Integrating environmental, social and governance (ESG) activities into business-as-usual operations is not simply seen as the ‘right thing to do’, but also as a key factor in an organisation’s sustainability, and ultimately, its success. For the financial services sector, the sustainable finance agenda is evolving at a rapid pace. Several key drivers for change have emerged:

**Regulator interest**
Regulators are shifting from light-touch expectations on disclosures to expecting comprehensive climate risk stress testing and fully embedding ESG risks into prudential supervision.

**Market opportunities**
The green agenda opens up numerous lending and investment opportunities; financial services firms will be actively looking to combine profits with environmental and social purposes.

**Investor pressure**
Investors are increasingly concerned about the valuation of ‘stranded assets’ and reputational risk. Fossil fuel divestment campaigns continue to gather pace.

**Public and societal opinion**
Public interest in sustainability agenda has grown at all levels in financial transactions and operational activities.

Deloitte believes preparation in addressing climate and environmental risks will strengthen your broader business proposition in addition to ESG-specific issues. Integrating ESG into your business-as-usual and risk management activities are likely to enable you to capitalise on fresh opportunities for growth.

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**Integrating ESG into day-to-day operations**
ESG issues may reflect in the Bank’s existing risk categories and/or may be reflected in a new ESG and climate risk category.

**Material ESG issues to consider**
- Environmental
  - Climate change
  - Materials sourcing and use
  - Energy efficiency
  - Environmental policy
- Social
  - Employment practices
  - Labour conditions
  - Financial consumer protection
- Governance / other
  - Corporate governance
  - Political accountability

**Bank risk categories (illustrative)**
- ESG (incl. climate) risk
  - Credit risk
  - Market risk
  - Operational risk
  - Reputational/strategic risk
  - Regulatory risk

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**Risk culture**
Risk strategy and appetite

1. Identify
2. Engage
3. Assess
4. Integrate
5. Monitor and escalate
6. Communicate & report
How can Deloitte help?
Deloitte provides a full end-to-end solution to assist our clients to integrate ESG into their day-to-day operations, especially in focus areas which will increasingly attract attention from governments, regulators, investors and other stakeholders in society.

**Scenario analysis & stress testing**
Identify, develop and implement climate change stress testing scenarios in the existing stress testing framework and ascertain your institution’s risk appetite, governance and risk reporting.

**Risk modeling & asset-liability valuation, including stranded assets**
Perform benchmarking with reference to Pillar 1 and Pillar 2A methodology on existing ESG models.

**Regulatory compliance**
Interpret new regulations (e.g. HKMA self-assessments and further reviews), identify and rectify any gaps in your existing practices to avoid potential non-compliance.

**Risk appetite, governance and risk reporting**
Incorporate and integrate ESG risks (esp. climate risk) and sustainability considerations to your risk management framework.

**Sustainability strategy**
Analyse your existing ESG capability maturity, and partner with you to develop and execute a sustainable finance framework.

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