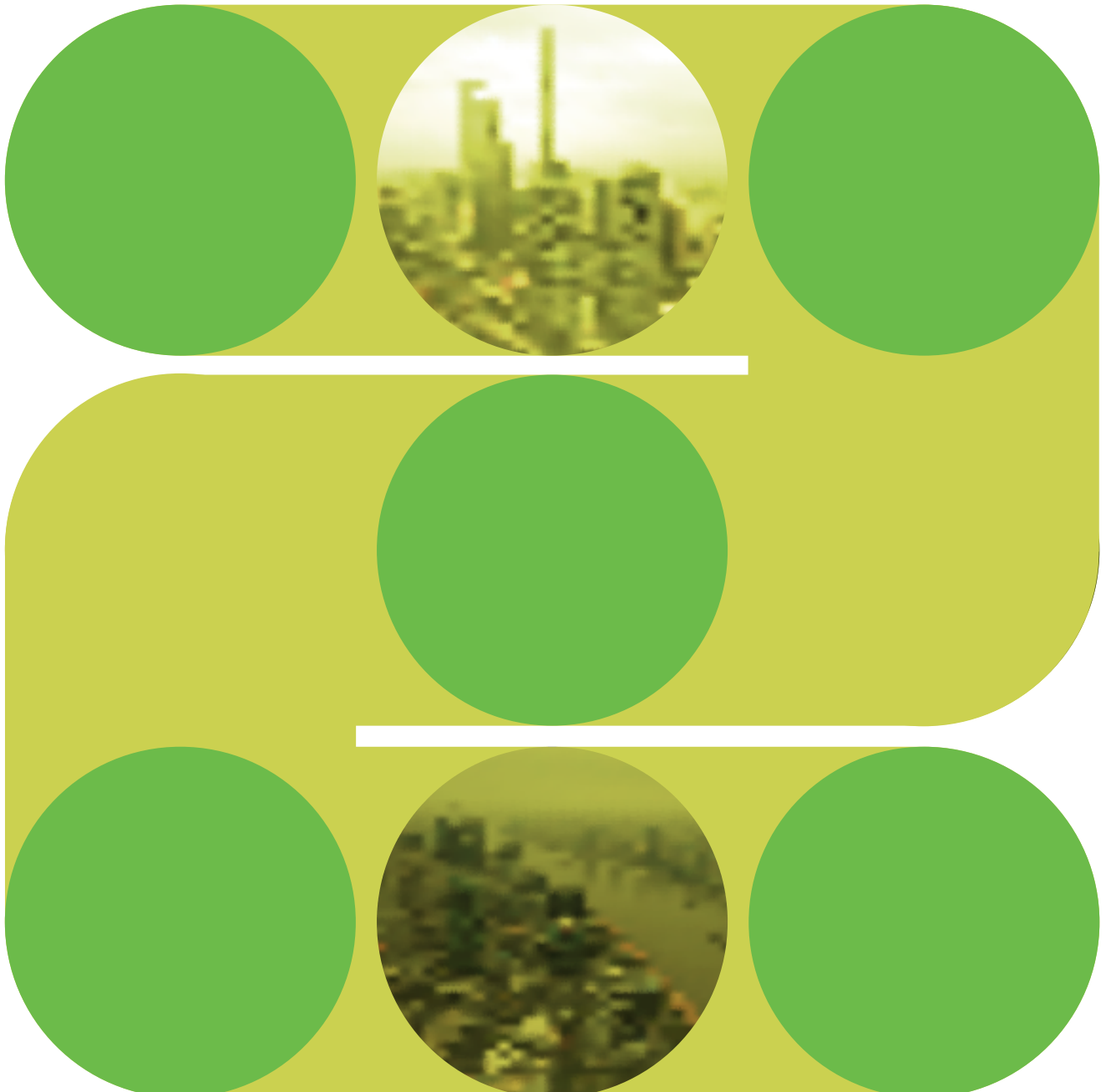


Environmental Risk

FINANCIAL
INSTITUTIONS



What you need to know & WHY

APRA Climate Change Guidance - Climate change financial risk management



TARGET LEGAL FRAMEWORK

Australian Prudential Regulation Authority (APRA) developed Prudential Practice Guide CPG 229 Climate Change Financial Risks (APRA Climate Risk Guide) to assist APRA-regulated institutions (banks, insurers and superannuation trustees) in complying with Prudential Standards CPS 220 Risk Management, SPS 220 Risk Management, CPS 510 Governance, SPS 510 Governance and, more generally, to outline prudent practices in relation to climate change financial risk management.

The APRA Climate Risk Guide highlights the importance of financial institutions understanding the interaction between climate risks and their business, including the compounding effect climate risks may have on an institution's other risks, such as:

- (a) credit risk – through the potential for businesses and households that may be affected by adverse climate events to default on their loans as well as the potential for assets used as collateral to decline in value;
- (b) market risk – through the impact of potential re-pricing of financial instruments and corporate debt affecting the value of securities held on an institution's balance sheet;
- (c) operational risk – including through the risk of supply chain disruption and forced facility closures;
- (d) insurance risk – through a potential increase in insured losses as a result of more frequent and/or extreme weather events;
- (e) liquidity risk – through an increased demand for liquidity to respond to extreme weather events, the difficulties that may be faced in liquidating assets negatively impacted by climate risks, or through funding risks associated with cost of availability of wholesale debt; and
- (f) reputational risk – including an institution's ability to attract and retain customers and employees due to changing employee and community expectations.



HOW CAN WE HELP

Financial institutions can proactively understand and manage environmental exposure across their mortgage portfolio through EDH's portfolio wash capability. This service enables banks and lenders to systematically screen their entire loan book for climate, contamination, and natural hazard risks at scale. Where elevated risks are identified, assets can be prioritised for further review by specialist advisors. The result is a clear, data-driven view of portfolio exposure - supporting stronger credit risk management, regulatory readiness, and informed decision-making across risk, ESG, and executive teams.

Want to know more?

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