Guidance 6a: Visualising the equation for physical risk

Definitions of key terms

1. ***Exposure***
   The presence of people, assets or operations in locations that could be adversely affected by climate-related hazards.

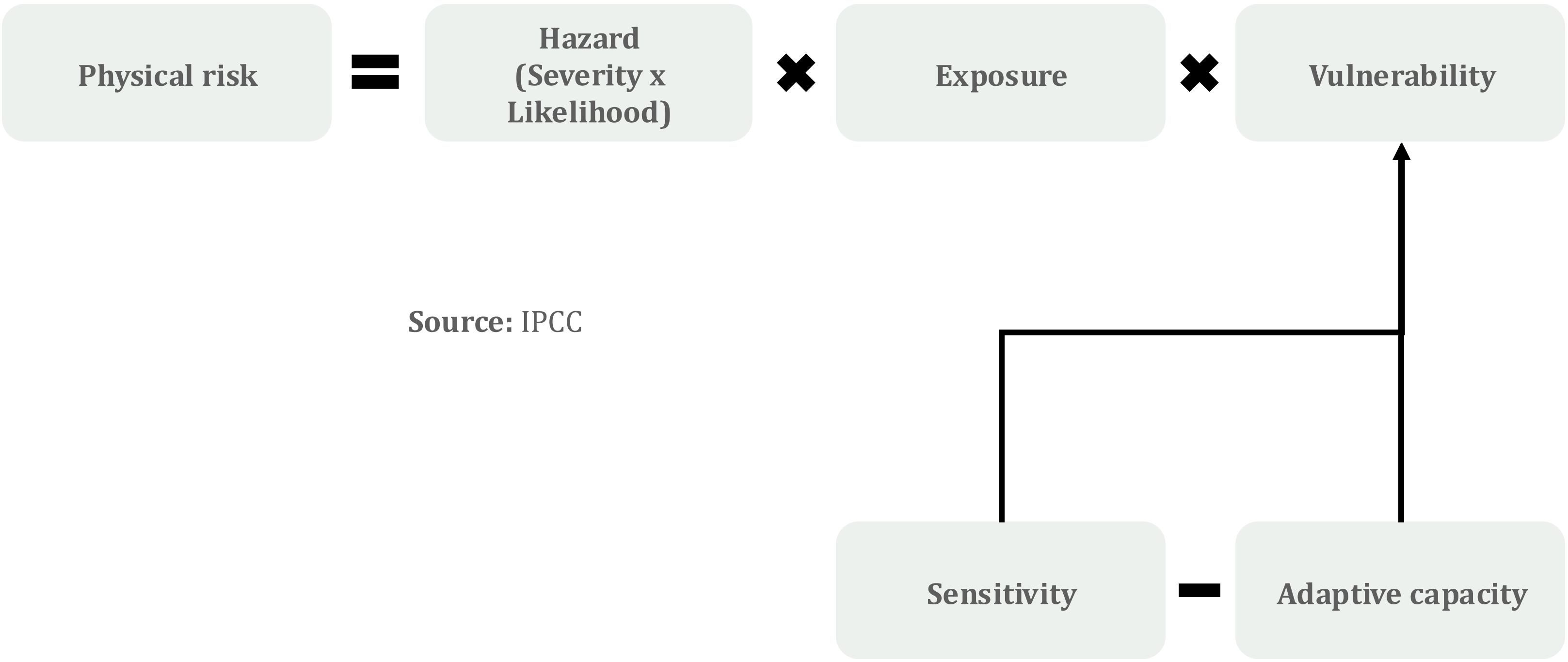
2. ***Sensitivity***
   The extent to which an asset or business is affected when exposed to a hazard.

3. ***Vulnerability***
   The degree to which an asset or system is likely to experience harm due to exposure and sensitivity, moderated by its ability to cope (see adaptive capacity).

4. ***Adaptive capacity***
   The ability of an asset, borrower or community to adjust, cope or reduce potential damages from climate impacts. The inclusion of adaptive capacity considerations into physical risk assessment translates gross climate risk into net climate risk.

5. ***Likelihood***
   The probability of a specific climate hazard occurring in a particular place or timeframe.

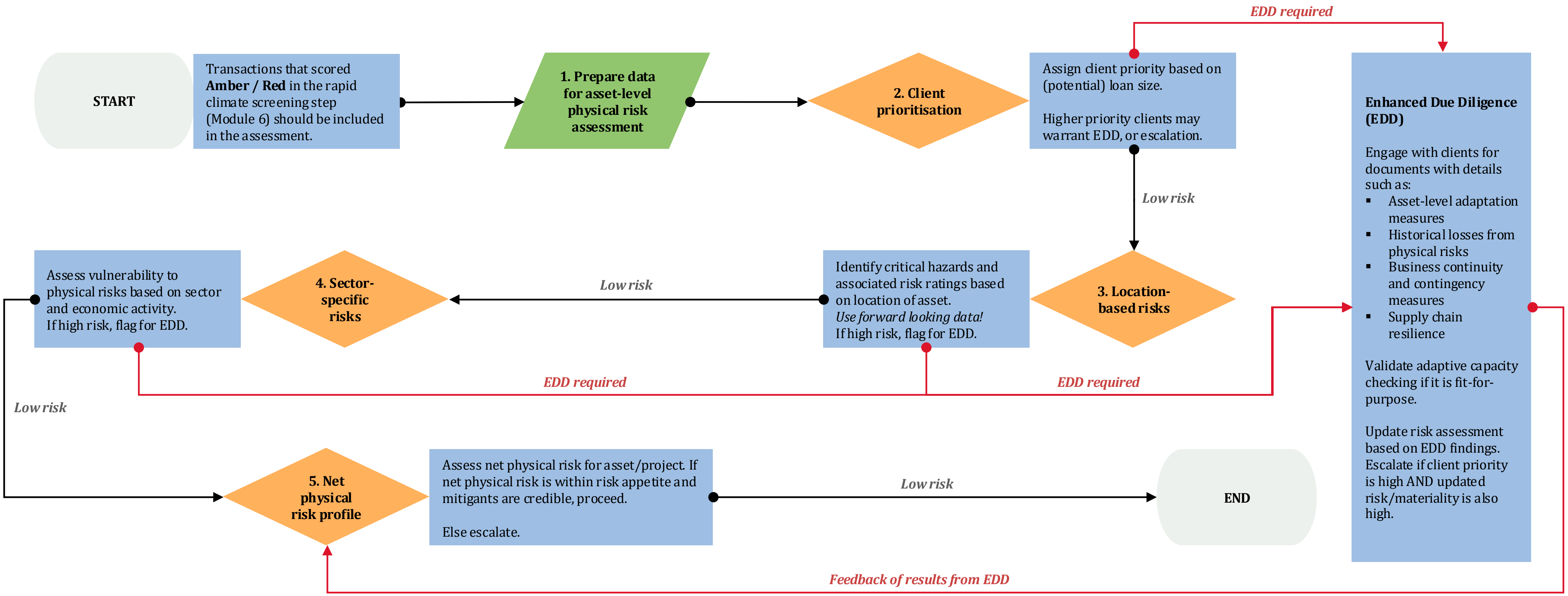
6. ***Severity***
   The magnitude of impact if a hazard materialises.



Source: IPCC

Guidance 6b: Example information flow during asset-level physical risk assessment

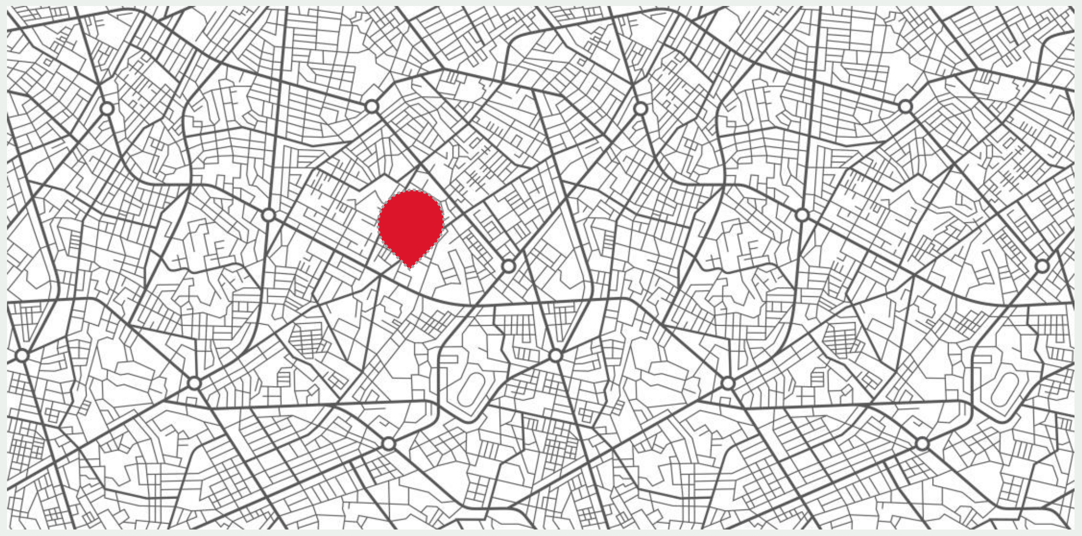
* EDD = enhanced due diligence.



Guidance 6c: Example output from an asset-level physical risk assessment

* EDD = enhanced due diligence.

Client name (ID)	Puur Leather Co (client-2351)
Project name (ID)	proj-1532
Sector and economic activity	NACE C (or any equivalent classification standard) (Manufacturing of leather goods)
Corporate HQ address	Block 55, Brickfield Junction, Salt River, South Africa 7925
Asset location(s)	Unit B86, Selby Industrial Park, 24 Prep St, South Africa 2001
(Potential) Loan size	2,500,000 ZAR



Assessment date and scope	Last updated on DD-MM-YYYY ; RCP8.5 scenario		
Critical hazards for location	***River flooding***	***Tropical storms***	***Heatwave***
Gross risk rating (2011-2040 timeframe)	**Red**	**Amber**	**Amber**
Sector-specific vulnerabilities	▪ Water-intensive production processes ▪ Dependency on upstream animal agriculture value chain ▪ Production and finished goods sensitive to humidity/heat ▪ Logistics vulnerable to flood-related disruptions		
Adaptive capacity (to be completed after EDD)	Limited measures taken; good insurance coverage		
Net risk rating and rationale (to be completed after EDD)	▪ Overall risk rating is **Amber** ▪ Flood risk mitigable with warehouse transfer ▪ Supply chain resilience to be verified with enhanced due diligence (EDD)		
Potential financial risk drivers	▪ Potential asset losses from flooding events ▪ Potential productivity loss from heatwave events ▪ Potential supply chain disruptions from tropical storm events		
Recommendations (to be completed after EDD)	▪ Relocate warehouse to less flood-prone areas ▪ Develop continuity plan with upstream suppliers ▪ Implement heat stress management protocols for factory staff		
Data sources and limitations	See analytics methodology; note that RCP8.5 scenario represents upper-bound risk in the long-term time horizon		

See Module 13 on Scenario analysis

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