

Transition planning in banks

*EY State of Play
Report*

February 2026



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Executive summary

Over the past two years, large UK and European banks have accelerated the development and disclosure of transition plans, driven by growing regulatory expectations, rising stakeholder scrutiny and the need to navigate an increasingly complex climate and sustainability agenda.

This report provides a consolidated view of the banking sector's transition planning maturity. Drawing on an assessment of six banks' most recent transition plan publications, it highlights emerging practices, areas of strength and persistent maturity gaps across seven core areas of transition planning.

While momentum is growing, most banks are still in the early stages of embedding transition strategies into decision-making, capital allocation and client engagement. Considerations relating to nature and the just transition are emerging, but not yet integrated into core processes. Persistent challenges including data quality, policy uncertainty and technology readiness continue to influence both the pace and the credibility of progress.

A robust transition plan helps banks to navigate transition risk, demonstrate credibility and respond to rising regulatory and stakeholder expectations through:

- Providing a clear signal to the market around banks' commitments to act on their targets
- Underpinning future capital allocation and financial planning decisions to align with net-zero pathways and pursue financing opportunities
- Strengthening strategic governance by aligning incentives, oversight and risk appetite

This report sets out the common challenges banks face and identifies priority areas to strengthen future transition plan iterations. It is designed to help firms benchmark their current approach, understand sector-wide expectations and chart a more actionable, credible and resilient path forward.

Key trends

Methodology

Recent EY analysis combined both quantitative data and qualitative insights from six large UK and European banks' transition plans published in the last two years. This provided a strong view of the current state of play of the sector. From this assessment, seven key trends have emerged, offering a snapshot of how banks are shaping, operationalizing and evolving their transition plans.

Seven key trends in banks' transition plans

1

Metrics and targets: ranges used for net-zero targets

Many banks are now considering setting target ranges (e.g., 1.5 °C to 1.7 °C) for hard-to-abate sectors, noting the short-term uncertainty in sector-level transition.

2

Transition governance: sustainability included in scorecards

Banks are integrating sustainability measures into remuneration policies for both the executives and the wider nonexecutive workforce.

3

Client engagement: engagement outcomes used in decision-making

Many banks are starting to integrate engagement outcomes and client transition plan assessments into decision-making, including to identify opportunities for sustainable financing.

4

Portfolio steering and policies: client-level analysis used to steer portfolios

Banks are expanding their portfolio steering capabilities, by integrating client transition assessment, climate scenario analysis and other tools to inform decision-making.

5

Sustainable and transition financing: targets for transition finance

Banks are starting to set clear transition finance targets as part of their wider sustainable finance targets, supported by internal frameworks underpinned by sector-specific transition priorities.

6

Integration of nature and just transition: consideration of climate alongside other ESG elements

Banks are considering how to integrate trade-offs and synergies between climate and other interrelated topics, although most banks are in early stages of integration, particularly with regards to social topics.

7

Assumptions and dependencies: identification of sector-specific actions to manage dependencies

All banks have identified key assumptions and dependencies underpinning their transition plans, although leading banks have gone further in defining clear sector-specific actions to manage these.

1

Metrics and targets

Target coverage

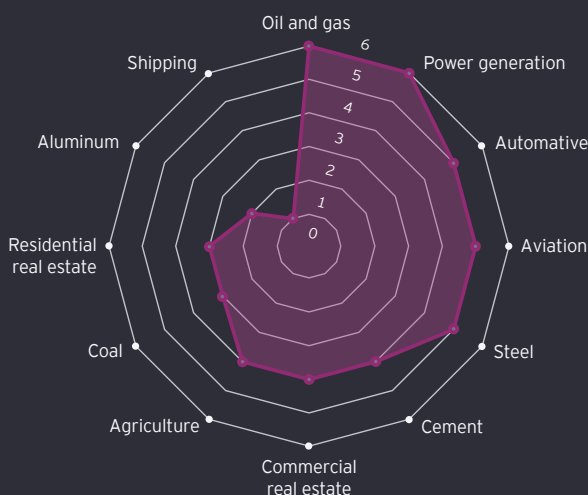
Banks have focused on setting targets for their highest-emitting sectors, but some are yet to establish targets for other hard-to-abate sectors.

The main reasons for missing targets in these sectors are limited data and methodological challenges. Data and methodologies are less developed and available for sectors such as agriculture, aluminium and shipping, in comparison to high-emitting fossil fuel sectors.

Increasingly, many banks are considering adopting target ranges (e.g., 1.5°C to 1.7°C) for their interim 2030 goals; the application varies with some applying them across all sectors and others targeting specific sectors.

Setting a target range instead of a fixed point offers banks flexibility amid uncertainties, especially when lending to less developed geographies, while still remaining aligned to 2050 net-zero goals.

What sectors are covered by assessed banks' decarbonization targets?

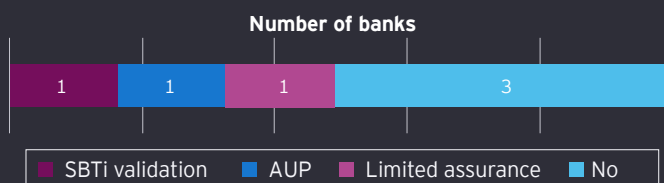


External assurance of targets

Half of the banks have obtained external validation of their targets.

Half of the banks in our sample have obtained some form of external assurance or validation of their targets. This includes through Assured Upon Procedures (AUPs), limited assurance or Science-Based Targets initiative (SBTi) validation.

Have banks' targets been externally assured or validated?

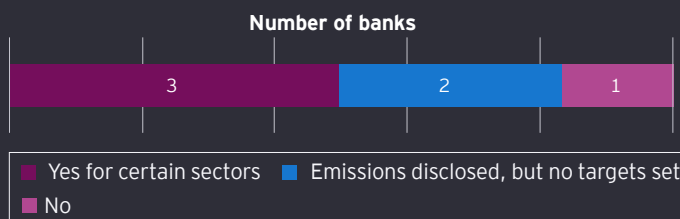


Facilitated emissions

Facilitated emissions is being disclosed by most banks, but not all have set related targets.

Three of the five banks that disclose facilitated emissions for certain sectors have set targets. These are namely for debt and equity and are separate from financed emissions targets.

Have banks set facilitated emissions targets?



Recommendations

- Expanding the scope of target setting to cover the whole balance sheet, in line with the International Sustainability Standards Board's (ISSB's) expectations, which will require:
 - Inclusion of remaining sectors
 - Increasing value chain and emission scope coverage (i.e., Scope 3 financed emissions)
 - Increased asset classes including undrawn loan commitments
- Obtain assurance or independent validation of sector-level targets.



Transition governance

Governance and oversight

Banks have established clear governance structures for development and execution of their transition plans, helping ensure accountability and oversight at all levels, including board-, executive- and management-level committees.

Training and development programs for board members and executives are being implemented across most banks to strengthen capabilities and to help enhance oversight.

Regular oversight and reporting mechanisms are in place to monitor climate-related progress, for example, establishing processes for providing updates to risk and audit committees.

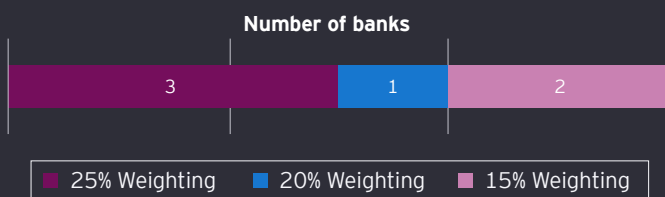
Banks have noted that governance structures are likely to continue to evolve over time, to reflect changes to their transition strategy.

Remuneration and incentives

Banks are integrating sustainability indicators into their remuneration policies for executives and the wider non-executive workforce, with weightings varying between 15 and 25% for executives.

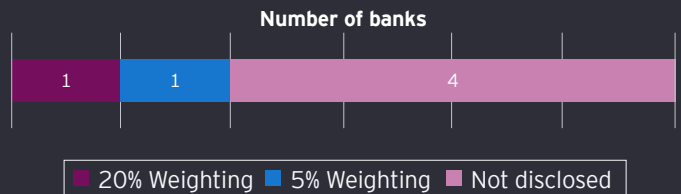
A variety of climate-related measures inform incentive schemes, with banks typically focusing on sustainable finance and operational emissions. Some banks have also included financed emissions performance metrics.

For executives, what percentage weighting is given to sustainability* indicators in banks' long-term incentive plans?

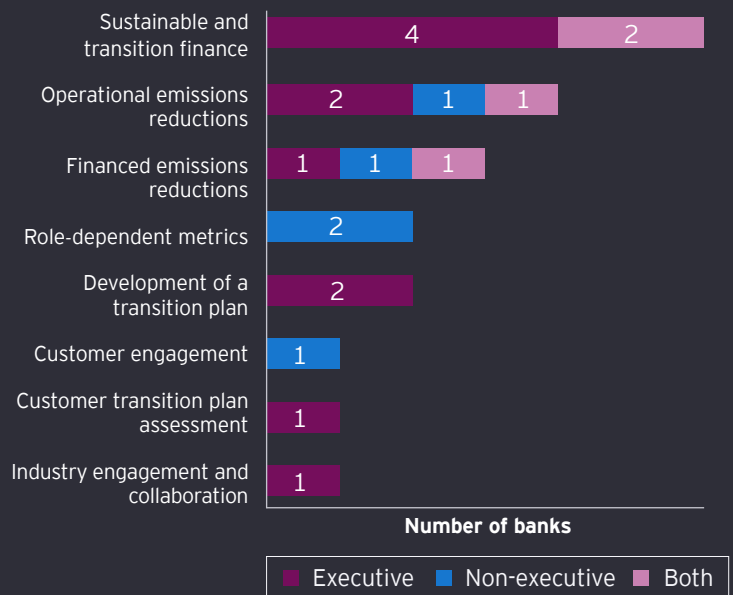


*Weightings are typically provided for sustainability indicators including, but not limited to, climate-related metrics.

For the wider workforce, what percentage weighting is given to sustainability* indicators in banks' scorecards?



What climate-related indicators do banks include in remuneration criteria for executives and non-executives?



Recommendations

- Extend climate-related incentive schemes beyond the executive level, with clear metrics linked to transition plan priorities such as delivery against financed emissions targets.
- Continue to review and evolve governance structures to support effective oversight, with a focus on establishing effective management-level structures and strengthening capabilities at the board and executive level.

3

Client engagement

Engagement strategy

Banks' transition plans rely heavily on corporate clients' shifts in order to achieve decarbonization goal. However, the level of detail on client engagement strategies varies across banks.

Only two assessed banks have explicitly mentioned escalation strategies and have identified sector-specific engagement priorities. None have publicly set clear key performance indicators (KPIs) or metrics around engagement.

Client transition assessment

All assessed banks have developed in-house methodologies for client transition assessments.

Most banks have significantly increased the sector coverage of client transition assessments in recent years. Leading banks have covered all sectors for which they have set net-zero targets.

Some banks are exploring the use of AI-powered assessments to accelerate the process by increasing efficiency and reducing in-house effort.

What criteria have banks used to assess clients' transition plans?



To what extent have banks rolled out client transition plan assessments?

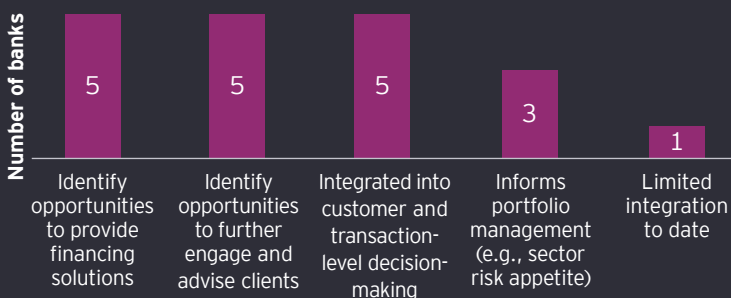


Integration into decision-making

Banks are starting to integrate engagement outcomes and client transition plan assessments into decision-making.

Banks are using engagement to identify financing opportunities and inform client and transaction-level decisions. Some are also integrating outcomes into portfolio management, including informing sector risk appetite.

How are outcomes from client engagement and transition assessments leveraged in decision-making?



Recommendations

- Establish clear mechanisms to prioritize and track engagement outcomes, including defining sector-specific engagement priorities and developing escalation strategies.
- Integrate engagement outcomes into decision-making at the transaction, customer and portfolio levels.
 - Leverage AI tools to roll out client transition plan assessments across all key sectors. The global EY organization has published a [view](#) on how banks can improve these assessments.

4

Portfolio steering and policies

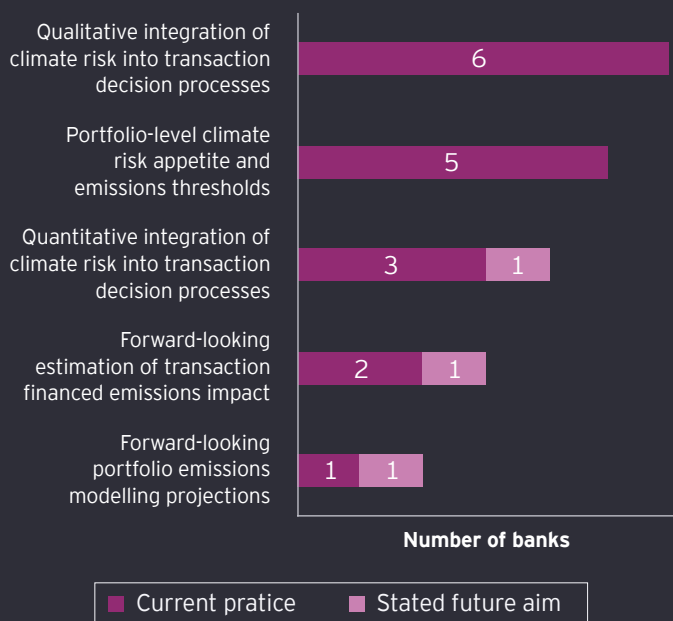
Portfolio steering

Banks are progressively advancing climate-informed decision-making and creating portfolio steering tools that combine both qualitative and quantitative approaches.

All banks incorporate climate risk factors qualitatively alongside traditional risk factors when assessing transactions and conducting credit reviews to guide lending and pricing choices. Leading institutions are investigating quantitative techniques, such as adjusted credit ratings and their integration into client-level financial models.

Most banks reviewed are establishing portfolio-level financed emissions risk appetites and escalation thresholds to actively manage emissions in alignment with necessary targets. Forward-looking emissions projections are being modeled at the transaction, client and portfolio levels to support capital allocation and lending decisions across the sector.

What actions have banks stated to integrate net-zero into portfolio steering?

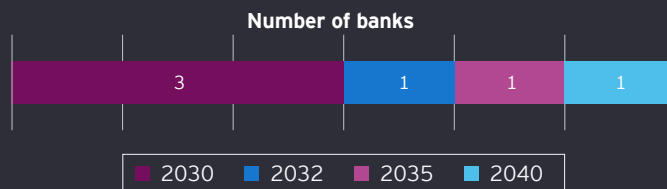


Policies

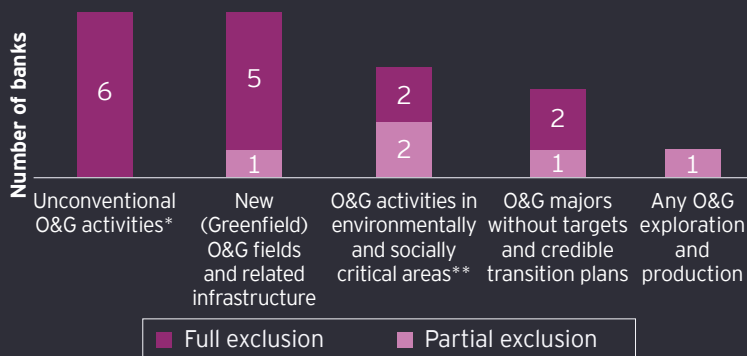
Banks have established clear policy statements around financing high-emitting sectors.

All banks assessed are committed to phasing out thermal coal financing globally between 2030 and 2040 (sooner in some regions). Additionally, all of them have introduced financing criteria and exclusions for oil and gas (O&G) financing, with variation in the stringency of restrictions.

When have banks committed to phasing out thermal coal across their whole portfolio?



What exclusion criteria have banks set around O&G?



*Includes shale O&G, oil sands, use of hydraulic fracturing (fracking), extra-heavy oil and oil in the arctic region or Amazon basin

**Includes UNESCO World Heritage Sites, Ramsar Sites and IUCN Categories I-IV areas

Recommendations

- Enhancing portfolio steering frameworks that integrate risk, business and sustainability objectives including modelling of anticipated financial effects, in alignment with **ISSB requirements**.
- Continuously review and update policy and statements for carbon-intensive sectors, in alignment with organisation targets and risk appetite.

5

Sustainable and transition financing

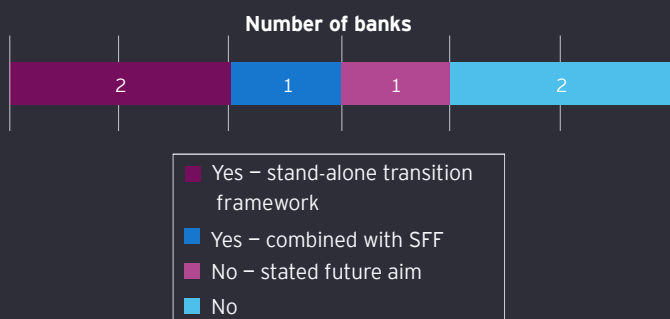
Financing frameworks and targets

Sustainable finance frameworks (SFFs) are being complemented by transition finance frameworks, with reporting supported by progress tracking and external verification.

All assessed banks have set an overall ambition for sustainable finance and investments and adopted in-house sustainable finance frameworks, verified by an external party. Three assessed banks have also included transition finance within their sustainable financing frameworks or as a stand-alone document.

Each bank is tracking and reporting on progress against its overall sustainable finance targets to provide transparency. Banks have received limited assurance on these metrics.

Have banks included transition finance in their sustainable finance frameworks?

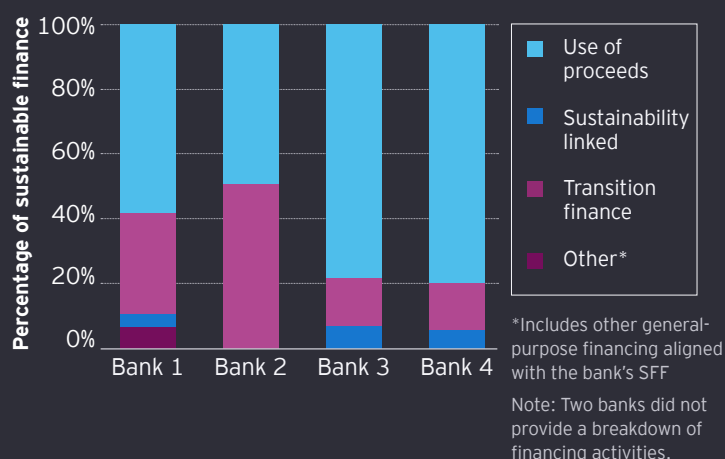


Allocation and prioritization of finance

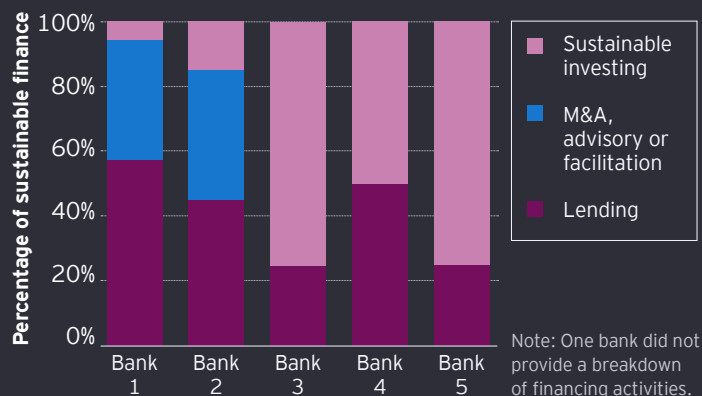
Across the banks, the highest volume of financing is in use of proceeds products including green and social bonds and loans. Transition financing represents only a small proportion to date (where reported separately).

More mature banks have prioritized sustainable financing in key sectors or themes (e.g., renewable energy, electrification, climate technologies). This is underpinned by analysis to identify addressable commercial opportunities aligned to the bank's sectoral and geographic presence, business line nuances (e.g., commercial vs. retail), sector-level transition priorities and customer-specific financing needs.

How is sustainable and transition financing allocated across product categories?



How is sustainable and transition financing allocated across business areas?



Recommendations

- Determine clear and specific priorities for sustainable and transition financing across key sectors and business areas to address commercial opportunities.
- Define clear pathways and criteria to support clients in high-emitting sectors in transition finance frameworks.
- Consider embedding nature-related considerations into existing sustainable finance frameworks (e.g., nature-based use of proceeds).

6

Integration of nature and just transition

Just transition integration

Integration of just transition considerations remains limited, with a focus on engagement and collaboration with industry bodies.

Banks' incorporation of just transition principles into transition planning is still developing. Few banks are considering the just transition in sector-level transition strategies and in the development of sustainable finance products. A significant area of weakness remains engagement with clients regarding social considerations and integration into financing criteria and risk policies.

What actions have banks taken to integrate just transition?

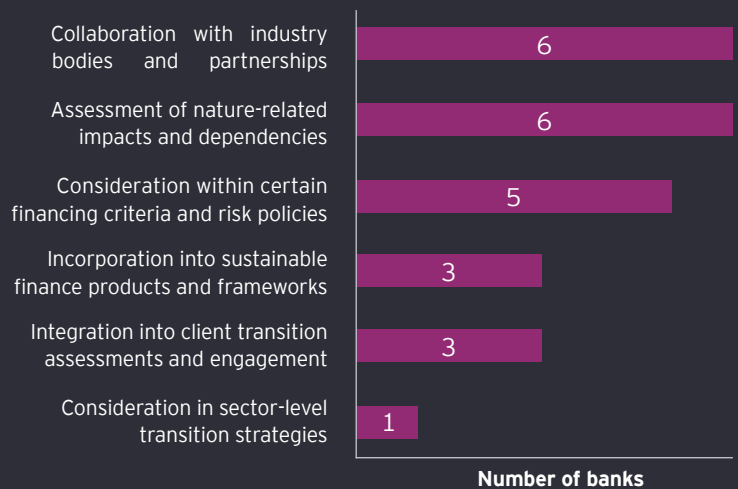


Nature integration

Consideration of nature is more mature than of the just transition, with banks assessing their nature-related impacts and dependencies using approaches such as those developed by the Taskforce for Nature-related Financial Disclosures (TNFD).

There is a growing focus on integrating nature-related considerations into risk management and strategic activities, with initial focus on nature integration into risk policies, client engagement and sustainable financing criteria. Embedding of nature into sector-level climate transition strategies remains less mature, with only one bank explicitly outlining how specific nature-related impacts and dependencies may impact their climate transition levers in certain sectors.

What actions have banks taken to integrate nature?



Recommendations

- Integrate nature and just transition considerations into client engagement, risk assessment and decision-making processes, and sustainable finance frameworks.
- Deliver training and upskilling internally, with an initial focus on nature.
- Consider how sector-level climate transition strategies may need to be adapted in response to trade-offs and synergies between climate, nature and just transition.

7

Assumptions and dependencies

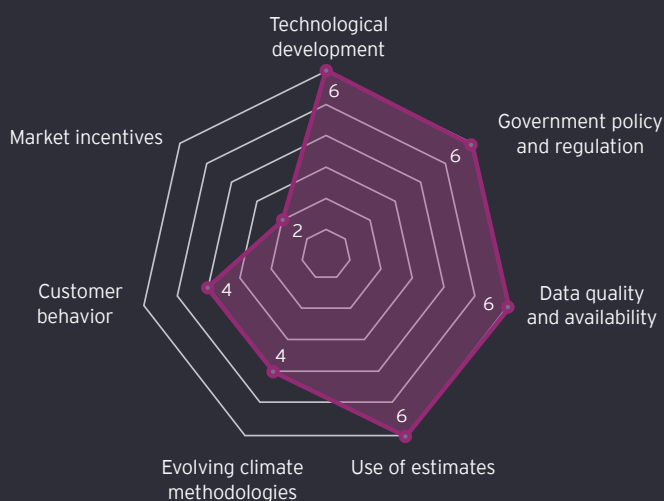
Identifying assumptions and dependencies

Banks have identified assumptions and dependencies underpinning their transition plans, including timely government policies and technological development.

Assumptions and dependencies are disclosed with increasing levels of detail, with some assessed banks identifying sector-specific dependencies to inform their strategies and ambition in these sectors.

Use of estimates and data quality also appear as key matters that, despite heavy focus, remain a key dependency signalling further investment required in this space.

What assumptions and dependencies have banks identified?



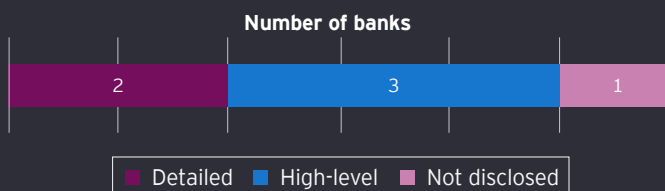
Managing impacts of assumptions and dependencies

Banks have defined actions to manage and mitigate the impacts of assumptions and dependencies, namely engagement and sustainable and transition finance for specific purposes.

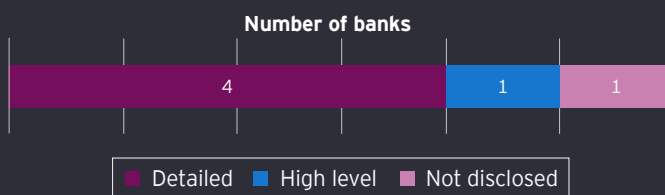
To overcome dependencies, leading practice focuses on clearly stating policy engagement priorities, external collaboration and partnerships, customer engagement, and sustainable and transition financing for specific purposes.

A few banks have performed sensitivity analysis to assess the impacts of dependencies on their transition plans. One bank, for example, used the UK Climate Change Committee's policy credibility assessments to develop a "downside" adjusted scenario, reflecting the impacts of policy delays.

Have banks disclosed actions taken to manage the impacts of dependencies?



Have banks identified sector-specific dependencies and used them to inform their transition strategy?



Recommendations

- Continue to invest in securing reported data to limit use of estimates and increasing robustness of data quality.
- Conduct thorough analysis to identify dependencies unique to each sector and clear actions to address these.
- Implement sensitivity analysis to evaluate the impacts of various dependencies on transition plans.

Summary

As banks continue to refine their transition plans, there is a clear focus on moving from ambition to action. Meaningful progress has been made expanding target setting, enhancing governance, deepening client engagement and developing portfolio steering capabilities. Yet, important gaps remain, including the need for stronger data foundations, sharper integration of the just transition and nature, embedding climate considerations into decision-making and defining clearer actions to address persistent dependencies. By embracing these, banks can strengthen their transition plans and position them as strategic tools that support informed decision-making and highlight potential opportunities for growth.

How we can help

Our services provide a comprehensive end-to-end offering to establish credible transition plans, including:

- **Transition plan design**
Conduct reviews of your transition plan against peer benchmarks and industry practice to establish gaps and recommendations for enhancement.
- **Client transition assessments and market sizing**
Develop a view on counterparty transition maturity and a bottom-up sector market view on the opportunities for business growth.
- **Net-zero policy review**
Assess and recommend enhancements for fossil fuel, deforestation and other sustainability-related sector statements and policies.

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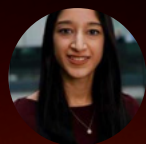
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