



Environmental, Social and Governance (ESG) Policy

April 2024

ENVIRONMENTAL, SOCIAL & GOVERNANCE (ESG) POLICY

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1. Introduction:

The Karur Vysya Bank Limited, hereafter referred as “the Bank” has always stayed strong in its vision to be the preferred choice of stakeholders and deliver value by blending technology with tradition. The core values of the bank have guided our Environmental, Social and Governance (ESG) principles, which seek to drive growth and empower communities. As one of India’s oldest Banks, it is a proven fact that sustainability is our intrinsic value and that we are committed to ensuring that our operations demonstrate our organization’s highest commitment to applicable national/local laws and relevant international standards on environmental and social sustainability.

This policy framework elucidates the Bank’s approach to align its business strategy, processes and disclosures with national and international ESG standards and frameworks.

2. Objective:

The objective of the Policy is to direct the Bank’s sustainability strategy and integrate it with its business strategy. The Policy aims to integrate the environmental and social risks into the bank:

- ✓ Internal risk management policies and processes.
- ✓ Businesses environment.
- ✓ Business continuity risk, reputation risk and a direct financial impact.
- ✓ Products and services.

3. Applicability:

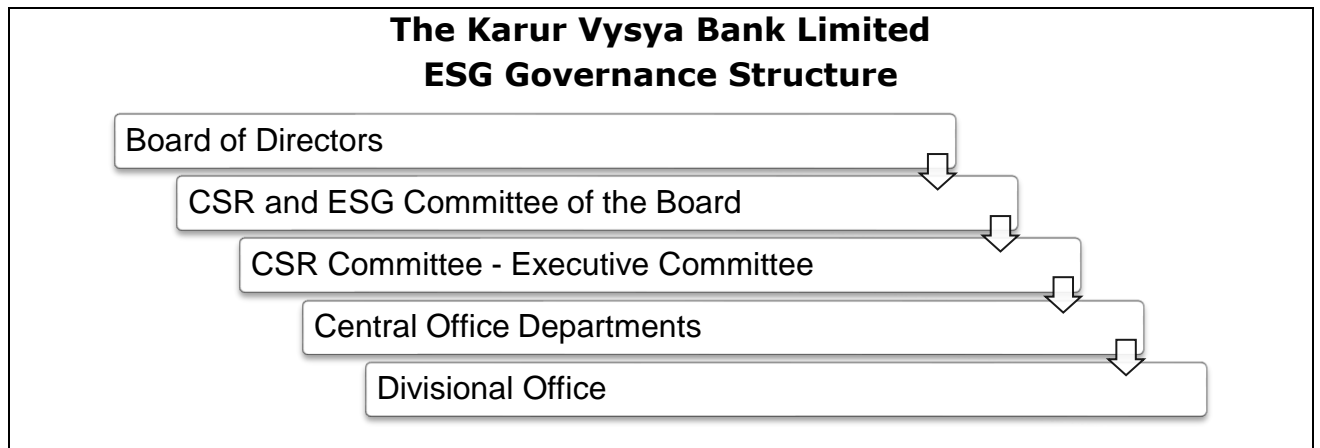
The Policy is applicable to all offices and personnel of the Bank at all centres and jurisdiction it operates.

4. Scope and Coverage:

The Bank shall follow the applicable guidelines/principles laid down by the regulators and the National Voluntary Guidelines published by the Ministry of Corporate Affairs along with International Finance Corporation (IFC) performance standards towards conducting its business and operational responsibilities with respect to Environmental, Social and Governance from time to time.

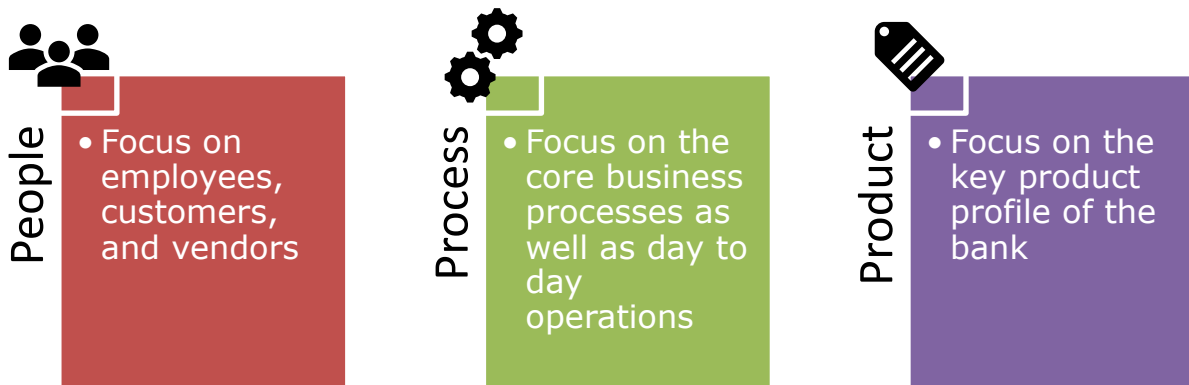
5. Governance Structure:

As a part of our commitment, the bank adopts the top-down approach in implementation of the Policy. The ESG Governance structure is as under:



6. Policy Framework:

The policy is framed by aligning the material themes for the Bank along the ESG pillars in the following manner:



6.1. People:

- Equal opportunity employer: Given that employees are central to the functioning of the Bank, the bank will provide equal and fair employment and career advancement opportunities to all its employees and there will be no discrimination on the basis of race, caste, colour, age, sex, disability and socio-economic status of the candidate. The Bank will ensure a fair recruitment process that will help identify and hire people with the right values, who are then groomed, encouraged, and retained through a combination of financial and non-financial incentives.
- Training: A skilled and qualified workforce with necessary competencies is the key to deliver on the Bank's strategic and operational plans. This would be carried out through well-structured training modules across levels and departments, to assist in job specific development as well as personal development of the employees. The Bank is committed towards providing an environment that is conducive to and promotes training and development opportunities to all employees.

- Employee health and wellbeing: Employee health and wellbeing influence productivity, safety, business continuity, business performance and benefit costs. Employee health and safety is of prime importance. The bank encourages its employees for regular health check-ups by providing reimbursements. Further, employees have been provided with necessary health insurance coverage as well.
- Customer experience (grievance mechanism): The Customer Grievance Redressal Mechanism is framed to provide best customer services and to comply with the Guidelines of Fair Practices Code prescribed by the Reserve Bank of India. The same is overseen by the Internal Ombudsman also. The bank has a well-defined customer protection framework and customer grievance handling mechanism and has been carrying out customer satisfaction surveys for better understanding of customer needs. The bank shall leverage latest technology to provide smooth and uninterrupted services to the customers. The bank has a robust system of policies in place viz. Code of Bank's Commitment to Customers, Rights of Depositors, Customer's Compensation Policy, Customer Grievance Redress policy, Customer's Rights policy, MSME code, Fair Practice Code of Micro finance, Fair Practice Code for customers, Fair Practice Code for Credit Card Operations.

6.2. Process:

- Compliance: Regulatory compliances are the bedrock for responsible operations of the bank. The bank will align and comply with all policies and regulatory compliances for the banking industry on an on-going basis. The Bank is publishing the BRSR report along with the Annual Report on a yearly basis in the updated BRSR format prescribed by SEBI. With respect to the 9 essential attributes specified under BRSR Core, the Bank shall strive to provide reasonable assurance with effect from 2025-26 and disclosures for value chain too shall be made. Value chain shall encompass the top upstream and downstream partners of the Bank cumulatively comprising 75% of purchases / sales of the Bank by value. The bank shall make appropriate disclosure as per applicable SEBI guidelines.
- Oversight on ESG: This includes ESG integration in the bank's lending policies and decisions through integration of ESG criteria in the bank's core functioning as well as day to day operations. The bank will ensure effective measuring, monitoring and reporting key ESG metrics aligned with global best practices. The bank also strives to align its business philosophy to United Nations Sustainable Development Goals (UN SDGs). The bank will align with the following Sustainable Development Goals (SDGs):

- ❖ Gender Equality- Ending all discrimination against women and girls is not only a basic human right, it's crucial for sustainable future.
 - ❖ Decent work and Economic Growth- Continue to promote sustained economic growth, higher levels of productivity and technological innovation by Encouraging entrepreneurship and job creation.
 - ❖ Industry innovation and Infrastructure- Investment in infrastructure and innovation are crucial drivers of economic growth and development. The bank will continue to play its part in this important sustainable goal.
 - ❖ Climate Action- There is no country that is not experiencing the drastic effects of climate change and our country is not exception to that. Through responsible lending and climate change mitigation policies the bank will align its activities to this broader goal.
- Focus on Technology: The bank will continuously strive towards increased digitisation and innovation in technology to improve reach of products and services along with meeting customer needs in an effective and efficient manner. Moreover, the bank will continue to increase its thrust on technology to further strengthen its customers' data from ever-growing risks of data security and leakages. Embracing innovative technologies can enhance efficiency while also contributing to sustainability goals.
 - Efficient use of resources (water, energy, waste, etc): The Bank will ensure responsible management of energy, water, and waste in the company's operations and supply chain. This would include initiatives to improve energy efficiency, use renewable energy sources, conserve water usage through the implementation of water-saving measures, dispose of electronic waste generated by the bank, and reduce the use of plastic materials through a partnership with authorized waste dealers.
 - Reporting: The bank will transparently disclose its performance, policies, and processes on ESG initiatives through clear business and sustainability reporting on an on-going basis.

6.3. Product:

- Responsible lending: Environment, Health and Safety parameters are an integral part to the bank's overall credit risk assessment and monitoring process. The bank will continue to enhance its due diligence process by incorporating ESG criteria. The bank will ensure larger environmental and social inclusion criteria are met by enhancing its exposure to sustainable sectors. This approach ensures that bank supports sustainable and ethical practices. It may involve assessing the environment impact of a project, considering social implications and evaluating the governance structure of the borrower entity. This helps promote responsible and sustainable

development while minimizing negative effects on the environment and society.

- Climate change risk management: The climate change risk management in bank focuses in identifying, assessing and mitigating risks associated with climate changes. The Bank will take efforts to switching over to clean energy and reduction in energy and water consumption, and waste management. Bank will proactively use its CSR programmes to building a sustainable society and use green lending practices towards promoting project involving production of clean energy and technologies that are aimed to reduce energy consumption, emissions and waste management funding projects aimed at achieving reclaiming through recycling, reusing or safe disposal of waste.
- Green Deposit Framework: The Bank has a Green Deposit framework as per the RBI Guidelines and will use the proceeds to further fund Green Projects, ESG loans and eligible ESG Projects.

6.4. Managing Climate Risk and Caring for the Environment:

An environmentally conscious approach is a fundamental aspect of corporate responsibility, stakeholder inclusiveness, and the long-term sustainability of the business. The bank includes environmental impact considerations in its operational, financial, and risk management-linked decision-making. The bank is in the process of developing a dedicated Sustainability strategy that lays the foundation of the Bank’s commitment to energy, emission, water, and waste management. The Bank will implement appropriate procedures and monitoring mechanisms to address any adverse impact of its operations on the environment. The Bank is financing for the Green activities, environmental, social and governance related. Our Sustainable Progress Strategy sets out three key pillars of activity that contribute to the sustainable development agenda:

<u>Low-Carbon Transition:</u> Finance and facilitate low-carbon solutions and support our clients in their decarbonisation and transition strategies	<u>Sustainable Operations:</u> Reduce the environmental footprint of our facilities and strengthen our sustainability culture.	<u>Climate Risk:</u> Measure, manage and reduce the climate risk and impact of our client portfolio
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6.4.1. Low-Carbon Transition:

As a lender to diversified industries, we are currently looking into ways to include climate change as one of the key criteria in the lending decision-making process and are in the process of formulating a strategy around the same. We are looking to enhance product offerings to encourage lending

towards green economic activities that accelerate the transition to a low-carbon economy.

But it's not just about financing and facilitating transactions. Working collaboratively with our clients in decarbonizing and helping them in their transitions is a central focus of our strategy. We believe systemic collaboration is essential for the low-carbon transition. We recognize that companies are at different stages in their sustainability journey, but we also recognize the urgent need to transform all sectors of the economy to meet the challenges of climate change. We have the opportunity to support clients in all sectors through the low-carbon transition.

6.4.2. Sustainable Operations:

The bank remains committed to reducing the environmental footprint of our facilities. We are currently present in 834 locations covering 22 states and rapidly expanding our footprint across India. Our operations allow us to positively impact the communities where we live and work. Sustainability is a growing priority for our colleagues, and we are channelling their enthusiasm by strengthening bank's sustainability culture, engaging our employees, and integrating sustainable practices across the company.

6.4.3. Climate Risk:

The Bank is committed to managing climate risks and has started reporting on the Business Responsibility and Sustainability Report (BRSR) framework to comply with the laws and regulations and identify potential risks and opportunities. We will further test the resilience of the bank's lending portfolios to transition, and physical risks related to climate change. These analyses will help our understanding of the climate risks faced by the bank and our clients and the possible pathways for our collective transition to a low-carbon economy. We will explore opportunities to collaborate with our clients and peers to develop industry-wide methodologies for climate risk analysis and disclosure.

Our approach to analysing and reducing climate risk associated with our clients includes two areas of activity:

Policy Development: Further integrate climate risk into the bank's risk policies and governance frameworks; progressively and iteratively develop our Environment and Social Risk Management (ESRM) Policy.

Engagement: Engage with clients on their climate risk management and low-carbon transition strategies; engage with regulators on emerging climate risk supervisory guidelines, and actively participate in multi-stakeholder initiatives to share learnings and build industry best practices for climate risk analysis and management.

6.5. Environment and Social Due Diligence (ESDD):

We will ensure effective coordination and alignment across all our risk-related internal processes to integrate the ESG due diligence principles and strengthen the ESDD processes. We lean, where applicable, on internal regulations for performing ESDD and integrate into our processes and compliance requirements, voluntary commitments, and recognized frameworks by the Regulators, UN Sustainability Goals and the IFC Performance Standards.

In order to identify and address any adverse or potential adverse impact from environmental, social, or governance (ESG) risk drivers of our activities, we have developed ESDD Guidelines, which outline the basic due diligence principles, and the applicable steps to follow when ESDD process is applied to our overall credit risk assessment. The Bank pre-screens all its lending transactions through its 'list of prohibitive activities' and assesses compliances against the national, state, and local E&S legislations. Further, the Bank undertakes an initial/preliminary E&S assessment of its project finance transactions and project-related loans above the prescribed threshold. For transactions with significant E&S risks, enhanced E&S due diligence against IFC Performance Standards is undertaken.

6.6. Guiding frameworks:

The ESDD process is guided by and developed with reference to the following:

- ❖ SEBI - Business Responsibility and Sustainability Reporting framework (BRSR)
- ❖ National Guidelines on Responsible Business Conduct (NGRBC)
- ❖ IFC Performance Standards

6.7. Principles for ESG integration:

Please refer to the following page for the ESG Integration flow chart related to this section.

6.7. Principles for ESG integration:

We seek to adopt the following principles for our lending portfolio throughout the credit process:

Identification & Pre-Screening

Pre-screening via Exclusion List

Basic Information Collected



Compliance with National and Local Laws

The E&S Team shall review the applicable national and local laws before undertaking any transaction with the client.



Due Diligence Assessment

To identify risk and review the current status of the client based on the information received from the client with respect to ESG & Sustainability The E&S team further conduct detailed due diligence. The detailed E&S due diligence is either undertaken by the internal E&S team supported by the credit risk and business unit or by engaging an Independent Consultant as deemed necessary. ESDD Report preparation on the basis of Site Visits and project information received from the client. Based on the outcome of the E&S due diligence, the E&S team develops Environment & Social Action Plan (ESAP in consultation with borrower, performance on which is monitored throughout the credit cycle.



Project Categorization

The E&S Team will decide the level of E&S assessment required for the project based on the Categorization.



Monitoring

The E&S team of the Bank periodically monitors the implementation of the agreed action plan along with the Business Units and engages with clients to ensure compliance. If the client fails to comply with the agreed environmental & social commitments, the Bank works with the clients to bring the project back into compliance to the extent feasible, and if the clients fail to re-establish compliance, the bank exercise remedies when appropriate.

6.8. Project Categorization:

Category	Description
Cat A	Projects with potential significant adverse environmental and social risks and/or impacts that are diverse, irreversible, or unprecedented including Energy, Agriculture
Cat B	The project / sub-projects / investment with potential limited adverse social or environmental impacts that are few in number, generally site-specific, largely reversible, and readily addressed through mitigation measures including Construction, Forestry
Cat C	The project is likely to have minimal or no adverse environmental impacts. No further environmental assessment is required for e.g. Technology

6.9. Exclusion List:

The bank commits to ensuring that funds will not be used to finance the following type of activities and/or end use for all project and corporate loans under the scope of the ESG Policy:

Sr.No	Exclusion List
1.	Construction of new and extension of any existing coal-fired thermal power plants that do not have proper emission treatment/pollution control facilities as per the standards specified by pollution control board/government bodies.
2.	Production of, or trade-in, any product or activity deemed illegal under applicable local or national laws or regulations or subject to internationally agreed on phase-outs or bans
3.	Production or activities involving forced labour or child labour
4.	Trade in wildlife or wildlife products regulated under CITES (Convention on International Trade in Endangered Species or Wild Fauna and Flora)
5.	Drift net fishing in the marine environment using nets in excess of 2.5 km in length.
6.	Destruction of Critical Habitat and any forest project under which no sustainable development and managing plan are carried out.
7.	Production or trade in arms, weapons, and munitions, other than as a supplier to a national army
8.	Gambling and casinos
9.	Pornography or prostitution.
10.	Extractive industries, including metals and mining violating government norms on environmental standards
11.	Production or trade in radioactive or nuclear materials for the purpose of nuclear weapons

Sr.No	Exclusion List
12.	Production or trade in Tobacco
13.	Businesses engaged in human cloning
14.	Manufacturing and marketing banned drugs including dealing in Narcotics

Note:

- The Bank will assess and try to minimize the lending to Extractive and Tobacco Industries in the future.
- The aspects of money laundering and terrorism financing are duly addressed in KYC/AML/CFT policy of the Bank as amended from time to time as per RBI guidelines besides verifying borrowers' credentials against negative list while on-boarding.

6.10. ESG Governance:


A systematic and streamlined governance framework is essential for responsible investment. The Bank's corporate governance processes are in compliance with the Companies Act, 2013 (including the rules made thereunder), the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, the various guidelines/circulars/regulations issued by the regulators from time to time. The Board of Directors have delegated the CSR&ESG Committee, a Board Level Committee responsible for overseeing and providing direction to the bank with respect to the ESG strategy. The 360-degree ESG governance structure aims to gradually build awareness across the organization, encouraging teams to collaborate and identify opportunities within our lending portfolio. It also guides the management in implementing interventions to embed integrated thinking into our culture and amongst our clients. The CSR&ESG Committee pledges to incorporate sustainability into investment analysis including fundamental analysis, and investment decisions to ensure that the ESG inputs are considered by the prospective clients.








The governance structure shall ensure that the Bank conducts its business in a sustainable and responsible manner by adhering to the following principles:

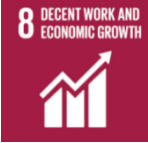


- ❖ Principle 1: Businesses should conduct and govern themselves with integrity, and in a manner that is Ethical, Transparent, and Accountable.
- ❖ Principle 2: Businesses should provide goods and services in a manner that is sustainable and safe.
- ❖ Principle 3: Businesses should respect and promote the well-being of all employees, including those in their value chains.
- ❖ Principle 4: Businesses should respect the interests of and be responsive to all its stakeholders.

- ❖ Principle 5: Businesses should respect and promote human rights.
- ❖ Principle 6: Businesses should respect and make efforts to protect and restore the environment.
- ❖ Principle 7: Businesses, when engaging in influencing public and regulatory policy, should do so in a manner that is responsible and transparent.
- ❖ Principle 8: Businesses should promote inclusive growth and equitable development.
- ❖ Principle 9: Businesses should engage with and provide value to their consumers in a responsible manner.

6.11. Alignment with Sustainable Development Goals:

Sustainable Development Goals	BRSR Principles	Mapping with Policy frameworks	ESG Theme	Aspirations
	Principles 1, 3, 4, 5, 7	People	Social (Employees and Communities)	<ul style="list-style-type: none"> • Increase gender representation in senior roles • Embed an integrated health and wellbeing strategy to support building and re-skilling a future-ready, diverse workforce • Increase participation in employee volunteering • Invest operating profit in our communities

Sustainable Development Goals	BRSR Principles	Mapping with Policy frameworks	ESG Theme	Aspirations
      	Principles 2, 6, 8, 9	Product	Environment (Impact Finance, Green and Transition Finance, Climate change)	<ul style="list-style-type: none"> • Source all energy from renewable sources • Start measuring, monitoring, and reporting our GHG Emissions • Provide clean water access to all. • Innovative financial products and partnerships that can help us solve development challenges and improve the lives of millions in our markets • Mobilize project financing services that promote sustainable development and align with our future goals

Sustainable Development Goals	BRSR Principles	Mapping with Policy frameworks	ESG Theme	Aspirations
  	Principle 1	Process	Governance and compliance	<ul style="list-style-type: none"> Tackle financial crimes by contributing to developing typologies and red flags for financial flows, training frontline staff to identify potentially suspicious transactions, and participating in public-private partnerships to share intelligence and good practices

7. BRSR Core:

SEBI vide its Circular Ref No. SEBI/HO/CFD/CFD-SEC-2/P/CIR/2023/122 dated July 12, 2023, had prescribed the business responsibility and sustainability report based on the recommendations of the ESG Advisory Committee and pursuant to public consultation. The BRSR Core is a sub-set of the BRSR, consisting of a set of Key Performance Indicators (KPIs) /metrics under 9 ESG attributes. The new KPIs have been identified for assurance such as,

- Job creation in small towns
- Gross wages paid to women
- Green-house gas (GHG) footprint
- Water footprint
- Energy footprint
- Embracing circularity - details related to waste management by the entity.
- Enhancing Employee Wellbeing and Safety
- Enabling Gender Diversity in Business
- Enabling Inclusive Development
- Fairness in Engaging with Customers and Suppliers
- Open-ness of business

Further, for better global comparability intensity ratios based on revenue adjusted for Purchasing Power Parity (PPP) have been included. The BRSR Core specifies the data and approach for reporting and assurance. value chain shall encompass the top upstream and downstream partners of a listed entity, cumulatively comprising 75% of its purchases / sales (by value) respectively. From FY 2023 –2024, the top 1000 listed entities (by market capitalization) shall make disclosures as per the updated BRSR format, as part of their Annual Reports

8. Roles and Responsibilities:

The Bank always believes that high standards of good governance combined with ethical and transparent business processes lead to greater effectiveness and efficiency, and sustainable business outcomes. Towards this objective, the Board has designated MD & CEO as the Director responsible for ESG implementation and Chief Operating Officer as the executive responsible for ESG implementation & BRSR reporting.

The roles and responsibilities at each level of the governing structure are outlined below:

- ❖ The Board of Directors shall be responsible for approving the ESG Policy and shall oversee on implementation of the Policy through CSR & ESG Committee.
- ❖ The CSR & ESG Committee of the Board a Sub-Committee of the Board shall be responsible for overseeing the development and implementation of the Bank's ESG policy framework. The Committee will provide strategic direction to the Bank's ESG performance taking into consideration the relevant risks and opportunities. The Committee will also oversee compliance with applicable ESG related regulatory requirements, track progress against goals and targets as well as review the Bank's ESG disclosures.
- ❖ The Chief Operating Officer shall directly supervise the implementation of the Policy on behalf of the Board.
- ❖ The CSR Committee an Executive Committee reporting to the CSR & ESG Committee of the Board shall be responsible for overall execution of the policy in the Bank. The Committee will be responsible for:
 - Ensuring that the policy is consistently and effectively executed by each functional unit
 - Adequate training, coaching and resources to ensure effective implementation and compliance.
 - Reporting on the achievements, failures and difficulties of implementing the policy to the CSR&ESG Committee of the Board.

- To review the effectiveness of the Policy and place a note to the CSR&ESG Committee.
- ❖ The Senior Management and Functional Heads of the Department are responsible for implementing, maintaining, providing and demonstrating the ESG reporting requirements at the Central Office level along with Central Office Credit Committees and through Divisional Managers at Divisional Office Level
- ❖ The Chief Operating Officer as the executive is responsible for ESG implementation & BRSR reporting and shall be the owner of the ESG Policy. The Chief Operating Officer through CC & SR Cell shall:
 - Formulate the Policy and communicate within the Bank across all levels.
 - Ensure implementations of the Policy in coordination with the Senior Management, Functional Head and the CSR Executive Committee
 - Co-ordinate, collate and compile the Business Responsibility and Sustainability Report
 - Share the BRSR report with Company Secretary.
 - Review the policy in line with the regulatory requirement.
- ❖ The Company Secretary shall be responsible for placing the report along with other items of Annual Report to the Top Management and the Board.

9. Reporting and Disclosures:

The Bank commits to enhancing disclosures on ESG/non-financial parameters through a combination of statutory and voluntary reporting. The bank will periodically review and assess its ESG performance yearly to continuously evolve and improve its ESG practices and metrics. The disclosures and performance on ESG metrics shall form part of the bank's statutory and/or voluntary reporting.

10. Effect and Review:

This policy will come into effect from April 1, 2024. This framework will be reviewed once in 3 years, or as and when significant changes occur, to ensure its continuing suitability, adequacy, and effectiveness.