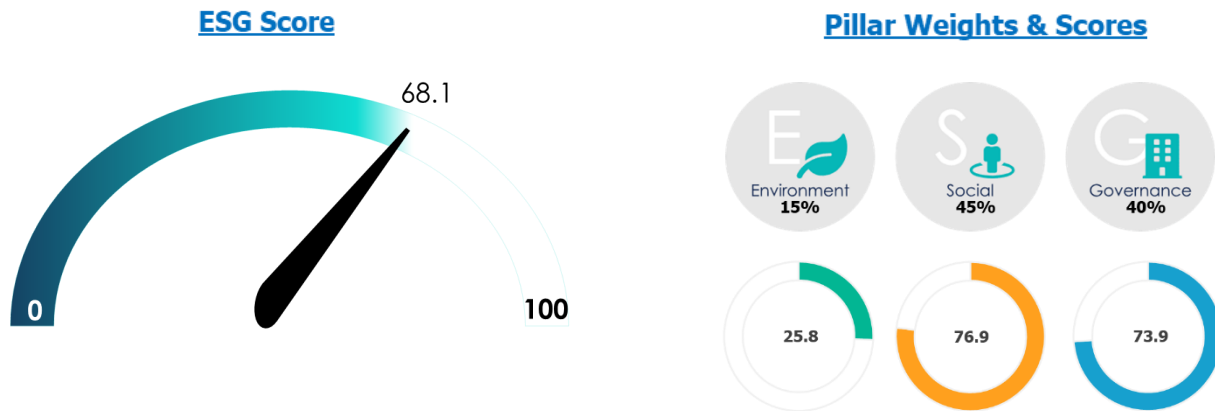


ESAF Small Finance Bank	Rating Symbol*	Rating Score	Rating Action
ESG Rating	CareEdge-ESG 2	68.1	Assigned

* www.careedgeesg.com for detailed understanding of CareEdge-ESG’s rating symbols and definitions.

Strong position in managing ESG Risk through **superior** disclosures, policies, and performance



Rating Scale



All scores are on the scale of 0 – 100

Rating Rationale

The rating assigned to ESAF Small Finance Bank Limited (ESAF), considers its advanced stage of ESG stewardship focusing on people, planet, and prosperity. With a legacy spanning three decades, ESAF has products and services targeted to under-resourced communities through its inclusive banking. The rating is accentuated by the bank’s leadership position in workforce diversity and sharp focus towards financial inclusion and sustainability, impacting lives across rural and semi-urban areas. The rating also factors in long-term strategies and initiatives that the bank has taken across key ESG functions, helping it make a notable transition in its sustainability performance. ESAF has demonstrated commitment towards social upliftment by consistently committing ~2.5x of the regulatory required allocation for corporate social responsibility (CSR). The bank has allocated 92% advances towards priority sector, fostering local economic growth, leading to a positive social impact. Overall ESG score of 68.1 reflects the bank’s strong position among its peers¹, superior level of disclosures & policies, and high impact performance.

¹ Peers/industry comprises listed Small Finance Banks (SFBs), Micro Finance Institutions (MFIs) & select NBFCs

The rating also considers the bank’s initiatives to include robust practices in managing environmental impact and integrating sustainability in its operations, including forward looking steps in strategising for climate-related risks and opportunities in green finance. ESAF’s medium-to-long term targets aligning to UN Sustainable Development Goals (SDGs) lead to a synergy creation of its social and economic outcomes that have an amplified impact on company’s stakeholders.

However, the rating is muted in the absence of third-party verified data, expanded coverage of emission accounting including fugitive emissions, sizeable green loan book and higher diversity in board and key managerial personnel (KMPs). Rating strength is also inhibited by the requirement of having distinct policy on human rights, evaluation of policies by an external agency, reg-tech systems in place to monitor and evidence compliances and revelation of climate risks related financial disclosures.

Social Score



Leadership score of 76.9 on social pillar, which carries highest pillar weight of 45%, augurs well for ESAF’s social centric performance. Consumer protection and community support & development are dominant themes in this pillar and ESAF has exhibited leadership initiatives and delivered meaningful performance across major themes. ESAF has consistently showcased its dedication towards uplifting society by going beyond statutory requirements, whether in priority sector lending (PSL) (>90%) or CSR (5%) allocations. Its initiatives towards increasing employment in rural and semi-urban areas and catering to specific financial needs of women have further boosted its performance on human capital theme. ESAF has exemplified leadership position with highest representation of female in work force (>30%). While these measures are effective, there is potential for further improvement by incorporating additional frameworks for data reporting and creating separate policies rather than clubbing them under a single overarching ESG policy. For maximum synergies and operational efficiencies, it is imperative that ESAF includes its value chain in its broader strategic goals.

Governance Score



With a Governance score of 73.9 combined with a high pillar weight of 40%, ESAF is comfortably placed in the top quartile. 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 has performed well on business ethics theme attributed to its strong position in adhering to regulatory policies that promote ethical banking practices. ESAFs’ board has approved majority of the laid BRSR principles, and the bank performs Business Impact Analysis (BIA) and updates its Business Continuity Plan (BCP) in line with best practices. However, relying on manual mechanism for monitoring compliance, since the regTech System is in the testing stage, may temporarily expose ESAF to risk due to possible oversight failures until the system is fully adopted. Creating distinct policies at all levels, more frequent reviews of ESG progress and increased diversification in board and management shall further augment its performance on governance pillar.

Environment Score



For this industry, the environment pillar has less relevance as opposed to the manufacturing sector, given its low impact on emissions, energy efficiency and waste management. Therefore, this pillar carries the least weight of 15%. Climate change risk management and emission & energy intensity are the most important categories within this pillar. With a score of 25.8 on Environment pillar, ESAF is placed in top quartile among its peers. This is because industry peers are in the initial stages of their ESG journey

related to climate risk and non-tracking and/or non-availability of relevant indicator data. Therefore, improvement in disclosures and initiatives shall assist entities in this industry to rapidly transition to better performance on this pillar. While ESAF is also in its nascent stages of addressing key environment themes, it has initiated processes to implement mechanisms for tracking and disclosure of climate transition risks indicators. These initiatives present significant opportunities to ESAF for improving its performance via decarbonization, tracking of financed emissions, detailed accounting of GHG and waste inventory and evaluation of scope 3 intensity.

Key Rating Drivers

Strengths

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

ESAF has crafted an ESG Roadmap for 2023-27 in alignment with UN SDGs and is actively taking initiatives towards meeting its objectives. These initiatives comprise offering sustainable finance products such as 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. ESAF has integrated ESG goals into its policies and strategies, emphasising its commitment to the environment and social impact.

Detailed and satisfactory policies covering majority of BRSR principles

ESAF has drafted policies related to sustainability initiatives showcasing ethical banking practice. All policies are board approved and majority are specific and detailed policies covering defined action plans for set targets. ESAF has appointed specific 'ESG Champions' for ensuring adherence and monitoring performance against these policies.

High workforce diversity

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

Extensive community support and development

ESAF asserts its dedication towards uplifting society by going beyond statutory requirements related to community support. ESAF has consistently directed over 90% of its lending towards priority sectors and

allocated ~5% (regulatory requirement: 2%) of its net profit to CSR activities. ESAF has undertaken CSR projects with 100% of its beneficiaries belonging to vulnerable and marginalised communities and over 80% of its total borrowers being women.

Strong practices around data privacy and security

ESAF has shown a leadership position on data privacy & security with zero data breaches in the last two years. This is backed by ISO 27001 certification for its head office, and four other sites. ESAF maintains strong privacy and cybersecurity practices by undertaking regular training, conducting internal audits, and executing proactive security measures.

Weaknesses

Non-expansive coverage of emission accounting

ESAF is in nascent stages of accounting its GHG inventory. The current scope 1 emission covers only those arising from diesel generators. Other inventory parameters are presently not accounted for, leading to underreporting the extent of scope 1 emissions caused.

Small green loan book limiting climate risk impact

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

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 moderated by a lack of proactive measures going beyond the minimum requirements, such as promoting gender diversity on the board and inducting women as part of its KMPs. While the bank plans to appoint women on its board, its philosophy of getting people up the ranks internally rather than hiring from outside may constrain its efforts to create diversity at KMP level.

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, the current reg-tech system solution for monitoring and evidencing compliances is in the UAT/Trail stage, exposing the bank to risk due to possible oversight failures until the system is fully implemented.

Absence of third-party assessment for EGS data & policies

ESAF has yet to get its data and policies assessed from a third party. Conducting third-party assessments would not only enable adherence to compliances but also identify areas of improvement. This shall further aid in identifying and implementing best industry practices and bolster its sustainability performance.

Key ESG Parameters of ESAF

Parameters	Unit	FY2024
Environment		
Scope (1+2) intensity	tCO ₂ equivalent/ employees	6.2
Scope 3 intensity	tCO ₂ equivalent/ employees	Not reported
Renewable energy consumption	% (of total energy consumption)	0.0%
Green finance	% (of total AUM)	0.04%
Social		
Employee turnover	%	25.8%
Female borrowers' percentage	%	81.1%
Female to male employees' ratio	Per 100 male employees	45
Female to male median pay	Per INR 100	89.5
POSH complaints resolved over reported	X/Y	2/2
Governance		
No. of Females in board	#	1
No. of Females in KMPs	#	0
Presence of reg-tech system	Yes/No	No
% board members trained on BRSR	%	11.0%
% KMPs trained on BRSR	%	90.0%
Income gap ratio (CEO pay to avg. pay)	X:Y	53:1

Data source: company, public sources, CareEdge-ESG research & analysis

Rating Sensitivities

Positive Factors

- Well-structured and separate policies on diversity and inclusion (D&I) and training and development.
- Substantial increment in green finance loan book.
- Improved female representation in board and KMP.
- Increased frequency of policy reviews.
- Transition towards renewable energy consumption.

Negative Factors

- Status quo on emission and energy intensity levels.
- Lack of third-party verification and comprehensive climate scenario analysis.
- Delay in implementing the reg-tech system setup.

Analytical approach

Rating boundary: CareEdge-ESG has considered standalone data of ESAF for assessment, which is in line with ESAFs disclosure in BRSR.

Methodology/Criteria

For detailed understanding of the criteria and methodology used by CareEdge-ESG, please refer to the methodology document available on www.careedgeesg.com

About the company and industry

ESAF is a leading small finance bank (SFB) operating in the Indian banking industry. ESAF is a prominent player in the Indian financial sector, specialising in small finance banking services with a moderate geographical footprint. Promoted by K Paul Thomas, it commenced activities as a microfinance in 1995. ESAF subsequently received the small finance bank (SFB) 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). The company’s prime focus is on providing loans to micro borrowers primarily in rural and semi-urban centers. A significant portion of ESAF’s revenue was derived through retail banking (~85% in FY24), and a small portion of revenue deriving from other financial services.

ESAF is focused on the retail banking business with presence in microfinance, housing finance, business loans, loans against property (LAP), gold loans and providing financing solutions for marginal customers lacking access to formal banking and financing channels.

ESAF has a geographical presence in 23 states of India via 759 banking outlets acting as customer touch points. ESAF has also built a large value chain of Business Correspondents (BCs), managing 930 customer service centers. Committed to creating a lasting social impact, the bank’s forward-looking strategy aims to foster an inclusive, innovative, and sustainable future.

Source of information

While assigning the ratings, CareEdge-ESG has considered publicly available information such as annual reports of the company and other policies, sustainability reports, certifications, BRSR reports, additional information and comments provided by the company.

Status of non-cooperation with previous ERP: Not applicable

Rating history for last three years:

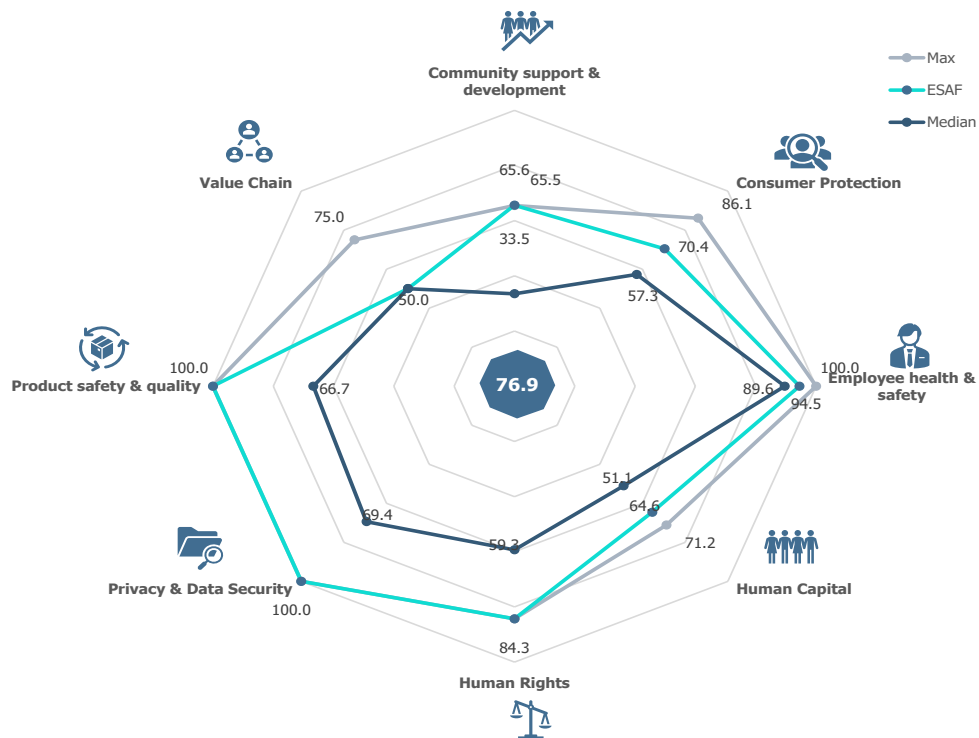
Sr. No.	Name of Product	Current Rating		Rating history		
		Rating	Score	Date(s) & Rating(s) assigned in 2024-25	Date(s) & Rating(s) assigned in 2023-24	Date(s) & Rating(s) assigned in 2022-23
1	ESG Rating	CareEdge-ESG 2	68.1	October 14, 2024	-	-

Annexure: Graphical summary of key rating drivers²

Hierarchy: While arriving at pillar level scores for ESAF, CareEdge-ESG has assigned theme weights based on relative importance and sectoral hierarchy as depicted in the exhibit below.

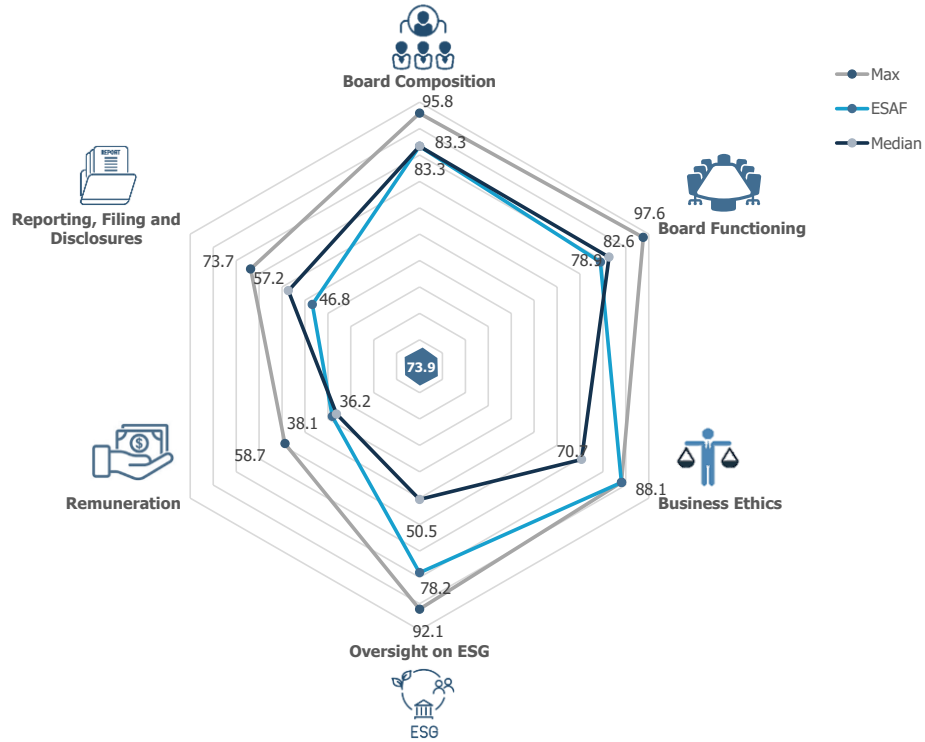
Importance	Environment	Social	Governance
HIGH	Climate change risk management	<ul style="list-style-type: none"> ☆☆ Customer protection ☆☆ Community support & development 	<ul style="list-style-type: none"> 👁️ Oversight on ESG 🧠 Business Ethics 📄 Reporting, filling & disclosures
	Carbon and other emissions	<ul style="list-style-type: none"> 👤 Human capital 🔒 Privacy & data security ⚖️ Human rights 	<ul style="list-style-type: none"> ⚙️ Board functioning
LOW	Energy efficiency	<ul style="list-style-type: none"> 📄 Product safety & quality 🏃 Employee health & safety 🔗 Value chain 	<ul style="list-style-type: none"> 👥 Board composition 💰 Remuneration
	Effluent & waste		

Social Pillar: ESAF's theme-wise performance and industry benchmarks

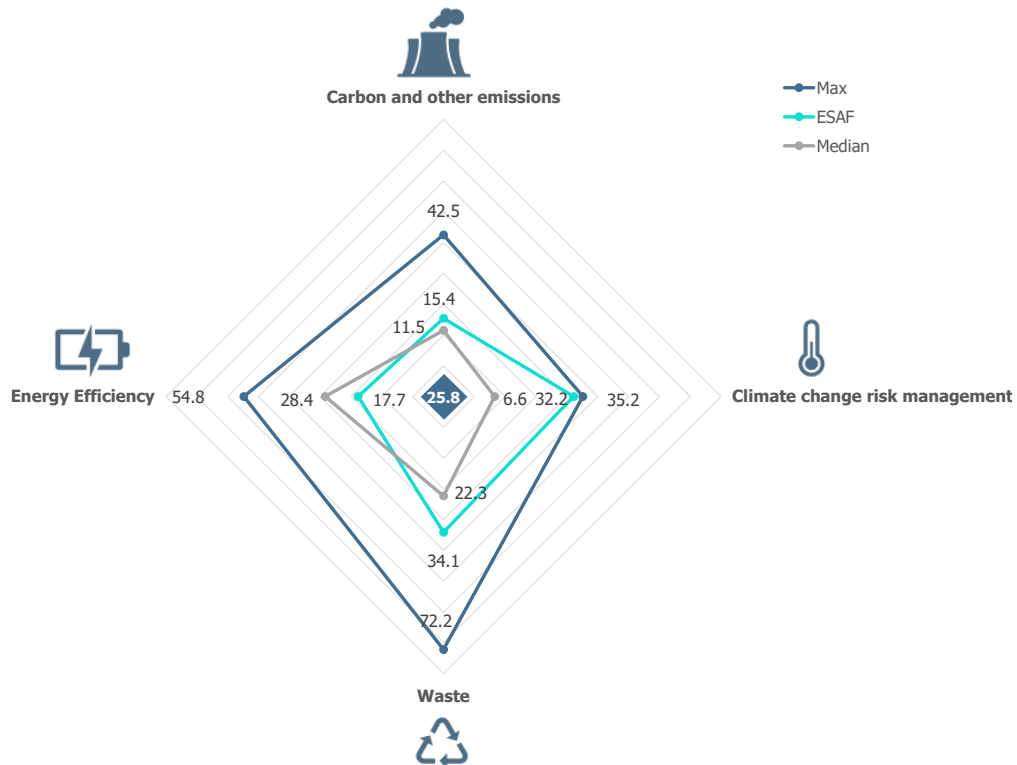


² Comprehensive analytical insights, inferences and benchmarking is provided in CareEdge-ESG's detailed ESG Report

Governance Pillar: ESAF's theme-wise performance and industry benchmarks



Environment Pillar: ESAF's theme-wise performance and industry benchmarks



Summary of Pillar & Theme Scores:

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
Total Environment Score	25.8	1.3	13.2	34.5
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
Total Social Score	76.9	20.4	54.0	76.9
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
Total Governance Score	73.9	50.4	62.8	81.2
Total ESG Score	68.1	32.2	51.8	69.1

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About:

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.

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