Environmental and Social (E&S) Policy

Aditya Birla Capital Limited

Aditya Birla Capital Limited
Corporate Office:
One World Center, Tower 1, 18th Floor, Jupiter Mill Compound,
841, Senapati Bapat Marg, Elphinstone Road, Mumbai, Maharashtra - 400 013
Tel: +91 22 6723 9101 | abc.secretarial@adityabirlacapital.com | www.adityabirlacapital.com
For customer care and other queries : care.finance@adityabirlacapital.com
Toll-free no.: 1800-270-7000

Registered Office:
Indian Rayon Compound,
Veraval, Gujarat – 362 266
Tel: +91 28762 43257
CIN: L67120GJ2007PLC058890

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About ABCL

Aditya Birla Capital Limited (ABCL”) is a listed systemically important non-deposit taking Non-Banking Financial Company (NBFC) and the holding company of the financial services businesses. ABCL and its subsidiaries/JVs provides a comprehensive suite of financial solutions across Loans, Investments, Insurance, and Payments to serve the diverse needs of customers across their lifecycles.

Scope and applicability of the policy

The Environmental and Social (E&S) Policy for ABCL sets forth environmental and social requirements applicable to all relevant lending of ABCL and its lending subsidiary, Aditya Birla Housing Finance Limited (ABHFL) excluding Retail and Digital Lending. The policy continues to be applicable to projects financed through the proceeds from Asian Infrastructure Investment Bank (AIIB)’s facility. It is developed in alignment with AIIB’s ES Framework (ESF) 2024 and addresses requirements of local legislation, Good International Industry Practice (GIIP), and Paris Alignment (for climate risk). Additionally, ABCL is guided by the applicable Performance Standards of the International Finance Corporation. It represents ABCL's commitment to integrate E&S considerations for all applicable lending.

Objectives

The overarching objective of the E&S Policy are:

The Company aims to integrate environmental and social considerations into its financing activities through a robust risk-based framework that safeguards stakeholders, ensures regulatory compliance, supports sustainable growth, and aligns the Company’s business strategy with responsible finance principles. This will be operationalized through smooth implementation of an Environment and Social Management System (ESMS) Framework.

An ESMS helps companies integrate plans and standards into their core operations, so they can anticipate environmental and social risks posed by their business activities and avoid, minimize, and compensate for such impacts as necessary. A good management system provides consultation with stakeholders and a means for complaints from workers and local communities to be addressed. The ESMS aims to ensure effective identification, assessment, management and monitoring of environmental and social risks in compliance with AIIB’s and IFC requirements. The objectives of the ESMS are as follows:

- Integrate E&S risk considerations into ABCL’s overall risk management and credit appraisal processes. Ensure alignment with the environmental and social requirements of multilateral institutions (including IFC and AIIB), applicable national regulations, and Good International Industry Practice (GIIP).
- To identify actions to mitigate and monitor environmental and social impacts of projects
- To integrate environmental and social considerations into the decision-making process across all stages of the loan cycle
- To provide a robust framework for managing the operational and reputational risks associated with environmental and social impacts of the projects that are in scope for ESMS as per agreed coverage with IFC and AIIB

- To provide a grievance redressal mechanism designed to enable Project-affected people to voice their concerns and grievances in connection with the environmental and social aspects of Projects that are in scope for ESMS as per agreed coverage with IFC and AIIB
- To ensure transparency of information with regards to projects' risks and impacts that are in scope for ESMS as per agreed coverage with IFC and AIIB
- To improve the effectiveness and impact of infrastructure development projects in both the short and long term from an E&S perspective

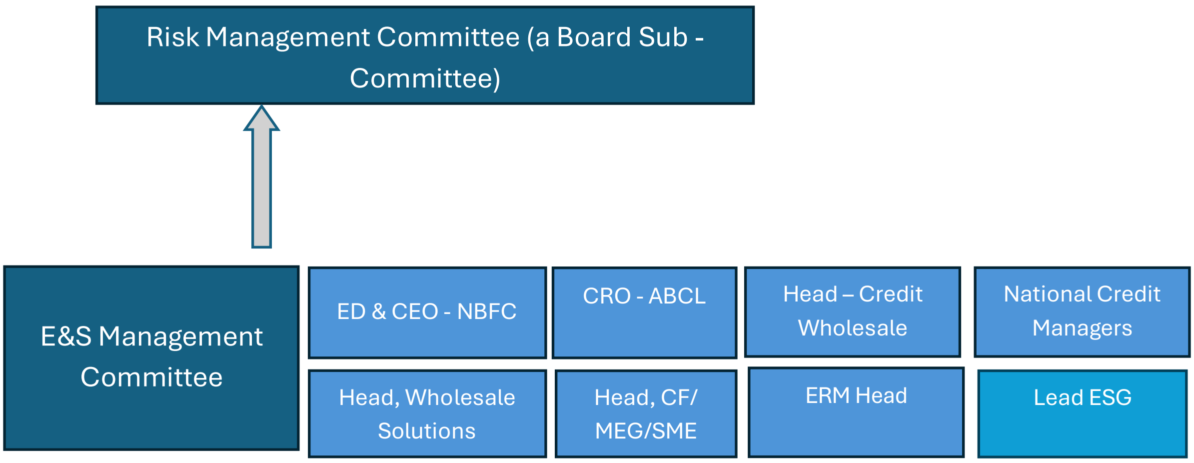
Governance

ABCL's Risk Management Committee (RMC), a Board sub-committee, is the apex governing body for all Environmental & Social (E&S) risks and E&S governance matters, providing oversight for integration of E&S risk into the overall risk management framework. The RMC shall periodically give its inputs on strategic E&S related matters.

The RMC shall delegate operational authority to the E&S Management Committee (ESMC), which will oversee implementation and enhancement of the Environmental & Social Management System (ESMS), including revisions, procedural updates, SOPs, and embedding ESG risk into business processes. The ESMC shall semi-annually report key developments, E&S risks, opportunities, performance, and governance effectiveness and material matters to the RMC for its review and feedback.

At the proposal level, Business E&S Review Committees (BESRC), deriving authority from the ESMC shall review proposals and recommend loan conditions, covenants, risks, and triggers from an E&S Risk perspective. The BESRC will quarterly report to ESMS to provide an update on E&S matters of proposals reviewed.

Governance Structure



E&S Risk Review in Proposals Structure

ESMS Risk Assessment Framework Overview

The ESMS framework covers the entire credit life cycle of a loan. The operational framework lists the procedures to be complied with in each stage of the lifecycle, i.e. pre-sanctioning stage, Post-Sanction and Disbursal stage, and post-disbursal stage.

	ENVIRONMENTAL AND SOCIAL RISK ASSESSMENT					Disbursement	E&S RISK MONITORING AND REPORTING		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
E&S Risk management	Screening against the Exclusion list, coal, upstream oil and gas, and other exclusions	Loan categorization based on typical sector and industry risk, term-sheet inputs	E&S due-diligence, and E&S corrective actions, where applicable	E&S Decision making /risk memo	E&S loan covenants and action plan in loan agreements, where applicable	COD check, escalation, waiver	Periodic monitoring of E&S covenants and action plan, where applicable	Actions on default, delinquencies	Reporting (internal, external, statutory)
Adequate record keeping and implementation of external communications mechanism (ECM) (10) Ongoing presentation/feedback to relevant decision-making authority (11)									

The contours of the ESMS Framework will be documented in an Environmental and Social Guidance Note, to be developed based on discussions between ABCL and Multilateral Lending Institutions. The detailed implementation plan will subsequently be presented to the ESMC for its review and approval.

Exclusion List - Applicable to loans to be considered under multi laterals borrowing arrangements.

The purpose of the exclusion list is to clearly define what activities will be discouraged by the organization for funding.

1. **Forced Labour and Human Rights Violations**

- Forced labour or harmful / exploitative forms of child labour.

2. **Illegal / Prohibited Activities**

- Production of, or trade in, any product or activity illegal under applicable national laws, regulations, or international conventions / agreements, or subject to international phase-outs or bans.

3. **Hazardous and Restricted Substances**

- Products containing polychlorinated biphenyls (PCBs).
- Pharmaceuticals, pesticides, herbicides, and other hazardous substances subject to international phase-outs or bans (e.g., Rotterdam Convention, Stockholm Convention).
- Ozone-depleting substances subject to phase-out (Montreal Protocol).
- Production, trade in, or use of asbestos fibres, whether bonded or unbonded.

4. **Wildlife, Biodiversity, and Cultural Heritage**

- Trade in wildlife or wildlife products regulated under CITES.
- Activities prohibited under international conventions protecting biodiversity or cultural resources (including Bonn, Ramsar, World Heritage, and Convention on Biological Diversity).

5. **Waste and Pollution**

- Transboundary movement of waste prohibited under the Basel Convention.
- Shipment of oil or hazardous substances in tankers not compliant with IMO, MARPOL, SOLAS, or Paris MOU requirements.

6. **Weapons and Sensitive Products**

- Production of, or trade in, weapons, munitions, or paramilitary materials.
- Production of, or trade in, alcoholic beverages (excluding beer and wine).
- Production of, or trade in, tobacco.
- Gambling, casinos, and equivalent enterprises.

7. **Unsustainable Forestry and Fishing**

- Commercial logging operations or purchase of logging equipment for use in primary tropical moist forests or old-growth forests.

- Production or trade in wood or forestry products other than sustainably managed forests.
- Harmful marine and coastal fishing practices, including large-scale drift net fishing or fine mesh net fishing damaging biodiversity or protected species.

8. **Coal and Fossil Fuel Related Activities**

- Thermal coal mining.
- Coal-fired power or heating plants.
- Projects functionally related to coal.

* When investing in **microfinance** activities, ABCL will apply the following items in addition to the IFC Exclusion List:

  - Production or activities involving harmful or exploitative forms of forced labor/harmful child labor.
  - Production, trade, storage, or transport of significant volumes of hazardous chemicals, or commercial scale usage of hazardous chemicals. Hazardous chemicals include gasoline, kerosene, and other petroleum products.
  - Production or activities that impinge on the lands owned, or claimed under adjudication, by Indigenous Peoples, without full documented consent of such peoples.

* When investing in **Trade finance projects**, ABCL will apply the following items in addition to the IFC Exclusion List:

- Production or activities involving harmful or exploitative forms of forced labour/harmful child labour.

Fossil Fuel related activities - The below mentioned will be discouraged by ABCL for funding.

Long-term (more than 24 months) (i) project finance exposures and / or (ii) corporate finance exposures for:

i. **Oil:**
   Upstream activities: exploration of oil fields, drilling, and operating wells to produce oil.
ii. **Gas:**
   Upstream activities: exploration of natural fields, drilling and operating wells to produce natural gas.
iii. **Coal/ peat:**
   the development of new coal related projects including coal mining/peat extraction, exclusively dedicated to coal/peat transportation, exclusively dedicated to coal/peat storage as well as infrastructure services exclusively dedicated to support any of these activities, and coal/peat fired power plants (it excludes captive coal/peat fired power plants used for industrial applications such as mining, smelters, cement or chemical industries, etc.), large-scale heat production infrastructure based on unabated coal and peat, and thermal coal trading for electricity generation (*this excludes trade in coal for the purpose of various chemical / manufacturing processes where coal is an integral component (e.g. industrial fuel, reductant) of such processes).*

Risk Categorization

Projects are categorized based on the identified risks using the risk categorization framework into one of four levels: Category A, Selected Category B, Category B and Category C depending on the E&S risks identified.

Category	Description
Category A	Projects with significant adverse impacts that are sensitive, diverse, irreversible, or unprecedented; causing impacts broader than project sites - may include offsite, cumulative, and indirect impacts
Selected Category B	Projects with significant adverse impacts that may require extensive mitigation, causing impacts potentially beyond the project site
Category B	Projects with limited adverse impacts that are site-specific, not irreversible, and manageable; causing impacts that are localized to the project site and immediate surroundings
Category C	Projects with minimal or no adverse impacts on environment or social settings; causing negligible impacts on immediate surroundings

Periodic Monitoring of Borrowers

The monitoring of the E&S risks shall be guided by the following principles

1. risk associated with region / industry / and client group,
2. categorization of the account - Category A / Category B / Category C and,
3. reputational risk due to public complaints, adverse media or E&S incidents.

Review of the Policy

The E&S Policy is regularly updated to ensure ABCL stays aligned with evolving E&S standards, stakeholder feedback, and best practices.