# Impact of ESG on Bank Financing

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11 April 2024 – Way2ZeroEmissions, Stuttgart

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# Setting the scene: Regulation and Net-Zero targets are driving sustainability reporting and sustainable finance

## Increasing pressure for more accountability, greater regulatory scrutiny, and credible disclosures


Source: Bain, ERM, S&P Global, ING Research

## Key trends driving the ESG agenda

### Environment

- Significant increase in net-zero climate commitments and targets
- Global energy crisis, leading to focus on energy security on the short-term
- Nature and biodiversity regulations and requirements
- Efforts to mitigate and adapt to climate change also provide opportunities for change

### Social

- Stakeholder pressure around business impacts on social matters and human rights
- Building sustainable and resilient supply chains (e.g. due diligence requirements)

### Governance

- Increased public scrutiny of greenwashing claims leading to e.g. reputational risks
- Increased litigation risks
- Enhanced non-financial/ESG regulation
- ESG ratings and other ESG frameworks become more stringent

# How is the banking world reacting?

## Risk identification

- ESR Framework
- Stress testing

## Governance & risk appetite

- Materiality Assessment - risks on business environment
- Climate Risk Appetite Statement (RAS) – from soft to hard limits

## Risk management

- Monitoring risk implementation across sectors and portfolios
- Updating risk policy implementation - coal, oil & gas, risk rating, etc.

## Reporting & disclosure

- Integrated climate report
- Human rights report
- Sector reports
- Sustainable finance - in line with EU Taxonomy

# Terra – our climate alignment approach

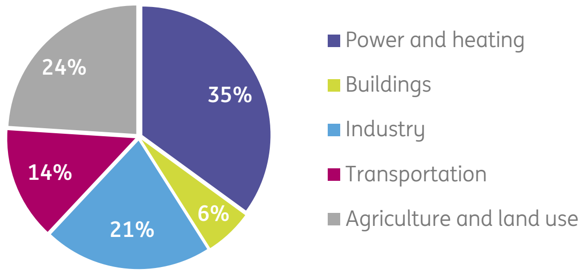
**Ambition:** Steer the most carbon intensive parts of our loan book towards net zero by 2050 or sooner and contribute to keeping global warming within 1.5 degrees compared to preindustrial levels

## Impact-based

- **Focus on the most carbon-intensive sectors**, responsible for the vast majority of GHG emissions

Power Generation
Oil & Gas
Commercial Real Estate
Residential mortgages
Cement
Steel
Automotive
Aviation
Shipping

Global GHG breakdown per sector




## Science-based

- **Toolbox approach**
  - Apply the best-fit methodology per sector
  - Specific targets per sector
- Application of **science-based scenarios**
- Use of physical asset-level-data

PACTA
Paris Agreement Capital Transition Assessment

SCIENCE BASED TARGETS

POSEIDON PRINCIPLES

## Engagement-driven

- **Engagement** with current clients to help them **transition** to greener way of doing business
- Selecting prospect clients also based on their stance on sustainability

# How we support our clients

### Green / Social / Sustainability Finance Structuring

Debt Capital Markets instruments (bond, Schuldschein, securitization), of which the proceeds are used to finance green and/or social projects / investments

### ESG Advisory

Range of ESG advisory services, such as:
- ESG Rating Advisory
- ESG Strategy Advisory
- ESG Reporting Advisory (incl. EU Taxonomy alignment)

### Green Loans

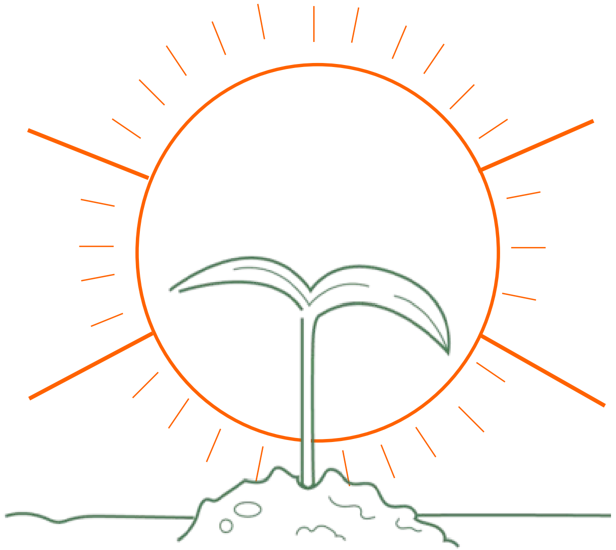
Loans where the use of proceeds is linked specifically to green projects, green product development or a 'green' project portfolio of the client

### Sustainability Improvement Loans (SIL)

Loans that can be used for general corporate purposes, which link the interest margin to the improvement of the client's external ESG score or tailored KPIs

### Sustainable Structured Finance

Structured lending for new business models, technologies and sectors such as circular economy, water and energy transition



### Sustainable Investments

Range of equity, mezzanine instruments for scale-ups in new business models and technologies like circular economy, water and energy transition areas

### Sustainable Supply Chain Finance (SSCF)

Linking SCF discount rates or payment terms to sustainability performance of suppliers to strengthen the supplier base of our clients

### Sustainability Improvement Derivatives (SID)

Financial market derivatives, such as an interest rate swap, where a part of the pricing is linked to the company's (existing) sustainable finance KPIs

### Sustainable Capital Structuring

Supporting the company in refining its sustainability strategy by the structuring of green and sustainability-linked financial products (incl. DCM) and M&A advisory

# Outlook for financing for transitional business

## What can the transport businesses expect?

- Net zero/ decarbonization of value chain sets the pace of ICE phase-out
- Banks currently focus on vehicle OEMs
- More stakeholders in transportation value chain will move into focus
- Do no significant harm assessment is already affecting entire value chain

## What about financing of business that are not Net Zero aligned?

- Availability of financing likely to decrease (cf. Defense sector)
- Pricing of financial products likely to significantly increase (through ESG factors and increased risk weighted assets)
- ECB will monitor banks' exposure impacted by energy transition

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