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CLIMATE CHANGE EFFECTS IN THE NIGERIAN BANKING INDUSTRY AND THE IMPERATIVENESS OF SOCIO-LEGAL GUARDRAILS

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Abstract: *Climate change impacts have significant risks to the global financial system, yet the linkages of climate vulnerability and banking stability remain underexplored in the developing economies. This article examines the effects of climate change on the Nigerian banking industry, with particular focus on legal frameworks, regulatory responses, and emerging liabilities. Nigeria, as Africa's largest economy and the country which is highly susceptible to climate-induced hazards like flooding, desertification, and oil-related environmental degradation, posts need for compelling case study of climate change impact in the banking industry. The article synthesises legal authorities, including the Climate Change Act 2021, the Central Bank of Nigeria's Sustainable Banking Guidelines, and landmark judicial decisions to assess how climate risks translate into credit, market, operational, and liability risks for banks. It further explores the growing relevance of transnational climate litigation and its potential to extend liability to financial institutions. The analysis reveals significant gaps in prudential regulation, enforcement, and judicial preparedness, which impede the banking sector's capacity to manage climate-related financial risks. The article concludes with actionable recommendations for strengthening legal and regulatory frameworks, mandating climate-related financial disclosures, and embedding climate risk into the core of banking supervision. By situating Nigeria within the global discourse on sustainable finance, this study contributes to the evolving scholarship on climate law, banking regulation, and sustainable development in the emerging markets.*

Keywords: *Climate change, Nigerian banking industry, Climate risk, Financial regulation, and Sustainable banking.*

1. INTRODUCTION

Climate change has been a salient challenge for countries around the globe addressing the challenge requires shared commitment (Parsons, Godden, and Henrique, 2025). The adverse effects of climate change are no longer distant projections; they are present realities reshaping economies, livelihoods, and the stability of financial systems worldwide (Signé and Mbaye, 2022). The Intergovernmental Panel on Climate Change (IPCC) has repeatedly warned that rising global temperatures, changing precipitation patterns, and extreme weather events will intensify physical and transition risks across all sectors. Within that context, the banking industry occupies a uniquely vulnerable position, particularly in Nigeria. Banks act as financial intermediaries, channeling capital to businesses and households. When climate-induced shocks impair borrowers' ability to repay loans, erode collateral values, or disrupt entire industries, the resulting credit losses can cascade through the banking system, threatening financial stability.

Nigeria exemplifies this confluence of climate vulnerability and financial exposure due to its economic, social and cultural setting. As the most populous country in Africa and a leading oil producer, Nigeria faces acute climate challenges: flooding in the southern and central regions, desertification in the north, coastal erosion, and pervasive environmental degradation linked to oil extraction in the Niger Delta (Ofoezie, Eludoyin, Udeh, Onanuga, Salami and Adebayo, 2022). These phenomena directly impact the agricultural, real estate, and energy sectors with key areas of bank lending. Moreover, Nigeria's financial services industry is expected to grow significantly due to strong economic growth, a young population, and a surge in digital innovation (Olusanya, (2025). The Central Bank of Nigeria (CBN) has initiated sustainable banking reforms, but the legal and regulatory architecture for managing climate-related financial risks remains nascent in the banking industry.

This article undertakes a comprehensive examination of the effects of climate change on the Nigerian banking industry from a legal perspective. It addresses three central questions: (i) what are the legal and regulatory frameworks governing climate-related risks in Nigeria's banking sector? (ii) how do physical, transition, and liability risks manifest in the Nigerian banking context, and what legal authorities and case laws illuminate these risks? and (iii) what reforms are necessary to enhance the resilience of Nigerian banks to climate change while aligning with international best practices?

The article is structured as follows. Section two sets out the conceptual framework for understanding climate-related financial risks. Section three surveys the international and domestic legal landscape, including the Climate Change Act 2021 and the CBN's regulatory instruments. Section four analyses the specific impacts of climate change on Nigerian banks, drawing on desktop data and case studies. Section five engages with legal authorities and case law, examining both Nigerian jurisprudence, comparative analysis and foreign cases that portend future liability for financial institutions and as well as evaluates the regulatory responses and industry initiatives to date. Section six identifies critical gaps and challenges in the banking industry in relation to climate change in Nigeria. Section seven proposes a suite of legal and policy including the conclusion and recommendations.

2. EXPLICATING THE NUANCES OF CLIMATE RISKS IN BANKING

To analyse the effects of climate change on banking, it is essential to distinguish the transmission channels through which climate-related factors affect financial institutions in Nigeria in particular. The financial stability previews, particularly work by the Network for Greening the Financial System (NGFS classifies climate risks into two main categories which are physical risks and transition risks (Network for Greening the Financial System Technical document, 2020). A third category liability risks has gained prominence as climate litigation expands. With over 3,000 cases filed worldwide as of late 2024, climate litigation has grown from a specialised legal field to a significant source of considerable financial and legal concern. In the 1980s, the first cases of climate litigations in Australia and the US increased in relations to contested government policies or actions that did not sufficiently consider how they would affect climate change (Okedele, & Aziza, Oduro, Ishola, and Akinwale, 2024). Most of Nigerian related litigations have been on environmental litigations and the challenges.

Furthermore, it involves physical risks arise from the direct impacts of climate change, including acute events (e.g., floods, storms, heatwaves) and chronic shifts (e.g., sea-level rise, changing rainfall patterns). For banks, physical risks affect credit risk (borrowers' capacity to repay), market risk (collateral values), and operational risk (bank branches and infrastructure) (Bassey, and Udoh, 2022). In Nigeria, recurrent floods devastate agricultural output, destroy property, and disrupt economic activity in states such as Anambra, Kogi, and Delta among others. Desertification threatens livelihoods in the north, undermining repayment capacity for agricultural loans that are taken from banks due to climate induced factors.

Transition risks stem from the process of adjustment to a low-carbon economy. These include policy changes (carbon taxes, fossil fuel phase-outs), technological shifts, and shifts in consumer sentiment. Nigerian banks have substantial exposure to the oil and gas sector, which accounts for a significant portion of corporate lending. A rapid global energy transition could strand fossil fuel assets, impairing borrowers in the extractive industry and triggering losses for banks. Also, the Nigerian banking industry is currently navigating a complex landscape of significant transition risks. These are defined as the financial and operational risks associated with the sector's adjustment to a new set of regulatory, economic, and environmental realities.

It also entails liability risks arise when parties seek compensation for climate-related harms, often through litigation against high third category implicates banks not merely as passive intermediaries but as potentially limiting corporations or, increasingly, against the financial institutions that fund them. This enables actors for financing activities that contribute to climate change or exacerbate its impacts. As it is discussed later in this article, the recent cases in Europe and elsewhere on climate change litigations signal growing trend of holding financial institutions accountable for inadequate climate risk management or complicity in environmental harm.

Understanding these risk categories is a prerequisite for evaluating the adequacy of Nigeria's legal and regulatory responses in the banking industry in nexus with climate change effects.

3. LEGAL AND REGULATORY LANDSCAPE

The legal framework governing climate change and banking in Nigeria is composite of international commitments, national legislation, sectoral regulations, and prudential guidelines and regulations issued by the CBN. This section considers and discusses the key instruments.

Nigeria is a party to the United Nations Framework Convention on Climate Change (UNFCCC) (ratified in 1994), the Kyoto Protocol (ratified in 2004), and the Paris Agreement (ratified in 2017). Nigeria filed its Nationally Determined Contribution (NDC) under the Paris Agreement, pledging to cut greenhouse gas emissions by 20% below business-as-usual by 2030, with conditional targets of up to 45% with international assistance. These commitments from different administrations of Nigerian government create an expectation that national policies, including financial regulation, will align with climate change objectives.

While international climate change treaties do not directly bind Nigerian banks, they influence domestic policy and may be invoked in judicial proceedings to interpret constitutional or statutory environmental provisions. In the landmark case of *The Registered Trustees of the Socio-economic and Accountability Project (SERAP) v. Nigeria & UBEC* (ECOWAS Court of Justice, 2012), the court relied on Nigeria's international human rights and environmental obligations to hold the government accountable for failing to address environmental degradation in the Niger Delta region of the country. The court also determined that Nigeria's oil contamination in the Niger Delta infringed the rights to a healthy environment, development, and health (African Charter on Human and Peoples Rights, 1981). The court concluded that Nigeria did not enforce environmental laws, to hold oil companies responsible, or to stop oil-related harm emanating from the extractive industry in the region.

In Nigeria, there are several domestic legislation on the environment and climate change. The Constitution of the Federal Republic of Nigeria 1999 does not contain explicit right to a clean environment, but Section 20 have been interpreted to encompass environmental rights. Although, Section 20 provides that "the State shall protect and improve the environment and safeguard the water, air and land, forest and wildlife of Nigeria," Section 33 (right to life) and Section 34 (right to dignity of human person) have been technically invoked in environmental litigations in various courts in Nigeria. As it was in the prominent case of *Gbemre v. Shell Petroleum Development Company Nigeria Limited and Others* (2005), the Federal High Court held that the right to life includes the right to a healthy environment and that gas flaring violated the applicants' constitutional rights.

There is also the Climate Change Act 2021 is Nigeria's flagship climate legislation. It establishes the National Council on Climate Change (NCCC) and mandates the development of a National Climate Change Action Plan. Key provisions relevant to banking include Section 4(1)(c) of the Climate Change Act, 2021 which provides that the Council is tasked with ensuring that the financial sector incorporates climate change risks into its investment decisions. While Section 5 of the Climate Change Act, 2021 also provides that the Council is empowered to issue guidelines for climate-related financial disclosures. Section 11 of the Climate Change Act, 2021 imposes carbon budget and requires businesses to submit annual reports on their emissions and climate risk management. Although the Act does not explicitly mandate banks to adopt climate risk management, it creates a statutory basis for the CBN and other financial regulators to require such practices, which by extension relate with the banking industry. Implementation has been slow, but the Climate Change Act, 2021 represents a foundational legal instrument for the banking industry.

The National Environmental Standards and Regulations Enforcement Agency (NESREA) Act 2007 empowers NESREA, the agency, to enforce environmental standards as noted by Ilesanmi (2019). The National Oil Spill Detection and Response Agency (NOSDRA) Act 2006 establishes NOSDRA to manage oil spills. These agencies have roles in addressing physical risks that affect banking, particularly in the Niger Delta where most of the oil and gas extractive activities take place in Nigeria. However, enforcements of these legal instruments and regulations have been weak, and banks have rarely been held accountable for financing entities that violate environmental laws or climate related matters.

3.1 Central Bank of Nigeria Regulatory Framework

The CBN, as the apex financial regulator, has issued several instruments that focus on how banks should manage climate and environmental risks. In 2012, the CBN, in collaboration with the Nigerian Bankers' Committee and the United Nations Environment Programme Finance Initiative (UNEP FI), launched the Nigerian Sustainable Banking Principles, 2012. The nine principles require banks to integrate environmental and social risks into credit risk management, to develop environmental and social management systems, to promote transparency and disclosure and to build capacity in sustainable banking. These principles were voluntary, but have been progressively incorporated into prudential guidelines. The CBN has conducted periodic assessments, though compliance remains uneven among the banks in Nigeria. If these principles are rekindle with current climate change realities in Nigeria, they will sustain climate change adaption and mitigation policies of Nigerian government.

In 2017, Nigeria became the first African country to issue a sovereign green bond (The Nigerian Green Bond Market Development Programme Impact Report, 2018-2021). The CBN, together with the Debt Management Office and the Securities and Exchange Commission (SEC), has promoted green bond issuance. With the bond projection, Nigeria can now fund eligible projects, assets, and expenditures that will support the fulfilment of the nation's sustainable development needs and meet international commitments. The Framework also emphasises Nigeria's dedication to the growth of the Sustainable Bond market. Banks have participated as issuers and investors. The CBN has also issued guidelines for green bonds, which require issuers to disclose use of proceeds and environmental impacts.

In 2025, the Federal Government of Nigeria has made another Sustainable Bond Framework which has been developed in line with the International Capital Market Association (ICMA) Green Bond Principles (2021), Social Bond Principles (2023), Sustainability Bond Guidelines (2021), and additional ICMA guidance on bonds to finance the Sustainable Blue Economy (2023) have all influenced the development of the Sustainable Bond Framework if applicable, individual issuances may adhere to the Climate Bonds Standard and Certification

Scheme of the Climate Bonds Initiative (Federal Republic of Nigeria Sustainable Bond Framework, 2025).

In November 2023, the CBN issued the 'Guidance Note on Climate-Related Risk Management for Banks and Other Financial Institutions.' This is a landmark document that:

a. Classifies climate risks as financial risks and requires integration into risk management frameworks.
b. Mandates banks to adopt the Task Force on Climate-related Financial Disclosures (TCFD) framework for governance, strategy, risk management, and metrics.
c. Requires banks to conduct scenario analysis and stress testing.
d. Sets timelines for compliance, with full implementation expected by 2025.

These guidelines represent a significant step toward aligning Nigerian banking regulation with global best practices. However, they remain administrative directives rather than primary legislation, and enforcement mechanisms are not fully specified. The CBN's prudential guidelines for deposit money banks require robust risk management, but historically they did not explicitly address climate risk. The 2023 guidance note fills this gap by amending the risk management framework to include climate-related risks under credit, operational, and market risk categories.

The Securities and Exchange Commission (SEC) has issued rules on sustainability disclosure for listed companies, including banks. The National Insurance Commission (NAICOM) has also introduced sustainable insurance principles. A whole-of-government approach is emerging, but coordination remains fragmented.

4. IMPACTS OF CLIMATE CHANGE ON THE NIGERIAN BANKING INDUSTRY

Having established the legal and regulatory backdrop, this section examines how climate change materially affects Nigerian banks. The impacts are analysed through the lens of physical, transition, and liability risks, with practical illustrations.

Flooding is the most recurrent climate-related hazard in Nigeria. The 2012 floods affected 30 states, displaced over 2 million people, and caused damages estimated at ₦2.6 trillion (approx. US$6.5 billion at the time). More recent floods in 2022 again submerged vast agricultural land and urban areas (Umar, and Gray, 2023). For banks, the implications are severe: Agricultural loans: Agriculture accounts for approximately 25% of Nigeria's GDP and receives substantial bank credit under the CBN's Agricultural Credit Guarantee Scheme (Nwankwo, Ikehi, Ejiofor, and Ifeanyieze, 2024). Floods destroy crops, kill livestock, and render farmers unable to service loans. The CBN has occasionally granted forbearance, but repeated losses weaken bank balance sheets. Mortgage and real estate: Flooding damages property used as collateral. In coastal cities like Lagos and Port Harcourt, sea-level rise and storm surges threaten waterfront real estate, eroding collateral values. Business interruption: Small and medium enterprises (SMEs) in flood-prone areas face operational disruptions, leading to default. Banks with concentrated portfolios in flood-prone zones or in the agricultural sector are particularly exposed. If stress tests is conducted by the CBN it will likely reveal significant vulnerability.

In Northern Nigeria, desertification and land degradation reduce agricultural productivity as opined by Ilesanmi, (2019). The Lake Chad Basin, once a major source of irrigation and fishing, has shrunk by 90%. Banks with lending exposure to agriculture in the north face similar credit risks. Additionally, desertification fuels farmer-herder conflicts, creating social instability that indirectly affects loan repayment.

The Niger Delta has experienced decades of oil spills and gas flaring, which have destroyed mangroves, contaminated water sources, and harmed fishing and farming communities as opined by Nyekwere and Ilesanmi (2017). Several multinational oil companies have been sued. Banks that have lent to oil majors or to contractors may face indirect physical risks: litigation costs and cleanup liabilities can impair borrowers' financial health. Moreover, banks that hold collateral in oil-impacted areas may find such assets devalued.

The adoption of transition risks and stranded assets and policy shifts. Nigerian banks have deep exposure to the fossil fuel sector. As of 2024, outstanding loans to the oil and gas sector accounted for roughly 25–30% of total bank credit (Tunji, 2024). Transition risks arise from global energy transition: As developed economies and international financial institutions pivot away from fossil fuels, demand for Nigerian crude may decline, affecting government revenues and the viability of oil companies. Carbon pricing and regulation: The Climate Change Act 2021 envisions a carbon pricing mechanism. If implemented, it could raise costs for high-emitting borrowers. Reputational pressure: International investors increasingly screen out banks with high fossil fuel exposure. Nigerian banks seeking foreign capital may face higher costs of funding if they do not manage transition risks. The CBN's guidance note explicitly recognises transition risk and requires banks to assess their exposure to high-carbon sectors.

Liability risks for Nigerian banks arise both directly from claims that a bank failed to manage climate risks in its lending and indirectly if banks are being sued for financing environmentally harmful activities. While direct climate litigation against banks is still nascent in Nigeria, global trends suggest that this will become a significant risk factor in the offing in Nigeria that implies that banks may be sued for:

Inadequate disclosure due to failure to disclose climate risks to shareholders or regulators could give rise to claims under the Companies and Allied Matters Act (CAMA) 2020 or securities regulations. It also exposes them to liability for complicity in environmental harm if a bank funds a project that causes significant environmental damage, and the bank had knowledge or should have known of the risks, it may be held liable under tort law or as a joint tortfeasor. It can also attract fiduciary duty breaches. Directors of banks have a duty to act in the best interests of the company. Ignoring climate risks could be framed as a breach of fiduciary duty. There are recent cases from foreign jurisdictions to support the risks stated above as it is discussed later in this article in Section 5 in which the cases illustrate the growing traction of such claims.

4.1 Case Study: Banking Exposure in the Niger Delta

To concretise the impacts, one can consider a hypothetical but representative scenario where A consortium of Nigerian banks extended a syndicated loan facility to an oil exploration company operating in the Niger Delta. If the company's operations involve routine gas flaring with history of oil spills, if there is a major spill that contaminates the water supply of several communities, the company faces numerous lawsuits and may be forced to halt operations. Subsequently, the company might default on the loan facilities taken from the banks. The banks may take possession of the collateral, oil infrastructure assets, but find them to be devalued due to cleanup liabilities and community protests.

The above scenario encapsulates the convergence of physical, transition, and liability risks. The banks' credit risk materialise because of environmental event; the collateral value is impaired; and the banks face reputational damage. In some instances, banks have also been named in community lawsuits for "aiding and abetting" environmental degradation by providing financing.

The preceding section analyses the legal authorities, regulations, and judicial decision which have shaped the legal landscape for climate-related risks in Nigerian banking. It also examines influential foreign case laws that may guide Nigerian courts or create transnational liability risks. The case of *Jonah Gbemre v. Shell Petroleum Development Company of Nigeria* (2005). This landmark case was brought by the late environmental activist Jonah Gbemre and several communities against Shell Petroleum Development Company (SPDC). The plaintiffs challenged gas flaring in the Niger Delta as a violation of their constitutional rights to life and human dignity. Nwokorie, J., held that gas flaring violated the right to life guaranteed by Section 33(1) of the 1999 Constitution, as well as the right to a healthy environment derived from Section 20. The court ordered Shell to cease gas flaring in the affected communities unless it could prove that flaring was safe.

This decision has significance in banking. While the case did not involve banks, it established a strong judicial precedent that environmental harm can constitute a constitutional violation. Banks that finance projects involving gas flaring or other environmentally destructive practices could be exposed to similar arguments in future litigation. The decision also demonstrates Nigerian courts' willingness to draw on national and international environmental legal frameworks on climate or environmental inclined litigations.

There is also the decision in *SERAP v. Federal Republic of Nigeria*. The Socio-Economic Rights and Accountability Project (SERAP) sued the Nigerian government for failing to prevent environmental damage in the Niger Delta caused by oil extraction, alleging violations of the African Charter on Human and Peoples' Rights (ratified by Nigeria). The ECOWAS Court held that the government's failure to regulate the oil industry adequately constituted a violation of the right to a general satisfactory environment under Article 24 of the African Charter. The case underscores that the Nigerian state has a positive obligation to regulate environmental harm. This obligation extends to financial regulators such as the CBN. If the CBN fails to ensure that banks manage climate risks, it could face legal challenges. Moreover, the case strengthens the argument that banks, as regulated entities, have a duty to ensure their operations do not contribute to environmental rights violations.

SERAP v. Nigerian National Petroleum Corporation (2025) Socio-Economic Rights and Accountability Project (SERAP) has filed a lawsuit against the Nigerian National Petroleum Company (NNPC) Limited over the "failure to account for the alleged missing or diverted N22.3 billion, USD$49.7 million, £14.3 million and €5.2 million oil money." While this case is still *sub judice*, its final decision by the court will add value to the climate change and banking industry jurisprudence in Nigeria. The suit followed the damning allegations documented in the 2022 audited report by the Auditor-General of the Federation, which was published on 9 September 2025. SERAP is seeking: "an order of mandamus to direct and compel the NNPCL to account for the alleged missing or diverted N22.3 billion, USD$49.7 million, £14.3 million, and €5.2 million oil money."

It is imperative to note that there are several ongoing cases targeted at NNPCL and other state actors for environmental damage. While these cases have not yet finalised, they reflect increasing judicial activism on climate change and environmental related matters which are directly or indirectly affecting banking industry. It is plausible that future cases will name banks that financed oil operations as co-defendants.

One must indicate here that Nigerian courts are not bound by decisions of foreign courts, but they often cite persuasive foreign authorities. Several recent cases from other jurisdictions have profound implications for banks' climate-related liabilities. In *Milieudefensie v. Royal Dutch Shell plc (District Court of The Hague,* (2021), in a watershed decision, the Dutch court ordered Shell to reduce its CO_2 emissions by 45% by 2030 relative to 2019 levels, across its entire value chain (Scope 1, 2, and 3). While the case was against an oil company, not a bank, the reasoning extended to "scope 3" emissions—those generated by the company's products—which includes emissions from customers. If oil companies are required to reduce scope 3 emissions, banks that finance them could be seen as facilitating those emissions. The judgment has emboldened environmental groups to target financial institutions.

According to the Court of Appeal, public law instruments do not require explicit, enforceable emissions reduction objectives for individual corporations, even while they set crucial foundations for corporate climate responsibility. Instead, corporations are free to incorporate reduction objectives "where appropriate" into their preparations for the climate transition. Companies are free to choose their own methods for cutting emissions within the framework of their required climate transition plans, as long as these methods are in line with the objectives outlined in the Paris Agreement. These targets are not fixed nor legally obligatory. That point can help bank industry in Nigeria to take decisive positions toward climate change friendly policies in their general transactions and activities.

In *ClientEarth v. Shell plc (UK High Court, 2023)*, ClientEarth, an environmental organisation that wanted to use the law to fight climate change was the Claimant. It was able to request permission to file a derivative claim against the directors since it owned 27 ordinary shares in the international oil corporation Shell. ClientEarth claimed that by failing to take appropriate measures in response to climate concerns for Shell's financial position, the company's directors had violated their obligations. These hazards were described as physical, commercial, sociological, and regulatory. These included shifting regulatory frameworks that resulted in limitations on greenhouse gas emissions and growing public apprehension about fossil fuels, which led to a decline in demand and may cause its oil and gas assets to become stranded and unprofitable. Nigerian banking directors should take note as it is provided under CAMA 2020, where directors have fiduciary duties to act in the best interests of the company. A failure to manage climate risks could expose them to similar claims.

McVeigh v. Retail Employees Superannuation Trust (Australia, 2020), A pension fund member sued the trustee for failing to disclose climate-related risks. The court did not decide on liability, but the case led to regulatory reforms requiring disclosure. The parties in the suit reached a settlement where the Australian pension fund agreed to incorporate climate change financial risks in its investments and implement a net-zero by 2050 carbon footprint goal. In Nigeria, the SEC and CBN are moving toward mandatory climate disclosure, partly in anticipation of such litigation which may later snowball to affect the general banking industry in Nigeria.

5. REGULATORY RESPONSES AND INDUSTRY INITIATIVES

In response to growing awareness of climate risks, the CBN and other stakeholders have taken steps to green the financial system. This section evaluates the efficacy of these responses. One of such responses is through the adoption of sustainable banking principles implementation. Since 2012, Nigerian banks have adopted environmental and social (E&S) management systems. Many have established sustainability departments, published sustainability reports, and incorporated E&S screening into credit processes. The Nigerian Bankers' Committee has conducted annual assessments. However, a 2023 review by the CBN revealed that while tier-1 banks had made progress, smaller banks lagged in capacity and data infrastructure.

Also, the adoption of the green bond market in Nigeria remains small but growing. As of 2025, total green bond issuance exceeded ₦200 billion. Banks such as Access Bank, Zenith Bank, and First Bank have issued green bonds to fund renewable energy, energy efficiency, and sustainable agriculture projects. The programme has raised awareness and provided a mechanism for banks to align their funding with climate objectives.

Furthermore, the adoption of the CBN Guidance Note on Climate-Related Risk Management (2023) has been a lever. This guidance is the most significant regulatory development to date. It mandates governance: Boards of banks must oversee climate-related risks and approve strategies, strategy adoption as banks must assess climate-related risks and opportunities in the short, medium, and long term. It also mandates risk management by ensuring that banks must identify, measure, monitor, and control climate risks as part of their enterprise risk management. Metrics and targets: Banks must disclose greenhouse gas emissions (Scope 1 and 2, and Scope 3 where material) and set targets.

The guidance sets a phased implementation timeline: initial self-assessment by end-2024, full integration into risk frameworks by end-2025. The CBN has indicated that it will conduct supervisory reviews and, ultimately, impose sanctions for non-compliance.

Task Force on Climate-related Financial Disclosures (TCFD) Adoption and Disclosure. The guidance explicitly requires alignment with the TCFD framework. The TCFD's four pillars are governance, strategy, risk management, and metrics. These have become the global standard. By mandating TCFD-aligned disclosures, the CBN aims to enhance transparency and enable market discipline. Several Nigerian banks have already published TCFD reports, though the quality varies and inadequate. The CBN has begun developing climate-stress testing capabilities. In collaboration with the NGFS, it has conducted pilot exercises to assess how climate scenarios would affect bank capital adequacy. Preliminary results indicate that a severe climate scenario, like rapid energy transition combined with recurrent flooding, could reduce average bank capital ratios by 2-5 percentage points. These exercises are expected to become a routine part of the CBN's supervisory toolkit. Nigeria participates in the NGFS, the Sustainable Banking Network, and the African Sustainable Finance Alliance. This engagement facilitates knowledge transfer and alignment with international standards.

Despite these initiatives, it is noted that shortcomings that relate to enforcement gap, which indicates that the CBN has not yet publicly sanctioned any bank for inadequate climate risk management. There is also capacity constraints in which many banks lack the data and expertise to conduct scenario analysis or measure Scope 3 emissions. The short-term focus of the banking industry which primarily remains heavily oriented toward short-term profitability may understate long-term climate risks. Finally, the fragmentation of many regulatory bodies like the CBN, SEC, NAICOM, and NCCC which operate with limited coordination will continually leading to duplicative or inconsistent requirements on climate change decisions in the Nigerian banking industry.

6. CHALLENGES AND GAPS

A robust legal and regulatory framework is essential, but several structural and institutional challenges hinder effective management of climate risks in Nigerian banking. Absence of a dedicated climate-finance law: The Climate Change Act 2021 does not give the CBN explicit powers to regulate climate risks. The CBN's guidance, while influential, lacks statutory force. Also, there is weak enforcement mechanisms. NESREA and NOSDRA have historically been underfunded and constrained by political interference. Environmental violations often go unpunished, reducing the incentive for banks to screen borrowers.

Furthermore, there is inadequate of judicial experience; Nigerian courts have limited exposure to complex climate and financial litigation. Specialised tribunals or commercial divisions with environmental expertise are absent. Hence**,** Climate risk assessment requires granular data on borrowers' emissions, physical asset locations, and supply chains. Such data are often unavailable or unreliable. Banks struggle to quantify exposure to flood zones or to calculate financed emissions. While top-tier banks have dedicated sustainability teams, many mid-size and smaller banks lack personnel with expertise in climate science, environmental law, and climate-related financial analysis. The CBN's own supervisory staff also require training to assess climate risk management effectively.

Nigeria's energy policy presents a dilemma: on one hand, the government seeks to attract investment in fossil fuels; on the other, it has made climate commitments. This inconsistency creates uncertainty for banks. A bank that reduces lending to oil and gas may lose business, while a bank that continues lending may face transition risks. Moreover**,** Nigeria's economy is heavily dependent on agriculture and extractive industries, both highly exposed to climate change. Diversification is slow. Banks are thus forced to continue lending to these sectors, amplifying their climate exposure.

7. CONCLUSION AND RECOMMENDATIONS

Climate change is no longer an abstract environmental issue; it is a material financial risk that threatens the stability and sustainability of Nigeria's banking industry. This article has demonstrated that Nigerian banks are exposed to significant physical, transition, and liability risks through their lending to agriculture, real estate, and the fossil fuel sector. The legal and regulatory landscape has evolved considerably in recent years, with the Climate Change Act 2021 and the CBN's 2023 Guidance Note on Climate-Related Risk Management representing important milestones. However, substantial gaps remain in enforcement, judicial preparedness, and the statutory basis for climate-related financial regulation. The path forward requires a coordinated effort by the legislature, regulators, the judiciary, and the banking industry. Legislative reforms are needed to embed climate risk management into the core of prudential regulation. The CBN must move from guidance to enforceable rules, backed by robust supervisory mechanisms. Nigerian courts must develop expertise in climate and financial law to handle emerging disputes. And banks themselves must invest in data, analytics, and governance structures that treat climate risk with the same gravity as credit and market risk. Addressing climate effects on banking is not merely a matter of risk mitigation; it is also an opportunity to align the financial system with sustainable development goals. By proactively managing climate risks, Nigerian banks can enhance their resilience, attract international capital, and contribute to a just transition to a low-carbon economy. The legal framework is the bedrock upon which this resilience must be built. The time to act is now, before the physical and transition risks crystalise into systemic financial crises.

To address the identified challenges and to align with global best practices, a comprehensive set of legal and policy reforms is necessary.

Enact a Climate-Finance Integration Act: Parliament should enact legislation that explicitly mandates the CBN, SEC, and other financial regulators to incorporate climate-related risks into prudential regulation. This Act should: Require banks to conduct climate stress tests regularly; Empower the CBN to impose capital add-ons for high-carbon exposures; Create a legal duty for bank directors to consider climate risks.

Moreover, amend the Companies and Allied Matters Act: Clarify that directors' duties include the consideration of material climate-related risks and that failure to do so can constitute a breach.

There is the urgent need to strengthen Environmental Laws. Increase the enforcement powers of NESREA and NOSDRA, and establish a system of environmental courts to expedite cases.

Also, there is need for the regulator to ensure mandatory climate disclosures: The CBN and SEC should jointly issue rules requiring banks and listed companies to disclose climate risks in line with the International Sustainability Standards Board (ISSB) IFRS S2 (Climate-related Disclosures). Such disclosures should be audited. Moreover, Climate-Related Capital Requirements: The CBN should develop a framework to incorporate climate risk into Pillar 1 capital requirements (under Basel III/IV), using the NGFS guidance. Banks with high exposure to climate-sensitive sectors should hold additional capital. Specialised Climate and Environmental Divisions: Create divisions within the Federal High Court dedicated to environmental and climate cases, with judges trained in climate science and finance.

Moreover, The CBN, in collaboration with the Chartered Institute of Bankers of Nigeria (CIBN), should mandate annual climate risk training for bank directors and senior management. The CBN should establish a climate risk data repository, leveraging geospatial data and collaboration with NIMET (Nigerian Meteorological Agency) and other agencies. Portfolio Alignment Metrics: Encourage banks to adopt science-based targets and to report financed emissions using the Partnership for Carbon Accounting Financials (PCAF) methodology.

Technical Assistance: Seek continued support from the NGFS, World Bank, and other international partners to enhance stress testing, disclosure frameworks, and green finance instrument and cross-border litigation coordination. Work with international partners to address the extraterritorial reach of climate litigation, ensuring that Nigerian banks are not unduly exposed to foreign judgments without domestic legal safeguards.

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