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October 15, 2021

BANKING CIRCULAR NO. 4 OF 2021

TO: ALL CHIEF EXECUTIVES OF COMMERCIAL BANKS AND MORTGAGE FINANCE COMPANY

ISSUANCE OF GUIDANCE ON CLIMATE-RELATED RISK MANAGEMENT

In the recent past, the adverse impact of climate change has become painfully evident in the developing countries—droughts, floods, water scarcity—but also in advanced economies. Recent flooding, hurricanes, wildfires in advanced economies have brought to the forefront, the urgent need for concerted global efforts to mitigate and adapt to climate change. This will be the key agenda at the upcoming *Conference of the Parties (COP-26)* in Glasgow, Scotland. At *COP-26*, countries are expected to commit to enhanced climate action to address the increasingly dire consequences of climate change.

Banks, regulators and policymakers across the globe are increasingly leveraging on the pivotal roles of banks in the global economy to advance climate mitigation and adaptation. Banks and their clients can also play an important signaling role as the world transits to a low carbon economy. This presents both opportunities and risks for banks. Opportunities abound in financing of renewable energy, resilient infrastructure, appropriate housing and sustainable agriculture that will also create meaningful jobs. Conversely, climate-related risks are increasingly recognised as a source of financial risks for the financial sector, and can affect the safety and soundness of institutions and the entire financial system if not properly managed.

Taking cognizance of the opportunities and the pervasive nature of climate-related risks, the Central Bank of Kenya (CBK) sees it opportune to draw the attention of the banking sector players to the need to pay close attention to climate-related risks as part of their comprehensive risk management frameworks. In view of this, CBK has developed the attached [Guidance on Climate-Related Risk Management](#) focusing on four main areas: **governance, strategy, risk management, and disclosures.**

The *Guidance* provides for a Roadmap with actions in the short and medium term to entrench climate risk management in banks operations and business models. The Roadmap recognizes the urgency of climate action while providing flexibility to banks to build the requisite capacity in this novel area.

The purpose of this circular is to issue *Guidance* to institutions on Climate-Related Risk Management. This *Guidance* will inform the development of implementation plans for climate risk management frameworks by commercial banks and mortgage finance companies.

Bearing in mind the novelty of this *Guidance*, implementation will be in stages, as indicated in the Implementation Roadmap. The focus will initially be placed on sensitization efforts. Implementation plans as required by the *Guidance* and approved by the institution's Board should be submitted to CBK by June 30, 2022, and followed by quarterly updates to be submitted from September 30, 2022.

Yours faithfully,

GERALD NYAOMA
DIRECTOR, BANK SUPERVISION

Attachments

cc.: Dr. Habil Olaka
Chief Executive Officer
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