

# Green Ambitions, Grey Realities:

European Banks' journey  
from pledges to practice



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# Executive summary



# Executive Summary

**Banks play a critical role in mobilising green finance, but efforts to redirect financing away from polluting activities remain insufficient. Meanwhile, regulatory pressure is intensifying as claims of greenwashing mount.** Banks' green finance targets and disclosures have not benefited from the same level of scrutiny as carbon-related ones, and guidance remains limited in this area. This makes the direction of travel difficult to gauge. Emerging research suggests that most banks are not allocating enough financing to green activities relative to their financing of fossil fuels. Various greenwashing cases have put banks' sustainability claims under the spotlight, and regulatory pressure is intensifying through the roll-out of taxonomies and reporting requirements. Banks must adjust swiftly to this environment and ensure their green finance targets and disclosures are sufficiently robust and transparent.

ShareAction assessed how the 20 largest listed European banks – including those headquartered in the EU, the UK, Norway, and Switzerland – set green finance targets and report on green financing. Our analysis focuses on banking activities and excludes asset management ([see Methodology](#)). We show that banks' green finance targets and disclosures are not fit for purpose and could lead to misleading claims.

The report includes examples of leading practice and recommendations for banks and investors engaging with banks. We do not seek to define what type of financing, sectors, and activities should be categorised as green finance; rather we aim to identify guardrails to make green finance targets and disclosures sufficiently robust and transparent. For this reason, the scope of the report is deliberately broad and covers both 'green' and 'transition' finance across labelled and unlabelled instruments (see [What we mean by green finance targets and disclosures](#)).

## Key findings

- 1 Banks actively promote their green finance credentials through a range of targets and disclosures. This is not synonymous with transparency and ambition.** The lack of guidance and agreed methodologies for green finance targets and disclosures does not seem to deter banks from advertising their green finance credentials. All the 20 largest European banks already report on green finance activity across a range of metrics, and all of them except UBS have set at least one green finance target. The number of green finance targets and disclosures, as well as their monetary value, are not necessarily an indicator of transparency and ambition. Some smaller targets can be transparent or specific, while some larger targets can be vague or broad.
- 2 Most green finance targets fail to demonstrate how they will put banks on a path to alignment with net-zero by 2050.** This is because:



**2.1. Most banks don't publish a methodology for their green finance targets and rely on metrics that are incomplete.** Only four of the 20 banks we assessed disclose some form of methodology for how they have quantified some of their green finance targets. For the others, the approach seems to be based on a backward-looking assessment (how much has been achieved to date as opposed to how much should be achieved in the future), a perceived competitive advantage, and/or a loosely defined contribution towards a climate goal. In addition, most targets are based on metrics expressed in absolute monetary terms with no clear link to the bank's 'fair share' (for example, based on the bank's size, geographic footprint, alignment with sectoral roadmap, and/or historic financing of activities responsible for climate change). The lack of transparent methodology and metrics makes it difficult to ascertain if green finance targets can lead to the intended goal.

**2.2. Most banks include products and services unrelated to financing and/or aggregate banking and asset management in their green finance targets.** For example, BBVA's target to mobilise €300 billion in sustainable financing by 2025 covers structured deposits, and HSBC's ambition to provide and facilitate US\$750 billion to US\$1 trillion of sustainable finance and investment by 2030 includes asset management. Targets combining 'financing' (i.e. lending, proprietary investment, capital markets facilitation) with a broader range of products and services are difficult to compare with the amount of capital banks need to provide or facilitate on the path to net-zero. They can also lead to misleading claims, as consumers will likely interpret 'green finance' as 'providing funds'.

**2.3. Banks' green finance targets often combine climate with other sustainability-related themes and are rarely set at sector level.** While action to combat climate change can help to achieve other Sustainable Development Goals, bundling various sustainability themes without setting sub-targets makes it difficult to assess how quickly banks are expecting to align their financing activities with 1.5C pathways. In addition, green finance targets are rarely set at sector level. Sectoral targets can give banks an opportunity to elaborate on their climate strategy, for example by signalling the extent to which they intend to rely on growth and transition to decarbonise sectoral portfolios.

**2.4. Banks' green finance targets might not lead to sufficient financing being provided to less mature mitigation technologies, adaptation, and/or to countries in the Global South.** While financing for mature climate solutions in the energy, transport, and buildings sectors is being rightly prioritised, other key areas urgently need funding. It is encouraging that climate adaptation and a range of mitigation activities are eligible for inclusion in banks' green finance targets. However, whether this leads to actual financing being provided is unclear. Most targets are generic, and banks rarely provide a sectoral breakdown when reporting on progress. In addition, most green finance targets are not tied to specific countries or regions, and banks don't tend to provide a geographic breakdown when they report on progress. It is therefore likely that financing volumes disclosed will be mostly directed to borrowers in the Global North.

### **3 Banks' green finance frameworks and disclosures lack transparency and could lead to misleading claims. This is because:**

**3.1. Banks rarely report on impact and additionality. Evidence suggests that only a fraction of green finance volumes relates to new assets.** The banks we assessed report on 'impact' – the outcome of financing in the real economy, such as renewable capacity installed, or energy savings achieved in buildings – for only 35% of all green finance metrics. Reporting on 'additionality' – whether financing relates to a new asset as opposed to the refinancing of an existing one – is even less common. Figures disclosed by those who report on additionality suggest that only a fraction of green finance volumes relate to new assets. For example, UBS reports that 93% of mortgages in its 2022 green funding allocation report come from refinancing. Standard Chartered explains that its sustainable finance asset base increased by 45% between July 2021 and September 2022 “largely due to the identification and tagging of US\$3.8 billion in Green Mortgages”. The lack of reporting around impact and additionality makes it difficult to assess what banks' green finance volumes truly achieve.

**3.2. Banks often combine 'green' with 'transition' finance in disclosures and fail to provide a breakdown across sustainability themes, sectors, and geographies.** For example, UBS doesn't differentiate labelled green financing from sustainability-linked financing in its disclosures. Most banks provide a breakdown of their green financing across key products and services, but reporting across sustainability themes, sectors, and geographies is scarce. This lack of granularity makes it difficult to assess progress.

**3.3. Banks don't always disclose what activities count as green, and those that do consider certain controversial activities to be eligible.** The banks we assessed transparently disclose eligibility criteria for less than half of all green finance metrics. This is either because the criteria draw from restrictive taxonomies – such as the EU Taxonomy or the Climate Bonds Taxonomy – but are not fully enforced, or because the criteria are aligned with non-restrictive frameworks, such as the International Capital Market Association (ICMA)'s Green Bond Principles. Banks that do communicate transparently on criteria for 'green' or 'transition' financing consider controversial activities such as natural gas (e.g. Crédit Agricole), nuclear (e.g. Standard Chartered), or certain sources of biomass for power generation (e.g. Deutsche Bank) to be eligible.

**3.4. Many banks don't transparently disclose the types of financing in scope of their disclosures and the accounting basis for reporting on green finance.** The banks we assessed disclose whether both dedicated financing and general corporate purpose financing are eligible for inclusion in green finance disclosures, and how they are defined, for 60% of all metrics. Disclosing this information is important to assess how much financing is provided to green assets and how much is provided to companies that banks consider green based on certain eligibility criteria (e.g. revenue thresholds). In addition, the banks only disclose accounting methods such as the loan indicator (e.g. committed amount or drawn amount) and weighting for capital markets facilitation (e.g. full share or pro-rata share) for 59% of all green finance metrics.

#### 4 **Banks use double standards for green finance and carbon-related targets and disclosures.**

They tend to take a proactive and broad approach to green finance while adopting a conservative and narrow approach to portfolio decarbonisation. This can lead to banks underestimating risks and negative impacts while overestimating opportunities and positive impacts. It can also expose them to accusations of greenwashing if stakeholders consider that this approach does not fairly reflect their sustainability profile. For example:

- **Banks' decarbonisation targets and carbon-related disclosures often cover a narrow range of products and services, while green finance targets and disclosures tend to be broad.** The former usually focus on lending and exclude other important sources of financial support such as capital markets facilitation. The only bank that currently includes capital markets facilitation (Barclays) applies a 33% weighting to its pro-rata share of facilitated amounts. On the other hand, most banks include capital markets facilitation in their green finance targets or disclosures, and all of them including Barclays apply a 100% weighting to their pro-rata share of facilitated amounts. One of them (Commerzbank) even accounts for the full amount of the transaction when it takes a leading role.
- **Banks tend to set interim targets or report on carbon-related financing at sector level and usually refrain from complementing this approach with interim overarching targets or an indication of their overall carbon footprint.** However, banks tend to set interim overarching targets or report on the overall level of green finance, while usually refraining from setting targets or reporting on green finance activity at sector level.
- **The lack of methodologies or data is often cited as a barrier to setting decarbonisation targets, but the same cannot be said for green finance targets, calling this claim into question.** Banks are often resistant to setting decarbonisation targets for some sectors (e.g. agriculture) and financing activities (e.g. capital markets facilitation) due to a lack of methodologies or data, and most interim targets are set for periods of up to 10 years. On the other hand, banks have been setting green finance targets and reporting on green financing activity for quite some time, despite similar challenges, and most green finance targets are set for periods of up to five years.

#### 5 **Banks face obstacles and challenges when providing or reporting on green finance.**

Banks can and should do more to develop robust green finance targets and metrics. However, we recognise that there are obstacles and challenges. These include incomplete regulation and reporting frameworks, lack of planning and structural barriers, and risk-return considerations hindering progress towards 'greening finance' (aligning products and services with a robust set of standards) and 'financing green' (expanding the pipeline of bankable green projects and allocating sufficient capital to these activities).



# Recommendations



# Recommendations

The climate crisis demands a rapid transition away from polluting activities and an urgent scale up of climate solutions. Banks have a key role to play in making this happen. We urge banks to act on the following recommendations.

## Target setting methodology and scope of green finance targets

- Banks should publish a methodology for how they have quantified their green finance targets. The methodology should demonstrate that targets represent the bank's fair share of green financing relative to the capital that needs to be allocated to climate mitigation and adaptation in credible 1.5C scenarios (e.g. based on the bank's size, geographic footprint, alignment with sectoral roadmaps, and/or historic financing of activities responsible for climate change).
- Green finance targets should only cover financing activities that result in the allocation or facilitation of capital by the bank. These include lending, proprietary investment, and capital markets facilitation. If a bank sets a target covering a broader range of green products and services (e.g. deposits, derivatives) or asset management activities, the target should be labelled in a way that reflects its scope and the bank should transparently communicate on the proportion that will be allocated to financing activities, so as not to mislead consumers.
- Banks should complement overarching green finance targets set across portfolios with targets set at sector or activity level, starting with the energy sector. This will provide transparency about targets' intended real-world impact and the banks' strategy to align financing with 1.5C-aligned sectoral roadmaps.

## Reporting on impact and across key dimensions of green financing

- To provide transparency on the real-world impact of their green financing, banks should report on the impact and additionality of green financing.
- Where green finance targets and disclosures are not already sufficiently granular, banks should transparently report on green financing across key products and services (financing vs non-financing), types of financing (dedicated financing vs financing for general corporate purposes), themes (green vs other sustainability themes), sectors, and geographies (at least at regional level). This will allow stakeholders to assess progress achieved.

## Disclosing eligibility criteria and accounting basis for green financing

- Banks should publish a framework(s) outlining how they determine what sectors, activities, and types of financing are included in their green finance targets and disclosures. The framework(s) should include:
  - The targets and disclosures in scope of the framework.
  - The criteria used by the bank to determine what sectors and activities are eligible, or the taxonomy (or taxonomies) it relies on. If the bank deviates from a restrictive taxonomy or relies on a non-restrictive taxonomy, it should provide a rationale and specify what criteria are used instead.
  - The criteria used by the bank to determine what types of financing (dedicated financing and/or general corporate purpose) are eligible, including any criteria used to determine if a borrower or issuer is eligible (e.g. revenue thresholds).
  - The accounting basis for reporting on green finance volumes (e.g. loan indicator and attribution rules for capital markets facilitation).

## Embedding green finance in climate strategy

- Banks should take a consistent approach across green finance and carbon-related targets and disclosures to ensure they are not underestimating risks and negative impacts while overestimating opportunities and positive impacts. Banks should:
  - set both overarching targets and sectoral targets for green finance and carbon-related targets and disclosures.
  - include both lending and capital markets facilitation in green finance and carbon-related targets and disclosures, taking responsibility for their full share (100% weighting) of capital markets facilitation attributed to them in both cases.
  - take a proactive approach to driving ambitious standards and addressing gaps across both green finance and carbon-related targets and disclosures where a lack of methodology or data challenges have been identified.
- Banks should implement robust sectoral policies for high-carbon sectors such as fossil fuels. An ambitious green finance strategy can't be a substitute for a decarbonisation strategy. Banks should implement adequate procedures to ensure green finance is provided in accordance with high environmental standards and in consideration of human rights, as climate solutions can also have negative impacts.

## Influencing green finance regulation

- Banks should disclose their position on green-related regulatory issues and membership of climate-related trade associations, and introduce a governance process to deal with any differences between their position and those of their trade associations.
- Banks should use their voice and influence to ensure that governments implement legislation that accelerates the transition to a climate and socially just world, including the removal of barriers to the scale up of green energy and technologies in a way that respects human rights.

Recommendations for regulators and standard-setting bodies such as the Net Zero Banking Alliance are beyond the scope of this report. However, they have an important role to play in driving ambitious standards for green finance, filling gaps in regulatory and reporting frameworks, and removing barriers to the scaling up of climate solutions.

# Summary table: assessment of banks' green finance targets and disclosures



# Summary table: assessment of banks' green finance targets and disclosures

Figure 1: assessment of banks' green finance targets and reporting against targets as of 30 June 2023

	Target methodology disclosed	Target covering financing activities only	Sector or activity-based target (at least one)	Reporting on impact and additionality	Reporting across key products and services	Reporting across types of financing	Reporting across sustainability themes	Reporting across sectors and activities	Reporting across geographies	Criteria disclosed for sectors and activities	Criteria disclosed for types of financing
Barclays	●	●	●	●	●	●	●	●	●	●	●
BBVA	●	●	●	●	●	●	●	●	●	●	●
BNP Paribas	●	●	★	●	●	●	●	●	●	●	●
CaixaBank	●	●	●	●	●	●	●	●	●	●	●
Commerzbank	●	●	●	●	●	●	●	●	●	●	●
Crédit Agricole	●	●	★	●	●	●	●	●	●	●	●
Danske Bank	●	●	●	●	●	●	●	●	●	●	●
Deutsche Bank	●	●	●	●	●	●	●	●	●	●	●
HSBC	●	●	●	●	●	●	●	●	●	●	●
ING	●	●	★	●	●	●	●	●	●	●	●
Intesa Sanpaolo	●	●	●	●	●	●	●	●	●	●	●
Lloyds Banking Group	●	●	●	●	●	●	●	●	●	●	●
NatWest	●	●	●	●	●	●	●	●	●	●	●
Nordea	●	●	●	●	●	●	●	●	●	●	●
Santander <sup>(1)</sup>	●	●	●	●	●	●	●	●	●	●	●
Societe Generale	●	●	●	●	●	●	●	●	●	●	●
Standard Chartered	●	●	●	●	●	●	●	●	●	●	●
UBS <sup>(2)</sup>	●	●	●	●	●	●	●	●	●	●	●
Credit Suisse	●	●	●	●	●	●	●	●	●	●	●
UniCredit	●	●	●	●	●	●	●	●	●	●	●

● Meets criteria across all targets (a star indicates that the bank has set a green finance target for the energy sector)
 ● Meets criteria across some targets or partially meets criteria
 ● Doesn't meet criteria across all targets
 ● Not applicable

Source: ShareAction analysis of the green finance targets and metrics published by the 20 largest listed European banks. The table only reflects banks' green finance targets and reporting against targets. Green finance metrics not linked to targets have been omitted for readability. Some of the criteria are conditional upon the target set. For example, if a target covers green themes only, a breakdown across sustainability themes is not applicable. If none of the targets set by a bank require additional reporting, this is marked as not applicable (grey) in the table.

(1) Our analysis of Santander's target to raise or facilitate €120 billion in green finance between 2019 and 2025 and €220 billion by 2030 assumes that it relies on the banks' Sustainable Finance Classification System (SFCS). The bank provided feedback that the target only relies on the SFCS for a subset of activities and that it excludes sustainability-linked instruments. This is not reflected in our analysis as we interpret Santander's public disclosures differently.

(2) As of 30 June 2023, UBS had not set a green finance target that qualified for inclusion in our analysis (see Methodology).



# What we mean by green finance targets and disclosures



# What we mean by green finance targets and disclosures

There is not a standard definition of ‘green finance’. This term can refer to financing provided to activities that are generally considered green, such as renewable energy, or to financing instruments that meet certain standards, such as ICMA’s Green Bond Principles. Some financial institutions use it to describe a range of products, services and strategies intended to achieve environmental goals.

This report doesn’t seek to define green finance as a concept; rather we aim to identify guardrails to make green finance targets and disclosures sufficiently robust and transparent. For this reason, the scope of this report is deliberately broad and covers any target and disclosure associated with banks’ efforts to deploy financing towards climate mitigation and adaptation<sup>1</sup>. By ‘target’, we mean a quantified objective with a specific achievement date. By ‘disclosure’, we mean reporting progress against targets and other metrics that are not linked to a target.

The targets and disclosures in scope of this report include both purely green financing (capital allocated to a specific activity, such as direct financing of a solar power plant) and transition financing (which aims to influence corporate behaviour, such as financing with an interest rate linked to an emissions reduction target for the borrower). They cover financing solely intended for climate solutions and financing where climate and broader sustainability objectives are combined. Financed emissions targets and carbon-related disclosures have been excluded from this analysis, except for comparison purposes. Banks can achieve emissions reductions by providing green finance and both concepts are complementary, but decarbonisation targets and carbon accounting rely on different metrics and belong to a separate category.

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<sup>1</sup> Mitigation refers to actions aimed at reducing or preventing the emission of greenhouse gases to reduce the impact of climate change. Adaptation refers to efforts to adjust and prepare for the changing climate by building resilience and minimising the negative effects on ecosystems, economies, and communities.

We identified the following types of green finance targets and disclosures when conducting this analysis:

<b>Type of target or disclosure</b>	<b>Examples</b> (For illustrative purposes, not intended to reflect leading practice)
Provide and/or facilitate [amount] in [sustainability-related theme, product, or sector] by [date] or over [period].	<ul style="list-style-type: none"> <li>• Raise or facilitate €120 billion in green finance between 2019 and 2025.</li> <li>• Mobilise US\$300 billion in sustainable finance by 2030.</li> </ul>
Achieve or increase exposure by [amount or percentage] in [sustainability-related theme, product, or sector] by [date] or over [period].	<ul style="list-style-type: none"> <li>• 60% growth in exposure to non-carbon energies by 2025.</li> <li>• €40 billion in credit exposure for low-carbon, mainly renewable, energy by 2030.</li> </ul>
Provide or increase financing of [technology] in [sectoral portfolio] by [amount or percentage] by [date] or over [period].	<ul style="list-style-type: none"> <li>• Share of renewables in power generation portfolio of at least 66% by 2025.</li> <li>• £10 billion in lending for EPC A and B rated residential properties between 1 January 2023 and the end of 2025.</li> </ul>
Invest [amount] of own funds in [sustainability-related theme, product, or sector] by [date] or over [period].	<ul style="list-style-type: none"> <li>• £500 million equity capital into climate-tech start-ups by end of 2027.</li> <li>• Five-year US\$100 million philanthropic initiative to identify and remove barriers to scale for climate change solutions.</li> </ul>
Allocated [amount] of issued green or sustainable bond to [sustainability-related theme, product, or sector] as of [date] or over [period].	<ul style="list-style-type: none"> <li>• €488 million out of €4.6 billion green bond issued allocated to clean transport as of 31 December 2022.</li> <li>• 48% of green bond issued allocated to green buildings as of 30 June 2022.</li> </ul>
Achieved [amount or percentage] of EU Taxonomy-eligible assets and other climate change mitigating actions not covered in the EU Taxonomy as of [date].	<ul style="list-style-type: none"> <li>• Portion of exposures to taxonomy-eligible activities in covered assets at 29% as of 31 December 2022.</li> <li>• 9.4% exposure to economic activities not included in the Taxonomy as of 31 December 2022.</li> </ul>

Our approach does not entail defining a taxonomy or criteria to classify sectors or activities as green. While we caution against the classification of certain activities as green (e.g. natural gas, nuclear energy, biomass for power generation), the objective of this analysis is to assess whether banks communicate transparently on the taxonomy and criteria they rely on, and on the financing volumes they allocate to various sectors and activities.

The table below summarises financing activities in scope of this report.

	<b>‘Labelled’ instruments</b>	<b>‘Unlabelled’ instruments</b>
<b>Financing for assets or dedicated financing<sup>2</sup></b>  <b>(‘use of proceeds’)</b>	<p>Instruments where the use of proceeds is earmarked for a specific asset and issued in accordance with certain standards, such as ICMA’s Green Bond Principles or the European Green Bond Standard. For example, green bonds, green loans and green mortgages. This report covers both certified (e.g. by the Climate Bonds Initiative) and uncertified instruments. It also covers green bonds issued by banks to fund specific activities.</p>	<p>Project finance and other types of asset finance where the use of proceeds is earmarked for a specific asset based on its intended contribution towards climate mitigation or adaptation. This may be defined in relation to a taxonomy or internal rules.</p>
<b>Financing for companies</b>  <b>(‘general corporate purpose’)</b>	<p>Instruments with unrestricted use of proceeds but with specific sustainability features. For example, sustainability-linked loans that link the interest rate to sustainability performance targets for the borrower.</p>	<p>Instruments with unrestricted use of proceeds extended to borrowers based on certain eligibility criteria such as their business mix. Eligible activities may be defined in relation to a taxonomy or internal rules. Financing for ‘pure plays’ – companies that are primarily involved in environmentally sustainable activities – is sometimes considered as dedicated financing.</p>

2 It is important to note that labelled ‘use of proceeds’ instruments such as green bonds do not directly fund assets but are instead provided to the companies that develop these assets.

# Introduction



# Introduction

## Capital is flowing towards climate solutions, but progress is uneven, and much more is needed to achieve net-zero by 2050

The low-carbon transition is underway and gaining momentum. The International Energy Agency (IEA) estimates that US\$1.8 trillion will be invested in clean energy in 2023<sup>i</sup>. For every dollar spent on fossil fuels, 1.8 dollars will have been spent on clean energy<sup>3</sup>. The IEA also predicts that 2023 will be the first year in which investment in solar power exceeds investment in upstream oil production, and Ember forecasts that all growth in electricity demand will be covered by low-carbon sources by the end of the year<sup>ii</sup>.

These are encouraging signs, but aligning clean energy investment with levels required in net-zero scenarios is a monumental task. Clean energy investment climbs to US\$4.5 trillion a year by 2030 in the IEA's Net Zero Emissions scenario (NZE), with a clean energy to fossil fuels investment ratio reaching 10 to 1 by the end of the decade (Figure 2). Among other obstacles (Section 5), the oil & gas industry is not playing its part<sup>4</sup>. The sector's net income coincidentally reached a record high of US\$4 trillion in 2022, but half of the oil & gas companies' cash flow is going back into fossil fuel supply and only 1% on low-carbon capital expenditure<sup>iii</sup>.

Progress achieved to date on clean energy is uneven. Investment is heavily concentrated in developed economies, which are leaving emerging countries behind, despite climate goals being only achievable if countries act collectively<sup>iv</sup>. And while investment in renewable energy supply is increasing exponentially, investment in other areas – such as energy efficiency and energy end-use in buildings – is more muted<sup>v</sup>.

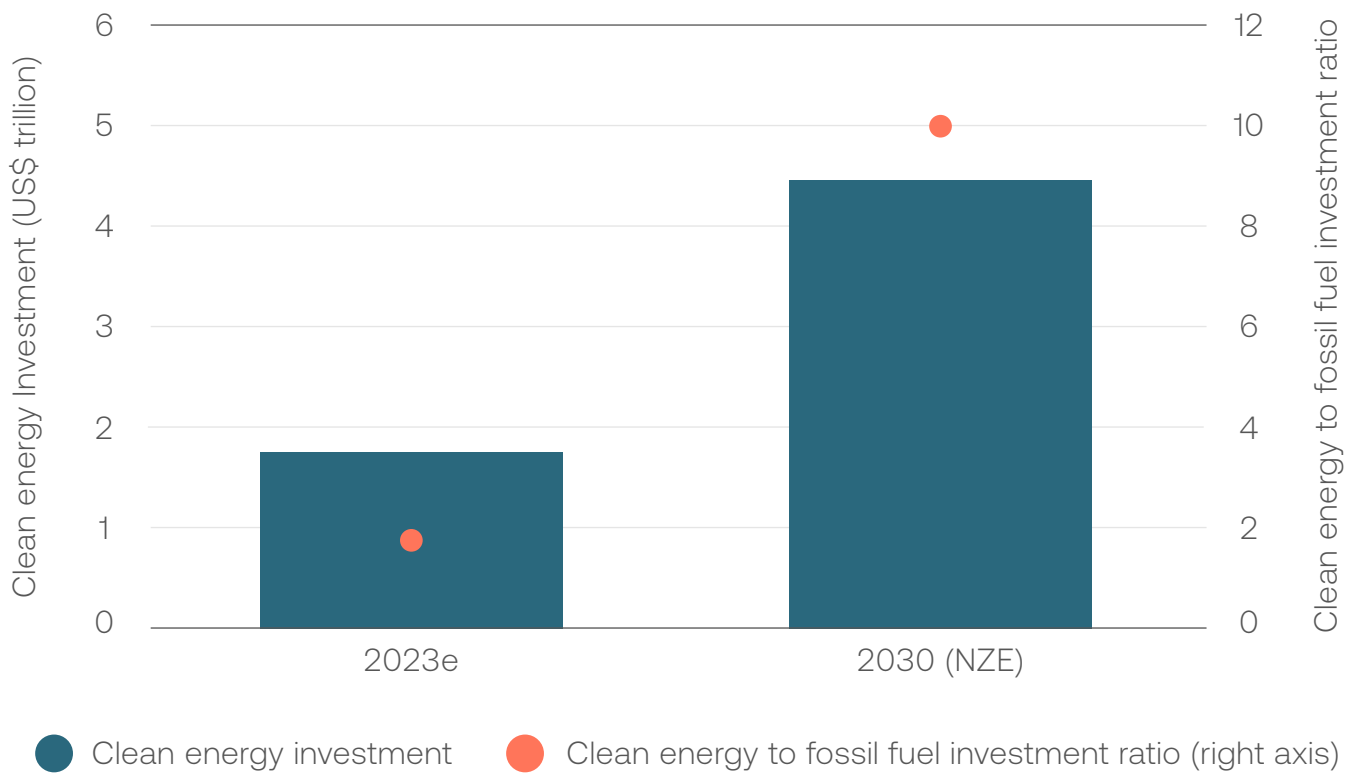
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3 The IEA's definition of clean energy covers a range of supply- and demand-side technologies. The level of clean energy investment to fossil fuels ratio is therefore much higher than BNEF's estimates discussed later in this section, as these only cover supply.

4 Some debate whether it should play a role at all.



Figure 2: Clean energy investment reaches US\$4.5 trillion a year by 2030 in the IEA Net Zero Emissions scenario, outstripping fossil fuel investment by a factor of 10 to 1



Source: IEA, Net Zero Roadmap (2023).

Even if temperature rise is limited to 1.5C, the physical impacts of climate change will continue to intensify well into the 21st century<sup>vi</sup>. As extreme weather events such as droughts and floods become more frequent, investment in adaptation and resilience is now a pressing issue in many parts of the world, including Europe<sup>vii</sup>. Yet climate finance mostly focuses on mitigation efforts while adaptation receives less attention, according to the Intergovernmental Panel on Climate Change (IPCC)<sup>viii</sup>. Finance for adaptation increased by 53% to US\$46 billion in 2019–20<sup>ix</sup> – the public sector provided almost all of it – yet US\$160–340 billion is needed annually by 2030<sup>x</sup>.

## Bridging the climate investment gap not only minimises risks – it can bring benefits while advancing broader societal goals

The IPCC finds with high confidence that mitigation and adaptation actions this decade would reduce future losses and damages for humans and ecosystems<sup>xi</sup>. These losses could be high – Swiss Re estimates that if no action is taken to curb climate change, global GDP could be cut by as much as 14% by 2050 compared to a world without climate change<sup>xii</sup>.

Near-term climate action to mitigate these impacts involves high upfront costs and disruptive changes<sup>xiii</sup>. But it also carries significant benefits. This includes co-benefits for health through reduced air pollution from fossil fuels, which is responsible for one in five deaths worldwide<sup>xiv</sup>. Employment could benefit too. In the IEA's Net Zero Emissions scenario, new jobs in clean energy industries reach 40 million by 2030, surpassing the 7 million job losses in fossil fuel-related industries (though not necessarily in the same locations)<sup>xv</sup>. Investment in adaptation can yield multiple co-benefits, such as improving agricultural productivity and biodiversity conservation<sup>xvi</sup>. The Global Commission on Adaptation estimates that investing US\$1.8 trillion globally in five areas<sup>5</sup> by 2030 could generate US\$7.1 trillion in total benefits<sup>xvii</sup>. While trade-offs should be carefully considered, climate action can also drive synergies with other Sustainable Development Goals<sup>xviii</sup>. For instance, electrification combined with clean energy, active mobility, and public transport, can enhance energy security and promote equity<sup>xix</sup>.

The IPCC also states with high confidence that the economic impact and disruptive changes arising from the transition can be mitigated through enabling policies<sup>xx</sup>. For example, electricity consumers in Europe will have saved €100 billion between 2021 and 2023 thanks to the deployment of renewable electricity generation, but savings could have been about 15% higher through quicker implementation of policies to deploy additional capacity<sup>xxi</sup>. A 2022 analysis by UK-based website Carbon Brief shows that energy bills in the UK were £2.5 billion higher than they would have been if several climate policies had not been scrapped over the past decade<sup>xxii</sup>.

## **Banks play a critical role in mobilising green finance, but efforts to redirect financing away from polluting activities remain insufficient**

As facilitators of funds, banks have a critical role to play in mobilising capital to achieve climate goals. And while they can't shoulder the cost alone, climate goals can't be achieved if banks don't ramp up green finance flows. In the IEA's Net Zero Emissions scenario, private finance contributes US\$3 trillion out of the US\$4 trillion of clean energy investment needed annually by 2030<sup>xxiii</sup>. This scenario also anticipates a significant rise of private finance's share of clean energy investment in developing economies thanks to reforms ensuring a pipeline of bankable projects and increase in concessional public finance.

The 20 European banks covered in this report have committed to align their financing activities with the goal of net-zero emissions by 2050. They have also started setting interim emissions reduction targets and reporting on carbon-related financing activities<sup>xxiv</sup>, for which there is a plethora of third-party tools, standards, and initiatives. Banks' green finance targets and disclosures have not benefited from the same level of scrutiny (Box 1), and the direction of travel is difficult to gauge. Several organisations have started shedding light on banks' green finance efforts. Their findings show a mixed picture, contrasting with the steady growth in sustainable debt that banks facilitate<sup>xxv</sup> or lend<sup>xxvi</sup>.

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5 The five areas are: early warning systems, climate-resilient infrastructure, improved dryland agriculture, mangrove protection, and resilient water resources.

Research provider BloombergNEF (BNEF) finds that banks financed 81% as much low-carbon energy supply as fossil fuels in 2021, broadly in line with real-economy investment activity<sup>xxvii</sup>. And while European banks are doing better than the average global bank, most are far off the minimum (4:1) and average (7:1) low-carbon energy supply to fossil fuels ratios that are required in most frequently referenced 1.5C scenarios by 2030 (Figure 3). Research commissioned by Sierra Club and conducted by Profundo, which produces a similar analysis based on a narrower scope of activities and companies<sup>6</sup>, revealed that only 7% of banks' energy financing went into renewables between 2016 and 2022 while the remainder went into fossil fuels (10% in 2021)<sup>xxviii</sup>.

While this type of comparative analysis is helpful, low-carbon to high-carbon energy investment ratios don't fully reflect whether financing is aligned with 1.5C-aligned sectoral roadmaps. Credible 1.5C pathways leave no room for the development of new fossil fuel projects<sup>xxix</sup>, but most European banks are yet to fully integrate this in their sectoral policies<sup>xxx</sup>.

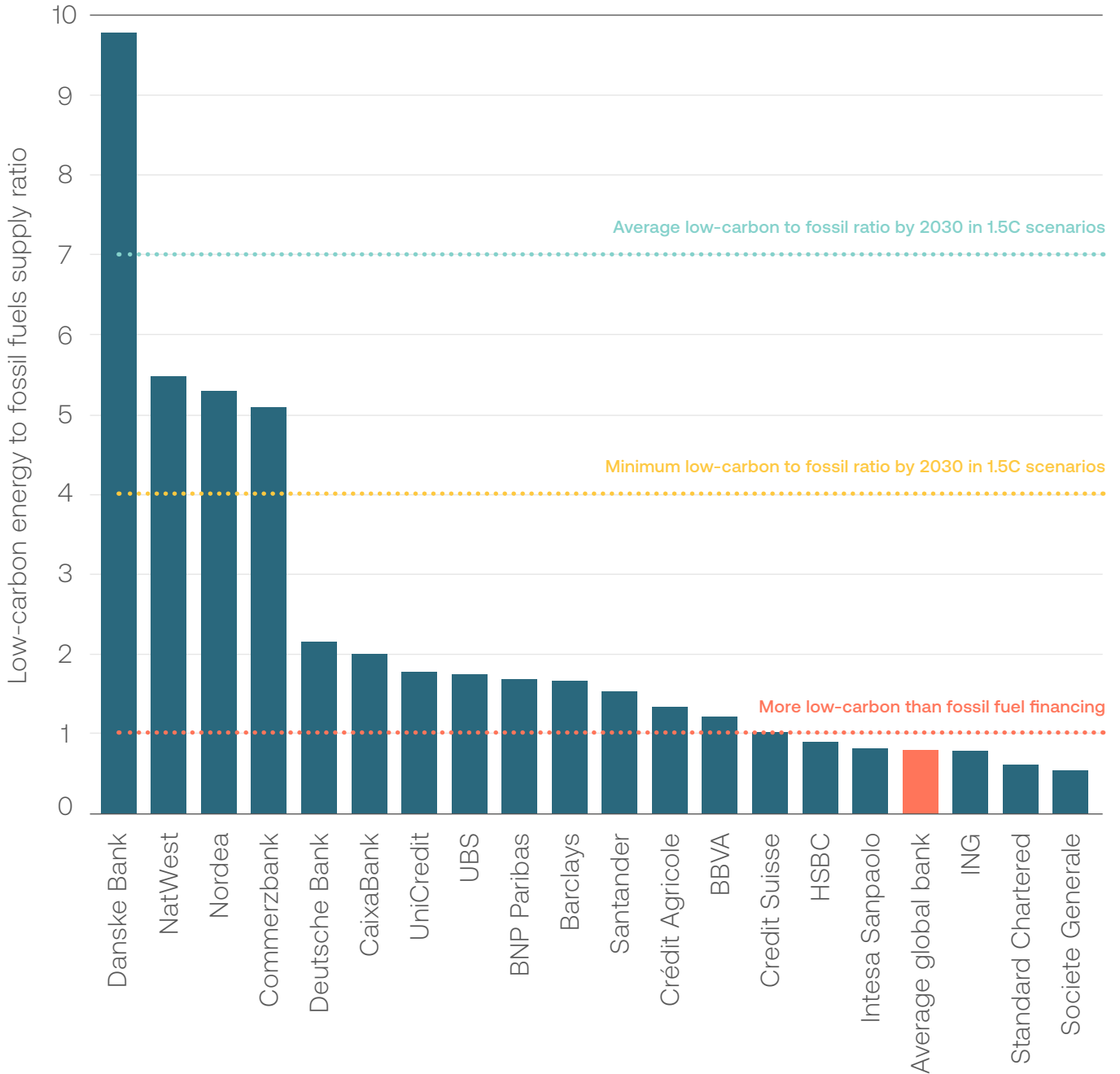
Other notable attempts to determine how green banks' financing activities are include WWF's Significant Harm Ratio<sup>xxxi</sup> – which represents the proportion of labelled green bonds arranged relative to fossil fuel bond underwriting – and think tank Anthropocene Fixed Income Institute's net green/fossil bond syndication league table<sup>xxxii</sup>, which follows a similar logic but is based on fees and includes syndicated loans. While these rankings are not comparable, the conclusion is broadly the same: except for a few outliers (Commerzbank, Danske Bank and Nordea), top performers barely reach parity between green and fossil fuel financing.

Research on banks' green finance targets is even more limited. In 2019, the World Resources Institute published a beta version of a tool assessing the targets' specificity, accountability, and magnitude<sup>xxxiii</sup>. Many of the banks covered in this report hadn't set a green finance target then, but the tool suggests that targets are usually not very transparent or ambitious relative to historical levels of fossil fuel financing.

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6 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.

Figure 3: Most banks are far off the minimum and average low-carbon energy supply to fossil fuels ratios required by 2030 (BNEF analysis)



Source: BNEF, Financing the Transition: Energy Supply Investment and Bank Financing Activity.



### **Box 1: Voluntary and mandatory guidance on green finance target setting and disclosures is still limited compared to decarbonisation targets and carbon-related disclosures.**

Voluntary and mandatory guidance on green finance is emerging, but often lacks granularity or is yet to be implemented. Main frameworks relevant to banks include:

**Task Force on Climate-Related Financial Disclosures (TCFD)<sup>xxxiv</sup>:** disclosure of the proportion of revenue, assets, or other business activities aligned with climate-related opportunities. For banks specifically – disclosure of the amount of lending and other financing connected with climate-related opportunities.

**International Sustainability Standards Board (ISSB) – IFRS S2<sup>xxxv</sup>:** disclosure of the amount and percentage of assets or business activities aligned with climate-related opportunities; disclosure of the amount of capital expenditure, financing or investment deployed towards climate-related risks and opportunities.

**Glasgow Financial Alliance for Net Zero (GFANZ)<sup>xxxvi</sup>:** where available, sectoral pathways could be used to set targets for climate solutions in line with the scale needed to achieve net-zero; metrics related to allocation to particular business lines, percentage of business dedicated to specific activities, or more granular use of proceeds information, can be used to monitor financial support of climate solutions; one metric that could capture climate solutions is an energy investment ratio comparing the investment in low-carbon energy supply versus fossil fuels<sup>xxxvii</sup>. GFANZ has also launched a consultation on transition finance strategies<sup>xxxviii</sup>.

**Net-Zero Banking Alliance (NZBA):** no guidance to date.

**Science Based Targets initiative (SBTi):** no guidance to date (the SBTi's Financial Institutions Net-Zero Standard is under development and might include non-emissions metrics in relation to climate solutions<sup>xxxix</sup>).

**European Banking Authority (EBA):** Green Asset Ratio (GAR), Banking Book Taxonomy Alignment Ratio (BTAR), and 'other climate change mitigating actions not covered in the EU Taxonomy' (Pillar 3 disclosures on ESG risks)<sup>xl</sup>. Banks will have to start disclosing the GAR and BTAR in 2024<sup>xli</sup>.

## Regulatory pressure is growing as claims of greenwashing mount

Banks' sustainability claims are increasingly under the spotlight. In October 2022, the UK Advertising Standards Authority (ASA) banned two advertisements by HSBC<sup>xliii</sup>. One of them featured HSBC's ambition to "provide up to US\$1 trillion in financing and investment globally to help [its] clients transition to net zero". The ASA considered the advertisement misleading because it omitted information about HSBC's contribution to greenhouse gas emissions. Earlier this year, the European Banking Authority found that there had been a clear increase in the number of European banks misrepresenting their sustainability efforts<sup>xliiii</sup>. The UK Financial Conduct Authority (FCA) also sent letters to banks in the UK to caution them regarding "greenwashing" and "conflicts of interest" in the sustainable loan market<sup>xliiv</sup>.

In parallel, new regulation is being rolled out to drive investment in green activities and help stakeholders determine how green banks' activities truly are. Many countries have now introduced taxonomies to define what activities count as green or, like the UK, are in the process of introducing one<sup>xliv</sup>. European banks already need to disclose EU taxonomy-eligible assets and will soon be required to report in line with relevant European Sustainability Reporting Standards (ESRS)<sup>xlvi</sup>.

Banks must adjust swiftly to this environment and ensure their green finance targets and disclosures are sufficiently robust and transparent. This report shows that banks' current practices could lead to them making misleading claims and being accused of greenwashing (Box 2).



### Box 2: Defining greenwashing

In its 2023 progress report on greenwashing monitoring and supervision, the European Banking Authority, alongside other European Supervisory Authorities, proposed the following definition of greenwashing:

"a practice whereby sustainability-related statements, declarations, actions, or communications do not clearly and fairly reflect the underlying sustainability profile of an entity, a financial product, or financial services. This practice may be misleading to consumers, investors, or other market participants"<sup>xlvii</sup>.

We rely on this definition to assess banks' green finance targets and disclosures throughout this report.



# Section 1:

Banks actively promote their green finance credentials through a range of targets and disclosures



# Banks actively promote their green finance credentials through a range of targets and disclosures

The lack of guidance and agreed methodologies for green finance targets and disclosures does not seem to deter banks from advertising their green finance credentials. All the 20 largest European banks already report on green finance activity across a range of metrics, and all of them, except UBS<sup>7</sup>, have set at least one green finance target (Figure 4). Some of them have been doing this for some time – for example Barclays, BNP Paribas, and HSBC had set green finance targets years before committing to net-zero by 2050<sup>xlviii</sup>. Others, such as Crédit Agricole and Intesa Sanpaolo, have set more green finance targets than portfolio decarbonisation targets.

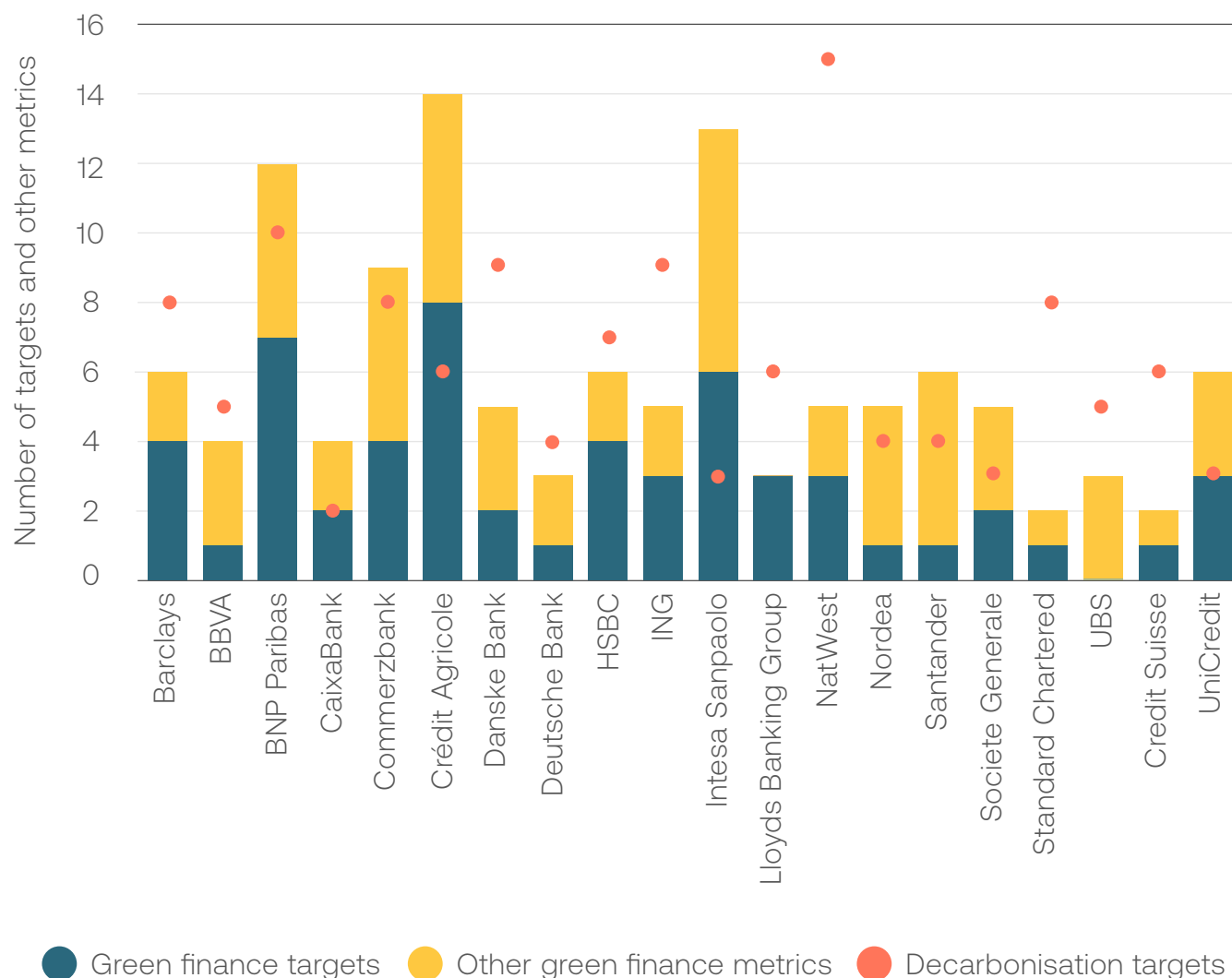
The most common type of green finance target is an absolute amount of financing to be provided or facilitated by a certain date. For example, Standard Chartered plans to mobilise US\$300 billion in sustainable finance by 2030<sup>xlix</sup>. Several banks have set targets to invest in climate solutions with their own funds. For example, Barclays intends to invest £500 million of equity capital into climate-tech start-ups by the end of 2027<sup>l</sup>.

Among green finance metrics not linked to targets, the most common is the allocation of proceeds from banks' own issuance of green bonds. Nineteen banks publish a green or sustainable bond impact report. All banks excluding UK banks have also started disclosing EU Taxonomy-eligible assets, and most of them already report on "other financing activities not covered by the EU Taxonomy" (template 10 of the European Banking Authority's pillar 3 disclosures). Seven banks report on green finance volumes from specific products and services – e.g. Commerzbank's 'Ecolan' offering to retail customers<sup>li</sup> or Intesa Sanpaolo's 'S-Loan' products dedicated to small and medium-sized enterprises<sup>lii</sup>. Five banks also report on proprietary investments – e.g. BNP Paribas' 'Ecological Transition Capital'<sup>liii</sup> and Barclays' green bond investment portfolio<sup>liv</sup>.

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<sup>7</sup> UBS has set a green finance target for its asset management activities. This is arguably material to the bank considering its business model but is excluded from the scope of this analysis. Targets and other metrics published by UBS and Credit Suisse have not been aggregated. Please refer to the Methodology.

Figure 4: All 20 largest European banks have already set green finance targets and/or report on green finance activities



Source: ShareAction analysis of the green finance targets and metrics published by the 20 largest listed European banks. The number of targets and other metrics exclude net-zero commitments. The number of green finance targets can include targets that are a subset of a broader target.

We found that the number of green finance targets and disclosures, as well as their amount, are not necessarily an indicator of transparency and ambition. Some smaller targets can be transparent or specific, while some larger targets can be vague or broad. In addition, most green finance targets relate to financing provided over a certain period, as opposed to a level of financing achieved at a specific point in time. This has implications for assessing the robustness and utility of green finance targets, as there is some evidence that a significant portion of banks' green finance volumes could come from refinancing rather than new financing (Section 3.1).

# Section 2:

Most green finance targets fail to demonstrate how they will put banks on a path to alignment with net-zero by 2050



# Most green finance targets fail to demonstrate how they will put banks on a path to alignment with net-zero by 2050

## 2.1. Most banks don't publish a methodology for green finance targets and rely on metrics that are incomplete

Only four of the assessed banks (Barclays, BNP Paribas, ING, and Intesa Sanpaolo) disclose some form of methodology for how they have quantified green finance targets, and these only apply to some of their targets. For example, BNP Paribas discusses how its targets for the power generation and automotive sectors compare to scenarios published by the IEA<sup>lv</sup>. For most green finance targets, the official approach seems to be based on a backward-looking assessment (how much was achieved to date as opposed to how much should be achieved in the future), a perceived competitive advantage, and/or a loosely defined contribution towards a climate goal. For example, Lloyds Banking Group – which otherwise acknowledges that there are not currently any science-based green finance target-setting mechanisms<sup>lvi</sup> – explains that its commitment to support clients with £15 billion of sustainable financing by 2024 supports its aim to play a leading role in financing the decarbonisation of the power sector<sup>lvii</sup>. BBVA states that its target to mobilise €300 billion in sustainable business between 2018 and 2025 is the result of an increase of its initial €100 billion target set in 2018 and revised to €200 billion in 2021<sup>lviii</sup>. ShareAction's [2022 banking survey](#), which integrates private feedback from banks, also found that benchmarking against peers could inform targets.

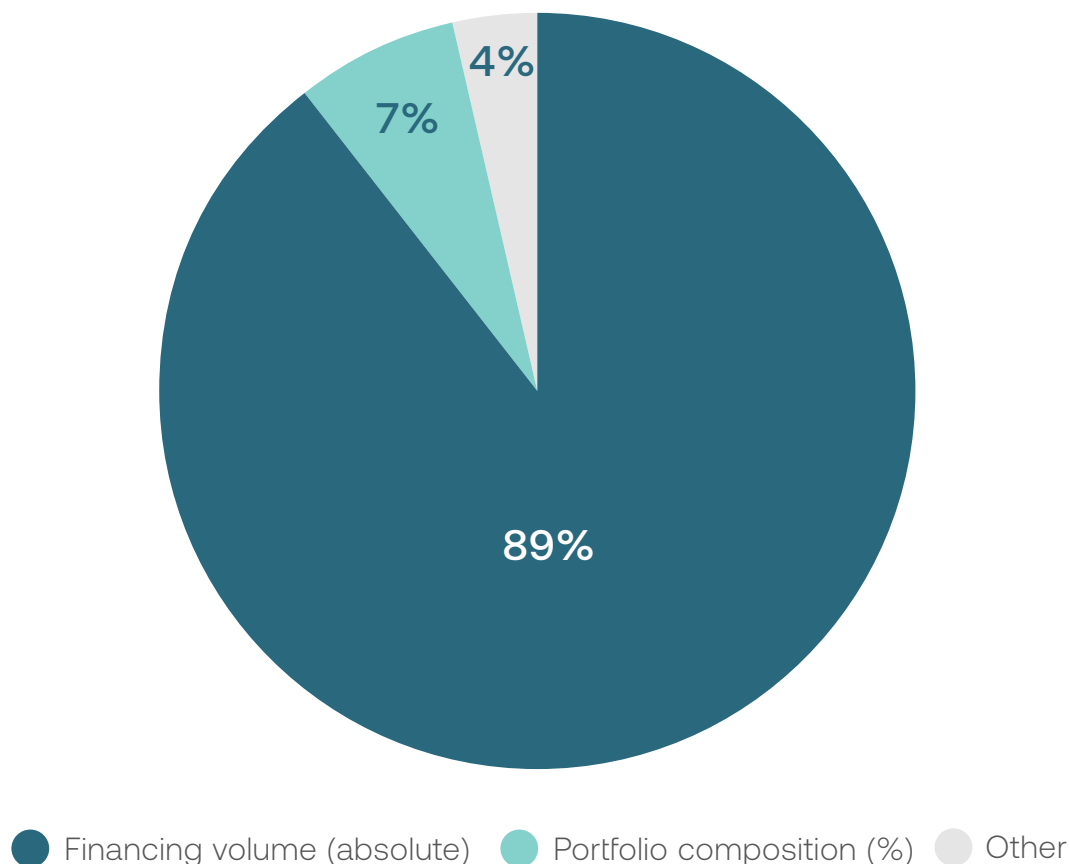
It might be challenging for any company to disclose certain strategic considerations. However, the lack of clear methodology makes it difficult to ascertain if targets can lead to the intended goal. It also increases the risk of greenwashing if banks claim to meet climate targets that are set based on recent progress, especially if they consistently outperform these targets. The lack of clear methodology is also at odds with guidance from the TCFD<sup>lix</sup> and ISSB<sup>lx</sup>. Both these frameworks recommend the disclosure of methodologies and assumptions underpinning targets.

In addition, 89% of targets are based on financing metrics expressed in absolute monetary terms (Figure 5). Such metrics could potentially be used as a proxy for how much the business can grow – though none of the banks except Standard Chartered use revenues as metric – but not necessarily to determine if it will grow sufficiently relative to the bank's size, geographic footprint, and/or levels of investment needed in 1.5C pathways. Is HSBC's ambition to provide US\$750 billion to 1 trillion in sustainable finance and investment by 2030 adequate for a bank with US\$2.9 trillion worth of assets<sup>lxi</sup> and a strong presence in China? How does Lloyds

Banking Group's target to provide £10 billion in green mortgage lending by 2024 compare to 1.5C-aligned pathways? If these questions can't be answered transparently, the credibility of these targets could be undermined, and their utility put into question.

Banks should explain how the target relates to their 'fair share'. For example, this could be based on their size, geographic footprint, alignment with sectoral roadmaps, and/or historic financing of activities responsible for climate change. Three banks (BNP Paribas, Crédit Agricole, and NatWest) rely on a portfolio composition metric – i.e. the proportion of green financing in the portfolio – for some of their sectoral targets. These metrics can be benchmarked against a technology mix derived from a climate scenario or give an indication of how quickly the portfolio is expected to transition. Non-UK banks have also started disclosing the proportion of taxonomy-eligible assets in the portfolio, but this currently seems to be an ad hoc consideration disconnected from climate strategy.

Figure 5: Around 90% of green finance targets are based on absolute financing metrics and only 7% are based on a proportion of green financing in the portfolio





## Recommendation

- Banks should publish a methodology for how they have quantified their green finance targets. The methodology should demonstrate that targets represent the bank's fair share of green financing relative to the capital that needs to be allocated to climate mitigation and adaptation in credible 1.5C scenarios (e.g. based on the bank's size, geographic footprint, alignment with sectoral roadmaps, and/or historic financing of activities responsible for climate change).



## Leading practice example

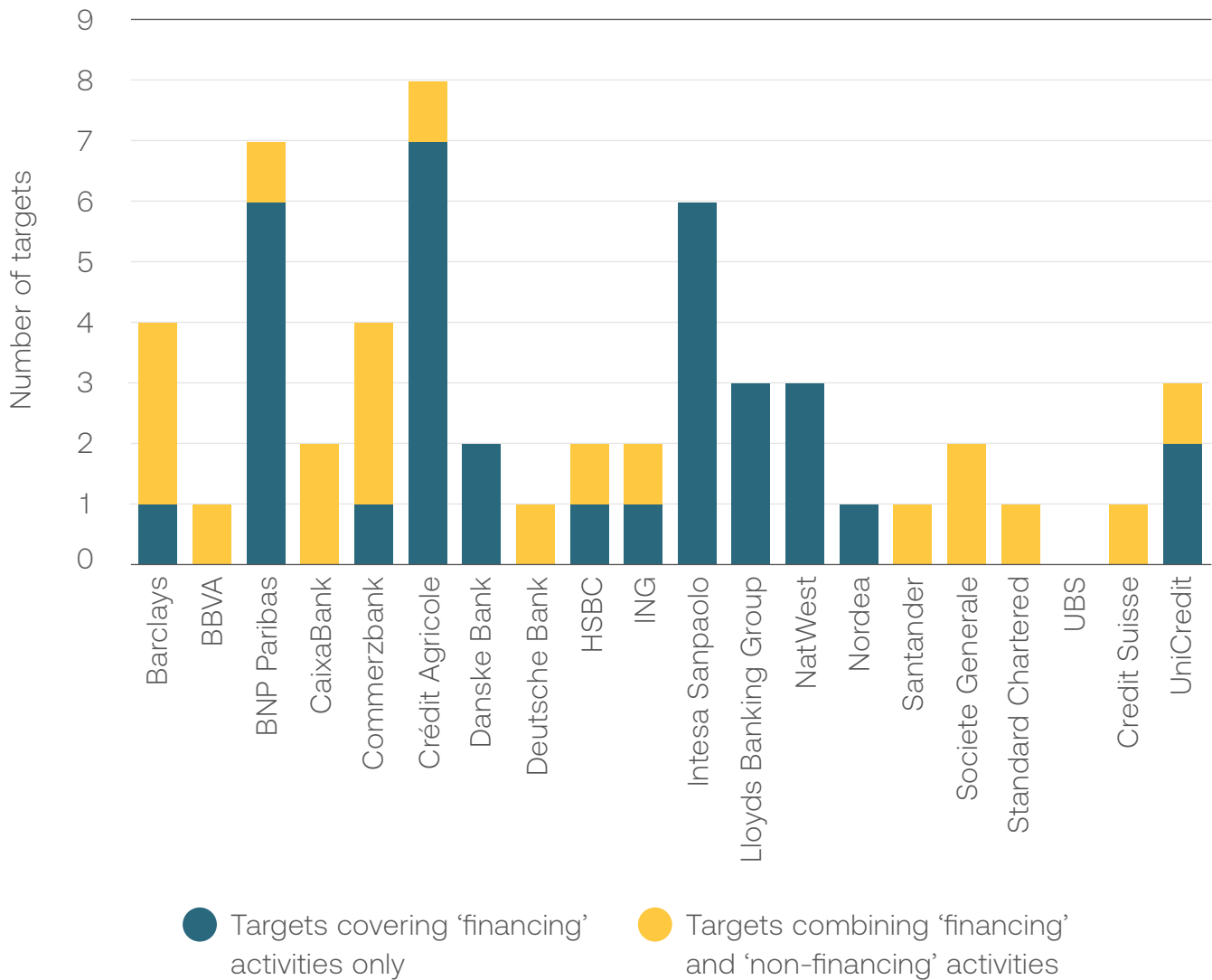
**BNP Paribas** has set a target for renewables to make up at least 66% of its power generation portfolio, and electric vehicles at least 25% of its automotive portfolio, by 2025<sup>lxii</sup>. The bank discusses how these targets compare against a technology mix derived from scenarios published by the IEA.

## 2.2. Most banks include products and services unrelated to financing or aggregate banking and asset management in their green finance targets

Fourteen of the 20 largest European banks have set at least one green finance target that covers products and services not directly related to 'financing' activities. These typically relate to lending, proprietary investment, or capital markets facilitation<sup>8</sup> (Figure 6). For example, BBVA's target to mobilise €300 billion in sustainable financing by 2025 covers structured deposits<sup>lxiii</sup>; ING's commitment to mobilise €125 billion in sustainable finance by 2025 covers derivatives<sup>lxiv</sup>; and Standard Chartered's target to mobilise US\$300 billion in sustainable finance by 2030 covers mergers and acquisitions advisory<sup>lxv</sup>. Other banks aggregate funding from banking and asset management activities. For example, HSBC's ambition to provide and facilitate US\$750 billion to US\$1 trillion of sustainable finance and investment by 2030 covers products and services provided by HSBC's Asset Management, Private Banking, and Wealth businesses<sup>lxvi</sup>.

8 Other products and services such as securitisation and trade finance can be considered 'financing' if they entail providing or facilitating capital which borrowers can use to finance their operations and expenditures.

Figure 6: Many green finance targets cover products and services that are not related to financing



Source: ShareAction analysis of green finance targets and metrics published by the 20 largest listed European banks. The number of green finance targets includes targets that are a subset of a broader target. Two targets set by HSBC and one target set by ING are excluded as the criteria for this analysis were not applicable.

Financial activities such as derivatives can play a critical role in achieving sustainable objectives. For example, they can help businesses and investors manage interest rate and currency risks. This in turn can enable the allocation of capital towards the low-carbon transition<sup>lxvii</sup>. Investors and other stakeholders may also want to assess how the bank will use its product range and develop new products to capture climate opportunities, something the TCFD also recommends. However, targets that cover such financial activities are difficult to compare with the amount of capital banks need to provide or facilitate the path to net-zero. In addition, they can lead to misleading claims, as consumers will likely interpret 'green finance' as 'providing funds for green activities'.





## Recommendation

- Green finance targets should only cover financing activities that result in the allocation or facilitation of capital by the bank. These include lending, proprietary investment, and capital markets facilitation. If a bank sets a target covering a broader range of green products and services (e.g. deposits, derivatives) or asset management activities, the target should be labelled in a way that reflects its scope and the bank should transparently communicate on the proportion that will be allocated to financing activities, so as not to mislead consumers.



## Leading practice example

**Danske Bank's** target to provide 300 billion krone in sustainable finance by 2023 focuses on lending and capital markets facilitation. The bank has set a separate target for asset management (kr150 billion invested in funds with sustainability objectives by 2030)<sup>lxviii</sup>.

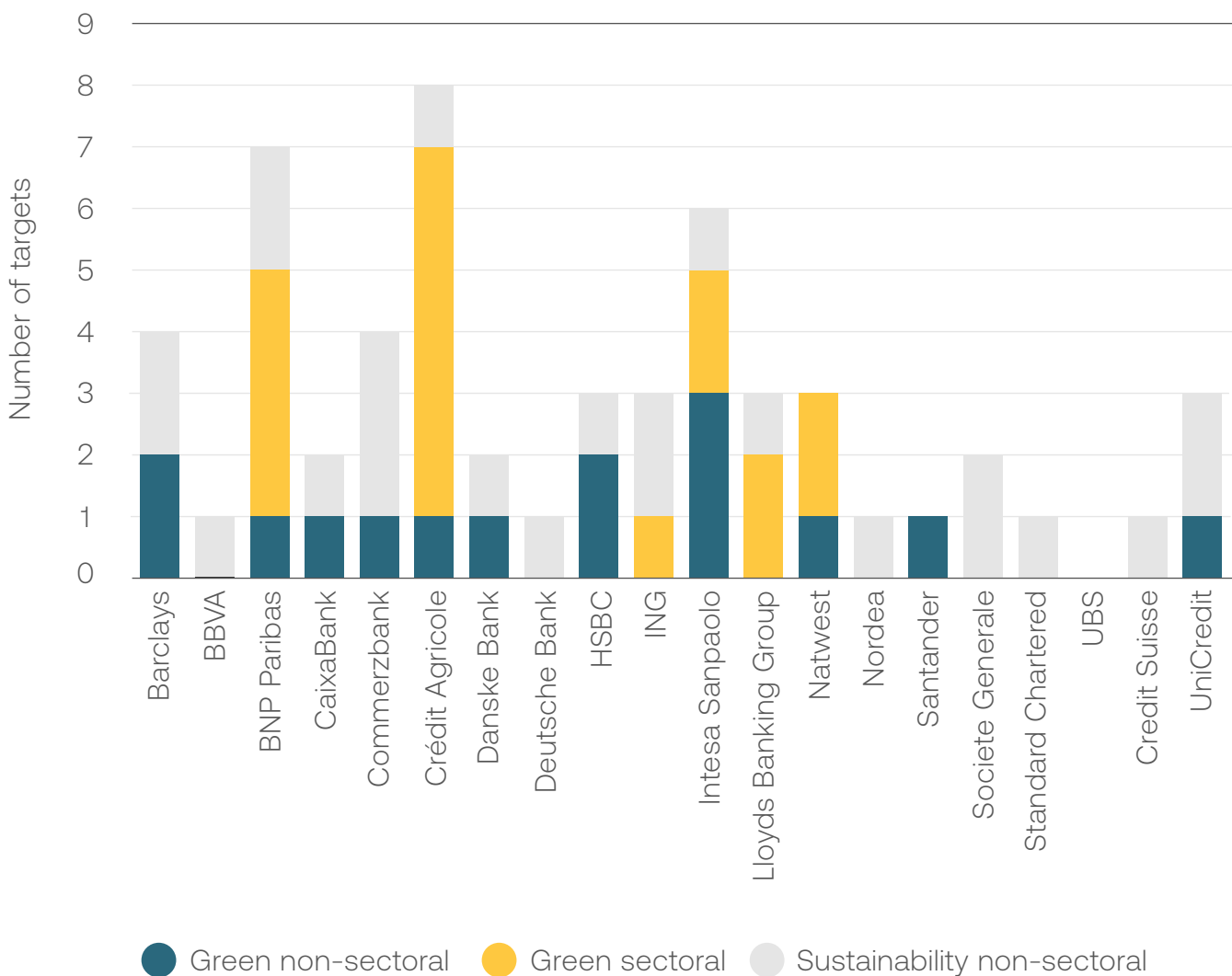
**UniCredit** has a headline target to provide €150 billion of new environmental, social and governance (ESG) volumes over 2022–2024 and sub-targets for banking (€25 billion in environmental lending, €10 billion in social lending, €50 billion in sustainable bonds arranged) and asset management (€65 billion assets under management converted towards ESG investments)<sup>lxix</sup>.

## 2.2. Banks' green finance targets often combine climate with other sustainability-related themes and are rarely set at sector level

Seventeen of the 20 largest European banks have set at least one green finance target that covers themes other than climate and environmental objectives (Figure 7). For example, Societe Generale's target to contribute €300 billion in sustainable finance from 2022 to 2025 covers both environmental and social issues<sup>lxx</sup>. This terminology is not necessarily misleading, and addressing climate change can contribute to other Sustainable Development Goals. However, bundling climate and other goals together without setting thematic sub-targets makes it difficult to assess how quickly the bank is expecting to align its financing activities with 1.5C pathways.

What’s more, green finance targets typically cover a broad range of sectors and activities. 70% of green finance targets are not set at sector level, and only six banks have set at least one sectoral target (Figure 7). This makes it difficult to assess ambition on key issues. For example, Barclays’ target to facilitate £100 billion in green financing between 2018 and 2030 covers 10 themes: energy efficiency, renewable energy, sustainable transport, sustainable food, agriculture, forestry, aquaculture and fisheries, resource efficiency and pollution control, sustainable water, and climate change adaptation<sup>xxi</sup>. Committing to finance a specific sector or activity in the future presents challenges, such as limited planning or inadequate risk-return ratios for technologies that are not yet mature (Section 5). However, banks can and should set targets for activities that have been clearly identified and investment needs quantified, such as renewable energy.

Figure 7: Many green finance targets combine climate with broader sustainability themes, and only six banks have set targets at sector level



Source: ShareAction analysis of the green finance targets and metrics published by the 20 largest listed European banks. The number of green finance targets includes targets that are a subset of a broader target. One target set by HSBC is excluded as the criteria for this analysis were not applicable.

Decarbonisation targets and green finance targets are two sides of the same coin, and setting green finance targets at sector level gives banks an opportunity to elaborate on their climate strategy. For instance, by setting a target to increase green mortgages or financing for renewable energy, banks can signal the extent to which they intend to rely on growth or transition to decarbonise their real estate and power portfolios.



### Recommendation

- Banks should complement overarching green finance targets set across portfolios with targets set at sector or activity level, starting with the energy sector. This will provide transparency about targets' intended real-world impact and the banks' strategy to align financing with 1.5C-aligned sectoral roadmaps.



### Leading practice example

**Crédit Agricole** has a target to triple its financing of renewable energy and multiply its financed Terawatt hours of renewable energy by 3.6 times by 2030<sup>lxxii</sup>.

**Lloyds Banking Group** has a target to provide £8 billion financing for electric and plug-in hybrid vehicles by 2024, and £10 billion in green mortgage lending (EPC B or higher) by 2024<sup>lxxiii</sup>.

**NatWest** aims to have 50% of its UK mortgage portfolio linked to an EPC rating of C or above by 2030<sup>lxxviii</sup>.

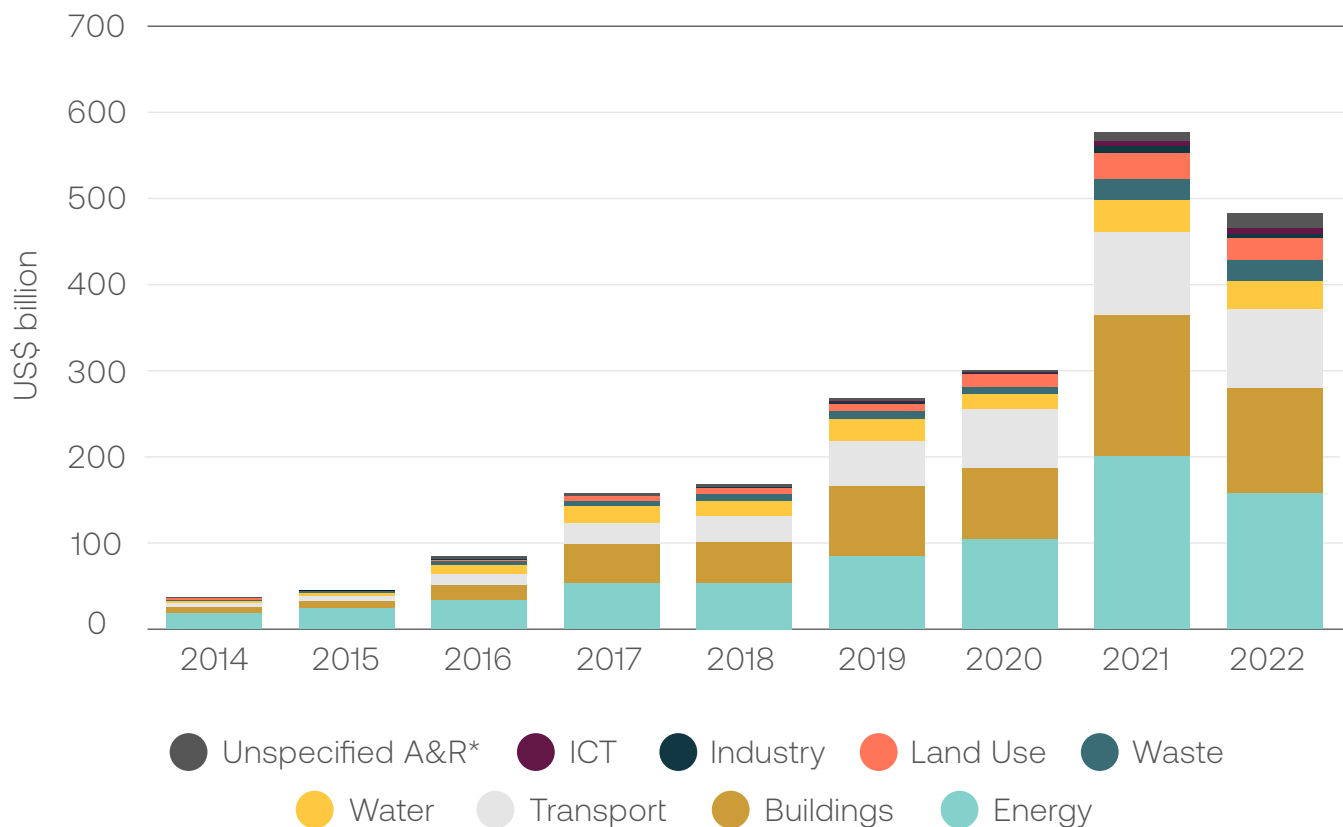
## 2.3. Banks' green finance targets might not lead to sufficient financing being provided to less mature mitigation technologies, adaptation, or countries in the Global South

Eighteen of the banks assessed have set at least one green finance target that covers climate adaptation. This is encouraging, given the urgent need to allocate capital to adaptation and resilience. However, whether this leads to actual financing being provided for adaptation is unclear. None of these banks has set a specific target for adaptation, and few banks provide a sectoral breakdown of financing provided (Section 3.2). The same caveats apply to climate mitigation, for which a range of sectors and activities are theoretically eligible in banks' green

finance frameworks but which might receive little attention in practice. Energy, buildings, and transport collectively accounted for 77% of 2022 green debt volumes<sup>lxxiv</sup> (Figure 8). These are also the only sectors banks have set specific green finance targets for, with one exception – Intesa Sanpaolo has a dedicated target for the circular economy<sup>lxxv</sup>.

There are challenges (Section 5) in making financing commitments for sectors and activities that are not as mature as solar power generation or electric vehicles – for example alternative products or production methods for cement<sup>lxxvi</sup>. Other funding avenues, such as venture capital<sup>lxxvii</sup>, are often more suitable than traditional bank lending. But while the energy, real estate, and transport sectors should be prioritised as they are major sources of greenhouse gas emissions, other key pillars of the transition also require funding. Several European banks are taking steps to drive investment in these areas. Barclays has set up a ‘Sustainable Impact Capital’ equity programme to invest up to £500 million of its own funds into global climate tech start-ups by 2027<sup>lxxviii</sup>. Others are taking the philanthropic route – HSBC partners with the World Resources Institute and WWF on a five-year US\$100 million philanthropic initiative focusing on climate-related innovation, nature-based solutions, sustainable palm oil, and energy efficiency initiatives in Asia<sup>lxxix</sup>. BNP Paribas and Intesa Sanpaolo also report on an equity programme<sup>lxxx</sup> and philanthropic initiative<sup>lxxxi</sup> respectively but have not set timebound targets for these.

Figure 8: More than three quarters of labelled green debt is flowing towards energy, buildings, and transport, while adaptation and other key mitigation measures receive less attention.



Source: Climate Bonds Initiative. \*Adaptation & Resilience.

Most green finance targets are not tied to specific countries or regions, and banks don't tend to provide a geographic breakdown when they report on progress (Section 3.2). It is therefore likely that the majority of disclosed financing volumes will be directed to borrowers in the banks' main markets, that is developed countries in the Global North with one exception (Standard Chartered). It is unlikely that private finance will flow to the Global South without public intervention<sup>lxxxii</sup>. However, private finance has an important role to play in closing the green investment gap in these regions. Signalling willingness to support this effort could act as a catalyst for the deployment of blended finance<sup>lxxxiii</sup> and reform of the multilateral development banks<sup>lxxxiv</sup>.

Societe Generale has set a specific target covering countries in the Global South. It aims to promote the development of sustainable infrastructure in Africa with a 20% increase in structured finance commitments between 2021 and 2025<sup>lxxxv</sup>, most likely due to its historical presence on the continent. Four banks (Barclays, BBVA, HSBC, Santander) have also signalled that they are willing to support international efforts to deliver finance to the Global South. For example, HSBC aims to “support the facilitation of at least US\$10 billion of private sector financing for projects in Indonesia and US\$7.8 billion for projects in Vietnam” as part of the Just Energy Transition Partnership<sup>lxxxvi</sup>, and Santander reports on financing agreements with multilateral development banks<sup>lxxxvii</sup>.

# Section 3:

Banks' green  
finance frameworks  
and disclosures  
lack transparency  
and could lead to  
misleading claims



# Banks' green finance frameworks and disclosures lack transparency and could lead to misleading claims

## 3.1. Banks rarely report on impact and additionality. Evidence suggests that only a fraction of green finance volumes relates to new assets

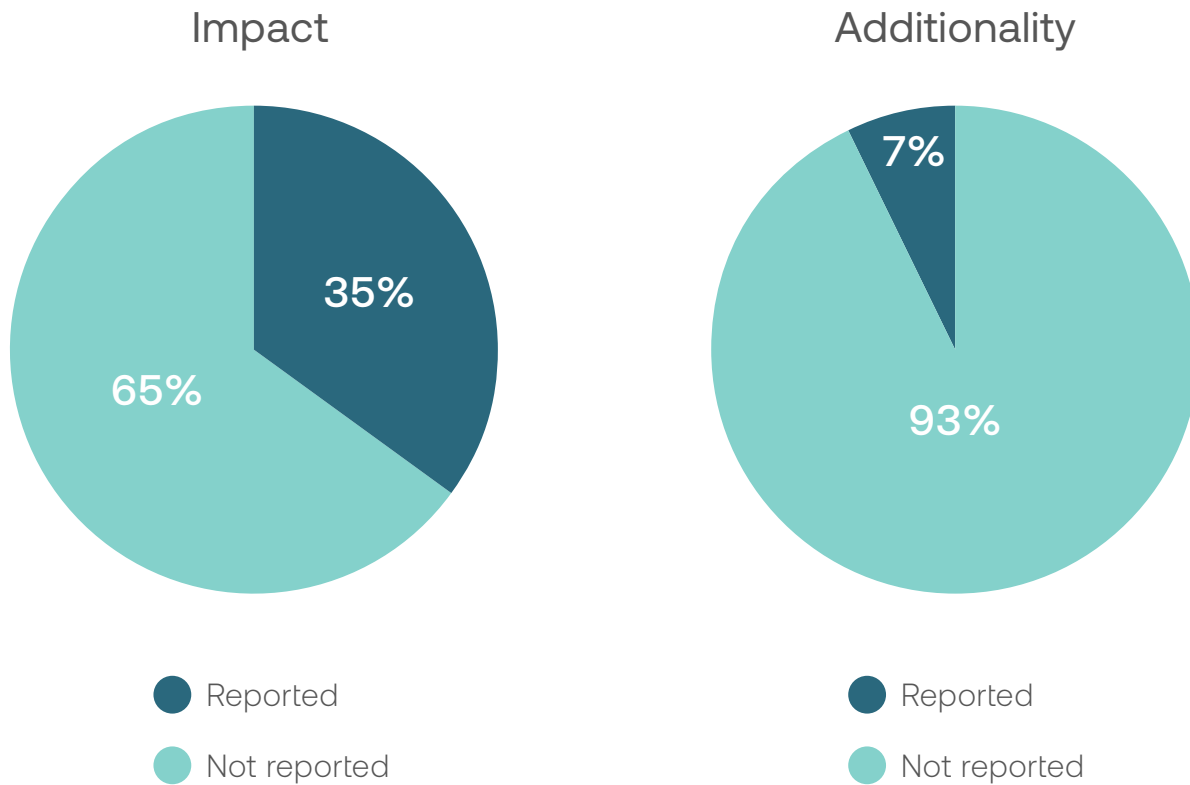
The 20 largest European banks report on impact – the outcome of financing in the real economy, such as renewable capacity installed or energy savings achieved in buildings – for only 35% of all green finance metrics (Figure 9). Impact reporting rarely extends beyond green bond allocation disclosures; only six banks report on impact when they disclose progress against targets. Deutsche Bank states that it “strive[s] for criteria that are as impact-oriented and transparent as possible”<sup>lxviii</sup> but fails to report on impact in relation to its goal to achieve a sustainable business volume of €500 billion by 2025. The lack of agreed methodologies and metrics to report on impact can be a challenge<sup>lxix</sup>, and standard setting bodies should urgently close this gap.

Reporting on ‘additionality’ – whether financing is going to a new asset as opposed to the refinancing of an existing one<sup>9</sup> – is even less common. Only five banks disclose this, for only 7% of all green finance metrics disclosed, and exclusively in green bond allocation reports. Few banks seem to apply ICMA’s Green Bond Principles’ recommendation that “issuers provide an estimate of the share of financing vs. re-financing”<sup>xc</sup>. Figures disclosed by those that do discuss it raise concerns about the level of additionality in green financing. For example, UBS reports that 93% of mortgages in its 2022 green funding allocation report come from refinancing<sup>xcii</sup>. HSBC notes that 77% of its 2022 green bond allocation goes to existing projects<sup>xcii</sup>. Standard Chartered explains that its sustainable finance asset base increased by 45% between July 2021 and September 2022 “largely due to the identification and tagging of US\$3.8 billion in Green Mortgages”<sup>xciii</sup>.

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9 The concept of additionality is often discussed in the context of carbon offsets, which is unrelated to this discussion.

Figure 9: Banks rarely report on impact and additionality of green financing



Source: ShareAction analysis of the green finance targets and metrics published by the 20 largest listed European banks.



### Recommendation

- To provide transparency on the real-world impact of their green financing, banks should report on the impact and additionality of green financing.



### Leading practice example (impact reporting)

**Crédit Agricole** reports that its subsidiary Unifergie provided over €1 billion to renewable energy projects in 2022 – equivalent to 865 megawatts – in relation to its commitment to double its annual financing of renewable energy by 2025<sup>xciiv</sup>.



### 3.2. Banks often combine ‘green’ with ‘transition’ finance in disclosures and fail to provide a breakdown across sustainability themes, sectors, and geographies

Banks’ green finance disclosures – about targets and other metrics – often fall short of what is needed to enable stakeholders to assess what is being achieved.

Twelve of the 20 largest European banks provide a breakdown across different types of financing (i.e. dedicated financing and general corporate purpose finance) where such breakdown is needed (Figure 10), and the breakdown is fully transparent in only 50% of cases. For example, UBS (unlike Credit Suisse which it has recently acquired), doesn’t differentiate labelled green financing from sustainability-linked financing in its disclosures<sup>xcv</sup>. This can make a big difference. Unless adequate key performance indicators (KPIs) and sustainability performance targets are defined and the right guardrails are in place, companies receiving this type of transition finance won’t necessarily use the funds to develop green assets or transition at the pace needed. Worse, the financing can potentially enable the development of harmful assets (Box 3). Until these structures are sufficiently robust, and unless they can be linked to a specific activity, aggregating green and transition financing can lead banks to make misleading claims. It is worth noting that sustainability-linked loans make up a much larger share of the loan market than green loans and these loans tend to be private<sup>xcvi</sup>.





### **Box 3: Sustainability-linked financing can present multiple benefits if it's adequately structured, but it currently suffers from important flaws.**

Sustainability-linked loans and bonds are given with no restrictions on how borrowers use the proceeds, but they include specific features designed to incentivise borrowers to meet sustainability aims. This typically involves linking the interest rate to the borrower's ability to meet pre-defined performance targets, often emissions reductions<sup>xcvii</sup>. This approach presents multiple benefits – it is more forward-looking than 'use of proceeds' instruments and can potentially influence corporate behaviour in sectors that are not necessarily capital intensive but can help drive the net-zero transition or broader societal goals.

However, most sustainability-linked loans and bonds are not currently fit for purpose. For example, BNEF finds that 70% of sustainability-linked bonds are callable, meaning they can be paid off before interest rates are increased<sup>xcviii</sup>. It also finds that some of the largest bonds have coupon payment dates that are years after sustainability target observation dates and others have capped their interest rate penalties. These penalties could prove costly, but interest rate step-ups are usually *de minimis*.

And while widely used frameworks such as the Sustainability-Linked Loan Principles make recommendations to ensure KPIs and targets can be (privately) assessed, most are silent on their level of ambition. In its review of the Sustainability-Linked Loans (SLL) Market published in June 2023, the FCA highlights “[c]redibility, market integrity and greenwashing concerns” around SLLs, noting “banks typically count SLLs towards their sustainable financing targets”<sup>xcix</sup>. The FCA voiced concerns about the robustness of performance targets and disclosure of borrowers' transition plans. UK newspaper The Telegraph reported in August 2023<sup>c</sup> that Barclays was counting a US\$10 billion sustainability-linked loan to Shell – a company whose climate targets and oil production outlook are hardly Paris-aligned<sup>ci</sup> – towards one of its sustainable finance targets.

Unless the right guardrails – such as robust sector policies – are in place, general corporate purpose financing can enable the development of harmful activities either directly (as in the case of Shell) or indirectly by freeing up liquidity elsewhere in the corporate structure. In 2021, the Anthropocene Fixed Income Institute filed a formal complaint with the US Securities and Exchange Commission in relation to a sustainability-linked bond issued by Adani Electricity Mumbai<sup>cii</sup>. The bond prospectus failed to highlight Adani Group's involvement in the development of the Carmichael coal mine in Australia.

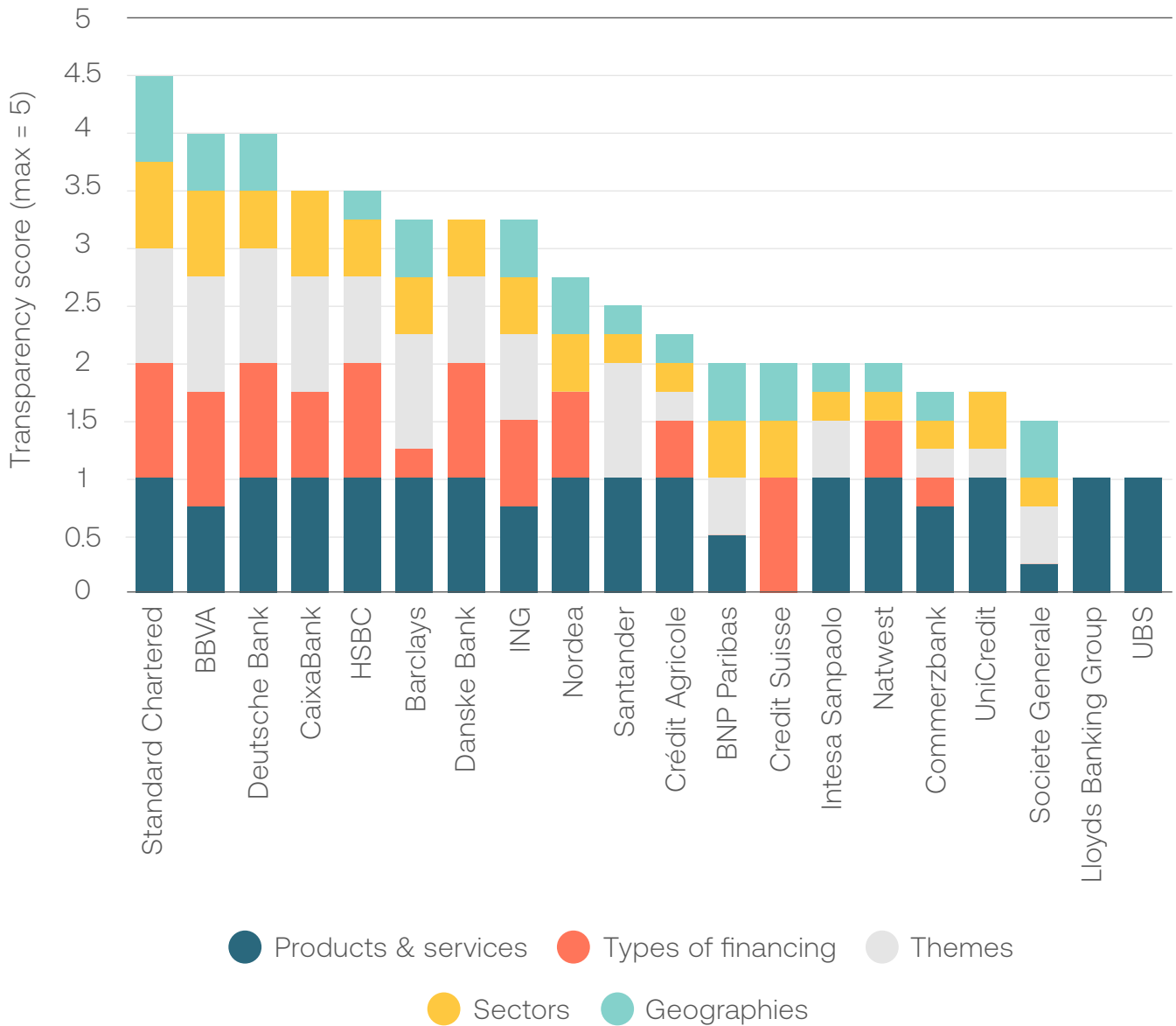
Banks' green finance reporting also tends to lack granularity on thematic and sectoral disclosures. The 20 assessed banks provide a breakdown across green, social, and sustainability themes for only 59% of metrics that aggregate these themes, and across sectors and activities for only 50% of metrics where such breakdown is needed. In both cases, the breakdown is fully transparent in only 60% of cases. For example, Nordea doesn't provide a breakdown across green and social themes when it reports on its target to facilitate more than €200 billion of sustainable financing by 2025<sup>ciii</sup>. BBVA is among the nine banks that do provide a sectoral breakdown for some of their green finance targets, but does this only for its retail division<sup>civ</sup>.

Thematic and sectoral disclosures tend to be much more transparent in banks' green bond allocation reports, where a breakdown is almost always provided. This is most likely due to restrictions around use of proceeds and reporting recommendations under ICMA's Green Bond Principles<sup>cv</sup>.

On a positive note, 90% of the banks that disclose metrics combining 'financing' and 'non-financing' products & services provide a breakdown across both categories for at least one metric, and for 84% of metrics overall.



Figure 10: Most banks provide a breakdown of green finance volumes across key products & services, but fewer do so transparently across types of financing, themes, sectors, and geographies



Source: ShareAction analysis of green finance targets and metrics published by the 20 largest listed European banks. The transparency score is calculated for each topic where a breakdown of financing volumes is needed (products & services, types of financing, themes, sectors, geographies) based on the following scale: 0 = no breakdown provided; 0.25 = partial breakdown provided for some metrics; 0.5 = full breakdown provided for some metrics; 0.75 = full or partial breakdown provided for all metrics; 1 = full breakdown provided for all metrics, or breakdown not needed because metrics are sufficiently granular.





## Recommendation

- Where green finance targets and disclosures are not already sufficiently granular, banks should transparently report on green financing across key products and services (financing vs non-financing), types of financing (dedicated financing vs financing for general corporate purposes), themes (green vs other sustainability themes), sectors, and geographies (at least at regional level). This will allow stakeholders to assess progress achieved.



## Leading practice example

**HSBC** publishes an ESG data pack to report on progress against its ambition to provide and facilitate US\$750 billion to US\$1 trillion of sustainable finance and investment by 2030<sup>vi</sup>. The pack includes a breakdown by products & services across financing and non-financing activities, by type of financing across use of proceeds and general corporate purpose financing, and by region. However, the target is broad and lacks specificity.

**CaixaBank** provides a sectoral breakdown for green-labelled financing, both in relation to its target to mobilise €64 billion of sustainable financing between 2022 and 2024 and the allocation of its green bond issuances<sup>vii</sup>. However, the target is broad and lacks specificity.

### 3.3. Banks don't always disclose what activities count as green, and those that do consider certain controversial activities to be eligible

What qualifies as green finance is not always clear in banks' disclosures. Most of the 20 largest European banks rely on external standards for their green finance targets (16 banks) and other metrics (19 banks), but criteria to determine which sectors and activities are eligible are transparently communicated in less than half the cases. This is either because the criteria draw from restrictive taxonomies – such as the EU Taxonomy or the Climate Bonds Taxonomy – but are not fully enforced<sup>10</sup>, or because the criteria are aligned with non-restrictive

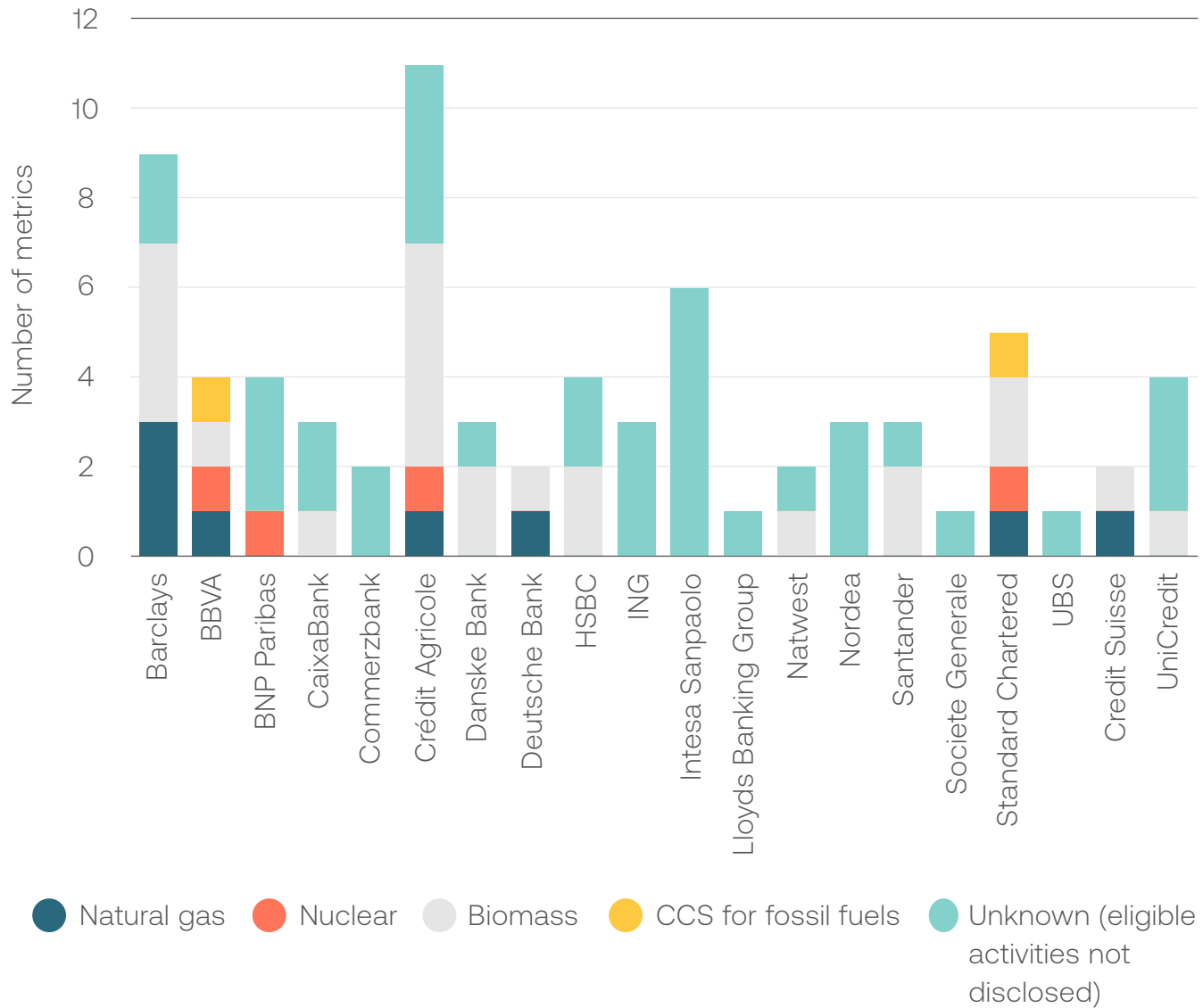
<sup>10</sup> Some sectors are not covered or lack technical screening criteria under current taxonomies. However, some banks consider these sectors to be eligible for green financing and should therefore transparently disclose the criteria they rely on.

frameworks, such as ICMA's Green Bond Principles. The latter only provides examples of eligible activities and doesn't specify technical criteria to determine eligibility. For some banks, it is unclear what green finance metrics and targets are governed by eligibility criteria published in separate frameworks (e.g. green bond frameworks defining criteria for assets to be financed by green bonds issued by the bank). Sometimes criteria are not published at all. For example, Barclays has not yet published criteria for 'transition financing' in relation to its target to facilitate US\$1 trillion in sustainable and transition financing between 2023 and 2030<sup>cvi</sup>.

This lack of transparency makes it difficult to assess whether banks are betting on activities that are not widely accepted as green, such as natural gas, nuclear energy, biomass for power generation, or carbon capture and storage for fossil fuel operations. Thirteen banks disclose sufficient information to determine whether they consider these activities as 'green' or 'transition' for at least one metric (68% of all metrics reported), and it is not possible to determine this for seven banks (Figure 11). Biomass is the most referenced controversial activity in banks' green finance frameworks, most likely due to the flawed assumption that it is a carbon neutral fuel<sup>cix</sup>. And whereas banks have started to disclose whether their EU Taxonomy-eligible assets include natural gas or nuclear power – in line with requirements under the Taxonomy Disclosures Delegated Act<sup>cx</sup> – only three banks do this when reporting on voluntary metrics.



Figure 11: Banks don't always disclose what activities count as 'green' or 'transition', and those that do consider controversial activities such as biomass for power generation eligible for green financing



Source: ShareAction analysis of the green finance targets and metrics published by the 20 largest listed European banks. The number of metrics can be higher than metrics disclosed by banks, as the same metric can cover more than one controversial activity (e.g. green loans reported include biomass and nuclear). It can also be lower as this analysis is not applicable to all metrics (e.g. a target set for mortgages). Some banks consider that these activities are eligible based on certain criteria, such as the type of biomass used.

### 3.4. Many banks don't transparently disclose the types of financing in scope of their disclosures and the accounting basis for reporting on green finance

The assessed banks disclose the types of financing – dedicated financing and/or general corporate purpose – in scope of their disclosures, and how these types of financing are defined, for only 60% of all green finance metrics. This is important to assess how much financing is provided to green assets and how much is provided to companies that banks consider green based on certain eligibility criteria.

Dedicated financing is not always linked to an asset. Financing provided to 'pure plays' – i.e. companies deriving a certain percentage of revenues from eligible activities – is sometimes considered a form of dedicated financing. Most banks set this threshold at 90% of revenues, slightly below what the Climate Bonds Initiative considers 'fully-aligned issuers'<sup>11</sup>. Green financing can also include general corporate purpose financing that is allocated pro-rata to companies based on their business mix. For example, Barclays includes a pro-rata share of financing to companies deriving between 50 and 90% of their revenues from eligible activities in its reporting<sup>cx1</sup>.

Finally, the accounting basis to report on green financing is not always disclosed. The loan indicator – committed amount, drawn amount, or other – is disclosed for only 59% of green finance metrics. For metrics that include capital markets facilitation, the accounting basis – full amount, pro-rata share, or weighted pro-rata share – is disclosed in only 53% of cases.



#### Box 4: Green and sustainable finance targets are the most common climate-related KPI in executive variable remuneration

ShareAction's 2022 assessment of the 25 largest European banks' biodiversity and climate strategies found that the most common climate-related KPI for executive remuneration was green and sustainable finance targets<sup>cxii</sup>. Our analysis shows that green finance target setting and reporting lack transparency, are seldom supported by a methodology, and are not necessarily impact oriented. In a discussion paper released in February 2023, the FCA noted that "firms may wish to consider whether remuneration and incentive plans emphasise the most important sustainability-related objectives"<sup>cxiii</sup>. It added that "[s]oft targets or metrics that could be perceived as easy can lead to executives being paid extra just to do the 'day job'. In our view, this could amount to little more than greenwashing".

<sup>11</sup> The Climate Bonds Initiative distinguishes between fully-aligned issuers (95% or more green revenues) and strongly-aligned issuers (75–95% green revenues).





## Recommendation

- Banks should publish a framework(s) outlining how they determine what sectors, activities, and types of financing are included in their green finance targets and disclosures. The framework(s) should include:
  - The targets and disclosures in scope of the framework.
  - The criteria used by the bank to determine what sectors and activities are eligible, or the taxonomy (or taxonomies) it relies on. If the bank deviates from a restrictive taxonomy or relies on a non-restrictive taxonomy, it should provide a rationale and specify what criteria are used instead.
  - The criteria used by the bank to determine what types of financing (dedicated financing and/or general corporate purpose) are eligible, including any criteria used to determine if a borrower or issuer is eligible (e.g. revenue thresholds).
  - The accounting basis for reporting on green finance volumes (e.g. loan indicator and attribution rules for capital markets facilitation).



## Leading practice example

**Barclays'** sustainable finance framework governs its target to facilitate £150 billion in social, environmental, and sustainability-linked financing by 2025, including £100 billion in green financing by 2030<sup>cxiv</sup>. The framework draws on external standards such as ICMA and Climate Bonds Initiative, leaving room for interpretation, but specifies what sectors and activities are eligible and provides technical screening criteria for some of them. The framework is transparent on what types of financing are eligible and how they would be accounted for. It also discloses the loan indicator (total commitments) and accounting methodology for a range of products & services such as capital markets facilitation (pro-rata share with no weighting).

# Section 4:

Banks use double standards for green finance and carbon-related targets and disclosures



# Banks use double standards for green finance and carbon-related targets and disclosures

We have identified several areas where banks are taking an inconsistent approach across climate risks and climate opportunities. This can lead to banks underestimating risks or negative impacts while overestimating opportunities or positive impacts. It can also expose them to accusations of greenwashing if stakeholders consider that this approach does not fairly reflect their sustainability profile.

Carbon-related targets and disclosures (climate risks and negative impact)	Green finance targets and disclosures (climate opportunities and positive impact)
<p><b>Banks tend to set interim targets or report on carbon-related financing at sector level.</b> They don't tend to complement this approach with interim 'overarching' targets – set across the entire portfolio – or report on their overall carbon footprint. Overarching targets are needed to ensure that a bank's fair share of emissions reduces in line with 1.5C pathways, especially as most sectoral targets are set using emissions intensity metrics<sup>cxv</sup>.</p>	<p><b>Banks tend to set interim overarching targets or report on the overall level of green finance.</b> They don't tend to set targets at sector level or report on their financing's contribution to specific sectors or activities. Sectoral targets are needed to ensure financing is aligned with sectoral investment needs in 1.5C pathways, especially as most targets are set using absolute financing metrics that are not necessarily correlated with banks' fair share.</p>
<p><b>Banks' decarbonisation targets and carbon-related disclosures often cover a narrow range of products and services.</b> They usually focus on lending and exclude other important sources of financial support such as capital markets facilitation<sup>cxvi</sup>. This is important because capital market facilitation can represent the bulk of a bank's financial support to carbon-intensive industries. The only European bank that currently includes capital markets facilitation in its decarbonisation targets and carbon-related reporting – Barclays – applies a 33% weighting to its pro-rata share of facilitated amounts.</p>	<p><b>Banks green finance targets and disclosures often cover a broad range of products and services.</b> They usually don't differentiate financing activities (i.e. providing or facilitating capital) from other activities when they set targets, and sometimes fail to provide a breakdown across key products &amp; services when they report on progress. Differentiating financing from other activities is important to understand how much financing the bank is allocating to climate mitigation and adaptation as opposed to simply signalling willingness to expand its green product range. Most banks include capital markets facilitation in their green finance targets or disclosures, and all of them apply a 100% weighting to their pro-rata share of facilitated amounts. One of them – Commerzbank – even accounts for the full amount of the transaction when it takes a leading role.</p>
<p><b>Many banks rely on a conservative loan indicator – drawn amounts – when they set decarbonisation targets or report on carbon-related financing.</b> This indicator doesn't reflect the amount a bank has committed to provide or is providing to a client<sup>cxvii</sup>. It can also lead to artificial volatility unrelated to banks' lending practices.</p>	<p><b>Most banks rely on an ambitious loan indicator – total commitments – when they set green finance targets or report on green finance activity.</b> ShareAction advocates for banks to use this indicator as it is more transparent<sup>12</sup> and more directly correlated to banks' lending practices.</p>
<p><b>The lack of methodologies or data is often cited as a barrier to setting targets for some sectors (e.g. agriculture) and financing activities (e.g. capital markets facilitation). Most interim decarbonisation targets are set for periods of up to 10 years.</b> This is in line with the Net-Zero Banking Alliance's guidelines, which also give signatories three years to set targets<sup>cxviii</sup>. Developing methodologies and improving data is an iterative process, but immediate action is needed to achieve the goals of the Paris Agreement. A few banks demonstrate leadership by taking steps to remediate these gaps<sup>cxix</sup>.</p>	<p><b>Banks have been setting green finance targets and reporting on green financing activity for quite some time despite a lack of clear methodology and data challenges. Most green finance targets are set for periods of up to five years.</b> The lack of methodology and backward-looking approach to target setting (Section 2.1) makes it difficult to assess the level of ambition.</p>

<sup>12</sup> Total commitments can technically decrease while drawn amounts increase, as a bank could be providing more financing to a client while reporting less financed emissions in a year where it decides to reduce its commitments. However, this indicator is more consistent over time and better reflects the bank's capital allocation decisions and exposure to a sector.



## Recommendation

- Banks should take a consistent approach across green finance and carbon-related targets and disclosures to ensure they are not underestimating risks and negative impacts while overestimating opportunities and positive impacts. Banks should:
  - set both overarching targets and sectoral targets for green finance and carbon-related targets and disclosures.
  - include both lending and capital markets facilitation in green finance and carbon-related targets and disclosures, taking responsibility for their full share (100% weighting) of capital markets facilitation attributed to them in both cases.
  - take a proactive approach to driving ambitious standards and addressing gaps across both green finance and carbon-related targets and disclosures where a lack of methodology or data challenges have been identified.

# Section 5:

Banks face obstacles and challenges when providing or reporting on green finance



# Banks face obstacles and challenges when providing or reporting on green finance

Banks can and should do more to develop robust green finance targets and metrics. However, we recognise that there are obstacles and challenges. These mainly relate to incomplete regulation and reporting frameworks, lack of planning and structural barriers, and/or risk-return considerations hindering progress towards ‘greening finance’ – aligning products & services with a robust set of standards – and ‘financing green’ – expanding the pipeline of bankable green projects and allocating sufficient capital to these activities.

## 5.1. Incomplete regulatory landscape

The regulatory landscape for sustainable finance is fast evolving in the UK and the EU, but it remains unambitious or incomplete in some areas. No mandatory guidance exists for banks on key areas of their climate strategy. Where it exists, regulation must go further to establish standards, tackle greenwashing, and ensure banks measure the impact of their financing activities.

To ensure banks’ green financing activities consider planetary and societal impact, reporting frameworks must embed a double materiality approach, that is, they must require banks to report on the impact their financing has on people and planet as well as on their balance sheets. Sustainable finance regulation in the EU broadly embeds double materiality, which is already reflected in various pieces of regulation, notably the Corporate Sustainability Reporting Directive<sup>cxix</sup>. Other jurisdictions and international reporting standards should now follow suit. Regulators and standard-setting bodies should also seek to address gaps in current reporting frameworks and standards for banks, in particular around green finance target setting, impact reporting, and adaptation finance.

Taxonomies allow banks to make informed decisions, supporting them with setting and reaching their green finance targets based on standardised information. They also help address the risk of greenwashing by setting out science-based criteria for what can be considered environmentally sustainable. However, the recent decision to include certain gas and nuclear investments in the EU Taxonomy<sup>cxxi</sup> – following fierce country and industry lobbying – has undermined the credibility of the taxonomy and created legal uncertainty<sup>cxvii</sup>. The UK Green Taxonomy has faced numerous delays due to changeovers in government, and it remains unclear how the legislation will materialise<sup>cxviii</sup>, with the UK Government expected to consult the public in Autumn 2023<sup>cxviii</sup>. Meanwhile, the FCA has been developing new standards to tackle greenwashing by applying sustainability labels to investment funds, but the regime doesn’t apply to banks<sup>cxv</sup>.

Through their direct and indirect lobbying, banks have obstructed efforts to build a more robust regulatory landscape. For example, Barclays and Standard Chartered are members of the US Chamber of Commerce, which InfluenceMap has found to be the third most obstructive industry association when it comes to climate and sustainable finance policy<sup>cxxvi</sup>. Banks should conduct reviews of their trade associations' climate policy positions and introduce transparent governance processes, including regular audits and escalation procedures, to manage misalignments on green-related regulatory issues. Banks should also publicly push for double materiality, robust, science-based taxonomies, and other legislation as required to support the adoption of impactful and deliverable green finance targets.



### Recommendation

- Banks should disclose their position on green-related regulatory issues and membership of climate-related trade associations, and introduce a governance process to deal with any differences between their position and those of their trade associations.

## 5.2. Planning and structural barriers

Limited planning for green projects by national and local authorities poses a significant obstacle for banks looking to ramp up financing for new renewable energy. RES Policy Monitoring Database finds that spatial and environmental planning barriers exist in 25 EU countries for wind power and 22 for solar<sup>cxxvii</sup>. Some national planning rules force developers to construct green energy projects a significant distance from residential areas, or even arable land. To take an extreme example, the Hungarian Government introduced spatial restrictions in September 2016 that mean wind turbines are not permitted within 12 kilometres from residential areas, thus ruling out wind power in the entire country<sup>cxxviii</sup>. In its response to the UK's consultation on an updated Green Finance Strategy, Barclays notes that a key barrier to unlocking private investment is a lack of policy clarity, and points to the lack of a national decarbonisation roadmap for the UK's housing stock and central strategy for expanding the EV charging network<sup>cxxix</sup>.

The rapid rollout of renewable technologies is also hindered by infrastructure challenges, such as the inefficient operability of electricity grids. Currently, grid infrastructure is insufficient to transmit electricity generated by renewable technologies within and between EU member states. For example, faced with growing demand from electric vehicles and heat pumps and without the necessary investment in new grid infrastructure, TransnetBW, a German grid operator, appealed to citizens to reduce their energy consumption to avoid a blackout in

January 2023<sup>cxxx</sup>. In the UK, Carbon Tracker finds that “wind congestion costs” could increase average electricity bills for British households by almost £200 per year by 2030<sup>cxxxi</sup>. This is due to the lack of coordinated planning and underinvestment in the transmission grid, which is now unable to transmit all the electricity from wind turbines while gas-fired power plants are called on to compensate for the loss.

### 5.3. Risk-return considerations

A recent survey of energy and natural resources executives concluded that the leading barrier to allocating more capital to clean energy is not a shortage of capital, but a shortage of returns<sup>cxxxii</sup>. Banks willing to provide green finance might fail to identify opportunities presenting a risk-return profile they are comfortable with. This can be driven by a variety of factors, including increased costs associated with the structural barriers discussed above, but also market design<sup>cxxxiii</sup>, inadequate risk-return ratios for technologies that are not yet mature and deployed at scale, and perceived and actual risks in certain regions. For example, the cost of capital for a utility-scale solar project can be two or three times higher in emerging economies than in advanced economies<sup>cxxxiv</sup>.

Public intervention such as through blended finance or subsidies can help address these challenges and incentivise green finance<sup>cxxxv</sup>. But while the Inflation Reduction Act in the US has initiated a green subsidy race in various jurisdictions<sup>cxxxvi</sup>, many governments, including the UK and in the EU, continue to allocate an important part of their budget to fossil fuel subsidies<sup>cxxxvii</sup>. This allows fossil fuel assets to continue operating long after they have ceased to be cost-competitive, while also hindering proactive financing of the green energy transition<sup>cxxxviii</sup>.



#### Recommendation

- Banks should use their voice and influence to ensure that governments implement legislation that accelerates the transition to a climate and socially just world, including the removal of barriers to the scale up of green energy and technologies in a way that respects human rights.



# Conclusion



# Conclusion

Large scale investments in climate mitigation and adaptation are needed to avoid the most catastrophic impacts of climate change. As facilitators of funds, banks have a critical role to play in mobilising green finance. However, banks' green finance targets and disclosures are not fit for purpose. They are often generic, opaque, and in some cases misleading, making it difficult to determine whether banks are acting with the appropriate level of ambition and urgency needed to scale up green finance. This is against a backdrop of most banks failing to redirect financing away from polluting activities at the pace required in 1.5C scenarios. In addition, banks take an inconsistent approach across green finance and carbon-related targets and disclosures, often overestimating climate opportunities and positive impacts while underestimating risks and negative impacts. Such inconsistencies expose banks to accusations of greenwashing.

To ensure that banks live up to their critical role as mobilisers of green finance, ShareAction is calling on bank executives to implement the recommendations in this report, drawing from examples of leading practice wherever possible. We will seek to drive action by engaging with banks and their investors to ensure that banks' green finance targets and disclosures are robust and transparent – as well as continuing to campaign for an end to financing for new fossil fuels. Banks' shareholders also have an important role to play in holding them to account, and we urge these investors to use their influence during the 2024 AGM season and beyond.

# Methodology



# Methodology

This analysis features the 20 largest listed European banks, including banks headquartered in the EU, the UK, Norway and Switzerland. We selected banks based on their total assets, according to the S&P 2023 list of the world's 100 largest banks<sup>xxxix</sup>. This resulted in the following banks: Barclays, BBVA, BNP Paribas, CaixaBank, Commerzbank, Crédit Agricole, Credit Suisse, Danske Bank, Deutsche Bank, HSBC, ING, Intesa Sanpaolo, Lloyds Banking Group, NatWest, Nordea, Santander, Societe Generale, Standard Chartered, UBS, and UniCredit.

The research cut-off date for this analysis was 30 June 2023. Any commitments or disclosures made after that date are not reflected in the findings. Credit Suisse was included as its merger with UBS had not been completed as of the cut-off date. Therefore, this report provides a pre-merger overview of the two banks' green finance practices and identifies areas where one bank was performing better than the other, which can inform post-merger engagement.

We developed a framework to collect data on banks' green finance targets and disclosures, based on our 2022 banking survey and further scoping work conducted in 2022–23. We conducted interviews with representatives of banks, investors, NGOs, and other experts and practitioners. We collected data from public disclosures including annual reports, TCFD reports, sustainability reports, non-financial reports, pillar 3 disclosures, CDP questionnaires, sustainable finance frameworks, and green bond allocation reports. We subsequently shared the data with banks which were given 10 business days to review it and provide comments. All banks verified the data except UBS and Credit Suisse (90 per cent response rate). The findings and statistics included in this report rely exclusively on information available in the public domain.

Our analysis focuses on banking activities and excludes green finance targets and disclosures related to asset management activities unless these are aggregated. Green finance targets and disclosures were selected based on a broad definition of green finance (see What we mean by green finance targets and disclosures). Some targets were included even if the bank used a different terminology, such as 'ambition' or 'initiative'. To be considered as targets, green finance metrics had to be communicated with an end date. Green finance disclosures include reporting against targets and other green finance metrics that are not connected to a target.

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