



Integrating ESG in Banking: Tactical & Strategic aspects

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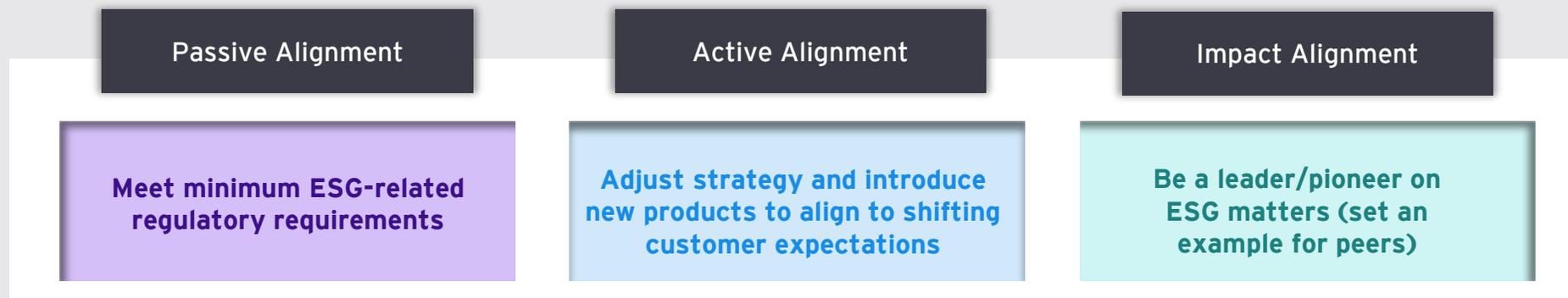
Building a better
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Sustainable finance - The role of FS industry

- ▶ There is **no road to a net-zero economy without financial services**, as companies need funding and insurance to manage physical and transition risks
- ▶ Financial services organizations need **clear, forward-looking strategies** for sustainable finance and for their role in the transition to net-zero
- ▶ The right strategy is essential because greening the economy has **huge potential upside** and may be "the greatest commercial opportunity of our age"

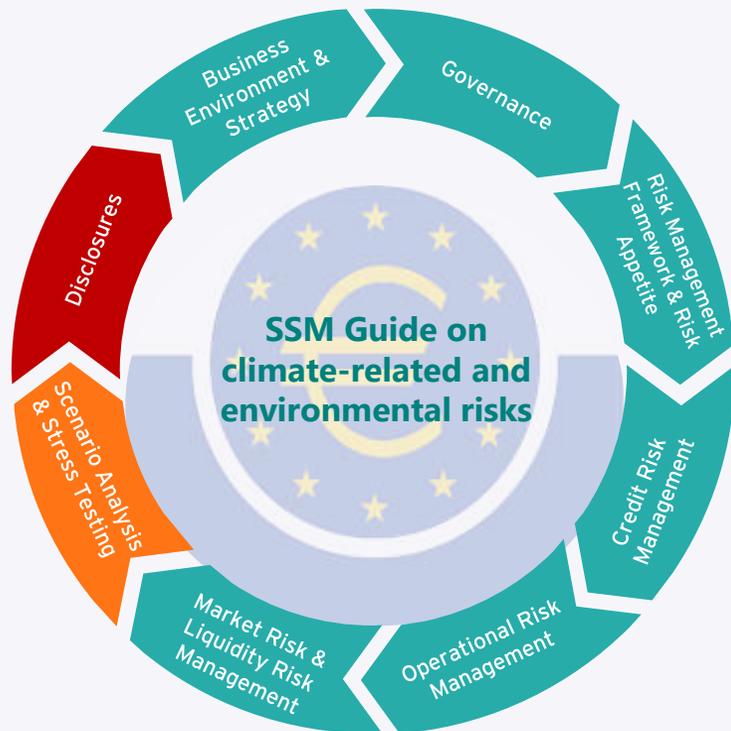


Varying approaches for incorporating ESG risks



Regulatory authorities are tightening their grip on ESG for Banks

ECB's expectations affect banks across key business processes, going beyond the scope of risk management...

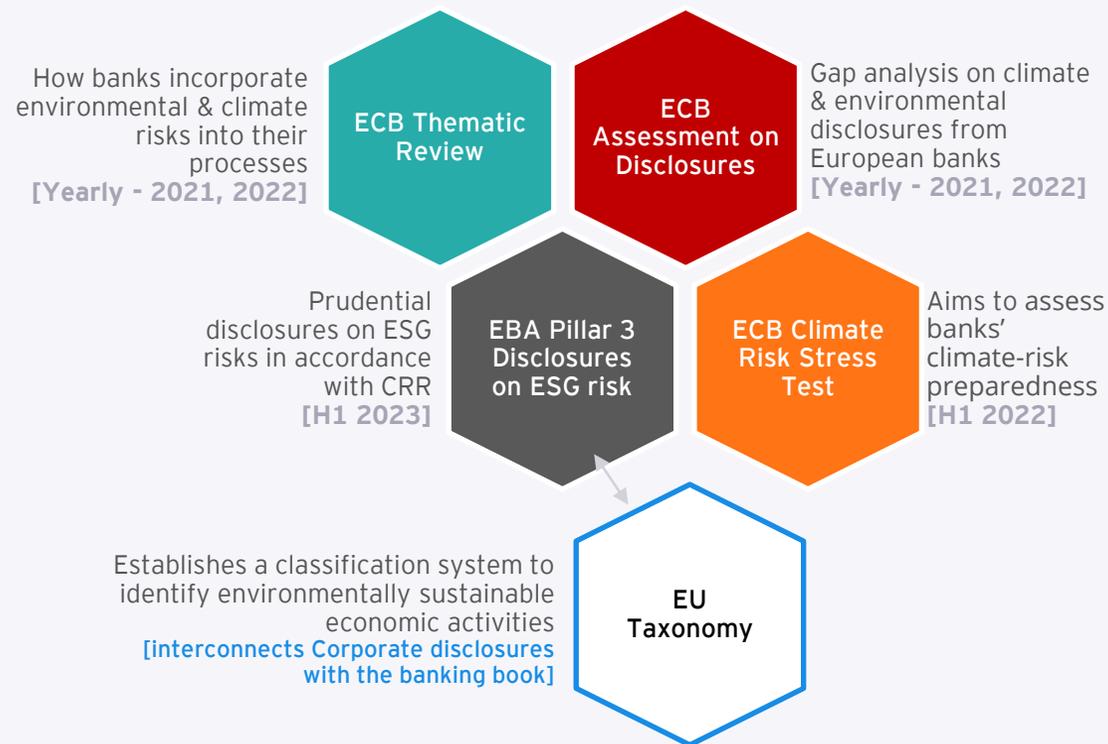


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Despite this broad acknowledgement of the materiality of these risks, and thus the need to adequately manage them, we see that **most banks still have a considerable way to go in developing their risk management capabilities**. As the findings we published last year show, banks reported **that 90% of their practices are only partially or not at all in line with ECB supervisory expectations**. ”

Frank Elderson, Vice-Chair of the Supervisory Board of the ECB

... with multiple supervisory exercises and requirements that will feed into the evaluation of banks in the SREP context

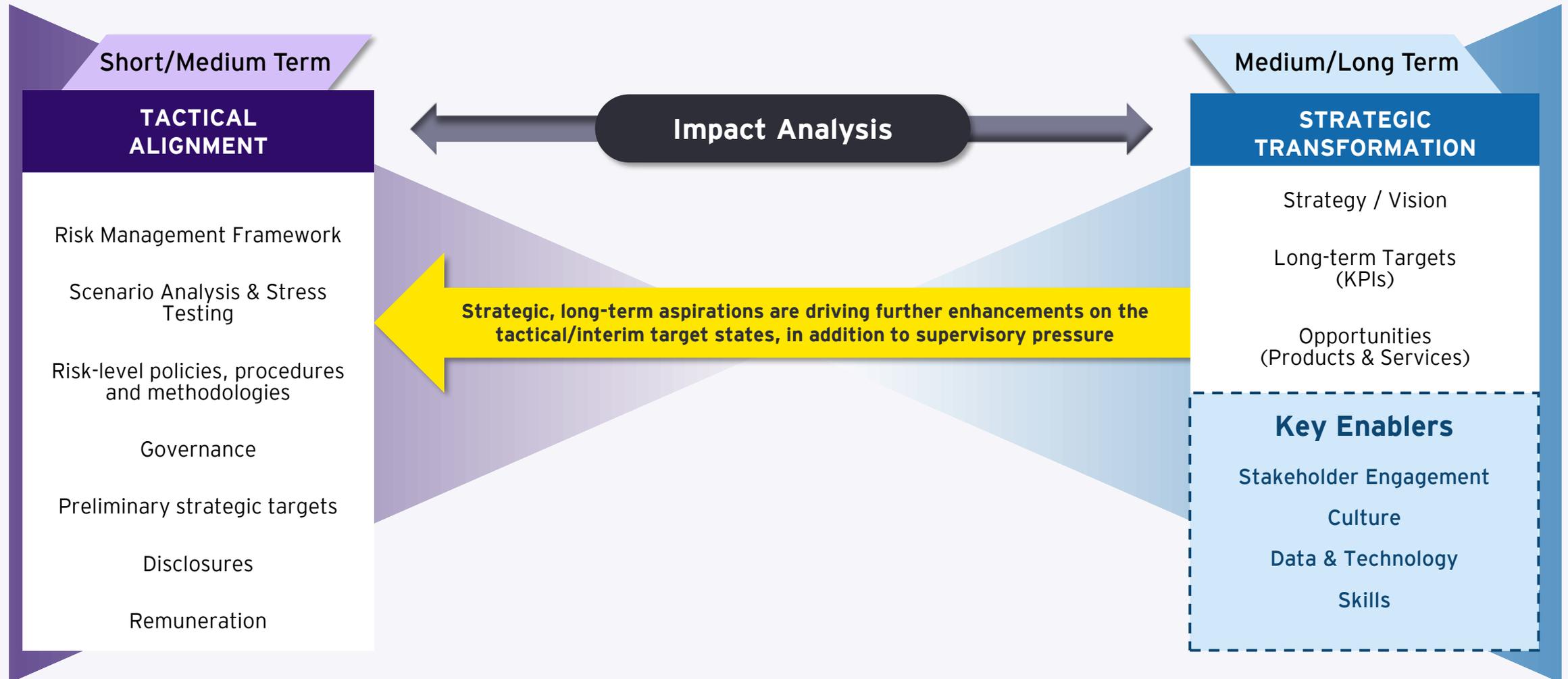


- The results from the ECB Thematic Review and the Climate Risk Stress Test exercise will feed into the Supervisory Review and Evaluation Process (SREP) from a **qualitative point of view**.
- This could still **impact Pillar 2 requirements** through the SREP scores.

Balancing between **tactical alignment** in the medium term and **strategic business transformation** in the long run

Banks are pushed to deliver early outcomes and are, therefore, pursuing 'quick wins', aiming to constrain negative impacts on their business, while laying down longer-term strategies and initiatives in parallel

Achieving alignment and fostering strategic transformation



Connecting the dots towards the target state ESG transformation

Strategy & Governance

- Incorporate ESG aspects in the organization's strategy (more explicit sectoral and location-driven factors)
- Swiftly align strategy with industry standards & targets
- Include ESG aspects into Internal Governance
- Engage with all relevant stakeholders
- Enhance skills and capabilities around ESG (through training and recruitment)

Products & Customers

- Structure and market green & social products for retail & corporate customers
- Align product & service portfolio to ESG targets
- Actively manage green vis-à-vis brown portfolios / customers

Risk Management

- Integrate ESG factors in risk identification, risk taxonomy and risk appetite processes
- Embed material ESG risks in risk management, with more elaborate quantification methods (for both transition and physical risks)
- Enhance climate risk scenario analysis and stress testing capabilities



Data

- Collect in-house / externally provided data for E, S and G components
- Consolidate data in a structured way, to feed into business origination, risk monitoring/assessment and reporting/disclosures processes

IT Infrastructure

- Enhance IT capabilities to support ESG integration in key BaU activities
- Examine procurement of off-the-shelf IT products to cover specific areas (e.g. EU Taxonomy, in-house ESMS processes, energy efficiency etc.)

Disclosures

- Include all meaningful ESG information in non-financial disclosures, beyond CSR / in-house ESMS content
- Streamline and automate the generation of granular disclosures (e.g. Pillar 3 reports)

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