

Natural Capital Declaration

Strategic Overview



NCD Phase 1 - 2012 to 2016 Journey



The Natural Capital Declaration
 The Declaration is the first global framework to be developed at the UN level, which sets the course for the financial sector and other stakeholders to use financial products and services for the 21st century.

The Meaning of a Good Economy
 There is no one-size-fits-all formula for the 21st century. It is the responsibility of the financial sector to ensure that the economy is resilient, sustainable and inclusive. The Declaration provides a framework for the financial sector to ensure that the economy is resilient, sustainable and inclusive.

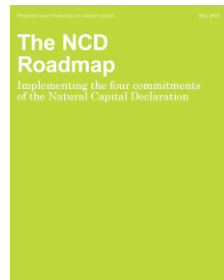
The Importance of Natural Capital
 Natural capital is the world's natural resources, which include the air, water, soil, and forests. It is the foundation of our economy and the source of our well-being. The Declaration calls for the financial sector to ensure that the economy is resilient, sustainable and inclusive.

Leadership from the Financial Sector

June 2012 –
 Launch of the
 Declaration at
 the UN
 Conference on
 Sustainable
 Development
 (Rio+20)

Fundraising
 confirmed

Launch of the NCD
 Roadmap,
 Business Plan and
 4 Implementation
 Working Groups



June 2016 -
 Phase 2
 Launch

NCD Products launched:

- Water Risk Equities Tool
- Water Risk Corporate Bonds Tool
- Soft Commodity Forest Risk Tool



A powerful finance-led initiative, with more than 40 signatories engaged across the Financial Sector and globally represented

The Natural Capital Declaration:

- More than 40 FIs have signed up to the NCD
- MS&AD Insurance Group Holding plc, one of the largest global insurance companies joined on August 19th 2016
- 50% of signatories are banks
- The other half includes Assets Managers, Dvpt Banks and Institutions, Pension Funds and Insurance Companies
- 50% of signatories are headquartered in the Southern Hemisphere and 50% in the Northern Hemisphere

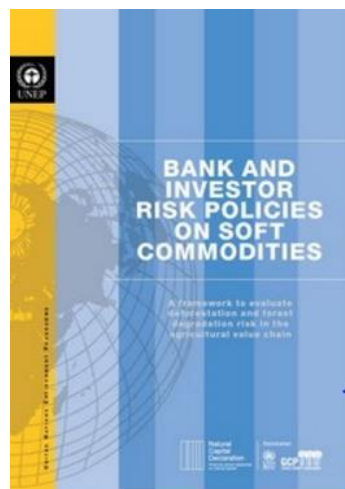
Financial sector leadership on natural capital



Banks	21	48%	Africa	2	5%
Asset Managers	10	23%	Asia	8	18%
Dvpt Banks and Institutions	8	18%	LATAM	12	27%
Pension Funds	3	7%	Europe	15	34%
Insurance Companies	2	5%	USA	7	16%
Total	44	100%	Total	44	100%

NCD Tools and methodologies

Soft Commodity Forest Risk Tool



Self-assessment tool that enables banks, investors and other financial institutions to take action by using the tool to inform, develop or update their soft commodity risk policies

Water Risk Corporate Bonds Tool



Self-assessment tool for financial institutions to incorporate water risk in corporate bond credit risk analysis and integrate water stress into company credit analysis

Water Risk Equities Tool



Tool that enables analysts to incorporate water risks into company valuations across copper and gold mining companies

Uptake of the tools is still anecdotal: Not a large usage or take up yet, hard to integrate into existing risk framework and systems – more used as engagement tools

Natural Capital Declaration

Current developments



Project update - Drought stress testing tool

Objective

Develop and test an analytical framework and model that allows banks to assess the potential impact of environmental shocks on the performance of their corporate loan portfolio.

FI partners



Progress to date and next steps

- August 2016: First version of the tool released and current under test by partners banks. Feedback so far has been very positive
- Q1 2017: Final report publication

Project update – Finance Sector Supplement, with NCC and VBDO



The Coalition, the Natural Capital Declaration (NCD), and the Dutch Association of Investors for Sustainable Development (VBDO) have agreed to jointly produce a **Finance Sector Supplement to the Natural Capital Protocol**.

Objective: provide an initial framework, a state of play and tools for FIs (lenders, investors, insurers and rating agencies). It will provide FIs with the most current knowledge and tools, beyond their direct operations, to focus on portfolio impacts and dependencies, inform risk appetite decisions at an industry and country level, and inform active ownership decision making and impact investing alongside product and service opportunities.

Methodology: It will be specifically guided by FI sector needs focussing on what they want to know to start approaching natural capital impacts and dependencies, to help them understand the steps and considerations for incorporating these issues into their investment and lending decisions, and highlight where to find resources to practically embed natural capital in FI decision making and risk assessment. It will incorporate the NCD Roadmap, the work of the NCD Working Groups to date and the VBDO guide.

Timeline:

End of Oct 16: Present draft Supplement at the UNEP FI 2016 GRT in Dubai

Nov to Aug 17: Develop and write Supplement, in consultation with FIs

Sept 2017: Launch Supplement

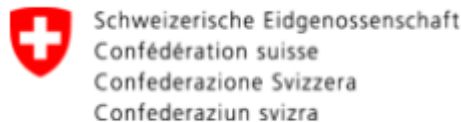


Project update - Advancing Environmental Risk Management

Objective

Enable the systematic integration of natural capital-related risks in financial institutions' risk assessment methods and decision-making tools.

FI Partners



Indicative timeline for implementation

Project phases and stages	2016	2017	2018
Project startup	█		
Phase 1: Natural capital and economic risk indicators map			
Stage 1: Natural capital information/data <small>Global map of natural capital indicators (state/flow/quality).</small>		█	
Stage 2: Economic activity information/data <small>Overlay Phase 1/Stage 1 data with (macro)economic data by sector.</small>		█	
Phase 2: Financial sector credit risk methodology			
Stage 1: Participant sector/region mapping <small>Financial institutions define the regions and sectors to pilot the methodology</small>		█	
Stage 2: Methodology to assess risk <small>For P2/S1 pilots outline transmission mechanisms and quantify economic risks</small>		█	
Stage 3: Risk mitigation <small>For P2/S2 pilots examine potential or existing mitigation and adaptation to risks</small>		█	
Stage 4: Credit exposure <small>Embed P2/S2-3 results into existing credit methodologies (with data or tools)</small>			█

