

Introducing ESG Concepts & Sustainability Reporting

*“We do not inherit the earth from our ancestors,
we borrow it from our children”*

BOV

Bank of Valletta

ESG Risks and Sustainability



E

Environmental

The E in ESG: environmental criteria, includes the energy your company takes in and the waste it discharges, the resources it needs, and the consequences for living beings as a result. Not least, E encompasses carbon emissions contributing to climate change. Every company uses energy and resources; every company affects, and is affected by, the environment.



S

Social

The S: social criteria, addresses the relationships your company has and the reputation it fosters with people and institutions in the communities where you do business. S includes labour relations and diversity and inclusion. Every company operates within a broader, diverse society



G

Governance

The G: governance, is the internal system of practices, controls, and procedures your company adopts in order to govern itself, make effective decisions, comply with the law, and meet the needs of external stakeholders. Every company, which is itself a legal creation, requires governance.

Will my business be affected by any of the following C&E risks?

C Climate risk E Environmental risk

Risk type	C&E risk taxonomy	
Physical risk	Acute	C Heatwaves: period of at least 5 consecutive days with max temperature at least 5°C higher than the climatology of the same calendar day
		C Droughts: precipitation significantly below normal levels, causing hydrological imbalances affecting land resource production systems
		C Water stress: low water availability combined with a level of water demand exceeding the supply capacity of the natural system
		C Floods: unusual accumulation of water above the ground caused by high tide, heavy rain, melting snow or rapid runoff from paved areas
		C Extreme precipitation: amount of rain/snow in a location substantially exceeds what is normal
	Chronic	C Severe storms: strong sustained wind. In many cases accompanied by heavy precipitation (rain, hail or snow) and lightning
		E Biodiversity: collectively describes millions of unique living organisms that inhabit Earth, and the interactions among them
		E Land use change: change in the use or management of land by humans, which may lead to a change in land cover
		C Mean temperature: Weighted average of near surface air temperature over land and sea surface temperature over oceans
		C Soil erosion: Detachment and movement of topsoil or soil material from the upper part of the profile, by the action of wind or running water, especially as a result of changes brought about by human activity, such as unsuitable or mismanaged agriculture
Transition risk		C Sea level rise: Indicator that comprises several metrics to describe past and future sea level rises globally and in European seas
	Production & technology	E/C New technology displacing old systems and disrupting parts of the existing economic system
	Policy & regulation	C EPC regulations: Obligation for landlord to obtain and share an EPC assessment of the property before marketing it for rent. Potential obligation to meet minimum EPC standards to be allowed to rent a property
		E/C Corporate regulations: Changes in laws and regulations impact the profitability or operations of a certain sector / market (e.g., carbon removal, emission limit, carbon tax, air quality, etc.)
	Market sentiment	E/C Market sentiment: Changes in supply and demand for certain products and services as C&E risks/ opportunities are increasingly considered

Source: IPCC, EEA, 2°II, EPA
Internal Data

Taxonomy - Physical risks: Identifying Acute and Chronic physical risk hazards relevant for Malta (extensive literature review)

■ High ■ Medium ■ Low

Step 1 – Identification of potential risk drivers based on a review of existing taxonomies

Step 2 – Assessment of relevance of the different risk drivers for Malta

		ECB ¹	EU taxonomy ²	EBA taxonomy ³	Relevance for Malta ⁷	Sources		
						ECB ⁴	Think-hazard ⁵	EEA ⁶
Acute	Heatwaves	✓	✓	✓	High	Medium	Low	High
	Cold waves	✗	✓	✓	Low	Low	Low	Low
	Droughts / Water stress	✓	✓	✓	High	High	Low	Medium
	Wildfires	✗	✓	✓	Low	Medium	Low	Low
	Floods / Extreme precipitation	✓	✓	✓	High	Medium	High	High
	Severe storms	✓	✓	✓	High	Medium	Low	High
	Biodiversity / land use change	✓	✗	✗	Medium	Low	Low	Medium
Chronic	Mean temperature	✗	✓	✓	High	Low	Low	High
	Wind & Soil erosion	✗	✓	✓	High	Low	Low	High
	Mean precipitation	✗	✓	✓	Low	Low	Low	Low
	Sea level rise	✗	✓	✓	Medium	Medium	Low	Low



1. Climate-related risk and financial stability, June 2021
2. Synthesis of EU Technical expert group on sustainable finance
3. EBA report on management and supervision of ES risks for credit institutions and investment firms - June 2021
4. Analysis of share of companies exposed to a certain hazard in 17 countries
5. Risk level analysis of different hazards in a certain geography based on World Bank data
6. Data base providing with information on expected impact of climate change in different EU regions
7. Worst score taken

The **E**: Climate Change Mitigations & Transition Plans

Investing and Redesigning business models:

Retrofitting | Energy Efficient Buildings | Investing in Renewables | Water Catchment

Question to ask: Do we have an environmental policy in place?

Yes or No?

Studies show that introducing an environmental policy reduces energy waste by 10% to 15%.

Benefits: Less CO2 Emissions | Mitigating future environmental problems | Lower Energy Bills

Easier for banks to lend money at screening and review stage | Less strict monitoring by banks

ESG: Regulatory & Prudential

Regulation: European Commission

- **Reporting and Disclosures Requirements**
 - CSRD | CSDD | Taxonomy | SFDR

Prudential: European Central Bank

- **Reporting and Disclosures + Screening of Clients**
 - Pillar 3 disclosures
- **Embedding C&E Risks at all levels of banking operations**
 - Credit | Operational | Liquidity | Business | Market | Reputational

Corporate Sustainable Reporting Directive

On 5 January 2023 the CSRD entered into force. This new directive modernizes and strengthens the rules about the social and environmental information that companies must report.

Implementation timeline:

- January 2024: Reporting entities already subject to the NFRD report in 2025 on 2024 data.
- January 2025: Large reporting entities not currently subject to the NFRD report in 2026 on 2025 data.
- January 2026: Listed SMEs, small and non-complex credit institutions and captive insurance entities report in 2027 on 2026 data.



Large public interest entities with > 500 employees

Public interest entities are:

- Listed companies
- Banks and Insurance companies



All (listed or non-listed) large companies (two of three criteria met):

- > 250 employees and/or
- > €40M Turnover and/or
- > €20M Total Assets

small and medium listed companies get an extra 3 years to comply

CSRD: Disclosures and Reporting

General disclosures:

- Business model, strategy and policies
- KPIs and targets (forward looking information)
- Company and sustainability governance
- Materiality assessment and due diligence
- Risk and opportunity management



Companies are to report on:

- Environmental protection
- Social responsibility and treatment of employees
- Respect for human rights
- Anti-corruption and bribery
- Diversity on company boards (in terms of age, gender, educational and professional background)

Topic-specific disclosures:

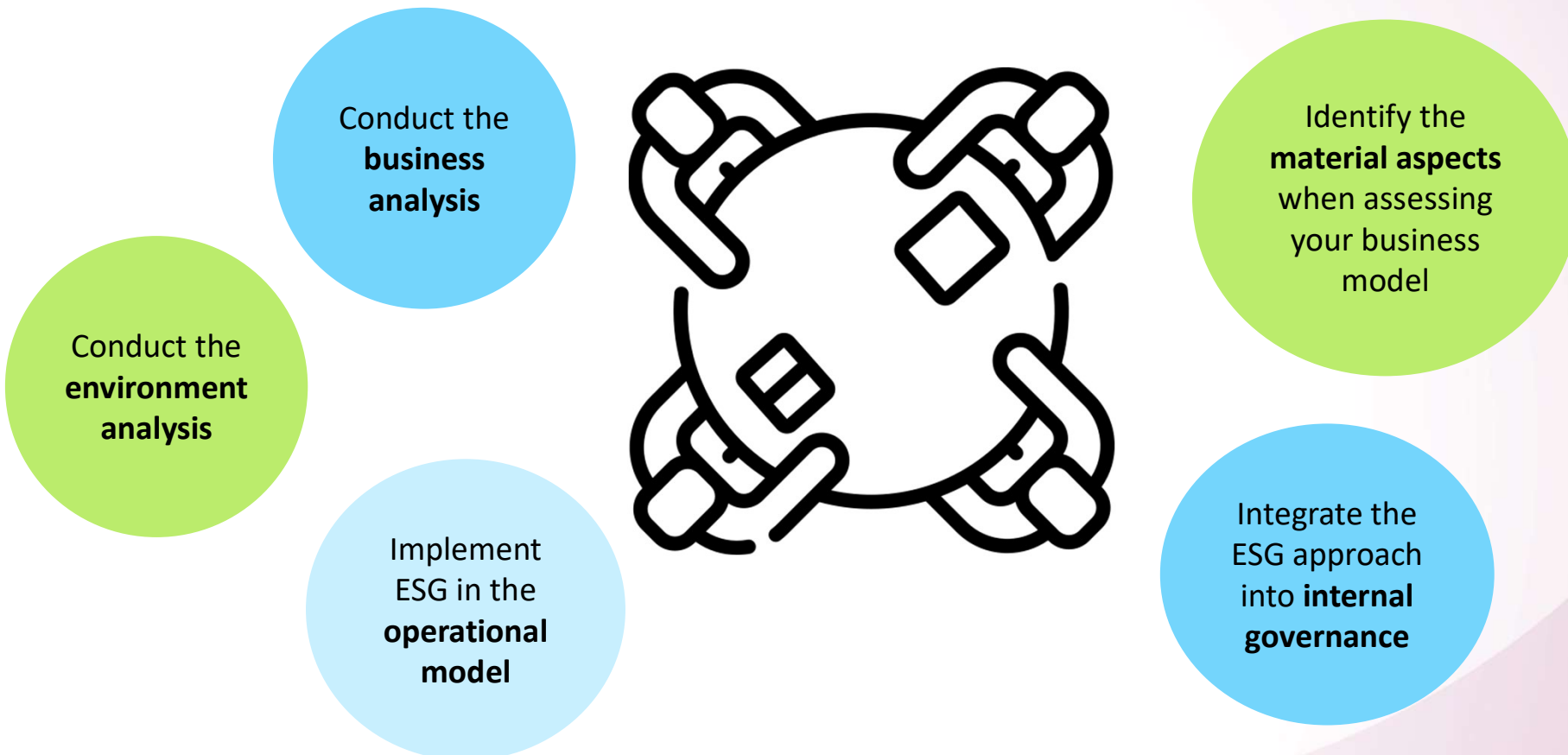
- Environmental (EU Taxonomy)
- Social
- Governance
- Sector-specific standards



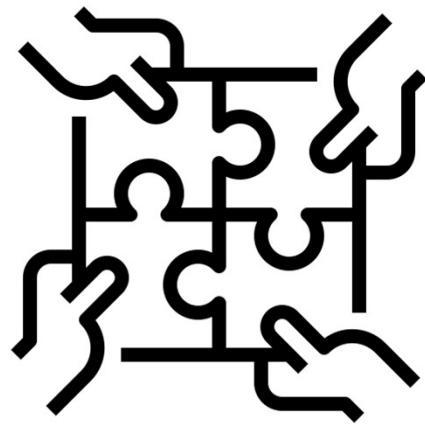
Overall requirements:

- Inclusion in the Annual Report
- External (limited) assurance (as from FY2024)
- Reporting principles
- Format and timing

Way Forward: Revisiting Business Models



Coming Together to Solve the Puzzle & Save the Planet



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