Between transparency and sustainability

The ESG Pillar III Disclosure Study

Disclosure of ESG risks according to Article 449a CRR

January 2024

pwc

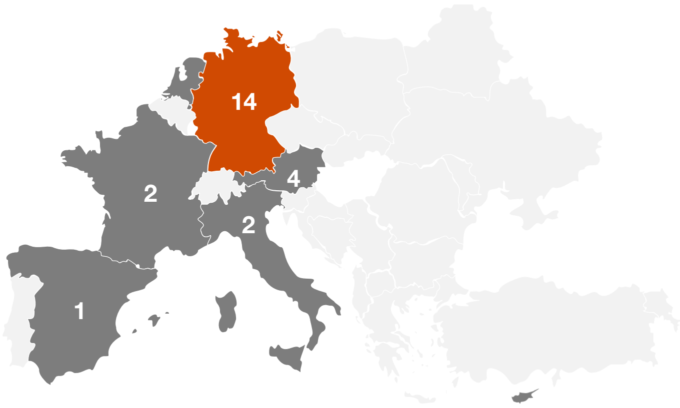
Agenda | ESG in Pillar III

Disclosure study

List of abbreviations

3LoD	Three Lines of Defense	**GAR**	Green Asset Ratio
AD	Automated Disclosure	**GHG**	Greenhouse Gas
AE	Asset Encumbrance	**ICAAP**	Internal Capital Adequacy Assessment Process
ART	Automated Reporting Tool	**ICMA**	International Capital Market Association
BTAR	Banking Book Taxonomy Alignment Ratio	**IEA**	International Energy Agency
CBI	Climate Bonds Initiative	**IPCC**	Intergovernmental Panel on Climate Change
CCA	Climate Change Adaptation	**ISO**	International Organization for Standardization
CCM	Climate Change Mitigation	**ITS**	Implementing Technical Standards
CIR	Commission Implementing Regulation	**KPI**	Key Performance Indicator
COREP	Common Reporting	**KYC**	Know Your Customer
CRM	Customer Relationship Management	**LCR**	Liquidity Coverage Ratio
CRR	Capital Requirements Regulation	**NACE**	Nomenclature of Economic Activities
CRREM	Carbon Risk Real Estate Monitor	**NFC**	Non-Financial Corporates
DPM	Data Point Model	**NGFS**	Network for Greening the Financial System
E	Environmental	**NSFR**	Net Stable Funding Ratio
E2E	End-to-End	**NZE205**	Net Zero Emissions by 2050
EBA	European Banking Authority	**PCAF**	Partnership for Carbon Accounting Financials
EP Scores	Energy Efficiency Scores	**RPA**	Robotics Process Automation
EPC	Energy Performance Certificates	**S**	Social
ESG	Environmental, Social And Governance	**S&P**	Standard & Poor's
EU	European Union	**SBTi**	Science-Based Targets initiative
ECB	European Central Bank	**SREP**	Supervisory Review and Evaluation Process
FINREP	Financial Reporting	**GHG**	Greenhouse gas
G	Governance	**UN**	United Nations

Management Summary



7 Countries

102 Questions

25 Institutions

7 Thematic areas

Germany

- Aareal Bank
- Bayerische Landesbank
- Berlin Hyp
- Commerzbank
- DekaBank
- Deutsche Apotheker- und Ärztebank
- Deutsche Bank
- DZ Bank
- Hamburg Commercial Bank
- Landesbank Baden-Württemberg
- Landesbank Hessen-Thüringen
- Münchener Hypothekenbank
- Norddeutsche Landesbank
- Volkswagen Bank

Netherlands

- ING Groep

Austria

- BAWAG P.S.K. Bank
- Erste Group Bank
- Raiffeisen Bank International
- Raiffeisen Bank Oberösterreich

Italy

- Unicredit
- Gruppo Intesa Sanpaolo

France

- BNP Paribas
- HSBC Continental Europe

Cyprus

- Bank of Cyprus

Spain

- Banco Santander

This study examines the implementation of **Article 449a CRR** in conjunction with **Commission Implementing Regulation (CIR) (EU) 2022/2453**, which provides specific guidelines for the disclosure of ESG risks in Pillar III.

This analysis investigates the disclosure reports of **25 European credit institutions** that disclosed their ESG risks for the first time as of the reporting date of **December 31, 2022**. To provide deep insights into the implementation of the new disclosure requirements, a comprehensive and granular approach was adopted, combining **qualitative and quantitative criteria**. Consequently, a standardized set of 102 questions was created and categorized into seven thematic areas: qualitative disclosure (representation based on the European Sustainability Reporting Standards), analysis of the methods and approaches used, review of the effectiveness of validation and crosschecks, integration of Pillar I and Pillar II, investigation of voluntary disclosures, benchmarking of reports and evaluation of data sources used.

This analysis facilitates the formulation of recommendations and best practices, providing valuable insights to enhance the quality and comparability of sustainability reporting among European credit institutions.

Overview of results and key findings

Potentials for future disclosure

The study shows that companies disclose only limited qualitative information on their ESG risks. The information provided, especially for social and governance risks, is often superficial and doesn't provide sufficient depth to enable a comprehensive understanding of the potential risks. In the social and governance-related aspects, there is a notable absence of information regarding the identification and management of social risks and factors, including methodologies, standards, and definitions.

Shortcomings in the identification of physical-risks

The lack of geographical distinction and country allocations of exposures leads to significant differences in the information on physical risks, which is reflected in the sometimes wide-ranging margins of the data. The insufficient geographical information makes an accurate assessment of the risks difficult and leads to distorted assessments.

Qualitative disclosure of governance risks

The study identifies considerable potential for future qualitative disclosure of governance risks (table 3), which has not yet been fully utilized, including detailed explanations of the KYC process. Improved disclosure in this area will lead to a better understanding of the institutions' governance practices and structures, creates transparency and enables stakeholders to obtain a more comprehensive picture of corporate governance.

EPC labels: Criticism on the application of PCAF

Some institutions have indicated the use of PCAF (Partnership for Carbon Accounting Financials) as a methodology for determining or estimating the energy efficiency of the collateral.
Since PCAF is concerned with the standardisation and transparency of greenhouse gas emissions in the financial sector, it is questionable how this methodology can be used to estimate energy efficiency scores (EP scores). The use of incorrect methodologies can lead to inaccuracies in the assessment of environmental impacts and affect the comparability of disclosure reports.
In addition, many institutions make use of estimates, which means that a large proportion of EP scores are based on estimated values.

Transparency deficits of activities not covered by the GAR

Some institutions have incompletely or not at all disclosed their risk mitigating activities in template 10, which makes the assessment of their effectiveness difficult and incomprehensible why these exposures were not included in the Green Asset Ratio (GAR). In addition, explanations on risk mitigating measures of individual activities are missing, which impairs the disclosure of the template.

Foreword

Action plan for financing sustainable growth

The European Union has set ambitious climate protection targets: It is aiming for climate neutrality by 2050 and plans to reduce emissions by at least 55% by 2030 compared to 1990. As part of the European Green Deal[1], it is crucial to channel investments into sustainable projects.

To this end, the European Commission published the Action Plan on Financing Sustainable Growth[2] in March 2018. This action plan aims to redirect capital towards sustainable investments, reduce financial risks associated with climate change and other environmental and social problems, as well as to promote transparency and a long-term approach to financial and economic activity.

Regulatory disclosures according to CRR

One of the four main pillars supporting the European Green Deal is regulatory disclosure under the CRR (Capital Requirements Regulation)[3]. Disclosure of environmental, social and governance (ESG) risks is a key market discipline tool that allows stakeholders to assess institutions' environmental risks and evaluate their sustainable finance strategy. According to Article 449a CRR, institutions must disclose information on ESG risks in order to make sustainability and social impacts of their business measurable.

	A	B	C	D
	Taxonomy disclosures (taxonomy regulation)[4]	Non-financial statement (NFRD[5]-CSRD)[6]	EBA prudential disclosure (CRR/IFR)[7]	Disclosure regulation (SFDR)[8]
What	Defines environmentally sustainable practices (Paris aligned)	Corporates' ESG and diversity information	ESG risks and risk mitigation actions	Investment products and financial advice
Who	NFRD corporates	Public-interest companies (more than 500 employees - scope to be extended with CSRD)	Large listed Banks (CRR) and investment firms (IFR)	Financial firms selling investment products and financial advisers

Source: EBA Infographic - ESG disclosures for financial institutions

On 24 January 2022, the European Banking Authority (EBA) issued the final Implementing Technical Standards (ITS)[9] on supervisory disclosures of ESG risks in accordance with Article 449a CRR. These standards, as stipulated in CIR (EU) 2022/2453[10], are mandatory for all large institutions that have issued securities for trading on a regulated market. The disclosure concerns both qualitative and quantitative information on physical and transition climate risks as well as qualitative information on social concerns and aspects of corporate governance.

Applicability

The application of the EBA ITS started on 28. June 2022. During the first year of its application, the relevant institutions were required to make an annual disclosure by 31. December 2022. Starting from 2023, the disclosure will be mandated on a semi-annual basis.

Various transitional arrangements have been defined that will apply until December 2024. With these requirements, the EBA aims to improve transparency and comparability of ESG risks of the relevant institutions. This largely affects exposures for which sustainability information is only available to a limited extent or the flow of information depends on customers or third-party input.

The integration of ESG risks into the disclosure requirements of the CRR is an important contribution to sustainability efforts in the financial sector. The disclosure of ESG risks increases transparency and enables market participants to make informed decisions as well as to better assess the ESG performance of institutions.

Between Transparency and Sustainability: The ESG Pillar III Disclosure Study

This study by PwC Germany analyses the implementation of Article 449a CRR in conjunction with the CIR (EU) 2022/2453 and examines the Pillar III disclosure reports of 25 European credit institutions that disclosed their ESG risks for the first time as of the reporting date 31. December 2022.

Based on qualitative and quantitative criteria, detailed results on the implementation of the new disclosure requirements were obtained, providing valuable insights into compliance with these new disclosure obligations and the effectiveness of the sustainability practices communicated by the institutions. This analysis enables us to develop recommendations and best practices to further improve the quality and comparability of sustainability reporting.

The European Union and its supervisory authorities remain committed to enhancing disclosure standards and ensuring that the financial sector effectively contributes to achieving climate goals and promoting sustainable development. The disclosure requirements under Article 449a CRR are an essential part of this effort and help ensure that financial institutions fulfill their responsibilities in line with EU climate action objectives. Institutions covered by the CRR will have to adapt to a dynamic regulatory environment in the future and should keep an eye on current developments.

We hope you enjoy reading this study.
Kind regards,

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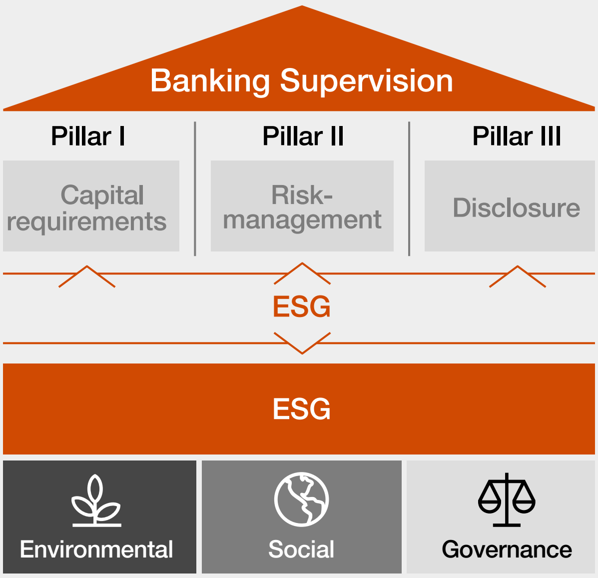
Results of the ESG Pillar III Disclosure Study

ESG in banking regulation

Sustainability in the three pillars of banking supervision

Stronger focus on ESG in the supervisory framework

For the transition to a sustainable economy, **E**nvironmental, **S**ocial and **G**overnance (ESG) risks will be more strongly integrated into the EU's supervisory framework.



Where does ESG find regulatory consideration in the three pillars?

Pillar I

- Introduced Infrastructure Supporting Factor
- Announced EBA interpretation on possible privileging of sustainable financial products
- Discussions on minimum capital requirements for sustainability risks

Effort

Time criticality

Pillar II

- Specific requirements for considering ESG risks in business strategy and organisation, in risk management and in the supervisory review process (SREP)

Effort

Time criticality

Pillar III

- Additional disclosure of ESG information in the CRR disclosure report

Effort

Time criticality

ESG-Risks in Pillar III

Art. 449a CRR contains provisions regarding the scope of ESG disclosure, implementation timeline and ESG disclosure content.

The requirements are currently to be observed by **large institutions that have issued securities** admitted to trading on a regulated market. With CRR III, these requirements are going to be relevant for all institutions from 2025 onward.

The disclosure is to be performed once for the first year (for the first time on the reporting date 31 December 2022), and thereafter on a **semi-annual basis.**

The disclosure requirements from Art. 449a CRR are **specified** in EBA ITS 2022/01 and CIR (EU) 2022/2453.

Source: PwC - ESG in banking supervision law

ESG disclosure requirements according to Art. 449a CRR

The ITS or CIR for the disclosure of ESG risks under Pillar III of the CRR place their primary focus on the “E” (Environmental) part of ESG, and recommend both quantitative as well as qualitative information on climate change risks, both transition and physical. With regard to social aspects (S) and governance (G), on the other hand, the document only requires qualitative information. The below timeline provides information on the Timetable for the disclosure requirements of ESG Pillar III. Currently, institutions are in the so-called “light” phase with reduced disclosure requirements, which is why only the templates 1, 2, 4, 5 and 10 are analysed.

Physical risks

Physical risks occurring as a result of climate change:

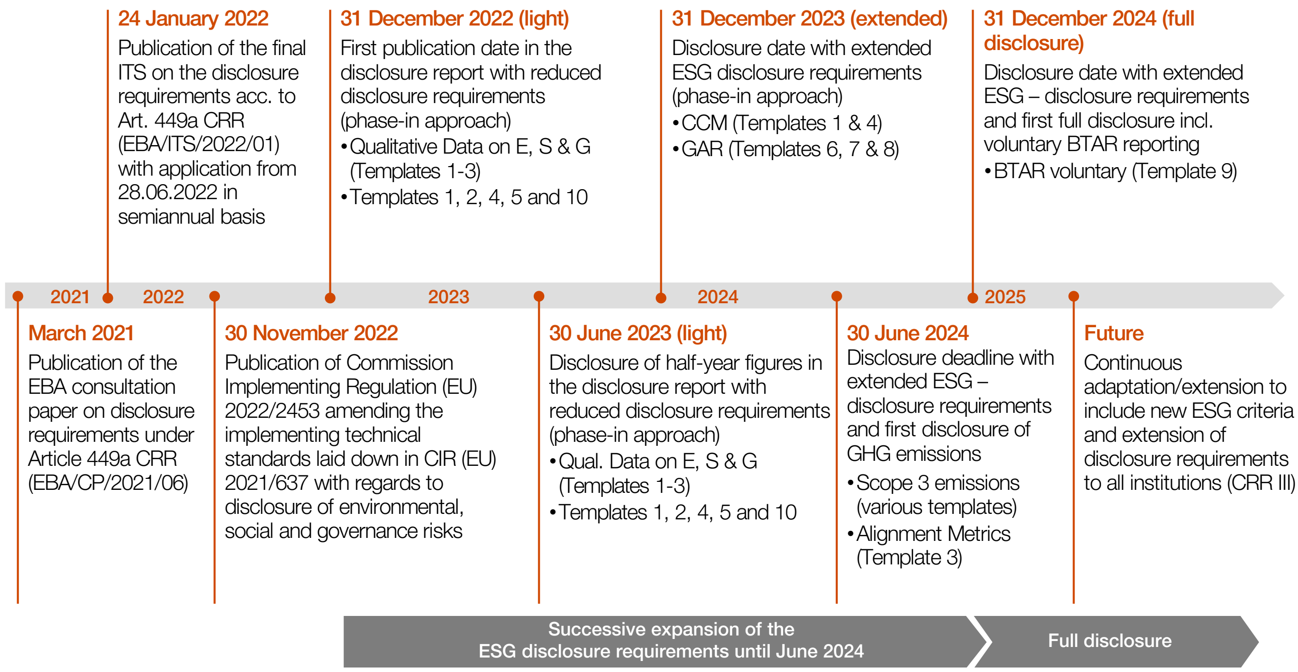
- Drought
- Wind
- Heat
- Extreme weather events
- Floods and rising sea levels

Transition risks

On the transition path to a CO_2-neutral economy, there are transition risks:

- Technological Innovation
- Climate law and Regulation
- Market

Sequential approach and timeline of Pillar III disclosure for ESG risks



The EBA ITS includes three tables with qualitative information on environmental, social and governance risks and ten templates with quantitative information on ESG risks.

Quantitative data

- Templates 1 through 4 address the **transition risks**, i.e. the risks associated with the transition to a more sustainable economy. These are to be presented quantitatively.
- Template 5 addresses the **physical risks** caused by climate change. The disclosure of banking book positions affected by acute and chronic climate-related hazards must be disclosed. The positions are to be broken down into the specific regions affected by chronic and acute events.
- In templates 6 to 10, positions that can be considered as **risk mitigating measures**, such as information on economic activities which are considered environmentally sustainable within the meaning of the **Taxonomy Regulation (EU) No 2020/852** and on the basis of which, the **Green Asset Ratio (GAR)** is calculated. Furthermore, a breakdown into the contribution templates CCM (Climate Change Mitigation) and CCA (Climate Change Adaptation), as well as transitional activities and enabling activities related to climate change must be disclosed.
- The **Banking Book Taxonomy Alignment Ratio (BTAR)** can be published voluntarily as a new KPI in template 9. Here, environmentally sustainable positions of non-financial companies that are not subject to the Non-Financial Reporting Directive (NFRD) are to be disclosed.

The templates at a glance

Template 1 Positions to NFCs according to NACE sectors incl. maturity buckets for the banking book	Template 2 Loans collateralised by immovable property based on the energy efficiency	Template 3 Alignment Metrics incl. Scope 3 emissions for selected NACE sectors	Template 4 Information on exposures towards the most carbonintensive counterparties in the world	Template 5 Banking book exposures subject to physical risk
Template 6 Summary of KPIs on the Taxonomy-aligned exposures	Template 7 Assets for the calculation of GAR	Template 8 Green Asset Ratio (GAR) based on information in Template 7	Template 9 KPI: Banking Book Taxonomy Alignment Ratio (BTAR)	Template 10 Other climate change mitigating actions not covered in Taxonomy 2020/852

Already to be disclosed

Qualitative data

- In the tables 1 to 3 on the qualitative disclosure requirements, information on the three dimensions of sustainability, **environmental, social and governance,** must be disclosed.
- Furthermore, under each ESG category information on the governance, business model and strategy, must be disclosed.

Table 1 Disclosures on environmental risks	E
Table 2 Disclosure on social risks	S
Table 3 Disclosures on governance risks	G

Tables 1 - 3

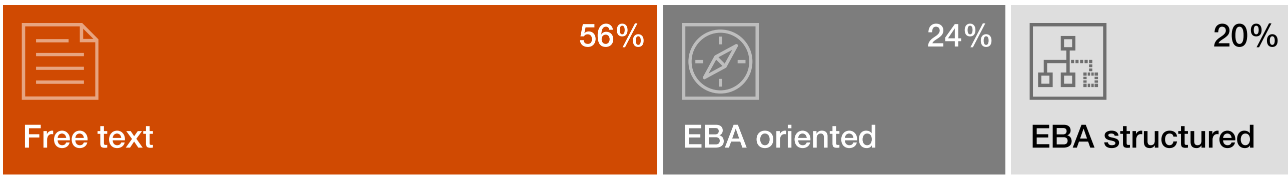
General information regarding the qualitative tables

Consolidated or separate disclosure of qualitative tables 1-3 on E, S and G

The EBA ITS carries out a clear separation of the three dimensions E, S and G. However, there is no binding requirement for institutions to follow this thematic division.

Almost two thirds of the institutions (72%) decide to disclose the different qualitative parts separately from each other. From the stakeholders' points of view, this is preferable, as it makes the contents clearer and easier to comprehend.

Format and structure of disclosure



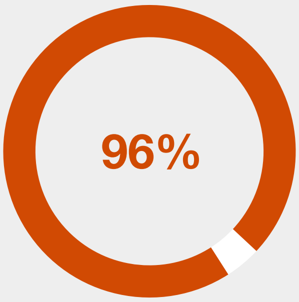
Within the qualitative disclosures, the EBA ITS allows for a certain degree of creative flexibility. Almost half of the institutions (56%) publish the specifications as free text, while 20% strictly follow the structure of the EBA ITS and disclose the content specifications in tabular form. 24% opt for a combination of both approaches. From the stakeholders' points of view, it is advisable to refrain from combining the approaches, as this could reduce clarity and comprehensibility.

Recommendations for action!

- Separate the presentation of the dimensions E, S and G. General topics such as overarching goals, strategy and responsibilities can be named for all three dimensions together
- Publication should be performed as free text or in tabular form along the ITS structure

Table 1

Qualitative disclosures on environmental risks



of Institutions disclosed (the contents of) Table 1

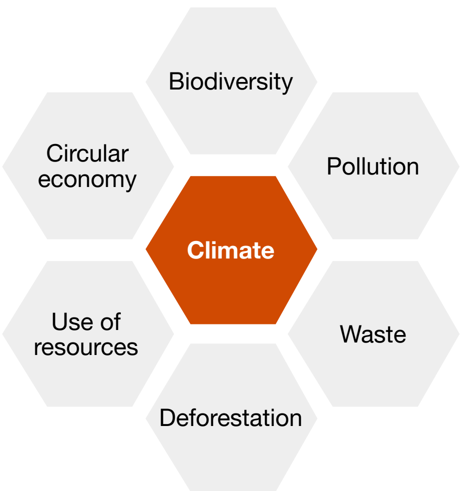
Table 1: Qualitative information on environmental risks in the areas of business model, strategy, governance, and risk management

Table 1 of the EBA ITS outlines that institutions subject to Article 449a of CRR are required to provide qualitative information on environmental risks, focusing on three key aspects: **Governance & Business Model, Strategy,** and **Risk Management.**

Based on the evaluation conducted in this study, a substantial number of the examined institutions demonstrate alignment with the regulatory requirements of the EBA ITS. It is worth noting that Table 1 is disproportionately represented, accounting for an average of 21% and approximately 9 pages within the entire qualitative section.

Best Practice for Environmental risk disclosure

Environmental aspects ("E")

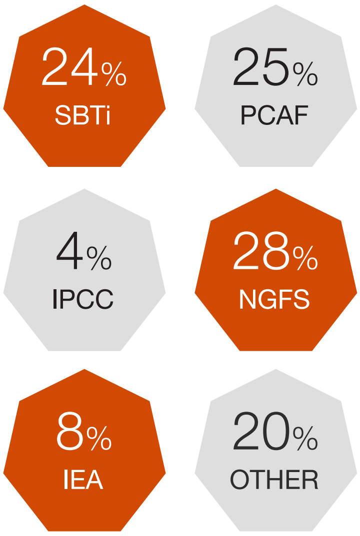


The consideration of additional risk drivers beyond climate risk is essential for a holistic view of environmental risks. In this regard, the institutions report **not only climate risks** but also the risk of biodiversity loss, resource scarcity and risks resulting from inadequate waste management.

88% of all analysed institutions explicitly commit to the **Paris Climate Agreement**[13]. Therefore, these institutions commit themselves to the following goals, amongst others:

- The institutions set a goal of limiting global warming to "well below" 2 degrees Celsius compared to the pre-industrial era, with efforts to limit it to 1.5 degrees Celsius
- The ability of society to adapt to climate change is to be strengthened and established as an equal goal alongside the reduction of greenhouse gas emissions
- The flows of financial resources are to be brought in line with the climate targets

The remaining 12 % (three institutions) do not publish any explanations.



With regard to their CO_2 reduction targets, the analysed institutions often distinguish between targets for their own business operations and those of their portfolios. Often only one of the targets is stated. The most common targets are carbon neutrality of institutional operations by 2030 and portfolio neutrality by 2045.

Most institutions use **common market standards, initiatives, known scenarios and transmission pathways** for sector decarbonisation. The standards of the following organisations* (left) are listed most frequently**.

Measures to **reduce environmental risks****

Risk management

- ESG score cards: exclusion lists, exclusion criteria, definition of permissible transactions
- Risk inventory: ESG risk assessment; risk drivers/ materiality analyses
- Stress testing

Business model/strategy

- GHG Reduction Plan
- Sustainable Finance product portfolio
- ESG Guidelines: Green Finance Framework; ESG Strategy
- Implementation of international guidelines
- Introduction of ESG-related limits, ESG KPIs

Governance

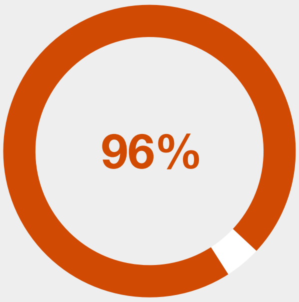
- 3LoD
- ESG (Risk) Committees/ Commissions
- ESG Data Governance

Science Based Targets initiative; Partnership for Carbon Accounting Financials; Network for Greening the Financial System; Intergovernmental Panel on Climate Change; International Energy Agency

***Exemplary Excerpt*

Table 2

Qualitative information on social risks



Institutions disclosed (the contents of) Table 2

Table 2: Qualitative information on social risks in the field of business model, strategy, governance, and risk management

The regulatory requirements for the disclosure of social risks were largely met. However, the significant reduction in the scope of the disclosures by the institutions regarding table 2 is noticeable.
As social risks constitute an integral aspect institutions' risk assessment, both content and scope should appropriately reflect their significance. There is significant potential for improvement to ensure full compliance with regulatory requirements.

In most cases, these disclosures have been separately published in accordance with EBA ITS. Nevertheless, there are instances in which institutions collectively publish their ESG information, either within the environmental risk section or in a broader, overarching section.

Best practice for Social risk disclosure

In the analysis conducted, the disclosed measures were classified into four clusters based on the European Sustainability Reporting Standards (ESRS) E2[14] in order to differentiate the various aspects of the institutions' activities. The analysis revealed that frequently, only individual goals or fields of action were mentioned, without presenting concrete measures for achieving these goals. Consequently, the majority of the reports provide only a limited level of detail. For example, institutions frequently mention taking measures to "respect human rights", but fail to specify actions to achieve this goal, resulting in a lack of informational depth and significance in many of these reports. There is considerable room for optimization to fully comply with the regulatory requirements.

Employees

- Diversity
- Work environment
- Equal treatment/equal opportunities
- Further education
- General human/work rights
- Occupational health and safety
- Prohibition of discrimination
- Inclusion/Diversity
- Fair remuneration
- Flexibility

While six institutions listed general measures to uphold human rights and labour law, three did not disclose any measures in the cluster "employees". Measures promoting diversity stood out, encompassing initiatives to enhance the general work environment, such as codetermination rights, transparency and fairness. Conversely, flexibility, including organisation of working time, and fair remuneration, on the other hand, were rarely mentioned.

Benchmarking of ESG disclosures

- Respect for human rights along the entire value chain
- Diversity
- Equal opportunities
- Combating forced/child labour

Nearly 80% of the institutions included in this study disclosed information on ensuring sustainable treatment of all workers along the entire value chain. This information relates to compliance with internationally recognised human rights standards and norms throughout the value chain. Furthermore, the disclosed information places equal emphasis on two key topics: the promotion of diversity and equal opportunities, and the efforts against child and forced labour. In this context, three institutions particularly focused on comprehensive responsibility for the entire supply chain.

Customers

- Fairness
- Transparency
- Responsible handling
- Preservation of general values and Standards in relation to the client

More than half of the analysed institutions did not publish specific goals and measures in the cluster "customers". However, the majority of the remaining institutions emphasise "fairness" towards customers in this context. This term covers various aspects, including the prevention of abusive customer practices, fair pricing and appropriate recommendations for products and services. Furthermore, transparency plays a central role and refers to both the comprehensibility of the products and services offered in general and the disclosure of the pricing structure of said products and services.

Another key aspect involves responsible engagement with customers. On average, the approaches to this topic are mentioned more extensively and explained in detail compared to other clusters. Dealing with customers includes, for example, responsible marketing, packaging and labelling practices, accessibility for people with special needs, appropriate recommendations, client orientation and focusing on clients' needs in advisory services. Two institutions stand out in particular as they also address the provision of financial education to their clients and the security of client data.

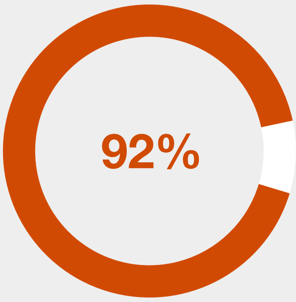
Population

- Respect for human rights or fundamental rights
- Project support for sustainable development (esp. monetary)
- General social Engagement
- Promotion of education and culture
- Poverty reduction

In the cluster "Population", the focus of the analysed institutions is on strengthening the cohesion of civil society through the implementation of social finance activities. More than 60% publish information on their objectives and actions to promote positive and sustainable development across the population. This information relates in particular to the general social commitment of the institution as well as on the observance of globally recognised rights. Furthermore, institutions contribute to the realisation of sustainable development projects on the one hand through financial support and on the other hand through social services for the promotion of education and culture. This includes, in particular, the promotion of disadvantaged children, the expansion of educational opportunities as well as institution specific programmes for employee volunteering.

Table 3

Qualitative disclosures on governance risks



Institutions disclosed (the contents of) Table 3

Table 3: Qualitative disclosures on governance and risk management risks

In terms of disclosures on governance risks, institutions are even more reserved compared to environmental (E) and social (S) aspects. While most institutions disclose Table 3, it is evident that this area is the least detailed in both content and depth. On average, it constitutes only 7 % of the entire ESG qualitative disclosure and consists of only a few sentences.

As we look ahead to future disclosures, there is a substantial room for improvement for the majority of the analysed institutions. In any case, merely referencing to Table 1 is not sufficient to address governance risks.

Best practice in governance

The categorisation of the following clusters was based on the specifications outlined in the European Sustainability Reporting Standard (ESRS). In alignment with the cross-sectoral governance standards, ESRS G1 and ESRS G2, we considered measures influencing long-term sustainable governance and responsible implementation of business practices. Moreover, we introduced overarching categories addressing governance risks at client level. The analysis revealed that the institutions do not sufficiently comply to the requirements for presenting the information in an understandable, verifiable and comparable manner. It is evident that the extent of information, as well as the quality and informative value in the area of governance risks, typically falls significantly behind those in the environmental and social aspects.

Corporate governance	• Corporate code or policy • Governance structures and their composition • Standardisation procedure • Diversity policy
Governance-related risks at client level	• ESG (client) scoring • KYC Process (Know Your Customer)
Responsible business practices	• Guidelines and goals for entrepreneurial action • Prevention and detection of corruption, money laundering and terrorism • Culture of entrepreneurial action

The disclosed information on governance tools and measures used shows considerable variance in both the quality and extent of content disclosed. For example, over 50% of institutions disclose that they only have exclusion criteria for specific non-ESG compliant activities and companies.
In contrast, a minority discloses that they consider diversity in the composition of their boards of directors, management and supervisory boards, along with taking measures to increase transparency in corporate governance. One institution particularly highlights the use of an internal whistleblowing procedure regarding ESG aspects.

In addition, 90% reported that they conduct ESG assessments and customer due diligence (KYC) processes to minimise corporate governance risks at the customer level. For this purpose, these institutions use questionnaires with specific ESG questions, among other methods.

Conversely, the disclosures on responsible business practices focus on business committees, guidelines and minimum standards for monitoring and minimising financial crime risks, as well as other criminal acts in the course of business. Additionally, compliance with the 10 Principles of Responsible Business according to the UN Global Compact is considered essential.

Template 1

Credit quality of exposures by sector, emissions and residual maturity

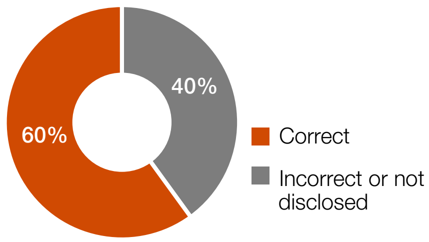
In template 1 institutions shall disclose their transition risks to non-financial corporations (NFCs) arising from climate change. The positions are differentiated by residual maturity and according to predefined sectors that contribute significantly to climate change or are CO_2-intensive. In this context, the financed greenhouse gas emissions (GHG emissions) should also be disclosed. Furthermore, for the transparency of credit quality, non-performing loans, Stage 2 exposures, and related impairments and provisions should be disclosed.

Format adjustments

Among a total of 25 reports, only 15 reports (60%) correspond to the requirements of the CIR, i.e. these institutions have not changed the template format and disclose the data as specified.

As of this reporting date, none of the analysed institutions published the separate disclosure of positions that are considered environmentally sustainable according to the Climate Change Mitigation (CCM) classification.

60% of all institutions correctly disclose the format in template 1

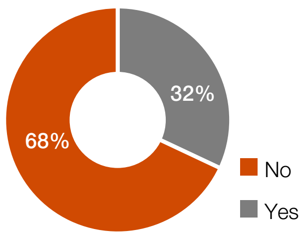


Financed GHG emissions

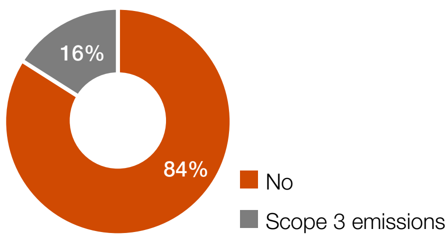
In total, eight institutions (32%) published their financed cumulative GHG emissions (Scope 1, 2 and 3) as of the first disclosure date. Of these, only four institutions (16%) have disclosed the information on the financed Scope 3 emissions. It should be noted that there is a transitional arrangement in place until June 30, 2024 for the disclosure of the financed GHG emissions.

Until then, quantitative disclosure can be waived if the information is not yet available or derivable. Of the total of 25 institutions, 9 institutions have indicated that they have plans to implement methods for estimating and disclosing information.

GHG emissions reported (column i)



Scope 3 emissions reported (column j)



Benchmarking of ESG disclosure templates

Most-used methodology to measure financed emissions

84%
PCAF

Most-used Data provider

- EUROSTAT
- S&P

When measuring financed GHG emissions, 84% of the institutions use the PCAF methodology. Some institutions use qualitative information on their Scope 3 emissions, but do not publish figures on this.

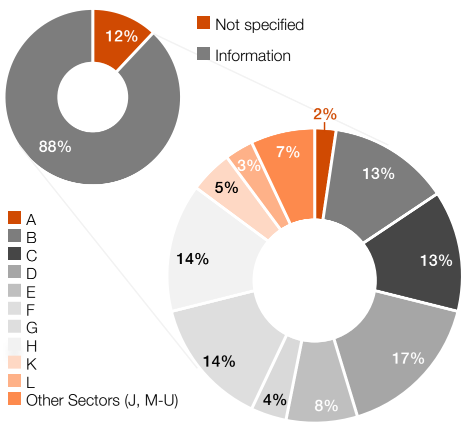
Only a few institutions disclose the data source or the external data providers they use. Among the mentioned sources are EUROSTAT and S&P.

Companies excluded from the EU Paris-aligned Benchmarks

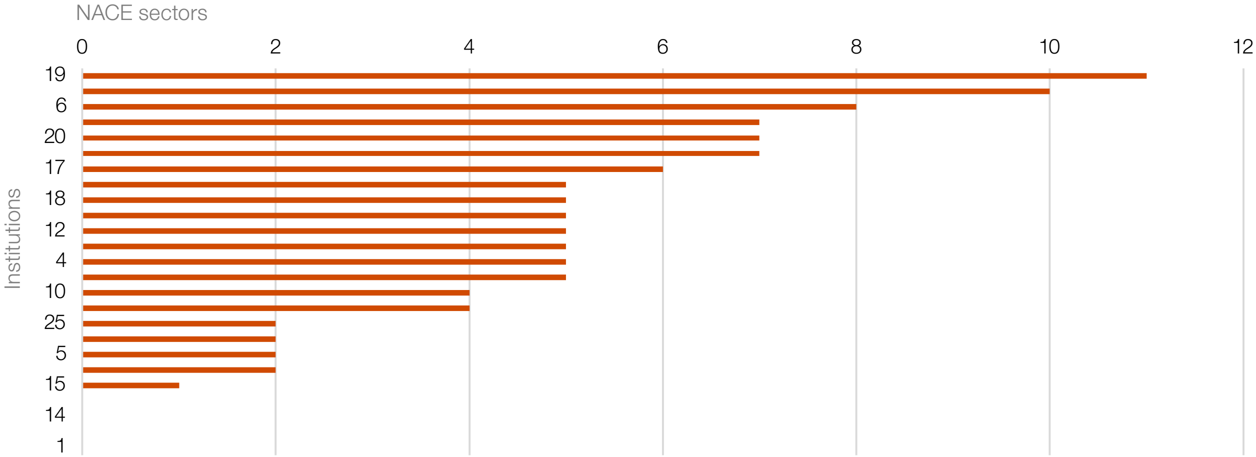
Due to data limitations, complete information from external data providers for the field "Companies excluded from EU Paris-aligned Benchmarks" is currently unavailable. The disclosure of the gross carrying amount of companies that are excluded from the EU Paris-aligned Benchmarks due to their economic or primary activities in accordance with the requirements of Article 12.1 (d) to (g) and 12.2 of the EU Benchmark Regulation (EU) 2020/1818, is largely similar. Most institutions disclose sectors B, C, D, G, H.

The disclosure of this information is entirely absent for four institutions, resulting in the field being left unfilled for each NACE code. The omission of this information is neither addressed nor elaborated upon in the accompanying text within the submitted templates.

NACE-Sectors of the excluded companies



Number of NACE sectors reported



Recommendations for action!

- Adhere to the template format and ensure the thoroughness of the reported information. If data is not reported or unavailable, include qualitative details in your submission
- Qualitative information must be further developed

Template 2

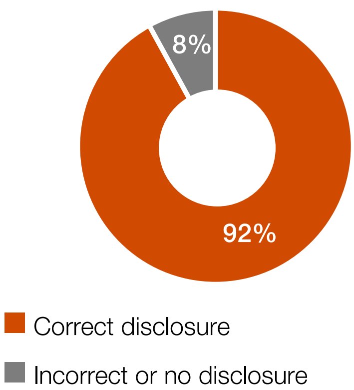
Loans collateralised by immovable property

Template 2 covers the disclosure of loans collateralised with commercial and residential immovable property and of repossessed real estate collaterals. The gross carrying amounts of the exposures shall be disclosed based on the specific energy consumption of the collateral in kWh/m² as indicated in the Energy Performance Certificate (EPC) or estimated by the institutions if no EPC information is available.

Format adjustments

23 institutions accurately completed the template, but one institution mistakenly interchanged the units in columns o (€) and p (%), leading to an inaccurate disclosure and a format error. In the case of one institution, the template is completely missing from the disclosure, with no justification provided in the narrative section accompanying the template. The lack of disclosure regarding loans collateralised by immovable property and the corresponding EPC information results in an incomplete and distorted reporting dataset. This situation could potentially lead to regulatory consequences in the future.

92% of all institutions correctly disclose Template 2



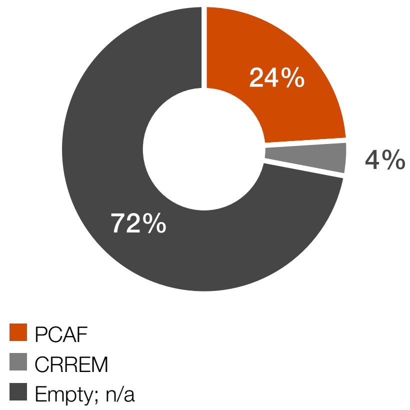
Methodologies & Approaches

In total, eight out of 25 institutions report using the PCAF methodology to estimate EPC data. However, it remains unclear at this point to what extent the specific variant of the PCAF methodology developed for calculating GHG emissions from real estate, could be used in estimating EPC labels. This methodology aims to capture and assess the CO_2 emissions of real estate by taking into account various aspects such as, energy consumption, materials used in construction and renovation, and the operation and disposal of the building. The energy performance certificate information is used to calculate the CO_2 emissions of properties, but it is not possible to estimate the EPC labels applying PCAF without knowing the specific energy consumption.

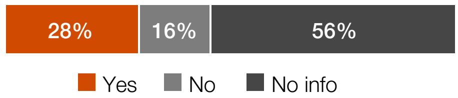
Among the institutions, seven explicitly mention the use of external EPC data, four institutions specifically refer to employing external EPC data, while the majority (14 institutions) do not disclose any information regarding the utilization of external EPC data.

The overall analysis indicates that a substantial number of institutions encounter challenges in obtaining, estimating, or reporting energy performance certificates. This poses implications for the accuracy and disclosure of such information in this template. Enhancing the data foundation for upcoming reporting dates is crucial, and it is imperative to implement measures that ensure the accurate and timely provision of the required energy performance certificates.

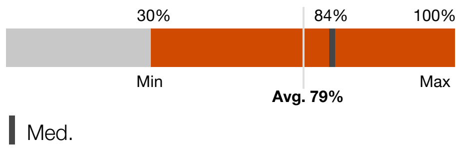
Methodology for estimating EPC information



Was external EPC data used?



Share of total EU exposures without EPC label



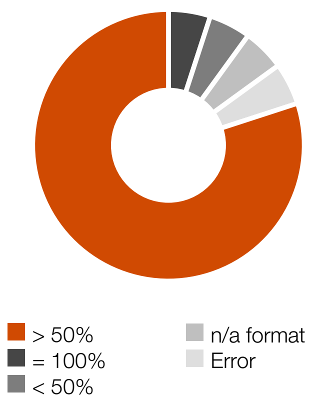
Distribution of positions without EPC label

When assessing the portion of gross carrying without noticeable that it is over 50% for 22 institutions.

This indicates that a significant number of institutions faced challenges in obtaining the required energy performance certificates or generating them from internal data sources. Additionally, one institution was identified with a format error, where the units in columns "o" (absolute value) and "p" (percentage) were mistakenly swapped.

This makes it impossible to analyse and compare the data from this institute.

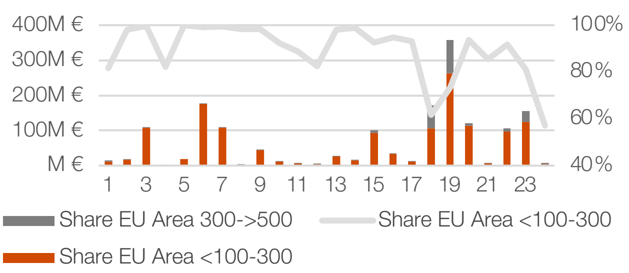
Distribution Share Column "o" (no EPC label)



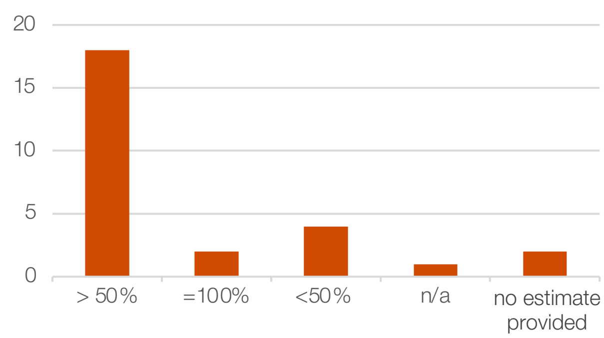
Distribution of positions with estimated EP scores in the EU

For the EU, out of a total of 25 institutions, 18 institutions estimated 50% of the energy consumption of the loans collateralised with commercial and residential immovable property and of repossessed real estate collaterals, while four institutions estimated less than 50%. In addition, according to their disclosure, two institutions did not use any estimates but used “real” EPC information provided by customers. This analysis shows that there is considerable variance in the degree of estimation and reporting of EP scores, which may be due in part to the fact that this information has not previously been required in this way in reporting and is not available in all institutions on the system side. This means, that there is no uniform basis for data collection and reporting, as estimates can be inaccurate and lead to deviations from the actual values. As some institutions estimate 50% of their labels while others estimate less than 50% or do not estimate at all, this creates a discrepancy in the reported data. The lack of the required EPC information in some institutes creates another obstacle to the accuracy and comparability of the data. The graph below shows the distribution of the estimated energy consumption of each institution in relation to the total gross carrying amount in the EU.

Share of estimated energy consumption (EP score) in the EU <100-300 & EU Area 300-500+



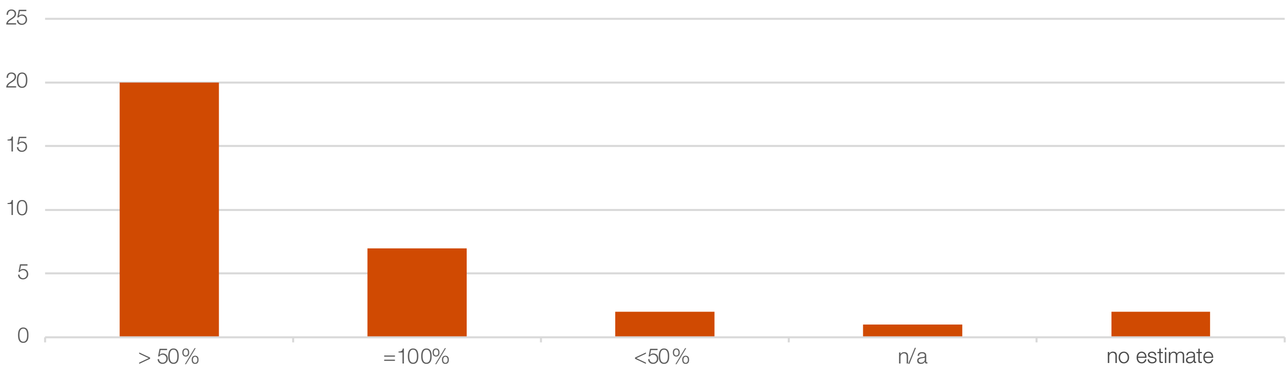
Distribution of shares of estimated EPC information in the EU



Distribution of positions with estimated EP scores outside the EU

This analysis for the non-EU area illustrates that the majority of institutions have estimated their energy consumption, but there are still a small number of institutions that have either estimated less or have not used estimates at all. Moving forward, the emphasis should be on substantially increasing the proportion of EPC information.

Distribution of the share of EPC information NON-EU



Recommendations for action on EPC data

Currently, institutions are still facing challenges in obtaining the appropriate EPC data for the collateralised loans or to obtain it from an external data provider. In view of these challenges, the following recommendations for action may be helpful:

Establish a process for collecting EPC data as part of the lending process:

- Establish clear guidelines and internal processes to ensure that the re-certification of energy performance certificates is done systematically and efficiently. Define the responsibilities and the processes as well as the review and update of the existing energy performance certificates.

Retrospective collection of energy certificates for the existing business:

- Establish a process for the retrospective collection of required energy performance certificates, e.g. from the account managers, and define a timeframe required for this collection. Use a technical solution to automate and digitise the collection process.

Technical interface:

- Integrate the energy performance certificate data into the existing customer databases or CRM systems to ensure that the required data is systematically collected and centrally stored to ensure smooth access.

Third-party integration:

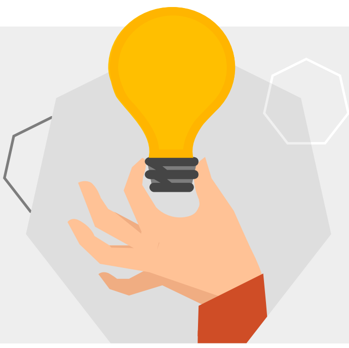
- Consider collaborating with third-party providers that offer specialized services for obtaining energy certificates.

Conclusion

On a positive note, roughly 89% of the financed exposures are in the range of EPC scores <100kWh/m^2 - 300 kWh/m^2, which suggests that the financed building stock in the EU is overall energy efficient and has a sustainable impact for protecting the climate. The importance of the real estate sector in the ESG field is essential, as real estate is responsible for about 30% of global CO_2 emissions and accounts for 27% of the total emissions of the energy sector*. For the achievement of the European and German climate targets, the real estate sector must make its contribution to reducing CO_2 emissions. This shows that efforts to promote energy-efficient projects in the EU are already achieving positive results.

When granting new loans, careful consideration should be given to handling poor energy efficiency ratings. This shows that the consideration of the energy performance certificate in decision-making processes has a growing relevance and should be taken into account at an early stage.

**IEA (2021) Tracking Buildings: https://www.iea.org/reports/buildings*



Recommendations for action!

- Avoid data inconsistencies
- Use the correct methodology for estimating energy performance data
- Expand the extent of qualitative comments

Template 4

Top 20 polluters worldwide

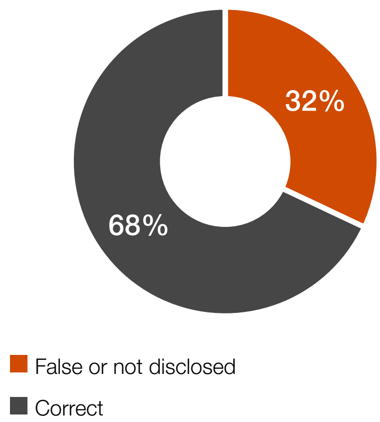
In template 4, it is mandatory to disclose the aggregated exposure associated to the 20 most emission-intensive companies globally. These top 20 polluters should be identified based on publicly available information. The institution is required to provide aggregated information on a maximum of 20 companies it finances. Additionally, according to the EU taxonomy, the aggregated gross carrying amount of the environmentally sustainable positions (CCM) must also be provided.

Format adjustments

Of the 25 institutions, a few institutions did not publish template 4. Two institutions justify this by stating that they have no exposures towards the 20 most emission-intensive companies worldwide. From a regulatory point of view, a justification for the omission of the disclosure of this template is described in the EBA ITS and is required for the publication to be considered complete.

Furthermore, a few institutions have made formatting adjustments to the templates and removed the field for environmentally sustainable positions (CCM) from the template. As this information needs only to be reported under the Taxonomy Reporting as of December 31, 2023, but according to the CRR requirements, no changes should be made to the templates, and the removal of the field constitutes a deviation from the reporting instructions.

68% of all institutions correctly disclose the format in template 4



Methodologies & Approaches

The explanation of the data sources used for the list of the 20 most emission-intensive companies worldwide is covered in chapter 4.

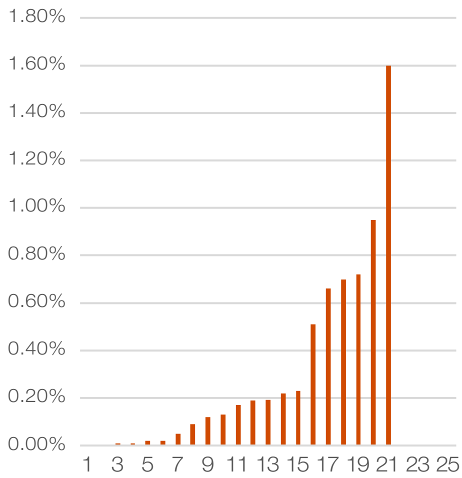
Distribution of the shares of the reported gross carrying amounts

The share of gross carrying amount of the top 20 polluters ranges from 0% to 1.6%. This range shows that the institutions in question, have varying exposures against the 20 most polluting firms:

- 8 Institutions between 0.01% or lower
- 6 Institutions between 0.02% and 0.09%
- 4 institutions between 0.12% and 0.23
- 2 institutions with a higher share of 0.51% and 0.66%
- 1 institution with the highest share of 1.60%

The numbers shows that the majority of institutions have a very low share of gross carrying amount in the top 20 polluters. This may be due to different factors such as business models, industry affiliation and sustainability efforts.

Share of gross carrying amount of counterparties



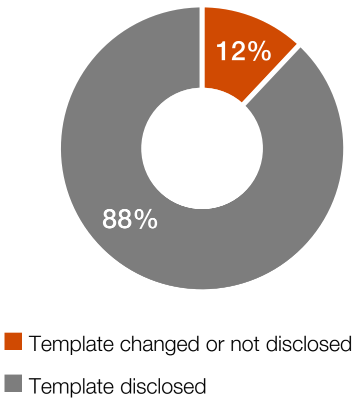
Recommendations for action!

- Further expand qualitative comments in terms of content and additional explanations of the figures presented in order to improve understanding and the underlying story of this portfolio
- If no disclosure is made, the reasons for not disclosing must be explained for the publication to be considered complete

Template 5
Physical risks

Template 5 mandates the disclosure of information exposures that are prone or vulnerable to physical risks from changing climate patterns. Specifically, reporting should focus on positions involving non-financial corporates. These positions are further categorized based on their corresponding NACE sector, as well as loans collateralized with immovable property and repossessed real estate collaterals. Depending on this classification, the categorization should be provided according to the vulnerabilities of exposures to acute, chronic, or acute & chronic physical risks of climate change.

88% of all institutions disclose the template 5 unchanged



22 out of the examined institution (88%) disclose template 5 in its original form. Three institutions (12%) have extended the format by adding additional lines for the evaluation of “other relevant sectors”. This extension shows that for institutions there are additional specific business activities or risks in other sectors that are relevant for the institutions’ risk assessments and reporting.

Geographical areas, groups or countries stated

It is evident that 14 institutions have opted not to geographically subdivide their exposure in the banking book. They reported template 5 only once in total, without specifying the level of impact in the corresponding geographical areas vulnerable to acute and chronic events related to climate change. Four institutions reported the template twice, once for Germany and once for foreign countries. In contrast, only seven institutions reported the template with a more detailed regional breakdown of physical risks. This may indicate that either there is insufficient country-specific information or that the risk assessment was carried out at an aggregated level.

A full interpretation is not possible at this point and lies in the specifics of individual institutions. Factors such as geographic diversity, business activity, data availability and risk modelling may lead institutions to take different approaches to group and allocate physical risks. It is important that each institution defines its methodology and approach transparently in order to ensure adequate comparability of the data and to conduct a sound analysis of the physical risks. A justification for aggregating the data in only one region was not published.

Typically, the evaluation of vulnerability to physical risks relies on considering the geographical location of the customer or property security in a specific country. The omission of country allocation in the disclosure overlooks a crucial element of transparency and risk analysis.

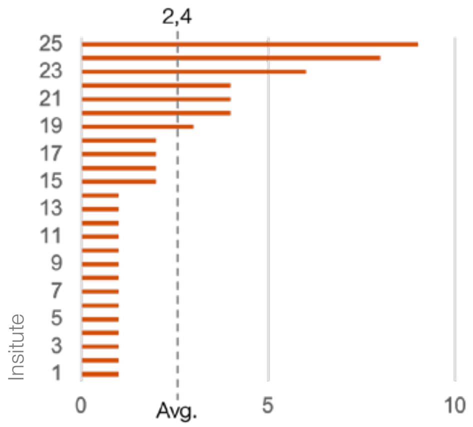
Lacking information about the specific countries where the risks are located makes it challenging to conduct an accurate assessment, identification, and evaluation of the risks to the exposures. This may result in overlooking potential hazards and risks, leading to inadequate measures for risk mitigation.

Furthermore, the absence of geographical grouping also adds complexity to the identification of cluster risks arising from climate change. Cluster risks involve the concentration of risks in specific geographical locations or sectors that can be exacerbated by climate change. When the exposures are not grouped appropriately, it becomes more challenging to discern cluster risks and implement suitable measures to address them.

In general, the lack to disclose the respective countries in the assessment of physical risks is viewed as a lack of transparency and a neglect of a crucial tool for identifying and analysing physical risk exposures.

There is a risk that institutions are not able to adequately assess the specific phyiscal risks in the various countries and implement effective measures for risk mitigation.

Number of geographical groups

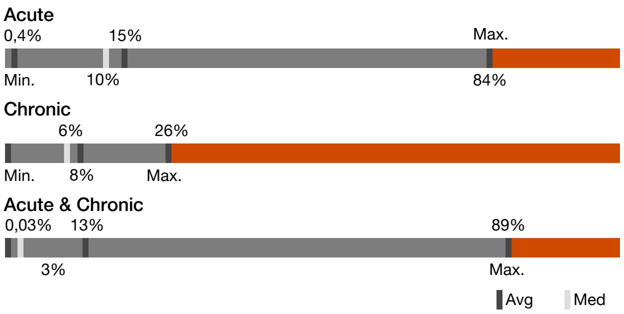


Examples of stated geographical groups

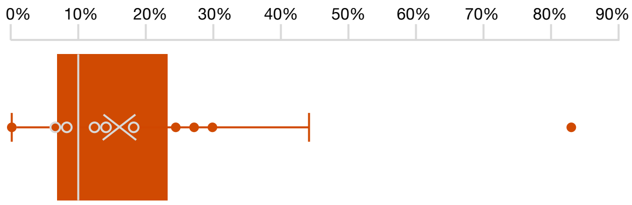
- EU; Non-EU
- Germany; Western Europe; Central & Eastern Europe; North America; Asia; Others
- Austria; Czech Republic; Germany; Rest of the world
- Europe; North America; South America

Distribution of acute, chronic and acute & chronic physical risks

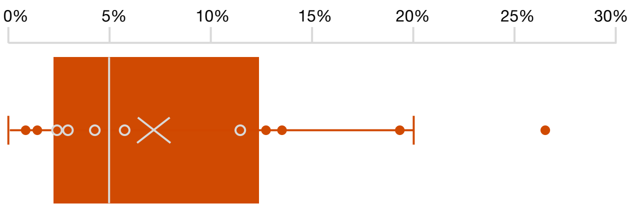
What are the levels of exposure to acute, chronic and acute & chronic risks?



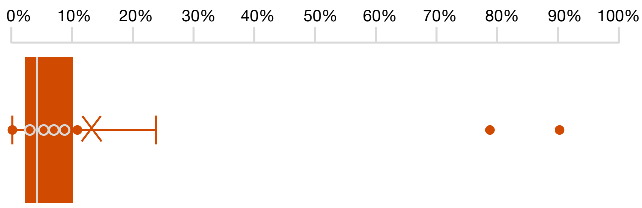
Exposure to acute risks



Exposure to chronic risks



Exposure to acute & chronic risks



From the available sample, it is evident that institutions tend to report more acute physical risks than chronic risks. One possible explanation is that the emphasis has primarily been on the immediate impacts of climate change. Acute physical risks involve to short-term events such as storms, floods or extreme heat periods that can have immediate impacts. Institutions may have prioritized these acute risks as they are comparatively easier to identify and assess.

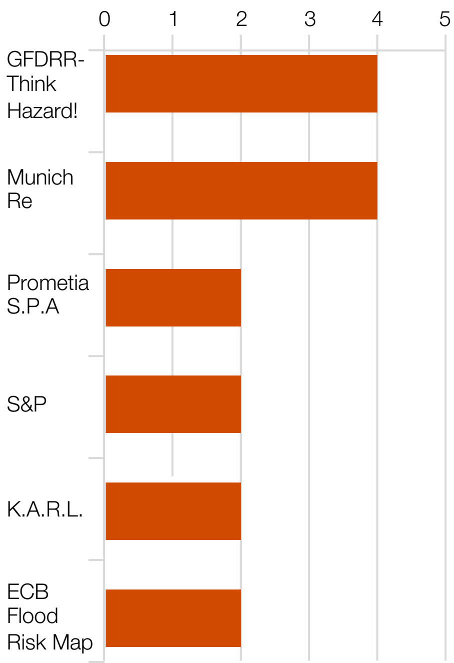
Conversely, chronic climate change risks, such as prolonged shifts in temperature, sea level rise or precipitation patterns, pose a more intricate assessment challenge. These risks evolve over an extended period, and their impacts are often subtle. Institutions encounter challenges in fully evaluating and quantifying these chronic risks. The measurement and assessment of chronic risks requires more extensive data analysis, advanced modeling techniques, and scenario analyses to comprehend potential impacts on long-term business and credit risks. It is likely that many institutions currently lack sufficient information, tools, or expertise to comprehensively capture and assess these chronic risks.

Data providers for physical risks

When assessing exposures that are vulnerable to the physical risks of climate change, several aspects are important in relation to the pertinent data providers:

- **Climate data:** Data providers need access to comprehensive and reliable climate data, encompassing variables such as temperature, precipitation, wind speed, sea level rise, etc. Data providers should offer information on past events, their intensity and frequency, and geographical impacts. This enables the assessment of risks associated with specific geographical locations or sectors.
- **Geographical data:** In order to assess the vulnerability of exposures to physical risks, accurate geographical data is essential. This includes information on coastal areas, flood plains, urban heat islands, forest areas, etc. Such data enables the analysis of the exposure of specific assets or locations to climate risks.
- **Sector-specific information:** Depending on the industry or sector, specific data can be utilized to assess relevant physical climate risks. Data providers should be capable of providing sector-specific information that reflects the distinct risks and vulnerabilities within the respective sectors.
- **Future forecasts and scenarios:** Data providers should be able to provide forecasts and scenarios for future climate change scenarios. This involves, for instance, the simulation of scenarios with different emission pathways or the assessment of the impacts of climate change policies. Such information is crucial to support long-term risk assessments and formulate adaptation strategies.

Top 6 data providers



Recommendations for action!

- Enhance the descriptions of the assessment methodology to provide a more comprehensive understanding of how physical risks are determined
- Provide detailed elaboration on geographical distributions and country allocations to enhance the assessment of physical risks

Template 10

Other risk mitigation measures not covered by Taxonomy Regulation (EU) 2020/852

In template 10, information on other measures taken to mitigate climate-related risks must be disclosed. An explanation is required to elucidate why these specific risk items do not entirely align with the EU taxonomy criteria and are not classified as sustainable according to the Taxonomy Regulation. Despite this, it should be clarified how these measures contribute to mitigating either the transition risk or the physical risk associated with climate change. This template serves to identify measures that have not been previously disclosed and highlights the disparity between the alignment with the taxonomy and the encompassing risk mitigation measures.

Format adjustments

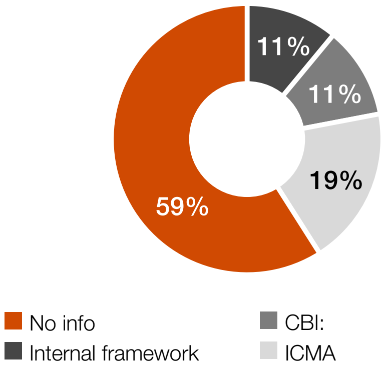
For a thorough analysis of the format adjustments, we recommend referring to Chapter 4, where a detailed examination of the modifications and their impacts is provided.

Methodologies & Approaches

In our sample, half of the institutions adhered to the requirements outlined in the ITS for this template. They not only provided quantitative information but also included qualitative comments and descriptions related to the reported figures. The explanations within the template highlighted that, for the initial reporting date, all exposures categorized as sustainable and contributing to the mitigation of climate-related risks were disclosed. Some institutions disclosed the template incorrectly, with one of the main causes being the insufficient provision of detailed and relevant qualitative information on the characteristics and nature of the risk mitigation measures mentioned. Just under one-third of the institutions have not disclosed template 10 at all. The EBA ITS requires a detailed presentation of mitigated risks, supported climate change objectives and the timetable for the measures, which in many cases, was either not or not adequately addressed.

Essentially, Template 10 encompasses a limited amount of pertinent information for stakeholders.

Most mentioned frameworks



There has been insufficient transparency in reporting on the frameworks and standards employed for the bonds. Disclosing this information is crucial to empower investors and other stakeholders to make informed assessments of the portfolio's sustainability performance.

The use of clearly defined frameworks and standards is essential for evaluating the sustainability quality of bonds and ensuring their adherence to recognized best practices and guidelines. This encompasses compliance with international standards such as the Green Bond Principles for instance.

Recommendations for action!

- Provide a comprehensive disclosure of pertinent information regarding the character and nature of risk mitigation measures
- Disclose the frameworks utilized for issuing the green bonds
- Given the absence of a voluntary template, transparent and complete disclosure of Template 10 is imperative to avoid regulatory consequences.

Completeness and accuracy

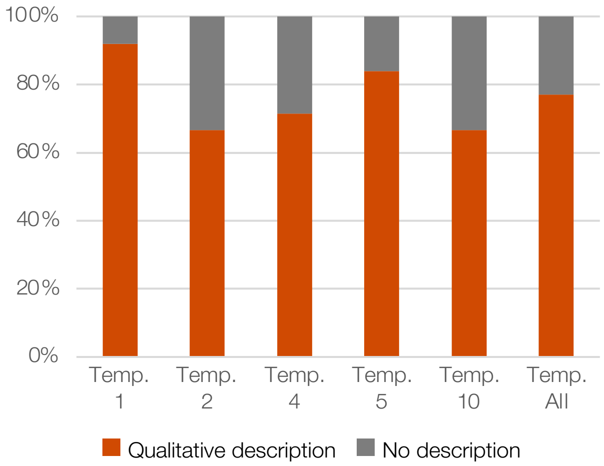
General observations

Completeness

According to the provisions of Art. 431 (4) CRR, institutions are required to **publish a qualitative description and supplementary information for all quantitative disclosures.** The requirement to provide qualitative comments allows for a more comprehensive and contextual representation of ESG performance. This allows readers to understand the impact and significance of the disclosures appropriately.

Just under half of the institutions surveyed complete all quantitative templates with **relevant qualitative comments.**

Qualitative additions to the templates



Publication medium

Since the implementation of CRR II[18], Article 434 CRR requires institutions to **disclose all required information in an electronic format** using a **single medium** or location. The selected medium or location must be a **stand-alone document that is available** to users as an easily accessible source of prudential information. This means that it is **no longer permitted to refer to another medium or document in order** to comply with the disclosure obligations.

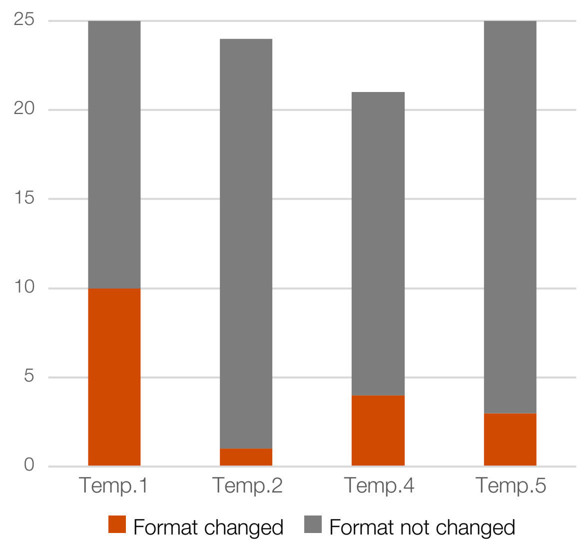
The vast majority of institutions publishes the disclosure report in one medium.

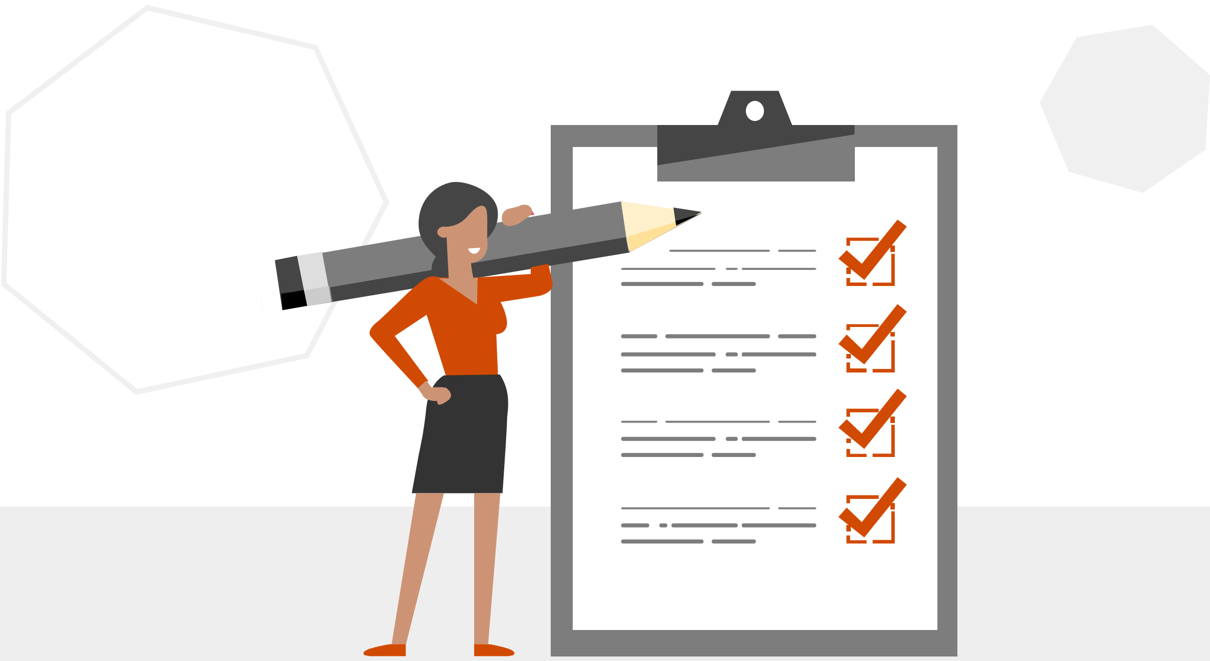
Format changes

Article 19 of the CIR (EU) 2021/637 provides that the **numbering of the rows or columns may not be altered** where an institution omits one or more disclosures in accordance with Article 432. It can be observed here that not all institutions had fully implemented these **requirements for each template that this requires.**

In addition, according to Article 19 of the CIR, the **free text comment** must indicate which rows or columns have not been filled in and stating the reason of the omission of the disclosure. Nevertheless, it can be seen that on average across all templates (19%) the **information is not explained in sufficient quality.**

All format changes of the institutions per template





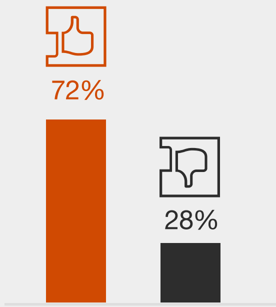
Completeness and accuracy

Template 10

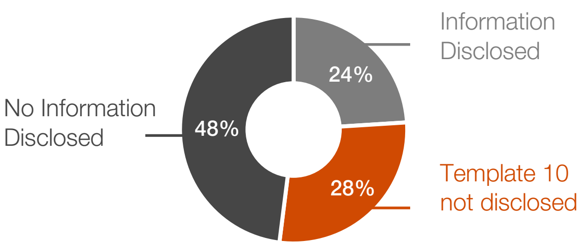
Template 10 requires disclosure of supplementary measures that contribute to mitigating the adverse impacts of climate change, alongside activities classified as CCM or CCA based on the Taxonomy Regulation and reported in GAR templates 6, 7, and 8. In this context, the gross carrying amount of relevant counterparties for the two product types, loans and bonds according to the FinRep classification, are to be disclosed. Additionally, qualitative information regarding the type of risk mitigated (transition or physical risks) and the nature of the mitigating actions should be reported.

It is important to **note that this is not a voluntary template,** even though it is intended to identify all activities that contribute to climate change mitigation and are not included in templates 7 and 8 (GAR). It is questionable how this information could have been available before the regulatory requirement for conducting the Taxonomy assessment from December 31, 2023. So far, neither the EBA Q&A nor other regulatory publications have reported any voluntary nature of template 10. Therefore, based on the information available to us, we assume that this template, as specified in the CIR, was required to be disclosed as of the reporting date December 31, 2022.

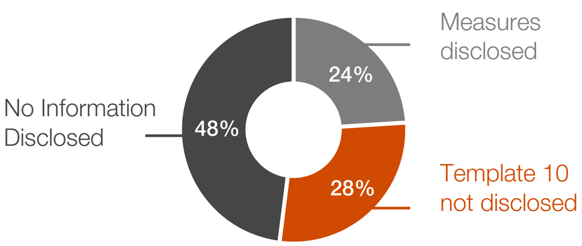
Institutions disclosing template 10



Template 10



GAR



24% of the assessed institutions have provided **detailed information on their risk mitigation measures** in template 10. These explanations include **information on the type and scope of the measures as well as the risks mitigated.** By disclosing relevant information, these Institutions demonstrate a high level of transparency and allow insights into their risk management practices through their extend and comprehensive reporting.

In contrast, **48%** of the institutions did **not provide any information** on the risk mitigation measures in template 10. This suggests potential data gaps and limited availability of sufficient data on sustainable instruments. Which in turn could be due to insufficient internal data classifications and low transparency regarding sustainable activities.

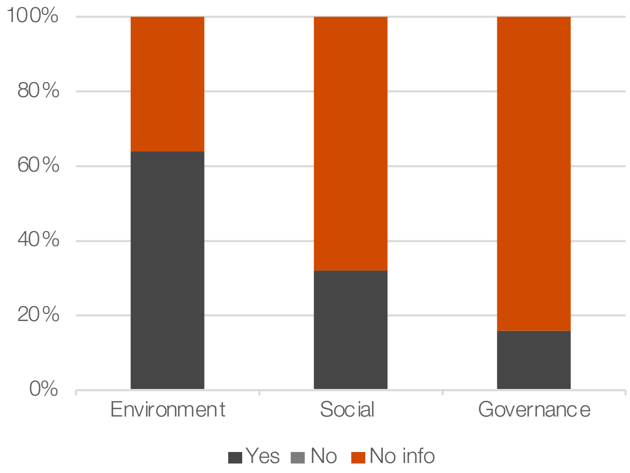
In parallel, **24%** of the institutions also explained why certain exposures were not included in the **Green Asset Ratio (GAR).**

Data sources

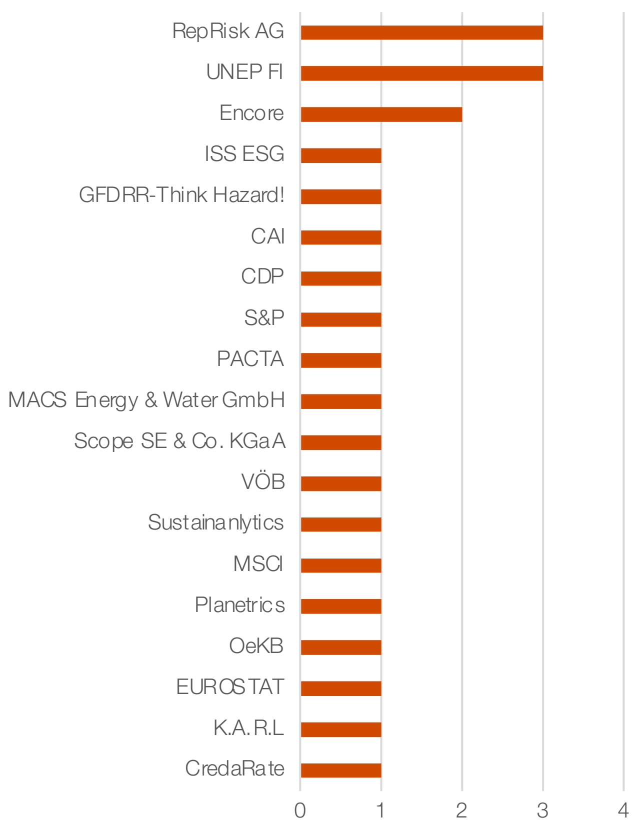
Institutions may use external data sources both to validate their own data and to enhance it. Furthermore, institutions may also use their own estimates and external sources to assess the impact of climate change and its influence on borrowers.

Particularly for the disclosures on social and governance risks, very few external data sources are used or disclosed by the institutions in the qualitative disclosures. This is likely due to the fact that the data providers named in Table 1 (E) also apply to Table 2 (S) and Table 3 (G), as well as the fact that Table 1 (E) is significantly more extensive in comparison.

Use of external data sources for the qualitative data

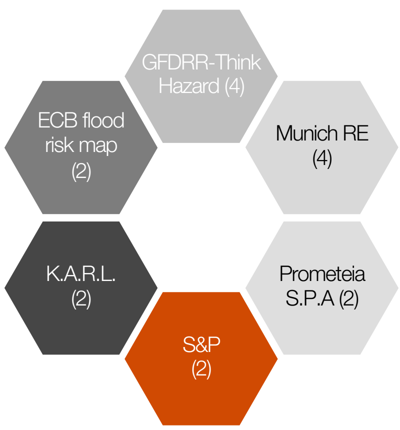


External data providers for physical risk assessment



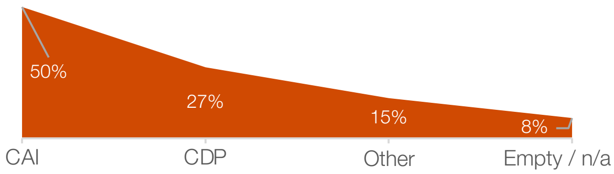
As expected, external data sources are more commonly employed to gather information on environmental risks compared to their utilization for social or governance risks. This can be attributed in particular to the extensive availability of data on environmental aspects. In the future, institutions should also seek social and governance data when engaging external providers to enhance transparency and comply with the requirements of the EBA ITS.

The external data sources comprise a heterogeneous field of data providers, which also includes, amongst others, insurance companies, rating agencies and specialised providers of sustainability data. The external data providers are particularly relevant for physical risks.

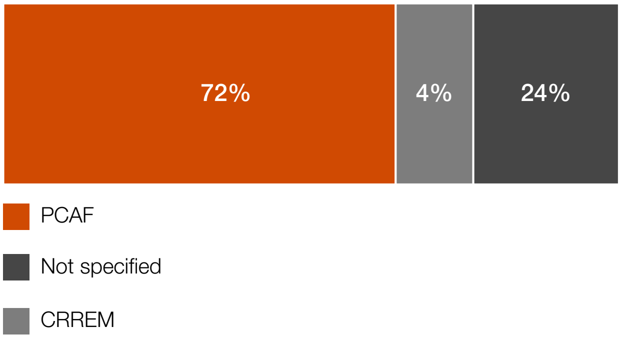


The most widely used list of the top 20 CO_2 emitting companies worldwide is the Climate Accountability Institute's Top-20 Carbon Major list, although CDP's Carbon Major list has also gained recognition. It should be noted that all institutions have made use of one of the carbon major lists mentioned in the EBA Q&A.[17]

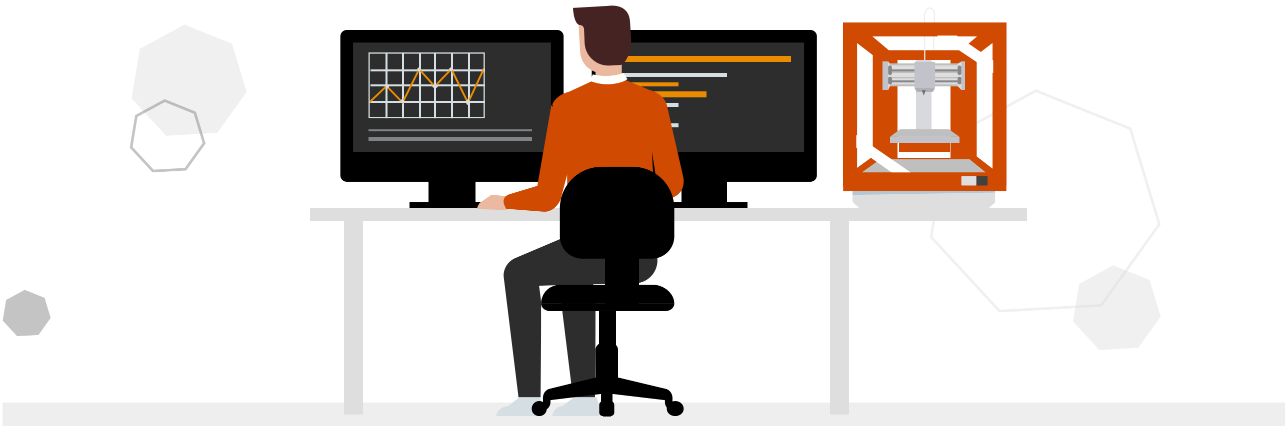
Distribution of the top 20 polluter lists in the reports



Calculation methodology for the EPC estimates



The majority of institutions provide information on whether EPC data was used and from which providers, with 76% of them listing the specific providers employed. The most commonly used methodology among the institutions in relation to EPC labels was PCAF. Almost a quarter of the institutions do not specify whether data or EPC labels were obtained from external providers. The use of PCAF should be questioned here, as PCAF is only a methodology for calculating CO_2 emissions from buildings and cannot be used for determining EPC labels.



Recommendations for action!

To ensure that the disclosure is suitable for the target group, institutions should prioritize transparency. This includes explicitly presenting EPC labels if they are already collected during the loan granting process. The same principle applies to estimates made by external providers in cases of insufficient data. 12 % of the institutions do not provide qualitative explanations on the applied methodologies in template 5

Methodologies

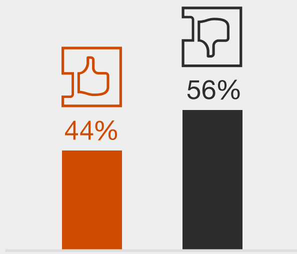
Among the institutions that already report GHG emissions in their disclosures, the PCAF standards clearly emerged as best practice for the collection and calculation of emissions.

Less than half of the institutions do not provide explanations on the methodology used for the calculation.

PCAF
11 Institutions

ISO14064-1:2019 Standard
1 Institution

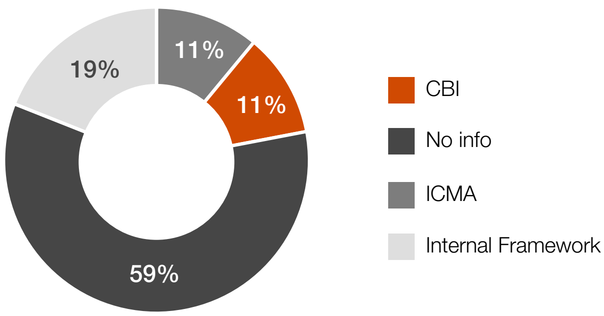
GHG Protocol
1 Institution



Next year the calculation of GHG emissions, especially Scope 3 emissions, will become even more crucial for institutions, given the mandatory disclosure requirement by June 30, 2024.

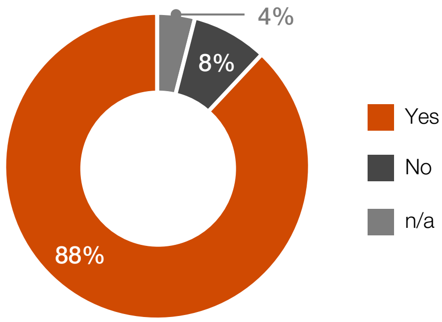
Therefore, institutions should proactively handle the divers calculation methods and data collection processes for emissions, preferably at an early stage if not already undertaken, and commence the implementation of the disclosure requirements.

Frameworks for template 10



When disclosing assets that are not taxonomy eligible but still promote sustainability, institutions most frequently opted for external frameworks, with CBI and ICMA Green Bond Principles being the top choices.

Commitment to the Paris Climate Agreement



Over 90% of the institutions have committed to achieving internal or portfolio-level CO_2 neutrality by 2045 at the latest, and 88% of them explicitly adhere to the Paris Climate Agreement.

Recommendations for action!

In the future, institutions will need to engage more intensively with established frameworks, and analyse their portfolios in accordance with these frameworks. This becomes particularly crucial when adhering to the Taxonomy Regulation. Institutions should consistently evaluate new data providers or best practices in the market, incorporating them into their disclosures. Additionally, institutions should address the implementation and calculation of GHG emissions early on, if not already done.

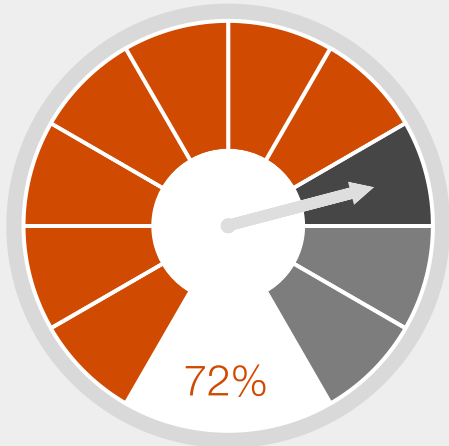
Validations and cross-checks within the templates

At the time of the publication of the ITS on the disclosure of ESG risks in Pillar III, the EBA had not defined any validation rules or cross-checks to ensure consistency within or between templates. In February 2023, the EBA, clarified in its Q&A 2022_6615, that the gross carrying amount in column b of template 5 should be identical with the gross carrying amount amount in column a of template 1. Therefore, this part should not be limited to the portion of the gross carrying amount that is exposed to physical risks. his clarification was one of the topics covered in this study.

More than a quarter of the institutions have not yet incorporated the EBA Q&A for disclosure as of December 31, 2022, and should ensure compliance with it for the upcoming disclosure deadline.

This also implies that the majority of institutions were already familiar with the EBA Q&A and the mentioned requirement, necessitating consistent mapping of the data to the aforementioned rows in the templates.

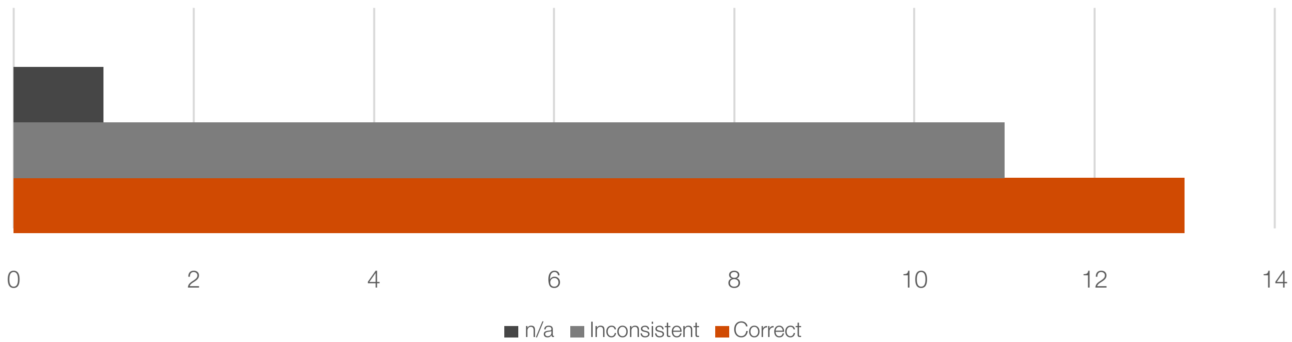
Cross-check between total exposure from template 1 and template 5



Furthermore, it is expected that the information on financed real estate loans in template 2 corresponds to lines 10-13 of template 5. This expectation arises from the breakdown between EU and non-EU financed real estate presented in template 2, with template 5 showing the aggregated gross carrying amount as the sum of the aforementioned lines.

When comparing the gross carrying amount of real estate financing between templates 2 and 5, discrepancies are noted in nearly half of the institutions. These discrepancies stem from the absence of a clear specification regarding the relevant customer group in template 2, neither in the CIR nor in the EBA Q&A. The clarification came only with the publication of DPM 3.3, narrowing down the relevant customer group for both templates 2 and 5 to NFC.

Cross-check between template 2 and template 5

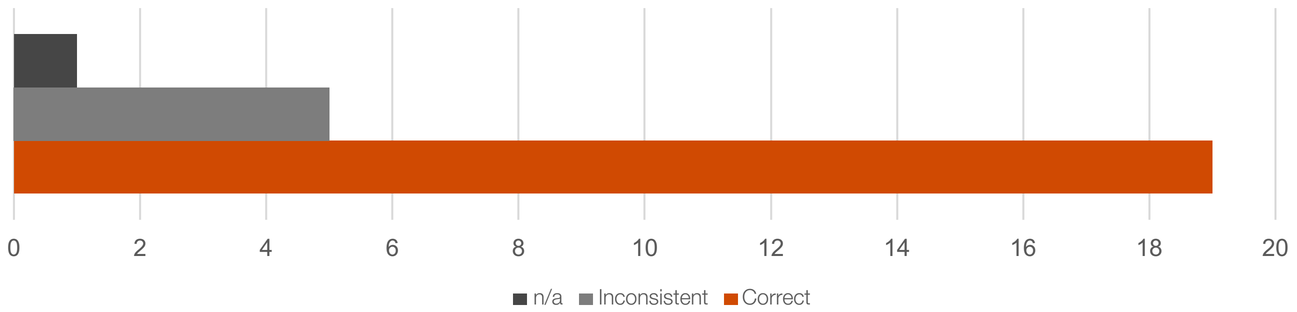


In template 2, the gross carrying amount for each line should be calculated by adding up the individual values of the different EPC labels from columns h-o.

When reconciling the gross carrying amount with the cumulative individual values, inconsistencies were identified at five institutions.

However, the majority of institutions adhered to this required consistency, consistently mapping the data into the lines of the templates.

Validation between template 2 and template 5



Recommendations for action!

On June 1, 2023, the EBA published data point model (DPM) 3.3[19] on its website. This new DPM, applicable from December 31, 2023, onwards, includes the ESG disclosure tables defined by CIR 2022/2453 as templates. Furthermore, the EBA has integrated corresponding validation rules for the respective templates upon releasing the DPM. For Pillar 3 templates K (41.00-50.00) and ESG templates D (01.00-10.00), a total of 2,838 new validation rules have been added to DPM 3.3. These validation rules should be considered not only by institutions when submitting the templates to the supervisory authority but also when disclosing them in their CRR-disclosure reports. With the publication of templates for sustainability risks, tribute is also paid to the disclosure approach since the publication of CRR II and Regulation (EU) 2021/637, allowing the numerical data in Pillar III to be derived from the templates submitted to the supervisory authority.

Integration of Pillar I and Pillar II

Interdependencies between Pillar I, II and III

Pillar I represents external requirements for risk quantification. Pillar II, on the other hand, comprises internal quantification requirements set by the institution itself. Pillar III represents the market discipline, in which the disclosure of information from Pillar I and II takes place. There is therefore, always an interaction between all three pillars.

The disclosure of ESG risks is the first time that Pillar II and III provide an assessment of the risk profile of the individual exposures of the institutions. According to the EBA ITS, institutions must also draw conclusions from Pillar I and take into account the findings from Pillar II, including climate stress tests that have been performed.

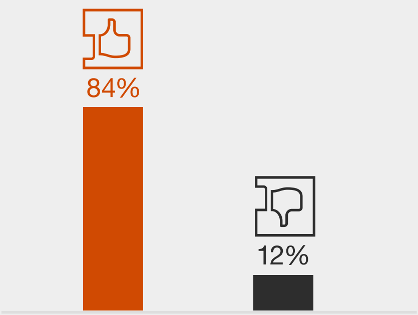
The majority of the institutions draw conclusions regarding the identified risks for Pillar I.

In addition, however, less than half of the institutions take scenario analyses into account for Pillar II, which were already specified in the 2022 climate stress test. In addition, only every second institution states that it conducts scenario or materiality analyses within the scope of the disclosure of ESG risks.

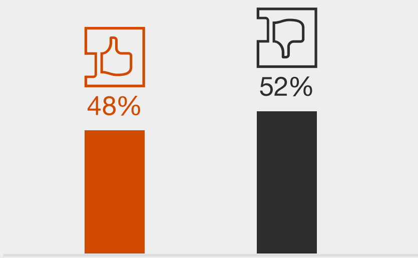
There is obviously still considerable potential for improvement with regard to the quantification of ESG risks in Pillar II resp. with regard to transparency in the disclosure reports for stakeholders.

In addition to climate risks, other environmental risks are also relevant for the institutions. Currently, there is a focus on the dimension “Environmental”, although the other two dimensions, Social and Governance, should also be appropriately taken into account.

Conclusions on Pillar I under the consideration of the impact of ESG risks, particularly in relation to liquidity, regulatory capital and solvency.



Consideration of the results of Scenario analyses and materiality analyses in the in the reports.



Limitation of ESG risks in Pillar I and II

In recent years, regulators around the world have been actively conducting climate stress tests, to assess the institutions' ability to assess and withstand climate-related risks. The ECB has also formulated expectations for dealing with climate and other environmental risks. The institutions supervised by the ECB are required to fully meet these expectations by the end of 2024 at the latest. This includes, amongst other things, the integration of climate and environmental risks into the ICAAP (risk inventory, stress tests, etc.).

Institutions should already be disclosing ESG risks in Pillar III, along with how they intend to minimise and limit these risks. These include negative lists, ESG scorecards, lending guidelines and an overarching risk strategy.

Nevertheless, institutions must continue to include risks arising from acute and/or chronic climate change, but also social and governance risks in their internal risk identification in Pillar II.

The ECB's surveys and analyses of the institutions in recent years have also made it clear that further steps need to be taken in this regard.

However, the implemented regulations and measures must also be reported by the institutions in order to inform their stakeholders. Pillar III already provides a suitable instrument for the institutions as required by Art. 435 CRR.

Furthermore, the inclusion of ESG risks in Pillar I is already apparent in the CRR III draft. This means that the institutions will increasingly consider the interdependencies between the three pillars and include them in their strategic considerations.

All institutions that publish a qualitative section address how these risks are mitigated.

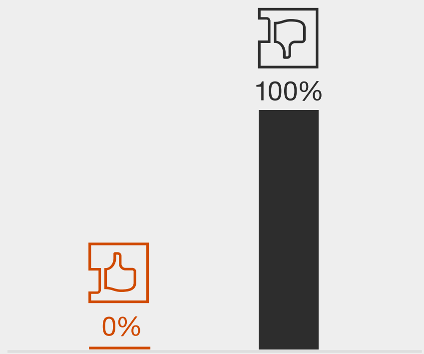
16% of the institutions exceed expectations

In template 1, column c, institutions are required to disclose exposures deemed "environmentally sustainable". Such exposures, as defined by the EU Taxonomy Regulation under the environmental objectives of "Climate change mitigation", contribute to or enable these goals.

As of 2024 (following the reporting date December 31, 2023) institutions must disclose exposures included in the counter of the GAR. Starting from 2025 (cut-off date December 31, 2024) onward, exposures can also be disclosed voluntarily, and they will be exclusively included in the numerator of the BTAR.

Up to the time of publication of this study, **none** of the institutions examined had **quantitatively disclosed** climate change mitigation exposures.

0% Disclose CCM in template 1.



Is an action plan disclosed if no Scope 3 emissions information is provided?

Among the institutions assessed, only **four** have **disclosed their Scope 3 emissions.** All institutions that have not voluntarily disclosed them must do so by the **deadline of June 30, 2024, at the latest.**

Those institutions that have not yet disclosed their Scope-3 emissions are required to publish a plan outlining the methodologies for estimating and disclosing this information. **The vast majority of institutions have not fully complied with this requirement.**

Four institutions **(16%)** additionally publish **template 3,** including two German institutions and two European ones.

Will additional voluntary templates be published?

In template 3, institutions are required to provide details about their efforts to align with the objectives of the Paris Agreement for specific sectors.
This information is expected to mirror the significance of capital flows in supporting the roadmap for low-carbon and climate-resilient development as outlined by the Paris Agreement. The economic scenario illustrating this decarbonization pathway is the 'Zero Emissions 2050' scenario developed by the International Energy Agency (IEA).

A handful of institutions have initiated the disclosure of the supplementary templates and information, including template 3. Consequently, they are establishing themselves in a pioneering position and are likely to gain time advantages in implementation.

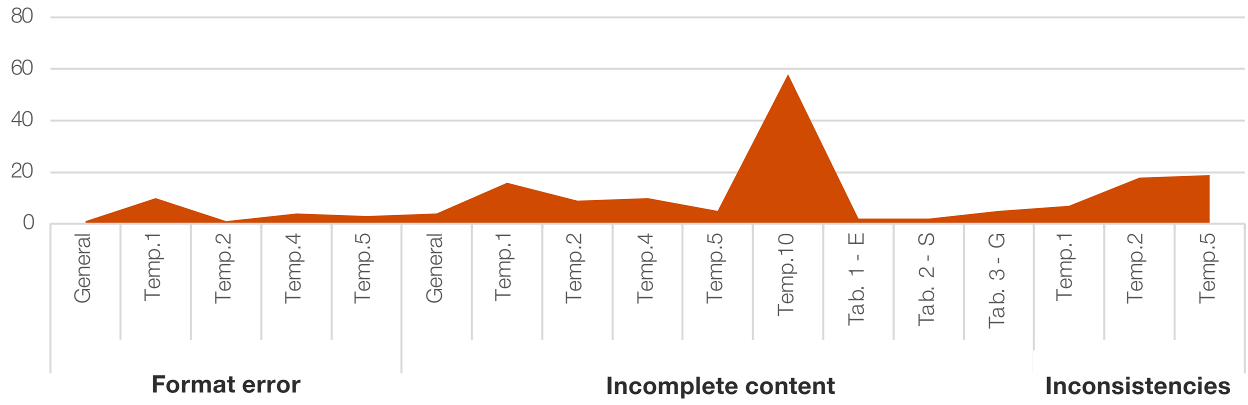
02

Conclusion

Conclusion

This Pillar III ESG disclosure study illustrates that institutions have already made considerable progress and are committed to meeting the requirements of the EU supervisory authorities. However, it is important to note that there are still opportunities to enhance the disclosure of environmental, social, and governance risks in various aspects of many assessed institutions. Specifically, a lack of transparency is observed in the qualitative disclosure of ESG risks, with some credit institutions not adequately addressing these risks. The study identified a significant potential for future disclosure of corporate governance risks that has not yet been fully realized. Within the qualitative tables and particularly within the quantitative templates, three categories of errors have become apparent (see chart). The chart provides a comprehensive overview of deficiencies across all tables and templates, where multiple discrepancies and error types can be associated with individual templates. Notably, template 10 stands out as an outlier, with 58 discrepancies identified of the error type "incomplete content".

Number of discrepancies



Format error: The predefined external presentation format is intentionally or unintentionally altered, resulting in a violation of EBA requirements and compromising the comparability of the disclosure reports.

Incomplete content: One or more requirements of the EBA ITS have not been met, such as the non-disclosure of individual templates. However, it is a regulatory obligation to implement all the specified requirements in the respective templates. Failing to implement these requirements, whether knowingly or unknowingly, results in a violation of EBA ITS and the regulatory requirements.

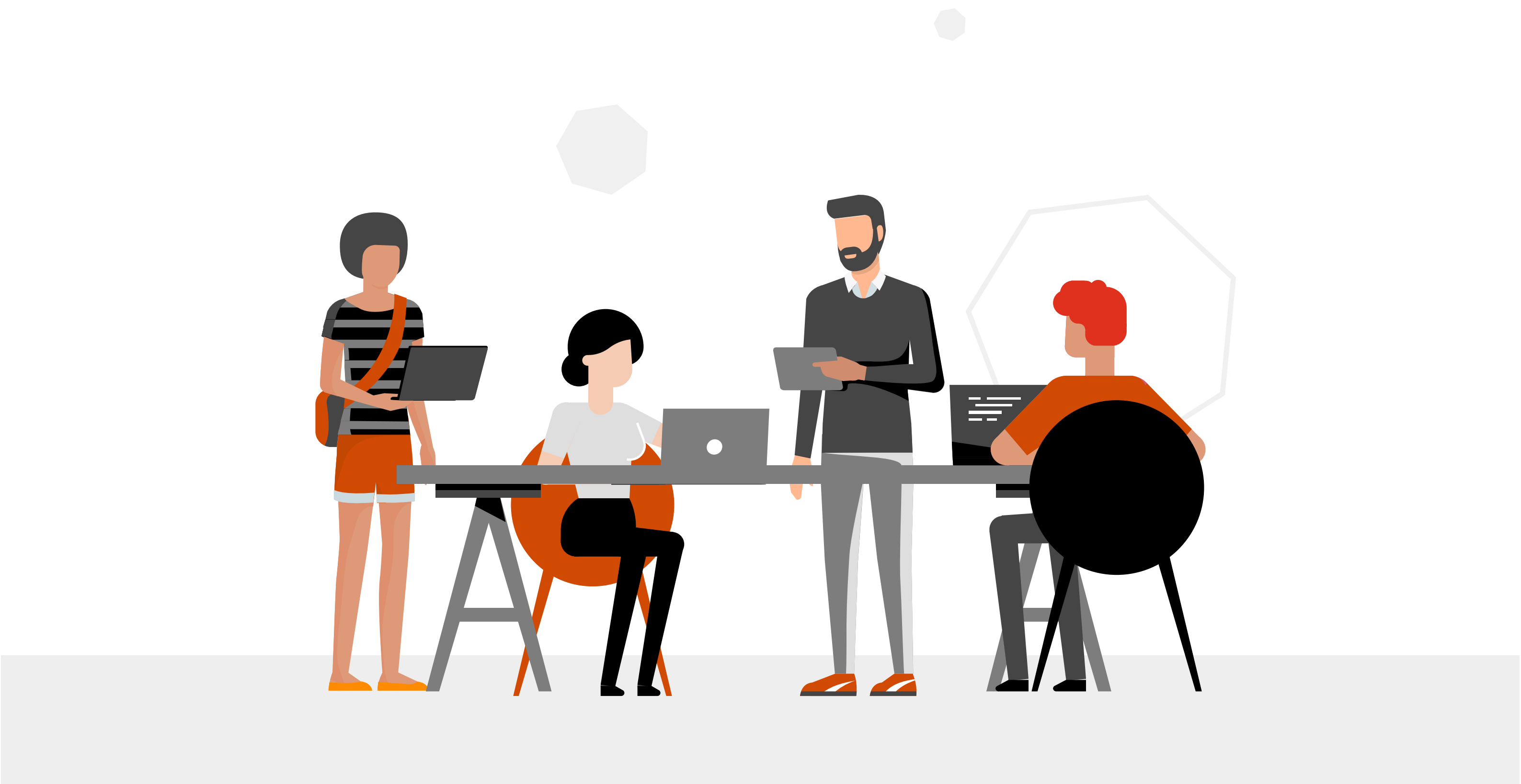
Inconsistencies: Disclosed figures show inconsistencies in and between the templates. This is due to inconsistent, unclear calculation logic and a lack of internal automated data validation.

To address these challenges and unlock the future optimization potential for banks, aiming to avoid regulatory consequences, our PwC disclosure aids are offered as supportive options.

- The **Disclosure Box** consists of various analyses to enhance the quality, completeness, and consistency of disclosure templates, including those related to ESG.
- The **PwC Automated Reporting Tool (ART)** enables an automated and valid filling of the Pillar III disclosure templates (including ESG templates) as well as the execution of cross-checks within and between the templates, ensuring adherence to predefined EBA validation rules.
- Our assistance for automated disclosure **(AD assistance)** enables automated and valid filling of the Pillar III disclosure templates as well as the implementation of cross-checks in and between them.

Thanks to these support tools and our recommendations from the study, institutions can further optimize their disclosure of ESG risks and contribute to a more comprehensive and transparent sustainability reporting. This strengthens their commitment to sustainability and responsible corporate governance, increasing the transparency and the stakeholder trust in their sustainability practices.

In the upcoming sections, you'll find detailed information about our disclosure assistance and contact details. We look forward to connecting with you and offering expert support in transparently and comprehensively disclosing your ESG risks in alignment with Pillar III.



03

PwC assistance and tools for disclosure

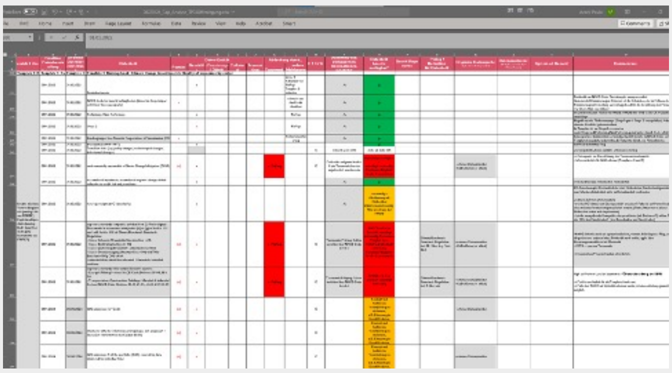
Disclosure Box

PwC synopsis to ensure consistency and automation of disclosure tables

Data availability is one of the most significant challenges within the framework of the revised disclosure requirements. To be well-prepared for this task, efficient analysis of both already available and required information is essential. The ability of an institution to aggregate the necessary information and data for regulatory compliance under CRR Part 8 is essential for responding to disclosure challenges in an efficient and sustainable manner.

Essentially, this means that the disclosure requirements necessitate a high level of granularity in both regulatory and accounting-related information. This affects not only the various areas of institutions but also the existing systems for data generation and processing. PwC provides a solution to this challenge with a **synopsis** for analyzing CRR Part 8 and ESG disclosure requirements:

- Analysis of the required scope of disclosure
- Analysis of the reconcilability of the different data bases of the templates (e.g. COREP, FINREP)
- Analysis of reconciliation between disclosure templates to ensure consistency
- Analysis of the required resources
- Analysis of the availability and provision of information and data
- In particular, a targeted gap analysis of the required data for ESG risk disclosure, as well as deriving and prioritizing necessary actions
- Harmonised data management taking into account specifics of the different ESG initiatives to ensure consistent ESG reporting



With the increasing volume and frequency of information to be disclosed, it is necessary to adapt existing processes or implement new ones if necessary. The analysis of the disclosure process for optimisation, standardisation and automation needs is another component of our **Disclosure Box**. Within the framework of the implementation of **Robotics Process Automation (RPA)**, it is possible to implement cost-saving measures within the scope of disclosure. The implementation of **SmartNotes** also facilitates the preparation of reports.

Disclosure Checklist

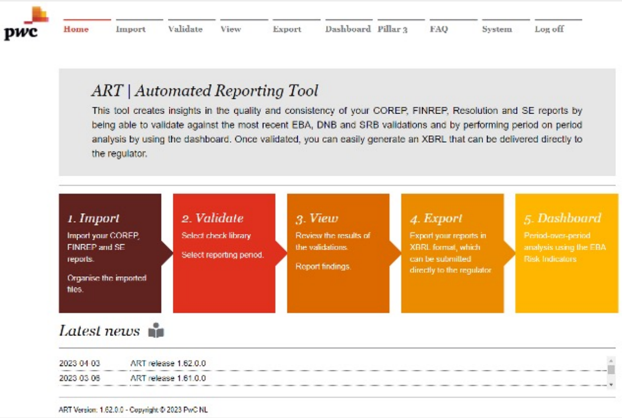
Results report

Data linkage via interface

Status overview Workflow

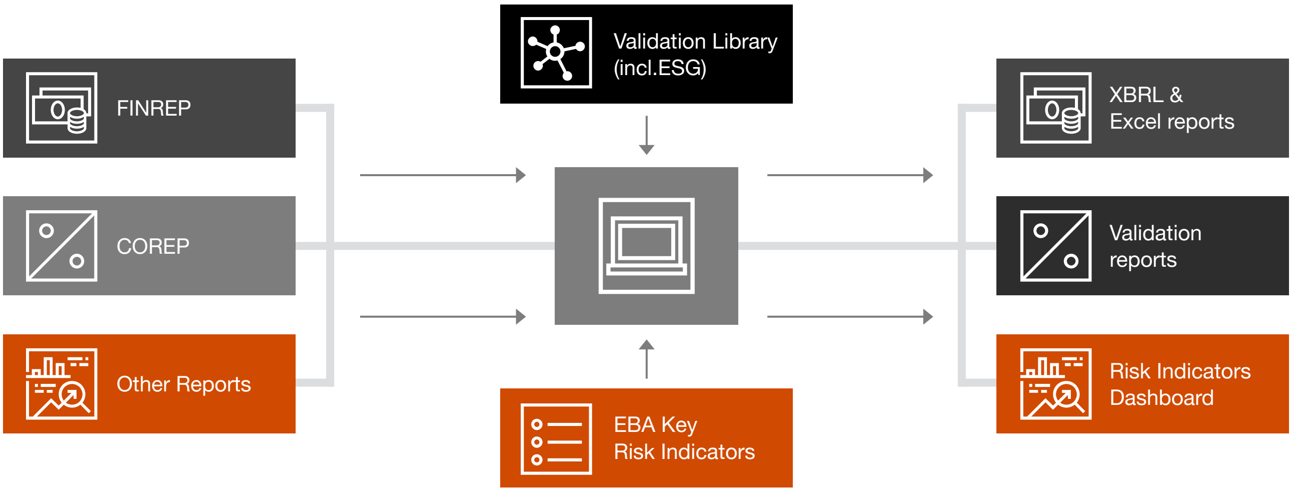
Disclosure@ART

PwC tools for filling and/or validating disclosure tables (including ESG)

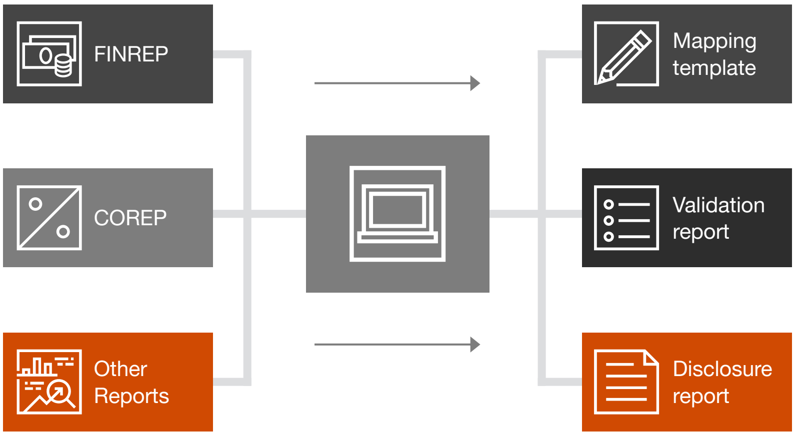


The PwC Automated Reporting Tool, or "ART" for short, is an **automated Reporting and validation tool** that helps institutions to assess the quality of the various regulatory reports and disclosure submissions. ART was primarily developed for the regulatory reports **COREP and FINREP**. In addition, ART supports the institutions in filling and validating the **disclosure templates**.

ART currently contains over 10,000 validation rules and plausibility checks, which include all required EBA rules and ECB checks. PwC's supervisory specialists and experts continuously ensure that the data is up-to-date and consistent.



ART supports institutions in fulfilling their **Pillar III obligation** by extracting the required information from the **XBRL** reports that institutions submit to the supervisory authority. The Pillar III information is filled in based on the mapping provided by the EBA.



Pillar III for **ESG reporting** is integrated in the **EBA DPM 3.3**. This enables XBRL reporting for ESG as well as the performance of **cross-validation checks** between ESG Pillar III reports and other regulatory reports that are part of the DPM (e.g. FINREP).

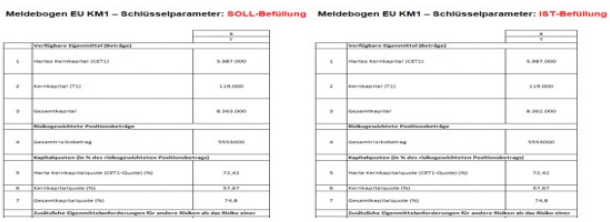
Assistance for more automated disclosure

Filling in the templates "at the push of a button" and conducting cross-checks

With our **disclosure assistance (AD assistance)**, filling the templates "at the push of a button" and conducting cross-checks with regard to specified validation rules is possible

- **Consistency, completeness and accuracy** of disclosure data shall be ensured by each institution
- The review and plausibility check of disclosure templates is carried out by our **AD Guidance**. It is an aid for the automated **filling and validation** of disclosure templates.
- In addition to the already existing rules in the EBA Mapping Tool, our AD assistance enables the reconciliation between templates in the form of cross-check rules and thus ensures the consistency of the disclosed information.
- We ensure the **reconcilability** of information from different data sources and unmapped templates on an institution-specific basis.

1 Automated filling of disclosure templates with target and actual data



Meldebogen EU KM1 – Schlüsselparameter: SOLL-Befüllung

		a
		T
	Verfügbare Eigenmittel (Beträge)	
1	Hartes Kernkapital (CET1)	5.987.000
2	Kernkapital (T1)	119.000
3	Gesamtkapital	8.363.000
	Risikogewichtete Positionsbeträge	
4	Gesamtrisikobetrag	5553000
	Kapitalquoten (in % des risikogewichteten Positionsbetrags)	
5	Harte Kernkapitalquote (CET1-Quote) (%)	72,42
6	Kernkapitalquote (%)	57,67
7	Gesamtkapitalquote (%)	74,8
	Zusätzliche Eigenmittelanforderungen für andere Risiken als das Risiko einer	

Meldebogen EU KM1 – Schlüsselparameter: IST-Befüllung

		a
		T
	Verfügbare Eigenmittel (Beträge)	
1	Hartes Kernkapital (CET1)	5.987.000
2	Kernkapital (T1)	119.000
3	Gesamtkapital	8.362.000
	Risikogewichtete Positionsbeträge	
4	Gesamtrisikobetrag	5553000
	Kapitalquoten (in % des risikogewichteten Positionsbetrags)	
5	Harte Kernkapitalquote (CET1-Quote) (%)	72,42
6	Kernkapitalquote (%)	57,67
7	Gesamtkapitalquote (%)	74,8
	Zusätzliche Eigenmittelanforderungen für andere Risiken als das Risiko einer	

2 Carrying out target-actual comparisons

3 Carrying out cross-checks between different disclosure templates

Automated database import and data validations of the disclosure templates through Excel-based VBA programming

- Automated filling of disclosure templates according to EBA mapping (target definition)
- Automated filling of disclosure templates according to Abacus/Bais/Axiom (actual data)
- Automated execution of the target-actual comparisons and targeted identification of anomalies
- Automated execution of cross-checks between different disclosure templates and thus verification of the data quality and consistency of the disclosure templates

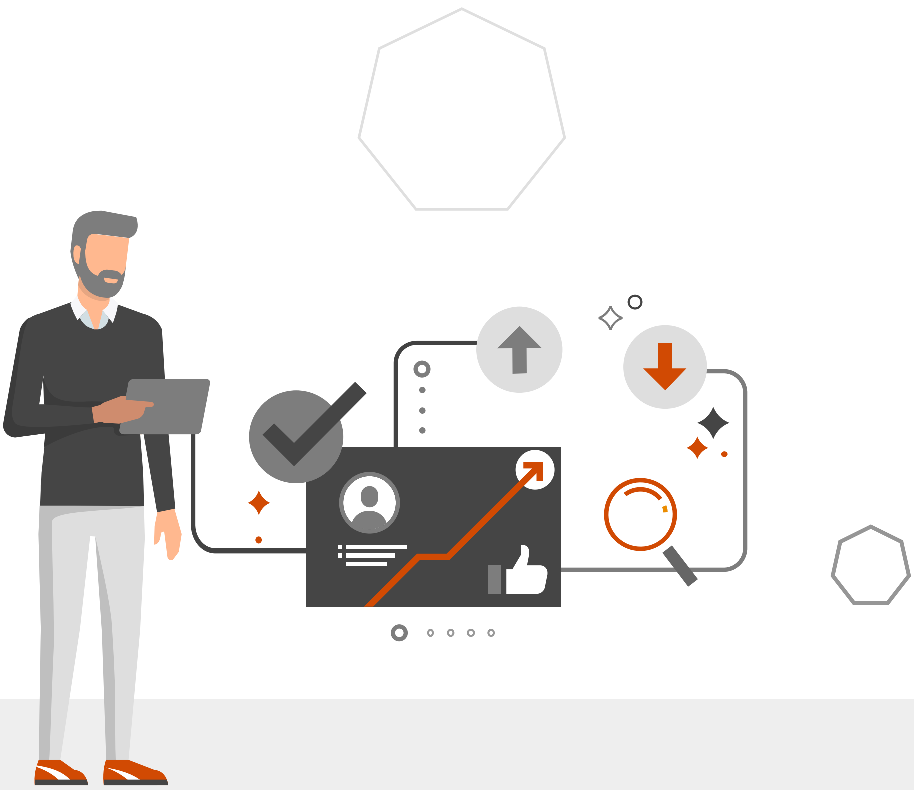
Efficient verification of the correct and complete filling of the provided disclosure templates from the Abacus/ Bais/Axiom templates

Regular review of the disclosure templates for completeness and accuracy on each reporting date

A crucial element in implementing new disclosure processes is to ensure their efficiency and automation, aiming for complete compliance with the requirements

With our flexible tools, we ensure data consistency across all disclosure templates

Process step 1		Process step 2	Process step 3	Process step 4
Manual process step		Manual process step	AD assistance	AD assistance
Export from Abacus / Bais / Axiom of the required COREP- and FINREP-Reporting templates	Export from Abacus / Bais / Axiom of the filled disclosure templates	All files should remain open at the same time so that the data can be extracted completely	Automated filling of the disclosure templates (TARGET and ACTUAL filling) & execution of the TARGET-ACTUAL comparison & targeted identification of conspicuous features	Automated execution of cross-checks between templates and thus verification of data quality & consistency of the templates
AXIOM, BAIS, Regnology, Excel	AXIOM, BAIS, Regnology, Excel	Excel	Excel	Excel



04

Expertise and contact

Your contacts

PwC possesses extensive expertise in the field of ESG disclosure requirements and is well-versed in current regulations, whether at the Basel Committee, EU, or national level. With our specialized knowledge, we offer high-quality services to our clients. As part of the global PwC network, we have access to comprehensive expertise from around the world.

PwC offers comprehensive support for all aspects of compliance with the new disclosure requirements. Leveraging our extensive experience in implementing new regulatory requirements, we can assist you in conducting quantitative impact studies for Basel III[21] and Basel IV[22], as well as in the functional and technical implementation of the final regulations. Having successfully supported numerous institutions, we possess the necessary expertise to guide you competently through your specific requirements.

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X

Appendix - Reference book

ESG in Pillar III - Disclosure Study

1: European Union (EU): EU Green Deal - European Green Deal, Link: https://eur-lex.europa.eu/resource.html?uri=cellar:b828d165-1c22-11ea-8c1f-01aa75ed71a1.0002.02/DOC_1&format=PDF

2: European Commission: Action Plan on Financing Sustainable Growth - Sustainable Finance Action Plan, Link: https://eurlex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52018DC0097.

3: Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and amending Regulation (EU) No 648/2012 (CRR). As Regulation (EU) 2019/876 is an amendment to Regulation (EU) 575/2013, the term CRR is used consistently throughout this document. Unless further specified, the term CRR refers to the version currently in force, as last amended by Regulation (EU) 2022/2036 of the European Parliament and of the Council of 19 October 2022 and in force since 14 November 2022.

4: Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 establishing a framework to facilitate sustainable investment and amending Regulation (EU) 2019/2088 (Taxonomy Regulation).

5: Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014 amending Directive 2013/34/EU as regards disclosure of nonfinancial and diversity information by certain large companies and groups. Text with EEA relevance (NFRD).

6: Directive (EU) 2022/2464 of the European Parliament and of the Council of 14 December 2022 amending Regulation (EU) No. 537/2014 and Directives 2004/109/EC, 2006/43/EC and 2013/34/EU regarding corporate sustainability reporting (CSRD).

7: Regulation (EU) 2019/2033 of the European Parliament and of the Council of 27 November 2019 on prudential requirements for investment firms and amending Regulations (EU) No. 1093/2010, (EU) No 575/2013, (EU) No 600/2014 and (EU) No 806/2014 (IFR).

8: Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosure requirements in the financial services sector (SFDR).

9: European Banking Authority, EBA (2022): Final Draft implementing technical standards on prudential disclosures on ESG risks in accordance with Article 449a CRR (EBA/ITS/2022/01).

10: Commission Implementing Regulation (EU) 2022/2453 of 30 November 2022 amending the implementing technical standards laid down in Implementing Regulation (EU) 2021/637 as regards disclosure of environmental, social and governance risks.

11: European Banking Authority (EBA): Consultation Papers - Consultation Papers of the European Banking Authority (EBA), Link: https://www.eba.europa.eu/category/consultations.

12: Commission Implementing Regulation (EU) 2021/637 of 15 March 2021 laying down implementing technical standards on disclosure by institutions of the information referred to in Titles II and III of Part 8 of Regulation (EU) No 575/2013 of the European Parliament and of the Council and repealing Commission Implementing Regulation (EU) No 1423/2013, Commission Delegated Regulation (EU) 2015/1555, Commission Implementing Regulation (EU) 2016/200 and Commission Delegated Regulation (EU) 2017/2295.

13: United Nations (UN): Paris Climate Agreement Link: https://unfccc.int/process-and-meetings/the-paris-agreement/the-paris-agreement.

14: European Financial Reporting Advisory Group (EFRAG) (2022): European Sustainability Reporting Standards (ESRS) – Link: https://www.efrag.org/lab6.

15: Commission Delegated Regulation (EU) 2020/1818 of 17 July 2020 supplementing Regulation (EU) 2016/1011 of the European Parliament and of the Council as regards minimum standards for EU climate change reference levels and Paris Agreed EU reference levels

16: European Banking Authority (EBA): Q&A - Questions and Answers of the European Banking Authority (EBA), – Link: https://www.eba.europa.eu/single-rule-book-qa/search?field_isrb_q_a_review_resp=All&field_legal_act%5B%5D=1038&field_legal_act_topic%5B%5D=643&items_per_page=20.

17: Regulation (EU) 2019/876 of the European Parliament and of the Council of 20 May 2019 amending Regulation (EU) No 575/2013 as regards the leverage ratio, the structural liquidity ratio, requirements for own funds and eligible liabilities, counterparty credit risk, market risk, exposures to central counterparties, exposures to collective investment undertakings, large exposures, reporting and disclosure requirements and Regulation (EU) No 648/2012.

18: European Banking Authority (EBA): Data Point Model (DPM) 3.3 - Link: https://www.eba.europa.eu/riskanalysis-and-data/reporting-frameworks/reportingframework-3.3.

19: European Central Bank (ECB) (2020): Guide on climate-related and environmental risks Supervisory expectations relating to risk management and disclosure - Link: https://www.bankingsupervision.europa.eu/ecb/pub/pdfssm.202011finalguideonclimate-relatedandenvironmentalrisks~58213f6564.en.pdf.

20: Basel Committee on Banking Supervision (BIS): Basel III: International regulatory framework for banks, - Link: https://www.bis.org/bcbs/basel3.htm.

21: Basel Committee on Banking Supervision (BIS) (2023): The Basel Framework - International framework for capital requirements, Link: https://www.bis.org/basel_framework/index.htm?m=2697.