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## **IDBI Green Bond Framework**

### **Background**

IDBI Bank Ltd. is a Universal Bank with its operations driven by a cutting edge core Banking IT platform. The Bank offers personalized banking and financial solutions to its clients in the retail and corporate banking arena through its large network of Branches and ATMs, spread across length and breadth of India

IDBI Bank is one of the few Public Sector Banks/ FIs who are signatory to Carbon Disclosure Project (CDP), as part of its initiatives to a responsible business striving towards a low –carbon future. IDBI Bank has taken initiatives for funding potential green projects based on clean technologies viz. renewable, solar cell/ module projects, co-generation, energy efficiency equipment projects etc. IDBI reviews reports from third party consultants in most of the green projects mainly for resource assessment and other aspects of the project including cost. The Environmental Impact Assessment (EIA) reports, if required by third party are also referred as part of the detailed appraisal.

### **Purpose**

This Framework has been developed to demonstrate for use by Project Appraisal Department (PAD) in determining eligibility criteria for green projects for its Green Bond portfolio. The framework will also provide the transparency and disclosures investors need to make their investment decisions. IDBI Bank will issue Green Bonds to fund new and existing projects with environmental benefits in alignment with the *Green Bond Principles, 2015*.

#### **A. Use of Proceeds**

The proceeds of each Green Bond will be allocated exclusively for lending in support of greenhouse gas emission reduction, environmental resource management and protection and sustainable transport as listed below (“Eligible Green Projects”):

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1. **Renewable energy:** financing of or investment in,
    - Solar energy projects** that include the financing of, or investments in, the development, construction and operation of solar electricity generation facilities where (i) 100% of the electricity generated is derived from solar energy resources and (ii) the maximum gas-fired back-up is 15%;
    - Wind energy projects** that include the financing of, or investments in, the development and construction of wind farms, and the operation and production of manufacturing facilities wholly dedicated to wind energy development;
    - Biomass energy projects** that include electricity generated using the organic material viz. living or recently living plant and animal material as source of fuel.
    - Hydropower projects** that include the financing of, or investments in, small storage hydroelectric projects (less than 25 megawatts) and run-of-river (a type of hydroelectric generation plant whereby little or no water storage is provided) hydroelectric projects of all sizes;
    - Renewable energy distribution and management projects** that include the financing of, or investments in, transmission infrastructure dedicated exclusively to connecting renewable energy to national grids, or electricity grids that support the integration of systems and load-balancing;
  
  2. **Energy efficiency:** financing of or investment in **Technology and equipment** that improves energy efficiency in industrial, buildings and other sectors.
    - Energy storage units** such as smart systems and meters that support improved energy management, communal heating systems (excluding coal-fired sources), thermal heat storage (excluding coal-fired sources), hydro-energy storage systems and heat pumps;
  
  3. **Sustainable water management:** investment in water collection, treatment, recycling, re-use, technologies and infrastructure and sewage treatment facilities using recycled water.
  
  4. **Sustainable waste management projects** that include financing of, or investments in, waste minimization, collection, management, transportation, disposal, re-use and recycling, including waste-to-energy power plants;

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5. **Sustainable transportation projects** that include financing of, or investments in, low energy or low emission transportation assets, systems and infrastructure, including electrical vehicles and urban mass transit projects such as light rail, subway and bus rapid transport; and
  6. **Sustainable land use projects** that include financing of, or investments in, sustainable forestry and agriculture.

For the avoidance of doubt, financing provided for any project that does not fall within the above sectors will not be considered as Use of Proceeds of an IDBI Green Bond.

IDBI's assessment of environmental benefits will consider the balance of impacts in determining overall net benefit.

## **B. Project Evaluation and Selection**

### **Evaluation and Selection of Green Projects**

The Issuer has a dedicated Project Appraisal Department (**PAD**) with experienced relationship managers who will allocate the proceeds of the Notes exclusively to fund loans for Eligible Green Projects.

The relationship managers in the PAD will review and appraise proposals for loan applications in accordance with the green bonds framework it has established and submit these applications and proposals to the appropriate credit committee for consideration.

In particular, this process will involve:

#### ***Initial evaluation and screening***

The relationship managers in the PAD will conduct a preliminary review of loan applications for Eligible Green Projects based on factors such as (i) the borrower and the activities being funded (ii) the technical process and equipment being utilized by the borrower and (iii) the environmental and social benefit from the activity being financed.

The relationship managers will then submit loan applications for Eligible Projects that pass the preliminary review for risk scoring.

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## ***Review and approval***

The relationship managers in the PAD will then submit their recommendations to the appropriate credit committee, where the Issuer's senior management including the Managing Director and Chief Executive Officer, Deputy Managing Director and Executive Director would take part in the final review. The Issuer will designate successful loan applications as part of its Eligible Green Project portfolio, which the Issuer will regularly update to reflect loans refinanced or repaid as well as new loans.

Pending the full allocation of the net proceeds of the notes to Eligible Green Projects, the Issuer will invest or allocate, as appropriate, the net proceeds of the notes in money market instruments and Government securities. The Issuer will establish internal tracking systems to monitor and account for the allocation of the proceeds. However, payment of principal and of interest on the Notes will be made from the Issuer's general funds and will not be directly linked to the performance of any Eligible Green Projects.

### **C. Management of Proceeds**

The proceeds will be allocated for the financing of existing and new Eligible Green Projects.

The Issuer will allocate an amount equal to the net proceeds from the sale of the notes or the financing of, certain new and existing Eligible Green Projects (as defined below) in India.

Pending the full allocation to Eligible Green Projects, balance of issuance proceeds will be invested or allocated, as appropriate, in money market instruments or Government securities.

IDBI will label the assets allocated out of Green Bond proceeds in the system (core banking system) as the Green Portfolio. The label will enable to extract the details of the Green Portfolio including loan account number, borrower name, use of proceeds, financing amount, amount of loan drawn and outstanding, loan maturity and other necessary information so that the aggregate of issuance proceeds and use or allocation of proceeds, as appropriate, is recorded at all times.

The Green Portfolio will be regularly updated to reflect loans refinanced or repaid and new loans allocated from the proceeds.

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## **D. Reporting**

So long as IDBI has Green Bonds outstanding, IDBI will provide a Green Bond Report on an annual basis on its Green Bond programme, covering:

- the allocation of the net proceeds of the notes for financing the new and existing Eligible Green Projects,
- the current allocated and outstanding amounts and contractual maturity dates, and

Management confirmation that the use of proceeds of the Green Bond is in alignment with the IDBI Green Bond Framework

For each Green Bond issuance under the IDBI Green Bond Framework, IDBI intends to engage an independent assurance provider to assure the Green Bond Report.

Wherever possible, IDBI will provide sector-wise information as examples of projects financed by each IDBI Green Bond ([www.idbi.com](http://www.idbi.com))

Each Green Bond Report will be independently assured and published annually on the IDBI website.

## **E. Assurance on Framework**

IDBI intends to obtain, post issuance, a third party review from an appropriate provider to provide an opinion on the IDBI Green Bond Framework. The third party review will be published on the IDBI website ([www.idbi.com](http://www.idbi.com)).