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From Credit Risk to Climate Risk: Applying CCPT Beyond Compliance

Six practical Malaysian Industries Scenarios

Source : *BNM CCPT Guidance*

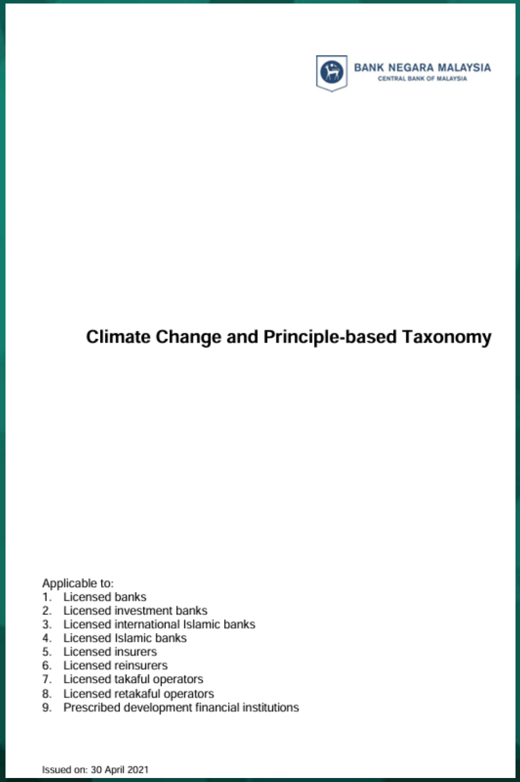
What is CCPT, Really?

CCPT classifies business activities as:

✅ GP1 / GP2 (Green): Aligned with climate transition/resilience
🟡 Amber: Taking steps to align
❌ Red: Environmentally harmful/misaligned

In a credit context, these classifications highlight:

- ❖ Transition readiness
- ❖ Vulnerability to climate regulations – Stranded assets?
- ❖ Reputational risk
- ❖ Strategic longevity



BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

Climate Change and Principle-based Taxonomy

Applicable to:
1. Licensed banks
2. Licensed investment banks
3. Licensed international Islamic banks
4. Licensed Islamic banks
5. Licensed insurers
6. Licensed reinsurers
7. Licensed takaful operators
8. Licensed retakaful operators
9. Prescribed development financial institutions

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🧵 Example 1: Textile Manufacturer (Amber)

- Activity: Switching from coal-fired boilers to natural gas
- CCPT Status: 🟡 Amber – transition in progress
- Credit Implication:
  - Medium-term loan with disbursement tied to project milestones
  - Sustainability-linked pricing with a 10 bps discount post-certification
  - Transition plan embedded in credit write-up.

✅ Takeaway:
Recognize transitional efforts and reward progress with structured terms

🌴 Example 2: Palm Oil Refinery (Red)

- Activity: Legacy operations with no traceability or sustainability certification
- CCPT Status: ❌ Red – high environmental impact
- Credit Implication:
  - Shorter tenor, higher margin (+25 bps)
  - Enhanced monitoring and environmental covenants
  - Exposure tagged for climate risk watchlist

🚩 Takeaway:

Stable profits today may mask long-term transition risk

🪑 Example 3: Furniture Exporter (Amber or Red)

- Activity: Sourcing non-certified timber; limited green manufacturing practices
- CCPT Status: 🟡 Amber if corrective plans are underway; ❌ Red if static
- Credit Implication:
  - 6-month conditional approval pending FSC/PEFC sourcing commitment
  - Trade facility linked to supplier audits
  - Reviewed under sustainability criteria at annual renewal

📌 Takeaway:
Many SMEs sit on the edge – CCPT helps nudge them forward.

🚙 Example 4: Automotive Components Manufacturer (GP2)

- Activity: Supplies parts to EV manufacturers, runs on solar power
- CCPT Status: ✅ GP2 – supporting transition
- Credit Implication:
  - Preferential pricing
  - Visibility in the bank's green portfolio reporting
  - Access to sustainability-linked revolving credit

💡 Takeaway:
These are climate-aligned businesses. Use CCPT to showcase them and deepen the relationship.

🍜 Example 5: Food-based Manufacturer (Amber)

- Activity: Produces packaged foods; currently upgrading cold chain with energy-efficient systems
- CCPT Status: 🟡 Amber – early stage of environmental improvement
- Credit Implication:
  - Green equipment financing facility for refrigeration units
  - Capex loan linked to emissions reduction targets
  - Suggested collaboration with ESG advisory arm for roadmap support

🥄 Takeaway:
Even everyday industries like food processing have climate risks – CCPT helps surface them early.

📦 Example 6: General Goods Trader (Unclassified to Red)

- Activity: Imports plastic household goods; no ESG policies or supplier vetting
- CCPT Status: ❌ Red – passive and misaligned
- Credit Implication:
  - Short-term trade line only; no term facilities approved
  - Conditions for improvement: sustainable sourcing, packaging reduction
  - Close monitoring for regulatory or supply chain disruptions

⚠️ Takeaway:
Use CCPT to reframe the credit conversation –
from “can we finance this?” to “should we?”

Where CCPT Belongs in the Credit Process?

- ✅ 1. Due Diligence
- Introduce CCPT-aligned questions into site visits, vendor assessments, and ESG interviews
- Assess climate exposure for both operations and supply chain
- ✅ 2. Credit Proposal
- Declare CCPT classification and rationale
- Highlight transition risks and mitigation strategies
- ✅ 3. Structuring & Pricing
- Tailor pricing margins based on classification
- Use sustainability-linked structures for Amber clients making measurable progress

🧠 Final Thoughts for Bankers

CCPT helps quantify future credit risk through a sustainability lens.
Amber borrowers are your engagement opportunity – guide and support them.
Red borrowers warrant tighter controls and pricing – or difficult conversations.
Green borrowers should be profiled and rewarded – they're your ESG champions.