# PILLAR 3 DISCLOSURES ON ESG RISKS. FIRST DISCLOSURES OF SPANISH AND OTHER EUROPEAN BANKS

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## Abstract

Sustainability-related disclosures are an essential first step towards integrating environmental, social and governance (ESG) risks into the financial system and the wider business world. This article sets out the new European prudential requirements for disclosing such risks, as well as a general comparison of the initial climate-related information reported by significant institutions in the Spanish banking industry and elsewhere in Europe.

**Keywords:** transparency, sustainability, ESG risks, climate change, transition risk, physical risk.

## 1 ESG Disclosures. From the TCFD recommendations to Commission Implementing Regulation (EU) 2022/2453

Sustainability-related disclosures have gained prominence over the last few years. Investors and other market participants are demanding ever more sustainability information from companies, covering aspects such as the environment (including climate change), social and human rights and internal governance, in order to help them make better investment decisions.[1] This demand for information has extended to the banking industry too. In Europe, regulatory bodies have made significant headway in incorporating these aspects into prudential regulations, particularly in terms of transparency (Pillar 3 disclosures), which is the focus of this article.

In April 2015, G20 Finance Ministers and Central Bank Governors asked the Financial Stability Board (FSB) to consider how companies in general, and the financial sector in particular, could take account of climate change. Among other findings, the FSB concluded that the climate risk information reported to the market needed to be improved to help users in their decision-making. As a result, in December of that year the FSB set up the Task Force on Climate-related Financial Disclosures (TCFD), comprising representatives from the private sector, whose main objective is to identify climate-related disclosures that might be useful for market participants. Nearly two years later, the TCFD published its recommendations on climate-related financial disclosures.[2]

These recommendations are an important milestone. First, they have helped to foster transparency, informed decision-making and the mitigation of adverse impacts, with a view to better managing the risks. Second, they have helped companies to make progress towards

1 Lloyd (2023).

2 For more information, see Task Force on Climate-related Financial Disclosures (2017).

incorporating such aspects into their strategies and business models. However, the recommendations are voluntary rather than mandatory. As a result, in recent years some regulators and international standard-setting bodies have opted to go one step further and introduce compulsory requirements.

Three such initiatives are particularly significant: at the global level, the disclosure standards on sustainability (IFRS S1) and climate change (IFRS S2) published by the International Sustainability Standards Board (ISSB) in June 2023; in Europe, the standards issued by the European Financial Reporting Advisory Group (EFRAG), which were adopted by the European Commission in July 2023 and implement the Corporate Sustainability Reporting Directive (CSRD); and, lastly, focused on the banking sector and prudential regulation, 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 the disclosure of environmental, social and governance risks (hereinafter, the Regulation).[3]

An article published in the Spring 2023 *Financial Stability Review*[4] detailed the rationale behind these proposals and what differentiates them from other international initiatives. In December 2022 the Banca d'Italia published an occasional paper (Loizzo and Schimperna, 2022) discussing the European regulatory framework and investigating the commonalities and differences between the disclosure requirements laid down in the Regulation and those envisaged in the EFRAG's European Sustainability Reporting Standards (ESRS), then in draft form.

This article focuses on the prudential transparency requirements laid down in the Regulation, assessing credit institutions' initial disclosures and delving deeper into the considerations set out in the Autumn 2023 *Financial Stability Report* (FSR).[5] Section 2 provides a description of those requirements and Section 3 analyses the climate information reported by certain Spanish credit institutions with reference date 31 December 2022. Lastly, Section 4 includes some transition risk data for a sample of European banks.

## 2 Commission Implementing Regulation (EU) 2022/2453. What can we expect?

The ESG disclosure requirements included in Commission Implementing Regulation (EU) 2022/2453 form part of the so-called Pillar 3 disclosures. This is one of the three pillars that make up prudential banking regulations, the others being Pillar 1 (minimum capital requirements) and Pillar 2 (supervisory review). Pillar 3 aims to promote transparency by requiring banks to provide the market with sufficient information to ensure a degree of market discipline (Vargas Bahamonde, 2001). This mitigates one of the main frictions in the banking sector (information

3 Published by the European Commission in the Official Journal of the European Union in December 2022, based on a draft prepared by the European Banking Authority (EBA).

4 For more information on the importance of climate risk transparency and the ISSB and EFRAG initiatives, see Martínez and Pérez Rodríguez (2023).

5 See Banco de España (2023).

Figure 1
**Commission Implementing Regulation (EU) 2022/2453**

| Disclosure of ESG risks – Commission Implementing Regulation (EU) 2022/2453 | |
|---|---|
| **Qualitative information on ESG risks**<br>Tables 1-3 | — Each table includes information on strategy, governance and management in relation to ESG risks |
| **Quantitative information on climate risks**<br>Templates 1-10 | — **Templates 1-4 on potential climate change transition risk in the banking book:** credit quality of exposures by sector, emissions, energy efficiency of the collateral, alignment metrics and exposures to top 20 carbon-intensive firms<br>— **Template 5 on potential climate change physical risk in the banking book:** exposures sensitive to impact both from chronic and acute climate change events, broken down by sector and geographic location of the counterparty's business or of the collateral<br>— **Templates 6-10 on taxonomy-aligned exposures, mitigating actions (GAR, BTAR) and other exposures not taxonomy-aligned** |
| First reference date: 31 December 2022. The following exceptions apply:<br>— Financed GHG emissions (template 1): 30 June 2024<br>— Information on alignment metrics (template 3): 30 June 2024<br>— Information included in the GAR calculation (entered in templates 1 and 6-8): 31 December 2023<br>— Information included in the BTAR calculation (entered in templates 1 and 9): 31 December 2024 | |

**SOURCE:** Banco de España.

asymmetry), helping to ensure a level playing field for all market participants. Under Pillar 3, banks provide information on their risk profile, meaning it often reflects the regulatory capital requirements established in Pillar 1. However, this is not true of the ESG risk disclosure requirements laid down in the Regulation. The absence of data on those risks prompted the regulator to change strategy and set Pillar 3 requirements for ESG risks before setting the Pillar 1 requirements. Global and European regulators are still working to identify potential gaps in the Pillar 1 standards for ESG risks and to determine how they should be addressed.[6]

The main objective of the Regulation's requirements is to provide investors and other users of this information with granular and comparable data on banks' exposures subject to ESG risks and, in particular, to climate-related risks, including transition and physical risks.[7] In other words, these disclosures will help the market and supervisors to understand the extent of banks' exposures to ESG risks and how they are being managed.

The Regulation (see Figure 1 for a general overview of the Regulation) includes technical standards detailing the formats and instructions for banks' ESG risk disclosures. Given the complexity and relative novelty of this area of regulation, the EBA opted for a sequential

6 European Banking Authority (2023) and Basel Committee on Banking Supervision (2022).

7 Transition risks are risks stemming from the transition to a more sustainable economy, driven by political, technological and market changes. Physical risks result from, first, the impact of extreme weather events, such as heat waves or floods (acute events) and, second, progressive long-term shifts in weather patterns, such as changes in rainfall or rising sea levels (chronic events).

approach, thereby acknowledging the compliance effort that the new requirements would entail for banks. Thus, while the qualitative information included in the technical standards covers each of the ESG risks, the quantitative information focuses solely on climate risk, since this is the area where most international consensus and commitment has been achieved, and where, as things stand, most scientific evidence and data are available. Although the first reference date was set as 31 December 2022, the Regulation also envisages a phase-in period, as detailed below.

The qualitative information is set out in three tables,[8] in which banks are required to disclose strategy, governance and management information for each ESG risk. The quantitative information is covered in a total of ten templates:[9] i) four on transition risk, ii) one on physical risk, and iii) a further five on mitigating actions adopted by banks to manage and reduce their transition and physical risks.

Starting with transition risk, the key indicators included in the Regulation are:

— Exposures to non-financial corporations (NFCs)[10] in the banking book. These include loans, debt securities and equity instruments held in the institutions' banking book, i.e. excluding assets held in the trading book. In other words, they include exposures to NFCs in the form of loans and advances and other financial instruments, generally over a medium-to-long-term time horizon. For these exposures, banks will have to disclose, at the sectoral level, the financing extended to sectors that highly contribute to climate change, along with their exposures to counterparties excluded from the European Union (EU) Paris Agreement-aligned benchmarks. Both concepts are defined in the Commission Delegated Regulation on the minimum standards for the EU climate transition benchmarks and the EU Paris-aligned benchmarks.[11] Under the Regulation, the concept of sectors that highly contribute to climate change[12] covers a considerable number of sectors with different volumes of greenhouse gas (GHG) emissions. For its part, the concept of "excluded counterparties" refers to those companies whose activity is related with the use and distribution of fossil fuels.[13] This information is complemented by two other very important metrics: financed GHG emissions (emissions by banks' counterparties) and the so-called

8 The table format is typically used for Pillar 3 qualitative disclosures, giving institutions flexibility in how they present the information.

9 The template format is typically used for Pillar 3 quantitative disclosures, meaning institutions are required to report the information following the format of each template.

10 The concept of non-financial corporation is envisaged in the supervisory reporting framework known as FINREP.

11 Commission Delegated Regulation (EU) 2020/1818 of 17 July 2020.

12 According to paragraph 6 of Commission Delegated Regulation (EU) 2020/1818, these are the sectors listed in Sections A to H and Section L of Annex I to Regulation (EC) 1893/2006 of the European Parliament and of the Council.

13 Article 12 of Commission Delegated Regulation (EU) 2020/1818. Those counterparties whose activity depends largely on the extraction and distribution of fossil fuels (oil, gas and coal). Specifically, those counterparties that derive: i) at least 1% of their revenues from exploration, mining, extraction, distribution or refining of hard coal and lignite; ii) at least 10% of their revenues from the exploration, extraction, distribution or refining of oil fuels; iii) at least 50% of their revenues from the exploration, extraction, manufacturing or distribution of gaseous fuels; and iv) at least 50% of their revenues from electricity generation with a GHG intensity of more than 100 g $CO_2$ e/kWh.

alignment metrics. The volume of financed GHG emissions will have to be provided at sectoral level and will include the Scope 3 emissions[14] of the bank's counterparties, despite the complexity inherent in their calculation. The alignment metrics are forward-looking metrics that institutions use to set, for the most relevant sectors, their Paris-aligned decarbonisation targets, based on the scenarios prepared by the International Energy Agency.

— Loans collateralised by immovable property (commercial and residential) and repossessed immovable property collaterals. For these exposures, banks shall disclose the energy efficiency of the collaterals, measured as their energy consumption. The data are presented in two ways: through the energy performance certificate (EPC) and in terms of energy consumption in $kWh/m^2$. The EPC is an official certificate that since the transposition of Directive 2010/31/EU has been compulsory for property construction, sale or rental, with some exceptions such as garages, storerooms, plots and warehouses not used as office space.[15] This certificate rates a building in terms of its annual consumption of energy from non-renewable sources in $kWh/m^2$ and its $CO_2$ emissions. The rating scale comprises seven bands ranging from A (most efficient) to G (least efficient). The rating assigned to each band varies across the EU countries and can even vary across different climate zones within the same country. Given these variations, and for greater comparability, the information is also provided by consumption intervals in terms of $kWh/m^2$. Although the EPC-based energy efficiency measurement only includes data for those immovable property collaterals that have an EPC label, the consumption measured in $kWh/m^2$ includes both real data and banks' estimates for exposures that lack an EPC.

As for physical risk, institutions shall disclose their exposures (broken down by sector) to NFCs in the banking book, along with loans collateralised by immovable property and repossessed immovable property collaterals subject to acute or chronic physical risks, or both. This information shall be disclosed for the key geographical areas (determined by the credit institutions themselves), using the external data sources[16] deemed most appropriate and providing the relevant clarifications.

The Regulation calls for information on potential mitigating measures, or, put more simply, on sustainability indicators that provide insight into how the institutions are incorporating environmentally sustainable assets into their strategies and business models. These notably include the green asset ratio (GAR). This ratio provides information on the alignment of a credit

14 Scope 1 emissions are a company's direct emissions, Scope 2 emissions are its indirect emissions associated with the purchase or use of electricity and Scope 3 emissions are all other indirect emissions, essentially those from the company's value chain. The latter emissions are beyond the company's control and the information needed to calculate them is not always available.

15 Directive (EU) 2018/844 of the European Parliament and of the Council of 30 May 2018, and its transposition to Spanish law, Royal Decree 390/2021 of 1 June 2021.

16 To this effect, the Regulation cites some example data sources, including GFDRR - ThinkHazard! and PREP - PREPdata.

institution's balance sheet with the Taxonomy Regulation,[17] providing the market with comparable information on the percentage of assets that an institution has invested in sustainable activities. When interpreting the GAR, which is defined in a Commission Delegated Regulation,[18] certain particularities regarding its calculation should be borne in mind.

First, not all economic activities are covered by the taxonomy, i.e. not all economic activities are taxonomy-eligible. Second, for the time being at least, the European Commission does not allow exposures to counterparties that are not obliged to disclose sustainability information under the CSRD (essentially small and medium-sized enterprises (SMEs) and non-EU companies) to be included in the numerator. Therefore, by definition the GAR will never encompass 100% of a bank's assets and those banks that do more business with SMEs or outside of the EU (such as Spanish banks), may a priori have a lower ratio. To overcome what might be viewed as a limitation of the GAR, the EBA designed another ratio known as the banking book taxonomy alignment ratio (BTAR). This ratio allows institutions to include in the numerator exposures to counterparties not subject to the CSRD. The BTAR was included in the Regulation as a voluntary disclosure for institutions.

Lastly, these new requirements only apply to large credit institutions that have issued securities that are admitted to trading on a regulated market of any EU Member State.[19] However, and on the understanding that climate risk factors affect all institutions regardless of size, the so-called "banking package" (CRD VI and CRR III)[20] extends the requirements to all institutions including smaller ones, albeit taking into account the principle of proportionality.

Like all Pillar 3 disclosures, the information must be provided at the prudential consolidated group level. As noted above, the first disclosure reference date was 31 December 2022, although the following phase-in schedule is envisaged:

- The reference date for the GAR disclosure is 31 December 2023.

- Financed GHG emissions and alignment metrics shall be disclosed on a voluntary basis until 30 June 2024.

- The BTAR shall be disclosed voluntarily, with the first reference date being 31 December 2024.

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17 Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020. This regulation is essentially a common EU-level classification system for economic activities that can be considered environmentally sustainable. Romo González (2021).

18 Commission Delegated Regulation (EU) 2021/2178 of 6 July 2021.

19 See Article 449bis of Regulation (EU) 575/2013 of the European Parliament and of the Council of 26 June 2013.

20 In October 2021, the European Commission launched new proposals to change banking regulations (Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, and Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms) to finalise the implementation of Basel III, incorporate ESG risks and improve the banking supervision mechanisms. At the time of writing this article, the proposals were in the final negotiation stages, with the parties having reached a political agreement over their substance.

## 3 Spanish credit institutions. Exposures subject to climate-related risks

During 2023 H1, European banks subject to the Regulation disclosed, for the first time, sustainability information with the required granularity. For Spanish banks, this disclosure was included in the Pillar 3 report.

This section discusses the quantitative information on climate change reported by all of the Spanish significant institutions:[21] Banco Santander, BBVA, CaixaBank, Banco Sabadell, Bankinter, Unicaja, Abanca, Kutxabank, Cajamar and Ibercaja. Annex 1 includes links to these banks' websites where the information analysed can be found. The total assets of these ten banks represent approximately 90% of the Spanish banking system's assets.

The reference date for the assessment is 31 December 2022. Given the complexity of the information disclosed, and the fact that the banks were disclosing it for the first time in the granularity and format established in the Regulation, the descriptive analysis here (which is based on that information) should be treated with due caution.

### Transition risk: exposures to NFCs in the banking book

Chart 1.a analyses, bank by bank, the exposures to NFCs held in the banking book. These exposures are grouped into sectors that highly contribute to climate change and other sectors. The chart also shows the percentage of exposure to excluded counterparties. This information is complemented by Chart 1.b, which depicts the weight of sectors linked to the extraction and distribution of fossil fuels and electricity. The data are compared with those of an average bank, calculated as the average of the analysed banks' exposures weighted by the total assets of each individual bank.

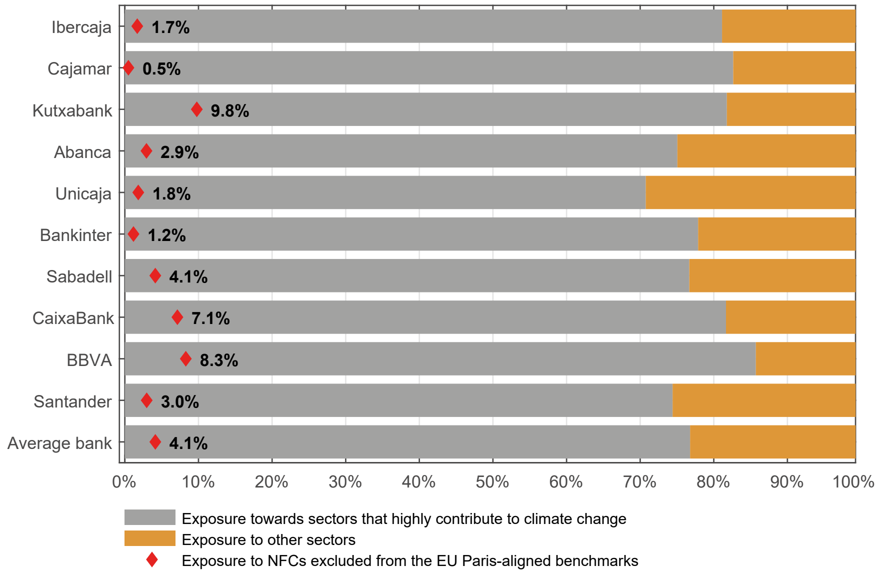
On average, close to 80% of exposures to NFCs of the banks analysed are in sectors that highly contribute to climate change, with no significant differences observed between banks (see Chart 1.a). The information presented under the concept of "sectors that highly contribute to climate change" is not very granular, since it covers a considerable number of sectors with different GHG emission levels.[22] This analysis will be more exhaustive and informative in the future, once the Regulation has been fully implemented and institutions begin to disclose their financed $CO_2$ emission levels in a standardised and comparable format for each sector. It will also be important to look at how these levels change over time and the percentage of

21 See Regulation (EU) 468/2014 of the European Central Bank of 16 April 2014 establishing the framework for cooperation within the Single Supervisory Mechanism, laying down the legal provisions for classifying significant supervised institutions.

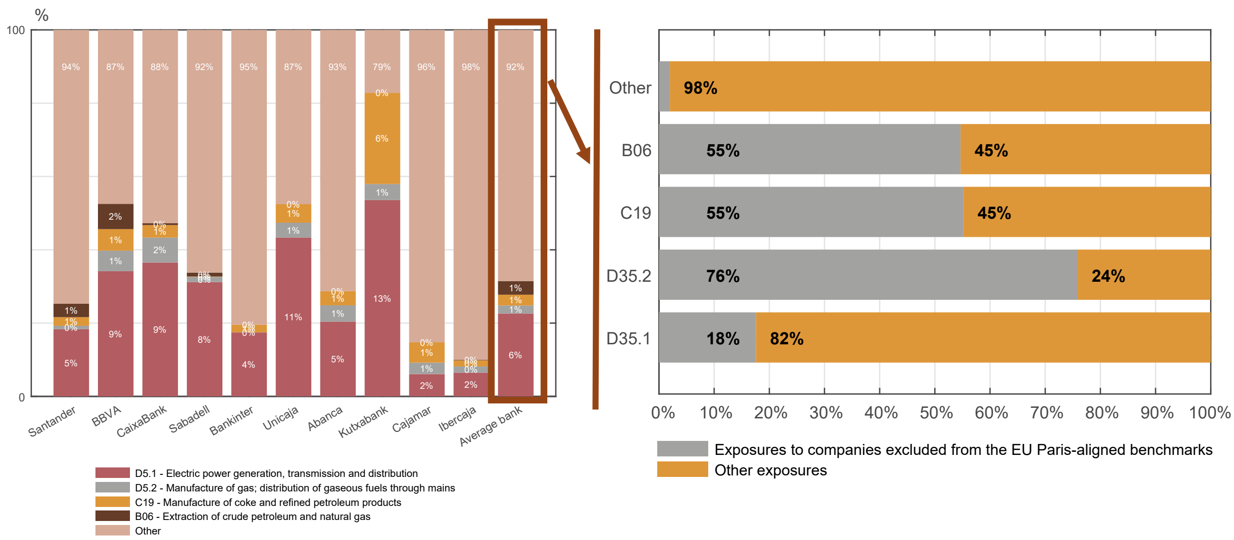
22 As already indicated in Box 3.3 of the Autumn 2023 FSR, this figure differs significantly from that mentioned in the article by Margarita Delgado (2019), since the definition of "sectors that highly contribute to climate change" according to the Commission Implementing Regulation (EU) 2022/2453 is particularly broad compared with other taxonomies, such as those used in the article mentioned here, that differentiate more clearly between polluting sectors.

Chart 1
**Transition risk of Spanish significant credit institutions**

1.a Exposures to NFCs




1.b Distribution by (sub)sector of exposure to NFCs




**SOURCE:** Banco de España calculations based on information published on the banks' websites.

investment within each sector set aside for actions that mitigate climate change or are environmentally sustainable.

Exposures to counterparties excluded from the EU Paris-aligned benchmarks are significantly smaller. For the banks analysed, such exposures represent an average of around 4.1% of exposures to NFCs (see Chart 1.a). Three banks have excluded exposures above that average: Kutxabank (9.8%), BBVA (8.3%) and CaixaBank (7.1%).

Lastly, Chart 1.b shows a breakdown by sector of the NFC portfolio, focusing on sectors linked to fossil fuel extraction and distribution (NACE[23] D35.2, C19 and B06) and electricity (NACE D35.1). The exposure of Spanish banks to the coal mining sector is negligible. The weighted average exposure of the Spanish banks analysed vis-à-vis carbon-related sectors overall (coal, oil and gas) and the electricity sector represents 9% of total NFC exposure, with the electricity sector accounting for a notable share (6%), of which 18% is to excluded counterparties (which generate energy in a carbon-intensive manner), whereas the remaining exposures are to companies that generate electricity from other sources, including renewable ones. By bank, exposure to the electricity sector is particularly significant at Kutxabank (13%), Unicaja (11%), BBVA (9%) and CaixaBank (9%).

As part of their transition risk strategies, banks have started to provide some forward-looking metrics, such as their portfolio decarbonisation targets, particularly in relation to the sectors that highly contribute to climate change. These disclosures have been promoted by an industry-led initiative known as the Net Zero Banking Alliance (NZBA), to which most of the analysed banks belong. This is the banking arm of the Glasgow Financial Alliance for Net Zero (GFANZ), founded by Mark Carney in April 2021, whose main goal is to accelerate the financial system's transition to a net-zero global economy. The disclosure of decarbonisation targets is still at a very early stage, but will be essential to enable the market and supervisors to understand the steps that banks are taking to manage the risks associated with this transition. This reporting will become more comprehensive from 30 June 2024, with the disclosure of the alignment metrics included in the Regulation.

### Transition risk: energy efficiency of the immovable property portfolio

Loans collateralised by immovable property (commercial and residential) account for a very significant portion of loans to non-financial sectors in banks' balance sheets. As indicated in the Proposal for a Directive on the energy performance of buildings (recast),[24] these account for 40% of energy consumed and 36% of energy-related direct and indirect GHG emissions. The transition risk associated with these loans stems from the energy efficiency of the collateral. The Proposal for a Directive introduces new minimum energy performance standards that will require the renovation of less efficient buildings, which could affect the value of the properties held as collateral by banks.

Chart 2.a shows aggregate data on significant Spanish credit institutions relating to the energy efficiency of commercial and residential immovable property used as collateral in their loan portfolios, along with information on recovered or repossessed collateral. This information is analysed both in terms of the EPC and of energy consumption in kWh/m$^2$. Only loans granted within the EU have been analysed.

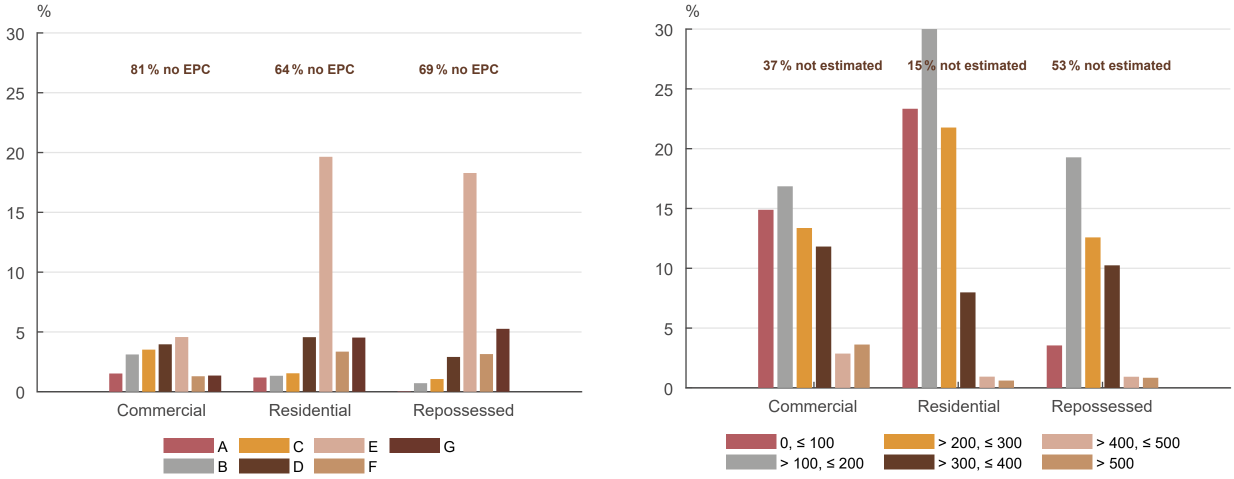
23 Statistical classification used in the EU.

24 Proposal for a Directive of the European Parliament and of the Council (2021).

Chart 2

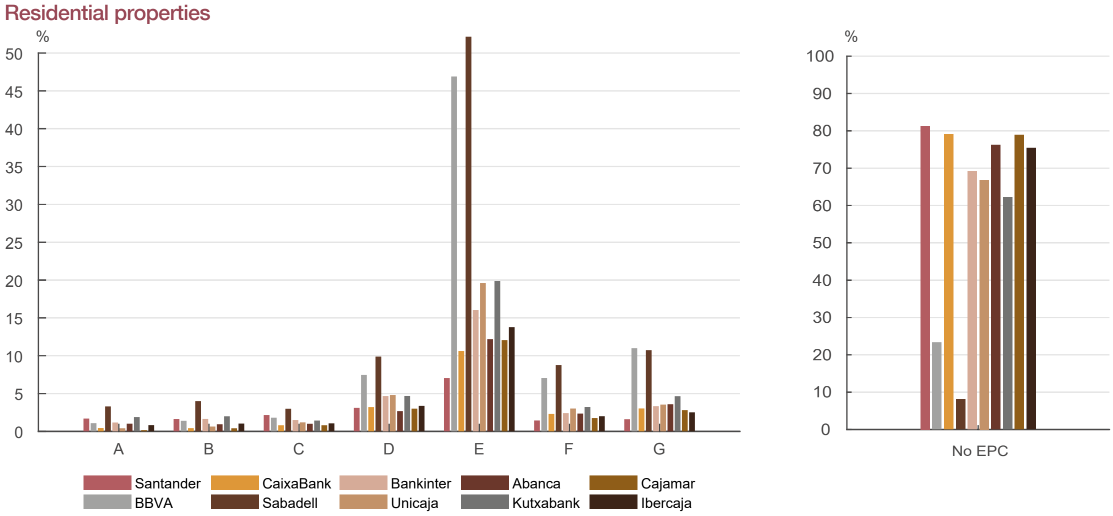
**Energy efficiency of immovable property in the EU. Spanish significant credit institutions**

2.a Energy efficiency of immovable property collaterals and of repossessed collaterals in the EU. Aggregate data of Spanish significant credit institutions

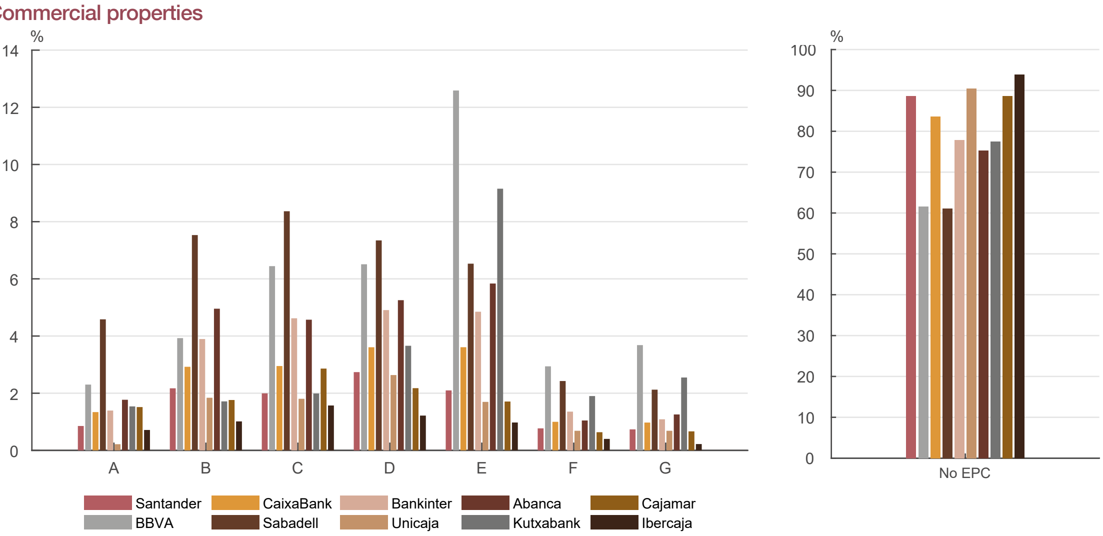



2.b Energy performance certificate of immovable property collaterals in the EU. By bank

Residential properties




Commercial properties




**SOURCE:** Banco de España calculations based on information published on the banks' websites.

As indicated in the Autumn 2023 FSR, a high percentage of the properties in the portfolios analysed do not have an EPC. However, the information provided on consumption in kWh/m$^2$ shows that banks endeavoured to estimate the energy consumption of a significant portion of their properties. These endeavours are particularly evident in the residential sector, with just 15% of the properties analysed lacking information (real or estimated) on energy efficiency.

Analysis of the data provided by the EPC, considered to be more complete, shows that for loans collateralised with residential properties (84% of the total collateralised portfolio), 64% of the collateral lacks an EPC (see Chart 2.a). It also shows notable dispersion of data among banks (see Chart 2.b). According to Pillar 3 reports, at Santander 81% of the residential properties securing loans granted in the EU lack an EPC, compared with just 23% at BBVA and 8% at Sabadell. That figure stands at over 60% for all of the remaining banks. In terms of efficiency, label E is clearly the most prevalent, both at the aggregate level (almost 20% of residential properties used as collateral) and for each individual bank analysed. The most energy efficient EPC labels (A, B and C) only account for 4% of total repossessed collaterals (see Chart 2).

In the case of mortgages on commercial immovable property, which represent 14% of the total collateral, 81% of the properties have no EPC. However, although this percentage varies across banks, the dispersion is not as high as in the case of residential properties. Again, label E is the most prevalent (5% of total collateral in this portfolio), although the gap here with the other labels is not as wide, with the higher EPC labels (A, B and C) accounting for 8% of the total loans collateralised with commercial immovable property.

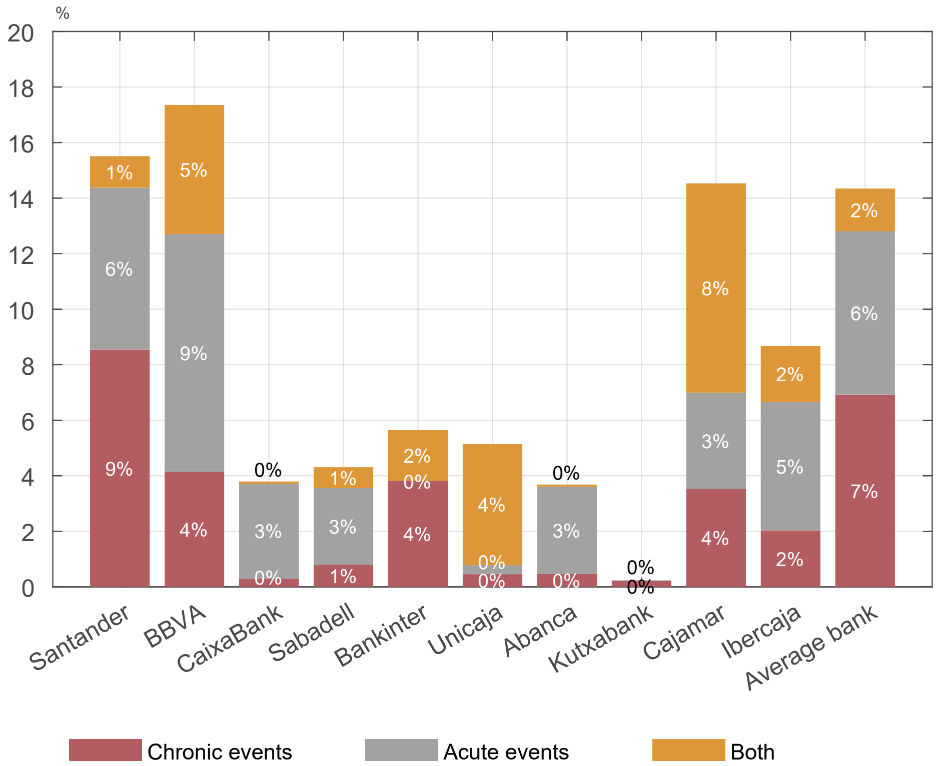
## Physical risks: exposures to NFCs and immovable property portfolio

As regards information on physical risks, it is worth noting that, in line with the high degree of flexibility permitted by the Regulation, banks have used different methodologies and data sources to identify the physical risk of these exposures, which could affect the comparability of information. Moreover, it is the first time that banks have disclosed this information, opening up the possibility of interpretation errors. This information must therefore be interpreted with caution.

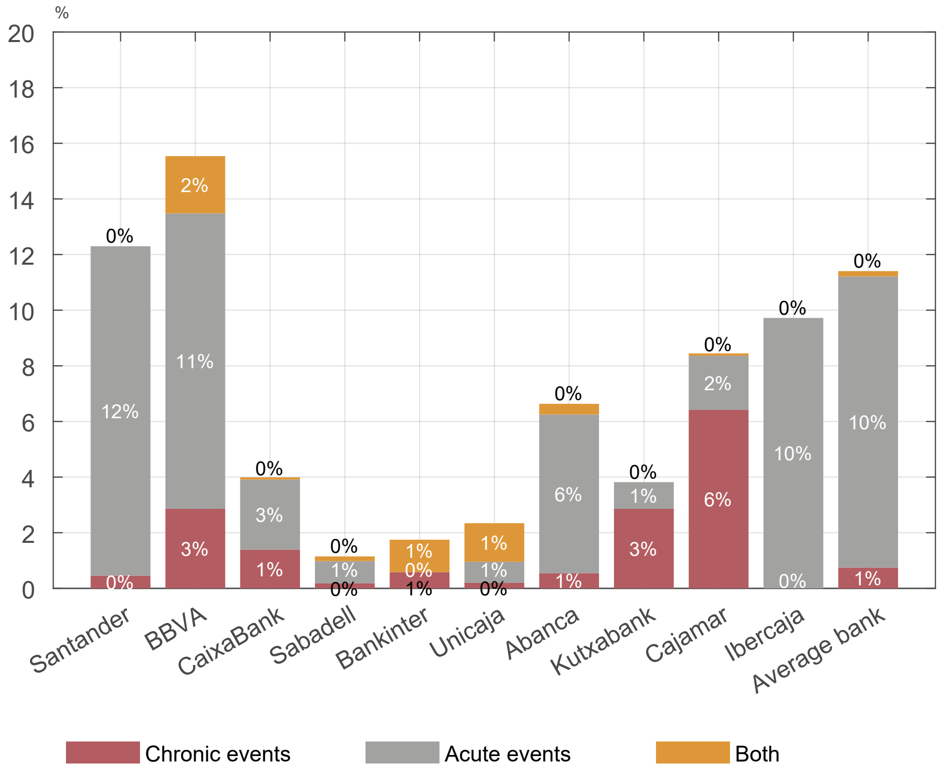
Chart 3.a shows, bank by bank, the physical risks (chronic and acute events) reported by banks for their exposures to NFCs in the banking book. It also includes data for an average bank, calculated as the average exposures reported by the banks analysed weighted by the total assets of each individual bank. On average, 15% of exposures to NFCs are subject to physical risks, which can be broken down into chronic events (7%), acute events (6%) or both (2%). The physical risks most commonly reported by banks are fires, rising temperatures, changing precipitation patterns and flooding (the latter resulting both from severe precipitation and coastal flooding caused by rising sea levels).

Chart 3
**Physical risk of Spanish significant credit institutions**

3.a Exposures to NFCs subject to physical risk




3.b Loans collateralised by immovable property collaterals and repossessed collaterals subject to physical risk




**SOURCE:** Banco de España calculations based on information published on the banks' websites.

The two banks that have reported the highest level of physical risk in relative terms are BBVA (17.4%) and Santander (15.5%), which could be explained by the weight of their international business in more vulnerable geographical areas. Cajamar and Ibercaja have reported exposure to physical risks (14.5% and 8.7%, respectively) that is higher, in relative terms, than that of other banks of a similar size.

Chart 3.b shows data on loans collateralised with immovable property (residential and commercial) and repossessed immovable property collaterals that are subject to physical risk in relation to the total collateralised loans. On average, 11.4% of the properties of the banks analysed are exposed to physical risks, most of which (10%) are acute events. As in Chart 3.a, Santander (12.3%) and BBVA (15.5%) are above average, and Cajamar and Ibercaja have again reported percentages that are higher than those of other banks of a similar size.

## 4 Observations on a sample of European banks

This section includes some preliminary data of interest (focusing on transition risk) for a sample of European credit institutions. The sample comprises all of the European global systemically important institutions (G-SIIs)[25] and a selection of other systemically important institutions (O-SIIs)[26] from Germany, Spain, France, Italy, the Netherlands and Portugal. The selected O-SIIs are those that, at the highest consolidation level within the EU, scored higher than 500 basis points in the 2022 O-SII identification process, according to the information published by the EBA.[27] Annex 2 provides a list of the selected institutions and links to the Pillar 3 disclosure information published on their respective websites.

The reference date of the data analysed is 31 December 2022. Again, all of the caveats noted in the previous section regarding the information examined should be taken into account.

Chart 4.a illustrates the transition risk in each of the sample banks' exposures to NFCs, using as indicators the sectors that highly contribute to climate change and exposures towards counterparties excluded from EU Paris-aligned benchmarks.[28] The chart also includes data for an average bank, calculated as the average of the exposures of each bank analysed weighted by the total assets of each individual bank. On average, exposures to sectors that

25 Institutions with the potential (determined by national supervisors based on certain qualitative and quantitative criteria) to destabilise the global financial system and whose failure could severely impact the real economy. They are identified based on an assessment of their size, complexity, interconnectedness, substitutability and cross-jurisdictional activity, also taking into account, for instance, their trading volume and cross-border activity.

For a more general analysis of the G-SIIs' "climate action plans", the progress they are making toward achieving them and how they are including climate risk in their risk management practices, see Beltran, Bensen, Kvien, McDevitt, Sanz and Uysal (2023).

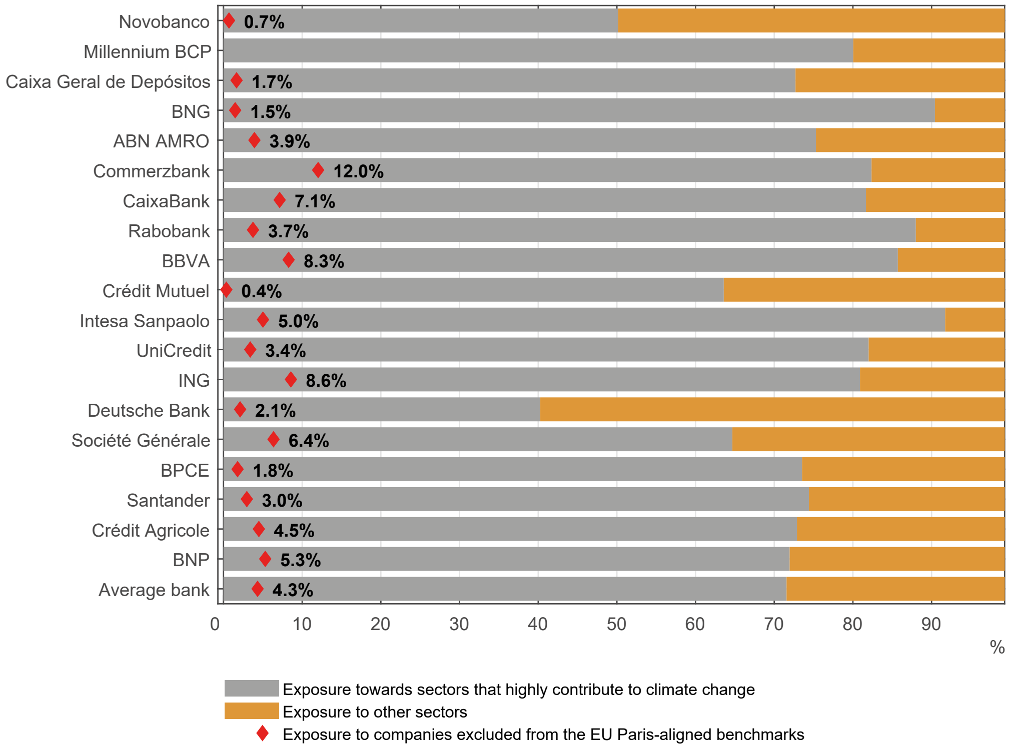
26 Banks identified as domestic systemically important institutions in the annual assessment conducted by national competent authorities, based on certain basic criteria: size, importance for the economy of the relevant Member State, complexity and the interconnectedness of the institution or group with the financial system. Typically, any institution scoring higher than 350 basis points in the assessment is automatically identified as an O-SII.

27 See the O-SII section of the EBA website.

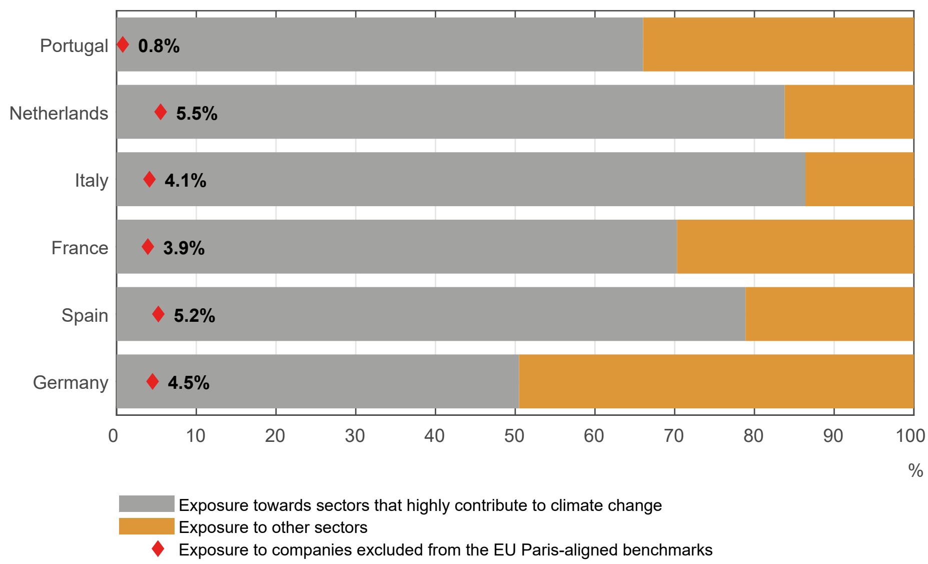
28 With regard to Chart 4.a, it should be noted that Banco Comercial Português (Millennium BCP) did not report data on exposures to counterparties excluded from the EU Paris-aligned benchmarks.

Chart 4
## Transition risk of other European credit institutions

### 4.a Exposures to NFCs




### 4.b Exposures to NFCs aggregated by country of origin




**SOURCE:** Banco de España calculations based on information published on the banks' websites.

highly contribute to climate change account for just over 70% of all exposures towards NFCs, with clear differences between the banks. For instance, in the case of Intesa Sanpaolo this percentage stands at 92%, compared with 40% for Deutsche Bank. Looking at Spanish banks, Santander stands at the average, while both BBVA and CaixaBank are above the average. Again, in average weighted terms, the share of exposures towards counterparties excluded from EU Paris-aligned benchmarks is far lower (4.3%).

Aggregating the data by the analysed banks' country of origin (see Chart 4.b), in Germany the percentage of exposures to sectors that highly contribute to climate change is comparatively low (50%), particularly compared with the Netherlands and Italy (nearly 90%), while Portugal, France and Spain lie somewhere in between (70%-80%). These aggregate data must be treated with caution due to the small sample size and the relative weight that some banks may have in the data.

Lastly, Chart 5 sets out, at the aggregate level, the energy efficiency of the immovable property pledged as collateral in loans extended by the sample banks, grouped for these purposes by country of origin. Again, the aggregate data should be regarded with caution due to the small number of banks in the sample and the relative weight that certain banks may have in the data.

As can be seen, immovable property collaterals lacking an EPC label is a common phenomenon across all of the European banks analysed. In this sample, French banks have the highest percentage of collaterals without EPC labels (86%), while Dutch banks have the lowest percentage (59%). Among the EPC labels that have been granted, there is a notably high percentage of class E labels at Spanish banks, which highlights the need to improve the rating allocation criteria to provide as accurate a picture as possible of their energy efficiency. Again, it is worth highlighting the endeavours of the institutions analysed to estimate the energy consumption of immovable property collaterals without EPCs in the EU.

## 5 Concluding remarks

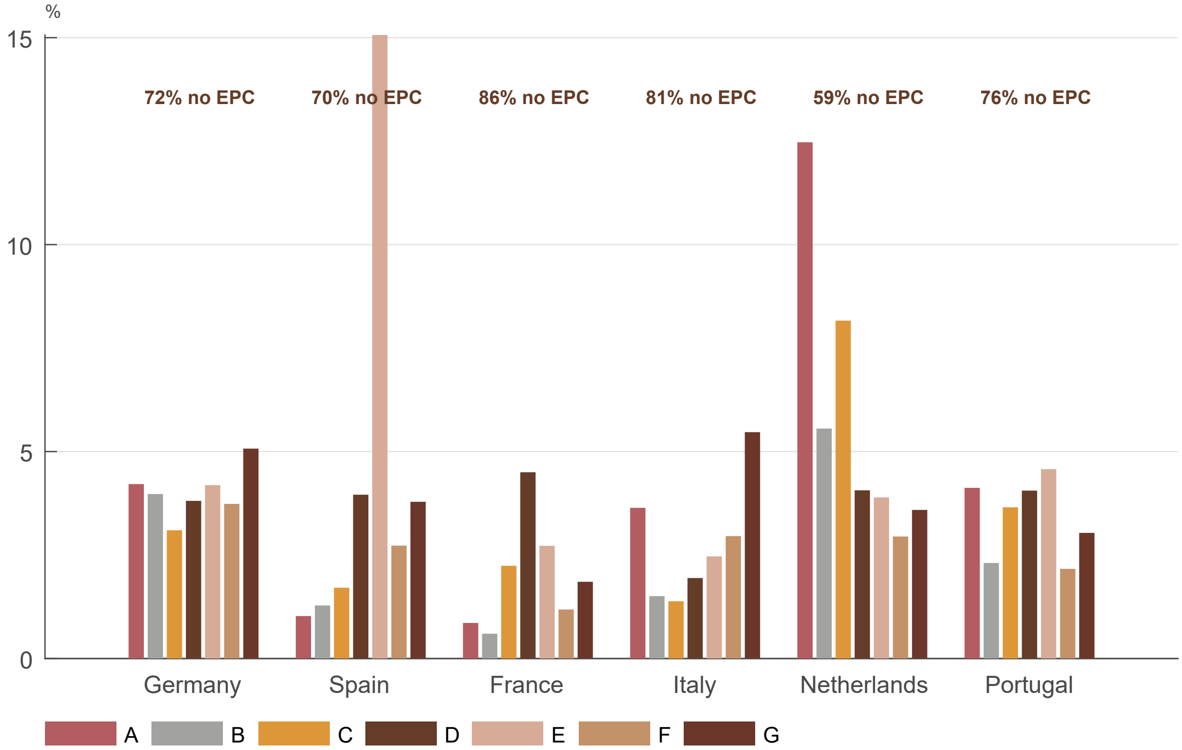
The implementation of the first requirements set out in the Regulation represents a major step forward in the disclosure of climate-related risks in the banking sector, obliging European credit institutions to publish granular and comparable climate data that were previously not available.

These disclosures have provided the basis for the analysis conducted in this article. This is a descriptive analysis that, as noted above, must be interpreted with due caution. First, because the information disclosed is complex and had not been reported in this granularity and in these formats before, meaning that errors of interpretation cannot be ruled out. Second, because some of the risk indicators (e.g. the identification of sectors that highly contribute to climate change) could be overly broad. And lastly, because the analysis is based on still incomplete information, given that a significant part of the data to be disclosed under the Regulation is subject to the phase-in periods detailed above.

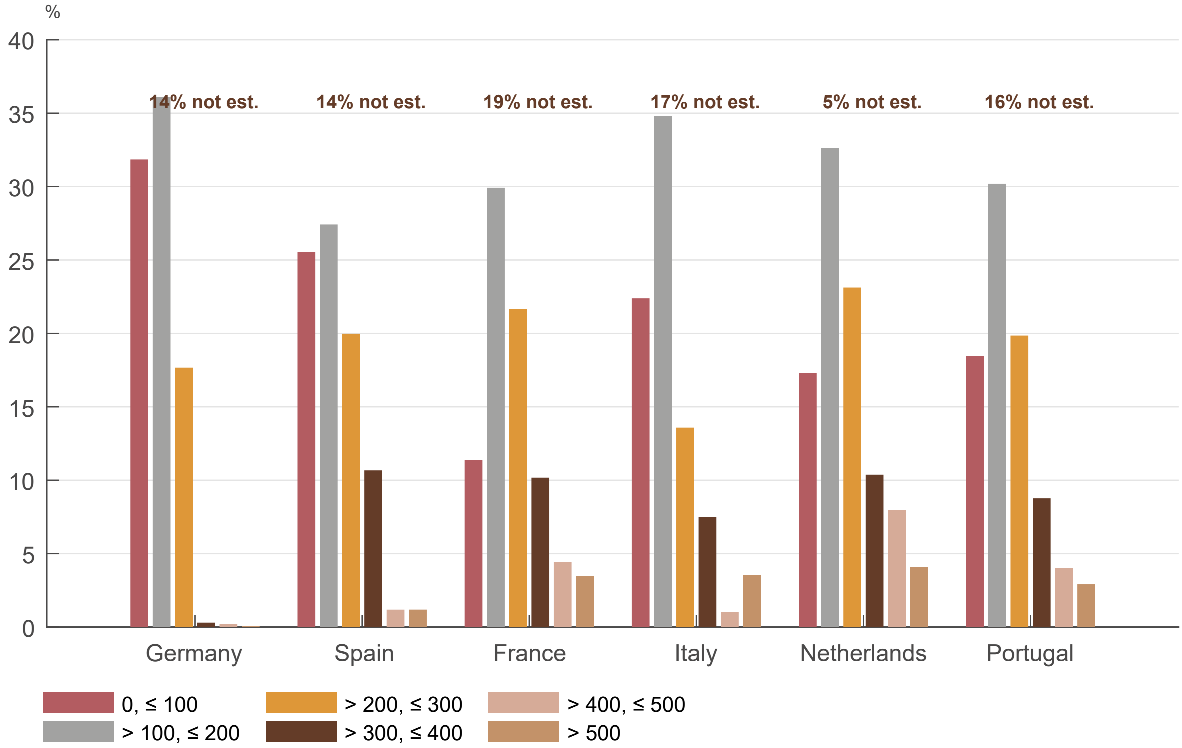
Chart 5

**Energy efficiency of immovable property collaterals and of repossessed collaterals in the EU. European credit institutions analysed, aggregated by country of origin**

5.a By energy performance certificate




5.b By energy efficiency level




**SOURCES:** Banco de España calculations based on information published on the banks' websites.

With the application of the Corporate Sustainability Reporting Directive, banks will foreseeably have higher quality data on their counterparties, thus enhancing the quality of their Pillar 3 disclosures. With time, the analysis can also be rounded out with the other aspects envisaged in the Regulation and with future developments in the indicators, thus enabling a more comprehensive and qualified assessment.

However, as pointed out in Banco de España (2023), the information disclosed highlights the significance of banks' exposures to climate risks and the need to further improve the quality and granularity of the database to ensure that these risks are managed appropriately.

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# Annex 1 List of Spanish credit institutions analysed[1]

Table A1.1

| Institution | Link to published corporate information |
|---|---|
| Banco de Santander, S.A. | https://www.santander.com/en/shareholders-and-investors/financial-and-economic-information/pillar-iii-disclosures-report |
| Banco Bilbao Vizcaya Argentaria, S.A. | https://shareholdersandinvestors.bbva.com/financials/financial-reports/#2022 |
| CaixaBank, S.A. | https://www.caixabank.com/en/shareholders-and-investors/economicfinancial-information/informacion-con-relevancia-prudencial-pilar-3.html |
| Banco de Sabadell, S.A. | https://www.grupbancsabadell.com/corp/en/shareholders-and-investors/economic-and-financial-information.html |
| Bankinter, S.A. | https://www.bankinter.com/webcorporativa/en/shareholders-investors/financial-information/third-pillar-market-discipline |
| Unicaja Banco, S.A. | https://www.unicajabanco.com/en/inversores-y-accionistas/informacion-economico-financiera/informacion-con-relevancia-prudencial |
| ABANCA Corporación Bancaria, S.A. | https://www.abancacorporacionbancaria.com/en/investors/financial-information/#2022 |
| Kutxabank, S.A. | https://www.kutxabank.com/cs/Satellite/kutxabank/en/investor_relations/financial_information/pillar_iii |
| Banco de Crédito Social Corporativo, S.A. (Cajamar) | https://www.cajamar.es/en/comun/informacion-corporativa/informacion-para-inversores/informacion-financiera/informacion-relevancia-prudencial/ |
| Ibercaja Banco, S.A. | https://www.ibercaja.com/shareholders-and-investors/financial-information/information-of-prudential-relevance |

1 This article uses the information published on the websites of the sample banks at 31 July 2023.

# Annex 2 List of European credit institutions analysed[1]

Table A2.1

| Institution | Type | Country | Link to published corporate information |
|---|---|---|---|
| Deutsche Bank AG | G-SII<br>O-SII | Germany | https://investor-relations.db.com/reports-and-events/regulatory-reporting/#tab-container-1-2022-2020-2 |
| Commerzbank AG | O-SII | Germany | https://investor-relations.commerzbank.com/disclosure-report/ |
| Banco Santander, S.A. | G-SII<br>O-SII | Spain | https://www.santander.com/en/shareholders-and-investors/financial-and-economic-information/pillar-iii-disclosures-report |
| Banco Bilbao Vizcaya Argentaria, S.A. | O-SII | Spain | https://shareholdersandinvestors.bbva.com/financials/financial-reports/#2022 |
| CaixaBank, S.A. | O-SII | Spain | https://www.caixabank.com/en/shareholders-and-investors/economicfinancial-information/informacion-con-relevancia-prudencial-pilar-3.html |
| BNP Paribas S.A. | G-SII<br>O-SII | France | https://invest.bnpparibas/en/search/reports/documents/regulated-information?s%5Bsubthemes%5D%5B%5D=4 |
| Crédit Agricole S.A. | G-SII<br>O-SII | France | https://www.credit-agricole.com/en/finance/financial-publications |
| BPCE S.A. | G-SII<br>O-SII | France | https://groupebpce.com/en/investors/results-and-publications/pillar-iii |
| Société Générale S.A. | G-SII<br>O-SII | France | https://investors.societegenerale.com/en/financial-and-non-financial-information/regulated-information-and-other-important-information |
| Confédération Nationale du Crédit Mutuel | O-SII | France | https://investors.bfcm.creditmutuel.fr/investor-relations/regulated-financial-information?aeed09c6_year%5Bvalue%5D=2023&aeed09c6_widget_id=aeed09c6&form_build_id=form-UasZ_E-GFQrIgzVFJylibl80UDiXLXD38gvN7c3blBI&form_id=widget_form_base |
| UniCredit S.p.A. | G-SII<br>O-SII | Italy | https://www.unicreditgroup.eu/en/investors/financial-reporting.html |
| Intesa Sanpaolo S.p.A. | O-SII | Italy | https://group.intesasanpaolo.com/en/governance/risk-management/3rd-pillar-basel |
| ING Groep N.V. | G-SII<br>O-SII | Netherlands | https://www.ing.com/Investor-relations/Financial-performance/Annual-reports.htm |
| Coöperatieve Rabobank U.A. | O-SII | Netherlands | https://www.rabobank.com/about-us/organization/results-and-reports/downloads |
| ABN AMRO Bank N.V. | O-SII | Netherlands | https://www.abnamro.com/en/investor-relations/information/all-financial-reports?selectedTabs=2022 |
| BNG Bank N.V. | O-SII | Netherlands | https://www.bngbank.com/Financials/Annual-report-2022 |
| Caixa Geral de Depósitos, S.A. | O-SII | Portugal | https://www.cgd.pt/english/investor-relations/financial-information/pages/pillar-3-report.aspx |
| Novo Banco S.A. (Novobanco) | O-SII | Portugal | https://www.novobanco.pt/english/investor-relations/financial-information0/financial-disclosures#accordion-824cc5bc4d-item-3e46c3eae0 |
| Banco Comercial Português, S.A. | O-SII | Portugal | https://ind.millenniumbcp.pt/en/Institucional/investidores/Pages/Disciplina-de-Mercado.aspx |

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1 This article uses the information published on the websites of the sample banks at 31 July 2023.