



POLICY ON ICAAP, STRESS TESTING AND PILLAR III DISCLOSURES			
Approving Authority	Board of Directors		
RBI Seven Theme Category	Risk	Area	Enterprise Risk
Note No.	2024-25/1	Sub Committee Meeting Date	October 24, 2024
Note Type	Existing Policy		
Product	Bank Level		
Executive Summary			
Regulatory Circulars	<ul style="list-style-type: none"><li>• Master Circular - Prudential Guidelines on Capital Adequacy and Market Discipline- New Capital Adequacy Framework (NCAF)</li><li>• Basel III Capital Regulations of RBI, (for other pillar I/Pillar II risk management)</li><li>• Operating Guidelines for Small Finance Banks dated October 6, 2016</li><li>• Reserve Bank of India – Draft Master Direction on Minimum Capital Requirements for Operational Risk dated December 21, 2021</li><li>• Guidelines on Stress Testing dated December 2, 2013</li><li>• RBI guidelines on Securitization of standard assets dated September 24 ,2021</li><li>• Master Direction- Reserve Bank of India (Financial Services provided by Banks) Directions, 2016 updated as on September 25, 2017</li></ul>		



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## **POLICY ON ICAAP, STRESS TESTING AND PILLAR III DISCLOSURES (Extract on Climate & ESG risk management)**

**Corporate office Address:**

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<b>Policy Approval Committee</b>	
<b>Board Committee (Approving)</b>	Board of Directors
<b>Board Committee (Recommending)</b>	Risk Management Committee of the Board
<b>Management Committee (Proposer)</b>	Enterprise Risk Management Committee- Mgmt. Level
<b>Policy Owner</b>	Chief Risk Officer- Risk Management Chief Financial Officer- Business plan and financial projections
<b>Review Frequency</b>	At least on annual basis

***Extract from policy on Climate risk and ESG risk management***

**17. Climate Risks:**

Globally the efforts to address climate change have been growing across jurisdictions and an increasing number of central banks are either contemplating or are in the process of acting on this aspect as part of their mandates<sup>1</sup>. Further, climate change risk 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<sup>2</sup>. Notwithstanding the need to mitigate the risks arising out of extreme climate events, there is an increasing need for the financial system to move towards green financing, keeping in mind the social and developmental objectives of the country. Therefore, keeping in view India's national commitments and priorities, the Reserve Bank intends to prepare a strategy based on global best practices on mitigating the adverse impacts of climate change, learnings from participation in standard-setting bodies and other international fora<sup>3</sup>. The broad thrust of the strategy is presented under the following heads:

- Overview of climate related risk and its unique characteristics as applicable to Regulated Entities (RE)
- Broad guidance for all REs to have (i) appropriate governance (ii) strategy to address climate change risks and (iii) risk management structure to effectively manage them from a micro-prudential perspective
- Exploring how forward-looking tools like stress testing and climate scenario analysis can be used to identify and assess vulnerabilities in REs

Given that climate risk is an emerging topic, the best practices are yet to emerge. To that effect, the Bank, under ICAAP should furnish the internal progress achieved in capacity building and document the progress made thereof in compliance to TCFD disclosure frameworks.

**18. ESG Risks:**

As one of India's newest entrant to the Banking industry, the Bank has, since inception integrated Responsible Banking as one of its key differentiators. This Credo has seen considerable traction in the space of financial inclusion and economic justice. Thought leadership on sustainability issues should be one of the key philosophies which includes research culminating into policy advocacy. As part of ICAAP reporting, the Bank must furnish

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<sup>1</sup> [www.bis.org/bcbs/publ/d502.pdf](http://www.bis.org/bcbs/publ/d502.pdf) - BCBS - Climate related financial risks: a survey on current initiatives - April 2020.

<sup>2</sup> <https://www.rbi.org.in/Scripts/PublicationReportDetails.aspx?UrlPage=&ID=1174>

<sup>3</sup> Reserve Bank of India is a member of the Task Force on Climate Risk set up by the Basel Committee on Banking Supervision, NGFS, Financial Stability Board's Working Group on Climate Risk and Workstream on Climate Disclosures and the International Platform on Sustainable Finance.



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details on materiality/ gap assessment, developments on ESG strategy and roadmap, data management, capacity building, key risks identified and control testing framework, reporting and disclosures and communication strategy.

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