# Strengthening Climate-related Risk Management and Realising Opportunities

Axis Bank's robust Risk Management Framework is overseen by its Board and guided by well-defined policies and supported by an independent Risk function.

**The Bank's Risk Management approach is underpinned by four pillars**

- **Risk Philosophy**
- **Risk Appetite**
- **Risk Identification and Mitigation**
- **Risk Culture**

## Our Approach to Climate-related Risks

The Intergovernmental Panel on Climate Change (IPCC) in its Sixth Assessment Report (AR6), published March 2023, builds on the findings published in the Fifth Assessment Report (AR5) published in 2018 that highlighted the unprecedented scale of the challenge of keeping global warming to below 1.5 °C. Since then, GHG emissions into the atmosphere have continued to rise and existing commitments and plans in place are proving to be more and more inadequate. The AR6 brings to focus the losses and damages that much of the world is experiencing already, with the vulnerable people and eco-systems "disproportionately affected".

As per the IPCC Report, adverse impacts from climate change, attributed to human activity, will continue to intensify, as categorised in the Report as below.

### Observed widespread and substantial impacts and related losses and damages attributed to climate change

**Water Availability and Food Production**
- Physical water availability
- Agriculture/crop production
- Animal and livestock health and productivity
- Fisheries yields and aquaculture production

**Health and Well-being**
- Infectious diseases
- Heat, malnutrition and harm from wildfire
- Mental health
- Displacement

**Cities, Settlements and Infrastructure**
- Inland flooding and associated damages
- Flood/storm Induced damages in coastal areas
- Damages to infrastructure
- Damages to key economic sectors

**Biodiversity and Ecosystems**
- Terrestrial ecosystems
- Freshwater ecosystems
- Ocean ecosystems

Includes changes in ecosystem structure, species ranges and seasonal timing

**Key**

**Observed increase in climate impacts to human systems and ecosystems assessed at global level**
- Adverse impacts
- Adverse and positive impacts
- Climate-driven changes observed, no global assessment of impact direction

**Confidence in attribution to climate change**
- High or very high confidence
- Medium confidence
- Low confidence

Source: The Intergovernmental Panel on Climate Change (IPCC)

Impacts are driven by changes in multiple physical climate conditions, which are increasingly attributed to human influence.

**Medium confidence**
- Increase in agricultural and ecological drought
- Increase in fire weather
- Increase in compound flooding

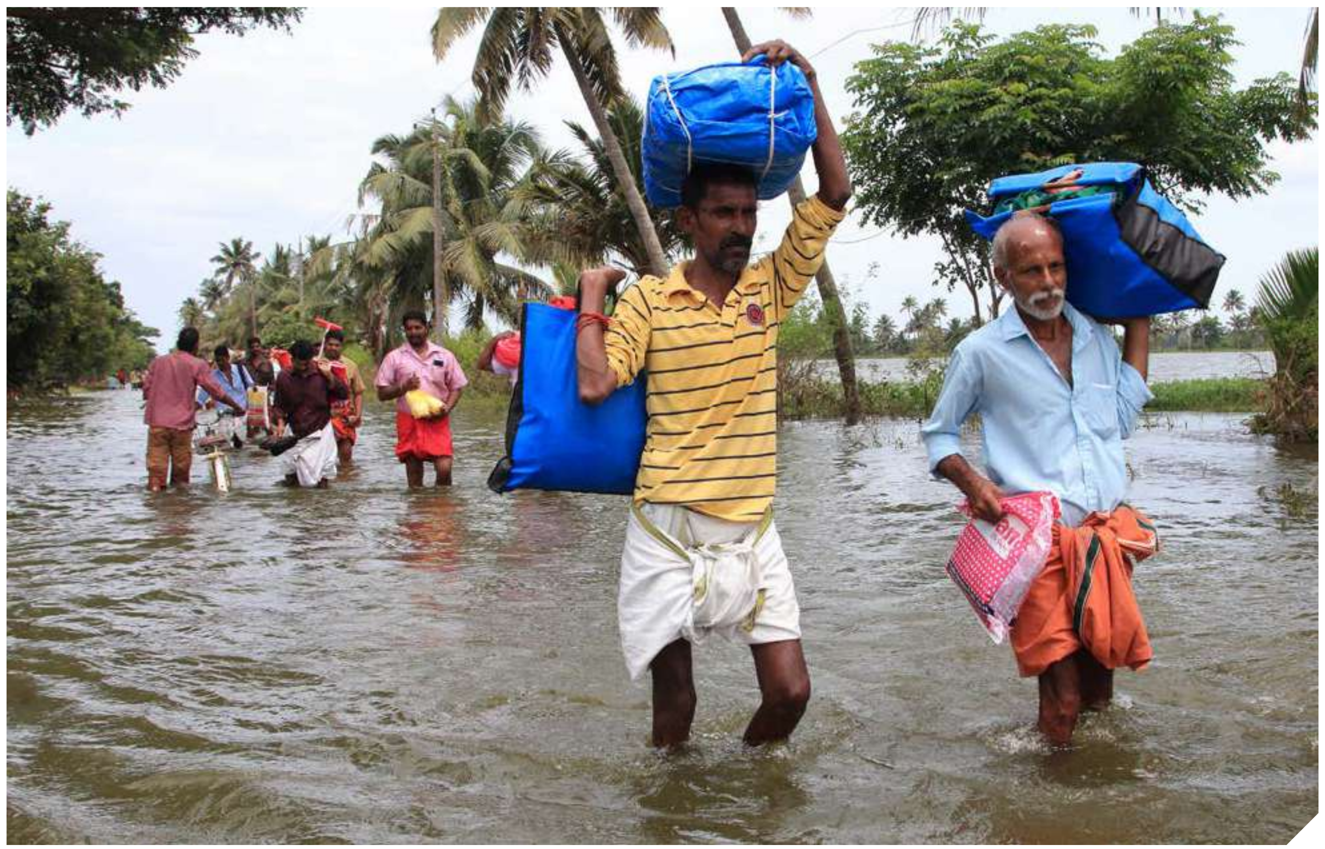
**Likely**
- Increase in heavy precipitation

**Very likely**
- Glacier retreat
- Global sea level rise

**Virtually certain**
- Upper ocean acidification
- Increase in hot extremes

India has been widely identified, in multiple studies, as among the most vulnerable land masses to climate change. Over the last decade, data shows that the incidences of extreme climate events in the country have risen steadily, and without adequate adaptation and mitigation measures, will continue to intensify. Now with the world's largest population, millions are vulnerable to floods, droughts, heat-related ill-health, and subsequent impact on agriculture and overall economic activity.

As a financial institution in India, we recognise that climate-related risks play out within credit, operational, market and reputational risks, among others. We are also cognizant of the fact that environmental and social risks to our business operations, portfolio and personnel, including those due to climate change, are material and warrant due recognition and independent assessment. This assessment is in line with the recommendations made by the TCFD.



## Transmission Channels

Climate Risks to Financial Risks

### Climate Risks

**Transition Risks**
- Policy and regulation
- Technology development
- Consumer preferences

**Physical Risks**
- Chronic (e.g. temperature, precipitation, agricultural productivity, sea levels)
- Acute (e.g. heatwaves, floods, cyclones and wildfires)

### Economic Transmission Channels

**Micro**
**Affecting individual businesses and households**

**Businesses**
- Property damage and business disruption from severe weather
- Stranded assets and new capital expenditure due to transition
- Changing demand and costs
- Legal liability (from failure to mitigate or adapt)

**Households**
- Loss of income (from weather disruption and health impacts, labour market frictions)
- Property damage (from severe weather) or restrictions (from low-carbon policies) increasing costs and affecting valuations

**Micro**
**Aggregate impacts on the macro-economy**
- Capital depreciation and increased investment
- Shifts in prices (from structural changes, supply shocks)
- Productivity changes (from severe heat, diversion of investment to mitigation and adaptation, higher risk aversion)
- Labour market frictions (from physical and transition risks) Socioeconomic changes (from changing consumption patterns, migration, conflict)
- Other impacts on international trade, government revenues, fiscal space, output, interest rates and exchange rates.

### Financial Risks

**Credit Risk**
- Defaults by businesses and households
- Collateral depreciation

**Market Risk**
- Repricing of equities, fixed income, commodities etc.

**Underwriting Risk**
- Increased insured losses
- Increased insurance gap

**Operational Risk**
- Supply chain disruption
- Forced facility closure

**Liquidity Risk**
- Increased demand for liquidity
- Refinancing risk

Financial system contagion

Climate and economy feedback effects

Economy and financial system feedback effects

Source: NGFS, 2022 NGFS Scenarios for central banks and supervisors

The Bank has been responding to the CDP since 2015 and elucidates its overall climate-aligned governance, strategy, risk overview and performance on the platform. The Bank has chosen to make its CDP responses accessible in the public domain.

We have also made efforts to strengthen our approach to Sustainability-related risks as distinct from climate-related risks, and we recognise that they are primarily associated with corporate governance and our relationship with and impact on customers, employees and the community.

**Aligning to the TCFD**

**We acknowledge the important role of the TCFD in developing globally acceptable climate-related financial disclosures and continue to strengthen our alignment to its recommendations around the four pillars of Governance, Strategy, Risk Management and Metrics and Targets.**

In the previous reporting year, we published our first TCFD-aligned disclosures for FY 2022, that were prepared as per the reporting framework provided in the RBI's Discussion Paper on Climate Risk and Sustainable Finance, published in July 2022. The Bank's TCFD report for FY 2023 is aligned to this Sustainability Report and has been published as Annexure X to this Report.

### Scenario Analysis and Stress Testing

We recognise and align with the TCFD's recommendation on undertaking climate-related scenario analysis as a way for reporting organisations to further strengthen their longer-term strategy and are striving to advance as well as strengthen our approach in line with emerging best practices and insights provided by the regulators from time to time.

During the year, we began the process of integrating pertinent climate-related levers into our quarterly stress testing exercise as a pilot. Under the guidance of the ESG Committee, we continue to develop our capabilities to be able to undertake climate-related stress testing and scenario analysis for our lending portfolio, as a part of our long-term action plan.

### Challenges to Accurately Assessing and Responding to Emerging Risks

"The horizon for monetary policy extends out to 2-3 years. For financial stability it is a bit longer, but typically only to the outer boundaries of the credit cycle – about a decade. In other words, once climate change becomes a defining issue for financial stability, it may already be too late."

**- Mark Carney, Former Governor, Bank of England**

We also recognise that there remain inherent challenges in being able to accurately assess emerging climate-related risks and, more importantly, incorporating such assessments into decision-making.

Notably, experts have highlighted the significant divergence between the current risk horizons adopted by the global financial system, which are relatively of shorter term, and climate-related financial risks and opportunities, that are expected to manifest over a much longer time horizon. Therefore, we recognise that policy-level levers may be required to enable and guide the global financial system to adopt greater long-termism in approach to climate risk management and manifesting of the opportunities.

### Recognising Climate Opportunities

**Financing Activities**

We recognise that we have an opportunity, as well as a responsibility, for catalysing a low-carbon, equitable and sustainable economic transition. As a leading financial institution, Axis Bank facilitates financial flows into diverse aspects of the Indian economy, touching myriad sections of society across all regions. In alignment with the global sustainable development agenda led by the Sustainable Development Goals and the Paris Agreement, the Bank has strived to strengthen its sustainable financing practices and portfolio, lending to 'green' sectors, including renewable energy generation, mass transport, low carbon infrastructure and waste management, 'social' sectors such as healthcare, education and microfinance, as well as strengthening its overall environmental and social (E&S) risk assessment capabilities. The Bank has put in place a Sustainable Financing Framework which acts as a governance framework around the Bank raising money to support such financing. We recognise that globally, sources of capital are now increasingly aligning to this transition.

In 2016, the Bank raised its first green bond, a certified dollar-denominated bond for $500 million, and since then, has accessed the global markets multiple times, underscoring its expertise and commitment to supporting India's sustainable and equitable transition.

The Bank had announced key ESG-aligned commitments in 2021 that commit us to scale our business activities in this direction. We continue to actively explore specialised products and services that specifically align to the SDGs and climate action, with emerging regulatory guidance and market practices also guiding our actions.

**Own operations and CSR**

We recognise the potential role of emerging technologies and innovations in shaping modern business practices and driving the low-carbon economic transition. As the Banking sector digitises and digitalises, it is not only able to lower its resource requirements, such as paper, but also improve its operational efficiency as well as reach the last mile more effectively.

**Environmental sustainability is a key focus area for the Bank under CSR, and the Bank has focused interventions on afforestation, habitat restoration, biodiversity conservation and strengthening climate resilience among vulnerable communities in multiple regions in the country, including biodiversity hotspots such as the Sundarbans in West Bengal and the North East region.**

Notably, in 2021, the Bank had committed to planting 2 million saplings across India by 2027 towards contributing to India's carbon sink.

Rationalising our environmental and emissions footprint remains a priority for us as we continue to implement initiatives around green energy procurement, energy efficiency, and resource management, among others, at our branches and locations. We have committed to ensuring that all our new branches adopt smart design practices and are outfitted with environment-friendly materials and energy-efficient appliances. As highlighted, new technology innovations and the greening of the electricity grid shall also support our efforts to lower our own carbon footprint over time.