

Mind the strategy gap: How disjointed climate targets are setting banks up to miss net-zero

An assessment of the decarbonisation
and sustainable finance targets set by
Europe's largest banks

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Executive summary



Executive summary

A new revolution in the global economy is needed to achieve net-zero and keep the world safe from the worst effects of climate change. In the face of the environmental crisis, few institutions can muster resources with the scale and reach of the world's banks. Banks don't only respond to financial trends; they can create and shape markets – and their role as market shapers is more important than ever.

Banks have the networks and the influence to help shape the future – to create the conditions for a green economy and all the opportunities it brings. By setting ambitious climate targets, banks can incorporate potential policy changes, new technologies, environmental shocks and economic transformations into their decision making.

While achieving these targets is not entirely within a bank's control, this is an argument **for** target setting, not against it. By highlighting where critical parts of their climate strategy depend on the actions of others, banks can make it clear to everyone – including policy makers, regulators, customers and peers – what needs to happen for the net-zero transition.

In this report, we assess the climate targets set by the 20 largest listed European banks. We focus on banking activities and exclude any targets set specifically for asset management. Our analysis covers two types of target:

Decarbonisation targets, which are set to mitigate climate risks and reduce negative impacts. They include targets to reduce emissions in financing portfolios and financing for polluting activities.

Sustainable finance targets, which are set to capture climate opportunities and deliver positive impact. They include targets to increase financing for activities that are already green and those that are transitioning towards a greener business model.

Decarbonisation and sustainable finance targets each play a unique role. Decarbonisation should be what the bank plans to do, while sustainable finance should express how they plan to do it. Although these two types of target serve different purposes they should work in tandem, as sustainable financing drives decarbonisation.

However, we find that banks' decarbonisation targets and sustainable finance targets don't complement each other and are disconnected from their impacts on the real economy. As a result, these targets might not shift sufficient capital from polluting activities to sustainable ones. At the same time, the way banks' climate targets are designed means investors, policy makers and broader society are not able to judge whether they live up to banks' net-zero ambitions. We illustrate our findings through three case studies: power generation, residential real estate and steel.

The report includes a blueprint for climate target setting in the banking sector, reflecting our recommendations for how banks can address these limitations. It also includes a table summarising banks' commitments against our recommendations, and examples of leading practice among the banks in our sample. We encourage banks to benchmark their individual performance and align with peers demonstrating leading practice, where relevant. We also encourage investors to use this information to engage with the banks they hold in their portfolios.

Key findings



1. Banks' climate targets are unlikely to shift sufficient capital to achieve net-zero by 2050.

1.1. Banks are setting decarbonisation targets in isolation from their sustainable finance targets.

Most banks don't disclose how their sustainable finance targets complement their decarbonisation targets. This could lead to misaligned incentives, where large banks with a critical role in supporting the transition are not fully leveraging their significant influence to drive green investment. For example, HSBC has set a target to reduce emissions in its power and utilities portfolio, and provides a clear assessment of capital expenditure requirements needed in the energy sector. However, its target to provide and facilitate between US\$750 billion and US\$1 trillion of sustainable finance and investment by 2030 is not explicitly linked to such investment needs. As a result, it is not clear how much of that need HSBC intends to support.

1.2. Banks' sustainable finance targets often lack a clear methodology, which means stakeholders can't determine whether they are sufficiently ambitious. We think most of them are not.

Almost all (98%) of the decarbonisation targets in this analysis are set based on a clear methodology, such as emission pathways from climate scenarios, whereas only 13% of sustainable finance targets are backed by a public methodology. A lack of clarity over the ambition of banks' targets also results from their decision to use inconsistent metrics for decarbonisation and sustainable finance. Many banks argue that absolute metrics are not suitable for setting decarbonisation targets because they are driven by the size of companies and can't be compared. Instead, decarbonisation targets are usually based on relative metrics, such as emissions released per tonne of cement produced. However, banks do not apply this same principle to sustainable finance, where 80% of targets are based on an absolute amount of financing. But, as banks often don't disclose how this amount compares to a baseline or their total financing, it is difficult to tell how ambitious these targets are.

For example, Santander has set a target to mobilise €220 billion of green finance by 2030. But the bank doesn't disclose how it quantified the target, how much sustainable finance it was mobilising when it set this target, and how much of the bank's total financing this target represents.

To shed some light on the level of ambition of banks' sustainable finance targets, we estimated how much financing banks would allocate to green activities and compared this with their total assets and fossil fuel financing. The lack of a standardised approach among banks means our results can only be a rough approximation from 'high-level' targets – portfolio-wide targets applying to a broad scope of sectors and, in many cases, numerous types of financing activities. We find that the largest high-level sustainable finance targets are not necessarily the most ambitious.

For example, HSBC has set one of the largest targets in our sample in absolute terms, but at 1.8% of the bank's total assets it is lower than the median target (2.4%). Barclays' target is equivalent to ING's target in absolute terms, but it is half the size relative to total assets (3.2% vs 5.9%). We also find that only two banks (NatWest and Nordea) can reasonably be expected to align their financing with a 10:1 clean energy to fossil fuel investment ratio by 2030 – a key milestone in the International Energy Agency Net Zero Emissions (IEA NZE) scenario. Based on their current sustainable finance targets and historical financing of fossil fuels, ING and Lloyds Banking Group could also achieve this ratio, depending on the method used to estimate fossil fuel financing.

1.3. Misaligned scopes and timeframes of climate targets put an orderly transition at risk.

All 20 banks covered in this report have set at least one sectoral decarbonisation target, while only nine banks have also set a sectoral sustainable finance target. By contrast, three banks have set a high-level decarbonisation target, while 18 banks have set a high-level sustainable finance target. If banks don't set high-level decarbonisation targets, their sectoral decarbonisation targets – which are mostly set using emissions intensity metrics – might not lead to the necessary reduction in absolute emissions. If banks don't set sectoral sustainable finance targets, their high-level finance targets – which are mostly generic targets with a broad sectoral coverage that is not always disclosed – might not increase capital flows for green activities enough to achieve net-zero. We also find that banks set decarbonisation targets over 10 years and sustainable finance targets over five years, on average. This inconsistent approach could mean that banks aim to reduce emissions later, while providing sustainable finance based on short-term forecasts that are not aligned with net-zero goals.



2. Targets to increase sustainable finance are designed to look comparatively more ambitious than targets to reduce emissions.

2.1. Sustainable finance targets cover more products and services than decarbonisation targets.

Of the 18 banks that have set both decarbonisation and sustainable finance targets, 17 include a broader range of products and services in their sustainable finance goals. For example, Santander focuses on credit exposure in its decarbonisation targets, but also covers other products and services – such as mergers and acquisitions advisory – in its sustainable finance target. Five banks (BBVA, CaixaBank Group, Commerzbank, Deutsche Bank and HSBC) have set sustainable finance targets that cover both banking and asset management activities, but keep these activities separate in their decarbonisation targets.

2.2. By including capital markets facilitation in sustainable finance targets but not in decarbonisation targets, banks take a narrow view of climate risks and a broad view of climate opportunities.

Only two banks – Barclays and HSBC – include capital markets facilitation in their decarbonisation targets. By contrast, 17 banks include capital markets facilitation in their sustainable finance targets. They include UBS, which only covers lending in its decarbonisation targets and only covers capital markets facilitation in its sustainable finance target. Mobilising sustainable finance through capital markets represents a significant opportunity for banks but it can also be an important driver of climate risk, such as a reputational risk. This risk may not be limited to the short period during which a bank is involved in a transaction. Bonds are often issued for several years, and the polluting assets they finance can produce emissions for an even longer period.

2.3. Inconsistent accounting practices lead to inflated financing volumes in sustainable finance targets compared to decarbonisation targets.

The banks covered in this report only include the drawn portion of loans (i.e. the portion that has been disbursed) in 63% of decarbonisation targets, while they include the total amount of loans (drawn and undrawn) in 76% of sustainable finance targets. In addition, half of the banks only set decarbonisation targets based on a stock of financing (e.g. the outstanding loans on their balance sheet at the end of the target period), while they only set sustainable finance targets based on a flow of financing (e.g. the cumulative amount of lending provided over the entire target period, including any refinancing of the same loans). Barclays and HSBC, the two banks that include capital markets facilitation in their decarbonisation targets, apply a 33% weighting to these activities but don't apply a weighting in their sustainable finance targets. Fourteen other banks also include capital markets facilitation in their sustainable finance targets without applying any weighting. Proponents of such weighting argue that adjustments are needed because banks play a different role when acting as facilitators rather than financiers. However, banks don't appear to apply this principle to facilitated sustainable finance.



3. The design of banks' climate targets has led to a mismatch between reported progress and actual progress.

3.1. The positive story told by banks' metrics doesn't reflect what is happening in the real economy.

Banks often provide an indication of whether their targets are on- or off-track, either through explicit statements or graphical illustrations which compare their current trajectory with what is needed to hit their target value. According to these disclosures, just under a quarter of banks' decarbonisation targets and 7% of their sustainable finance targets appear to be off-track. This untroubled picture the banks paint is hard to reconcile with their continued financing of fossil fuels and warnings about the pace of climate transition in the real economy – the part of the economy that exists outside of the financial sector.

3.2. Stakeholders can't understand the impact of banks' climate targets because banks don't disclose how they are meeting them.

Some of banks' decarbonisation strategies, like helping clients to transition or shifting finance to 'green' activities, generate real-world decarbonisation. Others, like accounting quirks involved in calculating financed emissions, only reduce emissions on paper. Unfortunately, only one bank (ING) provides a breakdown of how three critical factors – changes in exposure, clients' emissions and technical factors – affect its financed emissions for some of its decarbonisation targets.

Similarly, banks can meet their high-level sustainable finance targets by providing purely green financing, such as dedicated financing for renewable energy, or by supporting companies that are transitioning. These strategies require different governance processes. For example, dedicated financing simply requires a bank to define what it considers a 'green' activity, whereas when banks finance clients' transitions they need a robust framework for assessing whether a company has a coherent plan to align with a 1.5C pathway. However, only five banks provide a sufficiently granular breakdown of their sustainable financing to allow stakeholders to distinguish between dedicated financing versus general corporate finance for clients that are transitioning. This lack of disclosure makes it difficult for stakeholders to assess whether the bank has the governance tools in place to support its sustainable finance strategy. Notably, no banks have published clear criteria for transition plans that they then apply as mandatory conditions, or 'red lines', for companies seeking to access sustainable finance.

Banks can also finance many different companies in many different sectors, all with different effects on global emissions. Despite this, the banks in our sample provide a performance breakdown by sector or activity for only 14% of sustainable finance targets.

In addition to a lack of information about what is driving their performance, banks rarely report on the real-world impact of their financing activity. Just five banks in our sample provide

information on the capacity of renewable energy their finance has supported, while three disclose the efficiency of the housing they have financed. The lack of impact reporting could encourage banks to prioritise quantity over quality when it comes to sustainable finance.

3.3. Connecting reporting on decarbonisation and sustainable finance targets could tackle perverse incentives and give stakeholders a clearer view of banks' climate impacts.

Almost none of the banks in our sample explicitly connect their reporting against decarbonisation with their reporting on sustainable finance targets. This is a missed opportunity.

The most obvious challenge with siloed reporting of sustainable finance and decarbonisation performance is that an increase in financing to companies at the start of or midway through their transition plans can lead to a short-term increase in financed emissions. To avoid this disincentive, it is critical that banks report how their sustainable finance connects with their decarbonisation performance – for example, by reporting how much sustainable financing contributed to changes in exposure to the sector.

Connecting sustainable finance reporting to financed emissions disclosures has the added benefit of verifying that, over the long term, the bank's strategy for financing green and transitioning businesses is leading to a real decrease in greenhouse gases. Similarly, it provides evidence to stakeholders that falling financed emissions are being driven – at least in part – by a real change in financing activity.



Case study: Power generation

Banks are committed to increasing renewable energy financing but fail to justify whether this is enough to meet demand.

Analysis of 14 banks in our sample – representing 17% of the assets held by the world’s 100 largest banks – suggests that they will dedicate approximately US\$74 billion per year to renewable energy financing under current commitments. This equates to roughly 12% of the global need for financing for the renewables sector in a 1.5C warming scenario. 12% seems like a large number. However, we cannot say with confidence whether it amounts to a fair share of the renewable energy sector’s demand for finance. Not only is the benchmark for a fair share uncertain, but banks’ commitments to finance renewable energy are difficult to calculate from current disclosures. Given its critical role in the net-zero transition, it should not take numerous calculations and rough estimates for stakeholders to understand banks’ plans for renewable energy.

Banks lack a plan for infrastructure that enables the rollout of renewables.

Banks may face difficulties allocating renewables finance without investment in enabling infrastructure like electricity grids and storage. Analysis by the IEA, Energy Transitions Commission (ETC), and Climate Policy Initiative (CPI) suggests that grids and storage should make up 38-47% of combined investments in power generation and infrastructure, but disclosures required under the EU Taxonomy Regulation indicate that they represent just 24-27% of clean energy financing by our sample banks. The absence of targets specific to the power sector makes it hard for banks to explain how particular initiatives and investments will help them navigate the complexities of the energy transition, while many sustainable finance frameworks fail to include grids and storage.

Banks need to shift finance from fossil fuels to renewables, but their targets don’t match up.

The shift from polluting to clean power sources should be captured by banks’ decarbonisation and sustainable finance targets, but differences in their design make these two types of target hard to compare with each other. Notably, the exclusion or underweighting of capital markets activity in decarbonisation targets versus its full inclusion in sustainable finance targets obscures the pace of banks’ transitions. Barclays, BNP Paribas, Crédit Agricole, Deutsche Bank, HSBC and Societe Generale all supported at least one of the five largest fossil fuel bonds of 2023 – though BNP Paribas and Crédit Agricole have since announced restrictions on their support for fossil fuel bonds. Meanwhile, banks including Barclays, HSBC, BBVA, Standard Chartered and Santander were involved in deals with oil and gas companies ranked at the bottom end of Carbon Tracker’s ratings for transition preparedness.



Case study: Residential real estate

Banks seem eager to mobilise sustainable finance but lack a cohesive plan for residential real estate.

Residential real estate is the third most covered sector by banks in sustainable finance targets, after energy and transport. This is encouraging. However, it is difficult for stakeholders to judge whether these targets are sufficiently ambitious to decarbonise the sector. Only six banks in our sample have set specific sustainable finance targets for residential real estate, and only eight disclose how much financing they are providing. In addition, eight banks haven't set decarbonisation targets for residential real estate despite having sustainable finance targets that cover the sector. This is problematic, because sustainable finance products such as green mortgages might only reward buyers for purchasing existing homes that are already green.

Banks' sustainable finance targets for residential real estate are likely to fall short of what is needed to achieve net-zero.

We reviewed the sustainable finance targets for residential real estate set by three UK banks (Barclays, Lloyds Banking Group and NatWest) and found that they are likely to fall short of a net-zero ambition. In the case of Lloyds Banking Group, we are not able to make a judgment on whether the target is a game changer for the bank because the metric it uses (absolute financing) can't be compared to the bank's existing stock of mortgages. The way the target is set also means that Lloyds Banking Group can partly achieve it through refinancing of mortgages for homes that are already energy efficient.



Case study: Steel

Banks' decarbonisation targets are not backed by a plan to mobilise financing or by reporting on the financing they provide to help the steel sector transition.

Most banks have set decarbonisation targets for their steel portfolios. However, there is a risk that banks are aiming to reduce emissions in their portfolio without a clear plan to ramp up financing for sustainable steel. None of the banks we assessed have set a sustainable finance target for this sector, and none disclose how much of their generic sustainable financing goes to steel or the technologies needed to electrify industry.

Banks' high-level sustainable finance targets are unlikely to shift sufficient capital to decarbonise steel.

We estimated the proportion of their sustainable finance targets that banks could allocate to the steel sector and compared this to their historical financing of steel production. We find that this proportion is either lower than or similar to their current share of exposure to steel that is considered 'sustainable' under the EU Taxonomy.

Insufficient reporting on the impact of decarbonisation targets on the real economy adds further uncertainty about how banks will decarbonise their portfolios.

Only one bank (ING) discloses what is driving emissions reductions in its steel portfolio, including changes in exposure, clients' emissions and technical factors such as the attribution factors used in financial carbon accounting. However, not even ING discloses how much of its changing exposure can be attributed to sustainable financing. This information would be valuable, as an increase in sustainable financing (corporate financing based on a credible transition plan) might not immediately result in a reduction of financed emissions.

► Important note: targets need to be backed up by robust sector policies

Banks' climate targets alone are insufficient to address the negative externalities resulting from their financing activities. A bank setting targets to reduce financing for fossil fuels and increase financing for renewable energy doesn't necessarily prevent its fossil fuel clients from developing new oil and gas fields that can produce emissions for decades; nor does it prevent renewable energy clients from violating human rights and damaging ecosystems when sourcing materials or developing green power plants. Banks therefore need to complement their climate targets with robust sector policies to reflect key milestones in net-zero pathways and ensure that finance is provided in accordance with high environmental standards and in consideration of human rights.

Banks' climate targets and why they matter



Banks' climate targets and why they matter

What is a climate target?

By climate target, we mean a quantitative objective to move from an explicit baseline to a certain level of performance by a specific date. We divide climate targets into two broad categories: 'decarbonisation' targets and 'sustainable finance' targets. These two categories of targets serve different purposes, but they should work in tandem.

Decarbonisation targets are set to mitigate climate risks and reduce negative impacts. They include targets to reduce emissions in a portfolio (e.g. financed emissions targets) and targets to reduce financing for a polluting activity (e.g. targets to phase out financing for thermal coal).

Sustainable finance targets are set to capture climate opportunities and deliver positive impact. They include targets to increase financing for green companies or assets (e.g. financing for a solar power plant) and targets to increase financing for companies that are looking to transition (e.g. financing granted on certain conditions, such as credible transition plans or sustainability-linked financing).

When targets combine both aspects – such as ratios comparing clean energy to fossil fuel financing – we chose to call them sustainable finance targets because their primary aim is to increase sustainable financing. 'Sustainable finance' is a term many commentators use to refer to financing that covers climate as well as other sustainability-related goals. For practical reasons, we use the term 'sustainable finance' to refer to targets focusing on climate goals (often called 'green finance') and targets that also cover other sustainability themes.

Banks can set 'high-level' targets – portfolio-wide targets applying to all financing activities in scope. They can also set 'sectoral' targets – specific targets focusing on a sector, activity or technology. Banks may set climate targets in absolute terms, such as reducing emissions or increasing finance by a stated figure. Alternatively, they may set them in relative terms, such as reducing emissions for every megawatt of electricity they finance or increasing sustainable finance as a share of their total portfolio.

Why banks' climate targets matter

Banks' targets matter because the decisions they take affect the direction of our entire economy. Banks don't just respond to financial trends – their decisions about what to finance can create and shape markets. Their capacity as market shapers was critical to industrial revolutions across Europe. Banks not only lent to and invested in companies but coordinated their financial activities, supporting "a portfolio of firms that depended on one another and that together pioneered new markets and industries".¹

A new revolution in the global economy is needed to meet net-zero, and banks' role as market shapers is more important than ever. Depending on how they assess risks and opportunities, banks can help tip the economy in either direction – towards the status quo or a climate safe future. Climate targets are a way for banks to incorporate potential policy changes, new technologies, environmental shocks and economic transformations into their decision making. They can also shift incentives within the bank, making it easier to undertake organisational change and challenge the bias towards business as usual.

Of course it is one thing to set a target, another to act on it. The evidence on whether climate targets are being effectively implemented to reduce emissions is mixed.² However, there are signs that some banks that have set targets are beginning to discriminate between firms that are and are not working towards a net-zero future. For example, research has shown that banks that have committed to the Science Based Target initiative (SBTi) charge polluting companies a higher interest rate than other banks, while offering a discount to borrowers that have made climate commitments.³

Flaws in their design is an important reason why banks' targets may end up being less impactful than they need to be. Analysing potential hurdles to effective target setting is a core objective of this report. However, even when they are perfectly conceived not every target will be achieved, since success also depends on other factors outside a bank's control. This is an argument for target setting, not against it. By highlighting where critical parts of their strategy are dependent on the actions of others, banks can make it clear to everyone – including policy makers, regulators, customers and peers – what needs to happen for the net-zero transition.

A blueprint for climate target setting in the banking sector



A blueprint for climate target setting in the banking sector

This section includes guiding principles and specific recommendations for how banks can set climate targets. Our intention is not to propose yet another standard, but to highlight how banks can build on existing standards and go beyond these to address the current limitations of climate targets. A mapping of our recommendations against key voluntary and mandatory standards is included in Appendix 1.

Our framework is not an exhaustive list, and banks may decide to disclose other targets and metrics to meet the needs of various stakeholders. However, these targets should be additional, and banks setting such targets should do so in a way that enables stakeholders to easily extract the information covered in this framework, for example by clearly separating targets or setting sub-targets.

Guiding principles

Guiding principle 1: Ambitious

Climate targets' level of ambition shouldn't be based on what banks think they can do today, but on what they need to achieve in the future to avert the worst effects of climate change. For banks that have committed to net-zero by 2050, this means targets should be based on 1.5C scenarios and/or historic financing of activities responsible for climate change. They should also cover all relevant segments and emissions scopes and encompass all relevant financing activities without any arbitrary weightings.

Guiding principle 2: Transparent

Stakeholders should be able to assess climate targets' level of ambition and their impact. For banks setting climate targets, this means publishing a methodology for how targets have been calibrated, producing a methodology for how activities not deemed material have been excluded, disclosing what activities are in scope of targets and the criteria used to define what constitutes sustainable finance, and reporting on progress annually using transparent metrics.

Guiding principle 3: Coherent

Climate targets should not be set in isolation from each other, but should come together in a comparable and coherent way so that stakeholders have a richer and more reliable view of the direction of travel that recognises the interdependencies and inadequacies of each individual commitment. This means explaining how sustainable finance targets have been quantified in relation to decarbonisation targets, as well as setting these targets using the same accounting basis and similar timeframes.

Target-setting framework

	Decarbonisation Targets to mitigate risks and reduce negative impact 'WHAT' climate goals are set	Sustainable finance Targets to capture opportunities and deliver positive impact 'HOW' climate goals are achieved
High-level Targets covering all relevant financing activities (lending, proprietary investment, capital markets facilitation)	<ul style="list-style-type: none"> • HD1: Commit to net-zero emissions by 2050. • HD2: Set interim target in absolute (emissions) terms. • HD3: Report progress annually in absolute (emissions) terms. 	<ul style="list-style-type: none"> • HS1: Set interim target in relative (percentage) <u>or</u> absolute (financing) terms. • HS2: Disclose a methodology for how the interim target was quantified relative to the banks' net-zero commitment and/or historic financing of activities responsible for climate change. • HS3: Report progress annually in relative (percentage) <u>and</u> absolute (financing) terms.
Sectoral Targets covering specific sectors or activities	<ul style="list-style-type: none"> • SD1: Set interim target for oil and gas in absolute (emissions or financing) terms and phase-out target for thermal coal. • SD2: Set interim target(s) for all relevant sectors in relative (emissions intensity) <u>or</u> absolute (emissions or financing) terms. • SD3: Use 1.5C reference scenarios to set targets. • SD4: Cover all relevant segments and emissions scopes in targets, including scope 3 emissions and methane for fossil fuels. • SD5: Cover all relevant financing activities, including lending and capital markets facilitation. • SD6: Apply 100% weighting to capital markets facilitation. • SD7: Include drawn and undrawn portion of loans. • SD8: Report progress annually in absolute (emissions) terms. 	<ul style="list-style-type: none"> • SS1: Set interim target for energy in relative (percentage) <u>or</u> absolute (financing) terms. • SS2: Set interim target(s) for other relevant sectors covered by decarbonisation targets in relative (percentage) <u>or</u> absolute (financing) terms. • SS3: Report progress for sectors covered by decarbonisation targets annually in relative (percentage) <u>and</u> absolute (financing) terms. • SS4: Set interim target(s) and/or report progress for enabling infrastructure annually in relative (percentage) <u>or</u> absolute (financing) terms. • SS5: Set interim target(s) and/or report progress for enabling and early-stage technologies annually. • SS6: Disclose a methodology for how the interim target(s) was quantified relative to the banks' sectoral decarbonisation targets or a scenario compatible with 1.5C of warming with low overshoot. • SS7: Report real-economy impact annually where relevant and possible, starting with energy.
Additional disclosures	<ul style="list-style-type: none"> • AD1: Disclose breakdown across key drivers of financed emissions: changes in exposure (A); clients' emissions (B); technical factors (e.g. attribution factors) (C). • AD2: Disclose a methodology for how activities not deemed material have been excluded. 	<ul style="list-style-type: none"> • AS1: Disclose how sustainable financing contributes to key driver (A) for relevant sectors covered by decarbonisation targets. • AS2: Disclose breakdown across types of sustainable financing, including dedicated financing (e.g. use of proceeds and pureplay companies) and general corporate purpose financing subject to specific conditions (e.g. credible transition plan). • AS3: Disclose what activities are in scope of targets and the criteria used to define what constitutes sustainable finance.
Cross-cutting recommendations	<ul style="list-style-type: none"> • CC1: Set decarbonisation targets and sustainable finance targets over similar timeframes, unless otherwise justified through a transition plan. • CC2: Set decarbonisation targets and sustainable finance targets for the same scope of products and services (e.g. lending and capital markets facilitation) and using the same basis of accounting (e.g. loan indicator for lending and weighting for capital markets facilitation). • CC3: Set separate targets for different financing activities (e.g. lending and capital markets facilitation), and/or report on these activities separately, if the basis of accounting is different (e.g. different weightings or modelling one activity as a stock and the other one as a flow). 	

How banks perform against our framework

Assessment of banks' decarbonisation and sustainable finance targets as of 31 May 2024.ⁱ

	High-level						Sectoral															Additional disclosures					Cross-cutting		
	HD1	HD2	HD3	HS1	HS2	HS3	SD1	SD2	SD3	SD4	SD5	SD6	SD7	SD8	SS1	SS2	SS3	SS4	SS5	SS6	SS7	AD1	AD2	AS1	AS2	AS3	CC1	CC2	CC3
ABN Amro	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Barclays	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
BBVA	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
BNP Paribas	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Crédit Agricole	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
CaixaBank Group	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Commerzbank	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Danske Bank	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Deutsche Bank	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
HSBC	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
ING	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Intesa Sanpaolo	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Lloyds Banking Group	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
NatWest	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Nordea	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Santander	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Societe Generale	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Standard Chartered	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
UBS	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
UniCredit	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●

● Meets criteria across all targets ● Meets criteria across some targets or partially meets criteria ● Doesn't meet criteria across all targets ● Not applicable

ⁱ Our analysis only covers targets and reporting against targets. For an overview of disclosures against a broader set of sustainable finance metrics not linked to targets, please refer to our 2023 report ['Green Ambitions, Grey Realities'](#).

► **Important note: Climate targets need to be backed by robust sector policies to address the negative externalities resulting from banks' financing activities.**

A bank setting targets both to reduce financing for fossil fuels and increase financing for renewable energy doesn't necessarily prevent fossil fuel clients from developing new oil and gas fields that can produce emissions for decades. Nor does it prevent renewable energy clients from violating human rights and damaging ecosystems when sourcing materials or developing power plants. Banks should complement their climate targets with robust sector policies to reflect key milestones in net-zero pathways and ensure that finance is provided in accordance with high environmental standards and in consideration of human rights. This includes a requirement for clients involved in thermal coal to stop expanding capacity, and a requirement for clients in oil and gas to produce credible transition plans that leave no room for expansion beyond what is needed in credible net-zero pathways.

The current landscape for climate targets



The current landscape for climate targets

Banks' climate targets are a blueprint for the future

The banking sector is woven through the fabric of our economy. It binds the system together as the central point in a web of financial relationships, encompassing governments, businesses, households and individuals. At a time when the global economy needs remaking in the face of environmental crisis, few institutions can muster resources with the scale and reach of the world's banks. In total, these institutions command €24 trillion in assets.⁴ When a bank sets a climate target, it does more than signal its own intent – it shapes what others see as possible for the net-zero transition.

The size of today's banking sector not only gives it the capacity to drive the transition; it underpins the business case for making change happen – and happen fast. The world's largest banks are connected across the globe to almost every sector. They are also connected across time to the future of our economy; the average loan expires only in the next decade.⁵ These exposures, broad and long, mean that banks both suffer and succeed with the economy as a whole.

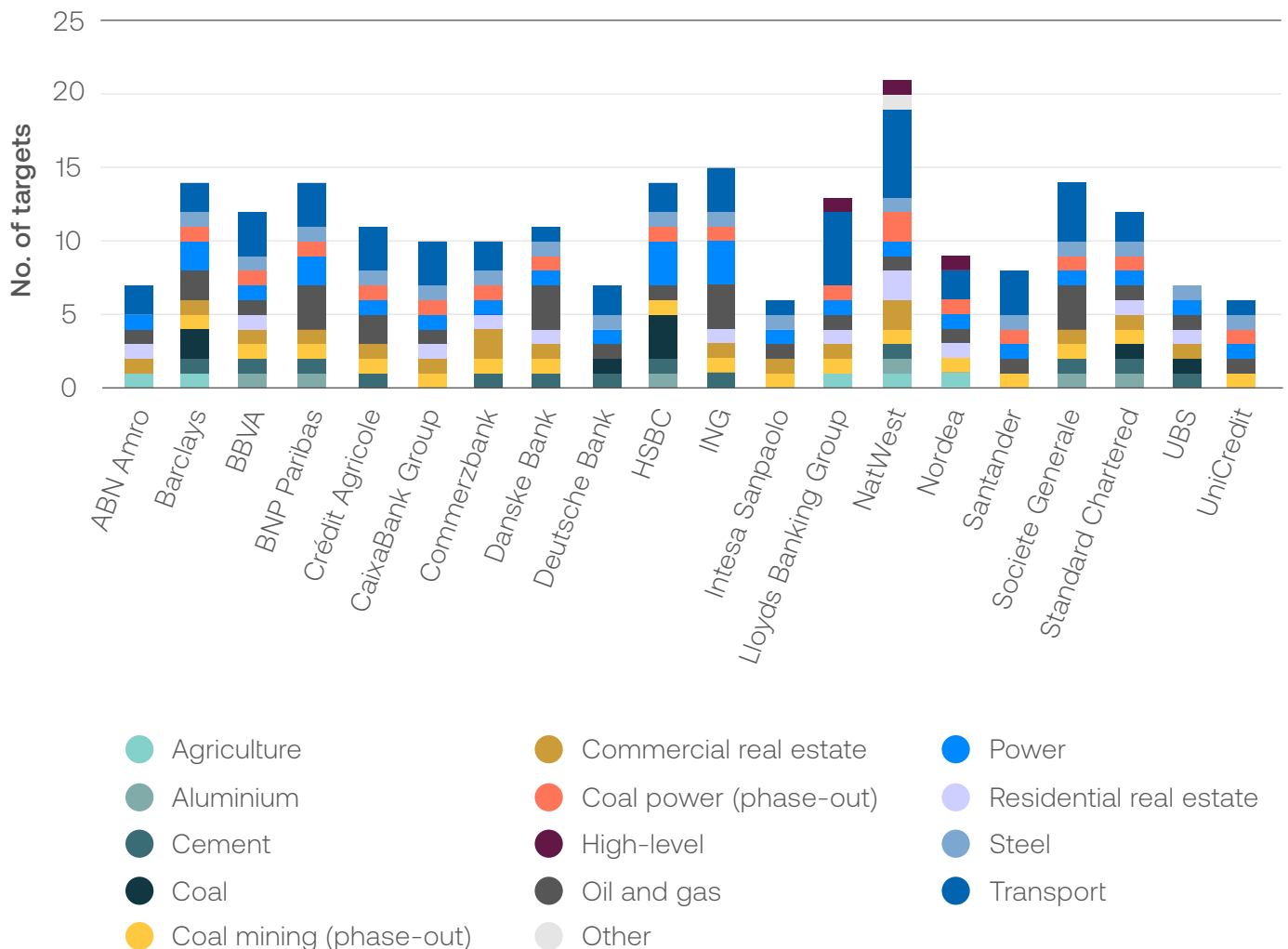
Banks cannot treat each of their climate targets in isolation, because their decision to transition in any one area implies large systemic changes in the movement of finance. If a bank wants to shift its exposure from polluting to clean activities, it needs to ensure there is enough demand to absorb this capital. This relies not just on the clients themselves, but on a broader question: are our systems for energy, commerce and innovation ready to take on the investment? Renewables financing hits a ceiling when the grid is underdeveloped. Electric vehicles need better batteries and broader charging networks to banish consumers' range anxiety and enable a switch to clean transport at the required pace and scale.

Banks have the breadth of knowledge, relationships and influence to help coordinate change across the many systems that need to transition. Without this coordination, they may find that there are not enough green businesses to finance, that high-carbon companies lack the technologies to decarbonise, or that the infrastructure is not in place to accommodate this rapid change. The delays these issues could cause for the transition are business critical. The Climate Stress Testing and Scenarios Project finds that the cost to the financial sector increases by US\$150 billion for each year climate action is delayed by companies operating in high-carbon sectors.⁶ On the other hand, the opportunity for financial institutions is huge. An average of US\$3.5 trillion is required every year between 2021 and 2050 to support the net zero transition.⁷ In this context, the crucial role of target setting is clear. Climate targets are not just to say what a bank can do or wants to do; they are what must happen for its business strategy to succeed.

Banks have built up a rich ecosystem of targets to reduce the emissions they finance

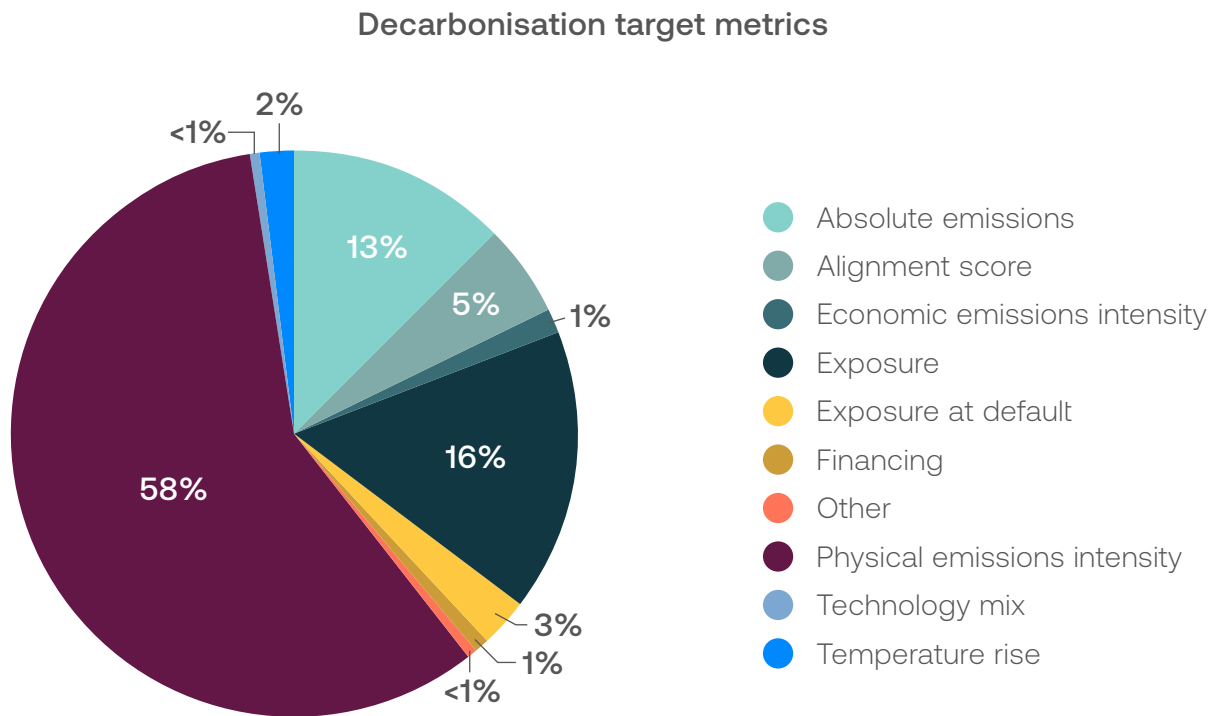
With the help of investors, standard-setters and civil society, banks have expended considerable effort over recent years in developing targets to decarbonise their lending activity. In total, the 20 banks in our sample have 213 live decarbonisation and phase-out targets. Despite differences in their methodologies, the banks have all taken a broadly similar target-setting approach: targets are usually set using climate scenarios and based on ‘financed emissions’ metrics. Financed emissions are intended to reflect the amount of emissions generated by a bank’s clients for which the bank – through its financing or facilitation – can be considered responsible. Within this category of financed emissions targets, most goals are expressed in terms of emissions intensity. Banks targets apply across a breadth of sectors, but are particularly concentrated around oil and gas, power, transport and real estate.

Figure 1: Banks have set decarbonisation targets across a broad range of sectors, but rarely at a high-level to cover the entirety of their portfolios.



Source: ShareAction analysis of the climate targets published by the 20 largest listed European banks.

Figure 2: Banks' decarbonisation targets are largely set in terms of absolute and relative financed emissions, as well as financial exposure to polluting activities.



Source: ShareAction analysis of the climate targets published by the 20 largest listed European banks.

Decarbonisation target setting is undoubtedly reaching a mature phase in its development, characterised by widespread adoption and sophisticated debates. However, banks still have some way to go with setting these targets. Only one bank in our sample (NatWest) covers all sectors recommended by the Net Zero Banking Alliance.ⁱⁱ Meanwhile, organisations such as Reclaim Finance have raised significant concerns about the reliability of financed emissions as a metric.⁸

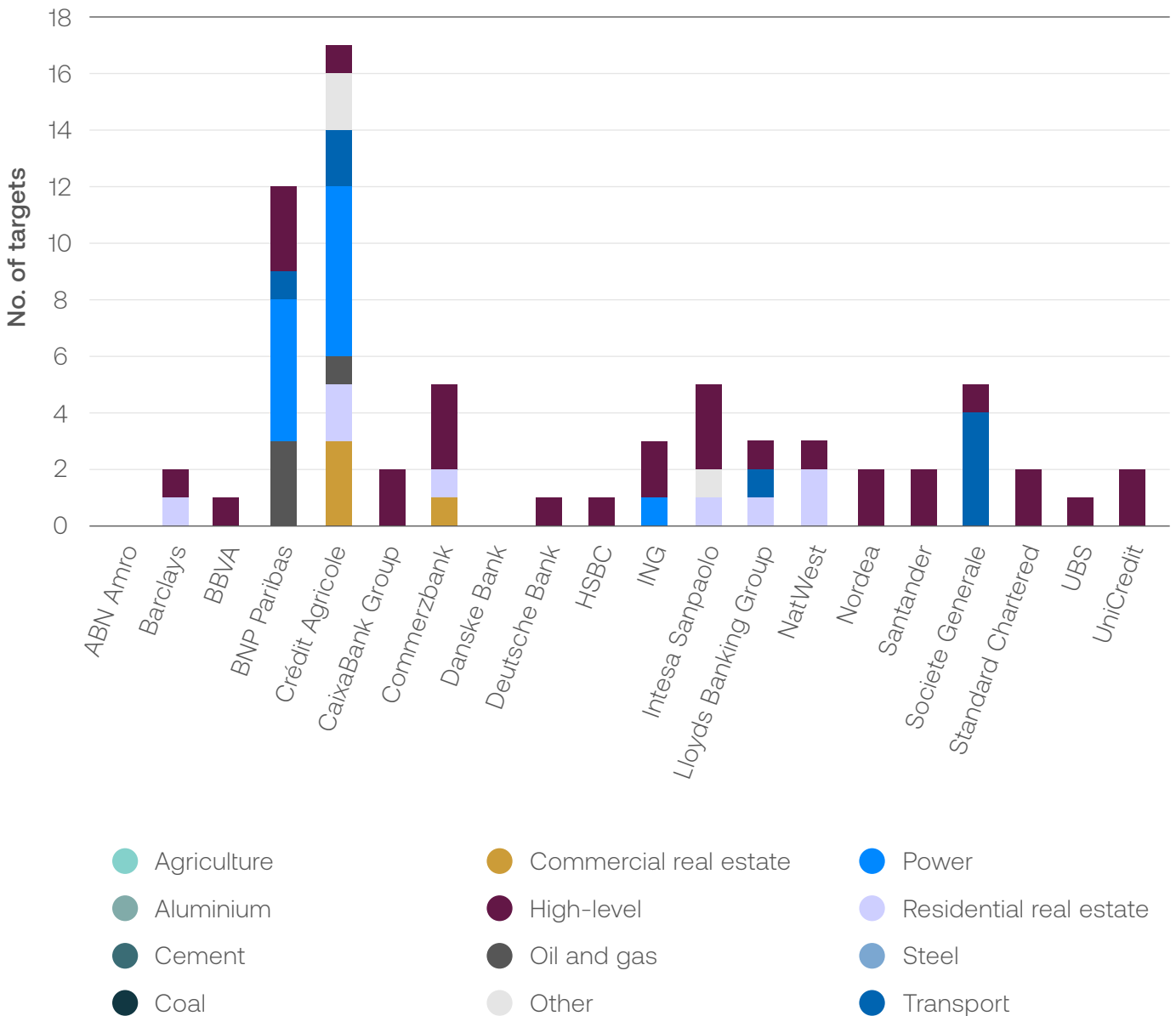
Banks are yet to balance their decarbonisation targets with a vision for greening their activities

Unless banks intend to reduce their total financing, they need to replace business from carbon-intensive parts of the economy with new, low-carbon opportunities. This means helping existing clients to transition or supporting green companies to scale up. Either way, banks need a vision for what comes next – and a plan for how to get there.

ii The UNEP Net Zero Banking Alliance (NZBA) lists 'carbon-intensive sectors' as: agriculture, aluminium, cement, coal, commercial and residential real estate, iron and steel, oil and gas, power generation, and transport.

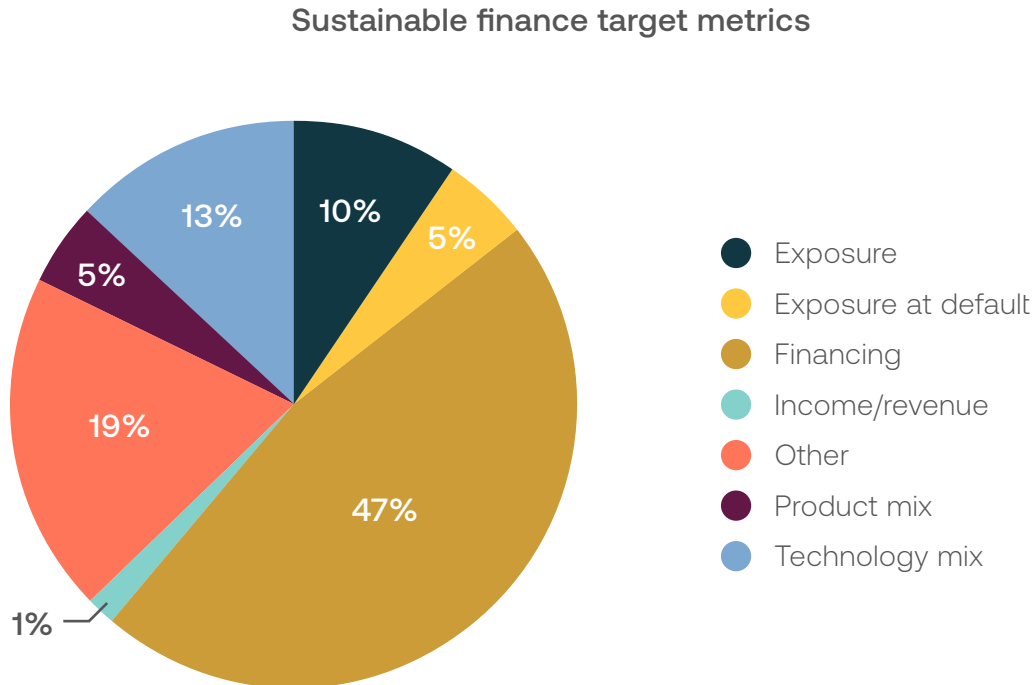
Unfortunately, the landscape for sustainable finance targets is underdeveloped compared to that for decarbonisation targets. The 20 banks in our sample have just 62 live targets aimed at increasing finance to emerging parts of the green economy. The average bank has around five times as many targets for decarbonisation as it has for sustainable finance. This reflects the fact that – in contrast to decarbonisation targets – half of all sustainable finance targets apply at a high level, i.e. to banks’ entire portfolio, rather than to a specific sector.

Figure 3: Banks have predominantly set sustainable finance targets at a high level, with sectoral sustainable finance targets concentrated among a small group of institutions.



Source: ShareAction analysis of the climate targets published by the 20 largest listed European banks.

Figure 4: Banks are most commonly setting sustainable finance targets in terms of financing flows.



Source: ShareAction analysis of the climate targets published by the 20 largest listed European banks.

Regulatory and voluntary frameworks currently do little to help resolve the issue. Most provide detailed guidance on emissions and climate risk reporting but only high-level principles for discussing new opportunities and setting non-emissions targets. The EU’s Taxonomy Regulation has made some progress in its attempt to get banks to report their ‘Green Asset Ratio’ (GAR) – the share of their assets that align with its definition of green. However, banks currently segregate these disclosures from the rest of their annual and sustainability reports, and a large proportion of their assets are excluded from GAR reporting.⁹

Decarbonisation and sustainable finance targets each play a unique role. Decarbonisation should be what the bank plans to do, while sustainable finance should express how they plan to do it. By setting these targets using comparable scenarios, product scopes, tenors and accounting principles, banks can better align incentives internally and give their stakeholders a more transparent and coherent picture of progress towards net-zero. This will also put banks in a better position to deploy their finance and influence strategically to overcome barriers to decarbonisation, avoid the systemic risks that come with climate change, and unlock growth opportunities for the green economy.

Finding 1:

Banks' climate targets are unlikely to shift sufficient capital to achieve net-zero by 2050



Finding 1: Banks' climate targets are unlikely to shift sufficient capital to achieve net-zero by 2050

1.1. Banks are setting decarbonisation targets in isolation from their sustainable finance targets

The banks covered in this report typically set decarbonisation targets to 'align portfolios' with net-zero goals and mitigate risk, while they set sustainable finance targets to 'support clients' and capture opportunities. But how one will lead to the other is generally not discussed in their climate strategies and transition plans. As a result, these two types of targets don't necessarily complement each other, even when sustainable finance is used as an indicator of how the climate strategy is implemented. This could lead to misaligned incentives, where large banks with a critical role in supporting the transition are not fully leveraging their significant influence to drive green investment.

For example, HSBC has set a target to reduce emissions in its power and utilities portfolio to 138 tonnes of CO₂ equivalent per gigawatt-hour by 2030, based on the IEA NZE.¹⁰ The bank's transition plan also provides a clear assessment of capital expenditure requirements needed in the energy sector over the same period. However, HSBC's target to provide and facilitate between US\$750 billion and US\$1 trillion of sustainable finance and investment by 2030 – a key indicator of its transition plan – is not explicitly linked to such investment needs. As a result, it is unclear how much of that need HSBC intends to support.

Of the 18 banks that have set both decarbonisation and sustainable finance targets, only one, BNP Paribas, discloses any information on how it quantified the financing it aims to deploy to achieve some of its targeted emissions reductions. BNP Paribas aims to achieve a 30% reduction in the emissions intensity of its power-generation portfolio by increasing the share of renewables in the portfolio to at least 66% by 2025, in line with the IEA NZE scenario.¹¹

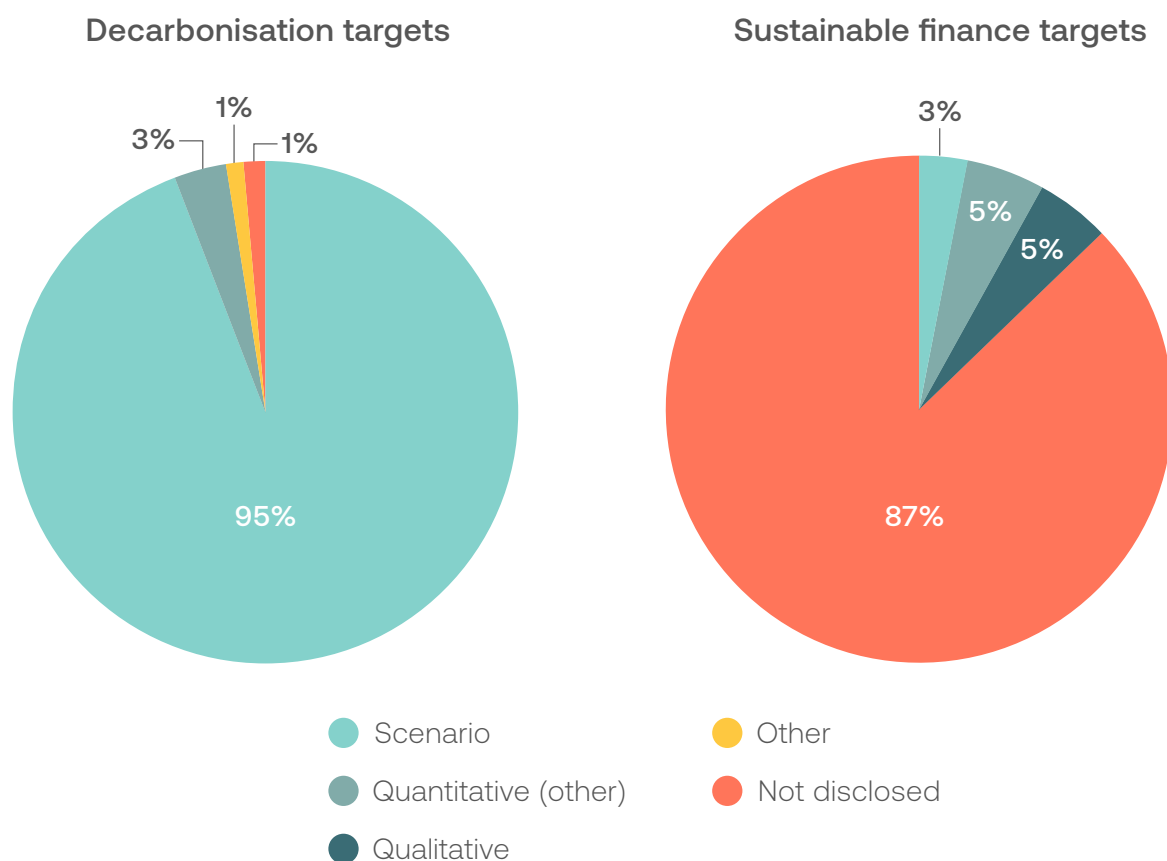
1.2. Banks' sustainable finance targets often lack a clear methodology, which means stakeholders can't determine if they are sufficiently ambitious. We think most of them are not

Climate targets should be supported by a methodology, and they should be comparable. These are some of the basic recommendations from reporting standards such as the European Sustainability Reporting Standards (ESRS) and International Sustainability Standards Board (ISSB). But while most banks' decarbonisation targets meet these criteria to some degree, most of their sustainable finance targets lack a clear methodology and can't be compared either to a baseline or to banks' overall financing. As a result, stakeholders are

not able to judge the speed at which banks are planning to reallocate capital from polluting activities to sustainable ones, and what proportion of banks' financing activities these sustainable finance volumes represent.

All 20 banks assessed in this report clearly explain how they estimated the amount by which they will reduce the emissions they finance. Almost all (98%) of the decarbonisation targets we analysed are set based on climate scenarios or another quantitative method (Figure 5). By contrast, only 13% of sustainable finance targets are backed by a publicly available methodology. Only five banks have set at least one sustainable finance target based on a climate scenario or another quantitative method.

Figure 5: Banks typically set decarbonisation targets based on climate scenarios or another quantitative method, but few disclose how they quantify their sustainable finance targets.



Source: ShareAction analysis of the climate targets published by the 20 largest listed European banks.

A lack of clarity also results from banks' decision to use inconsistent metrics for their decarbonisation and sustainable finance targets. Decarbonisation targets are usually based on relative metrics, such as emissions released per tonne of cement produced – two-thirds of targets we analysed rely on such metrics. Banks are often reluctant to set decarbonisation

targets using absolute metrics, such as financing for cement companies or the emissions they release in the atmosphere, because these are driven by the size of companies and can't be compared. However, banks do not apply this same principle to sustainable finance. Over 80% of sustainable finance targets are based on an absolute amount of financing. But as banks often don't disclose how this absolute amount compares to a baseline or their total financing, it is difficult to tell how ambitious these targets are.

For example, Santander has set a target to mobilise €220 billion of green finance by 2030.¹² But the bank doesn't disclose how it quantified the target, how much sustainable finance it was mobilising when it set this target, and how much of the bank's total financing this target represents.



Leading practice examples

ING is aiming to triple its annual financing of renewable power generation, from €2.5 billion to €7.5 billion by 2025, in line with the Global Renewables and Energy Efficiency Pledge agreed at COP28 and International Energy Agency (IEA) guidance.¹³

ABN Amro aims to have sustainable corporate loans and residential mortgages make up 27% and 34% of its corporate loan book and mortgage loan book by 2024, up from 11% and 23% in 2020 respectively, as part of its broader target to achieve 36% in sustainability (acceleration) asset volume.¹⁴

To shed some light on the level of ambition of sustainable finance targets, we standardised banks' high-level targets by estimating the share they would allocate to green activities and converting this into an annual amount (see Methodology for a summary of the adjustments we made and standardised targets for each bank). We then compared this against the following indicators:

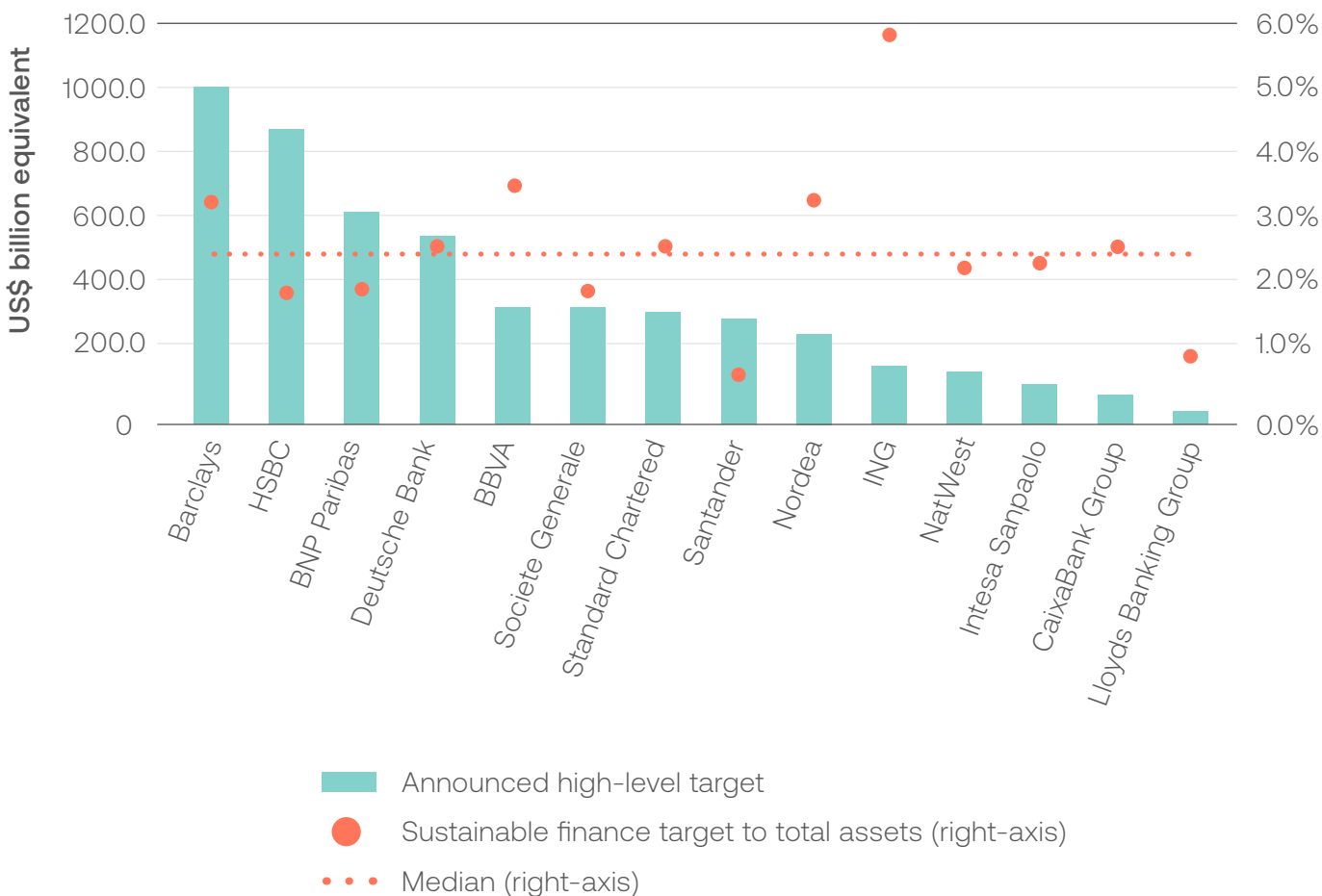
- **Total assets:** we compared the standardised annual amount of sustainable finance the bank is aiming to provide for green activities with its total assets. The result gives an idea of the extent to which the bank is utilising its balance sheet to mobilise financing, and how material this financing is to the bank.
- **Fossil fuel financing:** we compared the standardised annual amount of sustainable finance the bank is aiming to provide with our estimate of how much fossil fuel financing it could provide in 2030, based on fossil fuel financing data from the 2024 Banking on Climate Chaos report.¹⁵ The result allows for a rough comparison of sustainable finance targets with clean energy to fossil fuel investment ratios in net-zero pathways.

There are important caveats to this analysis. Firstly, despite our best efforts to standardise targets, it is extremely challenging to make like-for-like comparisons because the scope of targets varies widely across banks. For example, general corporate financing to companies that derive more than 50% of revenues from eligible activities would be accounted for on a pro-rata basis in the case of Barclays, but NatWest would only include this financing above a 90% revenue threshold. Similarly, Barclays' target covers both 'green' and 'transitional' activities, while Intesa Sanpaolo focuses solely on 'green' activities. It is also likely that some banks are providing finance outside the scope of their sustainable finance targets, when this financing doesn't meet certain eligibility criteria. In addition, some banks have complemented their high-level targets with sectoral targets, and how these overlap is not always clear. On the other hand, it is likely that our methodology overestimates sustainable financing for some banks, as it considers a broad range of green activities that are not strictly related to climate change or clean energy. Due to these limitations, our results can only be an educated guess on orders of magnitude, as opposed to precise estimates.

Our analysis shows that the largest high-level sustainable finance targets are not necessarily the most ambitious, as the level of ambition is mainly determined by the duration of targets and their scope. For example, HSBC announced that it will mobilise between US\$750 billion and US\$1 trillion of sustainable finance and investment, while Intesa Sanpaolo said it will provide €88 billion. However, HSBC's target covers multiple sustainability themes and a range of products over 10 years, while Intesa Sanpaolo focuses on green themes and lending over four years. After adjusting for duration and scope, we estimate that they are aiming to provide US\$54 billion and US\$24 billion in green financing annually, equivalent to 1.8% and 2.3% of their total assets, respectively. Despite being one of the largest high-level targets in our sample, HSBC's target is in fact lower than the median (2.4%) relative to total assets (Figure 6). The same is true for BNP Paribas. We estimate that its combined high-level targets represent 1.9% of its total assets, although the bank has also set sectoral targets to complement these high-level targets.

ING is an outlier in our sample, with a normalised annual high-level target representing 5.9% of its total assets. ING's scope of products and accounting methodology is more expansive than that of many of its peers, and our adjustments might not fully capture this. At €125 billion per year, it is equivalent to Barclays' US\$1 trillion by 2030 target in absolute terms, but twice as large relative to total assets (5.9% for ING compared to 3.2% for Barclays).

Figure 6: The largest sustainable finance targets are not necessarily the most ambitious relative to banks' total assets



Source: S&P Global (total assets) and ShareAction analysis of the climate targets published by the 20 largest listed European banks (see Methodology). Some banks are excluded as their high-level targets didn't fit our methodology.

We also find that most banks' targets are likely to fall short of the clean energy to fossil fuels investment ratio set out in the IEA NZE scenario. The IEA estimates that this ratio must reach 10:1 by 2030. We chose the ratio published by the IEA over other references focusing on energy supply (e.g. Bloomberg New Energy Finance's (BNEF) Energy Supply Investment ratio) because the IEA's definition of clean energy covers a range of supply- and demand-side activities. This broader scope is more closely aligned to the range of activities covered in banks' sustainable finance targets.

First, we compared banks' standardised sustainable finance targets against their average annual fossil fuel financing, assuming they reduce fossil fuel financing by half, in line with investment trends in the NZE. Only three banks (ING, NatWest and Nordea) out of the 14 assessed would achieve the 10:1 ratio in this case (Figure 7). We also compared banks' standardised sustainable finance targets against an estimate of their fossil fuel financing

in 2030, based on two methods: an extrapolation of average annual changes in fossil fuel financing from 2016 to 2023, and a regression that aims to capture a trend by smoothing out volatility (both estimates are represented as a range in Figure 7). Only three banks (Lloyds Banking Group, NatWest and Nordea) would align with the IEA’s ratio in this case, though Deutsche Bank and ING come close.

The IEA’s 10:1 by 2023 ratio is a global average, and probably underestimates what banks in our sample need to achieve. This ratio reaches 48:1 in Europe and 13:1 in the US by 2030¹⁶ – the main markets of most banks covered in this report. On the other hand, banks might increase the ambition of their sustainable finance targets in coming years, while our analysis assumes they remain constant.

Figure 7: Based on current sustainable finance targets, we estimate that only a few banks would align financing with the IEA’s 10:1 clean energy to fossil fuel investment ratio by 2030



Source: IEA (clean energy to fossil fuel investment ratio), Banking on Climate Chaos (fossil fuel financing) and ShareAction analysis of the climate targets published by the 20 largest listed European banks. Some banks are excluded as their targets didn’t fit our methodology. *The upper limit of Nordea’s ratio is 44:1, which we excluded from the graph to maintain readability.



Discussion: Energy ratios are helpful, but they are not a silver bullet

Several organisations, including BNEF,¹⁷ the IEA,¹⁸ and Reclaim Finance,¹⁹ have proposed ratios for fossil fuel and clean/sustainable energy investment. These ratios don't all cover the same basket of activities and the same time horizons, but all aim to provide guidance on how to align energy portfolios with 1.5C-compatible pathways.

Increasingly, banks are using such ratios to set targets or report on climate risk in their energy portfolios. For example, BNP Paribas has said it wants 80% of its credit exposure for energy production to be low-carbon by 2028 and 90% by 2030.²⁰ Several banks in North America have committed to disclose low-carbon to fossil fuel financing ratios.²¹

Energy ratios are helpful and easy to understand – they can be benchmarked against investment ratios in climate scenarios and be used as a proxy for transition risk. However, they don't say much about how the numerator (clean energy financing) and denominator (fossil fuel financing) are moving. Banks aligning with clean energy ratios by only reducing fossil fuel financing will not necessarily provide sufficient funding for the transition. Similarly, banks that do ramp up sustainable financing in line with net-zero pathways could meet these ratios without necessarily reducing fossil fuel financing to the extent required. This scenario is probably less realistic for banks that have large exposures to the energy sector, because it would take a large amount of sustainable finance to move the ratio. Furthermore, since increasing investment in clean energy can reduce demand for fossil fuels, we would expect to see a natural dampening effect on fossil fuel financing. However, even for major energy financiers like Barclays and BNP Paribas, energy ratios could mask sustained support for fossil fuels.

As such, stakeholders interested in measuring the climate impact of banks' financing would still need banks to report on absolute emissions and sustainable financing separately. The definition of 'clean energy' can also vary significantly, so stakeholders would need to understand what activities are included. They would similarly benefit from interrogating how the bank's portfolio is performing under different assumptions about what kinds of energy will drive the transition. For example, Reclaim Finance's ratio focuses on renewable energy, while the IEA's ratio also covers activities that are not widely accepted as green, such as fossil fuel power with carbon capture and storage, nuclear energy and biomass.

1.3. Misaligned scopes and timeframes of climate targets put an orderly transition at risk

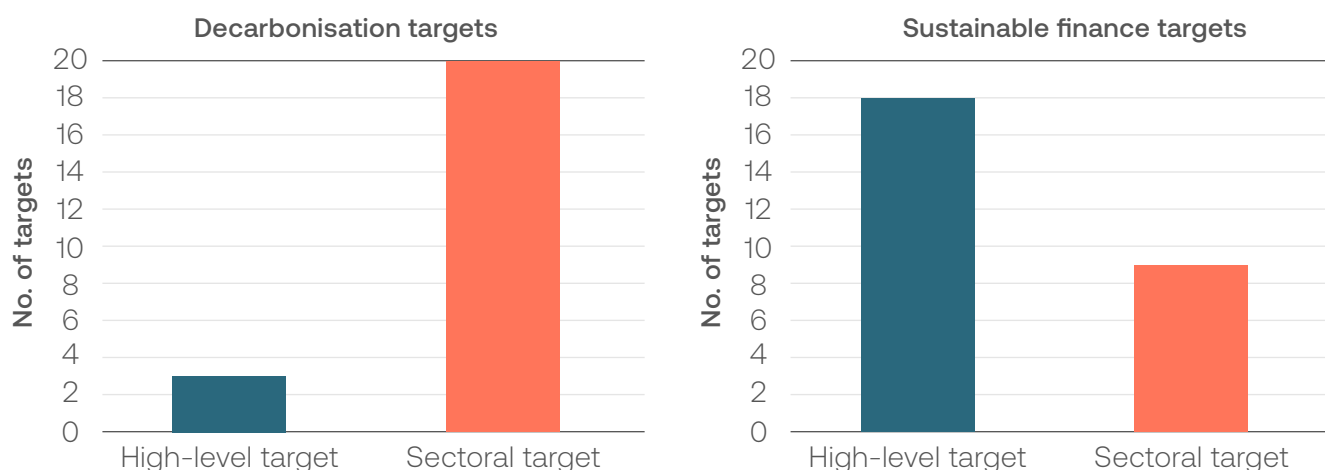
By taking a narrow and longer-term approach to setting decarbonisation targets alongside a broad and shorter-term approach to setting sustainable finance targets, banks seem to lack a cohesive plan to reallocate capital in an orderly fashion.

All 20 banks covered in this report have set at least one sectoral decarbonisation target, while only nine banks have also set a sectoral sustainable finance target (Figure 8). By contrast, three banks have set a high-level decarbonisation target, while 18 banks have set a high-level sustainable finance target.

This mismatch has important implications. On one hand, banks are planning to align financing with net-zero emissions by 2050, but haven't set comparable milestones to achieve this goal. According to the Intergovernmental Panel on Climate Change (IPCC), global emissions should be halved by 2030 if the world is to become net-zero around 2050 while keeping the Earth's temperature within safe planetary boundaries.²² Yet only Lloyds Banking Group, NatWest and Nordea have set interim high-level decarbonisation targets that are aligned with this ambition. Others have set interim decarbonisation targets for some of the most material sectors – such as oil and gas and power generation – but haven't implemented specific guardrails to ensure that their total carbon footprint is on the path to net-zero. Such guardrails are important, because most sectoral decarbonisation targets are set using emissions intensity metrics that don't necessarily lead to the required decline in absolute emissions.

On the other hand, most banks set high-level sustainable finance targets but refrain from allocating specific amounts to sectors and activities that urgently require investment. As a result, it is difficult for stakeholders to assess a bank's strategy to fund these activities and decarbonise their portfolios. In addition, banks' high-level sustainable finance targets might not lead to the required increase in capital flows for green activities to achieve net-zero.

Figure 8: All banks set decarbonisation targets at sector level, but less than half set sustainable finance targets to support a specific sector or activity



Source: ShareAction analysis of the climate targets published by the 20 largest listed European banks.

The lack of cohesive strategy is also apparent in the sectoral coverage of banks' climate targets. For example, 12 banks state that their sustainable finance targets cover agriculture, among other activities. However, only five banks have set a decarbonisation target for this sector. Overall, half of the banks in our sample have set high-level sustainable finance targets that cover sectors such as agriculture or real estate, but haven't set decarbonisation targets for these sectors.

Decarbonisation targets and sustainable finance targets don't need to have the same function or track the same thing. If they did, they would be redundant. Different scopes can also be explained by the fact that some activities should be phased out while others play an enabling role or are yet to emerge. However, where these targets do overlap, banks should provide a more transparent roadmap for how their sustainable finance efforts will support their decarbonisation efforts. Where they don't, such as financing for enabling infrastructure or technologies, banks should set specific targets and/or report on this financing separately.



Leading practice examples

NatWest has set a high-level decarbonisation target to halve the climate impact of its financing activity by 2030 against a 2019 baseline. NatWest is also the only bank in our sample to have already set 2030 sectoral decarbonisation targets for all 10 priority sectors defined by the United Nations Environment Programme (UNEP) Net-Zero Banking Alliance (NZBA). Separately, NatWest has set a high-level target to provide £100 billion in climate and sustainable funding between 2021 and 2025. As part of this, the bank aims to provide at least £10 billion in lending for EPC A and B rated residential properties between 2023 and 2025. NatWest also has an ambition to have properties rated EPC C or above make up 50% of its mortgage portfolio by 2030.²³

BNP Paribas has set sectoral decarbonisation targets for key sectors including oil and gas, power generation and transportation. Complementing this, the bank is aiming to have renewables make up at least 66% of its power-generation portfolio and electric vehicles at least 25% of its automotive portfolio by 2025. Separately, BNP Paribas has set a high-level target to provide €200 billion by 2025 for the transition of corporate clients to a low-carbon economy. The bank has also set more granular targets to increase its exposure to low-carbon energies to at least €40 billion by 2030, ensuring that these account for 90% of its financing for energy generation by 2030.²⁴

ABN Amro aims to invest up to €1 billion in climate-focused early-stage companies and technologies by 2030.²⁵ This objective covers a range of technologies, including energy storage and construction.

Our analysis also shows that banks set decarbonisation and sustainable finance targets over different timeframes. Targets to reduce emissions are set over 10 years on average, compared to five years for targets to provide sustainable financing. For example, Lloyds Banking Group has set a target to reduce emissions in its power-generation portfolio over 11 years (2020 to 2030, including base year and end year).²⁶ By contrast, its high-level sustainable finance target has a duration of three years (2024 to 2026). Similarly, UniCredit has set a target to reduce emissions in its oil and gas portfolio over 10 years (2021 to 2030) but has set sustainable finance targets over two years (2023 to 2024).²⁷

This inconsistent approach could mean that banks are incentivised to reduce emissions later, while providing sustainable finance based on short-term forecasts that don't reflect the investment needed now to achieve these emissions reductions within a safe timeframe for limiting warming to 1.5C.

Finding 2:

Targets to increase sustainable finance are designed to look comparatively more ambitious than targets to reduce emissions



Finding 2: Targets to increase sustainable finance are designed to look comparatively more ambitious than targets to reduce emissions

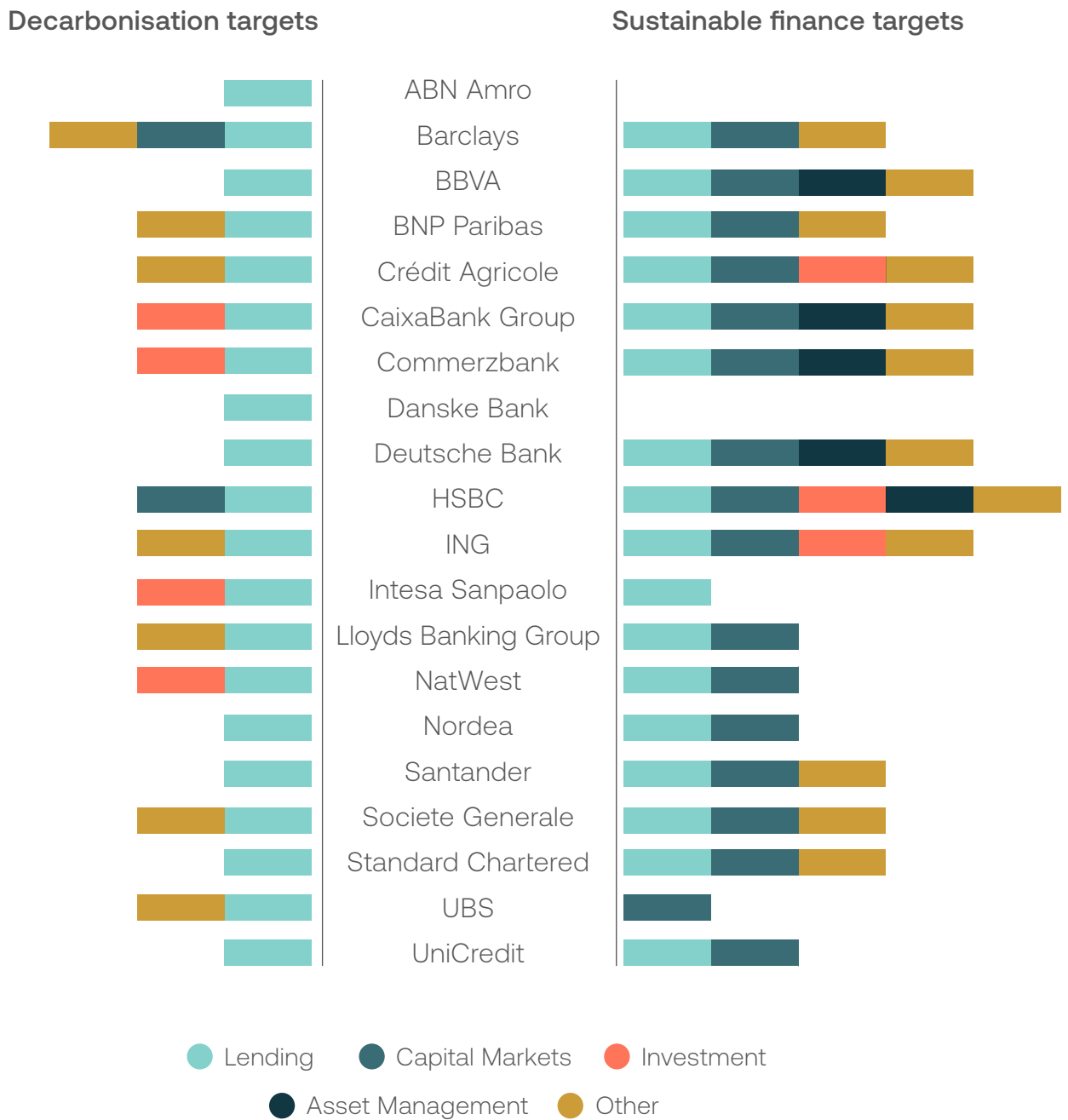
2.1. Sustainable finance targets cover more products and services than decarbonisation targets

Decarbonisation targets and sustainable finance targets serve different purposes. However, they should be comparable so that stakeholders can understand how banks intend to achieve emissions reductions. We find that they often differ widely in scope. In addition, some banks include a broader range of services in their sustainable finance targets, which can make these targets appear more ambitious than they really are.

Of the 18 banks that have set both decarbonisation and sustainable finance targets, 17 include a broader range of products and services in their sustainable finance goals (Figure 9). For example, Santander focuses on credit exposure in its decarbonisation targets, while its high-level sustainable finance target also covers other products and services, such as such as mergers and acquisitions advisory.²⁸ Societe Generale focuses on lending in its decarbonisation targets, but its high-level sustainable finance target also covers advisory mandates.²⁹

Five banks (BBVA, CaixaBank Group, Commerzbank, Deutsche Bank and HSBC) have set sustainable finance targets that cover both banking and asset management activities. We don't question the fact that asset management activities are a critical lever to address climate change and drive positive impact. However, banks tend to keep these activities separate in their decarbonisation targets, making it harder for stakeholders to compare the two and understand the banks' ambition and progress. For example, HSBC has set separate decarbonisation targets for its banking and asset management activities, but combines them in its target to provide and facilitate between US\$750 billion and US\$1 trillion of sustainable finance and investment by 2030.

Figure 9: Most banks include a broader range of products and services in sustainable finance targets than in their decarbonisation targets



Source: ShareAction analysis of the climate targets published by the 20 largest listed European banks. The graph represents products and services included in at least one target and excludes targets for which the scope of products and services is not disclosed.



Discussion: What products and services should banks include in their decarbonisation and sustainable finance targets?

Banks and standard setters don't always use the same terminology to explain what products and services are, or should be, in scope of climate targets. Some refer to 'on-balance sheet' and 'off-balance sheet' activities, while others refer to 'financed' and 'facilitated' transactions. Some banks set targets for 'lending', while others focus on 'credit exposure'. These broad categories are not necessarily equivalent, which can lead to a lack of transparency and confusion.

For example, lending can be on-balance sheet or off-balance sheet. If a bank arranges a syndicated loan, the portion it distributes to other financial institutions would be considered off-balance sheet. A bank providing a loan that can be repeatedly utilised and repaid, such as a revolving credit facility, may account for this loan as on-balance sheet or off-balance sheet, depending on whether the loan is being utilised. Some banks also refer to 'lending' to describe products that are not, strictly speaking, loans, such as guarantees and other trade finance products. These can be on-balance sheet or off-balance sheet, depending on whether they've been drawn on. Similarly, capital markets transactions – typically 'off-balance sheet' services – can also lead to 'on-balance sheet' exposure if the bank is underwriting the transaction.

Banks also provide a plethora of other financial services in addition to lending and capital markets facilitation. Some of these activities don't necessarily lead to capital being provided to a client. For example, derivatives that mitigate currency or interest rate risks can support clients' transition and represent climate risks and opportunities for banks. However, these products can hardly be categorised as 'financing', which means they can't easily be benchmarked against investment needs or compared to decarbonisation targets that typically exclude these products.

Some banks might also engage in activities that are not necessarily related to banking. For example, some have an insurance and/or asset management business. While banks can help address climate change through these activities, they don't necessarily rely on the same engagement levers and these activities are usually managed at arm's length.

By bundling all these products and services into one single metric, banks can give a misleading picture of how much capital they are mobilising for

the transition. For this reason, we believe banks should make the following distinctions when setting targets:

- On the one hand, banking activities that lead to the mobilisation of capital, such as lending (including any assimilated products), capital markets facilitationⁱⁱⁱ and proprietary investment. On the other, ancillary activities, such as derivatives, mergers and acquisitions advisory, and structured deposits.
- On the one hand, banking activities. On the other, non-banking activities, such as asset management and insurance.

We are not suggesting that banks should avoid setting targets or reporting on climate risks and opportunities in relation to ancillary services and non-banking activities. However, we believe their targets and reporting would be more transparent if these activities were kept separate. Alternatively, banks should include the same products and services in both their decarbonisation and sustainable finance targets to make them comparable.

iii We recommend that banks set separate targets for lending and capital markets facilitation and/or report on these activities separately if the accounting basis is different (e.g. different weightings, or modelling one activity as a stock and the other one as a flow).

2.2. By including capital markets facilitation in sustainable finance targets but not in decarbonisation targets, banks take a narrow view of climate risks and a broad view of climate opportunities

The Task Force on Climate-related Financial Disclosures (TCFD) notes that “banks are exposed to climate-related risks and opportunities through their lending and other financial intermediary activities.”³⁰ The data we collected suggests that banks are aiming to mitigate climate risk from lending only.

Only two of the banks covered in this report – Barclays and HSBC – include capital markets facilitation in their decarbonisation targets. Others have generally been reluctant to do this due to a lack of methodology,^{iv} among other reasons.³¹ However, 17 banks include capital markets facilitation in their sustainable finance targets (Figure 9). This includes UBS, which only covers lending in decarbonisation targets and only covers capital markets facilitation in its sustainable finance target.³²

iv The Partnership for Carbon Accounting Financials (PCAF) published a Facilitated Emissions Standard in December 2023.

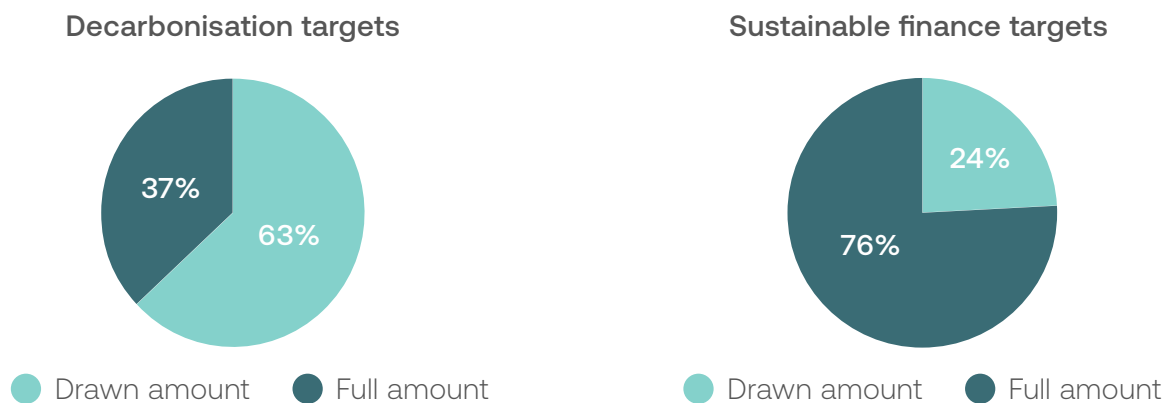
Capital markets facilitation refers to funding activities, such as the issuance of bonds or shares, where banks don't provide the capital themselves but play a critical role in facilitating companies' access to it. Capital markets can be an important source of funding for companies, including those operating in high-carbon sectors. According to data from the Banking on Climate Chaos report,³³ capital markets facilitation represented 34% of fossil fuel financing mobilised by the banks covered in this report between 2016 and 2023 (28% in 2023).^v

Mobilising sustainable finance through capital markets represents a significant opportunity for banks, but it can also be an important driver of climate risks. As banks play a prominent role in giving clients access to these funds, they can be exposed to reputational risk as a result. This risk may not be limited to the short period of time during which a bank is involved in the transaction – bonds are often issued for several years, and the polluting assets they finance can produce emissions for an even longer period. Banks failing to address risks and impacts from capital markets facilitation can also face stakeholder pressure to do so. Barclays set decarbonisation targets covering capital markets facilitation following a shareholder resolution.³⁴ BNP Paribas announced it would no longer participate in conventional bonds issuance from companies in the oil and gas sector active in exploration and production following engagement with investors and NGOs.³⁵

2.3. Inconsistent accounting practices lead to inflated financing volumes in sustainable finance targets compared to decarbonisation targets

The banks covered in this report only include the drawn portion of loans (i.e. only the portion that has been disbursed) in 63% of decarbonisation targets, while they include the total amount of loans (drawn and undrawn portion) in 76% of sustainable finance targets (Figure 10).

Figure 10: Banks tend to only include drawn amounts in decarbonisation targets and total amounts in sustainable finance targets in relation to loans



Source: ShareAction analysis of the climate targets published by the 20 largest listed European banks. The graph excludes targets for which the loan indicator is not disclosed.

^v The Banking on Climate on Chaos report includes data for 17 of the 20 banks covered in this report. The three banks not included in its report are ABN Amro, Commerzbank and Nordea.

The data we collected also shows that the amount of financing underpinning climate targets is often not accounted for in the same way in decarbonisation targets and sustainable finance targets. Financing can be represented as a stock or a flow. A stock captures the amount of financing outstanding on the bank's balance sheet at the end of the reporting period. This method accounts for new financing minus any repayments during that year. A flow captures the total amount of financing for all deals that were closed within a given year, regardless of any repayments in the bank's portfolio. Because of this, the flow method can result in higher financing volumes.

For example, Santander aims to raise or facilitate €220 billion in green finance between 2019 and 2030. This target is set based on a flow of financing, i.e. a cumulative amount over the period. On the other hand, the bank has set a target to reduce the emissions of its oil and gas portfolio by 29% between 2019 and 2030. This target is set based on a stock of financing, i.e. the outstanding loans on Santander's balance sheet at the end of the reporting period. If Santander facilitates a five-year €1 billion loan for a renewable energy company in 2019 and facilitates the refinancing of the same loan in 2024, it will report €2 billion in sustainable finance. But if Santander facilitates a five-year €1 billion loan for an oil and gas company in 2019 and facilitates the refinancing of the same loan in 2024, it will calculate its absolute emissions based on an €1 billion exposure, or even less if the company repays part of the loan.

Half of the banks covered in this report only set decarbonisation targets based on a stock of financing while they only set sustainable finance targets based on a flow of financing. Overall, 94% of decarbonisation targets are set based on stock, while 64% of sustainable finance targets are set based on flow. We do not question whether financing should be reported as a stock or a flow. Both indicators provide different insights on banks' financing activity. We simply observe that banks apply inconsistent accounting principles across decarbonisation and sustainable finance targets. These practices can lead banks to provide an inflated view of the financing they include in sustainable finance targets compared to the financing they include in decarbonisation targets.

Banks also seem inclined to apply discounts to financing included in decarbonisation targets, but refrain from applying the same 'haircuts' to sustainable financing. The two banks that include capital markets facilitation in their decarbonisation targets – Barclays and HSBC – apply a 33% weighting to these activities, but capital markets facilitation is not weighted in their sustainable finance targets. Fourteen other banks also include capital markets facilitation in their sustainable finance targets without applying any weighting.^{vi} Proponents of weighting have argued that “adjustments should be made to help communicate to stakeholders the different roles in lending or investing versus facilitation”;³⁶ However, banks only seem to apply this for facilitated emissions, and not for facilitated sustainable financing.

vi We assumed that banks not reporting what weighting is applied to facilitated sustainable financing don't apply a weighting, as to our knowledge it is not customary to disclose that a 100% weighting (i.e. no weighting) has been applied.

Finding 3:

The design of banks' targets has led to a mismatch between reported progress and real progress

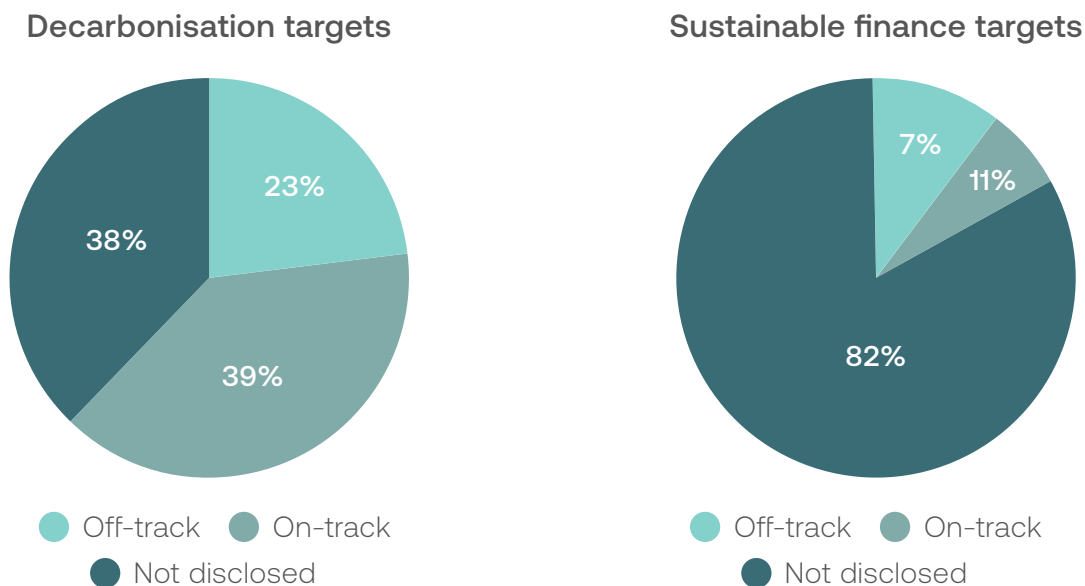


Finding 3: The design of banks’ targets has led to a mismatch between reported progress and real progress

3.1. The positive story told by banks’ metrics doesn’t reflect what is happening in the real economy

Stakeholders will find a reassuring portrayal of progress on climate targets when they look at banks’ disclosures. Through explicit statements and graphical illustrations, banks present most of their targets as on track – or at least not wildly off-track. Based on banks’ presentation of their progress, just under a quarter of decarbonisation targets and 7% of sustainable finance targets appear to be off-track (Figure 11). This untroubled picture the banks paint is hard to reconcile with their continued financing of fossil fuels and warnings about the pace of climate transition in the real economy – the part of the economy that exists outside of the financial sector.

Figure 11: Banks report comparatively few decarbonisation and sustainable finance targets as off-track



Source: ShareAction analysis of the climate targets published by the 20 largest listed European banks: disclosed performance against decarbonisation (left) and sustainable finance (right) targets.

According to UNEP Finance Initiative’s latest Emissions Gap Report, based on current efforts the world is headed for 3C of global warming.³⁷ Even if we meet all the pledges made by countries at the annual COP climate summits it will only limit warming to 2.5C.³⁸ The transition needs to go further and faster.

Despite consistent warnings that the phase-out of fossil fuels is too slow to keep warming below 1.5C, only 3% of banks' fossil fuel decarbonisation targets are presented as being off track. Not a single power decarbonisation target is shown to be off-track – either in banks' statements or their graphical illustrations of progress. This compares to the 57% of oil and gas targets and 70% of power targets that banks explicitly present as being on-track.^{vii} Across oil and gas and power, banks consistently claim that their activities align with 1.5C scenarios. For oil and gas, 79% of on-track decarbonisation targets are set with reference to 1.5C, while the figure rises to 82% for power.

We find a similar mismatch between how progress on sustainable finance targets are reported and the way sustainable finance is being deployed across the economy. According to the Energy Transitions Commission (ETC), investment in the transition to net-zero emissions needs to average between US\$3 trillion and US\$4.5 trillion a year by 2050, reaching approximately US\$3 trillion annually by 2030.³⁹ Other organisations estimate a far higher level of need, with the Climate Policy Initiative (CPI) forecasting that between US\$5.9 trillion and US\$12 trillion of climate finance will be required to prevent the worst impacts of climate change.⁴⁰ This compares to just over US\$1 trillion of annual investment today, and a growth trajectory that falls far short of what is required by the end of the decade.⁴¹ Despite the clear gulf between current investment and projected need, on paper most banks appear to be outperforming their sustainable finance targets. Seven banks have already replaced their targets for 2025 or 2030, having either met the target or retired it early.

We commend banks for surpassing initial expectations and retiring their targets early when these can be replaced with more ambitious goals. We also commend them for setting decarbonisation targets based on credible 1.5C scenarios. However, we are cautious about the impact of these targets on reducing emissions. Independent analysis from the World Resources Institute (WRI) has called into question whether banks' claims to 1.5C alignment are credible.⁴² Our own analysis also shows that the level of ambition of sustainable finance targets is difficult to assess, but most likely falls short of banks' net-zero ambitions. If banks are meeting their targets without meaningfully decreasing real-world emissions or increasing sustainable investment, then these targets risk becoming diversions from rather than drivers of the transition.

3.2. Stakeholders can't understand the impact of banks' climate targets because banks don't disclose how they are meeting them

There are many ways banks can reduce their financed emissions or claim to support the green economy. Some have a direct link to real-world decarbonisation, while others only reduce emissions on paper.

Unfortunately, the banks in our sample only provide figures on what is driving their performance for 15% of decarbonisation and green finance targets. Even fewer targets – just 6% – are accompanied by a breakdown of all major factors that might affect a bank's performance.

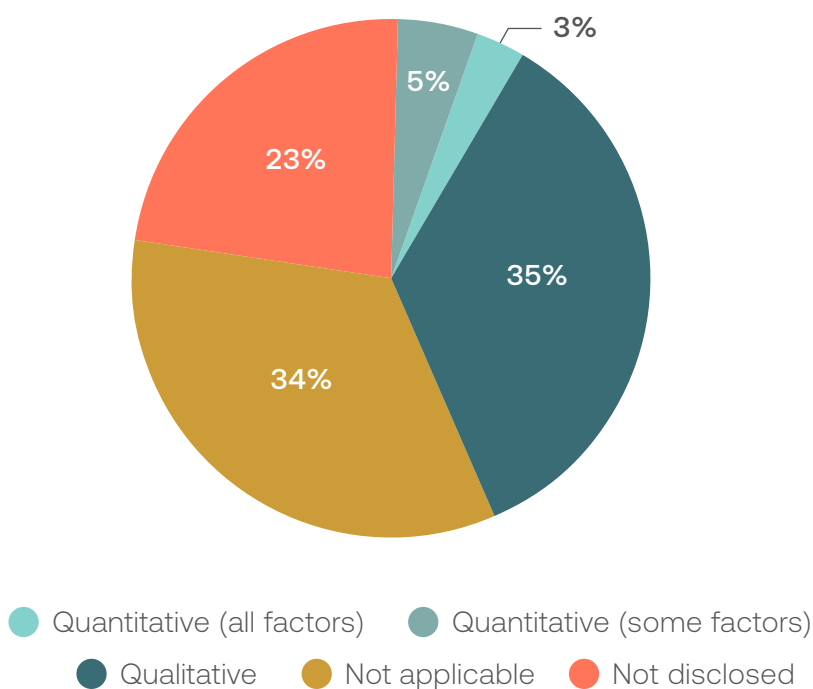
vii Where the bank does not provide an indication of progress against its expected pathway, targets are considered neither on-track or off-track.

As discussed in the introduction, most decarbonisation targets are set in terms of financed emissions. Banks can help their clients to reduce their impact, or they can change the composition of their portfolio so they have more low-emission clients. Performance can also be influenced by factors completely unrelated to the climate, like changes to the valuation of clients, which is fed into the financed emissions equation. One problem is that the value of clients can fluctuate considerably based on market prices and the value of the company’s shares.⁴³ As Reclaim Finance highlights, when the sum of companies’ enterprise value including cash (EVIC) rises, a bank’s financed emissions will fall even if its financing to those companies remains flat. This was seen when the share prices of oil and gas companies soared following the COVID-19 pandemic and Russian invasion of Ukraine, and banks were able to meet their decarbonisation targets for the sector without substantial cuts in financing or clients’ emissions.⁴⁴

The same reduction in financed emissions may, therefore, have very different implications for climate action. Unfortunately, just one bank in our sample (ING) provided a breakdown of how these three factors – clients’ emissions, portfolio composition and accounting factors – affected their financed emissions (Figure 12).

Figure 12: Banks rarely report on what is driving their performance against decarbonisation targets

Breaking down decarbonisation performance



Source: ShareAction analysis of the climate targets published by the 20 largest listed European banks on whether banks disclose the factors driving their decarbonisation targets. Factors analysed include: 1) changes in client emissions; 2) changes in portfolio composition; and 3) technical factors related to financed emissions accounting.

Without adequate detail on how financed emissions are being reduced, reporting against decarbonisation targets can be misleading. For the 15 banks in our sample with financed emissions targets for the oil and gas sector, we extracted the base year and most recent reporting year, allowing us to measure the reduction in financed emissions since the target was set and compare it with financing data from Banking on Climate Chaos. While, on average, banks' financed emissions connected to the oil and gas sector fell 34% since they set their targets, comparable financing only saw a 4% decline (see Methodology).

There remain some major differences in the coverage of banks' targets and Banking on Climate Chaos data. While targets tend to apply only to upstream oil and gas, Banking on Climate Chaos covers all fossil fuels, as well as both upstream and midstream segments. In addition, Banking on Climate Chaos data captures flows of finance to fossil fuels, whereas financed emissions are based on exposure. However, we do find some particularly stark instances that cannot be explained solely by mismatches in scope. For example, Barclays reports a 44% decline in financed emissions for its oil and gas portfolio between 2020 and 2023. Yet Banking on Climate Chaos data shows that Barclays' financing for fossil fuels only fell 1% over the same period – even with underwriting weighted at 33%. Similarly, CaixaBank Group reports a 19% decline in financed emissions for its oil and gas portfolio between 2020 and 2022, but saw fossil fuel financing increase 135%. In the case of CaixaBank Group, we see considerable volatility in fossil fuel lending, with 2020 a low year and 2022 a high year. However, this example illustrates just how misaligned financing and financed emissions can be.

Accounting issues are not the only reason why financed emissions targets may misrepresent a bank's impact. For 38% of decarbonisation targets, banks in our sample either provided no figures on their performance or only used relative metrics, like tonnes of CO₂ per megawatt-hour. Only eight banks report all their relative financed emissions targets alongside corresponding absolute emissions. Without these absolute figures, banks could be increasing the emissions they finance in the real economy, so long as their clients are becoming more efficient in the way they generate their output.

Just like financed emissions targets, banks can meet the kind of high-level sustainable finance targets they set in numerous ways. Banks can finance purely green activities, like renewable energy, or finance companies that are transitioning. These strategies require different governance processes. Dedicated financing simply requires a bank to define what it considers a 'green' activity. However, when banks finance clients' transitions, they need a robust framework for assessing whether a company has a coherent plan to align with a 1.5C pathway. Just five banks in our sample – CaixaBank Group, Lloyds Banking Group, HSBC, NatWest and Nordea – provide a sufficiently granular breakdown of their sustainable financing to distinguish between dedicated financing (e.g. use-of-proceeds or financing for 'pureplay' companies that focus on a single industry segment or product) and general corporate purpose financing intended to help clients transition. This lack of disclosure makes it difficult for stakeholders to assess whether the bank has the governance tools in place to support its sustainable finance strategy. Notably, no banks have published clear criteria for transition plans that they then apply as mandatory conditions, or 'redlines', for companies seeking to access sustainable finance.

Banks can also finance many different companies in many different sectors – all with different effects on global emissions. Despite this, banks provide a performance breakdown by sector or activity for just 14% of sustainable finance targets.

The lack of transparency from banks about how they are meeting their decarbonisation and sustainable finance targets means stakeholders cannot tell whether a reallocation from polluting to green assets is really taking place. We cannot track how sustainable finance directed to a specific sector is helping existing clients to reduce their emissions and shifting the bank's portfolio towards lower emitters. In turn, we cannot track how these changes are affecting financed emissions compared to factors unrelated to climate action. Without this information, stakeholders have no way of knowing whether banks are doing enough to support the transition.



Leading practice examples

ING breaks down the different factors contributing to its financed emissions performance for the power, cement, steel, automotive, aviation and shipping sectors.⁴⁵ The factors it lists are different for each sector. For steel, for example, it covers client runoff from the loan book, performance of existing clients, outstanding changes to the existing loan book, and the addition of new clients. For automotive, the bank quantifies the impact of electrification, clients' emissions intensity changes, and changes to the composition of its portfolio. The impact of the various factors listed by ING are presented in waterfall charts for each sector, allowing stakeholders to observe how the changes impacted emissions over the reporting year.

NatWest provides a breakdown of lending covered by its £100 billion climate and sustainable financing target across both products and sectors.⁴⁶ Products include general and specific-purpose lending, mortgages, sustainability-linked loans, and green, sustainability and sustainability-linked bonds. For sectors, it quantifies finance provided to renewable energy, sustainable transport, the built environment, water and waste management, and 'other' recipients.

In addition to a lack of information about what is driving their performance, banks rarely report on the real-world impact of their financing activity.

Just five banks in our sample provide information on the capacity of renewable energy that their finance has supported, while three disclose the efficiency of the housing they have financed. This means that, while we have inputs and outputs in the form of sustainable finance and financed emissions targets, stakeholders are missing a crucial detail – what is happening in the real economy.

The lack of impact reporting could incentivise banks to fire as much finance as possible into projects and businesses that generate a return and can be labelled ‘green’. The problem with this is that not every green project or business is equally impactful. A renewable project built on cheap, isolated land could be more profitable than one built close to a centre of energy demand, where land is expensive. If renewables developers and their financiers blindly follow this incentive for cheap land, a clustering of energy generation far from where it is needed can overload the grid and mean many megawatts go to waste.⁴⁷ Investigating and reporting on the output of renewable energy projects will not in itself eliminate these kinds of perverse incentives. However, it will allow banks that aspire to leading practice to bring public attention to trade-offs between profitability and impact, integrate this into their decision-making, and leverage their power as advocates and conveners to help generate solutions.



Leading practice

CaixaBank Group estimates the installed energy capacity of the renewable energy projects that it finances each year.⁴⁸ In 2023, this totalled 5,345 megawatts across €1.2 billion worth of new projects. This is an important step in the right direction and exceeds the level of information that most banks in our sample provide.

However, a focus on capacity could also present an over-optimistic view of how banks’ financing of renewable energy is replacing fossil fuels. Peaks and troughs in the rollout of renewables have seen periods in specific regions or countries where overinvestment in generation and underinvestment in the grid causes renewable energy generators to curtail their output.⁴⁹ This means they transfer less to the grid than their installed capacity. Notably for CaixaBank Group, curtailment rates for solar farms in some regions of Spain averaged 9% in 2022.⁵⁰

3.3. Connecting reporting on decarbonisation targets and sustainable finance targets could tackle perverse incentives and give stakeholders a clearer view of banks’ climate impacts

Almost none of the banks in our sample explicitly connect their reporting against decarbonisation and sustainable finance targets. This is a missed opportunity. Reporting financed emissions and sustainable finance in isolation not only gives a partial view of how a bank is transitioning; it can actively distort perceptions of the bank’s performance.

It can be useful to think of sustainable finance and financed emissions as inputs and outputs of banks’ transitions. Banks put more sustainable finance into the economy, but it is not always obvious what climate impact results from this. On the other hand, financed emissions are the

output from lots of different actions by the bank; however, it is not clear what these actions were and how they contributed.

The most obvious challenge with siloed reporting of performance on sustainable finance and decarbonisation targets is that an increase in financing to companies that are at the start of or midway through their transition plans can lead to a short-term increase in financed emissions. To avoid this disincentive, it is critical that banks report how their sustainable finance connects through to their decarbonisation performance – for example, by reporting how much sustainable financing contributed to changes in exposure to a given sector.

Connecting sustainable finance reporting to financed emissions disclosures has the added benefit of verifying that, over the long-term, the bank's strategy for financing green businesses and companies in transition is leading to a real decrease in greenhouse gases. Similarly, it provides evidence to stakeholders that falling financed emissions are being driven – at least in part – by a real change in financing activity.

Sector case studies



Sector case studies

The following case studies are only intended to illustrate the findings covered in this report. They don't reflect all aspects of banks' targets and strategies for the sectors discussed.

Power generation

Power generation is the biggest hammer in the transition toolkit. As well as being responsible for one-third of global emissions, it enables electrification of numerous other high-emitting sectors, from transport to agriculture, and housing to heavy industry.⁵¹ Shifting the economy to clean electricity involves a simple equation – replace fossil fuel power with zero-carbon alternatives, mainly renewables.

Historically, bank finance has supported a power system built on fossil fuels. The 60 largest banks provided US\$6.9 trillion to fossil fuels between 2016 and 2023.⁵² However, maintaining this flow of finance is becoming increasingly risky for the banking sector. As efforts to decarbonise the global economy eat into fossil fuel demand, oil and gas assets are expected to be surplus to requirements. This risk has prompted both the Bank of England⁵³ and European Central Bank to issue warnings about impairment rates for fossil fuel financing.⁵⁴ Meanwhile, research by the New York Fed has cautioned that the increasing credit risk associated with fossil fuel financing could have an outsized effect on banks' share prices.⁵⁵

Banks not only need to consign fossil fuel financing to the past; they also have an essential role to play in a clean energy future. Calculations by the ETC suggests that US\$1.1 trillion of annual capital investment in renewables is required to keep global warming below 1.5C. This figure represents 31% of all capital investment required for the transition – by far the largest single area of development.⁵⁶ Reaching that level of spending means doubling renewables investment by 2030.⁵⁷ As a critical provider and mobiliser of capital, banks are key. Renewable energy companies and utilities issued US\$370 billion of debt related to the energy transition in 2023 alone, and will need to ramp this up as the decade progresses.⁵⁸ However, banks' financing activity is currently far from what is needed for the transition. BNEF data shows that just 42% of banks' financing of energy supply in 2022 was low-carbon.⁵⁹ Using a narrower definition of clean energy,^{viii} research by Profundo for Sierra Club suggests that the share was even lower, at 7% between 2016 and 2022.⁶⁰

Almost all banks cover the power sector in their decarbonisation and sustainable finance targets, but sustainable finance targets specific to the sector are rare.

viii The scope of BNEF's analysis is broader in that it covers 12,000 companies (Profundo's covers around 380) and includes activities that are not widely seen as green (e.g. biomass, nuclear, carbon capture and storage). Profundo focuses on renewable energy and excludes these activities.

Banks clearly recognise the central role of power generation in a successful transition to net-zero. Every bank in our sample has set a power decarbonisation target, while all except for Danske Bank and UBS have sustainable finance targets covering the sector.^{ix}

However, only a third of sustainable finance targets that apply to power generation apply specifically to the sector. The other two-thirds are part of high-level sustainable finance targets, which include renewable energy as part of a long list of eligible activities. Those banks leading the way on sectoral targets include BNP Paribas, Crédit Agricole and ING. BNP Paribas has said that it wants 80% of its credit exposure for energy production to be low-carbon energy by 2028 – a proportion equivalent to €40 billion of exposure. This rises to 90% by 2030. The bank is also aiming for renewables to make up 66% of its power generation portfolio by 2025, which is equivalent to €30 billion of exposure.⁶¹ Crédit Agricole intends to triple the financing provided by its Energy & Transitions business between 2023 and 2030 to €3 billion per year, reaching a cumulative €19 billion over the course of the decade. The bank is also aiming to increase the exposure of its Corporate Investment Bank to low-carbon energy to 80% between 2020 and 2025.⁶² It states that “financing of renewable energies will be multiplied by 3 overall by 2030, and the production financed (TWh) by 3.6”.⁶³ Finally, ING is committed to tripling its annual renewable energy financing to €7.5 billion between 2022 and 2025.⁶⁴

Importantly, these targets implicitly or explicitly align with net-zero transition scenarios. BNP Paribas’ renewable energy target was set using the IEA NZE scenario, while Crédit Agricole and ING’s targets both approximate that same scenario’s requirement for renewables capacity to triple by 2030.

Banks are committed to increasing renewable energy financing but fail to justify whether this is enough to meet demand.

While BNP Paribas, Crédit Agricole and ING have made explicit commitments, support for renewable energy is broader than just these banks. The high-level targets set by others in our sample implies a substantial increase in renewables financing over the course of the decade. However, without granularity from banks about their current sustainable finance performance and their plans to finance the transition, it is difficult to judge whether their commitments are adequate. Banks should be planning to meet at least their fair share of the renewable energy sector’s projected demand for finance. Otherwise it is hard to claim they have a target at all – they are simply riding on the coattails of the sector’s growth.

We analysed the commitments made by the 14 banks in our sample whose sustainable finance targets could be converted into an annual amount. From this annual amount we estimated the volume of renewables financing we expect each bank to provide (see Methodology).

ix ABN Amro had set a €4 billion target by 2025 which isn't included in our analysis as it has already been met. The bank has set a new €10 billion target by 2030 in 2024 which isn't included in our analysis as it was set after our research cut-off date (see Methodology).

We estimate that the 14 banks in our sub-sample will dedicate approximately US\$74 billion per year to renewable energy financing. Given that approximately half of renewable energy investment is financed through debt,⁶⁵ the financing required per year is expected to be approximately US\$640 billion.⁶⁶ Therefore, our sub-sample is committed to providing roughly 12% of the global need.

This 12% seems like a large number. However, we cannot say with confidence whether it amounts to a fair share of the renewable energy sector's demand for finance. Our sample represents 17% of the assets held by the world's 100 largest banks.⁶⁷ This does not mean our sample's fair share should be exactly 17% of global need. On the one hand, the universe of institutions that could meet the debt requirements of renewable energy companies is larger than just the 100 largest banks. On the other hand, financing will not translate to renewables investment on a 1:1 basis. This is because most sustainable finance targets are measured using flows of capital. Financing and refinancing is all added up to meet banks' targets, whereas only financing contributes directly to new renewable energy projects and infrastructure. These two factors mean our banks' fair share could be slightly more or slightly less than 17% of global need—17% is simply the best publicly available proxy.

Not only is the benchmark for a fair share uncertain, but banks' commitments to finance renewable energy are difficult to calculate from current disclosures. There is a large margin for error involved in estimating how banks' current targets could translate into renewables financing because of the large number of assumptions stakeholders are required to make.

Why are we at pains to highlight the uncertainties in estimating banks' implied commitments to renewables financing? The painfulness is part of the point. It should not take numerous calculations and rough estimates for stakeholders to understand a bank's plan for renewable energy. This clean source of power is a critical enabler of transition strategies for everything from the automotive sector to steel and aluminium. The successful scaling of renewables is, therefore, central to risks and opportunities across banks' portfolios.

Banks should also be able to substantiate that their commitment to renewable energy reasonably approximates their fair share of demand. For a target to truly be a target, a bank needs to provide more finance than if it had not made the commitment. Since the renewable energy sector is in a period of rapid growth, banks' financing will naturally expand. Therefore, if a bank is not capturing at least its fair share of this growth, it is under-financing the sector – even if the absolute amount of finance it provides is still quite large.

Banks lack a plan for infrastructure that enables the rollout of renewables.

It is right that banks place renewable energy at the centre of their finance strategies. However, they may face difficulties allocating this finance without investment in enabling infrastructure like electricity grids and storage. Analysis by the IEA shows that delaying the development of electricity grids would slow both the build-out of renewables and the phase-out of fossil fuels. Compared to the Announced Pledges (1.7C) Scenario (APS), this 'Grid Delay Case' causes

emissions to be 2.5 times higher by 2050.⁶⁸ IEA forecasts suggest annual investment in grids needs to increase 11% by 2030, while investment in battery storage needs to rise by 25%.⁶⁹ However, investment in grid infrastructure has stagnated, rising just 3% per year on average since 2020.⁷⁰

Banks are currently under-financing enabling infrastructure relative to renewable energy. Estimates by the ETC,⁷¹ IEA⁷² and CPI⁷³ suggest that grids and storage should make up 38–47% of combined investments in power generation and infrastructure. While it is difficult to obtain reliable data on banks' financing of power infrastructure, disclosures required under the EU Taxonomy Regulation suggest that, on average, grids and storage represent just 24–27% of clean energy financing, versus 73–76% for electricity generation⁷⁴ (see Methodology). Banks are not far off meeting the lower boundary of what is required for enabling infrastructure. However, by continuing to underserve this area of the energy transition, they could be hampering their core goal: increasing finance to renewable energy.

Unfortunately, banks' sustainable finance targets are not set up to help them bridge the financing gap for enabling infrastructure. The absence of sector-specific targets makes it hard for banks to explain how they will navigate the complexities of the energy transition. Their reporting lacks the detail to explain how they will both finance renewable energy and ensure adequate support for the array of enabling infrastructure needed for that renewable energy to be profitable. Without this detailed strategy, it is not clear how banks will meet their decarbonisation targets for power generation, which is covered at a sectoral level by every bank in our sample.

Banks' lack of granular sustainable finance targets for the power generation sector is made worse by the uneven coverage of their sustainable finance frameworks, which define the activities banks can count towards their sustainable finance targets. Renewable energy is listed as eligible by all the banks in our sample that disclose their frameworks. However, grid infrastructure is eligible for just 53% of targets, while energy storage is covered in only 50% of cases. Banks may legitimately wish to distinguish grid infrastructure and energy storage from activities in their sustainable finance frameworks, given that their 'greenness' depends on whether the power being transmitted or stored is fossil-fuel-based or renewable. However, this does not stop them identifying grids and storage as priority sectors for financing, reporting on their support, and comparing this to the needs implied by their sustainable finance targets. Infrastructure financing is not always easy for banks. The Basel III reforms certainly constrain their ability to back long-term projects, while government support can play a critical role in making some opportunities viable. However, by at least setting a renewable energy financing target and discussing what this implies in terms of infrastructure investment, banks would be able to identify where they can act and where they need to engage partners and policy makers.

Banks need to shift finance from fossil fuels to renewables, but their targets don't match up.

The energy transition involves shifting capital from polluting to clean power sources. This shift should be captured by banks' decarbonisation and sustainable finance targets. However, as

previous sections of this report have shown, the two cannot be easily compared. One of the clearest discrepancies between the two types of target is the way banks account for capital markets activities. As shown in Section 2, most sustainable finance targets include the share of finance that banks helped their clients to raise by underwriting, managing or arranging share offerings, bonds or syndicated loans. This is completely different for decarbonisation targets. Capital markets activities are usually not included in emissions calculations. In the rare cases when they are, banks such as Barclays and HSBC apply a weighting of 33% to their decarbonisation targets, but retain a 100% weighting for sustainable finance.

Banks continue to facilitate major oil and gas deals. Barclays, BNP Paribas, Crédit Agricole, Deutsche Bank, HSBC and Societe Generale all supported at least one of the five largest fossil fuel bonds of 2023.^{x,75} Banks are also facilitating deals for the oil and gas companies that are least prepared to transition. These are companies ranked at the bottom end of Carbon Tracker's ratings for transition preparedness, which covers their capital expenditure, sanctioned projects, production plans, emissions targets and executive remuneration policies.⁷⁶ They include ConocoPhillips – a company for whom 87% of capital expenditure is incompatible with a moderate (1.7C) transition. Or Occidental, where 30% of capital expenditure even pushes beyond anticipated demand in a slow (2.4C) transition.⁷⁷

Barclays and HSBC were involved in the most deals with these poorly performing companies. Since the start of 2023, both banks have supported bonds for ConocoPhillips, and Occidental. Barclays has also supported Devon Energy and EQT, while HSBC has supported Saudi Aramco. Similarly, we find BBVA supporting ConocoPhillips and Occidental, and Standard Chartered supporting ConocoPhillips, Aramco and Occidental. Meanwhile, Santander acted on a bond for Petrobras.⁷⁸ None of these three banks include capital markets activities in their decarbonisation targets, but do include them in their sustainable finance targets.

Residential real estate

Decarbonising homes will benefit the planet and people, but the sector faces headwinds.

Buildings are responsible for about a quarter of energy-related emissions globally.⁷⁹ The residential real estate sector contributes over 60% of these emissions, primarily through the burning of fossil fuels for heating and generating electricity to run appliances. That's before accounting for the emissions released to produce construction materials, such as cement and steel.

Housing is also a basic human need, and making homes more sustainable presents an opportunity not only to combat climate change, but also to address inequalities. Poor insulation, draughty homes and difficulties paying energy bills have serious implications for people's health, social inclusion and quality of life.⁸⁰ Over 41 million people in the EU

x BNP Paribas has announced it will no longer participate in conventional bonds issuance from companies in the oil and gas sector active in exploration and production. Similarly, Crédit Agricole has stated that it will no longer participate in untargeted bond issues that do not comply with its green bond framework.

were unable to keep their homes adequately heated in 2022.⁸¹ Between 13% and 24% of households across the UK face energy poverty.⁸²

Solutions to reduce emissions in the residential real estate sector already exist. However, there are challenges in rolling them out at the pace needed, starting with cost. In the IEA NZE scenario, 2.5% of existing residential buildings in advanced economies are retrofitted each year, as investment in buildings nearly triples by 2030.⁸³ The number of heat pumps installed also triples, and every new construction is zero-carbon ready by that date. Yet renovations and installation of heat pumps slowed in 2023, and investment is expected to decline further in 2024.⁸⁴ This is mostly driven by higher costs and interest rates, as well as countries rolling back regulation or scrapping incentives.

Banks can't do it alone, but they have an important role to play in making homes more sustainable.

Most retrofits are currently financed through owners' equity, and investments are mainly made by wealthier households.⁸⁵ Government policies are essential to making clean energy technologies more accessible to all. But banks have an important role to play too. For example, banks can provide green mortgages to incentivise homeowners or prospective buyers to invest in energy efficiency through lower interest rates, additional borrowing capacity or other incentives.⁸⁶ Banks can also help address other key barriers, such as low levels of awareness among homeowners and lack of reliable data on the energy performance of a property. Banks also have compelling reasons to support residential real estate decarbonisation. For many of them, real estate is among their largest exposures.⁸⁷ The challenge that lies ahead is enormous – around 75% of the EU building stock is energy inefficient,⁸⁸ and the UK housing stock is one of the oldest and worst insulated in Europe.⁸⁹ For the 12 banks in our sample subject to the Corporate Sustainability Reporting Directive (CSRD), just 7% of mortgages on average meet the EU Taxonomy's definition of environmentally sustainable.

Banks seem eager to mobilise sustainable finance but lack a cohesive plan for residential real estate.

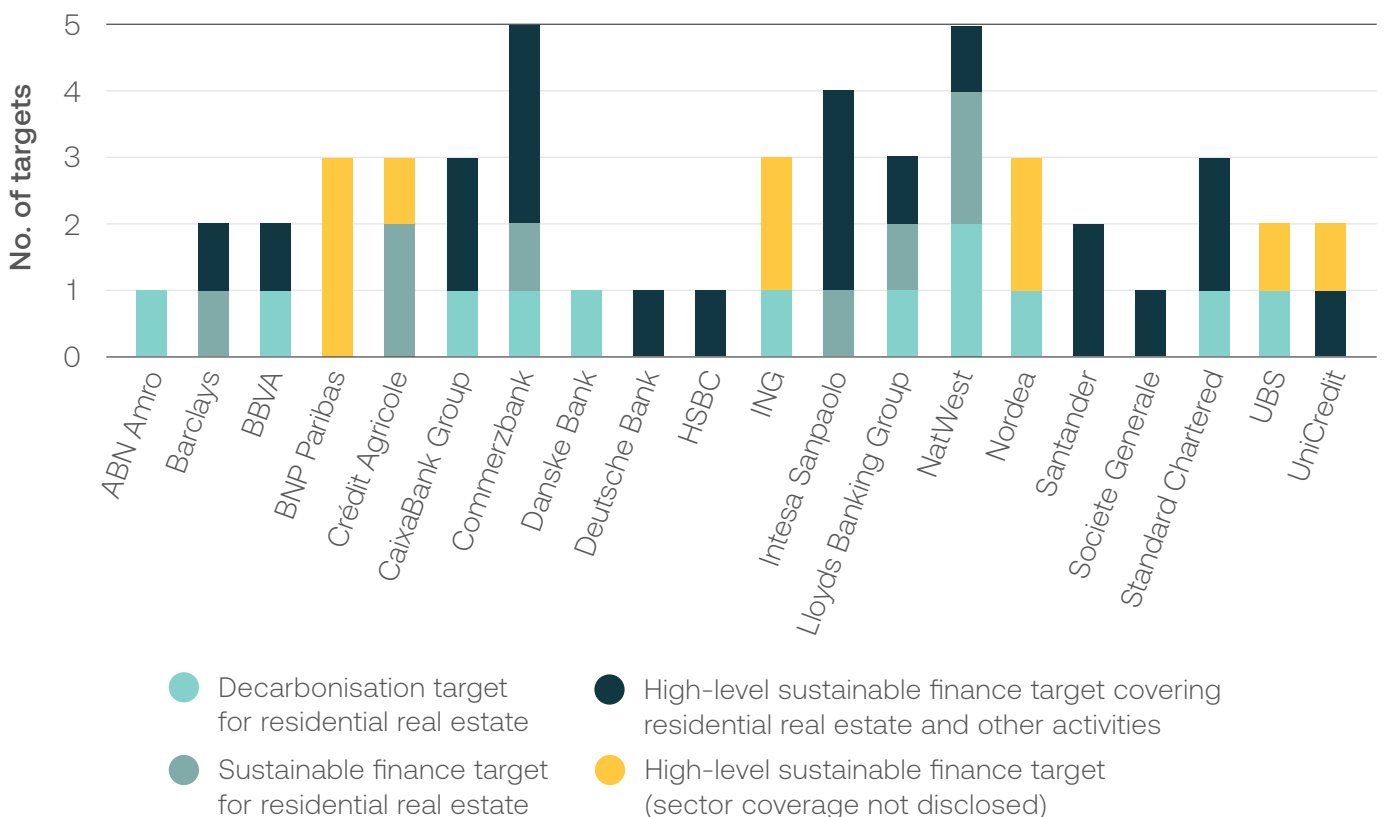
Among the 20 banks covered in this report, 14 have set sustainable finance targets that explicitly cover residential real estate (Figure 13). Another five banks have set more generic targets that might cover this sector. Overall, residential real estate is the third most covered sector in sustainable finance targets, after energy and transport.

This is encouraging. However, it is difficult for stakeholders to judge whether these targets are sufficiently ambitious to decarbonise this sector. Only six banks have set specific sustainable finance targets for residential real estate, and only eight disclose how much financing they are providing when reporting on progress. None of the banks that have set targets have clearly explained how they quantified them, and for more than 80% of targets it is not possible to compare the target to a baseline.

Banks also seem slightly less eager to commit to reducing emissions in their residential real estate portfolios. Eight banks haven't set decarbonisation targets for residential real estate, despite having set sustainable finance targets that cover this sector. This is problematic, because at present sustainable finance products, such as green mortgages, mainly focus on the small number of properties that are already highly energy efficient.⁹⁰ If sustainable finance targets are not explicitly supporting a decarbonisation objective, banks might only aim to reward buyers for purchasing existing homes that are already green.

One bank (Intesa Sanpaolo) that hasn't set a decarbonisation target for residential real estate is expecting to set such a target. The other seven banks (Barclays, BNP Paribas, Crédit Agricole, Deutsche Bank, HSBC, Santander, Societe Generale and UniCredit) pointed to difficulties in setting such targets due to an unfavourable regulatory environment, reliance on other stakeholders including property owners and construction companies, and/or data quality issues. These are genuine concerns, and relevant stakeholders should take note. However, we believe that setting ambitious and coherent targets while outlining dependencies sends a clearer signal to policy makers, regulators, and companies operating in the real estate sector. It also incentivises banks to use their influence in ways that connect these critical actors and help remove obstacles to a net-zero transition.

Figure 13: Many banks have set sustainable finance targets that cover the residential real estate sector, but these tend to be generic. Several banks also refrain from setting decarbonisation targets.



Source: ShareAction analysis of the climate targets published by the 20 largest listed European banks.

Banks' sustainable finance targets for residential real estate likely fall short of what is needed to achieve net-zero.

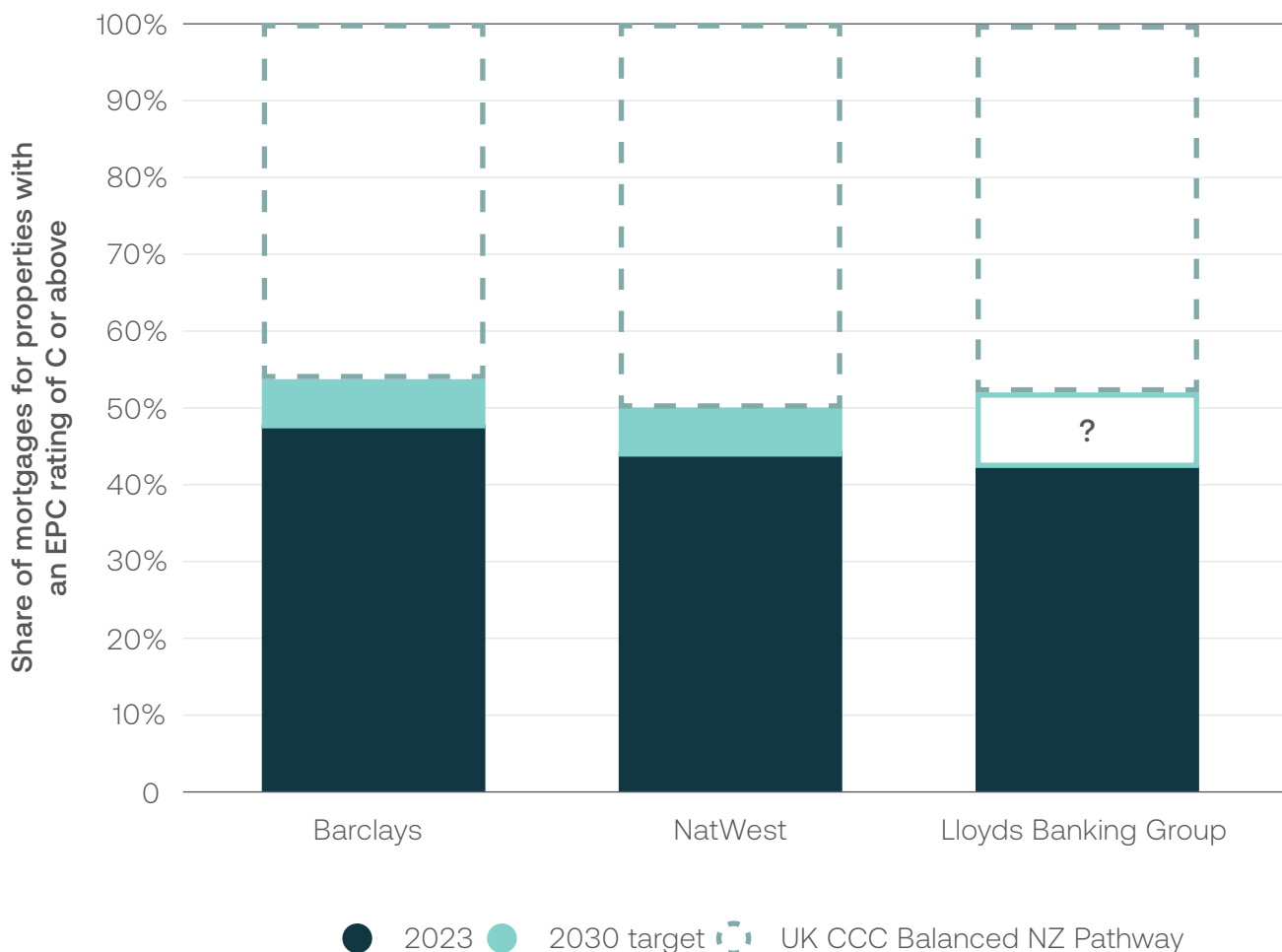
As mentioned above, six banks in our sample demonstrate leading practice as they have set specific sustainable finance targets for the residential real estate sector. We applaud their leadership, but caution against these targets' lack of clear methodology and coherence with decarbonisation targets. We reviewed the targets set by the three UK banks in this leading practice group and found that they are likely to fall short of a net-zero ambition. As climate targets for residential real estate are typically set at the national level, focusing on these three banks allowed us to make meaningful comparisons.

- Barclays aims to have 55% of properties and collateral in scope of its UK housing portfolio with an EPC rating of C or above by 2030.⁹¹
- Lloyds Banking Group aims to provide £10 billion of mortgage lending for properties with an EPC rating of A or B between 2022 and 2024.⁹²
- NatWest aims to provide £10 billion in lending towards residential mortgages with EPC rating of A or B between 2023 and 2025, and to have 50% of its mortgage portfolio with an EPC rating of C or above by 2030.⁹³

Lloyds Banking Group and NatWest have also set decarbonisation targets for the residential real estate sector using the UK Climate Change Committee's Balanced Net Zero Pathway as reference scenario. In this scenario, homes with mortgages achieve EPC C between 2030 and 2035, and rented homes achieve EPC C between 2027 and 2030.⁹⁴ Barclays and NatWest's targets fall dramatically short of that ambition (see Figure 14). Whether these targets are a game changer for these banks is also unclear. Around 44% of NatWest's residential mortgages were rated EPC C or above at the end of 2023, from a starting point of 36% in 2021. Assuming a linear progression, the bank would largely outperform its 50% target. Similarly, around 48% of Barclays' mortgages were rated EPC C or above as of Q3 2023 when the bank set its target, and this covers only a portion of the bank's portfolio – Barclays reports that around 34% and 40% of its total residential and buy-to-let balances achieve a rating of EPC C or higher, respectively, as of Q3 2023.

Government policy doesn't necessarily incentivise banks to align with the UK Balanced Net Zero Pathway either. The UK government scrapped a scheme to help households insulate their homes,⁹⁵ and there are uncertainties around a plan to require rental properties to have an EPC rating of C or higher⁹⁶ – a key milestone in the Balanced Net Zero Pathway.

Figure 14: UK banks demonstrate leading practice as they have set specific sustainable finance targets for residential real estate, but their targets fall short of a net-zero ambition (Barclays, NatWest) or can't be benchmarked against net-zero goals (Lloyds Banking Group)



Source: ShareAction analysis of the climate targets published by Barclays, NatWest, and Lloyds Banking Group. Mortgages reported as of end of 2023 for NatWest and Lloyds Banking Group, and Q3 2023 for Barclays.

We are not able to determine if Lloyds Banking Group's target to provide £10 billion of mortgage lending for properties with an EPC rating of A or B in 2024 is sufficiently ambitious and material to the bank. To our knowledge, the Balanced Net Zero Pathway doesn't provide a reference point to assess this target. The bank hasn't disclosed a baseline either, i.e. the amount of financing it was providing before setting the target. It reports the EPC distribution of its mortgage book at the end of 2023 (with 6% of mortgages rated A or B), but the target is expressed as a flow, while the reporting is based on a stock of mortgages.

Another issue is that these three banks and others in our sample don't report on the proportion of sustainable financing for residential real estate that comes from refinancing. Barclays and

NatWest have set targets in relative terms, which mitigates this issue. But Lloyds Banking Group could well meet part of its £10 billion target by simply refinancing existing mortgages rated A or B. As noted in our 2023 report on banks' green finance targets, evidence suggests that only a fraction of green finance volumes relates to new assets.⁹⁷ For example, we found that 93% of mortgages in UBS' 2022 green funding allocation report came from refinancing.



Action is needed now to prevent carbon lock-in and stranded assets in the steel sector.

Steel is all around us – in buildings, cars, railways, washing machines, the list goes on. Steel is also here to stay – it is used in many technologies supporting the energy transition, from wind turbines to advanced manufacturing processes.⁹⁸ Producing one tonne of steel emits less carbon today than it did a few years ago, but total CO₂ emissions from steelmaking continue to rise, largely due to an increase in demand for this material.⁹⁹ Steel now accounts for 7% of global emissions, so the sector needs to decarbonise quickly as demand continues to grow, especially in the Global South.

What makes steel such a large contributor to global emissions is its reliance on fossil fuels. Around three-quarters of steel is produced by reacting coking coal with iron ore in blast furnaces.¹⁰⁰ More sustainable ways to produce steel include recycling steel scraps – especially in the Global North, where these scraps are more abundant – and reacting green hydrogen with iron ore before its melted in an electric arc furnace (a process known as 'Direct Reduced Iron with Electric Arc Furnace' or 'DRI-EAF').

The ETC estimates that an additional US\$10 billion per year should be invested to make steelmaking net-zero emissions by 2050.¹⁰¹ This relatively small number doesn't include the US\$540 billion investment per year needed to develop sufficient low-carbon power generation capacity and enabling infrastructure to electrify industry. While these investments are becoming increasingly attractive, decarbonising steel is challenging because technologies such as DRI-EAF are nascent and highly capital intensive. This means that, at present, they are not always cost competitive or within the risk appetite of financial institutions.

Nevertheless, rapid action is needed – a typical steel plant has a lifespan of 40 years, and many assets face major reinvestment decisions in the 2020s.¹⁰² Developing new blast furnaces could come at high cost as demand for sustainable steel increases and polluting assets face becoming stranded assets. The emergence of this risk would see companies forced to write down the value of their production facilities.¹⁰³ It would also come at a high cost for the climate, as emissions are locked in for decades.

Banks' primary lever to support steel decarbonisation is through transition finance.

Steel production is dominated by diversified companies that are primarily involved in high-carbon steel.¹⁰⁴ This includes the likes of ArcelorMittal and Nippon Steel, who rely on coal for around 70% of their production. Few players specialise in sustainable steel production or recycling (12 out of the 100 largest producers). Research by Reclaim Finance also shows that only 1% of bank financing to the steel sector is 'dedicated' financing¹⁰⁵ – i.e. where banks directly fund a steel plant as opposed to funding the company owning and operating it. As such, banks' primary lever to support steel decarbonisation is through transition finance.

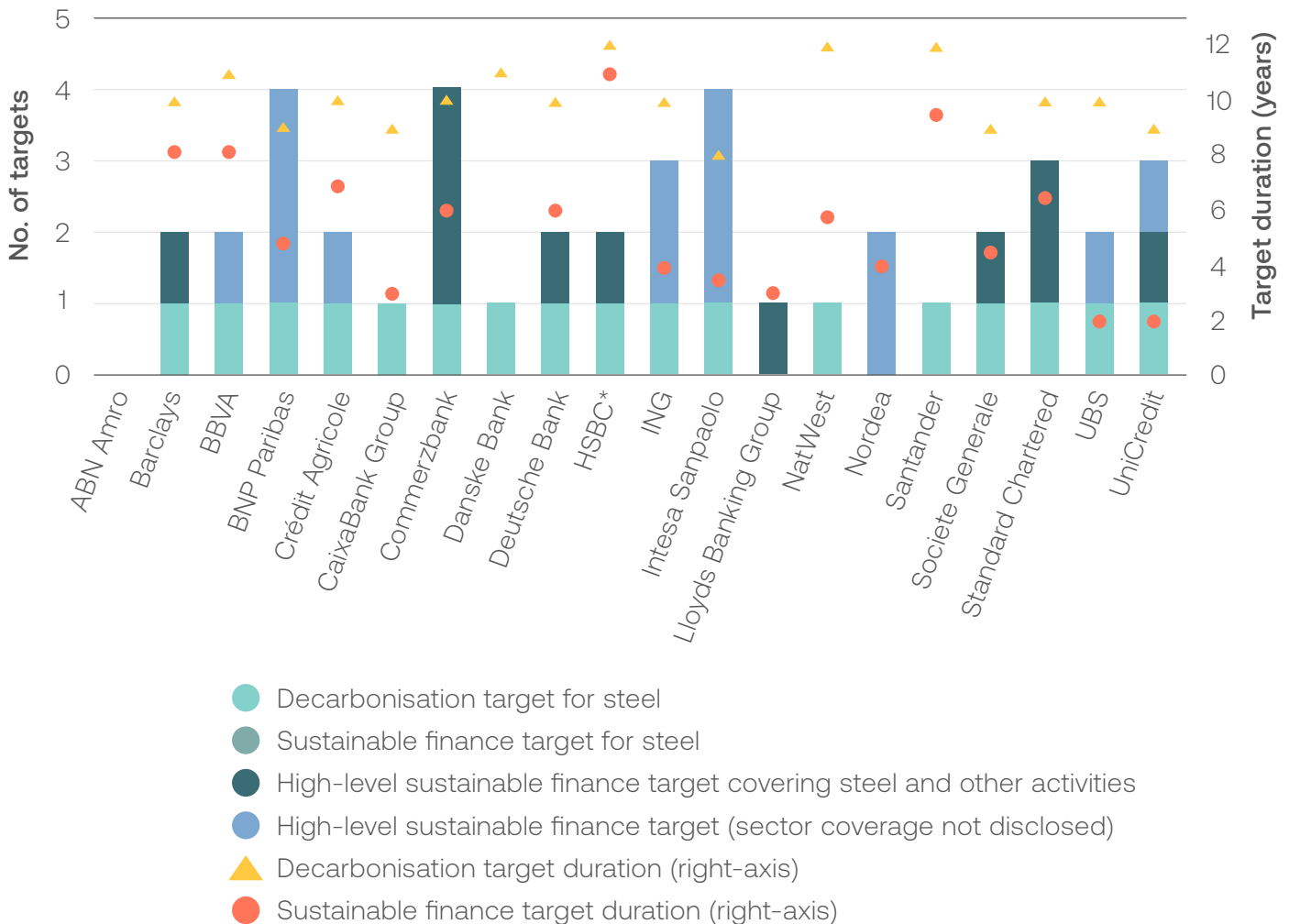
Banks' decarbonisation targets are not backed by a plan to mobilise financing or reporting on the financing they provide to help the steel sector transition.

The banks covered in this report have made important commitments to address emissions in the steel sector. Seventeen banks have set decarbonisation targets for their steel portfolios, and another bank (ABN Amro) has indicated that it plans to set such a target.

However, there is a risk that banks are aiming to reduce emissions in their portfolio without a clear plan to ramp up financing for sustainable steel. No bank in our sample has set a sustainable finance target for this sector. Eight banks have set high-level sustainable finance targets that explicitly cover steel among other activities, and seven banks have set generic targets without disclosing what activities are covered (see Figure 15). Unlike their steel decarbonisation targets, which are based on climate scenarios, banks have set these sustainable finance targets without disclosing a methodology. None of these banks disclose how much of their sustainable financing goes to steel, or to the technologies to electrify industry. In addition, banks have set decarbonisation targets for steel over 10 years, while their sustainable finance targets are set over five years on average.

ING has been leading the way on steel portfolio decarbonisation, notably by supporting the development of the Sustainable STEEL Principles.¹⁰⁶ However, not even this bank, which has shown such interest in decarbonising steel, has a transparent and coherent plan to achieve that goal. ING's CEO notes that challenges in aligning the bank's portfolio with science-based pathways include "the long lead-time in scaling new technology solutions in sectors like [steel]".¹⁰⁷ The bank has set a portfolio alignment target over 10 years and a high-level sustainable finance target over four years with no indication as to how much funding it intends to provide, or it is providing, to help scale these solutions.

Figure 15: Most banks have set vague and shorter-term sustainable finance targets to support their decarbonisation targets for the steel sector



Source: ShareAction analysis of the climate targets published by the 20 largest listed European banks. *HSBC's decarbonisation target covers steel and aluminium.

Banks' high-level sustainable finance targets are unlikely to shift sufficient capital to decarbonise steel.

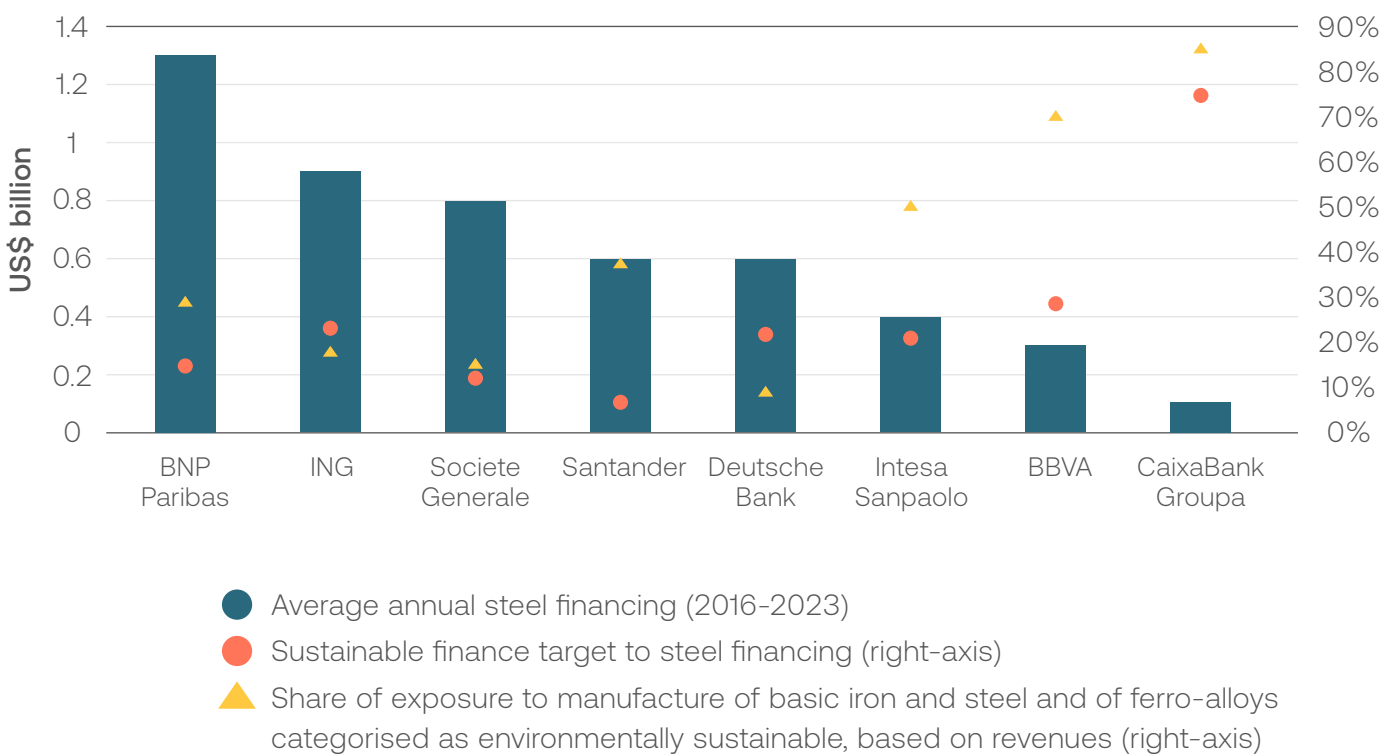
We estimated the proportion of their high-level sustainable finance targets that banks could allocate to the steel sector and compared this to their historical financing of steel production, using data collected by Reclaim Finance (see Methodology). For banks disclosing this information, we compared this proportion with their current exposure to sustainable steel production, as categorised under the EU Taxonomy.^{xi} We find that the share of sustainable financing banks are intending to provide is either lower than or similar to their current share of exposure to sustainable steel production (Figure 16).

^{xi} For the purpose of this analysis, we use banks' share of exposure to manufacture of basic iron and steel and of ferro-alloys considered environmentally sustainable under the EU Taxonomy.

For example, BNP Paribas – the largest European financier of steel and a financial backer of companies developing new coal-based capacity, such as ArcelorMittal, POSCO Holdings and Jindal Group¹⁰⁸ – could provide 14% of its steel financing in the form of sustainable finance while its current share of exposure to sustainable steel is 29%. ING, the third largest European financier,¹⁰⁹ could provide 23% of its steel financing in the form of sustainable finance while its current share of exposure to sustainable steel is 18%.

There are caveats to this analysis, including the fact that sustainable finance targets mainly cover labelled financing – such as green bonds sustainability-linked loans – and financing for ‘pureplay’ companies that derive most of their revenues from sustainable steel. As such, our estimate might not fully reflect how much financing could be allocated to sustainable steel. But whereas Reclaim Finance’s bottom-up estimate is adjusted for diversified companies’ exposure to steel production, our top-down estimate is not. This means our estimate could overstate how much financing is provided for steelmaking. Data from EU Taxonomy reporting also gives an imperfect proxy, as it only covers a subset of banks’ exposure and is geographically biased.

Figure 16: The share of sustainable financing that banks could allocate to the steel sector is either lower than or similar to their current share of exposure to sustainable steel production



Source: ShareAction analysis of the climate targets published by the 20 largest listed European banks (see Methodology). Historical data on banks’ steel financing from Reclaim Finance. Some banks are excluded from this analysis as there wasn’t sufficient information or their targets didn’t fit our methodology.

We recognise that it might be challenging for banks to set specific targets for activities that are not yet mature and deployed at scale, such as DRI-EAF. However, this doesn't prevent them from reporting how much financing they are providing in support of steel decarbonisation. None of the banks in our sample do, which leaves stakeholders having to come up with estimates that inevitably involve a certain amount of guesswork. In a positive move, several banks including Barclays, HSBC and Societe Generale have set specific targets to allocate funding to enabling and early-stage technologies that support industry decarbonisation. However, without detailed disclosure, specific impacts for steel are not clear.

Insufficient reporting on the impact of decarbonisation targets on the real economy adds further uncertainty about how banks will decarbonise their steel portfolios.

Eight out of nine banks that disclose how their steel portfolio currently compares to their emissions-reduction objectives seem to be on track to achieve these objectives. However, none of these banks clearly explain what is driving these emissions reductions, such as financing (e.g. changes in exposure), clients' emissions or technical factors (e.g. attribution factors used in carbon accounting). The only bank that does provide this information (ING) reports that its portfolio is currently slightly misaligned, but its stakeholders are able to assess what is driving performance – in this case an improvement in clients' own performance and, to a lesser extent, a reduction in its exposure.¹¹⁰

However, not even ING discloses how much of its changing exposure is attributable to sustainable financing. Financed emissions have been criticised for not being forward-looking, and additional reporting on what drives their increase or decrease could partly alleviate these concerns. This would be particularly valuable for the steel sector, where banks' primary lever of influence is transition financing at the corporate level. Sustainable finance targets are mostly set up to finance steel clients that are already green ('pureplays') or to provide labelled sustainable financing based on specific use-of-proceeds. None of the banks in our sample condition sustainable financing on clients having a credible transition plan with clear and robust criteria, such as no expansion of coal-based steel production. A breakdown across categories of sustainable finance (e.g. dedicated financing and clients with credible transition plans) could improve the credibility and usefulness of financed emissions disclosures.

Overall, the lack of transparent and coherent reporting across decarbonisation and sustainable finance targets for steel portfolios prevents stakeholders from assessing a bank's strategy for the sector and how it performs. Steel production is declining in Europe, and there is a risk that banks could simply achieve their decarbonisation targets by reducing exposure to the sector.

Conclusion



Conclusion

The 275 live decarbonisation and sustainable finance targets reviewed in this report reflect banks' plans for the future. Such plans are – at best – fragmentary. A gulf exists between decarbonisation and sustainable finance targets. Banks have committed to cutting emissions without a clear and robust strategy for financing the transition. Instead, we are presented with targets that might look good on paper, but in practice are disconnected from the real economy.

The impact on emissions reduction from banks' climate targets is often obscured, or at worst illusory. But these targets can also be transformative. Banks have the resources, the networks and the influence to help shape the future – to create the conditions for a new green economy and all the opportunities it brings.

This paper has shown that, to achieve their potential and help banks navigate the complexities of the net-zero transition, targets must be ambitious, transparent and coherent. This means banks need to align all relevant financing activities with 1.5C warming scenarios. They need to provide transparent methodologies and report on what is driving progress. Crucially, they have to design their decarbonisation and sustainable finance targets to cover the same scope of products and services, using the same basis of accounting, and over similar timeframes. Only then can banks show how sustainable finance will pave the way for decarbonisation, and validate, through emissions reporting, that their approach is delivering results.

Target setting is just the start of a bank's climate journey. Each target must be effectively implemented by the bank, alongside expansive engagement to help create the conditions for success. However, we should not understate the importance of target setting. One target in isolation may only express a bank's intentions. But with a system of targets that are ambitious, transparent, and coherent, banks have a plan to deliver change.

Appendices



Appendix 1: Mapping our framework against existing standards

	Decarbonisation		Sustainable finance	
	Criteria	Examples of overlapping standard(s)	Criteria	Examples of overlapping standard(s)
High-level Targets covering all relevant asset classes	HD1	NZBA: Guideline 1 SBTi: 1.2.1	HS1	IFRS S2: 28(c) SBTi: 3.2.1
	HD2	ESRS: E1 34(a), E1 34(d) NZBA: Guideline 1	HS2	ESRS: E1 AR 12, E1 AR 13" to "ESRS: E1 AR 12(c), E1 AR 13 SBTi: 3.2.1
	HD3	ESRS: E1 34(a), E1 AR 23" with "ESRS: E1 34(a), E1 44, E1 AR 23 SBTi: 2.1.3	HS3	SBTi: 3.2.1 IFRS S2: 29
Sectoral Targets covering specific sectors or activities	SD1	NZBA: Key principles, Guideline 1 SBTi: Table 3, 4.3.1	SS1	ESRS: E1 16(b), E1 AR 30, E1 AR 81
	SD2	NZBA: Key principles, Guideline 1 SBTi: Table 3, 4.3.1	SS2	ESRS: E1 16(b), E1 AR 30, E1 AR 81
	SD3	ESRS: E1 16(a), E1 AR 2, E1 AR 26 NZBA: Guideline 3 SBTi: 4.3.2	SS3	IFRS S2: 29
	SD4	NZBA: Guideline 1 SBTi: 2.1.1 ESRS: E1 34(b)	SS4	ESRS: E1 16(b), E1 AR 30, E1 AR 81
	SD5	NZBA: Guideline 1 SBTi: 2.1.1	SS5	ESRS: E1 16(b), E1 AR 30, E1 AR 81
	SD6	SBTi: 2.1.1	SS6	ESRS: E1 AR 12, E1 AR 13 TPT: DF 4.1.c
	SD7	IFRS S2: Appendix B62(b)(ii)	SS7	
	SD8	ESRS: E1 34(a), E1 AR 23		
Additional disclosures	AD1	SBTi: 5.1.1 ESRS: E1 16(b), E1 AR 30 TPT DF: 4.3.l.ix	AS1	ESRS: E1 16(b), E1 AR 30, E1 AR 81
	AD2	NZBA: Guideline 1 SBTi: 4.3.1 TPT: Banks 2.2	AS2	TPT: Banks 4.1, Banks 4.2
			AS3	TPT: DF 4.1.c, Banks 4.2
Cross-cutting recommendations	CC1			
	CC2			
	CC3	SBTi: 3.2.1 NZBA: Guideline 1		

Reflection in existing standards: ● Strongly reflected ● Moderately reflected ● Weakly reflected ○ Not reflected

ESRS	European Sustainability Reporting Standards
IFRS S2	IFRS Sustainability Disclosure Standard: S2 Climate-related Disclosures
NZBA	UNEP FI Guidelines for Climate Target Setting for Banks Version 2
SBTi	SBTi Financial Institutions Net-Zero Standard Consultation Draft V0.1 July 2024
TPT DF	TPT Disclosure Framework
TPT Banks	TPT Banks Sector Guidance
HD1	Commit to net-zero emissions by 2050.
HD2	Set interim target in absolute (emissions) terms.
HD3	Report progress annually in absolute (emissions) terms.
HS1	Set interim target in relative (percentage) or absolute (financing) terms.
HS2	Disclose a methodology for how the interim target was quantified relative the banks' net-zero commitment and/or historic financing of activities responsible for climate change.
HS3	Report progress annually in relative (percentage) and absolute (financing) terms
SD1	Set interim target for oil and gas in absolute (emissions or financing) terms and phase-out target for thermal coal.
SD2	Set interim target(s) for all relevant sectors in relative (emissions intensity) or absolute (emissions or financing) terms.
SD3	Use 1.5C reference scenarios to set targets.
SD4	Cover all relevant segments and emissions scopes in targets, including scope 3 emissions and methane for fossil fuels.
SD5	Cover all relevant financing activities, including lending and capital markets facilitation.
SD6	Apply 100% weighting to capital markets facilitation.
SD7	Include drawn and undrawn portion of loans.
SD8	Report progress annually in absolute (emissions) terms.
AD1	Disclose breakdown across key drivers of financed emissions: changes in exposure (A); clients' emissions (B); technical factors (e.g. attribution factors) (C).
AD2	Disclose a methodology for how activities not deemed material have been excluded.
SS1	Set interim target for energy in relative (percentage) or absolute (financing) terms.
SS2	Set interim target(s) for other relevant sectors covered by decarbonisation targets in relative (percentage) or absolute (financing) terms.
SS3	Report progress for sectors covered by decarbonisation targets annually in relative (percentage) and absolute (financing) terms.
SS4	Set interim target(s) and/or report progress for enabling infrastructure annually in relative (percentage) or absolute (financing) terms.
SS5	Set interim target(s) and/or report progress for enabling and early-stage technologies annually.
SS6	Disclose a methodology for how the interim target(s) was quantified relative to the banks' sectoral decarbonisation targets or a scenario compatible with 1.5C of warming with low overshoot.
SS7	Report real-economy impact annually where relevant and possible, starting with energy.
AS1	Disclose how sustainable financing contributes to key driver (A) for relevant sectors covered by decarbonisation targets.
AS2	Disclose breakdown across types of sustainable financing, including dedicated financing (e.g. use of proceeds and pureplay companies) and general corporate purpose financing subject to specific conditions (e.g. credible transition plan).
AS3	Disclose what activities are in scope of targets and the criteria used to define what constitutes sustainable finance.
CC1	Set decarbonisation targets and sustainable finance targets over similar timeframes, unless otherwise justified through a transition plan.
CC2	Set decarbonisation targets and sustainable finance targets for the same scope of products and services (e.g. lending and capital markets facilitation) and using the same basis of accounting (e.g. loan indicator for lending and weighting for capital markets facilitation).
CC3	Set separate targets for different financing activities (e.g. lending and capital markets facilitation), and/or report on these activities separately, if the basis of accounting is different (e.g. different weightings or modelling one activity as a stock and the other one as a flow).

Appendix 2: Methodology

This analysis features the 20 largest listed European banks, including banks headquartered in the EU, the UK and Norway. We selected banks based on their total assets according to the S&P 2024 list of the world's 100 largest banks.¹¹¹ This resulted in the following sample of banks: ABN Amro, Barclays, BBVA, BNP Paribas, Crédit Agricole, CaixaBank Group, Commerzbank, Danske Bank, Deutsche Bank, HSBC, ING, Intesa San Paolo, Lloyds Banking Group, NatWest, Nordea, Santander, Societe Generale, Standard Chartered, UBS, UniCredit.

The research cut-off date for this analysis was 31 May 2024. Any commitments or disclosures made after that date are not reflected in the findings.

We developed a framework to collect data on banks' decarbonisation and sustainable finance targets based on our 2022 banking survey and our report, *Green ambitions, grey realities: European Banks' journey from pledges to practice*. Further scoping work was conducted in 2024, involving interviews with representatives of banks, investors, NGOs, and other experts and practitioners. This framework was tested on five pilot banks and then revised to ensure it could effectively standardise and compare targets across our sample.

The findings and statistics included in this report rely on information available in the public domain. Banks were permitted to provide non-public information only where this was non-material and for the specific purpose of clarifying statements made in public disclosures.

We collected data from public disclosures, including annual reports, TCFD reports, sustainability reports, non-financial reports, pillar 3 disclosures, sustainable finance frameworks, and transition plans. We subsequently shared the data with banks, which were given 10 working days to review it and provide comments. In cases where banks' comments required further clarification, we shared follow-up questions directly with bank representatives. All banks verified the data (100% response rate).

Our analysis focuses on banking. We therefore excluded targets and disclosures related to asset management except where these were aggregated with banking activities. We also excluded banks' operational targets, such as reducing their office energy use or planting trees. Idiosyncratic targets aimed at emerging technologies or developing economies, such as setting up an equity fund to support green innovation or increasing renewables financing in Southeast Asia, were captured as additional information but not part of our main database.

Both decarbonisation and sustainable finance targets were identified using the broad definitions outlined in 'Banks' climate targets and why they matter'. Some targets were included even if the bank used a different terminology, such as 'ambition' or 'initiative'. Targets expressed in terms of ratios or alignment and encompassing high-carbon and low-carbon activities (e.g. clean energy ratios, share of EVs in portfolio) were recorded as 'sustainable finance'. We took this decision because these targets were usually expressed as 'increasing financing for a green activity',

even though they can be met by reducing financing to a polluting activity. To be considered as targets, decarbonisation and sustainable finance metrics had to be communicated with an end date. Decarbonisation and sustainable finance disclosures that were not connected with a target were not considered as part of our analysis. We categorised phase-out targets as decarbonisation targets and assessed them as such. However, except in ‘The current landscape for climate targets’, we excluded these targets from the graphs and statistics included in the report because they are driven by financing policies and are often not directly comparable with other decarbonisation targets

In numerous instances, we counted the number of targets meeting a specific criteria to produce figures and statistics. Our approach was to treat targets with a parent-child relationship as two separate targets. For example, a bank might wish to reduce emissions 25% by 2025 and 50% by 2030. We would count this as two targets, unless otherwise stated.

As part of the analysis in this report, we produced a series of specific estimates. The methodology for these calculations is as follows.

Standardising sustainable finance targets

Banks’ sustainable finance targets are often not directly comparable as they cover different activities and are set over different timeframes. Where possible, we standardised targets to account for different scopes and duration. We only standardised high-level targets expressed in absolute financing terms and as financing flows. We were not able to standardise other types of targets, such as those expressed as a stock. Focusing on high-level targets expressed as a financing flow also enables us to compare these targets against fossil fuel financing flows. We standardised the high-level sustainable finance targets set by 14 banks in our sample.

Standardising the scope of targets involved estimating what portion of the target would be allocated to green activities (when the target also covered other sustainability themes) and what portion of the target would be allocated to financing activities (when the target covered other products and services). In both cases, we proceeded as follows: when the bank had disclosed a breakdown of sustainable financing across sustainability themes and products, we used that breakdown to adjust the target. When the bank had not disclosed a breakdown, we applied a factor. For sustainability themes, we applied factors based on historical data available in the public domain. For financing activities, we applied factors based on the average allocation in our sample among banks that disclosed this information. For four banks (Deutsche Bank, ING, Nordea and Societe Generale), we applied an additional discount, as they account for more than their pro-rata share of capital markets facilitation (e.g. total deal value instead of pro-rata share across bookrunners). To adjust for different durations, we annualised targets by dividing the adjusted volume by the number of years where the target was expressed as a cumulative amount over a period. For targets expressed as annual amounts (ING), we didn’t adjust for duration.

The following tables provides a summary of the factors we applied and the standardised amount for each bank.

Description	Factor	Source
Thematic breakdown of sustainable debt	Green: 49%; Social: 11%; Sustainability: 12%, Sustainability-linked: 29%	IEA ¹²
Share of 'sustainability-linked' issuances with KPIs related to green activities	83%	S&P Global ¹³
Share of 'sustainability' issuances attributable to green activities	50%	ShareAction's best estimate
Share of bank financing activities not related to lending, investment or capital markets facilitation.	14%	Average allocation among banks disclosing a breakdown of financing across products and services
Discount applied to capital markets facilitation for banks reporting total deal value instead of pro-rata share	50%	Refinitiv Eikon (based on average number of bookrunners in sustainable debt issuances in 2023)

Bank	Announced target (US\$ billion eq.)	Share of green activities (%)	Share of financing activities (%)	Duration (years)	Standardised target (US\$ billion eq.)
Barclays	1000	49%	98%	8	60.4
BBVA	330	78%	92%	8	29.6
BNP Paribas	605 ^{xii}	41%	95%	4	55
CaixaBank Group	74.8	73%	95%	3	17.5
Deutsche Bank	550	78%	53%	6	38.3
HSBC	875 ^{xiii}	77%	89%	11	54.1
ING	139.7	78%	58%	n/a (annual)	64.1
Intesa Sanpaolo	96.8	100%	100%	4	24.2
Lloyds Banking Group	38.1	78%	100%	3	10
NatWest	127	78%	100%	5	19.9
Nordea	220	78%	50%	4	21.6
Santander	242	100%	59%	12	11.9
Societe Generale	330	65%	58%	4	31.1
Standard Chartered	300	78%	93%	10	21.8

xii BNP Paribas has set three high-level targets (€200 billion, €150 billion and €200 billion) which partially overlap. We made several assumptions as to how these targets overlap based on clarifications provided privately by the bank.

xiii HSBC aims to provide and facilitate between US\$750 billion and US\$1 trillion of sustainable finance and investment by 2030.

Comparing standardised sustainable finance targets to fossil fuel financing

We sourced fossil fuel financing data from the 2024 Banking on Climate Chaos report.¹¹⁴ To estimate how much financing banks would provide if they divided their fossil fuel financing in half, we halved their average fossil fuel financing between 2019 and 2023. This is because the IEA discusses changes in fossil fuel investment between 2020 and 2030, but 2020–2021 is likely to be an outlier in bank’s fossil fuel financing due to the COVID-19 pandemic.

We estimated banks’ fossil fuel financing in 2030 using two methods:

- Extrapolation: we calculated the average annual growth rate (AAGR) between 2016 and 2023 for each bank and applied it to their 2023 financing.
- Regression: we built a linear regression model to predict fossil fuel financing in 2030, based on historical data between 2016 and 2023. Fossil fuel financing data is volatile for several banks in our sample and directly applying a linear regression was not justified. To smooth out volatility, we applied a log transformation to the financing data. We then predicted financing in 2030 by running a linear regression on the transformed data, and converted the predictions back to the original scale by applying an exponential transformation. We compared our results with a linear regression based on three-year and five-year moving averages. Our findings were very similar, but two additional banks (Deutsche Bank and ING) align with the IEA’s 10:1 clean energy to fossil fuel investment ratio when using three-year moving averages (as opposed to getting close with the log scale).

Comparing changes in financing and financed emissions connected to the oil and gas sector

We identified 15 banks in our sample who had: set targets for the oil and gas sector in terms of absolute financed emissions; disclosed their performance in the base year; and reported more than one year of performance data. We extracted the base year and most recent reporting year, allowing us to measure the decline in financed emissions since the target was set. We then compared this to financing data from Banking on Climate Chaos covering the corresponding period for each bank.¹¹⁵ For all banks except Barclays and HSBC, this financing data covered lending only. For Barclays and HSBC, it included underwriting weighted by 33% to match the banks’ targets.

Forecasting banks’ annual renewable energy financing under existing targets

We analysed the commitments made by 14 banks in our sample, whose sustainable finance targets could be converted into an annual green finance amount using the same methodology

as in ‘Standardising sustainable finance targets’^{xiv}. From this annual amount we estimated the volume of renewables financing we expect each bank to provide.

Three banks – CaixaBank Group, NatWest and Santander – report annual financing for renewable energy. We used this figure without adjustment.

One bank – Societe Generale – disclosed its annual clean energy financing. This was multiplied by a factor of 89%, reflecting the IEA’s 2024 estimate of renewables in the clean power investment mix (renewables, clean fuels and nuclear).¹¹⁶

Three banks provided enough information on their sustainable finance activity to derive bank-specific adjustment factors. For CaixaBank Group’s Portuguese business, we assumed the proportion of finance directed to renewable energy would be the same as in its Spanish business.¹¹⁷ We therefore multiplied its estimated annual green financing by an adjustment factor of 29%.

For Standard Chartered, we divided the bank’s total renewable energy assets by the sum of its total green assets and a small portfolio of projects classified as both green and socially sustainable.¹¹⁸ This generated a 16% adjustment factor.

Finally, for Commerzbank, we divided the value of the bank’s renewable energy portfolio by the sustainable finance it recorded in 2023 under its loan products target for corporate clients.¹¹⁹ The renewable energy portfolio is counted as a stock in this target, alongside flows to sustainability-linked loans and KfW sustainability-linked programmes. Since reported stock is likely to be lower than reported flows of sustainable finance, our estimate for Commerzbank’s renewable financing is conservative. The adjustment factor we derived from this process was 11%.

For the remaining eight banks in our sub-sample, we multiplied estimated annual green finance by a 20% adjustment factor. This was derived through a multi-step process using data from the CPI and IEA. We first calculated the share of investment in the clean energy system (clean fuels, nuclear, renewables, storage, and electricity networks) allocated to renewable energy in 2022 (58%).¹²⁰ We multiplied this by the CPI’s estimate for the amount of sustainable finance commercial financial institutions provided to energy systems in 2022 to generate an estimate for commercial financial institutions’ renewable energy financing.¹²¹ We then divided this figure by CPI’s estimate for all climate finance provided by commercial financial institutions in 2022,¹²² giving our final 20% adjustment factor.

Once all estimates for annual green financing had been multiplied by their adjustment factors, we aggregated the estimates for renewable energy financing to generate a sample-wide total. We compared this to an estimate for annual financing need, which was calculated

xiv Banks in the sample included: Barclays, BBVA, BNP Paribas, CaixaBank Group, Commerzbank, Deutsche Bank, HSBC, Intesa Sanpaolo, Lloyds Banking Group, NatWest, Nordea, Santander, Societe Generale, and Standard Chartered.

by multiplying the IEA's figure for annual renewable energy investment under the net-zero emissions scenario by the share of that investment met through debt in 2023 (50%).¹²³

Estimating the proportion of banks' green finance for the power sector directed towards grids and storage

We collected data reported by the EU-based banks in our sample under the EU Taxonomy Regulation. This sub-sample covered 14 banks. Specifically, we analysed the Green Asset Ratio (GAR) sector information required through template 2 of Article 8 of the Disclosures Delegated Act. We recorded information from both revenue-based and capital-expenditure-based versions of the disclosures.

Using the four-digit NACE codes included in template 2, we were able to identify activities directly connected with renewable energy, grids and storage. These included: manufacture of electronic components (C26.11); manufacture of electric motors, generators and transformers (C27.11); manufacture of electricity distribution and control apparatus (C27.12); manufacture of engines and turbines (C28.11); production of electricity (D35.11); transmission of electricity (D35.12); and distribution of electricity (D35.13).¹²⁴ We then isolated the gross carrying amount for each of these sectors considered 'environmentally sustainable' under the EU Taxonomy's climate change mitigation category. By summing all sectors together, we generated an estimate of green finance for each bank to the energy sector. Within this, we were able to calculate the proportion of gross carrying amount directed to production of electricity compared to all other activities.

The purpose of this estimate was to obtain a rough indication of how banks are allocating green finance between renewable energy generation and key enabling infrastructure. The estimate lacks precision due to the limited scope of disclosures under the EU Taxonomy Regulation. For example, lending towards small and medium-sized entities and to enterprises outside of the EU is only included in the denominator of the GAR. This means these entities are not counted as being environmentally sustainable, whatever their profile.¹²⁵ Moreover, the EU Taxonomy's requirements that an activity make a substantial contribution to sustainability and do no significant harm are difficult to meet. The stringency of these requirements means that many transactions that could be considered 'sustainable' under other frameworks are excluded from disclosures.¹²⁶ Finally, a number of the NACE codes we include within the scope of our analysis could apply to multiple activities, not all of which are directly related to power generation. We only included NACE codes where we could credibly assume that the majority of the finance considered sustainable does apply to power.

Even if GAR data underestimates banks' support to the green economy, we assume that the proportion between renewable generation and enabling infrastructure presented in these disclosures is representative of the banks' broader financing activity.

Comparing standardised sustainable finance targets to steel financing

We estimated what proportion of their high-level sustainable finance targets banks could allocate to the steel sector by applying the factors below. As we wanted to compare this proportion to banks' share of exposure to manufacture of basic iron and steel and of ferro-alloys considered 'environmentally sustainable' under the EU Taxonomy, we only conducted this analysis for banks that are subject to EU Taxonomy disclosures. We also excluded Nordea from this analysis as it didn't report any exposure to this sector in its EU Taxonomy disclosures.

Description	Factor	Source
Share of steel in sustainability-linked issuances	0.76%	Climate Bonds Initiative ¹²⁷
Share of industry in use-of-proceeds bond issuances	1.93%	Climate Bonds Initiative ¹²⁸
Share of steel investment in industry	14.29%	Energy Transitions Commission ¹²⁹
Share of steel in use-of-proceeds bond issuances	0.28%	Based on share of industry in use-of-proceeds bond issuances and share of steel investment in industry
Weighted average share of steel in use-of-proceeds and sustainability-linked bond issuances	0.32%	Based on share of steel in sustainability-linked issuances and share of steel in use-of-proceeds bond issuances, weighted by volume

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ShareAction is an independent charity and an expert on responsible investment. We work to build a world where the financial system serves our planet and its people. We set ambitious standards for how financial institutions, through their investment decisions, can protect our planet and its people and campaign for this approach to become the norm. We convene shareholders to collectively push companies to tackle the climate crisis, protect nature, improve workers' rights and shape healthier societies. In the UK and EU, we advocate for financial regulation that has society's best interests at its core.

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