



# Sustainability Policy



Document Version	Description of Changes	Date	Proposed By	Sign-Off
1.0	First version	April 2023	Sustainability	
2.0	Second version	October 2025	Sustainability	

## Table of Contents

1. INTRODUCTION.....	3
2. GOVERNANCE STRUCTURE.....	3
3. FOUR PILLARS OF SUSTAINABILITY .....	3
3.1 SUSTAINABLE FINANCE.....	3
3.2 SUSTAINABLE OPERATIONS.....	4
3.3 SUSTAINABLE COMMUNITIES .....	5
3.4 SUSTAINABILITY REPORTING .....	6
4. SCOPE OF APPLICATION .....	7
5. IMPLEMENTATION AND ACCOUNTABILITY.....	7
6. MONITORING AND REVIEW .....	7
7. COMPLIANCE AND ETHICS .....	8

## 1. INTRODUCTION

India ranked 99th in the Sustainable Development Report 2025, entering the top 100 for the first time among 193 UN member states, a milestone that reflects the country's growing alignment with global sustainability goals. This progress underscores the importance of collective action across sectors, including finance, to drive meaningful change.

AU Small Finance Bank recognizes sustainability as fundamental to long-term value creation and responsible banking. This policy establishes our commitment to integrating environmental, social, and governance considerations into our operations, financing decisions, community engagement, and reporting practices. The policy aligns with the UN Sustainable Development Goals and reflects our 'AU Dharma' principle of acting responsibly for the benefit of all stakeholders.

The banking sector faces increasing climate-related risks that pose systemic threats to financial stability. In response, we have structured our sustainability framework around four strategic pillars that guide our transition toward becoming a resilient and sustainable financial institution. This policy addresses regulatory requirements set forth by the Reserve Bank of India, Securities and Exchange Board of India, and Ministry of Corporate Affairs, while positioning the Bank to capitalize on emerging opportunities in sustainable finance.

## 2. GOVERNANCE STRUCTURE

**Sustainability Board Committee:** The apex governance body comprising Independent and Executive Board Directors that approves sustainability policies, strategies, and oversees the Bank's sustainability performance. The Committee provides strategic direction to ensure sustainability integration across all business functions.

**Sustainability Steering Committee:** A management-level committee chaired by the MD & CEO and comprising CXOs and Business Heads responsible for executing sustainability initiatives, monitoring progress against targets, and ensuring cross-functional coordination. Given the nascent and evolving nature of the field, external experts will be consulted when required for latest updates and best industry practices.

**Core Sustainability Team:** The implementation team led by the Head of Sustainability, responsible for policy formulation, ESG disclosures, regulatory compliance, stakeholder capability building, and driving the sustainability agenda throughout the organization. Nominated representatives within key departments who support the implementation of sustainability policies and initiatives in their respective functions, ensure change management and adoption, and act as the liaison with the Core Sustainability Team..

## 3. FOUR PILLARS OF SUSTAINABILITY

### 3.1 SUSTAINABLE FINANCE

The Bank commits to mobilizing capital toward environmentally and socially beneficial outcomes while managing climate-related financial risks. Our sustainable finance strategy encompasses the following areas.

- **Green Financing:** We will develop and scale green lending products targeting renewable energy projects, energy-efficient buildings, clean transportation, and sustainable infrastructure. The Bank will establish clear eligibility criteria aligned with recognized green taxonomies to ensure environmental integrity of financed projects. The Bank will also endeavor to access appropriate international and local funding pools at favorable pricing to finance these assets, such as Green Deposits, Green Bonds, Social Bonds, and Sustainability Bonds.
- **Climate Risk Integration:** We will systematically assess and integrate physical and transition climate risks into our credit assessment, portfolio management, and risk frameworks. This includes developing sector-specific climate risk methodologies for high-carbon industries and establishing climate stress testing capabilities to evaluate portfolio resilience under various climate scenarios. We will also assess the impact of climate risks on the Bank’s physical assets, offices, and branches, and take appropriate measures to ensure business continuity and the safety of our people during extreme climate events.
- **Exclusion Framework:** We will maintain and periodically update our exclusion list identifying activities and sectors that pose unacceptable environmental or social risks, including but not limited to projects involving child labour, forced labour, protected area degradation, and activities violating national and international environmental regulations.
- **Portfolio Decarbonization:** We will measure the carbon footprint of our lending and investment portfolios and establish science-based targets for portfolio decarbonization aligned with limiting global temperature rise. This includes setting sector-specific decarbonization milestones and engaging clients on their transition strategies.
- **Sustainable Product Innovation:** We will continuously develop innovative financial products addressing emerging sustainability challenges, including bonds for biodiversity finance, gender-focused lending programs, and financial inclusion products for underserved communities.

### 3.2 SUSTAINABLE OPERATIONS

The Bank commits to minimizing the environmental footprint of its operations and fostering a responsible workplace culture that prioritizes employee wellbeing, diversity, and continuous development.

- **Environmental Management:** We will implement comprehensive environmental management across our facilities targeting reductions in energy consumption, water usage, waste generation, and greenhouse gas emissions. This includes transitioning to renewable energy sources, installing energy-efficient lighting and HVAC systems using ozone-friendly refrigerants, implementing water conservation measures, and establishing waste segregation and recycling programs at offices.
- **Digital Transformation:** We will accelerate digitalization of banking services to reduce our environmental impact. This includes expanding digital banking platforms, scaling video banking capabilities, eliminating physical deposit and withdrawal slips, promoting paperless statements and documentation, and encouraging digital payment adoption among customers.
- **Sustainable Procurement:** We will integrate sustainability criteria into our supply chain management by establishing supplier codes of conduct requiring adherence to environmental and social standards, conducting ESG assessments of critical suppliers, prioritizing suppliers with certified environmental

management systems, and engaging suppliers on continuous improvement in sustainability performance.

- **Carbon Neutrality Target:** We will measure our operational carbon footprint annually, establish time-bound reduction targets aligned with science-based methodologies, implement energy efficiency and renewable energy initiatives, and explore credible carbon offset mechanisms for residual emissions.
- **Employee Wellbeing and Development:** We will nurture an inclusive workplace by prioritizing employee health, safety, and mental wellbeing through comprehensive wellness programs and safe working conditions. We will invest in continuous learning and development opportunities to enhance employee competencies and career progression, fostering a culture that supports retention and motivation.
- **Diversity, Equity, and Inclusion:** We will enhance workforce diversity across all levels with particular focus on gender diversity and inclusion of persons with disabilities. We will ensure equal opportunity in recruitment, promotion, and compensation practices, eliminate all forms of discrimination and harassment, and create an environment where diverse perspectives are valued and respected.
- **Human Rights:** We will uphold the highest standards of human rights by prohibiting any form of child labor, forced labor, or modern slavery in our operations and supply chain.

### 3.3 SUSTAINABLE COMMUNITIES

The Bank recognizes its responsibility to contribute positively to the communities we serve through financial inclusion, digital empowerment, and targeted social investments.

- **Financial Inclusion:** As a Small Finance Bank, financial inclusion remains at the core of our mission. We will expand access to affordable financial services for underserved and unbanked populations including rural communities, women entrepreneurs, small businesses, and low-income households. We will design products specifically addressing the needs of financially excluded segments and ensure fair and transparent pricing.
- **Digital Inclusion:** We will bridge the digital divide by providing digital literacy programs for customers, particularly in rural and semi-urban areas, ensuring accessibility of digital banking platforms for elderly and differently abled customers, establishing simplified digital interfaces, and providing customer support in local languages.
- **Responsible Lending:** We will maintain the highest standards of responsible lending by ensuring suitability and appropriateness of products offered to customers, implementing fair practice codes across all lending activities, preventing mis-selling through robust internal controls and employee training, providing transparent disclosure of terms, conditions, and charges, and establishing effective grievance redressal mechanisms.
- **Customer Protection:** We will respect customer rights to data privacy and security by implementing robust cybersecurity measures, maintaining strict data confidentiality protocols, complying with data protection regulations, and providing customers control over their personal information. We will continuously enhance customer experience through innovative and appropriate product offerings.
- **Corporate Social Responsibility:** We will contribute to community development through strategic CSR initiatives aligned with national priorities and community needs. Our focus areas include

education and skill development, healthcare access, livelihood enhancement, women empowerment, environmental conservation, and disaster relief. We will measure and report the social impact of our CSR programs.

- **Community Engagement:** We will engage regularly with the communities we serve to understand their evolving needs, challenges, and aspirations. This includes conducting financial literacy camps, supporting local entrepreneurship development, partnering with community organizations, and promoting volunteerism among employees.

### 3.4 SUSTAINABILITY REPORTING

The Bank commits to transparent disclosure of sustainability performance, alignment with global reporting standards, and continuous improvement in reporting quality and assurance.

- **Annual Sustainability Reporting:** We will publish a comprehensive Annual Sustainability Report detailing our environmental, social, and governance performance, material sustainability topics identified through stakeholder engagement, case studies demonstrating impact, and forward-looking goals and strategies.
- **Regulatory Compliance:** We will ensure full compliance with the Business Responsibility and Sustainability Reporting framework mandated by the Securities and Exchange Board of India, fulfill all ESG disclosure requirements prescribed by regulatory authorities, and proactively adopt emerging reporting standards as they evolve.
- **International Framework Alignment:** We will align our sustainability reporting with recognized international frameworks including the Global Reporting Initiative standards, Task Force on Climate-related Financial Disclosures recommendations, and other relevant frameworks as appropriate to our business context.
- **Ratings and Rankings:** We will participate in external ESG ratings and rankings by reputed agencies (e.g., DJSI, MSCI) to benchmark performance and drive continuous improvement.
- **Materiality Assessment:** We will conduct periodic materiality assessments engaging internal and external stakeholders to identify and prioritize ESG topics most significant to our business and stakeholders. The materiality assessment will inform our sustainability strategy, target-setting, and reporting focus.
- **Data Quality and Assurance:** We will establish robust systems for collecting, monitoring, and reporting sustainability data ensuring accuracy, completeness, and consistency. We will obtain limited assurance from independent third parties for our sustainability reports to enhance credibility and identify areas for improvement.
- **Stakeholder Communication:** We will engage stakeholders regularly on sustainability matters through multiple channels including investor presentations, sustainability-focused dialogues, participation in industry forums, and advocacy on key sustainability issues affecting the banking sector.
- **Performance Tracking:** We will establish key performance indicators for each pillar of our sustainability framework, monitor progress through the Sustainability Steering Committee, report to

the Sustainability Board Committee, and disclose performance publicly in our Annual Sustainability Report.

#### **4. SCOPE OF APPLICATION**

This policy applies comprehensively across the Bank's value chain including all branches, offices, and operational facilities; all employees at every level of the organization; business partners, suppliers, and vendors through contractual sustainability requirements; financed activities through integration of ESG criteria in lending and investment decisions; and customers through responsible product design and service delivery.

#### **5. IMPLEMENTATION AND ACCOUNTABILITY**

**Responsibility:** All employees are responsible for upholding this policy within their respective roles. Business Heads are accountable for implementing sustainability initiatives in their functions. The Core Sustainability Team deliberates with all stakeholder departments, jointly frames policies, provides guidance, monitors compliance, and reports progress to senior management and the Board.

**Training and Capacity Building:** We will conduct regular training programmes to build sustainability awareness and capabilities across the organization, ensure all relevant employees understand their responsibilities under this policy, and provide specialised training for functions directly involved in sustainability implementation such as credit, risk, operations, and procurement. The Sustainability Team will also upgrade its own skills through appropriate certifications and training programmes to stay abreast of best practices in this evolving field.

**Integration into Business Processes:** Sustainability considerations will be integrated into key business processes including credit appraisal and approval, product development, vendor selection and management, operational planning and budgeting, risk management frameworks, and performance evaluation systems. Specific policies and initiatives will be developed in a phased manner through consultations with stakeholder departments and implemented across the Bank, steered by the Core Sustainability Division.

#### **6. MONITORING AND REVIEW**

This policy will be reviewed annually by the Sustainability Board Committee to ensure continued relevance and effectiveness. Reviews will consider changes in regulatory requirements, evolution of sustainability best practices, stakeholder expectations, material ESG risks and opportunities, and the Bank's strategic priorities. Progress of initiatives undertaken will be submitted to the Sustainability Committee of the Bank on a periodic basis and reported to the Board annually. The policy will be updated as necessary to reflect the evolving regulatory landscape, emerging sustainability challenges, business growth and diversification, and lessons learned from implementation experience.

## 7. COMPLIANCE AND ETHICS

The Bank commits to maintaining the highest standards of compliance and ethical conduct in all sustainability-related activities. We will adhere to all applicable environmental, social, labor, health and safety, and governance regulations; avoid greenwashing through truthful and substantiated sustainability claims; and ensure transparency in our sustainability commitments and performance.

---

*This Sustainability Policy is a dynamic document subject to periodic updates reflecting regulatory changes, business evolution, and stakeholder expectations. The latest version will be publicly available on the Bank's website.*