Green and Sustainable
Finance Cluster
Germany

DISCUSSION PAPER

Good Governance for Sustainability:

Recommendations and Examples for Sustainability-Integrated Corporate Governance in Banks

Net Zero
Banking Alliance
Germany

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Content

1. Introduction

Since the start of the pre-competitive cooperation in 2021, the NZBAG[1] has been working on effective measures for climate and sustainability-related implementation of loan portfolios and decarbonisation for credit institutions.

The project content is strongly implementation related. They range from Paris-compatible loan portfolio assessment, steering, skills, and capabilities, to establishing a systematic dialogue with clients in the real economy.

All these aspects are important building blocks in themselves to lay the foundation for climate transformation through finance. This integrates climate protection and sustainability into the strategy and the overall management of credit institutions. However, effective governance[2]is required for an implementation so it can fully and efficiently unfold all the potentials of transformation financing in the broader sense, and at the same time, reduce risks.

The self-image of the nine member banks is not that of "perfection" and "prescription making", but rather to stimulate the active shaping of the bridging phase for an accelerated integration into the daily business in which they find themselves.
The four company examples add a real economic perspective. They illustrate how the compatibility of sustainability and business works and thus also changes the cooperation with credit institutions.

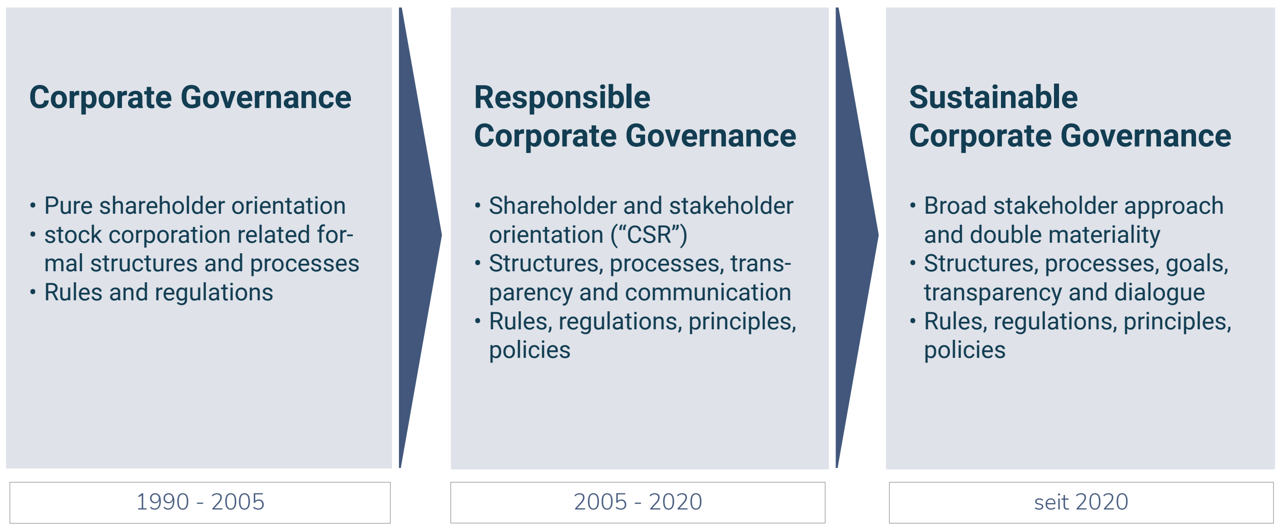
In this publication, the term "governance" serves as an umbrella for all elements that, in their sum and in their interaction, represent the corporate orientation and the regulatory framework in which credit institutions operate.

The following figures show the most important development stages over the last three decades and how credit institutions can integrate the topic of sustainability. It also shows how the internal organisation can be structured so that unwanted developments can be recognised, avoided, or corrected. Thus, the NZBAG provides further impulses for this important bridging function, while the legal regulations are seen as minimum requirements.

1 The global Net Zero Banking Alliance (NZBA) of UNEP FI (United Nations Environment Programme Finance Initiative) and the Net Zero Banking Alliance Germany are independent initiatives. Both formalised their cooperation in January 2022 and are in exchange.

2 Frank Elderson, member of the Executive Board of the ECB (European Central Bank), gives a good description of the benefits of contemporary banking governance in a speech from June 2022: www.bankingsupervision.europa.eu/press/speeches/date/2022/html/ssm.sp220611~fa99fcbb52.en.html

Evolution of a free-market based corporate Governance
Corporate responsibility becomes more comprehensive, transparent and dialogue oriented



 Source: DVA Insights, Dec. 2021 and own illustration

In accordance with the underlying climate commitment of the German financial sector[3] from 2020, the focus of the proposals is on climate transformation. Of course, the recommendations are also intended to integrate other sustainability aspects. To enable (financing) decisions in a broader context, it is already a matter of recognising dependencies and conflicting goals of the sustainability dimensions.

Governance for the implementation of climate protection and sustainability in credit institutions is a multidimensional topic that encounters very different internal starting points – even if a regulation has a common effect on all credit institutions.

For this reason, this publication cannot provide a complete assessment of climate protection and sustainability in the context of governance in credit institutions. The focus is therefore on selected examples and recommendations with high practical relevance. They can provide orientation in a transitional period characterised by uncertainty, but their content is consistent with the background of the growing regulatory space.

The recommendations and examples are intended to be open and compatible for credit institutions of different sizes and levels of progress because they all have a fundamental role in the transformation[4] .

The UK Financial Conduct Authority from (FCA) has also addressed the topics of governance, remuneration and capacities[5] in a consultation. The FCA's consultation and this publication were prepared independently of each other; however, the focal points of their content are almost identical. Some of the recommendations and practical examples of the NZBAG member banks go somewhat beyond the questions posed in the consultation and provide concrete impulses for possible actions and solutions.

3 See www.klima-selbstverpflichtung-finanzsektor.de

4 See Mog, T. (2023). "Vom Dienstleister zum Lotsenschiff – Eine vorausschauende Praxisperspektive auf die Rolle der Banken bei der Klimatransformation". , in Mit Sustainable Finance die Transformation dynamisieren. Wiesbaden :Springer Fachmedien. doi.org/10.1007/978-3-658-38044-1_9.

5 See https://www.fca.org.uk/publication/discussion/dp23-1_updated.pdf

About the Net Zero Banking Alliance Germany

Since 2021, the nine member banks have been working together on the development and implementation of climate protection measures.
The NZBAG develops methods for portfolio management as well as minimum requirements and guidelines at the strategic and technical levels. The NZBAG focuses on market-related activities, as these can promote climate transformation in the real economy and offer significant business opportunities for banks.

The climate protection commitment of the German financial sector provides the basis for the alliance. The aim of the NZBAG is to enable comparable measurement and management of credit portfolios in line with the Paris climate goals. To this end, foundations and impulses are being developed in various areas.

2. Drivers and implications for governance design

The reasons for the transition to sustainability-integrated governance can be simplified into two broad categories that are increasingly converging:

- **Regulatory requirements**, especially for the management of climate risks, transparency regulations and governance
- **A changing frame of reference for** sustainable business, for example through a variety of voluntary commitments and corporate strategies in the financial and real economy that are based on double materiality (the climate impact on business and business impact on climate).

Regulatory requirements
The results of regulatory reviews and stress tests for the climate dimension show which changes are still necessary. The results are an important indicator of organisational performance and provide an essential basis for governance in credit institutions.

The 2022 ECB stress test[6] and the thematic review for climate and sustainability risks[7] for the 186 largest banks in the Eurozone provide a good insight into how credit institutions currently deal with climate risks and where the gaps are. The thematic review identified an average of more than 25 deficiencies per credit institution. At the same time it became clear that there are a small group of institutions in Europe that are significantly more advanced. This shows that despite incomplete data on sustainability, which affects all credit institutions almost equally, considerably more is already possible today.

The results show that
- credit institutions have taken initial steps to understand how climate risks affect their business models, but strategies do not sufficiently address all related risks.
- around 60 % of credit institutions do not yet have a viable framework for climate risk stress testing.
- most credit institutions do not yet include climate risk in their credit risk models and only 20 % consider climate risk as a factor in lending.
- credit institutions have improved their governance arrangements and organisational structures but are still in the early stages of bank-wide adjustments[8]. Less than 10 % of institutions use forward-looking and granular climate risk information in their governance and risk management procedures.
- almost all credit institutions will have to make even more far-reaching and sustained efforts to develop systematic, more accurate and forward-looking approaches to climate risk management.
- the incentive and remuneration systems are not yet compatible with the climate-related (risk) approach of the institutions and are still at an early stage of development (almost 75 % of the institutions either do not take climate-related risks into account in their remuneration practices or only to a limited extent).

6 See www.bankingsupervision.europa.eu/press/pr/date/2022/html/ssm.pr220708~565c38d18a.en.html

7 See https://www.bankingsupervision.europa.eu/ecb/pub/pdf/ssm.thematicreviewcerreport112022~2eb322a79c.en.pdf

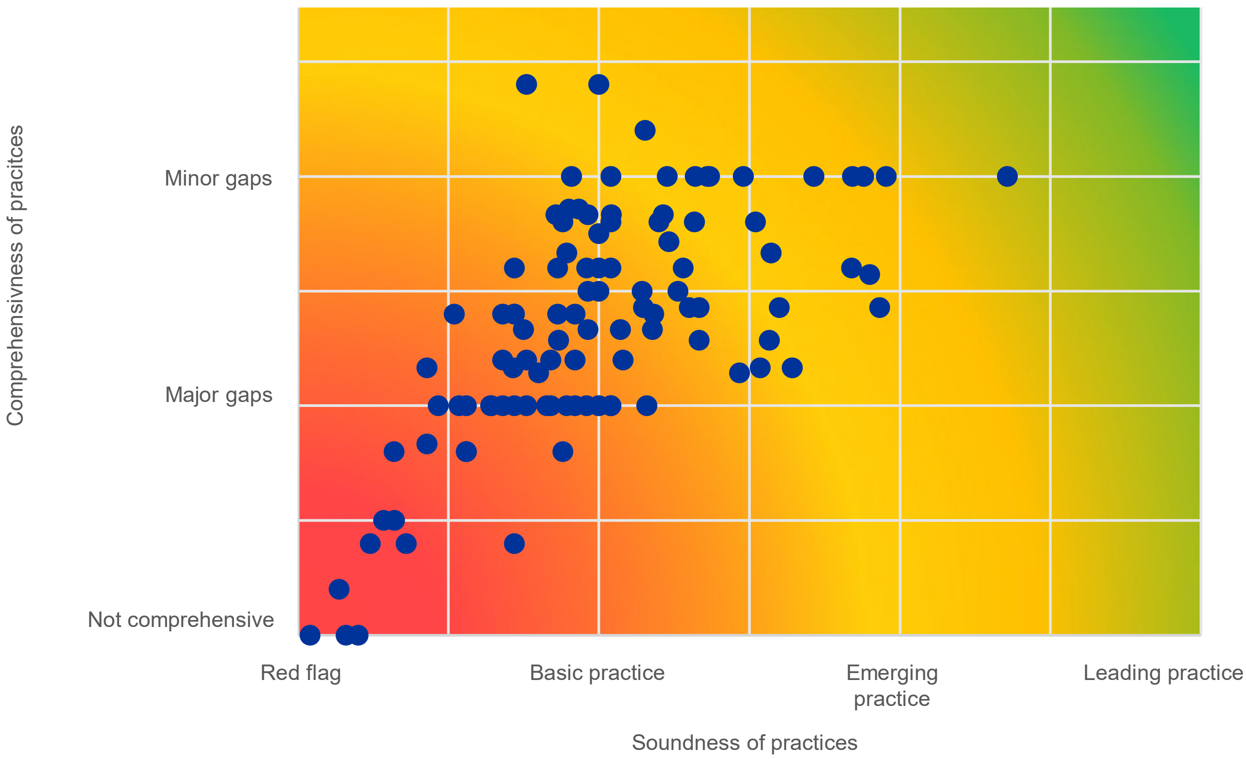
8 See www.bankingsupervision.europa.eu/ecb/pub/pdf/ssm.thematicreviewcerreport112022~2eb322a79c.en.pdf and www.bankingsupervision.europa.eu/ecb/pub/pdf/ssm.221102_presentation_slides~76d2334552.en.pdf.

- there are large gaps for implementation because the ability to implement is severely limited. The review found that 55 % of institutions have developed a climate risk-related approach but have not yet effectively implemented them.

The chart below shows how the 107 reviewing credit institutions in Europe are currently positioned in terms of completeness of operational practice and reliability of their procedures.

Chart 2
Soundness and comprehensiveness of institutions' practices to manage C&E risks

(average level of soundness (horizontal axis) and comprehensiveness of practices (vertical axis) for 107 significant institutions)



Source: Supervisory assessment of 107 significant institutions' responses to the 2022 thematic review.
Notes: Each dot represents a single significant institution, taking the weighted average of all applicable assessment modules. The scope of the thematic review varies by institution, as not all institutions were included in all assessment modules (see Chapter 2.2 for more details).

The Federal Financial Supervisory Authority (BaFin), together with the Bundesbank, also examined 17 credit institutions and published the results in December 2022. The report describes the situation as follows: "Small and medium-sized German banks still operate at a relatively low level when it comes to dealing with climate and environmental risks"[9].

Credit institutions show a need to catch up in the areas of risk management framework, corporate governance and risk appetite and credit risk. In most cases, there was also a lack of more concrete performance and risk indicators for the effective management and limitation of climate and environmental risks.

9 See www.bafin.de/SharedDocs/Veroeffentlichungen/DE/Fachartikel/2022/fa_bj_2212_Klima_und_Umweltrisiken_BA.html

Due to regulatory requirements the governance of credit institutions must continue to evolve. These developments are not to be seen in isolation, but always together with the regulation of the real economy, the changed customer demand and the increasingly clear transformation requirements.

Transformation of the real economy and changing frame of reference

The changing demand and expectations, together with the regulatory requirements, are a significant factor for development – especially in connection with sustainability commitments and/or if sustainability-integrated strategies have been devised and communicated.

It goes considerably beyond the fulfilment of regulatory requirements: the development towards transparent sustainability versus an unsustainable financing impact are increasing. In addition, progress towards self-set targets must also be disclosed.

What does the interplay of these variables of change mean for the governance of credit institutions at the board level and for operational management? What is the result of the interplay of economic and social dislocations? What are the effects of changing requirements, for example on the qualifications and diversity of the boards?

The executive bodies of credit institutions are always called upon first and foremost to meet the regulatory requirements and to manage the institutions along the double materiality principle and to set them up for the future[10]. The essential change for corporate management starts here.

10 See casis.de/bankenwelt-im-klimawandel-wie-veraendern-sich-die-aufgaben-von-vorstand-und-aufsichtsrat-auch-in-mittelstaendischen-kreditinstituten/.

The impact on the Supervisory Board and Executive Board

In order to shape the transformation, supervisory boards and boards of directors need to evolve:

- For some time now, the organizational level of credit institutions has been challenged more than ever before, both tactically and strategically. The agenda has become very operational due to the numerous change processes. At the same time, the transformation must be approached with a long-term perspective: Strategic foresight is needed for the risk and impact of financing with a horizon of well over five years.
- The changes for the development, quality and supplementation of the classical return perspectives are to be actively shaped and combined.
- The guidelines and change in direction in connection with the environmental and sustainability dimensions for dealing with customers and financing must be successively specified in more concrete terms and implemented in practice. This also includes dialogue with investors and shareholders in order to actively involve them in aligning credit institutions sustainably.
- If standards are lacking and data is still incomplete, an open dialogue with customers and other stakeholders is much needed to identify the needs of the real economy and to balance cooperation and considerations for the transformation.

Impact on governance in the corporate banking business

The financing business must react to the constantly changing requirements and client demands. For this to succeed, competencies must be built up for the sectors and segments served by the clients that go well beyond the regulatory requirements.

Large universal banks face a particular challenge here due to the large number of (internationally) serviced sectors and segments.

Capacity building is multi-faceted and includes regulatory and technical components, but also requires a general change in attitude for a fundamental orientation. One challenge here is the metrics and standards that are still being developed.

The challenges consist of:

- the parallel development of basic and expert knowledge. Expertise to decide e.g., which technologies are financially viable for financing[11].
- the translation of overarching sectoral decarbonisation paths to the individual situation of customers[12].
- the further consideration of cross-climate sustainability factors and economic trade-offs along supply chains. A typical example is the working conditions in the mining of components for batteries and solar modules.
- sustainable client dialogue, which is still not well practised[13]. This is demanding in terms of content and personal dimensions. Improving sustainable dialogue skills is not reflected in sales figures (short term) but must be considered as part of the long-term strategy of credit institutions.

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11 See sectoral indicators and technologies in line with climate transformation: https://pathwaystoparis.com/toolbox/transformationsperformance/.

12 A good sectoral example is Deutsche Bank's analysis of how decarbonisation can succeed for the private real estate sector, linked to the situation and purchasing power of its clients. See www.db.com/files/documents/csr/sustainability/Residential-Real-Estate--Leading-to-Net-Zero.pdf?language_id=1.

13 See https://gsfc-germany.com/wp-content/uploads/2023/03/230322_CDT_Begleitpapier_DE.pdf.

- anticipation of regulatory developments on the client side, or even interaction with clients who are not yet fully prepared.
- available data being incomplete – often decreasing with the size of the company.
- the combination of information and control systems of customers and credit institutions that are currently under development at both sides, to integrate sustainability related data points and KPI's.
- the changes in sales management and by increasing the parallelism of traditional and evolving key performance indicators (KPIs) for sustainability.

It is challenging but crucial to work with clients to develop a long-term perspective on transformation, identify investment needs and develop financing solutions. Understanding transformation-related risks and opportunities provides a more complete picture of the client, who also benefits from the risk assessment.

Consequences for the overall organisation of credit institutions

The (decentralised) knowledge capacities relating to sustainability are often at a low level. There are very few credit institutions where all employees understand their specific contribution and potential to influence a climate transformation. The "high-impact areas" and emission-intensive sectors are at least often recognised, so this is the first starting point.

For this reason, banks must expand their expertise of transformation paths and technologies, for customers and especially for SMEs. In this process, various aspects intertwine, for which the governance must provide guidelines, rules and capacities.

The lack of data and capacities of a human and technical nature (models, modelling, integrated information systems) does not mean that estimates are not already being used. It is part of the common path of the real economy and credit institutions to complement the data of customers successively and to define the mix of internal and external data sources for an overall sustainable transformation picture that is still developing.

The World Wide Fund for Nature (WWF) bank assessment of German banks in 2021 showed that there were still no pioneers and visionaries[14]. In the meantime, the structures needed within the NZBAG member banks have been created and designed to pursue the climate and sustainability goals as a whole. To follow the nomenclature of the WWF assessment, the field of "chasers" is larger today than in 2021. However, in the totality of all the needed changes linked to the Paris climate goals, even the forward-thinking credit institutions are at the beginning of meeting their own goals. The path to Net Zero requires increased efforts to close the large gaps between the goals and effective implementation[15] and to include further sustainability dimensions at the same time. The twin crisis of biodiversity as a systemic risk has long since come to the fore and is being put on the agenda by regulators[16].

14 See https://www.wwf.de/zusammenarbeit-mit-unternehmen/sustainable-finance/wwf-bankenrating-2021

15 See https://www.accenture.com/content/dam/accenture/final/industry/banking/document/Accenture-Banking-Net-Zero.pdf#zoom=40.

16 See https://www.ecb.europa.eu/press/blog/date/2023/html/ecb.blog230608~5cffb7c349.en.html.

3. Client perspectives

The climate and sustainability transformation is taking place in the real economy – among the customers of credit institutions. To place the recommendations of this publication in the context of the changing demand side, four company portraits were included that describe the path of their development for a sustainable business. The interviews can be found in chapter 8.

The diverse examples were chosen deliberately. The companies and entrepreneurs portrayed, have been awarded the Sustainability Prize of the Federal German Working Group for the Most Environmentally Conscious Management (B.A.U.M) in 2022[17] or the German Sustainability Prize. They represent a growing number of particularly responsible customers who integrate sustainability into their business practices.

These examples are neither comparable with the complexity of the banking business, nor with the average of their sectors. However, all the companies portrayed show attitude, are pioneers with the willingness to experiment and hence an inspiration – even if they have not yet achieved the implementation of all their goals.

Sectors

Agriculture:	Ludolf von Maltzan, owner, Brodowin
Domestic appliances:	Christoph Wendtker, Head of Sustainability, Miele Group
Services:	Peter Blenke, CEO, Christoph Reisinger, Managing Director of ConClimate GmbH, Markus Mayr, Head of Finance, Wackler Group
Consumer goods:	Anna Yona, Founder and Managing Director Wildling Shoes

Their experiences and observations provide an insight into the problems, conflicting goals, and solutions in their business areas[18]. This also includes which developments are perceived by the credit institutions and what they miss.

What can be derived from the real economy examples for the governance of credit institutions? The summarising features are:

- The course for change is set by the company management. The owners, managers or representatives are role models and take their teams, customers, and suppliers with them on the course – repeatedly.
- Dialogue and collaboration are essential foundations for further development – both internally and externally.
- Sustainability is further thought out and integrated: the companies pursue goals that go beyond climate protection.
- All companies are profitable and know their performance and contributions to sustainability – even if they are not yet fully measurable in a standardised way.
- The requirements for cooperation with credit institutions go beyond the mere day-to-day business and continue to evolve.

17 See https://www.baumev.de/auszeichnung.html.

18 The interviews were conducted by Thomas Mog

4. Effective climate and sustainability governance

In addition to regulation, many recommendations and frameworks are being established in Germany, the European Union (EU) and internationally. They all aim to create (international) comparability and transparency with the help of uniformed definitions. This is intended to help align the economic system for transformation and to standardise reporting. The various international recommendations represent a further and important source for shaping the governance of credit institutions and the real economy alike. Some examples are explained below[19].

International:
Task Force on Climate-related Financial Information and Reporting (TCFD)

The voluntary recommendations of the Taskforce on Climate-related Financial Disclosure and Reporting (TCFD), already published in June 2017, provide a guidance framework for financial and real economy companies.

The TCFD classifies its recommendations into four thematic areas. The starting point is corporate governance, which encompasses all other parts of corporate management[20].

Figure 2

Core Elements of Recommended Climate-Related Financial Disclosures

Governance
The organization's governance around climate-related risks and opportunities

Strategy
The actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning

Risk Management
The processes used by the organization to identify, assess, and manage climate-related risks

Metrics and Targets
The metrics and targets used to assess and manage relevant climate-related risks and opportunities

Source: TCFD

19 For an overview of initiatives, frameworks, standards and related tools, see lsfi.lu/initiatives-frameworks-and-principles-overview/.

20 See www.tcfdhub.org/governance/.

The TCFD recommendations have become an internationally recognised framework for climate-related disclosure and are increasingly used worldwide.
A key objective of the TCFD recommendations is to help companies demonstrate greater responsibility and foresight in addressing climate issues, promote smarter, more efficient capital allocation and facilitate the transition to a more sustainable, low-carbon economy.
There is also room for improvement here: In a recent analysis, more than 3,000 TCFD reports from banks in the timeframe 2010 to 2021 were examined using text analysis screening methods. It could be observed that information provided on the methodology of climate risk management is insufficient[21].

TCFD emphasises that in order to assess the effectiveness of climate action, it is important for an organisation to know what role the management and the board play in implementing, assessing and monitoring climate-related issues. This is important because it can be used to assess whether climate-related issues are being considered in an appropriate manner by the board and management. As part of its recommendation framework, TCFD also considers remuneration policies as an important part of achieving organisation's goals.

International Sustainability Standards Board (ISSB)

The ISSB is developing international standards for corporate reporting on sustainability issues. The first standards released for consultation were released March 2022[22]. They cover general sustainability and climate-related disclosure requirements and integrate the recommendations of the TCFD.

In addition to the TCFD's disclosure recommendations and accompanying guidance, the ISSB's governance-related disclosure requirements within the climate disclosures cover a number of other topics.
For example, the ISSB highlights:

- the identity of the body or person within a body responsible for oversight of sustainability-related risks and opportunities.
- the manner in which the board's responsibility for sustainability-related risks and opportunities are reflected in the company's rules of procedure, board mandates and other related policies.
- how the board ensures that the appropriate skills and competencies are in place to monitor sustainability-related strategies, risks and opportunities.
- how the board and committees consider sustainability-related risks and opportunities when overseeing the company's strategy, its decisions on major transactions and risk management policies.
- the way in which the board and its committees oversee the setting of targets in relation to material sustainability-related risks and opportunities, including whether and how relevant performance measures are included in the remuneration policy.

21 See: Evaluating TCFD Reporting: A New Application of Zero-Shot Analysis to Climate-Related Financial Disclosures: arxiv.org/pdf/2302.00326.pdf.

22 See www.ifrs.org/content/dam/ifrs/project/climate-related-disclosures/issb-exposure-draft-2022-2-climate-related-disclosures.pdf

EU

In recent years, the EU has adopted far-reaching sustainability regulations for and in connection with the financial market; they are continuously developed[23]. General good governance aspects have been developed further and have an impact on sustainability-integrating governance in the sense of the fundamentally required management competence[24]. With regards to sustainability, they become increasingly pronounced as supervisory expectations, as depicted by the guidelines for climate-related and environmental risks[25] formulating a number of expectations:

- The management body is expected to take into account the knowledge, skills and experience of its members in the field of climate and environmental risks when assessing the collective suitability of those members.
- The governing body is expected to ensure that the institution appropriately incorporates climate and environmental risks into the overall business strategy and risk management framework.
- The governing body is expected to explicitly assign tasks and responsibilities for climate and environmental risks to its members and/or its subcommittees.
- The management body is further expected to exercise effective oversight of the credit institution's exposure and response to climate-related and environmental risks.
- Institutions are expected to explicitly assign responsibilities for climate and environmental risks within their institution. It is expected that these responsibilities are also properly documented in the relevant policies, procedures and controls.
- Institutions must ensure that the units involved in the management of climate and environmental risks have the appropriate human and financial resources.

Currently the EU focus appears to center on an expansion of the transparency obligations for which the institutions are responsible. The multitude of aspects taken together provide a good overview of what the governance of credit institutions must disclose in totality, as the current consultation on the European Sustainability Reporting Standards shows[26].

23 See: bankenverband.de/themen/sustainable-finance/sustainable-finance-heat-map/

24 See: www.bankingsupervision.europa.eu/ecb/pub/pdf/ssm.fit_and_proper_guide_update202112~d66f230eca.en.pdf

25 See: www.bankingsupervision.europa.eu/ecb/pub/pdf/ssm.202011finalguideonclimate-relatedandenvironmental-risks~58213f6564.en.pdf

26 See Ref. Ares(2023)4009405 – 09/06/2023, ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/13765-Erste-europaische-Standards-fur-die-Nachhaltigkeitsberichterstattung_de

Germany:

German Corporate Governance Code (GCGC)

The revised recommendations of the GCGC, published in 2022, define the roles of the supervisory board and executive board for sustainability for both the financial and real economy:

- The board shall systematically identify and assess the risks and opportunities for the company associated with social and environmental factors, as well as the environmental and social impacts of the company's activities.
- The corporate strategy should provide information on how the economic, environmental, and social goals are to be implemented in a balanced manner. Corporate planning should include financial and sustainability-related targets (recommendation A.1).
- The supervisory board shall monitor how the executive board fulfils its sustainability-related tasks (recommendation A.6) The supervisory board shall specify concrete objectives for its composition and develop a competence profile for the entire board. In doing so, the supervisory board shall pay attention to diversity. The competence profile of the supervisory board shall also include expertise on the sustainability issues that are important for the enterprise. Proposals of the supervisory board to the general meeting shall take these objectives into account and at the same time strive to fill out the competence profile for the entire board.
- The status of implementation is to be disclosed in the form of a qualification matrix in the corporate governance statement.

Synthesis for the further development of sustainability-integrated governance of credit institutions

From the aforementioned national and international recommendations and requirements as well as the company examples, **characteristics and attributes for an effective and sustainability-integrated governance** can be summarised.
For a faster transformation, the following governance deliverables must be focused on and connected with each other:

- developing a strategy for the credit institution to successively integrate climate and sustainability into the corporate strategy and daily business.
- becoming **considerably more forward-looking** (and taking into account a long-term perspective with a horizon that goes beyond five years).
- **ensuring internal capacity building** (which is forward-looking and goes beyond the immediate r egulatory requirements).
- **defining (climate-related) mandates, roles and structures for implementation**, responsibilities and tasks at board, management and departmental levels (which ultimately evolve as an **integrated part of regular business management).**
- **integrating sustainability risks into general risk managemen**t, including risk premiums for differentiation of conditions as well as the development of strategies to mitigate them.
- ensuring **further development of remuneration systems for achieving sustainable targets with a company-wide relevance** and creating the conditions for individual target agreements to be set and appropriately weighted according to employees sphere of influence.

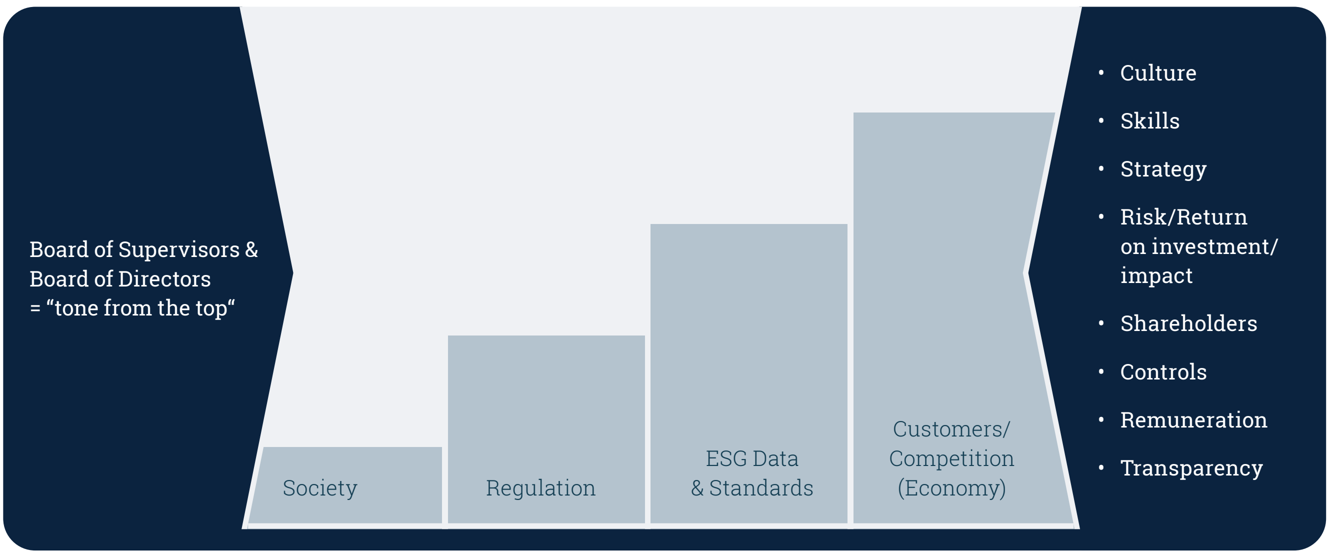
In a further consequence, further fields of action arise

- **the consistent provision of a "tone from the top" for the further development of corporate values**. A holistic climate and sustainability governance approach should ensure that attitude development is also promoted within the organisation. This can refer, for example, to a long-term perspective in decision-making and clear mandates and responsibilities for (senior) management.
- the support and oversight on **consistent engagement** with all clients in writing climate and sustainability strategies, as well as their implementation, much beyond event-driven loan demand.
- **providing space for critical dialogue with all stakeholders** inside and outside the credit institution to include different perspectives.

Unifying as the central starting point of corporate management, the

- **supervisory board** as a collective must have a sound understanding of sustainability and the associated interactions in order to enable the specifications for strategy, control and implementation to be comprehensive in the sense of double materiality. This understanding follows a sustainability-integrating direction-setting for financing and commitments or the entire balance sheet. In addition, appropriately weighted goals are defined with a modified balance between the short, medium and long term. The supervisory board sets the stance and the guard rails and reduces the conflicting goals for implementation.
- **management Board** as a collective to have a sound understanding of sustainability and the associated interactions, especially in connection with implementation, in order to effectively integrate sustainability and translate and steer the long-term goals for the shorter-term implementation in day-to-day business. It sets the stance and guard rails for implementation and reduces the scope for interpretation and conflicting goals for the organisation by setting appropriately weighted goals with a modified balance between the short, medium and long term.

The illustration below provides a simplified view of the influence that credit institutions can exert. First and foremost, a bank has a disproportionately impact on the economy through its customer relationships and lending. Corporate culture, capabilities, strategy and risk/return parameters in combination with sustainable financing have the strongest influence on the transformation of its clients. There are other ways of applying influence, but they are not as effective as working directly with clients.



5. Structural strengthening of corporate governance

The risk dimension alone shows that there are significant gaps in the first core discipline of credit institutions. The interplay is more complex – the requirements for the transformation of credit institutions go far beyond regulatory requirements and arise from a combination of pressing scientific findings, increased transparency requirements, voluntary commitments and the expectations of customers and society.

The sum of these requirements today meets with a general knowledge deficit and a need for organisational improvement at almost all credit institutions and at the same time at almost all companies in the real economy.

What opportunities are there to strengthen the governance and organisation of credit institutions in order to shape the changes more actively? The related questions are:

- How can the knowledge that already exists bring benefits to the entire credit institution?
- Which roles can be expanded or newly created?
- What structures and supplements can help?
- What contribution does external participation make and how can it be designed and leveraged?

The following examples from the NZBAG member banks show how competences and structures can be (further) developed. A distinction is made between examples with and without external participation.

Building internal structures without external involvement

Example: Helaba: Sustainable Lending Framework

As long as there are insufficient coordinated regulatory requirements, standards and definitions, the bank's own framework creates a uniformity throughout the group in order to systematically classify and align its financing activities. To this end, Landesbank Hessen-Thüringen Girozentrale (Helaba) has launched its Sustainable Lending Framework, which defines a set of criteria for assessing the entire lending business of the Helaba Group (all of Helaba's business units, WIBank (Wirtschafts- und Infrastrukturbank Hessen), LBS (Landesbausparkasse Hessen-Thüringen) and Frankfurter Sparkasse) on a Group-wide basis using defined sustainability criteria. It takes into account the dimensions of environmental (E), social (S) and governance (G) (ESG).

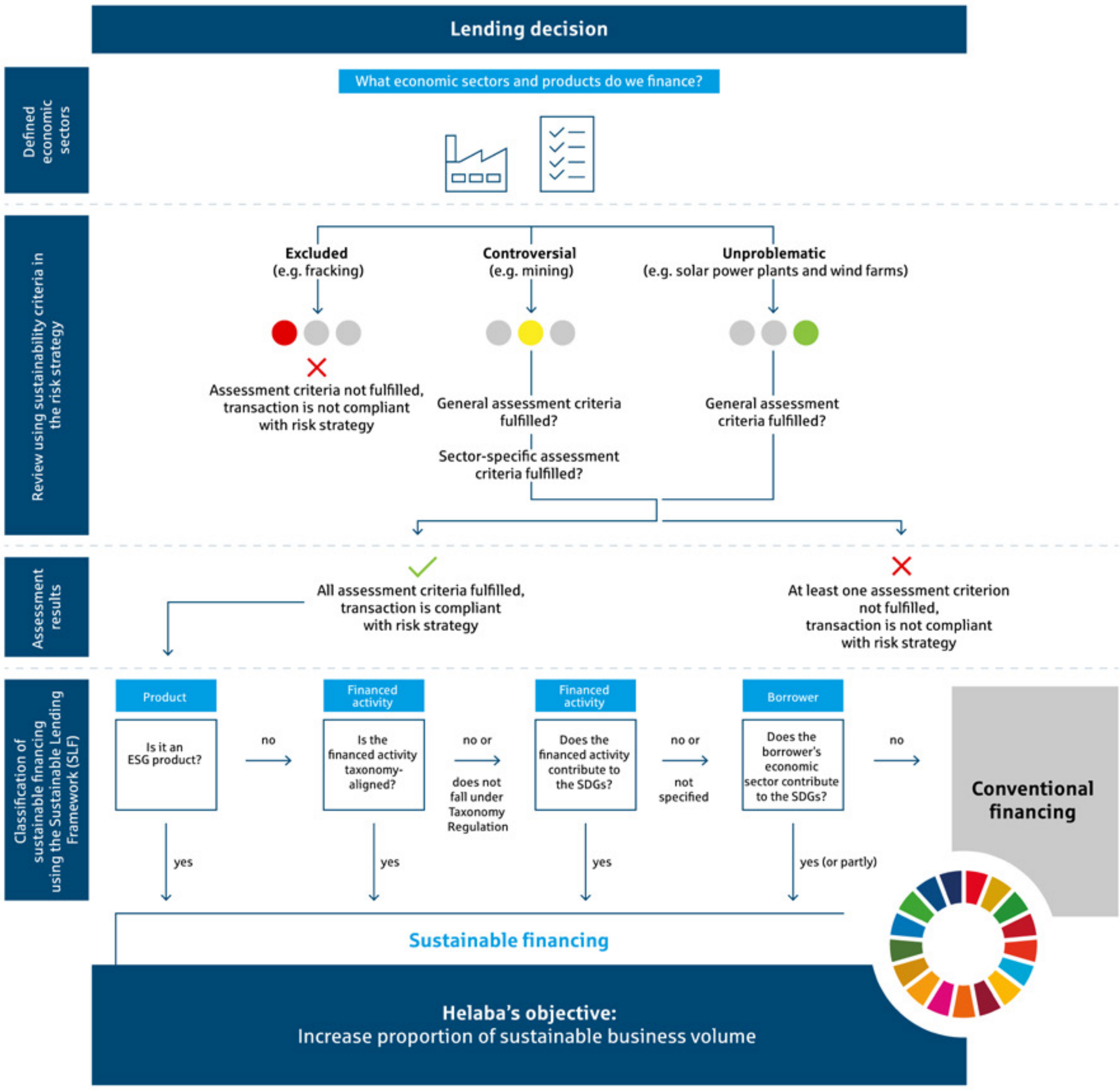
In total, there are three categories: ESG products, taxonomy-compliant business activity and business activity contributing to one of the 17 Sustainable Development Goals – the UN Sustainable Development Goals (SDGs).

For Helaba to consider a financing to be sustainable, it must be able to be assigned to at least one of the three categories. Every new transaction in the loan portfolio is classified using the framework. Clarification on possible conflicts of objectives takes place as part of the classification process. First, exclusion criteria for certain sectors and activities are applied. If the financing also meets the assessment criteria for sustainability, it is added to the sustainability volume. If the assessment criteria are not met, the financing is assigned to the conventional business balance sheet.

A key element in the development of the framework was the validation by an external sustainability agency (ISS ESG). This ensures that the Sustainable Lending Framework contains a well-rounded logic and that the assessment criteria have been defined appropriately. The review by an external service provider and the publication of the Sustainable Lending Framework including the external assessment by ISS ESG create additional transparency and trust.

The procedure in the Sustainable Lending Framework is presented below.

Lending decision process



When considering the sustainable business volume, it is possible to structure the portfolio according to the Sustainable Development Goals by assigning the sustainability classifications.

Helaba's market units have ESG volume targets for each financial year. The contribution to the sustainability of a financing transaction is recorded in Helaba's Sustainable Data Management tool, which was introduced in parallel. This makes it possible to evaluate and manage the sustainable business volume. The share of sustainable business volume in the Helaba Group's portfolio is to reach the threshold of 50 % by 2025.

As sector-specific decarbonisation pathways and targets are developed in 2023, the framework will be expanded.

In addition to Helaba's example, it should be noted that all member banks of the NZBAG have developed their own logic for the sustainability assessment of financing in order to form a framework that structures credit decisions and creates a basis for classifying the sustainability impact and risks of a financing. Classifications based on the Sustainable Developments Goals can be used or a combination of several frameworks, methods and tools[27].

These frameworks and the combinations used by the banks continue to evolve – at the level of the embedded objectives and in the granularity and in the scope of the decision support tools.

At present, it is not yet possible to include all sustainability factors and data points relating to climate and the environment into one consistent and automated decision making framework. This means that over a medium-term period, the lending business will be essentially determined by assisted case-by-case examinations and institution-specific weighing attributions.

Example: Appointment of a Chief Sustainability Officer (CSO) or a Head of Sustainability.

The appointment of a CSO is a clear sign that a company or bank is taking the issue of sustainability seriously and drives it forward beyond regulatory compliance.

Even though the CSO is not a member of the board, the appointment signals very clearly the relevance and highlighted importance. This is also reflected in the institutions participating in the NZBAG: five out of nine banks have appointed CSO's since 2021.

The motivations for this step are:
- Bundling the diverse strands of action in one role in conjunction with a strong external impact and role as a central point of contact internally and externally.
- Complementing or relieving the CEO and the board of the responsibility for the strategy process and implementation.
- Responding to perceived gaps in the strategy and or implementation of the strategy.
- Communicate sustainability positioning more actively to stakeholders (customers, regulators, NGOs, etc.).
- to better communicate the input from policy, regulation, business, and society internally within the bank.

27 See lsfi.lu/initiatives-frameworks-and-principles-overview/.

A direct reporting line to the CEO is recommended but is not a requirement if the mandate is effectively defined. The CSO should therefore be positioned at eye level with the board and all managers below the board and must be able to act accordingly.

Not appointing a CSO does not mean that the associated tasks are not already being addressed. Many bigger banks already have a general sustainability officer with a reporting line to the CEO.

Along with this positioning, the following shares are given in different weightings for the role in credit institutions:

Designing the strategy and planning
- Development of the bank-wide climate and sustainability strategy
- Materiality analyses and planning of climate and sustainability targets, together with the business units and the group functions involved.

Change and development of corporate structures and governance
- Establishment of internal structures to structure the management and classification of the business (e.g., sustainable lending frameworks, internal taxonomies, controls, frameworks used, committees)
- Co-design of exclusion criteria, respectively design of guidelines and (bank-wide) sustainability project management
- Co-design of training and further education measures

Decision-making, conflicting goals and risk
- Contact point for conflicts of interest, or co-determination and/or veto rights in material transactions.
- Inclusion for the development of the risk side and in regulatory audits.

Communication and reporting
- Internal and external communication on the sustainability strategy and implementation. In this context, the Executive Board, Supervisory Board and CSO should act as equal communicators, especially internally.
- Content direction of sustainability reporting, contact and coordination for rating-related enquiries.
- Contact person for key accounts trained in sustainability. If the board and managers also communicate more strongly, this aspect will become less important in the future.

Qualification characteristics and staffing
The diversity and breadth of the role requires knowledge of the business and outstanding networking inside and outside the company, while the role and mandate of a CSO are not firmly defined and there are no regulatory requirements. The CSO is also not yet a key function holder with mandatory succession planning.

The field of responsibility entails a highly complex effort in connecting, organizing, and communicating for the credit institution and beyond.

- In order to mobilise and orchestrate the most diverse stakeholders, a professional and cultural "multilingualism" is required.
- Changes in business practice can generate internal and external resistance. This requires a high level of conflict management skills.

- The diversity of the climate and sustainability dimensions, as well as the interdependencies and conflicting goals, require an enormous (technical) build-up of knowledge and a pronounced ability to learn.
- In times of multiple crises and upheavals, priorities change. To keep the strategic perspective and to set and follow the course for short-term implementation steps, assertiveness and perseverance are needed.

A study by Deloitte consulting on CSOs in business summarises it as follows[28]:

> At any one time, a CSO may need to adopt different management styles, using ‚agitator' or ‚executor' for some parts of their business, and ‚facilitator' or ‚steward' in others. Successful CSOs require a healthy mixture of each of the four styles, plus an ability to dial them up or down depending on the situational need and the maturity of the organisation.
>
> As if these skills were not enough, CSOs also need superlative communication skills and organisational ability. The range of stakeholders the CSO needs to influence is wider than that for almost any other role within the firm.
>
> As for the structure of the CSO's team, our research indicates that currently a relatively modest staff size tends to be the norm—but the CSO's extended team spans the organisation and beyond, putting a premium on their ability to run agile, multidisciplinary teams and network well outside of the organisation.

Therefore, there is a lot to be said in favor for an internal appointment and for candidates who have already worked cross-functionally on company-wide changes. This also explains the filling rate of around 80 % from within the companies themselves. The external job market for the CSO position in banks is almost non-existent.

In connection with the role, appropriate staffing is needed. This can vary from company to company but must cover certain core elements. Examples include knowledge and expertise on climate scenarios and decarbonization targets, reporting, handling and coordination for regulatory and rating requests and project management. Further competences on the environment (beyond climate protection), biodiversity and social issues must also be taken into account and are already clearly emerging as integral requirements.

Classification

There are many ways and means for the effective implementation of sustainability in credit institutions – beyond the appointment of a CSO – especially if the board and/or CEO themselves take an active role and implementation projects and internal structures are effectively set up.

An appointment can then be an essential success factor for the active shaping of the sustainability strategy and for its implementation. The considerations for an appointment are purely company specific.

The CSO title is often found in larger, internationally active banks and companies. In medium to small credit institutions, many of the substantive issues can be fulfilled very congruently by the role of Head of Sustainability.

28 See www2.deloitte.com/de/de/pages/trends/rolle-des-chief-sustainability-officers.html.

Examples of temporary implementation structures

A systematic implementation of climate protection and sustainability in the banking business is very multi-layered and interconnected, as

- universal banks with a wide range of sectors cooperate across countries.
- a systematic internal approach is needed for an institute, which at the same time has to be externally connectable for a wide variety of client situations.

These changes require the coordinated interaction of all functions in a credit institution. Typically, project structures are set up for the implementation. The aim of these structures is to enable a defined degree of implementation, which is then transferred to day-to-day business and can be experienced by customers.

Effective governance for a sustainability project must take into account all functions, processes, (IT) systems and interdependencies to enable systematic implementation.

In themselves, these are also good housekeeping characteristics for project management. The difference for an implementation structure for sustainability lies in the fact that work must be done with and for a multitude of new factors and metrics in a forward-looking manner, which, especially beyond the climate dimension, are still in development and have not been conclusively defined.

The starting position for existing business operations for large universal banks with diversified business portfolios is complex. Aligning this sustainably is an enormous task. However, even for smaller banks it is hardly possible to simply assign isolated tasks to the line functions for implementation, but it is always about the controlled interaction of all required contributions.

The implementation tends to have a head office centered focus within large credit institutions. Gradually, the decentralised stakeholders are also involved, for example employees who work in client advisory.

Example: Deutsche Bank

The following example of Deutsche Bank shows a number of characteristics of an implementation structure that identifies, involves and coordinates the contribution of all corporate functions following the strategy and objectives.

At its core, Deutsche Bank bases the governance for the implementation of its sustainability strategy on two committees that have different focal points and ensure the consistent participation of all functions involved. The selection of a committee leads to a binding transparency framework, with mandate, role definition and quorum settings.

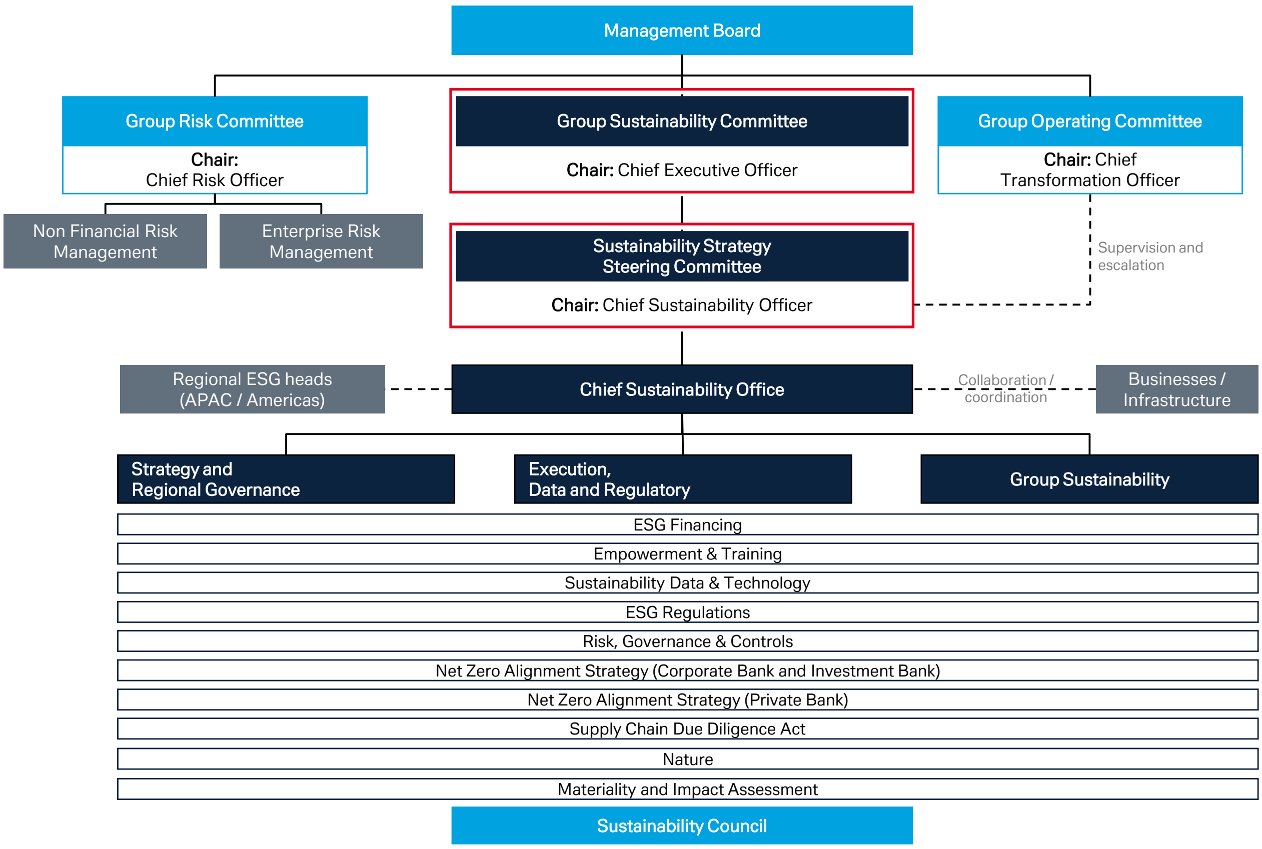
The Group Sustainability Committee (GSC)
The GSC is the Group-wide decision-making body for strategic policy issues related to sustainability that require the involvement of the Management Board level, such as the further development of the content of the sustainability goals, priority of applicability to industry sectors or fundamental changes to the underlying sustainability frameworks (including the Human Rights Statement, Sustainable Finance Framework, internal taxonomy, exclusion criteria, etc.).
Chair: CEO, deputy CSO; participants are mainly from the board and the first reporting line to the boards.

Sustainability Strategy Steering Committee (SSSC)
The SSSC is the decision-making body for the operational project implementation of the sustainability strategy. The central task is to ensure the implementation of the strategy, networking of all stakeholders and monitoring the transformation of the bank towards sustainability. For this purpose, working groups have been defined to steer the transformation.
Chair: CSO, Deputy CFO Corporate Bank, Investment & ESG; with personal and project-related reporting line to the CEO. Participants are mainly from the first, second and third reporting lines to the Executive Board.

Project implementation takes place predominantly in the participating areas with their own capacity planning, supported by a project management organisation that reports into the SSSC.

This project structure approach is characterised by clear responsibility of the CEO and CSO and overall planning across all corporate functions.

Sustainability governance at Deutsche Bank [excerpt]

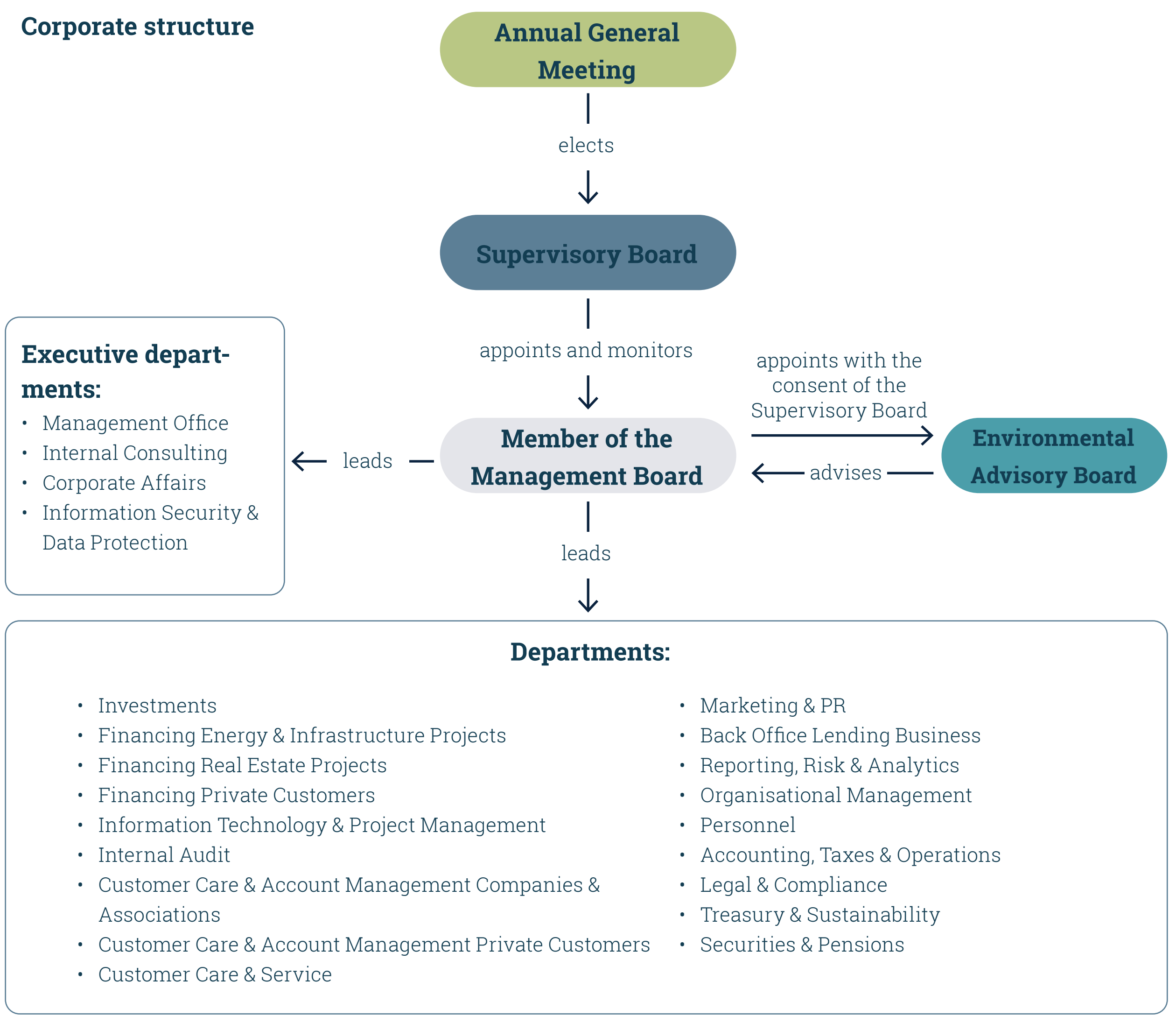


Setting up structures with external support

With external participation, existing knowledge in credit institutions can be supplemented with additional perspectives in order to support the sustainable pathway of a credit institution. External participation can create the space for a trusting yet critical discourse that helps the supervisory board and the executive board in particular to better understand the interactions and conflicting goals at a strategic level.

Example: UmweltBank Environmental Advisory Board

Even as a listed specialist institution with focused activities in the areas of real estate, wind and photovoltaic financing, UmweltBank has decided, in recognition of the potential conflicts of objectives within the dimensions of environment, social and governance, to establish an ecological counterpart of the Supervisory Board in the form of the Environmental Advisory Board. As an external and independent control body, it supports and monitors the bank, for example, in weighing up financings and engagements with conflicting objectives.
Its members advise on the investment and financing principles that guide the entire business activity of UmweltBank. In particularly important borderline cases, the Environmental Advisory Board is involved in order to increase the scope for decision-making. The Environmental Advisory Board actively contributes to the sustainability-related development of all areas of the bank, for example by supporting the SDG thematic groups and can initiate corresponding projects. Just like the Supervisory Board, it can directly take up and control individual processes and projects in the Bank but has no (credit) decision-making powers under banking supervisory law. The Supervisory Board and the Environmental Advisory Board exchange views on sustainability issues at least once a year and are in contact about the development of the UmweltBank.



External Advisory Board for Sustainability

An external advisory board offers – in addition to the offers of consultancies, auditors, cooperations with universities and NGOs as well as providers of sustainability trainings – new external impulses for the supervisory board and executive board of a bank.

In order to appoint such an advisory board, it is first necessary to be open, and to be ready to enter into dialogue and to deal with further development in a trusting, critical and science-based aligned manner. The inviting credit institution should clearly demonstrate its ambition for climate protection and sustainability – regardless of the implementation status – in order to win experts for the dialogue. The composition of the panel should be diverse and always refer to the current state of science as a foundation.

Overall, it is important for the advisory board to find a trustworthy balance between the motivation of the experts, the different perspectives and the overall perspective that is as balanced as possible. An orientation towards the SDGs can help to initially shape and objectify the nomination of participants.

Setting up and staffing an effective sustainability advisory board is demanding for the management of a credit institution – but that is precisely where the positive potential lies.

Overall, the establishment of an external sustainability advisory board can be a very good option for a bank that is serious about improving its sustainability practices and demonstrating its lasting impact for sustainability. However, it is important to ensure that the advisory board is properly structured and composed of diverse experts. Contributors should cover a range of skills beyond the climate and risk dimension.

It would be ideal to use that forum to take up the largest dimensions of conflicting goals linked to the sustainability orientation at a strategic level. This can help to integrate impulses for the further development and design of framework conditions for transformation financing. Interaction with the advisory board at the transaction level is usually not feasible for a universal bank, except for exemplary examples that can serve as illustrations for dealing with decision dilemmas.

Example: Commerzbank

In 2022, Commerzbank decided to establish an external sustainability advisory board[29] under the patronage of the Chairman of the Board of Managing Directors. This is made up of six experts from the fields of politics, science, society and SMEs. The sustainability advisory board will be used for exchange and impulses for the further development of the sustainability strategy.

Additions to existing (customer) advisory boards

Many credit institutions have customer advisory boards. Depending on the size and supra-regionality of the institutions, some of these are also regionally oriented. Medium-sized companies in particular are well represented here.

In the case of large universal banks, there may also be internationally established customer advisory boards, which are predominantly composed of board members of the groups or corporate client groups.

It is a very good opportunity to use these existing structures and to direct existing customers to sustainability and climate issues, for example through guest lectures.

As starting points, for example, the climate transformation pathways of companies and sectors can be brought in and dealt with[30], which are particularly represented in a region. The expertise can come from particularly advanced companies themselves, or experts from research and science can make general and sector-related contributions or take a seat on the advisory board themselves.

29 See Commerzbank Annual Report 2022, p.45-46 , www.commerzbank.de/media/nachhaltigkeit/nfe/Commerzbank_NFE_2022.pdf und www.commerzbank.de/de/nachhaltigkeit/governance/strategie/nachhaltigkeitsbeirat_1/nachhaltigkeitsbeirat.html

30 See pathwaystoparis.com/toolbox/tool/

As a starting point, it would be helpful to have content-related points of reference from the host credit institution. This means: the institute has developed a science-based orientation and a climate and sustainability strategy and is itself already in the process of active change. However, this is not a must.

Since advisory boards usually meet two to four times a year, working groups from related or the same sectors can also be encouraged to meet more often.

For the customer dimension: building external networks

The sustainability transformation poses enormous challenges for customers and credit institutions alike. The sustainability dialogue between banks and customers can provide important impulses. It can help – in addition to an ad hoc credit assessment – to align the companies towards a climate- and sustainability-compatible pathway. However, dialogue and credit checks are not a substitute for a company's internal strategy and planning for companies in the real economy.
Since SMEs have less structural recourse to larger consultancies and chambers of commerce and industry, associations are also in the process of building up knowledge. The question arises as to how in-house capacity building for sustainability and transformation issues can be temporarily supported, especially for small to medium-sized enterprises.

On a case-by-case basis, the member banks of the NZBAG have started to build up external networks. They pre-select suitable service providers so they can recommend them to their customers for sustainability issues. Commerzbank has selected various partner companies for this purpose[31], which work across sectors and can be requested for different levels of progress of the real economy companies.

These interdisciplinary approaches are very relevant as they support knowledge building and transfer for SMEs and create solution spaces that credit institutions cannot cover with their advisory services.

31 See https://www.commerzbank.de/de/hauptnavigation/presse/pressemitteilungen/archiv1/2022/quartal_22_03/presse_archiv_detail_22_03_104586.html

6. Capacity building

When additional regulatory requirements have to be met, the formal demands on the executive bodies, managers and employees of credit institutions increase. In order to proactively shape sustainable economic development in the sense of double materiality, they need additional and new competences. These are necessary in order to better understand the influence of financing and the active shaping of customer relations for the transformation.

Impact assessments are not new. For reputational reasons alone, banks pay attention to their business relationships and make systematic trade-offs[32].
These considerations are becoming more differentiated beyond exclusion criteria and are also being placed in the context of climate and sustainability. This also means that new competences must be built up, which are based on contemporary governance or make it possible in the first place.

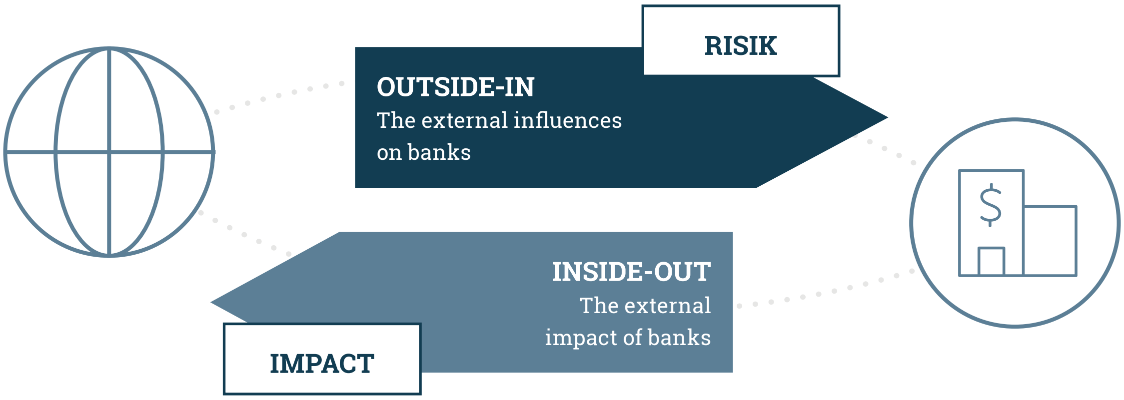


Figure 1: Simplified illustration of dual materiality for banks. **Source:** NZBAG

The starting point for this is inconsistent. New digital learning formats have emerged that enable self-determined and asynchronous training. On the other hand, training and development has changed significantly in terms of content over the last two decades. In the mid-2000s, credit institutions invested substantially in advisory and sales-oriented staff development and training. After the financial crisis in 2008, the focus shifted almost exclusively to training on compliance with new regulatory requirements. To this day, most training courses deal with regulatory content.

It is becoming apparent that more and more self-determined content will be added to the regulatory mandatory content. In the meantime, all NZBAG credit institutions offer basic sustainability training for employees. These basic training courses will be successively expanded to also meet the requirements of sectors with the largest climate footprint. At present, the focus is still predominantly on climate targets; additional content on environmental and sustainability standards is still rare.

32 Looking ahead, it can be assumed that, for example, the regulatory provisions for the prevention and detection of money laundering - "KYC" (know your customers) – will include further indicators of sustainability in the future. .

In 2021, the NZBAG had defined the contents for a climate-focused basic curriculum for all employees in banks[33]. Moving on from a basic curriculum scope, the required competences for the supervisory board, and the management board of directors are summarized and described in the following, as the decisive strategies, targets and objectives are developed and owned by these bodies in the first place.
The competencies described are fully compatible with the regulatory requirements for risk management and reporting.

Supervisory Board, in a collective expression	
	• Understanding of the main scientific findings related to climate change (and other sustainability dimensions). • Understanding the influence banks can have, in connection with cross-sectoral dependencies for the (climate) transformation. • Understand the needs for transformation and interdependencies between sectors and clients. • Recognising and balancing the conflicting goals of ESG and economic tensions between short-term return expectations (especially in the sense of Mark Carney's shaped term "tragedy of the horizons"[34]). • Assume the role of a sparring partner for the board of directors and shareholder representatives and design a forward-looking strategy and implementation-related target agreements. • Strategic positioning of the bank in the context of a long-term perspective for transformation (much beyond a three year horizon).

Board of Directors, in a collective expression	
	• Understanding of the main scientific findings on climate change (and the wider sustainability dimensions). • Identify and balance between conflicting ESG goals and economic tensions. • Understanding the influence banks can have in connection with cross-sectoral dependencies for the (climate) transformation. • Breaking down the strategic long-term positioning of the bank into short-term sub-goals for the divisions. • Set and follow up on changed operational targets. • Live/communicate the values of sustainability internally and externally

Since the expertise in the supervisory board and executive board must be given as a collective, it is not a matter of training every supervisory board or every executive board of a bank to become sustainability experts. Building up knowledge for the collective is important because the competencies on sustainability can hardly be acquired through previous management experience. Therefore, a long-term training concept on sustainability for supervisory and management boards is needed. There is much to be said for taking this up jointly between the supervisory board and the executive board.
The associated competence building is extensive and requires a long-term commitment and goes far beyond the basics, for which the NZBAG basic curriculum already suggests a total of six to eight hours pure training time.

33 See gsfc-germany.com/wp-content/uploads/2022/01/220125_NZBAG_update_DE.pdf.

34 See www.bis.org/review/r151009a.pdf.

It is largely unclear how credit institutions design the training courses on sustainability for supervisory and management boards. One thing is certain: these are almost always tailor-made (compromise) solutions and there is still a potential to increase the proportion of sustainable training and to make the learning mix more diverse.

There are many possibilities for knowledge transfer. With the free Enroads simulation[35], for example, a broad mix of measures for decarbonisation of the most important sectors can be played out interactively, showing which levers have which contribution. Unlike companies in the real economy, credit institutions have a direct or indirect influence on almost all levers, as they are the interface and financiers of the various economic actors. We therefore recommend that simulation be included in the training curriculum of credit institutions as a matter of principle.

The continuity of knowledge building, beyond climate contexts, is important. This requires a forward-looking approach. An overview analysis of the Green Sustainable Finance Cluster Germany showed that at the end of 2022, there were offerings for the basics of sustainable finance and investment advice. Offers for sector-related transformation issues of clients in connection with sustainable finance were significantly less represented[36], although some providers offer tailor-made programmes for credit institutions that can include further focal points.

35 See www.climateinteractive.org/en-roads/.

36 See gsfc-germany.com/dialog-und-wissensaufbau/#sustainable-finance-trainings.

Example: BNP Sustainability Academy

In order to organise and consolidate training on sustainability in a uniformed manner throughout the group, BNP, together with its business units and external cooperations, established an internal Sustainability Academy in 2022.
In addition to the basics and sector knowledge, a key aspect is to communicate to employees what commitments BNP has made for the climate and sustainability, and what role BNP has defined for itself in the transformation in connection with its corporate aspirations. Further environmental issues that have so far received less attention, such as biodiversity, are also included here and regulatory core aspects are equally integrated into the trainings.

For the main national companies, the content is translated into the national languages in order to achieve maximum connectivity and accessibility.
The offers and contents are not purely digital. Mixed formats are offered to specifically expand the learning mix and exchange.
The contents of the Academy apply to all employees, including the Supervisory Board and Executive Board.

- The basics summarised under **"Common Knowledge"** are mandatory for all 190,000 employees worldwide. The completion of these training courses is formally recorded.
- The offerings under **"Specific knowledge"** are specialised for the employees of the business units and the requirements of the clients and reflect the challenges of the sectors served, in conjunction with suitable product and service solutions.
- **"Shape the future"** is aimed at managers and enables different interaction and exchange formats.
- The **"embark your team toolkit"** summarises offers for employees with leadership responsibility to take up implementation with their teams in the context of the sphere of influence given there. Here, change management support is thematically linked to sustainability.

A sustainable economy also involves new skills: the Sustainability Academy will provide a renewed employee journey for a best-in-class offer for our clients

The Sustainability Academy is a **single access to selected & personalized sustainability development resources for all employees**.

It **will enable excellence in the service granted to our clients:** by having the appropriate skills and knowledge, all employees will be able to play their part in their own transformation and that of our clients.

4 entry points	Value proposition	To start with ...
Common Knowledge	What all employees must know - Foundations - Sustainable Finance definitions - BNP Paribas S-Strategy and commitments	• 2 themes : SF Basics / Transition towards Carbon Neutrality • 2 levels of learnings – informed/trained • 35 Internal and 15 External contents
Specific Knowledge	Operational, cross-business/functions contents to equip bankers to better serve our clients	In the V1 (October 2022) • 3 business lines (CIB, BCEF, WM) • 2 functions (RISK & Legal) • 1 external provider More to come in following versions
Shape The Future	A dedicated offer for leaders	• Talents : Sustainability Essentials • Top executives : Exchange panels on the 5 themes followed by online courses & debates • Top executives : Comex workshops on the Sustainability operational strategy
Embark your team toolkit	Ready to use support for managers and change management	• 8 tools to support the implementation of the Group's ambition within the teams : pitch kezako, managerial team workshop, frequently asked questions,...

7. Design of remuneration systems

The climate and sustainability transformation is linked to a change in attitudes in the real economy and credit institutions. This process has already started.
Since changes in established economic structures require a longer period but at the same time, the time for fast-acting progress on climate and other sustainability issues is becoming increasingly scarce. There is a need for supporting measures that are effective in the short term. Therefore, remuneration has an important role to play.
The NZBAG has reached a consensus to adapt the existing financial incentive systems in credit institutions to the sustainability requirements and to actively use them for a transitional period, but at the same time to be wary of mismanagement.

All universal banks and banking groups of the NZBAG have started to modify their remuneration systems. This is partly due to regulatory reasons, such as the change in the Remuneration Ordinance for Institutions in 2021[37], but the changes are also self-motivated as a consequence of the sustainability strategies and the self-set decarbonisation goals.

The features may include quantitative and qualitative linkages of shares of variable remuneration of the board, executives and employees for an increasing share of SDG- and ESG-compatible financing to provide additional guardrails for decision-making that is in line with the goals and commitments.

The target bases and weightings at the board level and the executive level vary from institution to institution. In addition to ESG-compatible targets for credit volume, shares of the balance sheet and the credit portfolio, they also include external ratings. The ratings are in absolute but also in relative terms, especially with regard to the development of the own credit institution compared to peer groups.
Even less developed at present are concrete linkages of remuneration components for board members, managers and employees in connection with the reduction of co-responsible CO_2 emissions, also due to incomplete data bases. However, this step is clearly emerging as a consequence of the fact that by the end of 2023 all member banks of the NZBAG will have adopted decarbonisation targets for sectors and will be transparent about progress towards the targets.
In some cases, there are already examples of reporting on progress according to the targets set[38], or the targets are already linked to internal frameworks and remuneration.

The weightings can vary greatly. At the board level of the NZBAG member banks, the weighting of sustainability goals ranges between 10 and 20 % of the variable remuneration and can thus still be expanded to match the communicated sustainability ambitions. However, for managers and employees in the exposed financing and market areas, they can already be significantly higher.

37 See www.bafin.de/SharedDocs/Veroeffentlichungen/DE/Meldung/2021/meldung_210927_Aenderung_IntitutsverguetungsV.html

38 See ING Terra reporting, on decarbonization progress: https://www.ing.com/Sustainability/Sustainable-business/Terra-approach.htm

What characterises effective climate targets for credit institutions?

- Effective climate and sustainability goals correspond to the scope of action of the divisions and their employees. With the help of essentiality analyses, the influencing factors and effects can be determined for all areas and functions in credit institutions. Every role description in a credit institution should refer to this and specify the contribution – up to a proportional target agreement.
- Focus should clearly be on the long-term impact of financing and not on the credit institution's own consumption footprint for its operations. There is still some misunderstanding here about the relevance of this contribution.
- The credit institution's sectoral CO_2 targets should be broken down to the portfolio level of teams and/or employees. In connection with the targets, the first step is to make the co-responsibility for emissions transparent at the level of portfolios and transactions. In the first instance, it is also possible to work with the existing estimated values for emissions.
- Employees in the corporate client business should then be given joint responsibility for reducing the carbon footprint of the financing and/or clients in their care, combined with a proportional target agreement.
- Training goals should be set according to the personal framework of action and thus become binding. This also includes practising non-credit-related sustainability dialogue with clients.
- Effective sustainability goals ideally result in a stringent cascade from the board to the employees. It is very important that managers with personnel responsibility are empowered to engage with employees throughout the cascade.

Of course, the areas of tension in financing have long since gone beyond the climate dimension. An integration of sustainability goals that go beyond this is urgently required, but still less quantifiable or advanced.

(EU) On the regulatory side and beyond, there appears to be little guidance that would expand the actual content of the design of sustainability goals for the various sustainability dimensions. Concrete interventions on parameters, weightings or restrictions are not on the immediate horizon.
The focus is currently on a significant expansion of disclosure, including on how banks define their sustainability targets and derive target achievement, as the current consultation on the European Sustainability Reporting Standards shows[39].

In the foreseeable future, considerable regulatory leeway will remain, which is still being used very differently at the level of DAX companies, for example[40].
How quickly the remuneration systems and weightings evolve is currently largely up to the credit institutions and the real economy companies themselves, while the consistency of sustainability strategies and targets in relation to remuneration arrangements will become more transparent through the extension of disclosure obligations.

39 See Ref. Ares(2023)4009405 – 09/06/2023, ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/13765-Erste-europaische-Standards-fur-die-Nachhaltigkeitsberichterstattung_de

40 Cf. C Bannier and J Reinschmidt: Vorstandsvergütung in DAX- und MDAX-Gesellschaften – Wie nachhaltig sind die Vergütungssysteme der börsennotierten deutschen Unternehmen?, published in Wirtschaftsprüfung 2022, www.idw.de/IDW/Jahresregister-2022.pdf

It would be possible in this context to strengthen a truly long-term impact consideration, through a share of company shares that have to be held by executives for a long time[41]. These models already exist with a horizon of approximately three to five years for board members and executives. They are developments that initially resulted from the financial crisis in 2008 in order to reduce the short-term focus on results and excessive risk taking.
An explicit expansion and use of these models with an extension of the holding period could be considered.

41 See Applying Economics – Not Gut Feel – to ESG, by Aley Edmans, ssrn.com/abstract=4346646.

8. Company portraits

Interview with Ludolf von Maltzan –
Owner, Brodowin Eco-village

Ludolf von Maltzan has lived with his family in Brandenburg since 2006 and owns the Brodowin eco-village. He grew up on a farm in South Africa. After an agricultural apprenticeship, he studied agricultural sciences in Göttingen and Berlin. Afterwards he was farm manager on an arable farm in Schleswig-Holstein. From 1992 to 2006 he managed the business of the Brook and Christinenfeld estates in Mecklenburg with organic farming, hotel business, holiday flats and events.

What was your trigger and motivation for sustainable change?
I am an agricultural engineer by profession and started with conventional agriculture. At first, I was also personally strongly influenced by it, although I was open to organic farming too.
The change began when I was asked by the Dornier family to set up an organic farm in Mecklenburg to try it out. I was open to it and subsequently fully converted the farm to organic practices. I learned a lot in the process and that opened my eyes to the fact that this is the only way it will work.
Later, I took the step of becoming self-employed with Brodowin. Today Brodowin is a private enterprise that employs a total of 170 people. The business includes animal husbandry, arable farming, vegetable growing, but also processing and distribution. We offer our own dairy products, fresh meat and sausages and sell them via the farm shop, by delivery service in Brandenburg and Berlin and also to organic specialist retailers.

What were the biggest conflicts or pitfalls you encountered? How were/are conflicts of objectives resolved?
Privately, there was some tension at first about being "ecological". The topic was left out of the circle of friends for a long time. That was still the case 30 years ago.
From a business management point of view, it was a big change. Initially, demand and revenues did not cover costs, while at the same time there were a lot effort and investments for the consistent conversion coupled with great uncertainties in the forecasts for client adoption and harvest success.
There were also setbacks, such as the cultivation of unsuitable crop varieties, as it turned out. That's where perseverance is needed. And the demand developed only gradually.
At the moment we are having a very difficult time, we are experiencing a drop in sales of up to 25 %. But let me put it positively: the majority of our customers remain loyal to us! We are experiencing a lot of encouragement from our customers, I am talking to them a lot.

Have you taken advantage of external help?
The German Agricultural Society, which I respect very much, did not have anything ecological in its curriculum until 15 years ago. It started with a small working group. I took part in that and it helped me in the exchange with others. There was also input from the organic associations. At that time, however, it was essentially an autodidactic process. When you leave the mainstream, you are quite alone at first.

What is your orientation towards decarbonisation? Where do you stand in terms of "Paris compatibility"?
I haven't measured the carbon footprint yet. But I am sure that my sustainability balance as a whole is coherent. I make points in many places. For example, the farm produces more solar power than it consumes. We also use geothermal energy and as a next step we want to integrate agro-photovoltaics. I also notice how the company affects the environment. Over the years, the village and the environment have changed. I work closely with biologists and conservationists and know what is going on around the farm. Contrary to the trend, we don't have a drop in biodiversity here, rather the opposite happens.

How do you prepare your staff for the changes, how do you train them?
I often listen to the employees. There is a lot there. We have a long-established self-image here that new employees enter into and then learn from.

What incentives, if any, do you offer your employees, suppliers and customers?
The self-image of sustainability is already in the company in the supply chain and with the customers, so there is no need for incentives. For example, I don't need to add anything to my products.
But what strikes me is that we are now in a conventionalisation of the organic sector.
Carrots have to look good, you can't put everything on the shelf anymore. That was not the case in the past. So the variety is decreasing a bit, but maybe that's a good thing to reach more consumers? In the meantime, we process the "crooked vegetables" and use them for ready meals, which we can then sell in jars. Something new has emerged here with the adaptation, entirely in the spirit of the circular economy.

What is your next big goal for sustainability?
On the one hand, preparing the generation change for the farm, and on the other hand, continuing to use the connections to technology. I am currently taking a closer look at the use of robotics in organic farming and, for example, autonomous driving for tractors. And in concrete terms, we are currently converting the vehicle fleet and the delivery fleet to private customers to e-mobility.

Have you supported your banking partners along the way? If yes, how?
I am with a specialist credit institution and a classic large cooperative bank, with very long-standing relationships. One bank has set itself clear ecological and social goals and is moving in this direction. And they can also talk about this clearly and make it transparent.
I have a clear tendency to move business further in this direction, because this bank brings me together with the right partners for my concerns and evaluates my financing in this ecological-social context. The other bank finds this much more difficult due to a different self-image.

Do you have any recommendations for banks on how to improve collaboration for transformation?
This is actually out of my world, but I have the feeling with banks that they have a strange distance to business and what is happening with it. Banks should think carefully about what sustainability standards can be applied to all industries, even the defence industry.

Interview with Christoph Wendker –
Vice President Corporate Sustainability and Regulatory Affairs, Miele

Christoph Wendker has been working for Miele since 1988 and has taken on numerous tasks here since then. Among other things, he worked as a project engineer in the laundry care division and was in charge of series development for tumble dryers. From November 2012, the mechanical engineer headed Technical Product Management and the Environmental Department. Since January 2021, he has been Vice President of Corporate Sustainability and Regulatory Affairs at Miele.

What was the trigger and motivation for sustainable change at Miele?
Miele has long cultivated and developed the social dimension in conjunction with the highest quality standards. Early on after its founding in 1899, there was a company health insurance fund, pension fund and company housing for employees. The brand claim always better" has remained our basis for quality and a special longevity and value of the products to this day.
At Miele, there had been a "basic report" on sustainability since the 1980s, which was also published in the 1990s. From 2002 onwards, this was a complete sustainability report. From 2012, all activities were placed under the umbrella of a central sustainability strategy for all parts of the group. Since then, this has been continually updated and sharpened.
We joined the SBTI in 2021 and are already exceeding the 2030' Scope 1 and 2 targets. We are very well on track with Paris compatibility for Scope 1 and 2, which we view as a basic responsibility.

What were the biggest conflicts or pitfalls you encountered? How were/are conflicts of objectives resolved?
We have reduced the electricity consumption of our washing machines by more than 70 per cent over the last 20 years based on the energy label, while at the same time continuing to improve comfort and performance. However, further improvements are becoming increasingly challenging.
Today, we are increasingly faced with trade-offs between material use, energy savings and product costs, as an example of conflicting goals.
At the same time, the products must remain accessible to our clients. What is still sellable? An example: Dishwashers with heat pumps are outstanding in terms of efficiency, but who will pay 5000 EUR for a dishwasher? These additional costs cannot be monetised again through energy savings. We try to resolve the contradictions through life cycle analysis by determining the impact of the measures from an environmental point of view and putting them in relation to their costs for the specific services (e.g. CO_2 emission reduction) and then prioritising them.
We have the backing of the company management for this constant balancing effort and it is part of Miele's corporate culture to always improve.

Have you used external help?
Yes! We take advice and work with renowned partners in the industry and for the products, such as Fraunhofer, the Öko Institut, Cradle to Cradle and many more.
The questions, such as circularity, go far beyond the climate and must be solved together. Ultimately, the business units are responsible for commercial success and then make the decisions. And of course these decisions are commercially oriented. But sustainability is considered here as a strategically important future orientation, but of course not the only one.

What is your orientation towards decarbonisation? Where do you stand in terms of "Paris compatibility"?
Climate is a basic dimension of sustainability for us, and we are well on our way here. We are increasingly working on the Scope 3 dimension, especially with and towards our customers. As described above, we have joined the Science Based Target Initiative and have had our targets validated. Currently, we are already exceeding some of the defined targets.

How did you take your employees with you and train them for the changes?
The corporate culture has long laid the foundations for this. Saving energy and water consumption was traditionaly embedded and learned. Now it's getting more complicated. Training, discussions, sounding boards about alternative ways – it's already exhausting and we are increasingly reaching limits, which we then push! New conflicts of objectives keep coming up, which now also affect corporate structures and cooperation approaches. This makes the discussion more complex.
In order to make investments in Scope 1 and 2 also economically interesting, we have also invested, for example, in training for personnel working in finance and controlling in order to widen the view for significantly longer amortisation periods and total cost of ownership, which we will certainly experience as a company.
The next steps will be more and more demanding, but we need to invest properly in the here and now, for the future.

What incentives, if any, do you offer your employees, suppliers and customers?
We have very long-term based contracts and relationships with our suppliers and customers. Our employees have also been with the company for an above-average length of time. 25 years or even 40 years with the company are not uncommon. This shows the great trust they have in Miele as a firm.
In 2004, we started the implementation of the SA8000 standard and fully implemented it at all sites in 2008. We have thus secured the social dimension both for our employees and in the supply chain.
As part of our sustainability strategy, we have also placed the issue of climate protection in the supply chain and are thus supporting our suppliers, who are already doing a very good job in this area. Here, it also works with the data on the materials supplied. We still see potential for improvement with other (smaller) suppliers.

What is your next big goal for sustainability?
Miele has made 3 promises that direct the company future pathway:
1. Systematically consider sustainability at every step or activity
2. Climate protection
3. Material conservation and recycling management

All in all, Zero Waste is the next Miele overall goal. i.e. how do we manage to have no degradation of materials in recycling at the end of the life cycle? We assume a large share of responsibility here for what happens at the end of a product, far beyond incremental improvements. This includes co-responsibility for customer actions at the end of the product life.
When it comes to climate protection, we focus in particular on the real-life use of our devices and thus take an active approach directly on the user side. This is a long-term goal that we are also committed to.

Let me end by briefly emphasising how important it is to keep mobilizing the employees. Ambition, goals and internal cohesion for this are the success factors, in order for the company to be able to fulfil its goals over time.

Interview with

Peter Blenke,
Wackler Executive Board/CEO

Peter Blenke (*1959 in Munich) is a jurist and holds a degree in business administration. Since 2004, he has served as the CEO of Wackler Holding SE. He has demonstrated a longstanding commitment to climate and environmental protection, both in his professional and personal capacities. Additionally, he is a member of the German Club of Rome Society and was honored with the B.A.U.M. Environmental Prize in 2022. Mr. Blenke is also an author, having written several books on environmental and non-fiction subjects. He is married and has one daughter.

Dr. Christian Reisinger,
Managing Director of ConClimate GmbH

Christian Reisinger (*1980 in Frankfurt a. M.) holds a doctoral degree in economics and social sciences. With over a decade of experience in sustainability consulting for companies, he specializes in the intersection of sustainability and digitalization. Since 2020, Christian Reisinger has been Managing Director of "ConClimate" in Munich. He is married and father of three children.

und Markus Mayr,
Head of Finance at the Wackler Group of Companies

Markus Mayr (*1971 in Augsburg) has been entrusted with the responsibilities of Finance & Controlling, Purchasing, and Fleet at the Wackler Group since 2012. Here he works on bringing economy and ecology into harmony. During his business administration studies, he delved into the crucial subjects of environmental and climate protection through the lens of environmental economics. Mr. Mayr is married and has two daughters.

What was the trigger and motivation for sustainable change at Wackler?
Blenke: I started working on environmental issues around 2006. At that time, the topic of climate protection was not yet at the top of the agenda within the company. After all, shortly before I had taken over the management of a company in the service sector, where the CO_2 footprint was initially much less in focus than in manufacturing companies. However, I quickly realised that I not only had a responsibility for my employees, the climate and the environment, but that I also had a lever with which I could really make a difference. From then on, we at Wackler embarked on our "green path", which we continue to follow consistently to this day. Of course, there was a lot of scepticism at the beginning as to whether this path would also pay off economically. We had to do a lot of pioneering work – because it took a long time for the growing interest in sustainability to make itself felt in the form of an increasing willingness to pay. In the meantime, however, the conviction has prevailed that sustainability and economic efficiency are not contradictory. This is also because we have achieved improvements in many areas that can be measured in figures. So we have always made advance investments and taken entrepreneurial risks, which we have been able to afford, especially thanks to our strong growth. Today we have about 7500 employees nation-

wide, at 38 locations, with a turnover of about 180 million euros.And we are always working on the further development of our sustainable strategy and related measures. For example, we have expanded our Green Clean cleaning concept in such a way that we have been able to make it available to all customers at no extra cost since the beginning of the year. This may be an investment at first – but here, too, we are convinced that it will pay off in the end – for everyone involved: for our customers, for our company and, above all, of course, for the climate and the environment.

What were the biggest conflicts or pitfalls you encountered? How were/are conflicts of objectives resolved?
Blenke: In the beginning, it was about mobilising the staff internally and bringing them along. Here, too, we undertook advance efforts. In addition, demand from clients was initially limited. Today things are different. We have the strongest conflict of objectives with the company service vehicle stock, which is the biggest item for us in terms of materiality. E-mobility is up to 20 % more expensive to purchase. We have problems with the availability of suitable vehicles and challenges with regard to charging options and practicality for the requirements arising from our business services. We are currently waiting for e-cars to make the fleet more sustainable.
Reisinger: This is a typical example of external dependencies that stand in the way of our achieving our goals. According to our corporate mission, we see our role as a pioneer of transformation in our industry. And here we have learned over the years to deal with delays and obstacles without losing sight of our goals.
Mayr: We also address the reservations of our employees – regarding e-mobility, for example. We regularly raise these issues in town halls and events at our Wackler Academy in order to achieve understanding and greater acceptance.

Have you used external help?
Blenke: Almost everything was initially done in-house. A few years ago, we took an unconventional step and founded our own subsidiary, ConClimate GmbH, in the field of sustainability and climate protection. Here we built up a completely new business division with a team with a lot of knowledge and expertise and a software solution for digital sustainability management that we developed ourselves. Today, ConClimate has over 100 different clients from the SME sector who are advised by us on their way to Net-Zero and other sustainability aspects.

What is your orientation towards decarbonisation? Where do you stand in terms of "Paris compatibility"?
Reisinger: We were one of the first companies in the industry to commit to developing a Net Zero strategy – effectively reducing our emissions by more than 40 % by 2030 and to near zero by 2045. This is of course a very big challenge. However, we also have a number of effective levers to achieve this goal – such as the consistent implementation of our Green Car Policy or the switch to eco-cleaning agents, which took place earlier this year. These are our levers, but with the knowledge of "how", each company can find and use its own to play its part in achieving the climate goals.

How do you prepare your staff for the changes, how do you train them?
Blenke: We regularly seek dialogue with staff and offer numerous events and training sessions. We have created many training courses and further education opportunities with our own concepts. Including sustainability topics, we offer more than 60 courses. This includes, for example, the cleaning specialist but also a specialist training on CSR and climate protection. It is important to us to create and offer development perspectives and opportunities for everyone, including our cleaning staff, of course. We are finding that this offer sets us apart in the labor market. With our sustainable positioning and the many opportunities for further training, more and more young people are choosing us who might not otherwise have come across the Wackler Group of Companies.

What incentives do you offer your employees, suppliers and customers?
Blenke: First of all, we can generally say that our sustainability efforts are strongly honoured by many of our employees and also lead to a strong identification with our company – a very important factor. The topic also helps us a lot in recruiting new employees. Furthermore, we are convinced that the topic of sustainability can only be controlled to a limited extent through incentives but must rather be lived through conviction. Personal goals that also include sustainability goals are more important than monetary incentives.

What is your next big goal for sustainability?
Blenke: We will electrify the vehicle fleet and create the conditions for achieving our Net Zero goals. And we will further expand our training programmes and ConClimate GmbH. These are big projects for us. In addition, we are taking a closer look at the use of robotics for building cleaning.

Have your banking partners supported you along the way? If so, how?
Mayr: We financed the developments from our own funds. We did not need the banks for the topic at first. However, we have noticed that the interest of one of our house banks in particular in our sustainability strategy has risen sharply and we clearly see that the banking sector will play a much stronger role in the sustainable transformation in the future. Many of our contacts on the banking side have now also received further training in the area of sustainable finance.

Do you have any recommendations for banks on how to improve collaboration for transformation?
Reisinger: The leverage that banks have is massive. The topic has now arrived and is understood on a much broader level. We primarily see opportunities and possibilities for banks in their role as multipliers. Here they can achieve many things and reach many people.

Interview with Anna Yona, Owner, Wildling Shoes

Anna Yona is driven by achieving radical change for the future. As founder and CEO of Wildling Shoes, she has made this vision a reality for herself and is completely rethinking the business world with her fair and sustainably produced minimal shoes. In doing so, she sets important impulses with a holistic perspective, the willingness to unlearn the familiar and the unconditional will to collaborate. She sees herself, her company and her community as part of a new kind of generation, the re:generation. With her approach, Anna Yona has already won several prizes – including the German Founder's Prize 2021 and the German Sustainability Prize 2022.

What was the trigger and motivation for sustainable change at Wildling?
The company idea came from our conviction that healthier shoes were needed for our family. And what we wanted simply didn't exist.
As a founding couple, we had complete agreement on the product and the values behind it, to create the best solution, but also on how we want to create it.
We wrote a business plan for the bank financing. I have to say we didn't believe in the projections at the time. And then the demand completely overran us!
After 1.5 years, we reached a point where we had to rethink everything because we had grown so much. We put everything to the test and looked at what the company should stand for beyond the products, whether we should continue to grow and what we want to achieve with it. We are constantly striving to optimise our purpose and the impact of what we do.

What were the biggest conflicts or pitfalls you encountered? How were/are conflicts of objectives resolved?
Initially, it was an adjustment of the attitude to really think holistically, also beyond the supply chain. This creates numerous fields of action and how do we then deal with them?
We continuously identify many issues where we want to get it right, but we don't manage to work on all of them. Central to us, of course, is the circular economy.
We are also developing our work culture and structures. We have a lot of part-time positions, and job sharing in combination with remote work. We have 75 % women in all positions. This is a challenge because women are still more involved at home. Especially in Corona times and the lack of childcare, we felt this very much. Here, a social situation is coming to us in the company and we have to see how we deal with it, because it has to go in a different direction.
We also have higher expenses. We buy material ourselves and look after it all the way to the field where it originates. We have to be able to afford and pay for that. We don't hand anything over to a middleman or contract producer.

Have you taken advantage of external help?
Yes, especially for team development. We built up a people and culture department relatively early on. Since we as the founding couple are always part of the team, it needs external support and a fresh view from outside. We have been using this regularly for some time, also to further develop the topic of motivation. We have noticed that the high degree of self-determination and flexibility does not work for all employees and also creates tensions. The company's goals are not enough here; we need opportunities for support, as many people in this direction are not yet able to handle the personal responsibility that we are prepared to give.

What is your orientation towards decarbonisation? Where do you stand in terms of "Paris compatibility"?
We are working on a sustainability report that will bring many things together in an automated way. Where can we make a positive contribution beyond neutrality? What are our regenerative contributions

through the sustainable cultivation of fibres, what is the impact on soil, water and biodiversity? Agreeing on key figures is also an achievement of the team. And that is really difficult. For example, if wool from New Zealand is processed in China, then these standard values don't suit us. We use sustainable wool from Rügen in Germany. We have to get to the primary data, which we don't have yet.
Carbon neutral is not yet the main focus for us. That being said, we also want to improve this aspect and we think we have a good starting point.

How do you prepare your staff for the changes, how do you train them?
Listening, coming together, offering participation through co-creation, diversity and inclusion.
We do the "yes and" exercise (instead of "yes but") more often!
We are well practised in communicating the purpose and transparency of where we are and how we can move forward together.
We have our own concept for the structures and salaries, for a really complex topic. We have learned a lot there. We don't have classic titles and pay attention to a management span of a maximum of 8 people in a team. The factor 3.5 is the maximum difference to entry-level salaries. Our focus is more on higher minimum salaries. In the lower range, we pay well in comparison and that is important to us; in the upper range, we do not join "the race to the top".
We really want to use the employees according to their potential and self-efficacy. This is not a simple matter of course.
The roles are also clear, the decisions lie with my husband and me.

What incentives, if any, do you offer your employees, suppliers and customers?
We have decided against financial bonuses because that does not fit in culturally and is not motivating. Social aspects are important to us: co-working spaces when needed, counselling and support services for family issues and a lot of flexibility in shaping one's own role.
We maintain long-term relationships in the supply chain and are reliable partners for securing the livelihoods of contract producers and for manufacturers of raw materials.
Where we work exclusively with contract manufacturers, we also do workshops with the staff and work with the factory owners. This results in many more perspectives.

What is your next big goal for sustainability?
We want to present an overall balance that also aims to show the regenerative aspect of our economic activity. We support an ecosystem by how we work and not through by using paid compensation schemes. We are concerned with renewing what we consume in order to create a positive balance overall. We set targets in every area of the company, for example to source all natural fibres from regional cultivation.

Have you supported your banking partners along the way? If yes, how?
We started out bank-financed with a credit union without any other investors.
This would not have been possible with a specialised bank because they did not offer start-up financing and we lacked physical proximity. Personal access to the bank was and is important to us. For the growth and support of the current business, especially for the seasonal interim financing, we work with two major banks and are really very satisfied with the support.

Do you have any recommendations for banks on how to improve collaboration for transformation?
For us, the question is what do the banks do with the money we generate? I am not happy about that and would like to see more transparency. These are ethical questions for us.
What banks finance and what they don't support, that is a huge responsibility. I think there is still a lack of attitude and correction of the incentives that have been set to enable change.

9. Outlook

The most important drivers for a further development of governance in credit institutions were brought into the context of the necessary developments. In summary, it can be stated that the regulatory requirements for the climate dimension alone will not be sufficient to achieve the transformation for future viability.

This transparency continues to increase. Various stakeholders have long expected more active action and criticised the gaps between communication and actual progress – at the level of the banks and the economy as a whole.

At the same time, the growing crises are increasingly revealing the limits of the economic activity as we have it and its long-established patterns.

Regulatory compliance will not provide all the ingredients for the solutions. In other words, the forward-looking interaction around the future cannot only be achieved through risk minimisation and legal requirements, it is about actively shaping it. This is also how the numerous commitments that banks have made in a self-determined manner are to be understood. In the meantime, around 130 banks worldwide have become signatories to the Global Net Zero Banking Alliance, accounting for 41 % of global banking volumes[42] – a clear commitment.

Much more difficult is the systematic implementation and the associated decisions, including but also beyond the work with major clients, especially in the day-to-day business with medium-sized companies and private clients.

Investments in solar parks, for example, are right and crucial for the energy transition, but what are the trade-offs with transformation technologies produced in countries that have a different definition of social standards? If sustainability becomes an integral part of governance, then the conflicting goals and decision-making dilemmas become more transparent.

While many sustainability dimensions have been widely addressed scientifically, they are only at the beginning of codification for implementation. This includes the available data and standards needed for systematic implementation in day-to-day business.

Here, banks and the real economy are still a long way away from integrated solutions, especially when it goes beyond the climate dimension. The first step is therefore to create structures and forums that help to actively shape this path in order to deal with the challenges for implementation better.

Banks are a fundamental part of the solution. They help shape the guard rails for the economic system by prioritising future-compatible technologies and businesses and reducing incompatible financing even faster than before.

Sustainability-integrated governance enables systematic and informed trade-offs for business and client relationships in relation to their sustainability impact. This also benefits the risk dimension.

The examples and company portraits in this publication provide important impulses for actively shaping that change.

42 See www.unepfi.org/net-zero-banking/members/.

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11. Antitrust guidelines

The Green and Sustainable Finance Cluster Germany e.V. (Cluster) is a platform that brings together stakeholders from the private and public finance sector, regulators, policy makers, NGOs and academia. The Cluster supports the NZBAG with basic research and coordination to develop methods and processes to fulfil the climate protection commitment of the financial sector.

The following antitrust guidelines are to be observed given the non-profit activity of the Cluster. The Cluster's guidelines also comply with Article 101(1) of the Treaty on the Functioning of the European Union (TFEU) and Section 1 of the Act against Restraints of Competition (GWB).

"The positioning of Frankfurt as a financial location as a centre for climate-friendly and sustainable financial investments" and "the formation of a network [...] in which expertise on financial and risk issues relating to sustainable and climate-relevant financial products is bundled" is the statutory purpose of the Cluster. This purpose is fulfilled by the constitution and basic research of the Net Zero Banking Alliance Germany (NZBAG) on decarbonisation at the interface of (real) economy and banks. The aim of the antitrust guidelines is to prevent behaviour that could potentially lead to a closing of the market to innovative technologies and companies or to a reduction in innovation competition.

Within the scope of the NZBAG's activities, only activities that are precompetitive and comply with the rules of the Federal Ministry for Economic Affairs and Energy for the promotion of joint industrial research are undertaken. In doing so, the entire financial sector is to benefit.
All official meetings of NZBAG-related activities shall be attended by an employee of the cluster or, on a case-by-case basis, a similarly trained substitute. This employee shall, together with all participating companies and persons, ensure compliance with the rules of antitrust law.

Discussions within the NZBAG shall only take place on the research project. There shall be no exchange or voting between the participating financial institutions on:

- A possible individual and concrete utilisation of the results of the individual research projects, e.g. the transfer into products or processes relevant to competition.
- Confidential information on the activities of the participating companies; as opposed to information that is generally known to the public.
- costs of research projects if they were carried out by the companies themselves.
- Individual technical know-how of a company that is not generally known (secret) and essential and that is relevant for the further development or exploitation of the research results presented.
- Possible or actually planned own research and development of the respective within the framework of the NZBAG, there must of course be no exchanges or agreements on topics that are inadmissible under antitrust law.
- companies that build on the presented results, as well as own comparable research.
- A limitation of a company's own research and development in an area outside the specific research project as well as a limitation of a company's own research and development in the area of the specific research project after its completion.
- aspects that would give an individual or several companies a competitive advantage.
- The adaptation and competitive implementation of the results in products, processes or services takes place in the companies after the project.
- The results of the NZBAG's work will be made public beyond the circle of participants, e.g. through publications and conferences.

Green and Sustainable
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