



Climate&Environmental Risks: new skills required to risk managers

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Fabio Verachi, FRM

ESG Enterprise Risk Manager



High level processes to be managed: Materiality Assessment Framework, BES, RAF and consequences on Credit Underwritings

Climate Enterprise Risk Management Framework

Quarterly **monitoring process of C&E risk drivers**, based on **Bottom-up KRIs**, allowing to **guide the Business Environment Scan**



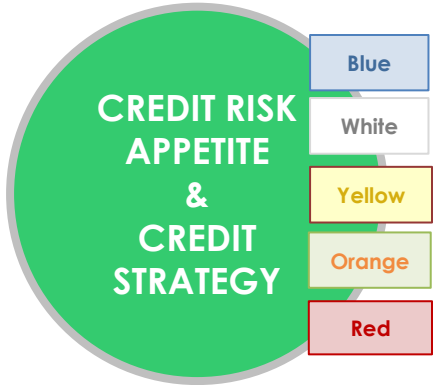
Designing a set of **Early Warning Indicators**, expression of climate risk ambition as defined on Net Zero Commitments



Evaluation of **risk drivers / transmission channels** within ISP Business Model and related **mitigation actions** in relation to C&E risks

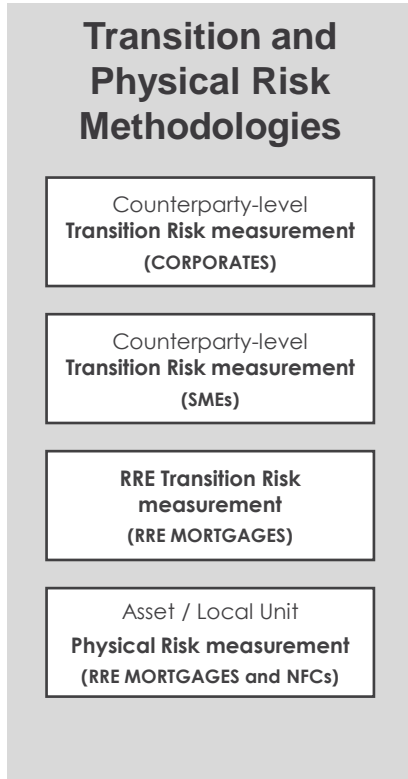


Business Embedding Process



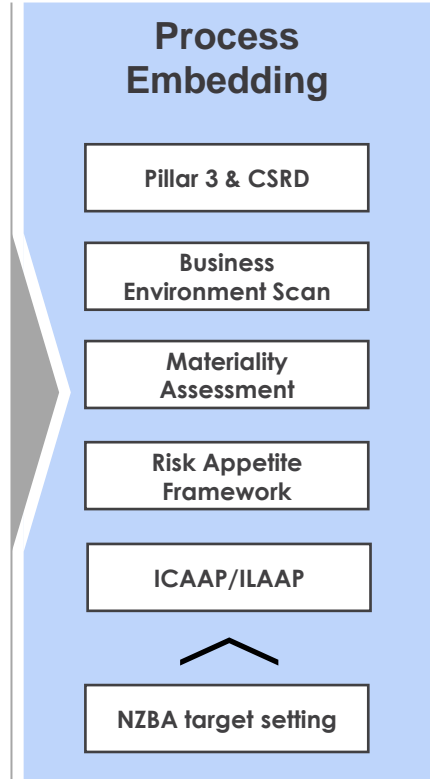
Combination of **sectorial attractiveness** and **counterparty CRA level** to determine **growth strategies** and **pricing incentives**

New skills required: Bottom-up climate engines and “interaction” with cross-functional processes towards the Disclosure



C&E Risk quantification and monitoring

- ✓ **Climate Stress testing**
Run dedicated climate risk stress test covering physical and transition risk scenarios over different time scales
- ⌚ **Capital estimation**
Inclusion of C&E risk estimation into ICAAP capital assessment
- ✓ **Reporting and disclosure**
Inclusion of climate risk exposures monitoring into internal reporting (e.g., TdB) and external disclosures (e.g., Pillar 3 and CSRD)



Example 1: 2030 financed emissions targets to be properly managed

EXTRACT FROM STRATEGIC PLAN

Net-Zero aligned targets for 2030 in high-emitting sectors⁽¹⁾...

	Sector and scope	Metrics	Baseline 2019 ⁽³⁾	Target 2030 ⁽⁴⁾
High-emitting sectors ⁽¹⁾	Oil & Gas ⁽²⁾ (Scope 1, 2, 3)	gCO ₂ e/MJ	64	52-58
	Power generation (Scope 1, 2)	kgCO ₂ e/MWh	214	110
	Automotive (Scope 3)	gCO ₂ e/km	162	95
	Coal mining (exclusion policy)	€ bn exposure	0.2	0 by 2025

... disclosed ahead of peers and covering a large part of the high-emitting portfolio

- Starting point on emissions intensity lower than European peers⁽⁵⁾ in high-emitting sectors
- 2030 targets disclosed more than a year ahead of the Net-Zero Banking Alliance deadline
- Over 60% of the Non-Financial Corporates portfolio financed emissions⁽⁶⁾ covered by 2030 reduction targets
- Committed to request SBTi certification

(1) Sectors consistent with Net-Zero Banking Alliance. Reference scenario: IEA Net-Zero 2050

(2) The Group already has a policy in place to phase out unconventional Oil & Gas by 2030

(3) Portfolio composition as of 30.6.21, latest available emissions data as of FY19

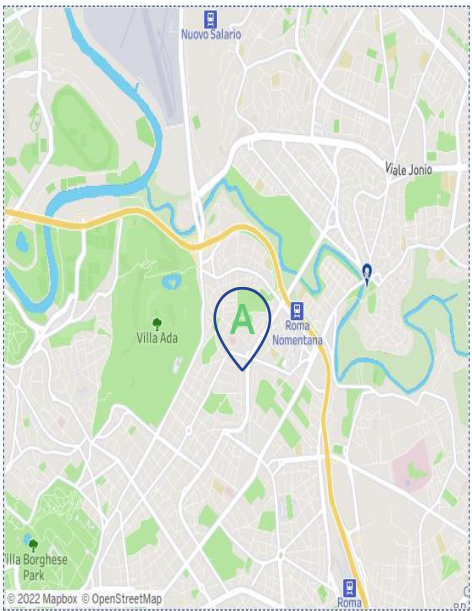
(4) Targets may be updated following the evolution of the emission calculation methodology and any issuance of new external guidelines (i.e., NZBA, SBTi)

(5) Only banks that have disclosed emission intensity

(6) In sectors identified by Net-Zero Banking Alliance

Example 2: Geomorphological features to be inserted into the Environmental Risk methodologies

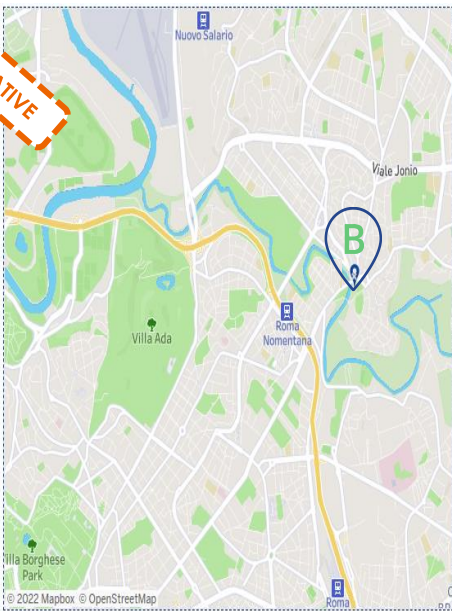
Leveraging all the information available as a result of the geolocation phase, it is possible to refine the analysis by **using geomorphological characteristics** and consequently associating a different risk category with each property (e.g. proximity to a river will increase the risk of flooding), given the same geographical cell



Assets features	
Altitude (m.a.s.l)	34 m
Distance river (m)	1562 m
Floor	2
Destination of use	Res.
Type of zone	Flat land

ILLUSTRATIVE

Flood risk	Medium
Wildfire risk	Low
Landslide risk	Low



Assets features	
Altitude (m.a.s.l)	11 m
Distance river (m)	97 m
Floor	1
Destination of use	Res.
Type of zone	Flat land

ILLUSTRATIVE

Flood risk	High
Wildfire risk	Low
Landslide risk	Low

So What? Needs for further skills to be acquired



- ❑ **GHG emissions:** Reply to **NZBA** and **SBTI** requirements
- ❑ **CSRD disclosure and Pillar 3: Necessity for «dedicated professionals»**
- ❑ **Business Environment Scan & Scenario Analysis:** important tools to be addressed
- ❑ **Customers active engagement:** Needs for competence improvements, **difficulties in acquiring skills** in every sector



The banks should improve competencies to **mitigate their portfolio risks (not only reputational with customers/stakeholders)**