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ENVIRONMENT & SOCIAL POLICY FRAMEWORK

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ENVIRONMENT & SOCIAL POLICY FRAMEWORK

1.1 BACKGROUND

The Reserve Bank of India (RBI) on February 22, 2013 issued the Guidelines for Licensing of New Banks in the Private Sector ("RBI New Banks Licensing Guidelines") and granted banking license to IDFC Bank Ltd. on 23rd July 2015. All lending activities carried out by IDFC Ltd. were transferred to IDFC Bank vide scheme of arrangements for demerger dated 13th July 2015. Further, IDFC Bank and The Capital First merged in December 2018. The name of the bank has changed pursuant to the merger from 'IDFC Bank Ltd' to 'IDFC FIRST Bank Ltd.'.

1.2 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 commits and mobilizes capital into a variety of companies and projects, including those in the infrastructure sector, manufacturing and services sector and extractive industries that may be associated with environmental and social impacts and risks. Before making a financing decision, it carefully assesses the extent of these impacts and associated risks and work with its clients to apply a clearly defined set of environmentally and socially responsible policies consistent with leading international standards and good practice.

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.

Managing E&S risks in IDFC FIRST Bank

- E&S conformance by the client as per Equator Principles/ applicable national legislative requirements
- Adequacy of environment and social documents developed for the transaction / project
- Identification and assessment of E&S Risks associated with the transaction
- Monitoring and review of E&S performance of the transaction / project

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 will follow Equator Principles for its project finance transactions. IDFC FIRST’s rigorous E&S policy along with its commitment to the Equator Principles shall serve as a solid foundation for screening transactions, advising our clients and promoting innovative & environmentally sound ways of doing business.

1.3 ENVIRONMENTAL & SOCIAL POLICY STATEMENT

1.3.1 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 Banking 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.

1.3.2 Scope

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

1.3.3 Environment and Social Policy

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

- Engage our customers, stakeholders on mainstreaming E&S Risk management
- 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
- Influence interested parties to carry out environmentally and socially responsible businesses and contribute to overall goal of sustainable development;

\[1\] Covering retail assets and commercial banking only. It does not include retail liabilities.
Ensure transparency in IDFC FIRST Bank’s EMS&P activities.

Manage and reduce IDFC FIRST Bank’s impact on the climate through optimizing its internal operations and as part of its business in its services and products

1.4 IDFC FIRST BANK’S ENVIRONMENT RISK GROUP

The Environment Risk group 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.

1.5 IDFC FIRST BANK’S ENVIRONMENTAL MANAGEMENT SYSTEMS AND PROCEDURES

IDFC FIRST Bank’s E&S policy along with the management systems and procedures enunciated in this manual 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. The systems and procedures are further elaborated in subsequent sections.

1.6 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.

✔ 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).

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

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.
Drift net fishing in the marine environment using nets in excess of 2.5 km in length.

1.7 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 ERG by the business team for review and opinion. Environment 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.

1.7.1 Position Statement on Sensitive Sectors

Position statements given in EMS&P 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.