

# ESG Disclosure: Evidence from Romanian Banking Sector

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## Abstract

*Starting from the three factors represented by the acronym ESG: environmental, social, governance, the central objective of this research is to identify the main ESG actions of the Romanian banking system.*

*The research hypothesis is that most banking institutions show interest in ESG reporting. The research methodology was based on a qualitative analysis of non-financial reports published by banks in Romania, for the year 2023; the research conducted trying to demonstrate the orientation of banks towards the adoption of ESG strategies. Given the crucial role that banks have in the national economy, this paper wants to highlight the current level of ESG reporting of banks, in order to support the improvement of sustainability practices.*

**Key words:** ESG, banking, sustainability report, annual report, nonfinancial reporting

**J.E.L. classification:** Q56, M41, G21

## 1. Introduction

In a world where awareness of global issues is essential, the ESG concept has become one of the most discussed topics in business discussions and decisions. It causes companies to look beyond financial indicators and focus on the impact that businesses have on the community.

Thus, environmental, social and governance (ESG) considerations have become increasingly important in the process of communicating with stakeholders.

ESG refers to a wide range of environmental, social and governance factors that can be used to assess how companies manage their performance and impact in terms of sustainability. These factors can be assessed either from the inside out (how the company's operations affect certain ESG aspects) or from the outside in (how certain ESG aspects affect society). (BVB, 2022)

The banking system contributes to economic growth both locally and globally. Through their internal programs, banks are often the pioneers in implementing sustainable indicators, such as ESG. This change, observed since the early 1990s, caused by the awareness of climate and social challenges, responds to the needs of society and constantly changing regulations. (Purcarea, 2024)

## 2. Literature review

In 2014, the European Directive on the reporting of non-financial information (Directive 2014/95/EU) was adopted, the most important legislative act that introduced reporting obligations regarding sustainability for companies with over 500 employees in the European Union.

In Romanian legislation, the provisions of the European directive were transposed through Orders of the Minister of Public Finance (OMFP 1802/2014, OMFP 2844/2016, OMFP 1938/2016, OMFP 3456/2018).

The purpose of this type of reporting is to assess the consequences of economic activity on environmental, social and governance aspects, and the presentation of information should be done in the form of a non-financial statement.

Recently, the integration of environmental, social and governance (ESG) factors into business practices has gained significant attention for its potential to stimulate sustainable development. (Leoveanu, 2024)

The main advantages of integrating sustainable development objectives in the banking sector, especially through ESG principles, are: a better reputation of a bank, risk optimization, strict compliance with constantly changing regulations. (Purcarea, 2024)

In addition to reputation, the ESG Reporting Guide, developed by the BVB, also highlights the following benefits of a high level of ESG performance and transparency: risk management, operational performance, new business opportunities, access to capital and financing, communication with stakeholders.

The concept of ESG is a framework for companies that want to become more sustainable and responsible. ESG is a complex concept that involves a lot of elements and requirements, but to better understand this concept, we can divide these requirements into three main categories: environmental, social and governance.

The figure below gives examples of different aspects related to ESG.

Figure no. 1 ESG factors



Source:

<https://www.checkatrade.com/blog/trade/business-management/what-is-esg-and-why-is-it-important>

### 3. Research methodology

This paper aims to analyze the level of ESG reporting by banks in Romania, in the current legislative, economic and social context.

In this regard, we will analyze the environmental, social and governance information reported by banks for the year 2023.

We consider it appropriate to analyze the 2023 reports for several reasons:

- after almost ten years since the adoption of the European Directive, it is important to analyze the quality of the non-financial reporting process,
- the year 2023 is in the post-pandemic period of COVID 19, a possible year of economic recovery,
- at the same time, the year 2023 represents the moment of transition from the provisions of the Non-Financial Reporting Directive (NFRD) to those of the Corporate Sustainability Reporting Directive (CSRD).

Although there are 32 banks operating in Romania (according to the National Bank of Romania), for this paper, the sample consists of the top 10 banks, classified by the value of assets in 2023 (Medrega, 2024).

In order to synthesize the main actions in the ESG sphere, we will conduct research on the banks in the sample, through a qualitative analysis of the non-financial reports published by them.

We consider it important to understand the ESG approach at the level of the Romanian banking industry, and to achieve this objective, this paper will answer the following research questions:

Q.1: What are the main ESG strategies adopted by banks in Romania?  
Q.2: What are the means of communicating ESG information and how accessible are they to users?

Table no.1 ESG Actions – Romanian banking sector

Bank	ESG Actions
<b>Banca Transilvania</b>	<ul style="list-style-type: none"> <li>➤ Financing energy efficiency projects, smart agriculture, efficient transport and water efficiency;</li> <li>➤ 75% of the electricity purchased came from renewable sources;</li> <li>➤ Recycling plastic from cards;</li> <li>➤ Developing digital payment solutions, namely the establishment of the first digital bank in Romania – Salt Bank;</li> <li>➤ Launching financial education programs for clients;</li> <li>➤ Financing actions for NGOs and supporting local communities;</li> <li>➤ Staff training activities;</li> <li>➤ Financing small companies.</li> </ul>
<b>BCR</b>	<ul style="list-style-type: none"> <li>➤ Financing small and medium-sized enterprises;</li> <li>➤ Launching the first 100% online mortgage loan, called "CASA MEA";</li> <li>➤ BCR recorded an increase in green financing, and through the George application, it facilitated access for individuals and micro-enterprises to offers for financing electric vehicles;</li> <li>➤ Digitalization of the application process for the III Pillar of pensions administered by BCR Pensii;</li> <li>➤ Issued green Eurobonds worth 700 million euros, and the funds raised were used for renewable energy projects, green mortgages and green buildings;</li> <li>➤ Use of ecological materials for issuing cards;</li> <li>➤ All electricity purchased in 2023 came from renewable sources;</li> <li>➤ Initiation of financial education programs for customers and non-customers;</li> <li>➤ BCR launched a corporate venture capital company (BCR Seed Starter), through which it aims to provide capital for startups that have the potential to optimize internal banking processes, improve the portfolio of services offered to BCR customers or to support the integration of ESG standards.</li> </ul>
<b>CEC Bank</b>	<ul style="list-style-type: none"> <li>➤ CEC Bank uses eco-friendly cards, made of recycled plastic and with biodegradable elements;</li> <li>➤ Within the bank, waste is collected selectively, LEDs are used and electronic systems are used for various activities, in order to reduce paper consumption;</li> <li>➤ It is involved in CSR activities, which support education and health projects;</li> <li>➤ CEC Bank has developed a virtual store, called "CEC_IN", where the most important banking products can be accessed 100% online;</li> <li>➤ In 2023, the bank granted loans to individuals under the First Home Program, respectively granted green loans mainly for the implementation of projects with a non-refundable European component;</li> <li>➤ CEC Bank charges advantageous interest rates on the "Casa Mea Verde" mortgage loan, to encourage the purchase of energy-efficient homes;</li> <li>➤ To support local authorities in rural areas, CEC Bank grants them loans for projects in the fields of health, education and social assistance;</li> <li>➤ CEC Bank launched a new type of loan for farmers who grow cereals, to support Romanian agriculture.</li> </ul>

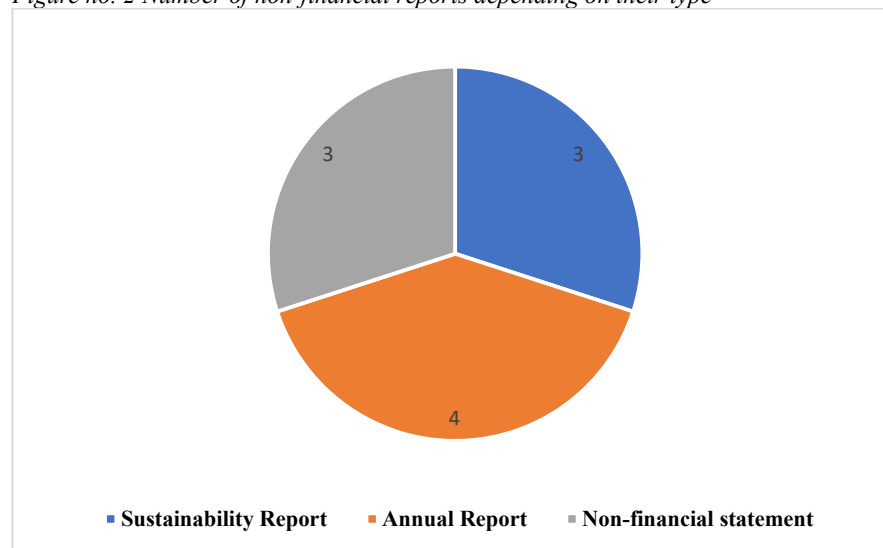
<b>BRD</b>	<ul style="list-style-type: none"> <li>➤ It has implemented several energy efficiency projects, such as the installation of photovoltaic panels on 20 BRD buildings, and the purchase of 100% green energy for 95% of the buildings;</li> <li>➤ BRD uses Planethic - an internal online tool, which measures indicators in 6 areas of interest for the environment and uses several measurement units;</li> <li>➤ BRD is involved in social responsibility activities, in various areas such as: education, technology and innovation, culture, sports;</li> <li>➤ BRD is the first bank in Romania evaluated by Sustainable Fitch, and following the evaluation it obtained an ESG rating of "3" and a score of 60.</li> </ul>
<b>ING Bank</b>	<ul style="list-style-type: none"> <li>➤ ING Bank offers interest rate reductions on EcoLife mortgage loans;</li> <li>➤ ING Bank became the sole financier of the Guarantee-Return System, supporting the project's activity;</li> <li>➤ In order to streamline and digitize the donation process between individual clients and NGOs, ING Bank created the Doneaza in Home'Bank platform.</li> </ul>
<b>Raiffeisen Bank</b>	<ul style="list-style-type: none"> <li>➤ 39% of the volume of real estate loans granted by Raiffeisen Bank in 2023 to individuals targeted buildings with energy class A;</li> <li>➤ 20% of the financing granted to corporate clients supported green and social projects;</li> <li>➤ Greenhouse gas emissions are down by 7.66% in 2023, compared to 2022;</li> <li>➤ Raiffeisen Bank expanded its portfolio of bonds in a green and sustainable format, by issuing the first non-preferential senior euro bonds in a sustainable format, on the international capital market, with a total value of 300 million euros;</li> <li>➤ It is involved in projects to support financial education in schools in Romania;</li> <li>➤ 49 farmers participated in GreenFields Academy courses, with the aim of switching to sustainable agriculture;</li> <li>➤ 77 employees participated in trainings designed to convey fundamental concepts regarding sustainability and ESG principles (environmental, social and governance);</li> <li>➤ In 2023, there was a significant increase in the percentage of recycled PVC used in the production of new cards (20% in 2023 compared to approximately 1% in 2022);</li> <li>➤ 41.79% of the total electricity consumed came from renewable sources.</li> </ul>
<b>Unicredit Bank</b>	<ul style="list-style-type: none"> <li>➤ It financed businesses in the area of green energy, renewable energy and energy efficiency;</li> <li>➤ It granted individuals the green loan with mortgage, to encourage the purchase of real estate with an Energy Performance Certificate in class "A";</li> <li>➤ Through the GoGreen project it encourages the purchase of electric and hybrid vehicles;</li> <li>➤ It created a new facility to access a credit card 100% online, directly from the Mobile Banking application;</li> <li>➤ It supported financial and entrepreneurial education programs in technical high schools, and offers students the opportunity to participate in internship programs.</li> </ul>
<b>Exim Banca Romaneasca</b>	<ul style="list-style-type: none"> <li>➤ The digitization of some activities (electronic bank statements, card PINs via SMS, etc.) resulted in a decrease in paper consumption by 17.77 tons, compared to 2022;</li> <li>➤ Classic lighting was replaced with lighting based on LED technology, which will bring an electricity saving of approximately 45 - 50% of the total energy consumed for lighting;</li> <li>➤ Existing illuminated advertisements at the level of territorial units were replaced with LED illuminated advertisements;</li> <li>➤ In order to reduce the carbon footprint, old thermal power plants were replaced at three units with new plants with higher energy performance;</li> <li>➤ In 2023, the bank began the process of implementing physical cards made of recyclable materials, 100% green;</li> <li>➤ The bank supported financial education projects in schools, implemented internship programs and also joined digital education campaigns carried out at the level of the banking system;</li> <li>➤ A sponsored projects focused on providing support in the fields of culture, art, health care, science, sports, religious cults, fundamental and applied research, etc.</li> </ul>

<b>Alpha Bank Romania</b>	<ul style="list-style-type: none"> <li>➤ Alpha Bank Romania pays special attention to energy-efficient mortgages, and in this regard, it has joined the "Energy Efficient Mortgage Label" certification system and is a member of the Romanian Green Building Council (RoGBC);</li> <li>➤ The process of granting personal loans has been 100% digitalized;</li> <li>➤ Through the process of carrying out social responsibility programs, it has supported the sectors: education, culture, art, sports.</li> </ul>
<b>OTP Bank Romania</b>	<ul style="list-style-type: none"> <li>➤ OTP Bank Romania's ESG strategy is based on 3 strategic materiality pillars: responsible supplier, responsible employer, responsible social actor;</li> <li>➤ Responsible supplier: In order to transition to the green economy, OTP Bank Romania wants to develop the green financing portfolio and ensure 100% digital channels for the main products and services, while maintaining full services in branches for less digital customers / with more complex requests;</li> <li>➤ Responsible employer: aims at continuous investment actions in the well-being and permanent development of employees;</li> <li>➤ Responsible social actor: by establishing ambitious objectives regarding environmental protection (reducing greenhouse gas emissions, purchasing electricity from renewable sources, using recycled paper and reducing paper consumption), involvement in various educational programs, supported by the OTP Bank Romania Foundation and supporting the community through volunteering and sponsorship actions.</li> </ul>

Source: Author's projection based on banks' non-financial reports

The ESG actions presented above are based on information published by banks through several types of reports. Their structure is graphically represented below.

Figure no. 2 Number of non-financial reports depending on their type



Source: Author's projection

#### 4. Findings

Following the analysis carried out, we can conclude that there is a desire for ESG reporting from banks in Romania, but at different levels. We consider the capital structure, size criteria, belonging to a group to be elements that influence the fence of involvement in ESG actions.

At the sector level, there are several trends regarding the types of ESG actions undertaken by banks:

- digitalization of internal activities, respectively of services offered to customers;
- introduction of green financing in the package of services offered to customers;
- orientation towards environmental protection, through recycling activities, reduction of consumption of non-renewable resources;
- provision of continuous training courses for employees;

- involvement in social responsibility activities in various fields.

Regarding the ESG reporting methods, banks choose to communicate through sustainability reports, annual reports, non-financial statements, and in some cases briefly publish certain information directly on the bank's website.

## 5. Conclusions

Although the development and implementation of an ESG strategy is complex and expensive (Purcarea, 2024), in the medium and long term it produces benefits and it is obvious that ESG represents the solution for the future of all businesses.

In the event of unpredictable economic and social fluctuations, the banking sector, being an important pillar for the economy, must be cautious and know its business model.

In the process of establishing the ESG strategy, banks have the opportunity to analyze and improve their activity.

The banks that manage these new challenges most effectively will win.

As a consequence of this, a 2024 study showed that the rate of non-performing loans in the Romanian banking sector decreased by 47% in September 2023 compared to 2018. (Tudorache, 2024)

One of the ESG actions common to most banks in the analyzed sample is green financing. By prioritizing this type of financing, Romanian banks not only promote a greener economy, but also position themselves as leaders in responsible banking practices. (Carbune, 2024)

In this research effort, a limitation was represented by the lack of uniformity in the type of report and their structure. At the same time, the large volume of information contained in a single report can complicate the communication process with stakeholders.

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