

French Banks - Leaders in Sustainable Finance

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2

FINANCING
THE ECOLOGICAL TRANSITION

4

NET-ZERO TARGETS

6

TAKING ACTION
TO PROTECT BIODIVERSITY

8

DIVESTING FROM THE MOST
CARBON-INTENSIVE ENERGIES

10

BANKING SOLUTIONS
TO FINANCE THE TRANSITION

12

MORE STRINGENT
SUSTAINABLE FINANCE RULES

foreword

Faced with the climate emergency, French banks are taking widespread action to meet the challenges of the environmental transition. They are increasingly financing all their clients' transition projects by rolling out appropriate banking solutions. They were also among the world leaders in renewable energy financing and green bond arrangement in 2023.

Environmentally responsible and committed both domestically and globally, banks are taking action to achieve their 2050 net zero targets. Their decarbonisation paths for the most carbon-intensive sectors are among the most ambitious in the world.

They are also developing financing policies that respect natural ecosystems.

French banks are continuing to divest from the most carbon-intensive energy sectors. This sector now accounts for a very small portion of banks' balance sheets, and no French banks are in the world's top 10 for fossil fuel financing.

The increased transparency requirements at European level are also intended to be a driving force in companies' and banks' transition to a net-zero Europe by 2050.

Faced with the urgent and complex challenge of the environmental transition, French banks are demonstrating their ability to reduce their balance sheets' carbon footprint and, beyond that, to be active partners in the crucial path toward decarbonising the entire economy.

Maya Atig

Chief Executive Officer of the FBF

Financing the Ecological Transition



4

French banks
in the world's top 10
green loan issuers

3

French banks
in the world's top 10
impact loan issuers

Source: Dealogic, 2023

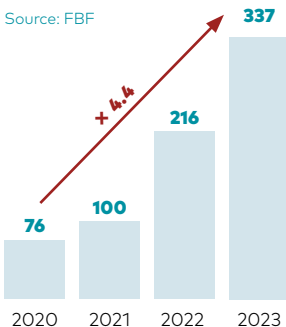
Driving change across the economy

Faced with the climate emergency, French banks are stepping up financing for the transition and supporting adaptation to climate change in all economic sectors.

- **Outstanding green and sustainability-linked loans increased by more than 50%** year-on-year, from €216bn to **€337bn in 2023**. That's four times more than three years ago.
- **Over €120bn in new green or sustainability-linked loans** were granted in 2023. One-third of these loans are intended to finance the acquisition of new homes or the thermal renovation of existing homes (including zero-interest eco-loans). (Source: FBF)
- **Banks are rolling out financial solutions** to support their customers' transition and adaptation, from energy to industry, transportation (clean vehicles and low-carbon infrastructure projects), and real estate (residential and commercial properties and public buildings).

Outstanding green and sustainability-linked loans on French banks' balance sheets (€bn)

Source: FBF



French banks are stepping up their efforts in the fight against climate change. For every euro of fossil fuel financing, five euros now goes to funding the transition.

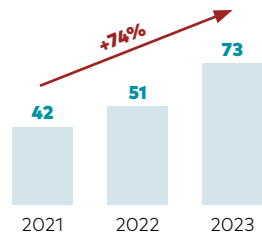
Global leaders in renewable energy financing...

French banks are ramping up their financing of renewable energy projects.

- Outstanding financing for renewable energy projects totalled more than €73bn in 2023, **an increase of 42% year-on-year and 74% in two years.**
- **Two-thirds of outstanding loans in the electricity generation sector** come from non-fossil sources (renewable and nuclear energy). (Source: FBF)
- French banks remain **among the top 10 global players** in the financing market for renewable energy projects, extending the lead over their counterparts across the Atlantic. (Source: IJ Global, 2023)

Outstanding renewable energy project financing (€bn)

Source: FBF



4

French banks
in the world's renewable
energy project financing
top 10

Source: IJ Global, 2023

... and the arrangement of green bonds

French banks support their clients' transition by structuring green and sustainability-linked bond issues.

- **€100bn in green and sustainability-linked bonds** were structured on behalf of clients in 2023. (Source: FBF)
- **4 French banks** rank in the world's top 25 green and sustainability-linked bond issues. (Source: Bloomberg, 2023)

Net-Zero Targets



More than

345

banks have signed the "Principles for Responsible Banking", i.e. 54% of the global banking sector

Source: UNEP FI, 2023

Contribution to international climate initiatives

The major French banks contribute to initiatives dedicated to combating climate change and improving how economic players manage climate risk, including:

- In September 2019, they signed the **Principles for Responsible Banking** of the United Nations Environment Programme Finance Initiative (UNEP FI), which set out a framework for a sustainable banking industry aligned with the goals of the Paris Climate Agreement.
- They joined the **Net-Zero Banking Alliance (NZBA)** launched in April 2021 by UNEP FI, a global group of banks committed to aligning their loan and investment portfolios with net-zero emissions by 2050. *(see page 5)*
- They contribute to the **Carbon Disclosure Project (CDP)**, a flagship initiative that promotes and manages the reporting of major environmental risks.
- They support the **Task Force on Climate-Related Financial Disclosures (TCFD)** and are committed to implementing its recommendations.

Since September 2019, the FBF has adhered to the UNEP FI's Principles for Responsible Banking. It has been an official supporter of the NZBA since 2022 alongside its participating members.

A driving role within the Net-Zero Banking Alliance (NZBA)

Under the NZBA, French banks are taking action to adopt ambitious decarbonisation targets and transparent results.

- They have committed to:
 - > **aligning the greenhouse gas emissions generated by their own activities** with a path to net-zero emissions by 2050;
 - > publishing **carbon reduction target pathways** and implementing associated action plans for the highest-emitting sectors;
 - > **disclosing on an annual basis their portfolio's carbon footprint**, their footprint by sector, their progress and the associated action plans.
- Banks have started to **publish carbon reduction pathways** (oil, gas, thermal coal, electricity generation) and 2030 decarbonisation targets covering the highest-emitting sectors.

The Institute for Sustainable Finance, of which the FBF is a member, coordinates the Paris Financial Centre's action on sustainable finance to achieve the energy transition and the transformation of the economy.



144

banks from 44 countries are signatories to the NZBA, accounting for 41% of global banking assets.

Source: UNEP FI, 2023

Transparency of climate data

French banks disclose information on compliance with their climate objectives to the public. Regulations reinforce these transparency obligations.

- In 2019, French banks independently decided to publish their climate objectives and actions.
- **Each year, the ACPR and AMF assess** the climate objectives of Paris Financial Centre players.
- Banks publish information on their portfolios' climate risks in accordance with **European prudential regulations** incorporating ESG criteria (ESG Pillar 3). (see page 12)

Taking Action to Protect Biodiversity



More than
55%
of global GDP
depends on healthy
biodiversity.

Source: Swiss Re Institute, 2020

Participation in international initiatives

The major French banks contribute to various initiatives aimed at preserving and restoring biodiversity and natural resources.

- As part of the **Taskforce on Nature-related Financial Disclosures (TNFD)**, they contribute to the implementation of a global framework for managing and reporting nature-related risks, dependencies, impacts and opportunities for financial institutions.
- They signed the **Finance for Biodiversity Pledge**, thereby committing to protect and restore biodiversity through their financial activities and investments.
- Specific objectives are being developed by banks to combat degradation and restore natural capital as part of the **Act4Nature International** initiative.
- Banks are committed to the international **Equator Principles** initiative, which involves taking ESG criteria into account when financing projects, including biodiversity issues.



In December 2022, the FBF participated in the United Nations Conference on Biodiversity (COP15), which resulted in the Kunming-Montreal Global Biodiversity Framework.

The banking sector contributes to the market's work, particularly in terms of the National Biodiversity Strategy, which implements the Kunming-Montréal agreement in France.

Reducing the footprint of human activities

Banks can proactively support their customers in reducing the impact of their activities on biodiversity by:

- financing projects by companies and local authorities that aim to **restore and preserve natural spaces**;
- considering the impacts of certain projects on biodiversity and natural ecosystems when **analysing credit risk**;
- measuring the **biodiversity impacts** of funded infrastructure projects;
- not financing projects on **highly biodiverse sites**, in particular Key Biodiversity Areas as classified by the IUCN (International Union for Conservation of Nature).



69%

of vertebrate populations
have disappeared
in less than 50 years.

Source: WWF, 2022

Nature-based products and services

Banks are developing innovative financing solutions that respect natural ecosystems.

- Products include **specific biodiversity objectives**: *green bonds, sustainability-linked loans, etc.*
- Investment solutions are **dedicated to natural capital**.
- Public/private financing promotes **agroecology and agroforestry** in emerging countries.

Divesting from the Most Carbon-Intensive Energies



0.02%

Weight of thermal coal in French banks' total balance sheets...

Source: FBF, 2023

... although thermal coal still accounts for 26.7% of the world's energy consumption and 36% of global electricity generation

Source: IEA, 2022

Residual exposure to thermal coal

French banks have been pioneers in divesting from the most carbon-intensive energies, starting with the thermal coal sector.

- In 2011, they were among the first to take a position on thermal coal.
- In 2019, the French banking sector was the first in the world to **collectively commit to completely exiting the thermal coal sector** by 2030 (for activities in OECD countries) and 2040 (for the rest of the world).
- French banks no **longer finance any new coal-fired power plant projects or thermal coal mines.**
- They do not enter into business relationships with customers whose share of electricity generated from coal exceeds a set threshold (25%-30% depending on the bank).
- Banks' exposure to the thermal coal sector is now residual: €2.2bn, **i.e. 0.02% of their total balance sheets** (and 0.05% of financing). (Source: FBF)

No French or European bank is in the top 10 in the 2023 global fossil fuel financing market (loans and bond issuance structuring).

Source: Bloomberg, 2023

Hydrocarbons account for a very small part of bank balance sheets

French banks continue to reduce their exposure to the hydrocarbon sector.

- The hydrocarbon sector accounts for €66bn on the balance sheets of the major banks, i.e. **0.73% of their total balance sheets** and less than 1.6% of financing (outstanding loans and customer receivables). (Source: FBF)
- Banks' exposure to the hydrocarbon sector **decreased by 16% in 2023**.
- Given that hydrocarbons account for a very small part of French banks' balance sheets, **they are not economically dependent** on the sector.

French banks are pioneers in the exit from fossil fuels and, as a result, are not economically dependent on the hydrocarbon sector.



0.75%

of banks' balance sheets are exposed to fossil fuels...

Source: FBF, 2023

... while the oil and gas sectors still account for around 6.8% of global GDP

Source: IEA, 2022

Commitment on unconventional hydrocarbons

The major French banks are upholding the unique commitment they made in 2021 to limit the financing of unconventional hydrocarbons despite the European energy crisis.

- Since January 2022, they have no longer financed **any projects dedicated to unconventional hydrocarbons**, or companies whose share of unconventional hydrocarbons in their exploration and production businesses exceeds 30% of activity.
- In October 2022, **they extended the collective definition** of unconventional hydrocarbons (shale oil and gas, tar sands) to extra-heavy oil (API < 10).
- They **harmonised the definition of the Arctic zone** (AMAP excluding West Shetland, Norwegian Sea, Barents Sea), which is considered as sensitive for the exploitation of all hydrocarbons and subject to exclusions.

Banking Solutions to Finance the Transition



€234 bn

in outstanding loans for the energy transition of the retail real estate portfolio:
10 times more than the share of regulated savings that banks must allocate to the transition (€22.8bn)

Source: Banque de France, 2023



Further reading at lesclesdelabanque.com

"Climate" mini-guides on financing solutions and financial aid

Products for the business transition

Banks offer competitive business financing solutions to encourage their ecological transition. The rollout of these offers is part of each banking network's sustainable strategy.

- **Bank solutions** are generally structured around:
 - > **diagnostic tools** that can be based on a global CSR questionnaire aimed at identifying and targeting companies' needs, and on a carbon assessment;
 - > **green loans** dedicated to financing ecological transition projects;
 - > **green leasing offers** to finance renewable energy projects;
 - > **impact loans** linked to sustainability objectives (sustainability linked-loans) the rate of which varies according to the company's non-financial performance;
 - > **positive impact investments** (green bonds, social bonds) or SRI-certified investments accessible to SMEs.
- **Voluntary standards** - Green Bond Principles of the International Capital Market Association (ICMA), Principles of the Loan Market Association (LMA), European Green Bond (EuGB) - make it possible to qualify sustainable finance products (bonds and loans).

Together with the many professionals involved, the Banque de France is developing a climate indicator for companies based on their consideration of climate change issues.

Loans for private individuals' green projects

All bank loans can by nature finance household transition projects.

- **Traditional bank loans** are the basis of solutions to responsibly finance energy renovation projects in homes or the purchase of green equipment by households.
- In addition to traditional loans, banks offer a range of **specific "green" loans**, developed by each network, including for energy savings, renovations and green mobility...
- They also distribute **regulated loans** dedicated to energy-efficient home improvement or renovation work: zero-interest eco-loans, home savings loans (granted if the customer has built up savings in a home savings plan), loans on own resources backed by an LDDS (Livret de développement durable et solidaire) savings account, and the Avance Rénovation loan for low-income households.

Financial savings to drive the transition

Banks offer "green" financial savings and investment products to encourage savers to help finance the ecological transition.

- Public labels (SRI, Greenfin) make it possible to identify **socially responsible investment products**, in particular by excluding funds that invest in companies exploiting fossil fuels.
- The **Climate Future Savings Plan**, created by the Green Industry Act of 2023 and dedicated to people under 21, makes it possible to invest money in companies contributing to the ecological transition.



Further reading at fbf.fr

IFOP study on financing energy renovation works (FBF/ASF publication, 2023)

Since August 2022, financial advisors have been required to collect their clients' sustainability preferences before offering them any financial investment (pursuant to the delegated acts of the Markets in Financial Instruments (MiFID 2) and Insurance Distribution (IDD) directives).

More Stringent Sustainable Finance Rules

A European framework to accelerate the transition

EU regulations aim to support the European economy's transition to net zero by 2050. The regulatory framework has been strengthened in several ways:

- **common language to determine sustainable activities**
 - > The Taxonomy Regulation establishes a classification system for environmentally sustainable activities.
- **transparency requirements applicable to businesses**
 - > The Sustainable Finance Disclosure Regulation (SFDR) requires companies in the financial services sector to publish sustainability-related disclosures.
 - > The Corporate Sustainability Reporting Directive (CSRD) requires companies to publish information on their impacts, risks and opportunities related to sustainability issues.
 - > The “Pillar 3” reporting under the Capital Requirement Regulation (CRR) requires banks to publish information on their exposures to climate and ESG risks.

The revised CRD and CRR of 31 May 2024 on banks' capital requirements further incorporate ESG risks into their risk management systems. Emphasis is placed on credit institutions' exposure to environmental transition risk.



The 2019 Climate Energy Act brings French legislation into line with the European Disclosure Regulation governing the transparency obligations of investment service providers that provide portfolio management services.

- **provision of ESG data**
 - > The European Single Access Point (ESAP) legislation provides for the establishment of a platform by 2027 centralising all corporate financial and non-financial data.
 - > The ESG rating regulation aims to increase the transparency of ESG rating providers' methodologies and prevent conflicts of interest.
- **tools for sustainable product design**
 - > The amended Benchmark Regulation introduces “low-carbon” benchmarks and strengthens the transparency requirements of benchmarks in terms of sustainability.
 - > The European Green Bond (EuGB) label regulation governs issuers' use of the term “European Green Bond”.
- **compliance and advisory rules**
 - > The Corporate Sustainability Due Diligence Directive (CS3D) establishes a duty of care for many companies, in relation to their activities and those of their subsidiaries, in order to identify and limit their negative social and environmental impacts.
 - > The implementing texts of MiFID 2 (Markets in Financial Instruments Directive) require that sustainability criteria be taken into account in product governance and in investment advice to clients.



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