CHEMICAL ENGINEERING TRANSACTIONS

VOL. 107, 2023

A publication of AIDIC

The Italian Association of Chemical Engineering
Online at www.cetjournal.it

Guest Editors: Petar S. Varbanov, Bohong Wang, Petro Kapustenko

ISBN 979-12-81206-07-6; **ISSN** 2283-9216

DOI: 10.3303/CET23107086

The Assessment of Economic Performance in the Sustainability Reports of Financial Institutions

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Sustainability reporting has gained worldwide importance for corporations over the past decade. This required the development of frameworks and standards for consistent disclosure. Non-financial or triple-bottom-line reporting reveals how firms, in general, incorporate SDGs in their reports and in what way they are assessed in terms of importance. While earlier sustainability issues were an integral part of the CSR activities published in the annual reports, these days, they are issued as separate reports due to the increased attention of stakeholders. Regarding financial institutions, the focus has gradually shifted from profitability issues to responsible investment and sustainable finance. Based on the content analysis of the most recent sustainability reports of the largest commercial banks in Hungary, including also the subsidiaries of foreign parent banks, the paper aims to provide a comprehensive overview of their economic impacts. Comparing the reports based on qualitative content analysis, the paper attempts to illustrate to what extent they comply with the GRI standards, what material topics are given priority in their reporting, and which sustainable development goals (SDGs) enjoy preference. The results obtained underpin the fact that, as opposed to sectors other than finance, sustainability endeavours related to economic growth are at the forefront compared to social and environmental issues.

1. Introduction

Sustainability reporting tools have gained the utmost attention over the past decade. The phenomenon was largely supported, on the one hand, by the implementation of non-financial reporting mandatory for public-interest companies based on the EU's Directives (2014), while, on the other hand, by the adoption of the 2030 Agenda for Sustainable Development with the implementation of the Sustainable Development Goals (SDG) initiated by the UN (2015).

There are numerous interpretations of sustainability in the current literature. The paper considers the approach by Sardinau et al. (2021) as an overarching one as it analyses the development of the concept in different stages from which the first is related to the Brundtland Report (1987), with an emphasis on the protection of the natural environment, the second may be associated with the emergence of a three-dimensional approach enhanced by the 1992 UN Summit for Development and the Environment and Agenda 21, as well as Elkington's term of the triple bottom line (Elkington, 1998), with a focus on economic development, environmental protection and social equity, while third stage comprises the evolvement of the 17 Sustainability Development Goals (SDG).

Recent literature provides a multi-faceted framework for sustainability assessment analysing either a specific sector (e.g., transport) based on selected SDGs in terms of targets and indicators using OECD and UN reports (Toledo-Vazqueza et al., 2022) or focusing on a less researched area of the triple bottom line, the social aspect (Abd Rashid et al., 2021), or exploring the evolution of sustainability reports and their assurance during a particular time horizon (Moneva et al., 2023).

In the literature, only a few studies deal with the sustainability disclosure of banks (Nobanee and Ellili, 2016). The authors point out that banks' disclosures are more of a qualitative than quantitative nature. In addition, more information is disclosed on human resources and community involvement than on environmental issues, product quality and consumer relations. While sustainability issues have been mainly dealt with by the manufacturing sector in terms of green practices, due to the unique function and a higher degree of social involvement as a service provider, the banking sector is proactively involved in sustainability activities through its diversified

Paper Received: 27 April 2023; Revised: 20 August 2023; Accepted: 26 September 2023
Please cite this article as: Vargáné Kiss K., 2023, The Assessment of Economic Performance in the Sustainability Reports of Financial Institutions, Chemical Engineering Transactions, 107, 511-516 DOI:10.3303/CET23107086

product range (e.g., sustainable finance, green bonds) compared to the reactive approach of other sectors (Raut et al., 2017). As financial intermediaries, they take the role of both a lender and a borrower. They provide a crucial role in economic growth by being vested not only with a higher degree of social and environmental responsibility but also some new business opportunities (Roy, 2015). The materiality of the banking sector disclosures was examined by Sardinaou et al. (2021) with respect to SDGs and scoring techniques. The authors came to the conclusion that the banking sector puts a higher emphasis on SDGs promoting economic growth and decent work, as well as fairness and transparent processes at all levels, while materiality issues show a rather low alignment with SDGs regarding environmental matters. Aguado-Correa et al. (2023) have already pointed to the fact that there is a research gap in banks' disclosure practices and in the SDG-related information that they report by applying AI for analysing the non-financial information of 12 Spanish banks.

Conducting a qualitative content analysis of commercial banks' sustainability reports from the 2021 business year, the paper seeks to find an answer to how banks incorporate SDGs in their disclosures in terms of their materiality issues and which SDGs are highlighted and assessed as important through the materiality analysis framework in terms of economic growth. The main contribution of the research is that it compares the reporting practices of three banks with different cultural backgrounds operating in the same country, points to a lack of standardisation of the reporting practices, and proves the priority of the economic aspect ahead of the environmental and social one in the case of financial institutions.

2. Methodology

The paper analysed the sustainability reporting practices of the Hungarian OTP Bank, CIB Bank, a subsidiary of the Intesa SanPaolo Group, as well as UniCredit Hungary, a member of the Italian UniCredit Group, during the 2021 business year.

The qualitative non-financial data analysis was based on the following aspects and concepts: the quality and format of the data published, the availability of the GRI guidelines, materiality and SDGs. Regarding the quality and the format, a distinction is made between sustainability reports and integrated reports. While the former targets a wider stakeholder base and communicates organisational impacts on the economy, the environment and society, the latter puts emphasis on value creation over the short, medium and long term and elucidates it to the providers of financial capital (Mahmud (2018). According to the GRI guidelines, a typical report should address the following areas: vision and strategy; corporation profile; governance structure and management systems; GRI content index; and performance criteria (economic, social and environmental) (Adams and Narayanan, 2007).

Banks' sustainability reports are also based on materiality, i.e., issues that are given priority by the relevant institution. The concept originates from financial reporting and has been adapted to sustainable reporting (Calabrese et al., 2019). In terms of the GRI guidelines, the authors refer to material aspects, on the one hand, as reflections of economic, environmental and social effects, which are highly important for the company, while, on the other hand, as characteristics significantly affecting stakeholders' perceptions and decisions. The concept of SDG refers to the goals and objectives for sustainable economic, social and environmental development for the general good adopted and published by the United Nations.

The paper applied content analysis by grouping textual information into categories. The reports analysed were derived from the 2021 business year and were downloaded from the websites of the individual banks. The qualitative hand-collected data was gathered from secondary sources. The steps of the method applied are presented in Figure 1.

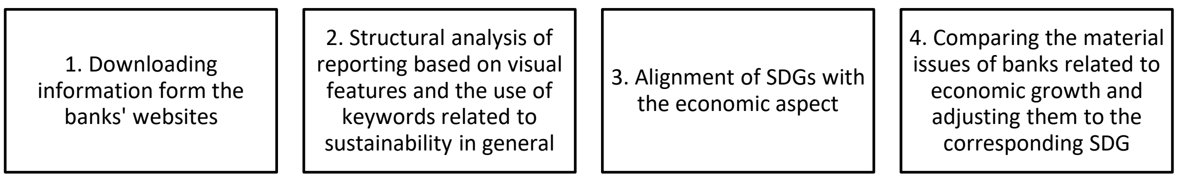

Figure 1: Steps of the qualitative content analysis method applied

3. Discussion and Results

The discussion part gives a brief overview of the banks chosen and then describes and compares their reporting practices in detail based on the criteria provided in the Methodology part.

3.1 CIB Bank

CIB Bank, a member of the CIB Group, a subsidiary of the Italian Intesa Sanpaolo has been operating in the Hungarian financial market for more than 40 y. The Group's 2021 Annual Report consists of the Consolidated Financial Statements (87 pages), the Business and Management Report (16 pages) and the Non-financial Statement (68 pages). Since 2005, every year, CIB Group has prepared its sustainability report in line with the GRI international reporting guidelines. The 2021 edition serves as a combination of the former sustainability reporting and the actual non-financial reporting. The current report includes various material topics, examined primarily from the point of view of the main stakeholders and the target group of our report, the customers. The report presents four major topics in detail: governance and risk management, society, people, environment and climate change. The material and relevant issues assigned to governance include internal control and risk management, sustainable governance, and integrity in corporate conduct. In the case of society, they embrace quality of service and customer satisfaction, innovation and digital transformation, access to credit and financial inclusion, community support and responsibility towards the supply chain. For the category people, material issues refer to employment protection, retention, enhancement, inclusion and employee well-being, while in the case of environment and climate change, they refer to the transition to a sustainable, green and circular economy and direct environmental impact. To this end, the Bank offers loans and services for the green and circular economy and has joined the Green Refinancing program of the National Bank of Hungary. The Bank's material issues are in line with the SDGs. Most of the material issues are related to SDG 8, referred to as 'Decent work and economic growth' with group value and solidity, retention, enhancement and inclusion of employees, employee wellbeing, employment protection, access to credit and financial inclusion and integrity in corporate conduct. This is followed by SDG 12, referred to as 'Responsible consumption and production with issues like direct environmental impacts, employee wellbeing, integrity in corporate conduct and innovation and digital transformation. The next in line is SDG 3, 'Good health and wellbeing' with employee wellbeing, quality of service and customer satisfaction, access to credit and financial inclusion, and then community support. From the material issues 'access to credit and financial inclusion is aligned with 8 of the 17 SDGs, which is the highest number compared to other material issues. At the same time, it should be noted that the SDGs related to environmental issues (SDG 7, 'Affordable and clean energy' and SDG 13 'Climate action') should require more attention.

3.2 OTP Bank

OTP Bank, a member of the Hungarian OTP Group (OTP Group Sustainability Report, 2021), is a leading and dynamically growing financial service provider group in the Central and Eastern European region, with unique regional expertise and commitment. The 2021 Sustainability Report includes 118 pages with infographics visualising information for better understanding. The report also includes information about the Group's subsidiaries in the CEE region. OTP Group's environmental, social and governance (ESG) performance is rated by a number of agencies. In 2021, OTP Bank officially signed the UN's Principles for Responsible Banking (UN PRB), the standard framework of the sustainable banking system. The Sustainability Report is built around the following topics with the same structure highlighting the related SDGs. These include the Group's commitment, approach and activities: Approach to sustainability, Responsible Corporate Governance, Responsible Finance, Financial Services for Sustainability, Ethical Business Practice, Responsible Employer, Direct Environmental Impacts and Awareness Raising, and Citizenship. The topics are assigned to various SDGs. For the economic aspect, responsible finance and financial services for sustainability are of key importance. Responsible finance involves quality education (SDG 4), decent work and economic growth (SDG 8), industry innovation and infrastructure (SDG 9), responsible consumption and production (SDG 12) and partnerships for the goal (SDG 17). Financial services for sustainability cover a wide range of SDGs, including no poverty (SDG 1), gender equality (SDG 5), affordable and clean energy (SDG 7), decent work and economic growth (SDG 8), industry innovation and infrastructure (9), sustainable cities and communities (SDG 11), responsible consumption and production (SDG 12), climate action (SDG 13) and partnerships for the goal (SDG 17). Some of the activities comprise access to real estate and modernisation by certified consumer-friendly housing loans and subsidised Housing Loans: Family Housing Allowance, Home Renovation Loan, issuance of green bonds, and disbursement of corporate loans with environmental benefits.

3.3 UniCredit Bank

UniCredit Bank Hungary is a Hungarian member of the Italian UniCredit Group, operating the largest and most diversified international banking network in Central and Eastern Europe. The 2021 Integrated Report (192 pages) (UniCredit Integrated Report, 2021) includes the Group's overall sustainability strategy built around its business model being applicable to each group member. The Report is based on the GRI Sustainability Reporting Standards. To ensure reliability, the Report includes directly measurable quantities supplemented by infographics with a focus on ESG considerations. The Report includes financial data and targets, macroeconomic context and impacts on economic activities and the banking system. The Group is also a signatory of the Principles for Responsible Banking and interacts with the ESG rating agencies. The Report deals with the following clusters and material topics: Innovation for clients (innovation and digitalisation) aligned with SDGs 8, 9, 10; Systemic trends (cyber security, climate change, demographic change) aligned with SDGs 7, 9, 11, 13; Lean and solid bank (bank solidity, lean and transparent organisation) aligned with SDGs 9, 17; People development (employee empowerment, diversity and inclusion) aligned with SDGs 5, 8 10; Ethics (fair business behaviour, business ethics) aligned with SDGs 5, 8, 10; Positive impact on society aligned with SDGs 1,3,4,9, 10,17. ESG also offers a business opportunity for banks in terms of ESG products related to lending (green mortgages, Green Project Finance, Social Impact Banking, SDG-linked loans), insurance (carbon neutral home/auto insurance), capital markets (green bonds, social/sustainable/transition bonds), asset management (Socially Responsible Investment (SRI) funds, ESG ETFs and Indexes). The report also highlights the five capitals they have in terms of resources, community impacts and their contribution to a more sustainable world. These capitals include financial, human, social partnership, intellectual and natural capital. The Group advocates sustainable finance that supports economic growth while reducing pressures on the environment and taking social and governance aspects into account.

Table 1 clearly illustrates that from a structural point of view, the similarities and differences are of equal proportion. The differences may be detected in terms of length, ESG ratings, visual presentation, the use of figures and Responsible Banking. These structural differences also contribute to the fact of how detailed individual banks depict their sustainability activities to their stakeholders.

Table 1: Structural similarities and differences of the individual reports

Categories	CIB	OTP	UniCredit
Reporting	Non-financial	Sustainability	Integrated
Length	87 pages	118 pages	192 pages
ESG Performance	not rated	rated	rated
Based on GRI	yes	yes	yes
Principles for RB	no	yes	yes
Infographics	no	yes	yes
Figures	low amount used for statistical information	a higher amount used for statistical information combined with infographics	measurable quantities
Material issues	yes	yes	yes
SDGs	yes	yes	yes
GRI index	yes	yes	Yes

Source: Compiled by the author based on the content analysis of the banks

Table 2 includes only the keywords of material issues related to economic growth aligned with the appropriate SDGs. Out of the 17 SDGs, economic growth is enhanced by quality education, affordable clean energy, decent work and economic growth, industry innovation and infrastructure, sustainable cities and economies, and responsible consumption and production. Most material issues are dedicated by all three banks to decent work and economic growth, followed by responsible consumption and production. However, in the latter case, no material issues were provided by UniCredit. Analysing the material issues, it is also noteworthy that the same concept is expressed by different terms, e.g., access to credit (CIB), financial services for sustainability (OTP); retention and enhancement of employees (CIB), responsible employer (OTP), people development (employee empowerment, diversity and inclusion) (UniCredit). While in the case of CIB and OTP, similar material issues are used for the respective SDGs, the terms applied to material issues by UniCredit are in most cases different, e.g., for industry innovation and infrastructure (SDG 9), they use innovation for clients (innovation and digitalisation), people development (employee empowerment, diversity and inclusion) ethics (fair business behaviour, business ethics) and positive impact on society. This may be due to the fact that they issued an integrated report where their business model is reflected by their material issues underpinned by figures and additional information.

Table 2: SDGs aligned with the material issues related to economic growth

SDGs Categories	Material issues related to economic growth CIB	OTP	UniCredit
4. Quality education	Retention, enhancement of employees, Access to credit and financial inclusion, Community support	responsible finance citizenship	Positive impact on society
7. Affordable and clean energy	Transition to a sustainable, green and circular economy	Financial services for sustainability	Systemic trends (cyber security, climate change, demographic change)
8. Decent work and economic growth	Group value and solidity, Retention and enhancement of employees, Employee wellbeing, Employment protection, Access to credit, Integrity in corporate conduct	Responsible finance, Financial services for sustainability, Ethical business practice, Responsible employer	Innovation for clients (innovation and digitalisation) People development (employee empowerment, diversity and inclusion) Ethics (fair business behaviour, business ethics) aligned with SDGs
9. Industry innovation and infrastructure	Access to credit, Innovation and digital transformation	Responsible finance Financial services for sustainability	Innovation for clients, Systemic trends (cyber security, climate change, demographic change), Lean and solid bank, Positive impact on society
11. Sustainable cities and economies	Access to credit Community Support	Financial services for sustainability, Sustainable cities and communities	Systemic trends (cyber security, climate change, demographic change)
12. Responsible production and consumption	Direct environmental impacts Employee wellbeing, Integrity Innovation and digital transformation	Responsible finance, Financial services for sustainability, Direct Environmental Impacts and Awareness Raising	

Source: Compiled by the author based on the content analysis of the banks

The findings are in compliance with those by Sardinaou et al. (2021), according to which the banking sector puts a higher emphasis on SDGs promoting economic growth and decent work, as well as fairness and transparent processes at all levels, while materiality issues show a rather low alignment with SDGs regarding environmental matters. Banks' material issues include both core and additional criteria, which are revisited every year. The reports elucidate the core criteria by infographics and figures. However, their application highly differs among banks. CIB's report is of a descriptive nature; the numerical data denote statistical information. OTP's strategy, albeit less descriptive due to the increased use of infographics combined with numerical data for statistical purposes, underpins the statement by Nobanee and Ellili (2016) that sustainability disclosures are rather qualitative than quantitative. The detailed analysis of the reports has proven that banks take SDGs as a basis for their material issues, and the material issues determined are aligned with the respective SDGs. It has also become obvious that regarding the economic impact, quality education, affordable and clean energy, decent work and economic growth, industry innovation and infrastructure, sustainable cities and economies, and responsible production and consumption seem to have priority among the SDGs.

4. Conclusions

The paper investigated the sustainability practices of three banks of different cultural backgrounds operating in Hungary based on their 2021 Sustainability Reports using qualitative content analysis taking into consideration frameworks (GRI), principles (SDGs) as well as material issues (topics), which – according to the literature – provide a basis for standardisation. Despite this endeavour, the research has found that sustainability reports still embody significant differences in terms of their attitude to sustainability. Material issues are defined from the banks' perspective and adjusted to the respective SDGs. The layout and the message conveyed by the reports seem to reflect the corporate culture of the individual banks. Based on the investigated material issues and their alignment with SDGs, it may be concluded that banks' sustainability activities emphasise economic growth rather than environmental and social aspects. Uniform requirements for quantitative data disclosures regarding the financing of individual SDGs may provide us with a more accurate view of banks' sustainability approach, which could be the topic of some further research. The findings support the statement by Nobanee and Ellili (2016) on the qualitative nature of reporting, as well as the view by Sardinaou et al. (2021) on the precedence of SDGs promoting economic growth. The thorough analysis and comparison of banks' reports may contribute to narrowing the research gap in banks' disclosure practices, as stated by Aguado-Correa et al. (2023).

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