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European and U.S. Banks Maintain Long-Term Net-Zero Commitment

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Executive Summary

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The Net-Zero Banking Alliance (NZBA) has reportedly ceased operations as a membership-based alliance following the recent withdrawal of three major European banks. Although its shutdown may seem like a setback in the global pursuit of carbon neutrality, major European and U.S. banks remain committed to advancing the transition to a carbon-neutral society over the long run.

The Net-Zero Banking Alliance (NZBA) has decided to cease operations as a membership-based alliance according to media reports. The NZBA was an international initiative founded in 2021 to help enable banks to play a leadership role in mitigating climate change in accord with the Paris Agreement' goals. It provided technical support to help banks set climate-related targets, formulate transition plans and finance the energy transition. Its membership included more than 120 across over 40 countries[1].

NOTE

1) Per the NZBA's website (as of October 2, 2025).

Three major European banks, HSBC, Barclays, and UBS, recently withdrew from the NZBA in quick succession, in July and August. Their departures raised concerns that the outflow could extend to other leading EU banks that have been proactively pursuing climate change mitigation.

Factors behind NZBA membership drain

Major U.S. banks were the first to withdraw from the NZBA between late 2024 and January 2025 for two main reasons. First, the incoming Trump administration adopted a stance critical of climate change policy. Second, several US state courts had ruled that banks could potentially be charged with an antitrust violation if they collectively restricted financing to fossil-fuel businesses. Following the U.S. banks’ departure, Japan’s three megabanks also exited the alliance in March 2025.

One reason HSBC, Barclays, and UBS left the NZBA is that their U.S. peers had already withdrawn. As all three have U.S. operations, their decision may have been partly aimed at ensuring conflict-free business in the U.S., though they were not simply following their competitors’ lead.

Summary of EBA's new Guidelines

- Properly identify and measure ESG risks by regularly and comprehensively assessing ESG risks' materiality.
- Integrate ESG risks into existing risk management frameworks by considering their role as financial risk drivers.
- Adopt a robust and sound approach to managing and mitigating ESG risks over the short, medium and long term (at least 10 years), including engagement with counterparties.
- Embed ESG risks into internal processes, including risk appetite, internal controls and capital adequacy assessment.
- Embed ESG risk monitoring and reporting into existing processes.
- Develop backward- and forward-looking ESG risk metrics and indicators for monitoring/reporting purposes.
- Formulate short-, medium- and long-term transition plans.
- Embed forward-looking ESG risk considerations into strategies, policies and risk management processes through planning.

Source: NRI, based on various information

Another reason for their withdrawal relates to their status as European banks. Namely, European banks' regulatory burden with respect to climate change increased in January 2025, when the EU's European Banking Authority (EBA) published finalized *Guidelines on the Management of ESG Risks*. For large banks, the Guidelines take effect in January 2026, giving the banks only one year to prepare. The short timeline imposes a heavy burden on major banks.

The EBA's Guidelines call upon banks to manage ESG risks, particularly environmental risks, one of which is climate-change risk. While the Guidelines are predominantly oriented toward environmental risks, they direct banks to formulate a ESG risk management framework, a time-consuming and labor-intensive undertaking (see summary table).

In the UK, the Prudential Regulatory Authority (PRA) published a consultation paper entitled *Enhancing Banks' and Insurers' Approaches to Managing Climate-Related Risks* on April 30, 2025[2]. A draft update of a supervisory statement published in 2019, the paper proposes higher standards in light of changes in the business environment and banks' progress with respect to climate-related risk management since 2019. Its wide-ranging proposals address governance, risk management, climate risk scenario analysis, data and disclosures, among other topics.

2) The consultation period ended in July 2025.

The departure of major European banks from the NZBA may therefore indicate a shift in priorities—from global initiatives to compliance with European regulations. The EBA's new Guidelines and the PRA's proposed supervisory update apply even to non-European banks operating in Europe. In fact, major U.S. banks are already shifting focus to regulatory compliance with proposed European rules.

Energy transition trend remains intact

The NZBA's progress toward attainment of the Paris Agreement's goals may very well lose momentum following the departure of not only US but also European major banks. In the U.S., the new administration's reversal on climate policy could even pressure banks to increase financing for fossil-fuel projects. Nevertheless, it would be premature to conclude that banks are abandoning their net-zero commitments.

Every bank that has left the NZBA has reaffirmed its pledge to promote sustainable finance and support customers' transition to carbon neutrality in pursuit of a net-zero world by 2050. US and European banks have been helping to drive decarbonization for three reasons.

First, climate risk is widely recognized as a material financial risk that banks must manage. Repeated catastrophic flooding and wildfires due to abnormal weather have catalyzed a keen recognition of climate risk among not just banks but also society at large in recent years. The Los Angeles wildfires of January 2025 prompted foreign banks to concretely reassess the impacts of climate risk in light of pricing, sales strategies and other aspects of their operations.

Second, while Europe is tightening climate-related regulations, its governments are simultaneously accelerating the transition to a carbon-neutral society through policy support and incentives. Achieving decarbonization requires coordinated action among governments, businesses, and individuals. Government leadership and support that facilitate pro-transition choices by businesses and individuals are essential to a smooth transition.

Third, in some regions outside Europe and the U.S.—including certain South American and Asian countries—more advanced climate risk initiatives are progressing. As climate change mitigation has become a truly global issue, internationally active banks must comply with the regulations of all markets in which they operate, regardless of their home country's policies.

Major European and U.S. banks that have committed to promoting decarbonization are therefore unlikely to alter their long-term strategies. The drive to a net-zero society is still underway.

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