



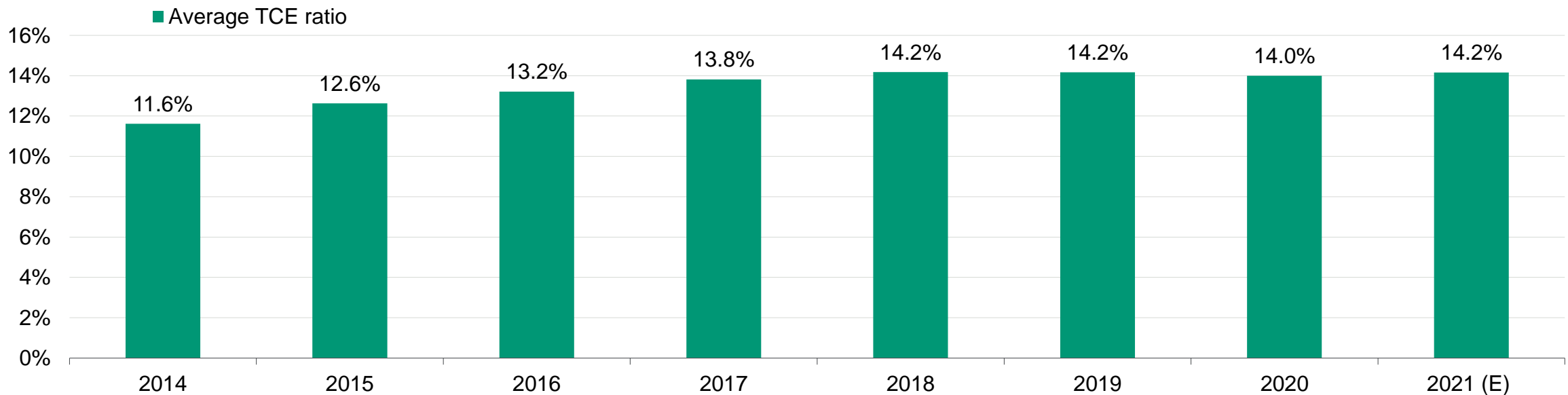
Financing the transition to net zero carbon

Financing the transition to net zero: banking sector

Lending capacity

- » Stronger capital ratios, ample liquidity and low asset risk
- » Caveat: profitability

Tangible common equity ratio as % of risk-weighted assets (87 banking systems)



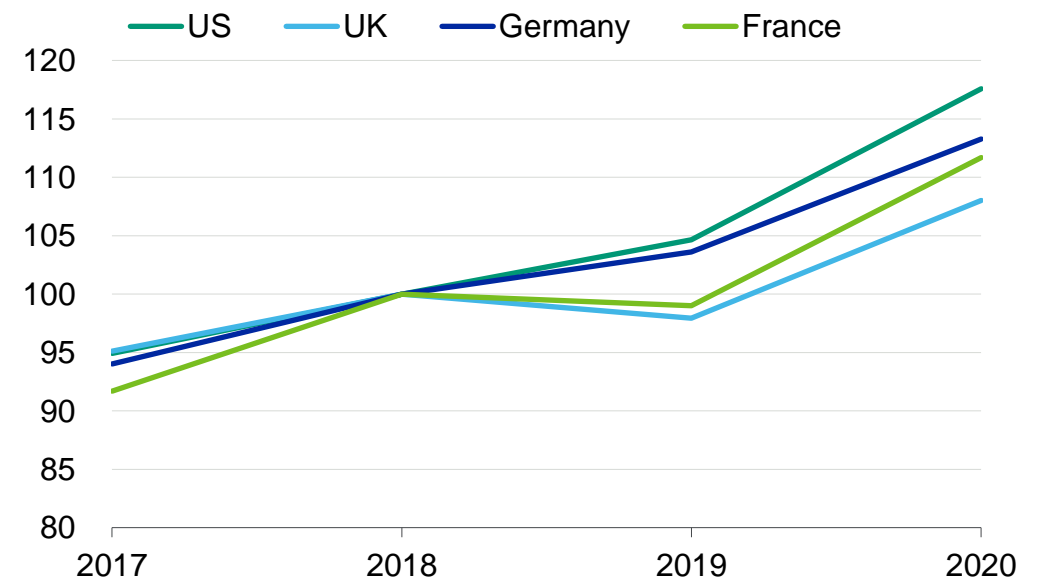
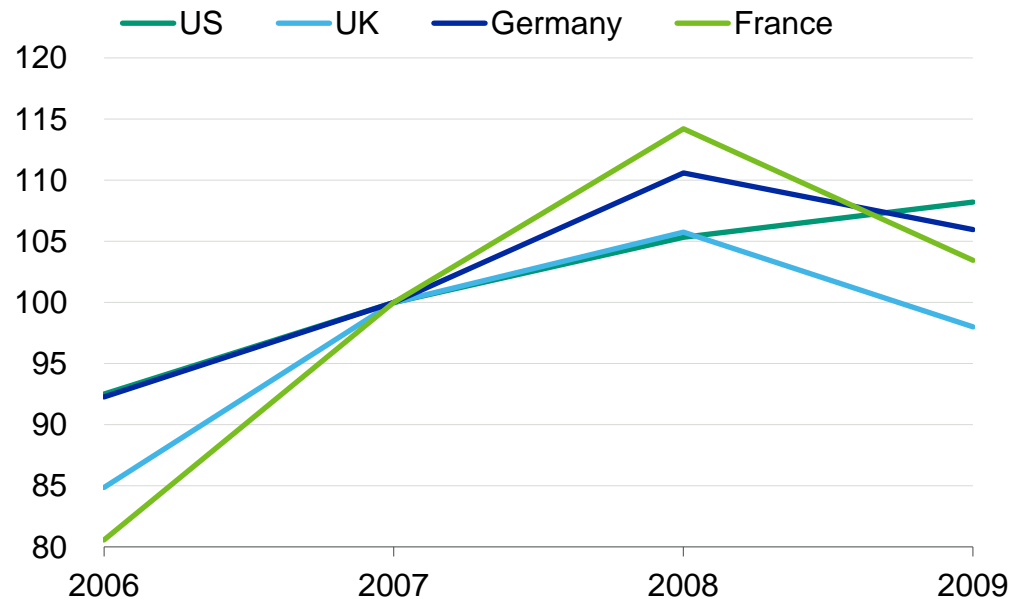
Source: Moody's Investors Service ([Solvency metrics of most rated banks will approach pre-pandemic levels by 2022](#))

Financing the transition to net zero: banking sector

Lending capacity

- » Stronger capital ratios, ample liquidity and low asset risk
- » Caveat: profitability

Domestic credit levels, 2007 and 2018=100 respectively



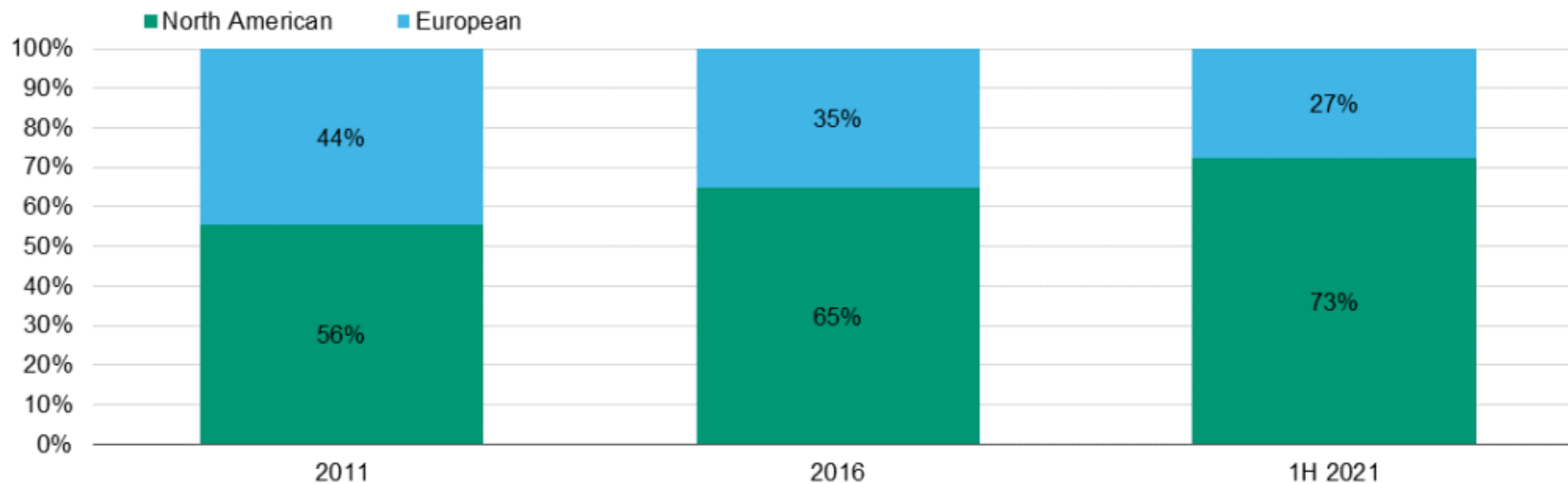
Source: Moody's Investors Service ([Market volatility will persist as liquidity conditions start to normalise](#))

Financing the transition to net zero: banking sector

Structural changes, fragmentation and M&A

- » Global investment banks
- » Other players

Share of capital market revenues across global investment banks



Source: Moody's Investors Service

Financing the transition to net zero: banking sector

Banks' own transition to net zero

- » Little direct exposure to climate risk, but sizeable indirect exposure
- » Key role to play in financing other sectors' transition

G-20 financial institutions exposure to carbon-intensive sectors



Source: Moody's Investors Service ([Financial firms need to rise to the challenge of supporting carbon transition](#))

Financing the transition to net zero: banking sector

Banks' own transition to net zero

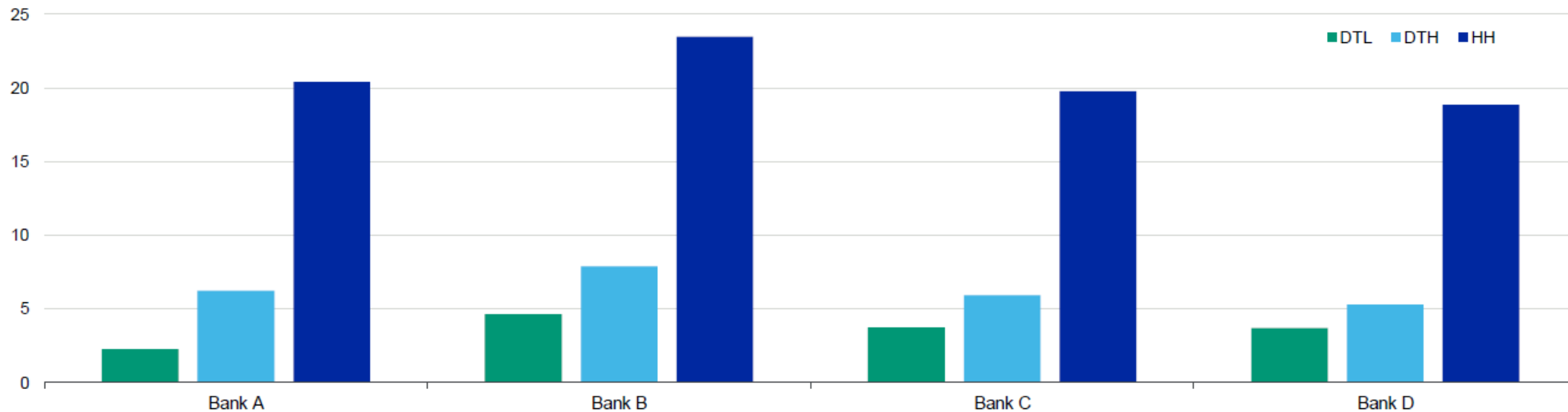
- » Pledge to achieve net zero financed emissions by 2050
- » Willingness to support transition
 - Vast financing opportunity (USD 1 trillion per year? 5 trillion?)
 - Disclosure
 - Regulators' climate scenario analysis & supervisory process
 - Reputational damage
 - Risk management (loan defaults)

Financing the transition to net zero: banking sector

Banks' own transition to net zero

- » Risk management (loan defaults)
- » Active portfolio rebalancing

Increase in annual corporate lending losses under disorderly climate scenarios (30-year horizon, difference from baseline)



Source: Moody's Investors Service ([Climate stress could significantly increase lending losses for banks](#))

Financing the transition to net zero: banking sector

The role of banking in the transition

- » Likely to play a key role
 - Transition financing to corporate clients
 - › Capital investment in carbon intensive sectors to cut emissions and improve energy efficiency
 - › Disclosure of carbon emissions and transition plans
 - › Realistic sustainability plans
 - Green infrastructure and new technologies
 - › Banking vs green capital market funding
 - › Project finance
 - Profitability and regulation
 - Russia and the new geopolitics

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