

A Practical 5-Step Guide to Climate Risk Implementation

How to confidently integrate climate risk into your organization's strategy, financials, and risk management

01

Define Your Climate Risk Scope and Make It Decision-Relevant

OBJECTIVE:

Understand your business through the lens of climate risk before doing any modelling.

Start by answering three grounding questions:

- 1 What assets, geographies, or investments matter most to enterprise value?
- 2 What decisions are being made in the next 12–36 months (capital allocation, refinancing, M&A, strategy refresh)?
- 3 What reporting frameworks and legislation are you accountable to (TCFD, IFRS S2, investor requirements)?

Then define:

- ✓ **Time horizons:**
 - Near-term (e.g., 2030s) – aligned to planning cycles
 - Long-term (e.g., 2050s) – aligned to strategy and targets
- ✓ **Stakeholder accountability:** Customers, investors, partners, suppliers
- ✓ **Business units or priority assets in scope**

OUTPUT:

A clear scoping memo approved by Finance and Risk.

HOW CAN NOVATA HELP?

[Climate Risk Solutions & TCFD / IFRS S2 Readiness](#)

02

Shortlist Priority Climate Risks

OBJECTIVE:

Separate noise from financially relevant exposure.

Start with a structured climate risk assessment to identify your most material risks and opportunities. Focus on developing a shortlist of hazards and potential impacts by considering:



Physical climate risks such as flooding, extreme heat, wildfires, or sea-level rise



Transitional risks such as carbon pricing exposure, regulatory shifts, market demand changes, technology disruption, or stranded assets

Engage cross-functional stakeholders, including operations, finance, procurement, and senior leadership.

Prioritize risks based on likelihood and magnitude of potential impact.

OUTPUT:

A shortlist (3-6 priority risks) tied to specific material assets, business units, or investments.

DEEP DIVE RESOURCES

[Climate Risk Assessment: How to Shortlist Climate Risks](#)

[Climate Risk as Financial Risk in Private Markets](#)

03

Conduct Scenario Analysis

OBJECTIVE:

Stress test your most material risks under potential climate futures.

Move from risk identification to scenario analysis by assessing how the likelihood and potential impact of risks might evolve under different climate pathways.

Use at least three scenarios:



High climate change

(limited emissions mitigation, higher physical exposure)



Medium climate change

(delayed emissions mitigation, abrupt transition shocks)



Low climate change

(aggressive emissions mitigation, higher transition risk)

For each priority asset or investment, consider:

- ✓ Impact on revenue
- ✓ Increases in operating costs
- ✓ Implications for capital expenditure
- ✓ Asset impairment risk
- ✓ Insurance cost changes

OUTPUT:

A structured impact matrix by scenario and time horizon.

FURTHER LISTENING

[Podcast: Climate Risk Is Financial Risk](#)

04

Rationalize Analysis into Financial Insight

OBJECTIVE:

Translate climate exposure into language your CFO understands.

This is where most strategies stall: moving from climate modelling and qualitative data into defensible financial values for climate impacts. Move beyond narrative risk towards estimated financial exposure:

* Expected loss ranges

* Cash flow sensitivity

* Climate Value at Risk (CVaR)

* Supply chain exposure

* EBITDA impact

* Valuation implications

The aim is to translate the wide-ranging near- and long-term climate losses into a scrutinised financial estimate, making them comparable to other investment-grade risks.

Key questions to ask:

- 1 Which financial statement line items might be impacted?
- 2 What performance data and financial metrics do I need to collect to improve my understanding?
- 3 How could this affect refinancing?
- 4 What could this mean for exit valuation?

OUTPUT:

A finance-ready briefing linking climate risk to capital allocation.

05

Embed Climate Risk into Capital Allocation and Strategy

OBJECTIVE:

Early analysis yields internal value, even if external disclosure is pending. Embed your findings immediately by translating them into an action plan that includes:

CAPITAL ALLOCATION DECISIONS	PORTFOLIO STRATEGY	GOVERNANCE & DISCLOSURE
✓ Diversification of supply chains	✓ Repricing of risk	✓ Board-level oversight
✓ Resilience capex	✓ Sustainability-linked loans	✓ Risk committee integration
✓ Asset hardening	✓ Divestment planning	✓ Alignment with TCFD / IFRS S2
✓ Technology upgrades	✓ Transition opportunities	

OUTPUT:

A climate risk action plan approved at the executive level.

Start Your Climate Risk Implementation Today

Ready to turn climate risk into a financially defensible strategy? Book a discovery call with our climate experts.

[BOOK DISCOVERY CALL](#)