Expert Group on Net-Zero Commitments by Non-State Actors has said that no net zero commitment is credible in the absence of a zero-deforestation policy. Late last year, Westpac became the first Australian bank to adopt a zero-deforestation policy in the beef, sheep and dairy sectors. While Westpac's policy was not perfect in that it set a cutoff date in the future (which might induce more deforestation than it prevents), this is an important position of leadership within the banking sector, and we expect other banks will make similar commitments in the near future. CommBank disclosed how it is beginning to think about deforestation, although delayed target-setting for the agricultural sector.

Figure 4: Fossil fuel lending policies

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

Yes / No / Partly

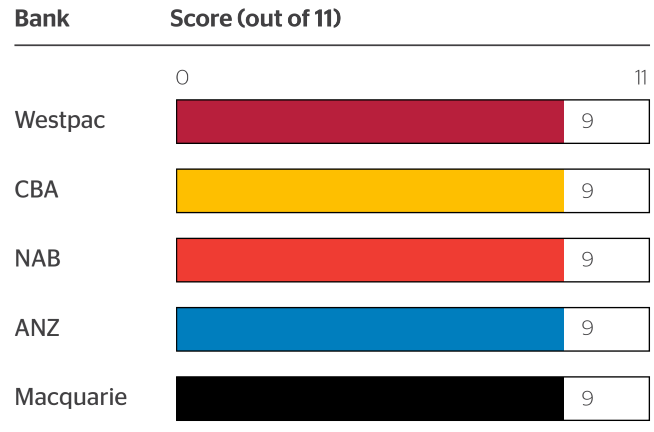
Governance

Board and executive governance

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

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

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



This year's benchmark saw an improvement on board and executive governance as Westpac, Macquarie and ANZ made changes to align with CommBank and NAB.

Board-level accountability is an important part of prudential risk management, as climate change can have system-wide impacts on the economy. Australia's prudential regulator and the Governance Institute of Australia have both emphasised the importance of board-level accountability for climate risks, given the far-reaching and unprecedented challenges posed by climate change and risks it poses to the economy.

All banks evidenced accountability for climate strategy being set at the board level, consistent with APRA's Prudential Practice Guide on Climate-related Risks.[9] ANZ also closed the gap with other banks by demonstrating that at least one member of the board has the capability to assess climate-related risks and opportunities, after the appointment of a new board member late last year.

Further shifts were seen relating to executive renumeration, with ANZ, Macquarie and Westpac joining CommBank and NAB in disclosing that climate change performance forms some part of executive remuneration.

However, no bank received full points on this indicator, as no bank disclosed the proportion of executive renumeration linked to the achievement of climate targets.

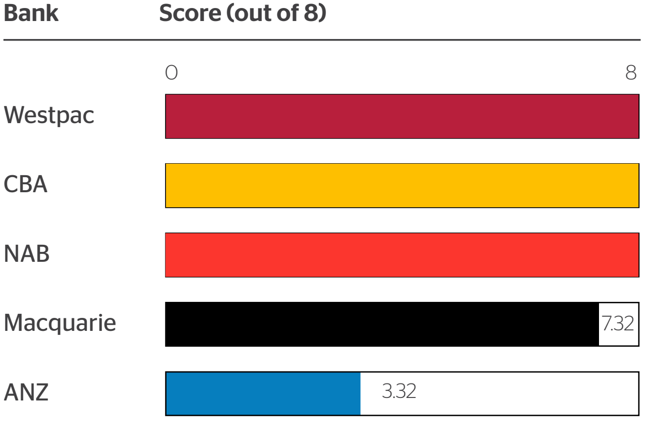
International best practice is to dedicate 10% of executive remuneration to climate change metrics. Bendigo & Adelaide Bank, while not one of the banks assessed in this benchmark, allocates 10% of executive remuneration to People and Planet metrics, which include climate change measurements.

Above. Greater Glider
Photo. Laura Howden/ iStock

Climate risk assessment

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

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



Climate change poses risks to the broader economy that increase over time including compound and cascading risks, and those arising through the interaction between climate change and nature-related risks. This will increasingly be the case as insurers and re-insurers pull back from certain areas judged to be uninsurable. Additionally, transition risks can occur due to overexposure to some sectors, as not all companies are prepared for the energy transition.

For this reason, APRA has identified that prudent financial institutions would undertake and disclose both physical and transition risk assessment, requirements that will now become mandatory due to the passage of the climate-related financial disclosures legislation through both houses of Parliament.

It is important to note that climate risk models can often be misinterpreted due to confusion about their limitations and what modelling is and is not able to demonstrate, for instance two extreme weather events occurring concurrently.[10] As the old adage goes, all models are wrong, but some are useful.

CommBank, Westpac and NAB received full points for physical risk disclosure due to their disclosure of the scenarios used, a disclosure of quantitative metrics, and the assessment being applied across a range of sensitive sectors. Macquarie received partial points, due an assessment of a portion of their portfolio conducted in 2020 which lacked quantitative disclosure. Apart from APRA's Climate Vulnerability Assessment, ANZ has not disclosed its own assessment of physical risk in Australia, although it received partial points for more comprehensive disclosures in its New Zealand residential mortgage portfolio. Westpac's score improved due to disclosure of scenarios used in physical risk assessment.

CommBank, Macquarie, Westpac and NAB all received full points for their transition risk assessment due to the disclosure of scenarios used, disclosure of quantitative metrics, and the sectoral breadth of the assessment. ANZ received partial credit for its New Zealand analysis, although the results were not disclosed in a quantitative way. Each bank had the same quality of transition risk assessment as last year.

Policy engagement

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

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

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

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

Action on climate change requires sustained and concerted effort by governments, business and the community. As significant employers and well-known companies, banks can have a positive influence on the development of climate change policy through their lobbying and industry associations.

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

This year, Influence Map's assessment was broadened to include criteria assessing engagement on climate-related sustainable finance policies, as well as broader climate policies.

Each bank retained the same score this year as last year, reflecting the fact that while bank positions are generally more constructive than other sectors, engagement remains lower.

Each bank received equal scores for the direct and indirect engagement criteria.

No bank received points for conducting a robust review of their industry associations this year. CommBank and NAB did disclose information about the outcome of a review finding they were aligned with their industry associations, but these reviews did not meet the standard set by the Global Standard on Responsible Climate Lobbying.

Shaping public policy

Lobbying by both community members and by businesses shapes how laws, rules and policies get made, yet this is usually done behind doors. Lobbying occurs both directly, and via industry associations - often company boards are unaware of how a CEO or Corporate Affairs department are engaging with government.

While policy engagement is part of a healthy democracy, it should happen transparently to uphold public trust.

Reporting

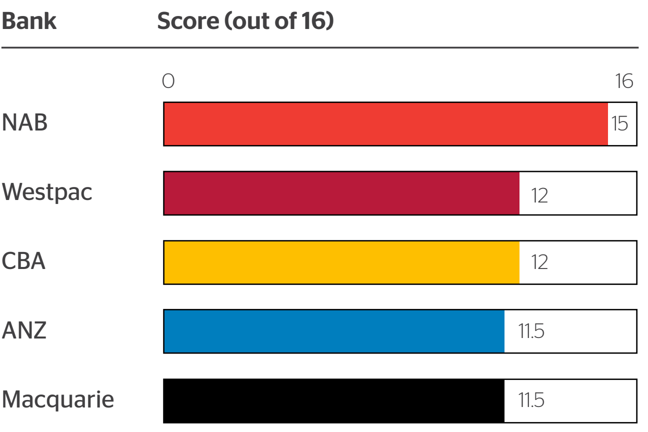
7.1 The bank discloses its financed emissions on an annual basis.

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

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

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

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



The advent of mandatory climate-related financial reporting in Australia will creates an environment where investors can comparably assess investment risks and confidently invest in the energy transition. Australian banks have for some time been disclosing their financed emissions in anticipation of such a scheme, and due to growing understanding of the materiality of this information.

Overall, little has changed in the quality of banks' reporting of financed emissions this year and there remains significant variation between banks on the quality of reporting.

Macquarie's reporting of financed emissions slightly improved due to reporting their current financed emissions rather than relying on reporting their baseline emissions. CommBank, NAB and Westpac all received equal points for disclosing their financed emissions on an absolute basis across all emissions-intensive sectors.

Similarly to last year, Macquarie did not disclose its sectoral coverage, while ANZ did not report this year's emissions in commercial real estate.

None of the banks reported their facilitated emissions due to the absence of a methodology for attribution, instead only reporting emissions related to lending, which likely excludes significant activities such as underwriting and advisory services. Likewise, banks continue to report using carbon dioxide equivalent (CO_2e) rather than reporting relevant greenhouse gases separately. This misses opportunities for near-term abatement of more potent greenhouse gases such as methane and nitrous oxide. While it remains common practice to report CO_2e emissions, the reporting of financed emissions by greenhouse gas is an area for potential improvement.

As last year, each bank received full points for their publication of a financed emissions methodology that is consistent with credible international frameworks.

Each of the banks had disclosed their criteria for eligibility of sustainable finance projects and it was clear that gas and nuclear were not included within those targets.

Each of the banks received full points for obtaining independent limited assurance on their sustainability reports. While the auditor commonly referenced other sections of the annual report where climate change was discussed, NAB was the only bank where credit risks associated with climate change were specifically addressed in the auditor's review of the bank's financial statement. While NAB's inclusion of climate change in the auditor's report follows last year's practice, CommBank's auditor's report no longer specifically mentions that it addresses climate change.

Next steps

While this report has found promising signs of forward momentum, Australia's banks still have a long way to go to match their headline commitments to net zero emissions to the action needed, with some banks performing better than others.

By adopting these recommendations, banks can help protect their financial position from climate risks while protecting our communities and the animals and plants we share this continent with from future harm.

01 Banks' net zero commitments should cover all emissions-intensive sectors and business segments, including (but not limited to) lending, investments, bonds and capital markets activities such as debt and equity underwriting.

02 Banks should disclose the reasons why sectors or business segments have been omitted from the scope of their targets, for example, due to data limitations or capacity gaps, and disclose on a reasonable basis their intentions to deal with these limitations.

03 For activities or clients that predominantly operate within Australia or another high-income country with a higher share of cumulative historic emissions, banks should aim to meet their targets sooner than 2050, to respect the principles of equity and common and differentiated responsibilities.

04 Banks should conduct and disclose an assessment of their physical and transition risks including quantitative metrics, and disclose the models, scenarios and transition pathways used in their assessment. These assessments should incrementally cover all material emissions-intensive and climate-vulnerable sectors across all business segments.

05 Banks should adopt a portfolio-wide and science-based 2030 absolute emissions reduction target aligned with limiting warming to 1.5°C.

06 Banks should adopt sector-specific targets for all material emissions-intensive sectors covering all material business segments, aligned with disclosed credible science-based scenarios aligned with 1.5°C with no or limited overshoot. Baselines should be no more than two full years before the setting of the target and be recalculated in line with the global GHG Protocol subsequent to any significant structural changes such as acquisitions, divestments and mergers. Targets should be set separately for relevant greenhouse gases such as methane and nitrous oxide.

07 Banks should set an ambitious climate solutions target based on a share of their portfolio and disclose a breakdown of activities and business segments supported by the target. Climate solutions finance should be provided on an activity basis, and banks should not provide climate solutions finance to harmful or emissions-intensive activities such as gas or the nuclear value chain. Banks should consider adopting separate targets for renewable-based energy-intense trade-exposed industries that are critical to our future economy.

08 Banks should not lend, invest, provide bonds or facilitate finance to companies expanding coal, oil or gas production or exploration, other than for finance specifically tied to meeting rehabilitation, employee liability or community obligations. Policies should cover specific and general use of proceeds finance and other financial products.

09 Banks should require companies in emissions-intensive sectors to develop transparent, credible and independently verified transition plans aligned with limiting warming to 1.5°C. Banks should disclose how they assess transition plans, including a requirement that offsets cannot be used to meet interim targets, and commit to cease refinancing companies that have failed to develop credible transition plans.

10 Banks should not lend to or invest in companies or activities linked to deforestation that has occurred since the 2020 cut-off date adopted by the SBTi.

11 Banks should disclose their absolute financed emissions across all emissions-intensive sectors and business segments on a total committed exposure basis, accounting for all greenhouse gases, and report financed emissions by each greenhouse gas separately.

12 Banks should disclose their methodologies for calculating financed emissions, with reference to recognised methodologies such as PCAF.

13 Banks should obtain limited financial assurance on their sustainability performance reporting.

14 Banks should require auditors to assess the material climate-related matters in their audited financial report, with a sensitivity analysis for a business-as-usual pathway and a 1.5°C-aligned pathway.

16 Banks should appoint board members with specific climate change skills and expertise and disclose relevant qualifications, training and ongoing skill development.

17 A significant portion of banking executives' long-term remuneration should be linked to the achievement of climate change metrics. Best practice is to ensure 10% of executive remuneration is linked to climate change performance.

18 Banks' direct and indirect lobbying should be completely aligned with the goals of the Paris Agreement. Banks should review on an annual basis the climate policy alignment of industry associations of which they are members and end their membership of any association where there is a material misalignment.

19 Banks should ensure that they have well-resourced internal capacity and capability to manage climate-related risks.

Left. Kanangra-Boyd National Park, Kanangra
Photo. Erico Marcelino / unsplash

Appendix: Full scoring

Indicator	Source	Max score	WBC	CBA	NAB	ANZ	MBL
Targets							
High-level commitment							
The bank discloses a commitment to achieve net zero emissions by 2050, consistent with a 1.5°C scenario	Net-Zero Banking Alliance (NZBA), Integrity Matters, Transition Pathway Initiative (TPI), World Benchmarking Alliance	4	2	2	2	2	2
The bank is a member of the Net-Zero Banking Alliance	NZBA	3	3	3	3	3	3
Sector targets							
The bank discloses an interim financed emissions reduction target, consistent with a 1.5°C scenario	NZBI, SBTi	4	0	0	0	0	0
The bank discloses sector specific financed emissions reduction targets, consistent with a 1.5°C scenario	NZBA	4	2.87	2.87	2.87	2.87	2.87
The bank discloses a climate solutions financing target	World Benchmarking Alliance	4	3.32	3.32	3.32	2.66	2
The bank discloses a commitment to reach 100% of electricity consumption from renewable sources by 2030 or sooner	RE100	2	2	2	1.5	1	2

Indicator	Source	Max score	WBC	CBA	NAB	ANZ	MBL
Strategy and action							
The bank does not provide project financing to new or expanded thermal coal mines	Integrity Matters, IEA NZ2050, IPCC	5	5	5	2.5	5	5
The bank does not provide corporate financing to companies developing new or expanded thermal coal mines	Integrity Matters, IEA NZ2050, IPCC	5	2.5	0	0	0	2.5
The bank does not provide project financing to new or expanded oil or gas projects	Integrity Matters, IEA NZ2050, IPCC	5	2.5	5	3.75	5	0
The bank does not provide corporate financing to companies that are undertaking new or expansionary oil or gas projects	Integrity Matters, IEA NZ2050, IPCC	5	0	0	0	0	0
The bank requires customers in emissions-intensive sectors to adopt a transition strategy based on a 1.5°C pathway by 2025	Integrity Matters, SBTi	5	4.16	3.3	4.16	2.5	0
The bank has a policy which states that it will cease financing to customers in emissions-intensive sectors unless they have adopted a transition strategy which is aligned with a 1.5°C pathway by 2025	Integrity Matters, TPI	5	0	0	0	0	0
The bank has a policy on deforestation	Integrity Matters, TPI, SBTi	5	2.5	0	0	0	0

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

Appendix: Full scoring

Indicator	Source	Max score	WBC	CBA	NAB	ANZ	MBL
Governance							
Board and executive governance							
The bank has clear accountability for climate strategy at the board level	APRA CPG 229	4	4	4	4	4	4
The bank's board has sufficient capabilities or competencies to assess and manage climate-related risks and opportunities	APRA CPG 229	3	3	3	3	3	3
The bank's remuneration of senior executives incorporates performance on climate change related topics	APRA CPG 229	4	2	2	2	2	2
Climate risk assessment							
The bank employs climate scenario analysis to assess its exposure to transition risks	TCFD, TPI	4	4	4	4	1.33	4
The bank employs climate scenario analysis to test its exposure to physical risks	TCFD, APRA CPG 229	4	4	4	4	1.99	3.32
Policy engagement (out of 9)							
The bank has direct climate-policy engagement that is aligned with the IPCC and the Paris Agreement	United Nations' Guide for Responsible Corporate Engagement in Climate Policy	3	1.5	1.5	1.5	1.5	1.5
The bank has indirect climate-policy engagement that is aligned with the IPCC and the Paris Agreement	United Nations' Guide for Responsible Corporate Engagement in Climate Policy	3	1.5	1.5	1.5	1.5	1.5
The bank reviews its own and its trade associations' climate policy engagement positions or activities	Global Standard on Responsible Climate Lobbying	3	0	0	0	0	0

Indicator	Source	Max score	WBC	CBA	NAB	ANZ	MBL
Reporting							
The bank discloses its financed emissions on an annual basis	TCFD	4	3	3	3	2.5	2.5
The bank discloses the methodology used to calculate its financed emissions	TCFD	3	3	3	3	3	3
The bank discloses a list of activities included in its climate financing target		3	3	3	3	3	3
The bank obtains independent limited assurance on its sustainability performance reporting	NZBA	3	3	3	3	3	3
The material impacts of climate-related matters have been taken into account in the audit of the bank's financial statements	APRA CPG 229	3	0	0	3	0	0
Total		**100**	**61.85**	**58.52**	**58.1**	**50.85**	**50.19**

Footnotes

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