State Bank of India

Climate Change Risk Management Policy

(Abridged Version)

Risk Management Department

Corporate Centre, Mumbai.

Climate Change Risk Management Policy

1. Objective and Scope of the Policy

1.1 The primary objective of Climate Change Risk Management Policy (Policy) is to guide the Bank to transition towards low carbon and climate resilient operations and investments. To achieve this objective, the Bank is committed towards:

a) Addressing climate change concerns by identifying and managing climate-related risks and opportunities.

b) Integrating climate-related risk (and opportunity) considerations within day-to-day operations, lending portfolios and overall decision-making.

c) Implementing climate risk assessment approach in accordance with internationally accepted guidelines such as Taskforce on Climate-related Financial Disclosures (TCFD), Basel Committee on Banking Supervision (BCBS), Network for Greening the Financial System (NGFS) amongst others.

d) Actively engage and collaborate with a range of stakeholders including investors, customers, government institutions, policy makers, non-government organizations, industry initiatives to advocate and support climate agenda.

e) Deliver low carbon investments, products, and services.

1.2 **Applicability:** The Policy shall be applicable to both domestic and international operations as well as the Bank's lending portfolio.

1.3 Based on the sources, emission of these GHG (Greenhouse Gases) can be categorized into three scopes:

Scope 1: Direct GHG emissions that are emitted from sources owned or controlled by the business/organization.

Scope 2: Indirect GHG emissions that are associated with the production of electricity, heat or steam that is used by the business/organization.

Scope 3: All indirect GHG emissions (not included in scope 2) that occur in the value chain of business/organization, including both upstream and downstream activities.

1.4 **Value Chain Assessment (GHG emissions):** The upstream activities in the value chain of the Bank that shall be considered are "Waste generated", "Business travel", "Employee commuting" & "Upstream leased assets" and downstream activity is "Investments" (which also known as financed emissions).

2. Climate Change Risk Management

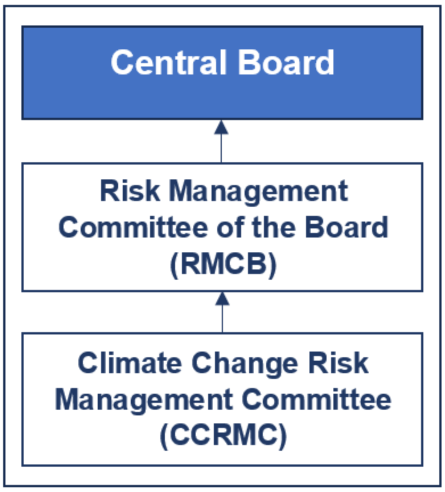
The Bank is committed towards integrating climate change concerns into its operations and decision-making to lend momentum towards transitioning to a greener and more climate resilient business.

2.1 Risk Governance

2.1.1 **Board oversight**: The Central Board shall have the primary responsibility of overseeing climate change related matters through the Risk Management Committee of the Board.

2.1.2 **Management oversight**: The Climate Change Risk Management Committee (CCRMC) shall be responsible for overseeing climate change matters at senior management level. The CCRMC shall meet once in a quarter or more frequently as required, and the proceedings of the meeting shall be placed before RMCB for information and for required recommendations/approvals.

Climate change risk governance structure



2.1.3 **Implementation of the Policy**: The Policy shall be implemented by heads of all business and operating units, integrating climate change considerations into their specific areas of business and operations.

2.2 Risk Identification and Assessment

2.2.1 Risk Identification:

The Climate change can impact the Bank through two broad channels, i.e., Physical Risks and Transition Risks.

- **Physical risks** occur from direct observable changes in the climatic systems which can inflict economic and financial losses. Physical risks are categorized into two types, Acute risks (arise from extreme weather events) and Chronic risks (arise from long-term changes in the climatic patterns).
- **Transition risks** arise from changes in policy, technology and shift in consumer and investor preferences to support transition to a low carbon economy. Since physical and transition risk channels can act as drivers for increasing traditional financial risks, assessment of climate change risks across all risk management

verticals - credit, market (collectively referred to as business risks) and operational shall be carried out.

The key climate-related risks that shall be explored include:

- **Operational Risks:** The risks that might be posed to the Bank's own operations due to changes in global and regional climatic conditions (i.e., physical risk drivers).
- **Business Risks**: The risks that might be posed to the Bank due to changes in the climate policy, technology, and market landscape (i.e., transition risk drivers) while transitioning towards a low carbon and green economy. Business risks include credit, market, liquidity, legal and reputational risks.

2.2.2 Risk Assessment:

Risks that climate change might present shall be identified at the operational and portfolio levels. Climate risk materiality view at a portfolio level shall be developed by the Bank to identify and prioritize customer segments and sectors for in-depth risk assessment by using suitable scenario analysis and stress testing mechanism.

2.2.3 Scenario Analysis:

Climate change scenario analysis is a tool that provides a structured way for the Bank to understand the potential impacts of climate change on its operations, balance sheet, profitability and lending/investments as these scenarios unfolds.

The implications of change in various climate-related parameters such as GHG emission intensity (per unit Rupee spent/lent), climate policies, technologies, long-term climatic conditions (temperature and rainfall) and extreme weather events on both own operations as well as investments shall be assessed.

2.2.4 Climate models/tools:

A number of tools are currently available to perform scenario analysis to assess implications of climate change. Depending on the nature of exposures, the use of Integrated Assessment Models (IAMs) or climate physical and transition risk assessment tools by various service providers, such as Global Change Assessment Model (GCAM), MESSAGE and Paris Agreement Capital Transition Assessment (PACTA) may be explored.

2.2.5 Stress Testing:

The Bank is process of developing an approach to stress test credit portfolio using NGFS (Network for Greening the Financial system) scenarios and may refer scenarios recommended by other agencies such as IEA (International Energy agency), IATA(International Air Transport Association), IMO (International Maritime Organization) etc.

Stress testing can be performed at different levels of granularity using Top-down macro analysis and Bottom-up micro analysis.

2.3 Climate-related Opportunities

In addition to climate-related risks, business opportunities presented by climate change shall also be explored, allowing the Bank to better position itself in not only reducing costs for own operations but also meeting growing demand for low carbon lending.

The Bank has adopted a target of achieving **carbon neutral status in scope 1 and 2 emissions by 2030** and is focusing on aligning its products and services with the United Nations Sustainable Development Goals (SDGs).

2.4 Risk Measurement

Climate-related risks can affect financial performance and position of the Bank now and in the future. Thus, while measuring business implications of climate change, the manner in which climate-related risks and opportunities are likely to affect current and future financial performance in terms of major impact categories (e.g. Revenues, Expenditure, Assets etc.) need to be assessed.

2.5 Internal Controls and Strategy

2.5.1 The Bank shall implement adequate internal control measures and climate risk management policies/strategies, in line with the various board approved Policies, with the aim of offsetting the potential impacts and/or reducing the severity of impacts of the identified climate-related risks.

2.5.2 To reduce the impact of climate change on the Bank's financial position, risk management strategies, as mentioned below, shall be deployed:

- **Management of operational risks:** Internal control measures developed by integrating climate risks into risk management processes and implementation of risk management strategies addressing relevant climate-related risks identified for the Bank's own operations.
- **Management of business risks**: Climate-related risks associated with the lending portfolio shall be addressed at sector level. The Customers of carbon intensive sectors shall be actively engaged to encourage them to enhance their

climate risk management processes by diversifying and transitioning towards more sustainable businesses.

2.5.3 **Time Horizon for identification of climate related risk and opportunities**:

The Bank shall consider short-term as up to 3 years, medium-term as 3 to 10 years, long-term as greater than 10 years, time horizon for identification of climate related risk and opportunities.

2.5.4 **Three Lines of Defense:** Climate-related risks shall be recorded as a qualitative statement at enterprise level and shall be managed by defining climate risk related responsibilities and KPIs across the 3 lines of defense (LoD), based on regulatory guidelines

First LoD: Business Units, Relationship Managers, Branch heads / Credit officers, Credit support functions, ESG & Climate Finance Unit.

Second LoD: Risk management.

Third LoD: Internal Audit Department.

2.5.5 **Net Zero Target:** The Bank has set an aspiration of achieving Net zero target (Scope 1, 2 and 3) by 2055.

2.5.6 **Training & Capacity Building:** The Bank shall ensure that the Board, Senior Management and Operating functionaries are adequately trained on climate related risk and opportunities, and its implications on the operations, business and risk profile of the Bank.

2.6 Risk Reporting and Monitoring

Regular, periodic progress reports showcasing the Bank's exposure to identified climate-related risks and its performance in managing them shall be presented to the senior management and the Board.

2.7 Metrics and Targets

The Bank is currently monitoring and reporting climate-related metrics such as GHG emissions, energy consumption, waste generation & recycling and water management as part of the larger sustainability programme. However, additional metrics that can enable qualitative and/or quantitative assessment of the Bank's exposure to climate-related risks and opportunities shall also be monitored and reported.

2.8 Disclosures

Going forward, the Bank shall annually disclose its approach for managing climate-related risks covering relevant climate-related information that is deemed material for investors, customers, and other stakeholders.

3 Review of policy

The Policy shall be reviewed by Central Board biennially or at earlier intervals, if necessary.

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