



WHITE PAPER

From Risk to Resilience

How Banks Can Profit From EBA Guidelines on ESG Risk Management

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New European Banking Authority guidelines on the management of ESG risks reflect rising regulatory expectations globally. Leading institutions are responding by scaling up their capabilities.

Given significant recent volumes of sustainability regulation, banking leaders may be tempted to see the latest European Banking Authority (EBA) guidelines on management of environmental, social and governance (ESG) risks as simply a matter of compliance¹. But that would be missing a trick. While risk and compliance teams will play an important role in incorporating ESG into risk management frameworks, there is also an opportunity to do more. Indeed, leading institutions are showing that senior level engagement and a strategic approach can transform capabilities and create resilience across the organization.

In support of the EU's sustainable finance agenda, the EBA's new guidelines, published in January, are designed to help financial institutions identify, assess, and manage ESG risks. They come at a time when banks are facing rising stakeholder pressure on ESG topics and risks such as extreme weather events pose a growing threat to business.

In Europe, the guidelines provide financial institutions with a structured framework for managing risks and building on previous initiatives. The latter include voluntary disclosure frameworks published by bodies including the Taskforce on Climate-related Financial Disclosures and International Sustainability Standards Board, as well as prudential regulation such as Capital Requirements Directive VI.

Europe is not the only jurisdiction moving to bolster ESG risk management in the financial system. The UK's Prudential Regulation Authority (PRA) is consulting on potential rules², while Canada's Office of the Superintendent of Financial Institutions OSFI has introduced a range of binding requirements, including mandating transition planning³. In the Middle East, the UAE is positioning itself as a regional leader, promoting scenario analysis, enhanced governance, and transparency. Taken together, these efforts reflect a global convergence toward enhanced supervision and create an imperative for banks to respond.

How Do the EBA Guidelines Relate to Previous ECB Expectations?

For the most part, the new EBA's guidelines are closely aligned with earlier European Central Bank (ECB) expectations, which emphasize a forward-looking, integrated approach to ESG risk management. However, they also add new requirements to the mix. **(See Exhibit 1).** Below we apply three lenses on regulatory expectations.

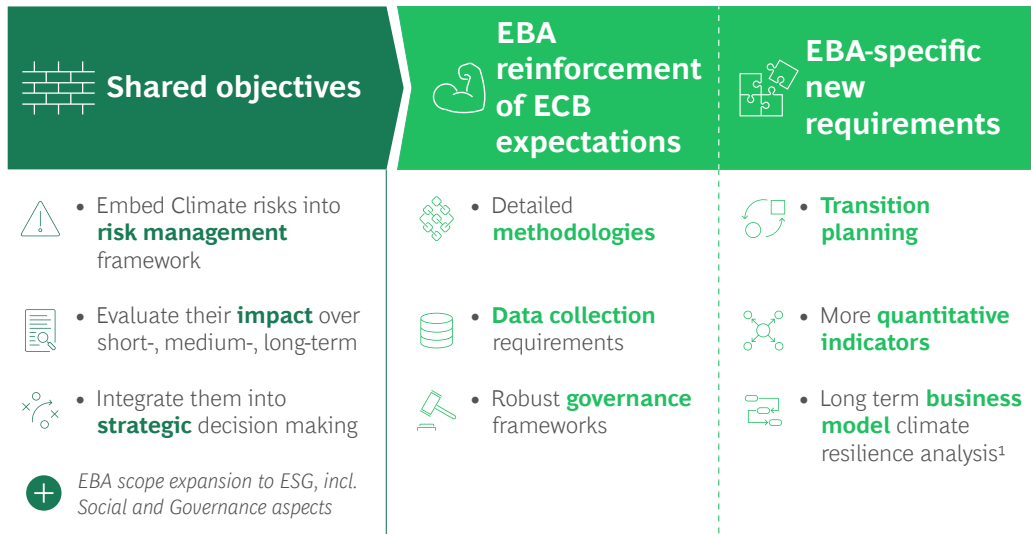
1. Final Report EBA/GL/2025/01.

2. THE PRA's expectations are contained in SS3/19 and the 2025 Consultation Paper CP10/25, particularly on governance, scenario analysis, and integration into ICAAP and ILAAP.

3. Canada's guidelines in particular are contained in the Office of the Superintendent of Financial Institutions (OSFI) Guideline B-15.

EXHIBIT 1

The EBA guidelines reinforce ECB principles while setting new requirements



Take part in our survey on ESG risk management and transition plan:

- Assess how your institution measures up against regulatory expectations
- Receive a benchmark to compare your progress with industry peers



1. Shared ECB and EBA Objectives and Expectations

In 2020, the ECB set out its guidance on climate-related and environmental risks in the financial system. The central bank published a list of 13 expectations covering matters from governance and risk appetite to internal controls and disclosures. Based on these foundations, the new EBA guidelines highlight three specific objectives:

- **Embed ESG risks into risk management frameworks**, specifically by considering their roles as potential drivers of traditional categories of financial risk.
- **Evaluate ESG risk impact** over short-, medium and long-term horizons.
- **Integrate ESG risks into strategic decision making**, with the aim of ensuring the bank's business model and strategy are resilient over the long term and compatible with the transition.

2. Reinforced ECB Expectations

The EBA guidelines strengthen ECB expectations through more specific requirements and methodologies. A key part of that approach is to demand deeper integration of ESG into risk management frameworks:

- **Time horizons** for assessment of “long-term” ESG risk impacts are defined as being 10 years or more.
- **Risk assessment methodologies must combine exposure-based (short-term), sector-based and portfolio-based (medium-term) and scenario-based (medium- and long-term) approaches.** Exposure-based assessments should evaluate how ESG factors—particularly environmental and climate-related risks—affect specific counterparties and assets. They should integrate these into internal risk classifications, credit assessments, and collateral valuations. Sector- and portfolio-based assessments should map ESG risks across (sub-)sectors—using tools such as heatmaps—and identify portfolio concentrations linked to specific ESG risk drivers. Finally, scenario-based methodologies should test banks’ resilience to ESG risks—starting with climate risks—under a range of forward-looking scenarios.
- **ESG risk integration into the risk appetite framework is now more prescriptive,** with defined metrics and thresholds (e.g., portfolio emissions, exposure to high-risk sectors), monitoring procedures, and escalation protocols for breaches or deviations.
- **ESG integration into the internal capital adequacy assessment process (ICAAP) is more stringent, and its inclusion in internal liquidity adequacy assessments (ILAAP) is now mandatory** (previously encouraged). Thus, banks must consider, quantify, and assess how material ESG risks could affect the internal capital and liquidity needed to cover them, taking into account the short, medium and long terms.

In addition, the EBA sets out its expectations for data management and reporting. It says that managing ESG issues should be predicated on robust data and reporting frameworks that go beyond risk alone:

- **Institutions must implement robust information systems to identify, collect, structure, and analyze ESG risk data,** and they should integrate these into wider data governance frameworks and IT infrastructure.
- **ESG metrics must be integral to internal reporting,** supporting transparent and accountable decision-making.

Finally, financial institutions must ensure their governance frameworks are robust and reliable:

- **ESG oversight should be embedded at the highest levels within governance frameworks.** In other words, the board and senior management should take direct responsibility and ensure that matters are considered regularly as a strategic priority.
- **Roles and responsibilities should be assigned across the three lines of defense:** business units, risk and compliance functions, and internal audit. This will ensure clear accountability and ensure that there are no gaps or overlaps.

3. Expanded EBA Expectations

The EBA guidelines introduce additional expectations to strengthen the integration of ESG risk management into the business. A key element relates to strategic and transition planning, with banks mandated to develop formal transition plans in line with Article 76(2) of the Capital Requirements Directive (CRD). These should support long-term business model resilience and alignment with sustainability objectives. Here are some of the most important provisions:

- **Plans must include clear objectives, interim milestones, and time-bound targets** (both short- and long-term) considering local regulation and the EU's 2050 climate neutrality goal.
- **Planning must be forward-looking**, assessing how climate risks and market changes (e.g., regulation, consumer demand, technology) could impact the institution under multiple scenarios.
- The process should enable **the gradual, strategic adaptation of business models**, showing alignment across short-, medium-, and long-term goals.
- **Finally, institutions must develop an engagement strategy** as part of the transition plan. This should cover the frequency, scope, and objectives of engagement with counterparties, as well as methodologies and metrics for collecting and assessing counterparty information. Institutions must also monitor engagement outcomes, including counterparty adaptability and resilience.

How does the EBA transition plan complement the CSRD transition plan?

The Corporate Sustainability and Reporting Directive (CSRD) transition plan is a disclosure tool detailing how institutions will meet Paris Agreement greenhouse gas (GHG) reduction targets. It aims for public accountability. The EBA transition plan is a non-public internal business steering tool, designed to foster resilience to ESG risks. It is a prudential requirement and must be demonstrated under the Supervisory Review and Evaluation Process (SREP).

- The CSRD transition plan should specify how to reach GHG reduction targets, including decarbonization levers, transition-related investments and funding, disclosures on potential locked-in emissions and fossil-fuel capex, and governance and oversight processes.
- The EBA transition plan is a risk-based tool focused on business resilience. It requires:
 - Quantitative assessment of ESG-related financial risks across scenarios (including through stress testing)
 - Integration of ESG risks with risk management tools, the risk appetite framework, ICAAP, ILAAP, strategic planning, and operations
 - Monitoring of backward- and forward-looking risk metrics and corresponding operational targets to evaluate impacts on financial performance, revenue sources, profitability, and portfolio risk
 - Active management body involvement in oversight and execution

What Should Banks Do Next?

Increased ESG regulation presents banks with risks but also opportunities to build more robust and resilient businesses. But that cannot happen without concerted action, organization-wide buy-in, and dedicated processes. Effectively implemented, these enablers will make it easier for decision makers to identify potential problems before they happen and to respond faster when they do. Leading institutions are acting on four primary fronts:

- **Lead from the top.** Senior endorsement and leadership are critical to advance ESG risk management and transition planning. At leading banks, boards and executives set the tone, oversee progress, and steer the integration of ESG into strategic planning and business processes. Their visible commitment helps ensure accountability and mobilizes the organization for effective execution.
- **Adopt a business lens.** Climate risk is complex and highly unpredictable, while governance and social topics continue to evolve over time. A robust scenario planning muscle is essential—not only to address ESG considerations but also to enhance strategic resilience. Leading banks leverage their scenario planning capabilities and feed the results back into their strategic planning. They also make scenario planning the starting point for climate resilience analysis and contingency planning for capital and liquidity. Some leading European banks, meanwhile, are systematically engaging their clients with physical risk assessments and linked adaptation finance.
- **Shape the industry.** Leading banks are not afraid to proactively engage with counterparties and peers. They collaborate to gather data on transition plans and assess their resilience to evolving ESG challenges. At the same time, they embrace cross-bank collaboration to develop shared methodologies and strengthen the resilience of the banking system as a whole.
- **Mobilize the whole bank.** Effective implementation of the EBA guidelines requires cross-functional collaboration, with strategy and finance playing a central role. Efforts are often coordinated by the risk and ESG functions, which provide expertise and support policy and governance integration. Risk and ESG also play a facilitating role for strategy and planning teams, business teams (which can lead counterparty engagement and embed ESG into client interactions and portfolio decision making), and finance teams to create coordinated momentum across the organization. In addition, leading banks leverage data, tools, and reporting mechanisms to encourage a proactive mindset. Compliance and internal audit teams are often closely involved, alongside risk management experts to ensure ESG frameworks and transition plans are robust. IT teams develop a resilient ESG data architecture, validate data, and enhance systems for monitoring ESG risks. In short, there is engagement and responsibility across the organization.

The European Banking Authority's (EBA) new guidelines raise the bar on expectations for bank oversight of ESG risks. But they also create a framework for productive engagement with the ESG topic. Based on the EBA's blueprint, banks have an opportunity to build capabilities that go beyond compliance and the basic setting of internal goals and targets. By embracing a holistic approach, they can put ESG at the center of the business model and achieve new levels of resilience in the face of rising uncertainty.

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