



HDFC Bank Sri Lanka

Policy on Environmental, Social, and Governance (ESG) Sustainability

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1. Purpose of the Policy

The purpose of this policy is to embed Environmental, Social, and Governance (ESG) principles into the core operations of the bank, ensuring compliance with the Sustainable Financing guidelines issued by the Central Bank of Sri Lanka. This policy seeks to promote sustainable economic development, address environmental and social risks, and improve governance standards while safeguarding the interests of stakeholders.

2. Scope

This policy applies to all banking operations, products, services, and financing activities of the bank, including but not limited to:

- Corporate and retail lending
- Investment activities
- Risk management
- Internal operations
- Vendor and third-party relationships

3. Objectives

The objectives of the ESG Sustainability Policy are as follows:

- Environmental Protection: Minimize negative environmental impacts by adopting sustainable practices and financing environmentally friendly projects.
- Social Responsibility: Promote social equity, customer well-being, community development, and responsible lending practices.
- Governance Excellence: Maintain transparency, accountability, and ethical practices in all aspects of the bank's operations and decision-making processes.

4. Policy Principles

4.1 Environmental Sustainability

- Sustainable Lending Practices: The bank shall prioritize lending to projects and clients that promote renewable energy, energy efficiency, waste management, sustainable agriculture, and climate resilience.

- Environmental Risk Assessment: Before providing financing, the bank shall conduct due diligence to assess potential environmental risks. High-risk projects shall be required to implement mitigation strategies.
- Carbon Footprint Reduction: The bank shall adopt practices to reduce its own carbon footprint, such as energy-efficient technologies, reducing waste, and promoting sustainable resource use in internal operations.
- Green Finance Initiatives: Actively support green bonds, climate funds, and other instruments aligned with sustainable finance principles.

4.2 Social Responsibility

- Inclusive Financing: Ensure financial products and services are accessible to underserved segments, including SMEs, rural populations, and low-income individuals, promoting financial inclusion.
- Labor and Human Rights: Uphold international labor standards, fair wages, and safe working conditions in all banking operations and vendor relationships.
- Community Engagement: Support community development initiatives, education, healthcare, and other social welfare programs as part of the bank's corporate social responsibility (CSR) activities.
- Customer Protection: Implement policies ensuring transparency in product offerings, fair pricing, and effective grievance handling mechanisms.

4.3 Governance Standards

- Transparency and Accountability: Establish clear reporting frameworks for ESG initiatives, ensuring transparency to stakeholders and compliance with regulatory bodies.
- Board Oversight: The Board of Directors shall have overall responsibility for monitoring the implementation of ESG strategies. The bank shall establish an ESG Committee that reports to the Board on a quarterly basis.
- Ethical Conduct: Ensure all business activities are conducted ethically, adhering to the bank's code of conduct and anti-corruption policies.
- ESG Training: Provide ESG-related training for employees at all levels to ensure a strong understanding of sustainability principles and their integration into daily operations.

5. Sustainable Financing Criteria

- In line with the Central Bank's guidelines, the bank shall establish criteria for identifying, assessing, and financing sustainable projects. The criteria shall include:
 - Projects contributing to climate change mitigation or adaptation.
 - Socially responsible projects that create positive social outcomes (e.g., poverty alleviation, education, healthcare).
 - Projects that adhere to governance best practices and ensure transparency in their operations.
 - Loans and investments screened for ESG risks with proper documentation and risk mitigation measures.

6. ESG Risk Management Framework

The bank shall integrate an ESG risk management framework to identify and mitigate risks related to environmental, social, and governance factors in all lending and investment decisions.

6.1 Environmental Risk Management

- Conduct environmental due diligence before financing projects, particularly those in sensitive sectors such as mining, energy, or agriculture.
- Encourage clients to adopt eco-friendly practices and comply with environmental regulations.

6.2 Social Risk Management

- Identify potential social risks, such as negative impacts on communities, human rights violations, or labor issues, and work with clients to mitigate these risks.

6.3 Governance Risk Management

- Evaluate governance structures of clients to ensure accountability, ethical management, and anti-corruption measures are in place.

7. Implementation and Monitoring

7.1 Roles and Responsibilities

- Board of Directors: Provide oversight and approve ESG strategy.
- Senior Management: Responsible for integrating ESG considerations into the bank's core operations, including business strategy, risk management, and decision-making processes.
- ESG Committee: A dedicated committee shall monitor the ESG impact of the bank's activities and ensure adherence to this policy.
- Risk Department: Ensure all projects are assessed for ESG risks and develop risk mitigation strategies where necessary.

7.2 Monitoring and Reporting

- The bank shall set up key performance indicators (KPIs) to track progress on ESG goals, including carbon footprint, social impact metrics, and governance performance.
- The ESG Committee shall submit quarterly reports to the Board on the bank's ESG initiatives, risk exposures, and compliance with the Central Bank's Sustainable Financing guidelines.

8. Disclosure and Reporting

- The bank shall publicly disclose its ESG performance and progress in accordance with the Central Bank of Sri Lanka's Sustainable Financing guidelines. This includes:
 - Annual sustainability reports
 - Transparent communication with stakeholders on ESG risks and opportunities
 - Disclosure of significant ESG-related risks in the bank's financial reports

9. Compliance with Regulatory Requirements

- The bank shall ensure full compliance with the Sustainable Financing guidelines of the Central Bank of Sri Lanka and any other applicable national and international regulations or standards concerning ESG practices.

10. Policy Review and Updates

- This policy shall be reviewed and updated once in two years or whenever needed to reflect emerging trends in sustainability, regulatory changes, and evolving stakeholder expectations.