ASSESSING AND MANAGING CLIMATE-RELATED FINANCIAL RISKS
A PRACTITIONER’S VIEW

14TH MARCH 2017
Eric Vergnaud RISK Anticipation

BNP PARIBAS
The bank for a changing world
General approach to climate-related risks

- Climate-related risks identified as an emerging risk
  - defined as a new or evolving risk which potential harm or loss could be material in the future but is currently not fully known or is difficult to quantify

- Climate-related risks are drivers of risks identified in bank’s risk taxonomy
  - Credit risk
  - Market risk
  - Operational risk
  - Reputational risk
  - Business risk
  - Policy, Legal & Regulatory Risks

- Climate change and energy transition are apprehended differently
  - Climate change (risk on physical assets) largely covered by insurance
  - Energy transition is a focus of concern and as such monitored with dedicated tools (analysis grids, shadow carbon price)
Approach to risk management

- General approach to risk management applies also to energy transition risk

- Businesses are responsible for their risks
  - CSR teams and correspondents in poles and businesses

- Second line of defense is ensured by functions, in case of energy transition risk
  - Central CSR function
    - Reports directly to a Deputy Chief Operating Officer
  - RISK function
    - Includes CSR correspondents with a focus on energy transition
    - Credit Officers trained on energy transition risks
    - Industry experts in relevant sectors and economists with dedicated tools
    - Integration of energy transition risks in credit and ratings policies
Risk analyses & tools

- Energy mixes calculated since 2014 and reported in reference document
  - Objective: measure indirect emissions
  - Electricity mix based on the production of its electricity-generating customers
  - Primary energy mix calculated on the energy resources produced by the extracting companies financed by the Group
  - Mixes are benchmarked against industry averages
  - Mixes are included as CSR metrics with early warning/limit thresholds in the Group’s risk appetite statement

- Transversal workgroup (CIB, Group CSR and RISK) mandated to conduct preliminary assessment of energy transition
  - Sectorial impact (consistent methodology to assess impact)
  - Country impact

- Training actions planned with credit analysts on impact of energy transition on clients
Group’s strategy on energy transition

- Supporting the energy transition
  - Doubling support for renewable energy
    - Objective of 15bln€ exposure by 2020
  - Limited financing of coal industry (selective approach depending on country)
  - Financing of energy efficiency equipment
  - Asset management
    - Measure of carbon print
    - Alignment of investments with 2°C scenario

- Green bonds
  - BNP Paribas active in green bond market
  - Priced its inaugural EUR 500 million Green Bond in November 2016
  - Net proceeds will be allocated to the financing and/or refinancing, of Eligible Green Assets in the following Eligible Sectors: Renewable energies, Energy Efficiency, Mass and Public transportation, Water Management & Water Treatment, Recycling