Helaba

Focus on: Credit
22 April 2025

Large European banks
Transition to net zero forging ahead



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The banking sector has a crucial role to play in the transition to a sustainable economy. Following an initial wave of euphoria, attention has recently shifted to challenges the industry faces, such as gathering the necessary data. Despite this, European financial institutions are pushing ahead with efforts to align their activities more closely towards sustainability goals. From an interested party's perspective, more effective comparability in the reporting of earnings from ESG-related activities would be a welcome development.

The decision by large US banks to withdraw from the Net Zero Banking Alliance reflects a shifting political landscape in the United States. Meanwhile, the European Union is recalibrating its own regulatory regime with the Omnibus package, and we welcome its intention to roll back excessive burdens. That said, it is vital to ensure that financial institutions have access to adequate and high-quality data, something that is also in the interest of their customers.

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1 Reporting on earnings from ESG-related activities: Limited comparability

Extensive reporting requirements for ESG-related risks

There have been a number of new developments on sustainability-related issues since our previous update on how banks have been transitioning to a more sustainable economy (see our publication "**European banks: The sharpening contours of ESG disclosure**" of 30 November 2023). The capital requirements and liquidity regime, as mainly set out in CRR and CRD, impose significant regulatory requirements on banks' ESG reporting. In addition, they are subject to the same rules that apply to all companies, including non-financial institutions (CSRD). Below is a brief summary of the key regulatory frameworks for banks in respect of reporting requirements on sustainability-related activities:

- Large institutions which have issued securities that are admitted to trading on a regulated market have been required to disclose information on ESG risks, including physical and transition risks, since as early as the end of June 2022 (**Article 449a CRR**).
- 2023 was the first financial year in which financial institutions were subject to full disclosure requirements regarding their **green asset ratio (GAR)**. This so-called taxonomy alignment shows the proportion of a bank's taxonomy-eligible exposures in relation to its total credit portfolio. However, as we expected, the informative value of the GAR is low (for more detail, see our study of 30 November 2023).
- Large banks active on the capital markets and companies with more than 500 employees have already been legally re-quired to disclose the extent to which their business operations are in line with the climate targets of the Taxonomy Regulation for some time. The **Corporate Sustainability Reporting Directive (CSRD)** came into force on 5 January 2023, replacing the Non-Financial Reporting Directive (NFRD), but has not been transposed into German law. Recent efforts by the EU to streamline requirements are outlined in **section 2 on the so-called Omnibus Package** below.
- In 2024, the **International Sustainability Standards Board (ISSB)** replaced the Task Force on Climate-related Financial Disclosures (TCFD) as the body responsible for setting reporting standards (for more details on TCFD and ISSB, see our study of 30 November 2023). Companies subject to the CSRD have to report in accordance with standards for sustainability reporting (European Sustainability Reporting Standards, ESRS). More than 30 countries that together comprise over 55 % of global GDP have already announced steps to implement or align themselves with ISSB standards.
  Given that the CSRD has not yet been transposed into German law, there is no mandatory requirement for companies to report in accordance with ESRS standards.

As usual, the following observations we have made pertain to large institutions in Europe active on the capital markets whose shares are generally listed on the stock exchange.

Despite progress, definition of green activities remains inconsistent

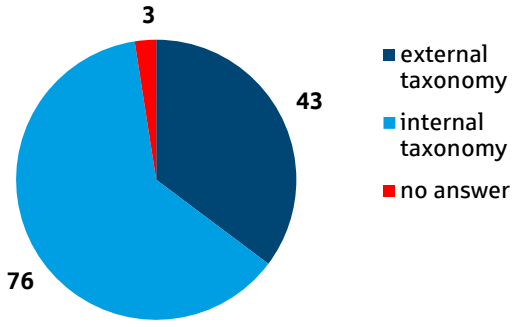
In spite of efforts by regulators and institutions to enhance transparency, our findings indicate that the extent to which banks' reported performance can be compared remains limited.

The transparency requirements that regulators have put in place are largely geared towards how risks are disclosed. As a source of financial risk, ESG-related risks have long been a key focus of banking regulation (see our publication "**Supervision wearing green-tinted spectacles**" of 14 December 2020). From a bondholder's point of view, we would welcome greater transparency and comparability in respect of how business activities and performance are reported.

In the meantime, ESG factors exert a material influence on banks' financial performance, and this applies to almost all of their activities. Our analysis reveals that European banks remain steadfast in pursuit of the sustainability goals they have enshrined in their respective business plans. The transformation of the economy driven by climate change presents enormous potential for new business across all product lines, including lending activities, supporting related bond issues, asset management and providing advisory services. However, there remains an enormous lack of consistency in how institutions define sustainable or green activities, and our research indicates that uniform reporting standards have yet to emerge.

No consistent definition of sustainability

Use of internal or external taxonomies, number of responses



Sources: NZBA, Helaba Research & Advisory

A survey conducted as part of the **Net Zero Banking Alliance 2024 Progress Report**, 76 of 122 banks reported using classification systems developed in-house for their sustainable or green activities, with fewer than half relying on external taxonomies. According to the report, classification systems developed by institutions themselves are frequently based on multiple sources, with 38 % of such banks having obtained a Second Party Opinion (SPO). Among banks that used a regulatory taxonomy, 67 % (29 banks) applied the EU taxonomy for sustainable activities, 23 % (10 banks) national taxonomies and 5 % (two banks) other regional taxonomies.

Banks have adopted a wide variety of different classification systems: 35 of those surveyed stated that they use the ICMA system; 25 of them used the principles of the Loan Market Association (LMA); while 12 institutions reported that they applied the taxonomy developed by the Climate Bonds Initiative (CBI). In many cases, more than one reporting standard is used and some respondents also cited voluntary taxonomies such as the Green Bond Principles, the International Swaps and Derivatives Association (ISDA), the Asia Pacific Loan Market Association (APLMA), the Sustainability-Linked Loan Principles, the Positive Impact Financial Principles and other national taxonomies.

Transparency on sustainable finance enhances banks' standing among stakeholders

In our view, the British bank Standard Chartered continues to set the standard when it comes to reporting how ESG factors influence performance. It provides extremely extensive and detailed information on all aspects of sustainability, both those within and those with an impact on its operations. The bank's senior management has set a target of generating USD 1 billion in sustainable finance earnings in 2025. In the scope of this strategy, the bank not only publishes information on reductions in greenhouse gas emissions in its lending business and reports ESG-related risks but also provides wide-ranging details on the impact that sustainable finance has on the group's income and net profit.

Standard Chartered leads the way in ESG reporting

Sustainable finance income by product	2024 USD m	2023 USD m	Change % yoy
Transaction Services	**319**	**202**	**58**
Payments and Liquidity	187	103	82
Securities & Prime Services	4	-	.
Trade & Working Capital	128	99	29
Banking	**552**	**427**	**29**
Lending & Financing Solutions	507	386	31
Capital Market & Advisory	45	41	10
Markets	**111**	**91**	**22**
Macro Trading	101	76	33
Credit Trading	10	15	-33
Total sustainable finance income	**982**	**720**	**36**
Proportion of all income (%)	4.9	4.0	

Sources: **Standard Chartered**, Helaba Research & Advisory

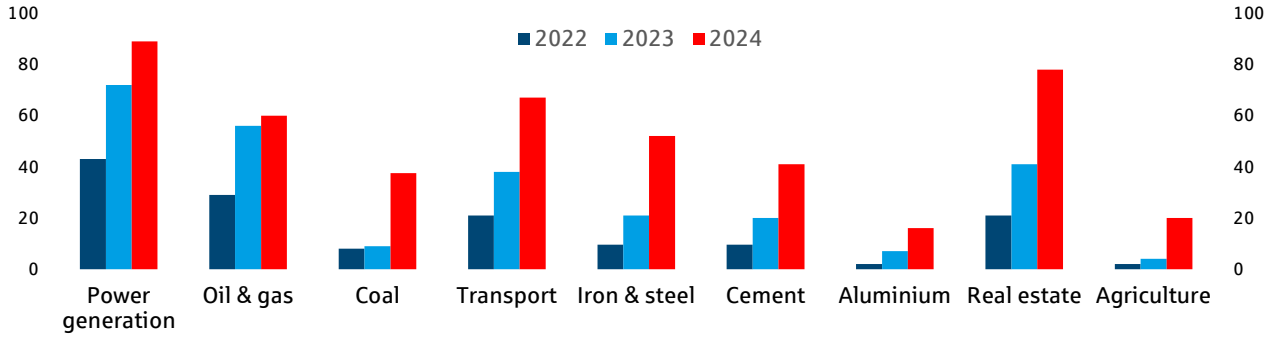
On the whole, there is a growing trend among banks towards publishing transition plans. Another example in this respect is **Deutsche Bank**, which had set itself a target of generating a sustainable financing and investment volume of EUR 500 billion from 2020 to 2025 along with associated revenues of around EUR 1.4 billion by the end of 2025.

Extensive CO_2 reduction targets for specific sectors already reported

Furthermore, following an initiative by the Net Zero Banking Alliance (NZBA), many banks have committed to achieving carbon reduction targets for certain sectors (known as sectoral pathways) within their credit portfolios, particularly large institutions active on the capital markets (for information on the NZBA, see our detailed publication "**The sharpening contours of ESG disclosure**" of 30 November 2023). This approach aims to reduce transitional credit risks and the effects of a potential decline in asset prices for carbon-intensive products. In most cases, banks have set themselves relative emissions targets, i.e. carbon intensity targets for specific exposures. In this way, there is a greater incentive for banks to maintain or even expand their exposure to sectors with high but decreasing GHG emissions. Our findings suggest that the transparency provided by large institutions is encouragingly high in terms of progress towards meeting the sectoral pathways.

Sectoral pathways becoming increasingly important for carbon-intensive industries

Number of banks with emissions reduction targets for carbon-intensive sectors



Sources: NZBA, Helaba Research & Advisory

Power generation, oil and gas, transport, and meanwhile also real estate, are the sectors for which the largest number of banks have adopted carbon intensity targets. There remains a notable degree of reluctance for aluminium production and agriculture, however. It is likely that the approach taken by banks is largely driven by the scope and quality of available data, while the ability to exercise influence over reductions in CO_2 emissions may also play a role.

Targets particularly relevant for carbon-intensive sectors

Proportion of banks surveyed

	Oil and gas	Coal	Land use and deforestation
Has a policy	62 %	72 %	35 %
No policy	21 %	9 %	51 %
Not relevant as not active	13 %	15 %	9 %
Not disclosed	4 %	4 %	5 %

Sources: NZBA, Helaba Research & Advisory

2 Treading a fine line between stricter requirements and deregulation

New EBA guidelines for handling ESG risks relatively strict

A major challenge remains implementing a complex web of regulatory requirements, which was recently expanded by the European Banking Authority (EBA). On 9 January 2025, it **published** its final guidelines on the management of ESG risks. The EBA had been mandated with this task as part of the EU banking package for the final implementation of comprehensive regulatory reforms in June 2024 (see our publication "**Major European banks: Well prepared for Basel IV**" of 18 June 2024). The package requires the EBA to draw up more detailed guidelines on the prudential treatment of ESG risks in Pillar 1 based on Article 87(a)(5) CRD, supplemented by guidelines on ESG scenario analysis, with the intention of ensuring European banks identify, measure, monitor and reduce ESG risks. The new guidelines will apply to large institutions from 11 January 2026; they will be binding for smaller institutions from 11 January 2027.

The EBA stated that, although progress had been made in the treatment of ESG risks, strategies and risk management still needed to be improved. The new guidelines are more detailed and broader in scope than previous ones and include, among other things, a list of ESG indicators that banks must gather from large corporate customers in order to identify and measure ESG risks. In addition, they contain a detailed set of ESG risk indicators that banks must monitor, as well as comprehensive guidelines for institutions' transition plans.

In this sense, the new EBA guidelines are comparatively stringent and put additional pressure on credit institutions to play their part in the transition to net zero in the EU.

Sweeping deregulation initiative by EU Commission ("Omnibus package")

The European Commission **announced** its intention on 26 February 2025 to greatly streamline CSRD requirements on sustainability reporting. This forms part of the so-called Omnibus package, a series of across-the-board proposals on various areas of law that, in addition to simplified reporting requirements, also cover the EU taxonomy, the carbon border adjustment mechanism and European investment programmes. The stated aim is to reduce administrative burdens by around EUR 6.3 billion and boost the competitiveness of European companies. By the end of its term of office, the Commission wants to achieve a reduction in red tape of at least 25 %, with an even higher reduction of 35 % for small and medium-sized enterprises.

The CSRD was originally supposed to apply to publicly listed small and medium-sized enterprises from 2026, which would have increased the number of companies subject to reporting requirements from around 11,000 at the end of 2023 to 49,000. This would have made it increasingly easier for banks to gather ESG data and information relating to their lending commitments.

Now, under the new proposals around 80 % of companies will be exempted from the scope of the CSRD and the relevant obligations will be focused on the largest companies with more than 1,000 employees. Another objective of the package is to ensure that sustainability reporting requirements for large companies do not place an excessive burden on smaller companies in upstream value chains. Reporting obligations for companies that were originally due to take effect in 2026 or 2027 will be postponed by two years (to 2028).

Reporting requirements applicable as part of the EU taxonomy will be scaled back and limited to the largest companies (with more than 1,000 employees), while ESG reporting for large companies that remain within the scope of the Directive will become voluntary. In addition, minimum thresholds will be introduced for taxonomy reporting and the number of reporting templates will be reduced by around 70 %.

The package also provides for adjustments to the most important taxonomy-based key performance indicator for banks, the so-called Green Asset Ratio (GAR). Banks will be able to exclude risk exposures from the GAR denominator relating to companies that will be no longer be in the scope of the CSRD, i.e. companies with fewer than 1,000 employees and revenues of below EUR 50 million.

The European Parliament and the European Council will have their say on the Commission's proposals before deliberations begin between EU institutions on the final legislation. This process is expected to take several months.

The Omnibus package of simplification measures is therefore extremely broad in scope, with the proposed reduction in excessive red tape a particularly welcome development given that much of it has failed to deliver meaningful benefits. One notable example is the green asset ratio, which has fallen short of meeting the high expectations that were initially placed in it. Financial institutions should not be required to report or collect data that has not been reported by their customers or is not considered material by them, nor should they have to provide information on customers that are not subject to reporting requirements.

That said, there remains a relatively long road ahead in the transition to a net-zero economy and one that is defined by a search for solutions. Ultimately, the availability of data remains a key factor in identifying and managing ESG processes and risks. The Omnibus package with its very dramatic rollback of reporting requirements leaves banks with fewer tools at their disposal for analysing ESG risks within their credit portfolios. That is why the **European Banking Federation (EBF)** is calling for the existing scope of the CSRD to be maintained to ensure adequate data availability and quality. The **German Banking Industry Committee (DK)**, a lobby group for the German banking sector, has also issued a statement on the proposed amendments to the EU taxonomy delegated acts. While it broadly welcomes the Omnibus package, it puts forward its own proposals to ensure that, alongside the introduction of reporting simplifications for non-financial businesses, the different requirements of the financial sector in relation to data from its counterparties are simultaneously adapted. Accordingly, DK proposes that supervisory and disclosure obligations for financial institutions be aligned with the proposed changes and that taxonomy reporting requirements be temporarily suspended until they are thoroughly revised.

Decision by US banks to withdraw from Net Zero Banking Alliance sparks controversy

The withdrawal of a number of prominent US institutions from the NZBA in the run-up to Donald Trump's second term in office attracted a great deal of attention and fuelled concerns that it could signal a shift away from internationally agreed climate targets. Since December 2024, the US investment banks JPMorgan Chase & Co, Morgan Stanley, Bank of America Corporation, Citigroup Inc, Wells Fargo & Company and Goldman Sachs Group, Inc. have left the alliance. They have also been joined by a handful of Canadian banks, including Canadian Imperial Bank of Commerce, Toronto-Dominion Bank, National Bank of Canada, and Bank of Montreal.

The withdrawal of US banks reflects a shift in the political landscape in the United States as these institutions feared being excluded from government contracts if they had remained. However, legal risk also played a role here. In recent years, there have been several allegations of antitrust violations against financial service providers (including insurers, asset managers and custodian banks) relating to efforts to coordinate climate-related policies that disadvantaged certain companies. Some of these allegations even resulted in litigation against institutions such as BlackRock, Inc. and State Street Corporation. In addition, the umbrella organisation Glasgow Financial Alliance for Net Zero (GFANZ), in which many of these institutions were also members, had adjusted its rules in December 2024 so that membership of GFANZ is no longer tied to membership of affiliated organisation such as the NZBA (see **statement** of December 2024).

In January 2025, GFANZ **announced** that it had achieved its original goal of developing the building blocks of a financial system capable of financing the transition to net zero. It stated that, in the next phase, it would focus on improving data collection and investment - two areas in which there is considerable scope for improvement - and that the **International Sustainability Standards Board (ISSB)** had made a significant contribution with its global climate reporting standard.

GFANZ has now turned its focus to closing the investment gap of an estimated USD 5 trillion or more a year that is needed to modernise countries' energy infrastructure and transition to a low-carbon economy. To achieve this objective, it plans to concentrate on mobilising finance through public-private partnerships and develop and scale

new tools in collaboration with multilateral development banks. A key priority of these efforts is to support emerging markets and developing economies (EM&DEs).

GFANZ was launched in April 2021 by the UN Special Envoy for Climate Action and Finance, Mark Carney, and the COP26 Presidency as a coalition of global net-zero alliances in the financial sector working together to achieve a net-zero economy by 2050. Through its network of net-zero alliances, GFANZ has mobilised over 700 institutions from across the financial sector, including banks, insurers, asset owners, asset managers, financial service providers and investment advisors spanning 50 countries and representing 40 % of global private financial assets. GFANZ reports periodically to the G20's Financial Stability Board in Basel.
With the exception of banks from the United States and Canada, there have been no withdrawals from the NZBA. Since it was founded in April 2021, its membership has more than tripled from 43 to 144 banks. There has also been an increase in the geographical reach of its members: When it was established, its member institutions came from 23 countries. Meanwhile, they represent a total of 44 countries, with 65 % of banks based in industrialised countries and 35 % in emerging markets.

Based on the 2024 progress report, almost all members (97 %) had set climate targets by May 2024. At the time the NZBA was launched, no bank had adopted a science-based sectoral target for 2030 that was aligned with the goal of the Paris Agreement to limit the global rise in temperature to 1.5 degrees Celsius. In May 2024, 118 banks, representing well over 80 % of NZBA members, voluntarily disclosed their targets, while 76 banks - more than half of NZBA membership - published specific transition plans that were adapted to their business models and markets.

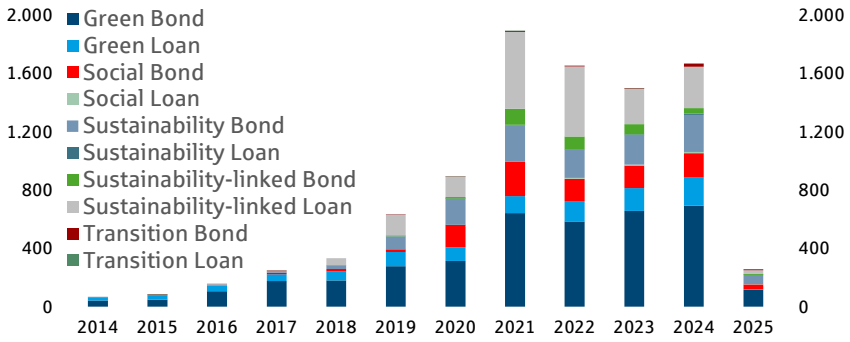
3 Sustainable finance – a market update

Growth of overall market remains very strong

The sustainable finance market saw further growth in 2024, having experienced a slowdown in 2022 and 2023.

Continued growth in sustainable finance

New transaction volumes* by instrument, in USD (billions)



*all global sectors and currencies
Sources: BloombergNEF, Helaba Research & Advisory

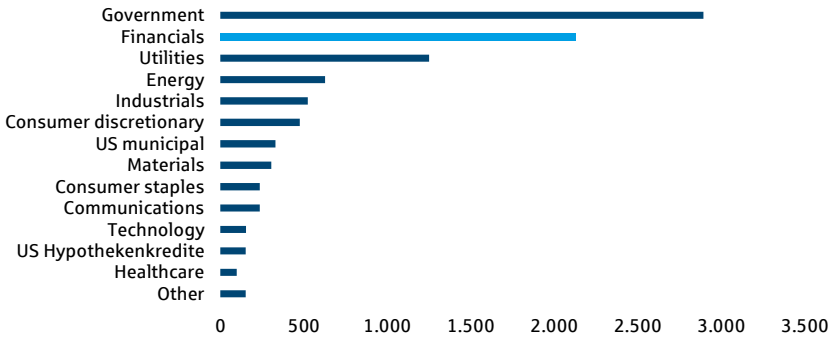
New sustainable finance volumes across all instruments rose by 11 % year-on-year to around USD 1.7 trillion in 2024, with green instruments performing especially well. 2022 was the only year in which the latter recorded a slight decline. In 2024, transaction volumes of green instruments reached an all-time high of USD 0.9 trillion - 53 % of the total volume of sustainable finance.

Sustainable finance: An increasingly significant factor for financial institutions

Total global issuance of sustainable finance has amounted to around USD 9.5 trillion since 2010, of which government-related issuers accounted for just over 30 %. Financial institutions are the second-largest issuers with a 23 % share of the total market. The volume of sustainable finance issued by the financial sector rose in 2024 by 7 % year-on-year to around USD 360 billion. Approximately 35 % of this volume was issued in EUR, followed by 28 % in USD and 12 % in CNY.

Financial institutions play significant role

New transaction volumes issued up to Q1 2025* by sector, in USD (billions)

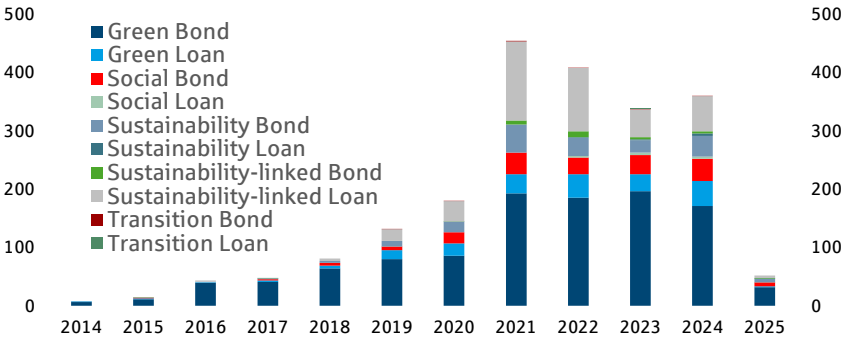


*all global sectors and currencies
Sources: BloombergNEF, Helaba Research & Advisory

In the financial sectors, too, green instruments also make up the largest share of sustainable issuance at 60 %. The decline in green bond volume in 2024 was primarily attributable to China, where its proportion of total sustainable finance issuance by financial institutions fell from 18 % in 2023 to 10 % in 2024. However, it had recovered to 24 % in the first quarter of 2025.

Financial sector*: Focus on green bonds

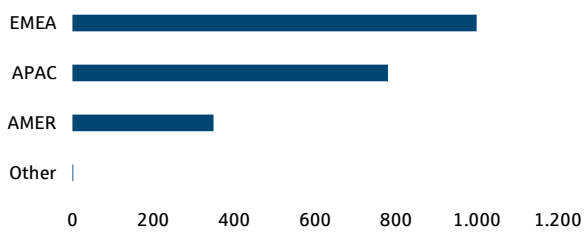
New transaction volumes* by instrument, in USD (billions)



*banks and insurance companies, all global currencies
Sources: BloombergNEF, Helaba Research & Advisory

Financial sector*: Every region is important

New transaction volumes issued up to Q1 2025 by region, in USD (billions)



*banks and insurance companies, all global currencies
Sources: BloombergNEF, Helaba Research & Advisory

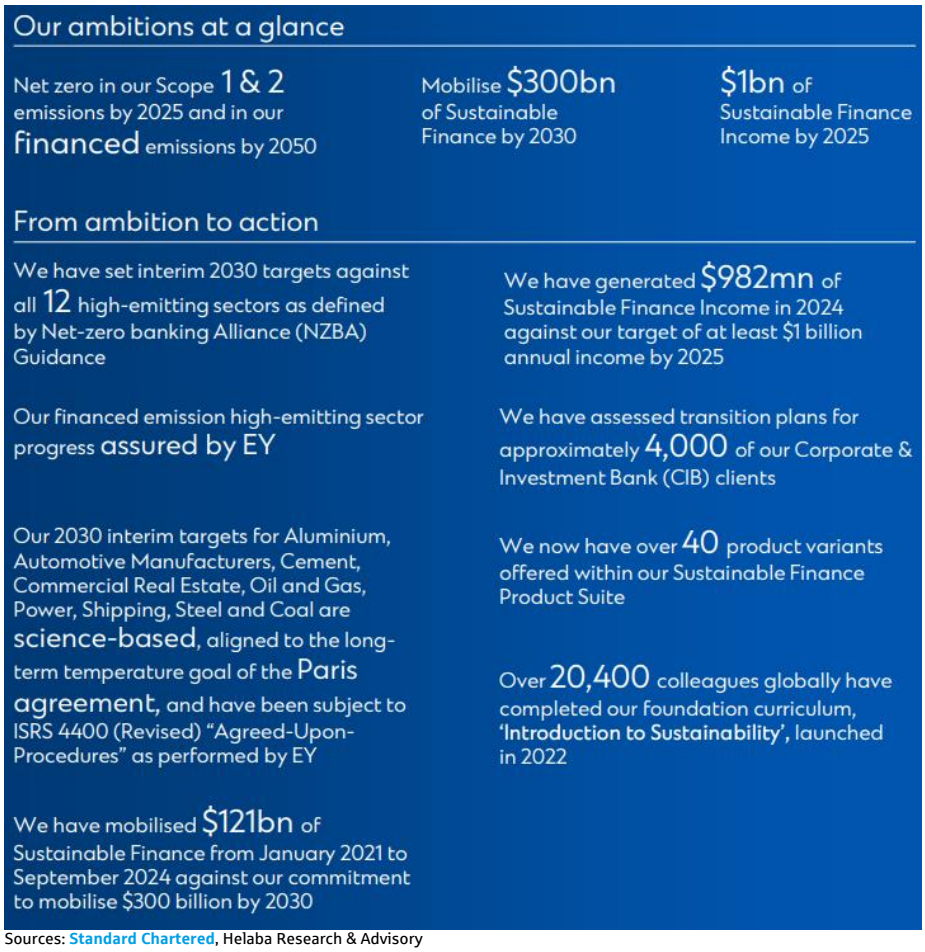
Annex

A wide range of guidance and requirements

Mandatory regulation	Reporting frameworks	Voluntary general	Voluntary sector-specific
• Corporate Sustainable Reporting Directive (CSRD) • European Sustainability Reporting Standards (ESRS) • European Central Bank (ECB) supervisory expectations • European Banking Authority (EBA) guidance • Other jurisdiction-specific climate legislation	• International Financial Reporting Standards (IFRS) S1 and S" • Global Reporting Initiative (GRI) • CFP (Carbon Disclosure Project)	• Act for Finance • Climate Action 100+ • GFANZ • GHG Protocol • IEA data and scenarios • Institutional Investment Group on Climate Change (IIGCC) • National climate and energy plans • NZBA • Partnership for Carbon Accounting Financials (PCAF) • Paris Agreement Capital Transition Assessment (PACTA) • SBTi • Sustainable Markets Initiative • TCFD • Taskforce on Nature-related Financial Disclosures (TNFD) • TPT • US Treasury Principles for Net-Zero Financing and Investment	• Pegasus Guidelines • Poseidon Principle • Equator Principles

Sources: NZBA, Helaba Research & Advisory

Standard Chartered provides high degree of transparency in ESG alignment



Sources: Standard Chartered, Helaba Research & Advisory

Commonly used abbreviations

CDP	The Carbon Disclosure Project (CDP) is a not-for-profit charity that runs a global disclosure system for investors, companies, cities, states, and regions to manage their environmental impacts. Learn more at cdp.net
CSRD	The Corporate Sustainability Reporting Directive (CSRD) is a European Union regulation enacted in January 2023. It requires large companies to disclose information about their environmental and social impacts.
ESRS	The European Sustainability Reporting Standards (ESRS) are a framework adopted by the European Commission in 2023 that specify the information an organization must disclose about their environmental impacts, risks, and opportunities.
GFANZ	The Glasgow Financial Alliance for Net Zero (GFANZ) is a coalition of leading financial institutions committed to accelerating the net-zero transition. Learn more at gfanzero.com
GHG Protocol	The Greenhouse Gas (GHG) Protocol provides standards, guidance, tools and training for businesses and governments to measure and manage climate-warming emissions. Learn more at ghgprotocol.org
IEA	The International Energy Agency (IEA) provides authoritative analysis, data, policy recommendations and solutions to ensure energy security and help the world transition to clean energy. Learn more at iea.org
IPCC	Intergovernmental Panel on Climate Change (IPCC) is the United Nations body for assessing the science related to climate change. The IPCC prepares comprehensive reports about the state of scientific, technical, and socio-economic knowledge on climate change, its impacts and future risks, and options for reducing the rate at which climate change is taking place. Learn more at ipcc.ch
NZBA	The Net-Zero Banking Alliance (NZBA) is a bank-led, UN-convened group of leading global banks that have committed to aligning their financing activities with achieving net zero emissions by 2050. Learn more at unepfi.org/net-zero-banking
OECD	The Organisation for Economic Co-operation and Development (OECD) is an international organisation with 38 countries that works with policymakers, stakeholders, and citizens to establish evidence-based international standards and to find solutions to social, economic, and environmental challenges. Learn more at oecd.org
PCAF	The Partnership for Carbon Accounting Financials (PCAF) is a global partnership of financial institutions that work together to develop and implement a harmonized approach to assess and disclose the greenhouse gas emissions associated with their loans and investments. Learn more at carbonaccountingfinancials.com/
SBTi	The Science Based Targets initiative (SBTi) promotes best practices for emissions reductions aligned with climate science, provides resources for companies setting targets, and offers independent assessment and validation of these targets. Learn more at sciencebasedtargets.org/
SDG	The Sustainable Development Goals (SDGs), also known as the Global Goals, were adopted by the United Nations in 2015 as a universal call to action to end poverty, protect the planet, and ensure that by 2030 all people enjoy peace and prosperity. Learn more at sdgs.un.org
TCFD	The Taskforce on Climate-related Financial Disclosures (TCFD) created recommendations designed to help companies provide better information to support market transparency and more informed capital allocation. Learn more at fsb-tcfd.org
TPI	The Transition Pathway Initiative (TPI) Centre based at the London School of Economics and Political Science is an independent, authoritative source of research and data into the progress being made by corporate and sovereign entities in making the transition to a low-carbon economy. Learn more at transitionpathwayinitiative.org
TPT	The Transition Plan Taskforce (TPT) was launched in April 2022 to establish the gold standard for transition plans. The TPT has engaged globally with financial institutions, real economy corporates, policymakers, regulators, and civil society to develop its materials. Learn more at transitiontaskforce.net
UNEP FI	United Nations Environment Programme Finance Initiative (UNEP FI) is a network of banks, insurers and investors that collectively catalyses action across the financial system to deliver more sustainable global economies. For more than 30 years the initiative has brought the UN together with financial institutions from around the world to shape the sustainable finance agenda. Learn more at unfccc.int/



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