Transition as a driver of economic strength

Perspectives from private banks on the path to a sustainable future

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bankenverband

Contents

Summary

The news is full of reports about crises: geopolitical tensions, weak economic growth, tariffs and trade disputes. Against this backdrop, the sustainable transition of the economy may seem like a very costly project, which appears secondary compared to the acute challenges involved.

Banks, however, see the transition to a sustainable economy as something completely different – it is an opportunity to achieve economic stability, independence and a sustainable future. It will secure the livelihoods of this and future generations.

The transition pays off – ecologically and economically

- **Avoiding costs**: Early investment reduces the damage from climate events and loss of nature, and lowers adoption costs.
- **Seizing opportunities**: Innovations in energy, mobility, the circular economy and digitalisation create new markets and strengthen competitiveness. Modernising existing assets creates efficiencies and cost benefits.
- **Reducing risks – strengthening resilience and sovereignty**: The transition will minimise risks and make our economy less dependent on fossil imports and more robust against global crises.

Banks are part of the solution

Private banks are already partners in the sustainable transition: They finance investment in future technologies and modernisation, integrate ESG factors into strategic management and risk management and provide advice for businesses and private customers on making sustainable decisions. **A recent survey and case studies show**: banks remain committed to their sustainability targets - and are making sustainability an integral element of their strategies, products and governance.

Harnessing the opportunities of the transition requires

1. Policymakers and business leaders to convey a positive vision of the future shaped by the transition.
2. Reliable, practical framework conditions based on clear climate pathways, and targeted measures and investment incentives.
3. An effective price signal for CO_2 and the phase-out of subsidies that are harmful to the climate and environment.

This paper offers an impetus to view the green transition as a significant opportunity for Germany and Europe as business locations. In order to achieve this, there needs to be joint commitment from policymakers, businesses and financial institutions to actively and constructively shape this change.

1 The green transition – the state of play in 2025

1.1 Changing political and societal priorities?

Support for climate action remains strong: More than 80% of the population of Europe continue to show clear support for the net zero target by 2050 (Climate Change Special Edition Eurobarometer, 2025), This shows that the transition has the backing of the majority of society. However, at the same time, another Eurobarometer survey (Winter Edition 2025) indicates a shift and shows that climate change ranks only seventh among the most pressing public concerns – behind security, inflation and energy prices.

Geopolitical tensions, economic pressure and social polarisation characterise the environment in which policymakers must act. Political decisions in other regions of the world have also had repercussions on global climate change mitigation.

The central political challenge is to combine achieving net zero with economic strength and to underpin this with consistent action.

The central question is: How can policymakers ensure the transition to a climate-neutral society, economic strength and sovereignty all at the same time? The shift from the Green Deal to the Clean Industrial Deal exemplifies the strategic realignment of European economic policy: Competitiveness, resilience, reducing bureaucracy and supporting innovation and technology are moving into focus – also for the German government. If implemented correctly, this approach can combine climate change mitigation with economic strength. But it is also clear that a just transition is vital – social compensation must be embedded to ensure that the transformation is socially sustainable in the long term.

Recent discussions in Europe about interim climate targets, fossil fuel bridging technologies and the phasing out of combustion engines make it clear that the path to net zero is not without conflict. It is crucial to adopt economic policy in such a way as to promote net zero and the sustainable transition through credible and consistent action, while at the same time strengthening competitiveness.

1.2 Stimulating investment dynamics with genuine structural reforms

The transition towards sustainability is not solely the responsibility of policymakers, but of the whole of society. Many companies have taken this responsibility seriously: According to InfluenceMap (2025), 52% of European firms pursue climate strategies – some fully, others at least partially science-based. For Germany, the Sustainability Transformation Monitor (2024) indicates that more than 60% of businesses surveyed have climate targets (two-thirds aligned with the Paris Agreement).

Corporates require reliable and investment-friendly framework conditions to pursue their transition.

For businesses, this means massive investment in new technologies, processes and business models – in an economic environment of persistently weak growth. In the first half of 2025, industrial production in Germany was around 15% lower than its 2018 level. Overall economic output has been stagnating – with fluctuations – for five years: In the third quarter of 2025, GDP was almost exactly the same as the average for 2019. Investment activity has also shown little momentum so far.

The German government's coalition agreement contains important reform initiatives, for example in the labour market, to reduce bureaucracy and ensure competitive energy prices. A 'tax investment programme' introducing accelerated depreciation options has already been approved, The decisive factor now is to ensure further initiatives are implemented quickly and consistently.

One thing is clear, the German economy will only be able to overcome this phase of weak long-term growth and its structural challenges with considerably more private and public investment. The agreed fiscal package – including the special fund for infrastructure and climate neutrality – significantly expands the scope for fiscal policy. However, it is important that the funds ultimately flow into key areas of the transition, such as energy and mobility, climate change mitigation and adaptation.

1.3 ESG regulation – between ambition and relief

Regulation in the area of sustainable finance has provided banks and businesses with important stimuli for the transition. As part of the EU Green Deal and the Action Plan for Sustainable Growth, various requirements have been introduced within just a few years to channel capital into sustainable activities, to integrate sustainability risks into risk management and to promote transparency and long-term thinking.

The basic idea is right: Reliable and comparable sustainability information enables transparency and more informed decisions, and can play a vital role in steering investment towards climate action. Due diligence obligations can also support resilience. What matters is that the focus is on relevant data and requirements – not on compliance for its own sake with no added value.

Cutting red tape and simplifying ESG regulation should increase effectiveness and practicality – without diluting climate protection.

However, if corporate sustainability reporting, extended supervisory disclosure and ESG risk management requirements for banks become overly complex and impractical, this will result in high burdens and costs with no concrete benefits for the transformation.

It is therefore the right approach to adapt the regulations contained in the EU Omnibus Initiative in order to ease the burden on the economy and to streamline reporting and regulatory obligations. However, meaningful, relevant and comparable sustainability data remain an essential pillar of the transition and for assessing climate and environmental risks.

1.4 Climate crisis and loss of nature require decisive action

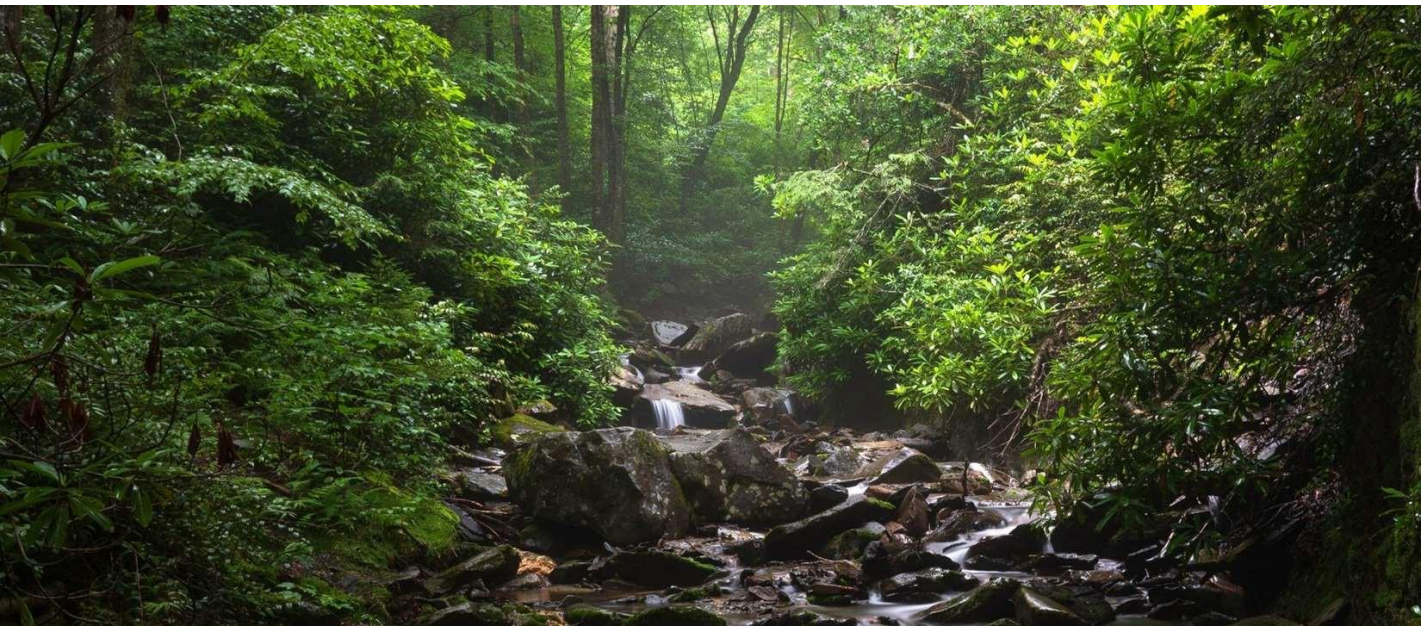
2024 was the warmest year on record and the first in which the 1.5° threshold was exceeded globally (Copernicus Report, 2024). Beyond this point, the risks to humans, nature and economy increase massively. In 2024, global emissions also rose to a new high of around 41 billion tonnes of CO_2 (Energy Institute, 2025).

Beyond climate:

The protection and restoration of biodiversity, our natural foundations of life, needs greater priority in political and economic action.

At the same time, climate change and the loss of biodiversity have begun amplifying each other: Higher temperatures, extreme weather and changes in precipitation are accelerating species extinction, while degraded ecosystems are losing their ability to stabilise the climate. In Germany, around 60 percent of ecosystems are in poor condition (Helmholtz Centre for Environmental Research, 2025). Yet they provide essential ecosystem services, such as pollination, clean water and fertile soil.

Climate change and loss of biodiversity are among the key planetary boundaries Persistently exceeding them threatens not only natural foundations of life, but also economic viability and societal resilience. Decisive action is and remains therefore imperative.



2 The transition - as economically beneficial as it is necessary

The transition has different dimensions: It is not only an economic necessity, it also offers enormous opportunities and will strengthen the resilience of businesses and society.

Economic necessity	Market opportunities	Resilience benefits
Direct damage costs of natural disasters, insurability	**Modernising value creation** efficiency, process optimisation, steering investment	**Strengthening risk preparedness** adaption to climate and nature risks
Indirect economic consequences supply chain disruptions, lost revenues, relocation	**Opening up future markets** circular economy, green technologies etc.	**Increasing sovereignty** independent energy supply, raw material diversification
Adaptation costs & carbon price increased costs and damage due to delayed decarbonisation	**Competitiveness** location advantages, strategic industrial policy support	**Resilience as a security factor** resource conflicts, destabilisation, migration

Figure 1: Transition: 3 dimensions – 9 arguments

2.1 If you delay, you pay – the costs of waiting or procrastinating

The effects of climate change are already causing significant damage today. According to Munich Re, in 2024, extreme weather and climate-related events caused damage worth 320 billion US dollars – and the trend is rising. Less than half of these damages were insured. In addition, indirect costs and lost revenue are increasingly taking their toll on businesses and national economies.

Production losses

Heat waves and water scarcity reduce productivity, affect agriculture, put industrial processes at risk, force relocations

Market losses and declines in demand

Declining availability and quality of raw materials and shrinking markets after extreme weather events reduce revenues and increasing price volatility

Supply chain and logistics disruptions

Floods, heat waves and erosion impair transport routes and global supply security

Preventative care costs and health risks

Insurance premiums are rising; health is impacted by heat waves and/or risk of pandemics

According to the Potsdam Institute for Climate Impact Research (PIK, 2024), if global warming cannot be limited to 2° C, the economic damage could be six times higher than the costs for emissions reduction and adaptation by 2050. Adaptation costs continue to rise with every tenth of a degree of warming. Early investment in climate change mitigation and the transition pays off for the economy as a whole – especially when compared to delayed action.

Companies that move early towards low-emission processes and products will also reduce their future cost risks through CO_2 price increases. In the current EU Emissions Trading System (EU ETS 1), particularly covering industry and energy, the emissions cap is falling annually and CO_2 prices are trending upwards. The building and transport sectors will be added to the EU ETS 2 from 2027 onwards. In the medium term, price pressure is therefore set to increase.

2.2 Sustainability pays off - market opportunities and competitive advantages

The transition to a sustainable economy offers major opportunities but requires profound change in almost all sectors of the economy within just a few decades. As the Director of the German Economic Institute, Prof. Michael Hüther, describes it, the transition towards net zero is a "structural change with a deadline" (Hüther, 2025) – made more difficult by the currently high energy prices, international competitive pressure and a large investment needs. Existing industrial facilities, energy infrastructures and building technology must be replaced or adapted in line with climate targets. This entails transition costs, uncertainties and burdens for businesses without always achieving immediate productivity gains – a particular challenge for SMEs with limited financial and resource capacity or 'hard to abate' sectors such as cement, steel or chemicals.

Germany needs an industrial policy commitment for the future

Politics can provide orientation on the path our society takes: achieving net zero and protecting nature for future generations while remaining competitive.
A forward-looking industrial policy means creating predictability and defining clear goals, initiating appropriate measures and conveying confidence that the transition can succeed.

Economic growth is a prerequisite for seizing the opportunities offered of the transition. For this to succeed, structural barriers in the economic and political environment must be overcome in a targeted manner. As the Association of German Banks emphasises in its position paper, "Promoting Sustainability, Securing Growth" (2024),[1] this requires a reliable economic policy framework: effectively internalising external climate and environmental costs, reducing market distortions and promoting investment through predictable, competition-friendly rules – in order to promote innovation and drive forward the transition in line with market principles. This creates opportunities for businesses to make their value chains fit for the future, open up new markets and strengthen their competitiveness in the global environment.

1 https://bankenverband.de/en/nachhaltigkeit/promoting-sustainability-securing-growth

Modernising value creation – investing for the future

The economic opportunities from the transition lie in modernising existing production processes in nearly all sectors. Resource-efficient procedures, such as the digitalisation of energy and material flows or heat recovery, can lead to considerable efficiency gains. Supply chains and product design can focus specifically on low-emission and environmentally compatible materials and raw materials.

The energy and heating transitions should be actively supported – through targeted incentives and the phase-out of climate-harmful subsidies.

Part of the investment can be achieved by targeting the redeployment of existing investments and subsidies. Examples include switching to heat pumps or to climate-compatible technologies when replacing vehicle fleets and production facilities on a regular basis. Initial investments in such cases amortise over time through lower operating and energy costs. Incentives should be used in a targeted and temporary manner through funding programmes or state guarantees to complement CO_2 pricing.

Investment decisions made today in transport, energy infrastructure, buildings and industrial facilities will lay the foundations for the coming decades. Those who continue to rely on fossil fuel technologies are delaying the transition to a net-zero economy (lock-in effects). The major risk in such decisions is that today's investments will lose value in future (stranded assets).

Opening up future markets

Germany's industrial strength and Europe's pioneering role on climate change mitigation up to now has opened up opportunities to establish successful future markets. Studies by the BDI, Roland Berger, McKinsey (2024) and Die Deutsche Wirtschaft (2025) have identified the following strategic areas with considerable market potential and opportunities for modernisation:

- Circular economy and recycling solutions
- Renewable energies (incl. grid, storage, baseload security)
- Hydrogen economy
- Real estate sector (energy-efficient refurbishment)
- Sustainable mobility and infrastructure
- Low-carbon raw materials (e.g. green steel or cement)
- Digitisation of energy-intensive processes
- Nature-based solutions and the bioeconomy

The relevance of these fields can be highlighted using renewable energies and hydrogen as examples: The levelised costs of electricity from photovoltaic and wind power plants are already lower than those of coal, gas and nuclear power plants (Fraunhofer Institute, 2024). At the same time, the focus is shifting to security of supply and reliable baseload coverage – for example, through storage technologies or flexible backup capacities. Where gas-fired power stations are necessary to provide support, it should be possible to convert them to climate-neutral hydrogen in future. Green hydrogen can make an important contribution to net zero for hard-to-abate sectors, possibly in combination with technologies for CO_2 capture and storage (CCS/CCUS). However, the market ramp-up and competitiveness of fossil fuel alternatives are currently being hampered by high costs, unclear infrastructure planning and a lack of market signals (KfW Research, 2024).

Countries such as China and India are capitalising on the momentum of global growth and promoting key strategic industries (e.g. solar, electromobility, hydrogen) with a clear industrial policy strategy. With the announced rollback of key subsidies from the Inflation Reduction Act (IRA), momentum in the US market for sustainable technologies is already slowing noticeably – presenting an opportunity for the EU and Germany to strategically position themselves as locations for sustainable industry and future technologies. The goal of net-zero greenhouse gas emissions, which around 150 countries have signed up to, makes green markets the markets of the future.

Strengthening competitiveness – building on location advantages

The future success of Germany as an industrial location will depend largely on whether it succeeds in establishing itself early on in climate-compatible markets, leveraging its existing strengths and setting the international tone for innovation. Achieving this requires both strong, innovation-driven domestic markets with local added value and the ability to continue responding competitively to international markets. Germany's location advantages lie in its strong industrial base, a high degree of technical competence and a (for now) well-trained workforce.

Removing obstacles to the transition – for a strong industrial base

- Reduce bureaucracy beyond ESG regulation: Accelerate and digitalise planning and approval procedures
- Lower energy costs: Expand measures aimed at industrial electricity prices
- Increase public investment in order to improve location conditions: e.g. in (transport) infrastructure

A strong industrial base needs reliable location conditions and planning security for investment, targeted incentives for climate-compatible technologies and support for environmental and climate innovation.

2.3 Risk management, resilience and security – further dimensions of the transition

Resilience is more than crisis management – it is a strategic prerequisite for economic stability and sovereignty. In a world of growing climate, nature and geopolitical risks, prevention has become the key competitive factor.

Transition also means active risk management

Businesses are being increasingly confronted by climate and environmental-related risks for their employees, supply chains, locations and sales markets. According to the WEF Global Risks Report 2025, five environmental risks – from extreme weather events to natural resource shortages – are among the top ten major global risks over the next ten years. According to the European Central Bank (ECB, 2022), 72% of businesses in the euro area are highly dependent on at least one ecosystem service and are therefore subject to nature-related risks.

Gaining a new understanding of risk management:
The strategic importance of active risk management is also growing for businesses

Consequently, the transition is more than just climate mitigation and environmental protection. By aligning business models, supply chains and infrastructures towards sustainability, businesses are making a contribution to minimising their own risks – before those risks become acute. In terms of forward-looking risk management, early investment in sustainable practices and adaptation measures can bring not only environmental benefits, but also operational and financial stability.

Transition strengthens resilience and sovereignty – economically and geopolitically

Global crises such as the energy price shock of 2022 and new geopolitical tensions – such as China's stricter export controls on critical raw materials from April 2025 – have exposed the vulnerability of linear, highly concentrated supply chains. So, the transition means: Creating resilience though diversification, regionalisation, circular economy and reducing dependencies on a few dominant supplying countries. In doing so, companies also lower their risk exposure.

Transition as a response to geopolitical uncertainties

Sustainable energy and resource supply is an economic policy imperative. Security of supply requires resilient and diversified partnerships with politically stable resource countries. Renewable energies become a factor of resilience when supported by faster planning and approval procedures, investments in storage and grids, as well as targeted support for industrial large-scale energy consumers during the transition.

From the National Interdisciplinary Climate Risk Assessment by the Potsdam Institute for Climate Impact Research (PIK) and the Federal Intelligence Service (BND) (2025), it can be inferred that the transformation of economic structures is central to reducing fossil fuel imports and raw material dependencies, thereby strengthening economic sovereignty, foreign policy scope and resilience to geopolitical risks.

The circular economy and resource-efficient use of materials are also of strategic importance in this context: Less demand for primary raw materials means more sovereignty. The dependency is currently high: According to the International Energy Agency (IEA, 2025), 86 percent of global primary extraction of copper, lithium and nickel occurs in only three countries, China dominates the market for rare earths.

Transition as a security imperative

Climate change mitigation should be seen as modern security policy. In 2025, the PIK and BND put it as follows, "Anyone thinking about security needs to think about climate as well". Climate change-induced effects such as droughts and crop failures contribute to food insecurity and price increases, exacerbating resource conflicts. They can lead to destabilisation and migration flows. If climate change continues unabated, up to one third of the world's population could be living in regions that are uninhabitable by 2100. The transformation is therefore not only a matter of societal responsibility, but also a necessity from a security policy perspective.

3 The role of banks in the transition towards sustainability

Banks are playing a key role in shaping a sustainable and future-oriented economy. They enable investment in the transition, support companies in adapting their business models and accompany private customers in making sustainable decisions. Systemic transformation can only succeed if politics, business and society act together – banks are making a key contribution as a bridge between the sectors.

- As providers of capital, they are financing the transition to a sustainable economy – from large corporations to medium-sized enterprises and private customers.
- As financial enterprises and risk managers, they integrate ESG criteria into controlling, products and risk management – and make sustainability measurable and controllable.
- As advisors and sparring partners, they accompany firms with strategic advice and private customers with products and financial expertise.

3.1 Financing the future: Banks as capital providers

The demand for capital and the role of public finances

The economic transition will require enormous investment. The European Commission's Platform on Sustainable Finance (2025) has estimated that an additional 620 billion euros in climate investment will be needed annually across Europe until 2030.

Protecting nature will also require more than 200 billion US dollars per year worldwide (Convention on Biological Diversity, 2022). One thing is clear, public funds alone will not suffice – private capital also needs to be mobilised. Nevertheless, the state remains a key actor. Public investment is vital for key infrastructures. At the same time, the German coalition agreement 2025 seeks to leverage private capital.

Banks as providers of capital – with economic benchmarks

In Germany, bank loans remain the backbone of corporate financing. According to the ECB (2025), it is the most important lever for mobilising private funds for the transition. However, banks will only finance what is economically viable – this also applies to sustainable financing and business models. The decisive factor is reliable interest and principal repayments. Where this is lacking for new technologies or start-ups, additional government-backed risk or venture capital is needed. Only then sustainable innovations emerge that later become scalable and bankable.

Real estate and capital markets: two key elements

For better data in real estate portfolios: Establishing a standardised national database for building energy performance certificates.

Real estate: One key transition area is the building sector, responsible for around one third of CO_2 emissions in Germany (DENA, 2024). The sector's transition requires considerable investment in renovation and construction. Banks play a key role here with green building loans and renovation financing, helping both private customers and businesses to take advantage of public funding programmes.

Jürgen von der Lehr
ING Deutschland

"The construction and real estate sector make a significant contribution to global CO_2 emissions. In order to generate the momentum that is urgently required for lasting change, we need a holistic approach in which governments, regulatory bodies, property owners, associations, the trades, media and many more assume joint responsibility for the transition. We inspire our clients to tackle their renovation projects and support them from the initial idea to successful realisation of the project."

Jürgen von der Lehr, Head of Strategy & Sustainability, ING Deutschland

Capital markets: Beyond traditional lending, banks are also active in capital markets. They support companies with bond issuance – from Green Bonds to Sustainability-linked Bonds – and thus mobilise capital off-balance sheet. Large institutions, in particular, act as arrangers or placement banks. Banks are playing an increasingly important role in public and private issues of ESG-compliant bonds in SME segments. Deepening the capital markets union is a crucial lever to improve access to sustainable financing across Europe.

Further developing the capital markets union for a strong EU single market and the mobilisation of investment.

Acting responsible, preventing carbon leakage in the financial system

The transition will only succeed if emission-intensive industries also become greener – not just the sectors that are already sustainable. In order to prevent carbon leakage, banks are supporting these businesses to change, instead of excluding them from financing altogether. Change is taking place within companies – banks are actively shaping it in dialogue with their customers, thereby enabling the transition to progress.

Banks are key actors in steering capital flows in line with the Paris Agreement on climate change. As a result, many institutions combine positive transition criteria with clearly defined exclusion criteria – thereby actively managing what they finance and what they do not.

Bettina Storck
Commerzbank

"We accompany our customers in their sustainable transition and provide them with suitable products and expertise. This also applies to CO_2-intensive sectors and companies, as the status of the transition varies greatly depending on the industry. At the same time, we expect our customers to actively pursue the sustainable transition and set themselves ambitious targets. Sustainability-related risks are in fact potential financial risks for the real economy, and therefore also for the financial sector."

Bettina Storck, Chief Sustainability Officer, Commerzbank

3.2 Bank-wide ESG integration

Strategically anchoring the transition: ESG at the heart of strategy, targets and responsibility

The EU Action Plan on Sustainable Finance (2018) has triggered key changes – despite complex and sometimes overlapping regulations. Legislation has been and remains a key driver for the integration of sustainability and ESG (environmental, social and governance) factors – both for banks and their customers. This is confirmed by a survey conducted by the Association of German Banks (spring 2025) among more than 20 member banks including large international banks as well as small and medium-sized instituions:

Actor	Top 1 driver	Top 2 driver	Top 3 driver
Banks	**Legislation/regulation**	**Risk management**	**Corporate responsibility**
Large corporates	Legislation/regulation	Risk management	Pressure from investors
SMEs	Legislation/regulation	Business opportunities	Pressure from investors

Table 1: Main motivation for integrating sustainability

The survey results show that corporate responsibility is a key driver of sustainable action among banks. Consequently, they align their strategic objectives accordingly.

The private banks are committed to their sustainability targets in line with political climate objectives.

Institutional progress made by German private banks in embedding sustainability is reflected in the survey results presented throughout this chapter. The findings outline how banks are increasingly integrating ESG aspects into their strategies, processes and management – illustrated by a number of case studies from member banks:

Top-level strategy & governance

- All banks surveyed (100%) have now integrated sustainability into their overall strategies – significant progress compared to 2020 (69%).
- The share of banks with C-level responsibility for sustainability has more than doubled (2025: 59%, 2020: 28%) – a clear signal that ESG topics are anchored at the highest management level.

Planning, implementation & coordination

- Energy, steel, cement, commercial real estate are the sectors for which banks have most frequently defined decarbonisation pathways.
- Transition plans are becoming more important – in spring 2025 85% of ECB-supervised banks had already developed or were in the process of developing them. The remaining 15% were currently planning to develop them (as per Q2/2025).
- Internal coordination has also been strengthened: 86% of all banks have set up centralised ESG governance structures.

Sustainability targets

- Clear target-setting is fundamental in the transition – all banks in the survey have defined climate targets. Often complemented by additional ESG goals (50% in the area of environment, 86% for social topics and 64% in governance).
- The survey confirms: all major banks have adopted net-zero targets, i.e. to reduce the carbon emissions of their loan and investment portfolios to net zero by 2050.

Incentive structure

- Linking ESG-targets to executive compensation demonstrates that sustainability is increasingly becoming a guiding principle for corporate decision-making.
- All major banks link the achievement of sustainability targets to executive board remuneration; among smaller and medium-sized banks, this is the case for half of institutions.

Jörg Eigendorf
Deutsche Bank

"What started as a simple amount of financed CO_2 emissions by our corporate loan portfolio in 2021 (Scope 1 and 2 in metric tons) has been developed and operationalized to a high degree since then. Now, CO_2 has become an important key performance indicator at our bank. A part of the management board compensation is linked to achieving the net-zero pathways for the eight most emission-intensive sectors on a quarterly basis."

Jörg Eigendorf, Chief Sustainability Officer, Deutsche Bank

ESG integration remains a process of change: Despite major progress, no bank has yet fully integrated ESG aspects into all areas and processes. Sustainability remains a "change-the-bank" topic – even though it is increasingly becoming part of day-to-day business.

However, there remain challenges for banks – for example, in defining quantitative biodiversity targets. Banks are faced with the task of identifying suitable indicators across a wide range of sectors and regions and making them measurable. Many institutions – especially the larger ones – are therefore starting with a status quo analysis of their portfolios and relevant hot spots before moving on to the next step of determining specific targets.

Lutz Diederichs
BNP Paribas

"BNP Paribas has set specific financing volume targets for supporting the protection of terrestrial and marine biodiversity, and is specifically promoting the maritime ecological transition."

Lutz Diederichs, CEO of BNP Paribas Germany

ESG integration in risk management

Sustainability (ESG) has become an integral risk management component – not just due to regulatory requirements, but also simply due to economic self-interest. Banks understand that ESG risks, both physical and transition risks, are key risk drivers for traditional risk categories. These risks also apply to the loan book or investment portfolio, for example due to increasing default risks in certain sectors or long-term value loss on properties in certain regions.

90%

of banks have integrated ESG risks into their standard risk policies or are in the process of implementing them. Alternatively, or in addition, some institutions have developed dedicated climate and/or ESG risk policies.

Supervisory authorities and regulators – whether the German Federal Financial Supervisory Authority (BaFin), the ECB or the European Banking Authority – have all laid out clear expectations. These are legally reinforced by the implementation of Basel IV. ESG risks are to be considered as material risk drivers and integrated into risk management processes.

Risk management is one of the **banks' core responsibilities**. This includes material ESG risks. Banks want resilient clients with business models that are viable over the long-term.

In credit risk management, practical implementation often follows a multi-step process. First, an initial sector-level risk assessment is performed – for instance through ESG scores or sector-specific risk ratings. Profiles that show elevated risk are than subject to more intense reviews. For larger clients, company-specific information is included in this analysis. Here, strategic aspects such as transition plans, CO_2-price sensitivity or adaptation strategies take on a more important role. The goal is to do more than just record existing risks: instead, banks want to systematically evaluate the long-term viability of business models.

Banks require a certain level of data for risk management purposes.

In order to assess ESG risks, banks need client data – but not always on the individual company-level. Industry information and proxies are also in use. The joint ESG data catalogue[2] by the Association of German Banks (BdB), the Association of Public Banks and German Insurance Association (GDV) illustrates the type of data typically collected by banks for risk assessment, reporting requirements and strategic management.

Stefan Barth

OLB

"Like the entire banking sector, OLB is committed to systematically considering ESG risks in its lending. Before granting a loan to corporate clients, we perform a comprehensive ESG risk analysis that takes the borrower's industry sector into account. This is complemented by an individual assessment, which could in future serve as the basis for assessing a client's transition capability."

Stefan Barth, CEO Oldenburgische Landesbank

Transition plans are strategically important – also for banks in their credit and risk assessment.

While transition plans are gaining relevance for both in client relationships and in banks' own management, they are also increasing in complexity for credit institutions. In addition to strategic transition planning, supervisors expect institutions to develop risk-based, supervisory transition plans, so called ESG risk plans. Banks must set targets to reduce ESG risks. Smaller institutions find this particularly challenging, as, among other things, they have access to far fewer resources. Therefore, proportionality must be adequately reflected in regulatory requirements.

Despite significant progress and growing experience in integrating climate risks, full integration of ESG risks into risk management processes remains a challenging task. After all:

- ESG risks must be assessed over the long term and contain more uncertainties.
- New supervisory requirements, such as ESG risk plans, scenario analyses or climate-related stress tests simply increase requirements and complexity.
- Incorporating environmental, social and governance risks in credit risk management and portfolio assessment – particularly in quantitative terms – remains challenging. Reliable, sufficiently long data series are often lacking, hence limiting model-based assessments.
- Multiple levels interact with one another, so that risk management is becoming increasingly complex: strategic decarbonisation targets of the banks must be operationalised, while, simultaneously, the clients' ESG profiles need to be factored into credit decisions and pricing – in addition to traditional creditworthiness analysis.

2 https://bankenverband.de/en/nachhaltigkeit/esg-regulation-banks-and-insurers-offer-guidance-data-requirements

Banks are addressing these challenges by expanding their methodologies, adjusting processes and data infrastructure, as well as through peer exchange. Supervisory authorities do not expect ESG risks to be fully integrated yet, but banks must prove that they are making tangible and credible progress.

ESG integration in product architecture (financing)

65%

of banks offer green and/or sustainable loans – significantly more than in 2020 (35 %).

In recent years, banks developed a variety of sustainable finance products, with the objective of providing targeted financing for sustainable business activities. This includes use-of-proceeds products, such as green construction finance or green bonds, as well as products where interest rates are tied to achieving sustainability KPIs, such as ESG-linked loans. According to the Association of German Private Banks' 2025 member survey, the majority of clients continue to have a stable interest in these sustainable financial products – interest has even risen slightly among small and medium sized enterprises.

Financing the transition

The volume of sustainable products alone is not a sufficient indicator of a bank's contribution to transformation. Conventional loans can also contribute to sustainability – for example by supporting a business in the midst of a transition to more sustainable practices.

Sustainable finance is much more than just financing taxonomy-aligned activities or other sustainable activities (green and social finance). It also includes transition finance – supporting companies on their path towards sustainability – as illustrated in the figure below.:

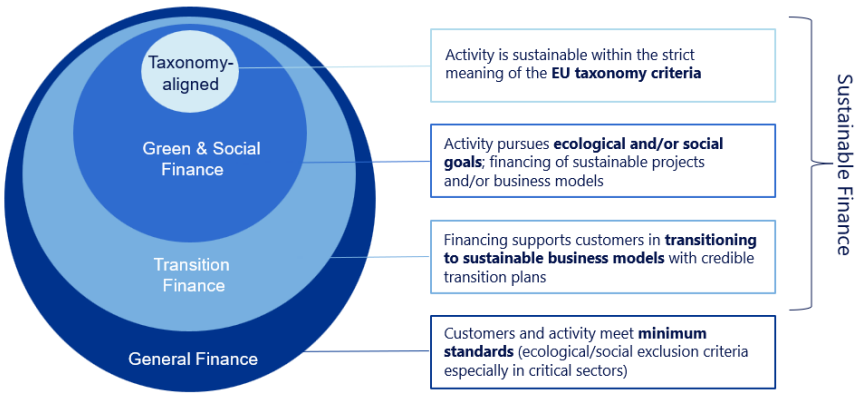


Figure 2: Expansion of Sustainable Finance understanding

How a bank defines sustainable finance is usually set out in their ESG frameworks – adjusted for their business models and strategies. These frameworks determine which business models are to be supported and how to deal with critical sectors. Our member survey demonstrates that ESG frameworks are increasingly common:

Frameworks

A large majority of ECB-supervised banks in the survey (92%), as well as some medium-sized institutions, have defined ESG/Sustainable Finance frameworks. 23% of respondents have Transition Finance frameworks in place, with a further 46% planning to develop them.

Exclusion criteria

All banks that are supervised by the ECB and also responded to the survey have defined exclusion criteria for specific industries or activities. This is also the case for a large majority (78%) of those participating banks under national supervision.

ESG integration in product architecture (investments)

In portfolio management for institutional or high-net-worth clients as well as in asset management, provided banks have such a division, many banks have included ESG aspects in product development, title selection and fund strategies. They use, among other things, best-in-class strategies, exclusions or impact investing.

They often establish dedicated frameworks and governance processes for sustainable investment products, in order to offer both institutional and retail investors products with clearly defined selection criteria.

Despite the fact that recently, the sustainable funds market has seen a decline in volume, sustainable investment options remain in demand. In the survey, carried out in spring 2025, members of the Association of German Banks noted that professional investors are as interested as ever in sustainable products.

According to a representative online survey by the Association of German Banks from September 2025,[3] retail investors' willingness to invest in sustainable investment products is growing. The percentage of retail investors with sustainable investments has almost tripled since 2019; from 5% to 10% in 2023 and up to the current number, 14%, in the most recent survey. In addition, 60% of those who knew what sustainable investments were could easily imagine investing sustainably in the future.

Conclusion: ESG integration

Sustainability is here to stay – it is now embedded into banks' strategy, targets, governance, frameworks, products, client processes and risk management. It influences decisions and processes.

Banks are integrating sustainability into their processes because they recognise that the transition is both necessary and represents a major economic opportunity. Banks remain committed and continue to take responsibility for driving the transition and decarbonisation – together with their clients.

3 https://bankenverband.de/verbraucher/nachhaltige-geldanlage-2025

3.3 Banks as sparring partners in their clients' transition

Advisory services for corporate clients

Banks support their clients as they transition to sustainable business models. They do this not just by providing capital, but also by providing expertise and structured advisory services. This strategic dialogue can cover ESG target setting of the company, evaluation of their transition path, integration of sustainability into business models and access to suitable types of financing – including advice on public funding. Banks act as advisors and sparring partners, offering sector-specific expertise on subjects such as renewable energy.

The Sustainability Transformation Monitor 2025 (STM25) highlights the importance of entering into these dialogues on an equal footing: many businesses want banks to support and advise them in the green transition. So-called transition dialogues are most common among large institutions and specialised teams, as confirmed by the Association of German Banks' member survey.

77%

of ECB-supervised institutions conduct transition dialogues; among BaFin-supervised banks, this applies to medium-sized banks (44%).

For those institutions who participated in the survey and are supervised by BaFin, ESG-related discussions with corporate clients is usually carried out within the credit process. Many institutions supervised by the ECB engage in systematic transition dialogues, i.e. regular dialogues initiated by the bank. For some institutions, these dialogues are initiated with all corporate clients, independent of size or sector, while other institutions enter into such dialogues primarily with larger businesses and/or those in relevant sectors.

These dialogues show that even the consideration of ESG factors during lending and in credit conversations can lead to change: businesses engage with data requirements, analyse their vulnerabilities to climate and transition risks and identify opportunities and new lines of business.

Marion Höllinger
HypoVereinsbank

"At the heart of our approach is a segmented assessment approach that takes into account the heterogeneity of the HypoVereinsbank's clients, in terms of both sector and size. The analysis includes an ESG score, sectoral benchmarking and an individual development plan, from which specific actions for the client can be derived. The results are used to enter into strategic dialogue with the clients, particularly focused on the climate transition."

Marion Höllinger, CEO HypoVereinsbank

Advisory services for retail clients

When it comes to asset investing, sustainability is a key component of retail client advisory services – in particular due to the regulatory requirements on investor protection from MiFID II and the EU Sustainable Finance Disclosure Regulation. As part of portfolio management and investment advice, banks ask their clients about their sustainability preferences and offer appropriate products.

And of course, sustainability does not just play a role in investment advice, but has also taken on increasing importance in private real estate financing such as for new constructions and renovations. Bank advisory is particularly sought after for residential property, where they advise their clients on how to apply for state subsidies and provide information on the effects of regulatory amendments (e.g. EU Buildings Directive, carbon price). Bank advisors can also provide expertise on energy efficient renovations and how to receive additional support, such as putting clients in contact with energy consultants.

Engagement in Asset Management

In banks' asset management activities, sustainability is also part of active ownership and engagement with companies – not from the perspective of a lender, but as an investor. Investor engagement is a targeted means of influencing and improving companies' ESG strategies, transparency and sustainable corporate leadership – including managing ESG risks within the portfolio.

Thomas Keller

Bank Pictet

"Active ownership is fundamental to our strategy and achieving our sustainability targets – both via engagement and via proxy voting. Our engagement programme is designed to encourage issuers to improve their ESG practices with the goal of minimising negative effects on the environment and society and improving positive results."

Thomas Keller, Member of the Board of Directors, Chief Legal Officer, Bank Pictet & Cie (Europe) AG

4 Policy recommendations for accelerating the transition

Conveying a positive vision: understanding the transition as an opportunity

The current sustainability debate in Germany is marked by contrasting perceptions. For some, climate action feels like a burden, the transition like a threat to prosperity and jobs, and ESG like excessive bureaucracy. Yet, from an economic perspective, the picture is different: sustainability opens new paths for innovation in technologies and production processes, while helping to reduce future costs, risks and dependencies.

Countries around the world are strategically investing in sustainable technologies, securing raw materials and cementing their role as technological leaders. This is both a challenge and an opportunity for Germany and Europe: we must act decisively to maintain our ecological credibility and strengthen the economy. We therefore need:

- a renewed forward-looking perspective that highlights innovation, competitiveness and the power to shape change.
- a positive vision of a sustainable future that inspires confidence: the transition is achievable and full of opportunity — for new markets, future-proof jobs and a resilient economy.

Establishing a positive transition narrative requires support from strong political and business leaders.

Internalising external costs: reliable CO_2 price and valuing natural capital

A reliable CO_2 price signal that increases at predictable intervals and takes the actual climate costs of fossil-fuel driven technology into account is an essential transition lever, one that will strengthen competitiveness for climate-friendly alternatives. Germany should, therefore, actively support the introduction of the EU-ETS 2, the next step of the EU emissions trading system – without delay and without weakening any requirements therein.

However, the carbon price can only be truly effective as a mechanism of control if we simultaneously reverse market-distorting subsidies for fossil fuels. Social aspects must also be addressed in light of rising carbon prices, particularly in the transport and property sectors, in order to ensure that climate policy remains socially balanced and widely supported.

At the same time, external alignment is essential: an effective Carbon Border Adjustment Mechanism (CBAM) will preclude a competitive disadvantage caused by the import of energy intensive products from countries with lower climate standards We welcome recent improvements to CBAM in regard to practicality and proportionality of the import volumes. Over the long-term, however, the CBAM should be expanded, step-by-step and as part of a dialogue with industry potentially expanding to additional sectors with a high carbon leakage risk. Here, it will be essential to cooperate closely with international partners in order to avoid trade disputes.

While global carbon pricing among major emitters is desirable, in the near term only a gradual expansion of national and sectoral systems is realistic. The EU can promote convergence through partnerships, knowledge transfer and credible implementation of its own policies.

Beyond CO_2 pricing, nature-related risks and value of ecosystem services must increasingly be factored into economic decision-making. The German government should actively shape the EU roadmap for nature credits, focusing on ecological integrity, strict quality standards and clear rules for avoiding greenwashing. On both a national and European level, we need a debate on the economic valuation of nature and preparatory steps for effective nature-related policy instruments.

Planning certainty for business: Clear, long-term climate targets and reliability

To ensure that businesses can actively participate in the green transition, they need clear, reliable and long-term climate targets, stable regulatory frameworks and targeted infrastructure measures from public authorities. Investment in climate friendly technologies, processes and business models requires the ability to plan well in advance — in terms of CO_2 pricing, funding programmes, and the availability of energy, transport and digital infrastructure. This planning certainty must extend beyond individual legislative terms.

The German government's upcoming climate action programme should, therefore, should not only ensure achievement of the 2030 targets, but also create the conditions required to maintain climate neutrality over the long term. The German Council of Experts on Climate Change clearly named the priority areas in their review report (2025): measures must be taken regarding transport and property, national implementation of the EU-ETS 2, biodiversity-related strategies (land and forest use) and technologies for carbon capture and storage.

Targeted investment incentives through promotional policy

To ensure that public engagement helps to mobilise additional private funds, German national and state development banks should focus more on financing those areas that are, at present, seen as too risky or improvident for private investors – such as subordinate tranches or first-loss participating interests. This provides a targeted means of ensuring that the effect of public financing is multiplied and facilitate private investment in future-oriented projects.

Public risk-sharing mechanisms that relieve banks' capital requirements, could provide important economic impulses and expand lending capability. Ensuring that KfW promotional programmes continue to focus on the green and digital transition of businesses within Germany sends an important signal and deserves support.

Improve ESG data availability with a central register

The European Commission's Omnibus proposal of reducing ESG regulatory requirements, is an important step towards reducing bureaucracy. The planned simplification of reporting requirements is also welcome, since not all data points are relevant for business management, investors or lenders. In order to simplify credit and risk analysis, a central ESG data register for companies and real estate would be highly beneficial – for instance covering energy performance certificates (as envisaged under the revised EU Energy Performance of Buildings Directive EPBD) and corporate ESG data.

Relieve the financial sector: efficient, proportional ESG regulations

While the Omnibus Initiative reduces burdens for corporates, it does not yet sufficiently address the specific challenges of the financial sector. Banks support the goal of easing bureaucracy for businesses and exempting smaller firms from reporting obligations. However, they still require robust client data for risk management, supervisory reporting and strategic steering — also for developing sector benchmarks and proxies. To ensure that regulatory relief is effective, supervisory expectations for banks must be adjusted in parallel, particularly for smaller institutions. This would reduce implementation costs and mitigate the so-called "trickle-down effect" of ESG regulation on the financial sector.

Promoting the capital markets union: mobilise additional funds

Bank loans and public funds will simply not be enough to finance the transition. Many transition projects are associated with higher risks, larger financing volumes and longer maturities. Strengthening capital markets financing is essential in order to expand financing options and specifically mobilise private capital for future-oriented investments. Europe must therefore move forward decisively with the capital markets union. A deeper and more powerful European capital market with improved access to liquidity is essential in order to provide sustainable support for the green and digital transition.

5 Integrated sustainability in banks

5.1 Case studies from member banks

Some of our member banks share below how sustainability aspects are integrated into different areas of their banking operations. These examples illustrate that sustainability has already become part of the DNA of many banks:

BNP Paribas: Integrating biodiversity into a variety of processes and initiatives

The consideration of biodiversity risks is a central element of BNP Paribas' risk management. Biodiversity criteria are integrated into financing and investment policies, particularly in sectors with high risk of deforestation and habitat loss, such as agriculture, palm oil, pulp, mining and oil and gas. Clients that produce or import beef or soy from the Amazon or Cerrado regions of Brazil are strongly encouraged to implement a zero-deforestation strategy by 2025 at the latest. BNP Paribas is an active participant in the Taskforce on Nature-related Financial Disclosures (TNFD), which aims to develop uniform standards for managing and disclosing nature-related risks.

Concrete initiatives and programmes include:

- BNP Paribas has set specific financing volume targets for supporting the protection of terrestrial and marine biodiversity, and is specifically supporting the maritime ecological transition.
- Under its published biodiversity roadmap, BNP Paribas Asset Management aims to reduce the impact of investment on biodiversity, for example by allocating capital to biodiversity-focused strategies, including a fund dedicated to protecting and restoring global ecosystems.
- BNP Paribas Real Estate has a commitment to integrate biodiversity into all their European activities, including the development, renovation and management of property.

A comprehensive training programme on the effects of climate change and loss of biodiversity, as well as sustainable financing practices, is designed to educate employees on environmental issues and biodiversity.

Commerzbank: Insights into the ESG framework

All aspects of sustainability have become a key component of the bank's core business. We want to be a reliable partner for promoting sustainable economic change and support our clients as they transition to sustainable business models.

The bank divides its portfolio into General and Sustainable Finance. General Finance includes all financing that meets general transition requirements without being subject to exclusion criteria. The bank's approach is to support transformation in all sectors, rather than categorically excluding entire industries.

At the same time, we ask that our clients make decisive steps towards improved sustainability: not just in order to reach our ambitious net-zero goal, but also in order to ensure that the bank remains stable over the long term. After all, sustainability risks are in fact potential financial risks for the real economy, and therefore also for the financial sector.

In some cases, the bank no longer engages, or plans to phase out engagement, with specific companies or activities. In particular, we have defined policies and clear exclusion criteria for controversial sectors. We use SBTi, the Science-based Targets initiative's transition criteria, to decide whether to enter into new business arrangements with carbon intensive industries.

In Sustainable Finance, the bank pursues both environmental and social objectives to ensure a holistic approach to promoting sustainability and social well-being. To support its goal of reducing CO_2 emissions in its credit and investment portfolio to net zero by 2050, Commerzbank aims to consistently issue at least 10 % of new lending as sustainable loans. The bank provides financing for both sustainable projects and business models (green and social loans), as well as initiatives that support a transition towards more sustainable business models (transition loans).

The bank aims to help companies become climate neutral over the long term. In this context, transition loans play a key role in advancing the objectives of the Paris Agreement.

Deutsche Bank

Deutsche Bank: Integrated CO_2 management

Since Deutsche Bank committed to net zero in the fall of 2020 (net zero declaration of the German financial industry) it has continuously deepened its CO_2 reporting and integrated it into the steering of the bank. What started as a simple amount of financed CO_2 emissions by its corporate loan portfolio in 2021 (Scope 1 and 2 in metric tons) has been developed and operationalized to a high degree.

Four years later, carbon has become an important key performance indicator in the bank. A part of the management board compensation is linked to achieving net zero pathways for eight emission-intensive sectors on a quarterly basis. Pathway performances for the sectors Oil & Gas (Upstream) as well as Coal Mining (thermal as well as metallurgical) are measured in absolute tons.

The carbon footprint of our financed emissions is managed on a group as well as a divisional level. Loans with a financing volume of more than 25 million Euros and more than one percent of the financed emissions/net-zero target metric for the individual sector are reviewed by the Group Net Zero Forum. Since its foundation in the fall of 2022, the Forum has analysed more than 120 transactions and often attached concrete conditions to its recommendation.

Thus, the detailed CO_2-management has led to a much more intense dialogue with the corporate clients of the bank on their transition. It has also become a central part of the climate and risk management of the bank.

HypoVereinsbank: Structured ESG assessment as part of risk-conscious client and credit processes

HypoVereinsbank has established a comprehensive ESG infrastructure that integrates regulatory requirements, internal bank standards and market-specific expectations.

The aim is to systematically capture, analyse and incorporate ESG factors throughout the client workflow and decision making processes. ESG tools and processes support relationship managers, analysts and credit officers across the entire client lifecycle.

The core of this process is a segmented assessment approach that takes into account the heterogeneity of the HypoVereinsbank's clients, in terms of both sector and size. For large corporate clients, a detailed Climate & Environmental Questionnaire allows for in-depth analysis of company-specific sustainability information and risks. Small and medium-sized enterprises (SMEs) will soon capture their ESG performance through the 'Open-es' platform, providing a standardised, SME-tailored web-based questionnaire aligned with the VSME standard. Analysis includes an ESG score, sectoral benchmarking and an individual development plan which provides information on measures clients can take.

The results are used to enter into strategic dialogue with the clients, particularly focused on the transition as related to climate mitigation. In addition, the ESG score is used to evaluate transition risks and taken into account during the credit process enabling differentiated risk management that incorporates non-financial factors.

As part of ongoing ESG infrastructure development, artificial intelligence will increasingly be used, which will automatically evaluate client's sustainability reports and directly integrate relevant information into the ESG systems. This will improve data quality, reduce the administrative burden and improve decision making structures.

At HypoVereinsbank, ESG is not treated as an isolated topic but as an integral part of the customer relationship. The goal is always to act as a competent partner to accompany a client's transition and support them with tailored financing solutions.

ING Deutschland: Driving transition in mortgage financing

The construction and real estate sector accounts for a significant share of global CO_2 emissions. At the current pace, the sector remains well below the decarbonisation pathway required to achieve climate neutrality by 2050. This challenge is reflected in banks' mortgage portfolios. While the technologies for decarbonisation are available, societal and political barriers continue to hinder the necessary "renovation wave."

This poses questions that simply cannot be solved by the financial sector alone. Creating momentum for sustainable change therefore requires a holistic approach in which governments, regulatory bodies, property owners, associations, craftspeople, media and many more assume joint responsibility for the transition.

But what can financial institutions do right now? ING Germany focuses on two levers: energy-efficient refurbishments and new construction meeting A and A+ efficiency standards. In particular when it comes to renovating existing buildings, we cover so much more than is covered by a classic loan: we inspire our clients to plan and execute renovations, supporting them from the initial idea to successful realisation of the project. We offer a comprehensive modernisation check that shows which measures are appropriate and how much energy can be saved. Our partner network connects clients with experts on energy consulting, government funding support and implementation of modernisation plans for all common businesses. In addition, our clients profit from exclusive preferential terms, for example discounts on tailored renovation roadmaps or price reductions for installation. We also provide comprehensive advisory services for government subsidies and guide our clients through the entire process. Finally, we incentivise energy-related renovations via a variety of loan options with preferential conditions, based on the needs of our clients.

We believe that renovation rates can only truly increase if policymakers establish a long-term, coherent regulatory and funding framework. This includes financing for subsidy programmes over more than twelve months, reducing the complexity of subsidy programmes (a stated goal in the current German government's coalition agreement), raising the political awareness of and clear requirements for property owners regarding renovation, an energy register for buildings and positive incentives for energy-efficient investments.

OLB: Green transition requires a common understanding of ESG risks

Financing decisions made by banks have a direct effect on the real economy by enabling investments, shaping business strategies, and thus impacting the course of the transition. Accordingly, a balanced and transformation-oriented approach to ESG risks is essential. In lending, adverse selection can increase these risks: if institutions with low ESG standards continue financing for businesses that are not willing to transition, while banks that perform strict due diligence reject these clients or subject them to risk premiums, risks would merely shift within the system instead of being reduced.

OLB, just like the entire banking industry, is committed to systematically taking ESG risks into account when granting loans. The bank performs a risk analysis and classification using ESG sector scores based on the ESG risks of the client's sector before granting a loan. This sector score is complemented by an individual assessment relative to the sector score, which could, in the future, help to evaluate how transition-ready a corporate client is.

The goal is not to exclude whole sectors, but rather to provide meaningful support during the transition process and promote transition-ready business models. It is essential that the banking industry develops a common understanding of how to appropriately evaluate and address ESG risks in a manner that satisfies the needs of the market. Consistent, risk-adjusted pricing can help prevent adverse selection by managing ESG risks not through blanket exclusions, but through transparent, risk-appropriate conditions. Doing so will create market-based incentives that promote the transition while simultaneously strengthening loan market stability.

Pictet - Bank Pictet & Cie (Europe) AG: Engagement process for achieving sustainability goals

Active ownership is fundamental to our strategy and achieving our sustainability goals – both via engagement and via proxy voting. At Pictet, we take a proactive approach to engagement, based on our conviction that meaningful dialogue with issuers is key to promoting sustainable change. This is in line with our commitment to responsible investing and our fiduciary responsibility to our clients. We ensure that significant financial ESG considerations are not just integrated into investment decisions, but also actively influence the strategic focus of the businesses we invest in.

Our engagement programme is designed to encourage issuers to improve their ESG practices with the goal of minimising negative effects on the environment and society and improving positive results.

Engagement efforts combine a bottom-up approach, informed and driven by ESG analyses from investment teams, with a top-down framework under the Group Engagement Focus Framework, which identifies priority holdings for engagement across three pillars::

1 Priority themes that we have selected based on our expertise and exposure: Climate, water, food and longevity.

2 Activities with high ESG risks (e.g. fossil fuels, gambling, tobaccos, etc., as described in detail in Pictet's Responsible Investment Policy).

3 Violations of the UN Global Compact principles.

At the end of 2024, we were actively engaged with over 80 issuers on our Group Engagement Focus List — a figure expected to evolve as priorities and portfolios develop.

5.2 Background to the survey among private backs

We asked our member banks about their sustainability integration and the state of sustainable finance in the 2nd quarter of 2025. The survey results presented in Chapter 3 of the position paper show that banks have already made significant progress on integrating sustainability into their business models, particularly in comparison to a similar survey completed a few years ago. Sustainability is now firmly anchored in strategy, processes, governance and management decisions.

The more than 20 participating institutions reflect the heterogeneity of the private banking sector in Germany, from banks operating only on a national level up to and including international banks and foreign banks with German branches. The survey covers everything from institutions with under 100 employees to globally active banks with over 150,000 employees, with total assets ranging from under 1 billion euros to significantly more than 1 trillion euros.

The survey highlights that certain areas of integration remain challenging, and small institutions, in particular, are at different stages of progress. Just like small and medium-sized businesses, these banks have more limited personnel and financial resources. It is therefore essential that ESG regulation for both businesses and banks is appropriate, proportional and practical.

In addition to the survey, we invited several banks to illustrate specific aspects of sustainability integration in practice. These case studies in Chapter 5.1 of this paper provide concrete insights and complement the survey results by demonstrating the practical role of banks in the transition.

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