No.: 5/2025 **2025**

GUIDELINES UNDER THE BANKING INSTITUTIONS ACT, 2023 (ACT NO. 13 OF 2023): CLIMATE-RELATED FINANCIAL RISKS AND DISCLOSURE REQUIREMENTS

In my capacity as Director of Banking Supervision and under the power vested in the Bank under section 3(1) of the Banking Institutions Act, 2023 (Act No. 13 of 2023), I hereby issue the **Guidelines on Climate-Related Financial Risks and Disclosure Requirements (BIG-5/2025).**

ANCOIS PLAATJE
DIRECTOR: BANKING SUPERVISION **31 MARCH 2025, WINDHOEK**

CONTENTS

PART I: PRELIMINARY

1. SHORT TITLE

Climate-Related Financial Risks

2. AUTHORISATION

These Climate-Related Financial Risks and Disclosure Requirement Guidelines are furnished to banking institutions in terms of section 3(1) of the Banking Institutions Act, 2023 (Act No. 13 of 2023).

3. APPLICATION

These Guidelines apply to Domestically Systematically Important Banking Institutions on a comply or explain basis.

4. EFFECTIVE DATE

These Guidelines are effective from 01 July 2025.

5. PROPORTIONALITY

Banking institutions are expected to develop and implement internal frameworks for the identification, assessment, management and disclosure of climate-related financial risks commensurate with the nature, scale and complexity of their business activities and risk exposures.

6. DEFINITIONS

Terms used in these Guidelines will have the same meaning assigned to them in the Act, as further defined below, or as reasonably implied by contextual usage.

6.1 **Act –** means the Banking Institutions Act, 2023 (Act No. 13 of 2023).

6.2 **Bank –** means the Bank of Namibia as referred to in section 2 of the Bank of Namibia Act, (Act No. 1 of 2020).

6.3 **Banking institution –** means a public company authorised under the Banking Institutions Act, 2023 (Act No. 13 of 2023) to conduct banking business.

6.4 **Climate-related financial risk –** means the potential risks that may arise from the exposure of banking institutions to physical, transition and liability risks caused by or related to climate change or from efforts to mitigate climate change, their related impacts and their economic and financial consequences.

6.5 **Climate-related opportunities –** means the potential positive effects that may arise from climate change or from efforts to mitigate and adapt to climate change. Also referred to herein as “opportunities”

6.6 **Liability risk –** means emerging legal cases related to climate change, where banking institutions may face compensation claims for losses and damages resulting from climate impact or for financing companies with negative environmental effects.

6.7 **Major transactions –** means actions or decisions that could materially affect the banking institution's exposure to climate risks or its alignment with climate goals, requiring transparent disclosure under climate-related financial disclosure frameworks. These include, but are not limited to, significant investments, capital raising, material business changes, and risk management initiatives.

6.8 **Physical risk –** includes acute risks from extreme weather events (e.g., droughts, floods, wildfires, storms) and chronic risks from gradual climate changes (e.g., rising temperatures, rising sea levels). These risks can cause direct impacts like property damage and reduced productivity as well as indirect effects, such as disruptions in global supply chains.

6.9 **"Transition risk" –** means a financial risk that arises from the shift towards a lower-carbon economy, driven by changes in climate policy, technological advancements (e.g., energy-saving technologies), or shifts in market sentiment.

PART II: GUIDELINES ON CLIMATE-RELATED FINANCIAL RISKS

7. PURPOSE

These Guidelines provide essential principles for effective management and integration of climate-related financial risks in the operations of Domestic Systemically Important Banks (DSIBs). The guidelines further provide disclosure requirements to DSIBs, meant to ensure that customers and other key stakeholders are provided with meaningful information pertaining to their risk exposure and management of climate-related financial risks. By adopting these guidelines, banking institutions can enhance their resilience to climate-related financial risks and ensure transparency in terms of their exposure and management of climate-related financial risks.

8. GOVERNANCE

8.1 Role of the Board of Directors

The board of directors should:

a) take overall oversight responsibility for the management of climate-related financial risks.

b) ensure an appropriate collective understanding of and relevant expertise on climate-related financial risks at both board and senior management level.

c) approve the relevant risk management framework, policies, and procedures for managing climate-related financial risks, where applicable, in accordance with the institution's approval matrix.

d) Approve identified climate-related financial risks' scenarios and shocks annually.

e) clearly delegate or assign the necessary roles and responsibilities of senior management, internal organisational structures and board sub-committees, as applicable, for the management of climate-related financial risks; and

f) ensure internal structures responsible for managing climate-related financial risks are clearly defined and adequately resourced with appropriate skills and expertise. This may include developing training programs, hiring specialists in climate risk management and fostering a culture of climate awareness across the organization.

8.2 **Role of Senior Management**

The reference to senior management contained in these guidelines includes Principal and Executive Officers as approved by the Bank in terms of the Act.

Senior management should:

a) implement the climate-related financial risk management framework and policies.

b) review the effectiveness of the framework, policies, and procedures annually.

c) provide reports to the Board on climate-related financial risks and opportunities as well as on the effectiveness and adequacy of the framework quarterly.

d) ensure that material climate-related financial risk issues are addressed as set out in the frameworks and policies in line with the board's expectations and any regulatory requirements.

9. STRATEGY

9.1 Banking institutions should understand the potential impact of climate-related financial risks on their business environment as well as the opportunities that may arise and embed those climate-related financial risk considerations into their strategies, business models, internal operations, risk appetites, and decision-making processes.

9.2 Banking institutions should assess the potential impact of climate-related financial risks in the short and long term and integrate such considerations into their processes such as in the adoption of business strategies, allocation of resources, and strengthening resilience to climate-related financial risks on internal operations and business models.

10. RISK MANAGEMENT

Banking institutions should recognize climate change as a risk factor that influences business operations and act proactively to build resilience. By embedding these elements into risk management frameworks, banking institutions can safeguard against challenges posed by climate change while seizing new opportunities in the economy.

Factors that banking institutions should consider as part of their risk management for climate-related financial risks and disclosure should include:

10.1 **Policies and Procedures**

a) Banking institutions should integrate climate-related financial risk management into their existing risk management frameworks or create a dedicated framework. This should include policies and procedures to effectively identify, assess, and mitigate climate-related financial risks.

b) Banking institutions should put adequate structures in place to assign responsibilities for the oversight and management of climate-related financial risks in accordance with the three lines of the defence model.

(i) **First line of Defense** – staff should assess climate-related financial risks before accepting new businesses and in the ongoing management of business relationships, particularly for sectors with higher climate-related financial risks.

(ii) **Second line of Defense** – The risk management function should monitor the business line's implementation of the institution's risk management policies, including challenging practices and decisions, where appropriate while the compliance function should ensure adherence to applicable rules and regulations.

(iii) **Third line of Defense** – The internal audit function should consider as part of its independent review, the robustness of the banking institution's risk management framework in managing climate-related financial risk.

10.2 **Risk identification and measurement**

a) Banking institutions should identify and assess climate-related financial risks on a client and portfolio basis.

b) Banking institutions should have sufficient understanding of how climate-related financial risks (physical and transition risks) could be transmitted into the various traditional risks faced by the banking institution and assess the potential impact on their business.

c) Risk identification involves a comprehensive assessment of how climate-related financial risks, whether quantifiable or non-quantifiable, may affect the banking institution through the traditional risk categories such as:

(i) **Credit risk:** climate risk drivers may reduce collateral value, borrowers' repayment ability or banking institutions' recovery of the loan outstanding in the event of default.

(ii) **Market risk:** large, sudden and negative price adjustments may be triggered when climate risk which has not yet been incorporated into prices or valuation, is materialised.

(iii) **Liquidity risk:** access to funding sources could be reduced as market conditions change, where climate risk drivers may cause counterparties of banking institutions to withdraw deposits and draw down credit lines.

(iv) **Operational risk:** There may be increasing business disruption to banking institutions' operation and its outsourced arrangements owing to extreme weather events, supply chains, and third-party service providers. Banking institutions should integrate climate considerations into their business continuity planning and enhance operational resilience against extreme weather events and other climate-related disruptions.

(v) **Legal risk:** There may be rising legal and regulatory compliance costs associated with climate-sensitive investments and business activities.

(vi) **Reputational risk:** Banking institutions may face increasing reputational issues with changing markets and consumer sentiment towards more environmental-friendly products, services and business practices, such as expectations/concerns from the public or interest groups for a banking institution to take up more social responsibilities in combating climate change. Negative perception of not taking due consideration of climate-related aspects in business activities could also adversely affect banking institutions' abilities to maintain or establish business relationships.

(vii) **Strategic risk:** Banking institutions may lose their competitiveness and market standing for failing to respond appropriately to the changing market environment along with increasing scrutiny and preference towards climate or environmental-friendly solutions and responsible banking practices.

10.3 Ongoing Monitoring and Reporting

a) Banking institutions should implement processes to monitor and report exposures to climate-related financial risks to ensure alignment with their risk appetite. Given the dynamic nature of climate-related financial risks, banking institutions should continuously track their evolution and ensure that risk monitoring frameworks remain responsive to emerging developments, including changes in environmental policies and regulations.

b) Banking institutions' risk reports should clearly communicate the impact of climate-related financial risks on their business model, strategy, and overall risk profile. Reports should provide a comprehensive assessment of exposures and their potential financial and operational implications.

c) Banking institutions should continuously monitor climate-related exposures and regularly review risk management processes to ensure effectiveness by using relevant tools such as key risk indicators or heatmaps for monitoring and assessing the impact of these risks; and to provide early warning signals for necessary risk mitigation actions.

d) Banking institutions should implement measures to control and mitigate climate-related financial risks and make adjustments as necessary to address new or evolving threats. Regular updates should be provided to the Board and executive management.

Banking institutions should ensure timely and regular reporting to the Board to enable informed decision-making and oversight.

e) Internal audit function - The risk management process that applies to climate-related financial risks should be reviewed by the internal audit function to ensure the adequacy and effectiveness of the process, at a scope and frequency deemed appropriate by the banking institution. Where climate-related financial risk is material, the internal audit function should assess the impact of the risk on the banking institution's resilience and consider the appropriateness of mitigation measures if avoidance of these risks is not possible.

10.4 Risk Control and Mitigation

a) The risk management function is expected to develop appropriate quantitative and qualitative methods and metrics to be used in monitoring climate-related financial risk, relative to the banking institution's strategy and risk appetite. Where appropriate, banking institutions should consider risk mitigation measures such as, but not limited to, establishing internal limits for the various types of material climate-related financial risks which the banking institutions are exposed to, e.g. in their credit, market, liquidity and operational risk profiles.

11. INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS

11.1 Banking institutions should integrate climate-related financial risks into their Internal Capital Adequacy Process (ICAAP) to ensure that adequate capital to manage these risks is maintained. The banking institution should assess how climate related risks may impact capital adequacy in the short, medium and long term.

11.2 Banking institutions should incorporate climate-related financial risks into their capital planning and report as part of the ICAAP by assessing their materiality through means such as stress testing and ensuring adequate capital buffers to mitigate potential losses.

11.3 Banking institutions should embed suitable process, procedures, and systems to ensure capital adequacy commensurate with their risk profile to safeguard against these risks.

11.4 Banking institutions should have risk analysis capabilities by identifying relevant climate-related financial risk drivers that may materially impair their financial condition.

11.5 Adequate key risk indicators and metrics should be developed to quantify exposures to climate-related financial risks.

11.6 Banking institutions should assess the links between climate-related financial risks and the traditional risk categories.

12. STRESS TESTING AND SCENARIO ANALYSIS

12.1 Banking institutions should have written policies in place to govern scenario analysis and stress testing methodologies which clearly define the objectives within the banking institution’s risk management framework and capital and liquidity planning process.

12.2 Banking institutions should regularly, based on their risk exposure and regulatory expectations, conduct stress testing and scenario analyses that incorporate climate-related financial risks. These analyses should assess the potential impact on financial stability and capital adequacy under various scenarios. The goal is to understand the scale and potential effects of climate-related financial risks and to assess the resilience and vulnerabilities of the banking institution's business model to such events.

12.3 The Board and senior management should approve the climate-related scenarios used in stress testing at least once a year to ensure their relevance and alignment with the banking institution's risk profile. The results of these stress tests should be reported to the Board to provide oversight and ensure informed decision-making regarding the institution’s exposure to climate-related financial risks.

12.4 Banking institutions should assess the impact of climate-related scenarios on their revenue, assets, significant counterparties, liquidity and capital positions. This includes:

a) **Scenario Analysis:** Banking institutions should utilise forward-looking scenario analysis, in addition to historic data, to assess how different climate-related scenarios could affect their operations, financial position and risk profile.

b) **Stress Testing:** Climate-related financial risks should be incorporated into stress testing exercises to assess the potential impact on capital adequacy and overall financial resilience. These tests should cover both physical and transition risks.

c) **Scenario Integration:** Scenario analysis should be integrated into broader strategic planning and risk management processes and decision-making. This ensures that banking institutions are prepared for a range of climate-related outcomes.

d) **Forward-looking Information**: Banking institutions should include scenario analysis and forward-looking assessments of how climate-related financial risks might impact their business models and strategies over the short, medium and long term.

12.5 The board and senior management should ensure that the results of stress testing and scenario analyses are used to inform the institution’s decision-making processes, including adjustments to business strategies, capital planning, risk management practices and regulatory reporting purposes. The findings should be incorporated into the banking institution's broader risk management practices.

PART III: DISCLOSURE REQUIREMENTS

13. CLIMATE-RELATED FINANCIAL RISK DISCLOSURE REQUIREMENTS

The Bank has been monitoring the development of global frameworks such as the International Sustainability Standards issued in 2023 to improve consistency, comparability, and reliability of climate disclosures. Disclosure requirements are a fundamental component of a sound banking industry, as the banking institutions provide consumers and stakeholders with meaningful information, such as key risk metrics, reduce information asymmetry, and promote comparability of banking institutions' risk profiles within the industry.

13.1 **Governance**

The banking institution should disclose:

a) The governance structure responsible for oversight of climate-related financial risks and opportunities, including a breakdown of responsibilities as reflected in the mandates, job descriptions, and other related policies.

b) How the Board ensures the banking institution has the appropriate skills and competencies to oversee and manage strategies aligned to respond to climate-related financial risks.

c) How frequently the Board and the Board Committee(s) are informed about climate-related financial risks and opportunities.

d) How the Board and the Board Committee(s) consider climate-related financial risks and opportunities when overseeing the banking institution’s strategy, decisions on major transactions, and risk management processes and related policies.

e) How the Board oversees the setting of forecasts related to climate-related financial risks and opportunities and monitors progress towards those forecasts, including whether and how related performance metrics are included in remuneration policies.

f) Executive Management’s role in the governance processes, controls, and procedures used to monitor, manage, and oversee climate-related financial risks, including but not limited to information about:

    (i) Whether that role is delegated to a specific executive level or management committee level and how oversight is exercised over that position or committee; and

    (ii) Whether management uses controls and procedures to support the oversight of climate-related financial risks and opportunities and, if so, how these controls and procedures are integrated with other internal functions.

13.2 **Strategy**

The banking institution should disclose:

a) The identified climate-related financial risk and opportunities and whether the banking institution considers the risk to be physical risk or climate-related transition risk.

b) The time horizon in which short-, medium-, and long-term effects of each climate-related financial risk that the banking institution has identified could reasonably be expected to occur; and

c) Definitions of short-, medium-, and long-term climate-related financial risks and how these definitions are linked to the planning horizons used for strategic decision-making.

d) The current and anticipated effects of those climate-related financial risks on the bank's business model and value chain. Specifically, the bank shall provide:

   (i) a description of the current and anticipated effects of climate-related financial risks on the bank's business model and value chain; and

   (ii) a description of where in the bank's business model and value chain climate-related financial risks are concentrated (for example, geographical areas, facilities and types of assets).

13.3 **Risk Management**

a) The banking institutions should disclose:

   (i) The processes and related policies the bank used to identify, assess, prioritise, and monitor climate-related financial risks, including information about:

      (aa) the input parameters the bank uses (for example, data sources and the scope of operations covered in the processes);

      (bb) whether and how the bank uses climate-related scenario analysis to inform its identification of climate-related financial risks;

      (cc) how the bank assesses the nature, likelihood and magnitude of the effects of those risks (for example, whether the bank considers qualitative factors, quantitative thresholds or other criteria);

      (dd) whether and how the bank prioritises climate-related financial risks relative to other types of risks;

      (ee) how the bank monitors climate-related financial risks; and

      (ff) whether the bank has changed the processes it uses from the previous reporting period.

   (i) The extent to which and how the processes for identifying, assessing, prioritizing and monitoring climate-related financial risks are integrated into and inform the bank's overall risk management process.

13.4 **Stress and Scenario Analysis**

a) In disclosing its climate resilience, the banking institution should disclose:

(i) The banking institution's assessment of its climate resilience as at the reporting date, which includes:

(aa) the implications, if any, of the bank's assessment for its strategy and business model, including how the bank would need to respond to the effects identified in the climate-related scenario analysis;

(bb) the significant areas of uncertainty considered in the bank's assessment of its climate resilience;

(cc) the bank's capacity to adjust or adapt its strategy and business model to climate change over the short, medium and long terms, including:

- the availability of, and flexibility in, the bank's existing financial resources to respond to the effects identified in the climate-related scenario analysis, including to address climate-related financial risks;
- the bank's ability to redeploy, repurpose, upgrade or decommission existing assets;
- the effect of the bank's current and planned investments in climate-related mitigation and adaptation for climate resilience; and

(ii) how and when the climate-related scenario analysis was carried out, including:

(aa) information about the inputs the bank used, including:

- which climate-related scenarios the bank used for the analysis and the sources of those scenarios;
- whether the analysis included a diverse range of climate-related scenarios;
- whether the climate-related scenarios used for the analysis are associated with climate-related transition risks or climate-related physical risks;
- whether the bank used, among its scenarios, a climate-related scenario aligned with the latest international agreement on climate change;
- why the bank decided that its chosen climate-related scenarios are relevant to assessing its resilience to climate-related changes, developments or uncertainties;
- the time horizons the bank used in the analysis; and
- what scope of operations the bank used in the analysis (for example, the operating locations and business units used in the analysis)

(bb) the key assumptions the bank made in the analysis, including assumptions about:

- climate-related policies in the jurisdictions in which the bank operates;
- macroeconomic trends;

(cc) national- or regional-level variables (for example, local weather patterns, demographics, land use, infrastructure and availability of natural resources);

- energy usage and mix; and
- developments in technology.

(dd) the reporting period in which the climate-related scenario analysis was carried out.

(iii) The bank shall use climate-related scenario analysis to assess its climate resilience using an approach that is commensurate with the entity's circumstances.

13.5 **Additional Considerations**

a) In the event the banking institutions determine that it will voluntarily adopt climate-related financial risk disclosures, until guided by the Bank, the banking institution can determine the most effective model for disclosing climate-related information. The disclosure approach may include:

(i) **Inclusion in the Annual Report** – suitable for banking institutions in the early stages of adopting a climate-related financial risk framework, providing high-level disclosures within existing reporting structures; or

(ii) **Sustainability Report** – where a dedicated Sustainability Report exists, climate-related disclosures can be integrated to align with broader environmental, social, and governance (ESG) reporting; or

(iii) **Standalone Climate-related financial risk Report** – Banking institutions with more advanced climate risk management frameworks may opt for a separate, dedicated report to provide detailed disclosures on climate-related financial risks and their impact.

(iv) **Integrated Annual Report** – where a dedicated Integrated Annual Report exists, climate-related disclosures can be included in the Integrated Annual Report.

b) The disclosures are not expected to be subject to independent external assurance at this time but should work towards a future state in which external assurance is expected. The disclosures should be subject to internal governance processes and controls as used for financial reporting.

c) The timeline of mandatory disclosures will be determined by numerous factors including but not limited to non-financial sector disclosure requirements and international standard-setting bodies. Banking institutions' progress in addressing climate-related financial risks relies on the non-financial sector making similar progress, including in the areas of firm-level disclosures, addressing data gaps, and transition plans.

d) If a banking institution determines that certain information is commercially sensitive, it may omit disclosing such information. The banking institution should, however, consider the possibility of disclosing the information in a manner that would not jeopardize the potential economic benefits the institution would otherwise be able to realize (for example at an aggregated level).

PART IV: REGULATORY REPORTING REQUIREMENTS

The banking institution must report on climate-related financial risks to the Bank on a quarterly basis using the Climate-related financial risk Return by no later than the twenty-sixth (26th) day following the end of each preceding quarter. The reporting should commence for the quarter ending 30 September 2025.

PART V: ACKNOWLEDGEMENT OF RECEIPT

Kindly ensure that a copy of these Guidelines is made available to your institution's independent auditors. The attached acknowledgment of receipt, duly completed and signed by both the Chief Executive Officer of the institution, the Chairperson of the Board of Directors, and the external auditors, **should be returned to the Bank within one (1) month** of publication of these Guidelines.

Questions relating to these Guidelines should be addressed to the Director, Banking Supervision Department, Ms. Ancois Plaatje, at Bank of Namibia, Tel: +264 61 283 5256 or email: ancois.plaatje@bon.com.na.