

Guidance 7a: Example of a sectoral heatmap of transition risk drivers

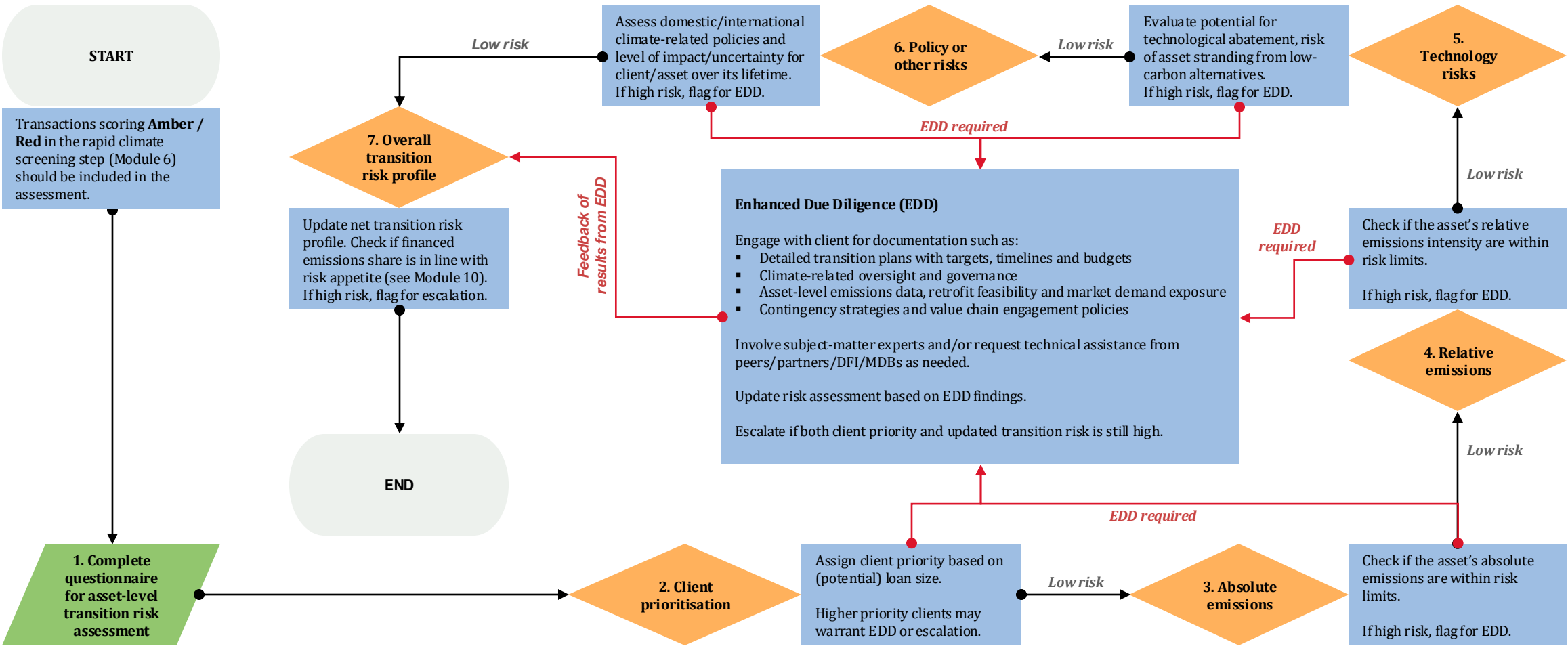
<i>Sector</i>	<i>Emissions intensity</i>	<i>Policy sensitivity</i>	<i>Decarbonisation technology availability</i>	<i>Transition challenge for sector</i>	<i>Notes</i>
Electricity	High (variable by type of fuel and efficiency of power plant)	Very high	Medium (variable by source)	Highest	- Fossil power generation at highest risk, with gas afforded a slightly lower risk profile - Expect rapid disruption from technology and policy
Automotive	High (ICE) Falling (BEV)	High	High (BEV, hybrids)	Medium	- Transition velocity varies by region - Expect ICE industry disruption from BEV technology
Oil & Gas	Very high	Very high	Low - Medium	Highest	- Challenged by global net zero policies, cost of abatement and falling demand - Expect stranding risk for new assets
Coal	Very high	Very high	Very low	Highest	- Extreme negative market sentiment - Extremely sensitive to carbon pricing and import restrictions
Cement	High	High	Low - Medium	High	- Difficult to abate process emissions - Sensitive to carbon pricing and import restrictions
Steel	High	High	Medium	High	- Emerging potential for green steel production but capex for technology is still prohibitively expensive - Sensitive to carbon pricing and import restrictions
Aviation	High	High	Low (biofuels and electrification not yet scalable)	High	- Few near-term decarbonisation options - Potential for regulatory shocks

Guidance 7b: Sector-agnostic qualitative transition risk assessment questionnaire

Transition risk drivers	Questions for qualitative assessment	Scoring rubric	Recommendations for Advanced FIs
Absolute emissions	- Does the asset's current or projected emissions align with decarbonisation benchmarks? - Is the asset's GHG footprint above, at or below sector peers?	It is recommended to design the questionnaire responses using Likert scales or similar categorical risk bands, where possible. E.g. 3 / 2 / 1 or Red / Amber / Green This allows for the generation of easy-to-parse heatmaps that are comparable across assets, and aggregable over multiple projects in the portfolio. Some policy risks such as revenue impacts from carbon pricing, alignment to NDCs, country allowances for fair share of emissions, or sectoral decarbonisation benchmarks can be derived from macroeconomic scenario projections taken from credible reference scenario providers (e.g. NGFS, PRI, IEA).	In the same vein, Advanced FIs may complement this questionnaire with sector-specific and/or country-specific dimensions. Some examples follow: (Power generation) – is the asset eligible for, or excluded from, government support or capacity payments under national transition plans? (Cement) – does the asset have access to carbon capture and storage (CCS) infrastructure, or are there earmarked plans for developing such infrastructure? (Automotives) – What percentage of current production is aligned with low-emission standards, and is there a strategic roadmap for full fleet electrification?
Relative emissions	- Does the asset's current or projected emissions intensity align with decarbonisation benchmarks? - Is the asset's GHG emissions intensity above, at or below sector peers?		
Technological capacity	- Is the asset technologically compatible with available decarbonization upgrades? - What is the remaining economic life, and can the asset be cost-effectively retrofitted? - What is the efficiency of existing technology relative to the best available technology?		
Policy risk	- Is the asset exposed to imminent or likely carbon pricing, emission caps, or sectoral bans? - Where relevant, check how carbon price projections in various reference scenarios (e.g. Below 2°C, Delayed Transition, Current Policies scenarios via NGFS) would impact client revenues. - How might carbon tariffs of closest trading partners impact the financial performance of the asset?		
Other (market / reputation)	- Has there been evidence of changing consumer preferences or demand for low-carbon products in the asset's target market? - Is there a risk of brand or customer attrition if the asset is perceived as lagging in climate action relative to peers, especially in export or premium segments?		

Guidance 7c: Example information flow of asset-level transition risk assessment

* EDD = enhanced due diligence.



Guidance 7d: Example output from asset-level transition risk assessment

* EDD = enhanced due diligence.

<i>Client name (ID)</i>	Puur Leather Co (client-2351)		<i>Project name (ID)</i>	proj-1532	
<i>Sector</i>	NACE C (or equivalent sector classification) (Manufacturing of leather goods)	<i>Transaction size (ZAR)</i>	2,500,000	<i>Last assessed</i>	12-03-2024
<i>Transition risk drivers</i>					
<i>Policy risk</i>	<i>Market risk</i>	<i>Technology risk</i>	<i>Absolute and relative emissions (to be completed after EDD)</i>	<i>Financed emissions impact (to be completed after EDD)</i>	<i>Client transition readiness (to be completed after EDD)</i>
Green	Amber	Amber	Amber	Green	Red
<i>EDD triggered</i>	YES		<i>Overall transition risk (to be completed after EDD)</i>	Amber	
<i>Key vulnerabilities to monitor (to be completed after EDD)</i>	- Higher than sector average emissions intensity - Export volumes to EU could be impacted by CBAM policies - Client transition plan lacks science-based targets - Below 2°C scenario suggests adverse effect on profitability from carbon pricing in the short term See Module 13 on Scenario analysis		<i>Recommendations (to be completed after EDD)</i>	- Escalated for EDD - Client engaged on transition planning – to be added as a clause for financing in loan agreement - Client request for technical advisory for sector-specific transition plan recommendations	
<i>Data quality remarks</i>	Client disclosures covered till 2023; no peer benchmarking done				