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Banking Trend Radar Webcast

Episode 17: Emerging Practices in ESG-Risk Management

MAKING AN IMPACT THAT MATTERS since 1845

Our Speakers Today

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Banking Trend Radar
Emerging Practices in ESG-Risk Management

19 March 2026

MAKING AN IMPACT THAT MATTERS since 1845

Details of the Trend

- 2025 marks a decisive moment for banks: with the EBA's new Guidelines on ESG Risk Management and Environmental Scenario Analysis, the regulatory bar is rising again.
- At the same time, a more mature implementation practice is emerging across the industry – revealing what really works, where institutions still struggle, and how expectations are evolving beyond the written requirements.
- In this Trend Radar session, we distill the most relevant developments from recent projects and supervisory dialogues.
- Together, we explore key challenges, pragmatic implementation paths, and the "silent signals" from regulators that are already shaping next generation ESG risk management.

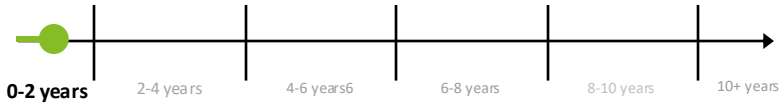
Trend Assessment: Emerging Practices in ESG-Risk Management

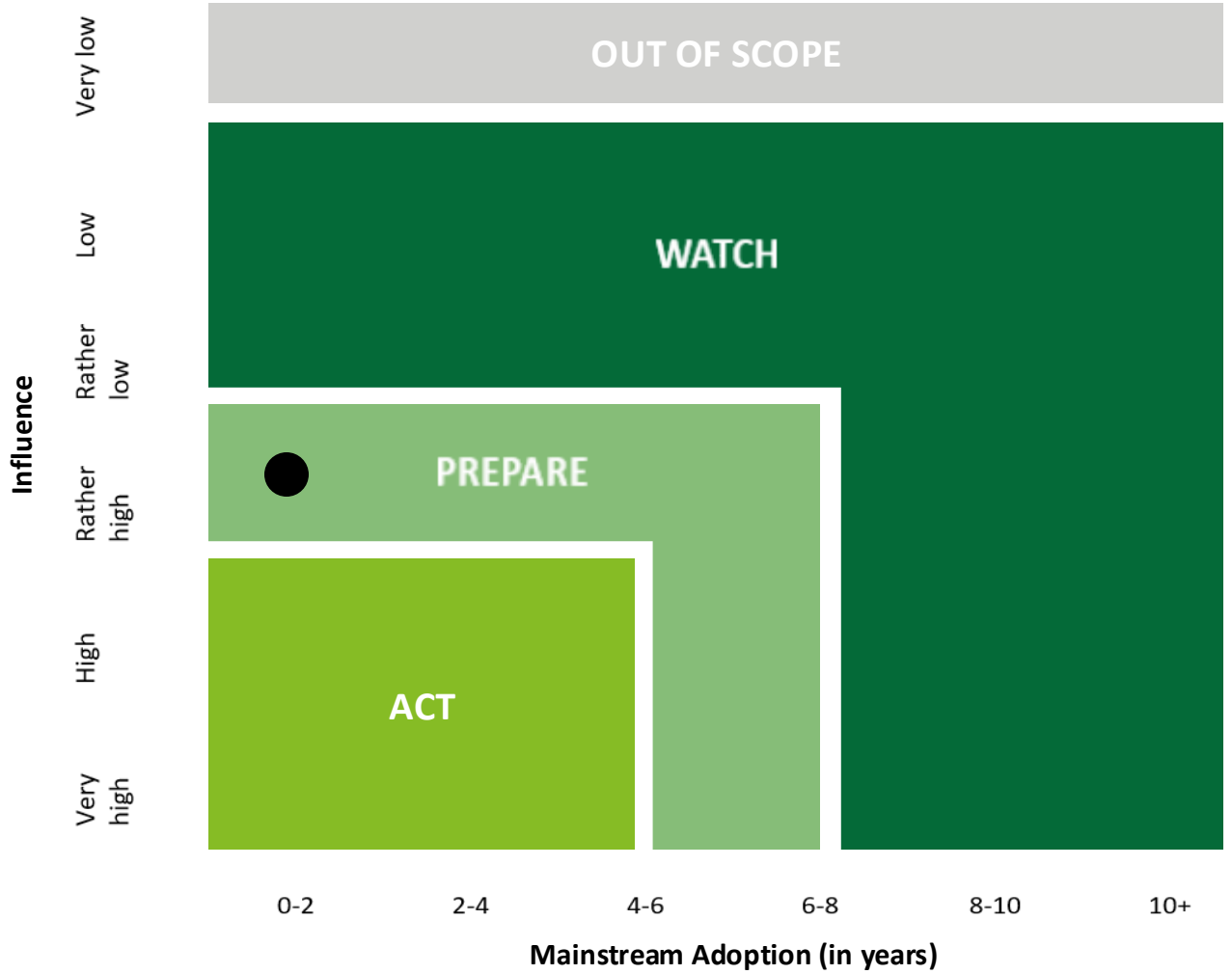
- **Act now:** EBA GL on ESG RM is applicable since 2026, and EBA GL on Env SA comes into action in Jan 2027 (except for SNCI)
- **Be prepared:** No indication that ECB would accept non-compliance with applicable standards in ESG audits just because of OMNIBUS

PREPARE

Influence

Time of Mainstream Adoption

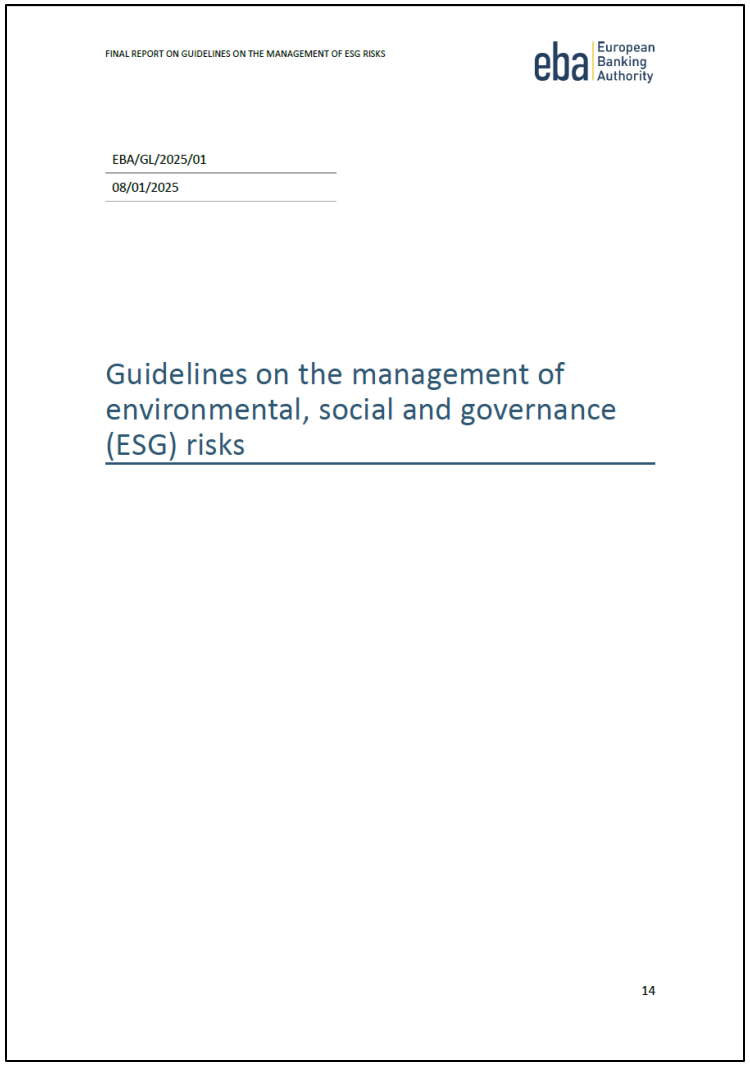




What is New: EBA Guidelines on the Management of ESG Risks (effective since Jan 2026)

RECAP

- **New elements:** Likelihood and reference methodologies for MA as well as prudential transition plans
- **Clarifications:** Development process as a journey, prioritization of ESG risks, mandatory client engagement, and explicit "checklists"


FINAL REPORT ON GUIDELINES ON THE MANAGEMENT OF ESG RISKS

eba European Banking Authority

EBA/GL/2025/01

08/01/2025

Guidelines on the management of environmental, social and governance (ESG) risks

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Materiality Assessment

- Use of a risk-based approach with **likelihood of occurrence** and potential **magnitude of financial effects**

Reference Methodologies

- **Exposure-based methods** e.g., ESG-scoring, EPC for real estate
- **Portfolio/Sector-based Methods** e.g., heatmaps, alignment metrics
- **Scenario-based Methods** e.g., climate and environmental scenario analysis (UNEP FI Framework)

Integration of non-Climate Risks

- **Step-wise integration** starting with climate, next environmental followed by S- and G-risks

Lists of Data and Metrics

- Specified list of **data points to be collected from large corporate counterparties**
- Specified list of **metrics for ESG-monitoring**

Data Sources and Client Engagement

- **Engagement** with clients and counterparties = ESG risk management tool
- **Continuous improvement** of data quality/availability replacing proxies

Climate and Non-Climate Risks

- **Quantification** of climate-related risks
- **Proper understanding** of financial risks resulting from other environmental risks

Minimum Requirements

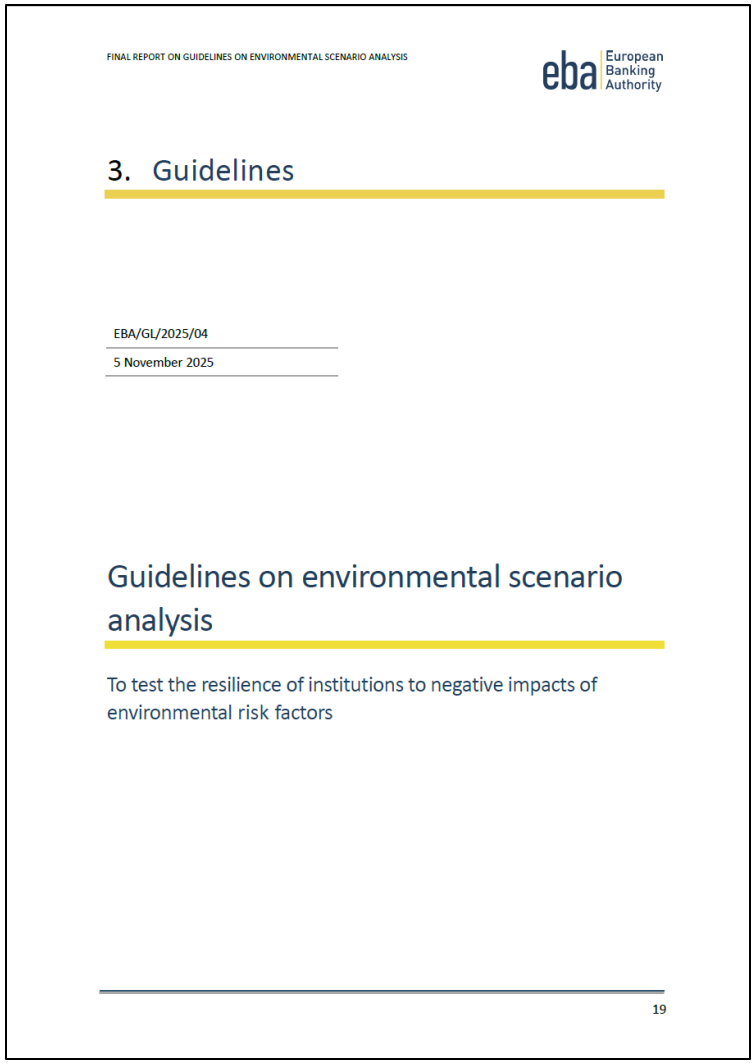
- **Adaptation of ESG risk management cycle** to minimum requirements outlined by the EBA

Transition Plans

- Development and implementation of the CRD transition plan with a focus on **risk-based transition planning**

What is New: EBA Guidelines on Environmental Scenario Analysis (effective in Jan 2027)

- **New elements:** Common narrative across all planning processes as well as scenario-based long-term resilience analysis
- **Clarifications:** Development process as a journey, proportionality includes maturity of available methods, and explicit "checklists"


FINAL REPORT ON GUIDELINES ON ENVIRONMENTAL SCENARIO ANALYSIS

eba European Banking Authority

3. Guidelines

EBA/GL/2025/04

5 November 2025

Guidelines on environmental scenario analysis

To test the resilience of institutions to negative impacts of environmental risk factors

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Development Process

- **Gradually develop** and implement environmental scenario analysis, **starting with climate risk**
- **Progressively incorporate** environmental factors into the stress testing models, **starting with credit risk**

Proportionality Principle

- Proportionality w.r.t. **materiality** of E-risks and **maturity** of available methods, and **monitor developments**
- Proportional use of simplified approaches such as **sensitivity analysis**

Definition of a Common Narrative

- Common narrative = the institution's assumptions about the **most likely future development**
- **Consistent use** across the organization's business lines and business functions

Transmission Channels

- Specification of a a (non-exhaustive) **list of macro & micro transmission channels**
- Consider potential **mitigation or amplification factors** according to the time horizon

Scenario Definition

- Specification of a (non-exhaustive) **list of intertwined factors**
- Consider **both physical risk and transition risk**, and combine scenarios or ensure consistency

Stress Testing

- **Baseline scenario:** Continuation of current trends, without assuming extreme shocks or policy shifts
- Analyse **compound risks** potentially amplifying impact beyond simple aggregation

Resilience Analysis

- **Reference scenario:** Consistent extension of the baseline scenario over a long-term time horizon
- Projection of inter alia **risk-adjusted profitability** using a **(constrained) dymamic portfolio assumption**

What is New: PRA SS 5/25 on Managing Climate-related Risks (Internal Gap Analysis due Jun 2026)

- **Differences compared to EBA/ECB:** Climate risks only, however with integration into IFRS 9 ECL and fair value accounting
- **Similarities compared to EBA/ECB:** More principle based, otherwise similar requirements on SA, data governance and RM

Climate Scenario Analysis (CSA)

- **Proportional sophistication of CSA** w.r.t. **firm size** and **materiality of exposure** to climate risks
- **Appropriate scenarios** w.r.t. **use case** (e.g., Risk Management, Capital Adequacy, Valuation and Accounting, or Strategy)
- **Firm-level financial impact** (e.g., future revenue, operating costs and profit)
- Identifiy potential **trigger points for strategic change**
- **Reverse stress testing** based on climate-driven failure scenarios
- Specification of **scenario time horizons** and **frequency requirements** per use case

Climate Data Governance

- Assess **climate data gaps** and resulting **impact to modelled estimates**
- **Balance external data** with development of **in-house capabilities** in climate data and modelling
- **Effective scrutiny** and governance of **externally supplied climate data**
- Strict governance around the **use of proxies**

Climate Risk Management

- Identify and assess **all material climate-related risks** (credit, market, liquidity risk, etc.)
- Consider CSA results within **risk appetite** setting appropriate **risk metrics and limits**
- Integrate climate risks into **ICAAP** (e.g., impact on solvency/capital, and use of severe climate scenarios)
- Integrate climate risks into **ILAAP** (e.g., impact on deposit outflows, credit line drawdowns and HQLA)
- Integrate climate risks into **IFRS 9 ECL** and **Fair Value Accounting** (see also Dear CEO Letter, 2024)

Disclosures and Reporting

- Engage with inter alia **UK Sustainability Reporting Standard (SRS)** implementing IFRS S1 and S2 with focus on **financial materiality only** (not double materiality as in CSRD)

A Pragmatic Approach: Identification of Risk-relevant ESG Data

- **Challenge:** Find minimal ESG dataset that fully supports ESG risk management across regulatory requirements
- **Pragmatic solution:** Prioritize [Climate → Environmental → S&G] as well as [Financial Materiality → Impact Materiality]

Regulatory Requirements

MaRisk

ESG Integration into Risikomanagement
AT2.2 Risk inventory
AT4 Risk management
BTO1 Credit business
BTR Risk management and risk controll processes
BT3 Risk reporting

EZB Guide & Reports

Management of C&E Risks (structure follows TCFD)
1. Business model and strategy
2. Governance and risk appetite
3. Risk management
4. Disclosure

Good Practices
- CR&E risk management (thematic review)
- Climate stress testing

EBA Guidelines

Management of ESG Risks
- Requirements on client data (§28)
- Explicit list of transmission channels (4.1)
- Reference methodologies for MA (4.2)
- Explicit list of monitoring metrics (§81)

Environmental Scenario Analysis
- Differentiation between ST and RA
- Use of baseline/reference scenario

CRR 449a

EBA ITS Reporting Templates
1. Financed GHG emissions
2. Energy efficiency of real estate collateral
3. Alignment metrics
4. Exposure to top 20 carbon-intensive firms
5. Exposures subject to physical risk

CSRD

ESRS E1 Climate Change
E1-1 Transition plan
E1-4 Portfolio alignment
IRO-1 Materiality assessment
E1-6 GHG emissions
E1-9 Scenario analysis

ESG Risik Management

ESG scoring and materiality analysis
Qualitative assessment of ESG risks
- ☐ All climate, environmental, social, and governance indicators

Financed emissions
Pro-rata attribution of the counterparty's GHG emissions based on the share of bank loans or bank investments in total debt
- ☐ Greenhouse gas emissions (Scope 1, 2, 3), incl. data quality
- ☐ Debt capital

Portfolio alignment – Corporates
Planning of financed emissions (Paris Climate Targets)
- ☐ Greenhouse gas emissions (Scope 1, 2, 3), incl. data quality
- ☐ GHG intensity
- ☐ GHG emission targets

Portfolio alignment – Real Estate
Planning of energy efficiency of financed real estate (Paris Climate Targets)
- ☐ Energy efficiency and EPC for material properties

Exposure-based method
Assessment of exposure vulnerability (particularly loans and investments as well as collateral assets)
- ☐ Industry sector (NACE)
- ☐ Risk-exposed assets and revenues (transition risks)
- ☐ Risk-exposed assets and revenues (location-based), including insurance (physical climate risks)
- ☐ Material locations of counterparties (physical risks)
- ☐ Material business partners of counterparties (value chain)

Scenario analysis
Modelling of transition costs, physical damages, business interruption, and stranded assets, as well as impacts on PDs, LGDs, and fair-value assets
- ☐ All counterparty data
- ☐ Material locations of counterparties (physical risks)
- ☐ Material business partners of counterparties (value chain)
- ☐ All indicators for transition risks
- ☐ All indicators for physical climate risks
- ☐ All indicators for other environmental risks

Risk-relevant ESG Data

schufa Collaboration

Counterparty Data
- ☐ Customer ID, legal form, name, and address
- ☐ Industry sector (NACE)
- ☐ Size (number of employees, revenue, and total assets, i.e., equity and liabilities)
- ☐ Consolidation perimeter (corporate groups/holdings)

Material Locations of the Counterparty
- ☐ Name and address
- ☐ Industry sector (NACE)
- ☐ Size (number of employees, revenue)

Material Business Partners of the Counterparty
- ☐ Name and address
- ☐ Role (supplier/customer)
- ☐ Industry sector (NACE)
- ☐ Revenue with the counterparty

Transition Risks
- ☐ Greenhouse gas emissions (Scope 1, 2, 3), incl. data quality
- ☐ Energy consumption and energy mix
- ☐ GHG intensity
- ☐ GHG emission targets
- ☐ Energy efficiency and EPC for material properties
- ☐ Risk-exposed assets and revenues

Physical Climate Risks
- ☐ Risk-exposed assets and revenues (location-based), including insurance

Other Environmental Risks
- ☐ Release of pollutants
- ☐ Water withdrawal
- ☐ Biodiversity-sensitive locations
- ☐ Waste management

Human Rights
- ☐ Incidents within own workforce and related measures
- ☐ Incidents involving employees and other affected parties

Equal Opportunity
- ☐ Gender pay gap

Corruption and Bribery
- ☐ Pending convictions and fines

A Pragmatic Approach: Construction of Reference Scenarios

- **Challenge:** Reference scenario shall represent internal planning assumptions consistently over short, medium and long time horizon
- **Pragmatic solution:** Match internal planning assumptions with scenario narratives from scientific organizations

Reference Scenario

- "Reference Scenario" is the term used in the EBA GL on Environmental Scenario Analysis for the long-term scenario for resilience analysis building on the short-term baseline scenario (Para. 101)
- For resilience analysis, institutions must develop a reference scenario based on a common narrative covering all time horizons (short/medium/long) until 2027 (EBA GL on Environmental Scenario Analysis)
- The reference scenario should reflect the institution's assumptions about the most likely future development
- The reference scenario should be applied consistently all processes relevant for risk management (capital/liquidity/transition/strategic). For IRBA-Banks the ESA GL mandates the way in which ESG risks are taken into account in the scenarios used for credit risk internal stress testing in reference to 177(2a) CRR.

Pragmatic construction of a reference scenario

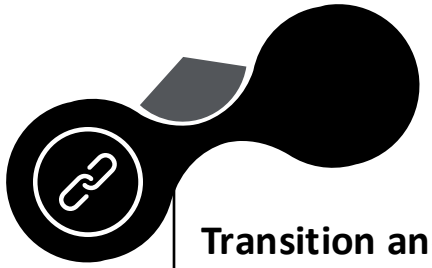
1. Consider risk driving factors consistent with relevant transmission channels and materiality assessment so that the scenarios are as relevant as possible.
2. Base scenario on internal planning assumptions, typically provided by the institution's economic, research, controlling (or other responsible) department
3. Align internal planning with SSPs (typically SSP 2 and/or 3 (Middle of the Road/Rocky Road)), if necessary, interpolation or weighting across different SSPs

Ongoing discussion between ECB/NCAs and supervised banks

- Both CRD and CSRD transition planning shall be aligned with the Paris climate goals, at the same time achieving the Paris goals is unlikely in the current situation. How can a reference scenario incorporate the institution's internal planning assumptions while also meeting the requirement of Paris alignment?
- Proportionality and adequacy of approaches – what does bank-specific treatment of ESG-risk scenario analysis mean in practice?

A Pragmatic Approach: Set-up of Scenarios for Short-term and Long-term Analysis

- **Challenge:** Define consistent set of scenarios for short-term ST and long-term RA, including reference scenario
- **Pragmatic solution:** Combine physical and transition scenarios from scientific sources, and adapt them according to time-horizon



Transition and Physical Scenarios

- **Transition scenarios:** Use of long-term and short-term scenarios from established scenario providers (e.g. NGFS, IEA). Certain alignment-related scenarios (e.g. net-zero pathways) may be required under regulatory disclosure frameworks
- **Physical risk scenarios:** Use of long-term and short-term climate scenarios from scientific bodies (e.g. IPCC, NGFS), including SSP-RCP combinations

Pragmatic combination of transition and physical scenarios

1. Combine variables from transition scenarios (sector- or region-level data) with variables from physical climate scenarios (geolocation-level data) that share the compatible SSP narrative
2. Use transition and physical scenario variables simultaneously in the reference scenario (required) and in broader scenario analysis (recommended)

Time Horizons

- Recall that the reference scenario extends the short-term time horizon of the baseline scenario for stress testing to the long-term (10+ years) time horizon of resilience analysis

Pragmatic approach to short-term stress testing

1. Baseline scenario = “short end of the reference scenario”
2. Short-term transition shocks are based on short-term transition scenarios from established scenario providers (e.g., NGFS)
3. Short-term physical shocks are derived from compressed long-term physical climate scenarios (e.g., IPCC)

Pragmatic approach to medium-/long-term resilience analysis

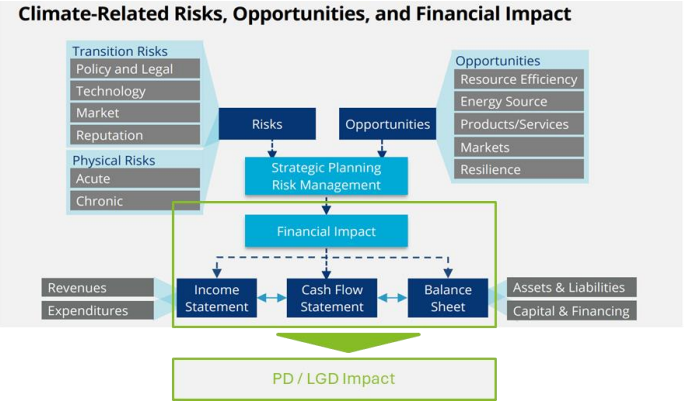
1. Central scenario = reference scenario
2. Long-term transition shocks are taken directly from long-term transition scenarios (e.g., NGFS/IEA)
3. Long-term physical shocks are taken directly from long-term physical climate scenarios (e.g., IPCC)

A Pragmatic Approach: Set-up of Financial Impact Quantification

- **Challenge:** Define framework for financial impact quantification of physical and transition scenarios on counterparties and banks
- **Pragmatic solution:** Built on UNEP FI framework with unified approach for physical and transition risks, leveraging open-source data

Background

- In 2017, the **TCFD Recommendations have inspired Regulatory Guidances worldwide**, regarding the change of paradigm that banks should treat climate risk as financial risk, not just as a reputational one, and consequently integrate climate considerations into financial risk management.
- Developed in 2018 in a pilot project with 16 large international banks, the **UNEP FI have outlined an industry-leading framework** for modelling the financial impact of climate risks on banks positions pointing out the special role of carbon-related costs as a key risk driver.
- Meanwhile, the **Financial Industry has converged to using the UNEP FI Framework**, including carbon price elasticity modelling and the inclusion of physical risks.



Physical Risk Methodology
Hazard-Vulnerability-Exposure Framework

Climate Scenarios

- **ISIMIP Series 3:** SSP-RCP combinations, time series of physical indicators
- **UN DRR archive:** Return periods of physical hazards
- **EC JRC datasets:** Variety of physical indices

Portfolio Data

- **Exposure data:** Financial exposure, addresses, infrastructure type
- **Counterparty data:** Industry (NACE), financial statements
- **Open Street Map:** Mapping of addresses to geolocations, name matching

Materiality Assessment / Transition Plan

- **EU Taxonomy:** Indices for acute and chronic physical climate hazards
- **Hazard severity:** Assessment of indicators per physical hazard on severity scale
- **Materiality assessment:** Hazard severity plus counterparty vulnerability

Counterparty-level Scenario Analysis

- **Damage functions:** Public source damage models, covering inter alia value loss of objects and cost of repair (real estate), length of repair period and loss of profit and revenue (corporates), and loss of agricultural production

Bank-level Scenario Analysis

- **Impact on CET 1:** Via IFRS 9 impairment reserves and fair value assets
- **Impact on capital requirements:** Via credit RWA and economic capital

Transition Risk Methodology
UNEP FI Framework

Climate Scenarios

- **NGFS scenarios:** Time series of climate and macroeconomic variables
- **IEA scenarios:** Similar to NGFS scenarios, but with focus on energy
- **Short-term scenarios for ST:** NGFS vs. condensation of scenarios

Portfolio Data

- **Counterparty data:** Industry (NACE), financial statements
- **Value chain analysis:** Input-output relations and cost pass-through
- **Carbon intensities:** GHG emissions (Scope 1, 2, 3) per output
- **Decarbonization pathways:** Scenario analysis, transition planning

Materiality Assessment / Transition Plan

- **Financed GHG emissions:** PCAF GHG Reporting Standard Part A
- **Portfolio alignment metrics:** Distance to IEA NZE2050 scenario
- **Exposure to high-emission sectors:** Loans, financed assets and income
- **Energy efficiency of real estate collateral:** EP score and EPC level

Counterparty-level Scenario Analysis

- **Transition cost model:** Transition costs for GHG emission and energy consumption as well as for transformation (CapEx/OpEx)
- **Price elasticity model:** Impact on market/firm-level profits & revenues

- **Distance-to-Default model:** Impact on counterparty financials
- **Rating model:** Impact on PD (corporates) and LGD (real estate)
- **Climate VaR model:** Impact on asset values

A Pragmatic Approach: Set-up of Financial Impact Quantification

- **Challenge:** Maintain a consistent view on financial impacts over the short, medium and long time-horizon
- **Pragmatic solution:** Choose dynamic portfolio assumption in line with EBA GL and maintain “what-if perspective” on financial risks

Dynamic Portfolio Assumption

- **Static:** Constant projected exposures across all portfolios (with possible rollover assumptions)
- **Constrained dynamic:** Changes in projected exposures across portfolios are based on the institution’s internal planning (e.g., internal transition pathway) but not on the scenario
- **Fully dynamic:** Changes in projected exposures across portfolios are based on the institution’s internal planning and on the scenario

Pragmatic definition of the portfolio assumption

1. Stress testing: Static or constrained dynamic (use the latter only if it provides analytical benefit)
2. Resilience analysis: Constrained dynamic or fully dynamic (use the latter only if it provides analytical benefit)

Impact Assessment Perspectives for Firm-level Bottom-up Approach

- **What-if perspective:** Scenario impacts at time T are assessed against firm-level financials as of today
- **Fully dynamic perspective:** Scenario impacts at time T are assessed against firm-level financials at time T, incorporating year-on-year changes in the firm’s financial situation

Pragmatic definition of the impact assessment perspective

- We clearly recommend using the what-if perspective, as it enables applying rating systems calibrated as of today to projected firm-level financials over time, which is not feasible under the more ambitious fully dynamic perspective
- It is important to note that year-on-year impacts on firm-level financials can still be accumulated under the what-if perspective, playing a role similar to inflation adjustments in economic analyses
- Thus, the what-if perspective supports the long-term projection of bank-level KPIs/KRIs (e.g., risk-adjusted CET1 ratio and RoE)

Questions & Answers

1. What is the scope of EBA requirements regarding liquidity risk, operational risk and traded risk with respect to integration of climate and environmental risks?
   - For non-climate environmental risks as well as non-credit traditional risk categories, apply proportionality principle w.r.t. materiality of C&E-risks and maturity of available methods → Gradual development process
2. How can we build a single common narrative and reference scenario that works for both short-term and long-term climate scenarios?
   - Key requirement: The reference scenario shall represent internal planning assumptions consistently over all time horizons
   - Pragmatic solution: Match internal planning assumptions with scenario narratives from scientific organizations (p. 11, Ref. Scenario)
3. How can SNCIs effectively implement simplifications due to opening clauses in the two EBA Guidelines?
   - SNCIs may rely mainly on qualitative analysis for both short- and long-term scenario analysis
   - Other SIs may use sensitivity analysis for short-term resilience and mainly qualitative analysis for the long term
   - LIs may start with sensitivity analysis for resilience and non-climate risks, but are expected to move towards more advanced approaches
4. Given that the EBA Guidelines on Environmental Scenario Analysis come into effect only in January 2027 – Which levers does the ECB have to enforce compliance with the new elements and clarifications during ESG audits already in 2026?
   - General: CRD (Pillar 2) stipulate the implementation of good practice, adequate methodology and data management → ECB reports and reviews clarify the requirements
   - Recap – ICAAP Integration: ECB Guide on ICAAP stipulates that longer time-horizons (> 3 to 5 years) need to be considered when material risks materialize only over the longer time-horizon → ECB Guide on C&E Risks applied this requirement to C&E risks in Expectation 11 on Scenario Analysis and Stress Testing already in 2020
   - Resilience Analysis: EBA Guidelines on SREP (Business Model Analysis, Section 4.9) stipulate to identify key vulnerabilities to ESG risks and correspondingly to assess the bank's long-term resilience → Can be read that climate RA in already an existing requirement
5. You mentioned above (p.13) that the financial industry (foremost large banks) converges to implementing the UNEP FI framework for financial impact quantification. While the approach might be considered best-in-class, are there any shortcuts and simplifications especially for smaller banks that still meet regulatory expectations?
   - Proportionality principle: EBA GL on Env SA grant a proportionate use of simplified approaches
   - Financial impact: While the ECB considers bottom-up approaches with firm-level financial impact calculation (e.g., UNEP FI framework) as good practice, smaller institutions may use sector-by-region level top-down approaches or even sensitivity analysis
   - PD/LGD impact: While the ECB considers borrower/exposure-level PD/LGD impact calculation based on financial impact as good practice, smaller institutions may use pre-calculated sector-level PD/LGD impacts (e.g., PDs in NGFS ST scenarios or house price indices in ECB CST scenarios)
   - Physical risks: While large institutions are expected to analyze material physical risks at geolocation-level (e.g., IPCC scenarios), smaller institutions may refer to the inclusion of physical risks at country/region-level in combined scenarios (e.g., NGFS scenarios)
6. Is there an update on the ongoing discussion about alignment of planning assumptions with Paris targets mentioned above (p. 11, Construction of a Reference Scenario)?
   - CRD "Prudential" Transition Plans: EBA GL on ESG-RM stipulates benchmarking against Paris goals
   - CSRD Transition Plans: ESRS E1-1 stipulates disclosure of mitigation efforts to ensure the bank's alignment with Paris goals
   - Pragmatic solution: Focus on risk-based planning → When in doubt, prioritize realistic planning assumptions over strict alignment with Paris goals (Net Zero 2050 and 1,5°C GW) → Describe the bank's best effort to align with Paris goals under realistic planning assumptions

Let‘s talk! Contact us for more questions & exchange

We are eager to continue the discussion with you

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Upcoming Webcast

Episode XIX: The Digital Euro Is Coming: Europe's Path to Digital Sovereignty

Datum: 05 May 2026 | 2:00 pm

The digital euro is gaining noticeable momentum across Europe as one of the rising trends in the evolution of digital payments. As the ECB prepares its pilot phase, attention is shifting from conceptual design to practical implications, revealing how digital central bank money could influence user experience, privacy standards, offline functionality and the role of payment service providers.

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