

Climate and Environmental Risk: **Translating commitments into action**

ABI
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The business of sustainability



Climate change and environmental loss are disrupting the real economy – presenting material risks & opportunities for banks



CLIMATE & ENVIRONMENTAL - RELATED DRIVERS

COMMERCIAL / FINANCIAL IMPACT TO CUSTOMERS

IMPACT ON BANKS

	Physical Climatic Change <ul style="list-style-type: none"> • Acute • Chronic
	Transition to Low Carbon Economy <ul style="list-style-type: none"> • Policy • Technology / Market
	Natural loss <ul style="list-style-type: none"> • Biodiversity loss • Pollution • Water stress
	Legal and Reputational Issues



Investment Opportunity	Access to / Cost of Capital	Market Demand / Price Shifts
Competitor / Technology Disruption	Supply / Distribution Disruption	Increased Operating Costs
Capital Upgrade Requirements	Litigation Damages	Stranded Assets

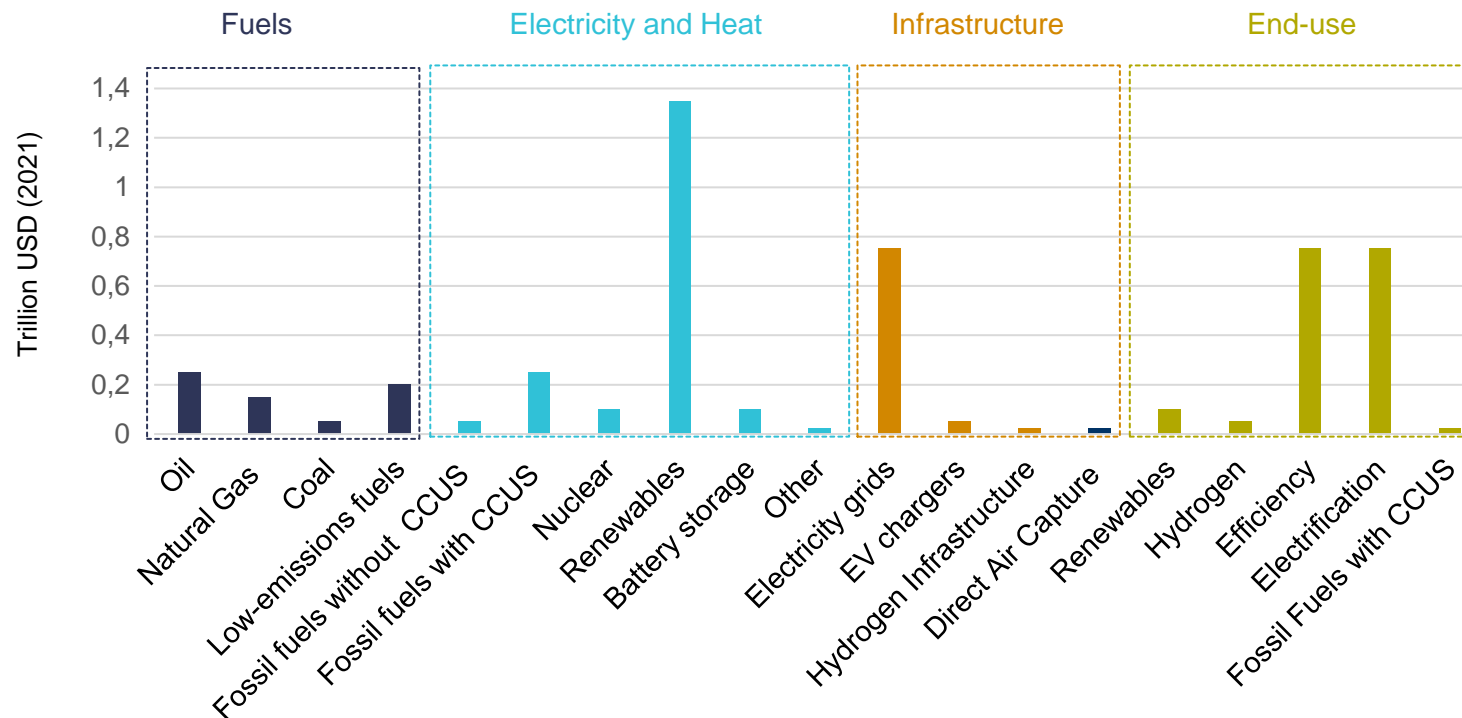
	New / Enhanced Opportunity
	Credit Risk
	Market Risk
	Reputational Risk
	Operational Risk

Climate & Environmental drivers are a transformational business issue: banks need to be equipped to finance an industrial revolution



Climate Change alone requires huge volumes of capital:

2030 Global average annual energy investment by sector and technology in NZE Scenario (IEA World Energy Outlook 2022)

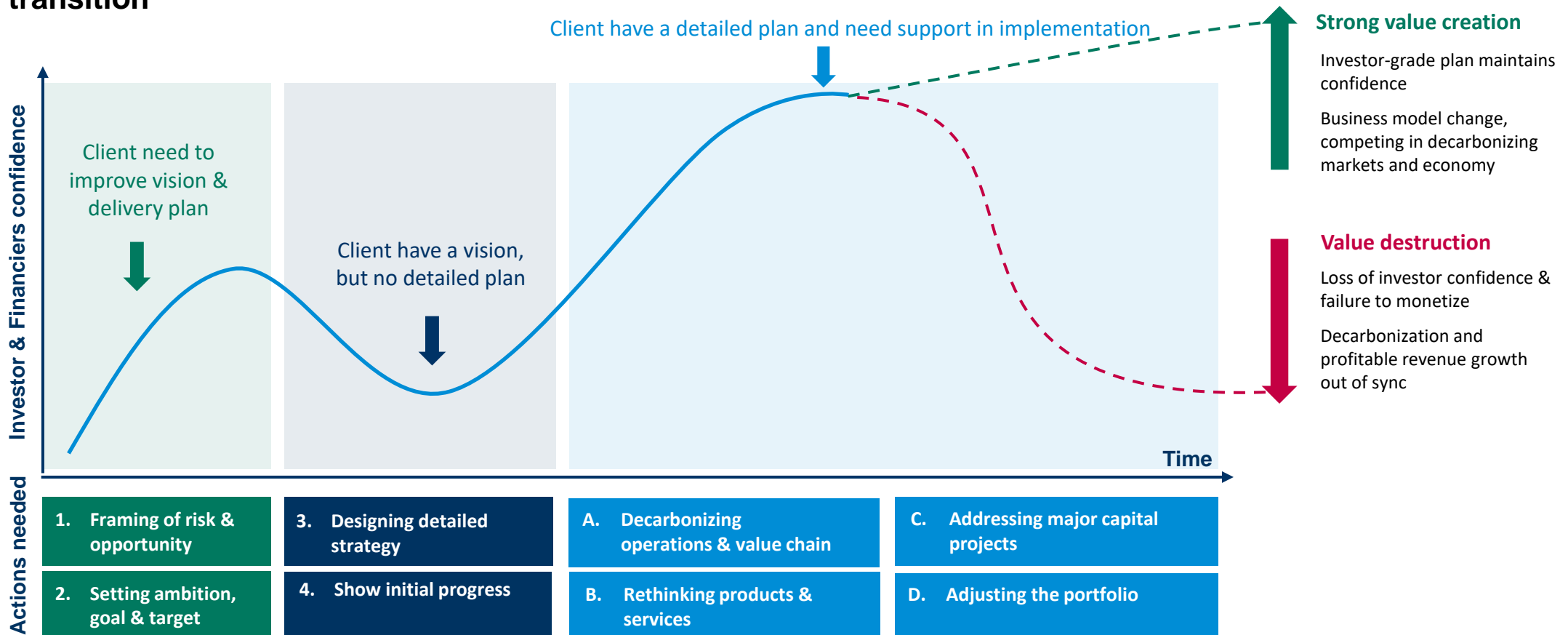


Achieving Net Zero Emissions by 2050 will require significant investment in decarbonization technologies estimated at \$4.2 trillion annually by 2030 - with highest investment required into Renewables, Electricity grids, Efficiency and Electrification

Banks should actively respond to Climate & Environmental risks by understanding and supporting their clients' transition



Maturity of the client in its transition to a sustainable business model varies by sector and local context, and drives different expectations from the bank to de-risk the relationship and opportunities to support the transition

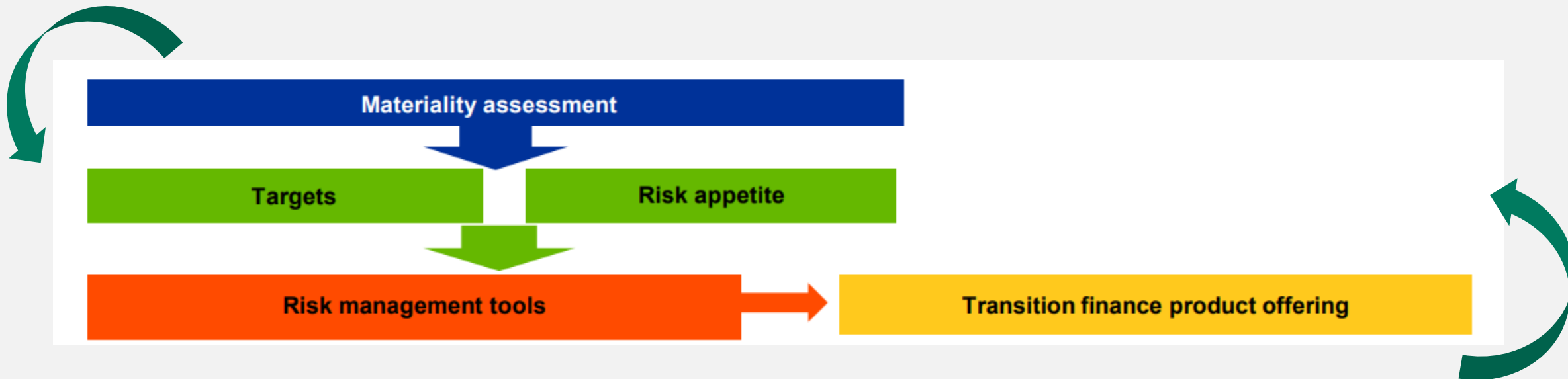


Assessing the risks and setting targets is the first step in this journey: an action oriented and iterative risk management approach is needed



A strategic approach to managing C&E risks and opportunities needs to be truly integrated in the bank's processes - so the bank can progressively build deeper understanding on its clients' transition and support them with propositions (and iteratively improve risk assessments and refine targets)

Transition planning risk management cycle (ECB good practices for C&E risk mgmt., Nov 2022)



Processes need to be put in place and / or integrated to steer portfolios and engage with banking clients...



New processes

Portfolio Net-Zero alignment process

- ❑ Set Net-Zero targets for carbon-intensive sectors
- ❑ Measure/monitor progress against targets
- ❑ Maintain targets (e.g. data and methodology updates)

Integration in existing processes

Credit Portfolio Management

- ❑ Integration of C&E KRIs in portfolio monitoring for sectors and segments (e.g., Portfolio alignment thresholds, limits to high-risk sectors or geographies, min. share of low-emitting loans)
- ❑ Strategic direction of portfolios: decision making based on client segmentation



New processes

Client Transition Assessment & Segmentation

- ❑ Assessment client plans and segment clients based on “transition readiness”

Integration in existing processes

Client engagement

- ❑ Structured process to engage with clients on their sustainability transition, based on segmentation

Capital allocation

- ❑ Integration of Climate in allocation governance, evaluating client’s climate performance in the context of the overall portfolio

Credit acceptance

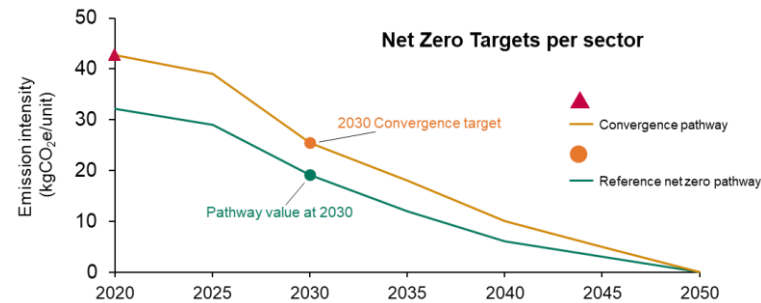
- ❑ Assessment and decision-making process, at transaction level; monitoring of agreed conditions

... underpinned by tooling and data

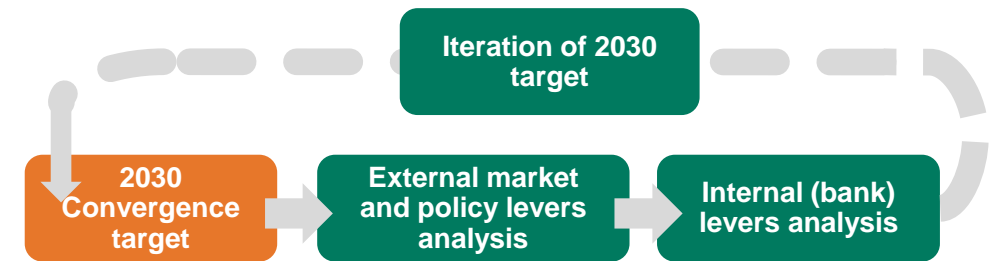
Portfolio Steering

Key tools

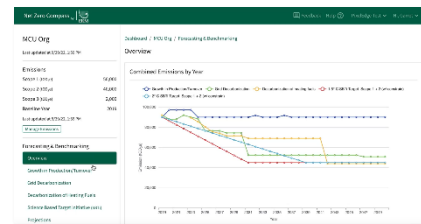
- Methodology, GHG data and modelling for setting of Net Zero targets and KRIs at portfolio level (phased, sector based approach)



- External and internal levers analysis (sector based)
- Portfolio decarbonisation action plans (sector based)



- Portfolio emissions dashboards to track portfolio performance, enable client segmentation and drill down into individual client performance



- Client segmentation framework to integrate climate factors into the bank's client review process



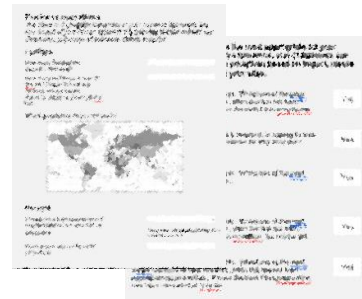
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Key tools

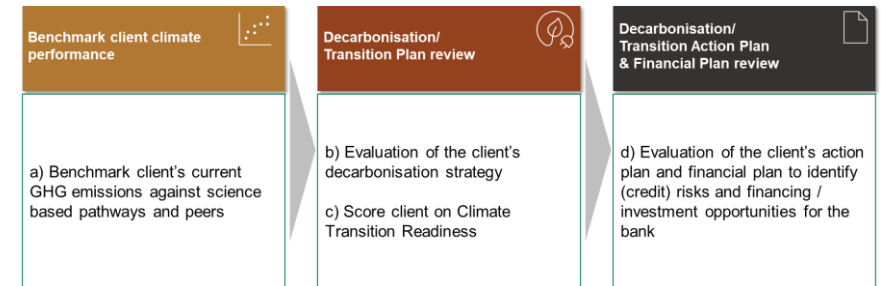


Client evaluation

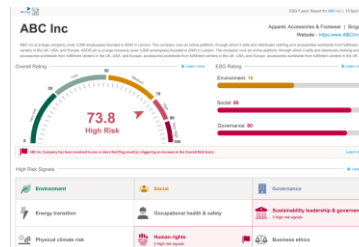
- Client engagement questionnaires
- AI-enabled data collection tools



- Client Transition Readiness Assessment to gain better insight in climate risk profiles clients and structure engagement process



- Customer Carbon and ESG profile – aggregating data from client questionnaires and third party sources



- Guidelines to support relationship managers in client engagement process
- Training for 1st and 2nd line covering sector-specific pathways, available decarbonization-levers and responses





Thank you

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