Private & Confidential

Indian Private Sector Banks ESG Practices & Reporting

ESG Factors: Health Check

Research Report - August 2021

FOREWORD

I'm honoured and would like to express my sincere gratitude to Mr. JN Gupta and the entire team at SES for giving me the opportunity to write the foreword for this excellent report.

The 21st century has witnessed phenomenal growth as well as incessant plundering of natural resources in an unsustainable manner. Climate change is a global threat and it has never been more important to identify gaps, ensure transparent reporting and tweak business models to operate in a more sustainable manner than it is now, particularly during the last two years in light of the global pandemic.

The ESG model covers the Environmental, Social and Governance metrics to be included in sustainability reporting. Global sustainability challenges such as climate change, cyber security, and related market led pressures et al have introduced new risk factors for stakeholders that were previously unknown and inconceivable. Global trends show that ESG is here to stay and will determine a company's long term success. I believe that every company should aim to embed the concept of sustainability based on the three pillars of environment, society and governance in the fibre of its being.

The banking and financial services sector is the backbone of every country and even though the banking and financial services sector may seem to be causing little direct harm to the environment traditionally, it is however important to develop sustainable and environmentally sound ways to do business in order to address the growing complexities of the modern world. Banks fund the economic growth of a nation by providing credit to the entrepreneurs. In this regard, banks may at times find themselves at the crossroads as they have to constantly strike a balance between offering better services to its customers and generating revenue while being environmentally friendly. Modern day investors and stakeholders, who are aware and understand the importance of sustainability, do look for holistic reporting and therefore, there is an increasing demand for this.

The team at SES has done an extremely detailed and laudable job in capturing such vast amount of complex data and presenting it in a very comprehensive and lucid manner. The team has put in enormous effort in preparing this report as they have tweaked their proprietary ESG model to best suit the banking and financial sector. The report not only presents data and findings quantitatively and with the help of graphs, but also makes recommendations to the banks. Amongst discussing ESG issues such as human capital management, GHG emissions, water consumption, data security and customer privacy, it has also dealt with capital adequacy and asset management aspects that are particularly critical for the banking and financial sector. I firmly believe that the gaps in disclosure of banks brought out in this Report vis-à-vis the global best practices can serve as a guiding light for many financial institutions looking to develop a sound ESG reporting practice.

The report amply testifies to the deep erudition, intensive study and analytical acumen of the entire team at SES.

I congratulate the team for this worthy effort and extend my best wishes.

Anand Sinha

Senior Advisor, Cyril Amarchand Mangaldas

(Former Deputy Governor, Reserve Bank of India)

ACKNOWLEDGEMENTS

At the outset, Stakeholders Empowerment Services (SES) expresses its sincere thanks to Axis Bank, HDFC Bank, ICICI Bank & Kotak Mahindra Bank for providing the opportunity and a platform to present the maiden report by SES on a contemporary and extremely relevant topic viz. "ESG – Reporting Trends and Practices in Private Sector Banks in India".

The purpose of this Report is to provide a comparative and holistic analysis of the ESG disclosures, practices and performance trends of major Indian Private Sector Banks *vis-à-vis* the international disclosures, practices and trends prevalent across multinational banks, as also the largest Public Sector Bank in India i.e. State Bank of India. This Report is a result of SES customising its proprietary ESG Model (developed in 2020 in association with NSE and Cyril Amarchand Mangaldas as knowledge partners) to accommodate disclosure requirements of the Banking Sector and tweaking weightages of various parameters, as banks, unlike other industries, do not have a major direct environmental impact, whereas their social impact and footprint is much more pronounced. Additionally, as banks are at the centre stage of the financial market ecosystem and the economy, impact of any governance mishap has a cascading effect on the integrity of entire system. This Report (including the data capturing, analysis, findings, and report writing) is a result of an independent analysis carried out by SES, strictly based on publicly available data and is solely the effort of the SES team, without any involvement or assistance of any of the sponsoring Banks.

The Report has been white labelled, with different alphabetical codes assigned to the seven private sector banks which change for each section of the report. However, each of the sponsoring bank has been disclosed their respective codes.

This work would not have been possible without untiring efforts of SES team and exceptional leadership provided to team by Mr. Navaneet Desai, who came up with ideas to make the analysis not only different but incisive as well. I will fail in my duty if I do not express my gratitude and appreciation to the entire SES team involved in the project for their efforts in compiling and analysing the voluminous data and developing this Report in its present form. A special thanks are due to the following persons who in turn were assisted by the entire SES family:

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ESG – What Does It Mean?

Why it is Needed and its Importance in the 21st Century

The earth like any other planet is stocked with finite amount of natural resources which are endangered by infinite human need & greed. It has taken only a couple of centuries post industrialization for mankind to realise impact of mindless plundering of natural resources, the planet is seeing a gradual rise in global temperatures and a steady melting of polar icecaps. While the threat of climate change isn't immediate, one cannot deny that the threat is inevitable in the face of inaction. Such a threat to a globalised world economy led to the Paris Agreement of 2015 where all major economies agreed to limit the increase in global average temperature to well below 2 °C, all the while pursuing efforts to further limit the temperatures to 1.5°C. The resultant contributions by each member country to limit global rise in temperature (as known as NDCs – Nationally determined Contributions), have given rise to a new approach to financing major factories and industries – the approach of Sustainable Investing.

Now, this change is being driven by global institutional investors who are started adopting such approaches which ensure that their investments are not only environment friendly, but also able to generate returns/ profits consistently over a long period of time. The metrics used by these investors have come to be known as ESG metrics which comprise of the following three most important parameters to judge the sustainability of an investment:

- the **Environment** Metric which addresses the climate change,
- the **Social** Metric which evaluates the human capital and community/stakeholder relationships and
- the **Governance** metric which evaluates the soundness of the investment with respect to its structure, operations, management, risks and performance over a long period of time.

Together, these three metrics are known as **ESG** which are increasingly being adopted by institutional investors worldwide, forcing the companies to adapt themselves to conform to these new dimensions which are now considered as the benchmark for investment.

RELEVANCE OF ESG IN THE BANKING SECTOR

The COVID-19 pandemic impacted and affected population and businesses across the globe with varying intensity, both directly and indirectly. Banking sector is no exception. Direct impact has altered the ways in which traditional banking was carried out for ages. The in person trust building interactions, a long-established global pre-requisite to establish trust gave way to virtual interaction thus changing the dynamics of the 21st century banking. This churn has affected both the developed economies as well as emerging ones equally and, in more ways than one. Indirect impact of COVID pandemic would be felt for prolonged time as asset quality deterioration due to pandemic would certainly be not uniform. None could visualise that a disruption as severe and as universal as this, yet it happened. Consequently, sustainability has assumed a new dimension and has become much more relevant and essential. Everyone has realised that an organisation's sustainability does not depend on the concerned organisation alone but on sustainable operations and performance of all its stakeholders. Tentacles of banks sustainability evaluation and management tool will sooner rather than later, spread to its entire eco system encompassing all stakeholders.

Compartmentalization – No longer an option

Across the world, the pandemic has brought forth banking issues such as the ballooning of bad debt, need for urgent recapitalisation, curtailed buybacks and dividends and has brought about a sudden and enhanced focus on corporate social responsibility.

The concept that each one is responsible for his own sustainable existence is *passe*. Further, the pandemic has taught us, although at a price, that each element of ecosystem is connected, interdependent and crucial, *albeit* the degree of dependence may vary. Therefore, efforts towards sustainability can no longer be compartmentalized and a more holistic approach is needed. Financial stability, risk assessment, business continuity, product innovation and CSR can no longer be pigeon holed and that a churn in any of the above spheres inevitably and materially affects other spheres of the banking operations.

The excess liquidity pumped in by the central banks and tumbling interest rates in 2020 spoiled the party for the asset quality management pundits. The pandemic made digital banking universal, which in turn put strain on the cyber security infrastructures that altered the risk dynamics of the industry. Banks have suddenly realized that the whipsaw caused by the pandemic is so wide ranging and unintended that banking beliefs held earlier regarding a few near certainties - suddenly became uncertain.

The best example of such realisation which really hit close to home for institutional investors was the moment when major central banks sanctioned the banks from buybacks and dividends immediately post the pandemic. The perception of ESG as an impending compliance hassle transformed into a quintessential investment tool in the search for returns on investment.

The long road to Sustainable Financing Pivot from Brown to Green

Banking business is a typical business, where savings of depositors are pooled and risk gets attached to this pool, whereas in lending there is no pooling and risk remains attached with the borrowers. Banks cannot pass on risk back to depositors. Banks have to build a reserve or buffer to absorb lending risks. Any failure to absorb the risk is end game of a bank. Historically, as long as borrowers were able to service the debt, banks had no reason to meddle into affairs of the borrowers business, but not anymore. Contours of risk have changed significantly and sustainability of borrowers business is a dominant risk factor.

Lately, banks across the world are facing continued pressure from their shareholders to act on sustainable investment strategies as also expand their scope and expecting a steady growth in profits of the bank.

- The recent case of major HSBC shareholders calling on Europe's biggest bank to toughen its commitment to cut lending linked to fossil fuels and to turn its climate "ambitions" into targets (Link) is a case in point.-

  Investors collectively managing around $2.4 trillion assets filed their own climate change resolution to be voted on at HSBC's annual general meeting, after HSBC in October stated its ambition to get to net zero carbon emissions by 2050. That pledge was criticised by campaigners for not directly addressing HSBC's lending to fossil fuel firms, including a relatively large share of clients involved in the coal sector.

- In May, ShareAction targeted Barclays Bank with a similar motion, which was defeated but garnered 24% of votes cast. (Link)
- Recently in India, such activism was visible in the case of State Bank of India when a French AMC, Amundi threatened to sell off SBI's green bonds if SBI proceeded with its proposal to finance Adani's Carmichael Coal Project in Australia (Link). Soon thereafter, Amundi followed through with its threat and divested its holdings of the lender's green bonds. (Link)

However, investors understand that a pivot to green financing cannot be done at the drop of a hat by passing AGM resolutions. Majority of bank profits are proceeds of brown assets - which utilise fossil fuels. As long as these brown assets keep bank profits healthy, they will keep getting financed by Banks. As a result, regulators in developed economies have been looking at encouraging Banks into lending more to green assets by introducing stress test implications of climate change on financial stability.

As a result, global banks have realised that a head start in green financing and transition financing along with long horizon commitments also make sense from a future profitability angle.

The Human Capital Angle

The COVID-19 pandemic has re-emphasized the importance of the human element of running businesses. The needs and habit of employees, customers and the society as a whole has undergone a paradigm shift. This has greatly affected the banking sector as well: digital innovation products took centre stage in 2020. In fact, such products have become the cornerstone for growth strategies for many banks. At the same time, privacy concerns, the flipside to the coin, also shot up - giving the banks enough headaches in their quest to onboard new customers to their digital platforms. Corporate Social Responsibility took centre stage.

Another important puzzle in this angle lay with employee management handling by the banks during the COVID-19 pandemic. Instances of human error in banking operations during lockdowns highlighted the extent and limitations of work from home policies.

The Indian Scenario and Role of ESG in the private sector banking

Under the 2015 Paris Agreement, India has made eight commitments under the Nationally Determined Contributions (NDC), which has three quantitative goals —

- reduction in the emissions intensity of gross domestic product (GDP) by 33-35 per cent over 2005 levels by 2030;
- achieving about 40 per cent cumulative electric power installed capacity from non-fossil fuel-based energy resources by 2030;
- creating an additional carbon sink of 2.5 to 3 billion tonne of carbon dioxide equivalent through additional forest and tree cover by 2030.

Banks, being the engines, fuelling India's growth, share the biggest responsibility to help the country meet its commitments. However, the irony is that though banks are heavily regulated by RBI on almost every aspect of their operations, RBI has done very little in regulating/ facilitating the Banks with respect to their transition to sustainable financing.

In a way, RBI, being the strict parent which checks (audits) the homework of each one of its children's (bank) subjects (all major aspects concerning banking operations), either forgot to check the children's Environment & Social studies homework, or worse, didn't even consider it as important in the children's career, after having a hard time teaching them Mathematics (Capital Adequacy), Science (Asset Quality) and English (Corporate Governance). Now, a few would nevertheless complete their Environment & Social studies homework, being the sincere children, they are. However, there are always a few naughty children, who after being always regulated, are suddenly given some freedom to be take some responsibility. For such banks, the stress of managing their normal banking operations simply overwhelms them to such an extent that a focus on holistic sustainability is usually very low on their list of priorities.

OBJECTIVE OF RESEARCH & METHODOLOGY

For More Details Refer Annexure I – ESG Scoring Method and Limitations of the Model / Disclaimers, etc.

This Report intends to produce a Report Card or a fact check of current status of ESG practices of private sector banks in India and reinforce the importance of inculcating ESG practices into banking operations so that the engines of Indian growth do not stall on the long road to growth and development. Since the private banking sector in India has already taken baby steps towards holistic sustainability, with the belief that a comparative analysis of such banks with the best practices of global peers will act as a catalyst to all non-believers to convert to believers in ESG as a tool for sustainable value creation and will initiate others to start their journey towards ESG excellence.

Towards this objective SES, approached top four private sector banks in India to support SES in conducting this study. While this project has been funded by four banks, SES has analysed ESG disclosure, practices and performance of 7 private sector banks in India and compared them with India's largest bank viz. State Bank of India (SBI - a PSU) on all factors and wherever possible also compared with the global best practices of two MNC banks.

Sample Size and Selection:

Keeping in view the objective and mandate of research, SES selected following private sector banks for the purposes of this study.

- Private Sector Banks (Four sponsoring banks & three non-sponsoring)

Sponsoring Banks	Non-Sponsoring Banks
Axis Bank	Bandhan Bank
HDFC Bank	IndusInd bank
ICICI Bank	Yes bank
Kotak Mahindra Bank	

White labelling of Study

Since the study is funded by four banks and the objective is not to recommend any action to any investors, SES has chosen to conduct the present study as a white label study, wherein the 7 Indian Private Banks would be labelled by way of an alphabet between A to H wherever the outcome of scoring analysis is revealed. As a result, every reader will be able to read such score without attaching any name. However, only the sponsoring bank will know its score but it will not reveal the score of six other banks. Thus, only the bank concerned would know its ESG Score without knowing competitors score. The idea is to let each of these seven bank know where it stands in the spectrum.

To ensure sanctity of white label study, extreme care has been taken and for every section of this report, the masking sequencing changes, thus not allowing any peer to second guess the identity of a bank based on its scores. Thus, a bank will be labelled by as many as 7 different alphabets across various sections of the report and only the concerned bank would be told its label for all various sections.

Benchmark Peer Analysis and Comparison with Best Practices of Global Banks

The objective of study is comparison as well as benchmarking, therefore SES has chosen India's largest bank SBI for the purpose of benchmarking.

In addition, comparison has been drawn wherever possible with global leaders: Citi Bank & HSBC Holdings Plc, especially in the Environment and Social Assessment, wherever possible.

Note: Though SES was able to holistically evaluate Citi and HSBC for Environment Assessment and even gave environment scores to the disclosures of both global banks, the scoring was not done for these banks for social and governance assessments as the present model was developed keeping in mind the Indian scenario, a lot of parameters such as financial inclusion and systemic risk drivers were not completely applicable for both the global banks.

In such cases, wherever possible, SES has highlighted the global best practices and suggested modes of improvement as well.

Data Sources:

SES, keeping in view its policy of relying only on data in public domain, has based the research solely on the data disclosed by the sample banks in the public domain by way of their regulatory disclosures as well as disclosures available on their websites and through verified / authentic public sources, viz., Annual Reports, Sustainability Reports, Business Responsibility Reports, information disclosed to stock exchanges, information available on the companies' website, Watchout investors, Capitaline database, and other authentic publicly available information relating to these banks.

THE SCORING MODEL & PARAMETERS:

The present scoring model is a customisation, for the banking sector, of SES' existing ESG Model (developed in conjunction with NSE and Cyril Amarchand Mangaldas). While the major heads of analysis under the ESG Model – Policy disclosures and reporting standards, Environment, Social, and Governance remain same, their internal structures and weights have been substantially tweaked to take into account difference of the banking sector from other sectors. Factors under each category are listed in this section. However, detailed parameter-wise discussion and analysis is presented in the respective section of this report.

The SES existing model, which has been designed based on the framework of the **United Nations Principles for Responsible Investing (UN PRI)** which covers all the significant aspects associated with a Company to analyse its ESG factors. Furthermore, the model analysed the entity's disclosures and performance based on disclosures under Sustainability Reports and requirements under various globally recognised voluntary disclosure framework such as the:

- Global Reporting Initiatives (GRI),
- Principles of International Integrated Reporting Council (IIRC)

Certain notable additions are made / tweaked in the model for the banking sector:

- In depth analysis of alignment with global reporting standards.
- Analysis of indirect environment footprint management by focusing on disclosures pertaining to sustainable financing and extent of alignment with TCFD disclosures pertaining to climate risk assessment in Financing.
- Comparison of extent of initiatives under financial inclusion, especially in rural and semi urban areas.
- Enhanced analysis of cyber security framework and processes at banks.
- In depth analysis of systemic risk drivers in banks and their management.

The present model evaluates whether a Bank has formulated a policy, established targets, provided disclosure on steps and initiatives taken to meet the targets, if the initiatives are restricted to the Bank or included in the scope Bank's subsidiaries suppliers' associates. Further, the model also objectively evaluates the performance of the Bank across the initiatives taken and if such Bank has succeeded in the initiatives to meet the targets.

Weight Distribution & Rationale

While the weightage of each of the sub-heads under the existing model were based on the '*Standards set by the Sustainable Accounting Standards Board'* (SASB), for the present study these weights were specifically tweaked for the present model by combining SES understanding of the material issues relevant to the Indian banking sector along with insights gained from the Governance and Accountability Institute Inc's - Sector study on Sustainability Materiality of the SDG Targets & GRI Indicators for the Banks (Link).

Sr. No.	Assessment Parameters	Weightage	Questions
1.	**DISCLOSURE & REPORTING STANDARDS**	**8%**	**11 Questions**
	Alignment With National Reporting Standards	2%	3 Questions
	Alignment With Global Reporting Standards	3%	4 Questions
	External Assurance	1%	1 Question
	Materiality Assessment	2%	3 Questions
2.	**ENVIRONMENT ASSESSMENT**	**17%**	**73 Questions**
	Direct Environment Footprint Management	4.25%	42 Questions
	Indirect Environment Footprint Management	12.75%	31 Questions
3.	**SOCIAL ASSESSMENT**	**30%**	**113 Questions**
	Human Capital Management	7.80%	45 Questions
	Financial Inclusion & CSR	7.20%	39 Questions
	Data Security & Customer Privacy	9%	15 Questions
	Customer Satisfaction	6%	14 Questions
4.	**GOVERNANCE ASSESSMENT**	**45%**	**176 Questions**
	Corporate Governance	15%	92 Questions
	Economic Performance	10%	24 Questions
	Systemic Risk Drivers & Management	20%	60 Questions

Key Considerations for ESG Scoring & Assessment

Disclosure and Reporting Standards

In order to holistically assess the ESG practices of the Indian Private Banks, the first step in the present study involved the assessment of the disclosure practices of these Banks. Here the quality of the legally mandated disclosures as well as voluntary disclosures were checked to understand the extent of alignment with the National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Businesses (NVGs) as well as global reporting standards and practices (to name a few) such as -

- Integrated Reporting – IIRC (Link),
- GRI – Global Reporting Initiative – Comprehensive / Core (Link),
- SDG – Sustainable Development Goals (Link),
- CDP – Carbon Disclosure Project (Link),
- TCFD - Task force on Climate related Financial Disclosures (Link),
- UNPRB (Principles for Responsible Banking) (Link),
- Equator Principles (Link),
- Financial Stability Board (FSB) (Link),
- IFC financial standards (Link),
- SASB for commercial Banks (Link),
- ILO (International Labour Organization) (Link)

Consideration was also given to the existence and extent of external assurance disclosed by the banks with respect to the ESG data. Lastly, the Banks were adjudged on their ability to identify topics material to the banking sector.

Environment Factor

In the case of banks, though routine banking operations have relatively low direct environment impact, their indirect impact on environment is tremendous. As a result, SES has reworked its existing model to include climate risk assessment disclosures by banks under TCFD Framework as well as green financing initiatives of the Banks. SES has paid special attention to the banks' lending practices to understand the extent of integration of climate risk in their lending assessment in line with current global best practices. Though none of the selected banks are signatories to frameworks such as the Equator Principles, SES has tried to assess the risk factor of the banks based on the distribution of their lending portfolio across various industries.

With respect to the direct environment impact, though SES has assessed the banks on the full range of questions based on disclosures, performance, targets and achievement that were present in the original model, its weight has been proportionately reduced in the present model on account of relative minor direct environment impact.

Social Factor

Under the Social head, the present model evaluates the banks' relationships with their customers, suppliers, local community as well as the government. Further, the model tries to evaluate a bank's stand on social issues like employee association, diversity in workforce, protection of human rights, abolition of child labour, sexual harassment, health and safety of employees, etc. and compares them with global best practices.

The tweaked model places a relatively greater emphasis on financial inclusion initiatives undertaken by banks, especially in the rural and semi urban areas. Also on the banks' disclosures relating to cyber security and customer privacy as well as customer satisfaction, especially through digital innovation.

In assessing the above parameters, the current model not only evaluates the disclosure practices, but also the performance of the banks relating to financial inclusion, data security and customer privacy as well as customer satisfaction against the benchmarked mean of all banks.

Governance Factor

Keeping in mind the added importance of governance in the banking sector, SES has revamped the existing model by adding two additional sub parameters of **economic performance** and **systemic risk drivers and their management** in addition to regular corporate governance assessment factors. As banks in India are heavily regulated, many corporate governance parameters prescribed by regulators/ laws other than by RBI are redundant for banks. As a result, parameters specific to banks such as fraud monitoring and provisioning as well as analysis of penalties by regulators were added in the corporate governance parameter.

With respect to economic performance, SES understands that economic performance of a bank is a function of management decisions. Since SES views economic performance as part of holistic sustainable growth, the performance of the banks based on various standardised ratios common to all banks have been rated and benchmarked against the biggest public sector bank in India – State Bank of India based on the financial data for the past three financial years.

SES has also evaluated the banks based on their financial stability and ability to cope with systemic risks. The main parameters under which systemic risk drivers have been evaluated are: capital adequacy, asset quality management, asset-liability management based on their maturities, loan asset restructuring, exposures and concentrations, provisions and contingencies, liquidity coverage management and credit rating of bank instruments. The scoring for systemic risks has also been benchmarked against the biggest public sector bank in India – State Bank of India, based on the financial data for the past three financial years.

ECONOMIC PERFORMANCE AND SYSTEMIC RISK ASSESSMENT

SCORING AND BENCHMARKING METHODOLOGY

Response data benchmarked against the Largest PSB, i.e. State Bank of India (SBI)

- The raw financial data of the sample Indian banks was benchmarked against SBI's financial data and accorded a relative score between 1 and 10, with SBI's score for most parameters being 5.
- Thus, taking SBI's financial data as median data, five levels above and below SBI's data were created (by considering such minimum and maximum values of all banks under the study).
- The values of each bank was slotted into these levels and scores were obtained out of 10.
- These scores were then converted into percentages, with SBI retaining a score of 50%, as a benchmark score, for most major parameters.

For Example: *(For below depiction **dummy data** has been used)*

Parameter/Banks	A	SBI	C	D	E	F	G	H
Interest income as a percentage to working funds (%)	10.45	6.57	13.95	23.06	3.42	16.54	18.69	20.64
Normalised Against SBI Data	159	100	212	351	52	252	284	314
Raw Scores out of 10	7	5	8	10	1	9	9	10
Raw Scores out of 100	**70**	**50**	**80**	**100**	**10**	**90**	**90**	**100**

Finally, the raw scores so obtained were then converted into **weighted scores** by assigning appropriate weights to each sub parameter.

SUMMARY OF FINDINGS

Disclaimer: *The views presented in the report are solely that of SES & do not include the views of banks supporting this study.*

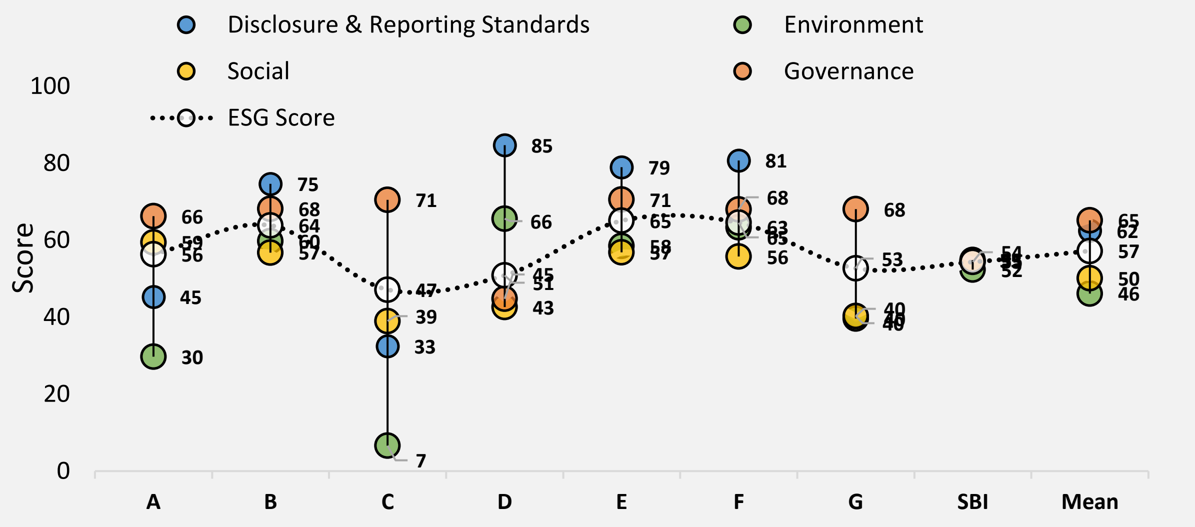
Important Note: *Since the Report is based on a white labelled study, the Codes for each bank are shuffled for every section of the summary and analysis. Thus, Bank A in Environment section may not necessarily be again Bank A in social section.*

ESG Scores

Leaders			Followers		Laggards		
Bank E	Bank F	Bank B	Bank A	SBI	Bank G	Bank D	Bank C
65	65	64	56	54	53	51	47

Score Distribution:

Graph 1: ESG Score Divergence



Heat Map:

↓ Parameters \ Banks →	A	B	C	D	E	F	G	SBI	Mean*
Disclosure & Reporting Standards	45	75	33	85	79	81	40	55	62
Environment	30	60	7	66	58	63	40	52	46
Social	59	57	39	43	57	56	40	55	50
Governance	66	68	71	45	71	68	68	55	65
Overall ESG Score	**56**	**64**	**47**	**51**	**65**	**65**	**53**	**54**	57

**Mean Score considers only the scores of the seven private banks and excludes SBI score from consideration.*

Gist of SES Observations:

1. Findings On Policy Disclosures And Transparency

Leaders			Followers		Laggards		
Bank G	Bank B	Bank A	Bank C	SBI	Bank E	Bank H	Bank D
85	81	79	75	55	45	40	33

Brief Overview – For each of the evaluation parameter assessment findings are presented

1.1 Alignment with National Reporting Standards: Overall Outlook: → Average

The scores ranged between 59 and 70 with the mean score at 65. Non-disclosure of many policies as well as poor environment related disclosures were the primary reasons for such low scores.

Gap Analysis with Global Best Practices & Way Forward: Scope for Improvement: ↗ High

Citigroup requires its business associates to follow a well-defined policies that are readily available in the public domain (Read More). Furthermore, HSBC has well laid out supplier policies such as Management Conduct principles, Code of Conduct, supplier diversity as well as data privacy notice for suppliers (Read More).

1.2 Alignment with Global Reporting Standards: Overall Outlook: ↘ Below Average

The divergence in scores here was high, with the highest score being 89 while the lowest only being 20. Here, Banks D, E and H lagged their peers in terms of alignment with major global reporting standards.

Gap Analysis with Global Best Practices & Way Forward: Scope for Improvement: ↗ High

Across Europe and America, major Multinational Banks are not only signatories to principles such as UNPRB and Equator Principles, they are also striving to become signatories to recent frameworks such as the 2019 Poseidon Principles, which deal with banking approach to the shipping industry financing. There is a need for Indian Banks to collaborate with their stakeholders to discuss their strategies for scaling up sustainable financing and climate based risk assessment in the years to come.

1.3 External Assurance: Overall Outlook: ↘ Below Average

The mean score here was 57, indicating that 4 out of the 8 banks, including SBI, did not provide any external assurance on their data.

Gap Analysis with Global Best Practices & Way Forward: Scope for Improvement: ↗ High

While Citigroup has received additional assurance for greenhouse gas emissions in accordance ISO 14064-3:2006, HSBC has received an external assurance for its sustainable financing initiatives.

1.4 Materiality Assessment: Overall Outlook: ↘ Below Average

Barring Banks A and G, all other banks have scored poorly on materiality assessment. This is primarily due to lack of identification of material topics across the value chain.

Gap Analysis with Global Best Practices & Way Forward: Scope for Improvement: ↗ High

A lot of entities in the EU are paying increased attention to the concept of ‘double materiality’, i.e. Financial Materiality as well as Environmental and Social Materiality, while reporting climate related information. Such an assessment analyzes the real world impact of decisions taken by an entity. SES is of the view that for the banking sector, which finances a majority of the biggest projects related to infrastructure and development, an assessment of fossil fuel financing would bring in the right perspective to combat climate change.

2. Findings on Environment Assessment

Leaders		Followers				Laggards		Global Banks	
Bank A	Bank C	Bank D	Bank B	SBI	Bank E	Bank G	Bank F	HSBC	CITI
66	63	60	58	52	40	30	7	96	75

Brief Overview –

2.1 Direct Environment Score: Overall Outlook: ↘ Below Average

Assessment Factors: General Disclosures, Energy Management, Renewable Energy Management, GHG Emissions, Water Management, Waste management

The mean score on overall Environment Factor of all the 7 Indian Listed Pvt Banks is 46 indicating that overall Banks disclosure regarding Direct and Indirect Environmental impact is weak and there is large scope for improvement.

2.1 Findings on Direct Environment Assessment

Leaders		Followers					Laggards	Global Banks	
Bank B	Bank D	Bank A	Bank E	Bank G	Bank C	SBI	Bank F	HSBC	CITI
72	68	60	53	53	52	49	7	85	79

SES Observations:

By a glance on the Scores of the Banks considered in the Study, its apparent that the International banks are ahead by a large margin. The study showed that the disclosure of International Bank especially HSBC was much wider on both Direct and Indirect Environment Parameters considered in the Study.

Within the Indian Pvt Banks Bank, A, B, C & D have performed better than other Banks considered in the Study. The Score of SBI was better on Indirect parameters than that of Direct Environmental Impact.

Most Banks scored low on account of non-disclosure of information rather than on performance on the parameters. Within the Direct Environment Parameters, the Banks scored better in their disclosure and performance on Energy management and General Environment related category. This is on account of the fact that Banks Direct Environmental impact is mostly restricted to the consumption of electricity due to the Banking operations. 6 out of 7 Pvt Banks had provided disclosure regarding Energy Consumption or Energy Consumption Intensity.

Gap Analysis with Global Best Practices & Way Forward: Scope for Improvement: ↗ High

The Gap Between highest scoring Pvt Indian Bank vis a vis the highest Scoring International Bank considered in the Study is 13. The gap is lower than the gap between the total Environmental score due to the fact that the highest scoring Indian Bank has adopted to disclose data on Direct Environmental Impact and the disclosure is as per GRI Standards.

2.2 Indirect Environment Score: Overall Outlook: ↘ Below Average

Assessment Factors: Climate Risk Assessment in Financing, Sustainable Financing / Lending

The Average Score of all 7 Indian Listed Pvt. Bank is 44 The Gap between the highest scoring Indian Bank and the lowest scoring bank is whopping 61 or highest score is 11+ times lowest score

2.2 Findings on Indirect Environment Assessment

Leaders		Followers				Laggards		Global Banks	
Bank A	Bank C	Bank D	Bank B	SBI	Bank E	Bank G	Bank F	HSBC	CITI
68	67	57	54	54	35	22	6	100	73

SES Observations:

On the Indirect Environmental Impact, as this was first such study conducted the questions were majorly framed around the TCFD Framework. Responses of the Bank on the CDP website were considered for the purposes of scoring for the model. Within the Indirect Environment Score most banks provided disclosure on Significance of Climate Risk w.r.t. to their business and regarding Oversight/ Governance on Climate Risk. However, the scores were dragged down on account of lack of disclosure regarding how the Banks are monitoring these risks and future Bank strategy about the assessment of Indirect Risks. Further, some Banks had made disclosure regarding Responsible Lending or sustainable finance, however, when compared with International Banks these disclosure were not as detailed.

Way Forward: Scope for Improvement: ↗ High

The International Banks provided detailed disclosure regarding significant concentrations of credit exposure to carbon-related assets in their lending portfolio. They also provided break up of Carbon related assets vis a vis total assets. This disclosure was not provided by any Indian Pvt Bank.

Overall, Banks and Business have been shaken up by this pandemic. BFSI sector will soon have to implement systemic changes and checks for integrating Environmental assessment as lenders. Transition Risk to a low carbon economy will force the Banks to sooner or later focus their lending towards more sustainable business. However, its upon the Bank to take into account this risk while moving forward. Disclosures regarding Indirect impact of the Bank are becoming a norm all over the world. European Union recently has adopted the Regulation on sustainability-related disclosure in the financial services sector which will apply from 10 March 2021. Similar disclosures are being mandated by other Regulators all over the world.

The study depicts the gaps in disclosures of the Banks and compares them to disclosures by the International banks. Banks can use the study to evaluate these gaps and work on ESG integration and disclosures for the future.

3. Findings on Social Assessment

Leaders			Followers		Laggards		
Bank H	Bank D	Bank E	Bank G	SBI	Bank C	Bank F	Bank B
59	57	57	56	55	43	40	39

Brief Overview –

3.1 Human Capital Management: Overall Outlook: ↘ Below Average

Assessment Factors: Workforce Management & Diversity, Health and Safety

The scores ranged between 27 and 61 (with the highest score more than twice as the lowest score) with the mean score at 40. Barring Banks C & D, all other banks have **relatively poor disclosures** with respect to human capital management as compared to global peers.

The general areas where most banks have lost scores are with respect to workforce management disclosures, especially comparable attrition rate disclosures as well as new hiring disclosures and health & safety disclosures.

Gap Analysis with Global Best Practices & Way Forward: Scope for Improvement: ↗ High

Disclosures relating to the quality of workforce & management across banks varies significantly, thus making peer comparison difficult. The objective of any disclosure is multifold - compliance, comparison, benchmarking, analysis and above all to excel and be a leader leading to value accretion. Non-standard disclosures can hide inefficiency.

3.2 Financial Inclusion: Overall Outlook: → Average

Assessment Factors: Access to financial services, Bank efforts in increasing access to various financial schemes, Emphasis on Financial literacy and inclusion, CSR Expenditures

The scores ranged between 63 and 87 with the mean score at 73. Most banks have performed satisfactorily with respect to the relevant disclosures.

Way Forward: Scope for Improvement: ↗ High

Though it appears that SBI will continue to have leadership role on financial inclusion given its reach and state ownership status, Private Sector banks have lot of scope for expansion in rural areas.

3.3 Data Security and Customer Privacy: Overall Outlook: ↘ Below Average

Assessment Factors: Alignment with national and international cyber security standards and practices, Cyber Crisis Management Plan, Cyber Security Oversight Framework, Trends in digital security breaches and complaints, Investment in cyber security infrastructure

The scores ranged between 30 and 70 (with the highest score more than twice as the lowest score) with the mean score at 46. SBI outperformed all other banks in terms of disclosures relating to its data security and customer privacy.

The most common area where most banks have lost scores are with respect to **non-disclosure of trends in data security breaches / customer complaints on privacy breaches**.

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Gap Analysis with Global Best Practices & Way Forward: Scope for Improvement: ↗ High

Global Data Privacy Regulations: With respect to customer privacy, though India has a data protection law in the works, Indian Banks may do well to borrow from global data privacy laws such as the EU GDPR. Currently, SES found that HDFC Bank, ICICI Bank & Axis Bank were the only banks to implement it in relevant operations as per their disclosures.

3.4 Customer Satisfaction: Overall Outlook: → Average

Assessment Factors: Disclosure of customer satisfaction surveys, Customer complaints – received and pending, Customer satisfaction Scores, Digital innovation

The scores ranged between 19 and 57 with the mean score at 42.

The general areas where most banks have lost scores are with respect to **disclosures** relating to customer complaints relating to online banking, debit and credit cards, customer feedback, corrective actions taken, etc.

Gap Analysis with Global Best Practices & Way Forward: Scope for Improvement: ↗ High

SES observed that HSBC provides detailed disclosures regarding customer satisfaction scores with respect to a host of banking services and across various regions. These scores are also compared with their historical scores to disclose how each operation was perceived across geographies and throughout past financial years.

4. Findings on Governance Assessment

Leaders		Followers				Laggards	
Bank F	Bank E	Bank G	Bank C	Bank A	Bank D	SBI	Bank B
71	71	68	68	68	66	55	45

Brief Overview –

RBI DISCUSSION PAPER ON GOVERNANCE IN BANKS:

RBI had recently issued a discussion paper on governance in Banks inviting public comments. SES had submitted its suggestions and recommended a single set of law relating to governance. As at present, the bank has to take into account Companies Act 2013 provisions and SEBI LODR, besides following all RBI regulations/ laws and on top of it Banking regulation Act. (Weblink)

RBI also recently came up with its Notification on appointment of Directors in Banks and Constitution of Committees of their Boards on 26th April, 2021. (Weblink). Similarly RBI has come up with its guidelines on appointment of Auditors in banks.

While SES, in general, welcomes such an initiative by RBI to improve governance in Banks, SES would wait for RBI's upcoming Master Directions on Governance in Banks (which are soon to be released as per RBI), before commenting on the extent and nature of reforms in totality.

In its comments on the Discussion Paper, in addition to para wise comments, SES has recommended to RBI:

Following important actions needs to be taken by RBI as soon as possible.

A. BR Act to be updated, reconciled/ harmonised with Companies Act 2013 and SEBI LODR Regulations, wherever and to the extent possible in a holistic manner rather than by way of patchwork as hitherto.

B. Follow one regulator one industry one law - rather than one regulator-one industry-multiple laws. There is absolutely no reason why private, public and co-op banks carrying on the same activity be subject to different as well as multiple laws.

C. Need to have only BR Act, Companies Act and SEBI LODR along with RBI regulations rather than SBI Act, IDBI Act, Nationalised Bank Act, etc.

D. Rather than increasing compliance burden and having multiplicity of reports - rationalise the same and have a fool proof system of identifying and monitoring early warning signals.

SES is of strong belief that economy of country is dependent on robust banking system. For this, RBI has higher responsibility than the Government - it has its moment and opportunity - it should not be allowed to slip.

4.1 Corporate Governance:

Assessment Factors: Board Composition, Board Committees, Director Remuneration, Statutory Auditors, Stakeholder Engagement, Other Governance Factors

The scores ranged between 61 and 83 (gap of 22 or ~36% from lowest) with the mean score at 71. With 5 banks above mean, and 3 below mean level

The general areas where most banks have lost scores are with respect to **gender diversity**, **high non-audit fees**, **regulatory sanctions** as well as disclosures concerning **shareholder and whistle-blower complaints**.

4.1 Findings on Corporate Governance Assessment

Leaders			Followers			Laggards	
Bank A	Bank G	Bank D	Bank E	Bank F	Bank C	SBI	Bank B
83	81	79	74	73	68	61	61

Brief Overview –

4.1.1 Board Composition: Overall Outlook: → Average

Assessment Factors: Board Expertise, Competence, Diversity, Independence, Rotation Policy, Time Commitments & Attendance

Gap Analysis with Global Best Practices & Way Forward: Scope for Improvement: ↗ High

In case of Citibank, the proxy statement is a separate document that provides a holistic and all-encompassing picture regarding the board and its various committees, separately from the Annual Report. (Read More).

4.1.2 Board Committees: Overall Outlook: ↗ Above Average

Assessment Factors: Committee Composition, Expertise of members, Committee Chairperson, Meetings and Attendance

Gap Analysis with Global Best Practices & Way Forward: Scope for Improvement: ↗ High

The scope of the role of the Risk management committee in global banks is very high as even ESG risks are actively integrated into the risk management frameworks and such risks are realistically quantified and stress tested at regular intervals. (Read More – Citi TCFD Report)

4.1.3 Director Remuneration: Overall Outlook: → Average

Assessment Factors: Reasonableness of compensation, Fairness in compensation in comparison to other directors, Board Performance Evaluation and Training

Gap Analysis with Global Best Practices & Way Forward: Scope for Improvement: → Moderate

Banks such as Citi and HSBC clearly disclose the board evaluation criteria, process and results along with the board performance as against previously set targets on parameter basis. (See Citi Proxy Statement Pg. 85)

SES Dilemma: Fixed Remuneration to Independent Chairman of the Bank

(Note: Chairman's remuneration Issue not applicable in case of Banks where Chairman of the Board is a Non-Independent Director)

- *According to SES, the spirit behind the Companies Act, 2013 does not permit payment of fixed remuneration to IDs but permits variable profit linked commission.*
- *RBI does not permit variable profit linked commission for Chairman but allows fixed remuneration.*

This leaves banks in peculiar situation, either they do not pay any fixed compensation to Independent Chairman (which will amount to closing the doors to capable people) or violate either Companies Act or Banking Regulations Act (BR Act).

SES has already brought this anomaly to attention of RBI and requested to amend BR Act and align the same with Companies Act, 2013 or carve out exceptions as far as Banks are concerned.

What is needed?

RBI must take a holistic view of all the laws and harmonise the same and carry out amendments to BR Act, to update the laws with changing times. Multiplicity of laws and lack of clarity cannot be continued, and the confusion has to come to an end. All banks should request their sectoral regulator to bring about harmony in the laws. Though RBI's recent adoption of FSB Principles relating to compensation to WTDs (Read More) is welcome, a lot more needs to be done with respect to compensation relating to NEDs.

Lastly, SES questions the need of different sets of law for SBI/ PSU and Private Sector banks. Laws are made to protect stakeholders and for same set of stakeholders why three different yardsticks are the big question.

It is high time that RBI codifies its guidelines on various governance parameters and either harmonise the same with Companies Act 2013 and SEBI LODR provisions or unequivocally state that these two laws have no meaning for Banks that are regulated by it. RBI has been attending to the issue in parts and allowed commission to be paid to IDs. What is needed is a holistic approach rather than a piecemeal approach.

4.1.4 Statutory Auditors: Overall Outlook: → Average

Assessment Factors: Audit Independence, Rotation, Audit Fees, etc.

Gap Analysis with Global Best Practices & Way Forward: Scope for Improvement: → Moderate

Major Global Banks such as HSBC, even provide a detailed breakup of non-audit fees paid to its auditors for past financial years.

4.1.5 Stakeholder Engagement: Overall Outlook: → Average

Assessment Factors: Periodic Interactions, Quality Of Quarterly Communication, Shareholder Engagement And Handling Of Shareholder Complaints, Negative Media Coverage

Gap Analysis with Global Best Practices & Way Forward: Scope for Improvement: → Moderate

Major Global Banks such as Citi and HSBC actively engage with their shareholders regarding dissented and defeated resolutions. SES is of the view that such disclosures on engagement should form part of the banks' annual reports.

4.1.6 Other Governance Factors: Overall Outlook: → Average

Assessment Factors: Code Of Conduct Disclosures, Whistle Blower Policy Disclosures, Insider Trading Disclosures, Issue Of Securities, D&O Insurance Disclosures, Strictures & Penalties

Gap Analysis with Global Best Practices & Way Forward: Scope for Improvement: → Moderate

All major global banks provide extensive disclosures pertaining to whistle blower complaints through dedicated hotlines or platforms for anonymous reporting of incidents. SES is of the view that such disclosure practices must be widely adopted by all Indian banks.

ECONOMIC PERFORMANCE AND SYSTEMIC RISK ASSESSMENT: SCORING AND BENCHMARKING METHODOLOGY

Response data benchmarked against the Largest PSB, i.e. State Bank of India (SBI)

- The raw financial data of the sample Indian banks was benchmarked against SBI's financial data and accorded a relative score between 1 and 10, with SBI's score for most parameters being 5.
- Thus, taking SBI's financial data as median data, five levels above and below SBI's data were created (by considering such minimum and maximum values of all banks under the study).
- The values of each bank slotted into these levels and scores were obtained out of 10.
- These scores were then converted into percentages, with SBI retaining a score of 50%, as a benchmark score, for most major parameters.

For Example: *(For below depiction **dummy data** has been used)*

Parameter/Banks	A	SBI	C	D	E	F	G	H
Interest income as a percentage to working funds (%)	10.45	6.57	13.95	23.06	3.42	16.54	18.69	20.64
Normalised Against SBI Data	159	100	212	351	52	252	284	314
Raw Scores out of 10	7	5	8	10	1	9	9	10
Raw Scores out of 100	**70**	**50**	**80**	**100**	**10**	**90**	**90**	**100**

Finally, the raw scores so obtained were then converted into weighted scores by assigning appropriate weights to each sub parameter.

4.2 Findings On Economic Performance Assessment

Leaders			Followers			Laggard	Benchmark
Bank A	Bank F	Bank H	Bank B	Bank C	Bank D	Bank E	SBI
61	61	61	54	53	52	28	50

SES understands that the economic performance of any entity including banks is dependent on external as well as internal factors. While all entities are impacted by external factors, its impact can be softened or made use by prudent management decisions. However, capability of management to take appropriate decisions is bolstered if professional management gets supported by healthy financial position. Management can take calculated risks and bold decisions if it has backing of good financial position. In such a situation risk-reward relationship becomes positive and creates an outward spiral. However, a weak financial position many a times lead to negative risk-reward relationship and leads to an inward spiral. In nutshell, good performance leads to good all the way/ directions, whereas it is just the opposite in case of bad performance unless surgical actions change the course of spiral from inward to outward. Therefore, relative performance of financial factors are appropriate benchmark for comparison.

Findings - Heat Map:

Parameter/Banks	A	B	C	D	E	F	H	SBI^	Mean*
Business Ratios	75	64	61	55	48	59	57	50	60
Other Key Ratios	55	64	56	61	17	72	79	50	58
Financial Position	56	40	46	43	20	55	50	50	44
Overall Economic Performance	**61**	**54**	**53**	**52**	**28**	**61**	**61**	**50**	**53**

Mean Score considers only the scores of the seven private banks and excludes SBI scores from consideration.

^SBI Scores in Blue are Benchmark scores, i.e. all private banks were measured against SBI's scores kept @50.

4.3 Findings On Systemic Risk Drivers & Management Assessment

Leaders			Followers			Laggard	Benchmark
Bank C	Bank D	Bank G	Bank E	Bank A	Bank F	Bank B	SBI
73	72	72	67	64	63	41	53
Risk Grade							
A -	A -	A -	B +	B +	B +	B -	B

The collapse of even a medium sized bank can have an adverse effect on the financial market ecosystem in the short term. In this backdrop, SES has identified certain soundness and resilience indicators that act as warning triggers during a bank's stress testing mechanisms and accorded a risk grade and score. For the purposes of the study, SES has stuck to identifying only those triggers that form part of the banks' public disclosures.

Heat Map –

Parameter / Bank	A	B	C	D	E	F	G	SBI^	Mean*
Capital Adequacy	62	14	73	96	73	66	71	50	65
Asset Quality Management	61	31	58	71	48	61	68	50	57
Divergence in Asset Classification	100	50	100	100	100	100	100	50	93
Concentration of Gross NPAs	93	85	90	64	49	44	73	50	71
Concentration of NPAs across Sectors	84	46	100	71	73	65	86	50	75
Asset-Liability Gap Management	68	70	75	70	73	63	93	50	73
Loan Assets Restructured	43	43	60	10	45	45	53	50	43
Exposure Risks (Real Estate & Capital Markets)	63	100	70	58	67	61	64	50	69
Concentration Risks	45	48	70	58	70	60	78	50	61
Capital Requirements for Credit, Market & Operational Risk	73	57	73	10	80	53	93	50	63
Provisions & Contingencies	64	51	58	52	48	54	37	50	52
Liquidity Coverage Management	34	12	58	89	49	51	40	50	48
Credit Rating	80	60	100	80	100	100	100	100	89
Systemic Risk Management	**64**	**41**	**73**	**72**	**67**	**63**	**72**	**53**	**65**

**Mean Score considers only the scores of the seven private banks and excludes SBI scores from consideration.*

^SBI Scores in Blue are Benchmark scores, i.e. all private banks were measured against SBI's scores kept @50. The Systemic Risk score for SBI is benchmarked @53 as benchmarking @ 50 was not feasible for one of its parameters (Credit Rating).

1. DISCLOSURE TRANSPARENCY & REPORTING STANDARDS

Assessment Factors:

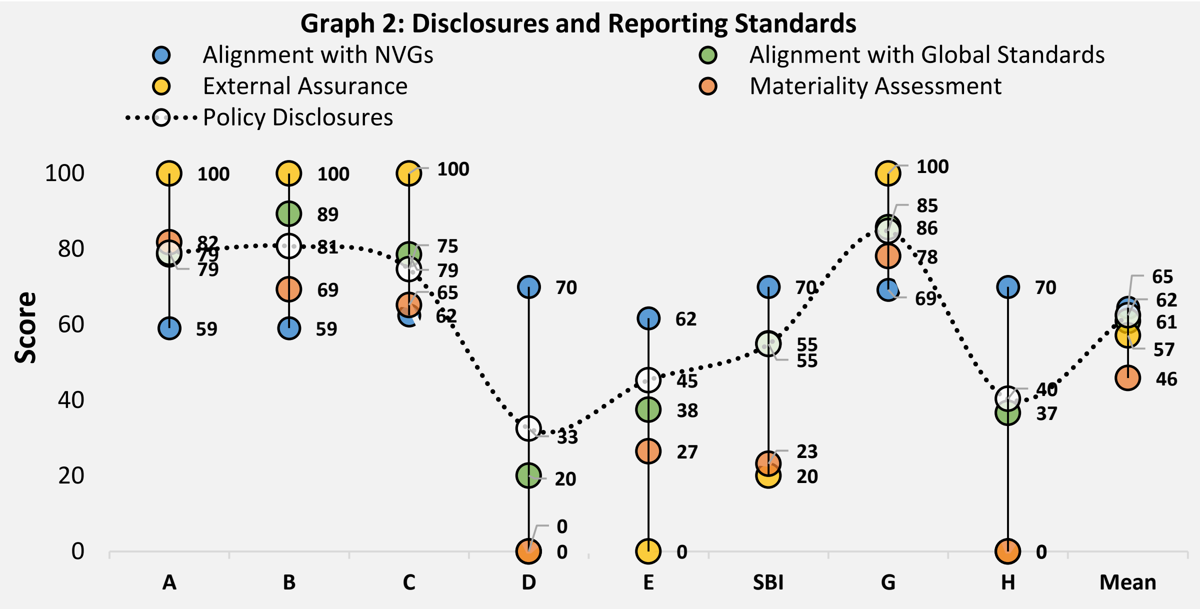
- Alignment with National Reporting Standards
- Alignment with Global Reporting Standards
- Level of External Assurance
- Extent of Materiality Assessment

In order to analyse and compare the ESG practices and initiatives by the banks, SES first analysed the disclosure practices and trends followed by these banks and how they varied from global best practices and reporting standards as well as frameworks.

1. Findings On Policy Disclosure And Transparency

Leaders			Followers		Laggards		
Bank G	Bank B	Bank A	Bank C	SBI	Bank E	Bank H	Bank D
85	**81**	**79**	**75**	**55**	**45**	**40**	**33**

Score Distribution & Heat Map:



↓ Parameter / Banks →	A	B	C	D	E	SBI	G	H	Mean*
Alignment with NVGs	59	59	62	70	62	70	69	70	65
Alignment with Global Standards	79	89	79	20	38	55	86	37	61
External Assurance						20			57
Materiality Assessment	82	69	65	0	27	23	78	0	46
Policy Disclosures	**79**	**81**	**75**	**33**	**45**	**55**	**85**	**40**	**62**

**Mean Score considers only the scores of the seven private banks and excludes SBI score from consideration.*

Note: SES has not disclosed the scores for External Assurance in the above heat map as such disclosure of scores would lead to easy identification of banks which in turn would defeat the purpose of white labelling.

Scoring Criteria / Analysis – Explanation for Certain Low Scores –

Alignment with National Reporting Standards:

The scores ranged between 59 and 70 with the mean score at 65. SBI outperformed most banks in terms of NVG alignment disclosures.

Non-disclosure of many policies as well as poor environment related disclosures were the primary reasons for such low scores.

Alignment with Global Reporting Standards:

The divergence in scores here was higher, with the highest score being 89 while the lowest only being 20.

Here, Banks D, E and H lagged their peers in terms of alignment with major global reporting standards.

External Assurance:

The mean score here was 57, indicating that 4 out of the 8 banks, including SBI, did not provide any external assurance on their data.

Materiality Assessment:

Barring Banks A and G, all other banks have scored poorly on materiality assessment. This is primarily due to lack of identification of material topics across the value chain.

Focus on Parameters:

Most focussed Areas	Least Focussed Areas	Areas with Max Divergence in Focus
Alignment with NVGs	External Assurance, Materiality Assessment	Alignment with Global Reporting Standards, External Assurance

Bank	Focus on Parameters	
	Most Focus	Least Focus
Bank A	Alignment with Global Reporting Standards, Materiality Assessment	Alignment with NVGs
Bank B	Alignment with Global Reporting Standards	Alignment with NVGs
Bank C	Alignment with Global Reporting Standards	Alignment with NVGs
Bank D	Alignment with NVGs	External Assurance, Materiality Assessment

Bank	Focus on Parameters	
	Most Focus	Least Focus
Bank E	Alignment with NVGs	External Assurance, Materiality Assessment
SBI	Alignment with NVGs	External Assurance, Materiality Assessment
Bank G	Alignment with Global Reporting Standards	Alignment with NVGs
Bank H	Alignment with NVGs	External Assurance, Materiality Assessment

1.1. ALIGNMENT WITH NATIONAL REPORTING STANDARDS:

Assessment Factors:

Assessment of the Banks' responses to the ten questions on nine Business Responsibility Policies. (Reference: SEBI BRR format - Section D - Question 2)

Findings on alignment with NVGs on Social, Environmental & Economic Responsibilities of Business:

Table 1 : Principles	Min.	Avg.	Max.
Businesses should conduct and govern themselves with ethics, transparency and accountability	75	98	100
Businesses should provide goods and services that are safe and contribute to sustainability throughout their life cycle.	75	94	100
Businesses should promote the well-being of all employees.	63	96	100
Businesses should respect the interests of, and be responsive towards all stakeholders, especially those who are disadvantaged, vulnerable and marginalised.	75	94	100
Businesses should respect and promote human rights.	75	98	100
Business should respect, protect, and make efforts to restore the environment.	75	94	100
Businesses, when engaged in influencing public and regulatory policy, should do so in a responsible manner.	50	70	100
Businesses should support inclusive growth and equitable development.	75	95	100
Businesses should engage with and provide value to their customers and consumers in a responsible manner.	100	100	100

- Disclosures with respect to P9 (customer satisfaction) were very high among all the banks, given the nature of business of banking, which is highly dependent on customers.
- With respect to P6 (Environment disclosures), while on the face of it, though many banks seem to have a decent score based on their disclosures, since the threshold under P6 is inherently so low, one cannot gain a holistic understanding of disclosure practices from disclosures under P6.

Overall Outlook:

→ Average

SES Observations:

- The scores on the left are based on the disclosures provided by the banks.
- However, even with respect to the BR Table, the disclosure practices across the Banks varies by a huge margin.
- While all the banks have disclosed their policies on Code of Conduct / ethics in some way or another on their websites, some have classified such BRR disclosures as internal documents and not provided links for the same.
- With respect to product life cycle disclosures, though P2 has limited scope in the banking sector in the traditional sense, SES finds that many banks have yet to fully integrate their sustainable financing initiatives into their BRR disclosures.
- In this regard, SBI is the only Bank that has provided a mapping of the NVG BRR principles in its sustainability report.
- Several Banks have not disclosed employee centric policies on their websites. SES is of the view that disclosure of such policies online will only add to the transparency of the Banks.
- Among the 9 principles, many banks responded poorly for disclosures on P7 (i.e., public advocacy). This may be attributed to the fact that in India, advocacy, if at all done, is done in a non-transparent manner. Culturally, advocacy is seen as an unethical method. Therefore, it is unlikely that this score will improve in the near future.

In fact, SES tested the hypothesis that 'the whole BRR table disclosure in its current format is a mere check box without any actual value addition' and found that the indicative bank scores under BRR section did not match up with actual scores under various heads with respect to their actual disclosures in their sustainability reports.

As a result, SES chose to present an overview of the scores for these BR disclosures instead of a bank wise score comparison of the same.

Table 2: Questions	Min.	Avg.	Max.
Do you have a policy/ policies covering the principle	75	97	100
Has the policy been formulated in consultation with the relevant stakeholders?	75	97	100
Does the policy conform to any national / international standards? If yes, specify (50 words).	75	97	100
Has the policy been approved by the Board? [If yes, has it been signed by the MD / CEO / appropriate Board Director?]	75	97	100
Does the Bank have a specified committee of the Board / Director / Official to oversee the implementation of the policy?	75	97	100
Indicate the link for the policy to be viewed online	63	78	100
Has the policy been formally communicated to all relevant internal and external stakeholders?	75	96	100
Does the Bank have an in-house structure to implement the policy / policies?	75	97	100
Does the Bank have a grievance redressal mechanism related to the policies to address stakeholders' grievances related to the policies?	50	83	100
Has the Bank carried out independent audit / evaluation of the working of this policy by an internal or external agency?	63	90	100

Overall Outlook:

→ Average

SES Observations:

- While detailed analysis on every parameter under various BR principles will be discussed in the later stages of this report, here SES chose to score the bank disclosures based on the 10 questions under each BR principle that the bank has to disclose.
- Most banks have policies on almost all principles barring P7 (policy advocacy).
- Almost all banks have instituted committees and frameworks to oversee the BR initiatives of the Banks, although the extent of these initiatives varies from bank to bank.
- Many banks are hesitant to disclose their policies on their websites and state that these are only available for perusal to relevant stakeholders.
- Though IndusInd and HDFC Bank have stated that they do not have a grievance redressal mechanism for P2, P4, P6, P7 & P8. However, SES is of the view that the scope of various grievance redressal mechanisms of all banks cover most issues discussed under the above principles. If they do not, the Banks need to setup these mechanisms.
- Though many banks have stated that they carry out independent evaluation of the various BR related policies from an internal/external agency, none of the banks have chosen to elaborate on the same.
- Thus, SES observes that the disclosures under the BR Report are not integrated with the disclosures in sustainability reports of most Banks.

BRR Implementation:

	Frequency	Bank
Assessment of frequency of review of BRR performance	Semi Annually	Yes Bank & Bandhan Bank
	Annually	HDFC, ICICI, IndusInd & Kotak Bank
	Generic Disclosure	Axis Bank
	No Disclosure	SBI
	% of Participating Associates	**Bank**
Participation of Associates in BR initiatives of the Bank	No Participation	All 7 Private Banks
	0-30%	SBI
	30% and above	-

SES Observations:

Overall Outlook:
↘ **Below Average**

While frequency of BRR initiative implementation in case of most banks is at least annual, the banks have struggled to on-board their business associates in their BR initiatives. However, globally, many major multinational banks such as Citibank and HSBC have clear guidelines for suppliers.

Gap Analysis with Global Best Practices & Way Forward

Scope for Improvement:
↗ **High**

Citigroup requires its business associates to follow a well-defined policy that are readily available in the public domain (Read More). Furthermore, HSBC has well laid out supplier policies such as Management Conduct principles, Code of Conduct, supplier diversity as well as data privacy notice for suppliers (Read More). Going forward, SES is of the view that this is one of the areas of improvement with exciting business opportunities.

1.2. ALIGNMENT WITH GLOBAL REPORTING STANDARDS:

Global Reporting Frameworks	IIRC	GRI	SDG	CDP	TCFD	UNPRB	Equator Principles	FSB	IFC	SASB - Banks	ILO
Axis Bank	Yes	Core	Yes	Yes	No	No	No	No	Yes	No	No
Bandhan Bank	No	No	No	No	No	No	No	No	No	No	No
HDFC Bank	Yes	Comp^	Yes	Yes	Yes	No	No	No	No	No	No
SBI	Yes	Core	Yes	Yes	No	No	No	No	No	No	No
ICICI Bank	Yes	No	Yes	No	No	No	No	No	No	No	No
IndusInd Bank	Yes	Core	Yes	Yes	No	Yes	Yes	Yes	Yes	No	No
Kotak Mahindra Bank	No	No	Yes	Yes	No	No	No	No	No	No	No
Yes Bank	Yes	Comp^	Yes	Yes	Yes	No	Yes	No	Yes	No	No
Citi Bank	No	Core	Yes	Yes	Yes	Yes	Yes	Yes	Yes	No	Yes
HSBC	No	No	Yes	Yes	Yes	No	Yes	Yes	No	No	Yes

^ Comprehensive

SES Observations:

Overall Outlook:
↘ **Below Average**

- Bandhan bank and Kotak Mahindra Bank neither publish any separate sustainability report nor follow the Integrated Reporting (IR) Framework, as recommended by SEBI.
- Except Bandhan bank and ICICI Banks, all other banks submit their responses to the annual CDP Climate Change Questionnaire. Axis Bank and SBI are the only banks that disclose an annual Green Bond Impact Report.
- None of the abovementioned Indian Banks are signatories to the Equator Principles, given how relevant the principles are to the banking sector.
- Yes Bank and HDFC Bank's disclosures are aligned with the TCFD Framework.

Gap Analysis with Global Best Practices & Way Forward

Scope for Improvement:
↗ **High**

- Though SES acknowledges that memberships to global reporting standards and frameworks does not guarantee good performance on climate change initiatives, such memberships influence internal processes into kick starting the integration of climate risk assessment into mainstream risk assessment.
- Across Europe and America, major Multinational Banks are not only signatories to principles such as UNPRB and Equator Principles, they are also striving to become signatories to recent frameworks such as the 2019 Poseidon Principles, which deal with banking approach to the shipping industry financing.
- Furthermore, most major global banks are signatories to other frameworks such as the Green Bond Principles, Science Based Targets Initiatives, Soft Commodities Compact, UN Global Compact, etc.
- There is a need for Indian Banks to collaborate with their stakeholders to discuss their strategies for scaling up sustainable financing and climate based risk assessment in the years to come.
- Thus, Banks in India need to align themselves to at least the above standards and frameworks in the next couple of years: TCFD, GRI, Equator Principles & UNPRB apart from SDG commitments & CDP reporting.

1.3. EXTERNAL ASSURANCE WITH RESPECT TO SUSTAINABILITY DATA:

Assessment Factor: Presence of independent external assurance statement and quality and extent of assurance, i.e. in accordance with:

- International Federation of Accountants' (IFAC) International Standard on Assurance Engagement (ISAE) 3000 (Revised) or

AA1000 Assurance Standard (AA1000AS, 2008) with 2018 Addendum.

- External Assurance Statements are akin to statutory audit reports for non-financial disclosures and data.
- Just as external auditors verify the efficacy of financial statements of an entity, an external assurance report provides efficacy to the ESG disclosures.
- External assurance statements create a chilling effect on data manipulation, re-statements and standardize the data calculation

External Assurance Disclosure along with Assurance Standard		Banks without any external assurance statements
Axis Bank -	ISAE 3000(R)	Bandhan Bank
Citi Bank -	ISAE 3000(R) and ISO 14064-3:2006	Kotak Mahindra Bank**
HDFC -	ISAE 3000(R) & AA1000AS – Type 2 Moderate assurance	ICICI Bank
HSBC -	ISAE 3000(R)	State bank of India
IndusInd Bank -	ISAE 3000(R)	-
Yes Bank -	ISAE 3000(R)	-

Note: In case of Kotak Mahindra Bank, the CDP disclosures - externally assured (ISO14064-3).

SES Observations:

Overall Outlook:
↘ Below Average

While HDFC has received an assurance statement based on both the major global assurance standards, Axis Bank has even provided assurance for its annual green bond impact report.

Gap Analysis with Global Best Practices & Way Forward

Scope for Improvement:
↗ High

- While Citigroup has received additional assurance for greenhouse gas emissions in accordance ISO 14064-3:2006, HSBC has received an external assurance for its sustainable financing initiatives.

1.4. MATERIALITY ASSESSMENT:

Major Assessment Factors:

- Identification of material topics along with their level of materiality
- Disclosure of Materiality Matrix

General SES Observation on topics potentially material to the banking Sector along with level of materiality:

High Material Topics	Moderate Material Topics	Low Material Topics
Regulatory Compliance	Community Development and Social Responsibility	Environmental Footprint
Data Security & Customer Privacy	Responsible Investment & Green Portfolio	Human Rights
Customer Satisfaction/Brand Reputation	Financial inclusion	Financial Literacy
Responsible Investments / Sustainable Finance	Products/ Services with Environmental/ Social Benefit	Responsible Supply Chain/ Operations
Corporate Governance and Ethics / Succession Planning	Innovation/ Digitization	
Financial Performance	Health/ Well-Being of Employees	
Risk Management	Talent Attraction/ Development	
	Diversity/ Equal Opportunity	

- The disclosure of a Materiality matrix is important as this indicates to the investors that the bank has made a materiality assessment surrounding its operations.
- Furthermore, the process of materiality assessment allows enhanced stakeholder dialogue on issues that are material to the Bank and this acts as a gateway to addressing the issues pertaining under these topics.

Bank	Materiality Matrix Disclosure	Materiality Assessment across value chain
Axis Bank	Yes	No
Bandhan Bank	No	No
HDFC Bank	Yes	Yes
SBI	No	No
ICICI Bank	No	No
IndusInd Bank	Yes	No
Kotak Mahindra Bank	No	No
Yes Bank	Yes	No
Citi Bank	Yes	No
HSBC	No	No

SES Observations:

Overall Outlook:
↘ Below Average

- Only 50% of Indian Banks have disclosed a materiality matrix.
- HDFC has made a materiality assessment across its whole value chain. SES finds that even among global peers, such disclosures are rare.

Gap Analysis with Global Best Practices & Way Forward

Scope for Improvement:
↗ High

- Going forward, a lot of entities in the EU are paying increased attention to the concept of 'double materiality', i.e. Financial Materiality as well as Environmental and Social Materiality, while reporting climate related information. Such an assessment analyzes the real world impact of decisions taken by an entity. SES is of the view that for the banking sector, which finances a majority of the biggest projects related to infrastructure and development, an assessment of fossil fuel financing would bring in the right perspective to combat climate change.

2. Environment Assessment

2. ENVIRONMENT ASSESSMENT

Assessment factors:

- Direct Environmental impact
- Indirect Environmental impact

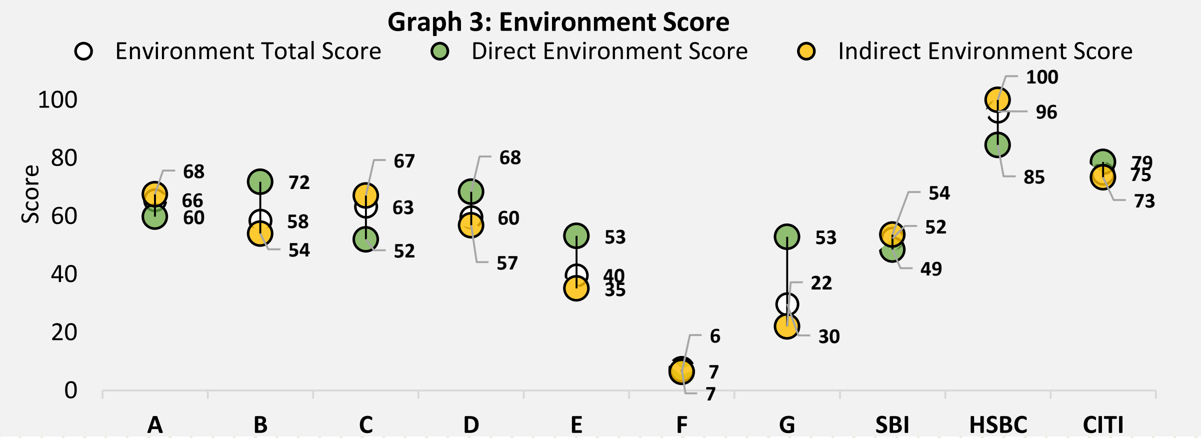
At a glance it would appear that Banking and Financial Services Industry (BFSI) would have minor impact on environment therefore, BFSI would have limited responsibility towards environmental sustainability compared to other industries. It is a fact that direct impact of banks on the Environment is much less compared to manufacturing sector. However, one cannot have a box like approach and examine impact on environment in isolation. One cannot ignore the role BFSI play in the Economy and their constituents' impact on environment. While BFSI may not be a direct polluter and at present not assessed on indirect impact. However, as they lend and invest in companies that may contribute directly towards Environment Pollution, indirect impact of BFSI on environment cannot be ignored for long and sooner or later Banks will be assessed on indirect impact as well. As the global landscape is evolving Banks role will become even more important in supporting and strengthening actions that will contribute and assist in creating a long-term positive impact through their lending practices and banking activities.

For the purpose of this Study, SES has measured performance of the 7 listed Private Sector Banks, with 1 Public Sector Bank (SBI) listed in India along with 2 International Banks (HSBC & CITI Bank) on variety of parameters ranging from Direct Environmental Impact to assessment and mitigation of Indirect Environmental Impact.

2. Findings On Environment Assessment

Leaders		Followers				Laggards		Global Banks	
Bank A	Bank C	Bank D	Bank B	SBI	Bank E	Bank G	Bank F	HSBC	CITI I
66	63	60	58	52	40	30	7	96	75

Score Distribution Chart



Note: *The questions in the Model are based on the required disclosures under the Global Reporting Initiative Standards which help organisations in reporting their sustainability impact in a common language. Further, under the model, Banks have not only been scored on their disclosures on parameters under GRI Standards but also scored on their performance on the parameters for the last 3 years.*

Heat Map

↓ Parameters \ Banks →	A	B	C	D	E	F	G	Mean*	SBI	HSBC	CITI
Direct Environment Score	60	72	52	68	53	7	53	52	49	85	79
Indirect Environment Score	68	54	67	57	35	6	22	44	54	100	73
Environment Total Score	**66**	**58**	**63**	**60**	**40**	**7**	**30**	**46**	**52**	**96**	**75**

**Mean Score considers only the scores of the seven private banks and excludes SBI score from consideration.*

SES OBSERVATION:

Scoring Analysis

The mean score on overall Environment Factor of all the 7 Indian Listed Pvt Banks is 46 indicating that overall Banks disclosure regarding Direct and Indirect Environmental impact is weak and there is large scope for improvement.

Explanation for Certain Low Scores

The lowest scoring Bank has scored 7 on overall Environmental Factor. This indicates that either that the lowest scoring Bank has not focussed on environmental factor or has not provided relevant Disclosures on Environmental parameters.

It may also be possible that the Banks have undertaken various initiatives and steps to address their risks on environmental factor, however, due to lack of elaborate disclosure standards in India, despite paying attention to these risks and addressing the same their score may not reflect the true position.

The gap between the lowest scoring Pvt Bank and the second lowest scoring Pvt Bank is also wide of almost 23points. This may have skewed the average as the lowest scoring Bank's score far lower than most other Pvt Sector Banks.

Scoring Gap between Indian and International Banks

The Gap between highest scoring Bank under the Study and the highest scoring International Bank is 31. This reflects that not only all banks but even the highest scoring Indian Bank has a wide gap to cover in terms of disclosure practice or performance on Environmental criteria as compared to the International Banks that were analysed on same parameters.

The Gap is wider on the Indirect Environmental Factor (32) compared with Direct Environmental factor (25).

Rationale for Divergence on Score and lower score on Indirect Environmental Factors

Although, Banks Direct environmental footprint is lower than Companies operating in the manufacturing sector, Bank's disclosure regarding their Direct Environmental impact are far wider than their indirect impact on environment via their lending to Companies that have environmental impact. This could be owing to the fact that Environmental Risk Assessment of their lending portfolio is more complicated and requires extensive measurable disclosures than measuring Direct environmental impact. The average of Direct Environmental Score is higher than the average of the total Environment score among the Indian Pvt Banks. This can be attributed to the fact that Banks have been measuring and disclosing data on direct environmental impacts for a longer time and Direct Environment impact has been in focus for longer time than the Indirect Environmental Footprint. Disclosure standards for assessing indirect impact on environment have not yet been evolved to a level, where measurement would be easily possible. It is still a Work in Process.

2.1. Findings On Direct Environment Assessment

Leaders		Followers				Laggards		Global Banks	
Bank B	Bank D	Bank A	Bank E	Bank G	Bank C	SBI	Bank F	HSBC	CITI
72	68	60	53	53	52	49	7	85	79

SES Observation:

Scoring Analysis

The Average Score of 7 Indian Listed Pvt Bank is 52. Benchmark SBI is 3 points below the mean. The Gap between the highest scoring Indian Bank and the lowest scoring Bank is huge 65 points and the best performing bank is 23 points ahead of SBI on this count. The average score is also skewed as one of the Banks performances is at far lower end of the spectrum due to no disclosure on direct environmental impact parameters.

Scoring Gap between Indian and International Banks

The Gap Between highest scoring Pvt Indian Bank vis a vis the highest Scoring International Bank considered in the Study is 13. The gap is lower than the gap between the total Environmental score due to the fact that the highest scoring Indian Bank has adopted to disclose data on Direct Environmental Impact and the disclosure is as per GRI Standards. Further, the Bank has also managed to reduce their impact over the last three years. A more detailed analysis of the Direct Environmental Scores, the parameters and sub-parameters follows after this section.

2.2. Findings On Indirect Environment Assessment

Leaders		Followers				Laggards		Global Banks	
Bank A	Bank C	Bank D	Bank B	SBI	Bank E	Bank G	Bank F	HSBC	CITI
68	67	57	54	54	35	22	6	100	73

SES Observations:

Scoring Analysis

The Average Score of all 7 Indian Listed Pvt. Bank is 44 The Gap between the highest scoring Indian Bank and the lowest scoring bank is whopping 61 or highest score is 11+ times lowest score.

Higher Scoring Bank

Bank A and Bank C have scored better on the Indirect parameters compared to their Score on Direct Parameters as they have more detailed disclosures on Indirect Environmental impact parameters. Further, since the Indirect Environmental Assessment has a higher weightage than the Direct Environmental Assessment in the total Environmental score, they have also attained top 2 position as per their total Environmental Assessment Score.

Benchmark SBI is 10 points above the mean. The Gap between the best performing bank on this count is 14 points ahead of SBI. The Gap is narrower in case of Indirect Environmental Assessment.

5 out of 7 Indian Pvt Banks had provided details regarding Indirect Environment Impact as required by TCFD Framework. 5 out of 7 Indian Pvt Banks had submitted responses on Climate Disclosure Protocol Website as per TCFD Framework.

Most of the Banks had considered Climate Risk as Significant Risk for the Bank. They had provided details regarding Governance and Oversight regarding the Climate Risk. Most of the Banks have also stated that their CSR/ Risk Committee is responsible for Climate Related issues.

Gap Analysis- Indian vs. International Bank

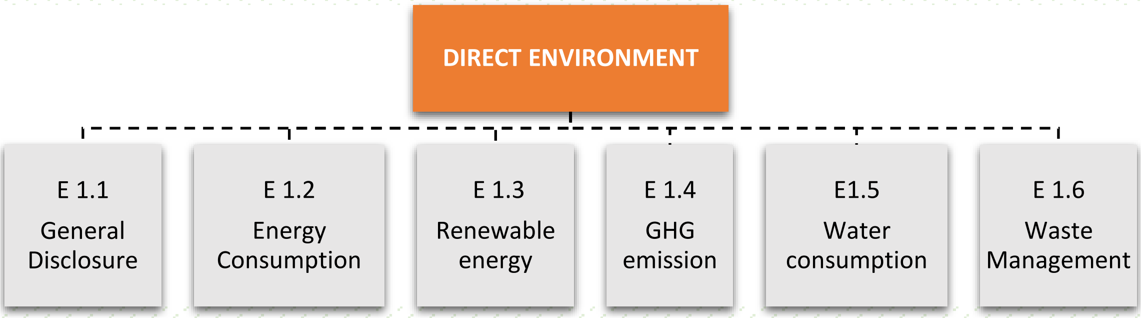
The Gap Between highest scoring Indian Bank vis a vis the highest scoring International Bank is 32. The Gap between highest scoring Banks has increased under the Indirect Environmental Assessment owing to the fact that not many Banks have adopted to provide disclosure based on TCFD Standards or regarding the mechanism of assessment of Indirect Environmental impact on their lending portfolio. The International Banks provided detailed disclosure regarding significant concentrations of credit exposure to carbon-related assets in their lending portfolio. They also provided break up of Carbon related assets vis a vis total assets. This disclosure was not provided by any Indian Pvt Bank.

A more detailed study on this parameters and observations follows after assessment of Direct Environmental Impact.

2.1. DIRECT ENVIRONMENTAL IMPACT AND PERFORMANCE:

The Private and Public Sector Banks employ thousands of people if not more, having operations that are spread across the nation. Although, their Direct Environmental impact is much less than that of many other industries, however, they still have a direct environmental footprint primarily in form of resources that they consume to conduct their day to day operations, such as electricity, water and paper, resources required for business, and the resources consumed by and for its employees.

Under Direct environmental impact banks have been assessed on the following sub-categories



The weightage of each of these parameters varies based on the impact of these parameters on the environment and their relevance to the Banking and Finance Sector Companies.

Focus on Parameters

Based on analysis and scores, high and low focus areas have been bucketed under respective headings along with areas which had maximum divergence.

High focus Areas	Least Focus Areas	Areas with Max Divergence
General Disclosure, Energy Management, GHG Emission	Water Management, Waste Management,	Renewable Energy Management

High Focus Area: *Areas where there were abundant disclosures by the Banks on the relevant parameters under SES Model.*
Least Focus Areas*: Areas where there was a lack of disclosures by the Banks on the relevant parameters under SES Model.*
Areas with max Divergence*: Areas where there was a divergence observed in disclosure practices within the Indian Pvt Banks & SBI in the Study*

Bank	Focus on Parameters	
	Most Focus	Least Focus
Bank A	GHG Emission	Renewable Energy
Bank B	GHG Emission, Energy Management	Water Management
Bank C	GHG Emission, Energy Management	Water Management
Bank D	Energy Management	Water Management

Bank	Focus on Parameters	
	Most Focus	Least Focus
Bank E	Energy Management	Renewable Energy
Bank F	General Disclosures	GHG Emission, Energy Management
Bank G	Energy Management	GHG Emission
SBI	GHG Emission	Water Management

2.1.1. Direct Environment Sub-category-General Disclosure

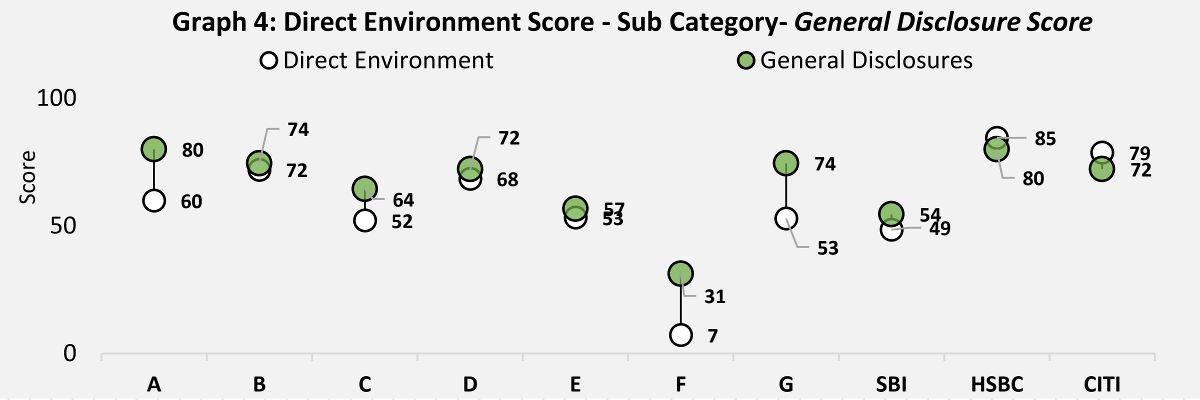
Assessment factors:

General disclosure practices related to environment;

- Environmental policy & its applicability to other entities,
- Assessment of environmental risks and measuring impact on the environment
- Strategies / initiatives to address environmental concerns
- Environment related management systems & its certification

Under the General Disclosure parameters, the Banks were evaluated on their disclosure regarding framing of Environmental Policy along with disclosure of such a policy on their website. Disclosure of Environmental Policy would provide transparency and information on sustainable action to stakeholders of the Bank. Additionally, it is important that not only the Bank but its subsidiaries and entities associated with the Bank are moving towards more sustainable actions, hence, the Banks were also evaluated on the applicability of the Environmental activities on such entities. Furthermore, Banks were also evaluated on parameters such as measurement of their direct environmental footprint and reporting of such footprint. Strategies and initiatives taken by the Bank to address Environmental concerns were also considered. Additionally, if Banks had obtained certification for Environmental Management, Energy Management, LEEDs certification they received a positive score.

Score Distribution Chart:



Score Board			Direct Environment			Sub-category-*General Disclosure*			
Leaders			Followers			Laggards		Global Banks	
Bank A	Bank B	Bank G	Bank D	Bank C	Bank E	SBI	Bank F	HSBC	CITI
80	74	74	72	64	57	54	31	100	73

Score Analysis:

The average score for the 7 Pvt Listed Banks is 65.

The highest scoring Bank among the Indian Banks is **Bank A**. Infact, Bank A has scored better on General Disclosure parameters than one of the International Bank.

The Benchmark SBI is 11 points below the Average Score and 26 points below Bank A, the highest Scoring Bank.

There is wide gap between the bottom 2 scoring Banks (F & E) is of more than 26 points. Indicating that the disclosure practice in Bank F needs a large improvement. Bank F is almost 50 points behind Bank A.

Excluding the Bank F the scores are staggered in range of approx. 25 points indicating that most Banks have performed reasonable well with scope for improving their disclosure practices. It is important to note that this evaluation is only on disclosure practice not on actual performance.

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Parameter evaluated	Banks performance	
Environment Policy on Website	4/8 Banks	A, B, D & SBI
Banks that disclosed objective data on Direct Environmental Impact	7/8 Banks	A, B, C, D, E & G
Banks that have in place Environment Management System	3/8 Banks	A, C & G
Certificate for Environment Management System	1/8 Banks	G
Certificate for Energy Management System	2/8 Banks	D & B
Bank that have any environmental programmes including any initiatives on – clean technology, energy efficiency, renewable energy etc.	7/8 Banks	A, B, C, D, E, G & SBI
Banks that have atleast 1 office or building with LEEDs certification	4/8 Banks	B, C, E &G,

7 out of 8 Indian Banks have provided data on Direct Environmental impacts and most of them also have environmental initiatives such as increasing renewable energy consumption or making their operations more energy efficient.

50% of the Indian Banks have disclosed an Environment Policy on their websites as well.

More than 50% of the Indian Banks in the Study do not have an Environmental Management System. EMS can help Banks in effective organizing, planning and decision making in reducing their Direct as well as Indirect environmental footprint.

Only one Bank has certificate for EMS

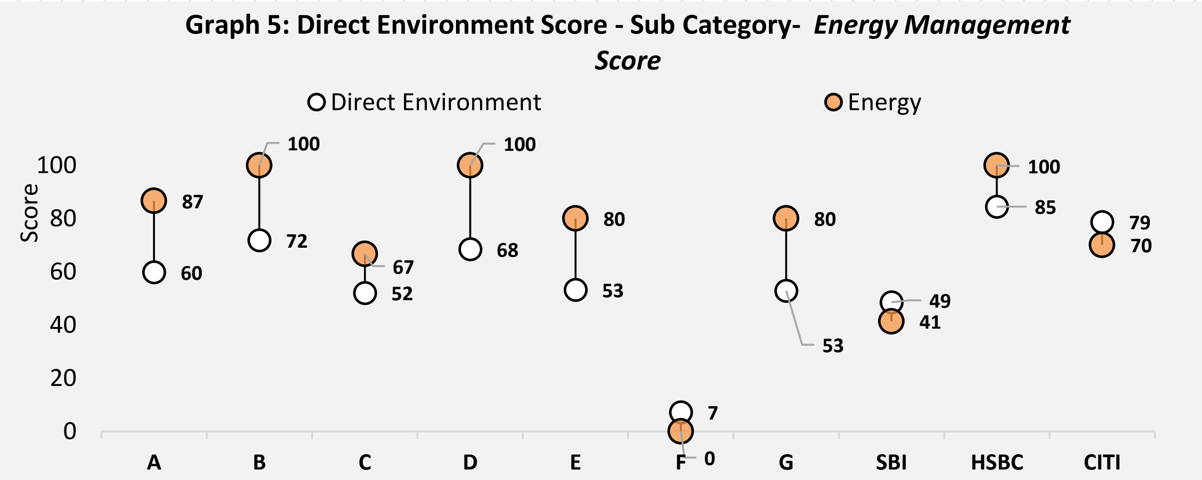
2.1.2. Direct Environment — Sub-category- Energy Consumption

Assessment factors:

- Disclosure of data on total energy consumption / energy intensity
- Reduction in total energy consumption / energy intensity
- Steps taken to conserve energy or reduce energy consumption
- Targets set and its achievements

Banks' direct environmental footprint is mainly concentrated in their electricity consumption and the resulting emission. Most of the Banks purchase their electricity from the Grid in India which would have consequential emission. Some of the Banks have also purchased electricity from renewable sources and invested in renewable energy plants as well. However, majority of the Banks' electricity consumption is from the grid. Hence, it was important to evaluate and score Banks' disclosure practice as well as performance on Energy as a parameter under Direct Environmental impact.

Score Distribution Chart:



Score Board		Direct Environment				Sub-category-*Energy Management*			
Leaders		Followers				Laggards		Global Banks	
Bank B	Bank D	Bank A	Bank G	Bank E	Bank C	SBI	Bank F	HSBC	CITI
100	100	87	80	80	67	41	0	100	70

Scoring Analysis:

Bank B & D out of the 7 Pvt Indian Banks in the Study have scored 100 on the Energy Parameter in Direct Environmental impact. This indicates that these two Banks have made disclosures on total Energy Consumption, Energy Intensity as well as provided targets and have been able to reduce their Energy Intensity y-o-y.

The average score of Indian Banks on the Energy Management parameter is 73. The average would go even higher if we exclude Bank F which has scored a duck for want of disclosures. The Benchmark SBI score is 32 points below the mean. Indicating that the disclosure & performance of SBI is worse than average disclosure and performance of all the Pvt Sector Banks except Bank F which has made no disclosure.

The score of Highest Scoring Indian Banks when compared to International Banks is at par with HSBC and better than CITI. Infact the average of the 7 Indian Pvt Listed Banks is better than the score of CITI

The Score of Pvt Indian Banks except Bank F lies in a range of approx. 30 points indicating that disclosure on Energy Consumption is wide and that performance in terms of reduction of Energy Consumption is being witnessed in majority Banks.

Parameter	Banks Disclosure	
Absolute amount of Energy Consumed disclosed	6/8 Banks	A, B, C, D, E & SBI
Energy Intensity Disclosed	3/8 Banks	A, B, D, & G
Energy Intensity reduced for last 3 years y-o-y	5/8 Banks	A, B, D, E & G
Disclosed specific steps taken for reduction of Energy Consumption	7/8 Banks	A, B, C, D, E, G & SBI

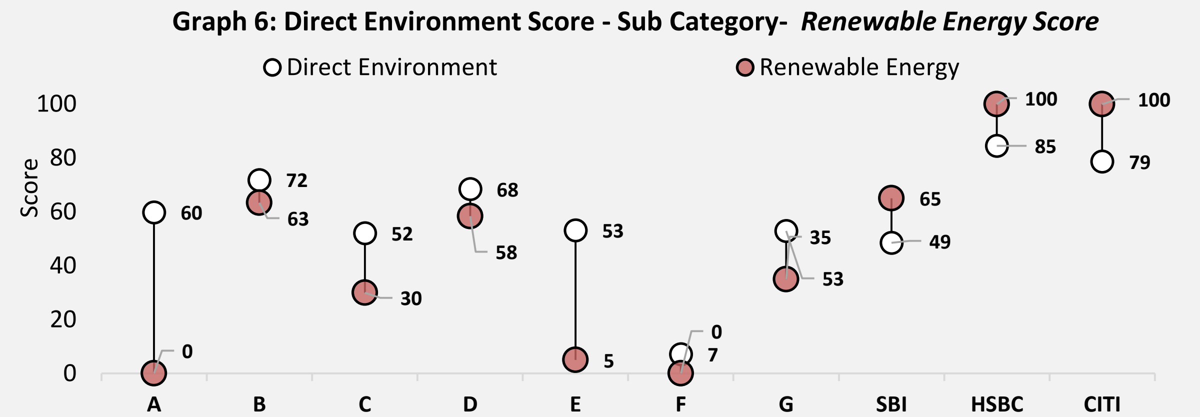
2.1.3. Direct Environment — Sub-category- Renewable Energy Management

Assessment factors:

- Renewable energy usage data
- Steps or initiatives for increasing renewable energy usage
- Investment on conservation equipment/practices or investment in renewable energy plants
- Targets set and its achievements regarding consumption of Energy from renewable sources

Under this parameter Bank's disclosures & practices on usage of renewable energy in its total energy mix has been evaluated. Renewable energy is a solution to reducing carbon emission and although, In normal course banks, unlike manufacturing Companies cannot be expected to set up renewable energy plants, it was observed that Banks have been investing in Renewable Energy Plants or entered into power purchase agreements with Solar Power producer to increase their share of renewable energy in total Energy Consumption. Despite their comparative smaller footprint in terms of carbon emission banking sector can also participate in bringing down carbon emission by increasing share of renewable energy.

Score Distribution Chart:



Score Board	Direct Environment			Sub-category-*Renewable Energy*					
Leaders		**Followers**			**Laggards**			**Global Banks**	
SBI	Bank B	Bank D	Bank G	Bank C	Bank E	Bank A	Bank F	HSBC	CITI
65	63	58	35	30	5	0	0	100	100

Score analysis:

SBI has scored highest on the Renewable Energy parameters, however, the gap between the highest scoring Indian Bank & top scoring International Banks is still 35 points below. This indicates that transition towards renewable energy is being adopted at a slower pace compared to the International Banks which have both scored a perfect score.

The average score of the Indian Banks on Renewable Energy Management parameter is 27 which is much less than their average score on Energy Management parameters. Three Bank A, E &F have scored poorly.

Parameter	Banks	
Disclosed amount of renewable energy consumed or % of renewable energy consumed in the total Energy Mix	4/8 Banks	B, D, G & SBI
Disclosed steps taken for increase in usage of Renewable Energy	6/8 Banks	B, C, D, E, G & SBI
Disclosed objective targets for % of renewable Energy in the total Energy Mix	2/8 Banks	B & SBI
Entered into power purchase agreement or have disclosed investment in renewable energy plants for self-consumption	5/8 Banks	B, D, E, G & SBI

Besides SBI, Bank B is the only Bank that has set targets for the % of Renewable Energy in its total Energy mix. In fact SBI has also increased its target in 2020 from its target in the previous years.

2.1.4. Direct Environment Sub-category- *GHG Emission*

Assessment factors:

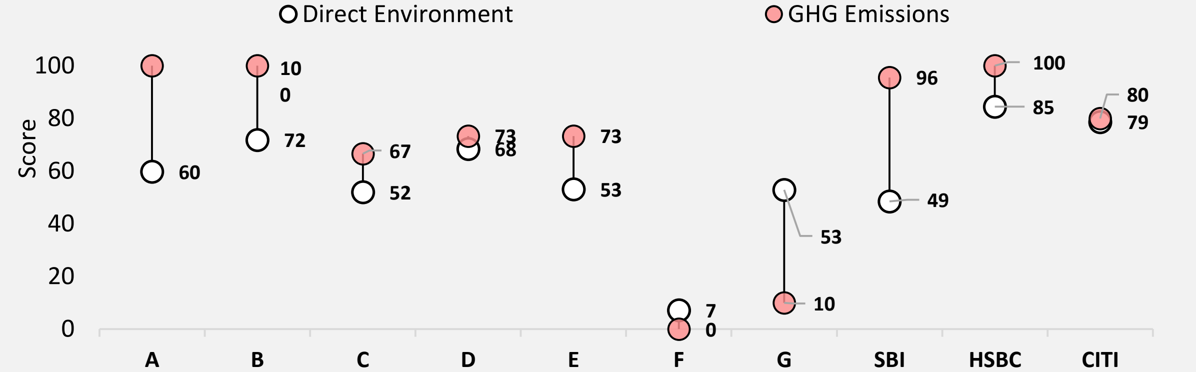
- Disclosure of data on GHG emission or GHG intensity
- Steps or initiatives taken to reduce GHG emissions
- Targets set and its achievements

Majority of the Bank's Carbon emission is attributable to its energy consumption and usage of telecommunication services including internet. While disclosure on energy consumed is available in most banks, at present there is no means to measure emissions on account of telecommunication, internet, cloud server and other related areas. Hence, the major emissions are in form of Scope 2 emissions are limited to purchase of electricity from the Grid. Some Banks have also provided data on Scope 3 emission which is form of business air travel, employee commute or paper consumption.

Although, apparently footprint of Bank's in terms of Carbon emission is low yet as of now there is no benchmark available to calculate total impact.

Score Distribution Chart:

Graph 7: Direct Environment Score - Sub Category- *GHG Emission*



Score Board	Direct Environment					Sub-category-*GHG Emission*			
Leaders		**Followers**				**Laggards**		**Global Banks**	
Bank B	Bank A	SBI	Bank D	Bank E	Bank C	Bank G	Bank F	HSBC	CITI
100	100	96	73	73	67	10	0	100	80

Score Analysis:

5 out of 7 Pvt Banks had provided data on the GHG Emission regarding Scope 1 & Scope 2 emissions. SBI has also provided the data on Emission. The data was gathered from Sustainability Reports and website of Climate Disclosure Protocol.

Bank A and B have scored 100 on the GHG Emission parameter. SBI is third highest scoring Bank on the Emission parameters.

This indicates that the majority banks have disclosed the GHG Emission as also have reduced their GHG emission in the last three years. Further, some Banks have also set targets for reduction in GHG emissions.

The performance of two highest scoring Indian Banks is at par with the Performance of highest scoring International Bank on GHG Emission parameters and better than another international bank.

The average score of the 7 Pvt Indian Banks on GHG Emission parameters is 60.

The score is mainly pulled down by Bank G & F, who have scored poorly.

Parameter	Banks	
Disclosed data on GHG Emission Scope 1 & 2 in Sustainability Report/ BRR	6/8 Banks	D, B, SBI, C, E, A
Disclosed data on Scope 3 emission in Sustainability Report/ BRR	5/8 Banks	D, B, C, SBI, A, E
Set targets to reduce GHG Emission by a specific amount or %	4/8 Banks	B, SBI, C, A
Reduced GHG intensity for the last years y-o-y	5/8 Banks	D, B, SBI, E, A

Way Forward:

As most of the emission is due to Energy Consumption, Scope 2 emission in case of Banking and Financial Services industry is higher than Scope 1. Banks in order to reduce its carbon footprints would have to adopt practices to increase consumption of renewable energy coupled with more energy saving measures.

Majority of the Banks in the study have also provided data on their Scope 3 emission. In order to reduce their Scope 3 emission, Banks have taken initiatives to digitalise banking and reducing the Business Travel as well employee commute.

2.1.5. Direct Environment — Sub-category- Water Consumption

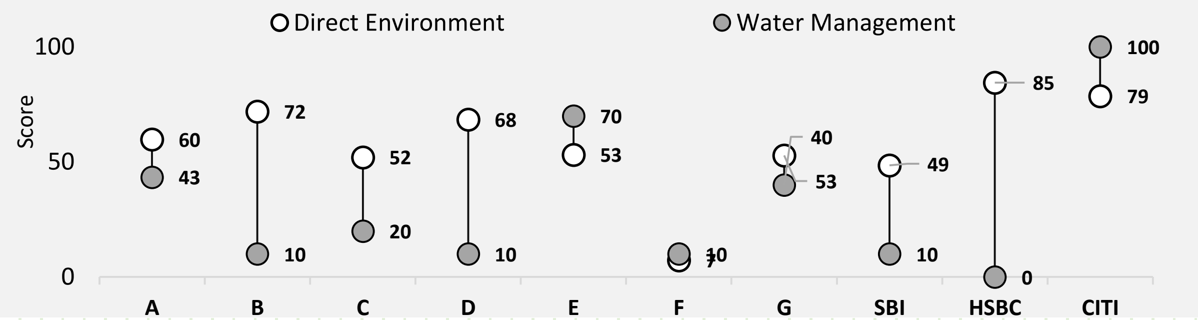
Assessment factors:

- Disclosure of data on total water consumption / water intensity
- Steps or initiatives taken to reduce / recycle / re-use water
- Targets set and its achievements

In the Banking and Financial Services Industry's consumption of water is majorly by the employees of the Bank. Hence, the impact of the water consumption by Banks is not very critical factor. However, India is a water stressed country and hence, focus on water consumption and reduction of consumption would benefit the country, if not impact the Bank negatively.

Score Distribution Chart:

Graph 8: Direct Environment Score - Sub Category- *Water Management*



Score Board	Direct Environment			Sub-category- *Water Management*					
Leaders		**Followers**		**Laggards**				**Global Banks**	
Bank E	Bank A	Bank G	Bank C	Bank B	SBI	Bank D	Bank F	HSBC	CITI
70	43	40	20	10	10	10	10	100	80

Scoring Analysis:

Most of the Banks in the study have not disclosed absolute water consumption data or water intensity data. The highest scoring Indian Bank on Water management Parameter is Bank E which has provided data on the water consumption.

It is also observed that one of the International Bank has not disclosed data regarding its Water Consumption. However, other International bank have disclosed data as well as reduced its overall water consumption y-o-y.

Parameter	Banks	
Disclosed data on total water consumption or water intensity	4/8 banks	A, C, E & G
Disclosed objective details on re-use or recycle of water	2/8 banks	E & G

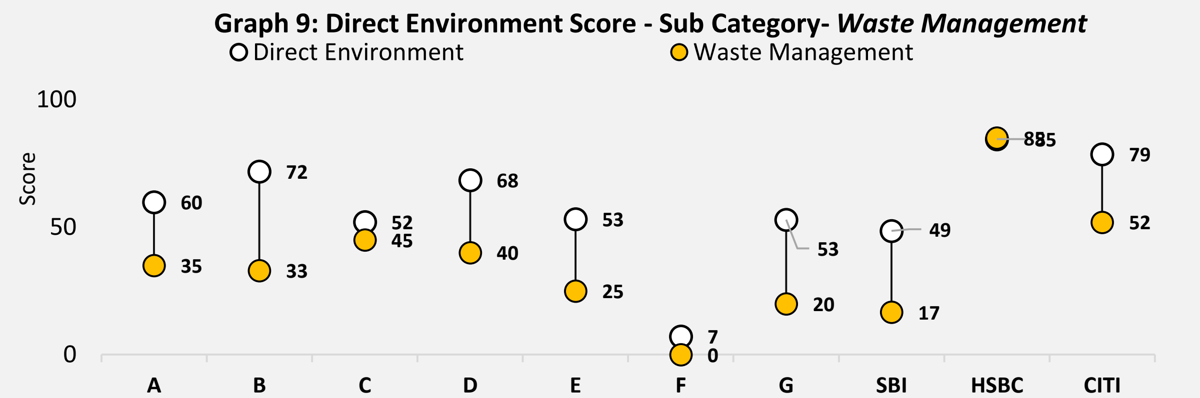
2.1.6. Direct Environment — Sub-category- Waste Management

Assessment factors:

- Types of waste generated
- Steps or initiatives taken to reduce / recycle / re-use

Banks do not generate any hazardous chemical waste. The waste generated by Banks is limited to paper waste, e-waste, plastic waste and wet waste in form of left over food etc. Although, it is not a pressing issue within the Banking and Financial Sector Industry, however, India does face a massive waste management challenge especially in the urban areas. Banks initiative towards reducing and recycling waste generated especially e-waste will reflect their awareness of this challenge and their attention to sustainability as a whole.

Score Distribution Chart:



Score Board	Direct Environment			Sub-category- *Waste Management*					
Leaders		**Followers**		**Laggards**				**Global Banks**	
Bank C	Bank D	Bank A	Bank B	Bank E	Bank G	SBI	Bank F	HSBC	CITI
45	40	35	33	25	20	17	0	85	52

Scoring Analysis:

The highest scoring Bank among the Indian Banks is Bank C. However, the score under this category is on lower side, even the highest scoring Bank's score is 45. Hence, there is large scope of improvement of disclosure practices as well in the performance of the Banks on Waste Management.

Although, most Banks did not provide objective data on waste generated, waste recycled, yet they have provided some general disclosure on their initiatives taken to reduce waste or recycle waste. Even one international bank has scored rather poorly (although still better than best performing Indian Bank)

Parameter	Banks	
Banks that disclosed objective data on e-waste generated	4/8 Banks	A, B, C & D
E waste reduced in for last 3 Financial Years y-o-y	1/8 Banks	A
E waste reduced in for last 2 out of 3 Financial Years y-o-y	1/8 Banks	D
Disclosed amount of Paper waste generated	2/8 Banks	C & E
Banks that have disclosed amount of Plastic Waste Generated	None	-

2.2. INDIRECT ENVIRONMENTAL IMPACT AND PERFORMANCE:

Background

Climate change resulting in rather frequent natural disasters and adversely impacting & disrupting ecosystems and rising earth temperature will also impact the stability of the banking system in form of unanticipated business losses, threatening loss of assets and infrastructure which may possibly contribute to a future financial crisis. It may appear to be a doomsday type of prophecy, yet there has been ample evidence, established literature and research which points to the damaging effect that **Climate Change** can have on the economic health of companies and of the Nation as a whole and banks are part of system.

Banks would have to face two types of risk if they do not adapt their working to manage climate change –

- **Direct Physical Risk** -owing to impact change on the entities who have availed loans or/ and
- **Obsolescence Risk** – owing to a Global Shift and move to low carbon economy which may leave many existing borrowers, Companies or Sectors unviable unless they embrace sustainability practices, evolve & compete.

However, as companies, investors, stakeholders and government become more aware and cautious of adverse effects of climate change, it is certain that going forward we may see many regulations coming in to prevent the situation from deteriorating, unless all stakeholders of ecosystem and nature, voluntarily adopt strict and effective measures to contain deterioration. In this uncertain environment Banks have two-fold responsibility viz to manage the risk to their portfolio/ loan book from Climate Change and to promote ease of access to Green Finance.

Investors pressure is increasing on Banks and Companies as we have witnessed a surge in demand of ESG focussed funds, integration of ESG Risk in portfolio management as well as Stewardship guidelines from various regulators to institutional investors to monitor and take action on ESG risk in their Portfolio Companies.

Banks would also be soon under Regulatory pressure to protect themselves from impact of climate risk as well align themselves globally. As we have seen Regulators are slowly forming regulations and formalizing assessment of Climate Risk of portfolio companies just like Financial Risk. The first step was in form of Financial Stability Board's TCFD recommendations which were developed for more effective climate-related disclosures that could promote more informed investment, credit, and insurance underwriting decisions and, in turn, enable stakeholders to understand better the concentrations of carbon-related assets in the financial sector and the financial system's exposures to climate-related risks. UK Regulator Prudential Regulation Authority set out detailed expectation for governance, processes, and risk management. These require banks to identify, measure, quantify, and monitor exposure to climate risk and to ensure that the necessary technology and talent are in place. (Link). The European Banking Authority (EBA) is establishing regulatory and supervisory standards for environmental, social, and governance (ESG) risks and has published a multiyear sustainable-finance action plan. (Link)

In 2020, RBI had flagged the impact of climate change and its implication on Agricultural outlook. (Link). Sooner than later RBI would have to recognize the impact that climate risk can have on the portfolio of Banks and their health and find solutions to manage these risks.

The model has scored Banks, based on their Disclosure as per the **TCFD** Recommendation and supplemental recommendation for the Banking Sector. Since, this is the first year that such a study

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was being conducted the Model at this stage has considered only the disclosure practices. However, as the disclosures become a norm, in future the Model will also factor in the performance of the Banks

based on benchmarks that can be set based on performance of International as well as domestic Banks. The Model has also considered some of the Disclosure requirement as listed under the Sustainability Accounting Board Standards (**SASB**).

Under the Indirect Environmental Impact, the banks have been assessed on following sub-parameters:

E 2
INDIRECT ENVIRONMENT

- E 2.1 Climate Risk Assessment in Financing
  - E 2.1.1 Significance of Climate Risk
  - E 2.1.2 Oversight/ Governance
  - E 2.1.3 Strategy/ Monitoring of Risk
  - E 2.1.4 Others
- E 2.2 Responsible lending/ Sustainable Financing

High focus Areas	Least Focus Areas
Significance of Climate Risk, Oversight/ Governance	Strategy/ Monitoring of Risk, Responsible lending/ Sustainable Financing

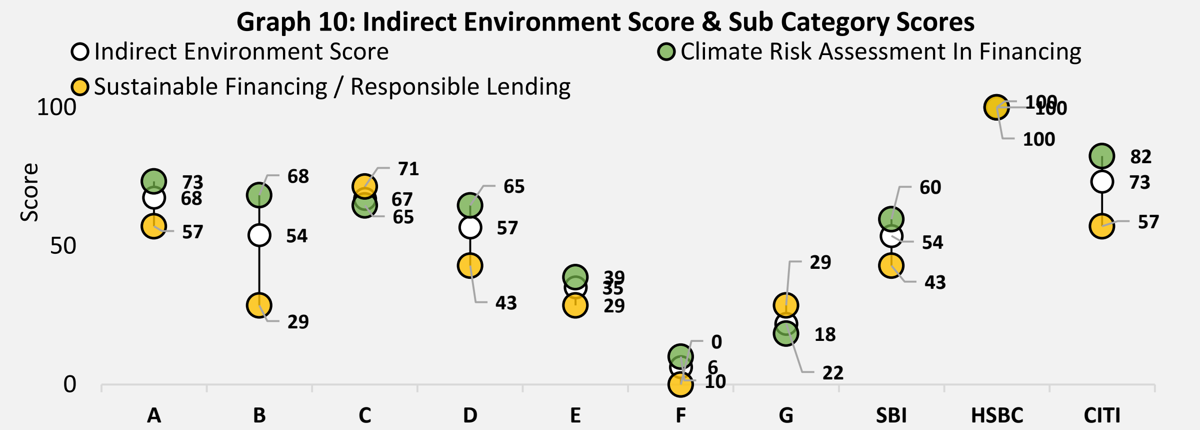
High Focus Area: *Areas where there were abundant disclosures by the Banks on the relevant parameters under SES Model.*

Least Focus Areas*: Areas where there was a lack of disclosures by the Banks on the relevant parameters under SES Model.*

<table>
<tr><th rowspan="2">Bank</th><th colspan="2">Focus on Parameters</th></tr>
<tr><th>Most Focus</th><th>Least Focus</th></tr>
<tr><td>Bank A</td><td rowspan="4">Significance of Climate Risk, Oversight/ Governance,</td><td rowspan="4">Strategy/ Monitoring of Risk, Responsible lending/ Sustainable Financing</td></tr>
<tr><td>Bank B</td></tr>
<tr><td>Bank C</td></tr>
<tr><td>Bank D</td></tr>
</table>

<table>
<tr><th rowspan="2">Bank</th><th colspan="2">Focus on Parameters</th></tr>
<tr><th>Most Focus</th><th>Least Focus</th></tr>
<tr><td>Bank E</td><td>Oversight/ Governance</td><td>Strategy/ Monitoring of Risk, Responsible lending/ Sustainable Financing</td></tr>
<tr><td>Bank F</td><td>Significance of Climate Risk</td><td>Oversight/ Governance, Strategy/ Monitoring of Risk, Responsible lending/ Sustainable Financing</td></tr>
<tr><td>Bank G</td><td>None</td><td>Significance of Climate Risk, Oversight/ Governance, Strategy/ Monitoring of Risk, Responsible lending/ Sustainable Financing</td></tr>
<tr><td>SBI</td><td>Significance of Climate Risk, Oversight/ Governance</td><td>Strategy/ Monitoring of Risk, Responsible lending/ Sustainable Financing</td></tr>
</table>

Score Distribution:



Heat Map

↓ Parameters \ Banks →	A	B	C	D	E	F	G	Mean*	SBI	HSBC	CITI
Climate Risk Assessment in Financing	73	68	65	65	39	10	18	48	60	100	82
Sustainable Financing / Responsible Lending	57	29	71	43	29	0	29	37	43	100	57
Indirect Environment Score	**68**	**54**	**67**	**57**	**35**	**6**	**22**	**44**	**54**	**100**	**73**

**Mean Score considers only the scores of the seven private banks and excludes SBI score from consideration.*

Score Board	Indirect Environment								
Leaders		Followers				Laggards		Global Banks	
Bank A	Bank C	Bank D	Bank B	SBI	Bank E	Bank G	Bank F	HSBC	CITI
68	67	57	54	54	35	22	6	100	73

Scoring Analysis:

This highest score among the Indian Pvt Banks on Indirect Environmental assessment was Bank A.

The average score of the Indian Pvt Indian Banks in the study was 44.

The gap between highest and lowest scoring Bank is of 62 points indicating that there is a wide divergence in disclosure practice as well as Bank's performance regarding Climate Risk assessment as well as responsible lending. Bank F is the lowest scoring Bank due to lack of disclosures.

SBI is 10 points above the average score of 44.

Gap Analysis- Indian vs. International Bank

The highest scoring International bank scored 100, 32 points above highest scoring Indian Bank. This would indicate that there is a large scope of improvement to meet the Global best practices. Even the other International Bank considered in the study scored 73. Indicating that the global practices are quiet ahead that of all Indian Banks considered in this study.

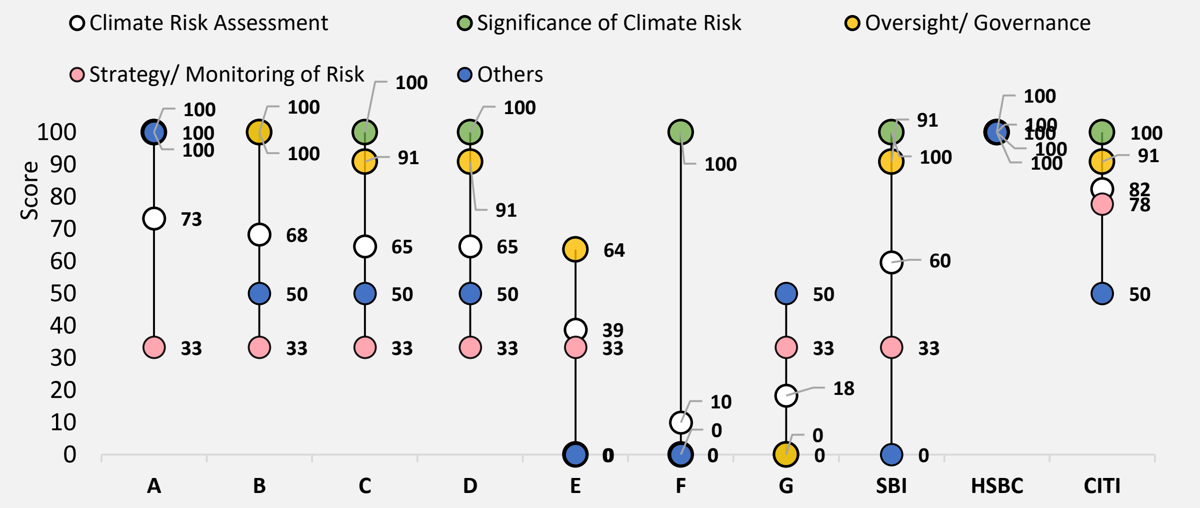
2.2.1. Indirect Environment — Sub-category- Climate Risk Assessment in Financing

The Scoring of Banks on Climate Risk Assessment parameter was further sub-divided into 4 parameters based on the TCFD recommendations which are:

- **E 2.1.1** Significance of Climate Risk
- **E 2.1.2** Oversight/ Governance
- **E 2.1.3** Strategy/ Monitoring of Risk
- **E 2.1.4** Others

Score distribution:

Graph 11: Climate risk assessment in Financing



Score Board		Indirect Environment				Sub-category- *Climate Risk Assessment in Financing*			
Leaders		Followers				Laggards		Global Banks	
Bank A	Bank B	Bank D	Bank C	SBI	Bank E	Bank G	Bank F	HSBC	CITI
73	68	65	65	60	39	18	10	100	82

SES Observations:

Scoring Analysis

The highest Scoring bank among the Indian Banks is Bank A on Climate Risk Assessment factor. The difference between Scores of the highest scoring and lowest scoring Indian Banks is 63. The average score of the Pvt Indian Bank is 48.

SBI as a Benchmark is higher by 12 points over the average. The difference between highest scoring Bank A and SBI is 13 points.

Some Banks have considered Climate Risk a material risk (Bank A, B C D, E, G & SBI) and made appropriate disclosures and have also adopted the TCFD recommendations and provided appropriate response in Sustainability reports or provided disclosure on CDP website. However, only few have made disclosures on Strategy & Monitoring of Risk.

The disclosures on Climate Risk Assessment in Financing is captured from the Bank's disclosure on CDP website as per TCFD recommendation.

Gap Analysis- Indian vs. International Bank

The difference between scores of the highest scoring Indian Bank on Climate Risk in Financing vis a vis the highest scoring international Bank is 27 points. This indicates that International Banks have provided better disclosures regarding their risk assessment process, carbon related assets, exclusion lists and process to integrate ESG evaluation in their lending business.

Although, in India there is no Regulatory mandate yet, however, on their own volition Banks have made appropriate policies to consider Climate Risk as recommended by TCFD and submitting their disclosure to CDP. Bank A, B, C, D and E have submitted their CDP disclosure for 2020

Disclosure based on TCFD recommendations regarding the carbon related assets in objective terms as well as implementation of Equator Principles and relevant disclosures were not found in majority Banks in India.

2.2.1.1. Indirect Environment

Sub-category- *Climate Risk Assessment in Financing*

Sub Parameter- *Significance of Climate Risk*

Under this category, the Model evaluated if the Banks have considered Climate Risk as a Material Risk impacting the Bank. It is important that Banks first identify and categorise that Climate Risk is material Risk to the Bank before they can formulate plan to mitigate and manage Risk.

Score distribution:

Score Board	Indirect Environment					Sub-category- *Climate Risk Assessment in Financing* Sub Parameter- *Significance of Climate Risk*			
Leaders						Laggards		Global Banks	
Bank A	Bank B	Bank C	Bank D	Bank F	SBI	Bank G	Bank E	HSBC	CITI
100	100	100	100	100	100	0	0	100	91

Scoring Analysis:

5 out of 7 Pvt Sector Bank and SBI have specifically mentioned in their Sustainability Reports that they consider Climate Risk as Significant. Hence, we can see most Banks have scored a 100 on the Parameter.

Parameter	Banks	
Banks that Identified Integrating E&S risk factors in investment and lending decisions	Major Material Topic	B, C, A
	Significant Material Topic	A, SBI
	Moderate Material Topic	None
	No Disclosure	G E

2.2.1.2. Indirect Environment

Sub-category- Climate Risk Assessment in Financing Sub Parameter- *Governance/ Board Oversight*

Stakeholders expect reasonable disclosures enabling them to understand role that organisation's Board play in overseeing climate-related issues as well as management's role in assessing and managing those issues. This information helps the stakeholders in assessing if the Board and Management have provided appropriate attention to Climate Related impact on the Organisation.

The disclosures based on which we have scored the Banks in the Model are based on requirement of disclosure as per the TCFD Recommendation.

Score Board	Indirect Environment					Sub-category- *Climate Risk Assessment in Financing* Sub Parameter- *Governance/ Board Oversight*			
Leaders		Followers				Laggards		Global Banks	
Bank A	Bank B	Bank D	Bank C	SBI	Bank E	Bank G	Bank F	HSBC	CITI
100	100	91	91	91	64	0	0	100	91

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Scoring analysis:

The highest Scoring Indian Pvt Bank scored a 100 on Governance/ Board Oversight Parameter under Climate Risk Assessment in Financing are Bank A & B. Both the Banks provided disclosures regarding TCFD recommendation in their Sustainability report along with disclosures on CDP website. The other Bank that has provided TCFD related disclosure in their Sustainability Report is Bank C

The Gap between lowest scoring Bank which had provided disclosures to CDP and that of highest scoring Pvt Indian Bank is 36. The highest scoring Indian Bank is at par with highest scoring International Bank. Depicting that there is a strong Board oversight on Climate Related issues.

From the response of the Bank in their CDP disclosures it was observed that details of governance structures were provided by most of the Banks in the study. Banks mostly described their overall risk management processes and relevant organizational structure regarding risk management. However, some Banks provided details of Risk Management and integration of Climate Risk in Risk Management and related processes.

Two Banks, Bank G & F scored nil as their response on CDP website for 2020 were not found. Further, they did not provide TCFD related disclosures in their Sustainability Reports.

CDP Responses submitted by the Banks:

Out of the 7 Indian Pvt Banks, 5 Banks (Axis Bank, HDFC Bank, Yes Bank, Indusind Bank and Kotak Mahindra Bank) and SBI had submitted responses to CDP and their responses for 2020 which formed the basis of assessment under the Model. Responses of ICICI Bank and Bandhan Bank for 2020 were not found on CDP Website. For scoring purposes only the response of the Banks for 2020 was taken into account.

Some key highlights from CDP Responses

- **Board level responsibility for Climate Related issues**
  - Banks that replied in the affirmative that there is Board Level oversight on Climate Related Issues- 5/7 Indian Pvt. Banks, SBI and 2/2 International Banks
  - Among the 5 Indian Pvt Banks which had provided CDP Disclosure- 4 Banks have stated that CSR Committee comprising of Director is responsible for climate-related issues
  - Among the 5 Indian Pvt Banks- 3 have also named the Risk Committee with responsibility towards Climate related issue
  - Bank B has formulated an ESG Committee which reports to CSR Committee and looks into Banks' action towards Environmental Sustainability

Board level responsibility for Climate Related issues	Indian Banks*
CSR Committee	5/5
Risk Committee	3/5
ESG committee	1/5
Board Chair	1/5
ED/MD/CEO	2/5

**Only 5 out of 7 Indian Pvt Banks had provided responses to CDP for 2020. Hence, we have depicted the disclosure practices and available responses among these 5 Indian Banks*

  - Bank A and SBI have designated the climate related responsibility upon the Board Chair as well
  - Bank A, C & D have also designated the climate related responsibility upon Executive Director/MD/CEO
  - Except Bank B, all the Indian Banks have stated that they scheduled some meeting to the Question "*Frequency with which climate-related issues are a scheduled agenda item*". Bank B had stated that '*in all Scheduled meetings*' as a response.
- **Governance mechanisms into which climate-related issues are integrated**

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TCFD recommendations state that "*In describing the board's oversight of climate-related issues, organizations should consider including a discussion of the following:*

whether the board and/or board committees consider climate-related issues when reviewing and guiding strategy, major plans of action, risk management policies, annual budgets, and business plans as well as setting the organization's performance objectives, monitoring implementation and performance, and overseeing major capital expenditures, acquisitions, and divestitures.."

In their CDP disclosures Banks had provided information on Governance mechanisms into which climate-related issues are integrated. The same were captured for information of the readers and a summary of it is provided below:

Parameter	Indian Pvt Banks*		SBI	International Banks	
Reviewing and guiding strategy	5/5	A, B, C, D & E	Yes	1/2	HSBC
Reviewing and guiding major plans of action	5/5	A, B, C, D & E	Yes	1/2	Citi
Reviewing and guiding risk management policies	5/5	A, B, C, D & E	No	0/2	None
Reviewing and guiding annual budgets	4/5	A, B, C & E	No	1/2	HSBC
Reviewing and guiding business plans	2/5	A, B & C	Yes	1/2	HSBC
Setting performance objectives	5/5	A, B, C & D	Yes	1/2	HSBC
Monitoring implementation and performance of objectives	5/5	B, C, D & E	Yes	0/2	None
Overseeing major capital expenditures, acquisitions and divestitures	2/5	A & E	No	0/2	None
Monitoring and overseeing progress against goals and targets for addressing climate-related issues	3/5	A, C & D	No	2/2	Citi, HSBC

**Only 6 out of 8 Indian Banks had provided responses to CDP. Hence, we have depicted the disclosure practices and available responses among these 6 Indian Banks.*

» **Scope of Board-Level Oversight**

In their CDP responses Banks had provided for information on the activities of the Bank where the Banks' Board has oversight w.r.t. Climate related risks and opportunities

Parameter- Climate-related risks and opportunities	Indian Pvt Banks*		SBI	International Banks	
- to our own operations	2/5	B & C	No	2/2	Citi, HSBC
- to our bank lending activities	2/5	B & C	Yes	2/2	Citi, HSBC
- to our investment activities	0/5	None	No	2/2	Citi, HSBC
- to our other products and services, we provide to our clients	0/5	None	No	2/2	Citi, HSBC
Parameter- The impact of our	**Indian Banks**			**International Banks**	
- own operations on the climate	4/5	B, C, D & E	Yes	2/2	Citi, HSBC
- bank lending activities on the climate	2/5	C & D	Yes	2/2	Citi, HSBC
- investing activities on the climate	0/5	None	Yes	1/2	Citi

**Only 5 out of 7 Indian Pvt. Banks had provided responses to CDP. Hence, we have depicted the disclosure practices and available responses among these 5 Indian Banks.*

- All the Indian Banks which had submitted CDP disclosures have provided details regarding the highest management-level position(s) or committee(s) with responsibility for climate-related issues.
- Only Bank A & B have provided Environment and Social Management Policy on its website.
- Overall, Indian Banks have strong Governance and Board Oversight on climate related issues. However, some Banks had not submitted CDP Disclosure hence their internal process and Board Oversight could not be judged owning to lack of CDP related disclosures.
- The overall high scores by most Banks on Governance and Board Oversight indicate that Banks have their eye on Climate related impacts and have been in process to monitor and formulate strategy on the top level.

2.2.1.3. Indirect Environment

Sub-category- Climate Risk Assessment in Financing

Sub Parameter- Strategy/ Monitoring of Risk

Investors and other stakeholders need to understand how climate-related issues may affect an organization's businesses, strategy, and financial planning over the short, medium, and long term. Such information is used to inform expectations about the future performance of an organization.

The disclosures based on which Banks were scored in the Model are based on disclosure requirement as per the TCFD recommendation as well some of the Disclosures required under Sustainability Accountability Standards (SAS).

Score Board		Indirect Environment			Sub-category- *Climate Risk Assessment in Financing* Sub Parameter- *Strategy/ Monitoring of Risk*				
Followers							**Laggard**	**Global Banks**	
Bank A	Bank B	Bank D	Bank C	Bank E	Bank G	SBI	Bank F	HSBC	CITI
33	33	33	33	33	33	33	0	100	78

Scoring Analysis

Indian Banks Pvt have provided disclosures regarding Board Oversight, however, the disclosures regarding Bank's strategy to integrate ESG factor in their lending business, and evaluation of existing portfolio w.r.t. the carbon assets and metrics used for assessment is not as detailed as provided by International Banks in the Study.

The average score of Banks across this factor was 28.57. All the Banks that provided some disclosure on this factor scored 33 except Bank F which did not provide any disclosure.

Gap Analysis- Indian vs. International Bank

The gap between highest scoring International Bank to that of the Indian Bank is 66. This indicates that there is wide divergence in disclosure practice among the International Banks and Indian Banks.

In general, the responses on the Strategy/ Monitoring of Climate Risk by banks in India is in very early stages. Banks are yet to evaluate their loan books and investments w.r.t. Climate Risk. Most of the Banks in the study which submitted CDP Response had provided a qualitative description of the risks and opportunities, as well as their potential impacts. Most Banks provided general statements on the resilience of the organization in relation to the identified risks. We did not find targets set specifically owing to Climate Risk to their lending or investment. Most Banks had set targets only w.r.t their own emissions, energy consumption etc.

Highlights from relevant CDP Disclosures

- 5/5 Indian Pvt Banks, SBI and both the International Bank have stated that they undertake preliminary environmental, social & climate due diligence of the projects funded by the Bank
- 5/5 Indian Pvt Bank, SBI and both the International Bank have disclosed the process used to determine which risks and opportunities could have a material financial impact on the organization
- None of the Indian Banks have specifically disclosed the significant concentrations of credit exposure to carbon-related assets.

  TCFD Supplemental Guidance for Banks recommends that "*Banks should describe significant concentrations of credit exposure to carbon-related assets.*" The Guidance further states that "*For purposes of disclosing information on significant concentrations of credit exposure to carbon-related assets under this framework, the Task Force suggests banks define carbon-related assets as those assets tied to the energy and utilities sectors under the Global Industry Classification Standard, excluding water utilities and independent power and renewable electricity producer industries.*" However, such disclosure was not found in the Sustainability reports of the Bank.

5/5 Indian Pvt Banks have provided details on type of risk which are considered in Bank's climate-related risk assessments

A summary of the CDP Response regarding Risks identified, their relevance and inclusion of 5 Banks and SBI that have responded to CDP for 2020 are provided below:

Risk types considered by the Bank in climate-related risk assessments	Relevant, always included	Relevant, sometimes included	Not evaluated	Not relevant, explanation provided	SBI
Current regulation	5/5 A, B, C, D & E	None	None	None	Relevant, always included
Emerging regulation	4/5 A, B, C & E	1/5 D	None	None	Relevant, always included
Technology	4/5 A, C, D & E	1/5 B	None	None	Relevant, always included
Legal	2/5 A & E	1/5 D	None	2/6 B & C	Relevant, always included
Market	4/5 A, B, C & D	None	1/5 E	None	*Not evaluated*
Reputation	5/5 A, B, C, D & E	None	None	None	Relevant, always included
Acute physical	4/5 B, C, D & E	1/5 A	None	None	Relevant, sometimes included
Chronic physical	2/5 A & E	1/5 C	1/5 D	1/5 B	Not relevant, explanation provided

TCFD Recommendation for Banking Sectors states that:

Banks should provide the metrics used to assess the impact of (transition and physical) climate-related risks on their lending and other financial intermediary business activities in the short, medium, and long term. Metrics provided may relate to credit exposure, equity and debt holdings, or trading positions, broken down by:

- *Industry*
- *Geography*
- *Credit quality (e.g., investment grade or non-investment grade, internal rating system*
- *Average tenor*

Banks should also provide the amount and percentage of carbon-related assets relative to total assets as well as the amount of lending and other financing connected with climate-related opportunities

None of the Indian Pvt. Banks as well as SBI had provided details of the amount and percentage of carbon-related assets relative to total assets as well as the amount of lending and other financing connected. However, such disclosure was provided by one of the International Banks.

The Commercial Banks Sustainability Accounting Standard requires the banks to disclose. *Amount and percentage of lending and project finance that employs:*

(1) Integration of ESG factors
(2) Sustainability themed lending or finance
(3) Screening (exclusionary, inclusionary, or benchmarked)
(4) Impact or community lending or finance

Such a disclosure was provided by both the International Banks, however, such disclosures were absent within the Indian Pvt Banks and SBI.

However, some Banks did provide information on Impact or community lending or finance in form of loans to clean energy sector etc. Some Indian Banks also provided disclosure on Exclusion list.

- None of Indian Pvt Banks and SBI had disclosed the total loans or % of their total loans to sectors such as Energy/Oil&Gas, Materials/Basic Materials, Industrials, and Utilities. However, such a disclosure was observed within the International Banks.
- None of the Indian Pvt Banks and SBI had classified lending in various sectors based on severity of Climate Risk. However, such a disclosure was observed in one of the International Banks.

2.2.1.4. Indirect Environment

Sub-category- *Climate Risk Assessment in Financing*

Sub Parameter- *Others*

Under these criteria the Model assessed if the Banks have been a signatory of UN Principle of Responsible Banking. Principles for Responsible Banking provide for a framework for a sustainable banking system. The framework has embedded sustainability at the strategic, portfolio and transactional levels, and across all business areas.

- Except, Yes Bank none of the other Indian Pvt. Banks or SBI have disclosed that they are signatory to the UN Principles of Responsible Banking. Both the International Banks have disclosed that they are signatories to UN PRB.

Other element assessed under this parameter was if the Banks have created an Exclusion List for providing the Loans.

- Out of the 7 Pvt Banks 4 had stated that they have a specific exclusion list. They have provided details of Exclusion list in their Sustainability Reports or in their E and S Management System.

2.2.2. Indirect Environment

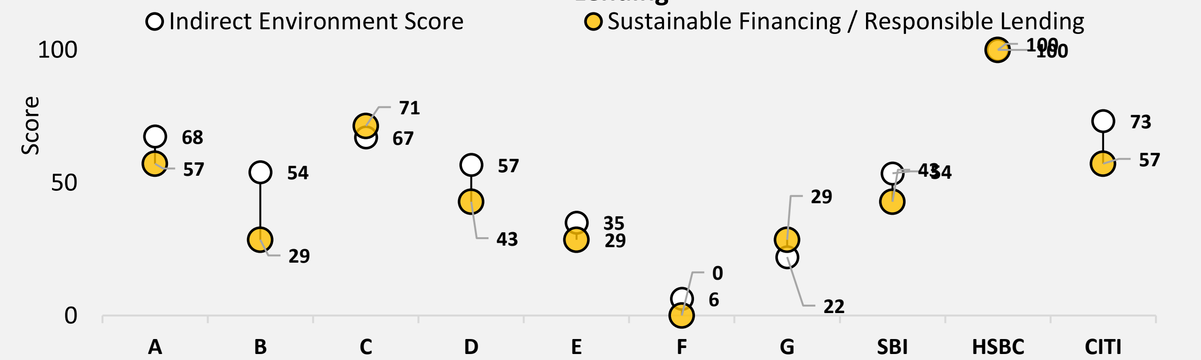
Sub-category- *Responsible Lending/ Sustainable Finance*

At heart of a Globalized system is its economic activity, which can no longer ignore environmental impact and negative outcomes of such activities. To create a bridge between a structured Finance Activity with a positive outcome Banks devised Green Finance. Green Finance also helps in delivering UN Sustainable Development goals. Clean source of energy can become more available only when there is a balance between strategic priorities and demand along with availability of Capital.

Under this parameter Banks were evaluated based on their policy about Sustainable or Green Finance, and issues of Green Bonds to finance Green Loans by the Banks. Further, Banks were evaluated on criteria such as targets for Green Bonds, impact lending or green financing among others.

Score Distribution:

Graph 12: Indirect Environment Score & Sustainable Finance/ responsible Lending



Leaders	Followers			Laggards				Global Banks	
Bank C	Bank A	Bank D	SBI	Bank B	Bank E	Bank G	Bank F	HSBC	CITI
71	57	43	43	29	29	29	0	100	57

SES Observations:

Scoring analysis:

The highest scoring Bank among the Indian Banks is Bank C.

The lowest scoring Bank, Bank F has scored Nil as the it did not provide any specific disclosures regarding Sustainable lending or Green Financing. The average score across the Indian Pvt Banks is 37.

SBI scored 43 as against the Average of Indian Pvt Banks which was 37.

The score is much lower than score of the International Banks. Even for international banks score has wide divergence.

Some of the highlights regarding Bank's disclosures about Responsible lending:

- 6/7 Indian Pvt Banks and SBI have provision w.r.t. sustainable lending or lending to projects that have positive environmental and social impacts. One of the international Banks has disclosed regarding provision of Sustainable Lending and green financing
- However, only 1 out of 7 Indian Pvt. Banks had set targets w.r.t. sustainable finance as a % of the total loan book or the amount that they would provide via sustainable finance or Green Bonds etc. One of the two International banks has set targets for sustainable finance or Green Bonds.
- Only 2/7 Indian Pvt Banks and SBI has issued Green bonds which provide finance to renewable energy and clean mobility, hydro energy urban mass transport, green buildings, solar and wind power projects among other areas. Both the International Banks have issued Green Bonds to finance areas which have a positive environmental impact.
- Only 1/7 Indian Pvt Bank had provided details of % of lending for Impact or community investing. Both International Banks have provided details of amount of lending which Impact Investing or has a Sustainable theme lending.
- Only 1/7 Indian Pvt Banks has set targets for impact investing. Both International Banks have provided targets to achieve in the Future for sustainable lending or green financing.
- One of the International banks has provided disclosure regarding subsidized loans to Companies within their impact investing portfolio.

3. Social Assessment

Findings Overview

3.1. Human Capital Management

Assessment Factors

3.1.1. Workforce Management

Findings

SES Observations

Gap Analysis with Global Best Practices and way forward

3.1.2. Health and Safety

Findings

SES Observations

Gap Analysis with Global Best Practices and way forward

3.2. Financial Inclusion

Assessment Factors

Background & Findings

3.2.1. Access to Financial Services

Findings

SES Observations

Way Forward

3.2.2. Access to Financial Services Scheme – PMJDY

Findings

SES Observations

3.2.3. Financial Literacy

Findings

SES Observations

3.2.4. CSR Expenditure

Findings

SES Observations

3.3. Data Security & Customer Privacy

Assessment Factors

Findings

SES Observations

Gap Analysis with Global Best Practices and way forward

3.4. Customer Satisfaction

Assessment Factors

Findings

SES Observations

Gap Analysis with Global Best Practices and way forward

3. SOCIAL ASSESSMENT

Assessment Factors:

- Human Capital management
- Financial Inclusion
- Data Security and Customer Privacy
- Customer Satisfaction

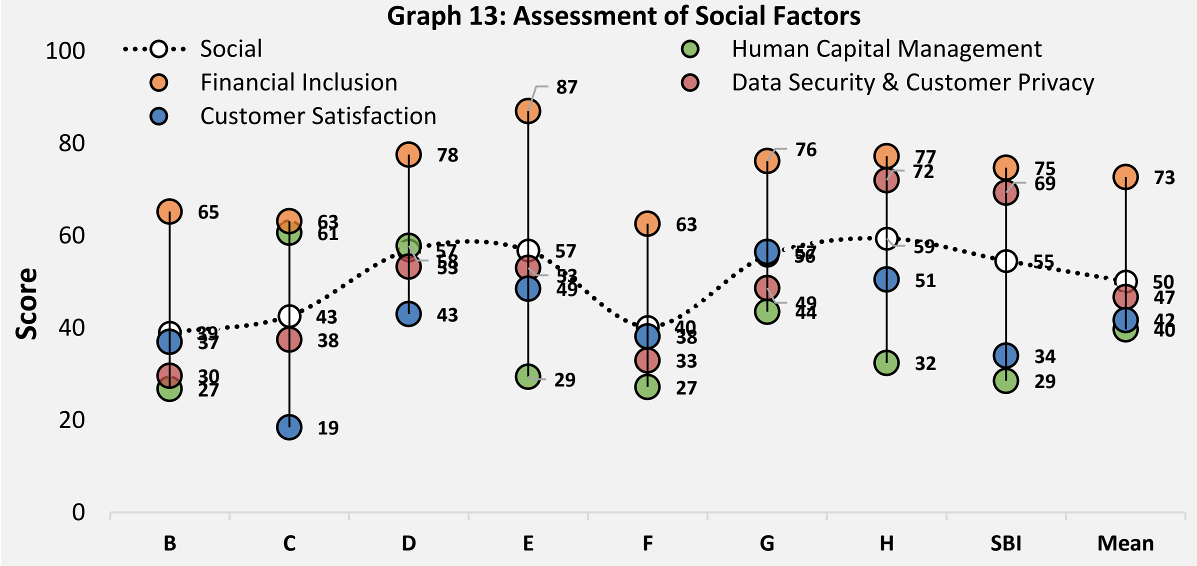
For a bank, its human capital, technology and systems are key differentiators from its competitors, as raw material (deposits) and finished goods (Lending) are same for entire industry. It is human capital which drives technology and systems. In order to beat the best, a bank must take proper care of this capital. In this section SES seeks to analyse the best practices across the industry and compare the same with the international scenario and offer a gap analysis.

3. Findings on Social Assessment

Leaders			Followers		Laggards		
Bank H	Bank D	Bank E	Bank G	SBI	Bank C	Bank F	Bank B
59	57	57	56	55	43	40	39

Score Distribution & Heat Map:

Graph 13: Assessment of Social Factors



↓ Parameters \ Banks →	B	C	D	E	F	G	H	SBI	Mean*
Human Capital Management	27	61	58	29	27	44	32	29	40
Financial Inclusion & CSR	65	63	78	87	63	76	77	75	73
Data Security & Customer Privacy	30	38	53	53	33	49	72	69	47
Customer Satisfaction	37	19	43	49	38	57	51	34	42
Overall Social Score	39	43	57	57	40	56	59	55	50

**Mean Score considers only the scores of the seven private banks and excludes SBI score from consideration.*

Scoring Criteria / Analysis – Explanation for Certain Low Scores –

Human Capital Management:

Assessment Factors: Workforce Management & Diversity, Health and Safety

The scores ranged between 27 and 61 (with the highest score more than twice as the lowest score) with the mean score at 40. Barring Banks C & D, all other banks have **relatively poor disclosures** with respect to human capital management as compared to global peers.

The general areas where most banks have lost scores are with respect to workforce management disclosures, especially comparable attrition rate disclosures as well as new hiring disclosures and health & safety disclosures.

Financial Inclusion:

Assessment Factors: Access to financial services, Bank efforts in increasing access to various financial schemes, Emphasis on Financial literacy and inclusion, CSR Expenditures

The scores ranged between 63 and 87 with the mean score at 73. Most banks have performed satisfactorily with respect to the relevant disclosures.

Data Security and Customer Privacy:

Assessment Factors: Alignment with national and international cyber security standards and practices, Cyber Crisis Management Plan, Cyber Security Oversight Framework, Trends in digital security breaches and complaints, Investment in cyber security infrastructure

The scores ranged between 30 and 70 (with the highest score more than twice as the lowest score) with the mean score at 46. SBI outperformed all other banks in terms of disclosures relating to its data security and customer privacy.

The most common area where most banks have lost scores are with respect to **non-disclosure of trends in data security breaches / customer complaints on privacy breaches**.

Customer Satisfaction:

Assessment Factors: Disclosure of customer satisfaction surveys, Customer complaints – received and pending, Customer satisfaction Scores, Digital innovation

The scores ranged between 19 and 57 with the mean score at 42.

The general areas where most banks have lost scores are with respect to **disclosures** relating to customer complaints relating to online banking, debit and credit cards, customer feedback, corrective actions taken, etc.

Focus on Parameters:

High Focus Areas	Low Focus Areas	Areas with Max Divergence in Focus
Financial Inclusion & CSR	Human Capital Management Disclosures, Customer Satisfaction Disclosures, Data Security Disclosures	Human Capital Management Disclosures, Customer Satisfaction Disclosures

Bank	Focus on Parameters	
	High Focus	Low Focus
SBI	Financial Inclusion	Human Capital Management
Bank B	Financial Inclusion	Human Capital Management
Bank C	Financial Inclusion	Customer Satisfaction
Bank D	Financial Inclusion	Customer Satisfaction

Bank	Focus on Parameters	
	High Focus	Low Focus
Bank E	Financial Inclusion	Human Capital Management
Bank F	Financial Inclusion	Human Capital Management
Bank G	Financial Inclusion	Human Capital Management
Bank H	Financial Inclusion	Human Capital Management

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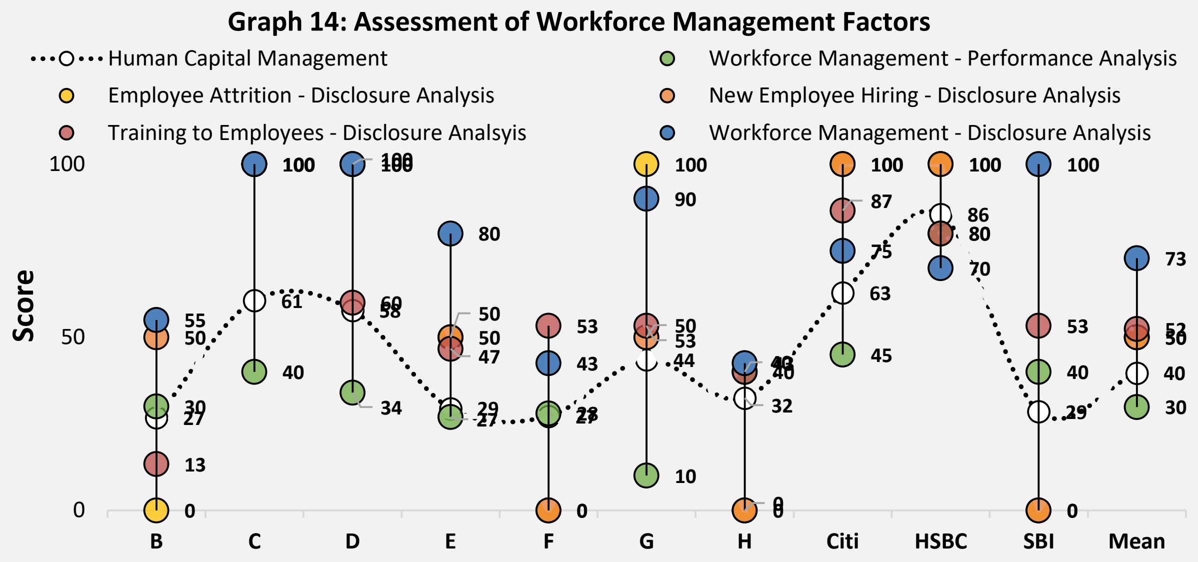
3.1. HUMAN CAPITAL MANAGEMENT:

Assessment Factors:

- Workforce Management & Diversity
- Health and Safety

3.1.1. WORKFORCE MANAGEMENT & DIVERSITY:

Score Distribution & Heat Map:



↓ Parameters \ Banks →	B	C	D	E	F	G	H	Citi	HSBC	SBI	Mean*
Workforce Management - Disclosure	55	100	100	80	43	90	43	75	70	100	73
Workforce Management - Diversity	30	40	34	27	28	10	40	45	80	40	30
Employee Attrition - Disclosure	0	100	100	50	0	100	0	100	100	0	50
New Employee Hiring - Disclosure	50	100	100	50	0	50	0	100	100	0	50
Human Capital Management	**27**	**61**	**58**	**29**	**27**	**44**	**32**	**63**	**86**	**29**	**40**

**Mean Score only considers the scores of the seven private banks and excludes scores of SBI, Citi & HSBC from consideration.*

SES Observations:

Overall Outlook:

↘ Below Average

- Banks C, D and SBI are the only ones that have made detailed workforce disclosures with detailed breakups.
- While the average proportion of women employees in the two global banks was almost a staggering 50%, the average proportion of women employees in Indian banks was a measly 20%, with the proportion in Bandhan bank being the lowest at ~10% and SBI highest at ~25%.
- Due to inadequate disclosures, assessment of proportion of women employees in senior management roles across Indian banks was not possible.
- By and large, most Indian Banks have a low temporary/contractual worker ratio, with the ratio hovering around ~14%.
- Few Banks - Banks C, D & G have disclosed comparable attrition rates.

Preliminary
Summary
Disclosure & Reporting Standards
Environment Assessment
Social Assessment
Governance Assessment

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Overall Outlook:

↘ Below Average

- SES observed that talent acquisition and leadership training programme disclosures across all private Indian Banks were extensive, given the fact that human capital is a major asset to a Bank.
- Under Equal Opportunity Employment disclosures, only Bank G provided average remuneration breakup based on gender across management levels, while Bank D's disclosures merely stated that average female remuneration was 87% of average male remuneration across management levels.
- Though most Indian Banks provide disclosures related to training hours, the extent & quality of disclosures varied considerably, with some providing partial disclosures while others providing detailed disclosures. The quality and depth of disclosures across past financial years also varied.
- Given the variability of the extent and quality of disclosures relating to workforce Management, SES found it hard to make a comparable study of the performance of banks relating to workforce management.

Gap Analysis with Global Best Practices & Way Forward

Scope for Improvement:

↗ High

- SES is of the view that currently workforce management varies across geography and demographics. While issues relating to workforce management may be similar across the global on a broader scale, at micro level the issues may be local and may need solutions that are unique to the demographic at hand.
- For e.g., the issue of racial diversity which plagues nations such as US, is not a major issue in India, where caste and religion takes centre stage.
- Though issues such as gender diversity and equal pay are universal, SES is of the view that going forward, Indian banks need to work harder to completely dispel the issue of gender discrimination in the banking sector.
- Disclosures relating to the quality of workforce & management across banks varies significantly, thus making peer comparison difficult. The objective of any disclosure is multifold - compliance, comparison, benchmarking, analysis and above all to excel and be a leader leading to value accretion. Non-standard disclosures can hide inefficiency. However, SES also understands that standardization of such disclosures may be seen as a compliance burden in the short term. Yet, to become an exemplary leader, enhanced voluntary disclosures relating human capital are a must and would enhance image of the private banks in India.

3.1.2.HEALTH & SAFETY:

SES Findings – Heat Map and Score Distribution Chart

↓ Major Parameters \ Banks →	B	C	D	E	F	G	H	Citi	HSBC	SBI	Mean*
Complaints - Child /Forced Labour & Discrimination	100	100	50	33	100	100	100	100	92	0	83
Training to Employees - Disclosure	13	40	100	53	53	53	47	87	80	53	52
Human Rights Complaints - Disclosures	33	33	100	100	33	33	100	100	100	33	62
Sexual Harassment Complaints - Disclosures	25	42	42	42	42	42	42	NA	NA	67	40
Sexual Harassment Complaints - Performance	33	23	10	13	30	67	55	NA	NA	25	33
Overall Health & Safety	**28**	**28**	**44**	**56**	**34**	**46**	**40**	NA	NA	**45**	**39**

**Mean Score only considers the scores of the seven private banks and excludes scores of SBI, Citi & HSBC from consideration.*

Preliminary | Summary | Disclosure & Reporting Standards | Environment Assessment | Social Assessment | Governance Assessment

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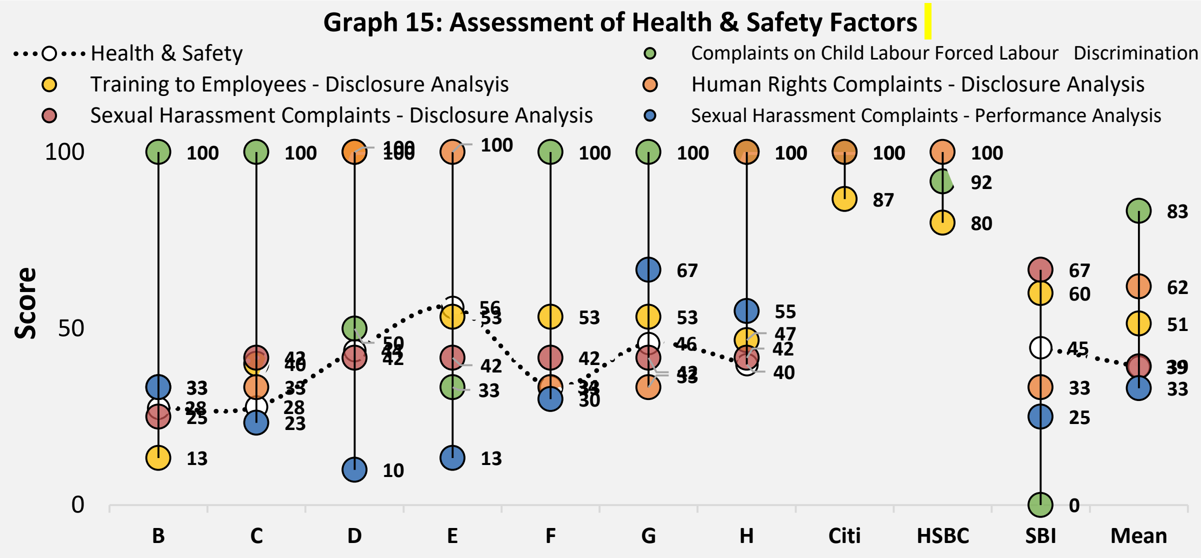


SES Observations:

Note - Low scores do not mean that there is any violation or negative issues. Mostly low scores are result of lack of disclosures.

Complaints related to child /forced labour or discrimination:

Overall Outlook:
↘ Below Average

- Bank E & SBI have failed to disclose complaints related to child /forced labour or discrimination, even though such disclosures form part of basic BRR disclosures.
- Even though Bank D has disclosed that being a fair employer, it does not discriminate between its employees, it has not disclosed an affirmative statement to the effect that there were no complaints related to discrimination.
- Many Banks have only stated that they have a policy relating to human rights, but have not disclosed the same.

Sexual Harassment Complaints:

Sexual Harassment Complaints for FY 2020				
Bank	Total	Per 1000	Pending	Pending %
Axis Bank	45	0.61	5	11.1
Bandhan Bank	8	0.2	2	25.0
HDFC Bank	52	0.44	4	7.7
ICICI Bank	52	0.52	0	0.0
IndusInd Bank	7	0.23	0	0.0
Kotak Mahindra	27	0.54	1	3.7
State Bank of India	44	0.18	10	22.7
Yes bank	8	0.35	2	25.0

- With respect to the number of POSH Complaints relative to employee strength, Axis Bank has a higher ratio compared to its Indian peers, while in absolute number of complaints HDFC & ICICI are ahead of Axis.
- In respect of pendency of complaints Yes, Bandhan and SBI occupy top slot with almost 25% complaints pending.
- In terms of speed of resolution, ICICI, Kotak & IndusInd take the top slot.
- While low complaints under POSH may be reflective of safe working environment for women, given the fact that due to social stigma attached with POSH complaints, many potential cases go unreported.

Overall Outlook:
↘ Below Average

- As a result it would be difficult to assess whether higher complaints are result of lack of safety or result of policy of no tolerance for POSH offences and demonstrable track record, which might result in higher number of complaints due to faith in system.
- This cannot be measured by above data alone and would need a detailed analysis of policy and what protection is provided and how comfort of protection of identity etc are built in in the policy.
- SBI has one of the worst resolution rates with respect to pending POSH complaints.

General Health Benefits and Safety Training Disclosures:

Overall Outlook:
↗ Above Average

- Except Bandhan Bank, all the Indian banks have provided varying degrees of disclosures on health and well-being programmes and facilities made available to employees.
- Most Banks have safety training programmes for employees.

Parental Leave Disclosures:

Parental Disclosures and Retention Rates

Bank	Retention post Maternity Leave	Retention post Paternity Leave
Axis Bank	47%	~100%
Bandhan Bank	No Disclosure	No Disclosure
HDFC Bank	93%	91%
ICICI Bank	No Disclosure	No Disclosure
IndusInd Bank	41%	No Paternal Leave
Kotak Mahindra Bank	No Disclosure	No Data
State Bank of India	No Disclosure	No Disclosure
Yes bank	~96%	100%

Overall Outlook:
→ Average

- Based on disclosures, only Axis Bank, HDFC Bank, Kotak Mahindra Bank and Yes bank allow paternal leave.

Retention post parental Leave:

- Only 4 out of 8 such banks disclosed such data.
- Among those disclosing such data, HDFC Bank and Yes Bank had almost 90%+ retention rates, indicating a conducing employee environment for just turned mothers and fathers.

Gap Analysis with Global Best Practices & Way Forward

Scope for Improvement:
↗ High

- In India, Bank employees are in the category of frontline workers as they form part of essential services. As a result during Covid-19 pandemic, banking employees in India were among the first to be allowed back to work during the lockdown, in contrast to the global scenarios where most employees still continue to work from home.
- Such a role, exposes bank employees to risks and stress. Although these employees are called front like workers, unfortunately they are not entitled to any benefit/ facility available to other frontline workers. SES is of the opinion that banking regulator RBI must take up the issue and ensure that banks and its employees are treated in similar manner as other essential services and frontline workers are treated.
- Lockdown has caused tremendous stress all across causing host of medical conditions. While many global banks such as Citi and HSBC have started focusing on the mental well-being of employees and in this regard, prioritised improving the work life balance of employees.
- Thus, Indian Banks need to improve their infrastructure to adapt to hybrid flexible working model.

- With respect to discrimination in employment, almost all Indian banks treat such disclosures as mere check boxes, unlike in global banks, which go above & beyond in providing such disclosures. In this regard, banks such as HSBC disclose the average employee survey results in their ESG results and in fact provide as ESG datasheet for such purposes. (Read More)

3.2. FINANCIAL INCLUSION AND CSR:

Assessment Factors:

- Access to financial services
- Bank efforts in increasing access to various financial schemes
- Emphasis on Financial literacy and inclusion
- CSR spending

Financial inclusion is more than just financial transactions. It is the engine that drives growth in rural India. As banks are a fundamental cog in this engine, SES has analysed how Indian banks stack up against each other as well as SBI.

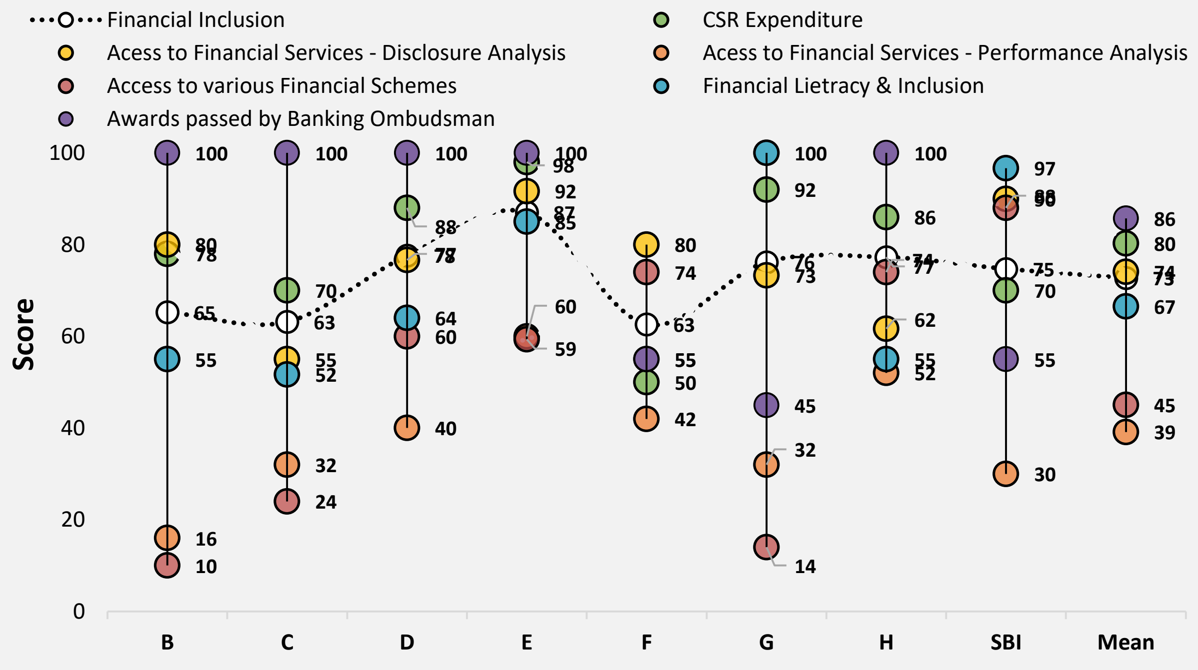
RBI's National Strategy for Financial Inclusion (NSFI): 2019-2024

On 10th January, 2020, RBI came out with a 5 year strategy for Financial Inclusion in order to drive rural growth as well as alleviate poverty. The global best practice of Financial Inclusion Strategies followed by countries world over inspired RBI to come up with one of its own. RBI took a page out of the United Nations Sustainable Development Goals (UN SDGs) to observe that seven of the seventeen SDGs of 2030 view financial inclusion as a key enabler for achieving sustainable development worldwide. Having tasked the banks to deepen financial inclusion in the rural areas, RBI came up with a set of broad indicators (the financial triad) to measure financial inclusion, they are:

- Access - To financial services,
- Usage - Financial literacy services and
- Quality - Customer Grievance Redressal Mechanism

SES Findings on Financial Inclusion:

Graph 16: Assessment of Factors on Financial Inclusion & CSR



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Overview of SES Findings:

↓ Major Parameters \ Banks →	B	C	D	E	F	G	H	SBI	Mean*
Access to Financial Services - Disclosures	80	55	77	92	80	73	62	90	74
Access to Financial Services - Performance	16	32	40	60	42	32	52	30	39
Access to various Financial Schemes	10	24	60	59	74	14	74	88	45
Financial Literacy & Inclusion	55	52	64	85	55	100	55	97	67
Awards passed by Banking Ombudsman	100	100	100	100	55	45	100	55	86
CSR Expenditures	78	70	88	98	50	92	86	70	80
Overall Financial Inclusion & CSR	65	63	78	87	63	76	77	**75**	**73**

**Mean Score considers only the scores of the seven private banks and excludes SBI score from consideration.*

RBI's Broad Indicators to Measure Access to Financial Services:

- No. of Bank Branches per 1 Lakh Adults
- No. of ATMs per 1 Lakh Adults
- No. of POS Machines per 1 Lakh Adults
- No. of Business Correspondents per 1 Lakh Adults

SES Findings - Heat Map showing Depth of penetration across India

↓ Major Parameters \ Banks →	B	C	D	E	F	G	H	SBI
% Rural Branches to Total Assets	1.71	0.08	0.07	0.08	0.07	0.09	0.10	0.20
% Semi-urban Branches to Total Assets	1.79	0.12	0.11	0.15	0.08	0.14	0.14	0.16
% Urban Branches to Total Assets	0.96	0.09	0.07	0.12	0.09	0.16	0.10	0.10
% Metropolitan Branches to Total Assets	0.50	0.15	0.10	0.15	0.20	0.19	0.14	0.10
% of Total Branches to Total Assets	4.96	0.44	0.34	0.50	0.44	0.57	0.48	0.56
% On-site ATMs to Total Assets	0.53	0.39	0.41	0.60	0.35	0.41	0.66	0.65
% Off-site ATMs to Total Assets	0.00	0.13	0.51	1.31	0.35	0.49	0.92	0.83
% of Total ATMs to Total Assets	0.53	0.52	0.92	1.91	0.70	0.90	1.58	1.48
% of Business Correspondents to Total Assets	N.D	0.01	0.37	N.D.	0.00	0.05	0.36	1.54
% of POS Machines to Total Assets	5.48	N.D.	N.D.	56.82	N.D.	N.D.	43.91	16.97

SES Findings relating to Momentum indicators, i.e. % Change in the past 1 year:

↓ Major Parameters \ Banks →	B	C	D	E	F	G	H	SBI
Number of Branches	3%	1%	6%	12%	7%	15%	9%	0%
Branches / Outlets in Semi-urban & Rural regions	-	2%	4%	11%	6%	-100%	9%	-6%
Number of ATMs	1%	-2%	13%	48%	7%	8%	5%	0%
Number of Business Correspondents	-	0%	-	-	0%	-	-20%	6%
Number of POS Machines	4%	-	-	4%	-	-	23%	17%

SES Observations:

- SBI, being the largest PSB in India enjoys the deepest penetration and reach across India. However, it didn't show any signs of growth between FY 19 and FY 20.
- Axis Bank showed one of the strongest growths in terms of both overall branches opened as well as in terms of branches in semi urban areas. Its growth in number of ATMs also increased substantially.
- Rest of the Indian Banks above showed single digit growth in terms of ATMs and branches.
- SES could not locate adequate comparable data with respect to bank growth in semi urban areas, as much as it had hoped.
- SES is of the view that bank disclosures with respect to above data are quite inadequate, inhibiting meaningful analysis.
- **SES Comment on RBI Policy:** RBI policy and parameters for evaluating access to financial services are at best defined as outdated as more and more transactions are shifting to online/ mobile/ digital transaction and branch banking is discouraged. Further emphasis is on non-cash transactions, thus ATMs and Number of branches are no longer the benchmarks and evaluation parameters. Ideally parameters must be % of customers from metropolis, urban, semi urban, rural area, number of transactions and number of customers etc. As today technically a branch has infinite capability to handle online customer.

Overall Outlook:

→ Average

Pradhan Mantri Jan Dhan Yojana (PMJDY) – Disclosure and Performance Analysis

Launched in 2014, the programme leverages on the existing large banking network and technological innovations to provide every household with access to basic financial services, thereby bridging the gap in the coverage of banking facilities.

SES Findings - Heat Map showing bank wise parameters relating to PMJDY Beneficiaries

↓ % of Parameters to Total Assets \ Banks →	B	C	D	E	F	G	H	SBI
Total Beneficiaries	N.D.	4.60	162.55	97.88	46.31	140.32	430.37	3,042.58
Beneficiaries -rural/semi urban branches	N.D.	2.51	25.94	16.09	34.65	11.37	335.81	1,259.57
Beneficiaries - urban metro branches	N.D.	2.09	136.61	81.79	11.67	128.95	94.56	1,783.01
Total deposits in PMJDY A/Cs (Rs. In Cr.)	N.D.	0.00	0.08	0.03	0.01	0.01	0.03	0.09
Rupay Debit Cards issued to beneficiaries	N.D.	4.47	162.51	83.38	4.38	129.81	430.37	2,847.75

SES Findings relating to Momentum indicators, i.e. % Change in the past 1 year:

↓ Major Parameters \ Banks →	B	C	D	E	F	G	H	SBI
Total Beneficiaries	N.D.	-5%	3%	3%	-6%	-12%	0%	10%
Beneficiaries at rural/ semi urban bank branches	N.D.	13%	3%	0%	17%	-25%	0%	6%
Beneficiaries at urban metro bank branches	N.D.	-21%	3%	4%	-40%	-11%	1%	12%
Total deposits in Accounts PMJDY (Rs. In crores)	N.D.	-32%	9%	14%	-1%	-16%	4%	-84%
Rupay Debit Cards issued to beneficiaries	N.D.	-6%	3%	0%	-88%	-14%	0%	22%

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SES Observations:

Overall Outlook:
→ Average

- After SBI, Bank H is the one where most new accounts have been opened. However, in terms of momentum indicators, Banks D & E were the only ones to grow from FY 19 to FY 20.
- In rural areas, again, after SBI, Bank H has the highest number of beneficiaries. However, Bank F and C have shown double digit growth in beneficiaries from rural areas from FY 19 to FY 20.
- In urban areas, after SBI, Bank D has the highest number of beneficiaries
- In terms of money deposited in such accounts, Bank D is the biggest gainer, followed by Bank H.
- In terms of Rupay debit card issuances, after SBI, Bank H remains miles ahead of others. However, none of the banks have manged to increase their card issuances from FY 19 to FY 20, except SBI.
- **SES Observation:** SBI is miles ahead of all Pvt Sector banks. In opinion of SES, there are two reasons for the same. Firstly even today SBI is deemed or perceived to be a government bank and most rural area customers traditionally have favoured SBI, with the exception of new generation technologically savvy youth. The other reason is being controlled by government SBI made much more efforts. Unfortunately private sector banks suffer this comparative disadvantage.

Way Forward:

Scope for Growth:
↗ High

- Though it appears that SBI will continue to have the leadership role on financial inclusion given its reach and state ownership status, Private Sector banks have lot of scope for expansion in rural areas.

SES Findings on Financial Literacy:

↓ Major Parameters \ Banks →	B	C	D	E	F	G	H	SBI	Mean*
Disclosure on enhancing 'Financial Literacy'	100	100	100	67	100	100	100	100	95
Frequency of engagement with community w.r.t. 'Financial Literacy'	0	0	20	100	0	100	0	100	31
Disclosure of data on Financial Literacy Awareness Programs	100	67	100	100	100	100	100	67	95
Financial literacy and Inclusion	**55**	**52**	**64**	**85**	**55**	**100**	**55**	**97**	**67**

**Mean Score considers only the scores of the seven private banks and excludes SBI scores from consideration.*

SES Observations:

Overall Outlook:
↘ Below Average

- **Frequency of Engagement:** While every bank has a financial literacy programme, very few talk about the frequency of engagement with the community to enhance such literacy.

SES Findings on CSR expenditure:

↓ Major Parameters \ Banks →	B	C	D	E	F	G	H	SBI	Mean*
Disclosure of CSR Policy	100	100	100	100	100	100	100	100	100
Disclosure on already Undertaken projects	100	100	100	100	100	100	100	100	100
Impact Assessment	0	0	100	100	0	100	100	0	57

Expenditure disclosure - 'Financial Literacy'	100	100	100	100	0	100	100	0	86
Expenditure on 'Rural Development'	100	100	100	100	100	100	100	100	100
Community development initiatives	0	0	100	100	0	100	100	100	57
2% CSR Contribution	80	0	80	80	0	20	60	0	46
Overall CSR Expenditures & Initiatives	78	70	88	98	50	92	86	70	80

**Mean Score considers only the scores of the seven private banks and excludes SBI scores from consideration.*

SES Observations:

Overall Outlook:
↘ **Below Average**

- **Impact Assessment:** While all banks have made the minimum required disclosures relating to CSR, few have disclosed that they carry out impact assessment of their initiatives.
- **Community Development Initiatives:** Furthermore, with respect to community development initiatives, it is observed that banks have disclosed very little as to the steps taken in regards to the same.
- **CSR Expenditure:** Lastly, on an average, banks have spent ~1.84 percent of their 3 year avg. net profits in FY 20.

3.3. DATA SECURITY AND CUSTOMER PRIVACY:

Assessment Factors:

- Alignment with national and international cyber security standards and practices
- Cyber Crisis Management Plan
- Cyber Security Oversight Framework
- Trends in digital security breaches and complaints
- Investment in cyber security infrastructure

With digital banking booming due to access to cheap mobile data, the risk of data security and customer privacy also increases. SES has analysed if the Bank's cyber security systems are robust enough to handle the influx of digital customers and digital transactions. Framed on the aegis of RBI's Cyber security Framework for Scheduled Commercial Banks

SES findings:

↓ Major Parameters \ Banks →	B	C	D	E	F	G	H	SBI	Mean*
General Disclosures	0	50	50	0	50	50	50	50	36
Cyber Crisis Management Plan	0	0	50	100	0	50	100	100	43
Cyber Security Committee	50	0	50	100	50	100	50	100	57
Cyber Security Oversight Meetings	0	0	0	100	0	0	0	100	14
Cyber Security Awareness	50	50	50	50	100	50	100	100	64
Consumer Data Protection Safeguards	33	0	67	0	0	33	100	67	33
Instances of Breaches – Disclosures	20	0	100	20	20	100	100	100	51
Instances of Breaches – Performance	0	60	20	0	0	80	100	50	37
IT related Incidents	0	0	20	0	0	0	100	0	17
IT related Certifications	100	100	100	100	0	0	0	100	57

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IT security & firewalls	100	50	50	50	100	50	100	100	71
Digital Innovation	0	100	100	50	50	100	50	100	64
Investment in Artificial Intelligence	50	0	0	50	50	0	50	0	29
Data Security & Customer Privacy	30	38	53	53	33	49	72	69	47

**Mean Score considers only the scores of the seven private banks and excludes SBI scores from consideration.*

SES Observations:

- **Policy Disclosures:** SES has observed that most banks do not disclose their cyber security policies in the public domain. Furthermore, cyber security policies and data privacy policies are supposed to be separate from normal IT policies of the bank.
- **Recent Negative Media Coverage:** RBI vide an order dated 2nd December 2020, had issued an order with regard to certain incidents of outages in the internet banking/ mobile banking/ payment utilities of HDFC bank over the past two years, including the recent outages in the bank's internet banking and payment system on November 21, 2020, due to a power failure in the primary data centre. RBI had further advised the bank to temporarily halt all launches of digital business generating activities planned under its Digital 2.0 program and other proposed business generating IT applications.
- **Cyber Crisis Management Plan:** Very few banks have disclosed about their Cyber Crisis Management Plan in their general disclosures.
- **Cyber Security Oversight Meetings:** Very few banks have disclosed about their Cyber Security Oversight Meetings in their general disclosures.
- **Cyber Security Awareness:** Except SBI, Kotak Bank and ICICI Bank, none of the other banks have made disclosures relating to trainings / workshops / initiatives conducted relating to cyber security awareness.
- **IT security robustness-disclosures:** Though many Banks have adopted the ISO 27001:2013 standard & disclosed about participation in drills conducted by Institute of Development and Research in Banking Technology (IDRBT) and (Data Security Council of India) DSCI, however, there have been multiple instances of cyber security incidents across various banking channels.

Overall Outlook:
↘ Below Average

- **Digital Innovations and Investments:** Though almost all banks have disclosed in detail their latest product innovations including the use of artificial intelligence**,** the details fall short in terms of investment in future technologies on artificial intelligence, blockchain technology, etc.
  SES is of the opinion that investment in technology and digital innovation would enable them to keep up with competition.
  The banks may review at least once in a year their systems and map it with technological development on the same basis as software versions are compared.
  Further, system OS ought to be updated at regular intervals of time.

Overall Outlook:
↘ Below Average

SES Observations on Data Security Breach Disclosures:

Overall Outlook:
↘ **Below Average**

Instances of Breach in Customer Privacy	
Bank	**Number of Instances**
Axis Bank	**No Disclosure**
Bandhan Bank	**No Disclosure**
HDFC Bank	**47**
ICICI Bank	**0**
IndusInd Bank	**2**
Kotak Mahindra Bank	**No Disclosure**
State Bank of India	**29**
Yes bank	**24**

Data Security Breach:

- Except SBI, HDFC, IndusInd and ICICI Bank, none of the other Banks have disclosed complaints relating to breach in data security / customer privacy.
- SES is of the opinion that data security beach is an important focus area and must be addressed with all sincerity, in view of high number of cases observed.
- A recent news article quoting a written reply in the Indian Parliament, stated that over 2.9 lakh cyber security incidents related to digital banking were reporting in 2020 (Link).
- This number in relative % terms compared to number of customers/ transactions might appear to low, however, data security is extremely important and banks have to target zero breach level.

- Thus, such revelation calls for greater attention to systems & procedure followed by banks and proper disclosure/ discussion on cyber security incident in their annual reports.
- Going forward, data security is going to be an important differentiator in customer satisfaction and retention.

Gap Analysis with Global Best Practices & Way Forward

Scope for Improvement:
↗ **High**

- **Global memberships to Cyber Security Forums:** Apart from following the latest international cyber security standards and practices, global banks are also members to various international cyber security associations such as Institute of International Finance cyber working group, Cyber Defence Alliance and Cyber Security Industry Group, etc. as such memberships enhance knowledge on the latest tactics to combat cyber-attacks.
  Indian Banks have not disclosed any global memberships to such forums.
- **Global Data Privacy Regulations:** With respect to customer privacy, though India has a data protection law in the works, Indian Banks may do well to borrow from global data privacy laws such as the EU GDPR. Currently, SES found that HDFC Bank, ICICI Bank and Axis Bank were the only banks to implement it in relevant operations as per their disclosures.

3.4. CUSTOMER SATISFACTION:

Assessment Factors:

- Disclosure of customer satisfaction surveys
- Customer complaints – received and pending
- Customer satisfaction Scores
- Digital innovation

Since banks are heavily regulated by RBI, a major strategy by banks to distinguish themselves and retain customers has always been about the customer experience. As a result, customer experience directly impacts the growth prospects of a bank SES seeks to analyse the same through this section.

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SES findings:

↓ Major Parameters \ Banks →	B	C	D	E	F	G	H	SBI	Mean*
Customer Satisfaction Policy	50	0	50	50	50	100	100	50	57
Customer Satisfaction Survey Frequency	80	20	100	20	20	100	100	20	63
Customer Complaints Received	50	50	50	100	50	50	50	50	57
Pending Customer Complaints	40	40	30	40	20	30	30	20	33
Unfair Trade Practices - Disclosures	100	0	0	100	67	100	0	0	52
Disclosure of complaints related to ATMs	50	0	100	100	50	100	100	50	71
Disclosure of Credit / Debit card complaints	0	0	0	0	0	0	0	0	0
Customer Satisfaction Score Disclosure	0	0	100	0	100	0	100	0	43
Training programs - Customer Support	0	0	0	0	0	50	0	100	7
Action on feedback from Customers	0	50	0	50	50	50	100	50	43
Investment in Artificial intelligence	0	0	0	50	0	0	0	50	7
Disclosures relating to digitisation	0	100	100	50	100	50	50	100	64
Disclosure of Customer Feedback	0	0	0	0	0	20	0	0	3
Overall Customer Satisfaction Assessment	**37**	**19**	**43**	**49**	**38**	**57**	**51**	**34**	**42**

**Mean Score considers only the scores of the seven private banks and excludes SBI scores from consideration.*

SES Observations:

Overall Outlook:
→ **Average**

- **Customer Satisfaction Policy:** Only Banks H & G have provided detailed disclosures regarding the process of resolution of complaints.
- **Frequency of Customer Satisfaction Survey:** Only Banks D, G & H conduct regular surveys more than once in a year.
- **ATM Related Customer Complaints:** Only 4 out of the 8 Indian Banks have disclosed customer complaints related to ATM Machines.
- **Disclosure of Credit / Debit card complaints:** SES couldn't find disclosures on Credit / Debit card complaints from any banks.
- **Customer Satisfaction Score / Customer Experience Score / Net Promoter Score:** Although these scores are assigned to by third party firms that specialize in measuring the same, nevertheless, SES is of the view that since most of these banks would have engaged in such services, the Banks must disclose the results of such scores.
- **Training Programs related Customer Support:** Majority of the Banks did not provide any detailed disclosures regarding training programmes with respect to customer support.
- None of the Banks made any disclosures with respect to customer feedback

General Customer Complaints:

↓ Major Parameters \ Banks →	B	C	D	E	F	G	H	SBI
Proportion of Customer Complaints received (in %) to Total Assets	8.15	43.35	13.42	21.91	115.74	14.80	8.26	96.18
% Change in Complaints received	317	1	21	-33	2	31	13	-10
% of complaints Pending for FY 20	0	2	1	0	1	2	3	5
% Change in pending complaints	-70	-21	-57	-21	-49	21	72	27

SES Observations:

Overall Outlook:
→ **Average**

- Among the private sector banks, almost all banks saw an increase in number of complaints in FY 20, with highest in case of Bank B.
- The rate of resolution of pending complaints in FY 20 was slowest in case of Bank H which saw a huge increase in % of pending complaints in FY 20, apart from SBI.
- This rate of resolution of pending complaints increased the most in case of Bank B, as it had the steepest spike in complaints in FY 20.

Gap Analysis with Global Best Practices & Way Forward

Scope for Improvement:
↗ **High**

- SES observed that HSBC provides detailed disclosures regarding customer satisfaction scores with respect to a host of banking services and across various regions. These scores are also compared with their historical scores to disclose how each operation was perceived across geographies and throughout past financial years.
- Major global banks not only disclose their scores, but also disclose the results of customer feedback and their action plan in response to such feedback in their reports and in detailed formats.
- SES is of the view that banks in India must adopt such practice.

4. Governance Assessment

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4. GOVERNANCE ASSESSMENT

Assessment Factors:

- Corporate Governance
- Economic Performance
- Systemic Risk Drivers and Management

Governance is key driver for sustainable operations, value creation and stakeholders' benefits and satisfaction for every organisation. Trusteeship is essence to good governance. In case of banks concept of trusteeship is much more pronounced compared to any other enterprise. While in case of other entities, capital is required for creating assets and once sufficient capital is gathered operations can continue or grow at moderate rate from internal generations. Whereas in banks capital itself is the raw material hence banks are ever hungry for capital in the form of deposits. Prudential norms are key and core to most activities of the bank and assumes greater importance in lending. Lending practices are intricate play between risk and returns within the envelope of prudential practices. If these practices are diluted for objectives such as short term profits, adverse impact is not only long lasting but may even pose a threat to existence as has been seen in past. During financial crisis of 2008 and even after.

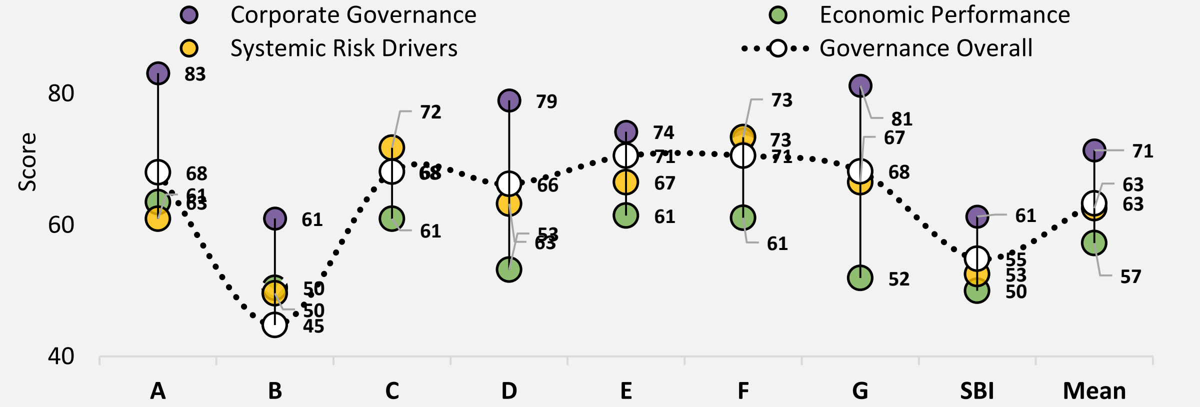
Keeping its importance in mind SES in its model for evaluation of governance was mainly guided by global best practices, Indian regulations as well as past experiences to ascertain the soundness of a bank's governance practices.

4. Findings on Governance Assessment

Leaders		Followers				Laggards	
Bank F	Bank E	Bank G	Bank C	Bank A	Bank D	SBI	Bank B
71	71	68	68	68	66	55	45

Score Distribution, Divergence & Heat Map

Graph 17: Governance Assessment - Divergence in Governance Factors



↓ Parameters \ Banks →	A	B	C	D	E	F	G	SBI	Mean*
Corporate Governance	83	61	68	79	74	73	81	61	71
Economic Performance	63	50	61	53	61	61	52	50^	57
Systemic Risk Drivers	61	50	72	63	67	73	67	53^	63
Governance Overall	**68**	**45**	**68**	**66**	**71**	**71**	**68**	**55**	**63**

**Mean Score considers only the scores of the seven private banks and excludes SBI scores from consideration.*

^SBI Scores in Blue are Benchmark scores, i.e. all private banks were measured against SBI's scores kept @50. The Systemic Risk score for SBI is benchmarked @53 as benchmarking @ 50 was not feasible for one of its parameters (Credit Rating).

Scoring Criteria / Analysis – Explanation for Certain Low Scores –

Corporate Governance:

The scores ranged between 61 and 83 (gap of 22 or ~36% from lowest) with the mean score at 71. With 5 banks above mean, and 3 below mean level

The general areas where most banks have lost scores are with respect to **gender diversity**, **high non-audit fees**, **regulatory sanctions** as well as disclosures concerning **shareholder and whistle-blower complaints**.

4.1. CORPORATE GOVERNANCE:

Assessment Factors:

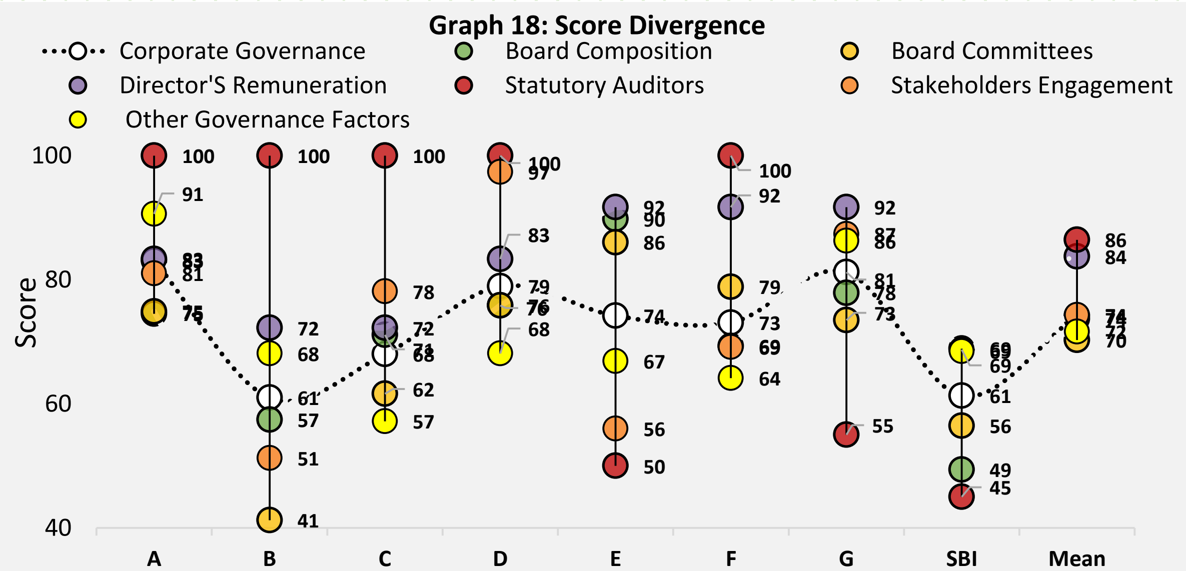
- Board Composition
- Board Committees
- Director Remuneration
- Statutory Auditors
- Stakeholder Engagement
- Other Governance Factors

As per RBI, banks are 'special' as they not only accept and deploy large amount of uncollateralized public funds in fiduciary capacity, but also they leverage such funds through credit creation. As a result, such huge deployment of public funds requires careful oversight. RBI in this regard, being the nodal regulator, controls all governance policies of all banks in India. Though SES understands that banks do not have much flexibility in terms of their governance policies, SES has nevertheless tried its best to understand how these policies vary and how they can be further strengthened based on relevant international best practices.

4.1. Findings on Corporate Governance Assessment

Leaders			Followers			Laggards	
Bank A	Bank G	Bank D	Bank E	Bank F	Bank C	SBI	Bank B
83	81	79	74	73	68	61	61

Score Distribution & Parameter Heat Map



Preliminary
Summary
Disclosure & Reporting Standards
Environment Assessment
Social Assessment
Governance Assessment

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↓ Parameters \ Banks →	A	B	C	D	E	F	G	SBI	Mean*
Board Composition	75	57	71	76	90	69	78	49	74
Board Committees	75	41	62	76	86	79	73	56	70
Director Remuneration	83	72	72	83	92	92	92	69	84
Statutory Auditors	100	100	100	100	50	100	55	45	86
Stakeholders Engagement	81	51	78	97	56	69	87	69	74
Other Governance Factors	91	68	57	68	67	64	86	69	72
Corporate Governance	**83**	**61**	**68**	**79**	**74**	**73**	**81**	**61**	**74**

**Mean Score considers only the scores of the seven private banks and excludes SBI scores from consideration.*

Scoring Criteria / Analysis – Explanation for Certain Low Scores –

Board Composition:

Assessment Factors: Board Expertise, Competence, Diversity, Independence, Rotation Policy, Time Commitments & Attendance

The scores ranged between 90 and 49, with all the private sector banks performing better than SBI. However, the mean score of the Indian banks is 74, indicating further scope for improvement, especially considering global peers which have vastly superior practices such as better board diversity, time commitments and more competency especially considering cross functional skills. Although SES understands that RBI and Banking Regulation Act (Section 10A) have prescriptive rules on diversity, Indian peers lag far behind their global peers with respect to diversity, especially **gender diversity**, which is seen as improving and was almost unheard of a decade back

Board Committees:

Assessment Factors: Committee Composition, Expertise of members, Committee Chairperson, Meetings and Attendance

A mean score of 70 across Indian Banks is broadly indicative of a combination of expertise and past year performance. Barring bank B, all private banks have outperformed SBI. In this area apart from RBI, SEBI & MCA regulations also apply. Yet, there is no reason why perfect score can't be achieved.

Director Remuneration:

Assessment Factors: Reasonableness of compensation, Fairness in compensation in comparison to other directors, Board Performance Evaluation and Training

This is a grey area, where provisions of RBI are in contrast with MCA and in opinion of SES RBI dictate is irrational, inhibiting banks' ability to attract talent at board level. Keeping in mind RBI regulations on director remuneration in banks, SES has compared their remuneration from the point of view of the size of the Bank's assets for illustrative purposes, while scoring was mainly based on quality of remuneration related disclosures. Thus, there is limited divergence in scores between the banks, with highest & lowest being 92 & 72. SES in principle does not support RBI dictate on remuneration as SES finds the same irrational, yet SES has to score the same based on RBI dictate.

Statutory Auditors:

Assessment Factors: Audit Independence, Rotation, Audit Fees, etc.

Though RBI regulates the appointment of statutory auditors in Indian banks, disclosures such as Non audit fees and its proportion to audit fees is one of the important factor that SES considered while analysing this section. Thus, the scores here ranged between 45 and 100, with the mean score being 86.

Stakeholder Engagement:

Assessment Factors: Periodic Interactions, Quality Of Quarterly Communication, Shareholder Engagement And Handling Of Shareholder Complaints, Negative Media Coverage

Here, bank scores range widely between 51 and 97, indicating significant variance in level of disclosures concerning stakeholder identification, engagement as well as varying performance w.r.t. addressing complaints and voter dissent. Here 5 out of 7 private sector banks have outscored SBI, based on disclosures and addressing stakeholder complaints.

Other Governance Factors:

Assessment Factors: Code Of Conduct Disclosures, Whistle Blower Policy Disclosures, Insider Trading Disclosures, Issue Of Securities, D&O Insurance Disclosures, Strictures & Penalties

Scores have ranged between 57 and 91, with the mean score being 72. Low scores under this category are mainly on account of frequent penalty by regulators for various non compliances.

Focus on Parameters

High Focus Areas	Low Focus Areas	Areas with Max Divergence
Shareholder Communication, Board Committees & Director Remuneration	Shareholder complaints, Regulatory sanctions and penalties, whistle blower complaints, Gender Diversity	Board Composition, Stakeholder Engagement, Regulatory Sanctions

Bank	Focus on Parameters		Bank	Focus on Parameters	
	High Focus	Low Focus		High Focus	Low Focus
Bank A	Stakeholder Engagement	Director Remuneration Disclosures	**Bank E**	Board Composition	Stakeholder Engagement
Bank B	Other Governance Factors	Director Remuneration Disclosures	**Bank F**	Board Committees, Composition	Other Governance Factors
Bank C	Stakeholder Engagement	Other Governance Factors	**Bank G**	Stakeholder Engagement	Statutory Auditors, Board Committees
Bank D	Stakeholder Engagement	Other Governance Factors	**Bank H**	Stakeholder Engagement	Board Composition

4.1.1. BOARD COMPOSITION:

Assessment Factors:

- Board Expertise, Competence and Diversity
- Board Independence
- Rotation Policy
- Time Commitments
- Attendance

Since the board of directors are the drivers of the management decisions of a bank, an assessment of their collective expertise, diversity and competence to drive operations profitably becomes a major consideration for assessment. Although SES understands that board & NRC policies are regulated by RBI's mandates and leaves very little scope for independence, nevertheless SES has tried to assess board compositions from an investor's point of view to suggest best practices.

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Parameter Heat Map

↓ Major Parameters \ Banks →	A	B	C	D	E	F	G	SBI	Mean*
Competence & diversity of Board of Directors	92	57	81	94	94	81	90	65	84
Independence of the board and rotation of independent directors	78	23	39	63	100	57	73	0	62
Exit of any independent director in the middle of the term during the past year	67	0	100	100	67	100	100	100	76
Rotation policy	100	100	67	100	100	100	33	N.A.	86
Attendance & Time Commitments	40	96	82	50	75	50	67	64	66
Board Composition	**75**	**57**	**71**	**76**	**90**	**69**	**78**	**49**	**74**

Mean Score considers only the scores of the seven private banks and excludes SBI scores from consideration.

Scoring Criteria / Analysis – Explanation for Certain Low Scores –

Board Expertise, Competence and Diversity:

Though the mean score of Indian Banks is 84, which is greater than SBI's score of 65, many private banks scored way lower than SBI's score.

Board Independence and rotation:

SBI, being a PSU, has scored the least in terms on real independence, while private banks have a mean score of 62.

ID Exits and disclosures:

Banks have scored low if there have been midterm ID exists or where justifications have been generic. As such the mean score of the private banks stood at 76.

Rotation Policy:

Banks have been scored based on the proportion of Non-Independent Directors (NIDs) on the Board that are liable to retire by rotation. Most Banks have a high proportion of NIDs who are liable to retire by rotation.

Attendance & Time Commitments:

The scoring criteria include attendance at Board meetings and AGMs as well as director time commitments across various listed and unlisted companies. The mean score of the private banks stood at 74 as against SBI's score of 49.

Board Diversity

↓ Major Parameters \ Banks →	A	B	C	D	E	F	G	SBI	Mean*
Gender Diversity	100	0	60	80	60	60	100	40	66
Directorship Category Diversity	80	0	100	100	100	100	100	NA	83
Expertise Diversity	100	100	67	100	100	67	67	100	86
Education Diversity	80	80	80	100	100	80	80	100	86

Mean Score considers only the scores of the seven private banks and excludes SBI scores from consideration.

SES Observations:

Overall Outlook:

→ **Average**

- Most banks have only complied with the law of minimum one women director. Only Bank A and G have 2 women directors on their Board.
- Since age of Directors is indirectly regulated by RBI, there are no major concerns with respect to the age of Boards.
- Bank C, F & G score lower than others in terms of board expertise diversity.

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Board Independence as per SES Criteria									
↓ Major Parameters \ Banks →	A	B	C	D	E	F	G	SBI	Mean*
Independence of the Board	100	0	20	40	100	60	40	0	51
Chairperson Independence	50	50	67	100	100	67	100	0	76
Lead Independent Director	100	0	0	0	100	0	100	0	43
ID Exit – Mid Term	67	0	100	100	67	100	100	100	76

**Mean Score considers only the scores of the seven private banks and excludes SBI scores from consideration.*

SES Observations:

Overall Outlook:
↘ Below Average

- As per SES criteria, only Bank A and E had more than 75% independent directors on their boards (**Note:** SES does not consider IDs with prolonged association with group entities as independent).
- More than half the banks under study do not make any express disclosures regarding lead independent directors.

Attendance Performance									
↓ Major Parameters \ Banks →	A	B	C	D	E	F	G	SBI	Mean*
Attendance at Board Meetings	0	80	60	0	60	0	20	60	31
AGM Attendance	67	100	100	33	67	67	67	33	71

**Mean Score considers only the scores of the seven private banks and excludes SBI scores from consideration.*

SES Observations:

Overall Outlook:
→ Average

- Banks A, D and F had directors who attended less than 50% of board meetings in FY 20.
- With respect to AGM attendance, only Banks B and C saw all their directors attend their AGMs in FY 20.

Time Commitments									
↓ Major Parameters \ Banks →	A	B	C	D	E	F	G	SBI	Mean*
Directorships at Listed Companies	33	100	100	67	100	33	100	100	76
Directorships at Public Companies	50	100	50	50	50	50	100	N.A.	64
Directorships in all companies	50	100	100	100	100	100	50	N.A.	86

**Mean Score considers only the scores of the seven private banks and excludes SBI scores from consideration.*

SES Observations:

Overall Outlook:
→ Average

- Banks A, D & F have directors who have directorships in > 5 listed entities.
- Except Banks B and G, all other Banks have directors who have directorships in more than 5 public companies.
- Most Banks have directors who have less than 10 overall directorships.

Gap Analysis with Global Best Practices & Way Forward

Scope for Improvement:
↗ High

- The disclosure practices of Global Banks are superior when compared to the disclosures of Indian Banks.
- E.g. In case of Citibank, the proxy statement is a separate document that provides a holistic and all-encompassing picture regarding the board and its various committees, separately from the Annual Report. (Read More)
- Global banks like Citi have disclosures concerning Board targets & actual achievement, along with disclosure of results of performance evaluation.

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4.1.2. BOARD COMMITTEES:

Assessment Factors:

- Committee Composition
- Expertise of members
- Committee Chairperson
- No. of Committee Meetings and attendance of members

Since most decisions in Indian Banks are committee driven, SES places special emphasis on the structure, composition of such committees as well as the expertise of their members and their attendance performance. Thus, these factors offer a window into the robustness of these committees.

Parameter Heat Map:

↓ Major Parameters \ Banks →	A	B	C	D	E	F	G	SBI	Mean*
Audit Committee Assessment	85	30	69	66	100	82	88	65	74
Risk Management Committee	66	37	48	81	85	70	58	71	63
Fraud Monitoring Committee	83	0	67	83	100	100	67	50	71
NRC Committee Assessment	83	25	54	83	50	83	83	100	66
CSR Committee Assessment	78	33	44	83	89	100	78	67	72
SRC Committee Assessment	83	33	67	75	92	100	33	100	69
Board Committees	**75**	**41**	**62**	**76**	**86**	**79**	**73**	**56**	**70**

**Mean Score considers only the scores of the seven private banks and excludes SBI scores from consideration.*

Scoring Criteria / Analysis – Explanation for Certain Low Scores –

Common Assessment Factors: Committee Composition & Chair, Member Expertise, Meetings, etc.

Audit Committee:

Though the mean score is 73, there exists divergence in scores across banks, with highest being 100 and lowest at 30, giving a gap of 70 between lowest and highest.

Risk Management Committee:

Apart from the above mentioned assessment factors, additional factors such as RMC members as a % of board members was also considered, apart from risk management disclosures & ESG risk integration.

Fraud Monitoring Committee:

The independence of the Committee as per SES criteria as well as fraud reporting by statutory auditors was considered.

Audit Committee Assessment									
↓ Major Parameters \ Banks →	A	B	C	D	E	F	G	SBI	Mean*
Composition	67	0	50	50	100	67	67	0	57
Expertise of Members	100	100	33	67	100	67	100	100	81
Chairperson	100	0	100	50	100	100	100	100	79
Meetings held during year	67	100	100	100	100	100	100	100	95

**Mean Score considers only the scores of the seven private banks and excludes SBI scores from consideration.*

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SES Observations:

Overall Outlook: → Average

- Most Banks have scored low on committee composition in terms of independence as per SES criteria.
- Almost all banks have scored high in terms of assessment of expertise of Audit Committee members
- Almost all banks have held 8 or more AC meetings in FY 20.

Risk Management Committee Assessment

↓ Major Parameters \ Banks →	A	B	C	D	E	F	G	SBI	Mean*
Composition	20	0	0	100	80	20	20	80	34
Expertise of Members	0	0	0	60	20	60	20	0	23
Chairperson	100	0	50	100	100	0	100	100	64
Disclosure of RM Policy	100	50	100	50	100	100	100	50	86
Risk Disclosures (& ESG impacts)	50	100	0	50	100	100	50	100	64
Meetings Held	67	67	33	100	67	100	67	100	71

**Mean Score considers only the scores of the seven private banks and excludes SBI scores from consideration.*

SES Observations:

Overall Outlook: → Average

- Almost all banks have scored low in terms of required expertise for audit committee membership as per disclosures.
- Though most banks have disclosed Risk management policies, identified risks and disclosed mitigation measures, there exists scope for improvement in risk related disclosures in terms of ESG risk integration.
- Banks D, F and H have held more than 6 Risk management committee meetings in FY 20.

Nomination & Remuneration Committee Assessment

↓ Major Parameters \ Banks →	A	B	C	D	E	F	G	SBI	Mean*
Composition	66	37	48	81	85	70	58	71	63
Chairperson	100	50	100	50	100	100	100	50	86
Meetings Held	20	0	0	100	80	20	20	80	34

**Mean Score considers only the scores of the seven private banks and excludes SBI scores from consideration.*

SES Observations:

Overall Outlook: ↗ Above Average

- Most Banks have scored average on composition in terms of independence as per SES criteria.
- Most banks have held to 2-5 NRC meetings in FY 20.

CSR Committee Assessment

↓ Major Parameters \ Banks →	A	B	C	D	E	F	G	SBI	Mean*
Composition	100	0	33	50	100	100	33	100	60
Chairperson	100	0	0	100	100	100	100	0	71
Meetings Held	33	100	100	100	67	100	100	100	86

**Mean Score considers only the scores of the seven private banks and excludes SBI scores from consideration.*

SES Observations:

Overall Outlook:
↗ Above Average

- Four Banks have scored high on composition in terms of independence as per SES criteria.
- Most banks have held at least 2 CSR Committee meetings in FY 20.
- 5 out of the 8 banks have an ID as the Chairperson of their CSR Committee.

Stakeholder Relationship Committee Assessment

↓ Major Parameters \ Banks →	A	B	C	D	E	F	G	SBI	Mean*
Composition	100	0	33	50	100	100	33	100	60
Chairperson	100	33	100	100	100	100	33	100	81
Meetings Held	33	100	100	100	67	100	33	100	76

**Mean Score considers only the scores of the seven private banks and excludes SBI scores from consideration.*

SES Observations:

Overall Outlook:
↗ Above Average

- Four Banks have scored high on composition in terms of independence as per SES criteria.
- Most banks have held at least 2 SRC meetings in FY 20.
- 6 out of the 8 banks have an ID as the Chairperson of their CSR Committee.

Committee Attendance Performance

↓ Major Parameters \ Banks →	A	B	C	D	E	F	G	SBI	Mean*
Audit Committee	100	100	80	100	80	80	80	0	89
RMC	100	100	100	100	100	80	100	0	97
Fraud Monitoring Committee	0	20	0	100	100	60	100	0	54
NRC	100	100	60	100	40	80	80	N.A.	80
SRC	100	100	0	100	100	100	100	40	86
CSR	0	100	100	20	100	100	60	20	69

**Mean Score considers only the scores of the seven private banks and excludes SBI scores from consideration.*

SES Observations:

Overall Outlook:
→ Average

- The score of zero here indicates that there were directors who attended less than 50% of the respective committee meetings.
- SBI has scored the lowest on account of some of its directors only attending 50% of the committee meetings.
- Most banks have healthy attendance performance for AC, RMC, NRC as well as SRC meetings.
- Attendance has been relatively poorer for CSR as well as Fraud Management committee meetings.

Gap Analysis with Global Best Practices & Way Forward

Scope for Improvement:
↗ High

- Major Global Banks such as Citi and HSBC, apart from disclosing expertise diversity in their boards, also highlighted their cross functional skills pertaining to each of their directors.
- The scope of the role of the Risk management committee in global banks is very high as even ESG risks are actively integrated into the risk management frameworks and such risks are realistically quantified and stress tested at regular intervals. (Read More – Citi TCFD Report)
- SES is of the view that ESG risk integration must happen at a larger scale in Indian banks in future.

4.1.3. DIRECTOR REMUNERATION:

Assessment Factors:

- Reasonableness of compensation
- Fairness in compensation in comparison to other directors
- Board Performance Evaluation and Training

Although RBI regulates the payment of remuneration to the Directors of Banks, SES has decided to include scoring the banks on director remuneration to independently check reasonableness and fairness of such compensation.

Parameter Heat Map:

↓ Major Parameters \ Banks →	A	B	C	D	E	F	G	SBI	Mean*
Reasonableness of Compensation	100	100	100	100	100	100	100	90	100
Fairness in remuneration	100	100	100	100	100	100	100	100	100
Board Performance Evaluation & Training	50	17	17	50	75	75	75	17	51

**Mean Score considers only the scores of the seven private banks and excludes SBI scores from consideration.*

Scoring Criteria / Analysis – Explanation for Certain Low Scores –

Reasonableness:

Since the RBI regulates the remuneration of the directors, SES has taken the same into consideration and checked to see if such remuneration is reasonable considering the size of assets held by the bank. Here, scores have been given post taking into consideration mid-year appointments and exits on the Boards.

Fairness:

SES has considered the presence of a variable component in the ED remuneration as a key indicator of fairness in remuneration. SES has also assessed to see if Banks grant stock options to their EDs, apart from any variable component. However, SES has compared the Board Remuneration for each bank as against the size of each bank's total assets.

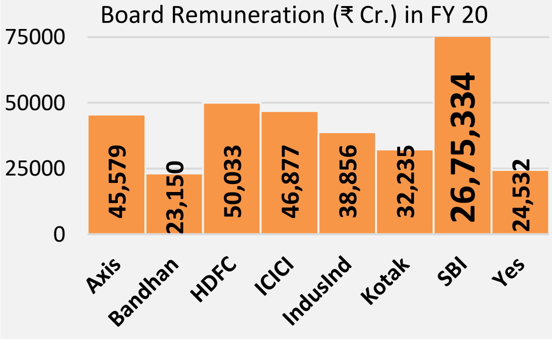
Board Performance Evaluation and Training:

SES has scored the banks on basis of level of disclosures provided by the Banks pertaining to board performance evaluation and training provided. The scores are based on disclosure of process of evaluation, results and detailed disclosures regarding training undertaken by the board.

SES Observations:

For every ₹ 1 Cr. Of Board Remuneration, each bank manages below mentioned quantum of assets (₹ Cr.)

Graph 19: Total Assets (₹ Cr.) / Board Remuneration (₹ Cr.) in FY 20



- Most private banks have a reasonable board remuneration structure.
- Most banks **do not** disclose the perquisite value of stocks granted and/or vested as variable component under their MGT 9 disclosures.
- Most banks do not disclose details regarding the results of board performance evaluations as also the training undertaken by the Board to stay updated with regards to various developments and risks, including ESG risks.

(**Note:** In this chart, perquisite value of ESOPs have been excluded from assessment)

Gap Analysis with Global Best Practices & Way Forward

Scope for Improvement:
→ Moderate

- Banks such as Citi and HSBC clearly disclose the board evaluation criteria, process and results along with the board performance as against previously set targets on parameter basis. (See Citi Proxy Statement Pg. 85)
- These evaluations are sometimes made by an independent third party apart from board's self-evaluation.
- In this regard, though third party evaluation may be adopted by the Indian banks at their option, SES is of the view that the Indian banks must make detailed disclosures regarding board evaluation criteria, process and results along with the board performance as against previously set targets.

4.1.4. STATUTORY AUDITORS:

Assessment Factors:

- Audit Firm Tenure & Audit Partner Association
- Remuneration to Auditors

Here, SES has primarily assessed the disclosures of banks with respect to audit and non-audit fees, apart from audit tenure and any mid-term exits.

Parameter Heat Map:

↓ Major Parameters \ Banks →	Axis	Bandhan	HDFC	ICICI	IndusInd	Kotak	SBI	Yes	Mean*
Audit Firm Tenure & Audit Partner Association	90	100	100	100	100	100	90	100	99
Remuneration to Auditors	20	0	100	100	100	100	0	100	74

**Mean Score considers only the scores of the seven private banks and excludes SBI scores from consideration.*

Scoring Criteria / Analysis – Explanation for Certain Low Scores –

Audit Firm Tenure & Audit Partner Association:

SES has scored the banks based on the length of tenure of auditors with the banks as well as the length of association of audit partners with the banks.

Remuneration to Auditors:

SES has scored the banks based on their disclosures of non-audit fees paid. Further, if the non-audit fees form a significant portion of the total fees to the auditor, such banks received a lower score.

SES Observations:

Overall Outlook:
→ Average

Banks E, G & H have a high proportion of non-audit fees as compared to the total fees paid by the Bank.

Gap Analysis with Global Best Practices & Way Forward

Scope for Improvement:
→ Moderate

- Major Global Banks such as HSBC, even provide a detailed breakup of non-audit fees paid to its auditors for past financial years.
- SES is of the view that such a disclosure will enhance the transparency surrounding auditor remuneration.

4.1.5. STAKEHOLDER ENGAGEMENT:

Major Assessment Factors:

- Periodic Interaction
- Quality of quarterly communication
- Shareholder Engagement and handling of shareholder complaints
- Negative Media Coverage

Shareholder Engagement is a measure of voluntary pro-activeness with regard to appraising its shareholders of latest developments concerning the bank. As a result, there exist various parameters that a bank must satisfy to properly assess shareholder engagement. Below are the parameters considered by SES as important that drive shareholder engagement:

Parameter Heat Map:

↓ Major Parameters \ Banks →	A	B	C	D	E	F	G	SBI	Mean*
Presence of Periodic Interactions	100	80	100	100	80	100	100	20	94
Timely Quarterly Communication	100	100	100	100	100	100	100	100	100
Sanctions/censures by regulator/exchange	40	20	20	100	20	0	100	20	43
Stakeholders Identification and engagement	70	35	70	95	50	95	65	50	69
Negative Media Coverage	100	0	100	100	20	60	100	100	69
Dividend Distribution Policy Disclosures	100	100	100	20	60	100	20	N.A.	71
Pending Shareholder Complaints	100	100	20	100	100	100	40	100	80
Reported ↑/ ↓ in Shareholder Complaints	60	0	0	100	20	60	0	100	34
Voting on Resolutions	40	40	100	100	40	40	40	N.A.	57
Shareholder Engagement	**81**	**51**	**78**	**97**	**56**	**69**	**87**	**69**	**74**

**Mean Score considers only the scores of the seven private banks and excludes SBI scores from consideration.*

Scoring Criteria / Analysis – Explanation for Certain Low Scores –

Periodic Interaction:

These scores are based on periodic investor/earnings calls and disclosure of their transcripts in public domain. Detailed disclosures by Banks have increased the mean to 94.

Sanctions / Censures by Regulators / Exchanges:

These scores are based on failure / delay in regulatory disclosures by banks in the past three FYs. As a result, many banks have scored lower than certain others.

Stakeholder Identification and Engagement:

SES criteria is based on whether the banks have mapped all their stakeholders and identified vulnerable, marginalized stakeholders, along with engagement process.

Dividend Disclosure Policy Disclosures:

The scores are based on an objective policy along with any deviations from the policy.

Shareholder Complaints:

The scores are based on increase/decrease in reported shareholder complaints in the past 2 FYs.

Voting on Resolutions:

The scores are based on dissent by more than 10% of public shareholders in AGM/PB resolutions.

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No. of Complaints for every ₹ 1 Lakh Cr. of Total Assets (Banking Ombudsman Office) (July-June 19-20)											
Sr. No	**Name of the Bank**	**Deposit Account**	**Loans and Advances**	**ATM/ Debit card/ Credit card**	**Mobile Banking / Electronic Banking**	**Levy of Charges Without Prior Notice**	**Pension**	**Non- Observance of Fair Practices**	**Commitments Failure & BCSBI Code**	**Others**	**Total**
1	Axis Bank Limited	55.51	79.76	575.82	256.66	241.36	1.20	182.58	248.68	229.45	1,871.02
2	Bandhan Bank	16.32	42.43	116.42	68.55	17.41	-	64.20	47.88	97.93	471.14
3	HDFC Bank Ltd.	31.56	88.34	580.26	229.27	142.89	1.70	210.58	266.05	224.50	1,775.16
4	ICICI Bank Limited	48.68	130.95	534.53	274.89	185.17	1.09	224.31	257.46	283.79	1,940.88
5	IndusInd Bank Ltd	40.67	57.59	422.97	125.92	121.04	-	182.20	218.32	192.62	1,361.32
6	Kotak Mahindra Bank	57.99	85.74	674.55	314.38	225.31	-	266.93	331.03	393.74	2,349.69
7	State Bank of India (Excluding SBI Card)	66.25	121.99	656.37	310.80	106.23	80.09	227.81	232.13	294.18	2,095.82
8	Yes Bank Ltd.	37.62	64.00	239.70	159.02	95.80	0.39	166.78	224.57	225.73	1,213.60
9	Mean	26.45	56.50	328.40	145.85	105.68	0.67	125.70	156.47	152.10	1,097.81

SES Observations:

Overall Outlook:
→ Average

- Most banks have provided timely quarterly communications and disclosures to investors
- Banks have generally scored lower in terms of sanctions for delayed disclosures and compliances and stakeholder identification and engagement.
- Most banks have scored well on pending shareholder complaints.
- However, more than 10% of Public shareholders have at least dissented once across most Indian banks in the past FY.

Gap Analysis with Global Best Practices & Way Forward

Scope for Improvement:
→ Moderate

- Major Global Banks such as Citi and HSBC actively engage with their shareholders regarding dissented and defeated resolutions.
- SES is of the view that such disclosures on engagement should form part of the banks' annual reports.

4.1.6. OTHER GOVERNANCE FACTORS

Assessment Factors:

- Code of Conduct Disclosures
- Whistle Blower Policy Disclosures
- Insider Trading Disclosures
- Issue of Securities
- Disclosure of Directors & Officers Insurance for Management
- Strictures / Penalties & Fines imposed by Regulators and Exchanges

SES has clubbed all the residuary but important governance parameters that are usually applicable to banks and scored them.

Parameter Heat Map:

↓ Major Parameters \ Banks →	A	B	C	D	E	F	G	SBI	Mean*
Code of Conduct Disclosures	50	50	100	50	50	50	100	100	64
Disclosure on Whistle Blower Policy	100	70	60	40	60	72	60	72	66
Insider Trading	100	96	10	100	100	100	100	100	87
Issue of Securities	100	100	100	100	100	100	100	100	100
Directors & Officers Insurance Disclosure	100	0	0	0	0	0	0	0	14
Strictures/Penalties imposed	100	60	40	80	60	40	100	20	69
Other Governance Factors	**91**	**68**	**57**	**68**	**67**	**64**	**86**	**69**	**72**

**Mean Score considers only the scores of the seven private banks and excludes SBI scores from consideration.*

Scoring Criteria / Analysis – Explanation for Certain Low Scores –

Code of Conduct Disclosures:

Through this parameter, SES has analysed if banks disclose their code of conduct policies for both the Board as well as its employees.

Whistle Blower Policy Disclosures:

Here, various parameters have been scored, such as disclosure of access to AC Chairman, annual affirmation confirming access to Audit Committee, whistle-blower policy and mechanisms, corrective actions as well as pending complaints.

Insider Trading:

SES has considered disclosures with respect to disclosure of insider trading policies, insider trading incidents as well as penalties, etc.

Directors & Officers (D&O) Insurance Disclosures:

Given the nature of responsibilities of a board, even though SES acknowledges that most banks would have bought a D&O Insurance for their Boards, SES is of the view that such disclosures must be explicitly made in their annual report disclosures, as a good governance practice.

Strictures & Penalties:

Banks have been scored based on their disclosures with respect to various strictures, penalties and fines levied by various regulatory authorities and/or stock exchanges.

SES Observations:

Overall Outlook:
↘ Below Average

- Except Banks C, G & H, all other banks have not disclosed their code of conduct policies for their employees.
- Except, Bank B, F & H, none of the banks have disclosed on number of whistle-blower complaints.
- Except, Bank B, F & H, none of the banks have disclosed on corrective actions taken to address whistle-blower complaints.
- Except Bank A, none of the banks have disclosed if they have taken a Directors and Officers (D&O) Insurance for the Management.

Fraud Monitoring - Frauds and Provisioning (As per bank disclosures)									
Parameter/Banks	A	B	C	D	E	F	G	SBI	Mean*
Avg. No. of frauds reported in last 3 FYs.								3,790	
Quantum of fraud reported								1,662	
Change in Quantum of frauds in past 2 FYs								44,622	

**Mean Score considers only the scores of the seven private banks and excludes SBI scores from consideration.*

Note: SES has not disclosed the raw data in the above heat map as such disclosures would defeat the purpose of white labelling.

SES Observations:

Overall Outlook:
→ Average

- SES has observed that the average number of frauds reported by a bank is directly proportional to the size of the Bank. Banks D, F & H, being relatively larger banks, have reported a significantly larger number of cases than smaller banks.
- However, when one analyses the quantum of frauds involved, Bank F, despite having a reported a large number of cases, has a smaller quantum than others.
- Banks E, F and G have also shown improvement in getting the quantum involved lower than their previous tallies.

Gap Analysis with Global Best Practices & Way Forward

Scope for Improvement:
→ Moderate

- All major global banks provide extensive disclosures pertaining to whistle blower complaints through dedicated hotlines or platforms for anonymous reporting of incidents.
- SES is of the view that such disclosure practices must be widely adopted by all Indian banks

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4.2. ECONOMIC PERFORMANCE:

Assessment Factors:

- Business Ratios *(Based on RBI mandated disclosures – Notes to Financial Statements)*
    - Interest income as % to working funds
    - Operating Profit as % to working funds
    - % Return on Assets with reference to average working funds
    - Business per employee
    - Profit per employee
    - % growth in few of the above ratios in the past 2 FYs.
- Other Key Ratios
    - Return on Average Equity
    - Basic and Diluted EPS
    - Book Value per Share
    - CRAR %
    - CASA Ratio %
    - Cost to Income %
    - Credit / Deposit %
    - % growth in few of the above ratios in the past FY
- Financial Position
    - Capital, Reserves and Surpluses
    - Deposits
    - Advances
    - Borrowings
    - Contingent Liabilities
    - Other Liabilities

SES understands that the economic performance of any entity including banks is dependent on external as well as internal factors. While all entities are impacted by external factors, its impact can be softened or made use by prudent management decisions. However, capability of management to take appropriate decisions is bolstered if professional management gets supported by healthy financial position. Management can take calculated risks and bold decisions if it has backing of good financial position. In such a situation risk-reward relationship becomes positive and creates an outward spiral. However, a weak financial position many a times lead to negative risk-reward relationship and leads to an inward spiral. In nutshell good performance leads to good all the way/ directions, whereas it is just the opposite in case of bad performance unless surgical actions change the course of spiral from inward to outward. Therefore, relative performance of financial factors are appropriate benchmark for comparison. Strong economic performance translates to value enhancement to stakeholders, better human capital management, smooth operations across supply chain, better allocation of resources to future risks and better sustainability planning.

4.2. Findings On Economic Performance Assessment

Leaders			Followers			Laggard	Benchmark
Bank A	Bank F	Bank H	Bank B	Bank C	Bank D	Bank E	SBI
61	61	61	54	53	52	28	50

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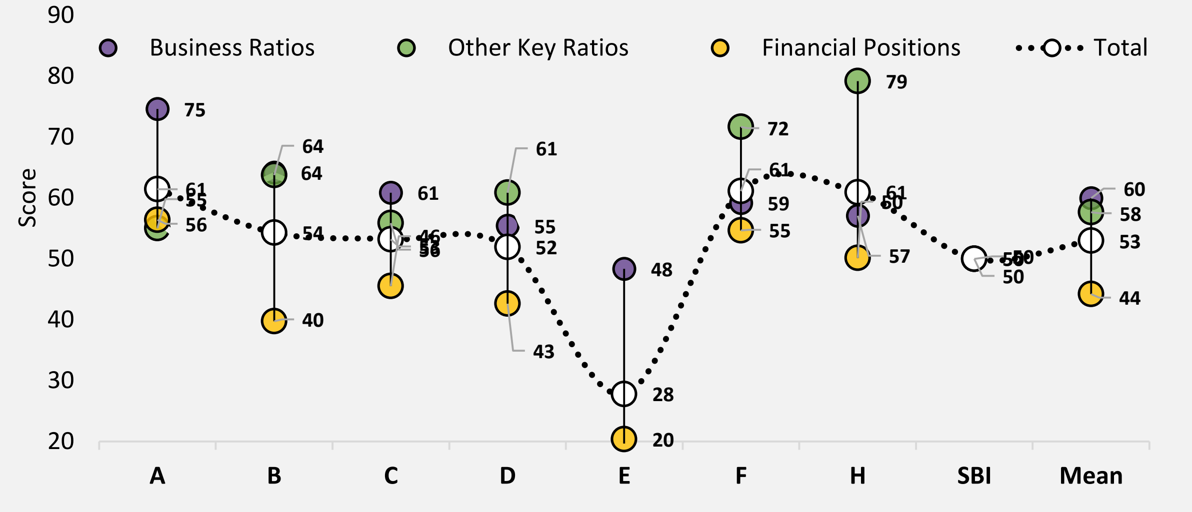
Score Distribution & Parameter Heat Map

Graph 20: Governance Assessment - Divergence in Governance Factors



Parameter/Banks	A	B	C	D	E	F	H	SBI^	Mean*
Business Ratios	75	64	61	55	48	59	57	50	60
Other Key Ratios	55	64	56	61	17	72	79	50	58
Financial Position	56	40	46	43	20	55	50	50	44
Overall Economic Performance	**61**	**54**	**53**	**52**	**28**	**61**	**61**	**50**	**53**

**Mean Score considers only the scores of the seven private banks and excludes SBI scores from consideration.*

^SBI Scores in Blue are Benchmark scores, i.e. all private banks were measured against SBI's scores kept @50.

Scoring Criteria / Analysis – Explanation for Certain Low Scores –

Business Ratios:

SES has considered the important business ratios that are required to be disclosed by Indian banks in their notes to financial statements as per RBI mandate. Here, for scoring purposes, consideration has been given to the growth in these business ratios in the past 2 FYs, apart from ratios in FY 20.

Other Key Ratios:

The ratios relevant to banks, but not covered under business ratios were considered here. Here, for scoring purposes, consideration has been given to the growth in these ratios in the past 2 FYs, apart from their ratios in FY 20.

Financial Position:

Since financial position of banks signify their financial stability, SES has also scored these banks based on their balance sheet items. Again, key consideration has been given to the growth in balance sheet items in the past 2 FYs.

4.2.1. BUSINESS RATIOS:

Assessment Factors:

- Interest income as % to working funds
- Operating Profit as % to working funds
- % Return on Assets with reference to average working funds
- Business per employee
- Profit per employee
- % growth in few of the above ratios in the past 2 FYs.

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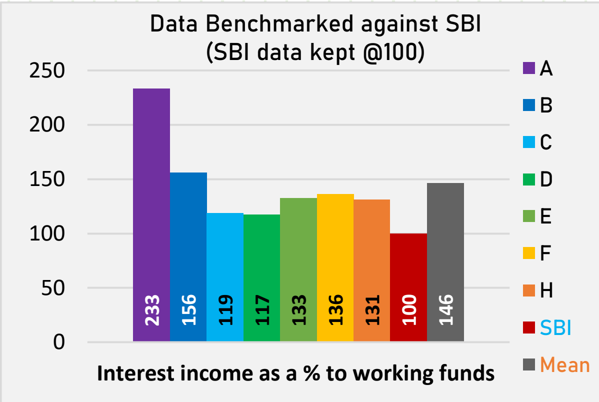
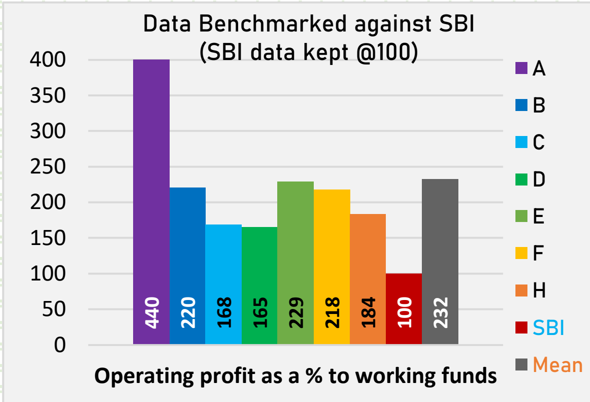
RBI, vide its Master Circular on 'Disclosures in Financial Statements – Notes to Accounts' (Link), mandates the disclosure of certain business ratios in a bank's financial statements under notes to accounts. SES has carried out comparative analysis of these ratios of sample banks for the past 2 financial years to get relative positioning. A word of caution, each bank has its own priorities as a result ratios might be differing from bank to bank.

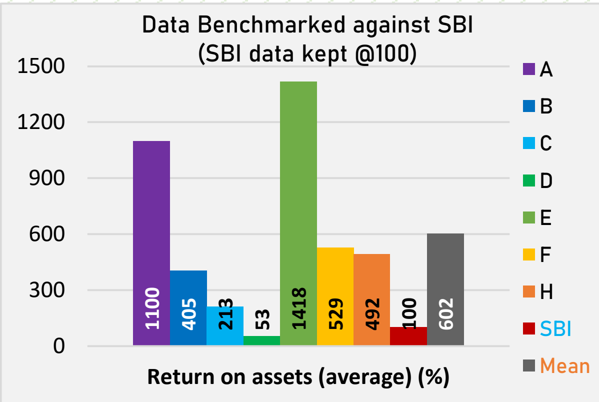
↓ Sub-parameter / Bank Score→	A	B	C	D	E	F	H	SBI^	Mean*
Interest income as a % to working funds	100	80	60	60	70	70	70	50	73
Operating profit as a % to working funds	100	70	70	60	70	70	70	50	73
Return on assets average working funds)	90	70	60	10	100	70	70	50	67
Business Per Employee	10	30	30	40	30	50	20	50	30
Profit Per Employee	60	80	60	50	10	100	70	50	61
Business Ratios	**75**	**64**	**61**	**55**	**48**	**59**	**57**	**50**	**60**

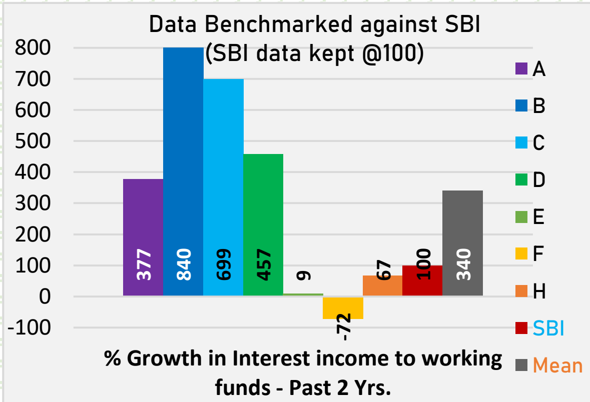
**Mean Score considers only the scores of the seven private banks and excludes SBI scores from consideration.*

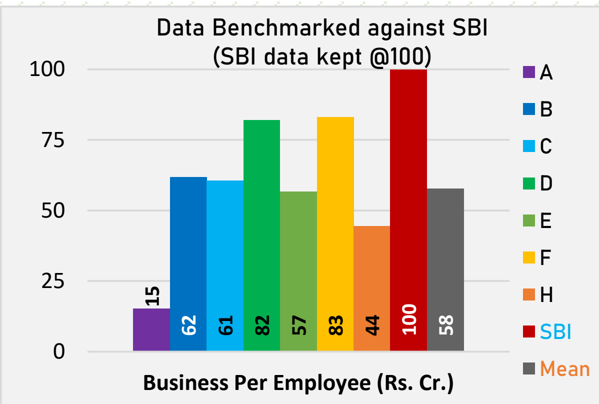
Normalised Financial Data Comparison (SBI data kept @100) –

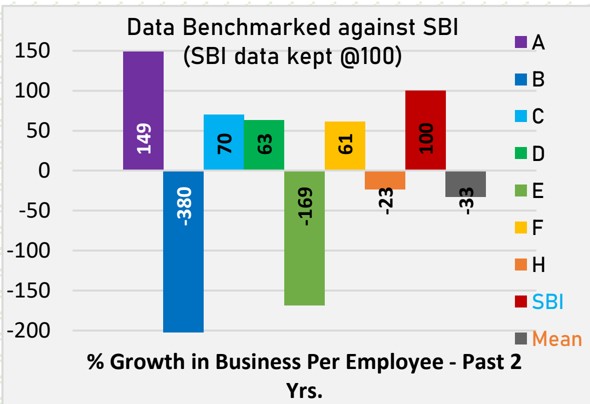


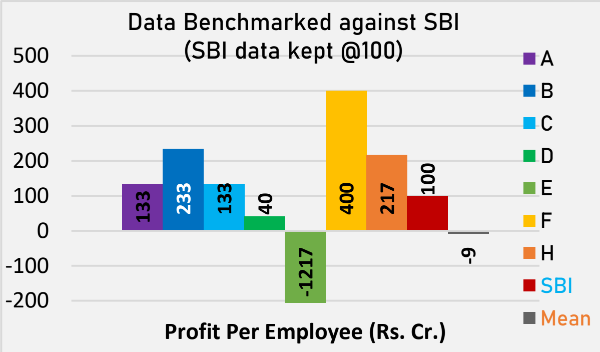


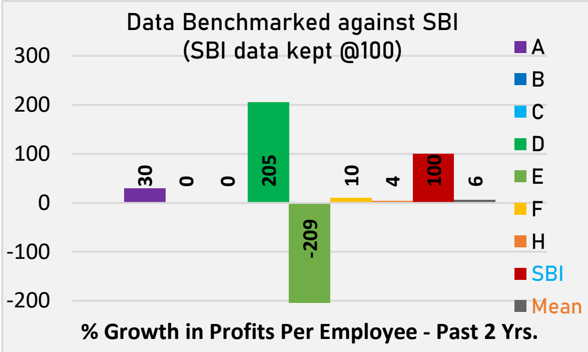












↓ Parameter Growth / Bank →	A	B	C	D	E	F	H	SBI^	Mean*
% Growth in Interest income to working funds in past 2 FYs	70	100	100	80	30	10	50	50	63
% Growth in Business per employee in past 2 FYs	100	10	50	50	30	50	40	50	47
% Growth in Profits per employee in past 2 FYs	40	40	40	100	10	40	40	50	44

**Mean Score considers only the scores of the seven private banks and excludes SBI scores from consideration.*

^SBI Scores in Blue are Benchmark scores, i.e. all private banks were measured against SBI's scores kept @50.

4.2.2. OTHER KEY RATIOS:

Assessment Factors:

- Return on Average Equity
- Basic and Diluted EPS
- Book Value per Share
- CRAR %
- CASA Ratio %
- Cost to Income %
- Credit / Deposit %
- % growth in few of the above ratios in the past FY

The major banking ratios not covered under Business Ratios have been covered by SES under the head of 'Other Key Ratios'.

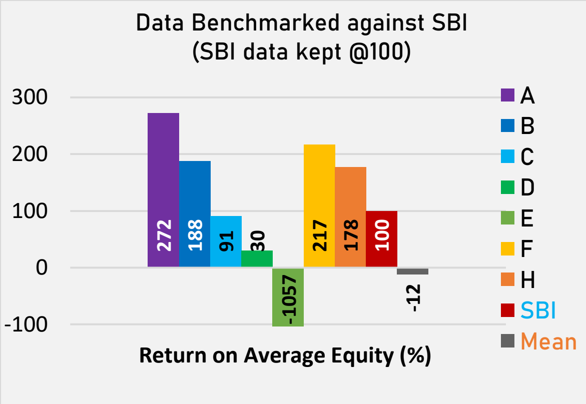
Parameter Heat Map:

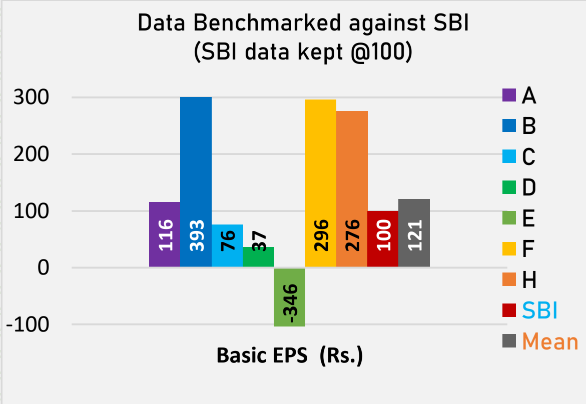
↓ Sub-parameter / Bank Score→	A	B	C	D	E	F	H	SBI^	Mean*
Return on Average Equity in the past FY	100	80	50	50	10	90	80	50	66
Basic EPS (Rs.)	60	100	50	50	10	90	80	50	63
Diluted EPS (Rs.)	60	100	50	50	10	90	90	50	64
Book Value Per Share (Rs.)	20	100	50	70	10	70	80	50	57
CRAR (%)	100	60	70	70	10	70	80	50	66
CASA Ratio (%)	50	10	50	50	30	50	100	50	49
Cost to Income (%)	100	80	80	80	10	90	70	50	73
Credit/Deposit (%)	40	50	70	70	30	70	70	50	57
Other Key Ratios	**55**	**64**	**56**	**61**	**17**	**72**	**79**	**50**	**58**

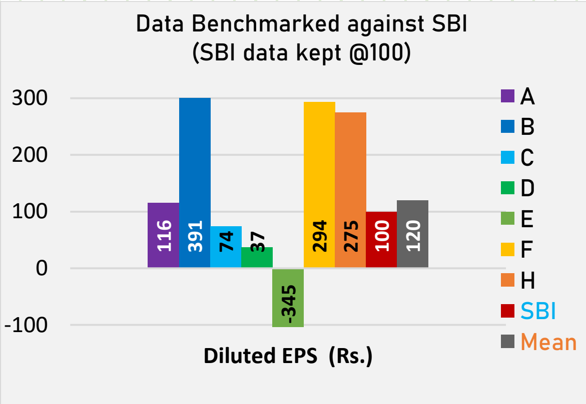
**Mean Score considers only the scores of the seven private banks and excludes SBI scores from consideration.*

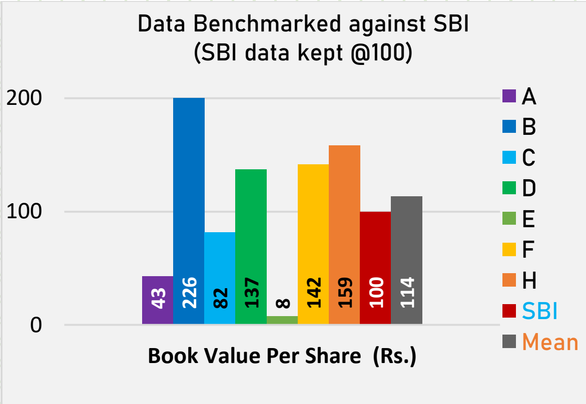
^SBI Scores in Blue are Benchmark scores, i.e. all private banks were measured against SBI's scores kept @50.

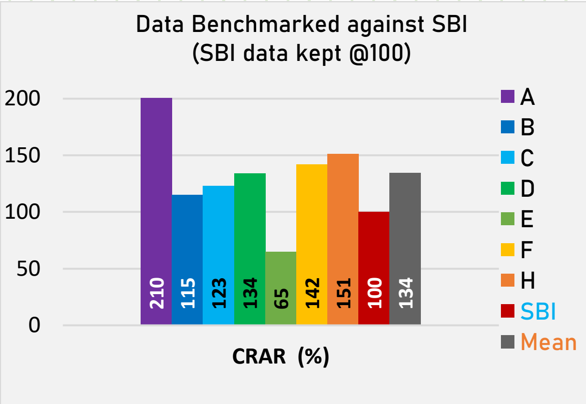
Normalised Financial Data Comparison (SBI data kept @100) –

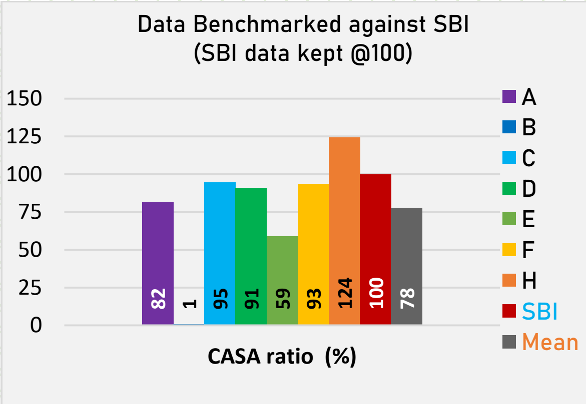


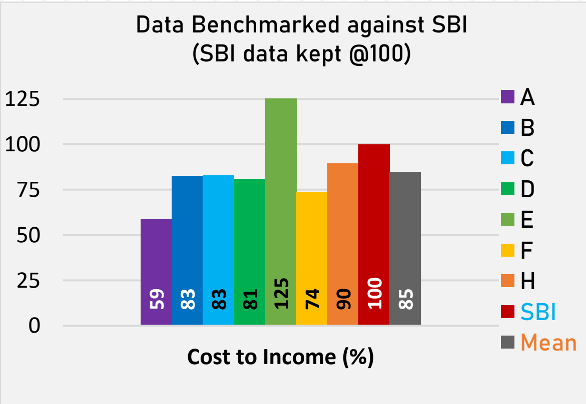


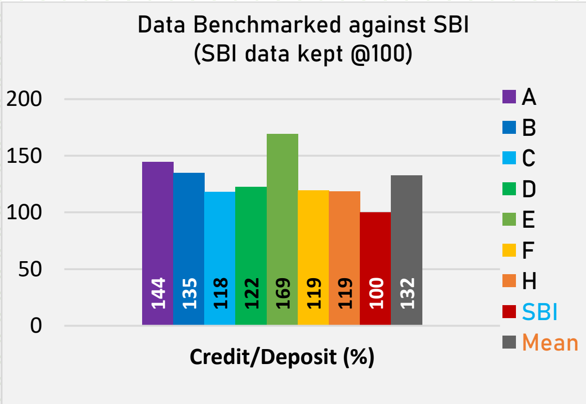












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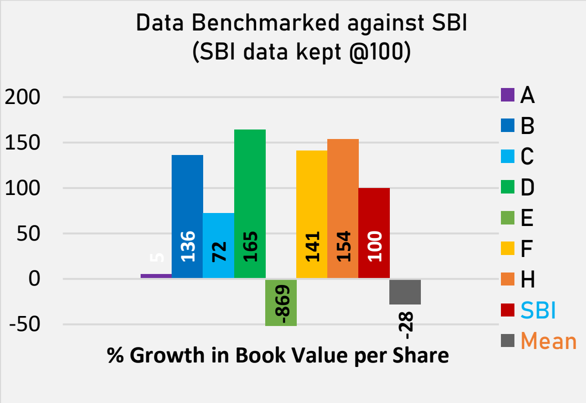
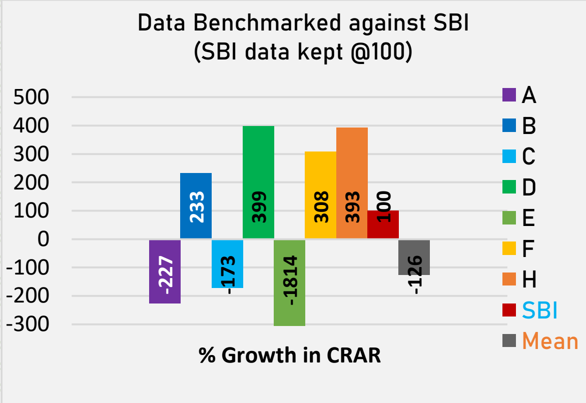
↓ Parameter Growth / Bank →	A	B	C	D	E	F	H	SBI^	Mean*
% Growth in BV per share in the past FY	50	80	50	100	10	90	100	50	69
% Growth in CRAR in the past FY	50	80	50	100	10	90	100	50	69
% Growth in CASA ratio in the past FY	30	40	40	40	10	60	100	50	46
% Change in Cost to income in the past FY	60	60	60	10	100	60	60	50	59
% Change in Credit/Deposit in the past FY	10	50	100	100	10	80	90	50	63

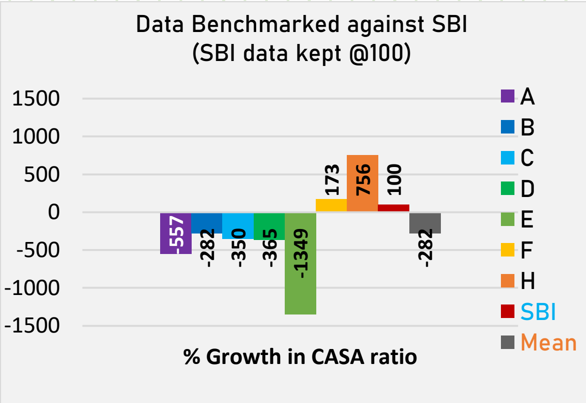
**Mean Score considers only the scores of the seven private banks and excludes SBI scores from consideration.*

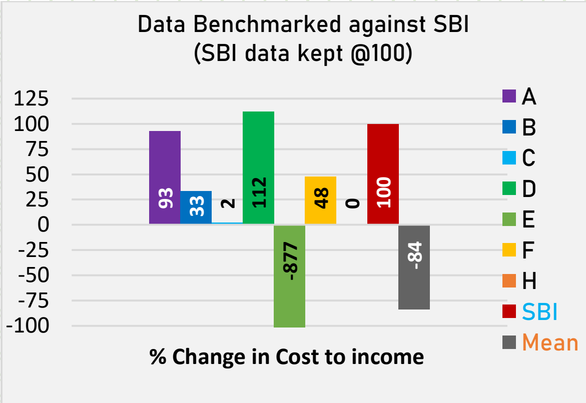
^SBI Scores in Blue are Benchmark scores, i.e. all private banks were measured against SBI's scores kept @50.

Normalised Financial Growth Comparison in the Past FY (SBI data kept @100) –









4.2.3. FINANCIAL POSITION:

Assessment Factors:

- Capital, Reserves and Surpluses
- Deposits
- Advances
- Borrowings
- Contingent Liabilities
- Other Liabilities

Since the financial position of a bank indicates its financial stability and health, SES has accorded scores based on their balance sheet in FY 20 as well as their growth in the past 2 FYs.

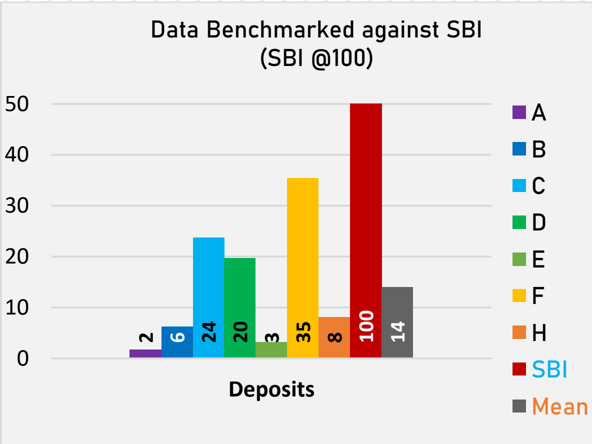
Parameter Heat Map:

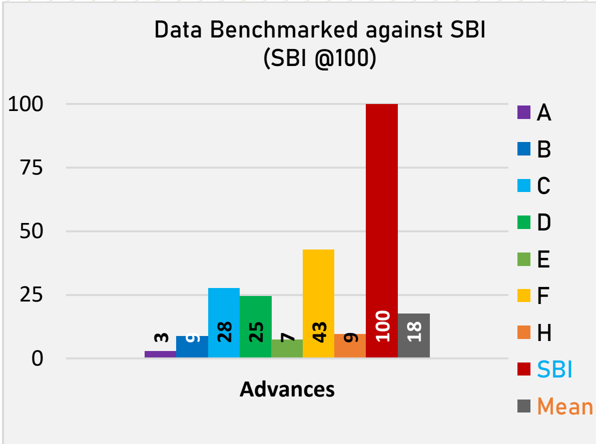
Parameter / Bank	A	B	C	D	E	F	H	SBI^	Mean*
% Growth in Reserves & Surplus in past 2 FY	100	90	60	80	10	100	80	50	74

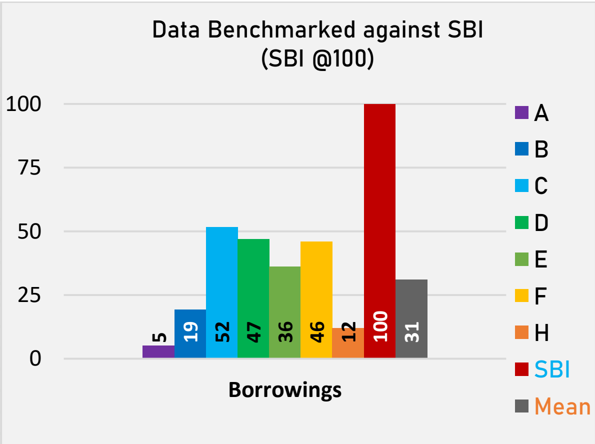
% Growth in Total Deposits in past 2 FY	100	70	70	80	10	80	70	50	69
% Growth in CASA Ratio in past 2 FY	50	10	50	50	30	50	100	50	49
% Growth in Term Deposits in past 2 FY	90	70	90	100	10	80	60	50	71
% Growth in Total Advances in past 2 FY	100	70	60	60	10	70	60	50	61
% Growth in Priority Sector Advances in past 2 FY	100	70	100	70	10	70	60	50	69
% Change in Borrowings in past 2 FY	100	60	60	60	60	60	60	50	66
% Change in Contingent Liabilities in past 2 FY	10	50	50	50	100	50	80	50	56
% Change in Other liabilities in past 2 FY	100	10	70	70	60	60	60	50	61

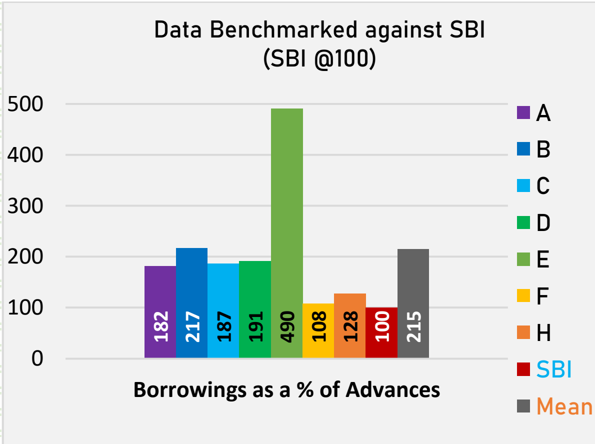
**Mean Score considers only the scores of the seven private banks and excludes SBI scores from consideration.*
^SBI Scores in Blue are Benchmark scores, i.e. all private banks were measured against SBI's scores kept @50.

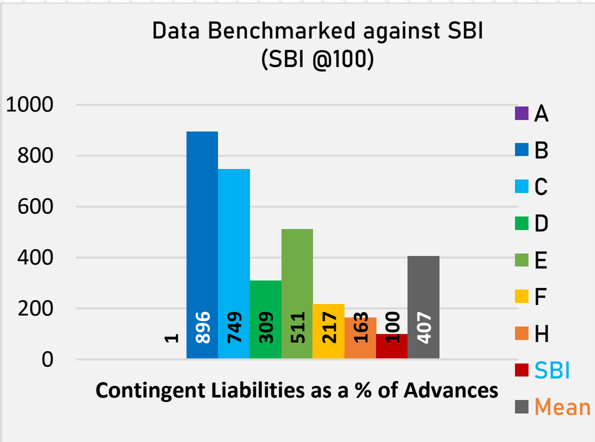
Normalised Financial Data Comparison (SBI data kept @100) –

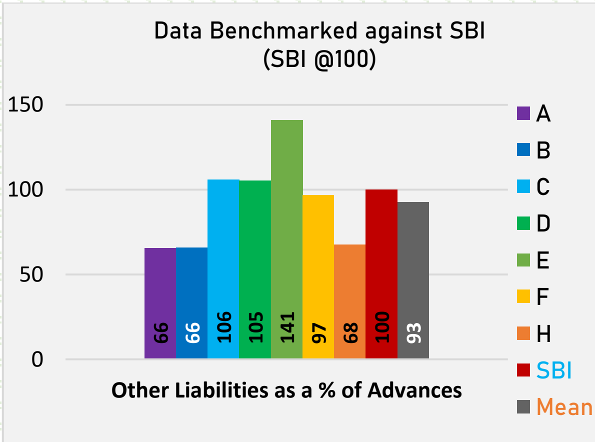












4.3. SYSTEMIC RISK DRIVERS AND MANAGEMENT:

Assessment Factors:

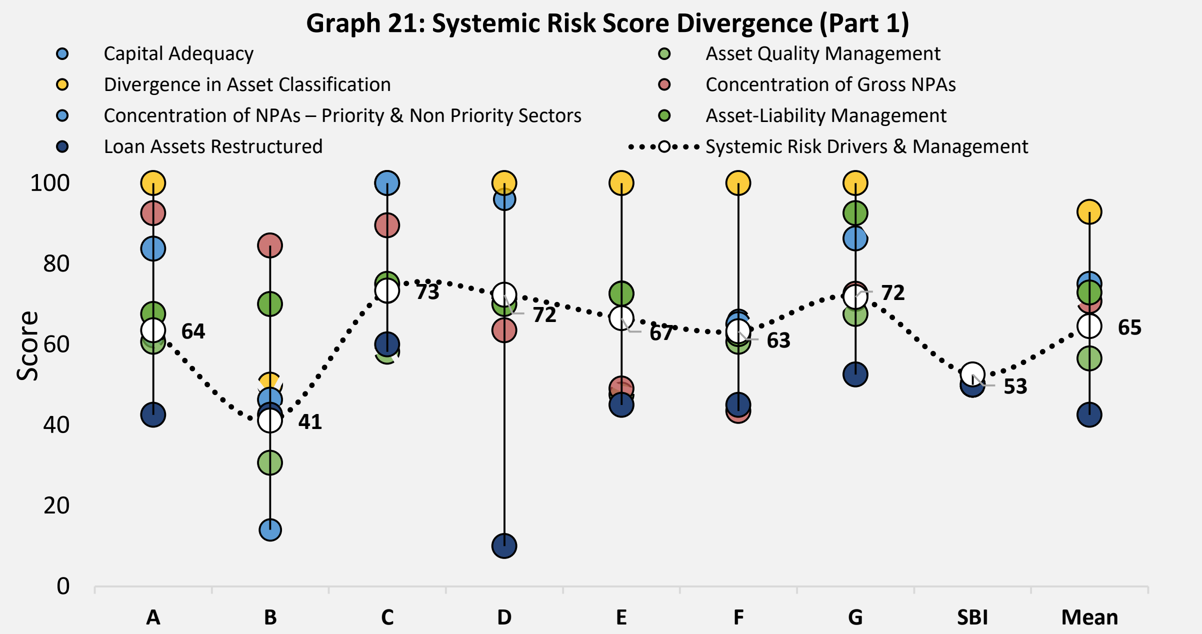
- Capital Adequacy
- Asset Quality Management
- Divergence in Asset Classification between bank and RBI's assessment
- Concentration of Gross NPAs
- Concentration of NPAs based on Priority and Non-Priority Sector
- Asset Liability Gap Management
- Loan Assets Restructured
- Exposure Risks
- Concentration Risks
- Capital Requirements for Credit, Market and Operational Risk
- Provisions and Contingencies
- Liquidity Coverage Management
- Credit Rating of Securities

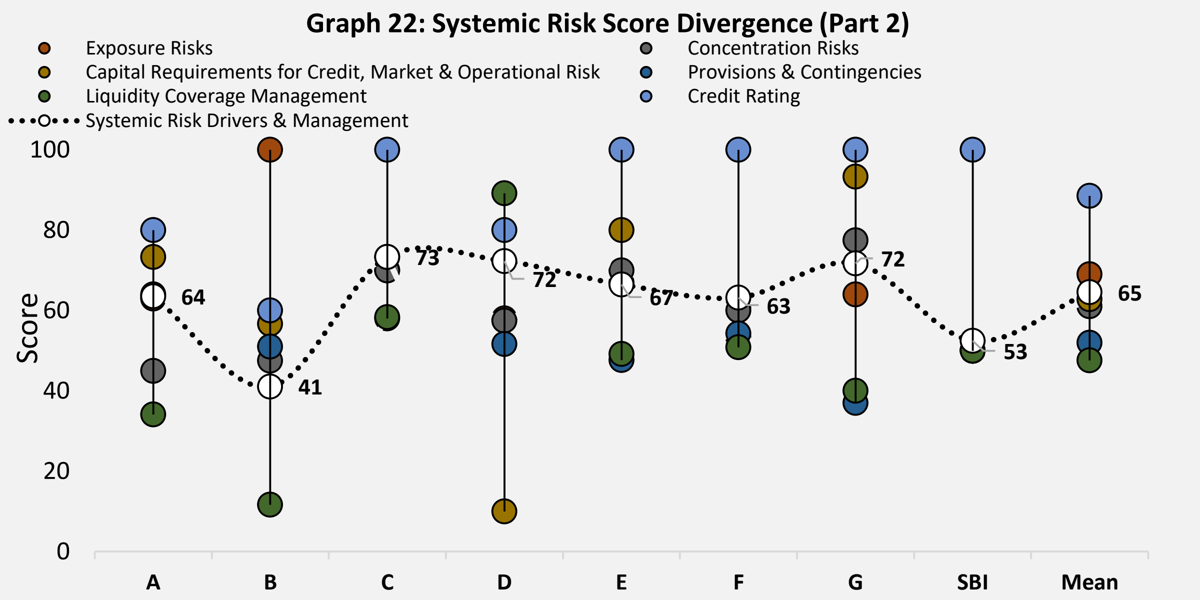
The collapse of even a medium sized bank can have an adverse effect on the financial market ecosystem in the short term. In this backdrop, SES has identified certain soundness and resilience indicators that act as warning triggers during a bank's stress testing mechanisms and accorded a risk grade and score. For the purposes of the study, SES has stuck to identifying only those triggers that form part of the banks' public disclosures.

4.3. Findings On Systemic Risk Drivers & Management Assessment

Leaders			Followers			Laggard	Benchmark
Bank C	Bank D	Bank G	Bank E	Bank A	Bank F	Bank B	SBI
73	72	72	67	64	63	41	53
Risk Grade							
A -	A -	A -	B +	B +	B +	B -	B

Score Distribution & Parameter Heat Map





Scoring Criteria & Terms Explained –

"Systemic Risk Drivers & Management":

Based on disclosures provided by the Banks in their notes to accounts as well as Basel III disclosures, SES has identified a list of risk drivers that affect the Indian banking sector on a macro level as well as highlighted certain parameters that point to the management of such drivers. Thus, the term is a culmination of the scores obtained in the below parameters. These scores are based on data captured from Notes to accounts of financial statements of the banks for FY 19-20 as well as their Basel III disclosures of March 2020. Since most of the parameters have been picked out directly from the 'Notes to Accounts' section of the Financial statements of the Banks, SES has explained any variation in the parameters used for this assessment.

Capital Adequacy:

SES has based its assessment on Bank data relating to CET I, Tier I, Tier II as well as CRAR. The relevant data was collected from the Annual Reports (FY 20) of all the banks.

Asset Quality Management:

This parameter mainly assesses the percentage Gross NPAs & Net NPAs of Banks as well as the growth in such NPAs in the past 2 FYs. Provision Coverage Ratios is another assessment criteria under this head. The relevant data was collected from Basel III disclosures (March 2020) as well as Annual Reports (FY 20) of all the banks.

Divergence in Asset Classification:

As per RBI Circular dated 1st April, 2019, in case the additional provisioning for NPAs assessed by RBI exceeds 10% of the reported profit before provisions and contingencies and/or additional Gross NPAs identified by RBI exceeds 15% of published incremental Gross NPAs for the reference period then banks are required to disclose divergences from prudential norms on income recognition. This parameter assesses such divergences which were reported in Annual Reports of banks for FY 20.

Concentration of Gross NPAs:

SES has assessed the percentage of Sub-standard NPAs to total Gross NPAs. The categories of substandard NPAs that were considered were Doubtful - 1, 2, 3 & loss assets. The data was mainly gathered from Basel III disclosures (March 2020) of all banks concerned.

Concentration of Gross NPAs (Priority & Non-Priority Sectors):

Under this parameter, the categorization was tweaked to assess the type of sectors where NPA concentration was high. The sectors considered for assessment are as follows: Agricultural loans, Industrial loans, service sector loans and personal loans. Further assessment based on priority and non-priority sectors was also considered. The data was captured from the notes to accounts of statements of banks for FY 19-20.

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Asset – Liability Management:

The assessment was based on the quantum of assets of banks as compared to their liabilities (Difference between the quantum of Assets and liabilities) for various time periods ranging from 1 year to more than 5 years. The assets consisted of Loans, Advances & Investments while Liabilities consisted of Deposits & Borrowings. The data was captured from the notes to accounts of statements of banks for FY 19-20.

Loans Restructured:

Here SES assessed the percentage of various qualities of assets (Standard, substandard, doubtful and loss) that were restructured by banks as on 31st March, 2020.

Exposure Risks (Specifically with regard to Real Estate & Capital Markets):

Under this parameter, though SES has provided a brief overview of industry wise exposure of every bank as on 31st March, 2020 as per Basel III disclosures, SES has only scored the banks on their exposures to the real estate & capital markets sector (as per annual report disclosures). This is because the disclosures under Basel III are not uniform when it comes to industry wise exposures. Each bank's disclosure of number of industries is different from others. As a result, even though SES managed to fit in these disclosures under 18 most common industries identified by the banks, there was always a chance that some exposures were disclosed under the 'other industries' category by the banks, thus making a meaningful comparison of industry wise exposure almost impossible.

Concentration Risks:

This assessment was based on Notes to accounts disclosures of concentration of the 20 largest contributors to the following parameters – Deposits, Advances & Exposures. In case of NPAs, the concentration of the top four contributors was the set criteria as per bank disclosures. The data was captured from the notes to accounts of statements of banks for FY 19-20.

Capital Requirements for Credit, Market and Operational Risk:

The data for these parameters was captured from the Basel III disclosures of the banks and the assessment criteria was the percentage of such requirements as compared to total capital.

Provisions & Contingencies:

The assessment criteria here included floating provisions, quantum of provisions and contingencies, percentage of Provisions towards Standard Assets and NPAs as well as percentage change in total provisions in the past two FYs. The data was captured from the notes to accounts of statements of banks for FY 19-20.

Liquidity Coverage Management:

Here, the assessment was based on the disclosed liquidity coverage ratios for the four quarters of FY 20 as well as percentage change in average Liquidity Coverage Ratio in the past 2 FYs.

Credit Rating of Securities:

Here, SES scored the banks on basis of credit ratings secured by the banks on various short and long term borrowings. The ratings data captured was as on 31st March, 2020.

Parameter / Bank	A	B	C	D	E	F	G	SBI^	Mean*
Capital Adequacy	62	14	73	96	73	66	71	50	65
Asset Quality Management	61	31	58	71	48	61	68	50	57
Divergence in Asset Classification	100	50	100	100	100	100	100	50	93
Concentration of Gross NPAs	93	85	90	64	49	44	73	50	71
Concentration of NPAs across Sectors	84	46	100	71	73	65	86	50	75
Asset-Liability Gap Management	68	70	75	70	73	63	93	50	73
Loan Assets Restructured	43	43	60	10	45	45	53	50	43

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Exposure Risks (Real Estate & Capital Markets)	63	100	70	58	67	61	64	50	69
Concentration Risks	45	48	70	58	70	60	78	50	61
Capital Requirements for Credit, Market & Operational Risk	73	57	73	10	80	53	93	50	63
Provisions & Contingencies	64	51	58	52	48	54	37	50	52
Liquidity Coverage Management	34	12	58	89	49	51	40	50	48
Credit Rating	80	60	100	80	100	100	100	100	89
Systemic Risk Management	**64**	**41**	**73**	**72**	**67**	**63**	**72**	**53**	**65**

**Mean Score considers only the scores of the seven private banks and excludes SBI scores from consideration.*

^SBI Scores in Blue are Benchmark scores, i.e. all private banks were measured against SBI's scores kept @50. The Systemic Risk score for SBI is benchmarked @53 as benchmarking @ 50 was not feasible for one of its parameters (Credit Rating).

4.3.1. CAPITAL ADEQUACY:

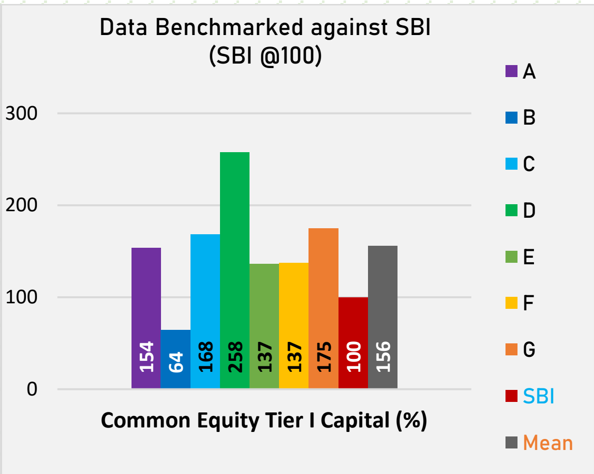
Assessment Factors:

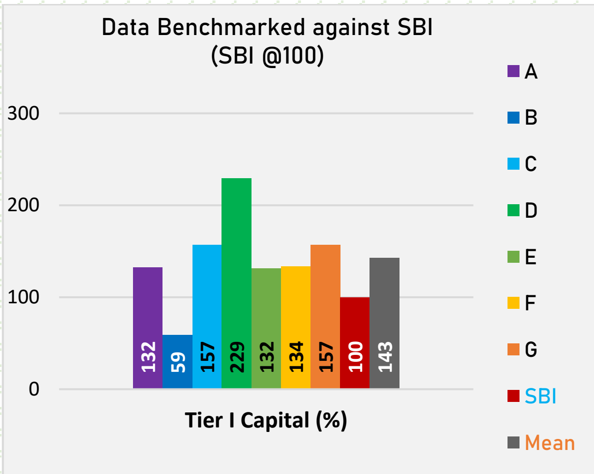
- Common Equity Tier I Capital %
- Tier I Capital %
- Tier II Capital %
- Total Capital to Risk Weighted Assets Ratio (CRAR) %

Parameter Heat Map

Parameter / Bank	A	B	C	D	E	F	G	SBI^	Mean*
Common Equity Tier I Capital (%)	70	10	80	100	70	70	80	50	69
Tier I Capital (%)	70	10	80	100	70	70	80	50	69
Tier II Capital (%)	10	50	30	60	100	30	10	50	41
Total CRAR %	60	10	70	100	70	70	70	50	64
Capital Adequacy	62	14	73	96	73	66	71	50	65

Normalised Data Comparison (SBI data kept @100) –





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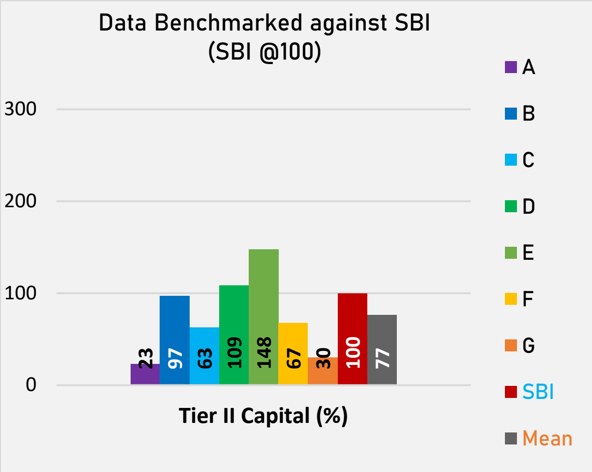

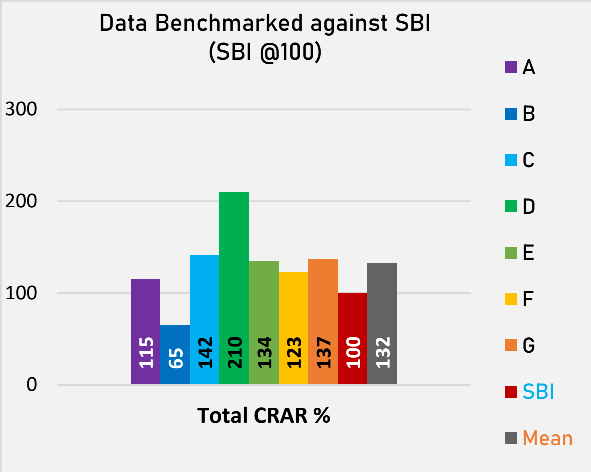

SES Observations:

Overall Outlook:

↗ **Above Average**

- Barring Bank B, all other Banks had a double digit CRAR and enough capital adequacy to stave off RBI's PCA framework.
- Among Private sector Banks, Bank D had highest CRAR as at end of FY 20.

4.3.2. ASSET QUALITY MANAGEMENT:

Assessment Factors:

- Gross Non-Performing Assets (GNPAs) - (Consolidated Basis)
- Net Non-Performing Assets (NNPAs) - (Consolidated Basis)
- % growth in GNPAs and NNPAs in past 2 FYs - (Consolidated Basis)
- Provision Coverage Ratio % - (Standalone Basis)

Parameter Heat Map:

Parameter / Bank	A	B	C	D	E	F	G	SBI^	Mean*
Gross Non-Performing Assets (NPAs) to gross advances (%)	90	10	100	100	70	60	100	50	76
Net Non-Performing Assets (NPAs) to net advances (%)	90	10	100	100	70	80	100	50	79
Gross NPAs (Rs. Cr.)	100	90	100	100	100	90	100	50	97
% Growth in Gross NPAs in past 2 years	50	10	50	50	50	50	50	50	44
Net NPAs (Rs. Cr.)	100	100	100	100	100	90	100	50	99
% Growth in Net NPAs in past 2 years	40	10	40	40	50	100	50	50	47
Provision coverage ratio (%)	10	30	30	10	20	40	40	50	26
Asset Quality Management	61	31	58	71	48	61	68	50	57

**Mean Score considers only the scores of the seven private banks and excludes SBI scores from consideration.*
^SBI Scores in Blue are Benchmark scores, i.e. all private banks were measured against SBI's scores kept @50.

SES Observations:

Overall Outlook:

→ **Average**

- Benchmark set here is SBI a PSU, many private banks have managed to beat SBI in term of asset quality management.
- In terms of reduction in NPAs in the past 2 financial years, SBI has shown one of the strongest performances.
- Bank B has seen the highest and steepest rise in NPAs in the past 2 FYs.
- All the private banks lag SBI in terms of Provision Coverage Ratio.

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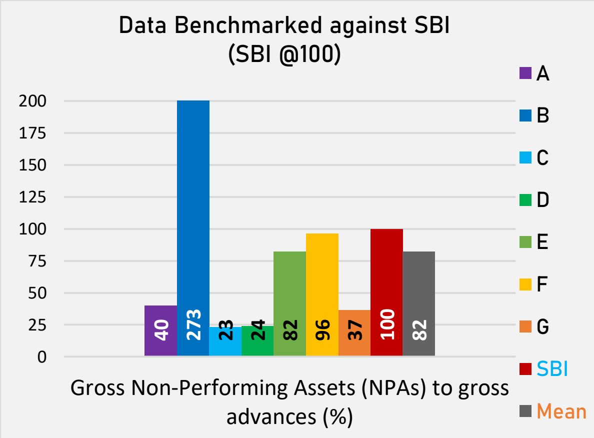
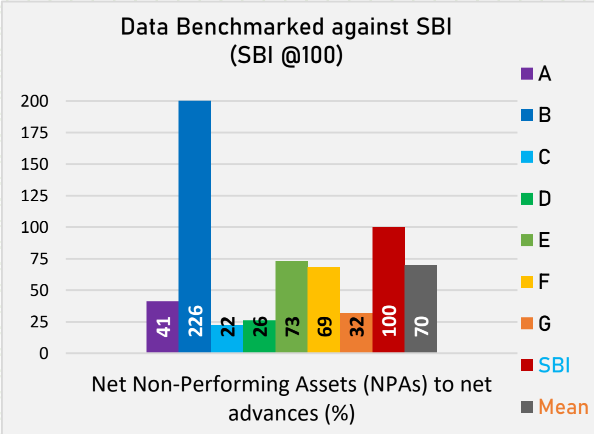
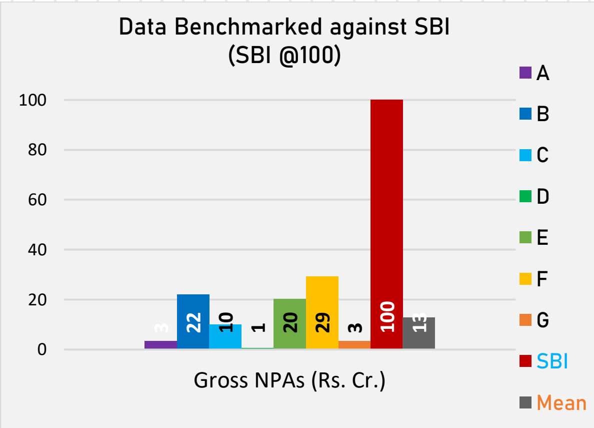
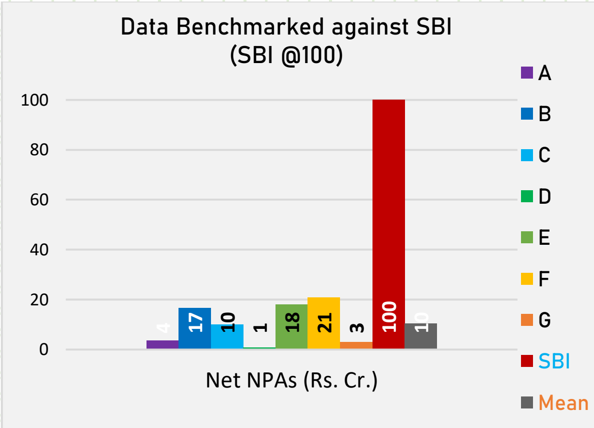
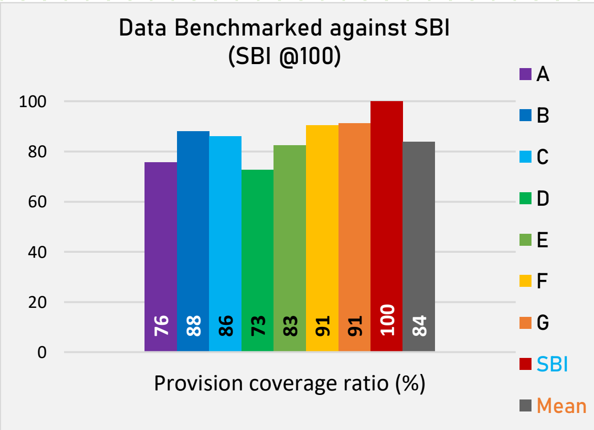
Normalised Data Comparison (SBI data kept @100) –

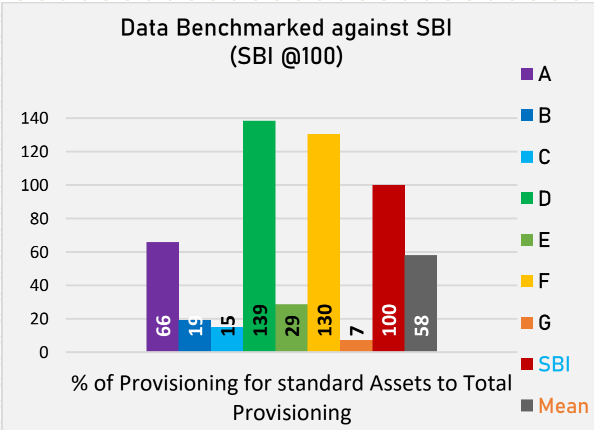


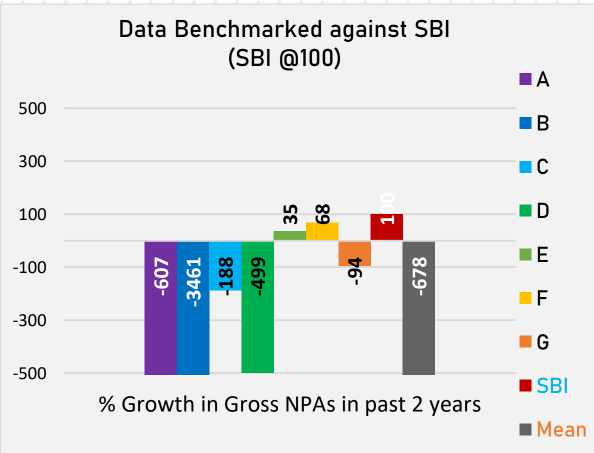


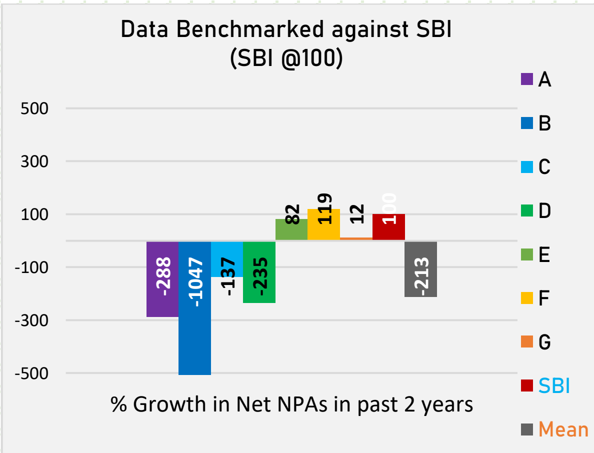












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SES Observations:

Overall Outlook:
→ Average

- Benchmark set here is SBI a PSU, many private banks have managed to beat SBI in term of asset quality management.
- In terms of reduction in NPAs in the past 2 financial years, SBI has shown one of the strongest performances.
- Bank B has seen the highest and steepest rise in NPAs in the past 2 FYs.
- All the private banks lag SBI in terms of Provision Coverage Ratio.

4.3.3. DIVERGENCE IN ASSET CLASSIFICATION - BANKS VS RBI ASSESSMENT:

Assessment Factors:
- % Divergence in Gross and Net NPAs in the past 2 FYs
- % Divergence in NPA Provisioning in the past 2 FYs
- % Change in PAT after taking into account the divergence in provisioning in the past 2 FYs

RBI Criteria for Divergence Disclosure:

As per RBI mandate, banks are required to disclose the divergences in asset classification and provisioning consequent to RBI's annual supervisory process, wherever either or both of the following conditions are satisfied:

(a) additional provisioning for NPAs assessed by RBI exceeds 10 % of the reported profit before provisions and contingencies for the reference period and

(b) additional Gross NPAs identified by RBI exceed 15 % of the published incremental Gross NPAs for the reference period

Parameter Heat Map

Parameter / Bank	A	B	C	D	E	F	G	SBI^	Mean*
Divergence in Asset Classification	100	50	100	100	100	100	100	50	93

**Mean Score considers only the scores of the seven private banks and excludes SBI scores from consideration.*
^SBI Scores in Blue are Benchmark scores, i.e. all private banks were measured against SBI's scores kept @50.

SES Observations:

Overall Outlook:
→ Average

- Banks B and H have disclosed divergences in asset classification post RBI assessment in their annual reports for FY 20. These divergences have been reported for FY 18-19.

4.3.4. CONCENTRATION OF GROSS NPAs (ON CONSOLIDATED BASIS):

Assessment Factors:
- % of Sub-standard NPAs to total Gross NPAs
- % of Doubtful – 1 NPAs to total Gross NPAs
- % of Doubtful – 2 NPAs to total Gross NPAs
- % of Doubtful – 3 NPAs to total Gross NPAs
- % of Doubtful NPAs to total Gross NPAs
- % of Loss NPAs to total Gross NPAs

Parameter Heat Map

Parameter / Bank	A	B	C	D	E	F	G	SBI^	Mean*
% of Sub-standard NPAs to total Gross NPAs	90	100	100	80	20	10	70	50	67
% of Doubtful – 1 NPAs to total Gross NPAs	100	70	60	10	70	70	60	50	63

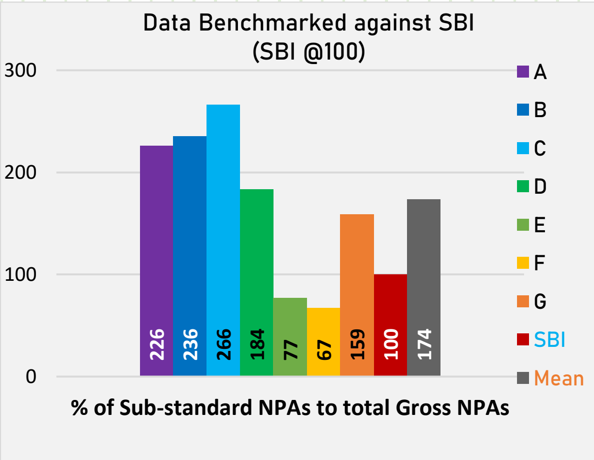
% of Doubtful – 2 NPAs to total Gross NPAs	90	100	90	100	50	10	60	50	71
% of Doubtful – 3 NPAs to total Gross NPAs	100	100	90	100	80	10	70	50	79
% of Doubtful NPAs to Gross NPAs	80	100	90	100	70	60	80	50	83
% of Loss NPAs to total Gross NPAs	100	50	90	10	40	80	80	50	64
Concentration of Gross NPAs	**93**	**85**	**90**	**64**	**49**	**44**	**73**	**50**	**71**

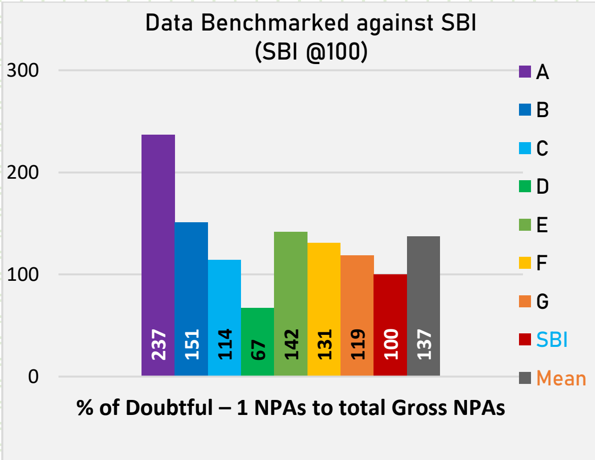
**Mean Score considers only the scores of the seven private banks and excludes SBI scores from consideration.*
^SBI Scores in Blue are Benchmark scores, i.e. all private banks were measured against SBI's scores kept @50.

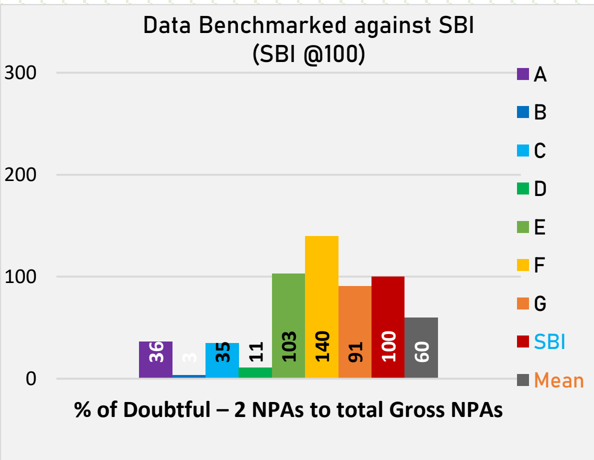
Brief Overview of Categories of NPAs as per RBI's Prudential IRAC Norms (Weblink):

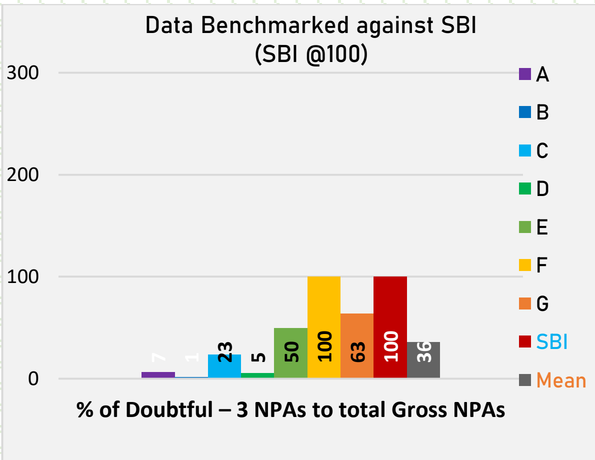
- Substandard NPA - A substandard asset is one, which has remained NPA for a period < or = 12 months. Such an asset will have well defined credit weaknesses that jeopardise liquidation of debt and are characterised by the distinct possibility that the banks will sustain some loss, if deficiencies are not corrected.
- Doubtful NPA - An asset would be classified as doubtful if it has remained in the substandard category for a period of 12 months (Doubtful I – 2nd Year of NPA; Doubtful II – 3rd & 4th Year of NPA; Doubtful III – 5th Year onwards). A loan classified as doubtful has all the weaknesses inherent in assets that were classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, – on the basis of currently known facts, conditions and values – highly questionable and improbable.
- Loss NPA - A loss asset is one where loss has been identified by the bank or internal or external auditors or the RBI inspection but the amount has not been written off wholly. In other words, such an asset is considered uncollectible and of such little value that its continuance as a bankable asset is not warranted although there may be some salvage or recovery value.

Normalised Data Comparison (SBI data kept @100) –









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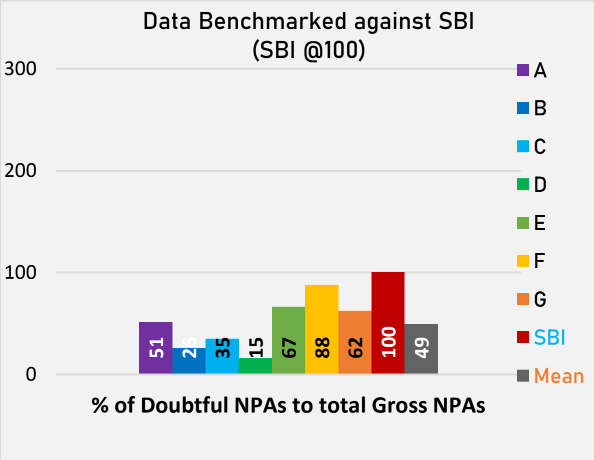

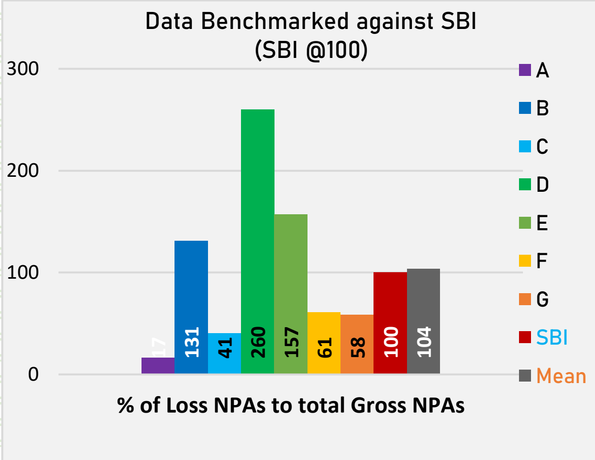

SES Observations:

Overall Outlook: → **Average**

- Bank D has the highest % of loss NPAs to Gross NPAs.
- The NPAs of Banks E and F are concentrated more towards doubtful and loss NPAs.
- The NPAs of Banks A, B and C for FY 20 are concentrated more towards substandard NPAs, while Bank G's concentration of NPAs is roughly evenly spread out.

4.3.5. SECTORAL CONCENTRATION OF NPAs

Assessment Factors:

- Priority Sector Advances - % of Gross NPAs to Total Advances
- Non-Priority Sector Advances - % of Gross NPAs to Total Advances
- Agricultural & Allied Sector - % of Gross NPAs to Total Advances
- Industrial Sector - % of Gross NPAs to Total Advances
- Services Sector - % of Gross NPAs to Total Advances
- Personal Loans & Others - % of Gross NPAs to Total Advances

Parameter Heat Map

Parameter / Bank	A	B	C	D	E	F	G	SBI^	Mean*
Priority Sector Advances - % of Gross NPAs to Total Advances	100	100	100	70	100	100	100	50	96
Non-Priority Sector Advances - % of Gross NPAs to Total Advances	90	10	100	50	50	50	90	50	63
Agricultural & Allied Sector - % of Gross NPAs to Total Advances	100	90	100	100	90	90	100	50	96
Industrial Sector - % of Gross NPAs to Total Advances	90	10	100	100	50	40	100	50	70
Services Sector - % of Gross NPAs to Total Advances	90	10	100	80	50	50	100	50	69
Personal Loans & Others - % of Gross NPAs to Total Advances	10	40	100	50	90	40	10	50	49
Concentration of NPAs across Sectors	**84**	**46**	**100**	**71**	**73**	**65**	**86**	**50**	**75**

**Mean Score considers only the scores of the seven private banks and excludes SBI scores from consideration.*
^SBI Scores in Blue are Benchmark scores, i.e. all private banks were measured against SBI's scores kept @50.

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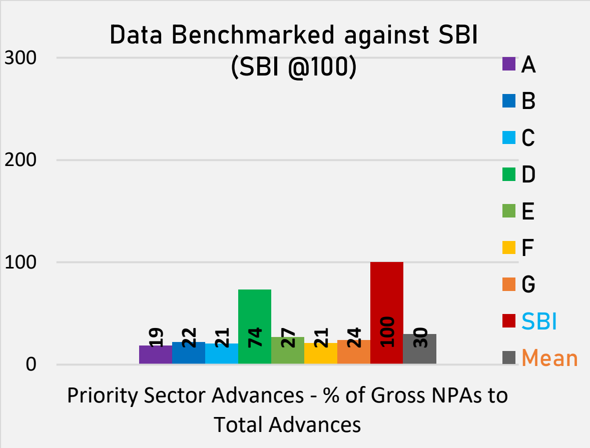
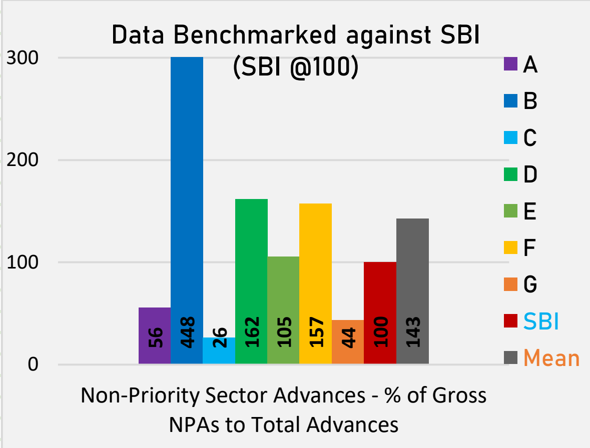
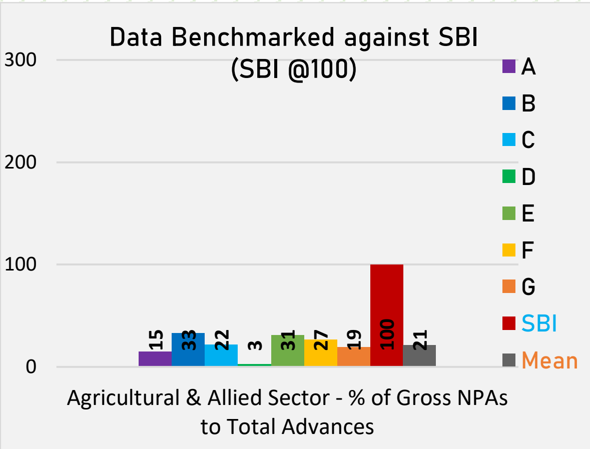
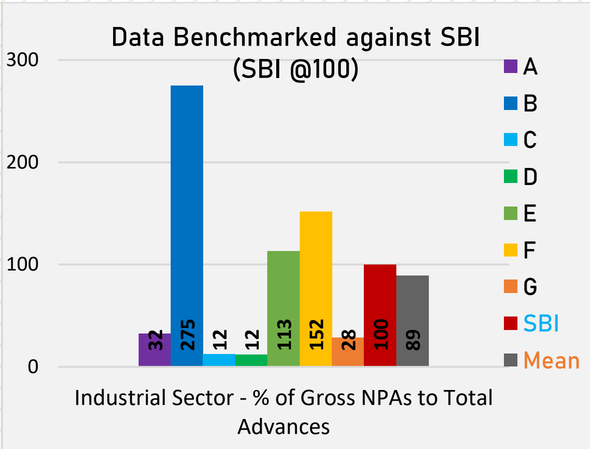
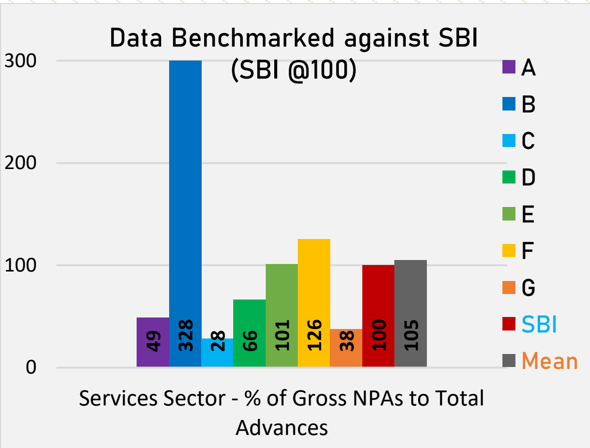
Normalised Data Comparison (SBI data kept @100) –

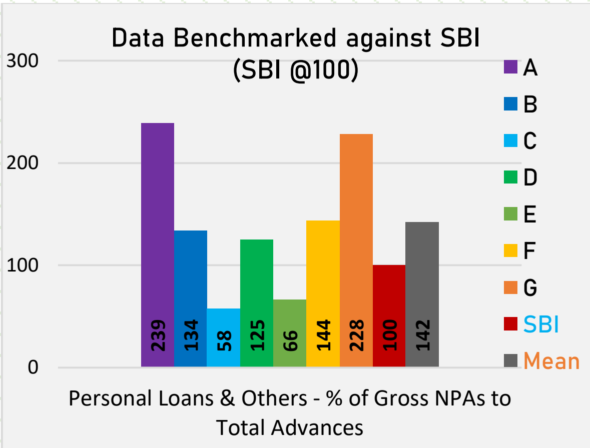












SES Observations:

Overall Outlook:

↗ **Above Average**

- Banks A, C & G have the least concentration of NPAs across major priority and Non-Priority sectors.
- Bank B has the highest concentration of NPAs in the Non Priority sector, while SBI has the highest concentration of NPAs in the priority sector.

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4.3.6. ASSET LIABILITY GAP MANAGEMENT:

Assessment Factors:

- Asset-Liability Gap: upto 1 year (as a % of Assets)
- Asset-Liability Gap: 1-3 years (as a % of Assets)
- Asset-Liability Gap: 3-5 years (as a % of Assets)
- Asset-Liability Gap: More than 5 years (as a % of Assets)

*(**Note:** Assets consist of Loans, Advances & Investments while Liabilities consist of Deposits & Borrowings)*

Overview

RBI in its Guideines on Asset Liability Management System for Banks (Link) has earlier stated as under:

> *"Measuring and managing liquidity needs are vital activities of commercial banks. By assuring a bank's ability to meet its liabilities as they become due, liquidity management can reduce the probability of an adverse situation developing… Bank management should measure not only the liquidity positions of banks on an ongoing basis but also examine how liquidity requirements are likely to evolve under crisis scenarios. Experience shows that assets commonly considered as liquid like Government securities and other money market instruments could also become illiquid when the market and players are unidirectional. Therefore liquidity has to be tracked through maturity or cash flow mismatches…"*

Here SES analysis on such asset-liability mismatch is based on four maturity buckets: Upto 1 year, 1-3 years, 3-5 years and more than 5 years.

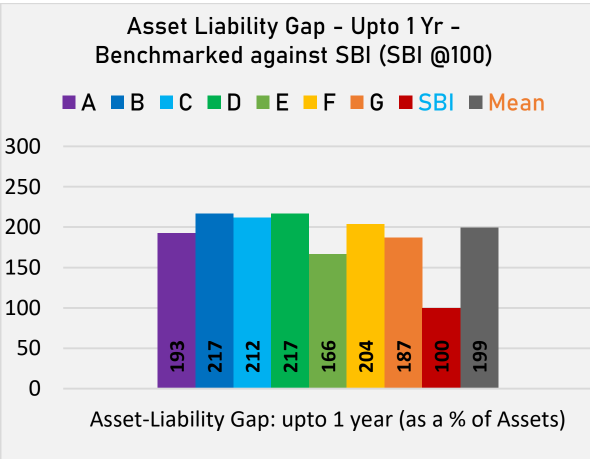
Moreover, all such mismatches have been computed as a percentage of total assets and normalized as per SBI's data. Through this analysis, SES intends to highlight the relative performance of private sector banks vis-à-vis SBI as well as discover leaders and laggards.

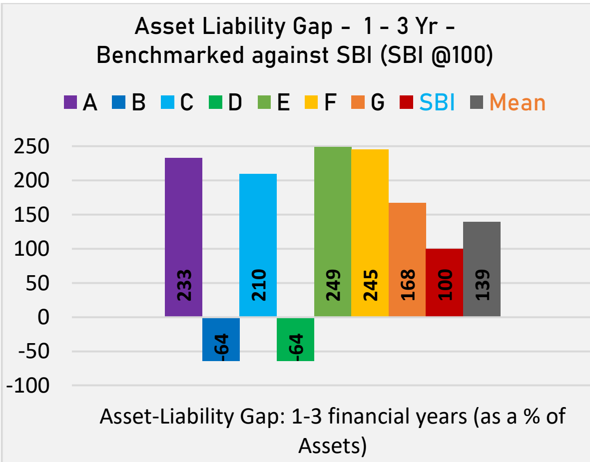
Parameter Heat Map

Parameter / Bank	A	B	C	D	E	F	G	SBI^	Mean*
Asset-Liability Gap: upto 1 year (as a % of Assets)	90	100	100	100	80	100	90	50	94
Asset-Liability Gap: 1-3 years (as a % of Assets)	10	10	90	10	100	100	80	50	70
Asset-Liability Gap: 3-5 years (as a % of Assets)	70	70	100	70	100	10	100	50	74
Asset-Liability Gap: More than 5 years (as a % of Assets)	10	100	10	100	10	40	100	50	53
Asset Liability Management	**68**	**70**	**75**	**70**	**73**	**63**	**93**	**50**	**73**

**Mean Score considers only the scores of the seven private banks and excludes SBI scores from consideration.*
^SBI Scores in Blue are Benchmark scores, i.e. all private banks were measured against SBI's scores kept @50.

***Note:** For evaluation of asset – liability gap management, a higher asset-liability gap as compared to SBI translates to a higher score in the heat map and vice versa. Thus, the heat-map score of a bank would be high only if its asset-liability gap is higher than SBI's gap in the below charts.*





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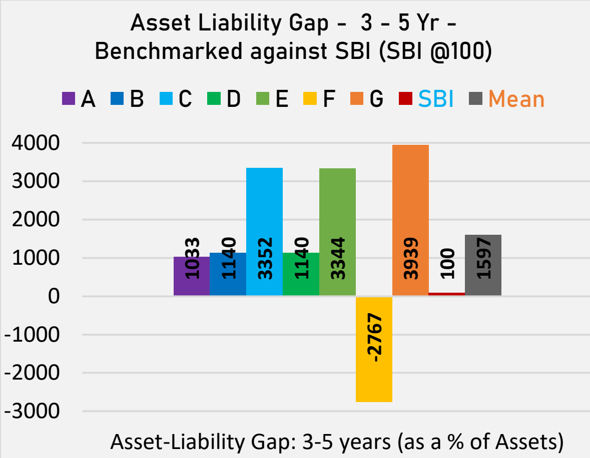
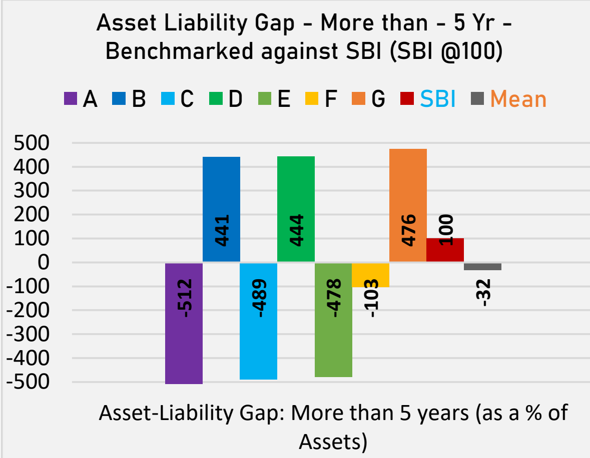




SES Observations:

Overall Outlook:

→ **Average**

- Most Private Banks have scored higher than SBI in terms of short and medium term asset-liability gap management.
- For longer periods of time (more than 5 years), Banks B, D & G outscored SBI in terms of asset-liability gap management.
- However, there exists considerable mismatch in the long term asset liability gap in case of banks A, C & E as compared to SBI.

4.3.7. BREAK UP OF LOAN ASSETS RESTRUCTURED:

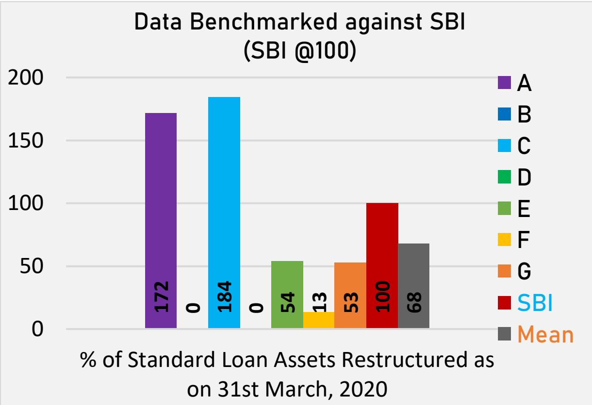
Assessment Factors:

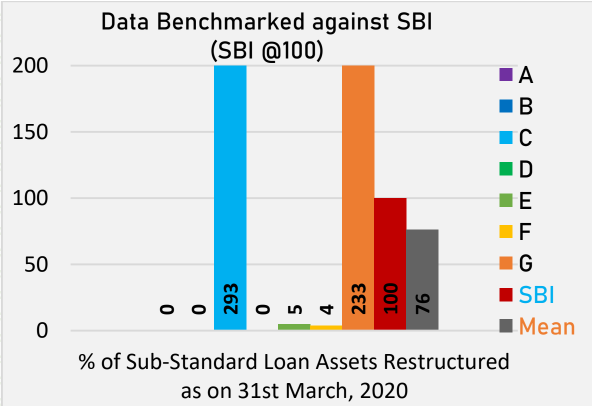
- % of Standard Loan Assets Restructured as on 31st March, 2020
- % of Sub-Standard Loan Assets Restructured as on 31st March, 2020
- % of Doubtful Loan Assets Restructured as on 31st March, 2020
- % of Loss Loan Assets Restructured as on 31st March, 2020

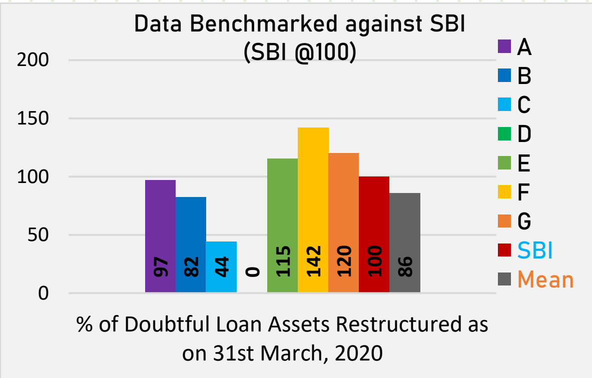
Parameter Heat Map

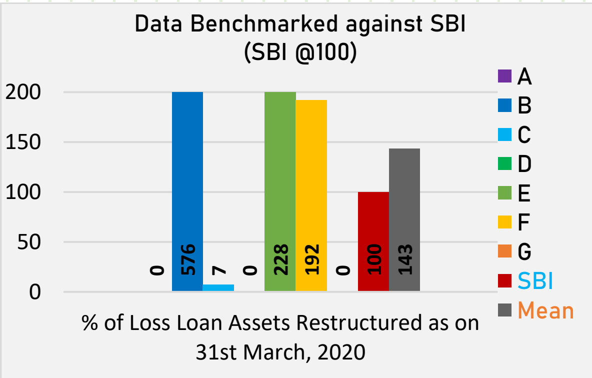
Parameter / Bank	A	B	C	D	E	F	G	SBI^	Mean*
% of Standard Loan Assets Restructured as on 31st March, 2020	100	10	100	10	30	10	30	50	41
% of Sub-Standard Loan Assets Restructured as on 31st March, 2020	10	10	100	10	10	10	90	50	34
% of Doubtful Loan Assets Restructured as on 31st March, 2020	50	50	30	10	70	100	80	50	56
% of Loss Loan Assets Restructured as on 31st March, 2020	10	100	10	10	70	60	10	50	39
Loan Assets Restructured	43	43	60	10	45	45	53	50	43

**Mean Score considers only the scores of the seven private banks and excludes SBI scores from consideration.*
^SBI Scores in Blue are Benchmark scores, i.e. all private banks were measured against SBI's scores kept @50.









SES Observations:

Overall Outlook:

→ Average

- While loss assets consisted the majority portion of Bank B restructured assets in FY20, in case of most other banks, doubtful loan assets constituted almost half of all loan assets restructured.
- Majority standard asset restructuring happened only in case of Banks A and C.

4.3.8. EXPOSURE RISKS TO REAL ESTATE & CAPITAL MARKETS

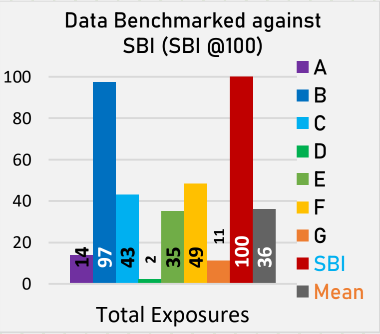
Assessment Factors:

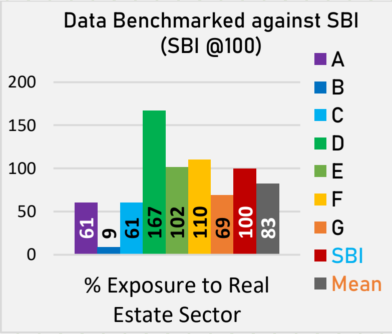
- % Bank Exposure to Real Estate Sector to total consolidated capital
- % Bank Exposure to Capital Markets to total consolidated capital

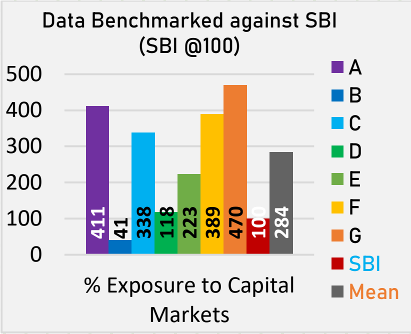
Parameter Heat Map

Parameter / Bank	A	B	C	D	E	F	G	SBI^	Mean*
% Exposure to Real Estate Sector	80	100	80	10	50	50	70	50	63
% Exposure to Capital Markets	10	100	20	50	40	20	10	50	36

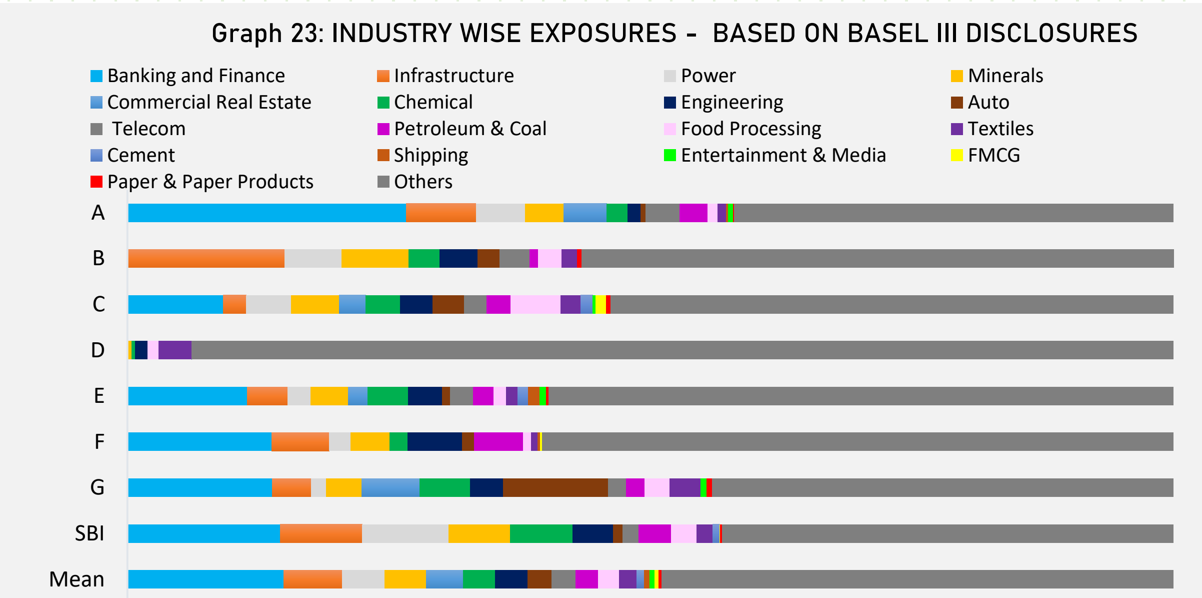
**Mean Score considers only the scores of the seven private banks and excludes SBI scores from consideration.*
^SBI Scores in Blue are Benchmark scores, i.e. all private banks were measured against SBI's scores kept @50.







Industry Wise Exposures:



SES Note: *The industry wise exposures have been sourced from the Basel III disclosures of the banks. Since the number of industries disclosed in case of every bank was different, SES has prepared the above chart on basis of the industries that are common in all disclosures.*

SES Observations:

Overall Outlook:
→ **Average**

- As per bank disclosures, most private banks except Bank D had a low exposure to real estate sector when compared with SBI in FY20.
- Most major banks had very higher percentage of exposure to capital markets as compared to SBI.

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4.3.9. CONCENTRATION RISKS:

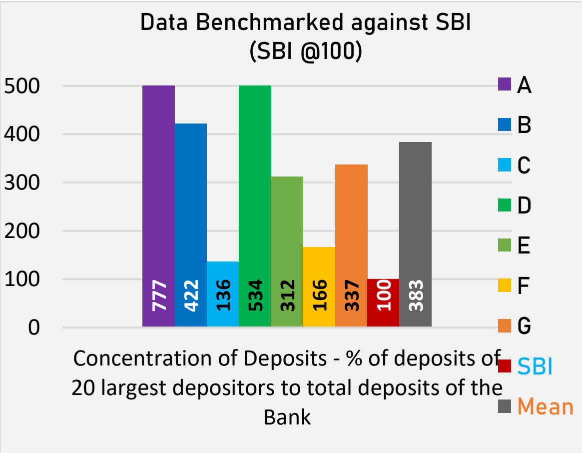
Assessment Factors: *(As per Disclosures made in Notes to financial Statements of Banks for FY 20)*

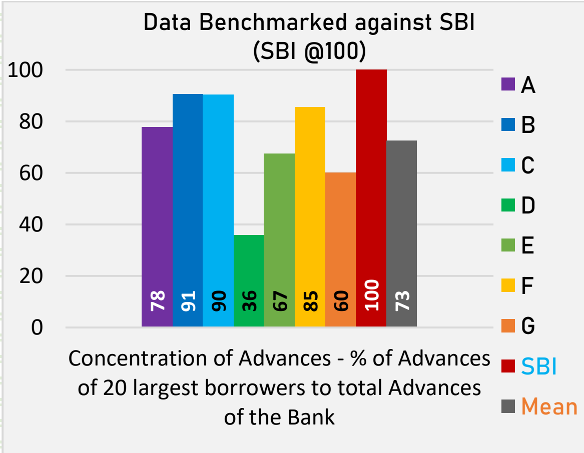
- Concentration of Deposits
- Concentration of Advances
- Concentration of Exposures
- Concentration of NPAs

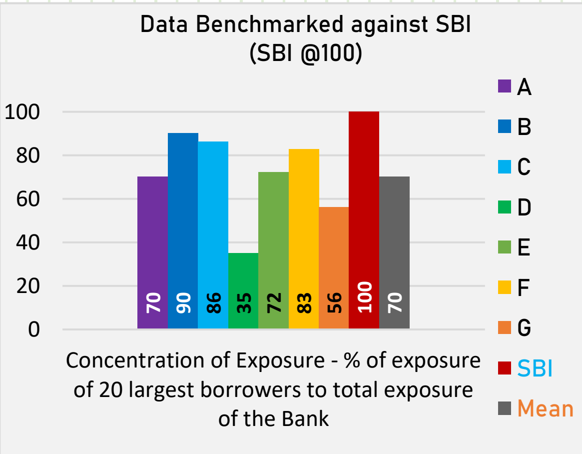
Parameter Heat Map

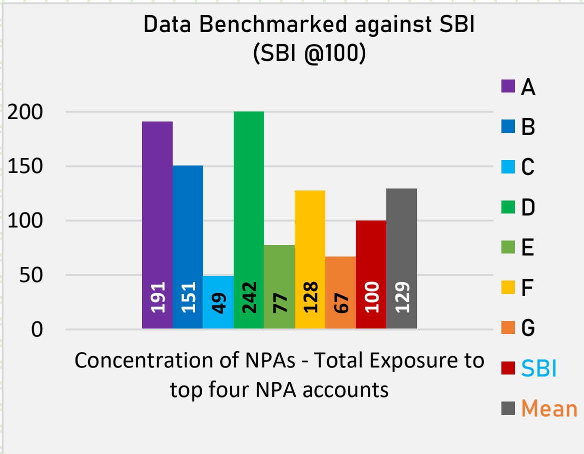
Parameter / Bank	A	B	C	D	E	F	G	SBI^	Mean*
Concentration of Deposits - % of deposits of 20 largest depositors to total deposits of the Bank	10	30	50	20	40	50	40	50	34
Concentration of Advances - % of Advances of 20 largest borrowers to total Advances of the Bank	70	60	60	100	80	70	90	50	76
Concentration of Exposure - % of exposure of 20 largest borrowers to total exposure of the Bank	80	60	70	100	80	70	90	50	79
Concentration of NPAs - Total Exposure to top four NPA accounts	20	40	100	10	80	50	90	50	56

**Mean Score considers only the scores of the seven private banks and excludes SBI scores from consideration.*
^SBI Scores in Blue are Benchmark scores, i.e. all private banks were measured against SBI's scores kept @50.









SES Observations:

Overall Outlook:

→ Average

- When Compared with SBI, the % of deposits of largest depositors to total deposits of the Bank is relatively higher for private sector banks.
- However, all private sector banks have lower concentrations with respect to advances and exposures.
- With respect to concentration of NPAs, Banks A, B and D have a high exposure to the top 4 NPAs as compared to other banks.

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4.3.10. CAPITAL REQUIREMENTS FOR CREDIT, MARKET & OPERATIONAL RISK (CONSOLIDATED BASIS):

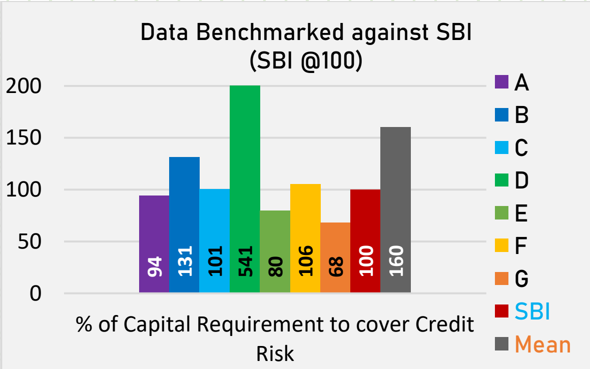
Assessment Factors:

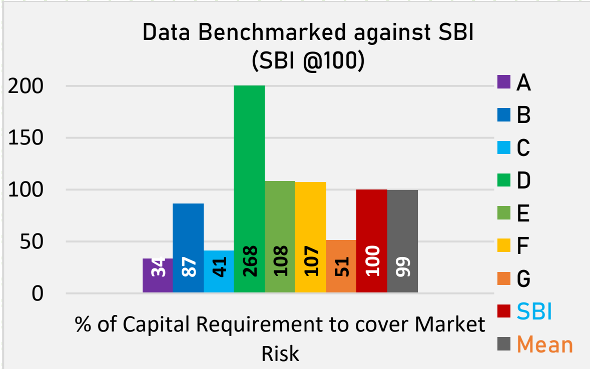
- % of Capital Requirement to cover Bank's Credit Risk
- % of Capital Requirement to cover Bank's Market Risk
- % of Capital Requirement to cover Bank's Operational Risk

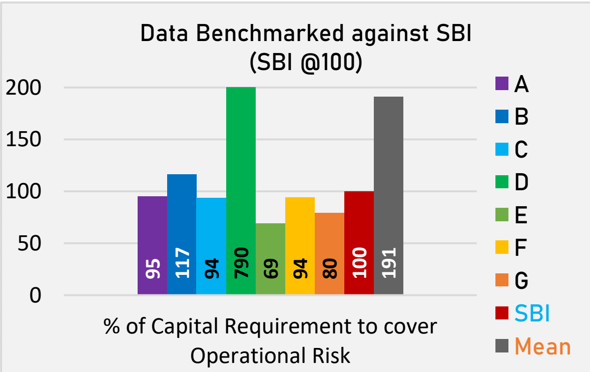
Parameter Heat Map

Parameter / Bank	A	B	C	D	E	F	G	SBI^	Mean*
% Capital Requirement to cover Credit Risk	60	50	50	10	90	50	100	50	59
% Capital Requirement to cover Market Risk	100	70	100	10	50	50	90	50	67
% Capital Requirement to cover Operational Risk	60	50	70	10	100	60	90	50	63

**Mean Score considers only the scores of the seven private banks and excludes SBI scores from consideration.*
^SBI Scores in Blue are Benchmark scores, i.e. all private banks were measured against SBI's scores kept @50.







SES Observations:

Overall Outlook:

↗ Above Average

Barring Bank D, all other banks have performed relatively better than SBI in terms of capital requirements in terms of credit, market and operational risk.

4.3.11. PROVISIONS & CONTINGENCIES:

Assessment Factors:

- Floating Provisions & Total Provisions and contingencies
- % change in total provisions in past 2 FYs
- % of Provisions towards Standard Asset & NPAs

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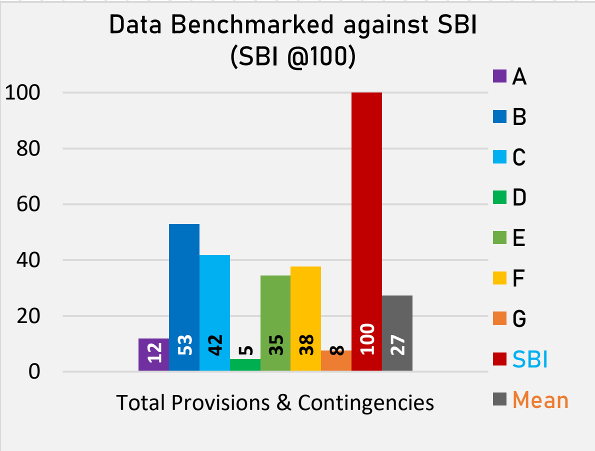
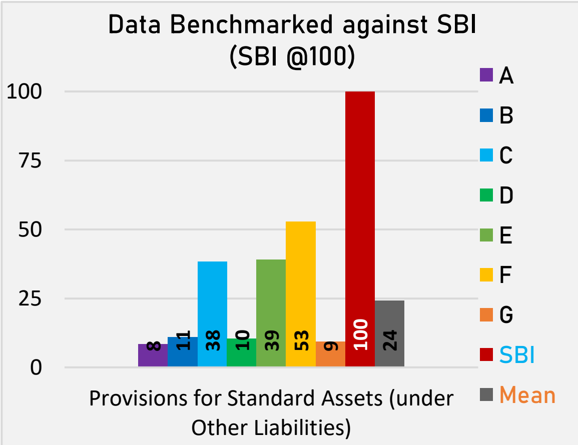
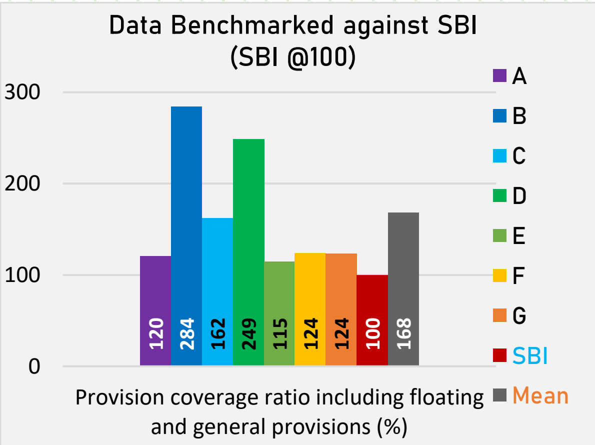
Parameter Heat Map

Parameter / Bank	A	B	C	D	E	F	G	SBI^	Mean*
% of floating Provisions to Other Liabilities	100	10	90	10	10	10	10	50	34
% change in total provisions in past 2 FYs	50	10	50	50	50	50	50	50	44
% of Contingent Provisions towards Standard Asset	60	30	20	100	50	100	10	50	53
% of Provisions towards NPA out of Total Provisions	80	100	60	10	80	70	60	50	66
% of Provision coverage ratio including floating, standard and general provisions	60	100	70	100	60	60	60	50	73

*Mean Score considers only the scores of the seven private banks and excludes SBI scores from consideration.
^SBI Scores in Blue are Benchmark scores, i.e. all private banks were measured against SBI's scores kept @50.







SES Observations:

Overall Outlook:

→ Average

- Bank B has witnessed a significant increase in total provisions in the past 2 FYs, when compared with all other banks.
- Provisioning towards standard assets was the highest in case of Banks D and F.
- Provisioning towards NPAs was highest (nearly double) in case of Bank D as compared to all other banks.

4.3.12. LIQUIDITY COVERAGE MANAGEMENT:

Assessment Factors:

- Liquidity Coverage Ratio in FY 20
- % change in Average Liquidity Coverage Ratio (%) in past 2 FYs

Parameter Heat Map

Parameter / Bank	A	B	C	D	E	F	G	SBI^	Mean*
Liquidity Coverage Ratio (%) throughout 1st Quarter	10	30	50	100	60	60	40	50	50
Liquidity Coverage Ratio (%) throughout 2nd Quarter	10	10	50	100	20	40	10	50	34
Liquidity Coverage Ratio (%) throughout 3rd Quarter	30	10	50	100	30	40	30	50	41
Liquidity Coverage Ratio (%) throughout 4th Quarter	40	10	50	50	40	50	40	50	40

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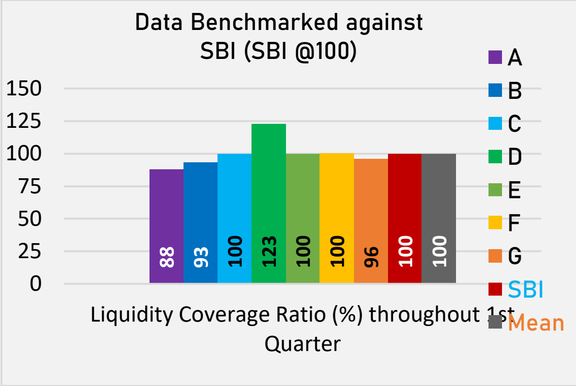
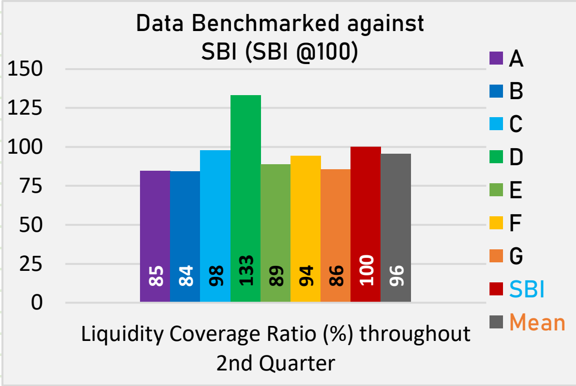
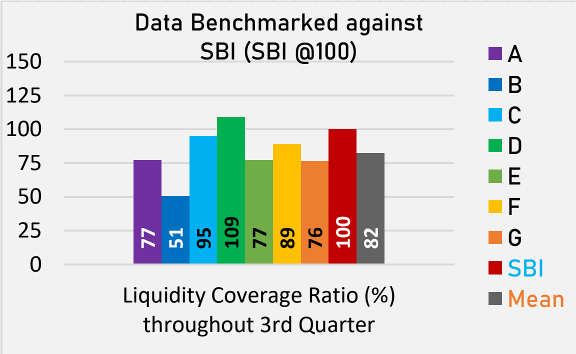
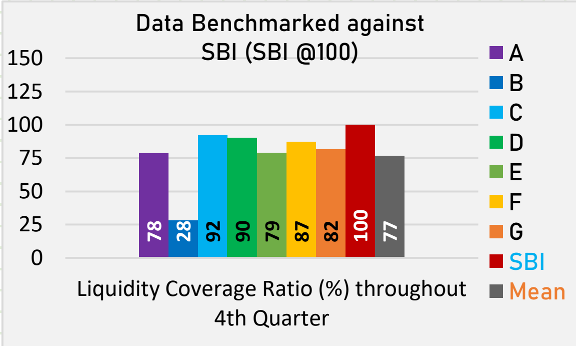
Average Liquidity Coverage Ratio (%) throughout 4 Quarters of FY 20	30	10	50	100	40	40	30	50	43
% change in Average Liquidity Coverage Ratio (%) in past 2 FYs	70	10	100	60	100	90	90	50	74

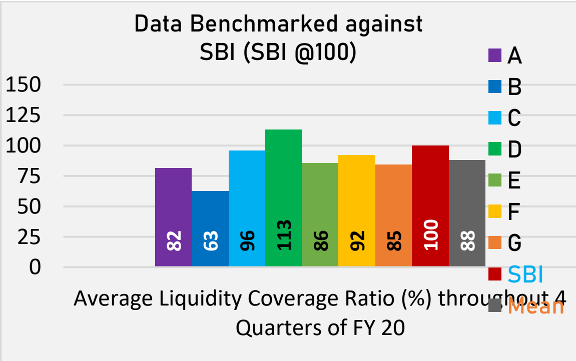
**Mean Score considers only the scores of the seven private banks and excludes SBI scores from consideration.*
^SBI Scores in Blue are Benchmark scores, i.e. all private banks were measured against SBI's scores kept @50.











SES Observations:

Overall Outlook:

↗ Above Average

- Bank B had the weakest liquidity coverage management among all the banks in FY20.
- The mean liquidity coverage ratio across all the banks was ~ 100% in FY20.

4.3.13. CREDIT RATING OF SECURITIES:

Assessment Factor:

- Credit Rating of Short & Short Term Debt Securities

Parameter Heat Map

Parameter / Bank	A	B	C	D	E	F	G	SBI^	Mean*
Credit Rating of Securities	80	60	100	80	100	100	100	100	89

**The Systemic Risk score for SBI is not benchmarked @50 as it wasn't feasible for the above parameter.*

SES Observations:

Overall Outlook:

↗ Above Average

- Barring Bank B, all other banks have very high credit ratings on all their instruments.

Preliminary
Summary
Disclosure & Reporting Standards
Environment Assessment
Social Assessment
Governance Assessment

ANNEXURE 1

SCORING MODEL

To analyse ESG factors, one needs to have information, which depends on each Banking Company's disclosure practices. Therefore, it is equally important to know Company's disclosures practices. 'Sensitivity to ESG' analyses such disclosures practices of the Company, without which ESG factors cannot be analysed.

What is the quality of a Banking Company's disclosures? This analysis is being done in respective ESG Factors. ESG Rating is not just based on disclosures practices of the Company but also based the actual position and future prospects (based on disclosures) of the Company. For instance: The Banking Company has disclosed that it has Health & Safety Policy. However, whether the Company follows Health & Safety Policy, any standards followed for Health & Safety, number of fatalities / injuries Y-o-Y, steps taken to reduce such fatalities / injuries etc. are also being analysed under Health and Safety category under Social Factors.

Overall, ESG Rating is an outcome of the analysis of the Banking Company's disclosure practices, policies, present/ actual position and future prospects of the Banking Company.

The model awards positive scores to Banking Company's based on their disclosure practices. Further, the model also provides positive scores based on implementation of sustainable practices.

ESG Ratings Method:

The performance of a Banking Company is rated based on its three external pillars (non-financial based parameters), i.e. Environment (E), Social (S) and Governance (G). A total score of 100 is divided among these three factors.

Under E, S & G heads there are sets of parameters or indicators which reflect the Banking Company's performance towards their ESG responsibilities. Under each parameter, there are various sub-parameters analysed and scored.

The Banking Company's performance towards its ESG responsibilities are evaluated and rated by the analysts based on the information/ details made available on verified public domain through annual statutory reporting, sustainability reports and any other details which are publicly available on the website by the Banking Company. While answering questions, we did not send the questionnaire to the Banking Companies to fill rather data of each Banking Company was extracted only from information in public domain.

The Banking Companies are evaluated based Banking company's disclosure practices, sustainability targets set by the Company, steps implemented by the Banking Company to respond to negative impacts and positive. Each question has a highest score of 5 and lowest of 0. For score between 0 to 5 we have set criteria, which the analysts identify based on the actual practices of the Banking Company and on the verification of the information/ details, thus, selecting the score attained by the Banking Company for each of the question.

The Banking Company's performance across E, S & G can be evaluated based on the scores of each of the heads. SES also identifies if there are any negative news regarding Banking Company's Environmental, Social and Governance practices.

LIMITATIONS OF THE MODEL

The scoring Model has been developed with utmost care, objectivity and diligence. Our intention is to bring to focus the importance of good ESG practices. The purpose of our scoring is not to claim that only the companies placed in top quartiles are the best companies. SES understands that stakeholders take decisions based on multiple factors. SES believes that ESG is an important factor in overall evaluation. SES ESG scores should be used as a supplement / an additional tool to help stakeholders to make a considered and holistic view about the company. SES ESG score in isolation cannot be a predictor of company's future performance.

The scores are calculated from publicly available data and are dependent on information made available by company and taken as true in good faith. For instance- Business Responsibility Reports, Sustainability Reports, reports by auditors, certificate of compliance of mandatory requirements and directors' statements and information in Annual Reports is used as it is without any further cross verification for the scoring purpose. Independent analysts like SES do not know the internal happenings of a company, nor do we have an inside view of the company's practices. It may be possible that while on paper based on available information everything might appear to be in order but in reality, there could be concerns plaguing the company. It is beyond scope of our work, nor we possess such expertise to verify the public documents and / or visit the company to check its internal controls, checks and practices. Therefore, we would advise stakeholders to note that our scores are worked out only on the basis of published information and no forensic work has been done. Users may take a note of same and read our scores accordingly. Readers are requested to arrive at any judgement only after considering SES ESG score together with other research reports on issues other than ESG. This will give a holistic view.

We would not recommend anyone to dwelve too much into the meaning of ESG scores, as they are merely an indicator of the current ESG status of the Banking company. We are not saying whether a Banking company is good or bad. Yes, as time progresses, if the ESG Scores remains static for any Banking company, we can say that it is not striving to improve its ESG practices and would recommend stakeholders to question the management/ board to introduce better ESG practices. But, until such time, SES ESG scores should only act as a number and indicator of the potential for improvement rather than a standalone assessment of the company.

Finally, as we progress from an emerging market to a developed economy, we need to grow and evolve continuously. The aim of Stakeholders Empowerment Services is to develop a governance framework where all stakeholders are treated in just and fair manner. While the road may be long, and the journey tiresome, still we encourage all stakeholders to hold hands with us while we make this journey beautiful.

OBJECTIVE FOR DISCLOSING THE MODEL IN PUBLIC DOMAIN

Successful investing decisions by investors in the capital market are largely dependent on the valuation of the Banking Company in which the funds are invested. Investors and analysts can very well derive the valuation of such company, based on the financial metrics, which they are well versed with. But the trend of valuating the performance of the Banking Company has started shifting from financial metrics to non-financial metrics as well, due to either regulatory amendments or investors pushing the companies to consider the non-financial parameters, or both.

The spectrum of Banking company approaches to reporting on ESG information is rapidly evolving. While there is no one-size-fits-all method, there are emerging international and local best practices, guidelines and framework that the companies may refer to. In order to consider ESG based approach to responsible investing, Institutional investors need a higher volume of companies, reporting quality ESG information. Different investors have different informational needs, but there is growing level of consistency in incorporating material ESG factors into investment decision-making.

A growing number of Investors have started considering ESG factors to arrive at a more thorough understanding of the risks and opportunities that face the Companies in which they invest. These investors share their viewpoint that a prudent Investor ought to consider ESG in his or her analysis because all these factors can have an impact on investment performance.

Benefits of ESG scoring:

ESG scoring is a simply method to analyze the Banking companies' governance practices, transparent disclosures with regards to statutory disclosure requirements, compliance practices and these scores will also provide an opportunity for the Indian corporates to set their own benchmarks, comparing their last year's commitment and by comparing their performance with those of top listed peer companies, which have scored the highest ratings as per the ESG model. Some of the broad outcomes from the analysis of companies' ESG ratings are as follows:

- These ESG Scores will motivate India Inc to enhance their governance practices, environmental and social responsibilities beyond the statutory rules and regulations.
- The top listed companies will react to the recent mandates of SEBI and MCA, to better improve their corporate governance practices.
- These scores will create awareness and transparency between the Company and the stakeholders towards the Companies' governance practices and transparent disclosures.
- They will also provide sector specific performance evaluation of the Indian corporates, thereby identifying the leaders as well as the laggards and identify the sector performing remarkable in the current economic scenario.
- The ESG Model gives a systematic outcome of the Banking Companies' performance, its ability to continue as a going concern along with its sustainability, thus enabling the investors, corporates and their risk teams to identify their weaknesses and strengths in the corporate governance practices, evaluate the opportunities to improve their scale and reform its governance and compliance practices.

Objective behind disclosing ESG model in public domain:

Investor perspective:

Due to inconsistent reporting standards between the Banking companies, Investors would be dependent largely on the ESG Model to provide a comparison between peer companies from a common standpoint apart from helping them in identifying potential stocks and make their investment decision for higher returns. Unlike traditional analysis, the trend has shifted significantly towards ESG parameters, thus making an analysis of the ESG Model the need of the hour. This Model will not only help the existing investors, who can analyze the performance of the companies, and evaluate their ability to continue as a going concern along with their sustainability, but it also facilitates other sustainability conscious investors to invest for the first time in a particular listed stock.

Banking Company perspective:

The Banking companies can set benchmarks for their disclosure practices, based on their past year performance and comparing their performance with leading listed peers. This will encourage the companies to take appropriate steps towards their social and environmental responsibilities by harmonizing their existing compliances and governance practices, transparency in corporate disclosures and adequate information made available for all shareholders.