Triodos Bank

Triodos' response to the EBA discussion paper on management and supervision of ESG risks for credit institutions and investment firms

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We very much welcome the discussion paper regarding the management and supervision of ESG risks for banks. EBA rightly underlines its mission to safeguard the stability and integrity of the European financial market by integrating sustainability in its assignment. The scientific findings and real economic consequences of sustainability risks in terms of economic risks, opportunities and costs are thus significant that they can no longer be overlooked. The EBA discussion paper represents a significant milestone in the further implementation of sustainability issues in the financial and capital markets and thus sends a signal to all market participants in the European single market about the urgency and implementation dimensions of sustainability risks.

For too long, sustainability risks relevant to risk management have been neglected in financial regulation and in risk management by financial institutions. Today we fortunately see a demand for catching up in the area of integrating this risk perspective into the risk management approaches of financial institutions. Therefore, the chosen path of initial freedom of method, the opening up and specification of different observation and assessment perspectives, and the provision of orientation and best practices in dealing with sustainability risks is comprehensible and sensible. The efforts in the discussion paper to define new concepts are far-reaching and clearly go beyond previous definitions. Current discourses and further developments in the scientific-political process are addressed and meaningfully brought together. Furthermore, the explanations on the concept of materiality, the interdependencies of ESG factors and risk measures as well as the active response to methodological uncertainties regarding data availability, future assumptions, time horizons and exogenous factors are welcome.

By explicitly mentioning the risk dimensions of physical risks and transition risks, by applying the broad concept of sustainability to all three dimensions of E,S & G, and by referencing the UN's Sustainable Development Goals, the Paris Climate Agreement, and the EU Green Deal, the EBA proposes a well-balanced yet demanding level of ambition. In conjunction with the margin of manoeuvre granted, the EBA enables independent thinking and development without prescribing standardised patterns and thus *not* attempting to achieve interpretative sovereignty on the one right path.

In this context, the consideration of sustainability factors in the existing framework represents a target-oriented approach to appropriately reflect the risks and impact of financial exposures. Yet current IT systems and rating procedures in a large number of financial institutions and financial service providers often lack the necessary capabilities to adequately capture, analyse and translate sustainability risks into overall bank risk management and thus represent a significant bottleneck in the urgent implementation of any aspects. A concerted effort to resolve these necessary adjustments should therefore be launched and established swiftly and with vigour. In this regard, urgent attention must be paid to the needs and realities of smaller and medium-sized players in order to counteract increasing centralization in the direction of a few large institutions and the

associated accumulation of sustainability risks in bank balance sheets and to enable a more resilient financial and capital market architecture.

We suggest the following:

1. Define the role of capital markets for financial stability: In its discussion paper, the EBA describes the central importance of political developments for deriving transitory transformation needs and - subsequently - opportunities and risks in relation to sustainability perspectives. However, we recommend to precisely define the central function of the financial and capital market in relation to macro-economic contexts and how its dynamics impact economic stability. Markets allocate available resources using available information, which is usually incomplete with respect to longer term environmental and social sustainability (market efficiency follows information efficiency). Efficient allocations follow from expected impact, return, liquidity, risk, etcetera. A clear definition of this stabilisation function of markets, and thus the assignments of the intermediaries in it, will determine required information. The consideration of the SDGs is valid as a minimum for that determination, whereby the alignment with planetary boundaries and socio-economic minimum standards must be actively envisaged. This may be indispensable for a long-term stabilisation of the global economic system.

2. Development of ambitious, interdependent scenario models: For a professional and adequate assessment of short-, medium- and long-term sustainability risks, ambitious but above all interdependent scenario models are needed. The causal links between individual drivers of sustainability risks, such as climate change, famines, political crises, migration pressures and the wasteful use of the natural base, represent a risk dimension for the future stability of the financial and economic system that has so far been unrecognised. In addition to the multidimensionality and interdependencies of individual risk drivers, the development of scenario models must take into account the limited use of historical data, since the methodological and data-based translation of forward-looking assumptions to present-day risk management options is based on an extrapolation of science-based findings (factual transformation) and assumed socio-political developments (normative transformation challenges) that are, in fact, uncertain. A (partial) solution lies in the establishment of broad knowledge, policy and expert networks for the continuous specification of corresponding fundamentals with the explicit involvement of civil society and pioneers of the sustainability movement.

3. Industry-specific risk drivers: For the sake of completeness, the aspects mentioned in points 1 & 2 also require an exposed consideration of cross-industry and, above all, industry-specific opportunity and risk drivers. When identifying an impact at industry and individual value level, categorisations based on the example of TCFD logic are useful for an initial stocktaking. A corresponding transfer of the TCFD categories to the sustainability dimensions of social and governance is an important basic building block for the rapid integration and expansion of the relevant sustainability risk drivers beyond environmental and climate risks.

4. Public, accessible ESG information: The current provision of company-specific sustainability information is hampered by availability and poor quality. Accessibility, cost structure, content quality and comparability of existing data sets are barriers to the widespread implementation of sustainability in business processes, as described in points 1-3. A public, accessible and credible database on company- and industry-specific sustainability information (information efficiency) is desirable to create the basis for information-symmetric decision-making

structures (allocation efficiency), preferably in an institution that's known for its experience with data of varying quality and for its neutral status, such as Eurostat. Regardless, there is an ongoing requirement for competition and thus for innovation in the analysis, contextualisation, and provision of expanded information. A basic and standardised public structure may form an important building block for the implementation of the EBA ambitions.

5. Opportunities matter as much for financial stability as do risks: The issues that can lead to sustainability risks on the one hand open up opportunities for adapting business models on the other, and consequently at the risk management level as well. Focusing solely or too strongly on sustainability risks narrows the discussion to potential opportunities for certain business models, products and services. The analysis of risks should therefore always be accompanied by a review of the possibilities for realignment of the business model. Scenario analyses and the derivation of possible management approaches represent a promising concept here, in order to better understand opportunities and therefore identify the requirement and the risk arising from avoidance and adaptation strategies on sustainability issues.

6. Add definitions and approaches to include models on planetary boundaries & budgets: The debate on internalising external costs and deriving ecosystem services as a capital service to and from nature is being applied increasingly in sustainability management systems. The initiatives on Science-based Targets, the Natural Capital Accounting Initiative much like the trend towards True Cost Accounting in accounting and integrated reporting are just a few examples that take up the basic idea of internalising external costs and ecosystem services as a budget allocation among economic actors. The shift to sustainability-based risk-bearing capacity should be thought of in terms of budgets available to individual industries and companies at an early stage, if the annual planetary boundaries are not to be exceeded and natural resources are thus to be used fairly and with foresight. From a risk perspective, this is an indispensable exercise for deriving potential physical and transition risks, as it is right at this point that risk management in terms of sustainable economic development is stimulated.

7. Green impact impossible without positive social impact: In the sustainability debate, which is currently very much dominated by climate issues, social challenges proceed for the most part without due accompaniment. It is obvious that any environmental drama always has an impact on social realities, fractures and conflicts. Thus, when considering sustainability risks, the interdependence between E, S & G must always be taken into account in order to identify and assess all risk-relevant dimensions of the situation. If ecosystems can no longer contribute to sustaining human life, areas will be orphaned, migratory movements will occur, economies will shrink (including land degradation) or collapse, and pressure on geographies that remain "liveable" will increase significantly. Due to the acute presence and accompanying urgency of the ecological consequential costs of our current economic practices, a risk inventory must also reveal and analyse the social component.

8. Enable transition: The (increased) consideration of ESG factors and sustainability risks requires and promotes an intensive examination of the current business model of banks. The transformation processes sought and required by this should be positively accompanied by supervision and not made more difficult or be prevented. The SREP should include assessments of improving ESG performance and consequently impose either add-ons for insufficient acknowledgement of risks or allow discounts for processes and portfolio-approaches that appear to result in positive ESG impact.

Common definitions of ESG factors, ESG risks and their transmission channels

1. Please provide details of other relevant frameworks for ESG factors you use.

UN Sustainable Development Goals (SDG)
Our stakeholders have asked to position the bank's impact in a global framework. Triodos Bank has embraced the UN SDGs, a universal set of targets and indicators designed to help countries end poverty, protect the planet and ensure prosperity for all as part of a new sustainable development agenda. The SDGs allow the bank to do just that. In its annual report Triodos Bank maps how the bank activities relate to each of the 17 SDGs, using a three-tiered approach: describing baseline, direct and catalytic actions taken to meet the goals, at project and sector levels. Triodos Bank is a signatory to or follows the code of conduct and (international) conventions of:

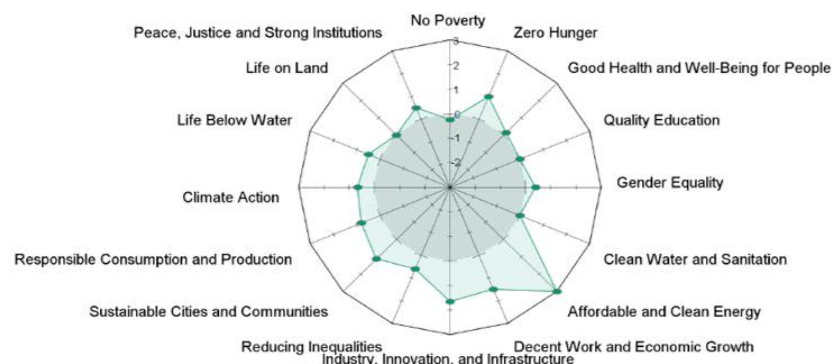
- Equator Principles
- Financial Action Task Force recommendations
- OECD guidelines for multinational enterprises
- UN Global Compact
- UN Principles for Responsible Investment
- UNEP Finance Initiative
- Wolfsberg Principles
- European SRI Transparency Code
- International Finance Corporation Performance
- Standards and Health and Safety Guideline
- Global Reporting Initiative (GRI) framework

Triodos Bank Impact Prism
Triodos Bank developed 'theories of change' in its key sectors to help structure its impact-driven activity and deliver goals that reflect real needs in society. It supports these efforts with a tool – known as the Triodos Impact Prism – which helps understand, monitor, and equip the business to steer and report on impact in service of the goals described in these theories of change.

A prism breaks light up into its constituent spectral colours. In a similar way, Triodos Impact Prism takes information about a project we finance, breaks it down and provides insights about its various parts. Relationship managers assess loans or investments at its outset and during reviews against four different impact areas of the Prism: people, planet, prosperity and purpose.

The Triodos Impact Prism scores awarded on all four areas provide insights into the sustainability value of our projects. This mechanism uncovers opportunities to increase the impact of the customers and projects we finance. This analysis allows us to understand, monitor and steer on impact in a more deliberate way. Ultimately, we can work with our clients to have a greater – and more targeted – impact. Our Prism scores can be translated to scores on the UN Sustainable Development Goals, to adapt to the more global framework used by some of our clients.

An Illustration of scoring according to the Triodos Impact Prism.



Triodos Bank Minimum Standards (Link)
To assess credit and investment proposals, our relationship managers and fund managers refer to our Business Principles in the first instance. Then, the Lending Criteria which specify how Triodos Bank's vision and mission are translated into banking practice are applied. The Triodos Bank Minimum Standards set out the absolute minimum requirements that Triodos Investment Managements applies for its investment activities. The Minimum Standards are also applicable to all credit agreements.

Triodos Bank uses a positive approach for both its banking services as well as its investment management activities. Triodos Bank is guided by what it wants to do and the impact it wants to have. The exclusions that logically follow from this positive approach are categorised as follows:

- Human dignity:
  - Health and safety: alcohol, gambling, pornography, tobacco and weapons
  - Human rights: conflict minerals, human rights and labour rights
- Planet awareness:
  - Animals: animal testing, factory farming, fisheries, and fur and specialty leather
  - Environment: biodiversity, deforestation, energy, genetic engineering, hazardous substances and contamination, natural resources and mining, water
- Governance:
  - Accounting and remuneration, corruption, taxes, violation of legislation, codes and conventions

Some of the numerous resources and products that companies use, manufacture or sell, are irreconcilable with Triodos Bank's positive impact ambitions. For these products, Triodos Bank distinguishes two approaches. For involvement with genuinely unsustainable products, Triodos Bank applies a zero-tolerance policy (e.g. for weapons and nuclear energy); involvement with such products leads to exclusion from financing or investment. For other undesirable products maximum involvement thresholds are in place to minimise exposure (e.g. for tobacco products). A company that exceeds the set threshold demonstrates to have made a strategic choice for involvement, and is therefore excluded from financing or investment.

Triodos Bank uses a Precautionary Principle to minimise the risk of negative impact. The principle is used to set preconditions for companies that operate in industries with increased sustainability risk, such as human rights violations or high levels of greenhouse gas emissions. The Precautionary Principle requires policies, programmes and performance data through which companies demonstrate their awareness and aim to prevent and manage involvement in controversies and negative effects of their business

2. Please provide your views on the proposed definition of ESG factors and ESG risks.

ESG risk should be considered a factor that drives existing risks triggering or aggravating the materialisation of existing risk types such as credit risk, market risk or operational risk.

Since not all financing activities are likely to be equally affected by ESG risks, it is important that institutions and supervisors are able to distinguish and form a view on the relevance of ESG risks, following a proportionate, risk-based approach that takes into account the likelihood and the severity of the materialisation of ESG risks at institution level. This materiality test should be done from both a prudential and investors' perspective, and include all relevant stakeholders.

3. Do you agree that, for the purpose of assessing their inclusion in institutions' and supervisors' practices from a prudential perspective, ESG risks should be approached primarily from the angle of the negative impacts of ESG factors on institutions' counterparties? Please explain why.

Yes, we do agree. However, when assessing ESG risks two-time horizons should be distinguished, a short-term and a long-term horizon. The short-term time horizon is related to the institution's

financial planning horizon (generally a period between 3 to 5 years) and prudential requirements. The long-term time horizon is related to the institution's sustainable strategy and focuses on strategic questions: How vulnerable and sustainable are the business models of the counterparties / the institution?

4. Please provide your views on the proposed definitions of transition risks and physical risks included in section 4.3.

We agree with the proposed definitions, which are in line with the NGFS and TCFD recommendations.

Additionally, we suggest to include Environmental Factors that promote animal welfare. Institutions should develop exclusion criteria and minimum requirements with respect to counterparties involved with products or services that may deteriorate animal welfare, e.g. factory farming, fisheries, animal testing, fur and speciality leather.

5. Please provide your views on the proposed definition of social risks and governance risks. As an institution, to which extent is the on-going COVID-19 crisis having an impact on your approach to ESG factors and ESG risks?

We agree with the proposed definitions. The on-going COVID-19 crisis does not have an impact on our approach to ESG factors and ESG risks.

We suggest to include Social Factors that promote human dignity and a focus on people's quality of life in general.

- Institutions should use frameworks such as the Universal Declaration of Human Rights and the UN Guiding Principles on Business and Human Rights to assess and select counterparties prior to financing or investment.
- Institutions should develop exclusion criteria and minimum requirements with respect to counterparties involved with products or services that may deteriorate people's health and safety, e.g. weapons, tobacco, alcohol, gambling and pornography.

Furthermore, we suggest including the Governance Factors that enhance good corporate governance. Good corporate governance represents the shared philosophy, practices and culture within a company, and is self-regulating to ensure good practices in the future. Relevant issues for corporate governance include accounting and remunerations, corruption, taxes, and the violation of legislation, codes and conventions. corruption and taxes.

As mentioned earlier, in the sustainability debate, which is currently very much dominated by climate issues, social challenges proceed for the most part without due accompaniment. It is obvious that any environmental drama always has an impact on social realities, fractures and conflicts. Thus, when considering sustainability risks, the interdependence between E, S & G must always be taken into account in order to identify and assess all risk-relevant dimensions of the situation. If ecosystems can no longer contribute to sustaining human life, areas will be orphaned, migratory movements will occur, economies will shrink (including land degradation) or collapse, and pressure on geographies that remain "liveable" will increase significantly. Due to the acute presence and accompanying urgency of the ecological consequential costs of our current economic practices, a risk inventory must also reveal and analyse the social component.

6. Do you agree with the description of liability transmission channels/liability risks, including the consideration that liability risks may also arise from social and governance factors? If not, please explain why.

ESG risks should be considered as factors that drive, trigger or aggravate the materialisation of existing risk types such as liability, reputation and financial risk.

7. Do the specificities of investment firms compared to credit institutions justify the elaboration of different definitions, or are the proposed definitions included in chapter 4 also applicable to them (in particular the perspective of counterparties)? Please elaborate on the potential specificities of investment firms in relation to ESG risks and on how these specificities, if any, could be reflected in this paper.

The proposed definitions of ESG risks included in chapter 4 should also be applicable to investment firms.

Quantitative and qualitative indicators, metrics and methods to assess ESG risks

8. Please provide your views on the relevance and use of qualitative and quantitative indicators related to the identification of ESG risks.

As a value-based bank Triodos Bank has always approached ESG factors from an impact perspective. The mission of the bank is to create a positive impact to society by way of investing in the real economy by utilising the funds entrusted to the bank, with projects in the area of e.g. renewable energy, healthcare and social housing. Over the years Triodos Bank has developed tools to assess the positive impact generated by its investments. As ESG impact and ESG risk are two sides of the same coin, Triodos Bank will develop its ESG risk framework by leveraging on its know-how on ESG impact investing and the latest guidelines and standards on ESG risk management.

9. As an institution, do you use or plan to use some of the ESG indicators (including taxonomies, standards, labels and benchmarks) described in section 5.1 or any other indicators, inter alia for the purpose of risks management? If yes, please explain which ones.
10. As an institution, do you use or plan to use a portfolio alignment method in your approach to measuring and managing ESG risks? Please explain why and provide details on the methodology used.
11. As an institution, do you use or plan to use a risk framework method (including climate stress testing and climate sensitivity analysis) in your approach to measuring and managing ESG risks? Please explain why and provide details on the methodology used.

Triodos Bank applies the portfolio alignment method to measure and manage the positive impact of its investments on ESG factors affecting society.

With regard to ESG risk, the most feasible method to apply, considering current constraints on ESG risk data availability, is the Risk Framework Method, where ESG risks are assessed based on sensitivity analyses and stress testing. We plan to assess the sensitivity of our portfolio to ESG risks based on public and proprietary risk data, charts and assessments on e.g. flooding and extreme weather.

12. As an institution, do you use or plan to use an exposure method in your approach to measuring and managing ESG risks? Please explain why and provide details on the methodology used.
13. As an institution, do you use or plan to use any different approaches in relation to ESG risk management than the ones included in chapter 5? If yes, please provide details.
14. Specifically for investment firms, do you apply other methodological approaches, or are the approaches described in this chapter applicable also for investment firms?

Triodos Bank will develop its ESG risk framework by leveraging on its know-how on ESG impact investing and the latest guidelines and standards on ESG risk management, for both the bank lending and the investment banking business.

The management of ESG risks by institutions

15. Please provide your views on the extent to which smaller institutions can be vulnerable to ESG risks and on the criteria that should be used to design and implement a proportionate ESG risks management approach.

The current provision of company-specific sustainability information is hampered by availability and poor quality. Accessibility, cost structure, content quality and comparability of existing data sets are barriers to the widespread implementation of sustainability in business processes. A public, accessible and credible database on company- and industry-specific sustainability information (information efficiency) is desirable to create the basis for information-symmetric decision-making structures (allocation efficiency), preferably in an institution that's known for its experience with data of varying quality and for its neutral status, such as Eurostat. Regardless, there is an ongoing requirement for competition and thus for innovation in the analysis, contextualisation, and provision of expanded information. A basic and standardised public structure may form an important building block for the implementation of the EBA ambitions, and will be of great value especially for smaller institutions.

16. Through which measures could the adoption of strategic ESG risk-related objectives and/or limits be further supported?

For a professional and adequate assessment of short-, medium- and long-term sustainability risks, ambitious but above all interdependent scenario models are needed. The causal links between individual drivers of sustainability risks, such as climate change, famines, political crises, migration pressures and the wasteful use of the natural base, represent a risk dimension for the future stability of the financial and economic system that has so far been unrecognized. In addition to the multidimensionality and interdependencies of individual risk drivers, the development of scenario models must take into account the limited use of historical data, since the methodological and data-based translation of forward-looking assumptions to present-day risk management options is based on an extrapolation of science-based findings (factual transformation) and assumed socio-political developments (normative transformation challenges) that are, in fact, uncertain. A (partial) solution lies in the establishment of broad knowledge, policy and expert networks for the continuous specification of corresponding fundamentals with the explicit involvement of civil society and pioneers of the sustainability movement.

The debate on internalising external costs and deriving ecosystem services as a capital service to and from nature is being applied increasingly in sustainability management systems. The initiatives on Science-based Targets, the Natural Capital Accounting Initiative much like the trend towards True Cost Accounting in accounting and integrated reporting are just a few examples that take up the basic idea of internalising external costs and ecosystem services as a budget allocation among economic actors. The shift to sustainability-based risk-bearing capacity should be thought of in terms of budgets available to individual industries and companies at an early stage, if the annual planetary boundaries are not to be exceeded and natural resources are thus to be used fairly and with foresight. From a risk perspective, this is an indispensable exercise for deriving potential physical and transition risks, as it is right at this point that risk management in terms of sustainable economic development is stimulated.

17. Please provide your views on the proposed ways how to integrate ESG risks into the business strategies and processes of institutions.
18. Please provide your views on the proposed ways how to integrate ESG risks into the internal governance of institutions.
19. Please provide your views on the proposed ways how to integrate ESG risks into the risk management framework of institutions.

ESG risk should be monitored and managed within a risk management framework and incorporated in a Risk Appetite Statement (RAS) that is cascaded down at business unit level. For each asset and exposure class the potential impact and sensitivity of ESG risk drivers on existing risk types such as credit risk, operational risk and reputational risk should be identified, based on which risk tolerance levels can be set, consistent with Group RAS KRIs.

In order to develop an understanding of portfolio sensitivities to ESG risks, bank's internal risk and loss databases, (e.g. credit risk systems, operational loss database) need to capture ESG related information.

Based on public / proprietary risk scenario datasets, stress tests can be run to assess the impact of ESG risk drivers on credit risk, operational risk and reputational risk to the bank's financials.

ESG risk reporting should be done at an enterprise level covering all business units and risk types. In the case of Triodos Bank the Enterprise Risk Management department will be the second line owner of ESG risks reporting to the Group Enterprise Risk Committee.

20. The EBA acknowledges that institutions' approaches to environmental, and particularly climate-related, risks might be more advanced compared to social and governance risks, and gives particular prominence in this report to the former type of risks. To what extent do you support this approach? Please also provide your views on any specificities associated with the management of social and governance risks.
21. Specifically for investment firms, what are the most relevant characteristics or particularities of business strategies, internal governance and risk management that should be taken into account for the management of the ESG risks? Please provide specific suggestions how could these be reflected.

ESG factors and ESG risks in supervision

22. Please provide your views on the incorporation of ESG factors and ESG risks considerations in the business model analysis of credit institutions.
23. Do you agree with the need to extend the time horizon of the supervisory assessment of the business model and introduce as a new area of analysis the assessment of the long term resilience of credit institutions in accordance with relevant public policies? Please explain why.

From a conceptual point of view, we understand why the time horizon of the supervisory assessment needs to be extended. The nature of ESG issues, particularly climate-related ones, requires a longer time horizon of business model planning. The regulatory need to assess long-term resilience of credit institutions is also understandable, with a focus on the long-term business strategy. Benefit lies in looking at a variety of time horizons to manage the impact of climate change as different risks could materialise and inform strategic choices as well as risk appetite setting. Whereas classic stress testing models focus on quantifying the near-term impact that corresponds with the financial planning horizon, we recognise that for climate the impact is predominantly noticeable in the long term.

24. Please provide your views on the incorporation of ESG risks considerations into the assessment of the credit institution's internal governance and wide controls.

The EBA has to lead the process, establishing the definition of the ESG Risk, as well as a practicable calendar, since not all of the expectations and considerations in the activities and key processes (such, as an example ICAAP, ILAAP or stress testing) can be achieved at the same time. The role expected of the Risk Management Function, for Compliance Function and of the Internal Audit Function require a full definition of the ESG Risk, prior to adapting the internal regulation and/or defining skills or assigning roles and responsibilities in a 3 LoD Model approach.

25. Please provide your views on the incorporation of ESG risks considerations in the assessment of risks to capital, liquidity and funding.

The incorporation of ESG risk drivers and their interaction with risk types such credit risk, market risk and operational risk, within capital and liquidity adequacy assessments, can be structured within an enterprise-wide scenario stress test. In this context, the development of European or global stress test scenarios and methodologies could help identify vulnerabilities in the financial sector to ESG risks.

26. If not covered in your previous answers, please provide your views on whether the principle of proportionality is appropriately reflected in the discussion paper, and your suggestions in this respect keeping in mind the need to ensure consistency with a risk-based approach.
27. Are there other important channels (i.e. other than the ones included in chapter 7) through which ESG risks should be incorporated in the supervisory review of credit institutions?

There is a need to get more substance to the definition and translation of the principle of proportionality. It is unclear (how to assess) to what extent proportionality can be applied by banks in terms of depth and speed of individuate, assess, incorporating, managing and report ESG risks.

The principle of proportionality does not only relate to size and the complexity of banks. It relates to a great extent to the materiality of ESG risks resulting from the business model and kind of counterparties. Signalling size as the only driver for assessing ESG Risk proportionality should be avoided. Assuming that large or smaller banks are more or less vulnerable to ESG risks simply because of size is not accurate. It is important that other criteria are taken into account such as business model, internal organisation and nature and complexity of business activities in terms of transition risk and geographical location for physical risk. The proportionality should for example be considered for financial institutions that only have private customers and companies with low carbon emissions. The administrative burdens for these institutions and their SME customers should be borne in mind, calling for a more standardized reporting on ESG risks on the portfolio. The management system and oversight should not be disproportionate to the level and materiality of the financial risk.

Annex 1

28. As an institution, do you use or plan to use some of the indicators and metrics included in Annex 1? If yes, please describe how they are used in relation to your ESG risk management approach.
29. If relevant, please elaborate on potential obstacles, including scope of applicability, granularity and data availability, associated with the indicators and metrics included in Annex 1.

Currently we use most of the ESG indicators and metrics included in Annex 1 to report on our impact investments at asset and sector levels on a qualitative basis.

As a smaller institution it will be a challenge to strike the right balance to acquire and report on a wider set of ESG risk indicators and metrics on a quantitative basis. We will need to prioritise on the ESG risk indicators and metrics that are most relevant taking into account cost/benefit considerations. In this context we see opportunities for the financial and public sector to setup shared risk databases and standardised reporting requirements to enable efficient ESG risk data sourcing.