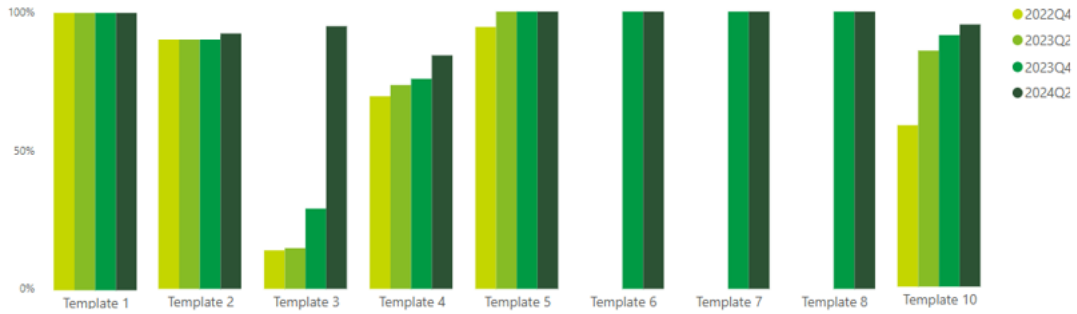
Q2 2024 Pillar 3 ESG reporting
Pillar 3 disclosures on ESG risks

Introduction

This report provides a comprehensive analysis of the Q2 2024 Pillar 3 reporting on ESG risks for 38 European banks, including six banks from the Netherlands. The banks selected for this benchmark are chosen based on their size and geographic presence across Europe, ensuring a diverse representation that facilitates an effective comparison with the Dutch market. These large institutions, all under European Central Bank (ECB) supervision, have issued securities that are traded on regulated markets within any Member State. Previously, the Q4 2023 disclosures encompassed a total of 39 banks. In this analysis, the figures for the 38[1] banks are benchmarked against each other, with trends and movements between reporting periods closely examined.

Figure 1 illustrates how the frequency of the ESG template disclosures has changed over time, detailing the percentage of banks that have disclosed each template. The banks in our benchmark now demonstrate strong coverage in disclosing the mandatory templates, marking an improvement compared to the initial year of implementation. Initially, many banks exhibited gaps in their Pillar 3 ESG template reporting. Today, those with incomplete disclosures are the outliers, highlighting a positive shift toward comprehensive reporting. Since Q2 2024, Template 3 disclosure has become mandatory, and the data shows that most banks (95%) have promptly aligned with this requirement. It is interesting to note that, aside from Template 3, Template 2, 4, and 10 are also not disclosed by 100% of the banks in the benchmark. This could indicate that these banks may not have exposure to the specific elements or activities addressed within these templates. Looking forward, Template 9 is set to become mandatory starting Q4 2024.

Figure 1: Templates on ESG risks disclosed by 38 banks between Q2 2022 and Q2 2024



Qualitative disclosures

Qualitative ESG disclosures aim to increase transparency regarding the bank's risk management practices and the qualitative context of the quantitative disclosures. They are reported in table 1 (Environment), 2 (Social), and 3 (Governance).

[1] This includes 35 banks which were analysed in the Q4 2023 report. The Q2 2024 scope varies due to data availability at the time of report preparation.

Using Cognitiva[2], our ESG-specific AI tool which leverages recent advancements in AI and large language models, the Pillar 3 reports of the six Dutch banks have been analysed. This analysis includes, among others, the frequency with which the banks write about the topics from the European Sustainability Reporting Standards (ESRS), as well as the sentiment with which these banks discuss the Environmental, Social and Governance related topics. Significant variability exists in the amount of text and the number of pages dedicated to qualitative disclosures. However, a general trend suggests that the primary emphasis is on environmental topics. With the introduction of CSRD disclosures, which are expected to be published by most Dutch banks in the first quarter of 2025, it is anticipated that qualitative disclosures within the Pillar 3 reports will also be updated in accordance with the double materiality assessment outcomes of the CSRD. This can be further evaluated in the next iteration of this benchmark. There is also variability in the sentiment with which banks report on ESG-related topics, often tending towards a neutral or even negative stance. This indicates a reluctance to express a positive sentiment when disclosing information about these subjects.

Figure 2: Frequency of material ESRS (sub-)topics mentioned per Dutch bank

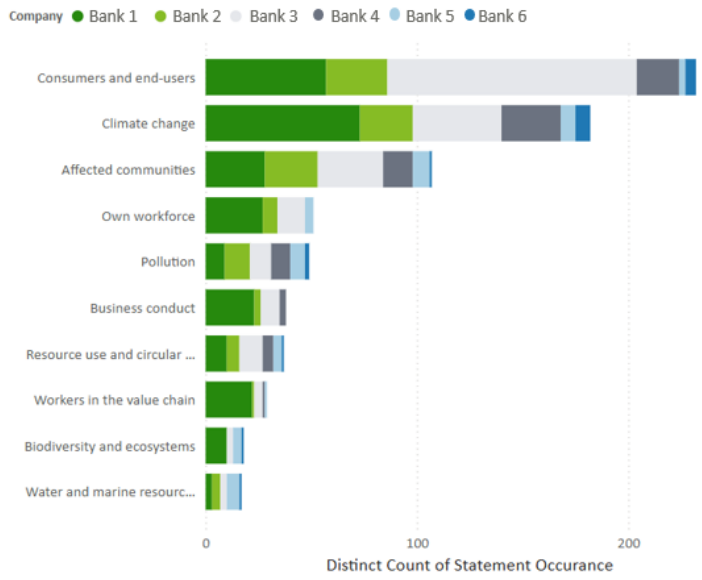
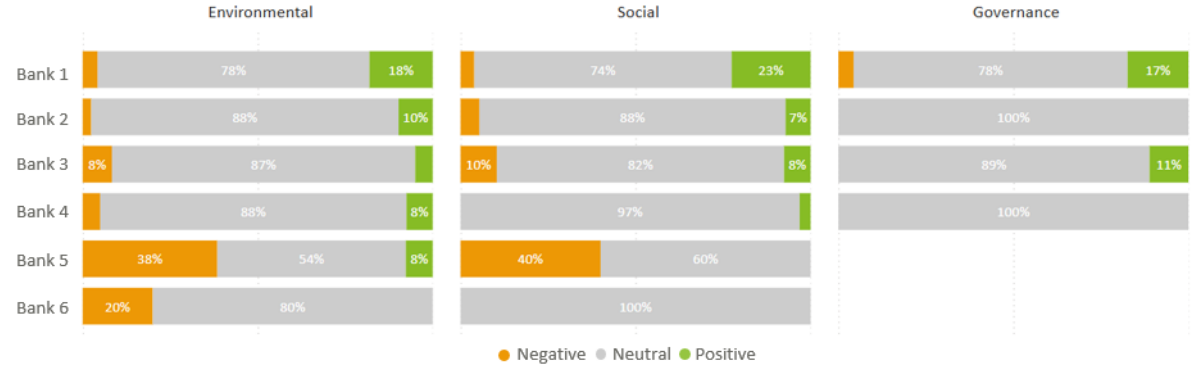


Figure 3: Distribution of sentiment per Environmental, Social and Governance topic per Dutch bank



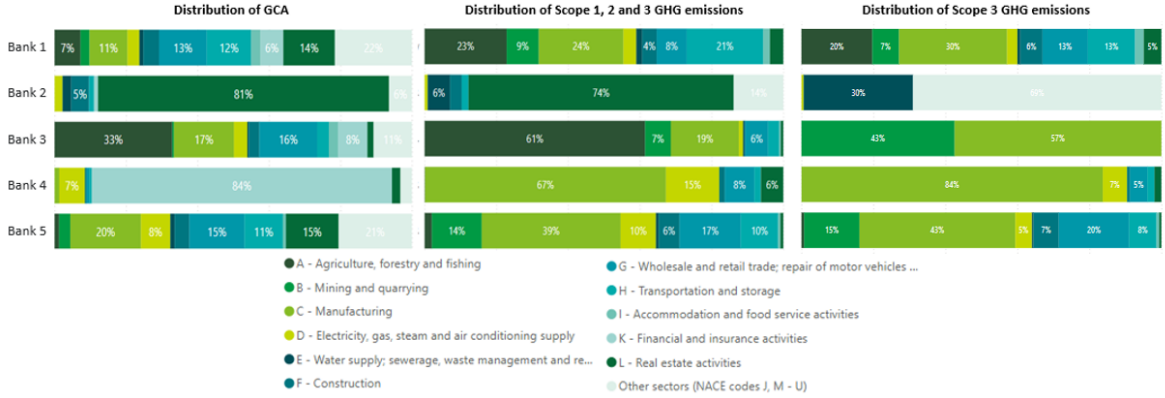
[2] Please find more information on Cognitiva on: Is uw zakelijke ESG tekst allesomvattend en gebalanceerd? | Deloitte Nederland

Template 1

Template 1 requires banks to disclose their exposure to sectors that highly contribute to climate change.

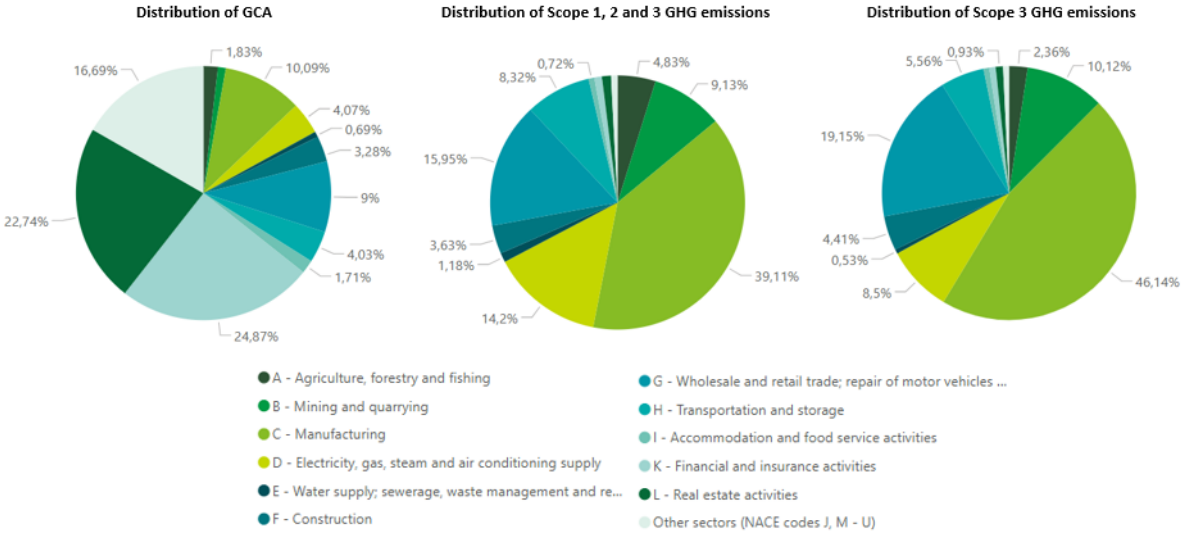
As of Q2 2024, the disclosure of greenhouse gas (GHG) financed emissions (i.e., scope 1, scope 2, and scope 3 emissions of the counterparty) is a mandatory requirement within template 1 of the Pillar 3 disclosures. These emissions encompass all indirect GHG emissions associated with a bank's financing activities, including those arising from the operations of clients and investees. All banks included in this benchmark, with the exception of one Dutch bank, have reported Scope 3 GHG financed emissions for certain sectors to which they are exposed. However, it is noted that the GHG financed emissions are not consistently disclosed for every sector that banks are exposed to, whereas this is most visible in the Scope 3 emission figures. For instance, from the Dutch banks as included in Figure 4, it is visible that banks 2, 3, and 4 each have over 25% of their gross carrying amount (GCA) allocated to specific sectors (respectively, real estate, agriculture, forestry and fishing, and financial and insurance activities), but have not disclosed any Scope 3 GHG financed emissions related to these sectors. Furthermore, only one Dutch bank has reported Scope 3 GHG financed emissions for other sectors. Moreover, some banks in the Netherlands specifically indicate that their disclosures of Scope 3 GHG financed emissions pertain only to a portion of their sectoral exposure, either upstream or downstream.

Figure 4: Distribution of GHG Financed Emissions of Dutch Banks by Sector as percentages of GCA



At the European level, as illustrated in Figure 5, it is evident that a significant proportion of Real Estate activities, accounting for 22.74% of total GCA, is associated with only 0.72% of the total Scope 1, 2, and 3 GHG financed emissions reported by the other European banks. When considering Scope 3 GHG financed emissions only, this percentage increases slightly to 0.93%. Conversely, the Manufacturing sector represents 10.09% of the total GCA of the other European banks. Yet, it contributes a substantial 39.11% of the total Scope 1, 2, and 3 GHG emissions and 46.14% of Scope 3 GHG financed emissions. This discrepancy may be attributed to the specific characteristics of certain industries and the volume of emissions produced by these companies. However, the significant variation could also indicate that banks prioritise estimating Scope 3 GHG financed emissions for particular sectors, such as high-emitting ones, or that there is greater availability of company-specific data in certain industries.

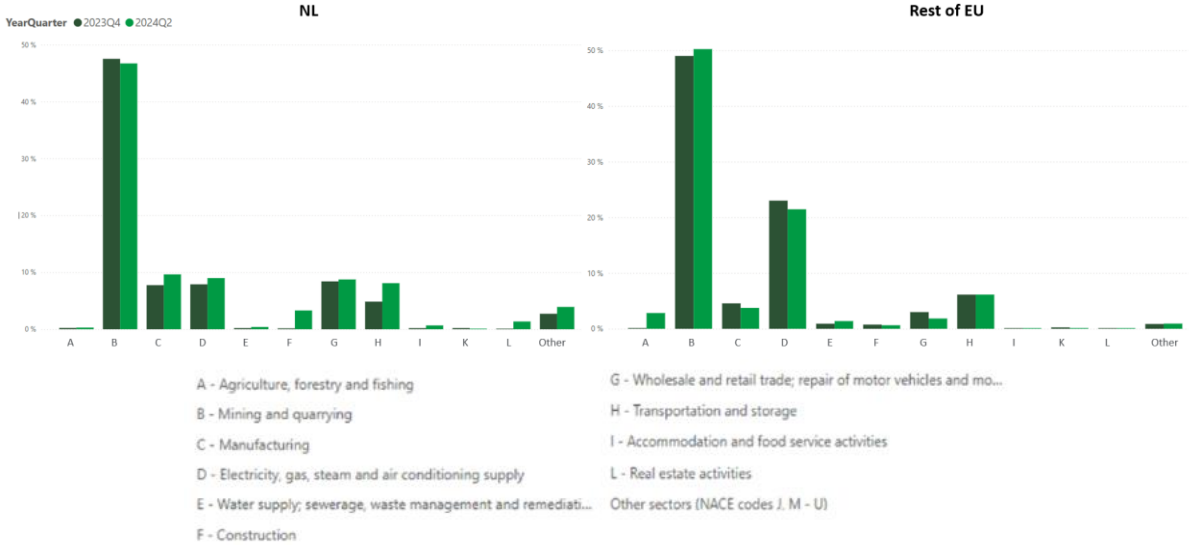
Figure 5: Distribution of GHG Financed Emissions of the rest of EU Banks by Sector as percentages of GCA



Exposure towards companies excluded from Paris-Aligned Benchmarks

In addition to disclosing their exposure to sectors contributing to climate change, banks are required to reveal whether these exposures are excluded from Paris-Aligned Benchmarks (PAB). The illustration in Figure 6 depicts the percentage of GCA of exposures related to companies excluded from the Paris Benchmark, broken down by sector. Compared to Q4 2023 reporting, it is visible for Dutch banks that for each sector, except the mining and quarrying sector (Sector B) and Financial and Insurance activities (Sector K), there has been relatively more exposure towards companies that are not aligned with these benchmarks. In contrast, the other European banks in scope have followed a different trend, where the relative exposure towards non-PAB companies has only increased in the Agriculture, forestry and fishing (Sector A), mining and quarrying (Sector B), and water supply and waste management (Sector E) sectors.

Figure 6: Exposure of Dutch banks and banks in the Rest of Europe towards companies excluded from the Paris Benchmark as percentages of GCA



Template 2

Template 2 discloses information on the loans collateralised with real estate based on the energy efficiency of the collateral.

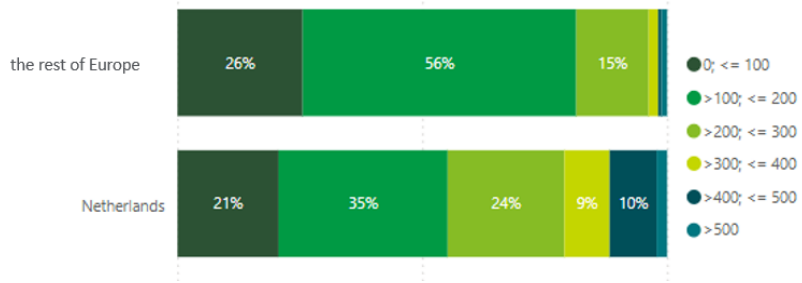
Template 2 discloses the GCA of loans collateralised by real estate with a breakdown by energy efficiency and Energy Performance Certificates (EPC) labels of the collaterals. Despite progress, banks are still facing challenges in disclosing comprehensive energy efficiency and EPC label data.

Energy efficiency

Similar to Q4 2023, Dutch banks continue to have room for improvement in enhancing the energy efficiency of their real estate collateral. Their portfolio still shows lower energy efficiency compared to the broader European market, as illustrated in Figure 7. In Q2 2024, 56% of the Dutch bank portfolios had an energy efficiency of < 200 kWh/m2, compared to 82% in the rest of the EU.

The composition of Dutch banks' energy efficiency distribution has remained largely unchanged between Q4 2023 and Q2 2024. The share of buildings in the lowest energy consumption category (<100 kWh/m2) remained at 21%, while the 100-200 kWh/m2 segment also stayed at 35%. However, a slight increase was observed in the 200-300 kWh/m2 category, rising from 22% to 25%. The 300-400 kWh/m2 segment decreased from 10% to 9%, while the 400-500 kWh/m2 category remained stable at 10%. Notably, properties with an energy consumption of >500 kWh/m2 dropped from 2% to 1%.

Figure 7: Distribution of GCA reported in Pillar III by Level of energy efficiency (kWh/m2) in the EU area



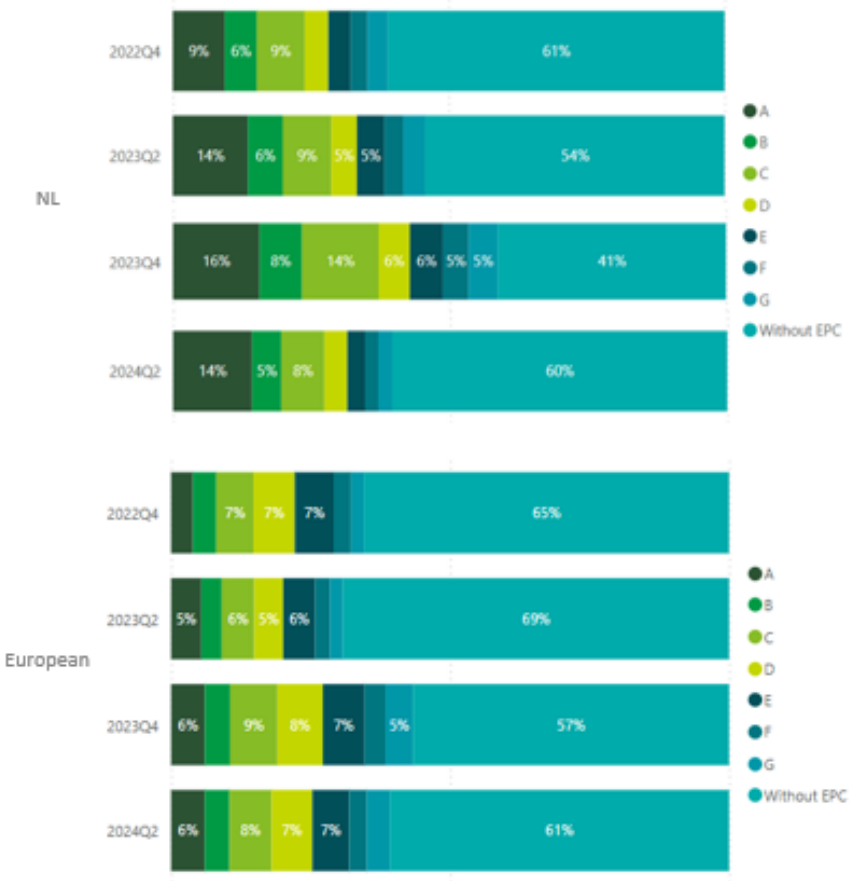
EPC labels

Dutch banks have demonstrated significant progress in the reduction of properties without EPC labels. Since Q4 2022, the relative amount of GCA without EPC labels has seen a notable decline. This shift has been largely influenced by regulatory requirements mandating the presence of energy labels at the time of sale or purchase within the Netherlands. Also, banks indicate to actively promote sustainable home improvements among their customers by engaging with them and offering incentives for energy efficiency improvements, such as sustainability-linked mortgages. Nevertheless, the Dutch and 38 banks show a significant distribution without EPC labels.

However, per Q2 2024, the trend of decreasing GCA without EPC labels appears to have reversed. This change can be attributed to the disclosures from one bank, which reported a higher amount of GCA without EPC labels compared to previous years. The bank indicates that in prior reporting periods, it had included temporary EPC labels in its disclosures.

However, as per this reporting period, only valid labels (i.e., labels that have been issued by the authorised authority and are not older than 10 years) have been considered.

Figure 8: Distribution of EPC labels in the EU-Area as disclosed by Dutch banks and European banks



Methodologies in Focus

Dutch banks use a range of methodologies to assess energy efficiency and EPC labels. A takeaway is that many banks heavily depend on external data sources, including EPC data from governmental entities, estimations from commercial providers, and information from energy distribution operators. Additionally, some institutions are actively developing models to estimate energy efficiency scores in instances where direct data is unavailable. This highlights that banks are both heavily relying on existing data and creating additional methods to enhance data availability and accuracy.

As banks continue to refine and improve the reporting methodologies, it is crucial for banks to focus on enhancing the accuracy and transparency of their disclosures, thereby supporting stakeholders in making informed decisions regarding climate-related risks and actions.

Template 3

Template 3 discloses the distance to the IEA Net Zero Emissions by 2050 Scenario (NZE) regarding GCA by sector. Disclosure of this template is mandatory as of 30 June 2024.

Within this template, banks must report exposures to non-financial corporate sectors, classified by NACE codes, and assess alignment against NZE2050 pathways. Among the 38 banks within scope, 36 have disclosed alignment metrics. Two Dutch banks did not disclose

alignment metrics in this template, whereas one bank chose to refer to its impact report, while the other bank indicated to have no exposure towards the sectors specified in this template. The other Dutch banks indicate to implement various strategies to gather the necessary information for disclosure. Some banks concentrate on sector-region combinations with the highest emissions, tailoring their strategies with intensity metrics specific to key industries. Others adopt a sector-based approach, prioritising transparency while addressing the gaps between mandatory disclosures and broader climate strategies. Additionally, it is noted that a consistent classification of exposures towards specific NACE codes is important for establishing sectoral targets to be disclosed within this template.

From Figure 9, it is noteworthy that several Dutch banks report negative percentages, indicating that their sector portfolio alignment metrics have met or fallen below the 2030 target. Bank 1 has adopted a different approach by stating that its sector alignment is at 0% despite the fact that these sectors are below the reference path. Furthermore, across the full scope of the benchmark, it is evident that while Template 3 requires the disclosure of alignment metrics for relevant and specified sectors, not all banks are currently doing so, even though they have disclosed exposure to those sectors in Template 1.

Figure 9: Dutch banks' portfolio's distance to IEA NZE2050 in %

Template 4

Template 4 shows the exposures in the banking book to the top 20 carbon-intensive firms in the world.

In previous benchmarking analyses of Template 4, among the banks in scope of the benchmark, a Dutch bank reported the highest exposure to the top 20 carbon-intensive firms in relation to its total GCA. However, the bank clarified that it had initially compared its exposure to these top 20 carbon-intensive firms against the GCA of non-financial counterparties only rather than its total banking book GCA as per the template instructions. In Q2 2024, this approach has been revised, whereafter, the bank's relative exposure has significantly decreased from 1.04% in Q4 2023 to 0.21% in Q2 2024. As a result, the highest exposure within the benchmark's total scope of banks is currently 0.59%. Additionally, compared to Q4 2023, there are now 11 banks reporting a relative exposure of 0.15% or higher to the top 20 carbon-intensive firms, up from 10 banks in the previous reporting period. The average exposure of the European banks in scope has slightly decreased by 0.3% since Q4 2023, reaching 0.10% in Q2 2024. Finally, of the six Dutch banks in scope, only three banks indicate to have exposure to any of the top 20 carbon-intensive firms.

Figure 10: European banks, with the highest disclosed relative exposure (i.e. ≥ 0.15%) towards the top 20 most carbon-intensive companies compared to the total gross carrying amount

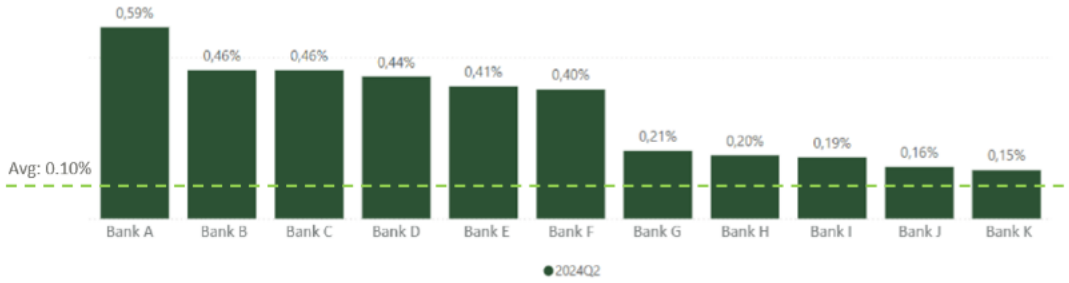
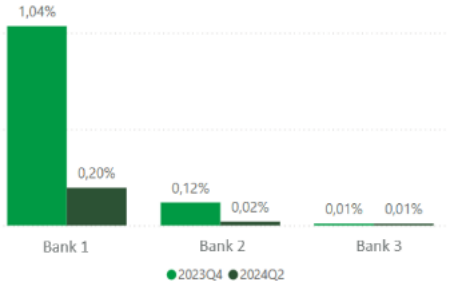


Figure 11: Dutch banks, relative exposure towards the top 20 most carbon-intensive companies compared to the total gross carrying amount



Template 5

Template 5 provides a detailed disclosure of banks' exposures to acute and chronic climate change physical risks. Currently, banks employ various methodologies to assess their sensitivity to these risks, leading to differences in disclosure practices.

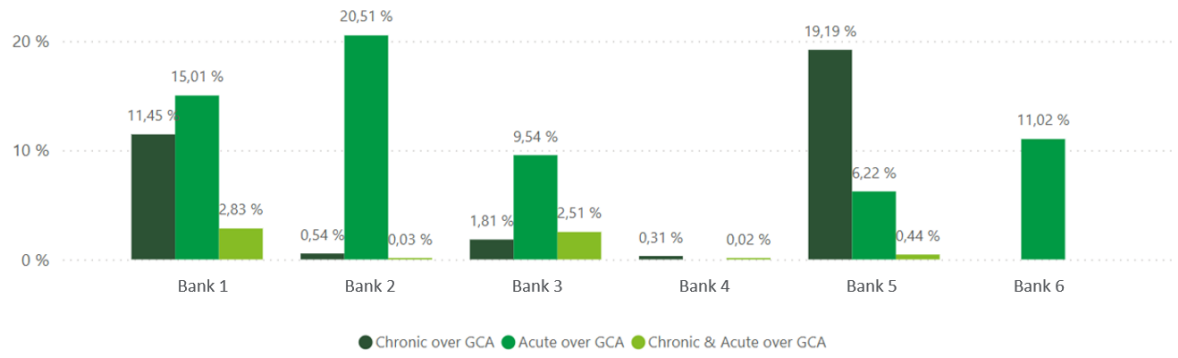
Figure 12 illustrates the extent of the exposure to physical risk of the six Dutch banks as a result of the loans granted to sectors that significantly contribute to climate change risk. Consistent with the observation from Q4 2023, the latest data reaffirms that all Dutch banks are sensitive to impact from physical risks, both acute and chronic, particularly so for acute.

A change has been observed in the composition of exposures subject to acute, chronic, and both acute and chronic events within the banking books of all six Dutch banks when comparing the data from Q4 2023 to Q2 2024. Notably, in Q4 2023, Bank 2's exposure to acute climate risk was 70.32%, but it has since decreased to 20.51%, which remains the highest among the six Dutch banks. This substantial decrease is primarily due to methodological developments. The changes stem from a shift in measurement activity level to asset level, as well as adjustments in the methodology for assessing housing associations and flood scenarios. Despite this, we noted that two other Dutch banks disclosed a higher sensitivity to acute physical risk in Q2 2024 compared to Q4 2023: Bank 1 increased from 8.27% to 15.01%, and Bank 5 rose from 1.90% to 6.22%, respectively.

Bank 4 did not disclose any exposure to acute physical risk, as their reporting methodology does not differentiate between various types of chronic and acute climate hazards. Consequently, they opted to classify the risks associated with these hazards as exposure sensitive to both chronic and acute physical risks. Bank 6 did not disclose any exposure to chronic physical risk or combined chronic and acute physical risk, as the only material physical

risks identified with available data for assessment—drought and flooding—are classified as acute risks.

Figure 12: Share of GCA(%) sensitive to impact from climate change physical events – Exposures towards sectors that highly contribute to climate change risk of Dutch banks



Comparative methodologies of the Dutch banks

Dutch banks assess different types of environmental hazards depending on their methodologies and geographical focus. Acute risks considered within this template by Dutch banks include extreme weather events such as floods, hurricanes, and cyclones, while chronic risks encompass gradual environmental changes like water stress and foundation risks such as pole rot and soil subsidence. Some banks assess flood risks as both acute and chronic, considering the impact of sudden extreme events alongside long-term changes in water levels. Most banks evaluate between five to ten climate hazards, incorporating additional sector-specific or regional considerations as needed.

To estimate physical risk, Dutch banks apply different methodologies based on the location and characteristics of their collateral. Some institutions rely on geospatial data and address-based analysis, using building addresses, municipal data, and postal codes to determine asset-level exposure to climate hazards. Others develop proprietary heatmaps that visualise worst-case climate scenarios while emphasising sector-specific vulnerabilities. Some banks implement standardised climate models, such as the Climate Impact Atlas, to ensure consistency in region-based risk assessment. More advanced internal tools are also employed, integrating comprehensive hazard assessments across multiple geographic locations. Flood risk mapping is frequently used as a primary reference for evaluating both acute and chronic hazards, maintaining a uniform approach across different asset classes. While some banks focus on broad hazard identification with sophisticated internal tools, others prioritise geographic specificity by leveraging municipal-level data or national climate models to refine their risk assessments. The diversity in methodologies reflects the strategic emphasis each institution places on managing climate-related financial risks within the Netherlands.

Template 6

Template 6 discloses the overview of the KPIs as calculated based on Templates 7 and 8, including the green asset ratio (GAR).

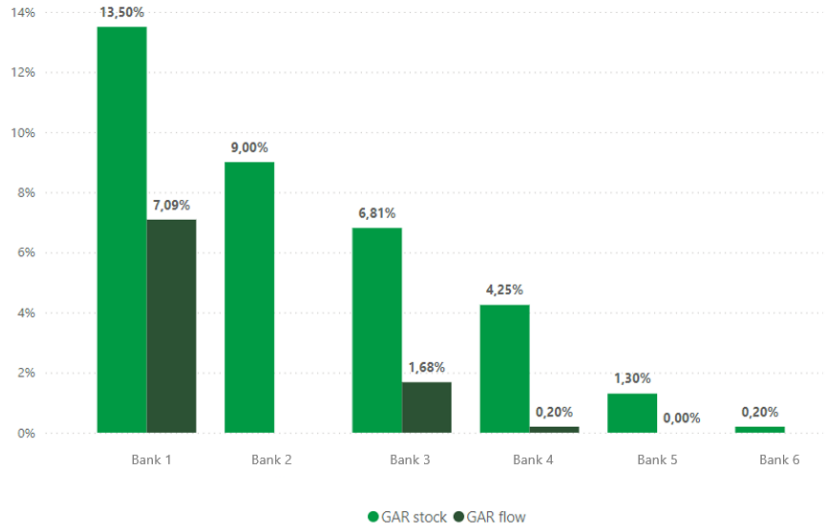
Template 6 summarises the GAR in terms of climate change mitigation (CCM), climate change adaptation (CCA), and the total ratio, i.e. the KPI is calculated as aligned assets over the bank's total assets. As a KPI, the GAR can be used to understand how banks align their financial activities with climate objectives. GAR stock refers to the assets on the bank's balance sheet at a particular point in time, and the GAR flow refers to the proportion of a bank's new financing (i.e. compared to the prior disclosure reference date) that is aligned with the EU Taxonomy.

Figure 13 illustrates the GAR stock and flow for Dutch banks. The ratio comprise assets that are aligned with the environmental objectives of CCM or CCA. Notably, banks report significantly lower percentages for GAR CCA, with the total GAR predominantly comprised of GAR CCM activities. Of the Dutch banks, only one bank reported activities that were aligned with the objectives of CCA.

Overall, the GAR stock has experienced only slight variations compared to previous reporting period, which is consistent with expectations since banks are unable to swiftly modify their existing portfolios. Four banks reported a slight decrease, while two noted a modest increase. This corresponds with the minor drop in the average GAR stock from 6.09% in Q4 2023 to 5.84% in Q2 2024. Despite these declines, Dutch banks still have a considerably higher average compared to other European banks, where the average stands at 2.09%.

Contrary to the relatively stable GAR stock, the average GAR flow for Dutch banks has experienced a notable decrease, falling from 4.83% in Q4 2023 to just 2.24% in Q2 2024. This downturn now positions Dutch banks only slightly above the average flow of their European counterparts, which is 2.15%. This reduction in GAR flow is observed across all Dutch banks, emphasising the anticipated volatility in flow measures as they pertain to new asset inflows. Bank 1's GAR flow declined from 9.18% to 7.09%, while Bank 3 experienced a sharper decrease from 6.91% to 1.68%. Bank 5 reported a GAR flow of 0% in comparison to the 3% reported last, suggesting that there have been no new green assets over the past 6 months. This lack of GAR flow reporting is also seen across Europe, where 5 out of 32 other EU banks similarly disclose either 0% alignment within the GAR flow or provide no data at all.

Figure 13: GAR KPI Climate Change Mitigation + Climate Change Adaptation - Dutch Banks



Templates 7 and 8

Template 7 details how banks calculate the GAR ratio, while Template 8 discloses the percentage value compared to GCA as disclosed in Template 7.

Templates 7 and 8 provide a detailed breakdown of the bank's EU Taxonomy-eligible and aligned assets and the extent to which credit institutions' activities qualify as environmentally sustainable, offering insights into the exposures allocated to the different taxonomy categories for each of the climate goals, differentiated by product types and counterparty types. This allows stakeholders to understand the actions instituted to mitigate climate change transition and physical risks.

Figure 14 showcases the proportion of eligible and aligned assets that contribute to environmental objectives. Focusing on Dutch banks, we observe minimal deviations from the initial reporting period of Q4 2023. Mirroring the trends from Q4 2023, three Dutch banks report over 85% of their GAR assets as eligible. At 52.12%, the average eligible stock for Dutch banks remains relatively consistent compared to the previous reporting period (Q4 2023: 53.67%). It is important to note that this average is influenced by Bank 5 and 6 using different calculation methods, as indicated by the red stars in Figure 14, which skews the average downward. Bank 5 and 6 calculate the percentage by dividing the total covered assets in the GAR denominator which comprises a larger value, whereas the other banks divide by the total covered assets in both numerator and denominator.

The Dutch banks, on average, maintain a higher eligible stock rate compared to their European counterparts which average at 47.14%. One of the banks distinguishes itself with an increase in both eligible and aligned stock and flow, which could indicate a positive shift toward aligning its portfolio with the EU Taxonomy.

Aligned stock reflects how much of the eligible assets are successfully aligned with sustainability objectives. At 8.42%, the average for the Dutch banks remains similar since it was last reported (Q4 2023; 8.44%). This is notably higher compared to the average of 2.84% of other European banks that report for the aligned stock.

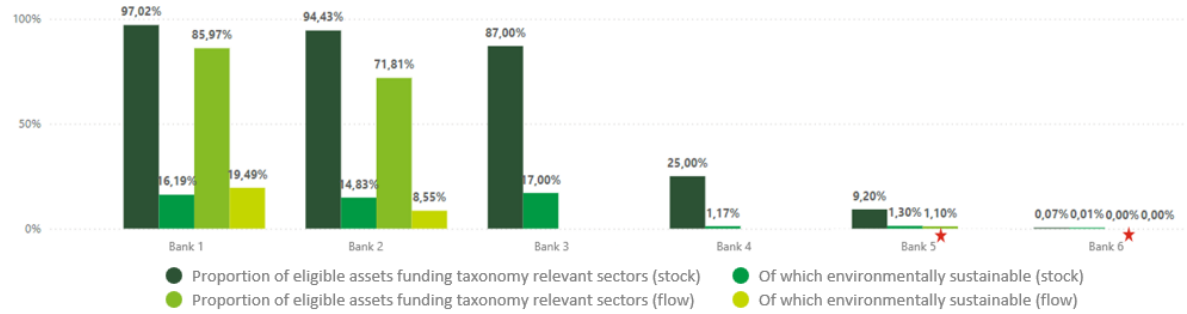
The KPIs for flow measure the percentage of new assets that are eligible and aligned with environmental sustainability goals as outlined by the EU Taxonomy. It is anticipated that these KPIs will reflect higher values when banks prioritise the alignment of their portfolios with these sustainability objectives.

Dutch banks have demonstrated an increase in the average eligible flow KPI of 5.82% from Q4 2023 to Q2 2024 which amounts to 39.72%. The increase is mainly attributed to a significant rise by Bank 1's eligible and aligned flow. Conversely, Bank 2 experienced a decline in eligible flow but an increase in aligned flow. Bank 5 reported a substantial decrease in eligible flow and has not provided aligned flow data for this period. Additionally, two banks have not reported any KPIs on flow, resulting in only three of the six Dutch banks providing aligned flow data. The average aligned flow for these banks is 9.35%, which is notably higher than the European average of 2.92%.

There is no clear trend indicating a collective shift towards enhanced alignment with the EU Taxonomy. These figures underscore the varying degrees of progress and challenges faced by banks in aligning with the EU Taxonomy. Several factors may be influencing this landscape. Currently, the EU Taxonomy's scope encompasses listed companies within the EU, posing a challenge for banks with portfolios featuring fewer listed entities. As the taxonomy's scope expands, we anticipate more entities will report in accordance with its guidelines.

Moreover, there is a noticeable disparity in how institutions prioritise integration with the EU Taxonomy and the GAR. While some banks are fully embracing the taxonomy's framework, others remain cautious. Variations in the data quality and robustness of data collection across banks also play a significant role. Questions persist regarding the extent to which banks are gathering data beyond what external providers offer and whether taxonomy considerations are actively integrated into new lending evaluations.

Figure 14: Proportion of assets eligible for the GAR calculation that is considered eligible funding for taxonomy-relevant sectors and of which is considered environmentally sustainable – Dutch banks



Template 10

Template 10 discloses climate change mitigation actions which are not covered in the EU Taxonomy; however, these products are still considered to support climate change objectives.

In Template 10, banks disclose both quantitative and qualitative information about their actions to mitigate climate change that fall outside the scope of the EU Taxonomy. Multiple banks in scope of the benchmark indicate to have developed their own frameworks to identify loans aimed at among others, climate change mitigation. Within this template, commonly referenced products include green bonds, sustainability-linked loans, and project financing. Additionally, some institutions further include their lending to specific entities, such as water boards, or highlight particular renewable energy projects. Another approach observed is that banks disclose loans that are labelled 'green' or 'eligible for climate action' based on other recognised frameworks, as well as loans that meet the substantial contribution criteria of the EU Taxonomy, even if they do not fully align with its requirements.

It should be noted that multiple banks in scope of the benchmark indicate to still be in the process of assessing their alignment with EU Taxonomy criteria, suggesting that products listed in Template 10 may transition to EU Taxonomy-related Pillar 3 templates (i.e., Template 6, 7 and 8) in future disclosures. This ongoing assessment is expected to be supported by the increased focus on EU Taxonomy alignment and enhanced data availability.

Final thoughts

The Pillar 3 reports provide reasonable insights into the banks' ESG risks for regulators, investors and other stakeholders. We will continue to update our benchmarking analysis twice a year to incorporate new data and trends as reporting practices mature. We will also perform specific peer group analyses to offer clients across Europe tailored insights and advice, helping with all aspects ranging from data collection to solution implementation.

While institutions have disclosed several of the Pillar 3 templates at various times, there are indications that the disclosure process is not yet fully mature. Variations in reporting methodologies across different disclosure periods suggest that banks are still refining their reporting and control mechanisms. Potential challenges remain in areas such as regulatory interpretation, data availability and quality, the expertise required to implement all relevant reporting and disclosure criteria, and the capacity to align with other reporting standards (e.g., CSRD, EU Taxonomy, ECB Guide, and other upcoming requirements) and setting up a control framework. During this disclosure period, banks were required to report their portfolio alignment metrics in relation to the IEA Net Zero Emissions by 2050 Scenario and Scope 3 GHG emissions. While many banks do provide some of this information, there remains a noticeable number of banks that do not disclose their GHG emissions or alignment metrics for all sectors to which they are exposed. This indicates that there is still significant opportunity for improvement in this area.

We encourage all organisations to take active measures to prepare for consistent and transparent ESG-related reporting. To discuss any of the themes mentioned in this article or for help with your own Pillar 3 ESG reporting, please contact Anne-Claire van den Wall Bake-Dijkstra, Eric de Weerdt, Jee Wen Mok, Shirley van Dorst or your usual Deloitte contact.