KPMG

The Climate Commitment of the Dutch Financial Sector

Progress Report 2022 – part 1

Financial Sector Climate Commitment Committee

KLIMAATCOMMITMENT FINANCIËLE SECTOR

VERBOND VAN VERZEKERAARS

Nederlandse Vereniging van Banken

DUFAS

PENSIOEN FEDERATIE

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Financial institutions have signed the Climate Commitment and will:

Measure and report the CO_2e emissions of their portfolio

Develop an action plan which includes CO_2e reduction objectives

The Paris Climate Agreement and the role of the financial sector

The Paris Climate Agreement has set high expectations for the financial sector with its core objective to *"make finance flows consistent with a pathway towards low greenhouse gas emissions & climate-resilient development"*. Moreover, at last year's COP26, 450 financial firms committed to limit global warming to 1.5°C in accordance with the newly established Glasgow Financial Alliance for Net Zero (GFANZ). It is a clear signal that financial institutions want to scale up and direct capital towards low-carbon economy assets.

Additionally, the latest 2022 IPCC report warned that we are set to reach the 1.5°C level threshold by 2040 and drastic emissions reduction is required to help prevent a significant climate impact. The EU set the target to reach climate neutrality by 2050 and further raised its ambition in 2020 by adopting a 55% net emissions reduction target by 2030.

The Dutch government established the Climate Act in 2019 which laid down its goals to reduce the Netherlands' CO_2e emissions by 49% by 2030 compared to 1990 levels as well as achieve 95% reduction by 2050. To achieve this goal, the National Climate Agreement was established. In 2022, the Dutch government increased their goal for 2030 to a CO_2e reduction of 55% at the minimum. To achieve this goal, government policy has been set towards a reduction of approximately 60% in 2030.

After a long series of efforts since 2015 (see appendix 4), the Dutch financial sector reinforced its ambition to support the Climate Agreement through the Dutch Financial Sector Climate Commitment, which some Dutch financial institutions have signed voluntarily (hereafter: the signatories).

The Dutch financial sector has to play its part to influence the CO_2e emissions of the real economy through its financing and investment activities. To do this, measuring and reducing the CO_2e emissions of its investment and financing portfolios is needed.

Objective of this Report

This is the second progress report which outlines the development of the Dutch financial sector and its alignment to the Dutch Climate Commitment and Paris Agreement. It sets out the progress on measuring and reporting on CO_2e emissions in portfolios and action plans of the participating institutions. This report shows signatories and other interested parties the progress achieved in pursuit of the Climate Commitment.

The information that has been gathered is provided by the institutions to KPMG, using the Framework for Climate Commitment in the Financial Sector. Most of the information is drawn from annual and sustainability reports.

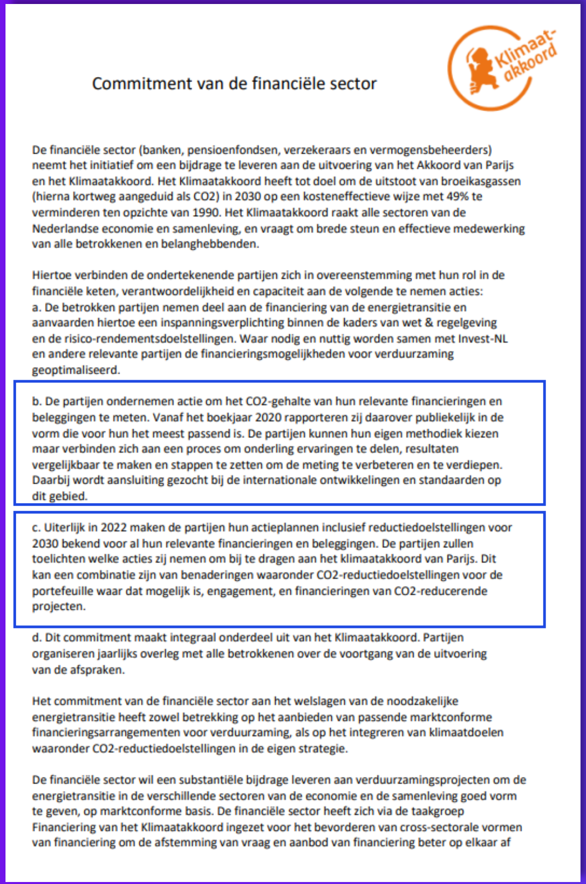
Introduction to the Climate Commitment

The Dutch climate agreement aims to reduce greenhouse gas emissions by 49% compared to 1990 in a cost-effective way by 2030.

In 2022, the Dutch government increased their goal for 2030 to a CO_2e reduction of 55% at the minimum. To achieve this goal, government policy has been set towards a reduction of approximately 60% in 2030.

The Dutch financial sector has taken the initiative to contribute to the realization of the Paris Agreement and the Dutch Climate Agreement, in accordance with their role, responsibility and capacity in the financial chain.

52 banks, insurers, pension funds and asset managers have committed to undertake action in accordance with the goals set by the Climate Commitment.



Klimaat-akkoord

Commitment van de financiële sector

De financiële sector (banken, pensioenfondsen, verzekeraars en vermogensbeheerders) neemt het initiatief om een bijdrage te leveren aan de uitvoering van het Akkoord van Parijs en het Klimaatakkoord. Het Klimaatakkoord heeft tot doel om de uitstoot van broeikasgassen (hierna kortweg aangeduid als CO2) in 2030 op een kosteneffectieve wijze met 49% te verminderen ten opzichte van 1990. Het Klimaatakkoord raakt alle sectoren van de Nederlandse economie en samenleving, en vraagt om brede steun en effectieve medewerking van alle betrokkenen en belanghebbenden.

Hiertoe verbinden de ondertekenende partijen zich in overeenstemming met hun rol in de financiële keten, verantwoordelijkheid en capaciteit aan de volgende te nemen acties:
a. De betrokken partijen nemen deel aan de financiering van de energietransitie en aanvaarden hiertoe een inspanningsverplichting binnen de kaders van wet & regelgeving en de risico-rendementsdoelstellingen. Waar nodig en nuttig worden samen met Invest-NL en andere relevante partijen de financieringsmogelijkheden voor verduurzaming geoptimaliseerd.

b. De partijen ondernemen actie om het CO2-gehalte van hun relevante financieringen en beleggingen te meten. Vanaf het boekjaar 2020 rapporteren zij daarover publiekelijk in de vorm die voor hun het meest passend is. De partijen kunnen hun eigen methodiek kiezen maar verbinden zich aan een proces om onderling ervaringen te delen, resultaten vergelijkbaar te maken en stappen te zetten om de meting te verbeteren en te verdiepen. Daarbij wordt aansluiting gezocht bij de internationale ontwikkelingen en standaarden op dit gebied.

c. Uiterlijk in 2022 maken de partijen hun actieplannen inclusief reductiedoelstellingen voor 2030 bekend voor al hun relevante financieringen en beleggingen. De partijen zullen toelichten welke acties zij nemen om bij te dragen aan het klimaatakkoord van Parijs. Dit kan een combinatie zijn van benaderingen waaronder CO2-reductiedoelstellingen voor de portefeuille waar dat mogelijk is, engagement, en financieringen van CO2-reducerende projecten.

d. Dit commitment maakt integraal onderdeel uit van het Klimaatakkoord. Partijen organiseren jaarlijks overleg met alle betrokkenen over de voortgang van de uitvoering van de afspraken.

Het commitment van de financiële sector aan het welslagen van de noodzakelijke energietransitie heeft zowel betrekking op het aanbieden van passende marktconforme financieringsarrangementen voor verduurzaming, als op het integreren van klimaatdoelen waaronder CO2-reductiedoelstellingen in de eigen strategie.

De financiële sector wil een substantiële bijdrage leveren aan verduurzamingsprojecten om de energietransitie in de verschillende sectoren van de economie en de samenleving goed vorm te geven, op marktconforme basis. De financiële sector heeft zich via de taakgroep Financiering van het Klimaatakkoord ingezet voor het bevorderen van cross-sectorale vormen van financiering om de afstemming van vraag en aanbod van financiering beter op elkaar af

This report focuses on the following actions outlined by the Climate Commitment:

b. Measure the CO_2e emissions

The parties will take action to measure the CO_2e emissions of their relevant financing and investment activities. From **2020** onwards, they will issue public reports on these activities in whatever format is most appropriate.

c. Draw up action plans including reduction objectives

By **the end of 2022**, the parties will announce their action plans, including reduction targets for 2030, for all their relevant financing and investment activities. The parties will clarify what actions are taken to contribute to the Paris Agreement. This can consist of a combination of approaches like CO_2e reduction targets for their portfolio where possible, engagement, and financing of CO_2e reduction projects.

Executive Summary

Progress is made, but further steps are to be taken

Overall we observe that the sector is definitely making progress in fulfilling their commitment. More assets are measured, more is reported and measurements are becoming more comparable. However, we still see room for improvement as 5 of 52 signatories have not yet successfully been able to measure and report their CO_2e emissions, which we consider a primary condition for adherence to the commitment. Furthermore, in general the actual impact of the reduction measures taken still need to be evidenced. As 2030 comes closer, it will become more important to report in sufficient detail on the CO_2e emissions and the (reduction) progress made versus the reduction objectives as included in the action plans that are due at the end of 2022.

Measuring and reporting on CO_2e emissions is improving

The number of institutions reporting CO_2e emissions has increased to 47 of 52 signatories (90%) of all signatories, an increase of 12%-point evidencing the increased commitment to reporting. On the measurement system we observe that a large majority of institutions has established a reasonably complete measurement system. The proportion of measured relevant assets compared to prior year increased from 81% to 85%. In total 62% of the institutions (2020: 33%) are reporting over 90% of their relevant assets, indicating greater ability to measure assets. Data availability, quality, and methodological challenges continue to affect signatories' ability to measure and report on certain asset classes.

Signatories are developing action plans and setting targets

The rise in CO_2e emissions increases the urgency for clear reduction targets and effective action plans. By the end of the year, approximately 96% of signatories are expected to have an action plan, including reduction targets for 2030. The next *Progress Report on Action Plans*, to be published in the beginning of 2023, will provide more insight into the actions signatories will be taking to reduce emissions.

90% (2020: 78%)
of institutions report CO_2e emissions

85% 2020: 81%)
of all relevant assets (in euros) measured

62% (2020: 33%)
of financial institutions measure the CO_2e emissions on >90% of relevant assets

96%
of financial institutions expected to have an action plan by end of 2022; with the majority indicating they will have 2030 targets

Executive Summary: Progress Dashboard

CO_2e Measurement

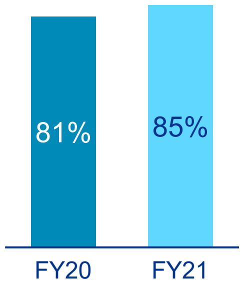
90% (2020: 78%) of firms report on CO_2e emissions from financing and investment activities.

€ 5.57T total reported assets

€ 4.01T total assets considered relevant

€ 3.39T total relevant assets of which CO_2e emissions is measured

72% of the total reported assets are considered relevant by signatories (2020: 68%) , whilst 61% of the total reported assets is measured (2020: 57%).



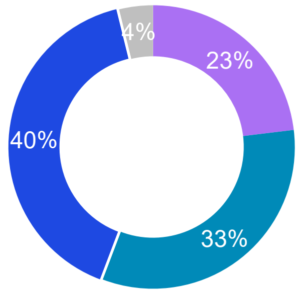
% of total relevant assets of which CO_2e emissions is measured

The proportion of relevant assets that have been measured increased from prior year (+4%-point).

This may indicate improvements in measurement of relevant assets and/or changes in the assets reported.

Action Plans

96% of firms participating in the Dutch Climate Commitment indicated they will have an action plan steer their financed CO_2e emissions by the end of 2022.



CO_2e Emissions

Actual impact on CO_2e emissions reduction is yet difficult to observe

The impact of emission reduction measures on the current CO_2e emissions of the financial sector is difficult to observe due to challenges in current measurements, a lack of comparability of the CO_2e emissions and a time-lag between actions taken (for instance voting & engagement) and companies realizing a CO_2e emissions reduction.

Looking forward towards the achievement of the goal of the Climate Commitment, we observe room for further improvement in the extent of reporting by signatories. To get a good understanding of the effectiveness of the taken measures to reduce emissions, it is important that individual institutions report more extensively and disclose a clear picture of the realized reduction compared to their own planned reduction path. This information cannot yet be derived from the current reporting of most signatories.

A next step for the Sector is to agree on how to comparably report in the upcoming years on progress made versus action plans through a comparable metric.

Alignment with The Dutch Climate Commitment

Commitment van de financiële sector

Klimaat-akkoord

De financiële sector (banken, pensioenfondsen, verzekeraars en vermogensbeheerders) neemt het initiatief om een bijdrage te leveren aan de uitvoering van het Akkoord van Parijs en het Klimaatakkoord. Het Klimaatakkoord heeft tot doel om de uitstoot van broeikasgassen (hierna kortweg aangeduid als CO2) in 2030 op een kosteneffectieve wijze met 49% te verminderen ten opzichte van 1990. Het Klimaatakkoord raakt alle sectoren van de Nederlandse economie en samenleving, en vraagt om brede steun en effectieve medewerking van alle betrokkenen en belanghebbenden.

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Commitment Item b.

	2021	2020	
CO_2e Emissions Disclosure (see page 8 for details)	90%	78%	% of signatories reporting CO2e emissions
Improve Measurement (see pages 9-10 for details)	85%	81%	% of total relevant assets for which CO_2e emissions are measured
Harmonization of Measurement Methodologies (see page 11 for details)	96%	80%	% of signatories adopting PCAF methodology

CO_2e Emissions Disclosure (see page 8 for details)

More signatories (+6 signatories) are measuring and reporting their CO_2e emissions on financing and investment activities. Given that the commitment b) is a primary requirement for the commitment as of 2020, it would be expected that 100% of signatories measure their CO_2e emissions after 2 years. Therefore, progress on this commitment is considered “average”.

Improve Measurement (see pages 9-10 for details)

Signatories have committed to take steps to improve and advance measurement of their CO_2e emissions. The proportion of relevant assets (of all signatories) that was measured has increased by 4%-point compared to the prior year. Approximately 15% of total relevant assets are not yet measured and reported, resulting in a gap of actual CO_2e emissions vs reported CO_2e emission. Therefore, progress on this commitment is considered “average”.

Harmonization of Measurement Methodologies (see page 11 for details)

Almost all signatories have adopted the PCAF measurement methodology, allowing for improvements in comparability of data. As such, we consider this progress “positive”.

Commitment Item c.

	2021	
Expected Action Plan & 2030 Reduction Target (see page 13 for details)	96%	% of signatories expected to have action plans incl. reduction targets

Expected Action Plan & 2030 Reduction Target (see page 13 for details)

Signatories have committed to publish action plans, including reduction targets for 2030, by the end of 2022. A great majority of signatories are expected to publish action plans by the end of the year.

Climate Actions (see pages 13-15 for details)

Signatories are taking various actions to drive sectors towards decarbonization.

CO_2e emissions of the Dutch Financial Sector

☑ Commitment for 2021

The financial institutions have agreed to publicly report on the CO_2e emissions of their financing and investments from financial year 2020 onwards.

90% of institutions report their CO_2e emissions (2020:78%)

The increase in the number of institutions reporting on CO_2e emissions evidences the increase in commitment to measure and report publicly (whether through application of PCAF, PACTA and other methods), as prescribed in the Climate Commitment.

This year, the percentage of total assets (€ 5.57 trillion[1]) that are being measured (€ 3.39 trillion) have increased to 61% compared to 55% in 2020. The increase in the proportion of total assets measured is also aligned with an increase in total relevant assets measured. This indicates that more assets are being categorized as relevant and measured. The proportion of assets considered relevant and measured over total relevant assets increased to 85% (Figure 2), 4%-point more compared to prior year.

Which asset classes signatories consider relevant plays a large role in what is ultimately measured. In 2021, the percentage of assets considered relevant by signatories increased from 68% to 72% of total assets (Refer to Figure 3, pg. 11). The increase of assets considered relevant is mostly the result of the expansion of assets that are considered relevant (due to the way assets are defined as relevant by a financial institution).

The number of signatories which measure CO_2e emissions for more than 90% of their relevant assets has increased by 29% in the past year. Measuring 90% of relevant assets is considered a significant coverage, as the current challenges regarding data and methodology make it practically impossible to achieve a measurement of 100% of the relevant assets.

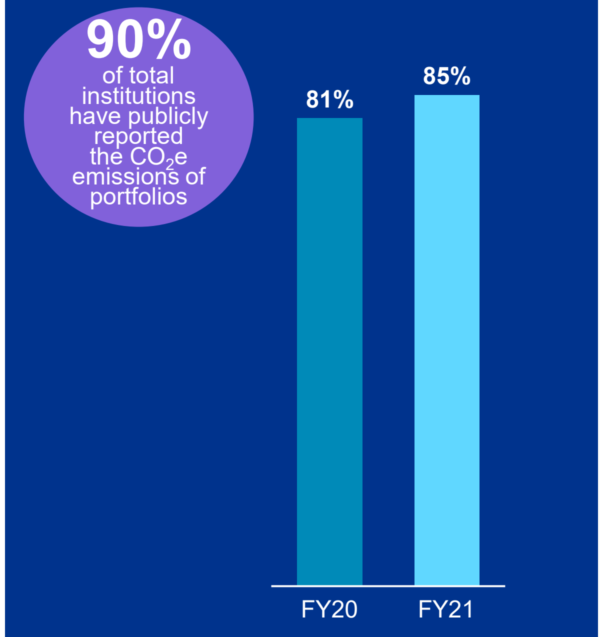


Figure 2
Percentage of reported total relevant assets of which CO_2e emissions is measured

Note: [1] Refers to the total amount of assets being reported to KPMG by the participating institutions

CO_2e emissions of the Dutch Financial Sector

Relevant Assets Measured

In total 85% of the relevant assets is measured. However, as 28% of the total assets is still considered not relevant, only 61% of total assets is measured. The proportion of measured assets versus relevant assets can differ greatly across signatories. Some signatories measure as low as 29% of their relevant assets, while others measure all their relevant assets. This is because:

i. Some asset classes such as government bonds, corporate bonds, real estate and private equity are challenging to measure due to data constraints and lack of measurement methodology. Therefore, these assets are often not classified as relevant and measured although it may be considered relevant.

ii. Certain asset classes, such as cash, loans to other financial institutions and derivatives are not considered relevant by signatories, but may make up a considerable proportion of signatory balance sheets.

Greater CO_2e measurement can be facilitated by moving towards a common definition of relevance and identifying solutions to data and methodological challenges. The differences in assets considered relevant in last year's progress report initiated a discussion on the definition of relevance by the Sector Committee Climate Commitment. To address these considerations, a working group was set up by the sector associations. The working group produced a guidance document, which outlines a common definition of relevant financing and assets, with the ultimate goal to report CO_2e emissions for entire portfolios.

Additionally, in the latest guidance document, the sector has stated the sector associations will continue working with the financial sector to align the sector towards common definitions.

The guidance document is considered an important instrument by which the sector can realize continuous improvement to effectively achieve the goals of the commitment.

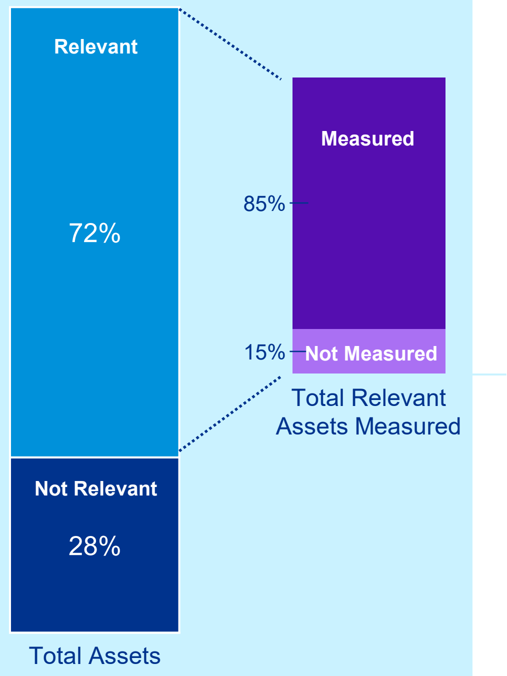
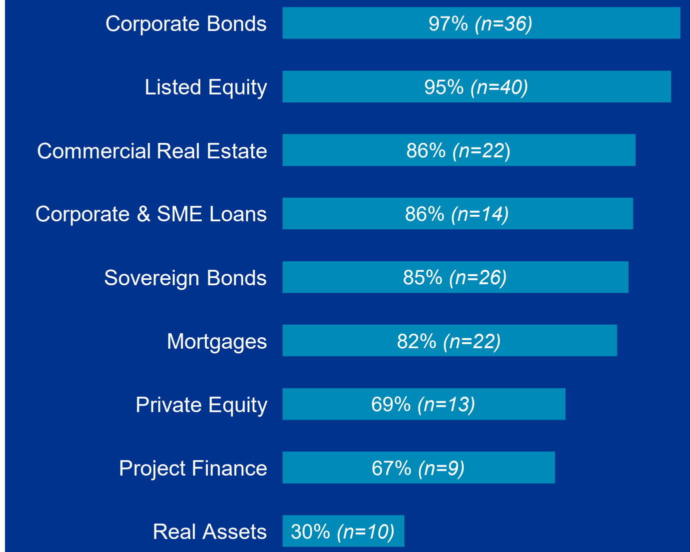


Figure 3
% of Total Assets Considered Relevant
&
% of Relevant Assets where CO_2e emissions is Measured

CO_2e emissions of the Dutch Financial Sector

When considered relevant, equity and corporate bonds are the most covered asset classes by financial institutions.

Figure 4
% of institutions that measure the asset class when considering the asset class as relevant



Note: 'n' represents the number of institutions that consider the asset class relevant

Measurement of CO_2e emissions in Asset Classes Considered Relevant

The complexity of CO_2e emissions measurement in each asset class can affect reporting. For example, 9 institutions indicated that project finance is relevant, but 3 institutions do not report on its CO_2e emissions due to data unavailability and quality challenges, especially for non-energy related projects. This also applies to private equity and real assets, where data quality is generally less advanced. Measurement for private equity is considered of low quality, as institutions typically rely on estimations for the CO_2e emissions, especially for smaller companies. While sovereign bonds have 85% coverage, it is still sometimes subject to data and methodology unavailability (due to geographical and regulatory constraints). Listed equity and corporate bonds are measured by over 90% of institutions that consider it relevant, indicating that data may be more readily available for these asset classes.

There are still concerns on too much reliance on estimations, lack of scope 3 data, and non-assured data. Data quality in mortgages, on the other hand, is generally adequate, but the challenge to access actual energy data to align with PCAF's expectation may hinder reporting.

To increase measurement of relevant assets, it will be key to improve the quality and accuracy of CO_2e emissions data. Such improvements can be facilitated by understanding the challenges of asset classes that are difficult to measure, such as project finance, sovereign bonds and private equity, and continue developing a sector-wide approaches to overcome challenges.

CO_2e emissions of the Dutch Financial Sector

The Journey of CO_2e emissions Measurement

The Dutch financial sector shows ongoing progress, with the growing number of financial institutions reporting on their CO_2e emissions. Moreover, the adoption of the PCAF method to measure CO2e emissions by 96% of financial institutions, in comparison to 80% in 2020, evidences a collective effort towards harmonization. PCAF is also used in combination with other methodologies for different asset classes within the portfolios of some institutions. While institutions are working towards best practices to measure their CO_2e emissions of portfolios, the quality of CO_2e emissions measurement – as explained – needs further improvement and harmonization, among others through active collaboration at sector level.

Increasing importance of CO_2e emissions Measurement

A recent externally issued report raised concerns on compliance and implementation related to CO_2e emissions reporting. This report[2], issued by the 2° Investing Initiative (which is incubated the PACTA program) notes that PCAF signatories are not yet reporting fully in line with the (PCAF) reporting requirements (e.g. coverage of asset classes), raising a risks of for instance incomparable information or even greenwashing. Furthermore, the CO_2e emissions information is, for example, increasingly required as part of the climate risk management information need, driven by regulators. While financial institutions are able to report on more climate information, the lack of relevant data can impact important climate-risk assessments and robustness of stress testing frameworks of institutions[3].

This implies that it is imperative for financial institutions to ensure that the underlying data are accurate and validated, and calculations are based on best practice standards, not only to fulfil the current commitment but also as it affects other important requirements such as the ability for financial institutions to comply and align with climate-related commitments and regulatory requirements.

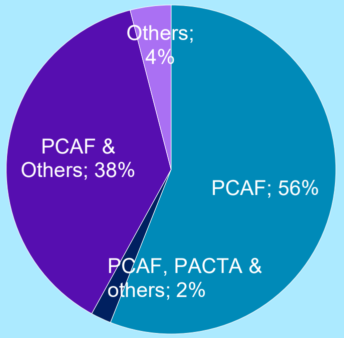


Figure 5
Distribution of Methodologies for Measurement of CO_2e emissions

96% of the Dutch financial institutions adopt PCAF to measure CO_2e emissions

References: [2]2° Investing Initiative Review of PCAF Signatories' compliance with PCAF Standards, [3]European Central Bank's (ECB) 2022 Climate Risk Stress Test (Jul 22)

CO_2e emissions of the Dutch Financial Sector

Actual impact of the commitment on CO2e emissions reduction is difficult to observe

The impact of emission reduction measures on the current CO2e emissions of the financial sector is as of yet difficult to observe. This is mostly because:

i. **Interpretation of data can be challenging.** An increase in data availability and measurement of assets would lead to a temporary increase in CO_2e emissions disclosure in the given year. Signatories with considerable increases often indicated measurement changes, changes in portfolio, switching data providers, and improved data availability.

ii. **The short-term development of the absolute and relative CO_2e emissions in a portfolio is not necessarily an indicator of the efforts taken by the sector**. For instance, engagement efforts to influence a decrease in CO_2e emissions would likely not be visible after one year, but would be visible in the medium to long-term.

iii. **The change in absolute and relative CO_2e emissions does not reflect the impact of the financial sector on the real economy.** CO_2e emissions reduction may indicate CO_2e positive investment decisions and financing strategies, but does not demonstrate how the sector contributes to decarbonization of certain sectors e.g. investment in the energy transition, engagement of high CO_2e emitters. It remains difficult to link the actual impact of actions from the financial sector on a reduction of CO_2e emissions.

iv. **A lack of alignment** across methodologies, scope measured and metrics used diminishes the value of an absolute emissions figure for the sector.

v. **Inconsistency in the current level of reporting.** Often reports currently do not include all information to properly assess the actual progress made. PCAF provides clear guidance for reporting, which is not obligatory to be applied, that could be leveraged on to ensure clear, consistent and comparable reporting.

The Way Forward

To get a good understanding of the effectiveness of the taken measures to reduce emissions, it is important that individual institutions report more extensively and disclose a clear picture of the realized reduction compared to their own planned reduction path. This information cannot yet be derived from the current reporting of most institutions.

A next step for the Sector is to agree on how to comparably report in the upcoming years on progress made versus action plans through a comparable metric.

KPMG

Progress on Action Plans

Commitment for 2022

By 2022, the parties will need to publish their action plans, including reduction targets for 2030 for all their relevant financing and investment activities

Some reports recently indicated that existing climate action plans and progress are not sufficient to align portfolios with 1.5°C scenario[4]. As more financial institutions advance in CO_2e emissions measurement and commit to net-zero by 2050, it is crucial to continue follow and where needed adjust the strategy and plan to achieve the reduction goals. The financial sector is currently working to fulfil the expectations of the Dutch Climate Commitment, to refine and publish action plans in 2022. In Q1 2023 we will issue an in-depth report on the sector's progress on action plans.

Action Plans

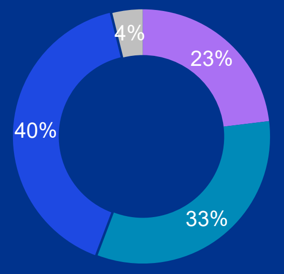
This year, the sector made significant progress in defining the core components of an action plan on decarbonization. As indicated in the sector's guidance document, an action plan covers ambition, governance and organization capacity, scope, methods, targets, actions and monitoring. It should be dynamic, indicate a step-by-step approach to steer relevant assets towards reduction targets and extend coverage over time. We also see current action plans generally include (i) mid-and long-term reduction targets, (ii) steps for active stewardship (via engagement and voting), (iii) investing in low-carbon solutions and impact investment and (iv) divest or phase out from non-adaptive issuers. The action plans apply to different asset classes.

Reduction Targets

A key component of an action plan is CO_2e emissions reduction targets to ensure clear objectives in their pathway to align with the Climate Commitment and EU's climate target for 2030 and 2050. The majority of financial institutions have specifically indicated that they will include their mid-term reduction targets up to 2030 in the upcoming action plans to be finalized before the end of 2022.

Whilst we will perform an in-depth analysis on the sector's progress on action plans in the near future and a growing number of institutions committing to net-zero by 2050 are moving in the right direction, we do already consider it important to mention that there is an expectation that institutions align with science-based net-zero target setting in their action plans. There is increasing pressure to make business activities "climate-proof" by aligning to the 1.5°C pathway.

Figure 6
Institutions with Action Plans Expected in 2022



- Have action plans
- Have action plans and will update again in 2022
- No actions plans but will be published later in 2022
- No action plans expected in 2022

References: [4]A case study for Fair Finance Guide Netherlands by Eerlijke Geldwijzer (Sept21)

Climate Action/ Strategy by the Financial Sector

	Voting 83%	Engagement 84%
Description	Voting is a stewardship approach used to steer corporate decisions on climate-related issues, aimed at advancing corporate's climate strategy.	Engagement is a stewardship approach involving structured dialogues with clients and investees to improve their sustainability practices.
Application	83% of applicable financial institutions indicated the use of voting rights as part of their climate action strategy as they hold equity investment portfolio such as asset managers, pension funds and insurers, while some of them have a structured voting policy.	This approach is applicable to all types of financial institutions. 84% of financial institutions indicated that they carry out engagements to steer their portfolio companies, with several establishing clear engagement strategy and approaches. Some have indicated plans to incorporate engagement policy as part of their climate action plan.
How the Instrument is used	• Voting policy outlines voting criteria (to vote for or against) on climate-related resolutions, which may include support on climate-related shareholder resolutions, re-election of board members, development of climate strategy and adoption of climate-related disclosures. • Some institutions have adopted a climate voting policy in which they will vote against re-election of board members if the company does not disclose their CO_2e emissions and voting in favour of shareholders' climate resolutions. • Additionally, the recent Shell's AGM sent a signal to the market that an increasing number of shareholders are exercising their voting rights to steer the company's response to climate as investors' vote against Shell's Energy Transition Strategy doubled between 2021 and 2022. • Banks have relatively few shares on their balance sheets, so most have not formulated a climate voting policy.	• Financial institutions enter into a dialogue with portfolio company executives, board members and senior management; to advocate companies to improve their overall sustainability practices. This is conducted individually as a financial institution, or collectively with the industry. • Selection criteria of portfolio companies to engage with typically vary based on different criteria such as those with high emissions, low ESG rating or on-going controversies. • 27 financial institutions indicated their participation in initiatives such as Climate Action 100+, where collective engagement is carried out with high-carbon emitters to steer companies towards the reduction of emissions in line with the Paris Agreement.

Climate Action/ Strategy by the Financial Sector

	Thematic Investment & Financing 52%	Exclusion & Divestment 92%
Description	Financial institutions use different forms of financing and investments to steer capital towards climate-positive activities.	Exclusion or divestment strategy eliminates high ESG-risk companies in a portfolio.
Application	52% of applicable institutions invest and finance activities with a climate-related focus by applying different criteria and targets on clients/portfolio companies through different financial instruments.	92% of participating financial institutions adopt this approach in their financing and investments. This is applicable to all signatories.
How the Instrument is used	• Banks shift their financing towards sustainable projects and clients by offering preferential financing conditions, including ESG in lending criteria and linking climate performances via sustainable mortgages and loans. • Investors allocate capital to low-carbon assets or high energy transition potential assets by utilizing tools such as thematic funds, best-in-class approach, positive and negative screening and integrating ESG ratings to build their portfolios. General screening criteria take into consideration subjects like risk, return, cost, and the extent to which operations are sustainable and responsible. • Green Bonds are funds that are raised to pay for new and existing projects which deliver environmental benefits. Other products used in public and private markets are impact investment and ESG funds. • Committing funds to climate-related initiatives and disclosing the value publicly. For instance, a number of institutions reported the amount invested in green bonds and infrastructure investments in the energy field. While others, for example, have also set a 5% target of all Asset under Management to be invested in carbon capture solutions by 2030.	• Exclusion lists indicate sectors that are not allowed entirely in portfolios. But some financial institutions gradually phase out their investments in carbon-intensive sectors (e.g. coal, oil & gas) over time. Other institutions have exclusion criteria that exclude sectors. Also other criteria for exclusion and divestment are sometimes applied, such as energy transition scores. • Divestment is sometimes considered the last resort if companies are still laggard, following multiple engagements. • Some asset managers adopt a gradual phase out where it sets a cap for coal usage by investee companies. Companies are subjected to engagement, monitoring and possible exclusion if they exceed the limit. • While exclusion and divestment are effective to reduce CO_2e emissions in portfolios, the CO_2e emissions in the real economy remain unchanged. • The financial sector faces an ongoing dilemma of striking a balance between divestment and engagement with the intent to progressively decarbonise the activities of clients that drive real-world impact.

Appendices

Challenges in Carbon Measurement

The challenges identified by financial institutions for carbon measurement last year remain similar, but there has been progress in some aspects

	Data Availability	Data Quality	Data Delays	Scope of Emissions Measured
Challenges	Heavy reliance on publicly available CO_2e emissions data that is limited in some asset classes and markets. Estimation or proxy data are used to fill data gaps, affecting data accuracy.	Different data providers use different proprietary estimation models for data gaps. Uneven evaluation of emissions between different providers impacts data reliability & consistency.	There is a time lag between the annual updates by data providers and the data reported by investees. The delayed emissions data made available to financial institutions makes it difficult to interpret and take timely actions to steer decarbonization.	Reporting from corporates on scope 3 emissions remains scarce and concerns on risk of double counting exist. Financial institutions therefore measure only scope 1 and 2 emissions, omitting a large portion of the total financed emissions.
Progress since 2021	The Initiative Climate International (iCI) has established a standard in May 2022 to guide the private equity market to disclose emissions data.	Sector associations have asked the Dutch government in May 2021 to help provide access to energy usage data (real estate and mortgage).	Movement towards forward-looking assessments, such as PACTA, though data gaps are present.	PCAF follows a phased-in approach for scope 3 reporting, requiring scope 3 reporting for select sectors gradually over time as data availability and quality improves.
Next Steps	• Make use of estimations. • Engage with public and private companies to encourage the practice of measuring & reporting of emissions. • Harmonization in disclosure requirements on emissions data across different asset classes.	• International initiative needed to improve data quality & data gaps; including increasing the need for audited climate-related data from reporting companies. • A call for data providers to be more transparent on its estimation models.	A call for data providers to increase frequency of data updates in line with the timeline of corporate reporting.	• Regulatory intervention for mandatory corporate reporting covering scope 1, 2, 3 emissions (e.g. CSRD, ISSB). • Investors to collectively call for companies to start measuring all scopes of emission.

Challenges in Carbon Measurement

	Methodological Differences	Attribution Methods	Lack of calculation methods for different asset classes
Challenges	There are various CO_2e measurement methodology guidelines that financial institutions use globally apart from PCAF and PACTA; which is commonly used by the Dutch financial sector. Methods are still under development and regularly modified which hinders comparability on a global scale.	The CO_2e emissions of investment and financing portfolio are allocated to the financial institutions based on different attribution methods. Data providers also have their own methods for allocation.	There is still lack of development in calculation methods for a number of asset classes such as private equity, green bonds, derivatives and securitised investments. For instance, the guidelines for derivatives is still lacking in PCAF (2020).
Progress since 2021	• A growing majority of the Dutch financial institutions adopts PCAF, increasing comparability within the Dutch market. • The Dutch Banking Association (NVB), Federation of the Dutch Pension Funds (Pensioenfederatie), DUFAS, the Dutch Association of Insurers (Verbond van Verzekeraars) are also working towards standardization on metrics.	• Increasing alignment to attribution methods as a result of participation in industry cooperation such as PCAF.	• PCAF has developed methodology for green bonds and sovereign bonds under public consultation in November 2021. • CRREM (Carbon Risk Real Estate Monitor), and GRESB to publish a technical guidance for real estate operations.
Next Steps	International regulators/standard setters to collaborate and shape the development of different methodologies. To work towards achieving universal comparability and to ensure compliance towards measurement requirements.	Call for universal standardization in annual & sustainability reports to prevent different countries/regulations from setting different guidelines for attribution methods.	Call for regulators/standard setters to extend guidelines for alternative asset classes such as private equity and derivatives.

Accountability

Description of KPMG methodology analysis

KPMG carried out this study on behalf of the Climate Committee consisting of the Dutch Banking Association (Nederlandse Vereniging van Banken, or 'NVB'), the Dutch Association of Insurers (Verbond van Verzekeraars), the Federation of the Dutch Pension Funds (Pensioenfederatie) and the Dutch Fund and Asset Management Association (DUFAS).

This study is based solely on public information provided by the individual participating institutions and has not been subject of an audit. These institutions provided input through a questionnaire with references to public information.

The information from the individual institutions has mostly been approved at management level, and more than half of them an external party, usually the auditor, has (partly) validated the information.

A number of indicators changed compared to last years progress report, as measurement and reporting by institutions and sectors became more and more comparable, resulting in the opinion that separation of indicators to institutions or sectors is no longer considered meaningful.

90% of the financial institutions have the information reviewed at management level

Information approved by:

The climate information is externally validated

FY21

48
executive / senior management

5
Others

27
Yes

25
No

FY20

47
executive / senior management

7
Others

23
Yes

31
No

Metrics overview

Topic	Explanation	Formula	Page(s)
CO_2e emissions measurement (assets)	% of the total reported assets that are considered relevant	Sum of the reported relevant assets in euro / Sum of total assets (under management) in euro	6, 8
	% of total reported assets of which CO_2e emissions has been measured	Sum of the reported assets of which CO_2e emissions has been measured in euro / Sum of total assets (under management) in euro	6, 9
	% of total relevant assets of which CO_2e emissions has been measured	Sum of the reported assets of which CO_2e emissions has been measured in euro / Sum of the reported relevant assets in euro	5, 6, 7, 8, 9
	% of total reported assets of which CO_2e emissions has been measured (Asset breakdown)	(Per asset class): # institutions that have reported on the asset class / # of institutions that have indicated the asset class to be relevant	10
Measuring methodologies	% of institutions that have adopted PCAF	# of institutions that indicated using PCAF / total # of institutions who measure CO_2e emissions	7, 11
	Distribution of methodologies for measurement of CO_2e emissions	# of institutions choosing one of the four methodology options / Total # of institutions who measure CO_2e emissions	11
Action plans	% of institutions expected to have an action plan by the end of 2022	# of institutions choosing one of the four action plan options / Total # of institutions	5, 6, 7, 13
Climate action policies	% of institutions with a voting policy / engagement / thematic investment & financing / exclusion and divestment policy	# of institutions that indicated having the mentioned policy / # of institutions indicating the mentioned policy is applicable	14, 15

KPMG

Milestones and Key Development in the Sector

Since 2015, the Dutch financial sector has been actively involved in climate-related initiatives. This is in line with its effort to contribute significantly to achieve the objectives in the Paris Agreement, EU climate goals and the Dutch Climate Agreement.

2015

PCAF
Establishment of the Partnership for Carbon Accounting Financials (PCAF) by Dutch financial institutions to measure, assess and disclose GHG emissions of investments & loans.

Dutch Carbon Pledge
11 Dutch financial institutions appealed for global leaders to consider the role of the financial sector in achieving climate targets.

2016

DNB Sustainable Finance Platform
Platform to foster cooperation and increase attention to sustainability. Working groups include climate risks, biodiversity and the circular economy.

2018

PACTA
The 2° Investing Initiative launches the Paris Agreement Capital Transition Assessment (PACTA) tool.

Spitsbergen Ambition
15 financial institutions agree to measure, report externally and reduce the climate impact of all their financing and investment activities.

2019

Climate Commitment
Around 50 financial institutions signed the Climate Commitment.

Net Zero Asset Owner Alliance
Global asset owners committed to decarbonizing their investment portfolios and achieving net-zero emissions by 2050.

2020

Climate Action 100+
700 investors, responsible for over $68 trillion in assets under management, are engaging companies on improving climate change governance, cutting emissions and strengthening climate-related financial disclosures.

2021

Inaugural progress report on the Climate Commitment
The first annual report on the financial sector's progress on the Climate Commitment.

IIGCC Net Zero Framework
Provides a common set of actions, metrics and methodologies through which net zero global emissions by 2050 can be achieved

2022

First part of the second progress report on the Climate Commitment

SBTi Finance Framework
Provides a framework to set science-based targets to align lending and investment activities with the Paris Agreement.

2023

In Q1 2023 we will issue the second part of the second progress report, which will be an in-depth report on the sector's progress on action plans.

KPMG

List of participating institutions

Participatings institutions

- ABN AMRO
- ABP
- Achmea B.V.
- Actiam
- Aegon Asset Management Nederland
- Aegon Nederland N.V.
- Allianz Nederland Groep N.V.
- Anthos Fund and Asset Management
- APG
- ASN Bank
- ASN Impact Investors
- ASR Nederland N.V.
- Athora Netherlands N.V.
- BlackRock (Netherlands) B.V.
- BNG Bank
- BNP Paribas Asset Management Nederland
- BPL Pensioen
- CBRE Global Investors
- Coöperatie Klaverblad Verzekeringen U.A.
- Coöperatie Univé U.A.
- Coöperatie VGZ U.A.
- De Goudse N.V.
- De Vereende N.V.
- FMO
- ING
- InsingerGilissen
- MN
- MS Amlin Insurance SE Dutch Branch
- NIBC Bank
- NN Group N.V.
- NWB Bank
- O.W.M. MediRisk B.A.
- Pensioenfonds Horeca en Catering
- Pensioenfonds Metaal en Techniek
- Pensioenfonds PGB
- Pensioenfonds voor de Bouwnijverheid
- Pensioenfonds voor de Woningcorporaties
- Pensioenfonds voor de Zoetwarenindustrie
- Pensioenfonds voor het Bakkersbedrijf
- Pensioenfonds voor het Schilders-, Afwerkings- en Glaszetbedrijf
- Pensioenfonds Werk en (re)Integratie
- Pensioenfonds Zorg en Welzijn
- PME Pensioenfonds
- Rabobank
- Robeco
- Scildon N.V.
- Triodos Bank
- UBP Asset Management
- Unilever APF
- Van Lanschot Kempen
- Volksbank
- VvAA Schadeverzekeringen N.V.

Sector associations

- Dutch Fund and Asset Management Association (DUFAS)
- Nederlandse Vereniging van Banken (NVB)
- Pensioenfederatie
- Verbond van Verzekeraars

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