Green Finance in Poland

How will ESG change the banking sector and corporate financing?

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pwc

Introduction

The term 'ESG' (Environmental, Social, Governance), i.e. all aspects related to environmental, social and corporate governance, is becoming increasingly important for the companies, financial institutions, but also broader economy. The wave of regulatory requirements in the EU, growing awareness among consumers and the increasing market pressure from investors shifting towards 'green' investments are the game changers in the financial markets.

Although ESG principles apply to the whole economy, the magnitude of impact will differ among industries. For example the banking industry, although not being a top contributor to CO2 emissions, will play a critical role in the process of economy and energy transition. Banks will adjust their credit policies to support redirecting the funds from carbon-heavy towards more efficient and sustainable industries. In turn, availability of bank credit will depend on the actual footprint in terms of CO2 emissions, water consumption, sewage production, etc. (and these are only selected 'environmental' criteria, while the social and governance aspects will also play an important role). Apart from radical changes in financing activity, banks will need to assure their full value chain is ESG compliant, e.g. scoring the ESG profile of the counterparties and suppliers will become a norm. This will be critical piece of the market disclosures and will steer the demand from the investors and customers.

The European Union, betting on the "green deal", has for some time now been working on the regulatory framework aimed at achieving sustainable development goals through a system of incentives – both for individual companies and for national economies of the Member States. As announced in the Sustainable Development Financing Plan, in order to attract funding from the private sector and thus expand availability of commercial and public funding, the EU has launched a comprehensive mechanism for regulating and enforcing the achievement of the climate targets of the Paris Agreement.

These mechanisms will be gradually reinforced, first through disclosures, and then through increasingly stronger regulation of financial entities that provide funding to the real economy. Disclosures required from the regulated financial institutions are already in place (the first information was provided on 10 March 2021). They are to trigger a specific mechanism of "blame and shame" and to incentivise a shift in financing to energy transition programs.

The first step is the EU 2019/2088 Sustainable Finance Disclosure Regulation (SFDR), in force as of 10 March, which obliges financial investors to report their level of ESG compliance, with the goal of achieving climate neutrality in accordance with the Paris Agreement plan. Disclosures of the level of sustainability achieved in the investment portfolios and lending activities of the banks are a clear signal to the market, investors and customers in general. Financial institutions will have to increasingly take non-financial risks into account, whether in providing financial products to clients, in their own investing or lending activities, and in their risk management. This includes the assessment of creditworthiness and stress testing. In practice this will require deployment of a completely new toolset enabling access to comparable and reliable non-financial information of the companies and their ESG profile.

Are the Polish banks ready for the new ESG requirements? Our report presents a comprehensive view on the level of preparedness, based on an anonymous survey conducted in March 2021. The survey represents the views of 14 banks with ~80 percent of the total banking sector assets in Poland. The survey proves that 80% of the banks have already introduced components of sustainable finance in their business strategies and the product shelf. However, we should expect a wave of further changes such as climate and environmental risks factors embedded into the credit assessment models. This will inevitably drive the change in the lending process as well as availability of funding to selected industries and sectors.

In summary, ESG is an important signal for companies preparing for investments and searching for funding. ESG will drive the availability and cost of funding and increase the disclosure requirements of banks towards companies. Interestingly, the vast majority of banks that participated in our survey perceive the emerging ESG regulatory requirements positively – as an opportunity for the whole banking sector and the economy.

The participants of the survey comprised representatives of 14 commercial banks, including the 11 largest commercial banks and three specialized banks from the top 20.

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Key conclusions

80%
of the commercial banks surveyed have introduced elements of sustainable financing in their business strategies and product offer

86%
The vast majority of surveyed banks (86%) made a general assessment of compliance with current ESG requirements and estimated their impact on business

Currently 12 out of 14 of the surveyed banks take climate and environmental risks into account in the lending processes, mainly to selected industries and sectors

Part of the institutions surveyed collect ESG data from selected suppliers (4out of 14 banks) and from selected customers (5 out of 14 banks). The data collected most often relates to the environmental category (E), and least often to the governance category (G)

The vast majority of the banks surveyed have a positive view of the emerging ESG regulatory requirements, believing to be an interesting opportunity, from their perspective (79%), as well as the Polish banking sector and the country as a whole (71%). Some perceive risks for the economy and for the banks related to the implementation of ESG projects, especially in a situation of insufficient consideration being paid to the challenges and costs of energy transition in EU Regulations.

The key challenges associated with the inclusion of ESG factors in assessing the risk are the following:

- The absence or limited access to ESG counterparty data according to 86% of institutions)
- Low quality of counterparty disclosures and ESG awareness (according to 79% of respondents)
- Absence of final, transparent regulations (according to 71% of banks)

Among the banks surveyed for their preferred data sources and providers for identifying and assessing counterparty ESG risks, 86% plan to obtain data directly from the counterparties

86%
of the banks surveyed expect that ESG factors and EU ESG requirements will have the greatest impact on credit risk and on the lending process

43%
of banks surveyed plan to include the quantitative ESG components in the credit risk assessment and the lending process in the foreseeable future

64%
of the banks surveyed declared that they are currently in the process of implementing the requirements

In the process of aligning with sustainable financing requirements, more than 1/3 of the institutions surveyed have mentioned the support of an owner, Parent Company, external consulting firm or law firm

43%
Almost one-half of the institutions surveyed (43%) have not yet analysed their loan portfolios for compliance with ESG criteria

With respect to technologies and IT solutions, compliance with the ESG requirements will trigger necessary upgrade of their core systems

All banks declared that implementation of the ESG initiatives would be much easier with a standardized set of interpretation of the new regulatory requirements

Milestones for the years 2020-2050

EU legislation associated with the climate changes:

- European Union legislation relating to climate changes sets the long-term direction of the EU climate policy
- The EU's goal is to achieve zero net greenhouse gas emissions by 2050 (climate neutrality)
- Implementing and effecting the amendments to the EU climate law is scheduled as follows:

Sustainable financing will impact the financial sector in the near future – playing a key role in business transformation

2019

2019: The EU Parliament and Council set targets to achieve climate neutrality by 2050

2020

March 2020: Beginning impact analysis of the potential effects of increasing EU climate targets

March 2020: Presentation of the European Commission's proposal to make EU climate neutrality a legal requirement by 2050

September 2020: The Commission presents a new EU target: to reduce greenhouse gas emissions by 2030*

2021

June 2021: Review of existing legal acts to align them to the revised targets

2023

From September 2023: Cyclic review (every 5 years) of the adequacy of the target pathway and, where appropriate, implement corrective measures

By September 2023: The European Commission checks whether the steps taken by the EU comply with the climate neutrality target

2030

EU greenhouse gas emissions reduced by 40% to 1990 levels

2050

Full climate neutrality in the EU

Impact on existing targets

Determining the possibility of increasing the target reduction of greenhouse gases from 40% to 55% (European Parliament: an increase to 55%)*

Importance and impact of EU climate change legislation

The EU law on climate change stipulates increasing the EU's existing greenhouse gas reduction targets and regulates the EU's long-term climate policy strategy. The changes aim to provide safety for investors and businesses, as well as transparency and accountability. At the same time measures aimed at promoting compliance with the agreed targets are being proposed.

The following legislation will be reviewed for its compliance with climate policy

- European Emission Trading System Directive
- Regulation on Joint Emission Reduction Efforts
- Land Use and Forestry Regulation (LULUCF)
- Energy Efficiency Directive
- Renewable Energy Directive
- CO_2 emission standards for passenger cars and light commercial vehicles

* Poland has not yet officially endorsed the tightening of EU CO_2 reduction targets and its commitment to achieve climate neutrality by 2050.
The stricter measures to be taken to achieve reduction in CO_2 emission from 40% to 55% by 2030 also raises many doubts as to Poland's ability to achieve this target without incurring huge social costs

ESG vs internal governance

Growing expectations of EU banking supervision

The EU's declarations on sustainable financing, ESG risk, and in particular climate risks, have become the focus of attention of EU bodies responsible for regulations and guidelines for the financial sector (EC, EBA, ECB). As a result proposals are in the pipeline to expand the regulatory requirements related to internal governance to include ESG aspects. In practice, implementing ambitious goals will require extending all the currently functioning internal governance mechanisms to include aspects of sustainable financing. To date, Polish supervisory authorities have not made significant efforts in this area; however, the PFSA guidelines are expected within the next few months which will be consistent with the European trend of more stringent requirements.

To achieve competitive advantage, leaders need to acquire or educate specialist staff.

To implement new strategies and business models in the context of ESG requirements appropriate competencies are necessary, which can be a challenge to acquire. Expectations are also rising for the supervisory boards of banks responsible for shaping strategic directions and supervising business and risk strategies ("documented meetings and discussions").

It will, therefore, be necessary to ensure that banks have the appropriate knowledge and skills in this area. More and more often the establishment of dedicated committees to support ESG initiatives and create positions / units dedicated to sustainable finance or climate risk management are also increasingly observed. Any lack of action in this direction will lead to slower development in the ESG area and increased regulatory risk.

Ultimately, ESG aspects will become an integral part of the banks' internal organization.

Effective implementation of ESG strategy is possible with the full involvement of the whole organization: from managing bodies to front office staff. The key success factors will be an appropriately developed internal organization and a transparent system of accountability, effective internal reporting (performance indicators), adequate controls and remuneration policy taking ESG into account.
The important role of compliance (the process of implementing new products) and internal audit also have to be kept in mind.

Key impact areas

- Governing bodies
- Internal organization and accountability system
- Remuneration policy
- Internal control system

ESG risk and the business model

Necessary pre-emptive measures

Some bank business models and exposure portfolios may be particularly exposed to climate-related risks, especially if they are related to economic sectors that are vulnerable to physical climate-related threats, EU regulations on CO_2 emissions or the transition to a low-carbon economy.

From Poland's perspective, banks' exposure to physical risk seems to be less important both in the context of sudden calamities (i.e. floods, fires, hurricanes, droughts) and chronic risks (i.e. rising sea levels, average temperatures, desertification of land). On the other hand, the effects of amendments to EU regulations may be felt more acutely, with the accompanying economic effects, requirements of transitioning to a low-carbon economy resulting from the increasingly stringent regulations in this respect, other ESG legal requirements, technologies, the attitude of consumers and investors (including foreign ones, who invest their funds in Poland or are recipients of Polish products and services).

The transition risk will mostly affect sectors with higher levels of greenhouse gas emissions (e.g. industries using fossil fuels, energy-intensive manufacturing and transport), using large amounts of water, generating sewage and waste, contamination, etc.
Banks exposed to companies that are unable to successfully adapt to carbon-neutral economies and other requirements may incur higher loan-related losses

Introducing changes to business models can effectively limit the impact of climate risk (as well as ESG regulatory risk) on the banks' risk profile.

The changes may consist of – among other things – proactively reducing exposures to high-risk industries, shorter loan maturities, lower availability of fixed forms of bank financing, gradually reducing climate-sensitive assets. Alternatively, banks may seek to increase their financial resources to continue operating at a similar level in a higher risk environment.

Key areas of operation

- Portfolio analysis in terms of climate risk (physical and transition)
- Mitigation of climate risk through active portfolio management
- Assessment of ESG risk in the lending process
- Adjustments to valuation of collateral

ESG in risk management

New challenges for the banking sector

The European Central Bank (ECB) has identified climate risk as the main risk for the Eurozone banking system for another consecutive year. Despite the fact that most banks have implemented sustainability policies with respect to sustainable development, most of them have not yet developed a comprehensive approach to climate and environmental risk management and do not have the tools to assess the impact of climate and environmental threats on their balance sheets. The situation is similar for banks operating in Poland.

Climate-related risk has unique features, and its identification and measurement require detailed, significantly forward-looking measurement methods.

Despite different features (non-linearity, a significantly longer time horizon), climate risk can be reflected in traditional financial risk categories.
In the case of credit risk, this would be, for example, the income effect (the borrowers' ability to repay and service the debt) and property effect (the banks' ability to recover the amount of the loan in the event of default).

Effective identification and management of the climate and environmental risk requires expanding the current methodologies and new data sets.

Existing risk management tools can serve as a starting point for measuring climate-related financial risk, but new techniques and data will be necessary, which include geolocation data that addresses the spatially variable characteristics of climate impacts, as well as counterparty- and industry-level data resulting from the transition from a high- to a low-carbon economy. Estimating the impact of EU ESG regulations on a specific business model and its stability will also play a large role.

The methods currently used vary in complexity: from qualitative methods (e.g. mapping risk factors by exposure or portfolio, heat maps, concentration analyses, sensitivity analyses) to quantitative methods (shadow-PD, stress testing).
Combinations of different approaches are also used.

The main challenges related to ESG risk identification and measurement recognized internationally

Regulatory uncertainty

Lack of relevant practice in risk modelling

Lack of historical data of appropriate granularity

Lack of specialist competences

Banks in Poland indicate similar challenges

ESG and business strategy

A turning point for the banking sector

ESG-related efforts have been at the top of the list of declared priorities of major international banks.
However, the actual implementation of ambitious promises is complicated. As a result, many organizations may move too slowly and lose the competition in the new race for customers and staff. This also applies, albeit to a lesser extent for now, to Poland.

In this situation it is helpful to understand the following three aspects related to ESG in the banking sector:

"Sustainable banking" is now placed on the same level as "digital banking" as a new area for building competitive advantage.

ESG is not just about regulations. From the perspective of the banks' strategy it is primarily the growing expectation of a new generation of customers and employees, as well as investors. Among banks at a similar technological level, this is the natural next space for competition

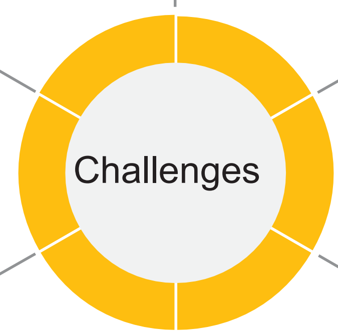
To achieve competitive advantage leaders must anticipate regulations, rather than just follow them.

Current regulations focus mainly on the environment, but they are evolving rapidly. It is reasonable to expect them to expand in scope and detail in a relatively short period of time. Lack of readiness will mean slower growth.

Implementing changes requires building new specialist competences or expanding already existing ones.

The changes relate to many areas, both to the front- and the back-office. Taking decisions and monitoring sustainable financing and performing customer due diligence in terms of ESG are just two examples. Ultimately, ESG data should become an integral part of customer life cycle management, extending the existing risk models and KYC and AML controls.

Main challenges in the context of ESG risk management



Non-linearity

Most ESG risk factors, especially those related to climate risk, are of a non-linear nature, which can add to the difficulty of managing them

Multi-aspect impact on the bank

ESG risk can impact a bank's financial position in many ways (business aspects – impact on borrowers and sectors which had previously been financed by the bank, reputational aspects, legal/compliance, etc.)

Time horizon mismatch

A significant time mismatch (in particular in the case of environmental factors – "E") between "traditional" risk management tools, and the long-term character in case of materialization of ESG threats

Level of uncertainty

- Difficulty in predicting the impact of climate risk, social and management-related issues on the bank
- Uncertainty about the final form of the regulations, definition and practical implementation of the taxonomy

Insufficient data

- Need to standardize the taxonomy
- Need to identify new data sources on ESG factors and their integration and standardization
- Existing systems not adapted to storing ESG data

Methodological limitations

- Current risk measurement models rely largely on historical data, which usually does not reflect ESG factors
- Accounting for ESG risks in calculating credit risk parameters (PD, LGD) using existing methods is not obvious and can be a challenge

ESG in disclosures

Opportunities and challenges

The existing disclosure requirements based on the Non-Financial Reporting Directive (NFRD) in conjunction with Regulation 2019/2088 on Sustainable Finance Disclosure Regulation (SFDR) do not provide adequate quality and scope of comparative and reliable information that can be used to identify and measure climate and environmental risks in banks' portfolios.

An opportunity to improve the quality and availability of ESG data is seen in the draft secondary legislation for the Taxonomy and amendment to the NFRD ***(so-called CSDR – Corporate Sustainability Reporting Directive).***

Compared to NFRD, CSDR expands the scope of obliged entities to include all large companies and public companies (with the exclusion of micro enterprises listed on stock exchanges), expands and clarifies the scope of disclosures, and imposes the obligation that these disclosures have an appropriate digital format and are subject to auditing.

In accordance with the draft Article 19a from 2026 small- and medium-sized companies will also be obliged to disclose information on sustainable development, on a proportional basis.

However, the draft disclosure requirements will pose a major challenge for the banks themselves.

For example, the secondary regulation for the Taxonomy will introduce detailed ESG reporting requirements, including several KPIs for the banking and trading portfolio. **In particular, banks will be required to calculate the green assets ratio (GAR)** reflecting the percentage of assets of a credit institution financing companies and invested in business activities aligned with the Taxonomy. Apart from the total GAR for secured balance-sheet assets, banks will be required to disclose information broken down by environmental goal and type of counterparty.

Key disclosure requirements for banks

Non-Financial Reporting Directive (NFRD) and communique

Taxonomy (Article 8)

CRR (Article 449a) and ITS on 3rd pillar disclosures (draft)

SFDR and Regulatory Technical Standards with regard to the ESG disclosure standards

Detailed overview of the survey results

1. In what areas have you already introduced elements of sustainable financing?

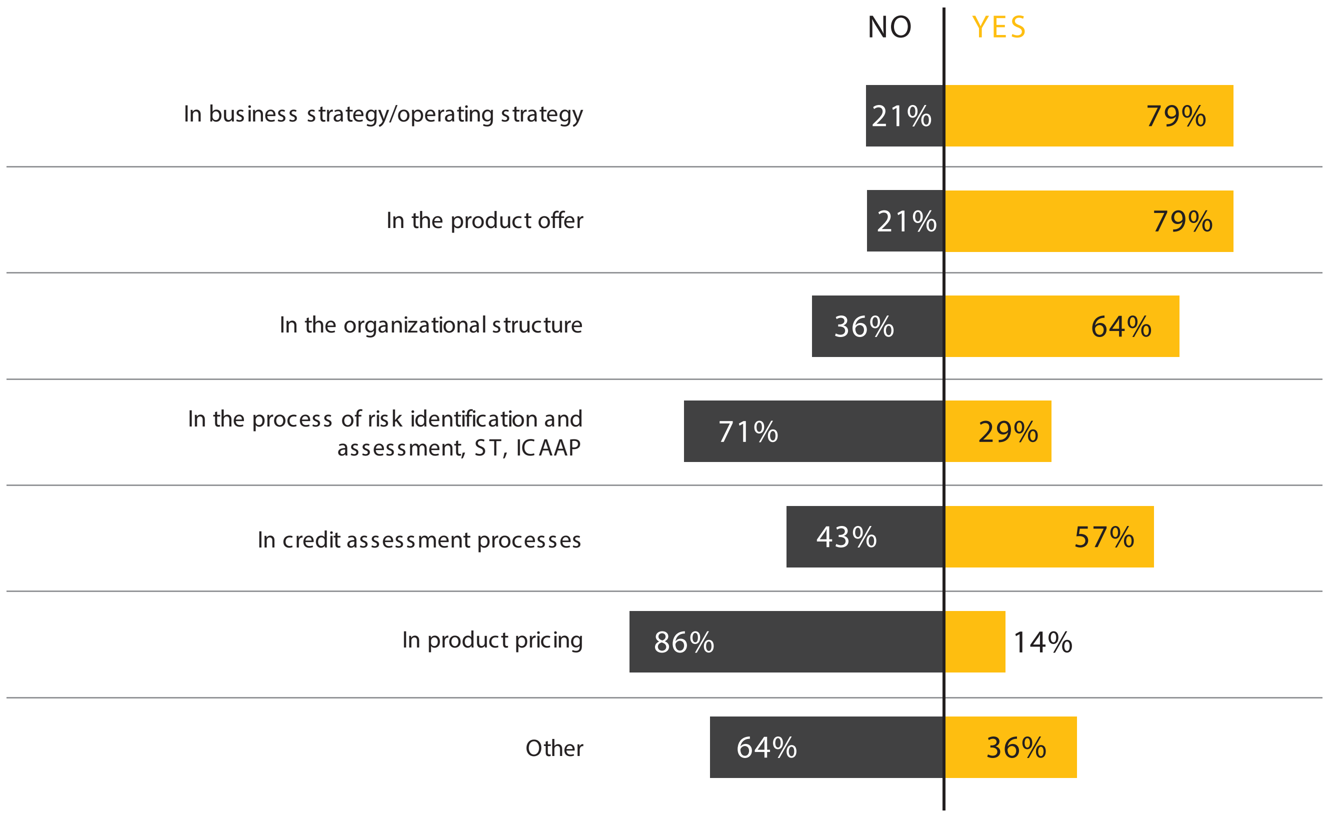
Almost 80% of the banks surveyed have already introduced elements of sustainable financing in their business strategies and product offer.

Many institutions have not yet introduced elements of sustainable financing in the following areas: product pricing (86% of institutions have not introduced any ESG elements) and risk identification and assessment, stress testing, and the ICAAP process (71% of institutions have not introduced any ESG elements).

In addition to the areas mentioned in the survey, it was indicated that elements of sustainable financing were also introduced in:

- educational campaigns relating to cybersecurity and financing;
- the changes such as establishing ethics spokesman;
- simple communication standards;
- sources of funding green bonds/green covered bonds;
- the product commercialization process.

In what areas has your institution already introduced elements of sustainable financing?

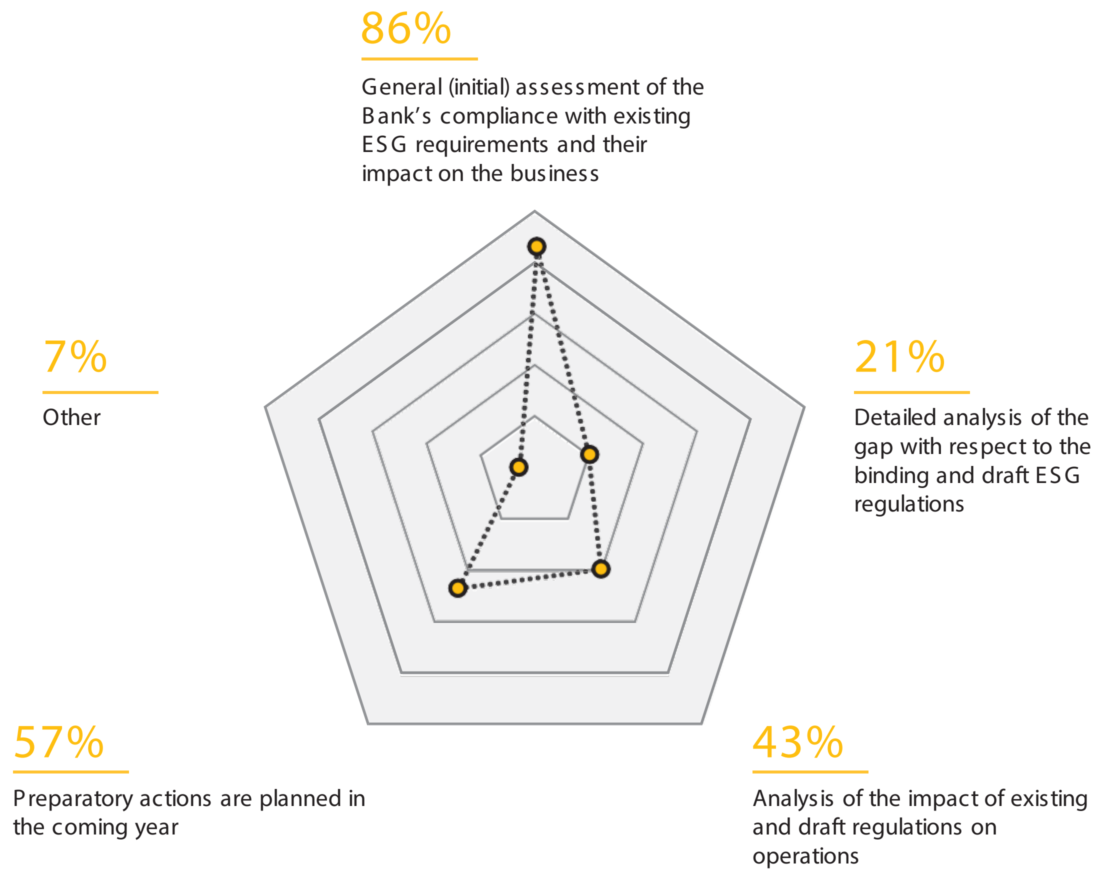


2. What actions have you taken while preparing for the implementation of sustainable financing requirements?

To implement sustainable financing requirements the surveyed institutions have taken a number of actions, of which the most frequently mentioned (86% of all banks) was the initial assessment of the banks' compliance with ESG requirements and their impact on the business.

43% of the banks conducted an analysis of the impact of existing regulations or those drafted on their operations. Eight out of 14 institutions declared that more extensive preparatory actions are planned for the coming year

What actions has your institution taken in preparation for the implementation of sustainable financing requirements?



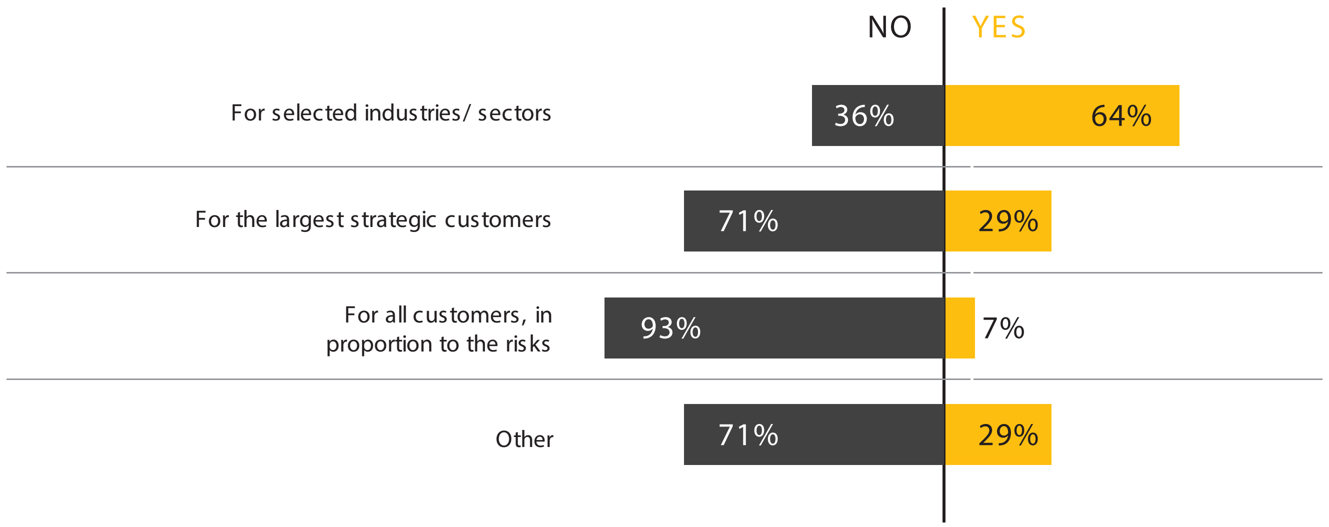
3. Do you consider climate and environmental risks in the current lending processes?

Currently, 12 of the 14 banks surveyed account for climate and environmental risks in their lending processes, mainly for selected industries and sectors. Only two of the 14 institutions do not currently incorporate climate and environmental risks in their lending processes, however, they plan to introduce such a process next year. Most often climate and environmental risks are taken into account in the lending process for selected industries or sectors. Interviews conducted with banks indicate that these include the energy sector, and mining (mines), heavy industries and chemical industries.

One of the institutions surveyed declared that it currently accounts for climate and environmental risks in lending processes for all customers in proportion to the risk level.

The "Other" category includes processes such as repurchase of receivables from leases granted for renewable energy projects (photovoltaics) and granting loans related to thermo-modernization.

Does your institution consider climate and environmental risks in its current lending processes?



4. Do you currently collect ESG data from suppliers and customers?

Acquiring ESG data from customers is one of the biggest challenges for the surveyed banks. Of the 14 banks surveyed, five declared that they do not currently collect ESG data.

However, those institutions that do collect ESG data, declare to do so for the selected customers (usually the largest borrowers, etc.) and selected suppliers (of goods and services, usually as part of procurement processes). The data collected is most often for category E, and less often for category G.

The "G" area can present something of a challenge for non regulated entities, where the level of internal regulations, technical solutions and processes in the area of corporate governance often (with the exception of public companies) is far lower compared with entities from strictly regulated sectors such as banks.

Institutions collect ESG data from:

suppliers (2 banks)			selected suppliers (4 banks)			customers (2 banks)			selected customers (5 banks)		
E	S	G	E	S	G	E	S	G	E	S	G
50%	50%	100%	100%	100%	50%	50%	0%	0%	80%	40%	40%

5. How do you see the emerging ESG regulatory requirements?

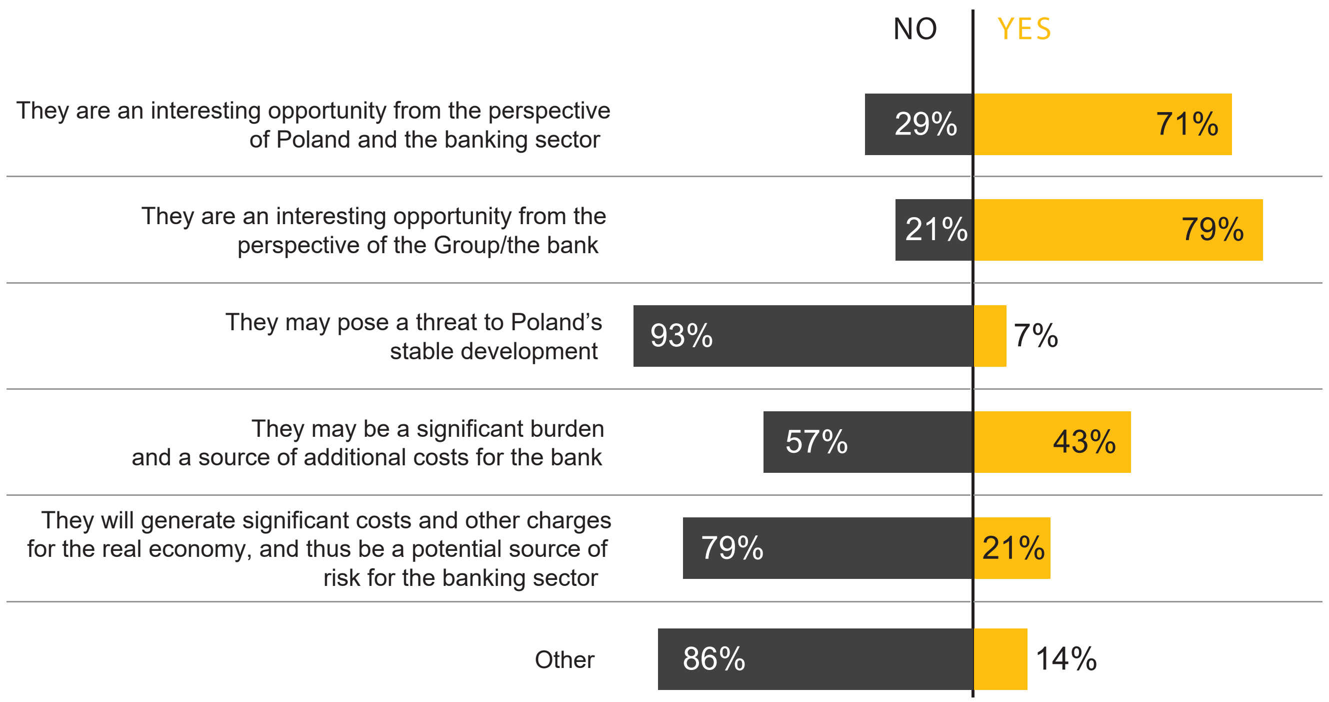
The vast majority of the institutions surveyed have a positive perception of the emerging ESG-related regulatory requirements, believing that they represent an interesting opportunity from the perspective of institutions (79%), as well as Poland and the banking sector (71%).

At the same time, nearly half of the respondents (43%) believe that the ESG-related regulations may be a significant burden and a source of additional costs for banks in a situation where there is a general increase in regulatory requirements, low interest rates, and the impact of other factors, such as the pandemic and legal risks resulting from legacy CHF mortgage loans in several banks.

Only one institution indicated that these requirements could pose a threat to Poland's stable development.

Some banks also indicated explicitly that despite the costs of implementing a large number of exacting and often complex ESG regulations, the failure to take action to reduce CO_2 emissions may have a significantly more painful effect.

What are the biggest challenges you identify in relation to the requirement to implement ESG factors into the risk framework?



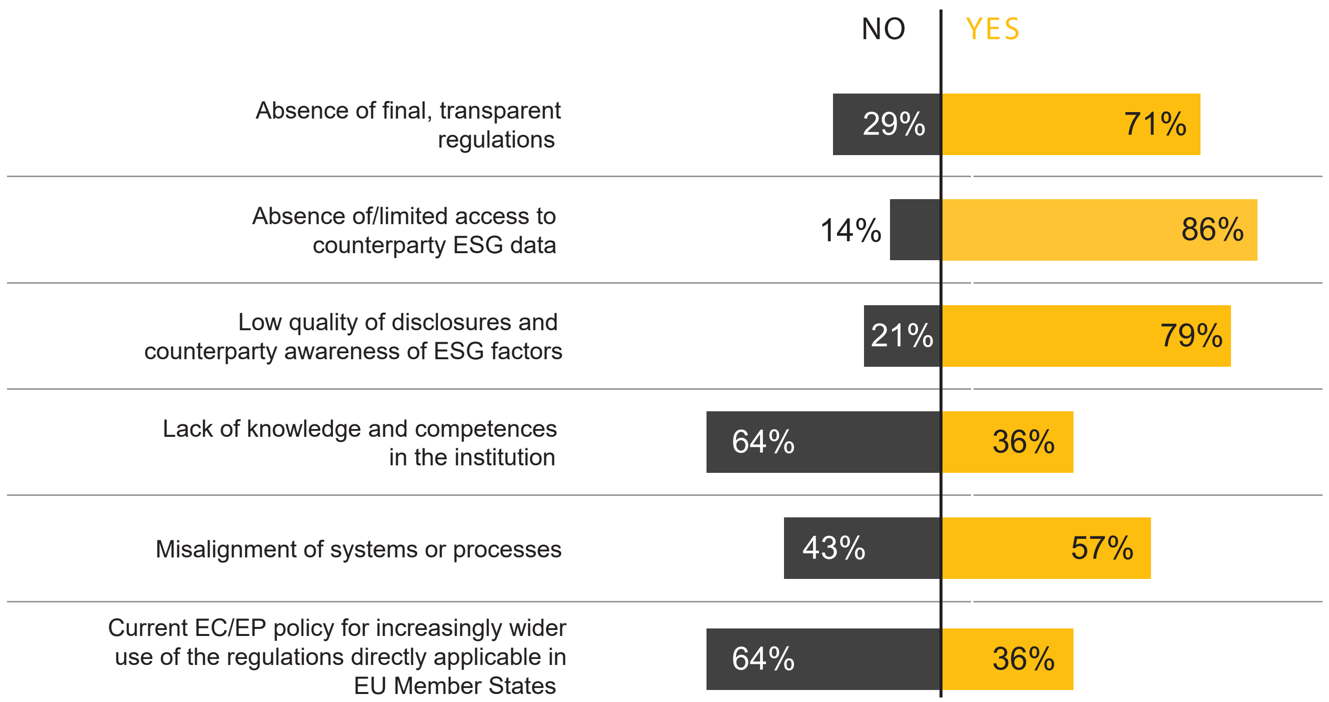
6. What are the biggest challenges in relation to the requirements to include ESG factors in the risk framework?

According to the institutions surveyed, the biggest challenges posed by the requirements to include ESG factors into the risk framework are:

- **Absence or limited access to counterparty ESG data (according to 86% of respondents);**
- **Low quality of counterparty disclosures and awareness of ESG factors (according to 79% of respondents);**
- **Lack of final, transparent regulations (according to 71% of banks).**

More than half of the institutions (57%) also see inadequacies in banks' IT systems or internal processes as a significant challenge in relation to the requirements to include ESG factors into the risk framework. Almost 40% see the risk of an exceedingly mechanical implementation of the ESG legislation through the EU regulations of the European Commission rather than EU directives, which may lead to insufficient consideration of the negative effects of local implementation of the ESG regulations for the banks' customers. This could happen as a result of forcing, through the regulations too quickly or too radical ESG transition, or not taking into consideration, among other things, the social costs of the transition, or underestimating the impact of ESG on the competitiveness of the Polish economy (companies, individual customers).

What are the biggest challenges in relation to the requirement to include ESG factors in the risk framework?



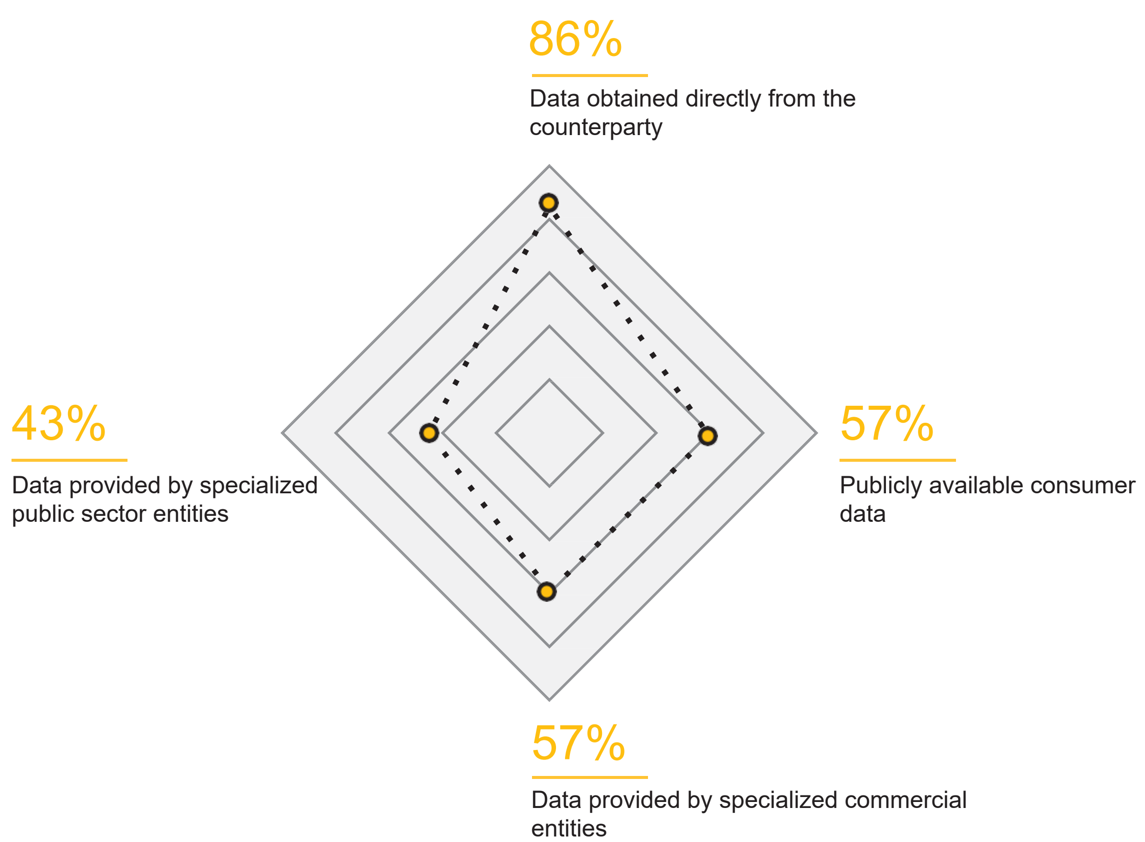
7. What data do you plan to use to identify and estimate counterparty ESG risks?

Most of the banks surveyed analysed the data sources needed for ESG. Only three out of 14 banks have not yet analysed their preferred data sources and suppliers for the purpose of identifying and estimating counterparty ESG risk.

From among the banks that have performed such an analysis, 86% plan to obtain data directly from the counterparty, e.g. in the form of reports, certificates or forms.

More than half of the banks (57%) plan to use public data available on the counterparties such as disclosures, media reports, information on websites and data provided by specialized commercial entities in the form of commercial ratings, certificates and ESG databases.

What data do you plan to use to identify and estimate counterparty ESG risk?



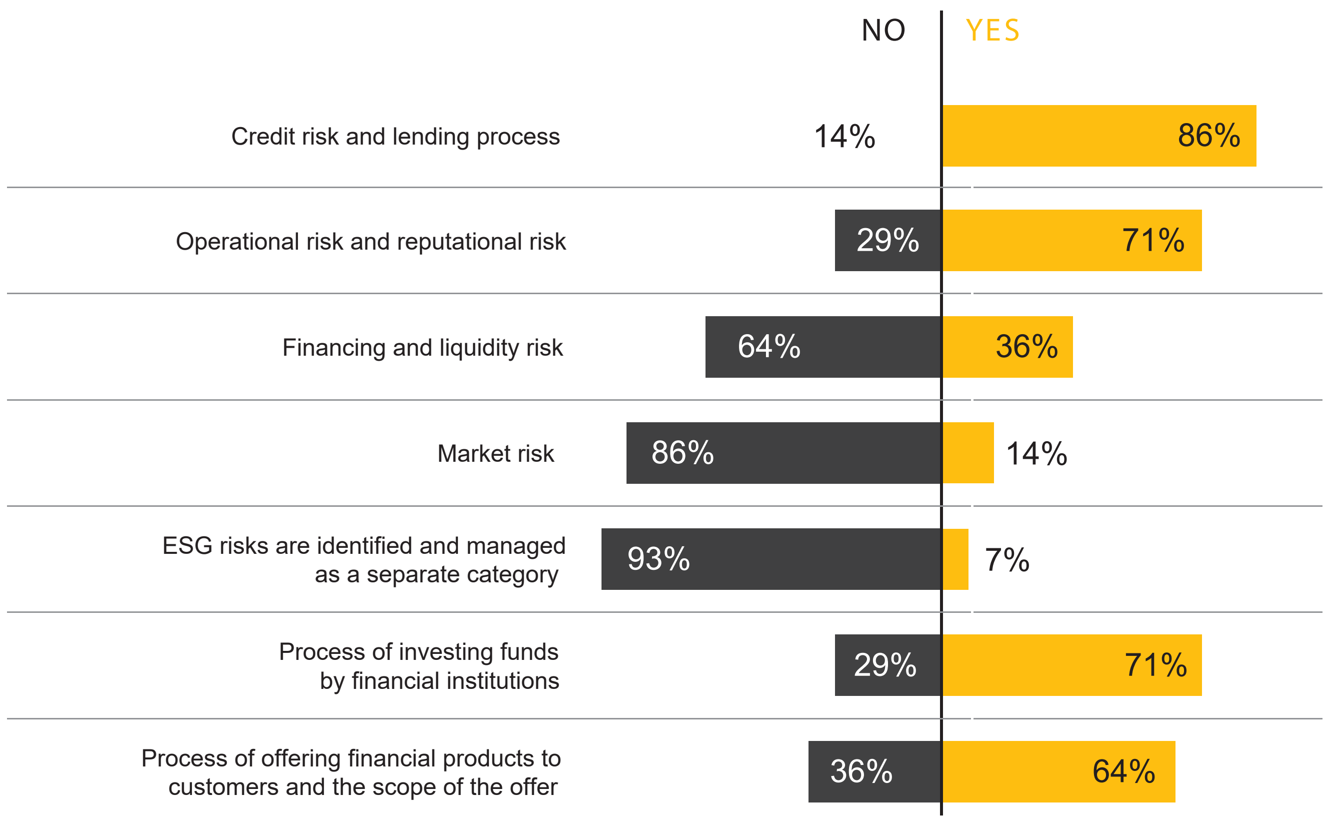
8. Which risk categories do you expect to be impacted by the EU ESG requirements?

The vast majority of institutions surveyed expect the greatest impact of ESG factors or risks and EU ESG requirements to be on credit risk and the lending process (86% of banks). 71% of institutions also see a significant impact on operational and reputational risk, as well as on the process of investing funds by financial institutions, e.g. in the form of limits on investments in coal or gas-fired power companies .

More than 60% of institutions also believe that ESG factors and requirements will influence the process of offering financial products to customers and on the scope of the offer, e.g. by eliminating funds that include "brown" companies' shares.

Only one institution is of the opinion that ESG risks are identified and managed as a separate category.

Which risk categories do you expect to be impacted by the EU ESG requirements?



9. Do you plan to include the quantitative ESG factors in the assessment of credit risk in the coming year?

In the coming year, 43% of the banks surveyed plan to account for the quantitative impact of ESG factors on the risk profile and lending process.

21% of the banks believe that it is not possible to take such an impact into account due to systemic barriers and a lack of models.

Does your institution plan to include the quantitative ESG factors in the credit risk assessment in the coming year?

YES			NO	
In the lending process (43% banks)	In stress-testing (29% banks)	In portfolio sensitivity analysis (21% banks)	Due to lack of data (14% banks)	Due to systemic barriers, lack of models (21% banks)

10. How do you assess the progress of implementation of the sustainable financing requirements?

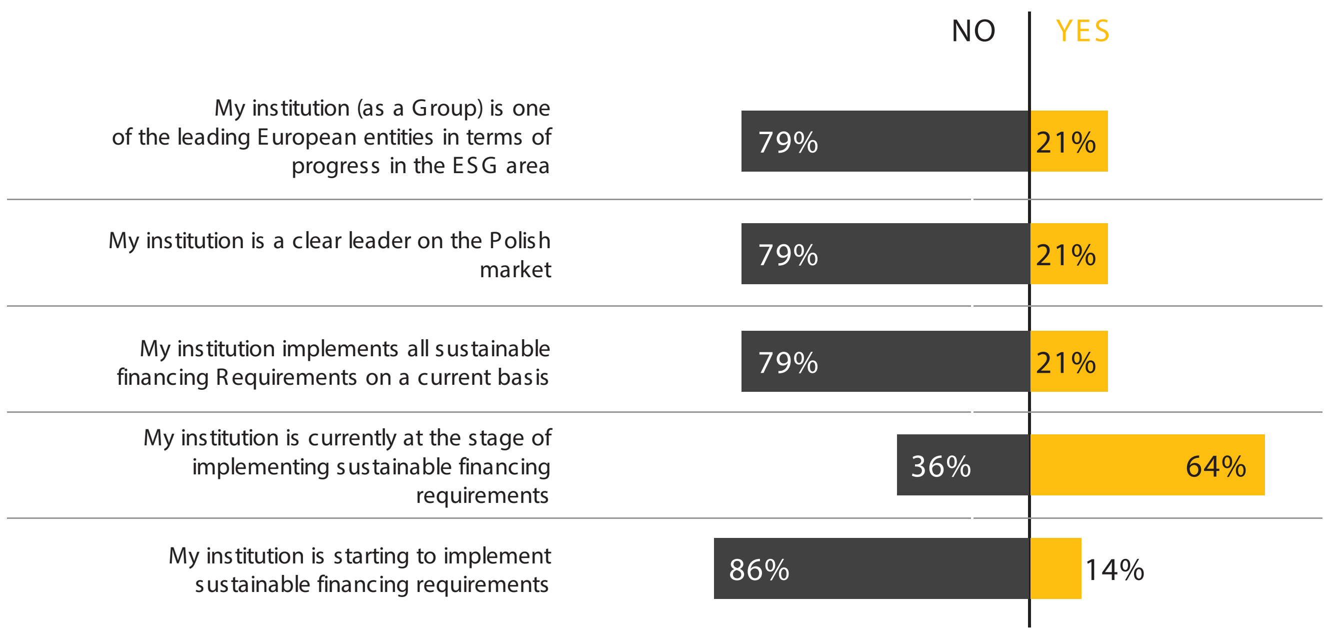
When assessing their degree of progress in implementing sustainable financing requirements, 64% of the banks surveyed declared that they are currently in the process of implementing the requirements.

Taking into account also the interviews conducted by PwC with banks, this can be interpreted as launching an ESG project, implementing the most urgent disclosure requirements (SFDR) and continuing or intensifying the financing of “green projects” (loans, investments).

Three out of 14 institutions see themselves as a leader on the Polish market and claim that as a Group their institution is among the top European entities in terms of progress in the ESG area.

The same number of banks believe that they are keeping pace with all sustainable finance requirements.

How do you assess your progress as an institution in implementing sustainable financing requirements?

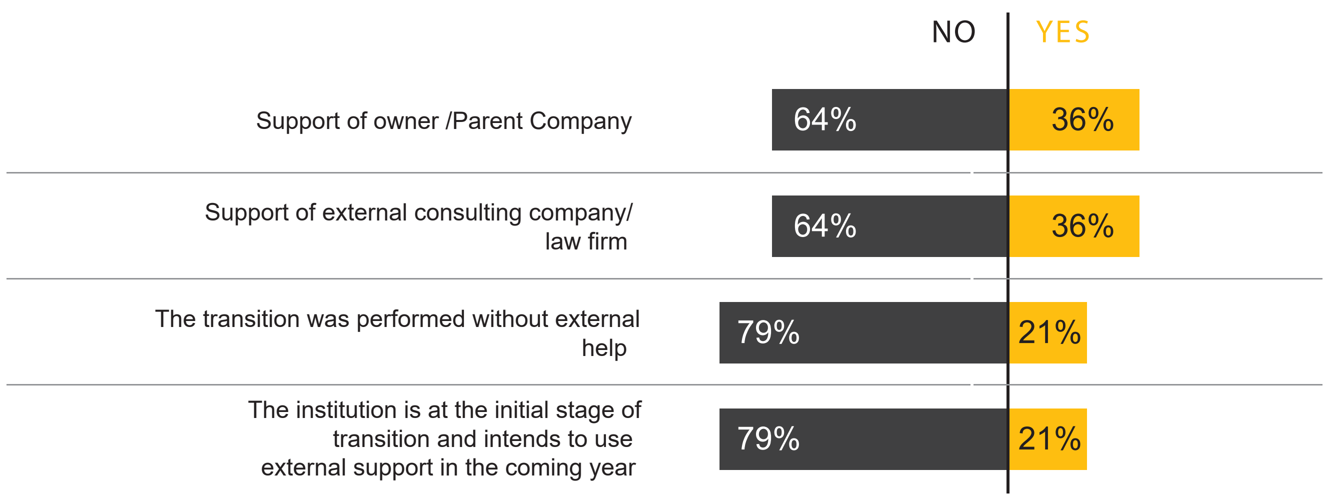


11. In the process of adapting to the requirements of sustainable financing have you used the external support?

In the process of adapting to the requirements of sustainable financing **more than 1/3 of the surveyed institutions used the support of their owner, Parent Company, an external consulting company or a law firm.**

21% of the institutions adapted on their own, without external help. The same number of institutions are in the initial stage of transitioning and intend to use external support in the coming year.

Has your institution used external support in the process of adapting to the requirements of sustainable financing?

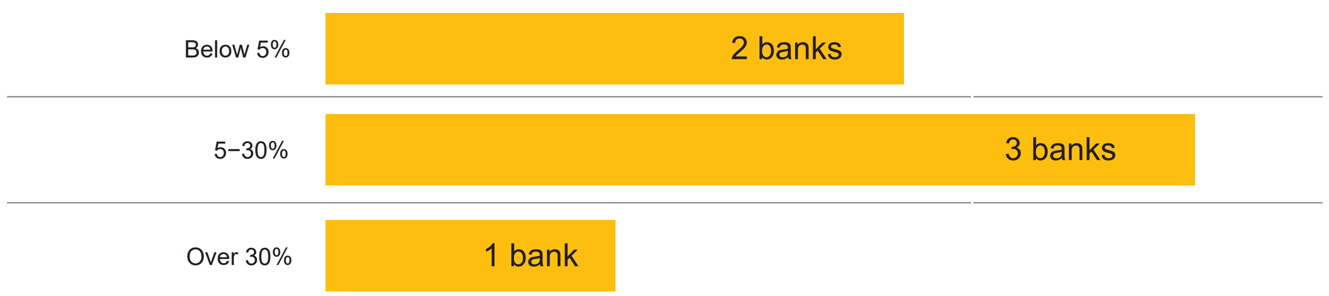


12. What part of the credit portfolio (in terms of value) exposures meet the ESG criteria?

Nearly half of the surveyed institutions (43%) have not yet analysed their loan portfolios in terms of meeting ESG criteria.

Of the institutions that have performed such an analysis, three banks declared that between 5% and 30% of the value of their loan portfolio constitute exposures that meet ESG criteria.

What part of the credit portfolio (in terms of value) comprises exposures that meet the ESG criteria specified in the strategy adopted by your institutions?



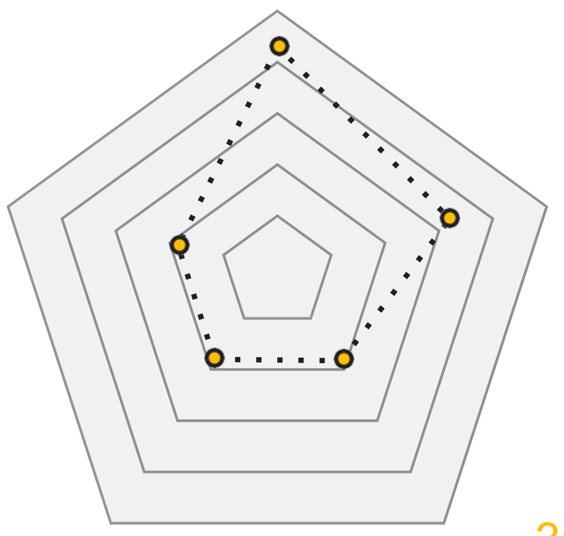
13. What technologies / IT solutions will you need to implement ESG and climate strategy?

In terms of technologies and IT solutions, in order to implement the ESG and climate strategies, banks will primarily need to **upgrade their core systems with ESG data.**

More than half of the surveyed institutions (57%) declared they would also need external databases with assessments of customer ESG risks.

What technologies / IT solutions will you need to implement ESG and climate strategy?

71%
Upgrading the core systems and warehouses by the ESG data



36%
Requirements in the area of technologies/IT solutions have not yet been analysed

57%
External databases including assessments of customer ESG risks

36%
Tools for stress-testing and/or sensitivity analyses

36%
Customer scoring system in terms of ESG risks

14. What systemic or sector solutions would be helpful to implement the ESG initiatives?

All the banks surveyed declared that the development of uniform rules for interpreting ESG regulatory requirements for the banking sector would be useful for the implementation of ESG initiatives
Other useful solutions included:

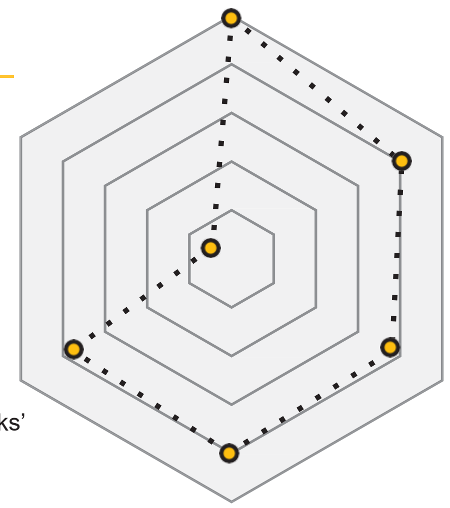
- Introducing detailed ESG disclosure requirements / guidelines for large enterprises / companies listed on the WSE (according to 79% of banks);
- A sector database on ESG risks of banks' customers (according to 79% of banks);
- Information and education campaigns addressed to banks' customers (according to 71% of banks);
- Introducing a certified ESG rating system for banks' customers (according to 71% of banks).

There were also responses relating to the need to make the requirements for EPC Certificates more consistent throughout the EU and to make it mandatory to have an EPC for each property, and a publicly available database.

What actions has your institution taken to prepare for the implementation of sustainable financing requirements?

100%
Developing uniform interpretation rules for ESG regulations in the banking sector

7%
Other



79%
Introducing detailed ESG disclosure requirements/guidelines for large enterprises/public companies listed on the WSE

71%
Introducing a certified rating system for the banks' customers

71%
Information and education campaigns addressed to banks' customers

79%
A sectoral database on ESG risks of banks' customers

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