



# Environmental risks in the supervisory framework of Croatia

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## Direction of travel ...

- **We know where we are going** - The European Climate Law - become climate-neutral by 2050 -intermediate target of reducing net greenhouse gas emissions by at least 55% by 2030 compared to 1990 levels. MS share their effort by defining the ***Effort Sharing Regulation*** – setting the targets for each individual MS
- **Banking system** – JFK “Ask not what your country can do for you ...

# Speed of travel ...

## Regulatory products have different speed of implementation

- **NFRD** - Commission Guidelines on non-financial reporting: Supplement on reporting climate-related information – 2019 
- **SFDR** - apply (with some exceptions) from 10 March 2021
- **EBA GL on loan origination** apply from 30 June 2021
- **EBA GL on corporate governance** apply from 31 December 2021
- **CRDVI/CRR3** defining 'environmental risk' still under development





# Non-financial reporting for banks...

Banks have to address **double materiality perspective**:

- ▶ How climate-related risks and opportunities of the investment&lending might affect the financial institution's business model.
- ▶ Whether and how the institution takes into consideration that its counterparties take climate-related risks and opportunities into account.
- ▶ How the assessment of climate-related risks and opportunities are factored into relevant investment, lending and how each strategy might be affected by the transition to a lower-carbon economy.

KPIs ...

- ❑ Amount or percentage of carbon-related assets in each portfolio in MEUR or as a percentage of the current portfolio value
- ❑ Credit risk exposures and volumes of collateral by geography/country of location of the activity or collateral, with an indication of those countries/geographies highly exposed to physical risk.
- ❑ Volume of financial assets funding sustainable economic activities contributing substantially to climate mitigation and/or adaptation (absolute figures and compared to total exposures) according to the EU taxonomy.

**Regulation (EU) 2021/2178** supplementing Regulation (EU) 2020/852 of the European Parliament and of the Council by specifying the content and presentation of information to be disclosed by undertakings subject to Articles 19a or 29a of Directive 2013/34/EU concerning environmentally sustainable economic activities, and specifying the methodology to comply with that disclosure obligation



# EBA Guidelines ...

## **EBA GL on corporate governance**

- the management body should aim at ensuring a business model, governance arrangements, including a risk management framework that take into account all risks. When taking into account all risks, institutions are exposed to, institutions should take into account all relevant risk factors, **including environmental, social and governance risk factors..**

## **EBA GL on loan origination**

- Institutions should incorporate ESG factors and associated risks in their credit risk appetite and risk management policies, credit risk policies and procedures, adopting a holistic approach.
- Institutions should take into account the risks associated with ESG factors on the financial conditions of borrowers,...



# Supervisory goals...

- incorporating climate-related and environmental risks into supervisory expectations in line with the ECB's Guide on climate-related and environmental risks
  - ❑ Dec 2021 – CNB has issued supervisory expectations to the LSI with respect to business model and strategy, risk management and public disclosure
  - ❑ June 2022 – CNB is expecting self assessment from the LSI of the supervisory expectations
- engaging in regular open dialogue with credit institutions in order to encourage them to incorporate climate-related and environmental risks into their risk management frameworks and decision-making processes
  - ❑ regular workshops on ESG related issues
  - ❑ efforts in introducing harmonised data questionnaire for corporate clients and central platform for collecting and exchanging the data

A pocket watch with a globe as the dial, symbolizing time and global impact. The watch is silver and has a large ring at the top. The globe shows continents in yellow and green and oceans in blue. The watch face has numbers from 1 to 12. The background is a gradient from blue to yellow.

# Key challenges...

- the complexity of the regulatory framework for ESG risks
- awareness that double materiality is not only a burden but also the opportunity
- data challenge is a common problem and could be solved by coordinated action
- the higher the quality of the ESG data the better risk management
- prevent wrong ESG labelling – greenwashing
- consolidated cross-border ESG risk management due to different taxonomies and different targeted transition speed



Thank you for your attention!  
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