

# TCFD Report

FY 2021-22

As climate related incidents become more frequent globally, identification and managing risks associated with climate change is critical for ensuring business continuity and protecting tangible and intangible assets. Physical assets, food security, infrastructure, operations and supply chains, each of these are vulnerable to physical and transition risks arising from climate change. For Banks and other financial institutions, these risks may manifest through traditional risk channels, due to possibilities such as, borrowers' inability to repay loans (credit risk), reduction or re-pricing due to climate regulation (market risk), reduced access to funding due to changing market conditions (liquidity risks), legal and compliance risk related to climate-sensitive investment (operational risk) and reputational risk arising from changes in market and consumer sentiments. In this light, enhanced disclosures on climate risks and opportunities by businesses in general and the financial sector in particular become important to enable informed decision making.

TCFD as emerged as the apex, globally recognised disclosure framework for communicating an organisation's position and plans on climate-related Governance, Strategy, Risk Management and Metrics & Targets, with a clear focus on the financial implications. The Discussion Paper on climate risks Sustainable Finance ("Discussion Paper") released by the RBI in July 2022 also recommends TCFD-aligned disclosures as a step towards ensuring uniformity in reporting on climate-related risks and opportunities by India's banking sector.

Axis Bank is attempting its first TCFD-aligned disclosures for FY 2022 as a part of its annual Sustainability Report and is adopting the format as recommended in the said Discussion Paper.

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## Governance - Disclose the organisation's governance around climate-related risks and opportunities.

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| a) Describe the Board's oversight of climate-related risks and opportunities.                    | a) Climate action is a core component of Axis Bank's ESG strategy and action, which is a Board Level agenda at the Bank.<br><br>In FY 2022, the Bank became the first Indian bank to establish a standalone ESG Committee of the Board to drive the ESG agenda, that includes oversight on its climate-related risks and opportunities. The Committee is composed of three independent directors and the MD & CEO. The Committee is chaired by Prof S. Mahendra Dev, an Independent Director.  |
| b) Describe management's role in assessing and managing climate related risks and opportunities. | The ESG Committee provides the Bank a strategic vision and direction for ESG, enables pan-Bank ESG integration and affords a 360-degree monitoring and review. The Committee meets on a quarterly basis and met three times in FY 2022.<br><br>At its meetings held in FY22, the Committee reviewed several aspects of ESG, including adopting the Bank's Purpose Statement, the review of the Bank's proposed ESG commitments aligned to business, risk, HR and CSR. The Committee periodically reviews the Bank's progress on its commitments and assesses emerging ESG-related risks and opportunities.<br><br>Under the guidance and oversight of the Board ESG Committee, the Bank has taken up strategic interventions around sustainable financing, climate risk management, building climate awareness within the organization and strengthening climate resilience among communities. |
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In addition, there are other Committees of the Board that provide an oversight over specific aspects of climate action. These include:

- **CSR Committee:** It formulates and recommends to the Board, the CSR Strategy, policy, themes, focus areas and review mechanisms. The Bank is currently implementing community programs that focus on strengthening climate adaptation and mitigation and building climate resilience among communities.
- **Committee of Directors:** It approves the Bank's ESG Policy for Lending that integrates environmental and social risk assessment into its credit appraisal. Additionally, during discussions on credit proposals put to the Committee for sanction, it, wherever applicable, reviews aspects of ESG associated with such proposals.
- **Risk Management Committee:** The Committee oversees the overall risk framework at the Bank. The Bank is now taking its E&S risk profile to the Risk Management Committee as part of its ICAAP document.

Towards enhancing the understanding on ESG including climate change of the Bank's Board members and its leadership, the Bank held workshops and interactions with external ESG experts, focusing on global best practices, trends and material priorities for the Banking sector.

- b) The Bank's senior management provides pertinent oversight and leadership to drive forward the Bank's ESG and climate action agenda. As highlighted, the MD & CEO is a member of the ESG Committee of the Board and acts as an important bridge between the Board and the Management on climate-related matters. The Bank's management plays an important role in identifying and acting on ESG-aligned risks and opportunities.

In 2020, the Bank had established an ESG Steering Committee comprising senior leaders of the Bank from business verticals, risk, underwriting, strategy and HR to champion the ESG agenda and priorities across the Bank. Members of the Steering Committee also participate in the meetings of the ESG Committee on pertinent initiatives and agendas.

For more details, please refer to the "Realizing our ESG Strategy" on pages 24 & 25 of the Sustainability Report 2021-22.

**Strategy - Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning where such information is material.**

<p>a) Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term.</p>	<p>The Internal Capital Adequacy Assessment Process (ICAAP) assesses all the significant risks associated with various businesses. The Bank has defined Physical and Transition risks for itself and identified exposures/impact of these risks in its ICAAP document. In addition, the Bank also participates in the CDP questionnaire annually and communicates its key climate related risks and opportunities in the CDP document, which is publicly accessible on the CDP website at <a href="http://www.cdp.net">www.cdp.net</a>.</p>
<p>b) Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning.</p>	<p>The key climate-related risks identified by the Bank in its CDP disclosures and their corresponding impact include:</p>
<p>c) Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.</p>	<ul style="list-style-type: none"> <li>• <b>Current and emerging climate-related regulations</b> and their impact on the Bank's business decisions as well as the business activities of its customers. Emerging regulations may also impact the activities across entire sectors, both positively or negatively. For example, favourable regulations can support expansion of renewable energy generation and restrictive regulations may impact carbon intensive sectors such as thermal power. This regulatory transition is already playing out and is expected to continue in the medium and longer terms.</li> </ul>

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- **Acute physical risks** and their impacts on the Bank's as well as its customers' physical assets and supply chains, as well as on its employees and society at large. Through the Bank's own employee safety policies and systems and its Business Continuity Management framework, the Bank works towards mitigating such physical risks on its own assets and personnel. Through the ESG Policy for Lending, the Bank applies the IFC performance standards on all lending decisions above a certain threshold that includes an environmental and social due diligence as well. These risks may become more prominent in the longer term.
  - **Macro Risks** – Driving positive climate action is among the largest global movements with governments, central banks and other regulators, businesses and civil society driving or influencing key shifts in policy, consumer preferences and corporate strategy. There is a paradigm move towards a low-carbon economic transition that will also require a significant re-tooling of existing systems and processes at financial institutions. The wider economic transition is already visible and is expected to continue in the near future.

Similarly, there are climate-related opportunities that have been elaborated on in the Bank's CDP response. These include:

- Expansion in demand for lower-emissions goods and services, such as electric vehicles or green power. The low carbon transition is altering consumer choices and driving a shift towards more sustainable production and consumption. For banks, such products and services may include green vehicle or housing loans or demand for sustainable financing. This is expected to continue to scale in the medium to longer terms.
- Resource and energy efficiency in our own business operations that help lower carbon emissions while also potentially strengthening operational efficiency and customer experience. For example, lower paper requirements due to digital banking or procurement of green power at our large offices. This is already scaling up and is expected to continue to do so.
- Diversification of financial portfolio and growth of green portfolio – ESG-focused financing is rapidly scaling up globally and a rapid shift towards more ESG-compliant assets is visible across the global economy. Axis Bank for example, issued a USD 600 million sustainable AT1 bond in 2021, and also committed to incremental financing of Rs 30,000 Crores by March 2026 in SDG-compliant project categories. In addition, the Bank has also scaled up the coverage of its ESG Policy for Lending, thus bringing a wider portion of its lending portfolio under environmental and social due diligence. These activities are expected to continue to scale up for the Bank.

The Bank recognizes that the climate change space is evolving continually, including methodologies, pathways, data availability and regulatory environment. At present, the Bank has not attempted to formally align its climate action strategy with the 1.5-degree pathway, and it shall also be guided by market forces and regulatory guidance in this aspect.

For more details, please refer to the section on “Climate Risks & Opportunities – Section being developed currently” & “Embedding ESG into Risk Management” on pages 26-28 of the Sustainability Report 2021-22.

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**Risk management - Disclose how the organisation identifies, assesses and manages climate-related risks**


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a) Describe the organisation's processes for identifying and assessing climate-related risks.	As a part of our larger ESG agenda, the Bank is working on strengthening the assessment and management of emerging climate-related risks.
b) Describe the organisation's processes for managing climate related risks.	As highlighted earlier, the ESG Committee of the Board is leading the overall ESG agenda at the Bank wherein strengthening its climate risk management capabilities at the enterprise level is a key priority.
c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the Organisation's overall risk management.	<p>Actions that are in place already include:</p> <ul style="list-style-type: none"> <li>• ESG risk has been included in the Bank's ICAAP assessment from Mar 2020. This includes a review of the ESG – sensitive portfolio from a climate risk perspective – both for physical risk (for both Corporate as well as Retail Banking verticals) and transition risk (Corporate Banking).</li> <li>• It also includes a review of the sensitivity of Bank's own operations to climate risk e.g. robustness of continuity and disaster recovery plans against floods or cyclones.</li> </ul> <p>As highlighted, the Bank has in place an ESG Policy for Lending that is integrated into the Bank's credit appraisal mechanism for wholesale lending. The Policy has been in place since 2015 and adopts the IFC Performance standards and other such global benchmarks. The Board-approved policy is housed within the Credit vertical at the Bank and is implemented by the Environment and Social Management Group, a team of E&amp;S risk experts.</p> <p>As highlighted, over and above the implementation of the ESG Policy for Lending, the relevant sanctioning committee, during discussions on credit proposals put to it for sanction, wherever applicable, reviews aspects of ESG associated with such proposals.</p> <p>Under the ESG Committee's oversight and led by the Bank's Chief Risk Officer, the Bank is implementing a multi-year project towards scaling up the integration of climate and ESG risks at the enterprise level. This includes building the necessary capabilities and tools for measuring ESG risk (with climate risk as an area of greater focus) and reporting climate risk. The Bank aims to have the necessary tools and frameworks in place to be able to take climate linked investment decisions at the portfolio level within a defined timeline and progress is being reported to the ESG Committee periodically.</p>

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**Metrics and Targets - Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.**


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a) Disclose the metrics used by the organisation to assess and manage relevant climate-related risks and opportunities where such information is material.	<p>The Bank reports on its Scope 1, Scope 2 and Scope 3 emissions. Please refer to pages 85 &amp; 86 (Committing to Operational Excellence) of the Sustainability Report 2021-22 for these emissions for the year. The data is externally assured.</p> <p>As highlighted, the Bank has taken ESG-aligned commitments supporting the SDGs and India's commitments under the Paris agreement. The Bank's performance against the commitments is reviewed by the ESG Committee of the Board periodically. The details on the targets set and the progress against them as of March 2022 has been reported in the section "Realizing our ESG Strategy" on Pages 25 &amp; 26 of our Sustainability Report.</p>
b) Disclose Scope 1, Scope 2 and, if appropriate and feasible, Scope 3 GHGs emission, and the relevant risks.	<p>The Bank has also taken an aspirational target to reduce its specific emissions (total Scope 1 and Scope 2 emissions per employee) by 5% year on year. The Bank's performance as on March 2022 can be accessed in section Committing to Operational Excellence on page 86 of the Sustainability Report 2022.</p>
c) Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.	<p>The Bank strives to benchmark its performance with global best practices and shall continue to explore and identify the appropriate metrics that can adequately capture its climate-related risks and opportunities.</p>

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