Sustainable Finance: Spotlights on Risks and Stranded Assets

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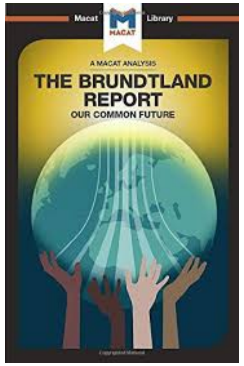
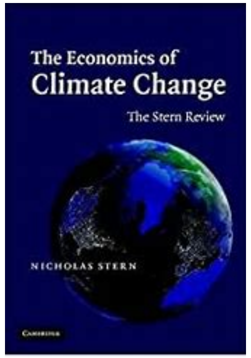
Today more actual than ever



„Sustainable development, is the development that meets the needs of the present without compromising the ability of future generations to meet their own needs.”

Our common future - Gro Harlem Brundtland – 1987



“The benefits of strong and early action far outweigh the economic costs of not acting.”

Stern Review on the Economics of Climate Change, 2006

COP21 · CMP11

The Paris Agreement sets out a global framework to avoid dangerous climate change by limiting global warming to well below 2° and pursuing efforts to limit it to 1.5° .

Sustainable Finance and its central Role

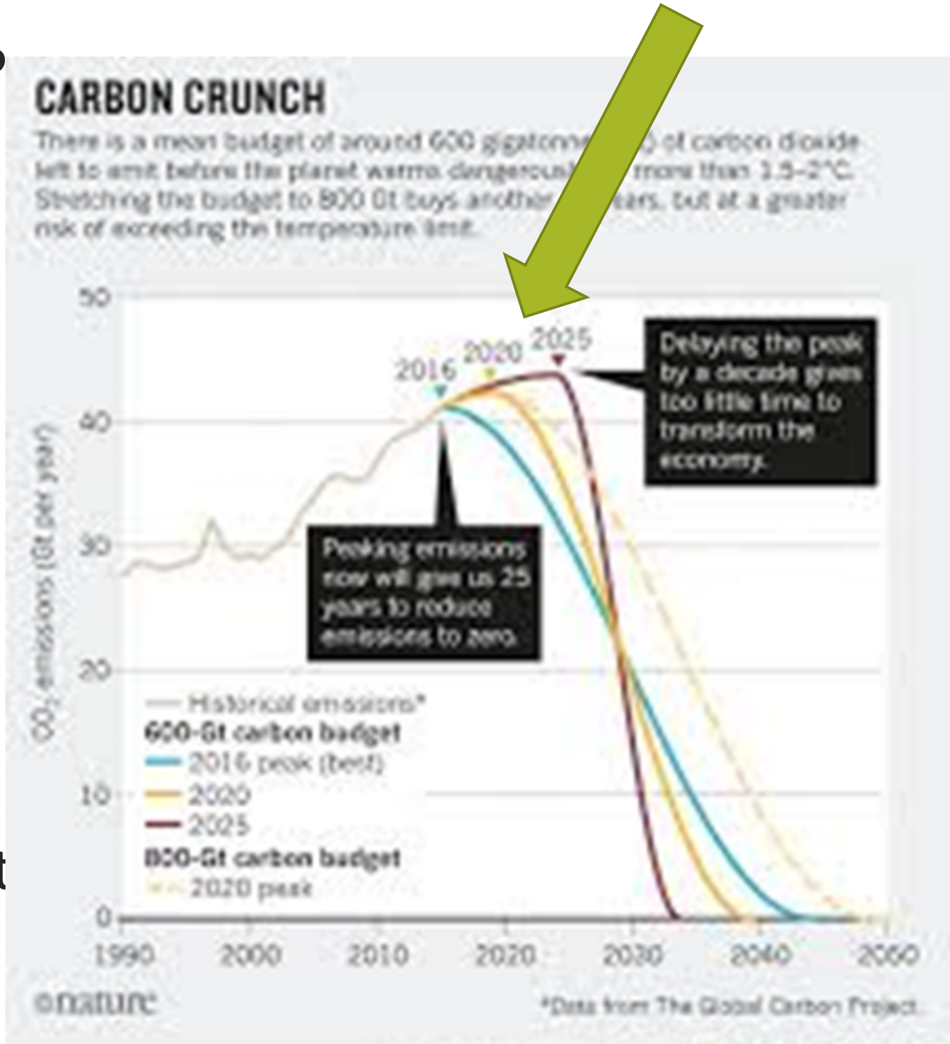
Sustainable finance generally refers to the process of taking due account of environmental, social and governance (ESG) considerations when making investment decisions in the financial sector, leading to increased longer-term investments into sustainable economic activities and projects.

Mark Carney, the Bank's governor, and François Villeroy de Galhau, the governor of the Banque de France:

"As financial policymakers and prudential supervisors we cannot ignore the obvious physical risks before our eyes. Climate change is a global problem, which requires global solutions, in which the whole financial sector has a central role to play."

Transition to a low-carbon Economy

- ❖Investments in the EU of 270 Bio. Euro or 1,5% of the GDP
- ❖Huge opportunities and risks for the financial sector
- ❖Sustainable Finance is an elementary piece
- ❖ESG-Criteria: necessary consideration
- ❖Driver: Regulation, Technology, Market, Legal Requirement



Stranded Assets

Stranded assets are those assets that are no longer able to earn an economic return.

- Economic stranding – due to a change in relative costs/prices, (Carbon Tax, Technological change,)
- Physical stranding – due to environmental change, losses through distance / flood / drought.
- Regulatory stranding – due to a change in policy of legislation., societal norms and consumer behavior change

Example:

Carbon Bubble: 80% of the available fossil fuels are unburnable Loss of 40-60% of shareholder value, stranded assets between $1 trillion and $4 trillion

In further sectors depending on fossil fuels, e.g. automotive, mobility, steel, radical turnaround necessary

impact on credit rating, dividend, stock price performance

Physical Risks

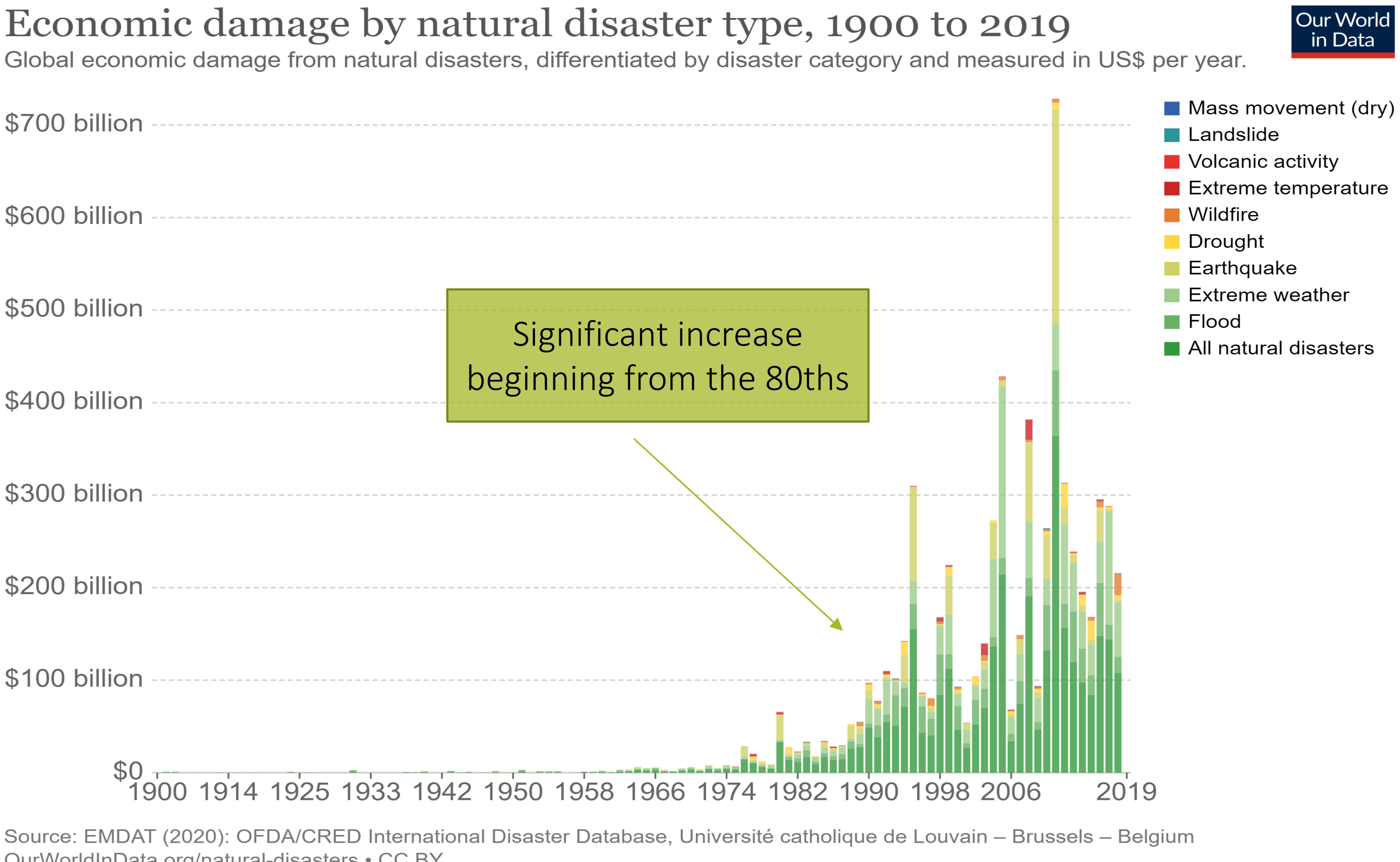
Extreme weather events

Direct losses from all disasters (*UN Office for Disaster Risk Reduction):*

$2.9 trillion US Dollar, 77 percent (1998-2017):

Impact on e.g.:

- Asset management
- Credit losses
- Insurances



Transitional Risks

Transition risks: political goals towards a low-carbon econo

❖EU parliament votes for 60% carbon emissions cut by 20

In average major oil and gas companies need to reduce pro
by 35% to 2040

Stranded assets up to 20 Bio. US Dollar

Banks: In Germany credits for coal: around 2% of the total credit volume, single institutes up to 60% (supplier inclusive)

Investments of the Federal Government of Germany (e.g. Pension Funds) are still on a 18° way

Legal, Liability and Reputational Risks

- Climate (or ESG _) lawsuits:

Changes of legal framework and sustainability-damaging stratey,

can leed to more complains, compensation,

E.g. farmer against large energy companies: demand for compensation for climate related harms and

reimbursement of expenses from climate adaptation (companies and states)

- Reputational risk for companies and investors:

§ Investments in companies, which are especially climate-damaging loss of reputation

Recommendations

The Paris Agreement and the succeeding regulations on all levels are leading to a huge transition in the whole financial sector:

- Climate-related (ESG) criteria - implement in all sectors and services of the financial sector
- ESG-/Climate related risk management - basis successful long-term investments
- Consistent and comparable standards , KPIs, taxonomy, climate-related indices, ESG-databases are necessary
- Measurement, transparency and reporting of financial impact of climate change are elementary pieces
- Methods of clear internalisation of external costs
- State as a role model

Outlook:

For the Future:
For the first time in the report's 10-year outlook, the top five global risks in terms of likelihood are all environmental -- extreme weather events, human-made environmental disasters, major biodiversity loss, natural disasters, and failure of climate change mitigation and adaptation.

World Economic Forum Davos 2020:

Thank you for your attention:
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