



---

# ESAF Small Finance Bank

## ESG Ratings Report

---

October 14, 2024



# CARE ESG Ratings Limited

India's premier category-I ESG Rating Provider (ERP)



CareEdge-ESG: Fostering sustainability with ESG insights



## VISION

Be the catalyst of change for a sustainable future with the most credible ESG assessments.



## MISSION

To empower informed sustainability decisions through high quality ESG assessments, driving stakeholder trust and positive change.



## VALUE

Integrity, pursuit of excellence, commitment and fairness.

## About CareEdge-ESG

CARE ESG Ratings Limited (CareEdge-ESG) (formerly known as CARE Advisory Research & Training Limited), a wholly owned subsidiary of CARE Ratings Limited, received approval from the Securities and Exchange Board of India (SEBI) to function as a Category I ESG Ratings Provider (ERP) and commenced its environmental, social and governance (ESG) rating activity on May 2, 2024.

CareEdge-ESG is a premier ERP that envisions being the catalyst of change for a sustainable future with the most credible ESG assessments. CareEdge-ESG has built a comprehensive framework that sources its key indicators from domestic and global standards, tuned to India-specific context.

CareEdge-ESG's assessments are based on an evaluation of more than ~1500 data points. The assessment model is based on indicator-level materiality approach to defining weights.

The growing importance of non-financial reporting is predicated upon the strong correlation between sustainability practices and the long-term success of a business enterprise. CareEdge-ESG's ratings will enable the issuer to discern steps towards the betterment of its sustainability performance by comparing itself to industry benchmarks and by gauging its relative standing amongst its peers.

CareEdge-ESG is part of the CareEdge Group which is a knowledge-based analytical group offering services comprising Ratings, Analytics, Consulting and ESG Ratings.

## Introduction on ESG Ratings

Environmental, Social, and Governance (ESG) ratings have become essential in the global investment landscape, driven by growing demand for sustainability and ethical considerations in decision-making. These ratings integrate various aspects of the company's disclosures, compliance, strategies, initiatives and performance across ESG areas into a single comprehensive score.

Establishing and effectively communicating clear ESG goals and targets significantly enhances the company's appeal to equity and debt investors. A strong ESG performance and demonstrated commitment to ESG principles bolster a company's brand presence and foster stakeholder loyalty. Moreover, a company with robust ESG credentials often finds greater opportunities to diversify its investor base and raise capital more efficiently.

In India, the importance of ESG is underscored by the Securities and Exchange Board of India's (SEBI) introduction of the Business Responsibility and Sustainability Reporting (BRSR) for the top thousand listed entities. This initiative standardizes ESG disclosures, promoting transparency and accountability. In congruence with this, CARE ESG Ratings Limited's (CareEdge-ESG) ESG ratings provide stakeholders with an independent assessment of companies' ability to manage ESG-related risks through disclosures, policies and performance.

Moreover, CareEdge-ESG's ratings enable investors, lenders and stakeholders to focus on individual themes by providing a hundred-point scale for each of the three pillars of ESG: Environmental, Social and Governance. Additionally, these ratings include assessing companies' performance across dominant themes within each pillar, offering a comprehensive view of their ESG-related risks, opportunities and performance.

Globally, there is a push towards more regulated and transparent ESG ratings, crucial for building investor trust. However, data accuracy and quality remain ongoing concerns. Accurate ESG data fosters consistency and comparability among rated companies, enhancing trust in the ratings. In response to growing demands, several global regulatory actions have been taken. India has implemented regulatory measures in 2022 following IOSCO recommendations on sustainability practices and disclosures in ESG investing. SEBI introduced regulations to enhance trust, prevent greenwashing, and ensure the methodological transparency and independence of rating agencies.

As ESG disclosures gain prominence, especially in the financial market, CareEdge-ESG's India-specific framework will support enhanced decision-making across stakeholders and contribute to the growth of the Indian economy.

### CareEdge-ESG Ratings Benefits

- Investor Attraction and Validation
  - ✓ Issuer specific assessment
  - ✓ Assists in expanding investor base to include ESG investors and make prudent impact investment decisions
- Brand Positioning
  - ✓ Helps attract and retain talent
  - ✓ Being socially and environmentally sensitive helps build goodwill

- Relative Positioning and Benchmarking
  - ✓ Relative position in managing risk through disclosures, policies and performance
  - ✓ Peer benchmarking at theme, activity and materiality level
- Managing Progress
  - ✓ Showcase ESG performance validated by CareEdge
  - ✓ Assists in making prudent impact investment decisions
- Risk Management
  - ✓ SWOT of the companies' ESG metrics
  - ✓ Create SMART (Specific, Measurable, Achievable, Relevant, Timebound) targets to de-risk exposure

## Methodology/Criteria

CareEdge-ESG employs a robust, objective and transparent methodology to assess companies across various industries & sectors. This methodology incorporates ~400 key indicators (KI) spread across twenty-four themes under the Environment (E), Social (S) and Governance (G) pillars. The purpose of this methodology note is to describe the CareEdge-ESG's rating framework and provide a step-by-step explanation of various components, and their weights used in the ESG scoring and modelling process.

CareEdge-ESG evaluates companies based on their ability to address ESG risks through policies, strategies, targets, initiatives, and performance. Companies are assigned an ESG score on a scale of 0-100, classified into 5 categories: Leadership, Strong, Adequate, Below Average, and Weak. For detailed definitions of ESG Ratings and their mapping to ESG Scores, please refer to [www.careedgeesg.com](http://www.careedgeesg.com).

CareEdge-ESG's ratings provide detailed Environmental, Social, and Governance pillar scores, each meticulously evaluated on a 100-point scale, alongside a single comprehensive ESG score. This dual-layered approach emphasizes not only the overall ESG performance but also offers deep insights into the specific areas of strength and concern within each pillar. By revealing the underlying pillar level weights and assessing all the themes based on their relative importance, this methodology grants investors, lenders, and stakeholders a thorough and nuanced understanding of a company's commitment to sustainable practices. This enables more targeted and informed investment decisions, leveraging both the granular detail of pillar-specific scores and the holistic view afforded by the comprehensive score.

An additional feature of CareEdge-ESG's Rating model is its Transparency score, which is evaluated based on company's public disclosures. This assessment focuses on KIs that are deemed 'critical' or 'good to have' by CareEdge-ESG. Furthermore, CareEdge-ESG extends its evaluation to consider the transparency level concerning 'essential' & 'leadership' indicators as outlined under BRSR. This robust assessment

framework not only underscores the depth of company's transparency but also enhances stakeholder confidence in the relevance of the ESG ratings provided by CareEdge-ESG.

## Evaluation Criteria

When evaluating a company's ESG performance, CareEdge-ESG focuses on several critical factors:

- The level and quality of disclosures
- The level of compliance, with relevant legal, regulatory and industry-specific ESG parameters
- The robustness of policies and targets as articulated through annual disclosures
- The effectiveness of strategies in attaining desired outcomes
- The impact of initiatives on key material performance and risk indicators
- The velocity of transition on key E, S and G parameters

The model captures ESG risk-based parameters and considers the softer aspects of ESG impact-based outcomes. It is highly responsive to sectoral nuances. For example, greenhouse gas (GHG) emissions are highly significant for an energy company compared to an insurance provider. Similarly, product stewardship is crucial for an FMCG company compared to a bank. The various levers in the different sector models enable the capture of these fine aspects.

## Data Sources & Rating Approach

In addition to the company provided data, CareEdge-ESG utilizes data from various sources, including company websites, sustainability and BRSR reports, press releases, investor presentations, and data reported by industry associations, regulators and government organizations. The latest available data in the public domain is used for peer review and benchmarking. CareEdge-ESG regularly monitors its rated portfolio for material developments and controversies.

CareEdge-ESG engages directly with the companies (issuers) it evaluates, establishing dialogues with senior management and sustainability leaders. These discussions aim to clarify publicly available data and delve deeper into each company's ESG philosophy, strategies, initiatives, targets and performance. This comprehensive engagement process enables CareEdge-ESG to incorporate qualitative judgment into its evaluations, ensuring that the ESG dataset is interpreted accurately and contextually. Such interactive assessments enhance the precision of ratings and enable a thorough understanding of a company's dedication to ESG principles.

CareEdge-ESG's Rating model is designed to minimize the element of subjective judgment in the overall ESG scores, through an objective and structured approach. Subjective assessments within the model are rigorously debated by industry experts through a robust rating committee process. This methodical scrutiny ensures that every aspect of the ESG rating is grounded in expert consensus and reflects a balanced view, enhancing the reliability and credibility of its ratings.

## Scoring Framework

CareEdge-ESG's evaluation is based on a mix of sector-agnostic and sector-specific indicators that are constructed keeping in mind the Indian specifications, standards, laws, regulations, and guidelines as well as global best practices. Key indicators are selected from frameworks such as BRSR, Global Reporting Initiative (GRI), Sustainability Accounting Standards Board (SASB), Task Force on Climate-related Financial Disclosures (TCFD), and Science Based Targets Initiative (SBTi).

The CareEdge-ESG's rating framework combines baseline indicators<sup>1</sup> that are common across sectors along with sector-specific indicators, particularly in the Environmental and Social pillars.

A bottom-up approach is used for assigning weights at the KI level, normalizing scores at the theme level, and standardizing scores through z-score comparisons, relative rankings and industry benchmarks. This method ensures the model is sector-agnostic and enables relative comparisons of companies based on their scores<sup>2</sup>.

CareEdge-ESG's rating model integrates multiple facets of ESG performance, ensuring that each score reflects industry-specific nuances and broader sustainability trends. ESG criteria have become essential metrics for evaluating the sustainability and ethical impact of companies. Investors, regulators and stakeholders increasingly rely on these criteria to make informed decisions.

## CareEdge-ESG differentiators



For detailed understanding of the criteria and methodology used by CareEdge-ESG, please refer to the methodology document available on [www.careedgeesg.com](http://www.careedgeesg.com)

<sup>1</sup> Baseline indicators include almost all KIs under the Governance pillar and few from Environmental and Social pillars

<sup>2</sup> While the model is sector agnostic, allowing for the comparison of scores of companies across different sectors, the interpretation of these scores must consider the relative importance of ESG themes and pillars specific to each sector.

## Disclaimer

The ratings issued by CARE ESG Ratings Ltd (CareEdge-ESG) are opinions about an issuer, regarding its ESG profile and relative position in managing ESG Risk through disclosures, policies and performance and are not recommendations or suggestion, directly or indirectly to any user, to buy, sell, make or hold any investment, loan or security or to undertake any investment strategy with respect to any investment, loan or security or any issuer. These ratings do not convey suitability of an investment or adequacy of market price for the investor. They shall not form the basis for any investment decisions or analysis and shall not be substitute for the skill, judgement and caution to be exercised by the user of such ratings while making business and investment decisions. CareEdge- ESG gives no representations or warranties regarding the use of these ESG Scores and related materials and/or their fitness for a particular purpose. The agency does not constitute an audit on the rated entity. CareEdge-ESG has based its ESG ratings/score based on information obtained from reliable and credible sources. CARE-ESG does not, however, guarantee the accuracy, adequacy, or completeness of any information and is not responsible for any errors or omissions and the results obtained from the use of such information. CARE ESG reserves the right to change the ESG ratings/ score from time to time in accordance with the methodologies, policies and procedures. CareEdge ESG rating/ scoring report and any related material are meant for informational and reference purpose only and shall not be modified, reverse engineered, reproduced, or distributed, in whole or in part, for commercial purpose, in any form or by any means, or stored in a database or retrieval system. No part of the ESG rating/ score report or any other related material shall be quoted or used without CareEdge ESG's prior written consent, as an input or constituent for deriving results, outputs, inferences which have not been independently verified or validated by CareEdge, for commercial purpose or otherwise. The ESG scores / ratings have been issued by CareEdge ESG for use by users in the jurisdiction of India in accordance with the applicable regulations. Any usage of the ESG rating by the entity rated shall be for internal reference purpose, reference of investors or for usage on the webpage of the rated entity and / or in the annual report or similar usage, however in each case with appropriate source credit to CareEdge ESG. Most entities who are rated by CareEdge-ESG have paid a fee, based on the complexity of rating assignment. CareEdge-ESG or its subsidiaries/associates/promoter may also be involved with other commercial transactions with the entity. CareEdge-ESG is not responsible for any errors and states that it has no financial liability whatsoever to the users of the ratings of CareEdge-ESG.

© 2024 CARE ESG Ratings Limited. All rights reserved.

## ESG Report: ESAF Small Finance Bank Limited

### Table of Contents

1. ESG Rating Scorecard	11
1.1 ESG Score and Rating	11
1.2 Key Rating Drivers	12
1.3 Benchmarks and Medians Based on Materiality	16
1.4 Benchmarks and Medians Based on Activity	17
1.5 Transparency Score	18
1.6 Rating History and Methodology	19
2. About the Company	20
2.1 Business Segments, Revenue and Market Capitalization	20
2.2 Areas of Operation	21
2.3 Ownership, Governance & Management Structure	21
2.4 Key ESG Targets and Initiatives	22
2.5 Materiality Assessment	23
3. Industry Overview	25
3.1 Industry Drivers	25
3.2 Regulatory environment around ESG stewardship	25
3.3 Outlook	25
4. Environmental Performance	26
4.1 Environment Performance Summary	27
4.2 Pillar Weight and Pillar Score	28
4.3 Theme Scores	28
4.4 Key Themes	30
(1) Climate Change risk management	30
A. Policy/Strategy	31
B. Targets	31
C. Initiative	32
D. Performance	33
(2) Carbon and Other Emissions	34
A. Policy/Strategy	34
B. Targets	35
C. Initiative	35
D. Performance	36

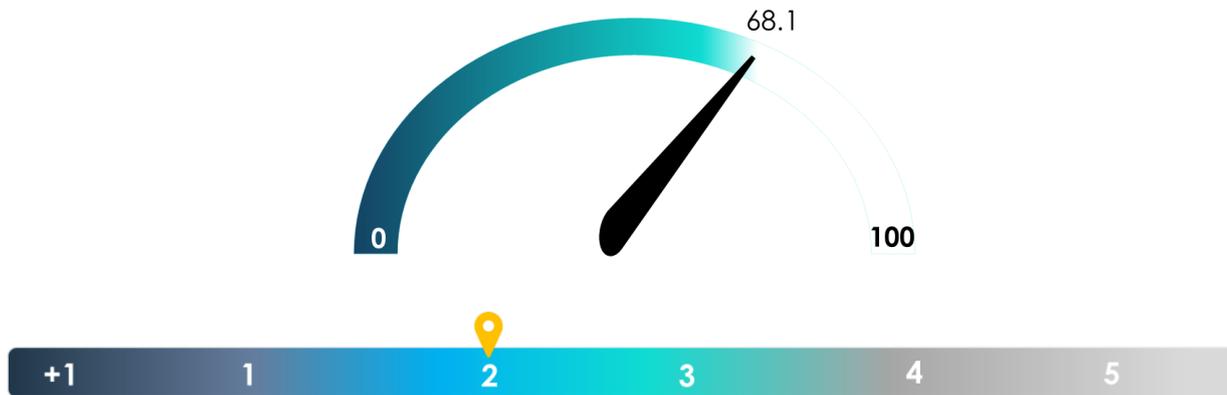
(3) Other themes (Low Material)	37
4.5 Environment Pillar – Transparency Score	37
4.6 Environment Pillar – Benchmarks and Medians based on Materiality	38
4.7 Environment Pillar – Benchmarks and Medians based on Activity	39
5. Social Performance	40
5.1 Social Performance Summary	40
5.2 Pillar Weight and Pillar score	41
5.3 Theme Scores	41
5.4 Key Themes	43
(1) Consumer Protection	43
A. Policy/Strategy	43
B. Initiative	44
C. Performance	45
(2) Community Support & Development	47
A. Compliance	47
B. Policy/Strategy	47
C. Initiative	47
D. Performance	48
(3) Privacy & Data Security	49
A. Policy/Strategy	49
B. Initiative	50
C. Performance	50
(4) Human Capital	52
A. Compliance	52
B. Policy/Strategy	52
C. Initiative	53
D. Performance	55
(5) Human Rights	56
A. Compliance	56
B. Policy/Strategy	56
C. Initiative	57
D. Performance	58
(6) Other themes (Low Material)	59
5.5 Social Pillar – Transparency scores	60
5.6 Social Pillar – Benchmarks and Medians based on Materiality	61
5.7 Social Pillar – Benchmarks and Medians based on Activity	62

6. Governance Performance	63
6.1 Governance Performance Summary	63
6.2 Pillar Weight and Pillar Score	63
6.3 Theme Scores	64
6.4 Key Themes	65
(1) Business Ethics	65
A. Compliance	66
B. Policy/Strategy	66
C. Initiative	67
D. Performance	68
(2) Oversight on ESG	69
A. Policy/Strategy	69
B. Initiative	70
C. Performance	70
(3) Reporting, Disclosures and Filing	72
A. Compliance	72
B. Initiative	72
C. Performance	73
(4) Board Composition	74
A. Compliance	74
B. Initiative	75
(5) Board Functioning	76
A. Compliance	76
B. Performance	77
6.5 Governance Pillar Transparency Score	78
6.6 Governance Pillar - Benchmarks and Medians Based on Materiality	80
6.7 Governance Pillar - Benchmarks and Medians Based on Activity	81
7. Controversies	82
7.1 Impact and Summary of Controversies	82
7.2 Impacted Themes and Pillars in CareEdge-ESG's Scoring Model	83
8. Glossary	84
9. Annexure 1	86

## 1. ESG Rating Scorecard

CareEdge-ESG has assigned ESAF Small Finance Bank Limited (ESAF SFB) an ESG rating<sup>3</sup> of **CareEdge-ESG 2** with an ESG score of **68.1**, which signifies 'Strong Position in managing ESG Risk through superior disclosures, policies, and performance'.

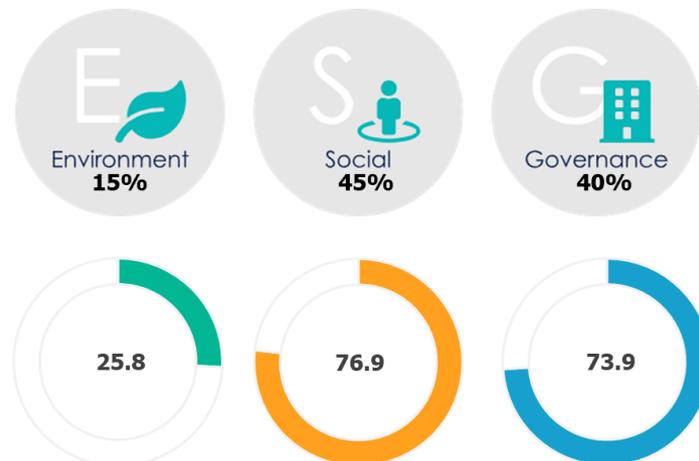
Please note all the scores mentioned throughout the report are on a scale of 0 to 100.



### 1.1 ESG Score and Rating

The ESG score based on FY 24 data and disclosures together with the constituent scores of the three pillars, and their weights are given in Exhibit 1.

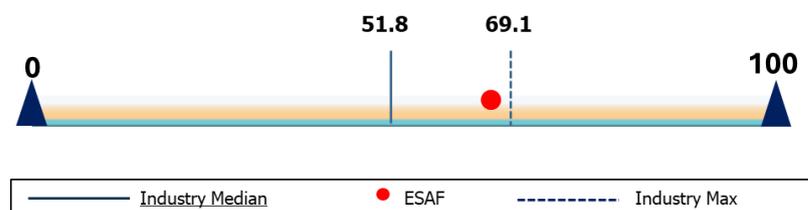
**Exhibit 1: Pillar Scores, Weights & ESG Score on 100-point**



Above Exhibit shows the relative standing of the company's ESG performance with respect to the industry median and the best-performing entity in the industry [Small Finance Bank (SFBs), Micro finance Institutions & Non-Banking Financial Institution (following similar business model as SFBs/MFIs)].

<sup>3</sup> Please refer the Annexure 1 for detailed ESG Rating/Score's Symbols, Scale & Definitions.

### Exhibit 2: Competitive Benchmarks & Median ESG Scores



ESAF SFB has performed significantly better than the industry median ESG score of 51.8. With superior disclosures, policies and performance across CareEdge-ESG parameters, ESAF SFB has obtained a strong position in the top quartile.

ESAF's overall and theme-wise score summary and industry benchmarks can be seen from the below table -

Theme	ESAF	Industry Min	Industry Median	Industry Max
Climate change risk management	32.2	0.0	6.6	35.2
Carbon and other emissions	15.4	0.0	11.5	42.5
Waste	34.1	0.0	22.3	72.2
Energy Efficiency	17.7	9.7	28.4	54.8
<b>Total Environment Score</b>	<b>25.8</b>	<b>1.3</b>	<b>13.2</b>	<b>34.5</b>
Consumer Protection	70.4	14.5	57.3	86.1
Community support & development	65.5	13.6	33.5	65.5
Privacy & Data Security	100.0	28.6	69.4	100.0
Human Capital	64.6	26.5	51.1	71.2
Human Rights	84.3	33.3	59.3	84.3
Product safety & quality	100.0	0.0	66.7	100.0
Employee health & safety	94.5	57.2	89.6	100.0
Value Chain	50.0	12.5	50.0	75.0
<b>Total Social Score</b>	<b>76.9</b>	<b>20.4</b>	<b>54.0</b>	<b>76.9</b>
Business Ethics	88.1	34.1	70.7	88.1
Oversight on ESG	78.2	43.6	50.5	92.1
Reporting, Filing and Disclosures	46.8	43.9	57.2	73.7
Board Functioning	78.9	61.3	82.6	97.6
Board Composition	83.3	66.7	83.3	95.8
Remuneration	38.1	0.0	36.2	58.7
<b>Total Governance Score</b>	<b>73.9</b>	<b>50.4</b>	<b>62.8</b>	<b>81.2</b>
<b>Total ESG Score</b>	<b>68.1</b>	<b>32.2</b>	<b>51.8</b>	<b>69.1</b>

## 1.2 Key Rating Drivers

The rating assigned to ESAF SFB takes into account its advanced stage of ESG stewardship focusing on people, planet, and prosperity. ESAF SFB, with a legacy spanning three decades, has products and

services targeted to the under resourced communities through its inclusive banking. The rating is further accentuated by the bank's leadership position in female workforce and concentration towards financial inclusion and sustainability, thus impacting lives across rural and semi-urban areas. The rating also factors in the long-term strategies and initiatives that the bank is taking to transition its sustainability performance. ESAF SFB has demonstrated commitment towards social upliftment by allocation of more than regulatory required CSR fund allocation coupled with 92% of the advances towards priority sector, leading to an impact on customers by supporting a stratum of population and fostering local economic growth. The overall ESG score of 68.1 reflects the bank's strong position amongst its peers coupled with the superior level of disclosures & policies and high impact performance.

The rating also takes into consideration bank's has robust practices in managing environmental impacts and integrating sustainability into its operations, including forward looking initiatives in strategizing for climate-related risks & opportunities and green finance. ESAF SFB's medium to long term targets aligning UN Sustainable Development Goals (SDGs) leading to synergy creation of its social and economic outcomes that have an amplified impact on company's stakeholders.

Despite the merits, the rating is limited by the absence of third-party assessment, narrow emission accounting coverage, a negligible green loan book, and a lack of diversity among the board and key management members.

ESAF SFB has performed significantly better than the median ESG score of 51.8 amongst its peers. With superior disclosures, policies and performance across CareEdge-ESG parameters, ESAF SFB has obtained a strong position in the top quartile. While ESAF SFB's performance for the 'High' & 'Medium' materiality indicators is quite close to the industry best practice, it is the leader in 'Low' materiality indicators for the industry.

ESAF SFB's Environment score 25.8 may position top quartile amongst, for the industry, impactful initiatives are much needed to counter financed emission risk that may arise and impact their portfolios. ESAF SFB is in initial stages of putting in mechanisms for climate transition risks. ESAF SFB is close to the industry leadership position in Climate Change Risk Management but lags in GHG Emissions, Waste and Energy Efficiency related themes. The average low score for the industry presents significant opportunities to ESAF SFB for improvement in performance via de-carbonization, financed emissions tracking and scope 3 evaluation.

Leadership score of 76.9 on social pillar augurs well for the social centric performance of ESAF SFB. Bank proactively promotes safe and responsible use of its services. Though ESAF SFB's services had been primarily concentrated to southern states, there is a noticeable trend towards geographic concentration risk mitigation. ESAF SFB has consistently over the years showcased its dedication towards uplifting society by going beyond statutory requirements, whether it is in lending 90% of its advances towards priority sectors or maintaining a strong CSR profile by consistently allocating approximately 5% of its net profit to CSR activities. Further, its initiatives towards increasing employment in rural and semi-urban areas along with catering to the specific financial needs of women, have further boosted its score. ESAF SFB has exemplified leadership position with highest representation of female in work force. While these measures are effective, there is potential for further improvement by incorporating additional frameworks for data reporting, creation of separate policies rather clubbing them under a large overarching ESG policy. Moreover, for maximum synergies and operational efficiencies, it is imperative that ESAF SFB includes its value chain in its broader strategic goals.

With a Governance score of 73.9, ESAF SFB is comfortably placed in the top quartile amongst industry peers. ESAF SFB has constituted necessary policies to ensure ethical banking practices. Through its detailed CSR policy and ESG roadmap, the bank has shown commitment to the principles laid down in Business Responsibility & Sustainability Reporting (BRSR) and UN SDGs. ESAF SFB has shown significant performance on business ethics attributed to the company's leadership position in adherence to regulatory policies that promote ethical banking practices. The bank covers the majority of the laid BRSR principles as approved by their board and performs Business Impact Analysis (BIA) and updates its Business Continuity Plan (BCP) in line with best practices. However, reliance on manual mechanism for monitoring compliance, high non-audit fees expose ESAF SFB to risk due to possible oversight failures. Nonetheless, creation of separate policies at all levels, more frequent reviews of ESG progress, implementation of reg-tech systems post completion of UAT, creation of separate shareholder grievance redressal mechanism and increased diversification in board and management shall further augment its governance scores.

## **Strengths**

### ***Well-articulated board approved long-term roadmap with sharp focus on expanding sustainable product offerings***

ESAF SFB has onboarded an ESG Roadmap for 2023-27 in alignment with UN SDGs and is actively taking initiatives towards meeting its objectives. The initiatives comprise offering sustainable finance products like green deposits, green loans, and clean energy loans to foster environmentally friendly banking

products. The bank also plans to evaluate its borrowers on their ESG performance to incentivise them by offering green financing at relatively better terms. In addition, ESAF SFB has integrated ESG goals into its policies and strategies, emphasizing its commitment to environment and social impact.

### ***Detailed and satisfactory policies covering majority of BRSR principles***

ESAF SFB has various policies related to sustainability initiatives showcasing ethical banking practice. All policies are board approved and majority are specific & detailed policies covering defined action plans for the set targets. ESAF SFB has appointed specific 'ESG Champions' for ensuring adherence to and monitoring of performance against these policies. A 'Sustainability Council' is set up with one 'ESG Champion' from each department. The 'Sustainability Council' meets quarterly to share updates and collaborate on sustainability initiatives across departments. The 'ESG Champions' then undertake these initiatives for and on behalf of their department in coordination with the Sustainable Banking Department.

### ***High workforce diversity***

In a sector that relies heavily on human capital, ESAF SFB employees more than 6000 people and has made diversity and inclusion a critical element of its ESG policy. Consequently, ESAF SFB has performed well in integrating women employees in its workforce. With 31% of its total employees in FY24 being women, ESAF SFB is the leader amongst its peers on workforce diversity parameter.

### ***Extensive community support & development***

ESAF SFB asserts its dedication towards uplifting society by going beyond statutory requirements related to community support. ESAF SFB has consistently directed over 90% of its lending towards priority sectors and allocated around 5% (regulatory requirement: 2%) of its net profit to CSR activities. Further, ESAF SFB has undertaken CSR projects with 100% of its beneficiaries belonging to vulnerable and marginalized communities and over 80% of its total borrowers being women.

### ***Strong practices around data privacy and security***

ESAF SFB has shown leadership position on data privacy & security with zero data breaches over last 2 years. This is backed by ISO 27001 certification. ESAF SFB maintains strong privacy and cybersecurity practices by undertaking regular training, conducting internal audits, and executing proactive security measures.

## **Weakness**

### ***Very small green loan book limiting climate risk impact***

BFSI sector has the strongest potential to effectively address the climate related impacts on the larger society through its banking activities. ESAF SFB's green loan book stood at INR 8.28 crore in FY24 compared to INR 7.96 crore in FY23. This is against its total book size of over INR 19,000 crore. The amount lent in green finance as a percentage of total AUM was negligible at 0.04%. Furthermore, the decrease in green finance as percentage of total AUM in FYF24 over FY23, points towards need to a greater thrust in augmenting the green loan book of the bank.

### ***Lack of diversity in board and KMPs***

Though the bank adheres to regulatory requirements for the composition of its Board of Directors and other committees, its score has been adversely affected by a lack of proactive measures beyond the minimum requirements, such as in promoting gender diversity on the board. The bank also does not any female as a part of KMPs.

### ***Absence of reg-tech systems***

Though the bank is ISO /IEC 27001:2022 certified, for high-level data protection for its IT and related operations, it currently lacks a reg-tech systems solution for monitoring and evidencing compliance, thereby exposing the bank to oversight lapse risk.

### ***Absence of third-party assessment for EGS data & policies***

ESAF SFB is yet get its data and policies assessed from a third party. Conducting third-party assessments would further ensure compliance and identify areas for improvement. This shall also enable bank to undertake best practices form the market and bolster its sustainability performance.

## **1.3 Benchmarks and Medians Based on Materiality**

CareEdge-ESG Rating categorizes its key indicators (KI) based on their materiality, which varies by sector and industry. Each KI is assigned a weight based on its materiality (Low, Medium or High). The relative performance of ESAF SFB across the three groups of KIs for the industry is given in Exhibit 3.

**Exhibit 3: Competitive Benchmarks & Median Materiality Scores**

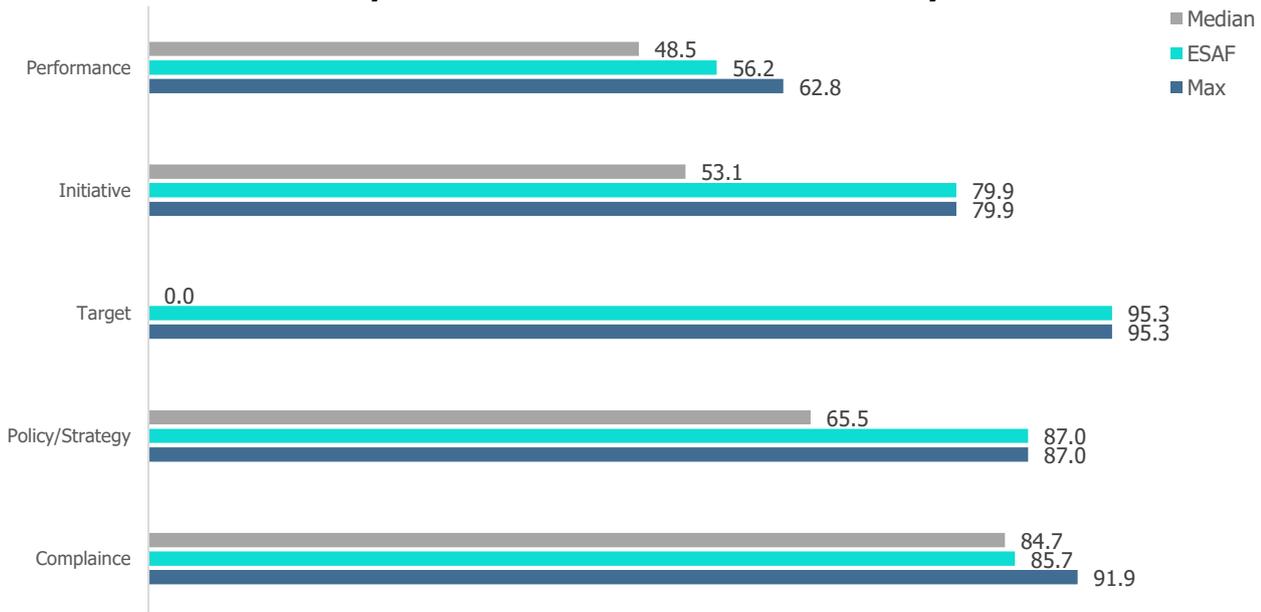


While ESAF SFB’s performance for the ‘High Materiality’ & ‘Medium’ indicators is quite close to the industry leader, it is the leader in ‘Low’ materiality KIs for the industry.

**1.4 Benchmarks and Medians Based on Activity**

CareEdge-ESG Rating also categorizes KIs based on their nature. This is termed an Activity in CareEdge-ESG’s scoring model. The KIs that are merely compliance-driven or policy-driven are assigned the lowest weights, whereas the KIs that are target-driven or performance-driven are assigned the highest weights, while the strategy-driven KIs are assigned intermediate weights. The break-up of ESAF SFB’s score by each type of activity compared to the industry median and leader is summarized in Exhibit 4.

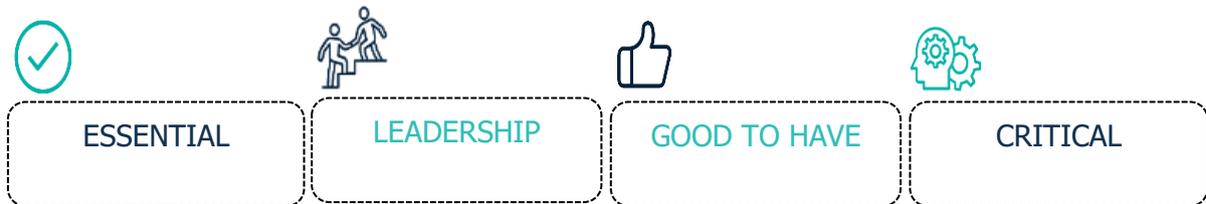
**Exhibit 4: Competitive Benchmarks & Median Activity Scores**



ESAF SFB has performed at par with the industry median in the indicators that depict the company’s policy, targets and initiatives. However, it is trailing behind the industry max in compliance and performance driven indicators. The company is lagging the industry leader in both these activity scores.

### 1.5 Transparency Score

CareEdge-ESG evaluates the transparency scores based on the company’s public disclosures. It focuses on whether the company has policies or disclosures pertaining to the KIs that CareEdge-ESG has deemed Critical or Good-to-have. CareEdge-ESG deems the transparency across the entire set of KIs as overall transparency, and the transparency related to business responsibility and sustainability reporting (BRSR) indicators as the BRSR transparency score.

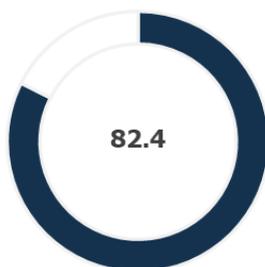


Key indicators in CareEdge-ESG framework are categorized by their analytical priority into Essential, Leadership (aligned with BRSR classifications) and Critical & Good-to-have (for overall indicators). This helps assess company performance in terms of transparency and disclosure practices, though it does not materially impact the ESG scores.

The transparency scores of ESAF SFB are summarized in Exhibit 5.

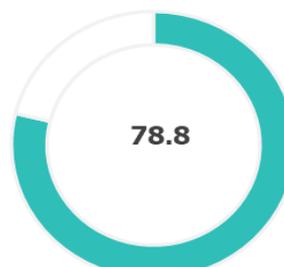
#### **Exhibit 5: Transparency Scores**

Overall Transparency Score



Industry Average : 71.6

BRSR Transparency Score



Industry Average : 75.3

ESAF SFB stands in the top quartile with an overall transparency score of 82.4, which is above the industry average of 71.6. The BRSR transparency score measures how the company has

disclosed information on the Essential and Leadership indicators of BRSR. ESAF SFB has performed above the industry average in BRSR transparency.

## 1.6 Rating History and Methodology

### **Rating History: NA**

CareEdge-ESG's ESG scoring methodology for assigning the ESG score to the issuer can be accessed through the website (<https://careedgeesg.com/>).

## 2. About the Company

ESAF SFB, promoted by Mr. K Paul Thomas, commenced its activities as a microfinance in 1995. ESAF SFB subsequently got small finance bank license and started its banking operations from March 2017 onwards. The bank is professionally managed by a qualified and experienced team having extensive experience in banking and financial services sector (BFSI). Company’s primary focus is on providing loans to micro borrowers primarily in rural and semi-urban centres.

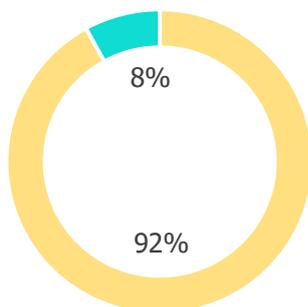
### 2.1 Business Segments, Revenue and Market Capitalization

ESAF SFB is a leading SFB operating in the Indian banking industry. It is a prominent player in the Indian financial sector, specializing in small finance banking services with a moderate geographical footprint.



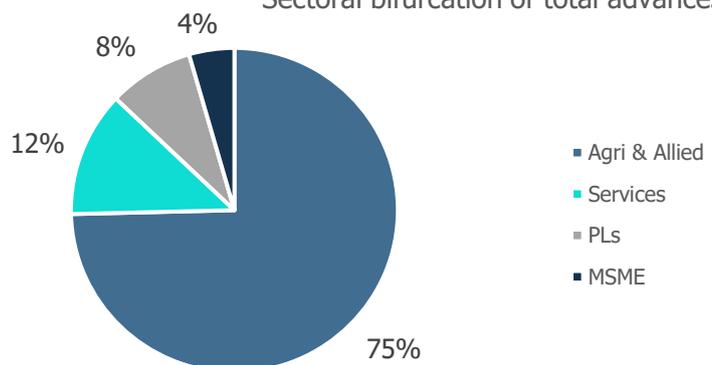
For the fiscal year 2024, a significant portion of ESAF SFB’s revenue was derived through retail banking (~85% of FY24 revenue), and a small portion of revenue deriving from other financial services.

Advances contribution



■ Priority Sector Lending ■ Non-priority sector lending

Sectoral bifurcation of total advances



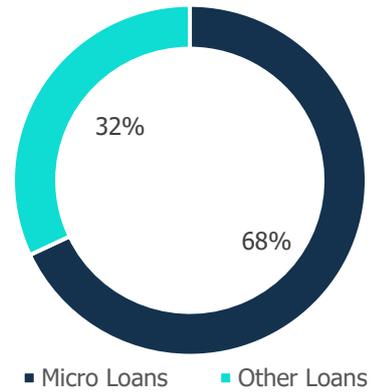
ESAF SFB is focused on retail banking

business with presence in micro-finance, housing finance, business loans, LAP, gold loans and providing financing solutions for marginal customers who lack access to the formal banking and financing channels

while providing a comprehensive banking and digital platform for all. This initiatives towards this core asset class of ESAF SFB aligns with United Nations Sustainable Development Goals (UN SDGs)

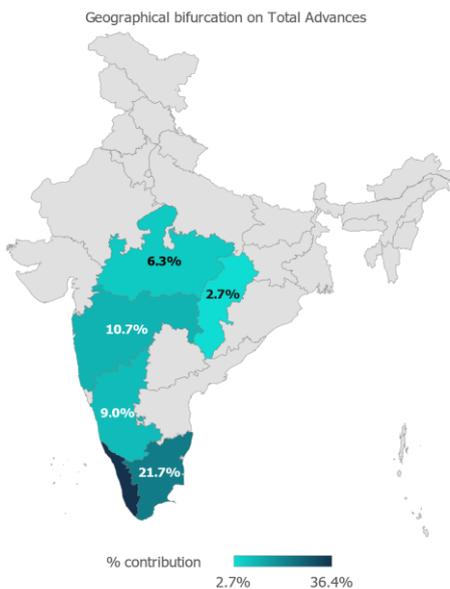
As on March 31, 2024, ESAF SFB had advances (net of provisions) to the tune of INR 18,293 crore of which micro loans accounted for 68%. ESAF SFB’s microloans comprise microfinance loans and other microloans that are provided to individuals without being secured by collateral.

As on March 31, 2024



### 2.2 Areas of Operation

ESAF SFB has a geographical presence in 23 states of India via 759 banking outlets acting as customer touch points. ESAF SFB has also built a large value chain of Business Correspondents (BCs) who manage 930 customer service centers for ESAF SFB.

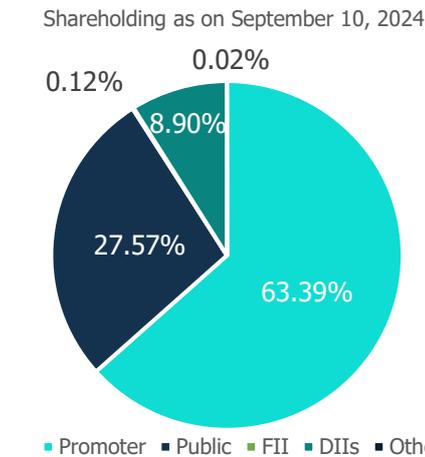


Nonetheless, ESAF SFB still faces moderate geographical concentration in Kerala (accounting for 36.4% of gross advances to customers in FY24). As a risk mitigation measure, ESAF SFB is continuously expanding its presence in other states. ESAF SFB’s operations are primarily domestic with a growing footprint in more remote and underserved regions, reflecting its commitment to financial inclusion to the underserved. The bank witnessed 32.9% year-on-year growth (FY24) in its total Gross Advances.

### 2.3 Ownership, Governance & Management Structure

As of March 31<sup>st</sup>, 2024, the board of directors consisted of 10 members. This included 6 Independent Directors, one of whom was a Women Independent Director, along with 2 Non-Executive Nominee Directors, 1 Non-Executive Director, and 1 Executive Director. ESAF SFB, a listed entity has diversified shareholding with investors comprising institutional and retail. K Paul Thomas, the promoter, has over

34 years of industry experience, of which more than 25 years are in the microfinance sector. Mr. Thomas, Managing Director and Chief Executive Officer – ESAF SFB, was previously a senior field representative at Indian Farmers Fertilizers Cooperative Limited and since 2013 he has been the president of the Kerala Association of Micro Institutional Entrepreneurs.



around 5,967 employees as of 31<sup>st</sup> March 2024.

The bank’s senior management personnel and key managerial personnel have been associated with the banking and financial services sector for more than 27 years. The company has

### ESAF SFB’s ESG journey

ESAF SFB, with a legacy spanning three decades, offers its products and services to under resourced communities through its inclusive banking. Guided by social upliftment, the bank focuses on financial inclusion and sustainability, impacting lives across rural and semi-urban areas. Bank follows a social business strategy seeking a triple bottom line impact: people; planet; and prosperity. The social and economic outcomes of company’s business create synergies that have an amplified impact on company’s stakeholders. ESAF SFB uses cutting-edge technology to offer secure and convenient banking services while maintaining strong ethical governance.

---

*Committed to creating a lasting social impact, the bank’s forward-looking strategy aims to foster an inclusive, innovative, and sustainable future.*

---

### 2.4 Key ESG Targets and Initiatives

The medium-term strategic ESG initiatives and targets of ESAF SFB are depicted below.



**Foster local sustainable economic growth through 1 million Joint Liability Groups by 2027**



Food Security

**Enhance food security by providing financial services to 5 million farmers by 2027**



**Achieve energy security through 200,000 renewable energy installations (1GW) by 2027**



**Energy conservation and greater reliance on renewable energy in line with country's Net zero plan**

ESAF SFB SFB has crafted an ESG Roadmap for 2023-27 and is actively working to meet its objectives. The bank's initiatives include offering sustainable finance products like the Hrudaya Fixed Deposits, Green Wheels, and Clean Energy Loans to foster environmentally friendly banking products. ESAF SFB has integrated ESG standards into their policies and strategies, emphasizing their commitment to sustainability.

The bank also plans to evaluate its borrowers on their ESG performance to qualify them for green financing and related incentives. ESAF SFB has set targets aligning with UN Sustainable Development Goals (SDGs) that shall impact 10 million direct customers by supporting strata of population thereby fostering local economic growth by assisting 1 million Joint Liability Groups (JLGs) and enhancing food security through 1 million Farmer Interest Groups (FIGs). They also aim to install 200,000 renewable energy systems (1GW capacity) and implement energy conservation measures in line with the Government's Net Zero commitment.

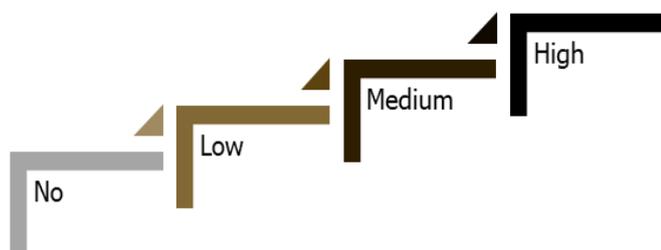
## 2.5 Materiality Assessment

ESAF SFB conducted a thorough materiality assessment (in FY24) and stakeholder engagement process to identify and prioritise the key ESG issues relevant to its stakeholders and evolving business environment. This assessment included analysing industry trends, benchmarking against peers,

evaluating risks and opportunities, and gathering feedback from stakeholders. The material issues identified by the bank spanning ESG are shown in exhibit below:



CareEdge-ESG Rating also classifies its themes and indicators based on their materiality, which varies by sector and industry. The assessment model assigns a materiality weight (Mw) reflecting the indicator's relative importance to a specific industry. Four levels of materiality in increasing order of weightage are recognized as in exhibit below:



For instance, an indicator irrelevant to a particular industry receives zero weight, while others receive appropriate weights based on their materiality. The key indicators under the governance pillar are sector-agnostic, with minor variations in materiality across sectors.

For basic industry of SFBs & NBFC – MFIs, CareEdge-ESG categorizes the theme importance as shown below in the exhibit

Importance	Environment	Social	Governance
<b>H I G H</b>	 Climate change risk management	 Customer protection  Community support & development	 Oversight on ESG  Business Ethics  Reporting, filling & disclosures
<b>M E D I U M</b>	 Carbon and other emissions	 Human capital  Privacy & data security  Human rights	 Board functioning
<b>L O W</b>	 Energy efficiency  Effluent & waste	 Product safety & quality  Employee health & safety  Value chain	 Board composition  Remuneration

Some of the material attributes identified are GHG Emissions, Community services, Grievance Redressal, Diversity & Inclusion and Risk assessment. These issues fall under CareEdge-ESG’s themes of Carbon and other emissions (ESAF SFB score: 15.4), Community support & development (ESAF SFB score: 65.5), Consumer Protection (ESAF SFB score: 70.4), Human Capital (ESAF SFB score: 64.6) and Reporting, filing and disclosures (ESAF SFB score: 46.8), respectively.

### 3. Industry Overview

#### 3.1 Industry Drivers

In banking terms, the importance of ESG is due to its associated opportunities and risks for financial institutions. ESG initiatives can help the BFSI sector and especially small finance banks (SFBs) contribute to India's transition to a low-carbon economy and social upliftment.

Small finance banks (SFBs) play a crucial role in India's economy by promoting financial inclusion, fueling economic growth, and supporting socio-economic development. As of early 2024, small finance banks have opened over 20,000 branches across the country, focusing on underserved and rural areas. SFBs are increasingly adopting these digital tools to streamline operations and improve customer service. Indian rural economy and credit demand from small businesses and individuals has seen significant growth over last few years, providing opportunities for banks such as ESAF SFB to support the growth by providing financial services to rural customers.

#### 3.2 Regulatory environment around ESG stewardship

In the Indian context, aligning with the National Guidelines on Responsible Business Conduct (NGRBC) and the Business Responsibility and Sustainability Reporting (BRSR) emphasizes the importance of environmental stewardship. Where NGRBC guidelines adoption on sustainable practices, manage environmental impacts, and contribute to sustainable development goals, the BRSR framework mandates comprehensive ESG disclosures, ensuring that companies standardization and transparency in reporting. The Securities and Exchange Board of India (SEBI) has also recently updated its framework for sustainable issuance and green debt disclosures in August 2024.

#### 3.3 Outlook

BFSI sector is the primary source of sustainable finance needed to achieve India's transition to net zero. Banks act as enablers to assist the flow of capital to the most pressing sectors. SFBs are also rapidly evolving to address growing demand for financial inclusion and sustainability. SFBs are expected to grow at ~20% growth in FY25, driven by product offerings and strong credit demand. Key factors driving this transformation include the push for broader financial access through government initiatives, advancements in digital banking technology, and increasing regulatory demands for ESG compliance. This shall require investments in technology and infrastructure upgradation coupled with targeted focus on sustainability for adapting to these changes and achieving long-term growth.

#### 4. Environmental Performance

The environment pillar in ESG evaluates a company's impact on climate change, and ecosystems. Strong environmental practices help mitigate risks related to regulatory changes and resource scarcity, while promoting sustainability and long-term operational resilience. Prioritizing environmental stewardship also enhances corporate reputation and can drive competitive advantage by meeting stakeholder expectations and regulatory requirements.

Over the past, Indian commercial banks have actively supported green finance initiatives, funding projects in sustainable agriculture, energy efficiency, and renewable energy. RBI's framework for Green Deposits encourages banks and NBFC to offer green deposits thereby facilitating the financing of sustainable projects. RBI guidelines for 'Disclosure Framework on Climate-Related Financial Risks, 2024', mark a key milestone in enhancing climate resilience within India's financial sector mandating information disclosure on governance, strategy, risk management, and metrics and targets related to climate risks.

According to an RBI survey report (Climate Risk and Sustainable Finance):

- 85% of India's 34 scheduled commercial banks have committed to adjusting their lending and investment practices to support green finance.
- Notably, 56% of these banks plan to reduce their exposure to high-carbon-emitting companies.

However, published research for ESG on 200 companies, reveals that companies falling under financial services industry have the lowest rate of disclosure on environment policies. Some key findings are below:



This translates into the need for more enhanced and robust disclosures by the BFSI sector.

#### 4.1 Environment Performance Summary

ESAF SFB has scored 25.8 on the environment pillar vis-à-vis an industry median score of 13.2.

The bank deploys above moderate practices in managing environmental impacts and integrating sustainability into its operations, including efforts in strategizing for climate-related risks and opportunities and green finance.



ESAF SFB’s environmental pillar aligns with several UN SDGs such as

**SDG 6** **Clean Water and Sanitation**

- Initiatives aimed at improving water access and management

**SDG 7** **Affordable and Clean Energy**

- Retail loan portfolio includes financing for clean energy projects, facilitating the shift towards renewable energy sources

**SDG 12** **Responsible Consumption and Production**

- Promoting sustainable practices and resource efficiency in its operations and loan offerings

**SDG 13** **Climate Action**

- Incorporating climate-related strategies into its financial services to address environmental impacts

**SDG 15** **Life on Land**

- Agricultural lending supports sustainable land use and conservation practices

## 4.2 Pillar Weight and Pillar Score

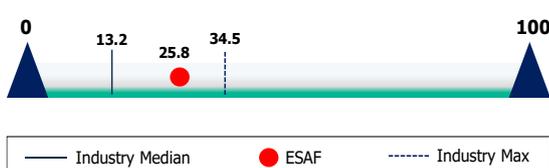
CareEdge-ESG assigns Environment Pillar a weight of 15% for the BFSI sector, in its scoring model.

**Exhibit 6: Environment Pillar Scores & Weights**



Though with a score of 25.8 in the Environment pillar, ESAF SFB is positioned in the Top quartile, impactful initiatives are much needed to counter financed emission risk that may arise.

**Exhibit 7: Environment Pillar – Competitive Benchmarks and Median Scores**

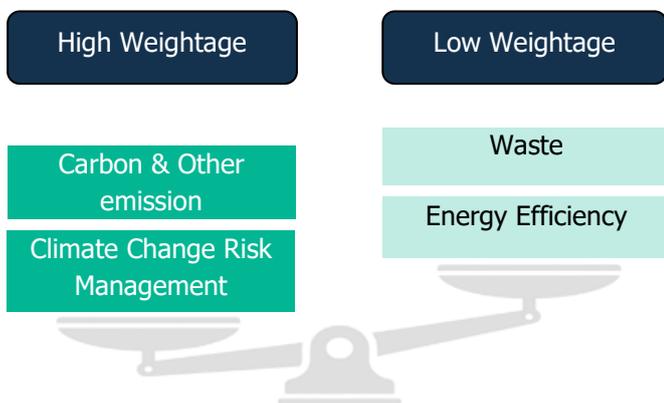


Adjacent exhibit represents ESAF SFB’s score in comparison with the score of the leader in the sector as well as the industry median. There is significant opportunity for improvement, considering difference

between ESAF SFB and industry leader for the environment pillar.

## 4.3 Theme Scores

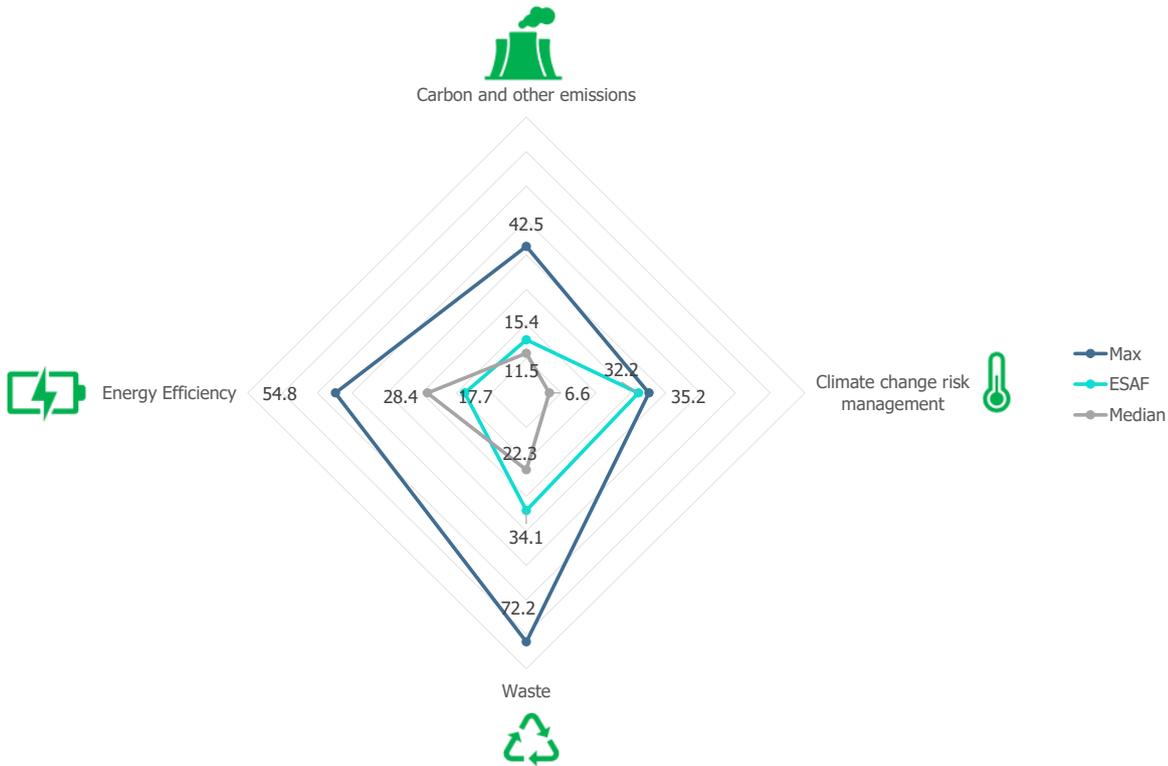
CareEdge-ESG's scoring model for the banking sector emphasizes the following key themes:



Carbon and Other Emissions, Climate Change Risk Management. These two themes together account for ~80% of the total weight assigned to the Environment Pillar.

The remaining themes of Waste and Energy Efficiency account for the remaining ~20% weight.

**Exhibit 8: Theme Level Scores**



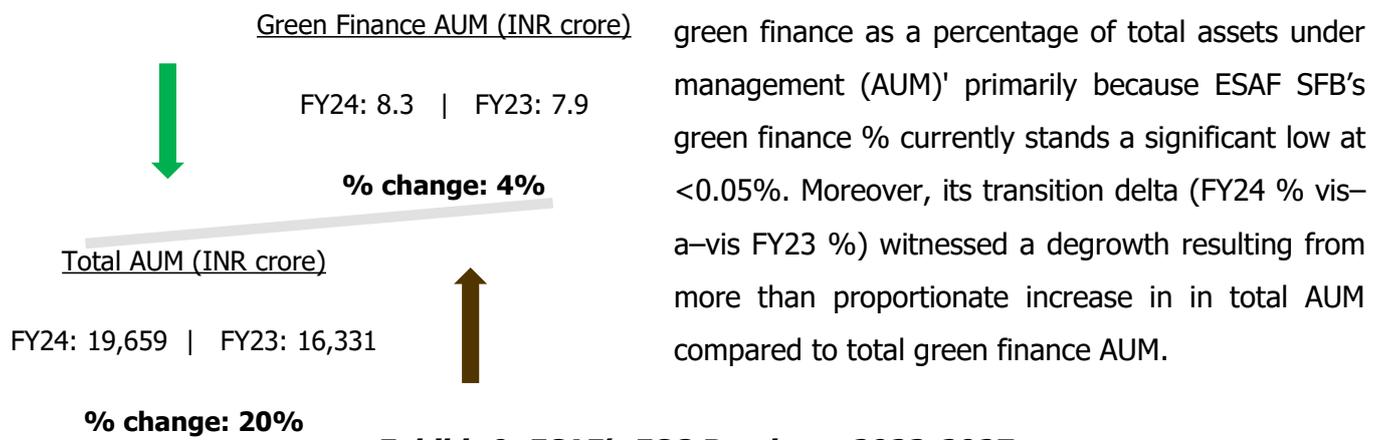
In essence, ESAF SFB is close to the industry leadership position in Climate Change Risk Management, whereas it lags in Carbon and Other Emissions, Waste and Energy Efficiency related theme scores.

#### 4.4 Key Themes

##### (1) Climate Change risk management

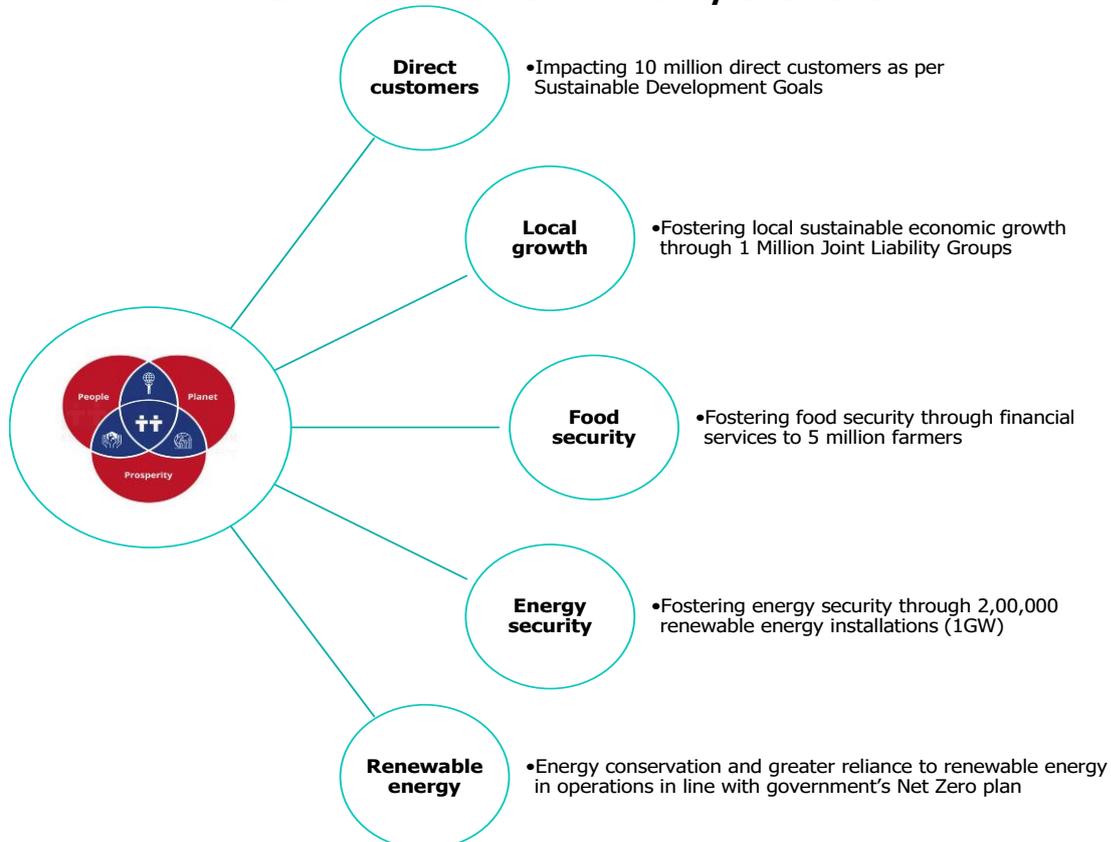
Climate change risk management is the most dominant theme with the highest weight amongst all the themes of environment pillar. This primarily stems from the fact that the BFSI sector is at the helm of effectively addressing the climate related impacts of banking activities on the larger society. Hence there arises a need to align the jurisdictional climate regulations and transition plans with the apex strategies of the company. Climate risk has moved up within the 'high' risk category amongst the drivers of financial market risks.

**Score Rationalization:** CareEdge-ESG has rationalized the scoring for 'Transition of amount lent in



green finance as a percentage of total assets under management (AUM)' primarily because ESAF SFB's green finance % currently stands a significant low at <0.05%. Moreover, its transition delta (FY24 % vis-a-vis FY23 %) witnessed a degrowth resulting from more than proportionate increase in in total AUM compared to total green finance AUM.

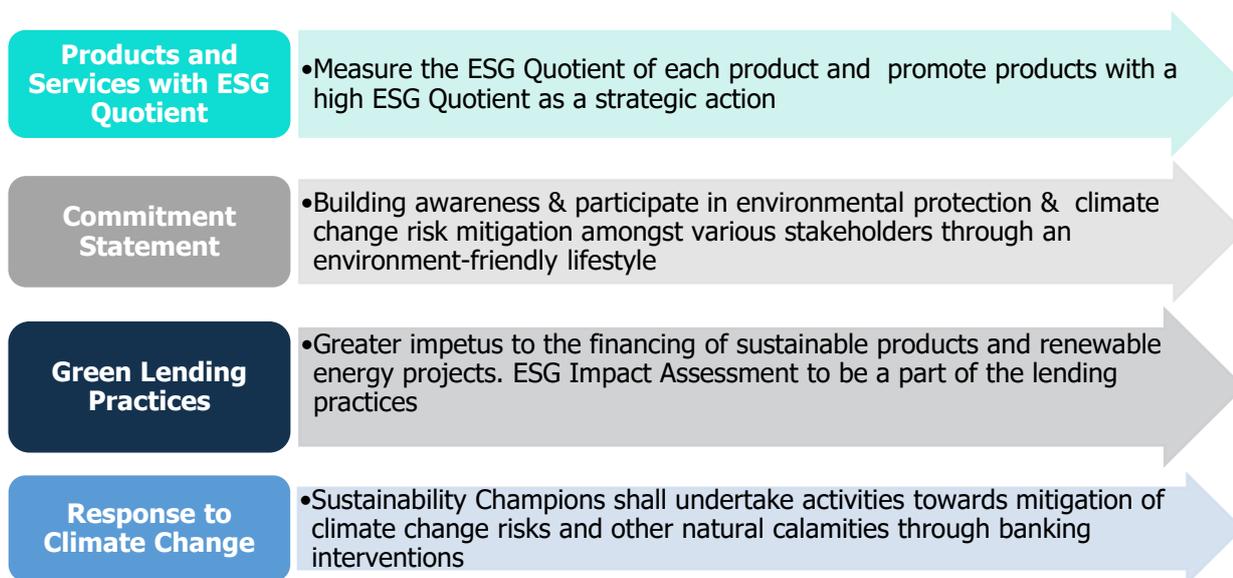
**Exhibit 9: ESAF's ESG Roadmap 2023-2027**



### A. Policy/Strategy

ESAF SFB has demonstrated incorporating climate change risk management into its ESG Policy. The board approved ESG policy was first formed in 2017 and been frequently reviewed with the latest one published in February 2024.

#### **Exhibit 10: Salient Features of the ESAF Policies on Climate Change Risk Management**



Through these efforts, ESAF SFB seeks to mitigate climate change impacts and support a transition to a more sustainable and low-carbon economy.

### B. Targets

ESAF SFB has aligned its climate related targets with Indian Nationally Determined Contribution (INDC). The bank has committed to energy conservation and greater reliance to renewable energy in operations in line with government’s Net Zero plan. However, specific measures for implementation, and progress tracking would strengthen the contribution of ESAF SFB to the INDC targets.

- ESAF SFB has a green financing target of lending to 2GW of renewable energy installations by 2027. ESAF SFB is the only company amongst its peer set which has established a definitive target for green finance. This exemplary target setting will enable the company to align its operations with an edge of sustainability.

### C. Initiative

- ESAF SFB has not conducted any climate-related scenario analysis and stress testing as against the industry best practises being used by leadership entities. The absence of this scenario analysis indicates a potential risk in pre-empting how climate-related risks could impact the business under different scenarios.



***Implementing such analyses could provide valuable insights into future risks and assist in developing robust strategies to address climate impact risk on ESAFs portfolio***

- There is absence of third-party verification for climate targets. Third-party verification can enhance the credibility and reliability of climate targets and performance. Consideration of such verification could improve stakeholder confidence in the reported data and the effectiveness of the climate strategies.
- ESAF SFB collaborates with agencies, industry associations on environmental issues. The Bank has taken a significant step towards promoting green initiatives by signing a Memorandum of Understanding (MoU) with the Agency for New and Renewable Energy Research and Technology (ANERT). This partnership, in August 2023, aims to create a cleaner and greener planet by offering interest subventions for loans issued for clean energy products.
- Within risk assessment process, ESAF SFB does not incorporate climate-related issues over separate short, medium and long-term time frames. Taking cues from the industry leader and market best practices, developing frameworks to address climate risks in various time horizons could strengthen overall risk management.



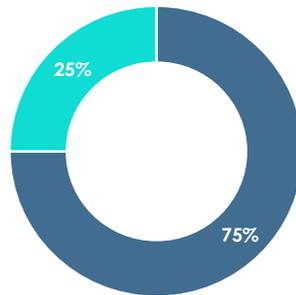
***Integrating climate risks into the sanctioning of loans and pricing of assets can influence decision-making processes and help manage climate-related financial risks and opportunities more effectively***

**D. Performance**

**Green Finance**

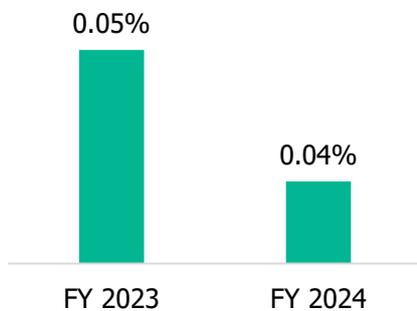
ESAF SFB offers products like Go Green Vehicle Loans and Solar Energy Loans, financial support for sustainable practices such as biogas units, smokeless stoves, and solar panels, aligning with the UN's SDGs.

**Exhibit 11: Green Products Loan Book as on March 31, 2024**



■ Electric Vehicles ■ Clean Energy

ESAF SFBs green loan book stood at INR 8.28 crore in FY 24 compared to INR 7.96 crore in FY23



- The amount lent in green finance as a percentage of total AUM stood low at 0.04%. This is primarily consisted of advances lent through clean energy loan and electric two-wheeler and electric four-wheeler loans.
- Industry leaders, peer group and other finance companies have higher percentages of their AUM allocated to green financing reflecting a more robust commitment to sustainable finance and a strategic focus on increasing their green finance portfolios.
- This decrease in the percentage of green finance over total AUM in FY24 over FY23 point towards a refined & renewed focus on augmenting the green loan book of the bank.

## (2) Carbon and Other Emissions

CareEdge-ESG’s analytical model highlights that carbon emissions are a critical concern across environmental themes. For banks and financial institutions, this means prioritizing sustainability and integrating carbon management into their operations and investment strategies.

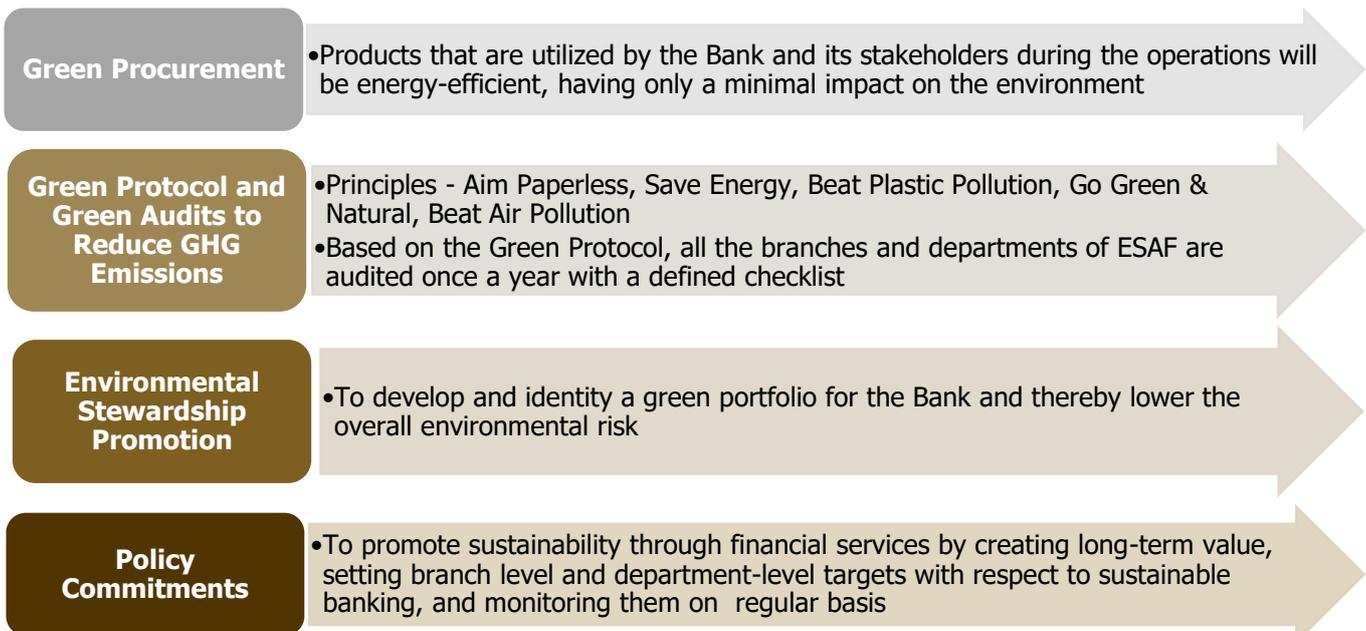
Banks can address these concerns by adopting green financing practices, supporting renewable energy projects, and incorporating environmental criteria into investment decisions. Additionally, the bank should improve energy efficiency and exploring opportunities for renewable energy use, thereby aligning with global sustainability standards and contributing to a low-carbon economy.



### A. Policy/Strategy

The board approved ESG policy was first formed in 2017 and been frequently reviewed with the latest one published in February 2024. ESAF SFB also has a Sustainable Banking policy approved in January 2024.

#### **Exhibit 12: Salient Features of the ESAF Policies on GHG emissions**



Through these efforts, ESAF SFB aims to build a sustainable and regenerative economy for the future through networking and partnerships, pursuing national and international funds available for the development of sustainable finance products, training and capacity building.



No defined target for adoption of renewable energy in operations



No defined target for Scope 1 & 2 emissions

**B. Targets**

Establishing defined targets for Scope 1 and 2 emissions would facilitate better management of direct and indirect greenhouse gas emissions. This could involve setting specific reduction goals and implementing strategies to achieve them. Also, setting targets for the adoption of renewable energy would guide the transition to cleaner energy sources, enhancing the bank’s sustainability profile and potentially reducing energy costs in the long term.

**C. Initiative**

ESAF SFB does undertake activities to manage the Carbon and other emissions of itself as well its portfolio however, there is there plenty of headroom for improvement considering the initiatives undertaken by industry leader for managing emissions.



No independent external agency audit for emissions



No use of renewable energy in operations



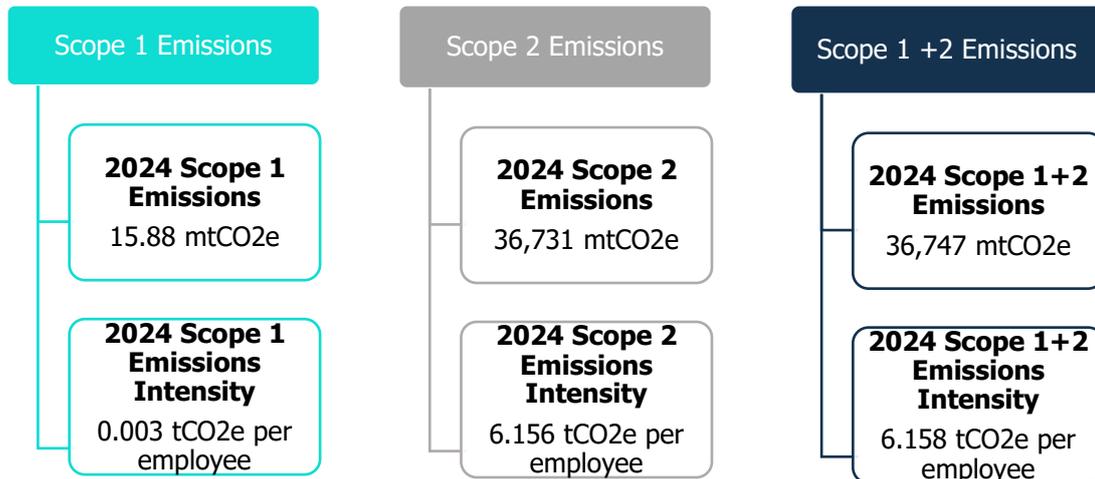
Offering clean energy and 4 & 2 EVs loans

**Exhibit 13: Initiatives to reduce GHG emissions or its impact**

<b>Go Green EV loans</b>	<ul style="list-style-type: none"> <li>•ESAF Go Green’ initiative, launched in 2021, offers a range of loan schemes exclusively for electric vehicles</li> </ul>
<b>ESG Roadmap</b>	<ul style="list-style-type: none"> <li>•Ensuring energy security through the installation of 200,000 renewable energy systems (1 GW capacity) by 2027</li> <li>•Implementing energy conservation measures while transitioning to renewable energy sources in operations, aligning with the Government’s Net Zero commitment</li> </ul>
<b>Green Finance</b>	<ul style="list-style-type: none"> <li>•Bank shall introduce innovative financing that helps generate important environmental and biodiversity benefits</li> <li>•The lending will have a preferential approach to the low carbon footprint segment</li> </ul>
<b>CSR Initiatives</b>	<ul style="list-style-type: none"> <li>•ESAF's Corporate Social Responsibility(CSR) initiative, ESAF Urjibandhu, supports renewable energy adoption by offering training in solar panel system design, installation, maintenance, and Electronic Vehicle (EV) charging</li> <li>•Program empowers local electricians to become clean energy entrepreneurs, addresses unemployment, and promotes renewable energy use</li> </ul>

**D. Performance**

**Exhibit 14: Scope 1 and Scope 2 emissions and intensities**



- ESAF SFB’s Scope 1+2 intensity is relatively high against the industry thereby warranting a well-defined path for adopting clean energy for its offices and branches. Although the company is tracking per capita emissions across its branches to identify areas for actionable improvements, there is need for further data clarity

- Further as Scope 1 and Scope 2 emissions for the preceding year (FY23) were not captured, this led to non-comparability of transition assessment parameters.
- ESAF SFB has consumed 0% renewable energy in its operations for FY 24. Significant opportunity lies in this space for ESAF SFB as BFSI sectoral average of renewable energy consumption stood at 2.3% in FY23 and the peer-set comparative leader had a ~16% renewable energy consumption in its total operations.
- Also, ESAF SFB does not report its Scope 3 emissions hence it lacks any analysis of Scope 3 intensity per employee. This is in comparison to its 20% peers who report Scope 3 data.

### (3) Other themes (Low Material)

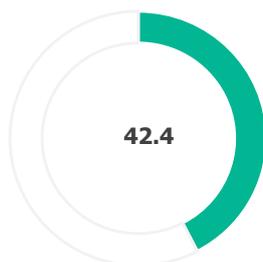
- **Waste:** A well-structured strategy towards paper waste reduction is needed as it is the most prominent. Further, though are procured under the buyback scheme with the vendor, there needs to be a defined strategy to reduce battery waste
- **Energy:** ESAF SFB's energy intensity per employee stood high amongst peers at 31.0 giga joules per employee. Mitigation measures need to be put in place by setting measurable target for reducing energy usage leading to sustainable energy conservation.

## 4.5 Environment Pillar – Transparency Score

ESAF SFB's overall transparency score on environment pillar stood at 57.1, reflecting a middle ground between the industry median and maximum scores. The BRSR transparency score for ESAF SFB is lower at 42.4, suggesting there is room for enhanced environmental disclosure compared to the highest benchmarks in the industry.

### **Exhibit 15: Pillar Transparency Score**

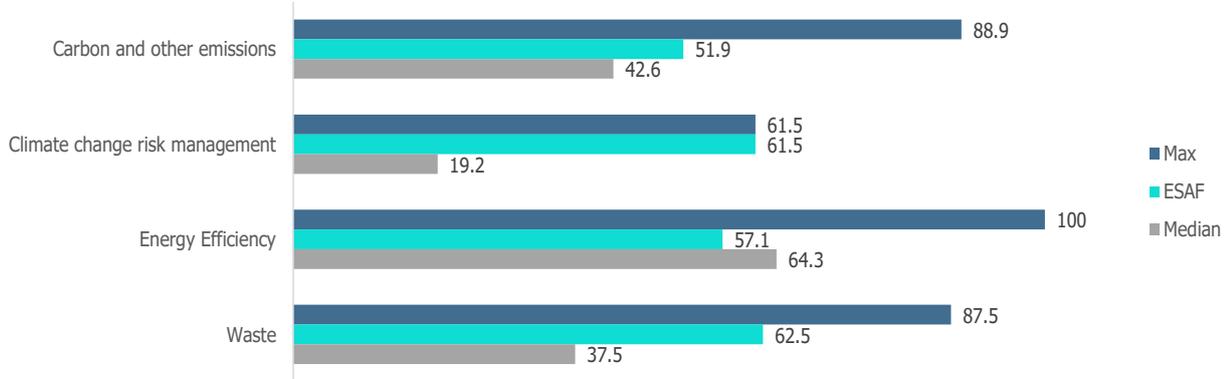
BRSR Transparency Score



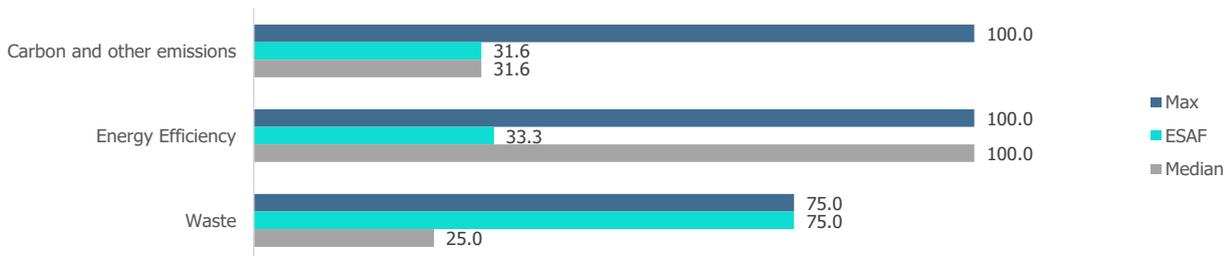
Transparency Score



**Exhibit 16: Theme wise Transparency**



**Exhibit 17: Theme wise BRSR Transparency**



*Note: Climate Change Risk Management is not covered in BRSR format; hence does not have a BRSR transparency score*

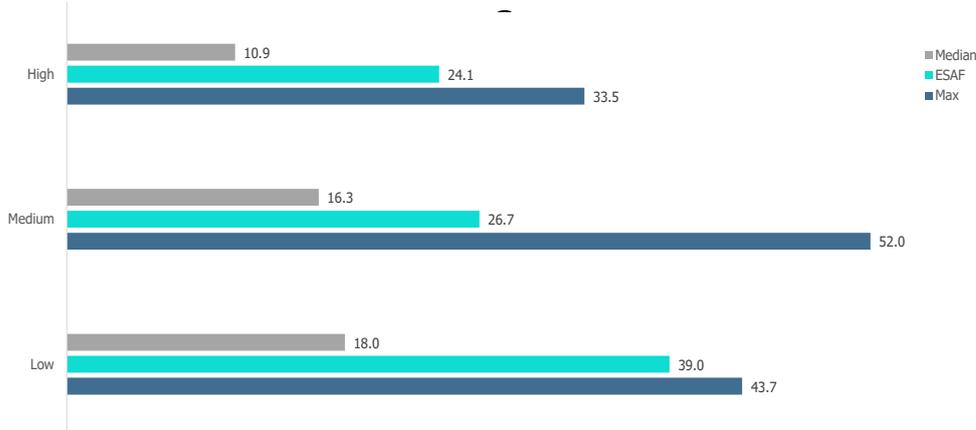
ESAF SFB’s overall transparency in environmental reporting is intermediate relative to the industry, positioned between the median and maximum industry scores. For specific themes, ESAF SFB shows variable transparency levels, with some areas exceeding BRSR scores while others fall short. The absence of data for certain themes in both ESAF SFB and BRSR transparency scores highlights areas where more comprehensive reporting could be beneficial.

**4.6 Environment Pillar – Benchmarks and Medians based on Materiality**

ESAF SFB's score for low materiality indicators (39.0) is above the industry median (18.0) but moderately lower than the maximum score (43.7) indicating above average disclosures on low materiality environmental issues.

However, whilst the score for medium materiality indicators (26.7) is higher than the industry median (16.3) and lower than the maximum score (52.0).

**Exhibit 18: Environment Pillar – Competitive Benchmarks and Median Materiality**

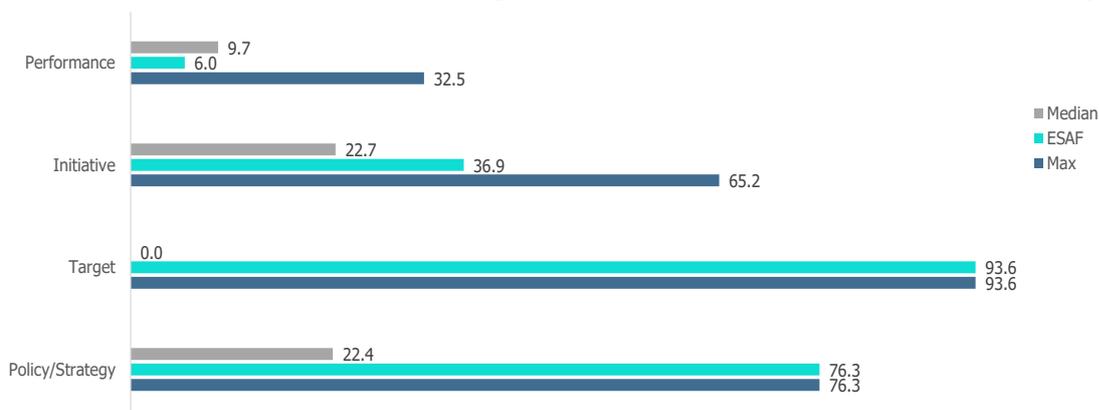


The score for high materiality indicators (24.1) is lower than the industry maximum (33.5) signifying immediate measures that can be taken to augment disclosures resulting in significant transition. ESAF SFB's performance varies across different materiality levels. The bank's scores for high materiality issues are almost near to the industry maximum, whereas it lags markedly on medium materiality. The low materiality score is above the median but remains lower than the highest industry scores, indicating areas where further enhancement could be considered.

**4.7 Environment Pillar – Benchmarks and Medians based on Activity**

ESAF SFB has scored 76.3 and 93.6 in **Policy/Strategy** and **Target** indicators, respectively, indicating a higher score within its peer, with a median score of 22.4 and 0.0 for respective activities. However, on the front of **Initiative** and **Performance**, scores are relatively lower at 36.9 and 6.0, respectively. When benchmarking against industry medians, ESAF SFB's scores in **Policy/Strategy** and **Target** are significantly higher than the median. However, ESAF SFB's **Initiative** and **Performance** scores lag the industry maximums, suggesting areas for improvement in implementing and demonstrating the effectiveness of environmental initiatives.

**Exhibit 19: Environment Pillar – Competitive Benchmarks and Median Activity Scores**



## 5. Social Performance

Social pillar in banking sector focuses on aspects comprising employee welfare, customer relations, and community impact. Particularly in the case of essential services like banking, social dimensions play a key role in expanding the banking spectrum to the unbanked, weaving the thread of financial inclusion in the society and adoption ethical social banking practices. Here the SFB's play a critical role in swelling the banking services across the length, breadth and depth of India.

With these larger objectives, RBI and other statutory bodies have prompted banks to adhere to norms on Priority Sector Lending (PSL), CSR requirements, grievance redressal mechanisms, Prevention of Sexual Harassment (POSH) guidelines etc.

Market research on ESG for 200 companies reveals some intriguing findings as per below. This translates into the need for enhanced and robust disclosures by the BFSI sector coupled with corresponding plan of action.:



### 5.1 Social Performance Summary

ESAF SFB has scored 76.9 on the social pillar vis-à-vis an industry median score of 54.0. The company is leader in social pillar within its peers. The bank deploys robust practices in managing social risks and impacts by integrating community services, responsible marketing and diversity & inclusion into its operations



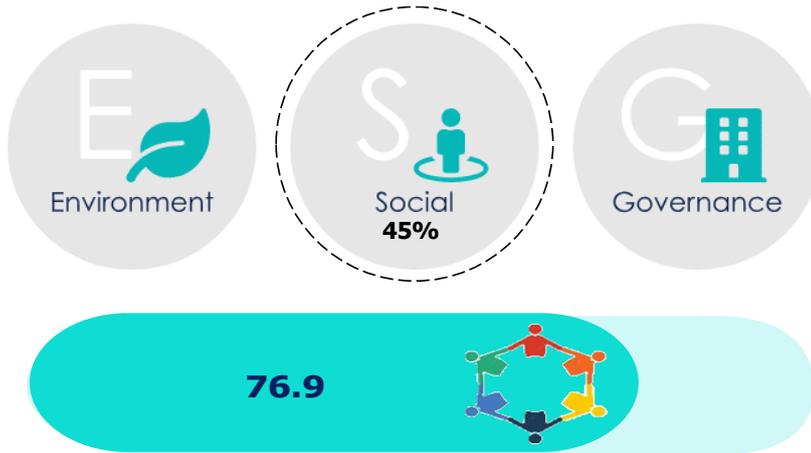
ESAF SFB's Social Pillar reflects its alignment with several UN SDGs. The bank supports **SDG 1** (No Poverty), **SDG 3** (Good health and well-being), **SDG 5** (Gender equality), **SDG 8** (Decent work and economic growth), **SDG 9** (Industry, innovation and infrastructure). Through these small-scale loans,

ESAF SFB aim to enhance the lifestyle of underdeveloped communities across the country, supporting their journey towards sustainable development and improved living standards.

### 5.2 Pillar Weight and Pillar score

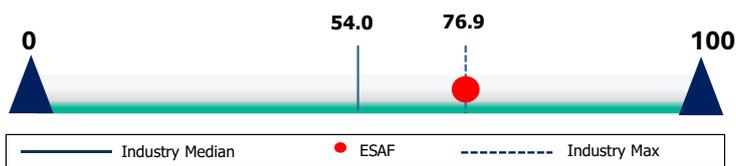
CareEdge-ESG assigns Social Pillar a weight of 45%, in its scoring model, which is the highest amongst all the three pillars.

**Exhibit 20: Social Pillar Scores & Weights**



With a score of 76.9, ESAF SFB is positioned as the leader in the social pillar.

**Exhibit 21: Social Pillar – Competitive Benchmarks and Median Scores**



As inferred from the adjacent exhibit, ESAF SFB is the leader in the social pillar. Even though ESAF SFB is the leader, the company still has ground to cover in value chain, community support & development

and consumer protection.

### 5.3 Theme Scores

Amongst all the themes of the social pillar, as seen below exhibit, Privacy & data security, community support & development, consumer protection, human rights and human capital take up dominance in this industry with the first 3 themes accounting for ~85% of the total weight allocated to the social pillar by CareEdge-ESG.

**Exhibit 22: Theme Level Scores**

Theme Level Scores



In essence, ESAF SFB is in leadership position in Community support & development, Human Rights, Privacy & Data Security, Product safety & quality, whereas it performs in line with median for Value chain.

## 5.4 Key Themes

### (1) Consumer Protection

Given that the primary goal of a SFB is to address the financial needs of underserved communities, SFB’s have greater responsibilities than other banks in terms of maintaining trust and satisfaction of its customers. In the theme of Consumer Protection, ESAF SFB has scored 70.4, positioning in the top quartile.



#### A. Policy/Strategy

A responsible marketing strategy or policy is vital for building consumer trust, enhancing brand reputation, and fostering long-term success. By being transparent, ethical, and socially conscious in their messaging, companies can avoid misleading practices that could harm their credibility.

---

*ESAF is the only company among its peers to have a board-approved policy towards responsible advertisement*

---

ESAF SFB is the only SFB, amongst its peers, to carve out a well-defined policy for responsible marketing, which is also approved by its board. The following are the distinguishable components of the policy.

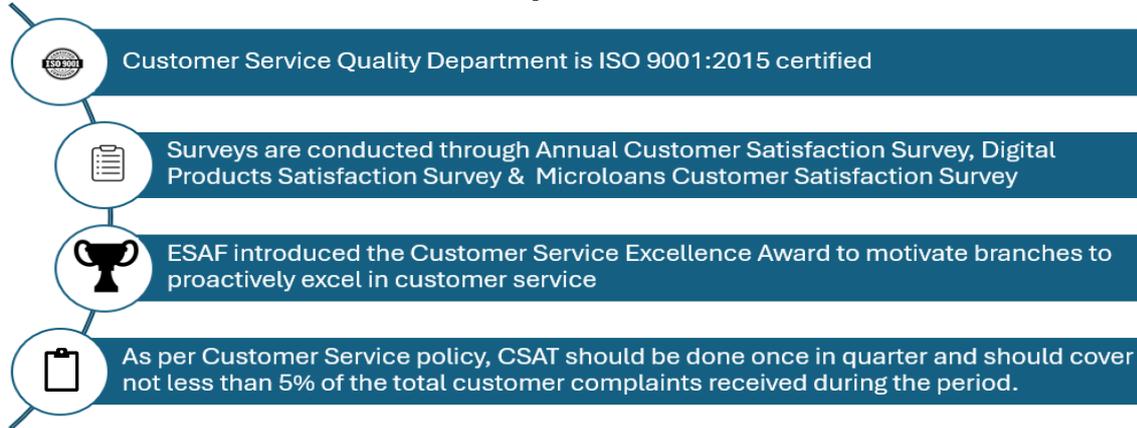
#### ***Exhibit 23: Salient features of ESAF responsibility advertisement***



## B. Initiative

Customer satisfaction surveys are crucial to this sector, as they provide valuable insights into customer experiences and expectations. Average customer satisfaction percentage for Banks in India is 69% compared to 76% in US & UK, 71% in Japan & 74% in South Korea.

### **Exhibit 24: Initiatives taken by the ESAF towards customer satisfaction**



*Of the peers, only 50% have conducted Customer Satisfaction Surveys.*

*ESAF conducts Customer Satisfaction survey annually*

An important pillar of Customer Protection is companies’ mechanisms and policies regarding dissemination of information to consumers regarding any risk of disruption/discontinuation of essential services as well as information on the safe and responsible usage of its products and/or services.



**The bank has a Fair Practice and Customer Service Policy, which has provisions for dissemination of necessary information.**

Steps taken to inform consumers on safe and responsible usage of services



Steps taken to educate customers on service disruption and discontinuation:

SMS & bulk email facility | 24 hours multilingual customer call centre | Email services

### Other Initiatives



Educational Safe Banking Series campaign aimed at educating customers on safe banking practices through monthly branch meetings.



Conducted Customer Awareness and Town Hall Event in coordination with the RBI Ombudsman office



Conducted Financial Literacy Programmes through projects such as ESAF SFB Utthan and ESAF SFB Dhansree

Regarding consumer complaints redressal, the Bank has established a Customer Grievance Redressal Policy outlining the time frame for addressing complaints, communication methods and escalation channels (including physical locations such as branches and ATMs, as well as online platforms like the website and email), and the escalation and monitoring mechanisms.

### C. Performance

In the year 2023-2024, the bank received 10344 complaints, which was a 35% increase from previous year. Within that, complaints regarding Internet banking/ Mobile Banking/ Electronic banking followed by complaints on ATM card and debit cards have been highest in both 2022-2023 and 2023-2024. 10261 complains were dissolved and 303 were spending by the end of the FY 2024.

Number of consumers complaint

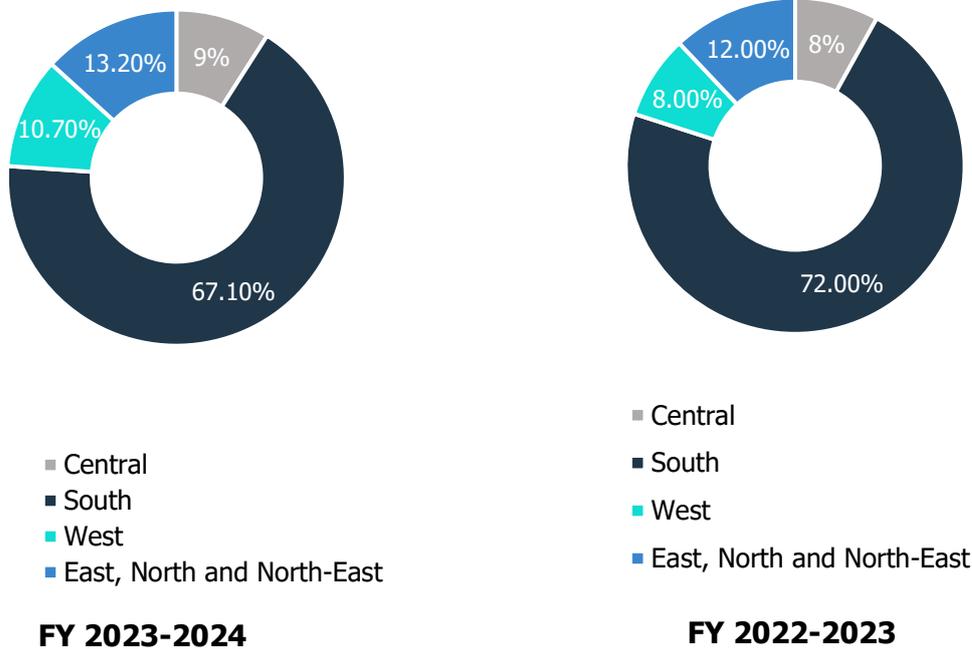


Percentage of consumers complaint pending



In terms of geographic exposure of advances, banks credit operations are concentrated in the Southern Indian states, with 69% of gross advances in them. Kerala accounts for 36.4 of the Gross advances, indicating to strong geographic concentration of advances in the home states.

**Exhibit 25: Exposure to lending based on geographical regions**



For ESAF SFB, the Business Correspondents channel remains a critical avenue for the distribution of banking services. Historically, the bank has had a strong presence in Southern India. However, in recent years, the focus has shifted towards expanding into Northern regions, and another region including Gujarat, Rajasthan, Uttar Pradesh, Uttarakhand, West Bengal, Odisha, and Chhattisgarh

To expand its reach beyond the southern region, ESAF SFB has strengthened its presence by opening new Banking Outlets (BO), installing Automated Teller Machine (ATM), and establishing Customer Service Centres (CSC) in rural areas. The growth rates of BOs, ATMs, and CSCs are notably higher in regions outside the south, reflecting a strategic focus on increasing coverage in other parts of the country.



The percentage increase in the number of banking outlets in regions outside the South has been 9.51%, whereas the increase in the South region has been 6.41%.



The number of ATMs in the South has increased by 8.97%, whereas in other regions, the increase has been 11.67%.



The percentage increase in the number of Customer Service Centres in regions outside the South has been 21.40%, whereas in the Southern region it has been 20.92%.

## (2) Community Support & Development

Community support and development play a vital role in this sector and help in fostering trust in the public and enhancing the bank's reputation. By investing in local communities through financial literacy programs, infrastructure development, and social welfare initiatives, banks and financial institutions demonstrate corporate social responsibility, which builds goodwill among customers.

### A. Compliance

SFBs are required to allocate at least 75% of their advances to the priority sectors as mandated by RBI. In FY23 & FY24 ESAF SFB directed ~92% of its advances towards priority sectors. The Bank also discloses its PSL as a percentage of its Adjusted Net Bank Credit (ANBC) as well as the amount of PSL certificates bought.

**92% of  
ESAF's advances  
are directed  
towards priority  
sectors**



Undertaking CSR activities is one of the most effective ways to give back to society and partake in financial inclusion for an SFB.

---

Though the statutory requirement is that a bank should spend 2% of its previous year's net profit, ESAF shows its dedication towards helping the underserved by spending 5% of its net profit on CSR activities

---

### B. Policy/Strategy

ESAF SFB has a defined and exhaustive CSR policy, exemplifying best practice, covering in detail various elements such as governance structure, approval date, project scope and monetary allocation.

### C. Initiative

Expanding into rural areas allows companies to tap into new markets, enhance their social responsibility profiles by contributing to local economic development, and reduce regional disparities in employment opportunities. Creating jobs in these areas can also help build brand loyalty by supporting communities that might otherwise be overlooked. 73% of ESAF SFB's peers created jobs in rural and semi-urban areas in the current fiscal year. ESAF SFB has driven multiple initiatives in increasing employment and creating multiple jobs for the youth and underserved communities of the society.

### D. Performance

The below exhibit highlights the key performance metrics of ESAF SFB under CSR

**Exhibit 26: CSR highlights of ESAF**

Total CSR Amount spent for FY24	<ul style="list-style-type: none"> <li>• INR 12.25 crores (5% of the average net profits of FY24)</li> </ul>
CSR undertaken	<ul style="list-style-type: none"> <li>• CSR activities have been undertaken by ESAF directly and through Prachodhan Development Services (PDS)</li> </ul>
Amount	<ul style="list-style-type: none"> <li>• Amount allocated through ESAF: INR 6,05,00,000</li> <li>• Amount allocated through PDS: INR 6,20,00,000</li> </ul>
Total projects undertaken in FY24	<ul style="list-style-type: none"> <li>• 9 projects have been implemented by ESAF directly and 7 projects have been undertaken through PDS</li> </ul>
Beneficiaries	<ul style="list-style-type: none"> <li>• 100% of ESAF’s CSR beneficiaries are from vulnerable and marginalized groups</li> </ul>
Impact assessment	<ul style="list-style-type: none"> <li>• ESAF has conducted impact assessment of its CSR projects, the report of which is awaited</li> </ul>

ESAF SFB’s loan book has been primarily accounted by women borrowers. The women borrowers have remained in the range of 80-82% for the last two years with a negligible decline in FY24 as compared to FY23. However, the bank has undertaken multiple efforts to rope in more women borrowers by expanding into rural and semi-urban areas by opening new branches and launching initiatives such as the Mahila Sree account, designed to cater to the specific financial needs of women as well as prioritizing women in micro banking services.

### (3) Privacy & Data Security

ESAF SFB is the industry leader for theme of Privacy & Data Security. Privacy & data security is one of the dominant themes in social pillars due to the sensitive nature of personal, financial, and transactional data handled in this sector, maintaining rigorous data privacy standards is essential. A breach of data privacy can lead to severe financial loss, legal repercussions, and damage to customer trust and brand reputation.

#### A. Policy/Strategy

##### ***Exhibit 27: Salient feature of ESAF data privacy & cyber security policy***



ESAF SFB's data privacy policy could benefit from enhancements, as it currently focuses primarily on aspects such as risk management, data usage, disposal, and protection of customer information.

To align with industry best practices, the policy should include critical elements such as a well-defined password policy, regular vulnerability assessments, mobile device management protocols, malware protection strategies, comprehensive data recovery plans, access management guidelines, cloud security measures, and ongoing cybersecurity awareness programs. Incorporating these components would enhance ESAF SFB's commitment to protecting sensitive information.

## B. Initiative

The Bank's proactive security measures, includes 24/7 Security Operations Centre (SOC) monitoring, alert dissemination across various platforms, and regular training sessions. Additionally, by partnering with regulatory bodies such as Cybersecurity and Information Technology Examination (CSITE), RBI, Computer Emergency Response Teams (CERT), and Institute for Development and Research in Banking Technology (IDRBT), the Bank ensures it remains compliant and up to date with the latest security protocols and regulations, reinforcing its defences against potential threats.

ESAF SFB offers data security training both directly and through various platforms. However, it does not disclose specific details about the training provided. Augmenting cybersecurity efforts such as regular training, simulated phishing exercises to evaluate employee awareness and response shall reduce further security threats. The bank should actively roll out awareness campaigns aimed at educating its consultants, vendors, customers, and other stakeholders about the latest cybersecurity threats. These initiatives focus on equipping them with knowledge on safely and securely navigating ESAF SFB's digital platforms, ensuring a holistic approach to fostering cybersecurity awareness across its ecosystem.

### ISO 27001 & Internal Audit on cybersecurity

ISO (International Organization for Standards) 27001 is crucial for organizations as it provides a comprehensive framework for managing information security risks. It helps in safeguarding sensitive data, ensuring compliance with legal and regulatory requirements, and reducing the risk of cyberattacks and data breaches. ESAF SFB has implemented ISO 27001 within the organization.

## C. Performance

	ESAF	Industry Peers
	Adopted ISO 27000 in FY 24	56% of the banks have implemented ISO 27000 certifications
	Direct as well as platform training	50% of the banks provide training to its employees on data privacy and cybersecurity
	Zero data breaches in FY 24	81% of banks disclosed their number of data breaches, with all reporting zero breaches
	Conducted IT/cybersecurity audit in FY24	56% of the banks have undertaken periodic audit of IT systems or vulnerability assessment

### **Consider Adopting NIST Cybersecurity Framework**

Introduced in 2014, the National Institute of Standards and Technology (NIST) Cybersecurity Framework is a globally recognized standard for managing cybersecurity risks. Widely adopted in the financial services sector, this framework can help ESAF SFB strengthen its cybersecurity measures by providing a structured approach to identifying, protecting against, detecting, responding to, and recovering from cyber threats. Implementing NIST's framework would align ESAF SFB with industry best practices and enhance overall cybersecurity resilience.

#### (4) Human Capital

Human capital is essential to the SFB sector as it directly influences the sector's ability to innovate, manage risk, and deliver high-quality services. Skilled professionals in areas like risk management, compliance, customer service, and financial analysis are the very backbone of small finance banks. As the sector becomes more complex with technological advancements and stricter regulatory requirements, continuous investment in employee training and development is crucial to staying competitive.

##### A. Compliance

Human capital acquired in the service industry should not be subject to discrimination based on any form of disabilities. The Rights of Persons with Disabilities Act, 2016 mandate the following two compliances:

Compliance Indicators	ESAF SFB	Industry Peers
Offices accessible to differently abled employees as per Rights of Persons with Disabilities Act, 2016	Yes	86.6% companies made provision for their offices to be accessible to differently abled employees
Equal opportunity policy as per the Rights of Persons with Disabilities Act, 2016	Yes	66.6% of the companies have framed policy on Equal Opportunity

As of March 2024, ESAF SFB has 2 employees that are differently abled which is 0.03% of its total employees. This is at par with the average performance of the industry, but more proactive initiatives need to be taken to be near the leader in the industry that currently has about 0.1% of its total employees as differently abled.

##### B. Policy/Strategy

In an industry as dynamic as BFSI, diversity is vital for staying competitive in an increasingly globalized market. Additionally, promoting inclusivity helps build a positive work culture where employees feel valued and respected, leading to higher job satisfaction, productivity, and retention. 43.8% of the SFBs (including ESAF SFB) have disclosed a Diversity & Inclusion (D&I) policy. ESAF SFB, though has D&I-related mention as part of its ESG policy (which is reviewed and approved by the board), a separate policy on D&I is in line with the best practice in the industry. The industry leader provides a comprehensive report on the scope of the policy, statement of intent (to foster, nurture, and preserve a culture of D&I), timeline (both effective and review), as well as the strategy and responsibility to be adopted by the Human Resource (HR) team in ensuring the policy is implemented.

Training and development are essential in the BFSI sector to enhance employee skills, keep pace with evolving industry standards, and ensure compliance with regulatory requirements. Given the sector's dynamic nature, continuous learning is crucial for professionals to stay updated on the latest financial products, digital innovations, and risk management practices. ESAF SFB has disclosed its strategy on training and development as a part of its ESG policy, which is reviewed and approved by the board. 60% of its peers have also adopted a policy on Training & Career Development.

### C. Initiative

Investing in training fosters a culture of innovation, improves employee engagement, and reduces turnover by providing career growth opportunities. Well-trained employees contribute to higher operational efficiency, better decision-making, and the ability to respond to market changes swiftly, which ultimately drives the organization's success and sustainability in a highly competitive industry. ESAF SFB has a separate Learning & Development department with an online portal (named Learning Management System) wherein customized modules are available for the reference of the employees. A

**ESAF has a separate Learning & Development Department for training its employees**



special initiative named 'Aspire - Providing Wings to Career Dreams of ESAF SFBians' aims specifically to create high-performing employees. It offers continuous learning and personalized assessments to prepare the employees for advanced roles. Female employees receive priority consideration in this program. In FY 2024, the Bank has conducted 481 training programs, some

of which are highlighted in the below Exhibit.

Program Name	Number of training sessions	Number of hours sessions conducted
External Capacity Building	102	1,540
Internal Capacity Building	219	1,323
CBS Software Training	62	992
Induction Training	98	3,336

Apart from a D&I policy (mentioned before), ESAF SFB also takes various initiatives towards preserving a culture of DE&I as highlighted in the exhibit below –

**Exhibit 28: DE&I initiatives of ESAF policy**

Initiatives taken by ESAF towards preserving a culture of diversity, equity, and inclusion (DE&I)	<ul style="list-style-type: none"> <li>•Encourage employees to participate in diversity programs</li> <li>•Identify and address barriers in processes, policies, and programs</li> <li>•Integrate diversity and inclusion initiatives into every HR process and system</li> <li>•Put special focus on training female employees for higher roles</li> </ul>
---	---

In today’s world of increasingly equal and more balanced gender roles, providing paternal leaves to the employees is an initiative in the right direction. It enhances employee satisfaction and retention by showing that the organization values family life and supports its employees' personal needs.

Flexible working hours are essential to the BFSI sector as they enhance employee productivity, satisfaction, and work-life balance. Flexible working arrangements improve overall organizational efficiency and adaptability, especially as remote and hybrid work models gain prominence in the financial services industry. However, including ESAF SFB, only 25% of all SFBs assessed have made provision for flexible working hours for its employees.

Employee Grievance Redressal is crucial in the SFB sector as it ensures a fair, transparent, and supportive work environment, which is vital for maintaining employee morale and productivity. Given the high-pressure nature of the industry, unresolved grievances can lead to dissatisfaction, reduced performance, and increased attrition. 13 banks out of ESAF SFB’s peer set have disclosed information on having a grievance redressal mechanism. ESAF SFB has a mechanism in place for employee grievance redressal which is included as a part of its HR policy. The same is circulated internally in the Bank and is not available in the public domain. In its BRSR report, ESAF SFB states that it has 0 complaints from its

**ESAF had 0 workforce complaints in the current year**



employees in FY24 and had 13 complaints in FY23. However, the leader in the industry has provided more comprehensive information in the public domain on its grievance redressal mechanism like specifying the portal for taking up grievance, disclosing the hierarchy of supervisors involved in taking up the complaint as well as the hierarchy of appeal. Detailed timeframe for grievance redressal as well as the Employee Grievance Redressal Cell or Committee has been disclosed which is not done so by ESAF SFB.

### D. Performance

ESAF SFB has performed very well in its inclusion of women in the workforce with 31% of its total employees in FY24 being women. This is the highest in the industry. However, the ratio of median pay of female employees to male employees for ESAF SFB is 0.89 which is below the industry median of 0.98. Though ESAF SFB has improved the ratio of its median pay by 16% from last year, it still has a long way to go with several of its peers having their median pay of female to male employees above 1 already.

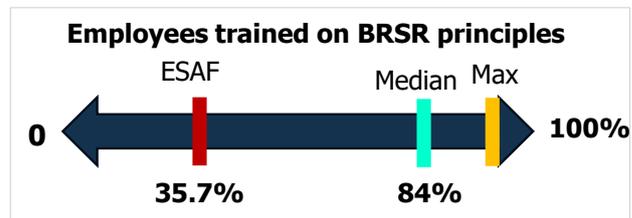
---



Ratio of female to male employees of ESAF is best in the industry

---

It is imperative that companies play a crucial role in the development of their employees by training them on technological advancements in the industry as well as maintaining their wellbeing. This will enable the companies to retain a skilled workforce. Three of ESAF SFB’s peers train 100% of their employees on skill upgradation while ESAF SFB has provided training to 87% of its employees (based on the average count of employees for last year and this year). 35% of ESAF SFB’s employees are given training on BRSR principles, while multiple of its peers have trained 100% of their employees. ESAF SFB has incurred 0.4% of its total revenue as a cost in maintaining the wellbeing of its employees. This is starkly lower than the industry leader that spends 19.6% of their total revenue on the wellbeing of its employees.



## (5) Human Rights

Human rights are critically important in the BFSI sector as they form the foundation of ethical, transparent, and responsible business practices. By upholding human rights, financial institutions ensure fair treatment of employees, customers, and stakeholders, fostering a culture of dignity, respect, and equality. This not only builds trust and credibility with clients and the broader public but also strengthens compliance with global standards and regulations

### A. Compliance

Companies should have a POSH policy to create a safe, respectful, and inclusive work environment where employees feel secure. By implementing a POSH policy, companies demonstrate their commitment to employee well-being, fostering trust and a positive organizational culture, which in turn improves employee morale, productivity, and retention.

- **POSH Compliance:** ESAF SFB established an Internal Complaints Committee for handling complaints. The bank's compliance with POSH regulations is evidenced by the resolution of sexual harassment complaints and the provision of training on POSH.
- **Training and Transparency:** The training coverage of human rights for employees needs to be expanded. Further, detailed public information on grievance redressal processes needs to be provided for improved transparency.

### B. Policy/Strategy

Though ESAF SFB does not have a standalone Human Rights Policy, the human rights issues are addressed within its broader HR policy framework, comprising components such as the Code of Conduct, Diversity & Inclusion statement, Leave Benefits, and Compensation Policy. However, having a separate policy on human rights would reinforce the company's commitments to a fair and safe working environment.

---

*62.5% of companies, including ESAF, have a policy or strategy in place addressing human rights. However, industry peers have provided more detailed information on areas covered under the policy, grievance channels, and review governance. These specific details have not been disclosed by ESAF*

---

### C. Initiative

The bank has implemented several initiatives to address human rights issues. It has established a committee responsible for handling these matters, including the POSH Committee, HR Management Committee, and HR Committee of the Board. Mechanisms such as an automated Help Desk and an anonymous Venting Box are in place for employees to raise concerns and provide feedback. The bank also provides training on human rights and POSH guidelines. Additionally, changes have been made to business processes in response to grievances.

		
<p><b>Responsibility</b></p>	<p><b>Redressal Mechanism</b></p>	<p><b>Training</b></p>
<p>Designated committees for overseeing human rights matters, including the POSH Committee, HR Management Committee, and HR Committee of the Board.</p>	<p>An automated Help Desk for employees to raise concerns and a Venting Box for anonymous feedback.</p>	<p>Training on POSH through its e-learning platform, with 400 employees having completed the module.</p>

**Exhibit 29: Peer analysis of Human Rights theme**

*The bank does not integrate human rights requirements into business agreements and contracts, and there is limited information on the effectiveness and reach of these initiatives.*

<p>ESAF is among the 94% of peers who have individual or committees responsible for addressing human rights issues</p>	<p>75% of peers have integrated human rights requirements as a part of its business agreements and contracts</p>	<p>ESAF is one of the peers who have mechanisms to prevent adverse consequences to the complainant in discrimination and harassment cases</p>	<p>60% of peers have implemented any changes in its business process resulting from grievances regarding human rights</p>
--	--	---	---



Conducted 98 workshops covering 3224 inductees



Not provided human rights training to its employees



400 employees completed POSH e-Shiksha module available in E-learning Platform



60% of peer companies have provided training on human rights to its employees

#### D. Performance

- **POSH Complaints:** In the financial year 2023-2024, the bank received two complaints related to sexual harassment, both of which were resolved.
- **Training Coverage:** The BRSR report highlights that no employees have been trained on human rights issues specifically, despite the completion of POSH training by 400 employees. This suggests a gap in comprehensive human rights training and reporting.



60% of peers have done the assessment by third parties or statutory authorities on human rights practices

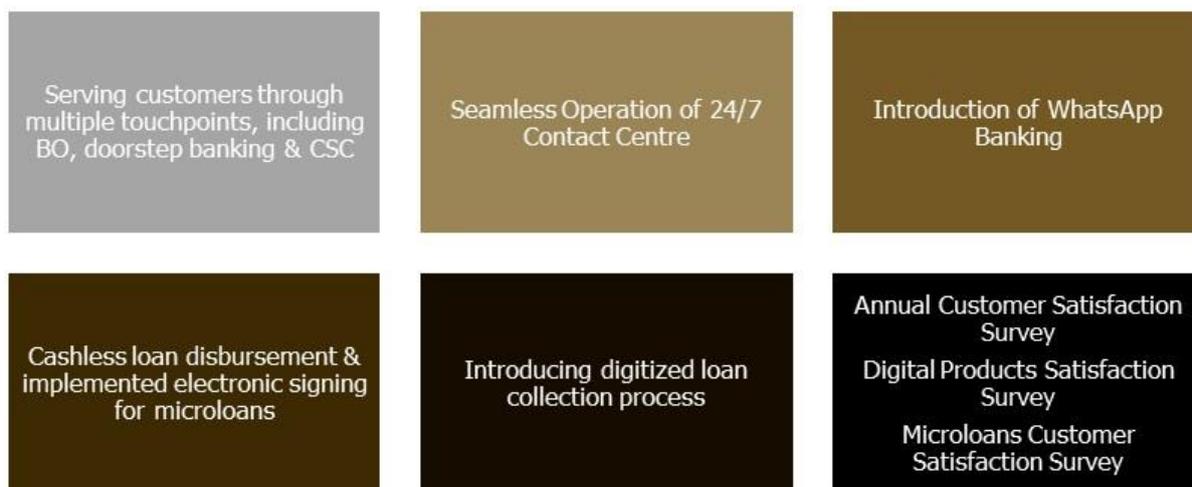
The bank has not yet conducted third-party or statutory authority assessments of its human rights practices. Implementing such assessments could help the bank identify potential gaps in its human rights framework and ensure compliance with industry standards.

Partnering, with third parties specializing in human rights, to evaluate its policies and practices shall lead to enhancing transparency and reinforcing its commitment to human rights for ESAF

**(6) Other themes (Low Material)**

- Product safety & quality:** Service quality is a crucial element for BFSI sector, as it directly impacts customer satisfaction, loyalty, and the overall reputation of the financial institution. Approximately 25% of companies, including ESAF SFB, have developed service policies aimed at enhancing customer experiences. ESAF SFB’s quality policy is approved by the EVP and not the Board of Directors.

***Exhibit 30: Key initiatives by ESAF for service quality***



- Employee health & safety:** ESAF SFB’s lies in the best quartile for employee health and safety however based on preceding and current year’s average number employees, ESAF SFB has headroom for improvement as it has trained only ~50% of its employees on health & safety measures in the current fiscal year
- Value Chain:** SFBs rely considerable on value chain partners to spread its banking services in deeper geographic locations primarily through Direct Selling Agents, Business Correspondents and banking agents. ESAF SFB lacks a grievance redressal mechanism for its value chain partners and it has not trained any partner on the BRSR principles. For maximum synergies and operational efficiencies, it is indispensable that ESAF SFB includes its value chain in its broader strategic goals.

### 5.5 Social Pillar – Transparency scores

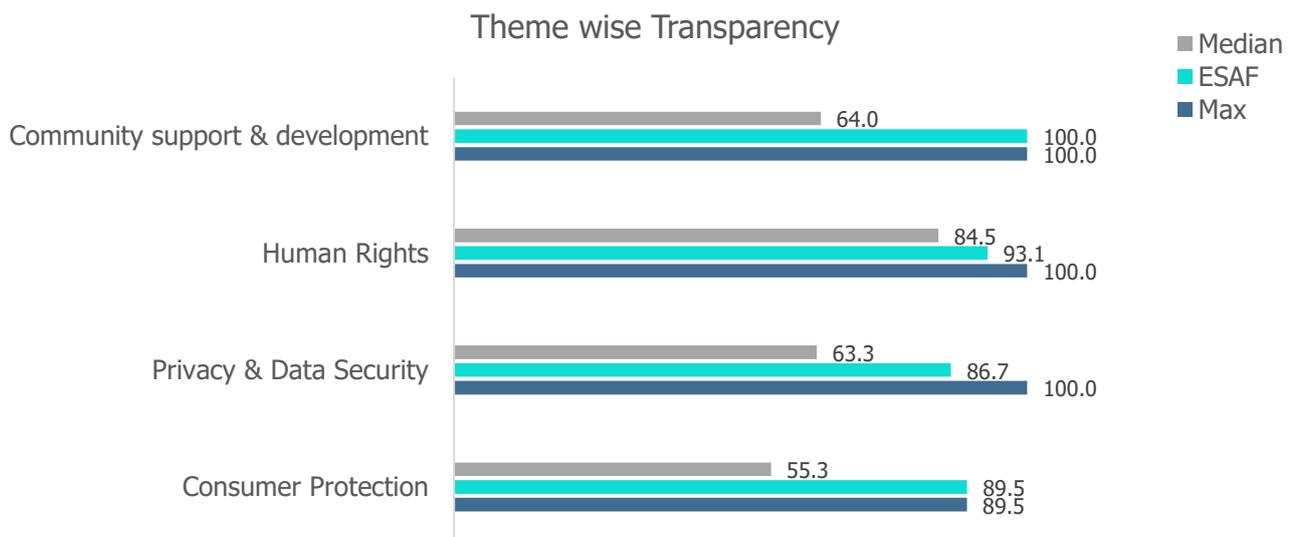
ESAF SFB has achieved overall transparency scores of 87.3 and 93.6 under BRSR transparency for the social pillar, both of which are well above the industry median.

While these scores are above the median, indicating strong transparency, ESAF SFB's disclosures regarding the value chain are notably below the median score. This highlights an area where the company could improve its transparency to align more closely with industry leaders.

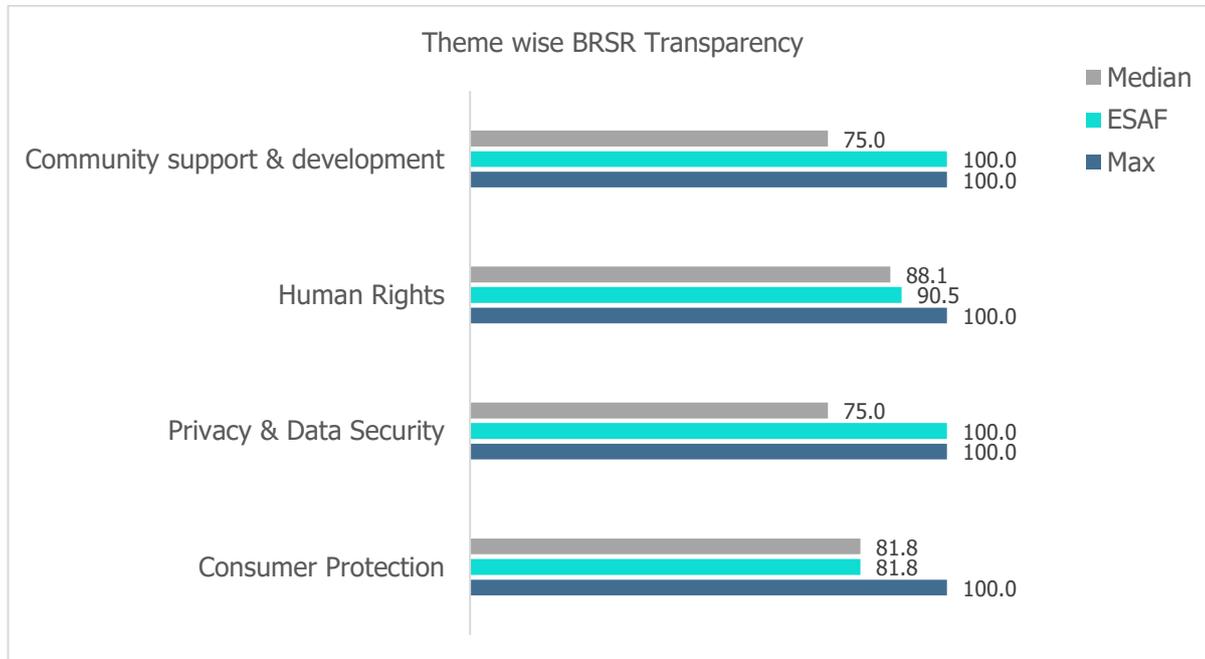
**Exhibit 31: Pillar Transparency Score**



**Exhibit 32: Theme wise Transparency**



**Exhibit 33: Theme wise BRSR Transparency**



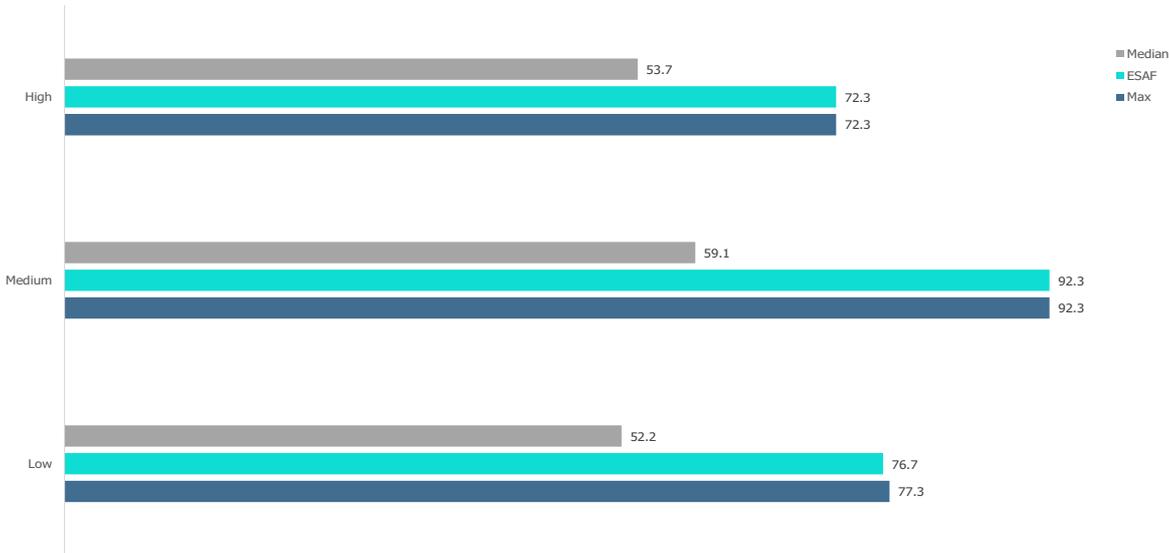
ESAF SFB’s transparency in social pillar reporting is strong, with scores consistently exceeding the industry median across key themes such as Employee Health and Safety, Human Capital, Human Rights, Product Safety, and Community Support & Development. The company’s performance is also favourable in terms of BRSR disclosures. Despite these strengths, some variability in reporting is observed. While ESAF SFB’s transparency on the value chain is consistent with the BRSR industry median, its overall score for this theme remains below the industry median, indicating potential for improvement. The variation in reporting across specific themes suggests opportunities for more detailed disclosures to enhance ESAF SFB’s overall transparency score.

**5.6 Social Pillar – Benchmarks and Medians based on Materiality**

ESAF SFB's score for low materiality indicators (76.7) is above the industry median (52.2) but only moderately lower than the maximum score (77.3) indicating top quartile disclosures on low materiality environmental issues.

ESAF SFB is the industry leader in medium materiality indicators with a score of 92.3 and in high materiality indicators with a score of 72.3.

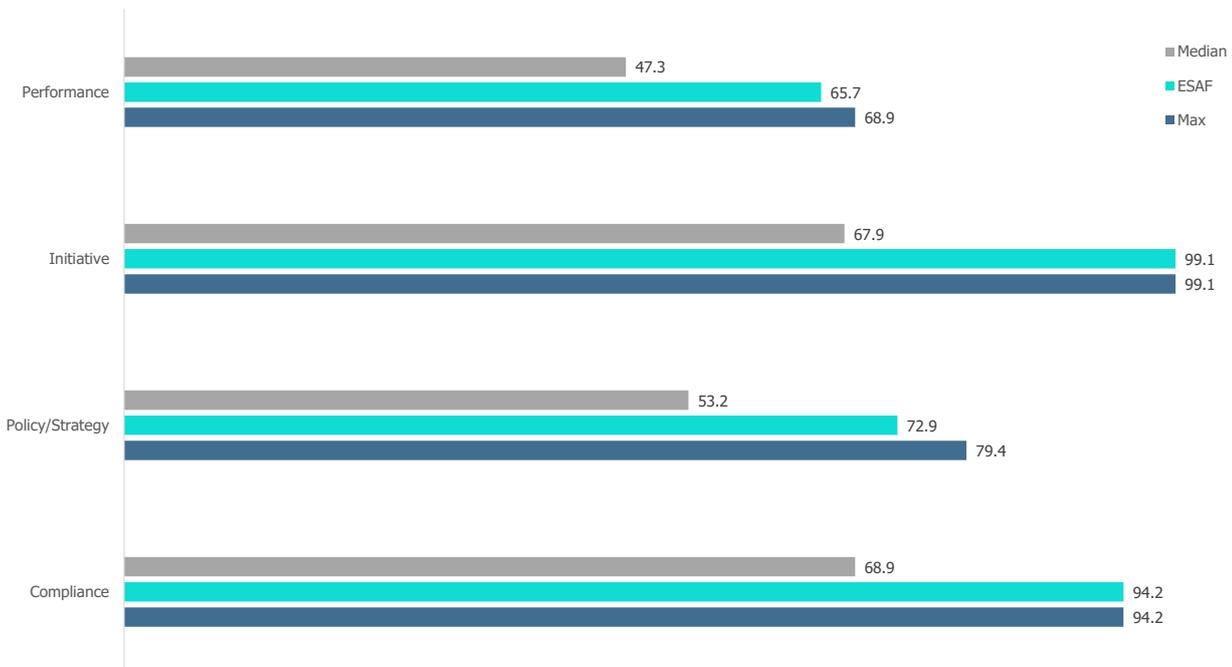
**Exhibit 34: Social Pillar – Competitive Benchmarks and Median Materiality Scores**



**5.7 Social Pillar – Benchmarks and Medians based on Activity**

ESAF SFB is the leader in compliance parameters with a score of 94.2. ESAF SFB has scored 72.9 in **Policy/Strategy** indicators, which positions it in the top quartile. Similarly, ESAF SFB is the leader in initiative parameters with a score of 99.1, whereas it is in the top quartile for performance indicators.

**Exhibit 35: Social Pillar – Competitive Benchmarks and Median Activity Scores**



ESAF SFB's **Policy/Strategy** and **Performance** scores trail behind the industry maximums, suggesting areas for improvement in implementing and demonstrating the effectiveness of social initiatives.

## 6. Governance Performance

Corporate governance is crucial for maintaining accountability, trust, and transparency in organizations. Corporate governance in banks differs from that in other companies because banks have greater fiduciary responsibilities as they handle public deposits. Over the past twenty years, the landscape of corporate governance in banking sector has evolved, specially following the 2007-2008 financial crisis and bankruptcy of major financial institutions, which underscored the urgent need for stronger governance practices in banks.

In India, the RBI and the SEBI are key regulatory bodies overseeing corporate governance standards for banks. Indian regulations have also incorporated best practices from the Basel Committee reports and Organisation for Economic Co-operation and Development (OECD) Guidelines for Corporate Governance to enhance both bank governance and supervisory oversight.

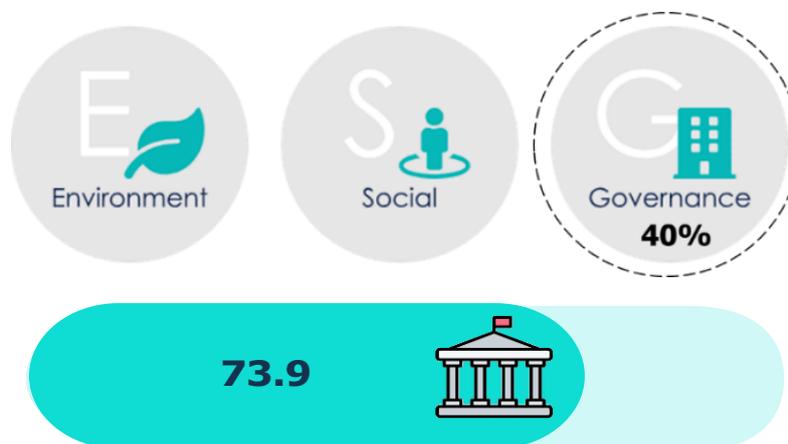
### 6.1 Governance Performance Summary

The company received a score of 73.9 in the governance pillar, compared to an industry median of 62.8, placing the bank in the top quartile amongst its peers.

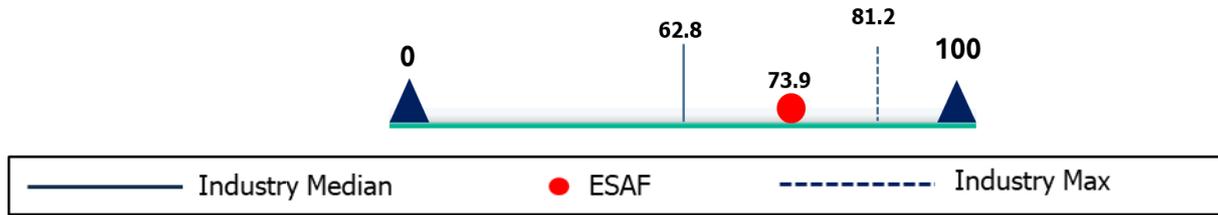
### 6.2 Pillar Weight and Pillar Score

In its scoring model, CareEdge-ESG assigns Governance Pillar a weight of 40% for Small Finance Banks sector. Considering the importance of regulatory frameworks for banks, the governance pillar carries the second highest weightage amongst all the three pillars.

**Exhibit 36: Governance Pillar Scores and Weights**



**Exhibit 37: Governance Pillar: Competitive Benchmarks and Median Scores**

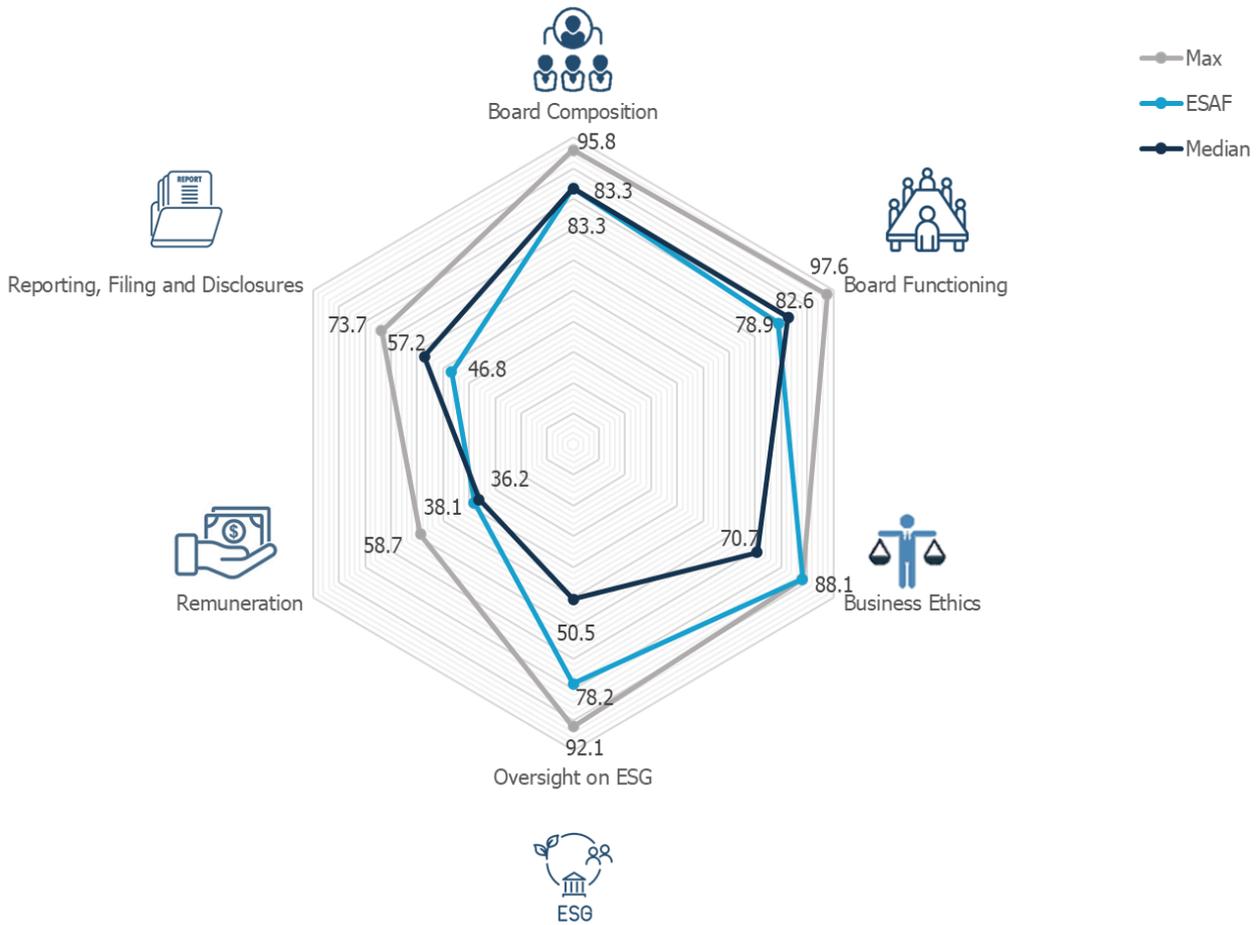


As can be inferred from the above exhibit, ESAF SFB is performing better than the industry median on the Governance pillar. The bank is a leading performer in Business Ethics theme. However, there is considerable scope of improvement in themes of Reporting and Filings as well as Board functioning.

**6.3 Theme Scores**

Amongst all the themes of the governance pillar, Business Ethics, Oversight on ESG and Reporting and Disclosures take up dominance in this industry with these 3 themes accounting for 80% of the total weight allocated to the pillar. The rest 20 % of the weight is attached to the themes of Board Composition, Board Functioning and Remuneration.

**Exhibit 38: Theme Scores**



In essence, ESAF SFB is the leader in Business Ethics whereas it lags in Reporting, Filing and Disclosures, and Board Functioning. ESAF SFB’s performance is nearly in line with industry median in the theme of Board Composition and Remuneration.

**6.4 Key Themes**

**(1) Business Ethics**

Public trust and stability are essential for the BFSI sector. Banks must uphold values like integrity, trust, responsibility, accountability, respect, and fairness to build and maintain this trust and their reputation. Despite the stringent regulations, the sector still faces significant challenges with financial fraud and compliance failures.

For instance, frauds reported in FY24 grew compared to FY23<sup>4</sup>

<sup>4</sup>Reserve Bank of India, Annual Report 2023-2024



Over the past three years, penalties by the RBI have risen by 88%, with Know Your Customer (KYC) and Anti Money Laundering (AML) violations being the most common issues. These highlights the need for rigorous ethical evaluations within banks. CareEdge-ESG model addresses these concerns via assessment of anti-corruption policies, prevention from insider trading, whistleblower protection, and anti-money laundering practices, amongst others.



*ESAF has achieved a score of 88.1 in this theme, positioning it as a top performer among its peers. This can be attributed to the company's adherence to regulatory policies that promote ethical banking practices.*

### A. Compliance

In alignment with SEBI's Prohibition of Insider Trading Regulations and Companies Act, ESAF SFB has

**Distinguishing itself from the peers, the bank has also constituted an Insider Trading Committee comprising of the Chief Financial Officer (CFO), Company Secretary (CS), all Executive Vice Presidents and the HR Head.**

**Annually reviewed | Last review in Feb-2024**

established a policy to prevent insider trading as well policy on Related-Party Transactions

All Related-Party Transactions (RPTs) were carried out in the normal course of business and on an arm's length basis. Additionally, a statement detailing all related party transactions is presented

to the Bank's Audit Committee on a quarterly basis for review.

### B. Policy/Strategy

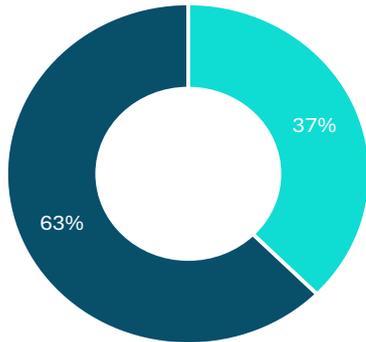
The Bank has established a policy for KYC norm and AML standards and Combating the Financing of Terrorism (CFT) measures. The Policy has been approved by the Board of Directors and applies to all branches, offices, functions, and units. In line with RBI guidelines, the Policy includes:

1. Customer Acceptance Policy
2. Customer Identification Procedures
3. Transaction Monitoring
4. Risk Management

The company also has a Whistleblower Policy in line with the Companies Act 2013. During the financial year 2023-24, the company received five complaints, all of which have been resolved.



While ESAF’s Whistleblower Policy does not accept anonymous complaints, 50% of companies in the peer set accept anonymous complaints through their Whistleblower Mechanism.



- Companies that have ACAB policy
- Companies that do not have ACAB policy

**Exhibit 39: % of Peer-Organizations with distinct ACAB Policy**

It is to be noted that the company does not have a separate Anti-Corruption and Anti-Bribery Policy (ACAB), and aspects of the same are covered in the Code of Conduct for Employees and in the Policy for Monitoring of Insider Trading.

**C. Initiative**

The bank lacks a structured grievance redressal mechanism for its stakeholders. In response to BRSR question on existence of mechanism for investor grievance redressal, the company states that it is “Part of the Policy on Code of Conduct for the Board of Directors and Senior Management Personnel is available internally.’ ESAF SFB Bank’s website mentions an email-id for investor grievance redressal. The page also mentions details of the Registrar and Transfer Agent, along with a link of the SEBI maintained Sebi Complaints Redress System (SCORES) portal and Online Dispute Resolution (ODR) portal. Similarly for shareholders, separate mechanism for shareholder grievance could not be found on the website or in their Annual Report.

**Best Practices**

Industry leaders and peers have established well-defined and transparent policies for addressing investor grievances. These may include

- i) Clear communication channels for submitting complaints
- ii) Timeframes for resolution based on the type of issue
- iii) An escalation matrix

Additionally, many banks provide handbooks on shareholder rights and Frequently Asked Questions (FAQ) pages to offer preliminary guidance to shareholders regarding their queries.

### D. Performance

In FY 2023-2024, the bank received 1,041 complaints. Separately, it received 75 qualified complaints from the Banking Ombudsman, all of which have been resolved.

Complaints Received Through	Number of Complaints	Status of Resolution
SEBI SCORES Portal	12	100% Resolution
Letter/Mail	1029	100% Resolution

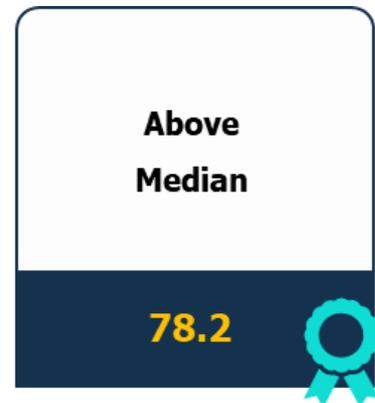
ESAF SFB does not provide any formal training to the vendors and other Direct Selling Agents (DSA's) on code of conduct and Anti-Corruption Anti-Bribery. This is an imperative missing link considering that the value chain forms an indispensable part of delivery of services.

*It is to be noted that 1,016 of 1,041 complaints were received between 1.10.2023 to 31.12.2023., likely due to the IPO of the company in November 2023.*

Type of Training	Does ESAF provide the training?	% of Peer Organizations that provide the training
Training on Employees Code of Conduct	Yes	69%
Training on Whistleblower Policy	Yes	13%
Training on Anti-Corruption and Anti- Bribery	Yes	63%

## (2) Oversight on ESG

ESG factors are crucial in evaluating the long-term and ethical impact of a business or investment. RBI provided guidelines in its 2022 report on 'Climate Risk and Sustainable Finance' to help banks assess and manage ESG risks, ensuring their operations and strategies align with ESG principles. Similarly, in 2020, the SEBI introduced new ESG regulations for the top listed companies by market capitalization and made it mandatory for top 1000 listed companies. Considering this, CARE ESG's model takes into consideration the companies' policies, capacities and performance on issues such as BRSR policies and sustainability performance, to evaluate their ESG performance.



### A. Policy/Strategy

According to their BRSR report, the company covers majority of BRSR principles, all of which are approved by the board. In terms of their targets aligning with BRSR, the company has adopted a four-year ESG Roadmap for 2023-2027 as follows:

#### ***Exhibit 40: ESG Roadmap of ESAF SFB***

**Impacting 10 million (One Crore) Direct Customers with any of many SDGs**

**Fostering Local Sustainable Economic Growth through 1 million Joint Liability Groups**

**Energy conservation and greater reliance to renewable energy in operations in line with government's net zero plan**

**Fostering Food Security through financial services to 5 million Farmers**

**Energy conservation and greater reliance to renewable energy in operations in line with government's net zero plan**

The bank has a detailed ESG and CSR policy, both of which are Board approved. ESAF SFB also has a Board-approved Business Continuity Management Policy and each year, the Bank performs a Business Impact Analysis (BIA) and updates its Business Continuity Plan (BCP).

### B. Initiative

To implement their ESG and CSR policies, the bank has constituted the following committees for implementation and oversight



It is to be noted that the company has done impact assessment of its CSR initiatives till 2022, reports of which are available on the bank’s website. Impact assessment reports for FY2022-23 and FY2023-24 are under-process.

In terms of engagement with stakeholder, the company does not have a dedicated stakeholder engagement policy but engages stakeholders through various channels:

Stakeholder	Mode of Engagement
Shareholders / Investors	Annual and Quarterly meetings and Calls, Investor Presentations, Annual General Meetings, Investor Grievance Channel, Annual report.
Business Partners /Suppliers	Regular meetings, Seminars and Workshops
Employees	Town-Hall Meetings, One-on-One meeting, Training, Online learning modules
Local Communities	Balajyothi Clubs, Entrepreneurship Programs and other CSR initiatives/projects
Customers	On-going engagement through Calls. SMSs, Emails, Social-Media, Surveys and Campaigns
Regulatory Authorities	Mandatory filings, Performance reports, Meetings and Written Communications

The bank engages with employees and customers coupled with involving broader community on environmental and social issues through various engagement projects Feedback from these interactions is used to inform policies through the bank's governance committees, including the Customer Service Committee, HR Committee, and CSR & Sustainability Committee.

### C. Performance

According to the Bank’s Annual Report, all its policies aligning with BRSR principles are Board approved and reviewed annually. However, following the best practice of the industry leader, conducting more

frequent reviews (quarterly/monthly) of performance against BRSR principles more frequently as against an annual review currently being practiced. In terms of its performance in ESG, it has other distinguishing features such as:



The Bank has committed 5% of its net profits to CSR initiatives, exceeding the government-mandated 2% requirement.

---

It is to be noted that ESAF SFB does not carry out independent assessment/ evaluation of the working of its policies by an external agency as against its peers who have an external assessment for the same. An external assessment provides validation thereby building on trust through validated enhanced disclosures.

### (3) Reporting, Disclosures and Filing

Disclosures and reporting, of financial/non-financial as well as risk exposure, is essential for appropriate communication, transparency and reliability of banks. Profit and loss account, Board of Directors Report, Basel 3 report, Corporate Governance report etc are some of the mandatory disclosures made by banks in India. With a score of 46.8, the bank has scored below the median in this theme, indicating scope for substantial improvement.

#### A. Compliance

In terms of compliance, the bank has restated its financial statement and has faced penalty from Bombay Stock Exchange.



The bank had restated its financial statement in FY2022-23 and FY2023-24.



Bombay Stock Exchange had imposed a monetary penalty of Rs 17,700 for delayed submission of financial results.

#### B. Initiative

In terms of Risk management, the bank undertakes enterprise level risk management initiatives.



50% of Peer Organizations undertake Enterprise level Risk Management.

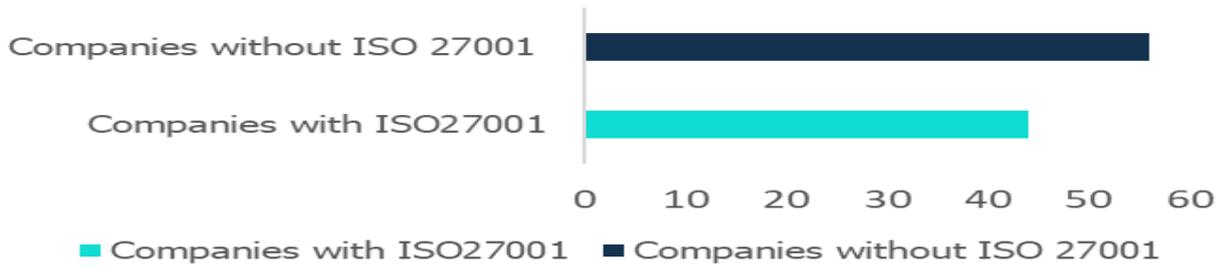
The bank has a Risk Management Committee of the Board and a Risk Management Department to coordinate bank-wide risk management efforts. Periodic stress testing is conducted to ensure that the Bank can effectively manage and mitigate both existing and emerging risks.

#### Division within Risk Management Department

Credit risk	Operational risk	Market risk	Information and Cybersecurity risk	Anti-Money Laundering and Transactional
-------------	------------------	-------------	------------------------------------	---

Though the bank is ISO /IEC 27001:2022 certified, for high-level data protection for its IT and related operations, the bank lacks a RegTech / Systems solution for monitoring and evidencing compliance exposing ESAF SFB to risk associating with fault in oversight.

**Exhibit 41: Percentage of Peer-organizations with ISO 27001**



**C. Performance**

The banks score in this theme has been negatively impacted due to its performance in indicators accounting for non-audit fees. It is to be noted that ESAF SFB has the highest Non-Audit Fees to Audit fees ratio in the peer-set. High non-audit fee has the potential of impacting Auditor’s independence, and thus a high-non audit to audit fee ratio impacts the theme score of the bank. As a good governance practice and regulatory guideline, percentage of non-audit fees should be less than 50% of the total audit fees; the lower the better. The Institute of Chartered Accountants of India guidelines also state that statutory auditors should not accept assignments if the total fee from non-audit work exceeds the fee earned from the statutory audit.



**Amongst its peer-organizations, ESAF has the highest percentage of Non-Audit fees in total Audit Fees**

**(4) Board Composition**

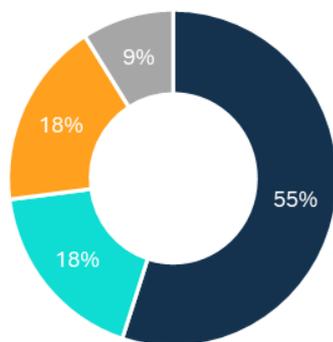
The Board of Directors plays a crucial role in the corporate governance of banks, serving as a key decision-making and oversight body. Its responsibilities include overseeing business strategies, assessing and rewarding management performance, and ensuring compliance with legal standards. In India, regulatory authorities have underscored the board's importance through a structured regulatory framework. RBI has established criteria for the formation and selection of Board of Director for banks. Furthermore, SEBI has introduced guidelines for Board of Directors under the Clause-49 listing agreements, making corporate governance practices mandatory for all listed companies in India.

ESAF SFB has received a score of 83.3 in this area, placing it in on the median ranking. Though the bank adheres to regulatory requirements for the composition of its Board of Directors and other committees, its score has been adversely affected by a lack of proactive measures beyond the minimum requirements, such as in promoting gender diversity on the board. The bank also does not any female as a part of KMPs.

**A. Compliance**

The bank has constituted its Board of Directors in compliance with the Companies Act, 2013, the Banking Regulation Act 1949, and SEBI Listing Regulations. Additionally, the company has formed mandatory committees, including the Audit Committee, Nomination and Remuneration Committee, Risk Management Committee, Corporate Social Responsibility Committee, and Stakeholder Management Committee. However, the overall score has been adversely impacted by a deficiency in the number of independent directors on the Risk Management Committee.

**Exhibit 42: Composition of Board of Directors of ESAF SFB**



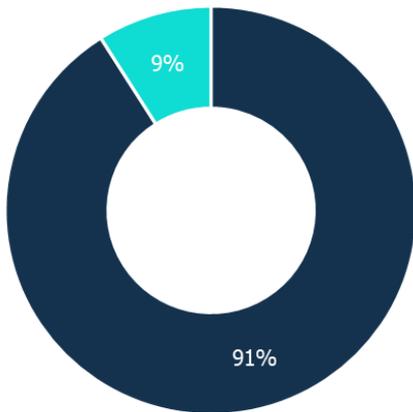
In compliance with regulations, the Bank has one third of its Board of Directors as Independent Director and two Whole-Time Directors in its board.

- Non-Executive Independent Director
- Non-Executive Nominee Director
- Whole-Time Director
- Non-Executive Director

**B. Initiative**

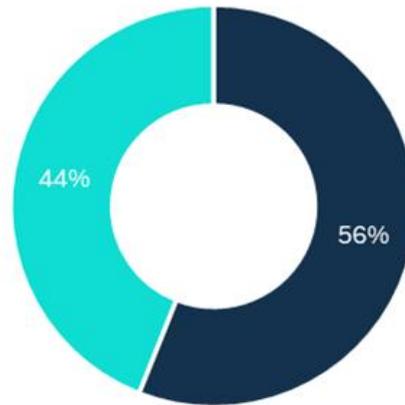
Though the bank has met the threshold in term of board diversity in Board of Directors, it can be inferred from the below exhibits that ESAF SFB has only one woman in its Board of Directors while more than 50% of its peer set have more than one woman director. It is also to be noted that the company has no woman in its Key Managerial Personnel.

**Exhibit 43: % of Men and Women in Board of Directors of ESAF**



■ Men ■ Women

**Exhibit 44: % of Peer Organizations with more than one woman director**



■ Companies with more than one woman directors  
 ■ Companies with one woman director

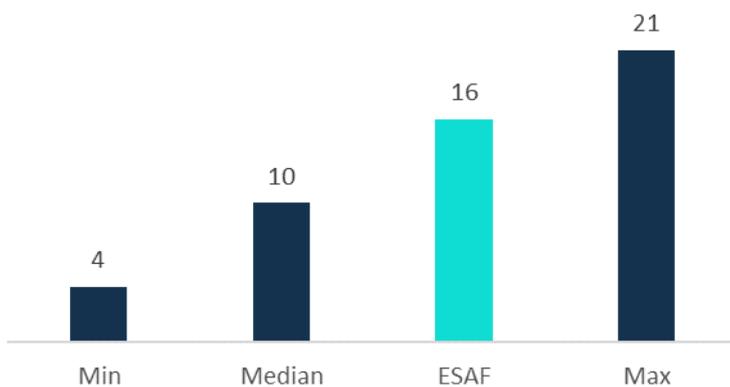
**(5) Board Functioning**

The company achieved a score of 78.9 in this theme, placing it in below median compared to its peers. While the bank has held its Annual General Meetings in accordance with regulations and its Board and Committees have convened more frequently than mandated, its overall score has been negatively impacted by factors such as inadequate training programs.

**A. Compliance**

The bank has conducted Annual General Meeting in alignment with regulations and has disclosed its attendance and minutes. The bank’s Board as well as mandatory committees have met the required number of times in the year.

**Exhibit 45: Overview of Number of Board Meetings Conducted by Peer Organizations**



Adjacent exhibit shows that ESAF SFB held 16 Board meetings in FY2023-2024, exceeding the industry median of 10 meetings per year. Also, across all meetings held by ESAF SFB, a minimum 1/3rd of Board of Directors was always present.

ESAF SFB is also compliant in terms of Companies Act’s requirements on board rotation and external auditor rotation.

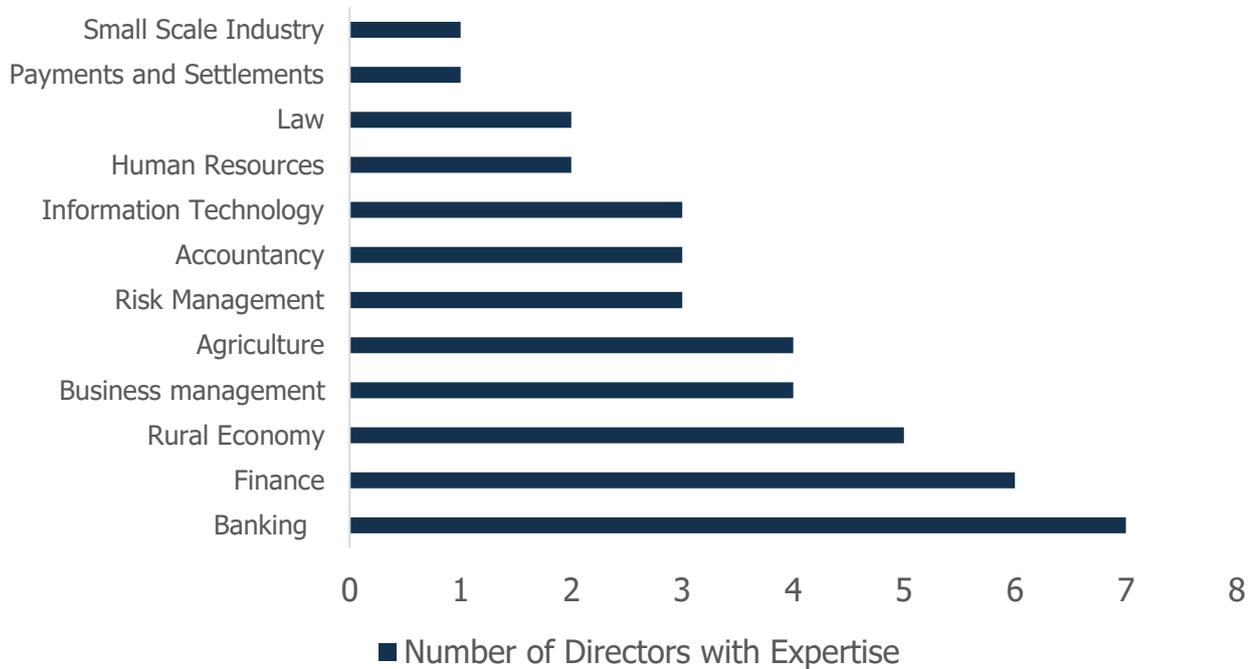
**Exhibit 46: Committees and Number of Meetings held in FY2023-24**

Name of Committee	By ESAF SFB	As required by regulation	Avg. of the peer set
Audit Committee	9	4	9
Risk Management	4	2	5
Nomination and Remuneration	5	1	6
Stakeholder Relationship	2	1	2
Corporate-Social Responsibility	2	No minimum requirement	3

Above exhibit reflects that ESAF SFB’s committees have met the minimum number of times as mandated by regulations.

**B. Performance**

**Exhibit 47: Number of Directors with experience in different sectors.**



In terms of diversity in experience, the Directors have experience across 12 sectors, with around 70% of the Board with experience in banking.

 Despite forming committees in alignment with regulation and conducting the mandated number of meetings, the banks score in this theme has been dragged down due to inadequate training provided to the Board of Directors.

According to its BRSR 2023-2024, the bank has held one governance training program for its Board of Directors, covering only 11% of the members.

ESAF conducted  
 6 trainings of KMPs with  
**90% attendance**

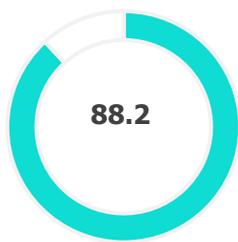
However, there is lack of clarity on the specific principles or topics of BRSR that were addressed in the training and awareness programs for both the Board of Directors and KMPs. In comparison majority of the peer organizations have conducted training on BRSR principles, covering all their Board of Directors.

**6.5 Governance Pillar Transparency Score**

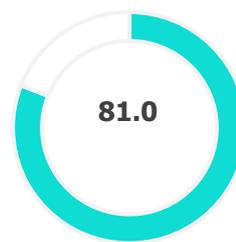
ESAF SFB has scored 88.2 under KI transparency and 81.0 under BRSR transparency for the governance pillar.

**Exhibit 48: Transparency Scores of ESAF SFB**

Transparency Score

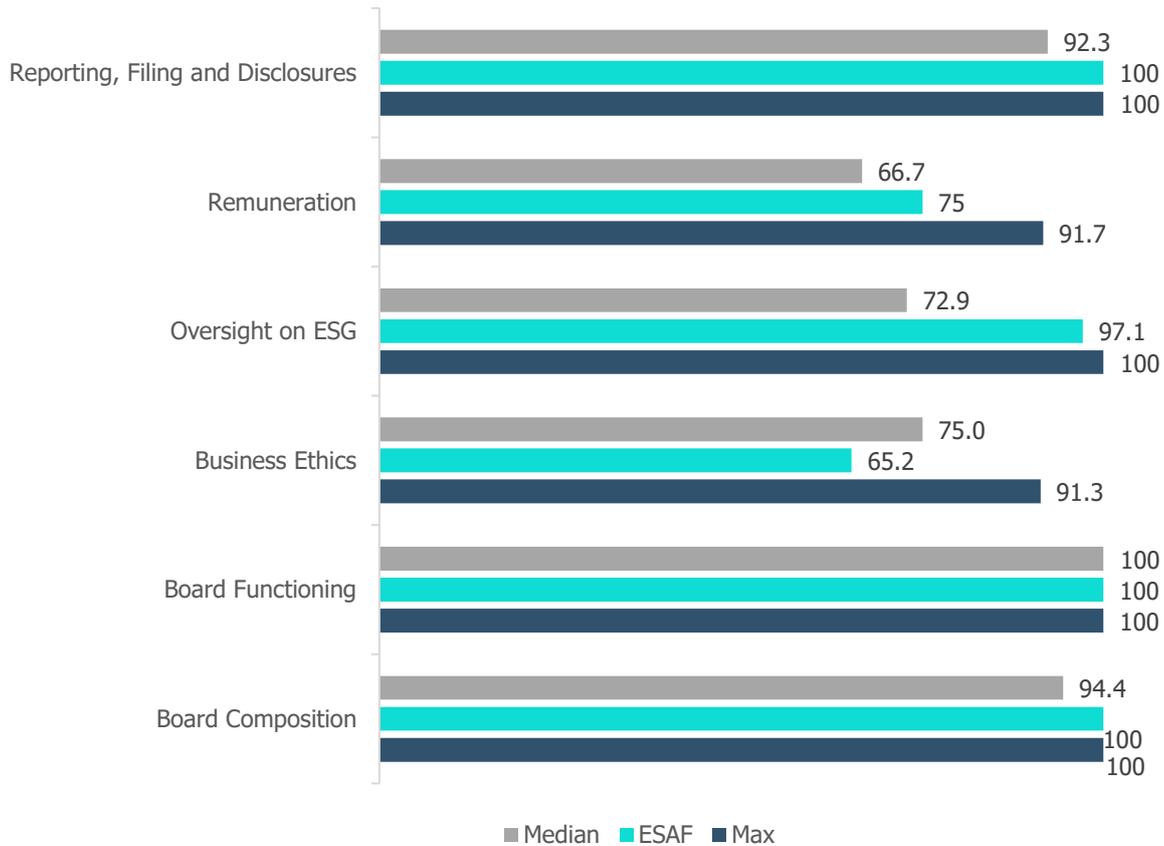


BRSR Transparency Score



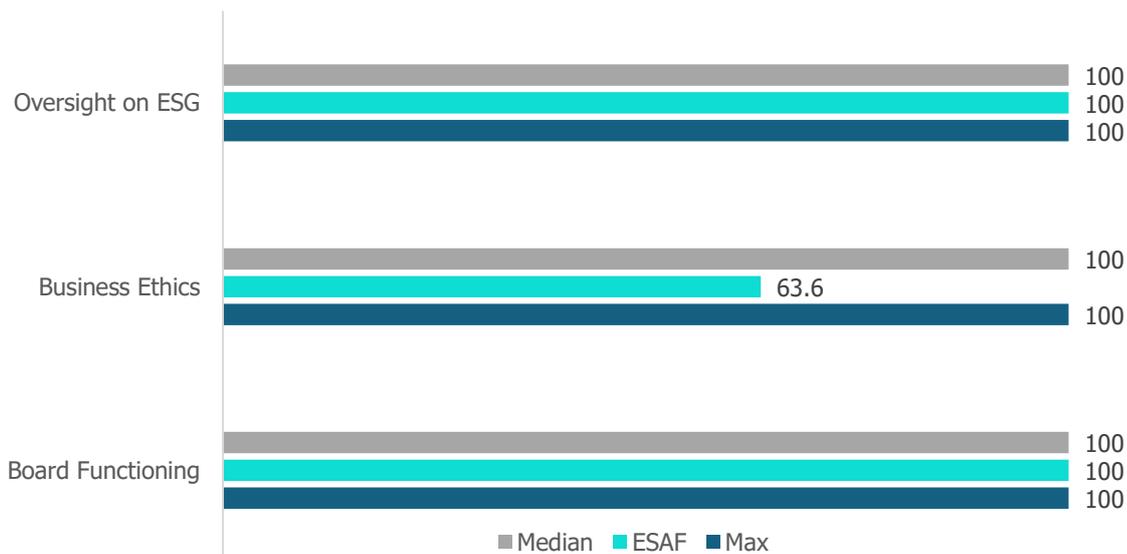
ESAF SFB’s has the leading transparency score in themes of Board Composition, Board Functioning, and Reporting and Disclosures. While it scores above the industry median in transparency in Remuneration based indicators, its scores lag industry median in themes of Business Ethics. In BRSR transparency, ESAF SFB is leading scorer in Board Functioning and Oversight on ESG.

**Exhibit 49: Governance Theme-wise Transparency**



ESAF SFB has received the highest transparency score in the theme of Reporting and Filing Disclosures. Although its transparency score for Oversight on ESG is nearly on par with the industry's top performers, its score in Business Ethics is below the industry median. It has scored a perfect score in Board Composition and Board Functioning.

**Exhibit 50: Governance- Theme wise BRSR transparency**



In BSRS transparency, ESAF SFB achieved a perfect score in the Oversight on ESG theme, which matches the industry median. Similarly, in Board Functioning, it has received a perfect score, which is also the industry median. However, in Business Ethics, its score falls below the industry median.

### 6.6 Governance Pillar - Benchmarks and Medians Based on Materiality

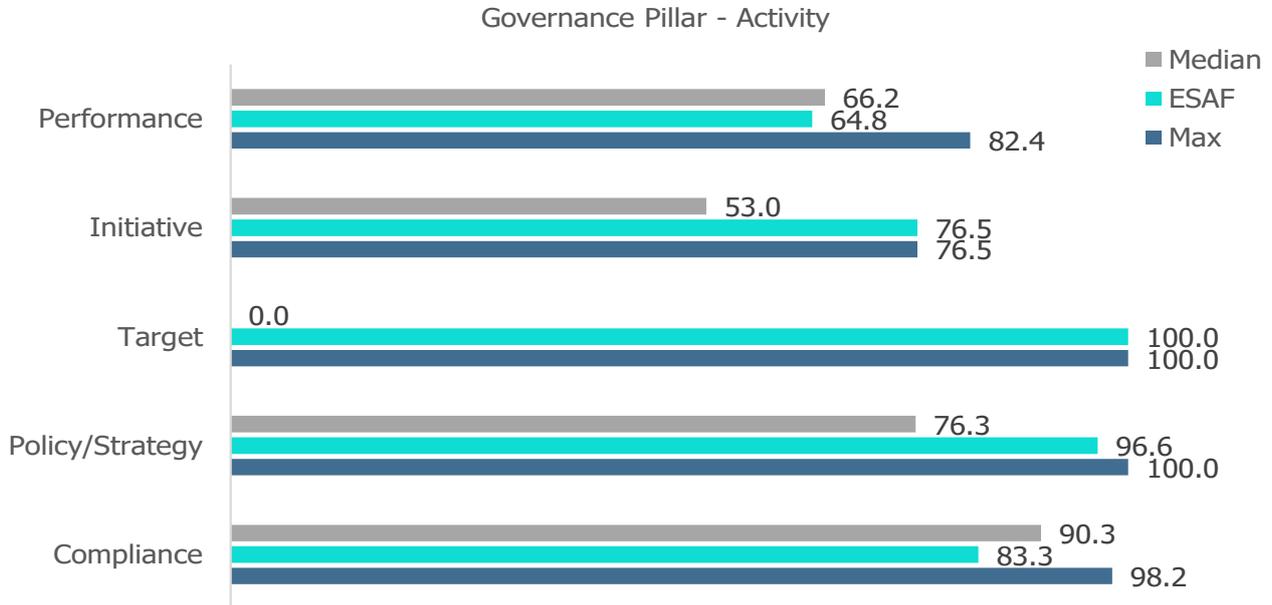
**Exhibit 51: Governance Pillar- Benchmarks and Medians Based on Materiality**



In high materiality indicators, ESAF SFB has scored above the median industry scores. Whereas in medium materiality indicators, its score is at par with the industry median and mean. In terms of low materiality indicators, ESAF SFB’s score is at par with the industry maximum.

### 6.7 Governance Pillar - Benchmarks and Medians Based on Activity

**Exhibit 52: Governance Pillar- Benchmarks and Medians Based on Activity**



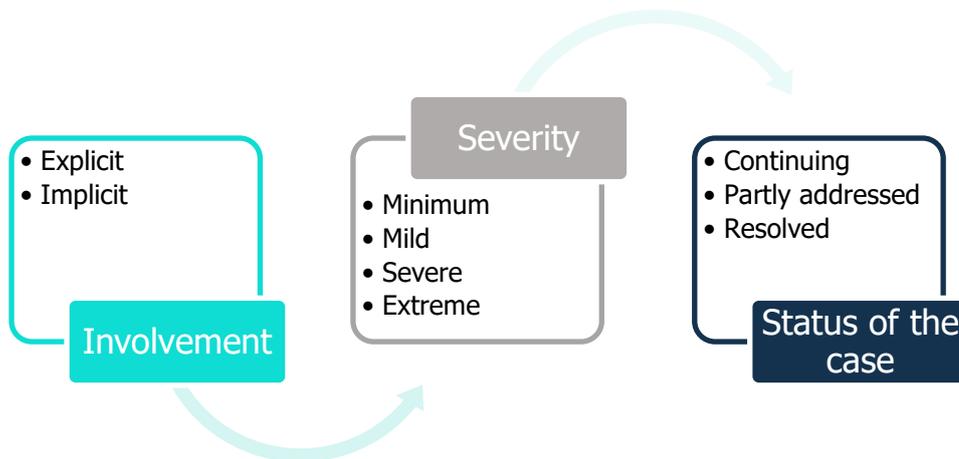
ESAF SFB stands out as the top performer among its peers in the Governance Pillar in activities based on Initiatives and Targets. Although it performs well above the median in Policy/Strategy-related activities, it lags the industry median in Compliance-based indicators. Its score in Performance-based indicators is nearly on par with the industry median.

## 7. Controversies

### 7.1 Impact and Summary of Controversies

CareEdge-ESG defines controversies as any key material event or news that can have a negative ESG impact on the company's operations, products and sustainability. As illustrated in below exhibit, CareEdge-ESG categorizes each controversy in three different ways based on company's involvement in the controversy, its severity and status. Controversies are classified as 'explicit' or 'implicit', based on company's involvement and as 'minimum', 'mild', 'severe' or 'extreme', based on severity of the event. Further, based on the status of the controversy, it is classified as 'continuing', 'partly addressed', or 'resolved'. CareEdge ESG assesses the impact on KIs associated with controversies, depending on these categorizations. The negatively impacted KIs in turn have an adverse impact on scores of corresponding themes. In addition, CareEdge-ESG's rating model adjusts scores of governance-related themes as most controversies tend to pose a reputational risk to the companies.

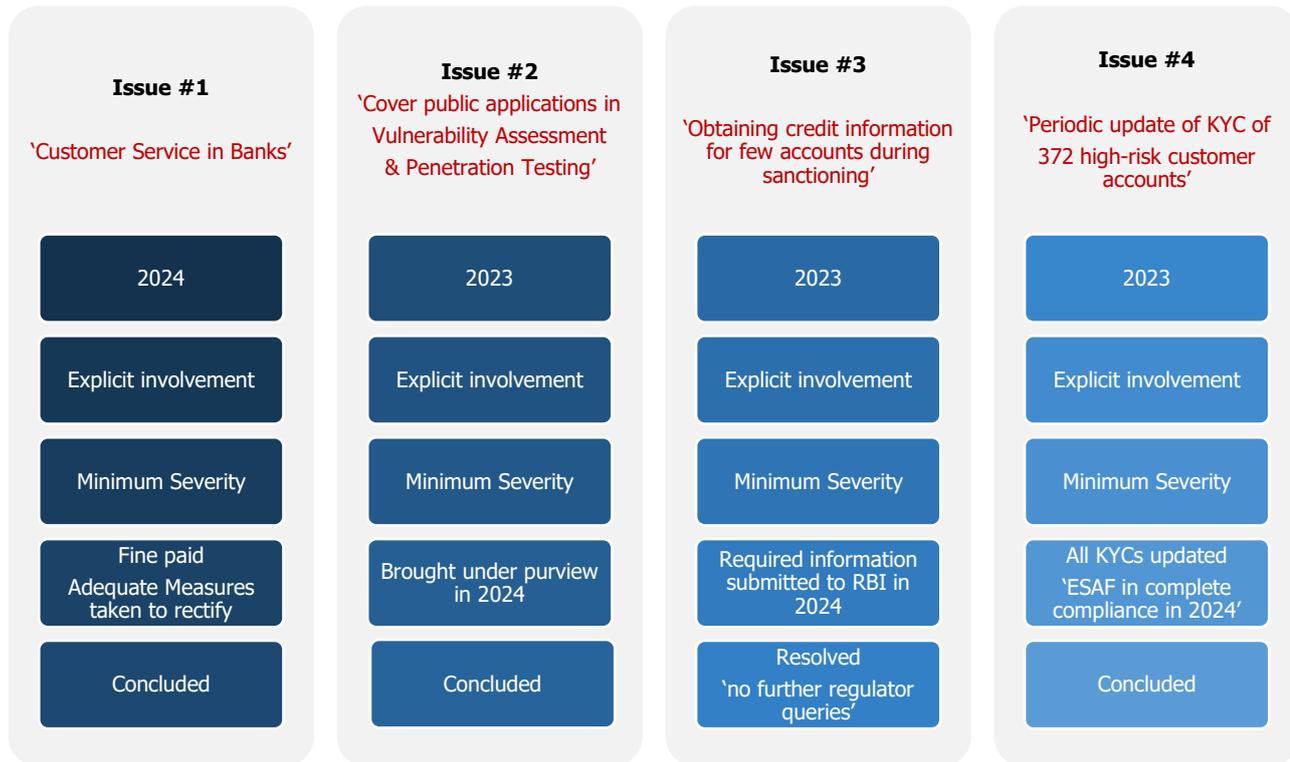
**Exhibit 53: Controversy Classification**



CareEdge-ESG's rating framework incorporates a controversy related multiplier that adjusts scores at the pillar or theme level resulting in an impact on the overall score. The final ESG score is a controversy adjusted score.

For detailed understanding on the controversy methodology used by CareEdge-ESG, please refer to the methodology document available on the company's website [www.careedgeesg.com](http://www.careedgeesg.com)

CareEdge-ESG all news and controversies related to ESAF SFB through various sources. On a detailed study and post seeking clarifications from the management of ESAF SFB, following conclusion were drawn:



- CareEdge-ESG classifies the severity as minimum in nature based on the impact assessment such as:
  - Only 2 customers faced customer service issues
  - Only a few applications were not covered under VAPT, making the issue as one of a low-risk stature
  - Since the credit information was not obtained for only a few accounts which would have not resulted in system failures
  - the non-compliance was of a low-risk stature and at a nascent stage

### 7.2 Impacted Themes and Pillars in CareEdge-ESG's Scoring Model

None of the above Controversies have had any impact on the ESG score of the Bank, since all of them were of a *Minimum* impact and a *Concluded* status stemming into a resultant multiplier of 1 across the impacted themes & pillars.

## 8. Glossary

<i>Terms</i>	<i>Definitions</i>
AUM	Assets Under Management
ACAB	Anti-Corruption Anti-Bribery
AML	Anti-Money Laundering
ANBC	Adjusted Net Bank Credit
ANERT	Agency for New and Renewable Energy Research and Technology
ASCI	American Customer Satisfaction Index
ATM	Automated Teller Machine
BC	Business Correspondent
BCP	Business Continuity Plan
BFSI	Banking, Financial Services, and Insurance
BIA	Business Impact Analysis
BRSR	Business Responsibility and Sustainability Reporting
CERT	Computer Emergency Response Teams
CSITE	Cybersecurity and Information Technology Examination
CSR	Corporate Social Responsibility
DE&I	Diversity, Equity & Inclusion
DG	Diesel Generators
DSA	Direct Selling Agents
ESG	Environmental, Social and Governance
EV	Electronic Vehicle
FAQ	Frequently Asked Questions
FEMA	Foreign Exchange Management Act
G3	Green Grow Glow
GHG	Green House Gas
HR	Human Resource
ICAI	Institute of Chartered Accountants of India
IDRBT	Institute for Development and Research in Banking Technology
INDC	Indian Nationally Determined Contributions
ISO	International Organization for Standardization
JLG	Joint Liability Group
KMP	Key Managerial Personnel
KYC	Know Your Customer
LAP	Loan Against Property
LEED	Leadership in Energy and Environmental Design
MFI	Micro-Finance Institution
MoU	Memorandum of Understanding
MSME	Micro, Medium and Small Enterprises
NBFC	Non-Banking Financial Companies
NGBRC	National Guidelines on Responsible Business Conduct
NSE	National Stock Exchange
ODR	Online Dispute Resolution

OECD	Organisation for Economic Co-operation and Development
PCAF	Partnership for Carbon Accounting Financials
POSH	Prevention of Sexual Harassment
PPP	Purchasing Power Parity
RBI	Reserve Bank of India
RE	Regulated Entities
RPT	Related-Party Transactions
RTA	Registrar and Transfer Agent
SCORES	Sebi Complaints Redress System
SDGs	Sustainable Development Goals
SEBI	Securities and Exchange Board of India
SFB	Small Finance Bank
SOC	Security Operations Centre
tCO <sub>2</sub> e	Tons of Carbon di-oxide equivalent
UN	United Nations
VAPT	Vulnerability Assessment and Penetration Testing

## 9. Annexure 1

Rating Symbol	Rating Category	Rating Definition
CareEdge-ESG 1+	80 – 100	<b>Leadership</b> position in managing ESG Risk through <b>best-in-class</b> disclosures, policies, and performance
CareEdge-ESG 1	70 – 79	
CareEdge-ESG 2	60 – 69	<b>Strong</b> position in managing ESG Risk through <b>superior</b> disclosures, policies, and performance
CareEdge-ESG 3	40 – 59	<b>Adequate</b> Position in managing ESG Risk through <b>modest</b> disclosures, policies, and performance
CareEdge-ESG 4	30 – 39	<b>Below Average</b> Position in managing ESG Risk through <b>elementary</b> disclosures, policies, and performance
CareEdge-ESG 5	0 – 29	<b>Weak Position</b> in managing ESG Risk through <b>weak</b> disclosures, policies, and performance

Modifier {"+" (plus)} is used with the rating symbol at the highest category representing exemplary position within the same rating category.

'**Core**' is prefixed to the rating symbols when a rating is assigned based on third-party assured or audited data disclosed by the Company in its Core BRSR report.

### Analytical Contact

Nikunj Dube	Director & Head - ESG Ratings	Nikunj.dube@careedge.in	+91 - 72191 09995
-------------	-------------------------------	-------------------------	-------------------

### Business Development

Saikat Roy	Senior Director - CareEdge Ratings	saikat.roy@careedge.in	+91 - 22 - 6754 3404
Pradeep Kumar	Senior Director - CareEdge Ratings	pradeep.kumar@careedge.in	+91 - 98407 54521
Gaurav Ketkar	Business Development - CareEdge-ESG	gaurav.ketkar@careedge.in	+91 - 84528 15872

### Media Contact

Mradul Mishra	Media Relations - CareEdge group	mradul.mishra@careedge.in	+91 - 22 - 6754 3596
---------------	----------------------------------	---------------------------	----------------------

### CARE ESG Ratings Limited

Corporate Office: A Wing – 1102 / 1103, Kanakia Wall Street, Andheri Kurla Road, Chakala, Andheri (East), Mumbai – 400 093  
Phone : +91 - 22 - 6837 4400 | CIN: U66190MH2016PLC285575

### About Us:

CareEdge is a knowledge based analytical group that aims to provide superior insights based on technology, data analytics and detailed research. CARE ESG Ratings Limited (CareEdge-ESG) is one of the India's pioneer ESG rating provider fostering sustainability with ESG insights. With an aim of being a catalyst of change for a sustainable future with the most credible ESG assessments, CareEdge-ESG provides a 360 degree appraisal for the ESG performance benchmarking cum transition enabling ESG risk mitigation and enhanced decision making capabilities for all stakeholders.

### Disclaimer:

This report is prepared by CARE ESG Ratings Limited (CareEdge-ESG). CareEdge-ESG has taken utmost care to ensure accuracy and objectivity while developing this report based on information available in public domain. However, neither the accuracy nor completeness of information contained in this report is guaranteed. CareEdge-ESG is not responsible for any errors or omissions in analysis / inferences / views or for results obtained from the use of information contained in this report and especially states that CareEdge-ESG has no financial liability whatsoever to the user of this report.

**CARE ESG Ratings Limited**

**(Formerly known as CARE Advisory Research & Training Ltd.)**

**Corporate office:**

**A Wing - 1102 / 1103, Kanakia Wall Street, Andheri Kurla Road, Chakala, Andheri (East),  
Mumbai - 400093**

**Phone: +91-22-6837 4400**

**CIN - U66190MH2016PLC285575**