

## Examples of climate-driven financial risks and opportunities<sup>1</sup>

Climate-related risks			Impacts	Financial risks	Financial opportunities
Physical risks	Acute	Floods	Damages to the operations of FIs' corporate clients' manufacturing facilities and disruptions to their supply chains	Credit risk: Disruptions and damages result in increased costs and reduced revenues affecting corporations' ability to repay loans and increase loan default rates	Finance investments in climate resilience measures such as infrastructural upgrades or supply chain monitoring analytics
	Chronic	Increasing temperatures	Decrease in labour and agriculture productivity; disruptions to energy generation	Credit risk: The decline in profitability of affected corporates can lead to increase default rates and Loss Given Default for banks	Finance investments in energy efficient cooling, water-efficient irrigation systems, energy management systems
Transition risk	Policy and legal risk	Introduction of a carbon tax/pricing scheme to limit utilisation of fossil fuels <sup>2</sup>	Higher costs for oil & gas companies and coal-fired power producers. Reduction in market demand for these companies' products	Market risk: Decrease in these companies' assets market valuation	Invest in green assets such as renewable energy infrastructures or companies aligned with the low-carbon transition
	Technology risk	Technological innovation results in a decline in renewable energy costs <sup>3</sup>	Reduced market shares and pricing of fossil-fuel based companies	Credit and market risk: Reduced sales and profits lead to higher default rates and Loss Given Default and/or decreased asset value	Invest in renewable energy and supporting infrastructures and clean technology providers
	Reputational risk	Loss of clients/investors due to fossil fuel exposure	Sentiment shifts lead to a sudden decline in price / valuation of carbon-intensive assets hold by an FI and sector stigmatisation	Liquidity risk: inability to sell such assets	Adopt and disclose in alignment with the TCFD and engage clients to decarbonise and implement the TCFD

<sup>1</sup> Adapted from NGFS (2020), [Overview of Environmental Risk Analysis by Financial Institutions](#)

<sup>2</sup> Source: NGFS (2020b), [Overview of Environmental Risk Analysis by Financial Institutions](#)

<sup>3</sup> Source: NGFS (2020b), [Overview of Environmental Risk Analysis by Financial Institutions](#)