



ENVORONMENTAL, SOCIAL & GOVERNANCE POLICY

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Revision History and Approvals

ENVIRONMENTAL POLICY

Revision No.	Issue Date	Amendment Description
Renewal	2018-19	Resolution # 13/31/BOD/2018-19 on 28 <sup>th</sup> Sept 2018
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Renewal	2021-22	Resolution # 031/076/BOD/2021-22 on 5 <sup>th</sup> Feb 2022
Amalgamation		Proposed merging with ESG Policy

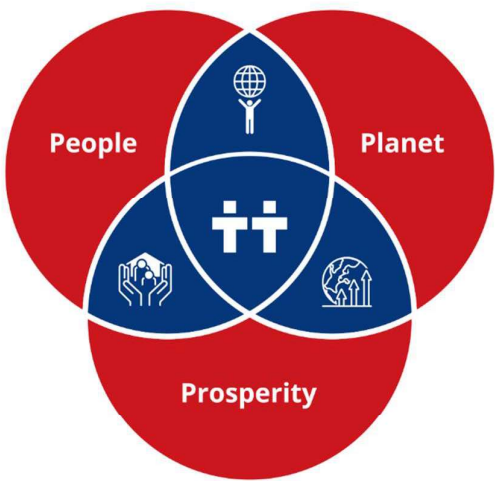
ESG POLICY

Revision No.	Issue Date	Amendment Description
Policy Adoption	2021-22	Resolution # 084/68/BOD/2021-22 on 29 <sup>th</sup> June 2021
Renewal	2022-23	First Renewal, merging with Environmental Policy

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**ESAF SMALL FINANCE BANK**  
**Environmental, Social & Governance Policy**



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## **Environmental, Social & Governance Policy**

### **1. Preamble**

The legacy of a mission, fighting the partiality of prosperity, has led to the formation of ESAF SFB with the vision **“to be India’s leading social bank that offers equal opportunities for the whole society through universal access and financial deepening, thus providing financial inclusion, livelihood and economic development as a whole”**.

Being aware of the need for a thriving regenerative & sustainable economy, the bank has been on a journey with a sharp triple bottom line focus – people, planet & prosperity in and through all its operations. Therefore, it is forthright for ESAF SFB to synergize for a better impact by joining the global community that institutionalizes and measures the triple bottom line through ESG Frameworks. By factoring ESG in banking services we can strive to maximize potential opportunities for all stakeholders, safeguarding, and continually building up opportunities for further growth.

### **2. Scope:**

The ESG Policy will provide an overarching framework, be integrated with all business processes and strategies of ESAF SMALL FINANCE BANK in order to ensure its alignment to the bank’s triple bottom line (People – Planet- Prosperity) principles, in line with the bank’s core values and business principles, it's business growth and impact appetites.-

All business verticals and processes shall comply to the Policy. The Policy applies to ESAF SFB and all its branches, representative offices, and legal entities that are under its control.

**Through the policy, the bank will express its commitment on the following:**

**Environmental:** - for a carbon neutral world with best practices of environment stewardship.

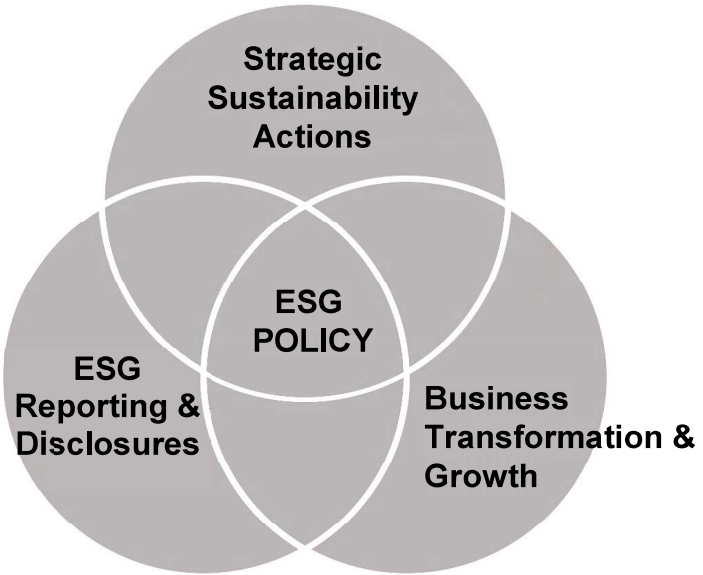
**Social:** -Fighting the partiality of prosperity, for a equitable society

**Governance:** being and multiplying servant leadership in governance structures that would synergize People, Planet and Prosperity.

### **3. Objective:**

The primary objective of the ESG Policy is to inculcate **environmental, social and governance** considerations into our business processes. This will also enable the bank to work with a focused approach to mitigate various potential threats like reputational risks, operational risks, credit risks, environmental risks, social risks and governance risks.

This policy is an expression of the ideals based on which the Bank has constructed its perfection, monitoring and reporting frameworks; and serves as the bedrock on which subsequent mechanisms, processes and initiatives can be built; ensuring consistent standards across the organization.



The policy will enable the bank to work towards creating a sustainable, equitable and inclusive society through the products and services that will pave way to promote resilience among all the stakeholders.

Through this policy, the bank will constantly endeavor Strategic Sustainability Actions, that would contribute towards Business Transformation and Growth and would show forth accountability through ESG Reporting and Disclosures.

3.1 Strategic Sustainability Actions

3.1.1 Products & Services with ESG Quotient

The Bank will endeavor products and services that will enhance sustainability in measurable terms of its contribution to SDGs as defined by the United Nations. The bank will measure the ESG Quotient of each product and promote products of high ESG Quotients as a strategic action

3.1.2 Processes

The Bank will imbibe sustainability concerns in all processes. The bank will constantly endeavor the development and refinement of department level processes with ESG focus

3.1.3 Policies

The Bank will develop and keep refining policies with sustainability lens

3.2 Business Transformation and Growth

The Bank will endeavor Business Transformation and Growth by promoting products and services measuring its impact through its ESG Quotient. In that process, the power of the bank’s products and services to transform the lives and communities through the business growth – the synergy of business growth for social and environmental transformations.

3.3 ESG Reporting & Disclosures

The bank will integrate ESG parameters in the Annual Reporting, BRSR as the Govt of India, Integrated Reporting, Sustainability Reporting and Carbon Disclosures.



#### 4. ESG POLICY STATEMENT

**ESAF SMALL FINANCE BANK is committed to:**

- 4.1 Institutionalize policies and practices to continually monitor and reduce the adverse impact of our operations on the environment.
- 4.2 Offer products and services which would assist in improving the lives of the marginalized populations of India and to fight the partiality of prosperity.
- 4.3 Establish a robust and updated governance framework that will ensure accountability, transparency and compliance to internal and external standards.
- 4.4 Build the capability of all stakeholders to internalize and implement the ESG standards and best practices in letter and spirit.

#### 5. ESG APPROACH

The Bank shall focus not only at creation of financial and economic value but also at long term environmental and social value, working with the wide range of stakeholders; including shareholders, employees, customers, suppliers, communities, and business partners, with particular consideration for the needs of future generations. There is specific focus in each section of **Environmental (E)**, **Social (S)** and **Governance (G)** as discussed below in detail.

##### 5.1 ENVIRONMENT:

###### 5.1.1 ESFB ENVIRONMENT COMMITMENT STATEMENT

**ESAF SMALL FINANCE BANK is Committed to**

- 5.1.1.1 Building awareness and participation to environmental protection, climate change risk mitigation and compliances among staff, customers and other stake holders, through environment-friendly lifestyle.
- 5.1.1.2 Facilitating the development and access to clean energy and natural resources for SMALL FINANCE BANK customer community, especially the economically deprived and the marginalized by providing appropriate financial products, services and training, thus responding to climate change risks.
- 5.1.1.3 Promoting the stewardship of natural resources, eco-friendly livelihoods, green enterprises, local economic ecosystems etc, in line with the Sustainable Development practices for an inclusive society.

###### 5.1.2 Green Finance:

The Bank shall actively engage in promoting sustainable development, with products and services that will actively contribute to achieve Sustainable Development Goals, in particular, SDG-15 (Life on Land), SDG 14 (Life Below Water); SDG 13 (Climate Action), SDG 11(Sustainable Cities and Communities), SDG 7(Affordable and Clean Energy) and SDG 6 (Clean Water and Sanitation).

Through a green finance emphasis, the Bank shall promote sustainable agriculture, forestry and fishery practices and would actively participate in multi-stakeholder initiatives to pave way and set standards for sustainability. The Bank shall introduce Innovative types of financing which shall generate important environmental and biodiversity benefits.

The lending practices of the Bank shall purse mitigation of environmental issues faced by the society by promoting a low carbon economy. The Bank shall put sustainability objectives to maximize the shareholder value and customer satisfaction, actively striving to finance activities and transactions that promote sustainability. The Bank shall provide greater impetus to the financing of sustainable products and projects like renewable energy - for example, solar energy, wind energy, small-scale hydro power, sustainable biomass production etc. Loan products shall also be designed to reward products and projects that would promote a regenerative /circular economy and follow green practices. For example, preferential mortgage-based loans for energy efficient houses, use of sustainable building materials etc. ESG Impact Assessment will be a part of the lending practices



**5.1.3 Green Procurement:** The Bank will work towards a greater integration of environment and social considerations in procurement practices. We will take steps to ensure that the products that are utilized by the bank, its stakeholders during the operations will be energy efficient having only minimum impact on the environment.

**5.1.4 GREEN PROTOCOL TO REDUCE GHG EMISSIONS:**

The Bank shall follow a green protocol that instills the importance of leading an environment friendly life, pursuing the saving of energy, water and resources and reducing the effect of pollution.

Principle	Context
Aim Paperless	This helps us to reduce deforestation which will thereby promote good environment for the future generations.
Save Energy	This aims at reducing the usage of conventional electricity thereby promoting the use of renewable energy resources.
Save Water	This aims at proper and cautious usage of water resources thereby ensuring its availability for the future generations.
Beat the Plastic Pollution	This aims in reducing the usage of plastics that adversely pollute the environment as human health.
Go Green & Natural	This aims afforestation that will thereby improve the soil health and maintains the biodiversity of the ecosystem.
WoW- A War on Wastages	This aims in proper and cautious waste management thereby reducing the land pollution.
Beat the Air Pollution	This aims at transferring a clean and pollution free livable environment to the future generations.

**5.1.5 GREEN AUDITS TO REDUCE GHG EMISSIONS:**

Based on the Green Protocol, all the branches and departments of ESAF SFB shall be audited periodically (once a year) with a defined checklist. The outstanding branches and departments shall be rewarded with Green Branch Awards under various categories.

**5.2 SOCIAL:**

**5.2.1 ESFB SOCIAL COMMITMENT STATEMENT**

ESAF SMALL FINANCE BANK is committed to

**5.2.1.1** The development of an equitable society, fighting the partiality of prosperity, promoting awareness for social concerns among staff, customers and other stake holders.

**5.2.1.2** Strategic initiatives for diversity, inclusion, skill development, wellbeing for and among the stakeholder community for a just and fair society

**5.2.1.3** Facilitating inclusion, access and financial deepening to the customer community, especially the economically deprived and the marginalized by providing appropriate financial products, services and training for the building up of an equitable society.

**5.2.2 Diversity & Inclusion:**

We as a social bank is committed to establishing a diverse and rich workforce with fair and inclusive employment practices. The Bank strives to make every employee feel valued and respected. The Bank serves clients from every walk of life, background, origin, and aims to build a workforce that reflects this diversity. We aim to make people feel involved, respected and connected where the richness of ideas, backgrounds and perspectives are leveraged to create business value.

Diversity and inclusiveness include creating a working culture where visible differences such as age, gender, ethnicity, region, physical appearance, thinking styles and religion are valued; where everyone has the opportunity to develop skills and talents consistent with the bank’s values, business and objectives. We also have a good number of women employees which thereby proves our practice of our statements.





### **5.2.3 Continuous Learning & Development:**

ESAF SFB believes in moulding and shaping human capital/ our employees through a series of varied customized training and other engagement programs which will build positive attitude, right values, sound ethics and creative mind set. This thereby plays a vital role in Creating equitable opportunities to all employees to move up in the organization on the basis of their performance and ability, thereby checking employee turnover. We also have a robust Learning Management System (LMS) which will enable the employees to have a continuous learning that ensures equal opportunities to all. The Bank will continuously monitor the contribution of its training and development efforts to its performance and shall re-design programmes to increase its relevance and effectiveness.

### **5.2.4 Wellbeing of the Employees:**

The bank is very keen to ensure the wellbeing of its employees as well as their families. We believe that it is their good health and well being that will help them grow along with the bank. We have well defined health benefit plans/ insurance which makes them feel safe and secure. We also have a SOP on **Health and Safety at Workplace** that clearly defines various such aspects. There is a robust Grievance Redressal Mechanism in place which supports the employees when they experience any unpleasant situations.

### **5.2.5 Safe and Friendly Working Environment:**

We believe that it is the right of every employee to work in a friendly and comfortable ambience which will thereby improve their capabilities. It also makes them to trust the organization and work for the growth of the same. Sexual harassment /other harassment that falls within the purview of the Prevention of Sexual Harassment against Women should be taken up through the Internal Complaints Committee (POSH) constituted as per Law in the first instance itself.

### **5.2.6 Code of Conduct:**

We have a well-defined Code of Conduct document that throws light on the activities and disciplinary measures that is applicable to all the employees. Breach in the code on conduct will be result in the sanction of termination.

### **5.2.7 Employee Engagement:**

We have a sub team within our HR named SARG, which keenly promotes employee engagement activities among the employees. We also have ESAF Bank Shramjyothi which gives an opportunity for the employees to participate in the CSR activities of the Bank.

### **5.2.8 Giving Back to the Society:**

The Bank is committed to comply and excel in the Corporate Social Responsibility directives by the govt and would encourage active stakeholder engagement in the same

### **5.2.9 Inclusive Lending:**

The bank is committed to lend for an inclusive society, specifically contributing to sustainable development goals, in particular SDG1 (No Poverty), SDG2 (No Hunger), SDG 2 (Good Health and Well Being), SDG4 (Education), SDG5 (Gender Equality, SDG8 (Decent Work and Economic Growth), SDG10 (reduced Inequalities and SDG 16 (Just and Strong Institutions).

The bank shall take steps to empower women community by lending to the JLG groups. This helps them to sharpen their entrepreneurial skills and step into the business world. This not only empowers them but also makes them self sufficient and reliable. We also have handpicked asset and liability products that have a great social impact. We lend to a varied customer base from a street vendor to a business man with customized products with a vision to fight the partiality of prosperity.

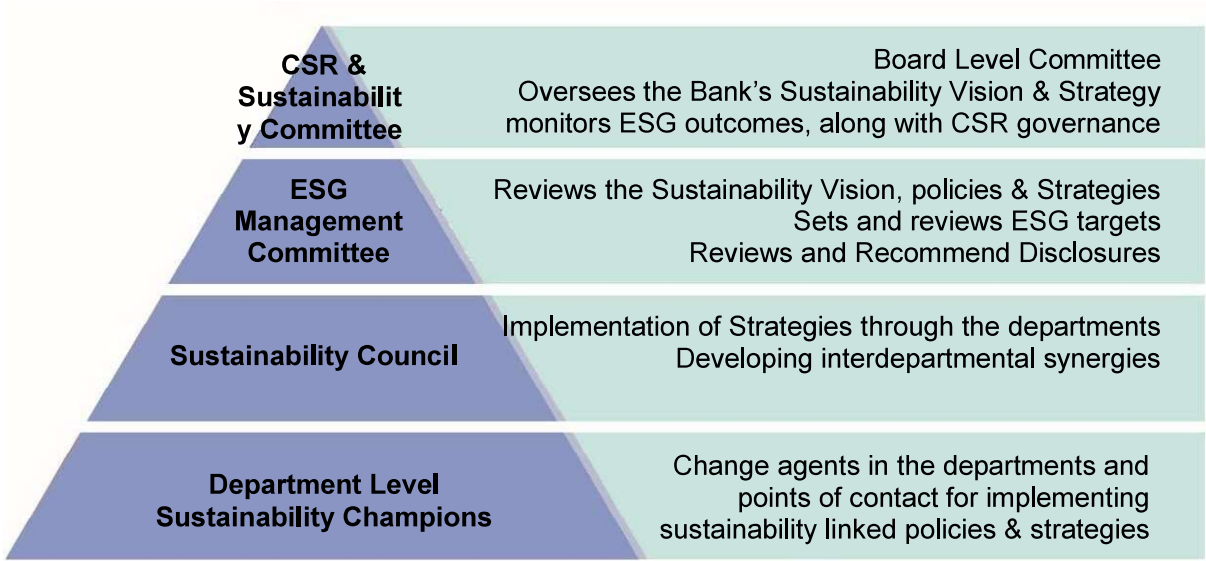


5.3. GOVERNANCE:

Strategic Sustainability Actions that will transform the business for a thriving regenerative economy and ESG reports and disclosures to testify the same.

A robust and transparent governance structure has been constituted to oversee the implementation of the ESG framework of the Bank and CSR & Sustainability Committee of the Board will be responsible for overseeing the development and implementation. The Committee’s responsibilities will include providing strategic direction to the Bank’s ESG performance taking into consideration the relevant risks and opportunities. Sustainable Banking Department will be responsible for the ESG framework of the Bank.

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5.3.1 BOARD LEVEL CSR & SUSTAINABILITY COMMITTEE

The ESG Policy governance will be headed by the Board Level CSR& Sustainability committee that will be ultimately responsible for the ESG Framework.

5.3.2 ESG MANAGEMENT COMMITTEE

The Board Level CSR & Sustainability Committee will be assisted by a **ESG Management Committee** consisting of MD & CEO as the Chair, EVP overseeing Sustainable Banking, Head (Sustainable Banking) and Company Secretary as members. MD&CEO is authorized to reconstitute the same as and when required. The quorum for the meetings will be three members present at the meeting.

The responsibilities of the ESG Management Committee shall be as follows

- A) Stewardship of ESG policy, setting ESG Goals & Targets and instituting monitoring mechanisms to track the outcomes.
- B) Half Yearly reports to the board with suggestions for interventions - through the Board Level CSR& Sustainability Committee.
- C) To recommend the ESG Disclosures to the Board through the Board Level Committee
- D) Identify action points for departments and send the directives concerning the same.
- E) Proposing Revisions to ESG Policy, and obtaining approval from the Board.





### 5.3.3 SUSTAINABILITY COUNCIL

The Sustainability Council is constituted with Sustainability Champions nominated by each department. The Sustainability Council will meet on a quarterly basis to report and develop inter departmental synergies for sustainability actions.

Sustainability Champions will undertake the below mentioned activities for and behalf of the Department / Business Vertical in coordination with Sustainable Banking Department

- A) Involve in Educating and creating awareness on Sustainability issues within the department and connected stake holders.
- B) Creatively enhancing the reach and impact of banking products for Triple Bottom-line and SDG Goals for a thriving business growth.
- C) Create an accountable system within the Department to observe green protocol norms and prepare the Branch/ Department for Green Audits and facilitate reports of sustainability regularly or as and when required.
- D) Initiate actions on the directives from Sustainability Council in the Department.
- E) Responding to the mitigation of Climate Change effects and other natural calamities through banking interventions.
- F) Ensuring how effectively ESG Policy, Sustainable Banking Policy and Environment Policy are deployed and complied in Department/Unit/ Branch/Cluster/Bank level operations and activities.
- G) Looking into the sustainability (in the overall Triple Bottom-line frame work of the Bank) while introducing any product or process in the Department

The Sustainability Council will meet periodically to develop interdepartmental synergies and report on the actions / implantation status of the directives by the ESG Management Committee

### GOVERNANCE PRACTICES

We are committed for maintaining the highest levels of ethical standards of integrity, corporate governance and regulatory compliance. Our Board of Directors is responsible for setting the course for, and evaluating the bank's performance with regards to corporate governance. The parameters of evaluation include compliance, internal control, risk management, information and cyber security, customer service, social & environmental responsibility. The Bank's corporate governance framework complies with the Companies Act, 2013, the regulations and guidelines of the Securities and Exchange Board of India ("SEBI") and the requirements of the listing agreements entered into, with the stock exchanges.

The Bank is committed to ensuring integrity and accountability in the functioning of its Board and management. The Bank has a Board Diversity Policy to ensure diversity with regard to experience, knowledge, education, skills, perspectives, geography, culture, age and gender among the members of the Board. The Bank's Policy on Dealing with Related Party Transactions ensures a proper approval and reporting framework for Related Party Transactions. The Bank's Compensation Policy applicable to Directors and all employees, ensures fair, consistent and equitable compensation practices in alignment with regulatory framework.

The Bank will remain committed to institute ethically sound principles through its policies that cover inter-alia money laundering, conflict of interest, insider trading, corruption, bribery, discrimination, confidentiality of information, anti-competitive practices, whistleblowing, community development and environmental protection.

The Bank is also committed to a fair, uniform and universal disclosure and dissemination of unpublished price sensitive information in compliance with all applicable laws. Accordingly, the Code of Practices and Procedures for Fair Disclosure of Unpublished Price Sensitive Information ensures disclosure of events and occurrences that would impact price discovery in the market no



sooner than credible and concrete information comes into being in order to make such information generally available.

## 6. Exclusion List for Combating ESG Risks

The bank has a details Exclusion List that defines the areas where the Bank will not lend.

- a) The Bank shall not purchase NPAs from other Banks/ Financial Institutions or take out loans from books of other Banks.
- b) The Bank shall not invest in credit derivatives or issue credit derivatives.
- c) The Bank shall not undertake financing of "Badla" transactions.
- d) The Bank shall not grant any loan / advance for subscription to Indian Depository Receipts (IDRs)
- e) The Bank shall not grant loans to individuals against shares, debentures and Bonds and to share and stock brokers/commodity brokers and market makers or to promoters of companies as the Bank does not intend to take up capital market exposure for the time being.
- f) The Bank shall not sanction loans for the purpose of acquisition of / investing in small saving instruments including Kisan Vikas Patras (KVPs).
- g) The Bank shall desist from granting advances to the silver bullion dealers which may be utilized for speculative purposes. Bank shall further desist from granting advances for purchase of gold in any form including primary gold, gold bullion, gold jewelry, gold coins, units of Gold Exchange Traded Funds (ETF) and units of gold Mutual Funds.
- h) The Bank shall desist from lending to some businesses which are not considered to be ethical and do not fit with company's policy like:
  - Gambling, Gaming, Casino's etc.
  - Alcohol-Manufacturing, Distribution etc
  - Illegal business activities
  - Business employing child labour
  - Production or trade in any product or activity deemed illegal in the country 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.
  - Production or trade in weapons and munitions.
  - Production or trade in tobacco.
  - Production or trade in radioactive materials. This does not apply to the purchase of medical equipment, quality control (measurement) equipment and any equipment where the radioactive source is trivial and/or adequately shielded.
  - 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%.
  - Drift net fishing in the marine environment using nets in excess of 2.5 km. in length.
  - Trade in wildlife or wildlife products in violation of regulations.
  - Logging of or trade in illegally harvested or uncertified timber as well logging in uncertified primary forest.
  - Activities resulting in significant conversion or degradation of a critical habitat.
  - Activities causing human rights violations, e.g. child labour, the exploitation of children, bonded and/or forced (child) labour and human trafficking.
  - Activities resulting in the infringement of the rights of indigenous and/or vulnerable groups without their Free Prior and Informed Consent (FPIC).
  - Commercial animal testing, non-healthcare related.
  - Production of or trade in pharmaceuticals, pesticide/herbicides, chemicals and ozone depleting substances subject to international phase outs or bans.
  - Burning of natural occurring ecosystems, such as forests for the purpose of land clearing for the establishment of large-scale agricultural plantations
  - Tobacco manufacturing and Tobacco trade or distribution of tobacco products.
  - Financing activities with use of Endangered Species for testing and experimental purposes.



- Activities violating the Basel Convention on the Control of Trans-boundary Movements of Hazardous Wastes and their Disposals.
- Shipment of oil or other hazardous substances in single hull tankers or tankers not compliant with IMO (International Maritime Organization) requirements.

**7. CONCLUSION**

The terms Green, Sustainable, Socially Responsible, and Triple Bottom Line now appear everywhere, from business news to mainstream news to super market store. But this has been the vision, life style and legacy of ESAF over a credible period –for nearly three decades. Seizing the opportunity to capitalize this legacy in Environmental Social & Governance impacts, through this policy, let us resolve for a new banking revolution, for a sustainable, regenerative economy as the economy of the future.

This Policy will be reviewed annually by the Corporate Social Responsibility and Sustainability Committee of the Board and the Board of Directors.