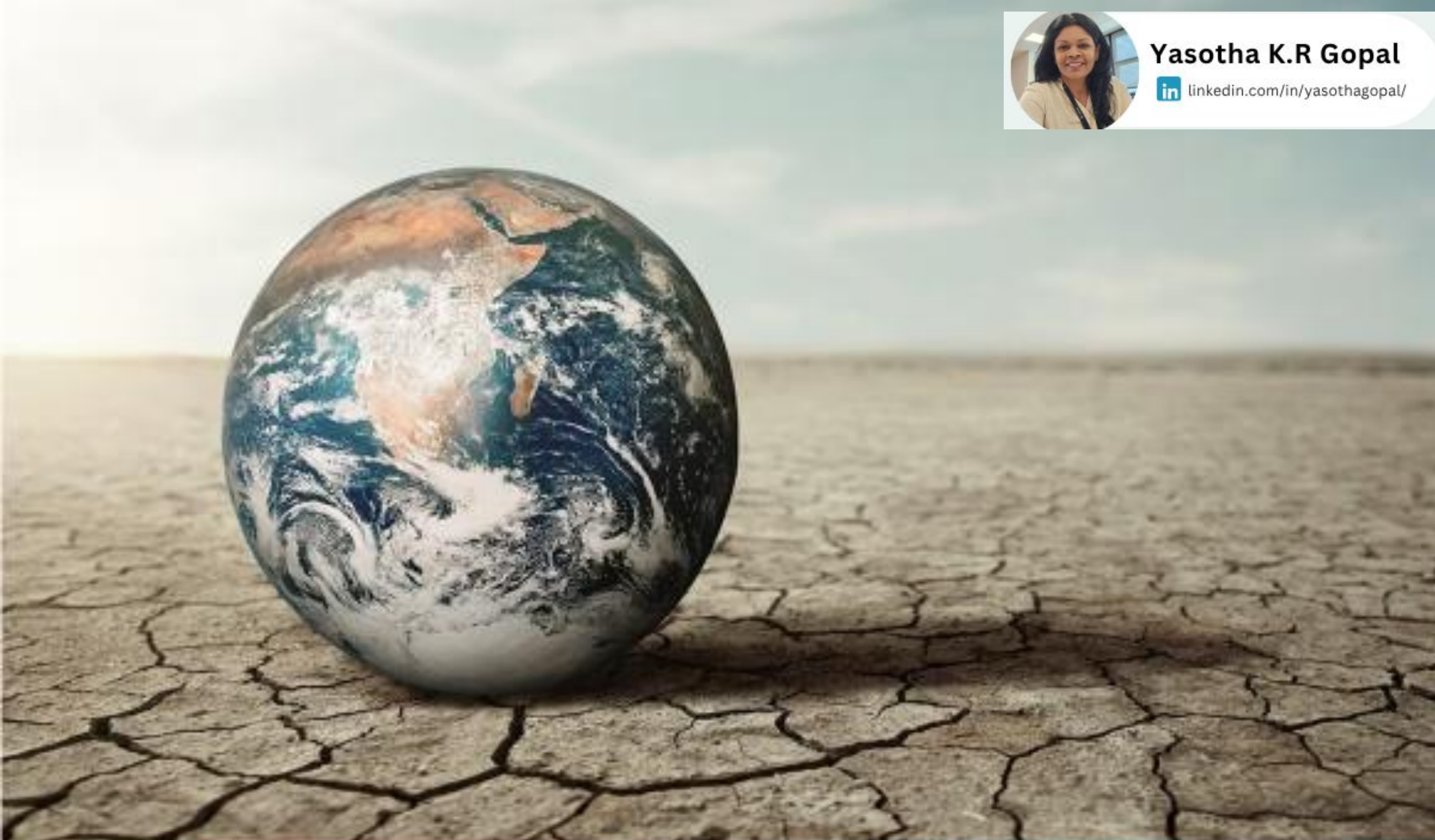

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Climate Risk

Source : BNM CCPT Guidance Document

Definition, Impact and Mitigation

Climate Risk

Climate Risk **refers to the *potential adverse impacts* resulting from Climate Change;** in three types:

a. Physical Risk

b. Transition Risk

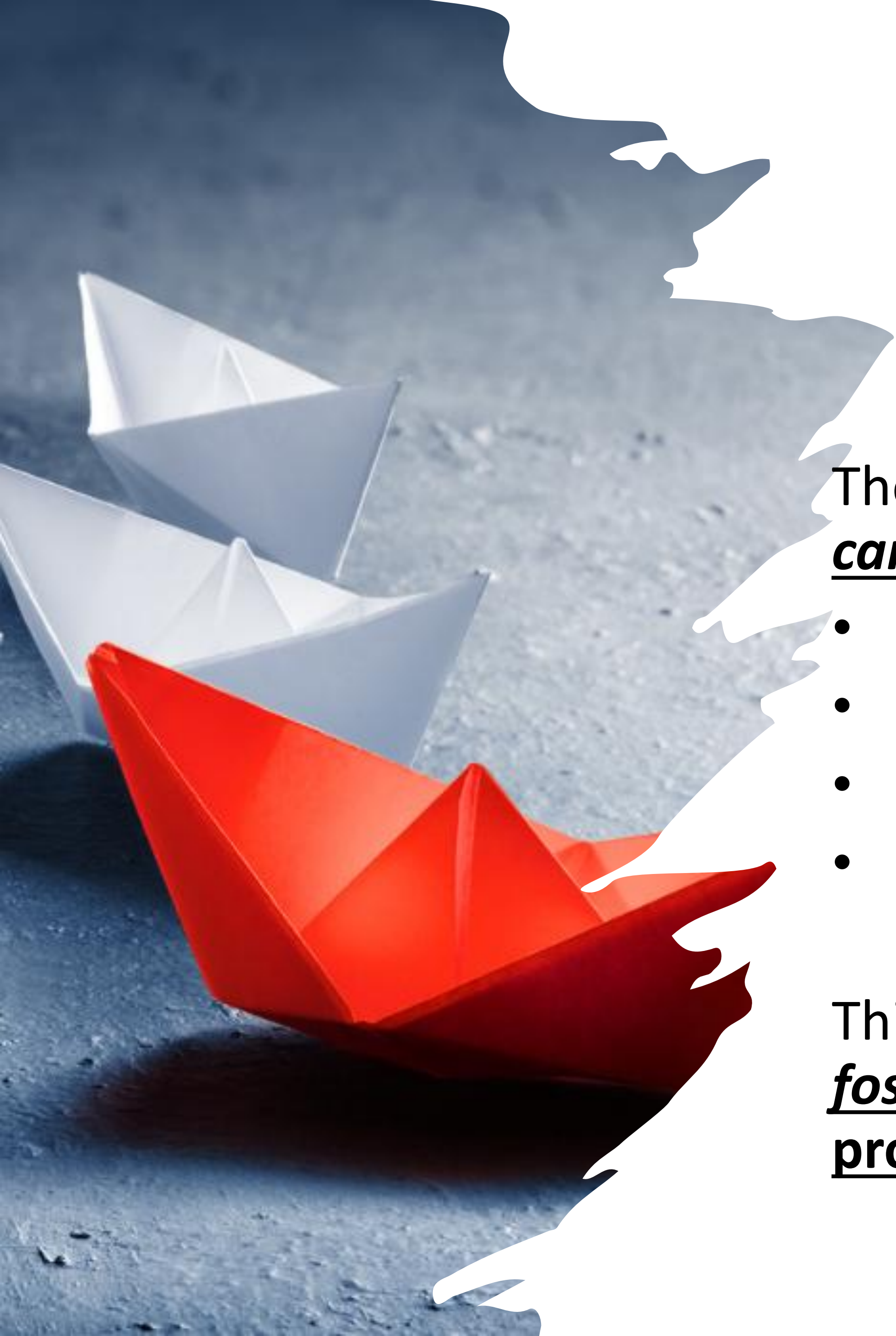
c. Liability Risk

a) Physical Risks –

arises from two types :

i. Acute Risks: ***Immediate,*** severe events like hurricanes, floods, droughts, and heatwaves that can damage infrastructure, disrupt supply chains, and threaten health.

ii. Chronic Risks: ***Long-term*** changes such as rising temperatures, shifting precipitation patterns, and sea-level rise affecting ecosystems, agriculture, and water resources.



b) <u>Transition Risks</u>

These arise from the <u>***shift to a low-carbon economy***</u>, including

- policy changes,
- technological advancements,
- market shifts, and
- evolving consumer preferences.

This can impact businesses reliant on <u>***fossil fuels***</u> **or** <u>**carbon-intensive processes**</u>.

c) Liability Risks

Stems from **legal risk** and **claims on damages and losses** due to ***inaction*** or ***lack of action*** on effects of Physical Risks and Transition Risks.

Example – if Bank's financing of environmentally harmful projects or failure to assess climate risks adequately, it could be liable for negative impacts.

Impacts of Climate Risk

Economic: Financial losses due to infrastructure damage, reduced agricultural yields, and higher operational costs.

Environmental: Threats to ecosystems and biodiversity, habitat alterations, and species extinction.

Social: Health issues from heatwaves, displacement of communities, and economic hardships.

Managing
Climate Risk

Involves :-

a. identifying and assessing ***risks***,
b. implementing ***mitigation*** and ***adaptation*** ***strategies***,
c. collaborating across sectors.

This includes :

- resilient infrastructure,
- sustainable practices, and
- policy advocacy to enhance resilience and reduce vulnerabilities.