Punjab National Bank

Climate Risk Management Policy

(Abridged Version)

Integrated Risk Management Division

Head Office, Delhi

1. **Policy Overview**

   1.1. Climate risk refers to the potential financial losses and disruptions that can arise from the physical and transitional impacts of climate change. This encompasses a wide range of risks, including those associated with extreme weather events, shifting climate patterns, regulatory changes, and evolving market dynamics as economies transition towards lower-carbon activities. For banks, understanding and managing climate risk is becoming increasingly critical as it directly influences asset values, investment strategies, and overall market stability.

   1.2. Effective climate risk management requires banks to integrate climate considerations into their risk assessment frameworks, investment strategies, and corporate governance practices. By doing so, banks can not only mitigate potential losses but also capitalize on emerging opportunities in the evolving landscape of sustainable finance.

   1.3. The Policy on Climate Risk Management has been framed to address the evolving regulatory landscape, stakeholder expectations and measure, monitor, & manage climate risks effectively such that our Bank deals with the upcoming challenges and opportunities related to it.

2. **Objective**

   The objective of the Policy is to establish a comprehensive framework for climate risk management in the Bank. The purpose of this policy is to manage and mitigate the risks associated with climate change that could impact the Bank’s operations, customers, and financial performance. The policy aims to ensure the integration of climate considerations into Bank's overall risk management framework and to establish appropriate strategies and actions to address these risks and opportunities.

The Policy brings out Roles & Responsibilities at different level, strategy and Risk Management process for dealing with climate risk along with metrics and targets measure climate-related risks and opportunities.

3. Scope and Applicability

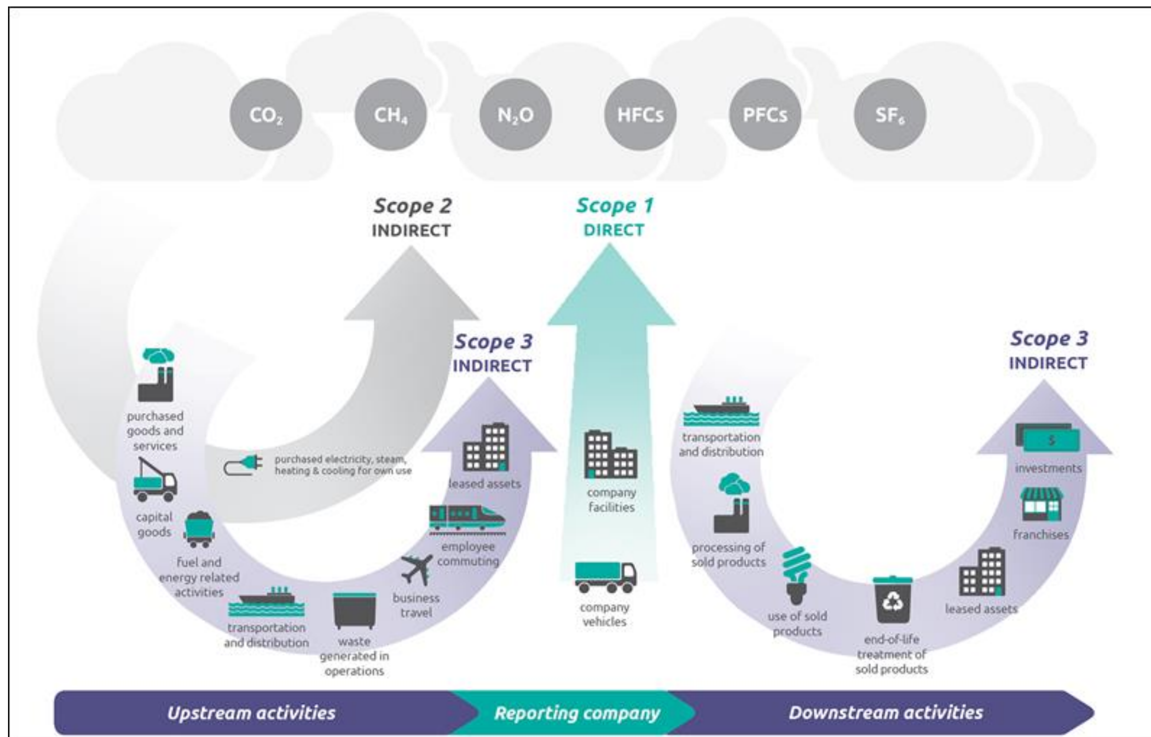
The policy will be applicable across the Bank. However, the policy will not be applicable to overseas branches.

4. Definitions of some important terms

a. **Climate Risk:** Climate-related risks refer to the potential risks that may arise from climate change or from efforts to mitigate climate change, their related impact and the economic and financial consequences. It can impact the financial sector through two broad channels, i.e., physical risks and transition risks.

b. **Physical Risk:** means the economic costs and financial losses resulting from the increasing severity and frequency of:
   - i extreme climate change-related weather events such as floods, heatwaves, landslides, storms and wildfires known as acute physical risks;
   - ii longer-term gradual shift of the climate such as changes in precipitation, extreme weather variability, ocean acidification, and rising sea levels and average temperatures known as chronic physical risks; and
   - iii indirect effects of climate change such as loss of ecosystem services (e.g., water shortage, degradation of soil quality, or marine ecology).

c. **Transition Risk:** means the risks related to the process of adjustment towards a low-carbon economy, viz.
   - (i) Changes in climate-related policies and regulations,
   - (ii) Emergence of newer technologies
   - (iii) Shift in customers' preferences and behavior.



Source: GHG Protocol

d. **Scope 1 greenhouse gas emissions:** are direct greenhouse gas emissions that occur from sources that are owned or controlled by the Bank.

e. **Scope 2 greenhouse gas emissions:** are indirect greenhouse gas emissions from the generation of purchased or acquired electricity, steam, heating or cooling consumed by the Bank. Purchased and acquired electricity is electricity that is purchased or otherwise brought into the Bank's boundary. These emissions physically occur at the facility where electricity is generated.

f. **Scope 3 greenhouse gas emissions:** are indirect greenhouse gas emissions (not included in Scope 2 greenhouse gas emissions) that occur in the value chain of an entity, including both upstream and downstream emissions.

g. **Climate-related financial risks:** means the potential risks that may arise from climate change or from efforts to mitigate climate change, their related impacts and economic and financial consequences**.**

h. **Climate resilience:** means the capacity of a Bank to adjust to climate-related changes, developments or uncertainties. It involves the capacity to manage climate-related risks and benefits from climate-related opportunities, including the ability to respond and adapt to climate-related physical and transition risks. It includes both strategic and operational resilience of Bank to climate-related changes, developments or uncertainties.

i. **CO2 equivalent:** means the universal unit of measurement to indicate the global warming potential of each greenhouse gas, expressed in terms of the global warming potential of one unit of carbon dioxide. This unit is used to evaluate

releasing of (or avoiding releasing of) different greenhouse gases against a common basis.

j. **Financed emissions:** are the portion of gross greenhouse gas emissions of an investee or counterparty attributed to the loans and investments made by a Bank to the investee or counterparty.
k. **Greenhouse gases (GHGs):** are those gaseous constituents of the atmosphere, both natural and anthropogenic, that absorb and emit radiation at specific wavelengths within the spectrum of thermal infrared radiation emitted by the earth's surface, by the atmosphere itself, and by clouds. This property causes the greenhouse effect. Carbon dioxide (CO2), methane (CH4), and nitrous oxide (N2O) are the primary greenhouse gases in the earth's atmosphere.
l. **Scenario analysis** is a tool used to enhance critical strategic thinking. A key feature of the scenario analysis is to explore alternatives that may significantly alter the basis for "business-as-usual" assumptions. Accordingly, they need to challenge conventional wisdom about the future.
m. **Green Activities/ Projects:** means the activities/projects meeting the requirements given in RBI's Framework for Acceptance of Green Deposits;
n. **Green Deposit** means an interest-bearing deposit, received by the Bank for a fixed period and the proceeds of which are earmarked for being allocated towards green finance;
o. **Greenwashing:** means the practice of marketing products/services as green, when in fact they do not meet requirements to be defined as green activities/ projects.
p. **Green Bond: Green bonds are bonds whose proceeds are earmarked for environmental projects.**

5. Policy Content:

The policy on Climate Risk Management has been organized into following four sections in line with TCFD recommendations:

A. Governance

To ensure that climate risk oversight is embedded at all levels of the Bank, promoting a culture of proactive management of climate-related risks and opportunities. Detailed Roles and Responsibilities at different level have been enumerated.

This section covers:

a. Description of Governance structure for effective oversight and management of climate-related financial risks.
b. Description of the roles of the board and senior management in assessing and managing climate risks and opportunities.

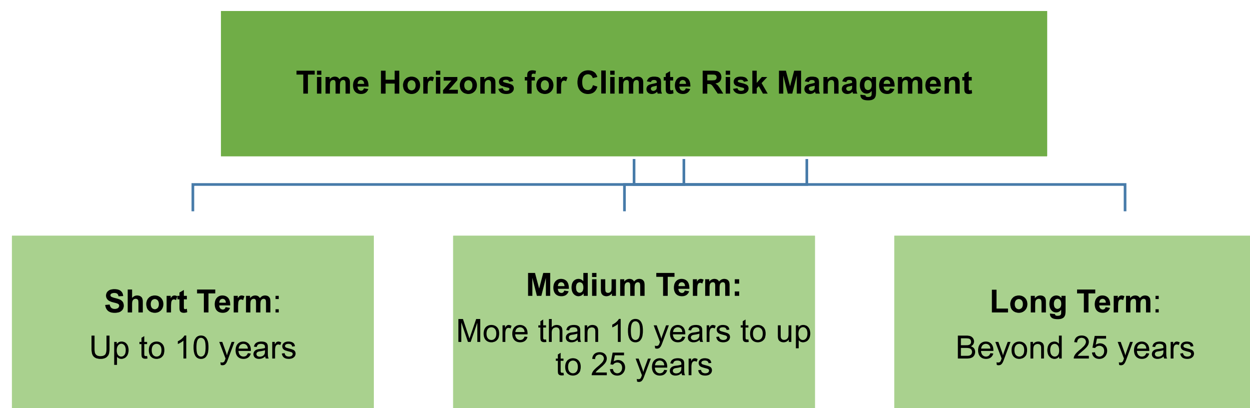
B. Strategy

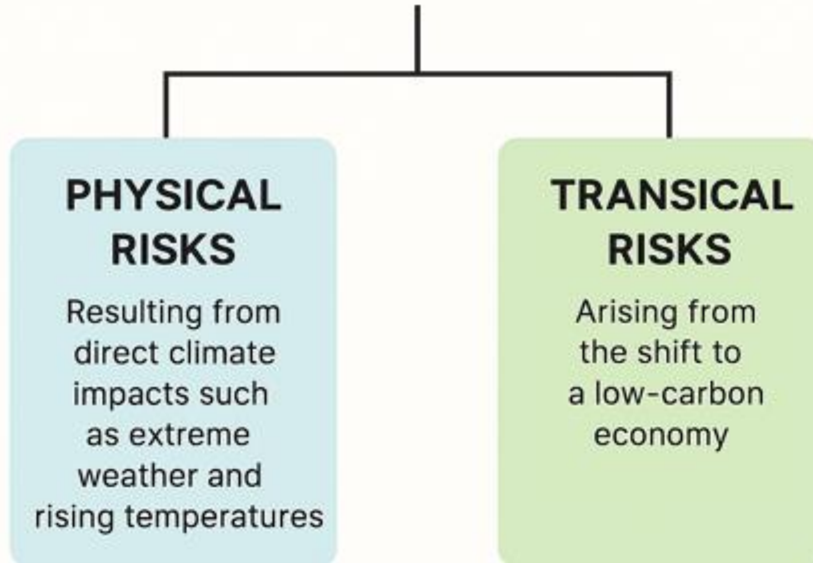
This section covers

a. Identification of climate-related risks and opportunities for the Bank over the short, medium, and long term.
b. Bank's strategy for addressing climate risks over the short, medium, and long term.
c. How the Bank plans to mitigate potential climate-related risks.

Risks and Opportunities: The Bank acknowledges that climate change presents both risks and opportunities. Transitioning to a greener and safer environment is not only desirable—it is imperative. Our strategy is designed to mitigate adverse impacts while unlocking new avenues for sustainable growth.

Time Horizons: To ensure clarity and prioritization, climate-related risks are segmented based on their potential financial impact across three time horizons:





Each risk is assessed for its likelihood, impact, and transmission across financial channels.

These climate related risks can be visualized to affect different risk transmission channels as below:

Risks affected	**Physical**		**Transition**	
Risks affected	Climate-related	Environmental	Climate-related	Environmental
	a) Extreme weather events b) Chronic weather patterns	a) Water stress b) Resource scarcity c) Biodiversity loss d) Pollution e) Other	a) Policy and regulation b) Technology c) Market sentiment	
Credit	The probabilities of default (PD) and loss given default (LGD) of exposures within sectors or geographies vulnerable to physical risk may be impacted, for example, through lower collateral valuations in real		Energy efficiency standards may trigger substantial adaptation costs and lower corporate profitability, which may lead to a higher PD as well as lower collateral values	

Risks affected	Physical	Transition
	estate portfolios as result of increased flood risk.	
Market	Severe physical events may lead to shifts in market expectations and could result in sudden repricing, higher volatility and losses in asset values on some markets.	Transition risk drivers may generate an abrupt repricing of securities and derivatives, for example for products associated with industries affected by asset stranding
Operational	The bank's operations may be disrupted due to physical damage to its property, branches and data centres as result of extreme weather events.	Changing consumer sentiment regarding climate issues can lead to reputation and liability risks for the bank as a result of scandals caused by the financing of environmentally controversial activities.
Other risk types (liquidity, business model)	Liquidity risk may be affected in the event of clients withdrawing money from their accounts in order to finance damage repairs.	Transition risk drivers may affect the viability of some business lines and lead to strategic risk for specific business models if the necessary adaptation or diversification is not implemented. An abrupt repricing of securities, for instance due to asset stranding, may reduce the value of banks' high quality liquid assets, thereby affecting liquidity buffers.

Details of opportunities identified with the potential to have a substantive financial or strategic impact on Bank's business: A repository of climate related opportunities has been created, which is updated as and when required. Inclusion of following opportunity drivers will be ensured:

- ***Resource Efficiency***: Refers to opportunities related to improving resource efficiency across production and distribution processes, buildings, machinery/appliances, and transport/mobility.
- ***Energy Source****:* Refers to opportunities related to shifting energy usage toward low emission energy sources.
- ***Products and Services****:* Refers to opportunities related to innovation and development of new low-emission and climate adaptation products and services.
- ***Markets****:* Refers to opportunities in new markets or types of assets that may help organizations to diversify their activities and better position themselves for the transition to a lower-carbon economy.

- ***Resilience:*** Refers to opportunities related to the development of adaptive capacity to respond to climate change. They may be especially relevant for organizations with long-lived fixed assets or extensive supply or distribution networks; those that depend critically on utility and infrastructure networks or natural resources in their value chain; and those that may require longer-term financing and investment.

Segmented strategy for different sectors

- Promote Green Sectors (Short Term)
- Cautious Approach for Brown Sectors (Medium/ Long Term)
- Push towards efficiency in Hard to Abate sectors (Short/ Medium Term)

C. Risk Management

This section covers

a. Identification and assessment of climate-related financial risks, including credit, market, liquidity, and operational risks.
b. Description of processes for managing climate related risks.
c. Description of how processes for identifying, assessing, and managing climate-related risks are integrated into the organization's overall risk management.

A deliberate shift towards sustainability related financing would involve following two approaches:

A. Screening based approach

Screening based approach will involve identification of activities/ sector/ industries based on their impact on climate and/ or environment. In positive screening, Bank will identify the industries/ sectors that promote the transition to low-carbon

economy, enhance climate resilience, and achieve climate-related financing objectives like green sectors (renewable energy, clean transportation, energy efficiency, etc.)
In negative screening, Bank will be cautious for loan/ investments to industries/ sectors that are associated with activities harmful to the environment or do not meet specific environmental criteria like fossil fuel-based energy, etc.

B. Integrated approach

In this approach, all the loans and investment decisions irrespective of use of proceeds are examined through the lens of climate risk and environmental sustainability. Apart from the existing environmental stipulations, Bank would not impose any other conditions for now. However, Bank would continue exploring better identification of climate and environmental risk in decision making.

Bank has put in place a Financing Framework for Green, Social and Sustainability linked activities/ projects.A copy of financing framework and external review report/ second party opinion has been made available on Bank's website.

D. Metrics and Targets

This section covers

a. Metrics to measure climate-related risks and opportunities.
b. Measuring Scope 1, Scope 2 and Scope 3 greenhouse gas (GHG) emissions, and the related risks.
c. Setting of targets for reducing the bank's exposure to climate risks.

Identification and measurement of metrics, which aids in understanding, measuring and managing climate related risks and opportunities, will be carried out. These metrics will also be used to provide quantitative information to support decision-making, risk management, and strategic planning in the face of climate change. Guidance for climate risk metrics by regulatory (RBI/ SEBI) as well as research papers (BCBS/ UNEP) will be followed.

The Bank will monitor and report climate-related metrics such as GHG emissions, energy consumption, waste generation & recycling and water management as part of the larger sustainability programme.

GHG emission calculation for Scope 1, Scope 2 and Scope 3 including Financed Emissions are being carried out by our Bank. Further, emissions are disclosed in BRSR report.

Our Bank has declared target year for carbon neutrality as FY2031 outlining strategies and actions to achieve carbon neutrality.