

***IndusInd Bank***

Environmental and  
Social Management  
System

FY 2022-23

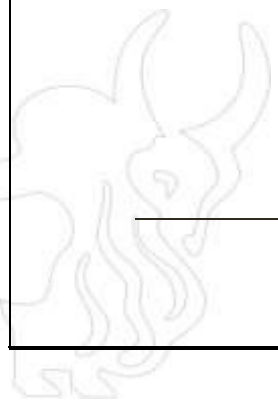
Policy Statement



## Version Control Sheet

| Version | Date        | Change Description   | Change Author   | Change Reviewer |
|---------|-------------|--|---|-----------------|
| 1.0     | 29-Mar-2017 | First ESMS Policy presented and approved by the Board  |   |                 |
| 2.0     | 22-Jun-2021 | <ul style="list-style-type: none"> <li>▪ Change in Governance Mechanism</li> <li>▪ Screening basis Exclusion criteria</li> <li>▪ Inclusion of Severe and Moderate Impact Industry list</li> <li>▪ Change in risk assessment framework for High Risk clients</li> <li>▪ Change in role of ESMS Committee, E&amp;S Risk team, Risk team, Business and CAD due to revision in process flow</li> </ul>   | Prashant Ghodake  | Roopa Satish    |
| 3.0     | Sept 2022   | <ul style="list-style-type: none"> <li>▪ Benefits of ESG Risk Assessment</li> <li>▪ Update to Environmental &amp; Social principles               <ul style="list-style-type: none"> <li>- Climate Change</li> <li>- Promoting a circular economy</li> <li>- ESG Compliant Supply Chain</li> <li>- Child labour</li> <li>- Stakeholder Management</li> </ul> </li> <li>▪ Risks associated with Climate Change.</li> <li>▪ ESMS Exclusion list extended to entire Wholesale Banking unit &amp; BFIL</li> <li>▪ Introduction of Industry specific checklist for Industries classified under ‘Severe Risk’.</li> <li>▪ Inclusion of ESG risk analysis in credit proposals.</li> <li>▪ Project finance – Environment Impact Assessment</li> <li>▪ Introduction of Monitoring mechanism</li> <li>▪ Training</li> <li>▪ Advocacy and Engagement</li> <li>▪ External Reporting</li> </ul> | Himanshu Gulliani<br>Srividya Ganesan<br>Maharnav Patir | Roopa Satish    |

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## A. Introduction

The Bank has established a Sustainability Policy ('Policy') to have an umbrella guideline which oversees factors related to ESG (Environmental, Social, and Governance) aspects of the Bank. The Policy defines guiding principles for integrating sustainability related considerations in Bank's business practices, decision making, operations, processes and systems so as to demonstrate a promising triple bottom line performance to our stakeholders.

Keeping in view the overall guidance, the Bank is adopting ESMS Environment and Social Management System 'ESMS' Policy which incorporates Responsible Banking standards and mitigates the risks arising out of the Environmental & Social (E&S) arising from Bank's lending activities. This approach integrates ESG factors in addition to the various credit & financial risk factors, while undertaking lending and investment decisions.

As one of India's leading private sector banks, the business decisions Bank makes and the clients Bank supports are continually changing the economic and entrepreneurial landscape both nationally and globally. While Bank focuses on the sustainability of its own operations, it also has a responsibility to understand the wider social, environmental and ethical risks associated with the services provided by itself to its diverse set of clients.

Towards this end the Bank has established the **Environmental and Social Management System (ESMS)**, to ensure the wider impact of its investment activities are positive and lie within a set of well-established international and national ESG lending principles.

This document lays out the scope and the driving principles on which Bank has built its policy. This policy also briefly touches upon the mechanisms in place to implement these goals, including the screening, evaluation and the scoring framework for the policy.

The Bank has been documenting and publishing reports on its sustainability practices since the financial year (FY) 2011, in accordance with the Global Reporting Initiative (GRI) and Integrated Reporting Framework (IIRC). In keeping with the prominent international standards, Bank has referred to international frameworks such as the Principles of the UN Global Compact (UNGC), UN Principles for Responsible Investing (UN PRI), the Equator Principles and IFC guideline for ESMS, to design our E&S risk management policy in line with local requirements. All of the Bank's policies are subject to periodic review, and are updated by incorporating feedback from diverse stakeholders associated with the organization.

## B. Scope & Objectives of the Policy

The primary objective of the Environment and Social Management System (ESMS) is to mainstream environmental and social considerations into business activities, and to safeguard Bank's investments from credit, reputational risk and the risks associated with ESG driven factors which may translate in to credit/asset value related risks. The policy builds on the existing credit risk framework in the Bank, and is designed to supplement these processes.

This document serves to illuminate the ideals based on which the Bank has constructed its due diligence, monitoring and reporting frameworks; and serves as the bedrock on which subsequent mechanisms, processes and initiatives can be built; ensuring consistent standards across the organization.

**The driving principles of the policy are:**

- i. Practicing Sustainability
- ii. Promoting Environmental & Social Principles
- iii. Managing the Impact of our Investments

**i. Practicing Sustainability**

At IndusInd Bank, sustainability is about robust yet flexible management systems, which can adapt quickly to the realities of an ever changing world. Sustainability - whether financial, environmental or social - is at the heart of all our business practices; it is how the Bank has built itself into one of India's leading private sector banks.

To be socially and environmentally sustainable, the Bank closely monitors and evaluates its impact on E&S issues so it can identify any perceptible shift that may require it to adjust its approach towards maintaining global E&S standards. The Bank trains its staff in sustainability related principles to enhance their awareness of E&S considerations, which can strengthen the future vitality of our bank, clients and the global community.

As a responsible Bank, we aspire to:

- Create value for all Bank's stakeholders by making prudent investment decisions, to support sustainable economic growth
- Generate prosperity for the communities Bank serves, by encouraging free market principles and healthy competition while acknowledging equal access to the global commons
- Execute business strategy under the highest level of ethical standards, compliance with the laws while upholding highest levels of professional integrity and corporate governance
- Adopt a systemic approach with an intention to de-risk business, enhance the social value of Bank's products and protect our environment
- Provide staff opportunities to develop a holistic approach to investment analysis, which incorporates environmental and social considerations
- Develop institutional knowledge and capacity on issues pertinent to E&S impact

**Benefits of integrating ESG risk assessment:**

- **Pre-empting regulations:** which are likely to be introduced in the country in the near future; this prepares the Bank to be future ready
- **Ability to attract stable investors:** ESG investing involves long term focus on value creation through Responsible investment and ESG investors bring in capital for a longer horizon
- **Reducing cost of capital:** Firms with ESG focus have been successful in reducing their cost of capital by having access to cheaper source of funding and having clear focus on ESG is likely to help the Bank in this regard
- **Identifying and managing material ESG risks:** which are likely to convert in to credit/asset value risks in future for the Bank

- **Identifying and mitigating reputational and liability risks:** associated with climate change for the Bank
- **Enhancing the Brand value and reputation of the Bank:** as a responsible financial institution and as an employer of choice

iii. Promoting Environmental & Social Principles

Bank has identified key focus areas in the environment and our society where it can have the maximum impact. These considerations form the guiding principles based on which the E&S governance is modelled.

- Environmental Principles

| Principle                      | Statement  |
|--------------------------------|--|
| <b>Climate Change</b>          | <p>Bank is cognizant of the long-term shifts in temperatures and weather patterns as a result of human activity over the years and the resulting climate risk. Banks in particular are vulnerable to the impact of Climate Risks both in their operations and in their portfolios. As a result, Bank is committed to an assessment of both physical and transition risk in its various portfolios. The Bank also explores actively the opportunities arising from climate transition.</p> <p><u>Risks associated with Climate Change:</u></p> <p>The Bank recognises that the risks arising out of change in climate are nonlinear in nature, likely to increase in severity over time with significant economic costs associated with the same. At present financial institutions have limited methodologies and tools for predicting the exact time and financial impact of such risks. However, such risks are expected to be fat tail events with likely substantial negative impact on the stability of financial markets and institutions. South east Asian region has already witnessed such severe events in the recent past. The Bank recognizes that it is important for financial institutions to identify, assess, manage / mitigate, monitor and report climate change induced risks in their portfolios.</p> |
| <b>GHG Emissions</b>           | Bank recognizes the impact of global warming and climate risks and is committed towards climate action by reducing GHG emissions both directly through changes in its operational procedures, and indirectly by changing how it manages its investments in organizations that have an impact on global GHG emission levels.  |
| <b>Air (Non GHG) Emissions</b> | Bank recognizes the direct and indirect impact of air pollutants like SO <sub>x</sub> , NO <sub>x</sub> , SPM, mercury, Ozone Depleting Substances (ODS) etc. on the environment, flora and fauna and community health and it also recognises reducing air pollution is important to ensure a healthy ecosystem.   |
| <b>Energy Management</b>       | Bank recognizes that energy management and efficiency is important for countries that are trying to balance supply and demand for energy resources. Reducing energy wastage per person results in better quality of air, lower strains on energy distribution systems and a better world for the future.   |

|   |   |
|---|---|
| <b>Water Management</b>                               | Bank recognizes that water is an extremely precious natural resource and requires special attention in relation to its activities. As an organization headquartered in India, the Bank has witnessed the impact that access to clean water has on quality of life. Bank recognizes that promoting better water management is essential for the health of current and future generations.  |
| <b>Waste Management (Hazardous and Non-hazardous)</b> | Solid, liquid and plastic waste can have a range of negative effects on the health of local communities, the diversity of regional ecologies and the purity of watersheds. The Bank is committed towards supporting and promoting efficient waste management measures to reduce the impact of waste (both of Bank’s own operations as well as those of Bank’s clients and partners) on the local environment, promoting re-use and re-cycling of waste and re-engineering production processes for supporting a circular economy. |
| <b>Sustainable Natural Resource Management</b>        | Bank is committed to promoting the proper management of natural resources by its client’s activities and by Bank’s investments. Bank recognised that that proper management of natural resources is essential for long-term sustainability of its investments in communities, states and nations. The Bank supports adoption of sustainable procurement practices and encourage clients to adopt an ESG compliant supply chain.   |
| <b>Compliance with Government Regulations</b>         | Bank recognizes the importance of using municipal, state, and national institution’s standards and rules to support the sustainable adoption of environmental mitigation efforts. Bank believes that by using the compliance rules set by these institutions as a metric, it can help empower them, which increases their mandate and demonstrates our support for robust policies and active enforcement.  |

- Social Principles

Identifying the social impact of the Bank’s activities, both direct and indirect, is essential in understanding the value the organization brings to the communities in which the Bank does business. The Bank’s social principles focus on reinforcing international and national standards that are essential for a safer and more participative global community.

| Principle   | Statement  |
|---|--|
| <b>Compliance to standards and norms that protect against funding conflict or criminality</b> | The Bank closely scrutinizes the impact of all of its investments to ensure it does not in any way fuel conflict or provide any encouragement, whether tacit or overt, to criminal activity of any kind. The Bank strives to promote the adherence to national and international laws and regulations aimed at minimizing conflict financing or illegal trafficking. |

|   |   |
|---|---|
| <p><b>Adherence to International Standards for Human Rights</b></p> | <p>The organization recognizes the importance of spreading awareness amongst its partners and peers on international human rights standards. The Bank believes in the United Nation’s Universal Declaration of Human Rights and recognize that “the inherent dignity and the equal and inalienable rights of all members of the human family is the foundation of freedom, justice and peace in the world...” The Bank strives to include the spirit of this declaration as one of the core principles of its ESMS policy and in the everyday activities and interactions with the world around it.</p> <p>Further, in keeping with the principle of protection of human rights and fair practices in employment, the Bank will not support enterprises that employ or abet employment of children or any other form of forced labour or those found in to be non-compliant with the local labour regulations. Further the Bank believes that it can play a role in educating its clients on the risks of child labour and create awareness of the local legislations regarding the same.</p> |
| <p><b>Support of Basic Labour Rights</b></p>                        | <p>The Bank recognizes the importance of promoting labour rights for all workers, whether in its own operations, or that of its partners, clients and key stakeholders. The Bank believes every worker is entitled to health &amp; safety protections, fair wages and protection from abuse.</p>  |
| <p><b>Stakeholder Management</b></p>                                | <p>The Bank recognizes that both internal and external stakeholders play an important role in the day to day operations and the long term value creation of a business. Internal stakeholders include employees and shareholders while external stakeholders like customers, suppliers, vendors, local community (including project affected people), regulatory agencies etc. The Bank recognizes that businesses should strive towards improving the quality of stakeholder engagement through various channels and gradually imbibe sustainable practices across the ecosystem.</p>  |



### iii. Managing the Impacts of the Investments

#### Sustainable Lending Policies:

As a bank, the impact the lending practices have on E&S indicators is indirect, yet more far reaching than its own operations. Consequently, managing its investments is a vital component of the Bank's broader environment and social commitments. This document builds on the Bank's existing internal principles, to ensure it disseminates its ideals more broadly through its financial engagements.

The general E&S standards for the investments are as follows:

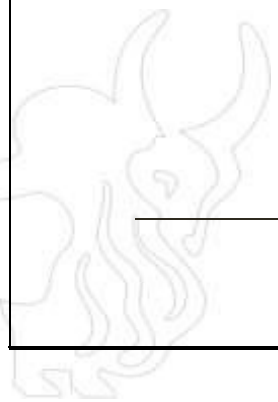
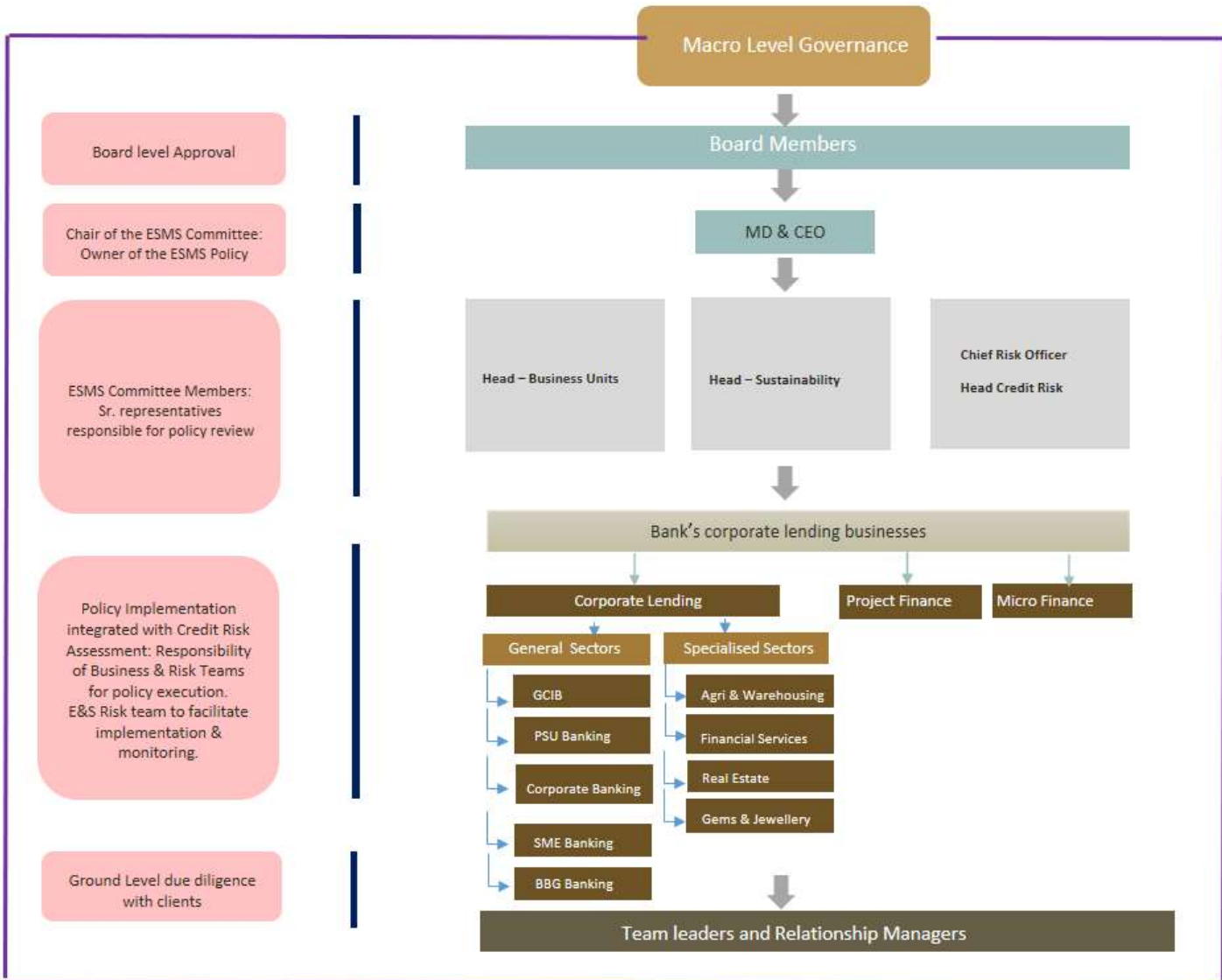
- In the transactions with clients the Bank expects, as a minimum requirement, that they meet relevant national E&S laws and regulations applicable to their organization and industry
- It is required that the Bank's clients hold the relevant licenses and permits for all business operations
- The Bank also expect its clients to consider implementing best available industry practices in managing their E&S impact
- Bank also requires its clients to comply with any additional stipulations as it may deem fit in relation to the mitigation of the ESG risk factors

#### Internal Impact Mitigation

The Bank has continually enforced and updated its policies on how it manages its own environmental & social impacts. The Bank's Sustainability, Corporate Social Responsibility and other ESG related policies are available on the Bank's website. Further, the Bank has been monitoring and reporting on its sustainability & ESG performance since the financial year (FY) 2011. This policy focuses on how it strives to be positive change agents in society by influencing the organizations it associates with, to promote the adoption of practices and techniques that will mitigate negative E&S impacts.

## C. Governance Mechanism

The Bank approaches E&S risk management by clearly defining roles and responsibilities within the system and developing robust frameworks to facilitate the management and mitigation of associated risk. The Bank's E&S management processes involve several key actors across the organization from the Board of Directors, the Managing Director (MD) and Chief Executive Officer (CEO) to Business Heads and Credit Risk Officers as well as individual Relationship Managers (RMs).



To ensure the mainstreaming and implementation of the policy, the Bank has established an ESMS Committee; comprising of senior representatives from the business, risk, and sustainability teams. The Committee evaluates reports submitted by Sustainability team on portfolio coverage and the measureable progress the Bank has achieved on E&S risk assessment each quarter. They consider recommendations on the policy and present any proposed updates to the MD & CEO for approval. The Sustainability Head initiates annual policy reviews and presents the implementation status of the policy to the MD & CEO, which is further submitted to the CSR and Sustainability Committee of the Board.

While every member of top management actively engages in the management and implementation of the policy, it is the RMs who are the custodians of the policy at the grass root level. Each RM approaches the evaluation through a structured framework. All of the Bank's RMs participate in regular training exercises so they are appraised on the evolving risk environment and can share their client- interface experiences with top management, which serves as a basis for updating the policy.

The Sustainability team drives implementation of ESMS policy in the Bank. The ESG risk assessment of clients by Relationship Managers is reviewed by Sustainability team and Credit Risk Team before facility is sanctioned/renewed

The E&S risk assessment framework comprises the following key elements:

- Exclusion screening
- Industry classification based on Environmental and Social impact
- Scoring mechanism based on detailed E&S due diligence
- Stipulation of additional/case specific conditions/recommendations if any
- Escalations for High ESG Risk and Committee based sanction
- Approval and Monitoring

The E&S risk assessment framework is carried out with the help of an in-house ESMS module. This module determines the level of risk associated with the client and classifies it under High, Medium or Low Risk category. Appropriate levels of authorization have been assigned for each risk category.

## D. ESMS Screening, Evaluation & Scoring

IndusInd Bank's relationship managers (RMs) are primarily responsible for implementing the Bank's E&S Management System at the grass root level. The structured framework on which they base their evaluation is detailed below.

### i. Screening basis Exclusion list

It is mandatory for every proposal, irrespective of the quantum & type of banking limits, to clear the exclusion list. This is applicable to the entire wholesale banking unit including the GIFT City operations and also the microfinance business including Bharat Financial Inclusion Limited (BFIL). Applying exclusion criteria ensures that Bank doesn't not provide any facility for projects/ activities which, from Bank's perspective, are likely to have unacceptable negative impacts on the environment, social conditions and

governance. Any proposal that does not clear the exclusion list conditions is automatically rejected by the ESMS module.

The exclusion list as detailed below, ensures that the Bank will not knowingly participate in transactions or finance projects that are involved in following:

- Production or trade in any product or activity deemed illegal.
- Production or trade in substances which are banned, including but not limited to wild life products, products regulated under CITES, illegal narcotics, among others.
- Gambling, casinos and equivalent enterprises.
- Enterprises involved in production or trade in products engaging any form of forced labour or child labour.
- Businesses owning factories or workplaces that have inadequate safety mechanism that do not confirm to applicable local regulations (Eg: Factories Act)
- Businesses with a substantial stake in the porn industry.
- Production or trade in explosives and/or fireworks primarily meant for non-industrial use.
- Production or trade in tobacco or any of its derivate products including but not limited to Cigarettes, Gutka etc. *(Except companies trying to diversify their business with more than 50% revenue from non-tobacco business streams)*

### **Prohibition and Prevention of Child Labour**

ESG Risk Assessment of credit proposals will include an assessment of child labour practices being followed by the company. Such assessment will be done on the basis on publicly available information (Business Report and Sustainability Report, Integrated Annual Report, Sustainability Report, Employment and Labour policy etc.) / factory visits / Other Due Diligence / and information and undertakings provided by the Clients and will form a part of the Check list / initial DD done by Relationship Managers. This will confirm adherence to the Child Labour (Prohibition & Regulation) Act, 1986 and other such regulations that may be stipulated by the Government of India from time to time.

### **ii. Selection of Industry**

IndusInd Bank has classified certain industries which are likely to have higher inherent negative environmental and/or social impact as Severe and Moderate Impact Industries, while the rest have been classified under 'Others'. This classification further plays a significant role in determining and evaluating E&S risk of the client. Clients from "Others" industries will be categorized as High, Medium or Low risk through risk evaluation and scoring matrix.

• Evaluation of ‘Severe’ and ‘Moderate’ Impact industries:

Certain industries have potential for causing significant damage to society & the environment if the inherent industry risks are not identified and adequately managed. For all ‘Severe’ and ‘Moderate’ impact industries RMs are required to scrutinize the company’s E&S risk history, to ensure there have been no adverse citations in the past twelve months (or as applicable) against the company.

All proposals from ‘Severe’ impact industries (as identified by IndusInd Bank) are categorized as High Risk or Medium Risk. They are scrutinized more closely by the Relationship Managers, BU Heads and require an additional layer of due diligence from the Sustainability team and approval from ESMS Committee.

The guiding principles for this evaluation are detailed below:

|                                      |  |
|--------------------------------------|--|
| Environmental Factors                | Evaluation of companies categorized under Severe risk category is done on various environmental parameters such as GHG Emissions/Climate Change, Air (Non GHG) emissions, water and wastewater management, hazardous waste management, biodiversity and ecosystem amongst others.  |
| Key operating activity/<br>Geography | <ol style="list-style-type: none"> <li>1. Check whether the company operates in an industry that receives significant attention and scrutiny on their E&amp;S impact from NGOs, scientific community, government bodies and the general public</li> <li>2. Check whether the company operates in locations/countries with high ESG risk (e.g., focus on population displacement or loss of livelihood issues)</li> </ol>   |
| ESMS Track Record                    | Evaluate if there are any past incidents or a perceived lack of control relating to ESG issues (e.g., history of fines or blacklisting by NGOs/ other banks and Financial Institutions) and the way the company dealt with those issues (e.g., media statements, press releases, interviews etc.)  |
| Materiality                          | Focus on ESG issues that are likely to have material financial impact in future  |
| Key ESG risk areas                   | <ol style="list-style-type: none"> <li>1. Consider the indirect impact E&amp;S risk that may arise from the company's relationships with customers and suppliers. (e.g. handling of waste, social and labour issues, energy/water and their efficient use, land use changes/ forest clearing)</li> <li>2. Consider the company's position in the supply chain (generally point of sale retailers have lesser E&amp;S impact than upstream producers or manufacturers)</li> </ol> |

Industry classification used in E&S Risk Assessment Framework is given below:

**Severe Impact Industry**

|   |
|---|
| <ul style="list-style-type: none"> <li>• Coal</li> <li>• Mining</li> <li>• Oil Gas &amp; Petrochemicals</li> <li>• Pesticides</li> <li>• Tanneries</li> <li>• Thermal &amp; Nuclear Power Generation</li> </ul>   |
| <b>Moderate Impact Industry</b>   |
| <ul style="list-style-type: none"> <li>• Cement</li> <li>• Distillery, fermentation &amp; alcoholic beverages</li> <li>• Metals</li> <li>• Paper Manufacturing, Pulp &amp; Forestry</li> <li>• Textiles (with dyeing units)</li> <li>• Chemicals</li> <li>• Fertilisers</li> <li>• Ports</li> </ul> |
| <b>Other Industry</b>   |
| <ul style="list-style-type: none"> <li>• All industries not included in Severe or Moderate Impact Industry category</li> </ul>  |

### iii. Evaluation

Post screening basis exclusion list and industry selection, proposals with credit limits above a certain threshold will proceed for detailed E&S risk evaluation.

Depending on the nature and type of the proposal; the scale of activity and its impact; proposals are classified as “Microfinance”, “Project Finance” or “Corporate Finance”, with separate checklists under each classification to support assessment. Further, for ‘Severe Risk’ Industries, specific checklists are proposed to be provided to Business Units to enable a uniform & informed assessment of ESG risks.

Subsequent to screening a proposal, a Relationship Manager conducts a detailed E&S Risk evaluation depending on the classification of the proposal and the summary of the assessment is captured in the credit proposal under the Risk Analysis section.

**a. Corporate Finance:** The corporate lending portfolio is divided into two sub categories – the General Category and a Specialized Category.

#### Corporate Finance Evaluation Framework

To evaluate E&S risk associated with its corporate lending portfolio, IndusInd Bank has built a framework that facilitates the promotion of environment and social principles among its clients. Each sector uses an evaluation checklist to assess ESMS risk associated with their industry.

Relationship managers are trained so they can communicate the principles of the policy to their clients and assist them in identifying the risk associated with their business.

#### Specialized Sectors

In certain industries, IndusInd Bank’s focused engagements with clients have helped the Bank develop sector specific expertise. Each of these sectors, have a unique E&S footprint, hence the Bank has a

customised evaluation criteria for each industry. Based on current exposures, the specialized sector list includes:

- Gems and Jewellery
- Real Estate
- Agriculture and Warehousing
- Financial Services

Industries that are not a part of the specialized category list are evaluated under the general category.

**b. Project Finance:** There is a class of investments, bank-wide, which have a unique life cycle of their own. Financially, they operate via a special purpose vehicle (SPV) set up for each project. Oftentimes, these projects consume vast amounts of natural resources, which increase their E&S risk. Factoring in all these considerations, “Project Finance” proposals are evaluated separately via a more rigorous assessment framework.

#### Project Finance Evaluation Framework

The transaction life-cycle & E&S risk evaluation and mitigation for every project finance (PF) proposal, can be classified into four stages:

Stage I: Due Diligence.

Stage II: Appraisal and Sanction.

Stage III: Disbursement.

Stage IV: Continued Monitoring

#### Stage I: Due Diligence Stage

At this stage, the evaluation focuses on topographical aspects of the project, including the surrounding habitat and physical structures. The PF team assesses if the proposal will trespass on forest areas or has any adverse social impact or negatively impacts water bodies; and ensures that all the requisite environmental clearances and permissions are in place.

For Project Finance proposals, detailed assessment of environmental and social impact of projects will be required and where applicable Environmental Impact Assessment Report / Study may be obtained

#### Stage II: Appraisal and Sanction Stage

If the due diligence stage is completed satisfactorily, the Bank engages external consultants including a Lenders Engineer (LE), Lenders Insurance Agent (LI) and a Lenders Legal Counsel (LLC) to prepare independent verification reports on various aspects of the project.

The project is then appraised for its credit worthiness and submitted for the requisite internal approvals.

At the pre-submission stage, the PF analyst conducts an additional evaluation of the project from the E&S risk perspective using a “Project Finance” checklist. Using the risk rubric, these proposals are classified as high/medium/low risk. Every proposal has to be escalated to the PF Head for her/his approval. If the Project Finance Head feels a more focused review is necessary for a Low/Medium risk proposal, s/he may

choose to escalate it to the ESMS Committee. Additionally, all high risk proposals will follow the escalation matrix as defined under the ESMS Governance mechanism. All project finance ESMS approvals are with the stipulation that there will be continued monitoring and evaluation of the project’s E&S performance annually.

#### Stage III & IV: Disbursal & Continued Monitoring Stages

Typical loans involve stage wise disbursements over the construction period of the project. Prior to each disbursement, the Bank reviews the progress of the project, including the quality of the construction and procurement of the clearances and approvals that become relevant at each successive stage. The Bank also annually evaluates the project’s E&S performance for each completed stage through the ‘Continued Monitoring’ framework.

The Bank officials undertake periodic site visits to verify the project status and to evaluate the impact of its E&S monitoring mechanisms.

**c. Microfinance:** Microfinance caters to financing of the “bottom of the pyramid” in the Indian economy. The distinctive E&S risk associated with these proposals are evaluated through a framework tailored specifically for these investments.

#### Micro Finance Evaluation Framework

The inclusive banking group strives to make affordable financial services available in the unbanked sectors of the economy. All “Microfinance” in IndusInd Bank is delivered through its intermediaries, which have good physical and social reach, thereby leveraging the distribution strength and lowering cultural barriers. IndusInd Bank has two types of programs, each of which has a unique E&S risk evaluation mechanism.

- a. Local Financial Institutions (via the on-lending program).
- b. Business Correspondents (via the direct-lending model).

Loans to local Microfinance institutions are evaluated by assessing their on-lending policies to this sector. The loans under the Business Correspondents model are to individual borrowers, largely women, who use the funds for livelihood financing activities like running petty shops, livestock, education, high cost debt redemption, tailoring, ready-made garments and consumption. These activities have major positive social impact and little or no adverse environmental effect. IndusInd Bank continually engages with its business correspondents, through training programs and by reviewing implementation best practices. The business correspondents are also required to submit an annual environmental and social performance report on the status of the ESMS implementation for their clients.

#### **iv. Scoring**

The checklists described in the evaluation process are used to score each proposal and determine its risk categorization.

#### **High Risk Proposals**



Proposals that fall under this category typically are likely to have an irreversible and high-impact risk to the environment have the potential to negatively impact the surrounding ecosystem; and/or adversely affect a large number of people living in nearby communities.

High risk proposals are escalated to the Sustainability team for a focused review and approved by ESMS Committee. In case required either of them may seek a third party due diligence of the client. For an exception to be granted the committee requires the formulation of a risk mitigation action plan that is closely monitored throughout the lifecycle, to ensure the exception doesn't compromise any aspect of the E&S principles enshrined in this document.

For High ESG Risk proposals,

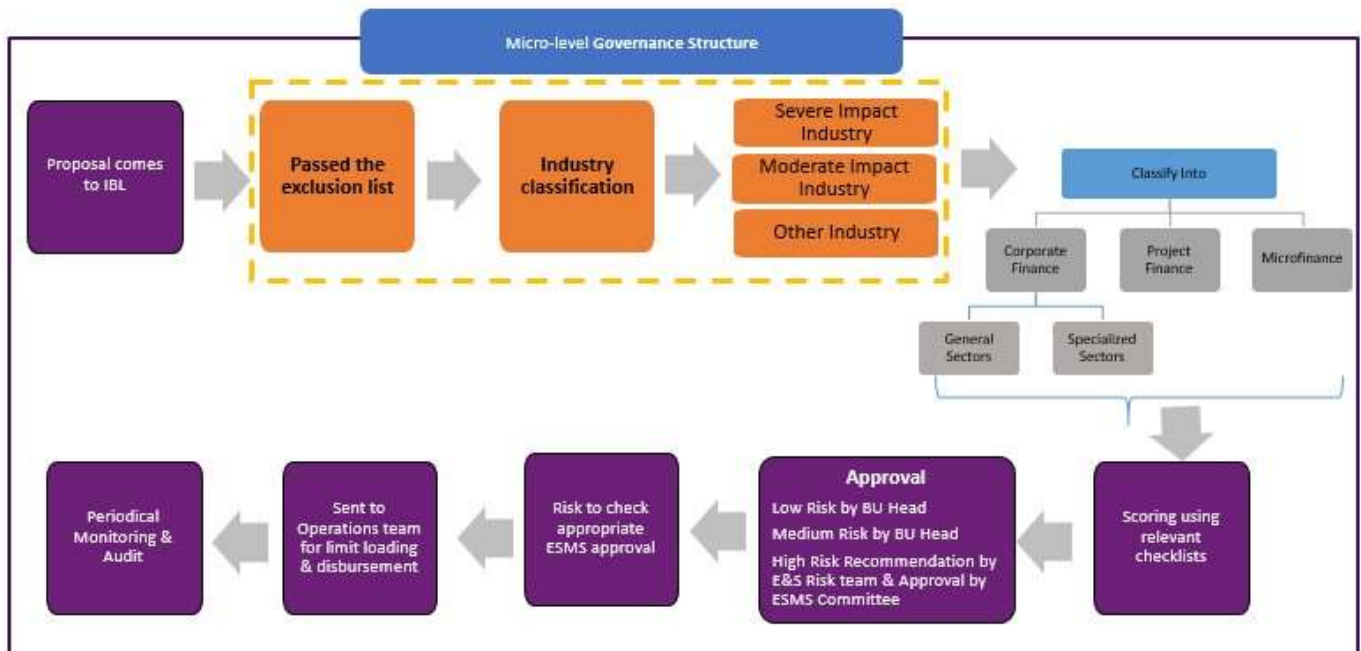
- ESMS committee members will deliberate and decide way forward.
- Specific recommendations / conditions of sanction may be incorporated to manage the high ESG risk.
- Recommendations may be made to RM for closer monitoring of high ESG risk events and engagement with client may be taken up where required. The same will be tracked for compliance.
- Conditions, where applicable, to be suitably advised to clients through the Sanction Letter.
- At a portfolio level, % of high risk cases are to be monitored and reported at appropriate forums

**Medium Risk Proposals**

Proposals that fall under this category typically have moderate negative environmental and social impact. The negative impacts are reversible and can be appropriately mitigated through the implementation of control measures. Medium risk proposals are escalated for a focused review and approval by BU Head.

**Low Risk Proposals**

Proposals falling under this category have minimal environmental and social impact. The checker reviewing these proposals is required to check whether the minimum E&S criteria applicable are met , and BU Head is authorized to provide approval for such low risk projects.



**ESG Risk Assessment on a Best Effort Basis**

The Bank undertakes ESG Risk Assessment of its Borrowers to the best of its abilities. ESG risk ratings will be assigned to the credit proposals based on ESG specific information provided by the Borrower and from publicly available records like Annual Reports, Integrated Annual Reports, BRSR, Sustainability Reports, EIA/EMP, news/media articles and other publicly available information. Information will also be sourced from customer interaction and site visits as and when undertaken during the Due Diligence process. The Bank relies on the information and confirmation provided by Borrowers.

**E. Training**

The Bank's RMs are trained in the general principles of the policy, as well as, the specific implementation procedures in their respective sectors, which includes focused client engagement strategies. Online training modules and awareness building campaigns are also conducted. They're also trained to collect and evaluate appropriate evidences from clients, which oftentimes require assessing highly technical documents. To support this effort, specialised certifications and programs such as CFA Certification in ESG Investing and UN ESRA - Environmental and Social Risk Analysis, have been provided to Sustainability team members.

**F. Monitoring E&S Risk**

IndusInd Bank believes that it is vital to monitor its investments and evaluate its impact. This data is an important input in formulating the Bank's annual business plans. The Sustainability team supports the collation of information in collaboration with business and risk teams, and presents to the ESMS Committee an update on the implementation status of the ESMS Policy. The number of proposals that received an exception approval by the ESMS committee and proposals that were rejected primarily due to E&S considerations are also tabulated and reported. All ESMS proposals undergo an annual review with respect to E&S risk assessment along with the review of credit facility. During renewal, E&S risk assessment and process flow remains same. ESG Risk assessment for all cases has to be carried out at the time of sanction and renewal, at annual intervals. Any recommendations / covenants as per ESG risk assessment & advice should be suitably documented and monitored for compliance as per internal processes.

**G. Advocacy, engagement and communication**

IndusInd Bank actively engages with various stakeholders such as Government entities, regulators, shareholders, industry associations, clients, employees, ESG rating agencies and such other entities involved in improving the ESG ecosystem. This would take the shape of influencing adoption of better ESG practices, relinquishing poor ESG practices, collective feedback for shaping policies and industry practices.

The bank plans to implement the following mechanism/tools/programs for educating our clients on issues related to child labour prohibition and prevention -

- Brochures/Pamphlets / E-Communication / Letters describing the negative effects of child labour and relevant national and state laws on child labour regulation and prohibition will be distributed to all MSME clients including Business Banking Group and Agri Business Group

- Relationship Managers will sensitize the clients on relevant national and state laws related to child labour regulation and prohibition and the negative impacts of child labour in India. Such communication to the clients can be made at the time of due diligence and sanction of facilities

## H. External Reporting

IndusInd Bank has been reporting on its sustainability performance since the financial year 2011 including publishing of its annual Integrated Report (IR). The Bank has been analysing and documenting its sustainability & ESG initiatives and performance as per the Global Reporting Initiative (GRI) standards and integrated reporting framework (IIRC). The Bank also participates in various ESG and Climate indices such as DJSI and rating agencies like CDP etc. Bank has started disclosing proactively in BRSR format prescribed by SEBI (compulsory from FY 2023).