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Accompanying note to the publication of 2023 Pillar 3 information

This note presents the main features of the publication of 2023 Pillar 3 information. It describes the scope and content of the data published and summarises the key findings of the exercise. Stakeholders can use this information to compare key risk metrics and selected disclosures at the bank level.

This note consists of two sections. Section 1 focuses on the sample and scope of the publication, while Section 2 summarises the findings and main issues identified during the exercise.

Background of the exercise

Pillar 3 information is published each year following a reconciliation exercise. In the first phase, data for the selected templates are collected from the bank's public disclosures. These data are extracted from Pillar 3 PDF files (when other formats are not available). The second phase of the exercise involves reconciling the data collected from the banks' Pillar 3 reports with the corresponding supervisory reporting data. As well as checks to ensure consistency between Pillar 3 information and supervisory reporting data, additional data quality checks are performed on the Pillar 3 data extracted.

1.1 Sample of banks

The Pillar 3 information published is sourced from disclosures by a list of banks designated as significant institutions (SIs) by the European Central Bank (ECB).¹ Under the Capital Requirements Directive (CRD)² and the associated Capital Requirements Regulation (CRR)³, banks are required to comply with the disclosure requirements set out in Part Eight of the CRR, based on their consolidated or individual situation.

The reference date used for the latest publication is 31 December 2023 (the end of the 2023 financial year). A total of 105 SIs at the highest level of consolidation are included in the publication. Of the 105 banks, 88 institutions are subject to Commission Implementing Regulation (EU) 2022/2453 (ITS on ESG risk

¹ The full list of SIs is available on the ECB Banking Supervision website.

² Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC (OJ L 176, 27.6.2013, p. 338).

³ Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and amending Regulation (EU) No 648/2012 (OJ L 176, 27.6.2013, p. 1).

disclosure)⁴, given that they are large and have issued securities traded in the European Union (EU).

1.2 Scope of the publication

The publication presents eight ratios from the banks' public disclosures, as well as six specific disclosure templates selected from those required in the implementing technical standards (ITS) on disclosure⁵ and the ITS on ESG risk disclosure as defined by the European Banking Authority (EBA). The cut-off date for the data in the publication is 31 October 2024.

For the publication, the following key ratios were collected from banks' year-end 2023 Pillar 3 disclosures:

- total capital ratio, Tier 1 capital ratio, Common Equity Tier 1 capital ratio, overall capital ratio requirement;
- leverage ratio, overall leverage ratio requirement;
- liquidity coverage ratio (LCR), net stable funding ratio.

The ratios were collected from the disclosure template EU KM1 – Key metrics template, as defined in Annex I and Annex II of the ITS on disclosure.

In addition to those key ratios, the exercise focused on disclosure templates on environmental, social and governance (ESG) risk. These are shown in Table 1 below. The ESG templates are defined in Annex I of the ITS on ESG risk disclosure.

The ITS on ESG risk disclosure were first applicable as of the reference period December 2022. There is a phased approach for disclosures in the ITS templates. For example, the first disclosure of data in Template 1 was as of 31 December 2022, but the disclosure of columns on financed emissions is mandatory as of 30 June 2024. Data in Templates 6 and 7 were disclosed for the first time for the reference date 31 December 2023.

⁴ Commission Implementing Regulation (EU) 2022/2453 of 30 November 2022 amending the implementing technical standards laid down in Implementing Regulation (EU) 2021/637 as regards the disclosure of environmental, social and governance risks (OJ L 324, 19.1.

⁵ Commission Implementing Regulation (EU) 2021/637 of 15 March 2021 laying down implementing technical standards with regard to public disclosures by institutions of the information referred to in Titles II and III of Part Eight of Regulation (EU) No 575/2.

Table 1

| Template 1 | Banking book – Indicators of potential climate change transition risk: Credit quality of exposures by sector, emissions and residual maturity |
|------------|--|
| Template 2 | Banking book – Indicators of potential climate change transition risk: Loans collateralised by immovable property – Energy efficiency of the collateral |
| Template 4 | Banking book – Indicators of potential climate change transition risk: Exposures to top 20 carbon-intensive firms |
| Template 5 | Banking book – Indicators of potential climate change physical risk: Exposures subject to physical risk |
| Template 6 | Summary of key performance indicators (KPIs) on the Taxonomy-aligned exposures |
| Template 7 | Mitigating actions: Assets for the calculation of GAR |

Templates in Annex I of the ITS on ESG risk disclosure included in the publication

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Summary of the findings

In the annual reconciliation exercise, a selection of Pillar 3 information published by banks is reconciled with supervisory reporting data.⁶ As a result of the exercise, 45 banks republished their 2023 Pillar 3 reports fully or partially to correct mismatches identified between Pillar 3 information and supervisory reporting data by the cut-off date of 31 October 2024. Of the 45 banks:

- 13 banks corrected some of their published key ratios;
- 41 banks corrected information within the ESG risk quantitative disclosure templates.

The details of the banks that republished their December 2023 Pillar 3 reports are provided in the annex. In addition, 60 banks resubmitted their supervisory reporting data on ESG risks. Meanwhile, 12 banks indicated they would correct the identified issues in their future disclosures, and many of the remaining mismatches were explained as immaterial (because they were due to rounding, for instance).

After the reconciliation exercise some material⁷ data quality issues remained for a total of 26 banks. All 26 had data quality findings in the ESG risk quantitative templates, and two had additional mismatches in the key ratios.

The publication includes additional information on the number and size of mismatches per data point for the key ratios. Each Pillar 3 data point is compared with the corresponding supervisory reporting data point. Any differences over 0.5% are considered to be mismatches and are included in the summary statistics. If a

⁶ The CRR specifies the supervisory reporting obligations for credit institutions. These reporting obligations are further specified in Commission Implementing Regulation (EU) 2021/451 laying down implementing technical standards for the application of Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to supervisory reporting of institutions and repealing Implementing Regulation (EU) No 680/2014 (OJ L 097 19.3.2021, p. 1).

⁷ Examples of material mismatches include a difference between disclosure data and supervisory reporting of over €100 million or a relative difference of over 20% for ESG data, or a missing key metric, or a difference of over 0.5% in more than one capital ratio in the key metrics.

data point has been disclosed by three or fewer supervised institutions, the statistics are omitted for confidentiality reasons.

2.1 Key reconciliation and data quality issues identified

The following main issues were identified during the reconciliation exercise.

- Incorrect interpretation of the disclosure instructions. For example, the LCR was disclosed incorrectly as a point-in-time value, when it should instead have been disclosed as the average or averages of banks' LCRs based on endof-the-month observations over the preceding 12 months for each quarter of the relevant disclosure period.⁸ The same issue was also found in the previous publication. In a similar vein, some banks interpreted the instructions for Template 2 of the ESG risk disclosure as meaning that only exposures eligible for an energy performance certificate (EPC) label should be included, whereas this template should in fact cover the full extent of the collateral.
- Inconsistencies in the data disclosed. For some banks, the sums of breakdowns in ESG disclosure templates did not equal the totals.
- Challenges with the comparability of the information disclosed. For disclosures in Template 4 on exposures to the top 20 carbon-intensive companies in the world, banks use various data sources to identify the top 20 polluters. The geographical areas disclosed in Template 5 varied significantly across banks, affecting the comparability of the information disclosed. The same issues were found also in the last year's exercise.

Besides the main issues identified, some additional data quality issues were identified during the reconciliation exercise.

- Some banks did not disclose green asset ratio (GAR) flows in Template 6, citing the lack of data availability as the reason.
- Similarly, several banks did not provide breakdowns by climate change adaptation and climate change mitigation in Template 7. This was due to a lack of data at counterparty level.
- Some banks disclosed the item "Accumulated impairments" with a positive sign when it should have been negative. The same issue was also found in the previous publication.
- For some banks, the total gross carrying amount of exposures to different NACE sectors across all geographical areas in Template 5 did not match the total gross carrying amount of exposures for the same NACE sectors in Template 1.

⁸ Article 447(f)(i) of the CRR.

2.2 General assessment of ESG risk disclosure

Compared with the previous year's Pillar 3 exercise, where eligible banks disclosed for the first time the comprehensive physical and transition risks templates set out in the EBA's ITS on ESG risk disclosure, the quality of the data provided in the yearend Pillar 3 disclosures has improved. Some work is still needed to ensure even closer adherence to the rules and better comparability.

The data collection itself met with challenges throughout the process, as banks disclose Pillar 3 ESG risk information in PDF reports and/or Excel files, on different web pages, using various naming conventions and languages.⁹ In addition, some data quality issues remain: breakdowns do not always add up to totals, and some metrics and concepts are not understood in the same way by all banks. Similarly to last year, banks use different data sources for disclosures in Template 4 and varying definitions of geographical areas for the disclosure of physical risk in Template 5.

Templates 6 and 7 were used for the first time to disclose ESG risks for the reference date December 2023. Both templates are related to the GAR: Template 6 provides a summary of key performance indicators for the GAR, while Template 7 provides information on the assets used to calculate the GAR. Both templates refer to Commission Delegated Regulation (EU) 2021/2178 (Disclosures Delegated Act)¹⁰.

Some banks noted that the contradictory requirements in the ITS on ESG risk disclosure on the one hand and the EU Taxonomy Regulation¹¹ on the other lead to the disclosure templates being interpreted or implemented in different ways. For instance, The Disclosures Delegated Act includes all non-EU country counterparties not subject to Non-Financial Reporting Directive (NFRD)¹² disclosure obligations, whereas the Pillar 3 ITS on ESG risk disclosure includes only non-EU non-financial corporations not subject to NFRD disclosure obligations. Some banks adopted the row definitions set out in the Disclosures Delegated Act or filled out the disclosure templates in full in accordance with the Taxonomy Regulation. It is expected that a future update of the ITS on ESG risk disclosure will solve this issue.

Some banks did not provide a breakdown between climate change mitigation (CCM) and climate change adaptation (CCA), and only provided the total amounts. The reason seems to be that the underlying data for the counterparty were not available for the period in question. For example, financial undertakings are required to

¹¹ Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088 (OJ L 198, 22.6.2020, p. 13).

⁹ Banks publish their Pillar 3 disclosures on their websites. However, the particular section of the website where they are published varies, as does the name of the actual report. For example, Pillar 3 reports can be found under "Publications", "Governance", "Investor relations" or "Corporate/financial information", and they can be called either "Pillar 3 report", "Capital adequacy report" or "Risk report" in the national language(s) used by the bank.

¹⁰ Commission Delegated Regulation (EU) 2021/2178 of 6 July 2021 supplementing Regulation (EU) 2020/852 of the European Parliament and of the Council by specifying the content and presentation of information to be disclosed by undertakings subject to Articles 19a or 29a of Directive 2013/34/EU concerning environmentally sustainable economic activities, and specifying the methodology to comply with that disclosure obligation (OJ L 443, 10.12.2021, p. 9).

¹² Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014 amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups (OJ L 330, 15.11.2014, p. 1).

disclose the amounts for CCM taxonomy-eligibility and CCA taxonomy-eligibility as of 1 January 2024, so for the reference date December 2023 this information was often available at aggregate level only¹³.

Table 2 below provides a summary of failed reconciliation checks for the ESG templates.¹⁴

Table 2

Summary of failed reconciliation checks at the start and at the end of the exercise

| Number of failed reconciliation checks | At the start of the exercise | Of which: material ¹⁵ | At the end of the exercise | Of which: material |
|--|------------------------------|----------------------------------|----------------------------|--------------------|
| Number of failing reconciliation checks | 17021 | 5806 | 4515 | 539 |
| Number of banks with failing reconciliation checks | 86 | 56 | 72 | 26 |
| of which in Template 1 | 65 | 24 | 44 | 3 |
| of which in Template 2 | 39 | 24 | 19 | 8 |
| of which in Template 4 | 27 | 17 | 10 | 5 |
| of which in Template 5 | 67 | 37 | 47 | 12 |
| of which in Template 6 | 20 | 16 | 9 | 7 |
| of which in Template 7 | 51 | 28 | 31 | 10 |

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Annex

List of banks that republished December 2023 Pillar 3 reports between September and October 2024 with changes to EU KM1 or ESG templates

List of banks

| Name of the bank | | |
|--|---------|--|
| BAWAG Group AG | Austria | |
| Erste Group Bank AG | Austria | |
| Raiffeisenbankengruppe OÖ Verbund eGen | | |
| Raiffeisen Bank International AG | | |
| Volksbanken Verbund | | |

¹³ See the Disclosures Delegated Act, Article 10(3): "From 1 January 2022 until 31 December 2023, financial undertakings shall only disclose: (a) the proportion in their total assets of exposures to Taxonomy non-eligible and Taxonomy-eligible economic activities;"; and Article 10(5): "The key performance indicators of financial undertakings [...] shall be disclosed from 1 January 2024."

¹⁴ Data points from Pillar 3 data are compared with the corresponding supervisory reporting data points. A reconciliation check is triggered in the following cases: (i) when the difference between two monetary amounts is at least EUR 1 million; (ii) when the difference between two ratios is at least 0.05%; (iii) when either the Pillar 3 data point or the supervisory reporting data point is missing.

¹⁵ Examples of material mismatches include a difference between Pillar 3 disclosure data and supervisory reporting material of over €100 million or a relative difference of over 20% between the disclosure data point and the corresponding supervisory reporting data point.

| Belfius Banque SA ; Belfius Bank NV ; Belfius Bank SA | Belgium |
|--|------------|
| Crelan SA ; Crelan NV | Belgium |
| KBC Group NV | Belgium |
| Citigroup Global Markets Europe AG | Germany |
| Hamburg Commercial Bank AG | Germany |
| J.P. Morgan SE | Germany |
| Landesbank Hessen-Thüringen Girozentrale | Germany |
| Münchener Hypothekenbank eG | Germany |
| Deutsche Pfandbriefbank AG | Germany |
| State Street Europe Holdings Germany S.a.r.l. & Co. KG | Germany |
| Volkswagen Bank GmbH | Germany |
| AS LHV Group | Estonia |
| Caixabank, S.A. | Spain |
| Ibercaja Banco, S.A. | Spain |
| Kutxabank, S.A. | Spain |
| ABANCA Corporación Bancaria, S.A. | Spain |
| Banco de Sabadell, S.A. | Spain |
| Unicaja Banco, S.A. | Spain |
| Kuntarahoitus Oyj | Finland |
| Nordea Bank Abp | Finland |
| Confédération Nationale du Crédit Mutuel | France |
| SFIL S.A. | France |
| National Bank of Greece, S.A. | Greece |
| Bank of Ireland Group plc | Ireland |
| Citibank Europe plc | Ireland |
| Banco BPM S.p.A. | Italy |
| Cassa Centrale Banca - Credito Cooperativo Italiano S.p.A. | Italy |
| BANCA MEDIOLANUM S.P.A. | Italy |
| Mediobanca - Banca di Credito Finanziario S.p.A. | Italy |
| Akcinė bendrovė Šiaulių bankas | Lithuania |
| Banque et Caisse d'Epargne de l'Etat, Luxembourg | Luxembourg |
| Banque Internationale à Luxembourg S.A. | Luxembourg |
| AS "Citadele banka" | Latvia |
| Bank of Valletta plc | Malta |
| MDB Group Limited | Malta |
| Banco Comercial Português, S.A. | Portugal |
| Caixa Geral de Depósitos, S.A. | Portugal |
| NOVO BANCO, S.A. | Portugal |
| AGRI EUROPE CYPRUS LIMITED | Slovenia |
| NOVA LJUBLJANSKA BANKA D.D., LJUBLJANA | Slovenia |

Notes: Reasons for republishing include corrections to disclosed data or reformatting of the disclosure templates.