

SUSTAINABLE FINANCE MAGAZINE

Issue #2

**Events, webinars,
publications**

News from the world
of sustainable finance

In the spotlight

Banking sector perspective of
climate and sustainable finance

In the spotlight

Sustainable finance and climate
change from the insurance
sector perspective

**Regulations and priorities
for companies**

Landscape of present and
future regulatory initiatives
and the most important
steps to be taken



Contents



04

Introduction
 In the face of a series of strategic, geopolitical, environmental and social challenges, the pressure on financial sector leaders has never been greater. All corporate environmental, social and corporate governance commitments are put to the test.

06

Sector news and insights
 Recent conferences and publications related to the topic of climate and sustainable finance

07

Regulatory update on Taxonomy and Sustainability Reporting

14

In the spotlight - the banking sector
 Binding standards for banks - final draft implementing technical standards (ITS) on Pillar 3 disclosures on ESG risks

22

In the spotlight - our projects
 Recommendations for a Sustainable Capital Market Strategy and Action Plan for Hungary and Calculation of GHG emissions - Bank Pekao SA

26

Deloitte events and publications

10

Latest Deloitte thought leadership
 Tackling the challenges of the net-zero transition and embedding climate risk into bank's risk management

18

In the spotlight - the insurance sector
 ESG is reshaping Insurance Industry Interview with Irena Pichola, Sustainability Consulting Leader, Deloitte Central Europe and Dorota Macieja, Member of PZU Życie's Management Board



Unstoppable revolution

In the face of a series of strategic, geopolitical, environmental and social challenges, the pressure on financial sector leaders has never been greater.

Immediately after the global pandemic, managers and executives were confronted with an increasingly diverse set of events - rising inflation, or now the war in Ukraine and the sheer enormity of challenges it entails. The Russian invasion of Ukraine has caused enormous and sudden changes in business plans and forced many of the world's best known brands to act in the spirit of social responsibility. We see a huge mobilization and sensitivity of business and society, and it can be said that any corporate environmental, social and corporate governance commitments were put to the test.

The present situation will emphasize the importance of responsible leadership focused on factors related to the letter "S" (social) in ESG. However, we must not forget that climate issues, while they seem secondary at the moment, are still pressing. The International Panel on Climate Change (IPCC) recently published another report on climate change and its impact on various regions of the world. It stresses that the risk of dangerous changes will increase over the next two decades and will involve an area inhabited by over 3.6 billion people!

Even as the war in Ukraine poses the threat of near-term losses for banks if an economic downturn materializes, climate issues

remain high on the list of priorities of the European Central Bank. The ECB has just begun a detailed study of the losses banks could face from climate change, and called it a "learning exercise" for both the industry and regulators. Requiring banks to broadly assign more capital on the basis of climate risks would represent a major shift in the way regulators seek to prevent financial sector underperformance. Later this year, once they've received results from the ongoing climate stress test and accompanying review, European Central Bank is set to start working on adding climate-change risks to the framework for setting capital requirements.

As stated in Deloitte report "Tackling the challenges of the net-zero transition", financial institutions can play an important role in achieving the ambitious goals of the European net-zero policy. Changing the growth strategy to make it respond to the neutrality needs is the key challenge of the financial industry, while accepting climate neutrality as a new area of sector's responsibility is the starting point of the process.

In order to actually contribute to the achievement of the global net zero goal and to satisfy regulatory requirements, the industry must consolidate and work out measurement, management and mitigation solutions regarding both the funded emissions and the climate-related risk within the finance system. Banks and insurance companies need sustainable business models to be ready for these challenges. The coming years offer each organization the opportunity to better position or even reposition itself in the market. The expected structural changes within the European Union will require immense financial resources. However, the benefits from the green transformation will be higher.

Today very few financial institutions measure their portfolios' carbon footprint, even fewer report the results. The pressure exerted by stakeholders, though, who want to have climate-neutrality plans implemented, has reached a critical point. In order to fulfil these expectations and legal requirements regarding the measurement and disclosure of loan portfolio emissions, financial institutions must learn how to collect granular emission data from all sources, including their clients, and how to precisely measure the carbon footprint of all investments and activities under various climate-related scenarios. Further, they need to adopt a methodology allowing benchmarking to their peers.

Given the growing focus on the ESG area, including wide range of standards and regulations, the sustainability revolution is unstoppable and ultimately sustainable banks' shareholders will be better off. However, this is a point difficult to prove on a short time horizon, when most environmental, social and governance efforts really only pay dividends on the long run.

In this second issue of our quarterly magazine, we invite you to read more about decarbonization of the industry, recent changes in regulations and valuable publications and events. We hope it will inspire you to act and progress fast in order to meet the ambitious goals of the European net-zero policy.

Irena Pichola

Partner

Leader of Sustainability and Climate Change Consulting
Deloitte Central Europe

Krisztina S. Nagy

Partner

CE FSI ESG Lead
Deloitte Central Europe



Sector News and Insights



ESMA publishes Sustainable Finance Roadmap 2022-2024

The European Securities and Markets Authority (ESMA), the EU's securities markets regulator, has published its Sustainable Finance Roadmap 2022-2024 (Roadmap). It identifies three priorities for ESMA's sustainable finance work:

- Tackling greenwashing and promoting transparency;
- Building National Competent Authorities' (NCAs) and ESMA's capacities in the sustainable finance field; and
- Monitoring, assessing and analysing ESG markets and risks.

[Read more at](#)

CLICK

Disclosing climate risks - ECB Assessment

On March 14, 2022 The European Central Bank published an updated assessment of the progress made by banks in terms of offering transparency on their climate-related and environmental risk profiles, since the first review of November 2020. Although there have been improvements, no bank fully meets the supervisory expectations.

[Read more at](#)

CLICK



The European Banking Authority and new ESG reporting requirements

EBA publishes binding standards on Pillar 3 disclosures on ESG risks. The final draft ITS put forward comparable disclosures to show how climate change may exacerbate other risks within institutions' balance sheets, how institutions are mitigating those risks, and their ratios, including the GAR, on exposures financing taxonomy-aligned activities, such as those consistent with the Paris agreement goals.

[Read more at](#)

CLICK

ECB - adding climate risk to capital bar

Despite the war in Ukraine, climate issues remain high on the ECB's list of priorities, and on March 22, 2022 it announced that it is set to start work later this year on adding climate-change risks to the framework for setting capital requirements, so that climate risk will eventually be treated as other risks. The discussions will probably start in the second half of 2022 once the results from the ongoing climate stress test and accompanying review are ready.

[Read more at](#)

CLICK



ECB Climate Stress test

The European Central Bank launched a stress test to assess how prepared banks are to deal with potential shocks stemming from climate risk, it said in a statement.

The ECB has long warned that euro zone lenders are failing to meet its climate risk management goals, and repeatedly called on them to adjust to its standards more quickly. The exercise will be conducted in the first half of 2022 after which the ECB will publish aggregate results (July 2022).

[Read more at](#)

CLICK

Regulatory update

Taxonomy

On February 2, 2022 the European Commission released the Complementary Climate Delegated Act. It incorporates certain nuclear and gas activities into the list of economic activities falling under the EU Taxonomy. According to the document, nuclear-related activities could not be included in the Climate Delegated Act of June 2021 since it was necessary to conduct an in-depth analysis of their impact on the environmental objectives defined in the EU Taxonomy. The legislator's primary focus was the assessment of nuclear energy with respect to the 'do no significant harm' criteria. As far as fossil gas is concerned, the introduction of new economic activities in the EU Taxonomy was driven by the need to specify more precisely how it can contribute to the decarbonisation of EU economy.

CLICK

The Commission's draft delegated acts setting TSC (*Technical Screening Criteria*) regarding four remaining objectives should be published around June 2022 and then reviewed by both the Council and the Parliament. It is not clear whether an application as of 1 January 2023 will be still valid.

Social Taxonomy

On February 28, 2022 the European Commission's Platform on Sustainable Finance (PSF) Subgroup 4 has released the final Report on Social Taxonomy, proposing a structure for an EU social taxonomy in line with the current legislative environment on sustainable finance and governance. The intention is to create a system of classification of economic activities contributing significantly to the achievement of social goals, following the example of the existing EU taxonomy on climate and environmental goals. The proposed goals of the Social Taxonomy relate to three selected groups of stakeholders and include:

- decent work (employees)
- adequate standard of living and welfare (consumers)
- inclusive and sustainable communities (society)

In practice, the Social Taxonomy is to be a tool helping investors to identify opportunities that contribute to the achievement of social goals, in particular to support a fair transformation of the economy in response to climate change, through the appropriate redirection of capital. Especially after the outbreak of the COVID-19 pandemic, there has been an increase in demand for social bonds, which allow for obtaining financing, e.g. for purposes related to education, health or affordable housing.

CLICK

Regulatory update

Sustainability reporting

The European Commission's proposal for a Corporate Sustainability Reporting Directive (CSRD) envisages the adoption of EU sustainability reporting standards. The draft standards are being developed by PTF-ESRS (Project Task Force – European Sustainability Reporting Standard) at the European Financial Reporting Advisory Group (EFRAG) and have been gradually released over the last weeks in the form of working papers.

Six batches of working papers have already been released. After the publication of six working papers in Batch 1, three working papers in Batch 2, one working paper in Batch 3, seven working papers in Batch 4, and two working papers in Batch 5, Batch 6 published on March 16, 2022 consists of two additional papers: ESRS 1 General Provisions and Cover Note. The Cover Note explains that concepts, principles and some disclosure requirements that were initially included in other ESRS and also fundamental principles that were so far only addressed in ESRG were incorporated into ESRS 1. More on [EFRAG website](#).

The PTF-ESRS emphasizes that the publication of these working papers is to ensure a transparent process, there is, however, no public consultation at this point; this is planned for a later date, probably mid 2022. However, an early analysis of the working papers might be helpful in order to understand the proposed sustainability reporting architecture and the direction of disclosure requirements.

Corporate Sustainability Reporting Directive - update

On February 24th, the European Council agreed its position on the European Commission proposal for a corporate sustainability reporting directive (CSRD). It provides the Council presidency with a mandate for further discussions with the European Parliament.

The Council amended the scope proposed by the European Commission in order to ensure that reporting requirements are not too burdensome for listed SMEs (since the obligations do not apply to other SMEs) and that they have sufficient time to adapt to the new rules.

It also includes the later entry into force of CSRD reporting obligations:

JANUARY 1, 2024 - companies already subject to the Non-Financial Reporting Directive (NFRD) - reporting in 2025 on data for 2024;

JANUARY 1, 2025 - large enterprises currently not subject to the NFRD Directive - reporting in 2026 on data for 2025;

JANUARY 1, 2026 - Listed SMEs and small, non-complex credit institutions and captive insurance companies - reporting in 2027 on data for 2026

[CLICK](#)





How to put ESG in practice? Latest Deloitte thought leadership






Tackling the challenges of the net-zero transition - How the financial services industry can boost credibility through measurement

Financial institutions have a significant role to play in advancing net-zero by 2050. The sector is already showing an appetite for this challenge and an undertaking to help green the global economy.

A growing number of financial institutions have pledged to make their portfolios net-zero by 2050 or sooner, and a few have already started measuring their financed emissions. However, measuring financed emissions is a complex challenge further hindered by the lack of a single global measuring standard, common database to source the data, or data framework for what data companies should measure.

Data collection, assessing its integrity, and identifying gaps are time-consuming. Financial institutions cannot set KPIs aligned to net-zero strategic lending priorities and regulatory obligations without having sustainability data.

We believe that financial institutions can start to build a robust approach for measuring their financed emissions with five practical steps. They are:

-  Align their strategy and business model with their sustainability goals
-  Recognize measuring financed emissions is a new area of responsibility
-  Determine which type of assets their portfolio contains and what activities are in scope
-  Determine data sources and overcome gaps in their data by calculating an approximation
-  Finally, calculate their emissions using existing methodologies as a guide.

Despite this challenge, financial institutions should start preparing their sustainability data. There are emerging solutions and developing measurement standards available to get companies started.

There are emerging solutions and developing measurement standards available to get companies started.



Read more [HERE](#)

Watch the webinar with the participation of Carlos Barrientos, Responsible for Sustainability Strategy, CaixaBank and Antonio Bravo, Global Head Sustainability Strategy & Development, BBVA

[HERE](#)



Embedding climate risk into banks' credit risk management - Practical considerations

One of the major highlights of the COP26 climate change conference in Glasgow was the pledge by the Net-Zero Banking Alliance, comprising nearly a hundred banks and representing roughly 40% of global banking assets, to transition greenhouse gas (GHG) emissions from their lending and investment portfolios to align with pathways to net-zero by 2050 or sooner.

This report offers a roadmap for how banks can embed climate risk into the different stages of the credit lifecycle—including strategy, underwriting, portfolio management, and reporting and disclosure

KEY MESSAGES

The banking industry is playing a leading role in addressing climate change. The urgent actions banks and their clients take to reach their net-zero commitments will materially transform banks' lending practices.

Banks are facing increasing pressure from regulators to manage financial risk related to climate change, with significant credit risk manifesting from the physical and transition risks associated with climate change.

Since all stages of the credit lifecycle will likely be impacted by climate risk, integrating climate risk metrics into credit risk management could be an enormous undertaking for most banks, but it is a necessary step towards both effective risk management and a carbon-neutral future.

As a starting point in embedding climate risk into the credit risk lifecycle, banks should reassess their credit business strategies to address climate change issues: the markets, segments, and clients they will serve; the products they will offer; and the innovations they will bring to the market.

Since no big journey starts without a roadmap, this report provides just that—a framework that can help banking leaders incorporate climate change considerations throughout the credit lifecycle. It also sheds light on the tools and processes that are becoming increasingly central to these efforts.

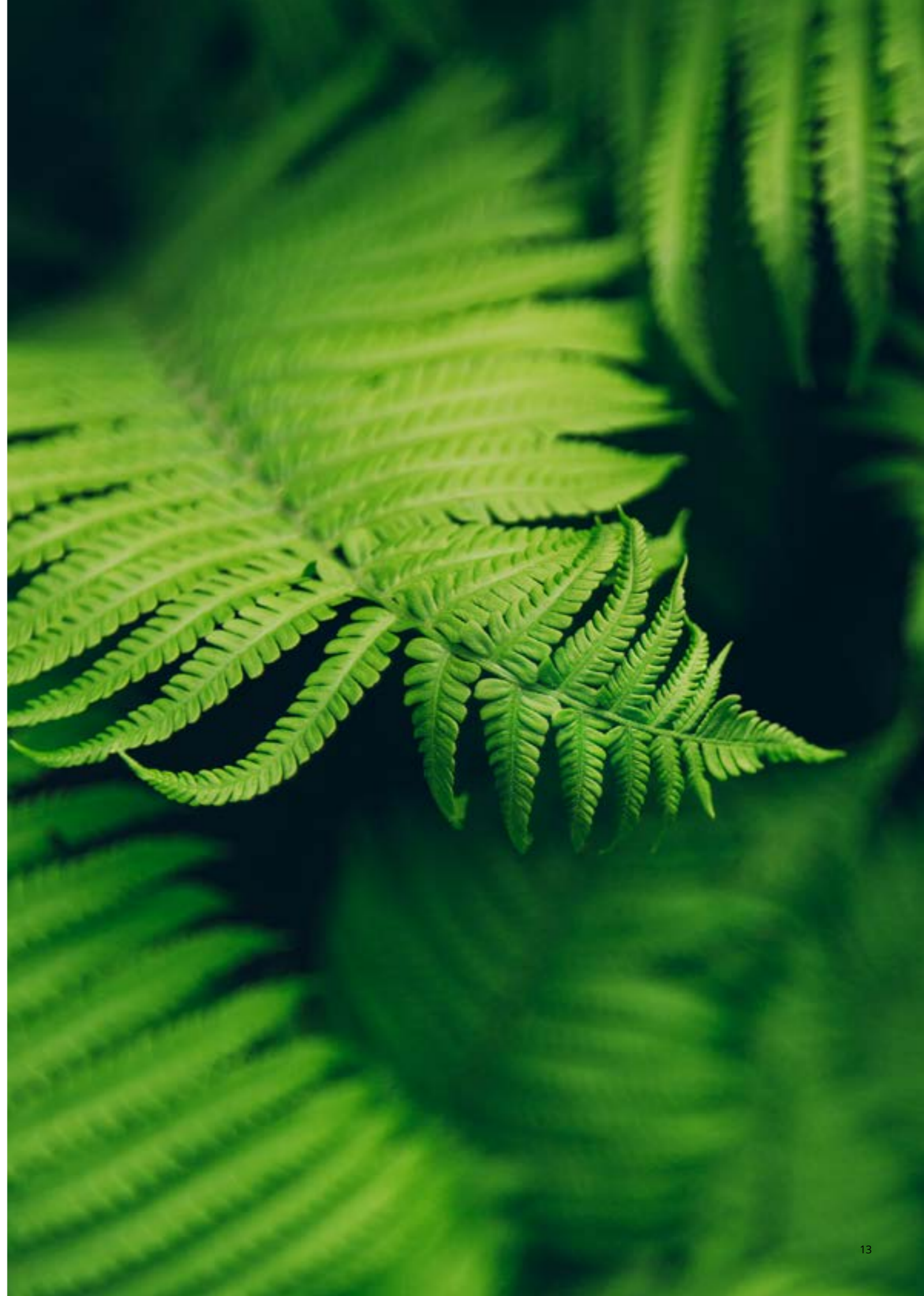
Virtually all stages of the credit lifecycle (figure 1) will likely be impacted by climate risk. Banks are beginning to infuse more climate-related considerations into each step of the credit management process.

“Restructuring of loan and investment portfolios in order to reduce emissions remains the greatest challenge in the financial sector. The examination of the current status and the related needs necessitates enormous amounts of data, appropriate technologies and a global database. Despite the challenges, financial institutions must progress fast in the first half of the decade in order to meet the ambitious goals of the European net-zero policy.”

Przemysław Szczygielski,
Partner, Leader of FSI, Risk Management Practice
and Regulatory Support for the Financial Sector, Deloitte Poland.

Steps banks could take at each stage

	OVERVIEW	CLIMATE CONSIDERATIONS
 Strategy and products	<ul style="list-style-type: none"> Determine business strategy Develop products and programs Define risk appetite and limits 	<ul style="list-style-type: none"> Establish green-lending products and portfolio targets
 Prospecting and origination	<ul style="list-style-type: none"> Define target clients and perform due diligence Prepare credit applications 	<ul style="list-style-type: none"> Target climate-friendly sectors and institutions
 Underwriting and approval	<ul style="list-style-type: none"> Perform credit review Assign risk rating Prepare and approve credit proposals 	<ul style="list-style-type: none"> Consider ESG/climate factors for underwriting and rating
 Collateral management and hedging	<ul style="list-style-type: none"> Optimizing use of collateral across the portfolio Perform risk transfer and hedging (e.g. securitization markets) 	<ul style="list-style-type: none"> Measure climate impact on LGD Work with third parties to enable transfer of climate risks
 Monitoring and portfolio management	<ul style="list-style-type: none"> Monitor client and portfolio performance Estimate parameters (PD/ LGD) and capital/reserves Perform stress testing 	<ul style="list-style-type: none"> Assess impact of climate on PD and LGD for stress management
 Default management	<ul style="list-style-type: none"> Manage defaults and problem assets Identify losses and recommended charge-offs Manage recoveries 	<ul style="list-style-type: none"> Assess impact of climate on loss realization
 Reporting and disclosure	<ul style="list-style-type: none"> Report credit risk processes and outcomes to various stakeholders (e.g. business risk, regulators) 	<ul style="list-style-type: none"> TCFD Anticipate regulatory requirements (e.g. Pillar 3 disclosures)





In the spotlight – the banking sector

Binding standards for banks - final draft implementing technical standards (ITS) on Pillar 3 disclosures on Environmental, Social and Governance (ESG) risks

by Fanni Firon, Manager, Deloitte Hungary



The European Banking Authority (EBA) published on 24 January 2022 the final draft implementing technical standards (ITS) on Pillar 3 disclosures on Environmental, Social and Governance (ESG) risks.

The ITS contains tables and templates that enable banks to disclose such information in a transparent way to be able to comply with Article 449a of Regulation (EU) No 575/2013 (CRR). The disclosure creates opportunity for the stakeholders to better understand the sustainable finance strategy of banks and investment firms and the environmental risks that might arise from their business activities and makes it all comparable. The disclosure applies to all large institutions with

securities traded on a regulated market of any Member State in the EU.

The first disclosure reference date is 31 December 2022, which means that institutions shall first disclose the required information when the financial statements are published in 2023 (or as soon as possible after that date). The first disclosure on 2022 data will be annual, however, it will change to semi-annual after that period.

EBA has acknowledged that it might be difficult for the institutions to gather every piece of data until the first disclosure date and thus a phased-in approach with a transitional period was introduced with respect to the following information:

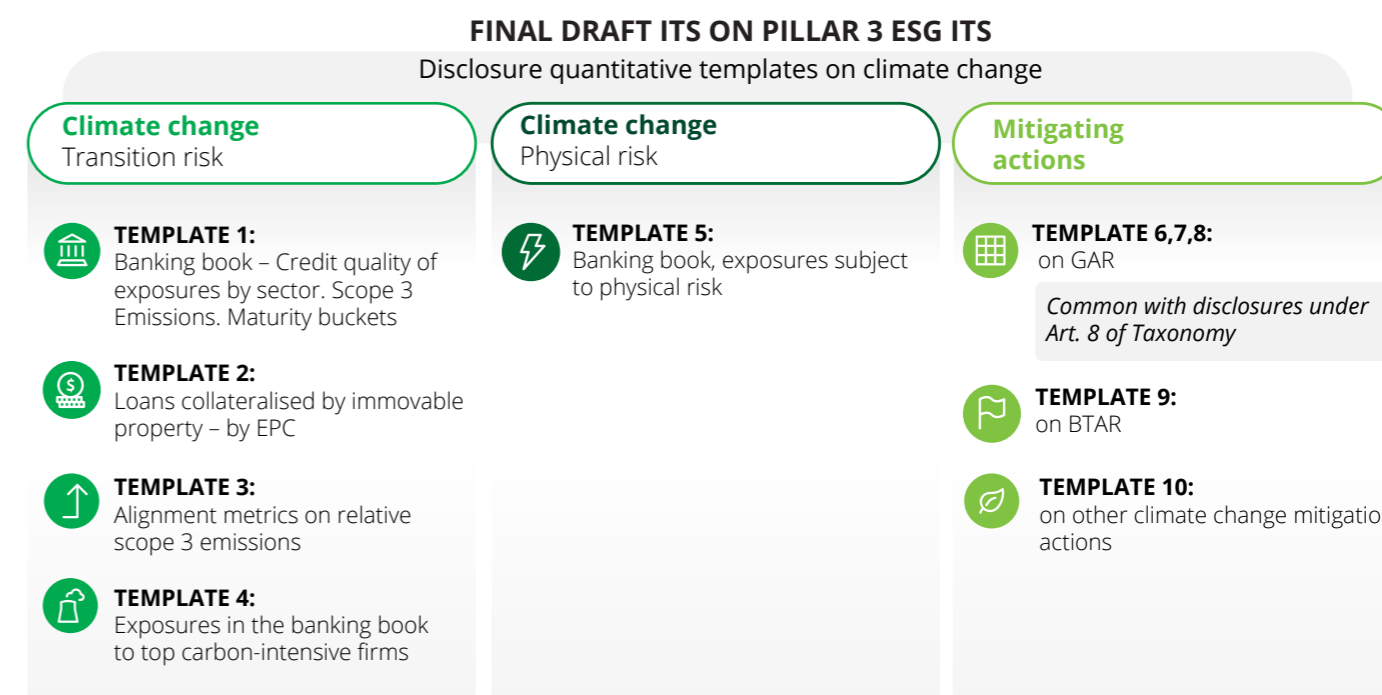
Institutions' scope 3 emissions and alignment metrics. First disclosure reference date: end of June 2024. Until the reference date, institutions must provide details about the methodology and data sources they are planning to use for the measurement and estimation of their scope 3 emissions. This process involves the collection of information on CO2 emissions of the institutions' related counterparties. Those institutions with data already available on scope 3 emissions shall start disclosing this information with the first reference date being 31 December 2022. Affecting Templates 1 and 3.

Green Asset Ratio (GAR). First disclosure reference date: end of December 2023 (due to the disclosure delay described in COM DA). Affecting Templates 6-8.

Banking Book Taxonomy Alignment Ratio (BTAR). First disclosure reference date: end of June 2024. The BTAR proposes an overview on the level of Taxonomy alignment with regards to the institutions' exposures towards non-financial corporates that are not subject to NFRD disclosure obligations. Affecting Template 9.

Information on environmentally sustainable exposures (CCM). First disclosure reference date for exposures included in the calculation of the GAR: end of December 2023. First disclosure reference date for exposures included in the calculation of the BTAR only: end of June 2024. Affecting Template 4.

The templates can be classified into 3 categories (see Figure 1):



Climate change – Transition risk.

Transition risk is the risk of any negative financial impact institutions may face during the transition to a climate-resilient and low-carbon economy. These templates assess the credit risk quality and the operational and liquidity risks of exposures towards the institutions' counterparties that operate in those sectors which highly contribute to climate change.

Information to be disclosed:



TEMPLATE 1:

Banking book – climate change transition risk: credit quality of exposures by sector, emissions and residual maturity

Credit quality, impairments and provisions of exposures towards non-financial corporates (NFCs) operating in sectors which contribute to climate change (especially in carbon-related sectors),

financed GHG emissions (scope 1, 2 and 3 emissions of counterparties, sources used and methodology), the gross carrying amount of loans and advances, debt securities and equity instruments provided to NFCs, residual maturity of such exposures.



TEMPLATE 2:

Banking book – climate change transition risk: loans collateralized by immovable property – energy efficiency of the collateral

Information on the effect of transition risk on loans collateralized with real estate properties, and on collateral repossessed (both based on energy consumption and EPC label of the collateral), institutions shall also disclose separately those exposures that are backed by collateral without proper EPC information. In case of an absent EPC label, institutions shall use internal models to estimate the energy consumption of the

underlying asset. If the exposure is linked to more than one collateral with different EPC labels, the disclosed gross carrying amount of the exposure shall be split between the applicable EPC labels based on the proportion of the collateral values.



TEMPLATE 3:

Climate change transition risk – alignment metrics for the banking book

The gross carrying amount and the relative CO2 emissions of the exposures by the relevant sectors, distance to the International Energy Agency (IEA) Sustainable Development NZE2050 Scenario (in percentage points). For more information on the scenario indicators for 2030, institutions shall refer to the "Net Zero by 2050 - A Roadmap for the Global Energy Sector", published annually by the IEA. The specific data points and indicators are available here.





TEMPLATE 4:

Exposures in the banking book to the top 20 carbon-intensive firms in the world

Information on exposures (average maturity and the impact of transition risks) towards those counterparties that are among the top 20 GHG emitting companies in the world based on publicly available reliable and accurate information, as reputational risk may further deteriorate the credit qualities of such counterparties. Institutions must indicate the sources used for the identification of the counterparties. Institutions must explain the reasons behind any data omission, e.g. whether it is because of confidentiality issues or the lack of exposures towards these companies.

Climate change – Physical risk.

Physical risks are risks affecting exposures towards NFCs, loans collateralized with immovable property and repossessed real estate collateral that are in sectors of economic activity or geographical areas that are exposed to climate change acute and chronic events (e.g., wildfires, floods, water scarcity).

Information to be disclosed:



TEMPLATE 5:

Banking book – climate change physical risk: exposures subject to physical risk

Institutions must provide sectoral, geographical and maturity information (by maturity bucket) of exposures, accompanied by the data sources and methodologies that were used during the assessment. EBA has specified the sources that institutions shall refer to when identifying areas prone to climate-change-related hazards (e.g., GFDRR – ThinkHazard!, PREP – PREPdata, World Bank, data offered by EU bodies and by national government authorities).

Mitigation actions.

Institutions are required to provide information on any climate change transition and physical risk mitigating actions that are put in place to support their counterparties and mitigate their own risks. All the actions shall be disclosed, regardless of whether they are assessed under the Taxonomy Regulation or not.

Information to be disclosed:



TEMPLATE 6:

Summary of GAR KPIs.

Source of information for this template is Template 8.

TEMPLATE 7:

Assets for the calculation of the Green Asset Ratio (GAR)

Institutions are required to estimate the level of Taxonomy alignment of their general purpose lending exposures by assessing the turnover alignment of their counterparties to provide a

better understanding of their mitigating actions on climate-change-related risks. As for special/ general purpose lending exposures, institutions shall rely on data received from their counterparties about the products, services and activities (that qualify as environmentally sustainable) for which the proceedings will be used. For loans collateralized with residential immovable, for repossessed collateral, for loans to municipalities for house funding, and for house renovation loans to retail the assessment of the level of Taxonomy alignment must be based on the EPC label of the collateral/house. For motor vehicle loans to retail, the assessment must be based on the energy performance label of the vehicle. Institutions shall also provide information on the exposures that are funding transitional and enabling activities.

TEMPLATE 8:

Green Asset Ratio (GAR) KPIs

Institutions shall disclose the total GAR, the GAR for specialized lending, transitional and enabling activities (by environmental objective and counterparty) and the percentage of their total assets covered by these KPIs.



TEMPLATE 9:

Mitigating actions – BTAR

Institutions are required to assess the level of alignment of exposures towards NFCs not subject to NFRD disclosure obligations. For those counterparties that do not have disclosure obligations under the Taxonomy Regulation, institutions must collect the necessary information on a bilateral basis or estimate it based on a simplified approach or on the EPC label of the collateral of the exposure towards the respective NFC. In case it is not possible to collect or estimate such data, the institutions shall explain the reasons and list the affected counterparties.



TEMPLATE 10:

Other climate change mitigating actions

Information on any other actions institutions may take to mitigate climate-change-related risks (providing details on the type of the risks, on the counterparties, and on the timing of actions), specifically those that are not included in Templates 7 and 8.

Institutions may face many challenges regarding the disclosure, mainly because of the availability issue of these data, such as:

- Information on the exposures of institutions to carbon-intensive sectors might be difficult to obtain.
- Data for retail exposures might be difficult to obtain as private households are not subject to disclosure obligations under CSRD.
- Institutions are required to collect data from non-EU counterparties even if they might not have equivalent standards in force.
- There are no uniform objectives defined for the social and governance factors, which could make the comparability between the institutions difficult.
- Not all customers will be able to provide the necessary information for the institutions for the GAR calculation, especially SME will face difficulties.

Most of the required data is currently not available at banks, therefore it is important to start preparation in time to be able to comply with the disclosure requirements by the application dates. Our suggested approach to achieve the right results is to connect ESG reporting to a broader strategic purpose. ESG disclosure and reporting is a complex process and requires consultation with multiple divisions, therefore we suggest to manage preparation projects by considering the following:



Align with the strategy: engage all relevant stakeholders and provide appropriate governance framework for ensuring the successful delivery in line with the strategic goals.



Focus on Business needs as well: design a methodology and reporting process, which the organization is able to operate, and which is in line with both regulators' and other stakeholders' expectations.



Make data available in good quality: assess the data gaps, find reliable data sources to obtain publicly available data start to reach out to clients where necessary.



Design a long term reporting solution: design a flexible solution which can adapt to the rapidly changing regulatory environment to deliver an effective, efficient and feasible reporting process and solution.



In the spotlight – the insurance sector

ESG is reshaping Insurance Industry

Interview with Irena Pichola, Sustainability Consulting Leader, Deloitte Central Europe and Dorota Macieja, Member of PZU Życie's Management Board

PZU, in cooperation with Deloitte, has become really committed to ESG. What does this acronym mean?

Irena Pichola: ESG is an attempt at summing up the responsibility of a business and the impact it makes. The letters stand for: Environmental, Social and Governance. But I do think that we should consider the idea behind ESG in a broader perspective. I very much like the definition of the European Commission which refers to the impact the business has on the surroundings, the environment and the society. On the one hand, we enable economic growth and on the other, we care for all the aspects that our activity affects, i.e. natural environment or people who can develop and progress with us, and who use our products and services.

Soon, there will be also legal obligations involved...

Irena Pichola: Over the past decade or more we said that applying the ESG rules should be voluntary and come from the heart. Now, though, this has changed and ESG reporting is becoming a legal

obligation. Certain new definitions, as well as very specific disclosure requirements are emerging, which is very helpful.

ESG is having an increasing impact on the financial performance, decisions taken by investors or the financial world. We are no longer talking about a single company or even an industry, but about the functioning of a given company is the entire ecosystem and about its promises to the staff, investors, the world in general or the surroundings.

And what's the perspective of insurance companies?

Dorota Macieja: ESG is very important for PZU as shown by the central role of environmental factors in our strategy for the next few years. The Group's priority as well as a measure of its success will be to deliver benefits to the shareholders and clients in a sustainable and responsible manner. We know how important the

current occurrences — from climate change, through the ageing of the society to the dizzying pace of technological change — are to the present and future of the insurance industry. Starting from the letter E, i.e. the environment, we invest in the development of green energy sectors and we develop products to support climate and energy transition in Poland, such as low emission transport, environmentally friendly photovoltaic systems, heat pumps, small and large wind farms. Our goal is not to let severe climate change happen. In the end, it is us — insurance companies — that suffer the biggest losses if there are floods, hurricanes, gales or other abnormal weather conditions. Therefore, we have started the green transition with ourselves. In accordance with our strategy, the PZU Group will become climate neutral by 2024. Energy is set to come only from renewable sources. Our own emissions are to be reduced and offset wherever possible. Over a longer term, by 2030, we want to start reducing emissions across our supply chain. During the next four years at least 55 percent of PZU's largest corporate insurance clients will be analysed for ESG factors. These measures are linked to the second letter in

the ESG acronym, i.e. the corporate social responsibility. We are the largest financial group in this part of Europe and if only for this reason we should promote energy transition among our counterparties, clients and social partners and suggest measures they could take. One of them is the encouragement to use renewable energy sources. A good example is our new, unique insurance policy for corporate clients — PZU Energia Wiatru and PZU Energia Słońca — which we have launched to protect wind farms and photovoltaic systems against breakdowns, damage or destruction. We also care for corporate governance, i.e. the final letter in the ESG acronym. We attach a lot of importance not only to the proper reporting of financial but also non-financial information. For many years now, PZU has been creating a friendly workplace environment, focusing on diversity and equality, both social and economical. We have three generations of employees: young people, those around 40 years of age (most numerous group) as well as those close to the retirement age. Our results in bridging the pay gap between male and female employees have placed us among the top financial entities in Europe — at PZU it does not exceed four percent, and is even lower among the management. By the way, 50 percent of the management are female, also in the management boards.

It seems that the leader is doing rather well. But how do other players in the insurance industry respond to ESG?

Irena Pichola: International insurance entities see ESG as their duty. However, we are noticing such way of thinking also in Poland. PZU and other large entities have an important role to play, because in our market we like to follow the leaders. Deloitte has been partnering with the Polish Chamber of Insurance (PIU) for many years and I must say that the insurance

industry is at the top in terms of the level of coordination and collaboration. Several years ago, when working with PIU on the "Impact Report", we set ourselves a difficult task to measure the impact of the insurance industry on the society and the economy. This initiated discussions about the role of the industry. Very soon it turned out that we started discussing climate in more depth, precisely because of insuring certain risks. This is how another important report "Risk Climate" came into existence. We started analysing how the insurance sector could promote prevention and certain behaviours associated with the resilience of the economy and the infrastructure and the resilience as a whole, so that they would lie in the interest of the insurance companies, but also resonate with the public. We showed the impacts of climate risks on the economy and the role of insurance companies. I do hope that the largest entities, which have largely done their job and have a lot to offer, to share and to show, can change the general perception of climate risk assessment in a portfolio. The sector may also help businesses and households to answer difficult questions and lead them in their journey towards green transition. Let me also add that ESG was a very important topic during the latest PIU convention.

What would you describe as last year's biggest ESG challenge for PZU?

Dorota Macieja: Undoubtedly, meeting the brand new regulatory requirements imposed on businesses was challenging. Furthermore, there were many ambiguous and imprecise regulations and data to be disclosed that had not been reported by insurance companies before. Of course, climate neutrality, which I have already mentioned, was a huge challenge. It is a goal to be achieved not only by ourselves, but also by our partners, suppliers and clients. These are not mere empty commitments, as we have already cut our

emissions significantly and we purchase renewable energy.

We are gradually replacing our fleet with hybrid and electric vehicles. We offset the emissions which cannot be eliminated. For example, this year we purchased the so-called CO2 units from Lasy Państwowe (the Forests in Poland) compensating for nearly 17 thousand tonnes of CO2. The foresters will use the funds to restore nearly 100 ha of forest near Bory Tucholskie which was destroyed by a gale-force wind four years ago.

Generally, what is the biggest obstacle to successful implementation of all those ESG changes in the insurance market?

Irena Pichola: One of the major barriers used to be the lack of proper education of the managers. Also, lack of awareness which led to the lack of priority attached to ESG. I think that without the impetus from above and without a real desire to incorporate ESG into business decisions and operations, we will never achieve tangible results. And I do hope that this first basic obstacle is being gradually overcome. We now host many workshops and meetings aimed at educating key executives about ESG. As far as the pragmatic aspect of the barriers is concerned, I would say that we are dealing with at least three issues. Firstly, we must realise that regulations will require — and this is probably the biggest change — high degree of control and proactive management of the insurance portfolio. Questions will need to be asked and risk will need to be assessed, considering



that certain data and information is now unavailable to insurance companies. Another barrier, somewhat deriving from the first one, is the limited awareness among businesses, especially smaller ones, and hence limited opportunities to manage such information. So, even if we know how to ask the right questions, there will still be the problem that not everybody can provide answers. There is still a long journey ahead of us. The third issue is the division of responsibilities for specific areas. We suddenly have a dozen or many more people in an organisation who must collaborate and find their roles and goals in the decision-making processes. And this is what is missing in our organisational culture. Not only do we need changes in education, awareness, certain access to systems, but also a culture of collaboration, information exchange and the desire to play one's part.

Dorota Macieja: I could say that in practical terms ESG is not about one office, but about the operations of the entire organisation. The Management Board understands the significance of the ESG factors and the role they play in doing business. This is why so many changes towards more sustainable practices take place in individual PZU offices and areas. Recently, for the first time in history, we have announced our ESG strategy. It is based on a premise that 100% of our management incorporates the ESG criteria into the company's strategic goals. We also want to ensure a better quality of living for Poles — we focus on physical and mental health and prevention. PZU, as an insurance company and as an employer, has a great responsibility for this area. We promised that by 2024 nearly three fourths of our staff will be covered by well-being and intergenerational collaboration schemes. I am happy that our ESG efforts

are visible and appreciated. This year, the PZU Group was recognised for its climate crisis awareness and ranked among top WSE-listed companies demonstrating the strongest climate crisis awareness.

Summing up, what it worth doing and how when it comes to ESG? What is effective? What works well?

Irena Pichola: First of all, I would point to mutual inspiration and collaboration in the market. As a society and as an economy, we are facing a huge climate challenge. The insurance industry may have a special role to play in this mission. On the one hand, it offers protection against climate risks and seeks to address them with its products and support. On the other, it has a vested interest in ensuring prevention. A lot may be gained from joining forces to raise the awareness and promote certain solutions among households and businesses. This will ensure effective and fundamental transformation of the economy.

Dorota Macieja: Instead of imposing ready-made solutions upon our staff and clients we engage in a dialogue. Often, grassroots initiatives, which are developed not by the management board, but by teams and local offices, have much better chances of succeeding. We want to be a reliable partner for our investors and also create value for the environment and the society.

By Aleksandra E. Wysocka,
Chief Editor of Gazeta Ubezpieczeniowa

The interview was first published in Gazeta Ubezpieczeniowa

CLICK





In the spotlight – Our projects

Recommendations for a Sustainable Capital Market Strategy and Action Plan for Hungary

Not only across Europe but globally. In line with international efforts, Hungary has been implementing steps to align with the climate-neutrality and energy policy objectives set out in the Paris Agreement. Based on the Hungarian National Energy and Climate Plan, and the National Clean Development Strategy (2050), the Hungarian government is taking steps to transition towards a climate-neutral economy by 2050. Hungary's first sovereign green bond was issued in 2020, kickstarting domestic sustainable capital markets. One of the goals of the sovereign green bond is to contribute actively to the development of green capital markets in Hungary. The market of non-sovereign green bond issuances (incl. green mortgage bonds) is starting to gradually emerge in Hungary, as market participants are educating themselves with the various market standards and requirements and launching green bond issuances.

Within the framework of its various programs, the National Bank of Hungary (MNB) has implemented multiple incentive schemes to promote the development of green financing, including but not limited to the Green Mortgage Bond Purchase Program.

Within the framework of the Project, we have identified certain barriers

and difficulties for the green bond market development in Hungary. Inter alia, risk of 'greenwashing' and a lack of standardized green definitions and monitoring systems are among the issues and challenges that should be addressed. Public measures and governmental incentives may have an important role in addressing these challenges and in driving the growth of sustainable products, including green bonds in Hungary.

Deloitte was appointed to support MNB (and its partners, including the Ministries and the Budapest Stock Exchange) with funding from the EU Directorate-General for Structural Reform Support (DG REFORM) and professional oversight from EBRD, to develop recommendations for a Sustainable Capital Markets Strategy and Action Plan for Hungary with the following objectives:

A) to support the initiatives of national authorities to design reforms towards sustainable capital markets according to their priorities;

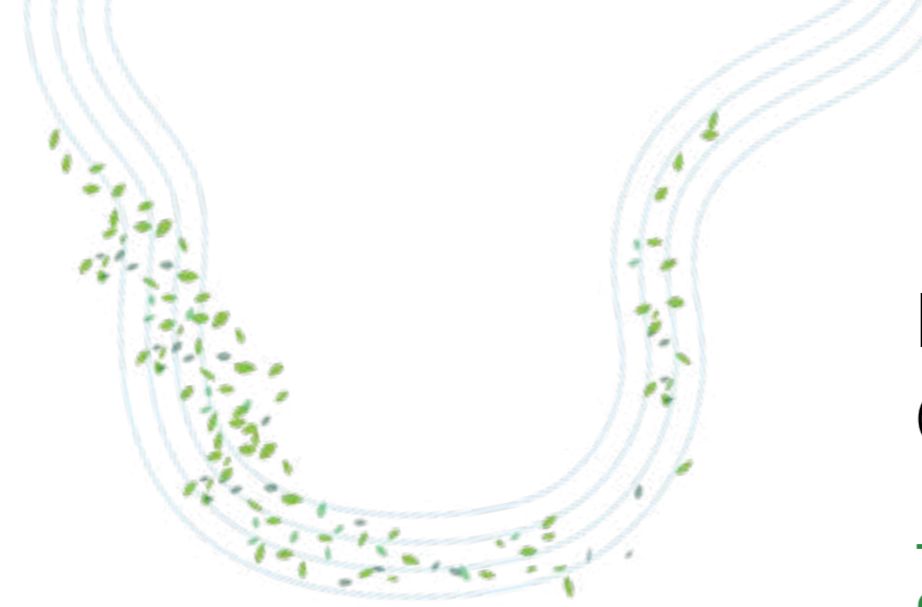
B) to support the national authorities in enhancing their capacity to formulate, develop and implement reform policies and strategies towards sustainable finance while pursuing an integrated approach;

C) to support the efforts of national authorities to define and implement appropriate processes and methodologies of developing sustainable capital markets by considering best practices of and lessons learned by other countries.

The document provides Recommendations to support the development of sustainable and green finance in Hungary by suggesting the implementation of various steps in green and sustainable financial policies and measures. These are linked to green outcomes and would support Hungary's commitments under the Paris Agreement to activate capital markets and fund the transition of the economy to net zero by 2050 in accordance with the European Climate Law. Accordingly, the focus of the Recommendations is environmental, providing support to achieve the climate- and environment-related targets. The Recommendations are based on an Assessment Report presented in June 2021 on the current state of the Hungarian sustainable capital market and incorporates input and feedback from public stakeholders (Ministry of Finance, Ministry of Innovation and Technology), and financial market participants (issuers, local, and foreign investors). The Recommendations were further discussed at an Expert Panel in January 2022.

The full publication can be found

[HERE](#)



In the spotlight – Our projects

The journey to net zero Calculation of GHG emissions - Bank Pekao SA

A growing number of financial institutions have pledged to make their portfolios net-zero by 2050 or sooner. Achieving their net-zero pledges will require progress on multiple fronts: coordinated government and regulatory intervention, functioning carbon markets that boost carbon trading, and robust methodologies for measuring their GHG emissions and temperature alignment.

We have been asked by our Client to support them in this process. Bank Pekao SA is one of the largest financial institutions in Central and Eastern Europe. In terms of the value of assets, it is the second largest bank in Poland, while taking into account the capital strength measured by the solvency ratio, Bank Pekao is a leader among banks in Poland and one of the strongest financial institutions in Europe. In the last year's edition of the pan-European, stress test conducted by the European Banking Authority (EBA) the bank was ranked second among the most resilient banks in Europe out of the 50 banks that participated in the survey.

The context: green finance, low carbon economy and climate neutral

As demonstrated in its ESG Strategy, Bank Pekao assumes that before 2024 it will organize financing for new sustainable projects worth at least PLN 30 billion. This will include at least PLN 8 billion of financing green and social projects as well as at least PLN 22 billion support for the issue of ESG bonds of the bank's clients. The share of green financing - including, i.a. projects such as wind farms, photovoltaic installations, low-emission transport or ecological construction - will increase to over 4 percent of of

the Bank's customer financing. The share of high-carbon financing will be less than 1%. By supporting the transformation of the Polish energy sector, at the same time Pekao intends to become involved in supporting the regions most affected by the changes.

Pekao plans to achieve its own climate neutrality (scope 1 and 2) by 2030 and will successively introduce subsequent stages of the plan, such as pro-ecological improvements in branches, monitoring the consumption of raw materials or reducing own emissions. And of course calculating its GHG emissions.





Calculating GHG emissions

As part of the project that we carried out as Deloitte Polska for the client, we supported the Bank in the correct calculation of GHG in accordance with recognized methodologies and standards.

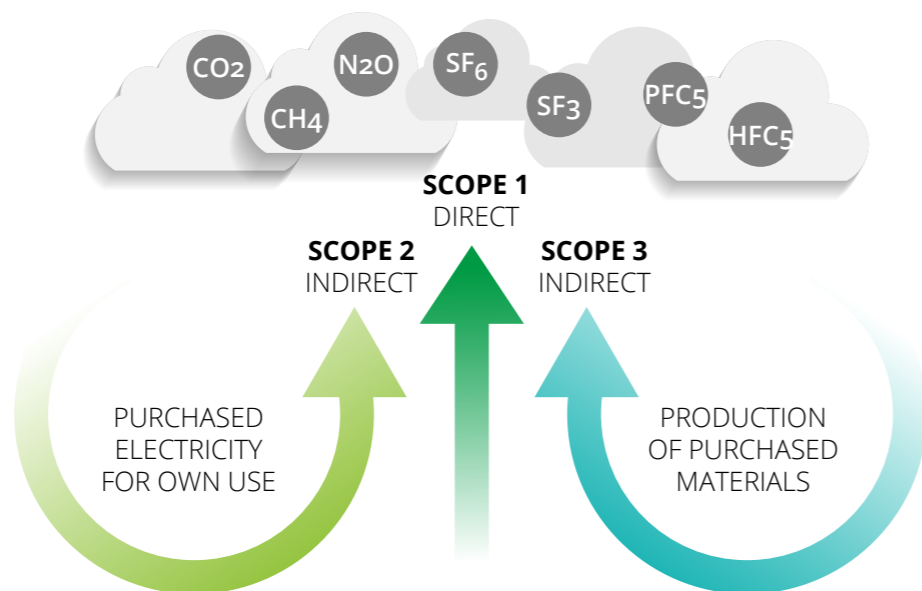


The Greenhouse Gas Protocol - A Corporate Accounting and Reporting Standard Revised Edition,

GHG Protocol Scope 2 Guidance

The correct calculation of greenhouse gas emissions (Scope 1 and Scope 2) requires expert knowledge on the application of the GHG Protocol recommendations, allowing for further setting and communicating decarbonization targets in accordance with the Science Based Targets (SBTi) methodology.

The Greenhouse Gas Protocol standard covers the accounting and reporting of greenhouse gases included in The Kyoto Protocol, enabling organizations around the world to reliably measure reporting emissions, based on the experience and knowledge of 350 experts representing business, non-governmental organizations and the public sector. It defines three scopes of emissions.



SCOPE 1

includes direct emissions within the company or from the organization itself, i.e. combustion of natural gas to heat buildings. Examples are natural gas for space and water heating, propane, diesel and gasoline for vehicles.

SCOPE 2

covers emissions from electricity and from purchased heat or steam that are not produced on-site but are directly related to electricity or heat consumption;

SCOPE 3

covers all other indirect emissions, i.e. those that are a consequence of the reporting organization's activities, but are generated by sources it does not own nor control. The GHG Protocol has defined an exhaustive list of 15 possible sources of indirect emissions.

Results of calculating greenhouse gas emissions for the years 2020-2021 for the Pekao Group

GHG emissions were calculated for two periods: January 1, 2020 to December 31, 2020 and January 1, 2021 to December 31, 2021. Our calculations demonstrated that the main cause responsible for the carbon footprint of the Pekao Group is Scope 2, i.e. indirect emissions related to the consumption of electricity and heat purchased. It accounts for approximately 90% of the Group's total emissions. Direct emissions, included in Scope 1, account for 10% of the carbon footprint.

SCOPE	2020	2021
Scope 1	6798	8104
Scope 2 (location-based)	65184	64153
Scope 2 (market-based)	59026	57320
Scope 1+2 (location-based)	71982	72257
Scope 1+2 (market-based)	65824	65425

Calculating the carbon footprint was a necessary step to understanding Bank Pekao's contribution to global warming so it could identify ways to reduce it.

Pekao Group intends to continue calculating scope 1 and scope 2 carbon footprint in the coming years. Accurate knowledge of greenhouse gas emissions will allow the organization to create a specific plan for its reduction in the near future. The bank is also preparing to calculate its scope 3 carbon footprint.

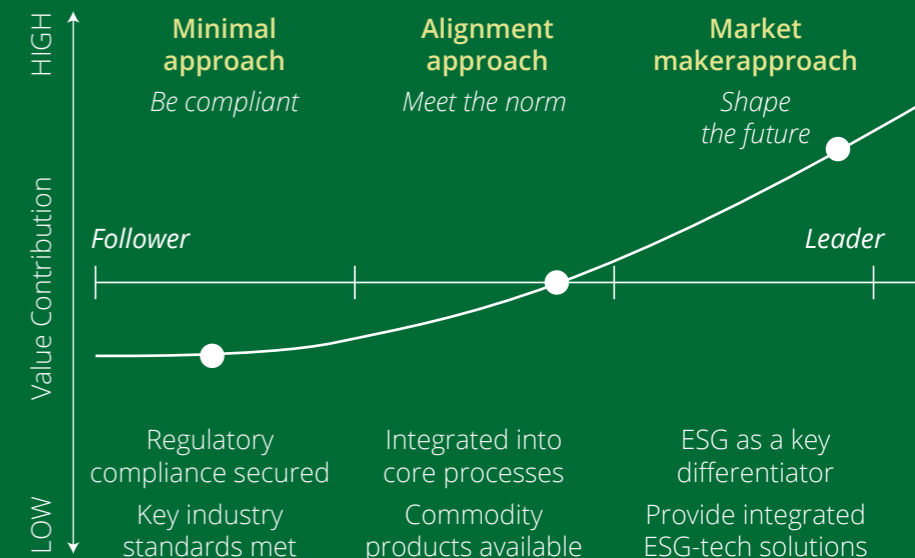
Deloitte events and publications



ESG HEALTH CHECK



Contact us to learn more about how we can help you at any point of your ESG journey. There is a variety of possible ways, ranging from compliance considerations to a full assessment of new business opportunities.



ESG Health check – support in the scope of conducting an ESG maturity assessment of an organization

UNIQUE DELOITTE TOOL



Tool for checking ESG maturity

Tailored industry analysis based on selected ESG frameworks and standards, in order to obtain a clear internal picture of the company.



Frames and indicators

A checklist, consisting of over one hundred indicators, completed on the basis of publicly available information about the company, as well as information provided additionally by the organization. The tool simulates the rating of a credit rating agency, including the most relevant international industry standards and ISO standards.



Identification of the largest gaps

The Deloitte tool enables the identification of key ESG gaps in several areas, including: sustainable development strategy, dialogue with stakeholders, suppliers, greenhouse gas emissions and climate risk management.



WEBINARS

ENG

Tackling decarbonisation in credit portfolios - on the journey to #NetZero

CLICK

PL

Webinar: ESG issues in insurance risk assessment

A series of webinars about the challenges of insurers in terms of finance and actuarial

CLICK

PL

Webinar: A new model of work in the insurance sector

CLICK

PL

Webinar: ESG Strategy in the Banking Sector Challenges and best practices in the preparation and implementation of green strategies in banks

CLICK

PL

Decarbonization of enterprises in accordance with the Science Based Targets methodology How to start and define goals?

CLICK

Webinar: Net-Zero transition challenges for financial institutions

CLICK

PL

Credit and investment portfolios - on the way to NetZero

CLICK



REPORTS

Study, analyzing and summarizing mergers and acquisitions in the banking sector and the current market trends within the Central and Eastern European region.

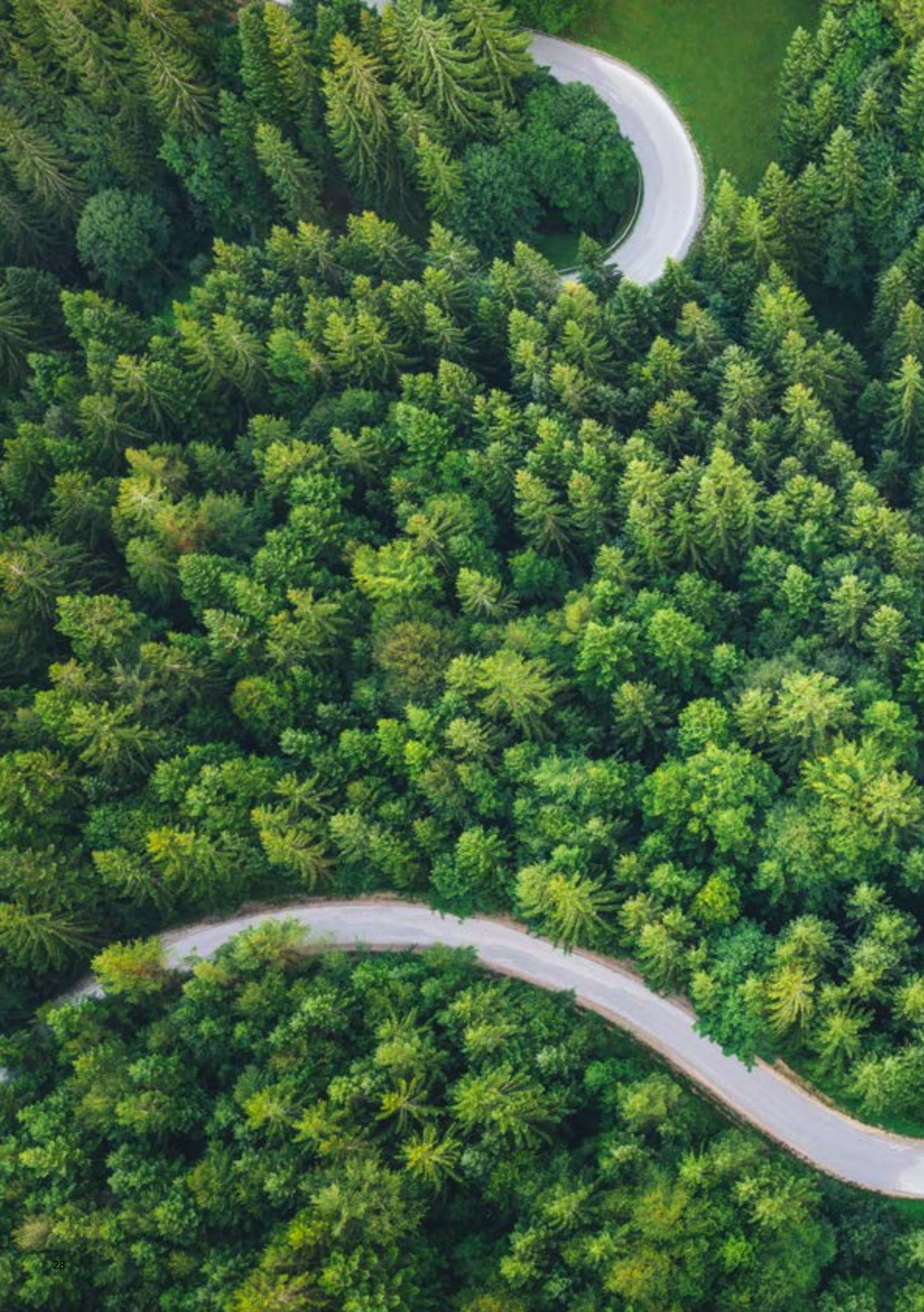
CLICK

Tackling the challenges of the net-zero transition

CLICK

Sustainable Actions Index: Consumers, Employees, Citizens - CE perspective

CLICK



Irena Pichola
Partner
Sustainability Consulting Lead
Deloitte Central Europe
ipichola@deloittece.com

Krisztina S. Nagy
Partner
CE FSI ESG Lead
Deloitte Central Europe
ksnagy@deloittece.com



LOCAL CONTACTS

BULGARIA

Sevinch Nuri
Senior Manager
snuri@deloittece.com

Ekaterina Hristova
Director
ehristova@deloittece.com

CZECH REPUBLIC AND SLOVAKIA

Raul Garcia-Rodriguez
Director
rgarciarodriguez@deloittece.com

Martin Kubacka
Director
mkubacka@deloittece.com

HUNGARY

Réka Szücs
Manager
rszucs@deloittece.com

Krisztina S. Nagy
Partner
ksnagy@deloittece.com

LITHUANIA, LATVIA, ESTONIA

Gediminas Minkus
Director
gminkus@deloittece.com

Andris Liepins
Director
aliepins@deloittece.com

POLAND

Irena Pichola
Partner
ipichola@deloittece.com

Przemysław Szczygielski
Partner
pszczygielski@deloittece.com

ROMANIA

Sorin-Dumitru Elisei
Director
selisei@deloittece.com

Andrada- Gabriela Tanase
Director
atanase@deloittece.com

CENTRAL EUROPE SOUTH

Kim Turk Mehes
Senior Manager
kturkmehes@deloittece.com

Damir Vukotić
Partner
dvukotic@deloittece.com

MAGAZINE EDITOR:

Ewa Suszek
CE Sustainability Communications Lead
esuszek@deloittece.com

contacts

Deloitte.

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee (“DTTL”), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as “Deloitte Global”) does not provide services to clients. Please see www.deloitte.com/about to learn more about our global network of member firms.

Deloitte provides audit, consulting, legal, financial advisory, risk advisory, tax and related services to public and private clients spanning multiple industries. Deloitte serves four out of five Fortune Global 500® companies through a globally connected network of member firms in more than 150 countries and territories bringing world-class capabilities, insights, and high-quality service to address clients’ most complex business challenges. To learn more about how Deloitte’s approximately 263,900 professionals make an impact that matters, please connect with us on Facebook or LinkedIn.

Deloitte Central Europe is a regional organization of entities organized under the umbrella of Deloitte Central Europe Holdings Limited, the member firm in Central Europe of Deloitte Touche Tohmatsu Limited. Services are provided by the subsidiaries and affiliates of Deloitte Central Europe Holdings Limited, which are separate and independent legal entities.

The subsidiaries and affiliates of Deloitte Central Europe Holdings Limited are among the region’s leading professional services firms, providing services through nearly 6,000 people in 41 offices in 18 countries.