



Central Bank of Kenya

Climate Risk Disclosure Framework for the Banking Sector

April 2025



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List of abbreviations

BCBS	Basel Committee on Banking Supervision
CBK	Central Bank of Kenya
ECB	European Central Bank
ESG	Environmental, Social, and Governance
GHG	Greenhouse Gas
IFRS	International Financial Reporting Standards
KCRI	Key Climate Risk Indicator
KMD	Kenya Meteorological Department
KPI	Key Performance Indicator
LT-LEDS	Long-term Low Emission Development Strategies
NGFS	Network for Greening the Financial System
PCAF	Partnership for Carbon Accounting Financials
RCP	Representative Concentration Pathway
SMF	Senior Management Function

1. Foreword

Climate change is the most significant challenge facing humanity today¹. Unpredictable weather patterns, including droughts, floods, and wildfires, trigger massive humanitarian crises and disrupt economies, health systems, and education. These consequences threaten the vision of global shared prosperity by 2030, underscoring the urgency of transitioning to a climate-resilient green economy.

Kenya, alongside the global community, has recognized climate change as a pressing issue. The Kenyan government has therefore committed to the United Nation's 2030 Agenda for Sustainable Development and the Paris Agreement. To fulfil its climate change commitments, both government and private sector funding is necessary. The financial sector plays a crucial role by channelling capital towards sustainable solutions.

In recognition of the importance of the financial sector in combating climate change, the Central Bank of Kenya (CBK) issued Guidance on Climate-Related Risk Management (the Guidance) in October 2021. The Guidance was intended to facilitate the integration of climate-related risk considerations in their governance, strategy, risk management and disclosure frameworks. While progress has been made, further action is needed to ensure a robust financial system that supports the decisive handling of the challenges of climate change.

A significant milestone in global sustainability reporting was marked in June 2023 with the issuance of the International Financial Reporting Standards (IFRS) Sustainability Disclosure Standards, IFRS S1 and S2, by the International Sustainability Standards Board (ISSB)². IFRS S1³ outlines the general requirements for sustainability-related disclosures affecting financial performance. IFRS S2⁴ specifically focuses on climate-related disclosures, in line with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD⁵). These standards promote improved risk management, transparency, and sustainable investments, ultimately benefiting the entire economy. The focus of this document is on IFRS S2.

CBK's desire for a resilient and sustainable banking sector aligns well with the goals of IFRS S2. IFRS S2 requires banks to report on both physical risks (such as extreme weather events and rising sea levels) and transition risks (related to policy changes and technological advancements impacting fossil fuels). The standard emphasizes governance processes for identifying and managing climate risks, as well as integrating these considerations into business strategies, risk management frameworks, and metrics and targets.

IFRS S2 is structured under the same four pillars of the TCFD, however, it goes into more granular details, considering additional elements to assure consistency, alignment and transparency across the organization. The following table provides a summary of the IFRS S2 requirements under each pillar. One notable addition from TCFD is the introduction of opportunity identification in transition planning, together with the requirement for the use of scenario analysis to assess a bank's resilience over the short-, medium- and long-term future climate. Lastly, IFRS S2 is also more granular in disclosing the impact of future climate conditions on the financial position of an organization, including the definition of performance indicators for the business strategy, risk management practices and policies, together with concrete metrics and targets. The approach followed by IFRS S2 allows financial institutions to better reflect the ambition and alignment of the organization to the national policies and commitments to climate action.

¹ https://www.afdb.org/sites/default/files/2023/09/08/the_african_leaders_nairobi_declaration_on_climate_change-rev-eng.pdf

² <https://www.ifrs.org/groups/international-sustainability-standards-board>

³ <https://www.ifrs.org/issued-standards/ifrs-sustainability-standards-navigator/ifrs-s1-general-requirements/>

⁴ <https://www.ifrs.org/issued-standards/ifrs-sustainability-standards-navigator/ifrs-s2-climate-related-disclosures>

⁵ <https://www.fsb-tcfd.org/>

Table 1: IFRS S2 pillars

IFRS S2 requirements			
 Governance Governance processes, controls and procedures an entity uses to monitor, manage and oversee climate-related risks and opportunities.	 Strategy Strategy for managing climate-related risks and opportunities.	 Risk Management Processes to identify, assess, prioritize and monitor climate-related risks and opportunities, including whether and how those processes are integrated into and inform the entity's overall risk management process.	 Metrics & Targets Performance in relation to climate-related risks and opportunities, including progress towards any climate-related targets and any targets it is required to meet by law or regulation.
a) Board's (committee or equivalent body) oversight of climate-related risks and opportunities b) Management's role in the governance processes, controls and procedures used to monitor, manage and oversee climate-related risks and opportunities	a) Climate-related risks and opportunities identified over the short, medium and long term b) Current and anticipated effects of climate-related risks and opportunities on the entity's business model and value chain . c) Effects of climate-related risks and opportunities on its strategy and decision-making . d) Effects of climate-related risks and opportunities on the entity's financial position, financial performance and cash flows in short, medium and long term. e) Resilience of the entity's strategy and business model to climate-related changes, developments and uncertainties, taking into consideration the entity's identified climate-related risks and opportunities.	a) Processes and related policies the entity uses to identify, assess, prioritize and monitor climate-related risks b) Whether and how entity uses climate-related scenario analysis to inform its identification of climate-related opportunities c) Integration of climate-related risks into overall risk management	a) Greenhouse gases – Scope 1, 2 and 3. b) Climate-related transition risks – the amount and percentage of assets vulnerable to transition risks c) Climate-related physical risks – the amount and percentage of assets vulnerable to physical risks d) Climate-related opportunities – the amount and percentage of assets or business activities aligned with climate opportunities; e) Capital deployment – amount of CAPEX, financing or investment deployed f) Internal carbon prices g) Remuneration

By promoting transparency and responsible business practices, IFRS S2 paves the way for financial institutions to proactively contribute to a sustainable future. Building upon this CBK partnered with the European Investment Bank (EIB) in October 2023 to develop an Enhanced Climate Risk Disclosure Framework, among other initiatives.

The Climate Risk Disclosure Framework signifies a commitment to promoting transparency, accountability, and sustainability in the financial sector. Aligned with global best practices and standards, such as IFRS S2, Basel Committee on Banking Supervision (BCBS) principles, and TCFD recommendations, the Framework aims to incorporate the following elements:

- Enhancing awareness and transparency regarding climate-related risks within the Kenyan banking sector.
- Identification, mapping, and disclosure of climate risks - assessing both physical risks (such as extreme weather events) and transition risks (related to shifts in policy, technology, and market preferences) that could impact the banking sector.
- Implementation of governance processes for climate-related risks.
- Incorporation of climate-related risks and opportunities into overall business strategies and decision-making frameworks.
- Integration of climate risk management into the banks' overall risk management processes.
- Disclosure of specific metrics and set targets related to climate-related risks and opportunities, such as greenhouse gas emissions, exposure to climate-related risks, and the alignment of investments with climate goals.
- Development of a climate risk disclosure Templates supporting the introduction of tools to include metrics and heatmaps to facilitate monitoring and disclosure regarding climate-related risks.
- Defining an implementation roadmap, considering the proportionality embedded under IFRS S2, including the availability of reasonable and supportable information without undue cost or effort, as well as the consideration of skills and capabilities of the banking sector in Kenya.
- Capacity-building initiatives aimed at ensuring that banks and other institutions have the knowledge and resources to implement measures that support mitigation and adaptation in countering the effect of climate change.

The Enhanced Climate Risk Disclosure Framework offers a number of benefits. Banks can improve risk management, leading to more informed lending decisions and increased resilience. Transparent disclosures also attract investors seeking sustainable investments, while strategic planning that considers climate risks fosters long-term sustainability. For investors, the Framework provides the information needed to assess the

financial implications of climate change on potential investments and identify companies well-positioned for the transition to a low-carbon economy. The general public and other stakeholders also benefit from increased transparency, fostering accountability within the financial sector and encouraging businesses to adopt more sustainable practices.

By embracing these initiatives, Kenya's banking sector is poised to play a pivotal role in fostering climate resilience and sustainability, contributing to both national and global efforts towards a more resilient and sustainable future.

2. Acknowledgement

This project was implemented by a consortium led by Development Alternatives Incorporated (DAI), in partnership with Application Européenne de Technologies et de Services (AETS) and Belgian Bankers Academy (BBA). The technical assistance was financed by the International Climate Initiative Fund (IKI Fund), which is supported by the German Federal Ministry of Economic Affairs, (BMWK). The IKI Fund is a collaboration between the EIB and BMWK to catalyse investments aimed at reducing greenhouse gas emissions and adapting to climate change in developing countries and emerging economies.

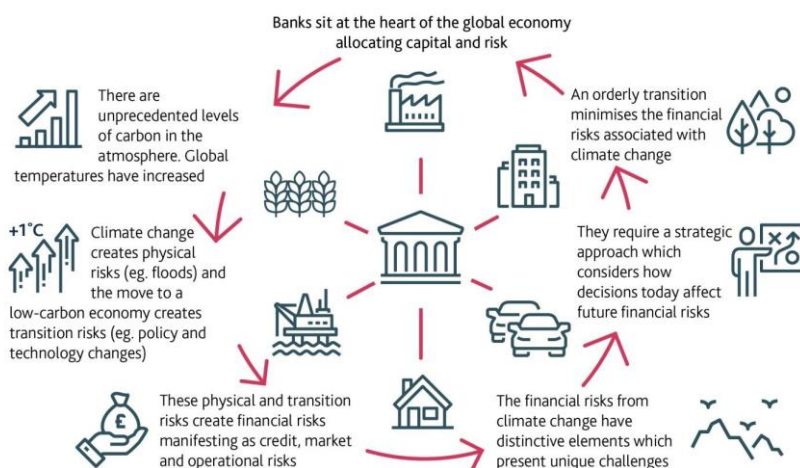
Disclaimer: The Central Bank of Kenya (CBK) takes full responsibility for the content of this report. The opinions expressed do not necessarily reflect the views of BMWK or EIB.

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3. Background, Purpose, and Principles

In 2021, the Guidance on Climate-related Risk Management was issued under section 33(4) of the Banking Act, which empowers the Central Bank of Kenya (CBK) to guide institutions to maintain a stable and efficient banking and financial system. Today, this Guidance constitutes the main document assisting financial institutions in managing climate-related risks by incorporating them into their business decisions and operations. It offers a structured approach for institutions to integrate climate-related risks into their decision-making processes.

Figure 1: Climate change impacts on the financial industry



Source: Bank of England. 2018. *Transition in thinking: The impact of climate change on the UK banking sector*.

The Guidance outlines essential requirements that institutions should consider implementing to integrate climate-related financial risks into their risk management frameworks. It has been aligned with global best practices and recommendations from the Basel Committee on Banking Supervision (BCBS).

Since its publication, the state of climate finance and climate risk for the financial sector has been evolving and maturing rapidly across practices, standards, and disclosure frameworks. Most notably, IFRS S2⁶, successor to the Task Force on Climate-related Financial Disclosures (TCFD), is quickly becoming the global benchmark for climate-related financial disclosure. The BCBS has also recently launched a public consultation paper on a Pillar 3 disclosure framework for climate-related financial risks. Against this backdrop, CBK has formalised the Climate Risk Disclosure Framework for Commercial Banks (the 'Framework'), which will update and provide additional guidance to the 'Guidance on Climate-Related Risk Management' issued by CBK in 2021.

Integration with Existing Reporting Standards

The Institute of Certified Public Accountants of Kenya (ICPAK), a member of the Pan African Federation of Accountants (PAFA) and the International Federation of Accountants (IFAC), announced in 2023 the intention to adopt the International Financial Reporting Standards (IFRS) Sustainability Disclosure Standards, referred to as S1 (General requirements for Disclosure of Sustainability-related Financial Information) and S2 (Climate-related disclosures) in Kenya. This decision recognises the foundational role of the Financial Stability Board (FSB) in shaping climate risk disclosure reporting, when the Task Force on Climate-related Financial

⁶ IFRS S2 IFRS S2 is designed to be read in conjunction with IFRS S1, which outlines the general requirements for sustainability-related disclosures.

Disclosures (TCFD) was established in 2015 to improve and increase reporting of climate-related financial information. The TCFD was disbanded in 2023, and its responsibilities transferred to IFRS.

Organizations worldwide struggle with the complexity of navigating various fragmented sustainability reporting frameworks. Despite ongoing efforts, the lack of a unified framework has limited comparability. To address this, ICPAK, in partnership with ISSB, is leading the implementation of a global baseline for sustainability disclosures, ensuring consistent and comparable information for investors and other market participants. In Kenya, ICPAK has designated IFRS S2 as the official standard for climate risk reporting. To facilitate the adoption of the IFRS Sustainability Disclosure Standards, ICPAK established a Multi-Stakeholder Sustainability and Climate Change Reporting Committee to develop a Roadmap for Adoption of IFRS Sustainability Disclosure Standards in Kenya. This Framework is fully aligned with ICPAK's recommendations, building on previous efforts that used TCFD as an analytical framework and further incorporates the additional disclosure requirements of IFRS S2, and the timeline for implementation.

The Framework, along with corresponding Templates, has been developed to assist commercial banks in identifying, classifying, and disclosing relevant, decision-useful climate-related information consistently and comparably. The enhanced disclosure on climate-related risks also aims to help Kenya's financial sector promote climate risk management and improve transparency and reporting. Specifically, the Framework aims to:

- a. Ensure market transparency and improve market discipline in climate-related risk assessment.
- b. Strengthen capacities of the banking sector to identify, assess and manage climate-related risks in decision-making and enhance resilience of business models.
- c. Raise awareness of the financial risks associated with climate change in the banking sector.
- d. Enhance the disclosure of climate-related financial risks in the banking sector through Templates and guidelines, thereby improving comparative analysis and benchmarking.
- e. Illustrate best practices on climate risk practices by financial institutions globally and regionally, which are included as illustrative examples in the Framework.
- f. Facilitate supervisory-related analysis of the banking sector across the three Pillars of the Basel Framework.

The Framework is underpinned by the following principles:

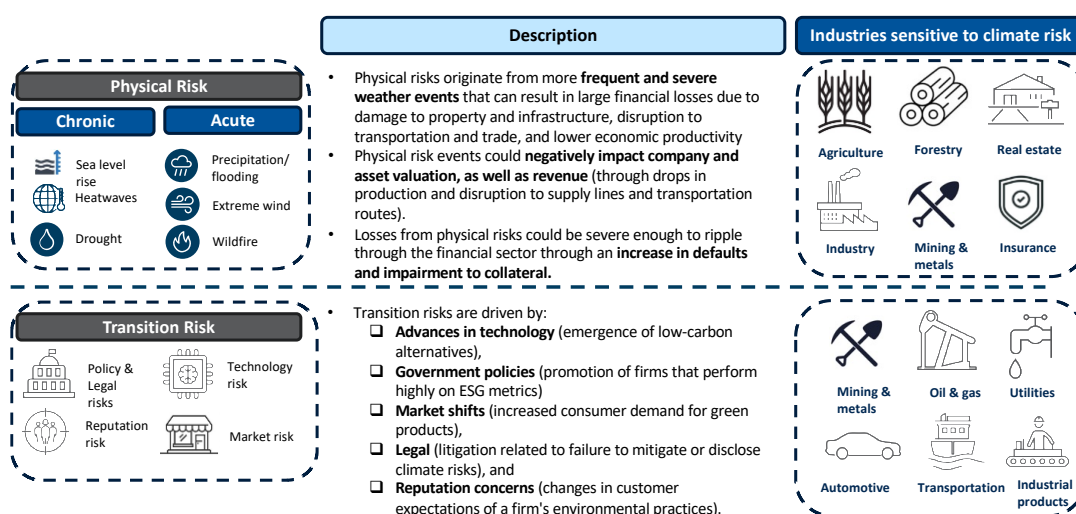
- i. **Decision-usefulness:** Decision-useful climate information specifically pertaining to climate-related risks. It encompasses data related to a company's exposure to climate risks, its strategies for managing those risks, and its performance in achieving climate-related goals.
- ii. **Proportionality:** Proportionality should be considered more holistically and not only regarding the size of the institution. Proportionality shall be linked to the business model and risk profile of a bank, as well as to cost benefits and scope considerations. This is also in line with IFRS guidance in confirming the consideration of an entity's skills, capabilities, and resources. The Framework also provides a proportionality approach through a gradual implementation timeline, recognising the learning curve behind climate risk disclosures.
- iii. **Materiality:** According to the IFRS Sustainability Disclosure Standards, information is considered material if its omission, misstatement, or obscurity could reasonably influence the decisions of primary users of general-purpose financial statements. Such information provides insights into a specific reporting entity. It is important to note that climate-related risks or opportunities not yet reflected in the bank's financial statements may still be material if they offer insights into the resilience of the bank's business model. Similarly, information about the bank's exposure to potential future events, such as regulatory changes, may also be material, even if the outcomes remain uncertain

- iv. **Methodological flexibility:** Noting the evolving nature of climate risk practice, the Framework seeks to avoid disruption by prescribing the use of specific methodologies. However, it is mindful that allowing the banking sector to pick and choose methods could give rise to greenwashing risk. Therefore, this methodological flexibility shall mainly apply to the use of proxies where reliable data is unavailable. The Framework allows banks a degree of flexibility defining their climate risk appetite, metrics, and targets. Similarly, banks are given the flexibility to run their business model and strategy, including their decarbonisation strategy, as long as they can demonstrate they have put in place a sound governance and risk management framework. The Framework provides banks an opportunity to describe the measures they take to measure and mitigate risks.
- v. **Interoperability:** The Framework is modelled on the anticipated Basel framework for climate-related disclosures under Pillar 3, which will serve as the international baseline for financial risk disclosures related to climate. Furthermore, the Framework seeks to optimize interoperability with IFRS S2, which is considered the baseline for climate-related corporate disclosures, as well as the adoption of the Transition Plan Taskforce (TPT) best practices, under the IFRS Foundation. CBK will make every effort to reduce the reporting burden by simplifying the procedures and data points from the banking sector, assuring interoperability with existing and forthcoming disclosure mechanisms.

4. Exposure to climate-related financial risks

The Framework seeks to highlight the exposures of the banking sector's credit portfolios to "inherent" climate-related risks. These risks can materialise in the short-term (withing one year); medium term (two to five years), and in the long-term (more than five years). These risks can be divided into two broad categories:

Figure 2: Classifying climate risks and opportunities



Physical risks:

These pertain to the physical impacts associated with climate change, encompassing both more frequent and severe weather occurrences and gradual shifts in environmental conditions. This includes factors such as air, water, and land pollution, water scarcity, loss of biodiversity, and deforestation. Physical risk is classified as "acute" when triggered by sudden extreme events like droughts, floods, and storms and "chronic" when stemming from ongoing changes such as rising temperatures, sea levels, water scarcity, biodiversity loss, alterations in land use, habitat destruction, and resource depletion. These risks can lead directly to outcomes like property damage or decreased productivity and indirectly result in subsequent disruptions such as supply chain disturbances.

In the context of banks operating in Kenya, climate physical risks refer to the potential adverse impacts of climate-related events and environmental changes. These risks can manifest due to extreme weather events, rising temperatures, changes in precipitation patterns, and other climate-related occurrences. Such events can potentially affect the physical assets and operations of businesses, posing potential and, in many cases, actual risks to the financial stability of borrowers and lenders. The table below describes the climate physical risks of climate change, their broad definition, and their significance.

Table 2: Priority physical climate risks for Kenya

Priority Physical Risks	Definition	Significance
Acute Risks		
1. Flooding	Overflow of water onto dry land, caused by heavy rainfall or river overflow.	Infrastructure, agriculture, and communities are threatened, particularly in regions prone to heavy rainfall.
2. Drought	Extended periods of deficient rainfall lead to water shortages and impact ecosystems and agriculture.	It affects water availability and agriculture, leading to food and water security challenges, especially in arid and semi-arid regions.
3. Temperature Extremes (Heatwaves and Cold Spells)	Prolonged periods of unusually high or low temperatures compared to historical averages.	Impacts agricultural productivity, water availability, and human health. Cold spells (desert / arid regions) can also affect crops and livestock.
4. Storms and Cyclones	Powerful wind systems are accompanied by heavy rainfall and storm surges.	Coastal areas are susceptible, posing risks to infrastructure and coastal communities and leading to widespread damage. Flash floods are associated with heavy rainfall.
5. Wildfires	Uncontrolled fires spreading rapidly across vegetation.	Increased temperatures and changing precipitation patterns contribute to the risk of impacting ecosystems, biodiversity, and property.
Chronic Risks		
6. Land Degradation	Deterioration of land quality due to factors like deforestation and poor agricultural practices.	Threatens soil fertility, reduces agricultural productivity, and contributes to desertification, impacting livelihoods and food security.
7. Vector-Borne Diseases (e.g., Malaria)	Climate factors influence diseases transmitted by vectors like mosquitoes.	Climate changes affect the prevalence and spread of diseases, impacting public health.
8. Sea-Level Rise	Increase in the average level of oceans due to melting glaciers and polar ice caps.	Coastal areas face risks of saltwater intrusion, erosion, and threats to infrastructure, agriculture, and communities.

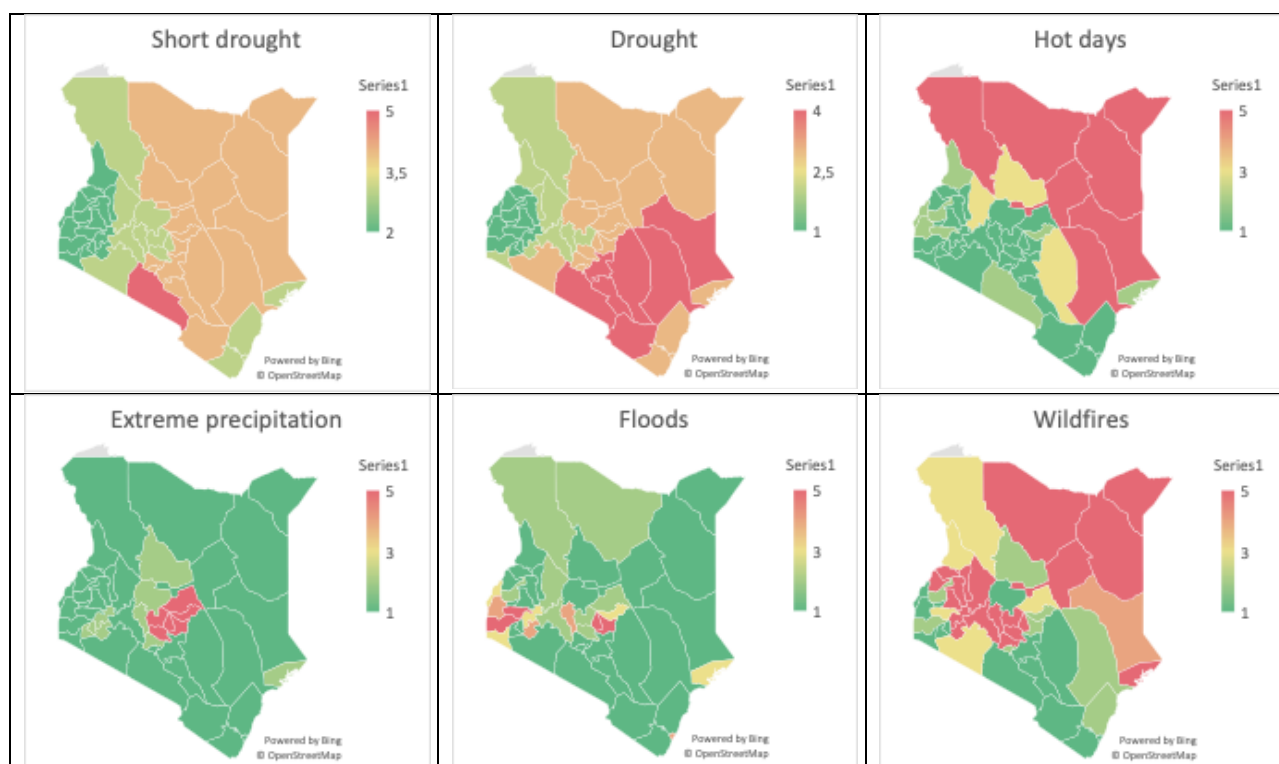
Source: Adapted from World Bank. 2021. Climate Risk Country Profile Kenya.

Climate hazards are impacting the economic performance of Kenya in multiple and simultaneous ways. The most Kenya experiences a range of climate hazards, with varying geographic distribution across the country. Droughts are most severe in arid and semi-arid regions, particularly in the northeastern counties such as Garissa, Wajir, and Turkana, where prolonged dry spells lead to water and pasture shortages. Flooding is prevalent in low-lying areas, including parts of Nairobi, Kisumu, and Tana River, often caused by heavy rainfall

and overflowing rivers. Rising temperatures affect the central highlands and Rift Valley, reducing agricultural productivity. Coastal regions, including Mombasa and Lamu, face sea level rise and coastal erosion, threatening livelihoods and infrastructure.

The identification of climate hazards by financial institutions could help them in the due diligence process, by taking a proactive approach to risk management, considering potential solutions and engaging with clients. The following maps represent the most impactful hazards for Kenya and their geographical distribution. The hazards mapped are based on the 2020 – 2040 climate scenario and are part of the Template tool that is part of this Framework.⁷

Figure 3: Climate hazards in Kenya



Transition risks:

These are hazards associated with the shift toward a low-carbon economy that can significantly impact the credit, market, operational, and liquidity risk profiles of financial institutions. For example, some counterparties financed by banks operating in energy-intensive or high-carbon sectors may face reduced competitiveness during the transition to a low-carbon economy, particularly if they have not taken steps to adapt. This decline in market competitiveness can arise from factors such as increased carbon pricing, heightened vulnerability to energy price fluctuations, asset devaluation, more stringent environmental regulations, and evolving consumer preferences, ultimately elevating the risk of default for these counterparties. Transition risk breaks down into the question of how fast and vehement the transformation is happening for a given sector – and, therefore, how likely it is for a given company to not be able to keep up with it and suffer economic damage accordingly.

⁷ Hazard scores provided are based on Representative Concentration Pathways. Representative Concentration Pathways are climate change scenarios to project future greenhouse gas concentrations. These pathways describe future greenhouse gas concentrations and have been formally adopted by the Intergovernmental Panel on Climate Change (IPCC), as an intergovernmental body of the United Nations. RCP 6.0 is one of the intermediate stabilization pathways.

Identifying climate transitional risks is crucial in proactively managing the evolving landscape of economic activities, regulations, and societal expectations. As a signatory to international agreements like the 2015 Paris Agreement, Kenya acknowledges the need for a low-carbon, climate-resilient trajectory. This section explores climate transition in Kenya, focusing on the challenges and opportunities of moving towards a sustainable, low-carbon economy. Transitional risks stem from the adjustments required to align with environmental sustainability goals. These risks span regulatory, market, technological, and societal dimensions, impacting industries differently based on their practices and dependencies. In Kenya, where economic sectors vary widely, recognising and addressing these transitional risks becomes imperative for strategic planning and resilience.

The table below analyses transition risk drivers, practical examples and impacts of transitional risks on specific industry sectors in Kenya. It provides a more granular understanding of how different industries will be affected, allowing businesses to tailor their strategies accordingly.

Table 3: Transition risk drivers

Risk Drivers	Practical Examples	Impacts on Industries
Regulatory Changes	• Introduction of carbon pricing mechanisms affecting industries dependent on fossil fuels. • Implementation of renewable energy targets impacting energy-intensive sectors.	• Energy: Transition away from fossil fuels. • Agriculture: Fossil fuel transition and higher manufacturing costs and costs for renewable alternatives. • Tourism Operators: Increased operational costs for transportation and accommodations, leading to potential price hikes for tourists. • Manufacturing: Higher compliance costs.
Market Dynamics	• Shift in consumer preferences towards sustainable products, affecting industries not aligned with sustainable practices. • Emergence of sustainable finance trends influencing investment decisions.	• Retail: Consumer demand for eco-friendly products. • Consumer Goods: Financing based on climate risk indicators. • Tourism Products: Decreased demand for activities or services perceived as environmentally unfriendly.
Technological Advancements	• Adoption of clean and sustainable technologies in the energy sector, impacting traditional energy sources. • Advancements in agricultural technologies promoting climate-smart practices.	• Energy: Shift towards renewable energy sources. • Agriculture: Adoption of precision farming technologies. • Sustainable Tourism Experiences: Integrating advanced technologies for eco-friendly tours and activities. • All Industries: Energy-Efficient Infrastructure: Implementing

Risk Drivers	Practical Examples	Impacts on Industries
		green technologies in hotels and transportation.
Supply Chain Analysis	• Dependence on carbon-intensive resources in manufacturing industries facing supply chain disruptions. • Impact of sustainable sourcing practices on the agricultural sector.	• Manufacturing: Supply chain disruptions. • Agriculture: Shifting sourcing dynamics.
Financial Market Considerations	• Integration of climate risk criteria by investors affecting financing options for non-compliant businesses. • Development of green financial products influencing investment decisions.	• Banking: Financing aligned with sustainable practices. • Banking: Development of green financial products influencing investment decisions. • Real Estate: Demand for green building initiatives.
Social Awareness and Reputation	• Consumer backlash against businesses perceived as environmentally irresponsible. • Positive market perception and customer loyalty for companies adopting sustainable practices.	• All Industries: Reputational impacts, consumer-driven changes.
International Agreements	• Aligning Kenyan policies with international agreements like the Paris Agreement influences regulatory changes. • Participation in global sustainable development initiatives impacting local industries.	• All Industries: Compliance with global standards, market access.
Legal and Litigation Environment	• Introduction of legal frameworks mandating climate-related disclosures impacting non-compliant entities. • Potential litigation risks for businesses not adhering to emerging climate-related regulations.	• All Industries: Legal compliance challenges, potential lawsuits
Stakeholder Engagement	• Industry consultations leading to collaborative efforts for sustainable practices. • Expectations from NGOs and civil society influencing businesses to adopt climate-friendly strategies.	• All Industries: Collaborative approaches, adapting to stakeholder expectations
Capacity Building	• Training programs enhancing the capacity of businesses to adapt to sustainable practices. • Increased awareness and education leading to a proactive approach to climate risk management.	• All Industries: Skill development, readiness for sustainable practices

Identification of climate hazards

To aid in the identification of climate hazards that are impacting the banking sector in Kenya, CBK together with the KMD, have modelled the dominant hazards across Kenya. For purposes of reporting and aiding the

financial sector in assessing exposure to physical climate-related risks, CBK has provided indicative risk scoring⁸ by hazard and by county in the Framework Templates. These should be viewed as starting points for the banking sector's analysis of counterparty exposure and vulnerability to a given hazard in each area (to inform inputs on Physical Risk Exposures Part B). The hazards were identified together with the KMD, based on their relevance and prominence in terms of occurrence and impact. The Framework Reporting Templates (the "Templates") include tables for the reporting of exposures to both transition and physical climate-related risk exposures.

The Template provides climate risk levels for all counties in Kenya, covering heat stress, droughts, extreme precipitation, flooding, wildfires, and landslides across different time periods (1980-2020, 2020-2040, and 2040-2060). To identify the operations that could be impacted by climate change, follow the next steps using the reporting Template:

- First. Identify the County: Locate the county you are interested in using the "County" column.
- Second. Check Risk Categories: Look at the columns labelled for different risks: Heat Stress, Flooding, Wildfires, and Landslides. Each risk type has data for three time periods.
- Third. Understand Risk Levels: Risk levels range from 1 to 5, with 5 being the highest risk. Banks could use the climate risk levels for specific hazards at each individual county in Kenya over the next several years. Compare the risk levels across different time periods to see how risks change over time.

Table 4: Tool for the identification of hazards by county and risk level scores

County	HEAT STRESS			EXTREME PRECIPITATION			FLOODS		
	1980-2020	2020-2040	2040-2060	1980-2020	2020-2040	2040-2060	1980-2020	2020-2040	2040-2060
Baringo	2	3	3	1	1	1	1	2	1
Bomet	1	1	1	1	2	2	3	4	4
Bungoma	1	1	1	1	1	1	1	1	1
Busia	2	2	2	1	1	1	2	3	2
Igeyo-Marakwet	1	1	1	1	1	1	1	1	1
Embu	1	1	1	5	5	5	4	5	5
Garissa	5	5	5	1	1	1	1	1	1
Homa Bay	1	1	1	1	1	1	3	5	4
Isiolo	5	5	5	1	1	2	1	1	1
Kajiado	1	2	2	1	1	1	1	1	1
Kakamega	1	2	2	1	1	1	1	2	1
Kericho	1	1	1	1	2	3	3	3	3
Kiambu	1	1	1	2	2	2	1	1	1

For physical risks, Part A of the Physical Risk Exposure Reporting Template is structured under two sections. First, collaterals associated with banking operations (loans) are mapped across the 47 counties and broken down according to the Kenyan Standard Industrial Classification (KeSIC). Second, immovable collaterals are then categorised as loans collateralised by residential or commercial immovable property, as well as repossessed collaterals.

⁸ The risk scores provided are based on Representative Concentration Pathway ("RCP") 6.0 – which is one of the two intermediate stabilization pathways (higher medium) among the four RCPs, with the lower intermediate stabilization pathway being RCP4.5.

Table 5: Physical Risk Exposure Reporting Template Part A

SECTOR (KeSIC)	Gross value of underlying IMMOVABLE collateral (million KSH)			
	Baringo	Bomet	Bungoma	Busia
A - Agriculture, forestry and fishing				
B - Mining and Quarrying				
C - Manufacturing				
D - Electricity, gas, steam and air conditioning supply				
E - Water supply,sewerage, waste management and remediation activities				
F - Construction				
G - Wholesale and retail trade,repair of motor vehicles and motorcycles				
H - Transportation and storage				
I - Accommodation and Food Service Activities				
J - Information and communication				
K - Financial and insurance activities				
L - Real Estate Activities				
M - Professional, scientific and technical activities				
N - Administrative and support service activities				
O - Public administration and defence; compulsory social security				
P - Education				
Q - Human health and social work activities				
R - Arts, entertainment and recreation				
S - Other service activities				
T - Activities of households as employers; undifferentiated goods- and services-producing activities of households for own use				
U - Activities of extraterritorial organizations and bodies				
Loans collateralised by residential immovable property				
Loans collateralised by commercial immovable property				
Reposessed collaterals				
Other relevant sectors (breakdown below where relevant)				

Source: Adapted from Kenyan Standard Industrial Classification, Central Bank of Kenya. 2021. Guidance on Climate-related Risk Management, European Banking Authority. 2022. Final report draft Implementing Technical Standards (ITS) on prudential disclosures on ESG.

Part B of the Template is used to describe the exposures to acute and chronic physical risks, together with the identification of stage 2 operations, related to underperforming loans that have seen a significant increase in credit risk.

Table 6: Physical Risk Exposure Reporting Template (Part B)

SECTOR (KeSIC)	PART B				
	Gross carrying amount (million KSH) based on self-assessment of:				
	exposures sensitive to impact from acute climate change	exposures sensitive to impact from chronic climate change	exposures sensitive to impact both from chronic and acute	Of which Stage 2 exposures	Of which non-performing exposures
A - Agriculture, forestry and fishing					
B - Mining and Quarrying					
C - Manufacturing					
D - Electricity, gas, steam and air conditioning supply					
E - Water supply, sewerage, waste management and remediation activities					
F - Construction					
G - Wholesale and retail trade, repair of motor vehicles and motorcycles					
H - Transportation and storage					
I - Accommodation and Food Service Activities					
J - Information and communication					
K - Financial and insurance activities					
L - Real Estate Activities					
M - Professional, scientific and technical activities					
N - Administrative and support service activities					
O - Public administration and defence; compulsory social security					
P - Education					
Q - Human health and social work activities					
R - Arts, entertainment and recreation					
S - Other service activities					
T - Activities of households as employers; undifferentiated goods- and services-producing activities of households for own use					
U - Activities of extraterritorial organizations and bodies					
Loans collateralised by residential immovable property					
Loans collateralised by commercial immovable property					
Reposessed collaterals					
Other relevant sectors (breakdown below where relevant)					

Source: Adapted from Kenyan Standard Industrial Classification, Central Bank of Kenya. 2021. Guidance on Climate-related Risk Management, European Banking Authority. 2022. Final report draft Implementing Technical Standards (ITS) on prudential disclosures on ESG.

Transition Risk Exposures

In line with leading international supervisory authorities' views on transition risk, CBK requires institutions to disclose for disclosure of gross amounts to sectors deemed to be most at-risk to the low carbon development pathway of Kenya and globally. These mostly include high-energy-intensive and therefore emission-intensive sectors and are summarised according to the KeSIC in Annex 1. CBK is simultaneously requiring the so-called "green" allocations within these sectors to ascertain net unmitigated exposures to emission-intensive sectors.

In Part A of the Transition Risk Exposures Template, CBK requires the institutions to submit the total gross outstanding amounts considering sectors classified under KeSIC, followed by amounts of which are aligned by the bank to a given taxonomy or classification of green financing, including the recently published Kenya Green Finance Taxonomy.

Table 7: Transition Risk Exposure Reporting Template Part A

Exposures towards sectors that highly contribute to climate change*	Gross carrying amount (Million KSH)				
	ALL	Of which are aligned with the Kenya Green Finance Taxonomy for activities contributing to climate change or environmental objectives	Of which are aligned with other green criteria (e.g. ICMA, IFR criteria)	Of which stage 2 exposures (IFRS 9)	Of which non-performing exposures
KeSIC CODE					
A - Agriculture, forestry and fishing					
B - Mining and Quarrying					
C - Manufacturing					
D - Electricity, gas, steam and air conditioning supply					
E - Water supply,sewerage, waste management and remediation activities					
F - Construction					
G - Wholesale and retail trade,repair of motor vehicles and motorcycles					
H - Transportation and storage					
I - Accommodation and Food Service Activities					
J - Information and communication					
K - Financial and insurance activities					
L - Real Estate Activities					
M - Professional, scientific and technical activities					
N - Administrative and support service activities					
O - Public administration and defence; compulsory social security					
P - Education					
Q - Human health and social work activities					
R - Arts, entertainment and recreation					
S - Other service activities					
T - Activities of households as employers; undifferentiated goods- and services-producing activities of households for own use					
U - Activities of extraterritorial organizations and bodies					

Source: Adapted from Kenyan Standard Industrial Classification, Central Bank of Kenya. 2021. Guidance on Climate-related Risk Management, European Banking Authority. 2022. Final report draft Implementing Technical Standards (ITS) on prudential disclosures on ESG.

In Part B of the Transition Risk Exposures Template, CBK requires institutions to disclose the Scope 3 emissions (financed emissions) under each KeSIC category sector, with further elaboration on the percentage of the sector measured and data quality scores. Scope 3 emissions (CO2 equivalent) and associated emission intensities (CO2 equivalent to unit of value in KSH) are critical to understanding transition risk exposures, defining and tracking progress on decarbonization targets, and alignment metrics.

Table 8: Transition Risk Exposure Reporting Template Part B

Exposures towards sectors that highly contribute to climate change*	GHG financed emissions (In tons of CO2 equivalent)		
	Percentage of sector exposure measured (KeSIC Level 1)	Financed emissions - Boundaries are Scope 1 & 2 (counterparty perspective)	Data Quality Score Weighted Average
KeSIC CODE			
A - Agriculture, forestry and fishing			
B - Mining and Quarrying			
C - Manufacturing			
D - Electricity, gas, steam and air conditioning supply			
E - Water supply,sewerage, waste management and remediation activities			
F - Construction			
G - Wholesale and retail trade,repair of motor vehicles and motorcycles			
H - Transportation and storage			
I - Accommodation and Food Service Activities			
J - Information and communication			
K - Financial and insurance activities			
L - Real Estate Activities			
M - Professional, scientific and technical activities			
N - Administrative and support service activities			
O - Public administration and defence; compulsory social security			
P - Education			
Q - Human health and social work activities			
R - Arts, entertainment and recreation			
S - Other service activities			
T - Activities of households as employers; undifferentiated goods- and services-producing activities of households for own use			
U - Activities of extraterritorial organizations and bodies			

Source: Adapted from Kenyan Standard Industrial Classification, Central Bank of Kenya. 2021. Guidance on Climate-related Risk Management, European Banking Authority. 2022. Final report draft Implementing Technical Standards (ITS) on prudential disclosures on ESG.

In Part C of the Transition Risk Exposures Template, CBK requires the maturity profile of exposures by sector. Maturity is related to the timeframe the specific climate risks are expected to materialise (short-term (withing one year); medium term (two to five years), and in the long-term (more than five years)).

Table 9: Transition Risk Exposure Reporting Template Part C

Exposures towards sectors that highly contribute to climate change*	Less than a year	Between 1 and 5 years	More than 5 years
KeSIC CODE			
A - Agriculture, forestry and fishing			
B - Mining and Quarrying			
C - Manufacturing			
D - Electricity, gas, steam and air conditioning supply			
E - Water supply,sewerage, waste management and remediation activities			
F - Construction			
G - Wholesale and retail trade,repair of motor vehicles and motorcycles			
H - Transportation and storage			
I - Accommodation and Food Service Activities			
J - Information and communication			
K - Financial and insurance activities			
L - Real Estate Activities			
M - Professional, scientific and technical activities			
N - Administrative and support service activities			
O - Public administration and defence; compulsory social security			
P - Education			
Q - Human health and social work activities			
R - Arts, entertainment and recreation			
S - Other service activities			
T - Activities of households as employers; undifferentiated goods- and services-producing activities of households for own use			
U - Activities of extraterritorial organizations and bodies			

Source: Adapted from Kenyan Standard Industrial Classification, Central Bank of Kenya. 2021. Guidance on Climate-related Risk Management, European Banking Authority. 2022. Final report draft Implementing Technical Standards (ITS) on prudential disclosures on ESG.

5. Governance

CBK's expectations on climate governance revolve around the "fit for purpose" criterion. That is ensuring proper governance structures are in place to properly assess climate-related risks and opportunities, take appropriate strategic decisions to manage them, and determine relevant goals and targets along with progress monitoring mechanisms. Banks should have in place robust governance arrangements that enable them to effectively identify, manage, monitor, and report the risks they are, or might be, exposed to both on an individual and consolidated basis. (Section 2 of the CBK Guidance on Climate-related Risk Management. 2021).

Governance of climate-related issues can take several forms depending on the bank business model, legacy issues, and other attributes. What is important is demonstrating that climate risk management is engrained in the bank's risk culture and evidenced across departments, supporting processes, controls, and procedures linked to the board and management for monitoring, managing, and overseeing climate-related risks and opportunities. CBK does not endorse any one structure. Banks should demonstrate how their governance body, which can be materialised in the shape of a board, committee or equivalent body charged with governance, or individuals responsible for oversight of climate-related risks and opportunities, is fit for purpose. Furthermore, it is necessary to define the management's role in the governance processes, controls, and procedures used to monitor, manage, and oversee climate-related risks and opportunities.

The following table provides a summary of how best practices support the development of a governance framework under two main building blocks: IFRS S2 and BCBS.

Table 10: Linking CBK, IFRS and BCBS expectations on governance

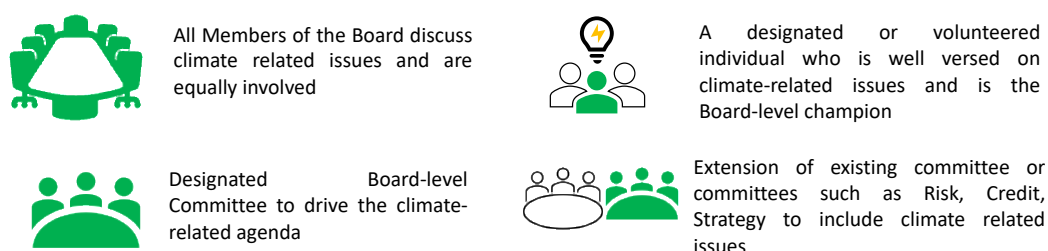
CBK	IFRS S2		BCBS
Governance	Topic	Description	Principles
3.1 Responsibilities of the board and senior management 3.2 Oversight	Governance body	Board, committee, or equivalent body charged with governance or individual(s) responsible for oversight of climate-related risks and opportunities.	Principle 2: The board and senior management should clearly assign climate-related responsibilities to members and/or committees and exercise effective oversight of climate-related financial risks. Further, the board and senior management should identify responsibilities for climate-related risk management throughout the organisational structure.
	Management's role	Definition and oversight of the delegated management-level position or committee responsible for climate risk considerations. Integration of controls and procedures to support the oversight of climate-related risks and opportunities, and its	Principle 3: Banks should adopt appropriate policies, procedures and controls that are implemented across the entire organisation to ensure effective management of climate-related financial risks. Principle 4: Banks should incorporate climate-related financial risks into their internal control frameworks across the three lines of

CBK	IFRS S2		BCBS
Governance	Topic	Description	Principles
		integration with other internal functions.	defence to ensure sound, comprehensive and effective identification, measurement, and mitigation of material climate-related financial risks.

Best practice on governance

At the Board level, there are primarily four approaches commonly adopted.

Figure 3: Board configurations to integrate climate-related issues in decision making for banks



Further guidance is provided below on common approaches by both the Board and management in embedding climate-related issues into their work agenda, along with the allocation and definition of resources and processes for climate risk management.

Table 11: Adopting climate risk in the governance of financial institutions

Board involvement	Management involvement
The board sets a climate strategy. This may be part of a wider sustainability or ESG strategy; The board articulates which types of business to pursue and objectives to be considered qualitatively, and eventually quantitatively, at the company level; Group-level risk managers provide a breakdown (such as capacities) for certain risk-taking (business) units, wherever quantitative limits are defined; Business units consider capacity limits for risk taking, and balance these limits with other objectives for risk taking; and Risk management, underwriting, and asset management incorporate principles into their governance frameworks to control their limits,	When assigning senior management responsibility for climate risk, consider where responsibility for other financial risks is managed and align with that responsibility. This will depend on the firm, but examples include the Chief Risk Officer and/or the Chief Financial Officer/ Chief Investment Officer. Senior Management Function (“SMF”) responsibility for climate risk should be assigned to an existing SMF; and the responsibility should not be shared between ‘too many’ individuals. As a guiding principle, not assigning SMF responsibility to more than 2 people is a good starting point, subject to the firm’s legal and corporate governance structure. Ensure the dissemination of responsibility is allocated appropriately and documented. Update the relevant committee terms of reference and set up a committee or working group, chaired by the SMF holder, with representation from across the three lines of defence, to oversee operational delivery.

monitor adherence to the limits, and describe escalation procedures (as necessary). ⁹	Senior management responsibility for climate risk management, alone, does not allocate responsibility across the firm. It is important to clarify roles and responsibilities across all three lines of defence, so that the ownership and accountability are clear and coordinated.
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CBK has given banks the flexibility to demonstrate and evidence governance of climate-related issues primarily in a qualitative questionnaire format, as shown below.

Table 12: Questionnaires and Tables on Governance

Governance	CLIMATE
The Board has formally defined responsibilities relating to climate risk management of the bank including related strategic decisions.	Y/N, Explain
Executive management has formally defined responsibilities relating to climate risk management of the bank including climate change related strategic decisions	Y/N, Explain
Climate-related risks are included in the banks' training programs, both for the members of the Board and Executive Management, and for all other persons involved in the management of these risks.	Y/N, Explain
Board and Executive Management remuneration are linked to climate risk management related KPIs or criteria.	Y/N, Explain, List

Governance: Board responsibilities			
Board Level Representation	Climate considerations	Frequency	Evaluation metrics
Specify if there is a specific Committee, Extension of existing Committee, Full Board Integration, or Board Champion	In what ways is the Board configuration responsible for climate-related issues?	How often is the Board informed about climate-related issues?	Which metrics or targets are used to evaluate climate-related issues?
	It is not considered yet Designating a person Defining a task force Having a climate risk committee Having climate risk discussed at the board level Integrating climate risk into the overall risk framework		

Source: Adapted from the European Banking Authority. 2022. Final report draft Implementing Technical Standards (ITS) on prudential disclosures on ESG.

Governance: Management responsibilities				
Management representation	Reporting line	Climate considerations	Frequency	Evaluation metrics
Name of management committee or working group or both that oversees climate-related issues	The highest position to which reported to	In what ways is the committee / working group responsible for climate-related issues	How often is the committee / working group informed about climate-related issues	Which metrics or targets does the committee / working group use to evaluate climate-related issues

⁹ CRRF. 2021. Climate Risk Appetite Statements.

6. Strategy for managing climate-related risks and opportunities

The Central Bank of Kenya's expectation on climate risk management considers that in formulating their business strategies, institutions are expected to understand the impact of climate-related risks on the business environment in which they operate, in the short, medium, and long term, to facilitate informed strategic and business decisions. (Section 3.3 of the CBK Guidance on Climate-related Risk Management. 2021).

The aim of climate-related financial disclosures concerning strategy is to provide a comprehensive understanding of how an entity manages climate-related risks and opportunities. This involves disclosing information on: (a) the climate-related risks and opportunities expected to impact the entity's prospects, (b) the present and future effects of these climate-related factors on the entity's business model and value chain, (c) how these factors influence the entity's strategy and decision-making, including details on its climate-related transition plan, (d) the impacts of these factors on the entity's financial position, performance, and cash flows for the reporting period, as well as their expected effects over the short, medium, and long term, considering their incorporation into financial planning, and (e) the resilience of the entity's strategy and business model to climate-related changes and uncertainties, based on identified risks and opportunities.

Table 13: Linking CBK, IFRS and BCBS expectations on business strategy

CBK	IFRS S2		BCBS Principles
Strategy	Topic	Description	
3.3.2 Formulation 3.3.3 Implementation	Climate-related risks and opportunities	Explanation of the effects of physical and transition climate-related risks and opportunities that could reasonably be expected to affect the entity's prospects over the short, medium, or long term, and its linkage planning and strategic decision-making.	Principle 1: Banks should develop and implement a sound process for understanding and assessing the potential impacts of climate-related risk drivers on their businesses and on the environments in which they operate.
	Business model and value chain	Description of the current and anticipated effects of climate-related risks and opportunities on the bank's business model and value chain, with a level of granularity to assess sector, segment, financial product, and geographical concentration.	Banks should consider material climate-related financial risks that could materialise over various time horizons and incorporate these risks into their overall business strategies and risk management frameworks.
	Strategy and decision - making	Description of how the bank is planning to address climate-related risks and opportunities in its strategy and decision-making, including target setting and monitoring, climate regulation compliance, business model changes, resource allocation, mitigation	

CBK	IFRS S2		BCBS Principles
Strategy	Topic	Description	
		and adaptation efforts, and transition plans.	
	Financial position, financial performance, and cash flows	Description of the effects of climate-related risks and opportunities on the current and anticipated financial performance and cash flows over the short, medium, and long term.	Principle 5: Banks should identify and quantify climate-related financial risks and incorporate those assessed as material over relevant time horizons into their internal capital and liquidity adequacy assessment processes, including their stress testing programmes where appropriate.
	Climate resilience	Provision of information to understand the resilience of the bank's strategy and business model considering climate-related risks and opportunities, paired with climate-related scenario analysis.	Principle 12: Where appropriate, banks should make use of scenario analysis to assess the resilience of their business models and strategies to a range of plausible climate-related pathways and determine the impact of climate-related risk drivers on their overall risk profile. These analyses should consider physical and transition risks as drivers of credit, market, operational and liquidity risks over a range of relevant time horizons.

The Reporting Template includes a questionnaire on strategic considerations of climate-related issues accordingly.

Table 14: Qualitative questionnaire on business strategy

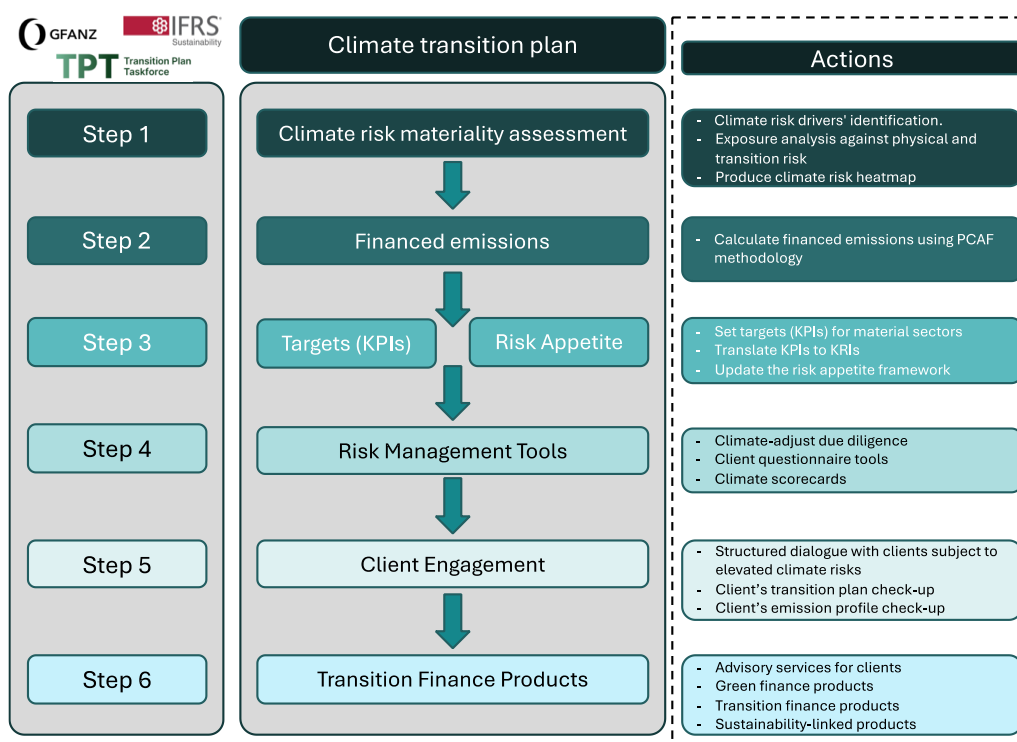
Business strategy and processes	
How does your institution's business strategy integrate climate factors and risks, taking into account the impact of these factors and risks on the institution's business environment, business model, strategy and financial planning	
Describe your institution's objectives, targets and limits to assess and address climate risk and performance in short-, medium-, and long-term including forward-looking information in the design of business strategy and processes	
Describe total portfolio and sector-specific goals as it relates to climate risk and opportunities now and in the future	
Describe your materiality assessment process for transition and physical risks	
Describe policies and procedures relating to engagement with new or existing counterparties on their strategies to mitigate and reduce climate risks	

Source: Adapted from the European Banking Authority. 2022. Final report draft Implementing Technical Standards (ITS) on prudential disclosures on ESG.

Best practice on strategy

The following illustration presents a series of steps that banks should undertake to effectively integrate climate risk and opportunities into the business strategy. Integration of climate risks into the business strategy depends on the material risks drivers identified, as well as the bank's capacities assembling transition plan, products and services, as a combination of strategic approaches and steering tools to translate their exposures against transition and physical risks into growth opportunities.

Figure 4: Good practices for integrating climate risk into the business strategy



Source: GFANZ, 2023

Banks should start by identifying physical and transition climate risks, overlaying them against the traditional enterprise risk framework, and assessing how they can create opportunities. Organizations identify climate-related opportunities by systematically analysing how they can leverage climate risks, trends, and policies to create value, reduce costs, improve resilience, and align with global climate goals. A key starting point is the evaluation of climate risks, which can reveal significant opportunities. For instance, analysing physical risks such as extreme weather events or rising sea levels can lead to innovations in climate-resilient infrastructure or supply chains. Similarly, assessing transition risks—such as regulatory shifts, technological advancements, and market changes—can highlight prospects for developing low-carbon products, entering new markets driven by decarbonisation, or reducing operational costs through energy efficiency improvements. In addition, the implementation of the Kenya Green Finance Taxonomy will further provide commercial banks with information and definitions fostering the alignment of green financing with opportunities, expanding on green markets and attracting sustainability-focused investors, and developing and updating existing financial products. The table below illustrates examples of climate risks, their financial impacts, associated risks, and opportunities.

Table 15: Example of climate-driven financial risks and opportunities

Climate-related risks		Impacts	Financial risks	Financial opportunities
Physical risks	Acute	Floods, wildfires, extreme winds 	Damages to the operations of FI's corporate clients' manufacturing facilities and	
	Chronic	Heatwaves, droughts, sea level rise 	Decrease in labor and agriculture productivity, disruptions to energy generation	
Transition risks	Policy risk	Introduction of a carbon tax/pricing scheme to limit utilization of fossil fuels 	Higher costs for oil & gas companies and coal-fired power producers. Reduction in market demand for these companies' products	
	Technology risk	Technological innovation results in a decline in renewable energy costs 	Reduced market shares and pricing of fossil-fuel based companies	
	Reputational risk	Loss of clients/investors due to fossil fuel exposure 	Sentiment shifts lead to a sudden decline in price/valuation of carbon-intensive assets held by and FI and sector stigmatization	

Source: Network for Greening the Financial System (NGFS) (2020) Overview of Environmental Risk Analysis by FIs.

To effectively embed climate risks and opportunities into the business strategy, banks should **begin with a thorough climate risk materiality assessment to identify primary climate risk drivers** affecting their operations and to assess exposure to them.

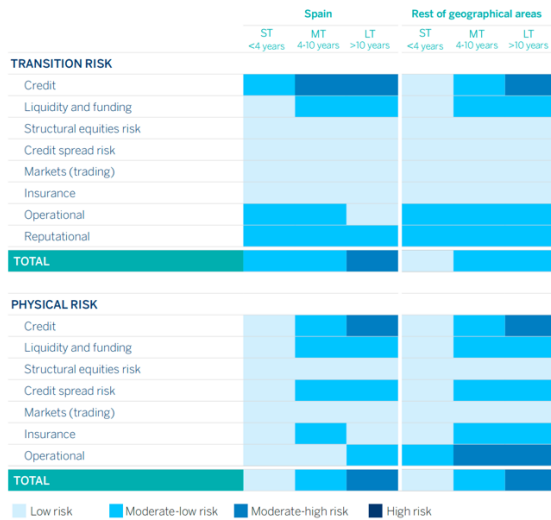
Climate risk materiality assessment is a systematic process for evaluating and prioritising climate-related risks and opportunities based on their potential impact on the organisation's strategy, operations, and financial performance. This assessment helps identify which climate risks and opportunities are material—i.e., significant enough to influence the decisions of stakeholders. The materiality assessment process involves:

- Identification of Climate Risk Drivers - physical risks (e.g., extreme weather events) and transition risks (e.g., policy changes, technological shifts) that could affect their strategy, business model or financial performance.
- Risk Assessment and Materiality Determination: Assessing the materiality of climate risk drivers, considering their exposure concentrations against predetermined materiality thresholds.
- Using Scenario Analysis to evaluate the potential financial impact of climate-related physical and transition risks on their portfolios.

Materiality assessment will support banks in prioritizing certain sectors and applying different metrics and targets to steer their portfolios towards low-carbon pathways (e.g., [Kenya's Long-term Low Emission Development Strategy](#), LT-LEDs).

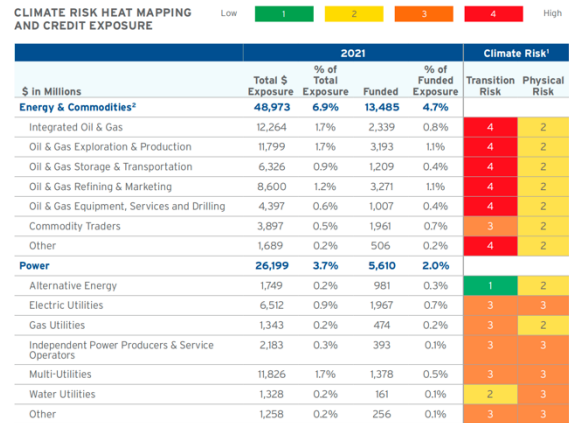
The following heatmap examples provide a visual summary of these physical and transition risks, according to their materiality on the business (Figure 3 and 4).

Figure 5: BBVA heatmap of transition and physical risks in the short, medium, and long term



Source: BBVA. 2022. TCFD Report.

Figure 6: Citi exposure and heatmap of transition and physical risks



Source: Citi. 2022. TCFD Report.

The Framework Reporting Templates include a materiality assessment table to assist banks in summarizing their analyses across credit exposures. There are drop down options for commonly selected risk drivers, but banks are free to select those which are unique to their own circumstances.

Table 10: Climate related materiality assessment

Climate Risk Type	Sub-Type	Climate-related risks	Specific impact that climate-related risk will have on your LOAN BOOK over the given horizon.		
Type of risk	Sub-Type	Using the drop-down options, select the climate-related risks that are applicable to the Bank. If extra rows are needed, right click the corresponding sub-type and select "Insert".	Short-term time horizon	Medium-term time horizon	Long-term time horizon
Transition Risk	Policy and Legal	Introduction or increase in pricing of GHG emissions			
		Stricter emission-reporting requirements			
		If response not included in drop down, provide here			
	Technology	Substitution of existing products and services with lower emission options			
		Higher cost associated with low carbon technology			
		Substitution of existing products and services with lower emission options			
	Market	Low return or low viability from new technologies			
		Higher cost associated with low carbon technology			
		Transitioning to lower carbon technology			
		Others (specify)			
		Insurance policies becoming unattractive due to pricing			
		Increased costs in inputs and raw materials			
		If response not included in drop down, provide here			

Source: Adapted from the European Banking Authority. 2022. Final report draft Implementing Technical Standards (ITS) on prudential disclosures on ESG.

Once the materiality assessment is completed, banks should **estimate their financed emissions in material sectors**. An industry leading approach is the [Partnership for Carbon Accounting Financials](#) (PCAF)¹⁰ methodology. The emissions profile of counterparties and bank portfolios can then be compared against the national low-emission pathways (e.g., LT-LEDS). As a start, banks should focus on business loans and large portfolio exposures, later progressing to include other asset classes (commercial real estate, mortgages, motor vehicle loans) in the calculations. (See **Transition Risk Exposure Reporting Template Part B**).

As banks start measuring their financed emissions, the next step would be to **establish specific short-, medium- and long-term targets or Key Performance Indicators (KPIs) in material sectors** aligned to a scenario. CBK has provided an optional alignment metrics reporting Template to support such endeavours.

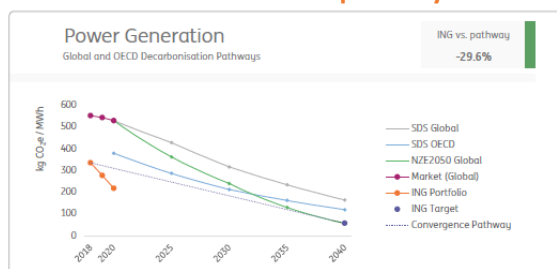
Table 17: Template for reporting optional alignment metrics

Sector	KeSIC Sectors	Portfolio gross carrying amount (Mn KSH)	Alignment metric**	Year of reference	Distance to Scenario Benchmark % ***	2030 Target
B - Mining and Quarrying	Please refer to the list below*					
C - Manufacturing						
D - Electricity, gas, steam and air conditioning supply						
H - Transportation and storage						
... potential additions relevant to the business model of the institution						

Source: Adapted from the KeSIC, and European Banking Authority. 2022. Final report draft Implementing Technical Standards (ITS) on prudential disclosures on ESG.

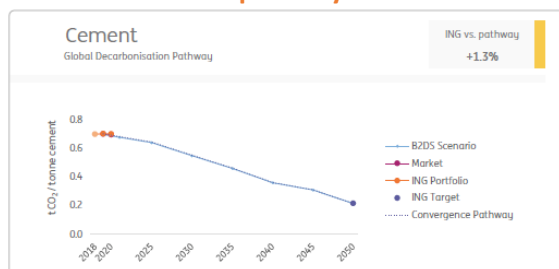
For alignment, banks could use the LT-LEDS as benchmarks. Banks could use the LT-LEDs to derive carbon intensities for different sectors and use these to steer their portfolios to be aligned with low-carbon economy in Kenya. Subsequently, these targets can be translated into **Key Climate Risk Indicators (KCRIs)**. The KCRIs could track progress towards alignment within the bank's portfolios.

Figure 7: ING Power generation decarbonization pathway



Source: ING. 2021. Climate Report.

Figure 8: ING Cement decarbonization pathway



Source: ING. 2021. Climate Report.

Banks should **deploy appropriate risk management tools** to integrate climate considerations into their existing strategies. This may include conducting climate-adjusted due diligence embedding climate-related questionnaires and scorecards and integrating climate tools into risk management processes.

Critically, **engagement with clients** should be emphasized to support clients in understanding their exposure to climate risks and help them develop their own climate transition plans. This could be achieved through structured approaches such as regular check-ups on their climate transition progress and assessments of their emission profiles. Through these engagements, banks can develop **transition finance products** to meet the evolving needs of their clients and capitalize on emerging opportunities in the transition to a low-carbon economy, such as:

¹⁰ PCAF aligns with the GHG Protocol Accounting Standard required by IFRS S2 by providing sector-specific methodologies for measuring and reporting financed emissions (Scope 3, Category 15)

- **Advisory Services for Clients:** Providing expert guidance to clients on how to transition their operations and investments towards climate resilient business model. This could include strategies to reduce carbon footprints, support their measurement, and comply with regulatory requirements.
- **Green Finance Products:** Offering financial instruments specifically designed to fund environmentally friendly projects. This can encompass green bonds, loans, and other investment vehicles that support renewable energy, energy efficiency, pollution prevention, and other green initiatives.
- **Transition Finance Products:** Developing tailored financial solutions that help companies transition from high-carbon to low-carbon activities. These products would aim to support hard-to-abate sectors in their efforts to reduce their carbon emissions (e.g., cement, steel, iron, chemicals, etc.).
- **Sustainability-Linked Products:** Creating financial products that are tied to the achievement of specific sustainability performance targets. These could include sustainability-linked loans or bonds, where the terms and conditions, such as interest rates, are linked to the borrower's performance against predefined sustainability metrics.

The following figure illustrates how TD Bank has assembled its Climate Transition Plan under the overall business strategy, with a series of targets and business commitments by 2030.

Figure 9: Overview of TD Bank Climate Transition Plan



Source: TD Bank. 2022.

7. Risk management

CBK's expectation on climate risk management requires institutions to have documented policies and procedures to manage climate-related financial risks in a proactive manner. Given the evolving nature of climate-related risks, relevant risk management frameworks, policies, and procedures, as well as the effectiveness of related internal controls, should be reviewed regularly to keep pace with the changing environment (Section 3.4 of the CBK Guidance on Climate-related Risk Management. 2021).

The objective of disclosing climate-related risk management policies is to understand a bank's approach in identifying, assessing, prioritizing, and monitoring climate-related risks and opportunities. It emphasizes the need for integration of these processes into the bank's overall risk management framework. Specifically, banks should disclose information about their processes and policies for identifying, assessing, and monitoring climate-related risks and opportunities. Additionally, the IFRS S2 standard highlights the importance of utilizing climate-related scenario analysis to inform the identification of opportunities, associated with the climate transition. Integration of these processes into the bank's overarching risk management process is crucial, and the extent to which this integration occurs should be disclosed.

Table 11: Linking CBK, IFRS and BCBS expectations on risk management

CBK	IFRS S2		BCBS Principles
Risk Management	Topic	Description	
3.4.2 Risk identification and measurement 3.4.3 Monitoring and Reporting 3.4.4 Control and Mitigation	Processes to identify, assess, prioritize, and monitor climate-related risks	Details on what processes and policies are in place to identify, assess, prioritize, and monitor climate-related risks, including quantitative and qualitative analysis, prioritization and monitoring of the nature, likelihood, and magnitude of climate risks.	Principle 6: Banks should identify, monitor, and manage all climate-related financial risks that could materially impair their financial condition, including their capital resources and liquidity positions. Banks should ensure that their risk appetite and risk management frameworks consider all material climate-related financial risk to which they are exposed and establish a reliable approach to identifying, measuring, monitoring, and managing those risks. Principle 12: Where appropriate, banks should make use of scenario analysis to assess the resilience of their business models and strategies to a range of plausible climate-related pathways and determine the impact of climate-related risk drivers
	Processes to identify, assess, prioritise, and monitor climate-related opportunities, including climate-related scenario analysis)	Details on what processes and policies are in place to identify, assess, prioritize, and monitor climate-related opportunities, explanation of how the bank uses climate-related scenario analysis to inform its identification of climate-related opportunities.	

CBK	IFRS S2		BCBS Principles
Risk Management	Topic	Description	
			on their overall risk profile. These analyses should consider physical and transition risks as drivers of credit, market, operational and liquidity risks (Principles 8, 9, 10 and 11) over a range of relevant time horizons.
	Processes to identify, assess, prioritize, and monitor climate-related risks	Details on what processes and policies are in place to identify, assess, prioritize, and monitor climate-related risks, including quantitative and qualitative analysis, prioritization and monitoring of the nature, likelihood, and magnitude of climate risks.	Principle 7: Risk data aggregation capabilities and internal risk reporting practices should account for climate-related financial risks. Banks should seek to ensure that their internal reporting systems are capable of monitoring material climate-related financial risks and producing timely information to ensure effective board and senior management decision-making

Best practice on risk management

Probability of Default (PD) values are a key metric used to assess the likelihood that a borrower will fail to meet their financial obligations. These values influence critical decisions such as loan approvals, pricing, capital allocation, and overall risk exposure. Traditionally, PD is estimated using historical financial data, credit scores, and macroeconomic conditions, helping the bank determine the appropriate level of risk associated with lending to a particular client or sector. Accurate PD modelling ensures that the bank can minimize losses, optimize its loan portfolio, and comply with capital requirements while maintaining profitability and competitiveness.

With the growing impact of climate risks, banks need to **integrate climate-related factors into PD modelling** to ensure they are capturing all relevant risks. This involves assessing how **physical risks**—such as floods or heatwaves—could impact a borrower’s ability to repay, as well as how **transition risks**—such as new environmental regulations or shifts in consumer demand—could affect a company’s financial health. For banks, this requires incorporating climate risk data into existing credit assessment models, running scenario analyses, and adjusting risk weightings for sectors more exposed to climate-related shocks. A crucial part of this process is comparing **PD values under climate stress scenarios** with those of a **PD baseline or business-as-usual** scenario. By quantifying the difference between these PD values, risk managers can evaluate how much climate risk contributes to a borrower’s potential default. This enables banks to adjust lending terms, set aside additional capital buffers, or reprice loans for high-risk sectors. Running these analyses ensures proactive climate risk management, strengthens long-term portfolio resilience, and supports compliance with evolving regulatory frameworks like **IFRS S2 Climate-related Disclosures (2023)** and the **Basel Committee’s revised banking supervision principles (2024)**.

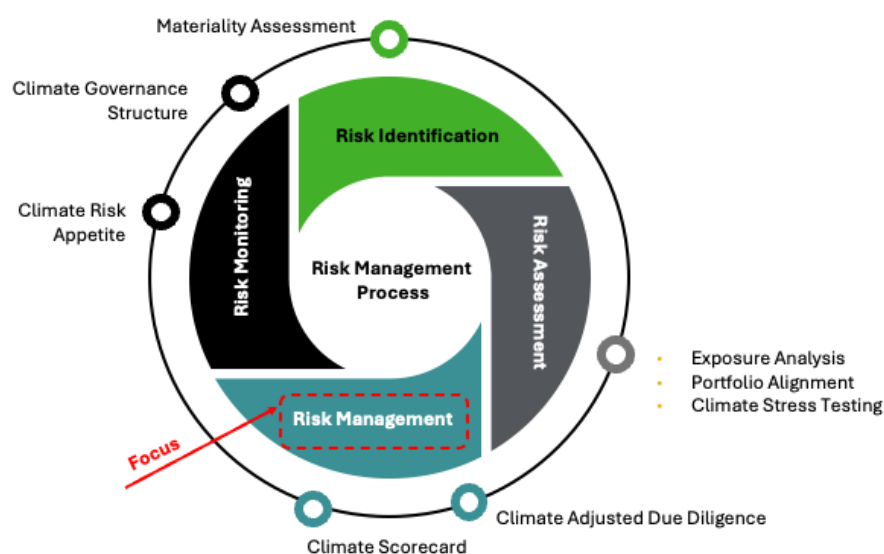
Banks should apply a robust climate risk management process to safeguard assets against climate-related risks. The process should start with **risk identification**, where banks identify the potential climate risks through materiality assessment, followed by **risk assessment** to identify their exposures against both physical and transition risks. Once exposures are assessed, banks should start exploring the application of portfolio alignment methods to delineate their portfolios against LT-LEDS low-carbon pathways for potentially material sectors they finance. At the very last step, banks should define methodologies and approaches for conducting climate scenario analysis, including stress testing. Banks commonly adapt a selection of climate scenarios to assess macroeconomic and financial risks, including those from the Network for Greening the Financial System (NGFS) models, to support and calculate the difference between stressed portfolio PD and baseline PD values to allocate additional capital buffers for those surpassing internal materiality thresholds.

Scenario analysis and stress testing are integral components of a robust climate risk management process. They enable banks to quantify and prepare for the potential impacts of climate-related risks under various plausible future scenarios. Scenario analysis involves modelling different climate trajectories, such as high-emission or low-carbon pathways, to assess their potential effects on portfolios, considering both physical risks and transition risks.

Examples of the pathways include SSP5-8.5 (High-Emission Pathway), which represents the upper boundary of greenhouse gas emissions. It assumes a fossil-fuel-intensive, high-economic-growth world where limited climate mitigation occurs, leading to significant warming and severe physical climate risks, including extreme heat, rising sea levels, and widespread environmental degradation; and SSP2-4.5 (Intermediate-Emission Pathway), an updated version of the RCP4.5 pathway, SSP2-4.5 assumes moderate climate action. This pathway envisions a world with uneven progress with some climate protection measures in place, and slower economic and population growth compared to SSP5-8.5. Physical risks are less severe than SSP5-8.5, but transition risks remain due to the gradual adoption of low-carbon technologies.

Stress testing complements scenario analysis by evaluating the resilience of portfolios under severe but plausible adverse scenarios. Leveraging frameworks like the NGFS models, banks can assess macroeconomic and financial vulnerabilities, calculate stressed probability of default (PD) values, and determine the capital buffers needed for exposures surpassing materiality thresholds.

Figure 10: Climate Risk Management Process (explanatory)



As banks progress in assessing climate risks through different methods, they should start adjusting internal **risk management** practices and include climate factors in the **due diligence procedures**. Such procedures would include a set of **client questionnaires** (including exclusion criteria in lending policies) to understand the level of risk that clients are facing and to make informed credit decisions (for example, granting credit or intensifying monitoring).

The client questionnaire should collect the client and asset-specific data needed to assess relevant transition and physical risk drivers. This includes both quantitative and qualitative risk data. The figure below provides a non-exhaustive overview of observed practices.

Figure 11: List of data items collected to inform risk assessment during due diligence.

	Data	Description	Risk driver
Quantitative data	Current and projected total GHG emissions	An estimate of the total current and projected GHG emissions of financed assets broken down by Scope 1, 2 and 3 emissions (e.g. tCO ₂ or tCO ₂ e/t produced product)	Transition risk (e.g., policies and regulations)
	Fossil fuel dependency	Production, processing, distribution, storage, or combustion of fossil fuels (percentage of revenues/production volumes)	Transition risk (e.g., policies and regulations)
	Geographical location data	Granular data on the geographical location of financed assets and/or main client activities (e.g. postal codes)	Physical risk (e.g., flooding)
	Energy consumption intensity	An estimate of the energy consumption of clients (e.g. gigawatt hours – GWh), including a split of the share of (non-)renewable sources	Transition risk (e.g., policies and regulations)
	Water consumption intensity	An estimate of the water consumption of client activities in million m ³	Physical risk (e.g., water stress)
	Energy performance certificate	EPC for both residential and commercial real estate	Transition risk (e.g., market sentiment and regulation)
Qualitative data	Sustainable building certificate	Sustainability certificate for construction projects (e.g. BREEAM or LEED)	Transition risk (e.g., market sentiment and regulation)
	Climate transition plan	Does the client have time-bound plans in place to align its GHG emissions with, for example, the Paris Agreement objectives?	Transition risk (e.g., policies and regulations)
	Climate risk assessment	Does the debtor assess the impact of upcoming regulations related to climate change and environmental degradation?	Transition risk (e.g., policies and regulations)
	Implementation of ESG policies	Does the debtor have policies in place that address key possible C&E risk issues occurring in its operations?	Transition & physical risks (e.g., biodiversity loss)
	Adherence to sustainability reporting	Does the debtor adhere to sustainability reporting standards (e.g. IFRS S1 & S2)?	Reputational and liability risk
	Reputational check up	Is debtor involved in controversies related to climate change and/or environmental degradation?	Reputational and liability risk

Source: European Central Bank (ECB). 2022. Good practices for climate-related and environmental risk management.

The questionnaires can be used to classify clients with different risk scores through stand-alone **climate scorecards** for clients, for example featuring an adapted traffic light system with standardised levels (i.e., green, amber, and red). The scorecard can then be factored into the discussions on lending decisions and credit files in the respective credit committees. In some cases, the banks could integrate the outcome of the client scorecard in its PD-rating system in a qualitative manner. For example, by setting concrete criteria that trigger a downward override of the PD rating if the scorecard is poor or through the integration of qualitative climate-related findings in the business risk or business environment assessment component of the PD rating system.

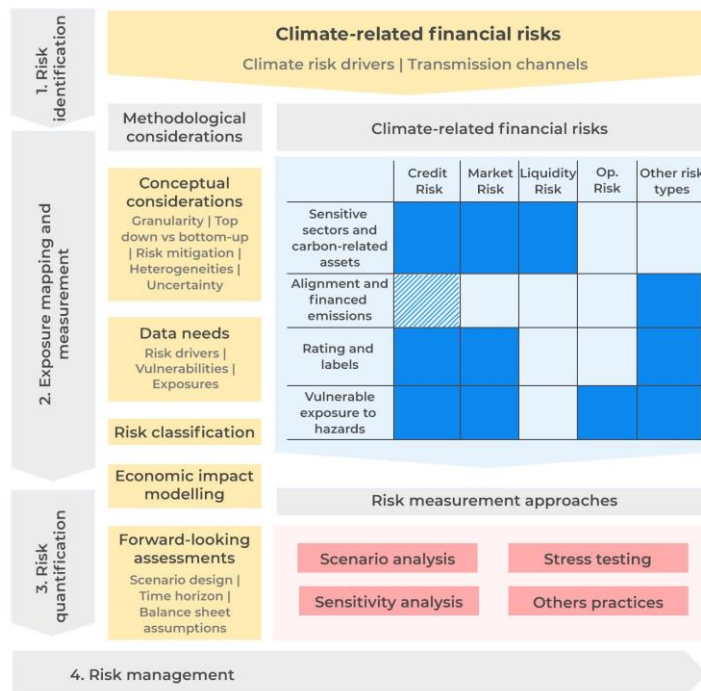
The following illustrations provide an overview on how some banks adjusted their due diligence procedures in conjugation with internal engagement approaches. While the illustrations are summaries, there is a substantial amount of effort related to assembling inputs and parameters to understand the nature, likelihood, and magnitude of the effects of climate risks and opportunities, their prioritization, management, and monitoring. Lastly, these efforts are dynamic, as they require an understanding of how these risks can also be translated to opportunities over time, using climate-related scenario analysis to inform the identification of climate-related opportunities, and the integration into the entity's overall risk management process.

Figure 12: TD Bank engagement topics for power and energy sector



Source: TD Bank. 2022. Climate Action Report.

Figure 13: Conceptual climate risk assessment framework for banks and supervisors



Source: BIS. 2021. Basel Committee on Banking Supervision Climate-related financial risks – measurement.

The Templates utilize a qualitative questionnaire for banks to demonstrate their climate-related risk management process in as much detail as possible, addressing several data points as shown below. Each field on the Template includes a unit of measure, such as Kenyan Shillings, tonnes of CO2 equivalent, share of the portfolio, as well as drop down menus, to facilitate completion of the report.

Table 12: Framework Template questionnaire on risk management, scenarios, and transition planning

Risk management	CLIMATE
Describe the process to identify, assess, prioritize and monitor climate risks and opportunities and your institution's integration of short-, medium- and long-term effects of climate factors and risks in the risk framework	Make reference to the Institution's Climate Materiality Assessment in your answers.
Which definitions, methodologies and international standards on which management of climate risks are based	
Activities, commitments and exposures contributing to mitigate climate risks	
Implementation of tools for identification, measurement and management of climate risks	
Assessment of the data availability, quality and accuracy, and efforts to improve these aspects	
Extent to which the risk appetite statement has integrated climate risks	
Which quantitative and qualitative indicators are constructed and utilized across the credit due diligence lifecycle to assess climate risks	
Climate Scenarios	CLIMATE
Describe scenarios referenced in your risk practice and how they are applied in strategic decisions and risk management across time horizons	
Transition Planning	CLIMATE
Your institution has or is developing a Transition Plan	Y/N, Explain

Source: Adapted from European Banking Authority. 2022. Final report draft implementing technical standards (ITS) on prudential disclosures on ESG.

8. Metrics and targets

CBK's expectations on metrics and targets are covered in Section 3.4.5. The disclosure of climate-related metrics and targets highlights a bank's internalization of climate-related risks and opportunities across strategy, governance, and risk management. A robust set of metrics and targets informs stakeholders on the extent to which climate-related matters have been considered and quantified. Critically, financed emissions, a sub-component of Scope 3 and the largest share of total emissions for financial institutions, should be a priority metric. Additional commonly used metrics include alignment metrics, which are derived from climate-scenarios or sector-based decarbonization pathways. There are also growth-oriented metrics and targets concerning green portfolios that align with mitigation, adaptation, or other environmental criteria.

Table 20: Linking CBK, IFRS and BCBS expectations on metrics and targets

CBK	IFRS S2		BCBS Principles
Risk Management	Topic	Description	
3.4.5 Disclosure of climate-related information	Climate-related metrics	Information relevant to the cross-industry metric categories including greenhouse gases emissions (Scope 1, 2 and 3), asset share or business activities vulnerable to transition and physical risks, and alignment with climate-related opportunities, capital deployment towards climate risk and opportunities, carbon pricing, and remuneration schemes, linked to climate performance.	Principle 7: Risk data aggregation capabilities and internal risk reporting practices should account for climate-related financial risks. Banks should seek to ensure that their internal reporting systems are capable of monitoring material climate-related financial risks and producing timely information to ensure effective board and senior management decision-making.
	Climate-related targets	Disclose the quantitative and qualitative climate mitigation, and adaptation targets set by the bank, together with its geographical and sector coverage monitoring arrangements, linkages to regulation, and application period.	Banks should develop qualitative and/or quantitative metrics or indicators to assess, monitor, and report climate-related financial risks. Limitations that prevent full climate risk data assessment should be made explicit to stakeholders where relevant.

Best practice on metrics and targets

Climate-related metrics

The carbon footprint of a bank refers to the total greenhouse gas (GHG) emissions caused directly and indirectly by the entity, measured in carbon dioxide equivalent (CO₂ equivalent). For banks, emissions are

classified into Scope 1, Scope 2, and Scope 3 under the GHG Protocol. Scope 1 includes direct emissions from sources owned or controlled by the bank, such as fuel combustion in bank-owned buildings and company vehicles. Scope 2 covers indirect emissions from purchased electricity, heating, or cooling used in bank branches, offices, and data centres. Scope 3 includes all other indirect emissions in the bank's value chain and is typically the largest contributor to the carbon footprint of a bank. This encompasses emissions from financed activities (Category 15 – financed emissions)—loans and investments in carbon-intensive industries—as well as business travel, employee commuting, purchased goods and services, and waste management. Since a bank's core business involves financing rather than direct operations, financed emissions often dominate its carbon footprint, making them a critical focus for climate risk management and climate action commitments. Measurement frameworks such as the Partnership for Carbon Accounting Financials (PCAF) Standard helps to quantify and disclose these emissions across asset classes, including corporate loans, equities, bonds, and real estate.

Understanding and managing financed emissions is critical for financial institutions seeking to align their portfolios with climate action targets, comply with climate regulations, and mitigate climate-related risks. By measuring and disclosing these emissions, institutions can integrate climate considerations into investment and lending decisions, ultimately promoting the transition to a low-carbon economy. The following is an illustration on how NatWest Group estimates of financed emissions in their portfolio. As it can be seen, Scope 1 and 2 Greenhouse Gas (GHG) Emissions are calculated for most sectors; however, the bank is still making strides to estimate Scope 3 GHG Emissions in particular segments, such as Property, or land transportation.

Figure 14: NatWest Sample of Financed Emissions and Carbon Intensity

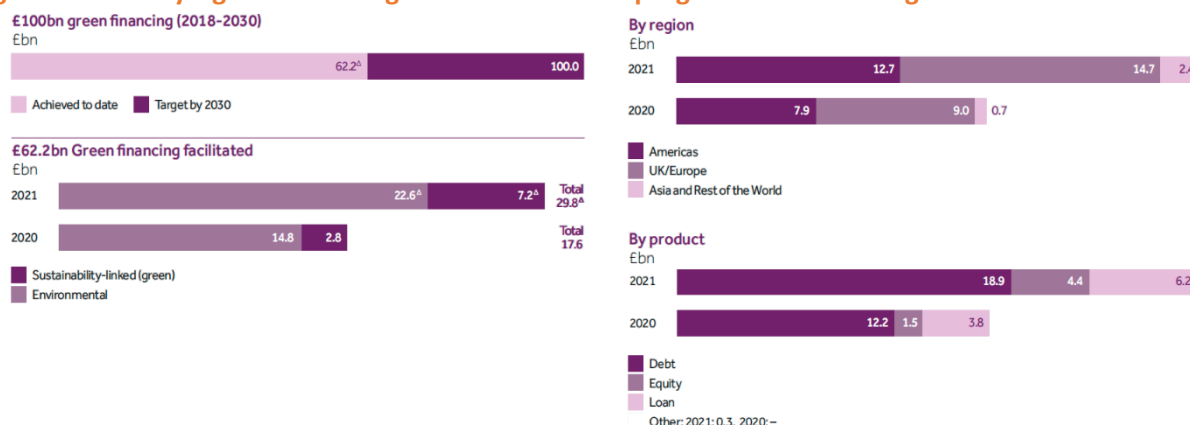
System	Sector	2021			
		Scope 1 and 2 (MtCO ₂ e)	Scope 3 (MtCO ₂ e)	Physical emissions intensity	Economic emissions intensity
Property	Residential mortgages	3.1 ⁽¹⁾		37.8 kgCO ₂ e/m ² ⁽¹⁾	15
	Commercial real estate	0.3 ⁽¹⁾		56.6 kgCO ₂ e/m ² ⁽¹⁾	19
	Construction	0.6		43.4 tCO ₂ e/£m	128
Mobility	Automotive manufacturing ^(3,4)		0.5	250 gCO ₂ e/vkm	1,363
	Land transport and logistics				
	of which Freight road ⁽⁴⁾	0.1	0.2	45.9 gCO ₂ e/tkm	216
	of which Passenger rail ⁽⁴⁾	0.2	0.1	59.4 gCO ₂ e/pkm	506
	of which Passenger road ⁽⁴⁾	0.2	0.2	86.9 gCO ₂ e/pkm	152
	Airlines and aerospace				
	of which Aviation	0.4			414
Energy	Shipping ⁽³⁾	0.2			243
	Power utilities				
	of which Electricity generation	0.5		116.7 kgCO ₂ e/MWh	156
	Aluminium ⁽³⁾			7.0 tCO ₂ e/tonne	1,215
	Iron and steel	0.3		1.9 tCO ₂ e/tonne	5,417
	Oil and gas ⁽⁴⁾	0.9 ⁽¹⁾	0.2 ⁽¹⁾	2.4 tCO ₂ e/TJ	487

Source: NatWest. 2022. Climate-related Disclosures Report.

Climate-related targets

Similarly, the following is an illustration on how Barclays' aims to align its business with climate-related opportunities, linked to their short, medium, and long-term targets. This entails a commitment to capital allocations, considering future expenditure, financing, and investment deployed towards climate-related risks and opportunities. This figure illustrates how the bank has defined the quantitative climate-related target of reaching more than GBP 100 billion of green financing by 2030, together with a tool for monitoring progress in terms of geography and financial products.

Figure 15: Barclays' green financing commitments and progress toward 2030 goal



Source: Barclays'. 2022. Climate Strategy, Targets and Progress

The Templates provide flexibility for banks to include metrics and targets they deem appropriate and fit to their business model and strategy. Core metrics and targets are covered on Table 21, with mandatory data points KPIs in dark, and voluntary portions in gray. Additionally, other voluntary data points and metrics are contained on **Table 17: Template for reporting optional alignment metrics**.

Table 21: Core Metrics & Targets (dark are required, light grey voluntary)

KPI	Unit of measure	Note	Answer
Environmental			
Green loans disbursed in latest calendar year	KSH	Include the institution's definition of green loans in the Comment section.	
Total Green loans outstanding, gross amount / total loan portfolio, gross	%		
Total green-linked liabilities outstanding	KSH	Include debt funding that is tied to green eligibility criteria. Debt funding to include senior and subordinated.	
Share of total funding subject to sustainability criteria or expectations	KSH	Funding from debt and equity capital providers subject to criteria or expectations involving any reference to sustainability, climate, or green	
Percentage of loans that have been screened ESG considerations (outstanding)	%		
Percentage of loans that has been rejected based on ESG criteria during the reporting year	%	Percentage of those loans that have undergone ESG screening.	
Gross GHG emissions (Scope 1, Scope 2 and Scope 3) for the reporting year. Excluding Financed Emissions.	Metric tons of CO2 equivalent		
GHG emissions target, if any	Metric tons of CO2 equivalent achieved or % reduction, from base year		
Financed Emissions Total for the reporting year.			
Financed emissions targets			
Sector Decarbonization targets			
Other Qualitative or Quantitative Targets		This could include Transition Plans and Transition Plan elements. Examples include creation of a Sustainability Committee, development of sustainability KPIs for remuneration, enhancing or expanding financed emissions coverage, and others.	

Source: Adapted from European Banking Authority. 2022. Final report draft implementing technical standards (ITS) on prudential disclosures on ESG.

The list provided in Core Metrics & Targets is not exhaustive, as banks have the flexibility to define additional metrics and targets as appropriate considering their business model. Resilience and climate adaptation metrics should play a critical role for banks in Kenya, given the prevalence of physical climate-related risks.

Assurance of climate-related disclosures

The Institute of Certified Public Accountants of Kenya (ICPAK) has issued guidance on the assurance of sustainability-related disclosures, including climate-related information, in its Roadmap for the Adoption of Sustainability Disclosure Standards. Assurance of sustainability-related disclosures will become mandatory

for the banking sector from the accounting period beginning January 1, 2028. Voluntary assurance is allowed prior to this date.

In the first year of assurance, commercial banks are expected to obtain limited assurance. In the second year (2029), they must transition to reasonable assurance, with limited assurance applied to Scope 3 emissions. By the third year (2030), banks are required to obtain reasonable assurance, including reasonable assurance of Scope 3 emissions.

Assurance must be provided by a qualified assurance provider holding the relevant ICPAK license and sustainability accreditation as required by ICPAK. The assurance provider must remain independent of the audited organization, in compliance with the International Ethics Standards Board for Accountants (IESBA) Code of Ethics.

9. Implementation timeline

The implementation of the Framework follows a phased approach that ensures institutions have adequate time to transition and adopt robust processes for climate-related disclosures. It also aims to ensure alignment with the Institute of Certified Public Accountants (ICPAK) Roadmap for the Adoption of Sustainability Disclosure Standards.

The voluntary reporting period will begin for the accounting periods beginning on or after January 1, 2025, for Tier 1 peer group. Voluntary reporting for Tier 2 and 3 peer groups will commence from accounting periods beginning on or after January 1, 2026, with mandatory reporting for all commercial banks coming into effect for accounting periods beginning on or after January 2027.

In line with the transition reliefs provided by the IFRS Sustainability Disclosure Standards, the Framework allows for deferred reporting of Scope 3 emissions, with mandatory disclosures required for accounting periods beginning on or after January 2028.

Table 22: Implementation timeline

Phases	April 2025	June 2025	Sept 2025	Dec 2025	June 2026	Sep 2026	Dec 2026	Dec 2027	Jun 2028	Dec 2028
Governance structures, capacity building	Electronic Disclosure Framework Platform Launch									
		Establishment of a dedicated climate risk team / committee								
		(Tier 1)	(Tier 2)	(Tier 3)						
	Capacity building (continuous for all tiers)									
Initial assessment		Submission of voluntary self-assessment to the Central Bank of Kenya								
		(Tier 1)	(Tier 2)	(Tier 3)						
Voluntary reporting	Data collection and initial assessment of climate-related financial risks (all tiers)				Reporting & Disclosure in the electronic reporting platform Governance, strategy & risk management (Scope 1 & 2)					
					(Tier 1)	(Tier 2)	(Tier 3)			
Mandatory reporting								Reporting & Disclosure in the electronic reporting platform Governance, strategy, risk management, targets & metrics / Scope 1, 2 & 3		
								(Tier 1)	(Tier 2)	(Tier 3)

Guide to Implementation

As a guide to successfully implementing the Framework, CBK requires that banks prioritise a comprehensive gap analysis or baseline assessment. This process will help identify the current state of their governance, strategy for managing climate risks, risk management process and metrics and targets, revealing areas that require strengthening to meet Framework's disclosure requirements.

The gap analysis will reveal the scale of adjustments required to effectively implement the Framework around the four core content pillars, starting with aligning the governance structures. Banks must ensure their governance frameworks are robust enough to oversee climate-related risks and opportunities effectively. This includes defining clear roles and responsibilities at the board and executive levels, ensuring that climate risk considerations are embedded in strategic decision-making, and fostering accountability for climate-related outcomes across the organisation.

Another key consideration is the development of a transition plan. This plan should outline the institution's strategy for managing climate risks aligning with national and global climate goals, including pathways to reduce greenhouse gas emissions and achieve climate ambitions.

Banks should enhance their existing risk management practices to include clearly defined processes for the identification, assessment, monitoring, and mitigation of climate risks. This integration ensures that climate risks are considered alongside traditional financial and operational risks, promoting a holistic approach to risk management.

Finally, institutions need to establish appropriate metrics and targets for tracking their climate-related performance. The metrics should be aligned with the Framework's requirements and the broader goals of sustainability and climate resilience. Addressing data considerations, such as accuracy, completeness, and consistency, is vital to ensure the reliability of reported information and in supporting decision-making.

Annex 1: List of high – emitting sectors under KeSIC codes

KeSIC Sector Code	Division	Group	Class	Sub-class	**Examples of metrics - non-exhaustive list. Institutions can apply metrics defined by the IEA or SBTi
B - Mining and Quarrying	Division 05 - Mining of coal and lignite	51 - Mining of hard coal	510 - Mining of hard coal	5100 Mining of hard coal	
		52 - Mining of lignite	520 - Mining of lignite	5200 Mining of lignite	
	Division 06 - Extraction of crude petroleum and natural gas	61 - Extraction of crude petroleum	610 - Extraction of crude petroleum	6100 Extraction of crude petroleum	
		62 - Extraction of natural gas	621 - Extraction of natural gas	6210 Extraction of natural gas	
C - Manufacturing	Division 07 - Mining of metal ores	71 - Mining of iron ores	710 - Mining of iron ores	7100 Mining of iron ores	Average tonnes of CO2 per tonne of output and Average share of high carbon technologies (ICE).
		192 - Manufacture of refined petroleum products	1920 - Manufacture of refined petroleum products	19201 Production of motor fuel: gasoline, kerosene and light, medium and heavy fuel oil etc.	
				19202 Manufacture of oil-based lubricating oils or greases, including from waste oil	
				19203 Manufacture of various products: white spirit, Vaseline, paraffin wax, petroleum jelly etc.	
				19204 Production of gaseous fuels (LPG)	
				19205 Manufacture of hard-coal and lignite fuel briquettes	
				19209 Other manufacture of refined petroleum products	
	Division 23 - Manufacture of other non-metallic mineral products	239 - Manufacture of non-metallic mineral products n.e.c.	2394 - Manufacture of cement, lime and plaster		
	Division 24 - Manufacture of basic metals	241 - Manufacture of basic iron and steel	2410 - Manufacture of basic iron and steel		
	Division 29 - Manufacture of motor vehicles, trailers and semi-trailers	291 - Manufacture of motor vehicles	2910 - Manufacture of motor vehicles	29100 Manufacture or assembling of motor vehicles	
		292 - Manufacture of bodies (coachwork) for motor vehicles; manufacture of trailers and semi-trailers	2920 - Manufacture of bodies (coachwork) for motor vehicles; manufacture of trailers and semi-trailers	29201 Manufacture of bodies (coachwork) for motor vehicles;	
		293 - Manufacture of parts and accessories for motor vehicles	2930 - Manufacture of parts and accessories for motor vehicles		
D - Electricity, gas, steam and air conditioning supply	Division 35 - Electricity, gas, steam and air conditioning supply	351 - Electric power generation, transmission and distribution	3510 - Electric power generation, transmission and distribution	35101 Electric power generation	Average tonnes of CO2 per MWh and Average share of high carbon technologies (oil, gas, coal).
			3510 - Electric power generation, transmission and distribution	35102 Electric power transmission	
			3510 - Electric power generation, transmission and distribution	35103 Electric power distribution	
			3510 - Electric power generation, transmission and distribution	35104 Electric power generation using solar energy	
			3510 - Electric power generation, transmission and distribution	35109 Other electric power generation, transmission and distribution	
H - Transportation and storage	Division 49 - Land transport and transport via pipelines	352 - Manufacture of gas; distribution of gaseous fuels through mains	3520 - Manufacture of gas; distribution of gaseous fuels through mains	35201 Manufacture of gas; distribution of gaseous fuels through mains	Average tonnes of CO2 per passenger-km and Average share of high carbon technologies (ICE).
		352 - Manufacture of gas; distribution of gaseous fuels through mains	3520 - Manufacture of gas; distribution of gaseous fuels through mains	35202 Other related services (e.g. arranging for sale of natural gas)	
		491 - Transport via railways			
		492 - Other land transport	4921 - Urban and suburban passenger land transport		
	Division 50 - Water transport		4922 - Other passenger land transport		
			4923 - Freight transport by road		
		493 - Transport via pipeline			
	Division 51 - Air transport	501 - Sea and coastal water transport			
		502 - Inland water transport			
		511 - Passenger air transport			
		512 - Freight air transport			

Annex 2: Climate risk self-assessment survey questionnaire.

The full climate risk self-assessment survey questionnaire is set out below. The ordering of the questions has been aligned with the thematic structure of this Framework.

1. What is the name of your institution?

2. Does your institution's board or board committee oversee climate risk?

1. No, the board does not oversee climate risks.
2. Yes, on an ad hoc basis.
3. Yes, on an annual basis.
4. Yes, on a bi-annual or quarterly basis.
5. Yes, on a monthly or more frequent basis.

3. Has the board undertaken training¹¹ in relation to climate risk? Please respond to this question regarding your institution's board itself.

1. The board has not undertaken training in relation to climate risk and does not plan to in the next 12 months.
2. The board has not undertaken training in relation to climate risk but intends to in the next 12 months.
3. The board, or a subset of the board, undertook training in relation to climate risk more than 12 months ago.
4. The board, or a subset of the board, undertook training in relation to climate risk in the last 12 months.

4. Has your institution provided training in relation to climate risk to its staff? Please respond to this question regarding your institution's staff (other than the members of the board).

1. Training in relation to climate risk has not been provided, and there is no plan to do so in the next 12 months.
2. Training in relation to climate risk has not been provided, but there are plans to do so in the next 12 months.
3. Training in relation to climate risk has been provided to a target group of staff (e.g. independent risk function, executive level senior management, sector aligned teams etc).
4. Training in relation to climate risk has been provided to a target group of staff and optional training has been made available to all staff on a voluntary basis.
5. Training in relation to climate risk has been provided to all staff.

If option 3 or 4 is selected in question 4

5. Please describe the target group of staff who has been provided training (e.g. independent risk function, executive level senior management, sector aligned teams) and when the training was provided.

1. Independent risk function.
2. Executive level senior management.
3. Sector aligned teams / target group.
4. Training has been made available to all staff on a voluntary basis.
5. Training in relation to climate risk has been provided to all staff.

¹¹ **Training:** examples may include in-person or online training sessions, seminars, workshops or roundtables facilitated by internal or external parties.

6. Have there been any climate risk considerations in the composition of the board?

1. No, climate risk has not been considered in the composition of the board, and there are no plans to do so in the next 12 months.
2. No, climate risk has not been considered in the composition of the board, but there are plans to do so in the next 12 months.
3. Yes, climate risk has been considered in the composition of the board: however, the current composition of the board does not include members with expertise or experience in ESG or climate risks specifically.
4. Yes, climate risk has been considered in the composition of the board, with one or more members of the board having expertise or experience in ESG risks (or similar) but not specifically climate risk.
5. Yes, climate risk has been considered in the composition of the board, with one or more members of the board having expertise or experience in climate risks specifically (whether they have broader ESG or similar expertise).

7. To what extent does the board delegate the management of climate risks to senior management positions and/or management committees?

1. Management of climate risks is not formally delegated to senior management, and there is no plan to do so in the next 12 months.
2. Management of climate risks is not formally delegated to senior management, but there are plans to do so in the next 12 months.
3. Management of climate risks is formally delegated to a management-level committee.
4. Management of climate risks is formally delegated to a member of senior management at an executive level (e.g., Chief Risk Officer). Management of climate risks is formally delegated to a management-level committee and a member of senior management at an executive level (e.g., Chief Risk Officer).

8. Does your institution clearly define the roles and responsibilities of business lines, independent risk, and assurance functions (i.e., first, second and third lines of defence) in relation to managing climate risks? Please select all that apply.

1. No, my institution has not defined the roles and responsibilities related to the management of climate risks across any functions.
2. Yes, my institution has defined roles and responsibilities for business management (Line 1).
3. Yes, my institution has defined roles and responsibilities for the independent risk management function (Line 2).
4. Yes, my institution has defined roles and responsibilities for the independent assurance or audit function (Line 3).

9. To what extent does your institution incorporate climate risks into its strategic planning process? Please select all that apply.

1. My institution does not formally incorporate climate risks into the strategic planning process.
2. My institution recognises the potential need to plan for substantive changes in response to current and future climate risks but has yet to formally incorporate this as part of the strategic planning process.
3. My institution considers the short term (1year) impact of climate risks as part of the strategic planning process.
4. My institution considers the medium term (2 to 5 years) impact of climate risks as part of the strategic planning process.

5. My institution considers the long term (5 years and beyond) impact of climate risks as part of the strategic planning process.

10. Does your institution have formal processes in place to identify material climate risks and assess their potential impact on the institution?

1. No, my institution does not have a formal process to identify material climate risks and is not planning to in the next 12 months.
2. No, my institution does not have a formal process to identify material climate risks but is planning to within the next 12 months.
3. Yes, my institution has formal processes in place to identify material climate risks: however, it is yet to have a formalised approach for assessing the potential impact of the risks
4. Yes, my institution has formal processes in place to identify material climate risks and assess their potential impact, on an ad hoc basis (e.g., at a time when there are material changes to the size or business mix of the institution).
5. Yes, my institution has formal processes in place to identify material climate risks and assess their potential impact, on a regular basis (e.g., semi-annually, or annually).

11. How are climate risks integrated into your institution's overall risk management framework?

1. Climate risks are not considered in the overall risk management framework.
2. Climate risks are considered on an ad hoc basis without any formal structure.
3. Climate risks are included in the risk management framework as an ESG risk (or similar).
4. Climate risks are included in the risk management framework as a unique risk separate from ESG risk (or similar).
5. Climate risks are included in the risk management framework as a unique risk and is considered as a risk driver of other risks (e.g., credit risk, market risk, reputational risk).

If options 2, 3, 4 or 5 is selected in Question 11

12 Which of the following elements of your institution's risk management framework specifically considers climate risks? Please select all that apply.

	Fully embedded in the risk framework	Mostly embedded	Somewhat embedded	Planned for	Not embedded at all
a. Risk appetite					
b. Risk management strategy					
c. Business plan					
d. Policies and procedures					
e. Management information & reporting					
f. Governance structure and composition					
g. Training and capacity building					

h. Capital adequacy					
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13. Has your institution undertaken climate-related scenario analysis?

1. No, and my institution is not planning to undertake this analysis within the next 12 months.
2. No, however my institution is planning to undertake climate-related scenario analysis within the next 12 months.
3. Yes, my institution has undertaken one climate-related scenario analysis.
4. Yes, my institution has undertaken two climate-related scenario analyses.
5. Yes, my institution has undertaken three or more climate-related scenario analyses.

If option 3, 4 or 5 is selected in question 13

14. What was the source of the climate scenarios that your institution relied on for its scenario analysis?

1. Network for Greening the Financial System (NGFS).
2. International Energy Agency (IEA).
3. Intergovernmental Panel on Climate Change (IPCC).
4. Science Based Targets Initiative (SBTi) aligned scenario.
5. Other (please specify).

15. In providing products and services, what climate risk factors does your institution consider when evaluating the potential climate risks faced by your institution's customers, counterparties, investments, and/or assets? Please select all that apply.

1. Vulnerability to extreme weather events.
2. Level of greenhouse gas emissions.
3. Potential exposure to changes in climate-related policy.
4. Potential exposure to climate-driven technology changes.
5. Vulnerability of the counterparty's business activities or supply chain to climate-related disruption.
6. Linkages to unsustainable practices.
7. My institution does not consider any climate risk factors.
8. Other (please specify).

16. Has your institution sought assistance from any of the following external experts or bodies on climate risk? Please select all that apply.

1. Academic experts / institutions.
2. Specialist consultants.
3. Scientific agencies.
4. We have not sought assistance from external experts.
5. Other (please specify).

17. Assuming no mitigating actions are taken, to what extent is your institution's business model vulnerable to climate risks arising from climate change?

1. Unsure.
2. Not at all vulnerable - My institution will not be impacted by a high-emissions scenario.
3. Somewhat vulnerable - The risk is considered to be within an acceptable range of my institution's current risk appetite and can be managed through existing risk management practices.

4. Moderately vulnerable - The risk is considered to be within an acceptable range of my institution's current risk appetite, but existing risk management practices will be, or have been, adapted in response to the risk.
5. Highly vulnerable - The risk is considered to be close to the maximum level of acceptable risk in my institution's risk appetite and existing risk management practices will be, or have been, adapted in response.
6. Extremely vulnerable - The risk is considered to be unacceptable in my institution's current risk appetite. Risk management practices and business strategy will be, or have been, significantly adapted.

18. To what extent could climate-related events impact business continuity for your institution's own operations?

1. My institution has not considered how climate-related events could impact business continuity.
2. Climate-related events are expected to have no impact on my institution's business continuity.
3. Climate-related events are expected to have little impact on my institution's business continuity, and no substantive changes have been made to business continuity plans.
4. Climate-related events are expected to have a moderate impact on my institution's business continuity, and business continuity plans have, or will be, adapted somewhat.
5. Climate-related events are expected to have a material impact on my institution's business continuity, and business continuity plans have, or will be, adapted significantly.

19. Does your institution have metrics to measure and monitor climate risks?

1. No, my institution does not have metrics to measure and monitor climate risks and does not plan to do so in the next 12 months.
2. No, my institution does not have metrics to measure and monitor climate risks but is planning to do so the next 12 months.
3. My institution does not have quantitative metrics to measure and monitor climate risks, but incorporates qualitative approaches (e.g., narrative driven analysis).
4. Yes, my institution has quantitative metrics to measure and monitor climate risks.
5. Yes, my institution has both qualitative and quantitative metrics to measure and monitor climate risks.

20. What data sources does your institution use to measure and monitor climate risks? Please select all that apply.

1. Counterparty emissions data.
2. Sector-level emissions data.
3. Sector-level heatmaps/ratings.
4. Economic modelling.
5. International policy changes.
6. Domestic policy changes.
7. Geographic climate and weather data.
8. ESG ratings.
9. My institution does not source specific data for climate risk
10. Other (please specify).

21. Has your institution set any climate-related targets for its activities?

1. No, my institution does not have climate-related targets in place and is not planning to put targets in place within the next 12 months.

2. No, my institution does not have climate-related targets in place. However, the institution is planning to set targets in the next 12 months.
3. Yes, my institution has climate-related targets in place (including one of the following: absolute or intensity-based targets; time frames; base year from which progress is measured; scope of emissions covered; and key performance indicators used to assess progress against targets).
4. Yes, my institution has climate-related targets in place (including two of the following: absolute or intensity-based targets; time frames; base year from which progress is measured; scope of emissions covered; and key performance indicators used to assess progress against targets).
5. Yes, my institution has climate-related targets in place (including three or more of the following: absolute or intensity-based targets; time frames; base year from which progress is measured; scope of emissions covered; key performance indicators used to assess progress against targets).

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