

Strengthening our Risk Architecture

Since 2021, when the ESG Committee was established, we have been actively pursuing our stated commitment to scale up our ESG and climate-risk related capabilities, capacity and frameworks at the enterprise level. Under the oversight of the ESG Committee of the Board, and led by its Risk function, we have built on our existing initiatives and launched new interventions. We are strengthening our climate-related Risk management and realising opportunities.

Actions undertaken under ESG Committee and Risk functions can be broadly placed into four focus areas



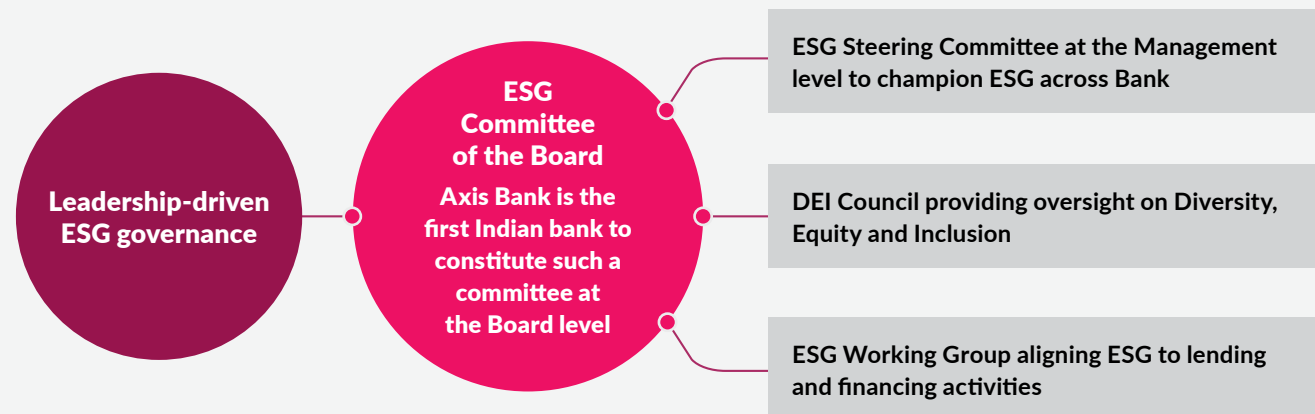
A Governance

A.1 Establishing the ESG Committee of the Board

In August 2021, we became the first Indian bank to establish a standalone ESG Committee at the Board level. This has enabled us to bring our diverse ESG contexts and impacts under a common umbrella and take a

unified approach. The Committee also provides an oversight and guidance on our overall approach to and initiatives around ESG and climate-related risks. The Chief Risk Officer is a permanent invitee to the ESG Committee

meetings and is leading a long-term strategic initiative to strengthen our capacity and capabilities for ESG and climate risk management at the enterprise level.



Our reputation is of utmost importance.

Axis Bank is entrusted by its customers to maintain strict privacy and data security norms. This risk and compliance culture applies to all employees, outsourced staff, and vendor partners.



A.2 Strengthening Board-level Oversight on Climate and ESG Risks

Sustainability and climate-related risks manifest themselves as part of our existing risk categories, including credit risk, operational risk, market risk and credit risk. Under our Risk Management Framework, the Risk Committee of the Board maintains its oversight over managing these risks. As we gradually expand our inclusion of climate and sustainability-related risks into these risk categories, we also seek to strengthen the Risk Committee's oversight over them. Pertinent cases that are discussed and approved at the Board's Committee of Directors include their assessment of our ESG Policy for Lending.

Read more about our ESG Policy for Lending on [PG 68](#) →

B Policies and Controls

B.1 Climate and Sustainability-related Risks and Opportunities included in ICAAP

The Board sets the overall risk appetite and philosophy for the Bank with its three sub-committees - the Committee of Directors, the Risk Management Committee, and the Audit Committee reviewing various aspects of risk arising from the businesses of the Bank.

Since FY 2021-22, our Internal Capital Adequacy Assessment (ICAAP) have been including an assessment of our ESG- and climate-related risks and opportunities, taking into account climate-related physical and transition risks that may have material impact on any aspect of the Bank, and the current controls in place to manage them.

As part of this assessment, we have analysed the impact of multiple physical risk factors including extreme weather events and natural disasters such as earthquakes, floods, droughts and cyclones, and factors generally attributed to anthropogenic climate change, such as heatwaves and water scarcity. The Bank has also conducted a mapping of disaster vulnerability at

the Pin code level on the basis of the World Bank tool Think Hazard and the publicly accessible All India Pin Code Directory on the Open Government Data (OGD) platform.

We have assessed the physical risk vulnerability of our physical operations basis extreme weather events, such as Cyclone Gulab in September 2021 or very heavy rains in specific parts of the country.

Our assessment of the impact of transition risk on our portfolio and operations has identified material risk from a wide variety of external factors that can potentially drive transition risk, such as emerging regulations, technology and innovation, or changing consumer or investor sentiment. We have classified these into 'High Risk' and 'Moderately High Risk' sectors.

For a detailed description of our Risk Management governance, architecture and our approach, read pages 74-75 and 126-129 in our Annual Report 2022-23 at <https://www.axisbank.com/docs/default-source/annual-reports/for-axis-bank/annual-report-for-the-year-2022-2023.pdf>

RISK ARCHITECTURE

B.2 Strengthening the ESG Policy for Lending

We put in place an 'ESG Policy for Lending' in 2015, integrating environmental and social risk assessment into our credit appraisal mechanism. The Policy, which was until recently called the 'Sustainable Lending Policy and Procedures', conforms to the IFC Performance Standards Framework 2012, among other national and international guidelines, and is implemented by the Environmental and Social Management Group, a team of specialists housed in the Credit vertical at the Bank.

Key Development in FY 2022-23

Under the guidance of the ESG Committee, we expanded the scope and boundary of the ESG Policy for Lending during the year. The updated policy has lowered the coverage threshold for all project/non-project loans and NCDs and all incremental exposures (including NCDs). It assesses all proposals in four risk categories of A, B+, B and C, in line with the IFC Performance Standards. The policy also covers overseas funding and syndicated funding as applicable.

The updated policy has further lowered the threshold for incremental exposures in identified high-risk sectors such as coal mining, coal-based power plants, and hazardous chemicals, among others and such exposures shall now mandatorily require scrutiny under the policy.

The Policy can be accessed online at <https://www.axisbank.com/docs/default-source/default-document-library/esg-policy-and-procedure.pdf>

Read more on the Policy's performance in the Sustainable Finance section in [PG 66](#) →

B.3 Adopting the Sustainable Financing Framework and establishing the ESG Working Group

In July 2021, we launched the Sustainable Financing Framework to guide our financing efforts in sectors and categories with a positive alignment to the SDGs and global climate commitments.

The Framework is aligned to 2021 ICMA Principles for Green, Social and Sustainable Bonds 2021 Green Loan Principles ASEAN Standards for Green, Social and Sustainability Bonds. The Framework can be accessed online on the Bank's website at <https://www.axisbank.com/docs/default-source/default-document-library/axis-bank-sustainable-financing-framework.pdf>

The Framework obtained a Second Party Opinion from Sustainalytics, demonstrating its alignment to globally accepted norms and definitions of the ESG Working Group.

Together with adopting the Framework, we established the ESG Working Group as a cross-functional team comprising representatives from the Risk, Treasury, Wholesale Banking Coverage, Wholesale Underwriting, and the Sustainability verticals. This Working Group ensures that our existing and future issuances or other eligible activities conform to the Framework.

Key Developments

In FY 2022-23, we focused on strengthening our internal processes for tagging and tracking of pertinent transactions under the eligible categories defined in the Framework. The automation efforts are ongoing, and we expect to begin testing and debugging in the coming reporting year.



Calibrating Risk Architecture in accordance with Global Standards

We have 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.

Scenario Analysis and Stress Testing in alignment with TCFD Recommendations

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 FY 2021-22, we published our first TCFD-aligned disclosures, which were prepared as per the reporting framework provided in the RBI's Discussion Paper on Climate Risk and Sustainable Finance, published in July 2022.

In alignment with TCFD recommendations, we are undertaking climate-related scenario analysis as a way for reporting organisations to further strengthen their longer-term strategy. We 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.

The Bank's TCFD report for FY 2022-23 has been published as Annexure X to this Report.

Alignment to CDP Recommendations

We have been responding to the CDP since 2015, thus elucidating our overall climate-aligned governance, strategy, risk overview and performance on the platform. We have chosen to make our CDP responses accessible in the public domain.

Our CDP disclosures can be accessed on the CDP portal at www.cdp.net

C Risk Toolkit

C.1 Launching a pilot ESG Rating Model in FY 2022-23

During the reporting year, we achieved a significant milestone with the launch of a pilot ESG Rating Model based on the top 150 clients in the Wholesale Banking business vertical.

The model has been developed completely in-house and includes more than 60 parameters across the three pillars of E, S and G. Under the pilot, we intend to populate the model initially with publicly available information and continue to review its performance periodically basis the quality of data collection and the model's outputs.

We have also assessed the model's alignment with the IFC Performance Standards, which underpin our ESG Policy for Lending, and found the model to be strongly aligned to the eight standards.

60+

Parameters across ESG pillars included in ESG Rating Model launched in FY 2022-23

8

IFC Performance Standards align with the ESG Rating Model

C.2 Building Capabilities around Stress Testing

We have commenced building capabilities around stress testing and scenario analysis by putting in place data infrastructure to capture transition and physical risk in the various borrower portfolios. We are also reviewing external best practices in this area to accelerate our learning curve.

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Webinar on
ESG - Creating Value
The Key to Future Business Success

“ Are we ready to create a better world tomorrow? ”

In Conversation with



Pradyumna Sahu
Leader, ESG in Fin Services,
PwC India



Amit Talgeri
Chief Risk Officer,
Axis Bank



Prashanth T S
Moderator
Head - Mid Corporate Group,
Wholesale Banking,
Axis Bank

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D.3 Capacity-building

A landmark development in FY 2022-23 was the launch of a Bank-wide ESG e-learning module that is applicable to all Axis Bank employees. This module introduces the learner to the key contexts, definitions and global and

national priorities around ESG, and climate action, including pertinent global commitments, frameworks and regulations, and best practices adopted by the Bank as well as its peers in India and globally.

As a part of its curriculum, the module introduces all learners to the topics of climate-related risks and opportunities. This module is mandatory for all new employees joining the Bank and existing employees attempt it at least once annually.



Climate Risk Training Programme under UK PACT

Key members from our Risk, Corporate Credit and Sustainability verticals participated in a two-day intense virtual training programme on ESG/Climate Risks under UK PACT, a UK government initiative that aims to help developing economies in Asia, Latin America, and Africa accelerate their low-carbon transition. The training program was conducted by ESG/ climate experts from Overseas Development Institute, Climate Bonds Initiative and AuctusESG.

Future ESG Pathway

Under the oversight of the ESG Committee, we have set ourselves a pathway that will focus on each and every critical aspect that we believe is necessary to build a robust and future-ready sustainability and climate risk architecture.

Our focus shall include

- Strengthening our data foundations
- Strengthening our climate-related monitoring metrics for different business lines

- Strengthening our overall internal and external disclosures
- Focusing on building our internal capacity and capabilities through stakeholder engagement, focused training intervention
- Contributing to thought leadership and policy advocacy in the space
- Benchmarking ourselves continually with best practices