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Envira
SUSTAINABILITY ANALYTICS

Climate Risk as Prudential Risk

Are European Banks Ready for CRR III and CRD VI?





1. Executive Summary

1.1 Background

The implementation of CRR III and CRD VI marks a decisive shift in the treatment of climate risk within the European banking framework. From 2025, climate-related risks fall explicitly under the prudential rulebook, alongside credit, market and interest rate risk in the banking book. This change means that climate risk will be subject to the same standards of governance, modelling and oversight as other material risks.

This report gauges the extent to which European banks have already adapted to supervisory expectations ahead of their formal implantation in reporting for 2025, coming out 2026. All the largest banks in Europe, by balance sheet, were included and were evaluated according to their readiness to comply with CRR III and CRD VI.

The regulatory shift is reinforced by the European Banking Authority's guidelines on the management of ESG risks and the mandatory Pillar 3 disclosure templates. The guidelines define expectations for how climate and environmental risks should be embedded into governance and risk management systems, while the Pillar 3 templates provide a standardized channel through which institutions must report exposures, strategies and metrics.

In practice, this alters the expectations placed on institutions in several ways.

Supervisors will require evidence that climate risk is considered within the structures that already govern prudential risk, including board-level oversight, formal escalation routes, and integration into risk appetite frameworks. They will also assess whether climate-related factors are incorporated into internal models and ICAAP processes, with quantifiable effects on lending, provisioning and capital. The presence of narrative commitments or portfolio alignment strategies will not be sufficient if these are not linked to financial risk metrics and operational decision-making.

This regulatory development has two immediate implications. First, institutions that have established governance arrangements and disclosure processes related to climate risk without extending them into model-level integration face compliance risks. Second, supervisors will expect to see climate risk expressed in the same quantitative language as other prudential risks — probabilities of default, loss given default, stress test outcomes and capital buffers — rather than in qualitative statements of intent.

1.2 What we did in this report

This report provides an audit-style assessment of how European banks currently treat climate risk within their prudential frameworks. The analysis is based exclusively on official regulatory disclosures, including the most recent Pillar 3 reports

and annual reports available at the time of review.

Using this information, banks were given a two-dimensional Readiness Score of 0-6, with 6 meaning that banks were, today, reporting information indicating readiness to comply with CRR III and CRD VI.

The sample comprises 48 banks from across the EU/EEA, covering fiscal years 2023 and 2024. Institutions were selected to include both systemically important banks and medium-sized peers with significant regional exposure, in order to capture variation across the sector. For each institution, disclosures were reviewed line by line for references to climate risk governance, risk appetite, scenario analysis, model use, ICAAP, and capital implications.

In the report absence of evidence is treated as evidence of absence. This is a deliberately conservative approach, but it is the only workable one if the aim is to distinguish between institutions that have embedded climate risk into prudential systems and those that have not. It avoids rewarding aspirational language or sustainability narratives without operational content. The findings confirm the underlying hypothesis: when banks have devel-

oped and implemented prudential climate risk processes, they provide clear and specific documentary evidence of them.

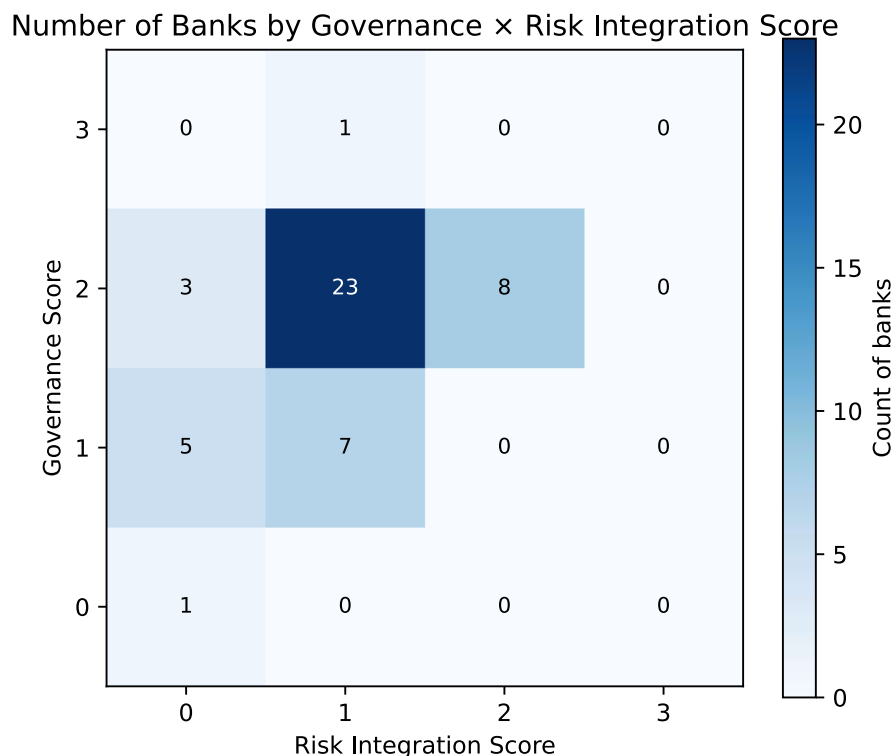
The full Readiness Score was composed of two distinct subdimensions: Governance and Risk Integration. Governance scores capture whether there is clear evidence of climate risk being overseen by the board or an equivalent committee, with escalation mechanisms comparable to those applied to other material risks. Risk integration scores capture whether there is clear, quantitative evidence that climate risk has been incorporated into bank-, country- or portfolio-specific models, ICAAP, or credit processes, with demonstrable operational consequences such as changes to probability of default, lending decisions, or capital buffers. By design, this excludes reliance on universal sustainability models, generalized damage functions, or non-specific scenario tools, which do not demonstrate prudential treatment. The maximum score of 3 in either dimension requires evidence that climate risk is handled with the same individualized prudence, and at the same level of technical specificity, as is applied to other core risk types. This is the expected maturity level to ensure compliance with CRR/CRD going forward. A score of 0, con-



**48
European
Banks**

**€27tn
in
Assets**

**4/6
Highest
Readiness
Score**



versely, was given if bank reports failed to handle climate risk governance or integration at a level of technical accuracy higher than that usually deployed for external stakeholder communication.

1.3 Results

The scoring results reveal that currently, no banks display signs of full or near-full readiness to materially comply with CRR III and CRD VI. The highest scoring banks received 4 out of 6, and only 9 out of 48, or 19%, of banks received this score. No bank scored 5 or 6 in total Readiness. Furthermore, no bank scored the full 3 in Risk Integration.

Results also revealed a pronounced asymmetry between governance and risk inte-

gration. Across the 48 banks reviewed, governance scores cluster in the middle of the scale, while risk integration scores are heavily concentrated at the bottom.

The mean governance score was 1.7, with 73% of banks achieving a score of 2 or higher. A majority of institutions provided evidence that climate risk has been assigned to board or committee structures, often through sustainability or risk committees. However, escalation mechanisms and evidence of parity with credit or market risk remain rare, and only a single bank scored a full 3 on governance.

By contrast, the mean risk integration score was 1.0, with 83% of banks scoring 0 or 1. Only 8 institutions provided evidence of quantitative, bank- or portfolio-specific



modelling of climate risk with operational consequences for ICAAP, credit processes, or capital allocation and disclosed specific evidence of how this had resulted in analytically driven decision-making. In no case did disclosures demonstrate fully systematic adjustments to probability of default, loss given default, or capital buffers arising from climate risk factors. The majority of scenario analyses relied on generic stress scenarios or external sustainability models, which do not meet the evidentiary threshold for prudential integration.

The distribution of results underscores the distinction between surface-level readiness and operational readiness. Governance arrangements, although still uneven, are being established across most large institutions. Risk integration, however, remains largely absent. This gap suggests that climate risk is recognized at the narrative and structural level but has not yet been translated into the quantitative machinery that drives lending and capital decisions.

In regional and size-based comparisons, larger banks and those headquartered in northern and western Europe exhibited somewhat higher governance scores, while smaller and southern or eastern European institutions were more likely to record zeros in both dimensions. Nevertheless, even among the largest banks, evidence of model-level integration was missing.

In several cases, banks describe ongoing initiatives to develop climate risk models or extend stress testing frameworks. These efforts may in time provide the basis for quantitative integration, but the available

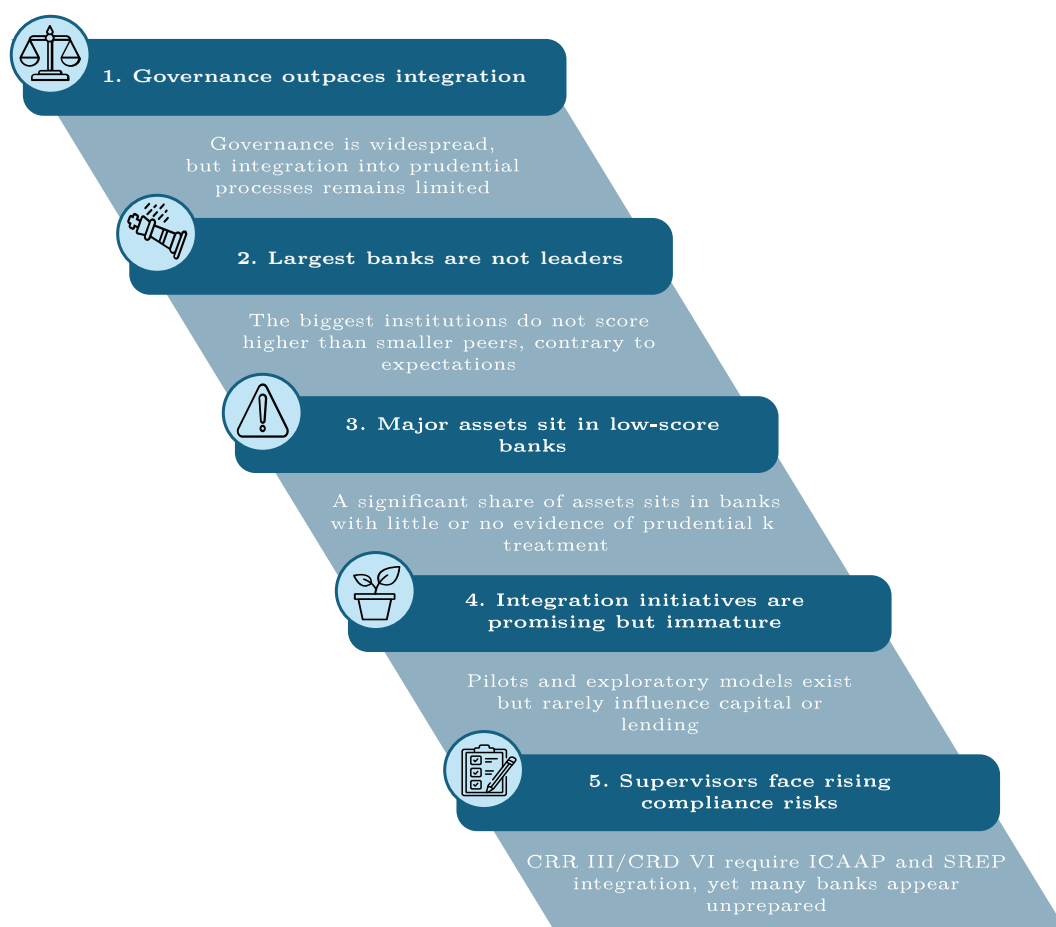
disclosures suggest they remain at a pilot or development stage. We did not observe any institution that has disclosed organization-wide implementation of bank-, country- or portfolio-specific climate risk modelling, where results are used directly in financial decision-making. This absence explains why no bank achieved a score of 3 on risk integration.

1.4 Implications

We point to five overall issues for the sector in implementing and supervising the new rules from 2025 onwards:

1. Banks are overall much more mature in implementing governance measures than in developing adequately integrated, quantitative climate-risk models into their risk operations.
2. The largest banks are not markedly ahead of other banks, as proportionality assumptions would lead one to expect.
3. A sizeable number of banks show little or no evidence for transitioning to the new rules
4. Most of the risk integration initiatives are still immature, pilot-like developments.
5. Supervisors need to step up their engagement in this field to ensure compliance.

These findings have market implications. Investors and counterparties increasingly look to regulatory disclosures for credible signals of risk management. When climate commitments are presented without



evidence of operational impact, they risk being interpreted as marketing rather than prudential substance. This undermines confidence in both the bank's climate strategy and its overall risk management capacity.

Substantively, the absence of quantitative integration leaves banks exposed to mispricing of credit and portfolio exposures. Without clear modelling of climate-related drivers of default and loss, institutions may understate the risks of certain asset classes or sectors, leading to distorted lending patterns and potential capital shortfalls in stressed conditions.

The implementation timelines reinforce the urgency of this gap. CRR III and CRD VI provisions on climate risk enter into force in 2025-26, which leaves institutions with a narrow window to move from pilot initiatives to organization-wide implementation. Given the time required to design, validate and operationalize new models within banks existing risk architectures, the absence of disclosed progress at this stage suggests a material risk of non-compliance as the new regulatory regime takes effect.

2. Introduction

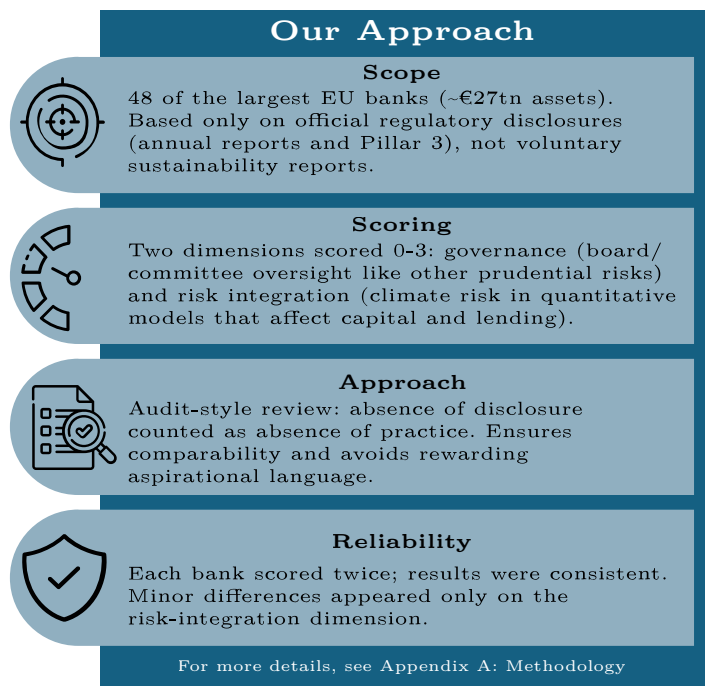
This report provides a systematic assessment of how European banks are currently approaching climate risk. The objective is not to evaluate sustainability strategies or external positioning, but to examine whether climate risk is treated in practice as a prudential risk. The analysis therefore focuses narrowly on two questions: whether governance structures provide clear evidence of oversight at the board or committee level, and whether banks disclose quantitative, bank- or portfolio-specific modelling of climate risk that has operational consequences.

The sample comprises 48 banks operating in the European Union. It includes all of the 30 largest institutions by total bal-

ance sheet, alongside a selection of medium-sized banks to capture variation across the sector. For each institution, we reviewed the most recent full annual report for the 2024 financial year, supplemented by any stand-alone Pillar 3 report where available.

By addressing these questions and drawing on this sample, the report provides a benchmark of the sector’s readiness for the prudential treatment of climate risk, identifies the extent of progress, and highlights where gaps remain relative to supervisory expectations.

To see the methodology behind the findings of this report, please refer to the Appendix: Methodology.



3. Regulatory Framework

The 2024 banking package — CRR III (*Regulation (EU) 2024/1623*) and CRD VI (*Directive (EU) 2024/1619*) — formalizes the treatment of environmental/climate risk as risk drivers within the prudential framework. Most CRR III provisions apply from 1 January 2025; CRD VI applies following transposition by Member States by 11 January 2026.

These reforms amend the Capital Requirements Regulation and Directive to explicitly recognize environmental and climate-related risks as risk drivers to be assessed under the prudential framework using the standard risk categories.

Two provisions in the amended CRR are particularly significant. Article 449a expands ESG Pillar-3 disclosures to all

institutions from 1 January 2025, with proportionality. It requires institutions to distinguish environmental risks into physical and transition risks, and to disclose both quantitative exposures (including total exposures to fossil fuel sector entities) and qualitative information on how these risks are integrated into business strategy, governance, and risk management.

Article 501c introduces the potential for differentiated prudential treatment of exposures subject to environmental or social factors. It mandates the EBA, in consultation with the ESRB and EIOPA, to assess whether exposures to environmentally affected assets and activities warrant adjusted risk weights or capital requirements.



CRD VI complements these provisions by embedding climate risk into the Supervisory Review and Evaluation Process (SREP). Competent authorities are explicitly required to evaluate whether governance arrangements and risk management practices adequately capture climate-related risk drivers, and to apply supervisory measures where deficiencies are found. This includes qualitative requirements, additional disclosures, and potentially capital add-ons.

The European Banking Authority has supplemented the level 1 regulation through its Guidelines on the Management of ESG Risks (EBA/GL/2025/01). The Guidelines clarify supervisory expectations regarding the embedding of climate risk into governance, risk appetite, stress testing and scenario analysis. They emphasize proportionality but also require institutions to demonstrate the financial relevance of climate risks for portfolios and capital planning.

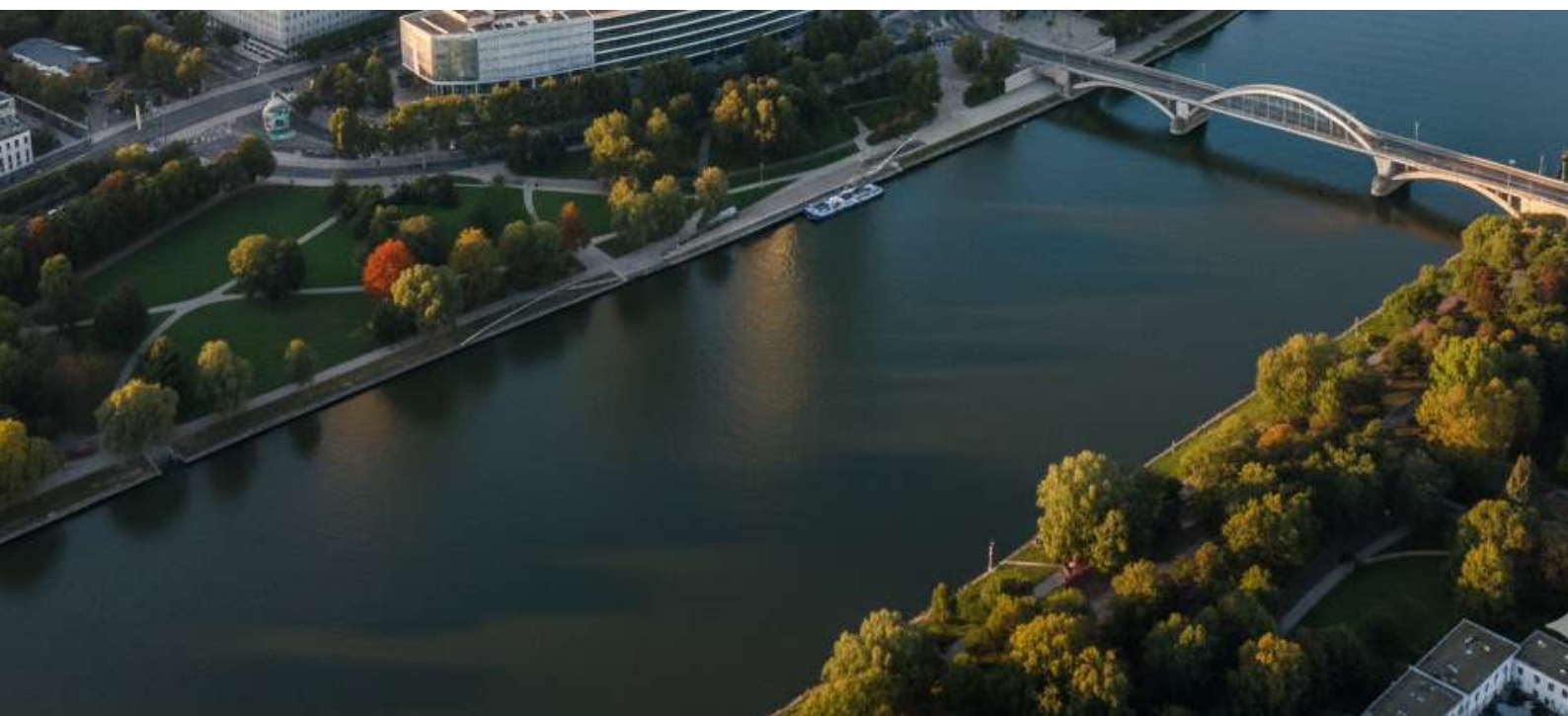
This development takes place against the backdrop of a partial roll-back of the Corporate Sustainability Reporting Directive (CSRD). While several CSRD obligations have been delayed or diluted, the prudential framework under CRR III and CRD VI remains intact. This distinction is important: even as sustainability reporting regimes are softened, the prudential requirements continue to harden.



4. Findings

This section presents the central findings of the assessment. The central picture is clear. The scoring results reveal that no institution in the sample can yet be considered fully or even nearly ready to comply materially with the prudential requirements implied by CRR III and CRD VI.

The highest observed total score was 4 out of 6, achieved by only 9 out of 48 banks (19%). No bank reached a score of 5 or 6, and none achieved the maximum score of 3 on the risk-integration dimension. This ceiling effect indicates that while progress is visible, climate risk has not yet been



embedded into prudential frameworks at a level comparable to credit, market, or interest rate risk.

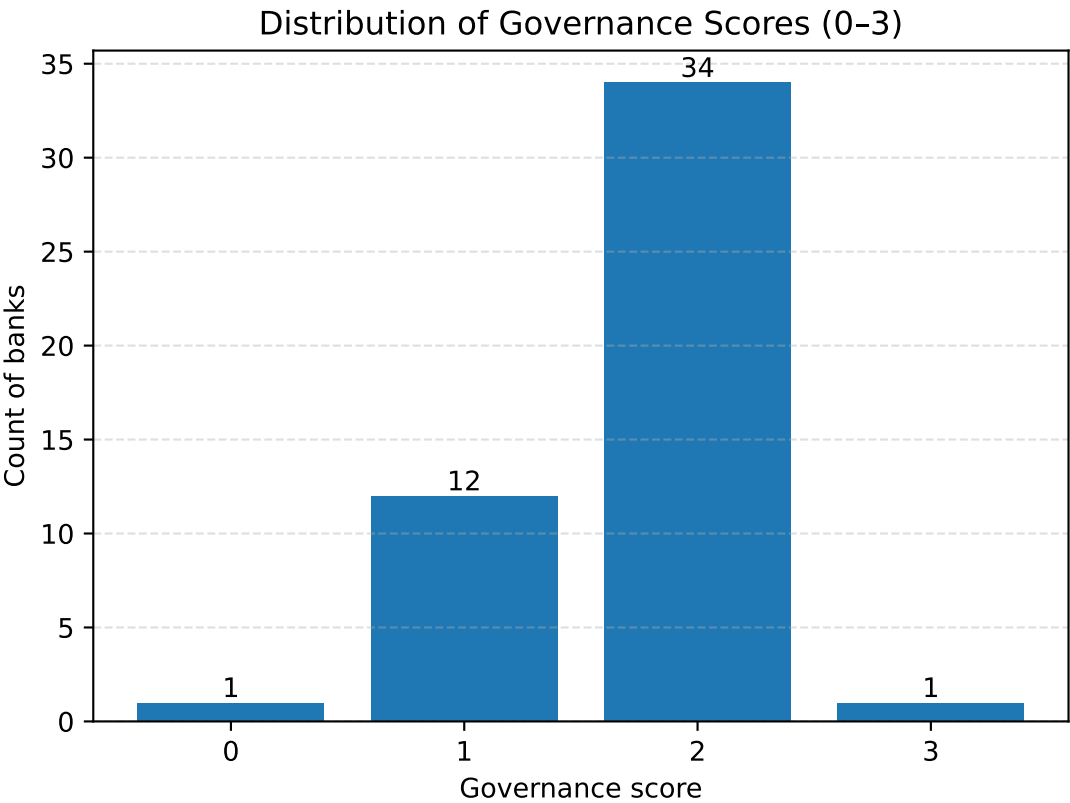
The pattern is consistent across size bands and jurisdictions: governance arrangements are increasingly standardized, but quantitative integration remains partial

or absent. These results should therefore be read as establishing a lower bound of maturity: the European banking system has taken initial steps toward prudential treatment of climate risk, but no institution has yet crossed the threshold into full implementation.

4.1 Summary results

At the level of individual dimensions, the scoring distributions confirm the overall pattern: governance arrangements are in place across most institutions, while risk integration lags significantly. Governance scores cluster in the upper middle of the scale, reflecting widespread establishment of board- and committee-level oversight. Risk integration scores, by contrast, are concentrated at the bottom, indicating that quantitative methods remain largely diagnostic rather than prudential. Together, the two distributions provide a clear view of where progress has been made and where critical gaps remain.

Governance scores are concentrated in the upper middle of the scale. A total of 34 banks (71 per cent) received a score of 2, meaning that climate risk has been formally assigned to board or committee structures and linked to risk oversight, but without evidence that these arrangements operate at full parity with those governing credit or market risk. Twelve banks (25 per cent) scored 1, reflecting partial or less well-documented governance measures that stop short of integration into the prudential risk framework. One bank scored 0, with no disclosure beyond general sustainability language, while one bank reached a score of 3. The latter provided evidence that climate risk governance had been fully embedded into the prudential system,



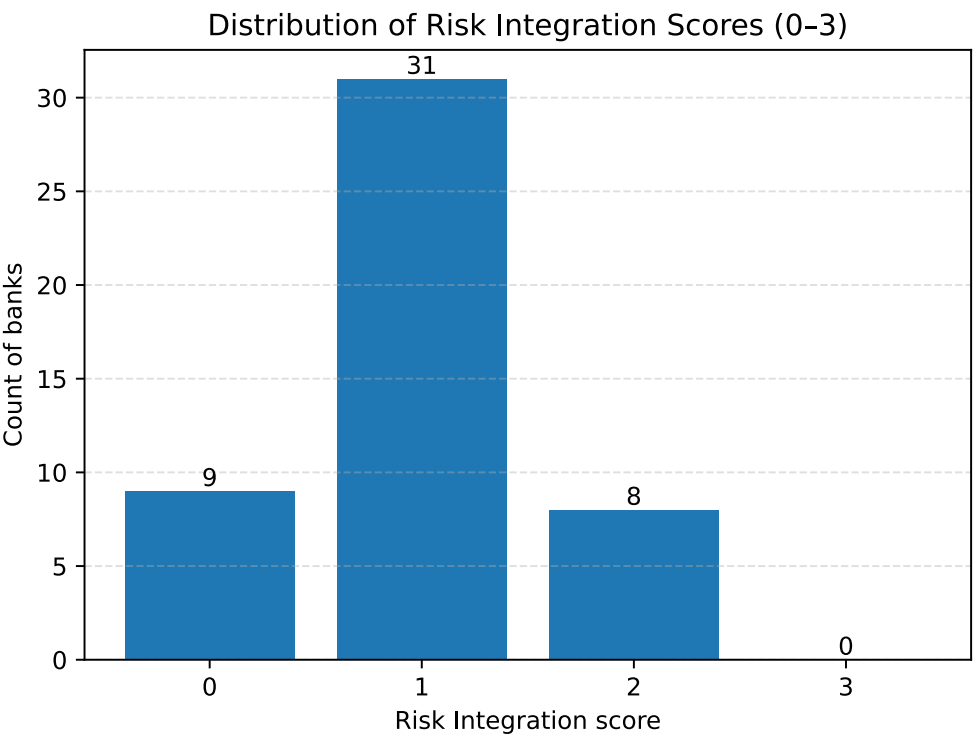
with escalation mechanisms and oversight clearly aligned with those for established financial risks.

The modal governance outcome (a score of 2) typically corresponded to disclosures showing that climate risk was overseen by a board-level committee or chief risk officer, that it appeared in the risk appetite framework, and that it was embedded in the three-lines-of-defense structure.

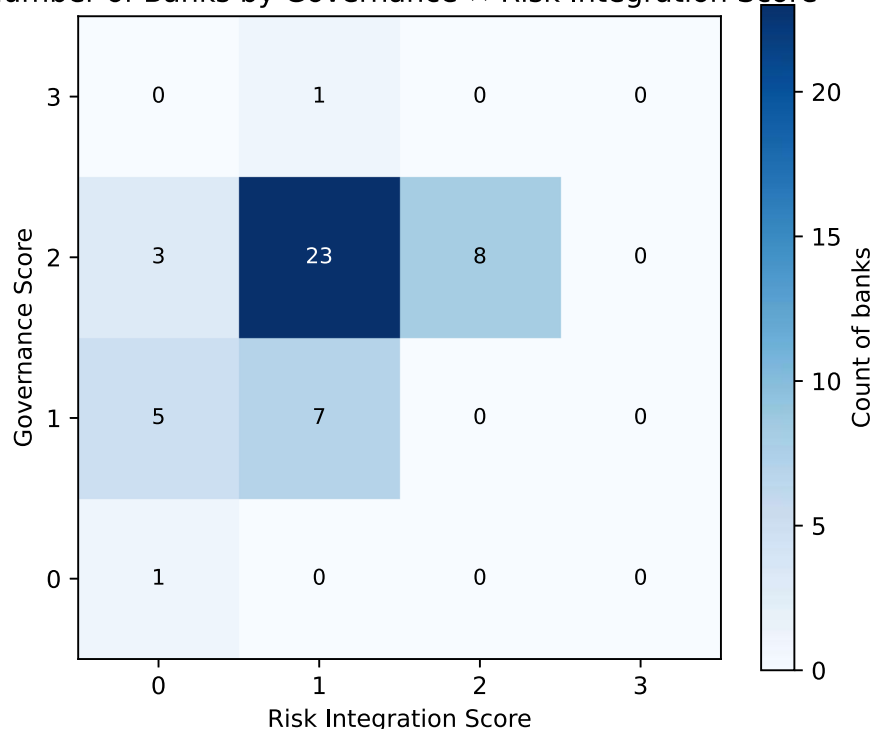
Risk integration scores were much weaker and concentrated on the lower-middle end of the scale. Thirty-one banks (65 per cent) scored 1, reflecting practices that were diagnostic or exposure-based but without prudential consequences. Nine banks (19 per cent) scored 0, providing only descriptive language without prudential relevance. Eight banks (17 per cent) scored 2, present-

ing substantial elements of quantitative integration, but without evidence of system-wide use or demonstrable influence on capital or credit outcomes. No institution scored 3.

To complement these distributions, Figure 3 shows the joint distribution of governance and risk-integration scores in heatmap form. The concentration in the 2/1 cell is immediately apparent, with 23 banks located in this cluster. Smaller but still notable groups appear in 2/2 (eight banks) and 1/1 (seven banks). At the extremes, only a single bank reached 3/1, while one bank fell into 0/0. No institution appears in the 3/2 or 3/3 cells, underscoring that climate risk has not yet achieved full parity with established prudential risks across both dimensions simultaneously.



Number of Banks by Governance × Risk Integration Score



Across the dataset, the practices most commonly associated with a score of 1 included:

- Use of generic climate scenarios (often NGFS or IEA) presented without calibration to the bank's own balance sheet or geographies.
- Reliance on portfolio alignment metrics, such as the Green Asset Ratio or financed emissions, which might provide directional information but no link to loan pricing or credit decisions.
- Descriptive heatmaps of sectoral exposures (fossil fuels, shipping, agriculture), sometimes accompanied by qualitative commentary, but not tied to risk appetite or provisioning.
- References to pilot stress tests reported as learning exercises, often with explicit

caveats that they had not been used to adjust capital, risk limits, or expected credit losses.

Taken together, the two distributions illustrate a clear pattern: governance is converging on a baseline level of adequacy, whereas risk integration remains shallow and uneven. The modal bank has board-level structures in place to acknowledge climate risk but has not yet embedded climate-related factors into the quantitative machinery of risk management. This asymmetry highlights the distinction between surface-level readiness — committees, responsibilities, and narratives - and operational readiness, defined as the ability to show that climate risk changes models, decisions, or capital outcomes.

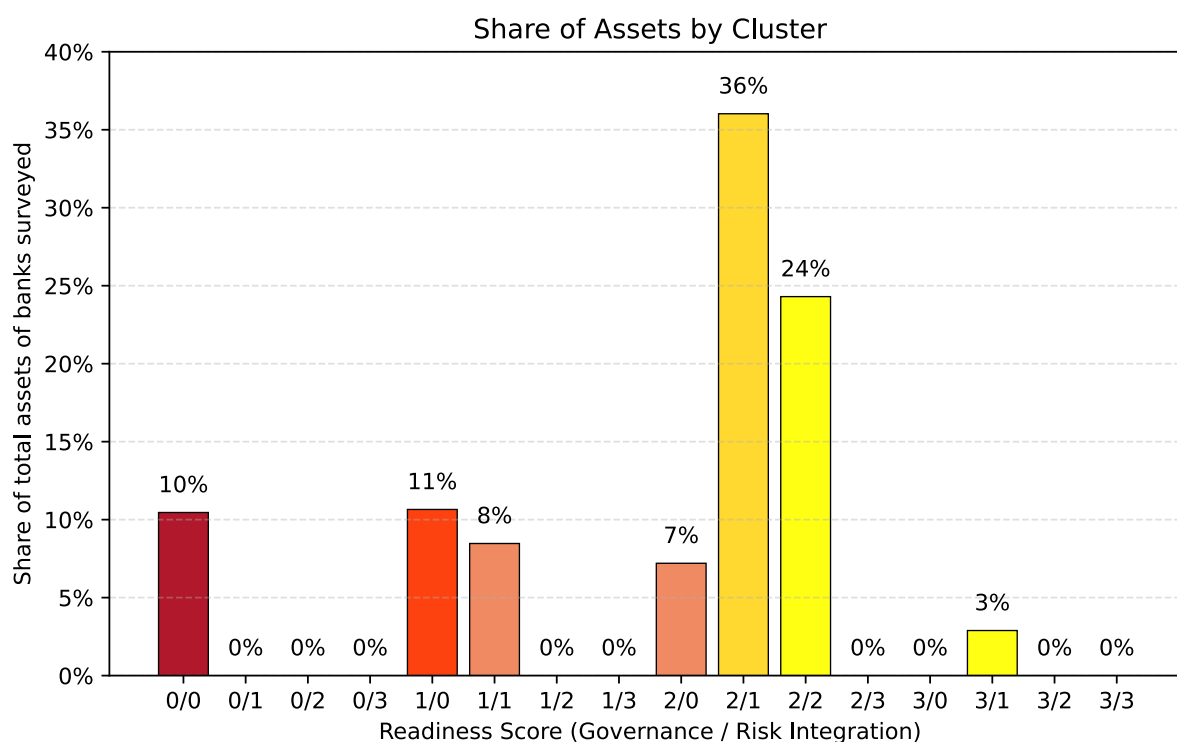
4.2 Systemic distribution of banks by governance and risk-integration clusters

Looking beyond the individual dimensions, the joint distribution of governance and risk-integration scores shows how institutions combine across the two axes. This perspective highlights the modal state of the European banking system and reveals where systemic concentrations of maturity — or immaturity — are located.

Figure 4 presents the distribution of total balance sheets across clusters defined by governance and risk integration scores. The results show that most of the European banking system, measured by balance sheet volume, falls into a narrow band of mid-level scores, with very little representation at either extreme.

The single largest cluster is 2/1 (governance score 2, risk integration score 1), which accounts for 36 per cent of total balance sheet size in the sample. These are banks that have established formal governance structures but whose climate-risk integration remains limited to exploratory modelling or exposure diagnostics.

The second largest cluster is 2/2, representing 24 per cent of total assets. Institutions in this group have governance in place and some substantial quantitative elements, but without disclosure that climate risk models are fully embedded across the organization or directly influence decision-making. This cluster is significant because it contains many of the systemically important institutions. While more advanced than the modal 2/1 group, they still fall short of parity with traditional



prudential risks. They do, however, represent an organizationally and methodologically advanced (if not yet matured) group of institutions that have given climate risk considerable bandwidth and resources.



The remaining clusters are smaller in asset share but important in illustrating the range of maturity. Crucially, these clusters include several large and systemically important institutions. Their presence shows that weak or absent integration is not confined to smaller regional banks but also extends into the core of the European banking system.

4.3 Combined scores by asset band

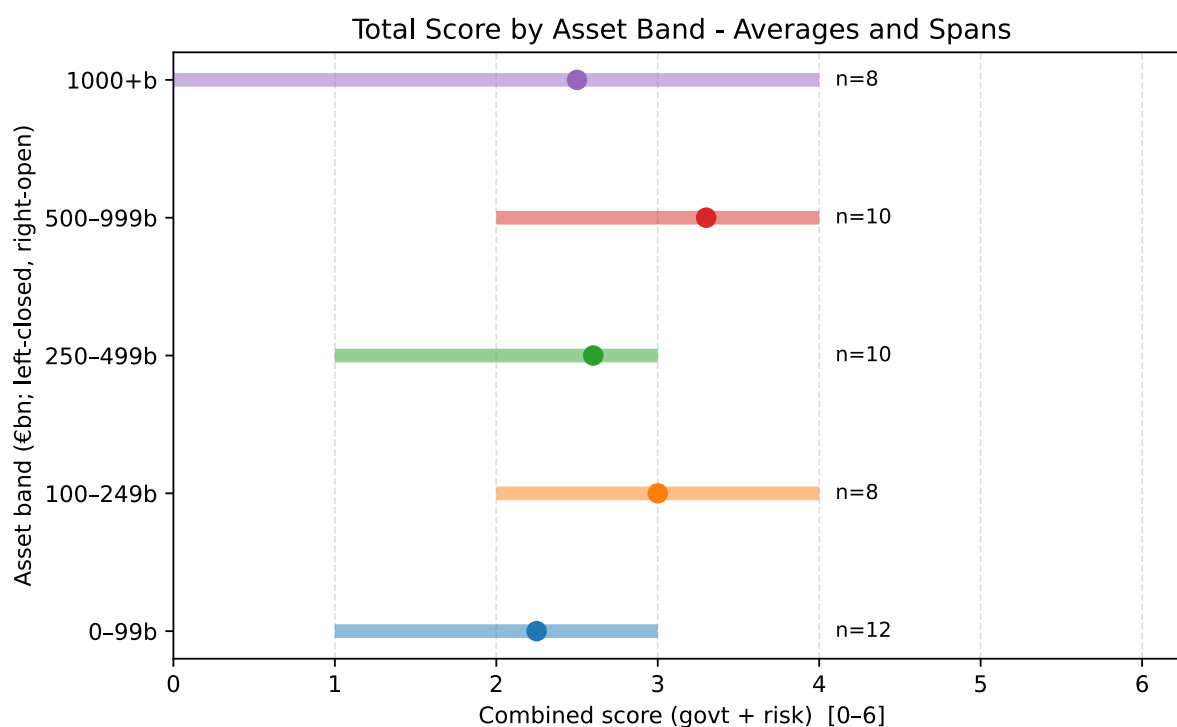
To assess whether size correlates with maturity, combined scores (0–6) were compared across asset bands. This view situates climate-risk treatment within the structure of the European banking system, showing whether the largest balance sheets — and therefore the greatest systemic exposures — correspond to higher levels of prudential integration.

Figure 5 shows the distribution of combined climate-risk scores (governance + risk integration, ranging from 1 to 6) across asset bands. This provides a view of how prudential climate-risk maturity aligns with bank size, expressed in terms of total assets.

The results do not show a linear relationship between bank size and score. The smallest institutions (€0–99 billion) average 2.25, reflecting partial governance and limited integration. Scores are somewhat higher for banks with assets of €100–249 billion, where the mean of 3.0, a little higher than the middle band (€250–499 billion), where the mean total score is 2.60. The €500–999 billion group performs best, with a mean of 3.30, combining solid governance with more developed — though still incomplete — evidence of integration of quantitative risk modelling.

By contrast, the largest banks (€1,000–3,000 billion) average only 2.50. Despite their systemic importance, disclosures suggest climate risk remains only partially integrated: governance is in place,





but models do not yet influence lending, ICAAP, or capital. This finding is notable, as it shows scale has not translated into more advanced prudential treatment.

the highest expectations, yet their modest scores indicate climate risk is still treated more as a narrative than a prudential driver of capital adequacy.

Across all asset bands, scores cluster in the middle range (2-3). None approach full integration (5-6). The fact that the largest banks lag mid-sized peers is significant for supervisors: under CRR III, they face

5. Implications

The assessment shows how climate risk is currently treated in European banks' prudential frameworks. Five themes stand out:

1. Banks are overall much more mature in implementing governance measures than in developing adequately integrated, quantitative climate-risk models into their risk operations.
2. The largest banks are not markedly ahead of other banks, as proportionality assumptions would lead one to expect.
3. A sizeable number of banks show little or no evidence for transitioning to the new rules
4. Most of the risk integration initiatives are still immature, pilot-like developments.

5. Supervisors need to step up their engagement in this field to ensure compliance.

The following subsections take each of these themes in turn.

5.1 Asymmetry between governance and risk integration

The results demonstrate a consistent asymmetry between governance arrangements and quantitative risk integration. On the governance side, most institutions now disclose that climate risk is overseen at board or committee level, often under the remit of the chief risk officer or a dedicated risk committee. By contrast, integration of climate risk into prudential processes remains limited.

Governance integration can be established relatively quickly through organizational



fiat: boards can assign responsibilities, create committees, and amend risk appetite statements. These measures are visible in disclosures and align with the governance expectations set out.

The lack of real integration of climate risk management practices on the other hand likely has two main underlying causes:

First, integration requires an explicit management decision at the highest level: that climate risk may lead to financial decisions that are less favorable in purely commercial terms than they would be absent climate considerations. This is the substantive test of prudential integration. A bank that recognizes climate risk must be prepared to decline profitable lending opportunities, restrict exposures, or hold additional capital if model outputs so indicate. Moving from sustainability commitments to actual prudential treatment therefore demands not only governance recognition but also willingness to accept outcomes that may run counter to traditional business optimization.

Second, integration requires specialized technical capacity. Three conditions, in particular, are often missing:

- **Expertise:** risk modelers with sufficient knowledge of climate science, weather models, and their interaction with financial exposures are in short supply. Many banks lack internal staff with both prudential and climate modelling expertise.

- **Software:** institutions are caught between immature internal projects and commercially available “sustainability suites” that often over-promise, lack prudential calibration, or fail to connect to existing risk engines.
- **Validation:** even when models are developed, they must pass internal validation and supervisory scrutiny before being embedded in ICAAP or credit processes. This requires time, documentation, and technical robustness that few pilot projects have yet achieved.



5.2 Lack of leadership among the largest banks

A striking finding is that the largest institutions, with balance sheets above €1 trillion, do not show greater maturity in prudential climate-risk treatment than smaller peers. Their average combined score is only 2.50, compared with 3.30 for banks in the €500–999 billion range.

Some factors may partly explain this: globally diversified portfolios, organizational complexity, and a tendency toward cautious disclosure. Yet the overall pattern is clear: scale and systemic importance have not translated into stronger governance or integration. Instead, mid-sized large banks score highest, leaving the very largest institutions lagging behind expectations.

5.3 Concentration of low scores

Over one fifth of system assets are held by banks in the lowest-scoring clusters (0/0 and 1/0), including several large and systemically important institutions. This shows that weak or absent prudential treatment of climate risk is not confined to smaller regional banks but extends into the system's core.

Two caveats apply: the analysis relies on public disclosures, and absence of disclosure is treated as absence of practice. Some banks may therefore be more advanced internally than their scores suggest. Still, either outcome is problematic: if progress exists but is undisclosed, supervisors and markets lack visibility; if it does not exist, institutions are unprepared for CRR III and CRD VI.

From a prudential perspective, the presence of major banks in low-scoring clusters raises systemic concerns. Supervisors may need to intervene through SREP, including the possibility of capital add-ons, to ensure climate risks are adequately captured.

5.4 Promising but immature initiatives

Across the dataset, many banks describe initiatives that suggest climate risk is beginning to be addressed in a more technical manner. These include pilot stress tests, exploratory scenario analyses, and early attempts to integrate climate variables into credit risk models or sectoral frameworks.



Some institutions also report investments in new data sources, partnerships with external providers, or the establishment of dedicated climate risk modeling teams. These initiatives indicate movement toward eventual integration, but in almost all cases they remain at a preliminary stage.

The disclosures themselves frequently underscore this point. Pilot exercises are often presented explicitly as “learning” tools, with caveats that outputs have not yet influenced risk appetite, provisioning, or capital requirements. Sectoral heatmaps and exposure diagnostics are described as part of a “risk identification” phase, without any linkage to quantitative modeling. Where external data or alignment metrics are used—such as financed emissions or the Green Asset Ratio—these are reported as measures of direction or exposure, but not as drivers of credit decisions.

The key distinction, therefore, is between *diagnostic capability* and *prudential integration*. Many banks are building diagnostic capacity: they can identify which sectors and portfolios are most exposed to cli-

mate-related risks, and they are experimenting with ways to model these exposures.

5.5 Supervisory implications

CRR III and CRD VI make climate risk a prudential category, requiring its integration into ICAAP, risk appetite frameworks, and the SREP process. Yet current disclosures show most banks are not ready to demonstrate this level of integration.

The governance–integration gap has two consequences. Governance requirements under CRD VI can be met quickly, but few institutions can show climate risk embedded in models that affect capital or lending, as CRR III demands.

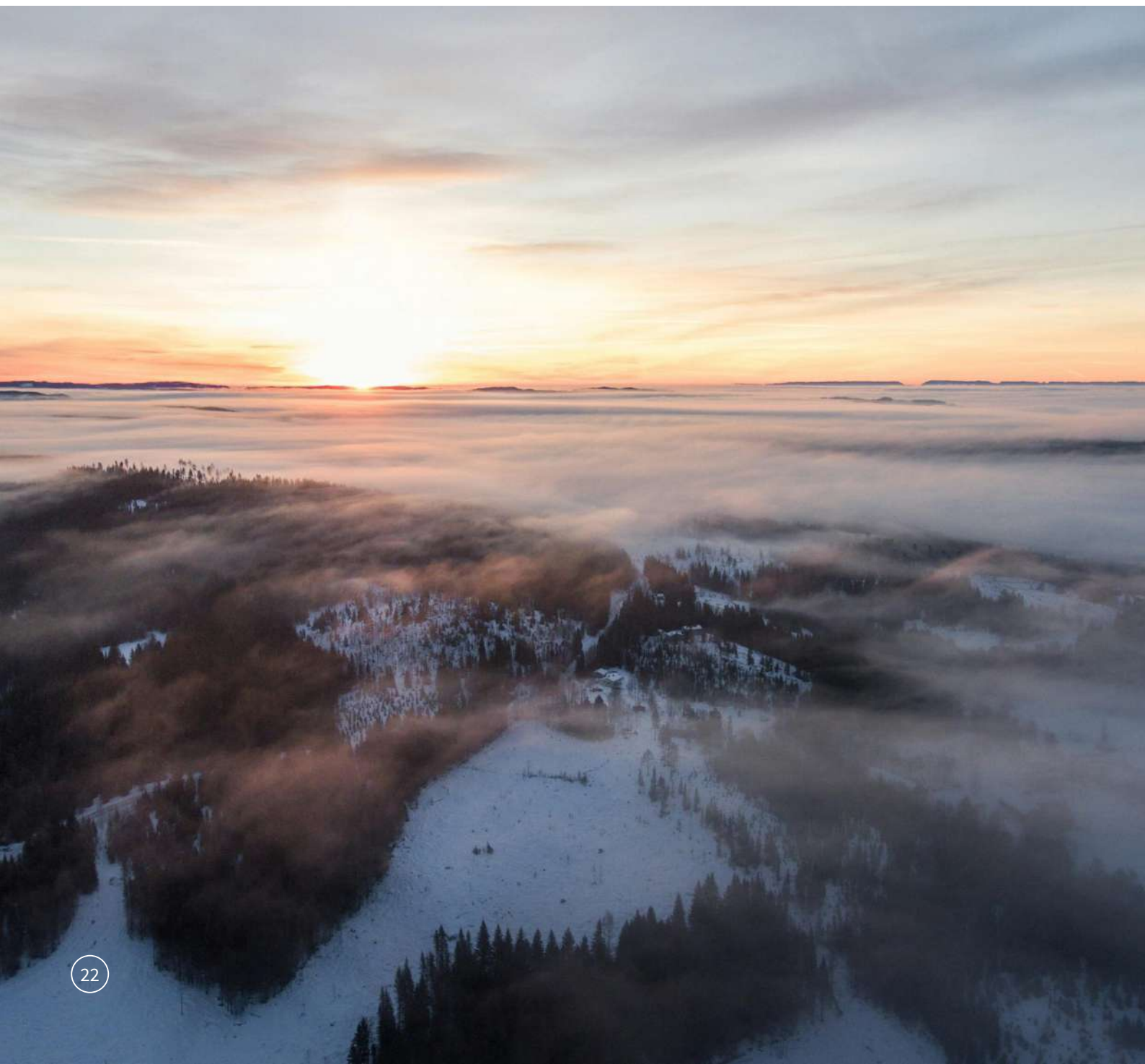
Supervisors will therefore need to respond in stages: initially accepting governance alignment and pilot initiatives, but increasingly imposing enhanced reporting, quantitative requirements, or capital add-ons under SREP.



Systemically, the concern is amplified by the absence of leadership among the largest banks. If systemically important banks cannot show robust integration, the credibility of the prudential regime will be questioned.

With parts of CSRD rolled back, prudential rules now stand out as the binding frame-

work. Supervisors must pivot from policy design to enforcement, ensuring climate risk is fully embedded in risk management practices. Consistent enforcement — including capital consequences — will be essential to establish climate risk as a genuine prudential category.



6. Conclusion

CRR III and CRD VI mark a structural shift: climate risk is now a prudential category to be managed alongside credit, market, and operational risks. This assessment shows that while governance structures are largely in place, quantitative integration into risk management processes is still missing.

The gap is systemic. Even the largest banks disclose little evidence of full integration, and a significant share of assets is held by institutions with minimal prudential treatment of climate risk. Governance has advanced faster than risk modelling, leaving the system vulnerable as supervisory expectations tighten.

For banks, the task ahead is clear: move beyond intent and demonstrate how climate factors influence decisions and capital. For supervisors, the challenge is enforcement - ensuring climate risk is tested, validated, and, if necessary, capitalised. With sustainability reporting diluted, prudential integration has become the true measure of maturity.

The coming reporting cycles will be decisive. Whether climate risk takes its place as a genuine prudential driver depends on banks' willingness to embed it in practice and supervisors' readiness to enforce the new regime.

A. Appendix: Methodology

This report applies a deliberately narrow and conservative framework for assessing the prudential treatment of climate risk. The objective is not to evaluate sustainability positioning, external ratings, or voluntary initiatives, but to determine whether banks treat climate risk with the same prudential discipline as other material risks under the Capital Requirements Regulation.

A.1 Scope of review

The analysis is based on official regulatory disclosures prepared by banks themselves. For each of the 48 institutions included in the scoring, we reviewed the most recent full annual report for the 2024 financial year, supplemented by any stand-alone Pillar 3 report where available. These documents are the primary channels through which institutions communicate their governance, risk management, and capital adequacy frameworks to supervisors and markets, and they therefore provide the most appropriate basis for assessing climate risk integration under the CRR III and CRD VI regime.

No use was made of voluntary sustainability reports, ratings, or other communications directed at broader stakeholder groups, as these do not form part of the prudential disclosure framework and typically lack the level of detail required for supervisory assessment.

A.2 Bank Selection

The analysis covers 48 banks for which complete scoring could be carried out. The selection was designed to capture the bulk of the European banking system subject to CRR III requirements. The process began



with the largest institutions by total balance sheets, with all banks above approximately €500 billion reviewed exhaustively. To this core, additional institutions were added in descending order of balance sheet size, while also ensuring coverage of major jurisdictions within the European Union.

In addition to the 48 banks included in the scoring, a further 10–15 institutions — primarily regional banks from smaller jurisdictions — were considered. For these banks, adequate documentation could not be identified, and they were therefore excluded from scoring. The final sample thus includes virtually all systemically important European institutions together with a cross-section of mid-sized lenders, and can be taken as broadly representative of the upper tier of the European banking sector.

A.3 Audit-style Assessment

This reliance on public disclosures naturally biases results in favor of the reporting institution. Banks retain discretion over how comprehensively they describe internal processes and whether they provide detailed evidence of model integration. If processes exist but are not disclosed, they cannot be recognized in this framework. For that reason, the scoring system is deliberately conservative: absence of disclosure is treated as absence of practice. This approach ensures comparability and

avoids rewarding aspirational language, but it also implies that the results should be interpreted as a lower bound of prudential maturity.

A.4 Search strategy

To systematically identify relevant content within each report, reviewers used keyword-based scanning in combination with manual reading of key sections. Primary terms included “climate risk,” “physical risk,” “transition risk,” “ESG,” “ICAAP,” “scenario,” “carbon,” “environmental,” and “sustainability,” among others. Equivalent terms were also searched in French, including “*risques climatiques*,” “*risques physiques*,” “*risques de transition*,” and related phrases, in order to ensure comparability across bilingual disclosures. This process focused especially on sections relating to risk management, credit assessment, capital adequacy, and scenario analysis. In many cases, initial keyword hits served as entry points, followed by manual tracing of the surrounding context and evaluation against the scoring criteria. This approach ensured that relevant passages were not



overlooked while maintaining the requirement that scoring decisions be based on explicit and verifiable evidence.

A.5 Dimensions and consistency of scoring

Each bank was assessed along two dimensions: governance and risk integration. Both dimensions were scored on a 0–3 scale. Governance refers to whether climate risk is overseen at the board or com-

mittee level with escalation mechanisms equivalent to those applied to established prudential risks such as credit, market, or interest rate risk in the banking book. Risk integration refers to whether climate risk is incorporated into the quantitative frameworks that underpin capital adequacy and credit processes, and whether this integration results in observable operational consequences.

The scoring framework is summarised in Table 1, below:

Table 1: Scoring Framework

Score	Governance dimension	Risk integration dimension
3	Clear evidence that climate risk is governed as a material financial risk at board or committee level, with escalation mechanisms equivalent to those for credit, market or IRRBB.	Clear, quantitative evidence of bank-, country- or portfolio-specific climate risk models (e.g. PD/LGD, ICAAP) that are system-wide and demonstrably influence lending, provisioning, or capital buffers.
2	Climate risk assigned to board or committee structures, with substantial elements in place, but without evidence of equivalence to other risks or of consistent escalation into decision-making.	Quantitative tools or models described and applied, but without evidence of organization-wide implementation and/or without disclosure that their outputs directly influence financial decisions.
1	Some concrete governance measures described, but partial or not integrated into the prudential risk framework.	Evidence of exploratory or pilot modelling, scenario analysis, or partial tools, but not yet shown to shape capital, credit, or ICAAP outcomes.
0	Climate risk governance absent, or limited to general sustainability language without prudential significance.	No evidence of quantitative integration; disclosures limited to descriptive or narrative language without technical or prudential content.

To test consistency, each bank was assessed twice: once manually and once through a blinded application of the criteria. Across the 48 banks, the two approaches matched in 41 cases (~85%). In seven cases (15%), the scores diverged by a single point, always on the risk integration

dimension, reflecting differences in judgment on whether disclosures represented descriptive or partially operational practices. Overall, the framework proved stable and reproducible.

About us

Envira ApS is a Copenhagen-based consultancy operating at the intersection of sustainability, finance, and regulation. We help financial institutions translate complex ESG and climate-related requirements into

actionable strategies. With a strong foundation in EU sustainable finance legislation and deep expertise in risk management, Envira enables clients to integrate environmental and social considerations into their core financial and governance frameworks.



Dr. Ask Foldspang Neve

is an independent consultant specializing in advanced analytics and AI-driven insights. He holds a doctorate in statistical sociology from the University of Oxford and previously established the AI consulting unit at the Danish Agency for Public Finance and Management.

Theodor Christensen

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