

Implementation Reporting
Environment & Social Policy Framework
(April 2021 – March 2022)



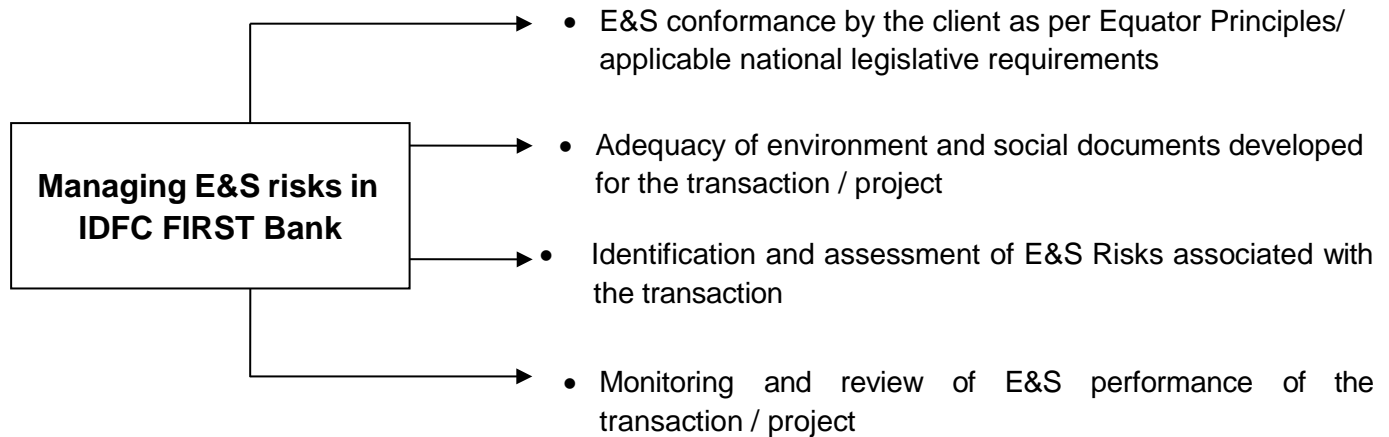
IMPLEMENTATION REPORTING

ENVIRONMENT & SOCIAL POLICY FRAMEWORK

1. IDFC FIRST BANK'S COMMITMENT TO ENVIRONMENT

Over the past few decades, there is increasing awareness and sensitivity towards addressing environment and social impacts by stakeholders for various reasons. IDFC FIRST Bank firmly believes that a proper environmental and social management system in an organisation helps to alleviate such impacts.

IDFC FIRST Bank recognizes that time and cost overruns caused due to delay in regulatory approval, land acquisition, social unrest and litigation among others could impact its asset quality and, therefore, needs to be adequately addressed. **IDFC FIRST Bank's Environment and Social Policy** along with commitment to Equator Principles guidelines paves the way for a thorough **Environment and Social risk assessment** of



companies and projects at time of credit appraisal and monitoring of environmental performance throughout its loan period.

IDFC Ltd. adopted the Equator Principles on 3rd June 2013. It was the first Indian financial institution to do so. The Equator Principles are a credit risk management framework for identifying, assessing, and managing environmental and social risk in project finance. The Project finance businesses of IDFC Ltd. have been subsumed into IDFC FIRST Bank and, therefore, IDFC FIRST Bank follows Equator Principles for its project finance transactions. IDFC FIRST Bank' s rigorous E&S policy along with its commitment to the Equator Principles serves as a solid foundation for screening transactions, advising our clients and promoting innovative & environmentally sound ways of doing business.

1.1 ENVIRONMENTAL & SOCIAL POLICY STATEMENT

1.1.1 Context and Purpose

IDFC FIRST Bank recognises that our operations have indirect and direct impacts on environment. The purpose of the Environment policy is to create a framework for understanding and managing our indirect and direct environmental impacts, risks and opportunities.

Our objective is to:

- To review and monitor transactions of Wholesale Banking and Retail Banking¹ businesses covered by E&S Policy throughout the loan tenure
- To strengthen environmental risk management process and reduce the risk arising from E&S issues in our portfolio so that we can better manage the cost and associated risk of doing business and enhance long term shareholder returns.

¹ Covering retail assets and commercial banking only. It does not include retail liabilities.

1.1.2 Scope

The Policy covers the operations of the Wholesale Banking and Retail Banking businesses of IDFC FIRST Bank.

1.1.3 Environment and Social Policy

The environment and social policy of IDFC FIRST Bank is as follows:

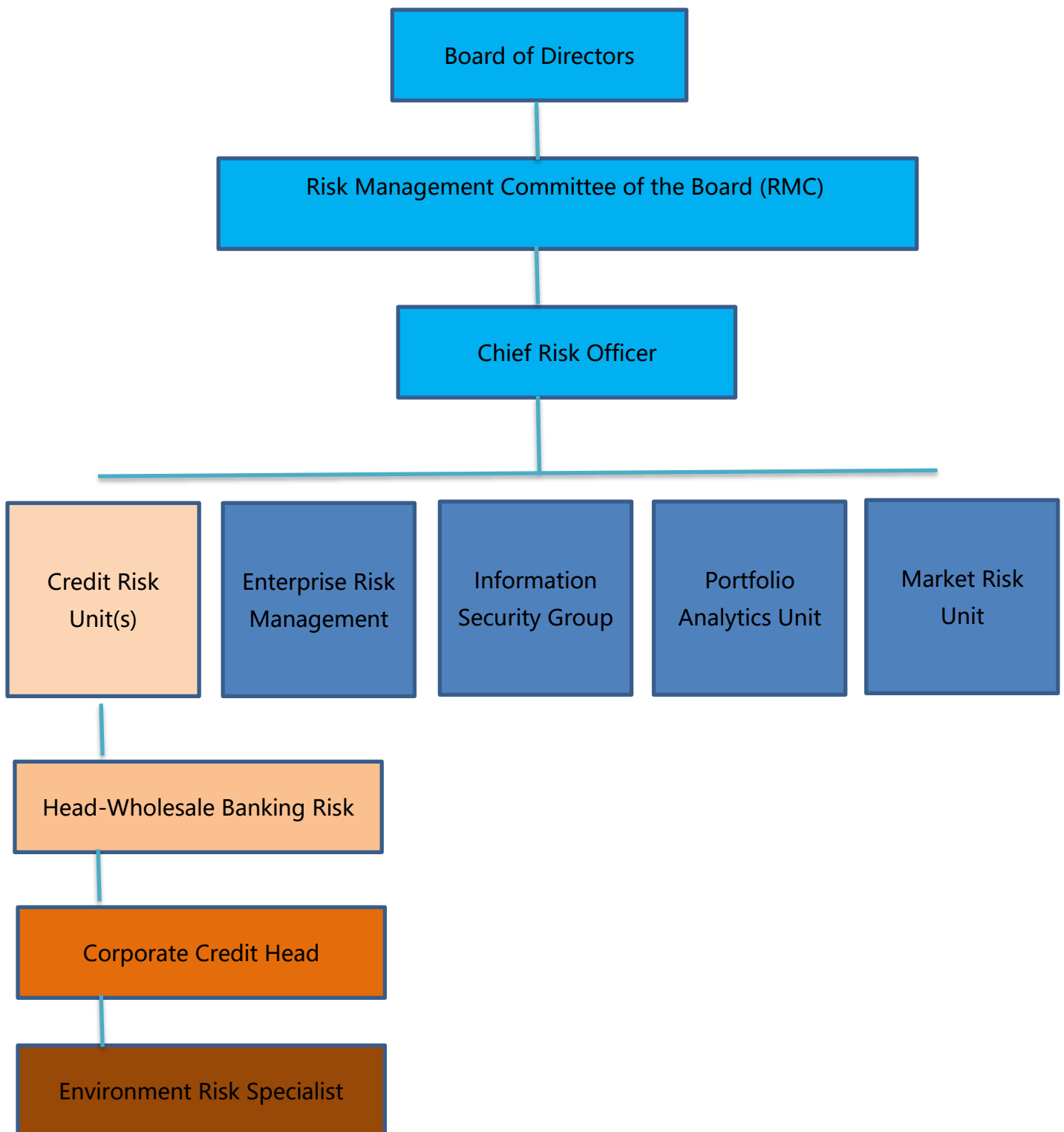
- Ensure our lending is made to environmentally sustainable, socially acceptable and economically viable projects;
- Ensure environmental and social safeguards as defined by the applicable Indian legislation and The Equator Principles are complied with by all transactions;
- Ensure a project' s environmental and social risks are properly addressed throughout the loan tenure;
- Integrate environmental risk in our internal risk management analysis
- Ensure transparency in IDFC FIRST Bank' s EMS&P activities.

1.2 IDFC FIRST BANK 'S ENVIRONMENT RISK FUNCTION

The Environment Risk function (ERF) of IDFC FIRST Bank is primarily responsible for ensuring adherence to environment and social policy by various business verticals of IDFC FIRST Bank including Wholesale Banking and Retail Banking business of IDFC FIRST Bank.

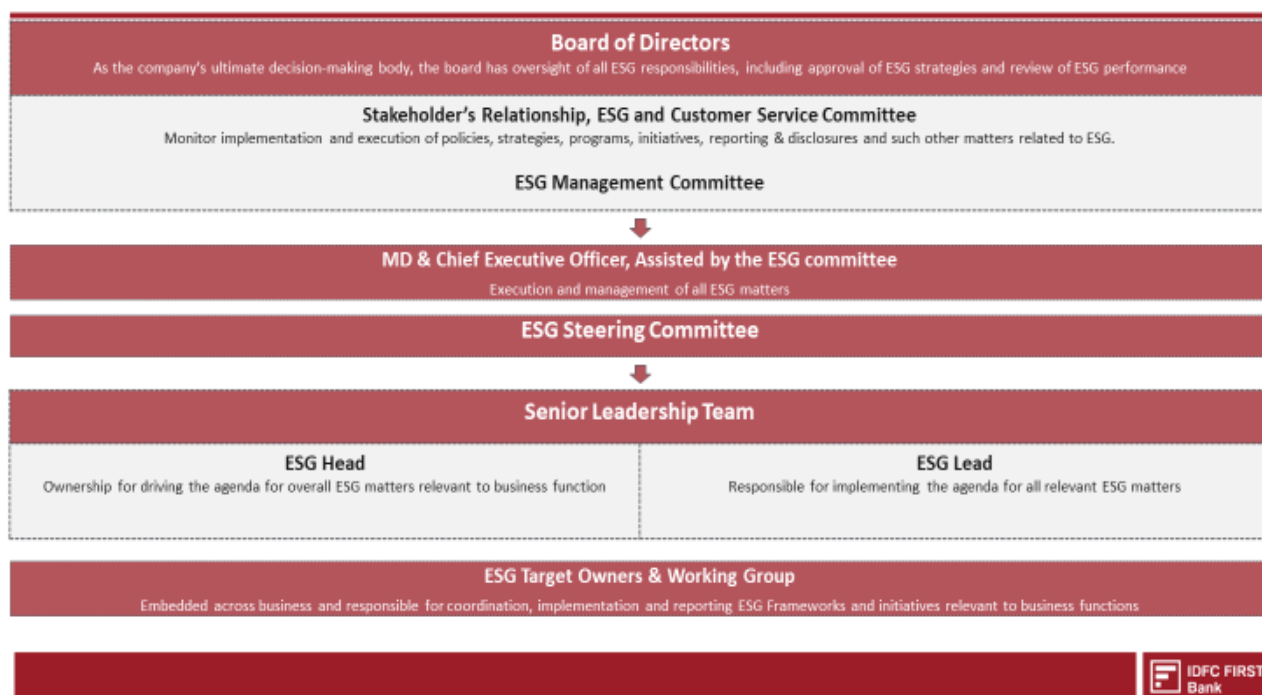
2. ORGANIZATION AND RESPONSIBILITY

Environment and social risk management process at IDFC FIRST Bank is driven by Environment Risk team under the aegis of Chief Risk Officer (CRO) and overall guidance of the MD & CEO (refer chart).



The Bank has also built a dedicated ESG team, responsible for overall strategy and implementation of ESG policies, initiatives, and stakeholder reporting. The Bank's Board Committee on Stakeholder Relationships also assumes ultimate responsibility for ESG integration and review, together with an Executive Steering Committee.

ESG Governance Framework @IDFC FIRST Bank



3. RESOURCES AND CAPABILITIES

- Environment Risk Specialist have been engaged for effective implementation of environment and social policy and procedure of the company.
- Environment Risk Specialist needs to be technically qualified to carry out the Environment and Social Due Diligence and Environment and Social Monitoring Review.
- Qualified external consultants shall be deputed on case to case basis for undertaking review work. Environment Risk Specialist will maintain a list of qualified environment consultants as applicable, who can be called upon to assist in conducting environmental reviews.

4. TRAINING, AWARENESS AND COMPETENCE

The objective of training on environmental and social risk management is to create awareness on E&S aspects of corporate finance and mainstreaming E&S risk management in the deal appraisal and monitoring process. To integrate E&S risk management and sensitize the internal and external stakeholders a multi-pronged approach is planned that includes:

- a) Sensitization and awareness programmes on E&S Risks,
- b) Knowledge sharing workshops on emerging Environmental and social trends in infrastructure sector, manufacturing and services sector and extractive industries.
- c) Participation in knowledge forums on sustainability and environmental management and
- d) Interaction with peer institutions in adopting a holistic approach to enhanced E&S due diligence and risk mitigation.

EP sensitization and awareness programs on national E&S regulatory framework shall be conducted to ensure that the internal stakeholders in the ESDD and ESMR process consisting of executives of wholesale banking and credit group understand and adopt procedures and practices regarding EP. Awareness on EP and national EHS compliance among borrowers is to be inculcated through engagement with their finance team during the deal negotiation stage and by augmenting their systems, procedures and disclosure requirements by providing guidance on best practices in managing environmental and social risks during the tenure of the loan.

The training and development agenda on E&S risk management is an evolving process and based on the above template, training is to be imparted to business and credit risk executives to ensure effective and efficient management of E&S Risk in Wholesale banking. Environment and Social Management Framework training program was conducted for Business team and credit team executives in FY 2022.

5. IDFC FIRST BANK'S ENVIRONMENTAL MANAGEMENT SYSTEMS AND PROCEDURES

IDFC FIRST Bank's E&S policy along with the management systems and procedures will guide the overall businesses by providing an E&S framework that incorporates the National regulatory frameworks and the Equator Principles. EMS&P for IDFC FIRST Bank has been formulated to reflect the requirement of wholesale banking, and retail banking.

6. IDFC FIRST BANK'S EXCLUSION LIST

IDFC FIRST Bank has developed and adopted an exclusion list comprising of sectors in which IDFC FIRST Bank will not engage in any financing activity. The exclusion list includes the following:

- ✓ Production or activities involving harmful or exploitative forms of forced labour².

² Forced labour means all work or service, not voluntarily performed, that is extracted from an individual under threat of force or penalty.

- ✓ Production or activities involving harmful or exploitative forms of child labour³.
- ✓ Illegal logging.
- ✓ Production or trade in any product or activity deemed illegal under host country laws or regulations (including those ratified by host countries under international conventions and agreements) (*such as pharmaceuticals, pesticides/herbicides, ozone depleting substances, PCBs, etc.*)
- ✓ Gambling, casinos and equivalent enterprises⁴
- ✓ The production or trade in biological and chemical weapons
- ✓ Production or trade in wildlife or products regulated under CITES (the Convention on International Trade in Endangered Species of Wild Fauna and Flora).
- ✓ Drift net fishing in the marine environment using nets in excess of 2.5 km in length.

7. SENSITIVE SECTORS

For the purpose of financing activities, IDFC FIRST Bank has identified two sensitive sectors, which have potentially high impacts on the environment and communities, and where IDFC FIRST Bank may have to deal with critical E&S related issues. IDFC FIRST bank has identified the following as sensitive sectors:

- 1) Defence sector
- 2) Nuclear Power Generation

All sensitive sector projects/ transactions irrespective of environmental categorisation will be referred to ERF by the business team for review and opinion. Environment

³ Harmful child labour means the employment of children that is economically exploitative, or is likely to be hazardous to, or interfere with, the child's education, or be harmful to the child's health, or physical, mental, spiritual, moral, or social development

⁴ This does not apply to project sponsors who are not substantially involved in these activities. "Not substantially involved" means that the activity concerned is ancillary to a project sponsor's primary operations.

Category A and Category B projects/ transactions in sensitive sectors will undergo E&S screening and review as per the procedures defined for wholesale banking and retail banking.

8. POSITION STATEMENT ON SENSITIVE SECTORS

Position statements explain IDFC FIRST Bank' s position and approach towards addressing national laws and regulatory framework, the Equator Principles requirement as applicable, international conventions and ESG risks associated with financing companies/ projects in sensitive sectors.

9. ENVIRONMENT AND SOCIAL MANAGEMENT SYSTEM

IDFC FIRST Bank' s environment and social management system (ESMS) comprises of the following procedures wherein ERF undertakes project/ transactions specific analysis and identifies specific environmental aspects and the corresponding environmental impacts, risks and their mitigation measures.

10. PROJECT CATEGORIZATION

IDFC FIRST Bank categorises project/ transaction for their environmental impact at the due diligence stage. The categorization of project/ transaction as either Category A or B or C is based entirely on the extent of impacts and not on type of the sector or project and is in accordance with the environmental and social screening criteria of the International Finance Corporation (IFC). The following basis will be used at IDFC FIRST Bank to classify projects/ transactions as either Category A or B or C:

Category A – Use of proceeds is expected to have significant adverse environmental and social risks and/or impacts that are diverse, irreversible or unprecedented;

Category B – Use of proceeds is expected to have limited adverse environmental and social risks and/or impacts that are few in number, generally site-specific, largely reversible and readily addressed through mitigation measures; and

Category C – Use of proceeds is expected to have minimal or no adverse environmental and social risks and/or impacts.

11. ENVIRONMENT AND SOCIAL DUE DILIGENCE AND MONITORING OF PROJECTS AND TRANSACTIONS

In line with IDFC FIRST Bank's Environment Policy objectives, ERF conducts environment risk assessment of projects/ transactions at two stages as described below:

i. Environment and Social Due Diligence (ESDD)

ERG undertakes Environment and Social Due Diligence (ESDD) of Projects prior to sanction to ensure the project have adequately identified the E&S risks and designed the environmental management practices commensurate with the project phase - construction or operational phases - in line with the requirements of applicable Indian Environmental Legislations and the Equator Principles. ESDD includes a review of E&S documents and identification of issues to be addressed by the project proponent, project site visits to verify E&S information provided, appointment of independent consultants to assess compliance with Equator Principles (for high risk category projects), a review of applicable EP and regulatory requirements, E&S appraisal and preparation of ESDD report. IDFC FIRST Bank stipulates specific loan covenants to mitigate Environment risks associated with the project.

ii. Environment and Social Monitoring & Review

ERF also undertakes Environment and Social Monitoring & Review (ESMR) of Category A and Category B portfolio projects after sanction to monitor and ensure compliances to the requirements of applicable Indian Environmental Legislations, Equator Principles and E&S related loan covenants on an ongoing basis. Our ESMR process includes a review of the national regulatory and E&S loan covenant compliances, project site visits to verify Environment, health, safety and social performance, labour amenities and environmental emission levels with respect to the National as well as the EP Standards and identification of any latent or emergent E&S issues and risks. This entire process is documented in an ESMR report prepared as part of our annual review of our portfolio projects.

Figure 2 shows the integration of E&S due diligence and monitoring in the credit appraisal and review process.

Figure 2: Integration of E&S due diligence and monitoring process

E&S Appraisal			Disbursement	E&S Monitoring and Review
Deal Initiation Stage	CAM Preparation	CAM Submission		
<ul style="list-style-type: none"> •Apply Exclusion List •Apply Sensitive Sector •Environmental categorization by BOU as per Env. Tool Kit (A, B & C) 	<ul style="list-style-type: none"> •Resource Allocation •Env. Categorization •E&S Appraisal as per EP requirements (IFC PS) and National Regulatory Framework <ul style="list-style-type: none"> - Doc & E&S Approval Review - Site visit - Consultations - Identify issues and associated material E&S risk in project - Preparation of ESDD & ESAP - Independent Review for Env. Cat A projects 	<ul style="list-style-type: none"> •ESDD •ESAP •ESDD Conditions 	<p>Compliance check w.r.t ESDD conditions</p>	<ul style="list-style-type: none"> • Collect E&S compliance Info from client •Review of regulatory compliance and EP compliance • Site visit for Cat A & B projects •Monitoring E&S performance •Independent Monitoring & Review for Cat A projects •Review ESAP and Conditions Compliance • E&S non compliant cases included in E&S watch-list and discussed on monthly basis for further follow-ups • Watch-list cases presented to Management on Quarterly basis