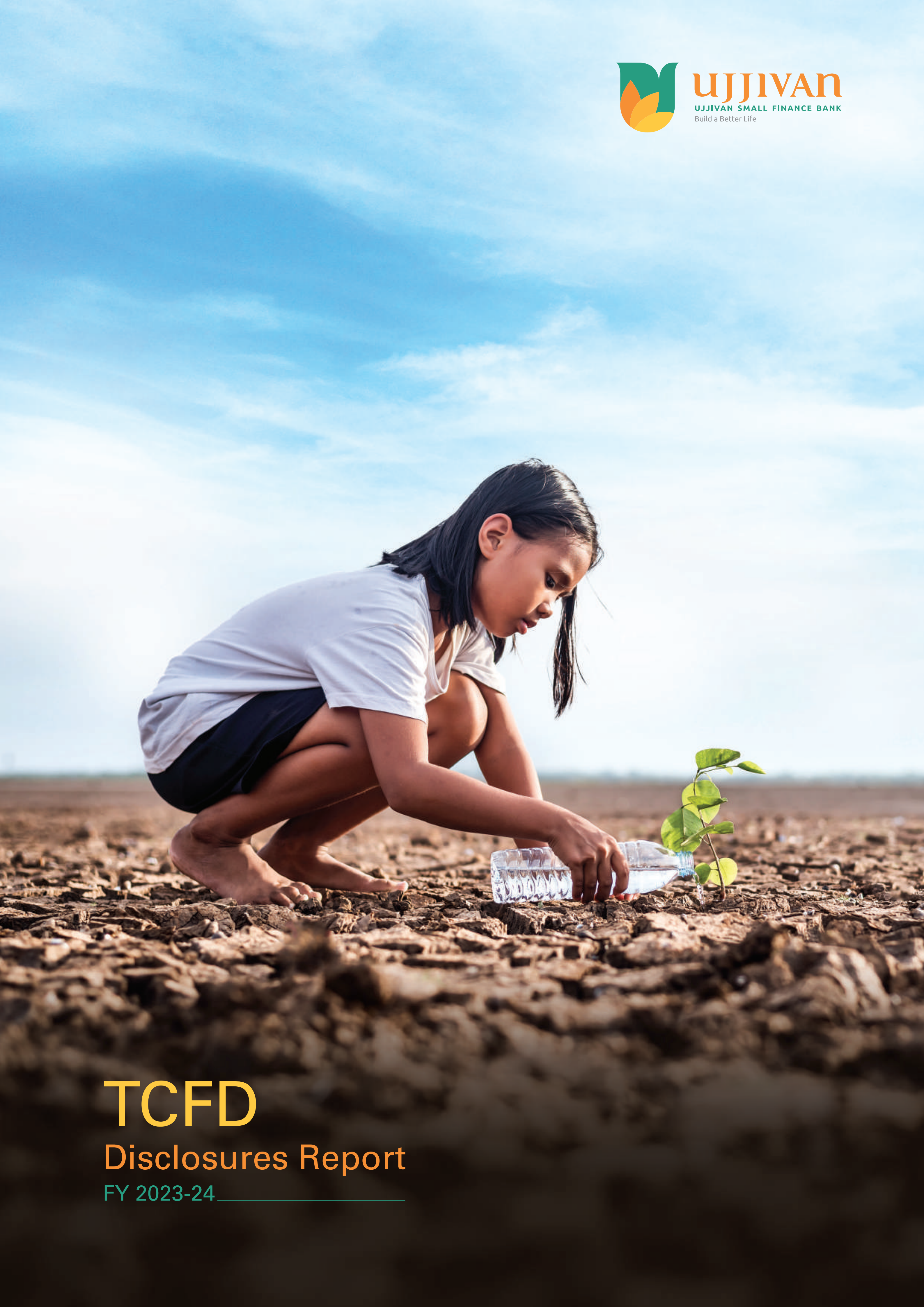
UJJIVAN SMALL FINANCE BANK
Build a Better Life



TCFD
Disclosures Report
FY 2023-24

In this Report

Message from Chief Risk Officer

> In FY 2023-24, the Bank enhanced the governance framework for sustainability, corporate climate goals, ESG and climate risk management. At a Board level, oversight on sustainability and climate risk management is separated and assigned to the CSR & sustainability committee and the Risk Management Committee(RMCB) respectively.

Dear Stakeholders,

Climate induced financial risk is ascending the hierarchy of threats to financial stability across advanced and emerging economies alike and consequently, the need for an appropriate framework to identify, assess and manage climate related risk has become an imperative. There is a now an expectation from the BFSI sector, and more importantly banks, in playing a pivotal role to further the goals of environmental risk adaptation and mitigation. Climate Risk Management is evolving as a specialized area within banks, and to that effect the banking community is increasingly focused on capacity building to mitigate the adverse impacts of the green swan event.

The Regulator has also armed the financial fraternity with guidance notes, master directions and insights conveyed through various workshops. Today, the prudential regulations from RBI are available, which are as follows:

- Report of the survey of climate risk and sustainable finance dated July 2022
- Discussion paper on Climate risk and Sustainable Finance
- Draft disclosure framework on climate - related financial risks dated February 28, 2024
- Framework for acceptance of green deposits dated April 11, 2023
- FAQs on Green deposits dated December 29, 2023

In addition to the RBI published guidance notes, the BFSI sector is also armed with international standards published by Basel Committee on Banking Supervision (BCBS). The following publications are available today for onward action:

- Principles for the effective management and supervision of climate-related financial risks in June 2022.
- FAQs on climate-related financial risks in December 2022.

The publication of these detailed guidance notes underscores the undeniable link between environmental health and economic stability. This framework(s) is not just a checklist-it is a roadmap for financial institutions to understand, prepare for and mitigate climate-related threats that could ripple through the economy. By naming climate change a risk to financial resilience and price stability, the RBI brings attention to how erratic rainfall and extreme weather events could send shockwaves through prices and supply chains alike, stressing the urgent need for climate-aligned financial strategies. The introduction of green deposits reflects the RBI's support for eco-conscious investment avenues, setting a precedent for the industry to follow. With a vision to develop a robust regulatory framework, ensure payment systems can withstand climate impacts and work with the Government to create a unified climate taxonomy, the RBI's agenda is both ambitious and necessary. India, being one of the most vulnerable to the effects of climate change, therefore, stands at a crossroads. The RBI's initiatives are a reminder that the path to financial stability is, in fact, green.

We, at Ujjivan Small Finance Bank, have been on the forefront in understanding this complex subject and its interrelationships with our business operations. As early as February 2023, we took cognizance that climate induced financial risks will be a material risk to the Bank. To that effect, the Board has mandated for its inclusion in the ICAAP risk register. Over the last 24 months, the Enterprise Risk Unit within the Risk Management department has made small but consistent strides towards integrating climate related financial risks into the broader Risk Management Framework. The unit adopts a research driven approach to analyse emerging risks such as climate risks. The personnel in the ERM unit have attended various training workshops conducted by RBI, CAFRAL, IBA etc. to keep themselves updated with latest developments in the industry.

In FY 2023-24, the Bank enhanced the governance framework for sustainability, corporate climate goals, ESG and climate risk management. At a Board level, oversight on sustainability and climate risk management is separated and assigned to the CSR & Sustainability Committee and the Risk Management Committee(RMCB) respectively. Likewise, at a management level, the Terms of Reference (ToR) for Enterprise Risk Management Committee (ERMC) and 'CSR & Sustainability Committee' were revisited and specific mandates/functions for oversight on the day to day aspects of climate risk management and sustainability/ESG initiatives were accorded.

Specific to climate risk, we continue our journey in analysing physical risks and transition risks on account of climate change and its financial impact thereof. Given the nature, size and complexities of our business operations, we are of the understanding that the climate induced physical risks are relatively more material than transition risks over the short term. To this effect, we have undertaken an impact analysis on the Bank's flagship business i.e., Micro banking (including Microfinance). Based on historical findings, the Bank has fixed exposure limits in districts vulnerable to climate induced physical risks. We continue to intend on adopting an outside-in approach, in that, initial focus will be on identifying the interplay of physical risks with default risk, operational risks and liquidity risks. We are also cognizant of the opportunities entailing environmental risk adaptation and mitigation. Going forward, these opportunities will be analysed for leveraging the same as part of business strategy (inside-out approach).

Our TCFD disclosures reflects our commitment to understanding and integrating climate risk into our risk management governance, processes and strategies, as well as our commitment to achieving our net zero goals. While principles and strategic oversight aspects are progressed, it is pertinent to note that industry consensus is yet to be achieved at the granular level for climate risk management from a banking perspective. Likewise, obtaining more reliable and actionable climate data also continues to be a challenge that we are navigating across our businesses. We are however, transparent about our progress and the challenges we face on the path to net zero and are committed to sharing our experience so that we all can learn together and chart the course to a healthier, more sustainable future. With the launch of our second disclosures, we continue to intend on communicating the key hallmark of all our climate-related efforts — our commitment to transparency and our support to regulatory developments to ensure more consistent, comparable and reliable climate disclosures.

With this perspective, I invite you to learn more about our approach and initiatives across our Bank in the pages that follow.

Sincerely,

Brajesh Joseph Cherian
Chief Risk Officer

Ujjivan Small Finance Bank

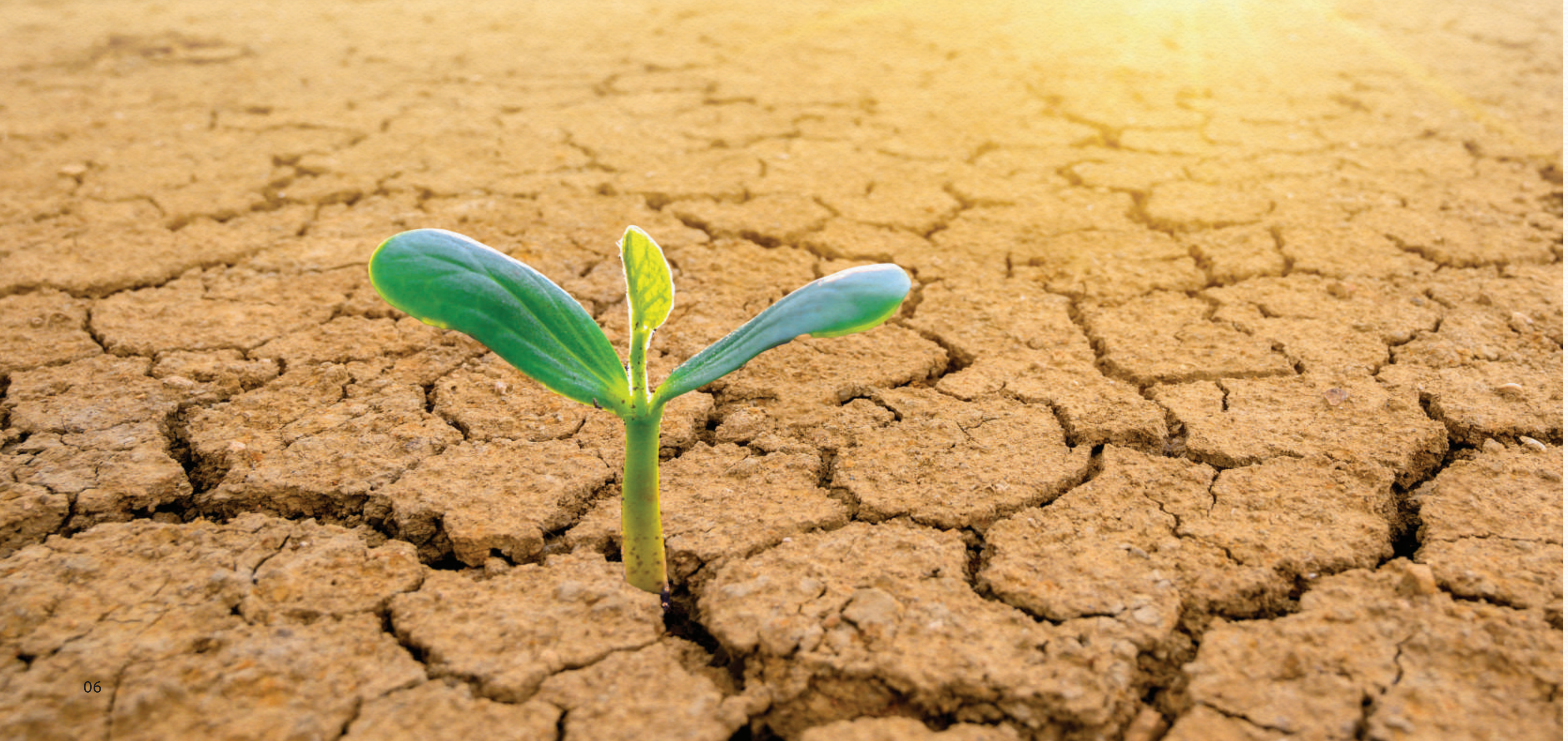
Background

The Financial Stability Board (FSB) created the Taskforce for Climate related Financial Disclosures (TCFD) to develop recommendations on the types of information that companies should disclose to support investors, lenders, and insurance underwriters in appropriately assessing and pricing a specific set of risks—risks related to climate change. Given its remit from the Financial Stability Board, the TCFD is committed to market transparency.

Through widespread adoption of these minimum standards, financial risks and opportunities related to climate change are expected to become a natural part of a company's risk management and strategic planning process. As this occurs, companies and investors understanding of the potential financial implications associated with transitioning to a lower-carbon economy and climate-related physical risks will grow; information will become more decision-useful; and risks and opportunities will be more accurately priced, allowing for the more efficient allocation of capital.

In 2017, the TCFD released climate-related financial disclosure recommendations designed to help companies provide better information to support informed capital allocation. Further, on February 28, 2024, RBI has also published the Draft Disclosure framework on Climate-related Financial Risk which underscored the need for a better, consistent and comparable disclosure framework for REs, as inadequate information about climate-related financial risks can lead to mispricing of assets and misallocation of capital.

In compliance to the Regulatory guidelines, the Bank's TCFD disclosures are also structured around the recommended four thematic areas that represent core elements of how banks operate viz. governance, strategy, risk management, and metrics and targets. The four themes are supported by baseline and enhanced disclosures with information that should help stakeholders understand the Bank's progress and assess climate-related risks and opportunities inherent thereof.



Regulatory Expectations

Ujjivan Small Finance Bank (hereinafter referred to as "the Bank") is required to develop an appropriate approach[1] to disclosing climate-related information to enhance transparency. At a minimum, the Bank is expected to make climate-related disclosures aligned with TCFD recommendations/framework. Alignment to TCFD framework is expected to improve the consistency and comparability of the Climate-related Financial Disclosures of the Bank with its counterparts domestically and globally.

The Bank intends to make its climate related disclosures on an annual basis as part of the Bank's annual Sustainability Report (developed in alignment to the Global Reporting Initiatives (GRI)). A standalone version of the TCFD disclosures will also be made available on the Bank's website to aid in ease of reference. In view of the evolving developments in climate-related disclosures, a "comply-or-explain" approach is adopted by the Bank considering its significance to the Bank's operations, including the nature and size of its business and the materiality of climate related risks the Bank is exposed to. Considering the evolving disclosure landscape, the Bank continuously seeks to update its disclosure requirements in line with global and domestic developments and progressively enhance its disclosures.

[1] The TCFD report is drafted in compliance to

Overview of the TCFD Framework

The TCFD recommendations on climate-related financial disclosures are widely adoptable and applicable to organizations across sectors and jurisdictions. They are designed to solicit decision-useful, forward-looking information that can be included in mainstream financial filings. The recommendations are structured around four thematic areas that represent core elements of how organizations operate under:

The four thematic areas are further expanded into 11 recommendations for disclosures.

This document provides a report on the progress made in complying with the minimum expectations laid out in the TCFD disclosure framework as at March 31, 2024 and updated as at December 31, 2024. All exposure related figures quoted in the document are 'Rs. in crores', unless otherwise specifically stated. For the purpose of reporting, the Bank has referred to the guidance note for *implementation the recommendations of the Taskforce on Climate Related Financial Disclosures published in October 2021*[2] and the RBI *draft disclosure framework on Climate-related financial risks* dated February 28, 2024, on a best effort basis

[2] https://www.fsb-tcfd.org/

Principles and Approach

As one of India's newest entrant to the banking industry, the Bank has, since inception adopted Responsible Banking as one of its key differentiators. This credo has seen considerable traction in the space of financial inclusion and economic justice. While much of the Bank's business operations is skewed towards meeting and enhancing social goals and justice today, it is imperative that the Bank also makes its small contribution in the areas of environment management and climate change adaptation/mitigation.

Climate change risk (climate induced financial risks) is also ascending the hierarchy of threats to financial stability across advanced and emerging economies alike and consequently, the need for an appropriate framework to identify, assess and manage climate related risk has become an imperative. While there is a high degree of certainty that some combination of physical and transition risks will materialise in the future, the exact timing, outcome and future pathways remain uncertain, and the impacts are unevenly distributed both among and within countries. Accordingly, historical data and traditional backward-looking risk assessment methods are unlikely to adequately capture future impact. Further, the materialisation of physical and transition risks depends on multiple non-linear dynamics that interact with each other in complex ways and are therefore subject to deep uncertainty. It is therefore only prudent that the Bank has adopted a research driven approach, with initial focus on capacity building, qualitative reviews and in encouraging thought leadership on climate related issues which will eventually culminate into policy advocacy.

The Bank's contribution to environment management and adaptation/mitigation follows the principle of Common But Differentiated Responsibilities (CBDR) and respective capabilities as laid out by the United Nations Framework Convention on Climate Change(UNFCC) (Principle 1) . The Bank, since inception, has always been focusing on increasing its retail exposure with special focus on financial inclusion. Its lending and investment exposure to the top three GHG emitting industries[3], namely 1) transportation, 2) electricity generation and 3) industrial entities primarily involved in burning of fossil fuels to produce goods from raw materials is negligible as at reporting date. The Bank's initial focus on managing climate induced financial risks shall also be an 'outside in' approach (Principle 2), in that, an understanding of how climate change can affect the Bank's investment and financing decisions shall take precedence over the 'inside out' approach in defining the business strategy for its core operations (lending and investing). The Bank aims to adopt an 'inside out' approach, i.e., the impact of its activities on the environment, largely through process enhancements of its supporting/ancillary activities (operations supporting the core operation of lending/investing) and by encouraging internal stakeholders to adopt LIFE- Lifestyle for Environment to combat climate change.

A third principle involves operating under the principle of triple bottom line, in that, the Bank will be used as a vehicle for maximizing stakeholder interests, instead of only maximizing shareholder profits. While the Bank's policy on Environment, Social and Sustainability management (ESMS) endorses UN SDG goals relating to clean water and sanitation, affordable and clean energy, responsible consumption and production, climate action, life below water and life on land, its actions thereof in furthering these goals will be subject to the contours of the triple bottom line, in that, policy advocacy should result in a positive outcome to the Bank's profitability, society and the environment.

Specific to disclosures and reporting, the Bank is guided by the principles laid out in the TCFD- Implementing the Recommendations of the Task Force of Climate- related Financial Disclosures, covering:

Principle	Description
1	Disclosures should present relevant information
2	Disclosures should be specific and complete
3	Disclosures should be clear, balanced, and understandable
4	Disclosures should be consistent over time
5	Disclosures should be comparable among organizations within a sector, industry, or portfolio
6	Disclosures should be reliable, verifiable, and objective
7	Disclosures should be provided on a timely basis

[3] https://www.epa.gov/ghgemissions/sources-greenhouse-gas-emissions#:~:text=Transportation%20(28%25%20of%202021%20greenhouse,ships%2C%20trains%2C%20and%20planes

Governance

Describe the Board’s oversight of climate-related risks and opportunities

The Bank’s Risk Management Committee of the Board (RMCB) has an oversight on the Bank’s approach to Climate Risk Management. During the year, the Bank deemed it appropriate to transfer the oversight function on sustainability, ESG, corporate climate goals to the CSR and Sustainability Committee. Both the committees monitor the progress achieved on internal strategy, targets, and initiatives taken by the Bank in furthering the respective goals. The Board believes that improvement of the Bank’s efforts in the Environmental and Social parameters and upholding highest levels of Governance is critical in the Bank’s journey ahead, and hence, with a view to delineate the sustainability and ESG related initiatives of the Bank and reporting, the Terms of Reference (ToR) for the CSR & Sustainability Committee of the Board were enhanced to include :

- The CSR and Sustainability Committee shall oversee the planning, implementation, and evaluation of CSR, Sustainability and Financial Literacy initiatives, ensuring alignment with the bank’s overall strategy and objectives.
- The Board Committee shall provide support and guidance to both the Sustainable Banking Department and the CSR and Sustainability Committee, ensuring adequate resources and alignment with organizational goals.

Particulars	FY 2022-23	FY 2023-24	FY 2024-25 (YTD)
Number of times RMCB met during the year	5	5	5
Number of instances where climate related aspects were discussed	2 (RMCB dated October 19, 2022; February 1, 2022)	2 (RMCB dated October 25,2023;November 21, 2023)	2 (RMCB dated May 16, 2024; June 18, 2024)

The Bank’s RMCB is also aided by a separate reporting to the CSR and Sustainability Committee of the Board, where measures taken to further the UN SDGs through CSR initiatives are deliberated. Reporting at Board level is undertaken at least on semi-annual basis. The Bank’s' CSR and Sustainability Committee also has an oversight on the Bank's efforts in furthering Corporate Social Responsibility initiatives. During FY 2023-24, this Committee met thrice and once in FY 2024-25 (YTD basis).

The organizational structure for reporting at Board and management level is as below :

Prior to reporting at Board level, the Bank has put in place an internal review process at management levels/ committees, wherein progress achieved on the goals pertaining to sustainability, ESG, corporate climate goals and climate risk management are first deliberated. To that effect, the Bank has undertaken a gap analysis and put in a place a roadmap for its implementation along with timelines. The Board monitors and oversees progress against goals and targets for addressing climate- related issues through review of the roadmap and its progress thereof.

The RMCB has endorsed that climate related issues and climate induced financial risks are material to the Bank, albeit in the long run. While the risk posture is concluded to increase on a decadal scale, the Committee has endorsed its inclusion to the Risk Register in ICAAP and classifying the same as a ‘material risk’ warranting a periodic review. The RMCB considers climate related issues as material when reviewing and guiding strategy, risk management policies, annual budgets and business plans as well as setting the Bank’s performance objectives, and in monitoring implementation and performance. This is evidenced through the Committee’s direction vide its meeting dated February 1, 2023 where:

- The Committee endorsed the materiality of physical risks in the Bank’s business and directed to incorporate limits/caps at district or state level as part of the annual business planning exercise. Further, the Committee also directed to review and make recommendations to the existing policy framework on changes warranted to adequately capture climate risk in its day to day operations.
- On the governance aspects, the Committee provided its approval in enhancing the charter of the RMCB to include climate change and associated risks at the oversight level. Further, the Committee also directed to enhance the RMCB charter to include ESG and ESG related risks for oversight purposes.
- The Committee also directed to enhance the charter of RMC- management level (now Enterprise Risk Management Committee) to have an oversight on the day to day operations and management of the same.
- To ensure that the management of these emerging risks is undertaken in a structured and formal manner, the Committee approved the proposal to put in place a small team of personnel within the Risk management unit to exclusively have an oversight on enterprise wide risks.

Describe management's role in assessing and managing climate- related risks and opportunities

At a management level, the Bank's Enterprise Risk Management Committee (ERMC) is empowered to have an oversight on all emerging risks affecting the Bank's operations. This includes promoting a prudent risk culture in the Bank and in assessing the severity and posture levels on all material risks, which includes sustainability, ESG and climate associated risks. This Committee is also expected to have a mandate for oversight on the progress made in furthering these goals.

Likewise, measures and attempts in furthering UN-SDG goals through CSR initiatives are also deliberated at the CSR & Sustainability Committee at a management level. Both these Committees are chaired by the Managing Director and Chief Executive Officer (MD & CEO) and report to the sub-committees of the Board (i.e., RMCB and CSR & Sustainability Committee of the Board). A short description on the organization structure of these management level committees is furnished as below:

Description of the Enterprise Risk Management Committee

The Enterprise Risk Management Committee (ERMC) plays a crucial role in providing targeted governance and oversight for the climate risk agenda. Its core responsibility involves vigilant monitoring and review of the risk management plan, sustainability framework, and other delegated functions, as assigned by the Board. The Committee's primary objective is to actively assess both current and emerging risks, ensuring the adequacy of risk management systems and overseeing the implementation of strategic measures. Additionally, the Committee focuses on evaluating risks and opportunities due to climate change perspective and ensuring preparedness for future regulations. To achieve these goals, the Committee convenes quarterly to monitor progress, make strategic decisions, and contribute to the organization's overall success.

ERMC is supported by the Bank's risk management vertical. Specifically, the ERM unit is responsible for implementation of the enterprise wide risk framework, aggregation of risks and undertake materiality assessment. This unit is specifically mandated to have an oversight on emerging risks within the Bank which include risks arising on account of sustainability, ESG, corporate climate goals and climate risk management. Given that climate risk is transverse in nature, its assessment thereof, can also be deliberated at traditional forums such as the CRMC, ORMC and ALCO where subject specific inputs are required for further deliberation.

Description of the CSR Committee- management level

Detail description of the CSR Committee management level has been disclosed in Bank's sustainability report.

Strategy

Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term.

The Bank takes into cognisance that climate related issues often manifest themselves over the medium and longer terms. This is also evidenced in risk posture classification being 'increasing on a decadal scale' as part of the Bank's ICAAP process. For the purpose of climate risk management, the Bank has defined the following timelines as short, medium and long term time horizons. The table below also provides a description of climate-related issues and its material financial impact on an overall basis.

Time frame	From (years)	To (years)	Description of specific climate-related issues having a material financial impact	Material Financial impact on the Bank
Short- term	1	3	**Risk:** • Increased severity of extreme weather events such as cyclones and floods. **Opportunities:** • Use of more efficient modes of transport • Use of recycling • Use of lower emission sources of energy	**Risk:** • Reduced revenue, negative impact on workforce, loan defaults and write-offs. **Opportunities:** • Business expansion and risk diversification • Reduced operating costs (through efficiency gains and cost reductions) • Reduced operational costs (e.g., through use of lowest cost abatement)

Time frame	From (years)	To (years)	Description of specific climate-related issues having a material financial impact	Material Financial impact on the Bank
Medium- term	3	10	**Risk:** • Changes in precipitation patterns and extreme variability in weather patterns. • Rising mean temperatures • Enhanced emissions-reporting obligations • Substitution of existing products and services with lower emissions options • Unsuccessful investment in new technologies • Changing customer behaviour • Shifts in consumer preferences • Stigmatization of sector (s) **Opportunities:** • Use of more efficient production and distribution processes (100% automation and paperless banking) • Reduced water usage and consumption • Use of new technologies in energy sources • Shift toward decentralized energy generation (harness solar energy) • Development and/or expansion of low emission goods and services • Development of climate adaptation and insurance risk solutions for customers • Development of new products or services through R&D and innovation. • Ability to diversify business activities • Participation in renewable energy programs and adoption of energy efficiency measures	**Risk** • Reduced revenue, negative impact on workforce, loan defaults and write-offs. • Reduced revenue and higher costs from negative impacts on workforce (e.g., health, safety, absenteeism) • Increased operating costs (e.g., higher compliance costs, increased insurance premiums) • Costs to adopt/deploy new practices and processes. • Reduced revenue from decreased demand for goods/ services **Opportunities:** • Increased production capacity, resulting in increased revenues. • Benefits to workforce management and planning (e.g., improved health and safety, employee satisfaction) resulting in lower costs • Reduced operational costs (e.g., through use of lowest cost abatement). • Increased revenue through demand for lower emissions products and services. • Better competitive position to reflect shifting consumer preferences, resulting in increased revenues

Time frame	From (years)	To (years)	Description of specific climate-related issues having a material financial impact	Material Financial impact on the Bank
Long- term	10	50	**Risk:** • Rising sea levels • Mandates on and regulation of existing products and services • Increased stakeholder concern or negative stakeholder feedback **Opportunities:** • Participation in carbon markets • Access to new markets • Use of public-sector incentives • Costs to transition to lower emissions technology	**Risk:** • Write-offs and early retirement of existing assets (e.g., damage to property and assets in "high-risk" locations) • Increased operating costs (e.g., higher compliance costs, increased insurance premiums). • Reputational loss **Opportunities:** • Reduced exposure to GHG emissions and therefore less sensitivity to changes in cost of carbon • Increased revenues through access to new and emerging markets (e.g., partnerships with governments, development banks) • Reduced operating costs (e.g., through efficiency gains and cost reductions)

The Bank has commenced building resilience for climate related financial risks and working towards deploying processes to determine risks and opportunities which could have a material financial impact on the Bank. Particularly on the environmental and climate risks, the Bank's approach is aligned to the principles of double materiality i.e., how its business is affected by sustainability issues (outside in) and how its activities can impact society and the environment. Since capacity building is a prerequisite in understanding this subject, the Banks' initial focus is on data source identification, gap analysis and a qualitative understanding of the risks. Climate related opportunities will be explored within the contours of the triple bottom line. The Bank has chalked out an internal plan over a short, medium and long term horizon.

Concentration of credit exposure to carbon- related assets

While every industry could experience potential financial impacts from climate-related risks and opportunities, the Task Force had identified a select list of non-financial industries (and their related supply and distribution chains) which are more likely to be financially impacted than others due to their exposure to certain transition and physical risks around greenhouse gas (GHG) emissions, energy, or water dependencies associated with their operations and products. These non-financial industries are grouped into four key areas (referred to as non-financial groups): Energy; Transportation; Materials and Buildings; and Agriculture, Food, and Forest Products.

It is pertinent to note that the term "carbon-related assets" is not well defined[4]. The Task Force encourages banks to use a consistent definition to support comparability and banks should describe which industries they include and exclude. The licensing guidelines of Small Finance Banks (SFBs)[5] overtly mandates to undertake basic banking activities of acceptance of deposits and lending to unserved and underserved sections including small business units, small and marginal farmers, micro and small industries and unorganised sector entities. Further, the SFBs are required to extend 75 per cent of its Adjusted Net Bank Credit (ANBC) to the sectors eligible for classification as Priority Sector Lending (PSL) by the Reserve Bank. Business operations targeted to these population groups aide in furthering the UN-SDGs of no poverty, gender equality, decent work and economic growth, reduces inequalities and partnerships for the goals.

Given that the objectives of setting up an SFB is to further financial inclusion through provision of savings and credit facilities to the population segment(s) as above, the Bank shall exclude such exposures which are eligible for categorization under Regulatory Retail[6] as per the Basel III capital regulations issued by the Regulator for the purpose of reporting exposure to carbon-related assets. The exposure to carbon related assets as at March 31, 2024[7] is as follows:

Rs. in crores

Exposure to carbon- related assets	Fund based exposure	Non- Fund based exposure	Investment Exposure	Total Exposure
Energy	-	-	-	-
Oil and gas	-	-	-	-
Coal	-	-	-	-
Electric utilities	-	-	-	-
Transportation	-	-	-	-
Air freight	-	-	-	-
Passenger air transportation	-	-	-	-
Maritime transportation	-	-	-	-
Rail transportation	-	-	-	-
Trucking services	-	-	-	-
Automobile and components	-	-	-	-
Materials and Buildings (manufacturing)	-	-	-	-
Metals and mining	-	-	-	-
Chemicals	-	-	-	-
Construction materials	-	-	-	-
Capital goods	-	-	-	-
Real Estate management and development[8]	107.26	2.37	-	109.63
Agriculture, Food and forest products	-	-	-	-
Beverages	-	-	-	-
Agriculture[9]	-	-	-	-
Packaged foods and Meats	-	-	-	-
Paper and forest products	-	-	-	-
Total	107.26	2.37	-	109.63

Describe the impact of climate related risks and opportunities on the organization's businesses, strategy, and financial planning

Empirical evidence demonstrates that the Bank's microfinance portfolio and to some extent, the exposure in the informal segments of Housing and MSME, are exposed to what may be classified as event risks. Historically, natural disasters or physical risks have affected credit portfolio performance. The Bank has experienced temporary spikes in the delinquency levels due to floods and cyclones in the past. Various reports from the scientific community indicate that the frequency and severity of such physical risk events are expected to increase with climate change and increase in Green House Gas (GHG) emissions. By virtue of being a new bank and focused on retail segment, transition risks by way of changes in policy, technology, legal and consumer sentiments are low since policy advocacy and research today is largely focused on carbon- intensive industry(s), where the exposure is currently nil. As at reporting date, transition risks in the Bank's existing portfolio is negligible. However, the Bank takes cognisance of the build-up of transition risks as the Bank now seeks to ramp up its MSME and Vehicle Loans segments.

The Bank believes that it is imperative to have a framework to recognise, evaluate, monitor, and manage climate related issues in its day-to-day decision-making and incorporate elements of the 'sustainability dimension' while making credit decisions. The impact of climate related issues is factored in business strategy and financial planning as below:

Areas	Impact
Products and services	• A Working Group (WG) has been internally constituted to explore ways in innovating banking products and services. This WG is mandated to provide its recommendations on new products and service launches which aid in further the UN-SDGs. RBI has issued a circular defining a framework for acceptance of green deposits dated April 11, 2023. The circular has laid out detailed guidelines on the use of proceeds. Pending finalization of the Indian green taxonomy, as an interim measure, banks are allowed to allocate the proceeds raised through green deposits towards green activities/projects[10] which encourage energy efficiency in resource utilisation, reduce carbon emissions and greenhouse gases, promote climate resilience and/or adaptation and value and improve natural ecosystems and biodiversity. The WG is currently exploring the feasibility of introducing new products and services which are aligned to the principle of triple bottom line. • From a risk management perspective, the Bank has identified the key exposure segments which are exposed to physical risks.

[4] Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures

[5] https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=32614

[6] Clause 5.9 of **Master Circular - Basel III Capital Regulations dated April 1, 2024**

[7] For the purpose of reporting exposure in carbon sensitive assets, the Bank shall report exposure as at year end date for ease of comparison.

[8] Commercial Real Estate exposure as at reporting date

[9] The Bank's exposure to agriculture at a borrower level qualifies for classification under Regulatory Retail attracting 75% risk weight. Further, since Agriculture is a Priority Sector Lending as per RBI guidelines, they are not considered as 'Carbon Sensitive Assets'.

[10] Adopted from the list of eligible green projects falling under Eligible Categories defined in Table 1 of the Government of India's 'Framework for Sovereign Green Bonds' published on November 9, 2022.

Areas	Impact
Supply chain and/or value chain	• As an immediate focus, the Bank strives to contribute to the growth of the local economy which leads to increased job creation, higher income levels, and overall economic development. 100% of the Bank's procurements in the last three fiscal years were made from locally sourced suppliers. While the overt inclusion of climate related issues in supply chain management is yet to be formally analysed and factored, one of the associated benefits from the practice of sourcing from local suppliers is minimizing the business continuity risks due to disruptions from climate related physical risks. • From Business Continuity management, the Bank is in the process of putting in place a framework to analyse the interrelations between climate risks and operational risks.
Adaptation and mitigation activities	The Bank has adopted a research driven approach in building capacity to implement environmental adaptation and mitigation activities.
Investment in research and development	• The Bank has adopted a research driven approach in building capacity to understand the interrelationships of climate issues with business operations. To that effect, the Bank has instituted an independent Enterprise Risk Management (ERM) unit comprising of a small group of personnel within the risk management unit. This unit is mandated to adopt a research based approach in identifying emerging risks which can culminate into policy advocacy. • In addition to risk management, personnel from various units within the Bank have also been exposed to various training programs on sustainability and climate risk management.
Operations	• A decarbonisation strategy is being developed and is expected to be rolled out FY 2024-25. Since industry consensus is yet to achieved on these risks, the Bank plans to engage with its stakeholders including clients, peer banks, regulators and Governments and climate scenario providers for accelerating low carbon transition. • As an initial step, The Bank has discontinued the use of paper cups and plastic water bottles, replacing them with glass and ceramic alternatives.
Acquisitions and divestments	No action envisioned currently.
Access to capital	No action envisioned currently.

Strategy on GHG emissions and targets:

The energy consumption pattern within the Bank is actively monitored and energy usage is efficiently managed along with the Greenhouse Gas (GHG) emissions. The electricity consumption is monitored periodically and aggregated in line with the billing cycle for all offices at the corporate level. By categorizing emissions into Scope 1 and Scope 2, a comprehensive approach is adopted for addressing the environmental impact. The Bank is currently developing the required tracking and management systems to monitor its Scope 3 emissions, which will be reported in the subsequent years. As generally observed in the banking sector, the usage of grid electricity is for offices and ATMs and diesel generators are used to generate electricity during power outages. These activities fall under the categories of Scope 2 and Scope 1 emissions, respectively, as per the Greenhouse Gas (GHG) emission classification. The Bank's emissions are calculated as per the GHG protocol and relevant factors are derived from The Intergovernmental Panel on Climate Change (IPCC). The details of Scope 1 and 2 emissions are furnished in the Bank's Sustainability Report. On setting GHG emission targets, emissions intensity and exploring on net-zero goals, it is imperative that the Bank undertakes a detailed review of its current and projected emissions. To that effect, the Bank has onboarded a knowledge partner who will be working closely with the Bank.

Describe the resilience of the organization's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario

A report of the Ministry of Earth Sciences[11], Government of India had concluded that since the middle of the twentieth century, India has witnessed a rise in average temperature; a decrease in monsoon precipitation; a rise in extreme temperature, droughts, and sea levels; as well as increase in the frequency and intensity of severe cyclones. There is compelling scientific evidence that human activities have influenced these changes in regional climate. These developments pose challenges for humanity and warrant an immediate, large-scale and rapid reduction in GHGs. The complexities are exacerbated on account of the uncertainties in the timing and severity of climate-related and environmental risk which can threaten the safety, soundness and resilience of the Bank. The Bank is closely following the progress made in achieving the 2015 Paris climate goals[12]. As per the IPCC's Sixth Assessment Report (AR6), there is a more than 50% chance that global temperature rise will reach or surpass 1.5 degrees C (2.7 degrees F) between CY2021 and CY2040 across studied scenarios, and under a high-emissions pathway, specifically, the world may hit this threshold even sooner — between CY2018 and CY2037. Global temperature rise in such a carbon-intensive scenario could also increase to 3.3 degrees C to 5.7 degrees C (5.9 degrees F to 10.3 degrees F) by 2100.

The Bank is cognizant of the inverse relationship shared between physical risks and transition risks. To that effect, the Bank has made a preliminary analysis on how climate change (physical risk) and climate policy and technology trends (transition risk) could evolve in different futures using the scenarios prescribed by the Network for Greening the Financial System (NGFS)[13] . The analysis was largely linked to credit losses, in that, the pathways assumed in each scenario on default rates and loan collection trends were stressed using basic sensitivity analysis. While these results were not used in any strategy setting, it helped the Bank in establishing a roadmap to project the term structure in default estimates under various scenarios. The Bank intends on enhancing these risk assessment models in line with industry practices.

In FY 2021-22, the Bank had created a Floating Provision amounting to Rs. 250 crores to act as an umbrella cover for any future instances of stress affecting repayment behaviour. In line with RBI guidelines, the Bank has identified extra ordinary situations which refer to losses which do not arise in the normal course of business and are exceptional and non-recurring nature. The extra ordinary circumstances include instances of natural calamities and financial losses attributable to climate change. The presence of these floating provisions provide the necessary resilience to financial losses on account of physical risks in the short term irrespective of NGFS pathways. It is imperative that the Bank develop necessary frameworks to manage physical risk over a medium- and long-term horizon.

In FY 2023-2024, the Bank has taken a major step in the direction of limiting the financial losses on account of climate induced physical risks. The Bank introduced exposure capping on the Microfinance business on certain districts which are assessed to be highly vulnerable to extreme weather event like flood and cyclones An Internal study was conducted to assess the historic impact of extreme weather events in these districts. An effort was made to limit the impact on the financial losses arising out of physical risk. These limits will be monitored Q-o-Q by Enterprise Risk Unit of the Bank, and in case of any breach, RMCB of the Bank will be notified. Bank has also put in place necessary capacity building especially for these vulnerable districts.

While transition risks are low as at reporting date, the Bank take cognizance of the future build up in transition risks as it seeks to expand its product offerings, particularly in the MSME segment. The Bank is currently adopting a research based approach in putting in place a suitable framework to manage the same. Transition risks are expected to be higher in the scenarios of divergent net zero and delayed transition pathways.

[11] This refers to June 2020 report titled, ''Assessment of Climate Change Over the Indian Region'', available at https://reliefweb.int/report/india/assessment-climate-change-over-indian-region-report-ministry-earth-sciences-moes

[12] Its overarching goal is to hold "the increase in the global average temperature to well below 2°C above pre-industrial levels" and pursue efforts "to limit the temperature increase to 1.5°C above pre-industrial levels."

[13] https://www.ngfs.net/ngfs-scenarios-portal/

Risk Management

Describe the organization's processes for identifying and assessing climate-related risks

Climate- related risks are transverse risk, in that, they are not a standalone risk but one that impact the traditional risk categories such as credit risk, operational risk and reputational risks etc. Given that this is a relatively new concept and that industry consensus on risk identification and measurement is yet to achieved, the Bank has adopted a research driven approach in putting in place a process for the same. To identify and assess climate risk drivers, the Bank is increasingly dependent on publications made by TCFD, NGFS, the Regulator and industry associations. Risk identification is largely through the grapevine approach where reliable information/ newsfeeds are deliberated at internal forums for its materiality on impact/ severity. Depending on the nature of the information received, the Bank then maps the risks which are likely to be impacted. As a next step, a gap analysis on the policy aspects is undertaken to identify areas for improvement.

In the initial stages, the Bank intends to focus on physical risks due to its materiality in credit performance and its business continuity. The Bank intends to leverage on its Probability of Default (PD) and Loss Given Default(LGD) estimates to develop stress testing outcomes. Likewise, scenarios using the NGFS framework are planned for usage in assessing an estimate on the unexpected losses. On the basis of outcome, the Bank shall undertake suitable risk management actions.

Describe the organization's processes for managing climate-related risks

Apart from risk identification and assessment, the Bank intends on using a combination of risk mitigation strategies such as risk acceptance with suitable controls, risk avoidance through policy making, risk limits through portfolio monitoring and EWS signals or risk transfer using tools such as insurance and securitization.

Since inception, the Bank's credit policy has adopted a risk avoidance strategy towards exposures classified as 'negative' as per the International Finance Corporation (IFC) checklist. The Bank refrains from lending to the following occupations:

- Gambling (Social)
- Alcohol (Social)
- Illegal business activities (Social)
- Business employing child labour (Social)
- Production or trade in any product or activity deemed illegal under host country laws or regulations or international conventions and agreements, or subject to international bans, such as pharmaceuticals, pesticides/ herbicides, ozone depleting substances, PCB, wildlife or products regulated under CITES (Environment and Social)
- Production or trade in weapons and munitions (Social)
- Production or trade in alcoholic beverages (excluding beer and wine) (Social)
- Production or trade in tobacco. (Social)
- Gambling, casinos and equivalent enterprises. (Social)
- Production or trade in radioactive materials. This does not apply to the purchase of medical equipment, quality control (measurement) equipment and any equipment where IFC considers the radioactive source to be trivial and/or adequately shielded. (Environment)
- Production or trade in unbounded asbestos fibres. This does not apply to purchase and use of bonded asbestos cement sheeting where the asbestos content is less than 20%. (Environment)
- Drift net fishing in the marine environment using nets in excess of 2.5 km. in length (Environment)
- Production or activities involving harmful or exploitative forms of forced labour/harmful child labour (Social)
- Commercial logging operations for use in primary tropical moist forest (Environment)
- Production or trade in wood or other forestry products other than from sustainably managed forests (Environment)
- Production, trade, storage, or transport of significant volumes of hazardous chemicals, or commercial scale usage of hazardous chemicals. Hazardous chemicals include gasoline, kerosene, and other petroleum products (Environment)
- Production or activities that impinge on the lands owned, or claimed under adjudication, by Indigenous Peoples, without full documented consent of such people (Social).
- As part of Climate Risk Management, Bank has introduced an update in its branch opening policy. The Bank studied the GUIDELINES FOR UPDATION OF COASTAL ZONE MANAGEMENT PLAN (CZMP) issued by Ministry of Environment, Forest and climate change, Government of India (MOEFCC) and buffer zones prescribed. As policy, at the time of branch opening, review of these buffer zones will form part of due diligence.

Bank's policy on financing/investment in coal and unconventional oil and gas industries:

With respect to energy, the Bank, by virtue of it being a Small Finance Bank, is mandated to ensure 75% of its ANBC to be directed toward Priority Sector Lending. The Bank's policy prohibits taking exposure in entities involved in the extraction and refinement of coal, conventional energy companies (generation, distribution and transmission activities) except through renewable energy sources and those entities involved in extraction/refining or processing of unconventional oil and gas. For energy related supply and distribution chains (petrol pumps/ gas stations), the Bank shall cap its exposure as a percentage to capital funds at 10%.

Definition of unconventional oil and gas for the purpose of strategy setting: In the oil and gas industry, the term "unconventional oil" refers to crude oil that is obtained through methods other than traditional vertical well extraction. Examples of such methods include developing oil sands, directional drilling, and hydraulic fracturing (colloquially known as "fracking"), among others.

The Bank is currently in the process of limiting its exposure to Physical risk through introduction of internal credit exposure limits. This is expected to be implemented in the ensuing financial year. For climate risk and business continuity, the Bank intends on commencing a Risk and Control Self-Assessment (RCSA) to understand the interactions of natural disasters and inherent control framework.

Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization's overall risk management.

In compliance to the Discussion paper on climate risk and sustainable finance by RBI, the Banks has factored climate related risks while preparing its Internal Capital Adequacy Assessment Process (ICAAP) document under Pillar 2 as prescribed under the Master Circular - Basel III Capital Regulations dated April 1, 2024, as updated from time to time. Climate risk is now classified as a material risk and approved by the Board vide meeting dated June 29, 2023. The Bank recognises that climate-related financial risks will have to be incorporated into ICAAPs iteratively and progressively, as the methodologies and data used to analyse these risks mature over time and analytical gaps are addressed.

Metrics and Targets

Disclose the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process.

The following are the metrics used by the Bank to assess climate- related risks and opportunities:

Metric category	Unit of measure	Rationale for inclusion
GHG Emissions: - Absolute Scope 1, Scope 2, and Scope 3 (work in progress) - emissions intensity	MT of CO2e	Disclosure of GHG emissions is crucial for users to understand the Bank's exposure to climate-related risks and opportunities. Disclosure of both absolute emissions and relevant emissions intensity provides insight into how the Bank may be affected by policy, regulatory, market, and technology responses to limit climate change.
Transition Risks: Amount and extent of assets or business activities vulnerable to transition risks	Amount or percentage	Disclosure of the amount and extent of the Bank's assets or business activities vulnerable to climate-related transition risks allows users to better understand potential financial exposure regarding such issues as possible impairment or stranding of assets, effects on the value of assets and liabilities, and changes in demand for products or services.
Physical Risks: Amount and extent of assets or business activities vulnerable to physical risks	Amount or percentage	Disclosure of the amount or extent of the Bank's assets or business activities vulnerable to material climate-related physical risks allows users to better understand potential financial exposure regarding such issues as impairment or stranding of assets, effects on the value of assets and liabilities, and cost of business interruptions.
Capital Deployment: Amount of capital expenditure, financing, or investment deployed toward climate related risks and opportunities	Reporting currency	Capital investment disclosure by financial organizations gives an indication of the extent to which long-term enterprise value might be affected.

Other metrics which will be deployed over time: climate related opportunities, internal carbon pricing and executive remuneration linked to climate considerations.

Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks

As at March 2024, total scope 1 and scope 2 emission per crore of turnover was 2.30 (2.28 as on March 2023). The Bank is striving to reduce Greenhouse Gas (GHG) generation in its facilities. The Bank has a project related to reducing Greenhouse Gas (GHG) emissions. The Bank operates a 3 KW solar power plant under the Operational Expenditure (OPEX) model, which contributed to energy consumption of 0.077 GJ in the fiscal year 2022-23 and 9.58 GJ in FY 2023-24. The bank is also actively exploring the feasibility of implementing rooftop solar panels at relevant office locations. The Bank does not operate in any ecologically sensitive areas.

GHG emissions: During the reporting period, the Bank analysed and accounted all of its Scope 1 and Scope 2 emissions. The Bank's emissions are calculated as per GHG protocol and relevant factors are derived from The Intergovernmental Panel on Climate Change (IPCC). Details of Scope 1 & 2 emissions are presented in the table below. The Bank intends to initiate accounting for Scope 3 emissions, creating a more robust GHG inventory progressively:

Parameter	Unit	FY 2023-24	FY 2022-23	FY 2021-22
Total Scope 1 emissions	tCO_2e	492.37	591.15	887.73
Total Scope 2 emissions	tCO_2e	11,938.60	10,279.02	13995.74
Total Scope 1 & Scope 2 emissions per crore of turnover	tCO_2e	3.97	2.28	2.30

Progress in energy consumption from renewable source: The Bank has strived to increased its energy consumption from renewable sources. Energy consumption from renewable sources has increased from FY 2022-23 of 0.077 GJ to FY 2023-24 9.58 GJ. At the branches, DG sets type provided by the vendor is 'PECH 25' which has been approved by ARAI for noise and pollution norms. At Unbanked Rural Centres (URCs) branches, 25 kVA DG sets are used while 5 kVA DG sets are being used at non- URC branches.

Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets.

The Bank has onboarded a knowledge partner in assisting the Bank with the ESG project and further refining its GHG and emission intensity metrics and targets. The partner will also assist in materiality/ gap assessments, setting an ESG strategy and roadmap, data management, reporting and disclosures and communication strategy.

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