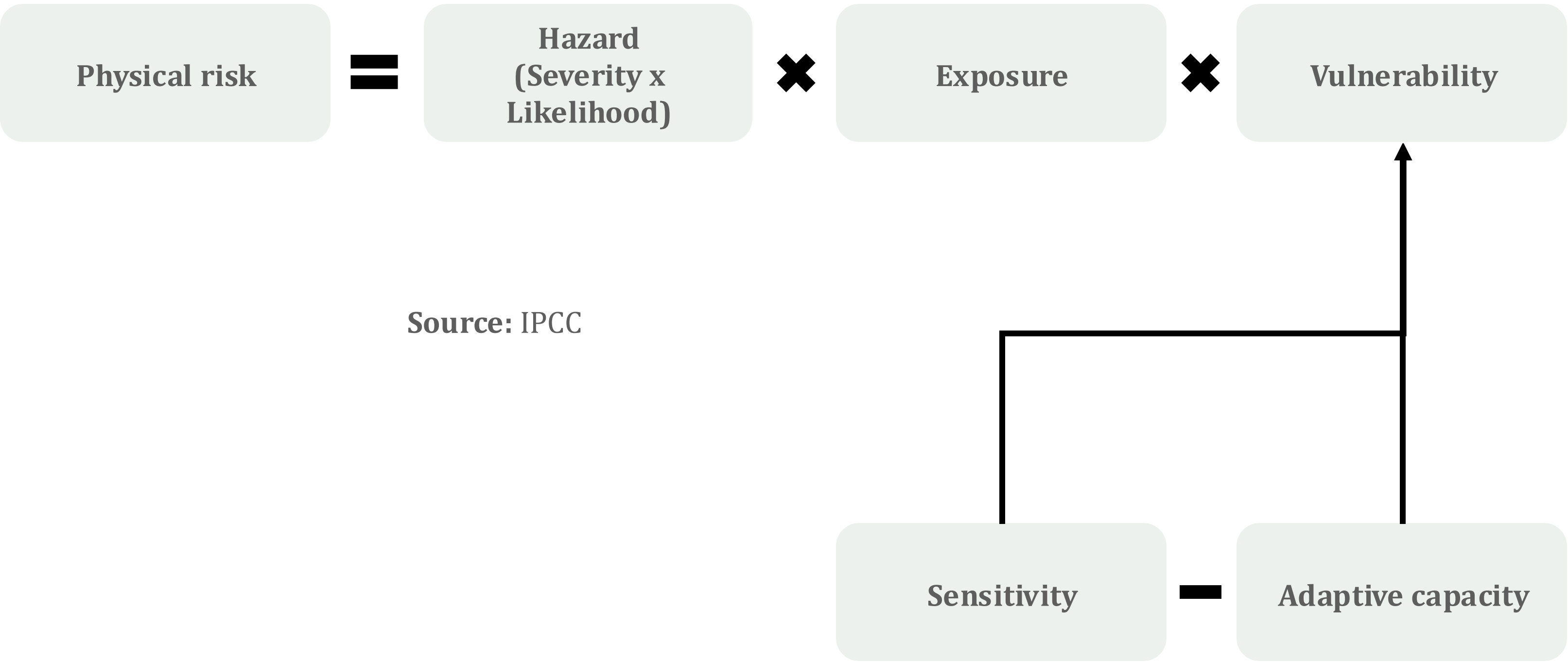
Guidance 6a: Visualising the equation for physical risk

British International Investment

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