SBTs for Financial Institutions

Road Testing Feedback Summary

SCIENCE BASED TARGETS

DRIVING AMBITIOUS CORPORATE CLIMATE ACTION

October 10, 2019
9:00 am – 10:30 am EDT
Online Webinar

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CDP DISCLOSURE INSIGHT ACTION · UN GLOBAL COMPACT · WORLD RESOURCES INSTITUTE · WWF

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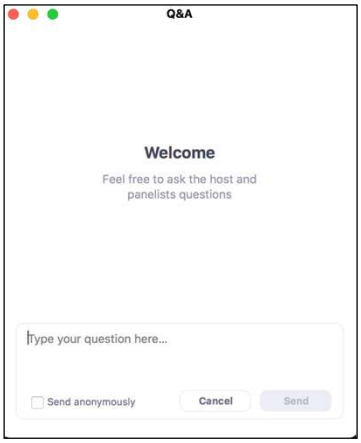
Welcome



This webinar is being recorded. Slides and recording will be posted to our website. They will also be emailed to you.

There will be time for questions at multiple points throughout the webinar.

Please type your questions into the Q&A box.

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Today's speakers

Nate Aden
Senior Fellow
World Resources Institute

Chendan Yan
Research Analyst
World Resources Institute

Simon Connell
Head of Sustainability Strategy
Standard Chartered

Thomas Liesch
Lead Climate Integration
Allianz SE

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Agenda

Topic	Time
Overview of SBT finance framework	15 min
Summary of road tester feedback	20 min
Presentation from Standard Chartered	10 min
Presentation from Allianz SE	10 min
Questions and discussion	30 min
Next steps in framework development process	5 min

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Science Based Targets initiative

SCIENCE BASED TARGETS

The Science Based Targets initiative mobilizes companies to set science-based targets and boost their competitive advantage in the transition to the low-carbon economy.

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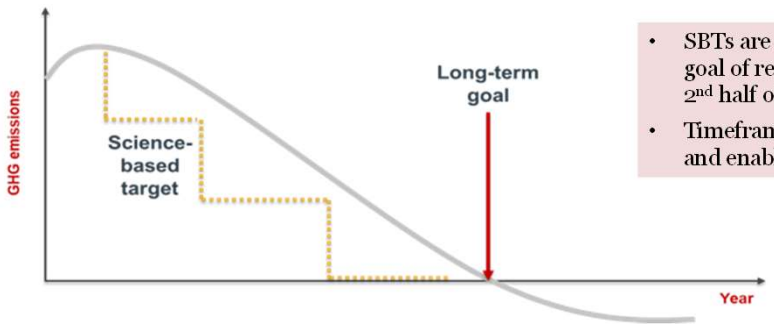
What are science-based targets?

"GHG emissions reduction targets that are consistent with the level of decarbonization that, according to climate science, is required to keep global temperature increase within 1.5 to 2°C compared to pre-industrial temperature levels."



- SBTs are consistent with the long-term goal of reaching net-zero emissions in 2nd half of century
- Timeframe drives short-term action and enables accountability (5-15 years)

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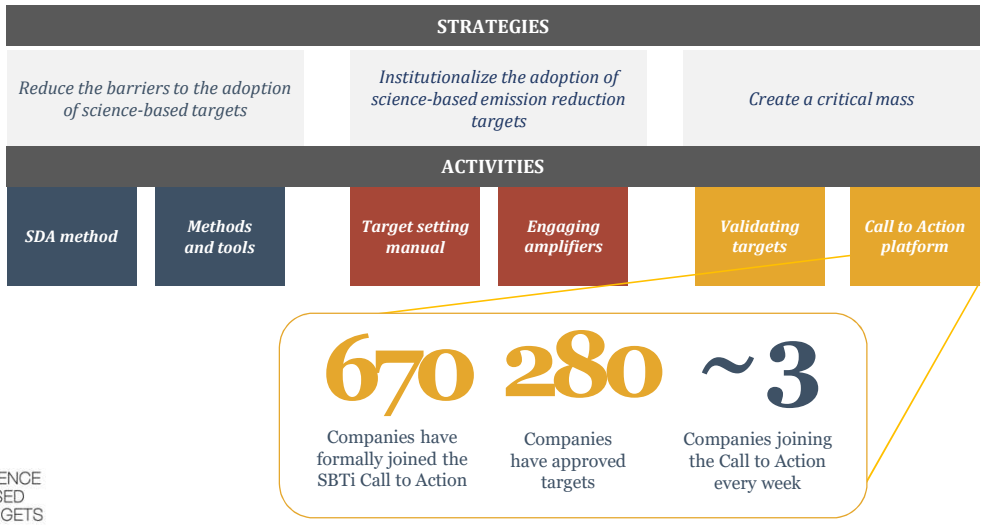
SBTi's 3-pillar strategy



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SBTi criteria

The SBTi uses 5 core criteria to assess company targets

1. Boundary
Covers company-wide scope 1 and scope 2 emissions and all GHGs as required in the GHG Protocol Corporate Standard.

2. Timeframe
Commitment period must cover a minimum of 5 years and a maximum of 15 years from the date the target is submitted for an official quality check.

3. Level of ambition
At a minimum, the target will be consistent with the level of decarbonization required to keep global temperature increase to well-below 2°C compared to pre-industrial temperatures, though we encourage companies to pursue greater efforts towards a 1.5° trajectory.

Intensity targets are only eligible when they lead to absolute emission reductions in line with climate science or when they are modelled using an approved sector pathway or method (e.g. the Sectoral Decarbonization Approach).

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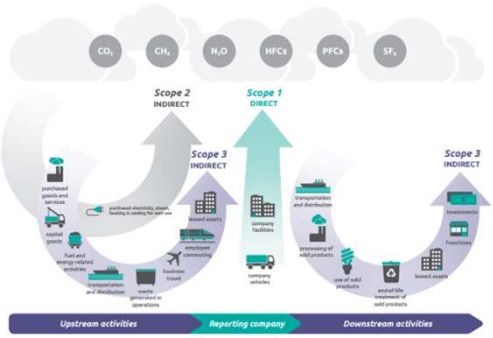
SBTi criteria

4. Scope 3
Companies must complete a scope 3 screening for all relevant scope 3 categories in order to determine their significance per the GHG Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard.

An ambitious and measurable scope 3 target with a clear time-frame is required when scope 3 emissions cover a significant portion (greater than 40% of total scope 1, 2 and 3 emissions) of a company's overall emissions.

The target boundary must include the majority of value chain emissions as defined by the GHG Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard

5. Reporting
Disclose GHG emissions inventory on an annual basis.



Source: GHG Protocol Scope 3 Standard
http://www.ghgprotocol.org/standards/scope-3-standard

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Science-based targets for financial institutions

In 2018, the SBTi launched a project to help financial institutions align their lending and investment portfolios with the ambition of the Paris Agreement.

The project audience includes universal banks, pension funds, insurance companies and public financial institutions.

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Project partners and roles

Science Based Targets initiative for Financial Institutions - Core Team

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Technical Partners

Thanks to ISS-ESG for data support during the methods road-testing process.

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A global group of 49 financial institutions have committed to setting SBTs

- *ABN Amro Bank N.V.*
- *Actiam NV*
- *Allianz Investment Management SE*
- *ASN Bank*
- *Australian Ethical Investment*
- *AXA Group*
- *BanColombia SA*
- *Bank Australia*
- *Bank J. Safra Sarasin AG*
- *BBVA*
- *BNP Paribas*
- *Capitas Finance Limited*
- *Commercial International Bank Egypt (SAE) CIB*
- *Credit Agricole*
- *DGB FINANCIAL GROUP*
- *Fubon Financial Holdings*
- *FullCycle*
- *Grupo Financiero Banorte SAB de CV*
- *Hannon Armstrong*
- *Hitachi Capital Corporation*
- *HSBC Holdings plc*
- *ING Group*
- *KLP*
- *La Banque Postale*
- *London Stock Exchange*
- *Mahindra & Mahindra Financial Services Limited*
- *MetLife, Inc.*
- *MP Pension*
- *MS&AD Insurance Group Holdings, Inc.*
- *OXI-ZEN Solutions SA*
- *Pension Danmark*
- *Principal Financial Group, Inc.*
- *Raiffeisen Bank International AG*
- *Societe Generale*
- *Sompo Holdings, Inc.*
- *Standard Chartered Bank*
- *Storebrand ASA*
- *Swedbank AS*
- *Swiss Re*
- *T.GARANT BANKASI A.*
- *Teachers Mutual Bank*
- *Tokio Marine Holdings, Inc.*
- *Tribe Impact Capital LLP*
- *TSKB*
- *Vakifbank*
- *Westpac Banking Corporation*
- *YES Bank*
- *Yuanta Financial Holding Co Ltd*
- *Zurich Insurance Group Ltd*

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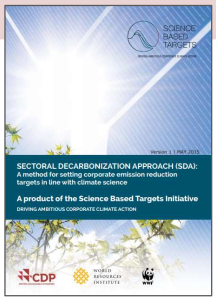
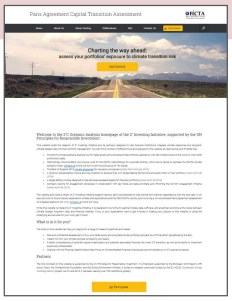
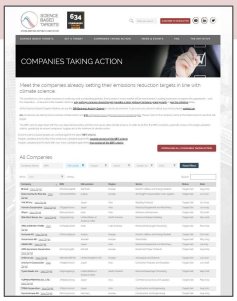
This summer SBTi road tested 3 types of methods

Emission-based methods	Capacity-based method	Portfolio coverage method
• Sector Decarbonization Approach (SDA)	• Paris Agreement Capital Transition Assessment (PACTA)	• SBT portfolio coverage







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SBT/FI framework development process

Summer — Method Road-Testing → **September** — Feedback Workshop → **Fall** — Criteria & Guidance → **2020** — Launch Framework

Asset Class	Method	Description
Real Estate	Sector Decarbonization Approach (SDA)	Emissions-based physical intensity targets are set for non-residential buildings' intensity and total GHG emissions.
Mortgages	SDA	Emissions-based physical intensity targets are set for residential buildings' intensity and total GHG emissions.
Electricity Generation Project Finance	SDA	Emissions-based physical intensity targets are set for electricity generation projects' intensity and total GHG emissions.
Corporate Instruments (equity, bonds, loans)	SDA	Emissions-based physical intensity targets are set at sector level within the portfolio for sector where sectoral decarbonization approaches are available.
	PACTA	Sectors are assessed at individual business activity level for select activities.
	SBT Portfolio Coverage	Financial institutions engage a minimum of *30%* of their investees (in monetary or GHG emissions terms) to have their own science-based targets.

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SBT/FI Road Testing Questionnaire

Among the 6 methods, the questionnaire covered the following questions:

General questions

- Is the draft method **practical** to apply?
- Is it useful for target setting and **decision making** to drive institutional alignment with a Paris-aligned climate stabilization pathway?
- How many hours did it take you to apply the method?
- What **challenges** did you encounter while applying the method?
- What **data sources** did you use for the method?
- In addition to the SBT for this asset class, would it be useful to have additional targets related to **actions** to achieve the SBTs?
- What **target** could you envision setting based on these target modeling results?

Examples of method-specific questions

- Do you think setting **absolute emissions targets** could be meaningful for this asset class?
- Which **sectors** are most usefully covered by the method?
- Which of the two **allocation approaches** ("Portfolio weight approach" and "Balance sheet approach") did you use and why did you choose it over the other approach?
- How could **PACTA-based targets** be expressed and tracked?
- Which **economic metric** should be used for portfolio coverage targets?
- What percentage of your portfolio are SBT companies?
- What **SBT portfolio coverage threshold** is most appropriate? Should we propose to focus on engagement of the top emitters?

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The 29 financial institution road testers are mostly commercial banks

Institution Type	Method					
	SDA Mortgage	SDA Real Estate	SDA Power	SDA Equity & Corporate Instruments	PACTA	Portfolio Coverage
Asset Manager (6)		2	1	1	2	1
Commercial Bank (13)	3	2	3	2	7	1
Commercial Bank/Asset Manager (1)		1				
Cooperative Bank (1)	1					
Development Financial Institution (1)			1			1
Insurance Company (6)	1	2		3	5	3
Pension Fund (1)	1				1	
Total	6	7	5	6	15	6

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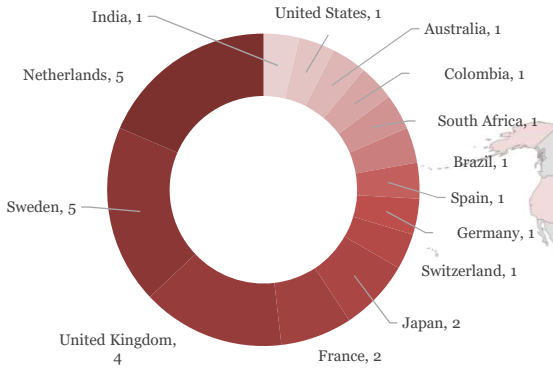
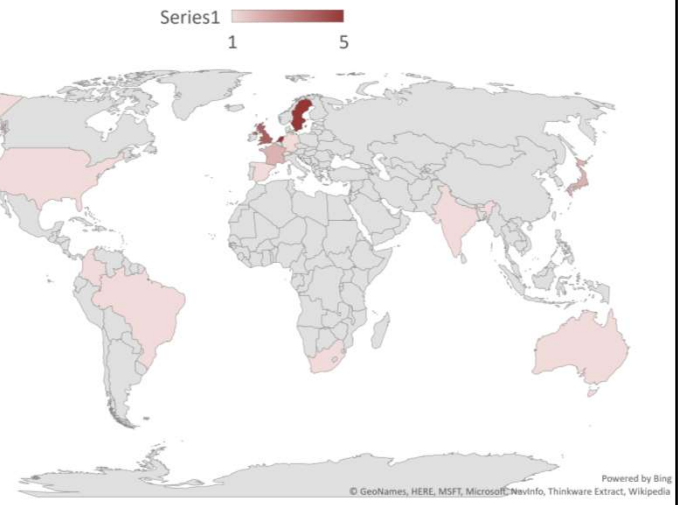
...and road testers are based in more than a dozen countries.





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Q&A

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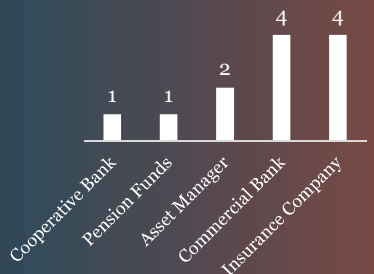
SDA for Real Estate and Mortgages



Total: 12 Respondents

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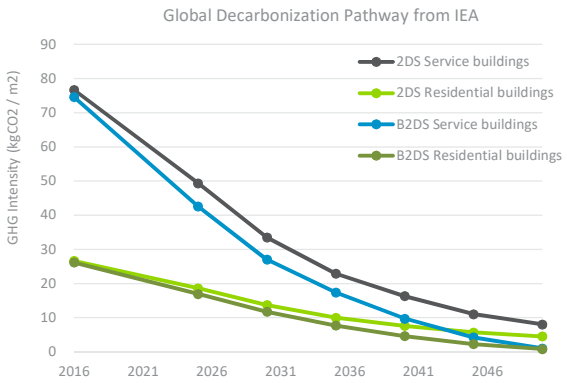
Method Overview

A financial institution can align its real estate and mortgage portfolios with the Paris Agreement and set an emissions reduction target using the Sectoral Decarbonization Approach (SDA):

Emissions intensity ($kgCO_2e$ / m^2) of real estate and mortgage portfolios of financial institutions converges to same emissions intensity as global pathway for residential and service buildings in 2050.

Potential target output: Financial institution A commits to reduce its mortgage/real estate portfolio GHG emissions ___% per m^2 by 2030 from a 2017 base year.



Source: IEA ETP 2017

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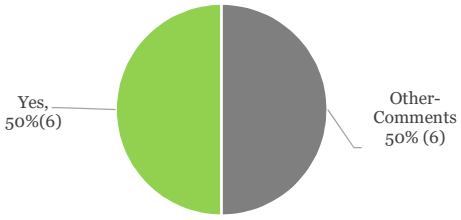
SDA for Real Estate and Mortgages

Road Testing Feedback

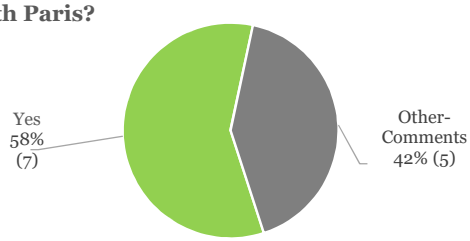
Is the draft method practical to apply?



Pros The method is straightforward and provides a good first indication of the portfolio's alignment with a global pathway.

Cons Data availability is a major hurdle to implementing the methods. Portfolio growth can be difficult to project.

Is it useful for driving institutional alignment with Paris?



Regional pathways and more refined sector pathways would derive more meaningful SBTs and ensure higher buy-ins from the organization *(comment from an insurance company and an asset manager)*.

Road testers spent on average ***38 hours*** to apply these two methods

Potential next steps

- Guidance on data sources
- More geographic and building-type granularity

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SDA for Electricity Generation Project Finance

Total: 5 Respondents

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SDA for Electricity Generation

Method Overview

A financial institution can align its electricity generation project finance portfolio with the Paris Agreement and set an emissions reduction target using the Sectoral Decarbonization Approach (SDA):

Emissions intensity ($kgCO_2e$/ kWh) electricity generation project finance portfolio of financial institutions converges to same emissions intensity as global pathway for the power generation sector in 2050.

Potential target output: Financial institution A commits to reduce its electricity generation project finance portfolio GHG emissions ____% per kWh by 2030 from a 2017 base-year.

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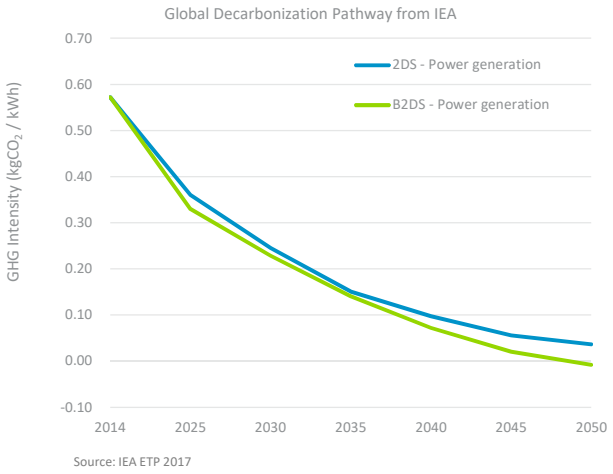

Source: IEA ETP 2017

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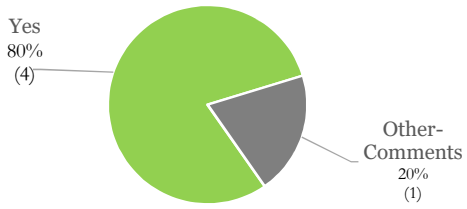
SDA for Electricity Generation

Road Testing Feedback

Is the draft method practical to apply?



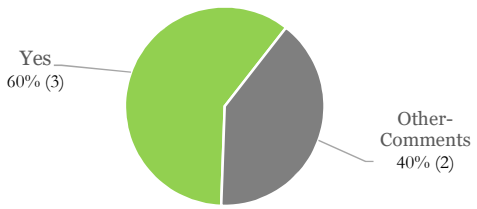
Pros
The method is useful for target setting and helped reveal the gap between current efforts and Paris.

Cons
Data availability and the reliance on proxy data present challenges for setting meaningful targets.

Many road testers do not have the necessary data collection system in place.

Road testers spent on average ***42 hours*** to apply this method

Is it useful for driving institutional alignment with Paris?



One bank was able to understand the emissions generated for each unit of energy produced or each dollar of financing for monitoring of portfolio emissions intensity.

Potential next steps
- Renewable energy targets
- Net zero targets

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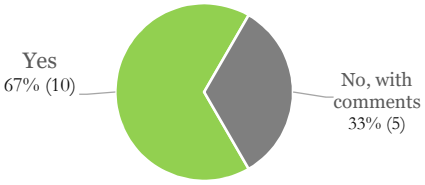
Road Testing Feedback

Do you think setting absolute emissions targets could be meaningful for this asset class?



15 responses to three methods: SDA for Real Estate, Mortgages and Electricity Generation

SDA for Real Estate, Mortgages and Electricity Generation

Pros	Cons
Real estate	**Real estate and mortgage**
• 1 Asset manager – *"Intensity and absolute targets complement each other and enable the assessment of impact of different activities."* • 1 Pension fund – *"The end target should be a zero emissions absolute target."*	• 1 Commercial bank – *"Current level of data granularity does not give meaningful estimates."* • 1 insurance company and 1 asset manager – *"Hard to implement for a global, diversified, and growing portfolio."*
Electricity generation project finance	
• 1 asset manager – *"Valuable to understand how much emissions on the portfolio need to be reduced."* • 1 development finance institution – *"Pathways using physical indicators are not available for some of their focus sectors."*	• 1 commercial bank – *"Don't reflect the efficiency in output or comparison among peers."*

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SDA for Corporate Instruments

Total: 6 respondents

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SDA for Corporate Instruments

Method Overview

Physical emission intensity target (e.g. $kgCO_2e$/ tonne production) could be set at the portfolio level for sectors covered by SDA:*

- Power generation
- Cement
- Iron & steel
- Aluminium
- Pulp & paper
- Transport
- Buildings

Potential SDA/corporate instrument target output: Financial institution A commits to reduce GHG emissions from the steel sector within its corporate lending portfolio XX% per tonne of steel by 2030 from a 2017 base-year.

**An Excel-based tool is available for setting sectoral emission intensity targets: https://sciencebasedtargets.org/sda-tool/. In 2019, the SBTi released a new Science-based Target Setting Tool. The integrated target-setting tool for companies includes the Sectoral Decarbonization Approach with updated temperature pathways.*

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SDA for Corporate Instruments

Road Testing Feedback

Pros	Cons
• Tangible physical economy linkage with climate stabilization pathways • Transparent, quantitative, and target-oriented output • Useful for macro assessment and benchmarking • Focuses on emissions- and energy-intensive sectors	• Limited input data availability, especially enterprise and activity data • Data collection and method linkage were time-consuming • Overall resource-intensive • Inconsistent sector taxonomies (CDP vs GICS) • Confusion on company-portfolio linkages and impact attribution • Lack of guidance on balance sheet vs portfolio weight emissions allocation approach • Uncertain future production trajectories vis-à-vis sector pathways • Narrow sector coverage

Potential next steps
- Expanded sector coverage
- Closer IEA integration

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Average time to apply the method: ***35*** hours

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SDA for Corporate Instruments

Road Testing Feedback

Sector coverage

- Electricity and buildings sectors were most commonly used
- Additional guidance was requested for real estate emissions accounting
  - "need for harmonized metrics between financial/activity reports and GHG analysis. Guidelines from the SBTi are also needed considering whether GHG emissions are to be accounted from the real estate manager perspective or the "asset itself" perspective"

Data availability

- Lack of centralized default data source is especially acute for non-listed companies
  - "confusions relative to metrics, impact attribution as well as lack of clarity on calculation rules make the application of the method complicated, lead to different results"
- Sector vs portfolio vs investee level pathways
  - "In the assessed portfolio, the analysis showed significant differences between current individual companies' intensities and sector intensity, by a factor of at least 10."

Target communication and components

- Confusion about method overlap
  - "we were under the assumption SDA was integrated in the PACTA analysis"
- Road testing FIs all indicated that action targets could be a useful addition for corporate instrument SBTs. Suggested actions include development and uptake of related financial products, engagement with top emitters, and complementary SBT portfolio coverage
- Road testers provided mixed feedback on the utility of absolute targets
  - "applying an absolute emissions contraction target would allow the whole portfolio to be aligned with a chosen climate scenario. However, this would be much less informative than the outputs given by the SDA"

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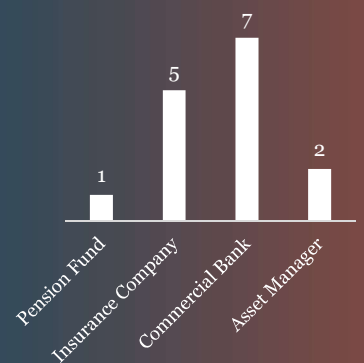
PACTA for Corporate Instruments



Total: 15 respondents

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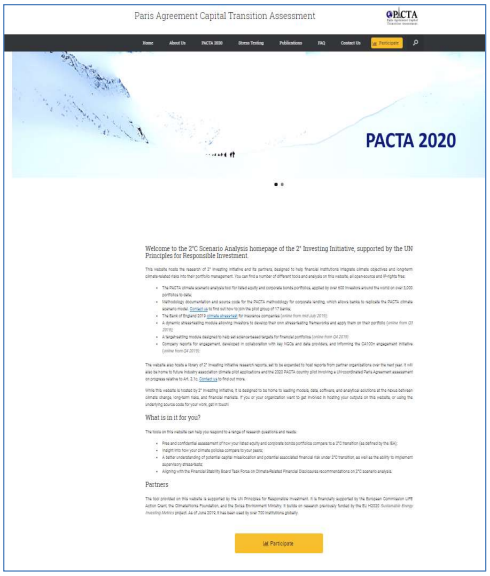
PACTA for Corporate Instruments

Method Overview

Whereas SDA is based on physical emissions intensity approaches, PACTA is focused on production capacity and technology type data (vehicles manufactured per year, GW electricity, etc.)

- 2°II developed PACTA on the basis of physical asset data and the SEI metrics project.
- Financial institutions can use the online tool (http://transitionmonitor.com) to assess portfolio alignment with climate scenarios; a spreadsheet tool was also provided to road testers.

Potential PACTA target output: Financial institution A commits to increase installed capacity in renewable electricity by XX MW by [year] across the [asset class] portfolio companies that we are specifically targeting in the context of our climate actions.



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PACTA for Corporate Instruments

Road Testing Feedback

Pros	Cons
• Simple, one-stop shop • Practical for portfolio screening • Bond and loan portfolio granularity • Forward CAPEX integration • Asset-level data	• Confusion about target formulation and tracking • Narrow sector/method coverage • Lack of data transparency: opaque and qualitative results, no raw output data • Sector mapping differences with SDA and other taxonomies • Insufficient technology granularity (e.g., ethanol or LPG vehicles) • Difficulty translating pdf graphical results into actionable information and quantitative targets

Potential next steps

- More transparent assumptions, output, and inputs
- Company screening information
- EU Taxonomy integration

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Road testers spent on average ***11 hours*** to apply this method

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PACTA for Corporate Instruments

Road Testing Feedback

Target communication and components

- There was no consensus about how PACTA-based targets could be expressed and tracked
  - "it is difficult to set strategy/target by not knowing which stock is reacting in PACTA Tool."
- A couple road testers confused PACTA with the SDA
- Road tester PACTA target formulations varied widely from production capacity per sector to CO_2/$ financed, % portfolio alignment, # of companies in alignment, and energy mix financing targets

Allocation approach

- Most used portfolio weighting (PW) approach in response to 2°II recommendation
- However, those that used both PW and balance sheet approaches found inconsistencies and potential sources of confusion across the resulting targets.
  - "from a carbon budget point of view, the ownership (balance sheet) approach is better than the portfolio weight approach, but the former one applies only to equity in PACTA."

Sector & asset class coverage

- Uncertainty about underlying assumptions and real economy emissions reductions
  - "The approach doesn't take into account activity levels"
- Bespoke sector linkages
  - "The sector mapping needs to be checked manually as PACTA uses the concept of business activity whereas we use GICS."
- Concern about broader corporate application
  - "I think SBTi recommending PACTA as a tool for driving real change in listed eq portfolios would be misleading. For bonds and loans it is different situation as those instruments actually finance the companies"

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SBT Portfolio Coverage for Corporate Instruments

Total: 6 respondents

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SBT Portfolio Coverage for Corporate Instruments

Method Overview

In this method financial institutions have a minimum percentage of their investees (in monetary or GHG emissions terms) set their own science-based targets.

The method is a financial sector analogue to supplier engagement targets for 'real economy' companies' scope 3 emissions.

Potential SBT Portfolio Coverage target output:
Investment firm A commits that *30%* of its equity portfolio by market capitalization will have science-based targets by 2024.

Examples of approved supplier engagement targets:

- Japanese multinational chemical company **Sumitomo Chemical** commits that 90% of its suppliers by product weight will institute science-based GHG reduction targets by 2024.
- Multinational enterprise information technology company **Hewlett Packard Enterprise** commits that its manufacturing suppliers covering 80% of spend will set science-based targets by 2025.

Additional information about approved SBTs is available at: https://sciencebasedtargets.org/companies-taking-action/

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SBT Portfolio Coverage for Corporate Instruments

Method Overview

Potential target requirements for SBTi validation

- **Boundary:** FIs may set SBT Portfolio Coverage targets covering a minimum 30% of their investees by GHG emissions, assets under management or market capitalization.
- **Timeframe:** targets must be fulfilled within a maximum of 5 years from the date the FI's target is submitted to the SBTi for an official validation.
- **Level of ambition:** The FIs investees shall have science-based emission reduction targets on their scope 1 and 2 emissions.

Potential recommendations

- Investees in sectors with high scope 3 emissions (e.g., fossil energy companies) are encouraged to set scope 3 targets as well
- Investees can use SBTi resources to set targets but validations by SBTi would not be required.
- Investors can track whether investees have SBTs through their reporting to CDP or perhaps annual sustainability reports.

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SBT Portfolio Coverage for Corporate Instruments

Road Testing Feedback

Pros	Cons
• Simple and intuitive approach to addressing financial institutions' scope 3 emissions • Broadens SBT adoption • Increases company and financial institution data disclosure	• Novelty and limited pool of SBT companies • Uncertain threshold for minimum ambition • Unclear additionality and attribution • Less feasible for developing markets • Limited sector/method coverage

Potential next steps
- More defined SDA-sector scope
- Additional engagement options
- Fuller ISIN/company ID integration
- Range of sector classification and linkage approaches

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Road testers spent on average ***8 hours*** to apply this method

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SBT Portfolio Coverage for Corporate Instruments

Road Testing Feedback

Target structure and components
- AUM was the preferred metric among 4/5 of the FI road testers, with one suggesting value amount on the balance sheet as an alternative.
  - "Asset under management [...]is less volatile in terms of capital market valuations (mCap) and has more asset management-like logic compared to GHG emissions of underlying assets"
- Most agreed with 30% minimum coverage and 5-year maximum target components
  - "Maximum portfolio exposure is 26% for two of our funds. Of our portfolios, 24 portfolio have above 10% of AUM either committed or signed up to SBT. And, of these, 15 portfolio have above 20% of AUM either committed or signed up to SBT."

Concerns about attribution and free-riding
- Need additional information on definition of engagement, role of divestment, and expected interim disclosure (before 5 years)
  - "SBTi should also keep an eye on free-riding problem of the method (investor relies solely on other investors' engagement while not taking any action of their own)"

Current scope
- Request for 'scope 3 of scope 3' guidance
- Listed equity was considered the most appropriate asset class for portfolio coverage targets with corporate bonds less effective
- Uneven sector and geographic coverage
  - "it seems difficult to engage with assets in sectors where a clear SBT methodology is not available"

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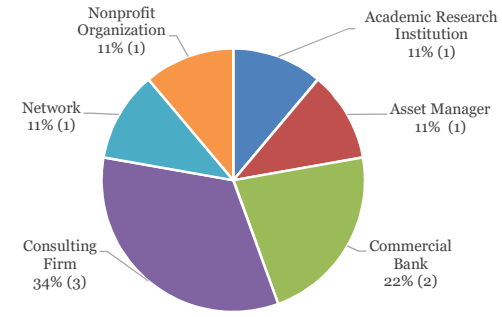
Stakeholders also provided feedback

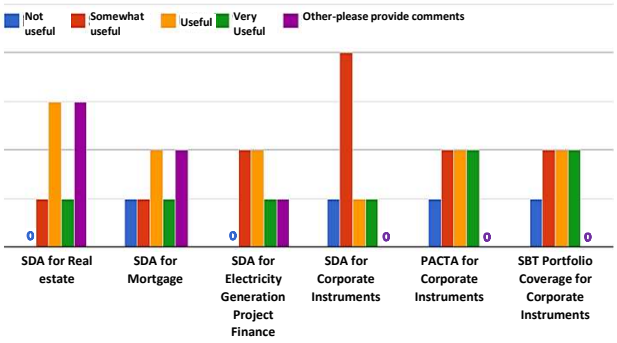
We also collected feedback from a broader group of stakeholders, including interested financial institutions and consultancies, academia, NGOs, etc.

Institutional type



Total 9 respondents

How useful are the following methods for target setting and decision making to drive institutional alignment with Paris?



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September SBT/FI road testing feedback workshop summary

Breakout Group Questions

- Are emissions-based (e.g., SDA), capacity-based (e.g., PACTA) and portfolio coverage-based targets meaningful to drive **emissions reductions in the real economy**?
- Portfolio SBTs require substantial data inputs, and access to such data can be an issue. What resources could SBTi develop to address current financial institution **data challenges**?
- In the SBTi framework, FIs may be required to set an emissions or capacity-based target. In addition to quantitative SBTs, should FIs also be required to disclose the **implementation strategy** (e.g. investment, divestment, engagement) to achieve these targets?
- What **proportion of an FI's balance sheet** must be covered to achieve a credible portfolio target? If these methods cannot achieve this level, what alternative methods exist?

Workshop Participant Responses

- *Additional research* is needed on the connection between financial targets and real economy emissions reductions; assessments of methods' meaningfulness varied; need for *systemic approach*;
- Data challenges are universally acknowledged though they vary significantly across methods; suggestion to create *SBTi version of the TCFD knowledge hub*; additional *sector pathways* were requested;
- Participant *responses varied* on whether SBTi should require additional disclosure of implementation strategies for FI targets; several participants indicated *divestment should be limited, but no consensus how*; need to ensure *consistency and capacity*;
- Participants from FIs with 2050 net-zero targets suggest that *100% of the portfolios should be covered by 2050*; suggestions varied on starting levels and alternative methods to get there; *additional coordination* is needed with CA100+, UNEP-FI/AOA & PRB, and other related programs.

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Q&A
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Standard
Chartered
Standard Chartered
SBTI Roadtest Experience
Simon Connell, Head of Sustainability Strategy
Standard Chartered
September 2019
Here for good

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Standard Chartered

Context to target setting

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Initial commitment…

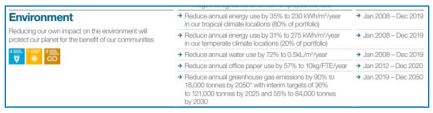
Standard Chartered

We've announced further steps to support the Paris Agreement on climate change

25 September 2018

Standard Chartered PLC "the Group" today announced further steps that it is taking to meet its commitment to supporting the Paris Agreement on climate change.

The Group has publicly reported its own greenhouse gas emissions for over a decade, and having achieved its long-term 2008-19 energy use targets ahead of schedule, set new science-based emissions targets in August 2018.
Standard Chartered's remaining climate impacts come primarily from the businesses and clients it finances and supports. The Group is undertaking to develop a methodology to measure, manage and ultimately reduce the emissions related to its activities and those related to the financing of its clients.



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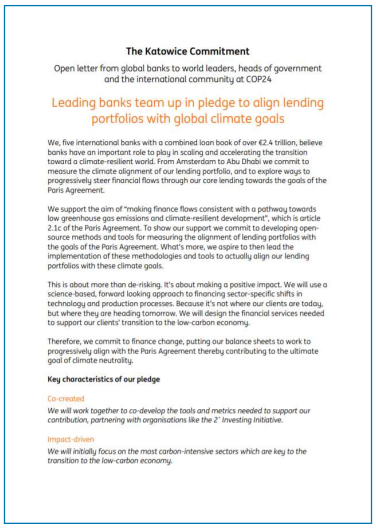
…and the coalition



The Katowice Commitment

Open letter from global banks to world leaders, heads of government and the international community at COP24

Leading banks team up in pledge to align lending portfolios with global climate goals

We, five international banks with a combined loan book of over €2.4 trillion, believe banks have an important role to play in scaling and accelerating the transition toward a climate-resilient world. From Amsterdam to Abu Dhabi we commit to measure the climate alignment of our lending portfolio, and to explore ways to progressively steer financial flows through our core lending towards the goals of the Paris Agreement.

We support the aim of "making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development", which is article 2.1c of the Paris Agreement. To show our support we commit to developing open-source methods and tools for measuring the alignment of lending portfolios with the goals of the Paris Agreement. What's more, we aspire to then lead the implementation of these methodologies and tools to actually align our lending portfolios with these climate goals.

This is about more than de-risking. It's about making a positive impact. We will use a science-based, forward looking approach to financing sector-specific shifts in technology and production processes. Because it's not where our clients are today, but where they are heading tomorrow. We will design the financial services needed to support our clients' transition to the low-carbon economy.

Therefore, we commit to finance change, putting our balance sheets to work to progressively align with the Paris Agreement thereby contributing to the ultimate goal of climate neutrality.

Key characteristics of our pledge

Co-created

We will work together to co-develop the tools and metrics needed to support our contribution, partnering with organisations like the 2° Investing Initiative.

Impact-driven

We will initially focus on the most carbon-intensive sectors which are key to the transition to the low-carbon economy.

Engagement-focused

We believe in an engagement-focused approach, which means not simply excluding clients but work with them on their transition.

Sector-specific

We believe that each sector has its own transition pathway. Therefore we will use a sector-specific approach and apply the key strategies necessary per sector.

Forward-looking

To effectively steer, we believe in using forward-looking data that will give us the insight we need to know where our clients are headed and how we can support the right investments.

Science-based

We will focus on ensuring that we and our clients are supporting a shift from high- to low-carbon assets in line with science-based scenarios.

BBVA · BNP PARIBAS The bank for a changing world · SOCIETE GENERALE · Standard Chartered · ING

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Testing

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The how

- Cross-functional team, including those involved in prior climate work:
  - Sustainability
  - Enterprise Risk
  - Portfolio management
  - Credit Risk
  - Project Finance
  - Sector lending teams
- Working on both SDA and PACTA in parallel
- Regular update meetings
- Targeted client engagement throughout; validate outputs
- Reporting upward to Management Team and Board, especially as we approached white paper publication

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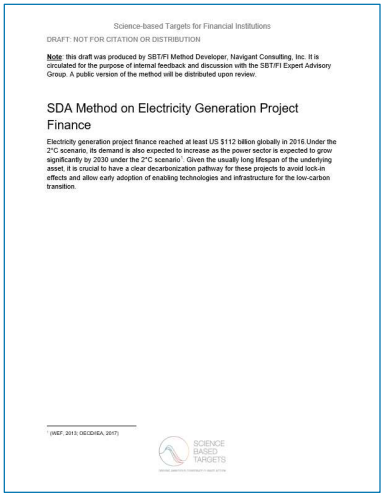
Sectoral Decarbonisation Approach (SDA)

- Benefits from simplicity and scalability
- Requires input emissions data
- Started with Project Finance portfolio; relevance to our business and strategy, and anticipated access to data
- Method also readily understandable for stakeholders
- Used multiple sources for data collation:
  - Initial project design documents
  - Project reporting
  - Public source review
- Data availability still a challenge in our markets, especially for older projects
- Averages or proxies present different challenges
- Still working on this challenge


Science-based Targets for Financial Institutions

DRAFT: NOT FOR CITATION OR DISTRIBUTION

Note: this draft was produced by SBTiFI Method Developer, Navigant Consulting, Inc. It is circulated for the purpose of internal feedback and discussion with the SBTiFI Expert Advisory Group. A public version of the method will be distributed upon review.

SDA Method on Electricity Generation Project Finance

Electricity generation project finance reached at least US $112 billion globally in 2016.Under the 2°C scenario, its demand is also expected to increase as the power sector is expected to grow significantly by 2030 under the 2°C scenario[1]. Given the usually long lifespan of the underlying asset, it is crucial to have a clear decarbonization pathway for these projects to avoid lock-in effects and allow early adoption of enabling technologies and infrastructure for the low-carbon transition.

[1] (WEF, 2013; OECD/IEA, 2017)

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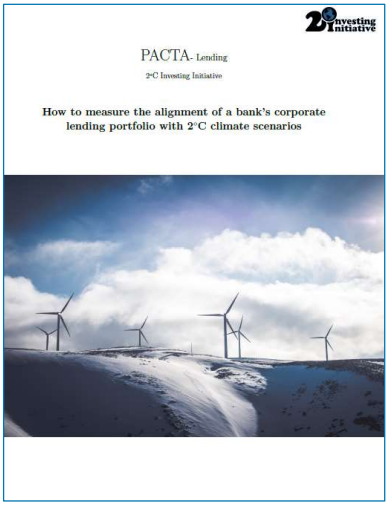
Paris Agreement Capital Transition Assessment

- 'One stop' solution…
- …but which needs acknowledged support to apply at present
- Integrated approach presents significant benefits in speed of analysis
- Also requires careful review of underlying inputs and assumptions
- Allowed us to generate insights we are already using in our decision-making



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Engagement and next steps

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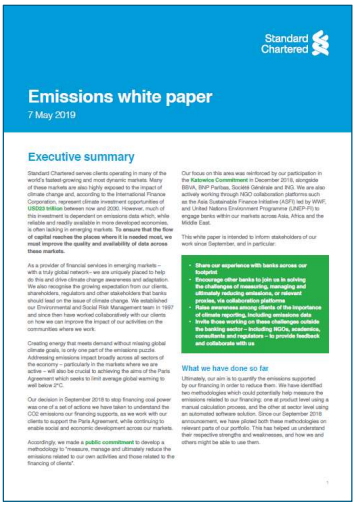
Emissions white paper


Standard Chartered

Emissions white paper

7 May 2019

Executive summary

Standard Chartered serves clients operating in many of the world's fastest-growing and most dynamic markets. Many of these markets are also highly exposed to the impact of climate change and, according to the International Finance Corporation, represent climate investment opportunities of US$23 trillion between now and 2030. However, much of this investment is dependent on emissions data which, while reliable and readily available in more developed economies, is often lacking in emerging markets. **To ensure that the flow of capital reaches the places where it is needed most, we must improve the quality and availability of data across these markets.**

As a provider of financial services in emerging markets – with a truly global network – we are uniquely placed to help do this and drive climate change awareness and adaptation. We also recognise the growing expectation from our clients, shareholders, regulators and other stakeholders that banks should lead on the issue of climate change. We established our Environmental and Social Risk Management team in 1997 and since then have worked collaboratively with our clients on how we can improve the impact of our activities on the communities where we work.

Creating energy that meets demand without missing global climate goals, is only one part of the emissions puzzle. Addressing emissions impact broadly across all sectors of the economy – particularly in the markets where we are active – will also be crucial to achieving the aims of the Paris Agreement which seeks to limit average global warming to well below 2°C.

Our decision in September 2018 to stop financing coal power was one of a set of actions we have taken to understand the CO2 emissions our financing supports, as we work with our clients to support the Paris Agreement, while continuing to enable social and economic development across our markets.

Accordingly, we made a **public commitment** to develop a methodology to "measure, manage and ultimately reduce the emissions related to our own activities and those related to the financing of clients".

Our focus on this area was reinforced by our participation in the **Katowice Commitment** in December 2018, alongside BBVA, BNP Paribas, Société Générale and ING. We are also actively working through NGO collaboration platforms such as the Asia Sustainable Finance Initiative (ASFI) led by WWF, and United Nations Environment Programme (UNEP FI) to engage banks within our markets across Asia, Africa and the Middle East.

This white paper is intended to inform stakeholders of our work since September, and in particular:

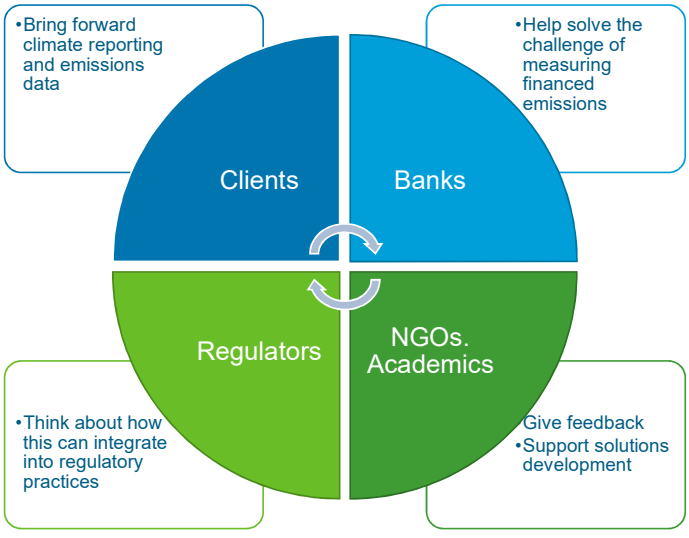
- **Share our experience with banks across our footprint**
- **Encourage other banks to join us in solving the challenges of measuring, managing and ultimately reducing emissions, or relevant proxies, via collaboration platforms**
- **Raise awareness among clients of the importance of climate reporting, including emissions data**
- **Invite those working on these challenges outside the banking sector – including NGOs, academics, consultants and regulators – to provide feedback and collaborate with us**

What we have done so far

Ultimately, our aim is to quantify the emissions supported by our financing in order to reduce them. We have identified two methodologies which could potentially help measure the emissions related to our financing: one at product level using a manual calculation process, and the other at sector level using an automated software solution. Since our September 2018 announcement, we have piloted both these methodologies on relevant parts of our portfolio. This has helped us understand their respective strengths and weaknesses, and how we and others might be able to use them.

- Sets out our experience with SDA and PACTA
- Acknowledge methods need further development; aiming to raise awareness across our footprint
- Enabled targeted engagement, and looking for opportunities to continue this
- Sets out a series of calls to action

Our calls to action



Q&A

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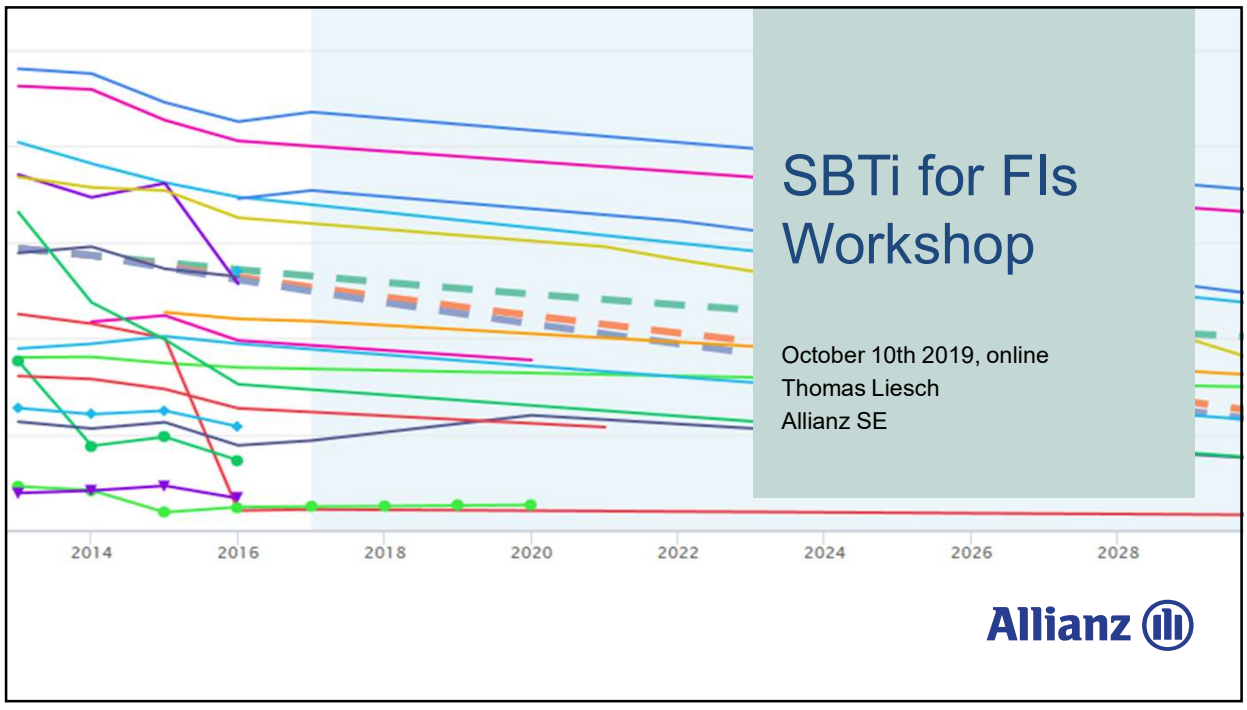

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Allianz view on road-tested methods

We tested a couple of principles with two major goals in mind:

Credibility and practicality

- Reasonable and comprehensible **assumptions**
- **Suitable for forward-looking** target setting
- **Coverage ratio** of asset classes, sectors, companies
- **Comparable, easy to understand and easy to calculate**

Real-world impact

- Incentive for **real-world impact**, not portfolio polishing
- **Leading to action**, avoiding being used as a fig leaf / free-riding instead of meaningful action by investor
- **Striking a balance** between long-term approaches vs. quick progress and results
- **Considering supply/demand relationships** for engagement / action

General findings:
- Clearly we have a good basis but we are not there yet
- We see significant hurdles for application
- The **SBT portfolio coverage method** seems most promising to us

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Proposal on how to improve the SBT portfolio coverage method

Enrich the method

- To avoid a “fig leaf”, the SBT portfolio coverage method could be **combined with an intensity reduction target**
- However, **engagements are a long-term approach and can also fail**
- Hence, not achieving the target (**comply**) would require an ongoing, credible “best-effort” engagement as **explanation.** Proof points for this explanation are to be defined but could start with disclosure towards SBTi of investee letters of intent, CA100+ insights et al
- After not achieving the intensity target, the target period would be extended but the investor would of course be required to improve ambition in line with temperature scenarios and to continue to demonstrate engagement actions
- The underlying commitment of this approach could be made explicit: **Portfolios should be net-zero by 2050**.

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Proposal on how to improve SBT Portfolio coverage method

Guidance

- Define terms and scopes, e.g. which **GHG emissions** (all), which **GHG scope** (1+2 but 3 is important for sectors like automotive, oil&gas etc.), 30% baseline (**emissions or AUM)** (could be combined to have a minimum for each), only **equity or also fixed-income** (tbd), which **SBT temperature level** is required etc.
- Explain the reason for the eventually-chosen **threshold**
- What are our criteria for **additional ways to verify an SBT** besides SBTi-approval?
- All asset classes need to be in scope of the engagement requirements

Alignment

- As engagement is already being conducted by, for instance, CA100+, a target commitment should be complemented by joining those, too
- Next Step: Cross sectorial value chain and policy engagement/lobbying

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SBT for corporate instruments

Description
The SBT portfolio coverage method is a method whereby financial institutions engage a minimum of 30% of their investees (in monetary or GHG emission terms) to set their own approved science-based targets.
Target-setting example*
Investment firm A commits that 30% of its equity portfolio by market capitalization will have science-based targets by 2024 → Our proposal: Allianz will endeavor for 30% of its equity portfolio by total AuM to set science-based targets by 2024.

Method assessment

Advantages:

Straight forward process
Suits our general understanding that engagement is a key instrument to push the "greening of the brown".

Practical and applicable on portfolio level
The method can be applied to both public equity and fixed income.

Possible targets for Allianz for listed equity:
- *30% of **total** investee emissions scope 1+2 of investees is 5 companies in total, excluding one which has an SBT already.*
- *30% of **owned** emissions scope 1+2 brings 2 companies in total.*
- *30% of **AuM** is 49 companies, excluding 11 which already have an SBT. This leads to many companies that also don't have material carbon issues.*

➢ **Proposal: A mix of the above or entirely new target: Focus on global worst performers mixed with something above.**

Limitations:

Clearer Guidance is needed
Guidance on method (definitions (engagement, monetary), input (GHG emissions, asset classes, 30% threshold) is required (current version leads to diverse outcomes based on interpretation.

Balance needed
SBTi should keep an eye on the balance between a manageable minimum target ambition vs. sufficient real-economy impact (method as a fig leaf to stay invested, pull returns and don't change anything)

Free-riding problem
SBTi should also keep an eye on free-riding problem of the method (investor relies solely on other investor's engagement while not taking any action of their own).

Outcome
What to do at end of 5 years with a positive engagement that hasn't let to SBT yet? Shouldn't the threshold be increased every 5 years? What is the process of confirming an SBT? How to control quality of collaborative engagements? What if engagement is unsuccessful, should investor divest? We need a measurement for engagement effort, without penalizing the FI for a lack of success.

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ANNEX

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Details on methods for listed

	Credibility	Practicality	Real world impact
SBT porfolio coverage	- How to deal with **even stringent engagements failing**? - Wrong incentive to **free-ride**? - How to avoid inaction / **fig leaf**? - Do we agree that engagement could also work for fixed-income?	- Easy to apply - **Requires definition** of terms and scope (e.g. % of AUM or owned emissions; what defines an engagement) - Should be **combined with existing engagement** strings (e.g. CA100+)	- Focus is on long-term transition not on polishing portfolio - Easy to combine with other approaches and existing investor action - Successful result not guaranteed
PACTA	- **N/A for target-setting and steering as snapshot only** - Implicit assumption of static portfolios - **Limited portfolio coverage** (classes, sectors, companies, AUM) - Partly huge **data gaps** - SDA: **No common data source** (CF differs b/w providers)	- Tool is easy to use - Output can be used well for monitoring - Need for better guidance on interpretation, improvement of tool (data, sector mapping)	- The method puts focus on real-economy KPIs (installed GW renewables) – potential attribution to the investor is limited for listed assets. - Compliance can be achieved by divest/invest / „polishing“
SDA		- Output can be used well for monitoring	- To be researched but there is an incentive to simply sell assets w/out real-world impact

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CONTACT

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For more details about Sustainability at Allianz Group, please visit
www.allianz.com/sustainability

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Q&A

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The framework development process extends into next year

Date	Milestones
October	Review and summarize road testing feedback workshops and process
November	Agree to revisions within SBTi team
December	Develop draft target-validation criteria
February	Conduct stakeholder feedback process on criteria
March	Revise criteria
April	Develop guidance and framework
July	Launch version 1.0 of framework

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Thanks for joining!
If you haven't already, **join SBTi/FI stakeholder list** at https://sciencebasedtargets.org/financial-institutions/

www.sciencebasedtargets.org

info@sciencebasedtargets.org

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