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Developing Climate Transition Plans

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28 October 2025

Agenda

1. Introduction to TNP and your presenters
2. Climate risk – an overview
3. Regulatory and disclosure expectations
4. Developing a climate transition plan
5. Tools and methodologies
6. Case studies
7. Conclusion, and Q&A

True North Partners in a nutshell

Our approach, team and client base

Unique consulting boutique

A global independent firm based out of London with additional offices in Frankfurt, Madrid, Amsterdam, Johannesburg and Dubai

Broad client base

Our global clients are global and regional players in the financial services industry and rely on our expertise and guidance in navigating their firms.

An international team

Our ~165 people strong team comes from diverse backgrounds, bringing in valuable sought-after experience

Partner-centric business model

We are committed partners to our clients – providing support outside of formal engagements

Financial services specialists

Our teams bring deep expertise of risk, finance and strategy domains within financial services

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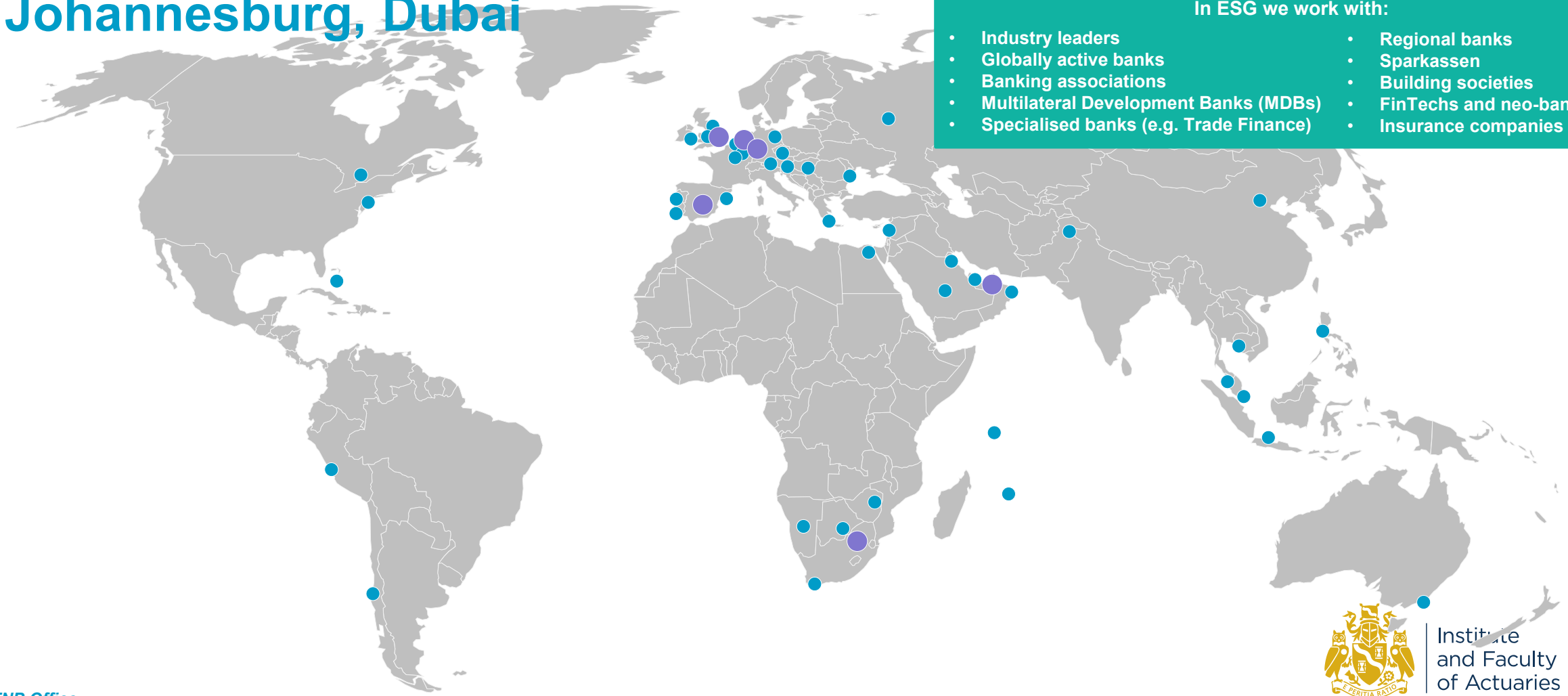
We deliver innovative risk, finance and strategy solutions world-wide, with local teams in London, Frankfurt, Amsterdam, Madrid, Johannesburg, Dubai

In ESG we work with:

- Industry leaders
- Globally active banks
- Banking associations
- Multilateral Development Banks (MDBs)
- Specialised banks (e.g. Trade Finance)
- Regional banks
- Sparkassen
- Building societies
- FinTechs and neo-banks
- Insurance companies



TNP Office

Our clients / project locations

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Introduction to presenters and facilitators for the day

Lizette Strauss
Partner

15+ years of experience in financial services. *At TNP, Lizette supports clients that are either at the beginning of their ESG journeys by writing frameworks, defining governance structures, and assigning roles & responsibilities. Additionally, she supports mature clients on niche topics, such as the development of bottom-up target feasibility assessment approaches.*

Andries Schutte
Partner

30+ years - Financial and risk management experience and a qualified actuary. *He has practical experience in economic capital models, risk appetite, stress-testing, and credit model validations, all as a project leader on client projects in Banking and Insurance. He has experience in advising boards and regulators on internal models and other financial risk topics, and has a particular interest in climate risk modelling and management.*

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Climate risk – an overview

An overview of physical and transition risks, and how they impact portfolios and balance sheets

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State of climate change according to the World Meteorological Organization (WMO)

01 Global mean temperature

- Global mean temperatures are likely to continue at or near record levels in the five-year period 2025-2029.

02 Global temperature rise

- The annually averaged global mean near-surface temperature for each year between 2025 and 2029 is predicted to be between 1.2°C and 1.9°C higher than the average over the years 1850-1900.

03 1.5ºC risk

- It is likely (86% chance) that global mean near-surface temperature will exceed 1.5°C above the 1850-1900 average levels for at least one year between 2025 and 2029. It is also likely (70% chance) that the 2025-2029 five-year mean will exceed 1.5°C above the 1850-1900 average.

04 2ºC chance

- It is likely (80% chance) that at least one year between 2025 and 2029 will be warmer than the warmest year on record (currently 2024) and although exceptionally unlikely, there is now also a chance (1%) of at least one-year exceeding 2°C of warming in the next five years.

05 Long term warming

- Long-term warming (averaged over decades) remains below 1.5°C. The five-year average temperature in the Niño 3.4 region relative to the whole tropics indicates mixed or mainly neutral ENSO conditions in this period.

06 Arctic temperature

- The average Arctic temperature anomaly over the next five extended winters (November to March), relative to the recent climatological normal (the average of the years 1991-2020), is predicted to be 2.4°C, more than three and a half times as large as the anomaly in global mean temperature.

07 Arctic sea-ice

- Predictions of Arctic sea-ice for March 2025-2029 suggest further reductions in sea-ice concentration in the Barents Sea, Bering Sea, and Sea of Okhotsk.

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The UK Government's stance on climate risk

Current government position

- Net Zero Commitment: The UK remains committed to reaching net zero emissions by 2050, with interim targets including an 81% reduction by 2035
- Clean Power by 2030: The Labour government, led by Prime Minister Keir Starmer and Energy Secretary Ed Miliband, has launched a mission to make Britain a clean energy superpower, aiming for zero-carbon electricity by 2030.
- Great British Energy: A new state-owned green energy company is being established to co-invest in renewable technologies like wind, solar, tidal, hydrogen, and nuclear. [jonesday.com]Onshore Wind Expansion: The government has lifted the moratorium on onshore wind farms, aiming to double capacity by 2030
- No New Fossil Fuel Licenses: Labour has pledged no new oil, gas, coal, or fracking licenses in the UK.

Political tensions and opposition

- The Conservative Party, now in opposition, has proposed repealing the Climate Change Act of 2008, which underpins the UK's net zero framework. This has sparked concern among scientists, investors, and even some senior Conservatives
- Public Support vs. Political Action: Studies show that UK citizens are more concerned about climate change than many politicians assume, with 75% expressing concern

Challenges and criticism

- Legal Challenges: The government's previous Carbon Budget Delivery Plan was ruled unlawful twice for lacking sufficient detail on how targets would be met. A revised plan is due by October 2025.
- Knowledge Gaps: A recent study found that many MPs and the public underestimate the urgency of climate action, with only 15% of surveyed MPs correctly identifying the 2025 deadline for peak emissions to limit warming to 1.5°C

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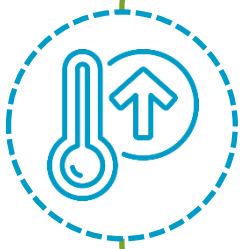
"Global tipping Points" - 2025 report

Climate tipping points are imminent: Coral reefs, polar ice sheets, Amazon rainforest, and ocean circulation are nearing irreversible thresholds



Overshooting 1.5°C increases risk of cascading system failures

Action is urgent: Emissions must halve by 2030 and reach net zero by 2050

Positive tipping points offer hope: Rapid adoption of solar, EVs, and nature-positive practices can trigger self-reinforcing change.

Policy & civil society must align: Target super-leverage points, enable finance, and promote justice to accelerate transformation.

Global South* leads innovation: Regenerative agriculture, bioeconomy, and local resilience are key to global renewal.

* Africa, Latin America, Asia, and Oceania

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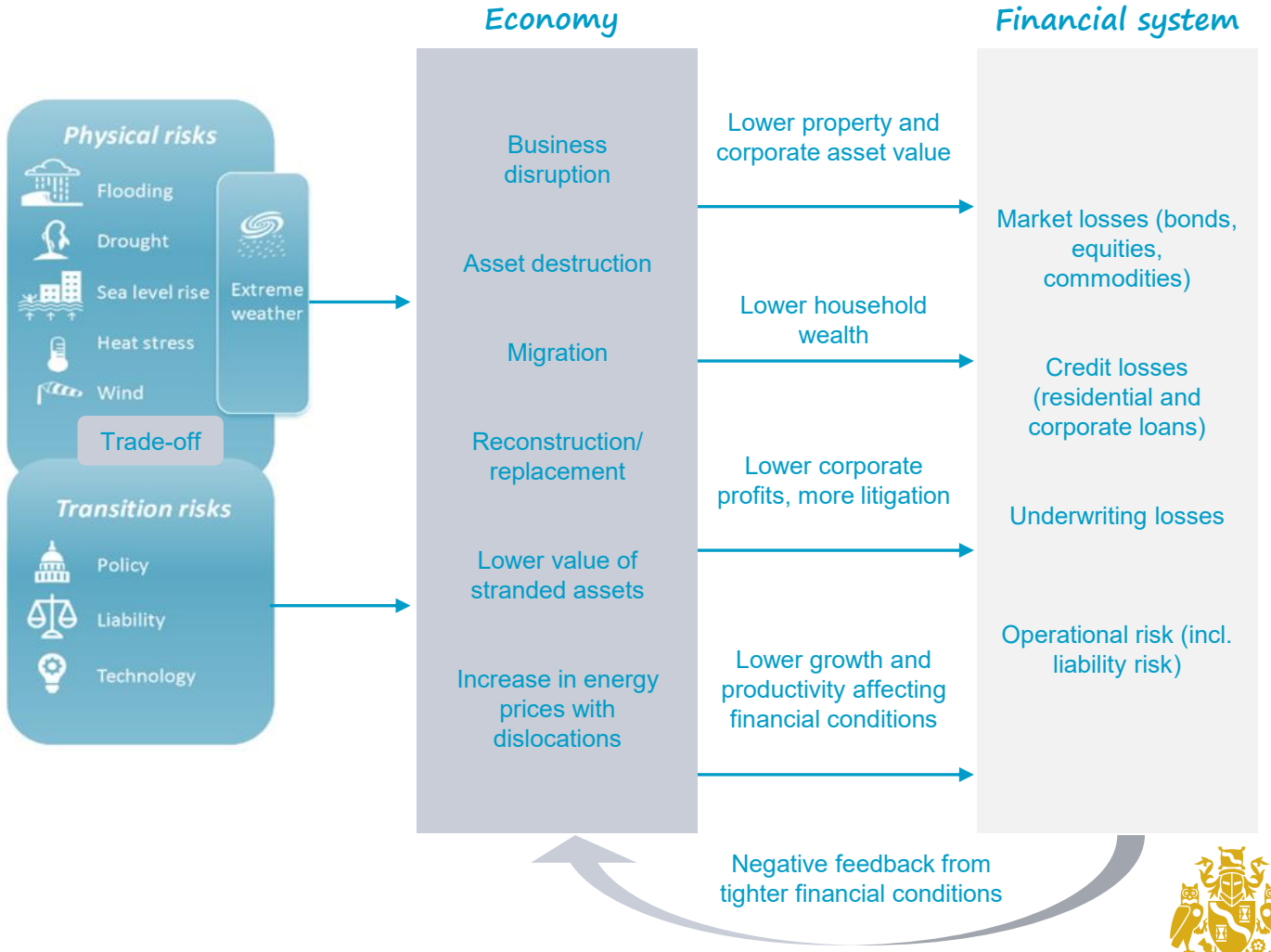
Transmission channels: Climate-related risks will have significant economic and financial implications to FIs and the economic/financial system as a whole

Physical risks are particularly relevant in case of:

- Long-lived, fixed assets
- Locations or operations in climate-sensitive regions (e.g. flood-zones)
- Reliance on availability of water
- Value chain exposed to the above.

Transition risks are particularly relevant in case of resource-intensive organisations with high GHG emissions within their value chain, where policy changes, technology, or market changes aimed at emissions reductions, energy efficiency, subsidies or where taxes have a particularly direct effect.



Source: Based on TCFD – Final Report, June 2017

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Regulatory and disclosure expectations

Guidance on evolving regulatory frameworks such as ISSB, BIS, and emerging jurisdictional requirements

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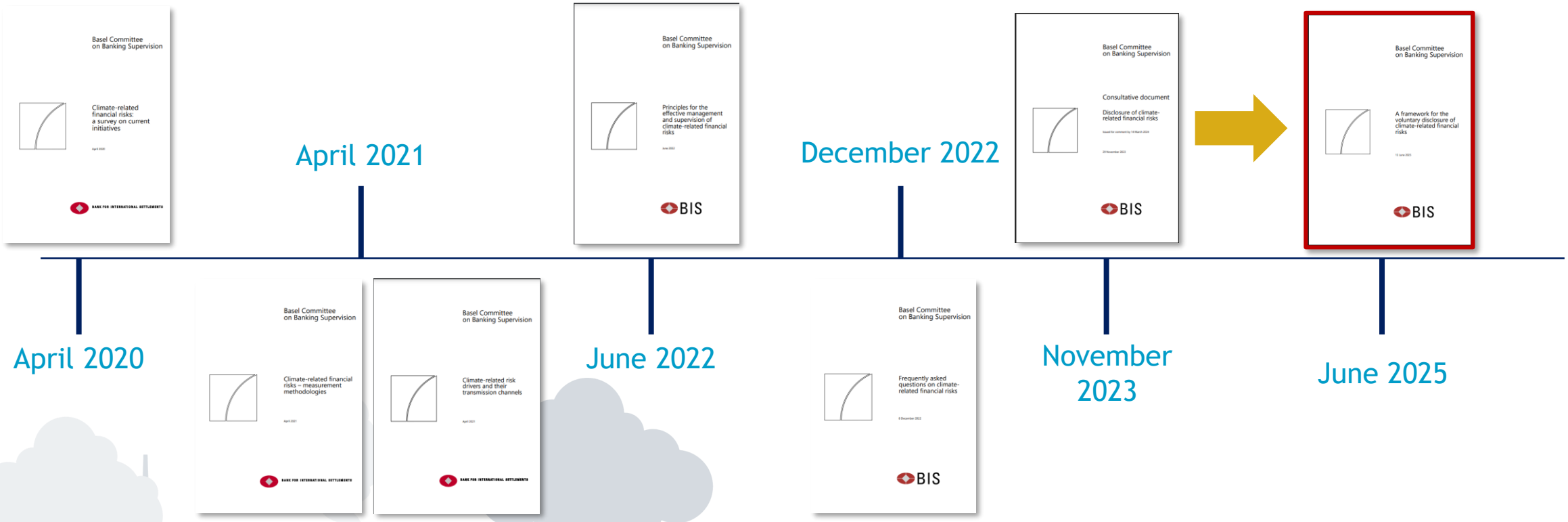
Basel Committee on Banking Supervision (BCBS) publications to date



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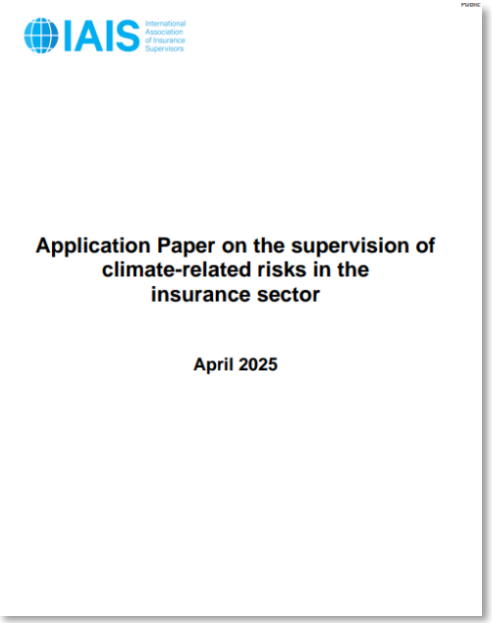
IAIS – Application paper on the supervision of climate-related risks in the insurance sector

The International Association of Insurance Supervisors (IAIS) **latest publication on climate risk**

Insurance Core Principles established under Solvency II, in relation to transition plans:

- Mentioned as a tool for supervisors to assess how insurers are preparing for and adapting to climate-related risks
- Used to reduce protection gaps over the long term by aligning insurers' strategies with climate goals
- Encouraged as a source of data: The paper notes that transition plans can provide valuable insights into insurers' forward-looking strategies, investment decisions, and risk management approaches
- Not mandatory but recommended as good practice for insurers to develop and disclose transition plans where feasible
- Supports supervisory review: Transition plans help supervisors understand how insurers are managing transition risks (e.g., regulatory changes, market shifts, reputational risks) and integrating climate considerations into their business models



Published April 2025

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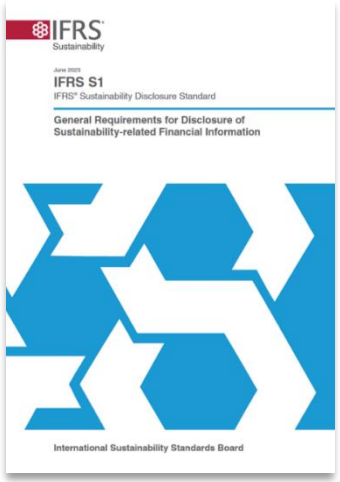
IFRS sustainability related disclosure requirements

IFRS S1

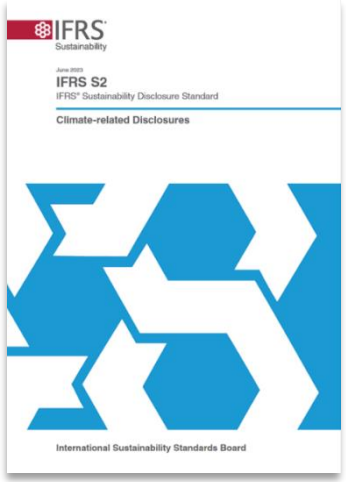


Issuance: June 2023

Effective: January 2024

Requires an entity to disclose significant **Sustainability related risks and opportunities**, enabling users of an entity's general purpose financial reporting to make lending/investing decisions

IFRS S2



Issuance: June 2023

Effective: January 2024

Requires an entity to disclose significant **climate related risks and opportunities**, enabling users of an entity's general purpose financial reporting to make lending/investing decisions

https://www.ifrs.org/issued-standards/ifrs-sustainability-standards-navigator/ifrs-s1-general-requirements/?utm_source=chatgpt.com
https://www.ifrs.org/issued-standards/ifrs-sustainability-standards-navigator/ifrs-s2-climate-related-disclosures/#about

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Noteworthy Developments of the Prudential Transition Plan Concept

Task Force on Climate-related Financial Disclosures (TCFD)

- Published their Guidance on Metrics, Targets, and Transition Plans in October 2021
- Limited detail on Risk Management expectations
- 'Description of risks: The transition plan describes the risks that the organization faces from a transition to a low-carbon economy'

Network for Greening the Financial System (NGFS)

- Published their Stocktake on Financial Institutions' Transition Plans and their Relevance to Micro-prudential Authorities in May 2023
- Makes the distinction between Strategy-focussed Transition Plans and Risk-focussed Transition Plans and their respective stakeholders

Financial Stability Board (FSB)

- Published their final report on The Relevance of Transition Plans for Financial Stability in January 2025
- Acknowledges that transition plans can enhance financial authorities' ability to assess climate-related financial risks, support financial stability monitoring, and improve market transparency
- ***Lists the PA's requirements of transition plans and considers them to be binding***

2021 — 2022 — 2023 — 2024 — 2025

Africa Regions

- The following regulations include some elements of transition planning, requiring banks to assess, manage, and disclose climate-related risks whilst, to varying degrees, considering their strategic objectives.
  - Kenya (2021): The Central Bank of Kenya (CBK) issued Climate-Related Risk Management Guidance
  - Mauritius (2021): The Bank of Mauritius (BoM) released guidelines for financial institutions to embed climate-related risks into their business strategies and risk frameworks.
  - Tanzania (2022): The Bank of Tanzania (BoT) introduced Climate-Related Financial Risks Management Guidelines.
  - Ghana (2024): The Bank of Ghana (BoG) published an Exposure Draft on Climate-Related Financial Risks

SARB PA

- Published their finalised Guidance Notice on Climate-related Governance and Risk Practices May 2024
- Revised disclosure guideline asks for the disclosure of information on the financial institution's transition plan
- They also communicated their PA climate roadmap for 2024-2026 which lists Prudential Transition Plans as considered enhanced practice
- Requires financial institutions to apply transition planning as a risk management tool.

European Banking Authority (EBA)

- Published their final report on Guidelines on the Management of Environmental, Social and Governance (climate-related) risks in January 2025
- Clearly articulates regulatory requirements of a Prudential Transition Plan

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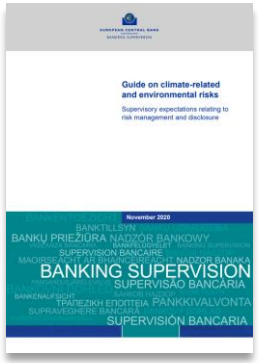
EU regulatory developments relevant to banks

July 2020

June 2020

EUT



December 2024

December 2022

CSRD

TBC

February 2025

Omnibus

SFDR

November 2019

March 2021

ECB guidelines

November 2020

December 2024

EBA guidelines

January 2025

January 2026

Omnibus implications

- Simplification package to be voted on April 1st
- Proposes changes in CSRD, CSDDD, EUT and CBAM (deadlines and applicability)

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Published | Implementation

EU: European Union
SFDR: Sustainable Finance Disclosure Regulation
EUT: European Union Taxonomy
ECB: European Central Bank
EBA: European Banking Authority
CSRD: Corporate Sustainability Reporting Directive
CSDDD: Corporate Sustainability Due Diligence Directive
CBAM: Carbon Border Adjustment Mechanism

EBA introduced a fundamental shift in transition plan requirements

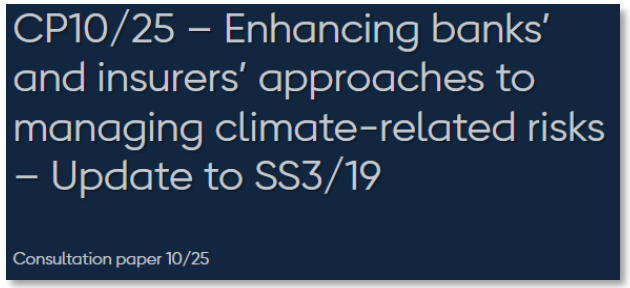
	Transition Plans under non-prudential regulations	CRD-based (prudential) transition plan
Purpose	Compatibility of business models	Compatibility of business models and consistency with prudential risks management
Main goals	Define a strategy, set objectives and adapt the business model Identify and measure risks, set up plans to mitigate them	Demonstrate ECB there is a plan to keep stability in a transition period Consolidate data and monitor impact of the plans
	Aligned with Paris Agreement and 2050 net-zero targets	Conformity with the voluntary commitments made* (incl. Paris Agreement)
Scope	Mainly E	E, S and G
	Entity level	Entity and value chain levels
	Financial institutions and Corporates	Financial institutions only
Timeline & reporting	Progressive implementation from 2024 to 2027 (entity size dependent)	Implementation as of January 11th, 2026
	Public disclosure incl. voluntary (e.g. TCFD) and mandatory (e.g. CSRD)	Not subject to public disclosure but subject to the SREP

More strategy focused
Broader scope in content & application

More risk management focused
Narrower scope in content & application

*Alignment with the sustainability goals of the Member States or the EU or with a specific transition path is not necessary (!) but alignment with voluntary commitments is necessary.
SREP = Supervisory review and evaluation process

Six years after the Supervisory Statement on climate risk, the PRA published a consultation paper with additional requirements



The PRA now expects banks and insurers to get more specific and more detailed in their climate-related risk assessment and management via consultation paper CP10/25

Context: PRA has issued a **consultation paper** to incorporate advances in climate-risk management practices and disclosure requirements - open for comments until 30 July 2025

Timeline: The SS will take effect immediately after it is finalised. The bank will then have six months to carry out an internal review to identify gaps versus expectations of the SS and develop a plan to address gaps

PRA proposed incremental amendments in CP10/25

Governance	**Board to understand climate risks impacts over short/medium and long term; assess impact on future strategy (dynamic balance sheet); articulate in risk appetite**
Risk Management	**Understand transmission channels; include material risks in risk appetite statement & risk reporting; perform counterparty level assessment; assess operational resilience**
Climate Scenario Analysis (CSA)	**Firms to have a good understanding of the scenarios they use, develop bespoke scenarios to test bank specific vulnerabilities and use reverse stress testing**
ECL, ICAAP and ILAAP	**Incorporate climate risk in ECL calculations; ICAAP capital planning horizon and ILAAP via net cash outflows or asset valuation; obligor level modelling**
Data	**Build data infrastructure; validate third-party data; understand data gaps and calibrate CSA**
Disclosures	**No fundamental change in requirements. Expect to disclose based on UK Sustainability Reporting Standards (SRS) based on IFRS S2**

The PRA further published a Dear CFO letter in October 2025, emphasising the need to model climate impacts on ECL and capital at an obligor level and highlighting the need to close data gaps for Corporate physical asset locations.

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CP10/25 and transition plans

Strategic alignment

- Firms must align their business strategy with any climate-related targets they have adopted
- Transition plans should be credible, supported by metrics, and integrated into risk management frameworks
- Solvency II balance sheet should reflect climate related risks

Governance

- Boards must own and oversee climate-related risk appetite and strategy
- Senior management must be accountable for delivering transition plans, with clear reporting lines and performance tracking

Risk management

- Climate related risks should be reflected in the risk management framework, helping avoid underestimates on climate change impact
- Climate-related risks, including those from transition to net zero, must be embedded in risk appetite statements and internal controls:
  - Firms must regularly assess and update their exposure to transition risks
- Scenario Analysis - Transition plans should be tested against climate scenarios, including those with rapid decarbonisation:
  - Results must inform strategic decisions and risk appetite
  - Disclosure & Monitoring Firms must disclose progress against transition plans and climate targets
  - Internal reporting should be comprehensive and decision-useful for boards and regulators
- Integrating climate scenarios in ORSA is required when climate related risks are material
- Insurers should assess climate-related risks within their IM or SF frameworks. No extra capital requirements are introduced as the PRA considers Solvency II sufficient to cover these risks

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Overview of ISAP 8 – Purpose & Scope

Purpose

Provides guidance for actuaries supporting climate-related disclosures under IFRS S2.Aims to ensure actuarial work is professional, clear, and appropriately disclosed. Enhances public confidence and supports collaboration across disciplines

Scope & Applicability

1. Applies to actuaries performing services related to climate disclosures
2. Must be used in conjunction with ISAP 1 and aligned with IFRS S1 & S2
3. Encourages standard-setting bodies to adopt or align with ISAP 8

Key Principles

1. Materiality: Actuarial thresholds should not exceed those of the entity
2. Proportionality: Level of detail should match the entity's exposure and data reliability
3. Use of External Data: Reliance on third-party models and data must be evaluated and disclosed.

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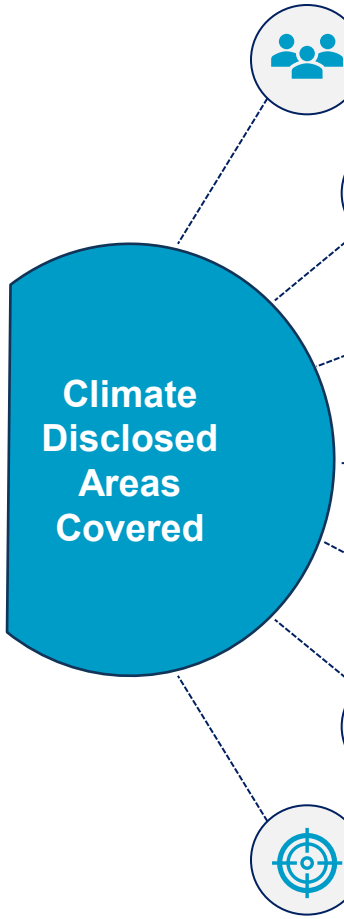
Actuarial Guidance for Climate-Related Disclosures



Governance – Evaluate how climate risks are managed and integrated into risk frameworks

Strategy – Assess and disclose the reasonableness of climate strategies and targets

Risk & Opportunities – Ensure broad and relevant identification of climate-related factors

Financial impact – Provide quantitative/qualitative estimates with uncertainty disclosures

Scenario Analysis– Use diverse, relevant scenarios; disclose limitations and assumptions

Risk Management – Review entity's processes for monitoring and managing climate risk

Targets and metrics – Align with industry standards; disclose deviations

Communication requirements

- Clearly report methodology, assumptions, uncertainties, and reliance on external sources.
- Highlight unresolved concerns and limitations in disclosures.
- Ensure transparency in emissions metrics and scenario analysis

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New proposed IAA note IAN200

This **International Actuarial Note (IAN)** is an **educational resource** developed by the **International Actuarial Association (IAA)**

Purpose - Aim to help actuaries understand and apply IFRS S2 (Climate-related Disclosures), IFRS S1 (General Sustainability Disclosures), and ISAP 8 (Actuarial Practice Standard for Climate Disclosures)

Disclosure - It does not prescribe practices or impose obligations; it provides guidance and examples

1 Governance

- Focuses on how entities oversee climate-related risks and opportunities
- Disclosures should include:
  - Board and management roles
  - Governance structures
  - Oversight mechanisms
- Actuaries may contribute by assessing governance frameworks and reviewing disclosures for actuarial accuracy

2 Strategy

- Covers how entities manage climate-related risks and opportunities
- Includes:
  - SWOT analysis
  - Business model and value chain impacts
  - Transition planning
  - Financial implications over short, medium, and long-term horizons
  - Climate resilience and scenario analysis

3 Risk management

- Describes how climate risks are embedded in overall risk frameworks
  - Identification and prioritization of risks
  - Use of scenario analysis
  - Monitoring and changes over time
- Scenario analysis is emphasized as a tool for assessing resilience and informing strategy, actuaries play a role in
  - Designing scenarios
  - Evaluating financial impacts
  - Advising on responses and governance

4 Metrics and targets

- Discusses metrics for emissions, climate risks, and opportunities.
  - Scope 1, 2, and 3 emissions
  - Climate Value-at-Risk (CVaR)
  - Insurance sector-specific metrics
  - Asset management metrics
  - Common climate targets (e.g., net zero by 2050)
- Actuaries contribute by:
  - Developing and validating metrics
  - Supporting target setting
  - Integrating climate goals into business planning
  - Addressing measurement uncertainty
- Stakeholders and Collaboration
  - Disclosures benefit various stakeholders: boards, shareholders, regulators, public, and actuaries.
  - Actuaries are encouraged to collaborate with professionals across disciplines (e.g., climate scientists, economists)

IAA NOTE IAN200

1. Governance
2. Strategy
3. Risk management
4. Metrics and targets

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Developing a climate transition plan

Steps for setting science-based targets, decarbonizing portfolios, engaging clients, and integrating climate considerations into governance and risk management

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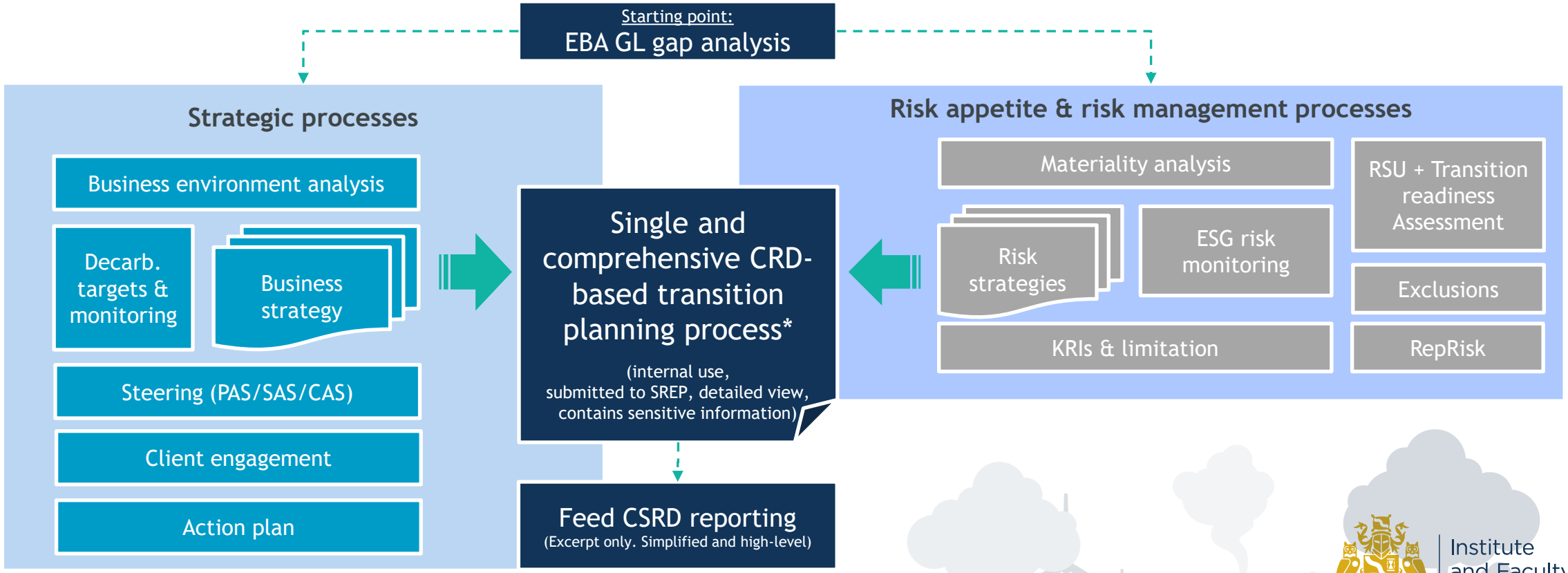
Embedding the transition plan to ensure alignment with strategic planning and risk management processes

Input for the transition plan will come from different internal stakeholders;
this makes it key to have **centralised coordination to ensure consistency of content and streamlined storytelling**



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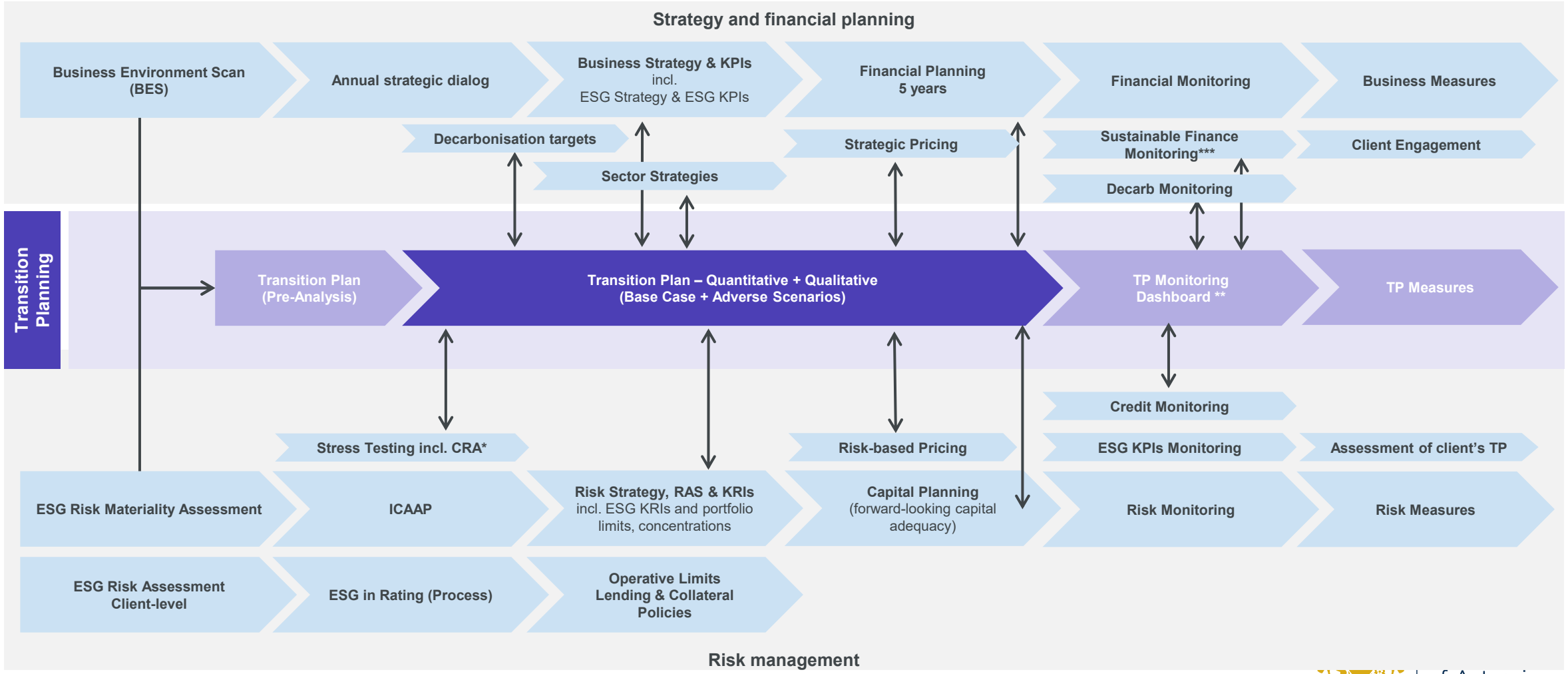
Prudential transition plans plays at the intersection of processes



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* Climate Resilience Analysis
** Targets and Metrics aligned to existing monitoring – thus definition of measures and escalation through existing channels first
*** Can in future be widened in scope to cover "Transition Finance"

Core elements to consider when developing a prudential transition plan

Starting point

A
- Set objectives and define scope (E, S and/or G)
- Results of **business environment scan** and materiality analysis (material risks)
- Define process including approvals and updates

1 Strategic goal, ambitions and roadmap

- Set strategic goals (financial KPIs)
- Set sustainability goals and ambitions (long-term, minimum 10 years)
- Assess implications for strategy, risk management (across three-time horizons) and risk appetite (→ Interlinking KPIs with KRIs)

B
- **Develop long-term and medium-term targets** to ensure the resilience of the business model
  - EU Net Zero Target in 2050 (with 55% interim target in 2030)
  - Deforestation and re-naturalisation
- Determine profitability along the paths; coherence of medium-term growth targets and key financial figures[2] (business areas, sectors) with strategic goals, in particular decarbonisation
- Note key assumptions, input data and background (i.e. materiality analysis and selected scenarios)
- Develop roadmap covering future improvements

2 Targets and metrics

Overarching targets and metrics

- Set quantitative targets and metrics to address ESG risks at portfolio level (exposure-based, portfolio alignment, scenario-based)
- Assess financial implications of a transition plan (short, medium and long term) on financial performance, profitability and risk level
- Define metrics for risk assessment and management (risk and decarbonisation)

Detailed metrics

- Define metrics at the level of business areas/portfolios/sectors/technologies (incl. degree of coverage + operationalisation status)

3 Governance and data

- Define roles in responsibilities
- Integrate transition plans across 3LoDs[1]
- Determine capacity and resource requirements
- Include ESG in remuneration
- Compile ESG data inventory
- Define ESG data processes including data collection, ensuring data quality for transition planning and monitoring (according to BCBS239)
- Outline ESG data challenges & initiatives to improve the data situation

4 Implementation strategy

Integration of short, medium and long-term measures in management of individual customer/portfolio level:

- Risk management (ICAAP, ILAAP, RAF/RAS, limitation, capital/portfolio allocation)
- Integrate into strategic planning and budgeting, financial planning / refinancing plan

C
- **Update due diligence**, credit process and credit decisions with **ESG risk assessments**
- Determine if changes to the product mix and services (sustainable lending and investments, KPI-linked products, advisory) are required
- Define guidelines and conditions: Exclusion and phase-out criteria (phase-out)
- Develop approach for pricing adjustments risk-based (but also strategic/incentivisation)

D 5 Engagement plan (dialogue with client)

- Define objectives of **client engagement** and ESG assessment / link to risk appetite and strategy
- Develop guidelines and procedures for client engagement (frequency, scope, coverage in the portfolio, escalation, validation)
- Develop and apply criteria for assessing adaptability and transformability; influence on credit rating
- Outline the process for dealing with the results of the engagement(action points)

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[1] 3LoD: Three lines of defence
[2] Profitability ratios, risk costs, KPIS, KRIs, limits, pricing

A

The *Business Environment Scan (BES)* highlights transition risk relevant to your business model

ESG impact on business

The analysis of climate factors (physical and transition) is transferred to an impact on the business model of the bank, *which in turn* is closely linked to the impact on risks analysed in stress testing, the ICAAP, materiality assessment, risk appetite, etc.

Supervisory concern

Considering the latest supervisory requests, institutions should analyse the business environment arising from climate change and environmental degradation and understand the risks affecting the business environment in the short, medium and long term and how they are incorporated in the business strategy.

What elements should be considered in the BES?

Climate and environmental risks	TRANSITION RISKS	PHYSICAL RISKS			
Macrotrends	MACROECONOMIC	COMPETITION	REGULATION	TECHNOLOGY	SOCIAL/ DEMOGRAPHIC
Time horizons	SHORT TERM	MEDIUM TERM	LONG TERM		
Portfolios	COMPANIES	INDIVIDUALS			

The identification of transmission channels is essential for this purpose.

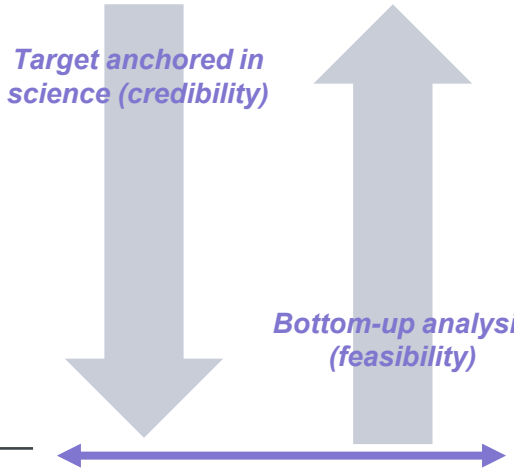
B

The ultimate goal is to develop credible, aligned and feasible targets

Phase 1 – Top down (Science related)

World ambitions
- Paris agreement: 2°C/1.5°C target
- Global emission pathways & budget: IEA net-zero / IEA APS

Scenario assessment and deriving portfolio pathway:
- Solid understanding of scenarios required (global and/or Africa) and key underlying assumptions
- Source the "scattered" and not necessarily "consistent" data across countries and analyse narratives and implications for targets



Phase 2 – Bottom up (feasibility)

Portfolio sensitivity analysis:
- Development of approach (at portfolio level) to challenge the feasibility of the target. Bring in internal and external levers to steer the portfolio e.g. methane reduction, CCUS technology,…
- By unpacking peer, regional and global developments as well as clients' ambitions; develop an approach to inform the client engagement and selection strategy

Where should the portfolio grow?
Which clients should be avoided?
What are the financial implications?

Target setting

- Conclusion on targets including definition of levers / drivers to reach the targets. This requires Senior Management and Business buy-in and defines the decarbonisation strategy

Target monitoring

- Set-up of a monitoring process and progress tracking **prior to official communication of targets** to the external world

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B

Developing science based targets consists of multiple steps and design decisions

Robust process for setting science based targets

1. **Baseline emissions measurement**
   - Establish the baseline emission calculation approach. Monitor internally to ensure stability in calculation and data
2. **Sector prioritisation**
   - **Prioritise sector based on portfolio and high emitting nature of sectors**
3. **Define science based pathways**
4. **Set decarbonisation target**
5. **Develop implementation levers**

   Typically derived through *iterative* consultation with business

   - **'Top-down' pathways are anchored in science**
   - **'Bottom-up' portfolio feasibility is assessed (also informs portfolio alignment in next section)**

   While anchored in science*, targets need to be achievable with robust levers and client engagement strategies

   **Geography, policy and sector nuances to be considered*
6. **Governance and accountability**
   - Embed the plan in governance structures, define roles and responsibilities and congruent incentives
7. **Disclose and iterate**
   - Disclose targets in line with best practice guidance
   - Commit to regular reviews and annual progress updates

Design decisions to consider

1 Sector Boundary	2 Product Boundary	3 Scenario	4 Metric	5 Scope - emissions	6 Scope - activity	7 Baseline & Target year
How much profit generated in sector?	Lending Capital markets	IEA net zero MPP	Absolute emissions Emissions intensity	Scopes 1 and 3 Scope 1, 2 and 3	Upstream, midstream, downstream	Baseline & Target year (short, medium, long)

IEA: International energy agency
MPP: Mission possible pathways

c

Integrating ESG into due diligence and credit decisioning

Materiality assessment*

E
- Climate change mitigation
- Climate change adaptation ✓
- Biodiversity and ecosystems
- Resource use and circular economy
- Water and marine resources
- Pollution

S
- Workers (own and in the value chain) ✓
- Affected communities
- Consumers and end-users

G
- Corporate structure for oversight of ESG
- Management of conflict of interest ✓

ESG scorecard

- Exclusion lists
- Performance
- Management
  - Climate change adaptation
  - Workers in the value chain
  - Management of conflict of interest
  - Reputational risk

Scorecard outcome

The scorecard should consider client level information. Where client data is not available, proxies can be considered.

Adverse Media Screening (AMS) should always be included to identify potential ESG related reputational risks.

Scorecard review and update

Climate change adaptation

Data can be outdated, incomplete or inaccurate resulting in clients being incorrectly flagged as high risk.

Manual review of the outcome of the scorecard and incorporation of additional information. Where the outcome looks incorrect capture updated information for consideration in the following steps

An additional consideration is the review by an ESG specialist that can override the scorecard result and provides advice on whether the risk is acceptable.

Climate change adaptation →

Credit decisioning

- Climate change adaptation
- Management of E and S issues
- Workers in the value chain
- Reputational risk

The credit pack should include the outcome of each step including the advice from the ESG specialist.

The final 'go' or 'no go' decision is made by the credit committee (as per credit governance process)

If the decision is to move forward, then the monitoring review cycle depends on the final risk ratings.

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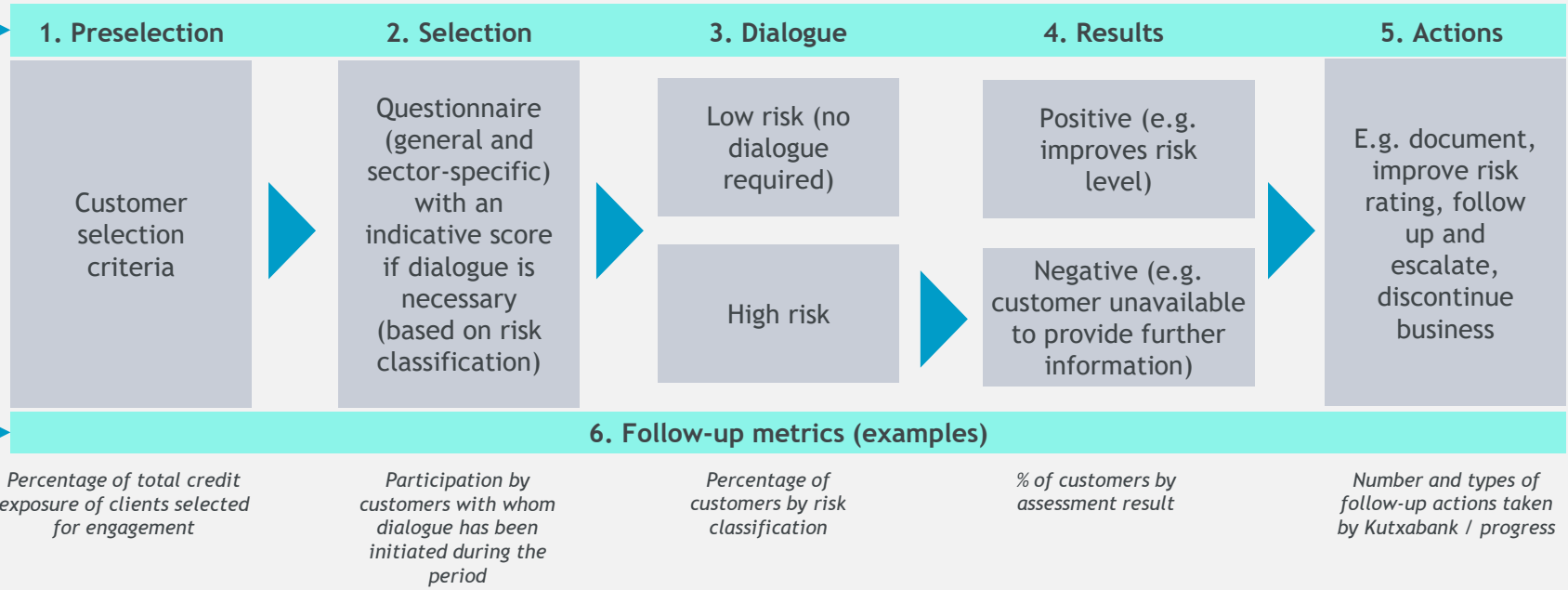
* Materiality assessment outcome: The intent is to focus the scorecard on material topics. Not all topics are equally relevant for all sectors

D Client engagement acts as a key strategy and risk mitigation tool

Client engagement (CE) framework

- Objective of dialogue and customer relations
- Engagement strategy
  - Scope and roadmap for implementation
  - Customer selection criteria for the relationship (**ensure coverage of material risks as a minimum**)
  - Recommended discussion points for dialogue with customers
- *Engagement* process (frequency, follow-up, escalation)
- Client engagement governance
- Follow-up metrics



1. Pre-selection – Define a list of priority customers:
   - Based on existing data on customers and their vulnerabilities to different types of ESG risk (aligned with materiality results)
     - Type of customers for transition risk (e.g. exposure, decarbonisation customers, calculation of high emissions outside decarbonisation)
     - Type of customers for physical risk (e.g. location in high-risk areas)
2. Selection - through a questionnaire covering risks, which may be general and include some sector-specific questions where relevant to the type of risk
   - Existing questions in the sustainability module can be used and expanded upon. Consider that a scoring/rating methodology needs to be created to indicate which customers require engagement

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Tools and methodologies

Presentation of scenario analysis, emissions modelling, and portfolio alignment tools that help institutions assess and manage transition risk

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Structured approach to performing a transition readiness assessment

1 Current emissions

Assessment of the **current emission intensity** and assignment of **baseline rating**

Rating	Emission intensity CO2e/£
A	500 or less
B	500 – 1,000
C	1,000 – 1,500
D	1,500 – 5,000
E	Above 5,000

2 Stated net zero ambition

1. Is the **stated goal** ambitious?
2. Is the **reduction target** ambitious?
3. Has the target been **achieved**?

Net zero targets and emission reduction goals are assessed against SBTi criteria to evaluate their alignment with a 1.5º pathway.

3 Commitment credibility

Credibility rating assigned based on a questionnaire completed by relationship managers

4 Additional considerations

1. Transition enablers (producers of electric vehicles, renewable energy, batteries, etc)
2. Financial strength

Up notch / down notch rules to assign a final A, B, C, D or E rating based on goal ambition, credibility and additional considerations

Final rating, driving facility and limit decisions in line with risk appetite rating / limit matrix

The Transition Readiness framework provides clear, transparent incentives for companies to decarbonise in line with net zero ambitions, while also rewarding net zero enablers that support system-wide change. It is aligned with the organisation's risk appetite framework ensuring climate risks are managed consistently across portfolios.

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Through a bottom-up approach we estimate the feasibility of meeting targets

A Inputs

- Actuals GHG-Emissions “as Is”
- Business forecasts i.e. portfolio growth
- Climate Stress Scenarios including underlying assumptions (country and sector specific)

B Core Framework

Internal factors:

- Existing book: Run-off, effective maturity
- New book (evolution of volumes, floor area growth)
- Portfolio characteristics (mix of building types, EPCs, construction years)

External factors:

- Energy mix; emission factors
- Energy consumption per building type
- Renovation rates and mix
- New built rates and mix
- Deepness of renovations
- Country-specific limitations/goals

Strategic levers:

- Aspired changes in EPC distribution (migrations)
- Policy restrictions / exclusions / limits
- Overrides: growth of specific investments i.e. “heat pumps” or strategic projects

Interactive tool – Impact analysis of individual strategic levers and changes to input assumptions possible !

C Outputs

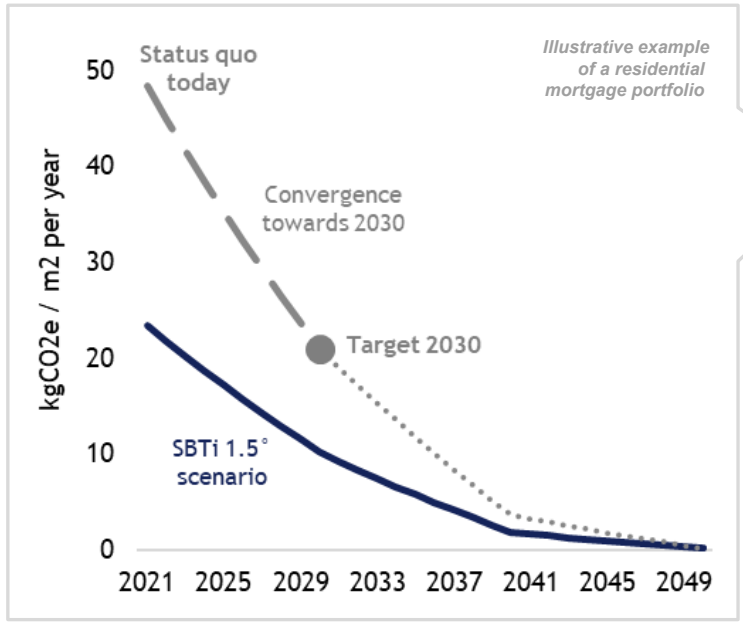
- Total portfolio emissions
- Carbon intensities
- Forecast portfolio distribution(s)*
- Comparisons to Benchmark scenarios
- …

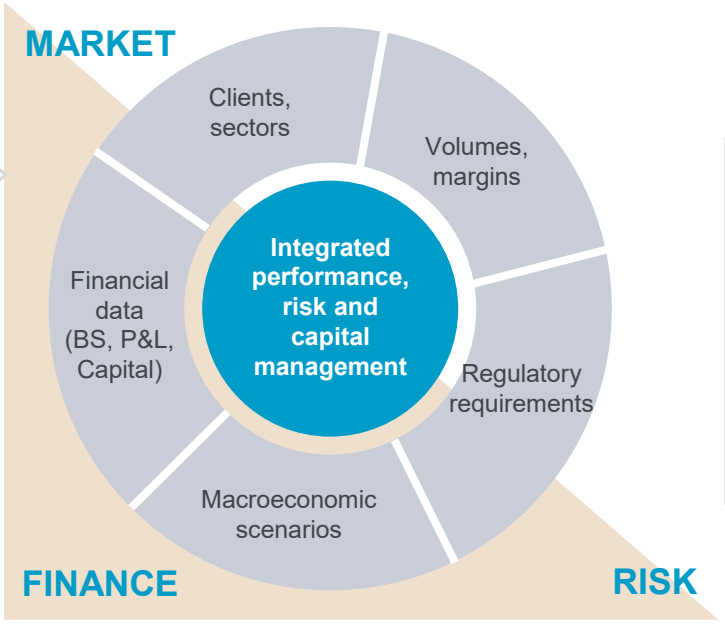
Integrating decarbonisation pathways into steering and control ensures the operationalisation of achieving targets

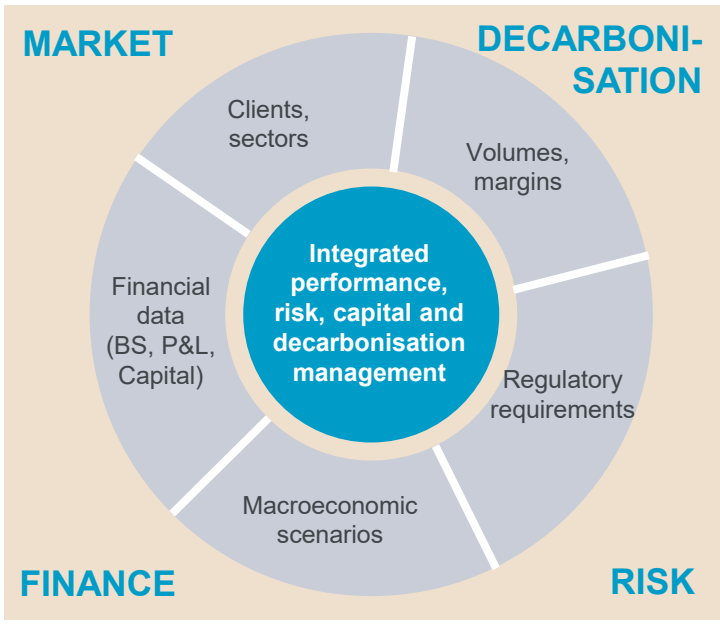
Illustrative example

Integration of decarbonisation pathways into banks' overall steering and control model

Extension of the scope of banks' overall steering and control model







Defined decarbonisation pathways are integrated into banks' steering and control model through an additional dimension, including its respective parameterisation – this takes place in close coordination with relevant stakeholders from the business units, finance and risk.

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Active steering of decarbonisation targets requires extension of overall bank steering and control parameters

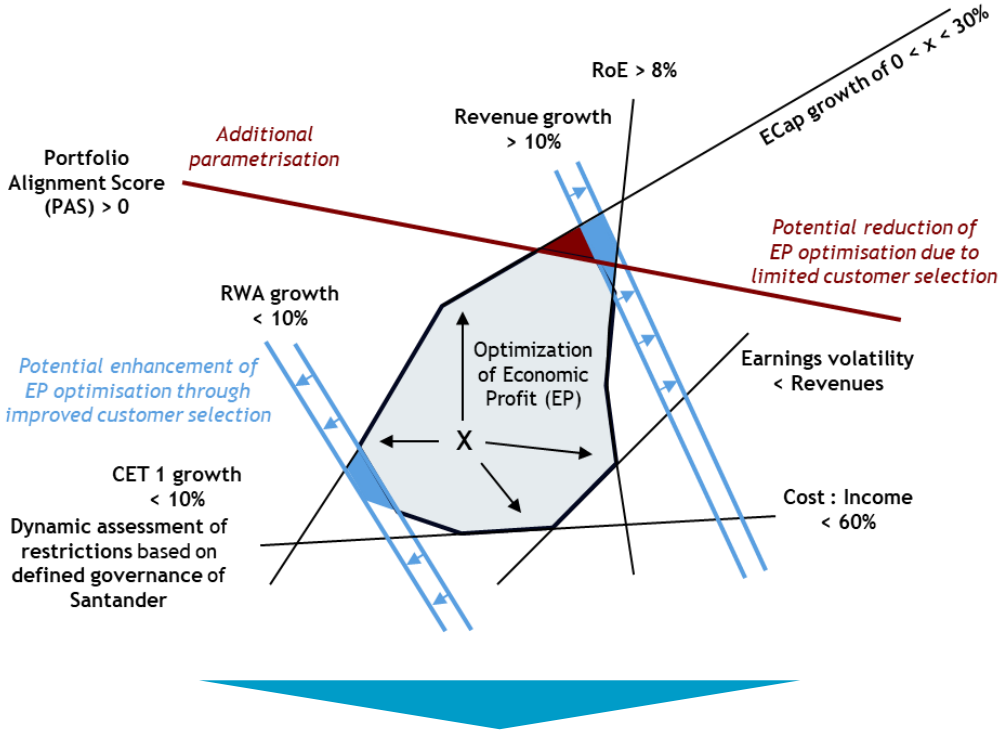
Traditional parameters

- Revenue growth
- Balance sheet growth
- Cost income ratio
- CET 1 ratio
- Return on equity

Decarbonisation parameters

- *Portfolio Alignment Score (PAS)*
- *Sector Alignment Score (SAS)*
- *Client Engagement Score (CAS)*
- Sector reduction targets
- Emission intensities

Target set-up for economic profit (EP) optimisation within predefined restrictions



Assessment of relevant restrictions may occur at overall bank- and/or BU level

Restrictions

- Capital adequacy
- Liquidity requirements
- Earnings volatility
- Strategic risks
- Reputational risks

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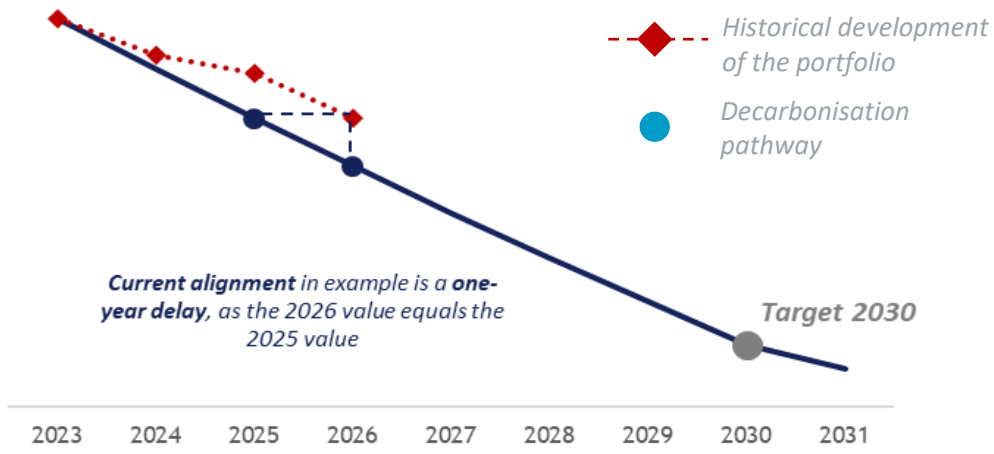
Integrate decarbonisation KPI into portfolio steering

1 Requirements for KPIs covering decarbonisation targets

KPIs re the **steering** and **control** of **decarbonisation targets** shall **meet** the following **requirements**

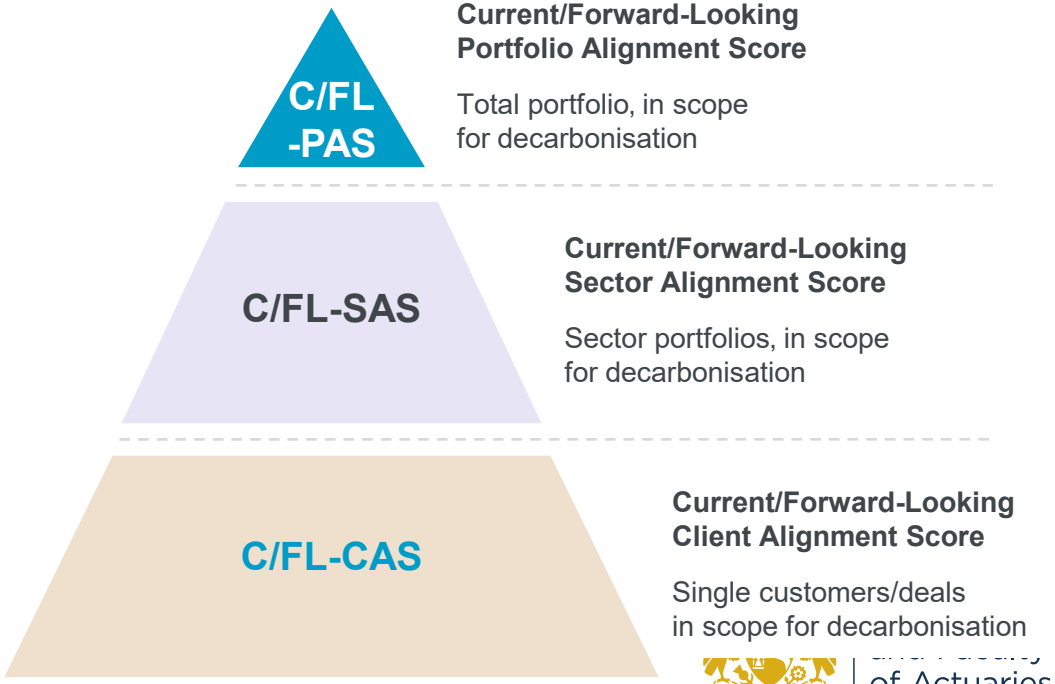
- **Comprehensibility** and **interpretability**
- **Allowance** of **cascading down** across **sectors** and **business units** (irrespective of output units)
- **Full integration** into the **banks' prevailing overall steering** and **control concept**

2 Base idea: assessment of alignment in years



3 Implementation of KPIs covering decarbonisation targets

In our concept, the alignment with defined decarbonisation targets is determined at (i) portfolio-, (ii) sector- as well as at (iii) single customer / deal level.



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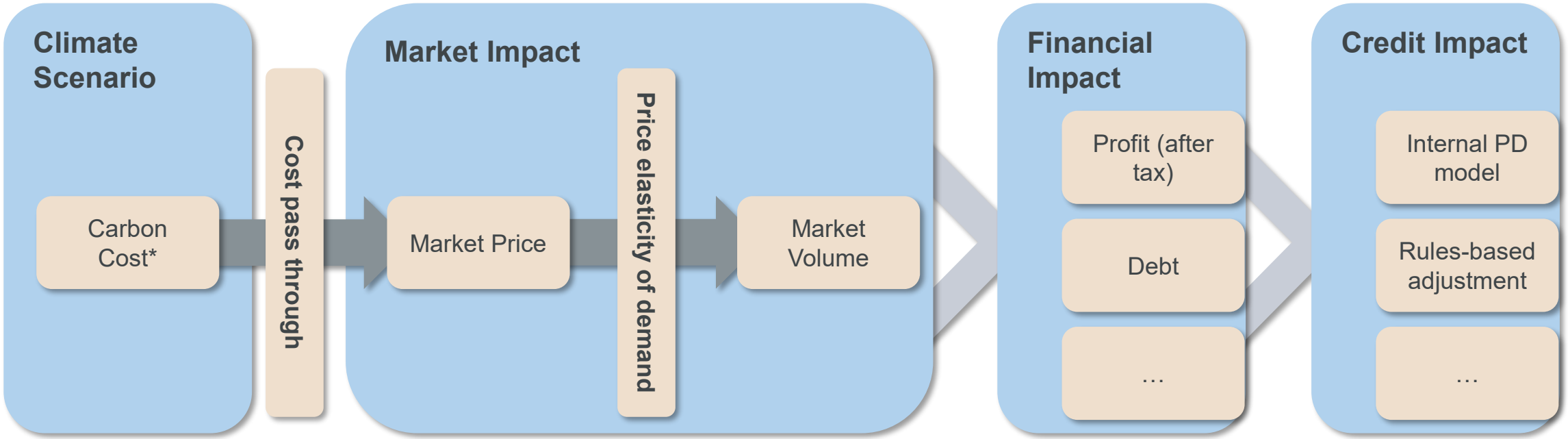
Use scenario analysis to assess the impact on counterparties under various transition risk scenarios



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* Carbon costs consider the carbon price and abatement costs. This can include other transition-related costs as well.

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Case studies

Real-world examples from leading institutions showcasing best practices, lessons learned, and practical challenges in climate transition planning

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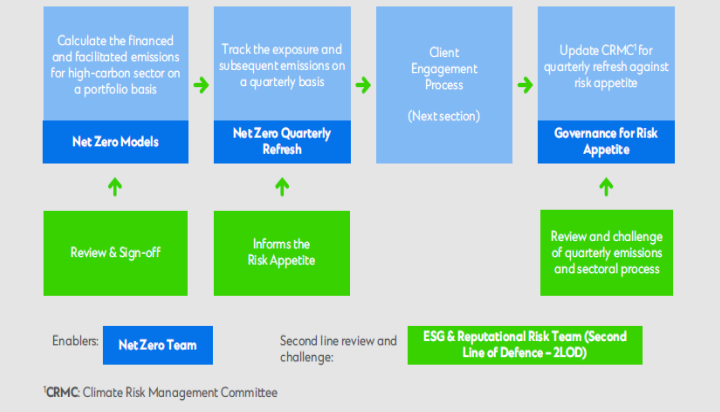
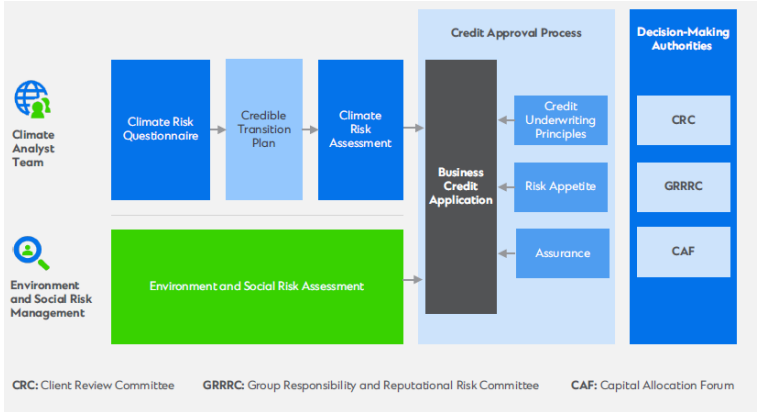
Standard Chartered has a comprehensive outline of their transition plan including sector decarbonisation levers

Net zero review process



Climate risk management



Decarbonisation levers - Steel

Overview

Steel is a critical material. It is essential to the functioning of the global economy, from the production of the world's vehicles and household appliances to buildings and infrastructure. As such, the steel sector is the largest source of industrial CO_2 emissions and accounts for roughly 7 per cent of global CO_2 emissions (IEA, 2024). This is largely due to the sector's reliance on metallurgical coal as the primary fuel source for ironmaking via blast furnaces.

Decarbonisation levers

We have identified five overarching technological levers for decarbonising steel production in the short, medium and long-term:

1. Improvement of process, energy and mineral efficiency
2. Scrap-based Electric Arc Furnace (EAF)
3. Natural Gas-based Direct Reduction Plant and EAF
4. Hydrogen Direct Reduction Plant and EAF
5. Blast Furnaces for reducing iron ore / Basic Oxygen Furnaces for smelting with post-combustion Carbon Capture and Storage

The implementation and timing of the levers varies on an asset-by-asset basis. Assessing local conditions is a crucial starting point towards understanding the most likely decarbonisation pathway. With global demand projected to grow 30 per cent by 2050, decarbonising the steel sector is simultaneously one of the greatest challenges and opportunities between now and 2050.

For existing clients with CTPs in place, we have prioritised the following short-term (2024 -2027) transition and decarbonisation activities to support our steel TPC on their decarbonisation journey:

1. Increasing client renewable electricity usage for EAF production via:
   - The procurement of Power Purchase Agreements (PPA)
   - On-site renewable electricity generation
   - Acquisition of suitable renewable assets
2. Increased scrap steel uptake¹ through trade finance or Use of Proceeds finance
3. Increased scrap collection and processing in local economies
4. Increased operational efficiencies to existing Blast Furnaces & Basic Oxygen Furnaces via:
   - Steam generation from waste heat recovery at Sinter Plant
   - Ore Beneficiation Plants to improve the Iron Burden
   - Installation of Top Pressure Recovery Turbines at Blast Furnaces
   - Installation of Coke Dry Quenching Systems at Coke Ovens

For existing and potential clients, we continue to look for opportunities to finance the uptake of Natural Gas-based Direct Reduction Plant and EAF production and Hydrogen Direct Reduction Plant and EAF in geographically feasible regions over the medium and longer-term.

Focus area

The Group's in-Scope steel portfolio is heavily weighted to specific counterparties in emerging markets, primarily India (50 per cent), Vietnam (14 per cent) and China (5 per cent). We aim to deliver our steel decarbonisation strategy through focused engagement with the ETB TPC and on-boarding NTB clients seeking finance for one or more of the decarbonisation levers listed above. The pathway and priority for near-term real world steel decarbonisation is through growing the scrap steel circular economy and brokering clean power for EAF's.

The Transition plan covers various elements such as:

- Setting targets
- Actions to meet targets
- Engagement
- Enablers

Credible transition plan criteria

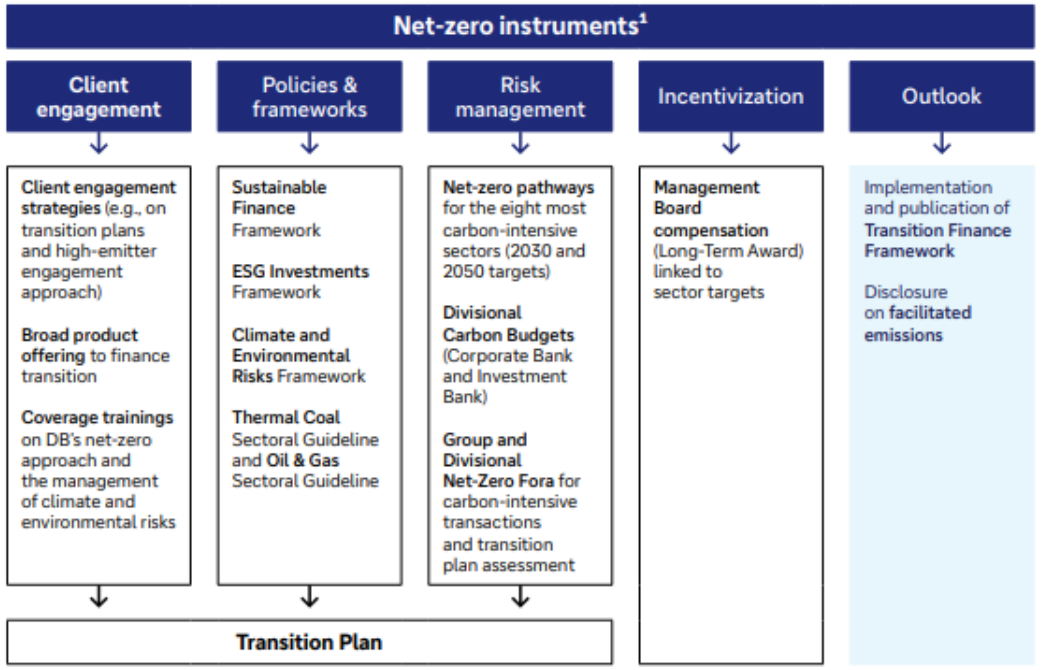
Elements	Description
Quantitative commitment	The plan includes progress benchmarks on emissions reductions that are clearly outlined for defined timeframes.
Implementation strategy	The plan sets out how the company will deliver on its climate commitments – both to reduce its own risks, and in support of climate action – through policies, products, tools, services, and relationships.
Enterprise-wide approach	The plan is integrated into the overall business strategy including budgeting and investment plans.
Transparency and accountability	The plan sets out a framework for transparently reporting on progress, assumptions, monitoring, and accountability.
Escalating ambition and responsiveness	The plan is reviewed and revised regularly and updates the level of ambition based on progress.

Standard Chartered Bank Transition plan

Deutsche Bank opted for a very lean and concise transition plan but still covers the main elements

Our Transition Plan as one of the key instruments to manage our emissions

Deutsche Bank's comprehensive net-zero management is an important cornerstone of our riks management and overall sustainability strategy with its transition plan as a key instrument. The approach of our net-zero management is constantly reviewed and adapted to developments, including changing requirements.



Client engagement approach

Deutsche Bank has a three-pronged approach to systematically reduce the financing of carbon-intensive activities and growing the financing of activities which support transition to net-zero:

1. **Finance the development and scalability of clean energy infrastructure** needed for transition away from fossil fuels in the economy;
2. **Engage with high-emitting clients** to support and finance their decarbonization and transition in the real economy;
3. **Review engagement with clients which are not willing or able to transition** away from carbon-intensive activities and as a last resort, responsibly phase out high-emitting assets

Key enablers

Governance
A multi-layered governance structure includes:
- **Supervisory Board**
- **Group Sustainability Committee** (main decision-making body)
- **Chief Sustainability Office**
- **Sustainable Finance teams** in each business unit
- **Group and Divisional Net Zero Fora** to assess high-impact transactions and client transition strategies

Risk Management
- Climate and transition risks are integrated into:
  - Risk frameworks and metrics
  - Client and transaction approval processes
  - Portfolio monitoring and reporting
- **Transition risk scorecards** assess clients' GHG performance and climate commitments
- Management Board compensation is linked to net-zero targets
- **Divisional Carbon Budgets** implemented in Corporate and Investment Banks

Frameworks & Policies
- **Sustainable Finance Framework** and **ESG Investments Framework**: Define methodologies for classifying sustainable transactions and instruments
- **Sustainable Instruments Framework**: Guides issuance of sustainable financing instruments
- **Environmental and Social Due Diligence Framework**: Consolidates ESG requirements for client assessments

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We have supported clients with developing prudential transition plans

Support to large banks

- Initial definition of **overall approach and roadmap** including:
  - Application scope (relevant entities, geographies, EU/non-EU)
  - Scope (transition, physical, nature-related)
  - Roadmap (workstreams, timeline, responsibilities)
  - Structure of Transition Plan document (key contents, outline of story lines)
  - Selection of relevant scenarios
- Definition of **data requirements** for Transition Plan (key metrics & targets) and set-up of dashboard and quantitative transition plan.
- Development of an approach and methodology for **client engagement** to comply with the new EBA-GL on ESG Risk Management.
  - Piloting engagement questionnaires for priority sectors including risk assessment of transition, physical, nature-related risks
- Definition of **governance** in relation to Transition Planning with granular allocation of roles and responsibilities across 3LoDs with respect to the specific tasks involved in the development of the plan, validation, implementation of the plan.
- Initiation of structured discussions to assess how the **Transition Plan shall be integrated** with the strategic objectives, business environment analysis, risk appetite framework, limit setting, and capital planning processes of each bank, ensuring **alignment across core planning and risk functions.**
- **Defining the methodologies and approaches to come up with a quantitative Transition Plan (MTP)** (e.g. structure, key line items to be planned for, modelling assumptions, etc.).

- We are also supporting **smaller institutions as well — most notably the Association of German Sparkassen (DSGV)** and several **mid-sized Spanish banks**, guiding them through the EBA ESG-GL in relation to:
  - Developing industry-wide guidelines for EBA GL implementation
  - Designing “simplified” version for Transition Plans for SNCIs incl. tools for automation for data processing
  - Putting the data and governance tools in place to kick-start credible transition-plan development

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Conclusion

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Conclusion

- Navigating regulations and regulatory change, stakeholder expectations, real climate risk exposure, and competing demands for resources is not a trivial task.
- Transition to a more sustainable business that is aligned to the demands of role-players, is the new cost of doing business.
- This involves analytical rigor as much as it involves leadership skill and talent.
- The starting point is detailed surveying, and understanding materiality, without filtering through the lens of proportionality.
- That means a solid investment in at least an initial analysis.
- But the benefits are substantial
- Creating a sensible, informed transition plan lays a solid foundation for sustainable business going forward, with no avoidable surprises.

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Q&A

28 October 2025

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