Green asset ratios

EU Taxonomy Article 8 disclosures for NFRD(CSRD) undertakings, per Disclosures DA

By Maureen Schuller, Head of Financials Sector Strategy
maureen.schuller@ing.com

From the presentation given during the EEMI Bauhaus Week in Trento on 14 February 2023

Green asset ratios for on balance sheet exposures

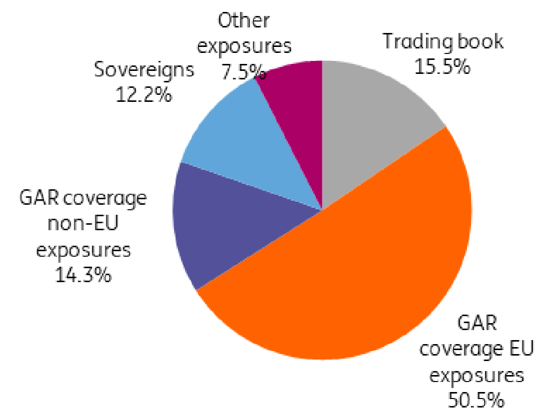
Loans and advances, debt securities, equity holdings and repossessed collateral

Accounting categories

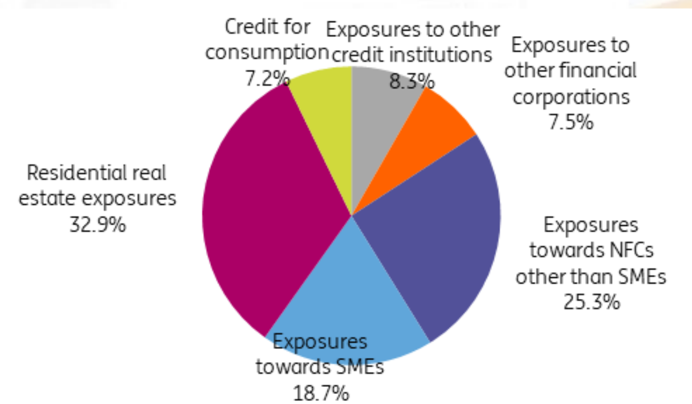
1. Financial assets at amortised costs
2. Financial assets at fair value through other comprehensive income
3. Investments in subsidiaries
4. Joint ventures and associates
5. Financial assets designated at fair value through profit or loss and non-trading financial assets mandatorily at fair value through profit or loss
6. Real estate colleterals obtained by credit institutions by taking possession in exchange for cancellation of debt

$$GAR = \frac{\text{Taxonomy aligned exposures} **}{\text{Total covered assets} *}$$

Coverage of KPIs (share total financial assets)



GAR on EU exposures (share total financial assets)



* Excludes: exposures to central governments and central banks

** Excludes: 1) exposures to central governments and central banks, 2) financial assets held for trading, 3) on-demand interbank loans, 4) exposures to non-NFRD undertakings

Source: EBA, European Commission

Green asset ratio's for credit institutions

1. **Exposures to non-financial corporations**
   - GAR loans and advances (GAR L&A)
   - GAR debt securities (GAR DS)
   - GAR equity holdings (GAR EH)

2. **Exposures to financial undertakings**
   - Exposures other credit institutions
   - Exposures to other investment firms
   - Exposures to asset managers
   - Exposures to insurance and reinsurance companies

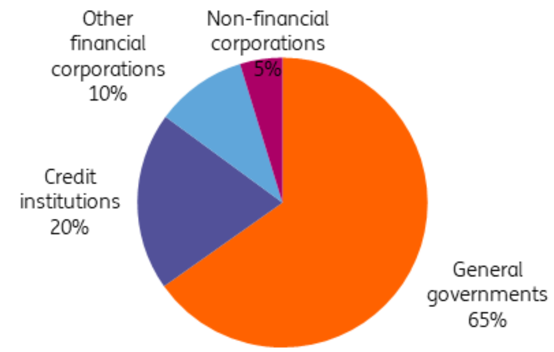
3. **Retail exposures**
   - Residential real estate lending
   - Credit for consumption car loans

4. **Undertakings not subject to NFRD disclosures**
   - Exposures non-financial undertakings (non-NFRD)
     - Loans & advances collateralized by immovable commercial property and/or building renovation loans
     - Debt securities and other loans and advances and equity instruments contributing to an environmental objective
   - Exposures to financial undertakings (non-NFRD)

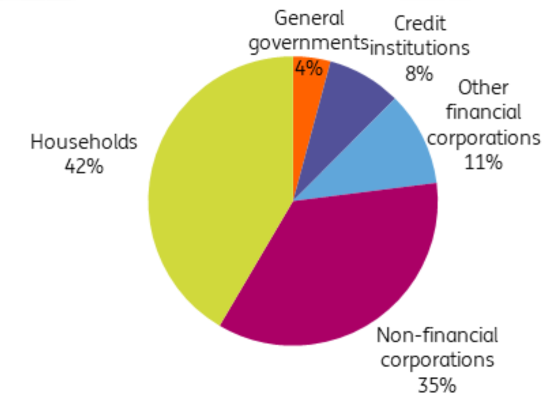
5. **Public housing**

6. **Repossessed collateral**

Distribution of EU bank debt securities



Distribution of EU bank loans & advances



Source: EBA, European Commission

The technical screening criteria identified sectors

Activities identified as contributing substantially to the first two environmental objectives

Climate change adaptation

Climate change mitigation

1	•Agriculture and forestry
2	•Environmental protection and restoration activities
3	•Manufacturing
4	•Energy
5	•Water supply, sewerage, waste and remediation
6	•Transport
7	•Construction and real estate activities
8	•Information and communication
9	•Professional, scientific and technical activities
10	•Financial and insurance activities
11	•Education
12	•Human, health and social work activities
13	•Arts, entertainment and recreation

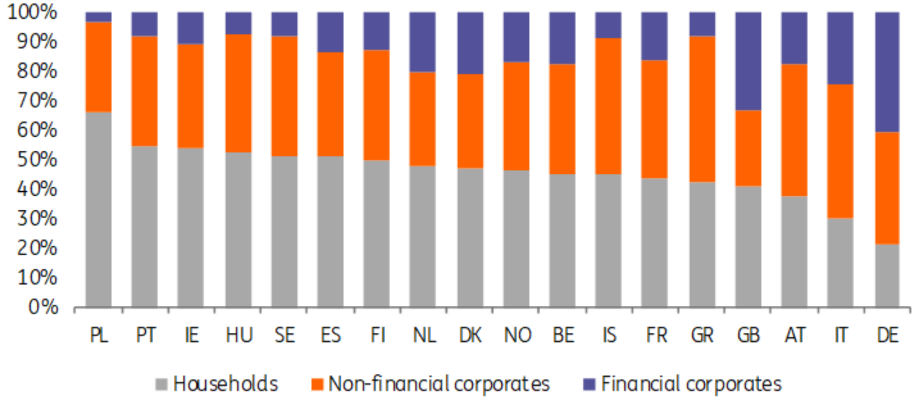
Not a NACE economic activity

NACE economic activities left out of scope

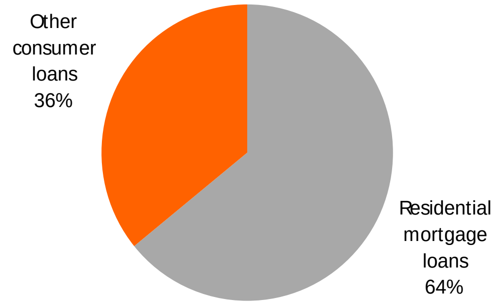
1. Mining and quarrying
2. Wholesale and retail trade
3. Accommodation and food service activities
4. Administrative and service activities
5. Public administration and defense, compulsory social security
6. Other services

Loans to households are quite crucial to the GAR

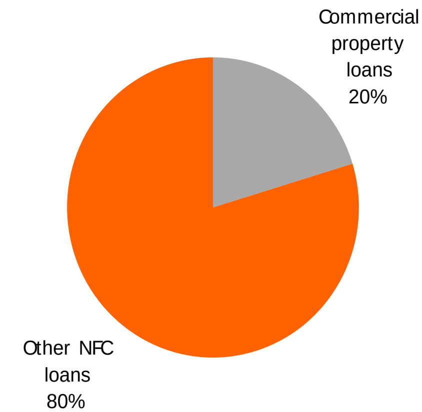
German banks are least exposed to households



Loans to households



Loans to NFC



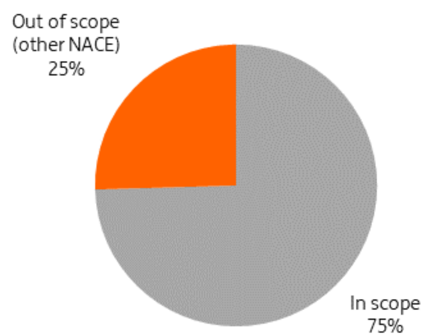
We estimate that the criteria for real estate and construction will affect the GAR calculations for 45%:

- Household residential real estate assets;
- SME commercial real estate assets;
- Corporate sector exposures to construction and real estate activities;
- Loans and advances financing public housing;
- Repossessed real estate collateral.

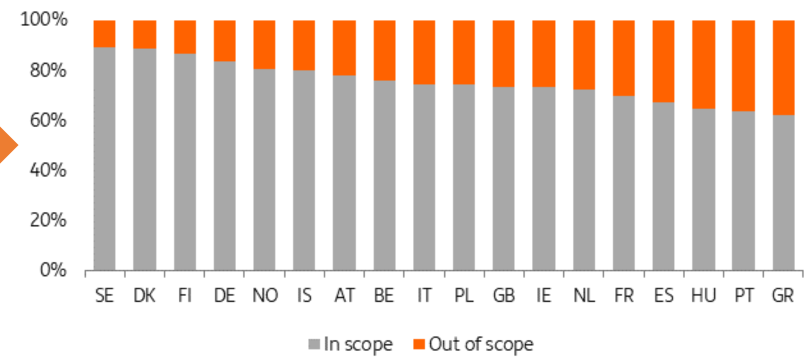
Source: EBA statistics

75% of sector exposures are taxonomy in scope

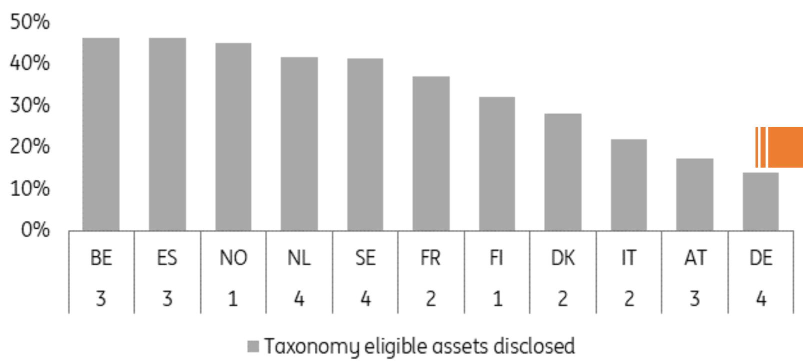
Loans & advances to NFC: 75% is in scope



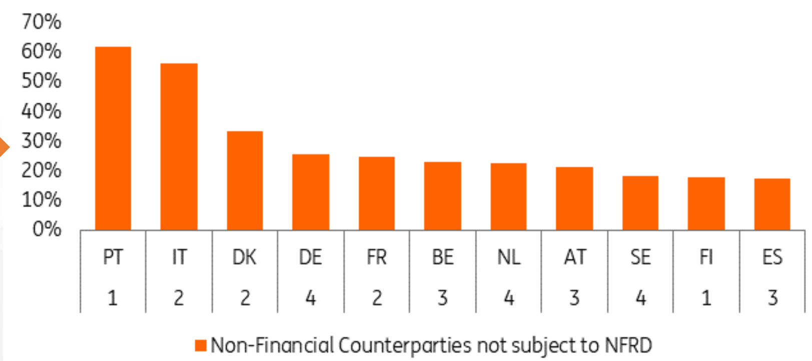
Nordic banks seem best covered by sectors



Nordic & BNLX banks most taxonomy eligible



Exposures non-NFRD companies differ highly



Source: EBA statistics and issuer information

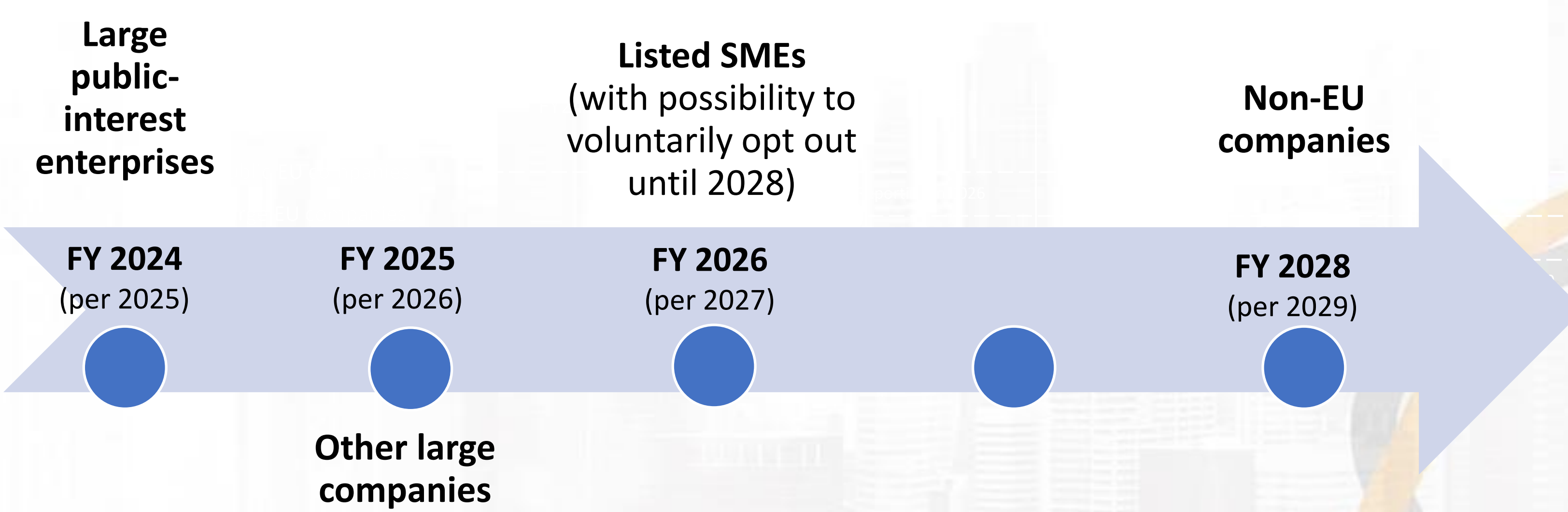
EUROPEAN COVERED BOND COUNCIL

Corporate Sustainability Reporting Directive (CSRD)

More than reporting on taxonomy compliance alone

On 5 January 2023, the **Corporate Sustainability Reporting Directive (CSRD)** of 14 December 2022 entered into force.
The Directive amends the Non-Financial Reporting Directive (NFRD) (Directive 2013/34/EU), the Transparency Directive (Directive 2004/109/EC), the Statutory Audit Directive (Directive 2006/43/EC) and the Audit Regulation (Regulation 537/2014) with regards to corporate sustainability reporting, strengthening the rules on the **social** and **environmental information** companies have to report.

One of the key changes introduced by the CSRD is that it expands the NFRD reporting requirements to all large companies and listed SMEs, with the exception of micro-enterprises. CSRD companies will have to report according to the **European Sustainability Reporting Standards (ESRS)**, for which a draft version has been developed by European Financial Reporting Advisory Group (EFRAG) in November 2022. The European Commission is expected to adopt the first set of standards by mid-2023.



European Sustainability Reporting Standards (ESRS)

EFRAG published the first set of 12 ESRS in November 2022

Cross-cutting standards

ESRS 1 General requirements	**ESRS 2** General disclosures

Topical standards

Environment	**ESRS E1** Climate change	**ESRS E2** Pollution	**ESRS E3** Water & marine resources	**ESRS E4** Biodiversity & ecosystems	**ESRS E5** Resource use & circular economy
Social	**ESRS S1** Own workforce	**ESRS S2** Workers in the value chain	**ESRS S3** Affected communities	**ESRS S4** Consumers & end-users	
Governance	**ESRS G1** Business conduct				

Sector specific standards *yet to be developed*

ECBC EUROPEAN COVERED BOND COUNCIL

CRR disclosures on climate change and ESG risks

EBA final draft implementing technical standards (ITS) on CRR Article 449a disclosures

- **ESG disclosures**
  - **Quantitative** disclosures
    - Disclosures on climate change **transition** risk
      - 1. Credit quality exposures by sector
      - 2. Energy efficiency immovable property
      - 3. Alignment on scope 3 emissions
      - 4. Exposures to top 20 carbon-intensive firms
    - Disclosures on climate change **physical** risk
    - Information on **mitigation actions**
      - 1. Green Asset Ratio (GAR)
      - 2. **Banking book Taxonomy Alignment Ratio (BTAR**)
      - 3. Other climate change mitigation actions
  - **Qualitative** disclosures
    - 1. **Environmental** risk
    - 2. **Social** risk
    - 3. **Governance** risk

Who: Large institutions with securities traded on a regulated market in any of the EU member states
When: From 28 June 2022: first disclosures early 2023 for FY2022, and semi-annually thereafter

Unlike the GAR (January 2024), the **BTAR** (June 2024) **includes exposures to non-financial corporations not subject to NFRD disclosure requirements (eg SMEs and other non-NRFD companies)**. Banks have flexibility to disclose on a best efforts basis. They can collect information on a bilateral basis through the lending process, use estimates or use EPC labels/top 15% metric for commercial real estate.

The GAR is anticipated to remain leading to performance.

Based on EBA final draft implementing technical standards on prudential disclosures on ESG risks in accordance with CRR Article 449a, January 2022