Environmental, Social & Governance Policy

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1. Background and Introduction

1.1. Who is the policy for?

The policy is primarily for representatives from the bank in the early stages of their ESG journey, who are looking to create and implement an ESG strategy. However, it is also relevant for bank representatives who are in the process of executing their ESG strategy.

The policy should interest:

- Senior managers and executives involved in risk management, strategy development and sustainability;
- Members of risk, sustainability or ethical committees and working groups.

The policy may also interest:

- Regulatory stakeholders interested in ensuring that ESG regulatory changes and demands are achievable and in line with international best practice;
- Anyone interested in understanding the issues and processes of ESG within the bank, for example, corporate clients of the bank, shareholders and investment analysts covering the sector.

1.2. Objectives

This policy aims to:

- Inform our fundamental views on ESG;
- Improve our awareness of the impacts of ESG factors on our core business;
- Show that ESG integration can:
- Promote value creation opportunities through product innovation and better anticipation of future trends;
- Facilitate better risk management and more optimal capital allocation based on an appreciation of ESG issues such as constraints on natural and social capital; Catalyze organizational change;
- Enable us to begin assessing our current risks and opportunities around ESG issues in our core businesses, with a focus on lending, equity capital markets (ECM), debt capital markets (DCM) and advisory;
- Help us to define our long-term strategic ESG ambition and manage the increasing reputational issues associated with poor ESG practices;
- Provide a step-by-step guide to help us achieve our ESG ambition through strategy and framework development, and implementation across core business lines;
- Highlight existing good practices from major international banks, demonstrating the level of action banks are already undertaking globally.

1.3. Scope

The policy focuses on providing a practical implementation framework, governance structure and supporting information to help us manage our indirect ESG impacts. Indirect ESG impacts occur when the products and services we provide, such as loans, ECM, DCM and advisory services, facilitate our clients' operations, which in turn have ESG impacts.

2. The Business Case for ESG

2.1. What is ESG?

Environmental, Social and Governance (ESG) is a term and concept first proposed in June 2004 by the UN Global Compact's "Who Cares Wins" initiative to focus mainstream investors and analysts on the materiality of and interplay between environmental, social and governance issues. Investors and analysts consider ESG performance in their fundamental analysis of companies with the underlying premise that companies that proactively manage ESG issues are better placed than their competitors to generate long-term tangible and intangible results.

ESG as a concept is universally used by investors in capital markets to assess corporate behavior and to evaluate the future financial performance of corporations by measuring their sustainability. It is used by investors to evaluate corporations and determine the future financial performance of companies/financial institutions.

It adds that ESG "are a subset of non-financial performance indicators which include sustainable, ethical and corporate governance issues such as managing an institution's carbon footprint and ensuring there are systems in place to ensure accountability." They are factors in investment considerations, used in risk assessment strategies incorporated into both investment decisions and risk management processes.

ESG uses *Environmental, Social and Governance factors to evaluate companies/financial institutions and countries on how far advanced there are with sustainability.* The information on the above three criteria can be combined with an investment process to help decide which equities or bonds are best to buy. Ultimately, ESG is a term that encompasses investments that aim to have positive returns and a long-term impact on people, planet and the on business performance. As it identifies investments' potential risks and opportunities beyond technical valuations, ESG has the potential to enhance the traditional financial analysis mostly because these companies/financial institutions are more likely to outperform in the long-run when compared to the competition.

ESG standards provide another level of due diligence, which is in the best interest of shareholders. ESG weeds out the unsustainable companies with outdated practices, while also minimizing risk for investors as they invest in more responsible companies with a greater likelihood of succeeding in the long run.

Companies/financial institutions have re-evaluated their place in each of these spaces (environment, social and governance) in the last few years.

One of ESG's equivalents is the so-called triple bottom line (economic, social and environmental sustainability).

Sustainable companies/financial institutions are builders of profit as well as builders of society. Stakeholders include shareholders and customers, as well as employees, local communities, etc.

Sustainability, ESG or responsible growth, is an investment, not a cost. The whole idea of ESG is that you are a sustainable financial institution and that you are doing business responsibly. This means transparency and applying ESG standards and policies to one's operations.

ESG issues can cover:

- **Environmental**: Greenhouse gas (GHG) emissions, biodiversity loss, pollution and contamination, carbon regulation exposure, renewable energy;
- **Social**: Labor practices, community displacement, human rights, health and safety, financial inclusion;
- **Governance**: Corruption and bribery, reputation, management effectiveness

2.2. Why is ESG relevant to banks?

To ensure global long-term financial stability and economic development, the banking sector needs to significantly change its attitudes and actions to promote more responsible and sustainable business practices. Leading companies, the UN, OECD, G20 and certain regulators and investors share the position that environmental and social issues need to be factored into investment decisions and corporate decision making processes, alongside traditional financial metrics.

The private and public sectors need to more urgently acknowledge and take meaningful action on significant global ESG challenges or "sustainability mega forces", such as climate change, population growth and resource scarcity. These ESG challenges have profound implications for businesses, the economy and society at large, representing both risks and opportunities that must be addressed if long-term economic and social growth and stability are to be maintained.

These ESG challenges have particular relevance to banks in relation to their role as financial intermediaries and as capital raising agents. Banks are significant catalysts in promoting economic development. This role needs to include the promotion of sustainable business practices, failing which, banks will end up facilitating practices which have significant negative environmental and social impacts and will miss opportunities to create new products and services that capitalize on ESG issues. Banks can do this through timely and strategic integration of ESG into their business practices and processes.

Regulation, political and stakeholder pressure, demographic shifts and climate change will continue to have an impact on the business environment. Leading banks are integrating environmental and social factors into their long-term strategies and performance reviews.

All banks need to understand that incidents relating to negative ESG outcomes caused by their lending, client relationships and advisory decisions can affect them. These incidents may cause reputational and brand damage. In addition, they may potentially have direct financial impacts, such as:

Increased non-performing loans due to credit/default issues and client inability to comply with loan agreements;

• Increased risk of litigation due to lack of appropriate disclosure on ESG risks for equity and debt issuance activities;

• Higher cost of capital for the bank itself, related to:

— Equity and debt holders requiring higher returns due to perceived poor risk management ability and quality of loan book;

— Loss of a low cost patient source of capital for banks with retail operations if depositors shift their funds away due to concerns about the bank's ESG impacts.

Introducing an ESG "mindset" into the bank and developing an ESG strategy for integration may mitigate these factors.

2.3. Difference between ESG and CSR

CSR epitomizes all of the practices companies/financial institutions develop to support the principles of sustainable development. It is about integrating social and economic concerns into business activities and adopting a long term vision as opposed to short term value. CSR represents an institution's efforts to have a positive impact on its employees, consumers, the environment and wider community. CSR strongly focuses on engaging stakeholders.

ESG, on the other hand, measures these activities to arrive at a more precise assessment of a company's/financial institutions actions. ESG is more about capital markets where investors choose businesses that disclose information on their ESG strategies.

2.4. Drivers for ESG integration

The main business case for integrating ESG is twofold: it can help you to manage risks and it can help you to capitalize on opportunities. Understanding the main ESG drivers that come under these two tenets can help you establish a clear business case for developing and implementing an ESG strategy.

Below we list four key drivers for ESG integration:

1.Increasing regulatory expectations

ESG-related regulation and compliance is a constantly evolving process Consequences of non-compliance for the bank and bank clients can include:

- Fines and/or legal risks;
- Non-financial sanctions and reputational damage, such as loss of access to markets or the real or perceived license to operate.

2.Reputation management and license to operate from shareholders and other stakeholders

Diverse stakeholder interests and expectations and their growing awareness of ESG issues ensure that your license to operate does not just mean meeting regulatory license, permits and compliance expectations.

Stakeholders are demanding that you understand and manage the more intangible factors associated with your operations by addressing ESG factors. Reputation may affect the perceived and real value of the bank and improve or destroy brand image. Poor management of ESG issues may also impact long-term profitability, financial stability and both "hard" and "soft" license to operate (for example, legal permits as well as customer and investor relationships)

3.Enhanced risk management

It makes good commercial sense to analyze a broad range of risks and integrate their potential impacts into any business strategy. Given the growing presence of more uncertain systemic risks, such as climate change, which could impact entire economies and multiple geographies, risk assessment criteria have to move beyond traditional financial issues.

We need to consider a full range of direct and indirect risks, including those driven by environmental and social issues, via your own operations and your client relationships.

We should consider the ESG risks that arise as a consequence of financing the operations of your clients, not least because these ESG risks have implications for the viability and credit worthiness of your clients. Understanding how well your clients mitigate and capitalize on their potential exposure to ESG issues also helps you to develop deeper insights into their business strategy and planning procedures.

By incorporating ESG criteria, you can develop a more comprehensive approach to risk management. Addressing and potentially lowering or mitigating ESG risks increases your ability to understand the scope and significance of ESG issues and identify areas underserved by current products.

The bank can also gain insight for budgeting and capital allocation process in terms of new business opportunities as well as portfolio weightings. With more comprehensive information, you can make better business management decisions. Leading global banks have tried to achieve better risk management, in part by better identifying, understanding and managing ESG issues.

4.Value creation for the bank

As ESG challenges such as climate change, water scarcity, deforestation, displacement of indigenous communities and labor rights trickle down through value chains, new trends and pressures will continue to emerge. The result of you taking on your role as a catalyst for sustainable development could be new opportunities, stronger client relationships and potential revenue streams.

Value may be created and sustained by:

- Differentiating through innovation on existing products;
- Identifying and creating new products and services in line with the new and emergent requirements of markets and society
- Adopting ESG governance systems and management processes to reduce the cost of doing business by optimizing the use of information, reducing risks and maintaining compliance;
- Helping clients improve their ESG performance through deep understanding and proactive management and advice, which can deepen your client relationships and also improve the quality of bank client portfolio;
- Aligning with employee expectations in terms of social values, ensuring a better rate of attraction and retention for core human resources;
- Having an enhanced reputation as a leader in managing ESG issues, driving competitive positioning and potentially increased market share.

3. Developing ESG Strategy

3.1. Establishing ESG ambition level

Factors that could influence initial ESG ambition level include:

- Current understanding of ESG and the bank's vision on where it would like to be in three to five years' time;
- The current regulatory environment in which the bank operates;
- Current ESG profile – perform an assessment to determine this
- Alignment toward and support for ESG in the bank's wider corporate vision, mission, strategies and objectives;
- Bank's current reputation, benchmarking and peer/competitor analysis results (if available);
- Opinions and positions of bank's stakeholders, including major shareholders, board members, clients, employees and others, such as civil society.

3.2. Understanding the bank's risk exposure and current level of integration

ESG are three central factors in measuring the sustainability and ethical impact of a financial institution. ESG factors, though non-financial, have a material impact on the long-term risk and return of investments. ESG is incorporated into risk mitigation, compliance and investment strategies. Institutions that use ESG standards are more conscientious, less risky and are more likely to succeed in the long run.

For investment professionals, a key idea in the discussion of ESG issues is that systematically considering ESG issues will likely lead to more complete investment analyses and better-informed investment decisions.

Responsible investors evaluate financial institutions using ESG criteria as a framework to screen investments or to assess risks in investment decision-making.

Environmental factors determine an institutions stewardship of the environment and focus on waste and pollution, resource depletion, greenhouse gas (GHG) emissions, deforestation, and climate change. Social factors look at how a financial institution treats people and focuses on employee relations and diversity, working conditions, local communities, health and safety, and conflict. Governance factors take a look at corporate policies and how the institution is governed. They focus on tax strategy, executive remuneration, donations and political lobbying, corruption and bribery and board diversity and structure.

The following are the areas identified for the reporting of ESG issues for use in financial analysis of corporate performance.

- Energy efficiency
- GHG emissions
- Staff turnover
- Training and qualification
- Maturity of workforce
- Absenteeism rate
- Litigation risks
- Corruption
- Revenues from new products

3.3. Determining the bank's ESG risk appetite

Environmental risks created by business activities have actual or potential negative impact on air, land, water, ecosystems, and human health. Bank environmental activities considered ESG factors include managing resources and preventing pollution, reducing emissions and climate impact, and executing environmental reporting or disclosure. Environmental positive outcomes include avoiding or minimizing environmental liabilities, lowering costs and increasing profitability through energy and other efficiencies, and reducing regulatory, litigation and reputational risk.

Social risks refer to the impact that bank can have on society. They are addressed by bank social activities such as promoting health and safety, encouraging labor-management relations, protecting human rights and focusing on product integrity. Social positive outcomes include increasing productivity and morale, reducing turnover and absenteeism and improving brand loyalty.

Governance risks concern the way Bank is run. It addresses areas such as corporate brand independence and diversity, corporate risk management and excessive executive compensation, through the banks governance activities such as increasing diversity and accountability of the board, protecting shareholders and their rights and reporting and disclosing information. Governance positive outcomes include aligning interests of shareowners and management, and avoiding unpleasant financial surprises.

Determination of Risk Appetite to include:

- Provide a clear insight into your risk tolerance in relation to your corporate strategy;
- Consider the balance between profitability and risk;
- Include qualitative and quantitative elements (principles & leading indicators and/or risk limits)
- Your corporate strategy and business objectives (annual and long-term plan);
- Your stakeholders' expectations and reputational concerns;
- The key risks and issues identified and assessed
- The potential impact on achieving business objectives if ESG risks materialize;
- The capacity required to manage ESG risks throughout your organization;
- Alignment of selected principles and indicators with external reporting requirements.

3.4. Responding to ESG Risks

Your capability to respond to and manage ESG risks is influenced not only by the industry sector, but the business line itself, your risk control framework and the types of products and services you offer.

Examples of responses to different business lines include:

- A bank is often able to manage ESG risks through its lending portfolio due to factors such as the long-term nature of relationships and lending agreements, the ability to negotiate and include risk-mitigating clauses and covenants in loan documentation, and the ability to work with clients to improve their practices.

- In capital raising transactions such as bond issues, the options to influence are perhaps less direct in current products. Applying ESG related assessment criteria in the decision to underwrite an issue, or requiring additional disclosure in the risk section in a transaction prospectus addressing ESG risk exposure and mitigating actions.

To consider the following before responding to ESG risks:

- Do you go ahead with a transaction, even knowing the risks? How feasible is it to say "no", knowing the risks that have been highlighted as a result of ESG screening? Setting basic parameters for accepting transaction risk is one of the first steps you should take.
- Do you proceed with high ESG risk transactions because they have a short tenure? Does your organization take higher ESG risks for short-term transactions because you do not believe the risk will materialize in the short term? Or do you believe the ultimate refinancing risk on some short-term transactions (that are not self-liquidating) means that ESG risks should still be taken fully into account in your lending decisions?
- What are your core business lines and what type of financial products and services do you offer clients? Your ability to directly address risk and inform behavior may be greater for longer-term loans and project finance than for ECM/DCM and advisory services, although this will ultimately depend on the depth of the relationship with the client.
- What is the level of your sector expertise? The impact a bank with relevant sector expertise could make on the sustainability performance in that sector is much greater compared to a bank which has less sector expertise. This does not mean that such banks should not respond to identified risks. On the contrary, banks with less sector expertise are likely to be more exposed due to the lack of internal capacity to understand and address such risks and should perhaps consider a more conservative risk appetite.
- Who are your clients? What type of clients do you have? Large multinationals and international companies typically have their own sustainability targets and may welcome new products, services and ongoing advice to help them achieve their goals. Smaller and domestic companies without an established sustainability strategy are likely to require more engagement from you to help them understand and manage their ESG risks, and this is an opportunity to provide value-added services to your clients.
- Which geographical areas are you operating in? Banks operating in geographical areas where ESG is more business-as-usual (and clients/investors are more aware of it due to rules from government or exchanges) may find it easier to influence clients' behavior than banks operating in markets that are currently less experienced and have less understanding of ESG issues. In these latter markets, it is crucial for banks to address the risks and engage more closely with their clients who are likely to have higher ESG risk profiles. Having a good understanding of your ability to respond to ESG risks will impact:
- Your understanding of which ESG risk controls you can use and which ESG risks will require a different approach, such as lobbying, engagement or external partnerships with other organizations;
- How you develop the ESG risk control framework later in this guide (for example, by sector, client type, line of business or geographical area);

- Products and services within your business line portfolio that are offered to mitigate risks or create new business opportunities., develop internal systems and controls, and inform client behavior:

- Setting basic transaction acceptance parameters (basic screening) and rejection procedures;

- Developing and imposing client acceptance and transaction approval guidelines;

- Indirect client engagement, for example by disclosing how you approach ESG risk management (including policy statements), research publications, thought leadership, collective industry activism and partnership programs;

- Direct client engagement, either relationship driven (i.e. constructive, cooperative) or risk driven (i.e. critical and with consequences);

- Enforcing specific actions through transaction documentation (for example, representations, reporting and disclosure requirements and covenants);

- New or revamped products and services geared toward ESG integration.

Developing ESG policy framework and finalizing ESG strategy

ESG investing

ESG refers to a class of investing that is also known as "sustainable investing." This is an umbrella term for investments that seek positive returns and long-term impact on society, environment, and the performance of the business. There are several different categories of sustainable investing. They include impact investing, socially responsible investing (SRI), ESG, and values-based investing. Another school of thought puts ESG under the umbrella term of SRI. Under SRI are ethical investing, ESG investing, and impact investing.

ESG Sustainable Investing – Environmental Factors

Environmental factors are about the financial institutions impact on the environment. They are based on the premise that business activities have the potential to create environmental risks for ecosystems, water, air and human health. The factors are:

- Using energy efficiently
- Managing waste responsibly
- Having responsible practices across the value chain such as no deforestation policies or even animal welfare;
- Disclosing information on all environmental policies.

As a result, positive outcomes such as decreasing costs and improving profitability due to better energy efficiency are expected. Reputational risks will also reduce.

ESG Sustainable Investing – Social Factor

Social factors have to do with the way businesses treat and value people. In other words, it is about the impact that the financial institution can have on their employees and on society. The factors to be considered by the bank:

- Diversity and inclusion policies to ensure no type of discrimination;
- Safe and healthy working conditions for employees;
- Labor standards across supply chains that guarantee fair wages and human rights protection;
- Good relations with local communities who give social license for companies to operate;
- Companies also need to report information on what they're doing on this area.

As a consequence, business productivity and employees' morale increases, turnover decreases, and reputational risks are better managed. It also gets easier to work without social pressure from stakeholders, as there's social license to operate.

ESG Sustainable investing – Governance Factor

Governance factors focus on corporate policies and how the financial institution is governed. It is about making the responsibilities, rights, and expectations of stakeholders clear so that interests are met and a consensus on the bank's long-term strategy is achieved. Specific factors under which governance is analyzed:

- Tax strategy;
- Corporate risk management;
- Executive compensation;
- Donations and political lobbying;
- Corruption and bribery;
- Board structure and brand independence;
- Protecting shareholder interests;
- Disclosing information on these topics.

The effects of these policies can go from aligning shareholders' interests with management to avoiding unpleasant financial surprises and having a better social acceptance as a result of wealth being fairly distributed.

4. Implementing ESG Strategy

4.1. Creating an operating model and organization structure

- The first pillar of operating model is sound organizational structure (hard controls), with the roles and responsibilities of our various business and staff units in our first and second line clearly articulated. The third line internal audit function should test the functioning of these units and their respective roles and responsibilities from time to time.

- The second pillar of our operating model should be a set of soft controls to complement our ESG risk control framework (typically enforcing hard controls) in terms of incentives, facilitation, rewards and desired behavior to create an enabling environment for sound ESG risk management.

We already have a clear operating model for the management of other risk categories, particularly related to managing credit risk, transaction approval and client acceptance. Our operating model to manage ESG risk should align closely to these. To put our operating model into practice effectively, we will need suitably qualified staff, working either in specialized units or integrated into our existing departments and functions. We will also need to make sure designated staff take clear ownership of the ongoing development, periodic review and updating of our ESG risk controls.

Sound organizational structure to consider the following:

- The senior executive responsible for our ESG risk control framework (executive board-level);
- Existing groups and divisions that will need to weave ESG considerations into their daily activities;
- Appointment of ESG specialists in our second line review function to monitor ESG exposures and the performance of first line risk mitigation, as well as to provide guidance and support to other areas of our bank.
- Independent review and advice on the approval of ESG risks in new and existing business, including a four-eye principle on material risks and complex subject matters;
- Appointment of ownership over ESG risk controls and responsibility for periodic review and updating of existing controls;
- Ongoing identification and assessment of emerging ESG risks and the development of adequate ESG risk controls;
- Creation of a specialized committee for the supervision of our ESG risk control framework and ESG risk approval with sufficient authority to instruct on ESG issues;
- Human resources to support the development process and ensure that the performance of our staff is aligned with ESG requirements.

It is imperative that we clearly define the roles and responsibilities for implementing ESG policies and procedures.

4.2. Soft Controls

The bank ESG strategy, policy framework and risk controls alone will not ensure proper management of ESG risks and opportunities. We must also develop soft controls, including clear values and performance standards, senior management support, appropriate incentive structures, and adequate training and facilitation of the staff who are part of the ESG risk management function.

Developing a framework of soft controls will help you facilitate an open, learning environment where the bank staff can debate issues and we can build on our experience to sharpen our views, approaches and policies toward management of ESG risks and opportunities.

Key soft controls to consider and contemplate include:

Incorporation of ESG considerations in our corporate vision and mission;

- Clear definitions and communication of our performance standards and values;
- Senior leadership commitment setting the tone at the top and acting as role models;
- A compensation structure aligned to drive ESG performance, for example linking compensation to the longer-term success of transactions rather than only to fees for closing deals;
- Appropriate information systems and tools to facilitate business processes, risk management, internal control, compliance review, audit, monitoring and reporting;
- Access to information on our ESG strategy and our ESG risk control framework for our employees involved in ESG risk management;
- Training to develop the ESG skills and capacity of staff. The bank can use third party advisors for this. NGOs can also provide insight and expertise on ESG issues – for example, WWF works with banks/regulators globally to provide capacity building/ training;
- Appropriate training for all levels on ESG policies and controls such as integration in our client and transaction approval processes;
- Internal and external communications programs to create awareness of our activities.

4.3. Integrating ESG into budgeting and Capital allocation process

ESG issues are risk factors, but they can also provide a good set of criteria to apply in our process of setting the annual budget and the allocation of capital to certain business lines or products. By incorporating ESG criteria, we can identify and potentially create opportunities while helping to minimize our risk exposure.

We should aim to ensure we can incorporate ESG factors into our current budgeting and capital allocation systems and processes rather than developing new ones.

By shifting the parameters of decision-making to include ESG issues, we may refocus allocation of capital to particular sub-sectors and away from others, or into a completely new area or product.

Examples include:

• Lending or project finance:

— Increasing allocation of capital available for energy efficiency/low carbon projects and related infrastructure;

— Reducing target allocations for sectors with large environmental footprints which cannot be mitigated;

• ECM, DCM and advisory:

— Building an expert team to help grow our activities in targeted sub-sectors such as renewable energy or sustainable commodity supply chains.

4.4. Client and Transaction Approval Lending

A sound understanding of customer risk is a necessary first step in this process. If customer has past incidences of, or a perceived lack of control relating to, ESG impacts of its business activities, this should lead to higher-risk classification, even if the activity to be financed (i.e. the transaction itself) has a low ESG risk profile.

For example, a customer who has engaged in deforestation of high conservation value areas in the past should not have a loan approved for financing a waste to energy plant without significant requirements for improved ESG performance in its overall business activities. Ongoing monitoring of emerging and new risks (for example, as the customer's business profile evolves) and a sound process to flag changes will help ensure information is kept up-to-date.

4.5. Integrating ESG in ECM/DCM Business activities
Equity capital markets (ECM) and debt capital markets (DCM) business is different from lending in that the bank performs an intermediary role between the issuing client and the investors in a given transaction, rather than being the direct lender or investor. There may be circumstances where in an underwritten transaction for example, a shortfall in demand from investors may result in the bank taking on a position as a principal, which it may subsequently sell.

Furthermore, ECM transactions, unlike bank lending, are typically not characterized by covenants and customized loan obligations, but rather by uniformity in terms and conditions to promote the liquidity of the transaction in the secondary market. Depending on the credit quality of the underlying issuer and the structure of the debt instrument, DCM transactions may feature covenants, for example, a covenant whereby the issuer agrees to maintain certain leverage or debt service cover ratios.

As a result, our ability to integrate ESG considerations in ECM, DCM business will differ substantially from the lending business. Examples in this area are currently modest at best.

Our ability will be limited to:

• Integrating ESG considerations in client acceptance process;

• Providing guidance to the issuing client with regard to ESG-related disclosures in the prospectus or offering memorandum of the transaction.

Disclosure requirements
Several standards exist to provide a framework for how the bank can disclose ESG information - Sustainability Accounting Standards Board. The bank can pick a standard and publicly disclose information, usually through a formal annual sustainability report and/or on the banks website. Companies/financial institutions often complete a materiality assessment by surveying internal and external stakeholders to guide what they disclose.

4.6. Client Engagement
The success of the bank's ESG strategy will depend not only on how implementation takes place, but also how our clients respond to new requirements.

Adherence to ESG policies is in the interest of both the bank and its customers. Engaging with clients not only stimulates adherence to specific policies and reduces our bank's ESG risk profile, but also provides an opportunity to deepen trust and partnership with key clients by promoting sector best practices and enhancing the value of client operations.

A challenge in ESG implementation for the bank is building capacity – both that of a dedicated ESG client engagement team to improve portfolio performance, and more generally among employees.

5. Monitoring and Reporting of ESG integration

5.1. ESG reporting priorities

1.Strategic relevance – What is the relevance of ESG issues to business strategy and business models? "Sustainability factors, such as climate change or demography, impact companies' operating environments. It is therefore critical that financial institutions provide a clear strategic view on the likely impact of such trends or factors on their business models. This will allow investors to understand how they are positioned, and provide confidence that they are resilient and can where possible exploit opportunities from a changing environment."

2.Investor materiality – What do investors mean by materiality? How to identify material ESG themes – Align with what international standards recommend and peer companies report. Use tools at your disposal, explicitly link ESG performance, business strategy and financial and operational performance.

3.Investment grade data – What are the essential characteristics of ESG data? Characteristics of investment grade data are:

Accuracy – deploy rigorous data collection systems.
Boundaries – Align to the fiscal year and business ownership model.
Comparability and Consistency – use consistent global standards to facilitate comparability.
Data provision – provides raw as well as normalized data.
Timeliness – provide data to coincide with the annual reporting cycle.
External assurance – consider strengthening the credibility of data by having it assured.
Balance – provide an objective view, including both favorable and unfavorable information.

4. **Global frameworks** – What are the most important ESG reporting standards? "Consistent global frameworks provide an essential tool to allow investors to analyze and compare ESG risks across financial institutions and sectors".

5. **Reporting formats** – How should ESG data be reported? Annual report, standalone sustainability report or integrated report?

6. **Regulation and investor communication** – How can the financial institution navigate regulations and communicate effectively?

7. **Green revenue reporting** – How can issuers can recognition for green products and services? Climate risk and rewards – Understand opportunities in the transition to a green economy, identify green revenues, connect to your own climate impacts, talk about where the future lies.

8. **Debt finance** – What should debt issuers report and what are the emerging standards here? Green bond principles – what investors need to know- use of proceeds measuring green impact, process for project evaluation and selection, management of proceeds, reporting.

5.2 ESG ratings

The ESG Risk Ratings are categorized across five risk levels: negligible, low, medium, high and severe. Ratings scale is from 0-100, with 100 being the most severe.

Generally, the more a financial institution discloses, the higher the ESG score it receives, transparency being part of good governance and making corporate behavior more measurable. The ESG Ratings model is industry relative and uses a weighted average approach. For each company a Weighted Average Key Issue Score is calculated based on the underlying Key Issue scores and weights.

5.3. The Board's responsibility

Board members' fiduciary duty, as well as their advisory and oversight responsibilities, require an understanding of sustainability and the impact of ESG ratings on both enterprise and shareholder value. There is a growing body of data showing that companies/financial institutions adopting sustainability practices outperform their peers. Sustainability and ESG must squarely factor into board governance and oversight.

The Board to focus on identifying which ESG issues could most affect the bank's growth in the future. ESG now covers such a vast area of corporate governance, board must identify the aspects of ESG most likely to impact business operations and growth, and then craft policies that are appropriate for their specific industry. The Board must also be careful to address ESG issues that are of primary concern to their individual investors, employees and the communities they serve.

When attempting to align ESG policy with business strategy, board must clearly define what ESG means and how aspects of that definition of ESG can be integrated into the bank's long-term goals and corporate vision or purpose. This is an opportunity for the board to proactively deal with any environmental or social issues that have been concerns in the past. The board then can order a fair financial analysis of different approaches to specific ESG issues, providing financial evidence to support enacting one ESG policy or rejecting another.

As the board is redefining what ESG means for the bank, management should engage shareholders, employees and other stakeholders to establish an environment of trust and to ferret out ESG issues that may potentially become problems in the future. By focusing on matters that directly impact the bank's bottom-line, new ESG policies can be announced publicly, potentially giving the board increased credibility with shareholders.

Generally speaking, ESG policy changes that are geared toward improving financial results or improving corporate culture are positively received, which is a win for stakeholders, management and the board.

5.4. ESG Sub-Committee and reporting

The ESG Sub-Committee would be formed and the committee meetings would be held Quarterly Effective Quarter 1, 2021. During the meeting the key areas of ESG integration and performance for the bank would be discussed and presented to the Board of Supervisors.

5.5. Independent review of ESG integration

The bank would conduct an independent annual analysis/review of the key ESG developments. This is basically to ensure adherence by the bank to ESG criteria. It provides insights into significant ESG developments and presents research findings that inform different responsible investment strategies.

Institutional investors and other stakeholders are making the link between environmental, social and governance factors—or sustainability—and business strategy with greater frequency, and that means reviewing ESG. Institutional investors are integrating ESG factors into their investment decision-making.

The percentage of institutional investors that incorporated ESG factors into investment decision-making grew from 22 percent in 2013 to 42 percent in 2019. More employees are expressing their concerns about ESG issues such as pay disparity. The types of issues that fall into the ESG category are expanding. Shareholders have sought major changes in company/bank policies around everything from compensation claw backs for liability in the opioid crisis to mandating more robust climate change strategy disclosures.

Reviewed & Recommended by Chief Compliance Officer for Approval of BOS

Ravi Iyer

Mr. Ravi Ramani Iyer
Chief Compliance Officer

Approved by the Board of Supervisors in their meeting Dated 28.12.2020.

S. P

Mr. Sundaram Prabhu
Chairman of the Board of Supervisors