



Meeting the ECB's climate & nature expectations — and turning them into advantage

Based on:

ECB report on good practices for climate and nature risk management

ECB report on good practices for climate and nature-related risk stress testing

Grant Thornton Financial Services

September 2026

Climate and nature risk is now core prudential risk — and the exposure is already on the balance sheet

Not a separate category: these risks amplify the credit, market and operational risks banks already manage — and the ECB expects them addressed as such.

75%

of euro area corporate lending is to firms critically dependent on at least one ecosystem service

ECB (2023)

4%

of natural-catastrophe losses in Greece have been insured — uninsured collateral flows into stressed LGD

EIOPA protection gap dashboard

5

years of supervisory observations — 2020 to 2025 — distilled into the ECB's May 2026 release

ECB (May 2026)

● Not a standalone risk

flows into credit, market and operational risk

● Two channels

physical (acute & chronic) and transition

● A supervisory priority

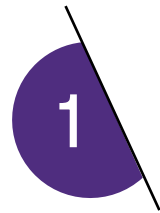
deadlines passed end-2024; compliance is now assumed, not negotiated

● First-mover advantage

acting early buys resilience — and a competitive edge

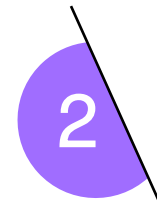
One compendium for the whole framework, one dedicated report for stress testing — refreshed together in May 2026

Each section of this document flags the volume it draws on.



Risk Management

- **The full framework** — good practices spanning strategy, governance, risk appetite, risk management and capital.
- **A bar set by your peers** — codified from 60+ institutions that have already built it.
- **The supervisor's reference** — every framework you present will be read against it, whether you adopt it or not.



Stress Testing

- **The dedicated deep dive** — Expectation 11 of the ECB's Guide, pulled into its own report to show the practices at full depth.
- **Silence as the signal** — the 2022 foundations carry over untouched because they are now assumed, not assessed.
- **All new depth on modelling** — transition to the counterparty, physical end-to-end, nature for the first time.

One volume sets the standard across the framework — the other shows how deep one discipline now goes.

What the ECB changed in May 2026: the compendium your priority areas map to

In May 2026 the ECB updated its November 2022 compendium of good practices for climate and nature risk management — the reference behind the four priority areas on the next page.

18

of the original 26 practices updated with new information observed since 2022

5

entirely new good practices added — incl. physical risks in the RAF, insurance data, loss-tagging

1

entirely new chapter: managing nature-related risks — plus dedicated new ICAAP practices

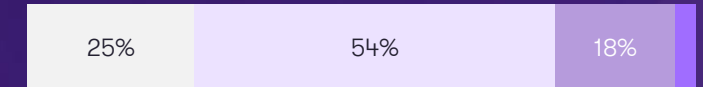
Where the additions land: most concern nature risks; other significant additions cover prudential transition planning, physical risks, and reputational & litigation risk.

Practices added since 2022 were observed at more than 60 institutions — over half of those the ECB supervises. The bar moved because the pack moved.

Alignment with supervisory expectations

share of significant institutions, by maturity of practices

2022 3%



End-2024



5%
Nothing in Place Basic Practices Emerging Practices Leading Practices

No practices at all: 25% → 5% — institutions with nothing in place have all but disappeared.

Basic practices: 54% → 17% — the 2022 majority has moved on; basic is no longer the norm, it is the laggard position.

Emerging practices: 18% → 22% — a transit station, not a destination: banks arrive from basic and keep moving toward leading.

Leading practices: 3% → 56% of institutions in two years.

Where the 2026 additions land — and the services that answer them

Every flagged addition in the updated compendium maps to a service in our catalogue. The work starts from the ECB's own evidence — not from a blank page.

● Nature: a new chapter

Materiality, governance and risk appetite, due diligence and scoring, risk mitigation, capital adequacy — nature now has its own end-to-end framework.

● ICAAP & capital, deepened

Dedicated new practices on capital adequacy and portfolio analysis — normative and economic perspectives, longer horizons, physical risk quantification.

● Physical risk, embedded

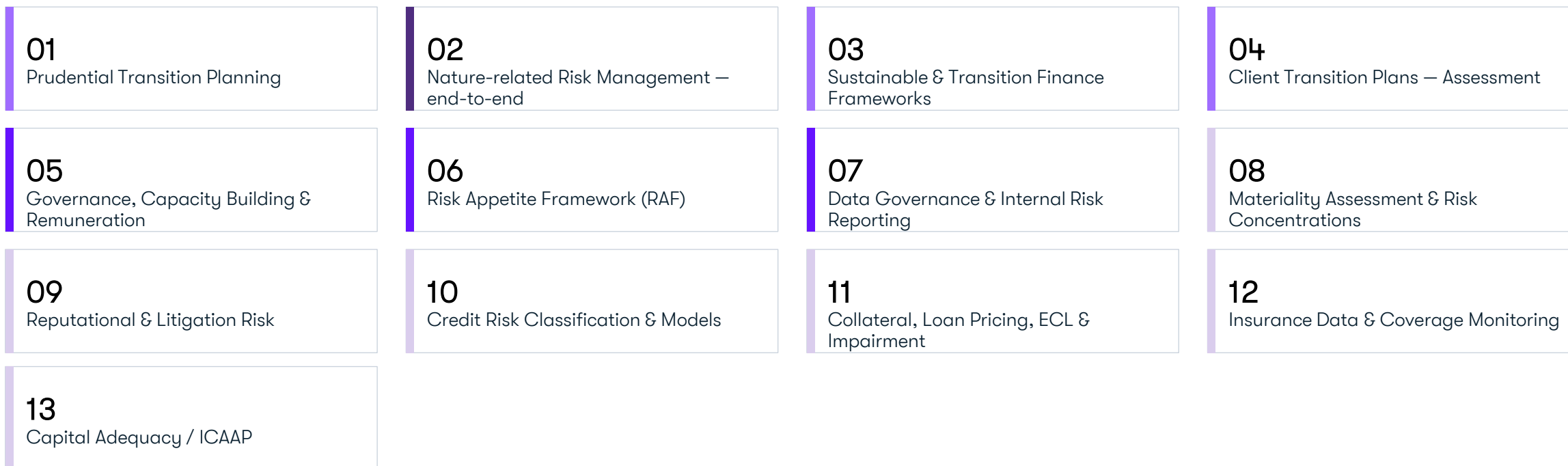
Physical risks enter the risk appetite framework, insurance data collection & monitoring, and loss-tagging for physical risks in ECL.

● Transition planning, deepened

Prudential transition planning, client transition plan assessments and transition products refreshed with the practices of 60+ institutions.

Turn ECB expectations into advantage: thirteen services across the four supervisory priority areas

The four priority areas mirror, one-to-one, the chapters of the ECB's 2026 compendium. We cover all four end-to-end — with the deepest 2026 additions sitting exactly where our nature and risk-modelling practices are strongest.



Business strategy Governance & Risk Appetite Risk Management Managing nature-related risks

Outlook: the deadlines have passed — and the 2026–28 priorities raise the bar again

The compendium closes a programme that has run since 2020 — but supervision does not stop there: the ECB's 2026–28 priorities put C&N risks under even greater emphasis.



How we start: assess where you stand, close what matters, embed what lasts

- Regulatory depth

Current, hands-on command of ECB and EBA climate and nature expectations.

- End-to-end

One team from strategy through to capital — no hand-offs between silos.

- Built to stick

Frameworks embedded in your processes, not just documented.

1

Maturity assessment

Where you stand against the updated good practices — section by section, including the new physical and nature ground.

2

Gap analysis & roadmap

Prioritised actions across the four ECB priority areas — sequenced against the ECB's 2026–28 supervisory priorities.

3

Implement & sustain

Build, embed and keep pace as the practices harden into supervisory expectations.

Ready to get ahead of the ECB's expectations? Let's start with a focused ECB readiness workshop.

Four years after its first climate stress test, the ECB shows the industry what good now looks like

In May 2026 the ECB updated its 2022 good-practice compendium — now covering nature as well as climate, and built on the 2023–25 supervisory follow-up work. The question is no longer whether climate risk sits in the framework, but how well it is modelled.

100%

of significant institutions had climate risk in their stress-testing frameworks by end-2024 — from 41% in 2022

2

entirely new modelling sections: physical risk and nature-related risks

2027

EBA Guidelines on environmental scenario analysis apply from 1 January

Read side by side, the reports answer with unusual clarity: data expectations untouched — the entire update concentrated on modelling.

Why this matters for your bank

- The 2022 data expectations are now the baseline — falling short there means falling short on settled ground.
- The new supervisory attention sits in modelling — physical risk gains a full architecture, and nature makes its debut.
- Non-binding, but directional — the practices show exactly where scrutiny moves next.

What changed? Everything a bank needs to know, in one table

December 2022

May 2026

Frameworks & scenarios

scope, scenarios, balance sheet

Unchanged

Carried over intact

Data & EPCs

NACE, geolocation, GHG, EPC

1 upgrade

“Virtually unchanged” — geolocation to geo-coordinates

Transition modelling

Sectoral & counterparty PD focus

Extended

Counterparty practices + EPC-based LGD

Physical risk

not covered in depth

New

A complete modelling architecture

Nature-related risks

not covered

New

First practices, deliberately nascent

Same skeleton - the bar moved: the 2022 expectations are now the floor, not the goal

With no new data-collection exercise behind the update, the ECB left these chapters “virtually unchanged”. Continuity is the message: four years on, the 2022 expectations are assumed capability.



Frameworks are no longer assessed — they are assumed

Materiality-driven scope, science-anchored scenarios across physical and transition risk, multi-horizon views, static and dynamic balance sheets: none of this changed in four years, because supervisors consider it solved. A framework gap in 2026 is not a finding — it is an outlier.

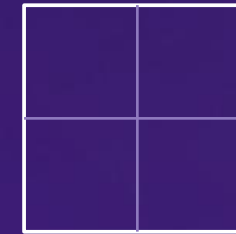


Data capabilities have become the entry ticket, not the differentiator

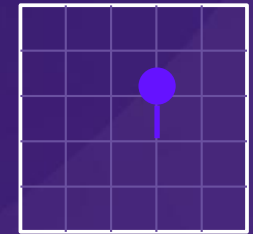
Emissions sourcing, estimation waterfalls, validation discipline, EPC capture at origination — carried over word-for-word since 2022. Every JST now reads these as assumed capability; banks still closing data gaps are spending remediation effort where peers are already building models.

Geolocation

from NUTS 3 regions to geo-coordinates



NUTS 3



Geo-coordinates

Geo-coordinates for all asset classes, at the highest granularity possible. Advanced banks already locate collateral at asset and client level.

Physical shocks can vary within a single NUTS 3 region — granular location is the entry point to the new physical-risk chapter.

Transition risk: the frontier moves to the counterparty – and, for the first time, into real estate LGD



Transition risk



Physical risk



Nature-related risks

The 2022 practices — sectoral satellite models, carbon-price pass-through, counterparty scorecards — remain the foundation. What 2026 adds is direction of travel.

Counterparty-level modelling

Scenario-adjusted client financials feed PD and rating models; carbon shocks translate into equity, spread and rating shocks — and stressed PDs.

1

2

3

A richer LGD toolkit

Cost pass-through in valuations; recovery-rate models layered on satellites; PD-LGD consistency functions.

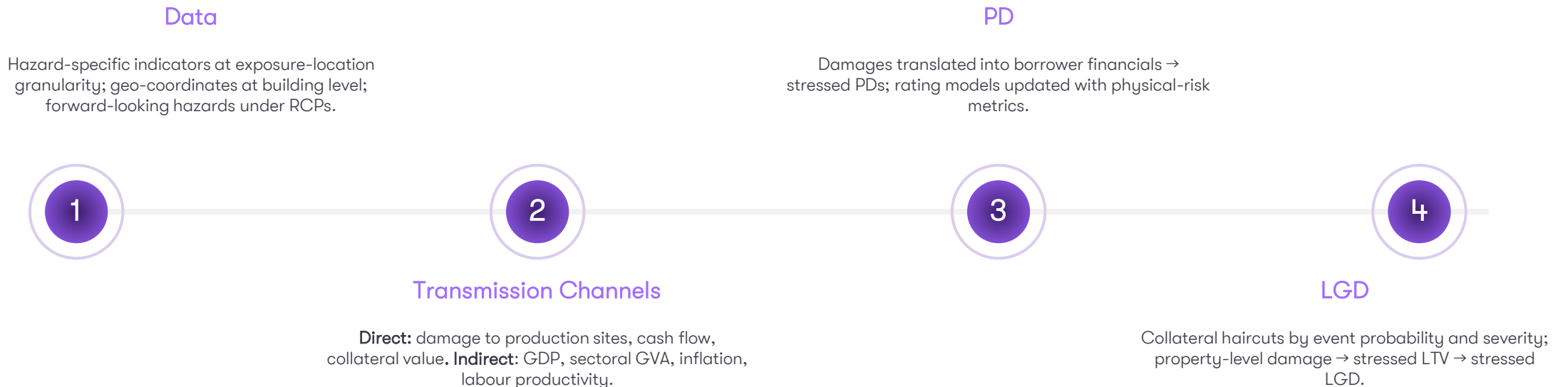
EPC-based LGD at property level

Transition risk of real estate collateral enters LGD via the EPC-class change needed to align with the Energy Performance of Buildings Directive — flagged as newly observed.

Physical risk: a new chapter, and a complete modelling architecture – from hazard maps to stressed PDs and LGDs



The most consequential addition: physical risk was not covered in depth in 2022, and the ECB now codifies the practices end-to-end.



§5.3 · Table 3, pp. 8–9

Nature enters the stress test — deliberately modestly, and that is the point



Transition risk



Physical risk



Nature-related risks

For the first time, the compendium reaches beyond climate. Methodologies are still nascent, so the chapter is kept contained — yet every practice listed was observed at supervised institutions by end-2024.

What the ECB observed

- 1 Nature-specific scenarios inside climate stress-testing frameworks, modelling macroeconomic shocks from nature-related risks
- 2 Exploratory scenario analyses developing new methodologies to quantify nature-risk impacts, including direct transmission channels

The two driver families

Physical resource scarcity → water & biomass prices rise

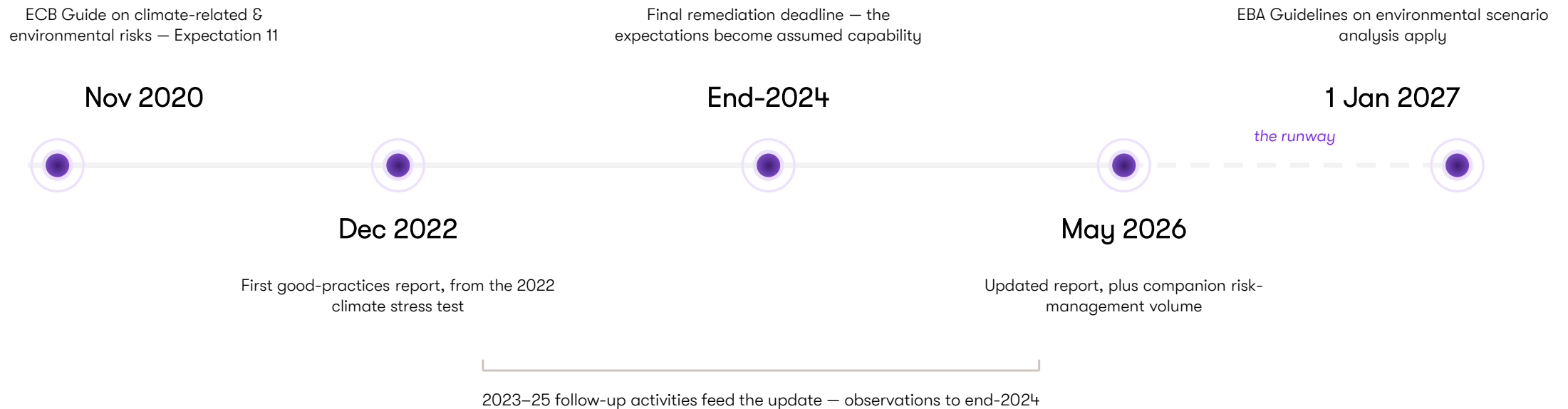
Transition environmental taxes & regulation → operating costs rise

Nascent

the report's own word for nature-risk methodologies — few, achievable, and already demonstrated

What comes next? The good practices meet a binding calendar

The reports are explicitly non-binding — illustrative, and setting no supervisory expectations. Their force lies in the sequencing: each publication marks a step in a supervisory arc that now meets a binding calendar.



How we can help: every change in this update maps to work we deliver for banks today

The direction of travel is clear and the runway is short — the EBA's Guidelines apply from January 2027. Each service responds to a specific change identified in this document, so the work starts from evidence, not a blank page.

Start here



A half-day session mapping your stress-testing framework against the 2026 report — scenarios, data and models.

● Good-practice gap assessment

Your framework read against the 2026 compendium — where you meet the bar, and where you don't.

● Collateral geolocation & data uplift

From regional codes to geo-coordinates at asset level — the update's one data ask.

● Transition modelling & EPC-based LGD

Counterparty-level extension, and transition risk embedded in property-level LGD.

● Physical-risk PD & LGD modelling

The full physical risk architecture: hazard data, channels, damage-to-financials, LTV-to-LGD.

● Nature scenario design

An exploratory nature scenario, or nature drivers embedded in your climate framework.

● Scenario-analysis & ICAAP readiness

Frameworks, documentation and capital linkages ready for the EBA Guidelines.

Grant Thornton: Genuine response to your challenges

Executing complex and technical advanced projects in the current constantly evolving environment includes many challenges as well as opportunities. Our team of experts will provide you with a tailored, flexible solution and the expertise you require at competitive rates. We summarise below how we can meet your criteria and key areas of focus:

Our Experience and Capabilities



- **Industry knowledge** which leads to deep understanding of the risks and opportunities associated with the project. We understand the banking market and the challenges faced by the entities in this sector. We will bring this learning to help **benchmark your procedures against good industry practice and the expectations of all stakeholders** (shareholders, customers, staff, agents and society).
- We have significant experience of working with all major financial institutions, including undertaking and overseeing a wide range of regulatory, risk and governance reviews.
- **Pool of more 300 dedicated executives in the Financial Services** with unique set of skills, experienced in handling complex projects and delivering high-quality results and **a team of 150+ experts**, with extensive experience spanning a diverse range of **technology domains**.

Our People



- **Unparalleled experience** of our **Leadership team**.
- **Our people are open, flexible and easy to work with**. We work through the issues together, not alongside you.
- **Our collaborative style enables** us to assemble teams with a broader perspective – working across service lines and diverse industry teams to tailor our capabilities for you.
- Our team will provide guidance at each step of the project, notifying the risks and ways to overcome them.
- Our **global network** of International Business Centers (IBCs) and country desks are in place to coordinate international work and to effectively provide inside and any possible help that your project requires.

Proven track record



- **We have an extensive track record** of supporting financial institutions in advisory services.
- Specifically, we have successfully completed many similar projects across a range of financial institutions of important size and complexity.
- Unique combination of Senior **Banking Experts** along with advisors & **Technology experts**.

Our approach



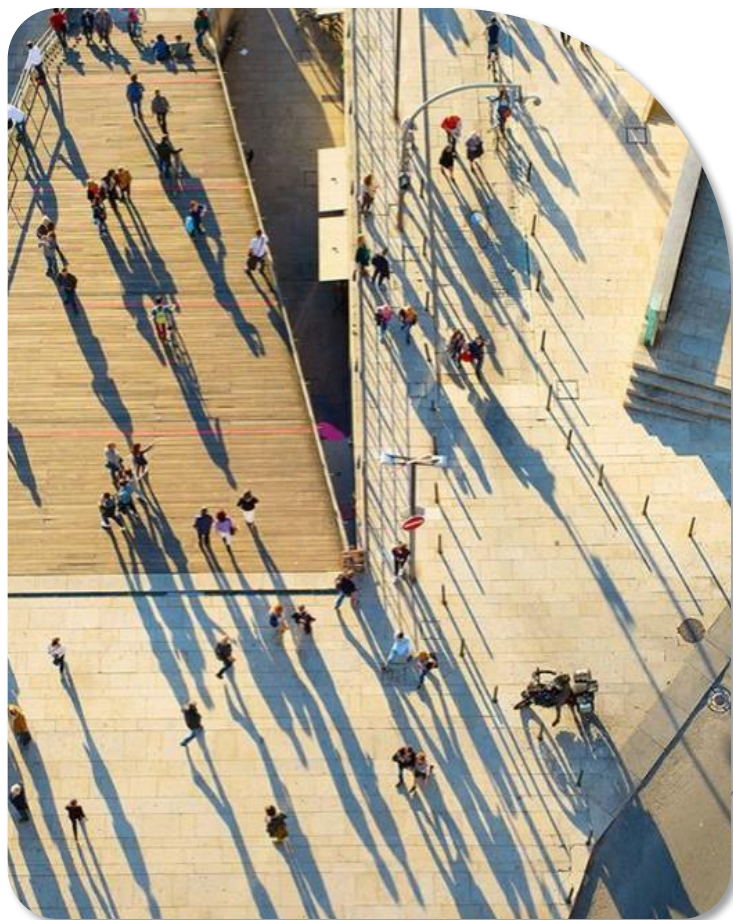
- **Hands on approach, by our dedicated teams**, to ensure proper and timely execution of the agreed time-plan.
- **We invest the time to truly understand your business**, giving real insight and a fresh perspective to keep your moving. We are agile with shorter decision-making chains and empowered teams; so, you get the outcomes you need when speed matters.
- **Put simply, our teams add value**. We like to bring ideas to the table, going beyond the technical issues to recommend ways to make your business better.
- **Focus on pragmatic solutions** to help you improve and bypass any obstacles.
- **We joint forces** to provide the best possible services to our clients. **Collaboration is a key element of our value chain**.



We are committed to provide the highest standard of services at a competitive fee with a view to establish a long-term relationship and help the bank to navigate through the challenging environment.

Financial Services Department

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We do not stop designing new services and enhancing existing ones adapting to the challenging environment. Our key industry specific solutions can be summarized in the following groups of services:

- Financial Advisory
- Portfolio Services
- Risk Services
- Operational Advisory
- Internal Audit & Compliance
- Audit & Assurance
- Tax & Outsourcing Services
- Environmental, Social and Governance (ESG)

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Global banking expertise

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Agility and flexibility

We are known for our execution excellence and results-driven programme management. Count on our harmonised services, agile network, reliable business model and robust back-up system.



Innovative thinkers

We listen to your unique challenges and offer fresh ideas that solve them. A flexible fee structure means you get the best solution at the best value. We also convene a global banking steering committee to you always get cutting-edge insights.



Collaborative approach

We are trusted by global banks for our personalized services and dedicated client teams that deliver when you need it even at short notice. The result is a pragmatic approach that helps tackle change management complexities head on.

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100%

of FTSE 100 banking companies are clients of Grant Thornton member firms



93%

Of Forbes 100 banking companies are clients of Grant Thornton member firms

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A dynamic team committed to drive you forward

We have the expertise, the experience and the in-depth knowledge of the challenges that companies face today. Our approach is based on finding reliable alternative solutions and offering high value-added services.



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