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## 15 Examining Banks' Response to Climate Risks: Insights from Portugal

### **Rebelo, Joana**

Universidade Europeia  
rebelojoana@hotmail.com

### **Pereira, Hélia**

Universidade Europeia  
BRU – IUL  
helia.pereira@universidadeeuropeia.pt

### **Pinheiro, Carlos**

Universidade Europeia  
BRU - IUL  
carlos.manuel.pinheiro@universidadeeuropeia.pt

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Banks play a pivotal role in the economy and are exposed to various financial risks, including those stemming from climate change. In addition to physical, direct, or indirect risks, transition risks have attracted special attention from boards of directors, particularly banks facing stringent regulatory deadlines (such as the green asset ratio and the banking book taxonomy alignment ratio), along with other obligations under the CRR directive and CSRD/ESRS requirements. In the Eurozone, the ECB has increasingly taken a proactive role in monitoring banks' resilience to transition risks, notably through stress tests to ensure financial system stability. In Portugal, banks have been engaged in an ongoing process of sharing, planning, and identifying exposure and vulnerabilities, aiming to preserve their functions in society at large.

This study develops two approaches to examine the determinants of resilience to climate risk, its mitigation and adaptation, and the impact of these measures on the preservation of value and performance of banks. Initially, a guide was developed to support semi-structured interviews with top managers, addressing the key indicators that banks should monitor, based on the ECB's latest guidelines, banks' self-assessment, and studies from sectoral organizations and consultants. This guide was validated by a panel of experts prior to its implementation. Analysis of the interview results allows for the identification of the main determinants and indicators of transition risk in the Portuguese banking sector. These variables will serve as the basis for the development of an empirical analysis linking resilience to climate risk with the value and performance of banks. The results should interest bankers, shareholders, regulatory authorities, and society at large.

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