TPI Global Climate Transition Centre
Research and Data at LSE

LSE Global School of Sustainability

State of the Banking Transition 2026

The TPI Global Climate Transition Centre at LSE

The TPI Global Climate Transition Centre (TPI Centre) is an independent, authoritative source of research and data on the progress of corporate and sovereign entities in transitioning to a low-carbon economy. It is part of the Global School of Sustainability at the London School of Economics and Political Science (LSE). The TPI Centre is the academic partner of the Transition Pathway Initiative (TPI), a global initiative led by asset owners and supported by asset managers, aimed at helping investors and other stakeholders assess company, bank and sovereign progress on the transition to a low-carbon economy and supporting efforts to address climate change. More than 155 investors globally, representing approximately US$80 trillion[1] combined Assets Under Management and Advice, have pledged support for TPI. The TPI Centre is also the academic research expert of Assessing Sovereign Climate-related Opportunities and Risks (ASCOR). The TPI Centre provides data on listed equities, corporate bond issuers, banks and sovereign bond issuers. The TPI Centre's company data:

- Assess the quality of companies' governance and management of their carbon emissions and of risks and opportunities related to the low-carbon transition
- Evaluate if companies' current and planned future emissions align with international climate targets and national climate pledges, including those made as part of the Paris Agreement
- Form the basis for the Climate Action 100+ Net Zero Company Benchmark Disclosure Framework assessments
- Provide detailed assessments of companies' transition plans in high-emitting and hard-to-abate sectors
- Are published alongside the methods online. They are public and free to use for non-commercial purposes and available at www.transitionpathwayinitiative.org.

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[1] This figure is subject to market-price and foreign-exchange fluctuations and, as the sum of self-reported data by TPI supporters, may double count some assets.

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Summary: key findings

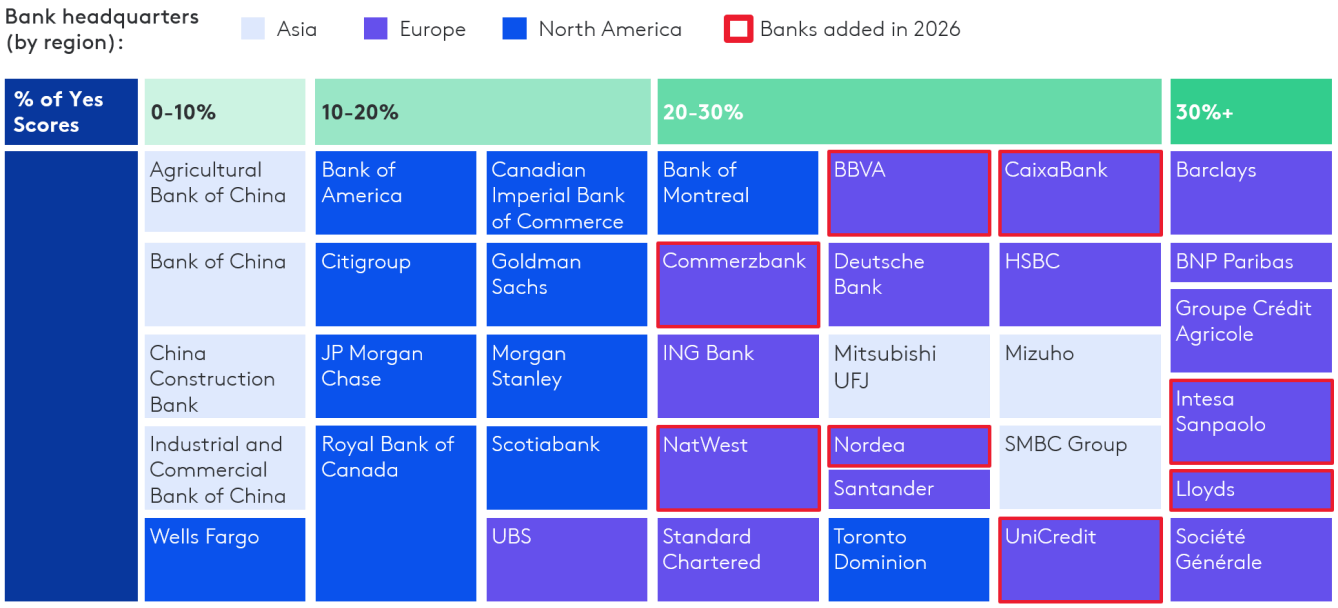
The TPI Centre's *State of the Banking Transition 2026* report reviews the progress of 36 large global banks on the low-carbon transition using two assessment tools: the Net Zero Banking Assessment Framework and Carbon Performance for Banks. Our analysis reveals that over a decade after the Paris Agreement, banks remain at an early stage in enabling the transition to a low-carbon economy. Indeed, there are signs of stalling. In the past three years, assessed banks have reduced their low-carbon ambition overall, with some even cancelling their commitments, targets and policies outright. Amid shifting regulatory expectations, the pace at which banks are enabling the low-carbon transition warrants continued scrutiny. This report provides a basis for assessing how banks' climate commitments and policies are evolving, including where they are being scaled back.

Net Zero Banking Assessment Framework

Our Net Zero Banking Assessment Framework (NZBAF) is a tool that uses a structured set of 72 sub-indicators (questions) to evaluate a bank's transition plan. In 2026, banks met an average of 19% of the NZBAF's sub-indicators, down from 20% in 2024, based on the sub-indicators that are comparable across assessment cycles.[2] Across eight of the nine areas of the framework, scores have either remained flat or fallen since 2024. Over the last year, half of the assessed banks have weakened their disclosures on at least one sub-indicator. Banks in North America have weakened their disclosures the most, followed by banks in Europe. Performance of banks in China and Japan has remained stable, although Chinese banks continue to score lower than their Japanese peers.

Banks that have retreated on climate-related policies have either withdrawn policies outright or weakened them. The area where scores have decreased the most is on net zero commitments. In 2026, banks met an average of 22% of the sub-indicators in this area, down from 33% in 2024. Two main drivers explain this decrease in scores: banks have either cancelled their commitments outright or weakened their language, reframing 'commitments' as looser 'ambitions'. Separately, some banks have reduced the scope of their climate strategies. This is the case for financing conditions for high-emission companies and sectors, where eight banks have weakened their disclosures over the past three years.

Figure S.1. Overview of the 36 assessed banks' performance on the NZBAF in 2026



[2] For comparisons across years, the assessment sample is limited to the 26 banks and 57 sub-indicators that have been assessed in 2024, 2025 and 2026. Due to methodological changes, the following sub-indicators are not comparable: 2.2.b, 2.2.c, 2.2.d, 3.1.b, 3.5.a, 4.2.2.a, 5.1.b, 5.1.c, 5.1.d, 5.2.a, 5.2.b, 5.2.c, 9.2.a, 9.3.a, 9.3.b

There are large differences in average scores across jurisdictions, consistent with differences in the regulation and policy context (see Figure S.1). All the European Union banks we assess disclose some of their absolute financed emissions and credit exposure to high-emission sectors. In line with mandatory disclosure requirements, they also publish the share of their financial exposure that relates to high-emission sectors and climate solutions. Chinese banks score poorly on the NZBAF overall. However, all Chinese banks disclose evidence of a board committee responsible for oversight of climate change, in line with regulatory requirements. Finally, some Canadian and US banks have weakened their net zero commitments, scrapped sectoral decarbonisation targets and stopped classifying climate-related risks as material, reflecting the changing policy context in the region.

Carbon Performance for Banks

Our Carbon Performance for Banks tool assesses which sectors and business activities banks set decarbonisation targets for and whether their sectoral decarbonisation pathways align with low-carbon benchmarks. In 2026, 10% of all possible bank sectoral pathways were aligned with low-carbon benchmarks, down from 12% in 2024. Three factors have driven these changes: the withdrawal of targets, updating existing targets to aim for a less ambitious outcome and changes in the underlying data. Both Royal Bank of Canada and Scotiabank in Canada, as well as Wells Fargo in the US, have withdrawn their sectoral targets. Other banks have either updated the reference scenario they use to set targets or changed the end goal of these targets. Finally, some banks have restated their historical emissions baselines following improvements in data quality.

Since peaking in 2022 and 2023, sectoral target-setting has declined sharply. In total, 64% of all 2030 sectoral targets were set in 2022 and 2023. No bank assessed during the past three years has set new short-term (2030) targets in 2026. While most banks have targets for autos, electricity utilities, oil & gas and steel, few cover chemicals, diversified mining, food and metallurgical coal. The scope of business activities that these targets cover is also limited relative to the breadth of banks' activities.

In focus: climate-related risks in financial statements

While 83% (30/36) of the banks we assess classify climate-related risks as a key risk, only seven (all European) disclose the underlying accounting assumptions and judgements used to quantify climate-related risks in their financial statements. Partly driven by increased expectations from financial supervisors, European banks have begun to provide more comprehensive disclosures on how they integrate climate-related risks into their risk-management processes. Disclosing climate-related assumptions, judgements and estimates enables bank stakeholders to understand how a bank's management reached a specific conclusion on the impact of climate-related risks, and compare the treatment and accounting of such risks across banks.

Most banks that recognise climate-related risks in their financial statements do so through expected credit loss under the IFRS 9 accounting standard. While most banks use macroeconomic scenarios to integrate climate-related effects into their expected credit loss, more advanced banks supplement these scenarios with granular sectoral and client-specific information. In relation to mortgages, for example, banks may use flood risk data to adjust the collateral's value. Beyond expected credit loss, only a minority of banks mention climate-related risk in other financial statement items. Most banks frequently assert that climate-related risk is already captured in market prices.

Banks are less likely to consider climate-related risk as material in the short term than in the long term. In the short term, nine banks state that climate change does not have material effects on their operations, while 11 remain inconclusive on its impact. In the long term, however, no bank asserts that climate risks are immaterial. These results are consistent with climate change being a novel risk for banks, where historical data provide limited insight into future developments.

1. Introduction

The TPI Centre's *State of the Banking Transition 2026* report presents the results of our latest assessment of the banking sector's progress on the low-carbon transition. Building on our 2024 and 2025 assessments, we evaluate the low-carbon transition measures taken to date by 36 of the world's largest banks by market capitalisation and total assets, and quantify the alignment of their decarbonisation targets with global climate goals. We have assessed the banks based on information published before 24 July 2026.

Assessment methodology

The TPI Centre's banking assessment comprises two elements: the Net Zero Banking Assessment Framework (NZBAF) and Carbon Performance (CP) for Banks.

- The NZBAF is a granular framework that evaluates banks' overall performance in managing the low-carbon transition and mitigating the impacts of climate change. It is based on a set of investor expectations published by the Institutional Investors Group on Climate Change (IIGCC) in 2021[3] and the resultant Net Zero Standard for Banks.[4] In collaboration with IIGCC and Ceres, we translated these investor expectations into 72 sub-indicators across nine areas; Section 2 presents these results.
- CP for Banks shows which sectors and business activities are covered by banks' emissions reduction targets. It also measures banks' sectoral decarbonisation pathways over different timeframes and their alignment with international climate goals at the sectoral level (1.5°C, Below 2°C and National/International Pledges – see Appendix 2); Section 3 presents these results.

See our website for the full methodology and assessments of individual banks.

Assessment principles

The TPI Centre's banking assessments are guided by the key design principles of transparency, accountability and robustness, which are essential for ensuring the credibility of the assessment process. The assessment principles in full are:

1. **Assessments must be based solely on publicly available bank disclosures.** Transparency from banks on how they manage climate risks is critical to the TPI Centre's ability to assess them. It also enables users to understand and verify assessment outcomes. Using only public data ensures that banks are assessed consistently and fairly.
2. **Indicators can be evaluated objectively.** All stakeholders who use TPI Centre data should be able to understand the rationale behind scores across indicators.
3. **The assessment framework is relevant for all banks.** The framework should consider the variety of banks' business models and be applicable to as many banks as possible.
4. **The framework aligns with existing initiatives.** Several indicators are linked to the Climate Action 100+ Net Zero Company Benchmark, and the indicators are largely aligned with the S2 Climate-related Disclosures Standard of the International Sustainability Standards Board (ISSB).[5]
5. **Indicators apply to the bank as an aggregated entity.** The TPI Centre's analysis reflects commitments and practices at the group-wide level.

[3] See IIGCC (2021) *Aligning the Banking Sector with the Goals of the Paris Agreement*.
[4] See IIGCC (2023) *Net Zero Standard for Banks*.
[5] This Standard succeeded the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) in October 2023.

Updates for the 2026 assessment cycle

Updated coverage

The 2026 assessment cycle focuses on European banks, in addition to the previously assessed 'global systemically important banks' (GSIBs). Since 2023, we have assessed 26 major international banks annually. We added two banks to our core assessment sample in 2025 to complete the coverage of all GSIBs.[6] Since 2024, we have complemented our core assessments with an in-focus section. In 2024, we focused on US super-regional and custodian banks; in 2025, we focused on banks in Australia, Brazil and India; and in this report, we focus on European banks. For a full list of banks assessed since 2023, please refer to the *Banking tool: research update*.

Changes to the NZBAF

Since the last assessment cycle, we have implemented several revisions to the NZBAF. We conducted a stakeholder consultation on the banking tool and potential changes to the NZBAF from 4 December 2025 to 31 January 2026. More details on the consultation are available in the *Banking tool: 2025 consultation report*. Following this consultation, we removed or updated 16 sub-indicators. The NZBAF now has 72 sub-indicators. The *Banking tool: research update* summarises all changes.

Note on assessment sample

Throughout the report, unless otherwise specified, discussions of 2026 scores are based on our total assessment sample of 36 banks and the 72 sub-indicators present in the 2026 version of the NZBAF. For comparisons between 2026, 2025 and 2024 scores, the assessment sample is limited to the 26 banks and 57 sub-indicators assessed across these three years.[7]

This report is part of the TPI Centre's flagship trilogy of reports:

1. *State of the Banking Transition 2026* (October 2026)
2. *State of the Sovereign Transition 2026* (forthcoming, November 2026)
3. *State of the Corporate Transition 2027* (forthcoming, spring 2027)

[6] Excluding certain state-owned GSIBs and custodian banks.

[7] For comparisons across years, the assessment sample is limited to the 26 banks and 57 sub-indicators that have been assessed in 2024, 2025 and 2026. Due to methodological changes, the following sub-indicators are not comparable: 2.2.b, 2.2.c, 2.2.d, 3.1.b, 3.5.a, 4.2.2.a, 5.1.b, 5.1.c, 5.1.d, 5.2.a, 5.2.b, 5.2.c, 9.2.a, 9.3.a, 9.3.b

2. Net Zero Banking Assessment Framework

This section presents the results of our assessment of banks' disclosures using the NZBAF. The methodology note details the framework's structure.

Overview of NZBAF results

Banks' overall performance on the NZBAF is weak (see Figure 2.1). On average, the 36 banks assessed this year score on only 21% of the 72 sub-indicators, and no bank scores on more than a third of the sub-indicators.

However, the performance of banks varies considerably across the nine areas of the NZBAF (see Figure 2.2). Banks score comparatively well on areas related to exposure and emissions disclosure (area 3) and climate solutions (area 5). They perform relatively worse on topics relating to their decarbonisation strategy (area 4), including applying financing conditions and restrictions on fossil-fuel and other high-emission companies. No bank meets the assessment criteria on climate-lobbying commitments (area 6).

Scores vary significantly based on where the bank is based. On average, banks with headquarters in China score on only 6% of sub-indicators, compared with 13% of banks based in the US, 19% in Canada, 26% in Japan and 27% in Europe. The regulatory and political environment in which each bank operates is one factor behind these different scores. However, even within the same region, bank scores can vary considerably. In the Europe, for example, the best and worst performers are around 15 percentage points apart. The relationship between jurisdiction and banks' performance on the NZBAF is explored in depth below (see 'A jurisdictional lens on bank performance').

Figure 2.1. Overview of the 36 assessed banks' performance on the NZBAF in 2026

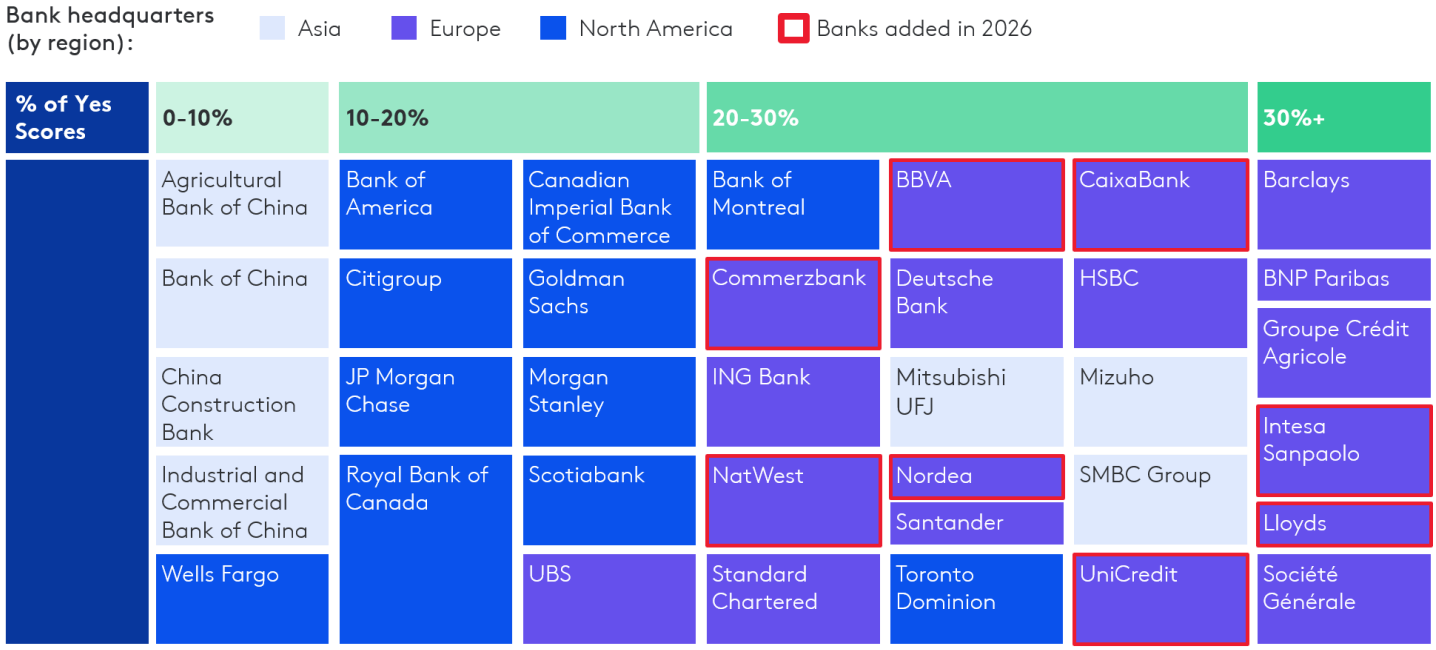


Figure 2.2. Performance of the 36 assessed banks on the NZBAF across its nine areas

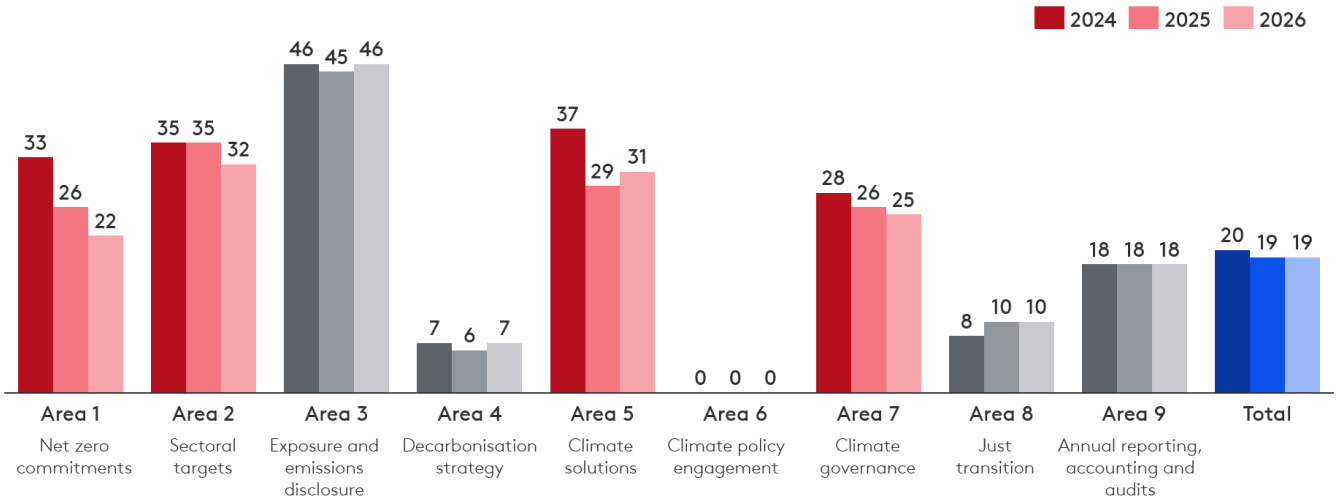
Yes | No | Not applicable

Areas	Scores	Key findings
1 Net zero commitment	25% Yes, 75% No	While most banks express some aspiration to achieve net zero, only 50% have set concrete commitments to net zero financing by 2050. Even these concrete commitments typically cover only part of their financing or facilitation activities.
2 Sectoral targets	31% Yes, 69% No	29/36 banks have sectoral targets, though most are short-term (2030). Targets covering autos, electricity utilities, oil and gas and steel account for half of all targets set. Their coverage focused on lending and project finance activities.
3 Exposure and emissions disclosure	42% Yes, 53% No, 5% Not applicable	24/36 banks disclose exposure to high-emissions sectors, though most cover only their loan books. 31 banks disclose absolute and physical emissions intensities, but only 20 disclose absolute emissions across all material sectors and just five do so for physical emissions intensities.
4 Decarbonisation strategy	6% Yes, 94% No	Few banks disclose robust policies that operationalise their climate commitments.
Financing conditions for high-emission sectors	5% Yes, 95% No	Only six banks disclose financing conditions for high-emission sectors and just one discloses actions taken to enforce these conditions. Five banks have weakened their disclosures this year.
Revenue alignment	0% Yes, 100% No	No bank has a target to increase revenue derived from 1.5°C-aligned assets.
Asset management strategy to increase portfolio alignment	14% Yes, 86% No	Nine banks disclose the percentage of assets under management invested in assets aligned with a 1.5°C pathway and five have a goal to increase that percentage. Only one bank discloses a criteria-based escalation policy for voting and engagement with investee companies that do not align with a 1.5°C pathway.
Exclusion policies for fossil fuel activities	2% Yes, 98% No	Three banks commit to ending all project finance dedicated to the exploration and development of new oil and gas. No other bank scores in this area.
Financing policies to misaligned land conversion activities	1% Yes, 99% No	Only one bank discloses client expectations around deforestation in at least one high forest-risk commodity in line with ending deforestation immediately. No other bank scores in this area.
Climate scenario analysis	11% Yes, 89% No	Nine banks disclose quantified results from physical-risk scenario analysis and seven do so for transition risk.
5 Climate solutions	36% Yes, 64% No	30/36 banks disclose granular climate-solutions financing and 35/36 banks disclose statistics quantifying the impact of that financing. However, only 17 banks disclose climate financing targets and only two banks align these targets with national, regional, or global taxonomies.
6 Climate policy engagement	0% Yes, 100% No	No bank aligns its lobbying activities with a 1.5°C target.
7 Climate governance	29% Yes, 71% No	While 30 banks disclose whether a board committee or director is responsible for climate oversight, only one discloses an assessment of its board's competencies on climate risk.
8 Just transition	11% Yes, 89% No	No bank has an overall commitment to a just transition, although eight incorporate just-transition actions into their climate strategy.
9 Annual reporting, accounting, and audits	18% Yes, 82% No	30 banks include climate risk as a material risk in their annual reports, but only seven disclose how these risks are incorporated into their financial statements.
Total	21% Yes, 78% No, 1% Not applicable	

Year-on-year comparison

On the comparable set of banks and sub-indicators assessed since 2024,[7] the proportion of banks that meet our assessment criteria has decreased by one percentage point from 2024 to 2026. Across eight out of nine areas of the framework, scores have either fallen or remained flat since 2024 (see Figure 2.3). Over the last year, half the assessed banks have weakened their disclosures on at least one sub-indicator. Although the net change is modest, scores in some areas have fallen more steeply than in others. Retreat across the framework takes two main forms: the withdrawal of targets and commitments, and a quieter weakening of the policies underpinning commitments banks have formally retained.

Figure 2.3. Year-on-year score changes among the 26 banks assessed between 2024 and 2026



Over the past three years, banks have retreated most on their net zero commitments (area 1). The average score in this area has dropped from 33% in 2024 to 22% in 2026, though the change varies by region. The average score of North American banks has declined by 21 percentage points (from 33% to 12%), the largest regional fall. The average score of European banks has fallen by less, by 13 percentage points (from 42% to 29%). By contrast, the average score of Japanese banks has risen by 11 percentage points (from 56% to 67%). Chinese banks have not scored in this area over the years.

Banks that no longer meet the criteria for scoring in area 1 have either cancelled their net zero commitments outright or weakened their language. To be assessed as having a net zero commitment, a bank must make an explicit commitment to reaching net zero across its financed and/or facilitated emissions by 2050 or sooner. Seven banks no longer meet this threshold. Some have removed their commitment outright, replacing it with a looser statement, such as a general wish to support the net zero transition. Others have retained the goal of net zero financed emissions by 2050 but now frame it as an 'ambition' instead of a 'commitment'. One bank has retained its net zero commitment, but is less specific about the business activities it covers.

The retreat seen in net zero commitments extends to banks' climate strategies. On financing conditions for high-emission companies (4.1.1), eight banks have weakened their disclosures between 2024 and 2026: some have narrowed the conditions under which the policy applies, while others have weakened enforcement or added exceptions. On executive remuneration linked to climate-related key performance indicators (7.2), five banks have weakened their disclosures between 2024 and 2026. Some banks have removed specific climate metrics, such as progress toward net zero targets, from their remuneration policies altogether. Others have folded them into a broader sustainability category alongside social and diversity measures, and no longer disclose the weighting climate carries in executive remuneration.

A jurisdictional lens on bank performance

There are large differences in the average scores of banks across different jurisdictions, as discussed in our overview of the 2026 NZBAF results above. Several patterns in the data are consistent with the regulatory and policy environment in each jurisdiction. What follows is not a formal causal analysis, but a partial account linking jurisdiction to banks' NZBAF performance.

Every EU bank in our sample scores on disclosure of absolute financed emissions (3.2.a), credit exposure to high-emission sectors (3.1.a), the share of financial exposure covered by sectoral decarbonisation targets (2.2.b) and climate solutions financing (5.2.a), reflecting mandatory disclosure requirements in these areas. EU prudential rules require large banks to disclose climate-related financial risk through a set of mandatory disclosure templates known as the EU's Environmental, Social and Governance (ESG) Pillar 3 framework.[8] These templates require large EU banks to report the climate-risk metrics underpinning these four sub-indicators, including financed emissions, carbon-intensive exposures, portfolio alignment and taxonomy-aligned climate-solutions financing (European Banking Authority, 2022).[9,10] No other jurisdiction in which assessed banks are headquartered requires climate-related disclosure in standardised, prescribed templates to the extent of the EU. Many other jurisdictions have prudential or other disclosure requirements covering similar categories of information, but they allow banks greater discretion over how such information is defined, measured and presented, rather than prescribing templates as the EU Pillar 3 does.[11]

While Chinese banks score low across the NZBAF, all four Chinese banks assessed disclose evidence of a board committee responsible for oversight of climate change (7.1.a) and score on some sub-indicators linked to the disclosure of climate-solutions financing (area 5). The focus on financing green activities is consistent with the policies of the Chinese government, whose climate approach prioritises investment in green and transition activities rather than reductions in high-emitting activities, such as coal (International Energy Agency [IEA], 2025). In China, because the banking regulator and the central bank are not independent of the government, both transmit these priorities to banks (Chan, 2019; Larsen and Jackson, 2025). For example, the regulator has established green finance guidelines that require board-level responsibility (China Banking and Insurance Regulatory Commission [CBIRC], 2022) and the People's Bank of China is among the few major central banks to allow banks to refinance eligible green lending at reduced rates (Larsen and Jackson, 2025). Both measures are reflected in the areas where all Chinese banks score: climate solutions financing (5.2.a) and disclosure of board oversight of climate (7.1.a). One bank, Bank of China, also scores on several sub-indicators relating to its climate solutions financing target (5.1). Chinese banks do not score in other areas of the framework where there is no regulatory push: no Chinese bank has set a net zero commitment or sectoral targets, disclosed financed emissions or restricted financing to high-emission sectors.

Banks with their headquarters in the US have retreated considerably since 2024. They also focus on a narrower set of issues than European and Japanese banks. Prudential authority in the US is divided among three federal agencies,[12] none of which has a binding climate requirement. The only climate-related supervisory guidance that the Federal Reserve published in 2023 was rescinded in 2025 (Federal Reserve et al., 2025). Banks in the US have retreated most visibly on net zero commitments, but also in other areas such as recognising climate as a material risk and disclosing scenario-analysis results. This has coincided with sustained anti-ESG pressure. Republican state attorneys general threatened banks with antitrust action for participating in climate alliances such as the Net Zero Banking Alliance (NZBA), which US

[8] Commission Implementing Regulation (EU) 2024/3172.

[9] These requirements derive from Article 449a of the Capital Requirements Regulation. The disclosure templates were drafted by the EBA (2022) and adopted as binding law in Commission Implementing Regulation (EU) 2024/3172.

[10] The requirement to disclose the share of assets financing EU taxonomy-aligned 'green' activity (the Green Asset Ratio) – disclosure that has been considered for EU banks in Indicator 5.2 – is being removed as part of the EU's simplification of its reporting requirements. Enforcement of the relevant templates was first suspended by an EBA no-action letter (EBA, 2025), and the templates were then formally removed in the EBA's final amending technical standards (EBA, 2026), which apply from the 31 December 2026 reference date.

[11] Several of the jurisdictions assessed require banks to disclose similar climate-related information to the EU's ESG Pillar 3 templates, either through prudential regulation or corporate disclosure law. What sets the EU apart is that its ESG Pillar 3 framework prescribes fixed templates and so every bank completes the information in the same format. Most other jurisdictions assessed rely instead on principles-based frameworks (such as the TCFD recommendations or IFRS S2), which specify the information to be disclosed but let banks choose the format. This describes the position as of financial year 2025.

[12] The Federal Reserve, the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation.

banks left over the period. The NZBA itself ceased operating as a membership alliance in October 2025. Several US states also restricted public business with financial institutions deemed to limit fossil-fuel financing (Segal, 2025; Rives, 2025). Beyond this retreat, the focus of US banks is also narrow: they score on only 16 of the 72 sub-indicators in the framework. Where they go beyond the Chinese banks is in setting sectoral targets and reporting some financed emissions. However, even within emissions disclosure, US banks tend to score on fewer sub-indicators than banks in other regions, as they miss those relating to the comprehensiveness of their disclosures, such as disclosing financed emissions for all material high-emission sectors.

Canadian banks have also retreated over the period, most notably on net zero commitments and sectoral targets. Many of the assessed Canadian banks have substantial US operations and are therefore not immune to the US context described, even though anti-ESG pressure in Canada has been limited. One bank in our sample had its US subsidiary placed on a US state's restricted-institution list over its climate stance (Jones, 2024). The retreats have also coincided with mixed policy signals: the securities regulators paused mandatory climate-disclosure rulemaking, and the prudential regulator delayed its expectation for banks to disclose financed emissions to 2028 (Canadian Securities Administrators, 2025; Office of the Superintendent of Financial Institutions, 2025). A further factor specific to Canada was the 2024 amendment of the Competition Act (Bill C-59), which made banks' public climate claims harder to defend: it reversed the burden of proof for environmental claims and exposed companies to litigation. Some institutions cited this uncertainty as a reason for scaling back their disclosures (Institute for Sustainable Finance, 2025).[13]

[13] A further amendment to the Competition Act in March 2026 narrowed these provisions (Gambetta, 2026).

3. Carbon Performance for Banks

This section presents our assessment of how banks' sectoral decarbonisation targets align with the TPI Centre's low-carbon benchmarks. The methodology note details the framework's structure.

Banks' sectoral target coverage

Having sectoral decarbonisation targets is common practice for banks, though most targets are short-term (2030). Of the 36 banks assessed, 29 have set at least one sectoral decarbonisation target (see Figure 3.1) and all banks with targets have set at least one short-term (2030) sectoral target. The prioritisation of 2030 targets aligns with the United Nations Environment Programme – Finance Initiative's (UNEP FI) 2025 recommendations. Medium- and long-term targets are much less common, with only one bank setting targets for the medium term (2031–2035) and four for the long term (2036–2050). Medium- and long-term targets are essential for shaping banks' full sectoral decarbonisation pathways, as cumulative emissions ultimately determine the increase in global mean temperature. Deutsche Bank is the only bank that sets short- and long-term targets for multiple sectors. Its targets cover nine of the 15 high-emission sectors identified by the TPI Centre.[14]

In the short term, banks with sectoral targets cover an average of 6.6 of the 15 high-emission sectors. The European banks in our sample have the most comprehensive short-term target-setting approach, covering an average of 7.2 sectors. Japanese banks average 6.3 sectors and North American banks average only 5.4 sectors. Citigroup and Standard Chartered have set targets covering the greatest number of sectors: 10 of the 15 high-emission sectors. Importantly, due to their different business models, not all banks are materially exposed to all high-emission sectors.[15]

Four sectors account for 54% of all sector coverage by banks' decarbonisation targets: electricity utilities, autos, oil & gas and steel. Targets covering electricity utilities are held by 81% of banks, compared with 75% for autos, 72% for oil & gas and 58% for steel. These sectors were also among the first for which the NZBA published sector-specific guidance.[16] The sectoral coverage pattern broadly reflects the sector materiality[15] we estimate for banks, suggesting they tend to prioritise target-setting in sectors with the largest lending exposure. By comparison, few banks set targets for chemicals, diversified mining, food, and metallurgical coal.[15]

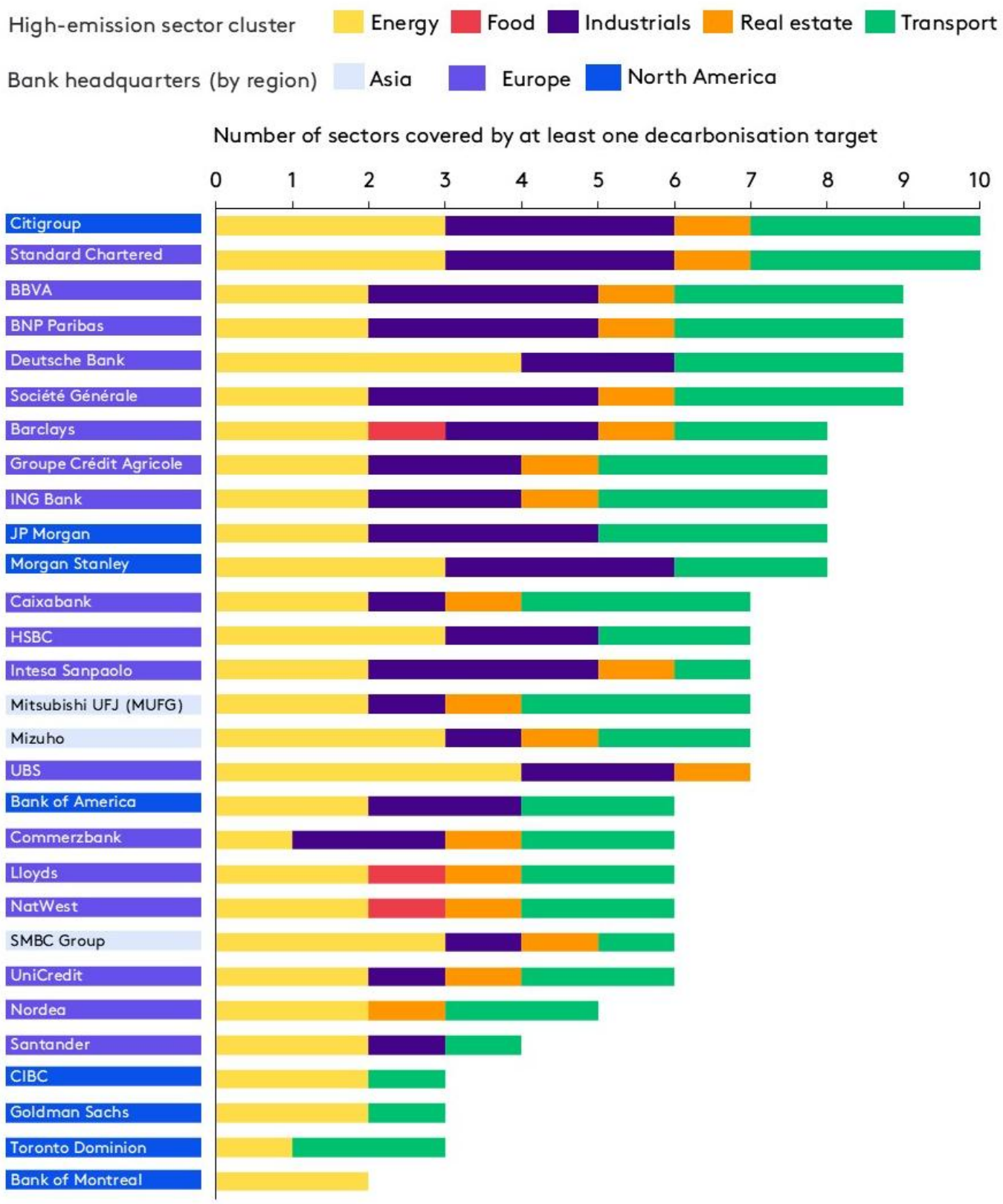
Banks' sectoral decarbonisation targets are limited in scope relative to the breadth of their activities. Regarding short-term targets, 99% cover general corporate lending and 78% cover project finance. Only 17% cover debt and equity facilitation and 15% cover listed debt and equity. No target covers advisory services, derivatives, treasury, sales and trading or insurance. Banks cite the absence of established methodologies for attributing emissions to these business activities, all of which (except insurance) fall outside the scope of current guidance from UNEP FI (2025) and Partnership for Carbon Accounting Financials (PCAF, 2025).

[14] The TPI Centre has identified the following high-emission sectors: airlines, aluminium, autos, cement, chemicals, coal mining (thermal), coal mining (metallurgical), diversified mining, electricity utilities, food, oil & gas, paper, real estate, shipping and steel.

[15] Banks have different business models with varying levels of exposure to distinct business activities and high-emission sectors. For the lending portfolio, a high-emission sector is considered material if its exposure equals or exceeds 1% of the bank's total lending portfolio. As a result, banks are expected to set targets only for sectors material to their business.

[16] The NZBA ceased operations in October 2025, though its guidance remains publicly available. New guidance and other supporting materials for banks have been published under the United Nations Environment Programme – Finance Initiative (UNEP FI).

Figure 3.1. Sectors covered by the 36 assessed banks by at least one sectoral decarbonisation target

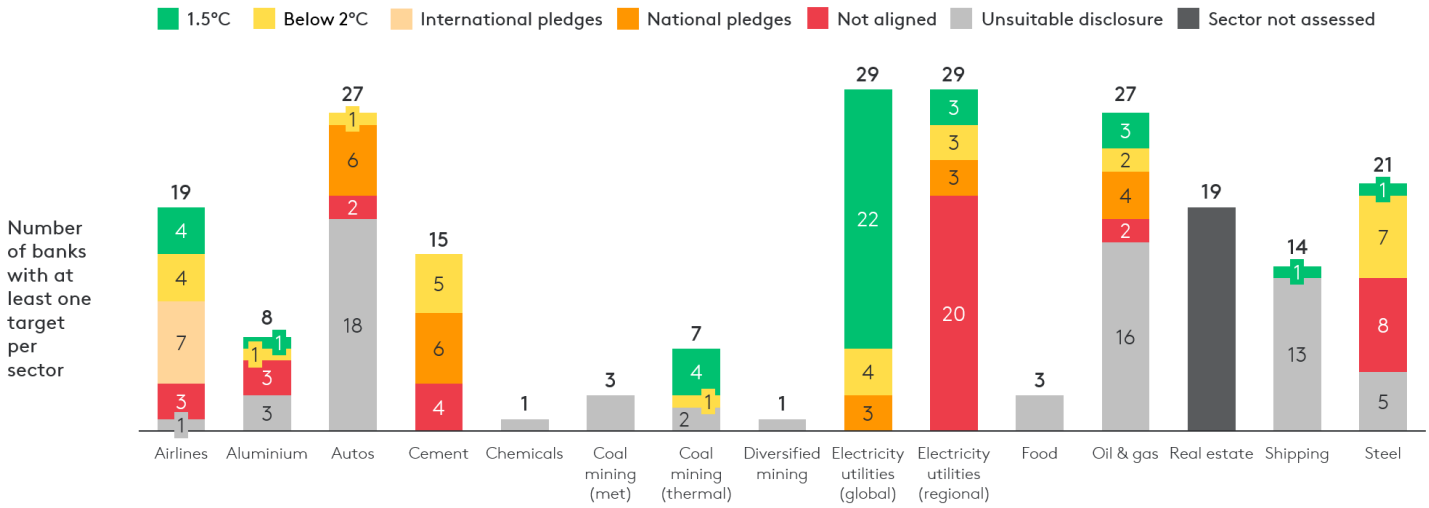


Alignment of banks' sectoral decarbonisation pathways

Just over half (56%) of the assessed banks' sectoral pathways in the short term follow a methodology comparable to the TPI Centre Carbon Performance benchmarks and can therefore be tested for alignment against them. Comparability is highest in the cement and electricity utilities sectors, where all banks' targets can be assessed on Carbon Performance. Comparability is also high in airlines, aluminium, thermal coal mining and steel. For sectors such as autos, oil & gas and shipping, banks adopt a wider range of metrics with different emission scopes and activity boundaries, which often cannot be mapped to the TPI Centre benchmarks.[17]

Alignment with low-carbon benchmarks varies considerably across sectors.[18] Thermal coal mining shows the highest alignment at 71%, while cement (33%) and aluminium (25%) show the lowest. Electricity utilities is highly aligned against global benchmarks, at 90%. However, when assessed against regional benchmarks,[19] their low-carbon alignment falls to 21%.[20] This suggests that global benchmarks may overstate the extent to which banks' power portfolios are on track, particularly for banks whose electricity utilities exposure is primarily in their home market. Autos (4%), shipping (7%) and oil & gas (19%) also show limited low-carbon alignment against global benchmarks. However, as the majority of targets in these sectors are set using methodologies that differ from our approach, the figures are not representative of the sample.

Figure 3.2. Alignment of the 36 assessed banks with the TPI Centre's low-carbon benchmarks in the short term (2030), by sector



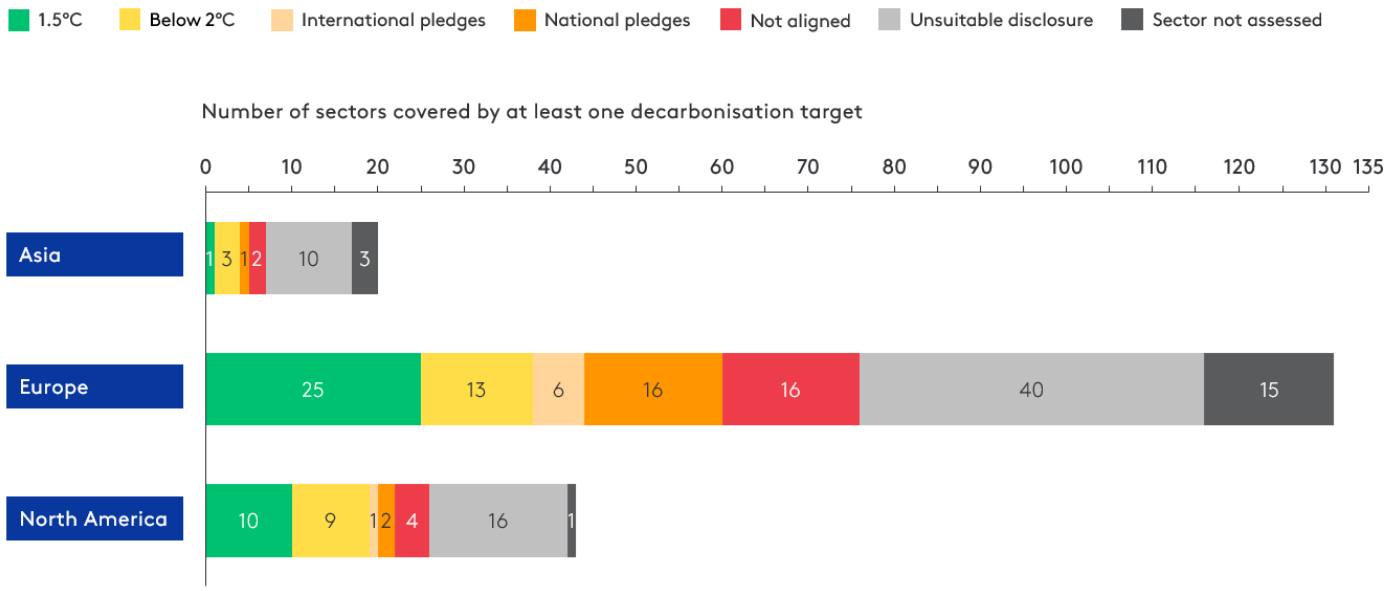
[17] For autos, banks predominantly disclose emissions using grams (g) of CO_2/per vehicle-kilometre (vkm) based on lifetime kilometres travelled. This differs from the TPI Centre's gCO_2/km-Worldwide Harmonised Light vehicles Test Procedure (WTLP) approach, which is based on newly sold cars. For oil & gas, banks tend to disclose absolute emissions targets rather than emissions intensities. For shipping, banks predominantly report a Poseidon Principles alignment score rather than the emissions intensities.

[18] Low-carbon benchmarks are 1.5°C or Below 2°C pathways.

[19] To date, the TPI Centre has developed regional benchmarks only for the electricity sector (see Dietz et al., 2024).

[20] We assign banks to a region based on the location of their headquarters. The regions used by the TPI Centre are: Organisation for Economic Co-operation and Development (OECD), Non-OECD, Europe and North America.

Figure 3.3. Alignment of the 36 assessed banks with the TPI Centre's low-carbon benchmarks in the short term (2030), excluding electricity utilities (regional)



Alignment with low-carbon benchmarks in 2030 varies by region: 44% of North American banks' pathways are aligned, ahead of European banks at 29% and Japanese banks at 20%. North American banks show greater alignment in 2030 than their European peers, even when excluding real estate, which cannot be assessed against TPI Centre benchmarks, and shipping and oil & gas, which have high levels of unsuitable disclosure among European banks. North American banks remain more aligned when we restrict the comparison to the global systemically important banks (GSIBs) in the sample (10 are European and eight are North American).[21] These results suggest within-sector differences in target ambition, with North American banks setting more ambitious targets on average than their European peers.

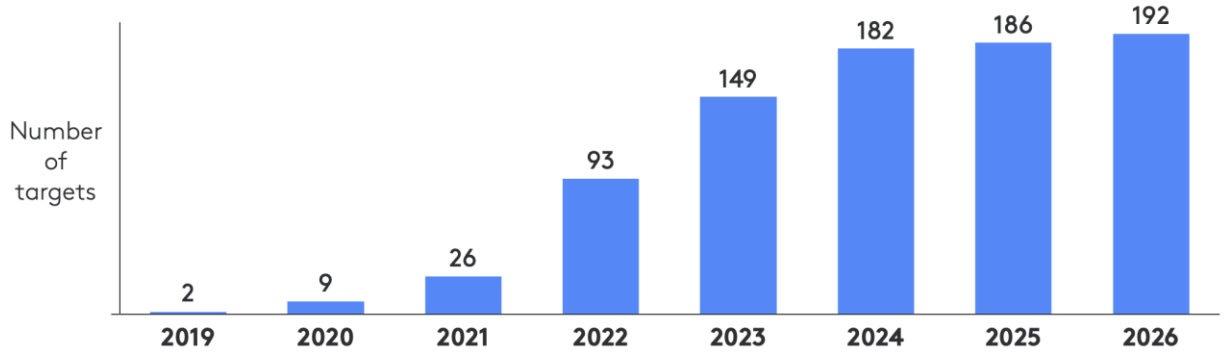
There are two important caveats to this analysis. First, given the uneven distribution of banks across regions (there are 18 European banks, eight in North America and three in Japan), the precise magnitude of the gap should be interpreted with caution, as individual pathways disproportionately influence regional figures. Second, sectoral targets differ in the share of a bank's business they cover. Alignment with these low-carbon benchmarks reflects only the portion of a bank's business covered.

Year-on-year comparison

The vast majority of banks' short-term targets were set in 2022 and 2023, coinciding with the surge in climate commitments following the 2021 UN climate summit (COP26), with target-setting activity declining sharply thereafter. COP26 placed an unprecedented emphasis on the role of private finance in the climate transition. The Glasgow Financial Alliance for Net Zero (GFANZ) was launched in April 2021, with the Net Zero Banking Alliance (NZBA) established alongside it. Of the short-term targets assessed, 64% were set in 2022 and 2023 alone. Target-setting activity has declined markedly since 2023, with only 43 targets set across the 2024–2026 period (22%). Crucially, this does not indicate that banks have exhausted their target-setting opportunities, as several banks in the sample have not set targets for all sectors that the TPI Centre assesses as material to their portfolio.[15]

[21] To assess whether the gap reflects genuine differences in target ambition, the sensitivity analysis excludes different individual sectors from both regions simultaneously, and the GSIB comparison restricts the analysis to GSIB banks in both regions. In addition, an analysis restricted to pathways assessable against TPI Centre benchmarks was conducted, as well as a reweighting decomposition, which recalculates Europe's alignment rate using North America's sector composition to separate how much of the gap reflects differences in sector mix from how much reflects differences in within-sector ambition. All four analyses confirm the gap persists. Furthermore, unsuitable disclosure rates are similar across regions (32% in Europe, 37% in North America), indicating the gap is not driven by the methodology used for target setting.

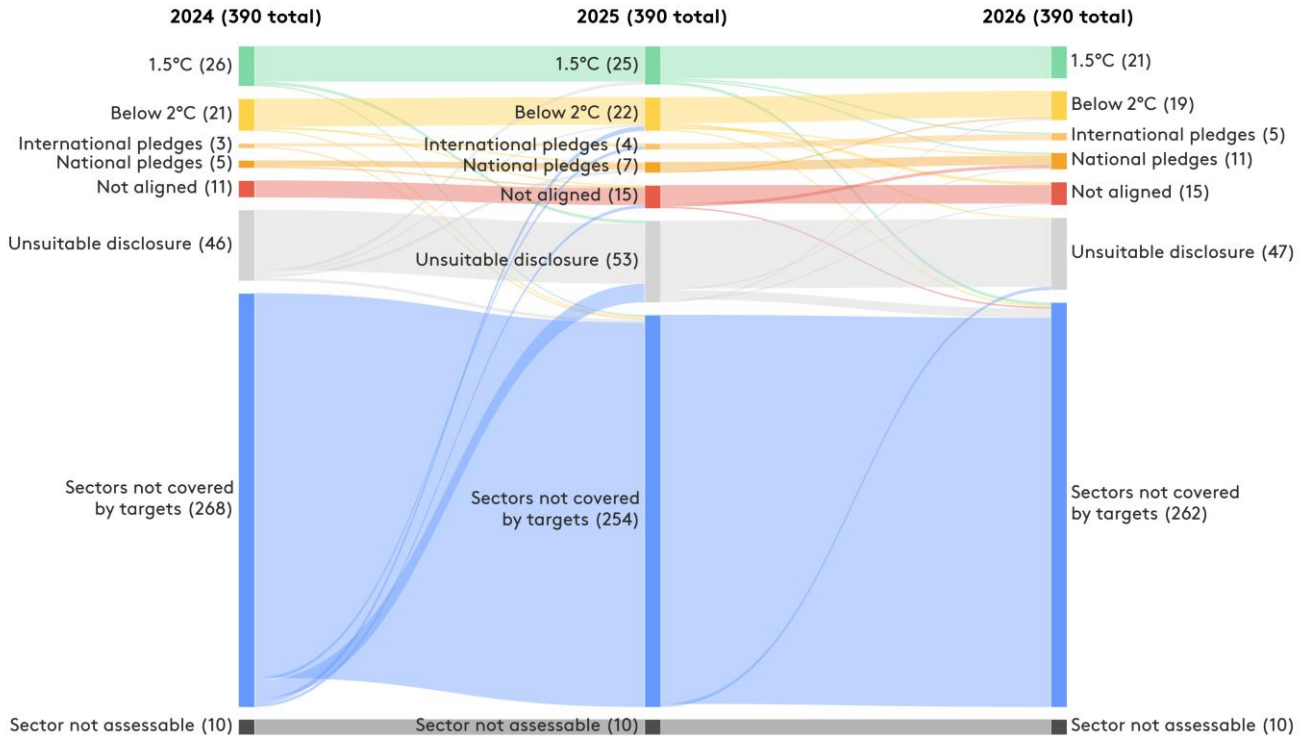
Figure 3.4. Cumulative number of 2030 sectoral decarbonisation targets active in 2026



None of the 28 banks assessed in both 2025 and 2026 has set new short-term targets in 2026. Five banks have withdrawn a total of 10 sectoral targets. In 2026, NatWest, which was not assessed last year, has replaced its 16 portfolio-level sector targets with new targets. These are the only short-term sectoral targets set in 2026 in our full assessment sample of 36 banks.

The withdrawal of existing commitments has accelerated, with Wells Fargo cancelling all its sectoral targets in 2025, followed by RBC and Scotiabank in 2026. Several banks have also dropped some of their sectoral decarbonisation targets, citing immaterial exposure. ING has withdrawn its aluminium and food targets, HSBC its aluminium target and Santander its aviation target.

Figure 3.5. Changes in short-term (2030) alignment between the 2024 and 2026 assessment cycles for the core sample of 26 banks[22]



[22] To enable a consistent comparison across 2024–2026, the banks' 2024 sectoral decarbonisation target alignments have been recalculated using the latest benchmarks.

Alignment with low-carbon benchmarks among the 26 banks assessed across all three cycles has declined steadily, from 12% to 10% of all possible pathways in the short term between 2024 and 2026.[23] This decline corresponds to a net reduction of seven pathways previously aligned with low-carbon benchmarks. Two drivers account for most of these changes: target withdrawal and target revision through scenario or methodology updates. On target withdrawal, Royal Bank of Canada, Scotiabank and Wells Fargo have all withdrawn targets previously aligned with low-carbon benchmarks, citing external factors including policy changes and slower-than-required technological development.

On target revisions, HSBC has moved its target base year from 2019 to 2023 and adopted a less ambitious target range for airlines, electricity utilities and cement. HSBC says that this reflects the need to account for changes in policy, scenarios, available data and methodologies. MUFG and ING have both updated some of the reference scenarios they use. MUFG explains that revisions to nationally determined contributions in multiple countries have prompted the bank to update the reference scenario for airlines and electricity utilities. ING has updated the reference scenario and recalculated historical data for cement to reflect the latest available scenario data. Taken together, these changes reflect the evolving methodological landscape for banks' climate target-setting.

[23] These figures use the total of 390 possible pathways (26 banks, across up to 15 high-emission sectors) as a consistent denominator across all three assessment years. This denominator does not account for materiality. Banks have different business models with varying levels of exposure to high-emission sectors, and banks are expected to set targets only for sectors material to their business (see footnote 15).

4. In focus: climate-related risks in financial statements

Through their interactions with the real economy, banks are exposed to climate-related financial risks, the materialisation of which may further pose a systemic risk to the financial system. Without adequate mitigation and adaptation, climate-related physical and transition risks pose an increasing risk of adverse socioeconomic impacts. As they materialise, firms and sovereigns need to revalue the assets they hold or issue, and falling asset values may raise default rates on bank loans and negatively affect insurers' liabilities (OECD, 2026; de Bandt et al., 2023; Battiston et al., 2021). Financial interconnectedness can magnify these effects system-wide, with material feedback to the real economy (Bruneau et al., 2025; Battiston et al., 2017). The European Systemic Risk Board (2026), for example, considers climate change to pose a systemic risk to the financial system.

Policymakers globally are increasingly embedding climate considerations into disclosure, prudential and monetary policies. The OECD (2026) records that between 2000 and 2025, policymakers in 111 countries and the EU adopted over 860 climate-related financial sector policies, primarily to manage climate-related risks to financial stability and market integrity. Even as some policies were paused or revised, there were still 25% more policies in 2025 than in 2023. Disclosure policies account for the majority, at 78% of total adopted policies; prudential policies account for 20%; and climate-related monetary policies account for the remaining 2%.

Despite the increase in financial sector disclosure policies, none regulate how banks should integrate climate-related risks in their financial statements. Some supervisors and central banks, including the European Central Bank (ECB, 2020), already require banks to manage and hold capital against climate-related risks. Their prudential mandate allows them to challenge whether a bank's provisioning adequately reflects these risks, notably by scrutinising the models, data and judgements behind a bank's provisioning (ECB, 2024). However, neither supervisors, central banks, nor those setting accounting standards that regulate financial statements mandate how climate risk must be integrated into the financial statements, although they do publish guidance to support banks (ECB, 2024, 2026; International Accounting Standards Board [IASB], 2025). This absence of a mandated approach has led banks to adopt different methods, with some calling for a structured reference framework to support the integration of climate risks (UNEP FI, 2026).

The challenges in quantifying climate-related risks are one of the obstacles to harmonising disclosure rules for financial statements. This makes understanding banks' assumptions about the materiality of climate impacts key to assessing the robustness of their claims. Climate-related risks are a novel area where historical data offer limited insight into future developments. Furthermore, banks hold limited records on borrowers' climate-related characteristics. Together, these limitations pose significant conceptual, analytical and data challenges (ECB, 2024). Where supervisory expectations have intensified, banks are nonetheless increasingly integrating these risks into their risk-management processes (ECB, 2025). In the absence of mandated rules, understanding the assumptions banks make about the materiality of climate-related impacts is central to assessing the robustness of their claims. The disclosure of those assumptions is examined in the next section.

To better capture the underlying assumptions and judgements used by banks, we have refined sub-indicators in area 9 to focus on whether banks disclose the qualitative (9.2.a) and quantitative (9.2.b) accounting assumptions and judgements used to incorporate climate impacts into their estimates. These assessments and the analysis below only capture information within banks' financial statements and accompanying notes, reflecting supervisory and investor expectations that banks report climate-risk exposures coherently across both sustainability and financial statements (ESRB, 2024; IIGCC, 2025).

Assessment results

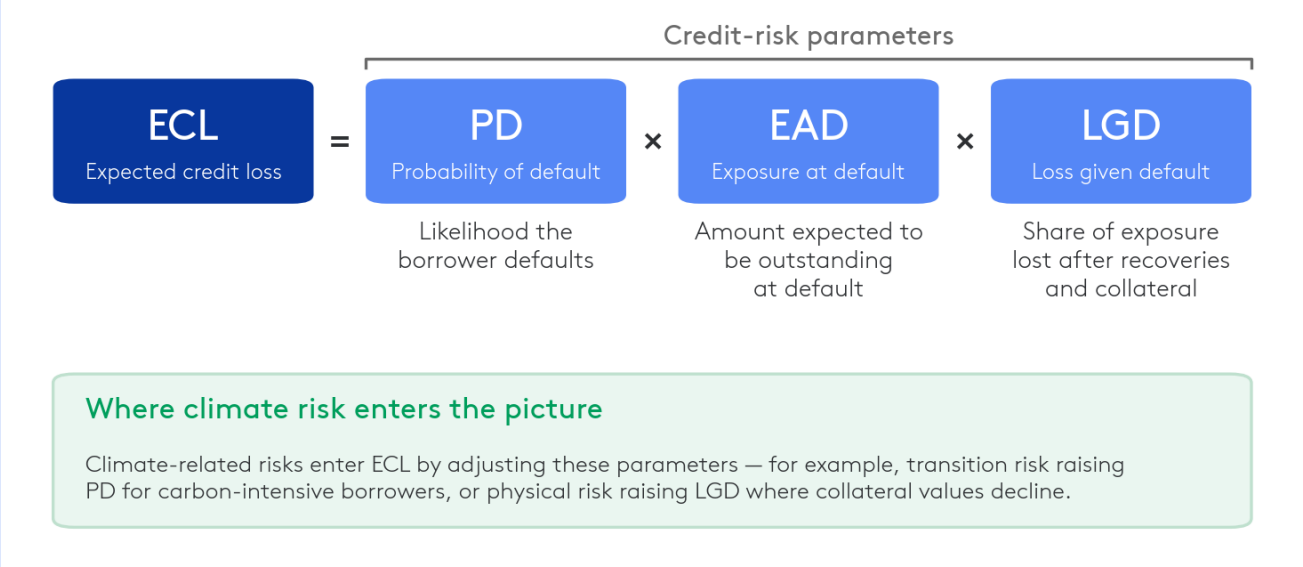
Box 4.1. Important definitions and concepts to understand the assessment results for area 9 (annual reporting, accounting and audits)

This box provides an overview of the accounting and supervisory concepts that banks commonly use to incorporate climate-related risks into their financial statements and risk management.

IFRS 9 is an accounting standard published by the International Accounting Standards Board (IASB) governing the measurement of financial instruments, asset impairment and hedge accounting (IASB, 2026). Under this, banks recognise **expected credit loss**, a forward-looking, probability-weighted estimate of credit losses anticipated over the life of their loans and other exposures (IASB, 2026). The expected credit loss is intended to ensure that provisions reflect deterioration in credit quality in a timely manner. Because expected credit loss is inherently forward-looking and applies to one of banks' largest asset classes, it is the primary point at which climate-related risks enter the financial statements.

Expected credit loss (ECL) is usually calculated as a product of the following credit-risk parameters (see Figure 4.1): **probability of default** (PD, likelihood of the borrower defaulting), **exposure at default** (EAD, amount expected to be outstanding at the time of default) and **loss given default** (LGD, share of exposure a bank expects to lose after recoveries and collateral).

Figure 4.1. Expected credit loss under IFRS 9



Within expected credit loss, banks may integrate climate-related risks in two ways. They can build the risk directly into their models, adjusting the credit-risk parameters and staging[24] that drive the estimate (**in-model adjustments**). Or they can add a judgement-based amount on top of model outputs (**management overlays**, or **post-model adjustments** more broadly). In-model adjustments tend to be more robust and consistently applied, sitting directly in the credit-risk parameters and staging, whereas overlays are more discretionary and can be harder to validate (Auzepy and Bannier, 2025). That said, the ECB (2024) notes that overlays can suit novel risks that models cannot yet reflect, provided they are based on sound and transparent methodologies.

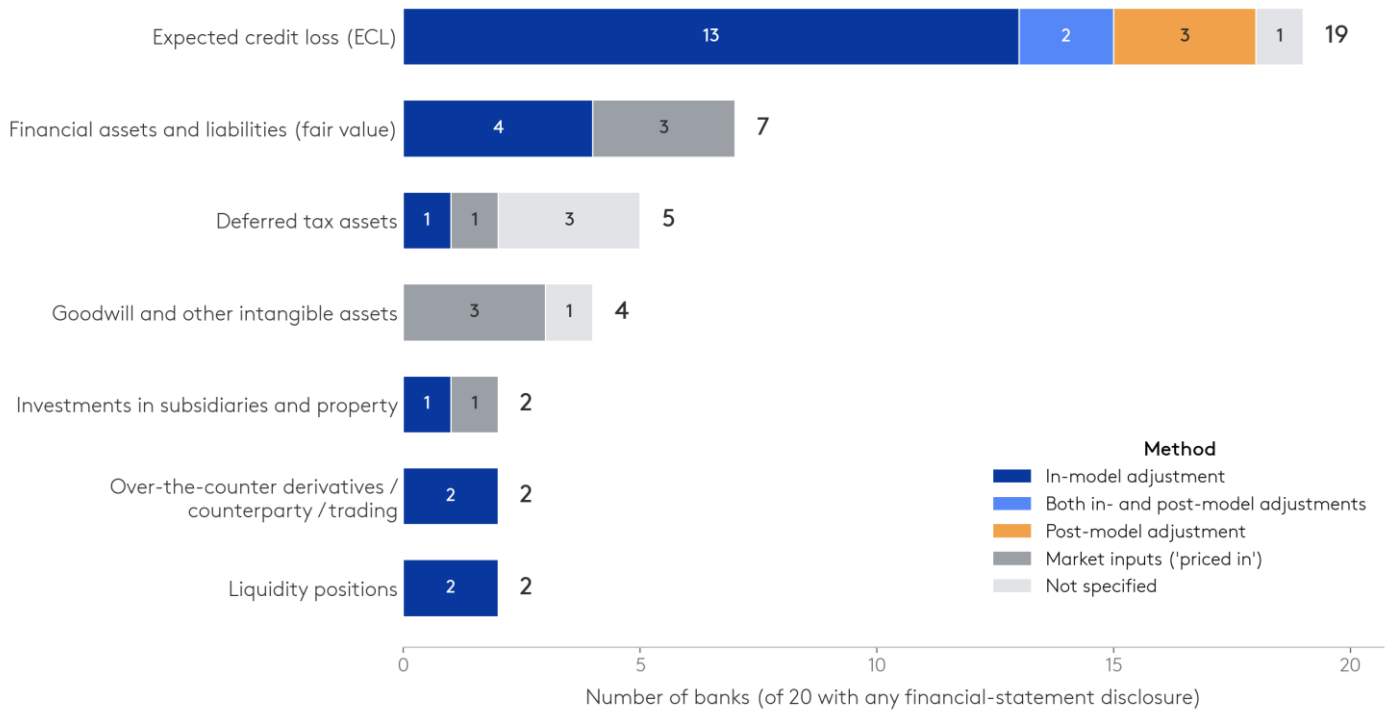
Lastly, banks sometimes consider climate-related risks in their **economic capital**. Economic capital captures unexpected losses in the tail of the loss distribution. It is not a balance-sheet item, but an internal estimate of the equity buffer required to absorb unexpected losses, forming part of a bank's International Capital Adequacy Assessment Process (ICAAP) under Pillar 2. Appendix 2 of this report further explains the links between financial statements and prudential expectations under the Basel framework.

[24] Under IFRS 9, staging classifies a financial asset by how much its credit risk has increased since origination: stage 1 (performing), stage 2 (significant increase in credit risk, not yet impaired) and stage 3 (credit-impaired). Stage 1 uses 12-month expected credit losses, while stages 2 and 3 use lifetime credit losses.

Our research shows that fewer banks in our sample (20/36) reference climate-related risks in their financial statements than recognise these risks as a key risk in their annual reports (30/36) (9.1.a). While most banks we assess have extensive climate narratives in their annual reports and sustainability statements, this emphasis on climate is not always reflected in their financial statements, especially in the recognition and measurement of specific accounting line items.

Of the 36 banks assessed, only seven disclose the underlying accounting assumptions and judgements they use to estimate climate-related risks in their financial statements (9.2.a). All seven of these banks have their headquarters in Europe, which may reflect increased supervisory scrutiny in the region. Disclosing specific climate-related assumptions, judgements and estimates enables bank stakeholders to assess whether and how materially climate-related risk affects the reported figures in financial statements, to evaluate the extent to which management's choices are reasonable and to compare the treatment and accounting of such risks across banks. While only seven banks meet the criteria to score on sub-indicator 9.2.a, the analysis below examines all 20 banks that disclose any information related to climate-related risks. This is because even partial disclosure offers analytical value given the emerging nature of this area.

Figure 4.1. Financial statement items where banks recognise climate risk, by method of integration

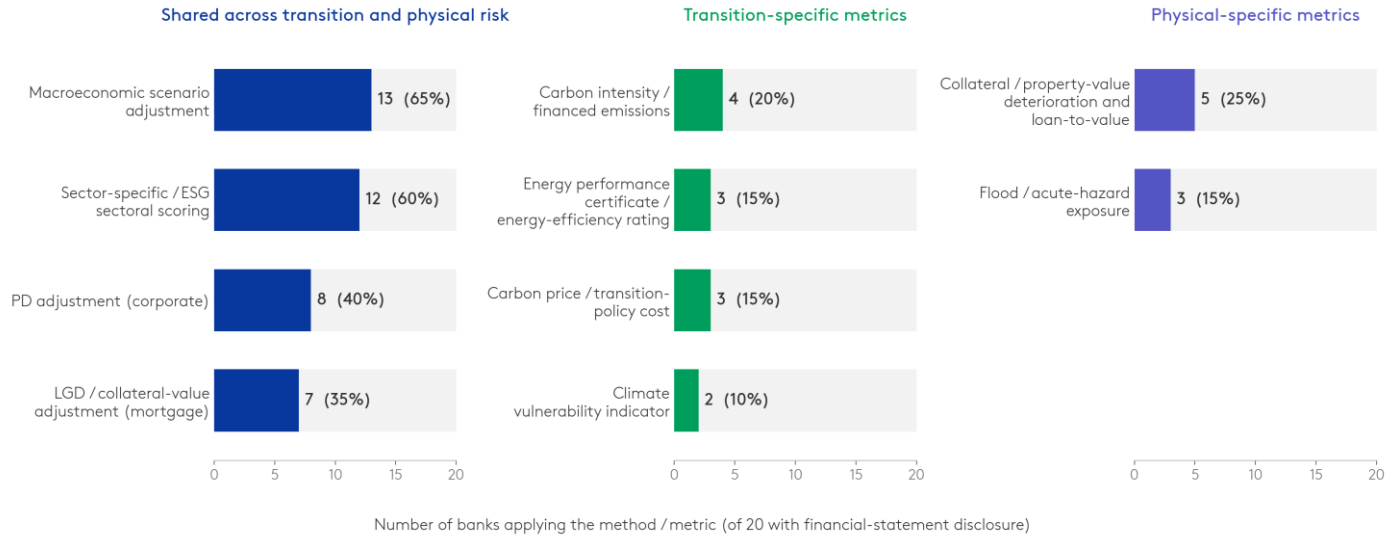


Climate-related risk enters banks' financial statements primarily through expected credit loss, as shown in Figure 4.1. Most banks integrate this directly into their credit-risk parameters rather than applying management overlays only. Of the 20 banks that make any references to climate-related risks in financial statements, 19 recognise these risks through IFRS 9 expected credit loss. We observe that climate risk integration is more frequently embedded within models than applied externally through overlays. Fifteen banks make in-model adjustments, recalibrating the probability of default and loss given default or the underlying macroeconomic inputs, while five rely on management overlay. Two banks use a combination of the two. For instance, one assessed bank uses climate scenarios to estimate climate impacts on probability of default for corporate clients and on loss given default for real estate collateral, while also applying a post-model adjustment for the most vulnerable customers.

Beyond expected credit loss, recognition of climate-related risk thins markedly: only a minority of banks address other financial-statement items, and frequently assert that climate is already captured in market prices rather than quantifying its effect. Twelve of the 20 banks that mention climate risks

in their financial statements extend recognition of climate-related risk to other asset classes and financial-statement items, though typically to only one or two additional items. The most common items are the fair value of financial assets and liabilities, deferred tax assets and goodwill. For these, a recurring position from banks is that climate risk is already reflected in market prices: seven banks argue that for assets and liabilities measured at fair value in active markets, current prices, discount rates and other market inputs already incorporate the expected effects of climate-related risks, such that no separate adjustment is needed. Less frequently, banks estimate the potential effects of climate change on investment property, investments in subsidiaries, other intangible assets, liquidity positions or derivative exposures. For these, banks typically embed climate factors into macroeconomic scenarios.

Figure 4.2. Most common methods and metrics used to capture climate-related risks in banks' ECL



To estimate physical and transition climate effects in expected credit loss models, banks rely on various internal and external data sources. Most often, banks use macroeconomic scenarios, which alone may lack risk sensitivity to sector-specific characteristics. As Figure 4.2 shows, most banks (13/20) incorporate climate-related physical and transition risks in their models through third-party macroeconomic scenarios. As explained in Box 4.1, IFRS 9 requires a probability-weighted estimate using reasonable forward-looking information. Banks usually operationalise this by using macroeconomic scenarios (e.g. a baseline, an upside and a downside scenario). In our sample, we see banks integrating climate-related risk into these scenarios by either overlaying the specific climate impact of a scenario onto macroeconomic drivers (e.g. gross domestic product, unemployment) or by introducing a dedicated climate scenario into the model (e.g. as a downside scenario). Banks may also change the weighting of the climate scenario in the model, thereby further stressing potential adverse effects. Seven banks clearly state that they use Network for Greening the Financial System (NGFS) scenarios, with Lloyds and UniCredit specifying the Net Zero 2050 and Delayed Transition scenarios. Société Générale mentions that it also uses IPCC and IEA scenarios. The ECB (2024) notes that relying solely on macro components in expected credit loss models may lack the necessary risk sensitivity and may not ensure risk differentiation among clients that are unevenly impacted by climate risks.

More advanced banks supplement macroeconomic scenario data with more granular sectoral and client-specific information, using multiple channels to incorporate climate risks into expected credit loss. Alongside scenarios, banks also recalibrate the credit-risk parameters directly. For corporate exposures, some banks use top-down sectoral modelling or other credit-rating overrides to adjust the inputs to probability of default models and reflect the effects of transition risks on borrowers' creditworthiness. For mortgages, banks may also adjust the loss given default to reflect physical risk, such as flood risk, on the collateral's value. Lastly, for exposures with significant climate-related risk, banks may apply collective staging. This transfers climate-vulnerable exposures from stage 1 (performing exposures) to stage 2 (significant increase in credit risk exposures), which switches them from a 12-month to a lifetime expected credit

loss and can move provisions substantially. In our sample, four banks explicitly reported that climate-related considerations may trigger stage transfers.

While expected credit loss provisioning models cover expected credit losses, banks' capital requirements act as a buffer against unexpected losses, capturing severe but plausible tail risk (see Figure A2 on page 27). Only three out of 20 banks disclose clearly that climate-related risk is reflected in capital management rather than in provisioning alone. These include the same banks that conclude climate risks may have long-term materiality. Deutsche Bank holds its long-term disorderly transition risk within its economic capital rather than expected credit loss, while noting that it did not book expected credit loss adjustments due to the immateriality of climate-related risks in the short to medium term. Intesa Sanpaolo and UniCredit address materiality through their internal capital adequacy assessment process (ICAAP). We note that euro-area banks are expected to integrate climate-related risks into their ICAAP, a Pillar 2 capital process separate from the financial statements (ECB, 2020; 2022). Banks in the UK face an equivalent expectation from the Prudential Regulation Authority (PRA, 2025). Nonetheless, only Deutsche Bank, Intesa Sanpaolo and UniCredit reference this in their financial statements.

Banks' conclusions on the materiality of climate for their books vary widely depending on the timeframe considered. Generally, banks are more likely to rule out the adverse impacts of climate change in the short term and are mostly silent on its long-term implications. This is consistent with the narrative that climate change is a novel risk for which historical data provides limited insight into future developments. For example, Caixabank considers climate-related risk material in its intersection with credit risk but does not specify in which timeframe. UniCredit has more comprehensive disclosures and concludes that physical climate-related risk is material in the long term. While transition risk is not material based on UniCredit's assessment framework, it has been categorised as 'managerially material' due to its uncertainties and evolving transition pathways. Eight other banks state that climate-related risks do not have material effects on their operations in the short term, while the remaining 10 are inconclusive in their financial statements. No bank asserts that climate-related risks are immaterial over the long term, a marked asymmetry relative to the near-term picture and an implicit recognition of the uncertainties surrounding climate change. Only four banks conclude or imply that climate change could have material long-term impacts.

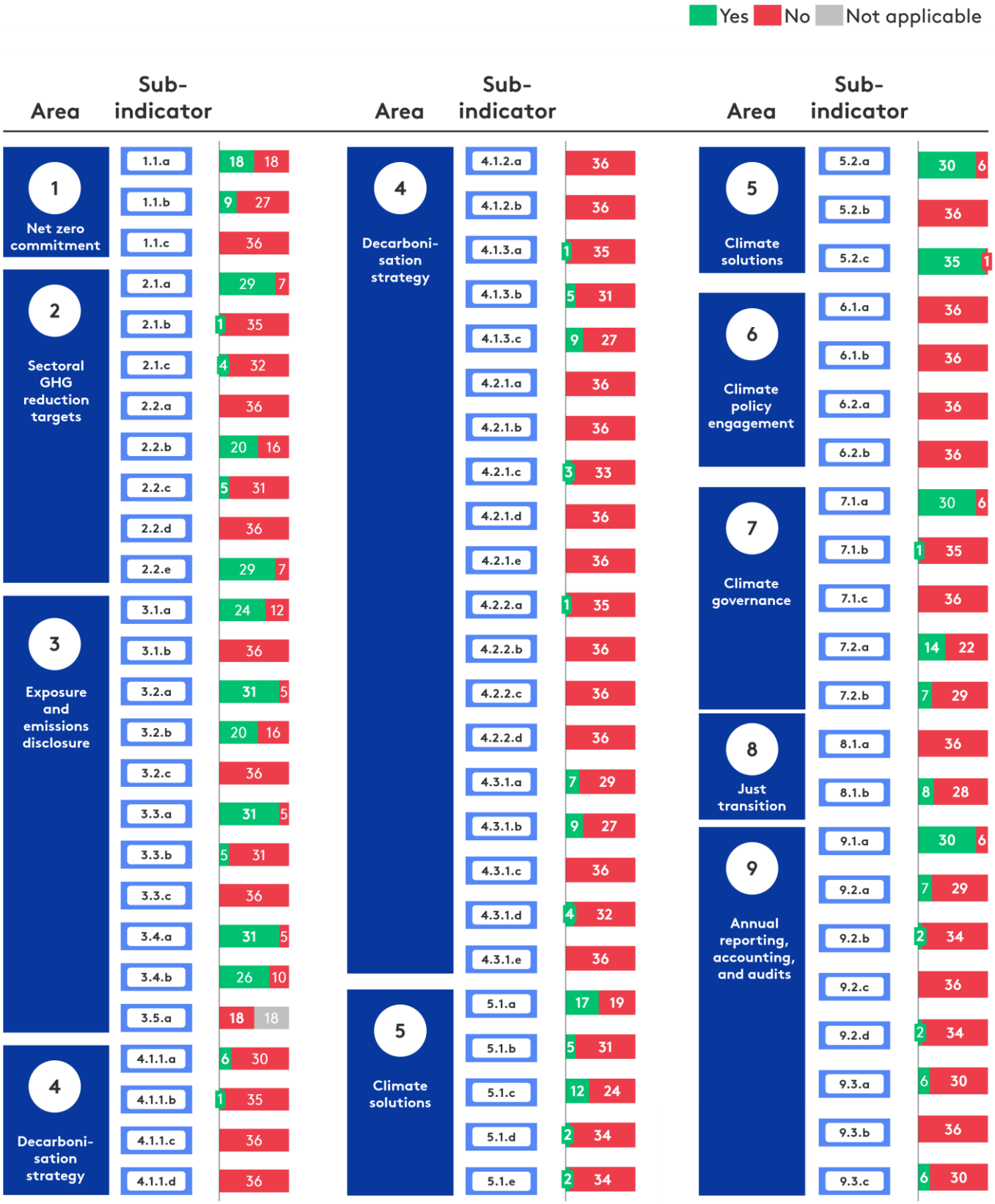
Only three of 20 banks substantiate their conclusions regarding the materiality of climate-related risks with quantitative estimates. Lloyds and UniCredit are the only banks to disclose both climate-related assumptions and estimates in quantitative terms (9.2.b). The magnitude of the quantitative estimates these banks disclose is small relative to their total provisions, consistent with their conclusions that climate-related risks have limited or no impact in the short term. For banks that do not score on 9.2.b, ING discloses a medium- and long-term transition-risk management overlay for its wholesale and business banking portfolios, but it does not disclose the underlying assumptions applied in the calculation of the management overlay. Lastly, Commerzbank and Société Générale disclose total sectoral adjustments and aggregate stage 1 to stage 2 transfers that bundle climate-related risk with broader sectoral flags, thereby obscuring climate-specific adjustments.

Box 4.2. Lloyds Banking Group case study

Source: Lloyds Banking Group. (2026). *FY2025 annual report*.

Lloyds Banking Group reflects climate risk in its expected credit loss estimates through scenario and portfolio assessments. It isolated the incremental impact of the NGFS Phase V Delayed Transition scenario (which the bank judges most plausible) and overlaid it on its base case and downside macroeconomic scenarios, concluding an immaterial expected credit loss impact: less than £10 million for its retail banking and less than £15 million for its commercial banking, the latter via sector-level, climate-adjusted credit-cycle indices feeding probability of default. For UK mortgages, Lloyds extended its transition-risk assessment from probability of default to loss given default, capturing energy performance certificate (EPC)-driven retrofitting costs (estimating impact at less than £10 million). It also assessed the physical risk from flooding and coastal erosion to 2050, finding that more than 80% of the bank's mortgage book was not exposed to flood risk. On this basis, Lloyds judges the residual risk of material error to be low and has made no adjustment to expected credit loss, while acknowledging the limitations of its assessments.

Appendix 1. NZBAF scores for the 36 banks assessed in 2026



Appendix 2. In focus: climate-related risks in financial statements

This appendix sets out the reporting and prudential architecture within which banks recognise climate-related risk, providing context for the area 9 findings. Indicator 2 of area 9 assesses how banks reflect climate-related risk in their audited financial statements. These financial statements sit alongside a bank's sustainability and prudential disclosures, each governed by a different standard-setter. Supervisory expectations also apply, but formally address a bank's regulatory capital rather than its financial statements. An understanding of this architecture is therefore helpful in interpreting the area 9 results. It clarifies why banks may recognise limited climate-related impact in expected credit losses while assessing the risk as material in other disclosures (e.g. annual reports), why practice varies across banks, and why coherence across a bank's disclosures is as material to the assessment as any individual figure.

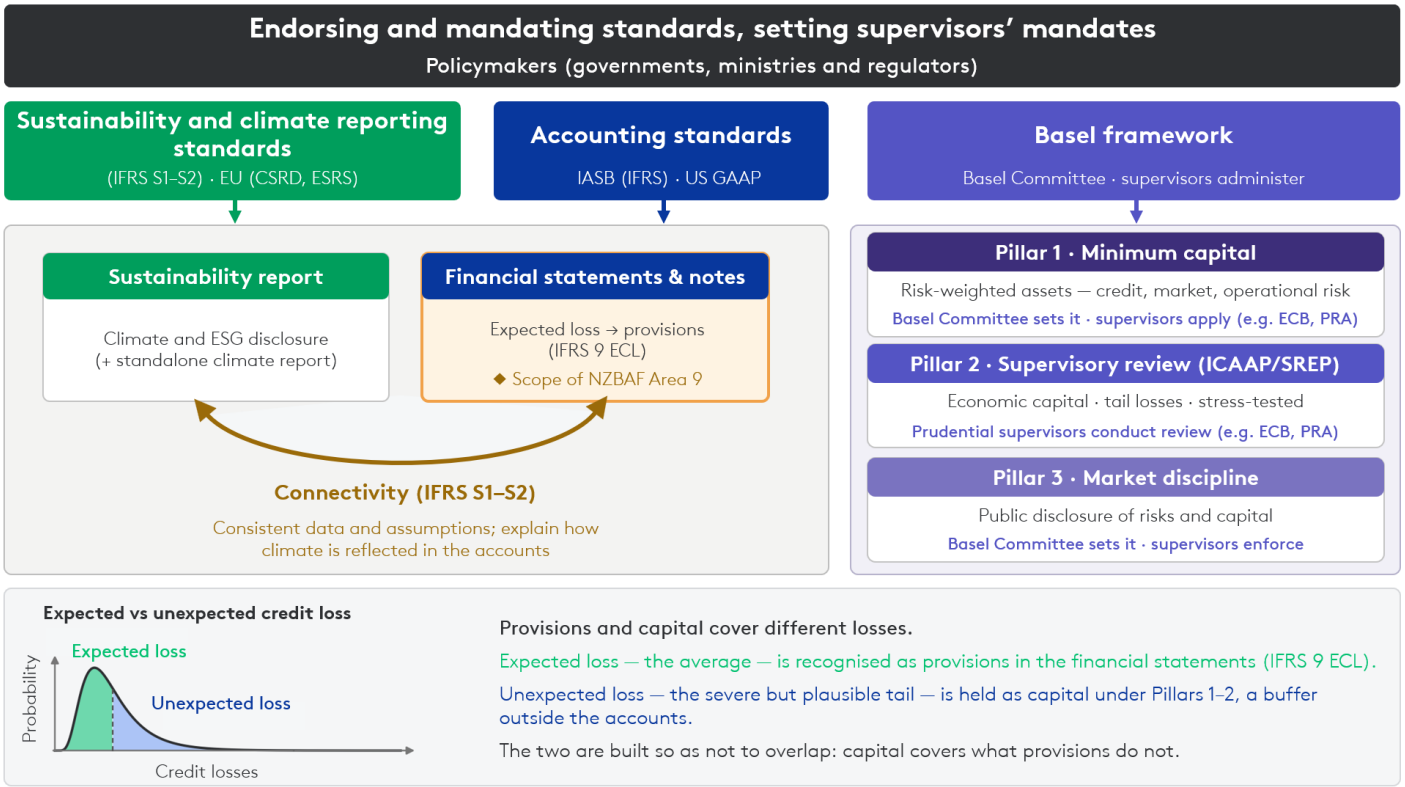
A bank's climate-related risk reporting is split across three types of disclosures, each governed by different disclosure frameworks and standard-setters.

- Sustainability reporting standard-setters shape the climate and sustainability disclosures, the integrated sustainability report and any standalone climate report (see Figure A2). These are principally the ISSB through IFRS S1–S2, alongside the TCFD and the Transition Plan Taskforce (TPT) in the UK (both now disbanded) and, in the EU, the Corporate Sustainability Reporting Directive (CSRD).
- Accounting standard-setters, chiefly the IASB, shape the financial statements and accompanying notes through IFRS.
- The Basel framework shapes the Pillar 3 report, which prudential supervisors administer and through which banks disclose their prudential position.

Cutting across all three types of disclosures, policymakers – governments, ministries and regulators – endorse the standards and set the mandates of the supervisors that apply them. No single body governs all aspects of a bank's climate reporting. Whether a bank comprehensively represents its climate risk depends on coherence across the three disclosures, rather than on any one alone.

Supervisors and central banks are the most active authorities on climate risk management in the banking sector, and they increasingly require banks to disclose their practices. By 2025, policymakers in more than 55 countries and the EU had adopted around 160 climate-related risk-management and supervision measures, with some 60% adopted by central banks and mainly targeting credit institutions (OECD, 2026). Most take the form of guidance and supervisory expectations rather than binding rules, and fewer than one in five are mandatory. Supervisors in the EU and the UK illustrate the trajectory of growing scrutiny. In its supervisory priorities for the coming years, the ECB (2025) states that banks "should effectively assess and manage short-, medium- and long-term climate-related and environmental (C&E) risks, and remedy persistent shortcomings in their related risk management frameworks". To date, the ECB is the only supervisor to have fined banks for failing to conduct a materiality assessment of their C&E risks (ECB, 2025, 2026). In the UK, the Prudential Regulation Authority tightened its expectations in 2025, requiring banks to embed climate-related risks into their core risk frameworks and board-level oversight.

Figure A2. Reporting and prudential architecture of a bank's climate risk management



Source: Compiled by authors from Basel Committee on Banking Supervision (BCBS, 2026), ECB (2025), IASB & ISSB (2023)

Note: CSRD: Corporate Sustainability Reporting Directive; ESRS: European Sustainability Reporting Standards; US GAAP: United States Generally Accepted Accounting Principles; SREP: Supervisory Review and Evaluation Process.

Supervisory expectations largely sit on the prudential capital side, which is distinct from the financial statements. Prudential capital and accounting provisions address different types of losses. Provisions recognise expected loss as a cost in the financial statements, through IFRS 9 expected credit losses (as explained in Box 4.1). Capital, by contrast, is a buffer held against unexpected loss, the severe but plausible tail beyond the expected level, as shown at the bottom of Figure A2. The two nonetheless interact because prudential capital is built from the financial statements and then adjusted. Within the Basel framework, Pillar 1 sets the minimum regulatory capital a bank must hold against credit, market and operational risk. Pillar 2 is the supervisory review process, under which a bank's own capital adequacy (ICAAP) is assessed. A bank may be required to hold additional capital for material risks that Pillar 1 does not fully capture, such as climate risk (BCBS, 2026). Pillar 3 mandates public disclosure of a bank's risks, capital and risk management approaches to ensure market discipline. The accounting and prudential frameworks are constructed so that the two complement each other, with capital covering what provisions do not.

Supervisors do not govern accounting standards, yet their expectations shape how banks reflect climate risk in them. The scenario analysis, macroeconomic modelling and stress testing that banks build for Pillar 2 and ICAAP also generate the forward-looking scenarios that feed IFRS 9 expected credit loss models. Capability built for meeting prudential expectations can therefore flow into the financial statements. Supervisors also press on with provisioning directly. The ECB has stated that under its prudential mandate, it challenges whether a bank's IFRS 9 provisioning adequately captures novel risks, such as climate-related risks (ECB, 2024). This, in turn, pushes banks to incorporate climate-related risks into financial statements through expected credit losses. Supervisory expectations on materiality reinforce the effect. Banks in several jurisdictions must assess whether climate and environmental risks are material, and supervisors expect a bank's risk narrative to be consistent with its financial statements. Where a bank identifies material climate-related risks in its strategy, it might come under pressure to show that effect in the financial statements, or to explain its absence.

In addition to supervisory expectations, disclosure standards also set out expectations for banks to embed climate-related risks in risk management practices and, where relevant and material, to recognise such risks in financial statements. In total, 35 jurisdictions worldwide have adopted IFRS S1-S2 standards, and a further 11 are planning to do so, including India and China (S&P Global, 2026). Both standards follow the principle of connectivity, the mechanism intended to align the disclosure and accounting regimes between sustainability-related and financial disclosures (IASB & ISSB, 2023). This means that the two sets of disclosures together must provide a coherent and comprehensive picture of a bank's sustainability-related risks and opportunities, and banks must explain how these are reflected in their financial statements. As the European Systemic Risk Board (ESRB, 2024) notes, failing to establish connectivity between financial statements and other parts of banks' disclosures risks leading to suboptimal economic decisions through the mis-valuation of financial assets and liabilities. Such mis-valuation could result in large-scale adjustments if the risks materialise. This aspect is particularly relevant for climate-related risks, which are highly uncertain and can materialise over long time horizons. Alongside the ESRB, other supervisors such as the European Securities and Markets Authority (ESMA, 2025) also highlight the importance of establishing connectivity and consistency between financial and sustainability statements in their European common enforcement priorities.

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