



Effective Management of Climate-Related Financial Risks

An Opportunity for Financial
Institutions



Background

As climate change alters the economy, financial institutions (FIs) confront rising risks from climate-related disasters and regulatory/technology changes. As FIs are taking measures to tackle these growing risks, they are also playing pivotal roles in driving the transition to a sustainable economy. Realizing the importance of FIs in driving the sustainability agenda, regulators are coming up with various initiatives to encourage and/or mandate the adoption of sustainability measures at FIs.

Regulatory landscape

In the UAE, different regulatory bodies and exchanges have come up with initiatives to encourage sustainability in the financial services industry.



Climate Risk Scenario Analysis required for all large DSIBs and banks with relatively high Environmental, Social and Governance (ESG) Risk Exposure

SCA published a Master Plan for Sustainable Capital Markets that aimed to encourage sustainable practices and funding in the capital markets

DFM published its ESG Reporting Guide in line with its vision for market growth and sustainability in the financial markets

ADX published an ESG Disclosure Guidance for Listed Companies that focused on identification and reporting of material issues

A **Sustainable Financial Working Group (SFWG)** was formulated, comprising **Ministries, Regulators and Exchanges**, that produced **7 guiding principles** for the banks to tackle climate-related financial risks. It directed its constituents to start the application of the 7 principles for financial sector players starting **November 2023**.

1

The board and senior management should have an appropriate understanding of the organization's climate-related financial risk exposures and their potential impact to facilitate effective oversight.

2

The board and senior management should consider material climate-related financial risk exposures when setting the organization's overall business strategy.

3

The board should assign climate-related financial risk management responsibilities throughout the organization.

4

The board and senior management should oversee the incorporation of climate-related financial risks into the organization's internal risk management framework (RMF) and oversee the development and implementation of processes to identify, assess, measure, mitigate, monitor and report on climate-related financial risks.

5

Financial Firms should ensure that internal reporting systems are capable of monitoring material climate-related financial risks and producing relevant, accurate and timely information to inform effective board and senior management decision-making.

6

Relevant financial firms should incorporate material climate-related financial risks in their internal capital and liquidity adequacy assessment processes

7

Where appropriate, relevant financial firms should develop and implement climate-related scenario analysis frameworks, including stress testing, in a manner commensurate to their size, complexity, risk profile and nature of activities.

Our Observations on Market Readiness for ESG adoption

Globally, banks and banking regulators in Europe have led the adoption of ESG and Climate Risk mitigation practices. In the Middle East, financial markets are emulating these steps, aligning with national sustainability agendas. Regional regulators are driving sustainability initiatives, urging banks to craft ESG strategies. However, despite existing global benchmarks, substantial efforts are needed to adapt these practices to local market conditions. This entails a nuanced understanding of regional dynamics and tailoring strategies accordingly.

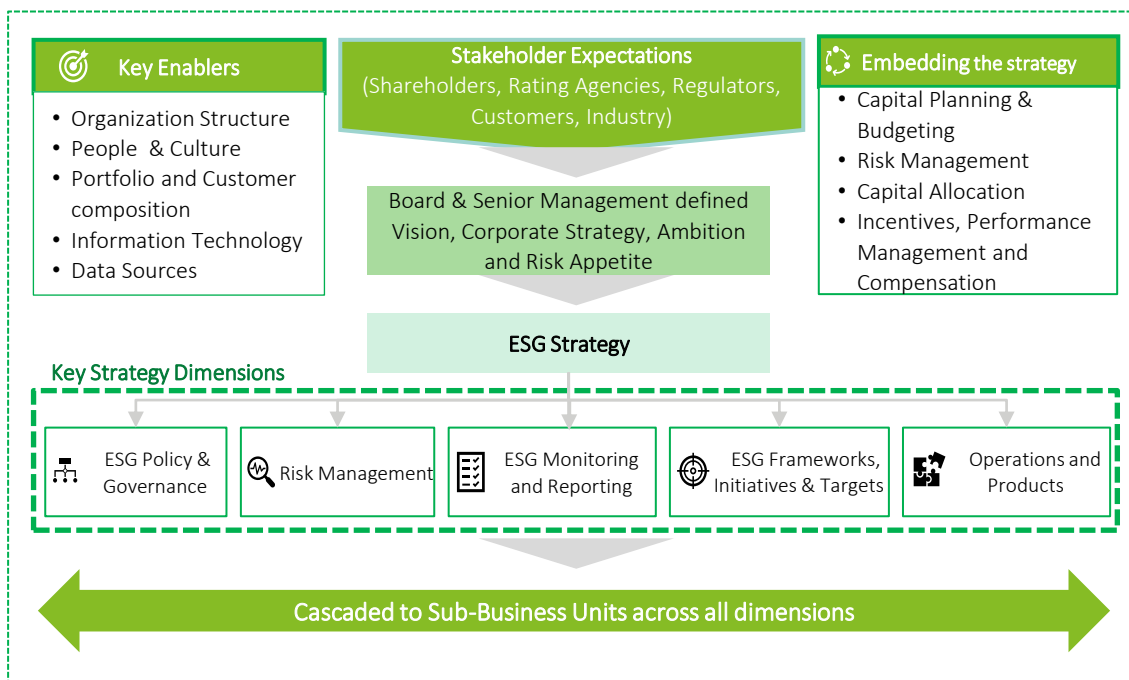
Integrative Approach from strategy to implementation is the need of the hour

It is imperative that FIs adopt an integrative approach and develop institution wide strategy on how to integrate ESG into the operating model, with coverage of key dimensions of policy, governance, reporting, monitoring, appropriate frameworks, products and risk management

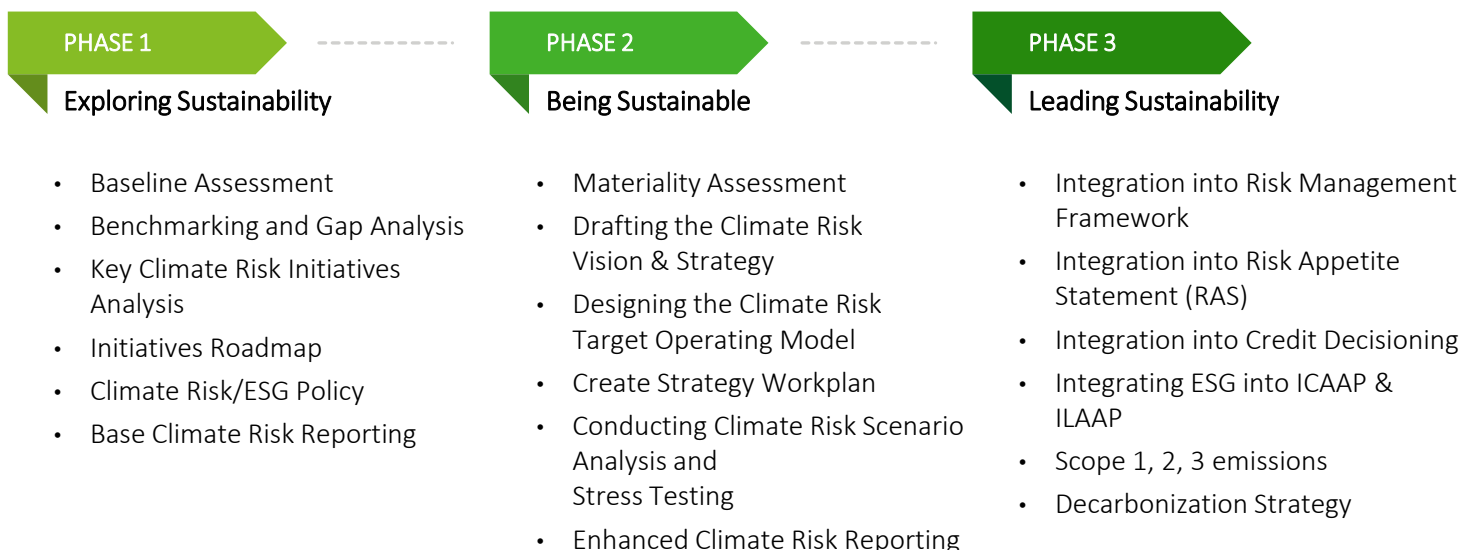
Strategic considerations



... Shaping your ESG vision and strategy



Embracing the 7 Principles: Typical Journey



How Deloitte Can Help

Our experience with supporting FIs in the Middle East and in Europe with their ESG initiatives provides us with invaluable knowledge, which we can leverage to support you in different areas of your ESG journey.

1 ESG Policy and Governance

Developing ESG Policy and Governance covering objectives, regulatory guidelines, strategic initiative and roles & responsibilities

2 Benchmarking & Roadmap

Evaluate the company's ESG objectives, audience and outlets compared with peers to understand industry trends

3 Materiality & Impact Assessment

Identify material issues and impact on E,S and G factors, and conduct assessment for the bank.

4 ESG Strategy

Develop a long-term plan for identifying key ESG initiatives and integrating ESG into your core business operations.

5 Integration into Credit Decision— Making

Consider ESG factors alongside traditional financial metrics for more informed lending decisions.

6 Measuring Scope 1, 2, 3 emissions

Develop tailored solutions for measuring Scope 1, 2, and 3 emissions in line with industry-leading practices and aligned to your strategy

7 ESG Monitoring & Reporting

Choose and implement a suitable framework like ISSB, and evaluate the type and level of external assurance to meet stakeholder expectations

8 Climate Risk Stress Test

Develop climate-related stress test mechanism covering physical and transition risks in line with CBUAE's stress test instructions to banks and market leading practices

Why Choose Deloitte



OUR SUCCESS STORIES

Deloitte has delivered several successful climate risk and ESG engagements in the Middle East and the world over with banks and FIs covering ESG strategy, emissions computations, decarbonization, climate risk reporting, etc.



OUR TOOLS & ACCELERATORS

Deloitte has developed multiple tools and standardized frameworks for the integration of climate risk and ESG into the banks' operations. We will leverage these to accelerate the delivery of our climate risk engagements.



OUR TEAM OF EXPERTS

Our global team of subject matter experts have a firm grasp of the intricacies of climate risk. We can draw from our collective insights to enable accelerated delivery and ensure high-quality deliverables.



OUR COMMITMENT

Deloitte regularly works with major multilateral organizations and think tanks to help shape the ESG and Climate Risk agenda globally. Deloitte regularly publishes thought leaderships on key climate risk subjects which unlock new dimensions of climate change to the world.

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