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Why Asia's banks are central to climate transition

While Asia has long been the world's highest emitting continent, it has now taken the lead in progress towards global climate goals. Investor engagement with the region's banking sector is essential to support the pivotal role of banks in climate transition.

Over half of the world's CO₂ emissions originate from Asia¹ (as shown in Exhibit 1). There are several reasons for this: first, the continent has significantly and rapidly industrialised; second, its manufacturing sector – eg, electronics, automotive and consumer goods – is highly energy intensive; and third, coal remains key to the energy mix. However, in recent years Asia has become the world leader in green finance innovation, with record levels of renewable energy investments and green financing.

¹ World Economic Forum, **Why the battle for net-zero may be won or lost by corporate Asia**, April 2023

Key takeaways

- Asia's action on lowering carbon emissions is a major driver for global climate transition.
- The region's banks face the challenge of financing both clean energy ambitions and growth in high-emitting sectors.
- Investor engagement can support banks to better align with regional and global climate goals.

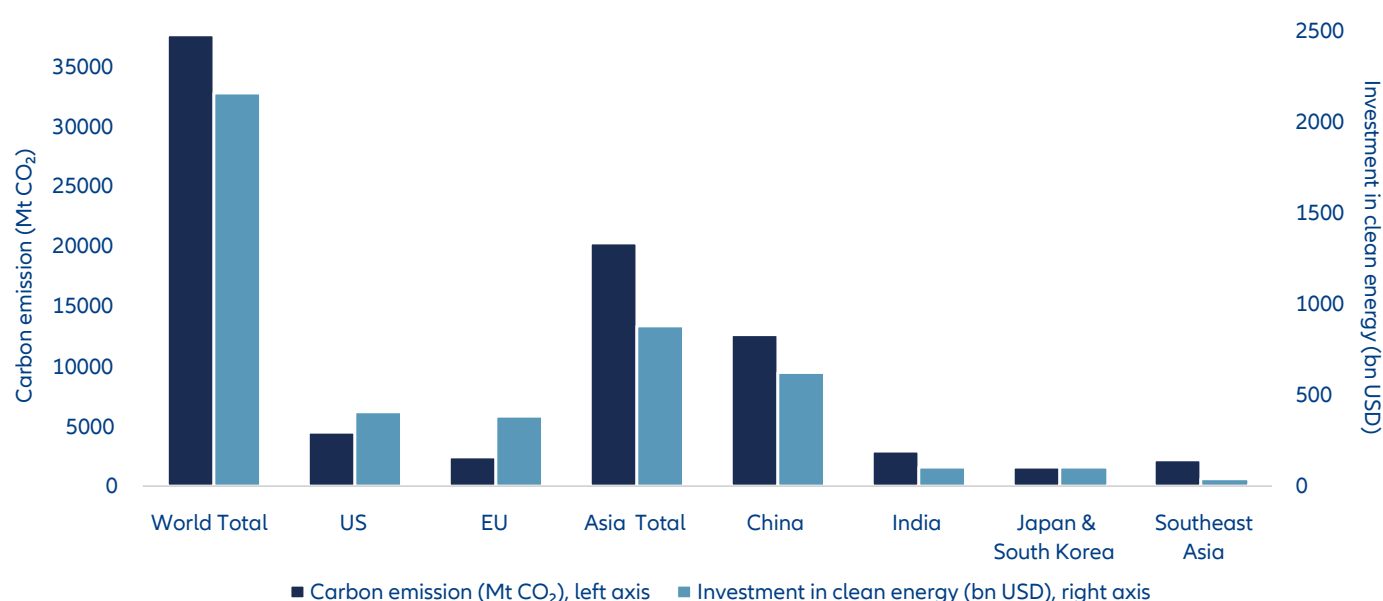


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Exhibit 1: Carbon emissions and clean energy investment by location

Sources: OECD and AllianzGI Economics & Strategy (E&S) (Data as of 17 Oct 2025)

Aligning growth with green ambitions

Seeking to reduce emissions while increasing investment in lower-carbon industries is a balancing act for Asia's markets. Support for high-emitting extractive industries – eg, mining raw minerals for technology components and coal to meet electrical energy demand – is key for the region's near-term growth. Meanwhile, development of low-emissions technologies such as electrification of transport and energy storage present new opportunities which are advancing at pace across the region. The banking sector therefore has an important dual role in financing growth and climate action for a credible and resilient transition.

Additionally, the region's role as the backbone of global supply chains underlines why Asian banks' financing is so critical to the climate ambitions of the global economy. Consider global scope 3 emissions – the greenhouse gas emissions (GHG) generated throughout

value chains, both upstream and downstream of a company's own operations – which account for over 70% of multi-national corporation carbon footprints.² Asia's outsized impact on global supply chains directly influences these emissions.

Engaging Asia's banks

Engaging with companies on the critical issue of climate action is one of our key stewardship themes. We developed a climate engagement project which included 20 publicly listed banks with a reach across China, India, Japan, South Korea, Taiwan and South-East Asia. The project sought to define a set of targeted outcomes for this sector by learning more about banks' transition strategies, alignment with policy, progress in decarbonising portfolios, and leading and lagging practices. An extract from our engagement framework is shown in Exhibit 2.

² Source: Science Based Targets, **Scope 3: Stepping up science-based action**, February 2023 and **Draft Corporate Net-Zero Standard V2 Explained: Scopes 1, 2 and 3 - Science Based Targets Initiative**, March 2025

Exhibit 2: Climate engagement framework for Asian banks

Top down net zero commitments required³



- Time-bound targets to reduce scope 1, 2 and 3 emissions to net-zero
- Signatory of the Net Zero Asset Managers initiative or the Net Zero Asset Owners Alliance
- Paris Agreement-aligned financing/investing
- Medium term operations & finance GHG targets (1.5°C aligned, Science Based Targets initiative or Transition Pathway Initiative approved)
- Sectoral mid-term targets for high GHG areas (by 2030)
- Transition plan, scenario analysis, stress testing

Sector specific policies



- Coal phase-out: 2030 for OECD countries/2040 for non-OECD countries
- No new oil & gas exploration/development
- End deforestation finance by 2030
- Restrict unconventional fossil fuel projects

Financing of transition initiatives



- Transition finance targets (aligned with 1.5°C needs)
- Client/investee engagement with key performance indicators (KPIs)
- Climate proposals at annual general meetings

Sustainable financial products



- Green bonds, sustainability linked loans and carbon linked derivatives
- Sector specific KPIs in products

Physical assessments & risk disclosure



- Alignment with Taskforce on Climate-related Financial Disclosures
- Risk exposure & financed emissions metrics
- Sector specific emission intensity reporting
- Board oversight & executive pay linked to climate

Through these engagement dialogues, we observed both progresses and challenges in how financial institutions are reshaping the climate landscape of

the Asian economy, across the continent and within individual markets.

³ "Top-down" refers to these typically being set by governments, regulators or other central authorities rather than emerging from within the firm

Differentiated climate approaches

Many locations across Asia have their own national climate policy frameworks (see Exhibit 3). Recognising these distinct policies and how climate action is embedded into national strategies is critical to our assessment of banks' climate strategies and the extent of their alignment with these policies and strategies in their approach to lending.

Guided by the relevant frameworks, we discuss with banks how they can be more transparent on climate financing goals and the actionable steps needed to achieve this. Many of the banks we engaged with have climate goals that are already aligned with global frameworks like the Paris Agreement. Some banks are even ahead of plan, enabling them to co-design climate strategies in parallel with evolving regulatory and policy trends, while achieving both economic and environmental outcomes.

China is one market that has demonstrated a coordinated approach to green finance. The People's Bank of China (PBOC) has leveraged policy instruments – most notably

the Carbon Emission Reduction Facility⁴ and the Special Re-lending Facility for clean and efficient coal utilisation⁵ – to channel funding through qualified commercial banks to eligible green projects. Importantly, these banks allocate loans with no additional premia. These instruments have enabled CNY 1.4 trillion⁶ of capital to be deployed to green projects nationwide as of year-end 2024. Chinese commercial banks have maintained profitable and sustainable lending rates for green projects, even when supporting policy-driven, zero-premium loans.

Within our engagements with Chinese banks, we focused on the long-term sustainability of these policy tools, and scenario analysis around future funding quotas or the evolution of regulatory frameworks. Encouragingly, banks remain confident in green finance being an engine for growth, and a driver of sustainability. Many of those that we spoke to highlight that green credit portfolios have evolved to the point of now delivering risk-adjusted returns on a par with conventional lending. This has been bolstered by favorable regulatory treatment (eg, lower capital adequacy requirements) and rising investor demand.

Exhibit 3: Guide to climate frameworks in Asia

Market	Short-term Nationally Determined Contributions (NDCs)*	Long-term net zero targets	Transition finance framework	Carbon market
China	Peak emissions by 2030	Net zero by 2060	State Council Transition Finance Industry Guidelines	Emissions Trading System (ETS)
Hong Kong	65–70% carbon intensity reduction from 2005 levels by 2030	Carbon neutrality by 2050	No framework	ETS
India	45% GHG reduction (from 2005) by 2030	Carbon neutrality by 2070	No framework	ETS
Japan	46% GHG reduction (from 2013) by FY2030	Carbon neutrality by 2050	Transition Finance Framework by METI	ETS & Carbon Tax
South Korea	40% GHG reduction (from 2018) by 2030	Carbon neutrality by 2050	Korea.net – FSC Guidelines on Green Finance	ETS
Singapore	36% GHG reduction (from 2005) by 2030	Carbon neutrality by 2050	MAS Sustainable Finance	ETS & Carbon Tax
Taiwan	20% GHG reduction (from 2005) by 2030	Carbon neutrality by 2050	Green and Transition Finance Action Plan 2024	ETS & Carbon Tax

Source: Allianz Global Investors Stewardship Team, 2025

*Nationally Determined Contributions are climate action plans that signatories of the Paris Agreement pledged to submit. These follow a five year cycle designed to progressively increase climate ambitions. The NDCs in these table are as at 30 September 2025.

4 PBOC, **The People's Bank of China Launches the Carbon Emission Reduction Facility**, November 2021

5 PBOC, **China's central bank steps up support for clean, efficient coal use**, April 2025

6 PBOC, **China Monetary Policy Implementation Report, Fourth Quarter 2024**

A just transition

Despite progress made in generating greener energy sources, Asia's energy supply remains heavily dependent on fossil fuels, especially coal, with the region accounting for over 80% of global coal consumption.⁷ As mentioned earlier, banks must balance the financing of higher-emitting industries to support employment and economic growth in the near term, while scaling up investments in green energy and infrastructure for the future. Uniform, inflexible transition strategies – such as a sudden withdrawal from coal financing – may politicise the green agenda and could hinder progress towards a low-carbon economy.

Case study: Engaging with a South-East Asian Bank



In an engagement with one bank, we discussed its plans for phasing out financing for new coal mining and coal-fired projects. The bank claims to have been actively engaging with stakeholders on improving the efficiency of existing coal assets. We emphasised the importance of clear transition targets with defined timelines, and the benefits for transparency to investors.

The bank had established a scheme for retiring coal plants and funding geothermal transition projects. We encouraged it to substantiate the strategy with specific examples and measurable impact data. In addition to commitments to improve disclosures, we observed it has reported the decommissioning of a sizeable coal-fired power plant 15 years ahead of its technical lifespan. This was financed through the bank's dedicated investment banking arm under its transition scheme, highlighting how these institutions' roles in advisory and financing can bridge the dependency gap with active solutions.

However, scalability of transition financing is a major challenge. South-East Asia's energy demand is forecast to double by 2040,⁸ driven by industrial growth in countries like Thailand and Vietnam. Stronger national support and

regulatory incentives will be critical to sustain and expand transition financing and meet the region's fast growing energy needs.

Micro meets macro

An additional and important dimension of our dialogues with banks is their financing of micro, small and medium enterprises (MSMEs) which constitute 90% of Asian businesses. MSMEs are particularly vulnerable to climate and transition risks because they lack the capital and resources of large corporates for climate adaptation planning. For example, MSMEs in high-exposure sectors like agriculture, food and agriculture, and forestry are disproportionately exposed to location-specific physical risks – for example flood frequency in palm oil plantations – but often lack the resources to quantify these risks. However, banks' sustainability reports often focus on large corporate clients and overlook MSMEs.

Within our standard engagement questions on the scope of sustainability commitments and reporting metrics, we also push for details on dedicated funding mechanisms and advisory services tailored for MSMEs. Encouragingly, there are several initiatives from banks in Singapore and Hong Kong that are dedicated to support MSMEs with climate transition challenges. While these early-stage initiatives remain at pilot phases and lack the necessary scale, they signal progress in addressing MSME climate risks in a coordinated approach. We firmly believe that climate risk analysis should be integrated into credit assessments for clients of all sizes through the lifecycle of the loan and shared with companies. This approach bolsters strategic focus and actions for greater resilience against extreme weather events.

Our in-depth engagement across the banking sector in several Asian markets reveals a complex, region-specific strategy of financing climate transition while considering current economic realities, and local policy frameworks. We believe constructive and collaborative investor engagement is essential for advancing the banking sector's own climate performance as well as its critical role as the driving force behind global supply chains.

7 IEA, *Coal Mid-Year Update – July 2024*

8 IEA, *Southeast Asia Energy Outlook 2019*

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