Second-Party Opinion

# HDFC Bank Sustainable Finance Framework

## Evaluation Summary

Sustainalytics is of the opinion that the HDFC Bank Sustainable Finance Framework is credible and impactful and aligns with the Green Bond Principles 2021, Social Bond Principles 2021, Sustainability Bond Guidelines 2021, Green Loan Principles 2023 and Social Loan Principles 2023. This assessment is based on the following:

**USE OF PROCEEDS** The 16 eligible categories for the use of proceeds[1] are aligned with those recognized by the Green Bond Principles, Social Bond Principles, Green Loan Principles and Social Loan Principles. Sustainalytics considers that investments in the eligible categories will lead to positive environmental or social impacts and advance the UN Sustainable Development Goals, specifically SDGs 2, 3 ,4, 6, 7, 9, 11, 12, 13, 14 and 15.

**PROJECT EVALUATION AND SELECTION** HDFC Bank's Product Responsibility Group under the Bank's Apex Council will act as the ESG working group, which will be responsible for project evaluation and selection in accordance with the eligibility criteria of the Framework. The ESG working group comprises representatives from the Bank's Risk Management, ESG, Treasury, Credit and Credit Administration departments. The Bank has developed an ESG Risk Management Policy to assess the environmental and social impacts of loans, categorize risks and implement risk mitigation and management measures. Sustainalytics considers the environmental and social risk management system and the project selection process to be adequate and aligned with market practice.

**MANAGEMENT OF PROCEEDS** HDFC Bank's ESG working group will oversee the management of proceeds and has internal tracking mechanisms in place to track and monitor the allocation of proceeds for the ESG instruments issued under this Framework. The Bank intends to allocate net proceeds within 36 months of issuance. Pending allocation, unallocated proceeds will be temporarily held in money market instruments such as liquid securities and cash and cash equivalents. This is in line with market practice.

**REPORTING** HDFC Bank commits to report on allocation of proceeds on an annual basis until full allocation on its website. Allocation reporting will include the eligible projects and assets, the amount of proceeds to be allocated to the eligible projects and assets, the amount of unallocated proceeds and the share of financing versus refinancing. In addition, HDFC Bank intends to report on relevant impact metrics. Sustainalytics views HDFC Bank's allocation and impact reporting as aligned with market practice.

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| **Evaluation Date** | December 12, 2023 |
| **Issuer Location** | Mumbai, India |

**Report Sections**



**For inquiries, contact the Sustainable Finance Solutions project team:**


**Rashmi John (Mumbai)**
Project Manager
rashmi.john@sustainalytics.com

**Ashok Yashwant (Mumbai)**
Project Support

**Chinmay Sirdeshmukh (Mumbai)**
Project Support

**Poonam Tarekar (Mumbai)**
Project Support

**Nishant Bhagchandani (Mumbai)**
Client Relations
susfinance.apac@sustainalytics.com
(+852) 3008 2391


[1] i) Renewable Energy, ii) Energy Efficiency, iii) Pollution Prevention and Control, iv) Sustainable Water and Wastewater Management, v) Environmentally Sustainable Management of Living Natural Resources and Land Use, vi) Terrestrial and Aquatic Biodiversity, vii) Clean Transportation, viii) Climate Change Adaptation, ix) Circular Economy, x) Green Buildings, xi) Micro, Small and Medium Enterprise Lending, xii) Affordable Basic Infrastructure, xiii) Access to Essential Services, xiv) Food Security, xv) Impact Financing and xvi) Socioeconomic Empowerment.

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# Introduction

HDFC Bank Ltd. ("HDFC Bank" or the "Bank") is an Indian private bank headquartered in Mumbai, India. The Bank provides a range of financial services in retail banking, wholesale banking and treasury services. Established in 1994, the Bank operates 7,821 branches in India with four overseas branches and four digital banking units. The Bank has a total of 1,73,222 employees as of 31 March 2023.[2]

HDFC Bank has developed the HDFC Bank Sustainable Finance Framework dated December 2023 (the "Framework"), under which it intends to issue green, social and sustainability bonds, originate loans, and use the proceeds to finance or refinance, in whole or in part, existing and future projects that are expected to facilitate the transition to a low-carbon economy and advance socio-economic development in India.

The Framework defines eligibility criteria in ten green categories:

1. Renewable Energy
2. Energy Efficiency
3. Pollution Prevention and Control
4. Sustainable Water and Wastewater Management
5. Environmentally sustainable management of living natural resources and land use
6. Terrestrial and Aquatic Biodiversity
7. Clean Transportation
8. Climate Change Adaptation
9. Circular Economy
10. Green Buildings

The Framework defines eligibility criteria in six social categories:

1. Micro, Small and Medium Enterprise Lending
2. Affordable Basic Infrastructure
3. Access to Essential Services
4. Food Security
5. Impact Financing
6. Socioeconomic Empowerment

HDFC Bank engaged Sustainalytics to review the HDFC Bank Sustainable Finance Framework and provide a Second-Party Opinion on the Framework's environmental and social credentials and its alignment with the Sustainability Bond Guidelines 2021 (SBG), Green Bond Principles 2021 (GBP), Social Bond Principles 2021 (SBP)[3], Green Loan Principles 2023 (GLP) and Social Loan Principles 2023 (SLP)[4]. The Framework will be published in a separate document.[5]

**Scope of work and limitations of Sustainalytics' Second-Party Opinion**

Sustainalytics' Second-Party Opinion reflects Sustainalytics' independent[6] opinion on the alignment of the reviewed Framework with the current market standards and the extent to which the eligible project categories are credible and impactful.

As part of the Second-Party Opinion, Sustainalytics assessed the following:

- The Framework's alignment with the Sustainability Bond Guidelines 2021, Green Bond Principles 2021, and Social Bond Principles 2021, as administered by ICMA, and the Green Loan Principles 2023 and Social Loan Principles 2023, as administered by LMA, APLMA and LSTA;
- The credibility and anticipated positive impacts of the use of proceeds; and

[2] HDFC Bank, "Integrated Annual Report 2022-23", at: https://www.hdfcbank.com/content/bbp/repositories/723fb80a-2dde-42a3-9793-7ae1be57c87f/?path=/Footer/About%20Us/Investor%20Relation/annual%20reports/pdf/Integrated%20Annual%20Report%202022-23.pdf
[3] The Sustainability Bond Guidelines, Green Bond Principles, and Social Bond Principles are administered by the International Capital Market Association and are available at https://www.icmagroup.org/green-social-and-sustainability-bonds/sustainability-bond-guidelines-sbg/
[4] The Green Loan Principles and Social Loan Principles are administered by the Loan Market Association, Asia Pacific Loan Market Association and Loan Syndications and Trading Association and are available at: https://www.lsta.org/content/green-loan-principles/# and https://www.lsta.org/content/social-loan-principles-slp/
[5] The HDFC Bank Sustainable Finance Framework is available on HDFC Bank's website at: https://www.hdfcbank.com/
[6] When operating multiple lines of business that serve a variety of client types, objective research is a cornerstone of Sustainalytics and ensuring analyst independence is paramount to producing objective, actionable research. Sustainalytics has therefore put in place a robust conflict management framework that specifically addresses the need for analyst independence, consistency of process, structural separation of commercial and research (and engagement) teams, data protection and systems separation. Last but not the least, analyst compensation is not directly tied to specific commercial outcomes. One of Sustainalytics' hallmarks is integrity, another is transparency.

- The alignment of the issuer's sustainability strategy and performance and sustainability risk management in relation to the use of proceeds.

For the use of proceeds assessment, Sustainalytics relied on its internal taxonomy, version 1.14, which is informed by market practice and Sustainalytics' expertise as an ESG research provider.

As part of this engagement, Sustainalytics held conversations with various members of HDFC Bank's management team to understand the sustainability impact of their business processes and planned use of proceeds, as well as management of proceeds and reporting aspects of the Framework. HDFC Bank representatives have confirmed (1) they understand it is the sole responsibility of HDFC Bank to ensure that the information provided is complete, accurate and up to date; (2) that they have provided Sustainalytics with all relevant information and (3) that any provided material information has been duly disclosed in a timely manner. Sustainalytics also reviewed relevant public documents and non-public information.

This document contains Sustainalytics' opinion of the Framework and should be read in conjunction with that Framework.

Any update of the present Second-Party Opinion will be conducted according to the agreed engagement conditions between Sustainalytics and HDFC Bank.

Sustainalytics' Second-Party Opinion, while reflecting on the alignment of the Framework with market standards, is no guarantee of alignment nor warrants any alignment with future versions of relevant market standards. Furthermore, Sustainalytics' Second-Party Opinion addresses the anticipated impacts of eligible projects expected to be financed with bond and loan proceeds but does not measure the actual impact. The measurement and reporting of the impact achieved through projects financed under the Framework is the responsibility of the Framework owner. Upon twenty-four (24) months following the evaluation date set stated herein, HDFC Bank is encouraged to update the Framework, if necessary, and seek an update to the Second-Party Opinion to ensure ongoing alignment of the Framework with market standards and expectations.

In addition, the Second-Party Opinion opines on the potential allocation of proceeds but does not guarantee the realized allocation of the bond and loan proceeds towards eligible activities.

No information provided by Sustainalytics under the present Second-Party Opinion shall be considered as being a statement, representation, warrant or argument, either in favour or against, the truthfulness, reliability or completeness of any facts or statements and related surrounding circumstances that HDFC Bank has made available to Sustainalytics for the purpose of this Second-Party Opinion.

# Sustainalytics' Opinion

## Section 1: Sustainalytics' Opinion on the HDFC Bank Sustainable Finance Framework

Sustainalytics is of the opinion that the HDFC Bank Sustainable Finance Framework is credible, impactful and aligns with the four core components of the GBP, SBP, GLP and SLP. Sustainalytics highlights the following elements of HDFC Bank's Sustainability Finance Framework:

- Use of Proceeds:
  - The eligible categories are aligned with those recognized by the GBP, SBP, GLP, and SLP.[7] Sustainalytics considers that the Bank's investments in eligible projects are expected to facilitate the transition to a low-carbon economy and advance socio-economic development in India.
  - The Bank has defined a 36-month look-back period for refinancing expenditures, which Sustainalytics considers to be in line with market practice.
  - Under the Framework, the Bank may finance general purpose loans for pure play businesses that derive at least 90% of their revenue from activities identified in the eligible categories. Sustainalytics notes that the GBP, SBP, GLP and SLP favour project-based lending and financing, which generally provides more transparency than non-project-based lending and financing.

[7] i) Renewable Energy, ii) Energy Efficiency, iii) Pollution Prevention and Control, iv) Sustainable Water and Wastewater Management, v) Environmentally Sustainable Management of Living Natural Resources and Land Use, vi) Terrestrial and Aquatic Biodiversity, vii) Clean Transportation, viii) Climate Change Adaptation, ix) Circular Economy, x) Green Buildings, xi) Micro, Small and Medium Enterprise Lending, xii) Affordable Basic Infrastructure, xiii)Access to Essential Services, xiv) Food Security, xv) Impact Financing and xvi) Socioeconomic Empowerment.

Nevertheless, Sustainalytics recognizes that the financing of pure play companies through green and social bonds is commonly accepted in the market as an approach that can generate positive impact.

- Under the Renewable Energy category, the Bank may finance or refinance the production, transmission and distribution of renewable energy such as solar, wind, hydropower, waste to energy, geothermal, hydrogen and biogas, including the manufacture and development of associated renewable energy equipment and components. Additionally, the Bank may also finance the production of biofuels. Sustainalytics considers the expenditures under this category to be aligned with market practice, noting the following:
  - Photovoltaic and concentrated solar power (CSP) projects, which may include ground mounted and grid-connected rooftop solar projects. Eligible CSP projects will be limited to those where at least 85% of the electricity is generated from solar energy sources and non-renewable energy backup will be limited to 15% of the facility's total electricity production.
  - Onshore and offshore wind energy projects.
  - Solar and wind captive power plant projects for manufacturing facilities, excluding any facilities in fossil fuel and hard-to-abate sectors.
  - Small-scale run-of-river hydroelectric power projects limited to less than 25 MW capacity or without an artificial reservoir. The eligible projects operational after 2019 will have a power density greater than 10 $W/m^2$ or life cycle intensity below 50 $gCO_2e/kWh$ whereas projects operational before 2019 will have a power density greater than 5 $W/m^2$ or life cycle intensity below 100 $gCO_2e/kWh$. The Bank has confirmed that all new hydropower projects will undergo an environmental and social impact assessment and that no new projects will be undertaken if the assessment has identified negative impacts or associated controversies.
  - Waste-to-energy projects includes financing projects using municipal solid waste (MSW) and biomass as feedstock.
    - For projects where biomass is used as feedstock, the Bank commits to limit financing to forestry and agricultural waste or residues, such as wood chips, cane trash, bagasse, corn cobs, nut shells, and to exclude waste from non-Roundtable on Sustainable Palm Oil (RSPO)-certified palm operations.
    - For MSW projects, the Bank confirmed that it will ensure waste segregation at the source so that recyclables such as plastics and metals are removed from the feedstock for energy conversion. Sustainalytics recognizes that energy from waste could take out of circulation potentially recyclable materials and undermine the main objectives of a zero-waste circular economy, i.e. waste prevention and recycling. Additionally, the composition of residual waste, particularly fossil carbon content, is a crucial consideration for such projects to have low emissions intensities. However, Sustainalytics also notes that due to constraints on recycling in many parts of the world, energy from waste can offer a better residual waste management option than landfills in many cases. Sustainalytics recommends the Bank to finance projects that promote the removal of increasing amounts of recyclables, especially plastics and metals, and the monitoring of the thermal efficiency of the financed facilities.
  - Eligible geothermal electricity generation projects will be limited to projects with direct emissions below 100 $gCO_2/kWh$.
  - Biogas energy for electricity generation with non-waste feedstock such as oil seed crops, sugar crops and wood pellets, excluding palm oil and peat, where life cycle GHG emissions intensity are below 100 $gCO_2e/kWh$. The Bank will ensure that the feedstock for biogas energy achieves the following: i) does not take place on land with high biodiversity; ii) does not convert land with high amounts of carbon; iii) does not complete with food resources; and iv) are certified by a credible source. Sustainalytics encourages the Bank to report on the sources of feedstock used and the third-party certificates pursued to validate their sustainability credentials.

    - Green hydrogen projects where the production by electrolysis is powered by renewable energy sources or by 100% sustainably sourced biomass, biogas or renewable natural gas (or landfill gas).[8]
    - Production of biofuels from both waste[9] and non-waste[10] biomass. Additionally, production of biofuels from non-waste biomass may include sustainable aviation fuels and will achieve at least a 65% reduction in emissions compared to the fossil fuel baseline.
    - Construction, maintenance and expansion of energy transmission and distribution (T&D) networks where more than 90% of the electricity transmitted through the network will be from renewable energy. Where the grid supports less than 90% renewables and the share of renewables is expected to increase, the Bank will adopt a pro-rata approach for allocation.
    - Development and manufacture of equipment, components and associated assets wholly dedicated and used for the purpose of supporting renewable energy generation and storage, such as wind turbines, solar panels, wind turbine installation vessels and battery storage connected to renewables.
    - Sustainalytics considers investments under this category as aligned with market practice.
- Under the Energy Efficiency category, the Bank may finance or refinance the following energy efficiency improvement projects that will result in at least 20% energy savings:
    - Projects for energy efficiency improvements and reduction in specific energy consumption, including upgrades, modifications, services and improvements to energy management systems in industrial and manufacturing processes, and design, redesign, service and modifications of products and its features. HDFC Bank confirmed that these expenditures will exclude energy-efficient technologies designed or intended for: i) processes that are inherently carbon intensive; primarily driven or powered by fossil fuels, such as oil- or gas-fired boilers; cogeneration and CHP units; and ii) processes in fossil-fuel operations or heavy industries production, such as steel, cement or aluminium.
    - Building technologies, such as LED lighting, smart meters for households and replacement of existing boilers with electric models.
    - Expenditures related to technology or network upgrades, including: i) mobile network upgrades to the latest technologies, including 5G technology and 4G LTE migration from 3G or lower; ii) upgrades to telecom towers, including investments in energy-efficient cooling systems, insulation and reflective paints that enhance energy efficiency; and iii) upgrading from copper-based networks to fibre optics. Sustainalytics notes that the Bank may finance the installation or upgrade of energy-efficient mechanical cooling systems. Sustainalytics recommends the Bank to finance projects that consider the use of low-GWP refrigerants for such cooling systems and that promote robust refrigerant leak control, detection and monitoring, while ensuring recovery, reclamation, recycling or destruction of refrigerants at end of life.
    - Retrofitting of equipment or technologies in renewable energy power plants. HDFC Bank has confirmed to Sustainalytics that renewable energy powered plants will comply with the criteria in the Renewable Energy category in the Framework.
    - Projects related to distribution networks for districting heating or cooling generation primarily powered by more than 50% of renewables, waste heat or both.[11]
    - Development, manufacture, installation of smart grid technologies or components that enable more efficient transmission and distribution networks, such as communications and sensors technologies, including SCADA systems, such as wide area monitoring systems (WAMS), advanced and smart meters, monitoring and control automation devices, big data or computing platforms. The Bank confirmed that it will

[8] The Bank will ensure that the feedstock for biogas energy achieves the following: i) does not take place on land with high biodiversity; ii) does not convert land with high amounts of carbon; iii) does not complete with food resources; and iv) are certified by a credible source.
[9] The criteria for waste biomass feedstock remain the same as stated above under expenditures related to waste-to-energy projects.
[10] The criteria for the non-waste biomass feedstock remain the same as stated above under expenditures related to biogas energy projects.
[11] Sustainalytics notes that waste heat from fossil fuel production and operation will be excluded from financing under the Framework.

exclude the financing of transmission lines directly connected to fossil fuel power plants.
  - Sustainalytics considers investments under this category as aligned with market practice. Further, Sustainalytics views positively the inclusion of a defined energy efficiency threshold for the installation of energy-efficient systems, equipment and technologies.

- Under the Pollution and Prevention Control category, the Bank may finance or refinance expenditures related to waste management, air pollution prevention, soil remediation and nature-based carbon sequestration projects. Sustainalytics considers investments under this category as aligned with market practice, noting the following:
  - Waste management projects may include the development of waste collection and recycling facilities that will support source segregation of waste. Eligible recycling facilities include those that process: i) recyclable waste into secondary raw material; ii) mixed residual waste to produce feedstock for waste-to-energy plants where segregation of recyclables, including plastics and metals, will be ensured prior to the processing; and iii) food, green, garden or yard waste to produce compost. Further, the Bank has confirmed that: i) recycling of electronic waste will be accompanied by robust waste management processes to mitigate environmental and social risks; and ii) recycling of plastic will be limited to physical recycling.
  - Air pollution prevention projects may include installation of smokestack scrubbers or process upgrades, sensors to monitor and test emissions control or compliance. The Bank confirmed the exclusion of i) pollution prevention measures, systems and components driven by fossil fuels; and ii) prevention of air pollution resulting from fossil fuel production, such as produced water from fracking or from technologies that are inherently driven by fossil fuel as an energy source.
  - Soil remediation projects will not be related to the contamination or negative environmental externalities from the Bank's or its borrowers' own activities.
  - Projects including enhanced natural processes, such as addition of biochar and late-stage R&D expenditures for ocean fertilization and direct air capture technologies.
  - Development and use of information and communications technologies, dedicated to collecting, transmitting, storing and using data to facilitate GHG emission reduction.
  - Sustainalytics considers these investments to aligned with market practice.
- Under the Sustainable Water and Wastewater Management category, HDFC Bank may finance or refinance activities to improve water quality and increase water-use efficiency. Eligible expenditures may include:
  - Water recycling and reuse systems and wastewater treatment facilities, including sewer networks, manure and slurry treatment facilities. Additional expenditures may also include upgrades to wastewater treatment plants to remove nutrients and wastewater discharge infrastructure. The Bank confirmed that the wastewater treatment facilities will exclude wastewater from fossil fuel operations.
  - Desalination plants powered by electricity with an average carbon intensity at or below 100 $gCO_2e/kWh$ over the residual asset life or desalination plants primarily powered by low-carbon sources, such as renewables. Eligible plants will be limited to those that include an appropriate waste management plan in place for brine disposal and exclude integrated water and power plants (IWPP) powered by fossil fuel.
  - Water saving systems and technologies, and water metering, including water-efficient irrigation methods in horticulture, including drip and sprinkler irrigation methods, water monitors and taps with low-flow water fixtures.
  - Urban drainage systems
  - Sustainalytics considers investments under this category as aligned with market practice.
- Under the Environmentally Sustainable Management of Living Natural Resources and Land Use category, the Bank may finance or refinance the following:
  - Sustainable agriculture activities such as crop rotation, drip irrigation and no-till farming.

- Sustainable fisheries and aquaculture activities certified by a recognized and credible third-party standard, such as the Aquaculture Stewardship Council (for farm-level certification)[12] and the Global G.A.P for Aquaculture.[13]
- Investment in integrated cropland-livestock forestry systems (ICLFS) and agroforestry systems targeted at smallholder farmers with certified sustainable forestry management in place such as FSC[14] or PEFC.[15] Sustainalytics recognizes that ICLFS and agroforestry projects encompass a diversified production strategy that aims to enhance agricultural productivity and have been demonstrated to reduce the vulnerability of farmers (particularly smallholder farmers) to environmental shocks, including climate change. However, such integrated projects could face certain barriers,[16] especially related to their effective adoption on a farm level, as well as their overall potential for achieving a net reduction in methane emissions resulting from livestock production.[17]
- Sustainalytics considers investments under this category as aligned with market practice.

– Under Terrestrial and Aquatic biodiversity conservation, the Bank may finance or refinance projects for preserving terrestrial and marine natural habitats, including: i) restoration, preservation or conservation of natural habitats and landscapes, such as marshes, creeks and coastal ecosystems; ii) restoration or preservation of biological diversity in urban areas, such as parks; and iii) landscape conservation or restoration, including forest conservation and restoration measures in line with REDD.[18] The Bank has confirmed that such activities will: i) use tree species well adapted to the site's conditions; and ii) have a sustainable management plan in place certified by FSC[19] or PEFC.[20] Sustainalytics is of the opinion that these expenditures in biodiversity conservation measures are in line with market practice.

– Under the Clean Transportation category, the Bank may finance or refinance developing, manufacturing or acquisition of low-carbon passenger and freight transportation, and related infrastructure projects. Sustainalytics considers these to be credible expenditures, noting the following:
  - Private passenger vehicles: zero direct emissions[21] and hybrid vehicles, such as cars and commercial vehicles with a tailpipe emissions threshold below 75 $gCO_2e$/km until 2025 and zero tailpipe emissions after 2025.
  - Mass public transportation vehicles: zero direct emissions or hybrid passenger public transportation, such as light rail transit, metros, trams, trolleybuses, buses and rail with a tailpipe emissions threshold below 50 $gCO_2e$/pkm until 2025 and zero tailpipe emissions after 2025.
  - Freight vehicles: zero direct emissions or hybrid rail freight with a tailpipe emissions threshold below or equal to 25 $gCO_2e$/tkm and zero direct emissions road freight transportation.[22, 23]
  - The Bank may finance bus rapid transit (BRT) systems. Sustainalytics notes that some BRT systems may deploy fossil fuel-powered vehicles. Although electrified transit provides the most environmental benefits, the expansion of mass transit more broadly has an overall positive impact regardless of the fuel source. Components of BRT

[12] ASC: https://asc-aqua.org/producers/farm-standards/
[13] Global G.A.P. for Aquaculture: https://www.globalgap.org/uk_en/for-producers/globalg.a.p./integrated-farm-assurance-ifa/aquaculture/
[14] FSC: https://fsc.org/en/find-the-right-certification-or-licence
[15] PEFC: https://www.pefc.org/standards-implementation
[16] The adoption of integrated crop-livestock systems is influenced by several factors, including the "costs of adoption versus non-adoption, supply chain infrastructure, biophysical suitability, availability of skilled labour, access to information and know-how, as well as the willingness to diversify production." Gil, JDB et al. (2016), "Determinants of crop-livestock integration in Brazil: Evidence from the household and regional levels", Land Use Policy, at: https://www.bu.edu/gdp/files/2018/02/Gil_Garrett_et_al_2016_Determinants-of-ICLS.pdf
[17] IPCC, "Land-Climate Interactions", (2019), at: https://www.ipcc.ch/site/assets/uploads/2019/08/2c.-Chapter-2_FINAL.pdf
[18] UNFCC, "What is REDD+?", at: https://unfccc.int/topics/land-use/workstreams/redd/what-isredd#:~:text=REDD%2B%20is%20a%20framework%20created,carbon%20stocks%20in%20developing%20countries.
[19] FSC: https://fsc.org/en/find-the-right-certification-or-licence
[20] PEFC: https://www.pefc.org/standards-implementation
[21] Eligible zero direct emission vehicles will include fully electric or hydrogen vehicles.
[22] Fossil fuels will account for no more than 25% of the freight transported (in tonne-kilometres) by eligible freight vehicles.
[23] The Bank has confirmed that freight vehicles dedicated to the transport of fossil fuels or fossil fuels blended with alternative fuels are excluded from financing under the Framework.

systems deemed eligible under the Framework will be certified under the Institute for Transportation and Development Policy's BRT Standard[24] (at the levels of Bronze, Silver or Gold) and will meet a direct emissions threshold lower than 50 $gCO_2e/pkm$, according to the WLTP (worldwide harmonized light duty vehicle test procedure). Sustainalytics is of the opinion that these qualifications will ensure effective transit infrastructure and maximize the environmental benefits of the projects developed.

    - Eligible infrastructure expenditures include: i) those associated with zero direct emissions transport, such as batteries and hydrogen fuelling stations; ii) EV charging; iii) sidewalks, bike lanes and pedestrian zones; and iv) traffic or public transport control centres.
    - Additional expenditures may include: i) financing of lease and retail loans for EVs and hybrid vehicles complying with the aforementioned emissions threshold under this category; ii) manufacturing facilities wholly dedicated to manufacturing of EVs and components specifically designed for EVs; and iii) late stage R&D related to development and energy efficiencies for electric and hydrogen vehicles.
    - The Bank has communicated that it will follow the test procedures commonly used in India for determining the emissions thresholds of vehicles eligible under this category. Sustainalytics notes that different test procedures can achieve varying results in measuring vehicle emissions, whether they intend to replicate real-driving conditions (such as WLTP)[25] or are based on theoretical driving profiles (such as NEDC).[26] Hence, Sustainalytics further encourages the Bank, where feasible, to report on the test procedure used to determine the emissions intensity of eligible vehicles.
- Under the Climate Change Adaptation category, the Bank may finance or refinance expenditures according to the following criteria:
    - Design, construction, refurbishment and maintenance of existing infrastructure to increase resilience to the impacts of climate change. Such expenditures may include: i) heavy rain drainage systems, flood prevention projects, flood defence systems, sluice gates, tunnels and channels, and elevation of existing infrastructure; ii) use of climate-resilient crops, such as drought-resistant seeds, drip irrigation technology, stormwater storage, grain storage, soil rehabilitation and climate resilient livestock infrastructure, such as cooling sheds and emergency shelters; and iii) river training and other flood mitigation projects.
    - Data-driven climate monitoring solutions, including early warning systems and climate observation monitoring systems.
    - The Bank has confirmed that eligible infrastructure projects in this category will be supported by vulnerability assessments and adaptation plans to identify and responsibly manage the identified risks.
    - Sustainalytics considers the expenditures under this category to be in line with market practice.
- Under the Circular Economy category, the Bank may finance or refinance projects meeting the following criteria:
    - Production of bio-based resource-efficient or low-carbon products certified under the RSB standard.[27]
    - Manufacturing of products that use recycled or waste products, such as plastic, paper and aluminium.
        - Plastic products: i) containing at least 90% recycled input; ii) recyclable; and iii) at least 90% not intended for single-use products. Chemical recycling of plastics is excluded.
        - Paper products with at least 90% recycled input.

[24] The Bus Rapid Transit (BRT) Standard assesses BRT systems on metrics established to demonstrate international best practice and is used as a proxy by the Climate Bonds Standard's Low-Carbon Transport Criteria. Climate Bonds Standard's "Low-Carbon Transport Criteria: at: https://www.climatebonds.net/standard/transport
https://www.itdp.org/library/standards-and-guides/the-bus-rapid-transit-standard/
[25] WLTP: https://unece.org/transport/vehicle-regulations/world-forum-harmonization-vehicle-regulations-wp29
[26] NEDC: https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32020D1102&from=EN
[27] Roundtable on Sustainable Biomaterials: https://rsb.org/the-rsb-standard/about-the-rsb-standard/

- Aluminium products where: i) at least 90% of the input comes from scrap or recycled aluminium; or ii) 75-90% of the input is scrap or recycled aluminium and the remaining (primary) aluminium has a carbon intensity below 2.5 $tCO_2e$.
- Provision of technology for creating a marketplace for used materials and buy-back of used products to promote reuse.
- Sustainalytics considers the expenditures under this category to be in line with market practice.

– Under the Green Buildings category, the Bank may finance or refinance:
  - The development, acquisition and retrofit of residential or commercial buildings that achieve or are expected to achieve one of the following certifications: i) EDGE - Certified or above;[28] ii) LEED Gold or Platinum;[29] iii) BREEAM Excellent or above;[30] iv) Green Mark - Gold plus and above;[31] v) IGBC - Gold and above;[32] vi) Green Rating for Integrated Habitat Assessment (4 star and above).[33]. Sustainalytics views these certifications to be credible and the levels selected as aligned with market practice.
  - In addition, the Bank may finance building renovations that have achieved or will achieve any green building certification with corresponding levels that ensure building energy efficiency gains of at least 30% over ASHRAE 90.1 or local building codes and meeting the carbon emissions targets set in the IFC EDGE tool.
  - Expenditures may also include lease rental discounting (LRD)[34] using eligible assets as collateral. The Bank has confirmed to Sustainalytics that eligible LRDs will finance or refinance expenditures related to eligible green buildings, such as capex costs, maintenance and upgrade of green buildings.
  - Loans to individuals to purchase houses in eligible buildings meeting the aforementioned certification levels.
  - Overall, Sustainalytics considers the expenditures under this category to be in line with market practice.

– For the six social categories under the Framework, Sustainalytics notes positively that the Bank has defined the following target groups: i) economically weaker sections (EWSs);[35] ii) low-income groups (LIGs);[36] iii) scheduled tribes and scheduled castes;[37] iv) elderly persons with disabilities;[38] v) micro, small and medium-sized enterprises (MSMEs)[39] and vi) other marginalized groups as identified by the government.

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[28] EDGE: https://edgebuildings.com/ (EDGE Certified, EDGE Advanced or EDGE Zero Carbon)
[29] LEED: https://www.usgbc.org/leed
[30] BREEAM: https://www.breeam.nl/
[31] BCA Green Mark 2021, at: https://www1.bca.gov.sg/buildsg/sustainability/green-mark-certification-scheme/green-mark-2021
[32] IGBC, at: https://igbc.in/igbc/redirectHtml.htm?redVal=showratingSysnosign
[33] GRIHA rating, at: https://www.grihaindia.org/griha-rating
[34] LRD loans are a type of structured term loans which includes a tripartite agreement between owner, lessee, and the Bank. Here the borrower (property developer or owner) is offered a loan against the rental receipts of the property and is also payable by the rents. The borrower could then use the proceed of the LRD for multiple purposes, including for business expansion, asset purchase, or previous loan repayments.
[35] Economically weaker sections are defined as either i) those with a gross family annual income below INR 800,000 (USD 9,650) and are not covered under the scheme of reservations for the scheduled castes, scheduled tribes and socially and educationally backward classes; Government of India, Ministry of Social Justice and Empowerment, "Income Limit Fixed For EWS", (2021), at: https://pib.gov.in/PressReleaseIframePage.aspx?PRID=1781353 or ii) those households having an annual income up to INR 300,000 (USD 3,602); Ministry of housing and urban affairs, at: https://pmay-urban.gov.in/uploads/guidelines/62381c744c188-Updated-guidelines-of-PMAY-U.pdf
[36] Low-income groups are defined as households that have an annual income from INR 300,001 (USD 3,618.5) up to INR 600,000 (USD 7,237). Government of India, Ministry of Housing and Urban Poverty Alleviation, "Pradhan Mantri Awas Yojana: Housing for All (Urban)", 2015, at: https://pmay-urban.gov.in/uploads/guidelines/62381c744c188-Updated-guidelines-of-PMAY-U.pdf
[37] The definition of scheduled castes and scheduled tribes as defined under clauses 24 and 25 of Article 366 of the Constitution of India. : https://ncst.nic.in/content/frequently-asked-questions
[38] The Government of India's definition for Persons with Disabilities. Government of India, Ministry of Social Justice and Empowerment, "The Rights of Persons with Disabilities (RPwD) Act, 2016", at: https://disabilityaffairs.gov.in/content/page/acts.php
[39] Definition of MSMEs in accordance with the Micro, Small and Medium Enterprises Development (MSMED) Act 2006, wherein for a micro enterprise, the investment in plant and machinery or equipment does not exceed INR 10 million (USD 121,000) and turnover does not exceed INR 50 million (USD 605,000); for a small enterprise, the investment in plant and machinery or equipment does not exceed INR 100 million (USD 1.2 million) and turnover does not exceed INR 500 million (USD 6 million); and for a medium enterprise, the investment in plant and machinery or equipment does not exceed INR 500 million (USD 6 million) and turnover does not exceed INR 2.5 billion (USD 30.2 million).
Government of India, Ministry of Micro, Small & Medium Enterprises, "What's MSME", at: https://msme.gov.in/know-about-msme

- Sustainalytics notes that the Bank has responsible lending policies that apply to all lending decisions to avoid predatory lending. Sustainalytics views this as a key aspect of sustainable consumer lending. Please refer to Section 2 for additional details.
- Under the Micro, Small and Medium Enterprise Lending category, the Bank may finance loans to MSMEs in India. Sustainalytics notes that the Bank excludes lending to MSMEs that are involved in carbon-intensive or controversial activities, such as weapons, mining, tobacco or conflict minerals, or that engage in child, forced or unfair labour practices by obtaining declarations from MSMEs. Sustainalytics considers the intent to increase Indian MSMEs' access to financial services to be impactful.
- Under the Affordable Basic Infrastructure category, the Bank may finance or refinance expenditures related to the provision of access to water, electricity and transportation. Eligible expenditures may include:
  - Water - Provision of loans up to INR 50 million (USD 603,066) for construction or refurbishment of drinking water and sanitation facilities [40] dedicated to public facilities, including household toilets and household-level water improvement systems in Tier II to Tier VI centres[41] in India. Additionally, expenditures may also include the construction, maintenance and equipment related to water supply infrastructure, such as pipework and water, sanitation and hygiene (WaSH) programmes for public facilities. The Bank has confirmed that under the Framework, such loans are provided to where the aforementioned facilities are lacking or inadequate.
  - Electricity - Development of transmission and distribution infrastructure aimed at improving access to electricity in regions or areas with no access or substantially inadequate access to electricity. The Bank confirmed that transmission grids connected to dedicated fossil fuel-powered plants will be excluded.
  - Transportation - Development of roads in areas or regions that lack connectivity and in underdeveloped regions where road infrastructure is inadequate and hinders community development. The Bank confirmed that such expenditures exclude financing major roads and highways.
  - Sustainalytics recognizes the lack of public water and sanitation infrastructure in many rural regions in India, where the issue of open defecation remains a major issue. Problems with the supply of electricity and the lack of road connectivity further hamper development in these areas. Sustainalytics considers that the expenditures under this category are expected to contribute towards improving sanitation infrastructure, the electricity supply and mobility in rural and underserved areas of India, also potentially improving overall hygiene and contributing to reduce the problem of open defecation in the country.
- Under the Access to Essential Services category, the Bank may finance or refinance expenditures related to healthcare, education and affordable housing according to the following criteria.
  - Healthcare - The Bank may provide loans of up to INR 100 million (USD 1.2 million) per borrower for financing the construction, operation and other expenditures related to public and private healthcare facilities, including those under Ayushman Bharat[42] in Tier II to Tier VI centres as per the following criteria:
    - Healthcare facilities: i) dedicated to the treatment of cancer; ii) facilities that derive at least 50% of their revenue from direct subsidies from the Indian Government or insurance schemes, including the Central Government Health Scheme[43] or the Employee State Insurance scheme;[44] iii) facilities that operate on a not-for-profit basis; and iv) public healthcare facilities primarily serving the EWS, the LIG, the elderly and people with disabilities. The Bank has confirmed that: i) facilities will be supported by relevant government schemes

[40] Desalination facilities will be limited to those that align with the criteria in the Sustainable Water and Wastewater Management category.
[41] Tiers II, III and IV represent semi-urban centres, and Tiers V and VI represent rural centres.
Reserve Bank of India, "Master Circular on Branch Licensing", (2015), at: https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=9817
[42] Government of India, Ministry of Health and Family Welfare, "Ayushman Bharat Pradhan Mantri Jan Arogya Yojana (AB-PMJAY)", at: https://www.pib.gov.in/PressReleasePage.aspx?PRID=1738169
[43] Government of India, Ministry of Health and Family Welfare, "Central Government Health Scheme", at: https://cghs.gov.in/CghsGovIn/faces/ViewPage.xhtml
[44] Government of India, "Employees' State Insurance Scheme", at: https://www.india.gov.in/spotlight/employees-state-insurance-scheme#tab=tab-1

to ensure accessibility and affordability for the disadvantaged; or ii) in case of private facilities, services will be accessible and affordable to all regardless of ability to pay.

- Expenditures related to R&D, logistics and distribution of medical products and supplies, including vaccinations, masks, respirators, essential medicines, related to the emergency medical response to pandemics and natural disasters. Additionally, the Bank may also finance the production of essential medicines limited to those required during national health emergencies, such as pandemics and epidemics. The Bank has confirmed that such medical products will be provided to public and private healthcare facilities that are accessible to all regardless of ability to pay.
- Given the lack of access to good quality healthcare for the target population, Sustainalytics believes the Bank's financing of healthcare delivery and development of healthcare facilities to be impactful in addressing inequities for the target population.

▪ Education - The Bank may finance or refinance the following activities: i) educational loans of up to INR 2 million (USD 24,122) to students for vocational training and those qualifying under the Central Sector Interest Subsidy Schemes[45] for EWSs, LIGs and other marginalized groups as defined under the Framework; ii) loans of up to INR 50 million (USD 603,066) per borrower for the construction of public and private schools and other educational facilities. The Bank has confirmed to Sustainalytics that all facilities under this category are accessible and affordable to all regardless of ability to pay. In addition, HDFC Bank confirmed to Sustainalytics that the Bank will extend education loans with preferential financial terms including subsidies and moratoriums as per prevailing government schemes and guidelines. Sustainalytics recognizes the expected benefits of financing educational loans and developing educational facilities, especially given the lack of access of good quality education for the target group. Given the targeting and preferential terms offered on the loans for the target group, Sustainalytics considers the Bank's education related expenditures to contribute to reducing such inequities for the target group.

▪ Affordable Housing - The Bank may finance or refinance expenditures related to affordable housing as per the Reserve Bank of India's (RBI) Priority Sector Lending[46] (PSL) guidelines. Expenditures may include: i) loans to individuals belonging to EWS, LIGs and Middle-Income Groups (MIG)[47] for purchase, construction[48]; and ii) loans to developers for the construction and development of affordable housing projects[49].
  - Sustainalytics notes that the Bank has a repayment assessment mechanism designed to provide a loan-to-value amount commensurate with the affordable repayment capacity of the target population. The mechanism takes into account factors such as beneficiary's: i) instalment-income ratio based on income surplus after EMI payments; ii) assets and liabilities; iii) savings history and iv) number of dependents. Sustainalytics considers the Bank's

[45] Government of India, Ministry of Education, "Central Sector Interest Subsidy Scheme and Credit Guarantee Fund Scheme for Education Loan", at: https://www.education.gov.in/scholarships-education-loan-4

[46] Reserve Bank of India, "Master Directions – Priority Sector Lending (PSL) – Targets and Classification (Updated as on October 20, 2022)", (2022), at: https://www.rbi.org.in/Scripts/BS_ViewMasDirections.aspx?id=11959#MSME

[47] Middle-income groups are defined as households that have an annual income up to INR 1,200,000 (USD 14,474).
Government of India, Ministry of Housing and Urban Affairs, "Forwarding of Updated Scheme Guidelines of Pradhan Mantri Awas Yojana", at: https://pmay-urban.gov.in/uploads/guidelines/62381c744c188-Updated-guidelines-of-PMAY-U.pdf

[48] HDFC Bank confirmed to Sustainalytics that loans to target groups will also meet either of the two criteria as per the Reserve Bank of India's Master Directions – Priority Sector Lending (PSL) – Targets and Classification: i) loan amount not exceeding INR 3.5 million (USD 42,280) in metropolitan centres and INR 2.5 million (USD 30,200) in other centres provided the cost of the house is not more than INR 4.5 million (USD 54,280) in metropolitan centres and INR 3 million (USD 36,187) in other centres; ii) for affordable housing projects uses at least 50% of the floor area ratio (FAR) or floor space index (FSI) for dwelling units with a carpet area of no more than 60 m2. Reserve Bank of India, "Master Directions – Priority Sector Lending (PSL) – Targets and Classification (Updated as on October 20, 2022)", (2022), at: https://www.rbi.org.in/Scripts/BS_ViewMasDirections.aspx?id=11959#MSME

[49] HDFC Bank defines affordable housing projects as per the Reserve Bank of India's Master Directions – Priority Sector Lending (PSL) – Targets and Classification and as per the Government of India, where affordable housing is defined as i) the cost of the house is not more than INR 4.5 million (USD 54,280) in metropolitan centres and INR 3 million (USD 36,187) in other centres; or ii) a housing project that uses at least 50% of the floor area ratio (FAR) or floor space index (FSI) for dwelling units with a carpet area of no more than 60 $m^2$. Reserve Bank of India, "Master Directions – Priority Sector Lending (PSL) – Targets and Classification (Updated as on October 20, 2022)", (2022), at: https://www.rbi.org.in/Scripts/BS_ViewMasDirections.aspx?id=11959#MSME

repayment assessment mechanism to be impactful in preventing over indebtedness. Additionally, HDFC Bank has communicated to Sustainalytics, that where applicable the Bank will extend preferential financial terms on loans to the target group, including subsidies and moratoriums as per prevailing government schemes and guidelines. Furthermore, for the affordable housing projects, Sustainalytics notes the presence of affordability criteria on the housing units prescribed by RBI's PSL guidelines for affordable housing.

- In India, LIGs and EWSs have been traditionally dependent on the informal financial sector for credit, characterized by short-term loans and high interest rates. At the same time, mainstream formal banking and finance services have historically been inaccessible to these segments of the population. Sustainalytics recognizes the expected benefits of affordable housing loans for low-income and EWS households, given the lack of access to affordable housing and the formal financial system for LIGs and EWSs in India.
- For the MIG-1 group, the Bank has confirmed that the loans will be limited to first-time homebuyers. Sustainalytics acknowledges the lack of affordable homes for middle-income groups in the Indian context. For many in the group, monthly instalments account for 49% of their monthly income, exceeding the recommended affordability threshold of 40% for the group.[50] Given this context, Sustainalytics recognizes that providing affordable home loans to middle income groups to purchase their first home may the facilitate access to housing for middle income groups.
- Sustainalytics notes the presence of adequate repayment assessments for loans to the target population and RBI's affordability criteria for affordable housing units. However, Sustainalytics also considers that extending preferential terms such as lowered interested rates, lenient repayment terms and loan extension to the target population, makes the affordable housing loans more impactful.
- Overall, Sustainalytics recognizes that financing in this category is expected to enhance access to affordable housing to the target populations and further encourages HDFC Bank to prioritize lending to low-income beneficiaries, in order to maximize the social benefits and to report on the impacts achieved.

- Under the Food Security category, HDFC Bank may invest in infrastructure and warehousing facilities to provide adequate storage, improve food conservation and improve connectivity in the food chain to avoid food losses. Sustainalytics encourages the Bank to report on how the financed projects will help reduce food waste and improve food security.
- Under the Impact Financing category, the Bank may provide loans[51] to non-banking financial institutions (NBFCs) and micro-finance institutions (MFIs) for on-lending in relation to the following expenditures:
  - NBFCs on-lending towards MSMEs and affordable housing finance as per the eligibility criteria for MSMEs loans and affordable housing loans under the categories Micro, Small and Medium Enterprise Lending and Access to Essential Services – Affordable Housing.
  - MFIs on-lending towards: i) self-help groups (SHGs) and joint liability groups (JLGs), including those comprised primarily of women; and ii) low-income individuals and households as defined under the Framework.

[50] According to an Asian Development Bank' report, for the middle-income group, the estimated monthly instalments ("EMIs") shall not exceed 40% of the household monthly income, to ensure a desired affordability. However, the report shows that the EMIs of the middle-income group account for 49% of their monthly income, exceeding the affordability threshold. Asian Development Bank, "Housing Markets and Housing Policies in India", at: https://www.adb.org/sites/default/files/publication/182734/adbi-wp565.pdf

[51] HDFC Bank confirmed that in order to be classified as a "qualifying asset", a loan is required to satisfy the following criteria: i) loan disbursed to a borrower with household annual income not exceeding INR 1,025,000 (USD 1,503) and INR 2,000,000 (USD 2405) for rural and urban or semi-urban households, respectively; ii) loan amount does not exceed INR 75,000 (USD 902) in the first cycle and INR 1,025,000 (USD 1,503) in subsequent cycles; iii) total indebtedness of the borrower does not exceed INR 1,025,000 (USD 1,503) (excluding loan for education and medical expenses); iv) minimum tenure of 24 months for loan amount exceeding INR 30,000 (USD 360); v) collateral free loans without any prepayment penalty; and vi) minimum 50% of aggregate amount of loans for income generation activities.

  - Sustainalytics notes that the Bank has confirmed that all eligible NBFCs and MFIs will comply with responsible lending practices to avoid predatory lending. Additionally, for loans to SHGs, JLGs and individuals, the Bank confirmed to Sustainalytics that it will offer preferential financial terms including subsidies and moratoriums as per prevailing government schemes and guidelines.
  - Sustainalytics considers expenditures under this category to be in impactful in contributing to improving access to finance for the target groups.
- Under the Socioeconomic Empowerment – Agriculture category, the Bank may provide loans to the agriculture sector, including farm credits, short-term crop loans and medium- to long-term credit to farmers for agricultural infrastructure, agriculture and related activities. Such loans would target: i) small and marginal farmers;[52] ii) SHGs, JLGs and farmer cooperatives primarily of small and marginal farmers; and iii) corporate farmers, farmer producer organizations and partnership firms limited to small and marginal farmers. Additionally, HDFC Bank has confirmed the exclusion of loans for large-scale industrial farming.
  - Farm credits and loans will be extended to the target groups for agriculture activities, such as dairy, fisheries, animal husbandry, poultry, beekeeping and sericulture. Such loans may cover expenditures for traditional and non-traditional plantations, horticulture, purchase of agricultural machinery, developmental activities on the farm, pre- and post-harvest activities and purchase of land.[53]
  - Agricultural infrastructure loans will be provided for soil conservation, watershed development, plant tissue culture, agri-biotechnology, seed production, production of bio-pesticides, bio-fertilizers and vermi-composting.
  - Loans to Primary Agricultural Credit Societies (PACS),[54] Farmers' Service Societies (FSS)[55] and Large-Sized Adivasi Multi-Purpose Societies (LAMPS)[56] for on-lending to the above-mentioned agricultural activities. Sustainalytics notes that the aforementioned societies are grassroot-level credit services for farmers that offer loan subsidies to small and marginal farmers following government schemes and guidelines. Additionally, such societies have adequate measures in place to ensure responsible lending practices to prevent predatory lending. Sustainalytics encourages the Bank to report on the impact of such loans on small and marginal farmers.
  - The Bank may lend to cooperative societies of farmers to ensure last-mile support for setting up agri-clinics[57] and agri-business centres.[58] Sustainalytics notes the need to supplement the government's efforts to provide agricultural training and extension services, such as advisory services, post-harvest management and market linkages with privately owned agri-clinics and agri-business centres that provide services either free of cost or at a nominal cost. Further, agri-clinics and agri-business centres play a key role in promoting sustainable agricultural practices in India by imparting technical farming knowledge and providing small and marginal farmers with last-mile connectivity. Sustainalytics also notes the entrepreneurial opportunities provided to individuals trained in agriculture and related sectors, particularly those in LIGs and EWSs, through the provision of loans to start agri-clinics and agri-business centres at subsidized interest rates. Sustainalytics recognizes the potential sale of synthetic agricultural inputs to small-scale farmers, such as synthetic fertilizers, through the

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[52] As per the Reserve Bank of India, a marginal farmer is a farmer that cultivates (as owner, tenant or sharecropper) agricultural land up to 1 ha, and a small farmer is one that cultivates (as owner, tenant or sharecropper) agricultural land of more than 1 ha and up to 2 ha.
Reserve Bank of India, "Agricultural Debt Waiver and Debt Relief Scheme, 2008", at: https://www.rbi.org.in/scripts/BS_CircularIndexDisplay.aspx?Id=4190
[53] The complete list of activities intended to be financed under farm credits is included in the HDFC Bank Sustainable Finance Framework, at: https://www.hdfcbank.com/
[54] Primary agricultural credit societies are the smallest co-operative credit institutions in India. They are the link between the borrowers, including rural people and farmers, and higher financial institutions, such as district central cooperative banks and state cooperative banks.
National Bank for Agriculture and Rural Development, "Financing and developing PACS", at: https://www.nabard.org/demo/auth/writereaddata/File/Financing%20and%20developing%20PACS.pdf
[55] Farmers service societies are well organized registered co-operative bodies, based on the principles of co-operation and governed by cooperative by-laws. These societies provide financing to member farmers for short-term production and investment credits.
[56] Large-sized Adivasi multi-purpose societies support tribal populations in rural and semi-urban areas to meet their credit needs for livelihood-related activities, such as agricultural operations. More information available at: https://www.indiafilings.com/learn/large-area-multipurpose-societies-lamps-scheme/
[57] Agri-clinics provide advisory services to farmers on various topics, such as soil health, cropping practices, plant protection, crop insurance, post-harvest technology, clinical services for animals, feed and fodder management and crop pricing. These services aim to enhance productivity and increase income for farmers.
[58] Agri-business centres are commercial units established by trained agriculture professionals for the maintenance and custom hiring of farm equipment, sale of agricultural inputs and other services related to agriculture and related areas, such as post-harvest management and market linkages. These services provided by agri-business centres aim to generate income for farmers and develop entrepreneurial capabilities.

agribusiness centres and encourages the Bank to favour financing to agri-business centres that handle only organic agricultural inputs.

- Sustainalytics notes that the Bank offers loans with preferential financial terms to small and marginal farmers, tribal farmers and rural populations in accordance with government schemes for agricultural loans. Given the targeting for these loans and the financial advantages offered by the Bank to the target groups, Sustainalytics considers expenditures under the category to be impactful in enhancing agricultural productivity and efficiency and reducing income inequalities in the agricultural sector in India.

- Under Social Empowerment - Livelihood Financing category, the Bank may provide loans to:
  - Individuals and individual members of SHGs and JLGs for activities other than agriculture[59].
  - Loans to MSMEs for meeting social needs, construction or repair of homes, construction of toilets or any viable common activity started by SHGs.[60]
  - Distressed persons and farmers to prepay their debt to non-institutional lenders.[61]
  - Weaker sections such as: i) artisans, village and cottage industries;[62] ii) beneficiaries under government-sponsored schemes, such as the National Rural Livelihood Mission (NRLM),[63] National Urban Livelihood Mission (NULM)[64] and the Self-Employment Scheme for Rehabilitation of Manual Scavengers (SRMS);[65] iii) scheduled castes and scheduled tribes; iv) beneficiaries of the Differential Rate of Interest (DRI) scheme;[66] v) individual women beneficiaries;[67] v) persons with disabilities; and vi) minority communities as may be defined by the Government of India.
  - Sustainalytics notes that the Bank offers loans to borrowers with preferential financial terms following government schemes for livelihood. Given the targeting for these loans and the preferential financial conditions offered by the Bank to the target groups, Sustainalytics considers expenditures under the category to be impactful.

- Project Evaluation and Selection:
  - The Bank's Product Responsibility Group under the Bank's Apex Council will act as the ESG working group (ESGWG), which will be responsible for project evaluation and selection in accordance with the eligibility criteria of the Framework. The ESG working group comprises representatives from the Bank's Risk Management, ESG, Treasury, Credit and Credit Administration departments.
  - The Bank has developed an ESG Risk Management Policy to assess the environmental and social impacts of loans, categorize risks and implement risk mitigation and management measures. Sustainalytics considers the environmental and social risk management system to be adequate and aligned with market practice. For additional details, refer to Section 2.
  - Based on the establishment of the Committee and the presence of risk management systems, Sustainalytics considers these processes to be in line with market practice.
- Management of Proceeds:
  - The ESGWG will oversee the management of proceeds and has internal tracking mechanisms in place to track and monitor the allocation of proceeds for the ESG instruments issued under this framework.
  - The Bank intends to allocate net proceeds within 36 months of issuance. Pending allocation, unallocated proceeds will be temporarily held in money market instruments such as Liquid securities and cash & cash equivalents.
  - Based on the commitment to a tracking mechanism to allocate proceeds in a timely manner and the disclosure of the temporary use of proceeds, Sustainalytics considers this process to be in line with market practice.

[59] SHGs and JLGs shall comply with the criteria in the Master Direction on Regulatory Framework for Microfinance Loans Directions, dated March 14, 2022.
[60] Loans not exceeding INR 200,000 (USD 2,403.10) per borrower.
[61] Loans not exceeding INR 100,000 (USD 1,201.50) per borrower.
[62] Individual credit limits not exceeding INR 1 million (USD 12,015).
[63] Government of India, Ministry of Rural Development, "National Rural Livelihoods Mission", at: https://aajeevika.gov.in/
[64] Government of India, Ministry of Housing and Urban Poverty Alleviation, "National Urban Livelihoods Mission", at: https://mohua.gov.in/upload/uploadfiles/files/18NULM%20mission%20document(3).pdf
[65] Government of India, Ministry of Social Justice and Empowerment, "Self-Employment Scheme for Rehabilitation of Manual Scavengers (SRMS)", at: https://socialjustice.gov.in/schemes/37
[66] RBI, "Master Circular-Credit facilities to Scheduled Castes (SCs) and Scheduled Tribes (STs)", at: https://www.rbi.org.in/commonman/English/Scripts/Notification.aspx?Id=3010#:~:text=BC.-,No.,dated%20July%2001%2C%202019).&text=Under%20the%20DRI%20Scheme%2C%20banks,in%20productive%20and%20gainful%20activities.
[67] Loans not exceeding INR 1 million per borrower.

- Reporting:
  - The Bank commits to report on the allocation of proceeds and corresponding impact on its website annually until full allocation. For revolving credit facilities, the Bank has confirmed that reporting will continue until the maturity of such facilities.
  - Allocation reporting will include the eligible projects and assets, the amount of proceeds to be allocated to eligible projects, the amount of unallocated proceeds and the share of financing versus refinancing.
  - The Bank also intends to report on impact, which may include relevant impact indicators per category, such as the annual GHG emissions reduced or avoided (measured in $tCO_2e$), the annual energy savings, number of beneficiaries, among other indicators. For a full list of impact indicators, please refer to the Framework.[68]
  - Based on the commitments to allocation and impact reporting, Sustainalytics considers this process to be in line with market practice.

**Alignment with Sustainability Bond Guidelines 2021**

Sustainalytics has determined that the HDFC Bank Sustainable Finance Framework aligns with the four core components of the GBP, SBP, GLP and SLP. For detailed information, please refer to Appendix 1: Sustainability Bond/ Sustainability Bond Programme External Review Form.

## Section 2: Sustainability Strategy of HDFC Bank

**Contribution to HDFC Bank's sustainability strategy**

Sustainalytics is of the opinion that HDFC Bank demonstrates a commitment to sustainability by identifying and focusing on the following material sustainability areas: i) sustainable and responsible financing; ii) financial inclusion; iii) GHG emissions; iv) community well-being; and v) sustainable procurement.[69]

The Bank has identified three thematic areas to focus on as part of its key business areas: ESG integration in products, sustainable finance and portfolio emissions.[70] The Bank's financed renewable energy capacity has doubled in the past three years, reaching a total of 6,110 MW in solar and wind energy projects, financed by loans totalling INR 151,150 million (USD 1819.64 million). The Bank has also earmarked INR 1,600 million (USD 19.26 million) for deployment of electric buses in FY2023.[71] To accelerate its sustainable financing goal, the Bank has partnered with Indore Clean Energy Private Limited in 2022, to finance Asia's largest waste-to-energy plant in Indore, which will treat 50% of the city's municipal waste and convert it to 100% biogas and manure.[72] Additionally, the Bank has initiated reporting its climate-related disclosures as per the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).[73]

To manage the carbon impact from its own operations, the Bank has set a target to achieve carbon neutrality for Scope 1 and Scope 2 emissions by FY2032.[74,75] In line with this commitment, the Bank has installed solar panels at 10 office premises with a cumulative capacity of 238.5 kWp, Smart IoT systems at 603 locations and obtained IGBC green building certification for 800 projects in FY2023.[76]

In relation to social impact, the Bank launched a dairy cattle finance app in December 2022, which supports dairy farmers with their loan applications and related processes. The Bank has facilitated processing of 2,700 loan applications using the cattle finance app in FY2023[77] To further its commitment towards financial inclusion, the Bank has opened approximately 2.9 million accounts under the Pradhan Mantri Jan Dhan Yojana

[68] The HDFC Bank Sustainable Finance Framework is available on HDFC Bank's website at: https://www.hdfcbank.com/
[69] HDFC Bank, "Integrated Annual Report 2022-23", at: https://www.hdfcbank.com/content/bbp/repositories/723fb80a-2dde-42a3-9793-7ae1be57c87f/?path=/Footer/About%20Us/Investor%20Relation/annual%20reports/pdf/Integrated%20Annual%20Report%202022-23.pdf
[70] HDFC Bank, "Integrated Annual Report 2022-23", at: https://www.hdfcbank.com/content/bbp/repositories/723fb80a-2dde-42a3-9793-7ae1be57c87f/?path=/Footer/About%20Us/Investor%20Relation/annual%20reports/pdf/Integrated%20Annual%20Report%202022-23.pdf
[71] Ibid.
[72] HDFC Bank, "Integrated Annual Report 2022-23", at: https://www.hdfcbank.com/content/bbp/repositories/723fb80a-2dde-42a3-9793-7ae1be57c87f/?path=/Footer/About%20Us/Investor%20Relation/annual%20reports/pdf/Integrated%20Annual%20Report%202022-23.pdf
[73] TCFD Recommendations: https://www.fsb-tcfd.org/recommendations/
[74] HDFC Bank, "Integrated Annual Report 2022-23", at: https://www.hdfcbank.com/content/bbp/repositories/723fb80a-2dde-42a3-9793-7ae1be57c87f/?path=/Footer/About%20Us/Investor%20Relation/annual%20reports/pdf/Integrated%20Annual%20Report%202022-23.pdf
[75] HDFC Bank, "Integrated Annual Report 2022-23", at: https://www.hdfcbank.com/content/bbp/repositories/723fb80a-2dde-42a3-9793-7ae1be57c87f/?path=/Footer/About%20Us/Investor%20Relation/annual%20reports/pdf/Integrated%20Annual%20Report%202022-23.pdf
[76] Ibid.
[77] HDFC Bank, "Integrated Annual Report 2022-23", at: https://www.hdfcbank.com/content/bbp/repositories/723fb80a-2dde-42a3-9793-7ae1be57c87f/?path=/Footer/About%20Us/Investor%20Relation/annual%20reports/pdf/Integrated%20Annual%20Report%202022-23.pdf

(PMJDY)[78] and enrolled 4.17 million customers under social security schemes. Further, the Bank has provided loans of INR 145 billion (USD 1.74 billion) to 1.88 million beneficiaries under the Pradhan Mantri Mudra Yojana (PMMY)[79] and approximately INR 3.44 billion (USD 41 million) to 1,502 beneficiaries under the Stand Up India scheme[80] for entrepreneurs from marginalized groups, benefitting borrowers from the scheduled castes, scheduled tribes and women.[81] Furthermore, to support infrastructure projects such as affordable housing, the Bank plans to raise long-term bonds up to INR 500 billion.[82]

Sustainalytics is of the opinion that the HDFC Bank Sustainable Finance Framework is aligned with the Bank's overall sustainability strategy and initiatives and will further the Bank's action on its key environmental priorities.

**Approach to managing environmental and social risks associated with the projects**

Sustainalytics recognizes that the proceeds from the instruments issued under the Framework will be directed towards eligible projects that are expected to have positive environmental and social impact. However, Sustainalytics is aware that such eligible projects could also lead to negative environmental and social outcomes. HDFC Bank plays a limited role in the development of projects and assets being financed, but it remains exposed to risks associated with projects it may finance by offering lending and financial services. Some key environmental and social risks possibly associated with the eligible projects may include issues involving land use and biodiversity issues associated with large-scale infrastructure development, emissions, effluents and waste generated in construction, occupational health and safety, business ethics and fair lending practices, and community relations.

Sustainalytics is of the opinion that HDFC Bank is able to manage or mitigate potential risks through implementation of the following:

- HDFC Bank has developed an ESG risk management policy in 2023, to identify and manage environmental and social risks related to ecological impact, disaster management and climate change, for investments in industrial or infrastructure projects of more than INR 500 million (USD 6 million). The assessment framework covers: i) climate change assessment of potential physical and transition risks; ii) environmental impact assessment of air and water pollution, GHG emissions and hazardous waste generation, and adherence to statutory environmental norms; iii) social impact assessment of fair compensation, resettlement and rehabilitation; and iv) assessment of governance practices to combat corruption, bribery and money laundering.[83] In some cases, the Bank requires clients to develop an environmental management plan with risk mitigation measures, followed by regular inspections by the Bank to ensure implementation, in addition to quarterly reporting. Additionally, for such projects, the Bank also checks for compliance with health and safety laws.[84]
- To ensure ethical and responsible business practices, HDFC Bank has established a code of ethics that outlines guiding principles on: ethical conduct, conflicts of interest, protection of confidential information, compliance with applicable rules and regulations for board members and all officials below the board. The Bank's employees must adhere to the Bank's Code of Conduct,[85] which contains provisions on equal opportunity, prohibition of sexual harassment, data protection and human rights.
- In terms of fair lending practices, the Bank has a fair practice code for lending that includes disclosing information regarding charges and terms and conditions of loans, pre-payment options and any other information that affects the interests of borrowers.[86] Following the Reserve Bank of India's Know Your Customer Direction,[87] the Bank established a KYC policy with procedures to conduct customer due diligence to ensure identification of individuals while undertaking a

[78] Government of India, "Pradhan Mantri Jan Dhan Yojana (PMJDY)", at: https://pmjdy.gov.in/about
[79] Micro Units Development and Refinance Agency Bank, "Pradhan Mantri MUDRA Yojana (PMMY)", at: https://www.mudra.org.in/
[80] Government of India, "Stand-Up India Scheme Features", at: https://www.standupmitra.in/Home/SUISchemes#title
[81] Ibid.
[82] HDFC Bank, "Integrated Annual Report 2022-23", at: https://www.hdfcbank.com/content/bbp/repositories/723fb80a-2dde-42a3-9793-7ae1be57c87f/?path=/Footer/About%20Us/Investor%20Relation/annual%20reports/pdf/Integrated%20Annual%20Report%202022-23.pdf
[83] HDFC Bank, "Environmental, Social Governance Risk Management Framework", (2023). This document has been shared confidentially with Sustainalytics for its review.
[84] HDFC Bank, "Environmental Social and Governance (ESG) Policy Framework (2020)", at: https://www.HDFC Bankbank.com/content/api/contentstream-id/723fb80a-2dde-42a3-9793-7ae1be57c87f/f0ac1d94-7b3f-4b7a-ad10-d84cd154eaed?
[85] HDFC Bank, "Code of Conduct and Ethics Manual" at: https://www.hdfcbank.com/content/bbp/repositories/723fb80a-2dde-42a3-9793-7ae1be57c87f/?path=/Footer/About%20Us/Corporate%20Governance/Codes%20and%20Policie/Manual.pdf
[86] HDFC Bank, "Fair practice code for lending", at: https://www.hdfcbank.com/personal/about-us/corporate-governance/fair-practice-code-for-lending
[87] Reserve Bank of India, "Master Direction – Know Your Customer (KYC) Direction, 2016 (Updated as on May 04, 2023)", at: https://www.rbi.org.in/CommonPerson/english/scripts/notification.aspx?id=2607

transaction with the Bank. The policy also provides measures for anti-money laundering and combating the financing of terrorism.[88]

- The Bank addresses risks related to community relations by engaging with communities through regular meetings, group discussions and conducting project monitoring and review in order to prioritize and undertake measures or initiatives as per their feedback.[89] In addition, to maintain long-term relationships with its customers and stakeholders, HDFC Bank ensures regular and transparent communication such as WhatsAppBanking and the EVA Chatbot,[90] and has a Grievance Redressal Policy to manage customer grievances.[91]

Based on these policies, standards and assessments, Sustainalytics is of the opinion that HDFC Bank has implemented adequate measures and is well positioned to manage and mitigate environmental and social risks commonly associated with the eligible categories.

## Section 3: Impact of Use of Proceeds

All 16 use of proceeds categories are aligned with those recognized by the GBP, SBP, GLP or SLP. Sustainalytics has focused on the three below where the impact is specifically relevant in the local context.

**Importance of financing MSMEs in India**

Micro, small and medium-sized enterprises play a key role in India's economy by providing employment opportunities at a comparatively lower capital cost than large employers.[92] In addition, they contribute towards reducing regional imbalances through development in rural and underdeveloped areas.[93] Despite contributing approximately 30% of India's GDP, [94] MSMEs have historical challenges in accessing finance due to various reasons, such as difficulty in providing collateral or guarantees, lengthy processing times of loan applications, lack of knowledge about available schemes, and high service fees for processing loan requests.[95] As the Indian economy showed signs of recovery after the June 2020 peak of the pandemic restrictions, many MSMEs encountered difficulties in resuming operations, resulting in economic losses and permanently closures in some cases.[96]

In this scenario, the Reserve Bank of India has advised Indian banks to achieve a 20% year-on-year growth in credit to micro and small enterprises and a 10% annual growth in the number of micro enterprise accounts.[97] Additionally, in recent years, the Government of India has introduced various schemes to provide financial assistance to MSMEs, including the Prime Minister's Employment Generation Programme (PMEGP), the Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) and the Self Reliant India (SRI) Fund Scheme.[98] The PMEGP programme focuses on generating employment opportunities by providing subsidies to unemployed youth and traditional artisans to assist them in setting up new micro-enterprises in non-farming activities..[99] Under the CGTMSE scheme, the Indian government provides a guarantee on credits for

[88] HDFC Bank, "Policy on Know Your Customer (KYC) Norms, Anti-Money Laundering (AML) and Combating Financing of Terrorism (CFT) Measures", at: https://www.hdfcbank.com/content/bbp/repositories/723fb80a-2dde-42a3-9793-7ae1be57c87f/?path=/Footer/About%20Us/Corporate%20Governance/Codes%20and%20Policie/pdf/HDFC%20Bank%20Ltd_KYC%20AML%20Policy_Abridged%20Version_March%202023.pdf
[89] HDFC Bank, "Integrated Annual Report 2021-22", at: https://www.hdfcbank.com/content/bbp/repositories/723fb80a-2dde-42a3-9793-7ae1be57c87f/?path=/Footer/About%20Us/Investor%20Relation/annual%20reports/pdf/HDFC-Bank-IAR-FY22-21-6-22.pdf
[90] HDFC Bank, "Integrated Annual Report", (2023), at: https://www.hdfcbank.com/content/bbp/repositories/723fb80a-2dde-42a3-9793-7ae1be57c87f/?path=/Footer/About%20Us/Investor%20Relation/annual%20reports/pdf/Integrated%20Annual%20Report%202022-23.pdf
[91] HDFC Bank, "Grievance Redressal Policy", at: https://www.hdfcbank.com/content/bbp/repositories/723fb80a-2dde-42a3-9793-7ae1be57c87f/?path=/Common%20Overlays/Feedback/PDFS/grievance_redressal_policy.pdf
[92] Government of India, Ministry of Micro, Small and Medium Enterprises, "Annual Report 2021-22", at: https://msme.gov.in/sites/default/files/MSMEENGLISHANNUALREPORT2021-22.pdf
[93] Ibid.
[94] Government of India, Ministry of Micro, Small and Medium Enterprises, "Role of MSME Sector in the Country", at: https://pib.gov.in/PressReleaseIframePage.aspx?PRID=1946375#:~:text=As%20per%20the%20latest%20information,27.2%25%20and%2029.2%25%20respectively.
[95] Asian Development Bank Institute, "Finance for Micro, Small, and Medium-Sized Enterprises in India: Sources and Challenges", at: https://www.adb.org/sites/default/files/publication/188868/adbi-wp581.pdf
[96] Sharma, A. K. et al. (2023), "Understanding the Impact of Covid-19 on MSMEs in India: Lessons for Resilient and Sustained Growth of Small Firms", Journal of Small Business Strategy, at: https://jsbs.scholasticahq.com/article/72698-understanding-the-impact-of-covid-19-on-msmes-in-india-lessons-for-resilient-and-sustained-growth-of-small-firms
[97] Reserve Bank of India, "Master Circular - Lending to Micro, Small and Medium Enterprises (MSME) Sector", at: https://www.rbi.org.in/commonperson/English/Scripts/Notification.aspx?Id=1478
[98] Government of India, Ministry of Micro, Small and Medium Enterprises, "Schemes for MSMEs 2022-23", at: https://static.investindia.gov.in/s3fs-public/2022-10/Scheme%20Booklet%202022-23.pdf
[99] Invest India, "Prime Minister Employment Generation Programme (PMEGP)", at: https://www.investindia.gov.in/schemes-msmes-india/prime-minister-employment-generation-programme-pmegp#:~:text=The%20scheme%20aims%20at%20providing,in%20rural%20and%20urban%20areas.

loans up to INR 20 million (USD 0.24 million) without third-party guarantees or collateral.[100] The Indian government recently announced the addition of INR 90 billion (USD 1,1 billion) to back the scheme as part of its Union Budget 2023-24, which is expected to enable an additional credit of INR 2 trillion (USD 24 billion).[101] As part of the SRI Fund, the Government of India plans to raise a total of INR 500 billion (USD 6 billion) for equity funding in MSMEs, bringing INR 100 billion (USD 1.2 billion) directly and the remaining INR 400 billion (USD 4.8 billion) from private equity and venture capital funds.[102]

Sustainalytics is of the opinion that HDFC Bank's financing for MSMEs under the Framework is expected to contribute towards increasing financial inclusion for MSMEs in India.

**Importance of financing electric vehicles to reduce GHG emissions in India**

India's road transport sector accounts for 12% of the country's energy-related $CO_2$ emissions and this share is projected to double by 2050.[103] Economic development, population growth and urbanization have increased demand for road transport services, tripling both the energy demand and the $CO_2$ emissions from road transport in India between 2000 and 2023.[104] Moreover, road transport is the largest oil-consuming sector in India, accounting for 44% of the country's energy consumption in 2021.[105]

To address this issue, the Government of India signed the EV30@30 campaign,[106] under the Electric Vehicle Initiatives of the Clean Energy Ministerial, which targets to have electric vehicles (EV) account for 30% of new vehicles sales in the country by 2030 from 1.8% in 2021.[107] The Indian government has also developed schemes to support electrification of the road transport sector, seeking to achieve net zero in the sector by 2070.[108] These initiatives includes the Faster Adoption and Manufacturing of Electric Vehicles (FAME) scheme, a demand-incentive programme to reduce the price of hybrid and electric vehicles. The five-year FAME Phase II was approved in 2019 with a budget of INR 1 trillion (USD 12.01 billion), with 90% to be allocated towards purchasing electric vehicles and 10% towards deployment of charging infrastructure.[109] On the supply side, in 2021 the Government of India earmarked INR 259.38 billion (USD 3.12 billion) under the Production-Linked Incentive (PLI) scheme, which also covers the manufacture of EVs and EV components.[110] Additionally, the Government of India approved the INR 1.8 trillion (USD 21.74 billion) PLI Scheme for Advanced Chemistry Cells (ACC) to develop ACC manufacturing facilities in the country with a combined expected output of 50 GWh.[111]

Despite the Indian government's efforts, accelerating the electrification of India's road transport sector to meet the country's climate goals would still require the average annual investment in EVs and chargers to increase to up to USD 33 billion between 2026 and 2030, which is more than 1,000 times the negligible USD 21 million between 2016 and 2020.[112]

Given the above context, Sustainalytics is of the opinion that HDFC Bank's financing for electric vehicles and associated infrastructure if expected to contribute towards the decarbonization of the transport sector in India and support the country's efforts in meeting its GHG emissions reduction targets.

**Importance of affordable housing in India**

Economic growth, rapid urbanization and increasing migration to urban centres have aggravated inequality and housing issues in India between 2010 and 2021.[113] Housing-related problems in India span from a

[100] Invest India, "Credit Guarantee Scheme for Micro and Small Enterprises (CGTMSE)", at: https://www.investindia.gov.in/schemes-msmes-india/credit-guarantee-scheme-micro-small-enterprises-cgtmse
[101] Government of India, Ministry of Micro, Small and Medium Enterprises, "Self-Reliant India Fund", at: https://pib.gov.in/PressReleasePage.aspx?PRID=1943193
[102] Government of India, Ministry of Micro, Small and Medium Enterprises, "Self-Reliant India Fund", at: https://pib.gov.in/PressReleasePage.aspx?PRID=1943193
[103] IEA, "Transitioning India's Road Transport Sector", (2023), at: https://iea.blob.core.windows.net/assets/06ad8de6-52c6-4be3-96fc-2bdc3510617d/TransitioningIndiasRoadTransportSector.pdf
[104] Ibid.
[105] Ibid.
[106] Clean Energy Ministerial, "EV30@30 Campaign", at: https://www.cleanenergyministerial.org/initiatives-campaigns/ev3030-campaign/
[107] IEA, "Transitioning India's Road Transport Sector", (2023), at: https://iea.blob.core.windows.net/assets/06ad8de6-52c6-4be3-96fc-2bdc3510617d/TransitioningIndiasRoadTransportSector.pdf
[108] Ibid.
[109] Ibid.
[110] Ibid.
[111] Ibid.
[112] IEA, "Transitioning India's Road Transport Sector", (2023), at: https://iea.blob.core.windows.net/assets/06ad8de6-52c6-4be3-96fc-2bdc3510617d/TransitioningIndiasRoadTransportSector.pdf
[113] De la Maisonneuve, C. et al. (2020), "Housing for All in India", OECD, at: https://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=ECO/WKP(2020)20&docLanguage=En

shortage of housing units to inappropriate living conditions, which also includes overcrowding.[114] According to the World Bank, 36% of India's urban population lived in slums as of 2022.[115] One in six urban dwellers in Indian lives in slums that are unfit for human habitation[116] and approximately 35% of India's urban population lives in substandard housing, which roughly translates to 35 million households in need of housing.[117] In 2021, India's housing gap was equivalent to 11% of the world's housing deficit, highlighting the considerable supply gap for urban and affordable housing in the country.[118]

Among the efforts to alleviate the myriad housing issues, the Government of India launched the Pradhan Mantri Awas Yojana – Housing for All scheme in 2015 to accelerate housing development for middle and low-income households. The Housing for All scheme, which was initially scheduled to end in 2022, has been extended until 2024, having facilitated the delivery of 11.9 million urban units as of September 2023.[119]

Considering the above, Sustainalytics is of the opinion that the Bank's investment in affordable housing is aligned with the Indian government's efforts to promote affordable housing and is expected to contribute to improving low-income households' access to finance for housing in India.

**Contribution to SDGs**

The Sustainable Development Goals were adopted in September 2015 by the United Nations General Assembly and form part of an agenda for achieving sustainable development by 2030. The instruments issued under the HDFC Bank Sustainable Finance Framework are expected to help advance the following SDGs and targets:

| Use of Proceeds Category | SDG | SDG target |
|---|---|---|
| Renewable Energy | 7. Affordable and Clean Energy | 7.2 By 2030, increase substantially the share of renewable energy in the global energy mix |
| Energy Efficiency | 7. Affordable and Clean Energy | 7.3 By 2030, double the global rate of improvement in energy efficiency |
| Pollution Prevention and Control | 12. Responsible Production and Consumption | 12.4 By 2020, achieve the environmentally sound management of chemicals and all wastes throughout their life cycle, in accordance with agreed international frameworks, and significantly reduce their release to air, water and soil in order to minimize their adverse impacts on human health and the environment.<br><br>12.5 By 2030, substantially reduce waste generation through prevention, reduction, recycling and reuse. |
| Sustainable Water and Wastewater Management | 6. Clean Water and Sanitation | 6.1 By 2030, achieve universal and equitable access to safe and affordable drinking water for all.<br><br>6.3 By 2030, improve water quality by reducing pollution, eliminating dumping and minimizing release of hazardous chemicals and materials, halving the proportion of untreated wastewater and |

[114] Tata Capital, "Reasons Why Affordable Housing is Important in India", (2021) at: https://www.tatacapital.com/blog/home-loan/reasons-whyaffordable-housing-is-important-in-india/
[115] World Bank, "Population living in slums (% of urban population) – India", accessed on 12 Sept 2023, at: https://data.worldbank.org/indicator/SP.URB.TOTL.IN.ZS?locations=IN
[116] Down to Earth, "Slumming it out", at: https://www.downtoearth.org.in/dte-infographics/slums/index.html#:~:text=Every%20sixth%20urban%20Indian%20lives%20in%20slums%20unfit,dwellers%20are%20the%20most%20overlooked%20section%20of%20society.
[117] Knight Frank, "Brick by Brick: Long Term Capital to Fund Affordable Housing for All", (2021), at: https://content.knightfrank.com/research/2349/documents/en/brick-by-brick-2021-8619.pdf
[118] Frank, "Brick by Brick", (2021) at: https://www.naredco.in/notification/pdfs/brick-by-brick-2021-8619.pdf
[119] Pradhan Mantri Awas Yojana – Urban, "National Progress", at: https://pmay-urban.gov.in/uploads/progress-pdfs/64ff0cc7d0866-PMAY-U_Achievement_as_on_11th_Sept_2023_for_web.pdf

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| | | substantially increasing recycling and safe reuse globally. |
| Environmentally sustainable management of living natural resources and land use | 14. Life Below Water | 14.2 By 2020, sustainably manage and protect marine and coastal ecosystems to avoid significant adverse impacts, including by strengthening their resilience, and take action for their restoration in order to achieve healthy and productive oceans. |
| | 15. Life on Land | 15.2 By 2020, promote the implementation of sustainable management of all types of forests, halt deforestation, restore degraded forests and substantially increase afforestation and reforestation globally. |
| Terrestrial and Aquatic Biodiversity | 14. Life Below Water | 14.2 By 2020, sustainably manage and protect marine and coastal ecosystems to avoid significant adverse impacts, including by strengthening their resilience, and take action for their restoration in order to achieve healthy and productive oceans. |
| | 15. Life on Land | 15.2 By 2020, promote the implementation of sustainable management of all types of forests, halt deforestation, restore degraded forests and substantially increase afforestation and reforestation globally. |
| Clean Transportation | 9. Industry, Innovation and Infrastructure | 9.4 By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities. |
| | 11. Sustainable Cities and Communities | 11.2 By 2030, provide access to safe, affordable, accessible and sustainable transport systems for all, improving road safety, notably by expanding public transport, with special attention to the needs of those in vulnerable situations, women, children, persons with disabilities and older persons. |
| Climate Change Adaptation | 13. Climate Action | 13.1 Strengthen resilience and adaptive capacity to climate-related hazards and natural disasters in all countries. |
| Circular Economy | 12. Responsible Consumption and Production | 12.5 By 2030, substantially reduce waste generation through prevention, reduction, recycling and reuse. |
| Green Buildings | 9. Industry, Innovation and Infrastructure | 9.4 By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities. |

| | | |
|---|---|---|
| Micro, Small and Medium Enterprise Lending | 9. Industry, Innovation and Infrastructure | 9.3 Increase the access of small-scale industrial and other enterprises, in particular in developing countries, to financial services, including affordable credit, and their integration into value chains and markets. |
| Affordable Basic Infrastructure | 9. Industry, Innovation and Infrastructure | 9.1 Develop quality, reliable, sustainable, and resilient infrastructure, including regional and trans-border infrastructure, to support economic development and human well-being, with a focus on affordable and equitable access for all. |
| Access to Essential Services | 3. Good Health and Wellbeing | 3.8 Achieve universal health coverage, including financial risk protection, access to quality essential health-care services and access to safe, effective, quality and affordable essential medicines and vaccines for all. |
| | 4. Quality Education | 4.3 By 2030, ensure equal access for all women and men to affordable and quality technical, vocational and tertiary education, including university.<br><br>4.4 By 2030, substantially increase the number of youth and adults who have relevant skills, including technical and vocational skills, for employment, decent jobs and entrepreneurship. |
| | 11. Sustainable Cities and Communities | 11.1 By 2030, ensure access for all to adequate, safe and affordable housing and basic services and upgrade slums. |
| Food Security | 2. Zero Hunger | 2.3 By 2030, double the agricultural productivity and incomes of small-scale food producers, in particular women, indigenous peoples, family farmers, pastoralists and fishers, including through secure and equal access to land, other productive resources and inputs, knowledge, financial services, markets and opportunities for value addition and non-farm employment. |
| Impact Financing | 8. Decent work and economic growth | 8.3 Promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage the formalization and growth of micro-, small- and medium-sized enterprises, including through access to financial services. |
| | 9. Industry, Innovation and Infrastructure | 9.3 Increase the access of small-scale industrial and other enterprises, in particular in developing countries, to financial services, including affordable credit, and their integration into value chains and markets. |
| | 11. Sustainable Cities and Communities | 11.1 By 2030, ensure access for all to adequate, safe and affordable housing and basic services and upgrade slums. |

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| Social Empowerment | 8. Decent work and economic growth | 8.5 By 2030, achieve full and productive employment and decent work for all women and men, including for young people and persons with disabilities, and equal pay for work of equal value. |

## Conclusion

HDFC Bank has developed the HDFC Bank Sustainable Finance Framework under which it will issue green, social and sustainability bonds and loans and the use of proceeds to finance or refinance projects related to Renewable Energy, Energy Efficiency, Pollution Prevention and Control, Sustainable Water and Wastewater Management, Environmentally Sustainable Management of Living Natural Resources and Land Use, Terrestrial and Aquatic Biodiversity, Clean Transportation, Climate Change Adaptation, Circular Economy, Green Buildings, Micro, Small and Medium Enterprise Lending,Affordable Basic Infrastructure, Access to Essential Services, Food Security, Impact Financing and Socioeconomic Empowerment. Sustainalytics considers that the projects are expected to provide positive environmental and social impacts in India.

The HDFC Bank Sustainable Finance Framework outlines a process by which proceeds will be tracked, allocated and managed, and commitments have been made for reporting on allocation and impact of the use of proceeds. Furthermore, Sustainalytics believes that the HDFC Bank Sustainable Finance Framework is aligned with the overall sustainability strategy of the Bank and that the use of proceeds categories will contribute to the advancement of the UN Sustainable Development Goals 2, 3 ,4, 6, 7, 9, 11, 12, 13, 14 and 15. Additionally, Sustainalytics is of the opinion that HDFC Bank has adequate measures to identify, manage and mitigate environmental and social risks commonly associated with the eligible projects funded by the proceeds.

Based on the above, Sustainalytics is confident that HDFC Bank is well positioned to issue bonds and loans and that the HDFC Bank Sustainable Finance Framework is robust, transparent and in alignment with the four core components of the Green Bond Principles 2021, Social Bond Principles 2021, Sustainability Bond Guidelines 2021, Green Loan Principles 2023 and Social Loan Principles 2023.

# Appendix

## Appendix 1: Sustainability Bond / Sustainability Bond Programme - External Review Form

## Section 1. Basic Information

| | |
|---|---|
| **Issuer name:** | HDFC Bank |
| **Green Bond ISIN or Issuer Green Bond Framework Name, if applicable:** | HDFC Bank Sustainable Finance Framework |
| **Review provider's name:** | Sustainalytics |
| **Completion date of this form:** | December 12, 2023 |

## Section 2. Review overview

**SCOPE OF REVIEW**

The review:

☒ assessed the 4 core components of the Principles (**complete review**) and confirmed the alignment with the GBP/SBP/SBG (*delete where appropriate*).

☐ assessed only some of them (**partial review**) and confirmed the alignment with the GBP/SBP/SBG (*delete where appropriate*); please indicate which ones:

☐ Use of Proceeds ☐ Process for Project Evaluation and Selection

☐ Management of Proceeds ☐ Reporting

☐ assessed the alignment with other regulations or standards (CBI, EU GBS, ASEAN Green Bond Standard, ISO 14030, etc.); please indicate which ones:

**ROLE(S) OF INDEPENDENT REVIEW PROVIDER**

☒ Second Party Opinion ☐ Certification

☐ Verification ☐ Scoring/Rating

☐ Other (please specify):

**Does the review include a sustainability quality score?**

☐ Of the issuer ☐ Of the project

☐ Of the Framework ☐ Other (please specify):

☒ No scoring

**ASSESSMENT OF THE PROJECT(S)**

**Does the review include:**

☒ The environmental and/or social features of the type of project(s) intended for the Use of Proceeds?

☒ The environmental and/or social benefits and impact targeted by the eligible Green and/or Social Project(s) financed by the Green, Social or Sustainability Bond?

☒ The potentially material environmental and/or social risks associated with the project(s) (where relevant)?

**ISSUER'S OVERARCHING OBJECTIVES**

**Does the review include:**

☒ An assessment of the issuer's overarching sustainability objectives and strategy, and the policies and/or processes towards their delivery?

☒ An identification and assessment of environmental, social and governance related risks of adverse impact through the Issuer's [actions] and explanations on how they are managed and mitigated by the issuer?

☒ A reference to the issuer's relevant regulations, standards, or frameworks for sustainability-related disclosure and reporting?

**CLIMATE TRANSITION STRATEGY**

**Does the review assess:**

☐ The issuer's climate transition strategy & governance?

☐ The alignment of both the long-term and short/medium-term targets with the relevant regional, sector, or international climate scenario?

☐ The credibility of the issuer's climate transition strategy to reach its targets?

☐ The level/type of independent governance and oversight of the issuer's climate transition strategy (e.g. by independent members of the board, dedicated board sub-committees with relevant expertise, or via the submission of an issuer's climate transition strategy to shareholders' approval).

☐ If appropriate, the materiality of the planned transition trajectory in the context of the issuers overall business (including the relevant historical datapoints)?

☐ The alignment of the issuer's proposed strategy and targets with appropriate science-based targets and transition pathways that are deemed necessary to limit climate change to targeted levels?

☐ The comprehensiveness of the issuer's disclosure to help investors assess its performance holistically?

| **Overall comment on this section:** |
|---|
| |

## Section 3. Detailed review

**1. USE OF PROCEEDS**

**Does the review assess:**

☒ the environmental/social benefits of the project(s)?

☒ whether those benefits are quantifiable and meaningful?

☒ for social projects, whether the target population is properly identified?

**Does the review assess if the issuer provides clear information on:**

☐ the estimated proceeds allocation per project category (in case of multiple projects)?

☐ the estimated share of financing vs. re-financing (and the related lookback period)?

| |
|---|
| **Overall comment on this section:**<br>The 16 eligible categories for the use of proceeds - Renewable Energy, Energy Efficiency, Pollution Prevention and Control, Sustainable Water and Wastewater Management, Environmentally Sustainable Management of Living Natural Resources and Land Use, Terrestrial and Aquatic Biodiversity, Clean Transportation, Climate Change Adaptation, Circular Economy, Green Buildings, Micro, Small and Medium Enterprise Lending, Affordable Basic Infrastructure, Access to Essential Services, Food Security, Impact Financing and Socioeconomic Empowerment - are aligned with those recognized by the Green Bond Principles, Social Bond Principles, Green Loan Principles and Social Loan Principles. Sustainalytics considers that investments in the eligible categories will lead to positive environmental or social impacts and advance the UN Sustainable Development Goals, specifically SDGs 2, 3 ,4, 6, 7, 9, 11, 12, 13, 14 and 15. |

**2. PROCESS FOR PROJECT EVALUATION AND SELECTION**

**Does the review assess:**

☒ whether the eligibility of the project(s) is aligned with official or market-based taxonomies or recognised international standards? Please specify which ones. *"Sustainalytics has a proprietary taxonomy which is influenced by the EU taxonomy, Climate Bonds Initiative taxonomy as well as international standards."*

☒ whether the eligible projects are aligned with the overall sustainability strategy of the issuer and/or if the eligible projects are aligned with material ESG-related objectives in the issuer's industry?

☒ the process and governance to set the eligibility criteria including, if applicable, exclusion criteria?

☒ the processes by which the issuer identifies and manages perceived social and environmental risks associated with the relevant project(s)?

☒ any process in place to identify mitigants to known material risks of negative social and/or environmental impacts from the relevant project(s)?

| |
|---|
| **Overall comment on this section:**<br>HDFC Bank's Product Responsibility Group under the Bank's Apex Council will act as the ESG working group, which will be responsible for project evaluation and selection in accordance with the eligibility criteria of the Framework. The ESG working group comprises representatives from the Bank's Risk Management, ESG, Treasury, Credit and Credit Administration departments. The Bank has developed an ESG Risk Management Policy to assess the environmental and social impacts of loans, categorize risks and implement risk mitigation and management measures. Sustainalytics considers the environmental and social risk management system and the project selection process to be adequate and aligned with market practice. |

**3. MANAGEMENT OF PROCEEDS**

**Does the review assess:**

☒ the issuer's policy for segregating or tracking the proceeds in an appropriate manner?

☒ the intended types of temporary investment instruments for unallocated proceeds?

☒ Whether an external auditor will verify the internal tracking of the proceeds and the allocation of the funds?

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| **Overall comment on this section:**<br>HDFC Bank's ESG working group will oversee the management of proceeds and has internal tracking mechanisms in place to track and monitor the allocation of proceeds for the ESG instruments issued under this Framework. The Bank intends to allocate net proceeds within 36 months of issuance. Pending allocation, unallocated proceeds will be temporarily held in money market instruments such as liquid securities and cash and cash equivalents. This is in line with market practice. |

**4. REPORTING**

**Does the review assess:**

☒ the expected type of allocation and impact reporting (bond-by-bond or on a portfolio basis)?

☒ the frequency and the means of disclosure?

☐ the disclosure of the methodology of the expected or achieved impact of the financed project(s)?

| **Overall comment on this section:** |
|---|
| HDFC Bank commits to report on allocation of proceeds on an annual basis until full allocation on its website. Allocation reporting will include the eligible projects and assets, the amount of proceeds to be allocated to the eligible projects and assets, the amount of unallocated proceeds and the share of financing versus refinancing. In addition, HDFC Bank intends to report on relevant impact metrics. Sustainalytics views HDFC Bank's allocation and impact reporting as aligned with market practice. |

## Section 4. Additional Information

| **Useful links** *(e.g. to the external review provider's methodology or credentials, to the full review, to issuer's documentation, etc.)* |
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| |

| **Analysis of the contribution of the project(s) to the UN Sustainable Development Goals:** |
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| |

| **Additional assessment in relation to the issuer/bond framework/eligible project(s):** |
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| |

**ABOUT ROLE(S) OF INDEPENDENT REVIEW PROVIDERS AS DEFINED BY THE GBP**

i. Second-Party Opinion: An institution with environmental expertise, that is independent from the issuer may issue a Second-Party Opinion. The institution should be independent from the issuer's adviser for its Green Bond framework, or appropriate procedures, such as information barriers, will have been implemented within the institution to ensure the independence of the Second-Party Opinion. It normally entails an assessment of the alignment with the Green Bond Principles. In particular, it can include an assessment of the issuer's overarching objectives, strategy, policy and/or processes relating to environmental sustainability, and an evaluation of the environmental features of the type of projects intended for the Use of Proceeds.

ii. Verification: An issuer can obtain independent verification against a designated set of criteria, typically pertaining to business processes and/or environmental criteria. Verification may focus on alignment with internal or external standards or claims made by the issuer. Also, evaluation of the environmentally sustainable features of underlying assets may be termed verification and may reference external criteria. Assurance or attestation regarding an issuer's internal tracking method for use of proceeds, allocation of funds from Green Bond proceeds, statement of environmental impact or alignment of reporting with the GBP, may also be termed verification.

iii. Certification: An issuer can have its Green Bond or associated Green Bond framework or Use of Proceeds certified against a recognised external green standard or label. A standard or label defines specific criteria, and alignment with such criteria is normally tested by qualified, accredited third parties, which may verify consistency with the certification criteria.

iv. Green Bond Scoring/Rating: An issuer can have its Green Bond, associated Green Bond framework or a key feature such as Use of Proceeds evaluated or assessed by qualified third parties, such as specialised research providers or rating agencies, according to an established scoring/rating methodology. The output may include a focus on environmental performance data, the process relative to the GBP, or another benchmark, such as a 2-degree climate change scenario. Such scoring/rating is distinct from credit ratings, which may nonetheless reflect material environmental risks.

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In case of discrepancies between the English language and translated versions, the English language version shall prevail.

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Sustainalytics, a Morningstar Company, is a leading ESG research, ratings and data firm that supports investors around the world with the development and implementation of responsible investment strategies. For more than 30 years, the firm has been at the forefront of developing high-quality, innovative solutions to meet the evolving needs of global investors. Today, Sustainalytics works with hundreds of the world's leading asset managers and pension funds who incorporate ESG and corporate governance information and assessments into their investment processes. Sustainalytics also works with hundreds of companies and their financial intermediaries to help them consider sustainability in policies, practices and capital projects. With 17 offices globally, Sustainalytics has more than 1500 staff members, including more than 500 analysts with varied multidisciplinary expertise across more than 40 industry groups.

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