Module 4: Risk Management, Start Here

Module 4 Companion Overview (read this first)

For complete beginners. After this short guide you will know what Module 4 is about, what each of its six lessons covers, and how to use the companion booklets that teach every idea from scratch.

Climate damage arrives as a financial loss

Climate change is not only an environmental story. It is becoming a money story for banks, insurers, and investors. When a flood wipes out a farm, the farmer cannot repay the loan, and the bank that made the loan loses money. When a government puts a tax on carbon, a coal power station can suddenly be worth far less than the loan used to build it, and again someone loses money. Module 4 is about how a financial institution spots, measures, and manages these climate-driven money risks before they turn into losses.

This Overview is a map. It will not teach the tools yet; it tells you what is coming and how to find your way. The six lessons that follow do the real teaching, and each one has its own companion booklet written for someone starting from zero.

Start Here: what you need to know first

Three words run through every lesson. Here they are in plain language. If you remember only these three, the rest will make far more sense.

a bank and a loan. A **bank** is a business that takes in money from people who want to save it (called **deposits**) and lends that money to people and companies who want to borrow (called **loans**). The bank earns the difference between the interest it charges borrowers and the interest it pays savers. A loan the bank has handed out is an asset it owns: the borrower owes it back. This matters here because climate damage that stops borrowers from repaying is, for a bank, a direct financial loss.

a portfolio. A **portfolio** is the whole collection of loans or investments an institution holds, looked at together. A bank's **loan portfolio** (or **loan book**) is every loan it has made. The amount tied up in any single borrower or sector is called the **exposure** to that borrower or sector. We care about the portfolio because a shock that hits many loans at once (a flood across a whole farming region) is far more dangerous than one borrower failing on their own.

climate-related financial risk. **Risk** means that the future outcome is not certain and some outcomes cost us money. In finance we usually care about the chance of a loss and how big that loss could be. **Climate-related financial risk** is the part of that uncertainty caused by climate change: storms, floods, heat, and droughts (called **physical** risk), and the costs of moving to a low-carbon economy such as carbon taxes or assets that lose their value (called **transition** risk).

What Module 4 covers: the six lessons

The module moves from naming the problem to measuring it to acting on it. Read the row for a lesson to see, in one line, what it teaches.

Lesson	What it teaches, in one line
1. Climate risks and taxonomy	The kinds of climate risk, and how a storm turns into a loan loss.
2. TCFD and TNFD	The global checklists banks use to assess climate and nature risk.
3. Scenario analysis	How banks imagine several possible futures.
4. Carbon metrics and Climate VaR	Measuring a portfolio's carbon, and turning it into a possible loss number.
5. Stress testing	Pushing a whole bank through a harsh climate future to see if it survives.
6. ASEAN climate vulnerability	Putting it all together for Vietnam, Thailand, and the Philippines.

The lessons build on one another. Lesson 1 gives you the vocabulary of risk. Lessons 2 and 3 give you the frameworks and the futures. Lessons 4 and 5 are where the numbers live. Lesson 6 brings everything home to Southeast Asia.

Manage here, report next door: the Module 4 and Module 5 boundary

It is easy to confuse two jobs that sound similar. Module 4 is about **managing** risk: finding it, measuring it, and deciding what to do about it. The next module, Module 5, is about **reporting** risk: telling investors and regulators what you found and what you are doing. Same facts, different task. A simple rule keeps you oriented: if a topic is about a disclosure rule or a public report, it belongs to Module 5, not here. If it is about a decision the bank makes internally, it is Module 4.

How to use these companions

Each lesson comes in three layers, and they are meant to be read in order.

1. The **companion** teaches every idea from scratch and assumes you know nothing about finance or climate science. Start here.
2. The **handout** (the 44-page reader) then covers the same ground with more technical detail, now that the companion has taught you the words.
3. The **slide deck** is the lecture itself, with the full picture and the advanced extensions.

Inside every companion you will find the same five parts, so you always know where you are: a *Start Here* box with the words you need, the *core idea* built from the ground up, one *worked example* with every step shown, a *bridge* that points you to the matching handout chapter, and a *Check Yourself* quiz to test what stuck.

Now you are ready

Ready to begin? Open Companion 1, "Climate Risks and Taxonomy." It teaches the three parts of a loan loss and the language every later lesson reuses. There is no worked example in this Overview on purpose: it is a map, and the journey starts at Lesson 1.

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