

Environment, Social and Governance (ESG) Policy

L&T Financial Services is committed to be an environmentally and socially responsible financial institution built on the foundation of 'Assurance', focused on generating sustainable long-term value for all our stakeholders

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1. Introduction

L&T Financial Services (L&T Finance Holdings Limited and its subsidiaries) ('LTFS' or 'Company') is one of India's most valued and fastest growing non-banking financial companies (NBFC). The Company caters to the diverse needs of its customers across various sectors through its lending and investment management business. The Company is promoted by Larsen & Toubro Ltd, one of the country's largest conglomerates, that has business interests in engineering, construction, financial services, and technology.

The Company has clearly articulated its intent of being an Admirable, Inspirational and Sustainable institution. Through its governance practices, the Company aims to conduct business in an ethical manner. The core values of Pride, Integrity, Discipline and Ambition are embedded into the Company's working culture. These values guide the decision-making process, thus enabling all the employees to take ownership and responsibility for their individual actions.

Sustainability and ESG have always been an integral part of the Larsen & Toubro (L&T) Group's legacy, paving the path for the Company's endeavour to contribute to an inclusive future. The Company's sustainability and ESG initiatives seamlessly blend into its business models. The Company has ensured that basic principle of utilization of various forms of capital, like Financial, Intellectual, Human, Social and Natural, are reflected in the policies and frameworks adopted.

For the Company, long-term sustainable growth hinges on its alignment with sectors that are the growth engines of the Indian economy and actively contribute to the GDP. This philosophy is embodied in the Company's core business model of lending and non-lending businesses. The Company's focus lies in optimizing its performance on a continuous basis in order to contribute to the achievement of national objectives, as well as globally recognized Sustainable Development Goals (SDGs).

As a financial institution, risks are inherent in most of the Company's business activities. These risks are related to its reputation, products and services, IT security, operations, credit and lending practices etc. The Company believes that investing in sustainable businesses and practices can act as a robust tool to effectively manage these risks.

This document outlines the Company's approach towards sustainability and ESG ("the Policy"). It proposes to act as a guiding framework to manage the Company's environmental, social and governance impacts and risks as well as enable responsible financing oriented towards long-term value creation.

1.1. ESG Vision

To be an environmentally and socially responsible financial institution built on the foundation of 'Assurance', focused on generating sustainable long-term value for all our stakeholders.

1.2. ESG Goals

- Profitability with ethical, environmental and social responsibility.
- Mainstream ESG practices into business, operations and value chain.
- Achieve best in class ESG ratings.

2. Objective and Approach

The objective of this Policy is to incorporate environmental, social and governance (ESG) considerations into operations and business, mitigate material impacts and risks thereof and serve as a guiding document for the ESG initiatives and activities undertaken by the Company.

The approach towards ESG integration includes development of a robust governance mechanism, implementation framework, systems for risk management and controls, incorporation of environmental and social considerations into the standard operating procedures of the Company's operations as well as communication and disclosure of ESG performance. This will involve:

2.1. Operations

The ESG considerations in the Company's operations include:

2.1.1. Governance

- Fostering a culture of transparency and accountability across the Company
- Ensuring compliance with all applicable laws and regulations
- Implementing a sound and effective corporate governance system
- Adopting a systemic approach to de-risk business
- Instituting ethically sound principles through its Code(s) of Conduct that address *inter-alia* money laundering, conflict of interest, insider trading, corruption, bribery, discrimination, confidentiality of information, anti-trust, anti-competitive practices, whistleblowing, environment, health and safety etc.
- Embracing board diversity in all its facets, including skills, experience and gender
- Developing institutional knowledge and capacity on issues pertinent to ESG performance

2.1.2. Social

- Promoting engagement with all relevant stakeholders to identify and manage their expectations and concerns
- Creating value for all stakeholders by making prudent lending and investment decisions to support sustainable economic growth
- Inculcating internationally recognized human rights principles in the Company's practices to promote and protect human rights
- Maintaining an equitable, healthy and safe working environment for employees
- Contributing towards community development initiatives commensurate to the Company's operations

2.1.3. Environmental

- Working towards carbon neutrality for the Company's operations, aligned to global and national frameworks as applicable
- Formulating focussed measures to achieve goals set out in the Carbon Neutrality plan by implementing energy efficiency initiatives and plantation measures
- Working towards Water Neutrality for the Company's operations by promoting efficiency measures and replenishment activities
- Generating awareness on principles of circular economy and resource efficiency initiatives amongst stakeholders

2.2. Business

The ESG considerations in the Company's business include:

- Integrating ESG criteria in business processes in alignment with Company's objectives
- Providing products and services that promote financial inclusion and boost economic productivity at the grassroots level
- Strengthening Company's renewable energy portfolio in alignment with national goals and policies

- Establishing effective monitoring and reporting systems for continuous improvement of ESG performance across Company's credit portfolios

3. Policy Coverage

The Policy covers all operations and business portfolio of LTFS as applicable. The Policy can be accessed from the Company's website (www.ltfs.com) for reference.

4. Governance Mechanism

The CSR & ESG Committee is responsible for reviewing and overseeing implementation of the Policy. A summary of the process is presented in Diagram 1. Detailed Terms of Reference for the ESG Governance focal points is provided in Annexure I.

Diagram 1. LTFS' ESG Governance Process



5. ESG General Principles

The ESG General Principles in Operations and Business include:

5.1. Operations

5.1.1. Relationship with Stakeholders

The Company sets out several principles to create long-term value for its stakeholders across the value chain.

5.1.1.1. Employees

The Company's success depends on its employees' performance. Therefore, it endeavours to develop a high potential workforce and invests in talent acquisition, development and retention.

The Company seeks to follow the principles as stated below:

- To warrant no discrimination based on race, ethnicity, caste, religion, culture, color, age, gender identity or expression, disability, socio-economic status or sexual orientation of an individual
- To foster diversity, inclusion and equity in the Company and encourage equal opportunities among its employees
- To provide trainings and awareness on Code of Conduct which upholds the Company's value propositions such as ethics, fair employment practices, anti-money laundering, whistle-blower policy, avoiding conflict of interest and fostering a safe and healthy working environment
- To remain committed to zero tolerance for harassment of any kind at workplace
- To promote a safe and healthy workplace for employees
- To create an environment conducive for women employees through equitable employment practices
- To sensitize employees on sustainability and ESG issues, including measures for good environmental management, social and environmental risk mitigation and related business opportunities generation
- To inspire employee volunteering to help the communities

5.1.1.2. Customers

The Company seeks to build long-term relationship with its customers based on trust and loyalty, catering to their needs, enhancing customer satisfaction and maintaining reliability. The Company seeks:

- To offer products and services that are customized, and adapted to customer needs and provide current and potential customers with accurate, sufficient and appropriate information
- To provide customers access to various digital services through multiple platforms available at all times based on their needs
- To design sustainability (social and environmental) linked products and services that promote financial inclusion and help protect the environment
- To make decisions considering ethical, social and environmental matters and associated risk

5.1.1.3. Communities

The Company through its CSR activities and community investments, seeks to empower communities to alleviate major problems faced by humanity in the operating regions. The Company will work towards creating value for indigenous communities which desire a secure future.

The Company's 3S (Social Impact, Scale, Sustainability) framework mentioned in the CSR policy (available at www.ltfs.com) will guide implementation of approved CSR projects.

5.1.1.4. Third Parties including Suppliers and Business Partners

The Company believes in maintaining an ethical and transparent relationship with Third Parties including suppliers and business partners. The Third Parties are expected to manage their operations and carry out their businesses in accordance with "LTFS Third Party Code of Conduct" (available at www.ltfs.com). These include:

- Ethics and Conduct: Third Parties will be expected to have policies and systems in place to comply with local regulations, business ethics and integrity. The Company further encourages the suppliers and business partners to cascade these practices to their supply chain, thereby enabling a sustainable value chain in true spirit.
- Social aspects: Third Parties will be expected to protect human rights, provide healthy and safe working conditions, promote diversity and inclusion amongst employees, prohibit child labour and introduce adequate stakeholder grievance redressal mechanisms.
- Environmental aspects: Third Parties will be encouraged to support the Company's commitment to environmental protection, environmental reporting and low carbon transition goals.

5.1.2. Other Operational Commitments

5.1.2.1. Environment

The Company strives to protect the environment, especially in relation to mitigating the impacts of climate change. To this end, the Company has committed to minimise the impact arising from both its operational as well as its credit and investment portfolio's environmental footprint. The Company is determined to implement systems and processes to drive continuous improvement in environmental performance in line with its Environment policy (available at www.ltfs.com). The Company would consider:

- Promoting initiatives on energy efficiency, emission management, water management and waste management to improve the Company's overall environmental performance
- Establishing work guidelines and control mechanisms to ensure environmental protection
- Providing necessary training and/or communication to employees and relevant stakeholders on environmental aspects
- Measuring, monitoring and controlling energy consumption, emissions generated, and waste generated at its locations, disclosing this as part of relevant sustainability disclosures, which will be subjected to external assurance process

5.1.2.2. Health and Safety

The Company is committed to providing all employees with a safe and healthy workplace. It shall implement practices that are congenial to the health and wellbeing of its employees in line with its Health and Safety policy (available at www.ltfs.com). It will also undertake reasonably practicable steps to:

- Comply with health and safety laws and regulations and provide safe and healthy working environment and equipment
- Identify and minimise both mental and physical occupational health and safety issues to an acceptable level
- Implement emergency response and preparedness procedures across the Company

5.1.2.3. Procurement Practices

The Company is committed to adopting highest standards of governance and procuring goods and services in line with the sustainable practices as per the Third Party Code of Conduct (available at www.ltfs.com).

- The Company endeavours to work closely with the suppliers and vendors to reduce waste, improve efficiency, reduce carbon footprint and maintain safe and equitable working conditions for all
- The Company shall make efforts to procure products and services that are environment friendly, recycled, energy efficient and locally sourced, to the extent possible
- The Company shall encourage vendors and suppliers to adhere to the applicable regulations related to Human Rights

5.2. Business

The Company will put in place appropriate measures, as practicable, for identification and mitigation of underlying ESG risks in business. The Company endeavours to reduce its ESG risk exposure and impact through its portfolio by implementing a robust risk management process for business decisions. It will also undertake reasonably practicable steps to:

- Design financial products and offerings to promote renewable energy generation, clean mobility, sustainable farming, energy efficient infrastructure and other green products
- Offer products and services that enable financial inclusion by lending including to 'New to Credit' customers
- Promote gender equality by providing preferential lending to (rural) women entrepreneurs
- Implement ESG screening, appraisal and monitoring procedures for its Small and Medium Business (SMB), Infrastructure and Real Estate finance portfolio, as required
- Adopt an ESG-integrated investing approach in its Asset Management Business

For the line of finance backed by multilaterals/DFIs, the Company will tailor the lending processes as per the ESG requirements prescribed by the respective lender.

The Company has developed an Exclusion List. This list has been tailored to the local and business context of the Company. The Company shall strictly adhere to the same while making lending decisions. This list will be regularly reviewed and updated.

The Company will focus on managing climate risks and implementing recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD), to the extent relevant and practicable. The Company's ESG Risk management practices and experience in climate risk analysis through use of data analytics and data management tools, aid identification of risks and business opportunities in lending/financing portfolio.

Each borrower shall be expected to comply with the Third-Party Code of Conduct which constitutes a core part of their agreement with LTFS.

5.2.1. Screening of Loan Applications

The business team will identify the market, the products / facilities and price the loans in alignment with LTFS's Credit policy. Each loan application will be verified against the Exclusion List (as stated in Annexure II) at the outset to ensure only eligible applications are moved forward for further screening. The Company's Credit policy will act as an overarching guidance document for assessing the credit worthiness of the borrowers.

The Company recognises the need to evaluate financial and ESG risks in loan proposals. To address this, the Company has developed a detailed risk assessment process which considers various aspects like geography, sector, market expectations, local laws and regulations. This process supports in identifying the relevance, criticality, and severity of risks. Based on the assessment of identified risks, the Company may involve a third-party vendor to perform detailed due diligence on the proposed projects to assess the ESG and other relevant risks.

5.2.2. Making E&S conditions as a part of Financing Agreement

The Company will ensure that necessary E&S safeguards are in place for approved transactions based on the criticality of the risks involved. These safeguards may be part of financing agreements. The financing agreements may also include the below mentioned information, if required:

- Affirmative covenants: Requirement for compliance with environmental and social regulations, including reporting on environmental and social performance, wherever applicable
- Negative covenants: Actions that the customer/borrower should refrain from undertaking to comply with environmental and social regulations, wherever applicable
- Corrective Action Plan: In case of non-compliance/deficiencies in current systems and processes, the agreement may also include a set of measures to be undertaken and disclosed by the customer/borrower to enhance environmental and social performance

5.2.3. Periodic monitoring and evaluation of ESG performance

The Company is determined to monitor the loan portfolio. The Company shall analyse key impact areas such as: growth of green buildings, green housing projects, growth of renewable portfolio and lending portfolio which support low-carbon technologies.

The impact generated by the infrastructure projects have greater ecological and social footprint. The Company will assess these portfolios for any environmental violation as well as other violations primarily impacting vulnerable groups/indigenous communities during the tenure of loan cycle, as per need.

The Company will deploy in-house or third-party experts, as needed, for performing due diligence exercises and assessments on E&S aspects as determined in covenants and ESG performance for critical and crucial transactions in the Infrastructure Business. This exercise would be performed based on the agreed terms and conditions between both the parties (i.e. the Company and customer/borrower).

5.3. Disclosures and Stakeholder Communication

- The Company will disclose information on ESG performance through periodic reports as per internationally accepted frameworks and as per frameworks specified under local laws
- The Company will align the disclosures to highlight the performance against stated principles of the National Guidelines on Responsible Business Conduct (NGRBC) developed by Ministry of Corporate Affairs, Government of India. The intended disclosures shall cover information related to talent management, community development measures, energy consumption, emissions generated, water management, waste management, corporate governance and information on identified material topics
- The Company will also publish information on climate strategy, low-carbon transition and carbon emissions through CDP

- The Company will disclose information to nationally and internationally reputed ESG Rating Providers such as Standard & Poor Corporate Sustainability Assessment (S&P CSA), MSCI, Morningstar's Sustainalytics etc.
- The ESG priorities, transparency and reporting shall be aligned with the Company's business objectives and periodic materiality assessments. The Company will actively engage stakeholders to devise initiatives and assess overall ESG performance. The Company's stakeholders include customers, shareholders (including ESG-focused and socially responsible investors), employees, regulators, suppliers, communities and non-governmental organizations (NGOs)

6. Risk Management

The Company has constituted Risk Management Committee ('RMC') and has adopted Risk Management policy across its businesses. The Risk Management Framework developed by the Company supports in taking proactive approach towards determining the strategies and is aligned with Committee of Sponsoring Organization (COSO) framework.

The Company effectively manages risks via early-warning mechanisms for various kinds of anticipated risks, thereby providing a competitive advantage. The Company's risk management covers both downside risks and upside potentials that may have a material impact on achieving strategic business objectives. The Risk Management Framework covers the risks to the Company's businesses at portfolio, business, and company levels and includes credit risk, market risk, operational risk, compliance risk, reputational risk and legal risk. The responsibility lies with RMC for identification, evaluation and mitigation of risks. The Risk Appetite Statements developed by the Company supports individual business functions in setting the risk limits, building the risk dashboards, designing early warning signal mechanisms and establishing liquidity buffer for handling black swan events. The Risk Management policy further reinforces the entire risk management process.

7. Grievance Management

The Company has established a robust grievance redressal system for addressing stakeholder concerns and inquiries. The same channels and platforms will be used to address environmental and social concerns as well. Through clear laid down procedures for the handling of ESG grievances or complaints, the Company shall deal with issues or concerns in a consistent and appropriate way. Principles for grievance management include:

- The Company shall work in good faith and without prejudice to uphold its responsibility towards its stakeholders
- ESG-related information request, concerns or complaints raised by stakeholders shall always be dealt on a timely basis like any other grievances
- The Company shall ensure that all stakeholders are informed of avenues to escalate their complaints/ grievances and their rights to alternative remedy if they are not fully satisfied with the response of the Company

The grievance redressal channels shall follow a transparent process that is readily accessible to all segments of the stakeholders at no costs and without retribution

8. Review / Revision of the Policy

If at any point a conflict of interpretation / information between the Policy and regulations, rules, guidelines, notification, clarifications, circulars, master circulars/ directions issued by relevant authorities (“Regulatory Provisions”), applicable if any, arises, then interpretation of the Regulatory Provisions shall prevail.

In case of any amendment(s) and/or clarification(s) to the Regulatory Provisions, if applicable, the Policy shall stand amended accordingly from the effective date specified as per the Regulatory Provisions.

9. Annexures

Annexure - I

Terms of Reference for the ESG Governance focal points

1. **Board of Directors – CSR & ESG Committee**
 - Formulation of action plan/ guidelines/policies with regard to Sustainability / ESG
 - Reviewing implementation of the action plan
 - Approving the Sustainability Report

2. **LTFS Sustainability Team**
 - Create an organisation-wide awareness around sustainability framework and take cognizance of what vital role sustainability plays in today's global scenario.
 - Develop strategy for embedding sustainability into businesses and processes.
 - Appropriate implementation of sustainability initiatives along with businesses/functions in line with strategy.
 - Continually monitor and communicate the outputs and outcomes of sustainability initiatives to relevant internal stakeholders.
 - Act as an interface with external parties on sustainability framework and disclosures thereof.

Annexure – II

Exclusion List

1. Forced labour or exploitative forms of child labour
2. Trade in wildlife/wildlife products
3. Gambling, casinos and equivalent enterprises
4. Production or trade of weapons and ammunition
5. Production or trade of wood, tobacco & forestry products
6. Production or trade of hazardous substances/chemicals and banned pharmaceuticals