LLOYDS

Financial Services Sustainability Insights

Key themes for 2025

Brought to you by Lloyds and Baringa

CORPORATE & INSTITUTIONAL

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Introduction

2024 brought progress in sustainability – from macro-level progression on climate, biodiversity and desertification at the respective UN Conferences of the Parties (COPs) to micro-level enabling activity such as record-breaking growth in electric vehicles[1] and renewable energy deployment[2]. Demands on transparency made it easier to track this progress, including through company level reporting.

At the same time, continued political and economic uncertainty and a reshuffling of priorities presented headwinds on sustainability – from shifting perspectives on collaborative initiatives in the face of antitrust allegations, to uncertainty posed by changes to legislation in key jurisdictions including the EU – via the 'Omnibus' process, and the US – with the SEC's acting chair declining to defend the agency's proposed climate disclosure rules.

In this Sustainability Insights newsletter, we explore some of the macro themes that will shape the year ahead for us.

That includes the continued impact of some of the themes seen in 2024 – disclosure, regulations, and capital mobilisation. As in 2024, we expect a mixed picture of progress and regression, but sustainability will remain a strategic issue for financial institutions and the economies they serve and one which needs careful observation informing clear action.

1 https://www.smmt.co.uk/record-ev-market-share-but-weak-private-demand-frustrates-ambition/
2 https://assets.publishing.service.gov.uk/media/677bbf628ef66f3f5ea396d9/Energy_Trends_December_2024.pdf

Sustainability reporting and disclosure

The sustainability reporting landscape saw rapid developments in 2024, including intention for greater alignment between standards, and increased scrutiny on the reliability of disclosures.

The EU's Corporate Sustainability Reporting Directive (CSRD) drove higher expectations for sustainability reporting in the EU and in due course for firms operating in the bloc; 2025's Omnibus changes will still drive focus.

In parallel global frameworks such as the International Sustainability Standards Board (ISSB)'s S1 and S2 standards pushed for greater consistency in disclosures, through subsuming the Taskforce on Climate-related Financial Disclosures (TCFD) framework, whilst the Taskforce on Nature-related Financial Disclosures (TNFD) sought the same objective for nature.

Transition plans climbed the agenda driven by the need for credible, time-bound strategies to effect a whole-of-company transition to a lower-carbon future. Meanwhile, financial institutions navigating tensions between mounting regulatory demands and anti-ESG sentiments chose, in some cases, to withdraw from voluntary frameworks or proprietary disclosure approaches.

We expect these trends to continue this year resulting in a re-shaping of the reporting landscape – albeit with new complexities, evolving priorities, and a growing emphasis on social sustainability to counterbalance the longstanding over-emphasis on environment and climate change.

CSRD will continue to set rigorous standards for sustainability reporting

CSRD will continue to be the primary focus for large, listed EU entities whose efforts to adapt to the new regulation is bearing fruit in inaugural FY2024 reports, and prompting significant examination of peer practice against CSRD's objectives of standardising reporting and "ending" greenwashing.

The biggest innovation in CSRD comes through the application of double materiality assessments. This means that companies will have to disclose not only the risks they face from the transition toward a sustainable economy, but also the impacts they may cause to the environment and to the society.

However, this will occur against a backdrop of change driven by the EU's Omnibus simplification process, and stalling transposition by individual member states.

Although there is an estimated 80% reduction on in-scope companies, preparing to report can take upwards of 18 months. Irrespective of changes in scope or application, CSRD is certain to continue to set high standards for sustainability disclosure in 2025, and remain the acronym on everyone's lips – whether as praise or criticism.

The Omnibus proposals narrow the scope of application and delay reporting deadlines
https://www.baringa.com/en/insights/climate-change-sustainability/simplification-omnibus-need-to-know/

A snapshot of the 2025 regulatory horizon

Year	Regulation	Milestone
2025	ISSB	Inaugural disclosures in some jurisdictions against S1/S2
	EU Taxonomy	FY2024 reporting due for larger companies subject to Omnibus, proposal on scope of application, financial materiality, simplification
	EU Taxonomy	Financial entities report DNSH information, subject to Omnibus simplification proposals
	NRFD	FY2024 reporting due for companies under NRFD
	EU Green Bond Regulation	Public consultation on remaining technical standards until June 2025
	EU Green Bond Regulation	End date of transition period
	ESMA Fund Naming Guidelines	Application date for pre-existing financial products
	SFDR	Principal adverse impact disclosures
2026	SFDR	Planned review of SFDR L1
2027	CSDDD	EU member states transpose CSDDD into national law by July 2027

Financial materiality

This evaluates how sustainability matters affect the financial performance of the company

Impact materiality

This assesses the actual or potential effects of a company's operations on the environment and the society

Transition plans will become a key focus of climate-related disclosures, but financial institutions will face the increasing challenge of aligning portfolios to 1.5C

Already applied in the UK, California and the EU (through CSRD), the TCFD framework remains a broad standard for climate reporting and 27 countries including the UK and Canada have committed to ISSB S1 and S2 standards which has fully integrated TCFD.

However, if TCFD can be considered 'point in time', transition plans are designed to provide more information to stakeholders, including investors, about the future plans and implications of climate strategy.

Larger companies have already started integrating transition plans into their sustainability reporting on a voluntary basis, informed by the UK's Transition Plan Taskforce (TPT) framework now part of ISSB, and more companies are looking to adoption catalysed by stakeholder expectations, and requirements in frameworks such as CSRD that transition plans should be disclosed, where available. Financial institutions have also begun to incorporate nature and social factors into their transition plans.

However, financial institutions will increasingly get caught between ambitions to align portfolios with 1.5C on one hand, and the challenge that clients may not be decarbonising in line with this pathway on the other and the risks of paper decarbonisation.

The IEA's most recent World Energy Outlook 2024 showed that current policies remain misaligned with limiting global emissions to 1.5C above pre-industrial levels, creating barriers for clients to decarbonise at the pace required – especially those in hard-to-abate sectors, although the UK's seventh carbon budget[3] presented a more optimistic picture for the UK specifically. Financed emissions trajectories are bound to the pace that clients decarbonise, and financial institutions will need to dynamically assess the actions necessary to deliver their climate strategies in 2025.

TCFD disclosures and transition plans need to articulate this, the achievability of targets and commitments, and the dependence on policies and third parties to support financed emissions decarbonisation which is thus the

3 https://www.theccc.org.uk/publication/the-seventh-carbon-budget/

primary emissions of clients and investee companies.

Financial institutions will navigate the risks of greenwashing and greenhushing as scrutiny and enforcement increase

There is continued scrutiny over green and sustainability labels across finance, driven by regulations such as the Corporate Sustainability Due Diligence Directive (CSDDD), the EU taxonomy, and UK Financial Conduct Authority and Competition and Markets Authorities' rules. Broader stakeholder scrutiny also continues to be stoked by publicity about litigation against governments and major companies on sustainability claims and strategies.

The coming year will see a continuation of enforcement of consumer-facing environmental statements and whether these are delivering the perceived outcomes, whilst also opening up further scrutiny of statements on rapidly-emerging areas such as nature and social impact.

Managing greenwashing risk will remain a priority in 2025. Financial institutions will need to walk a fine line between ensuring their reporting and marketing is credible (via robust governance and controls) while not being so cautious that they withhold sustainability information ("greenhush") or fail to engage audiences on topics of interest.

Companies struggling to meet targets set under different policy assumptions, including financed emissions targets, should be transparent about their progress and challenges faced to ensure compliance and trust from stakeholders amidst increasing scrutiny, and clearly elaborate their theory of change.

Social sustainability will regain prominence in the reporting agenda

With all the focus in recent years on environment and climate reporting, social considerations have seen lower prominence. We expect this to change in the year ahead, driven by increased focus on just transition as a critical enabler of (or barrier to) the climate transition, human rights obligations, and supply chain considerations. CSRD has led the way in detailed social sustainability reporting, especially for companies who deem topics such as workforce conditions within its employees or supply chains material.

CSDDD will, subject to Omnibus, drive deeper corporate accountability in human rights, through its alignment with the UN Guiding Principles on Business and Human Rights. For UK companies, CSDDD requirements can be seen as complementary to existing requirements under the UK Modern Slavery Act. Most notably, companies are expected to consider the impact of their decarbonisation strategies on workers and broader society.

In this context, the previously narrow focus on diversity, equity and inclusion in social sustainability reporting will not be sufficient to demonstrate holistic action on social issues to stakeholders.

Due to the complexities highlighted above, 2025 is expected to be another challenging year for sustainability reporting in the financial sector.

Sourcing more – and credible - data on client performance will be needed to report on more areas of sustainability (such as social impact) and to adequately manage greenwashing risks in reporting and financing.

Collaborate across functions

Companies must build processes necessary to enable collaboration between Finance, Operations, Risk and Procurement. Clearly defined roles and responsibilities will be crucial to efficiency, whilst data lineage and the increasingly strategic and performance-related character of sustainability data means that Finance teams are often best placed to own data platforms and processes.

Collect data early

Companies should understand their current sustainability data – its coverage, and locations or owners across the organisation – and data gaps as early as possible. As data completeness increases, companies can better evidence their sustainability reporting narratives; but need to be aware that obligations and expectations of assurance or audit are only going to grow.

Consolidate reporting through technology or digital platforms

Data collection can be driven by consumer facing platforms (e.g. digital reporting on company websites) as well as internal data repositories which support automation and streamlining. In a streamlined approach, companies would also identify the metrics required across several regulations or frameworks to manage.

Be clear on regulatory exposure

Smaller and international companies should understand their entities' jurisdictions and how this affects their different obligations, both current and anticipated.

Affirm outcomes? Seek assurance!

As the consequences of mis-reporting grow, whether through regulatory sanctions and penalties, reputational impacts from stakeholder perception or litigation risk including for greenwashing, it is critical that preparers and users of sustainability disclosure can have confidence in those data points and narratives. Users such as investors need to build assessment of data quality into their data handling processes, whilst preparers need to start with a controls mindset and ensure systems and processes are auditable.

Shafna Chowdhury
Head of ESG Ratings Advisory
Lloyds

"We believe that quality sustainability reporting has strategic benefits for our clients, including access to sustainable finance market opportunities, improved risk management and reputation.

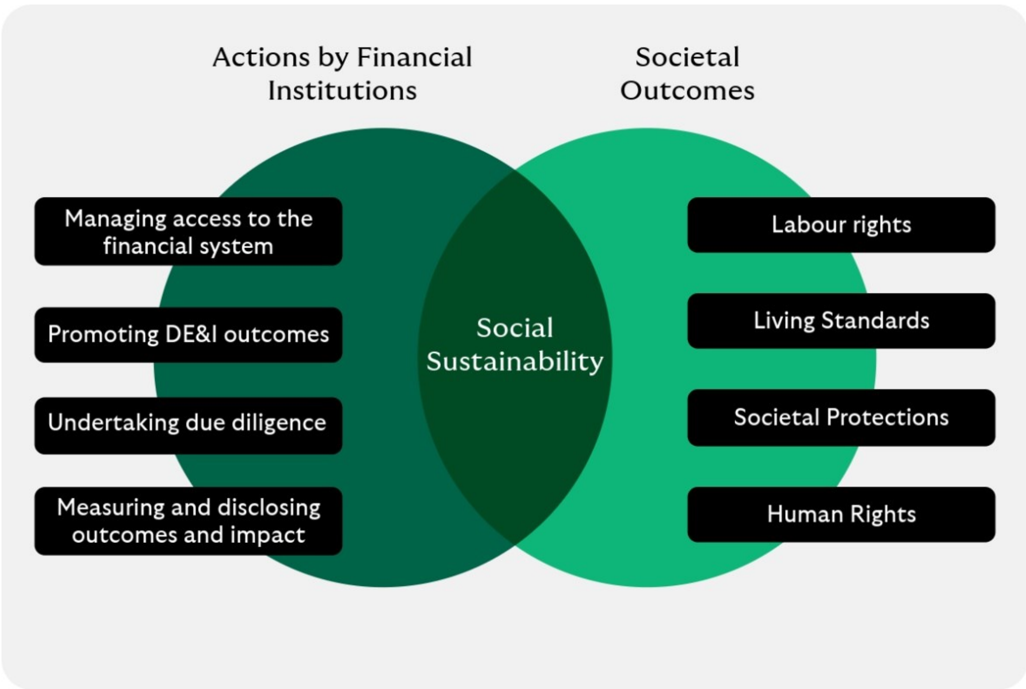
Lloyds' clients are at different stages of their sustainability reporting journey and to support them, one of the key offerings as part of the newly created Sustainability Advisory function is to help our clients navigate the complexities of sustainability disclosure, including providing advice to improve non-financial disclosures, materiality assessments and data collection, as well as guiding them on external assurance processes."

A growing focus on social sustainability

In line with the growing integration of environmental sustainability, organisations have made progress over recent years in mainstreaming social impact.

This has moved it from achievement via Corporate Social Responsibility or 'CSR' programmes focussed outside the organisation, to something which sits at the heart of organisational decision-making including Diversity, Equity and Inclusion (DEI) as an enabler of business value.

In tandem, financial institutions have also sought to mitigate social impacts of the financial system via fraud prevention, cyber-security and anti-money laundering practices. Whilst we anticipate continued debate on the legitimacy of certain social outcomes – especially further politicisation of DEI – we expect to see an expanded focus on systemic social topics such as just transition as we head into 2025.



Human rights will gain renewed traction

Human rights efforts of financial institutions and companies were increasingly scrutinised in 2024 – a trend that will continue into this year.

The Israel/Palestine conflict led stakeholders to question the role of banks' provision of financial services and linkages to human rights violations. Regulation also increased demands for transparency on human rights and labour practices in supply chains, in alignment with the UN Guiding Principles on Business and Human Rights.

A focus on social sustainability includes obligations for human rights due diligence under CSDDD which has been enacted and will take effect from 2028 per the latest Omnibus proposals, and detailed reporting on workers and workers in the value chain where material under CSRD which are already effective for the first wave of disclosing companies.

Social risk management will be introduced into European banks and quantification will advance

The European Banking Authority (EBA)'s new guidelines on Environmental, Social and Governance risks specifically require regulated banks to consider and address social risks in their risk management framework, including considering 'qualitative' scenario analysis on social impacts.

In 2024, regulators, industry groups and organisations, such as Lloyds, also began engaging with the newly launched Taskforce for Inequality and Social-Related Financial Disclosures (TISFD). Efforts to develop new methodologies for quantifying social risks will continue into 2025 and significantly enhance the social sustainability reporting landscape through further clarifications on frameworks, tools and guidance on metrics.

Transition plans will increasingly include just transition principles, not without challenges

The concept of a just transition – ensuring the shift to a low-carbon economy is fair and inclusive – gained significant traction in regulatory frameworks and financial industry practices in 2024. It has propelled organisations to consider the interlinkages and trade-offs between their social and environmental impacts and opportunities.

The most rigorous efforts to do so in 2024 came through the development of transition plans and double materiality assessments for CSRD, which allow companies to understand their material social impact areas.

These efforts are expected to intensify in 2025, with more companies starting to consider just transition, and others taking more structured approaches to integration into strategies especially where they are in subsequent waves of CSRD adopters or finding ways to engage retail customers.

However, financial institutions and companies will continue to grapple with how to measure success in just transition – social impact measurement lacks universal currency compared to environmental impacts. Similarly, just transition strategies and narratives are highly context specific – instead of 'boiling the ocean', companies would realistically engage with and report social impacts most relevant to their operations and value chain.

For example, financial institutions with high fossil fuel exposures will have different just transition impacts to peers with exposure in different sectors – Lloyds Banking Group's just transition efforts are aligned to its position as one of the largest UK mortgage and agricultural lenders.

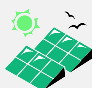
Finally, financial institutions will be challenged to find ways to finance the just transition, a topic further explored in the next chapter.

Understand the most material areas of impact within the value chain

For companies starting on this journey, the first step is to assess the most material areas of social impact across their business model and value chain. Completing an impact assessment will allow them to identify they have scale and impact. Those who have completed materiality assessments as part of their sustainability reporting process will have a head start on this.

Engage clients to understand their plans to drive a just transition

Once a company has established materiality, theory of change and success measures they will be in a position to engage with companies across sectors and geographies to understand their needs, and thus the financial institutions' business opportunity arising from the transition.



Define success in a way that is relevant to the business

Companies must consider what positive social impact means to them by understanding their role and how this intersects with their most material areas of impact in society. The outcome of this process will be a context-specific and company-specific narrative on the role a company plays in a just transition and society.

Establish a clear theory of change

Financial institutions must articulate how their role in the just transition translates into tangible outcomes. Will companies choose stewardship, capital deployment or industry collaboration and advocacy to drive their desired effect? Decision-making should be informed by engagement with those responsible for capital allocation decisions such as portfolio managers or coverage bankers.

Establish alliances or coalitions with others who face the same set of challenges

There are several industry groups seeking to share knowledge in just transition such as the Just Energy Transition Partnerships (JETP), Climate Investment Funds (CIF), Just Transition Initiative, Powering Past Coal Alliance and the London School of Economics Just Transition Finance Lab.

Heather Linton
Senior Sustainable Business Manager
Lloyds

"For Lloyds, commitment to creating a more sustainable and inclusive future is at the heart of our purpose and strategy. Our purpose pillars enable us to consider and embed activities to support a just transition for the UK.

A just transition means 'greening the economy in a way that is fair and inclusive to everyone concerned, creating decent work opportunities and leaving no one behind'. We continue working to identify ways we can support the transition to net zero whilst retaining our focus on key social objectives such as skills, affordability, education and regeneration across sectors, regions, and the range of our customers.

We want to focus on the key areas where we can make a meaningful difference. For example, as a leading lender to the housing market and agricultural sector, defining our approach leveraged our sector expertise and experience as a financier of those sectors. By embarking on this journey, we understand the challenge our clients face as they navigate social sustainability strategy and obligations."

Kateřina Vrátníková
Senior Sustainable Business Manager
Lloyds

"The ways just transition can manifest in decision making and actions can be broad and as part of our sustainability strategy we are integrating just transition considerations into what we do – from client engagement, financing specific sectors or supporting the development of skills in the workforce. In 2024 we became the first major UK bank to provide investment into community development finance institutions (CDFIs) which provide capital to markets underserved by large banks.

We also partnered with Regeneration Brainery to help address skills shortages in the UK by inspiring young people to careers in property and regeneration and supporting them in building the right skills."

The year ahead for sustainable finance

Sustainable finance continues to evolve, with green finance strongly shaped by demand for mature low carbon technologies.

Outside of green finance, the market is also shaped by improving definitional consistency of investments aligned to social impact, climate transition technologies, and achievement of sustainability targets.

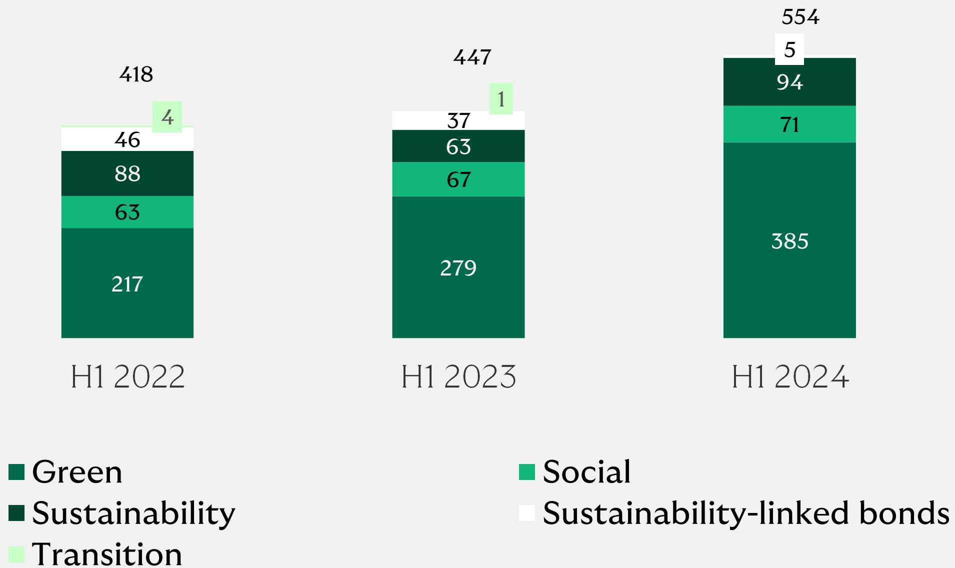
Overall, market appetite for sustainable financial instruments remains strong, yet concerns over regulation, macroeconomic and political uncertainty, and greenwashing persist, which in turn influence demand for different products. Financial institutions must navigate complexities for different asset types while ensuring credibility and supporting capital mobilisation.

Green finance continues to propel bonds and public market debt

Sustainable bonds remain the backbone of sustainable finance, and green finance the backbone of sustainable bonds.

The sustainable bond market, including green, social, sustainability and sustainability-linked bonds surpassed USD 1 trillion in 2024. USD 554 billion of sustainable bonds were priced in H1 2024 and green bonds accounted for 70% of this[4].

This is underpinned by strong recognition of the need for capital to flow into low carbon technologies such as renewable energy and clean transport.



Source: Climate Bonds Initiative (2024) Sustainable Debt Market Summary H1 2024

4 https://www.climatebonds.net/files/reports/cbi_mr_h1_2024_02e_1.pdf

Focus on sustainability-linked factors continues in bank debt and extends into private markets

In 2024, sustainability-linked lending (SLLs), sustainable investments in private equity and impact-focused debt gained increased attention from investors – trends we expect to continue in 2025.

The adoption of SLLs within fund financing structures accelerated in 2024, in part driven by the Loan Market Association guidelines on sustainability-linked lending for fund sponsors. This has led to growing emphasis on sustainability-aligned financing solutions at the fund and portfolio-company level.

In 2025, we will likely see further refinement of KPIs among fund managers and lenders, alignment of structures to evolving regulations (albeit for EU investors with uncertainty, given Omnibus proposals require ratification), and greater accountability for sustainability performance through pushes for third-party verification and external assurance.

Equity financing plays a pivotal role in funding low-carbon technologies, especially those which are earlier stage with higher upfront risks such as battery storage and clean molecules. Although all overall climate equity investments contracted by 40% in 2024 (a continuing trend since 2021), private equity represented the largest source of total climate equity driven by demand from clean power and transport.

Private equity financing will continue to be shaped by growth potential within green and transition technologies, as well as the rising popularity of nature and social impact-aligned outcomes within portfolio companies.

National and corporate decarbonisation ambitions continue to require significant investment and long-term flexible capital solutions. Blended finance structures will play a role in supporting these needs – an increasing number of private lenders are partnering with multilateral development banks, impact investors and sovereign funds to de-risk investments in large-scale transition projects.

For example, the UK's flagship carbon capture and storage project in Teesside demonstrates collaboration between many banks and investors to support nascent technologies with flexible private and public financing structures.

While environmental sustainability has dominated, there is increasing interest in using debt instruments to finance social projects such as affordable housing, education and healthcare.

We are starting to see potential growth in the integration of social KPIs into SLLs, including workforce upskilling, just transition and well-being in communities. Investors and lenders will increasingly need to demonstrate how capital allocation supports a fair and inclusive transition toward more sustainable economies and societies.

Deepening sustainability expertise and client engagement

Many banks are embedding sector-specific expertise within loan origination teams to better structure deals that align with sustainability targets. Financial institutions can embed sector decarbonisation and sustainability specialists within frontline and investor teams to enable tailored financing solutions for their clients. This should also be supported by training investors on financing opportunities within the energy transition.

Exploring innovative financing structures

Financing emerging low-carbon technologies remains a key challenge due to high upfront costs and uncertain revenue streams. Addressing this involves greater focus on innovative products such as blended and transition finance.

Strengthening greenwashing protections

As regulatory scrutiny increases, financial institutions can strengthen environmental and social due diligence processes, seek third-party verification and assurance, and build expertise to assess the strength of KPIs.

Hannah Simons
Head of Sustainability
Lloyds Bank Corporate Markets

"The underlying accelerators of sustainable finance as we head into 2025 are clear: strong demand for low-carbon technologies and improving definition and standardisation for other sustainable activities. Equally, financial institutions must navigate key headwinds such as regulatory fatigue and uncertainty, continued lack of standardisation for KPIs and greenwashing concerns."

Closing remarks

Sustainability will remain a central priority for financial institutions in 2025, navigating an increasingly complex landscape. Regulatory advancements are driving improved reporting, transparency, and accountability, which is critical in corporate disclosures. Key challenges of greenwashing risk, political divergence and uncertainty, and misalignment between real-world progress and 1.5C scenarios persist.

The year ahead will demand innovative financing solutions and rigorous governance to ensure credibility and combined commercial and sustainability-related risks and opportunities. As sustainability expands beyond environmental metrics to integrate social impacts, companies must adapt quickly to navigate complexities and capture opportunities from the just, nature-positive transition.

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