

Sustainability, risk and value in mainstream lending

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Sustainability is a mainstream credit and value consideration. Where a sustainability-related factor can materially affect cash flow, asset value, collateral, resilience, competitiveness or access to finance, it belongs in ordinary financial analysis, whether or not the financing carries a sustainability label.

Summary



Sustainability-related weaknesses can increase risk. Equally, efficient assets, resilient supply chains, effective adaptation and commercially viable transition investment may support credit quality and value.



Materiality is transaction-specific. The question is not whether every sustainability issue matters, but whether a particular factor could affect the economics or viability of the financing.



The effects may be seen in credit assessment, lender appetite, refinancing, collateral, documentation, portfolio strategy and, where demonstrably linked to credit risk, pricing.



Sustainability is also a source of financing demand. Labelled products form part of that response, but material sustainability-related risks and opportunities also arise in conventional lending.

Not every sustainability-related factor will be financially material in every transaction. The key question is whether it has the potential to affect risk, return, value or access to finance. This article examines why that assessment is becoming increasingly important, how it is influencing lending decisions and borrower strategy, and where it is creating both risks and financing opportunities.

This article focuses on the financial relevance of sustainability-related factors to lending decisions. Applicable legal obligations and environmental and social safeguards may remain relevant independently of that financial assessment.

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From sustainability label to financial relevance

Sustainability considerations are sometimes discussed as a separate policy, disclosure or labelled-finance agenda. In lending, the more useful starting point is financial relevance. A factor that could reduce revenue, raise costs, impair assets, weaken collateral, disrupt operations or change lender appetite is a credit consideration, regardless of the label attached to it.

The same analysis should capture upside. Energy and resource efficiency may improve margins; diversified supply chains and credible adaptation measures may reduce volatility; resilient assets may protect value; and well-directed transition investment may strengthen competitiveness. Sustainability can therefore affect both downside risk and the durability of value.

This framing is increasingly important in a more resource-constrained, geopolitically complex and physically exposed operating environment. The issues extend well beyond decarbonisation, encompassing physical climate risk, pressure on natural resources, labour and community issues, supply-chain disruption, data- and technology-related risks and energy security. Their relevance will vary across sectors, jurisdictions and transactions.

Not every factor will be material, and different lenders may reach different conclusions. The appropriate response is proportionate analysis, not the automatic application of additional requirements. Information should support a decision rather than become an objective in itself.

In July 2026, the European Central Bank (ECB) announced that it will broaden the scope of its climate-related collateral adjustments. The ECB currently applies such adjustments to certain corporate bonds; it will now extend them to particular eligible credit claims whose debtor is a non-financial corporation. This measure is expected to be implemented at the earliest by the end of 2027. The greater the sensitivity of the collateral to climate-related transition uncertainties, the greater the reduction applied to its collateral value, subject to a maximum additional reduction of 5%.

The significance of this development goes beyond sustainability policy. It illustrates how a sustainability-related factor can have a direct financial consequence: the value attributed to collateral pledged in Eurosystem refinancing operations may change, not because of a voluntary label or a reporting exercise, but because a central bank has determined that climate-related transition uncertainty is a relevant input to collateral valuation.



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Why these considerations are receiving greater attention

Several overlapping forces are making sustainability-related information more visible in financing decisions. They should not be treated as interchangeable: legal obligations, supervisory expectations and commercial strategy each operate differently.



Legal, disclosure and supervisory developments

Reporting and disclosure regimes in the UK, EU and other markets are increasing the availability of borrower-level sustainability information and may lead financial institutions to seek more granular data. In the EU, for example, the Corporate Sustainability Reporting Directive and EU Taxonomy form part of a wider framework intended to improve the availability and comparability of sustainability information. In the UK, existing corporate and listing-related climate disclosures are supplemented by the UK Sustainability Reporting Standards and transition-plan requirements. These frameworks continue to evolve and their scope and application differ.

These developments matter to lending because the information produced can inform credit assessment, portfolio analysis and borrower engagement. They do not mean that every lending team requires every available data point. Lenders may use a proportionate combination of borrower disclosures, third-party datasets and estimates, with the scope and quality of information calibrated to the decision being made. Where information is estimated, that limitation should be understood rather than allowing data collection to become an end in itself.



Supervisory and prudential expectations

Supervisors are also placing greater emphasis on the identification and management of financially material sustainability-related risks. The European Supervisory Authorities published Joint Guidelines on environmental, social and governance (ESG) stress testing in January 2026, establishing common standards for integrating ESG risks into supervisory stress-testing methodologies across

the EU banking and insurance sectors. The Guidelines do not require competent authorities to conduct new ESG-specific stress tests, but they demonstrate that ESG risk assessment is being incorporated into established supervisory tools.

The significance for mainstream lending is practical. Supervisory expectations may affect the way an institution identifies sector exposures, analyses concentrations, gathers data, conducts scenario analysis and monitors portfolios. They may also create closer links between institutional risk frameworks and transaction-level credit decisions, while leaving room for proportionality and different approaches across institutions and jurisdictions.



Commercial strategy and stakeholder expectations

Regulation is only one driver. Lenders may adopt sector strategies, risk-appetite limits, enhanced-approval requirements, client-engagement approaches or sustainable finance targets. Depending on the institution, these may operate as practical restrictions, conditions for continued engagement or a basis for originating new business. Borrowers may likewise respond to customer requirements, supply-chain expectations, investor priorities and strategic opportunities even where no specific legal obligation applies.

The direction is not uniform. Policy reversals, different regional priorities, energy-security concerns and varying development needs may alter both the nature and timing of sustainability-related risks. This reinforces the case for transaction-specific analysis rather than assuming a single pathway or market response.



How sustainability can influence lending decisions

The practical question is whether sustainability-related factors influence whether, how and on what terms finance is available.



Credit assessment and value

Where financially material, the analysis will often focus on the factors most likely to affect cash flow, asset or collateral value and the borrower's ability to service its debt. Depending on the transaction, that may include operating costs, regulatory or litigation exposure, insurance availability, supply-chain resilience and future investment needs. Positive indicators also matter: efficient assets, resilient infrastructure and commercially viable transition investment can support stronger and more stable credit quality.

For example, a lender financing commercial real estate may consider whether an asset's energy performance could affect regulatory compliance, required capital expenditure, tenant demand or future rental values. It may also consider exposure to flooding, heat or difficulties obtaining insurance. A lender financing a manufacturer may assess energy and carbon costs, resource availability, customer requirements and whether its products remain commercially viable as technology and demand evolve. These are not abstract policy questions if they affect cash flow generation, asset value or debt serviceability.

Environmental factors are not the only relevant considerations. Labour conditions, workforce shortages, community opposition, land access, resettlement or human-rights concerns may cause project delays, increase costs, disrupt operations or create legal exposure. What matters is how the issue could affect the borrower or financing, not whether the issue is classified as environmental or social.



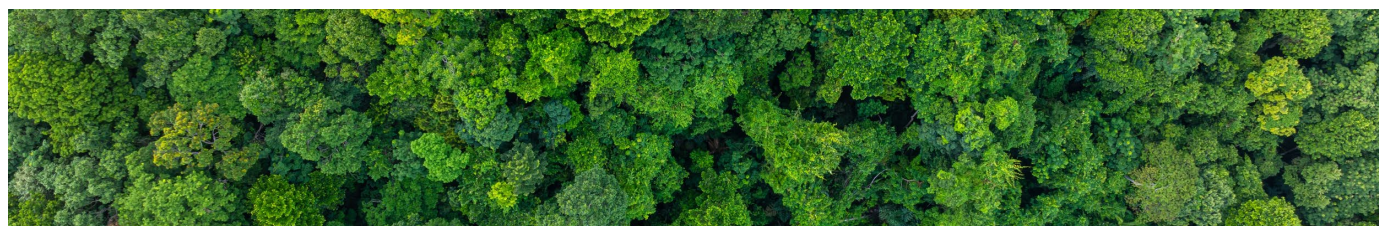
Transition plans in exposed sectors

Borrowers in hard-to-abate or transition-sensitive sectors may face closer scrutiny of whether their strategy is credible, financeable and consistent with the lender's risk appetite. Credibility depends not only on ambition, but also on governance, milestones, capital expenditure, financing, technology assumptions, accountability and evidence of implementation. Comparability remains difficult because methodologies, assumptions and levels of detail vary across companies and jurisdictions.

A credible plan may help preserve access to mainstream finance, support refinancing, widen the potential lender group and demonstrate how investment will maintain long-term competitiveness. Lenders may consider funding, execution and strategic risk, as well as whether continued financing is consistent with sector and portfolio strategy. Risks arising after the current facility matures should not automatically be disregarded where they could affect collateral, refinancing prospects or the lender's exit.

The Transition Finance Council's Sector Transition Plans: The Finance Playbook (2025)¹ provides a practical example of the increasing focus on financeability. It identifies financing needs, dependencies, risks and opportunities as core elements of credible sector transition planning. The message is relevant at borrower level too: a transition strategy is more useful to lenders where it explains not only the intended destination, but also the capital required, delivery assumptions, sources of finance and commercial pathway.

¹https://www.theglobalcity.uk/PositiveWebsite/media/Research-reports/Sector-Transition-Plans_The-Finance-Playbook.pdf





Portfolio strategy and lender appetite

At institutional level, sustainability-related considerations may influence sector appetite, exposure limits, concentration analysis, stress testing and capital allocation. Approaches will differ, particularly as institutions balance transition and physical risks with energy security, industrial competitiveness, employment, critical infrastructure and differing regional development needs. The likely outcome is not a uniform restriction on financing, but more differentiated decisions by sector, geography, asset and borrower preparedness.



Documentation and monitoring

Environmental and social matters have long appeared in conventional loan documentation through compliance representations, undertakings, information requirements and, where relevant, use-of-proceeds restrictions. Documentation can translate identified risks into proportionate mechanisms for information sharing, monitoring, compliance and risk allocation over the life of the loan. The provision should respond to the underlying risk, not merely to the presence or absence of a sustainability label.

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What this means for borrowers

For borrowers, the issue is broader than responding to questionnaires. Material sustainability-related factors may affect operating performance, capital needs, competitiveness, enterprise value and access to finance.



Business resilience

A borrower may face higher energy, resource, compliance or insurance costs, as well as physical disruption to assets and supply chains. In other cases, the more immediate concerns may be stranded asset or obsolescence risk, labour or skills shortages, land-access or human-rights issues, or the loss of customers and market access.

A failure to identify and respond to such material sustainability-related factors may weaken cash flow, asset values or strategic positioning before it becomes visible as a traditional credit event. Ultimately, this may introduce refinancing risk: a borrower whose sustainability profile deteriorates substantially could find that lender appetite has shifted by the time it seeks to refinance, even if its near-term financial performance remains adequate.



Financing and execution

Transition, adaptation and resilience strategies may require substantial capital. Borrowers should be able to explain the investment need, delivery timetable, technology and commercial assumptions, management capability and expected financial effects. This can help lenders distinguish a credible investment case from an unsupported ambition.



Access to finance and pricing

A borrower that can identify its material exposures and explain its response may be better placed to engage with lenders. Weak information or an unconvincing strategy may restrict appetite or complicate refinancing. Sustainability-related factors may affect pricing where they have a demonstrable impact on the overall credit assessment. This is distinct from a contractual margin adjustment under a sustainability-linked loan.

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Sustainability as a source of financing demand

Sustainability does not only create controls or constraints. It also creates investment needs and commercial opportunities across mainstream corporate, project, asset-based and structured finance.



Transition and industrial investment

Demand is growing across renewable generation, grids and storage, as well as industrial decarbonisation, efficient buildings, transport and critical infrastructure. Energy security, digital infrastructure and supply-chain resilience create further financing needs, often with trade-offs that require transaction-specific analysis.



Adaptation, nature and resources

Physical climate risk, ecosystem degradation and pressure on water, energy and other resources are increasing demand for resilient infrastructure, adaptation and nature-based solutions, and more

robust supply chains. Such investment can protect existing value and support businesses developing solutions. Growing energy and resource demand associated with digital infrastructure and data centres provides one example of how resilience, affordability and access considerations may become commercially significant.



Social and development needs

Financing demand also arises from infrastructure access, affordable energy, healthcare, education, employment and community resilience. In emerging and developing markets, the interaction between development needs, affordability, environmental and social safeguards and local economic priorities is especially important.

A long-standing example: project finance and environmental and social risk

The integration of environmental and social considerations into lending is not new. Project finance has long used structured due diligence to identify and manage risks capable of affecting project delivery, cost and operating performance.

The International Finance Corporation Performance Standards and Equator Principles provide frameworks for identifying, assessing and managing environmental and social risks. These can include environmental and biodiversity impacts, labour and working conditions, community health and safety, land acquisition, displacement, impacts on Indigenous Peoples, and human rights. Physical risks such as flooding, water stress and extreme weather may also form part of project viability and due diligence assessments. These are not abstract future concerns; they are factors that can affect the performance of infrastructure assets over the life of a project financing.

These issues can have direct financial consequences. A failure to manage land access, community relationships or environmental impacts may delay construction, increase cost, create legal exposure or disrupt operations. Project finance therefore provides a useful reference point for the broader argument of this article: sustainability-related due diligence is most useful when it identifies a credible pathway from the underlying issue to project performance and the lender's economic position.

Environmental and social risk assessment in project finance predates contemporary sustainability reporting regimes and labelled sustainable finance products. The broader development is not the invention of an entirely new category of credit analysis, but the application of similar risk-based thinking across a wider range of borrowers, sectors and lending products.

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Labelled products and mainstream lending

Green, social, transition-labelled and sustainability-linked products remain important. Their frameworks can provide structure, transparency, accountability and market signalling through use-of-proceeds criteria, key performance indicators, targets, reporting and external review. They may also unlock access to lenders or pools of capital with a specific sustainability mandate.

However, a label is not the boundary of sustainability analysis. A conventional loan may still be affected by climate, nature, social or other sustainability-related factors where these influence repayment capacity, asset value or lender appetite. Equally, the use of a label does not establish that a borrower or lender is sustainable as a whole. Sustainability-related claims should be accurate, proportionate to the scope of the financing and supported by appropriate governance and verification. A green loan financing a specific project, for example, supports that project; it does not certify the borrower's overall environmental credentials.

Labelled products are one part of the market response. The broader development is the integration of financially material sustainability considerations into business-as-usual decisions about credit, risk, investment and value. The relevant question is increasingly not whether a financing carries a sustainability label, but whether material sustainability-related risks and opportunities have been identified and appropriately addressed.

This evolution has produced tangible results. Many companies now have a better understanding of their environmental and social impacts, stronger governance and greater visibility across their supply chains. Improvements across environmental and social credentials can generate strengthened corporate resilience, increased revenues and reduced costs. Challenges remain, but these developments show that sustainability-related considerations can influence performance and business value rather than remaining solely a disclosure exercise.



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For lenders

- Identify the sustainability-related factors most relevant to the borrower, sector, jurisdiction, asset and financing, and trace each potentially material factor to a financial or credit pathway.
- Request proportionate information, using existing disclosures and reasonable estimates where appropriate rather than treating data collection as an end in itself.
- Reflect material findings in appetite, structure, valuation, documentation and, where justified, pricing.
- Review relevant risks over the loan term and, where relevant, at refinancing, enforcement or exit.



For borrowers

- Identify the factors that could affect operating performance, asset value, capital needs, market access or financing.
- Explain the strategy, governance, investment requirements, assumptions and delivery capability in commercially relevant terms.
- Improve the quality and consistency of the information most relevant to lender decision-making.
- Engage early where a material risk requires capital expenditure, adaptation, transition or operational change.



For investors and other capital providers

- Assess sustainability-related factors as part of valuation where they may affect risk or return.
- Consider their implications for portfolio exposure and engagement.
- Distinguish financially material analysis from impact or values-based objectives, while being clear where both are being pursued.
- Apply accurate and proportionate claims to labelled and unlabelled strategies alike.

Conclusion: when sustainability changes risk and value

Sustainability is relevant to mainstream lending where it changes the economics of a borrower, asset or financing. The effect may be negative, through higher cost, weaker cash flow, impaired collateral or reduced lender appetite. It may also be positive, through greater efficiency, resilience, stronger market positioning, more stable cash flows and new investment opportunities.

The task is not to treat every sustainability issue as material or to require every transaction to carry a label. It is to identify the factors that could matter, understand the financial pathway, obtain proportionate information and reflect the result in the financing decision.

Ultimately, the question is straightforward: could a sustainability-related factor materially affect the financing, and has it been properly considered?

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