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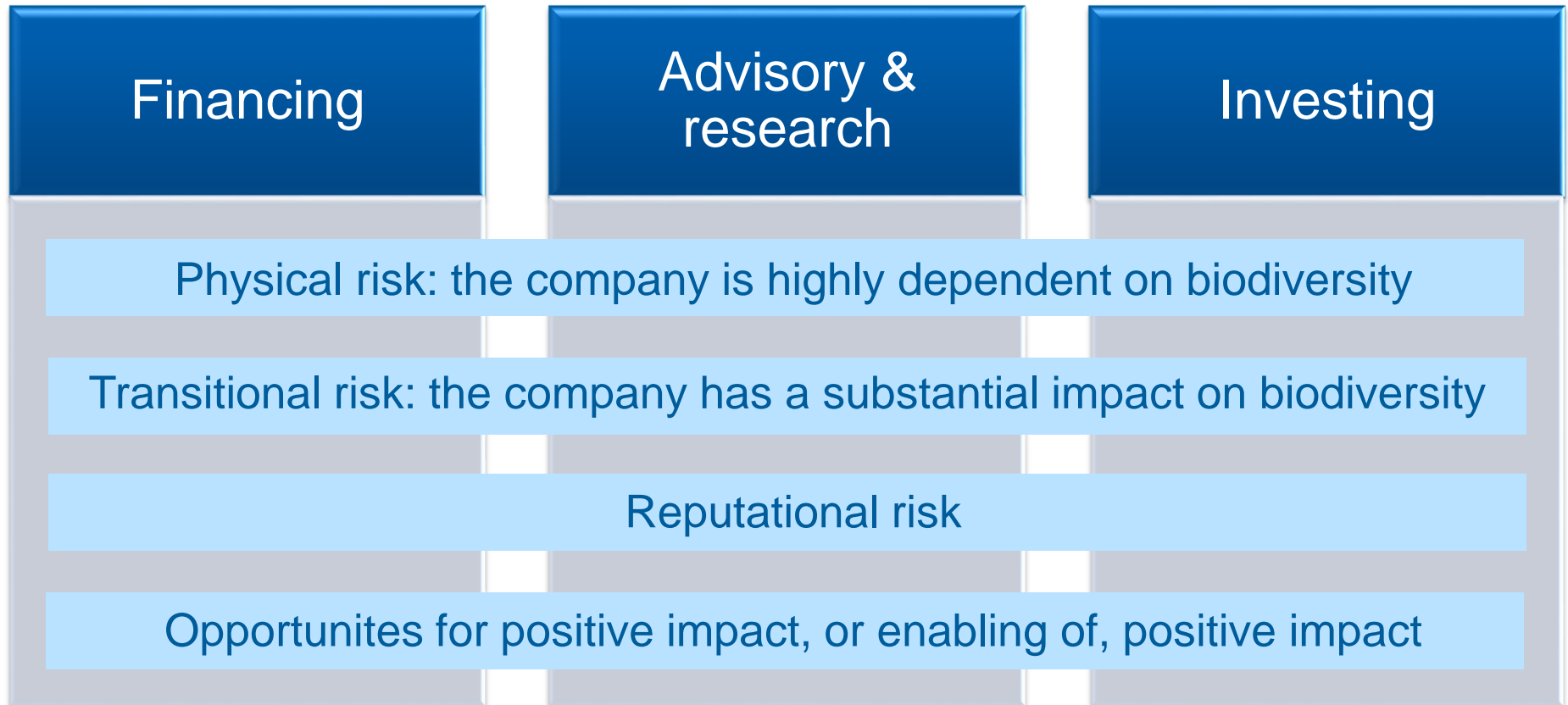
Biodiversity from a lending and investment perspective

– responsibility, risk and profitability

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Why and how is biodiversity relevant to banks



Biodiversity:

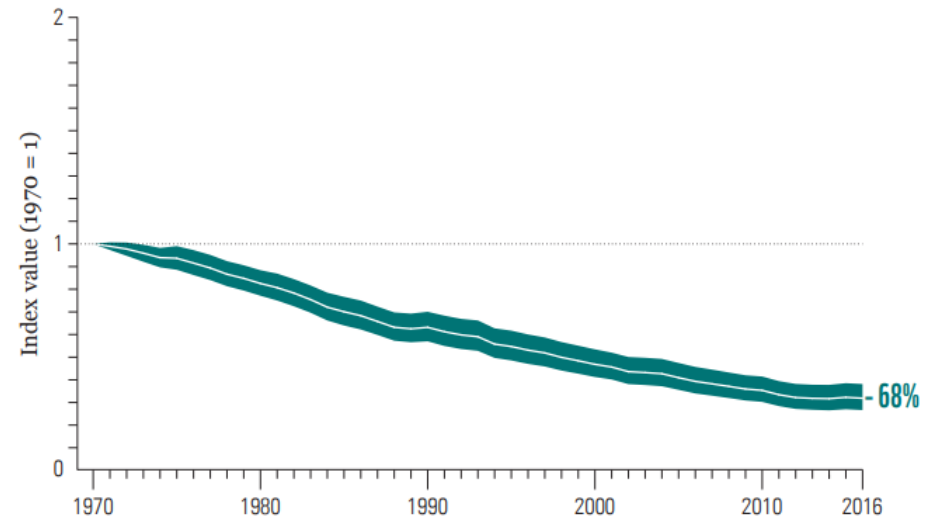
The next frontier in sustainable investing



Biodiversity: the next frontier in sustainable investing

- >50% of global GDP, USD 44 trillion, is highly or moderately dependent on nature and its services (e.g. provision of fibre, fuel and food)
- **Financial risk:** ongoing rapid loss of biodiversity largely due to human industrial activities putting this value at risk (WEF, 2020)
- **Cause:** the decline is largely the result of human industrial activity

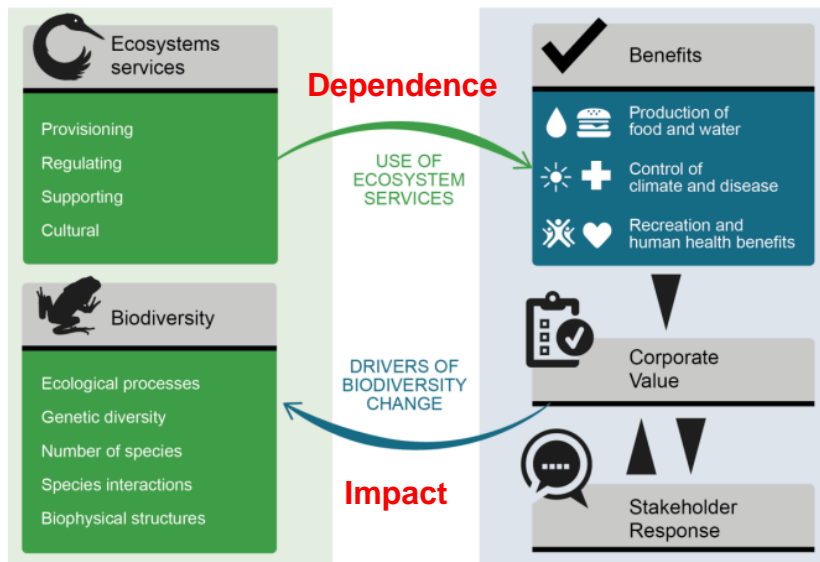
The global living planet index: 1970-2016



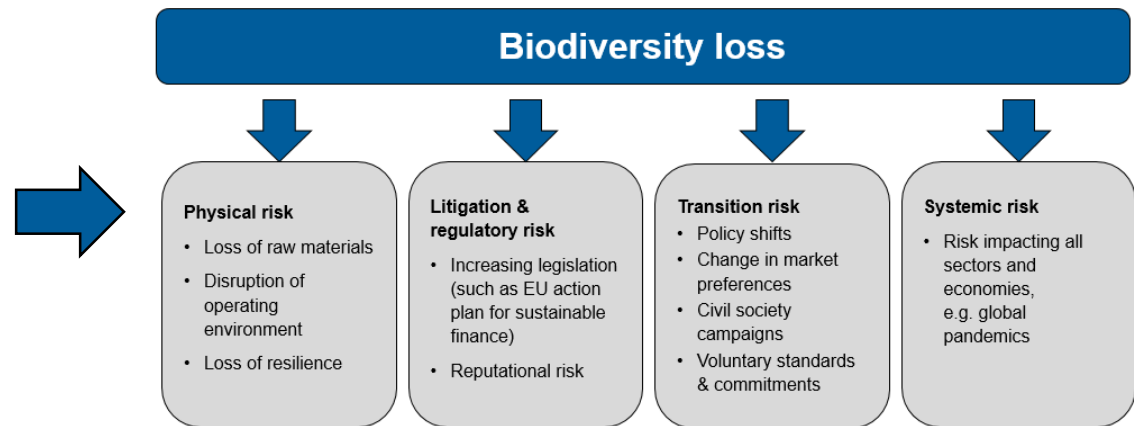
Source: WWF/ZSL (2020)

Biodiversity loss = financial risks

→ In our view, these risks often appear overlooked by the market and are possibly not priced in.

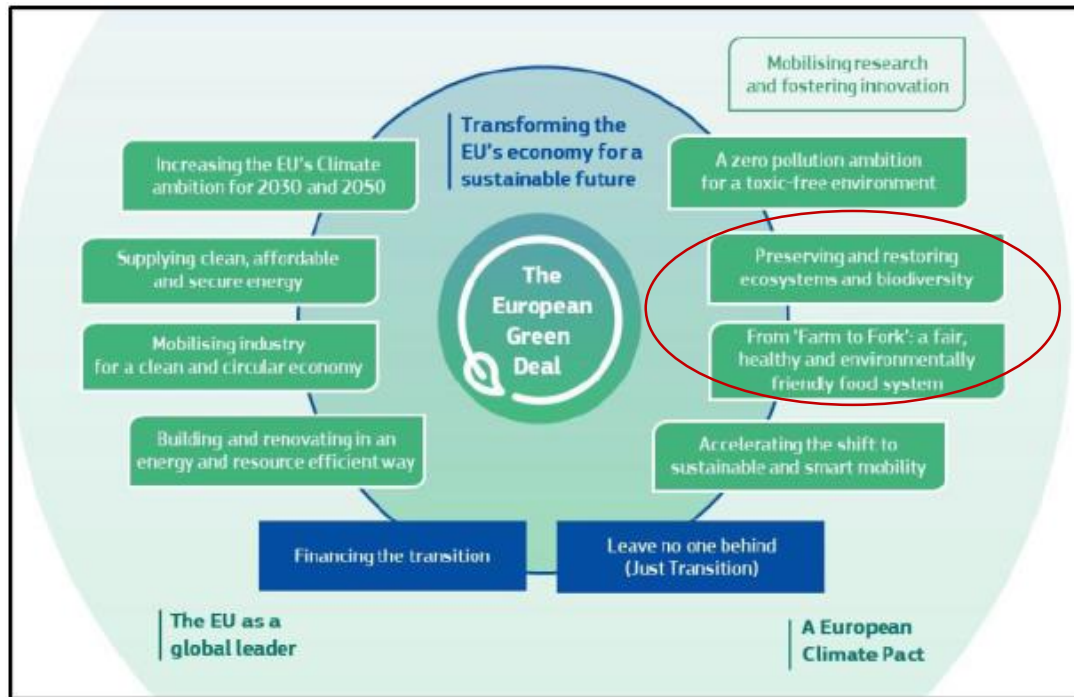


Source: JNCC, 2018 - Adapted from Maes et al., 2013



Sources: HCM, WEF (2020), UN Environment Programme, UNEP Finance Initiative and Global Canopy (2020)

Regulatory shift pushing the topic further up on the agenda



Source: European Commission

The Taxonomy regulation establishes six environmental objectives:

1. Climate change mitigation
2. Climate change adaptation
3. The sustainable use and protection of water and marine resources
4. The transition to a circular economy
5. Pollution prevention and control
6. **The protection and restoration of biodiversity and ecosystems**

Increasing review and disclosure requirements related to biodiversity for both companies and investors

Which sectors are at risk?

According to PRI, these are the sectors that have either the highest impact or highest dependence on biodiversity.

Highest impact on biodiversity

- Forest products and fisheries
- Food, beverage and tobacco
- Mining
- Oil & gas
- Transportation

We would add energy production in general

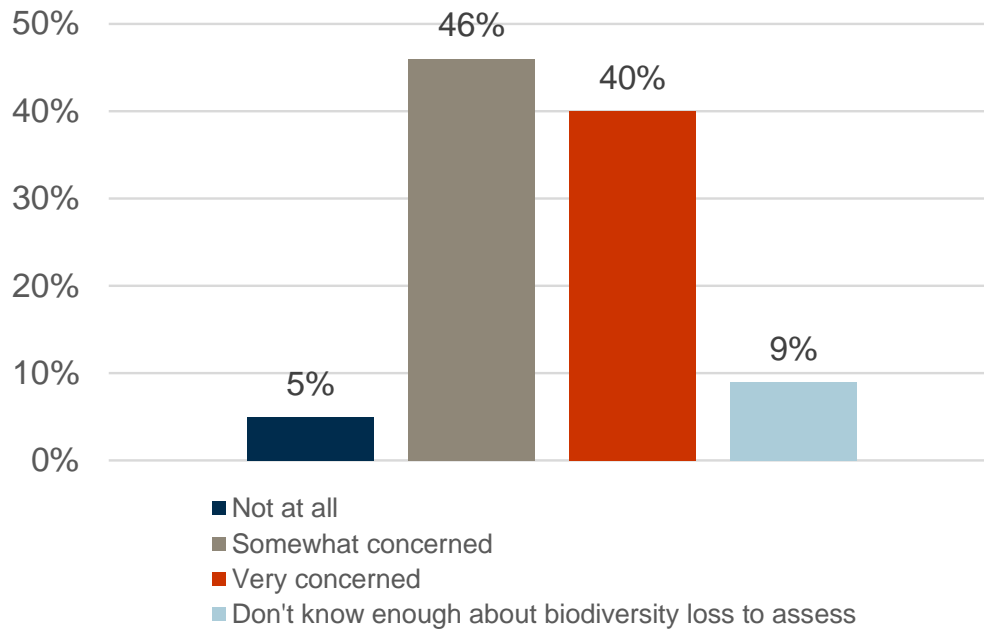
Highest dependence on biodiversity

- Forest products and fisheries
- Textiles, apparel and luxury goods
- Food, beverage and tobacco
- Electric utilities
- Independent power producers

Sources: PRI, IUCN Red List threat data in Maxwell et al (2016) and UN Environment Programme, UNEP Finance Initiative and Global Canopy (2020)

Biodiversity climbing on investors' agendas → increasing potential impact on valuation

Respondents' concern about the impact of biodiversity loss on financial markets



Source: Credit Suisse and Responsible Investor, 2021

Note: 303 respondents from 35 countries

- This survey supports our view that **biodiversity risks appear to be overlooked by the market**, as 72% of respondents have not assessed the impact of their investments on biodiversity.
- While still in its infancy, we find that **biodiversity issues could impact companies' valuations** sooner rather than later, e.g. as more than one third of these respondents that have not yet assessed their investments' impact on biodiversity, but aim to do so ahead

Biodiversity in the limelight

25-JAN-2021

IKEA launches new 2030 forest agenda to push for improved forest management and biodiversity globally

‘TCFD for nature’ working group launches with investor and government backing

The 62 member group includes Storebrand, NatWest, Citi, BNP Paribas, AXA, Rabobank, Credit Suisse, Banorte, Manulife, Pimco, DBS Bank, Sumitomo Mitsui and Yes Bank

2 March 2021 | Economic Development

Source: Responsible Investor Sep 25 2020

Nations must start weighing up the cost of economic profit against damage to the environment if they are to have a chance at a sustainable future, UN Secretary-General António Guterres said on Tuesday.

Source: UN 2021

Dutch biodiversity initiative for investors goes global with boom in new members

BNP Paribas, Rathbone Greenbank and Rabobank among 15 financial institutions to join PBAF today

Source: Responsible Investor Mar 4 2021

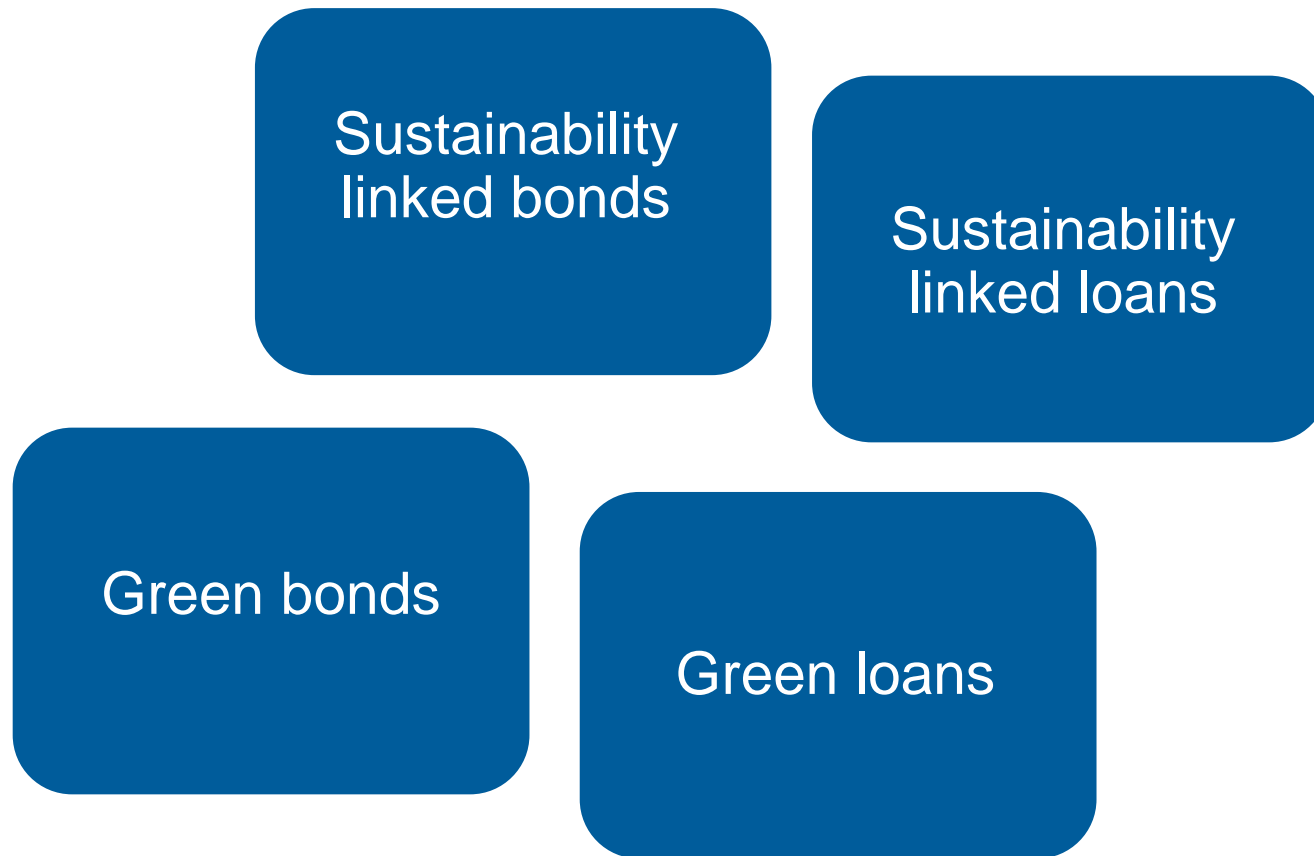
Nature Bonds May Be the Next Big Thing for Emerging Markets

By [Todd Gillespie](#) and [Greg Ritchie](#)

February 25, 2021, 6:00 AM GMT+1 Updated on February 25, 2021, 10:26 AM GMT+1

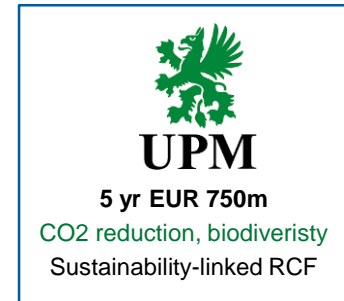
Source: Bloomberg 2021

Financing a company's investment in biodiversity



Biodiversity linked loan - an example

In March 2020, Finnish forest-based bioindustry company UPM communicated a €750m credit facility



The credit was one of the first to link the pricing mechanism of a loan to biodiversity targets. The margin of the loan was tied to two key performance indicators (KPIs):

- a *net positive impact on biodiversity* in the company's forests in Finland
- a 65% reduction in CO2 emissions [...]

How was *net positive impact on biodiversity* defined, benchmarked and measured?

Indicator	Target	Metrics
Tree species	Increase the broadleaved tree species volumes	Share of broadleaved trees
Forest age	Maintain diverse forest age structure	Share of different forest age classes
Forest structure	Maintain and increase diverse forest structure	Share of alternative regeneration methods
Indicator development	Complement the set of indicators and develop monitoring with researchers	Create deadwood volumes and diversity monitoring for commercial forests. Biodiversity index and indicator development with external experts.
Protected areas	Improved nature conservation network	Nature conservation areas (protected areas/total hectares)
Valuable habitats	Protected valuable habitats with increased deadwood	Valuable habitats protected (protected habitat hectares/total hectares)
Habitat restoration	Improved biodiversity on restored environments	Existence of habitat restoration projects
Species and habitat projects	More joint stakeholder projects to protect biodiversity	Existence of species and habitat projects

Research disclaimer

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