# Guidance 10a Rubric for qualitative climate risk materiality assessment

British International Investment

| *Domain* | *Guiding questions* | *Low materiality (1)* | *Moderate materiality (3)* | *High materiality (5)* |
|---|---|---|---|---|
| **Physical risk** | ▪ Is the asset/operation in a region identified as highly exposed to acute events or chronic stress? (See Module 8)<br>▪ Has recent hazard mapping indicated significant risk? (See Module 8)<br>▪ Are there robust, site-specific resilience measures in place? | ▪ Asset(s) located in low-risk areas<br>▪ No significant acute/chronic hazard risk in time horizon of interest<br>▪ Robust resilience measures in place and functional | ▪ Asset(s) in areas facing moderate climate hazards, where frequency/severity is increasing in plausible scenario archetypes<br>▪ Partial resilience/adaptation measures in place, but some gaps remain | ▪ Asset(s) in high-risk zones<br>▪ Recent or forecast events likely to cause disruption or losses<br>▪ Insufficient resilience planning and/or adaptive capacity |
| **Transition risk** | ▪ Does the client/sector face potential regulatory tightening? (See Module 9)<br>▪ Is there credible evidence of market shifts, technology disruption or changing consumer preferences? (See Module 9)<br>▪ What is the entity's financed emissions profile relative to sector average/benchmarks? (See Module 10) | ▪ Activity not carbon-intensive and/or well below sector average<br>▪ No foreseeable regulatory or market pressure | ▪ Moderate sectoral exposure; policies/market preferences evolving<br>▪ Entity has some mitigation responses in progress<br>▪ Financed emissions are at or only slightly above sector average/benchmarks | ▪ High-emitting sector and/or entity has material regulatory/market pressure<br>▪ Entity lagging behind peers and sector benchmarks<br>▪ Project represents a large, unmanaged transition exposure |
| **Impact potential** | ▪ If a weather event or transition shock were to occur, what is the estimated downside as % of asset-to-loan value?<br>▪ Has a scenario assessment been done? (See Modules 8, 9, 21)<br>▪ Are impacts likely to be temporary or permanent?<br>▪ What is the likelihood of asset stranding? | ▪ <1% asset value lost under most plausible scenarios<br>▪ Loan to value ratio is <60% and thus considered low risk<br>▪ Potential losses are easily absorbed and recovery can be quick | ▪ 1-5% asset value lost in plausible scenarios<br>▪ LTV ratio is between 60-80%, thus considered medium risk<br>▪ Potential losses are material but not a systematic threat<br>▪ Potential exists for partial asset devaluation | ▪ >5% asset value lost in most plausible scenarios<br>▪ LTV ratio is >80% and thus considered high risk<br>▪ Severe downside risk with potential for asset stranding<br>▪ Potential for losses to exceed risk appetite |
| **Mitigation plan** | ▪ Has the client produced a transition/adaptation plan? How credible is the plan? (See Modules 11-12)<br>▪ Does the plan align with best practice benchmarks?<br>▪ Are KPIs and governance mechanisms in place? | ▪ Transition/adaptation plan is comprehensive, time-bound, independently verified and on track<br>▪ Management has a high score in terms of transition readiness | ▪ Plan exists but has notable weaknesses<br>▪ Some progress, but evidence of delays or implementation risk | ▪ No credible plan produced, or plan lacks clarity, resources or accountability<br>▪ Management has not demonstrated track record for delivery<br>▪ Otherwise, low confidence in management ability to navigate the transition |
| ***OVERALL SCORING GUIDELINES*** | | ▪ Assign values to low/medium/high materiality with scaling that is consistent with risk appetite.<br>▪ Each scoring should be accompanied by a brief note justifying the choice, referencing specific tools or other evidence<br>▪ Flag overall risk as "material" is any one domain is scored as "high materiality", or if composite risk score exceeds a predefined risk tolerance threshold (e.g. combination of scores in table above could range from 4-20; high materiality could have a cutoff of 15-20.)<br>▪ FIs may add domains (e.g. supply chain risk, reputational risk), adjust thresholds or modify guiding questions to reflect local context or internal policies<br>▪ This structed rubric supports internal/external review, enabling traceability of climate risk judgements<br>▪ Periodic calibration and staff training to be provided based on real-world cases | | |