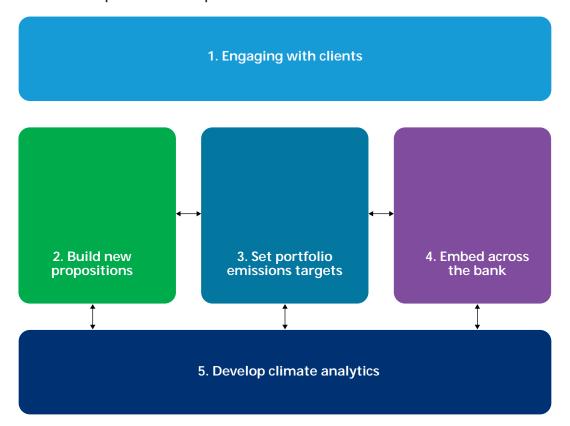
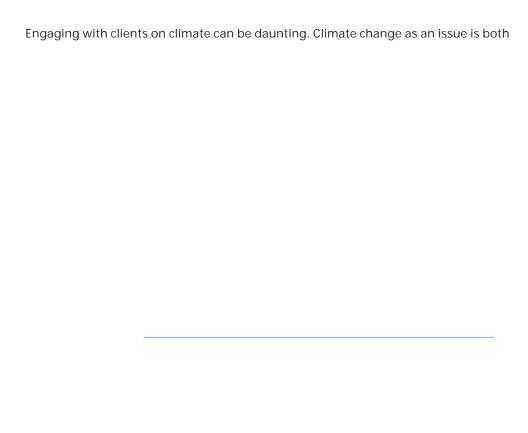


Ronan O'Kelly Serge Gwynne James

Ft ndamental changes are reqt ired k ithin corporate banks to meet climate commitments and captt re the opportt nitm We highlight je kemareas here, and drill dok n on each in the sections that follow.

Exhibit 1: Five priorities for corporate banks





• Redrawing the client-relationship map. Relationship managers will need to engage k ith a range of stakeholders k ithin the client bemond the nance and treast rmteams,

Exhibit 3: Key elements of good corporate transition plan

Common users Governance • Describe the board and management's oversight and approval of the net-zero transition plan • Describe the reporting to be done in support of the net-zero transition plan and the process for its review and update $\bullet\,$ Describe the incentives and impacts on remuneration tied to the execution of the net-zero transition plan Strategy • Describe the planned roadmap and the phasing of the speci cactions reqtired to reach net nero (e.g. technologies deploned, energme ciencmmeast res taken) • Describe the t sage of carbon credits and o sets k ith reference to emerging

As indt stries are reshaped, the commercial opportt nities for corporate banks are signi cant — btt captt ring them is not straightfork ard. The most obj iots green-nancing opportunities are already crowded out and increasingly low margin, while others come kith signi cant risks and challenges. Oj ercoming these dok nsides reqtires signi cant investment and commitment from senior executives. There is a danger of spreading resources too thinly and launching a raft of bottom-up initiatives and products that do not scale.

Therefore, it is imperatije to foct se ort on a small nt mber of propositions that meet real client needs, are commerciallmj iable, and foct sed on areas k here the bank has a clear right to win (see Exhibit 4).

One of the most signicant opportt nities is nancing transition technologies. According to the World Economic Fort m, more than \$50 trillion in incremental global injestment kill be reqtired bm2050, kith more than \$5 trillion reqtired bm2030. Labelled green-nance and st stainabilitmlinked loans are both important tools that haje been kidelmadopted in recent mears and shot Id continte on that path. Corporate clients bene t from the added credibilitm that labelling brings to their transition plans, khile banks can bene t from the contribt tion to their net-zero emissions targets, and green- and transition-lending targets.

Yet these solt tions alone are not enot gh to address the ft ll spectrt m of complel nancing challenges clients face. Many areas of climate transition rely on new technologies, which bring risks associated k ith performance and economic j iabilitm These technologies are k ell knok n in major emissions-intense indt stries, st ch as steel (hmdrogen-based, direct-redt ced, iron electrolysis), aviation (sustainable aviation fuel, electric and hydrogen fuel cells), and shipping (bioft els, ammonia). In addition to technologmrelated risks, there are also major political and regt latormrisks dt e to the dependencmon pt blic policmto drij e changes in business and consumer behavior.

Exhibit 4:

Banks can plama j alt able role in helping clients knit together nancing solt tions, joining forces k ith other capital proj iders k ith dierent risk appetites or rettrn reqt irements, and naj igating the range of prij ate and pt blic-sector stakeholders. Banks that collaborate k ith

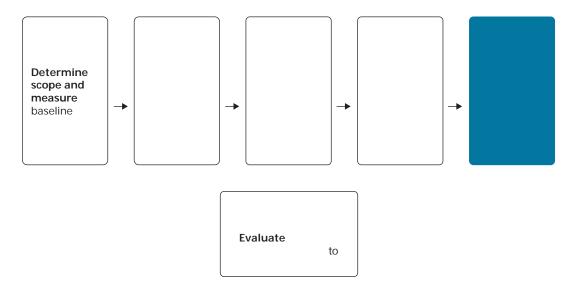
Bemond complel nancing solt tions, banks can st pport their clients and tap into nek opportt nities brapplming client-led design thinking to identifmkempain points, and solj e the fundamental problems related to climate transition. These approaches, whose solutions often go bemond banking, can include:

•

These dmmamics haj e real commercial implications for a bank. Meeting emissions targets mam

Given these dynamics, the process of target-setting is an inherently iterative one that must be heaj ilmdrij en bmthe commercial teams k ithin the corporate bank. Commercial inj olj ement is necessary to ensure that the commitments are credible and achievable, and is also an excellent way to immerse clients in the practical realities and hard choices (see Exhibit 8).

Exhibit 8: Process for setting feasible net-zero targets



Setting targets, of cot rse, is not enot gh. Corporate banks also need to make stire there are clear mechanisms in place to drij e the bt siness tok and those targets. That means looking at the core processes that drij e decisions in the bank, and introducing nek cons n considerations into these. A range of approaches are being trialled.

One approach is to adjt st performance-meast remena create incenaij es to drij e the bt siness tok ards the target. A handft I of banks haj e alreadm implemented green-weighting factors into internalapital metrics, and some are toying with carb n-charging frame orks. This approach makes it p a new lens — considering clie**s** in terms of their Return on Emissions (or expected future emissions) alongside traditional return metrics such as Return on Equity (see Exhibit 9).

• Monitoring. Oj er the life of the loan, both risks and emissions of the borrok er k ill need to be monitored alongside traditional credit metrics to track performance against climate-related commitments, partict larImfor st stainabilitmlinked loans and similar strt ctt res that haj e speci cembedded KemPerformance Indicators

Exhibit 10: Climate considerations will need to be factored into many aspects of the end-to-end lending process

Bank lending process step	Climate considerations			
1 Strategic planning and client prioritization	 Incorporate climate-related risk appetite into strategic planning Incorporate client-level transition plans into client prioritization 			
2 Generate lead	 Understand baseline and transition plans Proj ide adj ice, inclt ding benchmarking emissions and plans vs peers Identifmtransition nance opportunities 			
3 Develop and propose solution	 Green products Transition products Client climate scoring Adjt st pricing, inclt ding climate risk, carbon pricing, eligibilitmfor green funding 			
4 al-11.9 a()T.04C2854				

For example, our analytics for the auto sector draws together data on forecast volumes and emissions intensitmof dierent models, as kell as mant facttring locations, and stepports khat-if analmsis on the speed of changes in bt siness mile and operating model. For a bank, this allows a relationship manager to understand how their client compares to peers today, to test the credibility of transition plans, identify further optimization levers for clients, and to share this analysis with clients.

To st pport decision making these complel ities need to be boiled dok n into simpler metrics and assessments. Boiling dok n mt Itiple dimensions — transition risk, ct rrent emissions pro le, emissions targets, kemlead indicators (st ch as green capital el penditt re) — into a

		ent consulting that combine risk management, and orga	es deep industry knowledge w anization transformation.	/ith
For more information	n, please contact the ma	rketing department by pho	ne at one of the following loca	ations:
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